

M&A Trends Survey: The future of M&A
Deal trends in a changing world

October 2020

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Deal trends in a changing world

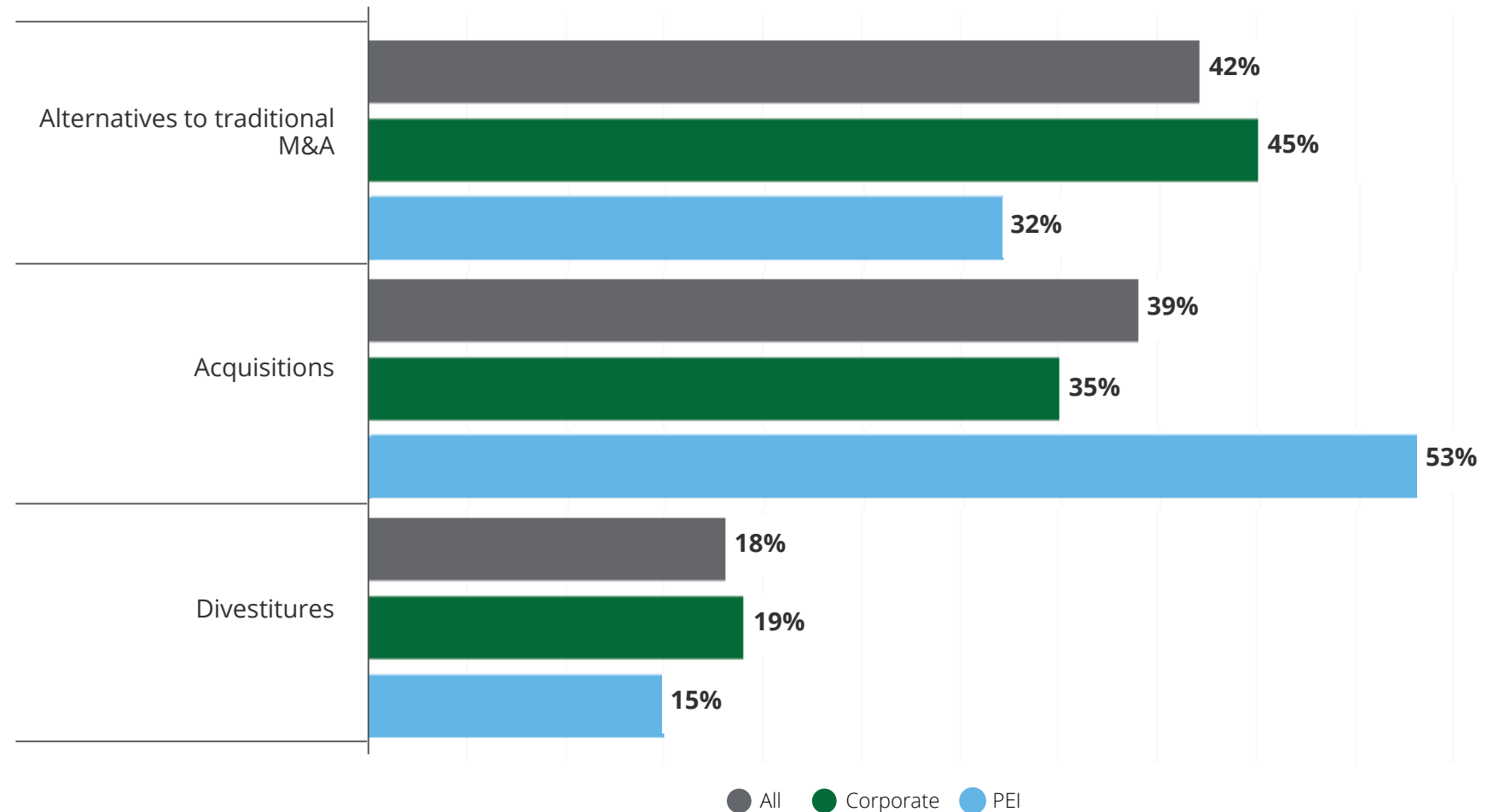
Surveyed M&A executives are sending clear and strong signals that dealmaking—particularly alternatives to “traditional” M&A—will be an important lever as businesses recover and thrive in the post-COVID-19 economy. Deloitte’s Future of M&A Trends Survey polled 1,000 executives at US corporations and private equity investor (PEI) firms between August 20 and September 1, 2020 to assess current and future M&A plans: more than half of these US dealmakers (61%) expect M&A activity to return to pre-COVID-19 levels within the next 12 months.

Key highlights:

- Given current economic and political uncertainty, 42% of survey participants indicate increased interest in alternatives to traditional M&A
- One-third (33%) of dealmakers surveyed are responding to structural sector disruption by accelerating long-term transformation of their business models as part of their M&A strategy in response to COVID-19
- Cybersecurity threats are top of mind for more than half (51%) of respondents as companies manage deals virtually
- The biggest challenges to M&A success are now uncertain market conditions, translating business strategic needs into an M&A strategy, and valuation of assets
- Interest in international dealmaking has declined; focus has shifted to domestic M&A opportunities
- The anticipated impact of the 2020 US presidential election on corporate and PEI dealmakers’ willingness and ability to do deals is nearly split: 25% of respondents say uncertainty surrounding the election has slowed deal activity, and 23% say it has accelerated deal activity

The definition of M&A is changing: Respondents are pursuing both traditional and alternative deals

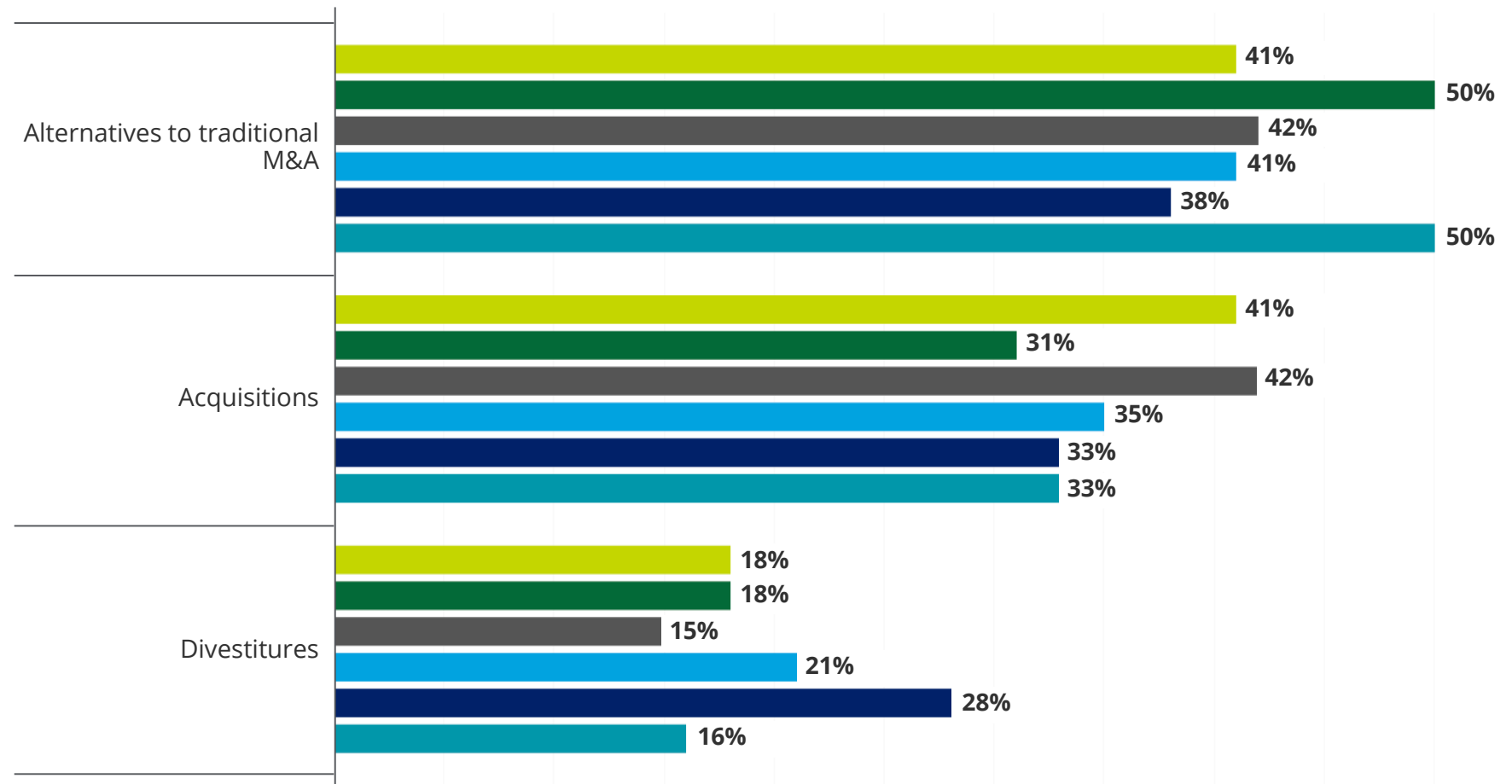
Q: To the extent that your company is currently pursuing transactions, which of the following are you most interested in exploring?



Organizations are more interested in exploring alternatives to traditional M&A (42%) as compared to acquisitions (39%).

Industry pursuit of traditional and alternative deals

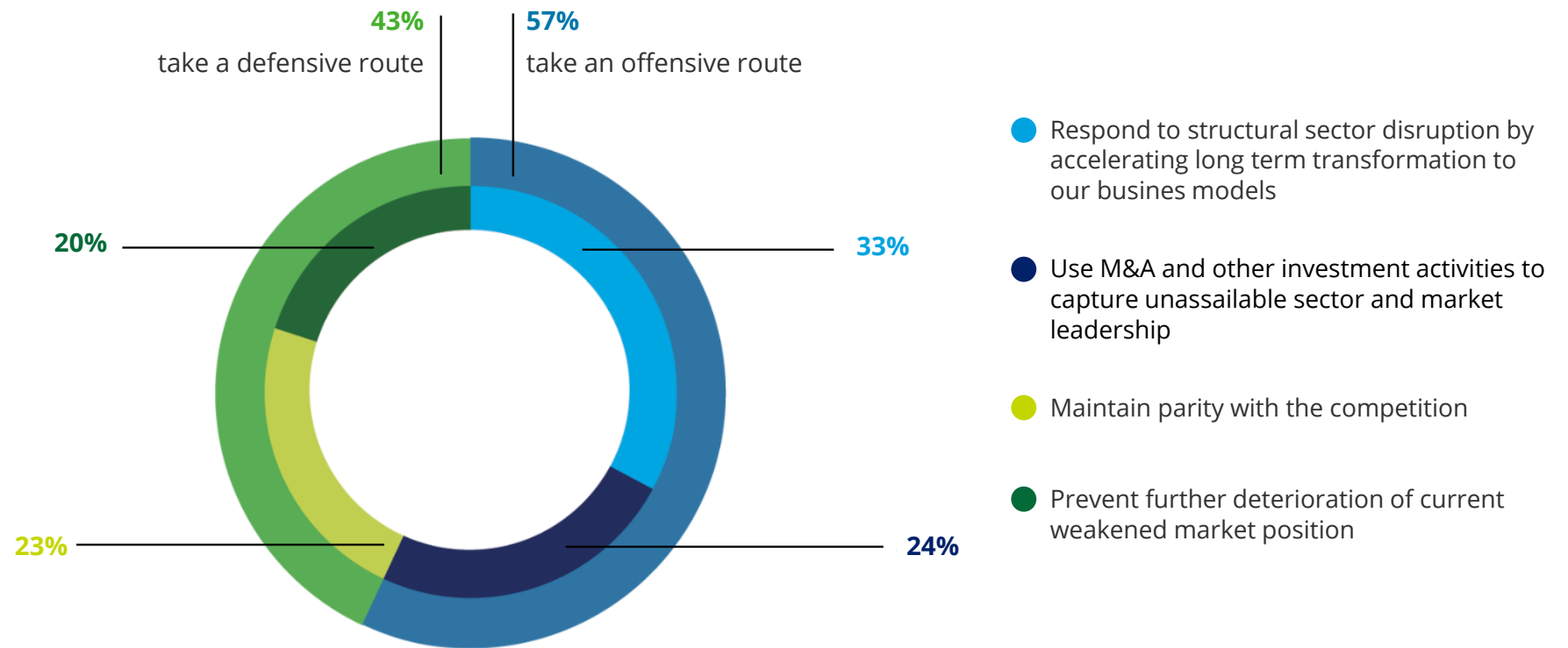
Q: To the extent that your company is currently pursuing transactions, which of the following are you most interested in exploring?



● Life Sciences & Health Care ● Financial Services (Including Real Estate) ● Consumer ● Manufacturing ● Energy & Resources ● TMT

US dealmakers respond to structural sector disruption by accelerating long-term transformation to their business models

Q: What best describes your company's M&A strategy in response to COVID-19 and the current economic environment?



Organizations are taking varied approaches to their current M&A strategy:

- 57% are taking an offensive route
- 43% are pursuing defensive strategies

Offensive and defensive options emerge as companies try to position themselves in this new dealmaking environment

Q: How is your organization prioritizing and focusing its efforts on the following defensive M&A tactics?

Defensive options:

In terms of the highest-priority defensive M&A options, corporate respondents rank the following:

Corporate	Pursuing opportunistic deals to safeguard core markets	76%
	Identifying rapid turnaround situations	74%
	Focusing on liquidity/cash flow/working capital	73%
	Considering alternatives to M&A, including alliances and joint ventures	73%
	Pursuing deep synergies from recent acquisitions	69%
	Waiting for debt markets to improve	67%

In terms of the highest-priority defensive M&A options, PEI respondents rank the following:

PEI	Focusing on liquidity/cash flow/working capital	81%
	Considering alternatives, e.g., PIPEs, minority stakes, club deals, alliances	80%
	Focusing on performance improvement for portfolio companies	80%
	Identifying rapid turnaround situations	79%
	Pursuing deep synergies from recent acquisitions	78%
	Pursuing opportunistic deals to safeguard core markets	77%

Corporate vs. PEI view of defensive M&A options.

Offensive and defensive options emerge as companies try to position themselves in this new dealmaking environment (continued)

Q: How is your organization prioritizing and focusing its efforts on the following offensive M&A tactics?

Offensive options:

In terms of the highest-priority offensive M&A options, corporate respondents rank the following:

Corporate	Establishing new partnerships and alliances	76%
	Taking advantage of disruptive opportunities to secure our future positioning	75%
	Taking advantage of disruptive opportunities to enter new markets and/or business areas	74%
	Acquiring capabilities to accelerate digital transformation	74%

In terms of the highest-priority offensive M&A options, PEI respondents rank the following:

PEI	Taking advantage of disruptive opportunities to enter new markets and/or business areas	79%
	Establishing new partnerships and alliances	78%
	Acquiring capabilities to accelerate digital transformation	78%
	A combination of complementary acquisitions (e.g., rollups) to increase scale or create value via more holistic solutions	78%
	Acquiring capabilities to fill in significant market or internal operating gaps	77%

Corporate vs. PEI view of offensive M&A options.

High-priority offensive and defensive M&A options by industry

Q: How is your organization prioritizing and focusing its efforts on the following defensive M&A tactics?

Defensive options:

CEO priorities	M&A deal archetypes	Consumer	Energy & Resources	Financial Services (including real estate)	Life Sciences & Health Care	Manufacturing	Technology, Media & Telecommunications
Salvage value	Divesting of noncore assets/underperforming units	37%	43%	59%	51%	52%	35%
	Identifying rapid turnaround situations	80%	71%	69%	72%	68%	83%
	Considering alternatives to M&A, including alliances and joint ventures	70%	75%	67%	72%	66%	88%
	Focusing on liquidity/cash flow/working capital	69%	76%	74%	67%	67%	82%
Safeguard markets to maintain competitive parity	Pursuing deep synergies from recent acquisitions	57%	74%	67%	68%	63%	83%
	Pursuing low capital-intensive investments	34%	44%	63%	53%	57%	46%
	Pursuing opportunistic deals to safeguard core markets	82%	79%	72%	73%	70%	87%
	Acquiring with capital from divestment	63%	59%	66%	67%	64%	64%
	Waiting for debt markets to improve	71%	61%	67%	65%	67%	70%

Industry view of defensive M&A options.

High-priority offensive and defensive M&A options by industry (continued)

Q: How is your organization prioritizing and focusing its efforts on the following offensive M&A tactics?

Offensive options:

CEO priorities	M&A deal archetypes	Consumer	Energy & Resources	Financial Services (including real estate)	Life Sciences & Health Care	Manufacturing	Technology, Media & Telecommunications
Transform the business to safeguard the future	Acquiring capabilities to accelerate digital transformation	59%	78%	68%	68%	78%	78%
	Pursuing transformational acquisitions	71%	69%	69%	60%	71%	78%
	Acquiring capabilities to fill in significant market or internal operating gaps	67%	72%	69%	74%	69%	81%
	Pursuing small technology acquisitions to bolster the core	53%	57%	65%	64%	66%	74%
	Exploring minority investments	61%	73%	67%	64%	59%	64%
	Enhancing deal value from tax attributes	59%	65%	61%	65%	63%	57%
Change the game	Taking advantage of disruptive opportunities to secure our future positioning	75%	78%	71%	70%	67%	86%
	Taking advantage of disruptive opportunities to enter new markets and/or business areas	68%	74%	71%	74%	73%	81%
	Establishing new partnerships and alliances	71%	74%	76%	69%	68%	87%
	Exploring acquisitions in adjacent markets	67%	71%	70%	67%	70%	75%
	Acquiring early-stage disruptors	61%	69%	63%	70%	63%	73%
	Taking advantage of disruptive opportunities to extend/expand our offerings and capabilities	80%	68%	68%	72%	67%	83%

Industry view of offensive M&A options.

Surprisingly, respondents indicate more appetite for M&A activity since March 2020 when the World Health Organization declared COVID-19 a pandemic.

Q: Since March 2020, how has dealmaking been impacted in terms of your company's pursuit of new deals?

Sixty percent of all respondents have more appetite for M&A activity since March 2020:



43% are more focused on new deals



17% are significantly more focused on new deals

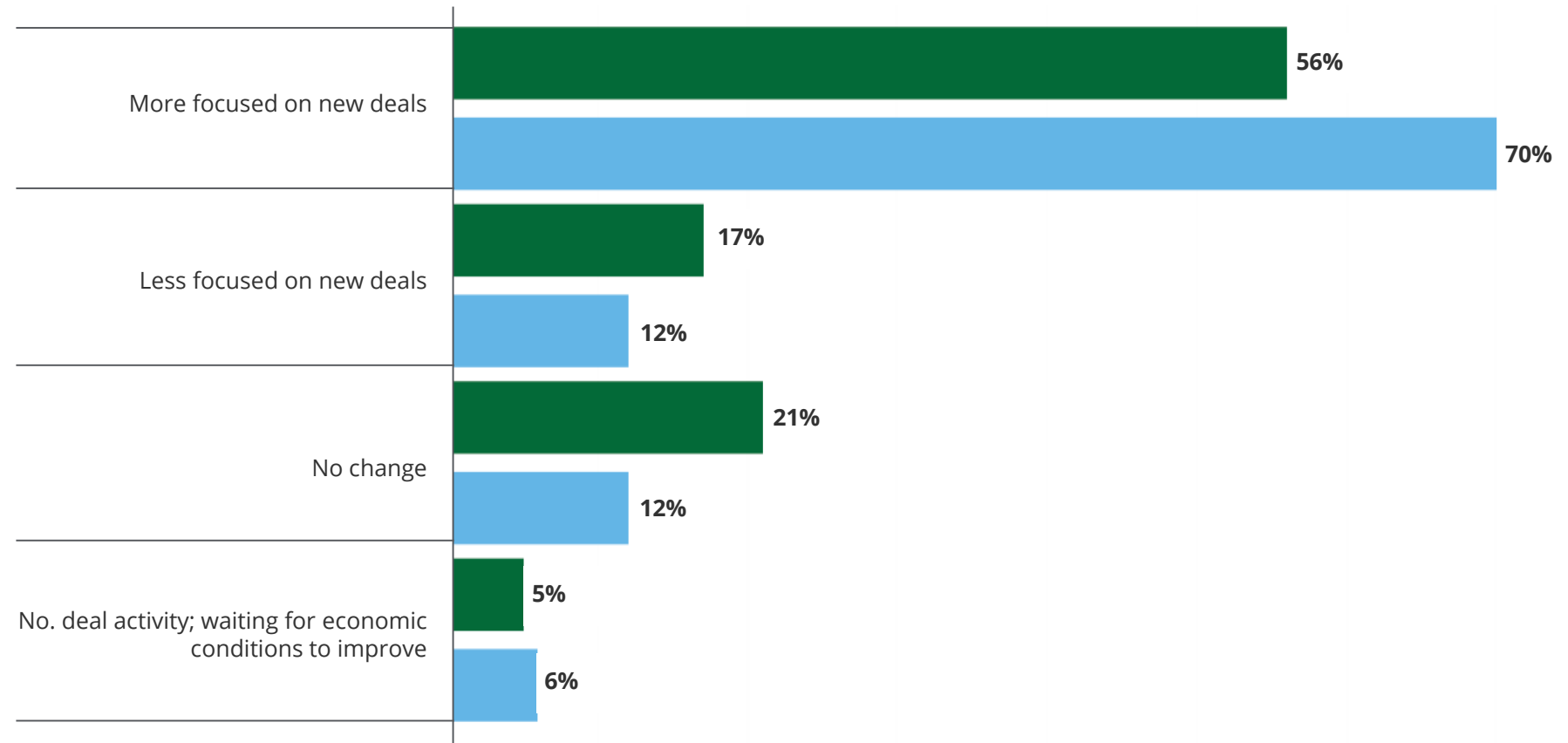


Only **16%** say they are less focused on new deals

Organizations are pursuing new deals in the face of COVID-19. 60% of organizations have more appetite for M&A activities.

Corporate vs. PEI pursuit of new deals

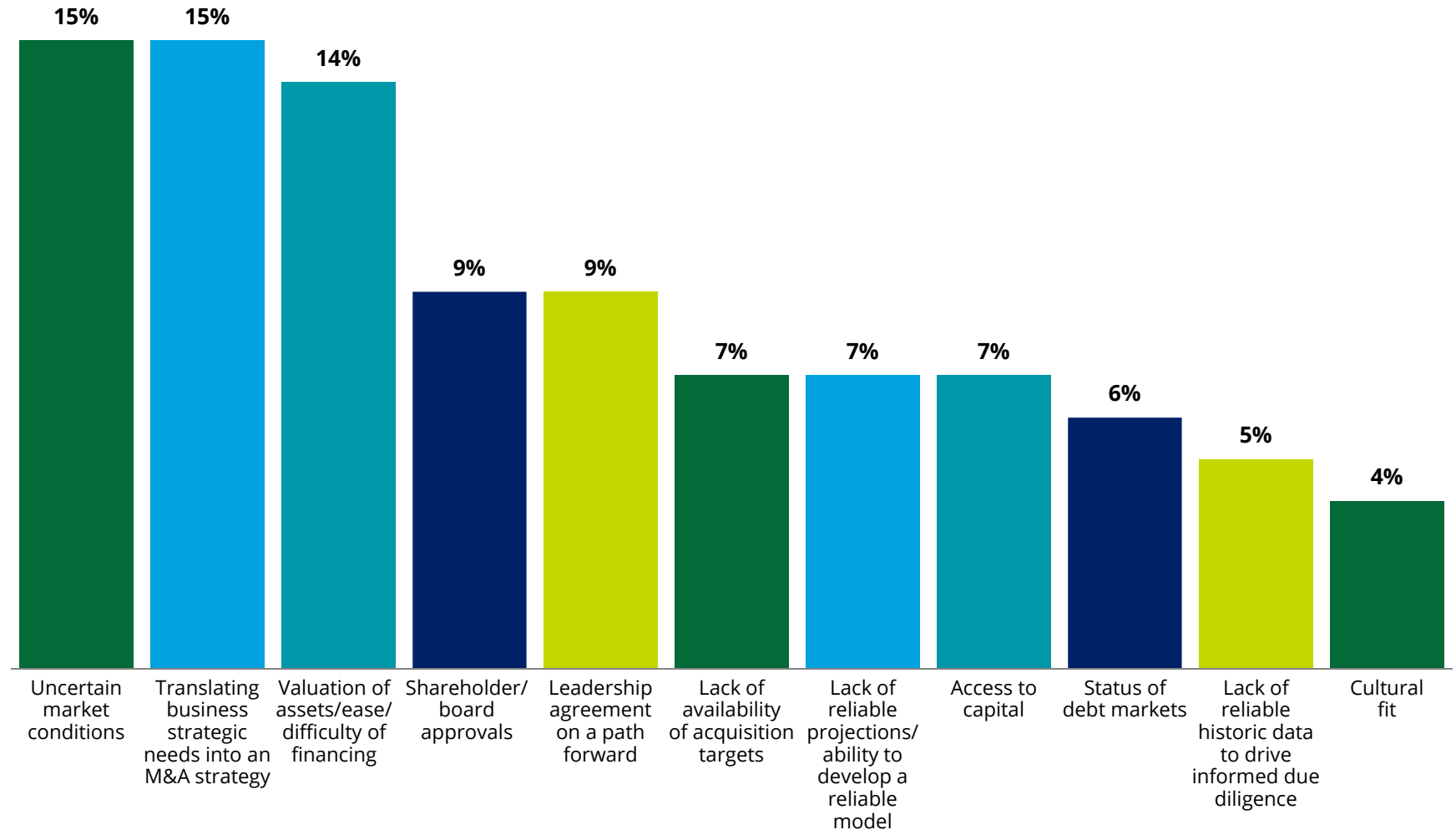
Q: Since March 2020, how has dealmaking been impacted in terms of your company's pursuit of new deals?



● Corporate ● PEI

Challenges to M&A success remain in today's business environment

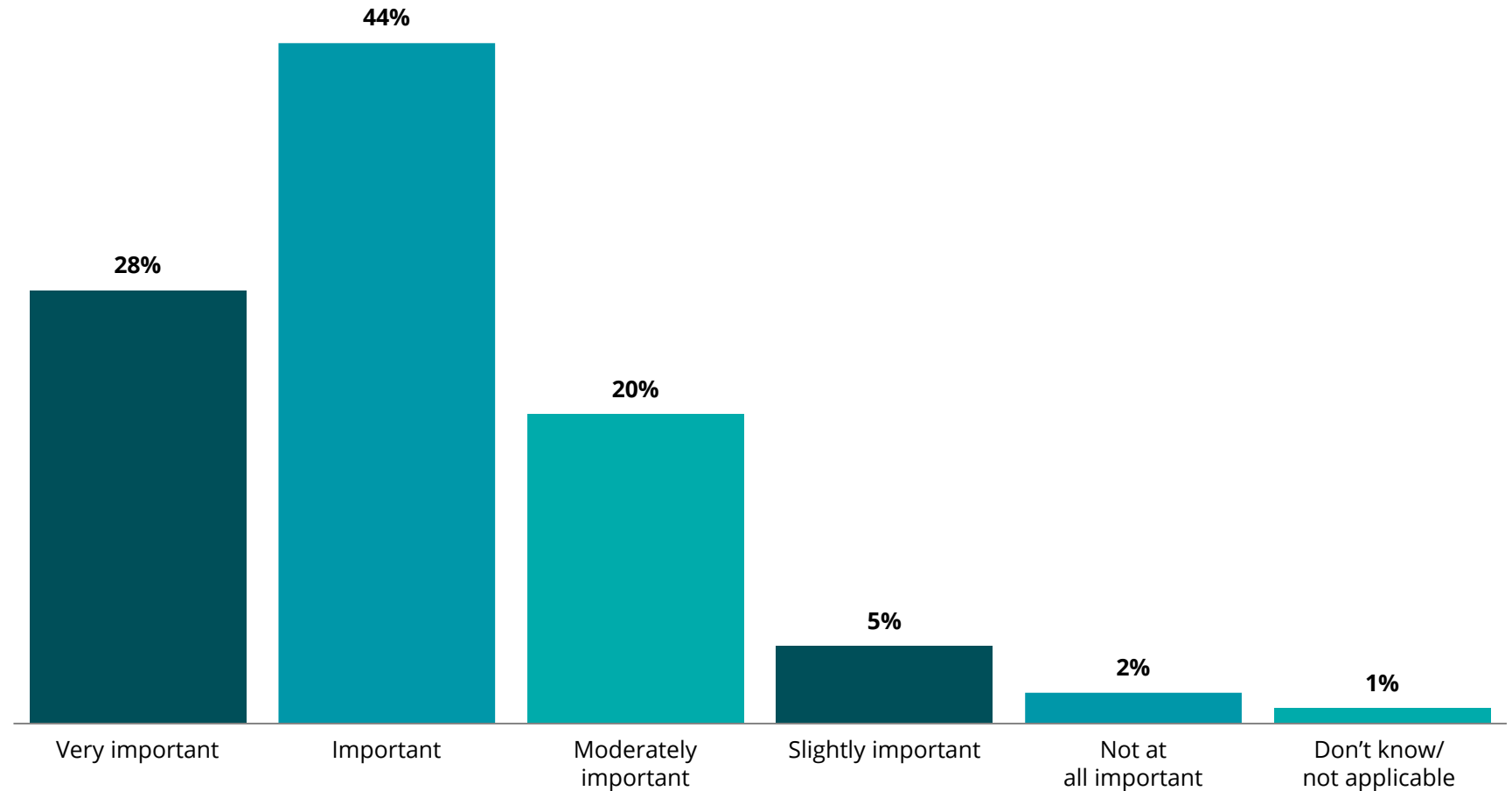
Q: In the current economic environment, what is your company's biggest challenge to M&A success?



Uncertain market conditions (15%), guidance on M&A strategy (15%), and valuation of assets (14%) are the biggest current challenges to M&A success according to respondents.

Diversity and inclusion in M&A

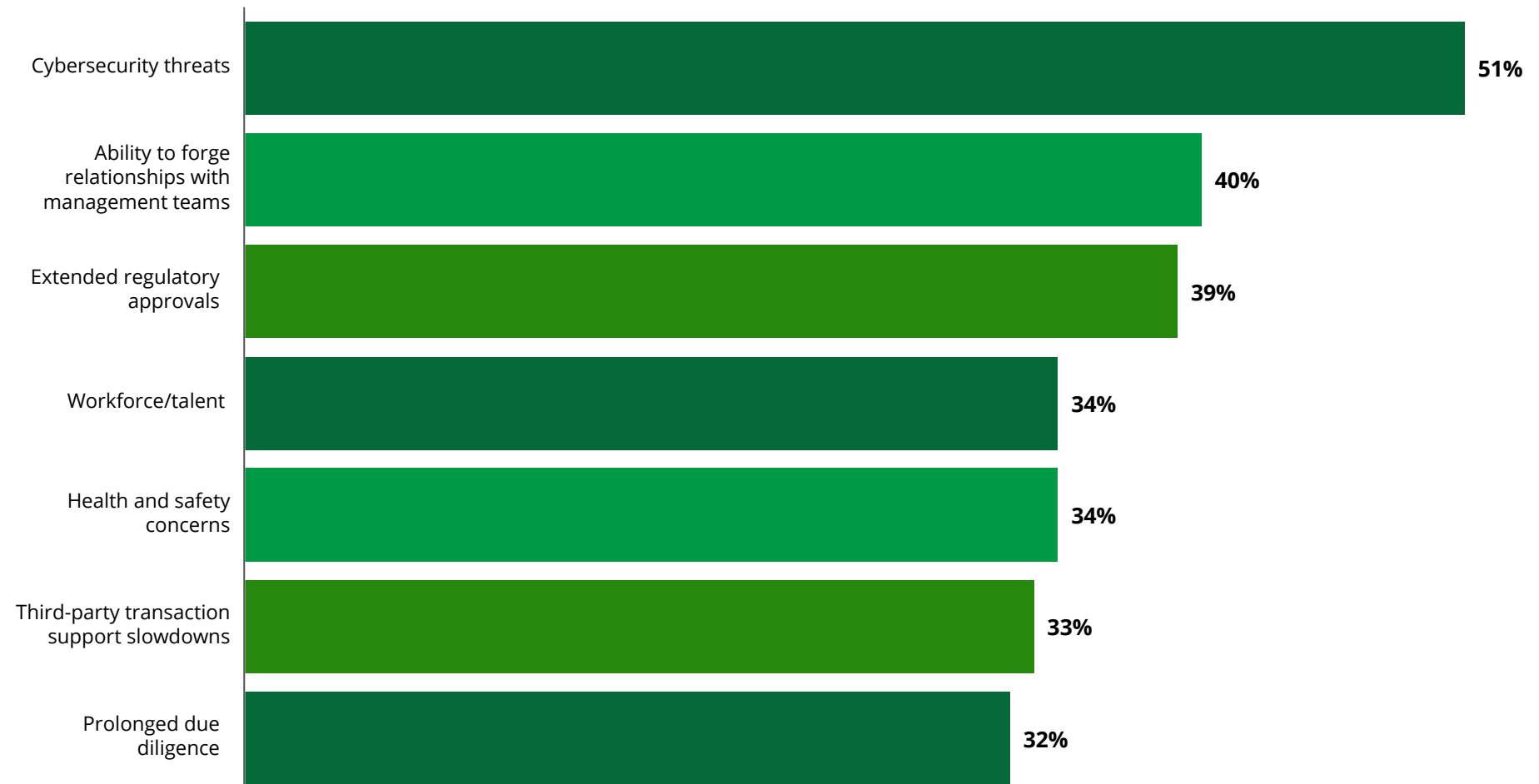
Q: When exploring M&A targets, how much does the diverse makeup (including representation of women and minorities) of the organization influence your company's selection process?



72% of all respondents note that the diverse makeup of the organization is important or very important to their company's M&A target selection process.

Cybersecurity concerns are top of mind as companies manage deals virtually

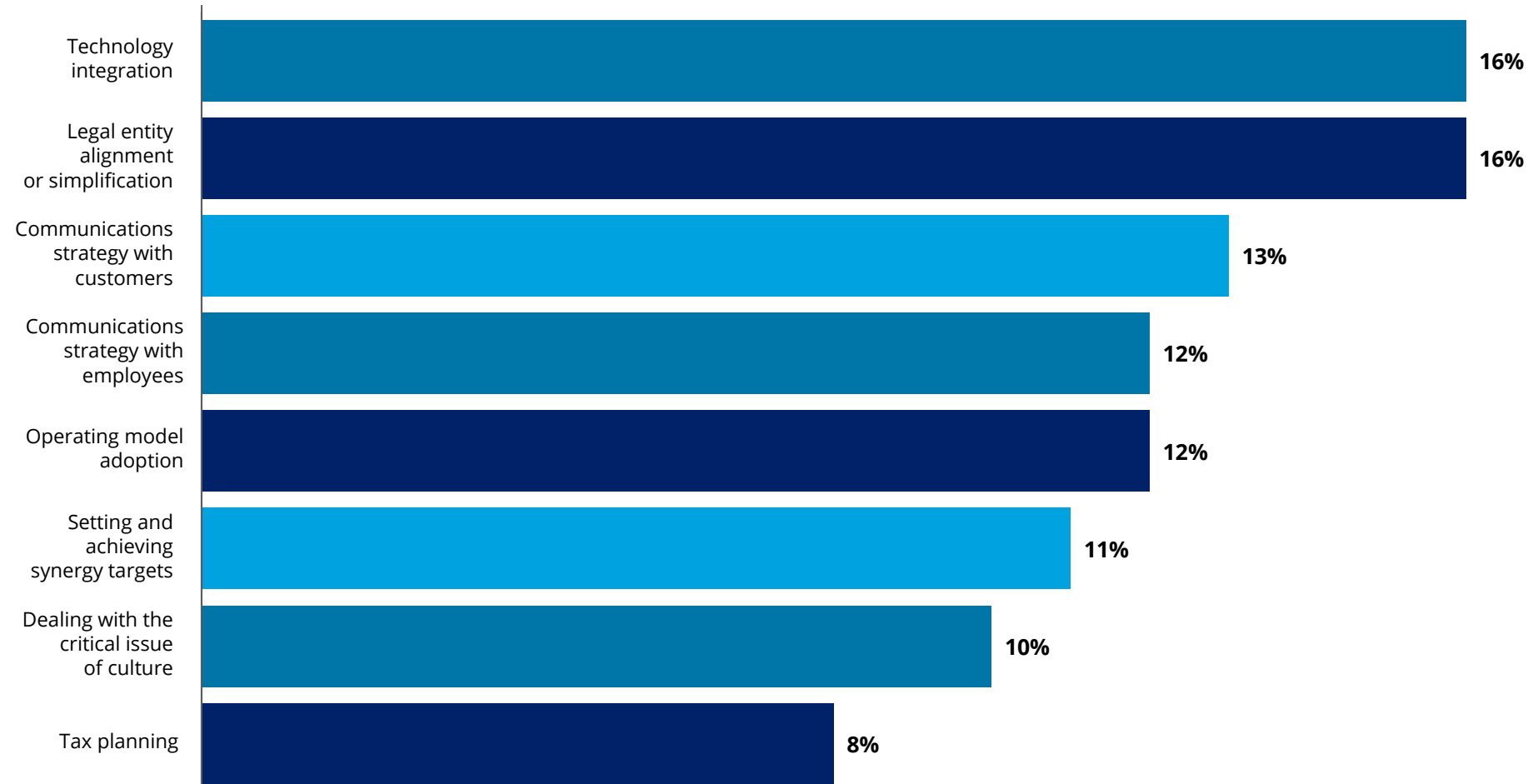
Q: What is your company's biggest concern about executing a deal in a virtual environment?
(respondents could select multiple response options)



On the whole, the virtual workplace does not appear to be negatively impacting deal management and execution, with 87% of survey respondents reporting that their organizations effectively managed a deal in a purely virtual environment, but dealmakers do have concerns about execution.

Hurdles to effectively manage integration in a virtual environment

Q: What is the biggest hurdle to effectively manage the integration phase of a deal in a purely virtual environment?



Dealmakers also report diverse concerns about integration.

COVID-19 and the current economic environment have moderately impacted dealmakers' ability to pursue, finance, and close deals

Q: Since March 2020, how many deals has your company...

The majority of respondents (58%) say COVID-19 and the current economic environment have moderately impacted their company's ability to pursue, finance, and close deals since March 2020.



92% of respondents have paused at least one of their deals
61% have paused more than three deals

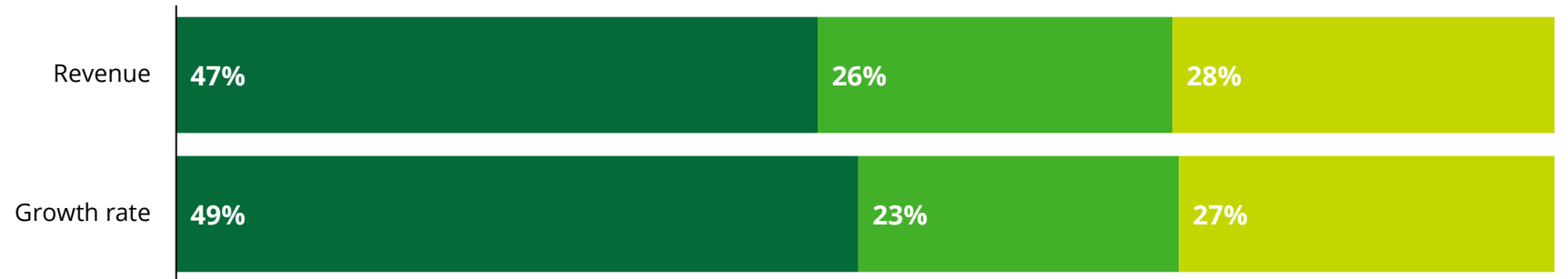


78% have abandoned at least one deal
46% have abandoned three or more deals

Corporate and PEI: Level of impact assessment

Q: How has COVID-19 and the accompanying economic environment impacted your organization's revenue and growth rate?

Corporate impact:



PEI impact:

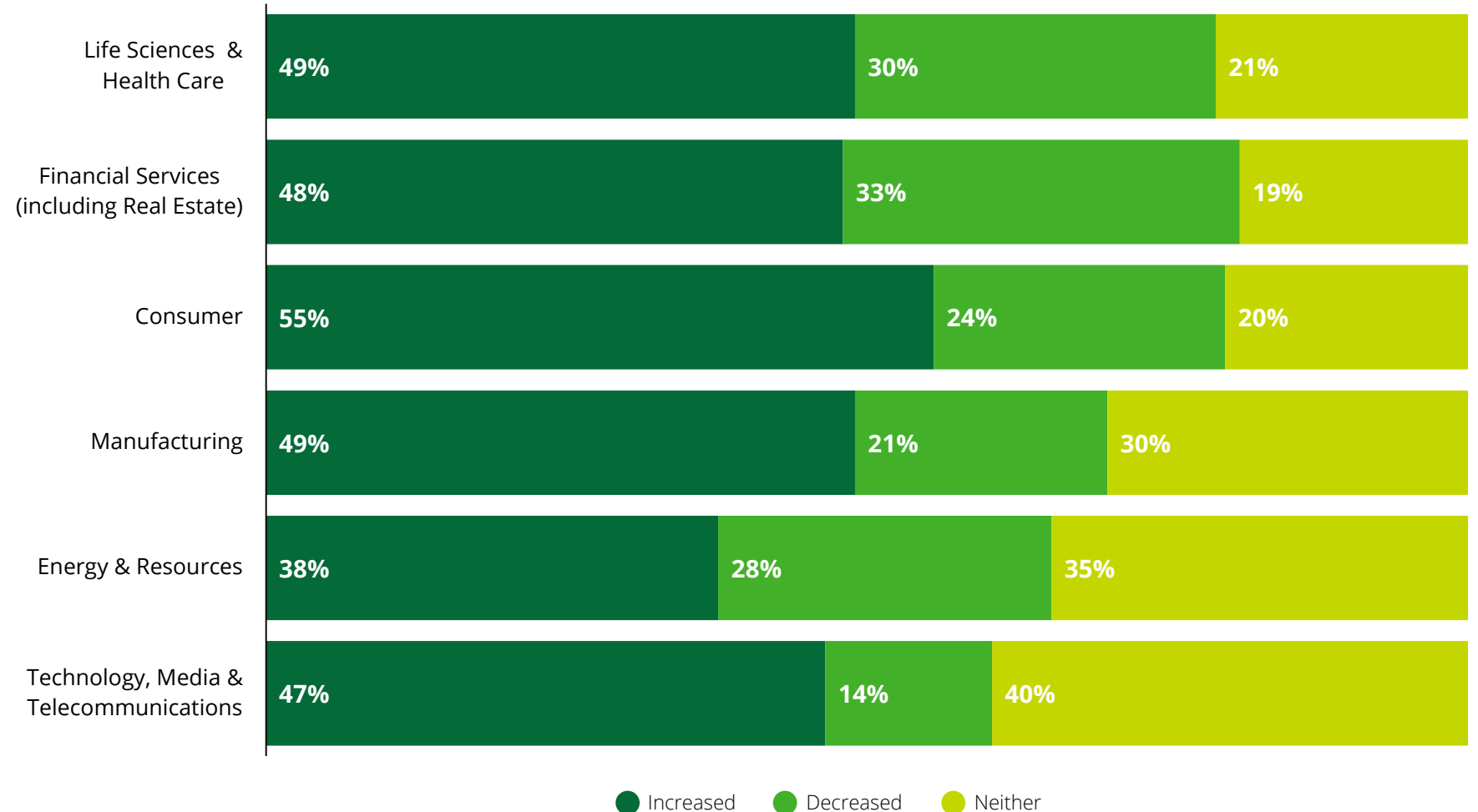


● Increased ● Decreased ● Neither

Industry: Level of impact assessment

Q: How has COVID-19 and the accompanying economic environment impacted your organization's revenue?

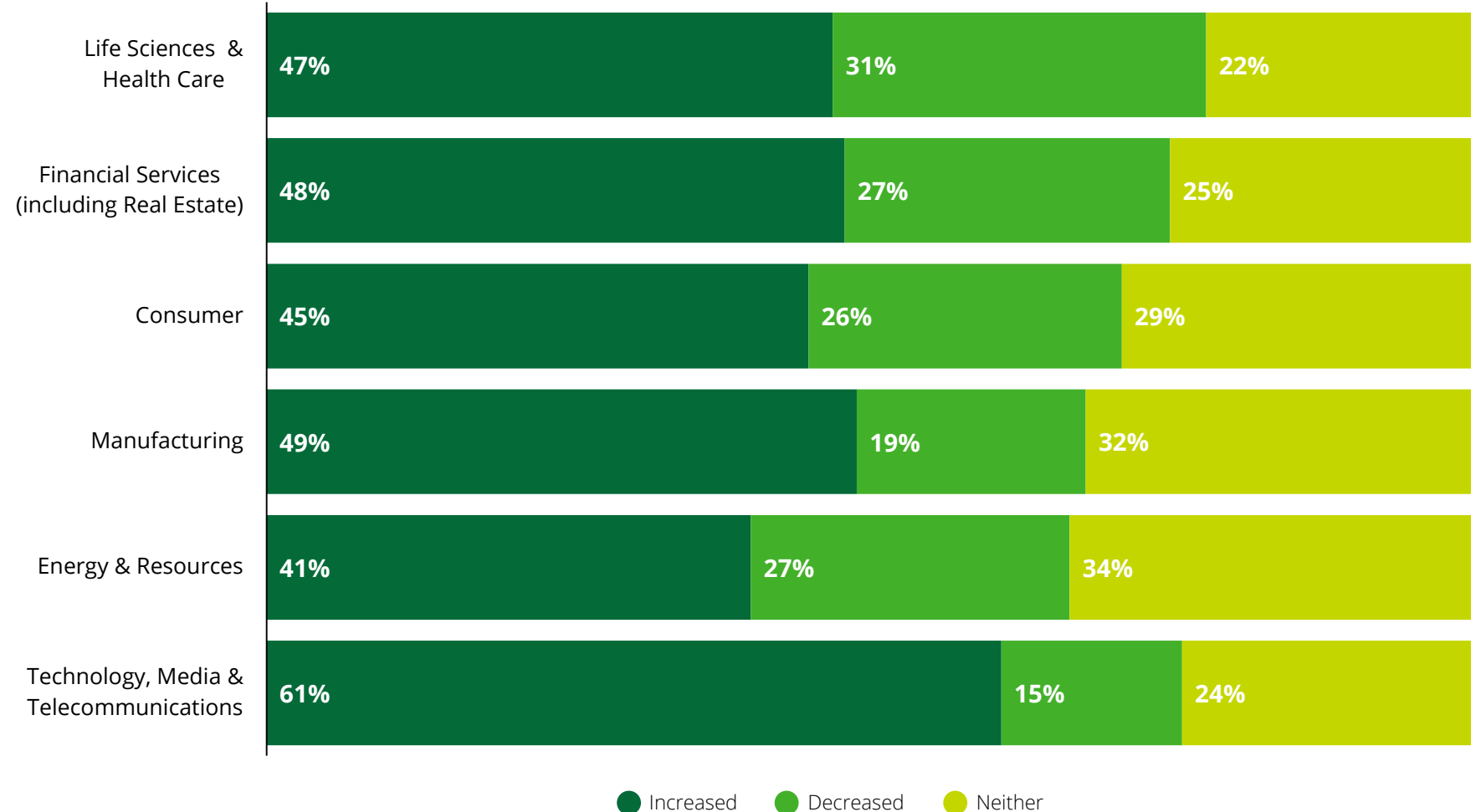
Revenue:



Industry: Level of impact assessment (continued)

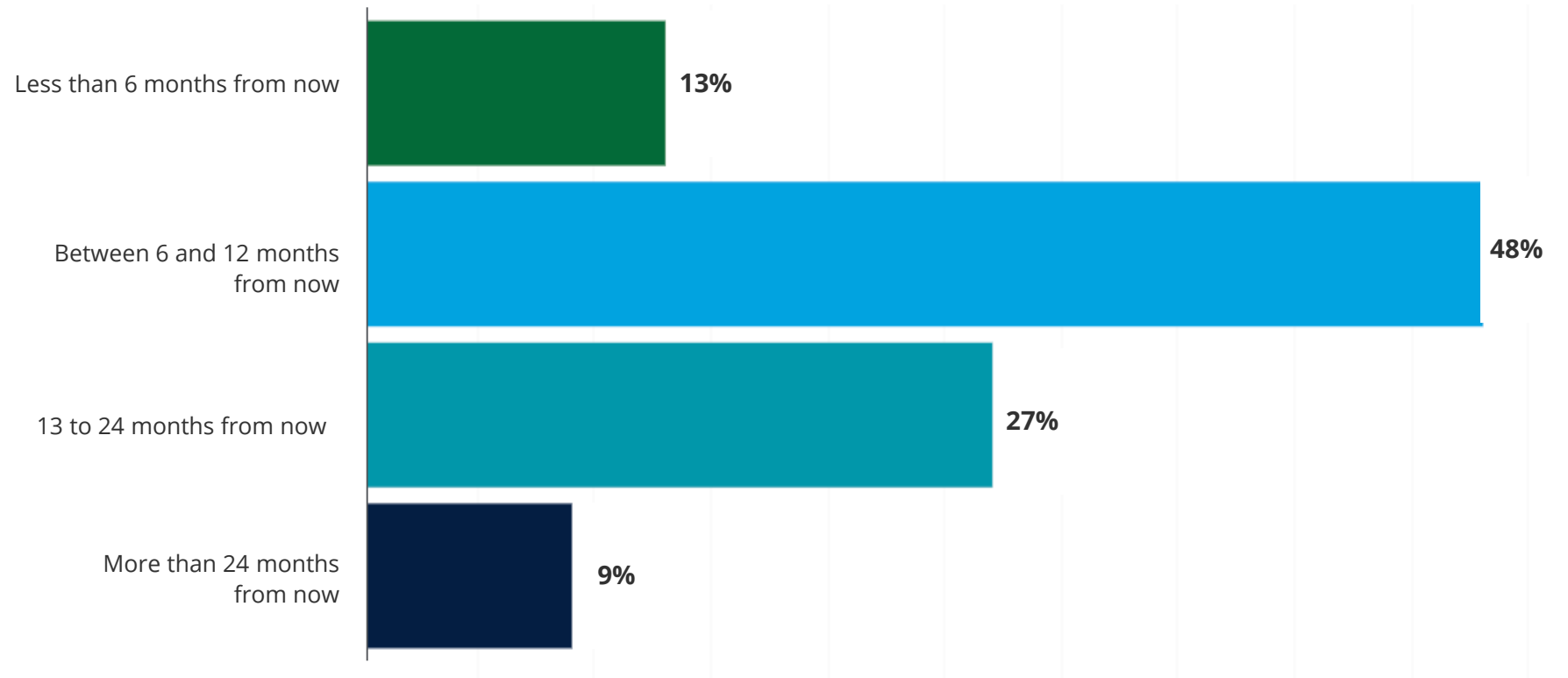
Q: How has COVID-19 and the accompanying economic environment impacted your organization's growth rate?

Growth rate:



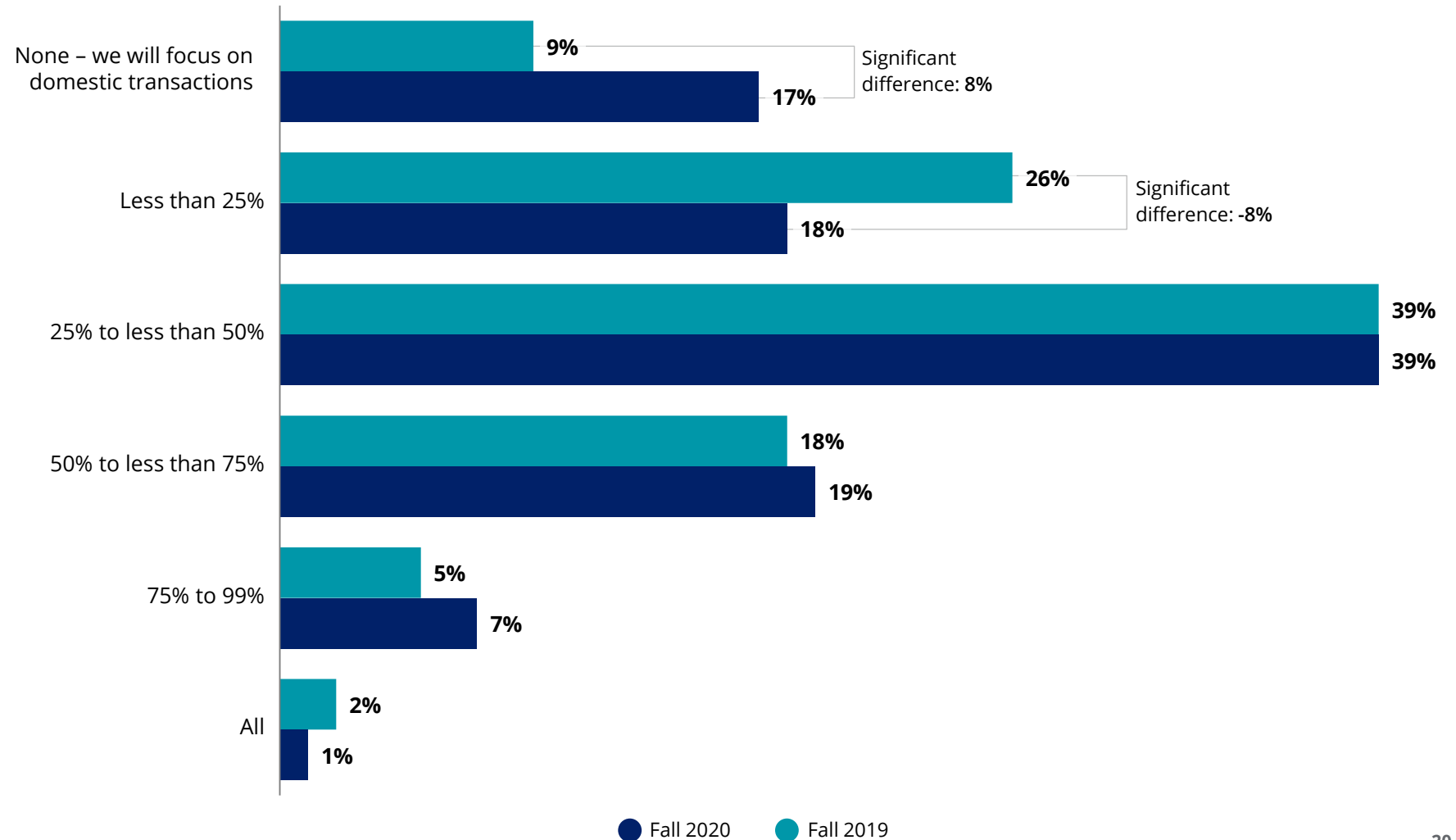
61% of dealmakers expect US M&A activity to return to pre-COVID-19 levels within the next 12 months

Q: When do you think US M&A activity might return to pre-COVID-19 levels?



Interest in foreign M&A markets is down as dealmakers expect to focus domestically

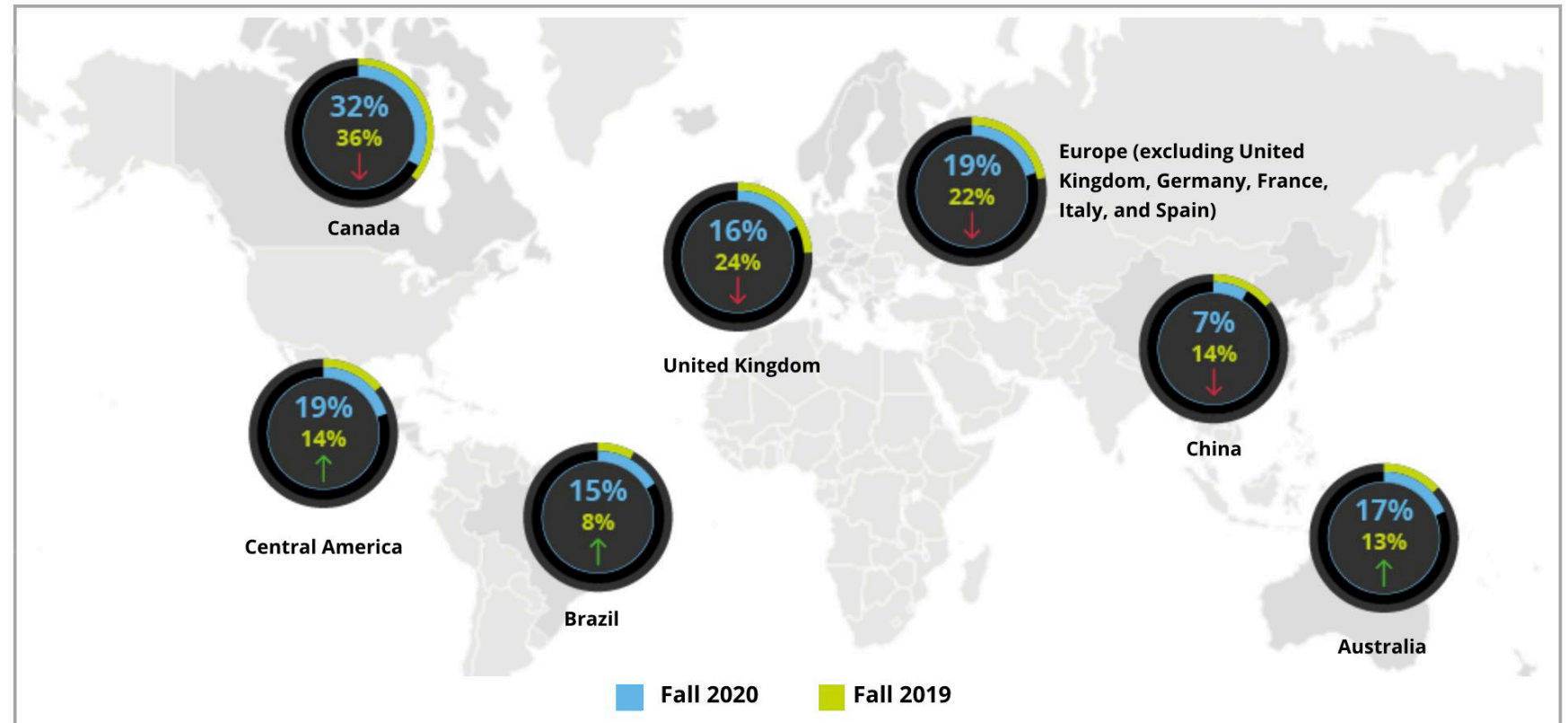
Q: What proportion of your company's M&A deals involve acquiring targets operating primarily in foreign markets?



Interest in foreign M&A markets is down compared to last year's M&A Trends survey, with 17% (compared to 9% in 2019) of respondents saying that none of their company's M&A deals involve acquiring targets operating primarily in foreign markets.

Interest in foreign markets

Q: Which foreign markets are you most likely to pursue*? (respondents could select multiple response options)

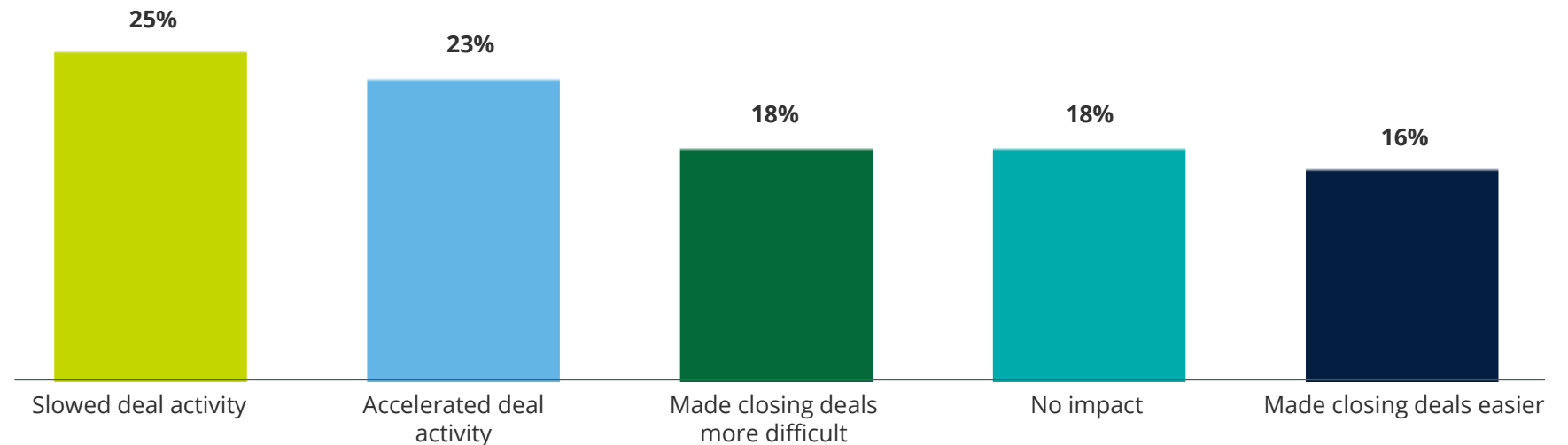


Since last year's survey, UK deal targets dropped by 8 percentage points and Chinese targets declined by 7 percentage points, while Central America and Brazil are among the few international markets to see an increase in interest.

* Base: (Fall 2019 n=1000), (Fall 2020 n=1000).

The anticipated impact of the 2020 US presidential election on corporate and PEI dealmakers' willingness and ability to do deals is nearly split

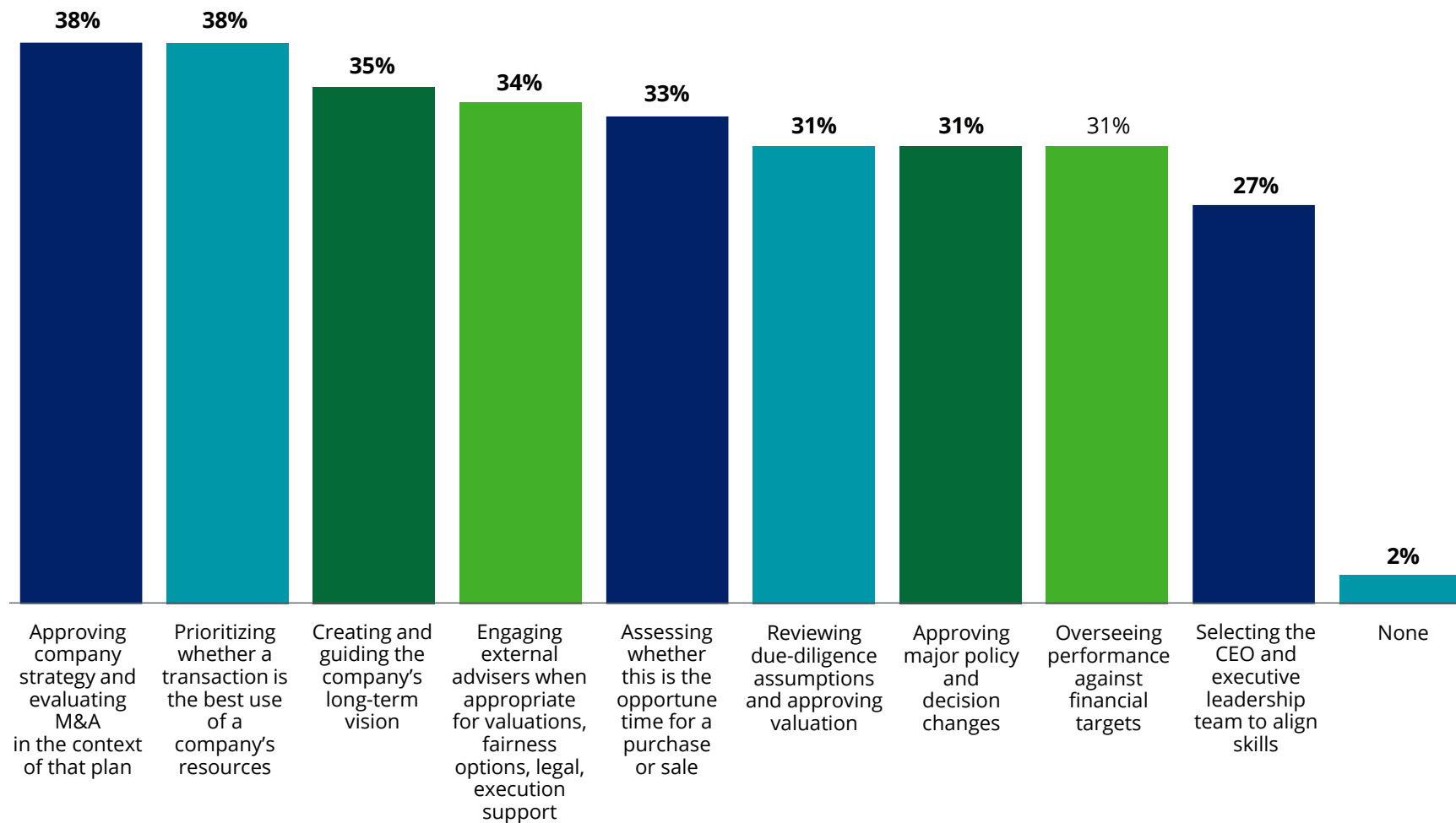
Q: How has uncertainty surrounding the result of the upcoming US presidential election affected your company's willingness and ability to do deals?



Twenty-five percent (25%) of respondents the US presidential election has slowed deal activity while 23% note it has accelerated deal activity.

Boards of directors' role in M&A

Q: In the current economic environment, in which of the following areas are you seeing the board of directors, rather than management, take the lead during an M&A transaction?
(respondents could select multiple response options)



Responding corporate dealmakers surveyed note that their boards of directors play a variety of roles in the M&A process, touching equally on most parts of the process. According to corporate respondents, the board is most likely to take the lead in high-level strategy decisions and resource allocation.

About the survey



Between August 20 and September 1, 2020, a Deloitte survey conducted by OnResearch, a market research firm, polled 1,000 US executives—750 at US-headquartered corporations and 250 at US-based private equity firms—to assess current and future M&A plans given uncertainty caused by COVID-19 and current economic conditions.

All participants in the survey work either for private or public companies with revenues in excess of \$10 million or private equity firms. The participants hold senior ranks (at least director level). Forty-one percent of all respondents sit in the C-suite. All respondents are involved in M&A activity.

Respondents represent a variety of industries: technology, consumer, energy, financial services, life sciences, and health care, among others. More than half of the corporate respondents (57%) work for privately held companies. Twenty-nine percent work at companies with more than \$1 billion in revenue, and 17% work in companies with less than \$250 million in revenue.

The private equity respondents come from a variety of funds. More than one-third (36%) of respondents work at funds with more than \$3 billion in assets. Only 8% work at funds with less than half a billion dollars to invest.



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