

# Role of Mergers and Acquisition in the Economy Post COVID-19

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## I. INTRODUCTION

The ultimate goal of any business entity is to continue growing as growth and profit motivate the entity to keep going and participate in the market. Without the incentive of growth, the company may experience downfall and suffer loss. There are numerous ways to enhance the growth of any business entity; however, two primary segments for growth in any company are organic and inorganic growth. The company undergoes organic growth by increasing output and developing the internal factors of the company. On the other hand, inorganic growth implies that the company is enhancing its business reach, sales, and other areas by obtaining new businesses or capabilities via acquisition, merger, and take-over. Business entities often prefer organic growth as it seems to be a safer option than merger or acquisition. However, certain economic conditions may obstruct the organic growth of the business entities and one of the best examples of economic obstruction is the present health crisis due to the spread of the COVID-19 pandemic. The organic growth of the business entities is hampered with the spread of COVID-19 embarked global lockdown. In the absence of possible means for organic development in the present pandemic, the inorganic mode of merger and acquisition may play a vital role in the growth of the companies and the continuance of the economy. Given the possibility of growth via the inorganic method, the paper aims to highlight the positive role played by mergers and acquisitions in the economy after the emergence of the COVID-19 crisis and corroborate the possibility of a constructive role via data and surge in M&A deals in the second half of 2020.

## II. IMPACT OF COVID-19 ON MERGERS & ACQUISITION (M&A) DEALS

To understand the role played by M&A deals in the post-COVID economy, it is crucial to acknowledge that M&A may not be an immediate solution to the downturn and the crisis may also have a high impact on the M&A deals globally. However, the decline in the number of deals may also indicate that the buyers who have canceled the deals have large reserves of dry powder<sup>1</sup>, which may be useful for a strategic acquisition, after analyzing the needs and impacts of the crisis.

The decline of M&A deals is not something unique to the present crisis as some of the major crises like the stock market crash, dot-com crash, and the great financial crisis also indicate the decline. History suggests that these crises impacted the financial standing of the economies and at the same time also led to a decline in the number of M&A deals as an effect of the crisis.<sup>2</sup> The data from the 2008 financial crisis suggests that the number of M&A deals curved in by almost 31% over a year along with this the value of the deals also decreased by 27% in one year.<sup>3</sup> The same impact was expected from the present health crisis and the data recorded in the first half of 2020 affirms this expectation of dip. According to IMAA<sup>4</sup> and White & Case M&A Explorer<sup>5</sup>, the first six months of 2020 reported a substantive fall in the M&A activity globally as the value of the deals went down by 53% compared in comparison to the value of deals in 2019. This sharp decline in the value of deals was the lowest since the first half of 2010. The number of deals also fell by 32% as only 6943 deals were considered in six months. However, the decline in the deals was not spread out evenly in all six months as the second quarter registered a severe decline than the first quarter due to the clearer extent of the pandemic. The pause in M&A is attributed to the impact of the crisis on the financial market as the Covid-19 crisis, like other crises, created volatility and market disconnect.<sup>6</sup>

<sup>2</sup> Salsberg, B. (2020). *The Case for M&A in a Downturn*. Retrieved 11 May 2021, from <https://hbr.org/2020/05/the-case-for-ma-in-a-downturn>

<sup>3</sup> Ibid.

<sup>4</sup> *M&A Statistics - Worldwide, Regions, Industries & Countries*. Institute for Mergers, Acquisitions and Alliances (IMAA). Retrieved 11 May 2021, from <https://imaa-institute.org/mergers-and-acquisitions-statistics/>.

<sup>5</sup> Reiss, J., & Pryor, G. (2020). *Global M&A value collapses to record lows in Q2 2020 | White & Case M&A Explorer*. M&A Explorer. Retrieved 11 May 2021, from <https://mergers.whitecase.com/highlights/global-ma-value-collapses-to-record-lows-in-q2-2020#>

<sup>6</sup> Nigro, S. (2021). Council Post: *How The Covid-19 Pandemic Is Reshaping The Mergers And Acquisitions Space*. Retrieved 11 May 2021, from <https://www.forbes.com/sites/forbesbusinesscouncil/2021/02/03/how-the-covid-19-pandemic-is-reshaping-the-mergers-and-acquisitions-space/?sh=29807f4c7019>

<sup>1</sup> Dry powder refers to the amount of dedicated but allocated capital a business entity has on hand.

### III. BUYER'S MARKET AND POSSIBILITIES OF M&A DEALS

**“In the midst of every crisis, lies great opportunity.”- Albert Einstein**

Despite the decline in the M&A deals in the first half of 2020, the eventual unfolding of market conditions and the impact of COVID creates a way for M&A deals to play a crucial role in the continuance of the economy. The constructive role of M&A in the post-COVID economy is well supported by the emergence of the buyer's market. Considering the COVID-19 pandemic and the volatility attached to it, it has been predicted that the M&A space has moved towards the market dominated by the buyers.<sup>7</sup> This prediction is substantiated with the logic that the market will result in buyers' domination as the business entities, throughout the world, with low cash will struggle to financially back their general expenses and at the same time, the entities with high cash reserves would benefit from the acquisition of these distressed companies. This logic is well acquainted with the market reality as the sound performing business entities got ten years since the last financial crisis to build up their investment reserves. However, the small and malfunctioning entities will suffer the brunt of the downturn due to their status in the market and no growth opportunity due to the lockdown. Furthermore, the presence of a huge distinction between the cash positions of the leaders and stragglers in the economy will result in the creation of groups of prospective buyers and sellers in the market concerning the M&A transaction.<sup>8</sup>

Downturn as a result of the COVID crisis is lucrative for the buyers with funds as the post-COVID market provided opportunities, which would have never existed.<sup>9</sup> A strategic buyer will look for transactions that will help in adding product, capabilities, or market share in the already existing business. These considerations of the strategic buyer will be easily fulfilled as the pandemic has resulted in lower seller valuation expectations leading to the flexibility of the distressed sellers in the M&A deal compared to rigidity in the pre-COVID market. The lower value expectation is due to the financial brunt suffered by the small entities in the lockdown. Moreover, the business

<sup>7</sup> A buyer's market? Guidance notes on mergers & acquisitions amidst COVID-19. (2020). Retrieved 11 May 2021, from <https://www.zain.com.my/en/insights/articles/2020/may/29/a-buyers-market>

<sup>8</sup> Sharma, G., & Tamhane, T. (2020). *India's post-COVID-19 economic recovery: The M&A imperative*. Retrieved 11 May 2021, from <https://www.mckinsey.com/business-functions/m-and-a/our-insights/indias-post-covid-19-economic-recovery-the-m-and-a-imperative#>

<sup>9</sup> Pryzant, P. (2020). *An M&A Guidebook for a Post-Pandemic World: Creative Ways to Bridge the Gaps between Buyers and Sellers after the COVID-19 Pandemic*. Retrieved 11 May 2021, from <https://businesslawtoday.org/2020/07/ma-guidebook-post-pandemic-world-creative-ways-bridge-gaps-buyers-sellers-covid-19-pandemic/>

owners have had a substantial shock to their business activities and due to this, there is an increase in the number of entities considering selling their business as divestitures or spinoff.<sup>10</sup> Besides small or malfunctioning entities, the most attractive targets for M&A deals are the young start-ups with innovative technologies and capabilities. These start-ups are also most exposed to the pandemic as they may lack resources to sail through the COVID-19 storm.<sup>11</sup>

Furthermore, this downturn also provides once-in-a-decade opportunities for the buyers as there may be numerous organizations willing to acquire any beneficial entity but were blocked due to the competition in the market. However, the post-COVID market lowered competition along with realistic valuation, which will be beneficial for the financially strong companies in the long run.<sup>12</sup> Hence, it is beneficial for the stronger companies to take advantage of the wave of distressed and cheaper assets in the market due to the impact of the pandemic.<sup>13</sup>

### IV. BENEFITS OF THE M&A TRANSACTION IN THE POST COVID ECONOMY

**“Cash combined with courage in a time of crisis is priceless” – Warren Buffett Key takeaways from past trends**

To grasp the advantage of indulging in M&A deals in the economic downturn, it is important to highlight the growth of businesses in prior downturns. Data from the financial crisis of 2008 portrays that the entities that made promising acquisitions during the economic downturn outperformed the rest of the market players.<sup>14</sup> Total shareholder return of active acquirers was seen to be averaged around 10.5%, whereas the same return of the less or not active company fell to 3.3% or below.<sup>15</sup> This result is supporting the claim of performing strategic M&A deals during the economic downturn to achieve inorganic growth of the company. Furthermore, the analysis of Bain & Company indicates that the acquisition finalized during and after the recession produced almost triple excess returns

<sup>10</sup> Weinberg, J. (2020). *Why COVID-19 could lead to boom time for M&As*. Retrieved 11 May 2021, from <https://www.raconteur.net/finance/mergers-acquisitions/ma-covid-restructure/>

<sup>11</sup> Supra note 9.

<sup>12</sup> “The status quo is not a strategy that is going to be successful”: *Growth through acquisition in the next normal*. (2021). Retrieved 11 May 2021, from <https://www.bdo.ca/en-ca/insights/advisory/transaction-advisory/growth-through-acquisition-in-the-next-normal/>

<sup>13</sup> Company, W. (2020). *Lessons from the 2008 crash urge long-term view to M&A deals in response to coronavirus*. Retrieved 11 May 2021, from <https://www.globenewswire.com/news-release/2020/04/07/2012931/0/en/Lessons-from-the-2008-crash-urge-long-term-view-to-M-A-deals-in-response-to-coronavirus.html>

<sup>14</sup> Supra note 2.

<sup>15</sup> Supra note 2.

than the acquisition done in the boom period, hence supporting M&A deals in the downturn.<sup>16</sup>

According to the BCG's research, it is apparent that the weak-economy M&A deals outperform the deals made in a strong economy, and deducing from the trend it can be asserted that the M&A deal in the post-COVID economy will be beneficial for the entities involved in the transaction.<sup>17</sup> Moreover, M&A practice with a through-cycle mindset has benefited the entities in past crises and the present business player must learn from those who grew by taking advantage of adverse situations.<sup>18</sup> Albeit the present crisis is different from past crises, the techniques of proactive M&A deals will benefit the entities in present circumstances too. Additionally, the entities in the present market may also take advantage of low-interest rates and institutional help to survive and grow through the health crisis.

### Need of the hour

Besides the significance of M&A via past events, the current market situation also calls for M&A deals. As discussed above M&A deals are beneficial for the companies in long run, however, M&A deals are also beneficial for distressed companies. The bold decision of M&A is necessary for the economic continuity in terms of both business and employment as M&A will also provide continuance of business and employment in the distressed companies.<sup>19</sup> Consequently, M&A deals are beneficial from both the buyer and seller's perspective as it helps the seller to get business security via consolidation. Furthermore, M&A deals also serve the larger goal of preserving the talent and crucial entities in the market to assist in economic growth. Hence, M&A can also be seen to be synonymous with the survival of distressed players and the continuance of the economy.

### Future perspective

M&A deal in the downturn is to be done with extra precautions and extra consideration of future market condition. The company acquiring must consider what will the world and market look like post-pandemic, and how can

the company take proactive steps towards the future changes. These considerations are observed to be the driving force for the M&A deals in the post-COVID market.<sup>20</sup> Additionally, the pandemic has highlighted the market shift from the traditional supply chain and the emergence of the TMT sector. Hence, the M&A deal can be seen as an instrument to acquire the crucial entities in the market that cater to the changing needs of the market. M&A deal may help the strong market player to gain regional companies to amplify the supply chain and on the other hand, it can also assist the company in enhancing its technological and digital capabilities via M&A transaction.<sup>21</sup>

### The surge in the M&A transaction

Considering the benefits and necessity of M&A deals in the post-COVID economy, many strong business players are acting proactively while employing their lessons from the past. These active buyers in the economic downturn have led to a sudden surge in global M&A deals. The second half of 2020 has seen immense growth in the M&A deal value and volume and this growth continued in first quarter of 2021 leading to the achievement of a 10-year high M&A mark.<sup>22</sup> The increase in the deal is generated by megadeals in the TMT sector as acquirers emphasize on target's digital strategy and technological advancement while considering the future market.<sup>23</sup> These strategic deals are mitigating the effects of health crises on the economy by helping the economy to rebound from the downturn quicker than anticipated.

## V. CONCLUSION

After the presentation of facts and trends concerned with downturn economies, it can be deduced that mergers and acquisitions play a crucial as well as a constructive role in the post-COVID economy. M&A deals can be employed to preserve the distressed entities and at the same time, it can be seen as a technique for inorganic growth of the business entities in times of economic downturn. Hence, while acting as a catalyst for the growth and survival of the businesses, M&A deals are reducing the economic distress in the post-COVID economy.

<sup>16</sup> Rigby, D. (2009). *Winning in Turbulence: Pursue Game-Changing M&A and Partnerships*. Harvard Business Review. Retrieved 11 May 2021, from <https://hbr.org/2009/03/4-winning-in-turbulence-pursue>.

<sup>17</sup> Kengelbach, J., Gell, J., Keienburg, G., Degen, D., & Kim, D. (2020). *COVID-19's Impact on Global M&A*. Retrieved 11 May 2021, from <https://www.bcg.com/publications/2020/covid-impact-global-mergers-and-acquisitions>

<sup>18</sup> Giersberg, J., Krause, J., Rudnicki, J., & West, A. (2020). *The Power of through-cycle M&A*. Retrieved 11 May 2021, from <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-power-of-through-cycle-m-and-a>

<sup>19</sup> Groen, A. (2020). *COVID-19: how M&A can contribute to economy continuity*. Retrieved 11 May 2021, from [https://www.ev.com/en\\_nl/covid-19/covid-19-how-m-a-can-contribute-to-economy-continuity](https://www.ev.com/en_nl/covid-19/covid-19-how-m-a-can-contribute-to-economy-continuity)

<sup>20</sup> Shah, H. (2020). *How businesses will change after Covid-19 | M&A Critique*. Retrieved 11 May 2021, from <https://mnacritique.mergersindia.com/business-strategy-post-covid-mergers-acquisitions/>

<sup>21</sup> Supra note 8.

<sup>22</sup> Deyong, M. (2021). *Megadeals drive global M&A to 10-year high in Q1 2021 | White & Case M&A Explorer*. M&A Explorer. Retrieved 11 May 2021, from <https://mergers.whitecase.com/highlights/megadeals-drive-global-ma-to-10-year-high-in-q1-2021>.

<sup>23</sup> Guerzoni, A., Mirchandani, N., & Perkins, B. (2021). *Will COVID-10 turbo-charge M&A and transformation?*. Retrieved 11 May 2021, from [https://www.ev.com/en\\_gl/ccb/mergers-acquisitions-strategy-survey-summary](https://www.ev.com/en_gl/ccb/mergers-acquisitions-strategy-survey-summary).