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Globalisation influence on M&A

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Before we can speak of the impact of globalisation on mergers and acquisitions, we must first mention the impact of COVID. The IMF estimates that in 2020 the global economy shrunk by 4.4%, the worst since the Great Depression in the 1930's, and with many countries that spun into a recession. The good news is that it also predicts a global growth of more than five per cent in 2021, driven primarily by India and China, as well as a return to growth for countries – such as the UK, Italy, and others – that suffered the devastating impact of the COVID crisis.

An important factor for the anticipated recovery and growth will be the return to normality for global travel which is currently highly restricted. Creating even more murkiness to the restrictions are the new "virus variants" brightened only by the daily news of changes and availability of immunisations. Travel and tourism is a major economic driver for many businesses in many developed countries, and such travel restrictions have created huge drops in some shopper segments, while other shopper segments experience huge increases as a direct result of the said restrictions. The question is "will this change in spending behaviour be here to stay? Or, will it continue post-pandemic?". I don't think any of us know the answer but what I think is clear is that this has created some company winners and some company losers.

Clearly, just as the pandemic impacted most of the world, it has also impacted global M&A activity. Both seller and buyers however, appear to be optimistic about the future business and economic horizon, though both sellers and buyers appear resolved at the most likely prospect that it will be 2022 to 2023 before we return to pre-pandemic levels, and a more balance seesaw.

To varying degrees, some companies have been impacted negatively, and some positively, while others have sustained no impact. Most companies were caught off guard by the pandemic, and were hence forced to look down the barrel of their survival and growth strategies, and where in most cases, each recognises the need to grow by acquisition, through the M&A process, and in order to accelerate their respective recovery, or continued growth post the pandemic. While companies are trying to determine which

pandemic induced changes might be somewhat temporary, and which might be more permanent, what to do to recover, or maintain the growth, or grow to avoid a decline, what we have learned from the COVID pandemic experienced thus far is that investment in technology, and digital capabilities will be critical to a company's growth and essential for their survival.

What is also becoming clear is that the COVID pandemic has caused a strategic reset with growth-orientated companies and having bold investment intentions with their focus aimed at growth, rather than "just survival" to the other side. Companies are reframing their growth strategies by investing their way out of crises through M&A fuelling the local, cross border, and global M&A markets. Though the M&A market as a whole saw a huge pull back in the first and second quarter of 2020, we also evidenced an up-tick in the third and last quarter of 2020, as well as Q1-2021. As travel restrictions begin to ease and the pandemic begins to reflect a more secure and safe environment, global M&A activity will follow and begin to close in on the pent-up demand. Acquisitions during weak economies often create higher values that most other times. This applies at regional, national and global environments.

The growing interest in global M&A will, still for some time, be negatively impacted by the limited and restrictive travel globally however, there is a mounting desire by growth-orientated companies to take advantage of the current lows within our global economic environments, to execute their respective strategic "growth by acquisition" agendas, and position themselves to exceed industry growth benchmarks, and benefit from acquisition synergies during their own recovery, as well as once we can see ourselves back to some form of normality. Another benefit will be that while accelerating their own growth, companies can also focus on their transition and integration with their target companies during the these interesting times, while their competitors may be busy just trying to survive.

These are different times, and demand more reason for companies to look for growth beyond their own core business, by diversifying both in products and services, as well as markets. Global markets are already a playground for large and public companies, but may soon also become a playground for mid and lower mid-market private enterprise. Such strategy if done right, can not only create value by acquiring under-performing assets during weak economic times, but may also de-risk some companies that may have been hit hard by the recent COVID pandemic and economic crisis.

2021 and 2022 will reflect an acceleration of global M&A activity creating a competitive landscape and possibly, even driving extrapolated multiples up.

While some companies that experienced strong sustained growth during this pandemic, not all will continue to sustain it post-COVID, and will be well served to look to growth by utilising M&A to tap into new diversified offerings or markets. The most obvious global M&A activity growth sectors are likely to be digitalisation companies and or industries, technology, and direct to consumer sales businesses, and perhaps with growing sensitivity in environmental and social governance issues.

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