

COVID-19 RESPONSE

OFFENSE OR DEFENSE: WHAT'S THE RIGHT PLAY WITH POST-COVID-19 M&A?

The ongoing impact of the COVID-19 pandemic has had a profound effect on economies around the world. This is a unique situation. The immediate and devastating human cost remains at the forefront of people's minds. However, worsening economic conditions are focusing business leaders on the challenges of restarting their organizations and returning to profitability. While the immediate focus will be on safety, operations, and sustainable financing, a portfolio review is also critical to ensure resources are prioritized and market opportunities are not missed.

Whether a business has been significantly impacted by COVID-19, or temporarily put in a holding pattern, M&A should be considered as a key tool to utilize in the restart strategy, with boards and management teams considering both defensive and offensive strategies.

The defensive play

1. DISPOSAL OF NON-CORE ASSETS

This should be considered by all, irrespective of the impact of the crisis. For some, a defensive M&A strategy will take the form of accelerated M&A, to rapidly improve liquidity or shore up the balance sheet (see our “Coronavirus AMA considerations” guidance).

For those in a less critical position, the option to dispose of non-core assets or businesses should be considered, either to reposition the portfolio to reflect a revised corporate strategy, provide capital, or to free up management attention for higher priority businesses. A portfolio review should precede this process.

2. MERGERS OR JOINT VENTURES

In many industries, the new post-virus world will result in a reduction in market size or lower volumes for a sustained period of time. For others, margins will be squeezed, and a need to reduce cost will be critical for survival and profitable growth.

The option to transfer certain businesses to joint ventures with third-parties, or indeed to merge with competitors, should be considered. Irrespective of the scale of businesses involved, a merger of competitors will present the opportunity to achieve synergies, both on revenue and cost. Similarly, from an operational perspective, a merger often provides the opportunity to reduce capacity, thereby rightsizing for the market.

3. VERTICAL INTEGRATION

As well as ensuring your own business is fighting fit for the restart, it is crucial to ensure your supply chain remains intact. Together with a supplier integrity review for critical supplies, the acquisition, or strategic investment, in key suppliers can be one mechanism to ensure supply going forward.

It also presents the opportunity for margin capture through increasing the level of integration of your own business.

4. GAPS IN THE PORTFOLIO

For some industries, the crisis will radically change consumer behavior, either temporarily or indefinitely. Together with a refresh of corporate strategy, you should consider if the business portfolio is fit for purpose. Is it able to meet its customer needs? An assessment of the portfolio to identify gaps should be carried out.

Strategically important offerings can either be developed in-house (a cheaper, but slower, and higher risk strategy), or through the acquisition of capability or know-how to fill the gaps. If executed and implemented efficiently, this can be a quicker route to fill the gap.

The offensive play

1. ACQUIRE WEAKER COMPETITORS

In any industry, some players will have entered the crisis in a better financial condition than others. For those with limited resources that make it through to restart, cash resources will be depleted, debts and liabilities will be greater, and businesses will be more vulnerable.

For stronger industry players, an assessment of the financial status of the competitive landscape could identify opportunities to acquire competitors at attractive pricing.

2. REVISIT UNATTAINABLE ASSETS

The crisis has brought a raft of unexpected challenges for all businesses. To survive the challenge, business owners will require confidence, decisive action, and in some cases take difficult decisions to halt certain activities, downsize etc. For some, the experience will be character building and a learning experience, for others it will influence perception of the future and alter priorities. For this latter group, the appetite to continue in business may be reduced, with the willingness or necessity to pursue an exit increased.

For those actively seeking to take advantage of their position post-COVID-19, consideration should be given to businesses that have historically been identified as strategically important or transformation acquisitions. Have shareholder priorities changed? Is the timing right for a follow-up discussion?



Regardless of the approach a business chooses—or is compelled to choose by circumstances—M&A should be considered a valuable lever as we embark on business restart. It's unlikely to be the only answer, but, combined with other strategies, it can enable a business to either reduce complexity and focus on its core/most profitable activities, or gain market share at a discount, with the added advantage of saving other businesses that may otherwise have collapsed.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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