

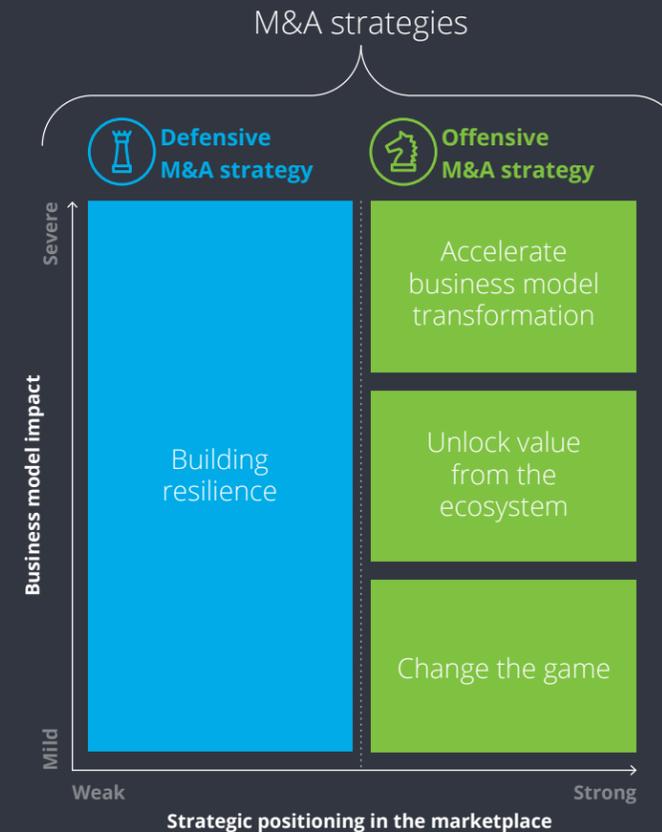
Path to thrive: Rethinking M&A strategies

As we move toward a post-pandemic world, through previously uncharted paths, thriving in such an environment requires companies to reimagine the future of their markets, reexamine their core capabilities, and reevaluate their competitive advantages. In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations. This will help them make fundamental choices on growth strategies, prioritize the markets and segments where they need to play, identify gaps and the skills they need to win, and determine how to transform themselves in the process.

Building on our research from the original *Charting new horizons* report,²³ we have evolved the M&A framework to demonstrate a new set of defensive and offensive deal archetypes that are required to build resilient business models, accelerate transformation, unlock the potential of ecosystem alliances, and capture market leadership. Redefining M&A strategies in terms of these choices will bring much-needed clarity of purpose while paving the path to thrive.

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Charting new horizons M&A framework



Building a resilient company

- Accelerate synergy realization from recent deals, evaluate your current portfolio, and divest assets that are not aligned to long-term growth.
- Optimize your portfolio and strengthen your core by acquiring competitors to consolidate the marketplace.
- Consider opportunistic deals to secure your supply chain systems, safeguard your customer channels, and enhance market positioning.

Charging the growth engine

- Transform your business model by acquiring value-enhancing products and capabilities. Identify portfolio gaps, and consider expanding toward market adjacencies through acquisitions in digital, ESG, and platform plays.
- Capture opportunities through purpose-led alliances and partnerships involving nontraditional peers and scale-ups from the ecosystem.
- Invest in disruptive innovation assets to scale at the "edge."

Business model impact: Consider the impact of post-pandemic structural changes on your employees, customers, suppliers, and operating model.

Strategic positioning in the marketplace: Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

M&A and the path to thrive

Sectors will evolve at different trajectories and paces. At the same time, technology-enabled convergence is blurring traditional sector boundaries and creating new market opportunities and customer segments. Companies need to reframe their growth options to include not only financial considerations but also operating model agility, competitive positioning, capital return horizon, and brand permission to enter new markets.

M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value, as well as in offense to drive transformative growth. This framework can help companies articulate a new combination of M&A strategies to fortify their gains, accelerate business model transformation, and make horizon investments to capture lasting market leadership.

Defensive M&A strategy

Offensive M&A strategy

02 Cleaning the stables

Do you have a non-core asset divestment program in place? Do you plan for rapid asset transformation to enhance the sale value?

01 Accelerate synergies

Are you well-positioned to accelerate both cost and revenue synergies and demonstrate the wider stakeholder benefits?

03 Strengthen the fortress

How can you use M&A as a strategic response to shape responses to optimize the operating model and supply chain resilience and enhance your customer-centricity?



04 Safeguard competitive positioning

Are you actively monitoring the markets and prepared to move fast on opportunistic deals to consolidate segments?

05 Portfolio transformation

Are you undertaking a portfolio review and considering the implications of the "new normal" factors such as technology transformation and ESG on your current and future portfolio?

06 Digital acceleration and portfolio expansion

Are you considering M&A deals to accelerate digital transformation and develop platform and "as-a-service" plays to capture new revenues by expanding your portfolio into value chain adjacencies?

07 ESG and impact investing

Businesses are expected to demonstrate they can deliver returns with a purpose. Do you have a multidimensional view of ESG investment aligned with product, infrastructure, and technology plays?

08 Alliances

Are you exploring value creation opportunities through purpose-led alliances with a diverse range of collaborators, including nontraditional peers and innovative startups?

10 Scaling at the edge

Do you have horizon scanning capabilities? Are you looking to build a portfolio of disruptive investments at the edge of your business to establish strategic positions in transformational growth segments?

09 Convergence

Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?



Consumer & Automotive

Observations

The Consumer sector saw YoY growth of 70% in M&A value to \$909B in 2021.

North America was the most targeted region with \$365B worth of deals in 2021. Europe was at a distant second, with deals worth \$261B during the same period.

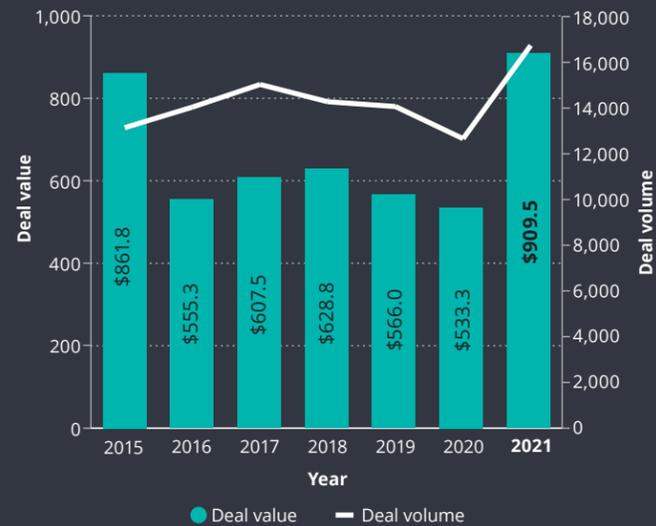
In terms of M&A volume, Europe was the most active region with 6,263 deals, followed by Asia Pacific (5,406 deals) and North America (3,985 deals).

Transportation, Hospitality & Services was the most active subsector with \$381B worth of deals, while Automotive saw the highest YoY growth at 166% to reach \$152B in 2021.

Some of the likely drivers for M&A activity in 2022 include:

- Increase in divestments of Automotive dealer networks, technology components, and non-core divisions
- Increase in deals from Logistics and Transportation sectors
- Building resilience against supply chain disruptions
- Rising interest in geographical expansion and product innovation
- Evolving preferences in retail and consumer goods (e.g., omnichannel, delivery logistics, sustainable products, emerging tech, hot markets such as health and wellness)

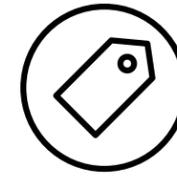
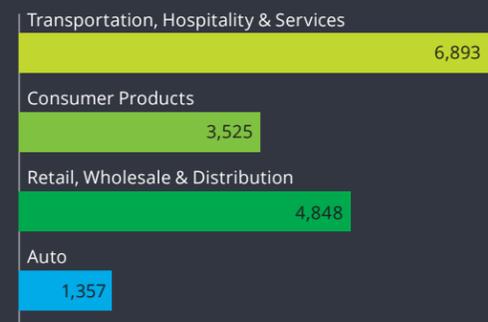
Consumer & Automotive deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



Consumer

Forces shaping new normal conditions

Pressure on margins

- Surges in inflation, customer demand, supply chain disruptions, and higher labor costs are leading to rapid increases in production costs and pressure on margins.

Slower recovery in some subsectors

- Post-pandemic uncertainty continues to impact the leisure, travel, and hospitality sectors.
- Revenue losses in these sectors, originally from the pandemic but now from inflation, could contribute to an increase in sales of distressed assets and restructuring.

Short-term responses

1 Supply chain resilience

Companies could consider investing in contingency supply chains, this includes considering partnerships with new suppliers, as well as with private equity to bolster supply chain systems.

2 Technology-led transformation

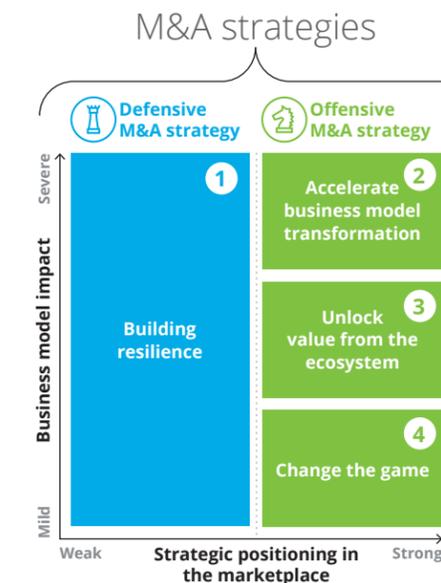
Digital transformation is fundamental to success. In addition to omnichannel capabilities, companies should consider investments in predictive demand analytics, fulfilment, and dynamic pricing.

Direct-to-consumer (D2C) purchases will increase

- D2C models will enable companies to increase customer-centricity through personalization, loyalty programs, and increased customer service levels.
- More companies will look to be active in the D2C space and acquire platforms to increase scale of distribution.

Sustainability and wellness influences purchasing behavior

- Consumers are increasingly willing to pay a premium for socially conscious products, ethical supply chains, and wellness-focused offerings.
- This trend is creating opportunities for new revenue streams.



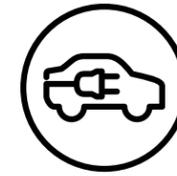
Medium-term responses

3 Pursue alliances

Companies could consider alliances with their peers to alleviate supply side pressure, as well as cross-sector arrangements with sectors like technology to enhance customer experience.

4 Growth investments

Companies could consider an ESG-aligned investment strategy to target assets such as sustainable product design and packaging, as well as, in emerging growth segments such as personalized nutrition and carbon-neutral travel.



Automotive

Forces shaping new normal conditions

Connectivity is becoming standard

- The majority of cars are expected to have smart connectivity by 2035, driven by consumer demand and regulation.
- Data generated by 5G connectivity will be valuable and utilized by OEMs, dealers, fleet owners, and consumers.

EV and fuel-cell ecosystems

- The EV market and associated ecosystem are expected to grow in double digits driven by customer preferences, favorable regulation, private capital investment, and the strategic push by OEMs.
- Hydrogen fuel-cell powered vehicles are starting to make up a more meaningful portion of the market.

Short-term responses

1 Safeguard supply chain

Supply chain disruptions may prompt OEMs to vertically integrate critical aspects such as chips and divest auxiliary services such as auto-financing, retail insurance, etc. to facilitate these critical investments.

2 Agile business models

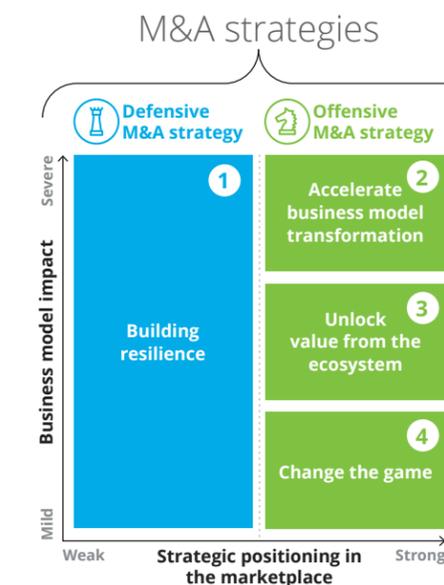
Companies should consider investments across the entire value chain to make the business more agile; these include opportunities for digitization, flexible manufacturing, and smart factories.

Shared mobility and mobility-as-a-service continues to grow

- Shared mobility market continues to grow, driven by need for convenience, lower costs, and environmental concerns.
- Customers are using mobility platforms in an increasing variety of ways, including for grocery delivery, courier, and others.

Investment for AV remains steady

- Both OEMs and tech companies are investing heavily in autonomous vehicle (AV) technologies. However, mass adoption remains distant owing to safety concerns.
- Stakeholders need to work closely with governments to shape future regulations that strike the balance between innovation and safety.



Medium-term responses

3 Software-centric partnerships for CASE development

Access to a comprehensive software suite is critical to success for driving Connected, Autonomous, Shared, and Electric (CASE) products. OEMs should explore alliances and partnerships to drive this forward.

4 Future portfolio realignment

Companies need to continue building a future portfolio that aligns major shifts in consumer trends. This could include value chain opportunities such as smart infrastructure, recycling, and sustainable materials.