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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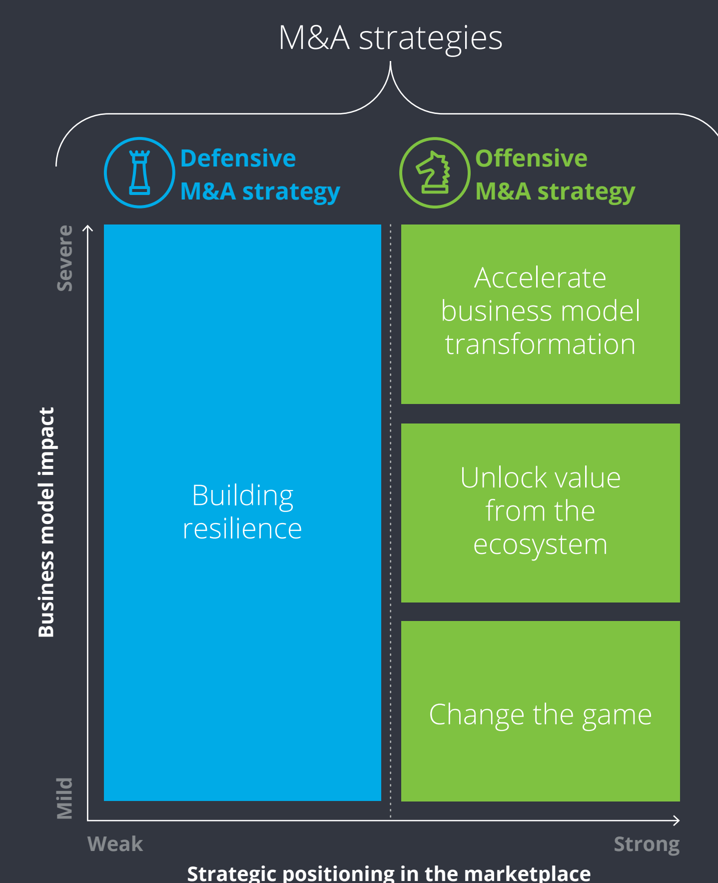
Charting new horizons M&A framework



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.

Charting new horizons | M&A and the path to thrive

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

01 Accelerate synergies

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

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?

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?

Offensive M&A strategy

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?

09 Convergence

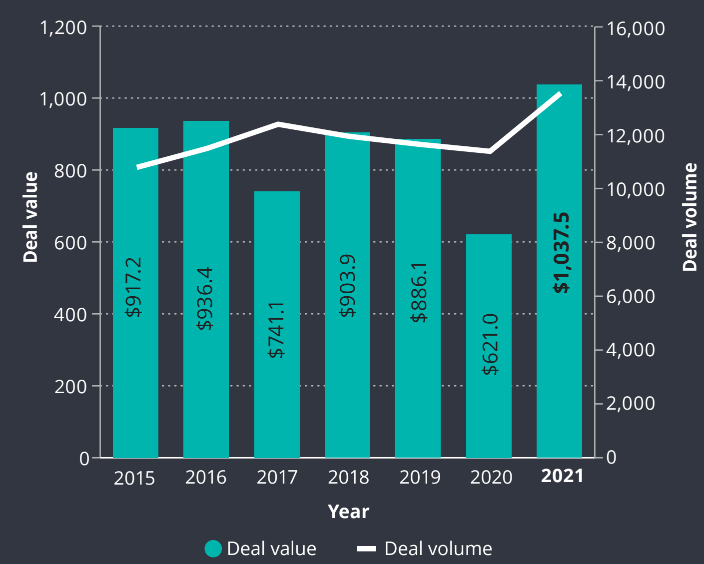
Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?

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?

Energy, Resources & Industrials

Energy, Resources & Industrials deal value and volume
(in billions of US dollars)



Observations

After a year of subdued M&A activity in 2020 due to the pandemic, Energy, Resources & Industrials (ER&I) rebounded in 2021 with a 67% YoY growth in deal value to $1,037B and 17% YoY growth in volume to 13,429 transactions.

North America with $393B worth of deals was the most active region with respect to deal value, while Asia Pacific with 4,692 deals led in terms of deal volume in 2021.

Among subsectors, Power, Utilities & Renewables saw the highest YoY M&A growth as it hit $185B in 2021.

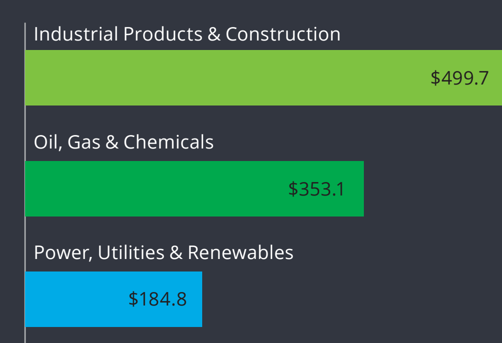
Energy transition is the primary driver of M&A activity as oil and gas companies look at shifting their portfolios toward clean energy.

ESG growth areas such as carbon capture, hydrogen, renewables, and other clean technologies are expected to be key focus areas.

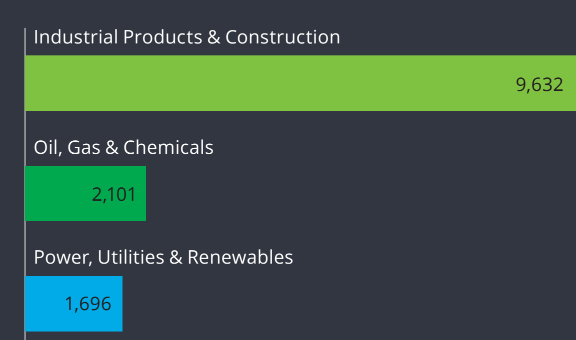
The sharp rise in global energy prices fueled by the Russia-Ukraine conflict may drive consolidation within the Oil, Gas & Chemicals subsector.

Industrial Products & Construction M&A activities are anticipated to pick up as companies invest in new capabilities such as digital and supply chain.

Deal value by sector
(in billions of US dollars)



Deal volume by sector



Energy & Resources

Forces shaping new normal conditions

Increased demand and constrained supply are driving changes

- A combination of supply constraints and geopolitical tension has resulted in energy price increases and is putting pressure on operating models that had become lean in recent years offset with low prices.

Decarbonization across industries is enabling new energy era

- Decarbonization mandates are gaining pace in all industries and present the opportunity for E&R companies to deliver scale projects and contribute to a low carbon future.

Green jobs will require new skills in the workforce

- Decarbonization commitments, flexible workforces, and requirements to reskill for digital and renewable capabilities will require companies to design new talent models.

Active portfolio monitoring

- Companies will need to monitor their portfolios to avoid carrying stranded assets as well as to avoid unnecessary divestment of assets that may prove profitable in other supply/demand environments.

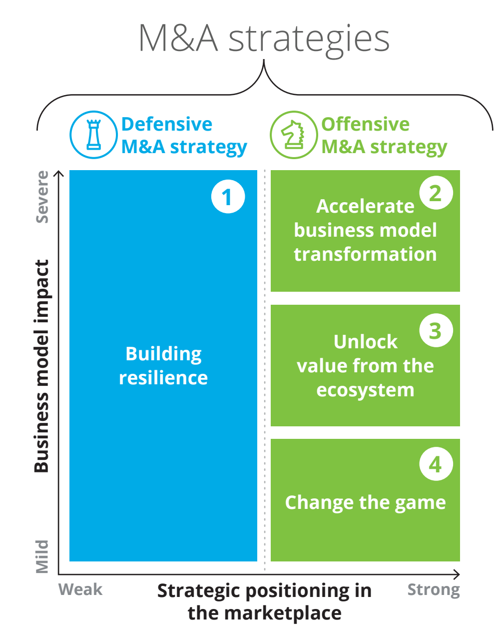
Importance of customer-centricity will increase

- To thrive throughout the energy transition, fuel companies will need to offer a full suite of products and services.
- Companies will look to draw closer to end customers and incorporate convenience as key to the customer experience.

Short-term responses

1 Portfolio restructuring to drive energy transition
Companies are fundamentally rethinking their portfolio, seeking to divest higher carbon-intense assets, pursuing acreage consolidation, and acquiring assets aligned to energy transition.

2 Investments to build future capabilities
Companies could use of the current high energy prices to make significant investments and acquisitions related to digitization and integrated value chain driving new revenue streams.



Medium-term responses

3 Energy transition alliances
The energy transition is attracting investments from nontraditional competitors in other sectors, as well as private capital. Companies should consider cross-sector alliances with companies in automotive, technology, and other sectors to gain direct access to customers and explore new revenue models.

4 Sustainability-aligned growth segments
Companies should actively seek opportunities in adjacent markets such as chemicals, advanced plastics recycling and others where they can leverage existing expertise such as R&D and customer networks.

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Industrials

Forces shaping new normal conditions

Technology driving industrial connectivity

- Advancements in the Industrial Internet of Things (IIoT) and digital twin technology are driving significant innovation in solutions and business models.

Supply chain disruption impacting production times

- Long lead times for critical components are creating uncertainty in production planning and forecasting.
- Delays in manufacturing and port congestion will drive companies to identify resilient solutions for supply networks.

Rising raw material costs impact margins

- Shortage of supply along with increases in raw material costs and shipping rates have created pricing pressures.
- Unless contained, these cost rises threaten to outstrip the productivity gains and could significantly impact profit margins.

Digital solutions will lead to workforce evolution

- Digital-first solutions will impact the skill sets required from the workforce.
- Industrial companies will compete with tech firms for talent, while simultaneously upskilling their current workforce.

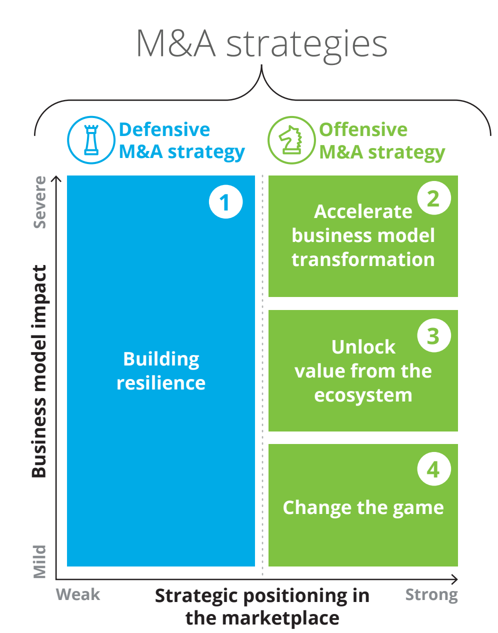
ESG pressures will continue to grow

- Stakeholders will increasingly call for ESG commitments.
- Creating the factory of the future through smart technology and green energy will remain in focus.

Short-term responses

1 Strengthening of value chain
Acquisitions and investments related to vertical integration could help companies secure long-term suppliers and mitigate supply chain disruptions.

2 Shifts in core competencies
The inevitable shift toward sustainable processes and products is likely to impact the core competencies of many companies, and they should drive this change through targeted acquisitions.



Medium-term responses

3 Technology alliances
Industrial companies should consider alliances with the technology sector to boost innovation and leverage specialist digital skills expertise.

4 Investing in disruptive technologies
Industrial companies should consider growth acquisitions in focused areas such as IIoT, robotics, automation, digital twin, and AI to drive long-term transformation.