

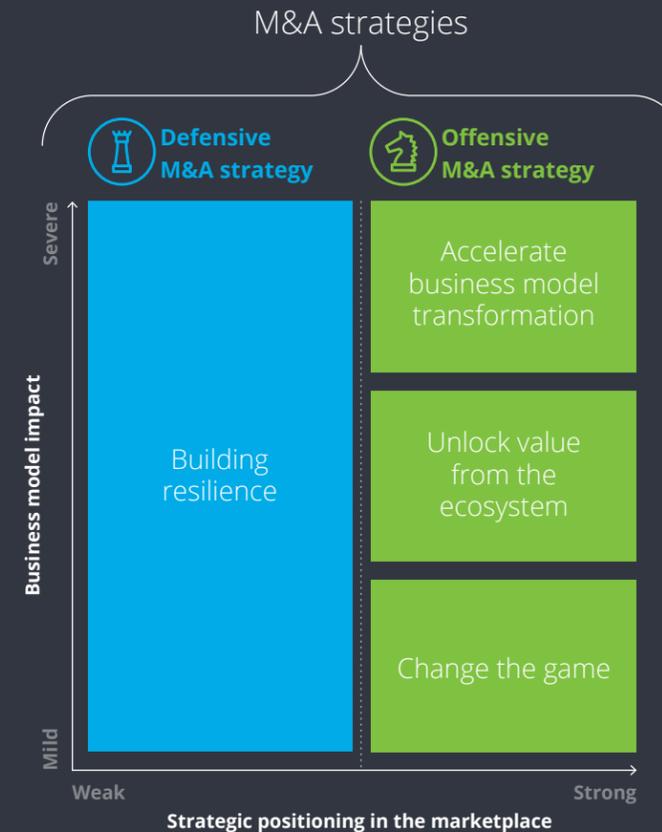
Path to thrive: Rethinking M&A strategies

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?



Financial Services

Observations

The Financial Services sector recorded \$1,117B worth of deals in 2021, registering a 62% YoY growth the highest growth rate in the last five years.

This rise was primarily due to a 105% YoY growth in the US, to \$407B in 2021.

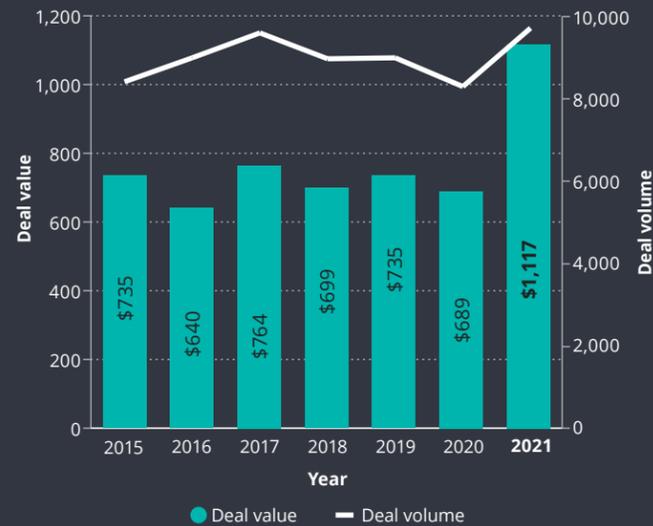
Deal volumes also saw a YoY rise of 17% to 9,688 transactions in 2021.

Europe emerged as the most active region in terms of deal volume by recording 3,221 transactions followed by Asia Pacific (2,914 deals) in 2021.

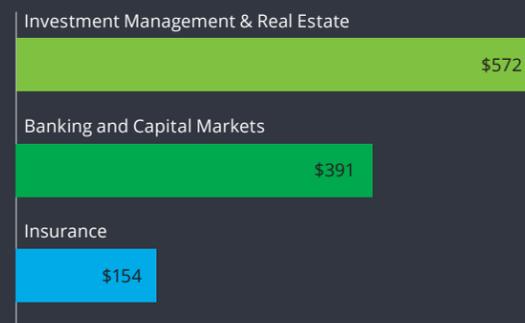
Among the subsectors, Investment Management & Real Estate registered the largest absolute value growth to \$572B, primarily driven by a large rise in REIT deals to \$471B in 2021 from \$260B in 2020.

The Financial Services sector is expected to continue witnessing robust M&A due to strong top-line growth, high profitability, and positive macro trends such as high savings rates and anticipated high inflation.

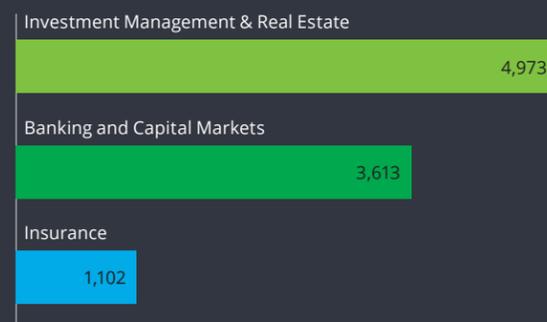
Financial Services deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



Banking & Securities

Forces shaping new normal conditions

Skewed balance sheets are resulting in declining ROEs

- Banks have divested non-core assets from their portfolios, resulting in a skewed balance sheet with legacy products.
- Growth will be required to deliver more stable ROEs.

Regulation will continue to influence the market

- Regulators are expected to respond to the rapid developments in the sector with the introduction of new rules, especially in the areas of digital assets, climate, and financial inclusion.
- Regulatory convergence is increasingly desired by central bankers and could have a major impact on competition and market strategies.

Short-term responses

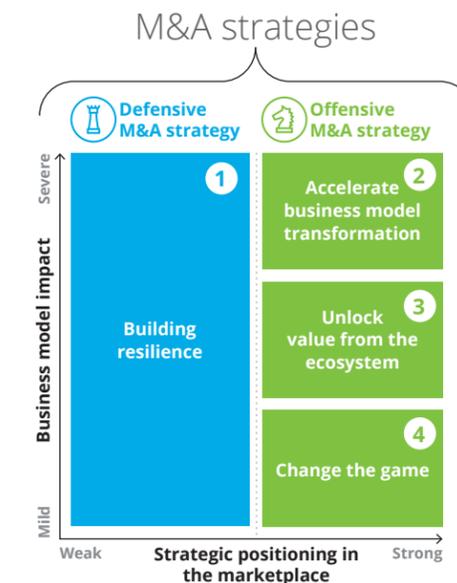
- Divestment of non-core assets**
Companies could consider divesting underperforming loan portfolios and non-core divisions to raise capital and improve efficiency.
- Technology-led business transformation**
Investments and acquisitions of new technologies (e.g., digital payments, e-trading platforms) will be critical to position banks to compete in the future.

Stakeholders demand ESG commitments

- Increased scrutiny from clients, regulators, investors, and employees on companies' ESG commitments will impact business models for financial institutions.

Digital assets, blockchain technology, and cybersecurity are increasing in importance

- The introduction of new, disruptive products and technologies has led to banks investing heavily in new technologies and creating alliances with partners that have broader digital capabilities.
- Banks are shifting toward integrated platforms and cloud solutions to improve cybersecurity and enhance analytical capabilities.



Medium-term responses

- Cross-selling opportunities**
Banks need to establish alliances outside of their core sector with players from technology, retail, health, and others to cross-sell new services to a wider customer base, introduce new capabilities, and improve utilization of their current assets.
- Growth investments**
Banks also need to consider acquiring high-growth, innovative businesses in areas like cybersecurity, fintech platforms, blockchain, AI, and others in adjacencies that could, in time, become the new core.



Investment Management

Forces shaping new normal conditions

Shifts in customer demand are driving new business models

- Customers are increasingly demanding specialized and value-add services.
- Firms are using digital channels and process automation to enhance client interactions.

ESG will impact asset allocation

- The focus on ESG will impact investment allocation decisions, investment transparency, regulatory reporting, and product marketing decisions. It will also likely drive product innovation in this segment.

Regulators are focusing on customer protection

- Regulators are likely to focus on increased client protections in areas such as data privacy, fee transparency, product unbundling, and ESG offerings.
- Lack of alignment could result in regulation asymmetry across jurisdictions.

Performance pressures are impacting allocations

- The alternatives market has gained wide acceptance as it offers portfolio diversity and higher returns. This is placing further pressure on allocations and integration with traditional asset classes.

Demand for digital assets will require new capabilities

- Increasing interest in digital assets (e.g., crypto, NFTs) requires firms to develop or acquire new technologies and product offerings.
- These new offerings will also increase the importance of cybersecurity capabilities.

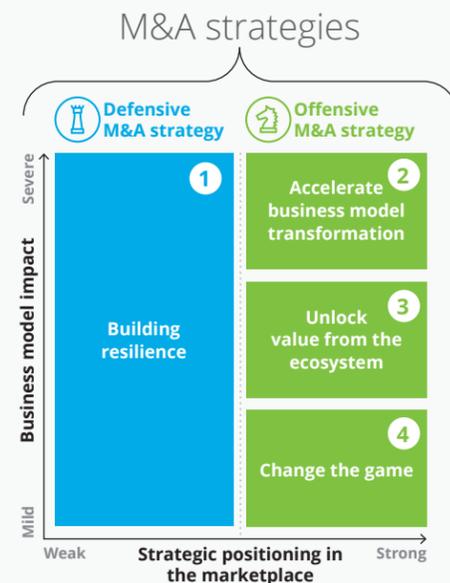
Short-term responses

1 Consolidation

Sector is ripe for further consolidation and in recent months, major players have been rapidly consolidating in response to falling fees and lack of growth.

2 Bolt-on capabilities

Investment management firms are pursuing M&A to acquire new capabilities such as ESG investment specialism and technologies such as automated portfolio platforms (robo-advisors).



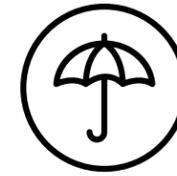
Medium-term responses

3 Nontraditional alliances

Firms need to consider alliances outside of their core activities to expand their current client base, skills, and product offerings.

4 Future portfolio

Firms also need to consider acquisitions of high-growth, innovative businesses in adjacent growth areas such as crypto funds, NFTs, crypto asset management platforms, and others.



Insurance

Forces shaping new normal conditions

Reduction in property and casualty (P&C) business volumes will drive innovation

- Reduction in traditional volumes and pricing pressures are forcing P&C insurers to focus on innovative offerings such as usage-based insurance and sensor-enabled analytics.

ESG is more than a 'brand' play

- For insurance companies, ESG principles will underpin the new emotional contract.
- Insurance companies are uniquely placed to influence ESG mandates on global businesses given role underwriting industrial activities for other companies.

Short-term responses

1 Portfolio rebalancing

Market uncertainties resulting from geopolitical conflict and the need for capital optimization may prompt insurers to divest non-core assets and exit underperforming markets.

2 Market consolidation

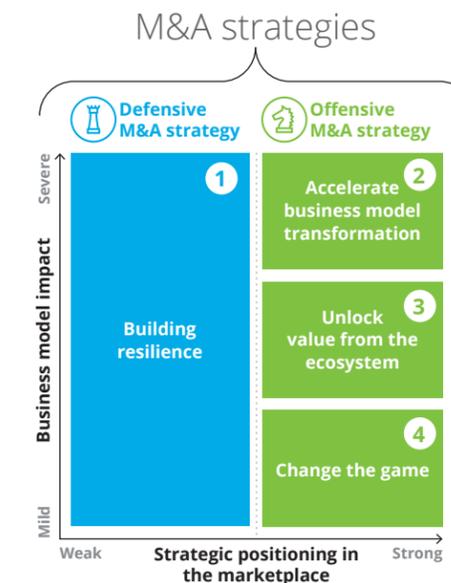
Costs of legacy business models and operating pressures are likely to drive consolidation in the market in order to capture economies of scale and accelerate transformation by investing in digital assets and analytics capabilities.

Customer centric business models

- Customers are increasingly expecting an elevated customer experience, forcing investment in analytics and new product development.
- Convergence of insurance with digital health platforms is giving rise to new customer product categories and untapped market segments.

Emerging talent model

- Pressure on growth is forcing insurers to develop innovative operational solutions.
- This is leading to investment and hiring of skilled workforce in new areas such as digital, cloud, automation, risk controls, and customer analytics.
- Insurers need to foster a flexible and agile workplace culture for such fresh talent to thrive.



Medium-term responses

3 New alliances

Insurers could actively look for partnerships in the technology, health, and communication sectors to address needs for a holistic solution.

4 InsurTech segment

After years of investment and scaling up, the InsurTech sector is at a stage of maturity where consolidation is to be expected; insurers could also focus on the new segment of InsurTech that uses third-party data to disrupt underwriting and pricing.