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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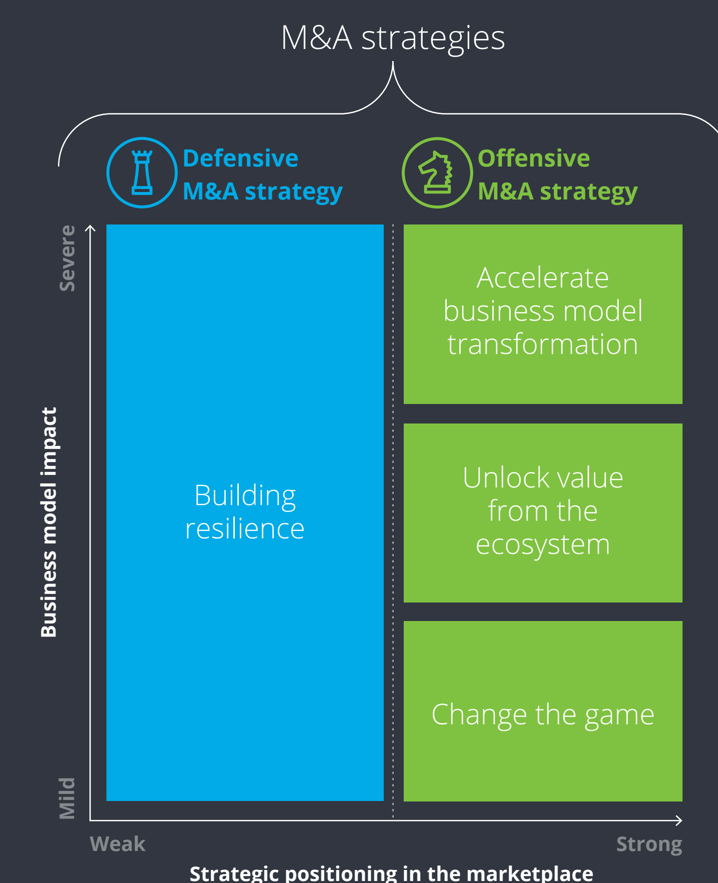
Charting new horizons M&A framework



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

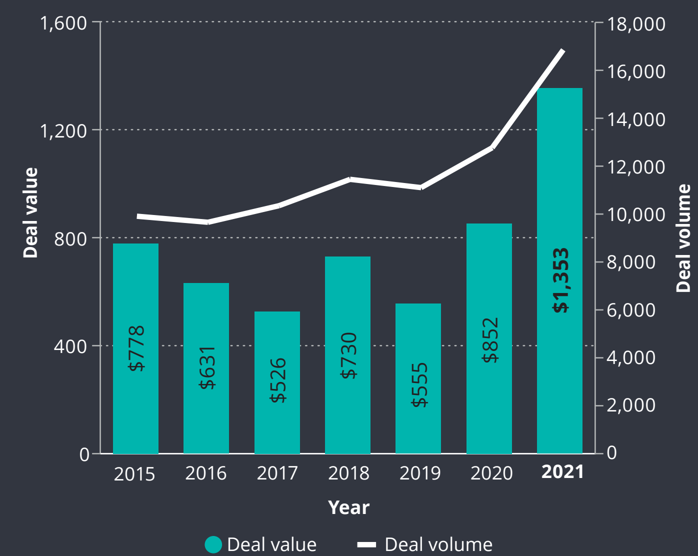
Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?

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?

Technology, Media & Telecom

Technology, Media & Telecom deal value and volume
(in billions of US dollars)



Observations

Technology, Media & Telecom (TMT) was the most active sector with $1.3T worth of deals in 2021.

North America was the most active region for TMT deals, with $829B worth of deals in 2021. Asia Pacific was at a distant second, with deals worth $236B.

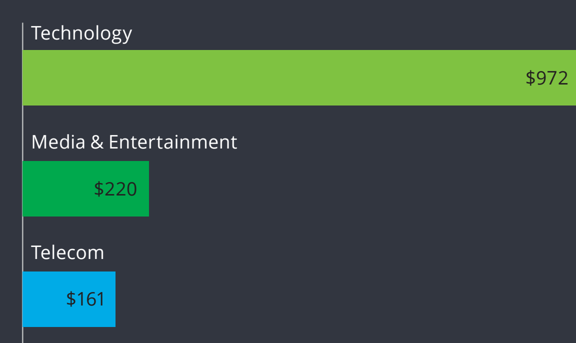
Among the subsectors, Technology ($972B; 13,660 deals) accounted for 72% by value and 81% by volume of the overall deals within the sector.

Private equity investors were highly active in the Technology subsector with deals worth $503B, the highest among all the subsectors.

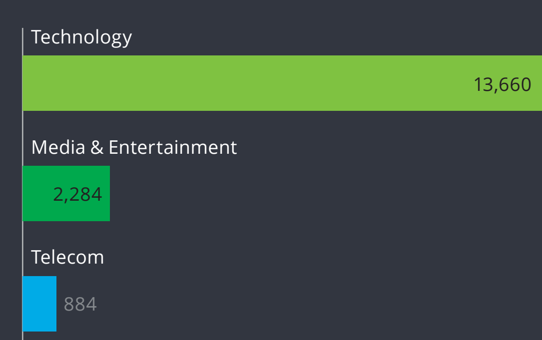
The rise in spend toward information security and enterprise software driven by remote working is expected to propel drive to Technology M&A in 2022, while in the Telecom sector, many have divested their towers and now will be looking for fresh growth opportunities.

However, going forward, tighter foreign direct investment controls and national security screening may pose a challenge to technology deals.

Deal value by sector
(in billions of US dollars)



Deal volume by sector



Technology

Forces shaping new normal conditions

Data sharing creates value but raises security concerns

- Cloud and digital transformation have led to data sharing within and across companies.
- Increased concern around data privacy and security creates a headwind for new business models.

Flexible working is forcing companies to innovate

- ERP, Finance, HR, and other specialist software are becoming more strategic and less administrative.
- Businesses will need to innovate on functionalities and protection as remote working becomes more prevalent.

Cross-environment integration and use of AI are driving investments

- Leading technology companies are investing heavily in creating interoperability across cloud and on-prem IT environments.
- AI is being used in IT operations (AIOps) to orchestrate workloads and automate issue detection and resolution.

Semiconductor chip shortage likely to last through 2022

- Digital transformation is driving demand for chip designs with innovative technologies.
- This increased demand, coupled with the pandemic, has resulted in a supply shortage likely to last until 2023.

Green technology

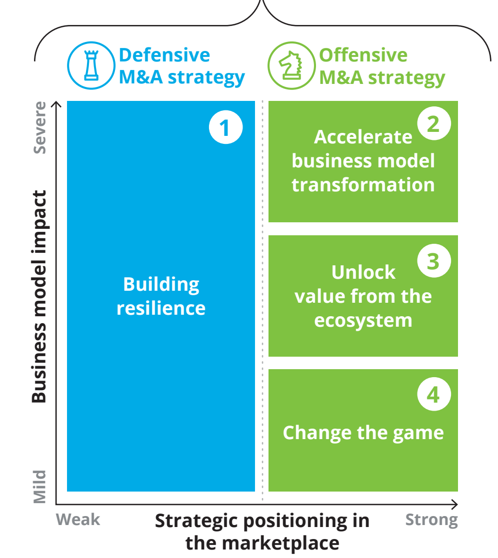
- The ICT sector is under pressure to reduce emissions and make its products more sustainable. This is likely to spur greater investments in green data centers, fresh product design, and other sustainability areas.

Short-term responses

1 Consolidation across the cloud value chain
Technology companies need to improve their competitive positioning through holistic platform solutions as opposed to point-based solutions. This could drive M&A consolidation across the cloud value chain and supplier base.

2 Specialist software vendors
Scaled HR and other ERP specialist technology companies may look to expand their offering to adjacencies such as ESG, mental health, and wellbeing.

M&A strategies



Medium-term responses

3 Proliferation of alliances
Technology is driving innovation across all sectors, and technology companies could explore alliances and JV models as an alternative pathway to access opportunities arising from technology-enabled convergence across sectors.

4 Frontier investing
The technology sector is likely to drive innovation through investments in green data centers, material science, spatial computing to drive AR/VR, AI, quantum computing, and many others.

Media & Entertainment

Forces shaping new normal conditions

Competition in D2C could drive spending on exclusive content creation

- Proliferation of streaming platforms is resulting in increased churn, forcing providers to tailor content and pricing models.
- Saturation in the US market driving streaming providers to push further into international markets.

Generational divide regarding alternative types of entertainment

- Gen Z have higher preference for video gaming and user-generated content over traditional TV and movies.
- Increased preference for user-generated content changes consumption patterns and gives rise to new platforms.

Metaverse to drive convergence in content

- Media and entertainment companies will be central to the metaverse, which will result in a convergence in traditional video content, video games, technology, and advertising.
- Immersive franchises with owned IP will be able to create deep engagement and new monetization mechanisms.

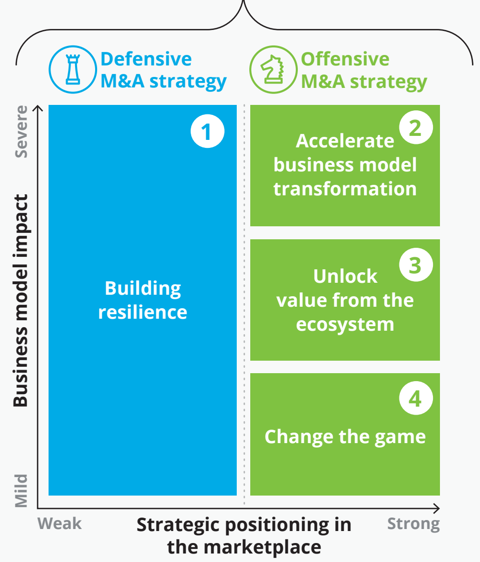
Data integration should create value

- DTC content creates the ability for companies to gather additional customer information.
- Data integrations across different offerings will enable a unified view of the customer that will drive content recognition and increase ad value.

Socially conscious media

- The media sector is directly exposed to shifts in social trends, and there is heightened customer pressure for the sector to become, as well as to produce, content that is socially aware, equitable, and diverse.

M&A strategies



Short-term responses

1 Customer retention
Companies could use M&A activities to secure premium content, acquire/retain customers, and bolster technological capabilities.

2 Investment in new capabilities
To capitalize on the disaggregation of traditional distribution networks resulting from migration to DTC media, M&E companies should and acquire new capabilities to allow them to capitalize on their new relationship with the customer.

Medium-term responses

3 Alliances and partnerships
Emerging areas such as the metaverse are increasingly dependent on multiparty marketplaces and ecosystems that span content creators, platforms, and consumers. The need for scale across customers, platforms, franchises/content, and technology is likely to drive landmark partnerships in the future.

4 Future portfolio
Advances in technologies like AI, machine-recognition, etc. are rapidly changing the media production and consumption landscape and are likely to spur greater investments in these areas.

Telecom

Forces shaping new normal conditions

Governments driving the growth of global fixed wireless access (FWA) connections

- Regulators now view wireless as an acceptable alternative to wired and governments have increased funding of broadband, resulting in more operators considering 5G enhanced FWA.

5G gaining traction

- Global carriers are expected to show distinct 5G performance improvements in the coming months.
- Improved performance will result in increased demand for 5G-enabled devices and service.

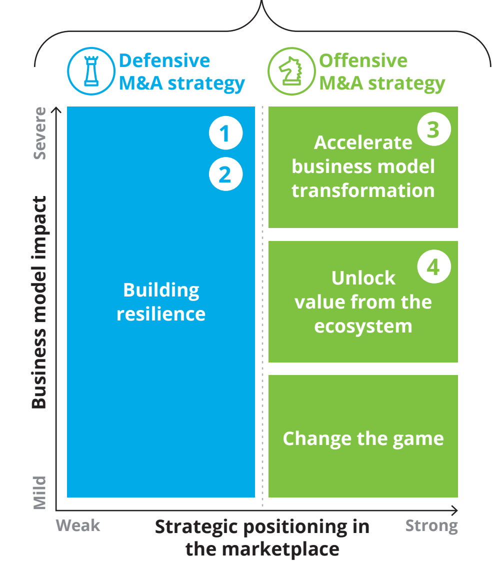
Subscriber growth and smartphone adoption likely to be sustained at elevated levels

- Underpenetrated demographics (<13 and >50 years old) are likely to gain net new subscribers and increase use of smartphones to facilitate remote learning and video calling.
- Government subsidies are providing for connectivity needs.

Metaverse growth and cloud migration to drive traffic volume increase

- Telecommunications infrastructure and services providers are likely to benefit from greater traffic (20x by 2032) across networks, driven by metaverse applications; however, ability to monetize increased traffic remains challenging.

M&A strategies



Short-term responses

1 Competition for telecommunications infrastructure assets
Both financial and strategic buyers are competing for infrastructure assets; carriers will likely divest non-priority assets, potentially including large-scale data centers, to fund other initiatives (e.g., 5G, IoT).

2 Telecom companies will continue to divest media assets
Following a run on acquisitions of media companies, telecom companies are refocusing on core capabilities.

Medium-term responses

3 Adoption of 5G and cloud
Greater adoption of 5G should drive new products and services and, in turn, could spur telcoms to acquire new capabilities such as ones to make cloud migration more feasible and accelerate adoption of multi-cloud environments.

4 Partnerships
Telecom companies may increasingly partner with their peers as an alternative to M&A to drive operational efficiency and increase investment in areas like FTTH. In addition, they should also explore cross-sector partnerships with health and financial sector to drive new consumer opportunities.