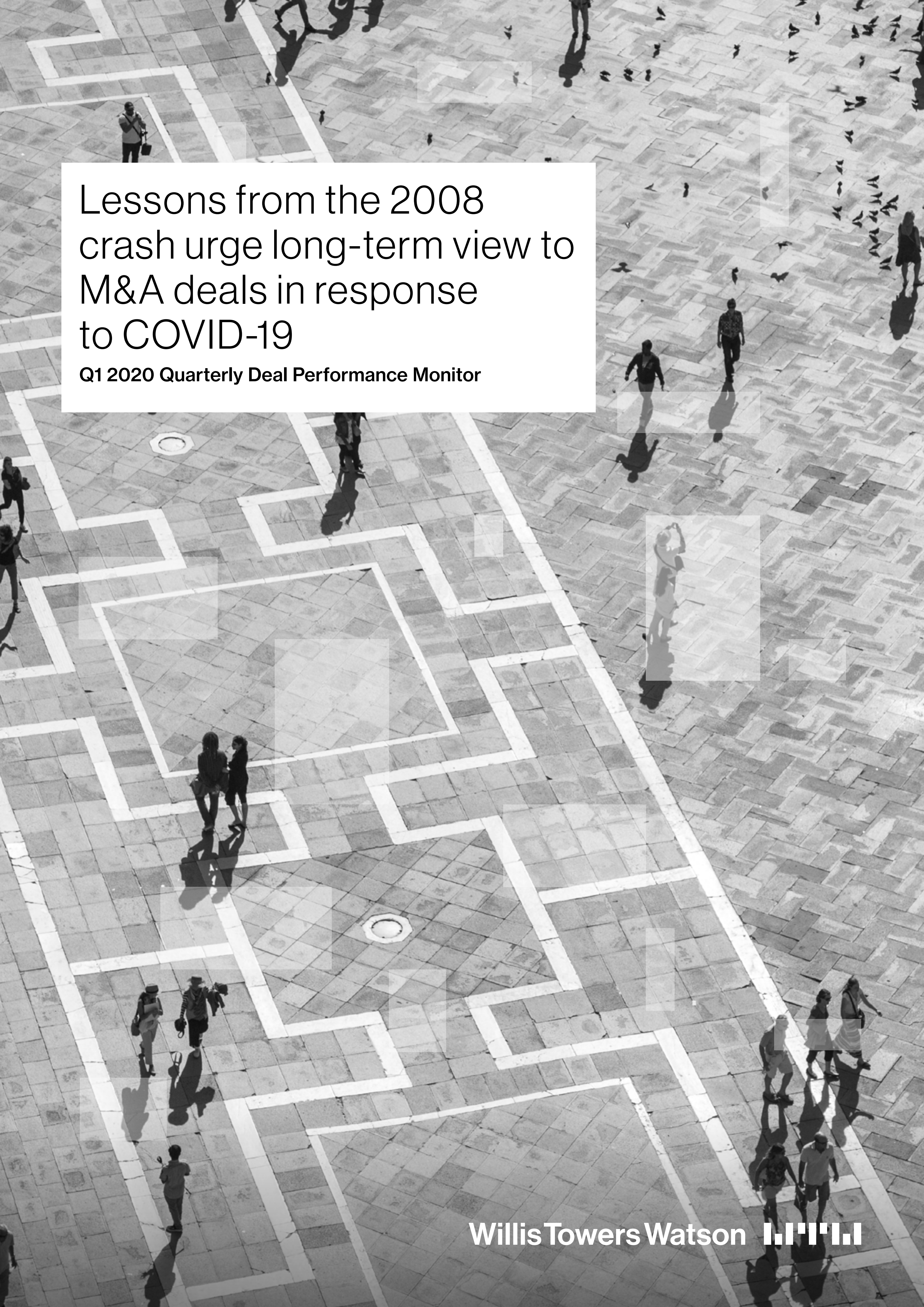
Lessons from the 2008 crash urge long-term view to M&A deals in response to COVID-19

Q1 2020 Quarterly Deal Performance Monitor



Willis Towers Watson

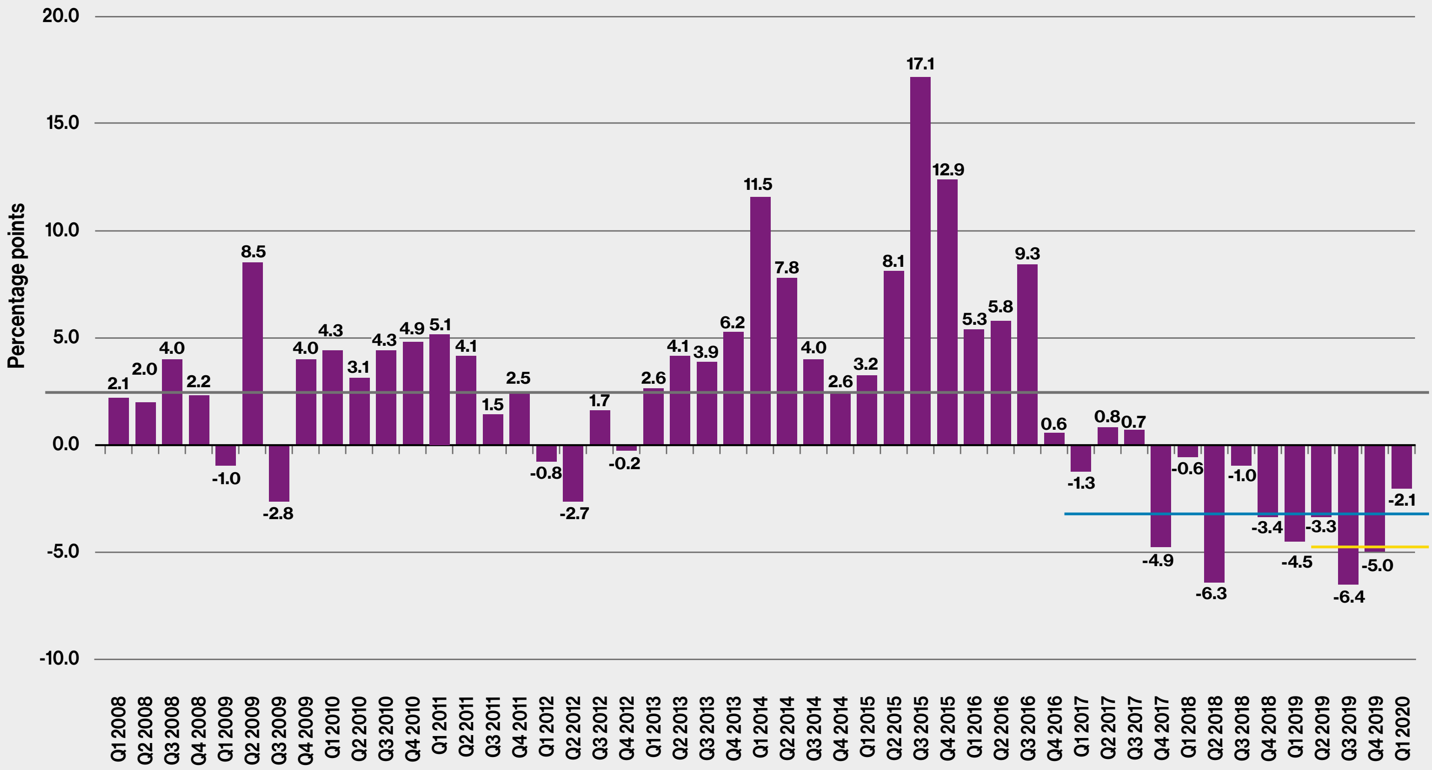
As the world faces an unprecedented crisis, lessons learned 12 years ago prove a valuable guide to M&A deal making

The performance of the global M&A market has been in steady decline since a 2015 peak, with buyers now having failed to add value for 10 consecutive quarters, according to the latest data from Willis Towers Watson's Quarterly Deal Performance Monitor (QDPM), run in partnership with Cass Business School.

Based on share-price performance, acquirers have underperformed the Global Index by 2.1 percentage points in the first three months of 2020.

Based on share-price performance, acquirers have underperformed the Global Index[1] by -2.1 percentage points (pp) in the first three months of 2020, and -4.9 pp over the past year, for deals valued over $100 million. This contrasts with a longer-term view of performance, which shows M&A deals have still outperformed the market by +2.3 pp since the launch of the QDPM in 2008.

Figure 1. **M&A quarterly analysis**



The grey line above (2.3 pp) shows the median-adjusted performance of all acquirers throughout the period.

The blue line above (-3.2 pp) shows the median-adjusted performance of all acquirers over a three year rolling period.

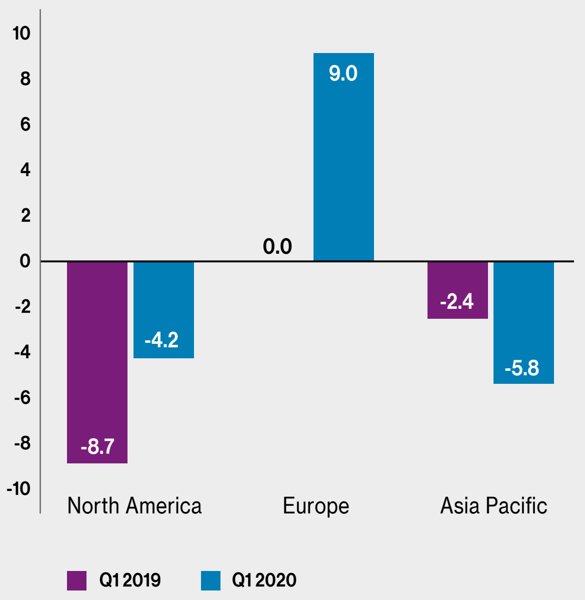
The yellow line above (-4.9 pp) shows the median-adjusted performance of all acquirers over one-year rolling period.

NB: The share price returns have been adjusted to Index returns over the corresponding period. The MSCI World Index is used as default, unless stated otherwise.

---

[1] The M&A research tracks the number of completed deals over $100m and the share price performance of the acquiring company against the MSCI World Index, which is used as default, unless stated otherwise.

Figure 2. **Acquirer returns adjusted to the MSCI regional index**



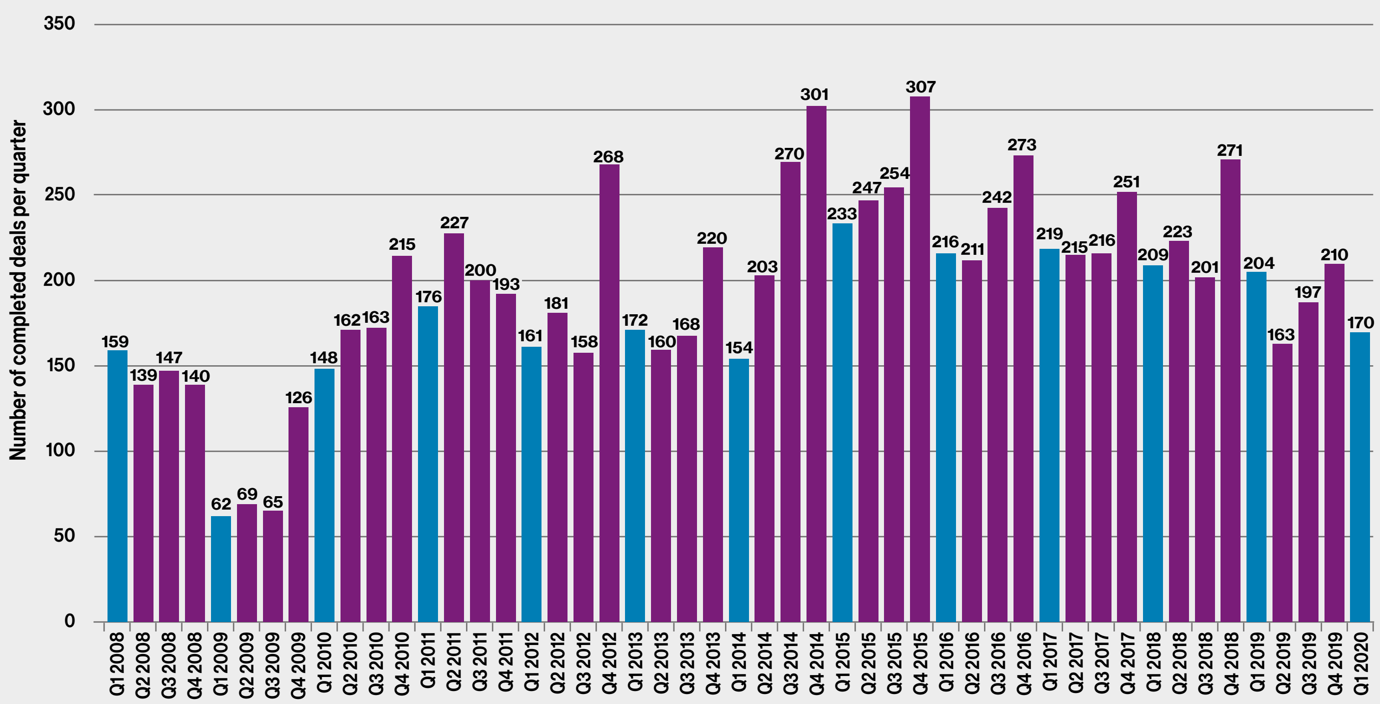
With 170 deals completed in the first three months of 2020, deal volumes are significantly down compared to the previous quarter and the lowest since early 2014. The study looks at deals that closed in the quarter, and therefore the impact of COVID-19 on this quarter's volumes will most likely be focused on deals closed by Asian acquirers, with other regions likely to show the impact reflected in the number of deals closing in future quarters.

All deals in this latest report are essentially "pre-pandemic", having been completed, rather than announced, in the first quarter of 2020. So, while our results reveal a continuing downward trend in both M&A deal performance and volume, fear and volatility driven by COVID-19 have since sent financial markets in an accelerated tailspin and significantly disrupted the normal flow of M&A deals.

The full magnitude, scope and length of the virus' impact will be largely determined by the success of the world's response to the outbreak – which is still evolving. What we do know is that lessons learned from previous downturns, such as the 2007-2008 financial crisis, can provide business leaders with a perspective on future recovery and growth. We must learn from the past and use this time as a catalyst for new and creative ways of working, which is likely to impact future dealmaking.

Despite Brexit, European buyers are in top spot for Q1 2020, outperforming their regional index by +9.0 pp, followed with underperformances by acquirers from both North America (-4.2 pp) and Asia Pacific (-5.8 pp).

Figure 3. **M&A quarterly analysis by volume (number)**



The financial crisis 12 years later: Five lessons for investors

As the outbreak continues to move quickly, erratic markets are already lending themselves to irrational decisions, with many deals now finding themselves in limbo. That being said, our analysis suggests M&A activity will not come to a complete standstill, as reduced share prices and many organisations looking to restructure will create new M&A opportunities, and all will need to find innovative ways to capture market share.

M&A activity will not come to a complete standstill, as reduced share prices and many organisations looking to restructure will create new M&A opportunities.

Five lessons for investors

Although today's economic environment is different in many ways to twelve years ago, five lessons in particular appear as relevant as ever for business leaders planning their path through and beyond this current crisis:

1. **Focus on people**: Business strategies are executed by people. Prior crises have shown that organisations that can help keep their deal teams calm and focused, avoid jumping too fast at opportunities that may appear to be too good to be true, but move at pace when opportunities arise, will thrive. This is even more true today as the current health-driven crisis has real implications that affect all of us personally and go beyond the financial. Leading organisations have a clear immediate focus on protecting and supporting their people, including their deal teams and their broader employee populations.

2. **Advantage in adversity:** In the current downturn, a wave of distressed, cheaper assets is likely to come to market. In order to turn adversity into opportunity, early and thoughtful asset allocation analysis is the only tried and tested remedy. Executing strategic investments well – in good times and bad – demands a cool head with buyers exercising cost discipline and financial prudence, and detecting opportunities that offer reliable returns in reasonable payback periods.

3. **The near-term is essential, but don't lose focus on the longer-term:** During the 2007-2009 recession, companies prioritised short-term actions over longer-term initiatives, tending to act reactively rather than proactively. All companies must attend to short-term concerns to ensure viability, but those able to stay the course and focus on strategic long-term investments will lay the foundation for continued success once the crisis ends.

4. **M&A transactions will take longer and become less predictable:** In 2008, a lack of available credit, plunging stock markets and worldwide financial crisis undermined companies' ability to make acquisitions, ending five years of deal growth. Fast forward 12 years and closing deals is just as complex, with dealmakers working from home, site visits curtailed, leadership and expert meetings going virtual, debt financing harder to secure and delays in regulatory approval as governments and regulators cope with the impact of COVID-19. In response, existing technologies such as virtual data rooms and video conference calls can be easily harnessed to facilitate the due diligence process. As this situation unfolds and more implications for M&A transactions arise, stakeholders will be required to show greater agility and creativity if they are to seize opportunities.

5. **Implementation plans and synergy goals to be reviewed:** Deals closed as recently as Q1 2020 will need to be reviewed in the light of current conditions, and synergy-playbooks for future deals will need to be reassessed. This reassessment will be both in light of current market conditions and also the broader brand and reputational risks of workforce restructuring, and being open to accusations of taking advantage of a global health crisis. A long boom in financial markets has caused buyers to complain that so much money has been chasing too few deals, making attractively priced assets hard to find. For investors that have been keeping their powder dry, now is the time to look past short-term events and take a view on the long-term value of companies. By looking for value and going through the process of repricing risk and taking selective opportunities, taking the time to review the target's culture against their own, buyers will find genuine dealmaking opportunities.

Appendix

Appendix A. M&A deal type analysis

	Q1 2019	Q4 2019	Q1 2020	2019	2020
Mega deals (over or equal $10bn)	-5.0	0.5	24.9	-3.7	24.9
Large deals (over or equal to $1bn)	-6.9	-1.8	-4.1	-1.6	-4.1
Medium-sized deals (under $1bn)	-2.9	-6.5	-1.1	-6.5	-1.1
Domestic	-8.2	-8.8	0.3	-7.3	0.3
Cross-border	-0.1	4.4	-3.7	0.0	-3.7
Intra-regional	-7.4	-7.0	-4.1	-6.6	-4.1
Cross-regional	1.6	2.7	4.0	0.0	4.0
Intra-sector	-5.0	-5.9	-7.1	-5.6	-7.1
Cross-sector	0.7	-1.6	5.4	3.2	5.4
Quick deals	2.2	-3.5	2.0	0.6	2.0
Slow deals	-9.3	-5.9	-5.4	-8.3	-5.4

NB: The share price returns have been adjusted to Index returns over the corresponding period. The MSCI World Index is used as default, unless stated otherwise. 'Quick' deals refer to those transactions which had a median time to completion of less than 70 days, whereas 'slow' deals are those which had a time to completion more than or equal to 70 days for the period. Note that the sub-sample analyses for which the data points have grey coloured font include fewer than 25 deals, i.e. below our significance level, and should, therefore, be viewed as indicative.

Appendix

Appendix B. Data descriptives: Q1 2019, Q4 2019 and Q1 2020

	Q1 2019	Median deal value ($m)	Q4 2019	Median deal value ($m)	Q1 2020	Median deal value ($m)
All	204	412	210	433	170	368
Asia Pacific	50	278	60	290	41	206
Europe	34	258	44	292	42	388
North America	114	597	97	529	85	407
Rest of the world	6	330	9	451	2	1,406
Consumer Products & Services	13	245	13	222	13	328
Consumer Staples	7	625	8	716	3	320
Energy & Power	25	1,210	25	722	18	621
Financials	31	614	36	526	39	407
Healthcare	22	387	17	576	19	1,043
High Technology	28	338	39	510	17	292
Industrials	29	229	28	293	24	223
Materials	23	439	19	249	23	586
Media & Entertainment	16	278	11	154	5	130
Retail	6	263	7	160	5	537
Telecommunications	4	389	7	711	4	306
Domestic	133	425	139	481	106	350
Cross-border	71	378	71	325	64	419
Asia Pacific	12	656	17	282	15	364
Europe	29	259	26	334	32	388
North America	28	521	21	303	16	447
Rest of the world	2	249	7	740	1	1,850
Intra-regional	158	382	160	472	132	331
Cross-regional	46	460	49	298	38	493
Asia Pacific	10	645	10	290	11	530
Europe	16	320	16	280	15	535
North America	20	610	17	285	11	438
Rest of the world	-	-	6	596	1	1,850
Intra-sector	139	443	121	492	108	419
Cross-sector	65	290	89	289	62	318
Asia Pacific	14	225	37	257	20	254
Europe	10	167	19	200	15	280
North America	41	445	31	510	27	475
Rest of the world	-	-	2	955	-	-
Quick deals	63	253	87	206	70	257
Slow deals	141	603	123	701	100	531
Large deals (over or equal to $1bn)	63	2,058	51	2,065	46	2,140
Mega deals (over or equal to $10bn)	5		4		2	

Appendix C. Top 25 deals by value of transaction Q1 2020

Date announced	Date effective	Acquirer name	Target name	Value of transaction ($ mil)
25/02/19	31/03/20	Danaher Corp	GE-Biopharma Business	21,400
27/03/19	23/01/20	Centene Corp	WellCare Health Plans Inc	15,568
30/04/19	29/02/20	Gardner Denver Holdings Inc	Ingersoll-Rand US Holdco Inc	8,736
27/07/19	31/01/20	Takeaway.com NV	Just Eat PLC	8,157
24/11/19	06/01/20	Novartis AG	The Medicines Co	7,384
21/02/19	25/03/20	INWIT SPA	Vodafone-Mobile Tower Assets	5,805
10/12/19	07/02/20	GS Acquisition Holdings Corp	Vertiv Holdings LLC	5,095
28/03/19	18/03/20	Faw Car Co Ltd	FAW Jiefang Automotive Co Ltd	4,788
23/10/18	16/03/20	Aqua America Inc	Peoples Natural Gas Co	4,275
20/11/19	06/01/20	PayPal Holdings Inc	Honey Science Corp	4,000
25/11/19	31/01/20	Kirkland Lake Gold Ltd	Detour Gold Corp	3,676
26/03/19	02/01/20	Uber Technologies Inc	Careem Networks FZ LLC	3,100
03/10/19	10/02/20	HCC Insurance Holdings Inc	Privilege Underwriters Inc	3,100
02/12/19	15/01/20	Astellas Pharma Inc	Audentes Therapeutics Inc	3,005
10/02/20	12/03/20	Change Healthcare Inc	PF2 SpinCo Inc	2,837
09/12/19	16/01/20	Merck Sharp & Dohme Corp	ArQule Inc	2,624
24/12/18	14/01/20	CITIC Securities Co Ltd	Guangzhou Securities Co Ltd	2,595
16/12/19	06/03/20	WPX Energy Inc	Felix Energy Holdings II LLC	2,569
08/10/19	26/03/20	Fortum Oyj	Uniper SE	2,463
09/12/19	23/01/20	Sanofi SA	Synthorx Inc	2,453
06/11/19	06/02/20	Taylor Morrison Home Corp	William Lyon Homes	2,400
18/03/19	18/02/20	Shanghai Zhixin Electric Co	Yingda Intl Tr Co Ltd	2,235
19/09/17	31/01/20	BASF SE	Solvay SA-Polyamides Business	2,152
16/12/19	06/02/20	Macquarie Grp Ltd	Daesung Industrial Gases Co	2,128
07/08/19	05/01/20	Indorama Ventures PCL	Huntsman Corp-Chem	2,006

Willis Towers Watson QDPM methodology

- All analysis is conducted from the perspective of the acquirer.
- Share-price performance within the quarterly study is measured as a percentage change in share price from six months prior to the announcement date to the average of the closing price of the final trading days of the quarter.
- All deals where the acquirer owned less than 50% of the shares of the target after the acquisition were removed, hence no minority purchases have been considered. All deals where the acquirer held more than 50% of target shares prior to the acquisition have been removed, hence no remaining purchases have been considered.
- Only completed M&A deals with a value of at least $100 million which meet the study criteria are included in this research.
- Deal data sourced from Refinitiv.

Further information

For further information about the research, or for help with your M&A activity, please contact your Willis Towers Watson consultant, or:

Jana Mercereau
+44 207 170 2835
jana.mercereau@willistowesrwatson.com

Duncan Smithson
+1 (312) 525 2434
duncan.smithson@willistowerswatson.com

About Willis Towers Watson M&A

Willis Towers Watson's M&A practice combines our expertise in risk and human capital to offer a full range of M&A services and solutions covering all stages of the M&A process. We have particular expertise in the areas of planning, due diligence, risk transfer and post transaction integration, areas that define the success of any transaction.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving in more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

Willis Limited, Registered number: 181116 England and Wales.
Registered address: 51 Lime Street, London, EC3M 7DQ.
A Lloyd's Broker. Authorised and regulated by the Financial Conduct Authority for its general insurance mediation activities only.

WTW431821/04/2020

willistowerswatson.com

Willis Towers Watson