

Will COVID-19 turbo-charge M&A and transformation?

C-suites reframe corporate strategies and plan to invest their way out of the crisis.



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Nordic executives are looking to a future-focused approach to reset their M&A and investment strategies for growth in the post-pandemic world.

A note from Mikko Äijälä, EY Finland, Nordic Strategy and Transactions, Managing Partner

Nordic executives focus M&A on improving operational excellence

According to the latest EY *Global Capital Confidence Barometer*, 86% and 91% of Nordic companies, respectively, say they saw significant declines in revenue and profit as a result of the pandemic. Of course, some sectors have been hit harder than others, and recovery times will vary depending on the depth of the impact. However, 74% of those affected expect pre-pandemic revenue levels to return by next year; 61% foresee profit levels returning within the same time frame.

Given their confidence in their ability to successfully steer through the pandemic crisis, Nordic companies are more future-focused on the risks that lie ahead, with macroeconomic performance (16%) and increasing competition from nontraditional competitors (13%) topping their list of concerns. The continuing pandemic ranks fifth on the list of greatest risks (9%) among Nordic executives, whereas global respondents still see it as the number one external risk to their business (18%).

Corporate strategy zeroes in on forward-looking objectives

As positive as Nordic executives are about their resilience during the crisis, 72% say their company has undertaken a thorough strategic and portfolio review in the last year. However, fewer than half say the review was accelerated because of the pandemic.

Their reasons reflect more forward-looking objectives, including responding to changes in their ecosystem (13%), managing the potential impact of changing geopolitical and regulatory risks, and looking for areas of growth to make acquisitions.

Nordic companies also cite investing in accelerating digitization of customer journeys and business processes and attracting and retaining customers as dominant strategic imperatives for growth. These actions reflect the areas Nordic executives say they are planning to focus more of their strategic investment on, namely, customer engagement (61%), digital transformation (58%) and operational stability (56%).

When asked what could hold their strategic intentions back, Nordic companies cite the tension between transformation and predictability, and between change management and internal inertia.

M&A focuses on enhancing operational capabilities, but Nordic companies expect competition from private equity (PE)

Aligned with strategic investment intentions, operational excellence is top of mind for Nordic companies considering M&A. Of the 44% of Nordic executives who say their company will be pursuing M&A in the next 12 months, 59% indicate they'll primarily be focusing on targets that can enhance operational capabilities. This may include production efficiencies, improving distribution chains or reimagining supply chains to be more risk resilient.

This stands in contrast with global respondents, who cite bolt-on acquisitions as their primary target. The difference in intentions may lie in the fact that Nordic markets are generally smaller and more consolidated than larger countries', making most bolt-on acquisitions too small to provide sufficient value.

Whether their deal intentions are small or large, Nordic companies expect to face stiff competition, predominantly from PE players. PE firms in the Nordics are well-established and are sitting in a lot of dry powder.

However, Nordic PEs aren't the only firms looking to acquire. Given the level of business resilience many Nordic businesses have demonstrated during the pandemic, the region is

considered one of the safest places in the world to invest at the present time. As such, US and European PE players are expected to target Nordic assets.

That said, with 61% of Nordic companies saying they'll be considering cross-border targets, international interest is flowing in both directions.

In addition to acquiring, Nordic companies see divestments as a top driver for improving profit margins. This may increase pressure on the M&A market if the pandemic drags on and companies experience more significant financial issues.

Optimism meets pragmatism as Nordic companies chart their future

As confident as Nordic companies are of their performance during the pandemic crisis, they are proceeding with caution in the months ahead. Business resilience and operational stability will remain top priorities, even as they seek to evolve their digitization and improve customer engagement to achieve profitable growth.

Yet, despite their caution, Nordic companies also see M&A as an ideal route to transformation. This differs from the approach Nordic companies took at the height of the global financial crisis (GFC) when M&A intentions dropped to as low as 28% in 2012. Although M&A intentions in the latest EY *Global Capital Confidence Barometer* are lower than the previous year (44% in 2020 vs. 53% in 2019), this is more a reflection of a slow first half of 2020 when uncertainty around the pandemic was at its peak. Since then, M&A activity in the region has rebounded significantly.

With an appetite to seize the upside of disruption and with lessons learned from the GFC, Nordic companies are poised to use strategic and portfolio reviews to build operational resilience while pursuing M&A to accelerate growth and solidify their competitive advantage in the months and years ahead.

Nordics key highlights

86%

of Nordic respondents experienced a decline in revenue due to the pandemic.

91%

of Nordic respondents report the pandemic had an impact on their profitability.

74%

of those affected expect pre-pandemic revenue levels to return by 2022.

61%

of Nordic companies plan to increase investments in customer engagement; 58% will focus more on digital transformation.

72%

of Nordic respondents have conducted comprehensive strategy and portfolio reviews; 44% say their review was accelerated by the pandemic.

55%

of Nordic executives say their company is currently undergoing a significant business and technology transformation program.

59%

of Nordic companies are planning to improve their operational excellence through M&A.

44%

of Nordic executives expect their companies to actively pursue M&A in the next 12 months.

87%

of those who plan to acquire see increasing competition for assets coming from private equity sector.

About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

- From November 2020 until January 2021, Thought Leadership Consulting surveyed on behalf of the global EY network a panel of more than 2,400 executives in 52 countries; 82% were CEOs, CFOs and other C-suite-level executives.
- Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US\$500m (25%), US\$500m-US\$999.9m (26%), US\$1b-US\$4.9b (25%) and greater than US\$5b (24%).
- Global company ownership was as follows: publicly listed (60%), privately held (40%).

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EYG no. 002826-21Gbl

2010-3604725

ED 0126

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