

# Putting the pieces into place

The next drivers of  
strategic M&A





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# Foreword

Today's rapidly changing economy has prompted business leaders to reflect on the kind of businesses they want to lead into the future. Emerging from the pandemic and looking out over a geopolitical landscape significantly impacted by the outbreak of the war in Ukraine, organizations are contending with inflation, rapid innovation, market volatility and supply issues. Against this backdrop, how can leaders make the strategic decisions required to succeed in the current economy? What are the future drivers of business success?

Drawing on the views of 1,200 business leaders from around the world, *Putting the pieces into place: the next drivers of strategic M&A* by Eversheds Sutherland looks at the future drivers of strategic M&A and how M&A can unlock value.

Our study reveals that more than seven in ten business leaders are focusing on a new "M&A triarchy" to deliver future business success: talent, tech and trade. And while business leaders continue to view M&A as a crucial driver of strategic growth, the research unveils, for the first time, the new attributes business leaders value in a target. Brand and reputation is at the top of the list, perhaps showing the extent to which dealmakers recognize the impact of transparency and the value of positive brand advocacy in these uncertain times.

When the primary research was conducted in early 2022, business leaders were largely confident in the economic outlook and most felt that the climate for conducting M&A deals over the next year was strong. But the war in Ukraine and its impact on global markets are shifting plans. A further top-up study conducted in April 2022\* indicates that, although business confidence remains high, almost all organizations with an appetite for M&A are postponing at least some M&A activity due to the effects of the conflict – notably, sanctions on target companies, increasing systemic risk within industries and the impact on valuations reducing available capital. Business leaders say that timelines are slipping, deal volumes are decreasing and dealmaking has become more complex, in the short-term.

*Putting the Pieces into place: the next drivers of strategic M&A* aims to help stakeholders on all sides of the M&A equation understand how business leaders perceive the current economic and geopolitical context and how this impacts strategic priorities for organizations.



**Robert Copps**  
Partner and Head  
of M&A (US)



**Eric Knai**  
Partner and Head of  
M&A (International)

\* In April 2022, a supplementary opinion research study among 75 business leaders was carried out to assess how attitudes and approaches to M&A had changed since the primary study (a global study of 1,200 business leaders carried out in January and February 2022). Due to the smaller sample size, results of this second study are indicative rather than representative.

## Global panel of M&A experts<sup>1</sup>

Eversheds Sutherland would like to thank their global panel of M&A experts for their insights and contributions to *Putting the pieces into place: The next drivers of strategic M&A*.

### Jason Baab

Senior Vice President | Oshkosh

### Elsa Fraysse

Secrétaire Générale | Rothschild & Co

### Kevin Freeman

Chief Counsel | Securities & Transactions | Tenneco

### Kristiina Janhunen

Director | M&A and CSD Legal | Nokia

### Ran Oren

Chief Executive Officer | ALTRAD

### Louis G. Véronneau

Executive Vice-President and Chief Transformation Officer | SNC-Lavalin

### Matthew Zimmer

Global Head of Investment Banking | William Blair

<sup>1</sup> Our global panel of M&A professionals was interviewed for their thoughts on the business landscape, the levers of M&A and what's driving value. Comments from the panel can be found throughout the report.



# Executive summary

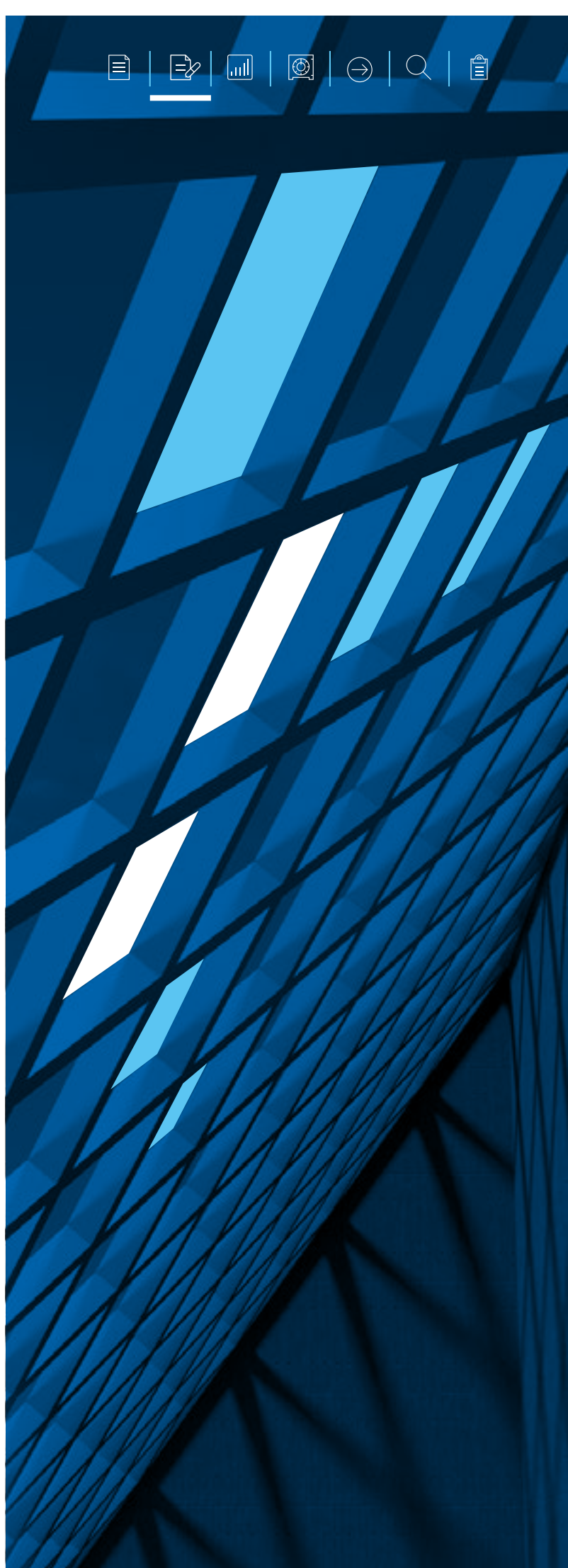
*Putting the pieces into place: The next drivers of strategic M&A* by Eversheds Sutherland discusses the key considerations for stakeholders when carrying out strategic M&A in the current environment.

Business leaders are facing uncertain times. At the start of 2022, seven in ten business leaders believed that their organization's appetite for M&A activity would increase significantly over the next 12 months. However, in April 2022, **90% of business leaders said that the ongoing war in Ukraine and its associated effects are causing deals to be stopped or postponed** to some extent – with one in five (**21%**) claiming that their organization is postponing all M&A activity.\*

However, organizations continue to face the same urgent strategic gaps – in skills, technology and logistics – that need to be bridged in order to grow. Despite this turbulent landscape, business leaders still recognize that M&A offers a fast-track solution to unlocking strategic value.

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\* Based on supplementary research in April 2022

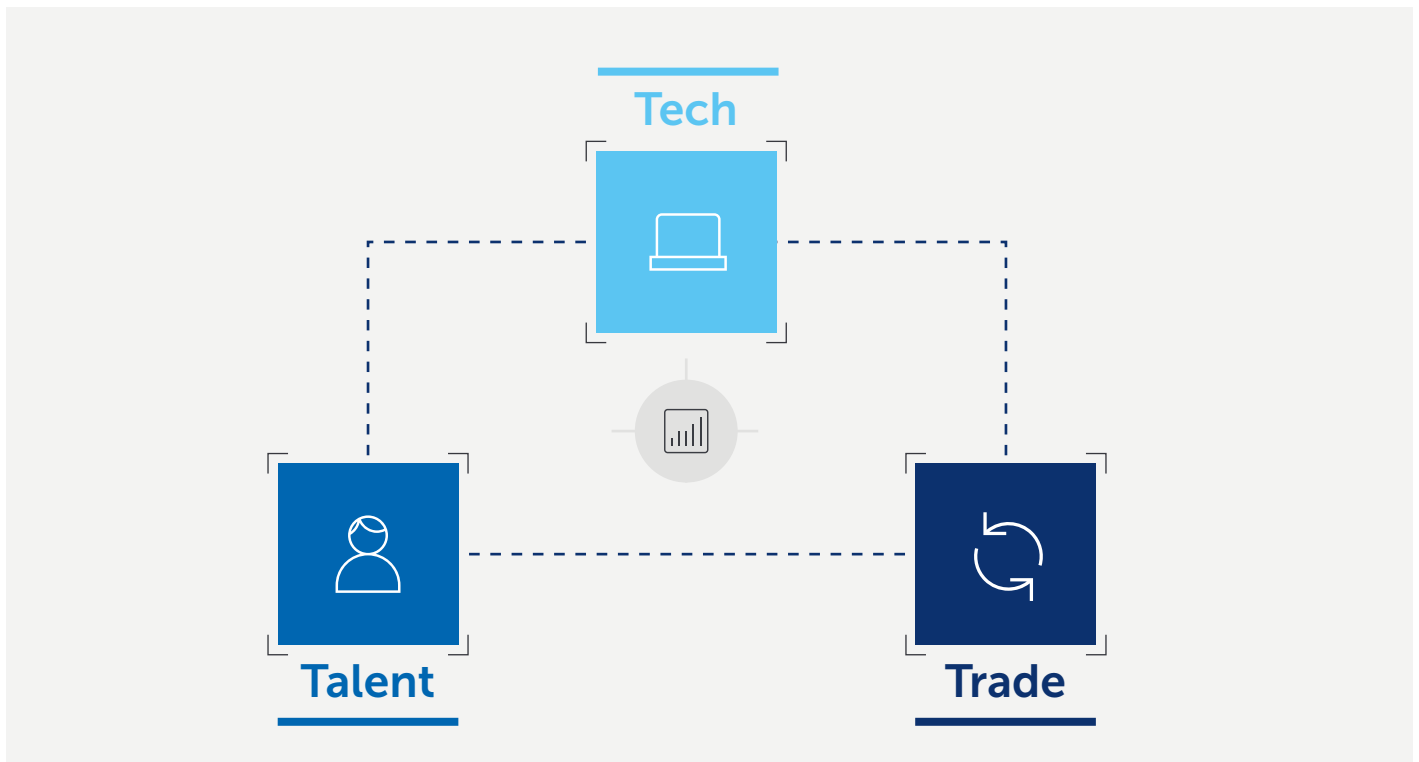


## Part one:

### Future drivers of business success: Talent, tech and trade – the new M&A triarchy



The research reveals that M&A is increasingly being driven by the need to satisfy strategic demand for talent, tech and trade capabilities in order for organizations to evolve. Together, talent, tech and trade form a new M&A triarchy.



More than **70% of business leaders view talent, tech and trade as the key levers of growth** and core to their future business strategy.



**Talent:** 72% of business leaders see talent retention and acquisition as important to their organization's business strategy over the next year. Three in five (**62%**) also believe that the 'Great Resignation' is acting as a catalyst for M&A as the battle for talent continues.



**Tech:** Tech has been among the most important factors of organizations' business strategies over the past year, with **78%** of business leaders seeking to improve their cybersecurity and three-quarters seeking digital transformation. **74%** also see digital transformation as important to their organization's business strategy over the next year.



**Trade:** Impacted by supply chain disruption and trade sanctions, **68%** of business leaders indicate that increasing supply chain resilience will be a strategic M&A priority over the next year. **72%** of business leaders also see increasing supply chain resilience as important to their organization's business strategy over the next year.

- In April 2022, **60%** of business leaders said supply chain dislocation as a result of the war in Ukraine would make vertical integration an increasingly important business strategy.\*

\* Based on supplementary research in April 2022

## Part two: What dealmakers value



When suitable acquisition targets seem limited but liquidity is high, what makes one target more desirable – and therefore more valuable – than another? Acquirers view **brand and reputation** as creating the most added value.

- **77% of business leaders identify “brand and reputation”** as an attribute they value in an acquisition target, making it the number one driver of value in our study.
- Business leaders said valuations will continue to be boosted by offering increased market share (**74%**), intellectual property (**73%**) and strong financial performance (**72%**).
- But leaders are also seeking acquisitions that can help them face today’s unique business environment and bridge their talent, tech and trade gaps – the new M&A triarchy: **72%** are looking for specialist skilled talent, **70%** value supply chain integration and **69%** are placing importance on potential targets’ new technologies.

## Part three: M&A headwinds in 2022



Despite high levels of economic confidence and an enthusiasm for dealmaking, the landscape is also fraught with challenges. Barriers to M&A deals over the next 12 months include rising inflation, protectionist trade policies and the war in Ukraine.

- **Two-thirds (66%) of business leaders believe the rise of protectionism is creating an unstable environment** for M&A – rising to **70%** in the energy sector.
- **67%** of business leaders in the supplementary study\* said **the war in Ukraine has reduced their organization’s investment in M&A activity.**
- Business leaders in the supplementary study said their organization’s reduced investment in M&A activity was due to the fall in global economic confidence, increasing commodity prices, share price volatility reducing available capital and the direct and indirect impacts of sanctions.

\* Based on supplementary research in April 2022



# Part one:

## Future drivers of business success: Talent, tech and trade – the new M&A triarchy

*Under pressure to adapt to a post-pandemic world, organizations must make staff retention, digital transformation and supply chain resilience top priorities. This M&A triarchy of talent, tech and trade is currently **driving** strategic M&A deals.*



### TALENT: The contest for talent is now being played out in the M&A market

Business leaders are under mounting pressure to find new ways of attracting and retaining human resources, making talent acquisition an increasingly central element of business strategy across all industries. This is happening during a significant power shift from employer to employee: Where previously the main concern following M&A was managing post-acquisition redundancies, the context is now about retaining employees despite changes in workplace culture and a renewed sense of work-life balance.

Current labor demands are not uniquely geared toward acquiring specialist knowledge and skill sets. A combination of COVID-19 fallout, rising living costs and stagnant wages has sparked a dispersion of broader workforce numbers, squeezing organizational innovation and capability in industries that have relied on hubs of blue-collar workers, such as haulage and manufacturing.

According to the US Department of Labor,<sup>2</sup> more than 4.5 million Americans quit their jobs in March 2022 – matching the record set in November 2021 for the highest number of resignations since records began – with comparable trends being observed around the world. Reflecting this, almost three-quarters (**74%**) of business leaders in the study identified talent retention and acquisition as an important factor in their organization's business strategy over the past year, and **72%** believe it will be an important factor over the next year.

As a result, talent is a key driver of M&A activity today, with **62%** of business leaders saying that the 'Great Resignation' is acting as a catalyst for M&A as the battle for talent continues and is only likely to intensify.

However, while dealmakers are seeking to access skills and innovation to boost their business strategy, there are two sides of the talent coin when it comes to M&A: Deals can rock a company and impact employee turnover if the culture fit isn't right. Over two-thirds (**67%**) of business leaders have concerns about talent retention making M&A a riskier investment, as the value of their acquisition can be impacted substantially if key personnel leave the organization.

**62% of business leaders saying that the 'Great Resignation' is acting as a catalyst for M&A**

<sup>2</sup> <https://www.bls.gov/news.release/jolts.nr0.htm>



## Acquihiring: Talent retention and acquisition across sectors

An increasing trend of “acquihiring” – acquiring a company specifically to access its employees – varies considerably across sectors. Almost two-thirds (**64%**) of business leaders in life sciences organizations believe talent acquisition and retention will be an important factor in their M&A activity next year, closely followed by those in the professional services (**63%**) and energy (**63%**) sectors.

In contrast, talent acquisition and retention is the least important factor for business leaders in the technology, media and telecom (TMT) sector, with only **50%** considering it to be a driver in their M&A strategies.

Concerns about employees exiting an organization following a merger or acquisition, especially where there has been a gap due to a competition filing, can be alleviated by a staff retention percentage being factored into the deal as a specific closing condition. For example, if a given percentage of staff isn't in place at closing, the deal can be terminated.



*“It can be a difficult task for large organizations to retain employees when they acquire smaller organizations through M&A. People have often joined a small company because of the start-up culture and may struggle with the culture that a larger corporate parent may have. This is an important area that large organizations need to prioritize in order to retain talent.”*

**Kristiina Janhunen** | Director | M&A and CSD Legal | Nokia

**David Philips, Partner**, “In the past, when clients thought about target company employees post-closing it was more often in the context of redundancies and ability to eliminate positions as a synergy. Now many buyers are looking at it through a different lens. They are looking at aggressive growth projections for the target and, within this tight labor market, buyers are asking whether they will be able to cost-effectively hire and retain employees in numbers sufficient to support the growth projections.”

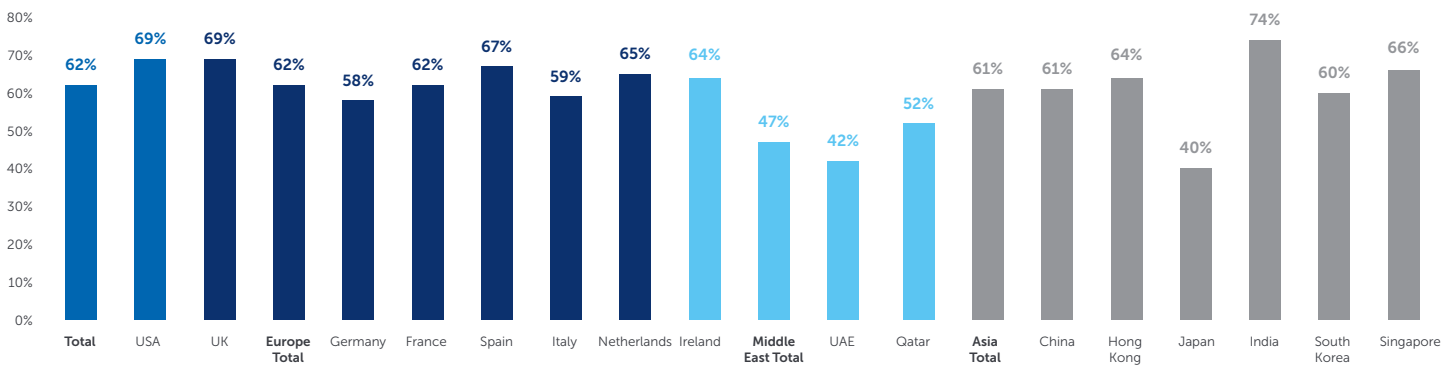
## The 'Great Resignation': Market insights

Business leaders in India (74%), the UK and the US (69%) are most likely to see the 'Great Resignation' as a catalyst for M&A. In these markets, it may be that pandemic-accelerated changes to working practices have made employees more aware of the alternative employment options available, posing a significant threat to employee retention and recruitment in more traditional organizations.

In contrast, only 40% of business leaders in Japan and 42% in UAE believe that the 'Great Resignation' is compounding M&A activity. As markets with a more traditional workplace culture (and in some cases, expectations of lifetime employment) have generally not experienced pandemic-driven resignations with the same intensity, it may be that talent retention is less of a concern. However, it may also be that these markets do not consider M&A to be a strategic lever for talent acquisition.

### Where is the 'Great Resignation' having the biggest impact as a catalyst for M&A?

The 'Great Resignation'/Big Quit is acting as a catalyst for M&A as the war for talent continues



**Robin Johnson, Partner:** *"Talent is critical to operating a successful business. With some of the challenges that people have faced over the past two years, organizations are concerned about retaining top management, and deals are being made to take talent through acquisitions. There may be a product or piece of software behind the M&A, but really the buyer is looking at the talent pool surrounding that product and then figuring out incentives to keep those key people on board."*

*"Cross-border transactions add further complications; there can be big differences in culture and employment practices between the UK and the US, for example. Organizations may need to understand how to motivate employees and make them feel part of a larger organization, so having advisors with experience beyond their local jurisdiction is valuable."*

*"Eversheds Sutherland advises on these kinds of deals multiple times a year and is positioned to identify the behavioral patterns that emerge when working through transactions. There are also lots of legal issues that are addressed in transactions – what's meaningful for a team in Germany might not be meaningful for a team in Brazil. We bring in teams that help with people spread across different jurisdictions."*



*"Strong management teams can command a big price tag for an acquisition target. If an organization has a CEO or CFO who is focused on culture and driving their team's potential, they attract people. The majority of buyers will ensure that they have management buy-in before considering a deal, as they know how important leadership and talent are, especially in today's business landscape."*

**Matthew Zimmer,**  
Global Head of Investment Banking | William Blair



## TECH: Tech innovation is driving deals

Accelerated and intensified by the pandemic, the need for technological innovation is increasingly vital for businesses to remain competitive. Across all sectors, including industries that are not traditionally centered around technology, organizations are looking to technology to improve productivity, reduce carbon emissions, pivot toward electrification, develop their online presence and future-proof their operations.

Over the past year, leaders have been reimagining their organizations' technology: three-quarters of business leaders say that digital transformation has been important to their business strategy over the past 12 months. Our recent report, **Shaping the future of digitalization**, found that the pandemic has greatly accelerated companies' digitalization, with **55%** of products and services at least partly digitalized today compared with only **35%** in 2019, prior to the COVID-19 pandemic.

Digitalization is set to stay at the forefront of business leaders' minds, with **74%** of business leaders in the *Strategic M&A* study believing it will be important for their business strategy in the next year.

But in-house innovation alone cannot necessarily keep pace with the demand for new technologies. For organizations with limited technology skills or that may have already been lagging, M&A may be seen as a rapid way to absorb new technology and the expertise to utilize it. Not only did **74%** of business leaders say M&A was important in terms of bridging technology gaps in their organization, but new technologies were revealed as the number one factor that would increase what business leaders are willing to pay for a target company (cited as important by **72%** of business leaders).

Almost seven in ten (**68%**) business leaders believe that technology and digital transformation are accelerating cross-border deals to capture global growth, and **74%** see increasing agility and adapting to market conditions as important, which can be supported by tech innovation. Plus, **72%** of business leaders believe that acquiring technology skills through M&A is crucial to succeeding in the new economy.



*"Technological disruption is often the catalyst for business models needing to adapt or strengthen quickly, as the competition has technology that you don't. Change is required to create competitive advantage. The retail industry, for example, saw a seismic shift in consumer behavior in recent years as online sales and home deliveries put significant pressure on the traditional brick-and-mortar aspect of their businesses. Competition in retail was once down to geographical proximity, but online stores now compete with organizations all over the world."*

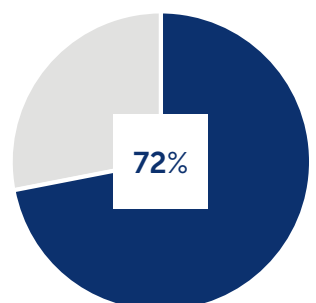
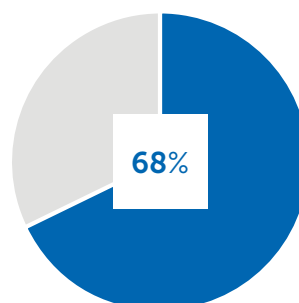
*"The question leaders are facing now is whether they invest in building that tech capability in-house, acquire it from elsewhere or merge with competition to achieve economies of scale."*

**Jason Baab** | Senior Vice President | Oshkosh

### Why is tech such an important part of strategy?

Technology and digital transformation are accelerating cross-border deals to capture global growth.

Acquiring technology skills through M&A is crucial to succeeding in the new economy.



**Charlotte Walker-Osborn, Partner and International Head of Artificial Intelligence and Technology Sector, Eversheds Sutherland, commented:** *“Cloud has for many years been a favorite for investments, not only because of its growth potential but also because many cloud businesses come with clear recurring revenues. In such a case, due diligence tended to focus on cyber security resiliency, data residency and data privacy compliance along with more traditional due diligence around technology businesses. However, with the rapid intensification of digitalization and cloud-first business and as investment continues to ramp up in such digital businesses, due diligence must pivot to take account of the growing set of issues which may affect value and brand in addition to those mentioned above. These include a need for increasing focus on: legal use of data generally (commercial, public and personal data/PII); ever increasingly complex issues around trade and security; compliance with regulatory expectations around algorithms and AI with a particular focus on around non-bias and non-discrimination; product liability and other potential for claims and class actions; ESG/sustainability and governance led issues as well as supply chain resilience. Whether a technology sector business or a business which has its heart in another sector but ultimately is a digitalized business, proving that company has enshrined within it a corporate-led digitally responsible (CDR) approach to business and use of data and technology is becoming essential, with a surge in ‘tech-lash’ – a kind of backlash from employees, consumers and other stakeholders rejecting technology and digitalized companies / big tech who exhibit unethical practices and/or misuse of data and technology.”*



## TRADE: Strengthening and protecting supply chains

Against a backdrop of pandemic-induced supply chain disruption, border closures and international trade sanctions (including due to Brexit), operational resilience is high on the business agenda. It’s set to remain a key focus in the upcoming months, as **68%** of business leaders indicate that increasing supply chain resilience will be a strategic M&A priority over the next year. **72%** of business leaders also see increasing supply chain resilience as important to their organization’s business strategy over the next year.

Although strain on supply chains is not a new issue, the current geopolitical events – specifically, the war in Ukraine and lockdowns in China – in combination with the post-pandemic recovery are a new scenario for dealmakers. This is evident in the concerns about access to raw materials, goods and components from mainland China, as the nation’s zero-COVID-19 policy compels millions of workers to stay at home. Equally, with international imports – of energy, raw materials, components and expertise – facing sanctions, shortages and delays due to the impact of the war in Ukraine, business leaders are leaning toward the most reliable sourcing options rather than the cheapest, easiest or most sustainable.

The supplementary study\* found that **90%** of business leaders believe the war in Ukraine is decelerating M&A activity, either preventing or postponing at least some deals. Of these business leaders, **74%** said that this is due to the direct impact of sanctions on the target, **67%** said that this is caused by the indirect impact of sanctions (i.e., on deal finance) and **64%** said that dislocation of supply chains is having an effect.

Due to these disruptions, vertical integration of supply chain partners is a core focus for business strategy. Six in ten business leaders surveyed in April 2022\* believe that supply chain dislocation caused by the war in Ukraine will make vertical integration an increasingly important business strategy.

In addition, seven in ten business leaders claimed that supply chain integration will increase what organizations are willing to pay for a potential acquisition.



*“Why do integrations fail? People often say it is due to siloed teams - but in reality, it is down to the fact that different teams have different skillsets that don’t always sync up. Integration following a deal is always hard work but where it often fails is when it comes to an organisation’s discipline. While it’s useful to have the operations manager involved throughout the deal, it is ultimately the M&A specialist who leads. That said, when you reach the integration phase, roles are reversed, and it is the operator who must take the lead.”*

**Louis Véronneau** | Executive Vice-President and Chief Transformation Officer | SNC-Lavalin

\* Based on supplementary research in April 2022

**Charles Butcher, Partner:** *"Supply chain issues increase M&A risk and shape the actions you'll take post-deal in terms of integrating the businesses within an M&A transaction. Traditional integration models may need adjustment for optimal supply chain recalibration – rather than 'stripping back' style integration and consolidation, organizations may want to invest more, and consider whether they need to invest in more reliable locations for supply. This trend started during the pandemic, when the big global players were still relatively secure and squeezed the smaller organizations rather than taking action themselves. Now, in the current geopolitical climate, even these bigger players are saying they have a smaller supply than before."*

**Robin Johnson, Partner:** *"It's about supply chain resilience rather than supply chain integration. Global businesses will pay more where they see the supply chain of a target as being well constructed with diverse sources of supply and therefore resilient against risk. This is definitely a growing trend – we've seen the zenith of people driving for economic efficiency. For example, even before the pandemic, the perception of China as a big production factory was changing, as it started to no longer be the lowest-cost supplier. Coupled with the geopolitical angle – growing tensions between the US and China – global multinationals don't want to be relying on something that's only available in China. Diversification of the supply chain is more important."*

**Antony Walsh, Partner:** *"Inflation is a significant cause for concern at the moment. Companies have been marketed with a specific level of profitability, which is now less certain due to their rising costs – costs that might be increasing by double-digit percentages in some cases. This is having a material impact on valuations, so companies are trying to protect against downsides and find ways to support a full price."*

*"As a result, we've been having many more conversations about earnouts over the past six months: where buyers agree to pay full price for a business, but if it's not making the advertised amount of profit after a fixed amount of time, the buyers are protected because the cash hasn't gone out the door. Earnouts do require an understanding of the finer points of accountancy policies and corporate finance in the broader sense, as certain provisions can have a big impact on the numbers when they're calculated in three years' time. These types of mechanisms have no real downsides for buyers, and we predict that the use of earnouts will increase significantly over the next few years."*

# Part two:

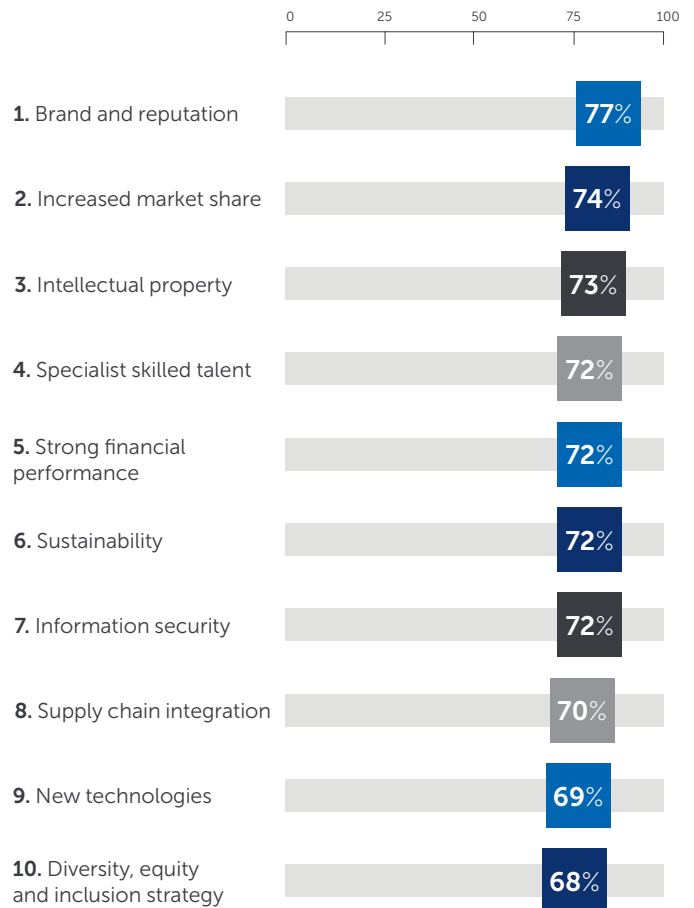
## What dealmakers value

While the M&A triarchy of talent, tech and trade is driving buyers to fill strategic gaps within their organizations, our research also examines the other side of the M&A equation: revealing the attributes of potential acquisition targets that business leaders desire. These factors are, in turn, **driving up a target's value** and differentiating the most sought-after deal targets.

M&A remains key in the race for growth, and seven in ten business leaders believe that deals are being boosted by high levels of liquidity. However, two-thirds (67%) of business leaders identified a lack of suitable target companies – a challenge that is being exacerbated as targets are revalued due to inflation, reducing shareholders' drive to sell and buyers' willingness to commit to previous valuations. This is likely to encourage an increase in earnout clauses in order to mitigate the impact of price/value fluctuations.

When market conditions are difficult, companies on the sell side of transactions can leverage key attributes in order to maximize their value in the eyes of investors. Our research revealed that traditional core criteria – financial performance, IP and increased market share, for example, continue to create value, but it is brand and reputation that is currently at the front of business leaders' minds.

### The top 10 attributes that business leaders value in a target



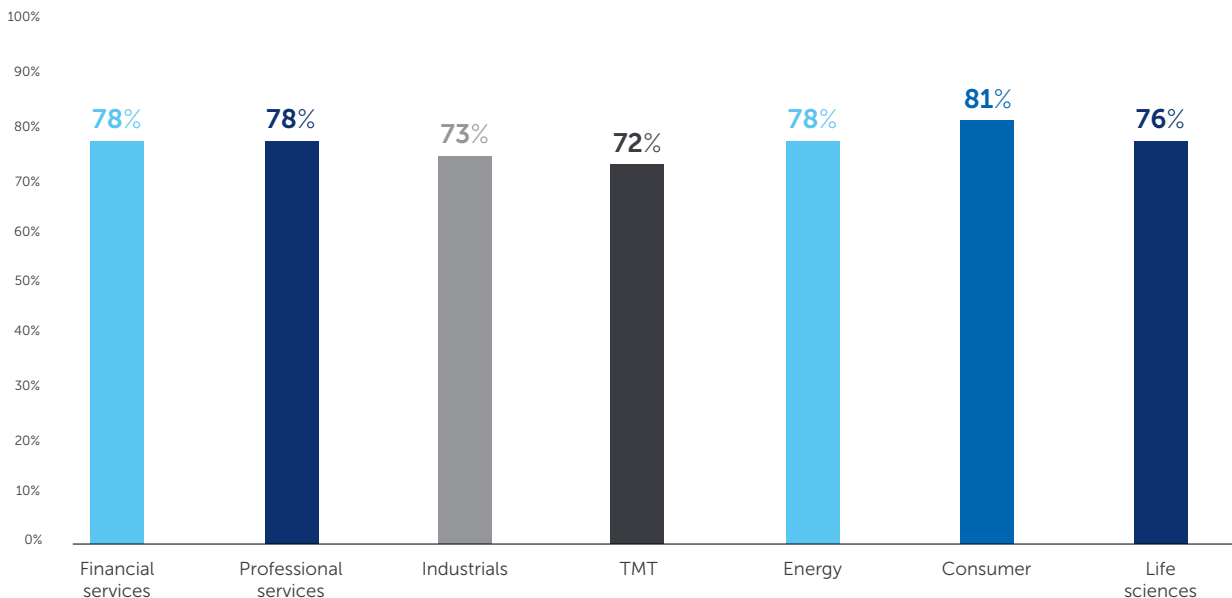
Talent attraction, new technologies and supply chain integration are all valued by more than two-thirds of business leaders, emphasizing how critical the M&A triarchy is for organizations seeking growth. Environmental, social and governance (ESG) considerations are also rising up the ranks: sustainability and diversity, equity and inclusion strategies now feature in the top ten most important attributes in a target.

## Brand and reputation: Impressions count

Brand and reputation is now the most valuable attribute for dealmakers across all sectors. Not only did **77%** of business leaders identify it as something they value in a target – making it the number one factor under consideration – but over two-thirds (**68%**) of business leaders said brand and reputation would **increase** what they would pay for a target. A strong brand is seen as a solid investment and positive brand awareness is commanding a premium.

In an era of transparency, it's clear that the importance of reputation is no longer solely the domain of consumer goods. Across every sector, corporates realize the value that can come from an established reputation, as well as the potential damage caused by exposure to reputational risk – and how quickly negative news can spread via activism, social media and global news. In times of adversity, familiar brands have our trust and lend their credibility to their associated supply chains and partner organizations. Brand and reputation becomes a precious intangible asset that corporates are willing to pay for.

### Proportion of business leaders who say brand and reputation is something that their organization values in an acquisition target



*“Brand and reputation is essential. When assessing a target, you need to ensure the organization you are acquiring is going to add economic value, of course, but also positively contribute to your brand and reputation.”*

**Ran Oren** | Group Chief Executive Officer | ALTRAD

**Catherine Detalle, Partner:** *“Counterparty and reputational risk makes it essential for companies to have a clear understanding of their targets, which is why due diligence is key in the transaction process. Compliance and constraints are increasingly important as they become stricter around the world.”*



**Ted Cominos, Partner:** *“Reputational risk is particularly critical to publicly traded acquirers. Even unsubstantiated claims or rumors can have a significant and rapid impact on market caps, given the rapidity at which information is spread (particularly through social media). Extensive up-front due diligence, as costly as it can be at times, is money well spent – particularly when compared to the fiscal and reputational damage an undiscovered issue can bring in one day of trading.*”

*A newer risk that is gathering momentum is related to ESG. Institutional investors are understandably sensitive to the issues underscoring ESG investment guidelines – pollution, child labor, diversity, etc. – especially as information about any misdeeds can move quickly through social media. We’re seeing deals where if modern ESG policies are not in place for a particular target, they are promptly required to be implemented as part of concluding an acquisition process. Strategic acquirers are quickly realizing that if they fail to conduct proper due diligence in this space, they can find themselves facing a significant impact on their reputation (and market cap).”*



*“ESG is only going to become bigger and more important, especially when looking at a target company and understanding its ESG compliance and culture. When you’re ascertaining whether a target will be a good fit, ESG will become a part of that – it will become a meaningful and measurable core element. It already is in some ways; it just isn’t quite quantified yet – but it will be.”*

**Jason Baab** | Senior Vice President | Oshkosh

## M&A and ESG

Environmental, social and governance (ESG) concerns are increasingly garnering public attention, impacting consumer attitudes and driving corporate decision making. Over the coming years, ESG considerations are likely to become a more important factor in M&A decision making as legislation and regulations mature and organizations strive to meet targets.

Already, ESG and sustainability concerns are having an impact. Over two-thirds (**67%**) of business leaders believe that net-zero supply chains are dramatically increasing in value, and more than three in five (**64%**) believe that acquiring sustainability skills through M&A is crucial to succeeding in the future. This point is validated by the results of the **Climate Change and the People Factor report** we published in 2021, which found that, as companies mature their thinking around their climate strategy, the process will uncover the lack of suitable talent in the market. Almost two-thirds (**65%**) of business leaders said that M&A activist campaigns are on the rise in response to the global climate emergency.

Currently, sustainability places sixth among the top ten priorities when assessing M&A targets, with **72%** of business leaders identifying it as a priority. We expect this proportion to increase over the coming years as it continues to climb up the business agenda and companies come under increasing pressure to improve their ESG performance. But it is not just environmental concerns that business leaders are focusing on; the “S” in ESG is increasingly important, with a target’s diversity, equity and inclusion strategy seen as an important attribute by **68%** of business leaders.

Acquirers’ increasing focus on ESG issues such as sustainability performance and diversity and inclusion policies also links to the emphasis on brand and reputation: While ESG might not be the driving force behind every deal, business leaders are mindful of reputational pollution and ESG performance bleeds into reputational considerations.

**Herbert Short, (US) International Partner and Global Co-Lead of ESG:** *“There are countless stories in the news that validate that ESG and sustainability are driving M&A activity: global oil and gas companies acquiring clean energy and electric vehicle assets as they pivot their strategy to align with the energy transition; the world’s largest private equity firms bolstering their sustainable solutions funds to acquire and expand their green portfolios; and companies looking for forest land assets to acquire and trade for carbon offsets.*”

*“Additionally, much of brand and reputation, which ranked at the top of the list, is built on ESG factors. Brand and reputation may speak to a target’s reputation for training and retaining its employees, giving back to the local community, having a diverse board, engaging in climate-positive activities, sourcing sustainable raw materials, or having a governance structure that commits to narrowing pay gaps between genders and between executives and employees. All these factors, and many more, go toward a company’s brand and reputation – and all of them are ESG issues.”*

# Part three: M&A headwinds in 2022

*With historic levels of capital available to deploy and stagflation restricting organic growth, the time is right for organizations to leverage strategic M&A as a direct route to progress and securing the resilience of their supply chains.*

In order to do this against the backdrop of today's broader geopolitical context (which includes the ongoing effects of the pandemic, rising protectionism and the war in Ukraine), comprehensive due diligence is more crucial than ever in investigating the stability of a target's value factors.

## COVID-19

The dip in M&A activity at the beginning of 2020 is largely considered to be a blip triggered by COVID-19 uncertainty, with M&A activity rebounding quickly. However, dealmakers admit that the pandemic continues to impact global economies, supply chains and business strategies, and seven in ten business leaders believe the ongoing uncertainty of the COVID-19 pandemic (including its financial impact) is still a significant challenge to their organization's M&A activity. This is felt most strongly among business leaders within the energy sector (**74%**).

*"The pandemic seized our market for a few months and deal activity slumped for a short time, but activity will come roaring back. The fundamentals of M&A activity will remain largely the same, and there is actually more money available to spend in private equity."*

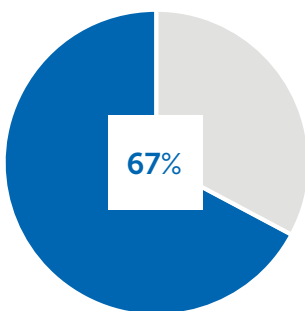
**Kevin L. Freeman** | Chief Counsel  
Securities & Transactions | Tenneco

## Protectionism

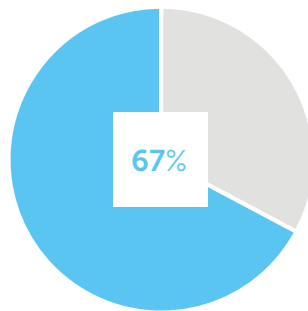
M&A activity is happening in the context of an increasing number of protectionist policies, trade conflicts and merger controls, and two-thirds (**66%**) of business leaders believe the rise of protectionism is creating an unstable environment for M&A – rising to **70%** in the energy sector. International measures are a major impediment to the speed and ease with which cross-border deals can manifest, with regulations negatively impacting the way foreign investment takes place and limiting the opportunity for organizations looking to acquire targets outside their own jurisdictions.

**James Lindop, Partner:** *“Achieving foreign investment or national security approval is fundamental to M&A, and there is a heightened focus on foreign investment scrutiny with new regimes – especially in the UK – coming into play. We’re seeing many deals which, on the surface, seem unlikely to cause any problems. Nevertheless, they end up falling squarely within one of the 17 mandatory sectors in the National Security and Investment Act. As a result, a notification has to be made and clearance must be obtained before the deal can close.”*

### Protectionism is impacting M&A in many ways:



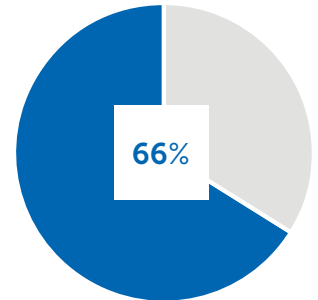
67% of business leaders believe that protectionist policies are reducing cross-border M&A activity due to increasing complexity.



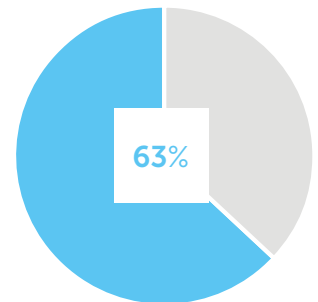
67% of business leaders believe that protectionism is making exposure to growth markets harder.

### Policy and legislation are a significant challenge to M&A activity:

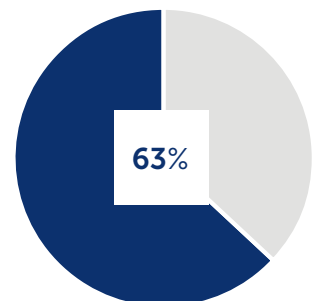
66% of business leaders are concerned about obtaining foreign direct investment due to enhanced regulation.



63% of business leaders are concerned about the post-Brexit economic and regulatory environment.



63% of business leaders are concerned about navigating a complex tax environment.



*“Protectionism is certainly having an impact on deal timelines. For example, approvals for a multi-country deal are now taking much longer. We are also seeing these checks occurring more often, and there are even instances where organisations might not enter a certain market due to increased protectionism. I predict that we will see a larger number of joint ventures where a local or national majority owner will work with a minority stakeholder to adhere to local protectionism legislation.”*

**Kristiina Janhunen** | Director | M&A and CSD Legal | Nokia

## Ukraine crisis

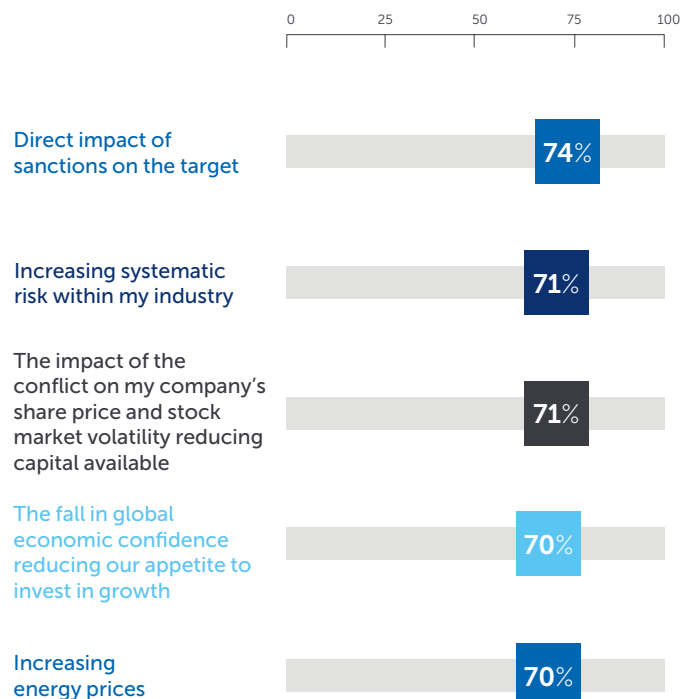
The geopolitical landscape has been shaken dramatically in 2022 with the outbreak of the war in Ukraine. The subsequent uncertainty – including the war’s inflationary impact on supply chains and commodities – has made pricing M&A deals more challenging, causing dealmakers to pause and reflect on value.

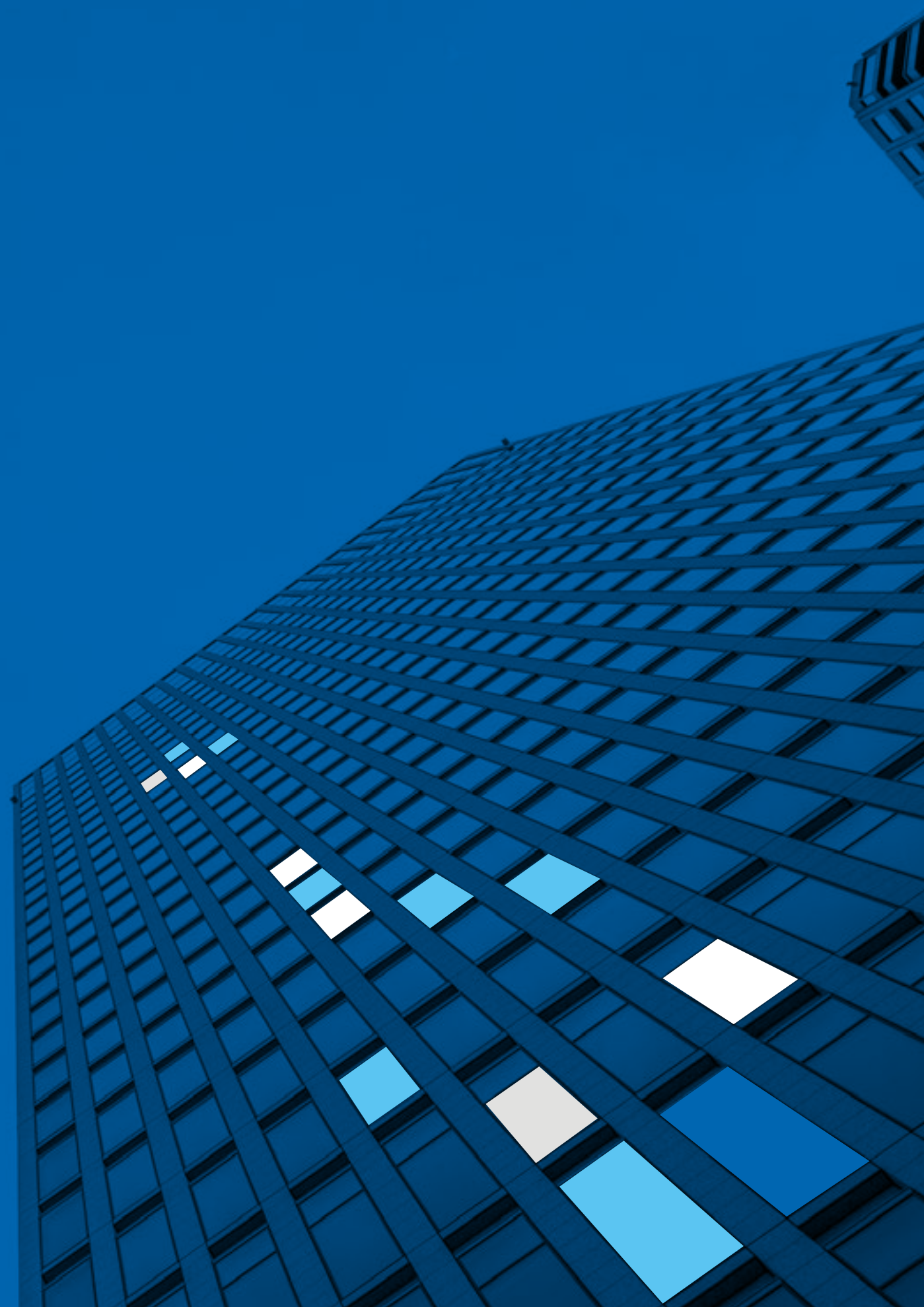
Our supplementary research revealed that **67%** of business leaders believe the conflict has reduced their organization’s investment in M&A activity. Almost two-thirds of business leaders agreed that M&A activity was already slowing in 2022 following a record 2021, and stated that the war in Ukraine has decelerated activity even further. Sixty-five percent of business leaders said that they are seeing deal timelines significantly increase due to the war in Ukraine.

Business leaders said that the war is impacting deals in multiple ways. Almost three-quarters (**74%**) said that the Ukraine crisis is influencing M&A activity due to the direct impact of sanctions on the target. Seventy-one percent of business leaders said it is affecting M&A activity due to the increasing systemic risk within their industry, and **71%** agreed that it is having an impact due to the influence on their share price and stock market volatility reducing the capital available.

**Antony Walsh, Partner,** “The events taking place in Ukraine are a sobering reminder of the human element in business. It is no surprise that we are seeing the war having an impact on the M&A market, mainly because deals are often made or broken based on employee buy-in. It’s natural that there has been caution amongst our clients resulting in deal timelines slipping. That said, geopolitical events tend to be digested quickly by the market as business leaders reassess and reposition. Brexit was an example of another big market shock that caused ripples immediately but smoothed out fairly quickly, and we predict the same for 2022 and beyond.”

## How is the ongoing war in Ukraine having an impact on M&A activity?





# Summary

Against a complex economic landscape of rising interest rates, stock market turbulence and geopolitical uncertainty, M&A offers business leaders an opportunity for growth by bridging critical capability gaps. Today, talent, tech and trade are the factors that combine to create the new M&A triarchy that is inspiring deals and are cited by CEOs and CFOs as the areas that are currently the most essential for protecting and growing their businesses.

With rising inflation driving down valuations and reducing both shareholder willingness to sell and buyer commitment to previous offers, business leaders claimed that a target's brand and reputation is what sets it apart. In difficult market conditions, familiar brand names and established reputations are seen as a robust investment and have the power to increase what buyers are prepared to pay for a target.

Although markets are actively navigating the lingering effects of the pandemic, rising protectionism legislation and the impact of the war in Ukraine, there is a historic level of capital available and an appetite for M&A activity that is predicted to increase. Business leaders who effectively manage and mitigate the associated risks will be primed to realize their strategic priorities and maximize their organization's value.



## Key takeaways



### 1. **Diligence:**



With an increasing number of risk factors, particularly those associated with financial value, reputation and supply, it has never been more important to carry out thorough due diligence. Targeted diligence in particular concerning regulatory issues is essential to properly assess timing and process issues over and above the usual evaluation of risk and value.

### 2. **ESG:**



As ESG moves up the agenda in boardrooms, so too will it be more fundamental in M&A activity. From the quality of governance structures in a target to social reputation and performance on net zero targets, ESG will impact the value of deals because it directly affects brand and reputation.

### 3. **Timelines:**



Deals are taking longer to complete, so extra time should be planned to receive regulatory approvals, including Foreign investment screening and merger filings. Regulatory approvals have, in certain cases, moved from a condition to completion to a pre-deal “go/no go” consideration.

### 4. **Integration:**



Making sure cultural alignment and desired synergies are created will require significant investment of time and resources in integration. Particular attention should be paid to ensure the target’s talent feels sufficiently aligned to the aims of new owners.

### 5. **Deal team:**



Much of the success of a deal can be down to the team you build around you – either as a buyer or a seller. Ensure you have a team that has the experience and confidence to help you address the difficult issues your organization will be confronted with. The increased complexity of deals and the wide range of risks currently facing dealmakers makes securing the right partners absolutely vital.

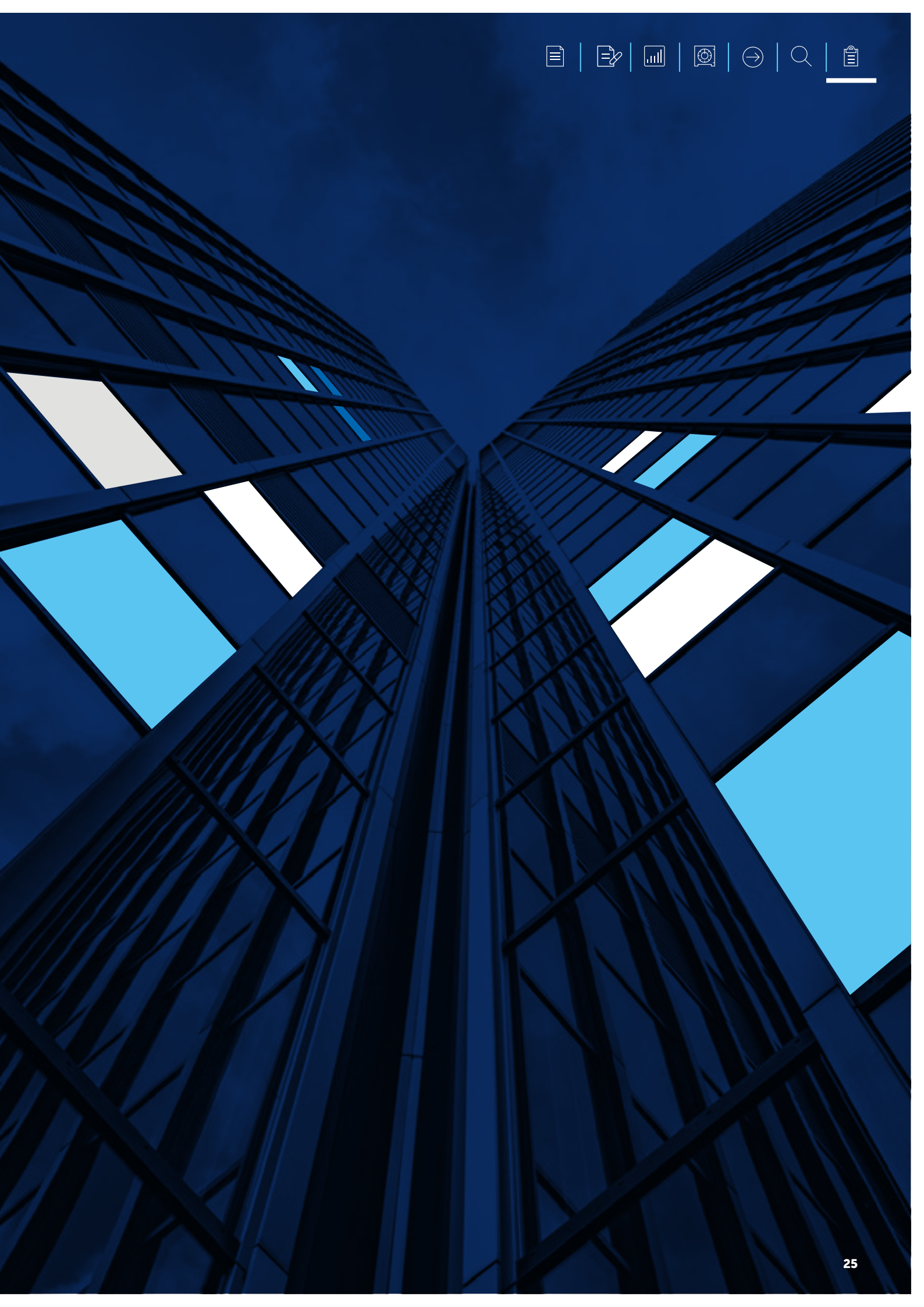
# About the study

This global study explores strategic M&A, revealing the next drivers of competitive advantage. Opinion research was conducted in early 2022 among 1,200 senior business leaders across the world. Respondents were based in the US, the UK, Germany, France, Spain, Italy, Netherlands, Ireland, UAE, Qatar, China, Hong Kong, Japan, India, South Korea and Singapore. A wide range of sectors were also covered within the research, including financial services, professional services, industrials, TMT, energy, consumer and life sciences. A supplementary piece of research was conducted in April 2022 among 75 business leaders from the same markets and sectors to provide insights on how the ongoing war in Ukraine is impacting M&A activity. To ensure that they were able to answer the questions provided, all respondents in both surveys said that they had an appetite for M&A.

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*Putting the pieces into place: the next drivers of strategic M&A* is based on in-depth research commissioned by Eversheds Sutherland, designed by Eversheds Sutherland and Man Bites Dog.





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