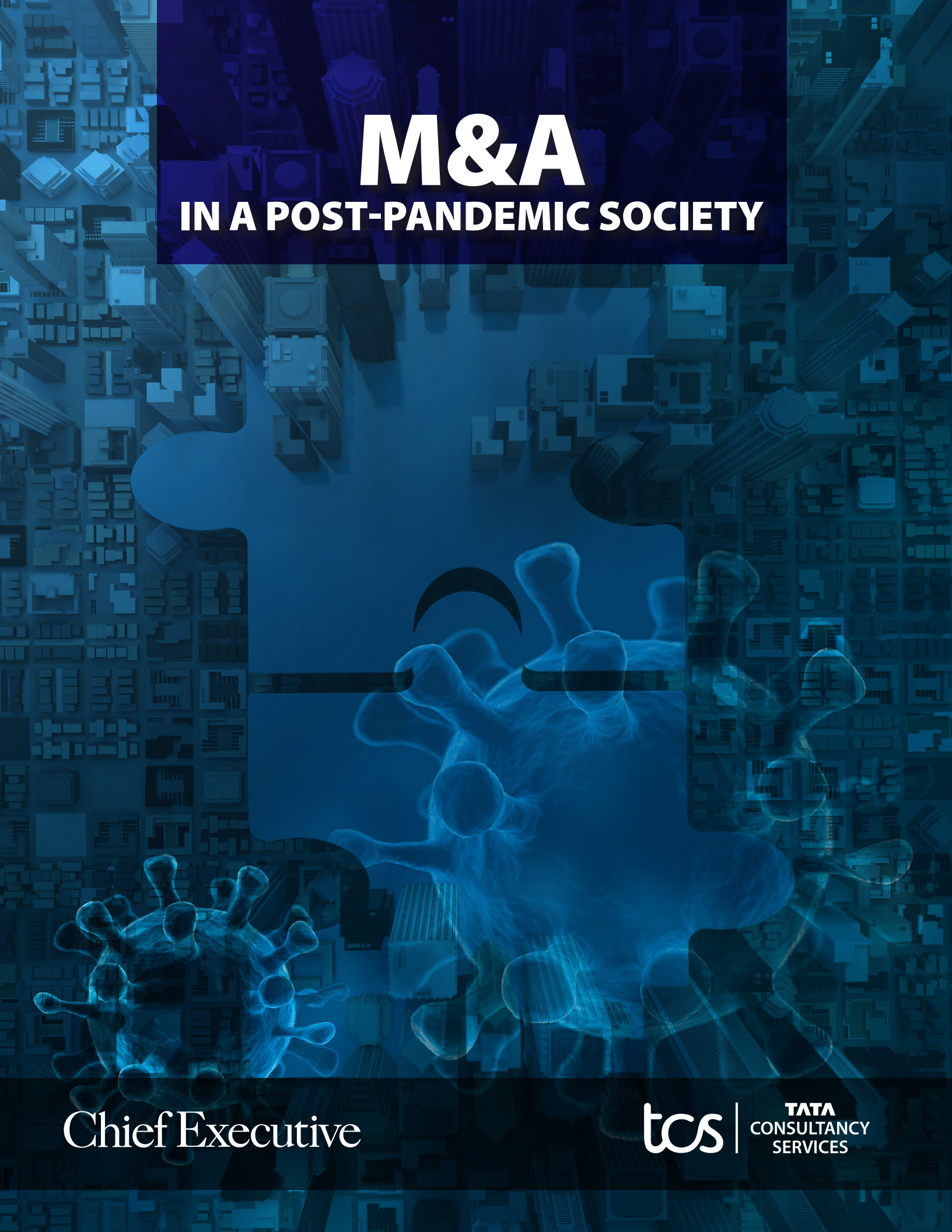
M&A
IN A POST-PANDEMIC SOCIETY



Chief Executive

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Following an initial slowdown in March when the pandemic first arrived, deals have been ticking up ever since, putting the year not that far behind, all things considered. According to Dealogic, 2020 saw 6,707 U.S. transactions worth $1.1 trillion as of November 10th, compared with 8,752 transactions totaling $1.6 trillion for the same period in 2019. Recent weeks have seen a burst of M&A activity; if that's any indication, 2021 is likely to be a big year for deal-making as consolidation picks up and cash-rich companies with solid balance sheets look for opportunity.

And in times of economic decline, there is typically a spike in joint ventures and strategic partnerships, which allow companies to go on the offensive and get to scale more quickly, while reducing the amount of capital either partner must lay out to achieve results.

But as with everything else following the global pandemic, all forms of deal-making are more likely to return to a "new normal" than to the past. At a roundtable discussion that took place at the 2020 Chief Executive of the Year virtual event, CEOs of companies from disparate industries discussed their strategies for acquisition and partnership, particularly to get to scale on digital reinvention, and how social unrest has shone a brighter spotlight on culture alignment between partners.

Most agreed that the world won't be returning to the pre-pandemic economy any time soon, but rather, moving toward a new beginning. While there already existed macro trends toward automation and digitalization, those were "put on the fast track" thanks to Covid, said Patrick Dempsey, CEO of Barnes Group, an industrial and aerospace company based in Britsol, Connecticut, which has been acquiring with an eye toward becoming a more tech-enabled enterprise. "What we're doing now is integrating these separate acquisitions to create a total value proposition that is greater than the sum of the parts, with a heavy emphasis on how to build out recurring revenues through smart connected products and digital services that ultimately could create a new set of revenue streams for the company," Dempsey said.

The pandemic has accelerated the trend toward digital transformation for nearly every industry, even those that had been lagging, said Marie Ffolkes, CEO of TriMark, which provides design services, equipment and supplies to the foodservice industry. As Covid shut down many of TriMark's business customers, including hotels and corporate offices, the company suffered a 60% drop in revenue, virtually overnight. But Ffolkes noticed that some companies in the industry were actually faring well. "Chain restaurants like the Chipotles, the Chick-fil-As, they were growing in double digits," she said. "So we're now looking to go on the offensive," with a strategy that will include partnerships with and acquisitions of digital players. "We need that because many foodservice people are home at night and are buying stuff online."

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Financial services also experienced the pressure to adapt to a virtual world, said Albert Ko, CEO of Early Warning, a fintech that protects banks from fraud, and is owned by seven of the country's largest banks. Before Covid, 80 percent of accounts were still opened in a branch. "As you might imagine, it's very different now and there's a very broad understanding that it will never be the way it was. Many organizations were not prepared," said Ko, who is from a software background, rather than financial services. "This has forced us to adapt massively. Digitization is real."

Ko said his company plans to use M&A to ramp up its data savvy. "We are looking at way more sophisticated data analytics and machine learning, which can yield far better outcomes and ingest far more varied sources of data," he said, adding that the proliferation of digitally native companies has created an excellent opportunity to "acqui-hire" top talent for less. "Digitalization is a rising tide for us. With the uncertainty in the markets, certainly there are winners, but there are also losers out there that have a lot of great talent, but don't have quite the data set or the business model to survive. That's what we're looking for."

"We've done a number of those," said Bob Biesterfeld, CEO of C.H. Robinson, a logistics solutions provider with nearly $20 billion in freight under management. "There's more money coming into freight technology today than there is in virtually any other industry. The digitalization of freight is happening at a rapid pace. So we

tend to look through the lens of build, buy or ally."

Freight has traditionally relied on an inefficient model, said Biesterfeld, but "data is the new oil for freight technology. "The more data that we can feed into the machine, the more effectively we can serve [our customers] and optimize supply chains. So we continue to kind of look through those lenses to drive our acquisition strategies."

Given the inherent risks involved in M&A, some companies are looking at joint ventures and partnerships as a way to get some of the benefit without a lot of the expense and risk. Stanley Bergman, chairman and CEO of Henry Schein, a solutions company for dental and medical professionals, says he attempts to work with partners any time the company delves into a new area—which is often. "It's the best way to learn," says Bergman. In one recent example, the company bought into a joint venture of one of its customers, the California Dental Society. "We want to help practitioners deal with their challenges in Covid. In this case, the business was a terrific web site with unique capabilities. So we bought into that business, enabling us to partner with our customers and advance digital purchasing in our industry."

Even when not an official joint venture, partnerships are a way to collaborate and share expertise in a way that benefits not only both sides but society at large, said Roger Shedlin, CEO of Optum Medical Benefits Management, a UnitedHealth Group Company, which partnered with the National Comprehensive Cancer Network. "They had a great asset, the best ways to treat cancer patients. So we partnered with them and digitized their work to create a point-of-care decision-support tool that helped distribute that knowledge to providers," said Shedlin. "So that's an example of us using technology along with collaboration and we believe it's really benefiting cancer patients, large numbers of them, in a meaningful way."

Companies are increasingly partnering with their own customers, suppliers and even competitors, sharing data to mutually solve problems. Ko offered his own company as an example of industry level coopetition in financial services. "We have direct feeds into almost every checking account in America," said Ko. "These are companies that compete fiercely with one another and would not [otherwise] share [this data] with one another, but it's for a defined set of purposes."

While disparate companies are indeed partnering to achieve defined goals, several CEOs noted during the discussion that values will play a key role in the success of those collaborations. Whether looking at a strategic partnership, a formal joint venture or a merger, if the two companies don't share similar values, said Bergman, it won't work. "It could be the most strategic acquisition, but values have moved up in the minds of your team members in a significant away in the last six months, and likewise your customers' minds. So for all these JVs [and mergers], you better do due diligence on the values. If you're aligned, good—if not it can blow up in your face."

That's true in B2B as well, said Biesterfeld who noted that his employee base is largely Gen Y and Gen Z. "They want to know our company has a pulse, a mission, a vision, a value—and they want to know what we stand for," he said. "We've had a lot of opportunity to share that, with Covid, racial injustice and social unrest, like no time in my experience, are people saying, what do we stand for? What do we as business represent to communities and how are we using our voice to advance society outside our core function? That's become a real expectation of our people and we as a leadership team owe it to our people to demonstrate that commitment outside of shareholder value creation."

AlixPartners Managing Director Ted Bililies agreed. "[Employees] want to talk about what their company stands for and their values," he said. "Clients are coming to us and saying, 'How do we make an inclusive culture and have those conversations?' But there isn't a preplanned roadmap. You have to look at the existing culture, whatever the creation story is for the company, and weave into that a more inclusive way to have the dialogue."

The heightened focus on social issues—and the increased expectation that companies will take a position on those issues—has put pressure on CEOs to determine how much to speak out. Being vocal on political matters can put a company in the spotlight, for better or worse, and can impact revenue as well as partnership potential. Tamara Lundgren, chairman and CEO of Schnitzer Steel

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Industries, noted that where she would once have said CEOs have no place talking about politics unless they directly related to the business, she's "become a convert" to speaking up and speaking out about what they believe in. "But we run the risk of CEOs becoming personalized representatives of a view without necessarily having the foundational elements of respect for debate. So I think it's a very tricky time to navigate."

Schnitzer Steel had laid a foundation for respectful dialogue a couple of years ago with "culture conversations," Lundgren explained. At every one of the company's facilities, they brought together small groups of employees without managers, facilitated by human resources, to have a conversation about the company's culture. "So when systemic racism came to the forefront, people were getting together and talking about it," she said. "You have to invest in a process, without calling it that, that gets people talking to each other about things that are on their minds and that can lead to things that are difficult."

"As CEO my opinion on conservative or liberal is irrelevant," said Biesterfeld. "My goal is to build a culture where we invite difficult conversations about race, religion, sexuality. And how do you invite those conversations into the workplace in a respectful way. Because once you have inclusivity right, diversity becomes the business imperative that comes out of that. It's an incredibly important sequencing—inclusivity will drive the diversity of thought."

And diversity of thought is a must to achieve innovation, noted Frank Diana, managing partner and futurist with TATA Consultancy Services. "The fastest path to innovation at scale is to include that diversity of thought in our processes," he said, adding that whatever industry one is in, all companies "are going to run into a place where our businesses have to be reimagined at some point. If you were just looking at the future scenarios that are emerging, the disruptive potential over the next decade is very high. So how does M&A, how does divestiture play a role in helping us reach that reimagined place?"

In the near term, certainly, success is going to come back to resilience and adaptability, Diana said. "In the world we're in, the nimble survive and speed of innovation becomes the differentiator. The pandemic is accelerating the inevitable."

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