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How Your Firm Can Benefit from the Rebound in the M&A Market

By Richard Smith, Tractus Asia Limited

The last five years have been characterized by an extremely strong global Mergers and Acquisitions (M&A) market, with deal volumes and values hitting all-time highs in 2019. Along with economic growth, the M&A market came to a screeching halt in 2020, driven primarily by the Covid-19 crisis, although global political and trade tensions arguably contributed somewhat to the decline. M&A deal volumes and values tanked in Q2 2020, representing the worst quarter since Q3 2009 in the aftermath of the 2008 Global Economic Crisis but rebounded strongly in Q3 and now into Q4 of this year. Many businesspersons are wondering, what is driving the rebound in M&A ahead of the economic recovery, and how can their firms benefit.

IMF Real GDP Growth for Selected Economies

	2020	2020	2025
World Output	-4.4	5.2	3.5
USA	-4.3	3.1	1.8
Europe	-8.3	5.2	1.4
Emerging Asia	-1.7	8.0	5.9
Philippines	-8.3	7.4	6.5
Thailand	-7.1	4.0	3.7
Malaysia	-6.0	7.8	5.0
Vietnam	1.6	6.7	6.6
China	1.9	8.2	5.5

Source: World Economic Outlook Update. International Monetary Fund, October 2020

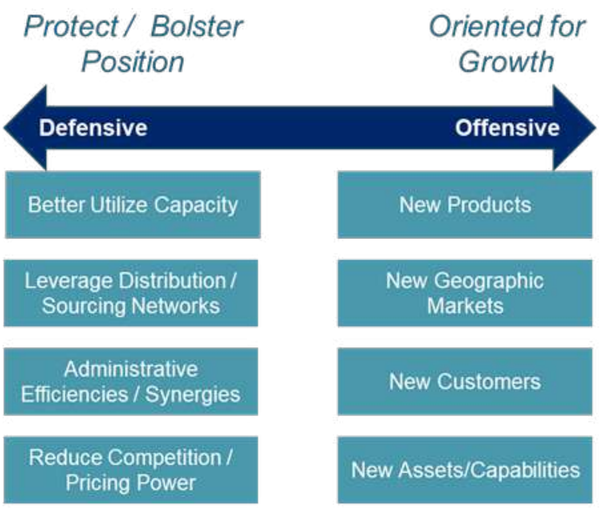
According to World Bank, the global economy is forecast to shrink in 2020 by 4.4% (and Thailand by over 7%). At Tractus, we have a fairly pessimistic view on the near- and mid-term outlook for the global and Thai economies for the following reasons:

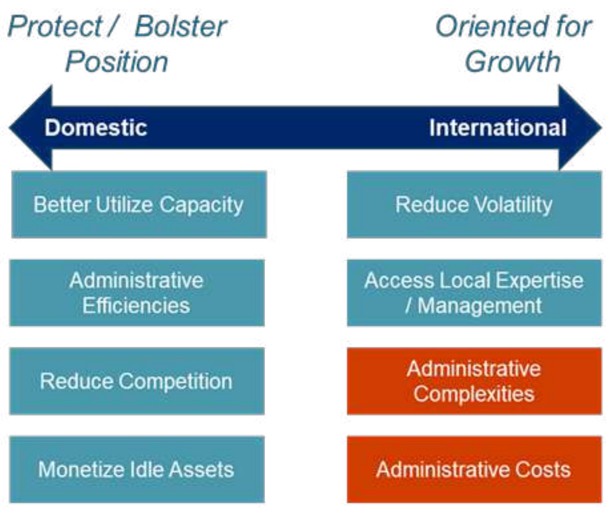
- While much has improved in some countries, the virus is still running rampant in many key markets (such as the U.S.), with little hope that the conflagration will be brought under control until a vaccine is widely available (probably around Q2 2021).
- Unemployment is still ravaging many parts of the world. Domestic markets are reeling and as the U.S. consumer drives a significant portion of global consumption (and with high unemployment and no financial rescue package in sight), we cannot count on the U.S. consumers coming to the rescue in the near-term.
- Political and trade tensions, both locally and globally, as well as global social unrest in many parts of the world, are not conducive to strong economic growth. These issues will not disappear in the near term.
- Thailand, in particular, is hit hard by the collapse of tourism and the knock-on effects to the many sectors (such as hospitality, entertainment, travel, etc.), dependent on international visitors. Export markets are not offering any near-term relief and political instability continues to hinder growth prospects. Thailand is, and will continue to be, an economic laggard in the region.

There are some unique factors to this economic downturn, however, which have resulted in a fast rebound in M&A activity.

- Stock markets are at all time-highs…the cost-of-capital for firms is quite low
- Interest rates are at all-time lows…corporate borrowers are not heavily burdened with the cost of debt
- Corporates are cash-up…with U.S. non-financial corporates holding a record high 4 trillion U.S. Dollars of cash at year-end 2019
- Private Equity players are also sitting on a record amount dry powder…reaching 2.5 trillion Dollars in 2019

Indeed, the last four months have seen a rash of new deals. According to Alison Harding-Jones, of Citigroup, in a recent Financial Times interview, “For high-quality companies…there’s an inordinate amount of interest.. companies hit hard by the pandemic are using deals to become bigger, stronger, more diversified, and better





insulated". Due to travel restrictions, most deals so far have tended to be domestic focused but international deals are expected to increase rapidly as businesspeople become more comfortable with remote meetings and travel restrictions eventually ease next year.

Approaches to M&A

While megadeals are currently getting the press, SME Thai-based firms should be taking a serious look at strategic M&A. For the reasons mentioned above, valuation multiples for quality companies have not declined as expected in most markets and there is a scarcity of quality companies on the market. Business owners looking to sell in these conditions will benefit. Furthermore, achieving organic growth is very difficult in slow growth markets (as you need to take business away from a competitor), so M&A may be the only realistic alternative.

While smaller firms may not have the financial resources to fund acquisitions, non-cash share deals (mergers) are a very viable option. The benefits of share deals include:

- No need for cash
- Immediately become a larger company
- Reduce price competition
- Increase customer base
- Synergies/economies-of-scale
- Broaden management team depth
- Improved corporate governance
- Can liquidate or spin out idle assets
- Prepare the business for a sale/exit for the next up cycle

Now is a good time for Thai based firms and business owners to consider both defensive and growth strategies via the various mergers and acquisitions options to not only weather but prosper from the current economic storm. ■

About The Author
Richard Smith brings more than 25 years of corporate finance experience to Tractus. He is particularly adept at sell-side deal structuring and transactions as well as mergers. Richard has and continues to work across a range of industries with a particular focus on cross-border transactions and bridging the gap between owner-entrepreneurs and corporate/financial/institutional investors. He works on both the buy and sell side of deals and most of his recent M&A projects involve family-run or owner-operated businesses. Richard may be contacted at Richard.Smith@tractus-asia.com

About Tractus Asia
Tractus Asia (www.tractus-asia.com) is a leading Pan-Asian strategy advisory and consulting firm that helps executives make informed decisions to achieve their business goals and objectives in Asia.