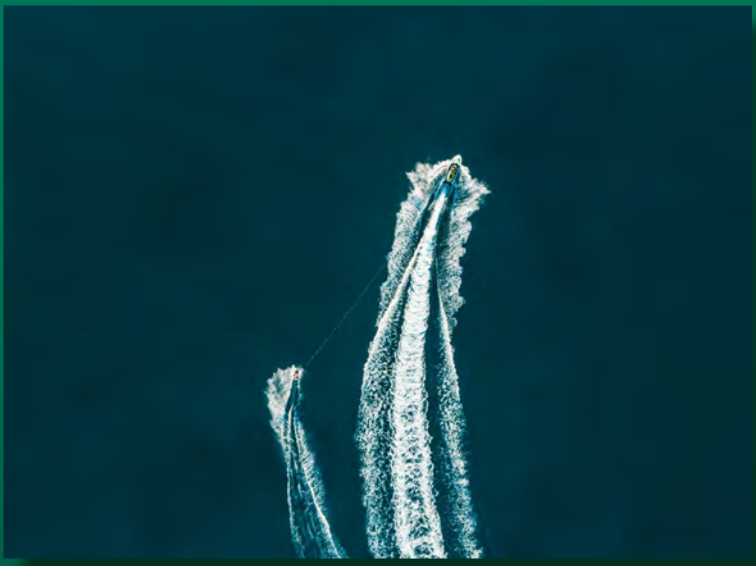
The 2020 M&A Report

Alternative Deals Gain Traction



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The 2020 M&A Report

ALTERNATIVE DEALS GAIN TRACTION

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EXECUTIVE SUMMARY

The 2020 M&A Report takes stock of an eventful first nine months of the year and looks ahead to how the COVID-19 crisis might shape the new reality for M&A in the coming months and years. In this context of disruption and uncertainty, we examine the increasing popularity of alternative deals. In these deals, rather than acquiring control of and integrating a target, companies acquire minority stakes or establish cooperative arrangements—such as through joint ventures, strategic alliances, or corporate venture capital investments. Alternative deals have been and will continue to be important tools for gaining access to capabilities—so that companies can address not only the current pandemic-induced crisis but also ongoing trends such as technology-driven disruption and the convergence of industries.

It has been an eventful period, to say the least, since our previous annual M&A report. Deal-making activity generally held steady in 2019, with modest single-digit declines in deal value and volume. The decline in activity accelerated in the first four months of 2020, as supply chain disruptions caused by the initial virus-related lockdowns in China proved to be harbingers of the full-scale global economic crisis that lay ahead. Once the magnitude of the COVID-19 crisis became clear, M&A activity shut down as swiftly and abruptly as the overall global economy. And just as the global economy has gradually revived to some extent, so, too, has M&A activity.

In this environment, dealmakers increasingly see alternative deals as effective ways to pursue strategic goals and reduce risk. But, as we shall discuss, a lack of experience among many dealmakers means that they will need to climb a learning curve to capture the benefits.

To analyze alternative deals, we focused our research on joint ventures and alliances (JV&A). We collected a comprehensive data set comprising approximately 180,000 JV&A deals, covering the period January 1990 through June 2020. Of these deals, 75,544 met our study criteria. Leveraging our M&A database of more than 810,000 deals, we also analyzed classic M&A deals, covering the period January 1980 through June 2020. In addition to *our quantitative analyses, we conducted two surveys to ask corporate dealmakers about their experience and opinions related to alternative deals.*

Although alternative deals and classic M&A represent significantly different deal structures, our research revealed important similarities with respect to investor perceptions and success factors. Investors reward experienced JV&A dealmakers with higher returns, just as they do for experienced dealmakers in classic M&A. Moreover, alternative deals have failure rates similar to those of classic M&A, as well as similar success factors, such as thorough deal execution and dedicated deal teams. Perhaps most important, it is clear that alternative deals are not a passing fad—they are here to stay as essential approaches to creating value through corporate transactions.

2019 was the calm before the storm.

- The number of deals and deal value fell by 5% and 4%, respectively, in 2019 compared with 2018. Deal volume and value were also slightly down compared with the average of the past five years, but they still exceeded the most recent ten-year average. Activity was fueled by 38 megadeals (deals valued at $10 billion or more), compared with 32 in 2018.

- Deal multiples—enterprise value divided by EBITDA—held steady in 2019: a median of 13.8x, versus 13.7x in 2018. That was lower than the all-time high of 15x set in 2017, but higher than the long-term average of 12x. Acquisition premiums, on average, rose to 29.0% in 2019 (versus 24.1% in 2018).

The pandemic disrupted deal making in 2020.

- M&A activity started slowly in 2020 and then declined sharply when the pandemic took hold—deal volume in April 2020 was 80% lower than in December 2019. As of mid-September, there had been only 15 megadeals in 2020 (compared to 27 in the same period in 2019). None exceeded $50 billion in value, and only 10 have been announced since mid-March.

- Across industries, deal volume declined in each sector by 15% to 30% in the first half of 2020 compared with the same period in 2019. However, deal value was actually fairly strong in some sectors, such as financial services, owing to larger deals announced before the onset of the pandemic.

- For transactions that were not paused or abandoned, the economic crisis swiftly reduced valuation multiples. In the first eight months of 2020, the median deal multiple was 10.5x (versus 13.8x in 2019). Acquisition premiums, in contrast, rose to 30.8%—surpassing the long-term average of 30.7%.

A historical comparison offers reason for cautious optimism.

- Initially, the drop-off in M&A activity in the current crisis was worse than in the 2008–2009 financial crisis. But a clearly discernible uptick occurred during June through August, as monthly deal activity returned to the lower end of normal levels.

- Indeed, the uptick in M&A activity that began in June, including the resurgence in megadeals, suggests that the M&A market has turned the corner in recovering from the crisis—although a return of major COVID-19 lockdowns would likely set back the recovery.

However, many dealmakers expect a prolonged period of low volume and depressed deal prices.

- Among dealmakers surveyed by BCG, nearly two-thirds do not expect to see a full turnaround in deal volume and prices earlier than next year.

- Even so, survey respondents said that they see attractive opportunities—approximately 75% said that downturns are as good or better environments for value creation through M&A than "normal" times.

Divestitures and distressed deals will increase significantly.

- Some companies that have taken on high debt burdens in the crisis will want to quickly reduce their debt load by divesting businesses (especially those outside their core or those with a disrupted business model) once M&A activity picks up and valuations rise.

- The number of distressed deals, in particular, is likely to increase as the downturn continues and companies struggle with high debt loads. This is a concern especially for industries encountering disruptions, whether disruptions caused by the pandemic or ongoing disruptions that predate the crisis.

Private equity and venture capital may quickly recover.

- The number of private equity (PE) deals in April 2020 was more than 70% lower than in December 2019. PE firms pulled back despite sitting on record amounts of dry powder and facing at least some pressure to invest their committed capital. Looking ahead, we expect PE deal activity to gain more traction toward the end of 2020.

- A similar dynamic is playing out for venture capital (VC) investments. The number of deals fell significantly in the first half of 2020, while capital invested remained relatively stable. Because VC firms also have record amounts of dry powder, we expect startup funding to rebound quickly.

Bold strategic acquirers will seize opportunities.

- Our research shows that deals done in a downturn outperform. Examining the 2008–2009 global financial crisis and its aftermath, we found that the sweet spot for large transformational deals occurred as soon as uncertainty subsided. At that point, funding became available and market volatility decreased, but targets were still available at a discount.

- And being bold clearly helps. Our research has shown that acquiring companies outside of the core business during a downturn helps to position a company for success during the recovery. Examples during the 2008–2009 crisis included PepsiCo's acquisitions of its two largest bottlers and BlackRock's acquisition of Barclays Global Investors.

The pandemic may accelerate longer-term trends.

- The monetary policy measures implemented to combat the economic crisis mean that low interest rates will persist, which supports deal making on the buy side.

- Digitization and other disruptive technological megatrends—such as advanced analytics, artificial intelligence, automation, and big data—will continue to be very relevant or become even more relevant in the postpandemic world.

- In some industries, strong companies will continue their efforts to gain market share or reduce overcapacity by engaging in small serial acquisitions and large-scale mergers. In others, the convergence of industry sectors, such as mobility and technology, will continue to promote deal making.

- The pandemic might contribute to the reversal of globalization, considering that international borders were quickly closed and cross-border supply chains became vulnerable. However, the regionalization of supply chains will not necessarily diminish M&A activity in the short term.

- Taken together, these developments and trends—short, medium, or longer term—may drive a need for talent and capabilities that promotes not only classic M&A but also alternative deal types such as joint ventures, strategic alliances, and corporate venturing. Indeed, the crisis appears to be accelerating the trend of using such alternative deal types.

Minority deals are becoming more common.

- The most common alternative deals are those in which the buyer acquires a minority stake. During the past several years, the number of minority deals in total and as a share of all deals increased to about 35%, up from 20% to 25% dating back to 1990. The share of minority deals has peaked in turbulent times, such as 2009 and 2020.

- In some cases, companies structure deals as minority transactions as part of a stake-building process or as a form of co-ownership or co-investment. Companies also acquire minority stakes in the context of JV&A transactions, such as equity alliances or corporate ventures.

Companies are showing renewed interest in JV&A.

- Our deal database shows that 2019 saw an all-time high of 11,000 JV&A deals, comprising 1,600 JVs and 9,400 alliances.

- The recent surge has been driven largely by alliances related to software and IT services, commercial and professional services, and health care equipment and services—indicating that trends such as technological change and the emergence of corporate ecosystems are a motivation. Analyses using Quid, a machine intelligence "discovery tool," confirmed that global trends are a major factor in promoting the increased use of these deal types.

- During the past three years, more than half of all JV transactions globally took place in the Asia-Pacific region, while almost two-thirds of alliances took place in North America.

Corporate venture capital also fuels alternative deal making.

- The use of corporate venture capital investments, a type of equity alliance, has been growing steadily over the past ten years, with 2018 marking the peak. In 2009, companies invested $5 billion of corporate venture capital, compared with roughly $85 billion in 2018 and $60 billion in 2019. The number of deals has steadily increased as well.

- Corporate venture capital has also grown as a share of the overall VC market. In recent years, corporate venture capital has represented 7% to 8% of all VC deals and about one-quarter of the total VC invested.

- These alliances give established companies access to startups' creativity, new ways of working, and proficiency with new technologies, while startups receive a reputational boost and gain access to established players' markets, customers, and industry expertise.

Motivations and goals are expanding.

- In a recent BCG global survey of dealmakers, approximately 60% of respondents said that they expect alternative deal volumes to rise in the next five years, and another 25% expect them to stay at today's high level.

- The two most commonly cited reasons for the growth of alternative deal making are long-term trends—technology (54% of respondents) and business model change (54%). Many respondents (45%) pointed to risk sharing and/or gaining experience as motivations.

- The findings indicate that the current wave of alternative deals has a much broader range of motivations and goals than previous waves. Rather than addressing specific needs, today's alternative deals have become an essential and sophisticated component of dealmakers' arsenals.

Value creation in alternative deals is a coin toss.

- From the perspective of short-term value creation, investors appear to be increasingly receptive to companies' use of JV&A. From 1990 through mid-2020, announcement returns trended higher for both JVs and alliances. Longer-term value creation has been more challenging, however. Less than half of all JV&A deals create returns that outperform their industry after one or two years (as measured by relative total shareholder return).

- Our survey results reinforce the finding that alternative deals have mixed results in terms of value creation. Respondents said that approximately 40% of alternative deals do not achieve their stated financial and/or strategic goals.

- As the main reasons why alternative deals fail, respondents cited the absence of a clear roadmap for value creation, KPIs, and monitoring mechanisms; the lack of clearly defined and robust governance; and the absence of a clear strategic rationale.

- Companies with significant experience (at least three alternative deals per year) report that 61% of their deals are successful, whereas inexperienced companies (two or fewer alternative deals per year) report that 58% of their deals are successful.

Successful companies adjust to the intricacies of alternative deals.

- Companies that succeed with alternative deals typically have experience—they do 3.1 alternative deals, on average, per year. They also do 2.5 classic M&A deals, on average, per year.

- Almost all successful dealmakers have dedicated M&A teams, and approximately 25% have separate teams or individual staff assigned exclusively to alternative deals.

- Of the most successful dealmakers, 29% use different processes for alternative deals and classic M&A.

- Successful companies give their alternative deal teams full control during the execution phase. These teams also provide strong support during the 100-day plan and postmerger integration phases, and even beyond.

To maximize value from alternative deals, companies should follow a set of best practices.

- Get an early start developing a well-thought-out, long-term plan for alternative deals that advances your overall strategy. Unlike some classic M&A deals, alternative deals do not come out of the blue. Periodically review your plan and stick to it throughout the journey.

- Do not skimp on due diligence, even though that may be tempting given the seemingly lower financial stakes. A detailed and holistic assessment of the target and the overall deal clearly pays off and is as crucial as it is for classic M&A.

- Clearly define, negotiate, and formalize postdeal governance before signing, and make governance a top-management task.

- Use people with explicit experience in alternative deals to negotiate and manage these arrangements, and seek external support, if necessary. A "one size fits all" approach to deal making does not work.

- Define and implement transparent and feasible incentive schemes for key decision makers in the alternative deal process.

COVID-19 DERAILS DEAL MAKING

The COVID-19 pandemic ended one of the longest economic expansions in recent history. Global real GDP growth in 2020 is expected to be –3.9%, according to Bloomberg Consensus Estimates as of early September, compared with a forecast of 3.1% as the year began. This would be the largest decline on record for the global economy. Considering the strong correlation between the real economy and corporate transactions, it comes as no surprise that global M&A activity also experienced a swift and abrupt downturn in 2020. To set the stage for discussing this turbulent year, we begin by looking back at 2019.

2019 Was the Calm Before the Storm

Despite fears of an economic slowdown, global M&A activity saw only modest declines in 2019 compared with 2018—the number of deals and deal value fell by 5% and 4%, respectively. (See Exhibit 1.) Deal volume and value were also slightly down compared with the averages of the past five years, but they still exceeded the most recent ten-year averages.

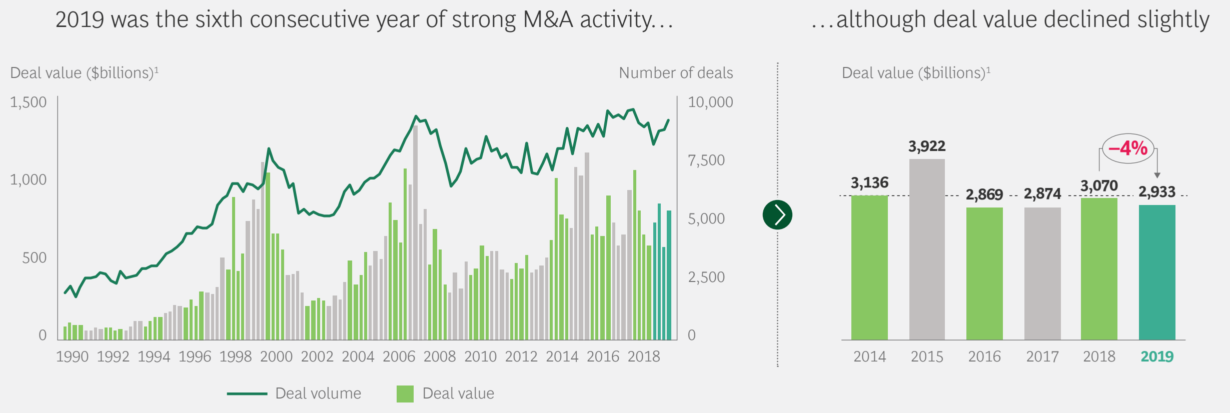
Global M&A activity was fueled by 38 megadeals (deals valued at $10 billion or more), compared with 32 in 2018. Among these megadeals, 28 involved acquisitions of North American companies. These large transactions helped to drive an 11% increase in deal value in the region compared with 2018, while deal volume decreased by 10%. In contrast, only five megadeals were announced in Europe, two of which were withdrawn. The scarcity of megadeals in Europe contributed to a 32% decline in deal value, while deal volume remained about the same as in 2018. Asia-Pacific saw deal value fall by 18% and deal volume decline by 6%. The rest of the world also saw declines in both value and volume.

Despite fears of a slowdown, global M&A activity saw only modest declines in 2019.

In most industries, the number of deals was flat or down (by as much as 12% in the materials sector) compared with 2018. Differences were more pronounced with respect to deal value. Value was down sharply in technology, media, and telecommunications (–51%), and consumer goods (–33%), while large deals drove strong increases in industrial goods (35%), financial services (29%), and health care (25%).

Deal multiples—enterprise value divided by EBITDA—held steady in 2019: a median of 13.8x, versus 13.7x in 2018. That was lower

EXHIBIT 1 | Global M&A Activity Remained Relatively Strong in 2019



Sources: Refinitiv; BCG analysis.
Note: The total of 757,475 M&A transactions comprises pending, partly completed, completed, unconditional, and withdrawn deals announced between January 1, 1990, and June 30, 2020, with no transaction-size threshold. Self-tenders, recapitalizations, exchange offers, repurchases, acquisitions of remaining interest, minority stake purchases, privatizations, and spinoffs were excluded.
[1]Deal value includes assumed liabilities.

than the all-time high of 15x set in 2017 but higher than the long-term average of 12x. (See Exhibit 2). Acquisition premiums, on average, rose to 29.0% in 2019 (versus 24.1%).

The Pandemic Disrupted Deal Making in 2020

M&A activity got off to a slow start in 2020, even before the novel coronavirus spread globally. In part because dealmakers were already concerned about the virus's initial impact in China—including a strict lockdown that disrupted global supply chains—deal volume and value were below average levels in January and February. Then, in March and April, as the COVID-19 pandemic precipitated unprecedented lockdowns around the world, M&A activity declined sharply—the deal volume in April 2020 was 80% lower than in December 2019.

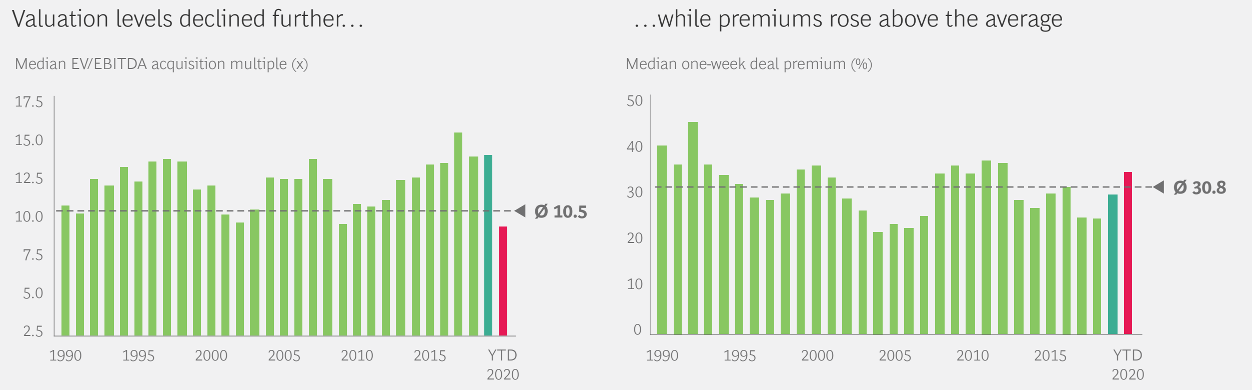
The hard times for the M&A market are reflected in the relative scarcity of megadeals. As of mid-September 2020, there had been only 15 for the year (compared to 27 in the same period in 2019). None exceeded $50 billion in value, and only 10 have been announced since mid-March. The largest deal before the pandemic, valued at $34 billion, was announced in January: Russia's Ministry of Finance, drawing on the country's National Wealth Fund, acquired a controlling stake in PJSC Sberbank from the Central Bank of the Russian Federation.

Two megadeals announced in February may be remembered as the "last hurrah" of the strong M&A market in recent years. In Europe, a consortium that included Advent International, RAG-Stiftung, and Cinven outbid rivals for Thyssenkrupp's elevator business. This deal is valued at $19 billion. In the US, Morgan Stanley announced an all-stock takeover offer for E*Trade, with a deal value of $13 billion.

By the end of February, the COVID-19 outbreak had led to the postponement or abandonment of many deals, as reflected especially in the low monthly figures for March, April, and May. Confronted by increased uncertainty as well as the challenges of executing deals while participants worked remotely, companies shelved many deals—at least temporarily.

In April, for example, Woodward and Hexcel Corporation terminated their planned all-stock merger of equals. The deal, valued at $6.6 billion, would have created one of the largest suppliers in the aerospace and defense industry. The companies cited the need to focus on their respective businesses during the pandemic and the impact of the crisis on their ability to realize the merger's benefits.

Exhibit 2 | Valuation Levels Fell Further from All-Time Highs



Sources: Refinitiv; BCG analysis.
Note: The total of 12,414 M&A transactions comprises completed, unconditional, and pending deals announced between January 1, 1990 and June 30, 2020, with transaction values of at least $25 million and at least a 75% share transfer. Self-tenders, recapitalizations, exchange offers, repurchases, acquisitions of remaining interest, minority stake purchases, privatizations, and spinoffs were excluded. Only deals with a disclosed value were considered.

Also in April, Canada's Alimentation Couche-Tard shelved its $5.9 billion buyout of gasoline station operator Caltex Australia (subsequently renamed Ampol). The companies cited the plunge in fuel demand, as well as their need to look inward to survive the crisis.

The volatility of the situation and the ambiguity of future scenarios confronted buyers and sellers with profound uncertainty on a number of fronts. There were many questions that dealmakers asked but often could not answer, including:

- Can I still afford the deal or do I need to look at my own operations and cash first?
- Do I still have my board's backing to pursue deals, and are the lenders still on board?
- Is my due diligence still valid? Do I need to adjust the business plan and my valuation models to the new situation?

Despite the uncertainty, some dealmakers forged ahead with acquisitions that had been in the planning stages before the crisis. In early March, as market turbulence was taking hold, Thermo Fisher Scientific offered to take over Qiagen in a deal valued at $12.6 billion. A few days later, Aon offered to acquire Willis Towers Watson in a deal valued at $30 billion.

Although equity markets quickly recovered in April and May, M&A activity, especially that involving larger deals, saw a slower recovery. Early May saw the first megadeal after the worst of the market turmoil had subsided. In a long-rumored deal, Liberty Global and Telefonica announced an agreement to combine their respective UK subsidiaries—cable operator Virgin Media and mobile carrier O2—in a 50-50 joint venture valued at $12.6 billion. In June, National Commercial Bank SJSC proposed a merger with Samba Financial Group SJSC valued $15.6 billion. The merger of the two Saudi financial institutions would consolidate the local banking sector, creating the region's third largest bank by assets. The first US megadeal since the onset of the pandemic was announced in July, when semiconductor company Maxim Integrated Products agreed to merge with Analog Devices. The first two all-cash megadeals were announced in early August: 7-Eleven acquired Speedway from Marathon Petroleum for $21 billion and Siemens Healthineers acquired Varian Medical Systems in a deal valued at $16.2 billion. So far, the largest deal after the pandemic outbreak was NVIDIA's acquisition of the semiconductor company Arm for $40 billion, announced in September.

From a regional perspective, North American M&A activity was hit especially hard in the first half of 2020. Compared with the first half of 2019, value was down by 75% and the number of deals by 13%. The picture was slightly different in Europe. Deal value increased by 33%, reflecting the announcement of several large deals in 2020, as well as low deal value in the first half of 2019. Deal volume, however, declined by 28%. Asia-Pacific (and most of the rest of the world) saw declines in both value and volume of around 25%.

Across industries, deal volume declined in each sector by 15% to 30% in the first half of 2020 compared with the same period in 2019. Consumer products experienced the steepest drop, while technology was among the industries seeing a more modest decline. However, deal value was actually fairly strong in some sectors, owing to larger deals announced before the onset of the pandemic. Noteworthy sectors include consumer products with, for example, PepsiCo's bid for Rockstar and 7-Eleven's acquisition of Speedway, and financial services with Aon's takeover of Willis Towers Watson, MorganStanley's acquisition of E*Trade, and the takeover of Sberbank by the Russian Ministry of Finance.

For transactions that were not paused or abandoned, the economic crisis swiftly reduced valuation multiples. In the first eight months of 2020, the median deal multiple was only 10.5x (versus 13.8x in 2019, as shown in Exhibit 2).

In the first eight months of 2020, acquisition premiums rose to 33.8%, surpassing the long-term average of 30.7% (as shown in Exhibit 2). This inverse relationship between valuations and premiums occurred in previous downturns as well. It most likely results from shareholders demanding a higher premium to compensate for some of the losses they incurred during the downturn and for giving up the opportunity to benefit from rising share prices during the recovery.

In the next section, we delve into how the pandemic could affect the outlook for M&A activity.

POST-COVID M&A—A DIP OR A TROUGH?

The pandemic is the starting point for assessing the outlook for M&A activity. In this section, we put the current crisis in historical perspective and present the results of our survey of dealmakers. We also explore the prospects for divestitures and distressed deals as well as private equity (PE) and venture capital (VC) activity. Finally, after considering the opportunities for bold dealmakers, we look at how the crisis is affecting long-term trends.

Checking the Pulse of M&A

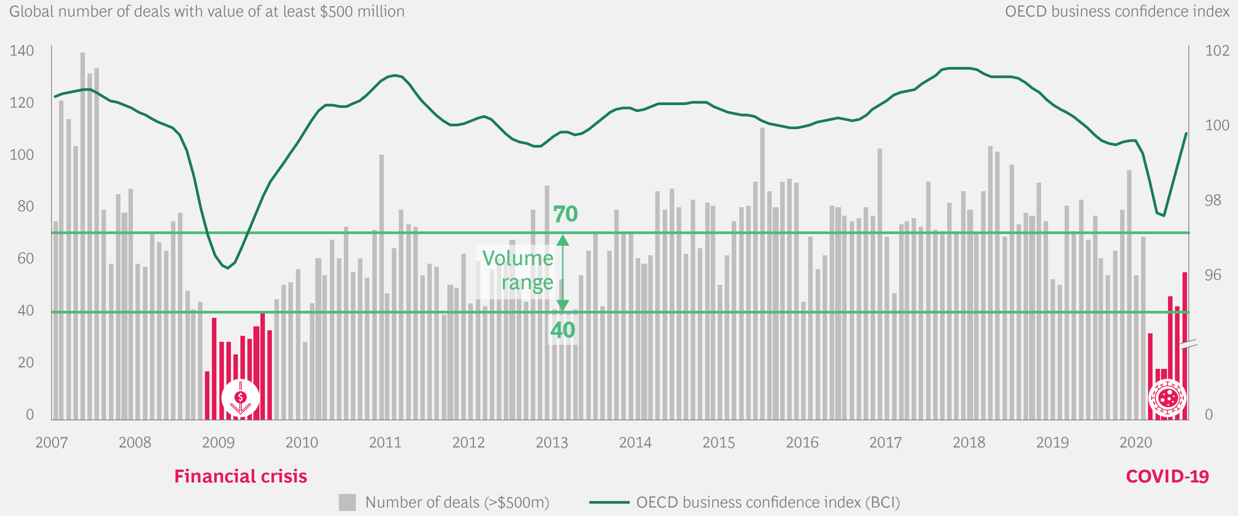
Is there light at the end of the tunnel? A comparison with M&A activity during the 2008–2009 financial crisis offers reason for cautious optimism. Looking at global M&A deals valued at more than $500 million since 2007, we generally see a pace of activity in the range of 40 to 70 transactions per month in the past ten years. Monthly activity fell below this range in consecutive months twice: at the height of the financial crisis in late 2008 through mid-2009 and in the first half of 2020. (See Exhibit 3.) Initially, the drop-off in M&A activity in the current crisis was worse than in the 2008–2009 crisis. But a clearly discernible uptick occurred during June through August, as monthly deal activity exceeded 40 transactions. Indeed, the uptick in M&A activity that began in June, including the resurgence in megadeals, suggests that the M&A market has turned the corner in recovering from the crisis—notwithstanding the risk of additional COVID-19 waves and the potential for a W-shaped recession. However, a return of major COVID-19 lockdowns would likely set back the recovery.

But what is the reality on the ground? To understand M&A decision makers' perceptions of the COVID-19 crisis and how they are thinking about deal making in the downturn, we surveyed global professionals from corporate development and M&A departments across the full range of company sizes. (See Appendix I for details about the survey.)

> Most respondents say that downturns are a good time for mergers and acquisitions.

Many respondents reported that they expect a prolonged period of low volume and depressed deal prices. Nearly two-thirds noted that they do not expect to see a turnaround earlier than next year. And most reported that they have seen companies pulling deals, postponing signings or closings, and renegotiating valuations. However, respondents saw attractive opportunities in this environment—approximately 75% said that downturns are as good as or better than "normal"

Exhibit 3 | Monthly M&A Volume Has Already Recovered in Line with Business Confidence



Sources: Refinitiv; OECD; BCG analysis.
Note: The total of 3,033 M&A transactions comprises pending, partly completed, completed, unconditional, and withdrawn majority deals announced between January 1, 2007, and August 31, 2020, with deal values greater than or equal to $500 million. Values include assumed liabilities.

times for value creation through M&A. Importantly, they recognized that success requires understanding the complexity of the current context and taking a holistic and thoughtful perspective. In many respects, the survey results confirm our previous analyses of how crises and downturns can be a game-changing moment for bold dealmakers.

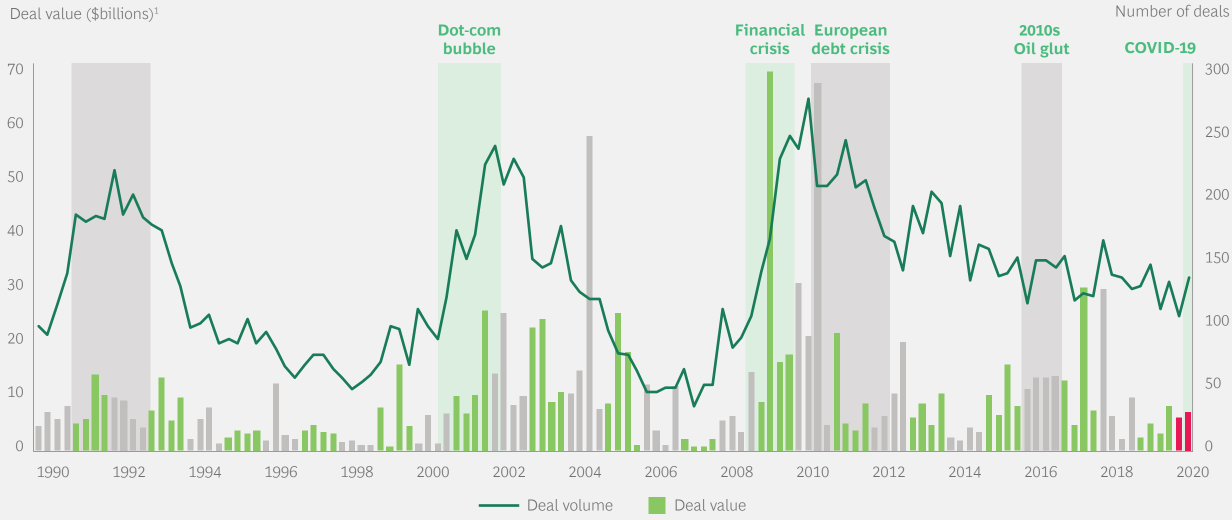
Divestitures and Distressed Deals Will Increase Significantly

We expect the number of corporate divestitures to rise significantly in the short to medium term. Many companies will come out of the downturn with high debt burdens. Among the hardest hit are airlines and other companies involved in travel and tourism, as well as specialty retailers. Companies that have suffered or are still suffering from the adverse impacts of the pandemic and the lockdowns have sharply lower cash levels and stretched debt levels. They had to use up their debt capacity to generate enough liquidity to keep their businesses running—potentially in addition to debt arising from government assistance. These highly indebted companies might quickly want to reduce their debt load, not only by optimizing free cash flow (though reduced capex and other measures) but also by divesting businesses (especially businesses outside their core) once M&A activity picks up and valuations rise.

Some companies that cannot achieve a healthier balance sheet through divestments or other measures may face insolvency during the next few months or quarters. In previous crises, the number of distressed M&A deals began to increase a few months or quarters after the downturn started. (See Exhibit 4.) The lag occurs because companies first try other actions to cope with the downturn, such as reducing expenditures, obtaining new financing, or exploring strategic options. Moreover, even when they turn to M&A, they need several weeks to prepare for deal making.

We expect to see a growing number of distressed deals as the current downturn continues. As noted earlier, to increase their cash cushion during the crisis, many companies have used all available levers—including available credit lines—to generate additional liquidity. Cash generated by operations and divestitures may not be sufficient to meet interest and debt repayment obligations. The expected increase may also result from companies finding that their business models are disrupted—either in the short and medium term (as is the case for the international travel industry) or over the longer term due to trends such as digitization.

Exhibit 4 | The Number of Distressed Deals Increases Sharply Soon After a Downturn Begins



Sources: Refinitiv; BCG analysis.
Note: The total includes 16,134 deals globally from January 1, 1990, through June 30, 2020, where the transaction was part of a bankruptcy, liquidation, and/or restructuring.
[1]Deal value includes assumed liabilities.

Private Equity and Venture Capital May Quickly Recover

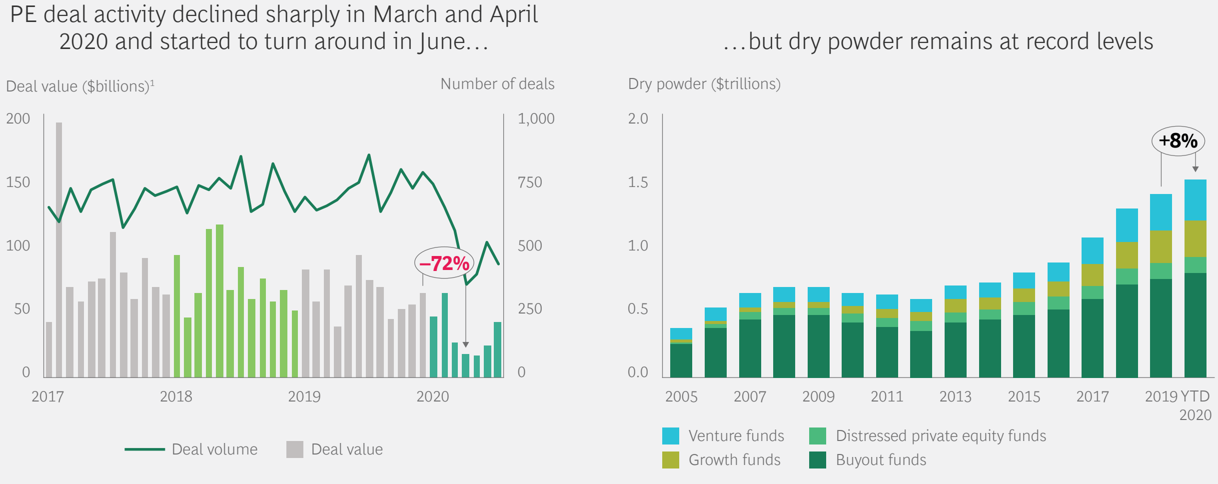
The pandemic also curtailed deal activity by PE firms. The number of PE deals in April 2020 was more than 70% lower than in December 2019. (See Exhibit 5.) PE firms faced uncertainties similar to those that confronted corporate dealmakers, which is reflected in the comparable drop-off in activity. The inability to conduct business as usual—such as face-to-face meetings with the management teams of targets—was a major impediment. A supply disruption also factored into the drop-off, as fewer attractive targets came to the market. PE firms pulled back despite sitting on record amounts of dry powder and facing at least some pressure to invest their committed capital. Additionally, the crisis-induced reduction in valuations in the first half of 2020 forced PE firms to write down the net asset values of their portfolios and to increase holding periods to avoid selling at lower valuation levels.

Instead of making new deals, PE firms gave priority to assessing the impact of the pandemic on their current portfolio. Specific portfolio companies required attention because they were hard hit by the crisis or were in sectors that experienced economic headwinds even before the crisis. Some PE firms have high exposure to heavily impacted consumer sectors, forcing them to inject additional equity into some companies. Other highly leveraged PE portfolio companies have needed additional financing or, potentially, government assistance.

PE firms are taking steps to react to the pandemic's impact on their current portfolio companies. For example, some firms have sought to reduce risk levels in the portfolio by deleveraging some assets or bringing on co-investors for some portfolio companies. The consortium bidding for Thyssenkrupp Elevator, for instance, sought additional investors for the equity portion of the deal in order to share the investment risk. Firms that resolve or gain control of issues with the portfolio will resume looking for ways to invest their record levels of dry powder. Many senior PE executives will likely recall that some of their most successful deals were the investments they made during the 2008–2009 financial crisis.

PE firms are pursuing a variety of crisis-related opportunities. For example, in May, EQT acquired Schülke & Mayr, a German company that focuses on products and processes to prevent contamination and infection, among other offerings. Some firms are

Exhibit 5 | Private Equity Firms Pulled Back Despite Record Levels of Dry Powder



Sources: Refinitiv; Preqin; BCG analysis.
Note: PE deal activity includes buy-side and sell-side involvements of financial sponsors.
[1]Deal value includes assumed liabilities.

funding companies that need short-term liquidity. For instance, KKR started to adapt to the new situation in May by raising roughly $4 billion for its "Dislocation Opportunities Fund," which will invest in the corporate debt of struggling companies. And, in June, Bain Capital acquired Virgin Australia out of administration, expecting a recovery of the airline industry.

To minimize risk and take advantage of lower market valuations, PE firms may not only invest in more senior instruments (such as providing credit) but also increasingly team up with other financial sponsors or companies for consortium bids or joint takeovers. For example, in June, Cinven, KKR, and Providence Equity Partners teamed up to acquire MásMóvil Ibercom, a Spanish telecom company.

Looking ahead, we expect PE deal activity to gain more traction toward the end of 2020. And over the next one to two years, as the future course of the pandemic becomes clearer, PE firms may have an opportunity to snap up corporate divestitures. A large number of businesses may become available as companies deleverage by exiting noncore businesses or owners look to exit when the transactions market opens up and valuation levels recover. And some PE firms are already scouting out attractive targets.

A similar dynamic is playing out for VC investments. The past few years saw strong increases in startup funding, in terms of the number of deals as well as the capital invested. Levels peaked in 2018 and stayed high in 2019. The pandemic altered the trajectory. The number of deals fell significantly in the first half of 2020, while capital invested remained relatively stable.

Because the business model deployed by startups requires regular rounds of funding to foster growth, some of these young companies have been hit hard by the economic downturn. Indeed, some unicorn startups have laid off employees. In this environment, VC firms also focused on addressing issues in their current portfolio rather than scouting for additional targets, just as PE firms are doing. Reflecting the aversion to pursuing new targets, the total value of growth and late-stage funding has proven to be more resilient than angel and early-stage investments during the first half of the year.

However, because VC firms have record amounts of dry powder, we expect startup funding to rebound quickly. In the meantime, corporate acquirers may have opportunities to participate in attractive funding rounds or even to buy startups, including some that may have already been on their radar in recent years.

Bold Strategic Acquirers Will Seize Opportunities

Our research shows that deals done in a downturn outperform, as we discussed in the 2019 M&A Report. Examining the 2008–2009 global financial crisis and its aftermath, we found that once uncertainty subsided and deal financing became available (which happened fairly quickly), some dealmakers summoned the courage to push ahead with large-scale transformational transactions. (See Exhibit 6.) In terms of market timing, this might have been the sweet spot: funding became available and market volatility decreased, but targets were still available at a discount.

We have found that acquiring companies outside of the core business during a downturn helps to position a company for success during the recovery. For example, in 2009, PepsiCo seized the opportunity to transform its business model by acquiring its two largest bottlers, The Pepsi Bottling Group and PepsiAmericas. The transactions added sales and distribution to PepsiCo's traditional manufacturing business. The announcement pointed to the potential for significant growth opportunities and improved operational efficiency, resulting in projected pretax synergies of approximately $400 million per year by 2012. And investors seemed to agree with this move: PepsiCo's share price jumped 5.1% on the day the company announced a final agreement with both target companies (while the S&P 500 was flat on the same day).

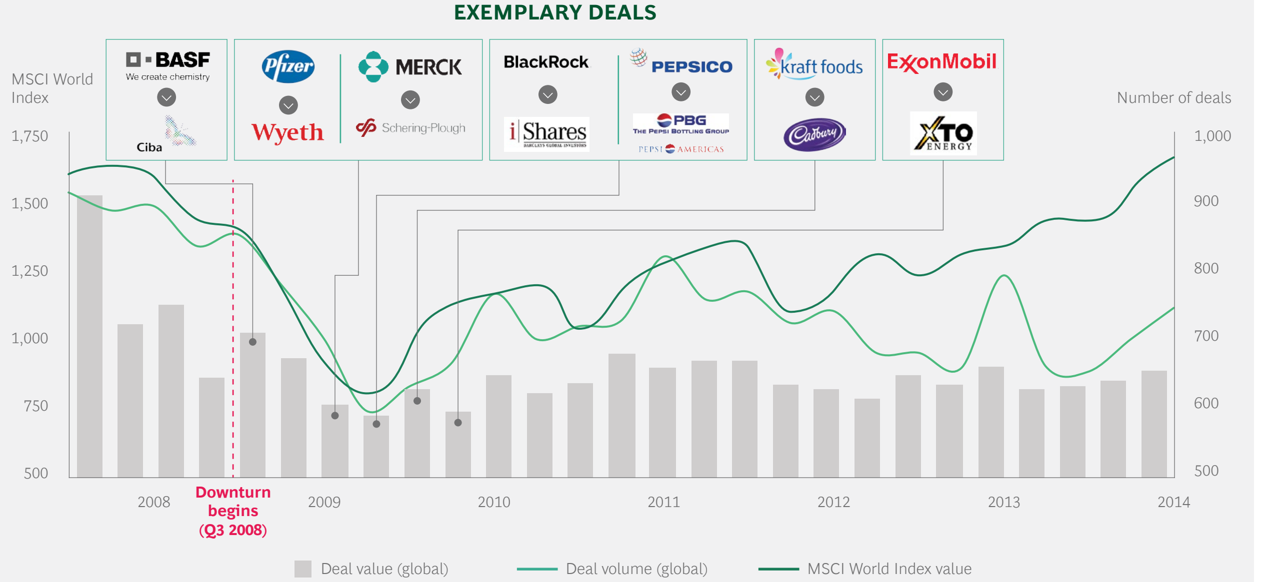
Additional examples of transformative deals during the financial crisis include BlackRock's acquisition of Barclays Global Investors (through which BlackRock expanded from its core business of active management into passive investment management) and Kraft's takeover of Cadbury (which allowed Kraft to increase the scale of its snacks business, especially in emerging markets).

We already see indications that companies consider the current environment to be favorable for transformative deals. Two deals highlighted in the previous section—Siemens Healthineers' takeover of Varian and 7-Eleven's acquisition of Speedway—may, in retrospect, be seen as the first large transformative deals emerging from the current crisis.

Longer-Term Trends May Accelerate

The pandemic has not materially disrupted most of the longer-term trends that are affecting many sectors and deal making. In fact, it may even accelerate them.

EXHIBIT 6 | Bold Dealmakers Pursued Transformative M&A During the Financial Crisis



Sources: Refinitiv; S&P Capital IQ; BCG analysis.

- **Low Interest Rates.** The monetary policy measures implemented to combat the economic crisis mean that low interest rates will persist. Along with the high levels of cash that some companies will still hold after the crisis and plentiful dry powder among large investment firms, the low interest rates will support deal making on the buy side.

- **Disruptive Technologies.** Digitization and other disruptive technological megatrends—such as advanced analytics, artificial intelligence, automation, and big data—will continue to be very relevant and may even grow in importance in the postpandemic world. To some extent, the pandemic has provided a tailwind for these trends as businesses shift to remote work and invest in further automation to avoid human contact. To take advantage of opportunities in e-commerce, 5G networks, the internet of things, and autonomous driving, among other disruptive trends, companies must make deals to acquire and procure the related technology, talent, and capabilities.

- **Industry Consolidation and Convergence.** Likewise, the pandemic will not disrupt the trends toward industry consolidation and convergence. On the consolidation front, strong companies will continue their efforts to gain market share or reduce overcapacity by engaging in small, serial acquisitions (rollups) and large-scale mergers.

  The boundaries between some sectors are blurring, leading to the convergence of previously distinct business sectors. Convergence has been the motivation for a number of recent deals. In the UK deal discussed earlier, for instance, O2 (a mobile carrier) and Virgin Media (a cable operator) joined forces to gain scale, share investments, and expand their offerings. We have also seen a blurring of the distinction between mobility companies and technology companies. Ride-hailing apps (such as Uber, Lyft, and Didi) and developers of self-driving vehicles (such as Waymo, a subsidiary of Alphabet) have entered the sphere of automakers and other traditional mobility players.

- **Deglobalization and Other Trends.** In recent decades, globalization has encouraged cross-border M&A as well as joint ventures and alliances (JV&A). However, the past several years have seen a reversal of this globalization, as some countries have become more protective, political uncertainty has increased, and takeover regulations have imposed higher barriers. The pandemic might contribute to deglobalization, considering that international borders were quickly closed and cross-border supply chains became vulnerable. Although the long-term impact of deglobalization remains uncertain, the regionalization of supply chains will not necessarily diminish M&A activity in the short term.

  Additionally, other megatrends—such as sustainability, urbanization, population aging, and disruptive geopolitical changes —will continue to have longer-term impact on deal making in the affected industries.

Taken together, these developments and trends—short, medium, or longer term—will encourage unconventional deal making and the emergence of corporate ecosystems. Technological disruptions and industry convergence, for example, may drive a need for talent and capabilities that promotes not only classic M&A but also alternative deal types such as joint ventures, strategic alliances, and corporate venturing.

Indeed, the crisis appears to be accelerating the trend of using alternative deal types. Among respondents in BCG's M&A Pulse Check survey, more than 75% said they would maintain or increase their JV&A activity and approximately 40% saw the current environment as a time to increase their emphasis on alternative deals. Nearly one-third reported that they had proactively increased their search for such deals. Only 15% of respondents said they were decreasing their emphasis on alternative deals, and 45% were sticking to previous plans. Dealmakers increasingly see alternative deals as effective ways to pursue strategic goals and reduce risk—a development that we explore in depth in the next sections.

THE RISE OF ALTERNATIVE DEAL MAKING

WHAT DO WE MEAN by "alternative deals"? Simply put, they are corporate transactions that are neither classic M&A (in which a company acquires control of a target and integrates it) nor a classic PE deal (in which a firm acquires and manages a company and, eventually, sells it). There are two exemplary, and often overlapping, ways to look at alternative deal trends:

- Minority deals, in which the buyer acquires less than 50% of a company
- JV&A transactions, such as equity alliances and corporate ventures, which often entail acquisition of minority stakes. (See the sidebar "The Basics of Joint Ventures and Alliances.)

Alternative deals have seen a surge in popularity in recent years and seem likely to remain attractive approaches to corporate collaboration during the pandemic-induced downturn as well as during the postpandemic recovery and beyond.

Minority Deals Are Becoming More Common

As discussed in the previous section, greater collaboration among companies and the emergence of larger corporate ecosystems are driving an increase in minority transactions. During the past several years, the number of minority deals in total and as a share of all deals increased to about 35%, up from 20% to 25% dating back to 1990. The share of minority deals has peaked in turbulent times, such as 2009 and 2020. (See Exhibit 7.)

Companies structure deals as minority transactions for a variety of reasons. A minority transaction can be part of a stake-building process in which the acquirer plans to take over the target company, ultimately gaining the majority of the shares and full control. A company typically uses a stake-building process because it does not have funds to acquire a majority stake or it wants to hedge its bets before doing so. A minority stake can also be a form of co-ownership or co-investment between financial investors (such as a consortium bid by PE firms) or between companies and financial investors. Additionally, as noted, a company often acquires a minority stake in the context of a JV&A transaction.

Companies Show Renewed Interest in JV&A

JV&A transactions have been a prominent part of the deal landscape for a long time. They are a useful tool for companies that want to cooperate outside of their core business, whether across borders or across industries. They are also a valuable way to gain the benefits of collaboration when classic M&A is not desirable or feasible, such as

THE BASICS OF JOINT VENTURES AND ALLIANCES

JV&A deals are fundamentally different than classic M&A deals. (See the exhibit.) In classic deals, the buyer permanently acquires all (or at least the majority) of the target's shares, thereby gaining control and the ability to fully integrate the target's business. In contrast, JV&A deals are a form of cooperation (or partnership) between two or more independent entities, although some types of deals involve equity investments.

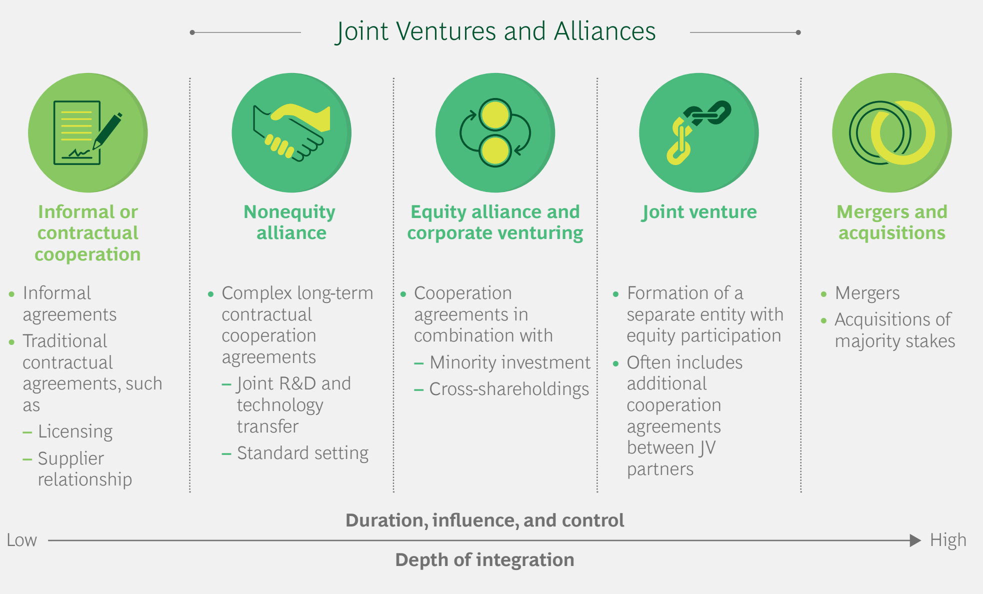
JV&A deals are not straightforward contractual relationships, such as simple licensing agreements or franchise agreements. Instead, JV&A deals comprise several distinct arrangements:

- Strategic **alliances** are based primarily on complex medium- to longer-term contractual agreements that relate, for example, to joint R&D, purchasing, production, or marketing.
  - **Nonequity alliances** are based on contractual agreements and include no equity contribution.
  - **Equity alliances** include an equity contribution in the form of a minority investment or equity swap. **Corporate venture capital** is a form of equity alliance that includes technology transfer or other agreements, usually between an established company and a startup.
- In a **joint venture**, a new, organizationally separate entity is formed—the partners contribute technology, knowledge, other assets, and/or capital.

These flexible deal structures often form the core of a corporate ecosystem that connects the individual participants. In many cases, such ecosystems span across industries and regions.

A JV&A arrangement is more suitable than an outright acquisition when the participants are joining forces for a specific purpose and for a limited period of time (typically 3 to 10 years for alliances and 10 to 20 years for JVs, with automatic extension clauses). In such situations, full

Different Forms of Cooperation Between Businesses



Source: BCG analysis.

THE BASICS OF JOINT VENTURES AND ALLIANCES (continued)

integration would be neither necessary nor desirable. A looser collaboration may also be preferable when partnering with a startup or a company in a different industry, considering the complexity of integration, especially from a cultural perspective. These deal types are also valuable when companies are sharing the risks of an initiative—such as entering a new market or developing a new product—that has diverse and significant investment needs. On the other hand, there are some disadvantages to JV&A, such as higher monitoring costs (good corporate governance is essential), less control, and the need for upfront agreement on how the arrangement will be dissolved, if necessary.

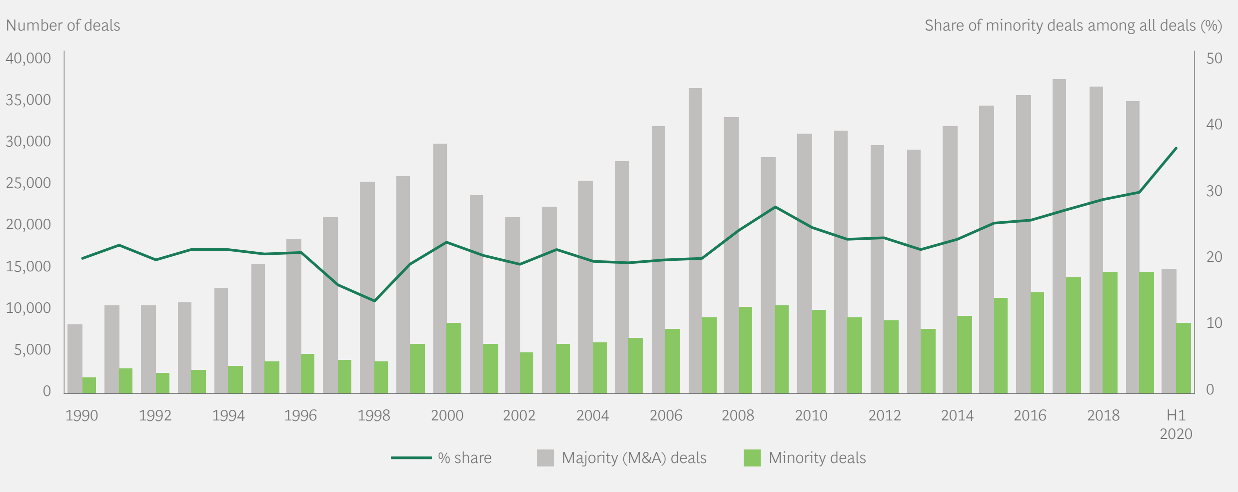
when there are regulatory hurdles. JV&A activity—particularly large manufacturing JVs driven by globalization—surged in the 1990s. For example, in order to gain access to the vast Chinese market, Western companies needed to form JVs with local partners.

The past three years have seen a significant surge in both equity and nonequity alliances. Dealmakers are turning to JV&A to reduce risk, increase strategic flexibility, and tap into markets not readily accessible by other means. Record valuation levels for classic M&A are also likely to have encouraged this trend. Additionally, companies facing unprecedented changes in technology and business models have increased their use of corporate venture capital alliances. In the automotive industry, for example, virtually all OEMs are investing or co-investing in numerous startups that are developing new technologies for batteries and autonomous driving.

Indeed, our deal database shows that 2019 saw an all-time high of 11,000 JV&A deals, comprising 1,600 JVs and 9,400 alliances. (See Exhibit 8.) The recent surge has been driven largely by alliances related to software and IT services (1,900 in 2019), commercial and professional services (1,700), and health care equipment and services (1,300). This indicates that the trends outlined earlier, such as technological change and the emergence of corporate ecosystems, are motivating alliances. During the past three years, more than half of all JV transactions globally took place in the

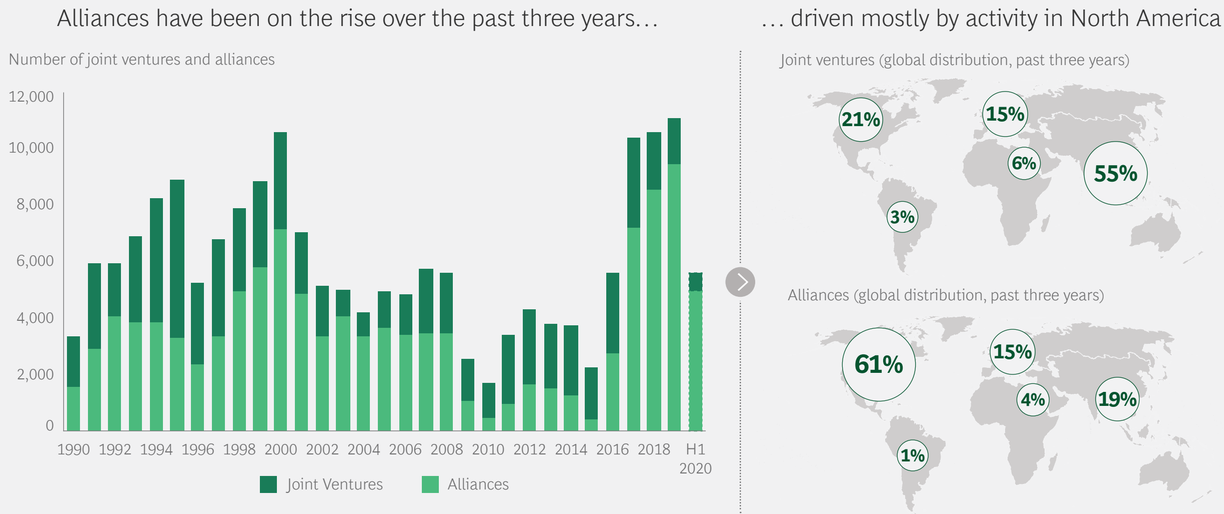
EXHIBIT 7 | The Number of Minority Deals as a Share of All Deals Has Increased

Rising numbers and rising share indicate increased alternative deal activity



Sources: Refinitiv, BCG analysis.

Exhibit 8 | Alliances Are Increasingly Popular, While Joint Ventures Lag



Sources: Refinitiv SDC Platinum and Eikon; BCG analysis.
Note: Changes in Refinitiv's data collection methodology (especially in 2017/2018) may influence apparent trends.

Asia-Pacific region, while almost two-thirds of alliances took place in North America (this closely matches the regional distribution seen over the past 30 years).

Using Quid analyses, we delved deeper into the factors that are motivating JV&A. Analyses confirmed that global trends are indeed a major factor in promoting the increased use of these transactions. (See the sidebar "What Is Driving the Growth of JV&A?")

Corporate Venture Capital Adds Fuel

The use of corporate venture capital investments, a type of equity alliance, has been growing steadily over the past ten years, with 2018 marking the peak. In 2009, companies invested only $5 billion of corporate venture capital, compared with roughly $85 billion in 2018 and $60 billion in 2019. The number of deals has steadily increased as well. This general growth over the past ten years has occurred because an increasing number of companies have set up and expanded venturing teams. (See Exhibit 9.)

In addition to growing in absolute terms, corporate venture capital has increased as a share of the overall VC market. In recent years, corporate venture capital has represented 7% to 8% of all VC deals and about one-quarter of the total VC invested. Because companies tend to invest in mature startups that have provided a proof of concept, they make their investments in later stages and in larger rounds.

We believe that corporate venture capital will continue to be an important way for established companies to collaborate with startups—as will other types of alliances such as innovation labs, incubators, and accelerators. These collaborations enable established companies across the globe to continuously and rigorously innovate and to conquer new markets in order to stay ahead of global competition and disruptive technologies. Rather than following a path of incremental change, these companies are gaining an advantage by collaborating with young, innovative companies. This gives them access to the startups' creativity, new ways of working, and proficiency with new technologies, among many other benefits. In return, startups gain access to established players' markets, customers, and industry expertise—and receive a reputational boost. If done right, the collaboration is a win for both participants.

Motivations and Goals Are Expanding

Like classic M&A, alternative deal making is slumping in 2020 compared with 2019—as

WHAT IS DRIVING THE GROWTH OF JV&A?

To identify JV&A drivers and trends, we conducted a Quid analysis. Quid is a machine intelligence "discovery tool" that mines large datasets and extracts key themes. The themes are visualized in clusters that are named to reflect the keywords that define the cluster. Clusters with related keywords are positioned near each other in the visualization. In this case, we used the Quid analysis to search global news feeds related to JV&A, with each news story representing a node in the Quid clusters.

The past five years have brought a significant increase in the coverage and perceived importance of JV&A—the number of articles in major news outlets increased from 1,900 in 2014 to 3,300 in 2019. The increase is visualized in the greater number of nodes and themes in 2019. (See the exhibit.)

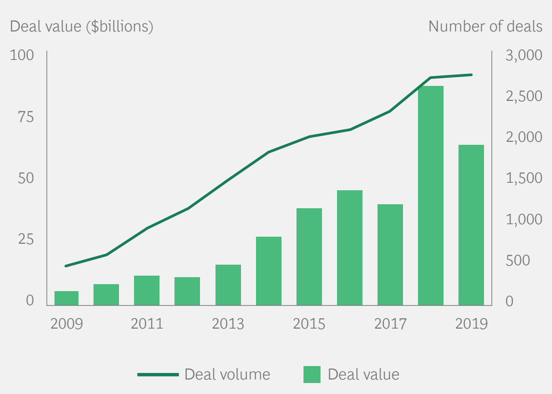
During this time period, several new themes, such as artificial intelligence, have emerged, and others, such as supply chain and logistics, have become more prominent. Other examples of new themes are advanced analytics and electric and alternative propulsion (which are tightly linked to automotive and mobility), blockchain (which gained prominence through the rise of cryptocurrencies and their application in financial services), and cannabis (which is linked to the pharma and biotech clusters). The related industries have seen an uptick in JV&A activity. In contrast, other sectors, such as oil and gas and media and entertainment, have become less important clusters.

The surge in JV&A activity is being fueled, at least in part, by the longer-term trends we discussed earlier, as indicated by the prominence of clusters related to sustainability and digitization:

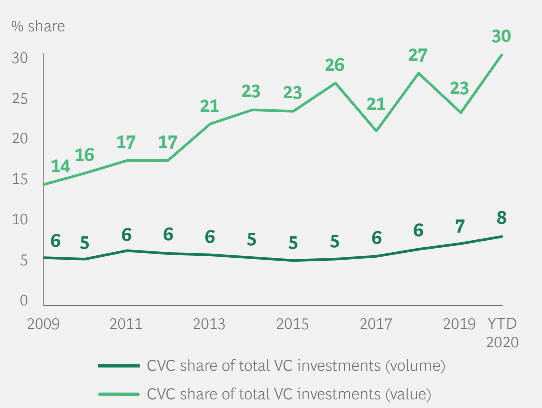
- Sustainability is motivating JV&A formation in many sectors. Its influence is especially visible in real estate and affordable housing, electric and alternative propulsion, and manufacturing and recycling.
- Digitization is a driving force behind almost all identified clusters—and it is likely a major contributor to the recent surge in alliances across all industries

EXHIBIT 9 | Corporate Venture Capital Activity Has Increased Steadily

The number and total value of CVC deals rose steadily over the past decade…



…and these deals now represent about one-quarter of the total venture capital invested

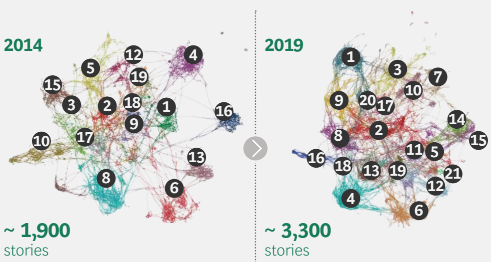


Sources: Pitchbook; BCG analysis.
Note: CVC = Corporate venture capital.

and geographies. Although digitization has been a major economic driver for years, its relative importance for JV&A increased threefold in recent years—from 6% of stories in 2014 to 18% in 2019. Its prevalence clearly underlines the overall importance of digital initiatives across all industries and the value of JV&A in providing access to digital capabilities. Because companies across industries are accelerating digital adoption in response to the pandemic, digitization will continue to motivate JV&A.

Topics and Trends Driving JV&A Deal Making

Semantic analysis of stories related to "joint ventures" and "strategic alliances"[1]



Key trends in 2019

Artificial intelligence and advanced analytics

Electrification

Supply chain and logistics

Share of topic among all stories published

	Topics[2]	2014	2019	
1	Real estate and affordable housing	9%	9%	
2	Retail and e-commerce	7%	8%	
3	Software and cloud	7%	8%	
4	International political initiatives	7%	7%	
5	Manufacturing and recycling	10%	7%	
6	Oil and gas	10%	6%	
7	Artificial intelligence and advanced analytics	N/A	6%	NEW
8	Media and entertainment	10%	6%	
9	Banking and insurance	4%	6%	
10	Health care	7%	5%	
11	Supply chain and logistics	N/A	5%	NEW
12	Renewable energy	5%	4%	
13	Mining and metals	6%	4%	
14	Electric and alternative propulsion	N/A	4%	NEW
15	Automotive and mobility	8%	3%	
16	Airlines	3%	3%	
17	Pharma and biotech	1%	3%	
18	Aerospace and defense	4%	2%	
19	Construction	4%	2%	
20	Blockchain	N/A	1%	NEW
21	Cannabis	N/A	1%	NEW

Sources: Quid; BCG analysis.
[1]Stories related to "joint ventures" and "strategic alliances" were discovered using Quid and clustered on the basis of titles and body text.
[2]Sorted in descending order according to topic's share in 2019.

companies pause in response to the COVID-19 crisis and the recent wave of deal making subsides. However, as noted earlier, our M&A Pulse Check survey found that more than three-quarters of respondents plan to maintain or increase their JV&A activity and many see the crisis creating an opportunity to increase their emphasis on such deals.

We do not believe that the crisis will alter the longer-term positive trajectory for alternative deals. Indeed, we expect alternative deals to continue playing an outsized role in global deal making. This assessment is validated by a recent BCG global survey that examined practitioners' perceptions of alternative deals. (See Appendix I for details about the survey.) Approximately 60% of respondents expect alternative deal volumes to rise in the next five years, and another 25% expect them to stay at today's high level. Only approximately 10% expect a decline in activity.

The two most commonly cited reasons for the growth of alternative deal making are long-term trends—technology (54% of respondents) and business model change (54%). Many respondents (45%) pointed to risk sharing and/or gaining experience as motivations. Significantly fewer respondents (30%) cited globalization and geopolitical changes—an indication that trends counteracting globalization have reduced the importance of cross-border market access as a motivation for alternative deal making.

Taken together, these findings indicate that the current wave has a much broader range of motivations and goals than previous waves. Whereas alternative deals in the 1990s were used to address specific needs—such as entering the Chinese market or jumping on the dot-com bandwagon—today's alternative deals have become an essential and sophisticated component of the dealmaker's arsenal.

The survey highlights several themes:

- Among respondents, 60% regard these deals as valuable for driving growth (beyond organic expansion and outright acquisitions), and 57% see alternative deals as an essential tool for gaining access to new capabilities, such as certain technologies or skill sets (to support digitization, for example). (See Exhibit 10.) Not surprisingly, gaining access to capabilities is a particularly prominent theme in industries at the forefront of technological changes, such as automotive, energy, and aerospace.

- A quarter of respondents (26%) seeks to use alternative deals to broaden their deal funnel (the number and types of potential deals they consider). This gives them access to opportunities that are not available via the relatively blunt instrument of a majority stake.

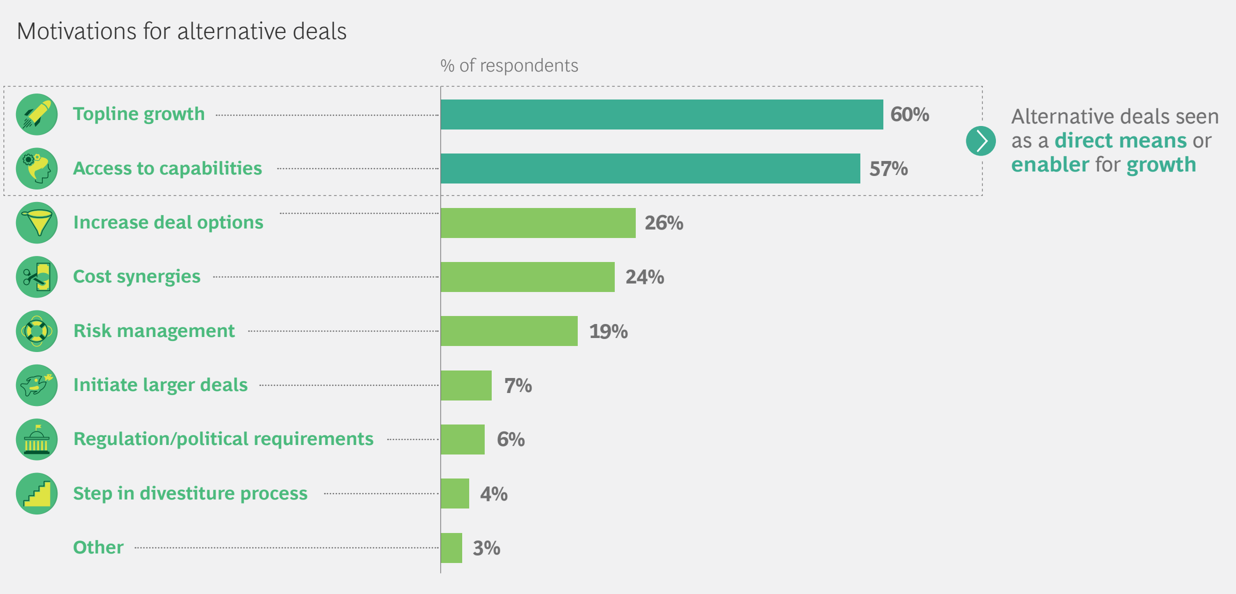
- Beyond such growth-oriented motives, cost and risk considerations are relevant but play less prominent roles. About one-quarter of respondents seek cost synergies. Approximately 20% use alternative deals to de-risk their buy-side M&A strategy, expanding their options for collaboration while avoiding the need to go "all in" on an acquisition sooner than necessary.

- Only 6% of respondents cited compliance with regulatory requirements (the need for local ownership, for example) or less explicit political considerations as motivations, indicating a sharp shift compared with earlier waves of alternative deal making.

Value Creation Is a Coin Toss

The importance of alternative deals is evident from their rise in recent years and the prominent role that dealmakers expect them to have going forward. But is this importance also justified from a value creation perspective? In other words, are alternative deals actually a good deal? To find the answer, we analyzed the performance of JV&A deals. We found mixed results, on average.

EXHIBIT 10 | Growth and Access to Capabilities Motivate Alternative Deals



Sources: BCG alternative deal survey, June-July 2020; BCG analysis.
Note: Sample size n = 86. Multiple answers per respondent were possible.

From the perspective of short-term value creation, investors appear to be increasingly receptive to companies' use of JV&A to enable collaboration or even to replace classic M&A. From 1990 through mid-2020, announcement returns trended higher for both JVs and alliances. (See Exhibit 11.)

Longer-term value creation, however, has been more challenging. Less than half of all JV&A deals create returns that outperform their industry after one or two years (as measured by relative total shareholder return). Even JV&A deals that are signed on the basis of a sound value-creation story and thorough due diligence require swift and rigorous implementation, good governance, and continuous monitoring to create longer-term value. In this respect, they are analogous to M&A deals that must overcome the challenges of integration and synergy realization in order to ultimately succeed. And, as we discuss later, dealmakers' experience in managing the execution of JV&A deals also matters for value creation, just as it does in classic M&A.

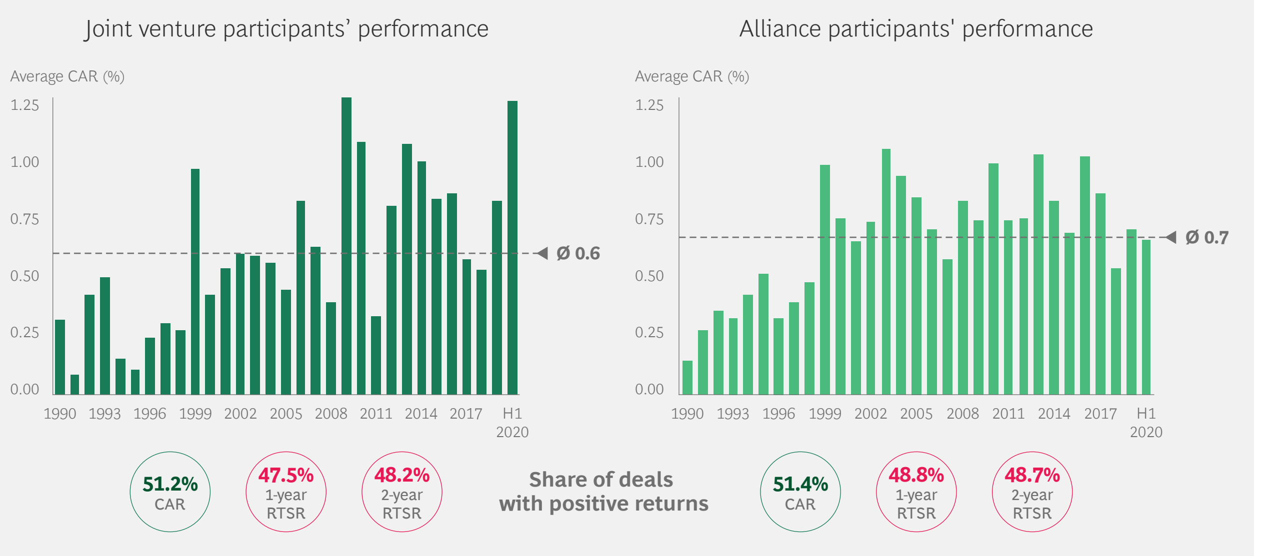
Additionally, our research found that investors seem to appreciate JV&A deals in some sectors more than others. (See Exhibit 12.) Deals in the health care and technology sectors show higher announcement returns than those in, for instance, food, insurance, retailing, or utilities. However, even deals in the underperforming sectors have positive returns.

Deal Execution and Experience Matter

The results of our survey reinforce the empirical finding that alternative deals have mixed results in terms of value creation. Respondents said that from their perspective approximately 40% of alternative deals fail—that is, they do not achieve their stated financial and/or strategic goals. Respondents considered only approximately 60% of deals to be successful once the dust settles (although stock market performance indicates that fewer deals—approximately 50%, depending on the metric—are successful, as shown in Exhibit 11). Alternative deals fared no better than classic M&A with respect to perceived failure and success rates. (See Exhibit 13.)

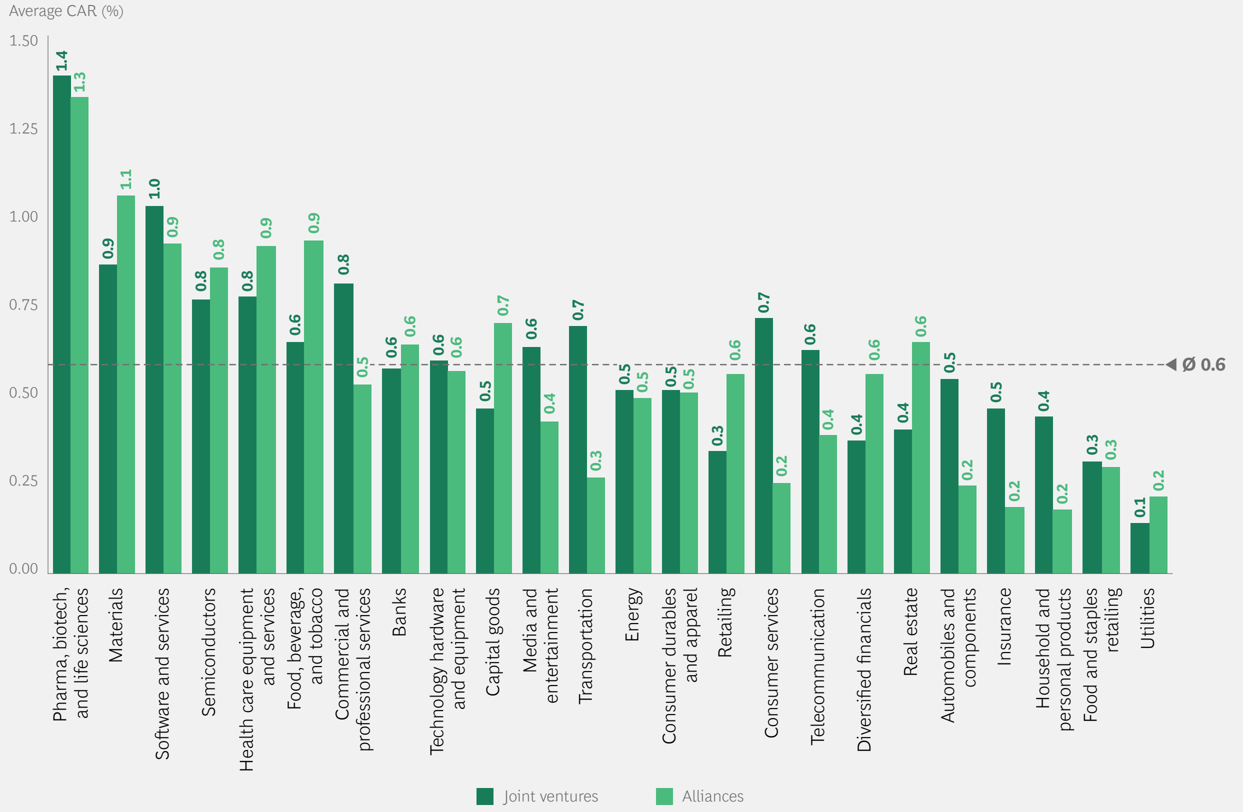
Why do so many alternative deals fail? Survey respondents cited three main reasons. More than one-third (34%) pointed to the absence of a clear roadmap for value creation, KPIs, or monitoring mechanisms. More than a quarter (29%) cited the absence of a clear

Exhibit 11 | JV&A Deals Show Positive Announcement Returns, but Longer-Term Performance Is a Coin Toss



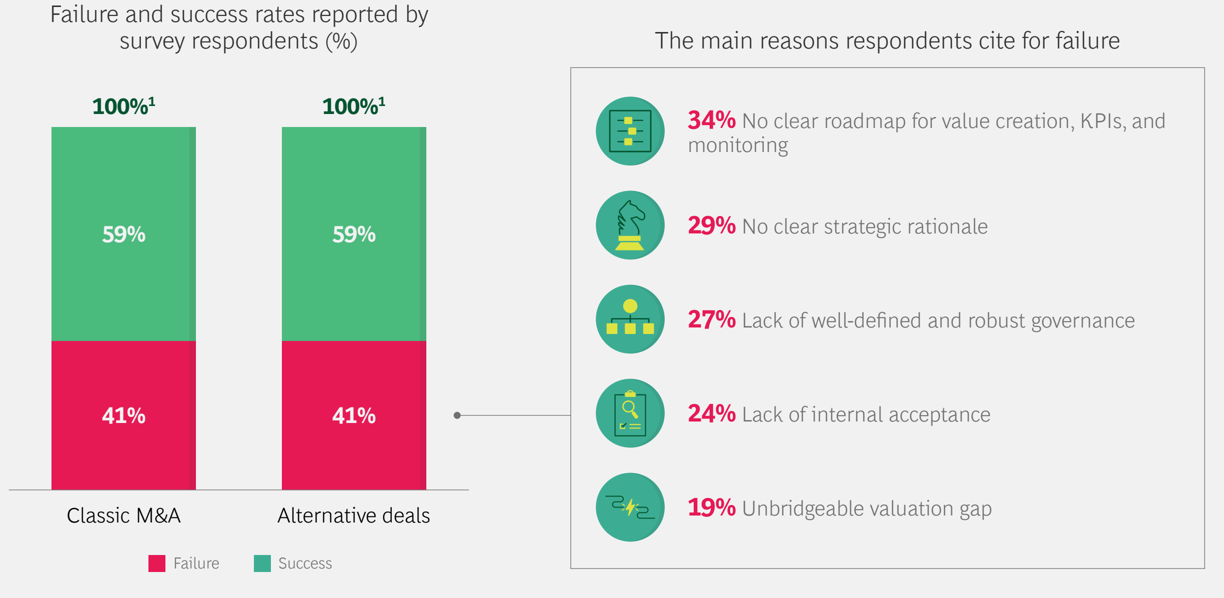
Sources: Refinitiv SDC Platinum and Eikon; BCG analysis.
Note: Based on a total of 97,732 data points where each data point relates to the return of one public participant in an announced joint venture or alliance. CAR = Cumulative abnormal return; RTSR = Relative total shareholder return.

EXHIBIT 12 | Investors' Confidence in JV&A Value Creation Varies by Industry



Sources: Refinitiv SDC Platinum and Eikon; BCG analysis.
Note: Based on a total of 97,732 data points where each data point relates to the return of one public participant in an announced joint venture or alliance. CAR = Cumulative abnormal return.

EXHIBIT 13 | Alternative Deals Have the Same Failure and Success Rates as Classic M&A



Sources: BCG alternative deal survey, June-July 2020; BCG analysis.
Note: Sample size n = 84. Multiple answers per respondent were possible.
[1]Scaled to 100% because "cannot say" responses are excluded.

strategic rationale. A similar portion (27%) attributed failures to the lack of clearly defined and robust governance. Governance is critical for deals in which degrees of control are often fluid and interests (at the outset or over time) may diverge.

Whether a deal succeeds or fails often boils down to experience. Companies with significant experience (at least three alternative deals per year) report that 61% of their deals are successful, whereas less experienced companies (two or fewer deals per year) report that 58% of their deals are successful. A company's organizational setup and approach clearly matter, too. Self-reported success rates are 9 percentage points higher for companies with dedicated teams or team members for alternative deals and 7 percentage points higher for companies with processes for alternative deals that differ, at least partially, from those they use for classic M&A. Not surprisingly, experienced companies typically have dedicated staff and customized processes.

In a nutshell, like classic M&A, alternative deals must adhere to a robust strategic plan. The company should continuously evaluate each deal to confirm that it meets this criterion as it evolves over the course of due diligence and negotiations—a deal that served the strategic plan when it was initially conceived may change significantly during this process. And, more so than for classic M&A, the success of alternative deals hinges on clearly defining what happens after the contract is signed.

Interestingly, 24% of respondents also blame a lack of internal acceptance for deal failures. An alliance or JV based on a brilliant strategic plan and with frictionless governance may still founder if the dealmakers' own organizations are not willing to participate in the collaboration because of insufficient alignment or unclear communication.

In sum, we see a high volume of alternative deals but limited success rates from the perspectives of shareholders and the dealmakers themselves. This combination points to an opportunity for companies to create significant value by optimizing their approach to alternative deals. In the next section, we explore how to tap into the value.

HOW TO WIN IN ALTERNATIVE DEALS

Companies with well-honed approaches to classic M&A will likely find that they must make adjustments to their setups and methods to accommodate the intricacies of alternative deals. To guide their thinking, we have identified organizational setups and best practices for extracting maximum value with an approach tailored to alternative deals.

Organizing for Success

Our research shows that companies can organize in a wide variety of ways for deal making. At one extreme, a company can set up a large, central team of more than 50 people to own the entire process. At the other extreme, individual business units or regions can take responsibility for a decentralized, light-touch process. In examining the approaches of the companies we surveyed that self-reported as successful in alternative deal making, we identified a number of common themes. (See Exhibit 14.)

- **Experience.** Companies that succeed with alternative deals typically do a lot of them—3.1 alternative deals, on average, per year. They also do 2.5 classic M&A deals, on average, per year. We found that even companies that have experience mainly with classic M&A are likely to self-report higher success rates for alternative deals.

- **Dedication.** Almost all successful dealmakers (approximately 95%) have dedicated M&A teams, and approximately 25% have separate teams or individual staff assigned exclusively to alternative deals. Clearly, focus (in terms of time and attention) and deep experience go a long way toward ensuring deal success. Interestingly, team size is not a key determinant. Across companies self-reporting as successful in alternative deals, we see a range of different M&A team sizes relative to total company revenues.

- **Tailored Processes.** Standardizing processes is an important success factor for deals, but it should not be taken too far. Of the most successful dealmakers, 29% use different processes for alternative deals and classic M&A. Only 38% use fully standardized processes across all transactions (classic M&A and alternative deals), compared with 43% of companies self-reporting as unsuccessful in alternative deals.

- **Rigorous Control.** Strict process control and accountability are essential for driving returns from any kind of deal. Companies that are consistently successful in alternative deals give their deal teams full control during the execution phase. These teams also provide strong support during the 100-day planning and

EXHIBIT 14 | Organizational Setup Influences Success in Alternative Deals

	Successful in alternative deals	Unsuccessful in alternative deals
Deal frequency Number of alternative deals per year	> 3	≤ 3
Alternative deal teams Percentage of respondents with separate teams or dedicated team members for alternative deals	24%	7%
Deal process standardization Percentage of respondents with fully standardized deal processes across all transactions	38%	43%
Alternative deal processes Percentage of respondents with separate alternative deal processes	29%	21%
Deal team role Percentage share of deal teams involved 1–2 years after closing	50%	38%

Sources: BCG alternative deal survey, June-July 2020; BCG analysis
Note: A "successful" company reported a success rate for alternative deals higher than 50%. An "unsuccessful" company reported a success rate lower than 50%. Companies reporting a 50% success rate were excluded. Sample size n = 86 for each.

postmerger integration phases, and even beyond. Indeed, 50% of respondents self-reporting as successful in alternative deals say their teams are involved up to two years after closing, compared with only 38% of companies self-reporting as unsuccessful. Clearly, giving teams end-to-end accountability for a deal's success ensures a focus on value creation throughout the entire deal process and helps to prevent teams from making unwise deals. In other words, having "skin in the game" is a good remedy for "deal fever."

Applying the Lessons of Experience

Although the right organizational setup provides the basis for success, making it happen also requires the right approach to execution. On the basis of BCG's experience supporting several thousand M&A and alternative deals, we have identified a number of best practices:

- **Plan ahead.** Some classic M&A deals come out of the blue. But alternative deals typically do not arise opportunistically. Success begins with long-term planning and negotiations. Get an early start developing a well-thought-out, long-term plan that advances your overall strategy. Review it periodically and stick to it throughout the journey.

- **Do not skimp on due diligence.** The financial stakes may seem to be lower than in classic M&A, but a detailed and holistic assessment of the target and the overall deal clearly pays off and is as crucial for alternative deals as it is for classic M&A.

- **Establish robust postdeal governance.** If alternative deals go awry over time, it is typically because conflicts and competing interests push the partners apart. To avoid this fate, clearly define, negotiate, and formalize postdeal governance before signing, and make senior executives responsible. Governance is a top management task—do not delegate it to the teams working on the ground.

- **Use a specialized team.** Whenever possible, use people with explicit experience in alternative deals to negotiate and manage these arrangements—and seek external support (for strategic, legal, or accounting issues, for example) if necessary. A "one size fits all" approach to deal making does not work. Corporate venturing, for example, should not be the responsibility of your M&A team.

- **Create clear incentives.** As should be standard practice for M&A deals, define and implement transparent and feasible incentive schemes for key decision makers in the alternative deal process. Incentives must be based on a clear definition of what constitutes success and be supported by a system (as well as the stamina) for tracking success over time.

To dealmakers who are unfamiliar with alternative deals, these structures may seem like exotic creatures compared with classic M&A—something to approach with a mixture of curiosity and caution. Yet, despite their differences, the success factors for alternative deals and classic M&A are similar in important respects. Executives who build experience and apply the lessons learned to make bold, carefully crafted alternative deals will be well positioned to capture value from these increasingly popular vehicles for collaboration. Considering that the COVID-19 pandemic reinforces many of the trends that have driven the recent surge in alternative deal making, all executives should be prepared to make such deals in the months and years ahead.

APPENDIX I

DATA AND METHODOLOGY

The research that underpins this report was conducted by BCG's Transaction Center during the first half of 2020.

Data Sets

The data set used for the analyses in BCG's M&A research (the "M&A database") comprises approximately 810,000 M&A deals covering the period January 1980 through June 2020. In assessing general market trends, we analyzed reported M&A transactions from 1990 through the first half of 2020. For the analysis of deal values and volumes, we excluded transactions marked as repurchases, exchange offers, recapitalizations, or spinoffs.

The data set used for the analyses in BCG's JV&A research (the "JV&A database") comprises approximately 185,000 JV&A deals covering the period January 1990 through June 2020. In assessing general market trends, we analyzed reported JV&A deals from 1990 through the first half of 2020.

In addition to our proprietary data and analytics, we collected and collated financial data and relied on information from a variety of data providers, including Refinitiv's Thomson One, Eikon, SDC Platinum, and Datastream, as well as S&P Capital IQ, Pitchbook, Crunchbase, Mergermarket, and Bloomberg.

To analyze current M&A market trends and dealmakers' opinions about alternative deal making, we conducted two surveys among dealmakers. We conducted the first, the "M&A Pulse Check," in May and June 2020 with 140 participants. We conducted the second, the alternative deal survey, in June and July 2020 with 102 participants.

Short-Term Value Creation

Although distinct samples were required to analyze different issues, all return analyses employed the same econometric methodology. For any given company i and day t, the abnormal (that is, unexpected) returns ($AR_{i,t}$) were calculated as the deviation of the observed returns $E(R_{i,t})$. Abnormal returns are the difference between actual stock returns and those predicted by the market model. (See Equation 1.)

Equation 1

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

Following the most commonly used approach, we employed a market model estimation to calculate expected returns.[1] (See Equation 2.)

Equation 2

$$ER_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t}$$

The derived alpha (α_i) and beta (β_i) factors were combined with the observed market returns ($R_{m,t}$). (See Equation 3.)

Equation 3

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t})$$

To determine the "announcement return", we derived the cumulative abnormal return, or CAR, by aggregating the abnormal returns day by day, starting three days before the announcement date and ending three days after it. (See Equation 4.)

Equation 4

$$CAR_i = \sum_{t=-3}^{+3} (R_{i,t} - E(R_{i,t}))$$

Long-Term Value Creation

For M&A deals, we track the stock market performance of the acquirers over periods of different length following the acquisition announcement. Note that we cannot track the targets because, in most cases, they are delisted from the public-equity markets. For JV&A deals, we track the stock market performance of each of the listed participants—the entities or other arrangements created by the collaboration are almost always unlisted.

First, we measure the total shareholder return (TSR) generated by the acquirer or participant over a time period with length *t*. (See Equation 5.)

Equation 5

$$TSR_{i,t} = \left(P_{i,t}/P_{i,0}\right)^{\left(\frac{1}{t}\right)} - 1$$

Second, we subtract from the *TSR* the return made by a benchmark index over the same period in order to find the relative total shareholder return (RTSR) generated by the acquirer or the participant—in other words, the return in excess of the benchmark return.[2] (See Equation 6.)

Equation 6

$$TSR_{index,i,t} = \left(P_{index,i,t} \,/\, P_{index,i,0}\right)^{\left(\frac{1}{t}\right)} - 1$$

$$RTSR_{i,t} = \left(TSR_{i,t} \,/\, TSR_{index,i,t)}\right) - 1$$

Note that we could not include all deals in this analysis because the time elapsed since the announcement was too short to calculate the returns for some deals.

Statistical Significance of Our Results

We applied common-practice statistical significance tests to all of our quantitative results in this report. To assess whether means are statistically different from zero, we used one-sample t-tests, and—where appropriate—we used two-sample t-tests to determine whether the difference between means is significantly different from zero—that is, whether two groups do in fact have different means.

Notes

1. See Eugene F. Fama, Lawrence Fisher, Michael C. Jensen, and Richard Roll, "The Adjustment of Stock Prices to New Information," *International Economic Review*, February 1969; and Stephen J. Brown and Jerold B. Warner, "Using Daily Stock Returns: The Case of Event Studies," *Journal of Financial Economics*, 1985.

2. The benchmark indexes we apply are the relevant worldwide Refinitiv (formerly Thomson Reuters) indexes.

APPENDIX II

SELECTED BCG-SUPPORTED TRANSACTIONS, 2020, 2019, AND 2018

2020	thyssenkrupp selling its elevator business to Advent International, Cinven, RAG-Stiftung	Strategic advisor to the seller	€17.2B
2020	Comcast, Sky	Strategic advisor on PMI	$39.9B
2020	Oaktree, MBE Mail Boxes Etc.	Strategic advisor to the buyer	Value not disclosed
2020	BBVA, Allianz	Strategic advisor in JV of non-life insurance	€270M
2020	Bavarian Nordic buying travel vaccine brands Rabipur and Encepur from GSK	Strategic advisor on PMI	$890M
2020	Generali, Nationwide, N2G	Strategic advisor in JV transaction	
2020	Bridgepoint, PharmaZell Group	Strategic advisor to the buyer	Value not disclosed
2020	UCB, Ra Pharma	Strategic advisor on PMI	$2.3B
2020	Nordic Capital, SpaMedica	Strategic advisor to the buyer	$370M
2019/2020	Crédit Agricole S.A., 49.99% of Santander Securities Services, Santander	Strategic advisor to the buyer and on PMI	Value not disclosed
2019	Bayer selling its animal health business to Elanco	Strategic advisor to the seller	$7,6B
2019	Ardian, Celli Group (The sustainable drinking experience)	Strategic advisor to the buyer	Value not disclosed
2019	Fonterra (Dairy for life) Selling its 50% stake in DFE Pharma to CVC Capital Partners	Strategic advisor to the seller	NZ$633M
2019	NORD/LB, Finanzgruppe, Niedersachsen	Support for capital increase	€3.6B
2019	Telefónica Móviles, Telefonia Celular de Nicaragua, Millicom	Strategic advisor on PMI	$1.6B

2019
Saudi Aramco
Strategic advisor on IPO
BCG

2019
Sumitomo Corporation
Q-PARK
Strategic advisor to the buyer
Value not disclosed
BCG

2019
SENVION
selling its European onshore service business to
SIEMENS Gamesa RENEWABLE ENERGY
Strategic advisor to the seller
€200M
BCG

2019
PERMIRA
FLIX mobility
Strategic advisor to the buyer
Value not disclosed
BCG

2019
AGFA
selling AGFA HealthCare to
Dedalus
Strategic advisor to the seller
$1.1B
BCG

2019
BRIDGESTONE
TOMTOM
Strategic advisor to the buyer
€910M
BCG

2019
WOOLWORTHS GROUP
divesting its drinks and hospitality business
ENDEAVOUR DRINKS
ALH Group
Strategic advisor to the seller
AUS$10B
BCG

2019
KKR
=exact
Strategic advisor to the buyer
Value not disclosed
BCG

2019
orange
SECURELINK
Strategic advisor on PMI (TOM and synergy plan)
$577M
BCG

2019
EQT
ANTAS
Strategic advisor to the buyer
Value not disclosed
BCG

2019
SUMMIT PARTNERS
acturis CONNECTED THINKING
Strategic advisor to the seller
Value not disclosed
BCG

2019
TOWERBROOK
METALLO THE FURNACE OF INNOVATION
Strategic advisor to the seller
Value not disclosed
BCG

2019
gsk
PHYSIOGEL HYPOALLERGENIC
Strategic advisor to the seller
Value not disclosed
BCG

2019
omnicare
EQUISTONE
Strategic advisor to the seller
Value not disclosed
BCG

2019
CDC Investment works
strategic partnership and 5% investment in
BMCE BANK
Strategic advisor to the buyer
$200M
BCG

2018/19
BNP PARIBAS
buying core banking operations of
Raiffeisen BANK
Strategic advisor to the buyer
$956M
BCG

2018/19
BAYER
MONSANTO
Clean team as an integral part of PMI preparation
$63B
BCG

2018
MERCK
selling its consumer health (OTC) business to
P&G
Strategic advisor to the seller
€3.4B
BCG

2018
gsk
Pfizer
Consumer Healthcare
Strategic advisor to the acquirer in JV transaction
$40B
BCG

2018
BR PETROBRAS
Comprehensive support for carve-out / carve-in of energy businesses
Value not disclosed
BCG

2018
VISTRA ENERGY
DYNEGY
Strategic advisor to the buyer
Value not disclosed
BCG

2018
AtoS
Worldline
SIX
Strategic advisor to the buyer
$2.9B
BCG

2018
SIG
Strategic advisor in IPO
BCG

2018
BMW
DAIMLER
combined their mobility services in an equally owned joint venture
BCG

FOR FURTHER READING

The Boston Consulting Group publishes many reports and articles on corporate development and finance, M&A, and PMI that may be of interest to senior executives. The following are some recent examples.

Keeping M&A Deals on Track During the Downturn
An article by Boston Consulting Group, September 2020

Taking the Stress out of Distressed Carve-Outs
An article by Boston Consulting Group, September 2020

Building Beachheads in the US Defense Market Through M&A
An article by Boston Consulting Group, July 2020

What's Next for US Banking Consolidation in the Post-COVID-19 World?
An article by Boston Consulting Group, June 2020

The Asia-Pacific M&A Report: Dealmaking in Turbulent Times
A report by Boston Consulting Group, June 2020

Navigating Merger Clearance During the Crisis
An article by Boston Consulting Group, May 2020

COVID-19's Impact on Global M&A
An article by Boston Consulting Group, March 2020

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An article by Boston Consulting Group, December 2019

How to Nail M&A in Engineering and Construction
An article by Boston Consulting Group, December 2019

The 2019 M&A Report: Downturns Are a Better Time For Deal Hunting
A report by Boston Consulting Group, September 2019

As Tech Transforms Auto, Deals Are Booming
An article by Boston Consulting Group, August 2019

How Bold CEOs Succeed at M&A Turnarounds
An article by Boston Consulting Group, July 2019

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The 2019 Value Creators Rankings
An interactive guide by Boston Consulting Group, June 2019

Why Software PMIs Need to Get Agile
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Riding the M&A Wave in Consumer Goods
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The M&A Way into Distributed Energy
A report by Boston Consulting Group, March 2019

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The 2018 M&A Report: Synergies Take Center Stage
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An article by Boston Consulting Group, March 2018

Anatomy of an Ideal IPO Candidate
An article by Boston Consulting Group, February 2018

The Impact of US Tax Reform on Corporate Strategy and M&A
An article by Boston Consulting Group, February 2018

NOTE TO THE READER

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Paderborn University

The authors are grateful for the support provided by Paderborn University, the University for the Information Society, which has a strong foundation in computer science and its applications. Paderborn's Chair of International Accounting, Sönke Sievers, focuses on research related to information processing in financial markets and valuation. Since 2019, he is a principal investigator in two projects of the TRR 266 Accounting for Transparency (https://accounting-for-transparency.de/), which is a transregional collaborative research center funded by the German Research Foundation (Deutsche Forschungsgemeinschaft – DFG). In addition to academic research, he intensively collaborates with business partners to advance knowledge in the fields of corporate finance, accounting, and mergers and acquisitions. For more information, please visit www.upb.de/accounting.

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For Further Contact

This report is a product of BCG's Transaction & Integration Excellence practice, which works with its clients to deliver solutions to the challenges identified in this report. If you would like to discuss insights drawn from this report or learn more about the firm's capabilities in M&A, please contact one of the authors.

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