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A CORPORATE EXPANSION STRATEGY MERGER AND ACQUISITION:  
AN EFFECT OF PANDEMIC COVID 19

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# A CORPORATE EXPANSION STRATEGY MERGER AND ACQUISITION: AN EFFECT OF PANDEMIC COVID 19

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## ABSTRACT

This paper present the study of an effect of COVID-19 pandemic on highly expected and widely used corporate strategy called Merger and Acquisition. Pandemic situation made huge impact on business as well as personal life of the people. However life is all about moving on and we can't wait for things to be normal because this pandemic established new thinking 'Be Ready – Accept – Never Normal' of our life. The transaction value and number of deals were reduced though merger and acquisition is savior strategy to which it hit adversely in order to survive in competitive pressure. Researcher attempted to study effect and its way out in order to get stabilize in performance of the business.

**Keywords:** *Pandemic, Effect, Covid-19, Mergers and Acquisitions, Performance*

## 1. INTRODUCCION

The Corporate restructuring is a tool to meet challenges which makes business ease of going. This process is consisting portfolio and asset restructuring, Internal restructuring, Divestment, Merger and acquisition, Financial restructuring. The merger and acquisition is not a new concept for the Indian economy. In 90's corporate entities have done mergers and acquisition in order to prove their superiority in the respective business sector. Corporate entities redesign their business with a view to better management of their portfolio which yields enough to improve competitiveness and shareholder's value. Merger and Acquisition is the most and widely used technique of corporate restructuring. Merger and Acquisition include number of transactions such as Merger, Acquisition, Amalgamation, Consolidation, Tender offer, Purchase of Asset and Management buy-out. 'Merger' means combination of two or more entities, whereby the identity of one or more entities is lost resulting in single entity. Acquisition means one entity takes over control of another entity's stock, equity interest or assets. It is the purchase of controlling interest in the share capital of another existing company.

## 2. LITERATURE REVIEW

Michael Grant, Lars Frimanson, Fredrik Nilsson (2015), in their studies stated that, in business interactions and dealings, first impression is very important. While you can't stop people from making quick decisions, the human brain is hardwired in this way as a prehistoric survival mechanism, you can understand how to make those decisions favourable for you.

Shail Shakya (2019), Banking sector is the most extensively regulated sector in Indian financial market. RBI, the sole regulator has the responsibility of regulating, supervising and assisting the banking companies in carrying out their fundamental activities and meets their liabilities as and when they accrue. Despite the fact that regulation enhances performance at various levels, business growth is the perpetual quest for all companies, and banking companies are not alien to that. Rapid growth of consolidations has depicted that banking operations, though strictly regulated aspire for a high rate of profitability and business presence. There are numerous examples present in Indian context that show varied reasons of mergers and acquisitions in banking sector in India. Some study these on the counts of profits and performance after mergers; others look these mergers as helping the banks in overcoming their likely dissolution.

### 3. A COVID 19 PANDEMIC

With each century mankind is becoming more vulnerable to the pandemic situations however with each pandemic healthcare services gets more advanced in terms of values and reliability though mankind is forced to accept that there is power beyond science called supreme energy. Worldwide lockdown and government regulations due to Covid -19 affected more in terms of economy. Financial stability and future plans get disturbed. Corporate growth and large project is on stand by and waiting for things gets stable but market is becoming more demanding and competitive pressure is forcing small businesses to shut down or get absorbed by large one. The spread of virus globally and in industry due to our race with economy or behind the money to secure future or survive that particular day in addition to lack of defence medical mechanism and preparedness in order to fight with virus.

### 4. M&A AND COVID PANDEMIC

The process of M&A is not a piece of cake; it is like a preparing whole meal for a king. It covers so many areas to enter and complete a single M&A transaction. Global impact of corona virus is that no business can be ignored. Before pandemic world has shown super-sized and super valued M&As through corporate giants. With entire city in lockdown or stringent government control and companies under complete shutdown, M&A transactions across the globe at risk. With complex situation and time consuming due diligence, number of deals are cancelled around the world. The deals are generally being valued on priced based on multiple of turnover however in present situation it is difficult to predict and calculate with this uncertain environment of business, valuation may adversely affect the companies. The below table shows comparison in order to evaluate effect of pandemic in M&A transaction however table is limited to India's perspective only. From the below table, reduction in no. of deal and value has been clearly observed due to global shut down however with the search of vaccine and health awareness in human being things are moving forward towards normalization though it is uncertain.

Figure 1: M&A deals for three years in value and number.

Particular / Year	No. of Deals	Deal Value (USD in mn)	Mean of Deal Value
2018	1011	80861.30	138.94

2019	946	38486.92	68.97
2020	706	47313.76	111.07

(Data Source – VCCedge)

In 2018, total number of deals recorded was 1011, out of which 321 in Q1, 253 in Q3, 232 in Q3 and 205 in Q4. In terms of value the deals recorded in 2018 was of USD 80,861.30mn, out of which USD 22,360mn in Q1, USD 33,778mn in Q2, USD 12,424mn in Q3 and USD 12,300mn in Q4. It shows that the effect of virus has started from Q3 and Q4 of 2018 and it slowly started affecting the business. Further classification of deals in Inbound, outbound and Domestic has been made and as per that in 2018; No. of Inbound deals were 151 with valuation of USD 22,650mn, Outbound deals were 124 with valuation of USD 4,218mn and Domestic deals were 657 with valuation of USD 43,399mn.

In 2019, total number of deals recorded was 946, out of which 262 in Q1, 232 in Q3, 232 in Q3 and 220 in Q4. In terms of value the deals recorded in 2018 was of USD 38,486.92mn, out of which USD 18,300mn in Q1, USD 7,277mn in Q2, USD 8,994mn in Q3 and USD 3,915mn in Q4. It shows that the effect of lockdown has affected and it adversely affected the business. Further classification of deals in Inbound, outbound and Domestic has been made and as per that in 2019; No. of Inbound deals were 154 with valuation of USD 12,592mn, Outbound deals were 101 with valuation of USD 2,134mn and Domestic deals were 598 with valuation of USD 21,784mn.

In 2020, total number of deals recorded was 706, out of which 207 in Q1, 128 in Q3, 168 in Q3 and 203 in Q4. In terms of value the deals recorded in 2020 was of USD 47,313.76mn, out of which USD 14,706mn in Q1, USD 11,733mn in Q2, USD 14,220mn in Q3 and USD 6,655mn in Q4. It shows that economy started fighting against the adverse effect of lockdown and corona virus with vaccine and hope. Further classification of deals in Inbound, outbound and Domestic has been made and as per that in 2020; No. of Inbound deals were 103 with valuation of USD 15,661mn, Outbound deals were 62 with valuation of USD 4,611mn and Domestic deals were 424 with valuation of USD 23,453mn.

From the above statistical explanation, it has been observed that the effect of pandemic is more on economical way and it cost time too, however with the hope and advancement of medical facilities corporate strategy is getting ready to fly high with merger and acquisition.

### 5. KEY CONSIDERATION OF PANDEMIC EFFECT ON M&A

The pandemic effect on M&A transactions are mainly in form of procedural and due diligence with modification to the general trade practices followed by industry keep in mind the exceptional situation affecting the transaction and its outcome. The major changes are observed in Insurance policy's terms and conditions and negotiation of deal.

### **5.1 Delay in M&A transactions due to;**

- Lockdown in offices and Travel restrictions.
- Negotiation will take longer as traditional practice of getting everyone in room.
- Due diligence issues and timelines will be addressed.
- Third party time consent will take longer to obtain.
- Delay in regulatory approval or necessary antitrust.
- BOD and corporate executives are cautious to justify their decision regarding deal.
- Approval of agreement terms and closing of negotiation.
- Risk assessment procedure.
- Adjustment of Finance.

### **5.2 Modification in terms;**

- Impact on letter of intents, term sheets, memoranda of understanding.
- Availability and terms of debt financing to fund acquisitions.
- Change in deal making and deal terms.
- Material adverse effect (MAE) provisions.
- Insurance terms inclusion and exclusion.
- Pre-closing business covenants
- 'Drop dead' dates and termination provisions.
- Working capital and other price adjustment provision.
- Alternative forms of consideration.
- Antitrust and other regulatory approvals
- Representation and Warranties
- Indemnity and Escrow Provisions; Representation and Warranty Insurance.

## **6. FORWARD STRATEGIES**

The Time never waits for anyone; similarly corporate strategies should not be waited for things gets normal, it may get worst before normal. So, with precautionary measures M&A transactions should be initiated. Following are key strategies to be followed;

- Look beyond your core business.
- Learn beyond experienced dealmakers.
- Don't take value creation for granted
- Consider de-risking your M&A strategy.
- Be ready for considering new opportunities.
- Do not panic in adverse or diversified situation.
- Be bold in taking decisions out of comfort zone.
- Take stock of the position the crisis places the company in.
- Make rapid prioritization calls on M&A activation.
- Evaluate opportunistic plays with long term potential upside.
- Look beyond the immediate horizon.
- Determine if industry consolidation is likely.
- Reshape medium –term M&A agenda, take action early.
- Take a broader view of M&A across the entire ecosystem.
- Include alliances in your expanded view to realign the company.
- Continuously revisit priorities and potential disruptors.

The M&A transactions carried on due to combination of several factors namely some of which were bubbling up long before the pandemic: an abundance of investment capital, the dynamic of opportunistic buyers and eager sellers and the evolution of merger and acquisition transaction process mechanics.

## **CONCLUSION**

A highly ambitious corporate strategy by executives is applied to get competitive advantage but current time horizon is with full of uncertainty. The pandemic has undoubtedly had a significant impact on both domestic and cross-border deal activity. Corporate executives are

trying to get normal with never normal attitude with virtual deal cracking and negotiation from round table with suit and tie to webcam conference call. Technology is coin with two sides, use with caution. The business environment factors also affect the success of the merger and acquisition deal however due to pandemic situation these factors has gone through tremendous changes but change is constant and business activities are based on going concern. It is very clear that no matter what comes in today's world, Show must go on. M&A is the only strategy to get survival and expansion in complex and competitive environment of the business worldwide.

### AUTHORS' CONTRIBUTIONS

Conceptualisation, J.T.; validation, J.T.; investigation, P.D.; data curation,.; writing—original draft preparation, P.D.; writing—review and editing, J.T.; visualisation, BOTH.; supervision, J.T.; All authors have read and agreed to the published version of the manuscript. The authors have no conflict of interests.

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