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IS MAJOR CONSOLIDATION ON THE CARDS?

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The thought of "*Leaving the party while you're still having fun*" is going through the heads of several generations of entrepreneurs and business leaders, across all sectors and industries. And while their reasons may vary, the outcome does not.

Our intuition is the following: the clouds on the horizon will trigger a fast and structural change to the world's economic fabric and a shift in leadership at the helm of many companies, as was the case in the years that followed the great recession of 2008-2009.

A SENSE OF DEJA VU

In the midst of the Covid-19 pandemic, as companies were weakened by the crisis, many of us were expecting a huge wave of consolidation that would have driven a Darwinian-style competition between firms.

This didn't happen, but something changed.

Today, when a company like Twitter makes a U-turn and accepts an offer previously viewed as unacceptable because it was 30% below the highs reached six months ago; when Reed Hastings (Netflix) and Jeff Bezos (Amazon) – both young and at their zenith after the pandemic-driven boost - choose to hand over; when so many successful Tech businesses are being sold, a common trait is emerging: the decision to quit the party while you're still having fun and hand over the reins to the next generation as a new era is being ushered in.

Now that they are over, let's look back at these happy times: the Tech entrepreneur, who for the past decade has lived with the paradigm of "growth at all costs", blitzscaling[1], and a globalized and serene market… is now having to face inflation and rising capital costs, and navigate increasingly complex logistics and much greater governmental/political interference.

The qualities that are needed have evolved - and so has the horizon: the key word is no longer to conquer the world and then assume good housekeeping will follow… From now on,

[1] Very fast growth.

ambitions will be determined by the quality of housekeeping, in other words, cash flow generation.

A PERIOD OF REVIVAL

This observation extends well beyond the Tech sector. In more traditional industries, entire generations of entrepreneurs are preparing to step down. This is particularly the case in Europe, but also in Asia, in Taiwan and South Korea, where the leaders who built the recovery are now tying up their succession plans. And let us not forget the many companies that survived Covid-19 but are facing a bleaker future due to the rising cost of debt, which will reduce their latitude at a time when investments in new technology are so necessary to upgrade their production systems.

Mergers and alliances are therefore likely to occur under the scrutiny of regulatory authorities which have a new-found appetite for intervention, as the 'live and let live' doxa popular since the Reagan years is gradually waning.

This all points to thrilling moments ahead, particularly as cross-border mergers are concerned.

No judgement is being made here on the trend that is emerging. However, as is the case with biodiversity, the plurality of economic players and healthy competition are essential if we are to avoid the many dangers that are invariably created by domineering positions.

Conviction-driven asset managers will have a role to play in these changing times: by supporting the new generation of leaders, by patiently focusing on solutions that create long-term value for all stakeholders, and not giving in to the temptation of cashing in short-term gains after a successful deal. These periods of revival offer bountiful opportunities for conviction driven-stock pickers, who can deliver alpha by leveraging on their in-depth understanding of corporate strategies and value chains.

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Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

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