Securing value in a slowdown

How leaders can enhance value as they navigate economic uncertainty

KPMG International

kpmg.com/elevate

Foreword

It's not easy to make investment decisions in times of uncertainty. Even before the economic volatility, business leaders were grappling with a range of disruptive trends that were reshaping industries and sectors. The economic situation has only raised the stakes. Now, decisions become more critical as investment risks increase; and strategies need to account for more and more unforeseen implications.

In this environment, what decision-makers need is confidence. They want to know how current and future trends could impact their business strategy and markets. They want to identify every opportunity and risk and then quantify them. They want a prioritized list of action items that provide in-year savings to fund out-of-year transformation. And they want to know they can deliver on their value creation objectives.

That may seem like a lot to ask. But it is not. KPMG professionals help organizations identify, quantify, prioritize and deliver strategies that create measurable and sustainable value. They let the data lead the way, leveraging deep sector experience and insight to root out value creation opportunities, quantify them and prioritize them. This work has led to measurable EBIDTA uplift. And it provides decision-makers with the confidence they need to make game-changing decisions in times of uncertainty.

This report looks at some of the economic trends influencing decision-making today. It explores what CEOs are planning to do about them. And it explains how leaders can start to quantify and prioritize their various options as they navigate their companies through economic uncertainty.

Hopefully this report demonstrates to business leaders and decision-makers that it is possible to make confident decisions during periods of great uncertainty. To find out more — or to start unlocking value in your organization — you are encouraged to get in touch with one of the contacts listed at the back of this report.

Ultimately, KPMG professionals believe there are five key steps to securing value in an economic downturn:

01 **Triangulate the trends.**

02 **Quantify the opportunities.**

03 **Prioritize the list.**

04 **Accelerate the execution.**

05 **Continuously measure the value.**

Javier Rodríguez González
Partner, Deal Advisory,
Global Head of Elevate, Deal Strategy
KPMG in Germany

Karina Collins
National Leader,
KPMG Strategy
KPMG Australia

Jan Rüther
Partner,
KPMG Advisory
KPMG in Germany

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Confident decisions in an uncertain world

It is a period of hyper-disruption. First came the health pandemic, disrupting lives, workplaces and societies. Then the world was hit by supply disruptions, which sent tidal waves through global supply chains and put upward pressure on prices. Now we are in the midst of an economic disruption — many markets are now dealing with soaring inflation, high levels of corporate indebtedness, rising interest rates and real concerns about recession. New risks sit threateningly on the horizon.

At the same time, CEOs are facing a complex array of macro-trends that are influencing their strategies. The growing importance placed on ESG, the ongoing digitization of human interactions, the retreat of globalization, the growing inequality gaps in developed and developing societies, conflict in Europe, shifting trade and investment flows… the list goes on. The influence and urgency of each of these trends can vary significantly depending on your sector and market; and they could trigger very different reactions, sometimes amplifying and other times dampening their effect on your business and operating models.

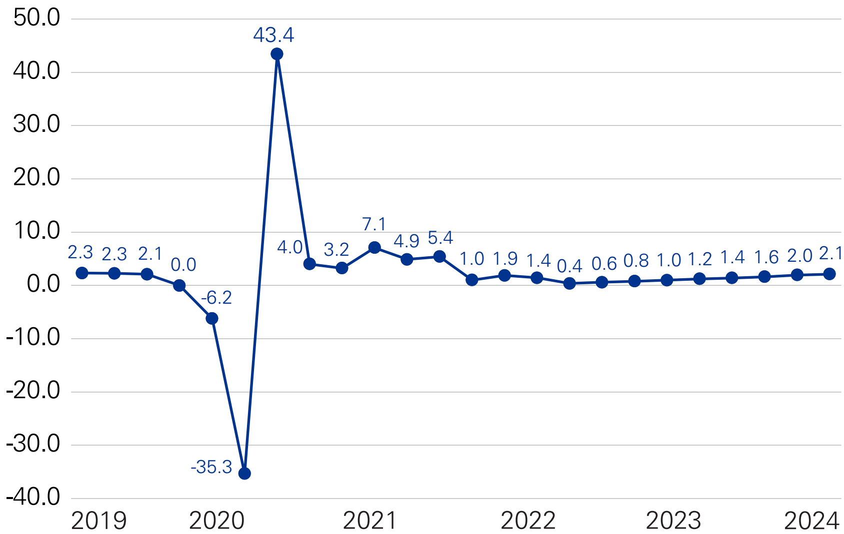
The current economic situation is only reducing the room to maneuver. In the OECD countries, growth plummeted by 35 percent in the wake of the pandemic, then jumped by 43 percent in the next quarter. Now it has stagnated under the pressure of high inflation and rising interest rates. The forecasts are not optimistic. The OECD expects real GDP growth of just 1.2 percent by the end of 2023. At the same time, their data suggests consumer price inflation will remain above 5 percent well into 2024.[1]

CEOs seem to be preparing for the downside. In a recent global survey by KPMG International, 86 percent of CEOs said they expect a recession this year. The vast majority said they would be cutting back on some priorities, while reducing costs and headcounts. This is normal during periods of economic uncertainty and recession. But this is not like other recent financial crises and cutting costs alone does not ensure survival. It does nothing to encourage growth.

In this economic climate, companies need to make smart decisions that generate both short and long-term value for their shareholders. There is no room for mistakes or missteps. CEOs need to be sure they are making the best use of their capital — human and financial — with every decision. And, to do that, they need reliable data and deep sector experience to understand the value and risks of each option.

Real GDP forecast

Total, annual growth rate (%), Q3 2019 — Q4 2024



Source: OECD Economic Outlook: Statistics and Projections, data pulled as of November 2022

[1] https://data.oecd.org/price/inflation-forecast.htm

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Navigating the downturn

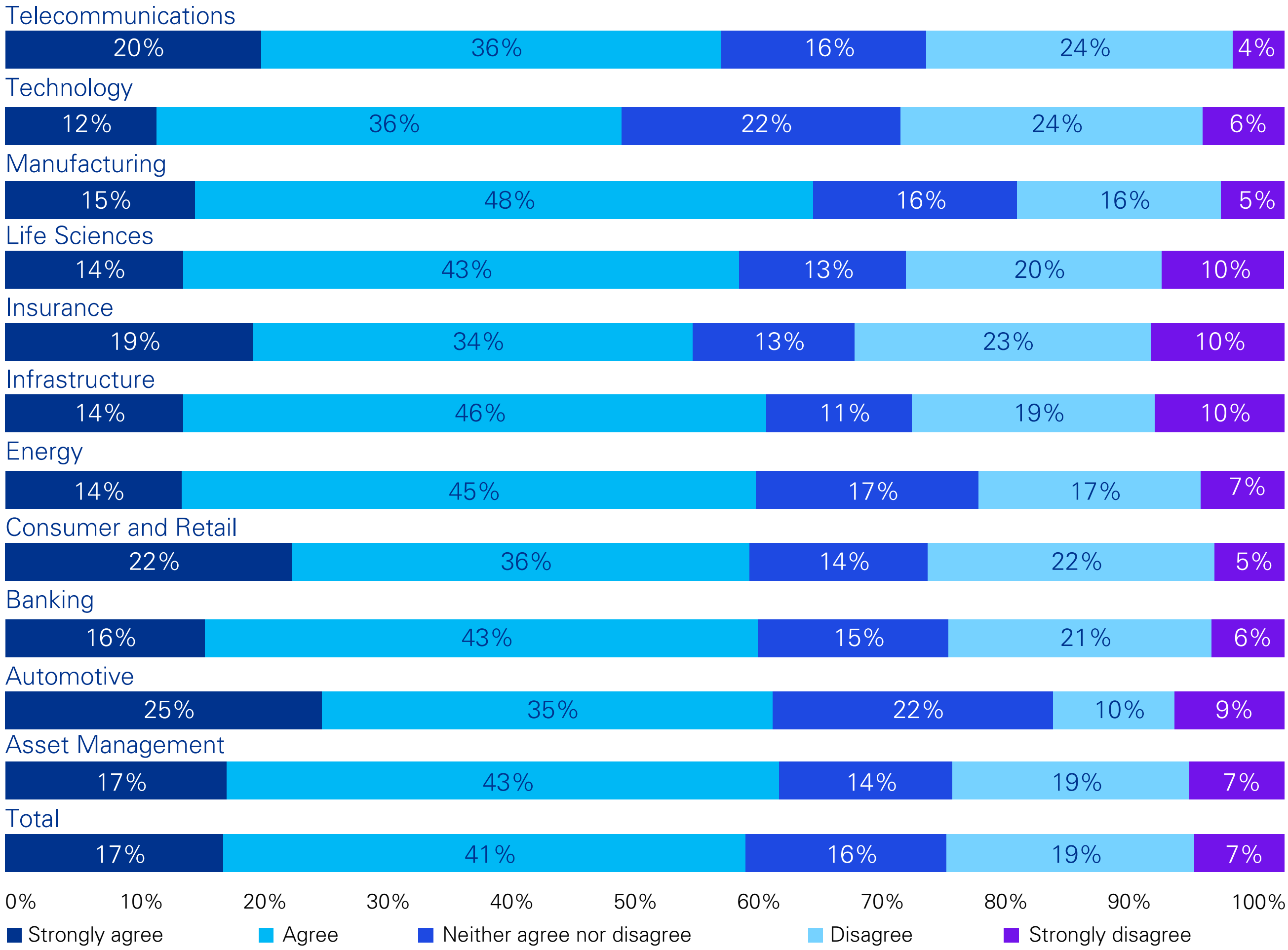
Business leaders are asking their advisors to predict what type of downturn they might be facing. Will it be a V-shaped recovery like the 'COVID recession' that lasted for just a few months in early 2020? Or will it be a deep, prolonged downturn, with a U-shaped recovery, like the one that began with the financial crisis of 2008? Could it be a W — with a recovery followed by another contraction? Or should business leaders anticipate a recession that doesn't conform to established patterns?

The shape matters. Companies planning for a severe or U-shaped recession (with a sharp decline in demand that can endure for up to 2 years), would slash costs, horde cash, and hunker down. KPMG International's CEO Outlook survey indicates that the vast majority of CEOs are planning to do just that: many say they plan to freeze hiring and reduce their workforce; more suggest they will increase prices in order to manage increasing supply chain costs.

Or perhaps the recession turns out to be mild and short, rewarding those companies that invest in growth strategies, capabilities, or innovation. Some CEOs and business leaders certainly see opportunity in the downturn. The global CEO Outlook shows that leaders are thinking more strategically about their technology and transformation investments and objectives in the face of economic uncertainty.

They want to direct digital investments to areas of their business that drive growth. Seventy percent say they want to be quicker to shift investments to digital opportunities and divest those areas where they face digital obsolescence.

Business leaders agree that "the anticipated recession will be mild and short"

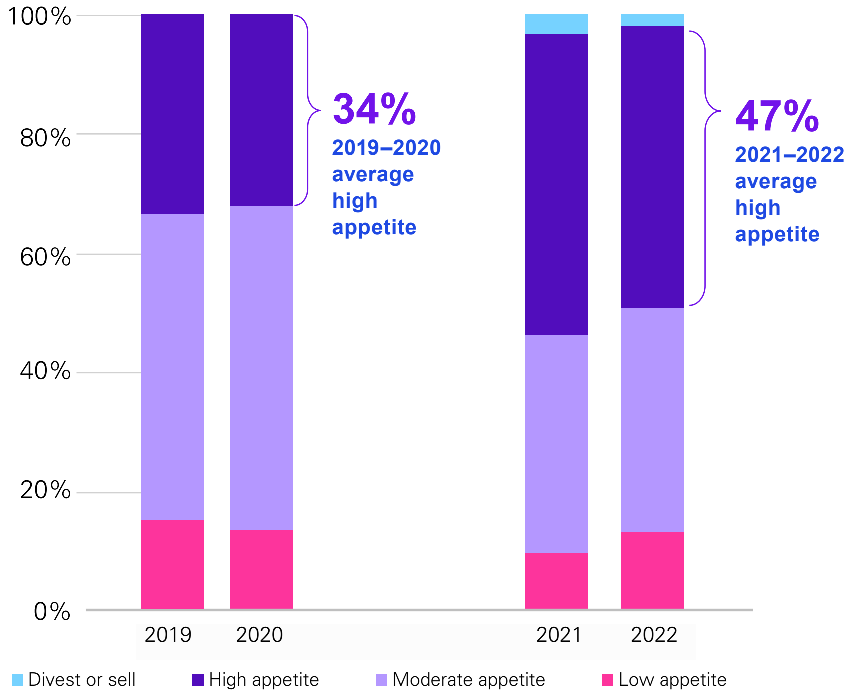


Source: KPMG Global CEO Outlook, 2022

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

At the same time, the survey suggests that the appetite for M&A remains high with 47 percent saying they are likely to undertake acquisitions that will have a significant impact on their organizations' overall performance (versus 34 percent who said the same before the pandemic).

Global CEO's M&A appetite
(2019–2020 vs 2021–2022)

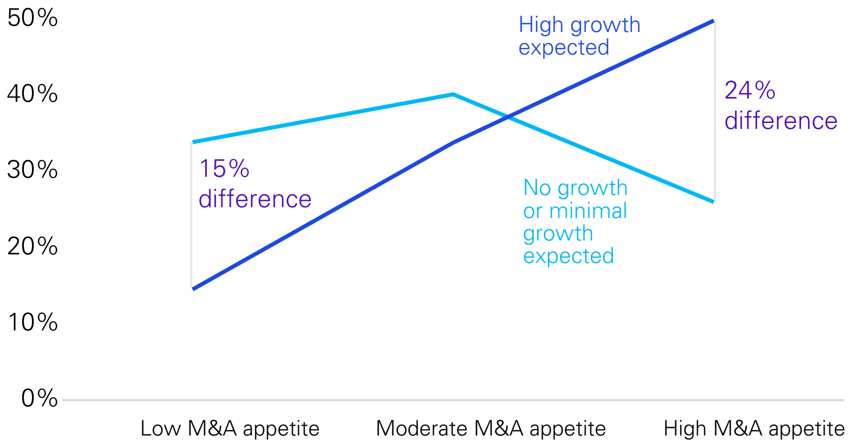


Global CEOs are showing a strong appetite for M&A in 2022 with 47 percent reporting a high appetite for deals. While this is a slight dip compared to 2021 (50 percent), it is a significant shift from 32 percent in 2020 and 34 percent 2019, indicating a possible structural change in CEO attitudes toward deals.

Source: KPMG Global CEO Outlook, 2022

Dig deeper into those numbers and it quickly becomes clear that CEOs expect deal activity to deliver on their growth objectives. Those respondents expecting high earnings growth over the next 3 years were more likely to report a high appetite for dealmaking; those with low growth expectations reported low appetite for dealmaking.

M&A appetite vs. 3 years earnings outlook



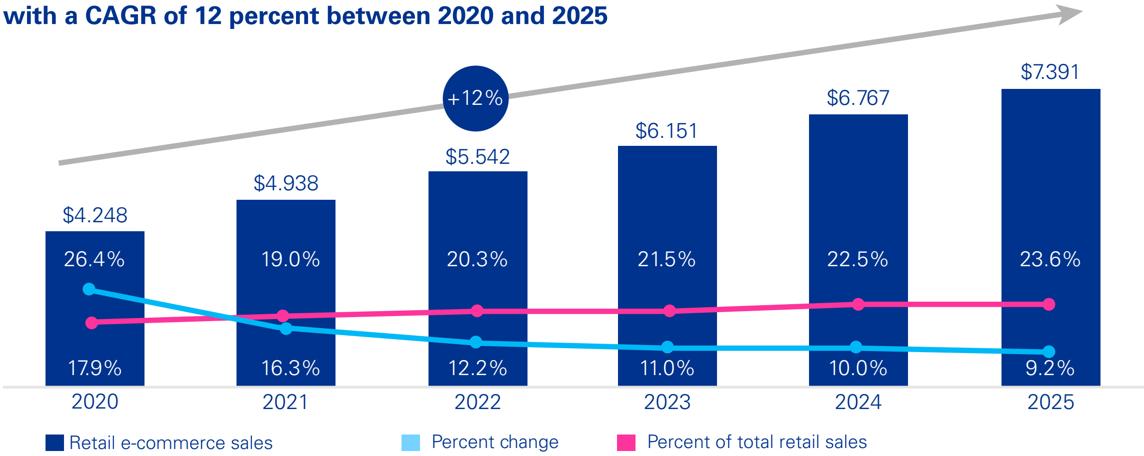
CEOs of high-growth companies, defined as having anticipated earnings outlook over +2.5 percent per annum over the next 3 years, were strongly corelated to having a high appetite for M&A.

Source: KPMG Global CEO Outlook, 2022

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Increasingly, you can see digital transformation and M&A objectives start to overlap. The Consumer & Retail sector offers a case in point: sector leaders are leveraging M&A to accelerate their direct-to-consumer strategies as a way to get closer to customers and improve margins, especially as retail ecommerce is expected to reach US$7.4 trillion with a CAGR of 12 percent between 2020 and 2025.[2] Some are seeking to achieve that organically through partnerships and capital investments. Others are buying up tech firms that can help them develop those capabilities faster.

Percent of total retail sales e-commerce is expected to reach US$7.4 trillion with a CAGR of 12 percent between 2020 and 2025



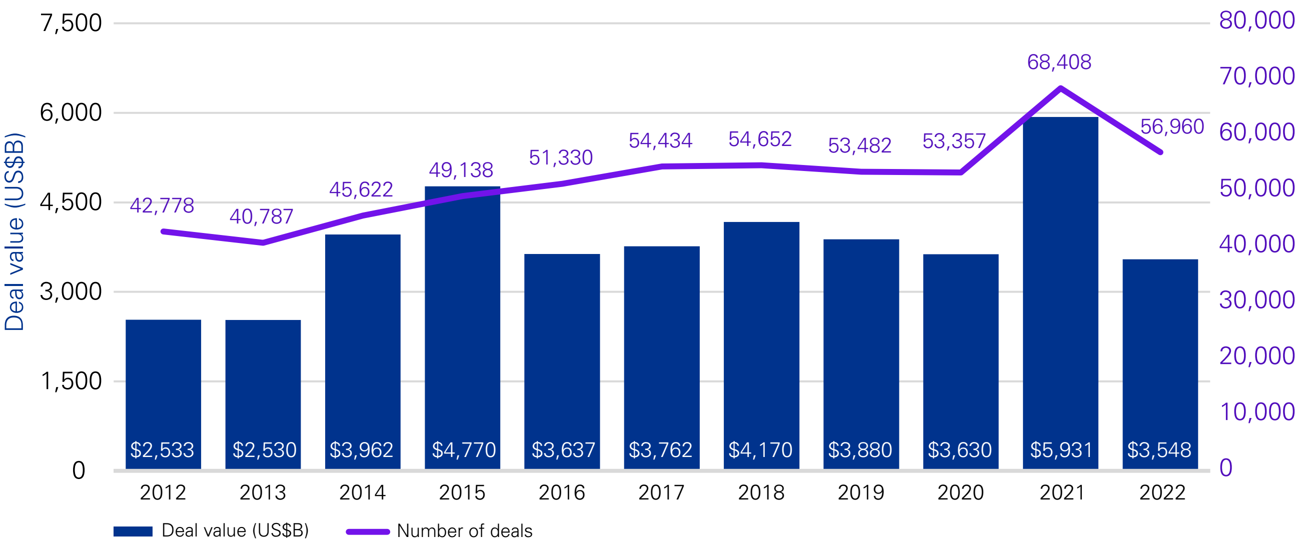
Source: eMarketer, January 2022

M&A in times of recession

Dealmaking was once almost exclusively about generating growth: quickly and inorganically. More recently, CEOs are shifting the reasons why they make deals. Some CEOs are looking to make fundamental operational changes to counter the challenges of today — high inflation, rising interest rates, growing geopolitical tensions, ongoing impacts of the pandemic. At the same time, they are seeking out opportunities that can ready their organizations for what may lie ahead on the horizon.

While there has been a general cooling in deal markets in 2022, there is good reason for optimism: annual deal volume in 2022 exceeded every year prior to 2021. With much deal activity focused on digitizing and transforming organizations, we expect to see this strong activity continue into the year.

Global deals
Ten-year deal trend



Source: Refinitiv, KPMG analysis

[2] The rise of direct-to-consumer — KPMG Global (home.kpmg)

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Taking the right turns

A review of past economic crises — particularly the one experienced from 2008–2009 — suggests that the companies that perform best in an economic downturn not only preserve margins, but also continue to grow and use the downturn to refine strategy for the recovery. They play offense: they act ahead of the recession to protect profits and seize growth opportunities throughout the downturn.

But given the uncertain environment, how do you know you are making the right decisions? How can you be sure you will generate value? How will you prioritize your investments and activities? How will you measure your progress? How will you balance the (often contradictory) trends on behalf of your shareholders and broader stakeholders?

This is no time for 'gut feel' decision-making or guesswork. Today's business leaders need to be confident they are making the best decisions for their organizations and their stakeholders. They want to quantify their various options so they can make informed choices. They want to prioritize their investments and activities based on strategic objectives and value creation. They want to know what specific actions they should take in order to meet their financial objectives.

They also need to move quickly. Gone are the days of large transformation efforts that deliver results years down the road; today's decision-makers are looking for an agile sequencing of transformational efforts, based on facts and focused on delivering quantifiable shareholder value.

The rapid pace of change in today's marketplace demands rapid decision-making and agile execution. And that means being able to quickly and accurately assess your various options and align them to your capabilities. It's not just about knowing what you should do, it's also about understanding your ability to deliver on those objectives.

Based on KPMG professionals' experience helping organizations release captive business value, there are three key components to successful decision-making: the right data, informed sector insights and functional implementation perspectives.

Business leaders should be looking to the data to help inform the answers. The trick is to rapidly analyze your most relevant transaction-level data, alongside reliable sources of market data and other external data sources that bring additional insights into the equation, to develop real and reliable dollar figures for what each opportunity is worth in terms of value. Data, not gut feel, leads the strategy.

Yet data is only one part of the story. To really understand the context, you need a deep understanding of the trends, the sector, the market and the organization. That's where experience comes into play. At every step, you should want to overlay your data with deep sector experience, functional expertise and reliable market insights to truly understand your opportunities and enhance your value. Then keep going back to the data to help ensure that the anticipated value is being captured and to course correct where necessary.

KPMG professionals' experience suggests there are five key steps to confident decision-making in today's uncertain environment.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Five key steps to confident decision-making

01

Triangulate the trends.

Start by assessing the externalities that might influence your decision-making. But go deeper — explore each trend and consider how they might evolve to find the opportunities and the risks, identify the interdependencies between them, and understand the degree of influence they have on different parts of your business and strategy. You may want to consider broadening your perspective in order to help identify and explore any blind spots. Then consider what is driving your business strategy — Is your organization purpose-driven? Are shareholder returns paramount? Are you using this opportunity to transform? And if so, towards what? Is the transformation triggered by the need to unlock additional value or is it an existential threat? That can help you understand what trends matter and what weight they should be given.

Case study

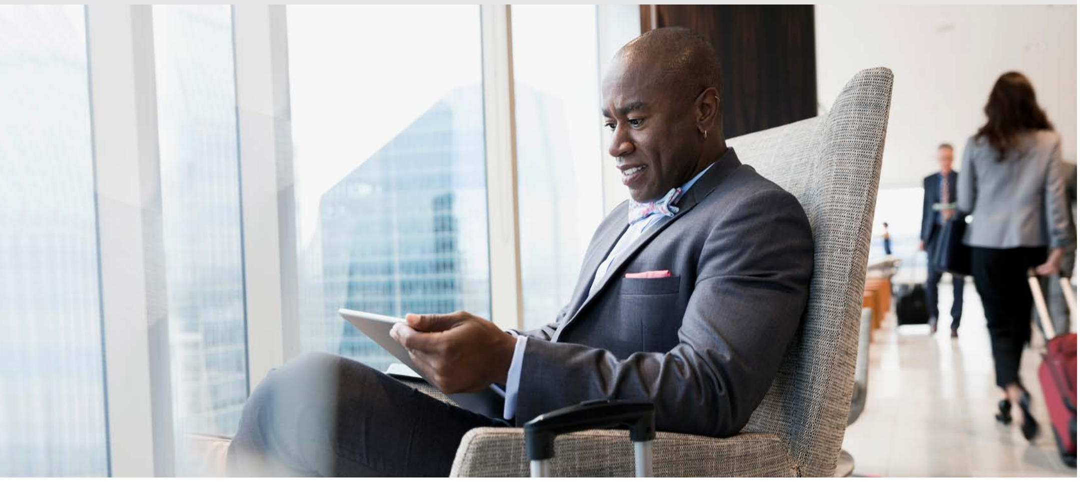
Agility through insight: Maintaining market leadership

When this dominant player in the B2B technology sector wanted to grow and integrate new development functions, they knew it would be critical to fully understand the trends and implications. The key objective was to generate a more effective R&D function and a better return on capital employed.

The management team worked closely with KPMG in Spain and, leveraging the organization's deep expertise across industries and product development life cycles, the organization focused on identifying the internal and external forces influencing product development in their sector.

The team then quantified the value of the opportunities they uncovered, giving leadership important insights upon which to base their decisions, and greater control over capital allocation — allowing them to enhance their strategy as they brought new products and tools to market.

While the impact of the pandemic on the client's sector has changed some of the initial value equations, KPMG in Spain led the organization from problem identification through to execution with a clear view of what they want to achieve and a list of action items to get them to their future operating model for product development, while remaining the key player in the market.



© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

02 Quantify the opportunities and map the scenarios.

Now that you have a strong understanding of the future opportunities, risks and trends that influence your organization, you can start to properly quantify their value within various scenarios. You need to know what to measure and what metrics actually matter. You need to quickly get down into your transactional-level data to understand where you are today. And then you need to combine that data with rich sources of market data and sector/functional insights to assess the potential value they could deliver across a range of scenarios. The goal is to attach a reliable and practical dollar amount to each opportunity, providing decision-makers with a real baseline against which to assess their options.

Case study

Quantifying and mapping the right opportunities: Doubling EBITDA

For years, this family-owned mid-sized retailer held the dominant position in their marketplace. Yet the impact of COVID-19, rising inflation and increasing competition on their physical and online operations was putting downward pressure on their EBITDA. They wanted to explore opportunities that might reverse that trend — and quickly.

Using innovative tools and technologies, KPMG in Ireland rapidly got down into the organization's transactional and operational data, carefully mapping the organization's performance across a range of vectors. Nearly 100 new opportunities for value creation were identified and quantified. The nine most critical initiatives would deliver a first-year EBITDA uplift of between 113 and 212 percent.

Leveraging their network's deep and diverse functional experience and execution capabilities, KPMG in Ireland then helped the organization deliver on their objectives with a thorough implementation plan, complete with timelines, project charters, detailed projections, critical capability gaps and milestones. Implementation is currently underway and measurement is ongoing. But all signs suggest the organization will achieve quantifiable EBITDA uplift over the next 12 months.

03 Prioritize the list and recognize the triggers.

You know your stakeholder expectations. You have a robust list of value-creation ideas or turn-around opportunities. And you know exactly what each will cost and what they will deliver. Now is the time to prioritize your list. Lean on functional implementation experience to realistically assess your organization's capacity, capability and timeline for change. Recognize the interdependencies between trends and objectives. Know which levers to pull to achieve the impact you measured. Try to find a good balance between short and long-term activities in order to unlock in-year savings that can fund out-of-year objectives. The outcome of this step should be a practical and achievable list of specific actions you can take and the value that should be generated.

Case study

Creating an action plan for value: Unlocking US$150 million in value

Years of acquisition-based growth had delivered massive returns for this medical and dental products distributor. But with competition heating up and increasing pressure on pricing, this public company's leaders knew they needed to unlock quantifiable value, quickly.

KPMG in the US conducted a pricing and cost-to-serve assessment, using their extensive pools of proprietary data and deep sector experience, to identify value-creation opportunities worth an estimated US$150 million. The organization's top leadership approved a plan to execute on the four greatest opportunities. And the team then worked with the business to assess resource and capability gaps and to create a detailed implementation plan that would unlock the value of these opportunities.

KPMG in the US brought together the data, insights and execution capabilities this company needed in order to deliver financial value quickly.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

04

Accelerate the execution.

At this point, you need to execute the plan cleanly and confidently. Make sure you have the right skills, capabilities and talent to not only deliver your objectives, but also to sustain them. You need to know which capabilities you are going to need. Then you need to be able to identify the gaps. That can give you the level of detail you need to engage a top-notch team of execution professionals with the experience and sector insight to deliver your plan within the context of your specific organization. Look for opportunities to put your own people in control through knowledge transfer and upskilling. And leverage opportunities to speed up the pace of execution in order to help minimize the potential impact of future disruptions. And don't wait for a 'perfect plan' or delay until you have mitigated every risk — strive to ensure your governance model allows you to learn as you execute in an agile fashion to keep the pace going and to continue delivering value.

Case study

Quick wins to long-term value: Rapid cost reduction

With the effects of the pandemic and supply chain disruptions creating massive uncertainty across the manufacturing sector, this key global industrial robotics supplier and technology developer wanted to find opportunities to reduce the cost base and prepare the company for future growth. Long-term opportunities for transformation were identified and quantified. However, the rapid pace of change dictated an initial focus on quick wins — primarily in the sales, marketing and R&D functions.

Leveraging deep experience in high-tech manufacturing, human resources, process optimization and business structuring, the KPMG in Germany team analyzed the organization's data comparing the organization against market norms to identify a number of areas and job roles that could deliver significant cost reduction opportunities. Critically, the findings were overlayed against the organization's over-riding objective — to develop new robots and bring them to market — to help ensure any measures taken would not impact future growth.

The project went beyond cost out-take. The team was also able to look across the organization's product development process to identify key challenges and develop robust action plans to help solve them. In doing so, the organization was able to achieve quick wins and create long-term value.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

05

Continuously measure the value and course-correct.

Don't just set goals and then ignore them. Your quantification process gave you clear metrics and outcomes to measure. This is not just about reporting back to stakeholders and approvers about whether goals were achieved and the ROI delivered. It's about being able to rapidly course-correct when new trends or disruptions emerge — based on reliable data and a clear understanding of the business objectives. Develop the capability to continuously evolve how your decision-makers view your baseline organizational data to unlock a perpetual cycle of value measurement and management. Lessons can be learned and shared across the enterprise. With a granularity of data, new opportunities to create incremental value can be uncovered. Measurement is a key to value creation and should never be left as an afterthought.

Case study

Tracking the value: Enhancing capital allocation

When this global specialty lighting manufacturer wanted to drive growth, they worked with KPMG in Austria to develop their new operating model. A few years later (and thanks in part to their new operating model), the organization needed to adjust their operating model again — this time to scale up to meet new demand.

Using the KPMG Elevate methodology, the organization built a very solid and reliable foundation of data to support decision-making. And, as the various actions related to the new operating model rolled out, this foundation of data provided the executive team with detailed and trustworthy information on project progress, value generation and costs.

Moreover, by continuously keeping track of their data and activities, the organization was able to quickly pivot to take advantage of new opportunities as they emerged — with the ability to rapidly quantify the value, assess the opportunity and then execute based on reliable and accurate data — giving them a level of agility that their competitors would struggle to duplicate.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

How KPMG firms can help

Your business reality is rapidly changing. Perhaps you are going through a transformation, conducting a transaction or trying to achieve a turnaround in performance. You need to quickly unlock quantifiable value. And you need to be able to track the value delivered, throughout your journey. The KPMG Elevate methodology can help.

KPMG Elevate is designed to help you unlock financial value — quickly — no matter where you are in your journey. From strategy through to execution, KPMG professionals help you to confidently and efficiently achieve measurable improvements to your operating margin, cost structures and working capital positions.

You can count on the KPMG Elevate methodology to help you deliver to deliver real results. It's informed by rich sources of proprietary data and insights. It's founded on deep sector experience. And it's delivered by KPMG firms' professionals.

Driven by a deep heritage in audit and execution, KPMG Elevate is designed to give you the insights, the conviction and the capabilities you need to realize your future-state business and operating models.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

Authors

Javier Rodríguez González
Partner, Deal Advisory, Global Head of Elevate, Deal Strategy
KPMG in Germany
T: +49 160 90373023
E: jrodriguezgonzalez@kpmg.com

Javier currently leads the development and deployment of KPMG's Value Creation services in EMEA region. His core expertise is related to the development and implementation of value creation programs creating tangible value for Corporate and Private Equity clients, both within and outside the deal space.

Karina Collins
National Leader, KPMG Strategy
KPMG Australia
T: +61 7 3225 6827
E: kacollins@kpmg.com.au

Karina works with clients to develop strategies and solutions for complex business challenges and has a background in innovation, technology and transformation with experience across multiple sectors including Government, Not for Profit, Energy & Natural Resources.

Jan Rüther
Partner, KPMG Advisory
KPMG in Germany
T: +49 211 4756546
E: jruether@kpmg.com

Jan is a value creation specialist with wide experience in identifying and delivering enterprise-wide opportunities in deal and non-deal scenarios. He has global experience across various sectors, including industrial manufacturing, energy, automotive, and software.

Special thanks to Scott Rankin, Global Head of Strategy, KPMG International & US Strategy Leader and Scott Mishara, Director Advisory, KPMG in the US for their contribution through the US survey.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit kpmg.com/governance.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Designed by Evalueserve.

Publication name: Securing value in a slowdown | Publication number: 138497-G | Publication date: March 2023