

Strategy & Corporate Finance Practice

# Business priorities in the postpandemic era

John Waldron, Kevin Sneader, and Carolyn Dewar on the state of  
global business and the future of M&A.



**This episode** of the *Inside the Strategy Room* podcast features a conversation between Kevin Sneader, McKinsey's global managing partner, and John Waldron, president and chief operating officer of Goldman Sachs, that took place at our virtual M&A conference in February. Carolyn Dewar, who co-leads our CEO and board excellence work, moderated their discussion of the current state of mergers and acquisitions, business priorities in the postpandemic era, and how government involvement in the economy may affect future deal making. This is an edited transcript of the discussion. Listen to the podcast episode on Apple Podcasts or Google Podcasts. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Podcasts.

**Carolyn Dewar:** There is no denying that the world has changed drastically since our last M&A conference, between the deadly pandemic that has left a massive human and economic toll, to climate disasters around the world, to renewed calls for equity and justice. I mention these themes not just because they should matter to us as individuals and business leaders, but also because they impact the M&A space that we are here to discuss. Kevin, you recently wrote an article that presents 2021 as "a year of transition." What are some of the key trends that will drive this transition?

**Kevin Sneader:** After the litany of negative things you pointed out, Carolyn, let me start with a note of optimism. Some data caught my eye today showing that start-up applications in the United States last year were up by more than 24 percent over 2019. I mention that because one of the trends we see is a remarkable amount of innovation, and this innovation bridges what we have been living through and the next normal on the other side of the pandemic. Underpinning that innovation are, of course, fairly fundamental shifts in consumer behavior that will not be easily reversed, starting with the digitization of everything.

But business leaders have to look beyond the consumer aspects of digitization and realize that organizations are rapidly embarking on a journey to digitize core processes. The impact of that trend

is yet to be fully seen because the investment is ongoing, but many forces we talked about before this pandemic—automation of work, the need to reskill—have been massively accelerated. We all thought transition jobs would be available in the service sector or retail for those who need to reskill, but those sectors continue to be badly hit, so executives need to rethink the assumptions about how we will maintain a cohesive society as people transition to a more automated world. That trend could represent a threat.

There are many other trends to watch. The greening of our economies, for example: in Europe and elsewhere, stimulus packages are tied to making the recovery more green than brown. Another trend is how healthcare is being prioritized. And there is a real reckoning around portfolios. How does the portfolio I had going into the pandemic fit with what I will need coming out of the crisis? Small portfolio differences will make big differences in levels of resilience.

**Carolyn Dewar:** John, how would you characterize the overall level of CEO confidence, especially around markets and financial conditions?

**John Waldron:** First, I would echo Kevin's positive sentiment, because I think we are about to see an unleashing of the global economy, although it will be uneven and may benefit certain parts of the economy over others. There is a real sense of optimism in the CEO community. It is hard to paint it all with one brush because obviously some sectors such as travel and aerospace are still feeling significant pain, but broadly speaking, there is an optimistic tone. The economy has proven to be much more resilient than many of us predicted in the spring and summer of 2020. You can see growth ahead that will be improved by the productivity gains coming out of the innovation Kevin spoke about.

We see that reflected in the M&A dialogues. M&A is a very good indicator of CEO confidence. I wish we could have a graph of the correlation because I think it would be close to one to one. Our M&A business has never been better, which may seem odd in light of the fact that we are still in a pandemic. And I

could not agree more with Kevin's point about the rise in the reevaluation of portfolios. There is also an enhanced view that scale matters. Having a more diversified, scaled operation to withstand the shocks that seem to be coming along more often and with higher intensity is resonating in many CEOs' minds. They want to make sure their portfolios have the size and scale and breadth needed for this next wave of economic growth and innovation.

The second big driver of M&A is digital transformation: understanding how to use automation, and where you are on cloud transformation. The third big driver, which is not as obvious in the transactions you see now but will become more so, is sustainability and ESG [environmental, social, and corporate governance] issues. That will drive a lot of portfolio reevaluation and rationalization, and stimulate M&A activity. And the capital markets continue to be very willing to finance that M&A.

**Carolyn Dewar:** To what extent have you seen climate change and broader stakeholder concerns play out as CEO-level priorities and factors in M&A decisions?

**John Waldron:** CEOs today have to think about their stakeholders differently than they did five or ten years ago, and that will only accelerate. The narrative in society is increasingly about climate, inclusive growth, wealth disparity, racial equity, and the pandemic is a major catalyst raising focus on those areas. The pandemic has been kind of Darwinian in its impact: those who have capital and resources have generally done pretty well, while the under-served communities that lack those deep resources have been hit harder, and this is forcing a reevaluation for society. A CEO has to be attuned to that. Your stakeholders and employees are going to demand it. At Goldman Sachs, much like at McKinsey, the employee base is young. To them, revenues and profits are not the only drivers of our success in the world.

**Kevin Sneader:** To build on John's observation, at the beginning of the pandemic all the traditional metrics got displaced. CEOs shifted to looking after their colleagues' safety and after their customers—remember, in the beginning some companies funded customers who had hit hard times—and managing cash. There was a recognition that some of the

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traditional, narrowly focused metrics will not carry us through this experience the whole of society is going through. In this moment, many CEOs have emerged as the people we trust. Some of the trust indices show that employees have relied on business leaders to look after them because state agencies had other priorities. I don't think that will change on the other side of this pandemic.

**John Waldron:** The two major issues of our time are the pandemic and the risk of future pandemics, and climate change. They are both about societal connection and they are global. We cannot have a few countries deal with the virus or the climate; it has to be an ecosystem-wide effort, and that is dawning on everybody more every day.

**Carolyn Dewar:** On the sustainability front, do you see scale-up companies continuing on their own and becoming powerhouses, or do you expect many to be acquired as large corporations try to build up their capabilities?

**John Waldron:** We are struggling to marshal all the private capital in the world into the new technologies that will enable a more sustainable world. But you need to know where you can get returns over time as opposed to where you can get returns in six minutes, and right now we are in a world that wants to see returns quickly. I am a little worried there is a mismatch between the capital and the expectations on returns. If you are an established company in the fossil fuel world where you have an obvious challenge and need to create a transition, how much of that can you do with long-dated net present value [NPV] projects and how much can you do strategically through M&A? How do you make yourself more sustainable when your shareholders are asking for results a quarter or three quarters out, not five years?

We will see a multiplicity of approaches, and one is creating more metrics and transparency that public and private investors can invest behind. There is no EBITDA for sustainability. There is an alphabet soup of metrics right now, and it is very hard to understand how you measure the return in that

regard, so I think the calls for more disclosure and transparency are right.

**Carolyn Dewar:** Given all these shifts, what kind of leadership qualities have you seen come to the fore as CEOs reimagine their role?

**Kevin Sneader:** I would summarize my observations as microscopes, telescopes, and Valentine's Day. Leaders have always needed the ability to drill down and understand what is going on. The problem is that the traditional ways to forecast have not worked so well. In many respects, forecasts and planning are out and dashboards are in because you need to constantly reevaluate how things are evolving to spot the trends. That is amplified by the use of data analytics. At the same time, we have to get our telescopes out and look at the future. How do we shape the business portfolio and take the actions that set up the businesses we lead for success in the postpandemic future? Those acting now are already making bold decisions, which is why we see the increase in M&A activity.

The last part is Valentine's Day. This has been a time when the ability to relate to colleagues has really mattered. As one CEO put it, I need to show some love. It may not be a core part of the CEO job description, but showing some love has been largely what has differentiated leaders in this moment. Those who are able to empathize and act on that empathy have been the ones we are all celebrating.

**Carolyn Dewar:** As the transition to the postpandemic world starts to take hold, what scenarios should CEOs be preparing for?

**Kevin Sneader:** The pattern we are living through is truly unusual and therefore not necessarily informed by past numbers. This is a healthcare-driven shock, and no one is safe until everyone is safe. It is like the environment: it is a tragedy-of-the-commons situation. My view is that more effort needs to go into understanding and preparing for the positive scenarios. There is quite a bit of inertia. Some of the stimulus packages support maintaining things as they were, rather than saying, "This is a window of

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time in which we must make change happen.” I worry that those who hang onto the way things were will emerge much weaker because, with a solution to the healthcare component of this crisis, things can move quickly. That possibility is not yet fully recognized by enough CEOs.

**Carolyn Dewar:** Kevin mentioned that the expectations of deep changes to come are driving the uptick in M&A. John, how should M&A leaders be factoring that into their plans?

**John Waldron:** If you are running an M&A operation, you need to think, where are you on the technology transformation? Do you have enough engineering talent? Do you have enough platform-development capability? If you are in an industrial business, is your supply chain sufficiently automated? Most companies, when they are honest with themselves, worry they do not have the technology capabilities they need given the explosion of innovation ahead of us.

The second major consideration is the extraordinarily compliant equity and credit market for transactions—I dare say bordering on frothy. That won't last. It is not inconceivable that we will get higher interest rates or more of a yield curve if we

are correct about the economic unleashing in front of us. We are at risk of falling into complacency about the current environment because we are just coming out of a pandemic, there is a lot of stimulus in the system, and it feels like it ought to go on for quite some time. But I worry that will not be the case, and I would be more on the balls of my feet around the future price of capital and the way equities trade and the way shareholders will reward M&A. There is also more potential for a regulatory response. Big businesses are getting bigger, and regulators may push against that, which is something to watch.

**Carolyn Dewar:** How do you envision the private or public ecosystems working together in the future?

**Kevin Sneader:** It is hard to see a scenario where government does not make its voice heard. Governors have become payers, lenders, insurers, and owners of last resort, and we can expect more government involvement. It is also apparent that the way government and the private and social sectors work together will be pretty fundamental. We have to find ways to make these systems work better together and hope policy does not take over and create conditions bad for growth and jobs.

**Carolyn Dewar:** As we think about the role that M&A may play in all this, what guidance would you offer leaders considering deals?

**John Waldron:** I predict there will be a tension, a push-pull between the markets and society. The markets will push and propel more M&A, and the regulatory and societal response may be to push against it. To Kevin's point, government has never been more involved in the economy, and government is a function of voters and society, and they will have their own views.

**Kevin Sneader:** In the boardroom conversations I join, three things are discussed around M&A. One is, how do you preserve the balance between revenue growth, EBITDA growth, and the profits you retain from investment? But then the conversation quickly moves away from the narrow economic opportunity and toward the need to build capabilities and how M&A will enable that in the areas where we wish to grow our business. The third thing is, we know we have to make portfolio shifts. The trends mean there are very different impacts with small differences in portfolio. Just consider how various consumer companies were affected depending on how much exposure they had in the early part of the pandemic to cleaning and health-oriented products. That drove massive differences in economic performance and valuations.

**Carolyn Dewar:** As we look forward with an air of optimism, what are some of the glimmers that give you hope?

**Kevin Sneader:** There are many. For example, the way in which business leaders have risen to this occasion and found ways to look after their colleagues and engage in their communities. Every week, I publish a note to McKinsey staff, and it has been story after story of what our clients are doing, from finding ways to make masks that were in short supply to converting their manufacturing lines to help keep people safe. Then you add the amazing ingenuity and innovation. We have talked about vaccines, but let me give you another example: door openers. I never thought that door opening was a particularly innovative area of the construction trade, but it turns out to be. People do not want to put their hands on doors, so all of a sudden door manufacturers are investing in technology to open doors by waving the hand. Lastly, the fact that business and government and social enterprises are working together to create, for example, the distribution channels to get vaccines out. Let's take inspiration from all of that. It is always darkest before the dawn. It feels pretty dark at the moment, but we can see that dawn is coming.

**John Waldron:** It is about the human spirit. If you had said we would have a pandemic and this is what humans would accomplish in the middle of it, we might have all taken the under. The fact that in the US we had Operation Warp Speed that put politics aside to help create a vaccine, I would have taken the under on that, too. This demonstrates our ability to react and evolve with the toughest of challenges. That gives me a lot of optimism that we can chew through the challenges ahead.

**Carolyn Dewar** is a senior partner based in McKinsey's San Francisco office. **Kevin Sneader** is McKinsey's global managing partner and is based in the New York office. **John Waldron** is president and chief operating officer of Goldman Sachs.

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