

# Coronavirus: How the epidemic is impacting the Asian consumer sector and M&A market

February 2020



## Overview

Since the coronavirus (COVID-19) outbreak in December 2019, it's become evident that the disruption to the economy will impact not just China but the rest of the world. Obviously, there is still a lot of uncertainty about what will happen – but the effects are already dramatic. Major cities are locked down. A mass quarantine of tens of millions of people. Millions are stuck and banned from travelling in and out of China. Thousands have died.

Businesses are taking drastic measures. Thousands of Chinese factories are yet to reopen. Tens of millions of professionals are working from home or on rotation. Students are on extended breaks.

Global airlines have mostly suspended flights to China. Travel and visa restrictions have been established in almost 100 countries.

The global supply chain has been disrupted. Countless businesses have been impacted by the outbreak of the coronavirus.

Not surprisingly, demand for most discretionary goods has dropped dramatically across the region. Tourism, hotels and airlines are decimated. Retail stores and restaurants are in deep trouble. Consumer staples such as groceries, rice, instant food and toilet paper have remained resilient. The epidemic has helped supermarkets and e-stores attract new online customers without extensive marketing and promotional efforts.

Some sectors might benefit from the virus outbreak – but not most. Anything that is related to digital, direct-to-consumer, healthcare: online supermarket, food delivery, digital home entertainment, online games, online education, healthy foods, consumer health and drugs, will benefit.

Surgical masks, alcohol sanitizers and other hygiene products are the most obvious beneficiaries of the coronavirus disruption.

We think the coronavirus outbreak will accelerate the shift towards online shopping and entertainment, boosting online segments. The new O2O, ecommerce delivery model fits well with consumer needs when they are asked to stay at home. The new habits people pick up in the next few months will last, in many cases, forever.

## Overview

We saw US\$40bn in global lost productivity due to SARS in 2003 and US\$55bn during the 2009 H1N1 swine flu pandemic, both of which involved China. Those numbers could be dwarfed by this new virus – which could delay growth of hundreds of billions of dollars.

Global growth will resume as long as the coronavirus doesn't last too long. Three lost months will be a big hit. Six lost months could mean some countries tip into recession. It is too early to assess how big the impact is, but we are impressed by a sense of calm and resilience by financial players.

Q1 profitability will be negatively impacted globally. M&A deals will slow down dramatically in the next couple of months. Valuations may drop in the short term but should bounce back sharply. Post-virus, there will be pent up demand, from delayed consumer discretionary spending, and delayed spending on consumer durables. We expect deals to rebound once the virus is contained. In the meantime, there will be good buying opportunities in China and beyond.

# Appendix





# Coronavirus: Impact on Consumer Sector

Tourism and Hospitality subsectors have been heavily hit. Some subsectors will benefit from the virus, but not most

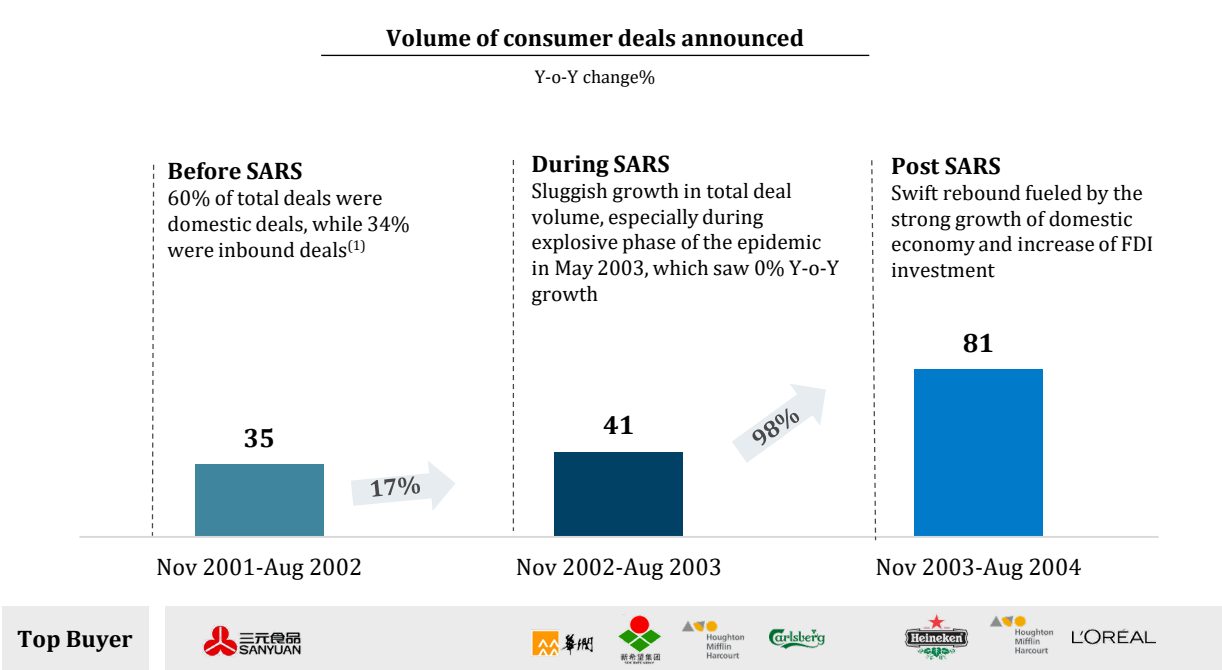
## Consumer subsectors overview

	Subsector	Comments
<b>Most affected:</b> Directly and severely hit by the coronavirus	 Retail	<ul style="list-style-type: none"><li>- Shopping centers, department stores and specialty retail businesses (e.g. hair salons) are heavily hit</li><li>- Supermarkets are better positioned than shopping centers as grocery shopping needs are not diminished</li><li>- Ecommerce and retailers with online delivery services will benefit</li></ul>
	 Hospitality	<ul style="list-style-type: none"><li>- All segments, e.g. hotels, restaurants, bars and resorts, have dramatically reduced operations during the period</li><li>- Travel and outdoor entertainment are severely hit, which also affect airline operations</li><li>- Restaurants can generate some revenues from online delivery channels</li></ul>
	 Apparel & luxury goods	<ul style="list-style-type: none"><li>- Apparel and luxury brands are significantly affected by the sharp drop in Chinese consumers' travelling and shopping</li><li>- Recovery is expected as the situation improves</li></ul>
<b>Moderately affected:</b> Medium impact, some subsectors may even benefit from the outbreak	 Education	<ul style="list-style-type: none"><li>- Center-based education institutions face short-term challenges</li><li>- Online education providers benefit as more people have turned to online learning options, often mandated by government</li></ul>
	 Appliance & consumer electronics	<ul style="list-style-type: none"><li>- Short-term demand and regional manufacturing capacity are depressed</li><li>- In the meantime, there will be increasing demand for certain home products, e.g. air purifiers, disinfection cabinets</li></ul>
<b>Benefited:</b> Essential consumer goods remain strong, especially hygiene products	 Household healthcare and personal care	<ul style="list-style-type: none"><li>- Demand for household healthcare/personal care products, especially surgical masks, disposable gloves, detergents and tissues has spiked, and will remain strong as consumers remain precautions</li><li>- Short-term negative impact on beauty products</li></ul>
	 Food & beverage	<ul style="list-style-type: none"><li>- Dairy, processed and packaged food, better-for-you snacks and nutritional supplements will see strong demand</li><li>- However, liquor and beverages are negatively impacted as people reduce gathering and travelling activities</li></ul>
	 Agriculture	<ul style="list-style-type: none"><li>- Demand for agricultural products remains high, especially staples such as meat, vegetables and fruits</li><li>- Short-term negative impact mainly due to supply chain disruptions</li></ul>

# Impact on M&A Market: What We Have Learned from SARS

Despite softened growth, M&A activities are less affected by the temporary epidemic than the overall economic trend

## China consumer sector M&A activity during SARS (Nov 2002 – Aug 2003)



Top 3 subsectors (# of deals announced)						
	Nov 2001-Aug 2002		Nov 2002-Aug 2003		Nov 2003-Aug 2004	
No.1		Food & beverage (15)		Food & beverage (17)		Retail (18)
No.2		Home appliance & consumer electronics (7)		Retail (7)		Food & beverage (17)
No.3		Retail (4)		Hospitality (5)		Apparel & luxury goods (10)

# Impact on M&A Market: What We Have Learned from SARS

*M&A activities are depressed in short term but rebound quickly*

## SARS: Key Highlights

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- SARS outbreak slowed M&A activities in the short term, yet the market recovered quickly since September 2003, with the number of deals announced increasing 67% Y-o-Y <sup>(1)</sup>
- Overall economic environment, rather than the temporary epidemic, played a more important role on M&A activities
- Investment in F&B remained strong during the virus outbreak, especially in brewery and dairy
- M&A in the retail sector experienced a strong growth after SARS, particularly in inbound acquisitions of shopping centers, supermarkets, and electronic device retailing – a reflection of strong confidence in China's economic growth
- Ecommerce and online gaming are two emerging sectors with more active M&A activities immediately post-SARS
  - Ecommerce: 1<sup>(2)</sup> (2003) vs. 5 (2004)
  - Online games: 0 (2003) vs. 2 (2004)

## Coronavirus: M&A Impact

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- We believe the nervousness will abate by June 2020 as overall business and consumption continue to recover
- Investment themes are likely to remain the same as before the virus outbreak, though hygiene/healthcare products and new-gen online services providers will gain extra attention post-COVID-19

(1) Sep 2002 vs. Sep 2003

(2) Refers to number of deals closed

# Key Investment Themes

*The shift in consumer behavior during coronavirus has brought new opportunities to various segments*

## Top Six Sectors

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### 1 Online medical service

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- Online diagnosis & prescription
- Hospital appointment apps
- Online medicine purchase and delivery
- Chronic diseases consulting and monitors

### 2 Consumer healthcare

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- Hygiene products
- Household cleaning products
- Nutritional supplements

### 3 O2O services

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- Online order and delivery
- Cold chain logistics and delivery service providers

### 4 Online education

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- Virtual classroom learning
- Online afterschool tutoring / test prep / vocational training platforms

### 5 Mobile entertainment

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- Live-streaming and short video sharing platforms
- Mobile gaming developers
- Fitness apps

### 6 Healthy foods

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- High-protein, organic food
- Healthy snacks



# Contact BDA

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## BDA's Global Coverage

