

What we're seeing - business response to COVID-19

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The uncertainty and disruption caused by the Covid-19 virus has been termed a supply shock and, for the most part, that is how our business and local government clients are seeing it. In today's interconnected world, almost every industry or business is reliant on a number of key factors of production which are not entirely within its control. Our clients are being thoughtful about the key goods or services that they need to keep operating their businesses. These range from components manufactured in parts of China shut down by the virus through to the availability of shipping and airfreight. Looking further out, business are dusting off contingency plans and making sure the infrastructure is in place for significant employee absences over the coming months.

However, the Covid-19 outbreak is not just being felt as a supply shock. There has been a significant impact on demand for New Zealand goods and services. This has already been felt in forestry and tourism and looks likely to be felt across the primary sector. Clients in these sectors are taking a sober view of what lies ahead over the course of the year, particularly if the event is protracted.

By and large, though, our business clients are doing what they always do – weighing up the opportunities and threats and acting accordingly. Merger and acquisition activity remains strong and we do not see this dropping off. We think that there are a number of reasons for this, including:

- Experience suggests that epidemic and pandemic events are transitory. M&A requires a medium to long term outlook and it is rare for the fundamentals of any deal to be severely affected by Covid-19 concerns
- Uncertainty and stagnation (with the former often leading to the latter) tend to have the biggest chilling effect on M&A activity. While the effects of the Covid-19 virus may be protracted, it seems likely that the associated uncertainty will be resolved reasonably quickly (ie businesses will know what they are dealing with and be able to respond accordingly)
- As well as consolidation and retrenchment (which often result in mergers and acquisitions themselves), the Covid-19 event will also create opportunities as businesses look for new ways to service their customers and markets or look for new markets.

Businesses which are thoughtful and measured about their response to Covid-19 and contingency planning are likely to achieve the best results. Often it is the case that *the better the information, the better the decision* – when things are changing rapidly it's frequently prudent to defer decisions until the last feasible moment to make sure that you have considered as much information as possible in the circumstances.

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