Global Capital Confidence Barometer

October 2019 | 21st edition | Asia-Pacific highlights
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M&A – response or resilience?

The prolonged upward trend for dealmaking is set to continue despite geopolitical and economic concerns.

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Spotlight

Key findings

58%

of Asia-Pacific respondents view the local economy as growing

68%

do not expect an economic slowdown in the near to mid term

49%

of Asia-Pacific companies are actively pursuing M&A in the next 12 months

78%

of Asia-Pacific respondents expect private equity to be a major acquirer of assets in the next 12 months

67%

of Asia-Pacific respondents are investing in digital/technology assets externally

"With ongoing confidence in the stability of the local economies and with the majority saying they are not expecting an economic slowdown in the near to mid term, M&A intentions remain strong. Feeling competitive pressure from private equity as well as existing competitors, Asia-Pacific companies are using venture capital, direct investment and acquisitions, and alliances to invest in digital assets to gain a competitive edge.

Harsha Basnayake
EY Asia-Pacific Leader,
Transaction Advisory Services

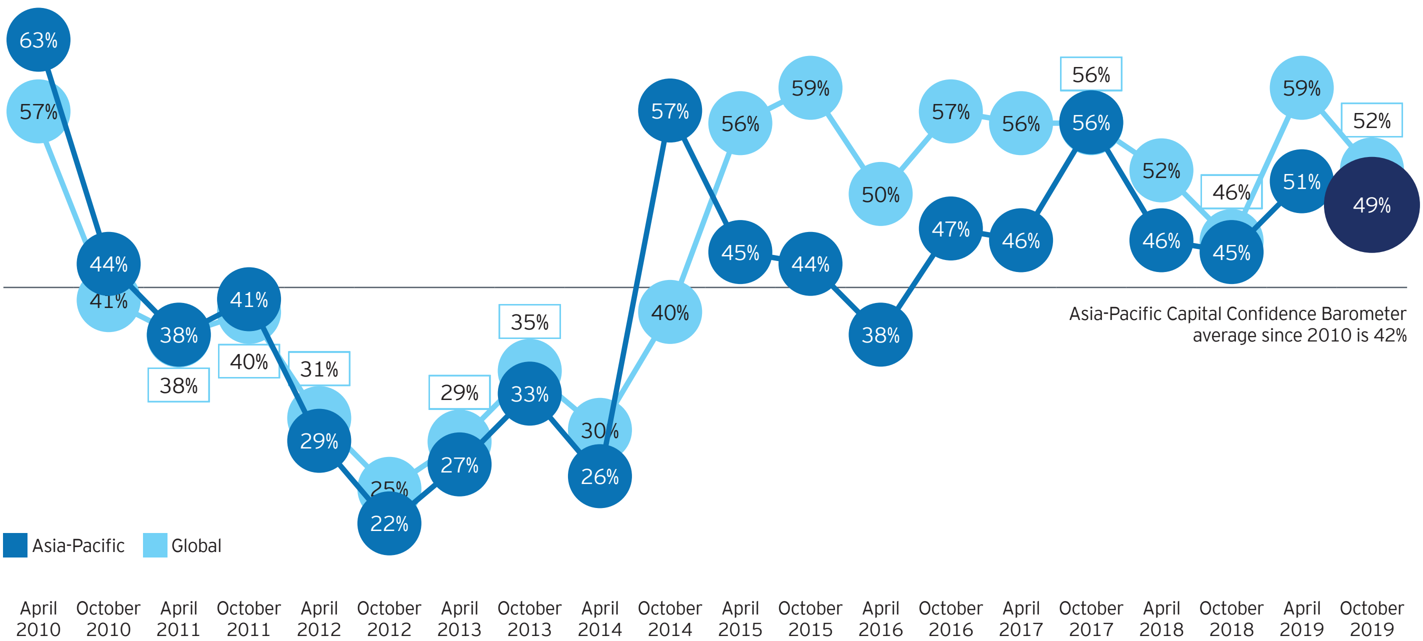
Asia-Pacific highlights

Asia-Pacific companies are identifying and seizing growth opportunities amid a sea of challenges.

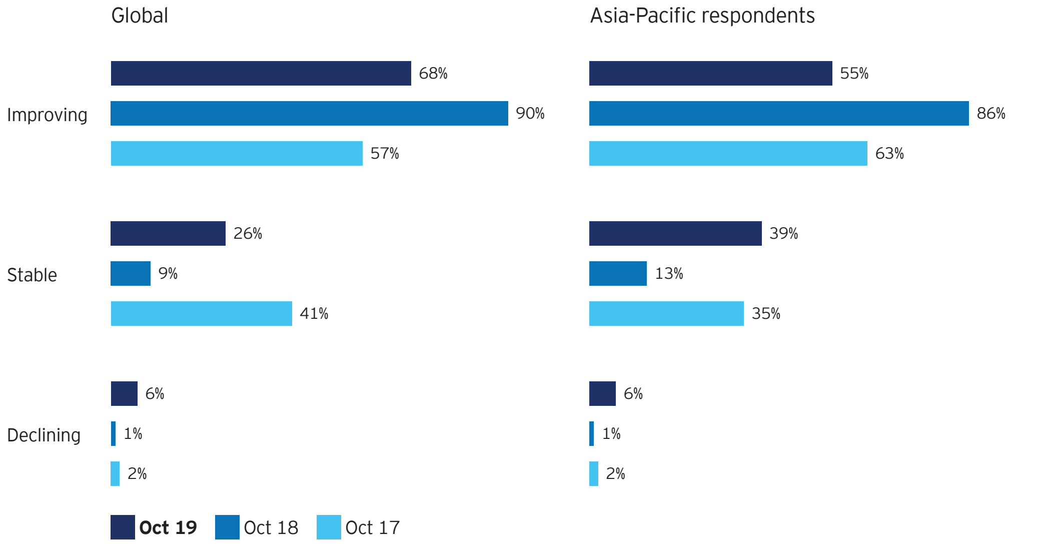
Global and local geopolitical shifts, the US-China trade dispute and technology-led innovations that are changing consumer, supply chain, labor and regulatory dynamics are motivating corporate executives to stress-test trusted business norms.

Despite these challenges, 49% of Asia-Pacific respondents say they are actively pursuing M&A in the next 12 months, according to the EY *Global Capital Confidence Barometer*. This is a small decline from 51% six months ago, signaling that companies continue to see consolidation and expansion opportunities through dealmaking. However, their outlook for dealmaking has softened as they look forward, with 55% expecting the global M&A market to improve over the next 12 months, down from 86% a year ago.

Q Do you expect your company to actively pursue M&A in the next 12 months?



Q What is your expectation for the global M&A market in the next 12 months?



Slowing economic growth does not imply a recession for the C-suite in Asia-Pacific

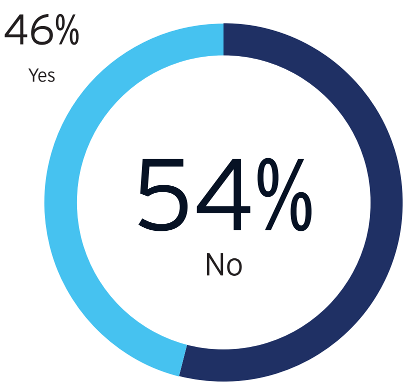
Asia-Pacific executives' determination to stay the course in their growth ambitions may stem from their confidence in the stability of both global and local economies. Seventy-two percent of Asia-Pacific executives see the global economy as growing. A smaller, but still substantial, number (58%) of Asia-Pacific respondents perceive their local economies to be growing. While confidence has declined from 69% a year ago, a majority of Asia-Pacific executives expect the region's economy to remain resilient.

This is supported by the sentiment of 68% of executives who do not expect an economic downturn in the near term — 14% higher than the global respondents.

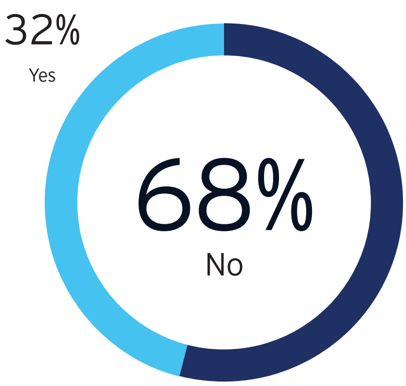
This suggests that Asia-Pacific executives consider the likelihood of a recession in the near term a minimal threat, despite suggestions from some commentators that an economic downturn is on the immediate horizon.

Q Are you expecting an economic slowdown in the near to mid-term, and, if so, when do you expect it to happen?

Global



Asia-Pacific respondents



M&A outlook reflects growth potential

The positive M&A outlook across the region reflects shifting growth possibilities and acquisition ambitions in different markets across Asia-Pacific.

In China, despite outbound investment challenges many Chinese acquirers face, appetite for acquisitions by Chinese companies remains healthy at 46%, an intention that is at its highest level since early 2018. Survey results show that most China-based executives are seeking domestic deals. Europe also continues to be a popular investment destination — a trend seen in the market that's been sustained since 2013.

In Japan, 57% of executives intend to pursue deals over the next twelve months, one of the highest deal intentions from Asia-Pacific respondents. Many Japanese companies are looking to grow inorganically amid a slowing local economy. There is a desire to take advantage of the lower cost of acquisition financing and expansion opportunities overseas. Meanwhile, Japan's outbound M&A activity shows no sign of slowing down as companies plan to proactively ease competitive pressure from new and existing competitors.

In Southeast Asia (SEA), as the confidence in local economic growth has declined, so too have deal intentions. With just 41% expecting to pursue M&A in the next 12 months, this is slightly below the region's long-term average of 42% and represents SEA's lowest appetite since 2016. SEA corporates rated geopolitical

78% expect private equity to be a major acquirer of assets in the next 12 months.

or local political uncertainties as the greatest external risk to the growth of their businesses, causing investors in the region to take a wait-and-see approach. However, SEA buyers still recognize opportunity within the region, where the top investment destinations are Indonesia, Singapore and the Philippines.

The US, China and the UK are the top investment destinations for Asia-Pacific respondents. For global respondents, China (4), Australia (8), Japan (9) and Singapore (10) are among the top 10 investment destinations.

Across the Asia-Pacific region, 78% of executives expect private equity (PE) to be a major acquirer of assets in the next 12 months as PE dry powder continues to be at record levels in Asia-Pacific. As a result, Asia-Pacific executives expect strong competition for assets. Eighty-two percent anticipate an increase in hostile and competitive bidding in the next 12 months.

Increasing competition fuels deal intentions

Asia-Pacific respondents highlight increasing competition from existing competitors as the most significant challenge to their growth ambitions. This view is different from global respondents, who identified margin pressure as their most significant challenge. Industry consolidation across the region, access to private capital and the emergence of Asian unicorns with a wider industry focus are reinventing the competitive landscape. The competition extends beyond customers to talent and skills, posing a challenge to their growth plans.

Meanwhile, regional consolidation continues to fuel M&A activities. In 2019, more than half of the cross-border deals in Asia-Pacific markets have been intra-regional deals. These deals are motivated by corporate interests looking to expand into new markets and acquire new technologies and new production capabilities within the region.

This reflects a different deal environment compared to a decade ago, when inbound investors to Asia-Pacific markets were mainly from the US and Europe, and Japanese investors contributed to the majority of these intra-regional deals within Asia-Pacific.

The digital technology imperative drives investment activity across the board

Asia-Pacific respondents acknowledge that digital transformation is blurring the boundaries between industries. As a result, Asia-Pacific acquirers have been pursuing more cross-sector deals compared to their global counterparts.

They increasingly are building capabilities using both corporate venture capital funds and external funds to invest in a range of new technologies. This approach offers more optionality and provides a range of potential digital futures.

The three most popular sectors for M&A activity over the next 12 months include life sciences, media and entertainment, and technology. Interestingly, this is the first time we are seeing media and entertainment sighted as a top three target sector for Asia-Pacific respondents.

These sectors are most acutely experiencing the effects of digital disruption. As a result, companies in these sectors are turning to M&A to acquire new business models amid pressure to stay competitive and fend off a high volume of competition from startups.

67%

are investing in digital assets through venture capital, direct investment and acquisitions, and alliances.

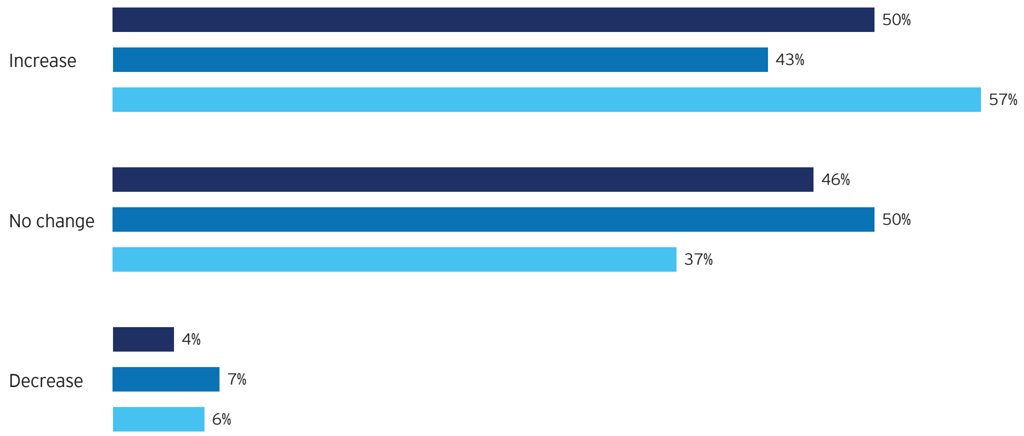
Looking ahead, M&A will help to propel long-term growth

Although overall deal intentions across Asia-Pacific may be down slightly from October 2018 and the outlook for M&A over the next 12 months is more tempered, more Asia-Pacific executives (50% versus 43% a year ago) expect their M&A pipeline to improve and more (58% versus 53% a year ago) expect to close deals in the year ahead.

Ultimately, Asia-Pacific executives are relying on M&A as the route to expand into new markets, acquire new technology and production capabilities, and win new talent to create sustainable, long-term growth.

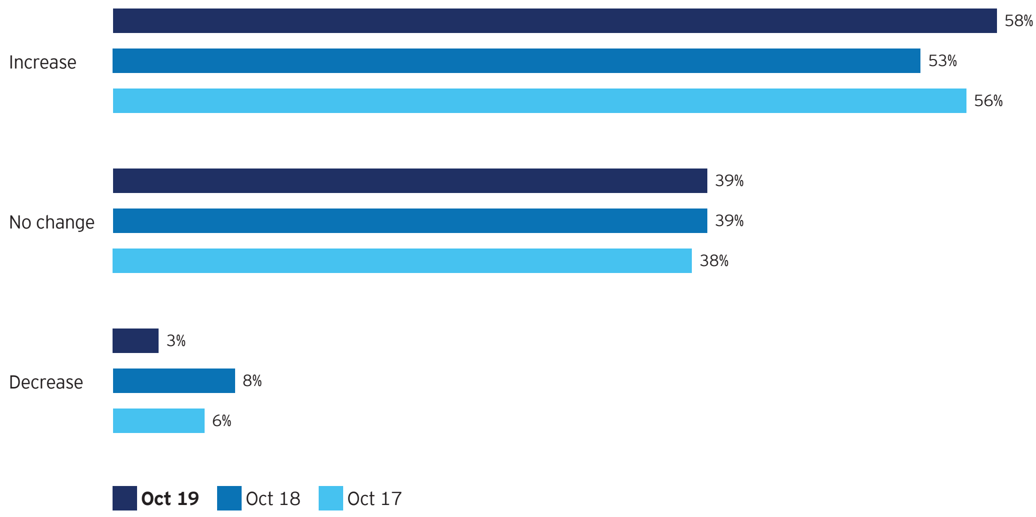
Q Considering the next 12 months, how do you expect your M&A pipeline to change?

Asia-Pacific respondents



Q Considering the next 12 months, what is your expectation for the number of deal completions by your company compared with the past 12 months?

Asia-Pacific respondents



Key takeaways

The critical questions Asia-Pacific executives should ask themselves to drive better M&A in today's deal economy

1

Can you measure your relevant economy?

GDP statistics provide an overarching view of the macro economy, but fully understanding your individualized economic ecosystem and addressable market can help Asia-Pacific companies to be more effective in proactively managing capital strategy to support sustainable long-term growth.

2

What is your capital strategy to invest in digital?

The right digital transformation strategy should be at the heart of boardroom planning as Asia-Pacific companies look at buying today to prepare for tomorrow.

3

Can you afford to walk away from the deal table?

To stay ahead of the curve, Asia-Pacific executives need to remain flexible, keep their options open and seize the right advantages as they arise. Walking away now could mean missing an opportunity that competitors will fully exploit – at your expense.

4

Can you predict your own future trade flows?

Understanding the future interplay between supply chains and market access can help Asia-Pacific executives to better manage risk and accelerate opportunities for growth.

About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas — EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select global EY clients and contacts and regular Thought Leadership Consulting contributors.

- In August and September, Thought Leadership Consulting surveyed on behalf of EY a panel of more than 2,900 executives in 45 countries; 70% were CEOs, CFOs and other C-level executives.
- Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.
- Surveyed companies' annual global revenues were as follows: less than US$500m (25%); US$500m-US$999.9m (25%); US$1b-US$2.9b (18%); US$3b-US$4.9b (10%); and greater than US$5b (22%).
- Global company ownership was as follows: publicly listed (57%), privately owned (31%), family owned (9%) and private equity portfolio company (3%).

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Contacts

For a conversation about your capital strategy, please contact us:

Global

Steve Krouskos
EY Global Vice Chair
Transaction Advisory Services
EY Global Limited
steve.krouskos@uk.ey.com
+44 20 7980 0346
Follow me on Twitter:
@SteveKrouskos

Julie Hood
EY Global Deputy Vice Chair
Transaction Advisory Services
EY Global Limited
julie.hood@uk.ey.com
+44 20 7980 0327
Follow me on Twitter:
@juliehood_EY

Tony Qui
EY Global Chief Innovation Officer
Transaction Advisory Services
tqui@uk.ey.com
+44 7825 010882

Barry Perkins
EY Global Lead Analyst
Transaction Advisory Services
EY Global Services
bperkins@uk.ey.com
+44 20 7951 4528

Asia-Pacific

Harsha Basnayake
EY Asia-Pacific Leader
Transaction Advisory Services
harsha.basnayake@sg.ey.com
Office: +65 6309 6741

Asia-Pacific Financial Services

Jonathan Zhao
EY Asia-Pacific Financial Services Leader
Transaction Advisory Services
jonathan.zhao@hk.ey.com
Office: +852 2846 9023
Mobile: +852 6392 3701

Oceania

David Larocca
EY Oceania Leader
Transaction Advisory Services
david.larocca@au.ey.com
Office: +61 2 9248 4245
Mobile: +61 43940 6124

Greater China

Erica Su
EY Greater China Leader
Transaction Advisory Services
erica.su@cn.ey.com
Office: +86 21 2228 2205

Asean

Vikram Chakravarty
EY Asean Leader
Transaction Advisory Services
vikram.chakravarty@sg.ey.com
Office: +65 6309 8809

Korea

Ki Whan Jung
EY Korea Leader
Transaction Advisory Services
ki-whan.jung@kr.ey.com
Office: +82 2 6331 0854
Mobile: +82 10 2318 2589

Japan

Vince Smith
EY Japan Leader
Transaction Advisory Services
vince.smith@jp.ey.com
Office: +81 3 4582 6523
Mobile: +81 70 3627 3933