Global Capital Confidence Barometer

December 2019 | 21st edition | Germany 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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Reinvention imperative fuels M&A appetite in Germany

Two out of three respondents expect the global economy to grow in the short term (by the end of the year). But in the medium term, pessimism clearly prevails.

80% expect the economic situation to deteriorate by 2022 at the latest.

68% do not expect an economic slowdown in the short term.

German companies want to focus more on mergers and acquisitions despite the expected economic downturn.

48% continue to see the M&A domestic market improving over the next 12 months.

65% are planning to make acquisitions in the next 12 months.

German companies are not on par with the overall digital innovation curve. Reinvention may require reimagining talent strategy and culture.

41% have digital capabilities infused throughout their business.

72% admit that their companies struggle to hire and retain staff.

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

1. **How can value be more than just a number?**
   The way companies are being viewed by society at large is changing. For executives, it can no longer be shareholders first and only.

2. **Can you measure your relevant economy?**
   Fully understanding your individualized economic ecosystem can facilitate better capital and resource allocation to support sustainable long-term growth.

3. **Is digital more than a bit part?**
   The right digital transformation strategy should be at the heart of boardroom planning as the key to unlocking growth opportunities.

4. **Are you ready to change your business model?**
   Disruption and innovation are increasingly demanding new business models and approaches. Hence new combinations through alliances, JVs, startups and cooperations are becoming more relevant.

5. **Can you afford to walk away from the deal table?**
   With the pace of innovation, executives must finely judge the buy vs build argument and add a premium for speed to market.

6. **Is your talent strategy fit for the future?**
   Understanding skills, experiences and aspirational career models required for the future will help maintain an engaged and productive team of people, which can help drive growth.

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In an age of innovation and technology, companies must take action and be open to entering into mergers or alliances with long-standing competitors. Many companies are forced to optimize their product portfolios and acquire new expertise and technologies. In many cases, takeovers or coopetition will be the fastest way to secure these changes, although the latter will be something German companies will have to manage culturally.

Constantin M. Gall
Managing Partner, Transaction Advisory Services, Leader Mobility, Ernst & Young GmbH

Germany highlights

Despite geopolitical fears or the shadow of a slowdown, companies are clearly looking to M&A to navigate current and potential barriers to growth

68%

of companies see the global economy as improving

As Germany's economy slows down faster than other European countries, German executives are feeling less optimistic about the economic outlook, both globally and locally, than a year ago. However, slowing economic growth, trade and tariff issues, and regulatory or geopolitical uncertainty are not softening German executives' appetite for M&A, according to the latest edition of the EY *Global Capital Confidence Barometer*. They recognize that now more than ever, they need to reinvent themselves for the future.

In the latest EY M&A survey, 68% of German respondents perceive the global economy to be growing, down 20 percentage points from 12 months ago. At the same time, 17% now believe the global economy is in decline. A year ago, not a single respondent saw the global economy on the edge of a downturn.

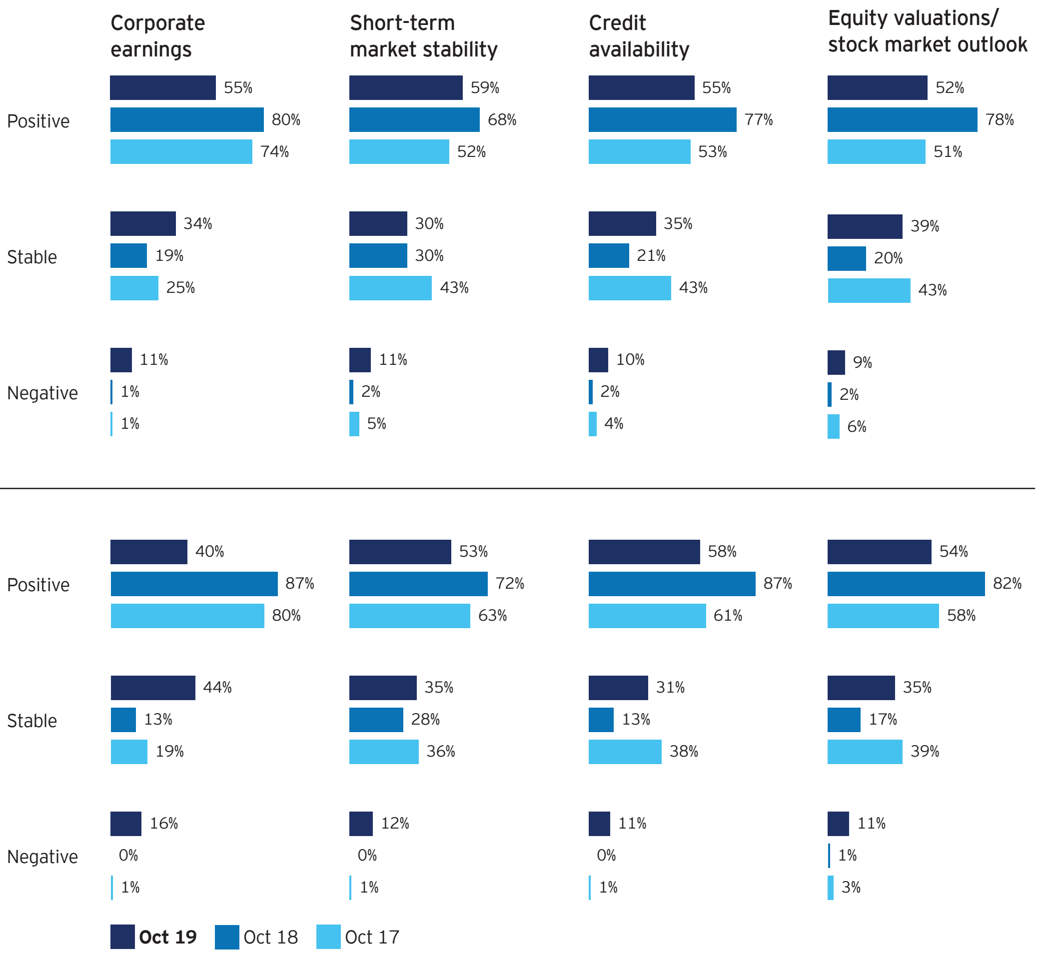
The slowing economy in Germany has hit several sectors hard, with the automotive industry feeling the impact most deeply. The accelerated need to move toward electric and autonomous vehicles is challenging German automotive companies to reinvent themselves, even as they fend off intensifying competition. Meanwhile, financial services organizations face mounting pressure from consumers for a broader range of digital banking services. Similarly, as climate change becomes an increasingly important consideration for consumers, power and utilities companies are having to look beyond wind to other sources of renewable energy.

Despite the current confidence that the global economy is growing, pessimism prevails as German companies consider the medium- to long-term outlook: 80% expect the global economic situation to deteriorate by 2022 at the latest.

Q Please indicate your level of confidence at a global level in the following:

Global

Germany respondents



Locally, German respondents are feeling more positive than current trends otherwise suggest.

As the pressure to reinvent mounts, German companies look to M&A to fast-track their transformation journey

65%

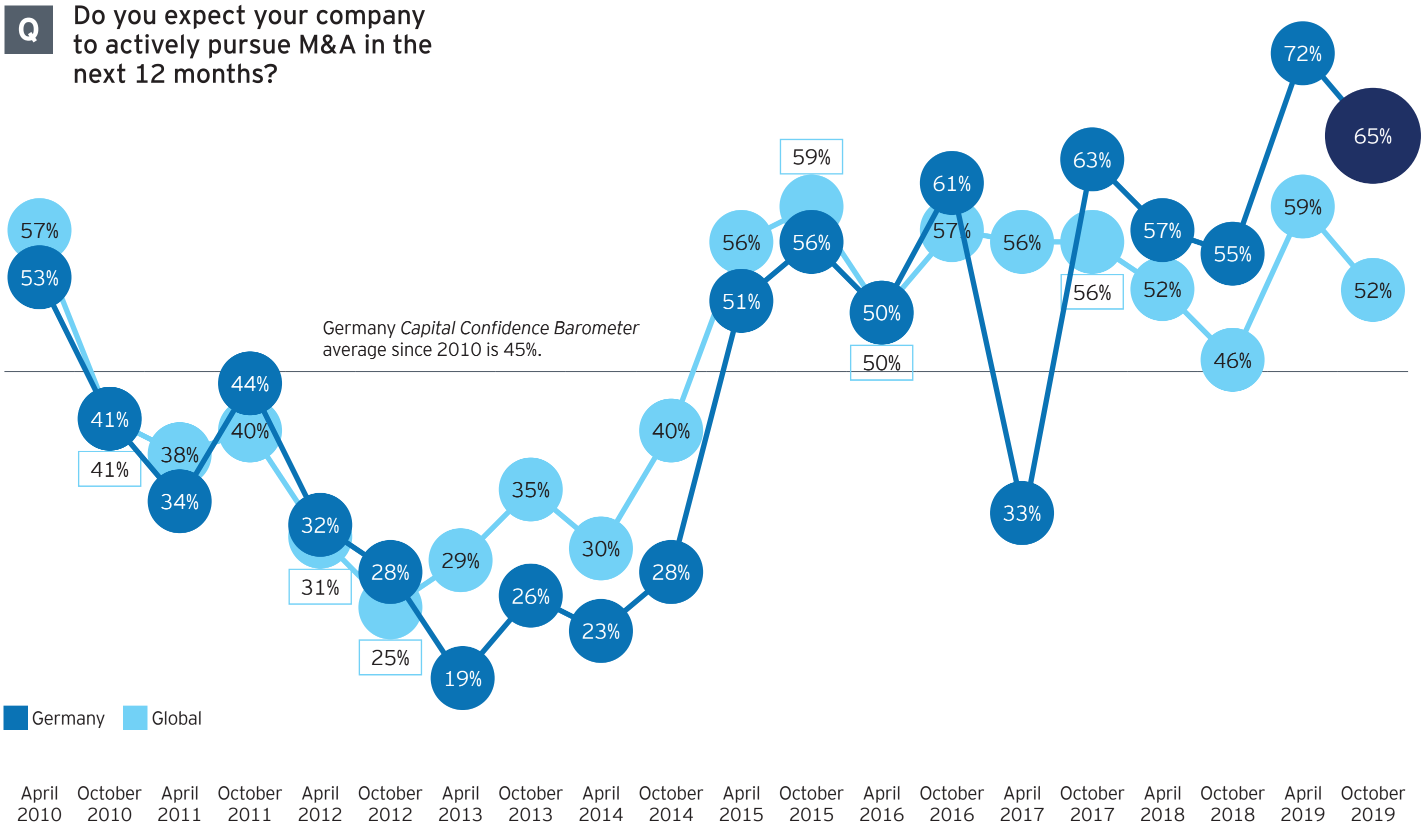
of companies plan to make acquisitions in the next 12 months

As the imperative for reinvention escalates, German executives continue to look to dealmaking to help them fast-track their transformation journey, with two-thirds (65%) indicating that they are actively pursuing M&A in the next 12 months. Although this is down seven percentage points from six months ago, it remains well above the historical average.

Further, nearly half (48%) of German executives continue to see the M&A market improving over the next 12 months, while 42% see the M&A market stabilizing.

Of those who are buying, half are looking to acquire transitional capabilities, such as digital assets and companies that offer new routes to customers – assets that ultimately will change how their company operates. German executives also cite sector convergence and growth into an adjacent business activity as a primary driver. Historically, the European Commission (EC) has limited convergence efforts across the European Union (EU) to preserve competition. Earlier this year, M&A deal rejections and amendments by the EC reached new highs. However, as competition from companies outside the EU, where consolidation of big players is more accepted, threatens the success of European companies on the global stage, German companies would benefit if the new EC looks more favorably upon convergence as a means of building pan-European champions – an opportunity that could give German companies a clear advantage.

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



41%

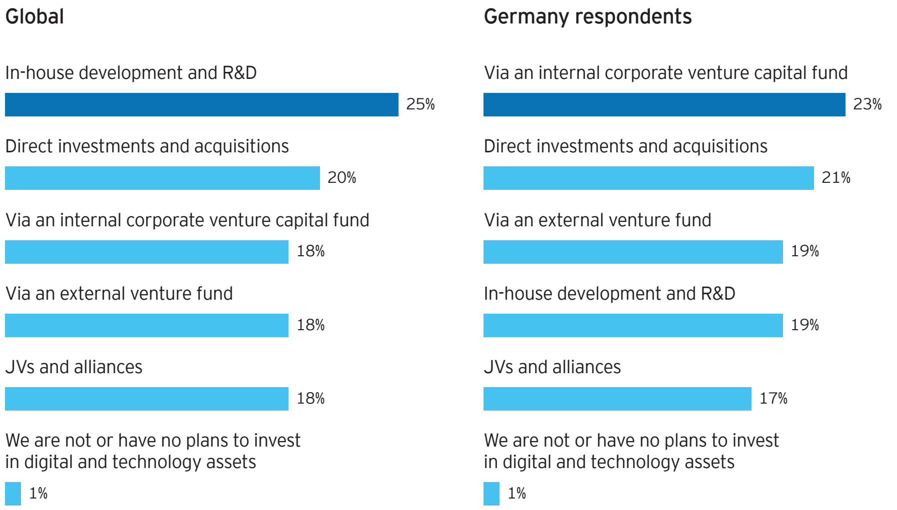
of German executives say their companies have digital capabilities infused throughout the business

Yet to seize such an advantage, German companies may have to do more to advance their digital transformation efforts. Although technology should serve as the underpinning enabler of any transformation strategy, German companies appear to be behind the curve when it comes to digital innovation. According to the M&A survey results, 41% of German companies have digital capabilities infused throughout their business, versus 49% of global companies. At the same time, 55% of German executives cite increased competitive pressures and increased barriers to entry as the biggest impacts digital transformation have had on their company.

Although the overall numbers suggest German companies are not on par with the overall digital innovation curve, some German companies have been successful in areas of the new industrial revolution, including the Internet of Things (IoT) and edge computing, artificial intelligence (AI) and machine learning, as well as automation and robotics, for example, in the automotive industry.

To help accelerate their digital transformation journey, 57% of German executives are looking to invest externally through direct investments and acquisitions, external venture funds, and joint ventures and alliances. This compares favorably with the 56% of global respondents who expect to do the same.

Q How do you invest in digital and technology assets?



Despite reinvention, talent challenges remain

Even as German companies look ahead to reinvention, they face a number of challenges on the talent front, which could threaten to slow their progress. Almost three-quarters (72%) of German executives admit that their companies struggle to hire and retain staff — a much higher percentage than their global peers (61%). Of those, one-third say their biggest issue is finding and keeping talent with specific technical skills related to their core business. Interestingly, for 28%, the second-biggest talent gap is at the board and management level. Among global executives, only 15% cited this as a talent issue.

German companies are ready and capable of reinventing themselves for the future

Despite geopolitical and regulatory uncertainty, Brexit, trade and tariff issues, German companies are ready to reinvent themselves for the future.

To do so, digital investments need to be a more prominent feature of their transformation agenda. M&A, joint ventures and in-house corporate venture funds will be some of the options German executives will consider to accelerate growth and remain competitive in an increasingly fast-changing environment.

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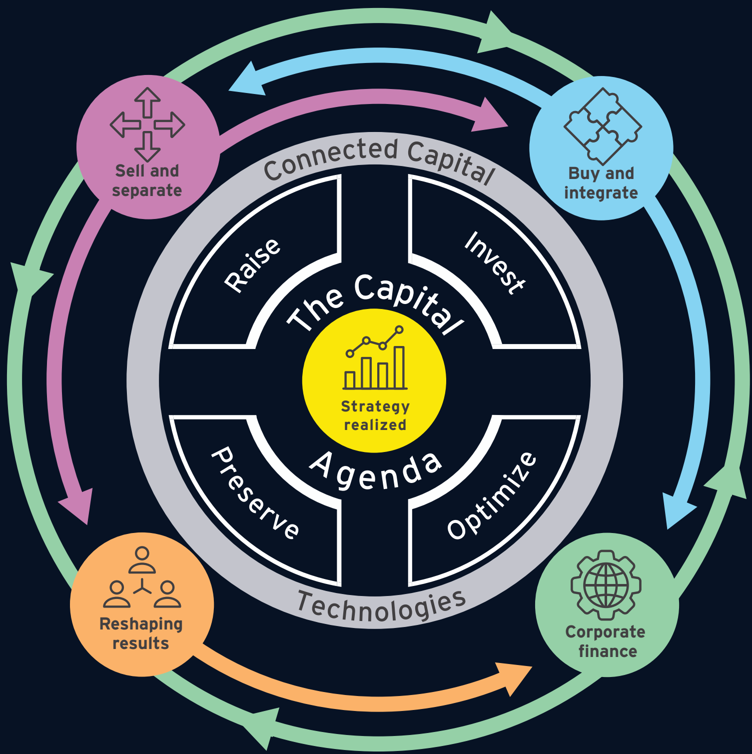

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About the survey

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 the EY organization 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, 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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