EY
Building a better working world

November 2019 | 21st edition | ey.com/ccb

Health

Global Capital Confidence Barometer

Healthy views of sector and global growth sustain M&A

Top five investment destinations

1. US
2. UK
3. India
4. Japan
5. Australia

M&A intentions remain above the nine-year historic average as health organizations look to obtain capabilities to accelerate their growth agendas, according to the latest EY *Global Capital Confidence Barometer*. In particular, health organizations are looking to access new markets, build digital capabilities and address persistent talent shortages.

Health executives feel confident in their dealmaking based on optimistic views of both global and sector economies. More than three-quarters (76%) say that the global economy is growing — down slightly from 85% a year ago. But their view about their own sector's growth increased, with a little more than two-thirds (67%) agreeing that the health industry is growing, versus just 53% a year ago.

Further, 59% indicate that they do not see an economic slowdown on the immediate horizon. Yet even if they did, given the countercyclical nature of health care, the sector is less likely to be affected by an economic downturn than companies in other industries. Whether a global downturn materializes or not, 64% of health respondents are expecting modest to strong revenue gains, while 61% expect such increases in profits in the next 12 months.

Although health executives are feeling optimistic, they see regulatory uncertainty as their greatest risk to growth in the year ahead. Within their own organizations, 25% of health executives indicate seeing disruption coming from new market entrants (17%) or technology (8%), while 16% see the primary disruptor as increasing competition from existing competitors.

Two-thirds of health executives understand the transformational impact of digital

Roughly two-thirds of health respondents agree that their organizations have a clear vision for digital technology and acknowledge its transformational impact on business strategy, as well as the opportunities digital offers to reposition their portfolio and overall business. Further, 80% say their CEO has a clear vision of how acquisitions and divestments can help to accelerate digital transformation, while 38% report they will actively use M&A as a means to future-proof their business.

The drive to leverage digital technology to power their growth agendas has half of health organizations allocating 25% or more of their annual investment capital to digital capabilities. Of that total investment in digitalization, one-third are directing 25% or more to new growth opportunities — as opposed to more protective activities, such as optimizing the business through internal efficiencies.

M&A is seen as a stabilizing force against intensifying disruption, but health organizations are preparing for more competition from private equity

Although M&A intentions are down five percentage points from health executives surveyed 6 months ago, 45% indicate that their organizations intend to pursue M&A in the next 12 months. While cost pressures will continue to drive horizontal integration, potential disruption by technology and consumer firms will propel more vertical integration in the industry.

More than two-thirds expect to see an increase in competition over the next year, with nearly as many saying it will come from private equity. Private equity firms focused on health continue to have significant cash to deploy.

Purpose and social impact are reshaping the way health companies measure success

As health organizations look ahead, they are coming to understand how purpose and social impact are fundamentally reshaping the way companies measure success. Nearly two-thirds have established metrics to gauge financial and customer performance, and nearly half now measure social value.

The one area where they seem to be lagging is in measuring the value of talent. Currently, only 31% have metrics in place to measure talent performance. Given that 65% of health respondents say they struggle to hire and retain talent, it's a critical area of performance that requires creativity and strategic focus.

Action outweighs uncertainty in the C-suite

A majority of executives remain optimistic about the near-term outlook.

76% of health care executives see the global economy as improving.

67% of health care executives see the sector economy as improving.

59% of health care executives do not expect an economic slowdown in the near to mid term.

Strategic dealmaking includes talent and technology

Finding the right talent and technology is driving deals as executives articulate long-term value beyond traditional financial metrics.

28% of health care executives believe that artificial intelligence (AI) and machine learning will be the most important technology in the next two years.

65% of health care executives have difficulties in hiring or retaining staff.

46% of health care executives are planning to outsource or divest some of their current operations.

M&A intentions remain strong

Health executives predict the prolonged upward dealmaking trend will continue.

51% of health care executives see an improvement in health dealmaking in the next 12 months.

45% of health care executives expect to actively pursue acquisitions in the next year.

67% of health care executives expect an increase in competition for assets in the next 12 months.

EYG no. 005308-19Gbl

1908-3230919

ED None