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

Mexico highlights
Global Capital Confidence Barometer

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A note from Olivier Hache, EY Managing Partner, Transaction Advisory Services, Mexico

Mexican executives take a more deliberate approach to dealmaking

In October 2019, the International Monetary Fund (IMF) released its observations on the state of Mexico's economy based on its visit in the previous quarter. The findings suggest that while strong fundamentals have contributed to the country's resilience, domestic growth has declined significantly in the context of slowing global growth and ever-present geopolitical uncertainty.

Additionally, new policies and regulations issued by the Mexican Government, combined with the Government's budget cuts and commitment not to increase taxes, has the IMF projecting a growth rate of 0.4% in 2019.

Given this backdrop, it is interesting to note that 75% of executives surveyed in the most recent EY *Capital Confidence Barometer* continue to see the Mexican economy growing, up from 62% a year ago. In the last six months, nearly one-fifth (20%) say the local economy has either modestly or strongly improved; 70% believe it has stayed the same. Further, two-thirds of Mexican executives say they do not expect a downturn. Domestic market indicators support executives' optimism, with sentiment up markedly across corporate earnings, short-term market stability and credit availability, and modestly for equity valuations.

And yet, despite their optimism, Mexican executives are proceeding more cautiously in their dealmaking. Although more than two-thirds (69%) expect the local M&A market to improve in the next year, M&A intentions have dropped substantially from six months ago. Where 70% of respondents in April 2019 expected to actively pursue M&A in the next 12 months, 43% have the same expectations today.

The deals we are seeing seem to be more transactional than transformational in nature. Nearly half (46%) of Mexican respondents say they are targeting acquisitions that will change how their company operates, including digital and new routes to customers. Moreover, 77% say they are devoting 25% or more of their investment capital to digital and technology, and another 79% indicate that their digital capabilities are infused throughout the business. However, the high reported rates of digital embedded throughout the company may be more aspirational than actual.

What is real for them is the increasing competitive pressures they are feeling as a result of digital transformation. More than half (51%) say that increasing competitive pressures and changes in customer preferences are serving as the primary drivers of digital transformation within their companies. Fifty-eight percent anticipate that artificial intelligence (AI) and machine learning, as well as automation and robotics, will have the most significant impact on their business over the next two years.

Mexican executives also continue to feel the talent squeeze. More than one-third (36%) say that hiring and retaining staff remains a challenge. Of these, 45% say their biggest issue is hiring workers with the specific technical skills their core business requires; 32% say they have trouble finding digital and technology specialists. This explains why Mexican executives cite acquiring talent among their top strategic drivers for pursuing acquisitions.

With 85% of Mexican executives expecting competition to heat up over the next 12 months, primarily from hungry private equity firms, we expect value to play a larger role in M&A activity in the year ahead. Already, we're seeing Mexican companies being more deliberate and taking more time in pursuing and closing a transaction. And yet, a clear majority of Mexican executives expect M&A activity to continue apace, suggesting that competitive bidding won't deter them from acquiring when the right asset comes along.

Executives focus on building resiliency

69%

are expecting the domestic M&A market to improve in the next 12 months.

43%

are planning to actively pursue M&A in the next 12 months.

82%

expect an increase in hostile and competitive bidding in the next 12 months.

Talent search for tech positions is a challenge

36%

say they find hiring or retaining staff difficult.

45%

tell us the challenge with hiring and retaining staff is finding talent with specific technical skills relevant to their core business.

24%

say the main strategic driver for pursuing deals is acquiring talent.

Executives remain focused despite slowdown talk

66%

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

42%

are actively planning to respond to ongoing geopolitical, trade and tariff concerns.

38%

say the main impact from disruption is the increasing difficulty in attracting or retaining customers.

EYG no. 004787-19Gbl

1908-3230919

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