

Global Capital Confidence Barometer

M&A – response or resilience?

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



The better the question. The better the answer.
The better the world works.



Building a better
working world

64%

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

Action outweighs uncertainty in the C-suite ...

54%

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

... and the majority remain optimistic in the near-term economic outlook.

52%

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

M&A intentions remain strong ...

68%

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

... and the C-suite predicts the prolonged dealmaking upcycle will continue.

61%

of companies have difficulties securing the right talent

Finding the right talent and technology at speed is driving deals ...

84%

already have or plan to have social value reporting metrics in place in the next year

... as executives articulate long-term value beyond traditional financial metrics.

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Understanding the route to growth: building optionality into strategic decisions

In today's environment, it appears that the only certainty is uncertainty. The latest EY *Capital Confidence Barometer* finds executives dealing with numerous interconnected challenges and proactively managing them.

The strategic objective is clear – finding growth. But geopolitical risks, the recasting of trade and tariff rules, zigzagging monetary policy, technology and innovation, as well as evolving regulatory policies, offer obstacles. How best to navigate them?

Go for bespoke, not off-the-shelf: not all issues impact each company in the same way. Executives need to continually unlock and assess the impact of challenges – and the possibility of opportunities – for their business portfolio. Be prepared to recast long-held assumptions and follow a tailor-made path to future growth.

Keep options open: scenario planning and threat analysis enable business leaders to better highlight risks to current operations. Understanding their own ecosystem, their competitors' ecosystems and the likely path of innovation will help companies make smart choices about what and when to buy and sell to create the portfolio fit for the future.

Buy for tomorrow today: the talent and technology that underpinned growth yesterday is not necessarily best suited to unlock growth tomorrow. With a shortage of technical and digital capabilities, executives need to continually reinvent their talent and technology strategies. In many cases, acquiring will be the fastest way to secure these in-demand assets.

Executives are also navigating new societal rules for corporations. Creating long-term value beneficial to all stakeholder groups is becoming non-negotiable. Companies must be good corporate citizens, delivering value for all stakeholders. Those that find themselves on the wrong side of this argument will find themselves on the wrong side of history. They will lose customers and imperil future growth.

As ever, senior executives walk a fine line. But by understanding how prevailing uncertainties impact their business, building optionality into their strategy and buying the next wave of capabilities, they can plot a course to create long-term value for their company, stakeholders and society more broadly.

Steve Krouskos
EY Global Vice Chair
Transaction Advisory Services

See page 16 for the key takeaways that help define M&A success in today's deal economy.



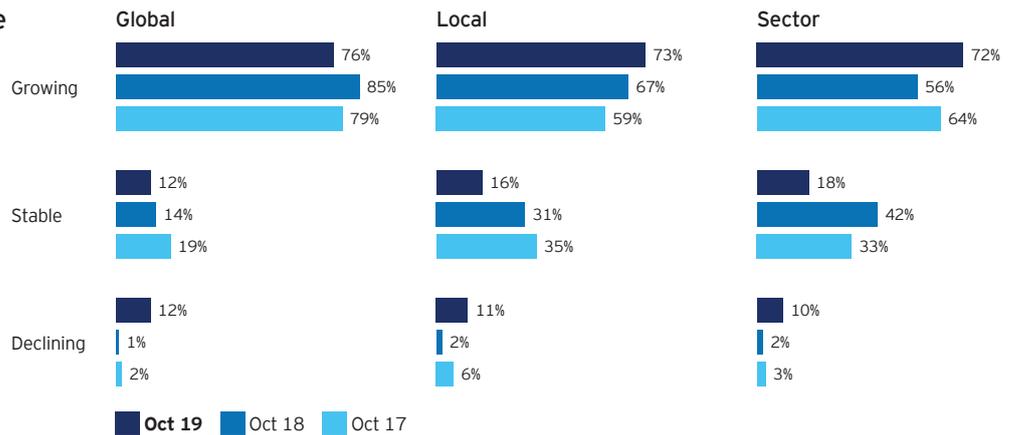
The global economy is showing resilience in the face of elevated geopolitical, trade and tariff concerns

Slowing economic growth does not imply a recession.

The global economy is softening and desynchronizing, but respondents still expect growth. Global economic activity has slowed in some of the major economies in 2019. But most major economies are still growing.

Challenges arise from tariff and trade concerns and uncertainties over geopolitics and national politics. These risks are putting downside pressures on export-oriented countries and those with divided domestic agendas. However, economies that rely predominantly on services and consumer spending are being supported by elevated levels of employment, strong wage growth and a benign inflation environment.

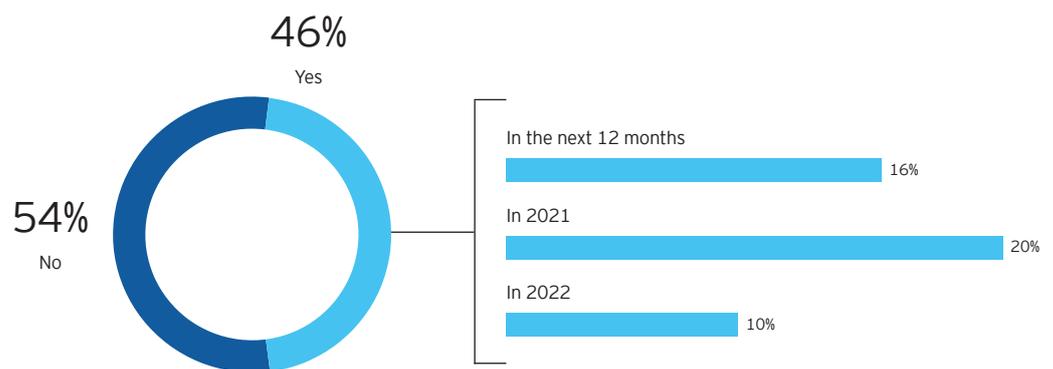
Q What is your perspective on growth today?



The likelihood of a recession in the near term is not considered a significant threat by respondents. While there has been more speculation about the potential of a global correction, executives do not see this on the immediate horizon. A majority does not expect a severe downturn, and of the minority that do, say it is not likely until 2021 or 2022.

Companies should be taking advantage of today's conditions to reassess their portfolio vulnerabilities and divest assets that are not part of their future growth strategy.

Q Are you expecting a significant economic downturn in the near to mid term, and, if so, when do you expect it to happen?



Capital markets steady in the face of headwinds

All asset classes have had a roller coaster ride in 2019, but equity and credit markets are benefiting from renewed central bank support.

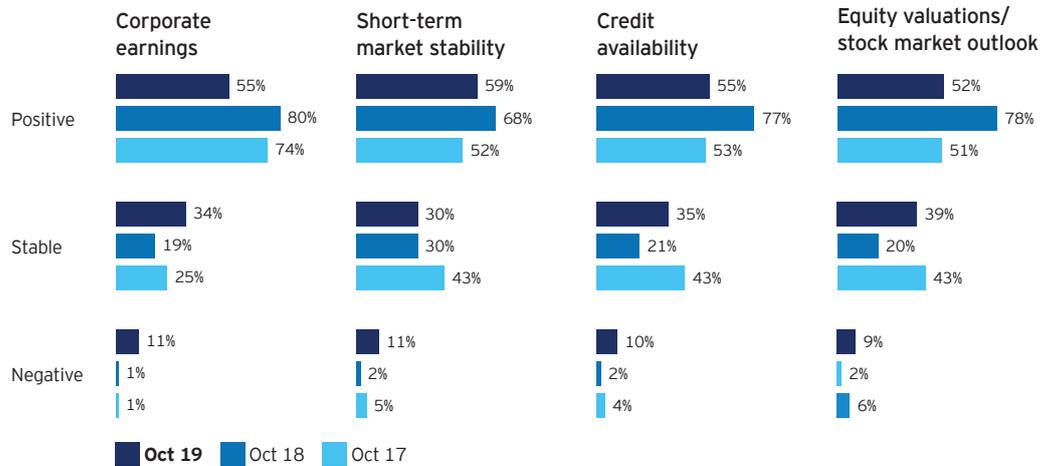
The past 12 months have been volatile for markets, but a reversal of policy direction, by both the US Federal Reserve (the Fed) and the European Central Bank (ECB) have calmed investors, for now.

Uncertainty about market direction and the difficulty of exiting an easing cycle has softened the levels of positivity seen in the 2018 Barometer. But most respondents are positive in their outlook for the next 12 months.

However, market shocks and reversals can be unpredictable and happen at any moment – for example, recent tensions in the US repo market and the spike in oil prices following the drone attacks in Saudi Arabia.

Companies could utilize the current environment of ultra low, even negative, interest rates to optimize their capital structure to safeguard against potential threats.

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

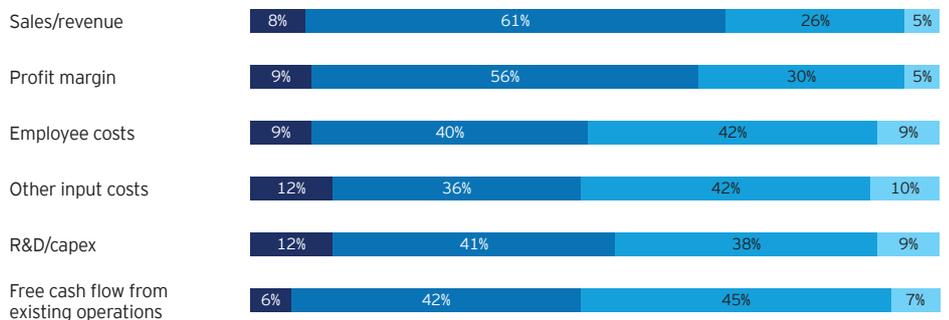


Corporate financial performance metrics to remain positive in the near term.

The mildly positive outlook for the next 12 months is supported by respondents' confidence in a modest improvement across a range of financial metrics. Revenue is forecast to be more positive than earnings. This is a clear indication that the margin pressures seen in reporting through 2019 will likely continue. But the overall picture is one of positivity. Respondents predict an uptick in free cash flow generation and investment in R&D and capex.

Q Based on your current performance, how do you expect the following financial metrics to change over the next 12 months?

- Strongly increased
- Modestly increased
- Stayed the same
- Modestly declined



Responding to growth challenges



Geopolitical, trade and tariff concerns, and technology disruption weigh heavily on the C-suite

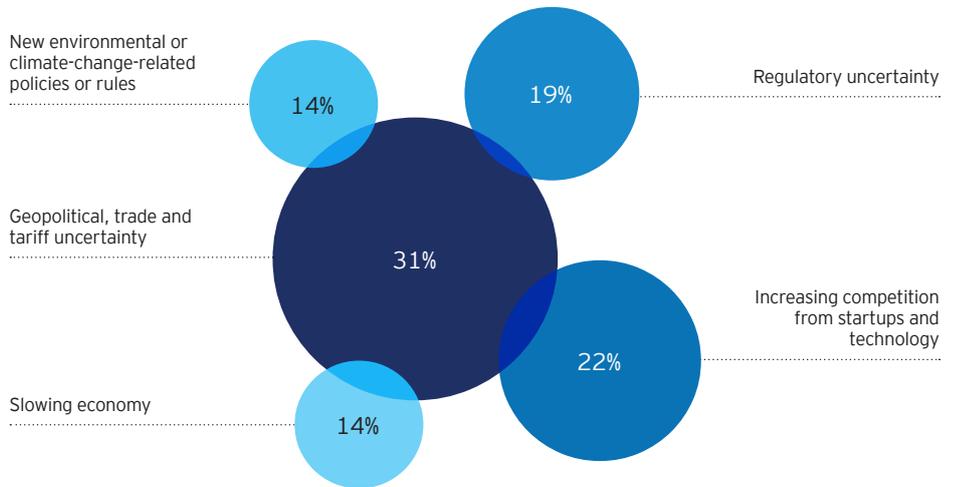
A number of external threats to growth exist across a range of time horizons.

It is impossible to avoid the headlines about geopolitical and trade disputes as well as regulatory changes.

As equally immediate and pressing is increasing competition from innovative startups built on new technologies. Executives are acutely aware that a new business model or route to market can quickly undermine their competitive strengths and positioning. Proactively scanning an evolving industry landscape is a prerequisite for today's companies. Acquiring or co-opting these emerging challengers is often a necessary response.

Broader societal issues are also increasingly impacting boardroom strategies. For example, the demand for action on climate change is not new and is growing stronger. Companies need to be proactive in addressing these issues or they will find customers shifting to competitors who are perceived to be more in tune to their concerns.

Q What do you believe to be the greatest external risk(s) to the growth of your business?

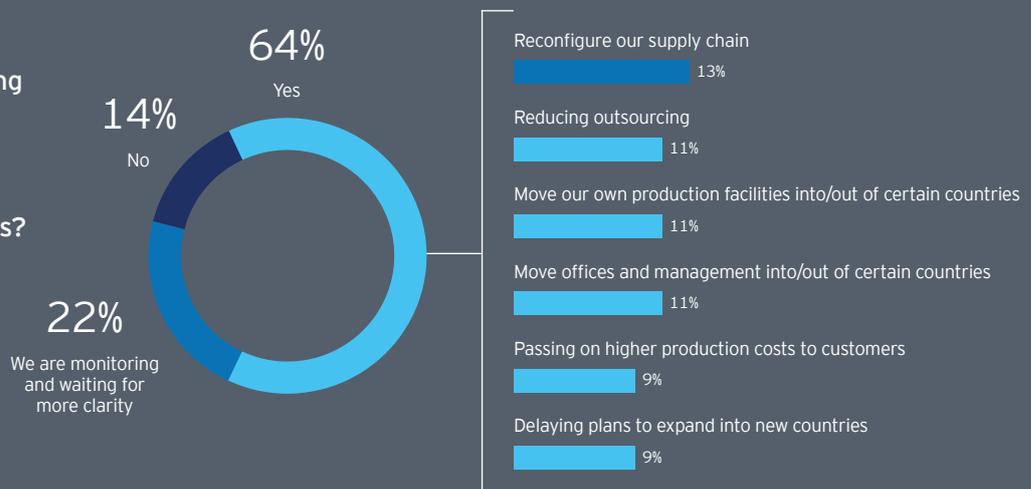


Building optionality and resilience into supply chains and operations is the response to trade and tariff uncertainties.

The challenges of changing trade and tariff rules are being proactively addressed by nearly two-thirds of respondents. Reconfiguring supply chains and other business operations is becoming business as usual. But as we have seen over the past year, new disputes and uncertainties can arise at any time, and often with severe impacts on supplier relationships and access to markets.

Companies should be examining all aspects of their operations through a lens of scenario and threat analysis. They should identify potential vulnerabilities and build the optionality that will enable them to pivot as required.

Q Are you actively planning to respond to ongoing geopolitical, trade or tariff uncertainty? If so, how are you planning to do this?



Margin compression is the biggest factor constraining growth intentions

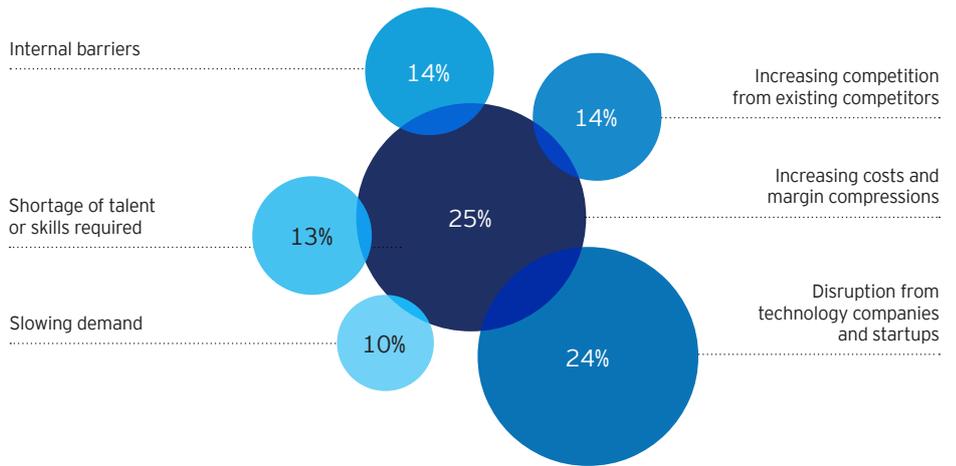
The low inflation environment does not extend to input costs, squeezing profitability.

When looking at their own immediate growth plans, executives are trapped in a confluence of interrelated challenges. Increasing input costs are hard to pass onto customers in a low inflation environment, especially with technology companies and startups waiting in the wings to capture market share.

In response, companies have to constantly reassess their operating models as well as drive continuous improvement around indirect costs.

But traditional barriers inside an enterprise are also a threat. Internal inertia, combined with a shortage of the talent and skills required, may leave some companies vulnerable and unable to respond proactively to these threats.

Q Which of the following is the most significant challenge to your own company's growth plans?



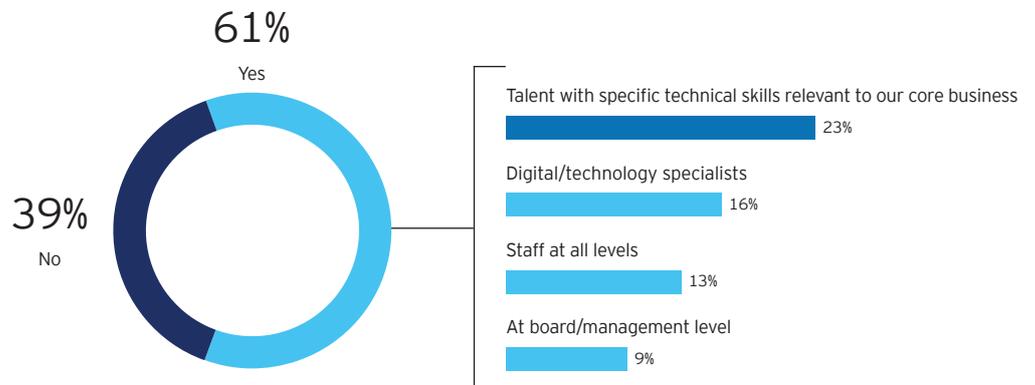
The battle for talent is another big growth challenge

Tight labor markets are adding more pressure to talent search.

The much-mooted threat to jobs from technology is not playing out as many had predicted. Indeed, as more jobs are automated in routine tasks, companies are finding it more difficult to attract and retain talent with the right technical and digital skills to benefit from these efficiencies.

Many are reskilling their existing workforce to better respond to technology changes as a result. A move to a culture of lifelong learning at companies may also help respond to these challenges as they morph in the future. But this can be a difficult transformation, and contingent workers may be needed to accelerate the process.

Q Are you having any difficulties hiring or retaining staff?



The tech effect

Competition and customers at the forefront of the corporate digital race

Technology is both an enabler and a threat.

As the underpinning enabler of their transformation strategy, technology has been the big lever for most, if not all, companies. But with today's unprecedented waves of technological innovation, companies are becoming increasingly pressured by competition on multiple fronts.

And the ultimate prize they are battling over is the customer. Empowered customers in today's markets are setting the agenda for technology investment as executives adapt to meet ever-changing demands.

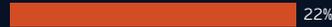
Barriers to entry are changing across many industries. Companies need to understand the ecosystem of their industry landscape in order to determine their best route forward. They may need to partner with others in order to offset these threats.

Technology has lowered initial barriers to entry for many upstart businesses. However, after reaching a certain point of maturity – when brand, talent and geographical footprint become more significant drivers – there are barriers that still exist.



What's the biggest impact of digital transformation on your company or industry?

Reducing barriers to entry/new players entering market



Changes in customer behaviors/preferences



Increasing competitive pressures*



Blurring boundaries with other industries



Increasing barriers to entry**



*Increasing competitive pressures (e.g., lowering costs/pricing, product development, capital investment)

**Increasing barriers to entry (e.g., due to capital requirements, rapidly changing profit models)

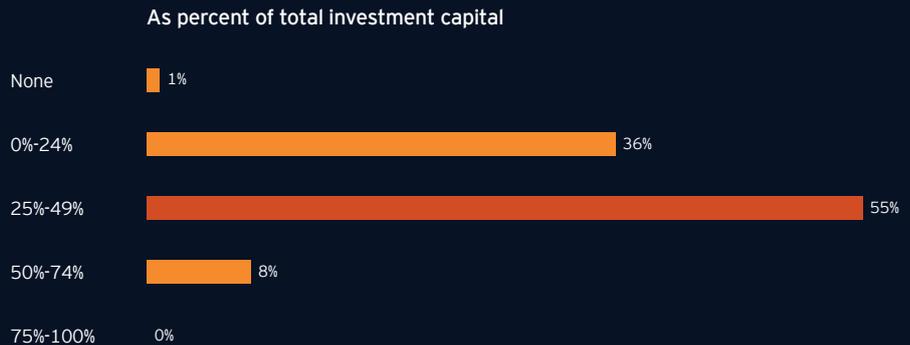
Investing tilts toward digital

Increasing allocation to technology-driven transformation is the key to future growth.

More than half of respondents are allocating between 25% and 50% of their investment capital to their digital future. Their focus is more on generating future growth opportunities than internal efficiencies.

This trend cuts across sectors and geographies with digital now part of the DNA for all companies.

Q What percentage of your annual investment capital is focused on digital/technology?



In-house technology investment is now a lower priority.

The unrelenting pace of innovation in technology is changing the buy vs build discussion. While a minority of companies plan to invest internally, the clear majority are looking outside their company for future opportunities.

Companies are also using a range of options to surface investment ideas. Direct acquisitions and joint ventures and alliances are still popular. But companies are increasingly using corporate venture funds and external funds to invest across a range of new technologies. This offers more optionality and provides a range of potential digital futures.

Q How do you invest in digital/technology assets?

The respondents were allowed to select multiple responses. Percentages are prorated to 100%.



The respondents were allowed to select multiple responses. Percentages are prorated to 100%.



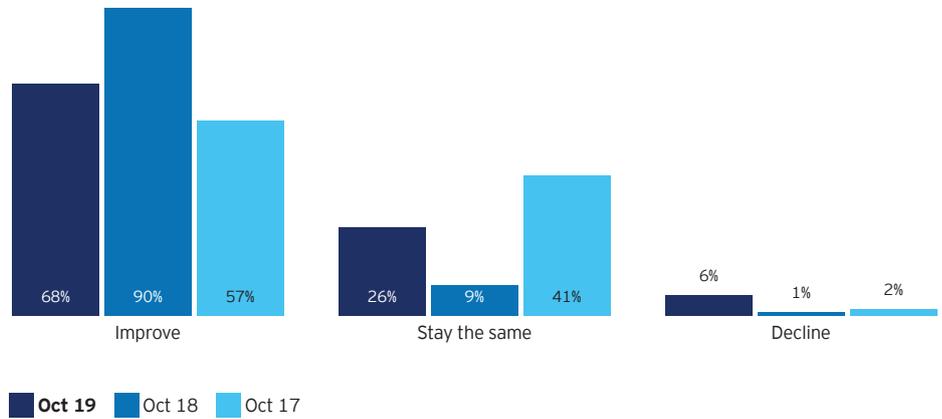
Global dealmaking expected to remain healthy

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

Dealmaking remains at the heart of corporate transformation plans.

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

Indeed, dealmaking is often the fastest route to build the optionality that companies need to proactively respond to evolving challenges.

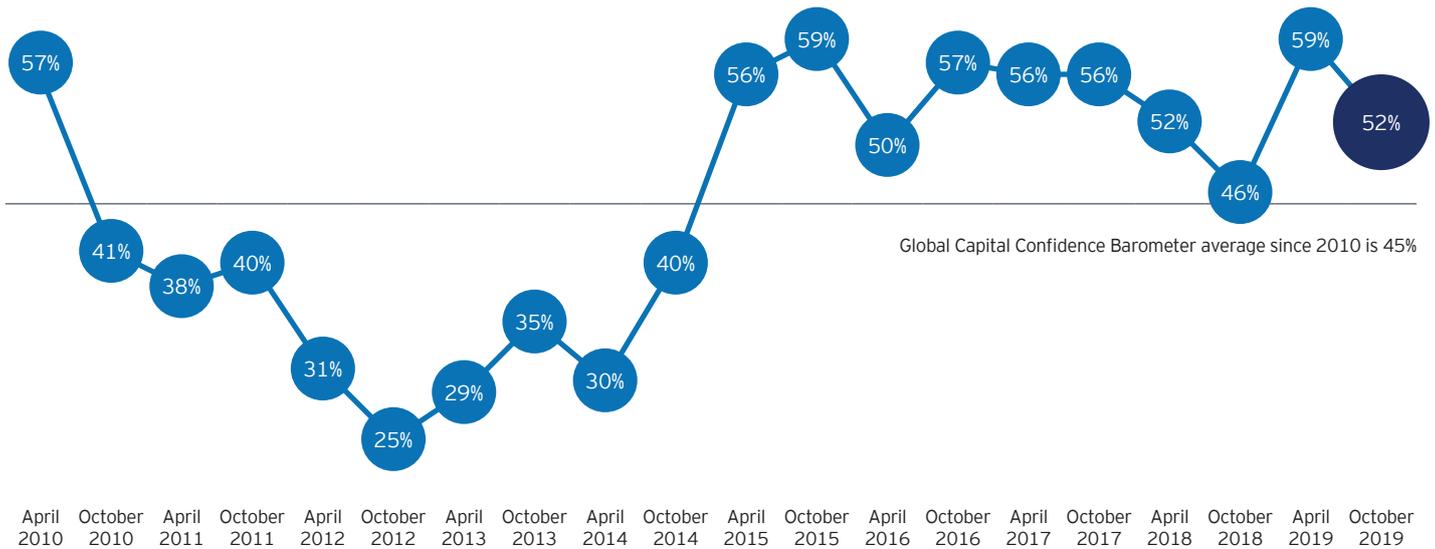


M&A intentions are still above long-term average.

As with the current global economic expansion, this M&A upcycle has lasted far longer than normal cycles, and longer than many predicted.

The main reason is that the speed with which companies need to transform their portfolios can, in many cases, not be done without M&A. At the same time, companies are also using divestments to unlock the capital required for acquisitions. Add to this record levels of dry powder in private capital, and all the components of sustained momentum remain in place.

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



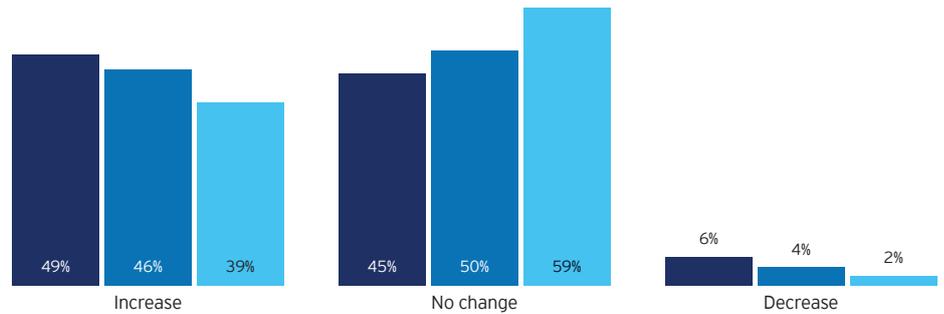
Pipelines and deal closures follow a similar pattern to the wider deal market and global economy

Pipeline and closure intentions support a healthy outlook for M&A.

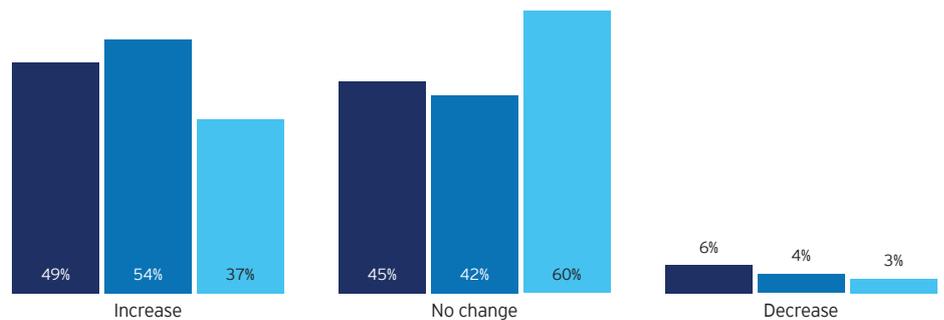
Company pipelines are increasing. This is largely due to the variety of deals being evaluated as companies reinvent business models in response to the changing technological and competitive landscape.

Not surprisingly, with a greater breadth of deal options being evaluated, and valuation levels perceived as challenging, respondents expect a modest decrease in closures over the next 12 months.

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



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?



■ Oct 19 ■ Oct 18 ■ Oct 17

Acquiring capabilities and bolt-ons the preferred deal types for most companies

Acquisitions focused on talent and technology help mitigate pressures elsewhere on the corporate agenda.

Labor markets are tight, especially for digitally savvy talent, and pressure on existing business models from startups is increasing. Companies are looking to M&A as the fastest routes to get the transitional capabilities that will augment and accelerate their own growth agendas and digital strategy.

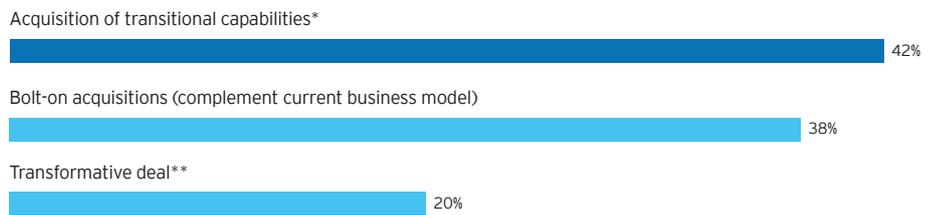
Bolt-ons that complement the existing business and offer an expanded choice of products and services for existing and new customers are also on the corporate radar.

And transformative acquisitions are not to be discounted, although they are rarer. One aspect of dealmaking through 2018 has been the near-record levels of megadeals (US\$10b or more). There has also been an elevated number of deals that look to challenge the existing market leaders across many industries. This has led to an increasing number of antitrust and regulatory challenges. However, companies will continue to take on the challenges to acquire a mantle of market leader.

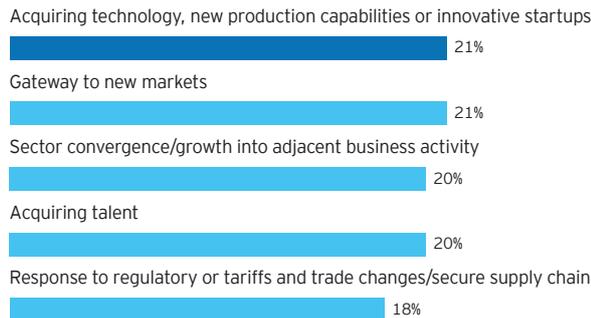
Q Will your planned M&A activity be:

*Acquisition of transitional capabilities (acquisitions that will change how the company operates, including digital and new routes to customer).

**Transformative deal (high-value acquisition which significantly changes the size of acquirer/reshapes business).

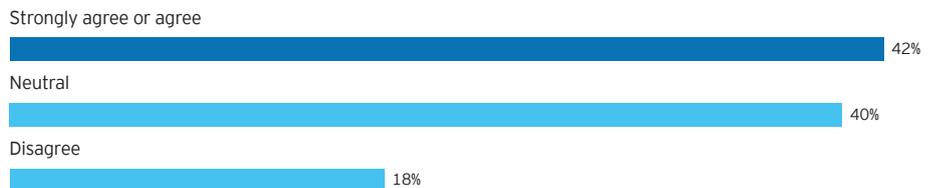


Q What are the main strategic drivers for pursuing acquisitions?



Q To what extent do you agree with the following statement?

We will utilize M&A to navigate digital transformation and help future-proof our business



Diversity in dealmaking expected to continue, with multiple drivers coming to the fore

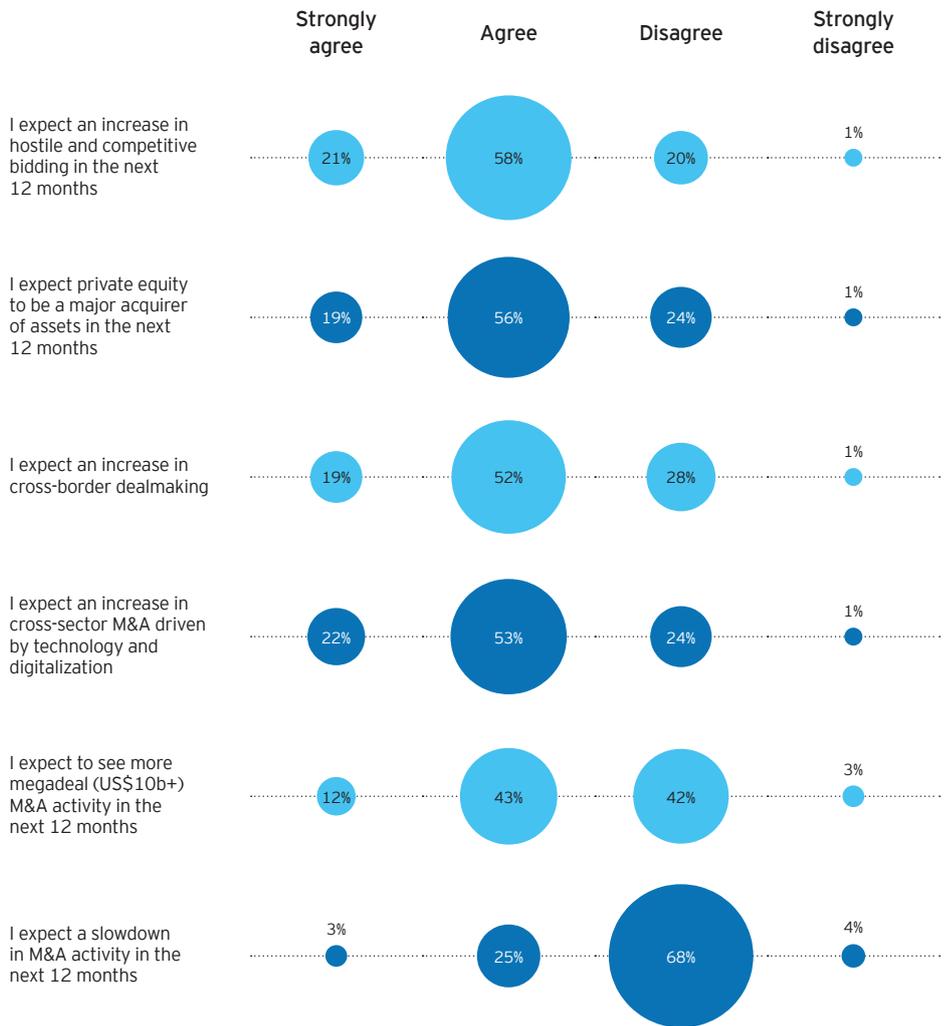
Dealmaking will be a constant source of headlines in the next year but the themes will vary.

Many of the trends apparent in 2019 will continue to drive deal markets in the next 12 months. Prominent will be an increasing number of hostile and competitive bids. Private capital funds increasingly flushed with capital will continue to fuel more competitive tension.

The expectations for an increase in cross-border and cross-sector deals is a clear indication that companies will continue to transform their portfolios to build optionality and resilience in their operations.

One area where executives are split is on the continuation of the near-record levels of megadeals (US\$10b+). These have been a hallmark of 2019, but executives are split evenly on the continuation of this trend. But megadeals are notoriously difficult to predict, so it will be interesting to see which side is correct.

Q Do you agree or disagree with the following statements about the M&A market?





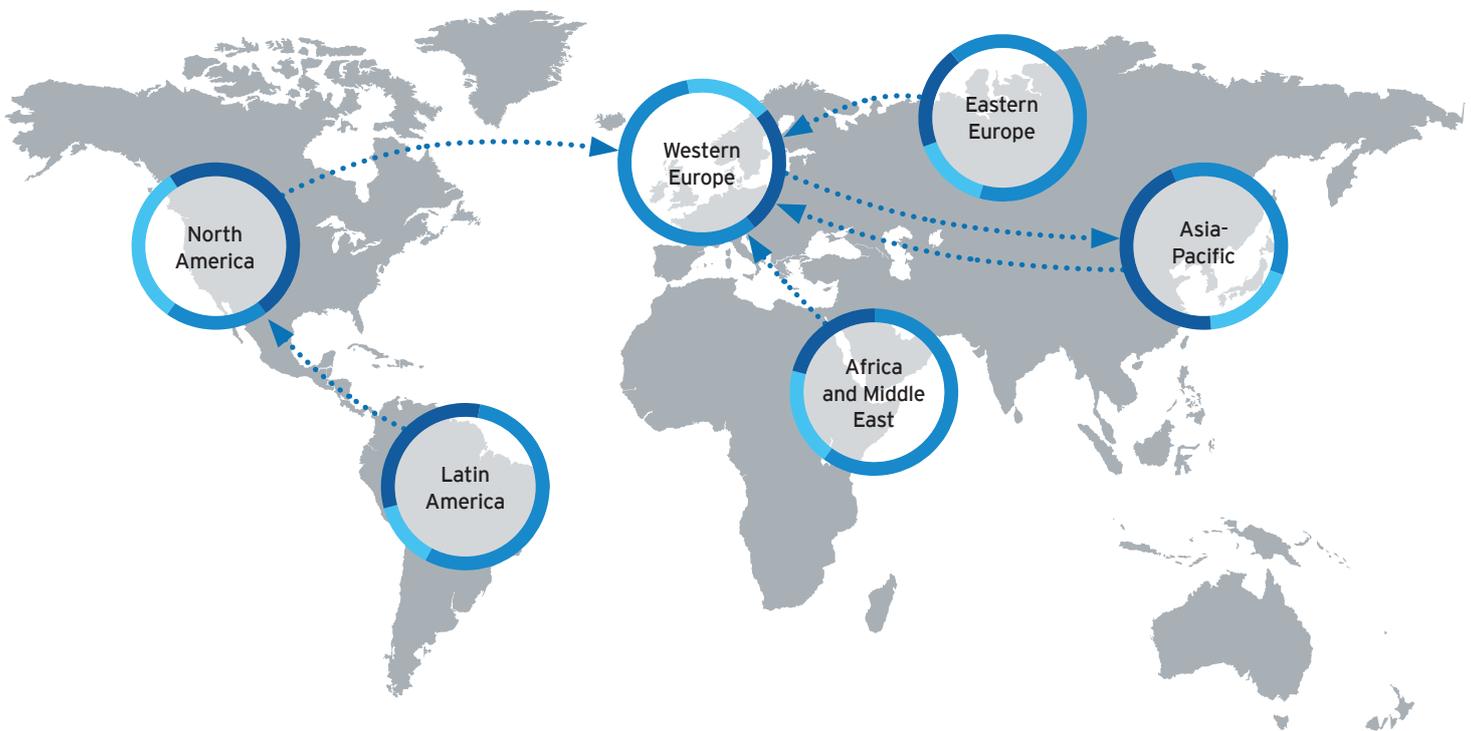
Western Europe remains the investment focus for many cross-border deals

Relatively lower valuations and an abundance of high-quality assets make Europe a desirable marketplace for acquisitions.

While Europe continues to be the focus for cross-border dealmaking in the near term, the strengthening flows between Europe and Asia, as opposed to the usual Europe-North America axis, is a new trend in global M&A.

With uncertainties about market access and regulatory regimes prominent, companies are looking at the longer-term opportunities. Companies in Asia want to acquire European intellectual property. Companies in Europe want to tap into the more favorable growth and demographics in Asia.

Q Where is your organization's main focus for doing M&A in the next 12 months?



■ Outside domestic market/immediate region
 ■ Immediate region (countries close to home)
 ■ Domestic market (home country)
 ⋯➔ Primary preferred destination outside their domestic market/immediate region*

*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region (overall top 10 country investment destinations are listed on page 13).

Top investment destinations and their key characteristics

Top 10 investment destinations		Top investors	Top destinations	Top sectors
1	 United States	1. US 2. UK 3. Japan	1. US 2. UK 3. Canada	1. Media and entertainment 2. Financial services 3. Technology
2	 United Kingdom	1. US 2. UK 3. Germany	1. UK 2. US 3. France	1. Life sciences 2. Technology 3. Consumer
3	 Germany	1. Germany 2. US 3. France	1. Germany 2. UK 3. US	1. Financial services 2. Automotive and transportation 3. Life sciences
4	 China	1. China 2. US 3. Japan	1. China 2. US 3. UK	1. Life sciences 2. Media and entertainment 3. Technology
5	 Canada	1. US 2. Canada 3. Mexico	1. US 2. Canada 3. UK	1. Life sciences 2. Financial services 3. Technology
6	 France			
7	 India			
8	 Australia			
9	 Japan			
10	 Singapore			





Advanced manufacturing

- ▶ The advanced manufacturing (AM) sector is an industry in transformation, driven by the need to become more efficient and the rapidly growing potential of digital technologies. AM players are expanding their revenue streams and the ways in which they meet rising customer expectations. Companies across the sectors (chemicals, aerospace and defense (A&D) and industrial products) are acquiring technology-based companies to add services to their portfolio, be it coating application technology by chemical players or after-market services by A&D players.
- ▶ Portfolio optimization is a key driver of M&A as companies continue to divest low-margin businesses to maximize profitability. Several AM companies have resorted to megamergers to optimize economies of scale and cost efficiencies. While the megamerger trend seems to be subsiding in industrial products and chemicals, it may continue in A&D for the short term.
- ▶ AM players are differentiating their products and services through innovation, particularly digital, to compete in an increasingly disrupted market. The industry is expected to attract further transactions given the strong deal fundamentals and availability of capital.

Life sciences

- ▶ Life sciences is on track to achieve a record M&A total before the end of 2019. Total value has been driven by megadeal activity, as well as companies' desire for greater therapeutic focus, including the divestiture of slower-growing deprioritized assets.
- ▶ Alliances and JVs are another important avenue to access innovation, especially in therapy or technology areas where competition for assets is high.
- ▶ Deals structured as alliances and JVs can be a lower-risk route to new markets. In the life sciences sector, such deals can be as large in value as the biggest deals in many other sectors.
- ▶ Life sciences companies' aggregate firepower, the financial resources to do M&A, is close to an all-time high. This could drive companies that historically have been less active in M&A to use dealmaking to secure their position in a dynamic ecosystem.

Media and entertainment

- ▶ Media and entertainment companies continue to operate in a transforming market, driven by changes in how content is consumed, and the increasing availability of data. Dealmaking remains active, as companies continue to use it to acquire the capabilities, products and distribution methods they need to stay competitive, as well as encouraging companies to divest assets that will be attractive to others.
- ▶ Competition for content – and the production facilities and creative talent that produce it – will remain high as many companies' strategies focus on increasing entertainment options for customers. The raft of upcoming subscription video-on-demand services shows that exclusive content libraries are key, as is ensuring the distribution method allows customers to access and discover it easily.
- ▶ The data and information services sector will continue to be active, as the ability to collect and extract insights from data will only become more important in determining success.

Mining and metals

- ▶ M&A activity will continue to increase as mining and metals (MM) companies focus on replenishing their portfolios. Growth is back on the agenda as, after a period of rationalization, companies have stronger balance sheets and increased access to capital. Reduced exploration and shrinking resource pipelines will require acquisitions to replace production.
- ▶ Copper and battery minerals will remain a key focus for M&A, but with limited options available, deals may need significant premiums to get over the line. Battery metals transactions have begun to accelerate, driven by increased interest from downstream sectors seeking to invest in prime lithium assets. Companies are considering deals in countries with a perceived higher risk profile, as they increasingly look to secure long-term growth options.
- ▶ Some traditional lenders remain reluctant to finance longer-term projects. As a result, companies are seeking alternative sources of financing, such as production-based financing (royalty/streamlining deals) and private capital. License-to-operate risks will play a greater role in due diligence on capital investment decisions.

Power and utilities

- ▶ The power and utilities (P&U) sector is now in a transition, from the traditional landscape to a system that will be defined by new, changed market and technological conditions.
- ▶ There is growing evidence of the impact of economic headwinds and geopolitical uncertainty on overall M&A activity. However, a combination of cross-border M&A and private capital will drive investment in renewables and new energy technology – including battery storage and electric vehicle infrastructure. Sector convergence, driving cross-sector M&A combinations, will become more prevalent.
- ▶ Increasing climate-related political and social pressures will see a continuation of P&U companies lead climate goals in the form of renewables growth and the phase-out of coal-fired generation. Clean energy is developing into a large and stable market, attracting investment beyond expectations – from both corporate and financial sponsors.

Technology

- ▶ The outlook for technology M&A remains upbeat as companies across all sectors continue to view technology-related M&A as the preferred growth engine. Companies are using M&A to explore emerging technologies instead of in-house development, which is often considered to be slow and risky. Mature technology companies are turning to transformative deals to unlock value in their portfolios. And activist investors and boards of directors are driving all companies toward more frequent portfolio reviews.
- ▶ Infrastructure software deals continue to dominate technology deal volumes as software continues to displace hardware, services and labor. And appetite for recurring revenue business models by non-software companies remains strong.
- ▶ Competition between strategic and private equity acquirers is testing already record-high valuations. Technology companies are using the divestment of non-core businesses as an effective way to refocus priorities on the core business to drive growth.
- ▶ Technology dealmaking continues to be influenced by government policy across the world, spurred by uncertainty around China-US trade negotiations, increased government power to veto transactions deemed against national interest and increased focus on consumer privacy regulation.

Corporate purpose

Purpose moves to the heart of business strategy

Respondents have, or are planning to adopt, a range of reporting that goes beyond the purely financial or focused solely on shareholders.

Political and social pressure on companies is rising. The need for corporates to show they are good members of society and are adding value to their people, customers and society has never been greater.

Companies have been very good at reporting their financial contributions and providing a clear narrative around customer value. But now we are seeing meaningful movement toward reporting on investment in talent, including inclusiveness and remuneration, and wider social needs.

In fact, the best businesses are defined by more than their short-term profitability. They drive broad-based prosperity by creating value for shareholders, customers, employees and society alike.

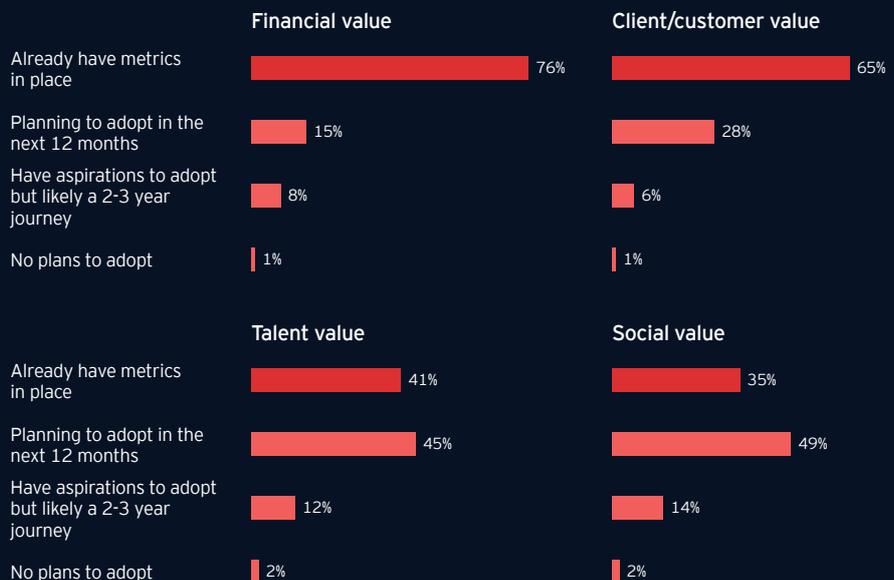
For example, investment in reskilling employees is clearly good for business. But it also benefits employees and equips them for a more successful career, whether within that company or beyond.

Society benefits too, since the economy grows more sustainably with a more highly skilled workforce. And when businesses can make a stronger case that they are creating long-term value for stakeholders across society, they foster trust with wider society. Companies therefore need to find a way to measure and communicate that fully encompassing and compelling long-term value narrative.

Only a small minority of companies have no plans to introduce broader reporting – unfortunately, they could find themselves on the wrong side of this increasingly important debate.

Q Are you measuring performance and evaluating management on generating long-term value and communicating the proposition to investors, internal stakeholders and society as a whole?

EY and the Coalition for Inclusive Capitalism collaborate on the Embankment Project for Inclusive Capitalism (EPIC), an initiative to identify value drivers important for sustainable and inclusive growth, as well as potential metrics to assess them. The project brought together a collection of participants with both market strength and diversity across the entire investment chain, representing US\$30 trillion of assets under management and almost two million employees around the world.



Purpose as a filter for M&A.

Just as companies are starting to embrace nonfinancial and purpose-driven reporting as part of their wider value proposition, they are starting to build purpose into their deal strategies.

Future deals will need to be viewed through the lens of purpose. Due diligence will need to be focused on talent and social reputational risks as much as financial, market and customer.

Those companies that embrace this new approach to dealmaking fastest will be rewarded in long-term value.

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. Executives should be able to communicate the wider human/people, societal, consumer and financial value their company creates for their wider stakeholder group and society as a whole.

2

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 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 in an increasingly virtual world.

4

Can you predict your own future trade flows?

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

5

Can you afford to walk away from the deal table?

With the pace of innovation unrelenting, to stay ahead of the curve, executives must finely judge the buy vs build argument and add a premium for speed to market. Walking away now could mean missing an opportunity that competitors will fully exploit – at your expense.

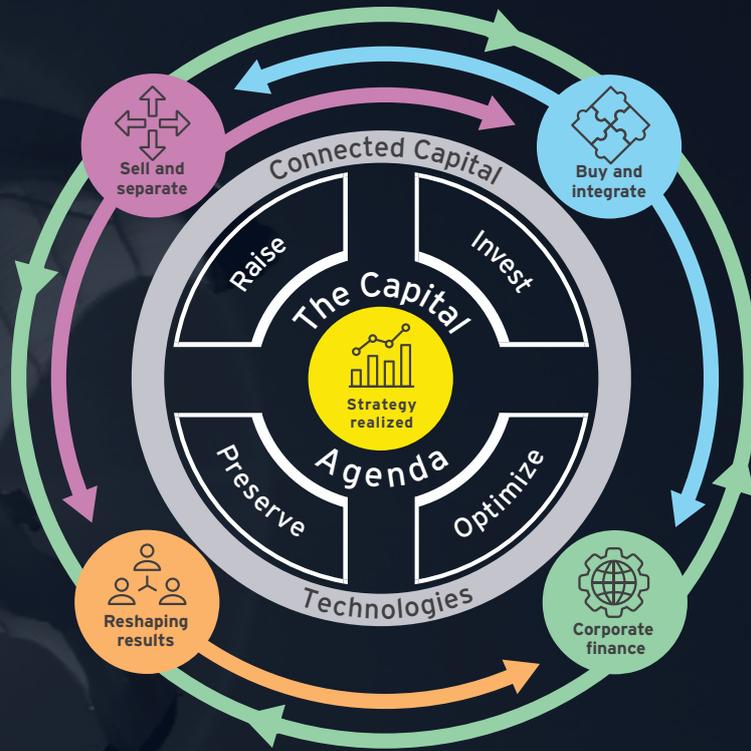
6

Is your talent strategy fit for the future?

Understanding the 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. Re-equipping existing staff with new and broader skills while attracting and retaining high-caliber talent from outside can help underpin future growth.

Capital Agenda – helping you find answers to today’s toughest strategic, financial, operational and commercial questions.

How you manage your Capital Agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you’re preserving, optimizing, raising or investing, our Connected Capital Solutions, supported by an integrated suite of purpose-built technologies and delivered by our global teams, can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.



Strategy realized

Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future.

Corporate finance

Enabling better value-creating decisions through deep finance and strategic modeling to optimize capital agenda execution, financial performance and shareholder return.

Buy and integrate

Enabling strategic growth through better integrated and operationalized acquisitions, JVs and alliances.

Sell and separate

Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin-off or JV.

Reshaping results

Providing trusted leadership in urgent, critical and complex situations to rapidly solve business challenges, sustainably improve results and help you reshape for a better future.

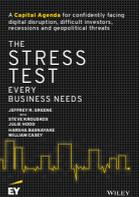
Connected Capital Technologies

Our Connected Capital Technologies are an integrated suite of purpose-built technologies that help enable our EY professionals to deliver our Connected Capital Solutions by unlocking the power of data. They bring deeper analysis and faster insights to support better decision-making around your capital and transaction strategies through to execution, from growth strategy and portfolio reshaping to M&A, divestiture, post-merger integration and restructuring.

More insights on how EY teams can help you manage your Capital Agenda

In our new EY book *The Stress Test Every Business Needs: A Capital Agenda for confidently facing digital disruption, difficult investors, recessions and geopolitical threats*, the authors extend the banking stress-test concept to a company’s “Capital Agenda” – managing capital, executing transactions and applying corporate finance tools to strategic and operational decisions.

www.ey.com/stresstest



US highlights

83%

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

46%

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

62%

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

51%

say they find hiring or retaining staff difficult.

54%

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

21%

say the main strategic drivers for pursuing deals are both acquiring talent and sector convergence.

78%

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

48%

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

56%

cite regulatory impacts – trade disputes, climate-change policy or regulatory uncertainty – as the greatest external risks to their business.



Reshaping for resiliency: US executives focused on sustainable success in uncertain markets

As good a predictive tool as our *Capital Confidence Barometer* is, the executives we survey twice a year contend with a great deal that cannot be predicted: economic, geopolitical and regulatory volatility are facts of business life. Our survey respondents may feel relatively positive about the state of the markets in which they transact, but building a sustainable business means anticipating a range of scenarios. Often, US corporate leaders tell us they have to both hunker down and double down.

Broadly speaking, this is the story told by our latest Barometer – a bifurcated US business environment where executives are bullish on markets and prudent on dealmaking. On the one hand, economic and deal-market indicators have virtually never been this positive: near-unanimous expectations for both global and US economic growth (97% and 96%, respectively), and a massive majority (83%) expecting the US M&A market to improve in the next 12 months. Even the speculation that has dominated US headlines throughout 2019, the possibility of a recession, seems overblown to our respondents: a large majority (78%) do not expect an economic slowdown in the near to medium term.

On the other hand, deal intentions – the centerpiece metric of the Barometer – slip below the 50% mark for the first time in two years, with 46% of US executives telling us they expect to transact in the next year. US executives' sanguine M&A intentions may be explained by the risks they see on the horizon, which belie their macro positivity. Nearly two-thirds (62%) expect an increase in hostile and competitive bidding, a sign of both a healthy market but one fraught with challenge and the danger of overpaying. More than half of executives (56%) cite regulatory impacts – whether trade disputes, climate-change policy or regulatory uncertainty – as the greatest external risks to their business. Of course, these external pressures cut both ways in terms of corporate strategy. Among larger companies, those with revenues above US\$5 billion, a solid majority (59%) tell us they are considering M&A because of ongoing trade or tariff uncertainties.

At EY, we frequently advise companies on how to manage their business amid mixed market signals and competing priorities. Our recent *Reshaping results* report finds that growing, healthy businesses must build a resilient approach: stress testing multiple scenarios, building an adaptive corporate decision-making apparatus and staffing the C-suite with the right leadership for all game plans. This Barometer finds US business leaders echoing this mindset. They are acting from a position of strength – building on successes they've already achieved – while being watchful for shifts in the geopolitical chessboard. They are keenly aware that risks affecting business growth can take many forms. We see this in the Barometer's stats on technology investment: 85% of US executives say they spend just under half of total capital on technology – a plurality of this tech investment (45%) is coming via out-of-house opportunities such as joint ventures and alliances, as well as acquisitions. This is what we mean by "reshaping": anticipating business risks and finding agile ways to grow across the market landscape.

As I often say in summarizing our Barometer, every deal is done for its own strategic reasons. Executives know that choosing not to engage in dealmaking could diminish future competitiveness; and even as conditions become challenging and unpredictable and the margin of error for M&A has shrunk, these leaders know they must strike an effective balance between resiliency and a visionary outlook. This is the mindset that empowers them to continually innovate, outpace the competition and keep growing in a global economy that will never be short of surprises.

William M. Casey
EY Americas Vice Chair, Transaction Advisory Services



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

William M. Casey
EY Americas Vice Chair
Transaction Advisory Services
Ernst & Young LLP
william.casey@ey.com
+1 212 773 0058
Follow me on Twitter:
@BillMCasey

Jennifer Arnolie
EY Americas Deputy Leader
Transaction Advisory Services
Ernst & Young LLP
jennifer.arnolie@ey.com
+1 703 747 1808

Mark F. Copeland
US-West Transaction Advisory
Services Managing Partner
Ernst & Young LLP
mark.copeland@ey.com
+1 214 969 8026

Doree Keating
US-East Transaction Advisory
Services Managing Partner
Ernst & Young LLP
doree.keating@ey.com
+1 703 747 1327

Nadine A. Mirchandani
Financial Services Organization
Managing Partner
Transaction Advisory Services
Ernst & Young LLP
nadine.mirchandani@ey.com
+1 212 773 0090

Christopher A. Smyth
US-Central Transaction
Advisory Services
Managing Partner
Ernst & Young LLP
christopher.smyth@ey.com
+1 312 879 3904



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

Tony Qui

EY Global Chief
Innovation Officer
Transaction Advisory Services
tqui@uk.ey.com
+44 20 7951 5820

Barry Perkins

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

Americas

William M. Casey

EY Americas Vice Chair
Transaction Advisory Services
william.casey@ey.com
+1 212 773 0058

Asia-Pacific

Harsha Basnayake

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

Europe, Middle East, India and Africa (EMEIA)

Andrea Guerzoni

EY EMEIA Leader
Transaction Advisory Services
andrea.guerzoni@it.ey.com
+39 028 066 93707

Japan

Vince Smith

EY Japan Leader
Transaction Advisory Services
vince.smith@jp.ey.com
+81 3 4582 6523

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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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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