Global Capital Confidence Barometer

April 2018 | 18th edition | US highlights

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Is your portfolio fit for the future or fashioned on the past?

Businesses are reshaping for a better tomorrow through portfolio transformation.

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

EY
Building a better working world

US highlights

M&A outlook

54%

plan to **pursue M&A** in the next year.

61%

expect their **M&A pipelines** to increase.

66%

have failed to complete or **canceled a deal** in the last year and the main reason was **competition or valuation issues**.

Macroeconomic environment

69%

see the **US economy improving** in 2018.

39%

believe **disruptive forces** – including technology, digital transformation, and sector blurring – are the top risks to near-term growth.

51%

say **rising inflation** is the biggest risk to investment plans.

Growth and portfolio strategy

66%

see **portfolio transformation**, including both buying and selling assets, as the most prominent boardroom issue.

74%

say **divesting** an asset identified as underperforming or at risk for disruption was the main result of portfolio reviews.

58%

say the main strategic driver for M&A is **acquiring talent**, while another 48% report innovation.

Above the fray: US companies maintain their dealmaking focus after tax reform — even amid fluctuating financial markets and political uncertainty

When we surveyed US decision-makers for our semiannual *Capital Confidence Barometer* in the early fall of 2017, their mood was grim. Months of debate in Washington had culminated in a failed bill to remake US health care, and observers began to wonder if the current administration and a sympathetic Congress were capable of passing any major legislation. Facing macroeconomic and regulatory uncertainty, US dealmakers cut their M&A intentions to their lowest level in approximately three years.

Then, two months after our October *Barometer* was issued, Congress got US tax reform over the finish line. The implications of this once-in-a-generation event, for both balance sheets and M&A, are still being sorted out four months later. But merely removing uncertainty surrounding tax reform buoyed spirits over the holidays and continuing into January 2018. At this writing, however, the markets have turned bearish again, as renewed US protectionism and a brewing global trade war have erased the equity-market gains of recent months.

The result of this topsy-turvy six months is evident in the 18th edition of our *Capital Confidence Barometer*. US deal intentions are healthier, back up above 50% — but nowhere near the highs of 18 months ago, when some three-quarters of companies told us they planned to pursue a deal.

Of course, in good times and bad, C-suites need to remain above the macroeconomic fray, even as they search every corner of their portfolios for both organic and inorganic growth opportunities. That's been true this entire decade, even when the Great Recession slowed our momentum. When the story of the 2010s is written, it will be a tale of two markets. The first half was marked by restraint and a slow return to confidence. The second half has been fueled by megadeals and disruption — from technology, from customers and from shareholder activists — all of which have compelled boards to step on the gas, even when assets seemed overly rich.

Even as they express caution about their own portfolios, US decision-makers say corporate and dealmaking metrics are all fairly robust. Fully two-thirds of respondents say portfolio transformation — including both buying and selling of assets — is the most prominent topic on their boardroom agenda. Competition for assets is still a fact of life: Of the 66% of respondents who have canceled a deal in the last year, more than two-thirds cited issues with competition or valuations. And, contrary to the popular media image of corporates unwilling to hire at scale, well over half of our US respondents tell us the main strategic driver for M&A is acquiring talent.

One thing has held true since we launched the Barometer nine years and 17 editions ago: Every merger, acquisition, divestiture or other capital event has its own rationale. A company pursues deals to fulfill its own specific Capital Agenda. That was true before tax reform, and it will remain true no matter where interest rates, steel tariffs or election results lead us in the second half of this already eventful year.

William M. Casey
EY Americas Vice Chair
Transaction Advisory Services

Key takeaways

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

Is your portfolio fit for purpose?

Buying and selling can be the fastest way to transform your portfolio and reshape the future direction of your business. Being able to proactively respond quickly to emerging opportunities – and threats – is a must in the warp speed world of business today.

Can you strategically manage your own ecosystem or will the external environment manage you?

The pace of convergence and disruption is compelling companies to look across a broader landscape to understand their relative competitive position. Companies should recognize the new realities of today's markets and develop new ecosystems to spot future growth opportunities – and identify emerging threats.

Are you utilizing tomorrow's technologies today?

Technology is a transformer. The increasing use of AI, RPA and big data is revolutionizing the way boards assess and optimize their operations – and encouraging them to make bold decisions on what to buy and sell to gain prime market position. Companies need to be certain their strategic decision-making processes enable them to take advantage of emerging technologies.

Can your deal strategy navigate the rules or will regulation rule your M&A?

The growth imperative means companies will remain focused on accessing new markets or acquiring innovation. An early understanding of regulatory implications in terms of how you shape the deal – such as subsequent asset sales to meet competition/antitrust requirements – could give you a competitive advantage.

Is your future success contingent on your workforce?

With record levels of employment in many leading economies the war for talent has never been fiercer. The right skills are often in short supply. Reskilling existing workers or hiring contingent workers are options. Using M&A to secure talent is another and executives should be sure that integration strategies secure the most value from human capital.

Are you actively managing your stakeholders?

Shareholder activists can be viewed as strategic advisors and their investment is often a sign of potential value. Executives should engage with activists and look to leverage value-creating insights and points of view.

Is private equity a competitor or a collaborator?

Private equity funds are investing more and more for the medium and long term. They are also returning to the M&A market with significant purchasing power. Corporate executives should be prepared for increased competition for assets – or be open to collaborating with PE on deals, especially when acquired assets may need to be divested to execute the deal.

Does the answer to your growth question lay beyond your national borders?

Notwithstanding rising nationalism and protectionism, companies are planning more cross-border deals than ever before. Executives should remain alert to opportunities outside their domestic market and be prepared to reimagine their global footprint.

Is walking away the best deal you ever made?

The deal landscape is highly competitive and the competition looks set to intensify further. But executives are making shrewd judgments based on strategic rationale supported by better information. Today, the use of new tools and technologies to assess available data from multiple sources will determine deal fitness.

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 can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

Raise

How can we raise the capital needed to future-proof the business?

Invest

How can we seize growth opportunities and competitive advantage?

Preserve

How can we better anticipate and adapt to market conditions as they change?

Optimize

How can we make certain our portfolio is operationally fit for the future?

Connected Capital Solutions

Whether you're preserving, optimizing, raising or investing, our Connected Capital Solutions can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

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

Enabling better decisions around financing and funding capital expansion and efficiency

Enabling strategic growth through better-integrated and operationalized acquisitions, joint ventures and alliances

Enabling strategic portfolio management, and better divestments to help you maximize value from a sale

Helping you transform or restructure your organization for a better future by enabling business-critical and capital investment decisions

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 Euromoney Institutional Investor Thought Leadership (EIITL). Our panel comprises select global EY clients and contacts and regular EIITL contributors.

- In March and April, we surveyed a panel of over 2,500 executives in 43 countries; 64% were CEOs, CFOs and other C-level executives. More than 500 executives were surveyed from the US.
- 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, industrials, 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 (20%); US$3b–US$4.9b (8%); and greater than US$5b (22%).
- Global company ownership was as follows: publicly listed (58%), privately owned (35%), family owned (4%) and government/state owned (3%).

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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 capital, EY's Transaction Advisory Services combine a set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

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