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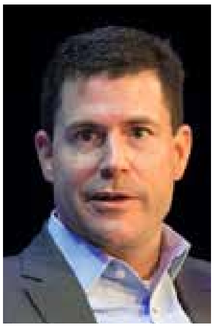
Consumer Products & Retail
Global Capital Confidence Barometer



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A note from Ryan Burke, Global Consumer Products & Retail Transaction Leader

Portfolio transformation dominates deal decision-making.

Dealmaking intentions remain above average as companies look to transform their businesses for the future, according to the latest edition of the *Capital Confidence Barometer*.

CPR companies are now looking at their business as a suite of portfolios as much as a company, with 68% of CPR executives indicating that portfolio transformation is the number one priority on their boardroom agenda.

Dealmaking intentions and portfolio transformation are underpinned by broader economic growth, sales growth and rising confidence in the M&A market. Consumer products companies have almost doubled their sales growth compared to two years ago after a stronger-than-expected turnaround in global economic activity: 100% of respondents expect corporate earnings to improve or remain stable. The study also finds that 73% of consumer products and retail respondents now expect the M&A market in their own sector to improve, which is a significant positive jump from 50% half a year ago.

Technology, analytics and activists combine as important drivers of portfolio transformation

The accelerating pace of digital technologies and their impact on business models has CPR companies undertaking reviews of portfolios more frequently. Twenty-six percent say they are reviewing their portfolios more often than they did three years ago. Of those, 43% say their number one reason has been to keep pace with digitally enabled competitors and startups.

Activist shareholders are also influencing divestment decision-making, with 47% of respondents indicating that activist shareholders are pushing for divestments. However, where the motivation for the board may be to reinvest the capital into the portfolio, activist shareholders are looking for at least some of the realized capital to be returned to shareholders.

Combining analytics and shareholder activism can erode the emotional attachment to legacy brands in boardrooms. This is important, as 74% of respondents to the study identified an asset to divest, either because it was underperforming or at risk of disruption. "In a personal-care world rife with niche, specialty brands, we expect legacy portfolios to receive a high level of scrutiny," says Enoch Minn, Managing Director at EY-Parthenon. "Divesting a legacy, emotional brand can be difficult for management teams, but activists are unlikely to respond to such emotion and will push for portfolio transformation to drive growth, and analytics can provide them with the hard facts they need."

Despite political uncertainty, boards are more interested in making the company fit for growth

After years of persistently low inflation, more than half of CPR executives cite rising inflation as a key risk to their investment plans. Rising raw material costs, from soy to pulp to aggregate, and increasing freight costs are two inflationary pressures of particular concern for CPR portfolios. Some companies are beginning to pass these costs on as consumers come to terms with the reality that prices for goods and services are on the rise.

Political uncertainty is the other risk that more than half of CPR companies see to the short-term growth of their business. They are acutely aware that any increase in protectionism will have a direct impact on the efficient flow of goods and services among companies. Rather than reshoring, or shifting production to address this concern, CPR companies are more interested in leveraging digital technologies.

Companies continue to increase their use of analytics, artificial intelligence (AI) and robotics to reach the consumer, increase efficiency and make better-informed decisions about their portfolio. In adopting these capabilities, CPR companies are starting to see digital technologies as an enabler rather than a risk to their company.

With the focus squarely on portfolio optimization in a time of confidence for many companies, CPR executives are more interested in making the company fit for growth than protecting the organization from potential political risks.

Outlook

Broad-based synchronized growth underpins buoyant economic outlook, with dealmaking intentions remaining at near-record levels.

99%

see the global and sector economy as **improving or stable**.

100%

expect **corporate earnings** of consumer products and retail companies to **improve or remain stable**.

55%

intend to pursue **acquisitions**.

Growth and portfolio strategy

Executives are looking to transform their portfolios. They will be using divestments to raise funds.

68%

say that portfolio transformation is top of the **boardroom agenda**.

74%

identified an asset to **divest** during their most recent portfolio review.

98%

review their portfolio at least **annually**.

External environment

Executives see more disruption and risk from macroeconomic factors than from digital.

55%

see **rising inflation** as the dominant risk to their current investment plans.

52%

see **political uncertainty** as greatest risk to business growth.

20%

say that **digital transformation** is top of their boardroom agenda.

Top five investment destinations, April 2018

1 United States

2 Brazil

3 United Kingdom

4 Canada

5 China

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