



Building a better
working world

Health highlights

Global Capital Confidence Barometer



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A note from Gregg Slager, EY Global Health Transaction Leader

Portfolio transformation drives robust dealmaking in the health sector

The results of the latest *Capital Confidence Barometer* reflect a sector grappling with massive and rapid transformation. Exponential advances in digital technologies, sector convergence and fierce competition are propelling health organizations to rethink their strategies.

This disruption, combined with relentless pressure to contain costs, is motivating dealmaking intentions across the sector. Nearly half (48%) of the health executives we surveyed say they expect to pursue M&A in the next 12 months, an increase of 12 percentage points from the same time last year. This confidence follows a record first quarter of global dealmaking in 2018. It's a trend that 60% of health respondents expect will improve in the year ahead within their market. Pipeline growth has also gained a remarkable boost, with 64% saying they expect an increase in their pipelines, up 34 percentage points from six months ago. At the same time, as health companies get better at targeting assets and using analytics as part of their due diligence, three-quarters of executives feel more confident about completing the deals they are pursuing.

While corporate acquirers have dominated the current M&A cycle, the resurgence of private equity in 2017 has two-thirds of health executives expecting stiff competition for assets in the next 12 months, predominantly from private equity players. With business transformation and effective negotiations being the key deliverables sought, private equity firms seem to be more aggressive in deals compared with other strategic investors. However, the challenge for them will be to find companies with the necessary infrastructure to support growth and with management teams sophisticated enough to build scalable, sustainable enterprises.

Portfolio transformation tops the agenda as health organizations look to future-proof their businesses

As is evident from the increased outlook in M&A activity, health organizations are focused on rightsizing their portfolios. Almost two-thirds of health executives say that portfolio transformation has risen to the top of the boardroom agenda. Shareholder activism is also top of mind.

In an effort to shape portfolios of the future, both boards and activist shareholders are centering their attention on asset disposal. However, their reasons appear to differ. While executives may lean more toward recycling capital into the portfolio, activists are looking to see a certain element of realized capital returned to shareholders.

Regardless of motive, 76% of health executives say that they have already identified assets that are at risk of disruption or underperforming. Shedding these will allow organizations to invest in those deemed more essential for building future capabilities.

The health economy of the future demands the right talent mix

As health organizations look ahead, one of the biggest challenges they face is in finding the optimal workforce balance. Tomorrow's health economy and business models demand the right mix of human capital. For almost two-thirds (62%) of health executives, the biggest challenge is identifying and hiring people with the right skills to work in today's complex health organizations. This may explain why more than half are trying to figure out how best to use contingent workers. However, this approach brings its own complexities. Organizations need to be mindful about the hidden costs, potential regulatory issues and the impact on the organization's culture.

Top five investment destinations



1
Canada



2
United Kingdom



3
United States



4
Australia



5
Brazil

Health highlights

Macroeconomic environment and M&A outlook

Broad-based synchronized growth underpins a buoyant economic outlook, with dealmaking intentions improving over the last year.

68%

of health executives see the global economy **as improving**; 97% see it as improving or stable.

60%

expect **M&A in the health sector to improve** in the next 12 months, up from 38% in October 2017.

48%

intend to pursue M&A in the next 12 months, an increase from just 36% a year ago.

64%

expect **their pipeline to increase** in the next 12 months; 36% expect it to remain stable.

Growth and portfolio strategy

Health organizations are thinking strategically about how to optimize their portfolios.

64%

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

76%

identified assets that are at risk of **disruption** or are underperforming.

32%

expect **increased cross-border dealmaking** as companies look outward for growth.

External environment

Health executives are looking outside their companies to understand risks and opportunities.

82%

say **increased infrastructure spending** will have a positive impact on growth.

80%

think their **global dealmaking** will not be impacted by recent changes in US corporate tax; 14% think dealmaking will improve because of tax changes.

49%

see **rising inflation** as the dominant risk to their current investment plans, and 37% cited market volatility.

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