

# **Global Capital Confidence Barometer**



David Gale EY Americas Industrials Leader Transaction Advisory Services +1 612 371 8482 david.gale@ey.com

#### A note from David Gale, EY Americas Industrials Transactions Leader

Industrials

## Portfolio transformation helps industrial companies ride the wave of market disruption and remain competitive.

Portfolio transformation emerges as a dominant theme in this edition of the *Capital Confidence Barometer* for industrial companies. As they prepare themselves for medium- to long-term growth, 73% of industrial executives indicate that portfolio transformation is the leading priority on their boardroom agenda. Seventy-two percent plan to divest operations within the next year. Assets that are underperforming or at risk of disruption are most likely to be divested. Over the last three years, 29% of industrial companies have increased the frequency of their portfolio reviews, with one-third of those who say they have increased the frequency of reviews citing threats from digitally enabled competitors and startups as the reason.

#### Industrial companies keen on use of RPA, AI, big data and analytics

Many industrial companies have been in the forefront of adopting technologies such as automation in manufacturing. In general, industrials are ahead of the global pack when it comes to considering newer, digitally driven technologies such as robotic process automation (RPA) and artificial intelligence (AI). In fact, industrial companies are significantly more likely to identify AI and RPA as priority technologies than the global average (57% vs. 46% of global companies). These technologies are affecting manufacturing processes profoundly as leaders implement automation to make operations more efficient and to stay competitive, and are becoming more scalable, with solutions available at lower price points. Meanwhile, a quarter of industrial companies (24%) identified cloud computing and big data as top technology priorities.

#### M&A outlook remains positive in spite of increased competition for deals

However, Industrial companies continue to have a confident outlook on the M&A market, with 87% describing it as improving. This confidence is holding strong, even in the face of growing challenges such as increased competition from private equity funds and corporate buyers. When industrials have chosen to walk away from deals, as 74% have in the past year, competition and disagreement on price have been the leading reasons (cited by 53%), followed by regulatory and antitrust concerns (25%). In spite of these challenges, a majority of industrials expect their deal pipelines and deal completion rates to increase. Sophisticated methodologies to source potential targets will support this growth, along with evolving due diligence techniques and analytics to assess planned acquisitions.

## Appeal of cross-border deals to increase in response to uncertainty

Industrial executives predict a rise in cross-border M&A over the next 12 months. Political uncertainty and geopolitical tensions, cited by 93% as the greatest near-term risk to the growth of their business, may be fueling interest. Cross-border deals allow industrial companies to operate in multiple countries, providing flexibility when trade policies become restrictive. They can also support co-location of manufacturing closer to key customers.

#### Top five investment destinations



#### Macroeconomic environment and M&A outlook

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

see the economy as **improving**.

87% see the M&A market as **improving**. 50%

### Growth and portfolio strategy

Executives are looking to improve their portfolios. They will be using divestments to raise funds to acquire technology and talent.

.....

say that portfolio transformation is top of the

boardroom agenda.

71%

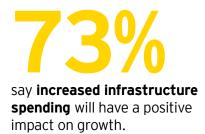
underperforming asset to divest during their most recent portfolio review.

32%

expect increased **cross-border dealmaking** as companies look across borders for growth and innovation.

#### **External environment**

Executives are looking outside their company to understand risks and opportunities.





cite potential **changes in trade policies and rising protectionism** as a key risk to their business. 50%

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

#### EY | Assurance | Tax | Transactions | Advisory

#### 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.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 EYGM Limited. All Rights Reserved.

EYG no. 03128-183GBL

1802-2578997

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

#### About EY's Transaction Advisory Services

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.

ey.com/ccb