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Consumer industry highlights
Global Capital Confidence Barometer

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A note from Jeff Wray, EY Global Consumer Leader, Transaction Advisory Services

Consumer industry executives temporarily slowing plans for M&A

Consumer industry executives appear to be temporarily slowing plans for M&A, according to the 19th edition of the EY *Capital Confidence Barometer*, as the sector adjusts to uncertainty over geopolitical issues and trade, and changing consumer preferences continue to disrupt the sector.

The percentage of consumer industry executives who expect their company to actively pursue M&A in the next 12 months fell to 42% in the fall 2018 survey, the lowest level in four years and below that of global peers overall.

While consumer executives are confident that global growth in the next 12 months will remain solid, they report a less favorable view on their own sector, as 84% of consumer respondents expect improvement at a global level versus 53% expecting improvement within the consumer industry.

Recent changes and increasing volatility in trade, tariffs and competition rules have increased uncertainty and are now cited together as the biggest challenge to dealmaking (49%). They are also seen as the second biggest risk to growth of the core business (28%), behind only disruptive forces such as technology and sector blurring. Consumer industry companies continue to see disruptive forces such as technology, digital, sector blurring and changing consumer behavior as the top industry challenges, with 32% citing these forces.

Companies are adapting to technology and other disruptive forces in several ways. For example, retailers are partnering with technology companies (rather than acquiring a company outright) to build robotic fulfillment centers.

On the trade front, consumer companies are shifting their sourcing locations and the flow of inventory due to tariff uncertainty, as many struggle to offset the cost of tariffs through higher pricing.

Companies are also shifting where they are looking for deals. This is the first time in five years that no BRIC country has been included as a top five investment destination. This notable change could be due to companies looking for the security of developed markets in uncertain times, while the technology leaders and innovative startups they seek are also found in developed markets.

Meanwhile, portfolio reviews are also becoming more frequent. The number of consumer industry companies reviewing their portfolio at least every six months has doubled over the last half year to 67%. The reviews most often result in divestment of underperforming assets and operations that are at risk from technology, digital and customer disruption.

While some consumer industry executives are pausing when it comes to M&A, we would expect the pause to be temporary. Most industry executives (72%) expect the deal environment to improve in the next 12 months, and M&A remains one of the fastest ways to enter the new markets and acquire the new technologies companies seek as they battle industry disruption.

Top five investment destinations

Macroeconomic environment

Strong corporate earnings and open credit markets point to a continued upswing in equity markets; however, some executives look to pause dealmaking.

84%

see the global economy as improving.

99%

see corporate earnings in the consumer industry as stable or improving.

42%

expect to actively pursue acquisitions in the next year – the lowest in four years.

Major M&A themes

Companies are accelerating the frequency of their portfolio reviews, which often result in divestments. Acquiring innovative digital technologies will be essential to address the changing consumer behaviors, but there will be increasing competition for promising assets through private equity.

71%

divested an asset after their most recent portfolio review.

29%

see technology and digital as a main theme driving M&A.

47%

expect increasing competition for assets from private equity buyers.

Issues and risks to dealmaking

Trade and tariff issues are compelling some executives to pause their M&A plans. Identification and realization of synergies, as well as a well-planned talent strategy, are at the center of M&A value creation.

49%

cite regulation and policy uncertainty as the biggest potential risks to dealmaking.

53%

achieved lower synergies than anticipated in their most recent deal.

23%

see defining new strategic growth priorities as the main challenge when integrating an acquired company.

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