

Peru highlights

Global Capital Confidence Barometer



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A note from Enrique Oliveros, Lead Partner, Transaction Advisory Services and Corporate Finance, Ernst & Young Asesores S. Civil de R.L.

As political stability returns, Peruvian companies push ahead with M&A plans

Six months ago, Peruvian executives were experiencing jitters following the March resignation of President Pedro Kuczynski. Today, with his successor, Martín Vizcarra, fully established in the office of the presidency, Peruvians appear much more confident. From a drop to 44% in April 2018, M&A intentions have rebounded to 55%, according to the results of the latest *EY Capital Confidence Barometer*. Although this remains below a *Capital Confidence Barometer* high of 66% 12 months ago, deal intentions are signaling M&A strength coming back.

Political stability is also infusing Peruvians with a sense of optimism in the state of the economy. The Peruvian Government has always remained steady in terms of the economy, trade and its central bank, which is rated as one of the most disciplined in the region. However, with more political certainty, the prices of metals and minerals on the rise, and continued improvements in economic governance, 77% see the domestic economy as improving; 84% are even more confident in the global economy. Economic indicators, particularly positive sentiment on market stability, credit availability and equity valuations support this confidence.

Yet, although political certainty has returned, evolving government and regulatory intervention in business issues and M&A is emerging as a top risk to growth for 41% of Peruvian executives. For 46% of executives, policy uncertainty in terms of trade and tariffs and competition rules are seen as key risks for dealmaking in the next 12 months.

While Peruvian executives were awaiting the return of political stability, they have turned their attention to portfolio optimization. Although frequent portfolio reviews have become the norm in recent years as market disruptions escalate, more than a quarter (26%) of Peruvian executives say they now continuously review their portfolios to better position themselves in the marketplace. This is more than double six months ago; nearly half (49%) review their portfolios every six months or more often. For 85%, the main result of their most recent portfolio review was divesting an asset identified as underperforming or at risk for disruption.

Looking ahead, Peruvian executives expect the M&A market to continue improving. Rising confidence in pipeline activity and the ability to close deals in the next 12 months appear to underpin their optimism. An additional driver of M&A intentions in the near term, particularly for corporates, is pending regulation that would require some M&A deals, based on size or market capitalization, to receive regulatory approval before being finalized. Companies may accelerate their activities to close deals before the regulation is enacted.

As companies ramp up their M&A activity, they'll find themselves competing with a formidable cohort of private equity players; 40% see private equity as a major acquirer of assets. And while the majority of Peruvian companies are expected to look for investments closer to home, one in five will be focusing on cross-border activities as a means of navigating a host of global and regional trade and tariff uncertainties. Overall, with the domestic political disruption behind them, and investor confidence on the rise, Peruvian companies return to dealmaking.

Macroeconomic and external environment

Strong corporate earnings and open-credit markets point to a continued upswing in equity markets.

77%

see the local economy as improving.

71%

see corporate earnings improving.

68%

expect the M&A market to improve.

Buy and integrate

Executives see the M&A cycle continuing at elevated levels. While some executives look to pause their dealmaking, for others, M&A remains an imperative. Identification and realization of synergies are at the center of M&A value creation.

55%

expect to actively pursue acquisitions in the next year.

55%

are starting integration planning earlier.

58%

say they achieved lower synergies than anticipated in their most recent deal.

Major M&A themes

Trade and tariff issues are compelling some executives to pause their M&A plans. Private equity is seen to be a major influence in near-term dealmaking, and cross-sector dealmaking is on the rise.

46%

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

24%

see an increase in cross-sector M&A driven by technology and digital.

50%

expect more competition for assets from private equity buyers.

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