

Global Capital Confidence Barometer

**In an age of
M&A complexity,
do you pause
or proceed?**

Regulation, trade and tariffs
foster a deal hiatus for some,
while many others move
forward with acquisition plans.



The better the question. The better the answer.
The better the world works.

EY

Building a better
working world

90%

of executives expect the M&A market to improve

Confidence in the M&A market remains near record highs ...

80%

of executives see corporate earnings improving

... supported by a positive economic environment that's **boosting corporate earnings**.

46%

of executives cite policy uncertainty as the biggest potential risk to dealmaking

But rising **geopolitical and regulatory concerns** are perceived as a growing impediment ...

46%

of executives expect to actively pursue an acquisition in the next year – the lowest for four years

... and **trade and tariff issues – from the renegotiation of NAFTA to Brexit and beyond** – are compelling some executives to pause their own M&A plans.

49%

of companies are starting integration planning earlier

However, **integration is front and center** for deals in process ...

49%

of companies achieved lower synergies than anticipated in their most recent deal

... as executives recognize the **opportunity to achieve greater synergies**.

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Pause or proceed?

For more than three years the *Global Capital Confidence Barometer* has consistently predicted heightened M&A intentions (which have been borne out with record dealmaking in the market).

The fall in corporate appetite to acquire we report in this edition is perhaps not surprising. M&A appetite remains robust on the whole and many companies will proceed with dealmaking plans as they look to gain competitive advantage.

Some companies, however, have opted to pause. They haven't left the deal table permanently – they just want a timeout.

Why?

Two key reasons:

- ▶ Some will want to fully assess the changing landscape internationally and the implications before firming up future deal plans. Regulation, tariffs, NAFTA, Brexit – these are all issues creating uncertainty. Depending on their sector or location, some companies will have a greater sensitivity to how these issues are resolved. They are awaiting more clarity before they continue M&A.
- ▶ Some companies also need some respite to fully integrate the deals they have undertaken in the past three years. A lot of deals have been done and – as our survey shows – a number of companies have a renewed focus on ensuring deal integration delivers the right synergies and value (see “Spotlight” on pages 10 and 11). Sometimes a break between courses is needed to make a meal more enjoyable.

What does all this mean for the deal market? The speed of change is relentless and M&A has proven to be an effective means to move quickly to gain competitive advantage or defend against future disruptors.

That still holds true.

We may see fewer deals in the near term. The next 12 months will probably not be as strong as the last 12. But the M&A imperative remains and those companies opting for a dealmaking timeout now will return to the deal table at some point soon.

A handwritten signature in black ink, appearing to read 'Steve Krouskos', with a stylized 'S' and 'K'.

Steve Krouskos
EY Global Vice Chair
Transaction Advisory Services

See page 16 for the key takeaways that help define M&A success in today's deal economy.

Macroeconomic and external environment



Executives see upside in the global economy, more so than local or sector growth

Global growth desynchronizes, but still running at an elevated level.

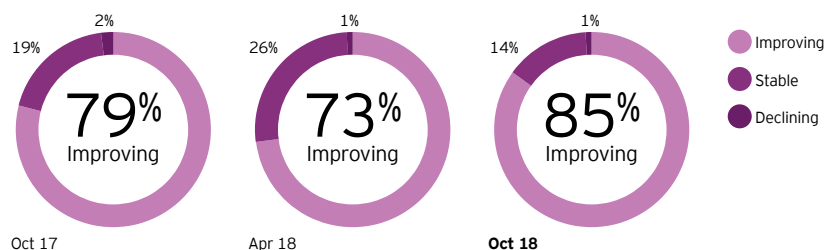
Amid rising tensions over international trade, the broad global expansion that began two years ago has leveled off and become less balanced. But executives remain confident that global growth in the next 12 months will remain solid.

Economic activity continues to accelerate in the United States, driven in large part by recent tax cuts. In contrast, while growth continues in most major economies, it has slowed in many of them, including countries in the euro area, Japan and the United Kingdom.

The US dollar has already appreciated broadly through 2018, and financial conditions facing emerging economies have become somewhat more challenging. Were the Federal Reserve in the US to raise rates faster than is currently expected, many emerging market countries could feel more intense pressures.

Executives report a more favorable view on the global economy than local (85% say improving at a global level versus 67% at local), which highlights the threat to overall growth if more barriers to the current integrated global market are raised.

Q What is your perspective on growth today?



Strong corporate earnings underpin outlook for capital markets

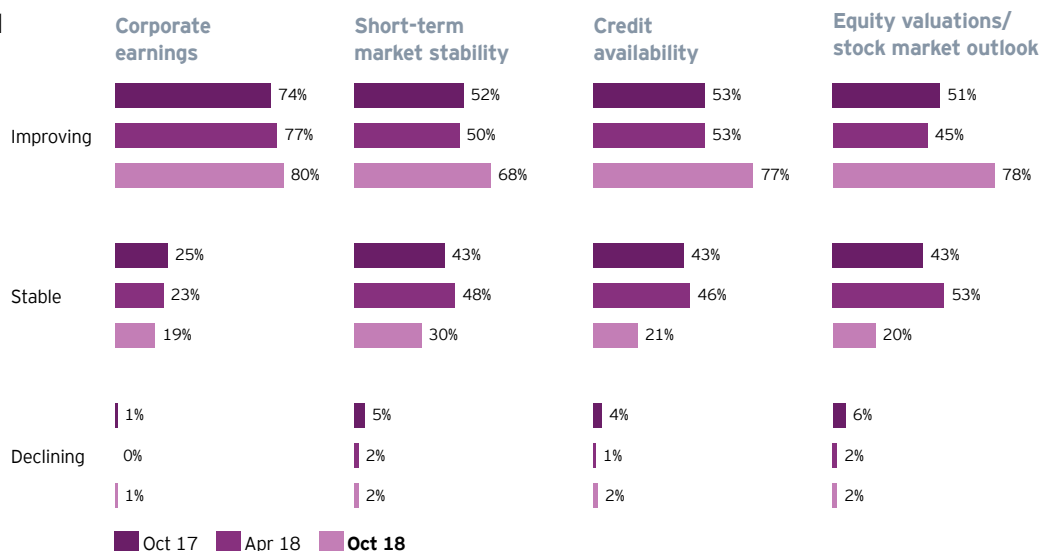
Strong corporate earnings and open credit markets point to a continued upswing in equity markets.

Stronger-than-anticipated earnings in the first half of 2018 are underpinning executives' outlook for capital markets and improved valuations.

Despite occasional tremors, underlying stability in many asset classes is in place and executives do not expect this to change in the coming months at a global level.

However, potential pressures on emerging market economies may increase volatility in some equity and credit markets, with a potential for cross-asset contagion through the latter months of 2018 and into early 2019.

Q Please indicate your level of confidence at a global level in the following:



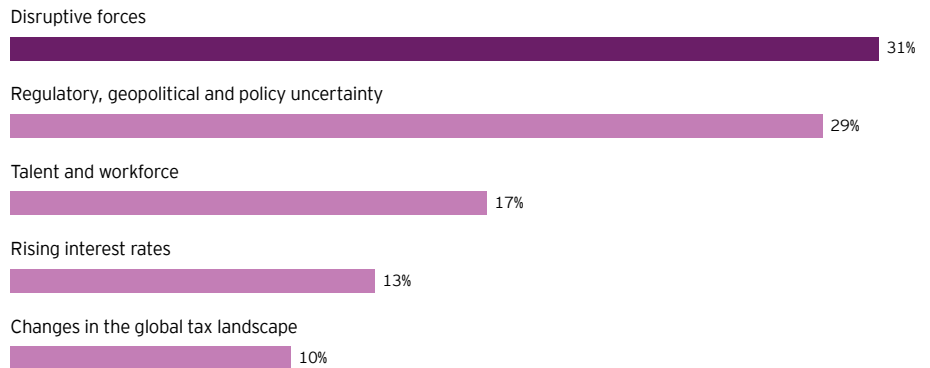
Disruption, technology and shifting consumer preferences pose the greatest near-term risk to businesses

Q What do you believe to be the greatest near-term risk to the growth of your core business?

While not capturing as many headlines as trade and tariff policy, disruptive forces, especially technology, remain at the heart of the known risks.

The pace of change wrought by technologies, especially those that enable customers to adapt preferences or buying behaviors, cannot be underestimated. Executives are continuing to focus on these disruptive forces, even as they negotiate other risks.

Increasing, and evolving, government and regulatory intervention in business issues and M&A is an emerging risk for executives. New policies on trade, tariffs and anti-trust need to be understood amid heightened policy uncertainty.



Policy uncertainty the biggest headwind to dealmaking in the near-term

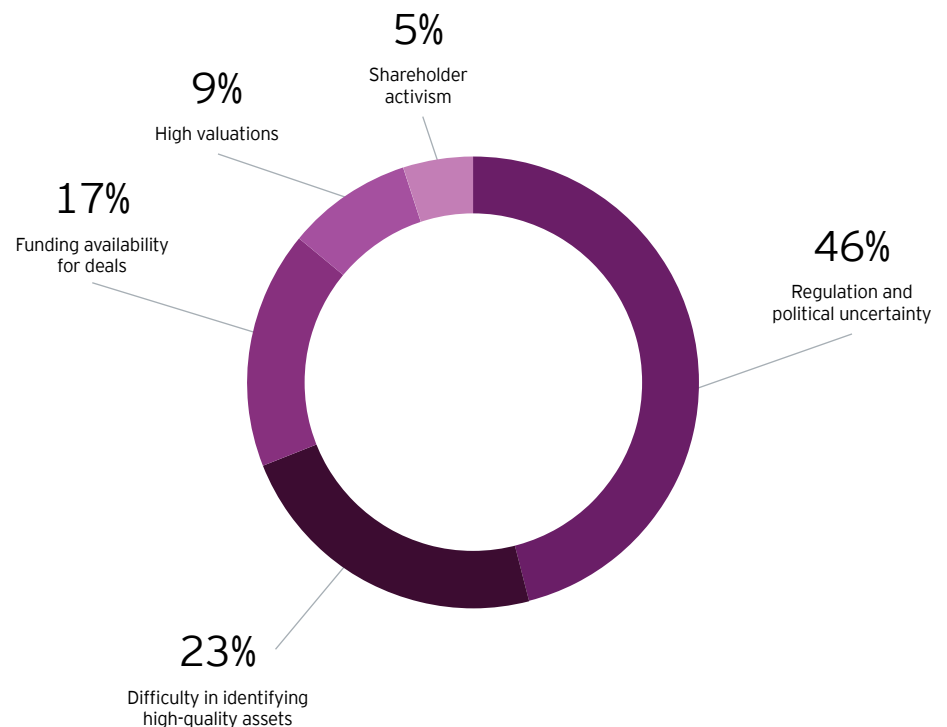
Q What do you see as the biggest potential risk to dealmaking in the next 12 months?

Increasing regulatory intervention, combined with rising nationalism and protectionism, pose a potential headwind to dealmaking.

Policy uncertainty, both in terms of trade and tariffs and competition rules, are cited as the biggest challenge to dealmakers over the near term by nearly half of our survey respondents.

Certainty about the rules governing trade and market access have been a major driver of dealmaking, in particular cross-border, through the past two decades. As the global market has liberalized and opened up, executives have become more comfortable dealing in new markets.

Any significant changes to the liberalized, open and global markets pose new challenges and companies will need to adapt. As these considerations become clearer over the coming months, companies may be better able to navigate this evolving landscape.



Brexit

Executives want familiarity, not uncertainty, over trade post-Brexit

Executives look to established frameworks as the preferred outcome to UK and EU negotiations.

Brexit is the prime example of previously understood trade and tariff policy being upended. Executives are clearly signaling they would prefer a known framework to replace the existing UK/EU trading relationship.

The preferred options for respondents are ones built on familiar frameworks. Existing EU trade relationships, whether Swiss, Norwegian or Canadian, can be modeled into companies' plans and operations.

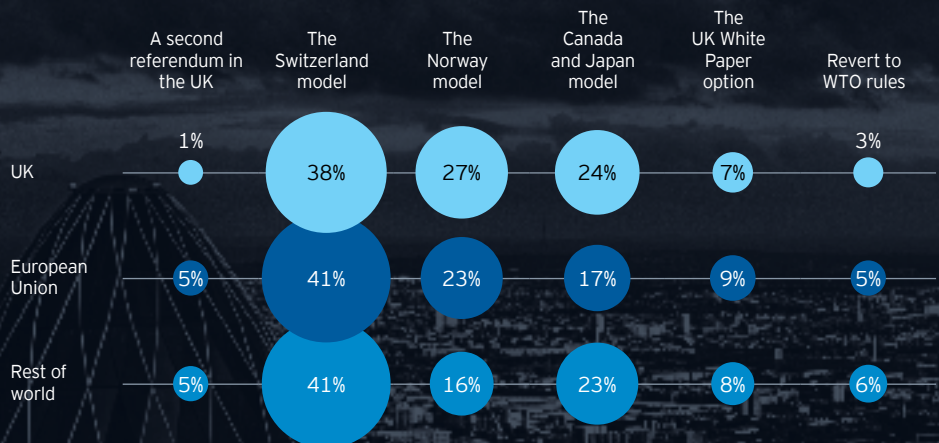
Less favored is the UK's current White Paper, otherwise known as the Chequers plan. This will be an unfamiliar framework, which may pose new challenges to companies, especially where trade in goods and services is intertwined.

What executives signal they do not want is the continuation of uncertainty that a second referendum in the UK will entail or a fall-back to World Trade Organization (WTO) rules. This "hard Brexit" would be problematic for many companies, as the UK is yet to agree its own position with regard to the WTO and the conditions of its independent membership.



What do you think should be the preferred outcome of the UK and EU Brexit negotiations?*

*Refer to the bottom of page 5 for additional information.



The UK's pre-eminence in financial services looks to be under pressure, post-Brexit

The City of London will need to re-engage with many customers to build new relationships post-Brexit.

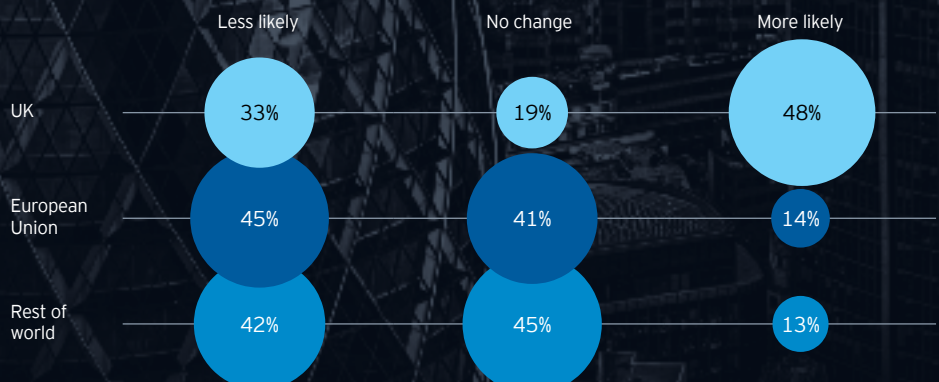
The departure of the UK from the EU will mean that Europe's pre-eminent financial center will soon be outside the EU's jurisdiction.

Brexit will exacerbate the competitive, political, regulatory and technological forces that are reshaping the European financial services landscape. This will reopen questions about international models and the benefits of scale in some financial services business models. Executives are signaling a difficult period for the UK financial services industry post-Brexit. Increasing political volatility, another round of new regulations and persistent questions about technological transformation may lead them to shift strategic portfolio priorities.

UK financial services providers will be looking to mitigate any challenges and that business relationships will evolve in the new landscape.



After the UK leaves the EU, is your company more or less likely to seek financial services advice, products and services (investment banking, professional services, etc.) from London-based financial institutions?



Brexit introduces new risks, but many UK executives see potential upside

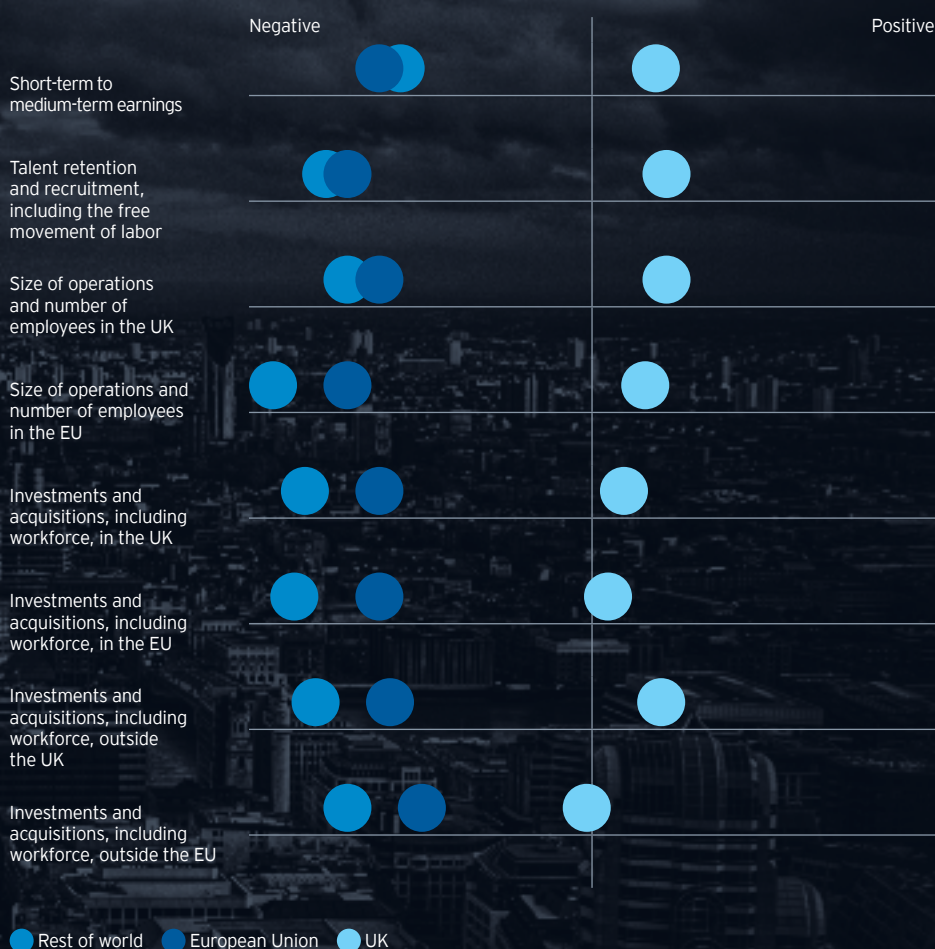
Q In the event of the UK leaving the EU in March 2019, what do you currently consider the impact will be on your business/operations?

UK companies may seem sanguine about Brexit, but it is more likely they have been planning more extensively for every outcome.

The negotiations between the UK and EU over the initial withdrawal have still to be finalized, yet alone the shape of any future trading relationship. However, UK executives in our survey are more positive about the impact of Brexit on a range of financial and operational issues than either their EU-based counterparts or those from outside the EU.

This possibly reflects that Brexit has been the lens through which the UK has considered every issue over the past two years since the referendum. UK companies have had to consider their strategies and reshape their portfolios within this environment. They may have been ahead of the curve when considering each strategic decision within an environment of geopolitical flux.

As rhetoric about trade and tariffs, protectionism and barriers increase, companies should actively employ scenario analysis to build optionality and flexibility into their business plans.



***The Norway model** – the European Economic Area option: access to single market for most goods and services; power to strike free-trade deals; UK must accept free movement of people and make EU contributions

The Switzerland model – the Economic Free-Trade Agreement option: bilateral agreement with EU affording UK select access to single market for goods but not services; UK must accept free movement of people and make specific EU contributions

The Canada and Japan model – the Free-Trade Agreement option: tariff-free access for most goods – services not necessarily included – but custom controls in place; UK does not need to accept free movement of people

The UK White Paper option – UK part of a free-trade area for goods but different rules for services; shared EU-UK customs border but with right to diverge on tariffs and strike own FTAs; free movement of people to be replaced by a mobility scheme with preferential access for EU citizens

Revert to WTO rules – acceptance of EU tariffs on goods exported to single market; UK halts EU contributions and free movement of people

A second referendum in the UK – Article 50 to be halted

Corporate strategy and portfolio transformation



Heightened risks of disruption and increasing policy uncertainty accelerating portfolio reviews

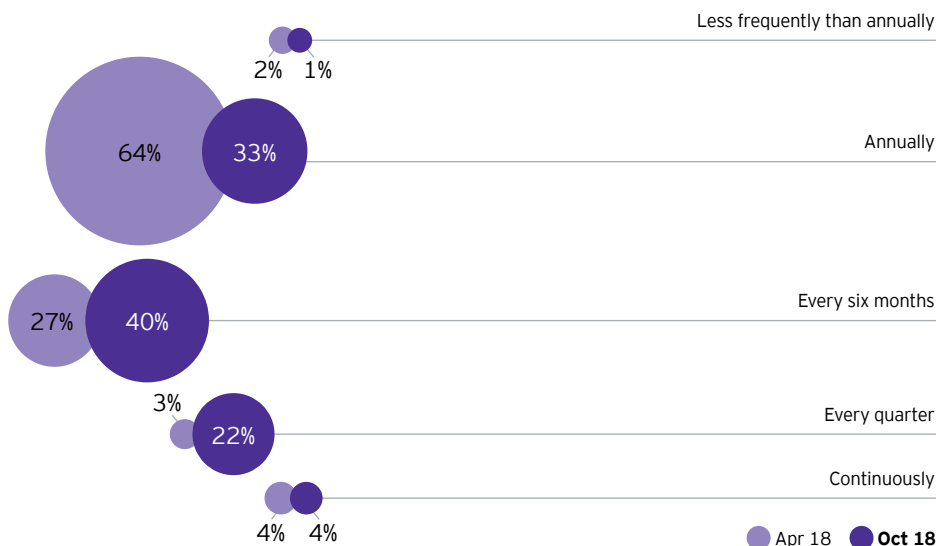
As external uncertainties rise, executives are increasing the frequency of their own internal portfolio analysis.

While disruption from changing consumer preferences driven by technology is now ever present, potential changes to global trade policies are becoming an increasingly pressing issue in company boardrooms.

The pressure from investors for companies to maintain or improve both margins and payouts has intensified during the current cycle. Investors, both activist and institutional, are demanding even more during a sustained period of record profitability and corporate earnings growth.

Executives indicate they are accelerating their portfolio reviews. A critical component of this will be understanding the resilience of their current supply and operational ecosystems. This will help them to understand the potential for policy changes that may disrupt these critical chains. They will be looking to build in the agility and flexibility to adjust and pivot to respond to changes that may impact their access to suppliers and customers – even if that means reinventing their value chains to maintain business as usual.

Q How frequently are you reviewing your portfolio?



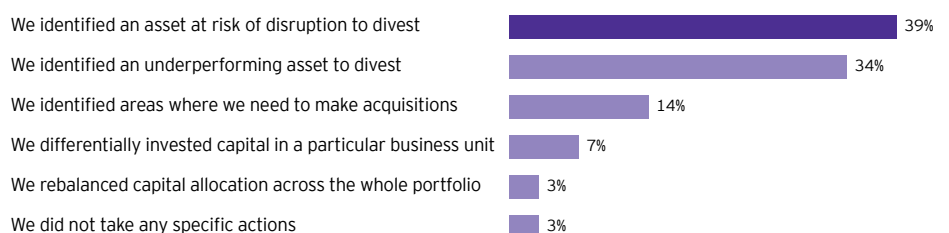
Identifying potential divestitures becomes the focus of portfolio reviews

With pressure from investors to maintain margins, companies are looking to redefine their portfolio.

Companies continue to look at their portfolios and align their strategy and growth prospects. Executives are looking to divest underperforming assets and operations that are at risk from technology, digital and customer disruption. Those companies that balance acquisitions and divestitures generally outperform those that focus solely on either deal strategy.

This focus on recycling capital through divestitures may likely underpin deal flow in the next 12 to 24 months.

Q As a result of your most recent portfolio review, what was the main action taken?



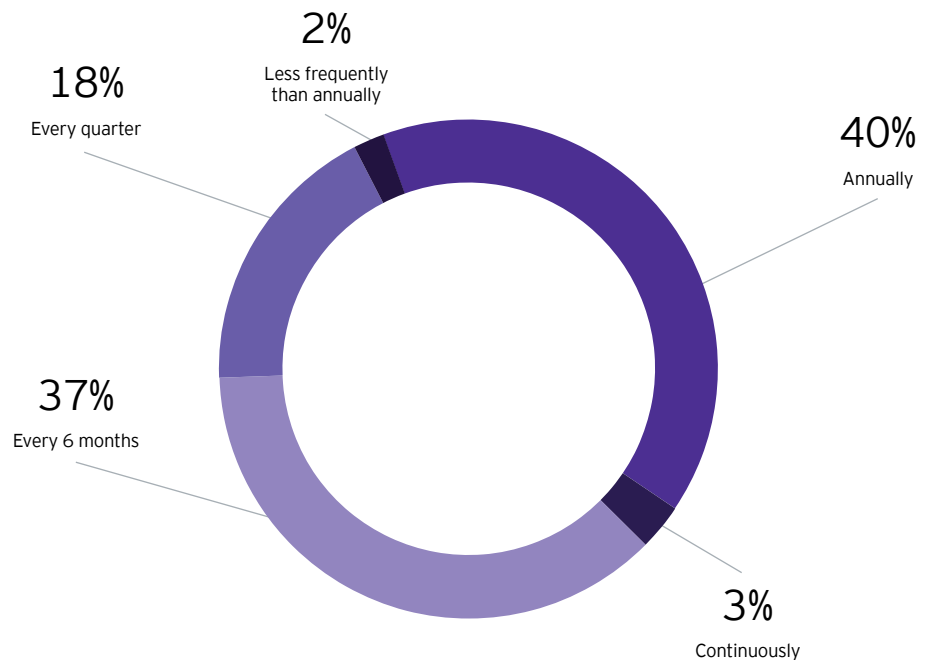
Increasing trade and policy uncertainty compelling executives to reimagine fundamentals

Q How often do you review your strategic and financial criteria for your existing business to reflect changes in economic outlook, capital costs and industry dynamics?

With many current business and operating models tuned to perfection, unexpected changes need to be robustly tested for impact.

Executives have spent the past three decades building business models and operations that take full advantage of a globalized and integrated landscape. Emerging challenges to this view are causing executives to regularly stress-test their strategies to enable them to plan for multiple outcomes.

Highly integrated cross-border supply chains are one of the defining features of the modern world. Technology, globalization and a revolution in the way company leaders think about their core competencies have given rise to massive networks of interrelated chains that criss-cross the globe.



Tight labor markets refocus executives' attention on existing employees

Q What is your most significant workforce challenge?

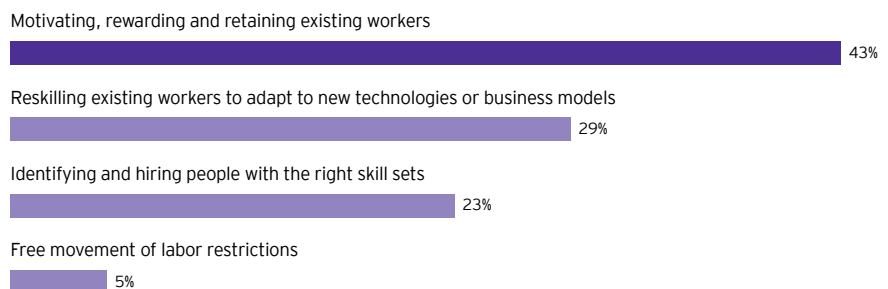
With talent hard to secure, executives are turning inside for competitive advantage.

Executives in our survey recognize that when it comes to growth and innovation, the risks and rewards associated with an organization's talent are among the most critical areas.

With many major economies running at near-full employment, there is a clear focus on the need to retain and motivate their existing talent.

Having a flexible, well-trained and rewarded workforce is key to an organization's ability to capitalize on changes in customer buying patterns and emerging technology. Companies need to be able to pivot quickly in response to new technologies or competitive disruption.

From building a culture where innovation thrives, to defining the company's purpose, to retraining workers to meet the demands of evolving business models, a company's people strategy is critical to competitive strength.



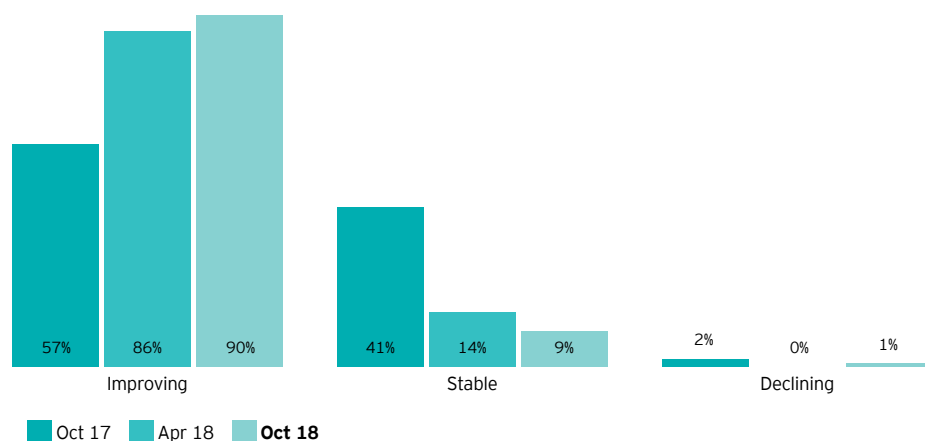
M&A outlook

Executives see the M&A cycle continuing at elevated levels

Q What is your expectation for the M&A market in the next 12 months?

The strong M&A market is expected to continue as executives predict an improving deal environment ...

The momentum in the current M&A market, combined with the compelling rationale to transact, has translated to the strongest outlook for the M&A market in the history of our barometer. There is near unanimity that the deal environment will improve or remain stable over the next 12 months.



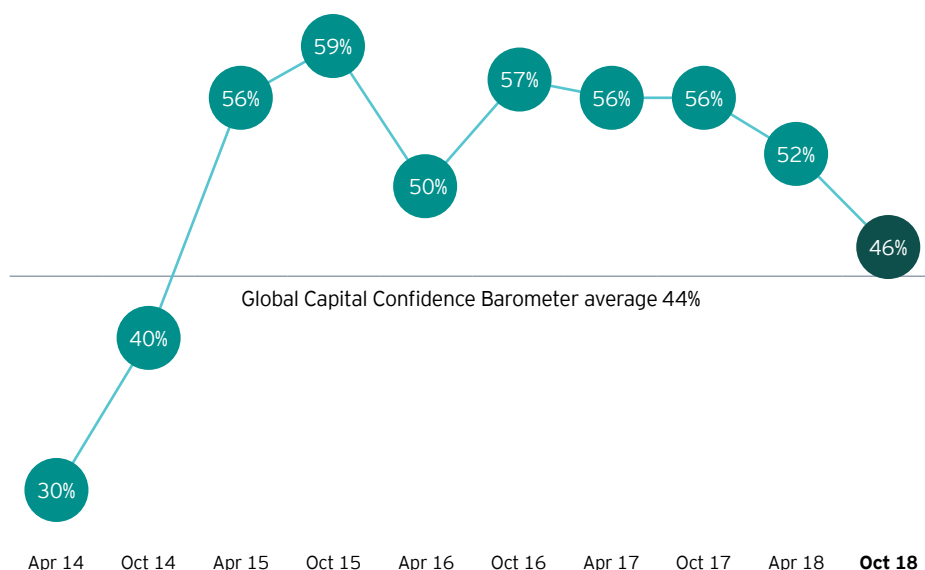
Even as deal intentions declined for some

...but many believe the action will be elsewhere.

While respondents expect heightened levels of M&A, there is a decline in the percentage that expect to make acquisitions themselves in the next 12 months. We have seen this dichotomy before in our survey. This is an indication that we will likely see a temporary pause in activity. A brief stop to refuel, so to speak.

Given the large number of deals over the past year, many companies will be more focused on the integration of recently acquired assets over the next 12 months. At the same time, companies are actively assessing their portfolio of existing businesses. This will likely result in new inventory of assets coming to market in the next 12 to 24 months, and private equity is a likely buyer for many of these assets.

Q Do you expect your company to actively pursue M&A in the next 12 months?

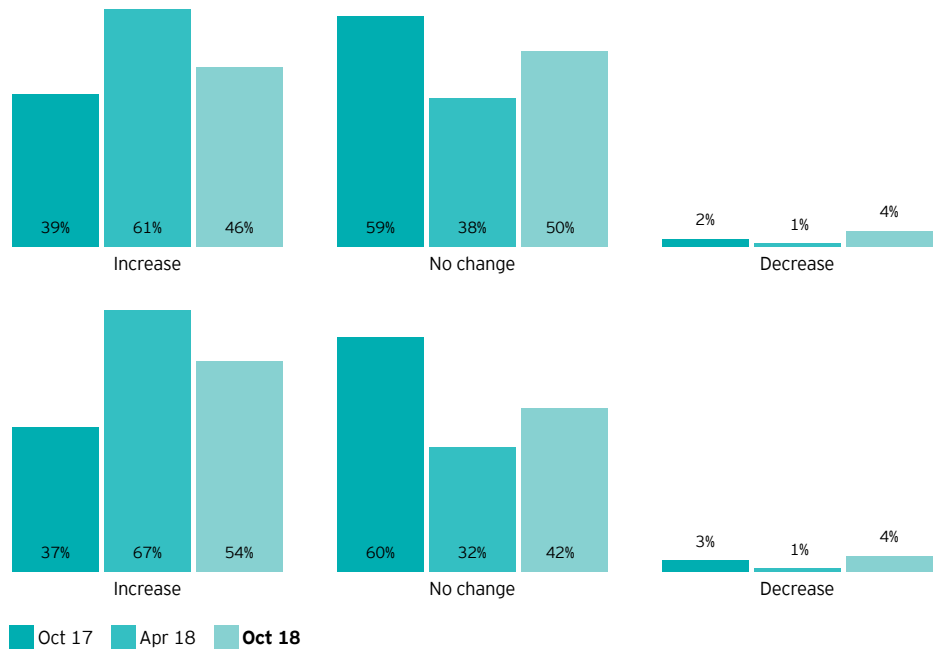


Companies are maintaining strong deal pipelines, signaling only a modest decline in near-term deal activity

Q Considering the next 12 months, how do you expect your M&A pipeline to change?

Most respondents expect to maintain or increase pipelines of opportunities and completions over the next 12 months.

However, pipelines are expected to increase at a lesser rate than 12 months ago. This trend supports the view that the M&A market will remain strong in the medium to long term, despite some short-term softening of activity.



Strategic drivers underpinning M&A remain unchanged

Q What are the main strategic drivers for pursuing acquisitions?

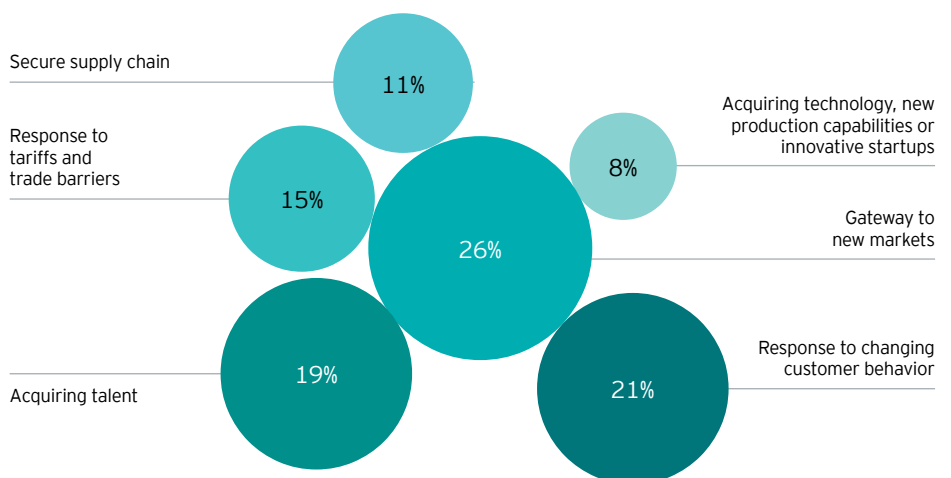
Entering new markets is an avenue accelerated by dealmaking.

Despite geopolitical worries, global expansion and new market entry is the top reason for pursuing acquisitions.

Interestingly, 26% of respondents now see M&A as a tool to secure supply chains (11%) and respond to unfavorable tariffs and trade barriers (15%). This sentiment has been expected for some time, but is just now starting to materialize as trade regime changes in many geographies appear closer on the horizon.

Not surprisingly, acquiring the technology and talent necessary to stay ahead of shifting customer preferences also rate as important factors for pursuing deals.

With tight labor markets across many economies, executives say that acquiring talent has now become a critical component of their M&A strategy.



Integration and synergies

Integration has moved front and center on the M&A agenda.

Post-deal integration should be a pre-deal consideration

Q

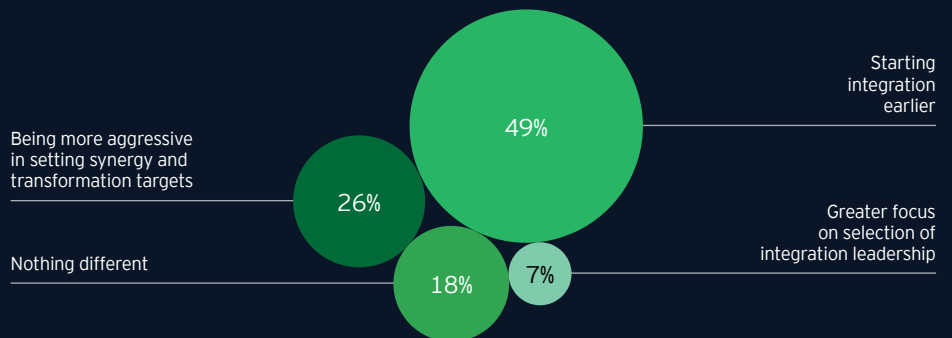
In an elevated deal market, what are you doing differently to increase the likelihood of capturing the synergies required to justify the cost of transactions?

The identification and realization of synergies are at the heart of M&A value creation – but this is only the start of the journey.

Executives are signaling that they are preparing for post-deal integration earlier in the deal life cycle than they have in the past. Acquiring companies will capture synergies effectively only if they map them out upfront and assign accountability for monitoring their progress.

However, this requires experience of understanding and identifying where value can be created, what is proven to work and where the risks lie. To secure competitive advantage, value needs to be identified early, often with limited information.

Ideally, those responsible for achieving synergies should play a direct role in identifying and valuing specific synergies. Business units should help develop synergy assessments and promote buy-in very early in the process.



Many have failed to meet synergy goals historically, but the future looks more upbeat

Past experience of failing to achieve synergy targets looks likely to change future behaviors.

Nearly half (49%) of respondents failed to meet their synergy targets on their most recent deal. However, a correlation of responses to our survey questions reveals some interesting insights on what needs to be done differently to meet synergy targets on future deals.

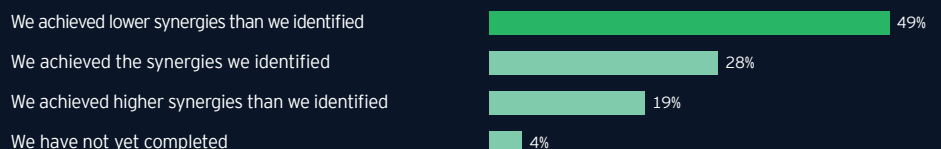
Those who are more aggressive in setting synergy targets are more likely to achieve or exceed targets. Over two-thirds (69%) either met or achieved higher synergies than expected.

Most interestingly, respondents who plan to start integration earlier on future deals have likely been influenced by recent experience. Two-thirds (66%) of respondents who are looking to move integration plans forward in the deal process had achieved lower levels of synergies than originally targeted in their most recent deal.

A cautionary insight: half of respondents who did not plan to change their synergy strategy on future deals, under-achieved their targets on their most recent transaction.

Q

What were the achieved synergies compared to the value of synergies identified at the time of the deal?



Synergies can be the competitive advantage in a bidding process. They are a major part of the narrative that executives use to explain the strategic objectives of a transaction to their own boards, shareholders and the market.

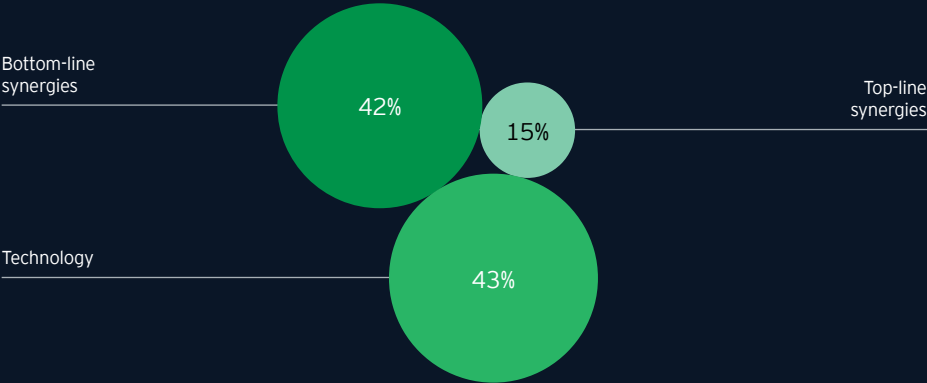
Efficiencies and technology seen as the best route to generate synergies

Reducing duplication and maximizing efficiencies, together with the potential boost from technology, is driving synergy strategies.

Those respondents who primarily focused on bottom-line or top-line synergies were more successful in their post-deal integration. In both cases, more than half met or exceeded expectations. But for those who relied on applying technology and intellectual property (IP) from one company to the operations of the other, results were less positive. The majority (67%) under-achieved their synergy targets in their most recent deal.

However, executives may need to look beyond the first 12 months to assess the longer-term benefits of technology and IP value creation. Technology and IP synergies may lead a buyer into new markets or entirely new business lines – creating products or services that existing customers will welcome. These may also take longer to make an impact on the acquiring company's top or bottom line. They should consider implementing bespoke integration solutions for technology-based assets to maximize and accelerate value creation.

Q Where do you expect the majority of synergies to be achieved?



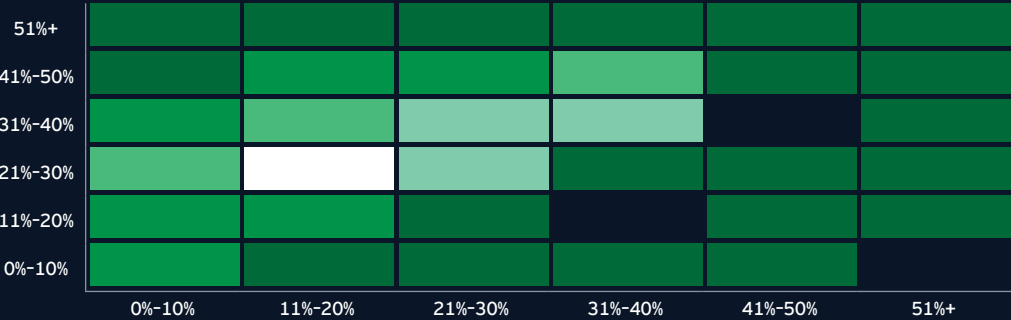
Successful integration comes at a price

Companies that spent more on the integration process outperformed their pre-deal targets.

As well as starting planning earlier and building the right integration teams, companies should realize that success comes with a cost attached.

Those companies that met or exceeded their original synergy targets spent on average of 8% more (as a percentage of announced synergies) than those that failed to meet their ambitions. But these successful integrators also targeted 8% higher synergies as a share of deal value.

Q In terms of a percentage of total deal value, what was the value of synergies identified?



Q How much did you spend on the full integration process as a percentage of announced synergies?

Number of respondents: 1-10 11-50 51-100 101-300 301+

Major themes in M&A

PE to be a major influence in near-term dealmaking, and cross-sector on the rise

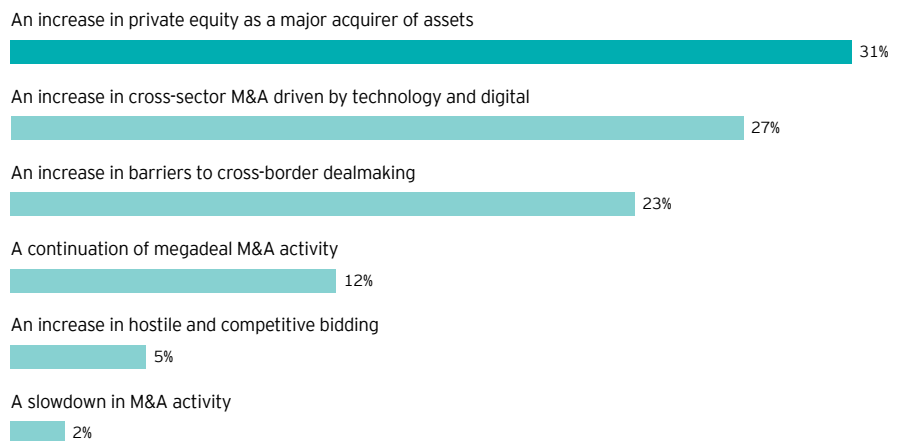
Q What will be the main themes of M&A in the next 12 months?

Navigating policy and technology disruption and the rise of private capital continue to be major themes in M&A.

With record levels of dry powder, PE and other sources of private capital are expected to be a major buyer in M&A over the near term.

Another major theme will be cross-sector deals. As customer pressure compels companies to operate outside of traditional sector boundaries, M&A may be the fastest route for companies to respond to these challenges.

And uncertainty over governmental involvement in the dealmaking process is an emerging challenge. Understanding how to position cross-border deals with regulators and other stakeholders is essential, and also an area that requires planning early in the process.



Private capital also provides increasing competition for assets

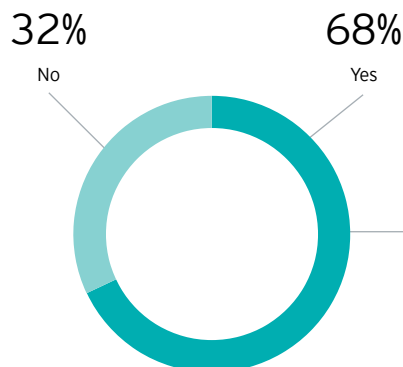
New sources of private capital coming on stream will heighten competition for acquisitions.

As well as traditional private-equity buyers, corporate executives are expecting to see increasing pressure for assets from venture capital, corporate venture capital funds, sovereign wealth funds and family offices.

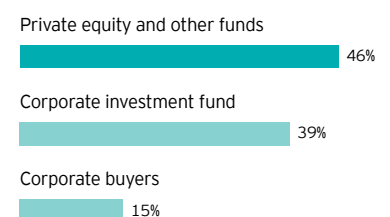
Private capital is increasingly investing for the medium and long term. They are also returning to the M&A market with significant purchasing power. Corporate executives should be prepared for increased competition for assets – or be open to collaborating with PE on deals, especially when acquired assets may need to be divested to execute the deal.

This should enable corporates to widen the pool of potential buyers on divestments, even though it complicates acquisition strategies on the buy-side.

Q Do you expect to see increasing competition for assets in the next 12 months?



Q If so, from where?





Advanced manufacturing

- ▶ Industry 4.0 is reshaping capital agendas for advanced manufacturing companies. Many companies are shifting from asset-based manufacturing to “manufacturing services” models. This is being driven by the expansion of digital technology in manufacturing and the increased willingness of customers to be served via connected systems (as a service model).
- ▶ Advanced manufacturing companies are continuing to pursue lean operational structures with a focus on core growth segments. Portfolio transformation remains high on the boardroom agenda as manufacturers seek to divest underperforming operations or those at risk of disruption.
- ▶ Deal valuations are still relatively high, supported in part by a fear of missing the digital transformation of manufacturing and competition from PE. While advanced manufacturing companies have an optimistic view of their deal pipelines, they are also prepared to walk away from deals over disagreements in valuations.
- ▶ Cross-border deal activity continues to be elevated despite the recent spike in trade and tariff concerns. Advanced manufacturing companies will continue to look across all markets for innovation and growth potential.

Financial services

- ▶ In the banking sector, strategies are shifting to selective growth strategies. Acquisition of new products and technology is high on the agenda. FinTech assets will continue to be highly attractive as financial institutions look for opportunities to collaborate, invest in or acquire innovation companies. Larger deals will come from continuing consolidation within the payments segment.
- ▶ For insurers, portfolio optimization continues to be an active driver of M&A as major players look to simplify and streamline their businesses. At the same time, the need for growth, as well as wider business and sector transformation, is driving large-scale consolidation. Insurtech investments are increasingly seen as a way of accessing and operating in emerging “digital ecosystems.”
- ▶ Wealth and asset management is experiencing a perfect storm of client, technological and regulatory transformation. Wealth and asset managers are looking to broaden their offerings, increase efficiencies and unlock the potential of digital and technology through M&A.

Life sciences

- ▶ While the strategic drivers for M&A remain positive, dealmaking has been more muted than anticipated given the 2017 passage of US tax reform. With a few exceptions, large biopharma companies have steered away from megadeals. There is a growing “less is more” attitude, as companies use bolt-on acquisitions to create scale and divest non-core assets.
- ▶ Acquirers are looking to alliances, asset swaps and JVs as lower-risk alternatives to M&A. This is particularly true in the biopharma subsector, where a robust venture financing and IPO climate gives early-stage biotechs with promising pipelines more bargaining power.
- ▶ PE investors have been active acquirers of life sciences assets, particularly in medtech. Services businesses supporting pharma and specialty clinical laboratories are also attracting much interest.
- ▶ In 2019, life sciences companies’ aggregate firepower, the financial resources to do M&A, is at an all-time high. This could fuel larger M&A than we have seen recently. Some recent deals have demonstrated that companies are beginning to harness the convergent forces reshaping health care delivery.

Mining and metals

- ▶ The mining and metals sector is expected to see a significant rise in M&A activity over the next year. The focus in 2018 is shifting from divestment-led transactions to strategic growth-centered deals. Consolidations for scale and efficiency may also become a critical driver of deals in the sector.
- ▶ With debt levels falling on the back of stronger cash flows and limited appetite for investment, significant capital was returned to shareholders in 2017.
- ▶ Divergence in commodity price performance is expected; miners will diversify by region and commodity to balance portfolios and hedge against revenue fluctuations.
- ▶ The rapid evolution and expected growth of battery technology will attract investment. Priority will be low-risk jurisdictions in North America, Australia and parts of South America.
- ▶ Given the poor returns on capital invested through the previous cycle, shareholders will be scrutinizing acquisition plans closely. The emphasis on capital discipline remains, but miners can be expected to consider JVs and strategic partnerships to mitigate financial risk.

Oil and gas

- ▶ Rising oil prices, growth in demand, the stronger financial position of oil companies and improving availability of capital have raised expectations of increased M&A activity in the sector.
- ▶ Elevated oil prices have increased confidence in the oil and gas markets. A sudden spike in oil price, however, may create valuation gaps and dampen deal activity.
- ▶ Consolidation in the US Permian Basin, tax and regulatory reforms in the US and elsewhere, and ongoing restructuring in oilfield services will also create M&A opportunities.
- ▶ Geopolitical risks are intensifying, with the US reimposing sanctions on Iran and continuing trade tensions between the US and China. However, the likely impact on oil and gas dealmaking should be muted.
- ▶ Portfolio optimization continues to remain a major theme driving oil and gas transactions.
- ▶ Companies are holding firm on capital spending limits but are expected to build more optionality into their portfolios and set themselves up for future growth or business transformation.

Power and utilities

- ▶ There is greater confidence in the global economy. This is a relief for power and utility (P&U) companies that have experienced lower sales from stagnant growth. That stagnation was due to rising energy efficiency and conservation, as well as distributed generation, leading to downward pressure on revenues.
- ▶ Dealmaking intentions remain at record levels. With a historically low interest-rate environment, there is strong confidence around credit and access to capital, which promotes dealmaking.
- ▶ There is also interest from private equity. Dedicated utility and infrastructure funds have enormous amounts of dry powder for investments, which is driving robust M&A.
- ▶ P&U companies are focusing strategic targets on climate goals in the form of renewables growth and efficient natural-gas-fired generation to tackle intermittency and security of supply, coal-fired generation phase-out and nuclear decommissioning.
- ▶ Companies in the P&U sector are also increasingly exploring new technologies, including battery storage, electric vehicle infrastructure and digital grid technologies, which may accelerate dealmaking in the next year.

Geographic outlook



Dealmakers continue to break down borders even as trade barriers are erected

Q How are changes in trade and tariff policies impacting the way you are considering cross-border deals and operations?*

*Respondents were able to select up to three options. Only the top five responses are displayed and results reflect the percentage that chose each risk.

Trade and tariff uncertainty looks set to underpin cross-border dealmaking.

With global trade and tariff policy becoming more uncertain, companies are planning more cross-border deals to mitigate the potential negative impact on their operations and to secure market access and protect supply chains.

Executives should remain agile in their approach to geopolitical disruption and be prepared to reimagine their global footprint.

We are focusing more on cross-border opportunities



We have seen a positive impact on valuations for a company or asset we are considering to acquire



It has halted acquisitions we were planning to make



It is making us reconsider potential acquisition targets

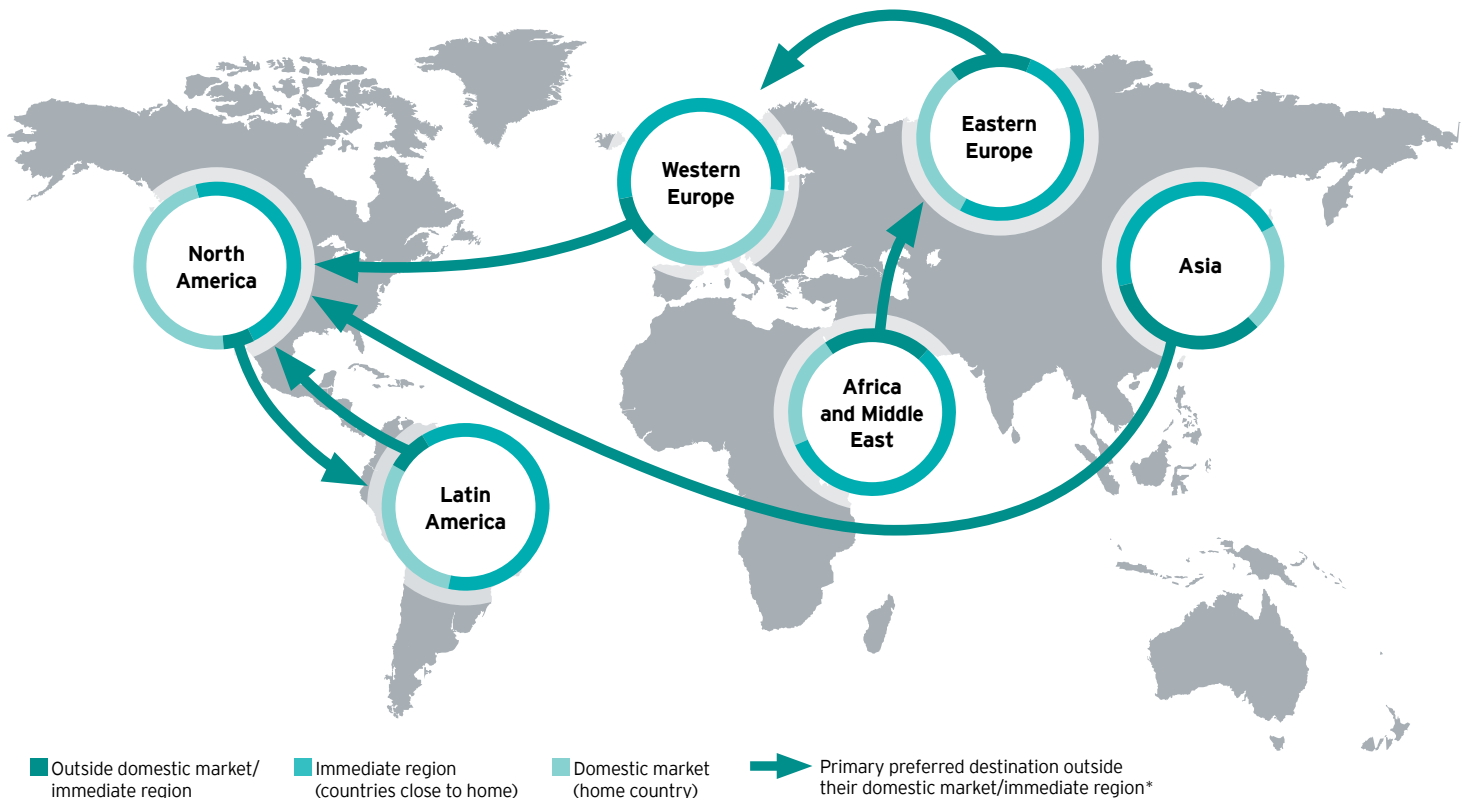
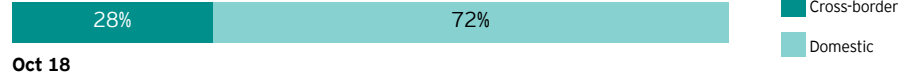


We have seen a negative impact on valuations for a company or asset we are considering to acquire



With strong economic growth, the US is at the center of cross-border M&A

Q Where is your organization's main focus for doing M&A in the next 12 months?



*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region (overall top 10 country investment destinations listed on page 15).

Top investment destinations and their key characteristics

The top M&A destinations of choice are countries embroiled in trade uncertainties, suggesting that those companies planning deals are actively looking to get ahead of potential geopolitical disruption.

Top 10 investment destinations		Top investors	Top destinations	Top sectors
1	 United States	1. US 2. Australia 3. Japan	1. US 2. Canada 3. Brazil	1. Media and entertainment 2. Mining and metals 3. Real estate, hospitality and construction
2	 United Kingdom	1. UK 2. Germany 3. France	1. UK 2. Germany 3. France	1. Power and utilities 2. Telecommunications 3. Real estate, hospitality and construction
3	 Canada	1. UK 2. Canada 3. Mexico	1. Canada 2. US 3. Côte d'Ivoire, Germany, Mexico	1. Health care 2. Life sciences 3. Advanced manufacturing
4	 Germany	1. Germany 2. France 3. UK	1. Germany 2. France 3. UK	1. Health care 2. Power and utilities 3. Technology
5	 France	1. France 2. Germany 3. UK	1. France 2. UK 3. Germany	1. Power and utilities 2. Real estate, hospitality and construction 3. Health care
6	 China	1. China 2. Australia 3. Japan	1. China 2. US 3. Singapore	1. Financial services 2. Real estate, hospitality and construction 3. Telecommunications
7	 Brazil	1. US 2. Brazil 3. Peru	1. Brazil 2. Argentina 3. Chile	1. Telecommunications 2. Automotive and transportation 3. Life sciences
8	 Australia	1. Australia 2. China 3. UK	1. Australia 2. US 3. New Zealand	1. Financial services 2. Life sciences 3. Power and utilities
9	 Japan	1. Japan 2. South Korea 3. China	1. Japan 2. US 3. UK	1. Automotive and transportation 2. Oil and gas 3. Mining and metals
10	 India	1. India 2. Japan 3. China	1. India 2. US 3. UK	1. Media and entertainment 2. Life sciences 3. Advanced manufacturing

The critical questions executives should ask themselves to drive better M&A in today's deal economy.

► Can you find the growth?

Global growth desynchronizes while technology and demographics alter the global economic landscape. Advanced analytics and scenario planning, as part of portfolio and strategy reviews, can help companies more quickly identify the next hot spot for growth.

► How can you make certain a comma does not turn into a full stop?

Some companies may look to pause their dealmaking, either to integrate previously acquired assets or to reflect on geopolitical impacts on their industry. However, the M&A imperative remains. The pace of change is relentless and M&A has proven to be an effective means to move quickly to gain competitive advantage or defend against future disruptors. Those pausing may soon feel compelled to return to the deal table.

► How can you find certainty in an uncertain regulatory environment?

Both anti-trust/competition and broader industry regulations are shifting as industry ecosystems evolve. A better understanding of the new benchmarks and metrics being developed to regulate industries may give companies a competitive M&A advantage.

► Do tariffs threaten supply chains or make them more flexible?

Increasing concerns about tensions between the world's two largest economies are compelling companies to look at their own supply chains and customers. Building optionality through investments may enable companies to pivot quickly when required to protect their value chains and preserve growth.

► Public markets or private capital?

The rise of private capital, including private equity, super funds and corporate venture capital, has fundamentally reshaped the funding environment. Companies should consider which funding source best suits their needs now and the capital structure best suited for their future growth.

► Should your integration costs be seen as the best investment you ever made?

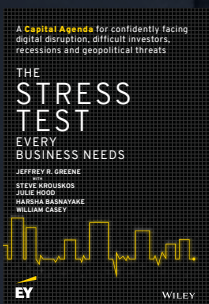
Companies that invest more highly into integration either meet or exceed synergy targets. Executives need to plan integration strategies earlier and ensure they factor in the resources and costs that can optimize M&A value creation.

► Are technology synergies a big bang or a slow burn?

Many companies that underpin their synergy targets with monetizing technology, intellectual property or customer innovation appear disappointed with the results. But, unlike top- or bottom-line synergies, these may just take longer to achieve. Companies should incorporate these potential intangible synergies at the earliest stage of the deal process. They should also be prepared to wait a little longer to realize their targets.

► Does a search for talent need to be close to home?

In tight labor markets, the best candidate you are looking for could already be an employee. Companies need to focus on retaining, motivating and rewarding their existing staff.



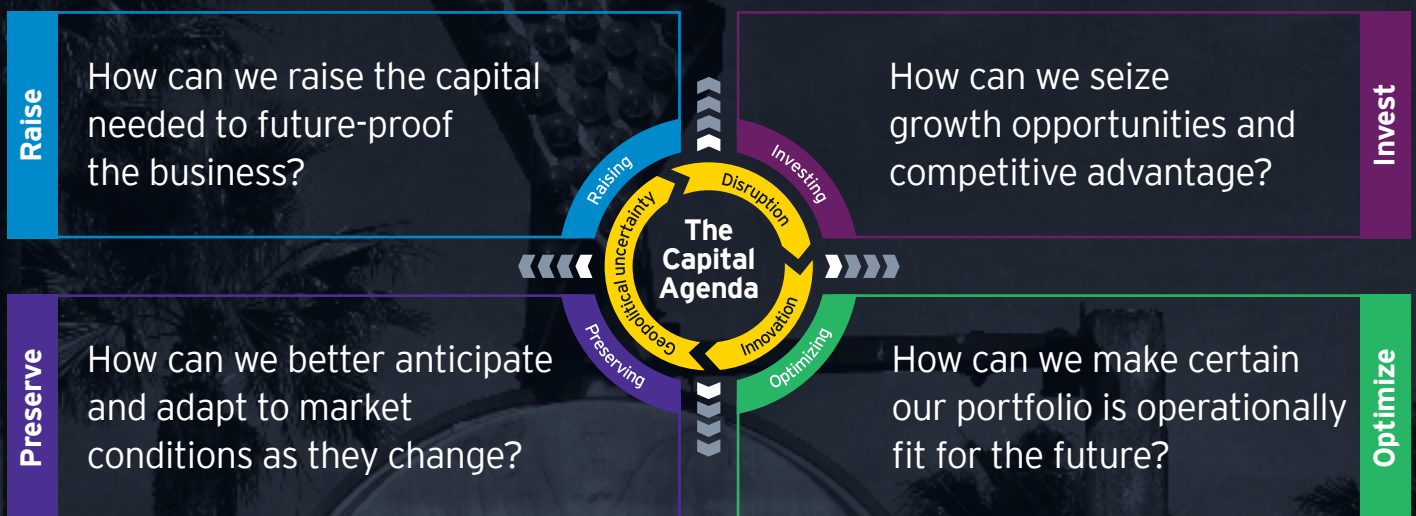
More insights on how EY can help you manage your Capital Agenda

In our new EY book *The Stress Test Every Business Needs: A Capital Agenda for confidently facing digital disruption, difficult investors, recessions and geopolitical threats*, the authors extend the banking stress test concept to a company's "Capital Agenda" – managing capital, executing transactions, and applying corporate finance tools to strategic and operational decisions.

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Capital Agenda – helping you find answers to today's toughest strategic, financial, operational and commercial questions.

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.



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About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Euromoney Institutional Investor Thought Leadership (EIITL). Our panel comprises select global EY clients and contacts and regular EIITL contributors.

- ▶ In August and September, we surveyed a panel of more than 2,600 executives in 45 countries; 68% were CEOs, CFOs and other C-level executives.
- ▶ Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.
- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (25%); US\$500m-US\$999.9m (23%); US\$1b-US\$2.9b (21%); US\$3b-US\$4.9b (9%); and greater than US\$5b (22%).
- ▶ Global company ownership was as follows: publicly listed (56%), privately owned (39%), family owned (2%) and government or state owned (3%).

Contacts

For a conversation about your capital strategy, please contact us:

Global

Steve Krouskos

EY Global Vice Chair
Transaction Advisory Services
EY Global Limited
steve.krouskos@uk.ey.com
+44 20 7980 0346
Follow me on Twitter:
@SteveKrouskos

Julie Hood

EY Global Deputy Vice Chair
Transaction Advisory Services
EY Global Limited
julie.hood@uk.ey.com
+44 20 7980 0327
Follow me on Twitter:
@juliehood_EY

Barry Perkins

EY Global Lead Analyst
Transaction Advisory Services
EY Global Services
bperkins@uk.ey.com
+44 20 7951 4528

Americas

William Casey

EY Americas Leader
Transaction Advisory Services
william.casey@ey.com
+1 212 773 0058

Asia-Pacific

Harsha Basnayake

EY Asia-Pacific Leader
Transaction Advisory Services
harsha.basnayake@sg.ey.com
+65 6309 6741

Europe, Middle East, India and Africa (EMEIA)

Andrea Guerzoni

EY EMEIA Leader
Transaction Advisory Services
andrea.guerzoni@it.ey.com
+39 028 066 93707

Japan

Vince Smith

EY Japan Leader
Transaction Advisory Services
vince.smith@jp.ey.com
+81 3 4582 6523

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