May 2019 | 20th edition | ey.com/ccb | MENA highlights

Global Capital Confidence Barometer

How can you reshape your future before it reshapes you?

Companies look to safeguard growth by reinventing their M&A strategy beyond tomorrow.

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

EY
Building a better working world

33%

acknowledge a slowing economy as the primary risk to their business

Nearly a third of companies cite the headline **risk of an economic slowdown** as the primary threat to growth plans ...

76%

of executives expect revenue growth of 6%-15% in the next year

... however, executives are bullish on their own **performance and potential** ...

93%

see the global economy as improving

... which underpins their **positive outlook** on economic activity.

59%

expect to acquire in the next 12 months

... and many intend to use M&A as an **accelerated route** to reshape portfolios ...

59%

aim to add new markets, customers and intellectual property (IP)

... as they look to **reinvent their business models** for a better future.

Contents

Reshape. Reimagine. Reinvent. Safeguarding growth for tomorrow and beyond.

The first EY *Capital Confidence Barometer* was launched 10 years ago in the wake of the Global Financial Crisis (GFC). At that time, the survey results reflected the great unease across the markets. We again find ourselves in a period of uncertainty. Though nothing like the magnitude we experienced a decade ago, we don't need to look far to find negative headlines and speculation about an economic downturn.

However, the one major difference between now and then is how the C-suite views uncertainty. Ten years ago, boardrooms were paralyzed by uncertainty. Today they are motivated by uncertainty. The boardroom of 2019 is concentrating on proactively managing risks and seizing the upside opportunities of disruption.

Which is why we find global executives more bullish in their outlook than many economic and business commentators – they are building resilience into their operations while, at the same time, laying the foundation for future growth in three key ways.

- **Reshaping results** – instilling financial discipline while realigning portfolios – optimizing strategic, operational and commercial performance to future-proof growth
- **Reimagining their ecosystems** – looking at more innovative business models and collaborations to access new markets and customers
- **Reinventing their future** – learning from the past while envisioning the future in a digitally enabled, hyper-speed world

For the majority of our respondents, the fastest way to achieve this transformation is through M&A. The Barometer has been a reliable guide to the M&A market over this post-GFC decade. It has correctly predicted the direction of sentiment (see page 8) and highlighted the key drivers of deals. A record number of executives are now looking to transact in the next 12 months and, unforeseen events notwithstanding, the outlook for dealmaking is strong.

Those executives who balance the risks and rewards of M&A will be best positioned to reshape their companies for a better tomorrow.

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.

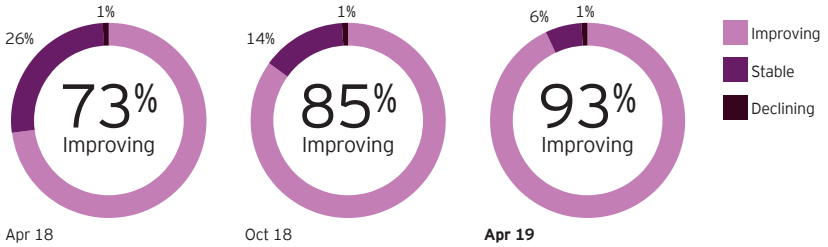
Macroeconomic environment and risks to growth

Executives expect continued growth in the near term

Q What is your perspective on growth today?

Executives and economists have opposing views on global growth.

Many economists are predicting slower global growth, however, only by a small margin.



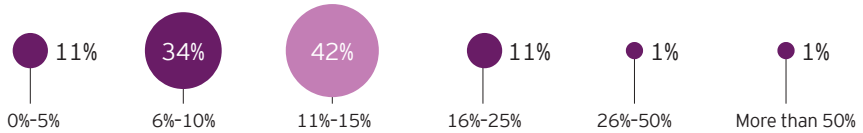
The more bullish view on economic outlook from respondents can be explained by their own financial performance and future potential.

While this may seem surprising, we should not lose sight of the fact that companies reported strong revenue growth in 2018. The S&P 500 was up nearly 10%, the Russell 3000 up 9%, FTSE 100 up 7% and global mid-sized companies reporting double-digit revenue gains.*

Global executives are signaling equally robust growth in 2019.

*Source: EY analysis, S&P Capital IQ and FactSet; FTSE 100 based on 54 non-financial corporations that have reported 2018 revenues; Russell 3000 based on 2018 revenue figures available as at 1st April 2019.

Q What revenue growth rates do you expect your company to achieve in the coming year?



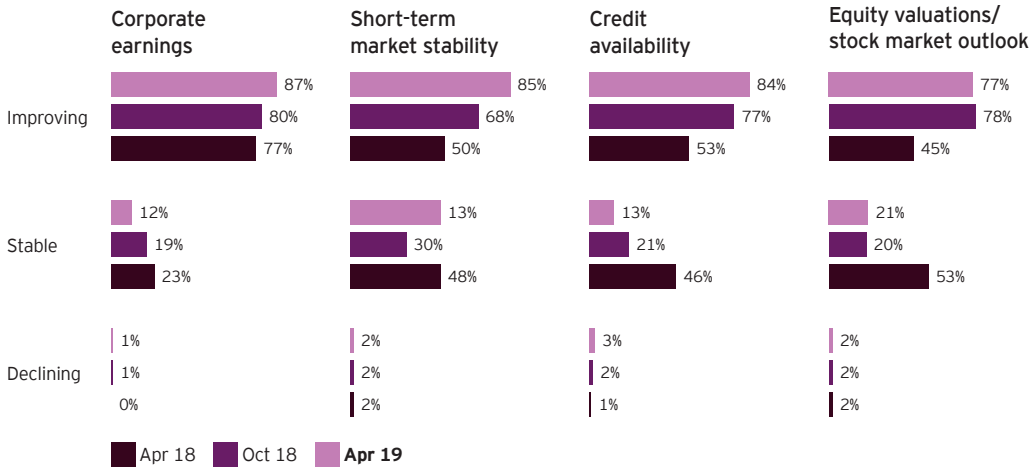
Broad-based confidence across multiple indicators underpins positive outlook

Respondents signal continued growth in corporate earnings in 2019, even after the high benchmark set in 2018.

Broader capital markets are also expected to be positive, boosted by the policy pivot by central banks in the US, Europe and China. Valuations and equity markets are also expected to improve in 2019. The rebound in 1Q19 may set the tone for the rest of the year.

However, as always, companies should ensure their capital structure and strategy can withstand market corrections.

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



At the same time, a wide range of connected risks are ever present

The interconnected nature of the modern global economy presents a combination of potential downside risks that are a concern for executives.

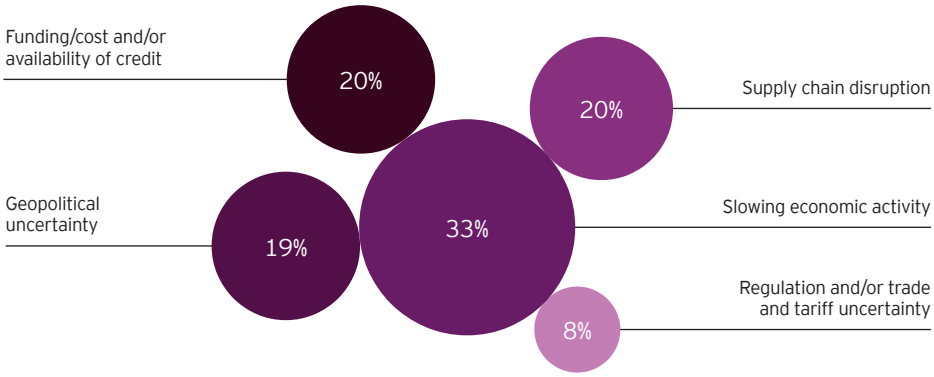
Slowing economic activity is viewed as the greatest external risk to the growth plans of many companies. Respondents believe the most likely cause of a slowdown in growth is from tariff and trade disputes undermining carefully calibrated supply chains that have been built up over many years.

These trade disputes are often grounded in wider geopolitical tensions that have built up over the past decade. These disputes have the potential to impede the cross-border trade that has powered the economic expansion in the post-GFC period.

Similarly, a reduction in liquidity in credit markets is strongly influenced by fears over a breakdown in the globalized trading system.

Companies should evaluate how each of these interconnected issues may impact their growth agenda. Building agility and having the ability to pivot quickly as circumstances demand is key.

Q What do you believe to be the greatest external risk to the growth of your business?



Increasing input costs, competition and tight labor pools create headwinds to growth and margins

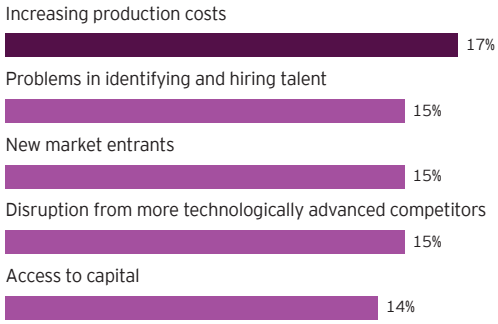
Rising input prices in a low-inflation environment, together with increasing competition, present near-term challenges to growth.

Executives cite a range of challenges to their growth plans, but they mainly fall into two categories: the increasing costs associated with doing business and increasing competitive pressures.

Margin compression is emerging as a key concern for investors, as it erodes future earnings potential. Increasing production costs are exacerbated by the need to attract talent in a tight labor market. The continued low-inflation environment makes it difficult to pass on these increasing costs to customers. Also, barriers to entry have also been lowered by technology across most industries, increasing competitive pressures.

In response to these concerns, simultaneously adopting technology, partnering across ecosystems and acquiring new capabilities is becoming "business as usual."

Q Which of the following is the most significant challenge to your own company's growth plans?



Only the top five responses are displayed and results reflect the percentage that chose each option.

Portfolio reshaping

The shift to more frequent portfolio reviews continues to accelerate

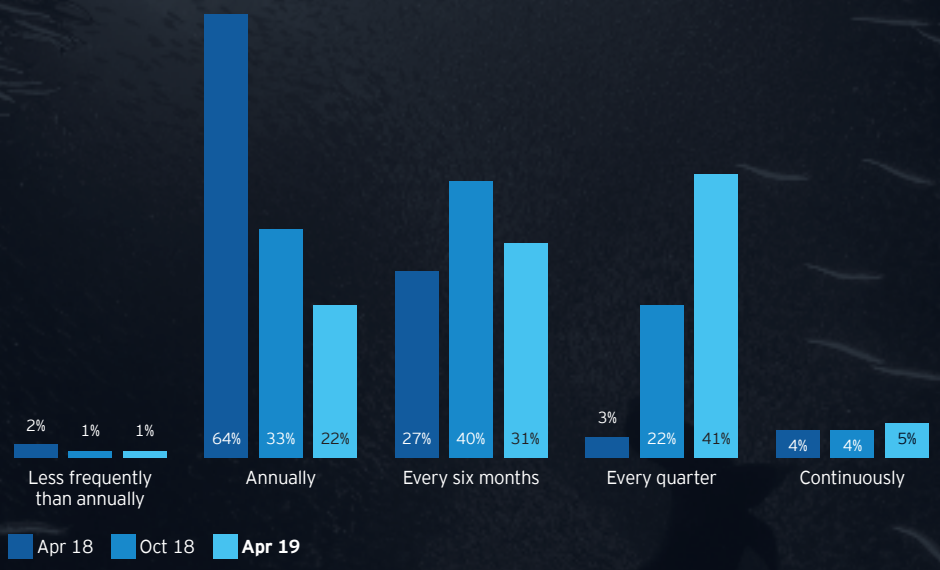
The speed of disruption is forcing executives to examine their portfolio for risks and opportunities more frequently.

For the first time in the survey history, more companies are performing portfolio reviews quarterly than annually.

While more frequent portfolio reviews have been seen as a "Western world" phenomenon, companies in Asia are also starting to embrace this theme. They are now far more likely to be reviewing their portfolios quarterly than annually (57% vs 9%).

Active portfolio reshaping should enable executives to identify areas of potential underperformance or emerging growth opportunities ahead of their competitors.

Q How frequently are you reviewing your portfolio?



Frequent portfolio reviews drive capital recycling to invest in growth areas

Targeted investments and recalibrating capital allocation is the new normal for executives.

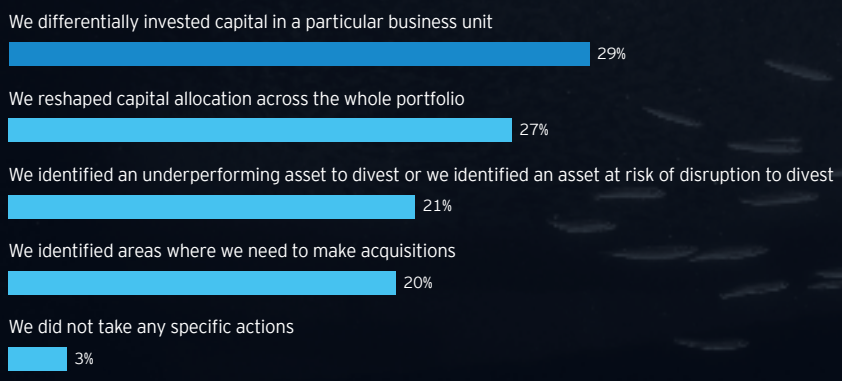
Executives report that their most recent portfolio review resulted in them differentially investing capital in a particular business unit or reshaping capital allocation across the whole portfolio.

They are also using such reviews to identify underperforming assets or an asset at risk of disruption to divest.

Divestitures should be an integral part of an active portfolio strategy. Frequent and strategic divestitures reduce the complacency that can build up over time in a complex organizational structure. Divestments are also a relatively inexpensive form of financing new growth opportunities.

Executives should be constantly prepared to make the decision to divest when the facts support that decision. This "always-on" strategic mindset reinforces the agility and flexibility that will be key to driving above-GDP growth in a low-growth global economy.

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



Allocating capital in a connected way enhances value

Q On which of the following capital allocation and strategy issues is your company placing the greatest attention and resources today?

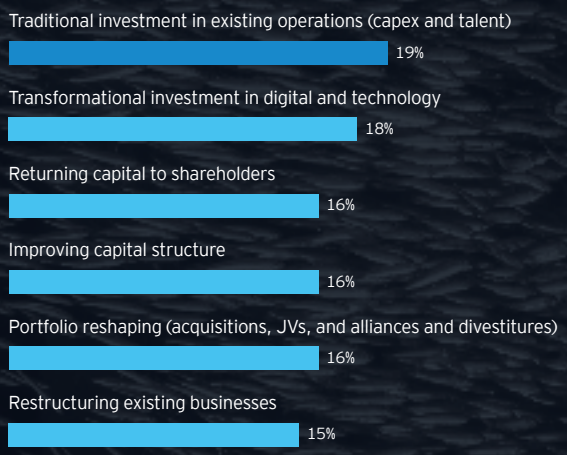
An internal/external mix of allocation priorities is signaled by executives.

Executives cite investing in existing operations and transformational investment in digital and technology as their top capital allocation priorities. The focus on their own ecosystem through a variety of lenses (digital, geopolitical, economic and demographic) should enable executives to pivot quickly as markets evolve.

Taken together with the intention to restructure their existing businesses through a combination of acquisitions and divestments, executives are signaling a period of active portfolio reshaping to accelerate growth.

Executives have a very balanced outlook on decisions to improve capital structure, make acquisitions and return capital to shareholders.

Businesses should embrace a robust and structured approach to capital allocation that will better position them to capture value in the current disruption-led environment. They need to develop the flexibility to quickly assess new and emerging investment opportunities.



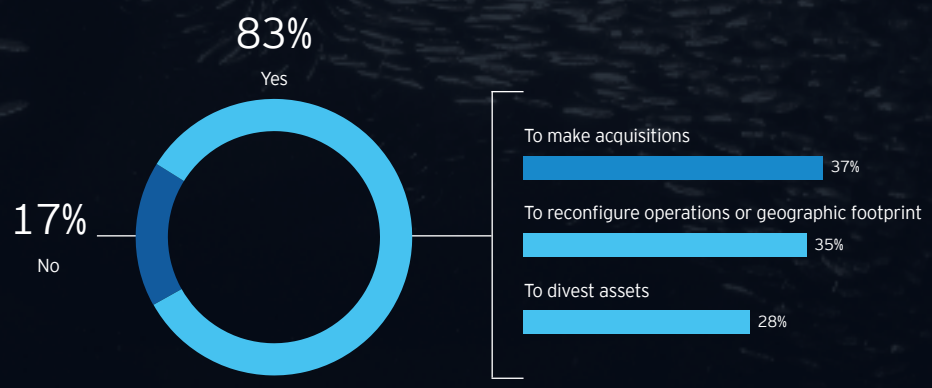
Activist pressure is fueling more regular assessments and reshaping of portfolios

Q Are activist shareholders compelling you to take specific actions to reshape your portfolio?

Activists challenge executives to use M&A to drive value creation.

Many executives of public companies are experiencing pressure from activist investors. This is not new. The prime motive of the activist is to achieve an increased return through improved shareholder value. However, what may be surprising is that our respondents see activists agitating for M&A more so than divestments. This isn't pressure to do deals for deals' sake but for value creation.

Activists will generally do a tremendous amount of homework before investing and setting out their strategic view. Executives should engage activists to assess the merits of their business case. Activists are also likely to be media savvy, so companies need to articulate an equally compelling and clear public narrative.



Funding growth

With sources of liquidity abundant, executives have a range of financing options

Both public and private companies look to tap a variety of funding providers.

Public companies are likely to rely on equity markets for any additional funding needs in the near term. They will also be looking at listed debt and bank financing, as required. Interestingly, almost 1 in 10 public companies may be considering a take-private route backed by private equity.

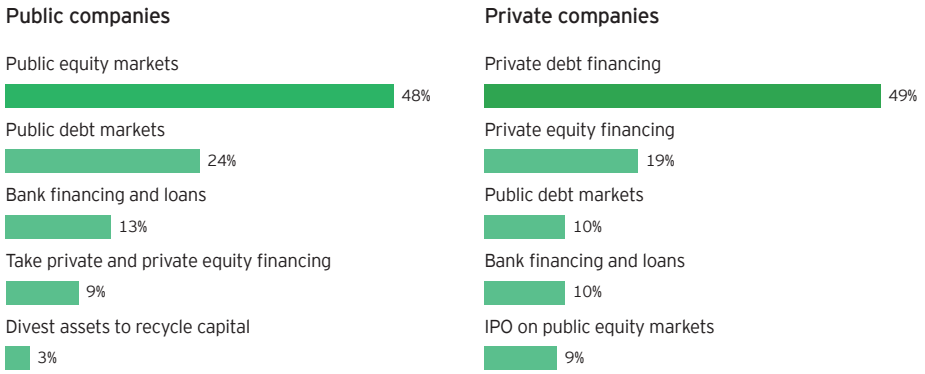
In 2018 global take-private M&A reached a record of US$154b from 164 deals.* This year's take-private dealmaking has started strongly and at the current run rate, 2019 could see a new record in take-private M&A.

Even so, it will be a stretch for 2019 take-privates to approach 1% by volume of all publicly quoted companies. If the aspiration is truly 10%, as the survey suggests, we could be at a tipping point in a shift of capital structures.

Private companies are primarily considering private debt financing, which has grown substantially over the past few years. They are also looking at private equity, banks and public debt markets should the need arise. In direct contrast to their public peers, nearly 1 in 10 private companies are considering going public.

*Source: EY analysis and Dealogic

Q What will be the primary source of finance you will be leveraging to fund your growth strategies in the next 12 months?



Only the top five responses are displayed and results reflect the percentage that chose each option.

Freeing up capital from operations helps build resilience

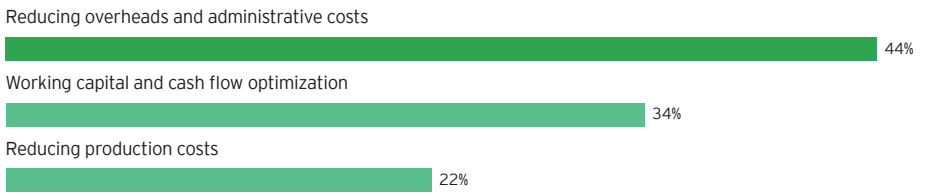
Unlocking liquidity traps will free up capital to recycle into new growth opportunities.

Executives are strengthening financial discipline across all back-office operations. This may be the most inexpensive way to unlock the capital that is essential to enable flexible decision-making.

Using new technology and artificial intelligence (AI), companies should increasingly be able to automate routine administrative tasks to free up both capital and talent, which can then be invested elsewhere.

Some organizations have strong cash cultures. They prioritize cash flow. They do not tie up capital in unproductive areas such as underperforming or non-core business units, or in certain jurisdictions where moving or repatriating capital is structurally difficult. These organizations have the advantage of using their cash opportunistically. In a time of uncertainty and rapid change, this ability to move fast will be vital to build resilience.

Q What will be your focus in the next 12 months to build resilience into your company's profitability and cash flow?



Talent and technology

In tight labor markets, technology may provide bandwidth for growth

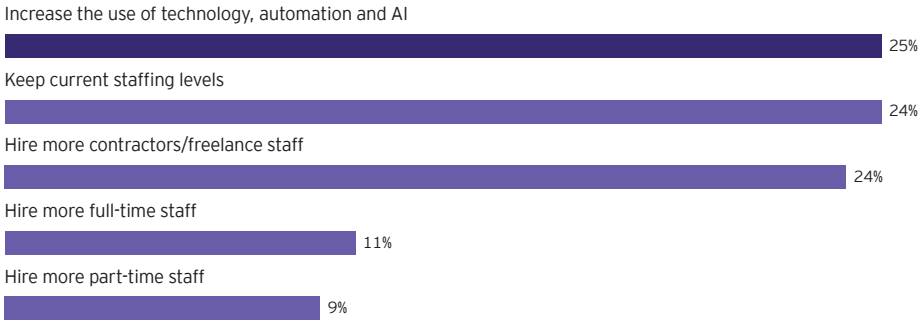
Rising levels of employment make technology integral to future talent strategies.

The use of technology, automation and AI for some routine processes is increasing as labor becomes scarcer and the battle for talent intensifies. This could enable companies to free up valuable resources to focus on broader strategic issues.

Often, the impact of new technologies is overestimated in the short term and underestimated in the long term. In some cases, expectations are too high about the immediate benefits of automating routine tasks. But, paradoxically, the potential opportunities and benefits of AI are still, if anything, underestimated. While there is much speculation regarding AI, there has been a lack of detailed analysis of how it will really transform businesses.

Most organizations are not exploiting the full potential of artificial intelligence – they are just at the beginning of their AI journeys. What may be holding companies back is the undersupply of talent, but it may also be the difficulty in imagining the art of the possible.

Q Which of the following is the key priority for your company's employment strategy?



Only the top five responses are displayed and results reflect the percentage that chose each option.

Front- and back-office processes set to be revolutionized by AI and automation

Executives are more confident in developing front-end services.

Using AI and automation to increase personalized products or services and improve the customer experience is the top priority for executives.

With back-office functions, including finance, talent and compliance, they are also looking to automate to work smarter and more efficiently.

In an increasingly competitive world, front- and back-office transformation likely needs to happen simultaneously.

Q What are the key objectives of automation and AI deployment in your organization?

Only the top five responses are displayed and results reflect the percentage that chose each option.

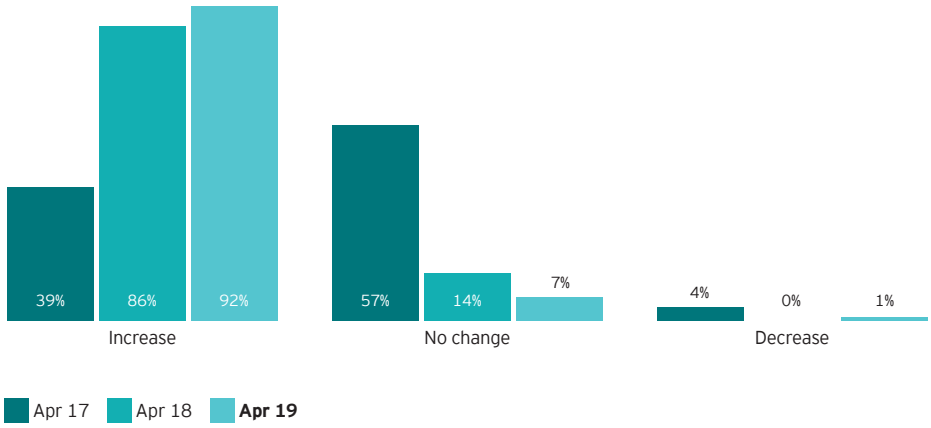
M&A outlook

The global M&A market expected to remain at elevated levels in the near term

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

Active portfolio reviews will provide the foundation for a healthy deal market in 2019.

M&A expectations remain elevated, defying the traditional "cycle mentality."

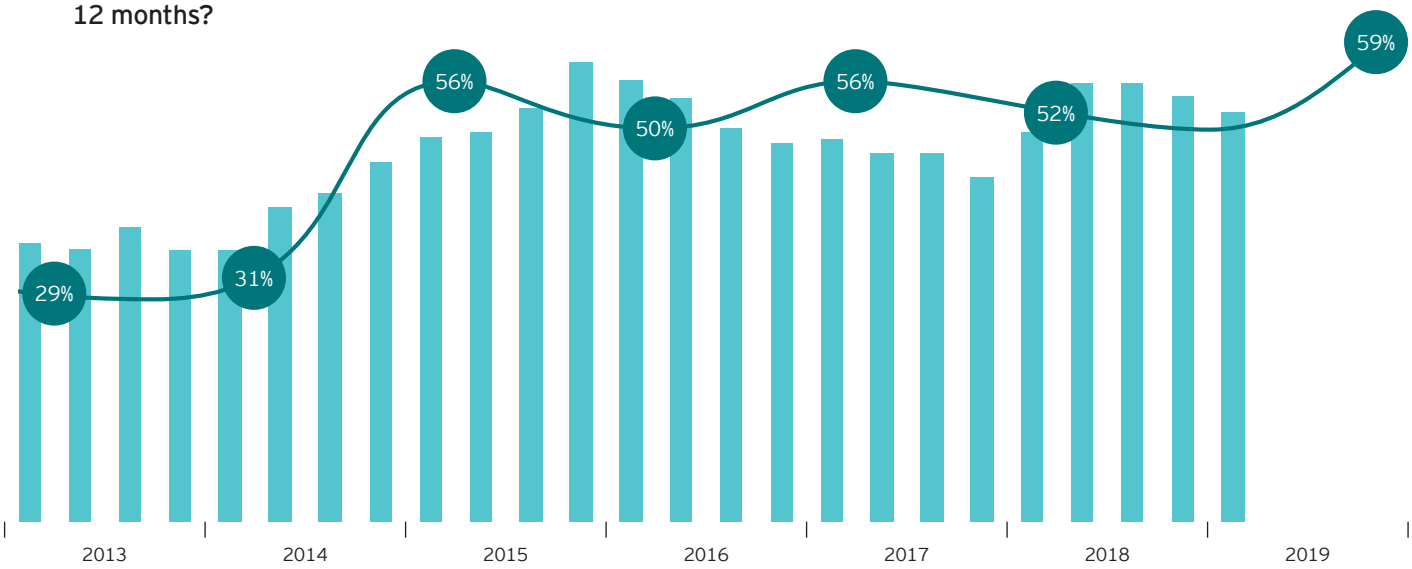


The imperative to manage emerging opportunities and risks boosts M&A appetite

In an age of transformation, buying rather than building can unlock future value creation at speed.

Competitive dynamics as they relate to technology and globalization make M&A more of an imperative than an option. In response, companies are embracing uncertainty rather than being unsettled by it.

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



Trailing 12-month global M&A value | *Capital Confidence Barometer* intention to pursue acquisitions

Source: EY analysis and Dealogic

The above chart demonstrates the consistent accuracy of the Barometer in predicting global M&A activity.

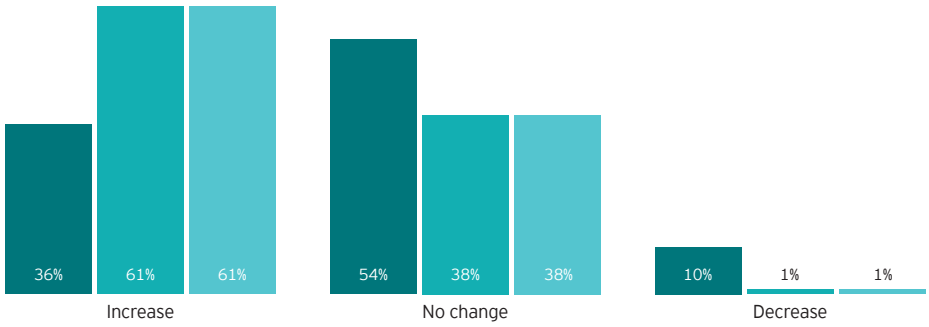
Expanding pipelines and an increase in deal closures should underpin a more active deal market

Executives are prepared to reshape their portfolios quickly to get ahead of the competition.

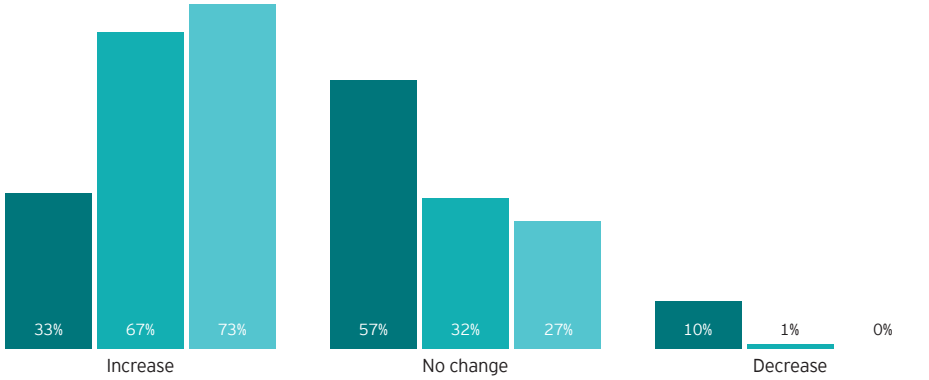
With executives accelerating their portfolio reviews, the need to constantly scan industry landscapes for emerging differentiated assets has also taken on a heightened urgency.

The timelines for identifying and buying assets has become compressed and active pipeline management is now a must-have for companies.

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



Q Considering the next 12 months, what is your expectation for the number of deal completions by your company compared with the past 12 months?



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> Our pipeline isn't just bigger than one or two years ago, it's broader. It's not just more of the same. We are looking at more deals that expand our capabilities to compete.

CEO of US$5b multinational financial services company

Technology is making the world smaller, connecting geographies and converging sectors

Q What are the main strategic drivers for pursuing acquisitions?

Technology is at the heart of today's deal rationale.

Whether it is entering a new market, acquiring new talent or technology, expanding into adjacent industries or moving at pace with customers, technology is the fulcrum of heightened M&A intentions.

The other significant factors are the needs to mitigate risks and navigate around regulatory regimes.

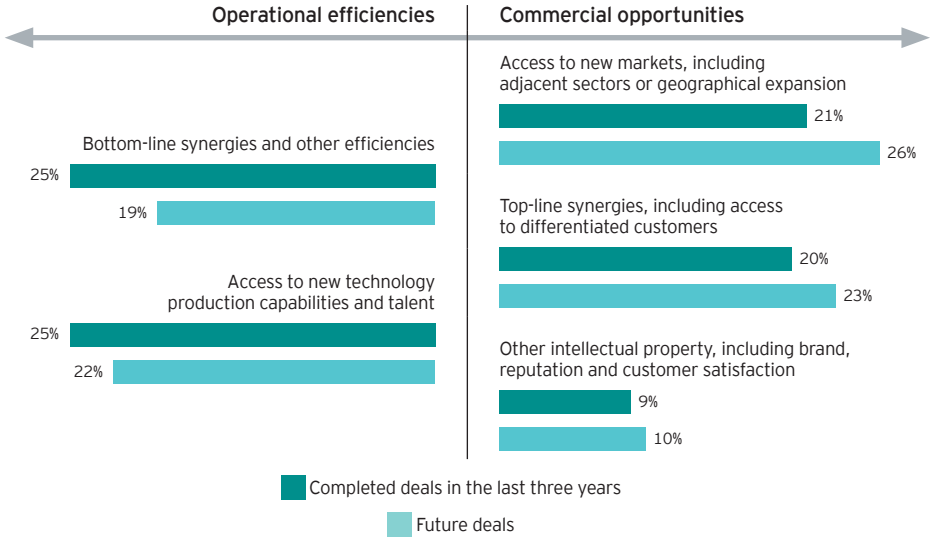
Focusing integration on unlocking new sources of growth will power value creation

Q Based on your experience of completed deals in the past three years, where have you derived most value – and where would you expect to create more value from future acquisitions?

Creating value from commercial opportunities is now ahead of operational efficiencies.

Traditional deal strategies have often centered on bottom-line synergies to create value. Recently, acquiring new technologies, production capabilities and talent have been seen as pools of future value. But executives are signaling that it will be market expansion, top-line synergies and access to differentiated customers that they will be focusing on to elevate deal success.

Executives should recalibrate the lens through which they assess potential targets and deals. They should assess how likely they are to open new routes to growth, markets and customers in an increasingly complex operating environment.



The pace of change is driving deal strategies, but anticipating regulatory change is a fundamental prerequisite

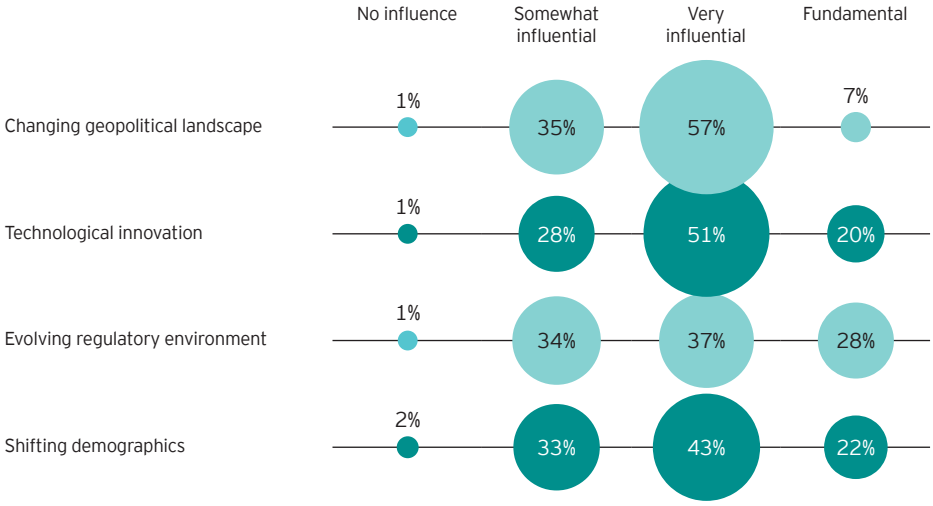
While they are managing it aggressively, executives acknowledge that the shifting and unpredictable nature of regulatory oversight is emerging as a fundamental deal consideration.

Respondents see the uncertainty around evolving regulatory regimes and geopolitical dynamics as a leading issue when executing a deal.

Advances in technology is another important external factor influencing deals. And technology is also the No. 1 strategic reason for doing deals. Increasingly, innovation means turning your biggest risk into an opportunity.

Executives should work with advisors to understand new regulatory environments. They should also build new models that use differentiated and specific data to predict new areas of growth for their products and services.

Q To what extent do the following external trends influence your deal strategy?



Integration remains the key risk to manage in realizing deal success

Executives are mitigating deal risks through effective execution.

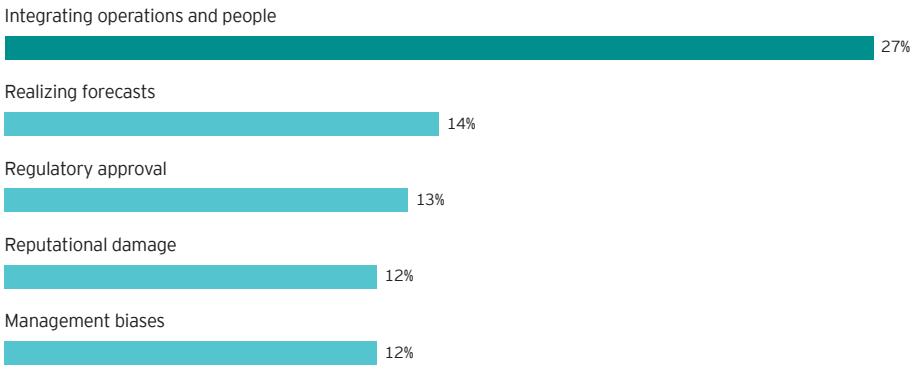
In many ways, M&A is fraught with risks. Combined with unprecedented business model disruption across many industries, acquisitions have never been more complicated. But those who prioritize and resource their efforts appropriately are more likely to seize a measurable competitive advantage.

Today, deals are coming in more shapes, sizes and variety of forms than ever before. The importance of getting integration right has never been more important. There is not one size that fits all deals. Integration strategies are now as bespoke as the deals themselves.

For an acquisition or merger to create value, the combination must become more than the sum of the parts. Realizing that potential relies on best-in-class integration strategies that quickly addresses and balances risks and seize opportunities and synergies.

Companies should develop leading-practice M&A playbooks and dedicated M&A teams within functions. They should also focus on how regulatory regimes are evolving, as well as how rising risks associated with reputational damage may impact future valuations.

Q When executing a transaction, what risks are you most concerned about?



Only the top five responses are displayed and results reflect the percentage that chose each option.

Valuation gap widens as buyers and sellers see assumptions differently

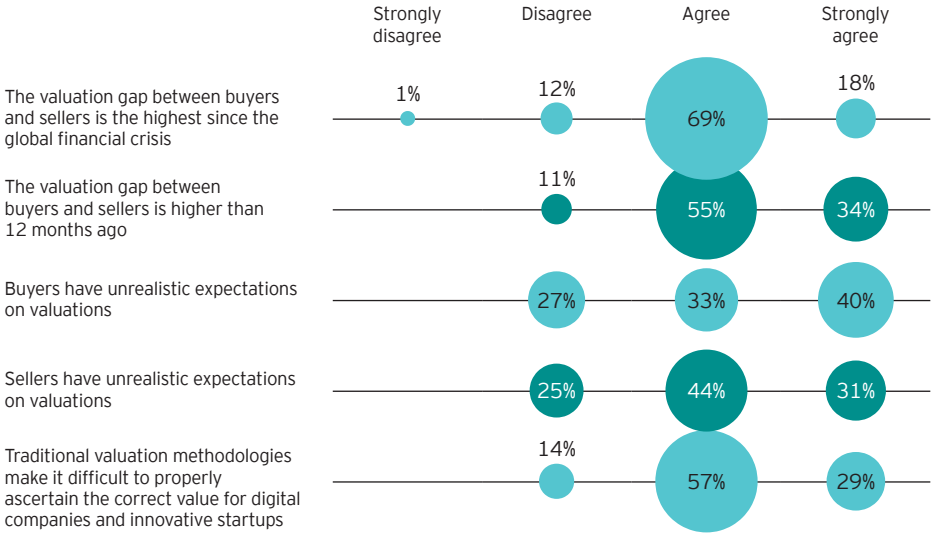
Most respondents see the valuation gap at its widest since the GFC.

The sentiment of respondents is that the valuation gap continues to stretch. The difference in valuation outlook between buyers and sellers may be more about a disagreement in the riskiness or uncertainty of cash flows rather than an insufficiency in the valuation methodologies themselves.

Given the changing deal landscape, it is more important than ever that companies weigh the risks of organic versus inorganic growth in determining risk premiums. They should understand the relative risk of each and build into their considerations. For example, given the high level of technology disruption most businesses are facing, inorganic investment may sometimes be less risky than organic investment.

Executives could also use sensitivity or simulation analysis to predict the outcome of a decision given a certain range of variables. This may help them reconsider the underlying assumptions that support their valuation models – especially discount rates, growth rates and other inputs around growth and volatility of cash flows.

Q **Do you agree or disagree with the following statements about valuations?**



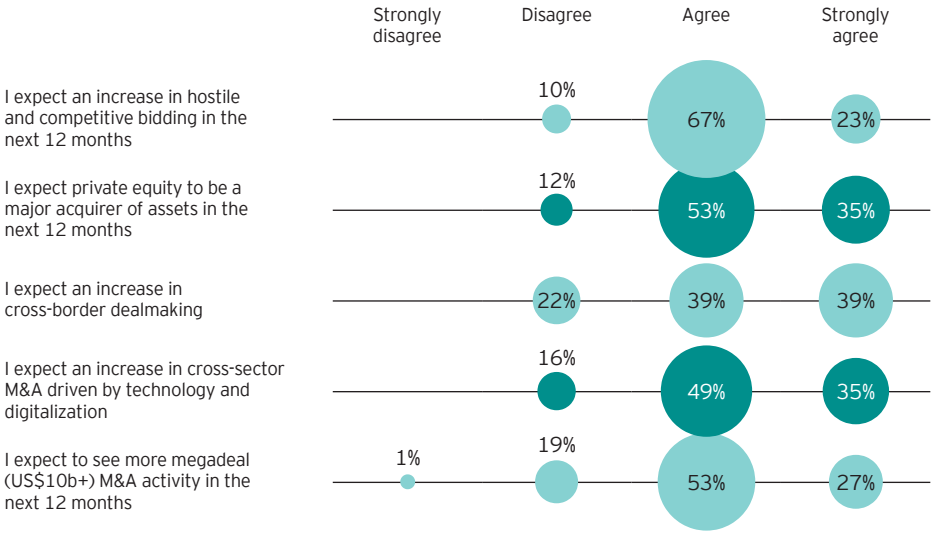
Dealmaking expected to come in many flavors in 2019

With a strong M&A appetite prevailing in a highly competitive landscape, respondents expect an increase in competitive and unsolicited deals.

With competitive advantage and future market share front of mind, executives expect to see many peers targeting the right asset at the right time – and in many cases the right asset is the same asset.

Following the slowdown in mega-deal activity in the 2Q18, respondents are now anticipating an uptick in M&A above US$10b in the near term.

Q **Do you agree or disagree with the following statements about the M&A market?**



Sector outlook

Automotive and transportation

- The automotive and transportation (A&T) sector is an industry at a crossroads, navigating a path of maintaining a profitable legacy business today while preparing for an uncertain future of mobility. This dichotomy is leading to a bifurcation of M&A strategies.
- For the current state, companies in mature markets are focused on maximizing profitability by either divesting unprofitable assets or merging to gain greater efficiencies of scale. Emerging markets are still forecasted to see organic growth and are expecting continued activity involving startups and consolidations, particularly related to electric vehicles.
- A future state with mobility-as-a-service would look to be highly disruptive for the legacy industry and we're seeing multiple levels of A&T look at evolving their business. Alliances between existing A&T companies, JVs with tech companies, purchases of startups and venture capital investment are just some of the ways that the industry is evolving to meet this future state.

Consumer products and retail

- Disruptive technologies, new business models and agile market entrants are revolutionizing the way people shop, what they buy and how they live. Business strategies and assumptions that have shaped the sector for decades are becoming irrelevant. In this complex and challenging environment, consumer companies must shift their focus from protecting what they have, to creating what they need to become.
- Many companies are acquiring new capabilities, such as direct-to-consumer platforms, or moving into adjacent sectors. Others are buying product lines more in tune with the demand principles of younger customers. These may include organic or ethical products, or those that can have their origin verified. The key question is, if they acquire a smaller, cutting-edge company, do they integrate it, let it stand alone or adopt a hybrid approach?
- In addition, aggressively reducing overhead is no longer seen as enough to deliver shareholder returns. This is leading more companies to fundamentally challenge their portfolio and business model – often divesting non-core businesses as a result.

Financial services

- 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 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 conflation of client, technological and regulatory evolution. Wealth and asset managers are looking to broaden their offerings, increase efficiencies and unlock the potential of digital and technology through M&A.
- In the banking sector, strategies are shifting to selective growth strategies. FinTech assets will continue to be highly attractive as banks look for opportunities to collaborate with, invest in or acquire innovative products or companies. Larger deals will most likely come from consolidation within the global payments and US retail banking segments.

Oil and gas

- Oil prices have risen steadily over the first quarter, partially reversing the abrupt fall in the last part of 2018. Notwithstanding the difficult commodity environment, earnings and cash flow were strong in Q4 and are expected to remain strong this year, positioning companies for increased M&A.
- Risks remain. OPEC production restraint, Iranian sanctions and ongoing challenges in Venezuela have fueled the recovery. Those factors are temporary. Managing energy-market pricing risk should be a primary driver of oil and gas dealmaking.
- Portfolio reshaping remains a high priority. Consolidation in the US Permian Basin, tax and regulatory reforms in the US and elsewhere, and ongoing restructuring in oilfield services will create opportunities. Companies are holding firm on capital spending but are looking for optionality, setting themselves up for future growth or business transformation by investing in alternative energy businesses. That trend should continue for the foreseeable future.

Power and utilities

- Utilities are now in a transition, from the traditional landscape to a system that will be defined by new, changed market and technological conditions. Dealmaking in 2019 will be characterized by moves that power and utility (P&U) companies make along this journey.
- A combination of cross-border M&A and private equity will drive investment in renewables and new energy technology – including battery storage and electric vehicle infrastructure. Sector convergence driving cross-sector M&A combinations will become more prevalent.
- Companies have established KPIs on climate goals, in the form of renewables growth and efficient natural-gas-fired generation, to tackle intermittency and security of supply, while the phase out of coal-fired generation and nuclear continues.
- Clean energy will develop into a large and stable market, attracting investment beyond current expectations – from both corporate and financial sponsors.

Technology

- Technology M&A remains bullish as technology companies are increasingly viewing M&A as the preferred growth engine. Many of the largest technology companies in the world are turning to M&A to explore emerging technologies and unlock growth in mature portfolios.
- The increasing appetite for technology dealmaking continues to drive competition between strategic and private equity acquirers, which is testing already record-high valuations.
- Infrastructure software deals continue to dominate technology deal volumes, while deals in the payments sector have dominated technology deal values spurred by megadeals.
- Technology dealmaking continues to be influenced by government policy across the world, spurred by uncertainty around China-US trade negotiations, increased government power to veto transactions deemed against national interest, and increased focus on consumer privacy regulation.

Geographic outlook

Despite economic and geopolitical concerns, Europe emerges as the top cross-border destination

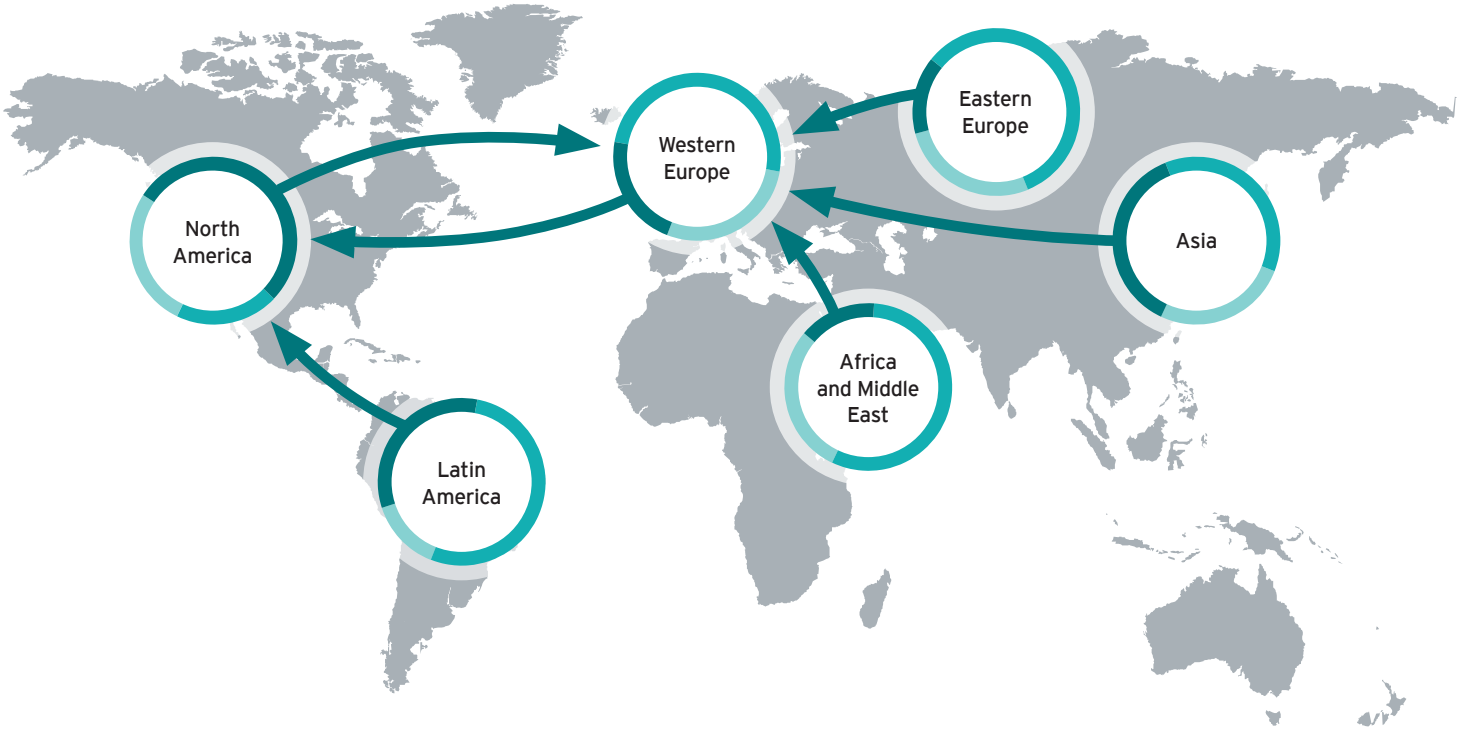
Higher valuations and increasing regulatory challenges prompt shift from North America to Western Europe.

The most recent Barometer had North America at the epicenter of cross-border dealmaking. Now, the focus for executives targeting overseas assets has shifted to Western Europe. While growth has been stronger in the US than in the EU for many years, now this has had an impact on relative valuations. European assets look attractive by US standards. Together with tightening oversight of inbound acquisitions by the US and a window of opportunity before European authorities might enact similar stringent rules, dealmakers look set to act while the window is still open.

The UK, Germany and France appear in the top five most targeted countries. Within them, consumer products, automotive, industrials and financial services are sought-after sectors. These are industries in which European companies have particular strengths (consumer and industrials) or look likely to be entering a period of consolidation (financial services and automotive).

While regulatory challenges look set to be the main determinant of cross-border success in M&A deals getting over the line, it may prove to be a busy 2H19 in European dealmaking.

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



Outside domestic market/ immediate region | Immediate region (countries close to home) | Domestic market (home country) | Primary preferred destination outside their domestic market/immediate region*

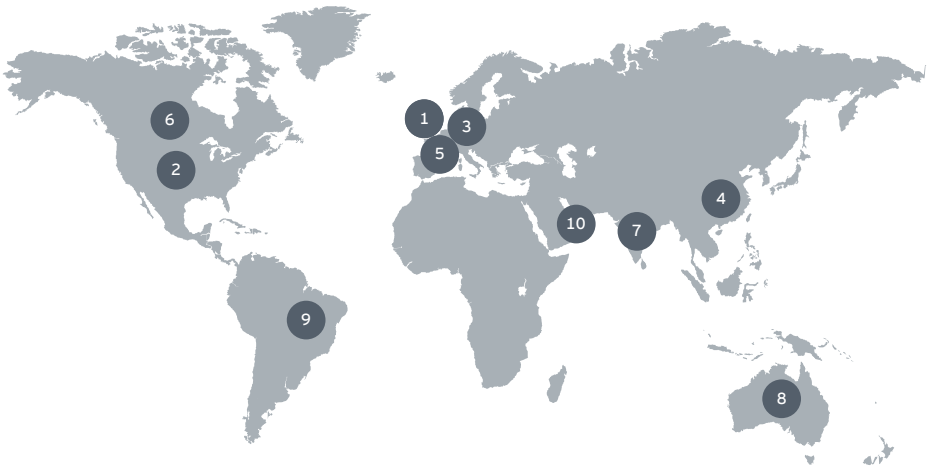
*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region (overall top 10 country investment destinations are listed on page 15).

Top investment destinations and their key characteristics

Despite continued uncertainty stemming from its intention to leave the European Union (EU), the UK climbs to the No. 1 spot in the top investment destinations for the first time in the survey's 10-year history.

In addition, China climbs back into the top five, even as concerns about market access and reciprocity with the US and EU continue. And despite fears over protectionism, the US is a top destination of choice for 9 of the 10 most active cross-border investors, including China.

Top 10 investment destinations	Top investors	Top destinations	Top sectors
1 United Kingdom	1. US 2. UK 3. Germany	1. UK 2. US 3. Germany	1. Consumer products and retail 2. Industrials 3. Financial services
2 United States	1. US 2. Canada 3. Mexico	1. US 2. UK 3. China	1. Oil and gas 2. Industrials 3. Life sciences
3 Germany	1. Germany 2. US 3. France	1. UK 2. Germany 3. US	1. Media and entertainment 2. Power and utilities 3. Financial services
4 China	1. China 2. US 3. Japan	1. China 2. US 3. Germany	1. Financial services 2. Automotive and transportation 3. Consumer products and retail
5 France	1. France 2. Germany 3. US	1. UK 2. France 3. Germany	1. Automotive and transportation 2. Power and utilities 3. Financial services
6 Canada			
7 India			
8 Australia			
9 Brazil			
10 UAE			



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

1 Can you reshape your portfolio quicker than your industry reshapes around you?

Executives should determine the relationship between their ecosystem and an evolving industry landscape to better position themselves for emerging growth opportunities.

2 Is the missing link in your data your own?

Companies should use their own internal data and a range of differentiated external information to highlight potential growth markets rather than assume headline economic activity is a reliable guide.

3 Tariffs, trade or business as usual?

Executives should factor in changing trade patterns, but not allow them to significantly alter strategic direction.

4 Do you need to look in a different direction to see more clearly?

Companies should take both inside-out and outside-in views to understand how investors and others perceive them.

5 Developed, emerging or your own unique market?

With technology enabling an increasingly bespoke service, executives should strive to have resources laser focused on attracting and retaining customers.

6 Will automation alleviate margin compression?

With input prices rising, executives should accelerate their automation journey to reduce costs and maintain earnings growth.

7 Are you creating your own liquidity trap?

Executives should challenge the status quo and constantly stress-test their treasury and working capital processes to maximize liquidity and free up capital for reinvestments.

8 Do you know the next big thing in your industry?

With traditional sectors recast, executives should build information and intelligence sources to continually track emerging competitors and technologies that may undermine their business models.

9 How can you bridge the gap?

With traditional valuation models not always able to fully assess new business models and technologies, executives should utilize more advanced modeling techniques and model a wider range of scenarios for key input assumptions.

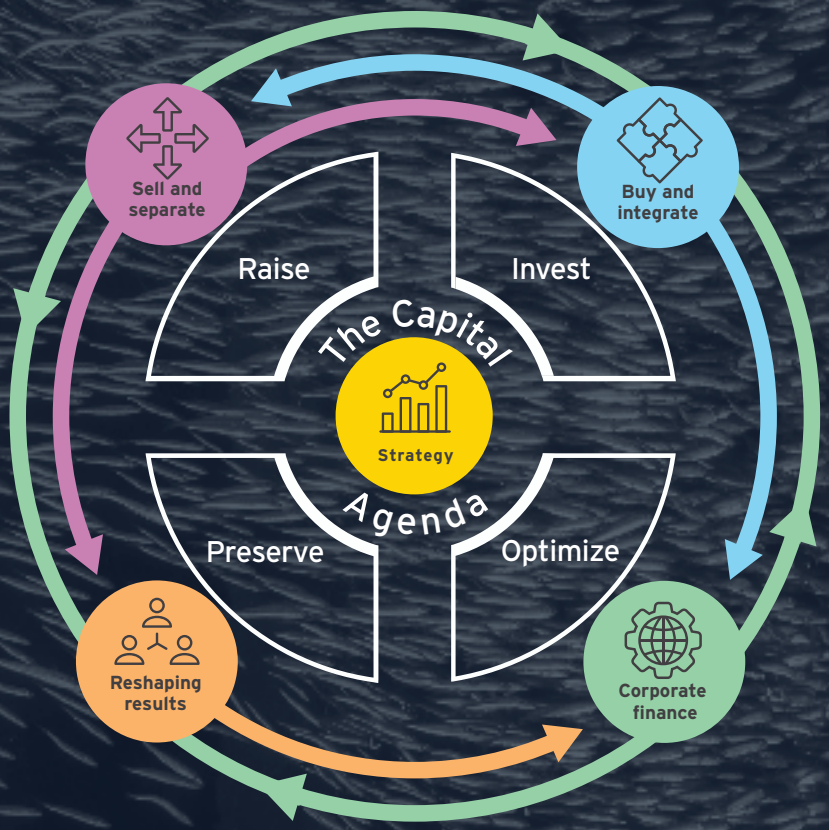
10 Can you articulate your social value?

With societal issues elevating risks for businesses, executives should be able to articulate a compelling narrative of how their purpose goes beyond profit and how their M&A fulfills purpose.

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.

Whether you're preserving, optimizing, raising or investing, our Connected Capital Solutions can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.



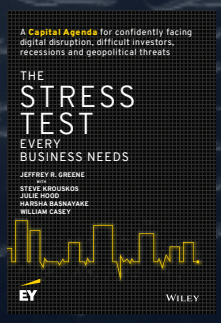
Strategy
Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future

Corporate finance
Supporting better decisions around financing and funding capital expansion, and optimizing capital efficiency

Buy and integrate
Enabling strategic growth through better integrated and operationalized acquisitions, JVs and alliances

Sell and separate
Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin-off or JVs

Reshaping results
Helping you transform or restructure your organization for a better future by enabling business-critical and capital investment decisions



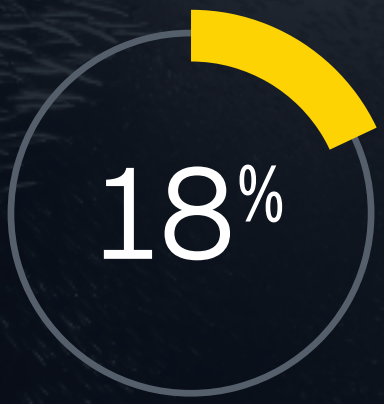
More insights on how EY can help you manage your Capital Agenda

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.

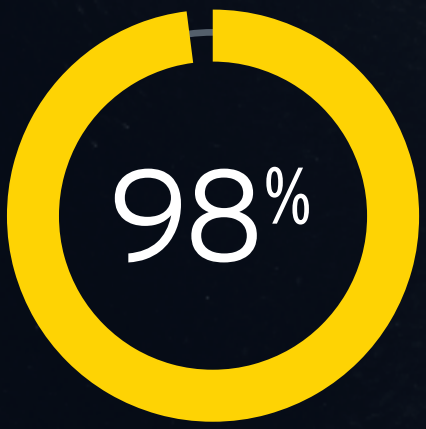
www.ey.com/en_gl/transactions/the-stress-test-every-business-needs-future-proof-your-capital

Middle East and North Africa highlights

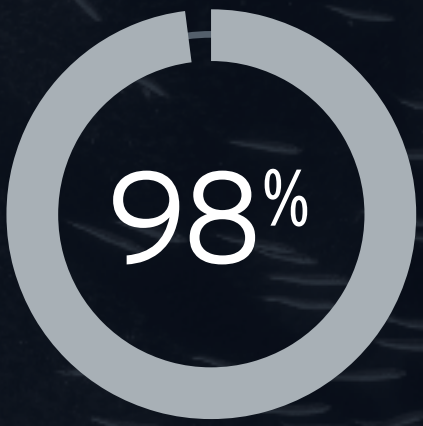
MENA | **Global**



see new entrants as the most significant challenge to their company's growth plans.



of executives are planning for significant investment in technology this year.



plan to use technology primarily to improve financial data access and analysis.

Optimism continues to drive growth prospects and M&A appetite

Against a backdrop of economist and analyst predictions of a global economic slowdown, global trade tensions, Brexit uncertainty and global trade and economic stumbles, we see how optimistic executives in the Middle East and North Africa (MENA) region are about the economy, their growth prospects and their appetite to pursue M&A.

According to the latest EY *Capital Confidence Barometer*, 87% believe the global economy is improving; 82% share a similar sentiment about their domestic economy.

According to a recent World Bank report, growth in the MENA region has improved and is projected to strengthen over the next few years. Further, almost all MENA countries have moved to reduce or eliminate energy subsidies, identify new sources of non-oil revenues and expand social safety nets to shield the lower-income class. The World Bank also noted that economic growth in MENA is forcasted to reach an average of 2.6% in 2019 and 2020. In more encouraging economic news, oil prices are on the rise once more, giving oil exporting countries in the region a boost.

Based on their confidence across the macroeconomic landscape, 67% of MENA executives say that they anticipate revenue growth rates of between 6% and 15%. Interestingly, no respondents forecast negative growth.

Despite their optimism for growth, MENA executives are aware of the risks that lie ahead

Our M&A report suggests that MENA executives are keeping an eye on the risks. For one-third (33%) of MENA executives, slowing economic activity poses the greatest external risk. Executives in the Kingdom of Saudi Arabia (KSA) and Egypt express greater concern for this risk than their peers in other geographies.

Within their own organizations, concerns are divided among new market entrants, slowing demand and increased production costs. The UAE's ongoing ease of doing business, including tourism efforts, continues to draw new entrants from across the globe. This could be affecting the growth of domestic entities.

Across the region, consumer-facing businesses are experiencing a new normal as demand has reduced, particularly for high-end products. At the same time, cost structures have risen.

Executives step up reviews as they look to reshape their portfolios

Many companies across the region are experiencing pressures around liquidity and financing. As a result, MENA companies are finding innovative ways to raise capital.

This may explain, in part, why companies in the MENA region have stepped up the frequency of their portfolio reviews – 61% of MENA executives say their companies are reviewing their portfolios every quarter or more frequently – more often than global executives (46%). The UAE and Qatar appear to be more aggressive than others, with 68% of UAE companies reviewing quarterly (and 16% say they review continually), and 77% of Qatar companies reviewing quarterly or more.

With more frequent portfolio reviews as one of the key factors, it's inevitable that dealmaking appetites remain healthy. It explains why, based on their last portfolio review, 28% of MENA executives say they identified assets to divest.

An evolving regulatory environment becomes a fundamental consideration in M&A strategy

On the buy side, 59% of MENA executives say they will actively pursue M&A opportunities in the coming year. MENA executives say the current regulatory environment is evolving across major jurisdictions, and is the leading fundamental concern to understand when executing dealmaking. However, they are also considering other factors in their deal strategies, including the changing political landscape, technological disruption and innovation, as well as understanding how demographics will change demand patterns.

Given the demographic trend, one in five (21%) MENA executives say that responses to changing customer behaviors is the main strategic driver, while an almost equal number (19%) see M&A as a means to address regulatory or tariff and trade issues, or to secure their supply chain.

Interestingly, where private equity firms had previously played a rising role as net buyers in the region, they have become net sellers. That said, 28% of private MENA companies say they are looking for PE to help them fund their growth strategies in the next 12 months, particularly when other private debt financing options fall short. Additionally, MENA executives expect PE to rebound, with 84% anticipating PE firms to become major acquirers of assets in the coming year.

MENA executives look to improve their resilience even as they pursue ambitious growth

Looking ahead, we expect MENA companies to continue to reshape their portfolios to remain resilient to potential headwinds on the horizon, even as they actively pursue their ambitious growth objectives.

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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 Thought Leadership Consulting, a Euromoney Institutional Investor company. Our panel comprises select global EY clients and contacts and regular Thought Leadership Consulting contributors.

- In February and March, we surveyed a panel of more than 2,900 executives in 47 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 (24%); US$1b–US$2.9b (21%); US$3b–US$4.9b (9%); and greater than US$5b (21%).
- Global company ownership was as follows: publicly listed (54%), privately owned (40%), family owned (4%) and government or state owned (2%).

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