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

EY
Building a better working world

Mexico highlights

Global Capital Confidence Barometer

Olivier Hache
Transaction Advisory Services,
Latin America North,
EY Managing Partner,
Mancera, S.C.
olivier.hache@mx.ey.com
+52 55 5283 1310

A note from Olivier Hache, EY Managing Partner, Transaction Advisory Services, Mexico

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

In February 2019, Mexico's central bank shaved its 2019 economic growth outlook from between 1.7%–2.7% to between 1.1%–2.1%, based on inflationary pressures and slow growth in the fourth quarter of 2018. More recently, rating agencies have put Mexico's outlook on a negative trend. At the same time, Mexico has a new government that is enacting change, which has created some uncertainty among the Mexican population. This concern is reflected in a 0.2% decline in Mexico's GDP in the first quarter of 2019 – the first trimester of the new federal administration.

It is noteworthy, therefore, that the current EY M&A survey suggests that Mexican businesses are feeling optimistic about the economic landscape, the M&A market and their growth prospects in the coming year. According to the latest edition of the EY *Capital Confidence Barometer*, almost all of the Mexican respondents (98%) express confidence that the economy is improving, both at the global and local levels. Optimism across the spectrum of fundamentals – corporate earnings, short-term market stability, credit availability and equity valuations – supports this sentiment.

This confidence persists, even though Mexican executives are aware of the risks that lie ahead. One-third (33%) see slowing economic activity as the greatest risk to the growth of their business, while one-quarter (24%) express concerns about supply-chain disruption, a higher percentage than global executives as a whole (20%). This is likely because of the ongoing uncertainty relating to the US-Mexico-Canada Agreement (USMCA), as the successor to NAFTA has yet to be ratified by any of the three countries involved in the agreement.

Even so, an overwhelming majority (92%) expect revenue growth of between 6% and 15% in the coming year. Achieving these growth objectives requires a mix of both organic and inorganic strategies. Seventy-two percent of Mexican executives say they will be looking to existing operations to support their growth efforts. However, they also expect M&A to play a significant role. As Mexican executives look to manage emerging opportunities, 75% say they will pursue M&A in the next 12 months, an increase of 17 points from April 2018. Further, almost all (96%) expect global and local M&A markets to improve.

This appears reasonable, given that many Mexican companies are looking to acquire to increase their size and consolidate market share as a hedge against future economic conditions. Others, including a number of family-owned businesses, are looking to sell. Whether buying or selling, 77% of Mexican executives considering M&A are primarily focusing on cross-border deals. The US remains their top destination. However, they also see Mexico, the UK, Canada and Brazil as favorable options.

Although Mexican companies are feeling the impact of disruption – as their willingness for dealmaking suggests – they are lagging behind their global peers in the frequency with which they review their portfolios (77% of global executives versus 51% of Mexican executives review their portfolios at least every six months). Company portfolios are the foundation upon which executives make their strategic decisions. If Mexican executives want to build greater agility and resilience into their strategies, they may want to consider shifting how often they examine their portfolios.

Looking ahead, although economic headwinds may be on the horizon and we observe little to no movement on the ratification of the USMCA, strong executive optimism in their double-digit growth objectives should help Mexican citizens feel more confident about the new government's policies and the ability of Mexican companies to remain resilient against a host of prevailing risks.

Top five investment destinations

1. US
2. Mexico
3. UK
4. Canada
5. Brazil

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

98%

of executives see the local economy as improving.

92%

of companies expect revenue growth of 6%–15% in the next year.

33%

acknowledge a slowing economy as the primary risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline as they realign to future-proof growth.

59%

say they are compelled by activist pressure to continually assess and reshape their portfolios via M&A and divestitures.

51%

of executives expect to review their portfolio every six months or more often.

45%

of executives are focused on reducing costs to free up investment capital.

M&A outlook and major themes

Executives are more bullish in their outlook and are looking for future growth and transformation through M&A.

96%

of companies expect the M&A market to improve in the next 12 months.

75%

of executives expect to actively pursue acquisitions in the next year.

59%

of executives aim to enter new markets, customers and intellectual property (IP).

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

EYG no. 002307-19Gbl

1901-3043022

ED None

ey.com/ccb