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Global Capital Confidence Barometer

Brazil highlights

Will COVID-19 turbo-charge M&A and transformation?

C-suites reframe corporate strategies and plan to invest their way out of the crisis.

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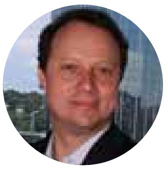

Eduardo Tesche, CFA
EY-Parthenon |
Strategy and Transactions
Ernst & Young Assessoria
Empresarial Ltda.
+55 11 2573 5048
eduardo.tesche@br.ey.com

A note from Eduardo Tesche, CFA, EY-Parthenon | Strategy and Transactions Ernst & Young Assessoria Empresarial Ltda.

Pandemic's impact returns M&A intentions to normal levels in Brazil

Brazilian executives remain cautious about the road to recovery despite an uptick in economic activity that kicked off 2021.

According to the latest EY *Global Capital Confidence Barometer*, 86% of Brazilian executives say that their companies have seen a significant decline in revenue and profitability in the wake of the COVID-19 pandemic, which halted Brazil's economy in its tracks. With a strong second wave of the virus moving across the country, the greatest risk to business growth remains the COVID-19 pandemic, according to executives in Brazil.

Only 17% of executives (vs. 46% globally) expect revenues to return to pre-pandemic levels in 2021. Another 52% expect it may take until 2022 or longer. Regarding profitability, Brazilian executives believe it will be 2022 (28%) or 2023 (38%) before a return to pre-crisis levels.

Strategic reviews identify digital and technology as growth drivers

With such uncertainty, almost every Brazilian company surveyed says its pandemic-accelerated strategic and portfolio review in the last year is part of a significant business and technology transformation.

The struggle is determining which pandemic-induced shifts are temporary and which are long-term as they identify areas of investment in technology and digital capabilities. Although 32% of executives believe their companies' digital transformation efforts during the pandemic performed better than competitors', as many (35%) believe their digital efforts underperformed.

To improve profit margins, 28% say they want to use technology and automation to improve scalability and replace high-cost labor. As many (27%) want to improve customer interactions through digital platforms.

As society changes, Brazilian companies see benefits in ecosystems

Brazilian companies are exploring corporate ventures, open innovation and alliances with startups in response to an evolution in economic and consumer values that have transformed the purpose of many businesses.

The end result of this transformation likely means divestitures of nonperforming assets in Brazil, according to this year's EY *Global Capital Confidence Barometer*. Brazilian companies are uniform in the need to define their future role in this changing context more clearly. At the same time, executives indicate they are open to partnering with the competition to create new solutions, and they believe that a successful ecosystem-driven transformation will drive further specialization, which may require a divestment of nonperforming assets.

M&A intentions focused on domestic pursuits

Brazilian executives are more tempered in their pursuit of M&A than they were one year ago.

Shortly before the pandemic hit Brazil, executives were set to go on a buying spree in 2020, with 66% saying they would actively pursue M&A. This year's EY *Global Capital Confidence Barometer* suggests a more normalized 43% are looking to make deals in the next 12 months.

An overwhelming preference for bolt-on acquisitions provides more evidence that Brazilian executives are more interested in acquiring new capabilities – digital and tech assets to help build resilience – than entering new markets. With considerable room to grow within the country's borders, 69% of companies in Brazil say they are more inclined to acquire domestically. However, 70% think they could face stiff competition from private capital.

Brazilian companies are preparing now for the future of business

The coming months will be pivotal for Brazilian companies as they continue to navigate the impact of the COVID-19 pandemic, simmering inflation and the presidential election in 2022. Although it may take time for the return of business as usual, executives are confident that the challenges they face are temporary.

In the meantime, they are making plans to build resilience and transform their organizations so that they can seize the opportunities that lie beyond the pandemic crisis.

Brazil's key highlights

52%
expect to see revenue return to pre-pandemic levels in 2021.

97%
say the pandemic has accelerated strategic portfolio reviews – and another 19% will divest underperforming assets/products to improve profits.

77%
anticipate Latin America will generate more growth and opportunities than other regions in the next three years.

70%
say the pandemic increased their strategic focus and investment in digital transformation.

43%
expect to pursue M&A in the next year.

100%
are open to partnering with competition to create new ecosystem solutions.

32%
believe their companies outperformed the competition during the pandemic relative to their digital transformation.

36%
say the main strategic driver for M&A is aquiring technology, talent, new production capabilities or innovative startups.

100%
agree a successful ecosystem-driven transformation will require divestment of nonperforming assets.

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.

The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

- From November 2020 until January 2021, Thought Leadership Consulting surveyed on behalf of the global EY network a panel of more than 2,400 executives in 52 countries; 82% were CEOs, CFOs and other C-suite-level executives.
- Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, 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 (26%), US$1b–US$4.9b (25%) and greater than US$5b (24%).
- Global company ownership was as follows: publicly listed (60%), privately held (40%).

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