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Global Capital Confidence Barometer Asia-Pacific 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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62%

of Asia-Pacific respondents believe they have outperformed their competitors in operational stability during the pandemic crisis.

89%

of Asia-Pacific companies have conducted comprehensive strategy and portfolio reviews in 2020, most of which were accelerated to address changing events.

85%

of Asia-Pacific respondents are currently undergoing a significant business and technology transformation program.

53%

of Asia-Pacific respondents are actively planning to pursue acquisitions in the next 12 months.

89%

of Asia-Pacific respondents indicate they will be looking for cross-border acquisitions in the next 12 months.

90%

of Asia-Pacific respondents expect that growth and opportunities for their companies will be generated within the region in the next three years.

Although most companies have seen revenues and profits decline, Asia-Pacific executives are confident in their ability to navigate the crisis and believe they have outperformed their competitors in operational stability.

In preparation for a post-pandemic world, nearly 9 in 10 Asia-Pacific executives say they conducted a comprehensive strategy and portfolio review, accelerated by shifting events.

M&A appetite remains robust compared to previous editions, as Asia-Pacific companies look within the region for growth and opportunities over the next three years.

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Confident in their ability to prevail during the pandemic, Asia-Pacific executives look to cross-border M&A for new growth and opportunities.

According to the latest edition of the EY *Global Capital Confidence Barometer* survey of more than 2,400 C-suite executives globally, 89% of Asia-Pacific companies have seen revenues fall; 92% saw profitability decline. However, 62% believe they have outperformed their competitors in operational stability during the COVID-19 pandemic. This is notably higher than the 42% of global respondents.

This operational stability has fueled optimism. Companies in Asia-Pacific acknowledge that they are closely connected to the rest of the world. Nearly half of those surveyed expect it will take until 2022 before revenues return to pre-pandemic levels. Yet, an overwhelming 90% of senior executives expect growth opportunities within Asia-Pacific in the next three years.

To reflect on lessons learned, 89% of Asia-Pacific executives say that they have conducted comprehensive strategy and portfolio reviews, accelerated by the pandemic. Based on these reviews, executives indicate they are prioritizing investments in talent, divestments of underperforming assets and acquisitions to accelerate growth.

More than half (53%) of Asia-Pacific executives say they intend to pursue M&A in the next year. This is higher than the Asia-Pacific average of the previous survey and the EY *Global Capital Confidence Barometer* average of 45%, suggesting that transaction appetites have improved as companies are looking for growth opportunities. M&A targets include technology and innovative solutions, as well as assets that can help companies respond to regulatory changes and supply chain challenges.

Nearly 9 in 10 (89%) Asia-Pacific companies indicate they will be looking across borders for the right assets. Yet, while they may be looking outside of their own country, 71% say they plan to invest in the region. Regional trade agreements, such as the Regional Comprehensive Economic Partnership (RCEP), have helped to build familiarity and improve confidence for dealmaking.

As companies redefine success in a post-pandemic landscape, Asia-Pacific executives also see M&A as a key lever of business transformation, with 85% saying that their organizations are undergoing a significant business and technology transformation. Executives recognize that being at the forefront of technology and digital adoption has been the key differentiator in success during the past year. Technology is the great enabler. However, it has costs, in terms of both capital and the appropriately skilled talent to leverage it.

The pandemic has undoubtedly presented the biggest challenges many organizations of all types have faced. Yet, Asia-Pacific companies have demonstrated throughout the COVID-19 pandemic the agility to navigate the crisis. As the initial shock of the crisis subsided, Asia-Pacific senior executives pivoted, conducting comprehensive strategic portfolio reviews to reimagine their competitive position in the new normal. Now, they are seeking to rev up their M&A and transformation programs as they look to reshape their future in the post-pandemic world.

Executives recognize they continue to face challenges in the months and years ahead. However, this edition of the EY *Global Capital Confidence Barometer* shows that Asia-Pacific companies will push forward boldly, buoyed by an informed clear view of a better tomorrow and a clear view of how to get there – reset, realign, restart.



Yew-Poh Mak
EY Asia-Pacific Strategy and Transactions Leader

See page 10 for the key takeaways that help define M&A success in today's deal economy.

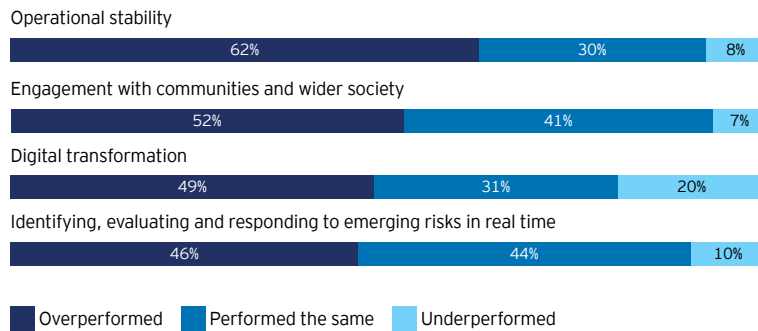


The pandemic impact: business experience, action and reaction to the COVID-19 crisis

Although many Asia-Pacific executives believe they have outperformed their competitors in operational stability during the pandemic, more than half expect the pandemic effects to last through 2022.

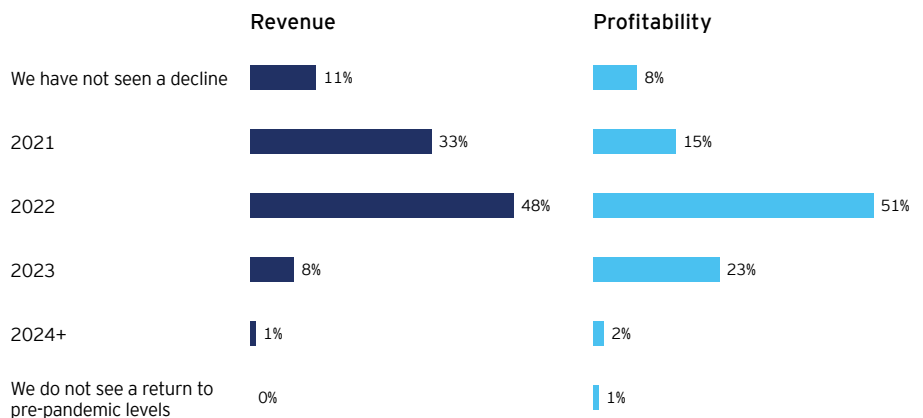
Approximately 9 in 10 Asia-Pacific executives acknowledge that revenues and profitability declined as a result of the pandemic. Yet, 62% say that their operational capabilities were stronger than those of their competitors.

Q How do you believe your company has performed during the COVID-19 pandemic relative to your competitors?



With more than half of executives not expecting a return to pre-pandemic levels until at least 2022, 90% of companies are looking within the region for growth and opportunities over the next three years.

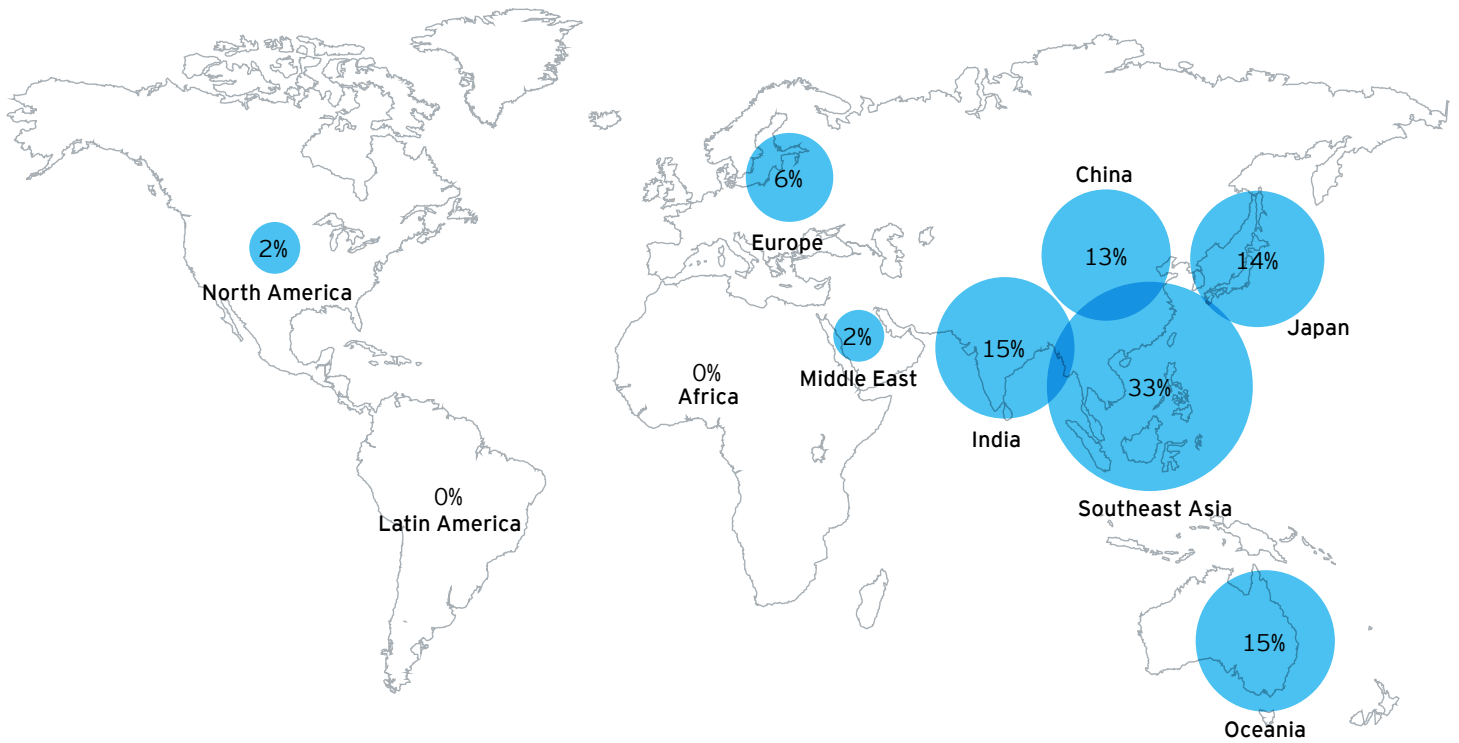
Q If your company has seen a significant decline in revenue or profitability due to the COVID-19 pandemic, when do you expect to see a return to pre-pandemic levels?



The strategic imperative: reframing strategy for the world beyond the pandemic

Respondents expect growth opportunities principally within their own countries, with stronger optimism represented in Southeast Asia markets (33%), followed by India (15%) and Oceania (15%), than in markets outside Asia-Pacific.

Q Which region do you anticipate will generate the most growth and opportunities for your company in the next three years?

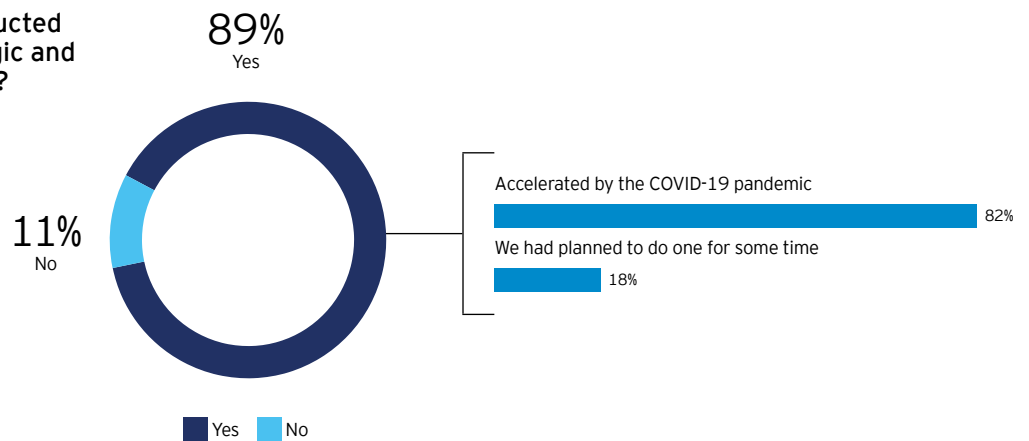


Asia-Pacific companies harness lessons learned and prepare for a reimagined future through accelerated strategic reviews

The pandemic has presented enormous challenges for many organizations. Leaders have to reimagine their strategy and values in the context of the new normal, requiring organizations to fundamentally transform both their aspirations and operating models – and at speed.

Asia-Pacific companies indicate they are up for the task. Harnessing lessons learned from the pandemic and in preparation for a post-COVID-19 world, 89% of Asia-Pacific respondents indicate that they have conducted a comprehensive strategic and portfolio review. Eighty-two percent indicate such strategic reviews were accelerated in direct response to changing events.

Q Has your company conducted a comprehensive strategic and portfolio review in 2020?



Talent is a major consideration for Asia-Pacific executives. As they reimagine operating in the new normal, new skills will be required. Strategically investing in upskilling and reskilling the existing workforce, as well as investing in new hires with emergent skills, will be key to thriving in the post-COVID business environment.

Post the Global Financial Crisis, reshaping portfolios was essential for companies to perform better than their competitors. Identifying growth areas through acquisitions and divesting underperforming assets facilitates accelerated growth in the upturn. The latest EY survey suggests that this important corporate agenda topic is top of mind for C-suite executives.

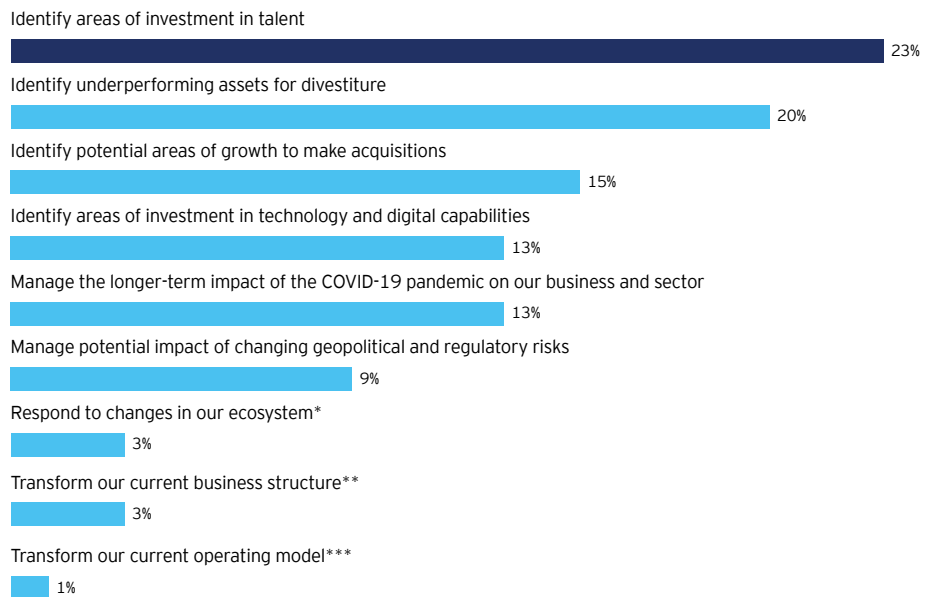
Q What are your main strategic considerations currently?

(The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.)

*Respond to changes in our ecosystem (convergence with other industries, joint ventures, new competitors, customer, channels, etc.)

**Transform our current business structure (e.g., legal and capital structure, governance, location of headquarters)

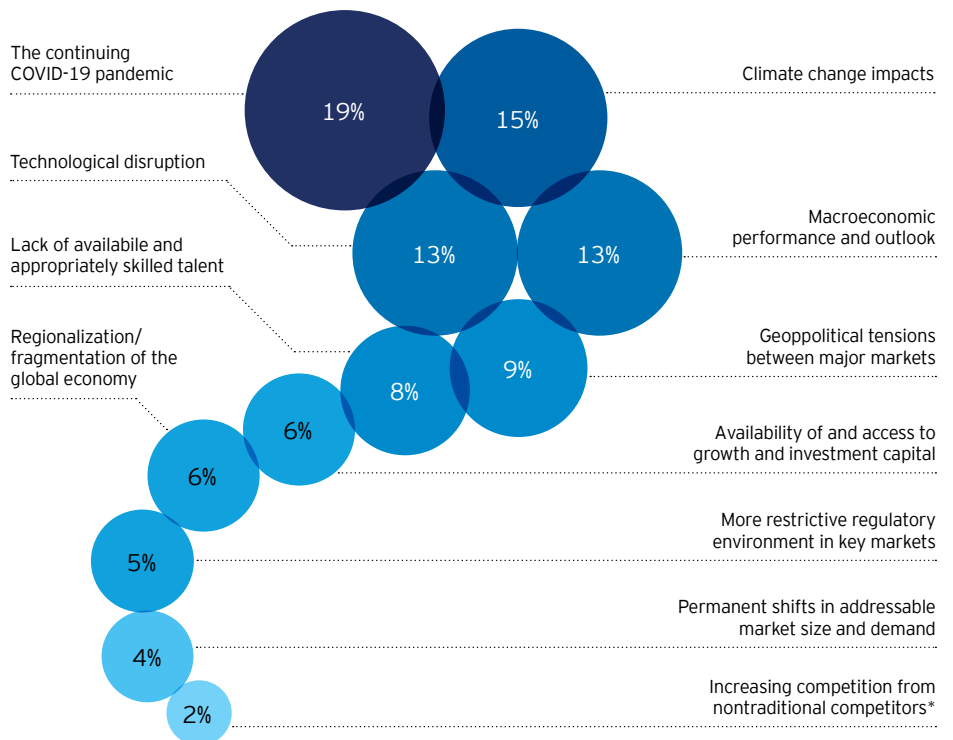
***Transform our current operating model (e.g., outsourcing, offshoring, management reporting structure, adopting a more horizontal model to improve the customer experience)



In Asia-Pacific, geopolitical and regulatory considerations trigger shifts in strategic investment

While only 9% of senior executives believe geopolitical tensions between markets to be the greatest external risk for their businesses, 85% of Asia-Pacific respondents indicate that such challenges are forcing executives to alter their investment strategy. Geopolitical challenges such as trade tensions and protectionism that existed before the COVID-19 pandemic were accelerated for certain countries during the pandemic. On the bright side, there were also breakthroughs, such as the RCEP. This new agreement included tariff elimination for a wide range of products. It also established common rules for e-commerce, trade and intellectual property. The EU-China Comprehensive Agreement on Investment is another notable breakthrough that will encourage cross-border investment between the two regions. Senior executives believe that they will need to continue to navigate such challenging environments as they develop their corporate strategy in Asia-Pacific.

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



Asia-Pacific companies put climate change higher on their radar as risks continue to rise

Asia-Pacific respondents express concern about how climate change, which ranked as the top external risk after the COVID-19 pandemic, could impact the growth of their business. The region's large population and the frequency of natural disasters have elevated climate change as a priority in the corporate's decision-making. This is particularly the case for Australia, where the country has been battling bushfires over several years. Australian companies now see climate change as the greatest external risk to their business.

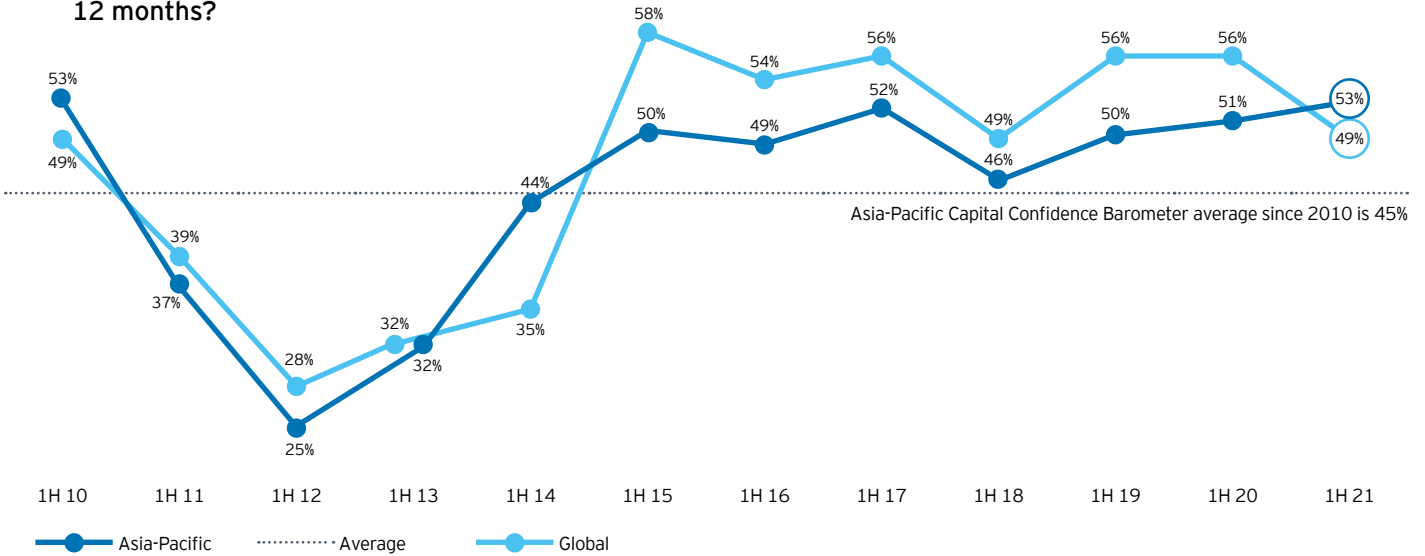
In response, policymakers in the region are taking steps to lower carbon emissions. China is one of the leading countries in solar power, wind power and electric vehicle deployment. Various countries in Asia-Pacific are aiming to reduce their greenhouse gas emissions by double digits under international climate agreements.

Tackling climate change is no longer regarded solely as a matter of corporate social responsibility. It impacts a company's financial performance, stakeholder expectations and business competitiveness.

Asia-Pacific executives have a robust appetite for M&A

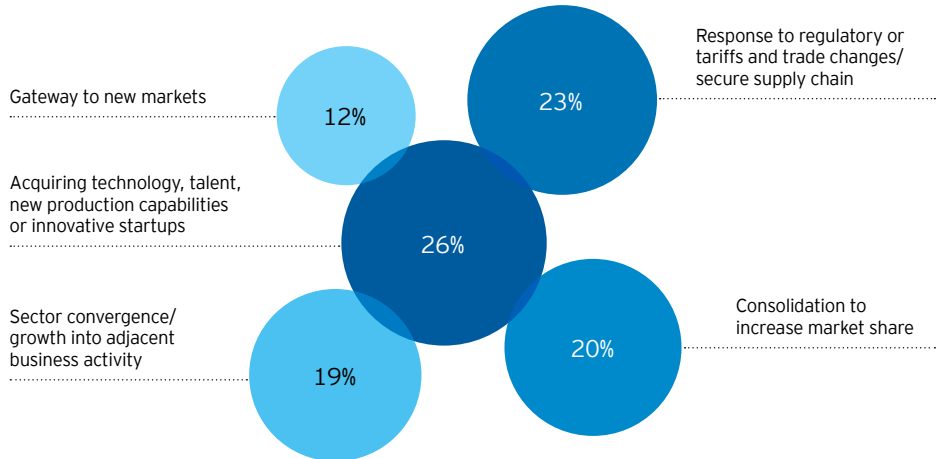
Despite the risks and uncertainty, Asia-Pacific companies express an eagerness for M&A, with 53% of respondents saying that they are actively planning to pursue acquisitions in the next 12 months. M&A appetite in Asia-Pacific has improved from the last edition and is higher than the Asia-Pacific average of 45% since 2010.

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



Key drivers for M&A activity include acquiring technology and innovative solutions, and responding to regulatory changes to secure supply chains.

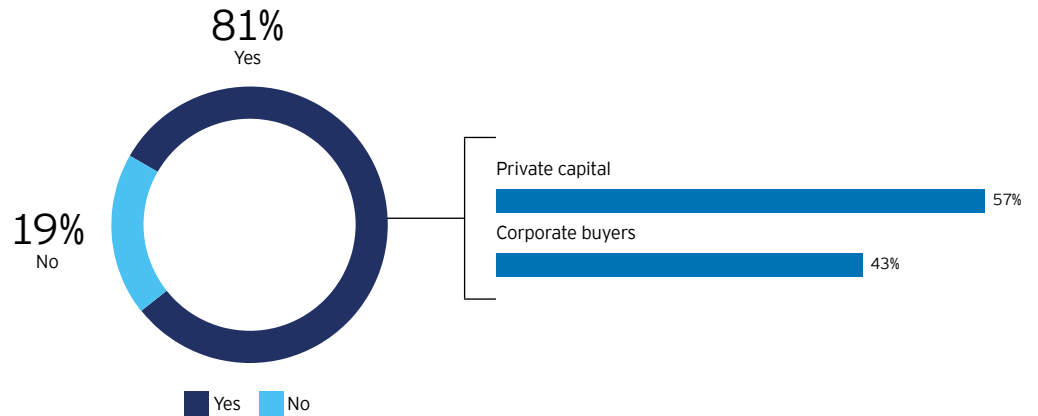
Q What are the main strategic drivers for pursuing acquisitions?



M&A outlook: dealing with the future

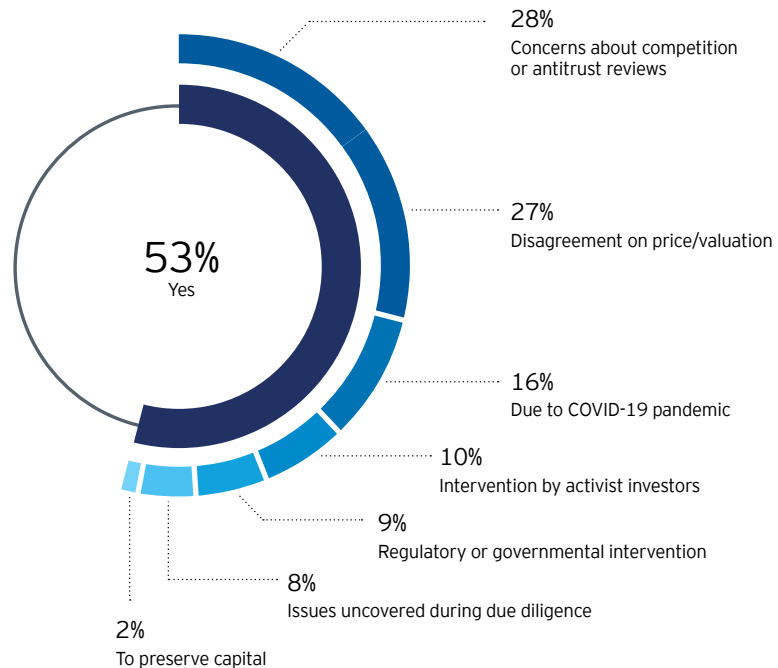
Private equity (PE) funds are also looking to increase their investment in Asia-Pacific. More than 4 in 5 Asia-Pacific respondents indicate that they expect increasing competition for assets in the coming year, with 57% saying they'll be competing against PE firms.

Q Do you expect to see increasing competition for assets in the next 12 months and, if so, from where?



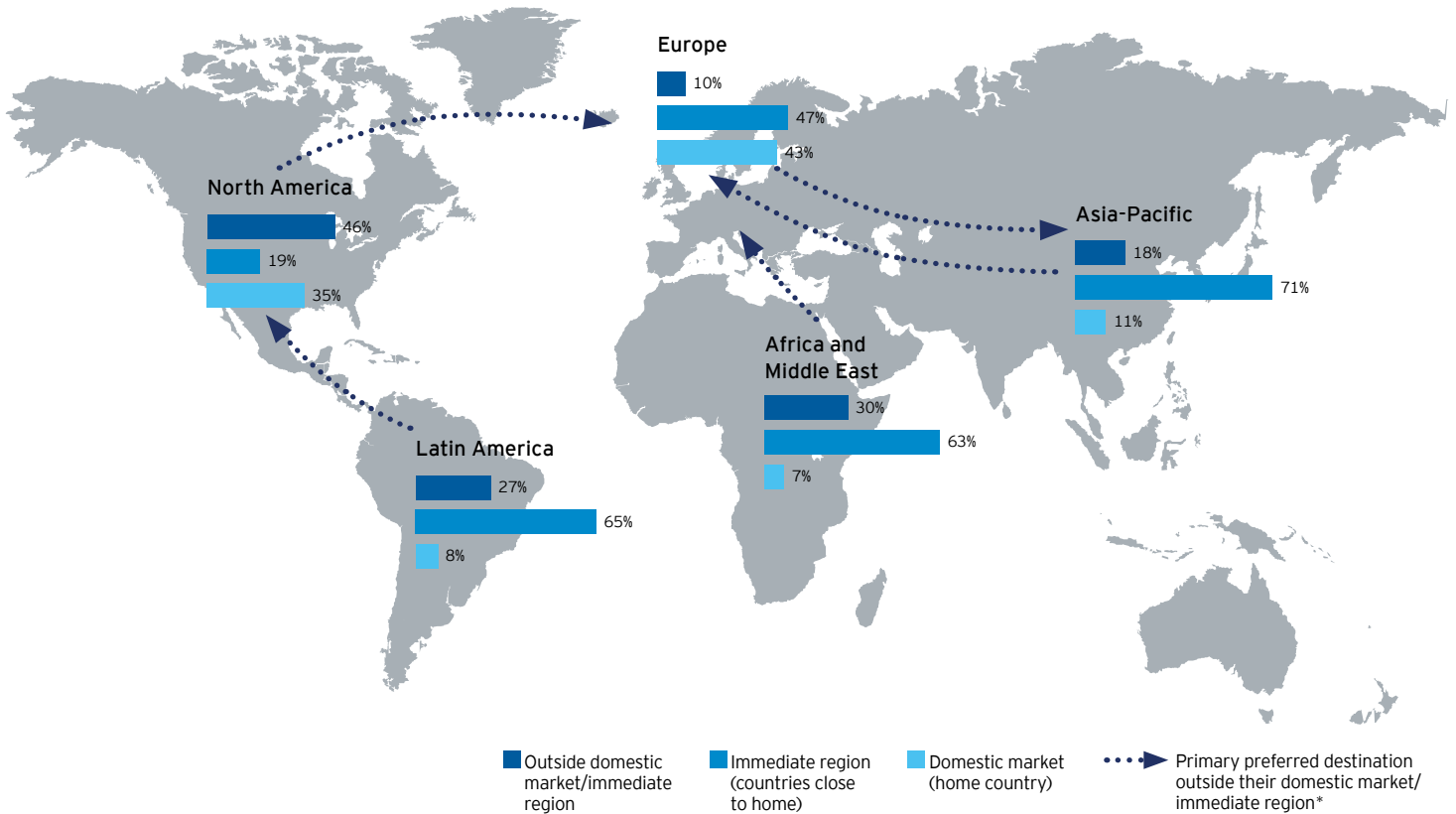
Concerns about competition or antitrust reviews and valuation were key reasons for deal termination in 2020, as 53% of Asia-Pacific respondents indicate that their company failed to complete or cancel a planned acquisition in the last 12 months. Interestingly, this percentage is lower than the response of 64% to the same question in the last edition.

Q Have you either failed to complete or canceled a planned acquisition in the past 12 months and, if so, what was the primary reason?



Eighty-nine percent of senior executives indicate they will be looking for cross-border acquisitions in the next 12 months. The enthusiasm for cross-border M&A is particularly strong for Japan and countries in Southeast Asia. Top investment destinations vary by country. However, 71% say they are planning to invest within the region, with India, Singapore, Japan, China and Thailand as the top five investment destinations.

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

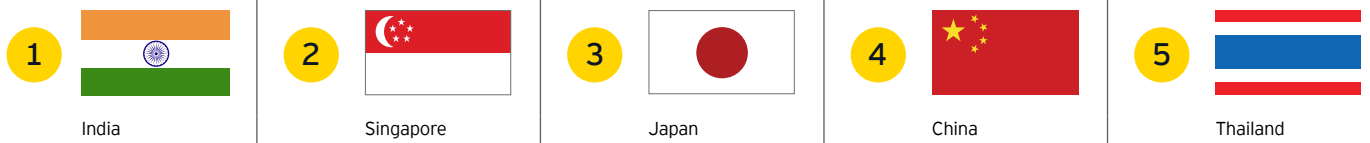


*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region.

Regional trade agreements help build familiarity and improve confidence for dealmaking. The RCEP is expected to accelerate dealmaking with neighboring countries. It will also further enhance supply chain integration in Asia-Pacific – something senior executives cite as one of their top strategic drivers for pursuing M&A.

Globalization and investment flows – how have these changed?

Top five investment destinations (includes both domestic and cross-border M&A)



Senior executives acknowledge they face challenges as they fast-track transformation post-COVID-19

The COVID-19 pandemic has turbo-charged plans for transformation as companies reimagine their competitiveness in a post-pandemic landscape. Asia-Pacific companies' appetite for M&A also provides a clear indication that they see transactions as a key lever to business transformation.

Eighty-five percent of Asia-Pacific respondents say their organizations are undergoing a significant business and technology transformation. While nearly half (49%) of Asia-Pacific respondents believe their digital transformation programs have overperformed relative to their competitors during the COVID-19 pandemic, 20% acknowledge that they have underperformed.

10 key takeaways that help define M&A success in today's deal economy

Reframing your future for the post-pandemic world

Planning for success beyond the COVID-19 pandemic should be built around key insights showcased in this *Barometer*. Disruptive forces won't fade with the pandemic. Asia-Pacific executives should focus on a number of key considerations today that could enable a better future.

- 1 Make your strategy fit for the post-pandemic real world – smart thinking that can be implemented in practice, not just theory.
- 2 Don't focus on just the now – make decisions focused on creating long-term value – human, financial, societal and consumer.
- 3 Understand your future consumer and what's important to them.
- 4 Look after your talent; otherwise, someone else will.
- 5 Ensure you fully understand your return on investment, especially with digital and technology.
- 6 Make bold moves – act fast to take advantage of opportunities.
- 7 Ensure you have the capital required to fund your reshaped strategy.
- 8 Be clear about your corporate purpose and how to communicate to stakeholders, employees and society.
- 9 Build-out your ecosystems beyond the usual suspects – consider cooperation with competitors.
- 10 Don't sit on the M&A sideline – active acquirers may outperform.

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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.

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 organization 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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