

# Colombia highlights

## Global Capital Confidence Barometer



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A note from Andres Gavenda, Managing Partner, Strategy and Transactions, Ernst & Young S.A.S.

## Colombians focus on M&A for business resilience and digital transformation

In 2020, Colombian businesses experienced declines in revenue and profitability. The COVID-19 pandemic brought on a 6.8% decline in GDP that reversed strong investment and consumption in 2019.

However, Colombian executives expect these setbacks to be temporary, according to the latest *EY Global Capital Confidence Barometer*. Half (50%) of executives anticipate revenues to return to pre-pandemic levels by 2022 or sooner, and 48% expect profitability to return within the same time frame. These same leaders overwhelmingly expect new entrants to influence their ecosystem, and that a successful ecosystem-driven transformation will require some divestment of nonperforming assets.

### **The pandemic and digital transformation drive strategic considerations**

The pandemic's economic shock spurred 83% of executives to conduct a comprehensive strategy and portfolio review in 2020. It also put technology at the forefront of Colombian corporate leaders' thinking, with 77% responding that their strategic focus and investment are on digital transformation. Another 62% say their increased focus is on a flexible cost base; and 58%, on innovation of new products and services. To create new ecosystem solutions, 88% are open to partnering with the competition. Overall, 82% say their company is currently undergoing a significant business and technology transformation program mostly due to the impact of COVID-19, and to reduce cost and improve operating efficiency.

### **M&A strategy focuses on technology and innovation**

Given the negative impact the pandemic has had on the Colombian economy across all industries, it is of little surprise that interest in M&A declined since our previous survey. Of the 35% of executives in Colombia (vs. 49% globally) who say they plan to actively pursue M&A in the next 12 months, more than half will be looking for bolt-on acquisitions. Strategic drivers include acquiring technology, talent and innovation, and consolidating market share.

Among Colombian executives focused on deals, half say they will be looking for targets in Colombia, and half, cross-border, with top destinations in the region including Argentina, Brazil and Peru. Half of companies in the automotive, health care, natural resources and oil and gas sectors intend to actively pursue acquisitions in the next year, and 75% of those in the consumer sector expect to be active.

### **Colombian companies seek to build resilience in response to ongoing uncertainty**

Although Colombian executives appear relatively optimistic about a rebound within the next two years, general elections in 2022, a mounting fiscal deficit and the possibility of tax reform could prove disruptive for businesses and the economy.

Through disciplined portfolio reviews, and by focusing investments on digital transformation and technology, Colombian companies can build resilience and agility to resume their growth trajectory despite uncertainty ahead.

50%

expect to see revenue return to pre-pandemic levels in 2022.

83%

say the pandemic has accelerated strategic portfolio reviews and another 15% will divest underperforming assets/products to improve profits.

88%

anticipate Latin America will generate the most growth and opportunities over other regions in the next three years.

77%

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

35%

expect to pursue M&A in the next year.

88%

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

30%

believe their company outperformed the competition during the pandemic relative to their digital transformation.

82%

say their company is currently undergoing a significant business and technology transformation program.

100%

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

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