

# 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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A note from Olivier Hache, EY Latin America North Strategy and Transactions Managing Partner

## Geopolitical issues delay investment and M&A intentions in Mexico

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The COVID-19 pandemic has had a significant negative impact on Mexico's economy – something that is reflected in the results of the latest *EY Global Capital Confidence Barometer*. Although four-fifths (81%) of Mexican executives say they performed the same or better relative to their competitors during the pandemic in terms of operational stability, approximately two-thirds say they expect it will take until 2022 and beyond for revenues and profits to return to pre-pandemic levels.

In an effort to build resilience into their businesses, almost every Mexican executive surveyed (97%) says that their company conducted a comprehensive strategic and portfolio review in 2020. In fact, 87% acknowledge that they accelerated this assessment in direct response to the pandemic.

Mexican companies are predominantly looking at ways to manage the longer-term impact of the pandemic on their business and sector. Strategic considerations also include assessing opportunities for investment to boost technology and digital capabilities. Specifically, Mexican companies are looking to accelerate the digitization of the customer journey, and to attract and retain new customers.

### Digital transformation propels strategic decision-making

In response to the pandemic crisis, an overwhelming majority (89%) say that their company is undertaking a significant business and technology transformation program. Although 32% say they believe their digital transformation program overperformed during the pandemic relative to their competitors, 27% admit their program underperformed.

In elevating investment in digital transformation, technology and digital capabilities, Mexican executives indicate that their priorities are to drive revenue growth and create a more scalable operating model.

However, Mexican companies face headwinds in their digital transformation efforts, and strategic initiatives more broadly, with Mexican executives indicating that their biggest internal challenges include a culture of inertia and the tension between the need to transform vs. the predictability of current operations.

Prior to the pandemic, Mexican companies were slower to adopt digital technologies than global companies because consumer adoption rates were lower than other parts of the world. Access to digital technologies remains an issue. However, the pandemic has made clear that the fastest route to competitive advantage is through digital transformation and the accelerated adoption of digital tools and technology.

### M&A appetite wanes as Mexican companies wait for more certainty across the geopolitical landscape

Given the emphasis on digital transformation, it is unsurprising that digital strategy and technology alignment are also top drivers of M&A strategy. Overall, however, M&A intentions among Mexican executives are significantly lower than their global peers, with 37% of Mexican executives expecting their company to pursue M&A in the next 12 months. That compares with 47% of global executives and is below the 10-year 52% average for Mexican executives. Further, 63% of Mexican executives anticipate a slowdown in M&A activity over the coming year. In part, Mexican companies may be taking a wait-and-see approach in the lead-up to Mexico's midterm elections later in 2021.

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Geopolitical challenges may also be playing a role in M&A activity, with 79% of Mexican respondents saying they have held back or deterred planned investment until they have a clearer picture of the geopolitical landscape.

Lower M&A intentions within Mexico create opportunities for international investors looking to enter Mexican markets. Although new regulatory policies may limit investment in utilities, markets across most sectors in Mexico are ripe for foreign investment.

Mexican companies anticipate growth and opportunities over the next three years closer to home (77%), with four of the top five investment destinations being in Latin America.

## Mexican companies build resilience in an uncertain world

Although the COVID-19 pandemic arguably has created the greatest disruption for companies over the past year, disruptive forces will continue to challenge businesses and economies long after the pandemic has faded.

Through their strategy and portfolio reviews, and in ramping up investment in digital transformation, technology and digital capabilities, Mexican companies can build resilience and agility to compete in an uncertain world.

### Mexico's key highlights

**45%**

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

**87%**

say the pandemic has accelerated strategic portfolio reviews – and another 22% will divest underperforming assets/products to improve profits.

**77%**

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

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**76%**

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

**37%**

expect to pursue M&A in the next year.

**96%**

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

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**81%**

say they performed the same or better relative to their competitors during the pandemic in terms of operational stability.

**89%**

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

**92%**

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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EYG no. 002061-21GbI

2010-3604725

ED 0126

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