

Peru highlights

Global Capital Confidence Barometer



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A note from Enrique Oliveros, Lead Partner, Strategy and Transactions and Corporate Finance, Ernst & Young Asesores Empresariales S. Civil de R.L.

Peruvian executives look to M&A for technology and talent

The human and financial toll of the COVID-19 pandemic pushed 95% of Peruvian companies to undertake a comprehensive strategic and portfolio review in 2020 that, for most, was unplanned.

This was a profound response from Peruvian executives who participated to the latest edition of the *EY Global Capital Confidence Barometer*.

The backdrop in Peru was dire. Peruvians experienced one of the strictest lockdowns in the world, and the 17% decline in Peru's GDP during the first half of 2020 was the largest in Latin America. Executives' top three strategic considerations in their portfolio reviews were managing the long-term impact of the pandemic, identifying areas for technology investment and zeroing in on potential areas of inorganic growth. These reviews could be paying off: Peru's economy has been the fastest to rebound in the region, and the International Monetary Fund (IMF) forecasts GDP growth of 8.5% for the country in 2021.

In addition to the negative impact of the global pandemic, political turmoil and social unrest were a constant in 2020 for Peru – and that could extend through 2021 with a presidential election in April and possible runoff election in June.

Stringent pandemic response: sharp decline, mighty rebound

Nearly half of Peruvian executives believe their company's financial performance was worse than that of their peers.

But Peruvian executives remain relatively positive about their ability to rebound from a year of disruption; a majority (61%) expect to see revenues return to pre-pandemic levels by 2022 or earlier. Nearly half (47%) expect a return to profitability by 2022 or sooner, while another 39% anticipate pre-pandemic profits will return in 2023.

Pandemic puts digital transformation on the fast track

Prior to the pandemic, Peruvian companies had increasingly launched online offerings as buyers shopped online for their convenience. Low internet penetration slowed their progress.

But Peru experienced an unprecedented acceleration in online purchases during the pandemic. Peruvian companies, in turn, had to significantly accelerate digital transformation efforts to meet increased online demand. Companies with three-year digitization plans had to shorten their time frame to months or weeks. They remained hampered, however, by immature software and insufficient infrastructure (telecommunications and internet) across the country to operate a digital ecosystem.

Peruvian executives say they are increasing strategic investment in digital transformation (76%), while also identifying, evaluating and responding to emerging risks in real time (66%) and innovating new products and services (58%). They also recognize that accelerating the digitization of customer journeys and business processes, and attracting and retaining customers are at the heart of their growth ambitions and improved profit margins.

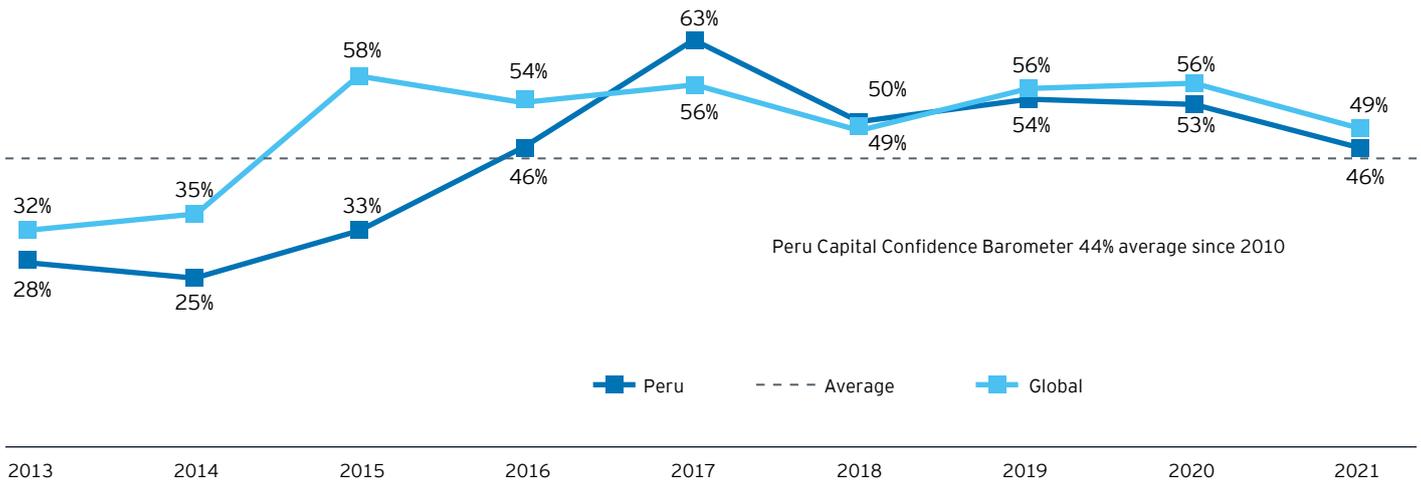
Bolt-on acquisitions dominate M&A activity

Acquiring technology, talent, new production capabilities and innovative startups is driving M&A interest.

Although the appetite for M&A diminished from the previous survey in 2020, nearly half (46%) of Peruvian executives intend to pursue M&A in the next 12 months. Three-quarters (74%) of executives say they will be looking for bolt-on acquisitions. In addition to technology and innovation, Peruvian companies are looking for assets that will help them secure supply chains and increase market share.

While one-third (32%) say they will look for cross-border M&A opportunities, the majority of Peruvian companies plan to stick closer to home, with Brazil, Argentina, Peru and Colombia as top investment destinations. Overall, 84% of Peruvian executives expect Latin America will generate the greatest growth opportunities for their company over the next three years.

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



Peruvian executives remain optimistic and prepare for a brighter future ahead

With another potential lockdown on the horizon, and politicized vaccine distribution, 41% of Peruvian executives understandably believe the COVID-19 pandemic remains the greatest risk to the growth of their businesses.

Yet, Peruvian executives remain cautiously optimistic about the future. As they await the outcome of the election in April 2021, they continue to build resilience and prepare to seize new growth opportunities.

Peru's key findings

61%

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

90%

say the pandemic has accelerated strategic portfolio reviews – and another 23% will divest underperforming assets/products to improve profits.

84%

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

76%

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

46%

expect to pursue M&A in the next year.

92%

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.

29%

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

85%

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

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