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Central, Eastern and Southeastern Europe and Central Asia (CESA) highlights

Global Capital Confidence Barometer

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38%

of CESA executives say that they expect to pursue M&A in the next 12 months.

85%

of CESA executives see the M&A market improving in the coming year (vs. 47% in October 2017).

75%

of CESA executives are reviewing their portfolios every six months or more.

69%

of CESA companies have identified assets to divest.

A note from Ronald Attard, EY Central, Eastern and Southeastern Europe and Central Asia (CESA) Transaction Advisory Services Leader

Although some CESA countries are pressing pause on M&A, strong sentiment for improved dealmaking remains across the region

After a sustained period of elevated M&A activity across the CESA region over the last several years, CESA countries appear to be taking a breath amid ongoing regulatory and geopolitical uncertainty. However, they remain optimistic about the future of M&A in their region, according to the results of the latest *Capital Confidence Barometer*.

Down from the year before when deal intentions hovered above 50%, but similar to our survey results six months ago, 38% of CESA executives say that they expect to pursue M&A in the next 12 months.

Overall, we see this reduction in appetite for M&A as more of a pause than a full stop, as sentiment toward M&A in CESA remains strong, with 85% of executives seeing the M&A market improving in the coming year (vs. 47% in October 2017). This outlook was most positive in the Czech Republic, where 90% of respondents expect an improvement.

Similarly, even though CESA companies may not be pulling the trigger on deals in the next 12 months, they are making sure their pipelines are full.

Portfolio reviews identify opportunities for both divestitures and acquisitions across CESA

We also see that CESA companies are taking this opportunity to reshape their portfolios and refuel themselves for the next round of buy-side activity.

Given ongoing geopolitical uncertainties, changing consumer preferences and a host of other disruptive forces, three-quarters of CESA executives are reviewing their portfolios every six months or more. This percentage rises to 81% in the Czech Republic. These reviews help them to understand the potential for policy changes that may disrupt their businesses and improve their agility to respond to changing conditions as they arise.

As a result of their most recent portfolio review, 69% of CESA companies have identified assets to divest, either because they are underperforming (41%) or because they are at risk of disruption (27%). In the Czech Republic, executives ranked the need to make acquisitions as equally or more important than divesting to address disruption. In Greece, 24% indicated that they didn't take any action based on the outcome of their portfolio review.

CESA highlights

50%

of CESA companies that undertook transactions in the last 12 months have failed to reach their synergy targets.

44%

of CESA executives say they are starting integration earlier to increase the odds of capturing the synergies necessary to justify transaction costs.

74%

of CESA executives see an upside in the global economy.

CESA companies look to start integration earlier and set more aggressive synergy targets to capture more value from their acquisitions

For those CESA companies that did make deals in the last 12 months, half say that they failed to reach their synergy targets. Organizations today understand that identifying and realizing synergies are at the heart of M&A value creation. As a result, 44% of CESA executives say that they are starting integration earlier in the journey to increase the odds of capturing the synergies necessary to justify the costs of the transaction. This number rises to 60% in Russia. In Turkey, Greece and the Czech Republic, executives appear to favor setting more aggressive synergy targets as their preferred means of capturing value, perhaps in recognition that those that set a higher bar for transformation objectives are more likely to meet or exceed their expectations.

Positive economic sentiment suggests a positive future for M&A in CESA

As we look ahead to 2019, CESA companies forging ahead with M&A activity rather than pressing pause expect protectionism and other trade policies to hamper cross-border dealmaking, even as one-fifth of respondents say they are focusing on cross-border opportunities to mitigate the potential impact to their operations. CESA executives also anticipate an increase in cross-sector M&A to address digital disruption. These trends, combined with increasing pressure from private equity, venture capital and other funds, will likely increase competition for assets in the next 12 months.

Overall, current macroeconomic conditions create a positive atmosphere for future dealmaking in the CESA region. Executives across all CESA countries see an upside in the global economy, with sentiment increasing by nine percentage points over the last six months. Locally, although economic sentiment has not reached the levels of the global outlook, two-thirds of CESA executives see economic conditions improving.

As such, even as uncertainties prevail, CESA companies appear poised to adjust their portfolios and search for acquisitions that allow them to grow their businesses to compete in an increasingly complex environment.

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