

Global Capital Confidence Barometer

How do you find clarity in the midst of a crisis?

Addressing the “now” is critical, but
anticipating the “next” and “beyond”
is the optimal response to COVID-19.



The better the question. The better the answer.
The better the world works.



Building a better
working world

73%

expect the COVID-19 outbreak to have a severe impact on the global economy

Executives have had to reassess their outlook for growth ...

52%

are taking steps to change their supply chains

... and are having to reconfigure operations as a response to COVID-19 **now**.

49%

have profit margins the same or lower than two years ago

At a time when margins and cash flows were already pressured ...

72%

are undergoing a significant transformation program

... the C-suite still has ambitious transformation plans, with some of them on hold as execs anticipate what's **next**.

72%

are conducting more frequent strategic and portfolio reviews

When the situation becomes clearer, they will likely make faster moves than ever before to reimagine, reshape and reinvent their business.

56%

are actively planning to pursue acquisitions in the next 12 months

And despite boardrooms focusing on an unprecedented global health emergency, executives are also planning their future **beyond** the crisis.

Contents

2 Addressing now – the COVID-19 crisis

5 What's next? Managing the impact and planning for recovery

6 Spotlight: enabling corporates to navigate 'next'

8 Spotlight: what's next? Redefining strategy

10 Beyond the crisis – transformation through M&A

13 Key takeaways



Responding with urgency now, preparing for next and then thinking beyond

Hundreds of millions of people in lockdown. Production plants idle. Borders closed. Planes grounded and airports empty. The impact of COVID-19 globally has been unprecedented. And the human cost is, of course, the most terrible aspect of this crisis – not only in term of lives tragically lost but also the number of livelihoods at risk.

Workforce welfare and jobs preservation will be top of C-suite minds in the midst of this crisis as executives urgently address what needs to be managed **now**. Dealing with the daily difficulties is the paramount consideration for all – from employees to wider stakeholder groups.

COVID-19 has created new vulnerabilities and unforeseen challenges. The full impact of revenue and profitability across value chain is still highly uncertain. There is no playbook for this situation and the C-suite is reconfiguring and readjusting in real time as events rapidly evolve.

But, as with governments in this crisis, executives will not be wholly reactive. They also have to plan ahead and anticipate what's **next**.

For many companies, major transformation initiatives were already underway. These may be paused or slowed because of the current situation. But they will restart eventually – and most likely with added emphasis and urgency.

Companies had already been increasing the frequency, quality and outcomes of their strategy and portfolio reviews. That will continue, as will the use of more data to understand rapid market changes and the evolving competitive landscape. They will also rebalance their portfolio of assets more frequently through acquisitions and disposals.

This is thinking **beyond** the crisis and downturn that needs to be activated at the right time.

Before the crisis hit, more than half of companies were intending to pursue acquisitions to boost growth opportunities. A number of these deals will still happen – but others will be delayed.

However, lessons learned from the 2008-12 M&A downturn show that it was an opportunity to make acquisitions of high-quality assets that would have fueled faster growth in a recovering market.

So, while focusing on the immediate implications of COVID-19 now is the No. 1 priority, executives also have to plan for next and think beyond.

Steve Krouskos
EY Global Vice Chair
Strategy and Transactions

See page 13 for the key takeaways that help define M&A success in today's deal economy.

Addressing now – the COVID-19 crisis

Companies and executives are faced with a changed reality “now.”

The global COVID-19 pandemic has created a shock of seismic proportions with unprecedented human, social and economic impact. There was a clear shift in business sentiment in the middle of February. Prior to that, outside of Asia-Pacific, the clear majority of respondents felt confident about the global economic outlook. Equity markets hit all-time highs, reflecting this positivity.

Everything has changed. Our survey started on 5 February and early responses were highly optimistic – but the outlook darkened considerably after the S&P breached its record on 19 February. And we can see this schism clearly in the responses about growth. For the vast majority of companies, dealing with what is happening now is their only concern.

Q What is your perspective on the global economic growth today?

Before



After



■ Positive ■ Stable ■ Negative

Three-quarters of executives surveyed expect COVID-19 to have a severe impact on global growth. Zero respondents anticipate no impact.

Q What's your assessment about the impact of COVID-19 (coronavirus) to the global economy?



■ Severe impact ■ Minor impact

Past downturns and crises have not prepared companies for this international health emergency. Many major economies are facing unprecedented shutdowns in day-to-day economic activity. There are not yet models available to confidently predict the eventual outcome of this situation.

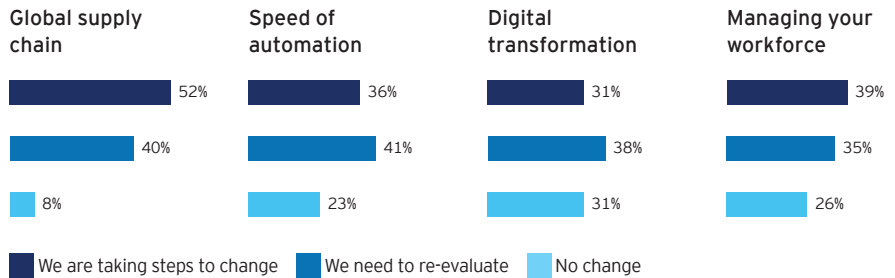
This latest crisis appears to combine elements of previous downturns. There is massive operational disruption – including difficulty in sourcing components and a drop in economic activity. This is creating major margin pressure. A significant part of the global economy has shut down – as evidenced by planes parked at stands in empty airports. As a result, there is massive government intervention in an attempt to stabilize the situation.

The full extent of the impact on the global economy remains unclear, but all respondents agree that at least in the near-term, COVID-19 will have a negative impact on global growth in the form of supply chain disruption, as well as declining consumption.

Executives look to re-evaluate their operating models in response to the emerging crisis.

The sudden and unexpected nature of COVID-19 has compelled executives to re-evaluate operating models. While building agility and resilience have been dominant themes for much of the past decade, the unique nature of the current situation has left many companies unprepared. The total shutdown of activity in parts of China – and increasingly in others part of the world – has exposed vulnerabilities in many companies’ supply chains, with more than half (52%) taking active steps to reconfigure and 40% looking to re-evaluate their current arrangements. More than a third (36%) are accelerating their investments in automation.

Q How would the coronavirus event affect your decision on your:

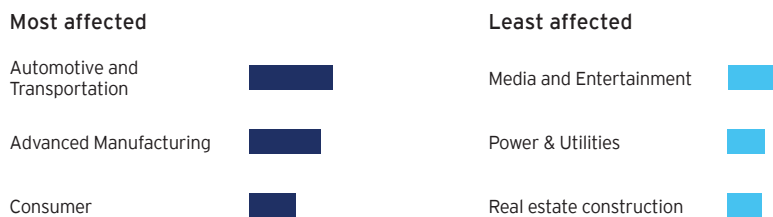


There will be no “winners” in this crisis, but some sectors look set to be hit dramatically worse than others.

Most businesses are likely to experience significant ongoing disruption to their business-as-usual operations and will face underperformance throughout the duration of the COVID-19 crisis. The ability of companies to respond to black swan events of this nature is being examined in real time. As well as supply chain and production disruption, there are shifts in consumer behavior impacting several sectors, such as Automotive and Transportation, Manufacturing and Consumer.

But as consumers change their behavior in response to perceived health threats or government direction, some sectors will be impacted differently. Media, Telecommunications & Technology companies operating in a more virtual environment could see an upturn in demand.

Q Which sectors do you see the coronavirus event most affecting or least affecting?



Pressured margins to be pushed down more as the economy slows.

Companies around the world are still coming to terms with the impact that COVID-19 is having on their business. But even before the current situation emerged, many companies were experiencing pressures on profit margins.

Q How significantly will the coronavirus outbreak impact your profitability and margins?

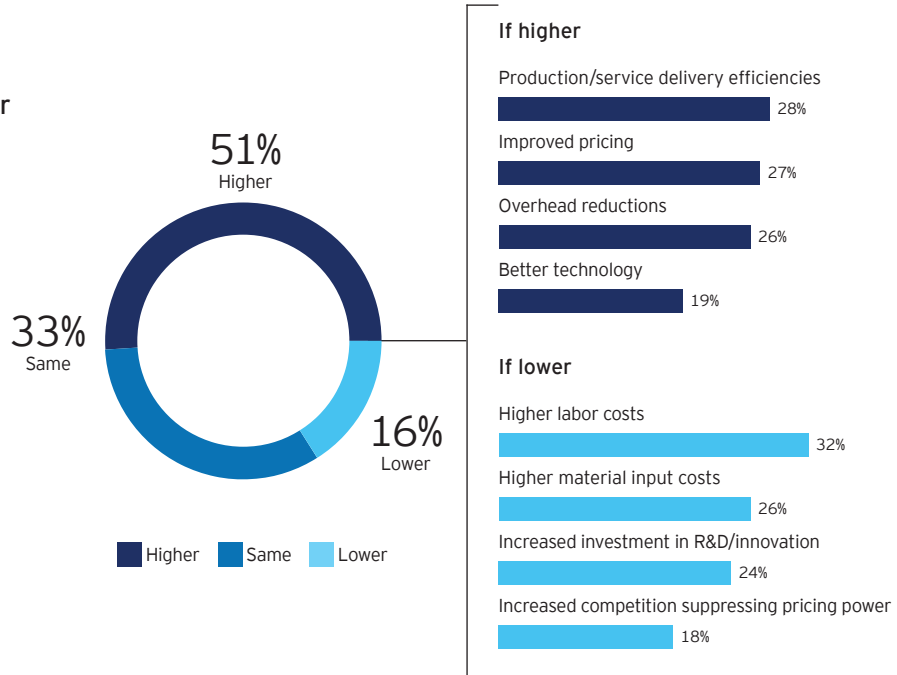


Declining profitability will impact cash flows. An ability to generate the capital to be reinvested in the next generation of products and services is a critical component of success in the mid- to long-term.

The likely impact of any deeper slowdown will be felt most keenly in sectors that were already under immense pressure to remain sufficiently profitable to invest in future growth.

Although the risks are considerable, the crisis also presents opportunities for companies to build resilience and reshape results.

Q Is your company's profit margin (defined as recurring operating earnings) higher or lower than 2 years ago?



What's next? Managing the impact and planning for recovery

The timing and shape of the recovery is uncertain, but it will be next on the C-suite agenda.

While executives are necessarily dealing with the immediate impact of the crisis, they still need to consider when and how the economy is likely to recover.

Most previous pandemics have resulted in a V-shaped recovery, with activity picking up strongly once the initial wave of illness is resolved. That is the current assumption being used by just over a third of respondents in their strategic planning. This would see activity accelerating in late 2020.

More than half of respondents expect a U-shaped recovery, with the aftereffects of the initial impact lingering for longer. Activity would not reach normal levels until 2021. Only a small minority currently expect the impact of COVID-19 to last longer, assuming an L-shape recovery. This would result in an extended period of suppressed economic activity. There would be no pickup until 2022 at the earliest. It is the most damaging environment for companies looking to invest to spur above-trend growth.

With the majority of companies assuming a V- or U-shaped recovery, it is easier for executives to start thinking about what's next.

Q What economic scenario is your company currently operating under?



Transformation in a recovery

Companies will restart their transformation plans after the immediate crisis is over.

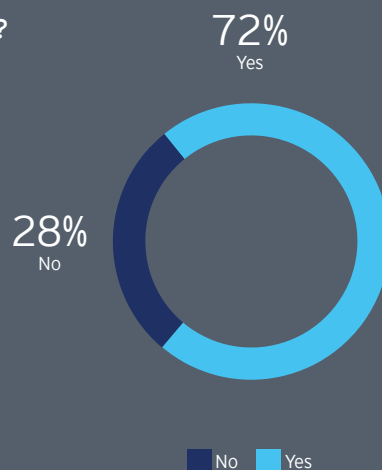
Pre-crisis, transformation was high on the corporate agenda. These plans have been paused for many companies. But they will restart, possibly with added energy, once the situation stabilizes.

The case for change is never stronger than when adapting to a crisis – and in many ways the unwelcome and unexpected emergence of COVID-19 will further cement transformational strategies in the boardroom.

Managing through the downturn requires operational focus to preserve revenues. Planning for recovery will see greater focus on raising profitability and attracting and retaining customers.

Transformation requires a shift in strategy. But that strategy itself should always encompass an ability to transform. Agility, flexibility and resilience today are the foundations of success tomorrow.

Q Is your company currently undergoing a significant business and technology transformation program?



If yes, what are the main triggers for your transformation?



Accelerating strategic and portfolio reviews will underpin the journey into “next”

Q

Is there a difference in your current strategy review process compared with three years ago?

At some point, executives will move from crisis mode to refocusing on strategic and portfolio reviews to plan for the future.

Companies have acclimatized to operate in a world that is changing at a faster pace than ever before. Once some sense of normality resumes, businesses will readdress more conventional challenges: Products and services coming to market faster. Startups challenging business models across all industries. Regulatory regimes evolving and changing the rules of the game. The need for companies to reimagine, reshape and reinvent their future business fundamentals will once again be top of the agenda.

Most respondents still recognize the need for more frequent portfolio and strategic reviews.



Portfolio reviews should underpin the capital allocation process. They should also identify assets that are at risk of disruption or that face future growth challenges that may make them better off owned by another company or private equity fund.

Overall business strategy is set by the CEO and the board. This top-down view can sometimes conflict with a bottom-up review process, especially with regard to assessing synergies and the value of business units as stand-alone entities or potential divestitures. The cause is often business unit management bias, which, while understandable, does provide a barrier to the holistic view of the whole business that the review process should yield.

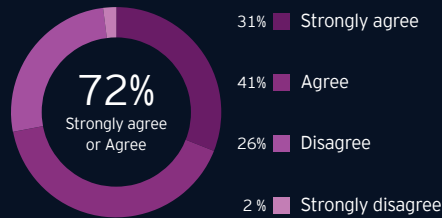
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Once some sense of normality is resumed, business will readdress more conventional challenges.

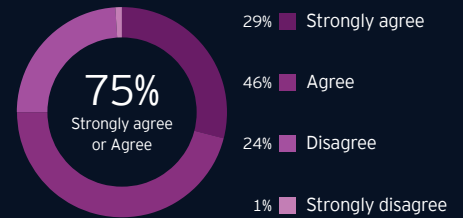
Q If yes, what is the biggest difference?

▶ An always-on strategic and portfolio review process will allow companies to identify areas of growth at the earliest opportunity and surface areas of underperformance sooner. This will also enable them to prepare to divest and reinvest should the need arise. Divesting stressed/distressed assets is a typical trend during a crisis and recovery that we should also expect post-COVID-19.

The increasing pace of change in the market is precipitating more frequent strategic reviews

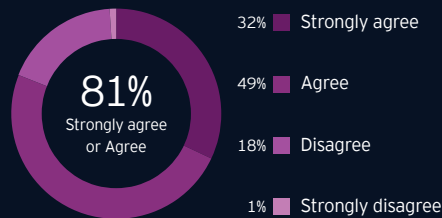


More continual rebalancing of our business portfolio

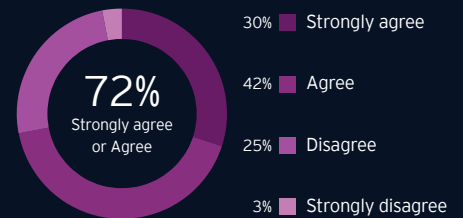


▶ Many companies have been finding that yesterday's competitors are no longer the primary threat to their future growth plans. Obviously, nobody foresaw the current international health crisis, but understanding evolving industry ecosystems, and spotting emerging challenges earlier, will enable companies to protect current operations through investment. They will also be able to identify areas of immediate concern and to acquire potential rising champions at their inception.

Utilize more customer data

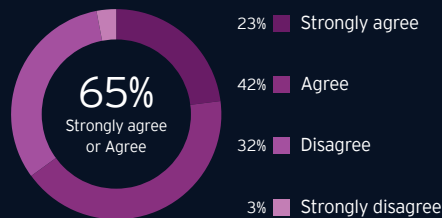


Use more and better market data to anticipate future trends

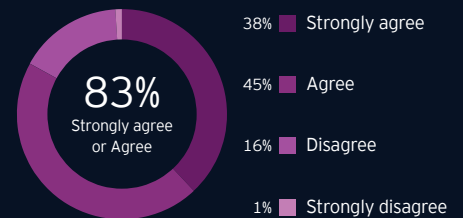


▶ Effective portfolio reviews always require good data. Companies need to combine their own proprietary internal data with the highest-quality external assessments of their market to surface unique insights. And they need the tools and technologies to consider future scenarios for individual business units as well as at the portfolio level.

Focus more heavily on current and potential disrupters – startup and nontraditional competitors as well as traditional competitors

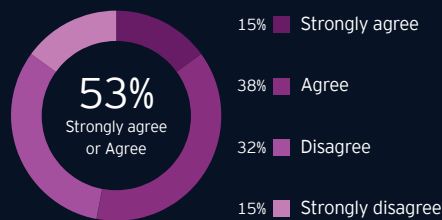


Better benchmark operational performance of competitors

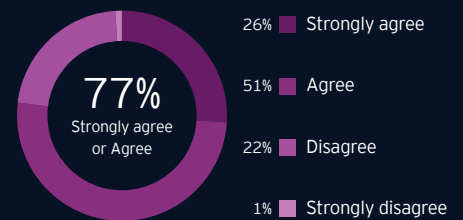


▶ With faster change, predicting the future becomes inherently more difficult. A scenario-based approach can identify potential opportunities so management can start planning for them today. With greater uncertainty about potential evolution of markets, companies need to bring all parts of their workforce into the review process. This will help companies challenge internal assumptions and explore fundamental questions about the future of the business.

It is more difficult to predict future market/product/service trends and operational costs



Greater focus on capital structures, efficiency and funding models



Companies will move to reassess, reimagine and reinvent their business

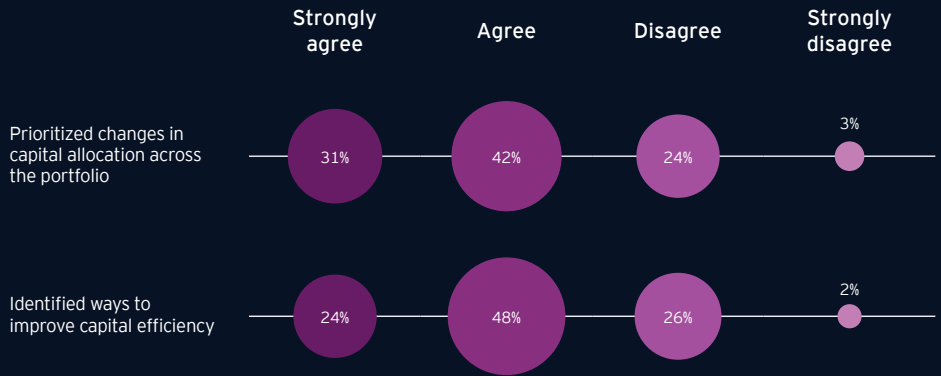
Q How are the outcomes or actions resulting from your strategy review process different from three years ago?



Coming out of a global crisis such as COVID-19, a more frequent and robust strategy and portfolio review process only has value if the results are acted upon.

Looking to the post-crisis future, executives will prioritize both changes in capital allocation and measuring returns and capital efficiency more effectively.

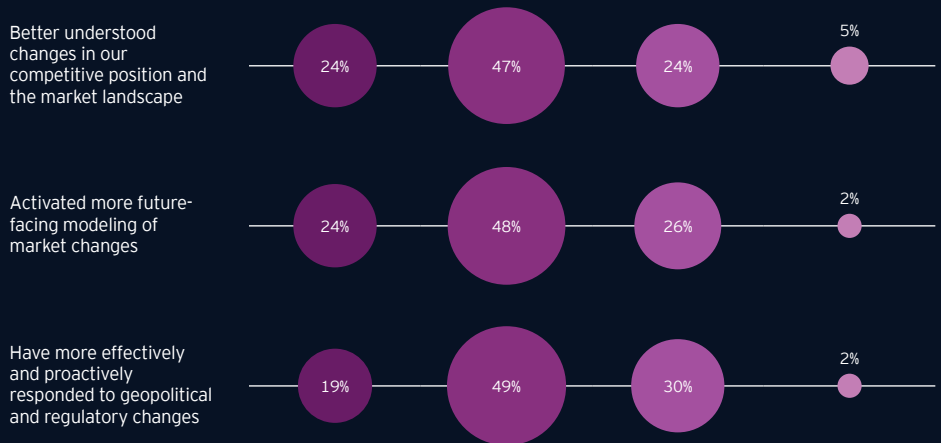
How effectively capital is allocated either accelerates or hinders business performance and determines whether companies can readjust to a new environment and free up further capital to reinvest in future growth opportunities.



Executives will also use reviews to better understand the future direction of their markets and the resulting growth opportunities.

Companies across sectors will continue to face disruptive factors such as industry convergence, geopolitical uncertainty, evolving regulatory regimes and technology-fueled fundamental changes to customer behavior. These factors are forcing businesses to evolve rapidly.

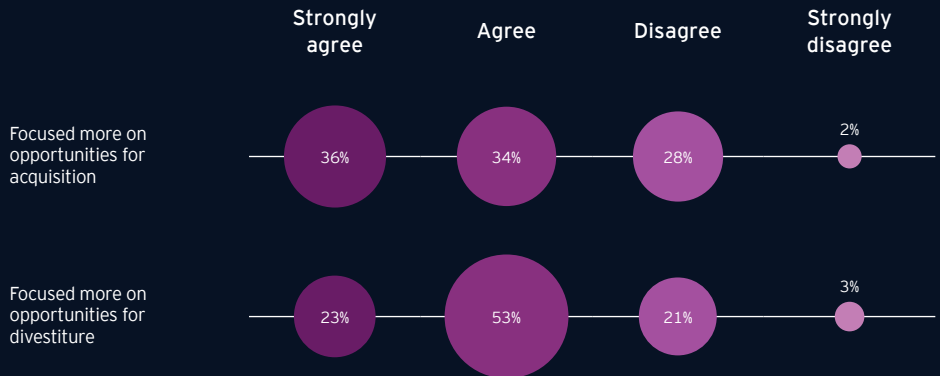
Executives are using better data to more holistically understand all these interconnected drivers for change across their own and adjacent markets. This is enabling them to better model future changes and more quickly anticipate the moves they need to make.



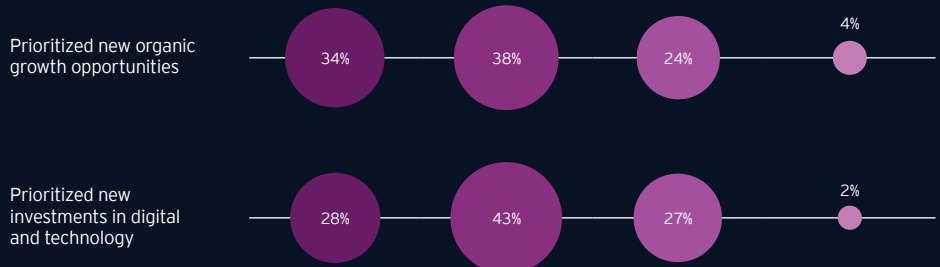
Q How are the outcomes or actions resulting from your strategy review process different from three years ago?



Executives are also looking to recycle capital through divestitures and acquisitions based on the results of their strategic and portfolio reviews. The current market is more challenging than it was only two months ago, but it is not yet clear if markets are closed to raising financing for acquisitions. However, given the changing environment, it is better for companies to be constantly assessing their portfolio and divesting to raise capital.



Once some normality has returned, companies will also prioritize new organic growth opportunities and new investments in digital and technology. Companies have been reimagining their ecosystems for some time – looking at more innovative business models and collaborations to access new markets and customers. They will also be reshaping portfolios and reinventing their future as the world becomes increasingly dependent on virtual transactions. They are transforming to operate in a digitally enabled, hyper-speed world.



“

Looking to the post-crisis future, executives will prioritize both changes in capital allocation and measuring returns and capital efficiency more effectively.

Beyond the crisis – transformation through M&A

After “now” and “next,” companies will eventually focus on “beyond” – activating transformation. And despite current social and economic upheaval, executives do retain some focus on M&A.

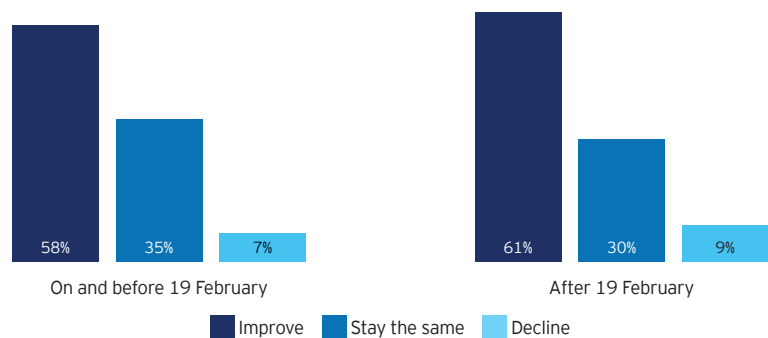
While we have seen a clear shift in outlook for the economy since mid-February and COVID-19 dominating boardroom agendas, executives are also looking beyond the current crisis.

These intentions may have to be paused as they search for clarity in crisis. But they will be triggered at some point during the downturn or recovery.

For many, the experience of the global financial crisis can be seen viewed differently in hindsight. The M&A downturn that ran from 2008-12 was an opportunity to make acquisitions with suppressed valuations of high-quality assets that would fuel growth in a recovering market.

If there is any prolonged downturn due to the current crisis, executives may be bolder in their ambitions and look to acquire those assets that will help them accelerate into an upturn faster.

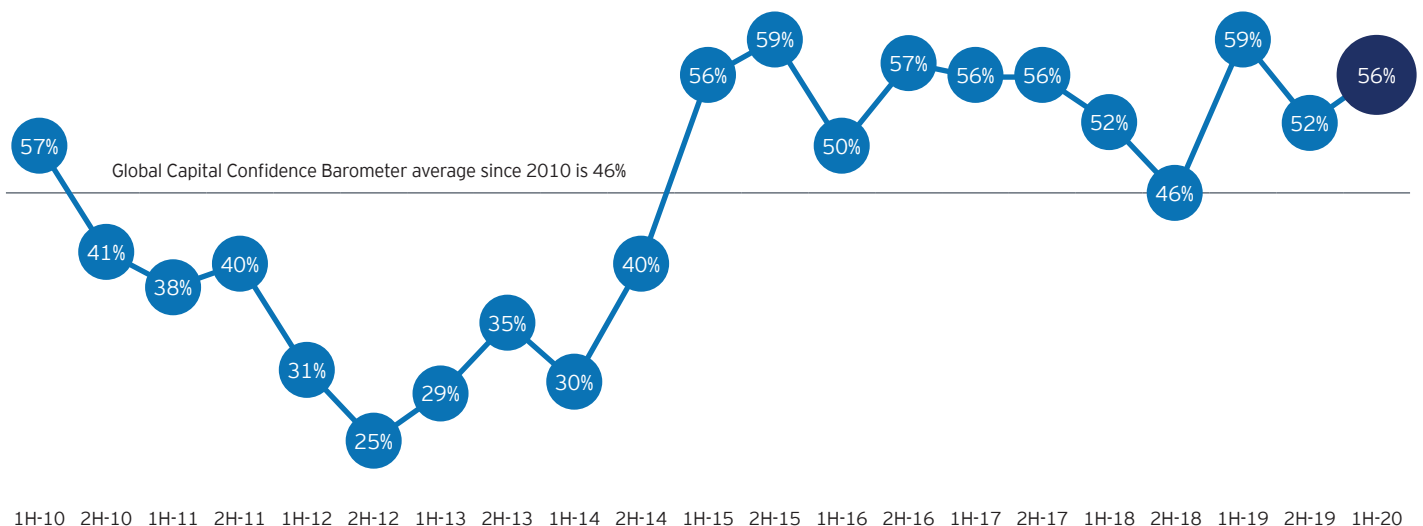
Q What is your expectation for the M&A market in the next 12 months?



Companies are looking to pursue deals on their own account as other disruptive forces have not disappeared.

The need to secure long-term growth, regardless of short-term pressures, is also paramount. The intention to actively pursue M&A in the next 12 months remains at elevated levels seen throughout this current deal cycle.

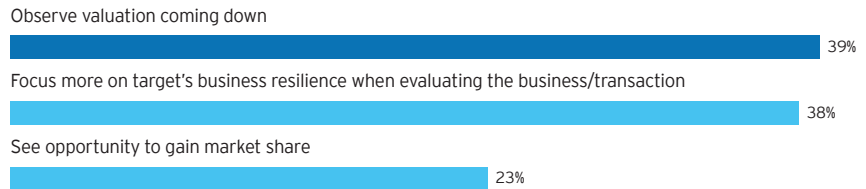
Q Do you expect your company to actively pursue M&A in the next 12 months?



Companies are understandably refocusing views on vulnerabilities but see opportunities to accelerate acquisitions.

The emergence of COVID-19 is reiterating the need to assess potential targets more broadly in terms of resilience. It is also impacting valuations. This could accelerate some dealmaking as companies look to acquire competitors to protect and reposition beyond the crisis.

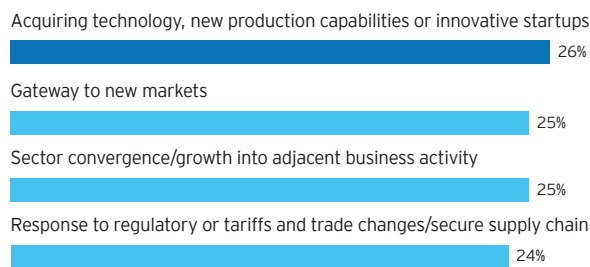
Q How are your M&A strategy and outlook affected by the coronavirus event?



Growth is on the agenda with bolt-on acquisitions providing the gateway to new markets.

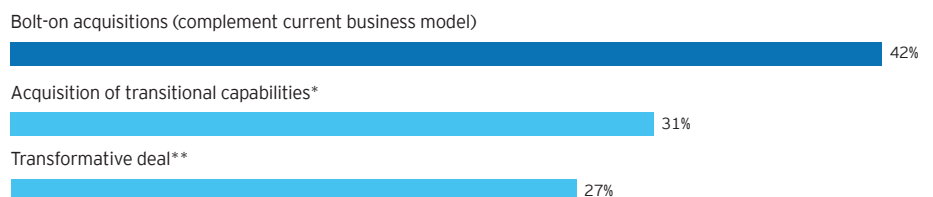
Executives continue to look at a range of drivers for M&A to complement their strategic direction. Growth in new markets and adjacent sectors is key as companies will look to expand opportunity. But they will also look to acquire new capabilities and protect against disruption of all kinds.

Q What are the main strategic drivers for pursuing acquisitions?



The main types of deals will be bolt-on acquisitions that complement the current business model and smaller deals acquiring capabilities. But there are also bolder moves anticipated, as over a quarter of respondents look to do bigger deals that significantly push the dial and transform their business.

Q Will your planned M&A activity be:



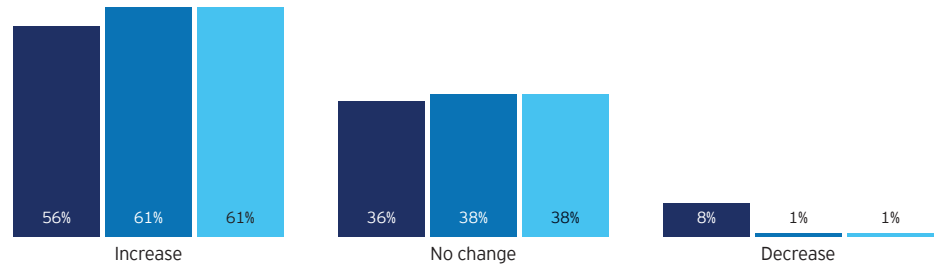
*Acquisition of transitional capabilities (acquisitions that will change how the company operates, including digital and new routes to customer).

**Transformative deal (high-value acquisition that significantly changes the size of acquirer/reshapes business).

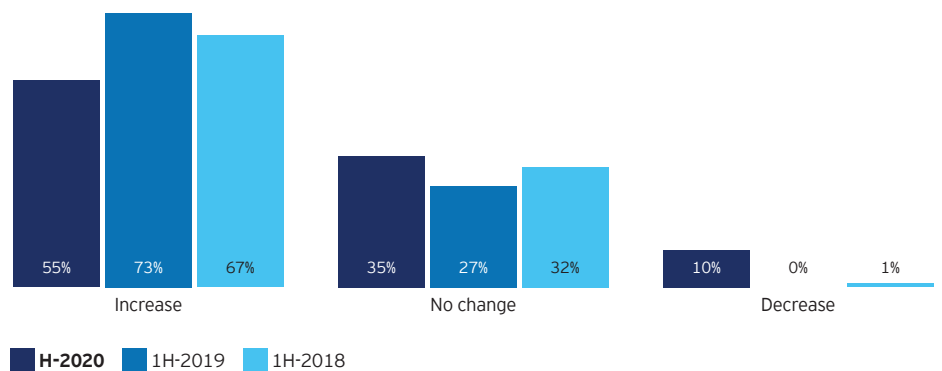
Pipelines and deal-closure intentions point to a healthy deal flow.

Executives are not signaling any intention to stay on the sidelines of dealmaking. Both pipelines and anticipated deal closures look set to remain robust in the next 12 months. Although, many could pause or shelve these plans depending on the severity of the current crisis.

Q Considering the next 12 months, how do you expect your M&A pipeline to change?



Q Considering the next 12 months, what is your expectation for the number of deal completions by your company compared with the past 12 months?



Many companies are not capturing the value that comes from the effective use of technology in dealmaking.

The effective deployment and utilization of technology poses one of the biggest challenges to companies in their day-to-day operations. It also poses a similar problem as companies try to utilize technology to improve the effectiveness and efficiency of their deal processes.

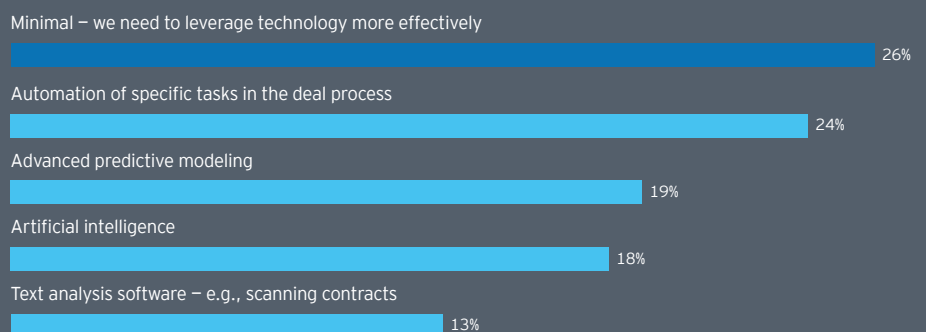
A quarter of respondents say they are only using technology at a minimal level as part of their deal capabilities. Drilling down to the available and viable technologies that a company’s corporate development and strategy teams could be using shows little coordinated take-up.

The reality is that our increasingly data-saturated world is making the process of M&A more complex. From identifying the right assets in a world where startups can emerge at the blink of an eye and cross-sector challengers rapidly break down borders, the number of potential deals to be assessed is expanding rapidly. On top of this, the need to act quickly in a highly competitive market for the best assets while still ensuring that diligence is done correctly poses added risks.

The future of dealmaking means significantly more information than ever needs to be captured, processed, analyzed and interpreted. Traditional means are no longer effective in delivering a competitive edge.

Those companies that fully leverage technology throughout their M&A process will be better placed to target the right assets sooner, understand the risks and opportunities better and act more quickly than those who do not.

Q Which – if any – technologies are you using in your deal process?



The critical questions executives should ask themselves to drive better M&A in today's deal economy

1

How can you operate in a business-as-unusual environment?

It is critical for executives to always assume that a black swan event is possible and to plan accordingly. Scenario-planning incorporating the lessons being learned from the COVID-19 outbreak will bolster company resilience.

2

Do you know your portfolio's weakest link?

Many companies have seen profit margins and cash generating capabilities stressed before the COVID-19 crisis. In order to withstand shocks and create optionality, executives need to examine their portfolios for liquidity vulnerabilities.

3

Can you look beyond the immediate crisis to see the next steps?

More frequent strategy and portfolio reviews are a mindset as much as an event. Executives need to develop systems that can pivot quickly as circumstances change.

4

Are you prepared for a new environment?

The post-crisis environment may be very different from what happened before. Executives need to be bold in their reviews to ensure they take advantage of new market dynamics.

5

How can you learn from the past to be bolder in the future?

Companies that made bold acquisitions in the immediate post-global financial crisis period outperformed peers over the next decade. Executives need to be ready and able to make the acquisitions that will supercharge growth.

6

Will technology still be a big deal in M&A-fueled transformation?

Accelerating the use of technology in the deal process not only adds speed – it supports better outcomes. Executives need to understand the positive impact of emerging technologies on their deal strategies.

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 February 4th until March 26th, Thought Leadership Consulting surveyed on behalf of the global EY organization a panel of more than 2,900 executives in 46 countries; 72% were CEOs, CFOs and other C-suite-level executives.
- ▶ Respondents represented 14 sectors, including Financial Services, Consumer Products and Retail, Technology, Life Sciences, Automotive and Transportation, Oil & Gas, Power & 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\$2.9b (16%), US\$3b-US\$4.9b (11%) and greater than US\$5b (22%).
- ▶ Global company ownership was as follows: publicly listed (51%), privately owned (22%), publicly listed – family controls over 35% of the voting rights (15%), private – family controls over 50% of the voting rights (5%) and private equity portfolio company (7%).

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About EY Strategy and Transactions

EY Strategy and Transactions teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY Strategy and Transactions teams help clients drive corporate, capital, transaction and turnaround strategies through to execution, supporting fast-track value creation in all types of market environments. EY Strategy and Transactions teams help support the flow of capital across borders and help bring new products and innovation to market. In doing so, EY Strategy and Transactions teams help clients to build a better working world by fostering long-term value. For more information please visit ey.com/StrategyandTransactions.

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