

Peru highlights

Global Capital Confidence Barometer



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Even as Peruvian
companies expect
the pandemic
to have severe
impact on
profitability, their
desire for M&A
remains strong.

Q How would
COVID-19 affect
your decision
on your:

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

Peruvian executives maintain M&A appetite as economic confidence wanes

When the EY *Global Capital Confidence Barometer* survey was undertaken – between 5 February and 26 March 2020 – few executives in Peru had a truly accurate view of the impact COVID-19 would have on their people or the economy. Consequently, they were more optimistic than global executives. Peru’s economy has thrived for much of the past 20 years, so they had every reason to be optimistic.

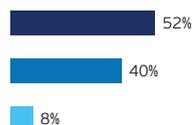
We see this optimism in Peruvian executives surveyed between 5 and 19 February, where 55% had a positive view of the local economy. However, between 19 February and 26 March, confidence eroded, with only 11% having a positive view of the local economy and 32% taking a more negative view. And yet, among executives surveyed in March, 78% thought the pandemic would have only a minor impact on the local economy, vs. 22% who thought it would have a severe impact.

Notably, even though three quarters of Peruvian executives anticipated the local economy would only be minimally affected, 56% anticipated the pandemic would have a negative impact on their company’s profitability and margins.

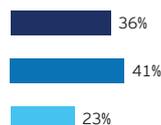
Even so, while a majority of Peruvian executives said they were re-evaluating their global supply chain (67%), only 33% said they were taking action to change it. More than three quarters (78%) said they were re-evaluating the speed of automation, but only 11% said they were making changes to improve. This contrasts with global executives, 52% of whom said they were taking action to modify their global supply chain and 36% who were taking steps to change their speed to automation. Given that these are not areas of strength for Peruvian companies, there is room for improvement and change as they build resilience in preparation for recovery.

Global

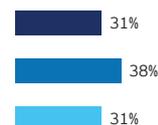
Global supply chain



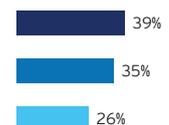
Speed of automation



Digital transformation

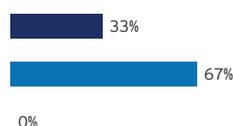


Managing your workforce

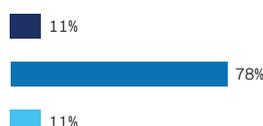


Peru respondents

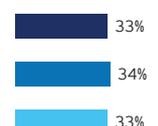
Global supply chain



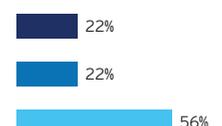
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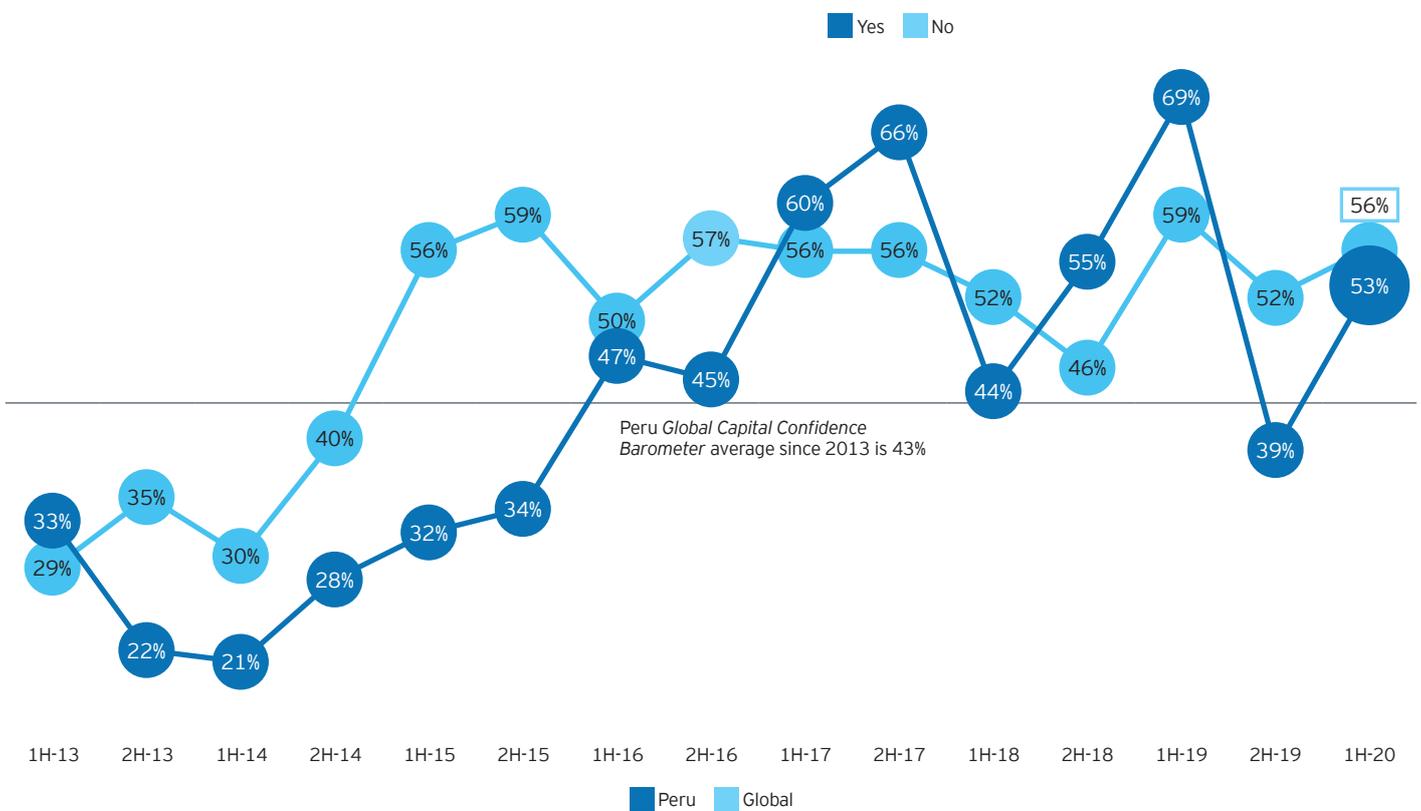
We are taking steps to change We need to re-evaluate No change

Peruvian appetite for M&A grows as disruption creates opportunities

Before the depth and breadth of the pandemic became known, Peruvian executives were optimistic about the local M&A market, with 64% of executives surveyed between 5 and 19 February saying they expected the M&A market to improve. After 19 February, confidence among executives increased to 74%.

Although Peruvians were highly optimistic about the M&A market in the next 12 months, their optimism was more tempered around deal intentions, though it improved significantly in executives surveyed after 19 February (58% vs. 45% before 19 February). Nevertheless, these intentions are higher than six months ago when only 39% expected to pursue M&A.

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



Some of this optimism may stem from the expectation among 44% of Peruvian executives that valuations will come down as a result of the pandemic’s economic impact. In terms of the assets they plan to pursue, 44% will be looking at bolt-on acquisitions, while 31% are in the market for transformative deals that could reshape their business.

An additional motivation for M&A activity may be the postponement of the pending regulation that will require larger transactions to be evaluated before the merger is approved. The regulation was expected to be enforced by the end of 2020, but is now postponed until 1Q21.

Notably, for the first time in several years, Peru won’t be the top investment destination, or even among the top five, as Peruvian companies pursue deals. Instead, they’ll be focusing their efforts globally, giving primary consideration to assets in France, New Zealand, Canada, Brazil and the UK. This may be due to a maturing domestic market and the need to diversify and expand geographically, while the strong local players who have money and access to financing are seeking growth and value-creation opportunities abroad.

Peruvians focus on survival now, and see growth and M&A opportunities in the next and beyond

Although Peruvians are optimistic, some Peruvian companies are better prepared than others to weather the current crisis. Consumer habits are changing as lockdowns continue in the country and around the world. As restrictions ease, they will be lifted in stages, making it hard for small and medium-size businesses to survive, even with the financial aid packages the Peruvian government is offering.

For now, Peruvian companies are focused on workforce safety and well being, business continuity and financial viability. Once Peruvian companies have addressed these immediate concerns, they can turn their attention to planning for what comes next and seizing the growth and M&A opportunities that lie beyond.

Key highlights

74%

expect the local M&A market to improve in the next 12 months.

44%

say planned acquisitions will be bolt-on to complement current business strategy.

67%

say they are re-evaluating their global supply chain.

78%

say they are re-evaluating speed of automation.

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