

# Global Capital Confidence Barometer

April 2018 | 18th edition  
[ey.com/ccb](http://ey.com/ccb)

## Is your portfolio fit for the future or fashioned on the past?

Businesses are reshaping for  
a better tomorrow through  
portfolio transformation.



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



Building a better  
working world

With **portfolio transformation** the no. 1 item on boardroom agendas ...

**70%**

see portfolio transformation as the most prominent boardroom issue

... **M&A appetite remains strong** and above long-term averages as companies look to reshape themselves at speed.

**52%**

intend to pursue acquisitions in the next year

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Despite **emerging challenges** ...

**37%**

see regulation and government intervention as a major risk to M&A

... **executives remain very confident** about conditions for dealmaking ...

**86%**

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

... confidence to do deals is **underpinned by strong fundamentals** ...

**77%**

see corporate earnings as improving

... and notwithstanding potential regulatory and geopolitical headwinds, executives continue to **plan to use M&A to accelerate the transformation needed in an increasingly competitive landscape.**

**80%**

expect to see increasing competition for assets in the next year



## Is your portfolio fit for the future or fashioned on the past?

**I'm glad to say the story hasn't changed much since October. M&A appetite remains high. Now, more than half of our respondents are planning to complete a deal over the next year and 86% believe the M&A market will get hotter in the next 12 months.**

So, maybe more of the same isn't a bad thing. Who would have predicted a record first quarter, in spite of a much more aggressive antitrust regulatory environment and continued weakness in Chinese outbound activity (which is largely driven by more aggressive regulatory frameworks)?

Despite this challenging backdrop, we did have a record first quarter and our survey respondents expect a strong market to continue. Don't misunderstand me, I'm not saying I expect a record year for M&A – largely because of the challenges mentioned above. However, this is shaping up to be a very good year for deal activity.

Why? Well, there are a few contributing factors we will analyze in this report.

First and foremost, we are squarely in the era of portfolio transformation. Barriers to entry are shrinking in most industries as technology advances and traditional industry structures blur. Seventy percent of our respondents view portfolio transformation as the top item on their boardroom agenda. Companies are now in the regular rhythm of selling assets in order to raise capital to invest in the right technologies and sector adjacencies.

Second, despite nationalism and protectionism, companies plan more cross-border deals than ever before. Technology has made the world a smaller place. Protecting existing customers and finding new ones requires that companies reimagine their geographic footprint.

Third, the rise of private capital is having a significant impact on the markets. Private capital now exceeds public capital. Private equity funds are taking advantage of longer investment horizons to invest more for the medium to long term.

So, as you will see in our report, the pros for M&A outweigh the cons. Also, companies continue to grow more savvy in evaluating deals and will walk away from bad ones. We need to stop thinking about M&A as a boom and bust market. M&A is here to stay – perhaps as the most important tool in redesigning your portfolio.

A handwritten signature in black ink that reads "Steve Krouskos".

**Steve Krouskos**  
EY Global Vice Chair  
Transaction Advisory Services

See page 16 for the key takeaways that help define M&A success in today's deal economy.

# Macroeconomic and external environment

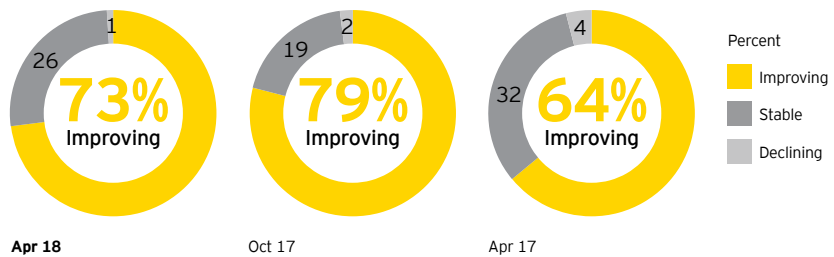
## Broad-based synchronized growth underpins buoyant economic outlook

**With all major indicators of the global economy pointing up, executives feel confident about growth in 2018.**

Business leaders see little or no downside in their economic outlook. For the first time ever, our survey shows 99% of executives expecting global economic growth to be stable or improving.

Several quarters of synchronized growth globally along with optimism around the impact of US tax reform are contributory factors to this positive sentiment.

**Q** What is your perspective on global economic growth?



## Corporate earnings the main pillar of executives' confidence in capital markets and investment plan

**Strong corporate earnings bolster upbeat assessment of capital market conditions.**

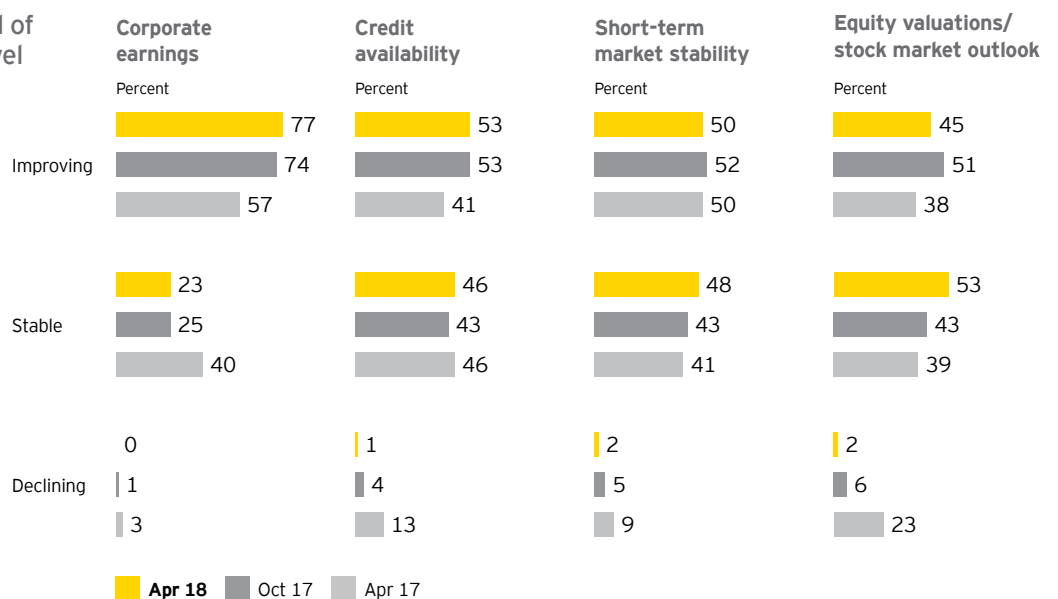
The outlook for corporate earnings and credit availability remains strong. These are two key ingredients for a robust M&A market.

Our respondents' view on short-term market stability and equity valuations has declined slightly since October 2017 – but perhaps less than some would have expected.

A mere 2% predict any declines in valuations. Similarly, only 2% see a potential for market stability to deteriorate. In contrast to many market commentators, executives are looking at their own fundamentals and seeing a brighter outlook for capital markets.

The relatively small decline in these measures sends an important message – the underlining confidence in growth and economic outlook outweighs fears resulting from ongoing public negotiations around trade and geopolitical tensions.

**Q** Please indicate your level of confidence at a global level in the following:



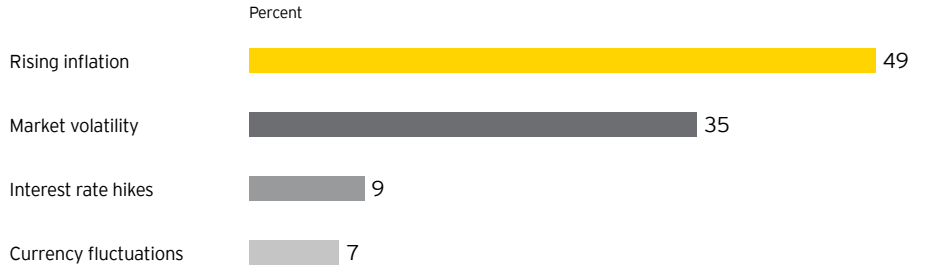
## The re-emergence of inflation raises old fears

**After several years of persistently low inflation, executives cite rising inflationary pressures as a key risk to their investment plans.**

From a longer-term perspective, the re-emergence of inflation poses the biggest risk to investment plans. Inflation can easily trigger higher material costs and wages as well as undermine supply chain agreements.

More so than market volatility, currency shifts and interest rate hikes, rising inflation could place an immediate strain on the availability of cash to reinvest and recycle into growth opportunities.

**Q** What is the bigger risk to your investment plans?



## Executives are navigating a wide range of external issues that could hamper growth

**Uncertainties out of their direct control are unsettling executives, but understanding the issues is the first step in being able to navigate these risks.**

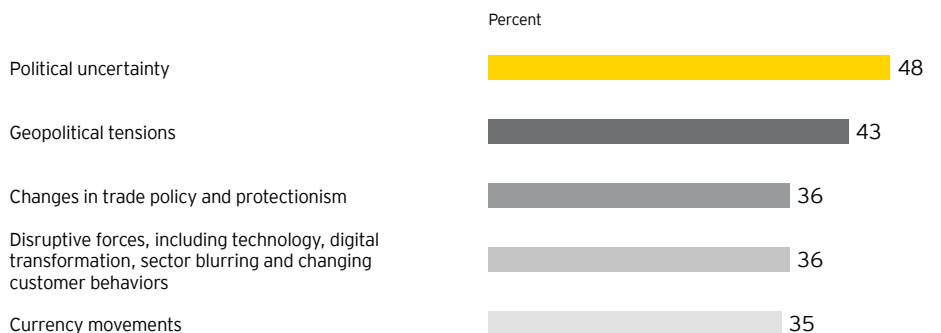
From political uncertainty to geopolitical tensions and currency volatility to rising protectionism, executives have a broad array of external threats to navigate. While the impact of increasing tensions on the political stage has unsettled the wider capital markets, any destabilizing effects have yet to be felt in corporate earnings or optimism about the economy.

Rising geopolitical tensions and increasing electoral share for populist parties are a concern for businesses. With policy becoming harder to predict, nearly half of executives see policy uncertainty as a key risk to their business and a similar number cite geopolitical tensions.

The US has been vocal over the past few months about its desire to reimagine the global trade system. If protectionism increases, it could interrupt the efficient flow of goods and services between countries.

Executives are also concerned about disruptive forces, including technology, digital transformation, sector blurring and changing customer behaviors, that could have a more immediate impact on their business. Understanding the broad swath of external risks enables executives to understand the transformations needed within their own ecosystems. This will better enable them to survive and thrive in a fast-changing environment.

**Q** What do you believe to be the greatest near-term risk to the growth of your core business?



Respondents were able to select up to three options. Only the top five risks are displayed and results reflect the percentage that chose each risk.

# Government investment in infrastructure

## With government finances shaping up, executives anticipate increased investment in infrastructure

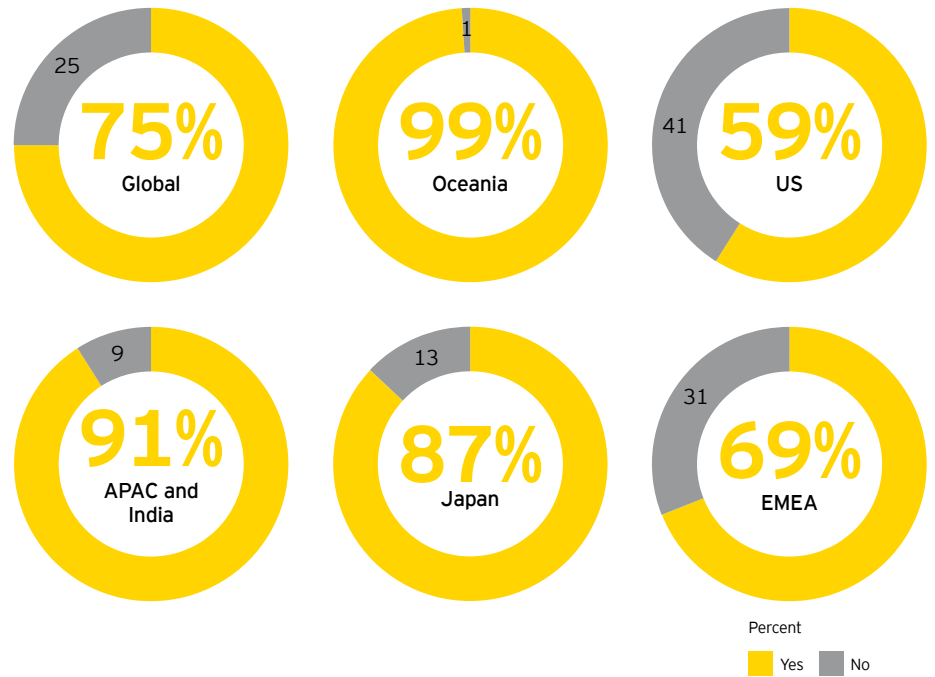
**Q** Do you expect the government in your country to increase infrastructure spending over the next 12 months?

### Increasing expectations for infrastructure spending could accelerate corporate growth.

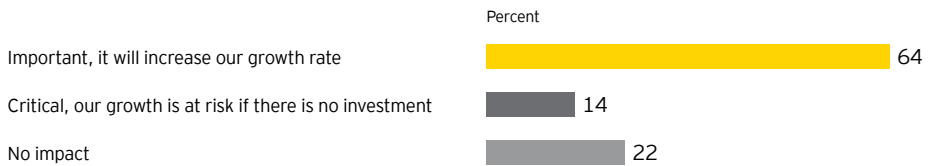
The vast majority of executives across most regions expect government investment in infrastructure to increase over the next 12 months. However, fewer US respondents expect an increase compared to other regions – perhaps indicating an opportunity in the US.

The potential for infrastructure investment to have a multiplier effect on GDP growth is anticipated to be an important stimulant for corporate growth. Nearly two-thirds of executives say it will increase their growth rates.

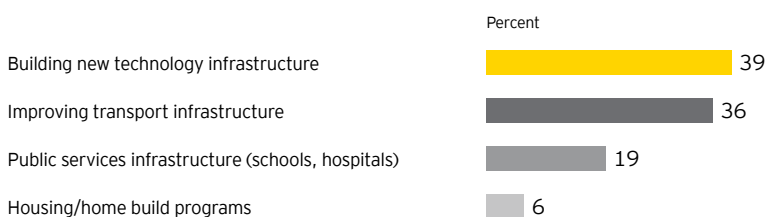
Investment in building new digital and improving transport infrastructure is the key ask by executives. Both should help underpin similar investments being made at the corporate level.



**Q** How will government spending on infrastructure impact your growth plans?



**Q** Where should government infrastructure spending be focused?



# Boardroom agenda and shareholder activism

**A new era of continuous portfolio transformation beckons, as companies utilize emerging technologies to navigate a fast-changing external landscape**

**Q** Which of the following will be most prominent on your boardroom thinking during the next six months?

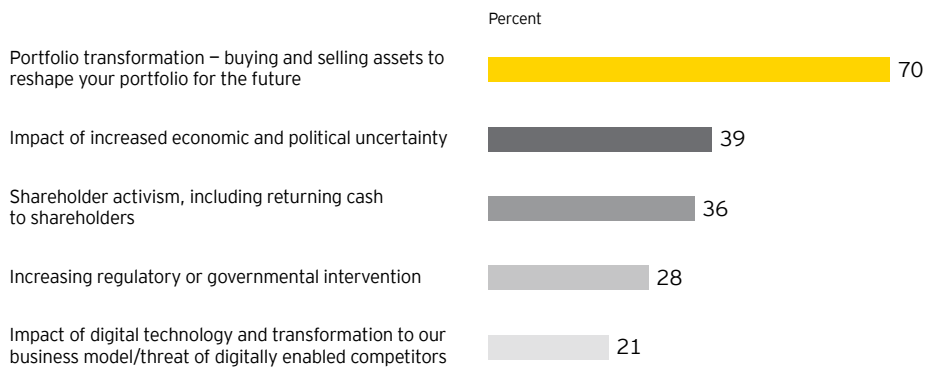
**Identifying strategic gaps in their portfolio is the main priority for boards.**

Portfolio transformation, including both the buying and selling of assets, tops the issues cited by executives as the most prominent concern they will be dealing with in the next 12 months. The paramount need to reshape portfolios in an era of accelerating change means a shift to an almost continuous assessment of current operations, risks and opportunities.

As the external environment in which companies operate is evolving, executives are looking to identify strategic gaps in their portfolio. Unless these gaps are filled, many companies may find themselves at a competitive disadvantage. Understanding the full breadth of their competitive ecosystem is more critical than ever.

Making sure they buy or build the accelerating technologies that will boost earnings and productivity needs to be done concurrently with analyzing the external industrial landscape.

These decisions are also having to be seen through the lens of increasingly vocal shareholders and the emergence of a more active government and regulatory environment.



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## Technology fosters many of the questions boards are asking – as well as the answers

### Boardrooms are focused on technology to improve decision-making and boost company performance.

Companies are increasingly using analytics, artificial intelligence (AI) and instantaneous data gathering to make better-informed decisions about their portfolio.

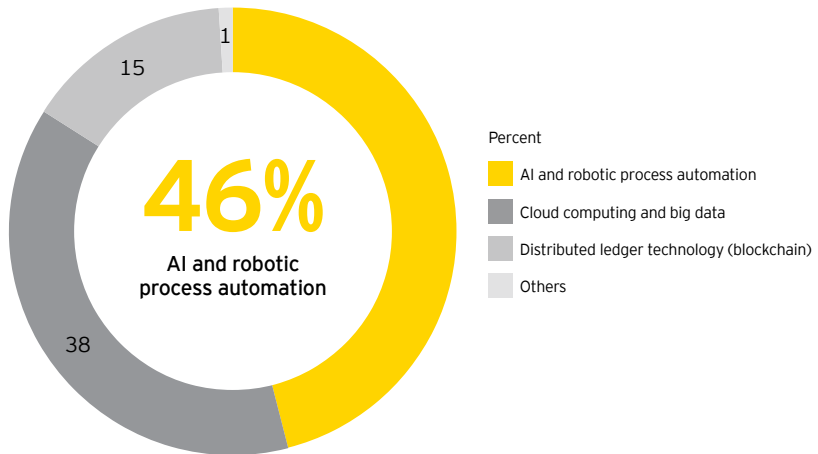
AI and robotic process automation (RPA) are seen as the key technologies that the boardroom is considering. As such technologies become more widely adopted, they will influence every area of a company's operations and decision-making processes.

Of course, access to data is the lifeblood of AI – and companies are more focused on ownership and control of data than ever before.

Another technology that boardrooms are currently focused on is cloud computing. This is where the data and technologies to understand the data collide. There is also another related issue that boards are confronting. Cloud computing has created much greater optionality around outsourcing IT infrastructure.

With the acceleration of technological advances, many companies are struggling with what hardware to buy, so they are leasing it instead. This has shifted major technology costs from the balance sheet to the P&L. The impact of this is still emerging, but may contradict the idea that companies have been cutting back on investment in the prior few years.

**Q** Which of the following technologies are most prominent on your boardroom agenda?



## Activist shareholders and executives in tune about the need to transform business operations and portfolios

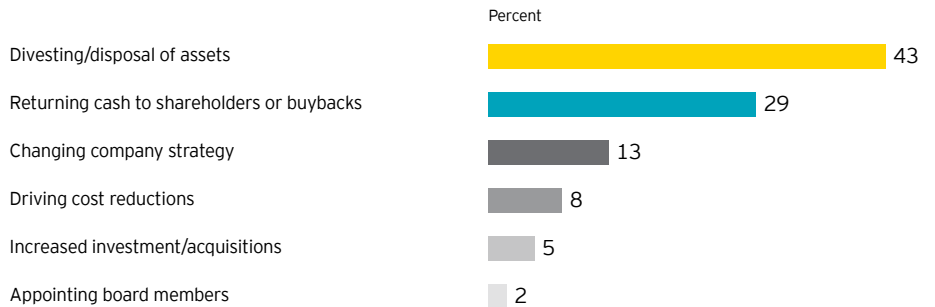
### A more activist shareholder base has emerged, willing and able to make their demands heard.

Both board members and activist shareholders are keenly focused on portfolio transformation and asset disposals.

Where these two constituents differ is around the application of proceeds from asset disposals.

Executives have more of a bias to recycle capital into the portfolio whereas activists are looking to see a certain element of realized capital be returned to shareholders.

**Q** On what do you expect shareholder activists to focus their influence in the next 12 months?





# Portfolio transformation

## Digital transformation is driving portfolio transformation as executives look to optimize their fitness for the future

**Divestitures will be a critical component of successful portfolio transformation as executives look to raise capital to fund technology-driven changes.**

Nearly a third of executives have increased the frequency of portfolio reviews in the past three years. Digital transformation is driving this accelerated frequency. The opportunities offered by new technology, as well as the threat from their more digitally savvy competitors and start-ups, are driving transformation plans. Boardrooms are also looking at the increased competition driven by sector convergence and technology-enabled changes to established business models.

With the economy improving, credit still freely available and corporate earnings at record levels, executives are making the hard decisions now to better equip their businesses for the future.

The actions taken by executives after their most recent portfolio review clearly signal that acting at speed is critical. Almost three-quarters (74%) expect to achieve their objectives within 12 months. Of those actions, more than a third (39%) identified an asset at risk of disruption to divest, and another third (32%) identified an underperforming asset to divest.

Current dealmaking conditions make this an opportune moment to divest. What may not suit one portfolio may be an ideal fit for another. There is also a healthy appetite by private equity (PE) to acquire selected divested assets.

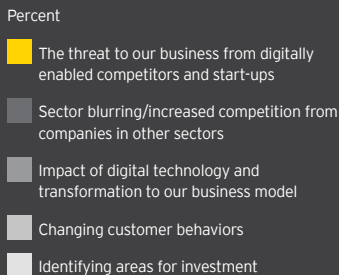
However, with divestitures especially, the balance between speed of decision and execution needs to be judged finely in order to extract the most value and lay the foundation for future success.

And as with the wider boardroom agenda, capital released through divestitures can be recycled into both existing operations and in M&A.

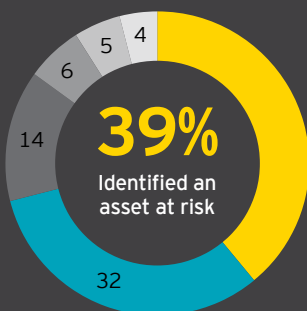
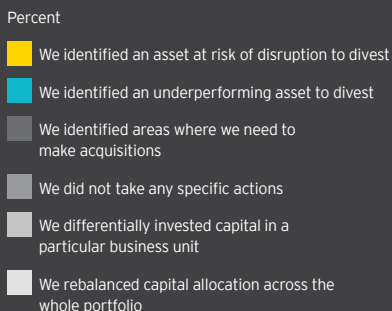
**Q** Are you reviewing your portfolio more frequently than three years ago?



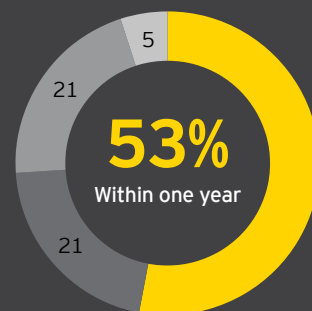
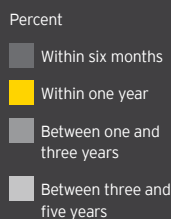
**Q** If yes, what is the key reason for reviewing your portfolio more frequently?



**Q** As a result of your most recent portfolio review, what was the main action taken?



**Q** Following your most recent portfolio review, over what time frame have you achieved or do you expect to achieve your objectives?



# Human capital transformation

## Changing business models and a new, more flexible labor environment still being resolved

**As portfolios and business models become more agile, fluid and responsive to change, the challenges in securing the right mix of workers are greater.**

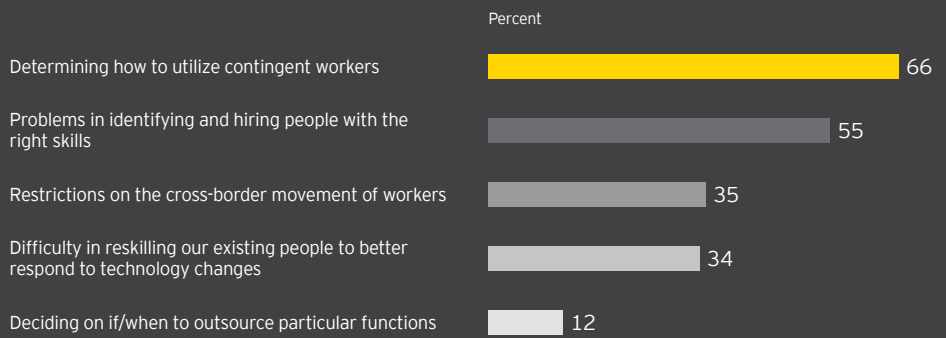
Companies are becoming more dependent on nontraditional forms of labor, particularly contractors and contingent workers. Determining how to best utilize contingent workers and integrating them while retaining corporate culture is the most pressing workforce issue executives face.

The increasing use of more flexible workforce models raises complex issues and may expose companies to financial and reputational risk. The need to protect intellectual property (IP), continuity of operations, and build and retain institutional knowledge also comes into play.

However, in many leading economies there are record levels of employment and generational lows in unemployment. More than half of executives (55%) are struggling to identify and hire people with the right skills.

Many are reskilling their existing workforce to better respond to technology changes as a result. But this can be a challenging transformation – contingent workers may be needed to accelerate the process.

**Q** Which of the following workforce issues is your organization encountering?



Respondents were able to select up to three options. Only the top five risks are displayed and results reflect the percentage that chose each risk.

Companies are becoming more dependent on nontraditional forms of labor, particularly contractors and contingent workers. Determining how to best utilize contingent workers is the most pressing workforce issue executives face.

# M&A outlook

## Dealmaking to continue as companies look to transform, and private equity deploys its dry powder

**While 1Q18 has reached record levels, disciplined dealing is the critical component of today's M&A market.**

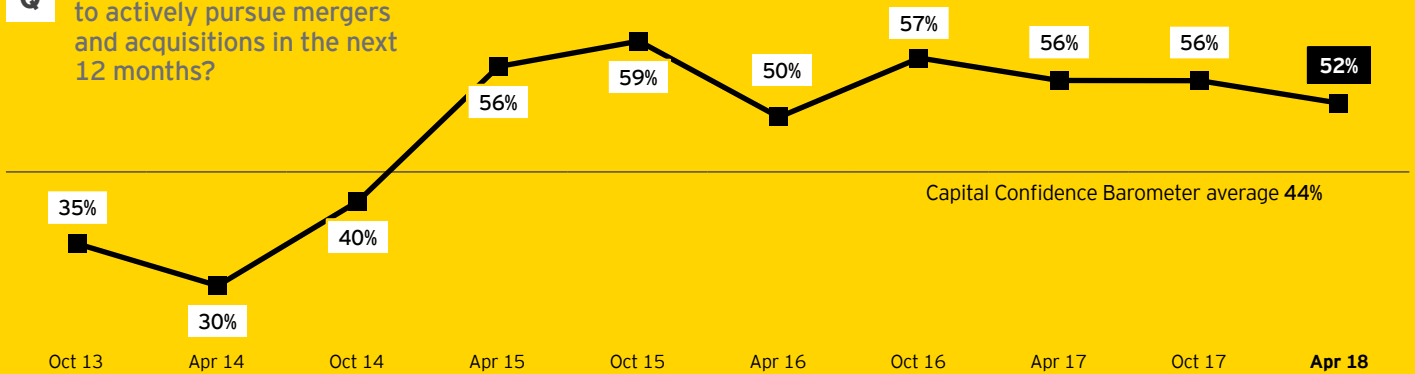
On the back of a record first quarter of dealmaking in 2018, executives are signaling a continued desire to transact.

But, unlike previous record first quarters in 2000 and 2007, the M&A market is not expected to see a frenzy of buying at inflated multiples or buyers overleveraging to finance deals. Executives are continuing to be more disciplined in their dealmaking, with more than two-thirds (73%) saying they have failed to complete or have walked away from a deal in the past 12 months. And of these, the majority (58%) say it was due to competition from other buyers or disagreement on price/valuation.

So while 2018 looks set to be a healthy year for M&A, it may not see big or controversial deals in the headlines on a regular basis. And as well as valuations, executives are also mindful of the shifting landscape of governmental or regulatory intervention in dealmaking. This is another reason to view the current deal market as robust but not overheated.

**Q** Do you expect your company to actively pursue mergers and acquisitions in the next 12 months?

Expectations to pursue an acquisition

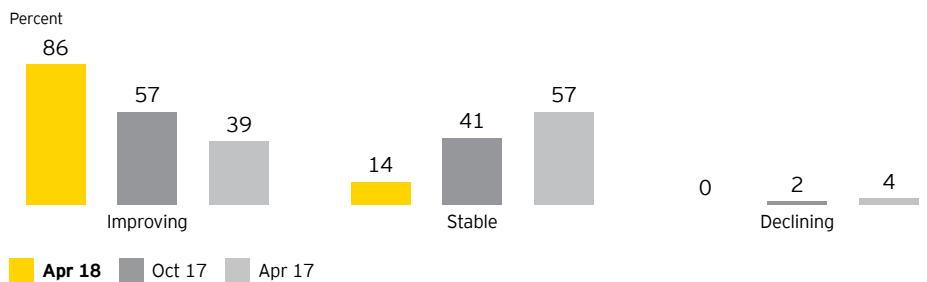


**Executives are signaling their confidence in the near-term conditions for dealmaking.**

The vast majority of executives expect the overall global M&A market to improve over the next 12 months.

The expected improvement in the outlook for the global M&A market aligns with the increases in pipelines and deal closures highlighted later in this section.

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

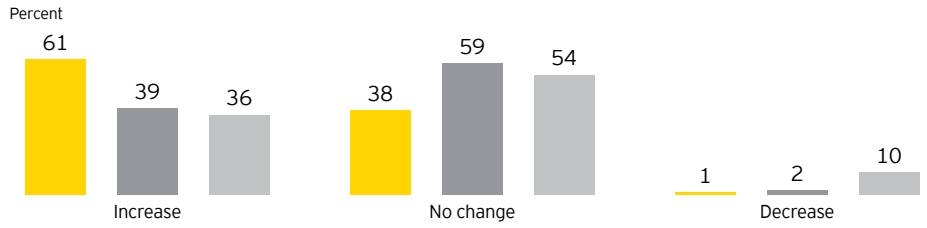


## Bigger pipelines, better targeting and continued scrutiny to underpin M&A for next 12 months

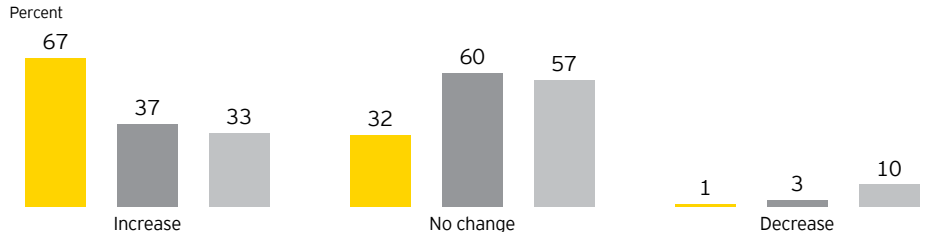
The majority of executives plan to increase their pipelines in the next 12 months. Similarly, two-thirds expect to complete more deals in the next 12 months compared to the prior 12 months.

But discipline will be maintained. Companies are increasingly using sophisticated methodologies to source potential targets. They are also using new and evolving due diligence techniques and analytics to assess planned acquisitions. This is especially the case where the target is outside their sector or is being acquired not as a stand-alone revenue-generating asset, but to accelerate growth and performance in existing operations.

**Q** How do you expect your M&A pipeline to change?

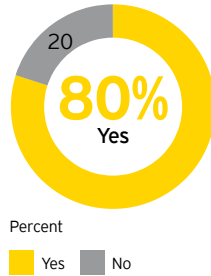


**Q** What is your expectation for the number of deal completions by your company compared with the past 12 months?

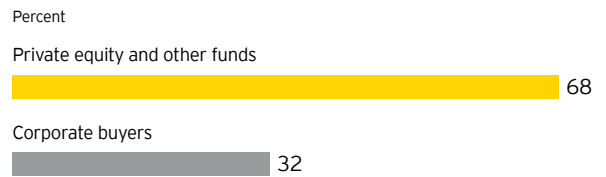


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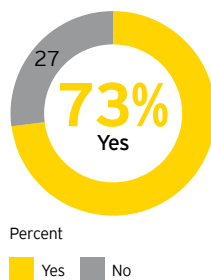
**Q** Do you expect to see increasing competition for assets in the next 12 months?



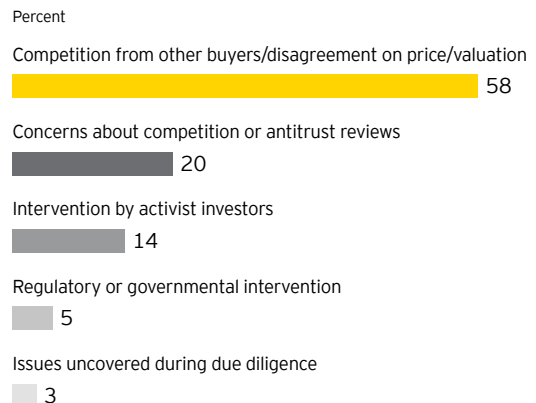
**Q** If so, from where?



**Q** Have you either failed to complete or canceled a planned acquisition in the past 12 months?



**Q** If yes, what was the primary reason?



# US tax reform

## Reforms may bring an upside to M&A and see some lapsed deals resurrected

### Companies are still considering the full implications of US tax reforms – and their strategic response.

Both US and non-US executives do see some potential boost to dealmaking from the US corporate tax code reforms. However, a similar number of non-US executives are downbeat about the potential impact. The majority do not expect a material impact either way.

Taxation levels, in and of themselves, generally do not drive dealmaking. Tax is part of the calculations on valuations and future growth potential, but deals are driven by strategic objectives. Also, in today's environment of relatively loose monetary policy, strong corporate earnings and elevated stock prices, the ability to fund deals has not been an impediment to M&A.

Where there may be an uptick is inbound activity into the US. A fifth of non-US executives say they are reconsidering deals they had previously decided not to pursue or put on pause in the light of recent changes in corporate taxation in the US.

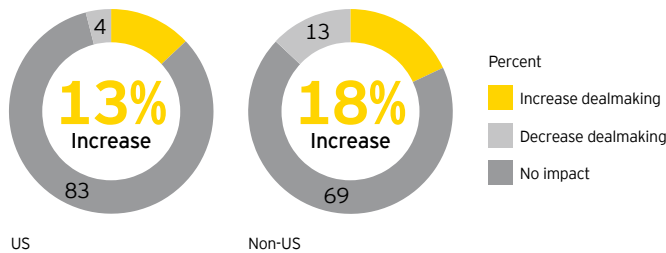
There may also be an increase in domestic combinations in the US itself, but more driven by the boost that tax reform will have on the overall economy and expectations of higher growth than just simply tax.

The majority of US executives plan to invest tax reform gains in existing operations. The provisions in the reforms that are more favorable to investing in short-lived assets may help companies that are still unsure about what technology assets to acquire. This may help US companies retain their lead in the technology sector, as well as turbocharging growth in others.

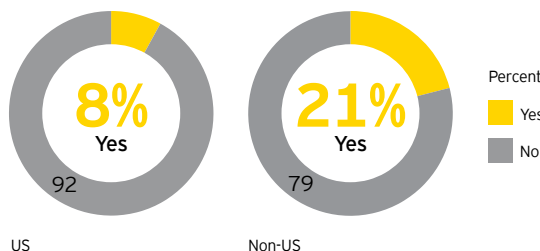
A fifth of executives plan to return cash to shareholders. And a further potential boost to a strengthening economy: a sizable allocation will be directed to increasing salaries and creating jobs in the US.

Given the fluidity of the situation, executives should carefully consider all implications and the potential opportunities the reforms may yield.

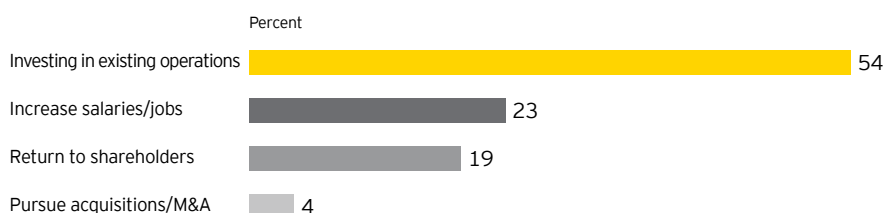
**Q** Do you expect the recent changes in corporate taxation in the US to have an impact on global M&A?



**Q** Are there any deals that you had previously decided not to pursue or put on pause that you are considering again in light of recent changes in corporate taxation in the US?



**Q** How do you plan to primarily allocate any extra cash from repatriation or arising from tax reforms? (US respondents only)



# Major themes in M&A

## Increase in cross-border dealmaking and the return of private equity continue to dominate M&A

### Lingering geopolitical uncertainty is not hampering cross-border and sector deals.

Despite fears of greater protectionist actions by governments, executives still expect cross-border M&A to be the major theme of M&A in the next 12 months. For many companies, dealing in a globalized market is a necessity. Technology is connecting companies with customers across the globe and growth plans are no longer country-centric.

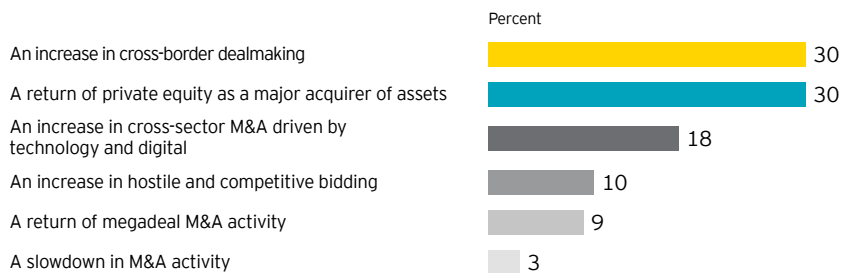
Many years of cross-border M&A experience have better enabled executives to navigate different legal and regulatory regimes. In 1Q18, cross-border deals account for 30% of deal value and 23% of volume.\* Both are in line with long-term averages.

A strong presence of private equity in the deal markets is also expected by executives. This trend began to accelerate in 2017 and has continued in 2018. There has been an increase in the size of deals involving PE, as well as more situations where PE and corporates collaborate on deals across many sectors and geographies.

If executives are comfortable buying abroad, they are becoming equally open to buying across traditional sector lines. With convergence a major driver, executives expect to see more cross-industry deals in the near term.

Both hostile/competitive deals and a return of megadeals (US\$10b+) have been a feature of M&A in 2018 and could be a continuing trend through the latter part of 2018.

### Q What will be the main themes of M&A in the next 12 months?



\*Source: EY analysis and Dealogic; excludes real estate asset acquisitions

## Increasing intervention by authorities and new rules for competition need to be factored into dealmaking

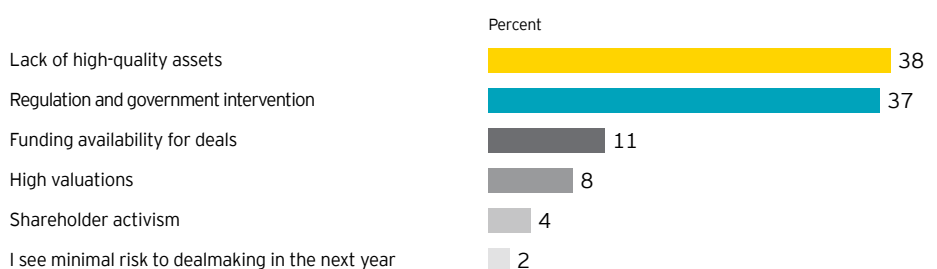
### Government and regulatory intervention is cited as a major potential risk to dealmaking in the near-term.

A number of countries are looking to bolster their ability to block takeovers, primarily from abroad, using national security or national interest provisions. Dealmakers must factor in changing political sentiment when assessing targets.

The manner in which regulators assess deals is also evolving. Previously, it was simply a matter of market share. Now competition authorities are examining other factors, such as combined research and development strengths or access to and control of data. These topics will also have to be considered carefully when assessing deals.

Of equal concern is the availability of high-quality assets in a competitive deal market. However, companies are looking to transform their portfolios and PE is becoming more active in rebalancing their assets. These dynamics could provide a stream of high-quality assets to the market through 2018. Interestingly, valuations are not seen as a significant risk to dealmaking.

### Q What do you see as the biggest potential risk to dealmaking in the next 12 months?



# Sector outlook

## Oil and gas

- ▶ With oil price stabilization has come a transition to a new normal, which has seen confidence grow over the past six months. There is an expectation of increased activity through the coming year as more activity in both upstream and downstream is seen.
- ▶ Increasing innovation in deal structures from nontraditional methods (JVs, alliances, etc.) has gained traction with companies in a cash-constrained environment.
- ▶ Private equity and sovereign wealth funds continue to invest in oil and gas, as they look to deliver higher returns through selective investments. Though this has helped drive some acquisitions, caution remains, as not all investments have delivered on expectations.
- ▶ Portfolio optimization strategies are adapting to focus on delivering growth through convergence. This has been driven partially from pressure on boards to accelerate earnings growth in the short to medium term.
- ▶ Companies linking their equity story and business strategy are able to secure available financing, especially at a time when dealmaking is the popular answer to increasing above-ground efficiencies through technological advancement.

## Telecommunications

- ▶ Telecommunications companies continue to show elevated M&A appetite at a time when convergence, consolidation and digital growth opportunities are pronounced across all geographies.
- ▶ Boundaries between industry verticals are blurring, and telcos view adjacencies in technology and media sectors with particular optimism. The addition of content, advertising and IT capabilities remains squarely on the M&A agenda, while new opportunities in IoT enable telcos to serve changing demands across a range of industry verticals.
- ▶ Partnerships and alliances are also gaining ground as operators consider low-cost routes to expand their service portfolios. In turn, this underlines the importance of effective build, buy or partner strategies as operators engage in various forms of value creation.
- ▶ Consolidation and tower sale-and-leaseback remain important routes to capex control as the industry enters another period of network migration. Looking ahead, the emergence of 5G technology has the potential to transform traditional approaches to infrastructure rollout, while at the same time spurring further business model overhaul.

## Automotive and transportation

- ▶ At a time of rapid technological disruption, automotive companies are proactively managing their portfolios to protect their core businesses. Key markets, such as China, Europe and California, where the push for vehicle electrification is highest, are driving the case for change.
- ▶ New digital and connectivity technologies enhance the need for auto companies to adopt new business models and seek further M&A opportunities in the tech sector, and others.
- ▶ Automotive M&A revolves around acquiring innovative capabilities offered by start-ups. The collaborative economy, where mobility providers offer services without owning vehicles, is leading to partnerships between automotive vehicle manufacturers and new entrants.
- ▶ Automotive companies, especially those with limited cross-sector experience, are challenged to identify the appropriate counterparties and develop the right partnership models.
- ▶ The sector is moving toward total connectivity between vehicles, traffic and municipal services.
- ▶ The path to fully autonomous vehicles will impact automotive strategies, leading to increasing convergence with the technology sector.
- ▶ Automotive companies understand that improving their competitive edge requires a sharp focus on acquiring innovative assets that best position them for success in an evolving landscape.

## Consumer products and retail

- ▶ The presentations at the 2018 CAGNY CPG conference demonstrated unprecedented appetite for M&A as consumer products companies seek to reshape their portfolios for growth and consumer relevance.
- ▶ Companies are looking at both bolt-ons and transformational deals as they consider how to accelerate their value-creation strategies.
- ▶ However, high prices and scarcity of assets means many appetites are not being fulfilled, with discipline being shown by consumer products companies in their dealmaking.
- ▶ Still, the likelihood of megadeals this year remains high, given pent-up demand and ample firepower.
- ▶ Many companies are acquiring startups and local players to enter new or niche markets, as well as investing in new technology to drive innovation, with early-stage venturing a common theme.
- ▶ Many retailers continue to be pressured by not just the accelerating shift to online and away from bricks-and-mortar, but to a seamless omnichannel experience.
- ▶ Those retailers and consumer products companies that can adapt to the range of change drivers, from advances in personal tech to changes in social norms, will be best positioned to meet the demands of the future consumer.

## Mining and metals

- ▶ The focus for most of the mining and metals sector in 2017 was consolidating balance sheet strength and maintaining capital discipline.
- ▶ Divestments remain a significant driver as non-core assets are spun off in favor of leaner, optimized portfolios.
- ▶ Consolidation deals to unlock value through synergies will be fuelled by a growing threat of intervention from activist investors and potential acquirers.
- ▶ Miners will continue to respond to the potential of diverging and volatile commodity markets by optimizing their portfolios to cushion against revenue fluctuations. Companies will look to investment-led strategies to diversify by commodity or region. Some of this activity will be to shape portfolios for future growth and sustain shareholder returns.
- ▶ Companies will look to financing and flexibility to remain important as the sector seeks to maintain a balanced and efficient capital structure.

## Power and utilities

- ▶ There is a strong interest in regulated businesses, including electric transmission and distribution, gas distribution, contracted power generation, water distribution and treatment businesses, as well as renewable energy assets.
- ▶ A combination of historically low interest rates and scarcity of attractive deal opportunities have led investors to be aggressive in pricing opportunities when they become available.
- ▶ Substantial financial sponsors' dry powder earmarked for P&U remains unspent with funds looking for energy infrastructure deals, which could encourage established companies to sell assets at premium valuations.
- ▶ The entire sector is undergoing radical change, with new technology and new competitors aggressively challenging the traditional monopoly mind-set.
- ▶ Disruptive trends include government and regulatory change, a changing generation mix, grid defection, increasing customer expectations, and the entry of non-traditional competitors.
- ▶ This shifting energy landscape is driving market participants in this sector to innovate, look at new markets and redefine traditional business models to ensure a profitable future in increasingly competitive and dynamic markets.

# Geographic outlook

## Companies still look across borders for assets, despite protectionist fears

### The US and Western Europe are in the spotlight as companies look to acquire growth and innovation.

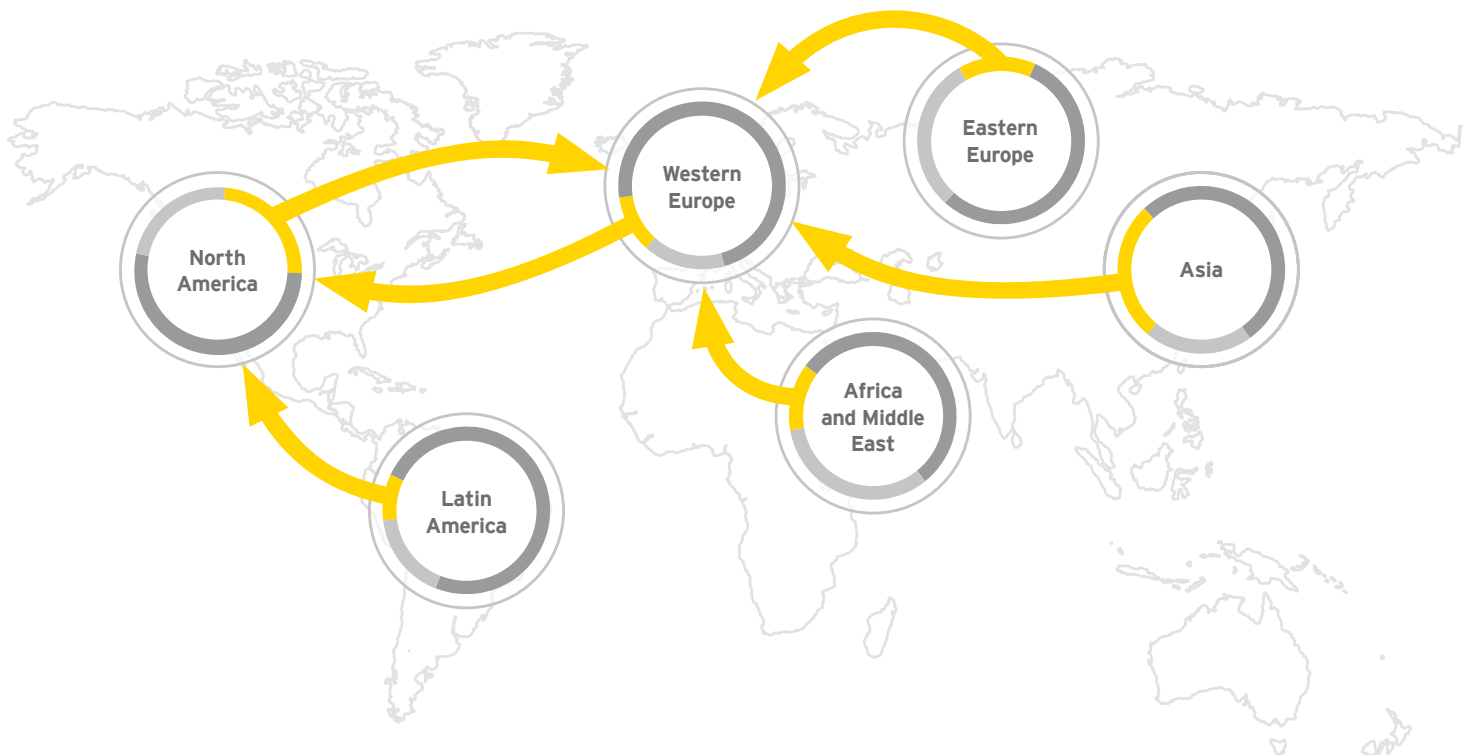
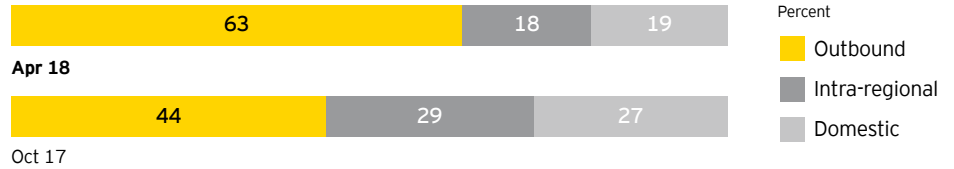
Regardless of heightened protectionism and new rules governing cross-border dealmaking, companies are increasingly looking across the globe for innovative assets and access to new customers.

In 2016 just 38% of respondents were looking outside their domestic markets or own region to do deals. The increase to 63% of respondents in 2018 shows not only the imperative to look everywhere for the right assets, but also the comfort that executives feel in dealing in a global marketplace.

Surprisingly, while both the US and Western Europe have tightened oversight on inbound acquisitions, they come out as the clear destinations of choice for executives. The key to transforming portfolios will be accessing or acquiring the right intellectual property in these regions.

The strengthening economic outlook in the Eurozone and the potential boost from US tax reforms also make these markets prime locations for targeting enhanced customer growth.

**Q** Which are the top destinations in which your company is most likely to pursue an acquisition in the next 12 months (including your domestic market)?



■ Outside domestic market/immediate region  
 ■ Immediate region (countries close to home)  
 ■ Domestic market (home country)  
 ➔ Primary preferred destination outside their domestic market/immediate region\*

\*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region (overall top 10 country investment destinations listed on page 15).



## Top investment destinations and their key characteristics

Top 10 investment destinations		Top investors	Top destinations	Top sectors
1	 United States	<ol style="list-style-type: none"> <li>1. US</li> <li>2. Canada</li> <li>3. Mexico</li> </ol>	<ol style="list-style-type: none"> <li>1. Brazil</li> <li>2. US</li> <li>3. Canada</li> </ol>	<ol style="list-style-type: none"> <li>1. Telecom</li> <li>2. Automotive and transportation</li> <li>3. Oil and gas</li> </ol>
2	 Brazil	<ol style="list-style-type: none"> <li>1. US</li> <li>2. Canada</li> <li>3. Mexico</li> </ol>	<ol style="list-style-type: none"> <li>1. Brazil</li> <li>2. Argentina</li> <li>3. Canada</li> </ol>	<ol style="list-style-type: none"> <li>1. Power and utilities</li> <li>2. Automotive and transportation</li> <li>3. Consumer products and retail</li> </ol>
3	 Canada	<ol style="list-style-type: none"> <li>1. US</li> <li>2. Canada</li> <li>3. Mexico</li> </ol>	<ol style="list-style-type: none"> <li>1. Brazil</li> <li>2. Canada</li> <li>3. US</li> </ol>	<ol style="list-style-type: none"> <li>1. Mining and metals</li> <li>2. Financial services</li> <li>3. Consumer products and retail</li> </ol>
4	 China	<ol style="list-style-type: none"> <li>1. China</li> <li>2. Japan</li> <li>3. US</li> </ol>	<ol style="list-style-type: none"> <li>1. China</li> <li>2. Japan</li> <li>3. US</li> </ol>	<ol style="list-style-type: none"> <li>1. Mining and metals</li> <li>2. Technology</li> <li>3. Health care</li> </ol>
5	 United Kingdom	<ol style="list-style-type: none"> <li>1. US</li> <li>2. UK</li> <li>3. Germany</li> </ol>	<ol style="list-style-type: none"> <li>1. UK</li> <li>2. France</li> <li>3. Germany</li> </ol>	<ol style="list-style-type: none"> <li>1. Real estate, hospitality and construction</li> <li>2. Life sciences</li> <li>3. Consumer products and retail</li> </ol>
6	 Germany	<ol style="list-style-type: none"> <li>1. Germany</li> <li>2. France</li> <li>3. UK</li> </ol>	<ol style="list-style-type: none"> <li>1. France</li> <li>2. Germany</li> <li>3. UK</li> </ol>	<ol style="list-style-type: none"> <li>1. Health care</li> <li>2. Consumer products and retail</li> <li>3. Life sciences</li> </ol>
7	 France	<ol style="list-style-type: none"> <li>1. Germany</li> <li>2. UK</li> <li>3. France</li> </ol>	<ol style="list-style-type: none"> <li>1. Germany</li> <li>2. France</li> <li>3. UK</li> </ol>	<ol style="list-style-type: none"> <li>1. Consumer products and retail</li> <li>2. Real estate, hospitality and construction</li> <li>3. Automotive and transportation</li> </ol>
8	 Argentina	<ol style="list-style-type: none"> <li>1. US</li> <li>2. Brazil</li> <li>3. Mexico</li> </ol>	<ol style="list-style-type: none"> <li>1. Brazil</li> <li>2. Chile</li> <li>3. Argentina</li> </ol>	<ol style="list-style-type: none"> <li>1. Technology</li> <li>2. Consumer products and retail</li> </ol>
9	 Japan	<ol style="list-style-type: none"> <li>1. Japan</li> <li>2. China</li> <li>3. Singapore</li> </ol>	<ol style="list-style-type: none"> <li>1. Japan</li> <li>2. China</li> <li>3. Singapore</li> </ol>	<ol style="list-style-type: none"> <li>1. Technology</li> <li>2. Automotive and transportation</li> <li>3. Industrials</li> </ol>
10	 Mexico	<ol style="list-style-type: none"> <li>1. US</li> <li>2. Canada</li> <li>3. Brazil</li> </ol>	<ol style="list-style-type: none"> <li>1. Brazil</li> <li>2. US</li> <li>3. Canada</li> </ol>	<ol style="list-style-type: none"> <li>1. Consumer products and retail</li> <li>2. Industrials</li> <li>3. Real estate, hospitality and construction</li> </ol>

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

## ▶ Is your portfolio fit for purpose?

Buying and selling can be the fastest way to transform your portfolio and reshape the future direction of your business. Being able to proactively respond quickly to emerging opportunities – and threats – is a must in the warp speed world of business today.

## ▶ Can you strategically manage your own ecosystem or will the external environment manage you?

The pace of convergence and disruption is compelling companies to look across a broader landscape to understand their relative competitive position. Companies should recognize the new realities of today's markets and develop new ecosystems to spot future growth opportunities – and identify emerging threats.

## ▶ Are you utilizing tomorrow's technologies today?

Technology is a transformer. The increasing use of AI, RPA and big data is revolutionizing the way boards assess and optimize their operations – and encouraging them to make bold decisions on what to buy and sell to gain prime market position. Companies need to be certain their strategic decision-making processes enable them to take advantage of emerging technologies.

## ▶ Can your deal strategy navigate the rules or will regulation rule your M&A?

The growth imperative means companies will remain focused on accessing new markets or acquiring innovation. An early understanding of regulatory implications in terms of how you shape the deal – such as subsequent asset sales to meet competition/antitrust requirements – could give you a competitive advantage.

## ▶ Is your future success contingent on your workforce?

With record levels of employment in many leading economies the war for talent has never been fiercer. The right skills are often in short supply. Reskilling existing workers or hiring contingent workers are options. Using M&A to secure talent is another and executives should be sure that integration strategies secure the most value from human capital.

## ▶ Are you actively managing your stakeholders?

Shareholder activists can be viewed as strategic advisors and their investment is often a sign of potential value. Executives should engage with activists and look to leverage value-creating insights and points of view.

## ▶ Is private equity a competitor or a collaborator?

Private equity funds are investing more and more for the medium and long term. They are also returning to the M&A market with significant purchasing power. Corporate executives should be prepared for increased competition for assets – or be open to collaborating with PE on deals, especially when acquired assets may need to be divested to execute the deal.

## ▶ Does the answer to your growth question lay beyond your national borders?

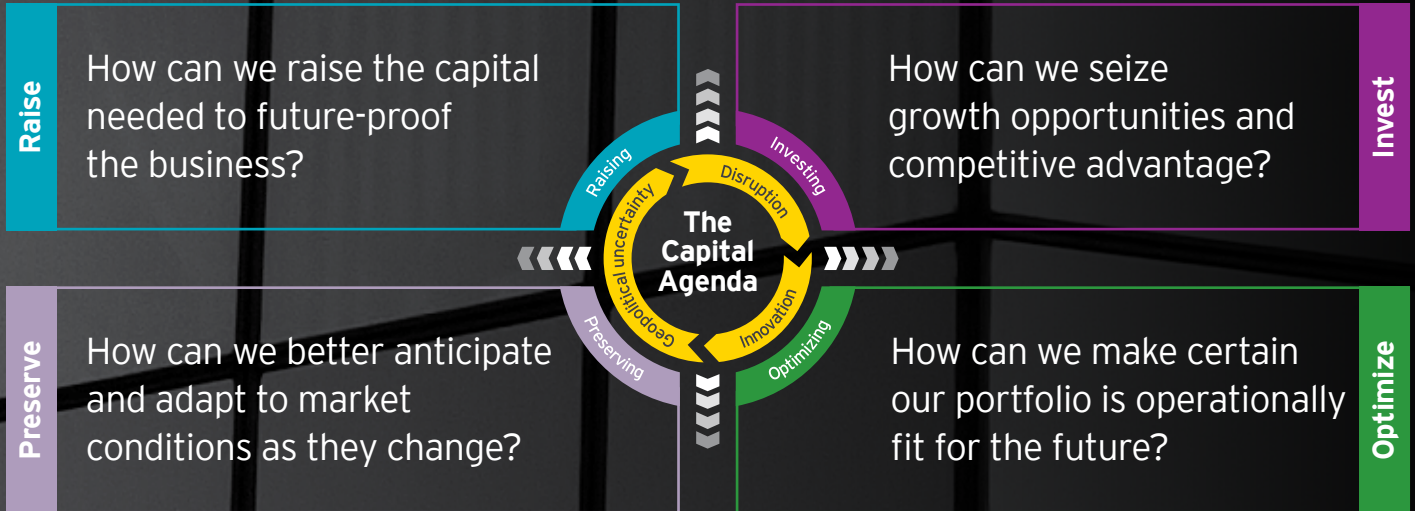
Notwithstanding rising nationalism and protectionism, companies are planning more cross-border deals than ever before. Executives should remain alert to opportunities outside their domestic market and be prepared to reimagine their global footprint.

## ▶ Is walking away the best deal you ever made?

The deal landscape is highly competitive and the competition looks set to intensify further. But executives are making shrewd judgments based on strategic rationale supported by better information. Today, the use of new tools and technologies to assess available data from multiple sources will determine deal fitness.

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**Connected Capital Solutions**

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**Buy and integrate**

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**Sell and separate**

Enabling strategic portfolio management, and better divestments to help you maximize value from a sale



**Reshaping results**

Helping you transform or restructure your organization for a better future by enabling business-critical and capital investment decisions

## 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 Euromoney Institutional Investor Thought Leadership (EIITL). Our panel comprises select global EY clients and contacts and regular EIITL contributors.

- ▶ In March and April, we surveyed a panel of over 2,500 executives in 43 countries; 64% were CEOs, CFOs and other C-level executives.
- ▶ Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, industrials, and real estate, hospitality and construction.
- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (25%); US\$500m–US\$999.9m (25%); US\$1b–US\$2.9b (20%); US\$3b–US\$4.9b (8%); and greater than US\$5b (22%).
- ▶ Global company ownership was as follows: publicly listed (58%), privately owned (35%), family owned (4%) and government/state owned (3%).

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