



Building a better
working world

Industrials

Global Capital Confidence Barometer



David Gale
EY Americas
Industrials Leader
Transaction Advisory
Services
+1 612 371 8482
david.gale@ey.com

A note from David Gale, EY Americas Industrials Transactions Leader

Portfolio transformation helps industrial companies ride the wave of market disruption and remain competitive.

Portfolio transformation emerges as a dominant theme in this edition of the *Capital Confidence Barometer* for industrial companies. As they prepare themselves for medium- to long-term growth, 73% of industrial executives indicate that portfolio transformation is the leading priority on their boardroom agenda. Seventy-two percent plan to divest operations within the next year. Assets that are underperforming or at risk of disruption are most likely to be divested. Over the last three years, 29% of industrial companies have increased the frequency of their portfolio reviews, with one-third of those who say they have increased the frequency of reviews citing threats from digitally enabled competitors and startups as the reason.

Industrial companies keen on use of RPA, AI, big data and analytics

Many industrial companies have been in the forefront of adopting technologies such as automation in manufacturing. In general, industrials are ahead of the global pack when it comes to considering newer, digitally driven technologies such as robotic process automation (RPA) and artificial intelligence (AI). In fact, industrial companies are significantly more likely to identify AI and RPA as priority technologies than the global average (57% vs. 46% of global companies). These technologies are affecting manufacturing processes profoundly as leaders implement automation to make operations more efficient and to stay competitive, and are becoming more scalable, with solutions available at lower price points. Meanwhile, a quarter of industrial companies (24%) identified cloud computing and big data as top technology priorities.

M&A outlook remains positive in spite of increased competition for deals

However, Industrial companies continue to have a confident outlook on the M&A market, with 87% describing it as improving. This confidence is holding strong, even in the face of growing challenges such as increased competition from private equity funds and corporate buyers. When industrials have chosen to walk away from deals, as 74% have in the past year, competition and disagreement on price have been the leading reasons (cited by 53%), followed by regulatory and antitrust concerns (25%). In spite of these challenges, a majority of industrials expect their deal pipelines and deal completion rates to increase. Sophisticated methodologies to source potential targets will support this growth, along with evolving due diligence techniques and analytics to assess planned acquisitions.

Appeal of cross-border deals to increase in response to uncertainty

Industrial executives predict a rise in cross-border M&A over the next 12 months. Political uncertainty and geopolitical tensions, cited by 93% as the greatest near-term risk to the growth of their business, may be fueling interest. Cross-border deals allow industrial companies to operate in multiple countries, providing flexibility when trade policies become restrictive. They can also support co-location of manufacturing closer to key customers.

Top five investment destinations



1

United States



2

Germany



3

China



4

Canada



5

Brazil

Macroeconomic environment and M&A outlook

Broad-based synchronized growth underpins buoyant economic outlook, with dealmaking intentions remaining at near-record levels.

71%

see the economy as **improving**.

87%

see the M&A market as **improving**.

50%

intend to pursue **acquisitions**.

Growth and portfolio strategy

Executives are looking to improve their portfolios. They will be using divestments to raise funds to acquire technology and talent.

73%

say that portfolio transformation is top of the **boardroom agenda**.

71%

identified an **at risk or underperforming asset to divest** during their most recent portfolio review.

32%

expect increased **cross-border dealmaking** as companies look across borders for growth and innovation.

External environment

Executives are looking outside their company to understand risks and opportunities.

73%

say **increased infrastructure spending** will have a positive impact on growth.

36%

cite potential **changes in trade policies and rising protectionism** as a key risk to their business.

50%

see **rising inflation** as the dominant risk to their current investment plans.

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