

# Global Capital Confidence Barometer

April 2017 | [ey.com/ccb](http://ey.com/ccb) | 16th edition | US highlights

The EY logo is positioned in the top right corner. It consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better  
working world

A yellow traffic light is mounted on a grey pole against a dark grey stone wall. The pedestrian signal is illuminated green, showing a walking figure. The light is partially enclosed by a yellow frame that also contains the main text.

## Can complex geopolitical uncertainty and record M&A coexist?

Despite policy uncertainties,  
companies are giving the green  
light to deals in the search  
for growth.



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

# Dealmaking continues at pace with fundamentals driving activity

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At a time of rapid disruption, political change and **policy uncertainty** ...

**69%**

cite a broad range of geopolitical or emerging policy concerns as greatest risks to their business



... companies are **proactively managing their portfolios** and protecting their core business ...

**73%**

have increased the frequency of the portfolio review process



... but a resurgence of economic confidence and **positive corporate indicators** ...

**64%**

see the global economy improving



... also finds executives primed for record dealmaking as they search for **above-trend growth.**

**56%**

intend to acquire in the next year

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# Disruption drives the next wave of dealmaking

It's customary for opening letters to provide a summary of the report and highlight a few key findings. If you expected that, I'm sorry to disappoint – let us do something a little different.

Instead, I will answer the key question: Can heightened geopolitical uncertainties and buoyant M&A coexist?

Yes.

Why? Because geopolitical concerns, though a mainstay feature of the boardroom, are overshadowed by more immediate and pressing risks and opportunities. Geopolitical issues may dominate the headlines, but boards are laser-focused on countermeasures against technological disruption and seizing new routes to growth. Those countermeasures will often involve M&A.

But, while technology and digital disruption are major drivers of the current market, other considerations are also spurring deal activity. Geographical expansion to secure supply chains and increase customer reach will accelerate cross-border M&A. Private equity is returning to replenishing mode. Lastly, corporates are increasingly reassessing and reshaping their portfolios, creating a natural pipeline of deal opportunities.

Consequently, the M&A market is healthy. And we can expect further deal activity. As our front cover indicates, the search for growth is a green light for dealmakers.

Skeptics may maintain that heightened levels of deal activity lead to too many bad deals being pursued. However, this is not the case in today's M&A market. Companies are using advanced analytics, combined with data-driven diligence and integration, to target the right deals and integrate them in the right way.

The result: A strong outlook for dealmaking prevails.



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

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

See page 16 for the top 10 actions that help define M&A success in today's deal economy.

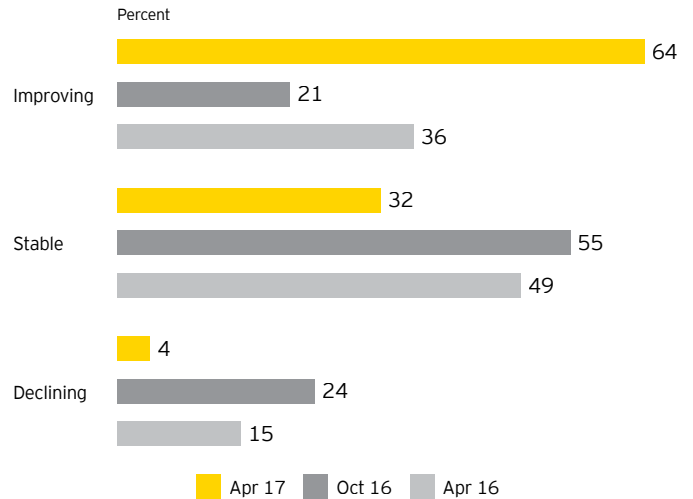
# Confidence is resurgent as executives see the global economy improving and corporate earnings on an upward track.

## Signs of a global economic upturn are boosting renewed expectations of growth

Our survey finds executives bullish about the global economy. A recent pickup in economic indicators and very positive Purchasing Managers' Index results are driving a strong upturn in the number of executives who see the global economy improving.

While this outlook may give a boost to companies' existing operations, it is also elevating investor expectations, as targets for earnings growth in 2017 are elevated across all markets. To meet these stretched targets, companies will look to capture this incremental organic growth and compound it with dealmaking strategies.

**Q:** What is your perspective on the state of the economy today?



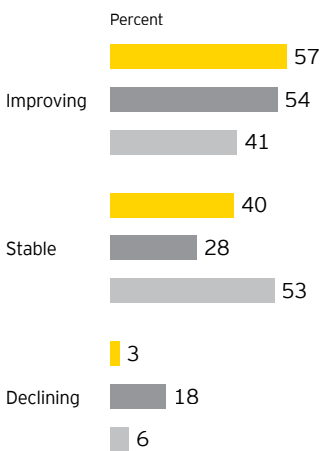
## A positive shift in outlook and a greater sense of stability in capital markets should foster investment

With corporate growth expected to accelerate, credit readily available and valuations seen as improving, companies should feel comfortable accessing capital markets to support investment and M&A strategies.

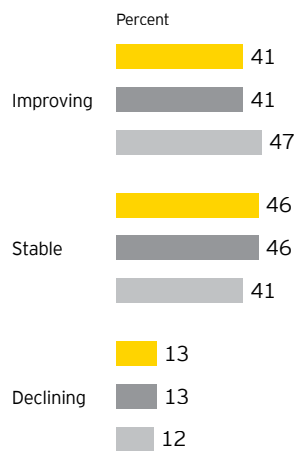
There is a strong view supporting short-term market stability, with the vast majority of respondents seeing the markets as stable in the near term. This relative stability should reassure executives that they do not need to rush into fundraising or refinancing, as capital markets remain accommodative to growth.

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

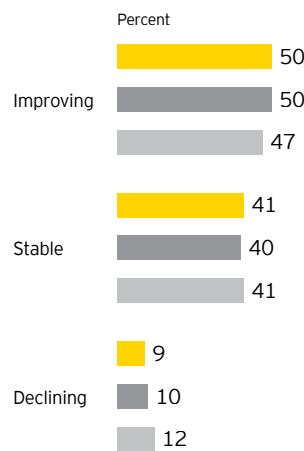
### Corporate earnings



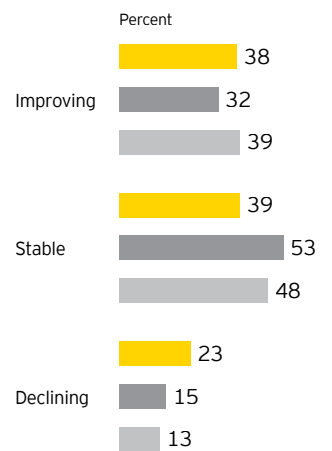
### Credit availability



### Short-term market stability

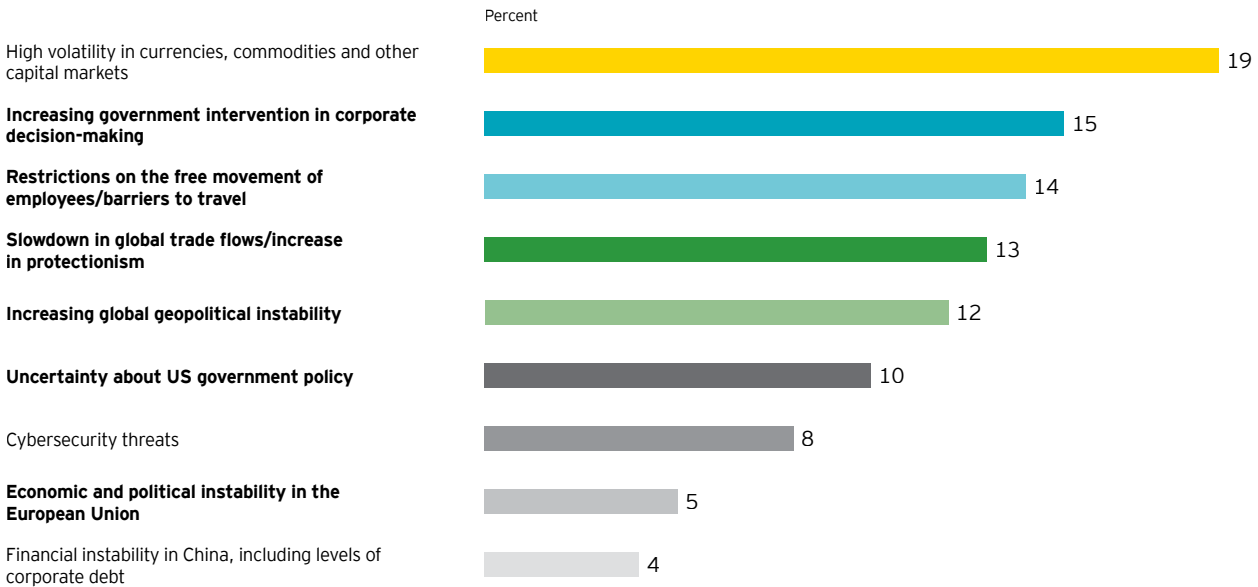


### Equity valuations/ stock market outlook



## Geopolitical unrest and potential for currency uncertainty are seen as key risks to economic growth

**Q:** What do you believe to be the greatest economic risk to your core business over the next 6-12 months?



Risks to companies' core business models remain, but with a slightly different complexion. Concerns about rising nationalism have transformed into uncertainty about policy. Previous fears about a slowdown in global trade have translated into uncertainties about new barriers being raised.

Government intervention and policies – from trade to the movement of labor – now collectively top the macroeconomic concerns of global executives. Leading companies are more carefully assessing geopolitical risks and seeking expert advice to navigate these issues.

Related concerns about the potential for a slowdown in global trade and an increase in protectionism are likely related to

uncertainty about the US Government's trade policy, coupled with ongoing uncertainty about United Kingdom (UK) Brexit negotiations with the European Union (EU). Potential large-scale policy shifts are front-of-mind for many executives.

Market volatility also remains on C-suites' radar. Any return to the high levels of volatility that perpetually shocked markets over the past three years would be a major concern for companies. In relation to historical norms, equity markets are currently high, commodities stable and volatility across asset classes low. But companies always remain wary of a return of high volatility and its impact – slowing decision-making and curtailing investment strategies.

Government intervention and policies – from trade to the movement of labor – now collectively top the macroeconomic concerns of global executives.

# As technology disrupts business models and customer behaviors, businesses are more regularly reassessing and reinventing their portfolios.

## Geopolitical issues may dominate the headlines, but boards are laser-focused on countermeasures against disruption and seizing new routes to growth

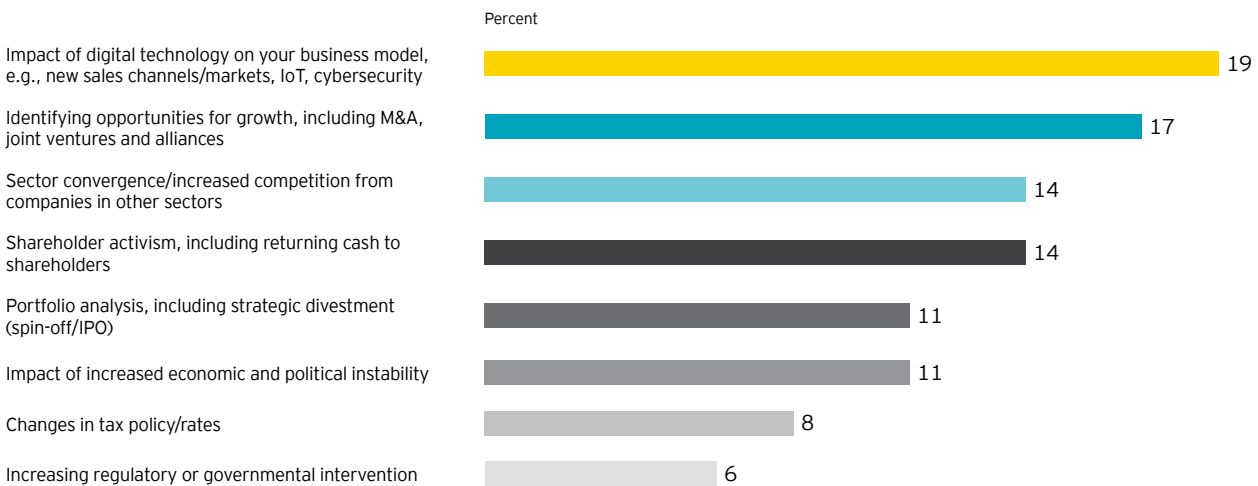
Boardroom agendas are dominated by disruptive forces such as digital innovation and the search for growth.

The need to generate returns above gross domestic product levels is spurring executives to look even more favorably on inorganic measures. Dealmaking, on both the buy and sell sides, joint ventures (JVs) and alliances are all being strongly considered to

meet shareholders' demands and to respond quickly and positively to disruptive challenges.

Increasing sector convergence, largely fueled by digital advances, is also becoming a permanent feature of boardroom considerations. Issues such as geopolitical and policy uncertainty are important, but not as important as technological disruption.

**Q:** Considering the answers given in this survey, which of the following will be most prominent on your boardroom thinking during the next six months?



Boardroom agendas are dominated by disruptive forces such as digital innovation and the search for growth.

## Executives expect core businesses to provide a lift, but inorganic growth strategies will feature prominently

While an improving global economic landscape is expected to support corporate growth in the next 12 months, executives are still looking to inorganic measures, such as M&A, joint ventures and alliances, to provide a significant boost. More than 40% of growth is expected to come from dealmaking, indicating that executives are exploring all avenues – capturing the lift from an improving economy while still focusing on deals to provide further acceleration.

Among inorganic growth measures, alliances and JVs are almost as important as M&A to executives' strategies. Companies will look to combine with disruptive startups or players from other sectors to follow customers and maintain competitive advantage.

**Q:** From where do you see growth within your company over the next 12 months?

Percent



Apr-17



Oct-16

Organic M&A JVs Alliances

## Innovative competitors and potential changes in trade policies compel companies to reinvigorate their portfolio and operational reviews

The accelerating pace of innovation and competition across sectors is encouraging executives and companies to review and reorganize their portfolios more frequently, enabling them to capitalize on emerging growth opportunities.

Companies need to take advantage of game-changing shifts in their industries immediately or risk being left behind.

**Q:** Have you increased the frequency of your portfolio review process to capitalize on disruptive forces in your sector?

Percent

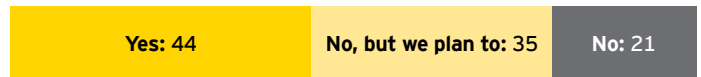


In a similar vein, executives are more proactively reassessing and reorganizing their geographical footprint. This will equip their companies to more quickly pivot in response to major changes in trade policy.

The need for this preparation has only become more acute amid recent political developments, which have called into question trade policies developed over many decades. More than ever, companies may need to shift quickly to protect their globalized operations and supply chains.

**Q:** Have you begun actively reorganizing your geographic operations in response to potential changes in trade policies?

Percent



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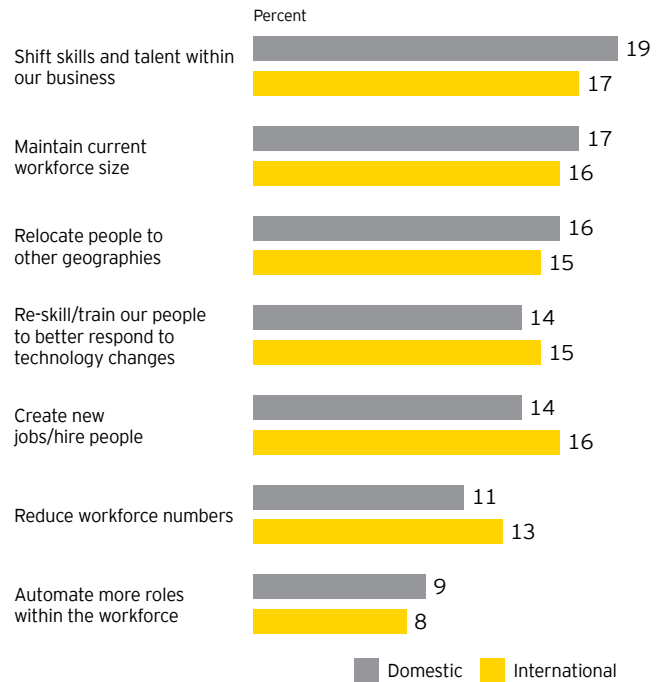
## Shifting skills and relocation underpin companies' increasingly flexible approach to talent

Many companies have taken advantage of changing workforce patterns to build flexible and responsive structures. That enables them to shift skills and people – within the business and across geographies.

Executives say they plan to invest in their current workforce by committing resources to training and re-skilling. These activities empower employees to better respond to technological change and disruptive forces. Executives say they are inclined to either maintain or increase their numbers of employees. Only a minority plan to reduce their workforce or automate existing roles.

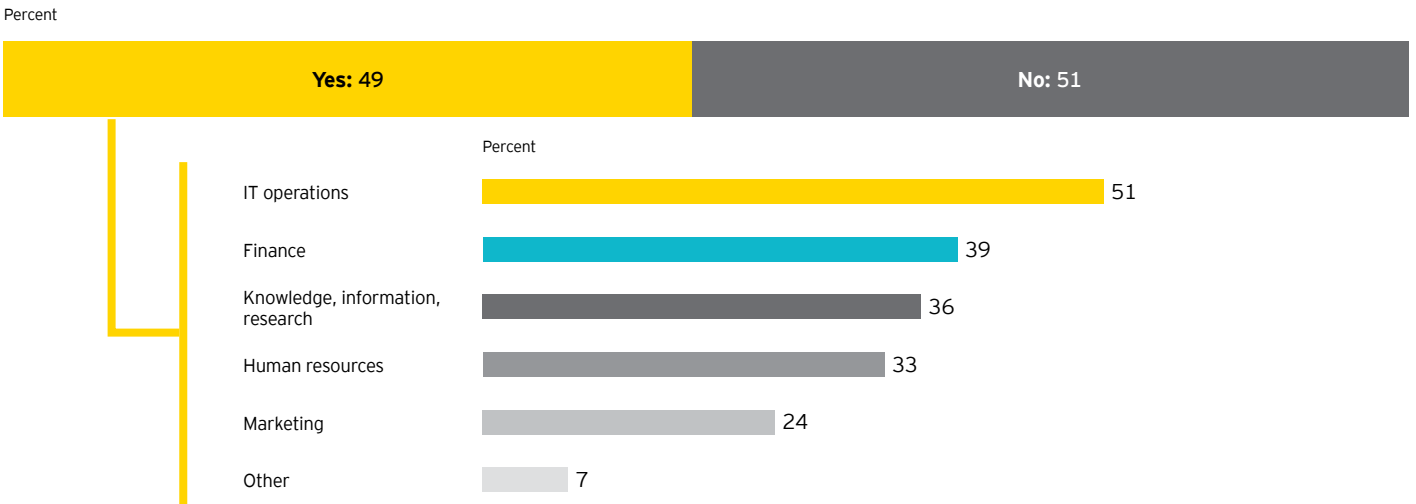
The biggest risk to executives' workforce outlook is a rise in protectionist policies. Such policies could undermine the ability to relocate workers or hire employees from other countries.

**Q:** With regard to employment, which of the following does your organization expect to do in the next 12 months?



## Outsourcing routine operations enables greater focus on core competencies

**Q:** Do you plan to outsource any routine operations or back-office functions in the next 12 months?



After the global financial crisis, a wide range of companies developed lean operating models in response to shareholder pressures for earnings growth. This effort has encouraged executives to find efficiencies through outsourcing non-core operations, on the premise that a full focus on core activities enables management to better allocate time and resources, resulting in higher returns.

Identifying the business context and strategic objectives is the first step of any outsourcing plan. For example, if outsourcing is targeted at the functional level (e.g., IT or finance-function outsourcing), then companies must consider both organizational and functional strategy.



# Dealmaking is set for a very strong 2017. Concerns about an overheated market are countered by growing deal discipline.

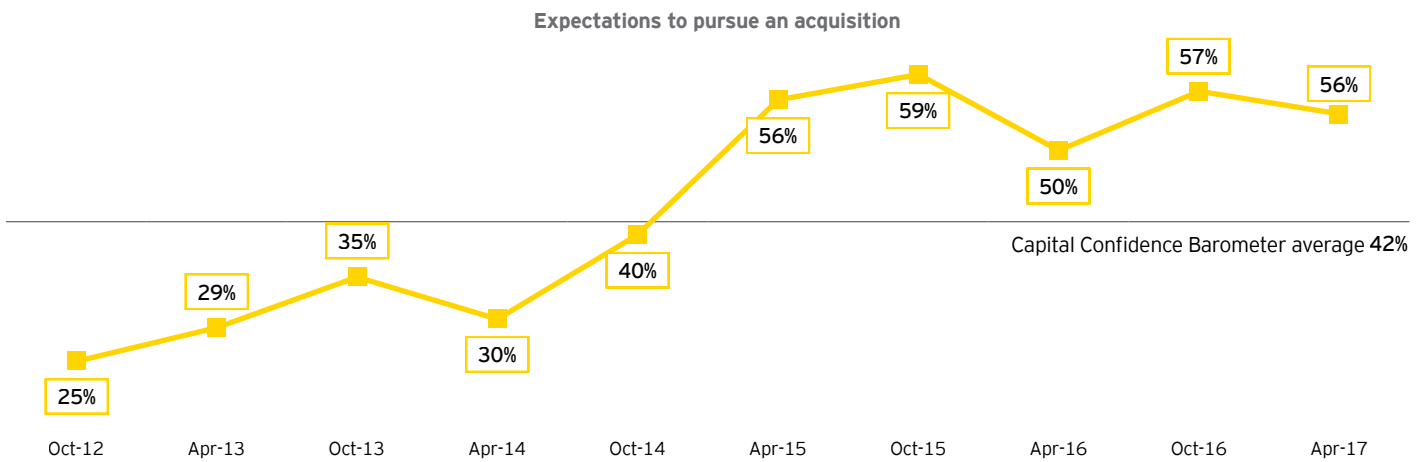
## Near-term dealmaking is expected to remain at high levels

Although 2016 M&A did not top 2015's record levels, a strong finish to the year and a flurry of dealmaking in early 2017 are fueling executives' positive M&A intentions.

Improving economic conditions underpin deal activity. European M&A markets, in particular, have seen a strong start to 2017

as European companies on the buy side return to the market. This trend, together with private equity (PE) firms shifting into portfolio-replenishment mode, should keep deal values and volumes robust for the remainder of the year.

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

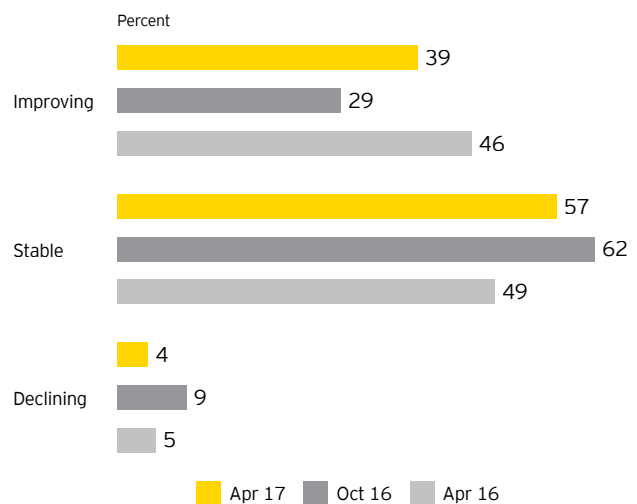


## Deal momentum grows despite head winds

Many of the head winds that caused a slow start to dealmaking in 2016 have dissipated. New geopolitical complexities have emerged in 2017 – but we may be witnessing a new kind of M&A market, where these geopolitical concerns might not derail deals, unlike in previous cycles.

Moreover, there has been no change in the underlying reasons for pursuing deals: digital disruption, sector blurring, and changing consumer and customer behavior. More than ever, companies that hold back from inorganic growth strategies could struggle to remain relevant in a fast-moving environment.

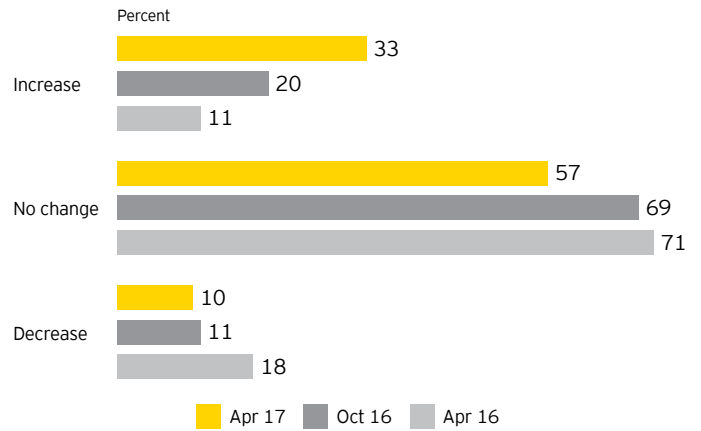
**Q:** What is your expectation for the M&A market in the next 12 months?



## Executives plan to complete more deals ...

The M&A upturn that began in 2013 looks set to continue, as executives plan to sustain or accelerate deal completions. Improved economic conditions are a major factor, but other pressures mentioned in this report are also bringing companies to the deal table.

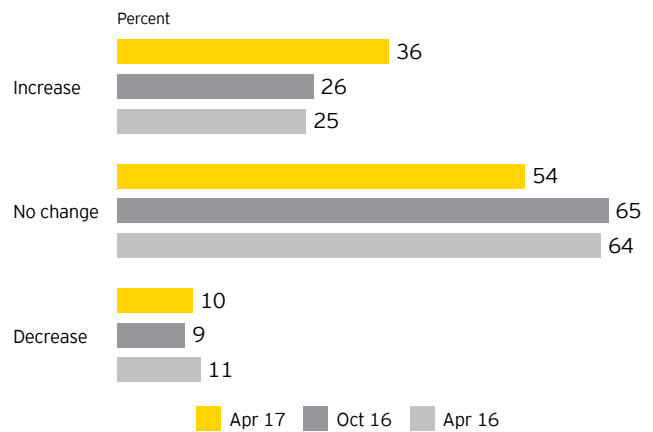
**Q:** Considering the next 12 months, what is your expectation for the number of deal completions by your company compared with the past 12 months?



## ... while replenishing their pipelines to enable a range of options ...

Among the many factors influencing pipeline growth is executives' need to consider multiple futures for their industries at a time of continuous disruption. In these markets, building optionality into corporate strategies could be the key determinant of success.

**Q:** Considering the next 12 months, how do you expect your pipeline to change?

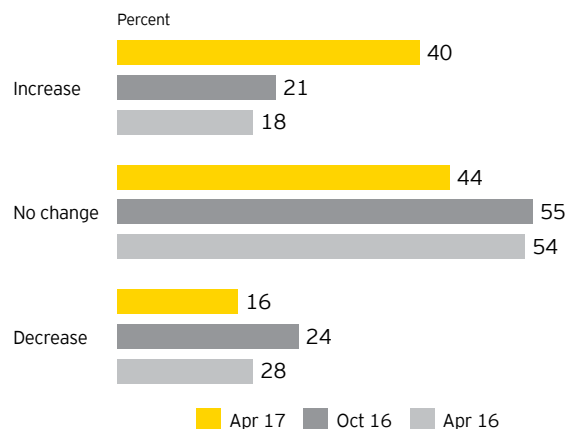


## ... and improving valuations will encourage deal flow

Our respondents suggest that valuations have room to run. The vast majority of executives who plan to pursue acquisitions in the next 12 months expect asset prices to increase or stay the same – a prerequisite for a healthy and sustainable deal market.

Investors are also more likely to support acquisitions in a market with stable asset pricing. Sellers are also encouraged to come to the market in such conditions.

**Q:** Considering the next 12 months, how do you expect the price/valuation of assets to change?



## Companies are reacting and responding to disruption by following the customer

Accelerating innovation is compelling companies to look outside their own sector to protect and enhance their customer base in an increasingly competitive environment.

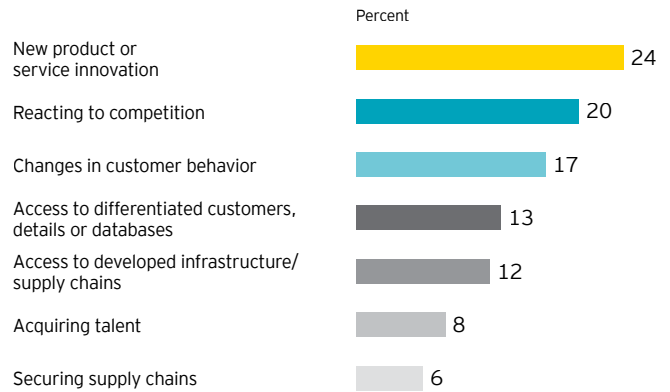
Customer-centric strategies are driving investment strategies. Executives recognize that they need to at least maintain pace with changing customer trends or ideally get ahead of the pace of change.

That could lead to cross-sector convergence in the search for customer-centric innovations, which brings both risks and opportunities. Companies may find themselves entering into transactions and alliances very different from those they would have considered in the past – with all of the integration and business-focus challenges that come with such ventures.

However, the market imperative remains compelling, especially as competitors innovate their own products and engage customers in new and innovative ways. The need to maintain a leading competitive market position is critical to protecting earnings and margins.



What are your main strategic drivers for pursuing an acquisition, joint venture or alliance outside your own sector?



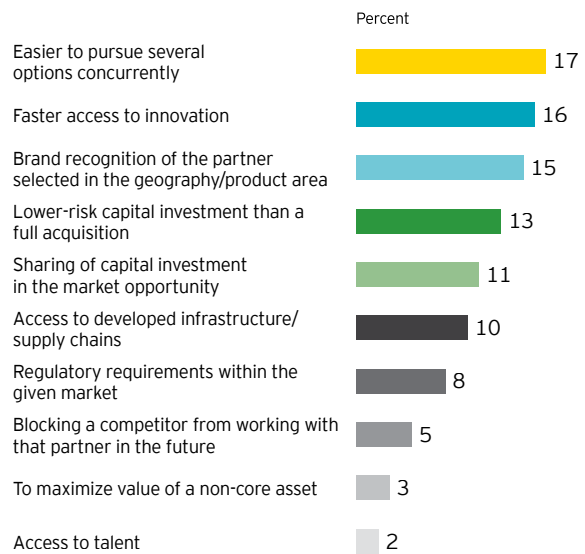
## Executives are attracted to alliances for their lower risk, relative speed and expanded optionality

Positive sentiment on economic outlook signals the next phase of the global economy and presents great opportunities. But it also presents new risks – the fast pace of change compels executives to prepare for multiple futures, which means building flexibility into strategic plans. Such flexibility can be achieved effectively through alliances and JVs.

In fact, alliances have taken on a wider, more varied array of structures, driven by the emerging trend of larger companies deploying capital through corporate venture arms. In many cases, these kinds of investments become more formalized later, leading to full takeovers.



What are the main reasons for entering an alliance or joint venture as opposed to making a full acquisition?



## Alliances compel, and may require, different methods for evaluating success

The majority of executives recognize that alliances are very different from mergers, acquisitions and even joint ventures. Accordingly, the level of oversight for alliances must also be different. Companies should employ diverse integration and management methodologies so that these arrangements generate value and bolster long-term strategic plans.



Do you have a formal process to evaluate and capture synergies and value created by alliances?



## Emerging M&A themes

Potential policy changes affecting market access could drive cross-border deals as companies look to protect and sustain their globalized operations. Buying innovation will also be a major theme of 2017, as disruptive startups challenge existing business models.

Despite concerns over increasing nationalism and protectionism, 2017 has seen a significant uptick in cross-border deals.

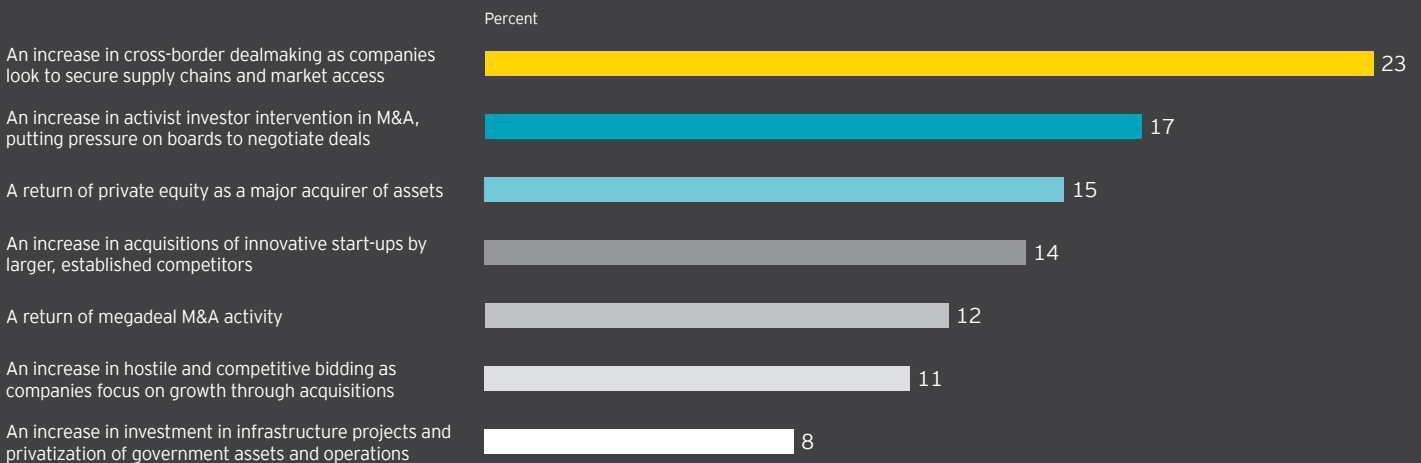
Executives expect to pursue a greater number of international acquisitions in the next 12 months. Such deals enable companies to buy into pockets of growth and secure supply chains in an era of geopolitical and policy uncertainty. Many companies operate in a global environment driven by worldwide supply chains. They see M&A as an increasingly effective instrument to protect their international superstructure.

For larger, more established companies, a major competitive tactic in the coming year will be accelerating growth by acquiring innovative startups. These companies will employ a range of acquisition techniques, from full asset purchases to investments via their corporate venture-capital arms. Successful integration will also be key to these large enterprises' success, so that they fully capture and nurture the innovation that drove the deal.

Another feature of the current M&A market has been high-profile investors looking to affect potential deals through public statements during the deal process. These incidences of activist and institutional investors, encouraging boards to engage and examine any potential deal approach, are only expected to increase. Leading practice for executives is careful alignment with their major shareholders in order to present a united stance on dealmaking.

Finally, private equity is expected to make a major play in M&A over the next 12 months. PE firms are still operating in a challenging environment, with valuations rising and competition from corporate acquirers intensifying. But funds are building and adapting their investing models for this new reality; and PE firms have spent the last few years building teams and competencies that add value in cycle-agnostic ways that do not over-rely on financial engineering to generate value.

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



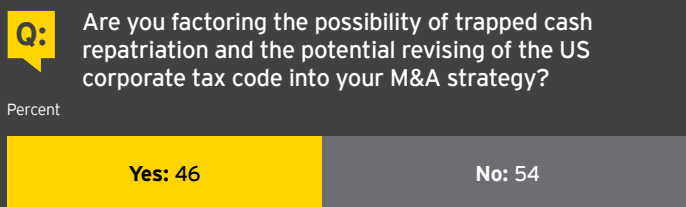
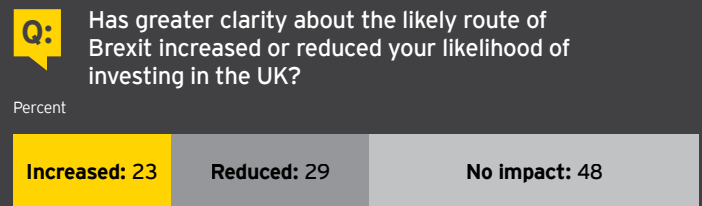
Executives expect to pursue a greater number of cross-border deals in the next 12 months. Such deals enable companies to buy into pockets of growth and secure supply chains in an era of geopolitical and policy uncertainty.

On the margin, the new US administration is seen as being broadly positive for dealmaking. However, the impact on M&A of events in the European Union reinforces respondents' view in our survey that geopolitical issues are not the primary concern of dealmakers.

The victory of Donald Trump in the US presidential election and the UK decision to exit the European Union (Brexit) dominated headlines in 2016. These two events will continue to have an influence on growth strategies in 2017 – and beyond.

Executives are already looking to the new US administration's policies to fuel dealmaking. Should they come to pass, changes to the US corporate tax code and a corresponding repatriation of trillions of dollars in overseas cash holdings could spur a sharp acceleration in M&A involving US companies.

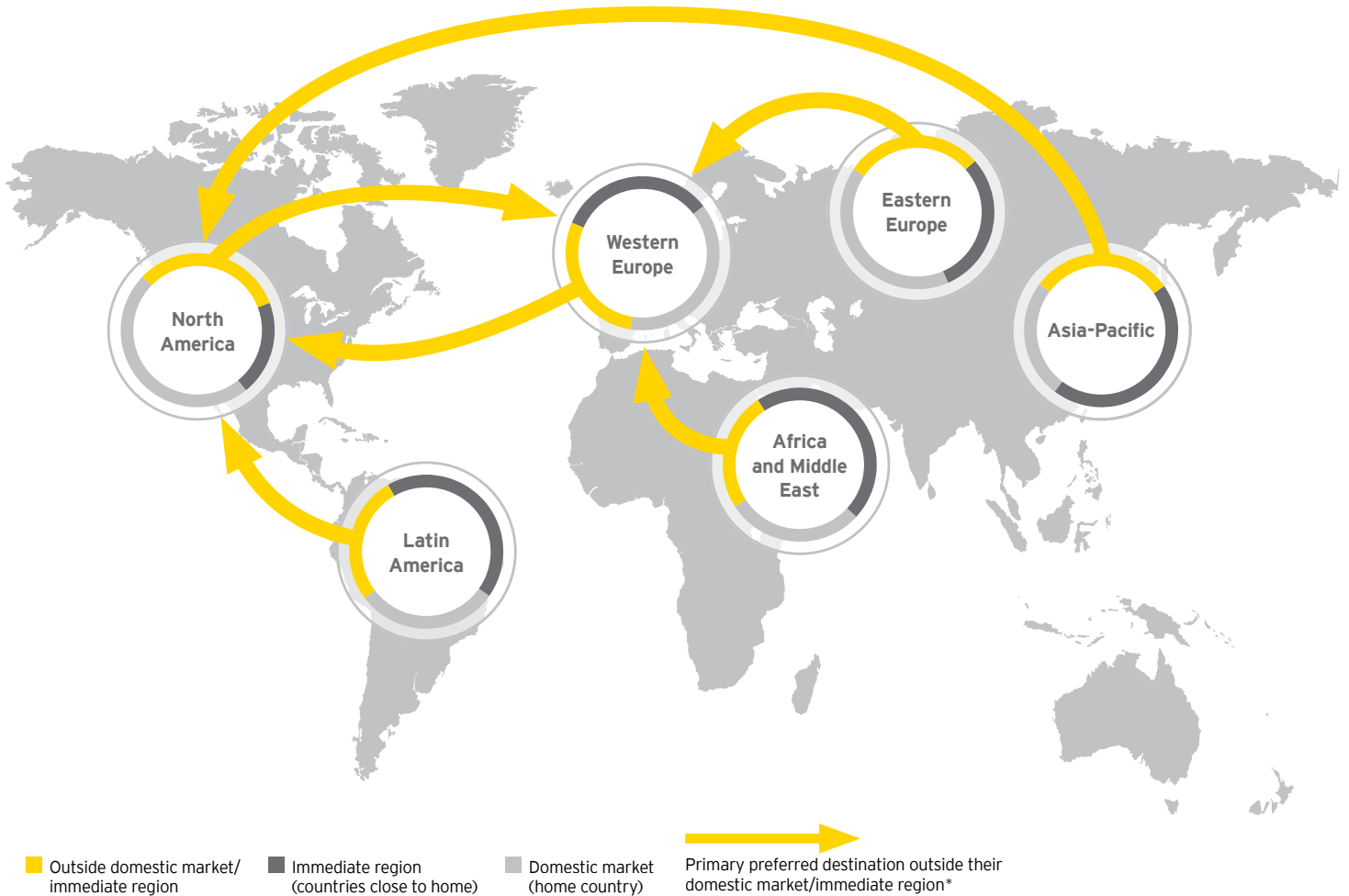
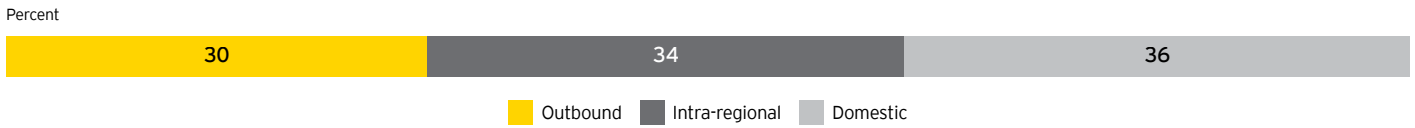
As for the UK Brexit decision and its attendant political uncertainty, many executives are taking a more ambivalent view. Some see upsides to Brexit and the potential investment opportunities in the EU, while others are more pessimistic. Regardless of their disposition, the majority of executives are adopting a wait-and-see stance with Brexit negotiations about to begin in earnest and key EU elections still to be held. Executives will look to see concrete outcomes in Britain and the continent rather than try and second-guess the final resolution.



The victory of Donald Trump in the US presidential election and the UK decision to exit the European Union (Brexit) dominated headlines in 2016. These two events will continue to have an influence on growth strategies in 2017 – and beyond.

Companies are looking across a broad range of geographies for deals to secure market access and grow their customer base, with a pivot toward developed markets

**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)?



\*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 13).

Cross-border transactions have emerged as a primary component of dealmaking in the current M&A market. During the first quarter of 2017, more than 40% of value was allocated to buying assets abroad. The key shift has been a resurgence of deals between the US and Western Europe, which is reflected in our survey. As

executives place greater focus on North America and anticipate a pickup in US economic activity, companies are looking to tap into this higher growth to boost earnings. Meanwhile, Western European assets will also be in demand, as indicators point to the region finally escaping a decade of stagnation.

## Top investment destinations and their key characteristics

### Top 10 investment destinations

1  United States

2  China

3  United Kingdom

4  Germany

5  Canada


6  France

7  Brazil

8  Australia

9  India

10  Japan



**United States**

|                      |                         |
|----------------------|-------------------------|
| <b>Top investors</b> | <b>Top destinations</b> |
| 1. US                | 1. US                   |
| 2. Brazil            | 2. Canada               |
| 3. Canada            | 3. India                |

**Top sectors**

- ▶ Diversified industrial products
- ▶ Real estate, hospitality and construction
- ▶ Automotive and transportation

The **United States** retains its position as the center of global M&A. Conditions are set for another strong year in US dealmaking, with growth acceleration anticipated, executives and consumers expressing confidence, and supportive capital markets. While US companies and investors are still uncertain about the policy direction of the new administration, markets have already priced in an anticipated reform of corporate tax regulation and a resulting cash repatriation. This expectation has made the US an attractive destination for inbound acquisitions in 2017 to date. Should tax reform come to pass later this year, repatriation of US companies' record cash holdings should give a major boost to US dealmaking. Coupled with strong credit availability and a strengthening dollar, this could boost US companies' financial firepower as they look beyond their borders to buy into pockets of overseas growth or new technologies.




**China**

|                      |                         |
|----------------------|-------------------------|
| <b>Top investors</b> | <b>Top destinations</b> |
| 1. China             | 1. China                |
| 2. US                | 2. US                   |
| 3. Japan             | 3. Japan                |

**Top sectors**

- ▶ Automotive and transportation
- ▶ Mining and metals
- ▶ Telecommunications

**China** is now well established as the second most important market of global M&A. While the focus of China-involved dealmaking in 2016 was outbound acquisitions, 2017 will be firmly centered on domestic combinations and inward investments. There has been a change in emphasis by the Chinese authorities to a more cautious, stability-focused agenda. One central policy underpinning this move to greater stability will involve the merging of state-owned enterprises. This policy will aim to reduce inefficiencies and over-production in certain sectors, including steel and aluminum and other heavy industries. However, more forward-looking, growth-oriented dealmaking will also be prominent as China continues to shift its economy to a more of a supply- and consumer-driven model. This will involve domestic combinations, but also targeted outbound acquisitions and inbound investments.



**United Kingdom**

|                      |                         |
|----------------------|-------------------------|
| <b>Top investors</b> | <b>Top destinations</b> |
| 1. UK                | 1. UK                   |
| 2. US                | 2. US                   |
| 3. Canada            | 3. France               |

**Top sectors**

- ▶ Power and utilities
- ▶ Telecommunications
- ▶ Media and entertainment

While the **United Kingdom** briefly fell out of the top 10 destinations for investment in the survey following the referendum on membership of the European Union, it has quickly rebounded as an investment destination in this Barometer. The UK has long been the third major participant in global dealmaking. It is especially strong in cross-border M&A, both inbound and outbound. The UK boasts many top companies in industries that are rich in intellectual property (IP), including pharmaceuticals, technology and consumer products. While this increases the ability of UK companies to buy abroad, it also increases the attractiveness of UK-based assets. While the ongoing uncertainty surrounding the UK's future relationship with the EU persists, it will not derail UK-involved dealmaking. Overseas companies will be looking to acquire top UK-based companies. The recent weakening of sterling may encourage this, but the strategic rationale of buying high-IP, globally focused UK assets will be the main driver.

## Executives look to new types of diligence to make sure the right deals are struck

This survey finds due diligence coming to the fore, as executives utilize new tools and methodologies to better understand the assets they intend to acquire.

There are two key reasons why due diligence is elevated as a deal filter in current dealmaking. First, digital technology is increasingly disrupting business models and markets. Understanding the impact of digital shifts on market share, margins and growth of a targeted asset is crucial. Second, the pure availability of data has increased. Data has exploded at an astonishing rate in both volume and velocity in recent years. Companies now need advanced analytics to efficiently harness leading insights.

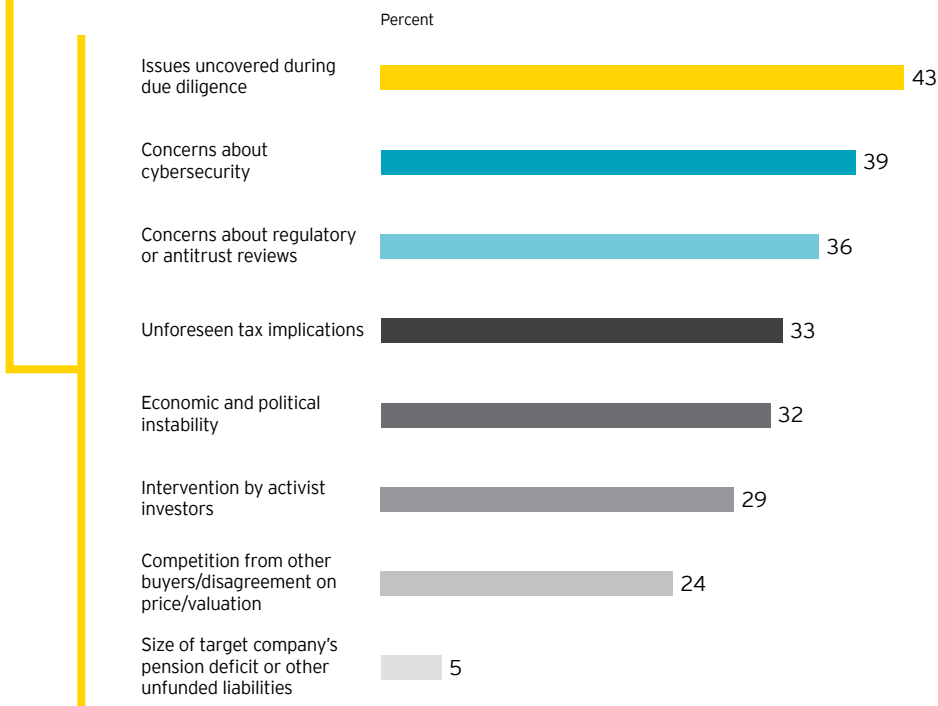
More companies than ever are using data analytics to deliver fast and high-quality analysis using unstructured data sets during the diligence phase of deals. Identifying issues that were previously hidden is enabling companies to ask better questions prior to completion. This helps executives find better answers and in turn make better valuation and transaction decisions.

Companies are also using advanced diligence techniques to understand how acquired assets can be successfully integrated into their organization and strategy. Integration strategies now need to be tailored to deliver back-office synergies and to enhance front-end customer experiences. Tailored integration also helps companies capture the full potential of future growth.

**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?





## Top sectors and key M&A drivers

### Automotive and transportation

- ▶ Collaborative product development, supply chain and production, based on predictive analytics, robotics and Internet of Things (IoT) technology, are driving innovation across the automotive value chain.
- ▶ Companies' M&A strategies revolve around acquiring innovative capabilities offered by start-ups.
- ▶ The rise of the collaborative economy, where mobility providers offer services without owning vehicles, is leading to partnerships between traditional automotive vehicle manufacturers and new entrants.
- ▶ The sector is moving toward total connectivity between vehicles, traffic and municipal services through sensor-embedded roads and infrastructure – the move toward fully autonomous vehicles will impact automotive companies' M&A strategy, with an increasing convergence with the technology sector.
- ▶ Original equipment manufacturers (OEMs) are increasingly adopting strategies to move away from diesel powertrains in the long run and focus on the production of hybrid and electric passenger vehicles. Diesel emission-related issues are leading OEMs to refocus on operational performance and consider restructuring measures.

### Consumer products and retail

- ▶ Cross-border transactions are expected to increase as large regional companies look to move from being strong regional leaders to global competitors.
- ▶ Portfolio optimization will also be a major theme, with large European and North American conglomerates refining their portfolios to focus on core assets and category expansion.
- ▶ Unable to outflank start-up brands, big consumer companies are increasing M&A activity as a route to outsourcing innovation. Such moves gain access to e-commerce technology and insights into how consumers replenish products. A major facilitator of such deals is the increasing use of corporate venture capital by larger companies.
- ▶ Protein has been a key part of the health and wellness trend the last few years. Alternative protein source companies will be key acquisition targets as the world population continues to grow. Insect protein will join plant protein in becoming mainstream – although it poses an interesting marketing challenge.

### Mining and metals

- ▶ During the price downturn, the mining industry was selling non-core assets to reduce debt and optimize balance sheets.
- ▶ The recovery of commodity prices has released the immediate pressure on companies to sell, and some have postponed divestments.
- ▶ Companies that have successfully managed balance sheets are and will be open to synergistic acquisitions.
- ▶ The challenge is balancing short- and long-term shareholder value, through revised dividend policies or through discerning allocation of limited available capital.
- ▶ Significant consolidation is anticipated as companies merge to strengthen against volatile conditions or position themselves better for the next cycle.

### Oil and gas

- ▶ Portfolio optimization is expected to be at the forefront across the oil and gas value chain. Companies are making concerted efforts to improve their portfolios and move toward low-cost, high-productivity regions.
- ▶ This will drive deal activity, especially for the upstream operators. Companies will want to dispose of non-core assets and acquire acreage in core areas.
- ▶ US shale has been a major area of M&A activity in the first quarter of 2017, and this is expected to continue, especially targeting assets in the Permian Basin.
- ▶ Faced with changing customer behavior, oilfield services companies are responding by embracing new technologies and contract models, fundamentally changing their business models and transforming their relationships with their customers.
- ▶ More fragmented than ever, the oilfield services industry is adapting to the new environment and is starting to consolidate as a response to the fundamental changes in its customer base.
- ▶ Oil and gas companies are keen to invest in digital technologies such as cloud-enabled mobility, big data-powered analytics and the Internet of Things.

### Power and utilities

- ▶ Expansion in distributed generation, such as solar photovoltaic and battery storage, and new energy technologies, such as microgrids, and virtual power plants is disrupting traditional utility business models.
- ▶ Smart technology, telecommunications (telecom) and data analytics are being used to optimize energy delivery and enhance customer experiences. New entrants have begun to offer customers innovative, behind-the-meter products and services. Utilities are also acquiring new capability through acquisitions or partnering with telecommunications and technology providers.
- ▶ Utilities in Europe are disposing of non-core assets to improve balance sheets, and diversifying into new markets and technologies to drive sustainable growth. Financial investors are keen to diversify operations and deploy capital to an increasingly competitive pool of power and utilities assets, resulting in currently high premiums for regulated network assets and sovereign power purchase agreement-backed renewables.
- ▶ Energy demand continues to increase in emerging markets. Significant investment is required to provide sufficient generation capacity, and associated grid infrastructure, to fuel economic growth. Foreign and private investors are rapidly increasing their exposure in such markets.

### Telecommunications

- ▶ Increasing convergence and competition with technology and media companies, combined with advances in technology and digitalization, are disrupting business models across the telecom landscape, leading to increasing combinations.
- ▶ Telecom companies (telcos) will grow their revenues in the digital landscape by capturing adjacent business options, including over-the-top, Internet of Things and machine-to-machine information.
- ▶ Digital will demand higher capital expenditure for telcos as data consumption accelerates traffic on networks, leading to an evolution in the telecom infrastructure market, including small cells and data centers. Tower sale-and-leaseback transactions are also an important route to controlling capital expenditures and boosting network coverage.
- ▶ Telcos are also investing in incubator initiatives through their corporate venture arms to complement their M&A approach and gain a fast track on new innovation.

# 10

## top actions

that help define M&A success in today's deal economy

### 1 Learn to live with uncertainty

Geopolitical and policy uncertainty is a permanent feature of a globalized economy, but technology-enabled disruption poses a greater challenge to many business models.

### 2 The only constraints are the ones you create

New products and services are being created at a pace not seen before – being bold could be key to success as today's deals will likely be tomorrow's game-changers.

### 3 Reimagine the parameters of your business

Do what you do best – adapt your operating model to succeed in tomorrow's market.

### 4 Play on your terms

Be in total control of your own destiny – rigorous and regular portfolio reviews will enable you to be strategically nimble and opportunistic.

## 5 **Your pipeline is your lifeline**

Competition for quality assets is high, and assessing a number of M&A options is critical to create multiple opportunities in such a fast-moving market.

## 6 **Follow the customer**

M&A can offer a fast track to the innovation needed to maintain pace with the warp-speed, customer-centric change reshaping today's business landscape.

## 7 **Disregard boundaries**

Cross-border deals are a necessity – successful companies will find ways to navigate challenges such as rising nationalism.

## 8 **Walk through walls**

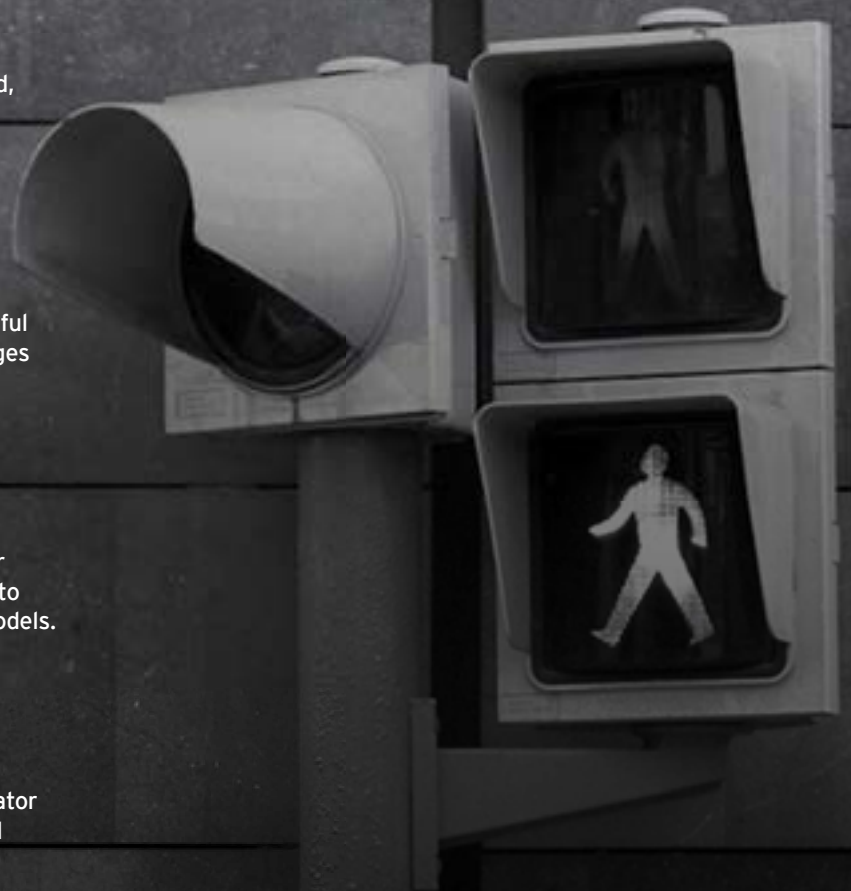
The traditional walls that once defined sector territories have dissolved – executives need to seize opportunities amid shifting industry models.

## 9 **Measure what matters most**

Past performance is not necessarily an indicator of future success – new ways of focusing and filtering data can provide insights into future customer trends.

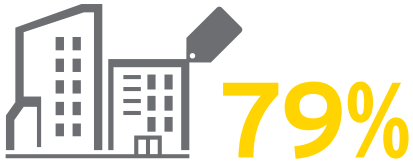
## 10 **Integrate with intent**

Always consider your overarching strategy during integration, and enhance potential value by targeting both top-line customer experience and bottom-line cost efficiencies.

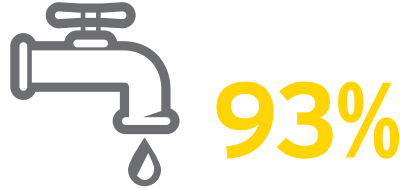


# US highlights

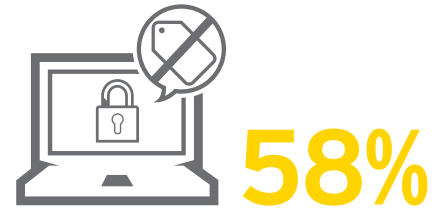
## M&A outlook



expect to actively **pursue acquisitions** in the next 12 months



of companies have **one to three deals** in their pipeline



cite **cybersecurity concerns** as a reason for canceling a planned deal

## Macroeconomic environment



see the **US economy** as improving



see **corporate earnings** as improving



look at **cross-border deals** to secure market access and grow their customer base

## Growth and portfolio strategy



of growth is expected to be **inorganic**



of companies are **increasing** the frequency of **portfolio reviews**



say **shareholder activism** will be prominent in their boardroom thinking over the next six months

## Buoyancy amid unrest: how US executives are facing the most complex markets ever

One consistent observation through eight years of our *Capital Confidence Barometer* is that executives, particularly in the United States, gravitate toward certitude. That's why the word "confidence" is in the title of our study; when companies feel assured, they are more likely to pursue mergers and acquisitions and other bold measures to grow their business.

A few months into 2017, our US respondents find their confidence buoyed – ironically, even as they are contending with greater macro tumult than ever. When we last surveyed them, in October 2016, the US presidential election was several weeks away. The outcome of that contest surprised observers across the business community, on both sides of the political aisle and around the world. And since taking office, the new US administration has spurred debate on many economic and market precepts, from trade to taxes to talent.

In this survey, however, we find US executives solidly optimistic, both about the economy and about their own prospects under a new political order. For them, the certitude of a clear doctrinal direction trumps the day-to-day debate. Two thirds say the global economic picture is improving, and more than half say the US economy is improving – both percentages greater than they were six months ago. US deal intentions remain historically high (79%), slightly higher than the record US M&A intentions of 75% we recorded in October. This sets the stage for another very busy year for dealmaking.

This resilience among US executives can be attributed to the ever-broadening canvas against which they must operate. For the modern US C-suite running a globally minded, innovation-hungry business, complacency is not an option, as the half-life of any strategy shortens and every asset must work to its maximum capacity.

Indeed, the key word for US companies right now is not so much "deal" as "portfolio" – executives and boards are more focused on their mix of assets than ever, with nearly 90% in the US telling us they have stepped up portfolio review. We have been hearing for some time that companies recognize the need to pare back non-core holdings, and this mindset is showing up in our survey and in the meaningful increase in new deal activity we've seen since the start of 2017.

Without a doubt, politics and economics will continue to throw curveballs at the markets for the rest of the year, especially as prospects for serious legislative reform grow cloudier. US companies, however, have already priced in such turmoil as they pursue their own, more specific goals: staying relevant, finding growth and expanding their market leadership.



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# 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 more than 2,300 executives in 45 countries; nearly 50% were CEOs, CFOs and other C-level executives; 459 executives were surveyed from the US.
- ▶ 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, diversified industrial products, and construction and real estate.
- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (18%); US\$500m-US\$999.9m (24%); US\$1b-US\$2.9b (17%); US\$3b-US\$4.9b (17%); and greater than US\$5b (24%).
- ▶ Global company ownership was as follows: publicly listed (66%), privately owned (30%), family-owned (2%) and government-/state-owned (2%).

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EYG no. 01790-171US

1701-2166971

ED 1804

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