Capital Confidence Barometer

Confidence in balancing risk and returns

M&A outlook
A willingness to transact at the right price

Economic outlook
Cautious optimism characterizes the global outlook

Access to capital
Global credit conditions are improving

Growth strategies
Growth takes a different path

Oil and gas
Confidence in balancing risk and returns

Renewed optimism, with more access to capital means confidence is increasing. But there are risks and the market is moving cautiously.

Key findings

91% view the global economy as stable or improving, up slightly from October 2013

87% view credit availability as stable or improving

86% expect to grow or at least keep their current workforce in the next 12 months

40% view cost reduction and operational efficiency as their organization's main focus over the next 12 months

51% view optimizing as the dominant focus of their organization's capital agenda

30% expect to pursue an acquisition in the next 12 months

52% view market share growth in new markets as a main driver of planned acquisition activity
A more conservative view in oil and gas price outlook has become the consensus within the industry. Combined with the pressure on capital returns, attributable to multiple cost and delivery issues, this is driving a renewed focus. The changing dynamics within the M&A market is moving it from one which has been relatively “seller-friendly” for the last decade, to one where the buyers have a stronger position. Last year, this dynamic manifested itself by a huge buildup in unsold assets, remaining in the market for a considerable period. This year, consensus on price outlook has fed through to consensus in asset valuation transaction volumes, which will pick up, but perhaps at lower unit volumes than previously expected.

“A new consensus in oil and gas prices and relentless pressure on capital efficiency is driving a greater emphasis on optimization vs. growth”

A note from Andy Brogan, Global Oil & Gas Leader, Transaction Advisory Services

For leading global corporates, striking a balance between risk and reward has rarely been so difficult. Companies are grappling with geopolitical instability, a fragile global economic recovery, and seismic shifts in “megatrends” such as structural changes in the workforce and digital transformation – all at a time of unprecedented shareholder activism.

Many executives are now navigating this complexity with parallel priorities. Value is being sought today through a renewed focus on cost-management strategies and returning rewards to increasingly active shareholders.

At the same time, some executives are also seeking value creation and top-line revenue through innovative organic growth and measured dealmaking. Larger, more transformational M&A is on the strategic growth agenda. Pipelines point to only modest increases in deals as low volume becomes the hallmark of a low-growth environment. Increased deal values, rather than volumes, will likely be making headlines in the coming year. After a prolonged financial crisis and M&A market malaise, companies and boards are opting for quality rather than quantity.

A note from Pip McCrostie, Global Vice Chair, Transaction Advisory Services
Economic outlook

Cautious optimism characterizes the global economic outlook

The global economy is stabilizing and the majority of survey respondents still see the global economy improving. But our survey respondents, both for our global sample and our oil and gas sample, are a bit more cautious in their optimism than they were six months ago. The recession in Europe appears to be over, but growth remains anemic, particularly in the southern regions where significant structural issues remain. Consumer and business confidence is rising in the mature economies, and the emerging economies are generally recovering from their slowdown.

Cautious optimism is the order of the day

More than 54% of the oil and gas company respondents believe the global economic situation is improving, but that majority is sharply less than the 71% it was in October 2013. There has also been a corresponding increase in the number of companies who view the economy as stable, from 18% to 37%. Notably, oil and gas companies are slightly less optimistic than the broader global sample of respondents.

Megatrends will impact the business environment

There are several major themes or patterns impacting the macroeconomic environment over the long term that will reshape the consumer and business landscape — what we call “megatrends.” These trends include: the Future of Work; Global Rebalancing; Resourceful Planet; Digital Transformation; and Rethinking Government. Particularly important to our oil and gas company respondents were the Future of Work (i.e., the skills gap and competition for talent) and Resourceful Planet (i.e., competition for resources, the water-energy-food nexus, and the unconventional “revolution”).

Economic caution reflected in job creation prospects

While 86% of the oil and gas company respondents expect to grow jobs or maintain their current work force over the next year, this represented a slight decrease from the October 2013 survey. More critically, the portion of respondents expecting to grow jobs declined from 57% in October to 37% in April.
Q: What is your perspective on the state of the global economy today?

- Improving: 54% (Apr 14), 44% (Oct 13), 71% (Apr 13)
- Stable: 37% (Apr 14), 39% (Oct 13), 39% (Apr 13)
- Declining: 11% (Apr 14), 17% (Oct 13), 17% (Apr 13)

54% view the global economy as improving, down sharply from October 2013.

Q: What global trends are most likely to impact your business over the next 12 months?

- Future of work: 49% (Apr 14), 36% (Oct 13), 42% (Apr 13)
- Global rebalancing: 33% (Apr 14), 35% (Oct 13), 46% (Apr 13)
- Resourceful planet: 32% (Apr 14), 34% (Oct 13), 30% (Apr 13)
- Digital transformation: 33% (Apr 14), 34% (Oct 13), 32% (Apr 13)
- Rethinking government: 30% (Apr 14), 32% (Oct 13), 30% (Apr 13)

49% see the Future of Work megatrend as having the greatest impact on business strategy.

Q: With regard to employment and job creation, what does your organization expect to do over the next 12 months?

- Reduce workforce numbers: 14% (Apr 14), 6% (Oct 13), 6% (Apr 13)
- Keep current workforce size: 49% (Apr 14), 37% (Oct 13), 38% (Apr 13)
- Create jobs/hire talent: 37% (Apr 14), 67% (Oct 13), 54% (Apr 13)

86% expect to grow or maintain their current workforce over the next 12 months.
Confidence grows across most key financial indicators

Confidence in most of the key financial indicators was up sharply for our oil and gas company respondents. Half or more than half of the respondents had confidence in each of the four indicators, with that confidence up sharply from the previous survey in the case of corporate earnings, equity valuation/stock market outlook and short-term market stability. Only in the case of credit availability did the oil and gas respondents see some decrease in confidence, but it too stood at 50%.

Political instability and slowing growth in emerging markets are key economic risks

Not surprisingly, more than one-third (36%) of the oil and gas company respondents saw increasing global political instability as the key economic risk to their business. More than one-quarter (26%) of the oil and gas respondents believed that slower growth in the emerging markets was their key risk, while relatedly, another 21% had concerns about the negative impacts of the phase-out of the US Federal Reserve’s bond-buying/stimulus program.
Q: Please indicate your level of confidence in the following at the global level (% respondents positive)

- Corporate earnings: 61% (Apr 14), 36% (Oct 13), 51% (Apr 13)
- Equity valuations/stock market outlook: 19% (Apr 14), 19% (Oct 13), 38% (Apr 13)
- Credit availability: 17% (Apr 14), 30% (Oct 13), 50% (Apr 13)
- Short-term market stability: 17% (Apr 14), 30% (Oct 13), 50% (Apr 13)

Q: What do you believe are the greatest economic risks to your business over the next 6-12 months?

- Increased global political instability: 36% (Apr 14)
- Continued slower growth in key emerging markets: 26% (Apr 14)
- Inability to effectively manage quantitative easing (tapering): 21% (Apr 14)
- Pace of structural reforms in Eurozone: 9% (Apr 14)
- Inflation: 7% (Apr 14)
- Deflation: 1% (Apr 14)

61% have confidence in corporate earnings, up from 36% in October 2013

36% see increasing global political instability as the greatest economic risk for their company
Access to capital

Global credit conditions are improving

Credit conditions are of critical importance for companies to advance their strategic imperatives. A willingness to use leverage and the view that credit availability is rising signal a growing confidence in the long-term economic outlook and consequently a more robust deal-making environment. Conversely, a more conservative approach to leverage and increasing cautiousness on credit availability could signal a less robust deal market in the oil and gas space.

Credit conditions improving globally, less so for oil and gas

While credit has remained broadly available, particularly to large-cap enterprises, our global respondents continue to see increasing credit availability. Compared with 2–3 years ago, banks are on a stronger footing and better capitalized. Yet this healthier picture did not always translate into increased lending, as many banks tightened their lending standards, particularly for small-to-medium enterprise (SME) borrowers. Half of the oil and gas respondents similarly believe that credit conditions generally continue to be improving, but compared with six months ago, the percentage of oil and gas companies seeing credit conditions loosening or at least stable has decreased slightly. Interestingly, in contrast to previous surveys, in our current survey, oil and gas respondents expressed generally less optimism than the broader global group of respondents. This may be a function of the relatively favorable treatment the sector has received since the global financial crisis, which means they are comparing the current situation with a higher base.

Mixed global deleveraging trends

Over the past few years, some smaller and mid-cap oil and gas companies have taken advantage of improved credit conditions and a favorable rate environment to strategically use additional leverage and reduce their cost of capital. At the same time, over the last two years, more larger oil and gas companies have been looking to deleverage their balance sheets than companies looking to add leverage. The proportion of companies expecting to raise finance to further expand their operations and increase their debt-to-capital ratios increased slightly in our April 2014 survey to 25%, up from 24% in October 2013 but down from 28% in April 2013. On the other hand, the proportion of oil and gas companies looking to take the opportunity to further deleverage (i.e., decrease their debt-to-capital ratios) decreased from 48% to 40% from October 2013 to April 2014. In our April 2013 survey, more than 74% of the oil and gas respondents reported debt-to-capital ratios below 50%. In our October 2013 survey, that percentage increased to 78%, with 37% of the oil and gas respondents reporting ratios of less than 25%. But reflecting the cautious view of the economy, in our most-recent survey, a similar 78% of oil and gas respondents had debt-to-capital ratios of less than 50%, but with some increasing conservatism, the portion having very low ratios (i.e., under 25%) increased to 42%.
Loosening credit conditions ease debt pressures

Q: Please indicate your level of confidence in credit availability at the global level?

- **Apr 14**: 13% Declining, 37% Stable, 50% Improving
- **Oct 13**: 0% Declining, 35% Stable, 57% Improving
- **Apr 13**: 15% Declining, 27% Stable, 58% Improving

87% view credit availability as stable or improving

Q: How do you expect your company’s debt-to-capital ratio to change over the next 12 months?

- **Apr 14**: 40% Decrease, 35% Remain constant, 25% Increase
- **Oct 13**: 48% Decrease, 28% Remain constant, 24% Increase
- **Apr 13**: 45% Decrease, 27% Remain constant, 28% Increase

60% expect their debt-to-capital ratio to increase or at least remain constant
Companies focusing on refinements

With large-scale changes to their capital structures now largely completed, oil and gas companies are focused on refinements – reducing interest costs, extending debt maturities and optimizing their capital structure. In our April 2014 survey, 37% of the oil and gas respondents were expecting to refinance loans or other debt obligations in the next 12 months, down minimally from 38% in the October 2013 survey, but up from the 30% a year ago.

Cash still the primary source of financing, but the appetite for leverage is increasing

At 42%, cash remains the primary source of deal financing for the oil and gas sector, but the cash share declined from 48% in the October survey. In contrast, debt has been increasing as the primary source of deal financing in the oil and gas sector. Debt was seen as the primary source by 26% of oil and gas respondents in the April 2013 survey, but rising sharply to 34% in our October 2013 survey and to 40% in our most-recent survey.
Q: Does your company expect to refinance loans or other debt obligations in the next 12 months?

<table>
<thead>
<tr>
<th></th>
<th>No</th>
<th>Yes</th>
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<tbody>
<tr>
<td>Apr 14</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>Oct 13</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>Apr 13</td>
<td>70%</td>
<td>30%</td>
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Q: What is your likely primary source of deal financing in the next 12 months?

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Debt</th>
<th>Cash</th>
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<tr>
<td>Apr 14</td>
<td>18%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Oct 13</td>
<td>15%</td>
<td>34%</td>
<td>48%</td>
</tr>
<tr>
<td>Apr 13</td>
<td>22%</td>
<td>26%</td>
<td>52%</td>
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</table>

37% plan to refinance in the next 12 months, primarily to reduce interest costs and/or extend maturities

42% view cash as the primary source of deal financing in the next 12 months

“There is growing confidence in the long-term economic outlook and consequently a more robust deal-making environment.”

- Andy Brogan
Growth strategies

Growth takes a different path

In a low-growth/flat oil and gas price environment amid rising shareholder activism, cost-cutting and operational efficiency is no longer just an operational issue, but rather has become a strategic imperative. At the same time, oil and gas companies’ growth agendas have shifted to a new path, featuring more innovative (and somewhat higher-risk) organic growth.

Growth focus slows

Prioritization of growth as the primary strategic initiative had been sharply rising for oil and gas respondents over the last three Capital Confidence Barometer surveys. Almost two-thirds (66%) of all oil and gas respondents in the October 2013 survey saw growth as their primary focus. But in the six months since then, oil and gas companies have pulled back and taken a more conservative path – more focused on the fundamentals and particularly on cutting costs and improving operational efficiency. In our most-recent survey, growth was the primary focus of just 39% of the oil and gas respondents, while cost reduction and operational efficiency rose sharply from 28% in October 2013 to 40% in the April 2014 survey. Additionally, reflecting the cautious economic optimism, both samples reported an increase in a focus on maintaining stability.

Keeping shareholders happy by focusing on returns

More than 90% of oil and gas respondents say that issues raised by shareholders have shaped their boardroom agendas. Attention to costs has topped the shareholder activists’ demands, and boards are responding according to those demands.
Q: What best describes your organization’s focus over the next 12 months?

<table>
<thead>
<tr>
<th></th>
<th>Survival</th>
<th>Maintain Stability</th>
<th>Cost Reduction and Operational Efficiency</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 14</td>
<td>3%</td>
<td>18%</td>
<td>40%</td>
<td>39%</td>
</tr>
<tr>
<td>Oct 13</td>
<td>1%</td>
<td>28%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Apr 13</td>
<td>2%</td>
<td>20%</td>
<td>61%</td>
<td></td>
</tr>
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</table>

40% are focused on cost reduction and operational efficiency, up from 28% in October 2013.

Q: Which of the following has been elevated to your boardroom agenda as a result of shareholder activism (select two)?

- Cost reduction: 48%
- Cash dividend payments: 30%
- Strategic divestment: 26%
- Share buyback: 21%
- Portfolio analysis: 15%
- Spinoff/IPO: 14%
- Acquisition: 12%
- Minimal impact: 8%

92% believe that shareholder activism has had a meaningful impact on the boardroom agenda.
Growth strategies are shifting

**Acquisitions to deliver a relatively small proportion of growth**

More than half of all oil and gas respondents (56%) expect that acquisitions will be 25% or less of their total planned growth for the current fiscal year. Notably, less than 10% expect acquisitions to account for more than 50% of the planned growth.

**Organic growth shifting to a higher-risk growth path**

In keeping with their more cautious and conservative outlook, the oil and gas respondents are shying away from ambitious, transformational deals and looking to deliver growth organically. Notably however, the organic growth agendas of the oil and gas respondents have shifted from lower-risk organic strategies to more innovative, but nonetheless higher-risk ones. In our April 2014 survey, oil and gas respondents are increasingly focused on developing new products and markets through the exploitation of technology, and changing the current mix of products and services, and less focused than they were previously in growth through better execution in existing markets and identifying new sales channels. The oil and gas respondents are however, not particularly focused on new geographies and markets.
Q: What percentage of the planned growth for the current fiscal year is allocated to acquisitions?

- Less than 25%: 56%
- 25%-50%: 35%
- Greater than 50%: 9%

Q: What is the primary focus of your company’s organic growth over the next 12 months?

- More rigorous focus on core products/existing markets: 22% (Apr 14), 38% (Apr 13), 29% (Oct 13)
- New sales channels: 16% (Apr 14), 20% (Oct 13), 13% (Apr 13)
- Increase R&D/product introductions: 22% (Apr 14), 3% (Oct 13), 12% (Apr 13)
- Changing mix of existing products and services: 21% (Apr 14), 7% (Oct 13), 12% (Apr 13)
- Exploiting technology to develop new markets/products: 13% (Apr 14), 25% (Oct 13), 26% (Apr 13)
- Investing in new geographies/markets: 6% (Apr 14), 7% (Oct 13), 8% (Apr 13)

56% expect that acquisitions will deliver 25% or less of their company’s planned growth in the current fiscal year.

62% will focus their organic growth in higher risk areas, whereas in October 2013, they favored lower risk areas.

“Growth agendas have shifted to a new path, featuring more innovative (and somewhat higher-risk) organic growth.”

- Andy Brogan
Oil and gas companies shift decisively to optimizing and raising capital

Q: Which statement best describes your organization’s focus over the next 12 months?

A company’s ability to raise capital is integral to achieving its growth imperatives and financial well-being. And with credit increasingly available and more attractive, companies now indicate a desire to take on more leverage, which in turn signals that more dealmaking will be done.

A company’s ability to access liquidity, control costs and engage with key stakeholders is essential to preserving capital amid shifting market forces. Since most companies were forced to focus on preservation in order to survive, they are now able to concentrate on other areas of their capital agendas.
Our latest Barometer survey shows continuing strong shifts in the focus of the oil and gas capital agenda over the last year. “Investing” capital had been the dominant dimension for the agenda for the previous three surveys, but in our April 2014 survey, it decreased dramatically in importance from the October 2013 survey. “Optimizing” capital has now assumed the top spot on the oil and gas capital agenda, increasing from 28% in October 2013 to 51% in April 2014. “Raising” capital had dropped rather sharply on the agenda in the October 2013 survey, but has come back to where it broadly was in the April 2013 and October 2012 surveys. “Preserving” capital also decreased once again in importance in our latest survey.

Companies are increasingly employing a disciplined approach to capital optimization, with an enhanced focus on governance and fiscal rigor. And with capital structures largely optimized, executives today are primarily focused on refinancing to retire maturing debt and position themselves for more leverage, preparing themselves for the next wave of investment, and potentially more (albeit selective) M&A activity.
M&A outlook

Measured, cautious optimism

Despite the relatively low levels of M&A activity that has characterized the last year, the oil and gas sector is broadly optimistic that deal activity will increase. Oil and gas companies have become more measured and cautious in their approach to M&A, but this action currently manifests itself via pricing rather than volumes.

Appetite for M&A back to medium-term average

With some increasing caution and focus on returns, oil and gas companies are increasingly more cautious with regard to acquisitions and their perceived risks than they were over the last survey. Thirty percent of oil and gas respondents now expect to pursue acquisitions over the next 12 months, down from 39% in October 2013, but up consistent with the average over the last two years. Notably however, oil and gas respondents are slightly less optimistic about the acquisition environment than is the global sample.

Decreases in confidence underpin the loss of appetite

Decreases in global confidence are underpinning a decreased appetite for acquisition activity. In our April 2014 survey, oil and gas company confidence declined in each of the confidence categories, including the number and quality of opportunities as well as the likelihood of being able to close the deals. Oil and gas respondents generally had more confidence than the broader sample in terms of positive views on the number of deals and the likelihood of closing deals, but they had less confidence than the global sample in terms of the quality of acquisitions. Nevertheless, confidence levels are generally around the level that they were a year ago in April 2013, both for oil and gas respondents as well as for the broader sample.

But deal volumes are expected to increase

Albeit with some conservatism, oil and gas respondents expect that global M&A deal volumes will increase over the next 12 months, with 59% expecting volumes to at least modestly improve. Expectations of the larger global sample were only slightly less. This is consistent with caution playing itself out via pricing rather than volume.
Q: Do you expect your company to pursue acquisitions in the next 12 months?

- 31% in Apr 12
- 28% in Oct 12
- 29% in Apr 13
- 35% in Oct 13
- 31% in Apr 14

Q: What is your expectation for global deal volumes in the next 12 months?

- Improve: 59%
- Remain the same: 38%
- Decline: 3%

Q: Please indicate your level of confidence at the global level in the next 12 months (% respondents positive)

- Likelihood of closing acquisitions: 34% in Apr 13, 34% in Oct 13, 56% in Apr 14
- Quality of acquisition opportunities: 38% in Apr 13, 40% in Oct 13, 53% in Apr 14
- Number of acquisition opportunities: 56% in Apr 13, 51% in Oct 13, 75% in Apr 14
Deal activity has slowed, but is expected to pick up

Current deal pipeline is rather limited, but is expected to grow

While half of the oil and gas respondents reported having a deal pipeline of three or more deals, an equal amount had two or less. More importantly, in our most-recent survey, the oil and gas respondents reported that 83% had seen their deal pipeline contract or at least stay the same over the previous 12 months, this is consistent with the high locality of world assets. But more positively, 94% of these same oil and gas respondents expect that their deal pipelines will expand over the next 12 months, which is consistent with a new consensus in asset pricing.

Funding availability and the broader business environment were the big deterrents to acquisitions

For our oil and gas respondents, while the deterrents to making acquisitions were wide-ranging, funding availability was the most-often cited deterrent slightly ahead of low confidence in the broader business environment and issues with the regulatory environment in general. Critically, the inability to realize the price/value expectations (i.e., the “valuation gap”) has decreased in importance as a deterrent to divestment activity, compared to a year-ago, as that gap has contracted.
Q: How has the amount in your deal pipeline changed in the past 12 months and how do you expect it to change in the next 12 months?

<table>
<thead>
<tr>
<th>Change</th>
<th>Apr 14</th>
<th>Apr 13</th>
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<tbody>
<tr>
<td>Increase</td>
<td>17%</td>
<td>38%</td>
</tr>
<tr>
<td>No change</td>
<td>42%</td>
<td>56%</td>
</tr>
<tr>
<td>Decrease</td>
<td>6%</td>
<td>41%</td>
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94% expect that their deal pipeline will increase or at least stay the same over the next 12 months.

Q: What is the main reason for you to not pursue an acquisition over the next 12 months?

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<thead>
<tr>
<th>Reason</th>
<th>Apr 14</th>
<th>Apr 13</th>
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<tbody>
<tr>
<td>Funding availability</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>Low confidence in business environment</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>Regulatory environment</td>
<td>17%</td>
<td>26%</td>
</tr>
<tr>
<td>Deal execution and integration capabilities</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Low board/shareholder confidence</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Insufficient acquisition opportunities</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Valuation gap</td>
<td>9%</td>
<td>23%</td>
</tr>
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</table>

19% see the lack of funding as the biggest deterrent to not pursuing an acquisition.
Market share objectives driving acquisitions
In terms of the drivers of acquisition activity, increasing market share, both in existing markets and in new markets, dominated the responses, both for the broader global sample as well as the oil and gas companies. However, these market share drivers both declined in relative importance in the April 2014 survey. Notable for the oil and gas respondents, as well as the global sample, was the rising importance of the non-market share drivers, in particular, the rising importance of cost-reduction and margin improvement.

Bolt-on acquisitions favored over transformative deals
Among those oil and gas companies that do expect to engage in M&A, deal sizes remain fairly small, reflecting an ongoing aversion to risky, transformational transactions. More than 76% say that they will do deals worth less than US$500 million, and 21% say they will do deals under US$50 million. This suggests that, where deals are being considered, they will more likely extend existing businesses and fill strategic gaps, deals that are typically termed, bolt-on acquisitions. That said however, the percentage of respondents expected to look at bigger deals (i.e., deals greater than $500 million) increased in our latest survey to 24%, compared to 21% in our October 2013 survey and 12% in the April 2013 survey.

Pricing divergence reflects valuation uncertainty
Reflecting the divergence of opinion around the price/valuation of M&A assets over the next year, a majority of oil and gas respondents (51%) expects prices/valuations to increase, with that percentage increasing from the October 2013 survey. In contrast, only 8% of the oil and gas respondents expect prices/valuations to decrease, with that percentage down from the October survey. This may be attributable to an expectation that recent price erosion will be recovered.
Q: What are the main drivers of your company’s planned acquisition activity (select two)?

- Gain share in new markets (product or geography): 52% (Apr 14), 41% (Oct 13), 32% (Apr 13)
- Gain share in existing markets: 74% (Apr 14), 59% (Oct 13), 63% (Apr 13)
- Reduce cost and improve profitability/margin: 5% (Apr 14), 17% (Oct 13), 8% (Apr 13)
- Leverage distribution networks: 27% (Apr 14), 15% (Oct 13), 20% (Apr 13)
- Access to technology/intellectual property: 8% (Apr 14), 7% (Oct 13)

Q: What is the expected deal size?

- US$0–US$50m: 21% (Apr 14), 18% (Oct 13), 22% (Apr 13)
- US$51m–US$250m: 43% (Apr 14), 23% (Oct 13), 42% (Apr 13)
- US$251m–US$500m: 12% (Apr 14), 38% (Oct 13), 15% (Apr 13)
- US$501m–US$1b: 12% (Apr 14), 41% (Oct 13), 32% (Apr 13)
- Over US$1b: 12% (Apr 14), 12% (Oct 13), 24% (Apr 13)

Q: What do you expect the price/value of assets to do over the next 12 months?

- Increase: 51% (Apr 14), 46% (Oct 13), 41% (Apr 13)
- Remain at current levels: 40% (Apr 14), 41% (Oct 13), 41% (Apr 13)
- Decrease: 8% (Apr 14), 13% (Oct 13), 8% (Apr 13)

52% saw market share growth in new markets as the main driver of acquisition activity.

76% expect to pursue deals less than US$500 million in size.

92% expect the price/valuation of M&A assets to increase or at least stay the same over the next 12 months.
Valuation gaps expected to narrow

A large majority of oil and gas respondents (87%) believe that the current valuation gap between buyers and sellers is less than 20%, with that majority increasing from the October 2013 survey. Looking forward, while the majority of oil and gas respondents expect the valuation gap to broadly stay the same (54%), the percentage expecting the gap to further contract increased, while the percentage expecting the gap to widen declined from the October 2013 survey.

Acquisition capital largely headed to emerging markets

Acquisition capital flows are expected to be allocated broadly by our oil and gas respondents, largely mirroring the allocation patterns of the global sample, with 72% of oil and gas respondents’ acquisition capital directed toward emerging markets, with the biggest part of that flow going to the BRIC economies. Optimism around acquisitions in emerging markets remains relatively high, both for our broader sample and for our oil and gas respondents, but companies are exerting more caution, particularly in areas where growth has slowed. Notably, political and regulatory risk and a lack of local infrastructure are the principal obstacles to emerging market deals, particularly for oil and gas companies.

Unforeseen liabilities as biggest threat to deal expectations

Among companies that have recently completed acquisitions, unforeseen liabilities (e.g., taxes and human resources or pension issues) were the leading reason for deals not meeting expectations. Notably, product/sale price and margin deterioration rose sharply as a threat in our April survey, ranking just behind unforeseen liabilities and just ahead of strategic value over-estimation, which had topped the list of threats a year ago.
Q: What do you expect the valuation gap between buyers and sellers to do over the next 12 months:

- Contract: Stay the same 54%, Widen 29%, Narrow 15%
- Stay the same: Contract 26%, Stay the same 53%, Widen 59%
- Widen: 18% in Apr, 26% in Oct, 29% in Apr

80% expect the valuation gap between buyer and sellers to widen or stay the same over the next 12 months.

Q: Where do you expect to deploy your acquisition capital in the next 12 months?

- BRIC Emerging markets: 41%
- Non BRIC Emerging markets: 31%
- Developed/mature markets: 28%

72% expect to deploy the majority of their acquisition capital in emerging markets.

Q: For acquisitions recently completed, what was the most significant issue that contributed to deals not meeting expectations?

- Unforeseen liabilities (tax, HR, pension, etc.): 22% in Apr, 26% in Oct, 32% in Apr
- Product/Sales price and margin deterioration: 6% in Apr, 9% in Oct, 19% in Apr
- Strategic value overestimated/purchase price multiple too high: 19% in Apr, 19% in Oct, 32% in Apr
- Sales volume declines/loss of customers: 13% in Apr, 21% in Oct, 21% in Apr
- Poor execution of integration: 13% in Apr, 15% in Oct, 15% in Apr
- Poor operating cost assumptions: 12% in Apr, 20% in Oct, 14% in Apr

22% see unforeseen liabilities as the most significant reason for deals not meeting expectations.
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.

This regular survey of senior executives from large companies around the world is conducted by the Economist Intelligence Unit (EIU). Our panel comprises select global EY clients and contacts and regular EIU contributors.

About this survey

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- We surveyed a panel of more than 1,600 executives in 54 countries. Half were CEOs, CFOs and other C-level executives, and more than 145 were from the Oil & Gas sector.
- Global respondents represented 22 sectors, including financial services, consumer products, technology, life sciences, automotive, oil and gas, power and utilities, mining and metals, diversified industrial products and construction.
- More than 800 global companies would have qualified for the Fortune 1000 based on revenue.
- Executives were surveyed in February and March 2014.

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EYG no. DW0389
CSG/GSC2014/1344271
ED 0115

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