How can you reshape your future before it reshapes you?

Companies look to safeguard growth by reinventing their M&A strategy beyond tomorrow.

Chile Capital Confidence Barometer
April 2019 | 20th edition

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

EY’s Global Capital Confidence Barometer is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

The respondent community comprises an independent panel of senior executives and select EY clients and contacts, including leaders of the world’s biggest, as well as fastest-growing, companies.

Our 20th Barometer provides a snapshot of our findings, gauges corporate confidence in the economic outlook, identifies boardroom trends and practices in the way companies manage their Capital Agenda, and examines how companies can future-proof their business.

Participant profile:

Respondent community includes more than 2,900 senior executives surveyed in February and March 2019.

Companies from 47 countries including 38 from Chile respondents.

Respondents from 14 industries.

1,596 CEO, CFO and other C-level executives.
1. M&A outlook and major themes
Executives expect the global M&A market to remain at elevated levels in the near term

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

- **Global**
  - Improving: 86%
  - Stable: 57%
  - Declining: 4%

- **Chile respondents**
  - Improving: 97%
  - Stable: 52%
  - Declining: 3%

Active portfolio reviews provide a foundation for a healthy deal market in 2019

- 89% of Chilean executives expect the global M&A market to improve.
- With the increased frequency of portfolio reviews — and an accompanying need to assess evolving economic and industry landscapes for emerging growth opportunities — both buy- and sell-side dealmaking are expected to boost M&A.
What is your expectation for the local M&A market in the next 12 months?

**Confidence remains high among Chilean executives for the domestic deal market**

**Continued economic growth supports M&A market:**

- 84% of Chilean executives expect the domestic deal market to grow over the next year.
- Increasing frequency of portfolio reviews leads to reshaping through M&A to fuel growth.
- Larger deal pipelines and increased deal closings support a healthy US M&A market.
The majority of Chilean executives expect to pursue M&A over the next year

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

In a transformative age, buying is often the best route to unlocking value creation—more quickly than building

- 84% of Chilean respondents expect to pursue deals in the next 12 months, a 27 point increase over one year ago.
Pressure to deploy capital elevates corporates’ role in a competitive deal landscape

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

Global:
- Yes: 85%
- No: 15%

If so, from where?
- Private capital: 55%
- Corporate buyers: 45%

Chile respondents:
- Yes: 89%
- No: 11%

- Private capital: 32%
- Corporate buyers: 68%

The need for corporates to reshape their portfolios, coupled with increased dry powder among private capital, will likely supercharge competition for high-value assets

- Over the next year, a majority of Chilean executives expect most of the competition for assets to come from corporate buyers.
- Corporates and PE have different motivations—the former is pressured to deploy cash, while the latter works under longer time horizons.
Fuller pipelines and increased deal closures are expected to underpin a more active deal market.

Considering the next 12 months, how do you expect your M&A pipeline to change?

- **Increase**: 84% (Apr-19), 47% (Apr-18), 30% (Apr-17)
- **No change**: 53% (Apr-19), 70% (Apr-18)
- **Decrease**: 0% (Apr-19), 0% (Apr-18), 0% (Apr-17)

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

- **Increase**: 87% (Apr-19), 47% (Apr-18), 20% (Apr-17)
- **No change**: 53% (Apr-19), 80% (Apr-18)
- **Decrease**: 0% (Apr-19), 0% (Apr-18), 0% (Apr-17)

The need for higher growth and pressure from tech and evolving competition boost dealmaking intentions

- With executives accelerating their portfolio reviews, the need to constantly scan industry landscapes for emerging differentiated assets has also taken on a heightened urgency.
- Timelines for identifying and buying assets have become compressed, and active pipeline management is now a must-have for executives.
When executing a transaction, what risks are you most concerned about?

- Integrating operations/people: 22% (Chile), 27% (Global)
- Reputational damage: 15% (Chile), 15% (Global)
- Management biases: 12% (Chile), 15% (Global)
- Shareholder litigation: 13% (Chile), 12% (Global)
- Realizing forecasts: 13% (Chile), 14% (Global)
- Regulatory approval: 12% (Chile), 13% (Global)
- Diluting shareholder value by overpaying or underselling: 11% (Chile), 11% (Global)

Chilean respondents are most concerned about integration risk:
- With growth a critical factor for executives, 22% say the pressure is on to integrate operations successfully without value erosion.
- Another 15% of respondents are concerned about reputational damage and management biases.
Innovation is influencing deal strategies, but anticipating regulatory change is essential

To what extent do the following external trends influence your deal strategy?

<table>
<thead>
<tr>
<th>Changing geopolitical landscape</th>
<th>Technological innovation</th>
<th>Evolving regulatory environment</th>
<th>Shifting demographics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamental</strong></td>
<td>8% (Chile)</td>
<td>18% (Global)</td>
<td>37% (Global)</td>
</tr>
<tr>
<td></td>
<td>7% (Chile)</td>
<td>20% (Global)</td>
<td>28% (Global)</td>
</tr>
<tr>
<td><strong>Very influential</strong></td>
<td>50% (Chile)</td>
<td>56% (Global)</td>
<td>24% (Global)</td>
</tr>
<tr>
<td></td>
<td>57% (Global)</td>
<td>51% (Global)</td>
<td>37% (Global)</td>
</tr>
<tr>
<td><strong>Somewhat influential</strong></td>
<td>37% (Chile)</td>
<td>26% (Global)</td>
<td>36% (Global)</td>
</tr>
<tr>
<td></td>
<td>35% (Global)</td>
<td>28% (Global)</td>
<td>34% (Global)</td>
</tr>
<tr>
<td><strong>No influence</strong></td>
<td>5% (Chile)</td>
<td>0% (Global)</td>
<td>3% (Global)</td>
</tr>
<tr>
<td></td>
<td>1% (Chile)</td>
<td>1% (Global)</td>
<td>1% (Global)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0% (Global)</td>
</tr>
</tbody>
</table>

Innovation, regulations and shifting demographics top influencers on deal strategy

- 74% of Chilean executives say technological innovation is fundamental and very influential to their deal strategy, while 64% point to the evolving regulatory environment.
- Executives see the current uncertainty about how regulatory regimes are evolving across most major jurisdictions as the leading fundamental issue that they have to understand when executing dealmaking.
- But they are also factoring in the changing geopolitical landscape, technological disruption and innovation, as well as understanding how demographics will change demand patterns into their deal strategies.
Regulatory, tariffs and supply chain are the top M&A drivers

Q What are the main strategic drivers for pursuing acquisitions?

- Response to regulatory or tariffs and trade changes/secure supply chain: 24% (Chile), 19% (Global)
- Gateway to new markets: 21% (Chile), 18% (Global)
- Response to changing customer behavior: 20% (Chile), 19% (Global)
- Acquiring technology, talent, new production capabilities or innovative startups: 20% (Chile), 23% (Global)
- Sector convergence/growth into adjacent business activity: 15% (Chile), 21% (Global)

A range of factors motivate M&A
- Chilean executives say a response to regulatory or tariffs and trade changes/secure supply chain are the top M&A drivers.
Chilean executives pursue deals to secure complex supply chains

Have you considered, or are you considering, pursuing an acquisition to secure your supply chain?

- Yes: 79%
- No: 21%

Chile: 46%
Global: 54%
Future deals are focused on top- and bottom-line synergies

Based on your experience of completed deals in the past three years, where have you derived most value - and where would you expect to create more value from future acquisitions?

**Global**
- Bottom-line synergies and other efficiencies: 25% (Completed) 19% (Future)
- Access to new technology, production capabilities and talent: 25% (Completed) 22% (Future)
- Access to new markets, including adjacent sectors or geographical expansion: 21% (Completed) 26% (Future)
- Top-line synergies, including access to differentiated customers: 20% (Completed) 23% (Future)
- Other intellectual property, including brand, reputation and customer satisfaction: 9% (Completed) 10% (Future)

**Chile respondents**
- Bottom-line synergies and other efficiencies: 29% (Completed) 26% (Future)
- Access to new technology, production capabilities and talent: 27% (Completed) 19% (Future)
- Access to new markets, including adjacent sectors or geographical expansion: 20% (Completed) 21% (Future)
- Top-line synergies, including access to differentiated customers: 18% (Completed) 23% (Future)
- Other intellectual property, including brand, reputation and customer satisfaction: 6% (Completed) 11% (Future)

- Completed deals in the last three years
- Future deals
A majority of both global and Chilean respondents are considering cross-border M&A.

Q: Where is your organization's main focus for doing M&A in the next 12 months?

- **Global**
  - Cross-border: 67%
  - Domestic: 33%

- **Chile respondents**
  - Cross-border: 75%
  - Domestic: 25%
The valuation gap is widening, while traditional methods have not caught up with innovation

Do you agree or disagree with the following statements about valuations?

- **The valuation gap between buyers and sellers is the highest since the global financial crisis**
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 69%
  - Disagree: 12%
  - Strongly agree: 24%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 52%
  - Disagree: 24%

- **The valuation gap between buyers and sellers is higher than 12 months ago**
  - Strongly agree: 37%
  - Strongly disagree: 0%
  - Agree: 58%
  - Disagree: 11%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%
  - Strongly agree: 26%
  - Strongly disagree: 0%
  - Agree: 61%
  - Disagree: 13%

- **Sellers have unrealistic expectations on valuations**
  - Strongly agree: 24%
  - Agree: 52%
  - Disagree: 24%
  - Strongly agree: 26%
  - Agree: 52%
  - Disagree: 24%

- **Buyers have unrealistic expectations on valuations**
  - Strongly agree: 36%
  - Agree: 61%
  - Disagree: 0%
  - Strongly agree: 36%
  - Agree: 61%
  - Disagree: 0%

- **Traditional valuation methodologies make it difficult to properly ascertain the correct value for digital companies and innovative startups**
  - Strongly agree: 26%
  - Agree: 58%
  - Disagree: 13%
  - Strongly agree: 26%
  - Agree: 58%
  - Disagree: 13%
Heightened competition for assets and a spate of megadeals are expected by executives in 2019

Do you agree or disagree with the following statements about the M&A market?

I expect an increase in hostile and competitive bidding in the next 12 months

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>21%</td>
<td>76%</td>
</tr>
<tr>
<td>Agree</td>
<td>23%</td>
<td>67%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

I expect private equity to be a major acquirer of assets in the next 12 months

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>39%</td>
<td>45%</td>
</tr>
<tr>
<td>Agree</td>
<td>35%</td>
<td>53%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

I expect an increase in cross-border deal-making

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>37%</td>
<td>50%</td>
</tr>
<tr>
<td>Agree</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

I expect an increase in cross-sector M&A driven by technology and digitalization

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>37%</td>
<td>42%</td>
</tr>
<tr>
<td>Agree</td>
<td>35%</td>
<td>49%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

I expect to see more megadeal (US$10b+) M&A activity in the next 12 months

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>24%</td>
<td>47%</td>
</tr>
<tr>
<td>Agree</td>
<td>27%</td>
<td>53%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Long-term value creation and sustainable growth
Slow growth is seen as the greatest external risk to corporate strategy

What do you believe to be the greatest external risk to the growth of your business?

<table>
<thead>
<tr>
<th>Risk</th>
<th>Global</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slowing economic activity</td>
<td>33%</td>
<td>37%</td>
</tr>
<tr>
<td>Supply-chain disruption</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Funding/cost and/or availability of credit</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Geopolitical uncertainty</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Regulation and/or trade and tariff uncertainty</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Slow growth</td>
<td>18%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Executives keeping their eye on a range of interconnected risks as potential barriers to their growth strategies

- 37% Chilean executives cite slowing economic activity as the greatest risk to growth.
- Chilean executives are also keeping an eye on supply chain disruptions, funding and geopolitics.
The impact of digital transformation and competition tops the boardroom agenda

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

- Establishing policies and initiatives to increase inclusiveness and reduce income inequality: 32%
- Impact of digital technology and transformation to your business model/threat of digitally enabled competitors/impact of sector blurring/convergence: 27%
- Impact of increased economic and political uncertainty and regulatory or governmental intervention: 24%
- Reshaping portfolio - buying and selling assets to reshape your portfolio for the future: 17%
Long-term value is tied closely to talent and innovation

How important are these aspects of long-term value creation when communicating to your broader group of stakeholders?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Talent</th>
<th>Innovation</th>
<th>Society and environment</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamental</td>
<td>5%</td>
<td>26%</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>Critical</td>
<td>13%</td>
<td>23%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>Important</td>
<td>71%</td>
<td>56%</td>
<td>34%</td>
<td>43%</td>
</tr>
<tr>
<td>Not important</td>
<td>45%</td>
<td>42%</td>
<td>30%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Global vs. Chile:

- Chile:
  - Talent: Fundamental 5%, Critical 13%, Important 21%, Not important 3%
  - Innovation: Fundamental 26%, Critical 45%, Important 41%
  - Society and environment: Fundamental 26%, Critical 34%, Important 40%, Not important 0%
  - Governance: Fundamental 18%, Critical 25%, Important 39%, Not important 0%

- Global:
  - Talent: Fundamental 13%, Critical 41%
  - Innovation: Fundamental 23%, Critical 35%
  - Society and environment: Fundamental 28%, Critical 42%
  - Governance: Fundamental 25%, Critical 41%
Executives explore a range of strategies in their pursuit of growth

Which of the following growth strategies is a strategic priority for your company?

- Expand existing business into an adjacent sector: 28% (Chile), 25% (Global)
- Expand existing business in our domestic market: 26% (Chile), 27% (Global)
- Develop new products or services: 24% (Chile), 25% (Global)
- Expand existing business into a new overseas market: 22% (Chile), 23% (Global)

Companies growing in a different way
- 28% of Chilean executives say expanding business into adjacent sectors is a priority.
- Chilean executives currently place greater emphasis on expanding existing business in the domestic market compared with expanding overseas.
Hiring talent is key to growth plans

Which of the following is the most significant challenge to your own company’s growth plans?

- Problems in identifying and hiring talent: 27%
- Increasing production costs: 24%
- Disruption from more technologically advanced competitors: 16%
- Slowing demand: 15%
- New market entrants: 12%
- Insufficient cash flow: 15%
- Access to capital: 14%
- Chile
- Global

Executives cite a range of challenges to their growth plans:

- Increasing production costs are exacerbated by the need to attract talent in a tight labor market. The continued low inflation environment makes passing on increasing costs to customers difficult with the rise of alternative providers for customers.
- Barriers to entry have been eroded by technology across the majority of industries, including a rise in new market entrants.
- Companies should use technology to mitigate increasing input costs, both in replacing high-cost labor and in identifying more cost-effective suppliers.
- Companies should also develop capabilities to understand their evolving industry landscape to identify emerging competition earlier.
Corporate strategy and portfolio reshaping
Increased use of contractors/freelance staff along with technology, key to employment strategy

Which of the following is the key priority for your company's employment strategy?

- **Hire more contractors/freelance staff**
  - Chile: 34%
  - Global: 24%
- **Increase the use of technology, automation and AI***
  - Chile: 21%
  - Global: 25%
- **Keep current staffing levels**
  - Chile: 24%
  - Global: 21%
- **Hire more part-time staff**
  - Chile: 13%
  - Global: 9%
- **Reduce staff**
  - Chile: 5%
  - Global: 4%
- **Hire more full-time staff**
  - Chile: 3%
  - Global: 11%
- **Increase diversity**
  - Chile: 3%
  - Global: 0%

* Increase the use of technology, automation and artificial intelligence (AI) for some routine processes

Executives look to contractors and technology to provide bandwidth for growth

- **Technology plays a growing role in employment strategy, while at the same time generating greater insights through AI.**
- **Executives are looking toward automation and AI for some routine processes as labor becomes scarce and the battle for talent more intense.**
- **This redeployment of talent will enable companies to free up valuable resources to focus on wider strategic issues.**
- In Chile, 34% are looking to hire more contractors/freelance staff, while 21% plan to keep current staffing levels.
Chilean executives bullish on the potential for further revenue growth

What revenue growth rates do you expect your company to achieve in the coming year?

Executives signal above-average GDP growth
- No executives forecast a downturn in revenue.
- The more bullish view on economic outlook and revenue growth can be explained by what executives are seeing in their own performance.
Reshaping results requires a mix of both organic and inorganic growth

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

Executives are primarily looking to existing operations to support growth, but inorganic expected to provide a significant boost

- Over two-thirds of Chilean executives say they expect organic growth over the next year, while 31% expect growth from inorganic means, such as M&A.
What will be the primary source of finance you will be leveraging to fund your growth strategies in the next 12 months?

### Public companies
- Public equity markets: 59%
- Public debt markets: 27%
- Bank financing and loans: 7%
- Take private and private equity financing: 7%
- Existing free cash flow: 0%
- Divest assets to recycle capital: 0%

### Private companies
- Private debt financing: 65%
- Public debt markets: 10%
- Bank financing and loans: 10%
- Private equity financing: 10%
- IPO on public equity markets: 5%
- Existing free cash flow: 0%
Most companies are planning for significant technology investments

If you are planning significant investment in technology this year, where will this investment be made?

- **Global**
  - Improve financial data access and analysis: 21%
  - Improve internal efficiencies: 20%
  - Create new services or products: 20%
  - Improve the customer experience: 20%
  - Reduce risks (including cyber risks): 19%

- **Chile respondents**
  - Create new services or products: 23%
  - Improve internal efficiencies: 21%
  - Improve financial data access and analysis: 21%
  - Reduce risks (including cyber risks): 18%
  - Improve the customer experience: 17%

Technology is a requirement for many strategic initiatives

- All of our Chilean executives say they are planning to make a significant technology investment say they will do so to create new services or products.
Executives are considering AI to personalize customer offerings, improve back-office processing

What are the key objectives of automation and AI deployment in your organization?

- Improve and accelerate M&A due diligence and analysis (19%)
- Increase personalized product/service offerings, improve customer service (19%)
- Better and faster talent recruitment and onboarding (17%)
- More effective risk management and compliance at a lower cost (15%)
- Create a smarter finance function (15%)
- Create a more efficient, nimble and resilient supply chain (15%)

How will they be developed (in-house or using external providers)?

Chile respondents

- Improve and accelerate M&A due diligence and analysis
  - Developing in-house: 84%
  - Using external partners/providers: 16%
- Increase personalized product/service offerings, improve customer service
  - Developing in-house: 94%
  - Using external partners/providers: 6%
- Better and faster talent recruitment and onboarding
  - Developing in-house: 43%
  - Using external partners/providers: 57%
- More effective risk management and compliance at a lower cost
  - Developing in-house: 84%
  - Using external partners/providers: 16%
- Create a smarter finance function
  - Developing in-house: 84%
  - Using external partners/providers: 16%
- Create a more efficient, nimble and resilient supply chain
  - Developing in-house: 64%
  - Using external partners/providers: 36%

Executives are more confident in developing front-end services in-house

- Companies are most confident developing technologies in areas they best understand – they plan to develop AI and automation in-house to improve M&A and increase personalized product/service offerings and improve customer service.
- They are more open to using external partners on back-office functions, such as finance, talent and compliance.
- Companies that combine internal expertise and external providers generally increase the speed of development in critical technology innovation, regardless of its purpose.
Companies are reshaping operations via transformational investments

On which of the following capital allocation and strategy issues is your company placing the greatest attention and resources today?

- **Transformational investment in digital and technology**
  - Chile: 25%
  - Global: 18%

- **Returning capital to shareholders**
  - Chile: 20%
  - Global: 16%

- **Portfolio reshaping (acquisitions, JVs, and alliances and divestitures)**
  - Chile: 17%
  - Global: 16%

- **Improving capital structure**
  - Chile: 16%
  - Global: 16%

- **Traditional investment in existing operations (capex and talent)**
  - Chile: 14%
  - Global: 19%

- **Restructuring existing businesses**
  - Chile: 8%
  - Global: 15%

An internal/external mix of capital allocation priorities is signaled by executives:

- Chilean executives prioritize transformational digital investment to accelerate growth.
- The focus on their ecosystems through digital, geopolitical, economic and demographic lenses enables execs to pivot quickly as markets evolve.
- A robust, structured approach to capital allocation better positions companies to capture value in the current disruption-led environment, and it provides flexibility to quickly assess new, emerging investment opportunities.
What will be your focus in the next 12 months to build resilience into your company’s profitability and cash flow?

- Reducing overheads and administrative costs: 47% (Chile) 44% (Global)
- Working capital and cash flow optimization: 42% (Chile) 34% (Global)
- Reducing production costs: 11% (Chile) 22% (Global)

Unlocking internal liquidity frees up capital to be recycled in new growth opportunities

- Executives are looking to strengthen financial discipline across all their back-office operations to enable reallocation of capital essential to flexible decision-making.
- Using new technologies, internal data and AI, companies are increasingly able to automate routine administrative tasks to free up both capital and talent that can then be invested elsewhere.
- Some organizations have strong cash cultures, where they value cash flow and do not tie up capital in unproductive areas like underperforming or noncore business units, or in certain jurisdictions where moving or repatriating capital is structurally difficult. These organizations have the advantage of using cash opportunistically.
- In a time of uncertainty and rapid change, the ability to move quickly is vital to building resilience.
Are activist shareholders compelling you to take specific actions to reshape your portfolio?

- To reconfigure operations or geographic footprint: 38%
- To make acquisitions: 37%
- To divest assets: 25%

Activists spur executives toward M&A/divestitures to drive value creation

- All Chilean respondents of public companies are experiencing pressure from activist investors and 62% say this compels them to make acquisitions and divestitures.
Portfolio reviews increase in frequency, aided by technology

How frequently are you reviewing your portfolio?

- Continuously: 3% (Global), 5% (Chile)
- Every quarter: 16% (Global), 41% (Chile)
- Every six months: 44% (Global), 31% (Chile)
- Annually: 37% (Global), 22% (Chile)
- Less frequently than annually: 0% (Global), 1% (Chile)

**Speed of disruption compels executives to examine their portfolio for risks and opportunities more frequently**

- 63% of Chilean executives review their portfolio every months or more.
- Due to the speed of change, building agility into their strategy has made more frequent portfolio reviews necessary, made possible by technology.
Persistent portfolio rigor delivers investment to growth areas

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

- We reshaped capital allocation across the whole portfolio: 31% (Chile), 27% (Global)
- We identified areas where we need to make acquisitions: 24% (Chile), 20% (Global)
- We identified an underperforming asset to divest or we identified an asset at risk of disruption to divest: 24% (Chile), 21% (Global)
- We differentially invested capital in a particular business unit: 21% (Chile), 29% (Global)
- We did not take any specific actions: 0% (Chile), 3% (Global)

Targeted investment and capital allocation review are critical to growth plans

- 31% of Chilean executives reshaped capital allocation across their whole portfolio.
- Almost half said Identifying areas to make acquisitions or divestments were the main actions taken.
- Companies realize the importance of a capital allocation strategy that is thorough and aligned to overall business objectives.
Critical questions executives should ask themselves to drive better M&A

**Can you reshape your portfolio quicker than your industry reshapes around you?**
Executives should determine the relationship between their ecosystem and an evolving industry landscape to better position themselves around emerging growth opportunities.

**Is the missing link in your data your own?**
Companies should use their own internal data and a range of differentiated information to highlight potential growth markets rather than assume headline economic activity is a reliable guide.

**Tariffs, trade or business as usual?**
Executives should factor in changing trade patterns, but not allow them to overwhelm strategic direction.

**Do you need to look in a different direction to see more clearly?**
Companies should take both an inside-out view as well as outside-in to understand how investors and others see them.

**Developed, emerging or your own personal market?**
With technology enabling an increasingly bespoke service, executives should target resources more accurately to attract and retain customers.

**Will automation alleviate margin compression?**
With input prices rising, executives should accelerate their automation journey to reduce costs and maintain earnings growth.

**Are you creating your own liquidity trap?**
Executives should deploy active and automated cash management processes to free up capital for reinvestment.

**Do you know the next big thing in your industry?**
With traditional sectors recast, executives should build systems to continually track emerging competitors and technologies that may undermine their business models.

**How can you bridge the gap?**
With traditional valuation models not always able to fully assess new business models and technologies, executives should utilize alternatives when targeting emerging businesses.

**Can you articulate your social value?**
With societal issues elevating risks for businesses, executives should be able to articulate a compelling narrative of how their purpose goes beyond profit.
Participant profile
Survey demographics – Chile respondents

**Q** What are your company’s annual global revenues?

- US$100m-250m: 8%
- US$250-500m: 24%
- US$500m-1b: 8%
- US$1-3b: 26%
- US$3-5b: 5%
- >US$5b: 29%

**Q** What best describes your company ownership?

- Privately owned: 55%
- Publicly listed: 39%
- Family owned: 3%
- Government-/state-owned enterprise: 3%

**Q** What is your position in the organization?

- 24% Senior VP, VP, Director
- 61% C-level executive
- 15% Head of business unit/dept.
Survey demographics - Chile respondents

**Q** What is the age of your company?
- 5 years or more: 100%
- 4 years: 0%
- 3 years: 0%
- 2 years: 0%

**Q** What percentage of your company's executive leadership are women?
- 0%-25%: 74%
- 26%-50%: 26%
- 51%-75%: 0%
- 76%-100%: 0%

**Q** Respondent gender
- Male: 89%
- Female: 11%

**Q** What is the gender of your company's CEO?
- Female: 3%
- Male: 94%
- Prefer not to say: 0%
- NA: 3%
Appendix

Four aspects of long-term value creation:

- **Talent:** The way we manage human capital when it comes to compensation and benefits; recruitment; training and development; diversity and inclusion; well-being and creating a purpose-driven culture of engagement
- **Innovation:** Fulfilling unmet needs and maintaining focus on the end user during the innovation
- **Society and environment:** The impact on external stakeholders, communities and society by contributing to business-relevant social and environmental goals
- **Governance:** The effectiveness of the board in providing appropriate oversight, governance mechanisms to ensure board quality and independence, and the ability of leadership, in conjunction with the board, to develop and assess long-term strategy
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