How can M&A deal with today’s demands while activating your digital tomorrow?

Actively managing the present and anticipating the future defines new M&A strategies.
Taking advantage of a broad-based recovery in global economic growth to boost near-term earnings ...

98% see the global economy as improving or stable.

... companies continue to plan growth through deals, with 56% intending to pursue acquisitions ...

99% see the M&A market as improving or stable.

... as they look to secure their long-term strategies at a time of rapid technological change.

65% take proactive measures to counter the impact of digital transformation on their business model.

Balancing both short- and long-term demands from shareholders ...

91% expect the number of companies impacted by shareholder activism to increase or stay the same.

... at a time of heightened competition ...

51% of companies expecting increasing competition for assets cite PE as resurgent.

... while satisfying the new necessity to have a compelling inclusive growth narrative.

45% recognize the need to ensure they have a broader narrative to engage all stakeholders.
How can M&A deal with today’s demands while activating your digital tomorrow?

Actively managing the present and anticipating the future defines new M&A strategies.

The words actively and activating are carefully chosen in our headlines above. You may have also picked up on the subtle reference to activists – their growing influence is here to stay and spreading geographically. Also, private equity, while not necessarily included in the activist category, is growing significantly in prominence.

C-suites need to manage today as much as prepare for tomorrow. There is greater confidence in global economic growth than at any time since the global financial crisis. This welcomed and long-awaited scenario creates new intense expectations. It requires an even keener focus on organic and inorganic growth, as well as cost efficiency to meet rising investor demands.

Managing today’s broad range of stakeholder groups is also an accelerating demand on the C-suite. If you have any doubt, just speak to a company with activist shareholders. At the other end of the spectrum, and perhaps most compelling, is the new necessity to clearly articulate deal rationale centered within the concept of inclusive growth. Cost savings alone will no longer justify the “purpose” of a deal.

At the same time, the future is approaching faster than anyone anticipated. Digital disruption, transformational shifts in customer preferences and sector convergence are forcing companies to make bets on future technology now. The technology sector itself is transforming into a gateway to all industries.

And yes, geopolitical concerns are significant. But C-suites are managing these risks, not being managed by them.

The net result of all this is the most exciting and challenging business environment many of us have ever seen. In fact, our study forecasts an increase in cross-border M&A.

As for M&A, the main topic of our Global Capital Confidence Barometer, the message is clear – M&A is more important than ever to growth and survival.

Following current customers and winning new ones means companies are evaluating an unprecedented range of deals. This includes broader types of deal structures, business models and geographies as executives look to preserve current value and future-proof their businesses.

Don’t be deceived by short-term market measures or the headline appeal of megadeals. One week, one month or one quarter doesn’t tell the story. Dollar value of deals won’t always tell the story either – many that are strategically important for tomorrow will not be megadeals. As our survey suggests, this is an environment that supports continued, long-lasting strength in the M&A market.

The real M&A story is below the headlines and answers this question – can your deals actively manage today while activating your digital tomorrow?
Macroeconomic environment

Acceleration in developed markets underpins buoyant economic outlook

With the Eurozone gaining momentum, conditions look set to drive corporate investment.

The stronger than expected turnaround in economic activity in the Eurozone has boosted executives’ expectations for global economic growth. With China and the US remaining positive, all the major engines of growth in the global economy are now synchronized in an upward trajectory for the first time since the end of the global financial crisis.

Other indicators, such as Purchasing Managers indices, are also supportive of a sustained period of stronger economic growth.

With interest rates still low, and policy makers showing caution around benchmark rate increases, conditions look set to enter a period where stronger growth and low cost of capital coexist. This should embolden the C-suite in making investments in existing operations and acquisitions.

Corporate and capital market indicators moving in sync to support investment plans

Greater confidence in the global economy is boosting executives' outlook for corporate earnings and equity valuations.

This sentiment, alongside greater confidence around credit access and market stability, are net positives for investing and dealmaking intentions.

With benign volatility measures, such as the Chicago Board Options Exchange Volatility Index (Cboe VIX), executives are not anticipating any sudden deterioration in capital market conditions.

The biggest risks to growth could be policy missteps, such as central banks raising rates too quickly or removing too much liquidity from global financial markets.

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Growth and portfolio strategy

Dealmaking combined with digital at the forefront of boardroom thinking as hype becomes reality

With a keen eye on the future, executives are looking to take advantage in a fast-changing marketplace.

With the improving outlook for the global economy, it is not surprising that growth, including M&A, is the top boardroom priority. Close behind are digital technology, shareholder activism and portfolio reviews.

The underlying message is that all of these four options are closely connected as executives seek to balance short-term demands with long-term value creation. Both rely on a robust M&A strategy.

Geopolitical and economic issues will also be at the forefront of executives’ thinking over the near term. Policy uncertainty could have a negative effect on investment decisions, but companies are learning to navigate such issues. In particular, they are focusing on the real and rising threat of disruption from ever-changing consumers, technology and sector convergence.

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

<table>
<thead>
<tr>
<th>Option</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying opportunities for growth, including M&amp;A, JVs and alliances</td>
<td>19</td>
</tr>
<tr>
<td>Impact of digital technology and transformation to our business model/threat of digitally enabled competitors</td>
<td>18</td>
</tr>
<tr>
<td>Shareholder activism, including returning cash to shareholders</td>
<td>17</td>
</tr>
<tr>
<td>Portfolio analysis, including strategic divestment (spin-off/IPO)</td>
<td>16</td>
</tr>
<tr>
<td>Impact of increased economic and political uncertainty</td>
<td>16</td>
</tr>
<tr>
<td>Sector blurring/increased competition from companies in other sectors</td>
<td>9</td>
</tr>
<tr>
<td>Increasing regulatory or governmental intervention</td>
<td>5</td>
</tr>
</tbody>
</table>

Agility in balancing short-term opportunity and long-term growth at the core of capital strategy

Higher growth is driving earnings expectations and investment in existing operations.

This need to balance near-term opportunity with long-term value creation is the most difficult task for the C-suite.

As expected, the uptick in the economy is translating into a larger relative share of near-term earnings to come from existing operations.

But M&A remains a critical component of earnings expectations. Dealmaking, JVs and alliances provide both immediate tailwinds and the tools to achieve long-term strategic targets.

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

<table>
<thead>
<tr>
<th>Month</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-17</td>
<td>66</td>
</tr>
<tr>
<td>Oct-17</td>
<td>16</td>
</tr>
<tr>
<td>Oct-17</td>
<td>8</td>
</tr>
<tr>
<td>Oct-17</td>
<td>10</td>
</tr>
<tr>
<td>Apr-17</td>
<td>58</td>
</tr>
<tr>
<td>Apr-17</td>
<td>24</td>
</tr>
<tr>
<td>Apr-17</td>
<td>11</td>
</tr>
<tr>
<td>Apr-17</td>
<td>7</td>
</tr>
</tbody>
</table>

Organic | M&A | JVs | Alliances
Activism and inclusive growth strategy

Activism continuing to rise, and now a key issue for Asia and Europe

Activist intervention continues to rise as investors look for higher return.

Executives expect shareholder activist campaigns to increase in the next 12 months, as a low-yield environment compels such investors to look for other avenues to boost returns.

Shareholder activists have long been a feature of corporate life in the United States. However, as the field becomes more crowded at home, established US-based activist investors are looking overseas for opportunities.

Q: In the next 12 months, do you expect the number of companies impacted by shareholder activism to:

- Increase or remain the same: 91%
- Decrease/don’t know: 9%

Previously, Asia has not been on the radar for shareholder activism. This is partly due to a greater propensity for listed companies to have controlling shareholders, often founders and family interests, or embedded government interests. Nonetheless, activism in Asia is expected to rise, as markets evolve to encourage more mixed ownership models.

In Europe, there is evidence to indicate that activists will follow in their US counterparts’ footsteps and are likely to become more disruptive in the near future.

Q: In which of the following three geographic regions do you expect to see the greatest increase in shareholder activism?

- North America: 43%
- Europe: 31%
- Asia: 26%

Laying out a clear and inclusive growth narrative could determine dealmaking success

Societal changes require a more nuanced deal strategy.

With the increasing focus on social concerns across many countries, dealmakers are becoming acutely aware of the need to communicate the benefits of deals to a broader set of stakeholders.

This narrative should be centered on a strategy of inclusive growth, where the benefits of value creation are shared more widely in a compelling and effective way. Those that do not create this narrative could face heightened opposition and regulatory and legal challenges.

It is not surprising that a broader narrative will need to consider integration issues as part of the initial deal rationale and as a primary strategic consideration.

Q: In an increasingly complex, globalized M&A environment, which key new factor do executives need to consider when structuring a deal?

- Ensuring you have a broader narrative to engage all stakeholders: 45%
- Anticipating the full range of integration challenges and opportunities ahead of the deal: 33%
- Anticipating potential regulatory challenges ahead of the deal: 22%
Dealing with digital disruption

Innovation, digital and activist pressure accelerating the frequency of portfolio reviews

**Speed of response is critical to capitalize on new opportunities.**

This tension between short-term opportunity and long-term growth is apparent in the increasing frequency that executives are reviewing their portfolios. Faced with the twin challenges of activist and other shareholder demands, as well as industry disruption, companies cannot afford to stand still. To keep pace and sustain growth, most companies are fast-tracking the frequency of their portfolio reviews to ensure that they have the right mix of assets to compete. The new reality means no options are off the table.

Those companies that can better identify emerging trends will be able to pivot their portfolios and recycle capital to take advantage of new growth possibilities.

How frequently are you reviewing your portfolio?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuously</td>
<td>22</td>
</tr>
<tr>
<td>Every quarter</td>
<td>20</td>
</tr>
<tr>
<td>Every 6 months</td>
<td>26</td>
</tr>
<tr>
<td>Annually</td>
<td>29</td>
</tr>
<tr>
<td>Less than annually</td>
<td>3</td>
</tr>
</tbody>
</table>

**Current business models under pressure from all sides with digital technology being the genesis**

**Business models are being remade across all sectors.**

There is no standout force driving disruption; they are all closely interrelated. Technology is enabling customers to change behaviors, and creating pressures for sectors to converge to meet these new demands. This, in turn, is opening up opportunities for new digitally enabled companies to overcome historic barriers to entry, use technology to create new business models and open up new options for customers.

Executives clearly understand the interdependencies between these drivers, illustrated by the close results in the survey.

**What are the key disruptive forces impacting your sector?**

<table>
<thead>
<tr>
<th>Force</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of digital technology and transformation to our business model</td>
<td>27</td>
</tr>
<tr>
<td>Changing customer behaviors</td>
<td>26</td>
</tr>
<tr>
<td>The threat to our business from digitally enabled competitors and start-ups</td>
<td>24</td>
</tr>
<tr>
<td>Sector blurring/increased competition from companies in other sectors</td>
<td>23</td>
</tr>
</tbody>
</table>
Executives look to be on the front foot in the face of disruption

Being proactive, not reactive, will create the next generation of winners across many sectors.

The majority of executives look to be proactive in their response to disruptive forces. This is most apparent in how executives plan to respond to the disruption to their business models.

While first-mover advantage can have benefits in many sectors, it may be that the unrelenting pace of change and innovation requires a more tempered response. However, one thing is certain – doing nothing is no longer an option for companies in any industry.

Executives are also shifting their investment models to be able to respond quickly and positively as opportunities emerge. The increasing use of alliances and venture capital investments seen across sectors is an indication of this trend.

Q: With regard to these disruptive forces, do you prefer to be proactive or reactive?

Impact of digital technology and transformation to our business model

<table>
<thead>
<tr>
<th>Proactive</th>
<th>Reactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>

The threat to our business from digitally enabled competitors and start-ups

<table>
<thead>
<tr>
<th>Proactive</th>
<th>Reactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Sector blurring/increased competition from companies in other sectors

<table>
<thead>
<tr>
<th>Proactive</th>
<th>Reactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Changing customer behaviors

<table>
<thead>
<tr>
<th>Proactive</th>
<th>Reactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>
Executives look to leverage internal and external expertise to transform digital capabilities

It is no surprise that companies are looking at a wide range of options for the right skills to drive their digital transformation. The reality is that there are not enough people with the right skills in the market. Developing in-house talent is critical in enabling companies to react quickly. This is followed by hiring, and then investing.

As every company responds to the transformation to the digital future of their industry, the battle for digital expertise and talent will become more intense.

Technology puts focus on reskilling staff and opens up new avenues for creating jobs

New technologies and business models require new skill sets, and are also driving job creation.

In line with the previous question, companies are looking internally first, with re-skilling the current workforce the top priority.

The most interesting finding with respect to automation is that companies see more job creation and use of contingent workers than job losses. Perhaps, as with the first three, the Fourth Industrial Revolution will drive more job creation.
Dealmaking intentions remain near record levels

Fastest route to growth still includes dealmaking.

Ironically, some expect an improved economic outlook to stall dealmaking. They believe organic growth will be sufficient. The failure of this thinking is that the uptick in growth is relatively modest and will not provide the tailwinds to meet shareholder demands.

Executives are also balancing the need to capture current opportunities for growth with the need to future-proof their business. Executives are looking to take advantage of emerging trends and changes to their industry to boost long-term value. The fastest route to this journey includes a well-positioned M&A strategy.

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

Expectations to pursue an acquisition

Conditions set to underpin sustainable deal market

A healthy economic outlook and the need to redefine portfolios will underpin dealmaking in the near term.

Supportive market factors, including low interest rates, surplus cash reserves, a full deal pipeline and record PE dry powder, are likely to propel M&A during the coming months. The return of European companies to the M&A market, both on the buy and sell side, has propelled dealmaking in 2017. Continued, expected acceleration of the Eurozone economy will support this.

The increasing frequency of portfolio and strategic reviews will also boost the number of assets coming to market.

While megadeals may be less prominent due to regulatory and antitrust concerns, deals in the US$1b-US$10b range will underpin global deal values. Smaller, strategic deals will also be prominent, as companies reshape their portfolios to respond to disruptive forces.

Also, a by-product of the megadeals completed during the current cycle will be divestiture of high-quality assets. This may be due to antitrust or competition concerns or as companies divest non-core assets acquired as part of a larger deal.

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

<table>
<thead>
<tr>
<th>Percent</th>
<th>Improving</th>
<th>Stable</th>
<th>Declining</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>29</td>
<td>42</td>
<td>1</td>
</tr>
<tr>
<td>57</td>
<td>62</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>
M&A outlook

Strong pipelines, along with discipline, underpin more completions in a robust M&A market

Continuing disciplined dealmaking at a sustainable level is predicted by executives.

Both pipelines and expected completions are supportive of a continuation of the current deal cycle. Executives are looking to keep pipelines steady or increase the number of assets under consideration. They are looking to do the same with deal completions.

The increase in expected completions over the next year reiterates an emerging trend, backed by academic and analyst research, that companies are getting better at targeting assets and conducting preliminary diligence prior to making a bid. The importance placed on considering integration as a strategic imperative is also focusing executives’ minds on what deals are likely to be successfully completed.

Both pipelines and expected completions are supportive of a continuation of the current deal cycle.

Positive economic conditions driving consolidation, but innovative assets in demand

Combinations drive short-term gains, but acquiring innovation is critical for long-term success.

While market conditions are making consolidation within many sectors attractive, executives are looking to acquire innovation and move into new geographies to realize future growth potential.

Q: What are the main strategic drivers for pursuing acquisitions?

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow market share</td>
<td>27</td>
</tr>
<tr>
<td>Acquiring innovation*</td>
<td>23</td>
</tr>
<tr>
<td>Move into new geographies</td>
<td>17</td>
</tr>
<tr>
<td>React to changing customer behavior</td>
<td>14</td>
</tr>
<tr>
<td>Acquiring talent</td>
<td>14</td>
</tr>
<tr>
<td>Secure supply chain</td>
<td>5</td>
</tr>
</tbody>
</table>

*Acquiring technology, new production capabilities or innovative start-ups
**Spotlight**

### Private equity rebounds

Record levels of dry powder and new investment models to fuel PE activity

**Private equity returns to challenge corporates on the buy-side, with new investment models and a longer horizon.**

Private equity is likely to be one of the biggest stories in M&A over the next 12 months, with corporates being challenged for assets more than during the past five years. Private equity has rebounded in 2017 and is set to take a bigger role in the competition for assets.

The traditional private equity model has an average investment holding period of three to five years. But as the industry matures, it is experimenting with variations on this theme. With an investment period that is double that of a classic fund, new long-life funds are under much less pressure to deploy capital quickly, while retaining the ability to make big-ticket purchases.

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

<table>
<thead>
<tr>
<th>Theme</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A return of private equity as a major acquirer of assets</td>
<td>26</td>
</tr>
<tr>
<td>An increase in cross-border dealmaking</td>
<td>24</td>
</tr>
<tr>
<td>An increase in hostile and competitive bidding as companies focus on growth through acquisitions</td>
<td>19</td>
</tr>
<tr>
<td>An increase in activist investor intervention in M&amp;A</td>
<td>18</td>
</tr>
<tr>
<td>A return of megadeal M&amp;A activity</td>
<td>8</td>
</tr>
<tr>
<td>A slowdown in M&amp;A activity</td>
<td>5</td>
</tr>
</tbody>
</table>

With the flexibility to hold portfolio companies for much longer, they can achieve operational efficiencies over a longer period. Also, if economic conditions deteriorate, they can wait out the cycle rather than divest into an unreceptive market.

Cross-border dealmaking will also be prominent as companies look to tap into new areas of growth. With concerns on the horizon about increased cross-border M&A reviews and the potential for barriers, executives are more likely to take this window of opportunity to move into those markets that offer greater potential for future growth.

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

Yes: 60

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity</td>
<td>51</td>
</tr>
<tr>
<td>Corporate buyers</td>
<td>24</td>
</tr>
<tr>
<td>Sovereign wealth funds</td>
<td>14</td>
</tr>
<tr>
<td>Pension funds/institutional investors as direct investors</td>
<td>11</td>
</tr>
</tbody>
</table>

#### If so, from where?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity</td>
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<td>Pension funds/institutional investors as direct investors</td>
<td>11</td>
</tr>
</tbody>
</table>
Corporate venture capital models

Executives look to venture capital models to invest in the future

Does your company engage in corporate venture capital investment?

<table>
<thead>
<tr>
<th>Yes, and have done so for more than two years: 32</th>
<th>Yes, and have done so for less than two years: 17</th>
<th>No, but we do plan to start: 14</th>
<th>No, and there are no plans to: 37</th>
</tr>
</thead>
</table>

With the future of many sectors uncertain, executives look to buy into future opportunities through corporate venture capital (CVC) investments.

Companies across all sectors are having to consider multiple futures. Disruption and innovation are accelerating, making it hard to be certain of potential outcomes. Executives are counteracting this by investing in start-ups, both in their own sector and in others.

Corporate venture capital investments doubled in number and trebled in value between 2012 and 2016. This trend is forecast to continue in 2017.

While technology companies were at the forefront of CVC investing, other sectors have now developed CVC expertise, especially life sciences, industrials and consumer products.

A key consideration for executives is to focus on long-term potential as opposed to short-term financial gains when evaluating these investments.

Executives look to CVC to future-proof their companies

Access to new capabilities and technology is driving CVC investments.

Technology, innovation and accelerating R&D are the most prominent reasons for companies looking to invest through their CVC arms. This is allowing companies to invest in a wider range of opportunities. This provides extra optionality, without the need to make more significant acquisitions.

Further, new technology tools are enabling companies to scan their ecosystems for emerging technologies and new start-ups in a manner not available until recently. This enables CVC strategists to quickly identify the potential enablers of future disruption and growth in near real-time.

What percentage of your planned acquisition capital will you target toward CVC-type investments in the next three years?

<table>
<thead>
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<tr>
<td>&lt;5%</td>
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<td>6%-10%</td>
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What processes do you currently have for monitoring start-ups and new technologies?

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<tr>
<td>Continuous real-time tools</td>
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<td>Internal scanning team</td>
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<td>Reviewing news sites</td>
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Technology is the gateway to sector convergence, not always the final destination

Old barriers are being broken and new connections are being formed as changing customer demand is driving new ecosystems.

The convergence of all industries with the technology sector is one of the key narratives of the modern corporate economy. For example, changes in the automotive industry underpin the attraction of technology as a partner sector. This is also catalyzing the need for automotive companies to partner with consumer products, industrials, power companies and financial services. The demands of customers are revolutionizing the in-car experience and the way future purchases are financed or increasingly leased, as much as the type of driver.

Similarly, telecommunications companies are looking across a range of industries to partner with, as increasing connectivity and demand for real-time data open up further growth opportunities.

The underlying driver across all convergence is the demand by customers for new products and services. These will increasingly become both bundled and bespoke. Companies looking to secure their future need to be client-centric, first and foremost.

The key to understanding where to buy and where to form alliances will be understanding these changing demands.

Q: From which sectors do you see most convergence/blurring with your own?

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<thead>
<tr>
<th>Convergent sector</th>
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<th>CPR</th>
<th>IND</th>
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<5% - Very low  6%-10% - Low  11%-30% - Medium  31%-50% - High  51%-100% - Very high

A&T = Automotive and transportation  CPR = Consumer products and retail  IND = Industrials  FS = Financial services  GPS = Government and public sector  HC = Health care  LS = Life sciences  M&E = Media and entertainment  M&M = Mining and metals  O&G = Oil and gas  P&U = Power and utilities  RHC = Real estate, hospitality and construction  Tech = Technology  Tcomms = Telecommunications
Acquiring technology to accelerate innovation – a key consideration across all sectors

Oil and gas

• With oil price stabilization has come a transition to a new normal, which has seen confidence grow over the past six months. Deal activity has increased in some segments compared to 2016. There is an expectation of increased activity through the coming year as we see more activity in both upstream and downstream.
• Increasing innovation in deal structures from nontraditional methods (JVs, alliances, etc.) has gained traction with companies in a cash-constrained environment.
• Private equity and sovereign wealth funds continue to invest in oil and gas, as they look to deliver higher returns through selective investments. Though this has helped drive some acquisitions, caution remains, as not all investments have delivered on expectations.
• Portfolio optimization strategies are adapting to focus on delivering growth through convergence. This has been driven partially from pressure on boards to accelerate earnings growth in the short to medium term.
• Companies linking their equity story and business strategy are able to secure available financing, especially at a time when dealmaking is the popular answer to increasing above-ground efficiencies through technological advancement.

Mining and metals

• Divestments drove M&A activity through the downcycle as the sector liquidated assets to pay debt and strengthen balance sheets. In 2017, a rebound in market fundamentals eased pressure on mining companies, but did not reduce the focus on reducing financial risk.
• As such, capital allocation tended to favor continued debt reduction and the return of cash to shareholders over growth. With the industry now in better financial shape, M&A is increasingly strategic in nature, with companies positioning for the next growth cycle.
• However, investor concerns over the erosion of value creation will trigger changes in approach and a return to acquisitive transactions. The downcycle saw exploration budget reduction and a decline in inventory of projects at exploration and development stages. Companies intending to expand output in the short term will find themselves with limited options but to acquire assets already in production.
• Consolidation deals to unlock value through synergies will be fueled by a growing threat of intervention from activist investors and potential acquirers.
• Miners will continue to respond to the diverging and volatile commodity market by optimizing their portfolios to cushion against revenue fluctuations.

Life sciences

• While the strategic drivers for M&A and divestitures – the growth imperative, increasing therapeutic focus and the need for scale – continue to be very positive, some companies are holding back pending more clarity on the future of US tax reform, particularly the repatriation of offshore cash.
• This caution affects larger and megadeals more than bolt-ons and tuck-ins, although CEOs may be getting to the point where they are comfortable that any policy changes – if they happen – will not be drastic.
• Outside the US, biopharma M&A has seen steady growth, as companies continue to divest non-core assets and focus on key therapeutic areas.
• Medtech continues its strong consolidation theme, with activity in the first half of 2017 already exceeding 2016 levels. Aggregate firepower (a company’s financial resources to do M&A) of life sciences companies has increased in 2017 and could further fuel M&A into 2018 and beyond.
• As technology-driven sector convergence continues, life sciences companies will need to focus on their digital strategies for continued success. Companies have forged alliances and partnerships with technology leaders in an attempt to create “beyond the pill” solutions and new business models.

Telecommunications

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

Industrials

• Industry 4.0 is reshaping capital agendas for industrials companies. This is the fundamental shift from asset-based manufacturing to “manufacturing services” models enabled by customer transparency, technology and digital capabilities.
• Industrials are experiencing a wave of consolidation in leading submarkets. The driver is to grow profits through focused “pure-play portfolios.” This will continue to be characterized by selective megadeals, followed by strategic spin-offs, as companies maneuver to protect market share and react to changing customer demands.
• Industrials valuations are relatively high but not fully deterring suitors. Some view the risk of being left out of the winner’s circle for Industry 4.0 as outweighing the risk of overpaying. Impressive firepower and inexpensive financing will tip that equation even more toward M&A activity for both strategic and PE buyers.
• Cross-border deals have held up, despite the recent cool-off between China and the US. Industrial companies will continue to look across all markets for innovation and growth potential.

Automotive and transportation

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

While concerns regarding market access have been heightened, companies are still taking a balanced approach to investment destinations.

Despite the shifting political landscape and lingering uncertainty, Europe's economic revival clearly creates a powerful draw for inbound M&A from across the world.

Recent announcements by the US and EU to strengthen inbound antitrust and national interest reviews may temper cross-border deal flows, but actions to ensure reciprocity of access could reduce tensions.

However, the imperative to globalize operations overrides recent nationalist tendencies. Business leaders seem set to seize the opportunity to become a leading voice in championing globalization.

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)?

<table>
<thead>
<tr>
<th>Percent</th>
<th>Oct-17</th>
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<th>Apr-17</th>
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<tbody>
<tr>
<td>Outbound</td>
<td>44</td>
<td>30</td>
<td></td>
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<tr>
<td>Intra-regional</td>
<td>29</td>
<td>34</td>
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<tr>
<td>Domestic</td>
<td>27</td>
<td>36</td>
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</table>

*Respondents were polled on their top three investment destinations; this chart reflects the cumulative preference for each region (overall top 10 country investment destinations listed on page 15).
The United States retains its pole position as investment destination of choice, even as policy uncertainty has been in the spotlight of late. The improving outlook in the world's biggest economy is one factor; its established track record in innovation is another. These factors continue to make US assets attractive to overseas buyers. Domestically, a recent shortfall in megadeal activity may be due to companies awaiting further clarity on proposed tax reform and repatriation of overseas cash. Regulatory concerns may be another factor, especially uncertainty over antitrust attitudes in Washington. As policy uncertainties dissipate in 2018, the US can expect to see continued dealmaking across a range of sectors, especially in the technology and consumer products and retail industries.

The evolution of the M&A market in China is now well underway. A rapidly maturing corporate culture is driving more varied dealmaking. A decline in the value of outbound M&A has been offset by a large increase in domestic combinations, divestitures and strategic restructuring. Although China's outbound activity slowed down recently, driven by capital control regulations, the long-term outlook continues to be positive. Although capital control regulations in China might lead to short-term volatility, it is unlikely to be a permanent measure as Chinese corporates continue to invest strategically overseas, in line with the government's major initiatives. The transition of the economy to a balance of higher-end manufacturing and consumer-led services will also open avenues for dealmaking. Chinese companies will look to enhance financial services capabilities. There will also be a continued push for IP-rich industrial and technology assets. There could also be an increase in JVs and alliances, with foreign companies looking to tap into Chinese growth, especially among the emerging middle-class consumers.

While Brexit continues to dominate news headlines about the United Kingdom, the M&A market continues to show resilience. Domestic combinations, inbound acquisitions targeting assets in technology and industrials, and outbound deals targeting higher growth markets have all featured prominently in 2017. Even though the pace of economic growth is declining in the near term, and negotiations with the European Union are still uncertain, the openness of the UK to dealmaking has supported its position as the third largest M&A market in 2017. Regardless of the uncertainty surrounding Brexit, the UK remains a powerhouse of intellectual property-rich companies across a range of sectors. This is especially true in consumer products, financial services, technology and industrials. These companies, with their global reach, will continue to be attractive as targets, but will also be looking to extend their market access through acquisitions.
Questions executives should ask themselves to drive better M&A in today’s deal economy

- **Are you able to take near-term advantage without losing strategic discipline?**
  The near-term pickup in the global economy offers one solution to demanding shareholders. But fundamental shifts across all sectors mean that companies should be looking for sustainable long-term value creation via acquisitions, alliances and investments, as well.

- **Is your portfolio fit for purpose?**
  In a rapidly evolving environment of disruptive change, companies should increase their ability to refocus their core assets to proactively respond to emerging opportunities. Real-time monitoring of performance across all assets will highlight where to invest as well as those to sell.

- **Are activists the best warning sign for strategic reinvention?**
  Activists investing in a company can be an early sign of value opportunity. Companies should engage fully and early with onboard investors to understand the concerns — and be willing to pivot if required.

- **Can private equity become the partner of choice in dealmaking?**
  With PE changing investment models, holding assets for longer and looking beyond financial engineering to operational value creation, corporates and PE should consider when to compete and when to go to market together on deals.

- **Do you know who will be the main competition in the future?**
  Technology, digital and customer demands are accelerating sector convergence and inventing new markets at an increasing pace. But technology is just a gateway. Understanding these new ecosystems in real time is critical. Companies should identify potential new partners and targets early enough to ride the new waves of value creation.

- **Are you open-minded to multiple futures, without being constrained by outdated thinking?**
  New industrial landscapes and business models are evolving and morphing. Companies should consider using corporate venture capital to invest in portfolio start-ups and disruptive challengers to open up a variety of potential avenues of future growth.
▶ Is your growth inclusive?

The corporate world has been reinvented over the past three decades. Globalization and technology have reshaped the workplace. Companies will need a well-articulated inclusive growth strategy and narrative to demonstrate that value is being created for all stakeholder groups. If they do not, they risk a backlash from customers, communities and policy makers.

▶ Do you have a global mindset?

Fears over potential trade barriers, driven by economic nationalism, may appear to undermine globalization. But with supply chains and customers increasingly global, companies should be even more open to cross-border operations.
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 September and October, we surveyed a panel of almost 3,000 executives in 43 countries; 63% were CEOs, CFOs and other C-level executives.

- Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, industrials, and real estate, hospitality and construction.

- Surveyed companies’ annual global revenues were as follows: less than US$500m (27%); US$500m–US$999.9m (22%); US$1b–US$2.9b (20%); US$3b–US$4.9b (9%); and greater than US$5b (22%).

- Global company ownership was as follows: publicly listed (58%), privately owned (35%), family owned (4%) and government/state owned (3%).

Contacts

For a conversation about your capital strategy, please contact us:

Global

Steve Krouskos
EY Global Vice Chair
Transaction Advisory Services
EY Global Limited
steve.krouskos@uk.ey.com
+44 20 7980 0346
Follow me on Twitter: @SteveKrouskos

Julie Hood
EY Deputy Global Vice Chair
Transaction Advisory Services
EY Global Limited
julie.hood@uk.ey.com
+44 20 7980 0327
Follow me on Twitter: @juliehood_EY

Barry Perkins
EY Global Lead Analyst
Transaction Advisory Services
EY Global Services
bperkins@uk.ey.com
+44 20 7951 4528

Americas

William Casey
EY Americas Leader
Transaction Advisory Services
william.casey@ey.com
+1 212 773 0058

Asia-Pacific

Harsha Basnayake
EY Asia-Pacific Leader
Transaction Advisory Services
harsha.basnayake@sg.ey.com
+65 6309 6741

Europe, Middle East, India and Africa (EMEIA)

Andrea Guerzoni
EY EMEIA Leader
Transaction Advisory Services
andrea.guerzoni@it.ey.com
+39 028 066 93707

Japan

Vince Smith
EY Japan Leader
Transaction Advisory Services
vince.smith@jp.ey.com
+81 3 4582 6523

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