Is your data impeding the success of your M&A?

Malaysia: Opportunities abound

Indonesia: Accelerating urban transportation development with public-private partnership

Vietnam: An investment hotspot

Diversified industrial products: Investing for the future
Be it expanding into new markets, seizing the next M&A opportunity or realizing growth ambitions by better managing your capital, EY can help you prepare. From capital and transaction strategy through to execution to drive fast-track value creation, Capital Connect brings you fresh insights to help you answer the tough questions as you seek growth in today’s fast-changing business environment.

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Welcome to the first issue of Capital Connect, a publication that explores the leading issues and opportunities around capital management and investment for businesses as they seek to find the answers to today’s toughest strategic, financial, operational and commercial questions.

In the past year, geopolitics and technological disruptions have weighed on the minds of many corporate decision-makers. Particularly in the deals space, our 19th edition of the EY Global Capital Confidence Barometer finds that Southeast Asian corporates are cautious in their approach toward M&As.

In this issue, we look at how the combination of human and data analytics-driven insights can help bring companies to focus on the most critical issues across the transaction life cycle and deliver a successful deal strategy.

As technology innovation drives new business possibilities, diversified industrial products companies are finding themselves in a market with new customer expectations and product capabilities. We review the six big bets for these industrial players.

We take a look at the M&A opportunities in Malaysia, and how the economic fundamentals foster a very cultivating deal landscape.

In Indonesia, we examine how private companies may partake in the infrastructure sector through public-private partnerships for the country’s urban transportation development.

Favorable investment drivers underpin growing interest in Vietnam, but working with experienced partners to gain a good understanding of the market will help foreign investors leverage potential while reducing possible risks.

I hope you have an enjoyable read.

Vikram Chakravarty
EY Asean Leader
Transaction Advisory Services
Is your data impeding the success of your M&A?

Today’s companies have generated and gained access to much more data than ever before. Yet, even as companies capture more financial and operational data and are willing to share these for due diligence in a deal-making context, the quality of data is still lacking.

Often, each department has its own fragment of data that tells an independent story about the company. While companies desire a combined and reconciled set of these fragmented datasets, it is seldom readily available.

The “noisy” data can significantly impede the due diligence process. This is where the ability to quickly cut through the noise, establish linkages between disjointed data and enable speed to insights is critical. The time it takes to conduct diligence on a target company can mean the difference between winning and losing a lucrative acquisition.

Faced with a sea of data, M&A transaction specialists find themselves asking: how do I know what data to focus on, given the sheer volume of information available? How can I gain confidence in projections when data is inaccessible and takes too long to analyze? How can I swiftly understand the target’s financial position relative to competitors?

An analytics approach to pre-deal due diligence

Analytics-driven due diligence can address three commonly encountered data-related challenges, namely data availability, data processing capability, and data integrity. These three issues are inter-related and hence need to be addressed simultaneously.

The use of advanced data extraction and preparation tools allows the deal team to capture, process and analyze information at the most granular level on a per customer transaction basis and link those operational details to the journal entries in the general ledgers.

The articulation of how financial KPIs are driven by operational actions is critical, especially for start-ups and companies in the new economy industries. These organizations are often characterized by rapid growth, expansion of product verticals, negative operation cash burns, large volume of transactions and an extensive customer database, where the understanding of the customer behavior pattern, customer acquisition strategy, and use-case development forms an integral part of the commercial assessment.

In instances where the data is provided in large numbers of discrete files that present financial and operational KPIs at varied levels of aggregation and are extracted from different systems, it can be challenging to reconcile and establish the linkages of the various data cuts.
The combination of data blending tools and deep sector expertise can meaningfully join discrete data files into a multi-dimensional data source, which can enable the deal team to identify the key trends, spot data gaps, and devise follow-up actions and conversations with the companies in a speedy manner. This ability to quickly sieve through seemingly disorganized and vast data and zoom into the key gaps is highly important in a compressed deal timeline.

In cases where data is of high-quality, and hence less effort is needed to transform and blend the data, the appropriate use of analytics tools can add tremendous processing power and enhance the speed to insights. This often applies for traditional brick-and-mortar business, such as those in the consumer product and retail sector, where there are usually detailed monthly store-by-store reports.

The ability to “ingest and digest” voluminous data quickly to find patterns, outliers, and anomalies is critical to derive the key business drivers and inputs for the business model where valuation is typically driven on an adjusted earnings basis and growth is driven by both organic and inorganic growth.

This is also valuable when the business has embarked on recent structural changes and strategic initiatives and the ability to articulate the “pro forma” performance is required.

### Analytics approach and benefits

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#### How to?

Data blending with analytics tools

- Combine
- Join
- Transform
- Reconcile

#### So what?

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Seng Leong leads the transaction diligence practice in Asean. He is a seasoned transaction practitioner, focusing on M&A and financial due diligence, particularly for private equity firms and large corporates in the region. He works with clients on deal structuring, due diligence, working capital and related financing analysis and accounting consultation.

Dawn is experienced in due diligence and valuation, with focus on pre-acquisition due diligence, sell-side and carve-out due diligence, and valuation of loan portfolio and financial instruments. She is the analytics champion for EY Asean Transaction Advisory Services practice.

“Often, each department has its own fragment of data that tells an independent story about the company. While companies desire a combined and reconciled set of these fragmented datasets, it is seldom readily available.”

Empower analytics with human insights

It is important to note that analytics is an enabler and not the end-product. Analytics facilitates quicker speed to insights but does not replace the deal professional’s ability to see through the numbers and form a view on a deal’s economics versus other available investment options.

Imperfect information will continue to be the norm rather than the exception in a deal process, which often happens over a compressed timeline and deal professionals will still be required to make judgment calls on the investment hypothesis.

With the right tools and capabilities, together with deep sector experience applied throughout the deal life cycle, transaction analytics can be utilized to help deal professional get faster, better and deeper insights into the risks and opportunities of their investment decision.
Robust corporate confidence, coupled with the government’s review of portfolios and interest from private equity players is fostering a very cultivating and potentially vibrant deal landscape in Malaysia.

The 19th EY Global Capital Confidence Barometer highlighted distinct confidence among corporates in Malaysia. The survey, which was conducted in September and October 2018, found that an overwhelming 91% of respondents in Malaysia believed that the local economy was improving or stable.

Today, more than 11 months following the historic win by the opposition coalition in the Malaysia general election 2018, business confidence continues to be strong. Recent conversations with the business community, investors and entrepreneurs had revealed largely positive sentiments.

Such business confidence is not without grounds. In terms of the drivers for M&A opportunities, including economic activity, depth of the capital market, level of investor protection, and corporate governance, Malaysia remains appealing. Further, the country’s rapid urbanization and swelling middle class are poised to propel consumer spending on an upward trajectory.

And this is no surprise. The 19th EY Global Capital Confidence Barometer also highlighted Malaysia as one of the top investment destinations among Southeast Asia businesses. Malaysian corporates, too, are looking homeward for investments, with a focus on technology, consumer products and retail, health and life sciences, financial services, real estate and telecommunications, as well as manufacturing.

Between January and August 2018, 29% of deals had come from the manufacturing sector, followed by real estate (22%), health and life sciences (8%) and technology, media and telecommunications (6%). The full-year data from 2017 tells a similar story, with most of the deals in Malaysia coming from the manufacturing (26%), real estate (14%) and technology, media and telecommunications (12%) sectors.

Further, with the Malaysian government’s push for smart cities, which includes leveraging new technology to build digital ecosystems and improve transportation and infrastructure, notable deal activity can be expected in the technology, utilities, automotive and transportation sector - and this trend will likely continue for some time. Particularly, there may be more deal activity involving government-linked investment companies (GLICs) and
government linked companies (GLCs), which are actively reviewing their portfolio. The call for reform of GLICs and GLCs has also escalated now that a new government in place.

Private equity, with significant dry powder, is also rising in prominence and competing with corporate buyers on deals. According to the EY publication, *Private equity briefing: Southeast Asia – September 2018*, dry powder committed to Asia-Pacific continued its upward run, reaching a record level of US$346b at the end of 2018. As well, data shows that in 2017, investments in Southeast Asia by PEs was estimated at 80% of the total deal value for that year, of which the majority of deal activity are concentrated in Singapore, Malaysia and Indonesia.

The more recent notable PE deals in the country include Dymon Asia acquiring a 13% stake in mineral water bottler Spritzer Berhad and becoming its second largest shareholder and KV Asia Capital acquiring APIIT Education Group from Ekuiti Nasional Berhad, a government-linked private equity fund management company. More recently, Creador closed its fourth fund at over US$500 million, making it one of the largest capital raised for a Malaysian-based PE firm, with the firm committing up to half of the fund raised into Malaysia, with the first investment to be made over the next few months.

Locally, companies should start considering how to grow their business beyond Malaysian shores potentially looking at Southeast Asia, given Malaysia’s location. For investors looking into investing in Malaysia, they should move focus away from just looking at the “here and now” financials but also to have a greater focus on evaluating middle-to long-term strategy, including but not limited to new market entry, product and brand acceptances, and also further developing and enhancing customers and suppliers’ relationships.

The economic fundamentals together with a strong “feel good factor” within the entrepreneur community fosters a very cultivating deal landscape. Those who succeed will be the ones looking to create synergies and value creation rather than just acquiring cheap deals.

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George has extensive experience in auditing and advisory covering a wide range of engagements in various industries. These include provision of advice relating to M&A, due diligence reviews, valuations, financial modelling and debt restructuring. George has assisted companies in IPO on Bursa Malaysia Securities Berhad, and has been appointed as Special Administrator for distressed companies.

Preman is a transaction advisory specialist with more than 20 years of working experience, of which 10 years were spent in London in the transaction advisory space. His experience is broad-based, advising both large and mid-market corporates and private equity firms on transactions, including sell-side advice, vendor due diligence and buy-side engagements.
Indonesia’s steady economic growth in recent years has spurred rapid urbanization across the archipelago. According to the World Bank, the growth rate of cities in Indonesia is 4.1% per year - faster than that in many Asian countries. Further, 68% of Indonesia’s population are expected to live in cities by 2025.

This rapid urbanization, like two sides of a coin, can bring higher economic growth from increased employment and labor productivity, but also puts a strain on existing infrastructure.

Traffic congestion is one such issue as a result of under-capacity in infrastructure. Global SaaS and DaaS company INRIX reported that Jakartans spent 15% more time in congestion in 2017 compared to the previous year. Not surprisingly, the Jakarta Provincial Government has turned to unconventional policies such as the three-in-one initiative, and the recent odd-even license plate regulation, to mitigate the issue.

However, the fundamental issue of inadequate infrastructure remains, and the need for a well-developed urban transportation system is becoming more urgent.

The urban transportation landscape

The urban transportation system in Indonesia consists of buses, trams, light rail, metro, rapid transit and ferries. Particularly, urban rail-based transportation, such as light rail and mass rapid transit (MRT), provides mobility for people and goods, and access to the urban area. On 24 March 2019, the President of Indonesia, Mr. Joko Widodo launched the first MRT system in Indonesia. The first phase of the planned MRT system spanning 16 km and serving 13 stations from Lebak Bulus to Bundaran HI, connecting South Jakarta to Central Jakarta. These are economical, energy-efficient, and require less space than private transportation. Thus, these are suited to support busy and high-density urban areas.

The country’s rapid urban transportation development is creating vast opportunities for collaboration and investments for the private sector.
The railway business in Indonesia is split into two main components: infrastructure (railway) and train (rolling stock). According to Indonesia’s Law No. 23/2007, the government is responsible for providing and maintaining the railway. The operator, currently PT Kereta Api Indonesia (KAI) – and the sole train operator in Indonesia – pays track access charge to the government for using the railways. For supporting the maintenance of the railway, KAI also receives infrastructure maintenance and operation fees from the government.

Today, urban rail-based transportation is among the Indonesian government’s priority agenda for infrastructure development, and a number of projects have been started or announced.

Development plans ahead
The government’s plans and strategies for urban transportation development are stipulated in the Ministry of Transportation’s strategic plans (Renstra), as well as development documents such as the National Medium Term Development Plan (RPJMN) and the government’s Workplan (RKP). The recurring themes are Transport Oriented Development (TOD), mass rapid transit development, and transportation demand management.

In reviewing the Renstra, RPJMN, and RKP, urban transportation project pipelines have been started or announced by the government, with a focus on MRT and LRT in Indonesia’s largest and busiest cities.

Issues and challenges
Collective efforts from the government and relevant stakeholders are needed to
Urban transportation plans and strategies

Develop modern and advanced mass transit systems focused on bus and railway with integrated facilities

- Construct rail-based mass rapid transit
- Develop urban railway in metropolitan areas
- Develop bus rapid transit (BRT) in large cities
- Provide targeted subsidy or public service obligation (PSO) for the implementation of mass urban transportation

Develop a balanced management of urban transportation, taking into account the interaction between transportation and land use

- Increase access to public transportation through Transport Oriented Development (TOD)
- Provide supporting facilities for transport modes such as park-and-ride schemes
- Implement real-time traffic information system, with the application of Area Traffic Control System and virtual mobility
- Strengthen implementation mechanism for urban transportation and reduce traffic congestion through transportation demand management with pull-and-pull approach

Improve the integration of urban transport institutions

- Construct rail-based mass rapid transit
- Develop urban railway in metropolitan areas
- Develop BRT in large cities
- Provide targeted subsidy or PSO for the implementation of mass urban transportation

Source: Indonesia's Ministry of Transportation strategic plans; EY analysis

accelerate urban transportation and infrastructure development, as the country seeks to overcome prevalent issues and challenges including:

- **Lack of financial resources**
  An Asian Development Bank report estimated that in 2016, investment has remained at 3% of gross domestic product (GDP), while at least 7% of GDP is required for new investments and capital replacement.

- **Complex regulatory framework**
  There is a plethora of regulations that transportation projects (and their stakeholders) need to comply with. Hence, a deep understanding of those regulations is critical. In some cases, new regulations are required to accommodate transportation projects. If not anticipated accordingly, this may result in long delays in the delivery of projects.

- **Bureaucracy and conflicts of interests**
  Most transportation project stakeholders are public entities with rigid bureaucracies. These factors often lead to slow decision-making and frequent changes in project structures or arrangements, causing inefficiency in the planning and implementation of projects.

To minimize the above, the government and other stakeholder should pay attention to these areas when developing urban rail:

- **Well-prepared feasibility study**
  Project failures are commonly attributed to inadequate or non-existent feasibility study, including (but not limited to) unrealistic traffic forecasts and undefined contribution of funds.

- **Suitable scope**
  The scope of the project should be determined at an early stage as it establishes stakeholders’ roles and responsibilities. This would minimize the likelihood of delays due to a change in the project scheme at a later stage.

- **Regulatory compliance**
  The development of a project needs to take into account the intricate and often overlapping regulations and regulatory bodies in Indonesia’s transportation sector.

- **Financial support**
  It is imperative that the tariff is within the commuters’ ability to pay. In cases where the commercial tariff is far above the commuters’ ability to pay, there needs to be additional financing (e.g., government subsidy in the short term) to lower the tariff.
Drive to increase private sector participation

The government recognizes the need and importance of private sector involvement in realizing its plans and strategies, and has taken remarkable efforts to put more projects in the market. It has revised existing public-private partnership (PPP) regulations with the most recent being the Presidential Regulation No. 38/2015; established institutions such as Indonesia Infrastructure Guarantee Fund, PT Sarana Multi Infrastruktur, and PT Indonesia Infrastructure Finance as financing instruments; and initiated Komite Percepatan Pembangunan Infrastruktur Prioritas (KPPiP) to support and oversee the progress of key projects.

To minimize land acquisition issues, the government set up Lembaga Manajemen Aset Negara, which manages compensation payment to landowners whose land is being acquired for infrastructure projects.

Going forward, reliance on private financing is likely to continue, and efforts from the government is needed to ensure that PPP can flourish and be implemented effectively in Indonesia. The government can look to more mature PPP markets such as the UK, Canada, and Australia, and adapt best practices accordingly.

Urban transportation development in Indonesia is still in its infancy. There is much to be done, and the government cannot do it alone. The good news is that the government is heading in the right direction by opening up the urban transportation sector to private investors, and taking initiatives to support its growth.

Now is the time for the private sector to seize the opportunities for collaboration and investment.

Source: EY analysis, based on publicly available information

**Urban transportation project pipelines**

**MRT Jakarta (North-South Corridor - Phase 2)**
Covers a total of 8 km, from Bundaran HI to Kota. The line is planned to have 7 stations along the route.

**LRT Jakarta, Bogor, Depok, Bekasi**

**East Kalimantan Railway**
Connects West Kutai regency, Paser regency, Penajam Paser Utara regency, and Bakupan city. Aims to reduce distribution cost and time and encourage mining companies to improve productions.

**LRT Medan**
Expected to connect Stasiun Besar Kereta Api Medan, Jalan Williem Iskandar, Jalan M Yamin, Jalan Gatot Subroto, Jalan Iskandar Muda, Jalan Universitas Sumatera Utara, Jalan Setia Budi, Jalan Djamin Ginting, and Pasar Induk Laucih.

**LRT Bandung Raya**
Aims to provide access to Kota Bandung from Kabupaten Bandung, Kota Cimahi and surrounding areas. Serves as an extension to the Metro Capsule, which operates within Kota Bandung.

Source: EY analysis, based on publicly available information

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Sahala has significant experience in infrastructure advisory, including advising the government and private sector on the PPP (public-private-partnership) projects. He also has extensive experience in buy-side and sell-side M&A.
Despite being a late joiner in the competition for foreign investments, Vietnam made a bold move through the issuance of the first complete Foreign Investment Law in 1987. This allowed the establishment of companies with 100% foreign capital while some neighboring countries only permitted 49% foreign-owned capital structure at that time. Such strong commitment to this initiative continues today, and more than 30 years on, hundreds of large-scale projects have been put into operation in Vietnam year-on-year.

Foreign direct investments (FDI) into the country has grown at a compound annual growth rate (CAGR) of 11.4% in terms of value, from US$12.4b in 2014 to US$19.1b in 2018. During 2018, 3,056 new FDI projects were announced, representing an increase of 17.5% compared to 2017.

Considerable growth in investment has also been reflected in M&A activities. In 2017, M&A deals reached over 250 transactions, with a total value of more than US$13b. The consumer sector came up tops, taking 47% of total deal value, which was followed by real estate (26%) and industrial goods and services (6%). The first half of 2018 witnessed a shift in M&A activity concentration. Out of a total of US$3.76b deal value, 52% came from real estate, while banking accounted for 28%.

Vietnam has risen strongly as an economic success in Southeast Asia, but investors should be prepared to work with professionals with deep local and market knowledge to overcome regulatory challenges and language and cultural barriers.
Favorable investment drivers

Many factors underpinned the growing investment interest in Vietnam. Vietnam’s strategic geographic location is one of its key advantage. Being the easternmost country on the Indochina Peninsula, Vietnam borders with China (the biggest market in the world) to the north and Laos and Cambodia (the two emerging markets in Southeast Asia) to the west. Not only is the country located in the center of Southeast Asia, it is also close to other major international economic and commercial centers in Asia. Cities such as Singapore, Kuala Lumpur, Bangkok, Manila, Hong Kong, Taiwan, Tokyo, Seoul, and New Delhi are all within several hours’ flight. With 3,444 km coastline and more than 90 ports, including deep-water international transit ports, Vietnam shows excellent potential in the development of sea transport, transit, and logistics.

Some of the other key elements that help Vietnam to attract investments include improving business infrastructure (transportation, telecommunication, and industrial zones), young demographics, competitive labor cost, rich natural resources, and privatization of state-owned businesses, which opens new doors for foreign investors. With a wide range of advantages, Vietnam has been among the economies with the
fastest growth in Asia as well as in the world and is seen as a hot spot for investments. The economy is also underpinned by favorable macroeconomic indicators such as a steady and low inflation rate of c.4% since 2014, and an interest rate of c.7% since 2015.

In addition to the stable political environment, the government has made reducing red tape, streamlining administrative procedures and enhancing the overall business environment one of the key priorities in recent years. The government’s Resolutions 19 adopted in 2014 as well as other initiatives marked its continuing efforts to drive the attractiveness of doing business in Vietnam.

As a result, the country has seen notable progress. According to the latest Doing Business 2018 by the World Bank, Vietnam ranked 68 out of 190 economies on the ease of doing business, a significant move up from the 82nd place in 2017. The World Economic Forum’s Global Competitiveness Report 2017-2018 also ranked Vietnam 55th overall, up five places from 2016. As Ousmane Dione, the World Bank Country Director for Vietnam shared: “Recent progress in enhancing Vietnam’s business climate has been very encouraging and clearly reflects the government’s strong commitment to narrow the gap with top performing economies.”

Another indication of Vietnam’s openness to the global economy are the numerous free trade agreements (FTA) that the country has signed to make the market more liberal. So far, 13 FTAs has been signed with various countries and territories, including with India, Australia and New Zealand, Japan, China, Korea, the EU, and a few more have been in negotiation. Most recently, the EU-Vietnam trade agreement, one of the two largest new generation FTAs (the other being the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP) between Vietnam and 28 European Union (EU) member states, has been finalized in June 2018. The trade agreement will eliminate nearly all tariffs (over 99%) and will further strengthen Vietnam’s position as the EU’s second biggest trading partner in Southeast Asia, after Singapore.

According to the World Bank, Vietnam’s growth and macroeconomic stability are expected to be sustained over the medium term with a stable growth rate of 6.5%. One of the key driving factors is the large consumer domestic market of 95.5 million people. In addition, as economic conditions improve, gross domestic product (GDP) per capita of Vietnam has tripled from US$780 in 2006 to nearly US$2,500 in 2018, significantly enhancing the consumer purchasing power. The emerging middle class, currently accounting for 13% of the population and is expected to reach 26% by 2026, will further enhance the market size and create more opportunities for investors.
Be a wise investor

In recent years, Vietnam has risen strongly as an economic success story in Southeast Asia, drawing much investor interest in the process. However, investors eyeing this growing market should also be aware of the potential pitfalls of doing business in Vietnam.

As a developing nation, the Vietnamese legal framework is still being revised. Frequent updates can create unnecessary confusion and sometimes trigger enterprises to fall into non-compliance.

Coupled with the bureaucratic system, especially in provincial level, foreign investors may find it challenging to master the procedures needed to run paperwork smoothly without the support of professionals with deep local knowledge and expertise in the market.

Another consideration for foreign investors is the language barrier. Although English has become more and more common across the nation, the overall capability remains relatively modest. Education First (2017) ranked Vietnam 34th among the 80 countries and territories surveyed on general English skills. Official paperwork submitted to authorities are in Vietnamese. Such language barriers create significant demand for interpretation and translation, which can be time-consuming and reduce business operation efficiency.

Every market has its pros and cons and Vietnam is no exception. However, studying the market carefully while seeking support from experienced partners provides investors with a solid platform to best explore market potential while mitigating the possible risks.

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Du has extensive knowledge in business strategies, game theory, financial modeling and forecasting. He is experienced in multiple capital raising, corporate restructuring and M&A advisory. His areas of focus include investment advisory, business valuation, corporate finance, risk management, econometrics and quantitative methods in industries including oil and gas, real estate, education, consumer packaging, media, financial services and media.
Companies in the diversified industrial sector, which includes aerospace and defense, chemicals and industrial products, are undergoing fundamental changes as they adapt to the altered business landscape shaped by new technology and changing customer preferences. Each subsector faces its own unique challenges and opportunities, yet they share a common focus in three key imperatives — growth, operational efficiencies, and technological innovation.

Despite the challenges they face, an overwhelming 98% of the industrials sector executives surveyed globally for the 19th edition of the EY Global Confidence Barometer believed that the economic health of their sector was stable or improving.

After a significant stretch of time where industrial companies were struggling to grow, we are finally seeing an increase in the revenue growth for the industrials sector (see chart next page). For some years, industrial companies have been working on portfolio optimization — doubling down on areas where they can grow and divesting peripheral or non-core assets that distract management attention. They have been refocusing their businesses on core operations, moving away from the mindset of “business diversification as a virtue” and divesting operations that are underperforming or diluting corporate resources.

For example, a unit of a utilities, marine and urban development group in Southeast Asia has sold its Singapore medical waste division for S$20m, in line with the group’s intention to divest peripheral utilities assets to recycle capital and unlock value. Another good example is a regional aviation maintenance, repair and operations (MRO) player that has made its largest-ever acquisition by buying a component manufacturing business from a global player, thus entering a related area and hedging their bets as an original equipment manufacturer in the MRO space.

It is thus not surprising that the abovementioned Barometer found that 76% of the industrial sector executives believed portfolio transformation is the leading priority on the boardroom agenda.

Digital disruption drives portfolio transformation
As technology innovation drives new business possibilities, industrial companies are finding themselves in a market with new customer expectations and product capabilities, including new competitors that bring differentiated business models to long-established ways of working. Leaders are now turning their attention toward positioning themselves to increase their digital capabilities and survive market disruption.
The Barometer revealed that 34% of the respondents review their portfolio annually and 42% review their portfolio every six months. Disruptive forces and geopolitical uncertainty are not the only reasons for reviewing and reshaping portfolios. Industrials executives are also looking to divest underperforming assets and operations that are at risk from technology, digital and customer disruption. As a result of recent portfolio review, 40% of the respondents identified an asset at risk of disruption to divest. Going forward, majority of industry players believed that technology-driven divestments will increase in the next 12 months.

Clearly, such technology-driven divestments and capital decisions must be taken and executed judiciously.

For a start, these companies that are redefining their business strategy in times of rapid-speed technology advancements need to understand the value of their own technology to their business. As well, sellers can achieve strong valuations on their businesses not only from strong operating models and legal structures, but also from clear communication about the potential impact of technology. Revealingly, the Barometer found that 19% of the industrial sector executives did not communicate the impact of technology on the future state of the business, and believed that their sale price would have had benefitted from doing so.

Executives also cited the need to fund new technology investments as increasing their impetus to divest over the coming year. While this makes sense, companies should evaluate divestments not only on the cash that can be generated to support new technology, but also the impact on the overall portfolio as the organization builds out its digital capabilities and positions itself to pursue new markets.

Generally, industrial companies are taking a more thoughtful and strategic approach to planning deals. With equity and M&A valuations at elevated levels, the pressure on buyers is increasing. Executives are acutely aware that the deals still have to make both strategic and financial sense, and are unwilling to overpay for assets. Sophisticated methodologies to source potential targets, along with evolving due diligence techniques and analytics to assess planned acquisitions, will help executives make better judgments and decisions.

Six big bets for industrial players

Beyond portfolio optimization, industrial sector companies should seek to up their game more comprehensively. According to the EY survey, Industrial products balancing act, investing in the following six big will differentiate markets leaders from the laggards.

- **Customer connectivity**
  Faced with empowered customers who are now more demanding, coupled with changing business models, companies in manufacturing need to seek new ways to connect with their end consumers. Working collaboratively with customers in rapid prototyping exercises has brought win-win results for many industrial firms.
Supply chain reinvention
The supply chain must be positioned to meet the needs of today's digitally savvy consumer by integrating a complex ecosystem of suppliers and customers to deliver on increasing cost and cash saving demands while still running efficiently. Additive manufacturing and 3D printing technology have moved from a “pie in the sky” scenario to being commercially proven and deployed widely.

Talent and culture
Against competition from technology companies in attracting talent, industrial companies need to focus on creating a supportive culture as well as training and upskilling workers.

Digital assimilation
There has been an explosive growth of new technologies such as big data, analytics, artificial intelligence, and the Internet of Things. Companies that embrace digital early on have witnessed improved productivity and customer satisfaction.

Big data and analytics
Amid challenges such as a lack of analytics awareness among suppliers, limited abilities, resources and talents such as data scientists, companies need to examine how they can reap the full benefits of big data and analytics.

Advances in enterprise
With a risk landscape that is rapidly changing in the form of business disruptions and loss of sensitive data from cyber attacks, companies have to be efficiently equipped to ensure business continuity.

Perhaps it’s time for industrial sector companies to ask this question: where are you placing your bets, and are you moving fast enough?

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Karambir works with clients to plan and develop their growth strategies, supports diligence efforts (both commercial and operational) to assess acquisitions, and leads longer-term operational improvement plans. He has in-depth knowledge and experience in the resources and industrials sectors (including oil and gas, metals and mining, business-to-business industrial and manufacturing organizations and the agricultural sectors).
## Contact the team

### Markets

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<th>Region</th>
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### Competency

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### Sector

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