

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.

Argentina Capital Confidence Barometer | November 2017 | 17th edition



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

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world



About the study

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

The respondent community comprises an independent panel of senior executives and select EY clients and contacts.

Our 17th Barometer provides a snapshot of our findings, gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agenda.

Produced in
association with



Participant profile:



Respondent community includes almost **3,000** senior executives surveyed in September and October 2017



Respondents from **43** countries, including **30** from **Argentina**



Respondents from **14** industries



2,650 CEO, CFO and other C-level executives

Argentina key findings

Macroeconomic environment and M&A outlook

Increasing economic outlook and dealmaking intentions at near-record level.



63%
see the local economy as **improving**



63%
see the M&A market as **improving**



70%
intend to **pursue acquisitions**

Growth and portfolio strategy

Dealmaking combined with digital at the forefront of boardroom thinking as private equity rebounds.



33%
of companies **expect increasing competition for assets** from private equity



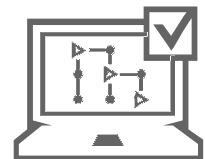
63%
are anticipating the full range of **integration challenges and opportunities** ahead of the deal



60%
see short-term market stability **improving**

Digital transformation

Executives look to be on the front foot in the face of disruption and building venture capital models to invest in the future.



77%
take proactive measures to **counter the impact of digital transformation** on their business model



59%
are **buying, forming alliances or creating JVs** with digital companies to improve digital capabilities



46%
are **developing CVC arms** to drive better access to new capabilities and technologies

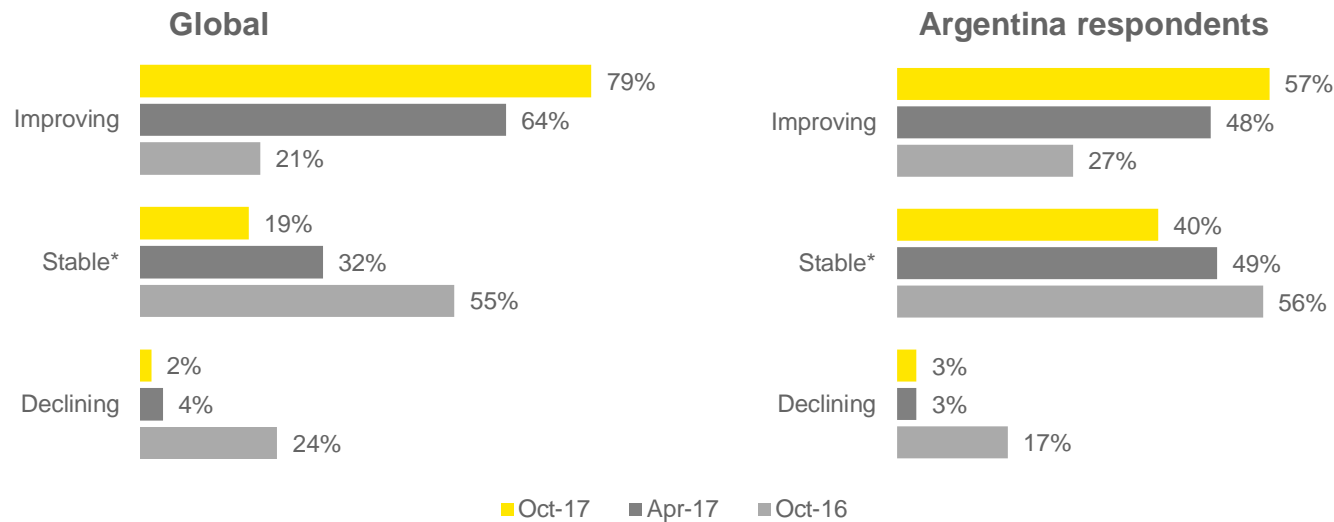
Macroeconomic environment



Argentinian respondents are positive on the prospects for the global economy



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



Multiple economies contribute to the positive global economic outlook

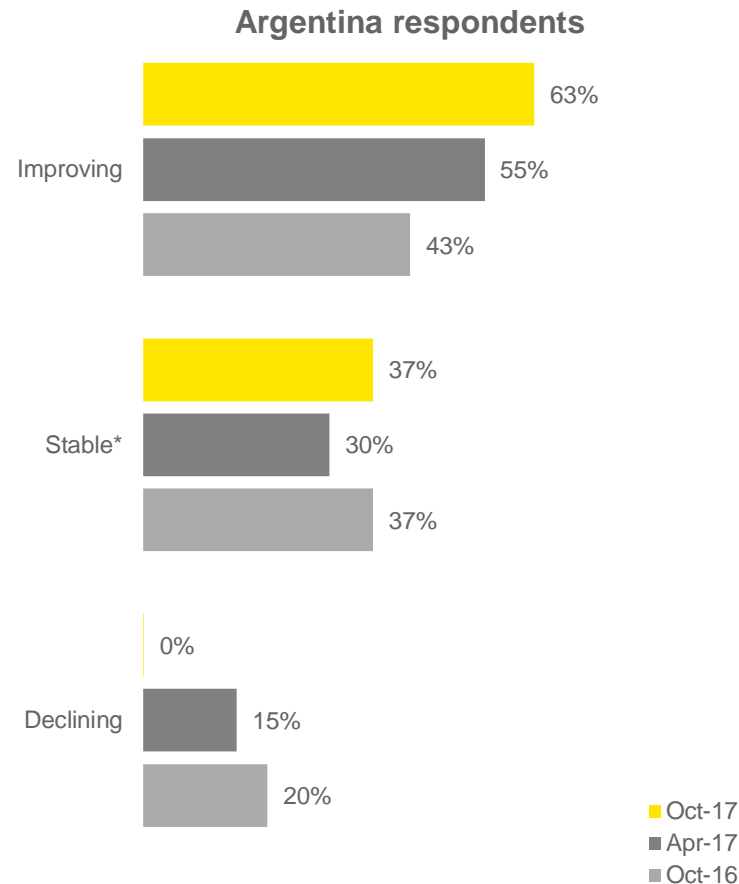
- ▶ A stronger-than-expected turnaround in economic activity in the eurozone has boosted expectations for global economic growth.
- ▶ With the economies in China and the United States remaining steady, all the major engines of global activity are now moving firmly upwards for the first time since the end of the eurozone debt crisis.

*GDP growth = same as 2016.

Majority of Argentinian respondents see domestic economy as improving

Q

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



*GDP growth = same as 2016.

Economic reform continues

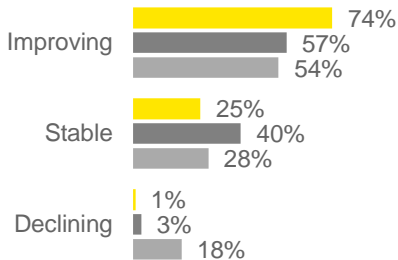
- ▶ The victories in key districts during recent mid-term elections helps strengthen President Macri's plan for economic changes he says are necessary to improve the country's competitiveness and economy.
- ▶ Over the past two years President Macri has taken significant steps to liberalize the Argentinian economy. His administration lifted capital controls, floated the peso, negotiated debt payments with holdout bond creditors, returned to international financial markets private and public sectors, removed export controls on some commodities and export taxes eliminated or reduced.
- ▶ Public-Private Partnership Law to attract long-term infrastructure investments.
- ▶ Launch of huge infrastructure program and renewable energy plan.
- ▶ Tax and labor reform discussions taking place.

Confidence in economic indicators is positive globally and stable to positive in Argentina

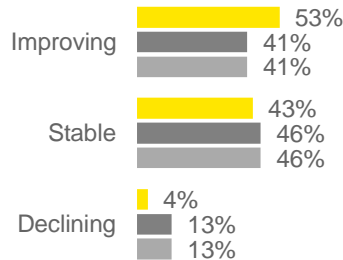
Please indicate your level of confidence in the following at the *global* level.

Global

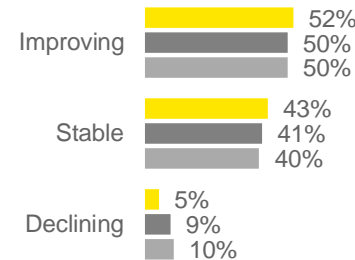
Corporate earnings



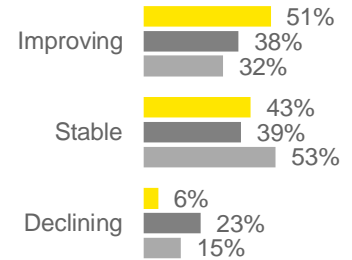
Credit availability



Short-term market stability



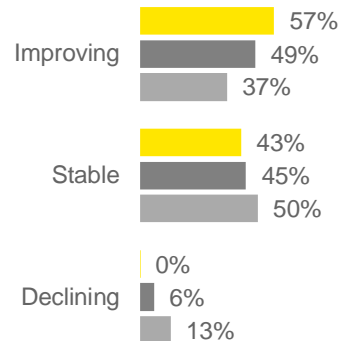
Equity valuations/ Stock market outlook



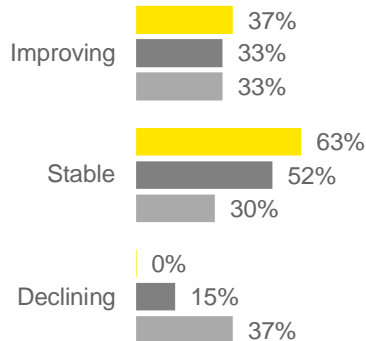
Please indicate your level of confidence in the following at the *local* level.

Argentina respondents

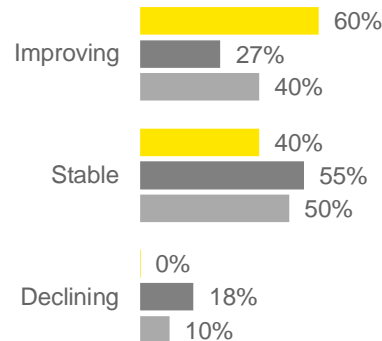
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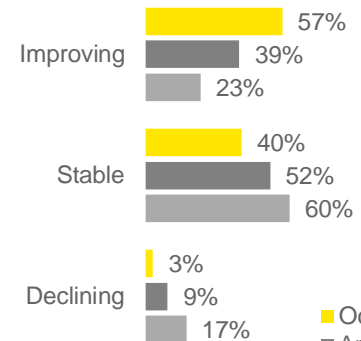
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Short-term market stability



Equity valuations/ Stock market outlook



■ Oct-17
■ Apr-17
■ Oct-16

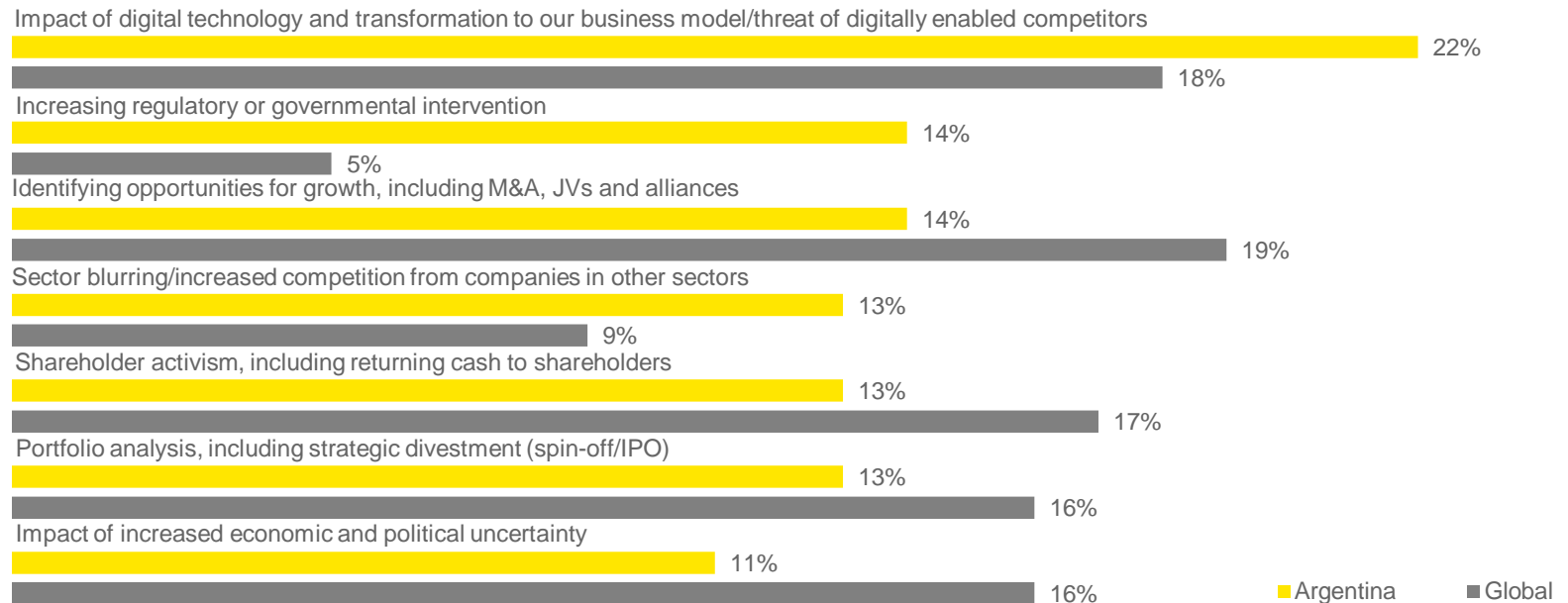
Growth and portfolio strategy



Impact of digital, regulations and growth at the forefront of boardroom thinking

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



With a keen eye on the future, executives are looking at opportunities and threats in a fast-changing marketplace:

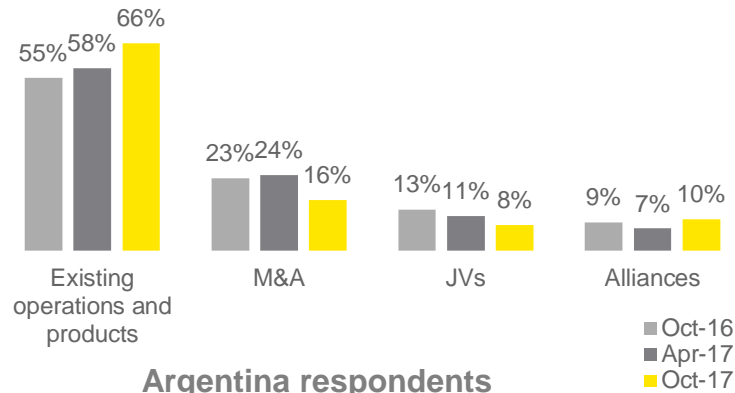
- ▶ Digital transformation, growth, portfolio and M&A, increasingly including JVs and alliances, can not be separated in many companies' strategies. Balancing the search for growth, with increasing regulations and the identification of longer-term threats and opportunities, is now part of the corporate DNA.

Argentinian execs focus on organic growth

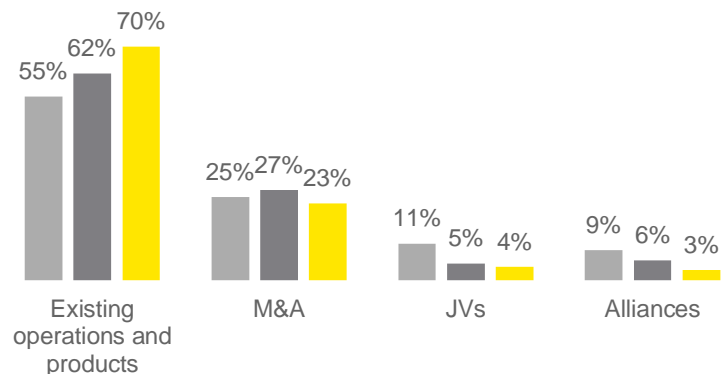
Q

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

Global



Argentina respondents



Increasing focus on organic growth, but some still looking at inorganic growth opportunities:

- ▶ The improving local economic landscape will provide a boost to organic growth in the next 12 months with 70% of Argentinian respondents saying they are focused on existing operations and products.
- ▶ 30% of executives are still looking to M&A, joint ventures (JVs) and alliances to provide for growth opportunities.

Activism and inclusive growth strategy

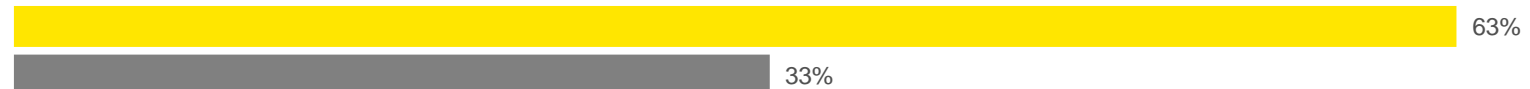


Anticipating integration and opportunities ahead of the deal a key factor

Q

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

Anticipating the full range of integration challenges and opportunities ahead of the deal



Ensuring you have a broader narrative to engage all stakeholders



Anticipating potential regulatory challenges ahead of the deal



■ Argentina ■ Global

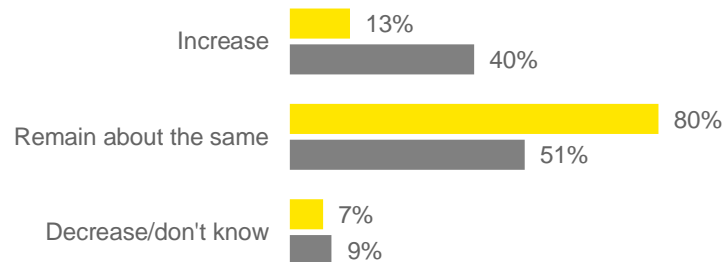
Forward-thinking companies start their integration strategy early

- ▶ New approaches around big data and analytics can help accelerate the integration process, leveraging data to test their initial investment thesis.
- ▶ Communicating a credible investment strategy early helps not only with creating positive market reaction but also communicating synergies accurately.

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

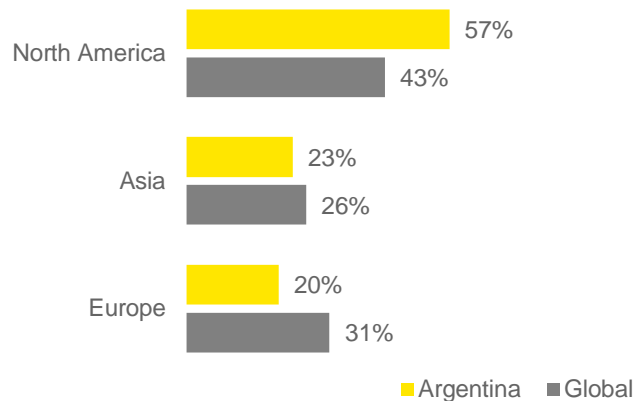
Q

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



Q

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



Activism is a fixture on corporates' radar

- ▶ North America is overwhelmingly seen as the key target for activist intervention, with the majority of respondents expecting the greatest increase in activism in that region.
- ▶ Companies may want to develop a 360-degree view of shareholder value and its key drivers, as well as adopt governance practices to address likely activist goals.

Dealing with digital disruption



Portfolio and corporate structures are becoming more fluid

Q

How frequently are you reviewing your portfolio ?



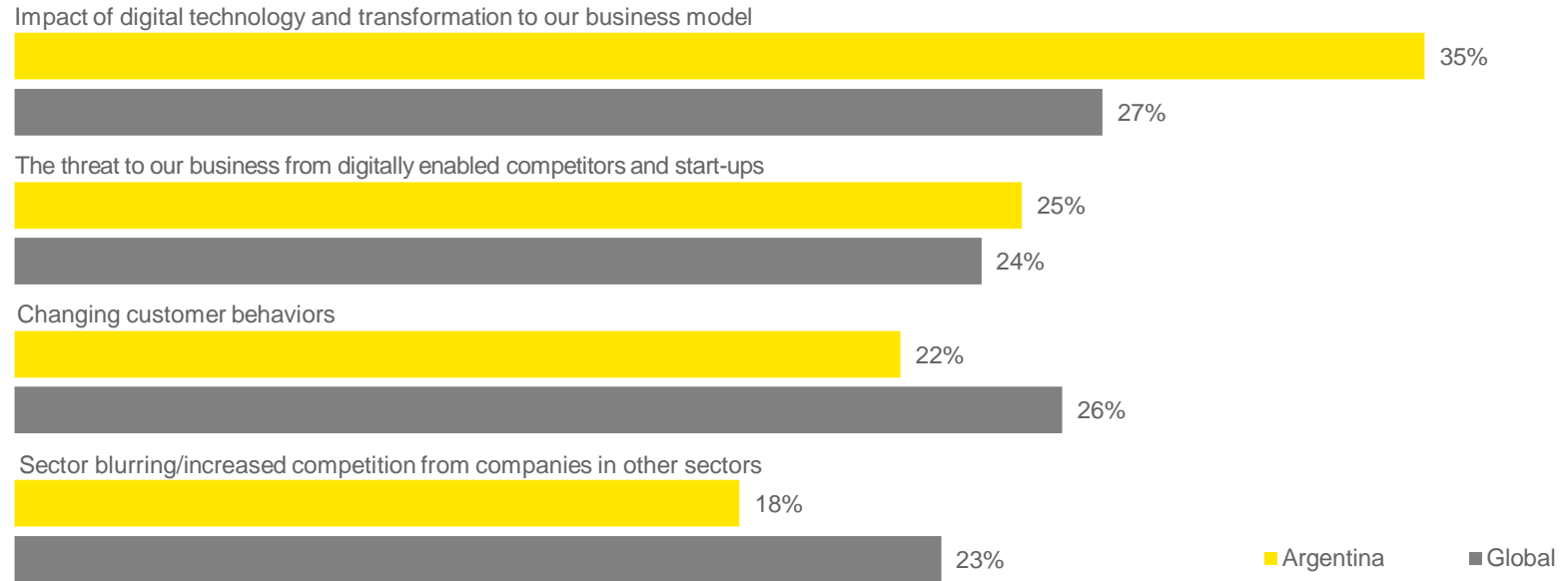
Disruption and innovation is compelling companies to review their portfolio more regularly

- ▶ The majority of Argentinian respondents review their portfolio more frequently, while more than one-quarter of executives say they review portfolios annually.
- ▶ Companies' need to remain responsive to shifting consumer preferences and emerging competition makes regular portfolio review vital. Portfolio rebalancing helps free up capital for innovation.
- ▶ Real-time assessment of performance and return has been enabled by modern analytics.
- ▶ Companies that identify emerging trends are best equipped to readjust their portfolios and recycle capital to take advantage of new growth areas.

Impact of digital technology remains the key source of sector disruption

Q

What are the key disruptive forces impacting your sector ?



Business models are being remade across sectors

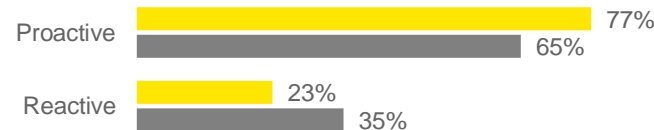
- ▶ Disruption has many closely interrelated forces: Technology spurs change in customer behavior, creating pressures for sector convergence to meet new demands. This in turn opens opportunities for digitally enabled companies to overcome historic barriers to entry, creating new business models and presenting novel options for customers.
- ▶ Nearly two-thirds of Argentinian executives, combined, say the impact of digital technology on business model (35%) and threats from digitally enabled competitors (25%) are the key disruptors affecting their sectors.

Executives look to be on the front foot in the face of disruption

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



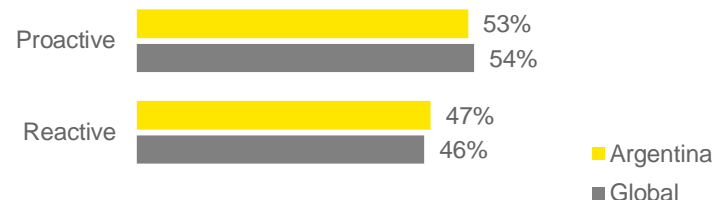
The threat to our business from digitally enabled competitors & start-ups



Sector blurring/increased competition from companies in other sectors



Changing customer behaviours



■ Argentina

■ Global

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

- ▶ Most executives look to be on the front foot in their response to disruptive forces.
- ▶ 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 not an option for companies in any industry.

Talent strategy

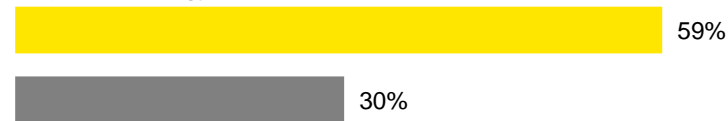


Executives look to leverage internal and external expertise to transform digital capabilities

Q

With regard to digital transformation and responding to digital innovation, do you plan to improve your digital capabilities by:

Forming JVs with/buying digital companies that support our digital and corporate strategy



Developing digital capabilities in-house



Hiring executives with digital expertise from inside or outside our industry



■ Argentina ■ Global

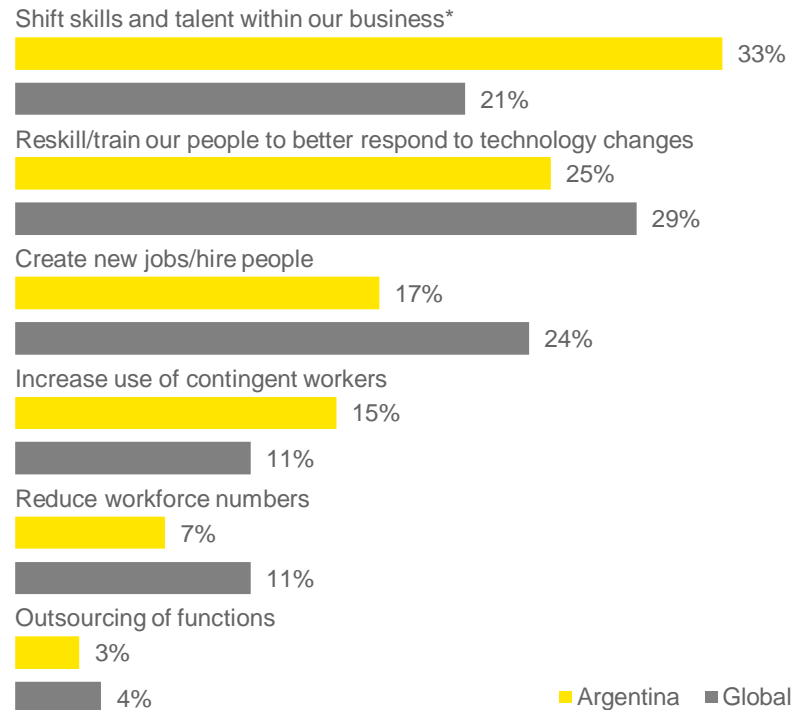
Companies look at a range of options to support their digital strategies:

- ▶ The majority of Argentinian executives are buying and forming JVs to drive digital transformation.
- ▶ More than one-third will develop digital capabilities in-house.

Technology puts focus on shifting and reskilling staff

Q

At a time of increasing automation, which of the following does your organization expect to do in the next 12 months?



*Relocate people to other geographies / shift skills and talent within our business / re-shore activity to use technology rather than offshored labor

Balancing technology and people

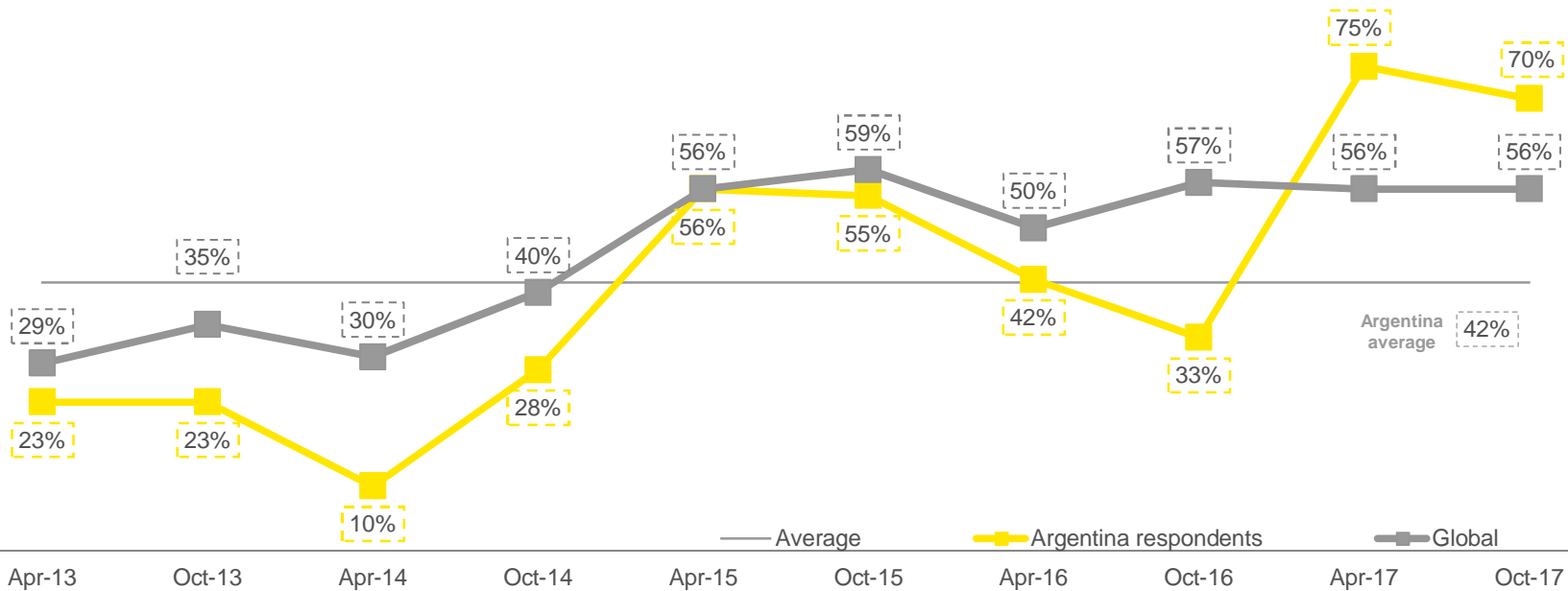
- ▶ The majority of Argentinian executives are positioning their companies to seize the upside of inevitable forces of disruption:
 - ▶ One-third are shifting skills and talent within the business.
 - ▶ One-fourth are retraining their people to better respond to technological change.
- ▶ 17% say they are creating new jobs or hiring people.

M&A outlook



Dealmaking intentions remain at near record levels

Q Do you expect your company to actively pursue mergers and acquisitions in the next 12 months?



High levels of dealmaking continue through the near term:

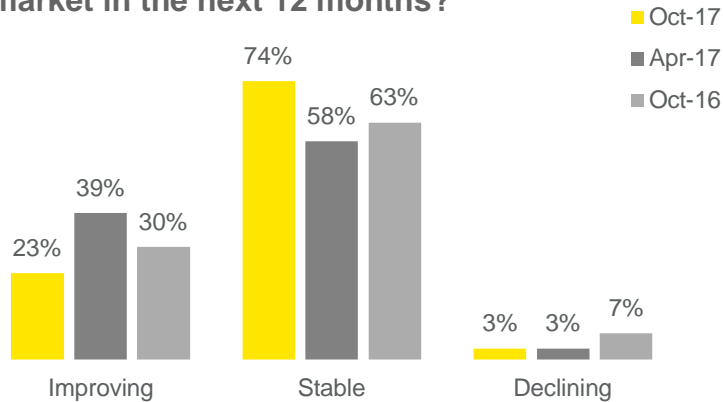
- ▶ Confidence in local economic indicators and heightened investor expectations are supporting deal making in 2017.
- ▶ GDP grew 2.7% q/q in 2Q-17 and 1.6% y/y.
- ▶ Reduction of inflation rate.
- ▶ New Capital Markets Law was sent to the Congress for discussion.

Conditions set to underpin sustainable deal market

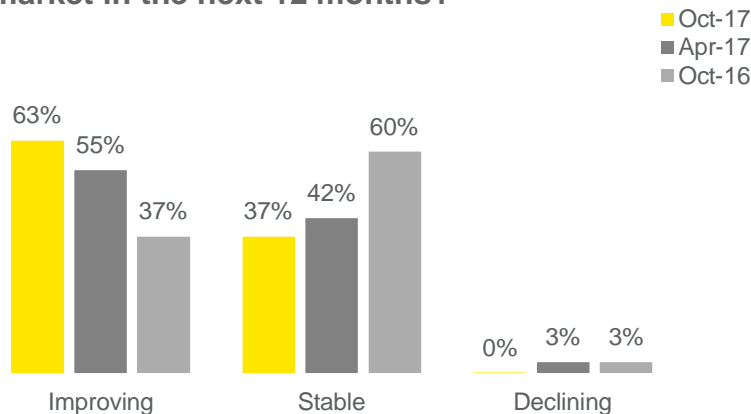
Argentina respondents



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



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



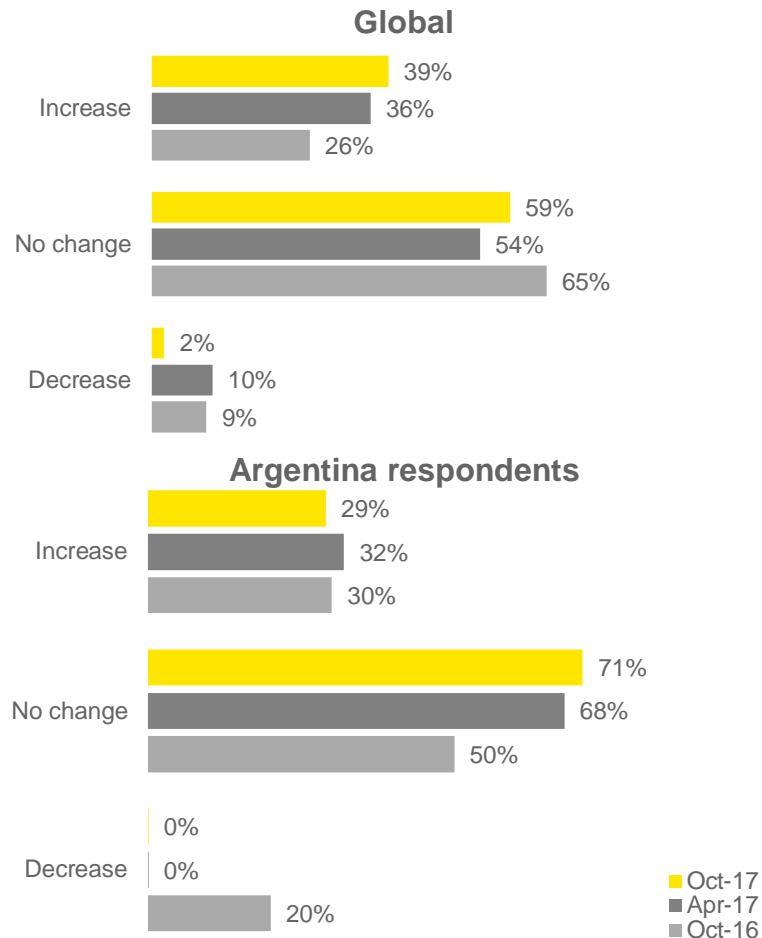
Overall healthy economic support near-term dealmaking

- ▶ Supportive market factors—positive economic indicators and healthy deal pipelines and record PE dry powder—are likely to propel M&A during the coming months.
- ▶ 63% of Argentinian respondents now see the local M&A market as improving.
- ▶ Smaller, more tactical deals may become more prominent, as companies reshape their portfolios to respond to disruptive forces.

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

Q

How do you expect your M&A pipeline to change?



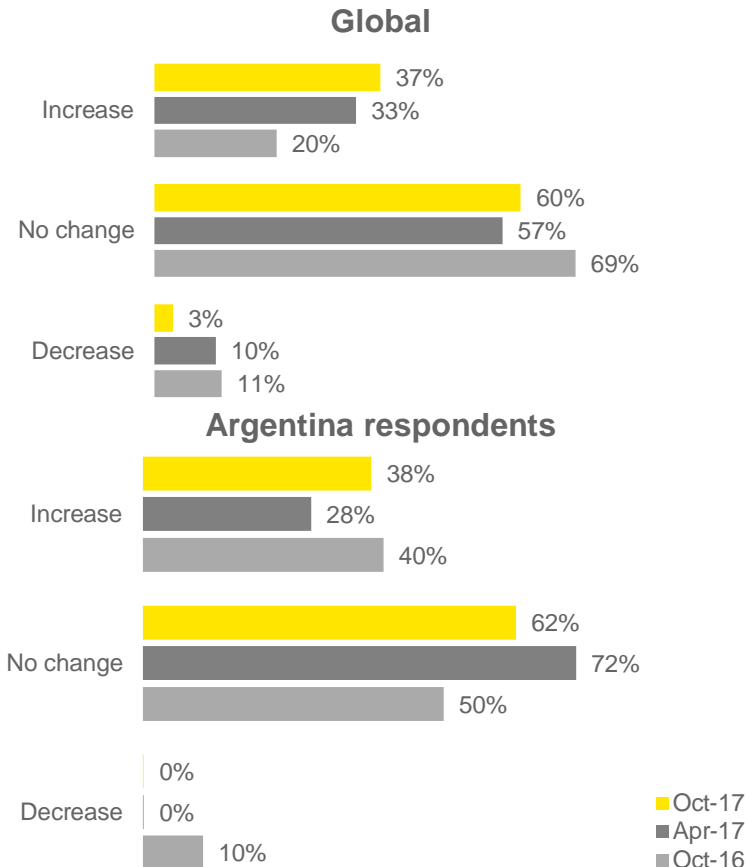
Deal pipelines remain steady

- ▶ A strong majority of Argentinian executives see no change in current pipelines, and nearly a third actually anticipate an increase.
- ▶ Overall, companies continue to take a disciplined, thorough approach to deal pursuit and integration.

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

Q

What is your expectation for the number of deal completions by your company compared with the past 12 months?



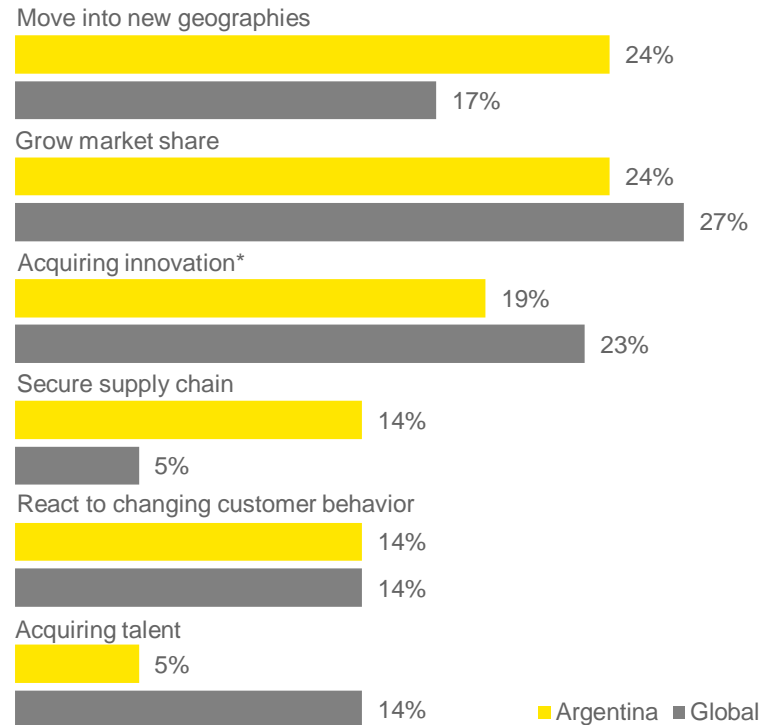
Deal completions either steady or on the rise

- ▶ Strong majorities of both Argentinian and global executives see no changes in their plans to complete deals.
- ▶ Both pipelines and expected completions support a continuation of the current deal cycle.

New geographies and market share are the main drivers for companies' M&A pursuits

Q

What are the main strategic drivers for pursuing acquisitions?



A strong focus on growth and innovation

- ▶ Argentinian executives are pursuing deals primarily for new geographies and market share
- ▶ Reacting to changing customer behaviors and acquiring talent are being driven by the impact of digital transformation and sector convergence. Companies are looking to bring on board expertise that can help them navigate these new environments.
- ▶ M&A is often the fastest route to future-proofing a business in an environment of technological innovation and digitalization.

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

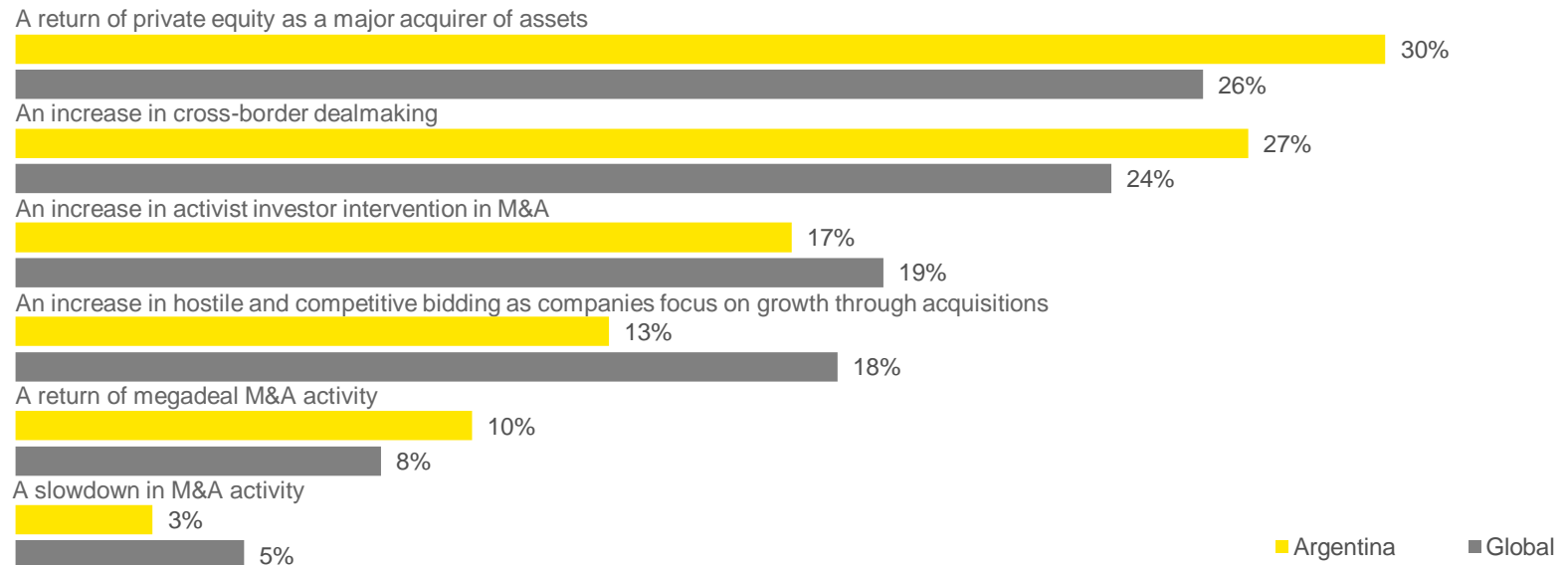
Private equity rebounds



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

Q

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



Rebounding private equity to be a major force in the next 12 months:

- ▶ Private equity will likely be the biggest story in M&A over the next 12 months, with corporates being challenged for assets more than during the past five years.
- ▶ Cross-border dealmaking will also be prominent as companies look to tap into new areas of growth.

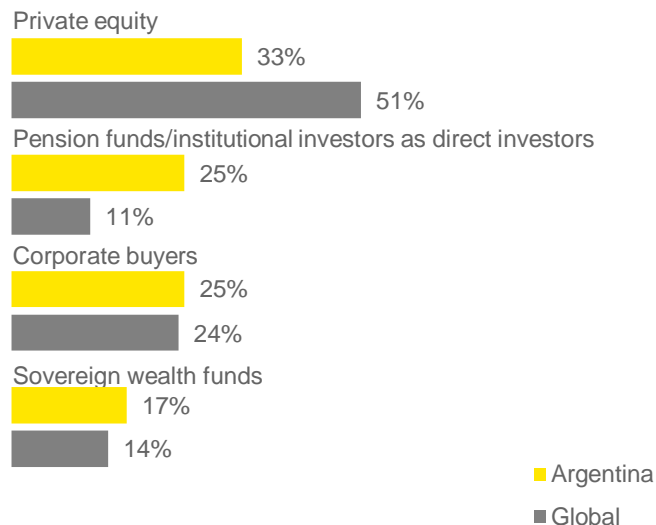
Record levels of dry powder and new investment models to fuel PE activity

Q

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



If yes, select all of the following broad areas that apply:



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

- ▶ The current M&A cycle that started in 2013 has been dominated by corporate acquirers. However, 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.
- ▶ They also have the flexibility to hold portfolio companies for much longer, so they can spread operating costs over a longer period. Also, if economic conditions deteriorate, they can wait out the cycle rather than divest into an unreceptive market.

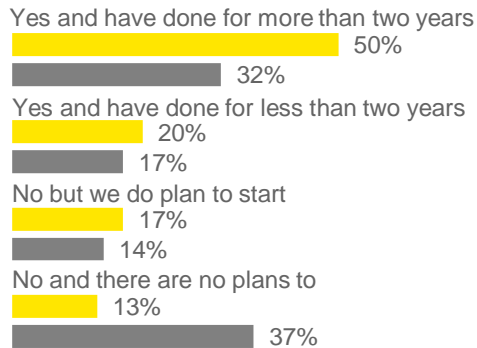
Corporate venture capital models



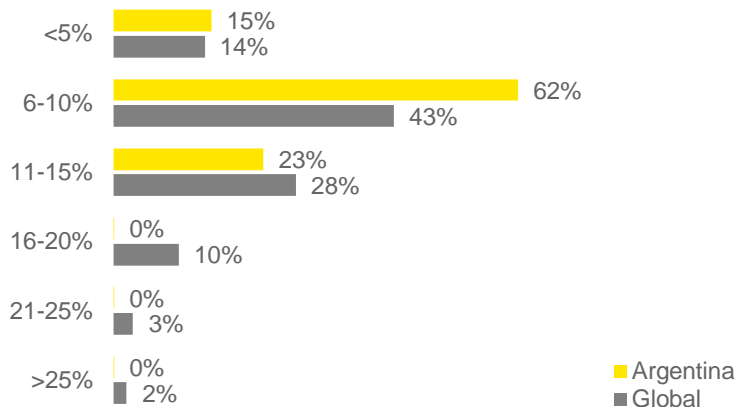
Executives look to venture capital to supplement their optionality



Does your company engage in corporate venture capital investment?



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



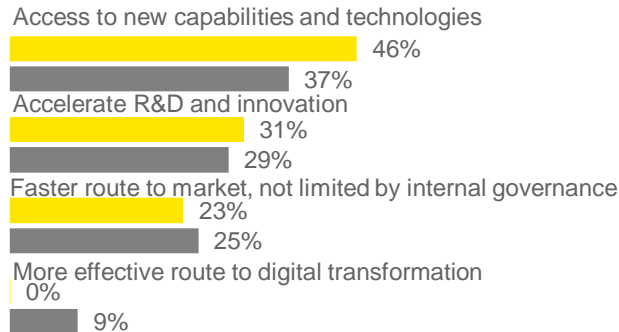
With the future of many sectors uncertain, executives look to buy into future opportunities through corporate VC investments:

- ▶ Many 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 countering this by investing in start-ups, both in their own sector and in others.
- ▶ A key consideration for executives is to look to these assets as potential acquisitions, dependent on industry evolution, but not focusing too much on generating financial returns.
- ▶ Small-Medium Businesses Law to facilitate and incentivize their activity.
- ▶ Venture Capital Law to stimulate Entrepreneurship including tax benefits and financing programs.

Executives look to CVC to future-proof their companies

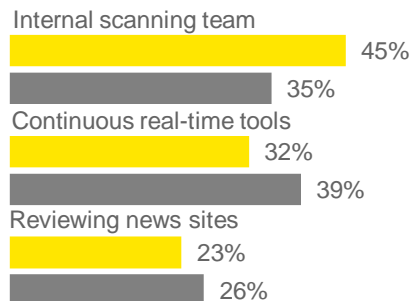
Q

What is the main driver behind CVC?



Q

What processes do you currently have for monitoring start-ups and new technologies?



■ Argentina
■ Global

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, without the need to make more significant acquisitions, which may tie up capital in opportunities that don't pay off.
- ▶ Technology is also 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.

Sector outlook

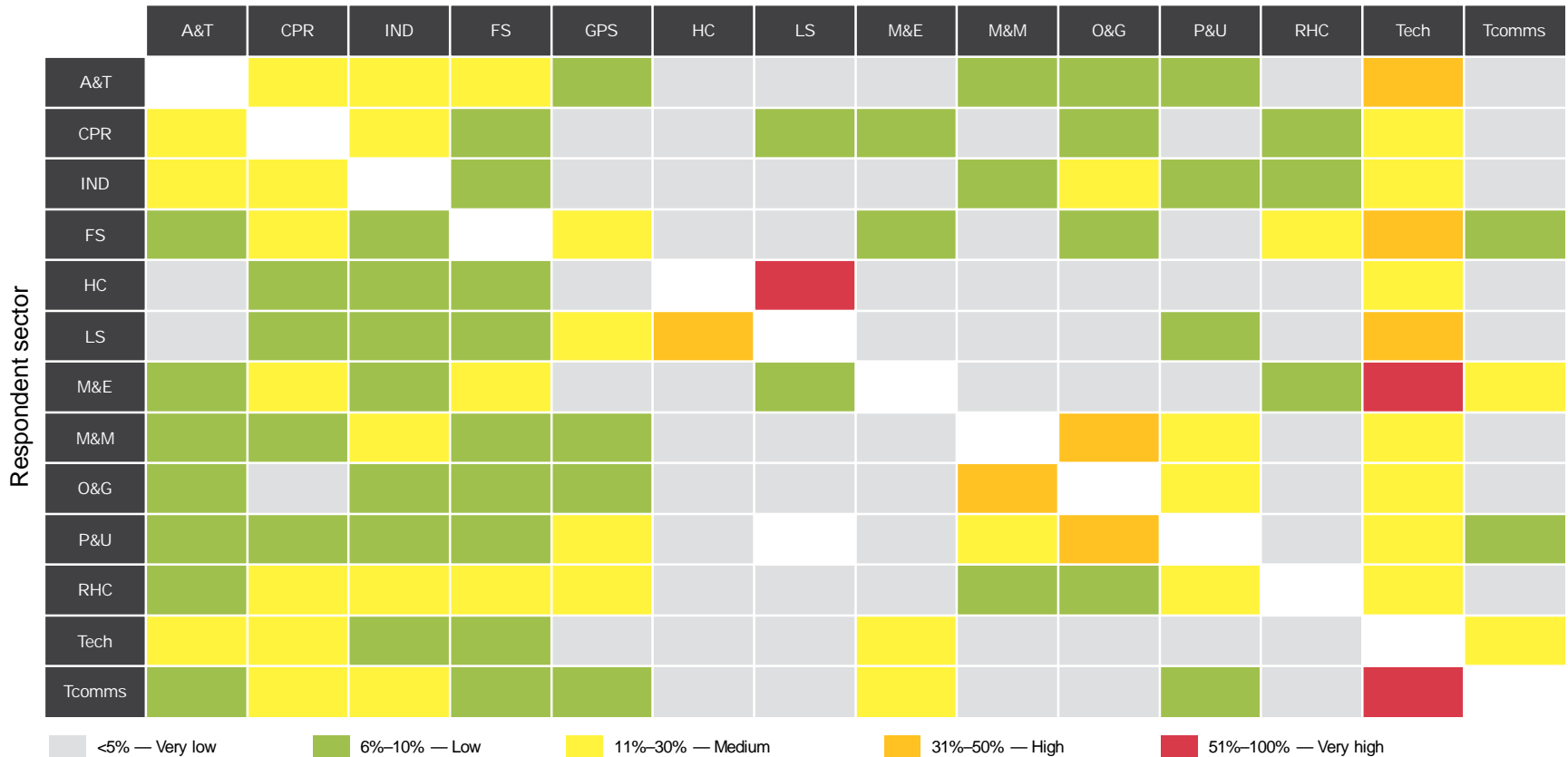


Technology is the gateway to sector convergence, not always the final destination



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

Convergent sector



<5% — Very low
 6%–10% — Low
 11%–30% — Medium
 31%–50% — High
 51%–100% — Very high

A&T = Automotive and transportation **HC** = Health care **P&U** = Power and utilities
CPR = Consumer products and retail **LS** = Life sciences **RHC** = Real estate, hospitality and construction
IND = Industrials **M&E** = Media and entertainment **Tech** = Technology
FS = Financial services **M&M** = Mining and metals **Tcomms** = Telecommunications
GPS = Government and public sector **O&G** = Oil and gas



Key takeaways



Global key takeaways

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 realtime is critical. Companies should identify potential new partners and targets early enough to ride the new waves of value creation.

Global key takeaways

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 look to 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 mind-set?

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.

Global key findings

Macroeconomic environment and M&A outlook

Acceleration in developed markets underpins buoyant economic outlook, with dealmaking intentions remaining at near-record level.



see the global economy as **improving or stable**



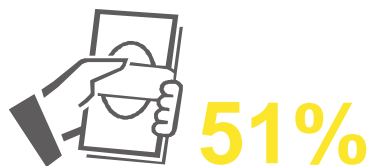
see the M&A market as **improving or stable**



intend to **pursue acquisitions**

Growth and portfolio strategy

Dealmaking combined with digital at the forefront of boardroom thinking as private equity rebounds, shareholder activism continues to rise and companies recognize the need for a clear inclusive growth strategy.



of companies **expect increasing competition for assets** from private equity



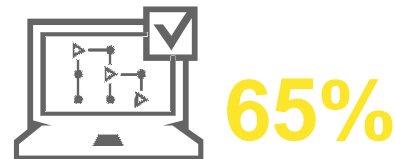
expect the number of companies impacted by **shareholder activism to increase** or stay the same



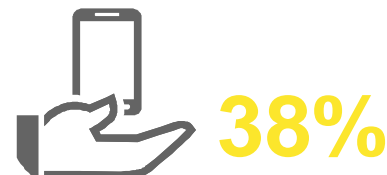
recognize the need to ensure they have a **broader narrative to engage all stakeholders**

Digital transformation

Executives look to be on the front foot in the face of disruption and building venture capital models to invest in the future.



take proactive measures to **counter the impact of digital transformation** on their business model



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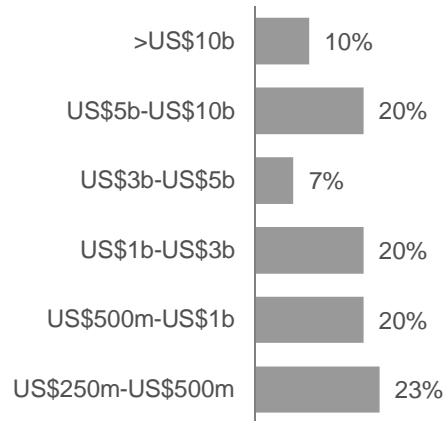
Participant profile



Survey demographics

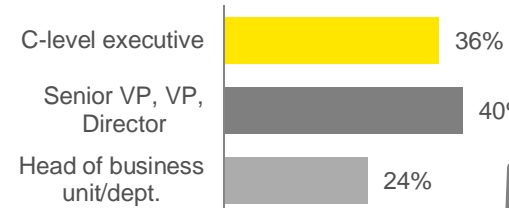
Q

What are your company's annual *global* revenues ?



Q

What is your position in the organization?

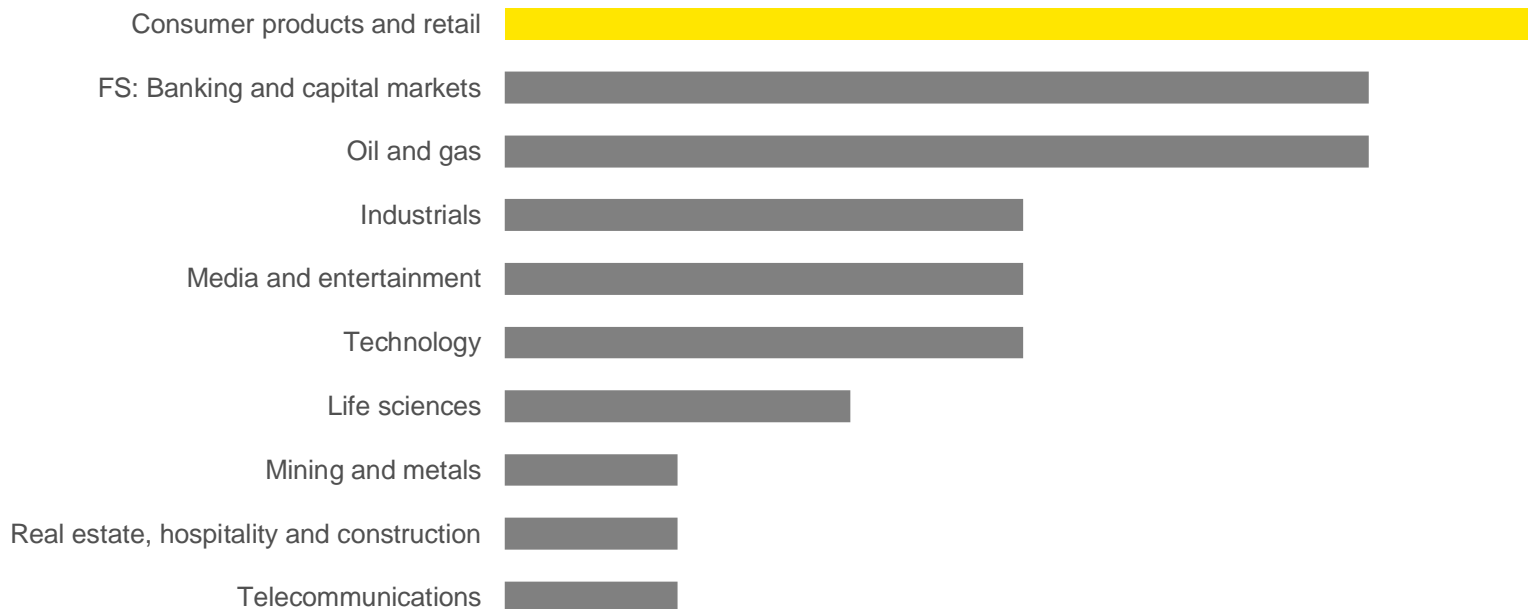


Q

What best describes your company ownership?



Proportion of top industries represented at a Argentina level



Number of respondents from top industries

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ED None

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