Health highlights
Global Capital Confidence Barometer

Deal activity and local economic confidence resilient against a backdrop of geopolitical uncertainty

A note from W. Gregg Slager, EY Global Health Transaction Advisory Services

Health executives foresee steady sector growth, with tech and health services firms eyed most for new deals.

Health sector results from EY’s 16th Capital Confidence Barometer (CCB16) indicate that executives remain positive in 2017, with improved economic fundamentals driving organic growth.

Executives in the sector expect the M&A pipeline to remain stable, with 36% planning to actively pursue mergers and acquisitions in the next 12 months. Among those looking for new deals, technologies and services top the list of strategic interests.

Biggest risks include cybersecurity

Concern around cybersecurity was the top reason cited as to why deals failed over the last 12 months. As the recent WannaCry attack demonstrated, acquisitions that lack up to date security measures can be a liability, as they may be a vulnerable entry point into an otherwise secure environment. Executives are justifiably cautious.

Issues uncovered during due diligence was the next largest concern. The use of analytics to derive high quality insights from structured and unstructured data sets has never been higher, enabling companies to rapidly identify and raise issues prior to deal completion.

From a macroeconomic perspective, volatility in capital markets and uncertainty about US government policy is slowing decision-making around investment. But caution, not pessimism, seems to rule the day: only 10% of health executives worry that the new US administration will implement policies that will reduce M&A activity. Similarly, 70% responded that Brexit is not influencing decision making about making investments in the UK.

Biggest disruptor: digital and new technologies

Digital disruption is top of mind for health executives. The impact of new technologies on the current business model is the issue most frequently discussed in the boardroom. Disruptive technology and potential changes in trade policies are compelling companies to be more responsive, and more frequent, in their portfolio and operational reviews.

M&A Confidence: optimism with ongoing deals and pipelines

Uncertainty about policy and capital markets is influencing a relative pause in M&A activity compared with 2016’s record levels. Pipelines remain focused and stable with more than 75% of respondents reporting that they expect no change in pipeline size. Optimism remains high with ongoing deals, as 94% of executives expect deals to close at the same rate or higher than last year.

Of those looking to achieve strategic goals through M&A, more than 75% anticipate pursuing small deals (<US$250m). Strategic growth is the focus for this group, which reports a desire to tap into new areas of geographic and market share growth.

The outlook: growth expectations stay high

Fluctuations in currency and capital markets are moderating last year’s record breaking deal levels. Expectations for growth remain high, and interest in new geographies and cross-border activity has moved to the forefront of the boardroom agenda.
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Top five investment destinations

1. United States
2. Australia
3. United Kingdom
4. Germany
5. Canada

88% expect no change in deal completions in the next 12 months
72% expect their pipeline to remain stable in the next 12 months
24% look at cross-border deals to secure market access and grow their customer base
67% see the global economy improving
99% expect corporate earnings to either improve or remain stable
60% cite a broad range of geopolitical or emerging policy concerns associated with US Government as greatest risks to growth
88% have increased the frequency of their portfolio review process
30% plan to outsource routine operations or back-office functions in the next 12 months
61% cite digital innovation, the search for growth and sector convergence as the most prominent topics on their boardroom agenda

United States
Australia
United Kingdom
Germany
Canada