



The Capital Agenda Making Smart Investment Decisions

**Kath M Carter, Global TAS Business
Development Leader, EY**

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Agenda

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- ▶ Global trends, drivers and outlook

The Capital Agenda

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 - ▶ Optimizing Capital
 - ▶ Raising Capital
 - ▶ Investing Capital

Making the right choice for you

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- ▶ Boardroom challenges
 - ▶ Common dealmaking pitfalls

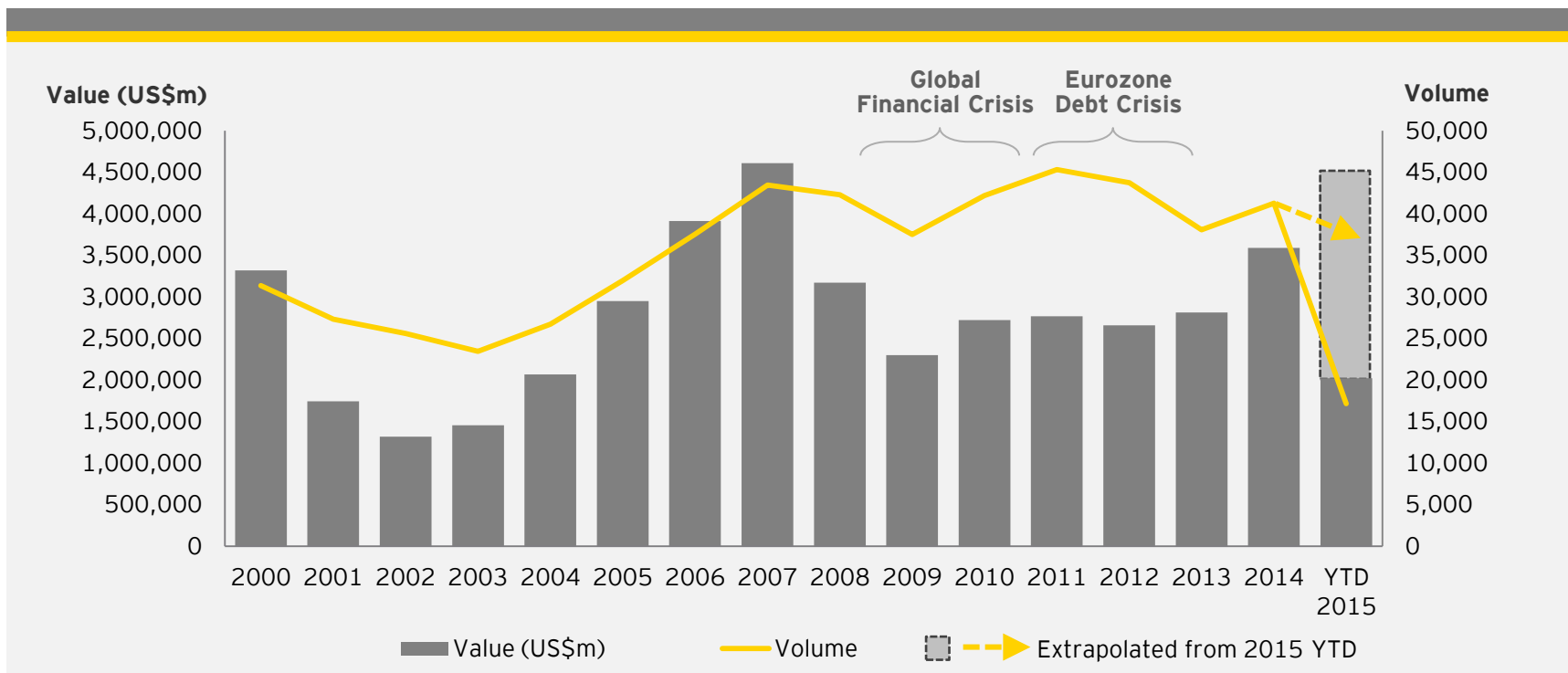




Section 1

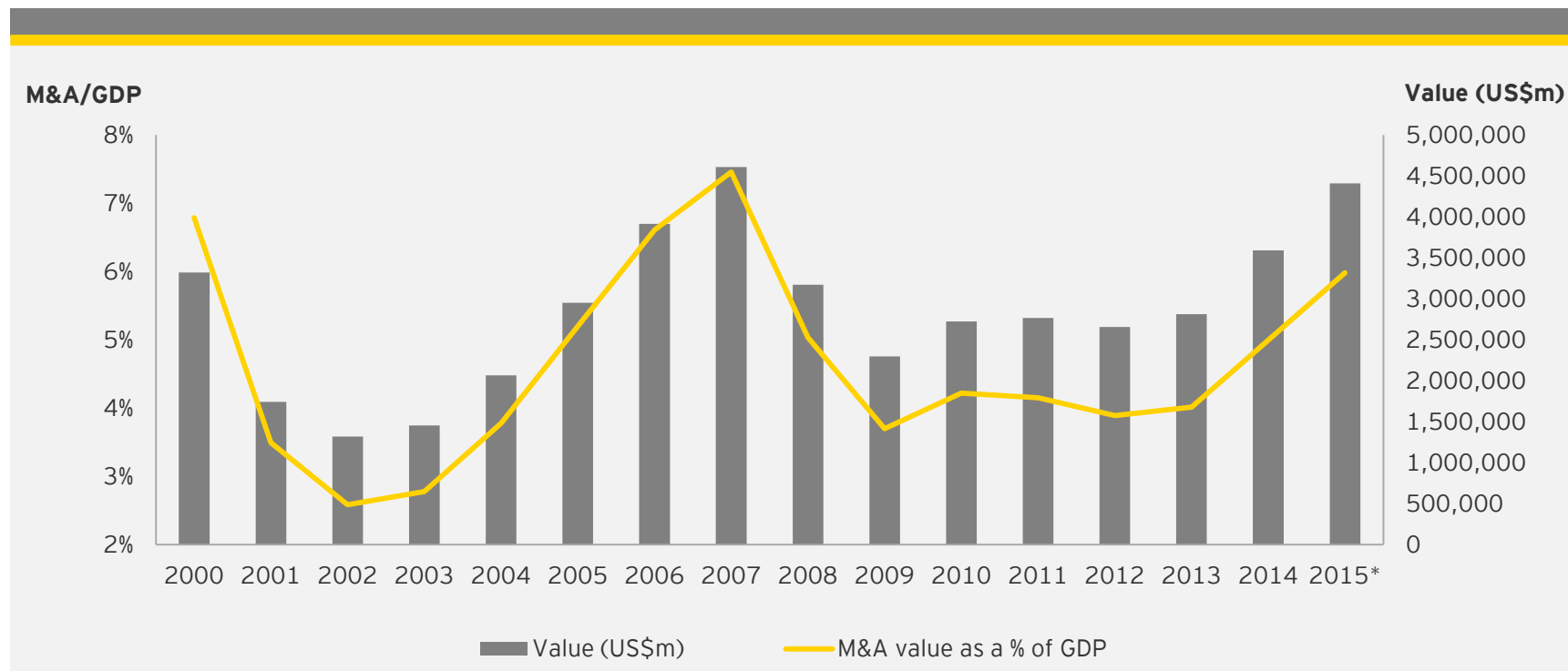
Global M&A and economy

Long-term M&A shows 2015 mirrors 2007 activity levels, but market displays strong signs of greater discipline



- ▶ Value is returning to previous high levels after five years of suppressed appetite
- ▶ Deal volumes are being eroded at the bottom end of the value range - especially undisclosed and micro deals (US\$0-50m)

Global M&A value compared to global GDP



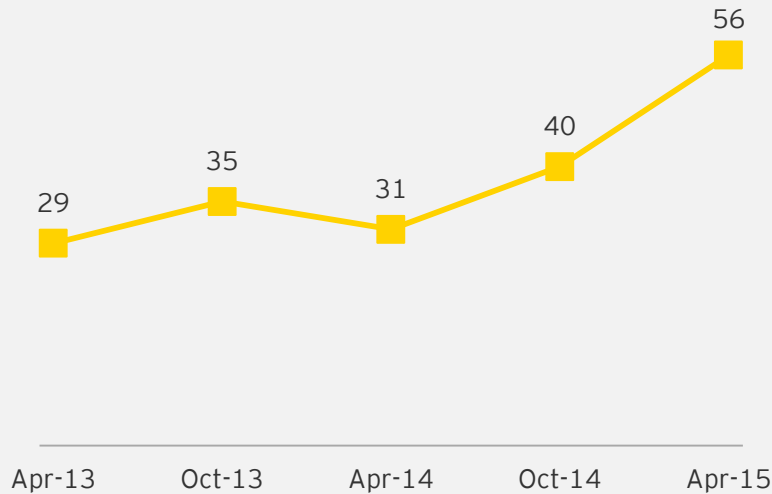
- ▶ There is a strong relationship between M&A values and GDP
- ▶ The current M&A upturn has headroom to grow - especially if the Eurozone returns to previous levels and China fulfils its potential

Strong uptick in deal intentions driven by longer-term growth strategies

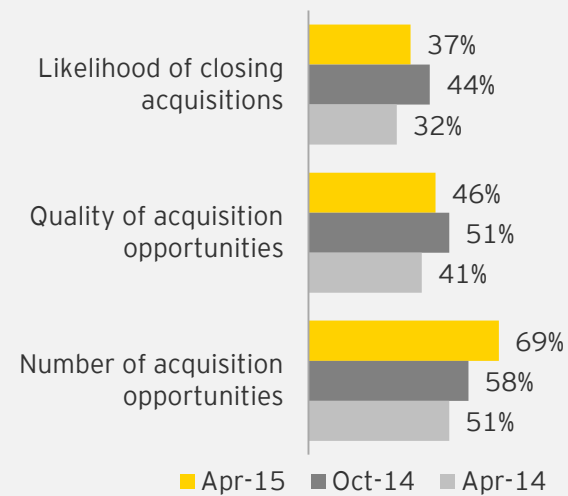
Snapshot from the 12th Capital Confidence Barometer, April 2015. EY's CCB is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU)

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

Expectations to pursue an acquisition



% respondents positive

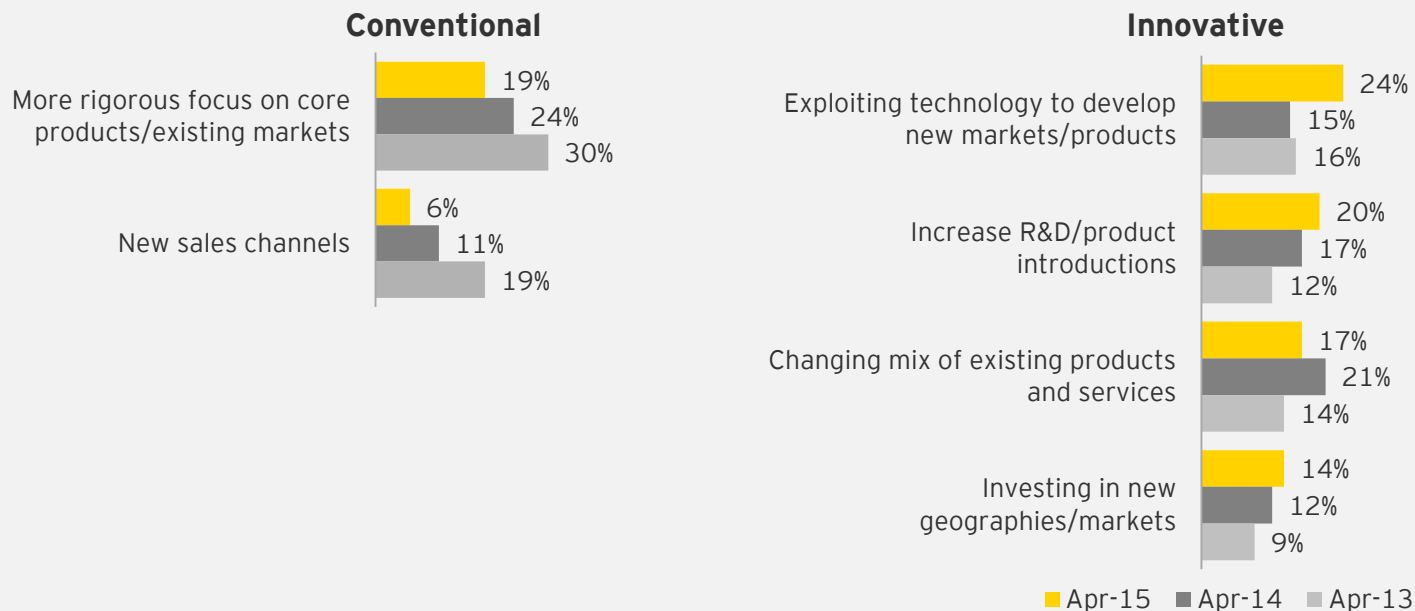


- ▶ Executives report a strong increase in expectations to pursue an acquisition in 2015.
- ▶ Increasing numbers of opportunities are bolstered by improving quality of assets, supported by private equity finally divesting long-held assets and private companies being attracted by relatively high valuations.
- ▶ Likelihood of closing deals remains subdued - pointing to a disciplined approach to M&A.

Key findings from the 12th Capital Confidence Barometer, April 2015

Executives are looking to innovative organic strategies to boost their potential market footprint

What is the primary focus of your company's organic growth over the next 12 months?

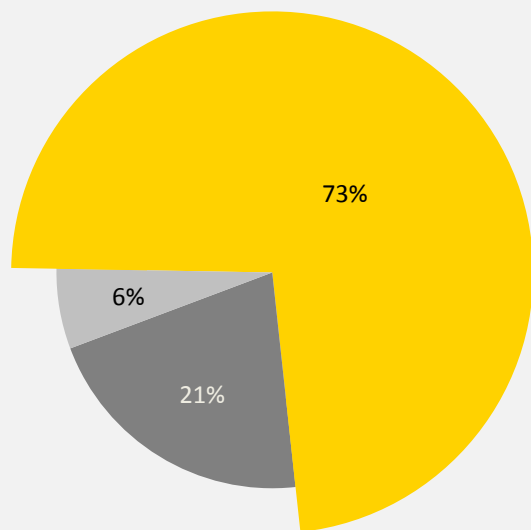


- ▶ Increased R&D and innovative use of technology are seen as key routes to organic growth.
- ▶ The focus on core operations is still a key driver, but after several years of emphasis, companies may find it can no longer deliver growth - just support earnings.

Key findings from the 12th Capital Confidence Barometer, April 2015

Search for growth through innovation drives dealmaking

Your planned M&A activity will mostly be:



- Innovative investment (shifts scope of your business - could be into another industry sector)
- Bolt-on (complement current business model)
- Transformative (high value acquisition which significantly changes the size and scale of your company)

- ▶ Companies are making bolder moves to shift the scope of their business.
- ▶ Increasing entrepreneurship, accelerating innovation and shorter business cycles are combining to increase pressures on the core business - and companies are responding by looking to future challenges.

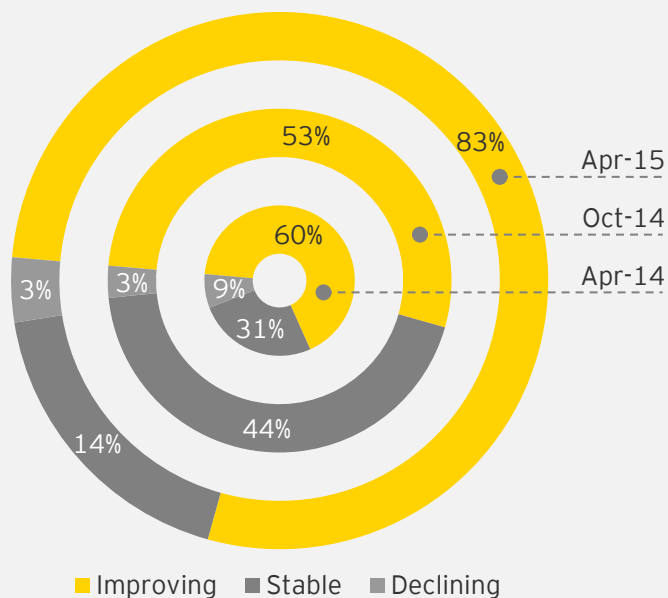
Key findings from the 12th Capital Confidence Barometer, April 2015

Confidence is growing

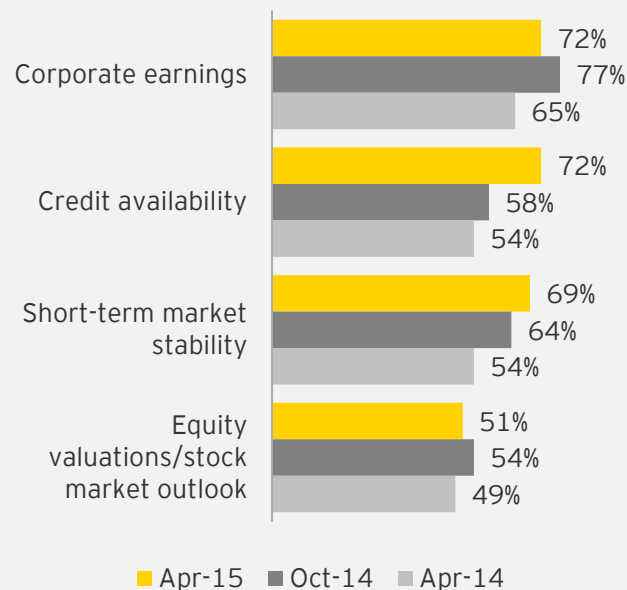


What is your perspective on the state of the global economy today?

Global respondents



Please indicate your level of confidence in the following at the global level:



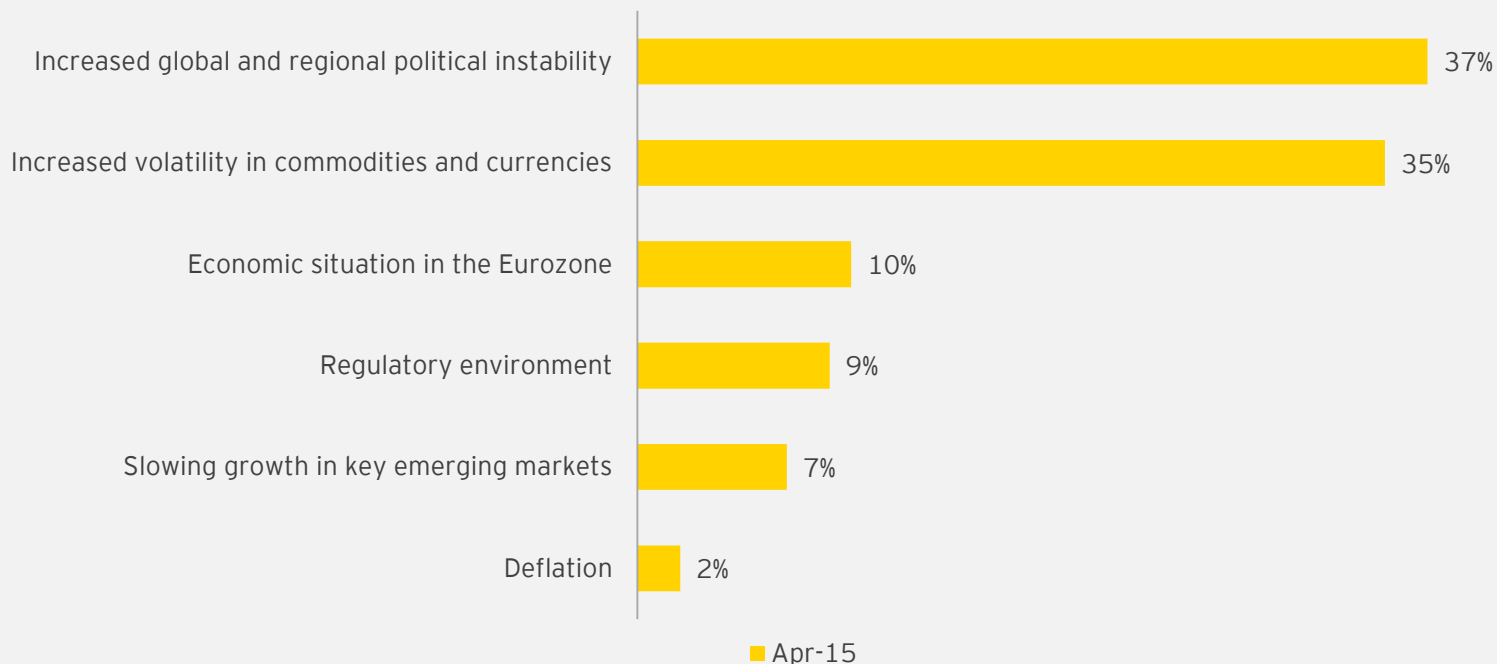
▶ For the first time since the global financial crisis, broad-based confidence has returned to the boardroom and is combining with strong cash piles and cheap and available credit to boost deal making.

Key findings from the 12th Capital Confidence Barometer, April 2015

Even in a riskier global economy



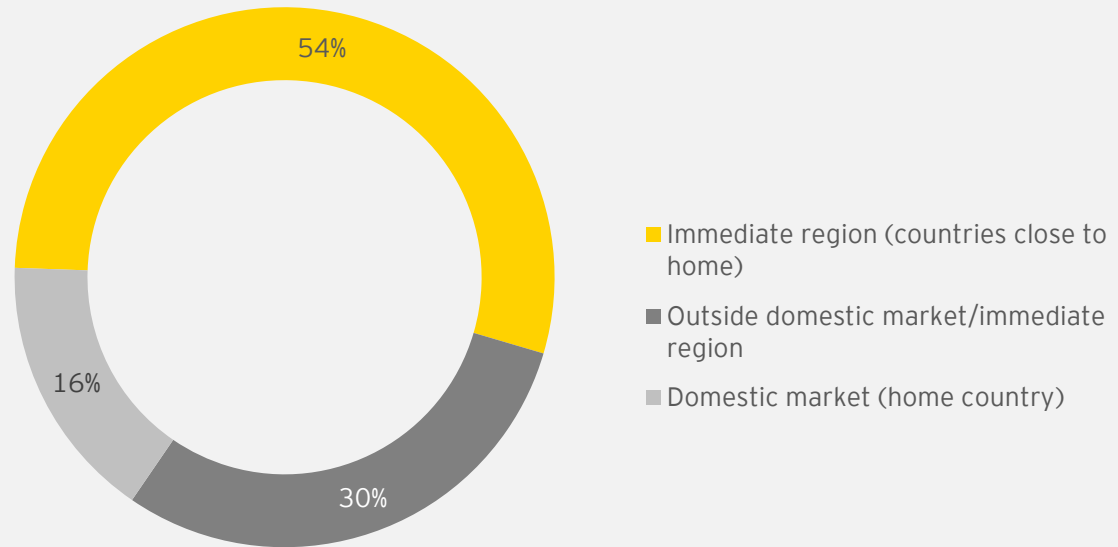
What do you believe to be the greatest economic risk to your business over the next 6-12 months



Snapshot from the 12th Capital Confidence Barometer, April 2015

Companies are looking across borders for M&A targets, but most intend to transact close to home

Where is the main focus of your M&A strategy over the next year?



- ▶ Domestic M&A intentions are unusually low - only 16% - as companies seek divergent economic performance from cross-border dealmaking
- ▶ More than half of respondents are focused on their immediate region for cross-border transactions, driven by the ease of acquiring in common economic trading areas.

Key findings from the 12th Capital Confidence Barometer, April 2015

Deal sentiment across value bands and sectors

Megadeals continue to make headlines, pushing announced and intended deal value to over US\$400b in May 2015. This level of activity is associated with historic peaks in deal making, having only previously been seen in 1999, 2000 and 2007.

We are seeing an increase across all value ranges apart from micro deals (under US\$50m). The middle-market (US\$250m-US\$1b) has shown a strong increase in 2015 compared to prior years.

While Life Sciences continues to remain hot with record level of deal value registered in 2015, Media & entertainment was once again in the limelight with the consolidation of cable and broadband services providers in the US propelling the sector to the forefront.

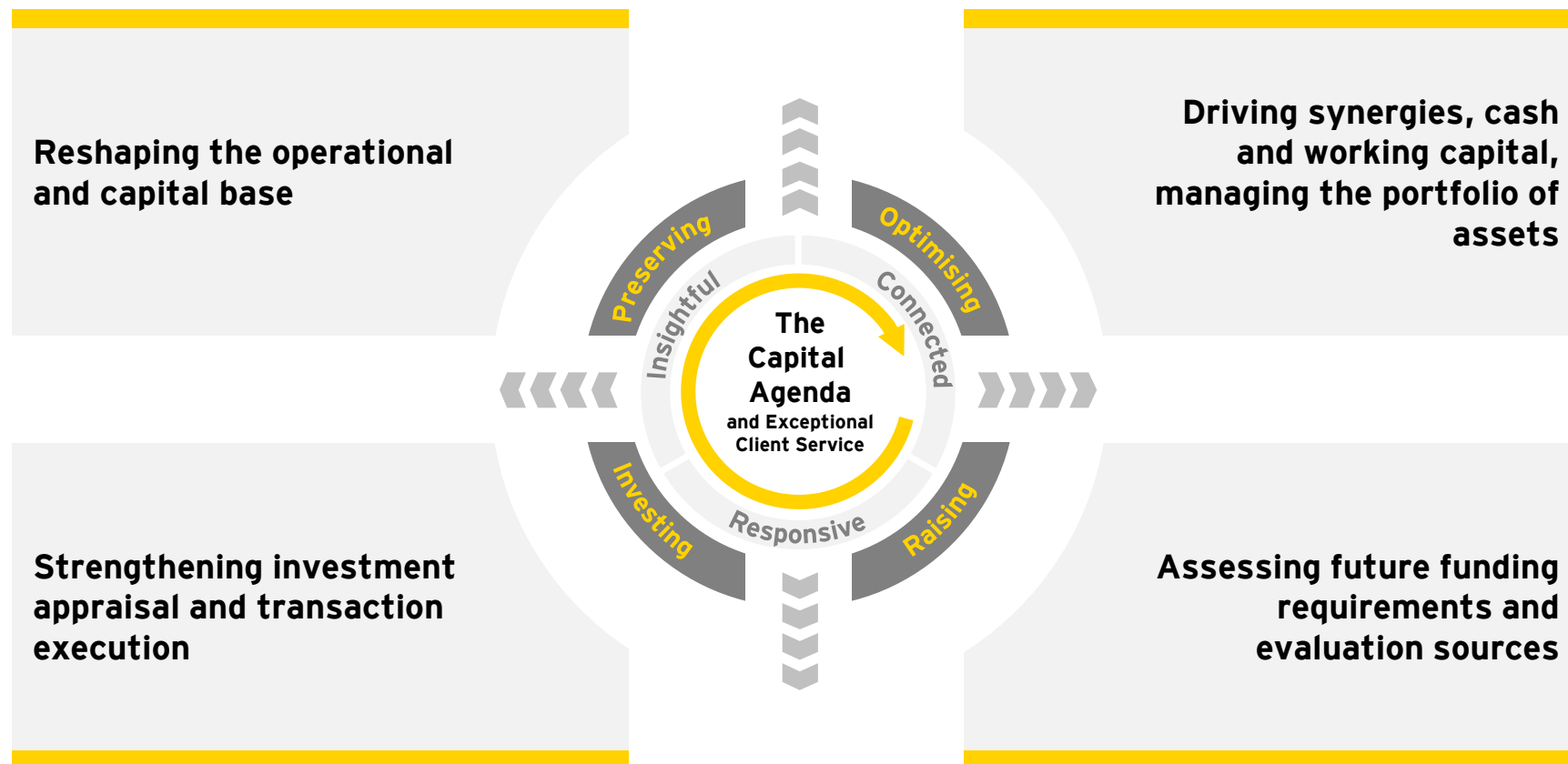
Deal making in the oil and gas sector is set to accelerate as higher global crude prices and an improving outlook for the sector provides a boost to investor appetite.



Section 2

The Capital Agenda

The Capital Agenda



Preserving capital POV

Reshape operational base to withstand different economic, demand, market scenario

- ▶ Establish a realistic view of sustainable financial performance
- ▶ Review prospects for each market/entity for future returns, to fund capital investment and service debt
- ▶ Create baseline to define and prioritize operational restructuring programs

Adapt capital structure to prolonged economic stress

- ▶ Determine the optimal capital structure
- ▶ Examine debt/equity ratios to reduce payments
- ▶ Risk/reward implications of different capital mixes
- ▶ Increase stakeholder involvement and transparency around capital structures

Improve risk monitoring across critical value chains

- ▶ Robust review of customer credit policies and compliance
- ▶ Amend or renegotiate vendor contracts to include performance metrics, rewards and penalties

Optimizing capital POV

Revamp cash metrics around cash, working capital and ROIC

- ▶ Adopt simpler and appropriate KPIs
- ▶ Cash metrics are crucial to driving a stronger cash culture.
- ▶ Greater focus on ROI and ROIC metrics
- ▶ Closely monitor risks to cash under different scenarios

Review portfolio systematically to manage the business as a portfolio

- ▶ Consider alternative transaction and restructuring strategies based on predetermined metrics
- ▶ Comprehensive review of capital deployed across geographies
- ▶ Realign portfolio to ensure strategic presence in key markets (present and future)

Accelerate synergies from acquisitions

- ▶ Focus on pre-acquisition planning and diligence
- ▶ Disciplined execution of plans supported by KPIs
- ▶ Integration metrics should focus on business stabilization (e.g., customer feedback, financial performance)

Raising capital POV

Refinance opportunistically to build resilience and capacity to acquire assets

- ▶ Refinance debt or raise equity
- ▶ Exploit liquidity and pricing favorability

Diversify funding sources to build resilience, optionality and establish a 'trust premium' as an acquirer

- ▶ Build optionality to manage funding requirements and risk
- ▶ Explore multiple funding options, including non-traditional sources
- ▶ Diversify maturity dates

Divestiture readiness of non-core assets

- ▶ Global divestment value has increased by 80% since the M&A low of 2009
- ▶ EY's 2015 Global Corporate Divestment study indicates nearly 74% of firms are using divestments to fund growth; with 66% seeing an increased valuation multiple in the remaining business

Investing capital POV

Rigorous investment analysis and due diligence to improve quality and speed of decisions

- ▶ Review all investment appraisal processes to improve speed and quality of decisions
- ▶ Recognize challenges to cost of capital
- ▶ Balance short term cost of capital vs. long term
- ▶ Key diligence areas (e.g., strength of underlying growth, stability of cash, strength of management team)

Acquisition readiness for accelerated acquisitions

- ▶ Proactive screening of distressed targets
- ▶ Governance for accelerated acquisitions
- ▶ Readiness for acquisitions on accelerated timetable
- ▶ Understanding the insolvency process and tax aspects of distressed assets

Structure creatively to effectively manage scarce capital and increased risk

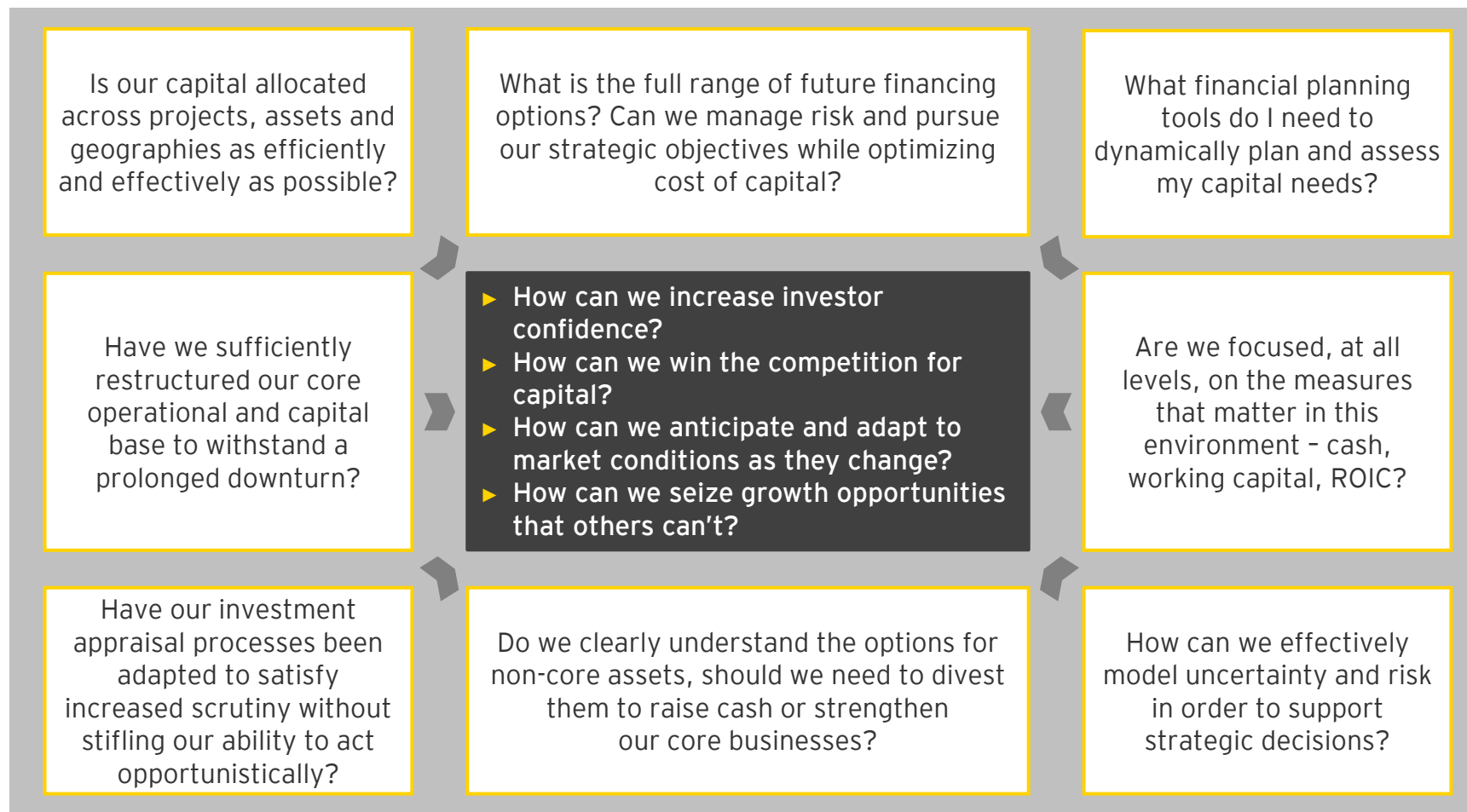
- ▶ Exploit joint venture, strategic alliance and alternative deal structures
- ▶ Efficient investment of scarce capital in high risk geographies
- ▶ Alternative structures to bridge buyer and seller expectations (e.g., deferred compensation)



Section 3

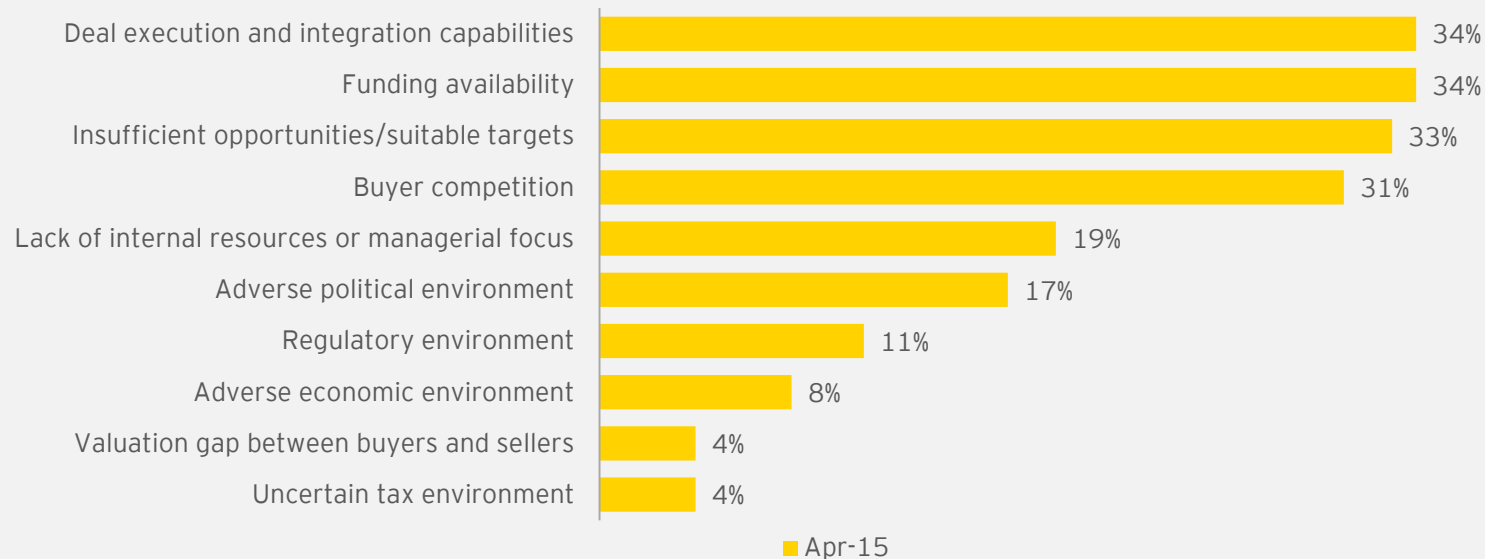
Making the right choice for you

Boardroom challenges: What are clients asking?



Internal capabilities still the main challenge to dealmaking

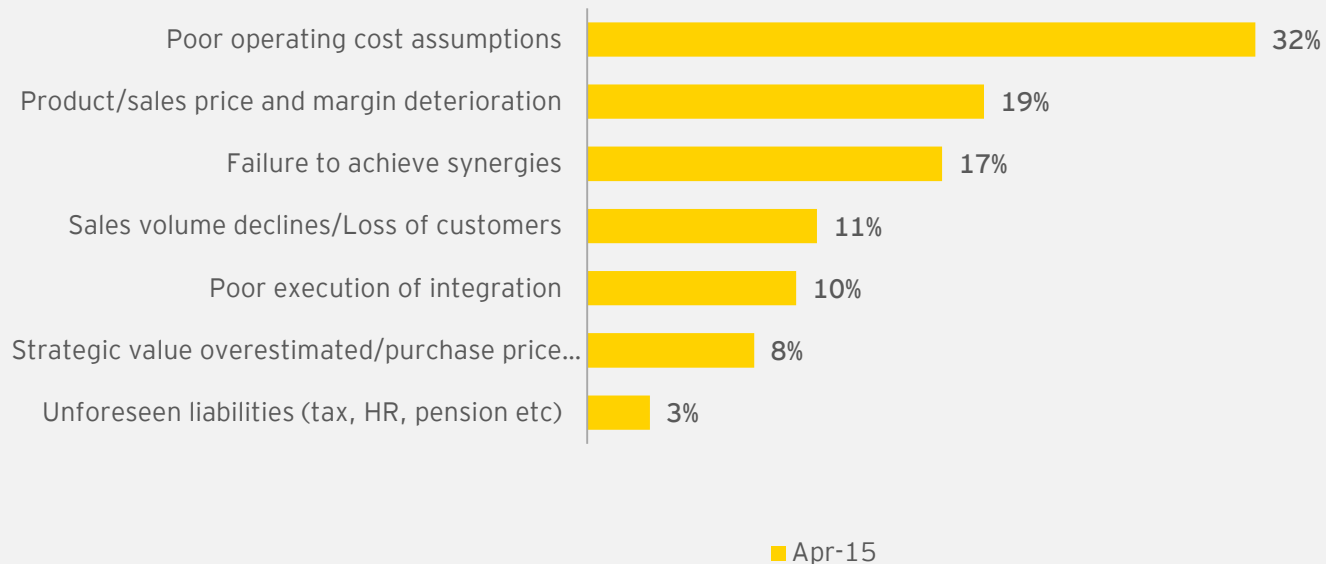
What are the main challenges to your M&A strategy over the next 12 months? Select two.



- ▶ Companies are being challenged by a combination of internal and external issues when planning deals.
- ▶ The conditions for dealmaking, particularly valuations and the economic outlook, are not seen as challenges.

Commodity and currency fluctuations driving poor operating cost assumptions

For acquisitions completed recently, what was the most significant issue that contributed to deals not meeting expectations?



- ▶ Poor planning, diligence and integration are the main reasons companies have not been satisfied with recently completed deals.

Main reasons why investments don't work



It is not just about choosing the right target but rather about:

- ▶ Not doing appropriate diligence.
 - ▶ Commercial assessment process
 - ▶ Strategic process
 - ▶ Integration process
- ▶ Not determining the right level of synergies and managing that process.
- ▶ Not determining the appropriate structure and management post-merger.



Thank you

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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