# Global Capital Confidence Barometer

April 2020 | 22nd edition

Focus on Italy

EY
Building a better working world

# About the study

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

The respondent community comprises an independent panel of senior executives and select EY clients and contacts, including leaders of the world's biggest, as well as fastest-growing, companies.

The 22nd Barometer provides a snapshot of our findings, gauges corporate confidence in the economic outlook, identifies boardroom trends and practices in the way companies manage their Capital Agenda, and examines how companies can future-proof their business.

Produced in association with

Thought Leadership **Consulting**
A Euromoney Institutional Investor company

## Participant profile:

Respondent community includes more than **2900** senior executives surveyed in February and March 2020

Companies from **46 countries** worldwide, including **50 respondents** from **Italy**

Respondents from **14** industries

**1,760** CEO, CFO and other C-level executives



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# Italy key findings

**Responding with urgency now, preparing for next, and then thinking beyond**

Executives have had to reassess their outlook for growth and are having to reconfigure operations as a response to COVID-19 **now**

At a time when margins and cash flows were already pressured the C-suite still has ambitious transformation plans, with some of them on hold as execs anticipate what's **next**

When the situation becomes clearer, they will make faster moves than ever before to reimagine, reshape and reinvent their business

And despite boardrooms focusing on an unprecedented global health emergency, executives are also planning their future **beyond** the crisis

**100%**

expect a longer period of slower economic activity extending into 2021, with a U-shaped recovery

**66%**

recognize the need to revaluate their supply chain

**55%**

are planning to actively pursue acquisitions in the next 12 months

Climate issues and the need for business to make a significant contribution to addressing de-carbonization pose the biggest business challenge in the next decade

**78%**

are undergoing a significant business and technology transformation program

**97%**

expect the domestic M&A activity to increase in the next 12 months

**70%**

expect increasing competition for M&A targets in the next 12 months

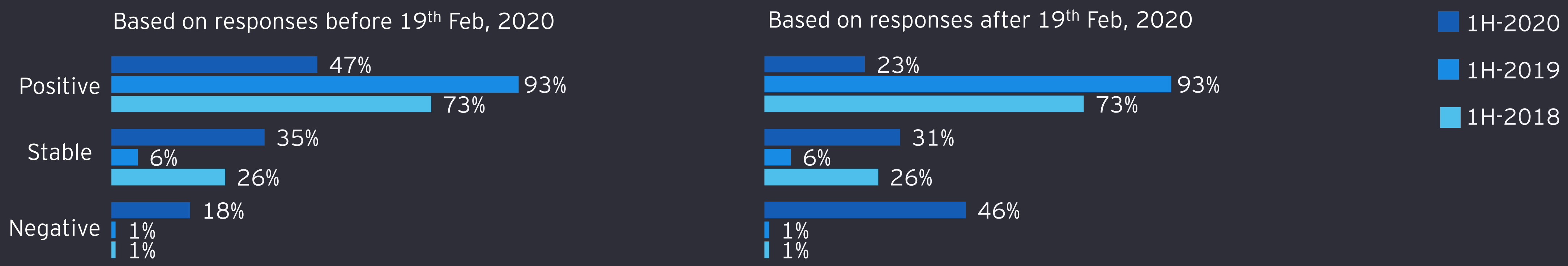
Italian companies are planning to undertake M&A strategy to grow their business abroad, with close markets in France, the UK and Germany being the most targeted geographies

# 1 Addressing the COVID-19 crisis

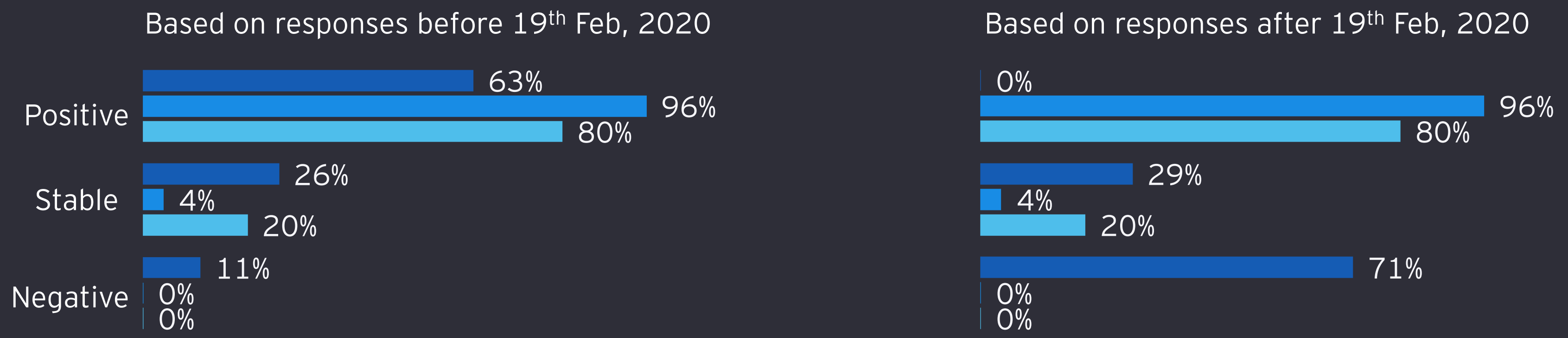
# Executives at the global level are faced with a changed reality

## Q What is your perspective on global economic growth today?

Global respondents



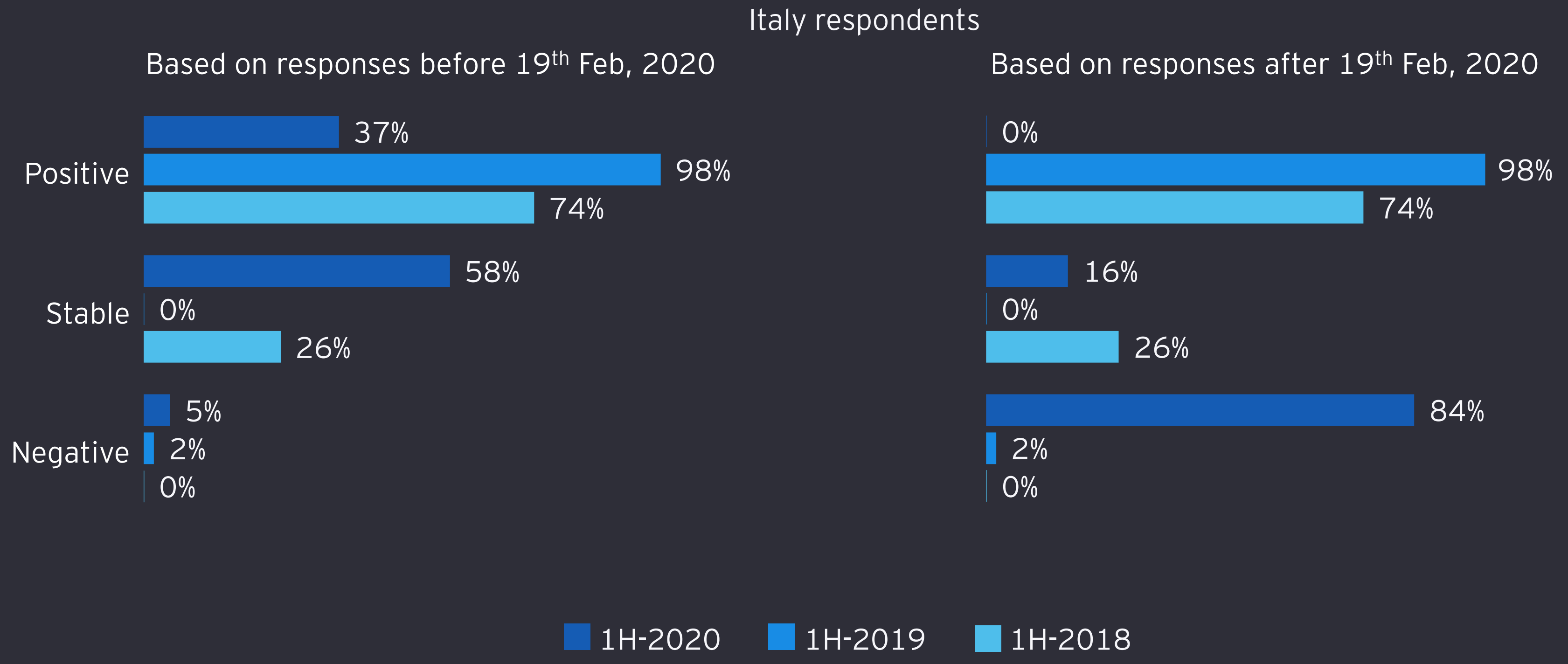

Italy respondents




- There was a clear shift in business sentiment in the middle of February. Prior to that, outside of Asia-Pacific, the clear majority of respondents felt confident about the global economic outlook. Everything has changed. Our survey started on 5 February and early responses were highly optimistic — but the outlook darkened considerably after the Covid-19 outbreak in China. We can see this schism clearly in the responses about growth

# Italian companies are facing a negative growth scenario, driven by global health emergency

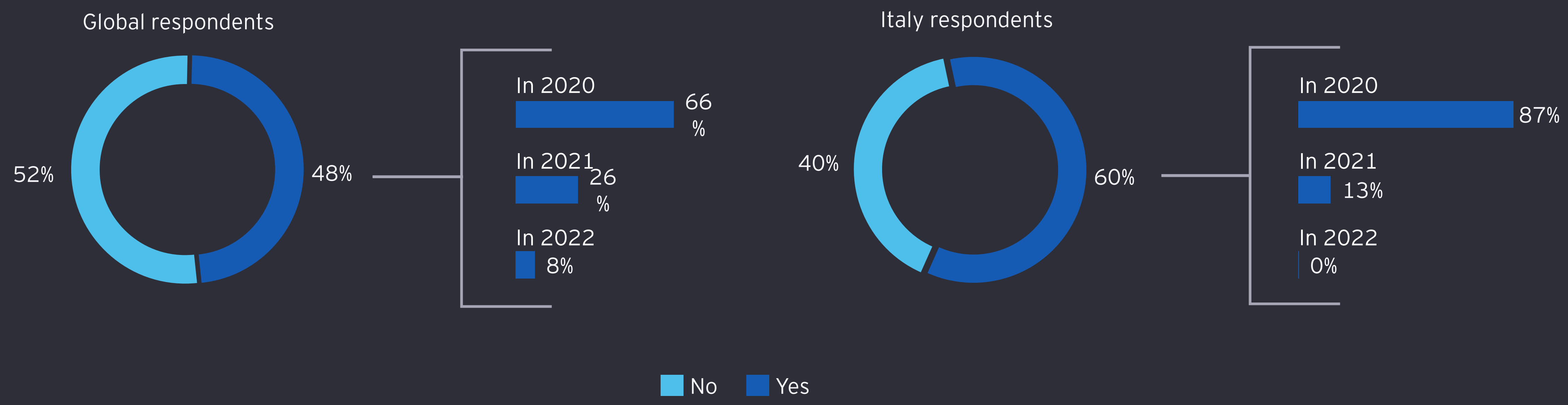
**Q** What is your perspective on local economic growth today?




- Italian corporates expect a negative economic cycle in 2020, as a consequence of the global health emergency, spread from China to Europe and the other continents from February
- A partial recovery may be expected only in 2021. This is in line with the International Monetary Fund ('IMF') outlook released in April 2020, forecasting GDP decrease for 9.1% in 2020 and partial recovery of 4.8% in 2021 In Italy

# Executives are divided in their economic trend expectations, even if Italian respondents are more pessimistic.

**Q** Are you expecting a recession in the near to mid-term, and, if so, when do you expect it to happen?

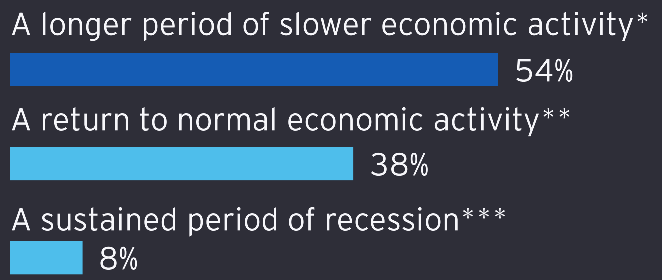



- The vast majority of respondents are experiencing a negative economic cycle in the near term, as a consequence of the business lockdown measures adopted by all main economies worldwide
- According to the IMF oulook released in April, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008-2009 financial crisis. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually lifted, the global economy is projected to grow by 5.8% in 2021 as economic activity normalizes, helped by policy support

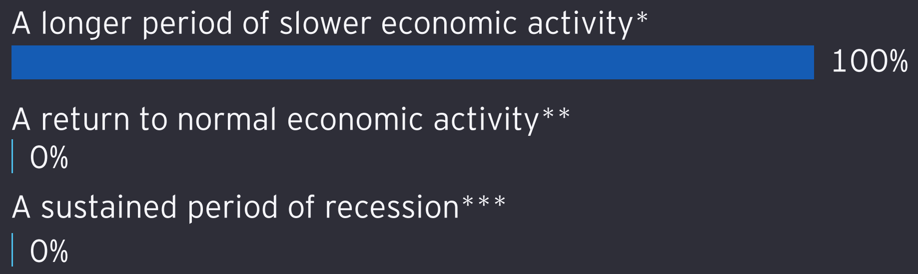
# Corporates expect partial economic recovery only in 2021, in line with current analysts' forecast

**Q** What economic scenario is your company currently operating under?

Global respondents




Italy respondents




**A longer period of slower economic activity extending into 2021 – a U-shaped recovery*

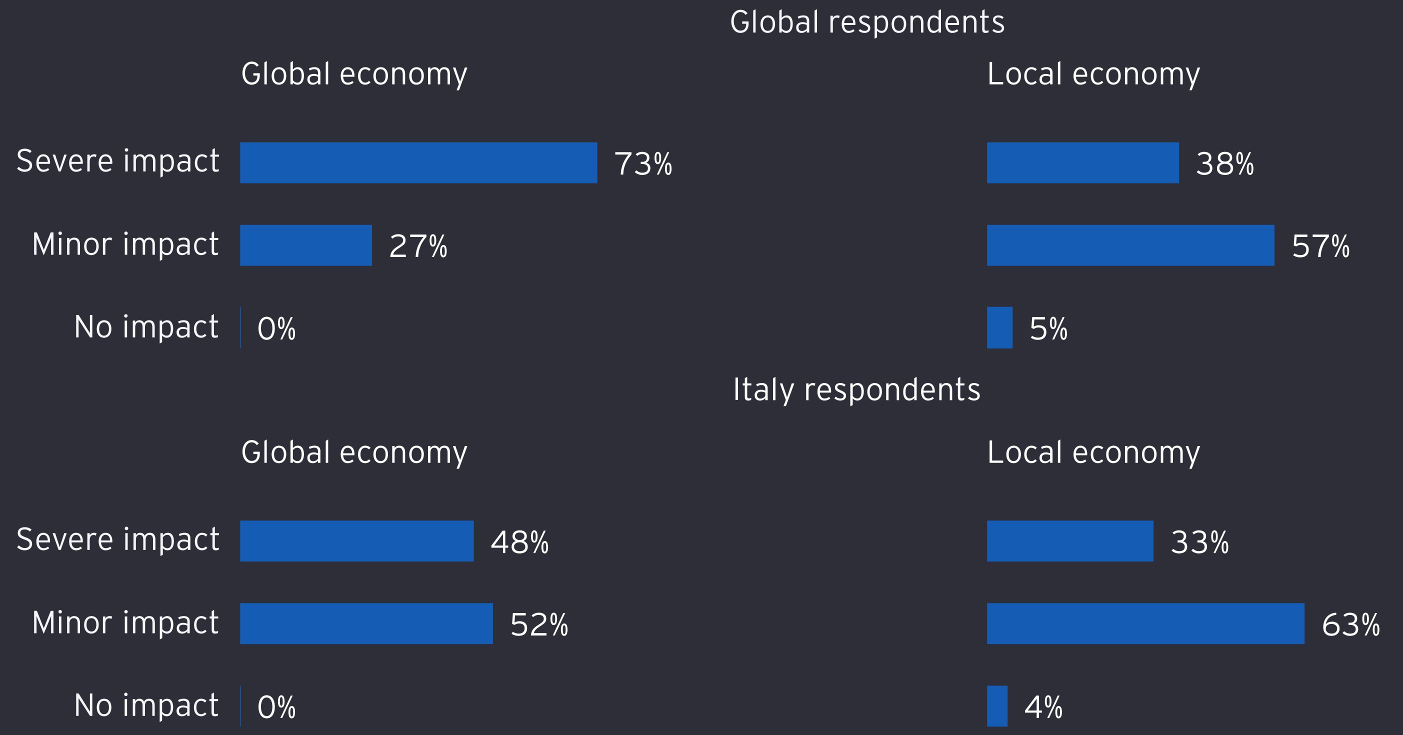
***A return to normal economic activity in the 3rd quarter of 2020 – a V-shaped recovery*

****A sustained period of recession, with economic activity not picking up until 2022 at the earliest – an L-shaped recovery*

- Global economic activity has experienced a sudden decline in all the advanced and emerging economies from March 2020, driven by the lockdown measures imposed to households and enterprises to contain Covid-19 contagion
- Most previous pandemics have resulted in a V-shaped recovery, with activity picking up strongly once the initial wave of illness is resolved. That is the current assumption being used by just over a third of respondents at global level in their strategic planning. This would see activity accelerating in late 2020
- More than half of global respondents expect a U-shaped recovery, with the aftereffects of the initial impact lingering for longer. Activity would not reach normal levels until 2021. Italian Executives share this view, in line with the IMF forecasts

# Executives expect COVID-19 to impact on global growth

**Q** What's your assessment about the impact of COVID-19 (coronavirus) to the global and local economy?

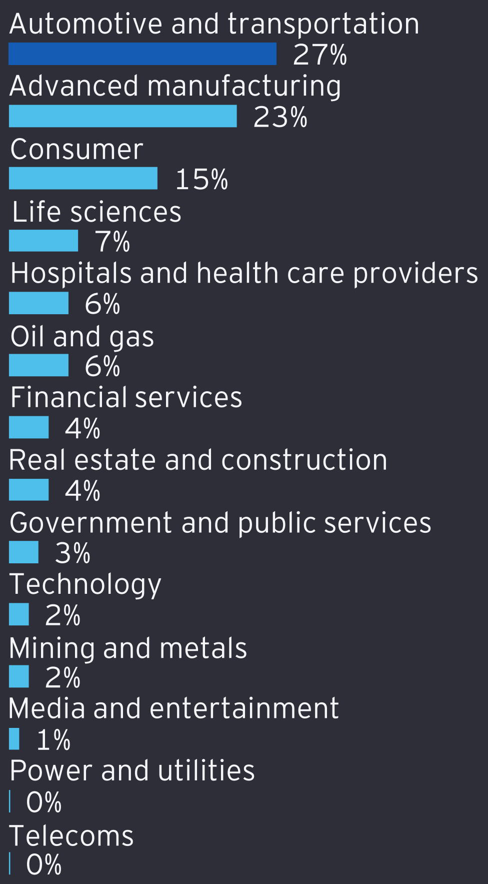



- Many major economies are facing unprecedented shutdowns in day-to-day economic activity. There are not yet models available to confidently predict the eventual outcome of this situation. The full extent of the impact on the global economy remains unclear, but all respondents agree that at least in the near-term, COVID-19 will have a negative impact on global growth in the form of a dual shock of both supply chain disruption and declining consumption
- The medium-term effects of the pandemic on global and local economies will be more clear once the lockdown measures are lifted

# There will be no "winners" in this crisis, but some sectors look set to be hit dramatically worse than others

**Q** Which sectors you see the coronavirus event will be most affected?

Global respondents



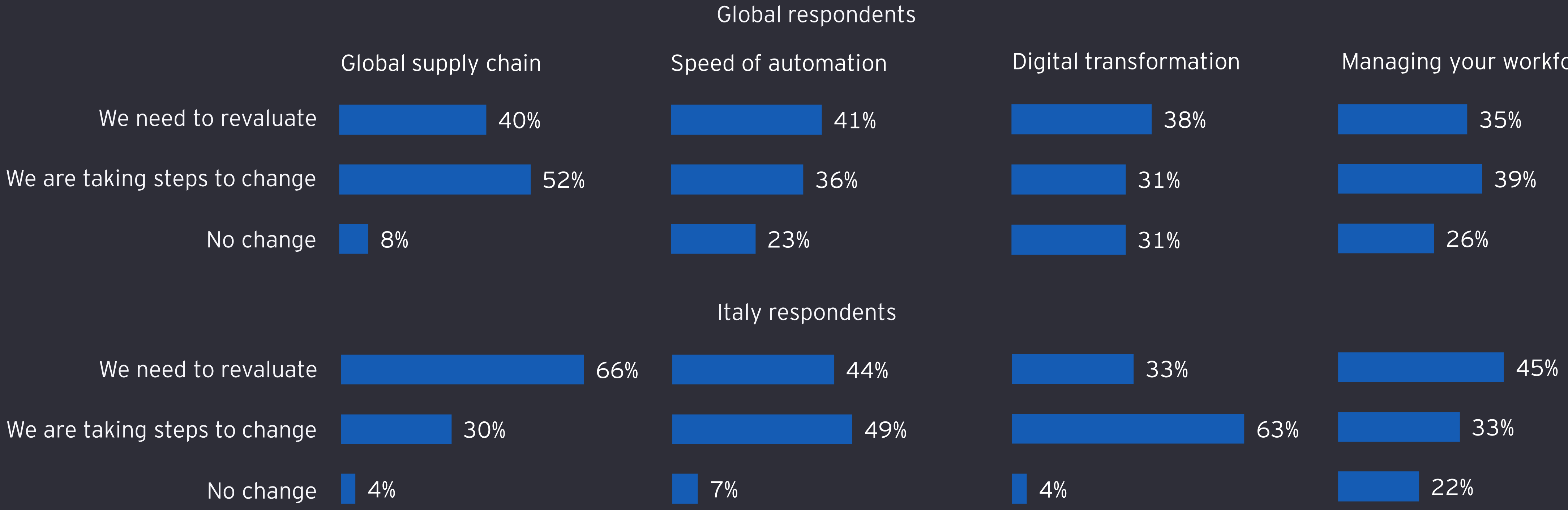

Italy respondents


- Most businesses are likely to experience significant ongoing disruption to their business-as-usual operations and will face underperformance throughout the duration of the COVID-19 crisis
- In addition to supply chain and production disruption, shifts in consumer behavior due to the risk of contagion are observed globally, impacting several sectors, including automotive and transportation, restaurants, tourism and leisure activities
- Companies with higher customer diversification across geographies are more likely to better resist the downturn

*The respondents were allowed to select up to 3 responses in order of priority. The percentages are prorated to 100%*

# Executives look to re-evaluate their operating models in response to the emerging crisis

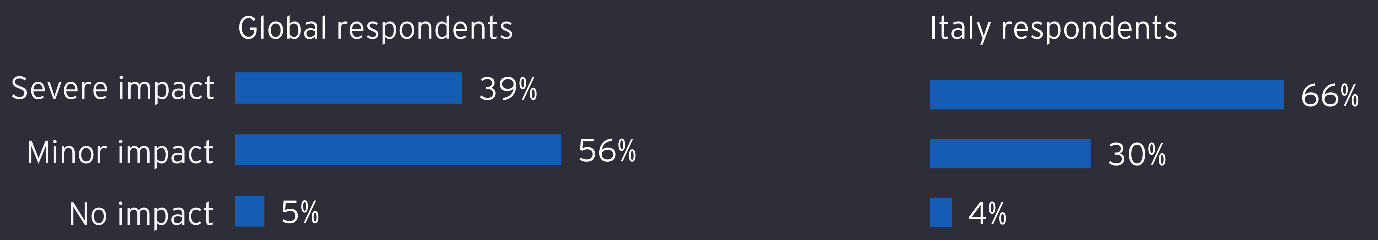
**Q** How would the coronavirus event affect your decision on your:



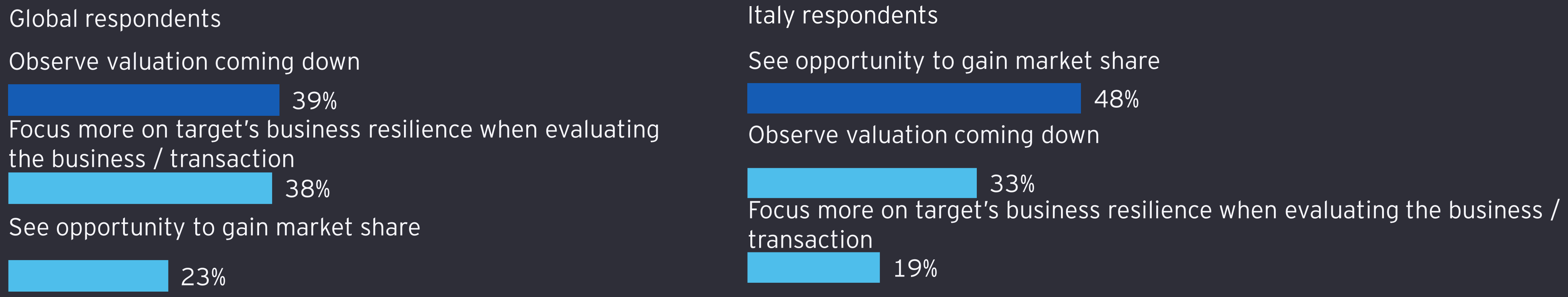

- The sudden and unexpected nature of COVID-19 has compelled executives to reevaluate operating models. While building agility and resilience have been dominant themes for much of the past decade, the unique nature of the current situation has left many companies unprepared. The total shutdown of activity has exposed vulnerabilities in many companies' supply chains, with the majority looking to re-evaluate or taking active steps to reconfigure their current arrangements.
- Many companies, at global and Italian level, have undertaken temporary re-shoring strategies to secure uninterrupted supply chain after the outbreak of coronavirus in China

# Pressured margins to be pushed down more as the economy slows, still the current crisis could bring M&A opportunities in the medium term

**Q** How significantly will the coronavirus outbreak impact your profitability and margins?




**Q** How are your M&A strategy and outlook affected by the coronavirus event?

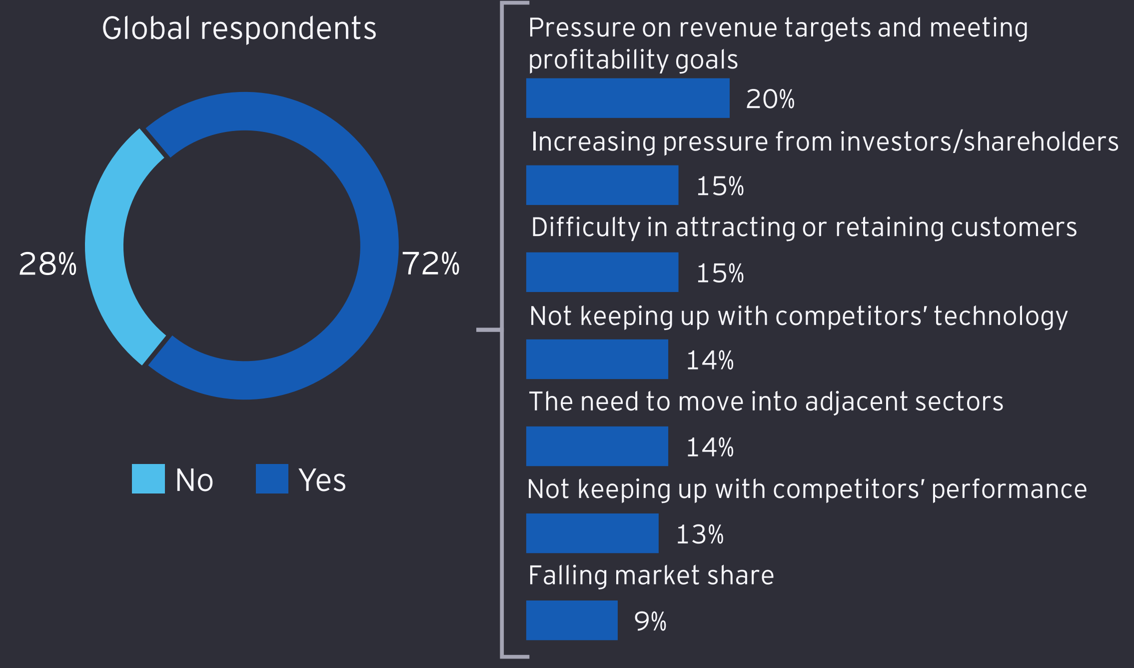


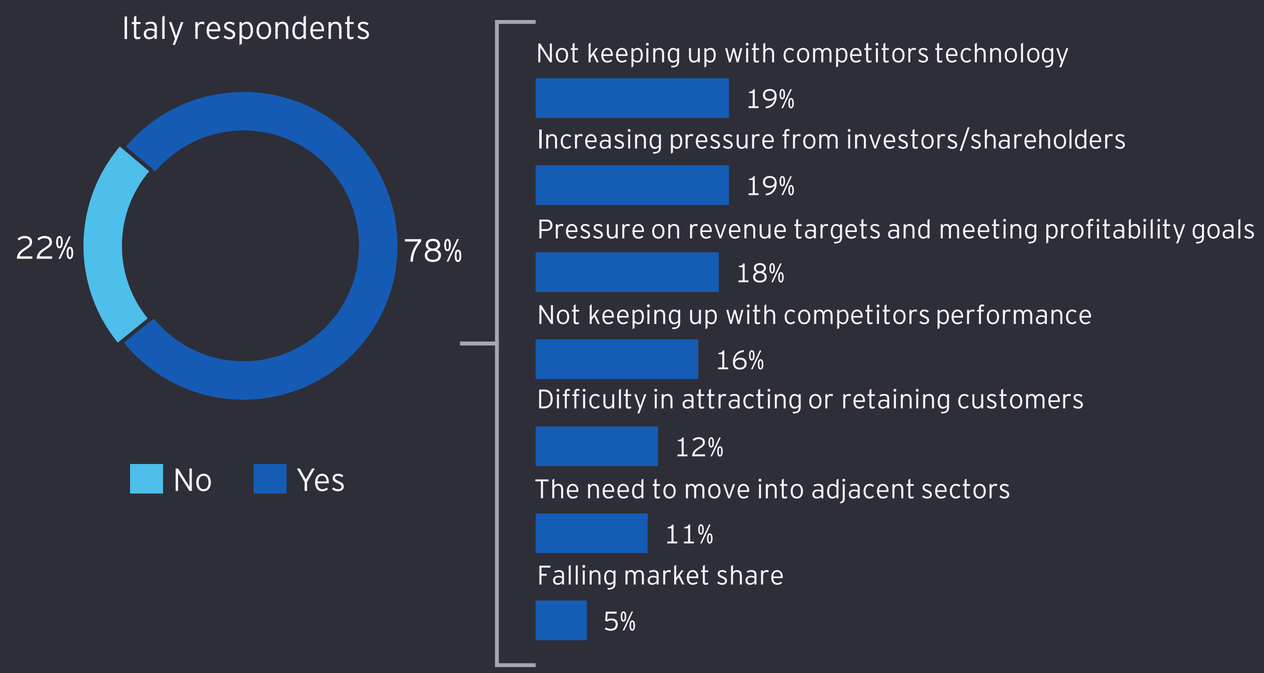

- Companies around the world are still coming to terms with the impact that COVID-19 is having on their business. Declining profitability will impact cash flows, so measures to ease liquidity availability will be paramount to ensure business continuity and protect workforce
- The emergence of COVID-19 is reiterating the need to assess potential targets more broadly in terms of resilience. It is also impacting valuations. This could accelerate some dealmaking as companies look to acquire competitors to protect and reposition beyond the crisis

# 2 Corporate strategy and operations

# The current scenario requires a business model review

**Q** Is your company currently undergoing a significant business and technology transformation program? If yes, what are the main triggers for your transformation?

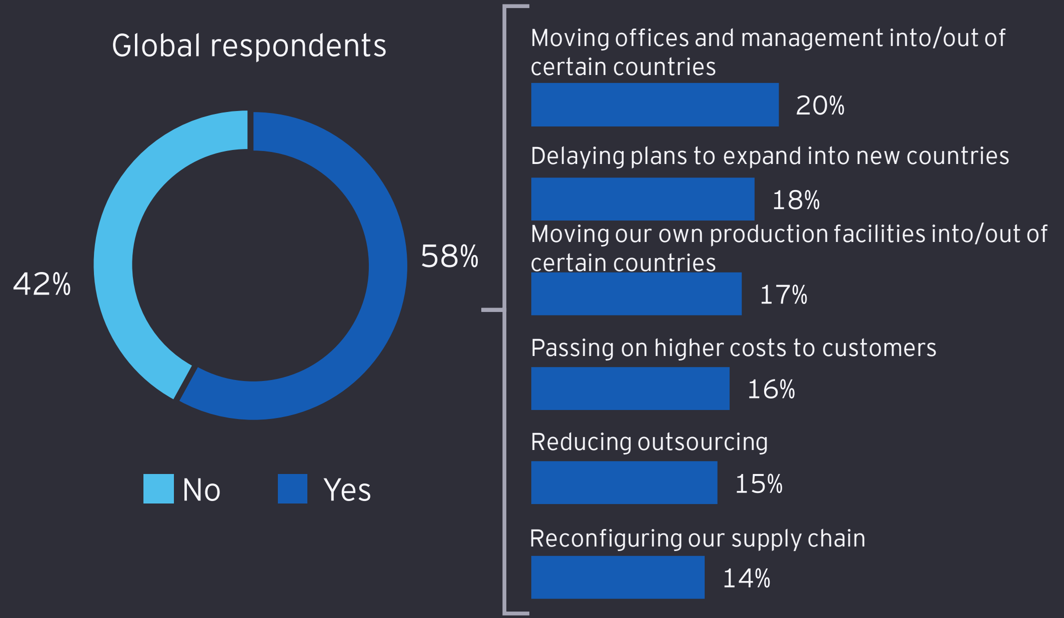


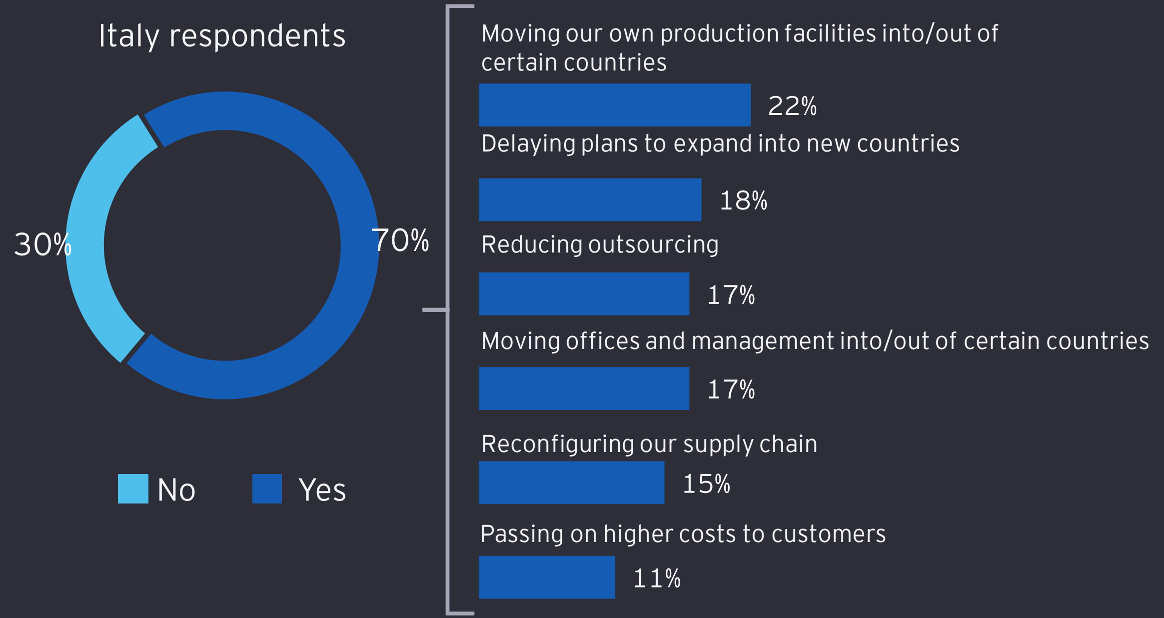




- Italian corporates are concentrating their efforts to update the technological infrastructure of the business, to keep pace with foreign competitors strategy
- In a phase of lockdown, consumption behaviors are widely impacted. Therefore, digital services and the e-commerce channel are becoming paramount

# The uncertain economic scenario makes corporates postpone investment plans

**Q** Are you actively planning to respond to ongoing geopolitical, trade or tariff uncertainty? If so, how are you planning to do this?



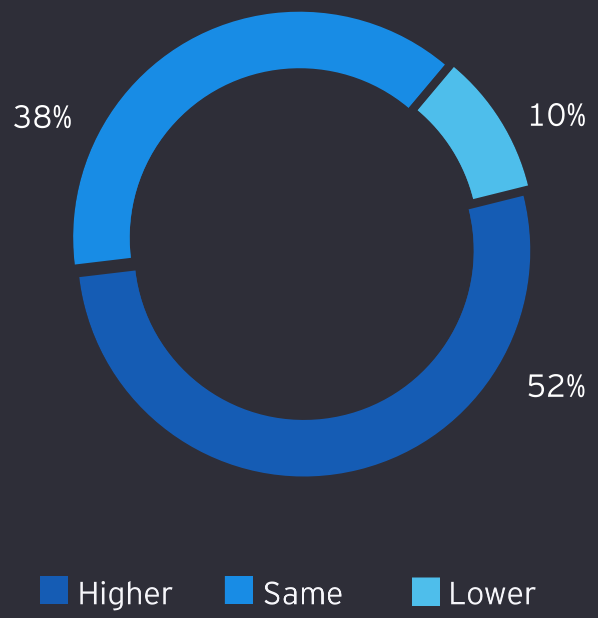



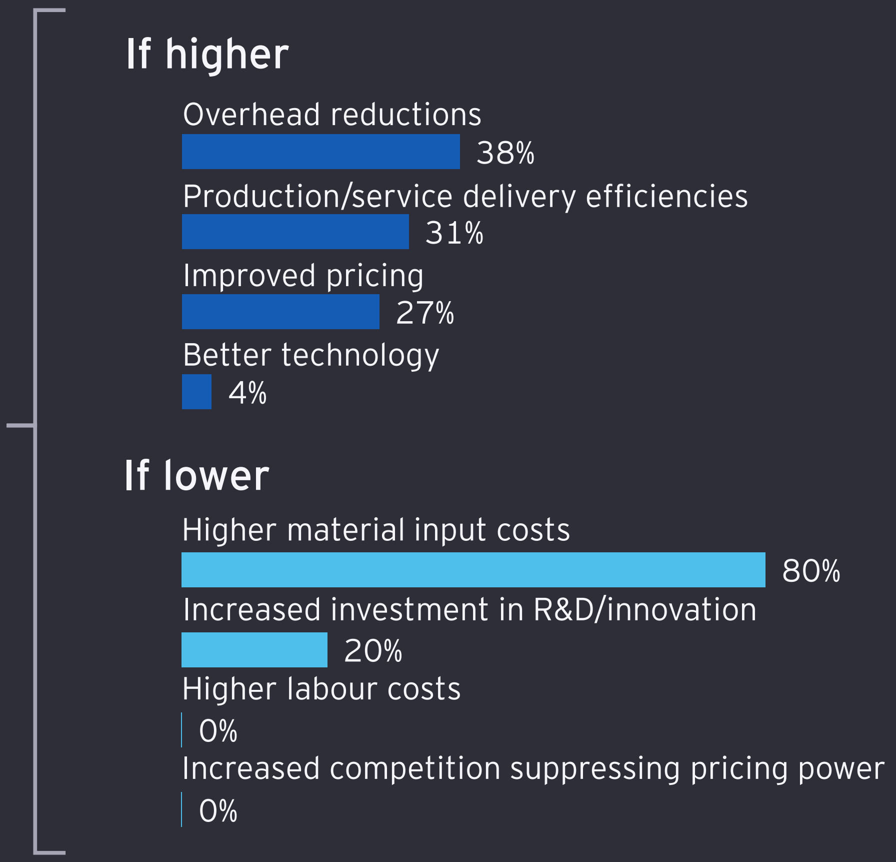

- In order to tackle the current crisis, many corporates at global and Italian level have undertaken temporary re-shoring strategies to secure uninterrupted supply chain after the outbreak of coronavirus in China
- The lockdown measures and uncertainty of future economic scenarios have lowered consumption levels globally, therefore leading many Executives to delay plans to expand into new countries

# Half of Italian executives have observed a profit margin increase in last 2 years

**Q** Is your company's profit margin (defined as recurring operating earnings) higher or lower than 2 years ago?

Italy respondents



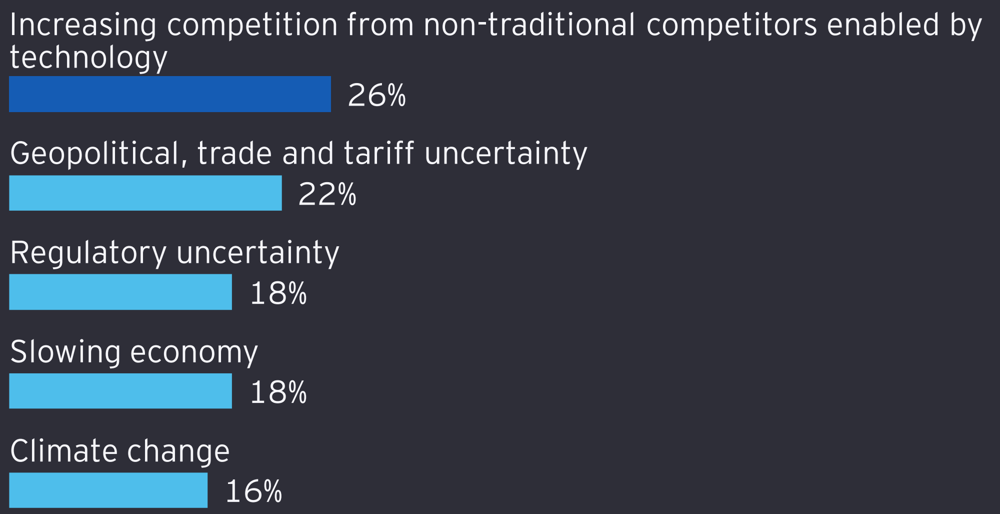




- Half of Italian respondents saw their operating earnings increase in the last 2 years, also due to overhead reductions, efficiency gains and price increase. Only 10% of corporates interviewed experienced a profit margin decrease, mainly due to rising material input costs

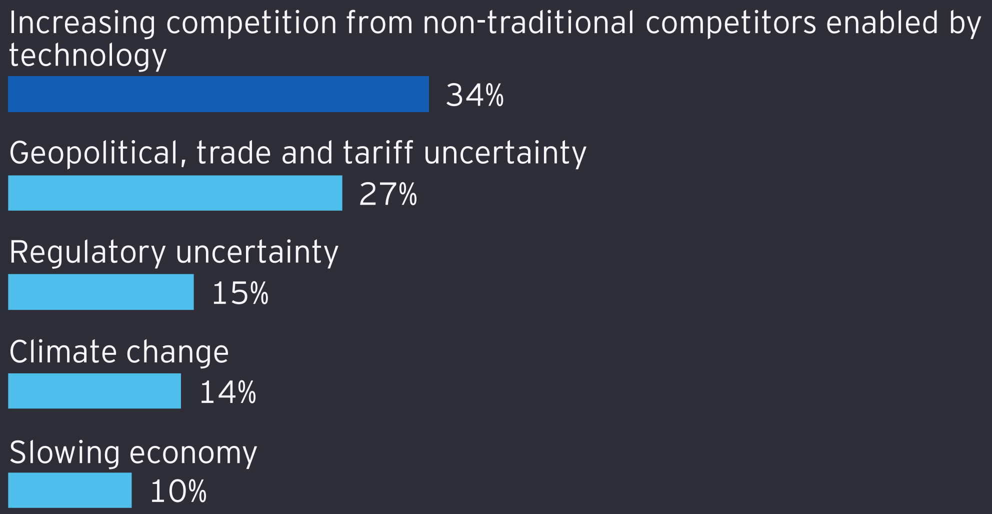
# Italian and global executives fear increasing competition of new players enabled by technology

**Q** What do you believe to be the greatest external risk(s) to the growth of your business?

Global respondents




Italy respondents



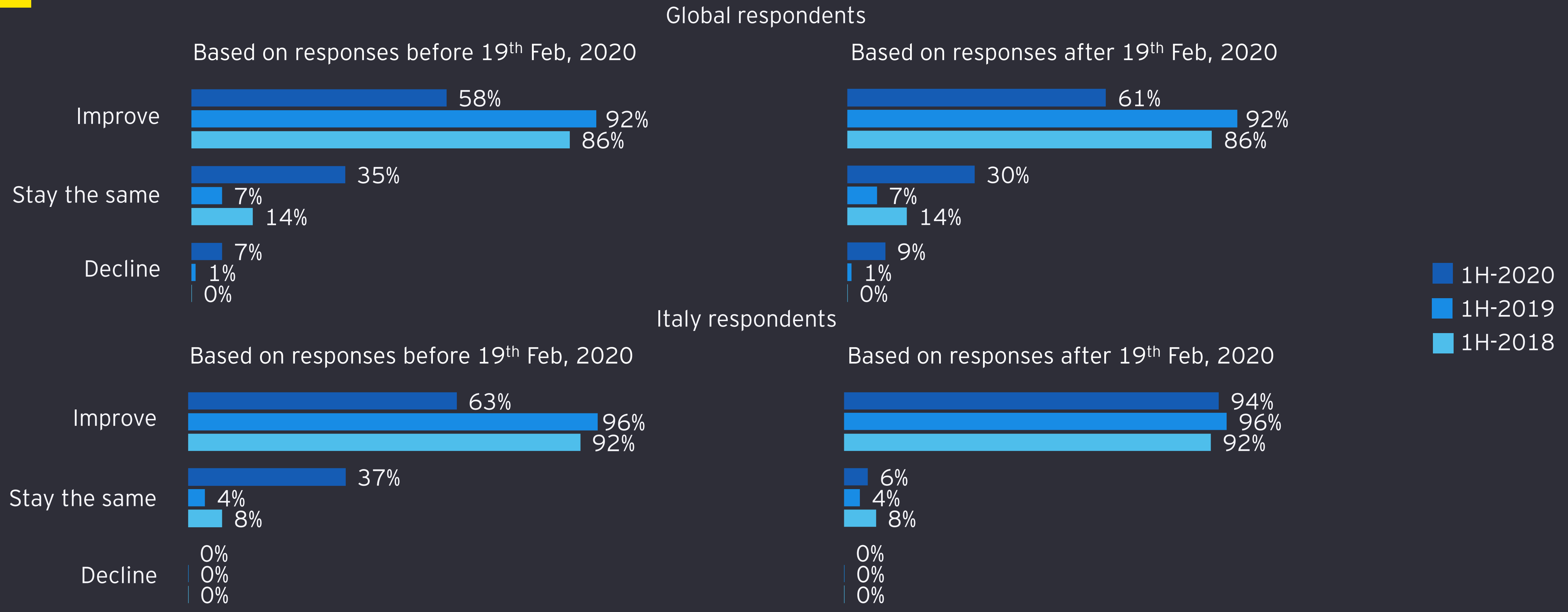

*The respondents were allowed to select up to 3 responses in order of priority. The percentages are prorated to 100%.*

- The risk perceptions for business at a global and Italian level are aligned
- In an unprecedented period of lockdown, consumption behaviors are widely impacted, so digital services and e-commerce become predominant. The biggest threat is perceived to come from disruptive technologies and their use by new competitors

# 3 M&A outlook

# Expectations for the M&A market dialled down, but not full stop expected

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




- Worldwide M&A activity fell 20% year-on-year in terms of number of deals announced in the first quarter of 2020
- M&A plans may have to be paused as they search for clarity in crisis. But they will be triggered at some point during the downturn or recovery
- The expected decrease in target valuation, driven by mild economic performance during the crisis, may pose interesting consolidation opportunities in the medium term



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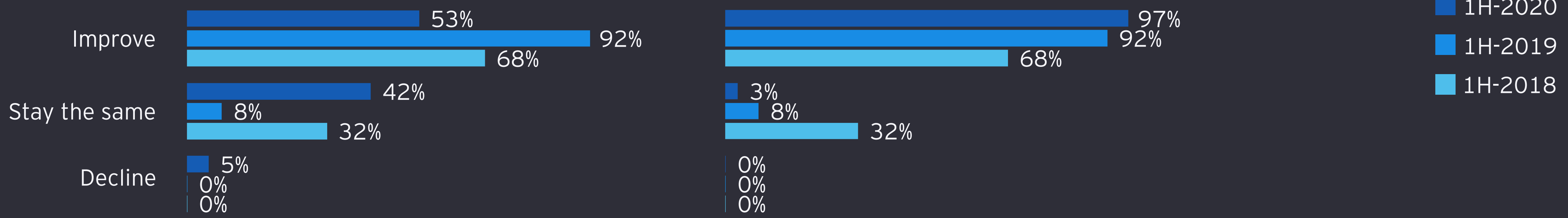
# Further sector consolidation may take place as the economy recovers after the lockdown phase

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

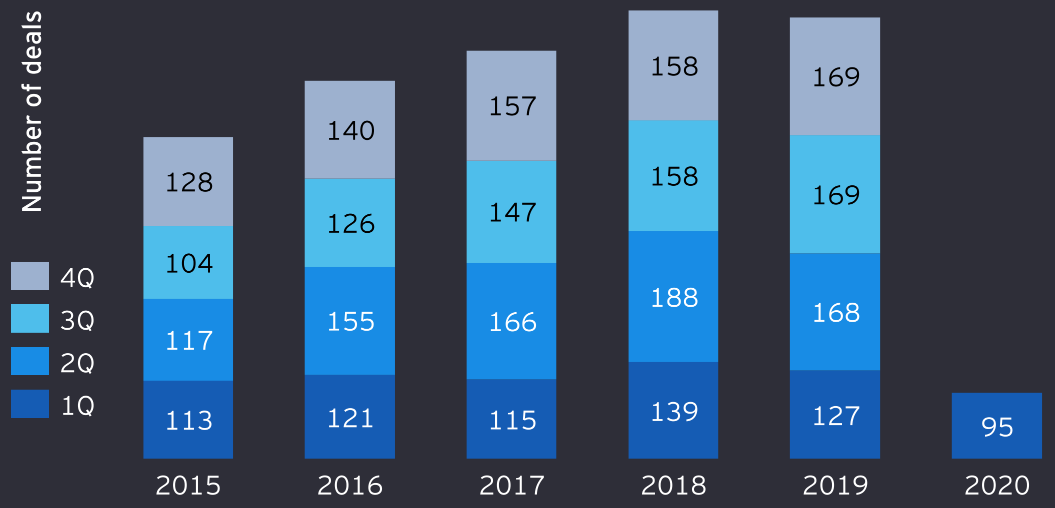
Italy respondents

Based on responses before 19th Feb, 2020 | Based on responses after 19th Feb, 2020




- Executives still expect a high level of M&A activity in Italy, even though the Covid-19 emergency has led many processes to be delayed to the post-summer period, interrupted or cancelled
- This projection is consistent with market data, recording 93 announced M&A deals with targets located in Italy in first quarter 2020, with respect to 127 deals in the same period of 2019
- The traditional 'made in Italy' sectors of industrial machinery and components (36% of total deal number) and consumer goods (17%) remained the most targeted in the first quarter of 2020
- Momentum fell away as the COVID-19 pandemic took hold and social distancing measures were brought into place. The slowdown is expected to continue as firms look to adjust production and working practices, and the inevitable economic hit becomes more apparent

Italy M&A activity 2015-1Q2020



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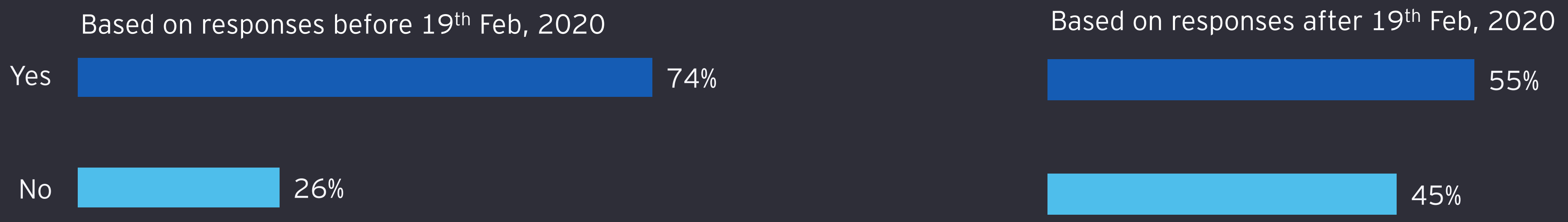
# The health emergency has forced many ongoing M&A deals to be interrupted

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

Global respondents


Italy respondents

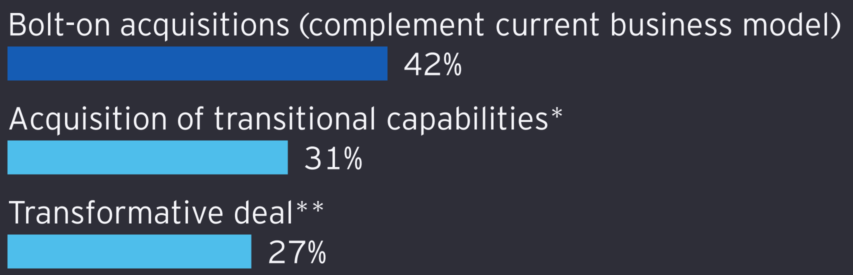



- Most industries suffered a significant interruption in M&A transactions due to the lockdown measures and declining target performance
- Nonetheless, an expected reduction of target valuations may lead to sector consolidation in the tissue of Italian small and medium enterprises after the summer
- Some anticyclical sectors, such as technology and life science, appear to be less hit by the crisis and remain more appealing to corporate and financial investors

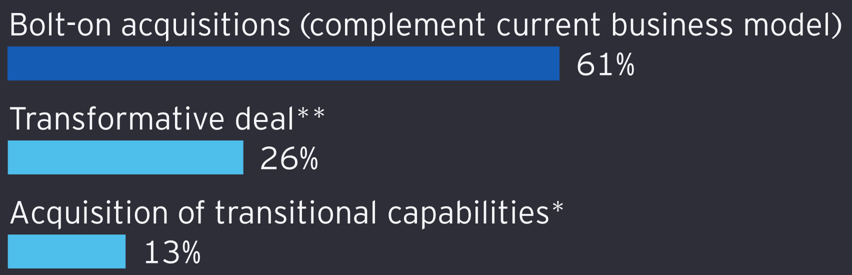
# Bolt-on acquisitions and buying capabilities will accelerate moves into new products and services

**Q** Will your planned M&A activity be:

Global respondents




Italy respondents



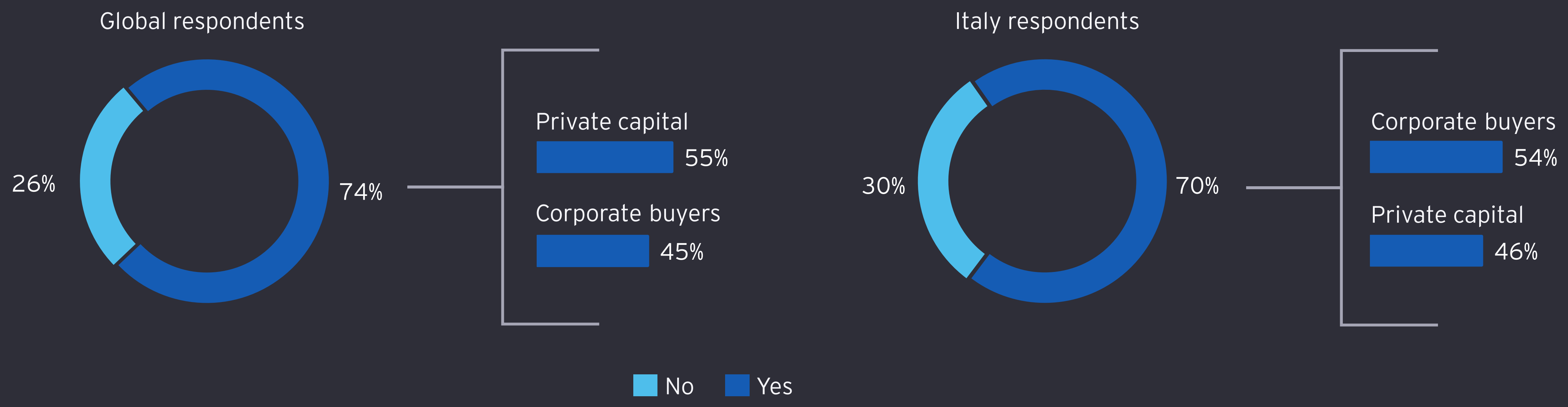

**Acquisition of transitional capabilities (acquisitions that will change how the company operates, including digital and new routes to customers)*

***Transformative deal (high-value acquisition that significantly changes the size of acquirer/reshapes business)*

- Bolt-ons that complement the existing business and offer an expanded choice of products and services for existing and new customers are mostly on the corporate radar, especially for medium size Italian corporate buyers

# Greater competition for assets is expected, with private capital expected to be at the forefront

Q Do you expect to see increasing competition for assets in the next 12 months and, if so, from where?




- Executives expect competition for M&A targets to increase, due to the relatively limited availability of actionable targets with adequate know-how and technological capabilities on the market
- Private Equity sponsors and alternative equity providers are expected to play a relevant role at global and Italian level in driving sector consolidation, due to the high level of dry powder still to be invested

# Italian corporates look to diversify their geographical exposure through M&A

Percentage reflects those who intend to actively pursue acquisitions in the next 12 months

| Automotive and transportation | Financial services | Life sciences | Manufacturing | Consumer |
|---|---|---|---|---|
| 100% | 67% | 60% | 57% | 38% |

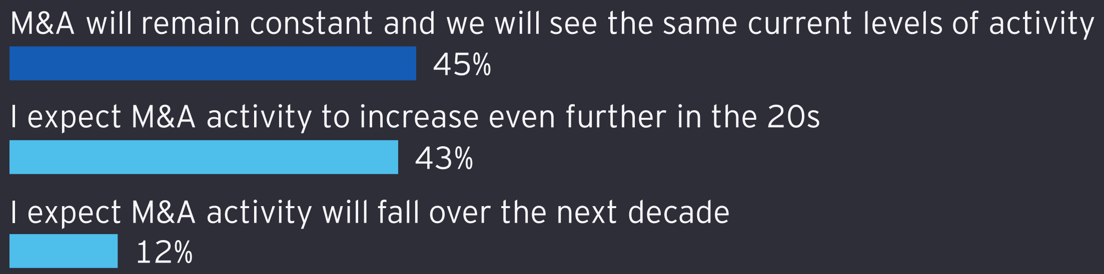
Top 5 investment destinations (includes both domestic and cross-border M&A)

1. France
2. UK
3. Germany
4. Netherlands
5. Brazil

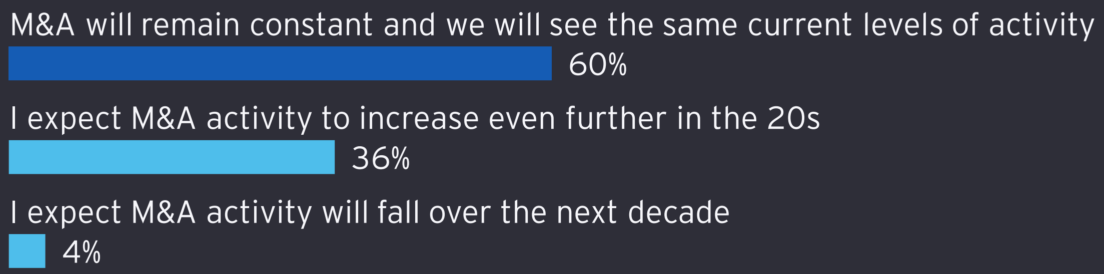
# Italian and global Executives believe that M&A will remain an important growth driver in the '20s

**Q** The past decade saw M&A at the heart of business growth with record volumes and values. Do you think deal-making will continue to play a central role in growth in the 20s?

Global respondents




Italy respondents

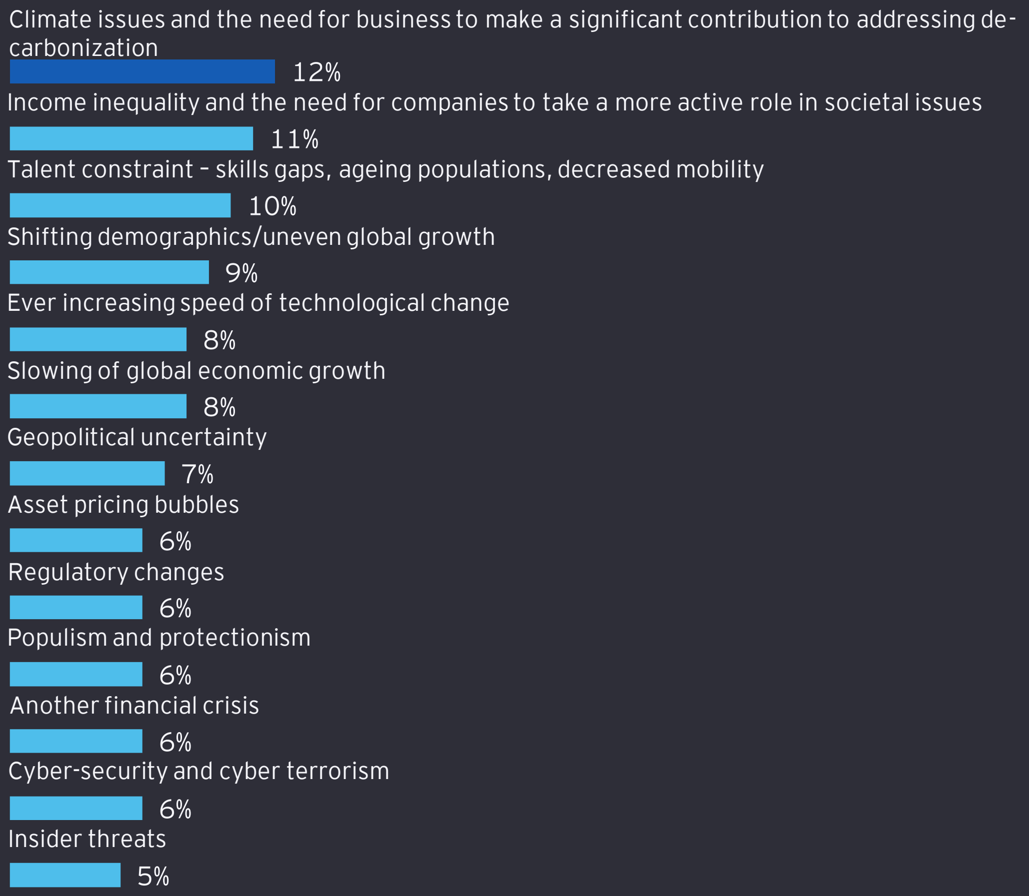



- M&A activity is expected to increase or, at least, remain constant as a driver of growth for corporates at global and Italian level

# The environmental sustainability represents the biggest challenge in next decades

**Q** Considering the answers given in this survey, which of the following issues will pose the biggest business challenge in the next decade?

Global respondents




Italy respondents


- Corporate Executives are mainly challenged by the contribution of their business to the environmental safeguard in the next decade
- Italian corporates have also to cope with talent constraints, due to the population ageing and difficulties in finding the right skills on the market

*The respondents were allowed to select up to 3 responses in order of priority. The percentages are prorated to 100%.*

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How you manage your Capital Agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you're preserving, optimizing, raising or investing, our Connected Capital Solutions, supported by an integrated suite of purpose-built technologies and delivered by our global teams, can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

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### Sell and separate

Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin off or JV.

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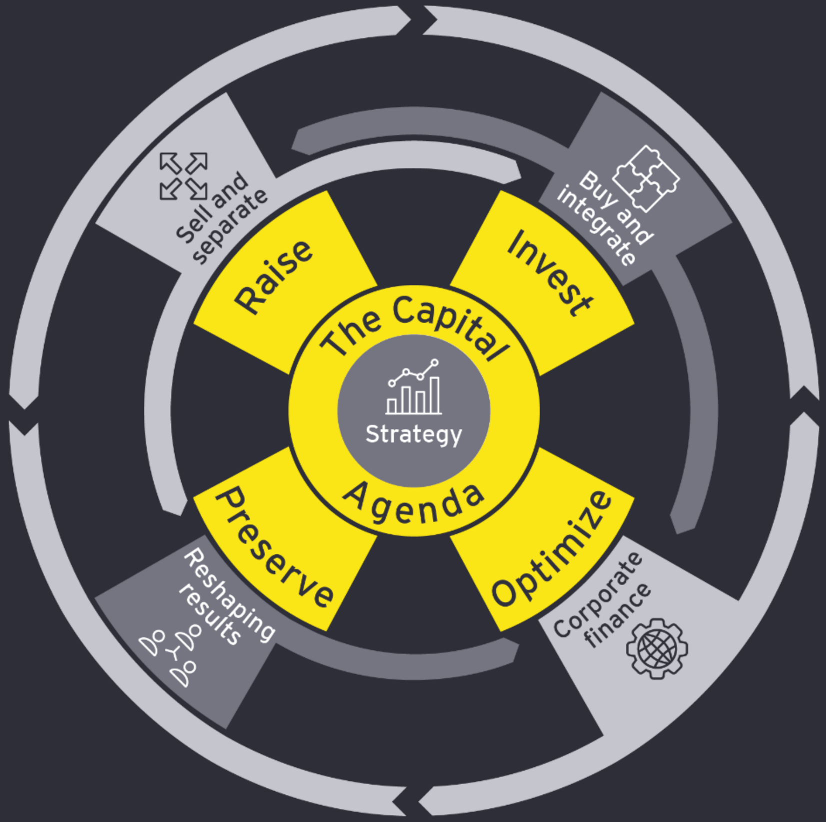

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ED None

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