Global Capital Confidence Barometer

As confidence returns, be bold to seize first-mover advantage

The CFO perspective – at a glance
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We want to help you get to the insight you need as quickly as possible. This is one of a series that summarizes the key findings from Ernst & Young reports from the perspective of the CFO and future finance leader.

What is Global Capital Confidence Barometer about?

This survey of global executives gives an insight into corporate confidence in the current economic climate, and identifies trends in how companies are managing their capital agenda.
Business confidence returns

Cautious optimism is the overriding mood in Ernst and Young’s latest Global Capital Confidence Barometer. Just over half of executives surveyed think that the world economy is improving, a dramatic rise from just 22% six months ago. However, the pace of the recovery will be gradual: the majority of respondents – 65% – feel that the global economy will grow by just 1%-3%.

The survey, which captured the views of nearly 1,600 executives from 50 countries, looked at companies’ strategic priorities over the next 12 months. The latest Barometer shows that the focus has shifted significantly to growth: 52% say this is the priority, far higher than those that remain focused on cost reduction and efficiency, maintaining stability or simply survival.

CFOs need to adjust their strategies to a world in which growth is back on the agenda. All the leading indicators in the survey point to greater opportunities for expansion. For example, more than half of respondents are also positive when it comes to corporate earnings and employment growth. Forty-two percent expect to hire talent or create jobs – a strong improvement from 28% in October 2012. Even more encouraging, plans for workforce reduction are at 10%, the lowest they have been in two years.

Credit availability improves

Confidence in credit availability has also increased significantly over the last six months, and the appetite for leverage is expected to accelerate over the next year. Almost half of respondents see an improvement in credit availability, the highest level in two years.
For now, cash is still the primary source of deal financing over the next 12 months. However, there are signs that the pendulum is shifting and that credit is being viewed as more of a viable option. The survey shows a higher number of companies planning an increase in their debt-to-capital ratio, from 18% in October 2012 to 24% in this Barometer.

For the next 12 months, those companies that plan to refinance debt (29%) say they will focus on refinements, including reducing interest rates, extending maturities and removing covenants.

**Shifts in the capital agenda**

When it comes to their capital agenda, a large number of companies are focusing on investment (40%, with only 9% focusing on preserving capital over the next 12 months). However, organic growth rather than M&A is the preferred strategy for many. This is justifiable given the economic uncertainty, but the most fruitful opportunities for growth may come from bolder moves. CFOs need to seek and evaluate what is out there, and guide the decisions on what constitutes prudent risk and potential reward.

When asked how they plan to use any excess cash, 45% of executives state that their company’s focus will be on organic growth, compared with just 14% considering the likes of M&A or joint ventures. Some 41% will focus on returning cash – through paying down debt, paying dividends or buying back stock – a drop of 10 percentage points since October 2012.
Outlook for M&A

Although the majority of companies are looking to invest in organic growth, there is an expectation that the number of M&A deals will grow over the next year as confidence returns.

However, average deal values will remain relatively small. While 72% of respondents believe global deal volumes will improve over the next 12 months, 88% of those planning acquisitions will be involved in deals under US$500 million.

Companies remain optimistic about deals in emerging markets but are exercising more caution. In light of slowing growth in some of these markets, almost 70% of respondents have changed their approach to investment and, of those, 45% say they will apply “further rigor.”

There are also signs that we may be at an inflexion point on deal valuations, with prices set to rise. Indeed, expectations for increased valuations are now at their highest level in the history of our Barometer: 44% of companies expect price and valuations to rise in the next year, up from 31% in October 2012.
Implications for CFOs

CFOs must help seize first-mover advantage
The economic crisis has been long and drawn out. The mood of cautious optimism is understandable. However, the outlook is improving and credit availability is high. The challenge for the CFO is to help realize the potential and ensure that the risk aversion that has become so pervasive does not lead to stagnation. Those who seize first-mover advantage have the opportunity to attain sustained market leadership.

Good governance must be balanced with a suitable risk appetite
The main areas of focus in the boardroom have been on efficiency, cost control, risk management, capital allocation, regulatory issues, investor relations and corporate governance. All of these agenda items, which were cited by half or more of our respondents, point toward companies building greater stakeholder accountability. While they are all essential for running a strong organization in today’s environment, the CFO must balance the need for good governance with the imperative for growth.
Revisit your M&A strategy before valuations take off
With 44% of respondents expecting M&A assets to increase in value over the next 12 months (and only 7% calling for a decrease), companies should consider taking advantage of this inflection point now. If there are acquisitions that can drive growth for your organization, now is the time to act before prices rise. CFOs must help develop the strategy that enables their organizations to identify and validate the right opportunities to drive growth.

Capitalize on improved credit conditions
Most companies in the Barometer are using cash as their primary source of deal financing over the next 12 months, with less than one-third saying they plan to use debt. This is without doubt an enduring effect of the financial crisis, when many companies came to perceive credit as a liability. But at a time of ample credit availability and historically low pricing, leading companies are once again coming to view credit as an important tool to fuel their growth agenda.

Further reading
- *Drought or drowning? Cash challenges for CFOs at both ends of the liquidity spectrum*, Ernst & Young, 2012.
- *The rise of the cross-border transaction. The serial transactor advantage*, Ernst & Young, 2012.
Other insights for the CFO

Global Capital Confidence Barometer is one of a number of studies that provide insight relating to the CFO role – represented by the wheel below. For more on these insights, please go to www.ey.com/cfo or contact your local Ernst & Young representative.
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