Companies sustain cautious enthusiasm in M&A to accelerate growth
Key findings

Consumer products and retail

- 55% expect to actively pursue acquisitions in the next 12 months
- 52% see making better use of digital, technology and analytics as the best means to drive growth in the next 12 months
- 59% of companies looking for M&A have three or more deals in the pipeline
- 22% cite issues uncovered during due diligence as the reason companies failed to complete or cancelled a planned acquisition

Global

- 50% expect to actively pursue acquisitions in the next 12 months
- 47% see making better use of digital, technology and analytics as the best means to drive growth in the next 12 months
- 55% of companies looking for M&A have three or more deals in the pipeline
- 18% cite issues uncovered during due diligence as the reason companies failed to complete or cancelled a planned acquisition
Both enthusiastic and cautious, consumer products and retail companies use M&A to spur growth

In the latest edition of the Capital Confidence Barometer, we see a continued appetite to acquire by consumer products and retail companies as M&A remains highly relevant in pursuing growth opportunities. Almost half are still expecting the M&A market to improve over the next 12 months.

Further, although deal intentions are down from record highs six months ago, 55% of consumer products and retail companies expect to pursue acquisitions in the coming year. This remains above the global average and above the intentions of other sectors as they actively seek growth opportunities to address digital transformation and other forms of disruption that are transforming the business landscape.

However, despite their enthusiasm, executives remain cautious, with 20% indicating that they’ve walked away from deals because of issues uncovered during due diligence, up from only 5% six months ago.

Executives see value in M&A to address disruptive forces and drive organic growth

As in many sectors, the conversation continues about balancing growth and costs. There is agreement among consumer products and retail executives that costs need to be contained and that companies need to extract as much efficiency from their operations as possible. That said, they see the value in acquisitions that can help to rationalize back-end systems to better position them for growth.

Ultimately, when it comes to growth opportunities, consumer products and retail companies are looking to buy assets that drive organic growth momentum, as evidenced by the uptick in the percentage of executives who say their company is looking to exploit technology to develop new products or markets. Concurrently, the percentage of companies looking to increase R&D has dropped more than 20 percentage points from six months ago.

Deal size is another indicator of the types of acquisitions consumer products and retail companies are looking to make. Although the vast majority of consumer products and retail companies are pursuing deals of US$1b or less, there has been an uptick in the percentage of companies looking at deals above US$1b – 13% vs. 4% six months ago – indicating that more companies are looking for transformative deals to fundamentally alter their business strategy or market position.

Alliances become a more attractive option

Where an acquisition may not be the right fit, consumer products and retail companies are turning to alliances as a means of generating new sources of revenue while managing both costs and risk. Alliances may be one of the reasons organic R&D is down, as companies look to partner with others to help them innovate.

Consumer products and retail companies that strike a cost-growth balance will be positioned to thrive

As consumer products and retail companies seek to meet the changing demands of customers and transform their companies to keep pace with a rapidly changing business landscape, they must do so in a way that maintains an equilibrium between opportunity and risk. Those that use strategic M&A and alliances to strike that balance will be positioned to thrive in the months and years to come.

Blaise Girard
Partner and EY Global Consumer Products and Retail Leader
Transaction Advisory Services
Macroeconomic environment

Consumer products and retail executives express consistent optimism in the state of the economy

Consumer products and retail executives seem to hold a similar view as their global counterparts when it comes to the state of the economy, with 36% seeing the global economy as modestly improving, while slightly more than half perceive it to be stable (versus slightly less than half of global executives).

In terms of capital market conditions, consumer products and retail executives show more optimism across the board than global executives, with more than half (54%) feeling positive about both credit availability and short-term market stability.

If consumer products companies are to perceive any risk in the coming months, it is the potential for increased global and regional political instability, which could impact the value chain.

Consumer products and retail

36% perceive the state of the global economy to be modestly improving

54% are feeling positive about credit availability

Global

34% believe the greatest economic risk to their business in the next 6 to 12 months is an increase in global and political instability

29%


The cost vs. growth discussion continues

Cost reduction and efficiency improvements have gained greater significance since our last survey, with 45% of consumer products and retail executives placing it among the top issues on the boardroom agenda, while 46% say that they are focusing on operational improvement to drive growth. Anheuser-Busch InBev illustrated this focus when it agreed to buy its main rival, SABMiller in October 2015. In what is being described as the biggest beer deal in history, the US$104b deal is expected to generate US$1.4b in recurring annual cost synergies.\(^1\)

At the same time, 52% are looking to make better use of digital, technology and analytics as they see exploiting technologies to develop new markets and products as a means to maximize organic growth opportunities as digital advances changing consumer behavior disrupt traditional business models. A great example of this is Nestle’s recent deal with DBV Technologies to secure the rights to a milk allergy testing kit that can determine whether a baby will suffer from a cow’s milk protein allergy. With milk and baby formula accounting for two of Nestle’s fastest-growing businesses, this new technology presents an opportunity for the company to boost sales of both its milk products as well as products aimed at babies with food allergies.\(^2\)

### Consumer products and retail

- 45% indicate that reducing costs and improving margins has been elevated on the boardroom agenda.
- 52% are focused on making better use of digital technology and analytics to drive growth in the next 12 months.
- 46% are focused on operational improvement to drive growth.

### Global

- 44% indicate that reducing costs and improving margins has been elevated on the boardroom agenda.
- 47% are focused on making better use of digital technology and analytics to drive growth in the next 12 months.
- 44% are focused on operational improvement to drive growth.

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\(^1\) Source: Anheuser-Busch InBev

\(^2\) Source: Nestle
Alliances seen as a cost effective means to derive value from existing assets

Although consumer products and retail executives are slightly less enthusiastic than global executives when it comes to strategic partnerships, a full 38% indicate that alliances with other companies or competitors is an attractive option to help derive value, with 80% seeking to monetize both tangible and intangible assets. Alibaba Group Holdings Ltd and Unilever NV made headlines in July 2015 when they announced a partnership to reach Chinese consumers. The alliance will enable Unilever to expand its existing relationship with Alibaba to reach rural customers in China and leverage Alibaba’s marketing data to improve its advertising strategy to boost existing sales.3

Where an acquisition may not be the right fit, consumer products and retail companies are turning to alliances as a means of generating new sources of revenue while managing both costs and risk. Alliances may be one of the reasons organic R&D is down, as companies look to partner with others to help them innovate.

Consumer products and retail companies remain optimistic about dealmaking

Although down from record highs six months ago, 55% of consumer products and retail executives expect to pursue acquisitions — the second highest level in five years.

Deal intentions remain above the global average and above the intentions of other sectors as consumer products and retail companies actively seek growth opportunities to address digital transformation and other forms of disruption that are transforming the business landscape.
Middle-market deals dominate M&A activity, with an increasing percentage looking to make a bold move

When it comes to deal size, 87% of executives who are planning a deal, say that they are considering deals of US$1b or less, indicating that companies are in search of assets that can boost existing capabilities. However, there has also been a spike from six months ago in the percentage of companies looking to make megadeals of more than US$1b. At 13% vs. 4% six months ago, this suggests that a surging minority of companies are looking for transformative deals to shake up their business strategy or disrupt the market.

Of those companies looking for M&A, 33% have four or more deals in their pipeline, up from 23% six months ago, and 65% do not expect a change in the next 12 months. Deal fundamentals remain strong as well, with one in two consumer products and retail executives feeling positive about the likelihood of closing a deal.
Consumer products and retail companies are willing to walk away if the deal isn’t right

As consumer products and retail companies aggressively search for growth, they grow concerned about a rise in unsolicited and hostile bids from others in their effort to boost market share and revenues through synergistic alignment. In March 2016, UK-based Premier Foods successfully rebuffed a takeover bid by a US food producer. Although the US food producer felt they put forward a more than fair offer, Premier Foods opted instead to pursue a strategic partnership with Japanese noodle manufacturer Nissan Foods that Premier Foods argued would accelerate growth opportunities and deliver better shareholder value. However, they are not willing to pursue opportunities at all costs, as 88% indicate failing to complete or canceling a planned acquisition in the last year, an increase of 13 percentage points from 6 months ago.

For deals that did go through, but failed to meet expectations, price deterioration was the most cited reason.

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<th>Consumer products and retail</th>
<th>Global</th>
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<tbody>
<tr>
<td><strong>32%</strong></td>
<td>28%</td>
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<td>expect unsolicited/hostile acquisition approaches to become more prominent in dealmaking in the next 12 months</td>
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<td><strong>22%</strong></td>
<td>18%</td>
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<td>indicate that issues uncovered during due diligence was the primary reason for a failed acquisition</td>
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Disruptive forces have consumer products companies looking outside of their sector for deals

For 28% of consumer products and retail executives, changes in consumer behavior is the number one driving force behind their strategic acquisitions outside of the sector. However, at 27%, the need to access new materials or technologies such as digitalization to address disruptive trends and keep pace with a fast-changing business landscape has increased in importance from six months ago.

### April 2016

- 28% cite changes in customer behavior as the main strategic driver for pursuing an acquisition outside of their sector.
- 27% indicate that access to new materials or technologies is a primary strategic driver for pursuing an acquisition outside of their sector.

### October 2015

- 32% cite changes in customer behavior as the main strategic driver for pursuing an acquisition outside of their sector.
- 23% indicate that access to new materials or technologies is a primary strategic driver for pursuing an acquisition outside of their sector.

These disruptive forces are also the reason that almost three quarters of consumer products and retail executives indicate their company is pursuing cross-border deals. With top destinations including the UK, the US, Canada and France, consumer products and retail companies are focusing their M&A attention on mature markets. Stronger growth in North American and stabilization in Europe, as well as the attractiveness of high-quality assets make these regions popular destinations for investment.

That said, with higher growth prospects, India remains an attractive emerging market destination, notwithstanding recent concerns about economic growth and stability.

### April 2016

- 73% are pursuing cross-border deals in the next 12 months.

### October 2015

- 69% are pursuing cross-border deals in the next 12 months.
About the Global Capital Confidence Barometer

The Global Capital Confidence Barometer gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY’s framework for strategically managing capital.

It is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU). Our panel comprises select global EY clients and contacts and regular EIU contributors.

- In February and March, we surveyed a panel of more than 1,700 executives in 53 countries; nearly 50% were CEOs, CFOs and other C-level executives.
- Respondents represented 19 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, diversified industrial products, and construction and real estate.
- Surveyed companies’ annual global revenues were as follows: less than US$500m (16%); US$500m–US$999.9m (25%); US$1b–US$2.9b (21%); US$3b–US$4.9b (12%); and greater than US$5b (26%).
- Global company ownership was as follows: publicly listed (65%), privately owned (31%), family-owned (2%) and government/state-owned (2%).

Buying and bonding: Alliances join M&A as engines of growth

Our latest Global Capital Confidence Barometer continues to find a strong acquisition appetite together with a growing inclination to forge new alliances. Prolonged economic challenges are driving investment decisions and leading companies to ally and cooperate for growth, as well as compete for and acquire for market share.

Connect with us at ey.com/ccb.

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How EY's Global Consumer Products Sector can help your business
The consumer products and retail industry is out of balance. Companies that over depend on cost efficiencies to boost profits and satisfy shareholders risk irrelevance. They must address long-term structural change by tilting the balance back towards profitable growth.

At EY, we will help you balance strategic choices needed to ignite performance by asking better questions. Better questions will challenge old thinking, filter out the noise and reframe challenges. They'll help you respond to disruptive market change and create innovative strategies that put you ahead of the competition, taking your business to new levels of growth and profitability.

We ask better questions because we combine a deeper and broader range of insights, perspectives, capabilities and experience. Our integrated, global network of assurance, advisory and tax specialists includes 37,000 people focused on your industry, supported by a rich ecosystem of alliance partners.

And when we ask better questions, we will collaborate with you to implement better answers. We will support you at every stage - from boardroom strategy formation, to tactical management planning, to on-the-ground execution. Wherever you are in the world, project by project, market by market, we will build a better working world together.

So, how do you find the optimal balance for profitable growth?

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