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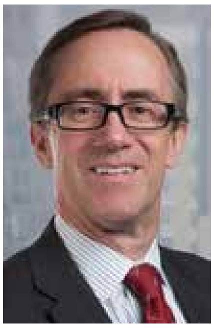
# Health
# Global Capital Confidence Barometer



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The *Global Capital Confidence Barometer* is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU). Our panel comprises selected global EY clients and contacts and regular EIU contributors. In August and September, we surveyed a panel of more than 1,700 executives in 45 countries; 30 respondents were from the Health sector.

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

## Health executives remain positive about deal making, look to boost deals in 2017

Despite economic uncertainty, EY's survey results indicate that Health executives remain very positive about the deal environment and are planning to be active in 2017. Sixty-nine percent of Health executives are expecting to engage in M&A in 2017, which is an all-time CCB high and well above the long-term CCB average. Health executives also indicated increased interest in pursuing joint ventures and alliances.

### Political instability and ongoing capital market volatility pose the greatest economic risks

Policy uncertainty related to a new US government administration, political instability due to Brexit and macroeconomic issues in Europe, is challenging corporate strategies and posing economic risks to core business. For almost half (46%) of executives, the ongoing volatility in capital markets presents the greatest risk to their M&A strategy.

### Health executives see industry regulation as the biggest disruptor

As Health executives consider their capital strategies, regulatory issues and changes in customer behavior are the highest-ranking disruptive forces impacting their businesses. Health executives are paying close attention to industry regulation, which for 41% serves as the greatest disruptor to their core business in the next 12 months. This is in stark contrast to global respondents, only 18% of whom cited it as the top disruptive force. Uncertainty in the US due to Federal Trade Commission and Department of Justice challenges to certain market consolidations, and inconsistency in related court decisions, are key boardroom considerations in dealmaking.

Changes in customer behaviors were cited by 17% of the respondents as another significant disruptive force, largely as a result of enabling technologies.

Amid this disruption, executives are looking at both organic and inorganic routes to stronger growth and higher earnings. For example, in an effort to address the impact of sector convergence, health companies are mixing M&A activity with partnerships to achieve returns while managing risk, as 20% of health respondents say they are considering joint ventures and alliances.

### M&A confidence remains strong, though slightly tempered

Buoyed by a new high in anticipated dealmaking, health executives express increasing confidence in the stability of the global M&A market, as well as deal fundamentals. However, their optimism appears to be slightly tempered, as the number of executives feeling positive about the number and quality of acquisition opportunities and the likelihood of closing deals is down from six months ago. Approximately 87% of executives indicate that they have recently stopped short of completing a planned acquisition, with 41% citing the gap between buyer and seller valuation expectations as the key contributing factor.

That said, Health companies are maintaining healthy pipelines, with 29% saying they have five or more deals in the pipeline, up three percentage points from six months ago. With a drop-off in megadeals, largely as a result of regulatory oversight, most Health companies are setting their sights on deals of US$250m or less to fill gaps in their portfolios and address the impact of digital technology – a top issue on the boardroom agenda – in an effort to remain competitive. In fact, reacting to competition was the main strategic driver of 75% of executives for pursuing an acquisition outside of their own sector. Within the sector, growing market share was the top focus for 52%.

### Critical success factors in merger integration

The number one issue that Health executives identified as negatively impacting integration success was underestimating the cultural challenges in integrations, which at 42% also showed the biggest increase from our last CCB. The second most frequently identified issue was underestimating the amount of investment required to drive product innovation and revenue growth.

### Outlook

As regulatory oversight and competition from within and outside the sector increases, Health companies are looking to reduce risk and costs. These initiatives are driving industry consolidation and sector convergence. As a result, we expect M&A, and joint ventures and alliances to form a robust and an ongoing part of Health organizations' inorganic growth strategy into 2017.

# Key health findings

**69%**

expect to actively **pursue acquisitions** in the next 12 months

**87%**

are willing to **walk away** from deals

**29%**

have **five or more deals** in their pipeline

**89%**

see the global economy as **stable or improving**

**42%**

see **corporate earnings** as **positive**

**46%**

cite **high volatility** in capital markets as a risk to core business and M&A strategy

**46%**

say **inorganic strategies** are driving growth

**41%**

cite **industry regulation** as causing the most disruption to the core business

**75%**

say **reaction to competition** is the main strategic driver for pursuing an acquisition outside of their sector

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