CEO Imperative Series

CEO survey: US execs are strategic, pragmatic and (still) pandemic-ready

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A note from Mitch Berlin, EY Americas Vice Chair – Strategy and Transactions

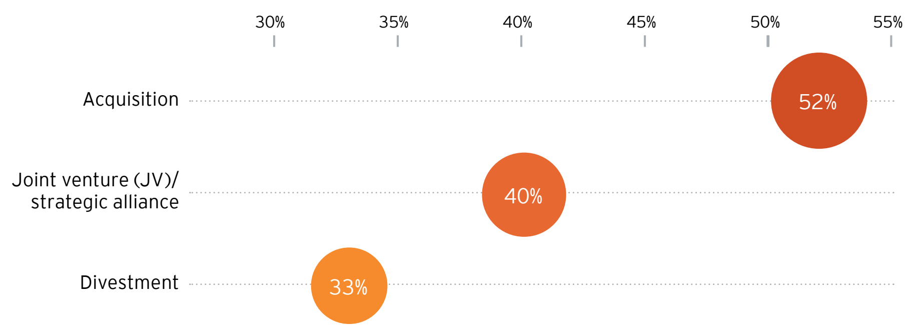
CEO survey: US execs strategic, pragmatic and (still) pandemic-ready

EY CEO survey finds executives guiding their organizations through "everything everywhere all at once"

One of 2022's top movies is an imaginative fantasy story about the metaverse, *Everything Everywhere All at Once*. You might say this title is not only the movie's theme but also the reality for US corporate leaders. Our latest CEO survey finds executives contending with simultaneous, often conflicting forces — including macroeconomic and geopolitical pressures — that affect corporate growth and make setting long-range enterprise strategy challenging.

Nonetheless, they persevere. Deals are still getting done and being planned. A healthy 52% of US executives expect to pursue an acquisition in the next 12 months. A third of companies are planning a divestment, and 40% of CEOs say they are weighing a joint venture or strategic alliance in addition to whatever mergers and acquisitions (M&A) or spin-offs they might consider. In short, robust portfolio strategy planning is not taking a pause amid the macro risks.

Q **What transaction plans do you expect to pursue over the next 12 months?**

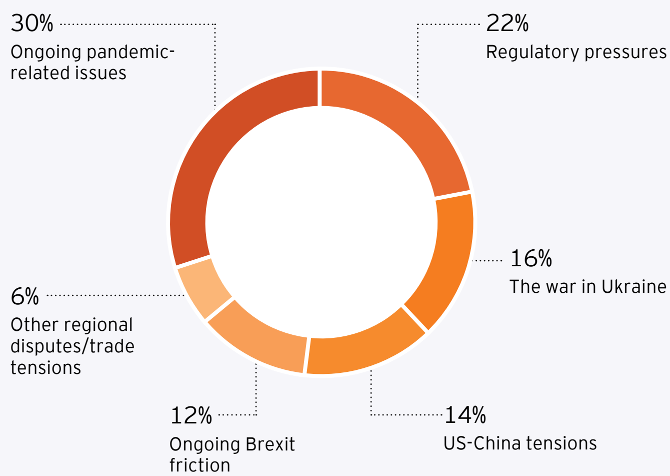


What CEOs mean by "pandemic" now

In the months since we last surveyed CEOs, a war in Ukraine, high inflation and aggressive monetary policy have been piled on top of ongoing supply chain bottlenecks and climate change impacts. When we asked CEOs to check off which of these forces represented the greatest risks to business growth, the executives placed all of them high in the ranking, within just a few percentage points of each other.

Interestingly, when we asked executives whose investment strategies have been affected by outside forces to pick just one main driver, the clear leader was "ongoing pandemic-related issues." At 30%, the pandemic topped the second-place driver, "regulatory pressures," by 8 percentage points. This pandemic concern by CEOs might seem counterintuitive at a time when mask mandates are being eliminated all over the country and vaccine penetration has restored some semblance of societal normalcy.

Q **You have said that geopolitical challenges have led to you altering your strategic investment plans — what is the main driver for that decision?**



One explanation is that corporate leaders, as ever, may need to be vigilant about the potential return of widespread disruptions. After a COVID-19–wracked 2020 led to a still-pandemic-handicapped 2021 business climate, CEOs in 2022 might be saying, "Fool me twice, shame on me."

The likelier truth is that the word "pandemic" has become a proxy for so much more. In our conversations with CEOs, we hear the pandemic cited alongside at least three or four related concerns. Inflation, monetary policy and supply chain risks are all pandemic related.

Indeed, when we break down the list of business risks further and allow CEOs to cite more than one, arguably half the list is directly or indirectly COVID related. In addition to "a continuation/return of pandemic-related issues" cited by a commanding 43% of executives, inflation/higher input prices, uncertain monetary policy direction and scarcity/cost of talent were each cited by roughly one-third of respondents.

Market data backs up these executives' perceptions. Central banks worldwide, including the U.S. Federal Reserve, are raising interest rates more aggressively than they have in decades, exploding the cost of capital. Huge majorities of our respondents say input prices in the past six months have experienced increases they describe as either "major" or "extreme" — from labor and raw materials to energy and transport/logistics. And supply chains, more than two years into COVID, remain a stubborn drag on growth, with US shipping rates for moving goods by road and rail up about 23% from 2020.

In short, "pandemic" simply describes the overall environment CEOs operate in nowadays.

Prudent dealmaking, not M&A at any cost

These concerns are having a tangible business impact. When asked whether geopolitical challenges were altering strategic investment plans, an overwhelming 93% of US executives said yes. And the largest plurality of these respondents (41%) said they had in fact delayed a planned investment.

This tracks with what we at the global EY organization have observed. As recently as six months ago, the marketplace seemed to penalize companies that sat on the sidelines and did not pursue M&A or a strategic alliance. Now, companies are compelled to do the right deal, and caution is more of a virtue. CEOs want to make the smart bet, not just any bet.

The deal market reflects this caution. Year on year, both M&A volume and value have broadly decreased — the former down by 39%, the latter by 25% (as of August 2022). The aforementioned cost of capital, amid rising interest rates, is surely a factor. Median deal multiples have remained relatively resilient in the Americas, but they vary by sector — for example, sectors that have contracted in 2022 include automotive, financial services, industrials and life sciences.

On the other hand, our survey finds executive pragmatism has not dimmed overall boardroom optimism. Majorities of respondents expect improvement in revenue and profit growth and in overall economic conditions. Capital commitment is similarly robust, as 69% of CEOs say they will increase their digital and technology investment over the next six months. The recently passed CHIPS and Science Act, which addresses the nearly two-year global chip shortage stemming from COVID-fueled supply chain issues, will likely spur scores of acquisitions and joint ventures for US companies. Finally, the persistence of corporate venture capital indicates that CEOs see these vehicles as another means to dealmaking, as internal VC funds tend to be more resilient in a challenged dealmaking environment.

So, while 2022 will be remembered as a unique year of diffuse challenges, corporate leaders are building for the future — even as they manage everything everywhere all at once.

About the survey

The *EY 2022 CEO Outlook Survey* aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation.

It is a regular pulse survey of CEOs from large companies around the world, conducted by Longitude Research Limited, a Financial Times company.

In August 2022, Longitude surveyed on behalf of the global EY organization a panel of 760 CEOs in 10 countries and across six industries. Respondents represented the following industries: advanced manufacturing and mobility, consumer products and retail, energy and resources, financial services, health sciences and wellness, technology, media and telecoms.

- Surveyed companies' annual global revenues were as follows: less than US$500m (20%), US$500m–US$999.9m (20%), US$1b-US$4.9b (30%) and greater than US$5b (30%).
- The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future. For more insights in this series, visit ey.com/en_gl/ceo.

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