

CEO Imperative Series

Mexican CEOs transact to transform

EY 2022 CEO Outlook Survey
Mexico Edition | ey.com/ceosurvey



Building a better
working world

As Mexican CEOs deal with the fallout from the pandemic, they see dealmaking as an opportunity to reshape their portfolios for the future.

Strategic risks

71%

say they are adjusting their operations and supply chains to address geopolitical tensions, logistics costs and uncertainty.

According to the EY CEO Survey 2022, 80% of CEO respondents in Mexico say the COVID-19 pandemic has impacted their company. In a shifted landscape they are positioning for growth, while mitigating macroeconomic, geopolitical and pandemic-related risks. For 42% of Mexican CEOs, increasing geopolitical tensions and political market intervention are the most critical risks to their organization's future growth strategy. A quarter (26%) are adjusting strategic investments to address these challenges, mostly by accelerating cross-border investments. However, 71% indicate they are making adjustments to their operations and supply chains due to geopolitical tensions, logistics costs and uncertainty.

CEOs focus capital strategy on investing in what they have

More than 80% of Mexican respondents expect revenue growth and capital efficiency to be the top drivers of value for their organization over the coming year. To help achieve these objectives, Mexican respondents say they are investing in their existing business to accelerate growth and value creation (26%) and focusing on optimizing balance sheets and improving their capital structure (22%).

Understandably, more than half (52%) of Mexican CEOs say they will spend the next five years investing to sustain and improve their core business. Investments include increasing sales of existing products and services to their current customers and developing new delivery systems and channels to improve customer interactions. Our interactions with our clients suggest that growth will come as much from innovative pricing strategies as sales volumes.

Nearly half (48%) of Mexican CEOs plan to invest in medium- and long-term opportunities to scale up existing fast-growing growth engines and pursue innovative growth options to position them for the future. Mexican CEOs are addressing investor engagement as a fundamental part of their long-term value creation strategy. Nearly half (46%) say their investors are extremely supportive of well-articulated investments, while 38% say their investors are moderately supportive of sensible long-term investments.

M&A and divestments help CEOs buy to transform

Forty-one percent of Mexican CEO respondents say they plan to reshape their portfolio through organic investment. For many conglomerates, M&A and divestments form part of their broader capital allocation strategy. Some are looking to sell assets to free up capital for transformation initiatives. In an increasingly competitive landscape, many Mexican companies are looking to acquire capabilities to help them navigate change. One-third of CEOs say they are considering bolt-on acquisitions to increase market share within their sector. An equal percentage (33%) say they are focusing on acquisitions to increase operational capabilities.

However, with nearly two-thirds (64%) expecting an increase in hostile and competitive bidding, Mexican CEOs are demonstrating discipline in their dealmaking, with 68% saying they've canceled or failed to complete a deal within the last year. Nearly one in three of these respondents cited a disagreement over price or valuation as the reason for their decision. This is unsurprising in a market where technology, medtech, FinTech, logistics and transportation, and health care assets coming up for sale have high valuation multiples.

Mexican CEOs also see M&A as a way to accelerate their sustainability agenda. Nearly half of respondents say they have embedded sustainability into their corporate strategy and have sustainability KPIs for long-term value, and while 78% of Mexican CEOs identify environmental, social and governance (ESG) as an important value driver over the next few years, only 14% say it is critically important and only 8% are prioritizing ESG investment and resources in their capital strategy.

Environmental, social and governance

78%

say ESG is an important value driver.

Labor costs are rising, but CEOs see labor risks as low

As Mexican companies consider their capital strategies, they will have to take into consideration that the cost of doing business has increased, particularly around labor. In September 2021, the Mexican government enacted labor reforms. This, coupled with the fight for talent, has pushed labor costs up.

It is interesting to note, however, that only 6% of Mexican CEOs see scarcity and cost of talent as a critical risk to their future growth strategy, and only 4% have prioritized attracting and retaining talent as a capital strategy priority.

B2C CEOs see digital platforms as a means to improve profit margins

Digital transformation has been a consistent theme for Mexican CEOs over the last couple of years. In the *EY 2022 CEO Outlook Survey*, nearly one-third (31%) say they will invest in digital platforms and touch points to improve customer interactions. One in five (22%) indicate they will use technology and automation to replace higher-cost labor roles and improve scalability.

Our interactions with clients suggest that the appetite for digital transformation largely depends on industry. Business-to-customer (B2C) companies are much more motivated to adopt digital technology to reach more customers in more ways, whereas business-to-business (B2B) companies may be satisfied with a more incremental approach. This said, B2B companies may be more inclined to adopt technology and automation to pivot scarce talent resources to higher-value activities.

As arbiters, CEOs will steer their companies to prosperity

As Mexican CEOs look ahead, they see their primary role as arbiters determining strategic direction to fuel growth, optimize performance and fuel value.

About the survey

The *EY 2022 CEO Outlook Survey* is the benchmark of CEOs' sentiment on global challenges, growth and sustainability strategy, portfolio optimization and M&A. It 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 survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

Between November and December 2021, Thought Leadership Consulting surveyed on behalf of the global EY organization a panel of more than 2,000 CEOs in 53 countries and across 14 sectors, including 50 respondents from Mexico. Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US\$500m (20%), US\$500m-US\$999.9m (22%), US\$1b-US\$4.9b (31%) and greater than US\$5b (28%).
- Organizations' global headcounts were as follows: less than 999 (9%), 1,000-4,999 (39%), 5,000-9,999 (15%), more than 10,000 (37%).
- 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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EY Strategy and Transactions teams work with clients to navigate complexity by helping them to reimagine their ecosystems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY Strategy and Transactions teams help clients drive corporate, capital, transaction and turnaround strategies through to execution, supporting fast-track value creation in all types of market environments. EY Strategy and Transactions teams help support the flow of capital across borders and help bring new products and innovation to market. In doing so, EY Strategy and Transactions teams help clients to build a better working world by fostering long-term value. For more information, please visit ey.com/strategyandtransactions.

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