

The CEO Imperative: How Europe's CEOs are navigating headwinds

EY CEO Outlook Pulse Survey | Europe highlights
October 2022



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Julie Hood
EY EMEA Strategy and
Transactions Leader

julie.hood@uk.ey.com

The EY CEO Outlook Pulse 2022 survey finds firms in Europe facing heightened external challenges that require evolving business strategies.

Despite better-than-expected economic growth in the first half of 2022, boosted by economies reopening from pandemic restrictions and a strong rebound in tourism, the consequences of geopolitical issues continue to darken the outlook for businesses in Europe.

According to the [EY CEO Outlook Pulse – October 2022](#), European CEOs consider inflation to be a key risk, with 72% of respondents agreeing that inflation and government responses will negatively impact their company’s growth versus 69% of respondents globally.

There is low-level confidence in regulatory responses with only 15% believing government efforts will control inflation without significant consequences to the business environment or growth.

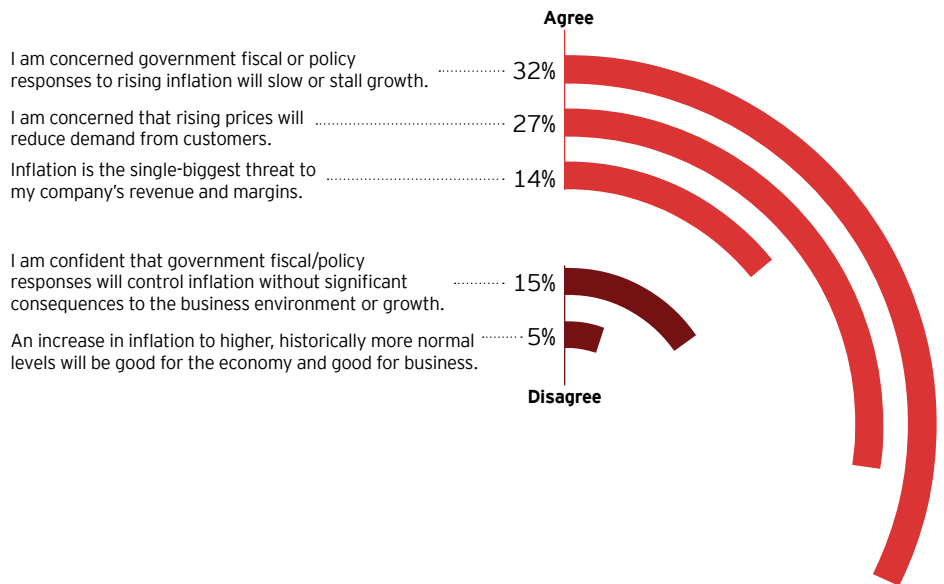
Year-on-year Eurozone inflation has been climbing – pushing the European Central Bank (ECB) to more quickly raise interest rates, as it seeks to tame the surge in consumer prices. The weakening of the Euro and British pound against the US dollar is further compounding the burden on consumers and businesses in Europe. Devaluing currencies, in addition to high inflation in Europe and other markets, is leading central banks to take actions that are expected to dampen growth in the near term.

72%

of European CEOs agree that inflation and government responses will negatively impact their company’s growth.

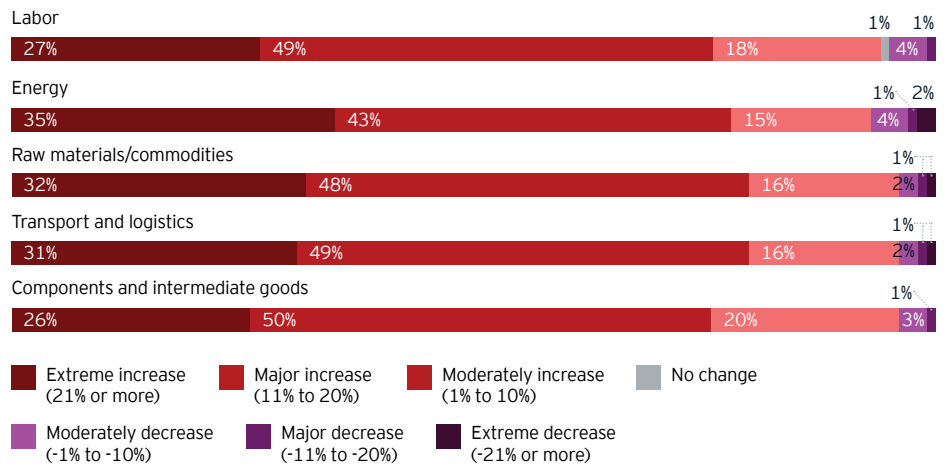
Q Do you agree or disagree that inflation, and resulting government responses, will negatively impact your company’s financial performance and growth?

(7% of respondents neither agreed or disagreed)



Q How will your capital investments in the following areas change, if at all, in the next six months?

In Europe, the trend of consumers facing high Eurozone inflation (along with high inflation for other European currencies) and energy costs will likely become more pronounced in the months ahead. The region has been fighting the significant increase in energy prices since the second half of 2021, primarily driven by the surge in global energy demand, as most countries emerged from the COVID-19 pandemic. The situation was exacerbated by the war in Ukraine and the prices reached record levels in 2022.¹

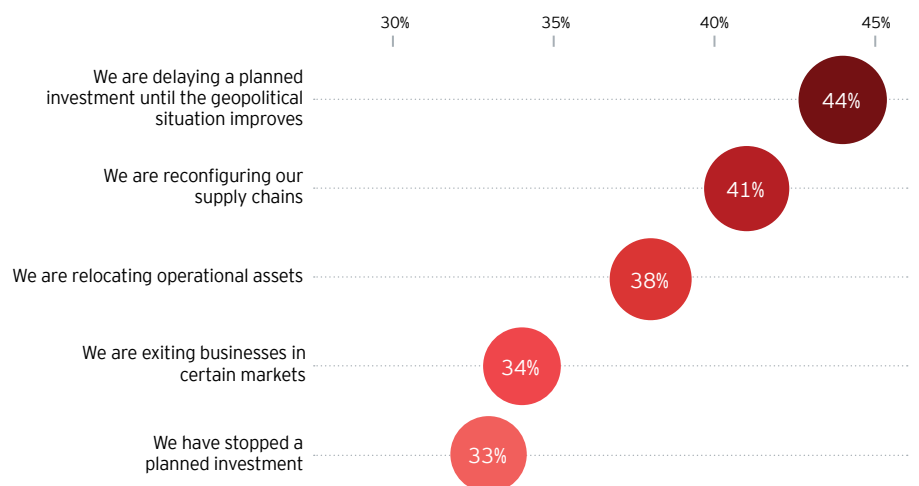


In terms of other risks, the continuation (or return) of COVID-19 pandemic disruptions (e.g., new lockdowns and further supply chain pressures) was perceived as the greatest threat to growth. This risk is perceived to be lesser in Europe (41%) than in Asia-Pacific (48%) or the Americas (43%).

As a result of these geopolitical challenges, 97% of businesses in Europe have adapted their strategic investment plans (compared to 47% of respondents in the previous year's survey). This includes delaying or stopping investments, as well as reconfiguring, relocating and changing markets.

Q As a result of geopolitical challenges, have you made any of the following alterations to your strategic investment plans?

(3% of respondents chose "No")



1. Action and measures on energy prices, *European Commission website*, https://energy.ec.europa.eu/topics/markets-and-consumers/action-and-measures-energy-prices_en

More than a quarter (28%) of the respondents in Europe (compared to 19% in Asia-Pacific and 16% in Americas) cited the war in Ukraine as the most significant reason for altering their strategic investment plans. This adds a substantial obstacle for investment in the region. However, European businesses have taken actions such as delaying investments, reconfiguring supply chains and relocating operational assets to navigate this increasingly complex environment.

European businesses are looking for ways to mitigate risk and create opportunity in the face of these headwinds

From the survey, private firms appear better placed to take advantage of investment opportunities as they face heightened risk from the looming effects of the pandemic, digital transformation of the business processes and the emergence of new business models. Small- and medium-sized enterprises (SMEs) form an essential part of economies in Europe, with most business enterprises in the region belonging to this category. For example, Germany's Mittelstand companies (mid-sized firms) account for the largest share of the country's economic output and employ about 60% of all workers. With the evolving business environment, private businesses are adapting to mitigate challenges and to meet changing expectations.

According to the survey, 67% of private firms in Europe are looking to increase capital investment (compared to 62% of public firms). Furthermore, 77% of private firms in Europe are increasingly investing in digital and technology (compared to 62% of public firms). When respondents from private firms in Europe were asked about upcoming strategic actions, improving performance was the top priority (43%). For public firms in Europe, improving performance is the second last priority (only 29%) listed.

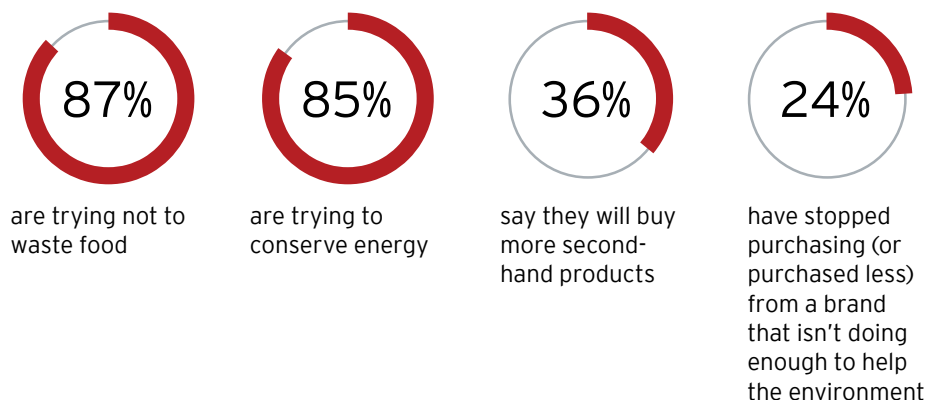
67%

of private firms in Europe are looking to increase capital investment.

Investing in solutions: greater focus on customer and employee expectations, and technology

CEOs are looking to address the myriad challenges by keeping customer and employee expectations at the heart of their investment strategy. Over a third (36%) of CEOs are planning to build customer loyalty through technology by optimizing product suite or services and to better manage pricing, as the critical strategic action to be pursued in the next six months.

To maintain loyalty, companies are also facing increasing pressure to become sustainable, especially from consumers. The latest edition of the [EY Future Consumer Index \(June 2022\)](#) suggests that consumers are increasingly taking more control of the impact of their consumption by optimizing for both economic and environmental benefits:



78%

of EMEA CEOs believe that digital initiatives have been crucial to their company's success over the last two years.

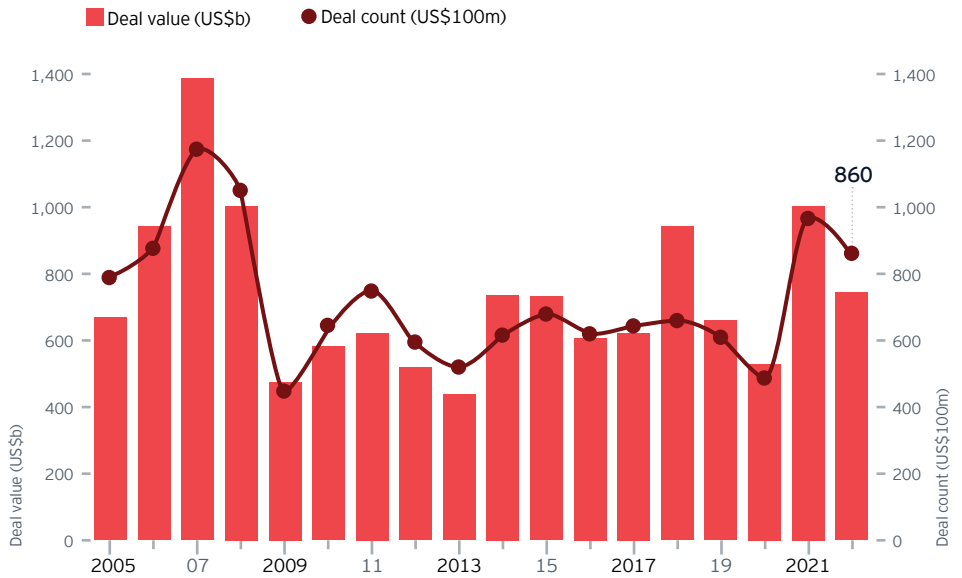
The global pandemic has also driven significant changes in consumer's use of technology – and the ways businesses use technology to interact with them. According to the [2022 EY Digital Investment Index \(DII\)](#), 78% of EMEA CEOs believe that digital initiatives have been crucial to their company's success over the last two years. Customer experience also ranked highest in positive outcomes from important digital investments. More than half (57%) of executives in EMEA indicate improved customer experience as an area where they have seen a positive impact from their digital investments.

Furthermore, according to CEOs, there are steps that firms need to take within companies in this environment. Around 34% of the CEOs consider deploying new working models and techniques focused on employee retention and experience as the critical strategic action in the next six months.

With costs of living rising, employees are concerned about total pay, especially as tighter labor markets create more job opportunities. However, financial compensation is not the only issue. As reported in the [EY 2022 Work Reimagined Survey](#), 55% of employer respondents in Europe agree it is important to have a strategy in place to match talent and skills to future business needs; 68% say that they are prepared to hire employees from other countries and allow them to work from anywhere if their skills are critical or scarce. Slightly more than a fifth of employer respondents in Europe (22%) believe improving opportunities to build skills will help address turnover.

M&A will be a critical route to emerge strongly from this challenging environment

In an optimistic sign, CEO deal intentions remain broadly resilient and positive in Europe, despite market obstacles and the need for significant changes to business models. While the record levels of mergers and acquisitions seen over the past two years have returned to more normal levels, deals are still being undertaken, and there could be a strong bounce in the beginning of 2023.



Source: EY analysis and Dealogic; excludes real estate asset acquisitions

54%

of European CEOs are planning to engage in transactions in the next two years.

The majority of CEOs plan to pursue some type of transaction over the next 12 months, and 41% plan to be active on all fronts. They will look to acquire, divest and enter new joint ventures (JVs) or strategic alliances to strengthen their business outlook.

What is driving M&A deals in Europe?

Firms in Europe are more focused on business transformation and growth-oriented deals - acquiring early-stage business, adjacent sector businesses or new geographies to navigate disruption, and transformational transactions to drive long-term value creation. CEOs in Europe are also looking cross-sector to expand digital, product and services capabilities, and expand market reach. According to the DII, 54% of European CEOs are planning to engage in transactions (26% partnerships, alliances, M&A or corporate venture capital minority investments) in their next two years to achieve their goal of digital transformation.

CEOs in Europe are changing their mindset and considering the longer-term view of the opportunities a transaction may bring. This may be through a range of approaches from integration, to carve-outs, or acquisitions. Private equity deal appetite remains strong, and firms continue to deploy their ample dry powder, albeit at a slower pace than in 2021. Private equity investments accounted for nearly two-fifths of the high-valued deals (US\$1b+) in the first half of 2022. Relatively stable valuations across Europe are a strong demonstration of continued investor confidence - ongoing geopolitical challenges notwithstanding.

Navigating risks successfully and finding clarity amid this ever-complex environment is the key

Sustained inflationary pressures, weakening currencies and other economic and geopolitical risks have become the biggest obstacles to growth in Europe. However, despite the challenges, consumers and businesses alike see ways to take action. For CEOs in Europe, this means adapting their investment strategies with a focus on consumer and employee preferences, while leveraging M&A in particular, to find growth opportunities.

Summary

Even in an increasingly challenging business climate in Europe, CEOs are finding strategies for growth. By investing in solutions that address evolving needs of consumers and employees, and by leveraging M&A, businesses can mitigate risk and come out stronger.

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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EYG no. 000000-23Gbl

2212-4148562

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