Advanced manufacturing executives remain remarkably upbeat about growth prospects within their sector as well as their intent to pursue M&A opportunities, according to the 21st EY Capital Confidence Barometer.

The latest EY M&A survey finds that most manufacturing companies (defined as aerospace and defense, industrial products and chemical sector) are more optimistic than a year ago, with 71% of executives believing that their sector is growing, up from 55%. This optimism, combined with the 60% who expect their net profit margin to increase over the next year, is an indication of the strong growth potential within the sector – even in the face of such headline-making issues as global economic uncertainty, trade conflicts and rising raw materials costs.

Many manufacturers respond to complexity by watching and waiting

Based on our findings, although manufacturing executives are confident in the growth opportunities that lie ahead, they are keeping a watchful eye on key risks – supply chain disruption stemming from trade disputes, new climate-change policies and regulatory uncertainty – that could slow their growth trajectory.

In response to trade and tariff challenges, a majority of manufacturing companies are taking action, either by reconfiguring their supply chain, reducing outsourcing or by moving operations into or out of certain countries. Interestingly, one-third prefer either to take a wait-and-see approach or do nothing. Without a robust risk management strategy to address the uncertainty trade issues are creating, these advanced manufacturing companies risk falling behind the curve or missing out entirely on sustainably transforming their organizations to withstand the disruptions ahead.

M&A continues to be a favored route to accelerate growth and mitigate risks

For those seeking to proactively address the risks, dealmaking is one clear path forward. More than half (56%) of manufacturing executives say their company will be actively pursuing M&A in the next 12 months; 44% say they are specifically considering M&A to mitigate the negative impact of trade uncertainties.

Manufacturers are also optimistic in their outlook on dealmaking, with almost two-thirds (62%) seeing improvement in the M&A market in the year ahead. At the same time, three-quarters of industry executives are bracing for increased competition for assets, driven primarily by private investors. Seventy-seven percent anticipate an increase in hostile bidding. Further, amid deals being driven by margin struggles and trade-policy changes, 74% are expecting an increase in cross-border deals.

Investment in digital increases to support top- and bottom-line growth

In addition to risk mitigation and M&A strategies, manufacturing companies remain committed to digital transformation. Fifty-seven percent of respondents say they are allocating more than 25% of their investment capital to digital initiatives, with an emphasis on new growth opportunities. These initiatives must be led by the right digital experts – a key element identified by more respondents (30%) than sufficient technology assets or capital (11% and 7%, respectively).

Manufacturing companies are also looking to leverage technology to manage operational costs. Automation and robotics offer ways to both increase efficiency and improve product and service quality. Nearly one in three respondents named these technologies as having the highest impact for them in the next two years.
### Long-term value to be measured across four criteria instead of two

According to the **2019 EY CEO Imperative Study**, investors and boards are increasingly demanding that CEOs demonstrate leadership and corporate action in responding to some of humanity’s greatest challenges, with cybersecurity, technology-induced job losses and climate change among the most pressing imperatives. As such, manufacturing companies are beginning to think beyond financial and customer value when measuring performance. Nearly 9 out of 10 respondents say they either have metrics in place or will be adopting them in the next 12 months to measure talent value, while more than 8 out of 10 indicate the same in terms of measuring social value.

Manufacturing companies that can both measure their long-term value across these four criteria and develop effective strategies to communicate them will find themselves better positioned to advance their growth imperative.

### Growth now – optimism for what’s next

Manufacturing executives have an optimistic outlook as economic and sector growth continues, with more than half of respondents not expecting a recession for at least two years.

- **71%** of respondents expect the advanced manufacturing sector as growing.
- **60%** believe that an economic slowdown will not start until 2023 or later.
- **52%** expect their net profit margin to improve in the next 12 months.

### Using digital to drive expansion

Digitalization continues to be a key target for capital investments and an important driver for dealmaking.

- **75%** are developing digital assets the inorganic way – through acquisitions, alliances, and internal and external venture capital funds.
- **75%** feel that their CEOs have a clear vision for digital’s transformation impact on their business strategy.
- **57%** are investing more than 25% of their total planned capital in digitalization and technology.

### Bracing for competition in an improving M&A market

Improved M&A markets are expected in the near future but with increased hostile takeovers and deals driven by trade conflicts.

- **62%** see the sector M&A market improving in the next 12 months.
- **77%** expect the number of hostile takeovers and competitive bids to increase in the next 12 months.
- **44%** are considering a transaction in the next 12 months influenced by trade policy and tariffs.