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US highlights

Global Capital Confidence Barometer

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A note from William M. Casey, EY Americas Vice Chair, Strategy and Transactions

Finding a sixth gear: COVID-19 pandemic compels US executives to accelerate investment to transform the enterprise

How often has "the future is digital" come up in our *Capital Confidence Barometer* over the decade-plus that we've been surveying corporate executives? This principle has become so commonplace it has bordered on cliché. For some time, the *Barometer* has chronicled a steady increase in businesses adopting a digital-first mindset.

It turns out we hadn't seen anything yet. Leave it to a global pandemic, and a year when the word "zoom" took on new meaning, to test corporate leaders' digital preparedness – and catapulting some businesses into a true digital transformation. This past year was like a live-market beta test of business models, supply chains and portfolio holdings, as well as the fruits of a prior decade of tech-fueled investment and dealmaking. When asked in our survey whether their digital investments performed well in 2020, US executives overwhelmingly (79%) said yes – and simultaneously said the pandemic had increased their investment in digital transformation (76%). In short, many executives already thought they were in fifth gear, innovating to meet customer demand – and many now realize there's a sixth gear.

We see themes like this throughout the 23rd edition of our *Barometer*, which returns after an unusually long gap. While we normally survey executives on a semi-yearly schedule, the extraordinary circumstances of 2020 – not just the pandemic but the unsettled geopolitical environment – led us to wait about 10 months, until just after the US presidential election, to measure sentiment in the C-suite. The wait was worth it, not only because it provided a more settled moment for our survey, but also because it permits a longer view, maintaining the predictive power of our study over the years.

Take dealmaking, for example. M&A in 2020 was essentially several deal market cycles rolled into one: a strong open to the year; a steep drop-off due to COVID-19 before the first quarter was even over; a spring bottoming-out followed by a summer rally; and fourth-quarter deal volumes that topped the best moments of the first. So what does all this turbulence mean for forward-looking M&A intentions? Our snapshot finds 45% of US executives planning a deal in the next 12 months – slightly below the average we've seen over the *Barometer*'s history, but a remarkably sturdy number after the turmoil of the last cycle(s). We also note that more than half of respondents (55%) accelerated portfolio reviews in the wake of the pandemic, which will likely produce both more investment and divestment. This all suggests a busy 2021 for corporate strategy, as businesses apply the lessons learned in 2020 to both organic and inorganic growth.

If there's any maxim the last year reinforced, it's that fortune favored the bold. Our survey finds plans for transformative deals much higher than normal (31%, about even with plans for bolt-on deals), which we take as a sign that companies are using crisis as opportunity and not waiting out the next turn in the market environment. The US economic recovery – coming out of a divisive political season and the slow but steady rollout of coronavirus vaccines – may or may not be the V-shaped bounce many were hoping for. But American businesses are already kicking it up a notch.

US highlights

78%
expect to see revenue return to pre-pandemic levels in 2021

55%
say the pandemic has accelerated strategic portfolio reviews, and 20% will divest underperforming assets/ products to improve profits

42%
anticipate North America will generate the most growth and opportunities for their company in the next three years

76%
say the pandemic increased their strategic focus and investment in digital transformation

45%
expect to pursue M&A in the next year

86%
agree they need to more clearly define their future role in the ecosystem

79%
believe their company outperformed the competition during the pandemic relative to their digital transformation

29%
say the main strategic driver for M&A is sector convergence/growth into adjacent business activity

89%
agree a successful ecosystem-driven transformation will require divestment of nonperforming assets

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