

Should CEOs double-down on business transformation in the face of uncertainty?

EY CEO Outlook Pulse Survey
January 2024
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The CEO Outlook Pulse – January 2024 finds CEOs accelerating transformation despite a low-growth environment.

Transformation clearly is front and center on the 2024 CEO agenda: The vast majority of CEOs (95%) are planning to maintain or accelerate their transformational change in 2024, with those looking to accelerate plans (58%) nearly tripling over the past six months. With a realistic yet optimistic outlook about their own performance and with higher certainty about the global macroeconomic and geopolitical landscape, CEOs are looking to significantly reimagine their businesses.

Despite anticipating a continued low-growth environment and no near-term return to ultra-low interest rates, CEOs remain optimistic about their own growth and profitability, leveraging artificial intelligence (AI) and focusing on financial operations for enhanced efficiencies. But organic business transformation is just one part of the story. CEOs are also looking at the composition of their portfolio. And it may be good timing, with our comparative survey of private equity (PE) leaders indicating that they are looking to accelerate investment plans, with anticipated corporate divestitures as targeted assets – a potential partnership that could benefit both cohorts.

CEOs and PE leaders are equally upbeat about the mergers and acquisitions (M&A) outlook for 2024, with a large majority of both expecting a return of megadeals, as the overall deal market picks up after a subdued 2023.

Our quarterly study of 1,200 CEOs globally is the latest installment in the [CEO Imperative Series](#). It provides insights on boardroom agenda items such as capital allocation, investment and business transformation strategies as the global economy moves into a new phase. This edition also features the views of 300 investment leaders from the PE industry, reflecting that sector's unique perspective on acquiring, restructuring and revitalizing businesses.

In brief

- ▶ CEOs adopt a business transformation imperative to reshape their businesses organically and inorganically within a new market reality.
 - ▶ CEOs and PE leaders accept lower growth prospects, sticky inflation and “higher-for-longer” interest rates but have greater certainty in their own outlook.
 - ▶ PE leaders and corporate CEOs have a bullish outlook for M&A in 2024, citing the return of the megadeal in a more buoyant buy-sell environment.
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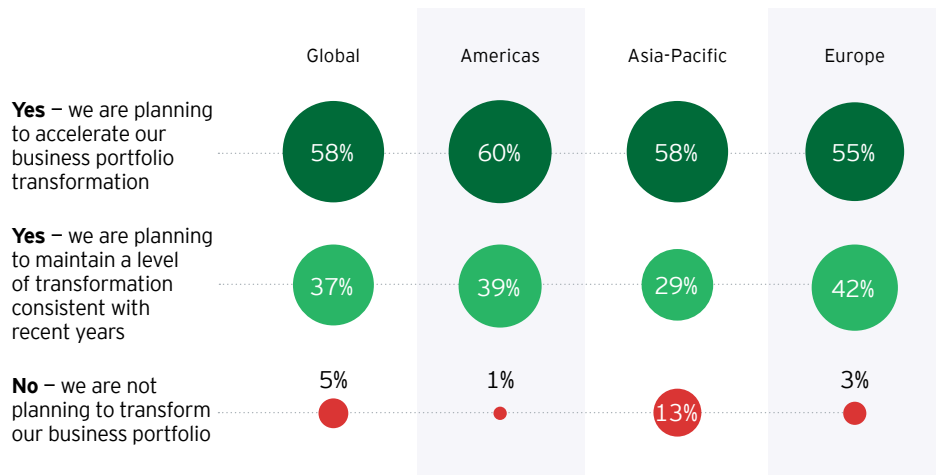
All aboard the transformation highway

CEOs embrace a holistic approach to their operations.

Q Are you planning to transform your business portfolio over the next 12 months?

The CEO respondents were allowed to select one option.

CEOs adopt a transformation imperative to reshape their businesses organically and inorganically



CEOs are both positive and proactive as they look toward the near term, with more than half (58%) saying they plan to accelerate their business portfolio transformation over the next 12 months – up from just 21% in our [July 2023 survey](#). And with another third (37%) saying they expect to maintain their existing momentum, there are likely to be significant organic and inorganic corporate developments through the year. Only 5% say they do not have any business transformation plans; for these companies, navigating changes in their sector will be critical, as falling behind now may be the first step to dropping out of the race completely.

CEOs in the Americas, dominated by the US, are more likely to be planning to accelerate their business transformation plans (60%), compared to 58% for respondents from Asia-Pacific and 55% for Europe.

This broad intention to transform now may seem surprisingly bullish, but many CEOs are choosing to respond proactively to the headwinds of today's uncertain world.

A mix of external pressures and internal ambitions is fueling transformation plans

Q You have indicated you are planning to transform your business portfolio – **what are the main drivers that are causing you to rethink the composition and shape of your business portfolio?**

Only asked of those CEOs who plan to transform their business portfolio. The respondents were allowed to select up to two responses.



External pressures include the ongoing impact of technology and a reaction to new competition. The relentless pace of technological advances continues to reshape industries. Companies that fail to embrace these innovations risk falling behind, as competitors harness the power of technology to streamline processes, reduce costs and enhance efficiency.

Underpinning internal ambitions, a significant cohort (31%) of those who plan to transform their business portfolio are hoping to take advantage of market conditions or valuations, with a recognition that deal multiples have come in over the past year, declining from 9.9 times EV/EBITDA at the end of 2022 to 8.9 times, according to EY analysis of Dealogic data

31%

of CEOs who plan to transform their business portfolio are hoping to take advantage of market conditions or valuations.

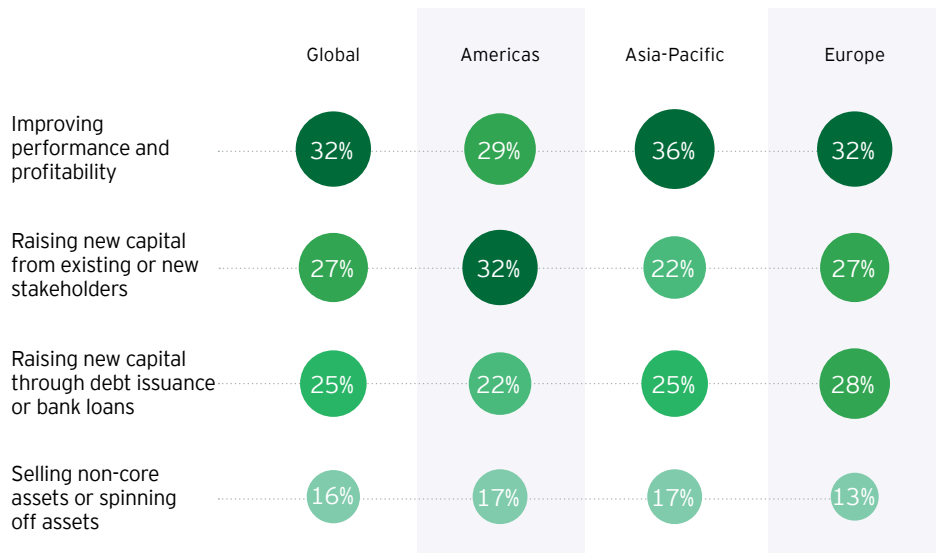
There is also a resurgence of activist shareholder pressure for CEOs to consider. Activist campaigns hit historic highs in 2023, with Europe and Asia-Pacific, the largest contributors, each experiencing a record number of new campaigns.¹ Activists will be carefully examining transformation plans and are likely to increase the impetus to move further and faster through 2024. There will likely be more pressure on CEOs to articulate their plans and ambitions in a manner that keeps the most strident activists on board or provides enough reassurance to other stakeholders to support any pushback.

CEOs are also using their own levers to drive business transformation, reallocating capital and focusing on core capabilities to improve financial performance. There's no one answer or one-size-fits-all approach in this environment. The portfolio mix and structure, and capital allocation decisions, will need to be consistent with overall transformation strategy.

Improving performance and profitability is the primary way CEOs intend to finance portfolio transformation

Q You have indicated you are planning to transform your business portfolio – what is the primary way you intend to finance your portfolio transformation?

Only asked of those CEOs who plan to transform their business portfolio. The respondents were allowed to select one option.



CEOs are looking internally to fund their ambitions. Nearly half (48%) are looking to improving performance and profitability or divesting assets to finance their goals. There has been an uptick in those looking externally, with 25% in those looking at external debt funding. This reflects the more positive outlook toward the availability of debt market funding as we go into 2024. Numerous companies opted to tap the market late in 2023 and early 2024, as opportunities opened.

But even as external sources of finance open in 2024, money will likely remain more expensive while interest rates stay higher for longer. Exploiting internal financing sources, both cost structures and working capital management, to the maximum is ever more important.

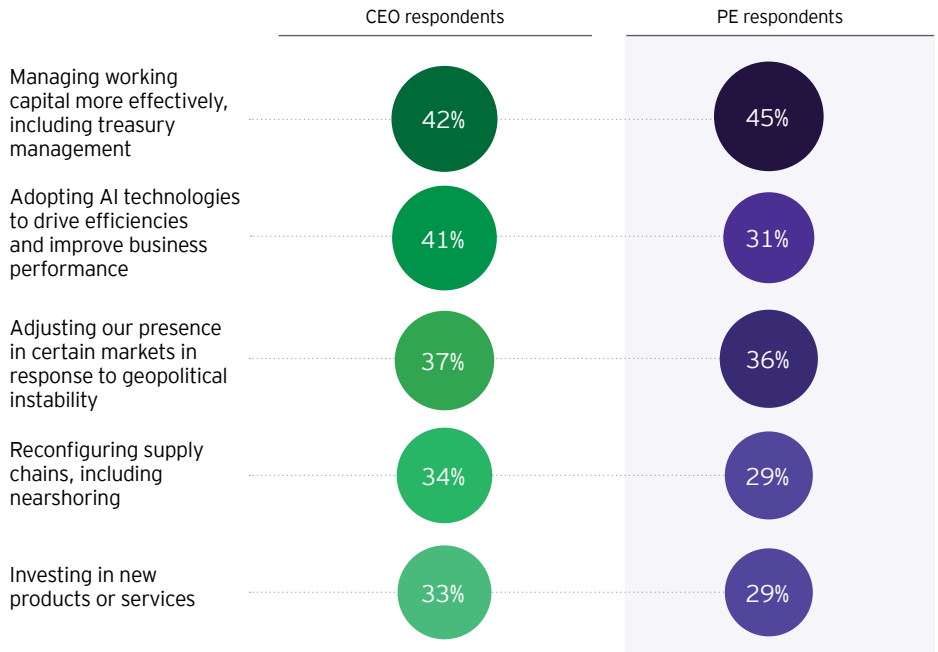
CEOs should adopt a proactive approach to scenario-planning their business transformation strategy, anticipating, and reacting to, further changes in the external environment. Assessing the impact on various aspects of the business and fine-tuning each area can improve strategic planning and increase resilience across the organization.

Balancing ambition with pragmatism: CEO strategies for 2024

The ambitious-but-pragmatic approach that CEOs are taking to their business transformation plans is also reflected in the strategies actions that they – and their PE counterparts – will be pursuing in 2024.

Q What business strategies, for you as CEO or at your portfolio companies, are likely to be a priority in the next 12 months?

The respondents were allowed to select up to two responses.



Managing working capital: For both CEOs and PE leaders, managing working capital is the top priority in the near term. The new reality of the current environment has shifted from growth at any cost, fueled by ultra-cheap money and elevated liquidity, to a new paradigm where funding is more expensive and maximizing financial efficiencies to generate cash for investments internally is paramount.

Exploiting AI: There is a clear desire to exploit the potential of technology and AI to improve efficiencies and boost financial performance.

Three-quarters (76%) of CEOs agree that AI will deliver efficiency benefits but have little impact on revenue growth. Only 11% disagree. PE respondents (19%) are slightly more bullish on the potential of AI to drive revenue as well as efficiencies. Just as PE firms embraced the potential for technology transformation in boosting growth, it is likely they will be bolder in pushing for similar outcomes with AI.

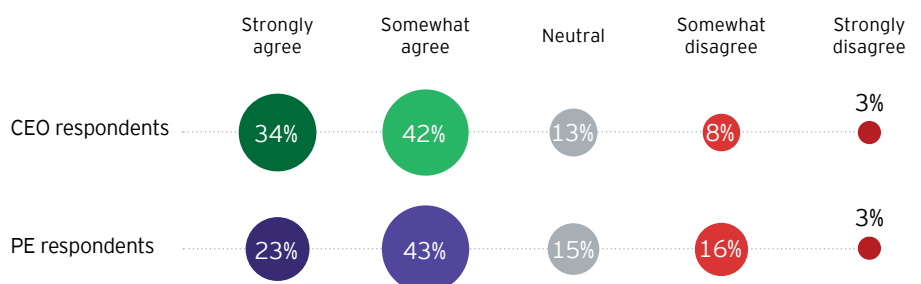
This aligns with an earlier [EY survey](#) that found a majority of organizations are using AI primarily to optimize operations, automate processes and develop self-service tools such as chatbots.

76%

of CEOs agree that AI will deliver efficiency benefits but have little impact on revenue growth.

Q Do you agree that despite continued hype, AI will deliver efficiency benefits but have little impact on revenue growth?

The respondents were allowed to select one option.



Creating individual tailwinds in a turbulent world

CEOs understand that the external landscape will not be very supportive of growth ambitions.

The success of businesses' transformation and growth ambitions will be influenced by their ability to understand and master two areas of turbulence, macro-economics and geostrategy:

1 CEOs understand that the macro-economic landscape will be challenging, but they are more confident in their ability to drive their own company's growth agenda.

Looking back, 2023 was a year of reassessment. The global economy oscillated from hope at the start, with widespread expectations that China's opening from nearly three years of lockdowns would provide a significant boost to the global economy, to disappointment and disillusionment when this did not materialize. The main narrative then moved to the concerted efforts by central banks to bring down inflation. Progress has been made, but there is some work still to do in many major economies to bring sticky inflation in line with policy objectives.

Three-quarters (76%) of CEOs now agree there is likely to be a "lower for longer" growth environment, with a similar number (78%) concurring that inflation will continue to be a major issue and underpin interest rates staying "higher for longer." For PE respondents there is a majority agreement for both scenarios, but, interestingly, about one-fifth of PE respondents disagree on growth (20%) and inflation (21%), compared with just 10% and 8% of CEOs, respectively. PE respondents are likely to be more bullish about growth and inflation prospects as they have tended to be comfortable with risk and have historically been more likely to signal a change in market conditions earlier than the consensus.

But the overall agreement that economic tailwinds will be lacking has not necessarily dented respondents' outlook on their organization's performance.

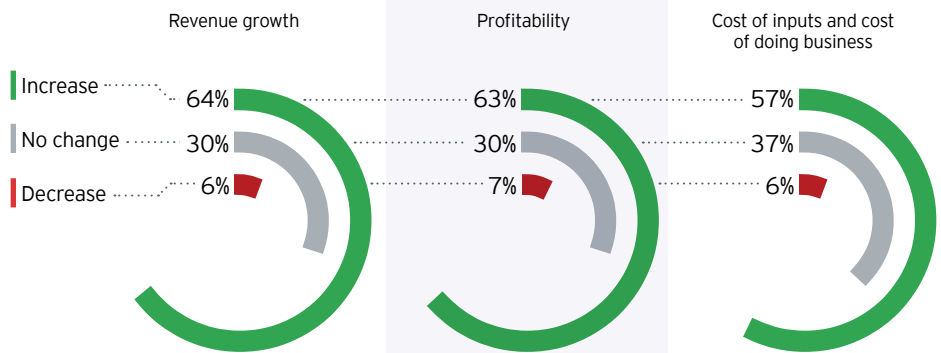
76%

of CEOs agree there is likely to be a "lower for longer" growth environment.

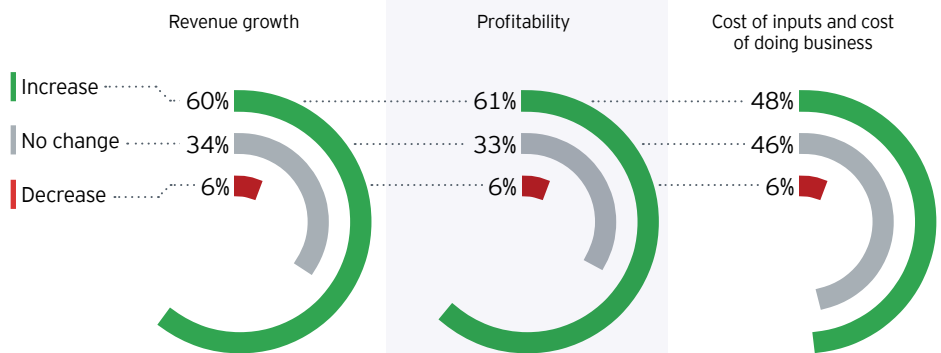
Q How do you expect your organization's revenue growth and profitability will change in 2024 compared with 2023?

The CEO respondents were allowed to select one option for each statement.

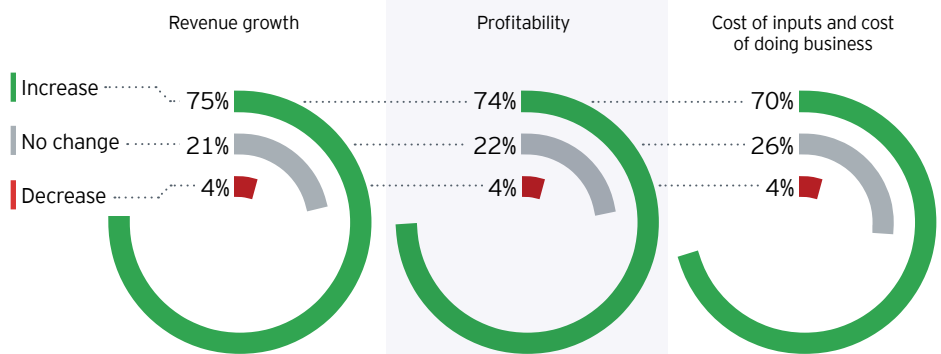
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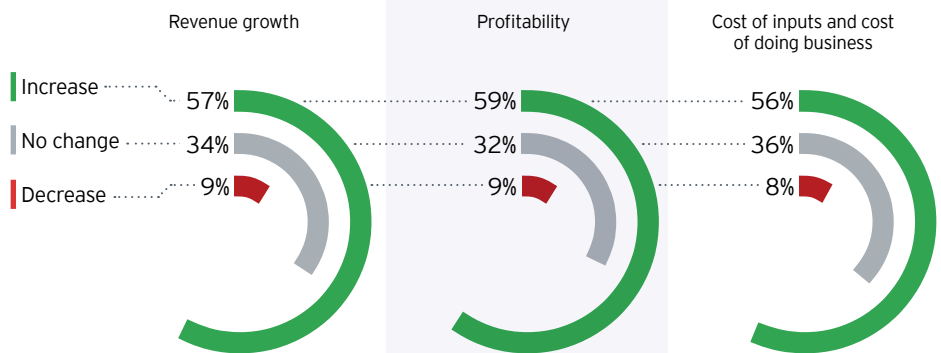
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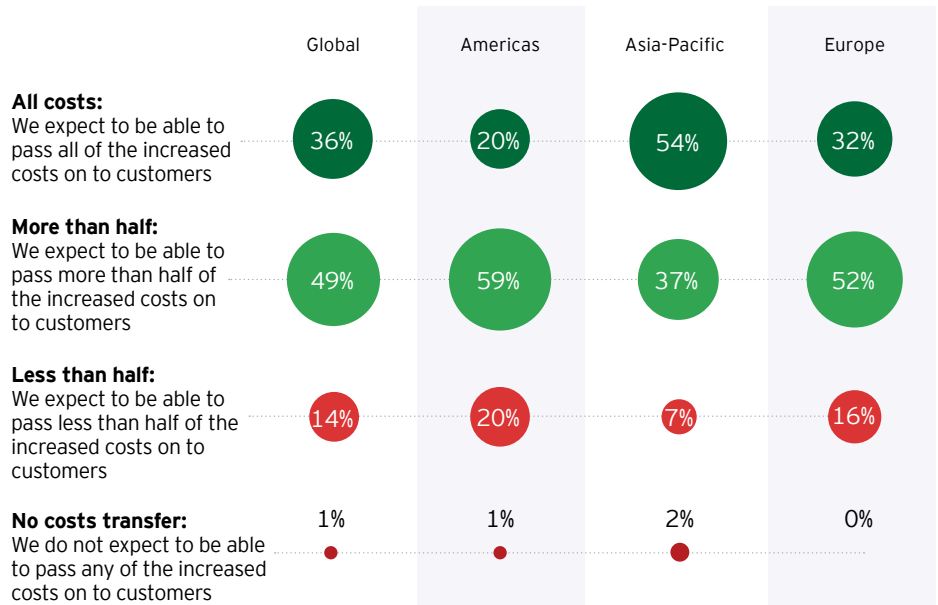
These findings are in line with the [EY CEO Outlook Pulse in October 2023](#).

Similarly, while more than half (57%) of CEOs expect the cost of inputs and the cost of doing business to increase, the majority (85%) of those expecting an increase anticipate being able to pass most of it on to customers – a reasonable assumption, given the evolution and outlook for producer prices and inflation.

Even with headline inflation falling, the majority of CEOs expect to pass on most of their increased costs to end customers

Q You have indicated that the costs of doing business are expected to increase in 2024. Which of the following statements best describes your approach to passing on costs to customers?

Only asked of those CEOs who expect for the cost of inputs and cost of doing business to increase in 2024. The respondents were allowed to select one option.



There is a clear divergence by region in their outlook for growth, profitability and costs. CEOs in Asia-Pacific are far more confident about revenue growth (75%), profitability (74%) and costs (70%) than their peers in other regions. The same CEOs are far more confident about being able to pass all costs to customers, with more than half (54%) expecting to be able to do so. This ability to maintain growth and profitability is underpinned by their focus on cost discipline.

2 CEOs have deepened their understanding of geopolitical issues, but a bumpy year lies ahead, with geopolitical risks now an integral part of corporate strategy.

Leading CEOs have long incorporated the ups and downs of the business cycle into their thinking and have been able to react better to unforeseen economic and financial shocks. Now, with geopolitics a major consideration, some CEOs have developed new skill sets, with others yet to enhance their geopolitical risk assessment capability.

Q How would you describe your current capability when it comes to integrating geopolitical risks into your strategic and investment decision-making?

The CEO respondents were allowed to select one option.



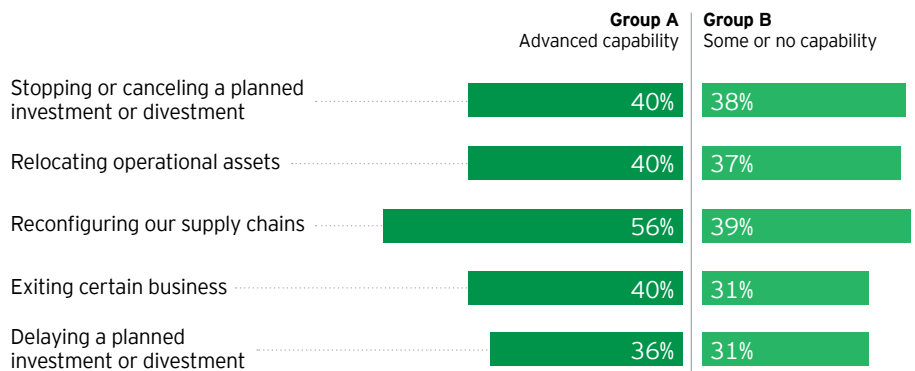
Nearly half of CEOs report that they have the capabilities to understand the complexities of the febrile global geopolitical environment. But about half of CEOs believe their company still has room for improvement in each of the activities need to integrate geopolitical risks into their strategic and investment decision-making.

There is a clear difference in the decision-making of those CEOs who rate their capabilities as advanced across all five skills. They are less likely to delay investments and far more likely to take other investment-related actions.

CEOs with advanced capabilities to understand the geopolitical complexities are less likely to delay investment plans

Q As a result of geopolitical challenges, and based on your current outlook for 2024, are you making any of the following alterations to your strategic investment plans?

The CEO respondents were allowed to select one option.



Group A is defined as respondents with an advanced capability to integrate geopolitical risks into their strategic and investment decision-making.

Group B is defined as respondents with some or no capability to integrate geopolitical risks into their strategic and investment decision-making.

As CEOs adjust to a more volatile, multipolar geopolitical environment, more refinements will be needed to implement proactive, effective geostrategies.

CEOs are more likely to simply delay investments and reconfigure supply chains as they look to build extra resiliency into their operations, while PE respondents are much more likely to exit businesses or markets. This is likely due to the greater levels of interdependencies within global corporate structures or the perceived lack of any reputational damage for PE firms exiting assets. On the flip side, CEOs are more likely than PE respondents to stop or cancel an investment, but in both cases it's more than one-third.

CEOs and PE leaders are adapting to geopolitical challenges, with PE leaders bolder in their actions in exiting markets

Q As a result of geopolitical challenges, and based on your current outlook for 2024, are you making any of the following alterations to your strategic investment plans?

Respondents were allowed to select multiple responses.



The pressure to navigate political and geopolitical uncertainty will continue to rise through 2024. With over half of the world's electorate scheduled to vote over the next 12 months, CEOs are aware of the potential risks to the future business environment.

The majority (78%) agree that the rise of populist movements around the world will increase geopolitical uncertainty and create business challenges, such as policy uncertainty. A similar number (76%) are very concerned about how AI could be misused to impact elections taking place over the next 12 months.

These elections will generate regulatory and policy uncertainty in the short and medium term. Some elections – especially those in the US and EU – may be seen as the most consequential in many years, amid competing visions for international relationships and economic policy that will fundamentally impact the global business environment.

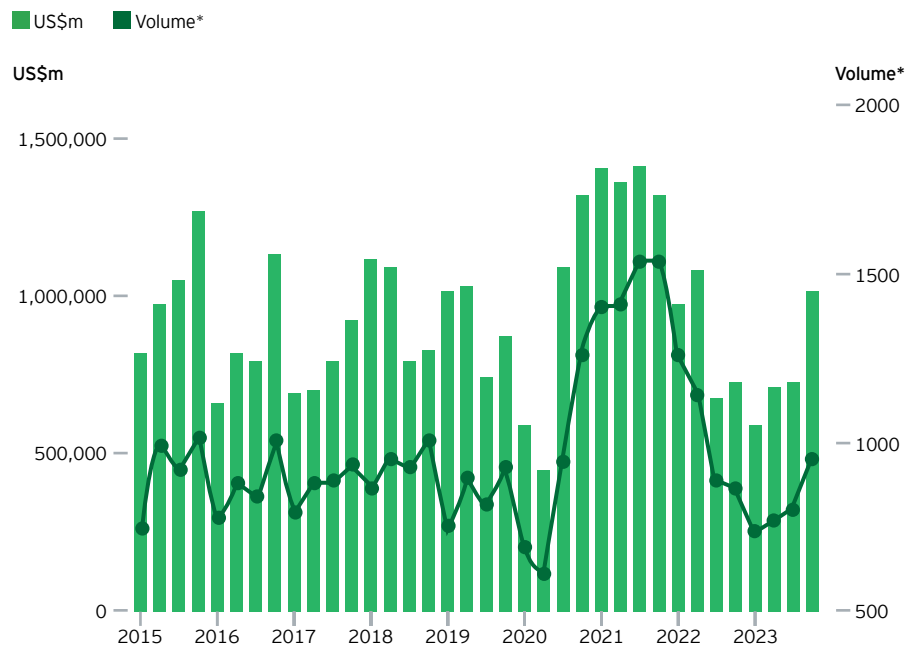


The return of the dealmaker?

Both CEOs and PE leaders predict a re-emergence of bigger deals.

At US\$3t, global M&A in 2023 brought the lowest level of dealmaking in over a decade. But that aggregate number hides a more complex story of M&A during the year. After a historically low start to 2023, there was a steady improvement of both value and volume, with the fourth quarter very robust.

M&A momentum matters – the strong finish to 2023 could provide a boost to dealmaking confidence going into 2024

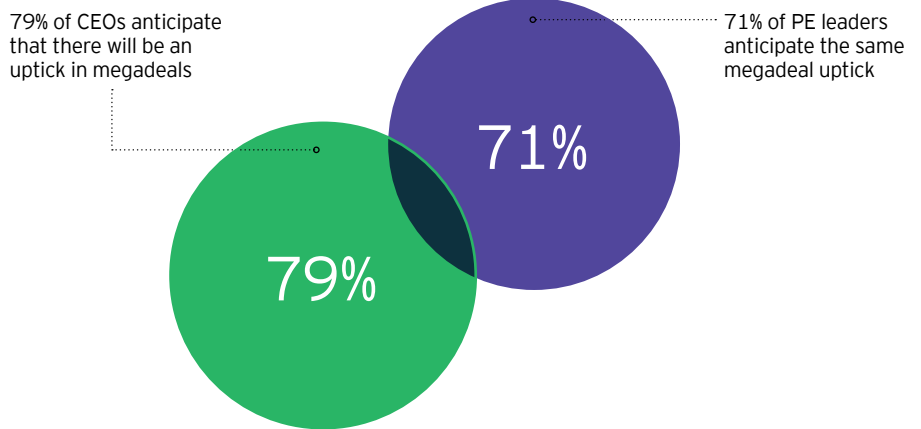


Source: EY analysis and Dealogic
 *Volume based on deals US\$100m plus

The fourth quarter of 2023 saw US\$1.005t of deals, which would look like a very healthy quarter in isolation. We also saw two months of more than US\$300b in the final quarter, with December at US\$356b. M&A momentum matters – the strong finish to 2023 could provide a boost to dealmaking confidence going into 2024.

Looking at where we saw strength, North America maintained its position as the most attractive target region in terms of M&A activity, with a total of US\$1.5t of targeted deals announced in 2023, which was largely consistent with the values seen in 2022. North America accounted for 50% of the global deal value. In contrast, EMEIA and Asia-Pacific saw year-over-year declines of 28% and 12%, respectively, in 2023.

Megadeals on the horizon



The markets were buoyed in the final quarter by the return of larger deals, as uncertainties about policy and growth dissipated. With 14 deals of more than US\$10b announced, it was the highest level since 3Q 2021, at the height of the post-pandemic M&A boom. And both CEOs and PE leaders expect this trend to continue. Over three-quarters of CEOs (79%) and a similar number of PE leaders (71%) anticipate that there will be an uptick in megadeals (of US\$10b or more) as the M&A market bounces back.

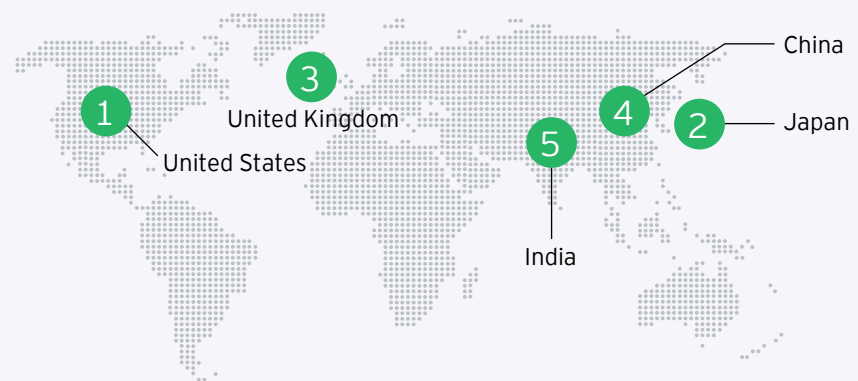
More than a third (36%) of CEOs are actively planning to make an acquisition in the next 12 months. While this is only a slight improvement over the October findings, it is another small signal that points to a stronger year for dealmaking in 2024.

And while dealmaking in 2023 was dominated by the US geographically and by elevated deals in energy and life sciences, CEOs anticipate a broadening by both location and sector.

Top five sectors for M&A in the next 12 months according to CEOs

- 1 Advanced manufacturing
- 2 Banking and capital markets
- 3 Insurance
- 4 Consumer products
- 5 Mobility

Top five locations for M&A in the next 12 months, according to CEOs



The stars align for a sell-side bonanza

Sell-side activity is expected to provide a boost to both corporates and PE.

PE leaders likely will be able to help CEOs accelerate their divestiture plans. With nearly a third (29%) of CEOs planning an asset sale of some kind over the next 12 months, and 16% looking to such sales as the main source of funding for their transformation initiatives, it is likely to be a busy year for divestitures.

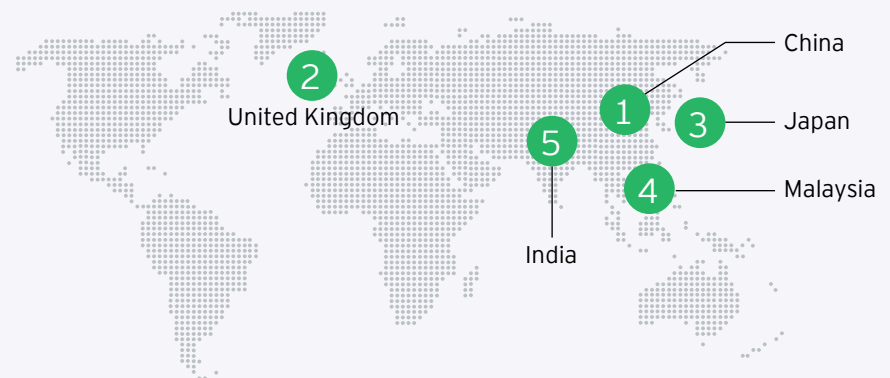
A clear majority of PE leaders (70%) believe that corporates will accelerate divestment activity this year and are signaling that PE firms with significant operating teams and restructuring capability see an opportunity.

CEOs are pointing to a mixture of geographies where they will be looking to sell assets, with China in first place. From a sector perspective, there is likely to be divestiture activity across the industrials, banking, life sciences and wider TMT space, all areas with elevated levels of disruption.

Main sectors for divestments in the next 12 months according to CEOs

- 1 Advanced manufacturing
- 2 Banking and capital markets
- 3 Technology
- 4 Telecom
- 5 Life sciences

Where the assets to divest in the next 12 months are located according to CEOs

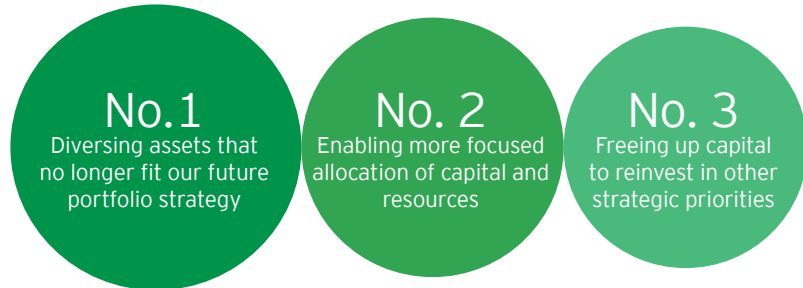


Among CEOs, there is a clear view that divestitures are a key lever to embed a forward-looking focus in their portfolio and operations that will help lay a strong foundation for growth.

Q You have said that you will be looking to identify assets as potential candidates for divestment. Which of the following factors are primarily driving that decision?

Only asked of those CEOs who plan to actively pursue a divestment, spin-off or IPO. The respondents were allowed to select up to three responses.

Divesting assets that no longer fit future portfolio strategy is the primary factor for pursuing divesting activity



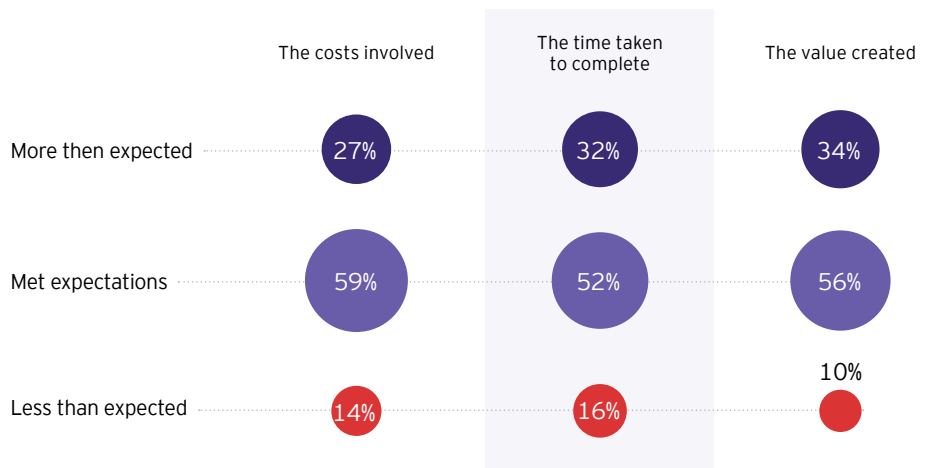
It also allows them to free up and refocus capital on more strategic initiatives and their transformation imperatives.

In this context, CEOs are actively considering what specific actions will move the dial the most for their company. They are identifying the actions required to emerge in a stronger competitive position in the next 12 months and beyond.

And there is clear scope for CEOs and PE to work better together to drive more successful outcomes. The best-prepared sellers and buyers will unlock the most value, but the survey shows that there is room for improvement in driving divestment success.

Q For acquisition from a corporate seller, how did the following aspects compare with your organization's initial expectations?

The PE respondents were allowed to select one option for each statement.



Q When it comes to acquiring a divested or carved-out entity, what are the biggest challenges?

The PE respondents were allowed to select up to two responses.

While a majority of PE firms that have acquired a divested asset over the past two years are pleased with the outcome, a significant cohort have been less than satisfied with the results. Looking deeper into these deals, a few key themes emerge.



Separating a business, especially one that has been deeply embedded in a larger organization for a long time, is difficult. It's vital for both buyer and seller to fully understand the likely path for the stand-alone asset to maximize value.

Critical to making the split and sale more successful is a clear narrative about the valuation potential from the start. This needs to be developed with the leadership and wider stakeholders of the asset, making them central to the process from the beginning. It is also critical that the successful buyer engages with the existing stakeholders to maintain capabilities and protect market share and customers as the separation is finalized.

What CEOs are saying

Top three challenges preventing business leaders from pursuing a divestment

1

Operational and technology dependencies between two entities are too complex to untangle

2

Lack of resources or leadership time to manage the process

3

Stakeholder sentiments against divestment strategy

Top three success factors in executing a divestment separation

1

Focusing on change management and culture

2

Clear separation perimeter within the organizations

3

Achievability of transaction targets

The trend over the past decade is the increasing sophistication of the divestiture process as sellers look to maximize value from the transaction. From the strategy and planning that underpins the future view of the transformed company, to the more granular tax and financial planning now being done, to the now far more complex functional and IT separation, companies are looking more holistically at any separation. All these key areas are crucial for the C-suite to play in sync, enabled by a strong project management team.

With market volatility and economic uncertainty continuing for the foreseeable future, an increasing number of companies will look to reshape their portfolios in 2024. Whether it is offloading underperforming assets, raising capital to re-invest in new or green technologies, AI or technology solutions, or refocusing on the core business, this year should see an uptick in sellers coming to market.

Summary

CEOs are looking to be proactive in transforming their companies for faster growth than the low-growth environment offers. They are looking to pull all the levers available, including both organic and inorganic changes, to lay the foundations for sustainable acceleration in a new environment.

About the survey

On behalf of the global EY organization, in December 2023 and January 2024, FT Longitude, the specialist research and content marketing division of the Financial Times Group, conducted two comparative surveys:

1. An anonymous online survey of 1,200 CEOs from large companies around the world that 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. Respondents represented 21 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, Finland, Norway, Sweden, the United Kingdom, Australia, China, India, Japan, Singapore and South Korea) and five industries (consumer and health; financial services; industrials and energy; infrastructure; technology, media and telecoms). Surveyed companies' annual global revenues were as follows: less than US\$500m (19%), US\$500m-US\$999.9m (19%), US\$1b-US\$4.9b (30%) and greater than US\$5b (32%).
2. An anonymous online survey of 300 investment leaders from the PE industry, reflecting that sector's unique perspective on acquiring, restructuring and revitalizing businesses. Respondents represented 21 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, Finland, Norway, Sweden, the United Kingdom, Australia, China, India, Japan, Singapore and South Korea). Surveyed institutions' assets under management (AUM) were as follows: less than US\$1b (15%), US\$1b-US\$9.99b (40%), US\$10b-US\$49.99b (25%) and US\$50b or more (20%).

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