

US CEOs position their companies for the long haul

EY CEO Outlook Survey | US edition | July 2023
ey.com/US/CEOoutlook



US key findings

97%

of US CEOs are planning for a potential economic downturn in their primary market of operation.

94%

see macroeconomic market and volatility risk affecting their business performance over the next 12 months.

37%

are investing in M&A to improve technology and expanding their product and service offerings.

80%

have integrated AI into their products and services or plan to within the next year.

64%

are planning for M&A transactions in the next 12 months.

45%

are planning a divestment in the next 12 months.

The July 2023 EY CEO Outlook survey finds US executives preparing for a new normal of costly capital and more persistent volatility.

How do you prepare for a recession that never quite arrives? More than halfway through 2023, economists and market watchers in the United States are starting to take seriously the possibility of a domestic “soft landing” buoyed by labor market resilience, moderating inflation and gently slowing final demand growth. But corporate leaders do not have the luxury of assuming a best-case scenario. Our latest CEO survey finds US chief executives fortifying their organizations for the long haul – assuming an environment of achievable but more moderate growth than we saw in the immediate wake of the pandemic.

As it is, C-suites are already operating amid higher costs of capital, a constrained deal market and persistent market volatility after an averted spring banking crisis. Add to those factors the rapid development of artificial intelligence technologies – and ongoing debate over what form generative AI will take, and how to leverage it constructively – and CEOs are understandably cautious about transformational initiatives.

If we were to summarize US corporate sentiment based on these latest survey results, we might say companies are creating their own weather: seeking out tailwinds, bracing for an ever-changing climate and setting up for growth when blue skies return.



Macro sentiment cautious but inching up

At first glance, our respondents seem pessimistic about the macroeconomic outlook. Nearly all US CEOs (97%) are planning for a potential economic downturn in their primary market of operation. However, greater percentages are now expecting a milder decline compared with our [January 2023 survey](#): The share of those expecting a “moderate and temporary” US downturn has nearly quadrupled since our January survey, going from 10% to 37%; the share calling for a “severe and persistent” drop has plunged from 22% to 3%.

Moreover, nearly half of respondents are more positive about their organization’s financial performance than they were six months earlier, and another one-fifth say their sentiment has held steady. Among companies with revenue of \$5 billion and above, a majority (53%) say they are more optimistic.

Where this modest optimism turns into action is at the capital allocation level, where US CEOs appear to be pursuing a place-all-bets strategy. Over the next 12 months, companies say they will primarily either invest in organic growth (30%) or maintain cash reserves (29%) – but the pursuit of mergers and acquisitions (M&A) is not far behind (22%). Given the higher cost of capital after a string of aggressive rate increases by the US Federal Reserve, such hedging reflects not only prudence but balance-sheet reality; even with that caveat, inorganic growth is clearly not off the table.

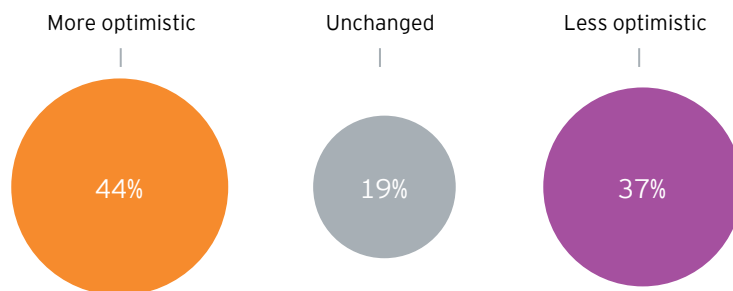
53%

of CEOs from US companies with revenues greater than \$5b agree that their performance over the next 12 months is looking brighter than at the start of the year.

A chart showing US executives are slightly more optimistic than they were at the start of 2023 as 44% say they are more optimistic, 19% unchanged, 37% less optimistic.

Q Compared with the start of 2023, how do you feel about your organization’s financial performance prospects over the next 12 months?

The respondents were allowed to select one option.



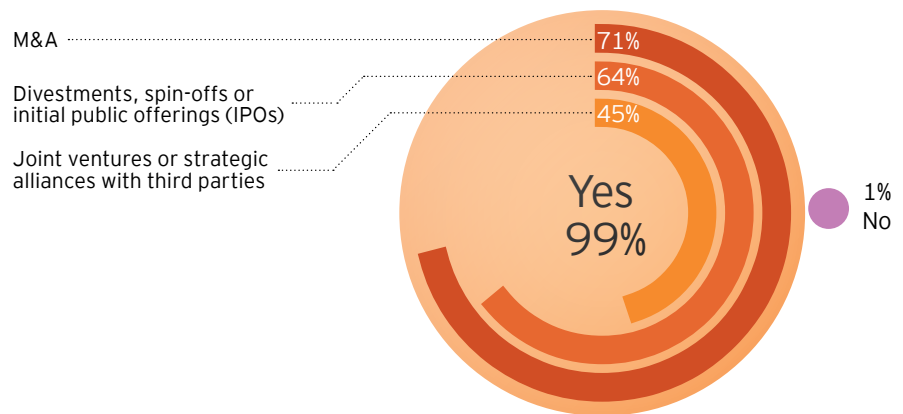
M&A intentions robust but marked by diligence alongside divestments

Focusing specifically on M&A, 64% of US CEOs plan to pursue a deal in the next 12 months, essentially flat from our January survey. As was the case early in the year, joint venture (JV) or strategic alliance intentions are higher at 71%, and divestment plans are notably strong at 45%.

A chart showing that 99% of US CEOs expect to pursue transaction initiatives over the next 12 months, with almost two-thirds of respondents (64%) planning an acquisition, 45% planning a divestment and 71% planning a JV or strategic alliance.

Q Do you expect to actively pursue any of the following transaction initiatives over the next 12 months?

The respondents were allowed to select multiple responses.



The theme appears to be long-term planning – when in doubt, a deal can wait. CEOs have long regarded divestitures as a strategic tool, and carve-outs and spin-offs are freeing up capital for other corporate purposes down the road. Similarly, JVs can serve as the on ramp to a deal: Strategic alliances put a potential acquirer first in line for M&A when the moment is right, even if costs, competition and regulation are not immediately favorable.

A telling response came when we asked CEOs about their approach to portfolio transformation, encompassing acquisitions, divestitures and spin-offs. Barely one-fifth (21%) said they were accelerating their level of transformational change overall; even when combined with respondents maintaining current levels of transformation (28%), less than half of US CEOs are actively looking to transform their portfolios. Of the 49% of respondents accelerating or maintaining current levels of portfolio transformation, the main source of financing transformation will come from performance improvement (56%). This further indicates a changed environment – CEOs have shifted from growth at any cost to investments that must show a clear path to profitability or value creation.

These responses align with our own observations of the M&A marketplace. C-suite executives considering deals are intensely focused on buttoning down diligence, especially in a cost-cutting environment. Consolidative deals are on the rise more than strategic growth or transformative deals, and in all cases more time is spent on the business case. The rapid timelines we saw in 2021 and early 2022 are a distant memory; higher capital cost inherently leads to greater prudence.

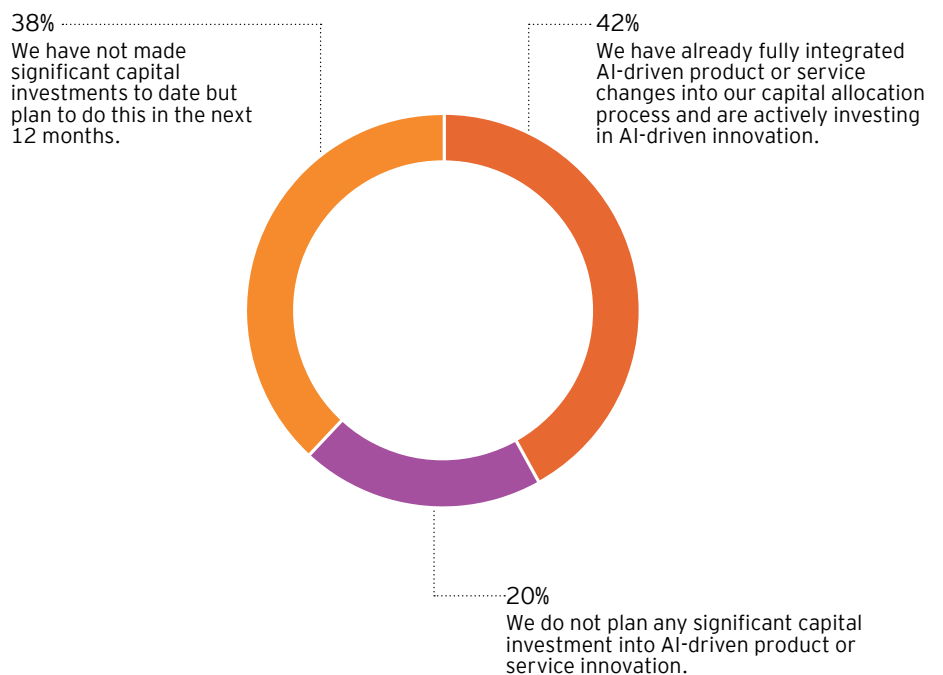
AI is still being defined

No corporate leader can ignore AI in 2023, so it is unsurprising that 80% of US respondents say they have either integrated AI into their products and services or plan to within the next year. But the potential benefits of AI are in the eye of the beholder. Executives are not only parsing the distinctions between generative AI and machine learning, but also weighing how AI can be usefully employed in a corporate development context.

A chart showing what US CEOs consider to be their current capital allocation approach to AI. The highest scoring, 42%, say they have already fully integrated AI-driven product/service changes into capital allocation process and are actively investing in AI-driven innovation; 38% say they have not made significant capital investments to date but plan to do this in the next 12 months, and 20% say they do not plan any significant capital investment in AI-driven product or service innovation.

Q Which of the following best describes your current capital allocation approach to artificial intelligence?

The respondents were allowed to select one option only.



When asked if they were employing AI in the transaction diligence process, 30% of US CEOs said they already were, but a greater percentage (37%) said they were only in the initial stages, and the balance either were not yet using AI or had no plans to do so. Use of machine learning as part of the due diligence process of dealmaking is already well established; beyond that, C-suites are clearly still trying to wrap their arms around these new tools. For now, the greatest risk seems to be the perception of getting left behind.

If anything, more traditional business strategy principles based on value, capital structure and corporate strategy are winning the day. Even if the US avoids a major recession – and at this writing, the outcome remains open to debate – interest rates are not likely to moderate for quite some time, and companies are working with their advisors to build a balanced capital agenda, with dry powder available to acquire when the time is right. In other words, a wave of accelerated transformation has given way to one of corporate consolidation. This year, and for some time to come, all-weather gear is the preferred outfit for smooth sailing.

Contacts

For a conversation about
your capital strategy,
please contact us:

Gregory Daco

US EY-Parthenon Chief Economist,
Strategy and Transactions
gregory.daco@parthenon.ey.com
+1 917 880 2637

Loren Garruto

EY Global Corporate Finance Leader
loren.garruto@ey.com
+1 440 227 1494

Greg Hisenberg

EY Americas Corporate Finance Leader
greg.hisenberg@ey.com
+1 339 499 8497

Elizabeth Kaske

EY Americas Buy and Integrate Leader
elizabeth.kaske@ey.com
+1 415 486 3619

Andy Lorenzetti

EY Americas Sell and Separate Leader
andy.lorenzetti@parthenon.ey.com
+1 908 370 4603

About the survey

The *EY CEO Outlook Pulse 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 FT Longitude, the specialist research and content marketing division of the Financial Times Group.

In June and July 2023, FT Longitude surveyed on behalf of the global EY organization a panel of 1,200 CEOs across 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 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.

Explore more in this series

Download [US CEO Outlook Pulse – January 2023](#)

Download [US CEO Outlook Pulse – October 2022](#)

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About EY Strategy and Transactions

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.

© 2023 Ernst & Young LLP.

All Rights Reserved.

SCORE no. 20582-231US

CSG no. 2307-4148562

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/US/CEOoutlook