CEO Imperative Series

Geopolitical risks and market uncertainty lead to lost opportunities

EY 2022 CEO Outlook Survey
Latin America North edition
ey.com/ceosurvey

Building a better working world

Geopolitical risks and market uncertainty lead to lost opportunities

The COVID-19 pandemic, combined with a wave of populism and a shift to the political left, has generated a sense among the Latin America North business community of lost opportunities, according to the *2022 EY CEO Outlook Survey*.

The survey, which asked more than 100 CEOs about the impact of the pandemic, geopolitics and other trends, reveals that 79% of respondents in the region (Mexico, Colombia and Peru) acknowledge that the pandemic has impacted their industry. The region was one of the hardest hit by COVID-19, and the economic and political effects continue to reverberate.

In Peru, citizens elected a teacher new to politics under the banner of a hard left political party in July 2021. The new president's platform promises have made waves across the business community, and many companies are waiting to see how the new government performs before making investment decisions. Colombians, meanwhile, go to the polls in 2022, and the current front-runner for president also leans left. In Mexico, there are also levels of political instability that may affect investment decision-making in the latter part of 2022.

However, while uncertainty has diminished investment appetites generally, the survey shows the pandemic has created opportunities for some. A few CEOs willing to make bold moves, such as resuming merger and acquisition (M&A) activity amid the uncertainty of the pandemic, have taken advantage of opportunities to protect value chains and get a jump on the competition. Many first-movers deployed capital for regional expansion as well as to build their technology and talent capabilities through acquisition.

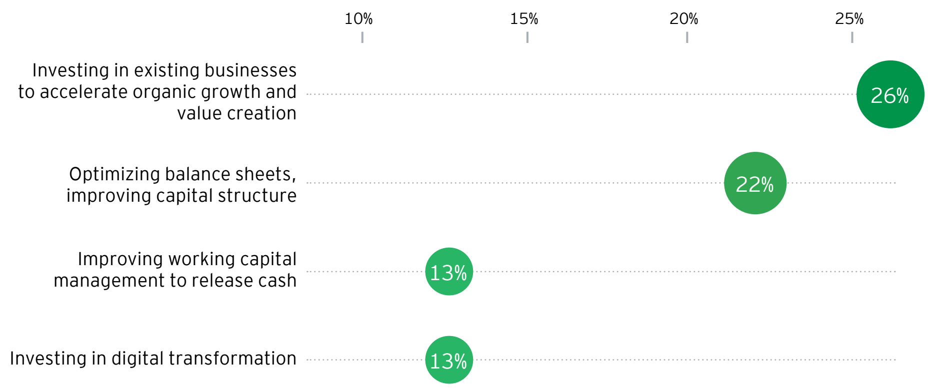
One area where few Latin American CEOs seem willing to make bold moves relates to environmental, social and governance (ESG) issues. While ESG has become a top item on the boardroom agenda for companies globally, CEOs in Latin America North are less certain, ranking it below other value drivers (revenue growth, cost reduction, capital efficiency and return on invested capital). While one-third of respondents say that becoming a leader in sustainability will be a competitive advantage, 40% of CEOs say they have experienced resistance from investors about their sustainability strategy.

ESG and sustainability concerns are becoming critically important for dealmakers around the world. Sooner or later, Latin American CEOs will feel the need to get serious about ESG to remain globally competitive.

Mexico

For 42% of Mexican CEOs, increasing geopolitical tensions and political intervention in markets are the most critical risks to their future growth strategy. A significant majority (71%) indicate that geopolitical tensions, logistics costs and uncertainty are driving them to make adjustments to operations and supply chains. As Mexican CEOs consider drivers of value for their organizations over the next few years, revenue growth and capital efficiency top the list for more than 80% of respondents. To achieve these objectives, Mexican respondents say they are focusing their capital strategies on investing in their existing businesses to accelerate growth and value creation (26%) and improve their capital structure (22%).

Q On which of the following capital strategy issues is your company placing the greatest attention and resources today?



Although 41% of Mexican CEOs say they will reshape their portfolios through organic investment, for many conglomerates, M&A and divestments form part of their broader capital allocation strategy. Some are looking to sell assets to free up capital so they can buy to accelerate transformation.

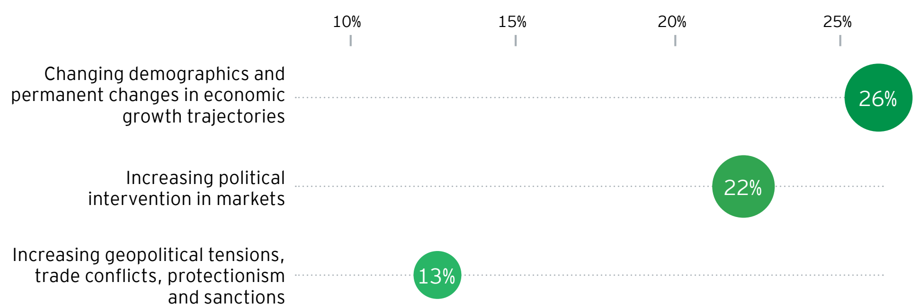
Mexican CEOs also see M&A as a way to accelerate their sustainability agenda. Nearly half of respondents say they have sustainability key performance indicators (KPIs) for long-term value and have embedded sustainability into their corporate strategy, and while Mexican CEOs are more positive about ESG as an important value driver over the next few years than others in the region, only 14% say it is critically important and only 8% indicate that they are prioritizing investment and resources for ESG in their capital strategy.

Colombia

In Colombia, the majority of CEOs (81%) report that the pandemic has substantially reshaped and changed their industry in some way, with nearly one-third (29%) saying that the pandemic changed their industry for the worse.

Interestingly, although Colombian CEOs see the current geopolitical environment as a concern, only 41% see a need to substantially change their company's strategic cross-border investments. Of those making changes, 64% have either delayed or exited a planned cross-border investment. Conversely, the vast majority (85%) of Colombian respondents are reconfiguring their global supply chain structures to reduce logistics costs and uncertainty and manage geopolitical risks. Respondents say they are also either expanding their supplier base or developing stronger relationships with a smaller pool of suppliers to build resilience. When asked about the most critical risks for the future strategy, demographic changes and increasing geopolitical instability and political intervention are top of mind for Colombian CEOs.

Q **Which of the following issues are the most critical risks to your future growth strategy?**



To prepare for a different environment, Colombian CEOs are focusing their capital strategy on their existing businesses to accelerate organic growth and value creation and to improve their capital structure. Because of their internal focus, 63% of Colombian CEOs have no plans to make changes to their portfolios in the next 12 months. While fast-movers across the region are looking to expand their businesses within the region, Colombian CEOs considering M&A are looking to acquire capabilities that either support or reinforce their core business.

Peru

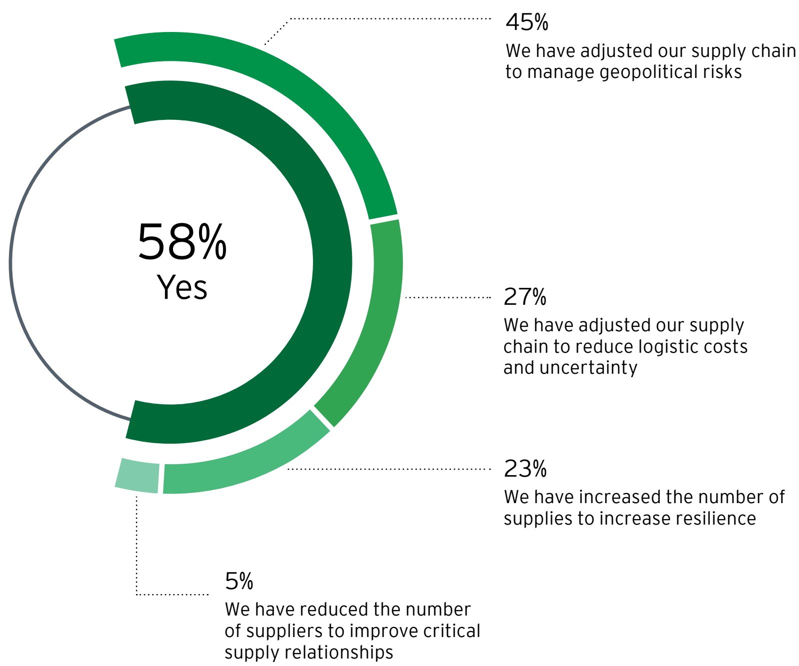
Peru experienced one of the strictest pandemic lockdowns in the world. It's unsurprising then that 54% of Peruvian CEOs say the pandemic either accelerated existing trends in their industry or fundamentally reshaped their industry for the worse. The COVID-19 pandemic has been a wake-up call for many companies in terms of their risk and continuity strategies. While some Peruvian companies demonstrated resilience, almost every company had to pivot to address the changed landscape.

Although less than half (47%) of Peruvian CEOs adjusted their strategic cross-border investments in response to geopolitical risks, 58% say they are adjusting their operations and supply chains to manage the geopolitical risks and ongoing uncertainty. As Peruvian CEOs look ahead to their future growth strategy, increasing political intervention in markets weighs most heavily on their minds as the greatest critical risk.

Q **Have you adjusted or are you planning to adjust your global operations or supply chains?**

The respondents were allowed to select all applicable responses. The percentages are prorated to 100%.

(42% of respondents chose "No")



To address ongoing risks and improve resilience, Peruvian CEOs are focusing their attention on optimizing balance sheets and improving capital structure, as well as investing in existing business to accelerate organic growth. They are focusing on optimizing what they have.

Because of the ongoing political uncertainty in Peru, CEO appetite for M&A has waned. Instead, two-thirds of CEOs say they have no plans to make changes to their portfolios in the next 12 months. Those considering any M&A activity are looking to enable a major geographic expansion to better manage risk stemming from the current political landscape.

While ESG isn't top of mind for most Peruvian CEOs, those who consider it important see becoming a leader in sustainability as a key competitive advantage.

Key actions for Latin America North CEOs

Maintain business resilience and continue to refresh organizational business strategy to address a constantly changing landscape. Many Latin America North companies demonstrated agility as they navigated the pandemic, taking advantage of opportunities as they arose. Now is not the time to rest. In today's environment, companies need to keep moving to survive.

Carefully assess capital needs. CEOs will need to show much more discipline in their capital strategy today than they did pre-pandemic. Capital investments that should be top of mind include digital transformation, business expansion and ESG.

Recognize and take advantage of opportunities when they come. There are still a lot of opportunities ahead for CEOs bold enough to identify and act on them. The most disciplined companies will make the most of these opportunities to thrive in an increasingly uncertain world.

About the survey

The *EY 2022 CEO Outlook Survey* is the benchmark of CEOs' sentiment on global challenges, growth and sustainability strategy, portfolio optimization and M&A. It 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 survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

Between November and December 2021, Thought Leadership Consulting surveyed on behalf of the global EY organization a panel of more than 2,000 CEOs in 53 countries and across 14 sectors. Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US$500m (20%), US$500m– US$999.9m (22%), US$1b–US$4.9b (31%) and greater than US$5b (28%).
- Organization's global headcounts were as follows: less than 999 (9%), 1-000 – 4,999 (39%), 5,000-9,999 (15%), more than 10,000 (37%).
- 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.

Contacts

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

Olivier Hache
Strategy and Transactions Managing Partner, EY Latin America North
olivier.hache@mx.ey.com
+52 55 4370 5488

Andres Gavenda
Strategy and Transactions Leader, EY Colombia
andres.gavenda@co.ey.com
+571 484 7524

Enrique Oliveros
Strategy and Transactions Leader, EY Perú
enrique.oliveros@pe.ey.com
+51 1 411 4444 Ext 14417

EYG no. 000000-22Gbl

2110-3895831

ED None

ey.com/ceosurvey