



Will a new competitive landscape spur M&A in Asia?

EY 2022 CEO Outlook Survey | Asia-Pacific edition | ey.com/ceosurvey



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As sector boundaries continue to blur, cross-sector investment strategies, including M&A, are key priorities for Asia-Pacific CEOs.

In the first year of the global pandemic, Asia-Pacific companies sought to navigate critical short-term issues. Now they are refocusing their attention on the longer-term imperatives of their businesses.

Asia-Pacific CEOs say they are seeing an increase in competition from nontraditional competitors and rank it as a top critical risk to their company's future growth strategy. In this "new normal" environment, technology disruption and fast-tracked digital transformations have accelerated market entries of disruptive innovators, which blur industry boundaries and reveal new industry patterns and value chains. As industries converge and companies no longer compete in well-defined industries, companies need to redefine what competition means for their organization. It may also require a complete reinvention of business strategies and the development of a more complicated transformation agenda to keep pace in a rapidly changing landscape.

As companies consider how best to compete, nearly three-fourths (73%) of Asia-Pacific CEOs surveyed say cross-sector M&A will play a role over the next 12 months in how they reframe and reshape their business models as they look to invest in sectors outside their own.

In brief

- ▶ As sector boundaries blur, Asia-Pacific companies need to redefine who their competitors are.
 - ▶ With M&A intentions reaching historical highs, Asia-Pacific CEOs are looking for growth across borders and sectors.
 - ▶ Although ESG is becoming increasingly important, CEOs encounter resistance from investors and shareholders to support their sustainability transition strategy.
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Asia-Pacific CEOs are actively reconfiguring their supply chains

CEOs are still dealing with the fallout of the pandemic.

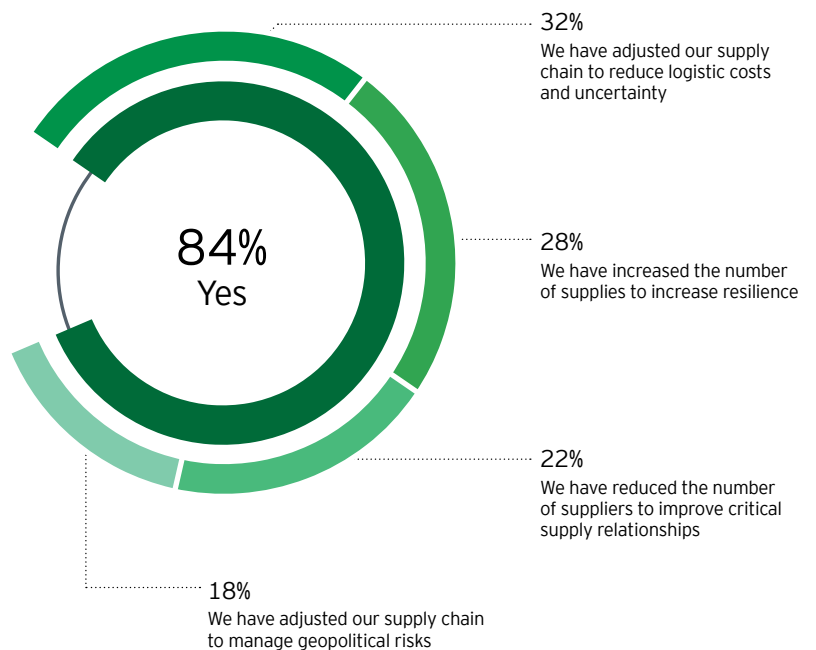
Asia-Pacific CEOs are less concerned than their global peers about the geopolitical and trade tensions. Nevertheless, 84% (vs. 79% of global CEOs) say they are taking the opportunity as they reshape their businesses to proactively reconfigure their operations and supply chains. This percentage rises above 90% when we focus on major economies in the region, such as Australia, Japan, China and Singapore.



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%. Asia-Pacific respondents.

(16% of respondents chose "No")

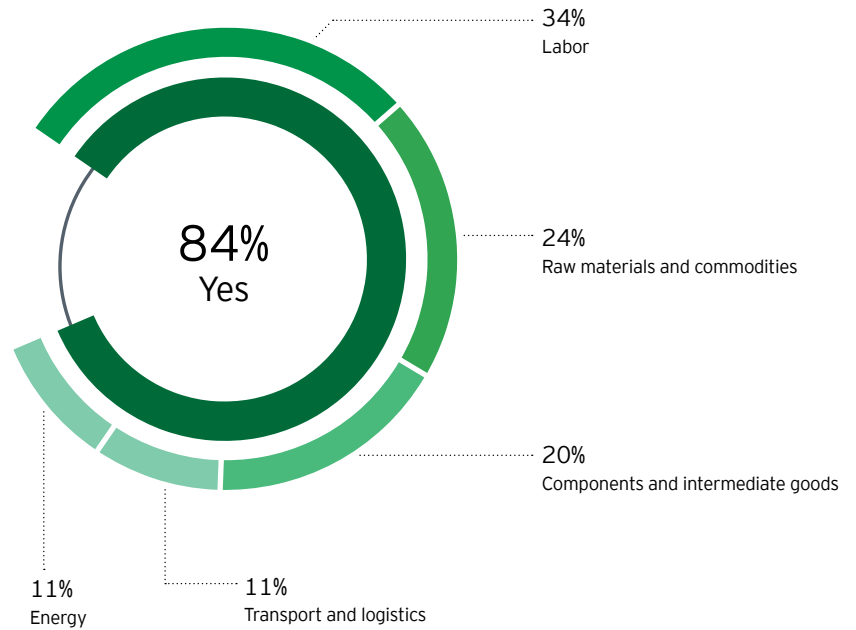


For more than 30% of Asia-Pacific CEOs, the primary driver for reconfiguring their supply chain is to reduce costs and minimize risks. Over the past two years, pandemic-related shutdowns have wreaked havoc on global supply chains. And while the pandemic is not the sole cause of rising input pricing, labor and energy costs and the cost of raw materials have increased substantially. Concurrently, freight rates have jumped more than 400% from their 2019 levels.¹

Q Have you seen a significant increase in input prices?

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

(15% of respondents chose "No"
1% chose "Other")



Just as geopolitical risks were a lower priority for Asia-Pacific CEOs than global CEOs in reconfiguring their supply chains, geopolitical risks are of less concern for Asia-Pacific CEOs as they consider their growth strategies. Asia-Pacific respondents ranked it as the third-most-critical risk to future growth, behind increasing competition from nontraditional competitors and increasing pressures to build sustainability. Consistent with a similar [EY study](#) last year, geopolitical challenges were only ranked by Asia-Pacific C-suites as the fifth-greatest external risk to the growth of their businesses.

1. Frank Holmes, *Shipping Bottlenecks Could Last Well Into 2022. That's Good News For Investors*, 1 November 2021, accessed via forbes.com

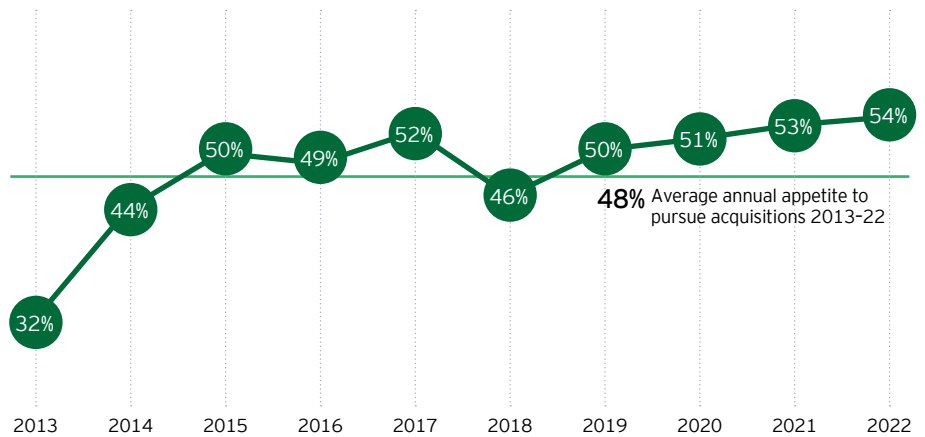
Transformational dealmaking tops the agenda

The M&A boom looks set to continue in 2022.

As Asia-Pacific CEOs reframe their investment strategy for growth in a new environment, they expect transformative dealmaking to play a key role. M&A intentions among Asia-Pacific CEOs have reached historic highs, with 54% of respondents indicating that they are actively planning to pursue acquisitions in the next 12 months, up from 51% when the COVID-19 pandemic first hit the region in 2020.

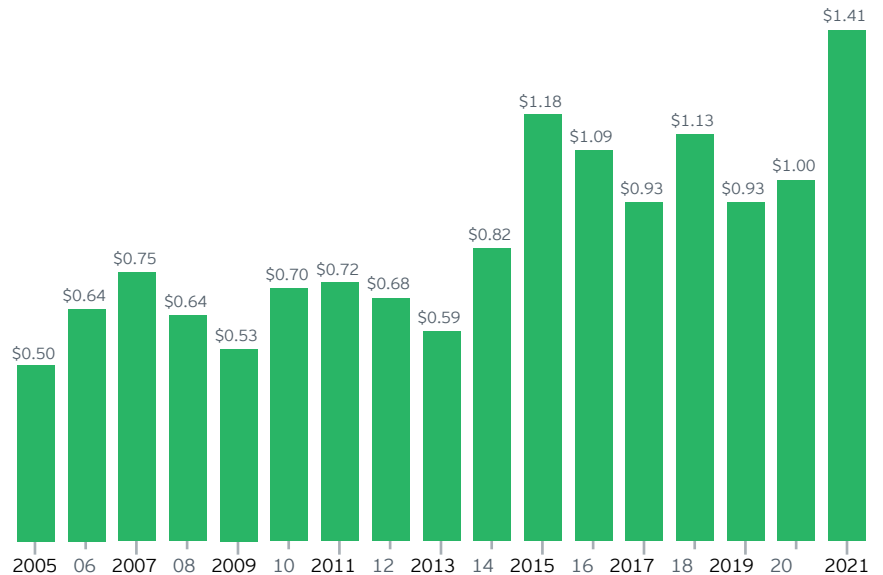
Q Do you expect your company to actively pursue M&A in the next 12 months?

Asia-Pacific respondents.



CEO intentions are consistent with what we've been seeing in the M&A market. In 2021, Asia-Pacific M&A values reached US\$1.4 trillion - a new high. While Asia-Pacific companies are eager to invest, the region is also attracting foreign investors, pushing inbound deal volumes to historic highs.

Asia-Pacific M&A deal value (2005-2021)



Source: EY analysis and Dealogic Asia-Pacific respondents.

Meanwhile, Asia-Pacific CEOs are on the lookout for the right M&A targets abroad as well as at home, with 83% suggesting they will pursue cross-border M&A in the next 12 months. This is higher than CEOs in North America (37%) and Europe (71%). Further, comparing this year's CEO Outlook findings with the findings from a similar EY study in 2021, we note that Asia-Pacific CEOs have a much stronger preference to invest outside the region, with 32% of respondents saying they plan to invest outside their domestic market, vs. 18% in 2021. Accordingly, the top five investment destinations represent a mix of foreign and regional - China, India, the US, Singapore and the UK.

Strategic investment opportunities abound

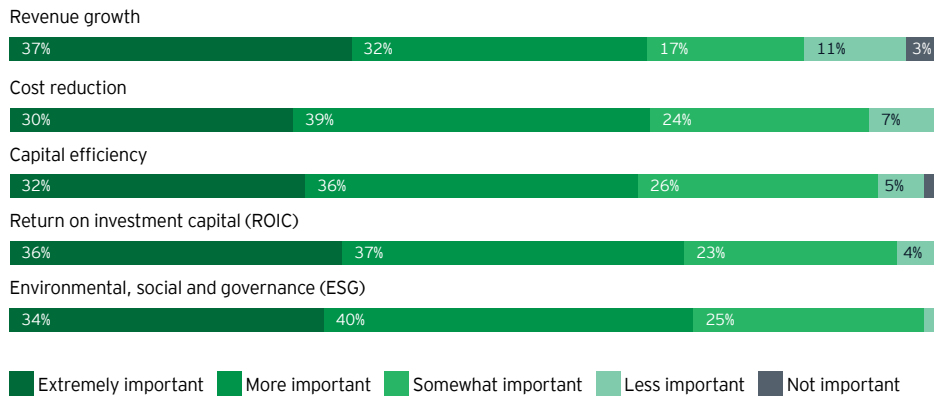
Growth and ROI remain critical drivers but are now viewed through an ESG lens.

While investment strategies focus on growth and return on investment (ROI), sustainable growth strategies have become critical for Asia-Pacific CEOs. In addition, the acceleration of climate change impacts is increasing pressure on Asia-Pacific companies. CEOs also rank sustainability as the second-most-critical risk to their future growth strategies.

Further, nearly three-fourths (74%) of respondents cite environmental, social and governance (ESG) as a more important driver of value over the next few years. One-third (33%) say they have sustainability key performance indicators (KPIs) for long-term value creation; more than one-fourth (26%) indicate that M&A is a critical avenue to increase ESG scores, which will attract investors.

Q What is the relative importance your company is placing on each of the following drivers of value over the next few years?

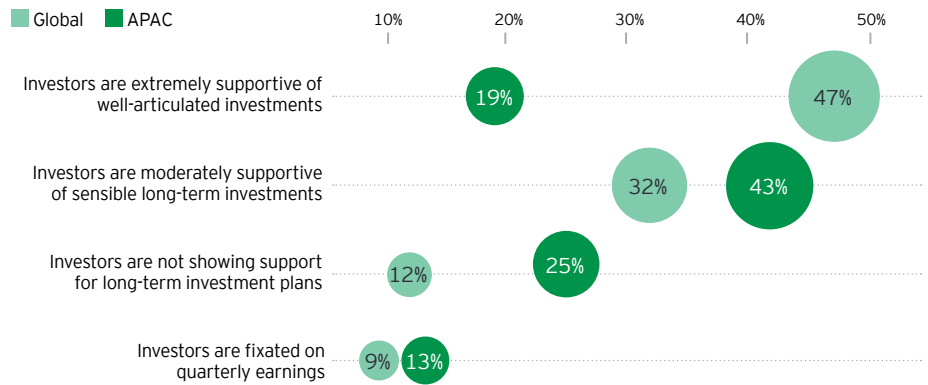
Asia-Pacific respondents.



Although Asia-Pacific CEOs view sustainability as a critical part of their long-term value creation, 89% say they have encountered resistance from investors and shareholders about their sustainability transition strategy. Only 11% of Asia-Pacific CEOs believe that investors fully support their sustainability strategy - a much lower percentage than North American CEOs (48%) and European CEOs (47%).

Q To what extent do you feel investors support your company's investments in long-term growth initiatives?

Asia-Pacific respondents.



Further, while a majority of Asia-Pacific CEOs believe that investors are generally supportive of long-term growth initiatives (either moderately supportive of sensible long-term investments (43%) or extremely supportive of well-articulated investments (19%)), 38% of Asia-Pacific respondents feel that investors are not being supportive or are too fixated on quarterly earnings, vs. 21% of global CEOs.

Asia-Pacific CEOs need to gain confidence that investors support their long-term corporate strategies. Building a robust narrative and strong business case that capture ESG value is key to engaging investors and stakeholders and driving sustainability transformation. This may involve developing valuation models to capture ESG value that consider potential top-line growth, operational cost savings, reduced risk and brand enhancement.

The EY 2022 CEO Outlook Survey is a part of the [CEO Imperative Series](#), which provides critical answers and actions to help CEOs reframe the future of their organizations.

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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 51 countries and across 13 sectors and more than 580 CEOs from the Asia-Pacific region. 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%).

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