

The CEO Imperative: Will bold strategies fuel market-leading growth? (PART 4)



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New realities, new strategies: leading CEOs look beyond short-term pressures to invest in long-term value creation in 2022.

(CONTINUED FROM PREVIOUS EDITION)

Nearly two-thirds (59%) of CEOs expect their companies to pursue acquisitions in the next 12 months. This is up from the 49% at the start of 2021 and points to another very strong year for deals. Given the scale of activity in 2021, many companies will be integrating recently acquired assets, but they will remain strategically poised to buy assets that support growth ambitions.

CEOs still see M&A as a critical accelerant for long-term growth strategies - acquiring operational capabilities and innovation. Pre-existing competitive landscapes have been redrawn across all sectors in the past 18 months, and there is more shifting of positions ahead.

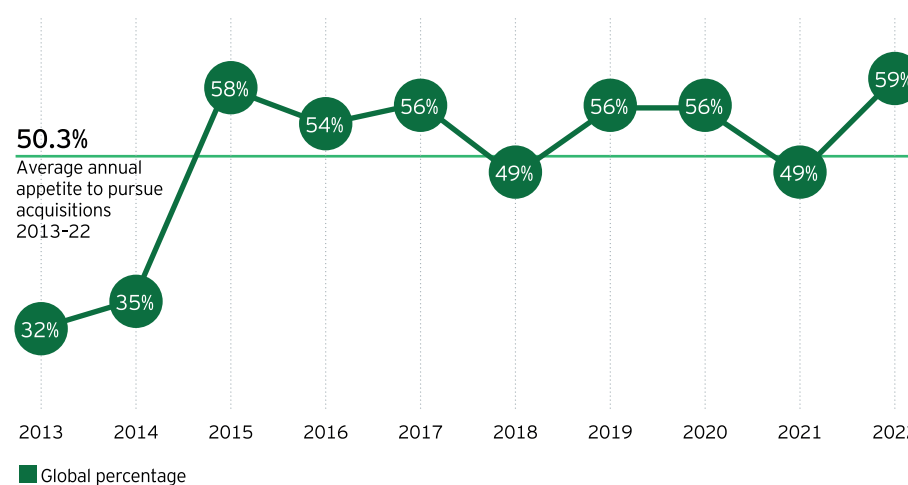
An increasing driver of future change will be environmental, social and governance (ESG). We saw a strong uptick in deals in the renewables space in 2021, but that is just one part of the story. Across all sectors we're seeing a strong desire to buy assets that accelerate sustainability strategies, especially in automotive, industrials and consumer - and that will likely continue at pace.

ESG and sustainability concerns are becoming critically important for CEO dealmakers across all sectors. An overwhelming 99% factor these issues into their buying strategies, while 6% have walked away from deals in the past year because of ESG-related concerns about the target. While this 6% may appear small, ESG has only recently become a lens through which assets are viewed.

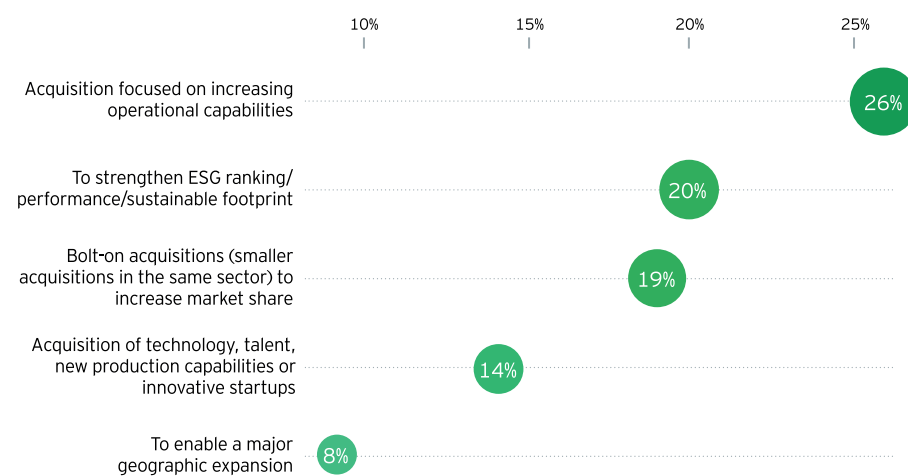
With these strong deal drivers live across many dimensions, there is also a formidable war chest for M&A available. The constituents of the S&P 500 hold an aggregate of US\$2.8t in cash on balance sheets.² Additionally, CEOs have the ability to raise debt at what remain historically low interest rates and to have funds raised through divestitures.

Companies that transacted early and boldly - buying and selling - in the wake of the global financial crisis outperformed non-transactors by 25% in shareholder returns over following decade. Similarly bold strategies employed now could result in the creation of commercial advantage, competitive agility and market strength.

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



What will your primary planned M&A activity be?



Only showing the top five options. The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.

Key CEO considerations in 2022

- Buy vs. build: Determine which approach is the best option to accelerate digital transformation or boost your ESG rating
- Fix, sell, close: Systematically review your portfolio through the lens of changing talent, customer and societal expectations more broadly and prepare to divest and reshape for a different environment.
- Beware of affinity bias: Understand synergies and risks from unfamiliar assets that differ from your core business.

Summary

The pandemic has been a wake-up call for many CEOs, and the transformation imperative is now clearer than ever. Many are actively reconfiguring their companies for resilience and investing boldly for optimal growth - with M&A still high on the boardroom agenda.

But CEOs unable to take bold steps could face stern tests down the line, particularly as intensifying headwinds pose challenges in the race to capture emerging opportunities. The need to act now is too strong. CEOs who stand still will fall behind in the race for market-leading growth. ■

LEADING AFTER THE PANDEMIC

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