

Why AI and dealmaking are at the top of the Asia-Pacific CEO agenda

EY CEO Outlook Pulse Survey | Asia-Pacific edition
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Asia-Pacific CEOs look to artificial intelligence and transactions to drive transformation amid an optimistic but uncertain economic landscape.

The July 2023 EY CEO Outlook Pulse for the Asia-Pacific region highlights how the 290 CEOs surveyed are currently thinking about key boardroom topics of AI and sustainability and how they will balance these alongside other priorities in their capital allocation strategies. It also provides insights on growth and transformation strategies - in a recovering economic environment that is looking more positive than many CEOs thought six months ago but still faces ongoing volatility.

In January 2023, 72% of Asia-Pacific CEOs were bracing for a severe downturn. The latest survey shows a more positive outlook, with 68% of Asia-Pacific CEOs now anticipating a moderate downturn in their primary operating markets. The threat of rapidly rising inflation and interest rates has subsided somewhat. At the same time, more encouraging figures have emerged from producer and consumer price indices in recent months.

However, these positive indicators are tempered by the expectation that interest rates will stay higher for longer, impacting the cost of capital and liquidity for businesses and leaving CEOs with different levels of optimism.

In brief

- ▶ Economic sentiment has improved, but attitudes about financial performance remain mixed.
 - ▶ Asia-Pacific CEOs continue to prioritize digital transformation while grappling with the risks and benefits of AI.
 - ▶ Capital allocation zeroes in on AI and sustainability as two-thirds of Asia-Pacific companies pursue growth organically and through M&A.
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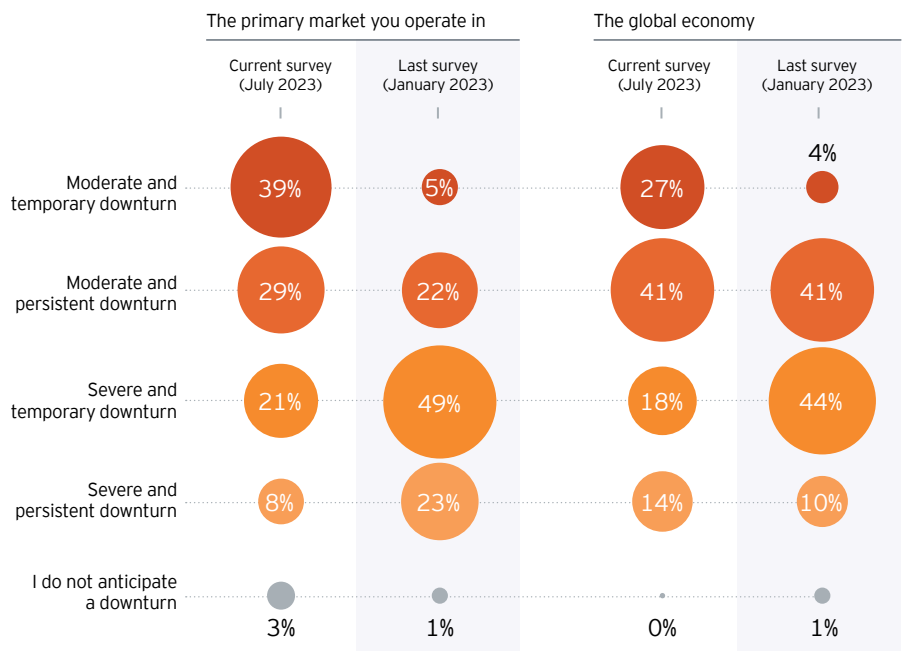
Economic sentiment improves, but CEOs watch out for volatility ahead

CEOs eye deals as they adjust to a new economic reality.

The July 2023 CEO Outlook shows CEOs in the Asia Pacific-region have mixed levels of enthusiasm regarding their organization's financial performance. Specifically, 45% say they are feeling more optimistic compared to the start of the year, whereas 37% express less optimism.

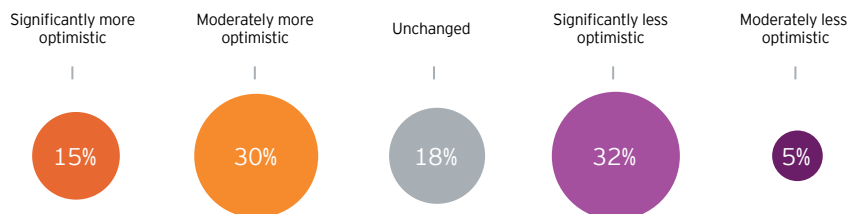
Q Considering the current levels of global macroeconomic uncertainty, what scenario are you planning for in connection with a potential economic downturn?

The respondents were allowed to select one option.



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

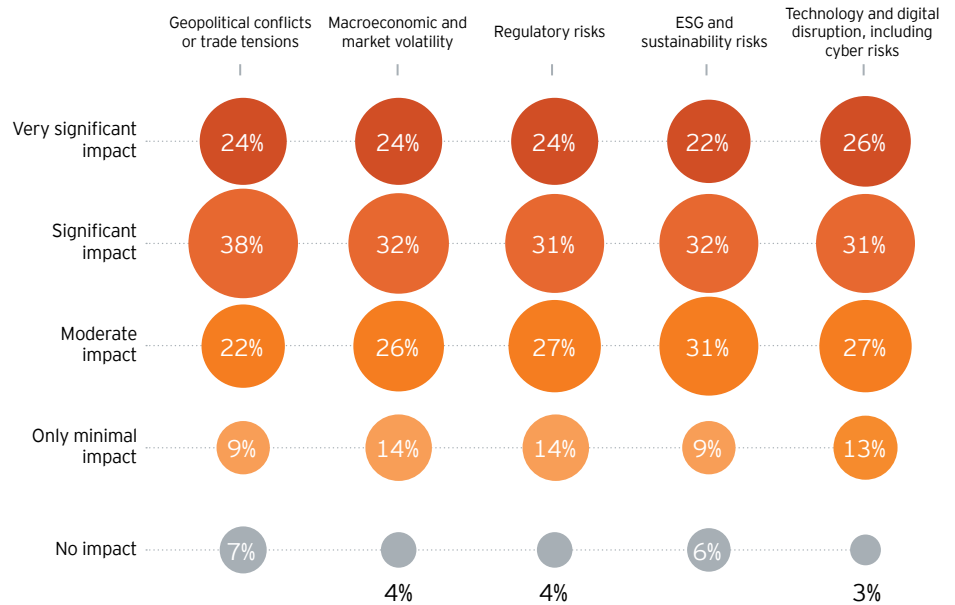
The respondents were allowed to select one option.



CEOs are equally attuned to the uneven recovery ahead. More than half (56%) expect macroeconomic and market volatility to significantly impact their businesses, while 55% expect significant impact from regulatory risks. As the lack of regulatory coherence across jurisdictions shows little sign of abating, managing regulatory and policy risks in a dynamic region like the Asia-Pacific continues to be more challenging and complex than ever before.

Q To what extent do you believe that the following risks will impact your business's performance over the next 12 months?

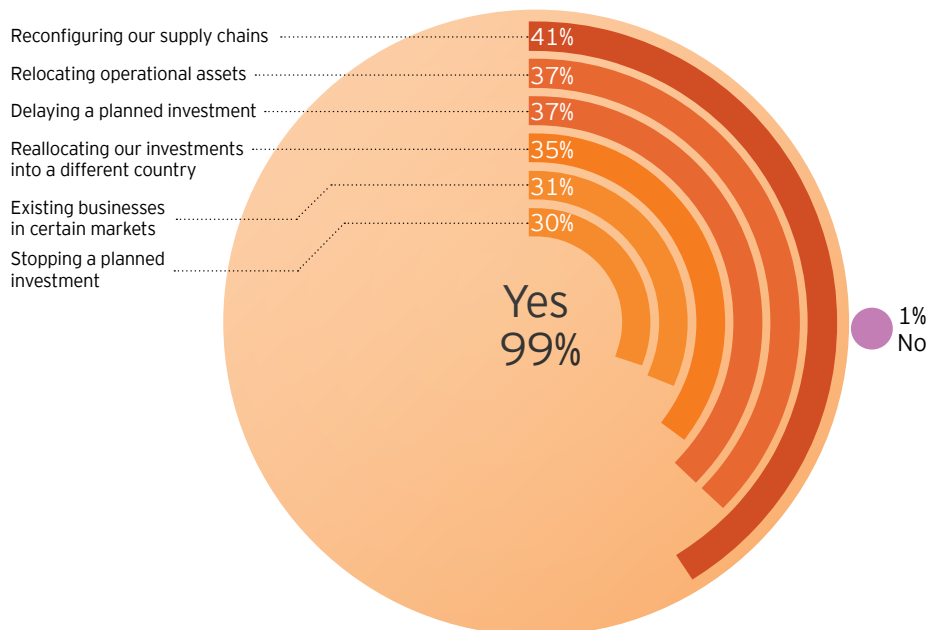
The respondents were allowed to select one option for each statement.



In addition to macroeconomic and regulatory risks, 62% of Asia-Pacific CEOs believe that geopolitical conflicts and trade tensions will have a significant impact. The major geopolitical risks that have prompted Asia-Pacific CEOs to reevaluate their strategic plans include global economic fragmentation and restrictions on trade and foreign investment. As a result, 41% of Asia-Pacific CEOs are reconfiguring supply chains, 37% are relocating operational assets and 37% are postponing planned investments.

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.

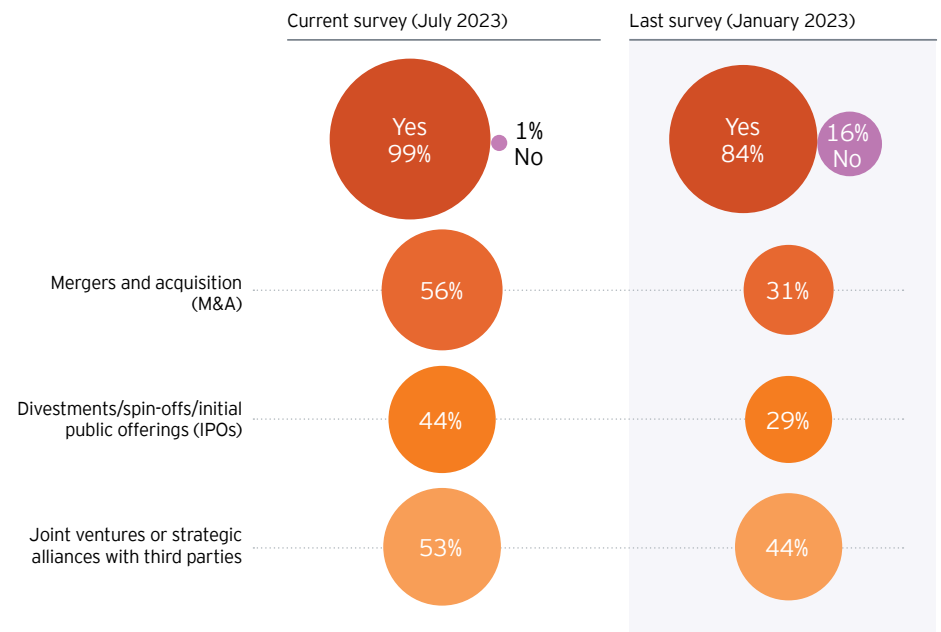


Green shoots emerge as deal-making sentiment in Asia-Pacific shifts

For almost all Asia-Pacific CEOs (99%), reactions to the changing macro-environment also include dealmaking, with 56% considering M&A (a significant increase from 31% in January 2023), 44% planning divestments, spin-offs or IPOs and 53% looking at joint ventures or other strategic alliances.

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.

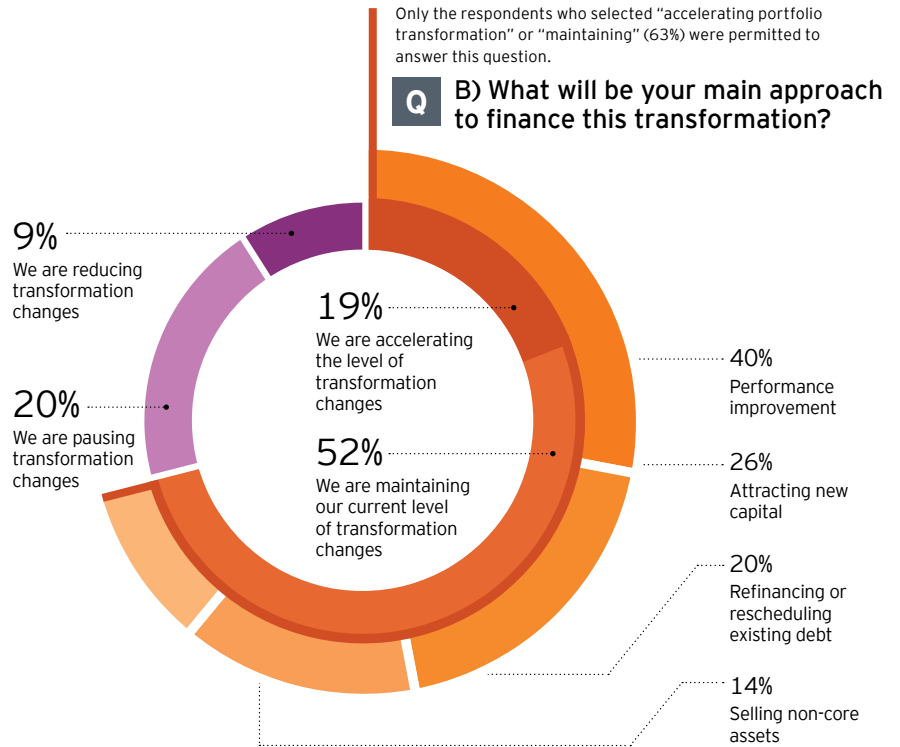


This brightening in deal-making sentiment signifies a shift from the lackluster M&A deal performance we saw in the first half of 2023, which tracked a year-on-year decline following the surge of large M&A deals in 2021 and early 2022.

Looking ahead, some of the macro-economic factors culminating in a slower deal environment may finally subside, and the implementation of government stimulus measures in China will likely invigorate dealmaking across the entire region. CEOs are also aiming to leverage current valuations and the relative robustness of the Asia-Pacific economic climate to get deals across the finish line. This will be driven by the almost three-quarters of CEOs (71%) who say that they will either accelerate or maintain their rate of transformative changes over the next 12 months.

Q A) What statement best characterizes your approach to portfolio transformation – including spin-offs, divestitures and acquisitions – over the next 12 months?

The respondents were allowed to select one option only.



9%
We are reducing transformation changes

20%
We are pausing transformation changes

19%
We are accelerating the level of transformation changes

52%
We are maintaining our current level of transformation changes

40%
Performance improvement

26%
Attracting new capital

20%
Refinancing or rescheduling existing debt

14%
Selling non-core assets

CEOs consider AI and sustainability in their investment decisions

AI and sustainability are seen as growth drivers - but CEOs are cautious of how much to invest.

Improved economic sentiment may also be driving some of Asia-Pacific CEOs' increased interest in evaluating the opportunities for AI, while being cognizant of the risks. While CEOs continue to activate digital transformation more broadly, they see AI as a potential game changer. According to our survey, Asia-Pacific companies are still developing their strategy around AI. Notably, 70% of CEOs surveyed say they see AI as a force for good, driving business efficiencies and innovation, particularly in sectors such as health care, where AI has been making significant advancements in medical imaging, drug discovery, personalized medicine and patient monitoring. Further, 68% believe that job losses from AI will be counterbalanced with new roles and career opportunities that AI will create.

Q To what extent do you agree or disagree with the following statements related to artificial intelligence?

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

AI is a force for good - driving business efficiency and thereby creating positive outcomes for all, such as innovations in health care treatments



The impact of AI replacing humans in the workforce will be counterbalanced by the new roles and career opportunities that the technology creates

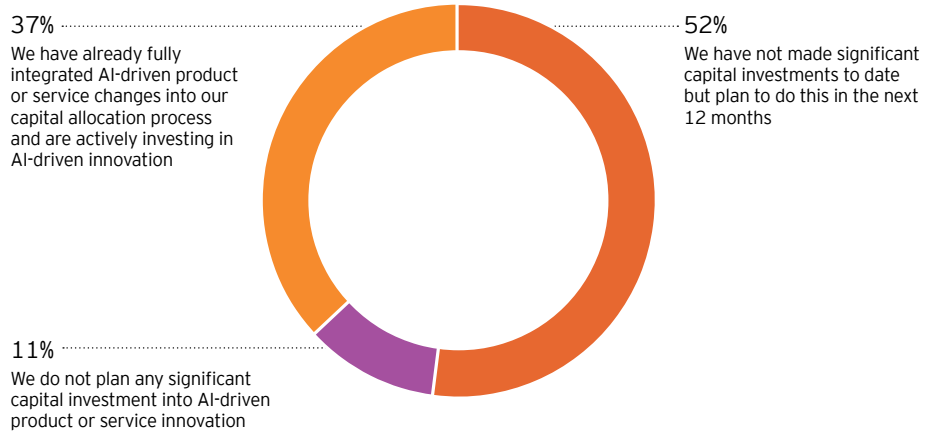


Strongly agree Somewhat agree Neutral Somewhat disagree Strongly disagree

These benefits have propelled 37% of Asia-Pacific CEOs to already fully integrate AI-driven product and service changes into their capital allocation processes and actively invest in AI-driven innovation. More than half (52%) of CEOs who haven't yet made any significant moves, plan on doing so in the next 12 months.

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

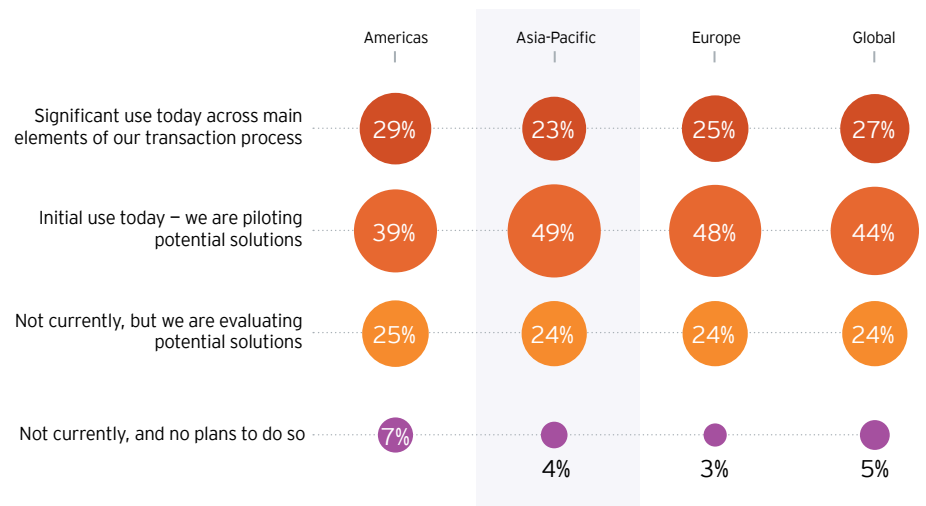
The respondents were allowed to select one option only.



Similarly, 72% of Asia-Pacific CEOs are or will be incorporating AI into their approach to transactions over the course of the next year. Whether it is scanning the market for strategic targets, identifying disruption within a business's global ecosystem, mapping and benchmarking competitor investment flows, or monitoring distressed assets, AI tools can help CEOs in answering their strategic questions. A small minority (4%) is not currently using these capabilities or has no plans to – creating a competitive disadvantage.

Q Are you making use of AI as part of your approach to transactions, including M&A or divestments (e.g., using AI as part of target selection or due diligence)?

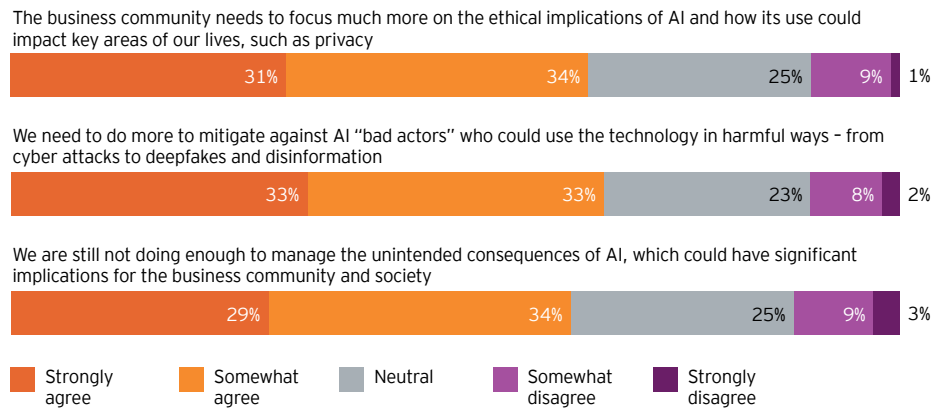
The respondents were allowed to select one option only.



However, Asia-Pacific CEOs continue to take a somewhat cautious approach to AI given the risks. Two-thirds of CEOs agree that the business community needs to do much more to address the ethical implications of AI and its impacts. A similar percentage also agrees that companies need to do more to protect against AI “bad actors” who could use the technology for nefarious ends, ranging from cyberattacks to deep fake misinformation campaigns. Further, 64% acknowledge that companies still aren’t doing enough to manage the unintended consequences of AI, which could profoundly impact businesses, communities and societies.

Q To what extent do you agree or disagree with the following statements related to artificial intelligence?

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



CEOs need to play the long game and maintain momentum around sustainability

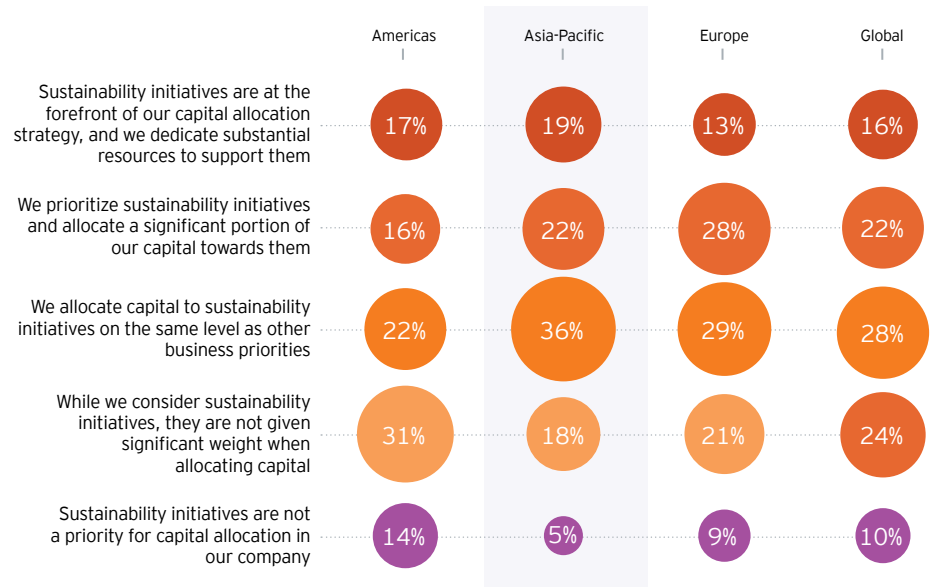
Besides AI, sustainability continues to be a hot topic in boardrooms across Asia-Pacific. Stakeholders, particularly investors, increasingly expect that organizations should invest in improvements relating to sustainability - even if it dents short-term profits.

According to the [Asia-Pacific findings of the EY Global Corporate Reporting and Institutional Investor Survey \(via EY.com Australia\)](#), investors feel strongly that they are not getting the data-driven insights they require to evaluate a company’s growth and risk profile. It’s an information gap that threatens to stifle access to capital for many organizations and, ultimately, could hinder progress on decarbonization.

Our survey suggests that the high level of enthusiasm for sustainability seen in recent years may be waning in some parts of the world as CEOs grapple with the short-term financial performance amid inflationary and interest rate headwinds. However, in Asia-Pacific, CEOs are still committed to their sustainability agenda, with 41% (vs. 33% of Americas CEOs) continuing to prioritize sustainability initiatives - or put them at the forefront of their capital allocation strategy. A little more than one-third (36%) say that they have placed sustainability on the same level as other business priorities when it comes to capital allocation.

Q How would you describe the scale of the enterprise transformation you will be pursuing over the next 12 months?

The respondents were allowed to select one option only.



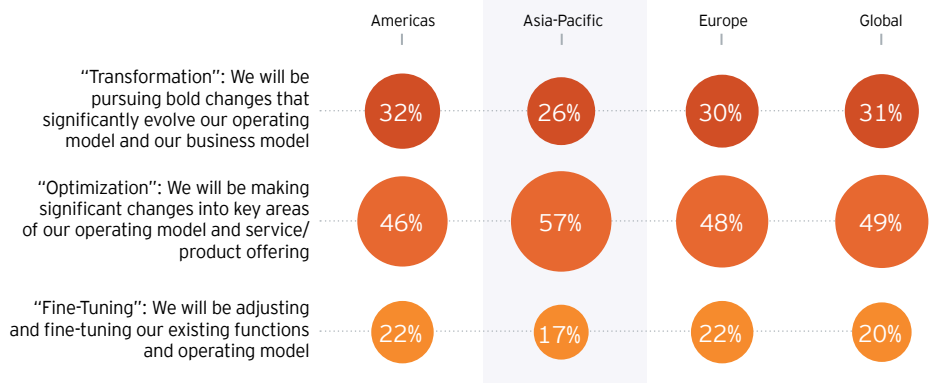
Capital allocation strategies focus on growth

Focusing capital where it matters most will drive long-term growth.

Whether it's AI, geopolitics or sustainability, change is a constant in today's business landscape. Recognizing this, 83% of Asia-Pacific CEO are looking to make significant changes to either their overall operating and business models, or key service and product offerings.

Q How would you describe the scale of the enterprise transformation you will be pursuing over the next 12 months?

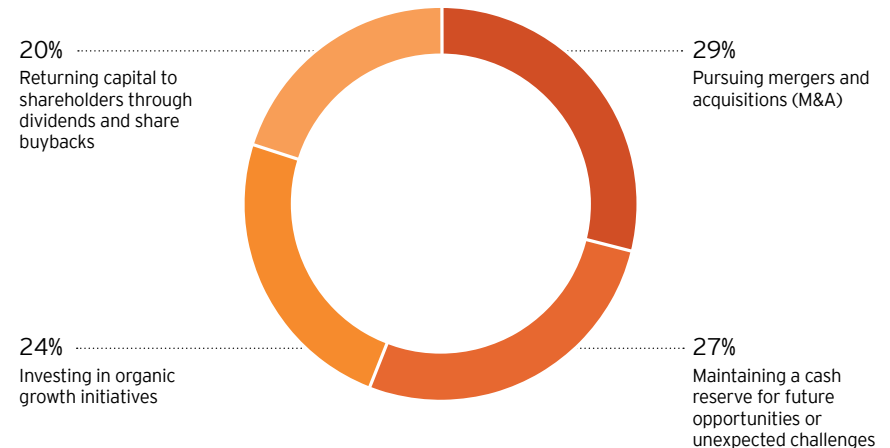
The respondents were allowed to select one option only.



Now that the period of cheap and easy money has passed, leaders will need to be bold, discerning and decisive when allocating capital to support these changes. Encouragingly, 53% of Asia-Pacific CEOs say they are pursuing M&A or investing in organic growth as part of their capital allocation strategy over the next 12 months; 27% say they are maintaining a cash reserve for future opportunities or unexpected challenges.

Q How would you describe the primary focus of your company's capital allocation strategy over the next 12 months?

The respondents were allowed to select one option only.



Of those looking at M&A to grow, key drivers include expanding into new geographies, introducing new products and services, or improving existing ones, and embedding sustainability into their core products and services.

Q You selected either organic growth or M&A as your company's primary capital allocation strategy. What is the primary goal you are trying to achieve with your chosen approach?

The respondents were allowed to select up to two responses and list them in order of priority.



5 WAYS ASIA-PACIFIC CEOS can steer full speed ahead

As Asia-Pacific CEOs take a wide-eyed look at a future shaped by AI and the imperative of sustainability, while continuing to navigate the macroeconomic and geopolitical volatility directly ahead, they must balance operational resilience against strategic foresight. Here are five ideas:

1

Embrace the future

of AI for efficiency and innovation, while protecting against the risks. Asia-Pacific CEOs should appreciate the potential of AI in driving business efficiency and fostering innovation, particularly in sectors with proven use cases like health care and consumer products. However, understanding and addressing the ethical dimensions of AI, including privacy and misuse issues, is critical. CEOs must engage with the broader business ecosystem, particularly regulators, to tackle these challenges and ensure responsible yet efficient AI implementation.

2

Prioritize

sustainability in capital allocation. Although short-term financial pressures may seem more pressing, addressing the climate crisis remains an urgent global imperative. With the Asia-Pacific region facing a multitude of acute sustainable development challenges, CEOs need to continue to integrate sustainability initiatives into their capital allocation decisions. In doing so, they can align with stakeholder expectations, and enhance their organization's reputation and competitive edge.

3

Balance organic

growth with M&A in capital allocation. CEOs should maintain a dual focus on inorganic and organic growth. Leveraging M&A opportunities can aid expansion into new markets, while organic growth can help scale proven and existing products and services. Simultaneously, keeping a prudent cash reserve for unexpected challenges or future opportunities can provide a safety net.

4

Leverage AI to

do better deals. The impact of AI in the deals process is undeniable. Whether it's target identification for buying, selling or alliance opportunities, valuation analysis or streamlining the due diligence process, AI can provide CEOs with deeper insights and a valuable advantage, which are critical in times of increased economic uncertainty.

5

Put humans at the

center of enterprise transformations. With 83% looking to make significant changes to their entire operations or a business model, Asia-Pacific CEOs understand the importance of transformation to enduring success. Yet, according to research findings from an EYGS LLP-University of Oxford collaboration, [transformation success hinges on putting humans at the center](#). This is even more critical as Asia-Pacific CEOs consider where and how to deploy AI within their organizations.

Summary

Asia-Pacific CEOs facing a complex and volatile world need to remain agile as they respond to the opportunities and risks presented by AI and sustainability. As CEOs balance resilience with growth, they need to ensure their capital allocation decisions are focused yet flexible, leveraging AI tools to make the strategic decisions that will drive long-term growth and value creation.

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.

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EYG no. 007955-23Gbl
2307-4199063

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