

EY CEO Outlook Pulse

Italy highlights

October 2022



About the study

Designing and delivering a strategy to optimize value for all stakeholders has never been more challenging. CEOs are confronted with a growing number of emerging risks and challenges triggered by external events and disruption. It requires CEOs to adapt quickly and lead their organizations through these uncertain times, with a clear purpose communicated to all stakeholders.

In turn, we need to adapt our approach moving from a long annual survey to quarterly pulses. The new CEO Outlook Pulse 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.

Each issue will focus on some consistent questions on global challenges and opportunities, growth strategy, portfolio optimization, and mergers and acquisitions (M&A) as well as take a deeper dive into relevant thematic topics as they unfold.

PARTICIPANT PROFILE:

760 CEOs surveyed globally in August 2022

50 CEOs surveyed in Italy in August 2022

Countries:

- ▶ Americas: United States
- ▶ Europe: France, Germany, Italy, United Kingdom
- ▶ Asia-Pacific: Australia, China, Japan, Singapore, South Korea

Industries:

- ▶ Advanced manufacturing and mobility
- ▶ Consumer products and retail
- ▶ Energy and resources
- ▶ Financial services
- ▶ Health sciences and wellness
- ▶ Technology, media and telecoms

Produced in association with



Italian key findings



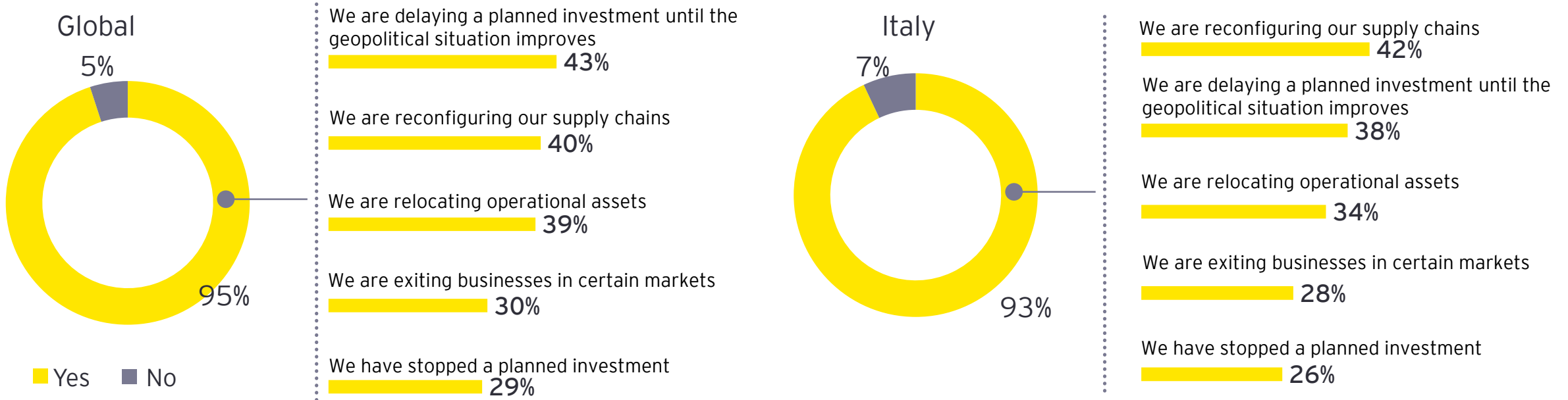
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Macroeconomic
and geopolitical
environment



Geopolitical challenges are already compelling CEOs to act decisively
Both global and Italian operations are being reconfigured and some markets exited

Q As a result of geopolitical challenges, have you made any of the following alterations to your strategic investment plans?



With geopolitical challenges and elevated political risks come heightened business risks. Companies are increasingly having to operate in a multipolar geopolitical and regulatory environment and obliged to respond to complicated and fast changing demands.

Over 90% of respondents have adjusted their strategy to the changed geopolitical setting, with Italian respondents being more proactive in reconfiguring the supply chain. The expected contraction of domestic demand, worsened by the inflation economic effects, shortage of goods and instability, pushed the companies to focus on export markets. But at the same time, an growing number of CEOs have delayed or even stopped investment decisions.

The pandemic has been the main driver of changing strategic investments

But the war in Ukraine has caused a rethink through 2022

Q You have said that geopolitical challenges have led to you altering your strategic investment plans – what is the main driver for that decision?

	Americas	Asia-Pacific	Europe	Global	Italy
Ongoing pandemic-related issues	30%	37%	33%	33%	32%
The war in Ukraine	16%	19%	28%	22%	39%
Regulatory pressures	22%	12%	14%	16%	11%
US-China tensions	14%	22%	8%	14%	7%
Ongoing Brexit friction	12%	4%	10%	9%	5%
Other regional disputes/trade tensions	6%	6%	8%	7%	7%
Other	0%	0%	0%	0%	0%

In Italy, in line with European expectations, the pandemic is still one of the most influential reasons for investment plans. Even more relevant is the impact of the war in Ukraine, which has led to a considerable increase in energy, gas and raw material costs.

New problems, old issues to deal with as the fallout from the pandemic continues

CEOs are currently managing a host of interrelated external threats to growth

Q Which of the following do you consider to be the greatest risks to the growth of your business?
(Select three options)

	Americas	Asia-Pacific	Europe	Global	Italy
A continuation/return of pandemic-related disruptions (e.g., lockdowns, supply chain disruptions)	43%	48%	41%	43%	30%
A further increase in geopolitical tensions	34%	38%	34%	35%	38%
A sustained period of higher input prices and inflation	32%	34%	35%	34%	42%
Climate change impacts and pressures to build sustainability	35%	35%	31%	34%	34%
Increasing cybersecurity risks	31%	29%	32%	31%	28%
More restrictive regulatory environments in key markets	31%	29%	31%	30%	44%
A regionalization/fragmentation of the global economy	29%	30%	31%	30%	22%
Uncertain monetary policy direction and an increase in the cost of capital	31%	26%	29%	29%	28%
Scarcity and cost of talent with the right skills to accelerate growth	30%	26%	29%	29%	30%



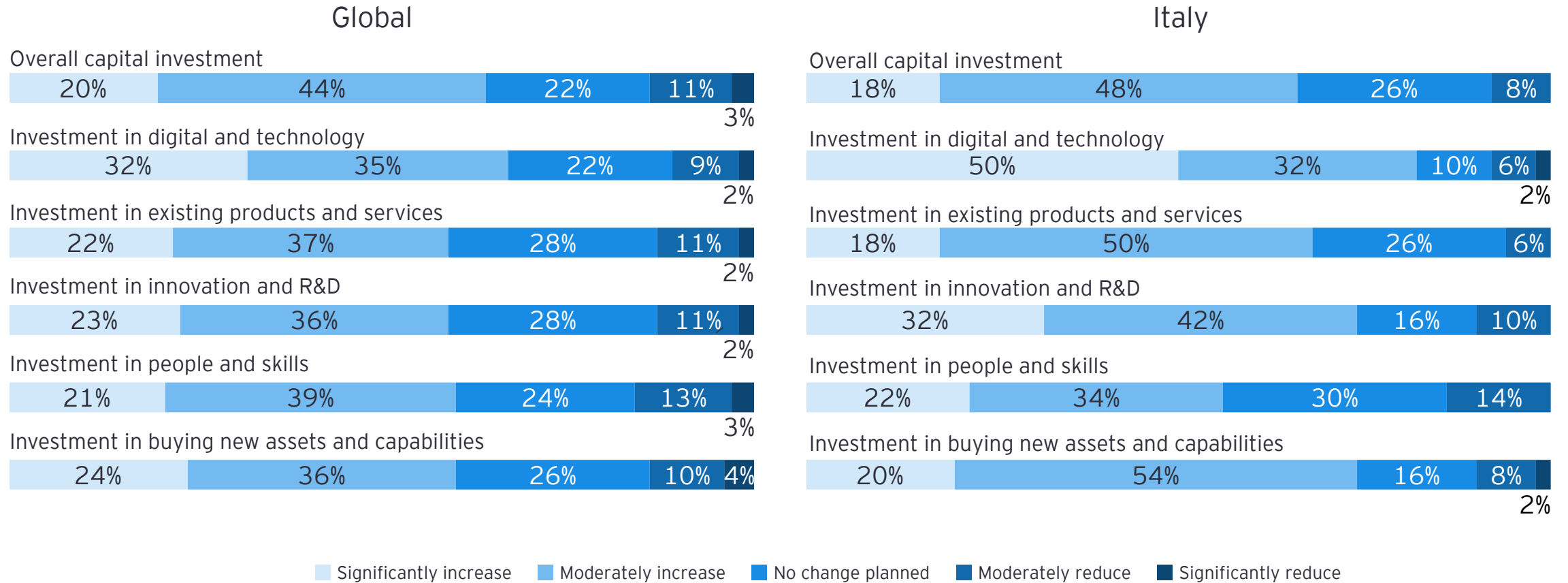
Strategy and strategic challenges



Capital investment to increase across all areas of business

With technology and digital investments set for biggest increase

Q How will your capital investments in the following areas change, if at all, in the next six months?



Customers at the center of strategic initiatives

CEOs look to enhance sustainability and technology to capture customer attention

Q Which of the following are the most important strategic actions your company will pursue in the next six months?

	Americas	Asia-Pacific	Europe	Global	Italy
Build sustainability/ESG as a core aspect of all products and services to engage customers	35%	42%	39%	39%	44%
Boost customer loyalty using technology to optimize product suite/services	34%	32%	36%	34%	40%
Maintain/improve performance and margins in an economic downturn	38%	30%	34%	34%	24%
Adopt new pricing constructs or innovative pricing models to improve profitability	32%	36%	34%	34%	40%
Invest in early-stage businesses to enhance existing portfolio, access new talent or create new business platforms	36%	29%	32%	32%	36%
Adopt new working models/talent strategy to attract and retain employees	28%	33%	34%	32%	36%
Acquire a business in an adjacent sector to create new growth avenues	34%	29%	30%	31%	26%
Adapt supply chain for resiliency	29%	35%	26%	29%	24%
Divest assets to raise capital to invest in other parts of the business	28%	27%	29%	28%	30%

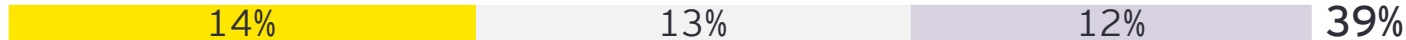
Customers at the center of strategic initiatives

CEOs look to enhance sustainability and technology to capture customer attention

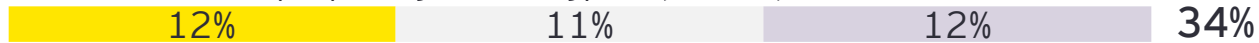
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Global

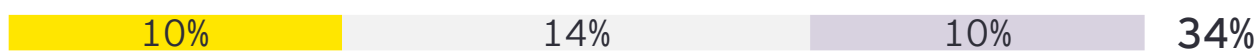
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Invest in early-stage businesses to enhance existing portfolio, access new talent or create new business platforms



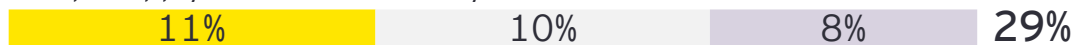
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Acquire a business in an adjacent sector to create new growth avenues



Adapt supply chain for resiliency



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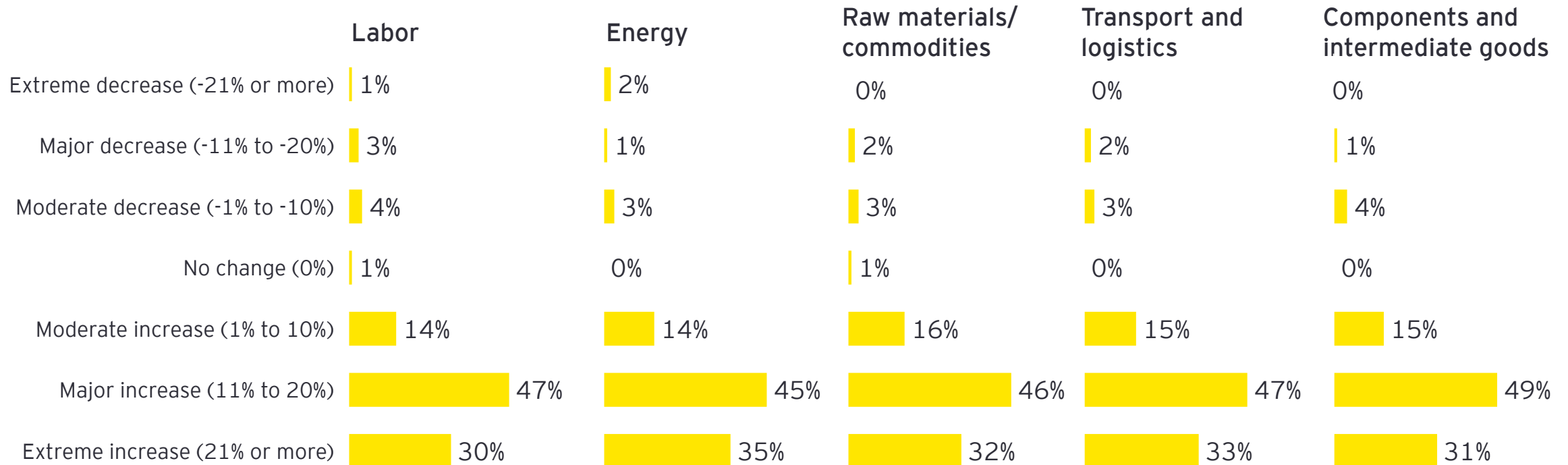
■ First priority ■ Second priority ■ Third priority

Price increases for companies running well above inflation

While energy grabs headlines, prices are increasing across all major inputs

Q How have input prices changed in each of the following areas over the past six months?

Global

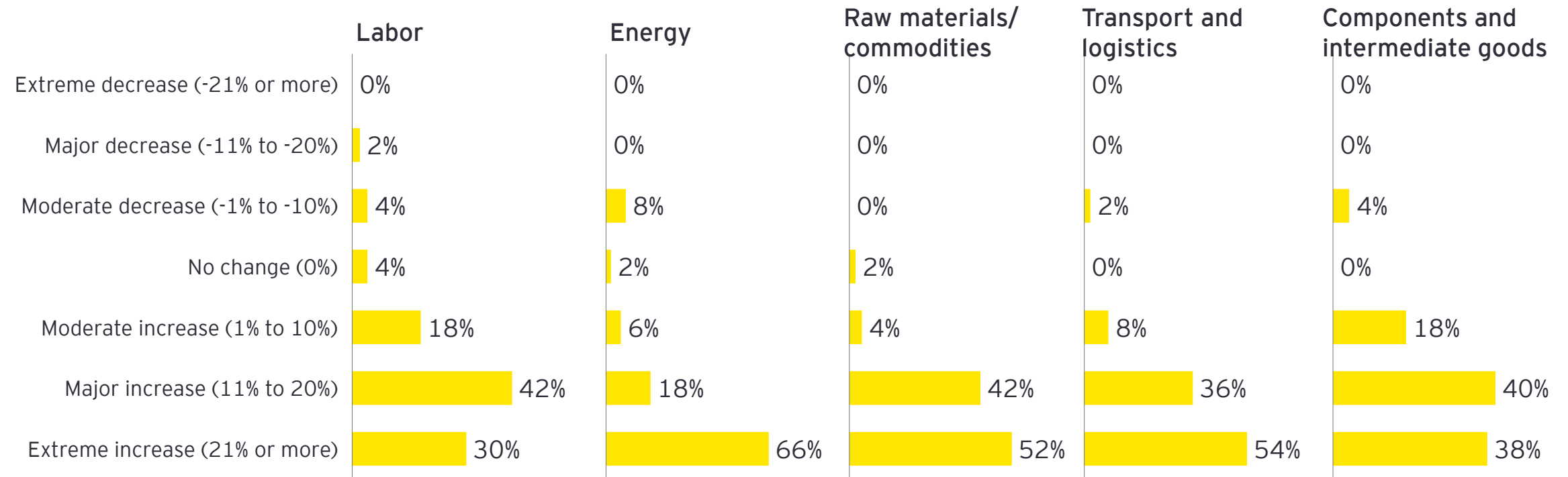


Price increases for companies running well above inflation

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Q How have input prices changed in each of the following areas over the past six months?

Italy



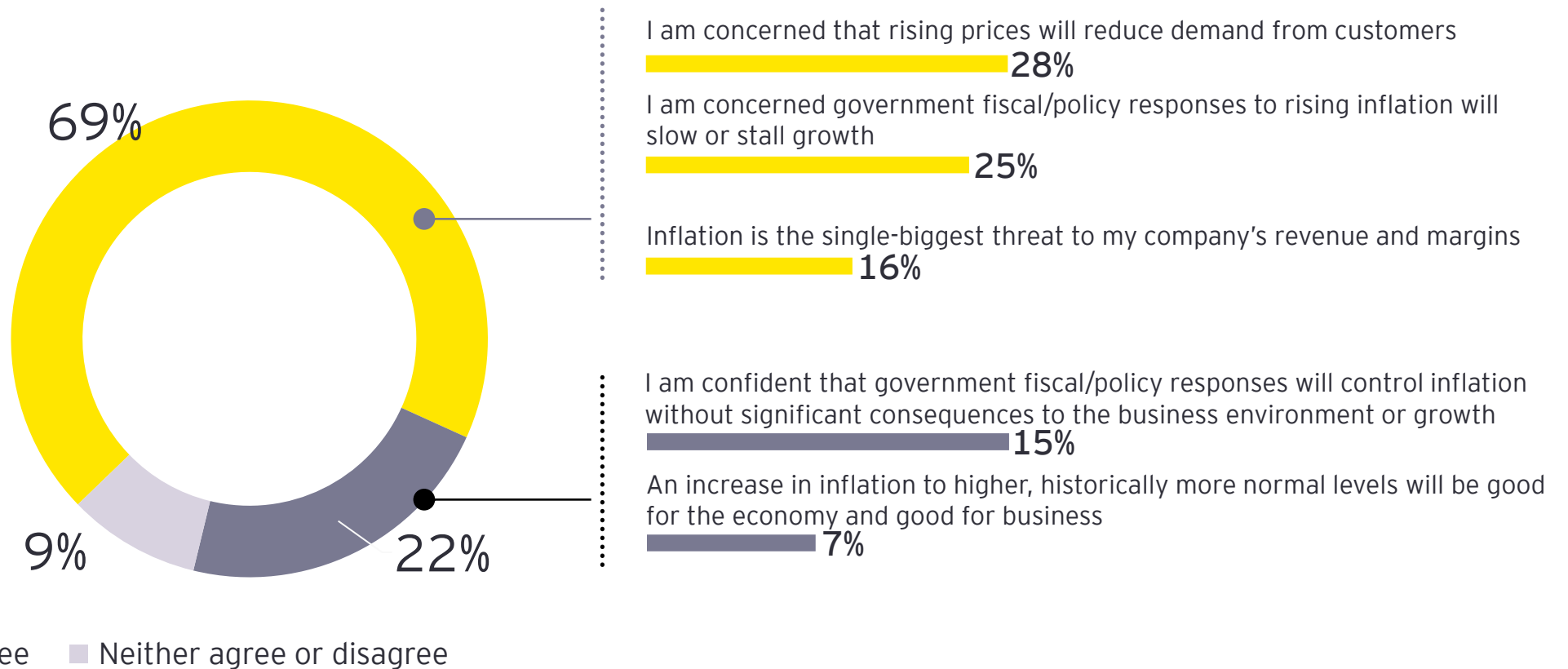
Inflation-driven demand destruction is the major concern for CEOs

With a sizable number of respondents seeing it as the major threat to their business

Q

Do you agree or disagree that inflation, and resulting government responses, will negatively impact your company's financial performance and growth?

Global

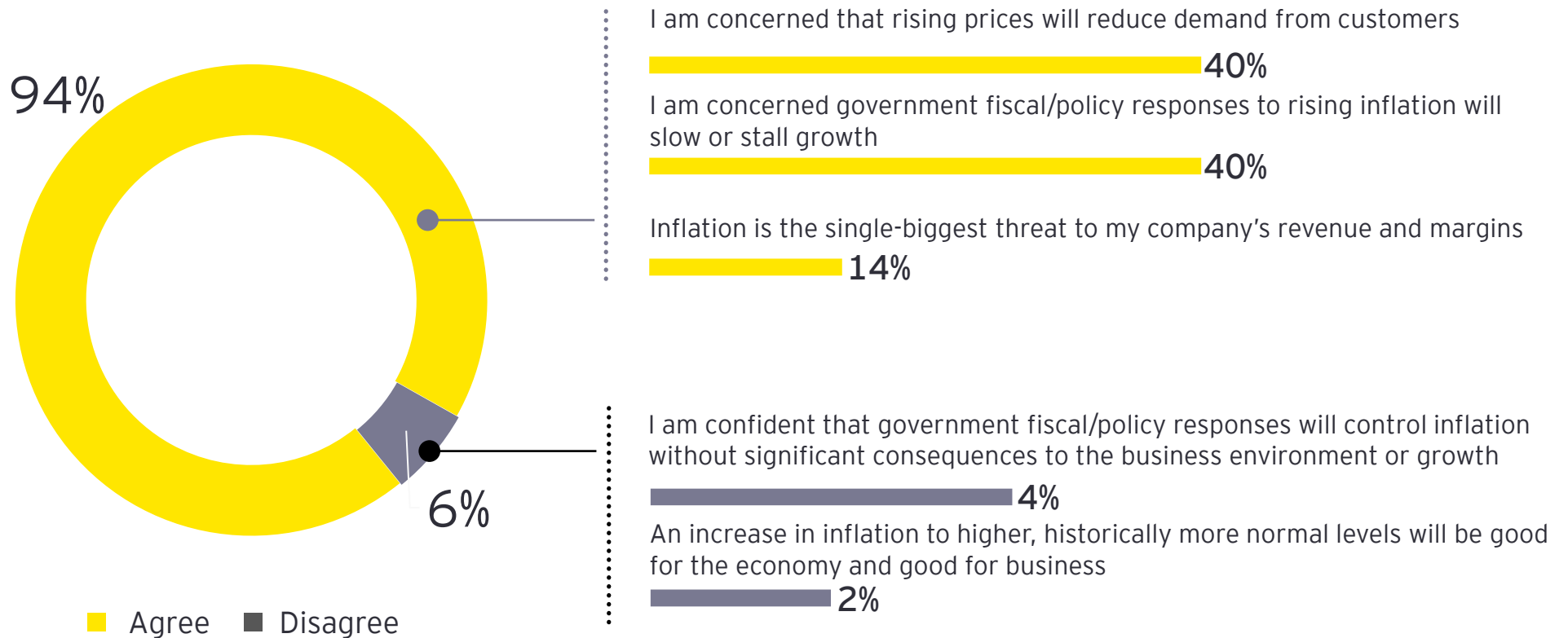


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With a sizable number of respondents seeing it as the major threat to their business

Q Do you agree or disagree that inflation, and resulting government responses, will negatively impact your company's financial performance and growth?

Italy





M&A outlook

Despite the headwinds, CEOs look to invest for the future

Even as the economy slows, disruption is accelerating, with M&A a way to stay ahead

Q What transaction plans you expect to pursue over the next 12 months?

As well as acquisition and divestment, we plan a joint venture (JV) or strategic alliance



We plan both acquisition and divestment



We plan acquisition only



We plan divestment only

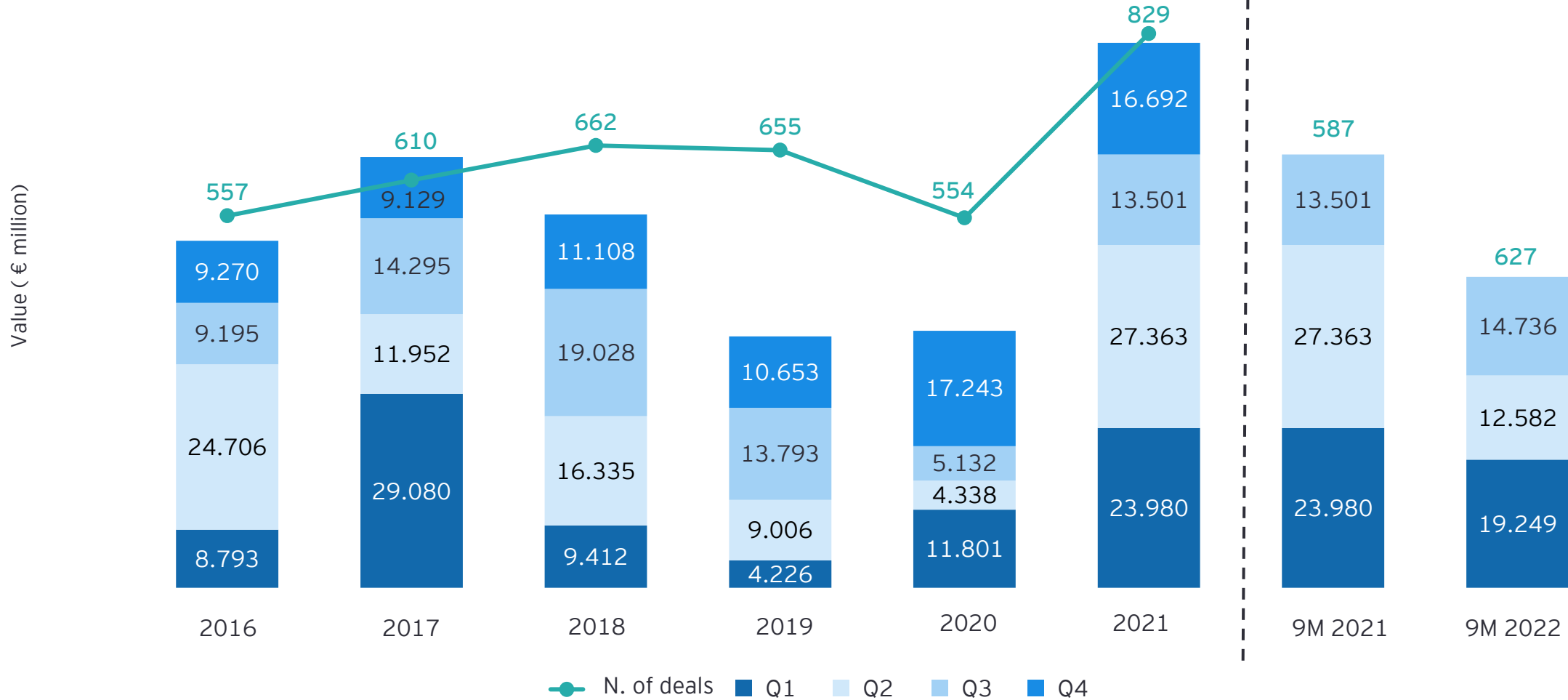


■ Italy
■ Global



M&A activity in Italy maintained a robust pace in 2022, even if lower than 2021 historical peak

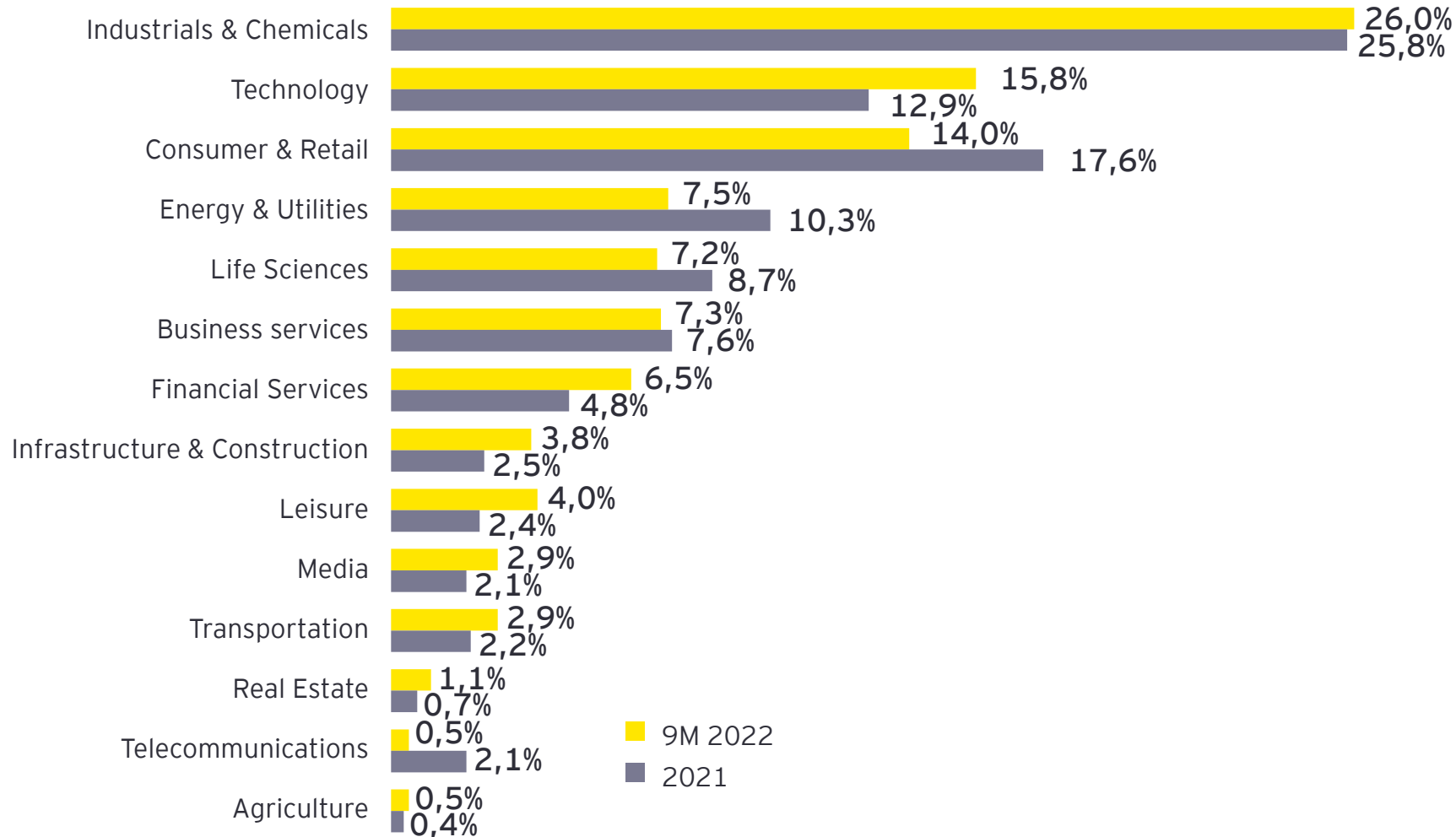
Trend of M&A in Italy



Source: EY analysis of Mergermarket data, deals with value exceeding \$ 5 million

The M&A appetite for technology sectors has increased in 2022

Breakdown of transactions by sector of the Italy based target company (by number of transactions)

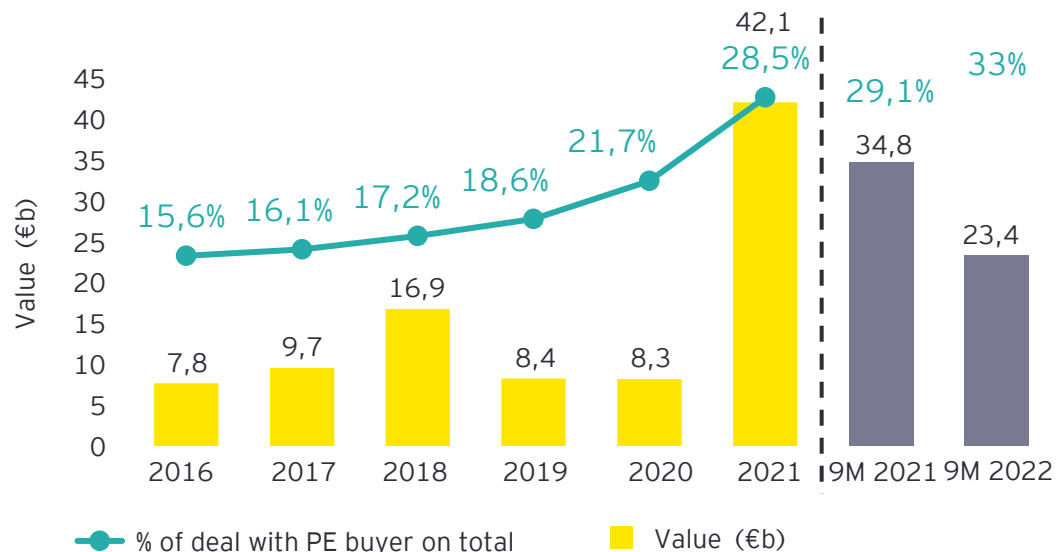


In 2022 the Italian market experienced an increasing investment interest in the technology field (especially software development and cybersecurity), infrastructure, transportation and financial services.

On the other hand, traditional made in Italy sectors of retail & consumer goods, penalized by raw material cost increase, saw a decrease in M&A in the second and third quarters of the year.

Despite the considerable uncertainty at geopolitical and economic level, Private Equity has maintained its stable role in supporting the growth of Italian companies in 2022

Private Equity Investments ('PE') in Italy

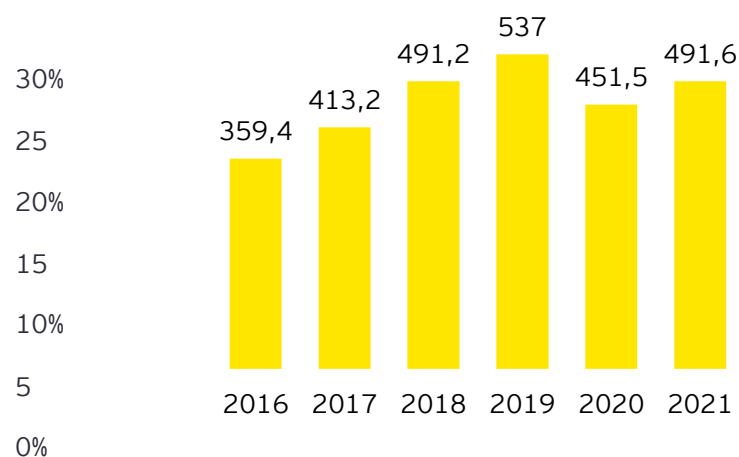


In the first 9 months of 2022, Private Equity funds and infrastructure funds concluded c. 207 buy-out transactions on Italian targets, for an aggregate value, where available, of approximately € 23.4 billion (compared to 171 transactions in the first 9 months of 2021 for € 34.8 billion).

After an intense activity in the beginning of the year (€10.7b invested in the first quarter), the aggregate value of deals slowed down (€7.2b in Q2 and €5.5b in Q3).

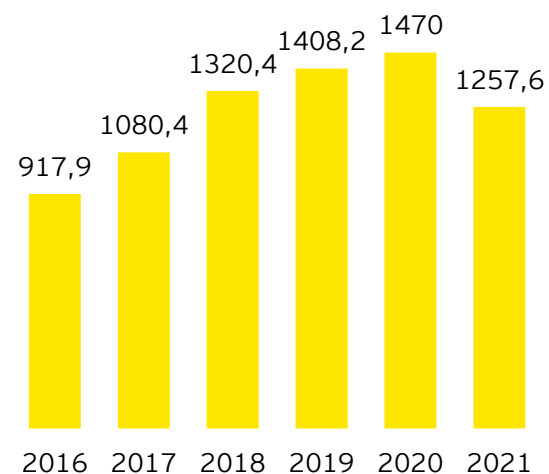
Source: EY analysis on Mergermarket and Pitchbook data

Global Private Equity Collection (\$Billion)



Looking at the international scenario, in 2021 Private Equity fundraising remained at high levels, higher than the previous year

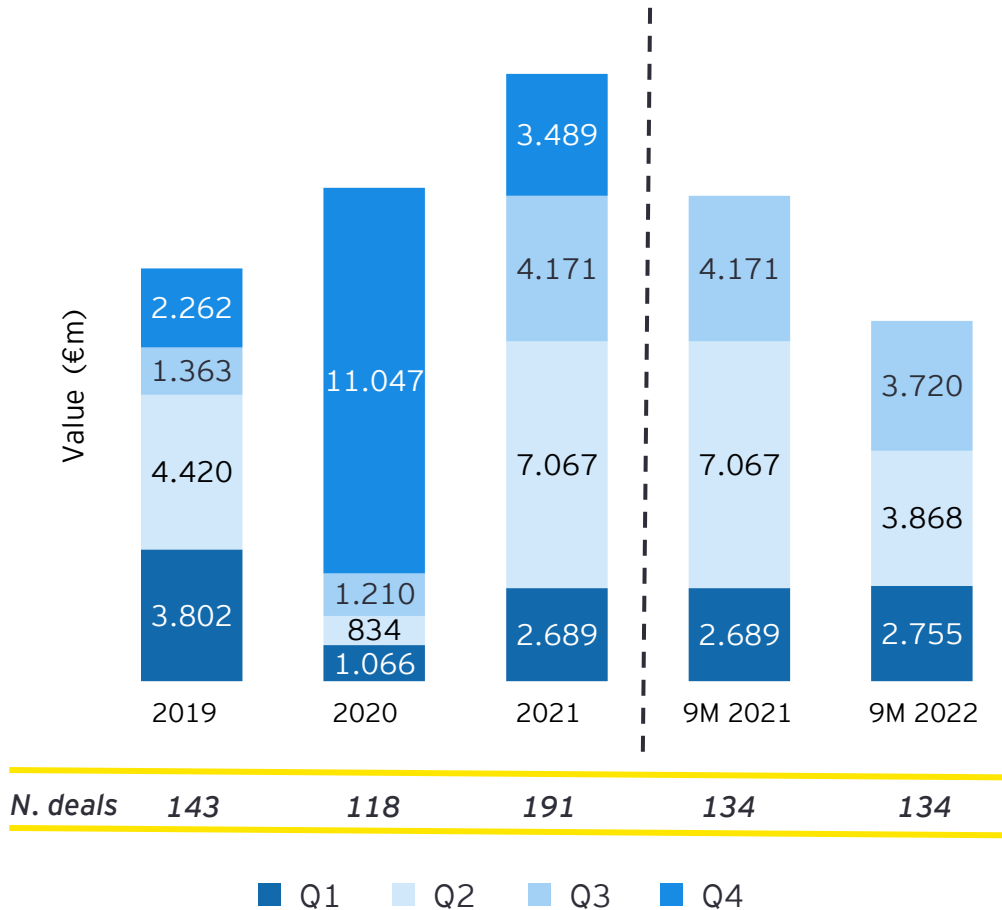
Global Private Equity Dry Powder (\$Billion)



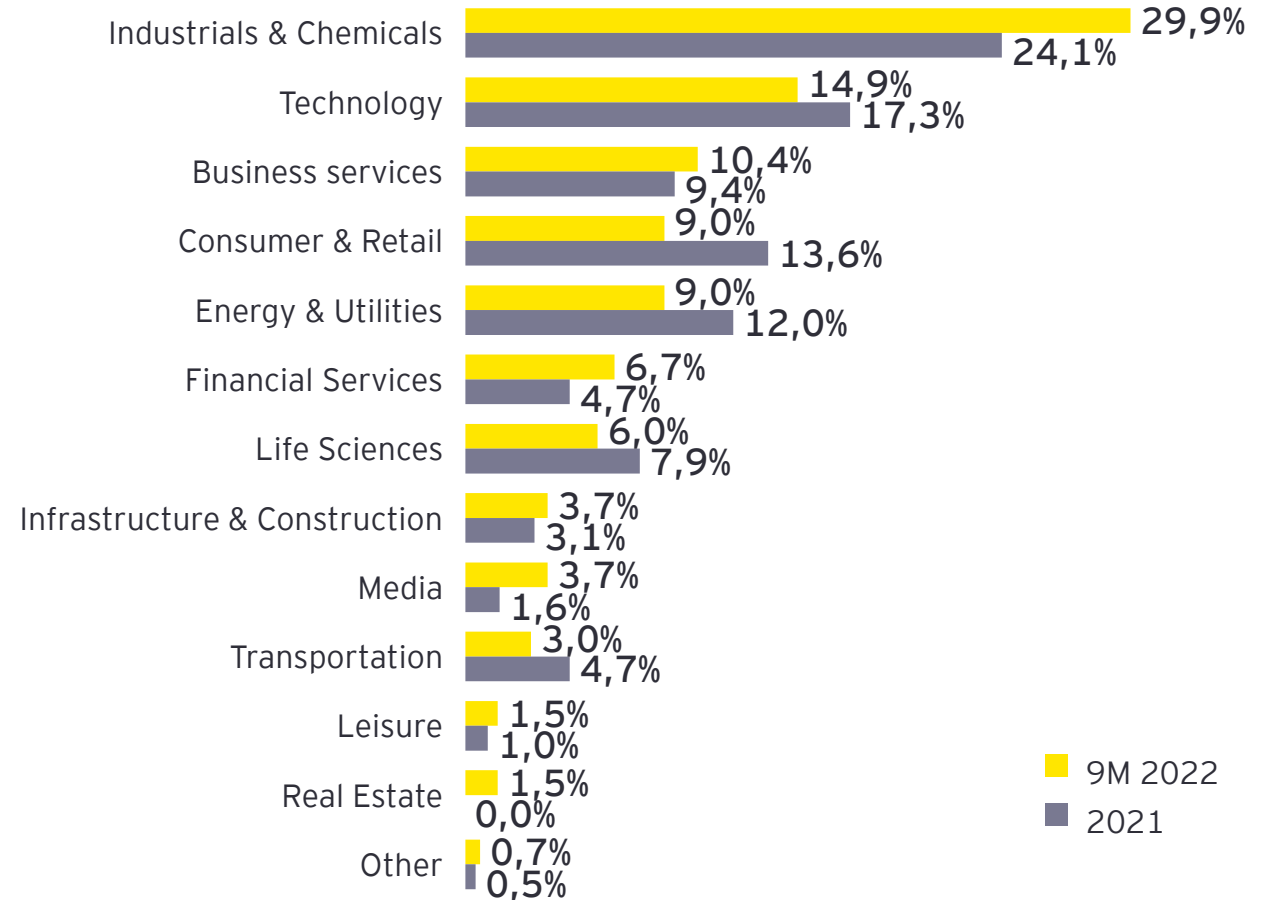
The amount raised and not yet invested by the funds (dry powder) amounts to c. \$ 1,257.6 billion globally, in decrease with respect to the 2020 figure due to the significant capital deployment that took place in 2021

In 2022 the number of acquisitions by Italian companies abroad shows a growing trend compared to the pre-Covid period, even if lower than 2021 peak

Trend of outbound M&A
(Italian buyers on target companies located abroad)



Breakdown of outbound transactions by sector of the target company
(by number of deals)



Source: EY analysis of Mergermarket data, deals with value exceeding \$ 5 million

The primary drivers behind CEO deal intentions mirror their strategic focus

Enhancing innovation and building new avenues to growth to propel M&A

Q

What would be the primary driver for your next planned transaction, including acquisitions, divestments, joint ventures, strategic alliances and other significant investments?

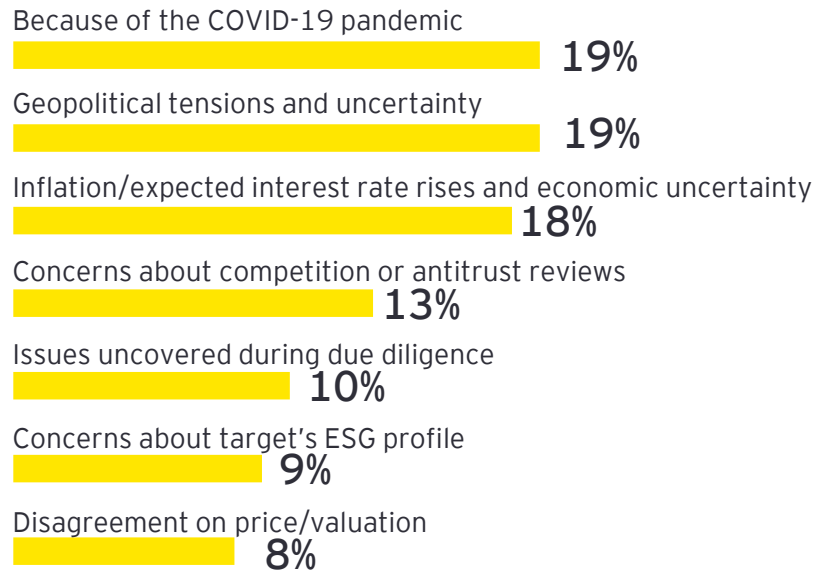
	Americas	Asia-Pacific	Europe	Global	Italy
Investing in an early-stage business to enhance our existing portfolio, access new talent and/or create new business platforms	19%	26%	19%	21%	20%
Acquiring a business in an adjacent sector to create new growth avenues	13%	17%	17%	15%	14%
A transformative deal to shift to a new business model and customer base	15%	14%	16%	15%	12%
To access new markets in countries we do not currently serve	18%	9%	14%	14%	12%
Consolidation to improve efficiencies and margins	16%	10%	12%	13%	12%
To enhance our sustainability/ESG performance/ranking/footprint	9%	13%	14%	12%	16%
To boost resiliency in our supply chain	11%	11%	9%	10%	14%
Other	0%	0%	0%	0%	0%

Dealmakers have been disciplined about buying the right targets for the future

Detailed diligence highlights problems best avoided, both present and future

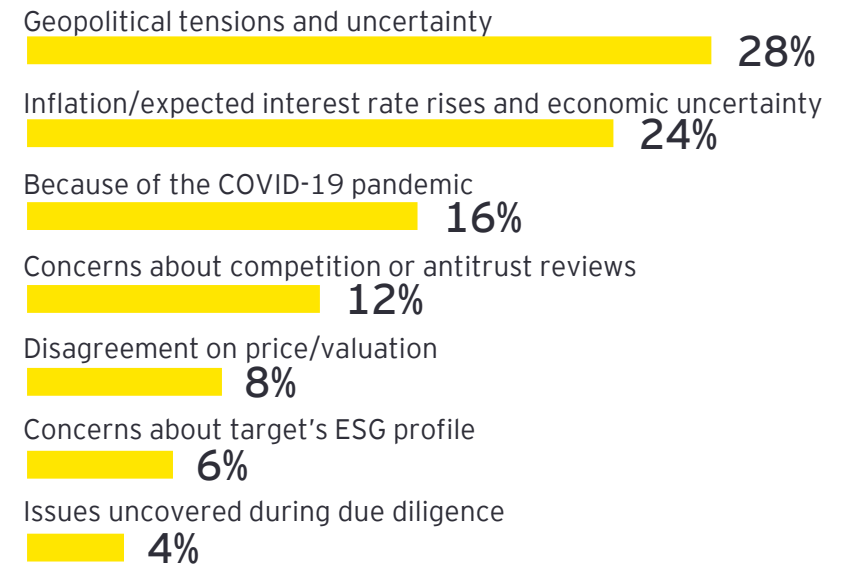
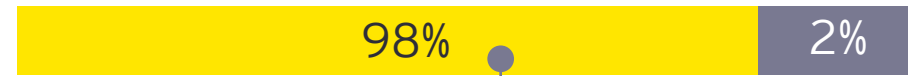
Q Have you failed to complete or canceled a planned acquisition in the past 12 months? If so, what is the primary reason?

Global



■ Yes ■ No

Italy

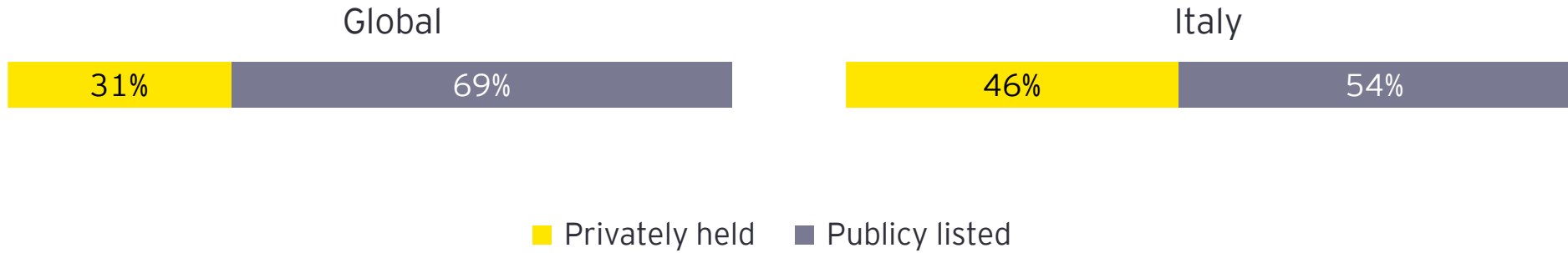


A scenic landscape featuring a calm lake reflecting the surrounding mountains and a bright sun setting or rising in the distance. The sky is a mix of blue and orange. A large, semi-transparent green number '4' is overlaid on the left side of the image. The text 'Participant profile' is written in white, sans-serif font across the middle of the number '4'.

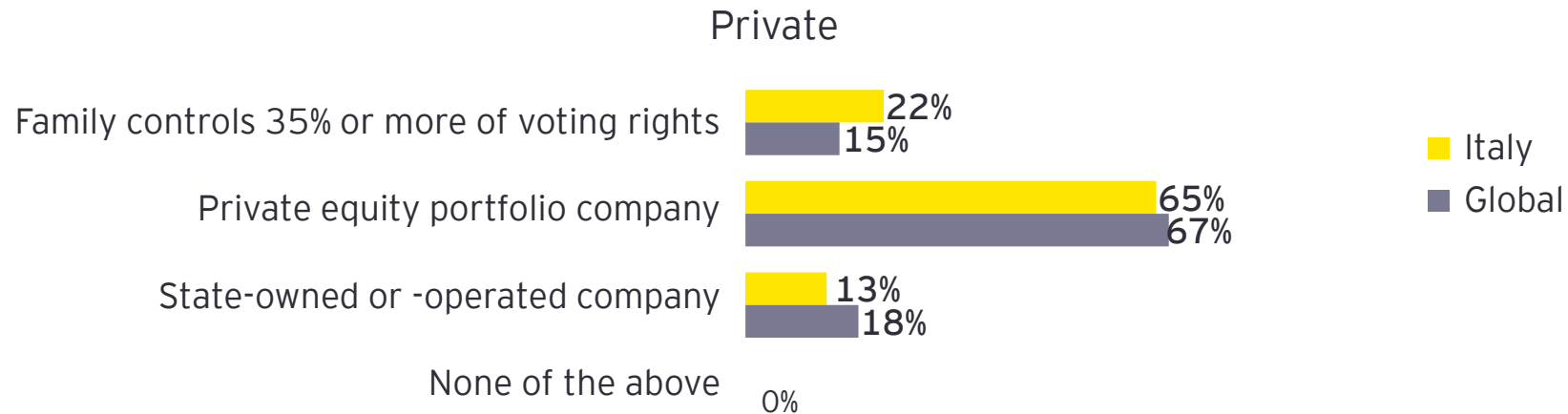
4 Participant profile

Participant profile

Q What is your organization's ownership structure?

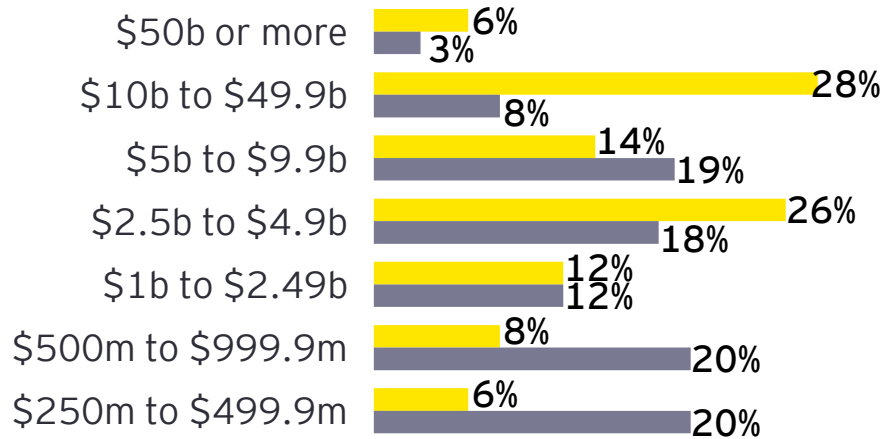


Q Which of the following, if any, apply to your organization's ownership structure?

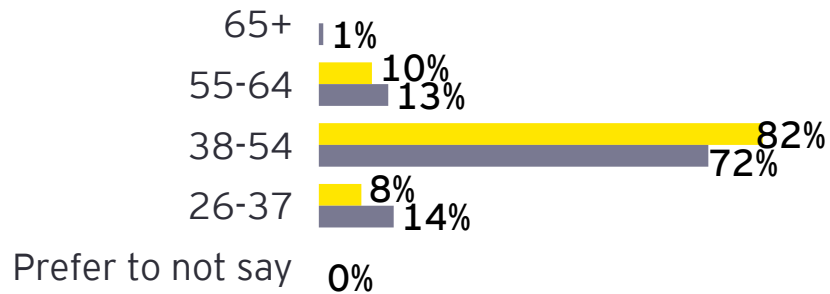


Participant profile

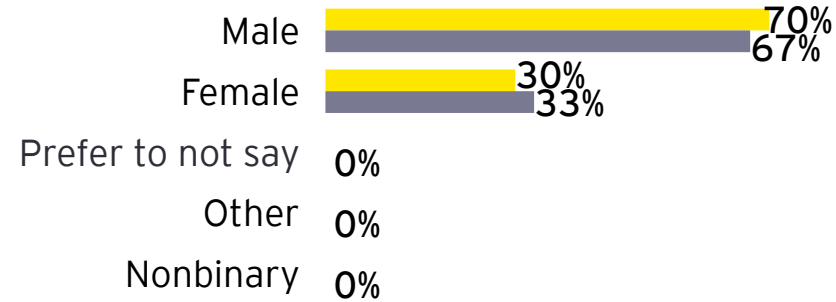
Q What was your organization's annual revenue in the last fiscal year (in US dollars)?



Q Please confirm which age group you fall into



Q For statistical purposes only, please confirm your gender



■ Italy ■ Global

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