# KPMG's Global Industrial Manufacturing CEO Outlook

KPMG in Belgium

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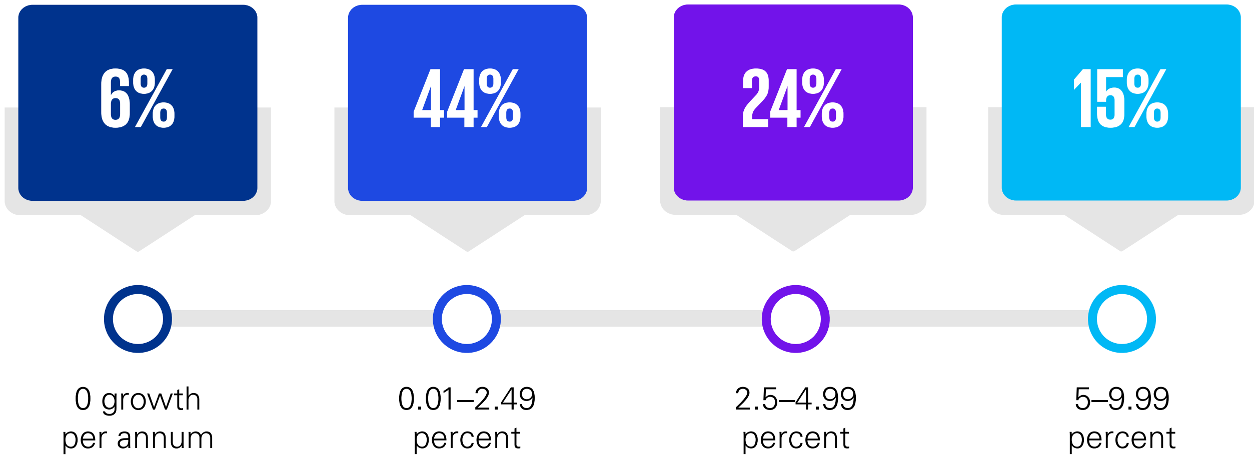
# In 2024, industrial manufacturers expect to respond to the low-growth environment by focusing on digitization, ESG and portfolio reshaping.

Industrial manufacturing CEOs are increasingly optimistic about the economy. Indeed, according to our survey of 175 industrial manufacturing CEOs globally, confidence in the economy is up 5 percentage points over last year. Supply chain disruptions have started to ease. Input and transport costs are normalizing. Interest rates seem to be plateauing and are widely expected to decrease in 2024.

However, few industrial manufacturing CEOs seem to think their company's growth will outpace the economy. Just 39 percent of the CEOs we surveyed said they expected to see growth of more than 2.5 percent over the next three years. That is lower than the current rate of inflation, and largely on par with GDP growth expectations in most markets over the same timeframe. Outperformance will likely not come from maintaining the status quo.

**Earnings outlook for next three years**




Source: KPMG 2023 CEO Outlook

**"Despite economic challenges, valuations for robust industrial manufacturing companies remained elevated and a large proportion of global industrial manufacturing stocks hit all-time highs in the fall. And now CEOs need to find ways to continue to create shareholder value from this high base. Embracing fundamental changes and pursuing transformational initiatives will be crucial for helping continued growth and to create shareholder value."**

**Stéphane Souchet**
Global Head of Industrial Manufacturing, KPMG International

# Tackling the twin transformations

Unsurprisingly, our survey shows that industrial manufacturing CEOs remain keenly focused on the twin transformations underway around digitization and ESG.

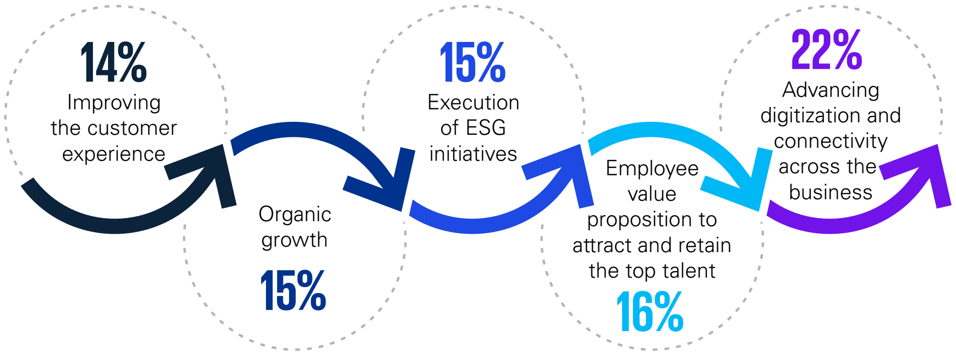
In fact, the CEOs in our survey reported that digitization and connectivity represented their top operational priority for achieving their growth objectives. That means more adoption of Industry 4.0 (I4.0) technologies and models. Strikingly, 69 percent of surveyed CEOs said that investment in generative AI is at the very top of their company's investment priorities in order to redesign their processes, rethink client experiences and interactions, and ultimately increase efficiency and agility.

ESG also featured high on CEOs' agendas. Our survey indicates that many organizations recognize the significance of ESG in attracting and retaining top talent. Additionally, CEOs acknowledge the potential financial benefits of demonstrating their commitment to ESG principles, including reduced capital costs and improved access to capital. And 71 percent of CEOs said they would be willing to divest of an asset that dilutes their organization's image in this area, further establishing the link between ESG strategy and corporate business portfolios.

**"Our smart industrials clients are working with us to 'manage the hype' around generative AI in their organizations, and in doing so, carefully selecting those functions, processes and roles where generative AI can make a positive impact. The potential for value capture and/or improved productivity is definitely there, but it is important to approach it in a thoughtful and practical manner."**

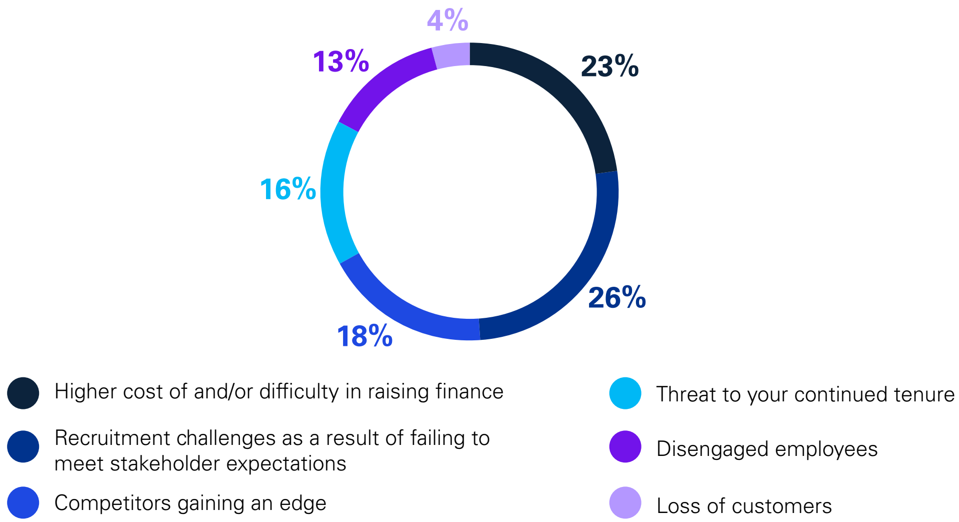
**Claudia Saran**
Partner and National Sector Leader for Industrial Manufacturing
KPMG in the US

**Top operational priorities to achieve growth objectives**




Source: KPMG 2023 CEO Outlook

**Major downside of failing to meet the expectations of stakeholders in ESG**




Source: KPMG 2023 CEO Outlook

# Ignite growth through strategic M&A

An uptick in deals in the market is likely, as players seek to rapidly adapt to the low-growth environment. According to our survey, 88 percent of industrial manufacturing CEOs think their organization will make an acquisition over the next three years. Fifty-eight percent of our respondents said they were likely to undertake acquisitions that would have a significant impact on their overall organization over the next three years.

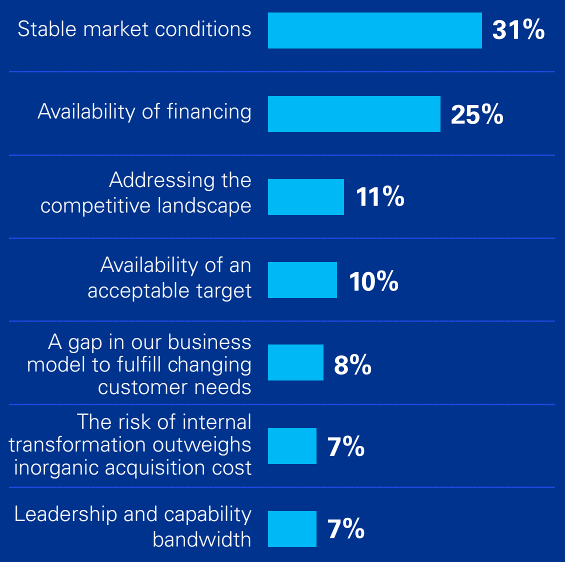
Portfolio reshuffling is expected to gain momentum in the market as players seek to focus on core strengths and divest assets that no longer support their long-term strategy and might struggle to access the necessary investments to create value over the long term. Manufacturers in our survey clearly stated that stable market conditions and availability of financing are the two pre-requisites to resume stronger M&A activity. It is encouraging to note that these two conditions significantly improved during the fall of 2023.

**"Increased deal activity is expected in the industrial manufacturing space this year, focused on portfolio rotation and asset recycling as companies with strong balance sheets focus their investments into growing their priority businesses. That will likely trigger the divestment of other businesses that might have a better future and stronger growth potential with other investors."**

**Stéphane Souchet**
Global Head of Industrial Manufacturing
KPMG International

### M&A appetite for the next three years


### Precondition to prioritize inorganic growth over organic growth




Source: KPMG 2023 CEO Outlook

# Ups and downs ahead

While 2024 may be an exciting year for many industrial manufacturers, there may also be a cohort that could face significant challenges. As the effects of state supports start to get ratcheted back, we may see many so-called 'zombie' companies struggle to access (re)financing. Some may restructure. Others could fail.

Those who are able to emerge from the three recent global crises (a health crisis, a geopolitical crisis and an inflation crisis) should find themselves in a strong position for outpaced growth. In fact, for many companies, this could be a defining year where digitization, ESG and inorganic growth all come together to drive a deeper transformation for manufacturers. But it will likely require industrial manufacturing CEOs to make some bold moves.

KPMG industrial manufacturing professionals are dedicated to helping global companies go from strategy through to implementation and value creation. Contact your local KPMG firm today to find out how KPMG professionals can support your organization.

**"Industrial manufacturing companies are looking at leveraging digital to offer differentiated value to their customers, changing their business models and improving operational efficiencies. For example, many industrial companies are moving from 'product sales' to 'product as a service' which needs a different set of Connected capabilities across the value chain to sell and deliver services to customers."**

**Vinodkumar Ramachandran**
Global Head, Industry 4.0, KPMG International and Partner, Head of Business Consulting and Head of Industrial Manufacturing & Automotive Sector, KPMG in India

# Contact


**Stéphanie Porteman**

Partner
Connected Enterprise | Advisory
KPMG in Belgium
E:stephanieporteman@kpmg.com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