

2023 Manufacturing Survey Executive Summary

May 2023

These materials are intended to supplement a discussion with L.E.K. Consulting. These perspectives will, therefore, only be meaningful to those in attendance. The contents of the materials are confidential and subject to obligations of non-disclosure. Your attention is drawn to the full disclaimer contained in this document.



Industrial Equipment & Technology (IE&T) Executives are facing numerous challenges including inflation, supply chain disruption, sustainability concerns, and economic uncertainty



Inflation / high cost of doing business



High inflation resulting in increased material costs and raising interest rates



Supply chain disruptions



Supply shocks and war in Ukraine as well as increased prioritization of onshoring



Sustainability concerns



Increasing pressure to begin executing on long-term priorities such as ESG as well as automation and digitization



Economic uncertainty

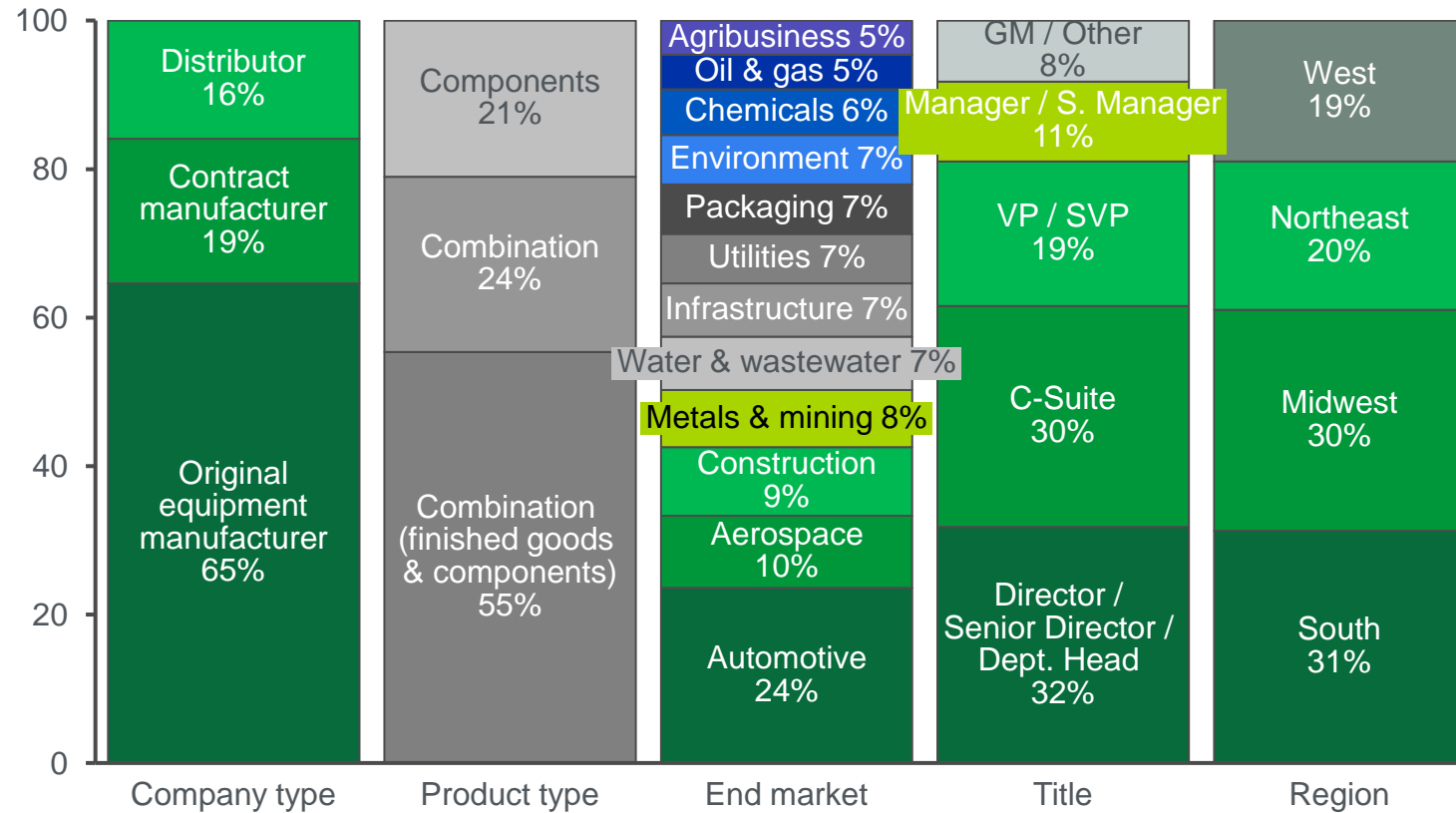


Uncertainty around macro conditions due to monetary policy and geopolitical shocks

Given the current environment and impacts on U.S. manufacturing businesses, L.E.K. surveyed executives to understand the impact on their near and long-term strategic priorities

L.E.K. sought to understand how IE&T companies are addressing these challenges and, in the midst of them, planning for the future

Survey of
195 U.S. IE&T Executives in April 2023...



...accompanied by in-depth interviews with senior executives

Representative titles

Chief Executive Officer
Chief Commercial Officer
Global Director of Project Management
Global Head, Product & Strategy

*Representative companies**



Note: * Not exhaustive; excludes mid-sized companies
 Source: L.E.K. survey analysis

IE&T executives are faced with numerous challenges, but are generally optimistic in their ability to achieve key priorities

Progress on near-term priorities

Progress addressing historic challenges | IE&T companies have previously prioritized **operational, inflationary, supply chain, and labor challenges**, making progress since last year, with a continuing focus on supply chain initiatives

Investing in operational efficiency | New technologies and processes are being implemented to improve efficiency, automate tasks, enhance monitoring, and simplify manufacturing to resolve **near-term operational and supply chain priorities**

Shifting priorities

Investing in operational efficiency and expanding the core | Companies are **prioritizing revenue and profit growth** by targeting new customers, high-margin products, growing recurring revenue, and bundled products / services

Shifting long-term priorities | As companies have started to put out operational and inflationary brushfires, companies plan to increasingly leverage **automation** in manufacturing processes and **digital** technologies to increase operational efficiency / **sustainability** and digital offerings as part of their long-term strategy

Confident in ability to achieve priorities

Business economics and supply chain confidence | Companies are confident they can achieve **revenue growth, profit growth, and supply chain** initiatives by re-investing in customer acquisition, marketing, high-margin product expansion, and automation tools

Optimistic outlook in achieving long-term priorities | Despite macroeconomic challenges and investment barriers, IE&T companies are confident in their ability to address long-term transformative initiatives such as **electrification, digitization, ESG, and automation** as technologies advance

The priorities of IE&T companies fall into three categories: financial, operational, and transformative and within each category, priorities vary in terms of importance to achieve overall company strategy

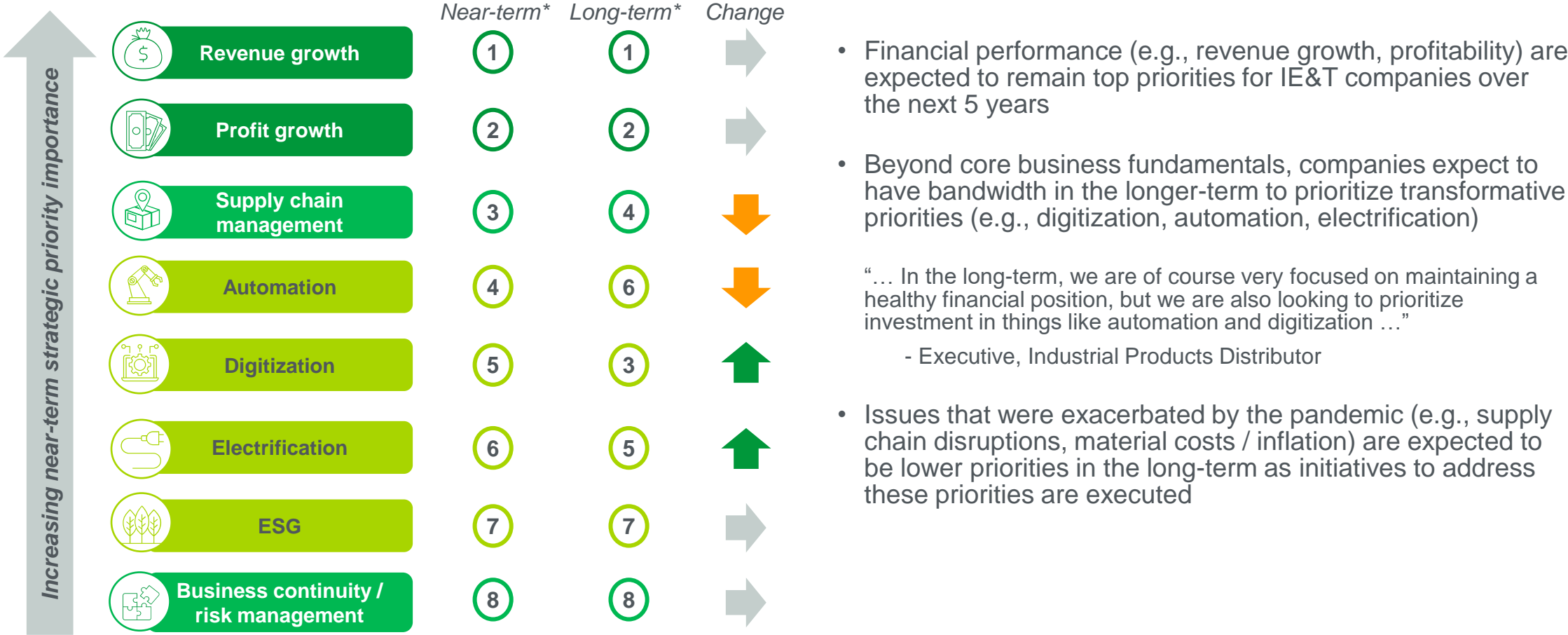
Categories of strategic priorities



Source: L.E.K. research and analysis

As IE&T companies address more pressing, near-term concerns, companies plan to continue prioritizing profit and revenue growth, and expanding focus on transformative initiatives, such as digitization

U.S. IE&T 2023 strategic priorities



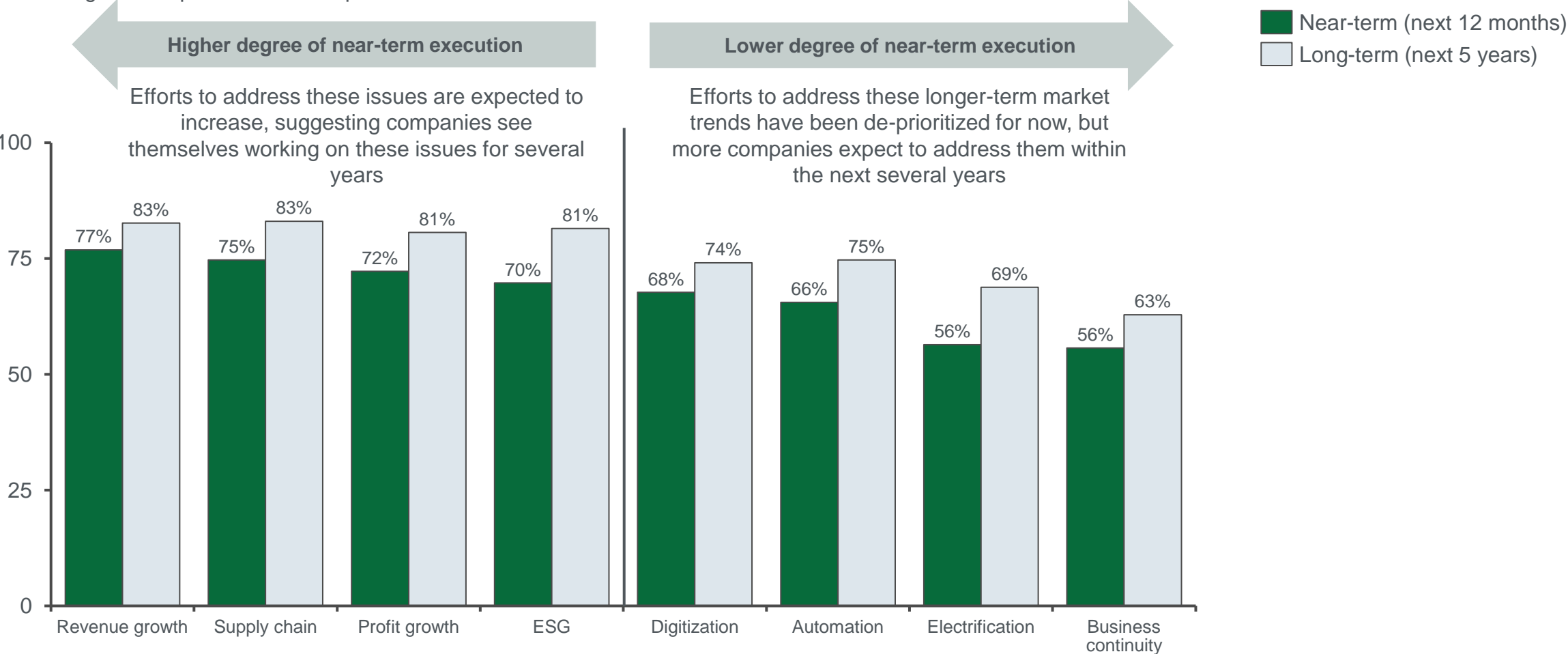
[Q14] How important are each of the following priorities to your company's broader strategy over the next 12 months? Please rate on a scale of 1 to 7 where '1' means "not at all important" and 7 means "very important."
 Note: * Rank is based on priorities with highest percentage of respondents selecting 6 or 7; 2022 did not include aftermarket strategy, manufacturing backlogs, changing interest rates, or DEI
 Source: L.E.K. survey analysis

Key Financial Transformative Operational

Key Rank increase No change Rank decrease

IE&T companies expect to shift to actively executing transformative priorities in the long-term, including digitization, automation, and ESG, while near-term challenges such as backlogs are deprioritized

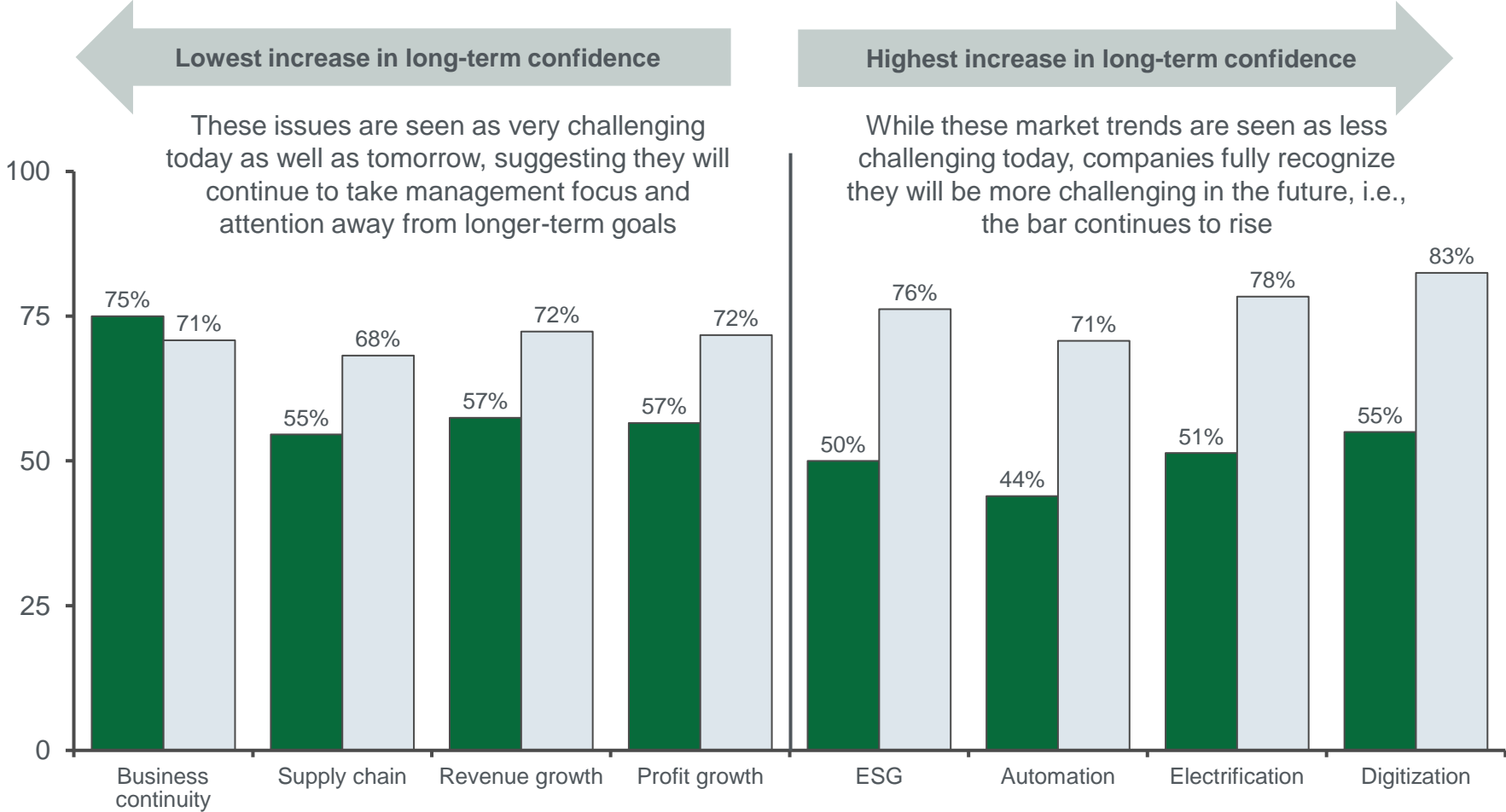
Percentage of companies that have plans / initiatives to address trends



Source: L.E.K. survey analysis

Companies' confidence in achieving goals varies based on the time frame being considered, and overall, executives are generally more confident in achieving long-term goals vs. short-term goals

Percent of responses ranked 6 or 7, with 7 being 'very confident'



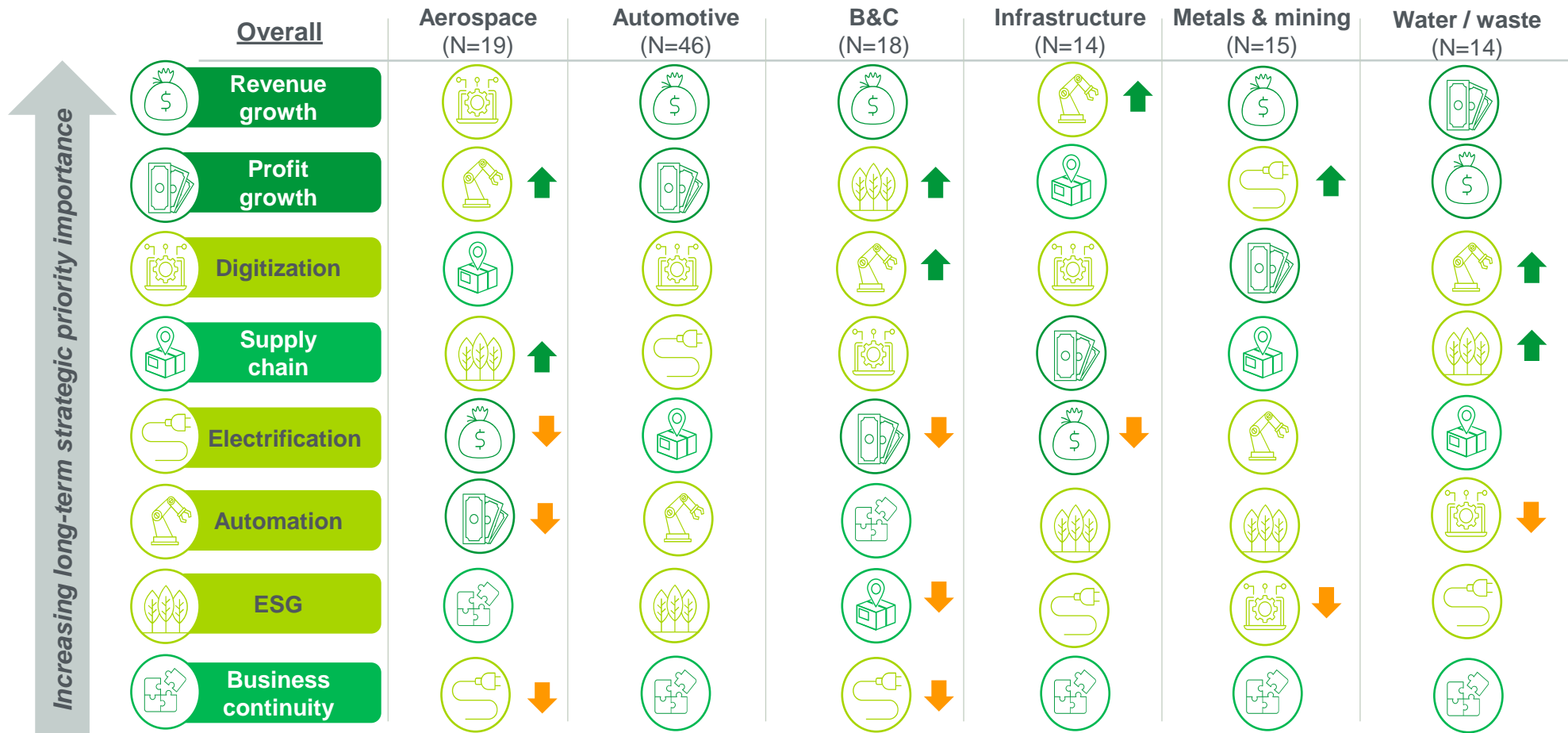
■ Near-term confidence (next 12 months)
 □ Long-term confidence (next 5 years)

- Transformative initiatives (i.e., digitization, electrification, automation, and ESG) saw the biggest increase in confidence from short-term vs. long-term
- This is largely driven by a widely-held belief among executives that most technical / commercial barriers to achieving transformative priorities will be overcome in the next 5 years

Source: L.E.K. survey analysis

IE&T companies face a unique set of challenges depending on the primary end markets they serve

Rank of percent of respondents rated 6 or 7, with 7 meaning “very impactful” (N = 195)*



Question: To what degree do the following trends have an impact on your strategic priorities for the next 12 months and 5 years?

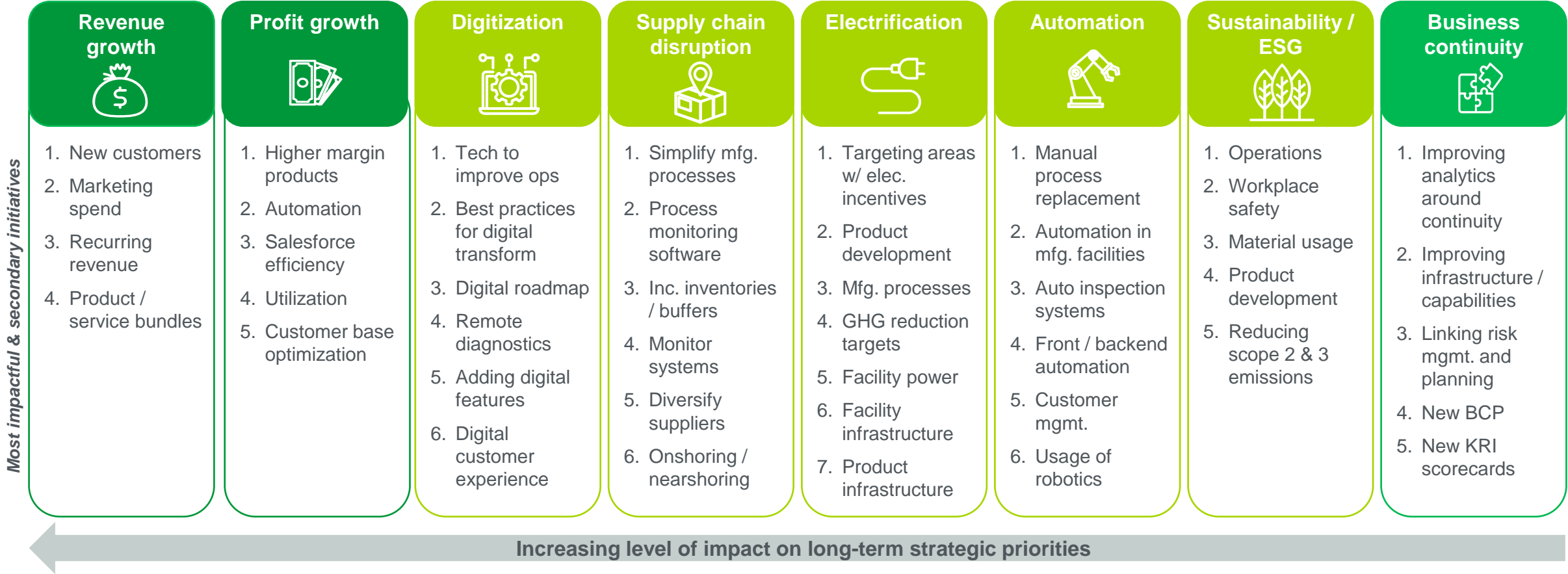
Note: *Percent of respondents rated a 5 used to break any ties within trends; Only includes end markets in which over 14 respondents selected as their primary end market

Source: L.E.K. survey analysis



There are numerous initiatives that industrial equipment & technology companies are taking to drive various strategic priorities

U.S. IE&T top priorities + key initiatives



Source: L.E.K. survey analysis

Key Financial Transformative Operational



IE&T executives are expecting to accelerate investments substantially over the next three years across all categories of priorities, further indicating confidence in companies' ability to achieve initiatives

Financial



- >55% of IE&T companies indicated they are confident in their ability to achieve revenue and profit growth, which is reflected by an expected ramp up in investment of +5% over the next three years on new market entry, aftermarket, high margin products, automation, and salesforce efficiency
- Investment in financial priorities, particularly those related to achieving revenue growth, is expected to accelerate faster than virtually all other priorities; however, >80% of cite investment required as a constraint to achieving success, time to execute, human capital / resource restraints

Operational



- Supply chain management is still expected to be the focus of operational investments as ~80% of companies across all supply chain initiatives expect to accelerate spending over the next three years, with a focus on improving monitoring systems and onshoring / nearshoring manufacturing
- Investment in other operational priorities are also expected to accelerate, with the difference in the percentage of executives that expect to increase spending over the next three years vs. the prior three years being >2x larger vs. last year, implying increased optimism and low spending in 2022
- Financial / timing constraints such as investment required (~90% of respondents), ROI (~70%), and time to execute (~70%) are viewed as the biggest challenges to executing operational initiatives

IE&T executives are expecting to accelerate investments substantially over the next three years across all categories of priorities, further indicating confidence in companies' ability to achieve initiatives

Transformative



- IE&T companies are planning to accelerate investment across initiatives of varying importance with successful track records, including increased spending on robotics (which is viewed as moderately important) of ~6% over the next three years as well as automating facilities and digital offerings
- Investment in automation is expected to slightly outpace investment in digitization initiatives, which is viewed as a more important near-term priority, as companies pulled back their spending over the past year and view automation as more commercially ready
- As a category, IE&T companies are expected to accelerate investments in initiatives to achieve transformative priorities faster than any other category over the next three years; however, required investment and technological barriers present major challenges