

TIAS

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QUARTERLY
REPORT

July 2017

CFO Survey
Europe | 2017

Q₂

Contents

3	Dashboard overview
4	CFO optimism & economic sentiment 2017
6	Finance & capital
9	Employment
10	Key results CFO Survey Europe, US, Latin America, Africa and Asia

Dashboard overview

61
/100

Strong improvement in economic sentiment

The average optimism level among European CFO's is up 5 points from 56 on a scale of 100, reflecting a strong uptick in economic sentiment observed over the last three quarters.

62%

Number of optimists w.r.t economic outlook is back at record high of 2015

The number of European CFOs that have a more positive economic outlook for the next 12 months, has jumped from 41% in Q1 to 62% in Q2, back at the record highs of 2014 and 2015.

63
/100

Continued uptick in business confidence

Confidence among European CFOs about their own company's financials is up 1 point from 62 (on a scale of 100) and continues the strong level and upward trend of the previous quarter.

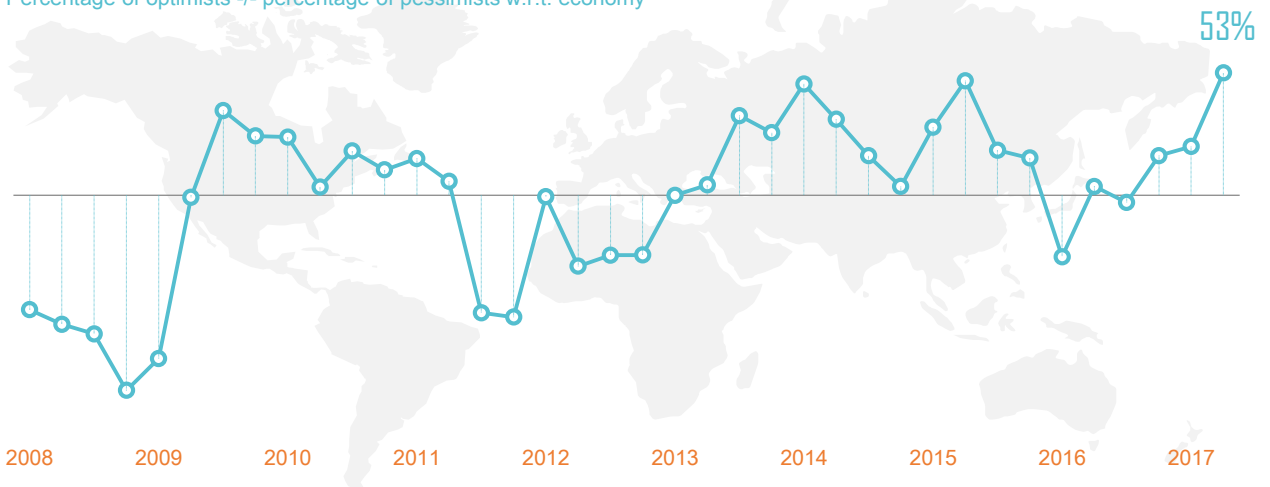
44%

Sustained number of CFOs optimistic about own company's financial outlook

4 out of 10 CFOs are more optimistic about their company's financial outlook over the next twelve months, with only 13% less optimistic. This positive trend continues that of previous 2 quarters.

Chart 1. European CFO optimism index

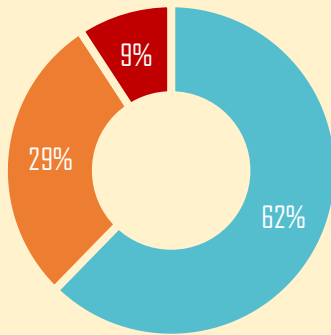
Percentage of optimists -/- percentage of pessimists w.r.t. economy



CFO optimism & economic sentiment 2017

Chart 2. Optimism CFOs about economy of own country

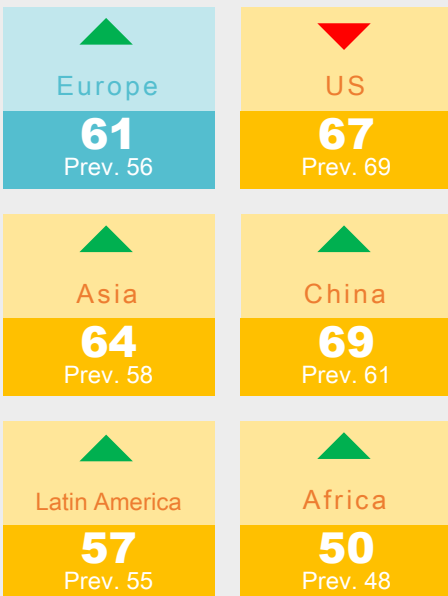
% optimists vs pessimists among European CFOs



- More optimistic
- No change
- Less optimistic

Chart 3. Average level of optimism

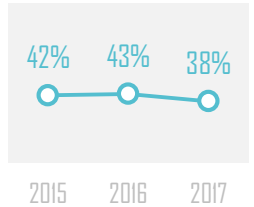
Europe compared to major economic regions (on a scale of 1- 100)



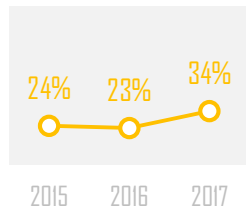
Top 10 concerns European CFOs

Percentage of CFO's, Q2 2017 compared to Q2'16 and Q2'15

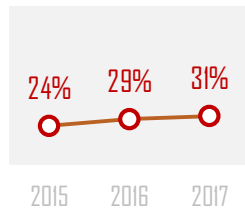
1 Economic uncertainty



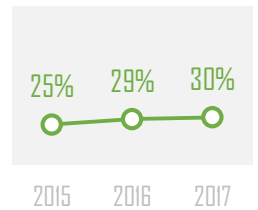
2 Attracting / retaining qualified employees



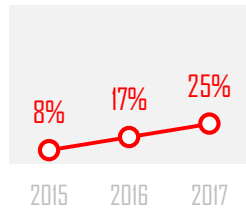
3 Regulatory requirements



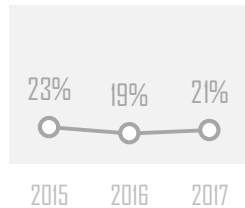
4 Government policies



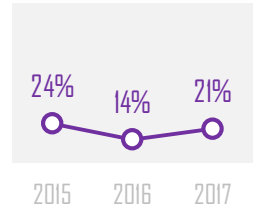
5 Data security



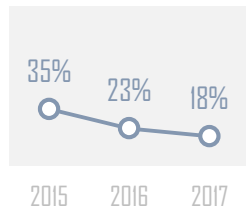
6 Employee productivity



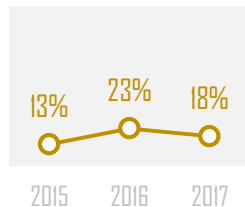
7 Access to capital



8 Currency risk



9 Employee morale



10 Weak demand products / services

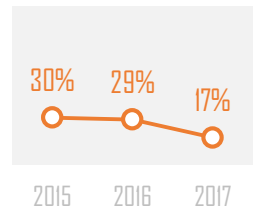


Chart 4. Compared to an average or normal amount of uncertainty, what has the current amount of uncertainty about governmental policies and/or economic conditions led your firm to do (select one)?
Companies with uncertainty level below average vs uncertainty level above average (% of CFOs)

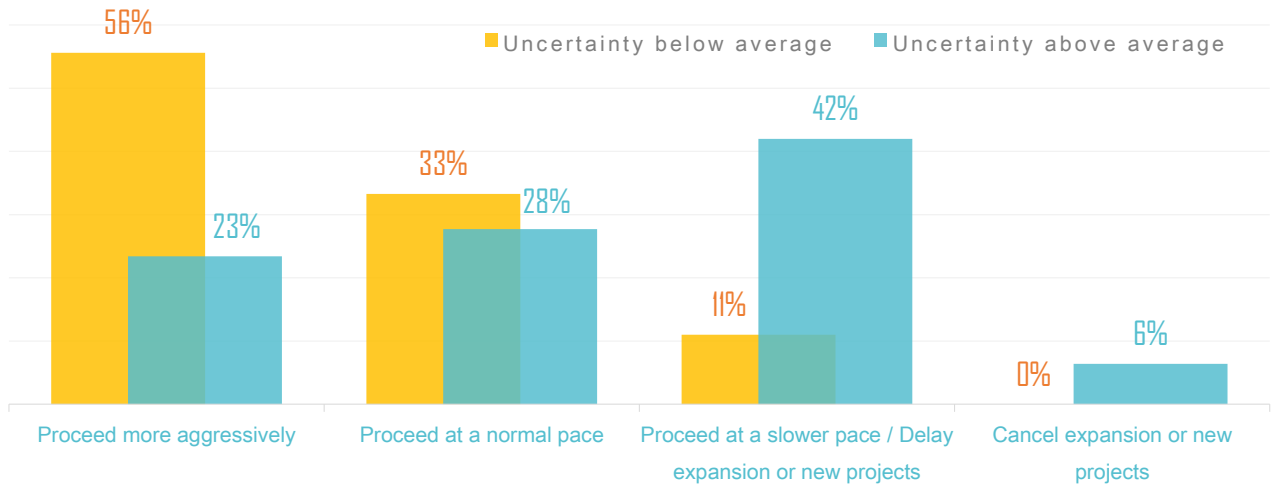
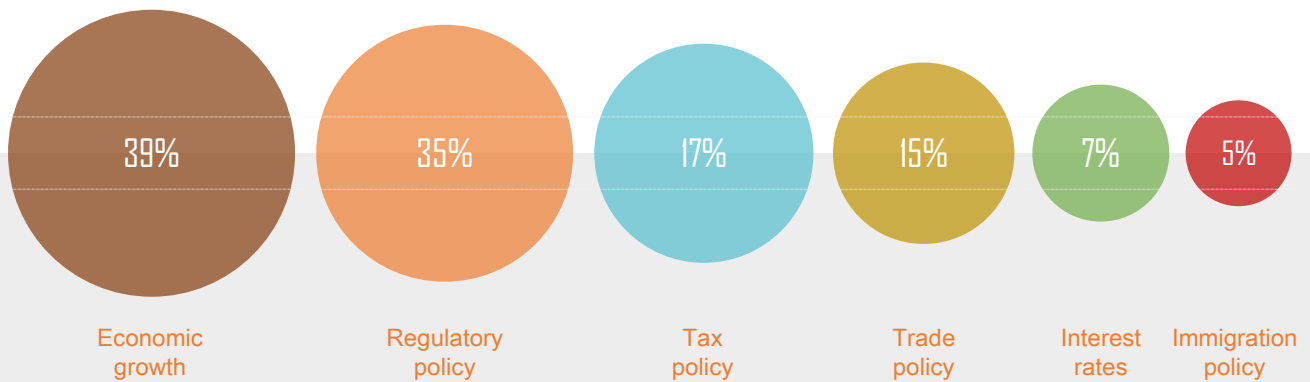


Figure 1. Factors of uncertainty that are holding back CFOs' plans for expansion and new projects
(Percentage of CFOs)



Follow strategy

Cultivate market intelligence skills

Cost control

Diversify

Flexibility in decision making

Innovate

Scenario analysis

Flexible hiring

Liquidity & capitalization

Contingency planning

Risk management

New market development

Focus on core business

Develop trusted relationships with clients

Best practices utilized by CFOs

when operating under high uncertainty about governmental policy and economic conditions

Finance & capital

63%

Capital spending

More than 60% of the European CFOs says that their company will expand its capital expenditures over the next twelve months.

55%

Research & Development

More than half of the companies is expected to increase their expenditures in R&D during the next twelve months.

65%

Technology spending

Two thirds of European CFOs anticipate increased spending on technology during the next twelve months.

60%

Marketing & Advertising

Almost two-thirds of the financial executives anticipates an increase in marketing and advertising spending in the next 12 months.

Chart 5. CFOs' expected growth in business spending for next 12 months
Average growth rates in percentages, compared to the previous quarter and one year ago.

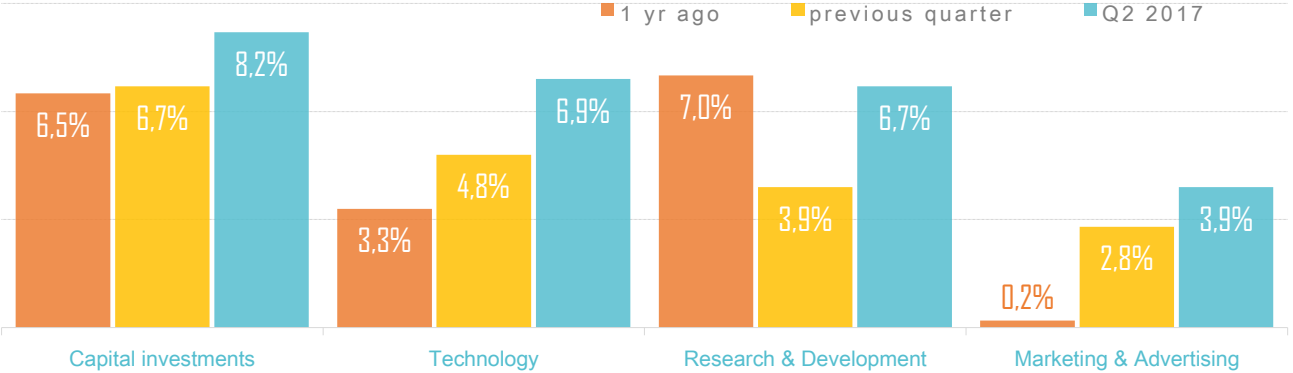


Chart 6. Weighted Average Cost of Capital (WACC)
Breakdown of WACC components (averages for European companies)

8.8% Average WACC for European companies

6.7% Average cost of debt that is used in calculating WACC

31% Average proportion of debt that European CFOs use in WACC calculation

10.7% Average cost of equity that is used in calculating WACC

13.4% average hurdle rate for European companies

42.9% of CFOs pursue all projects that have an expected return higher than the hurdle rate

Resource constraints

- 43%** Shortage of funding
- 40%** Shortage of employees
- 38%** Shortage of management time and expertise
- 9%** Shortage of production capacity

Barriers that hinder companies

from pursuing projects and investments that have a rate of return higher than the hurdle rate (% of CFOs)

- 45%** Project is not consistent with company's core strategy
- 26%** Pressure to cut expenses
- 13%** Better projects might come along in the future

Strategic considerations

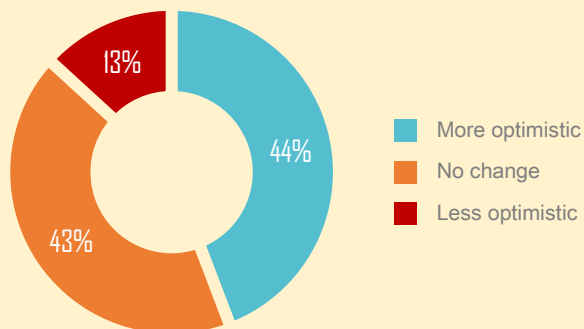
Risk & uncertainty

- 43%** There is too much uncertainty about some projects
- 38%** Some projects only appear to be attractive due to optimistic projections but may not be successful
- 23%** The risk of the project is too high

Chart 7. European CFO optimism about financial prospects of company

Percentage optimists vs pessimists

Average level of optimism Europe, compared to major economic regions (on a scale of 1 – 100)



Europe	63 Prev. 62	US	69 Prev. 69	Asia	68 Prev. 60
China	70 Prev. 60	Latin America	64 Prev. 67	Africa	62 Prev. 65

PRICES OF PRODUCTS

56%

Over half of the European companies are likely to increase their prices over the next twelve months.

REVENUES

80%

Four out of every five CFOs in Europe anticipate growth in corporate revenues during the next twelve months.

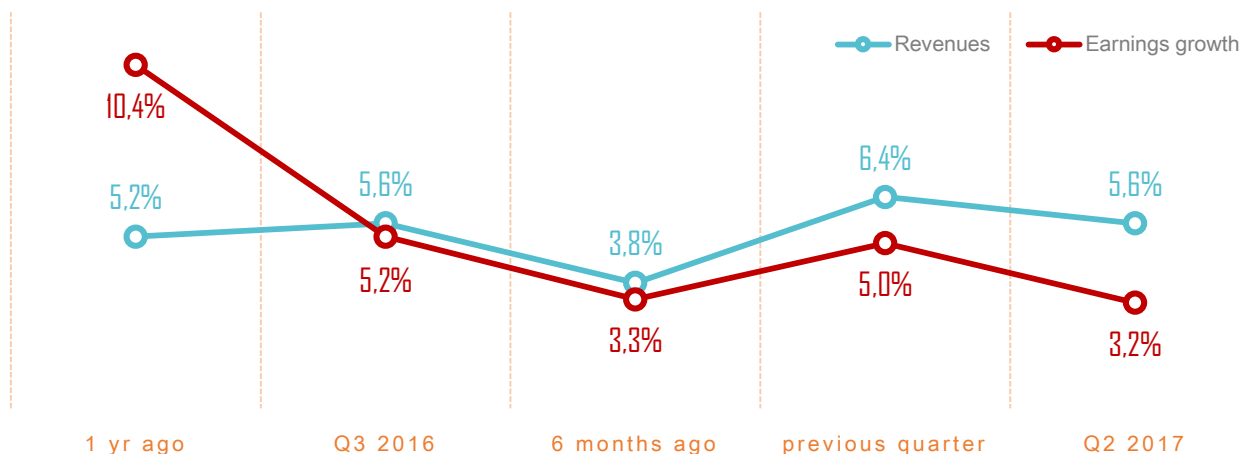
EARNINGS

60%

During the next twelve months, every six out of ten European companies expect an increase in their earnings.

Chart 8. CFOs' anticipated growth in revenues and earnings

Twelve month historic trend in average growth rates in percentages (public firms only)



Employment

57%

Domestic full time hiring

Almost 6 out of every 10 European companies signals plans for scaling up (domestic) hiring in the next twelve months.

21%

Employee productivity

In the past quarter, 1 out of 5 CFOs had concerns about employee productivity, and 18% worrying about employee morale

34%

Retaining qualified workforce

During the past quarter, a third of the CFOs were worried about being able to attract and retain competent personnel.

84%

Wages & salaries

For the next twelve months, 8 out of every 10 CFOs expect to increase wages and salaries for the workforce.

Chart 9. Expected growth in full-time employment

Quarterly expected growth for next twelve months (2010 – to date)

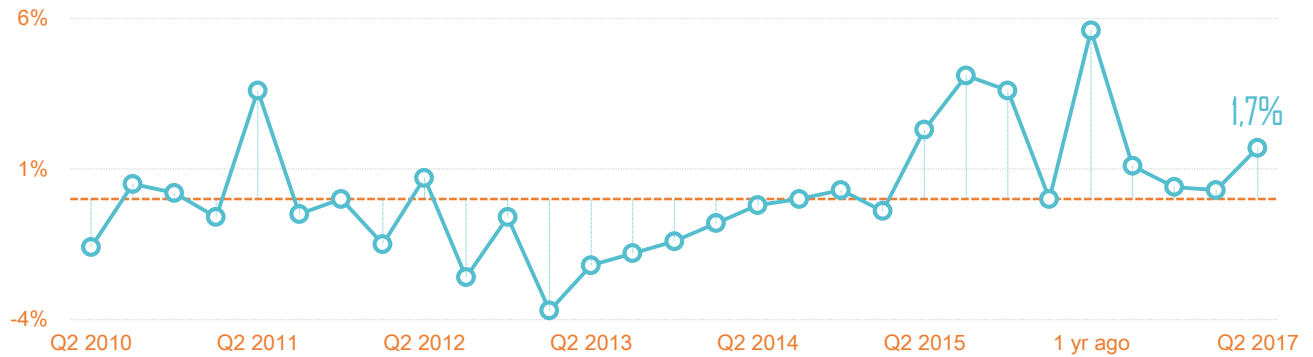
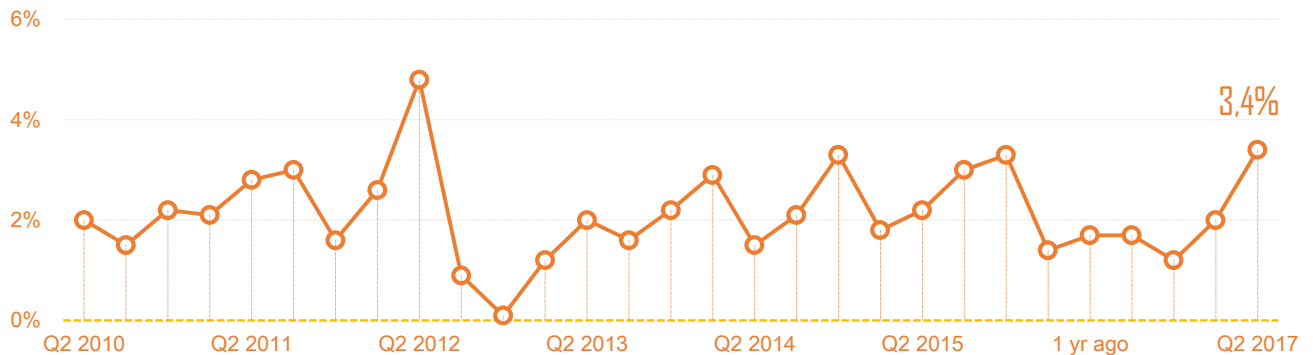


Chart 10. Expected growth in wages and salaries

Quarterly expected growth for next twelve months (2010 – to date)



Key results CFO Survey

Europe, US, Latin America, Africa and Asia

Key Indicator	Europe	US	Latin America	Africa	Asia
ECONOMIC SENTIMENT					
CFOs More optimistic	62.3%	41.8%	47.9%	47.5%	36.0%
CFOs Less optimistic	9.2%	23.4%	25.6%	40.0%	31.6%
No change	28.5%	34.7%	26.4%	12.5%	32.4%
Own country optimism level	61.2	67.4	57.2	49.7	63.6
Employment – full-time	1.7%	3.8%	0%	0%	2.6%
Inflation (own-firm products)	1.7%	2.5%	3.2%	2.1%	0%
FINANCIAL OUTLOOK OWN COMPANY					
CFOs More optimistic	44.2%	49.6%	47.9%	55.0%	46.9%
CFOs Less optimistic	13.2%	20.7%	19.8%	25.0%	25.9%
No change	42.6%	29.7%	32.2%	20.0%	27.2%
Own company optimism level	63.1	69.2	63.6	61.9	68.0
Revenue growth	5.6%	6.2%	3.7%	8.9%	3.6%
Earnings growth	3.2%	8.2%	3.0%	10.6%	8.8%
BUSINESS SPENDING					
Capital spending	8.2%	2.2%	-0.6%	6.0%	5.4%
Technology spending	6.9%	4.1%	2.8%	10%	3.7%
R&D spending	6.7%	2.3%	-0.1%	2.4%	1.6%
Advertising and marketing spending	3.9%	1.8%	2.5%	2.2%	2.0%
Wages and Salaries	3.4%	4.1%	3.8%	3.6%	3.0%
Health Care Costs	2.2%	7.8%	5.4%	7.5%	5.7%

About the survey

About the survey

The CFO Survey Europe is conducted jointly by TIAS School for Business and Society (Tilburg, Netherlands), Duke University (Durham, North Carolina), and CFO Magazine. Previous editions of the CFO Survey Europe can be found at [FinanceLab](#) under the CFO Survey tab. For further information, please contact Mrs. Judith Slikker, TIAS School for Business and Society, tel.+31-(0)-134668622 or e-mail j.slikker@tias.edu



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Methodology & CFO Survey Europe team

Note on methodology

The figures quoted in this report are taken from the Global CFO Survey for the second quarter of 2017. The survey concluded June 9, 2017. Every quarter, CFOs in Europe, the US, Latin America, Asia (and China), and Africa are polled about their economic expectations. Current quarterly records go back more than 20 years. The survey generated responses from nearly 700 CFOs, including 357 from North America, 90 from Asia, 130 from Europe, 121 from Latin America and 41 from Africa.

The CFO Global Business Outlook survey covers a wide range of companies (public and private, small and large, many industries, etc.). The responses are representative of the population of CFOs that are surveyed. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance.

The average growth rates reported are weighted by revenues or number of employees. For example, one \$5 billion company affects on average as much as 10 \$500-million firms would. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees and outsourced employment. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless noted, all other numbers are for all companies, including private companies.

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