CFO Survey
Europe | 2019

Q2

July 2019
1. CFO optimism Q2 2019
   Page 3

2. Corporate (financial) planning
   Page 7

3. Key results CFO Survey
   Page 10
Optimism among European CFOs has taken a serious beating in the second quarter of 2019. The number of optimists who have a positive outlook on the economy for the next twelve months, has decreased to 20%, down 6% from the previous quarter.

At firm level, the (financial) outlook has diminished as well. A little less than a third of European CFOs remain optimistic about their own firm’s financial prospects for the next twelve months, whereas another third of the financial directors keep a pessimistic view on the next twelve months.
CFOs’ optimism and economic sentiment across major economic regions

Similar to European CFOs, economic sentiment among financial directors across other major economic territories remains subdued, with pessimists outnumbering the optimists.

In Europe, the average level of optimism (ALO) has declined to 56.5, down 3 points from Q1. We observe similar downward trends in Latin America (57.7/100), Africa (45.5/100) and Asia (53.8/100). Only the ALO in the U.S. (65.7/100) has inched upwards in this second quarter.
Top 10 concerns European CFOs

The deteriorating sentiment among European CFOs can be largely attributed to (perceived) economic uncertainty. In Q2 2019, 59% of the CFOs signal this to be by far their top concern, a view which has not been shared so widely and by so many for over the last five years.

The ability to attract and retain qualified personnel and employees is the second biggest concern during Q2 but is much less widespread.

Top 10 concerns European CFOs (Q2 – 2019)
Percentage of CFO's, five year trend for second quarter concerns

1. Economic uncertainty
2. Attracting / retaining qualified employees
3. Regulatory requirements
4. Government policies
5. Employee productivity
6. Currency risk
7. Weak demand for your products/services
8. Access to capital
9. Data security
10. Employee morale
CFOs’ optimism about financial prospects of the own firm in major economic regions

Across the board, financial outlook at company level has deteriorated. Only about a third of the European financial executives are confident that the next twelve months have positive developments in store for their own company. Too few to offset the significant decline in ALO, from 67.5 in Q1 to 62.2 in Q2.

We observe similar developments across other major economic regions, where ALO has plunged drastically between 2 points in the US, to even 9 points in Asia.
Corporate (financial) planning

Outlook on business spending at European firms

A little less than half of the European firms are expected to increase business spending (i.e. Capital Investments, and spending on Technology, R&D and Marketing & Advertising). 1 in 5 European CFOs indicate that their company will even cut back on capital investments, whereas 1 out of 10 plans to reduce spending on technology and marketing & advertising. Except for the average growth rate in Capital Investments (at 7.1%), the growth rates in spending on Technology, R&D, and Marketing & Advertising remains modest at around 4%.

Against the backdrop of subdued business spending, about 3 out of 4 European CFOs anticipate to witness an increase in revenues (average growth rate of 8.5%) over the next twelve months. With almost 6 out of 10 confident that earnings will increase (at an average growth rate of 2.3%) during the next twelve months.

CFOs’ anticipated growth in revenues and earnings

Expectations in development of revenues and earnings

Twelve month historic trend in average growth rates in percentages (public firms only).
Hiring & Employment

Against the backdrop of the deteriorating economic sentiment, European firms are less prone to hire full-time personnel over the next twelve months. Financial directors anticipate that, on average, hiring will decline with approximately 0.3%.

The expected increase in wages & salaries (on average 4.7%) is likely intended to offset and mitigate the risk of being unable to attract and retain qualified employees.
Approximately 44% of European CFOs anticipate a recession or economic downturn to occur next year, in 2020, with 2 out of 10 CFOs bracing for an economic downturn even before this year’s end.

Two-thirds of the companies in Europe conduct scenario analysis as part of their business planning cycle. 45% employs scenario analysis for the entire company, whereas 20% does so at division and/or business unit level. Almost a quarter of the companies conducts scenario analysis when planning for specific projects and/or investments. Conventional Downside, Base-Case and Upside scenario analysis remains by far the most utilized, with most time and effort typically spent on base case analysis.

Expectations on economic downturn (recession) & scenario analysis

Companies conduct different types of scenario analysis

Companies do not create scenarios as part of their planning process

Downside, Base Case, Upside (or low, medium, high) types of scenarios

Scenarios tied to specific events (e.g., oil price spike, interest rate change, recession, etc.)

Scenarios tied to government legislation or regulation

Average time and attention spent on scenario type

Average probability assigned to each scenario
### Key results CFO Survey
Europe, US, Latin America, Africa and Asia

#### Economic sentiment

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>United States</th>
<th>Latin America</th>
<th>Africa</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFOs More optimistic</td>
<td>20.3%</td>
<td>19.8%</td>
<td>33.3%</td>
<td>32.3%</td>
<td>25.9%</td>
</tr>
<tr>
<td>CFOs Less optimistic</td>
<td>50.8%</td>
<td>40.1%</td>
<td>46.2%</td>
<td>45.2%</td>
<td>65.0%</td>
</tr>
<tr>
<td>No change</td>
<td>28.8%</td>
<td>40.1%</td>
<td>20.5%</td>
<td>22.6%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Own country optimism level</td>
<td>56.5%</td>
<td>65.7%</td>
<td>57.7%</td>
<td>45.5%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Employment – full-time</td>
<td>-0.3%</td>
<td>3.4%</td>
<td>1.8%</td>
<td>-0.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Inflation (own-firm products)</td>
<td>4.8</td>
<td>1.4%</td>
<td>3.2%</td>
<td>5.9%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

#### Financial outlook own company

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>United States</th>
<th>Latin America</th>
<th>Africa</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFOs More optimistic</td>
<td>28.8%</td>
<td>44.3%</td>
<td>48.5%</td>
<td>45.2%</td>
<td>22.2%</td>
</tr>
<tr>
<td>CFOs Less optimistic</td>
<td>32.2%</td>
<td>27.0%</td>
<td>31.3%</td>
<td>35.5%</td>
<td>37.0%</td>
</tr>
<tr>
<td>No change</td>
<td>28.8%</td>
<td>28.7%</td>
<td>25.2%</td>
<td>18.4%</td>
<td>40.7%</td>
</tr>
<tr>
<td>Own company optimism level</td>
<td>62.2</td>
<td>68.1</td>
<td>64.8</td>
<td>60.1</td>
<td>58.8</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>8.5%</td>
<td>5.1%</td>
<td>7.8%</td>
<td>12.5%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Earnings growth</td>
<td>2.3%</td>
<td>4.1%</td>
<td>5.5%</td>
<td>5.4%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

#### Business spending

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>United States</th>
<th>Latin America</th>
<th>Africa</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital spending</td>
<td>7.1%</td>
<td>3.4%</td>
<td>10.4%</td>
<td>2.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Technology spending</td>
<td>3.6%</td>
<td>4.8%</td>
<td>6.7%</td>
<td>3.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>R&amp;D spending</td>
<td>4.5%</td>
<td>2.1%</td>
<td>3.0%</td>
<td>0.4%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Advertising and marketing spending</td>
<td>4.0%</td>
<td>2.8%</td>
<td>5.5%</td>
<td>2.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>4.7%</td>
<td>3.8%</td>
<td>4.0%</td>
<td>9.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Health Care Costs</td>
<td>3.7%</td>
<td>6.2%</td>
<td>4.1%</td>
<td>7.4%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>
CFO Survey Europe

The CFO Survey Europe is conducted every quarter jointly by TIAS School for Business and Society (Tilburg, Netherlands), Duke University (Durham, North Carolina), and Grenoble École de Management. Previous editions of the CFO Survey Europe can be found at Financelab under the CFO Survey tab.

Note on methodology

The figures quoted in this report are taken from the Global CFO Survey for the second quarter of 2019. The survey concluded June 7, 2019. 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 21 years. The survey generated responses from nearly 1,500 CFOs, including 469 from North America, 145 from Asia, 261 from Europe, 590 from Latin America and 42 from Africa.

The CFO Global Business Outlook survey and CFO Survey Europe cover 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 EUR 5 billion company affects on average as much as 10 EUR 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.

Netherlands-based TIAS School for Business and Society is the business school of Tilburg University and Eindhoven University of Technology. At TIAS we believe that business and society are interdependent and that today’s insights are not tomorrow’s solutions. Our mission is to have a positive and lasting impact on organizations, business and society by developing critical and inquisitive managers who are able to demonstrate responsible leadership and exceptional decision-making abilities. For more information, visit www.tias.edu.

North Carolina, US-based Duke’s Fuqua School of Business was founded in 1970. Fuqua’s mission is to educate business leaders worldwide and to promote the advancement of business management through research. For more information, visit www.fuqua.duke.edu.

Founded in 1984, Grenoble École de Management (GEM) offers executive education on its campuses in Grenoble and Paris. GEM’s mission is to accompany corporate performance by providing the knowledge, skills and talent to meet the economic challenges of today and tomorrow. GEM seeks to promote expertise in management of technology and innovation, entrepreneurship and responsible business practices. For more information, visit www.grenoble-em.com.

For inquiries about this survey please email to:
- C.P.Staupe@tias.edu at TIAS School for Business & Society
- Philippe.DUPUY@grenoble-em.com at Grenoble École de Management (GEM)
- media.relations@fuqua.duke.edu at Duke Fuqua School of Business