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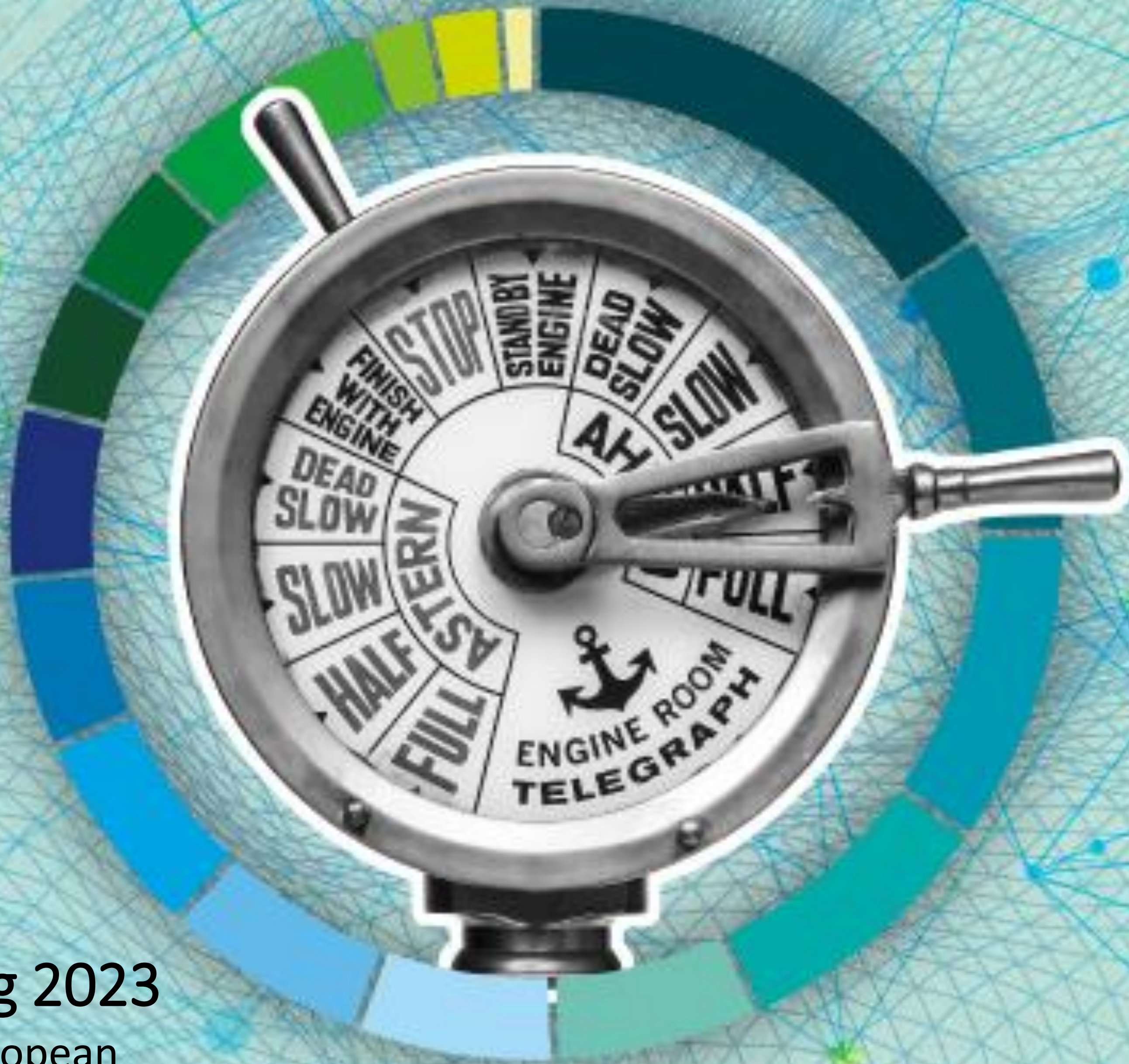


CFO Survey – Spring 2023

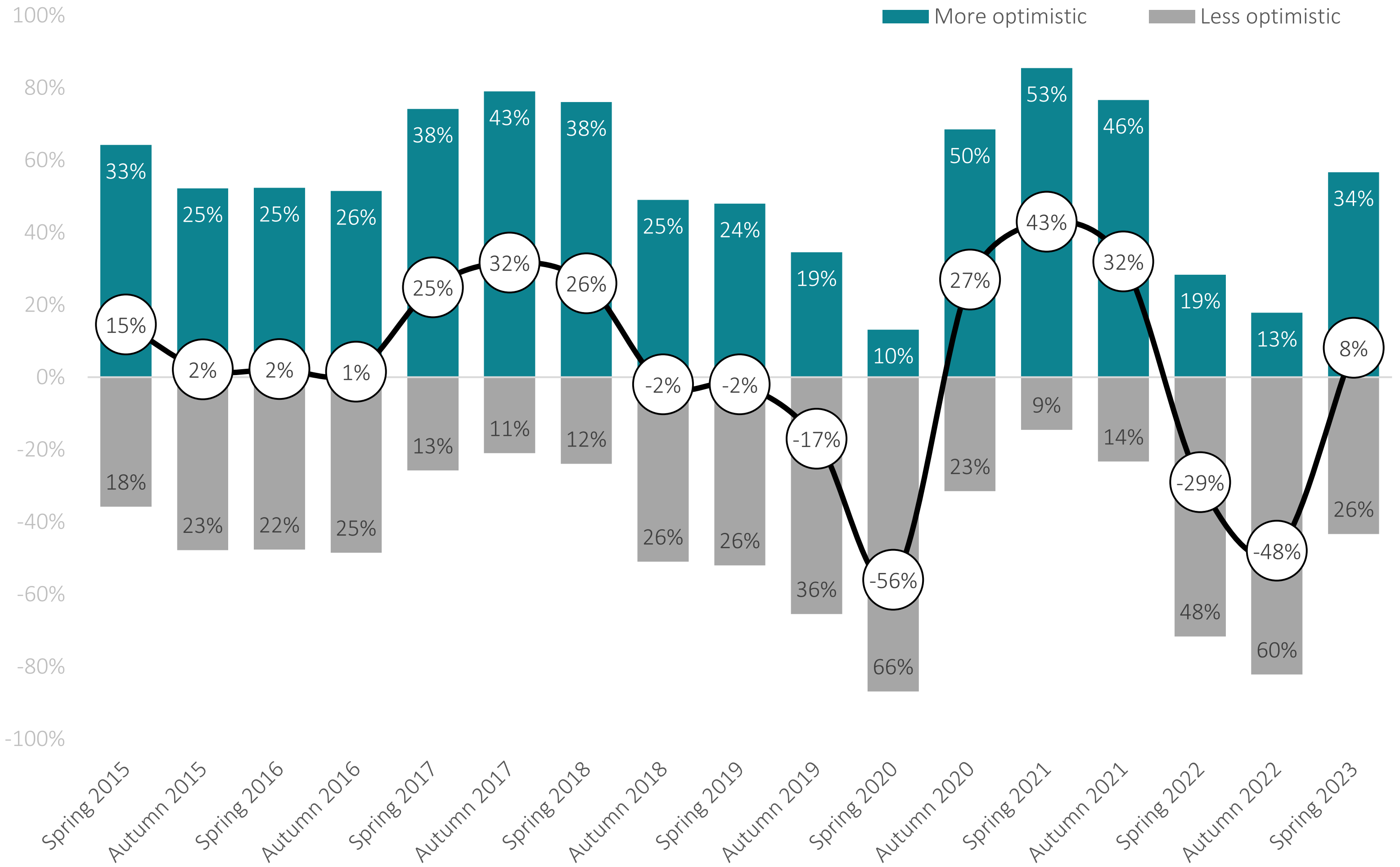
The perspective of the European
Chief Financial Officers - Focus on Italy

European CFOs are mildly optimistic

European firms have become far less anxious about their financial prospects than in the autumn

Financial Prospects

Compared to three months ago, how do you feel about the financial prospects of your company?



Business confidence in Europe has **greatly improved** as European firms have become far less anxious about their financial prospects than in the autumn 2022. With a net balance of +8%, Europe's CFOs are currently **cautiously optimistic.**

In the second half of 2022, the European economy experienced a contraction and a negative outlook towards the future was set due to the negative consequences foreseen by the energy crisis. However, the expected disaster did not materialize, and business sentiment of Europe's CFOs has bounced back.

34% of the CFOs surveyed across Europe feel more optimistic than six months ago about the financial prospects for their company—21 percentage points more than September 2022. Sentiment improved in all countries surveyed, although CFOs in Italy who feel less optimistic (27%) still outnumber those who are optimistic (21%), and the net balance remains negative (-6%).

In Spain the share of the optimistic equals the pessimistic, for a net balance equal to 0%, whereas in Germany there are more optimistic CFOs (40%) than the pessimistic (27%). According to their net balances, the most optimistic countries are the UK, Germany, the Netherlands and Greece. **The less optimistic are Italy, Spain, Turkey, Sweden and Norway.**

At sector level, Automotive CFOs are by far the most optimistic (47%), travel and tourism CFOs follow (42%). The situation is different in retail, where only 26% of CFOs feel more optimistic.

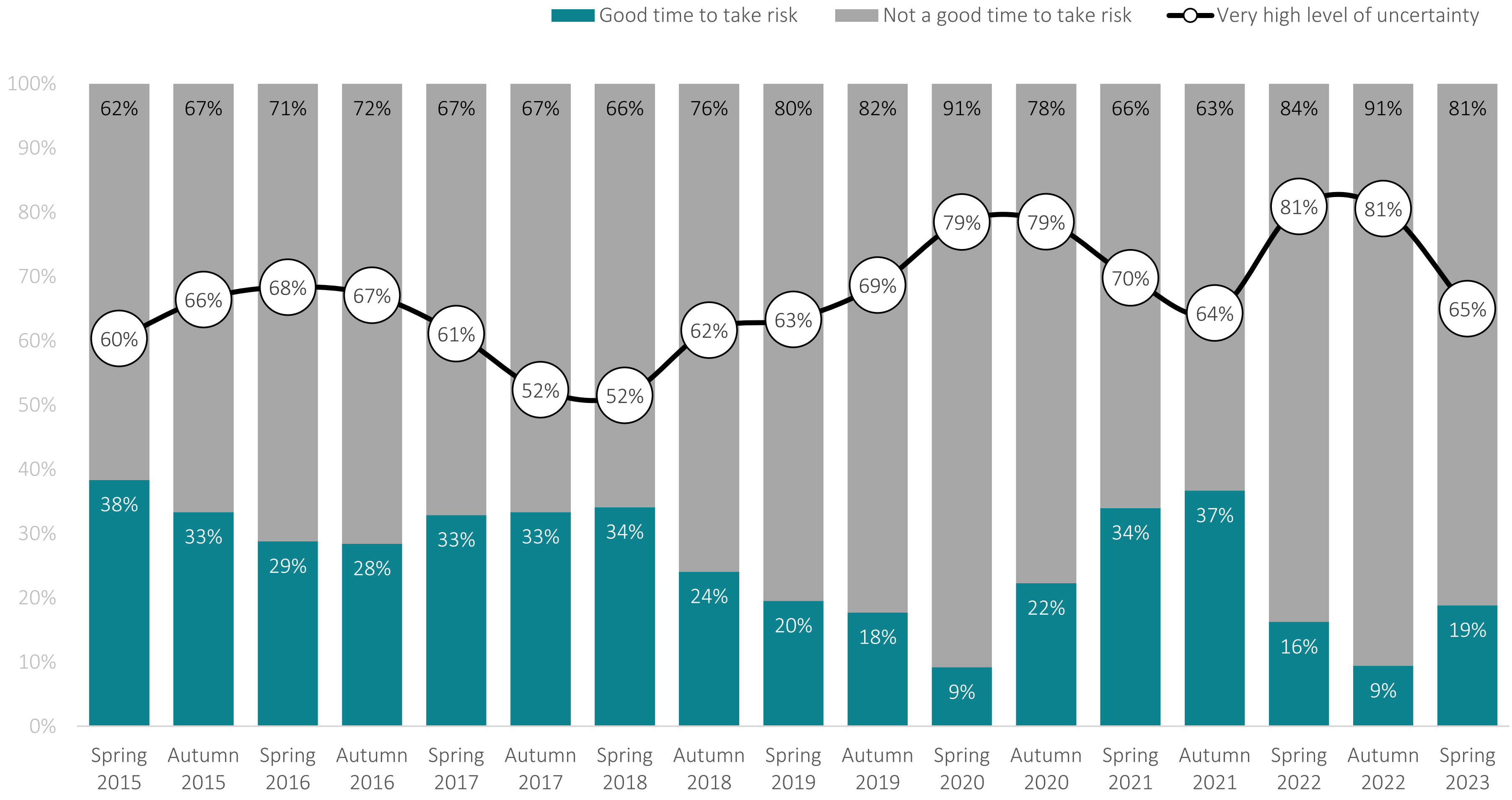
Most of Europe's CFOs rate the level of external financial and economic uncertainty as being high

The net balance is close to its historical average

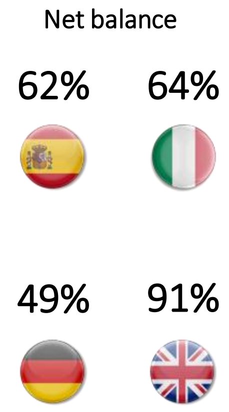
Uncertainty level Spring 2023

How would you rate the overall level of external financial and economic uncertainty facing your business?

Net Balance Trend



Uncertainty by country



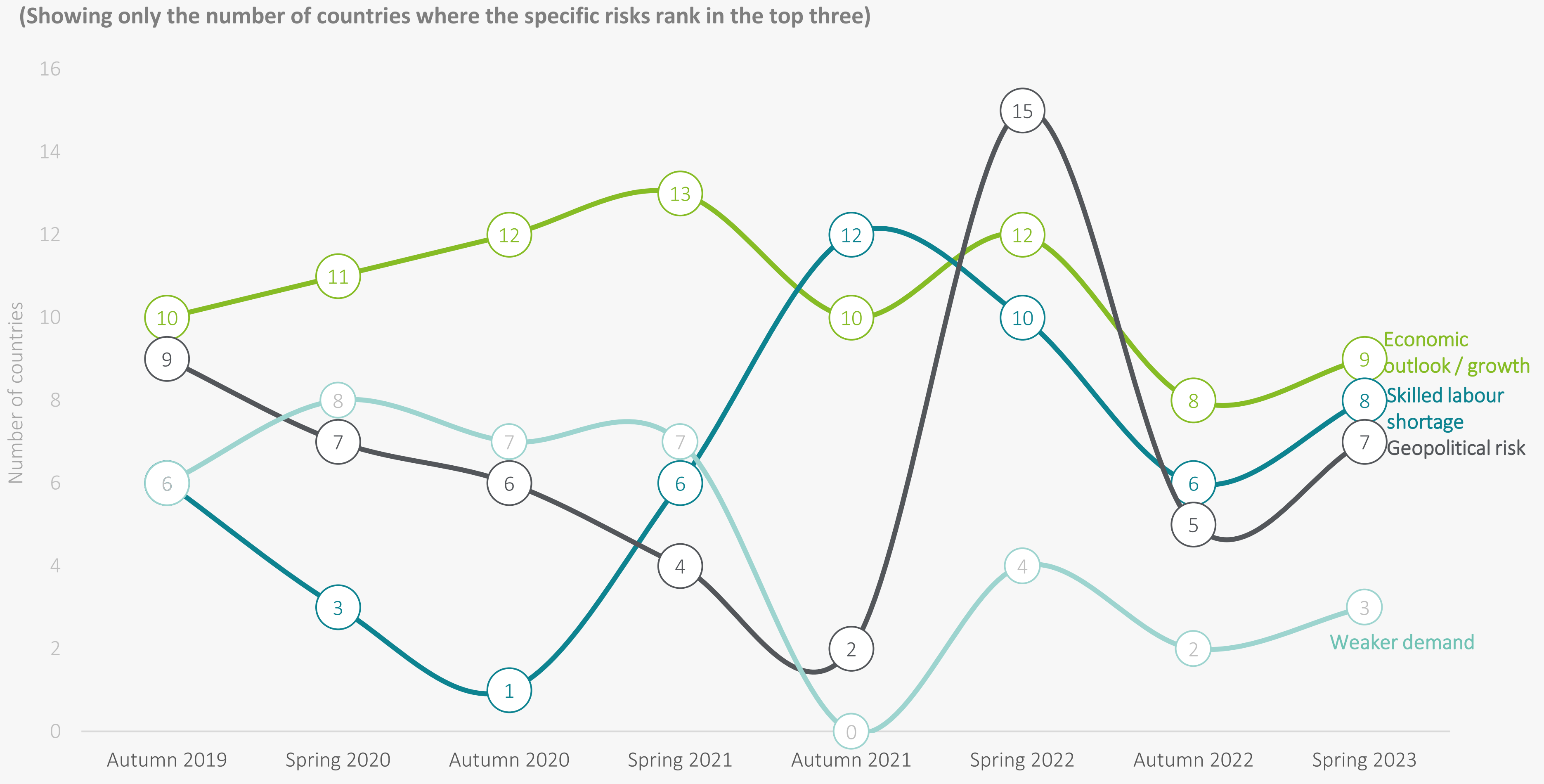
Most of Europe's CFOs, **65%** of those surveyed, continue to **rate the level of external financial and economic uncertainty as being high**, but this figure is considerably lower than the autumn's 81%. The net balance, of +62%, is close to its historical average.

There are three factors likely to hold significant risk for their business over the year

Even if the expected recession may be avoided in most countries, the economic situation remains fragile

Business risks

Which of the following factors are likely to pose a significant risk to your business over the next 12 months?*



Faced with high level of financial and economic uncertainty, **European CFOs rate the economic outlook / growth as the top-rated risk they are foreseeing over the next 12 months**. Even if the expected recession may be avoided in most countries, the economic situation remains fragile.

The labour market has become somewhat less tight as the economy slows but the shortage of skilled labour remains one of the main risk's CFOs need to deal with. In addition, geopolitical risks continue to worry European companies' CFOs.

Other risks identified by CFOs are inflation, increasing costs and regulations, currency fluctuations and cyber risk.

The main risks for Italian CFOs are: costs increase, economic recession and reduction in demand.

*Note: Each country identifies the answer options that are relevant to their geography. The common or similar responses are mapped to get the top risks per country.

Although the scenario is uncertain, revenue expectations slightly improve

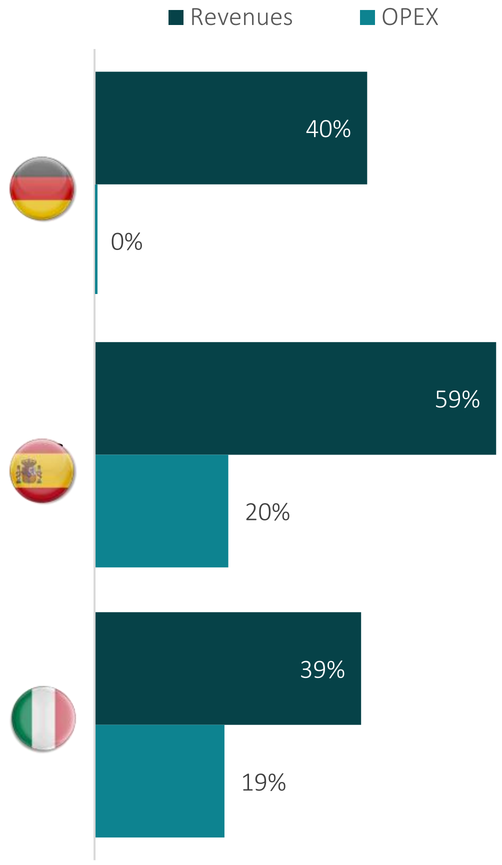
Despite the many risks, Europe's CFOs are more confident about their companies' future key metrics

Revenue and Operating Margins Outlook

In your view, how are revenues and operating margins for your company likely to change over the next 12 months?*

Net Balance Trend

Net Balance by Country



Net Balance by Sector, Top 3

Revenues

Net balance

- **73%** Aerospace & Defence
- **71%** Tourism & travel
- **68%** Business & Professional Services

OPEX

Net balance

- **46%** Business & Professional Services
- **33%** Aerospace & Defence
- **28%** Financial services

*Note: This question was not asked in the UK.

Despite the many risks, Europe's CFOs are more confident about their companies' future key metrics than in the autumn survey.

Revenues are expected to increase strongly during the next 12 months, with more than 60% of those surveyed expecting higher revenues and only 19% expecting revenues to fall. A net positive balance of +10% also see their operating margins improving – though the spring balance is not high, it represents a huge 48-percentage-point increase on the gloomy outlook CFOs had in the autumn.

Even though financing costs have gone up, 37% of Europe's CFOs are planning to increase their capital expenditures over the next 12 months, whereas 24% are counting on a reduction.

This implies that we should see somewhat higher investment in Europe in the near future.

At the industry level, firms in energy, utilities and mining (net balance of +38%) and business and professional services (+36%) are aiming to increase their capital expenditures most, while retail companies (+4%), for which consumers' inflation struggles are a dampener, and the construction sector (+4%), with interest rates hurting mortgage lending and property prices, are showing little sign of wanting to increase their investment spending.

A modest improvement in hiring and CAPEX is also expected

Hiring intentions are strongest in the business and professional services and tourism and travel

Investments Outlook

In your view, how are capital expenditure and number of employees for your company likely to change over the next 12 months?

EU Net Balance Trend

Most positive business sectors' investments outlook (net balances)

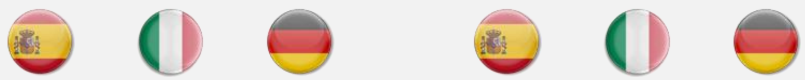
- Aerospace & defense
- Energy, utilities & mining
- Business & professional services
- Tourism & travel

Most negative business sectors' investments outlook (net balances)

- Construction
- Retail

Net Balance by Country

CAPEX Net balance			Employees Net balance		
26%	11%	4%	21%	13%	9%



The rebound in firms' outlook for their earnings and investments is also reflected in their hiring intentions.

Although a majority of firms (46%) plan no change in staffing levels, a little over a third (35%) are planning to hire. The modest net balance of +16% of Europe's CFOs planning to add employees reflects the fact that 19% of firms across Europe have staff-cuts in mind.

Hiring intentions are strongest in the business and professional services (+52%) and tourism and travel (+45%) sectors. Only retail sector is expecting to reduce (–5%) its number of employees.

In Italy and Spain 33% of CFOs intend to increase their workforce over the next year, while in Germany 30% plans to do so.

A little more than a third (37%) of Europe's CFOs are planning to increase their capital expenditures over the next 12 months whereas a fourth (24%) are counting on a reduction.

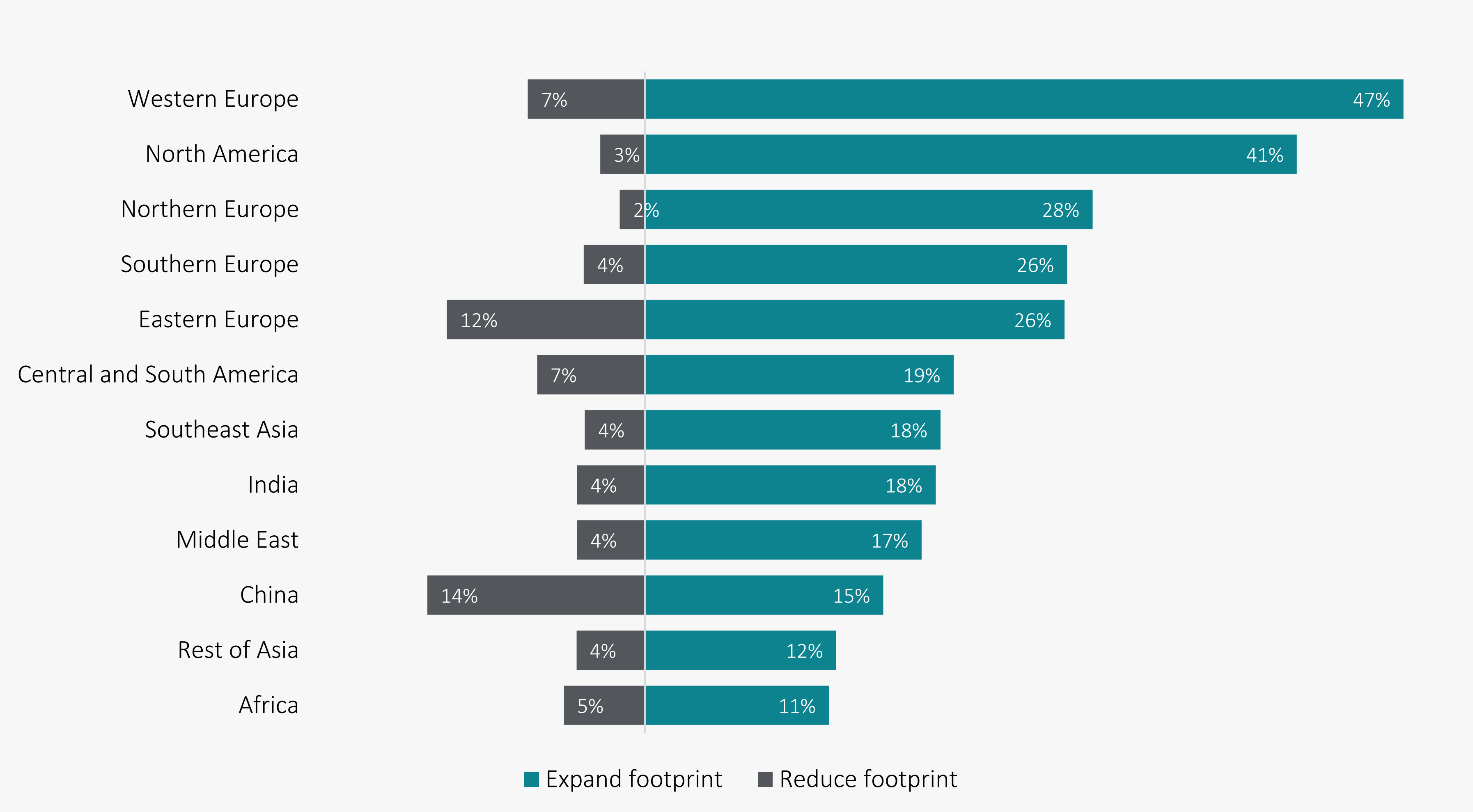
This implies that we should see somewhat higher investment in Europe in the near future.

Global footprint of investments is changing

European companies are eager to expand their operations in Western Europe and North America while China and Eastern Europe are the geographies where companies would like to reduce their footprint

Global Footprint

Are you planning to expand or reduce your footprint (investments, trade, etc.) in certain countries/regions due to geopolitical tensions?*



Italian and German CFOs are more likely to expand their footprint in Western Europe and North America.

Spanish CFOs are going to expand their footprint in Western Europe and Central and South America.

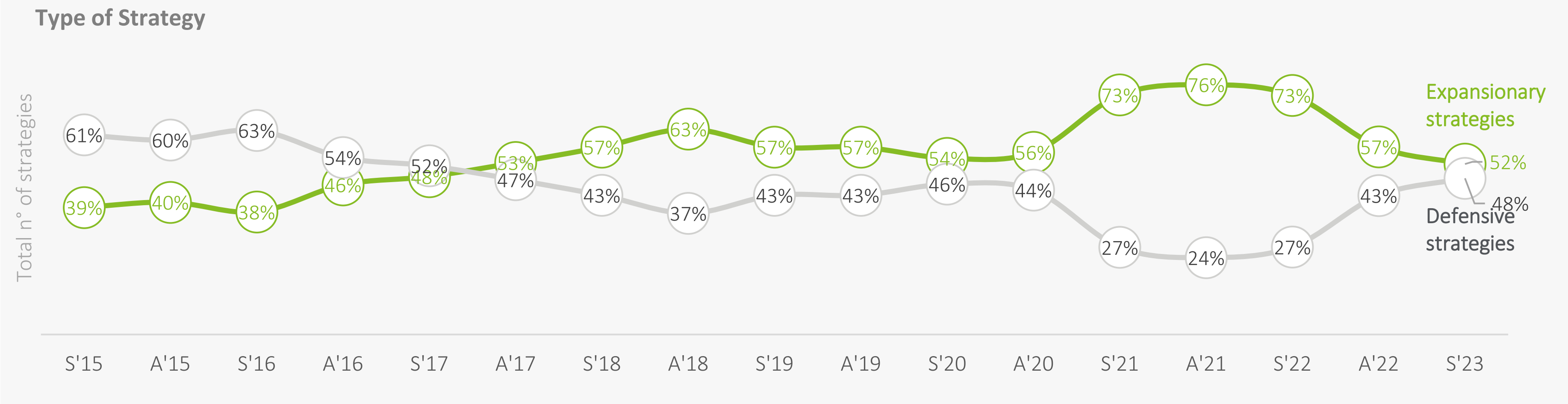
*Note: This question was not asked in Finland, Netherlands, Poland, Switzerland and the UK.

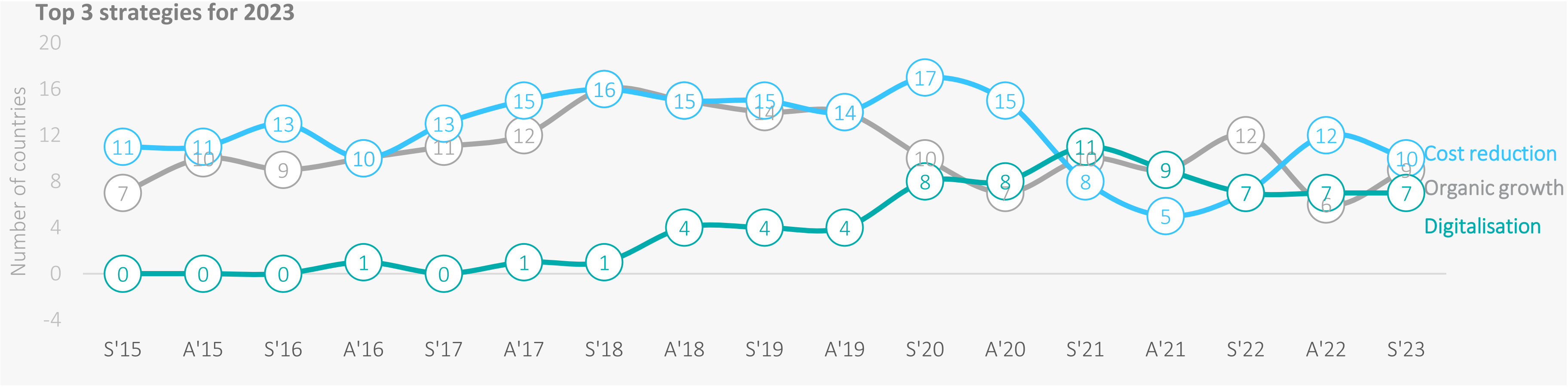
European CFOs priorities are shifting to more defensive strategies

Cost reduction is the top strategy for the next 12 months in 10 out of 16 countries

Strategies

Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?*





European CFOs are becoming **more defensive in their strategies** as they seek to steer their businesses through the tough economic environment.
As interest rates rise rapidly, European CFOs are tilting towards more defensive strategies, with cost reduction being the top strategy for the next 12 months in 10 out of 16 countries. While half (52%) of European CFOs also plan to continue expansionary strategies, such as organic growth and digitalisation.

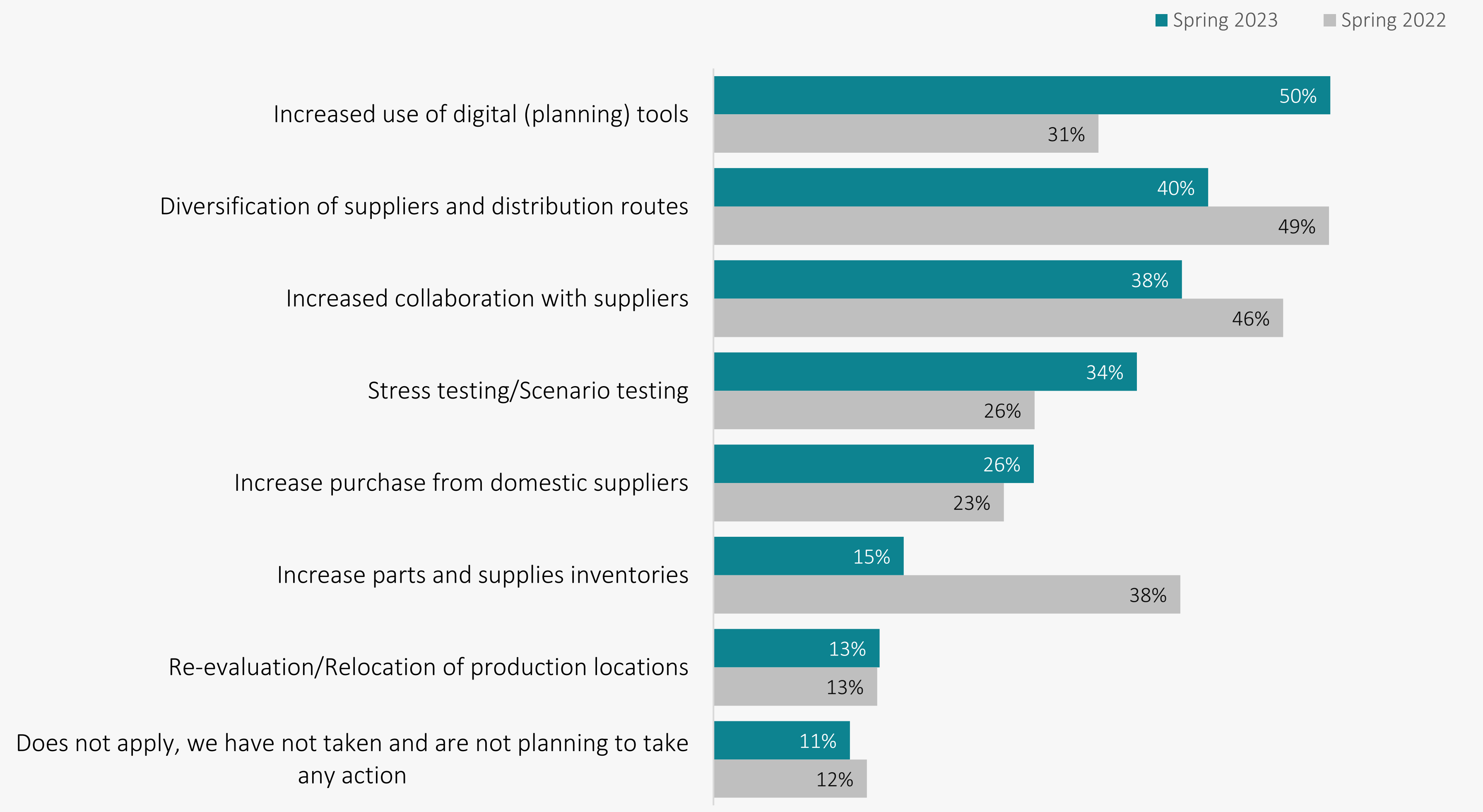
Top strategies by country are: Increase in the operating cash flow (Germany), increasing productivity/efficiency (Spain), and cost reduction (Italy).

Strategic actions to mitigate supply chain issues

Increasing use of digital tools, followed by diversification of supplier and distribution routes remain the top strategies of European CFOs to mitigate their supply chain difficulties

How to mitigate supply chain risks

Is your company taking or about to take any of the following actions?*



The sectors more likely to **increase** the use of **digital planning tools** are:

- **75%** Transport & logistic
- **71%** Public sector
- **67%** Life Sciences

Those more likely to **diversify suppliers** are:

- **50%** Industrial products
- **47%** Consumer Goods
- **42%** Energy & Utilities

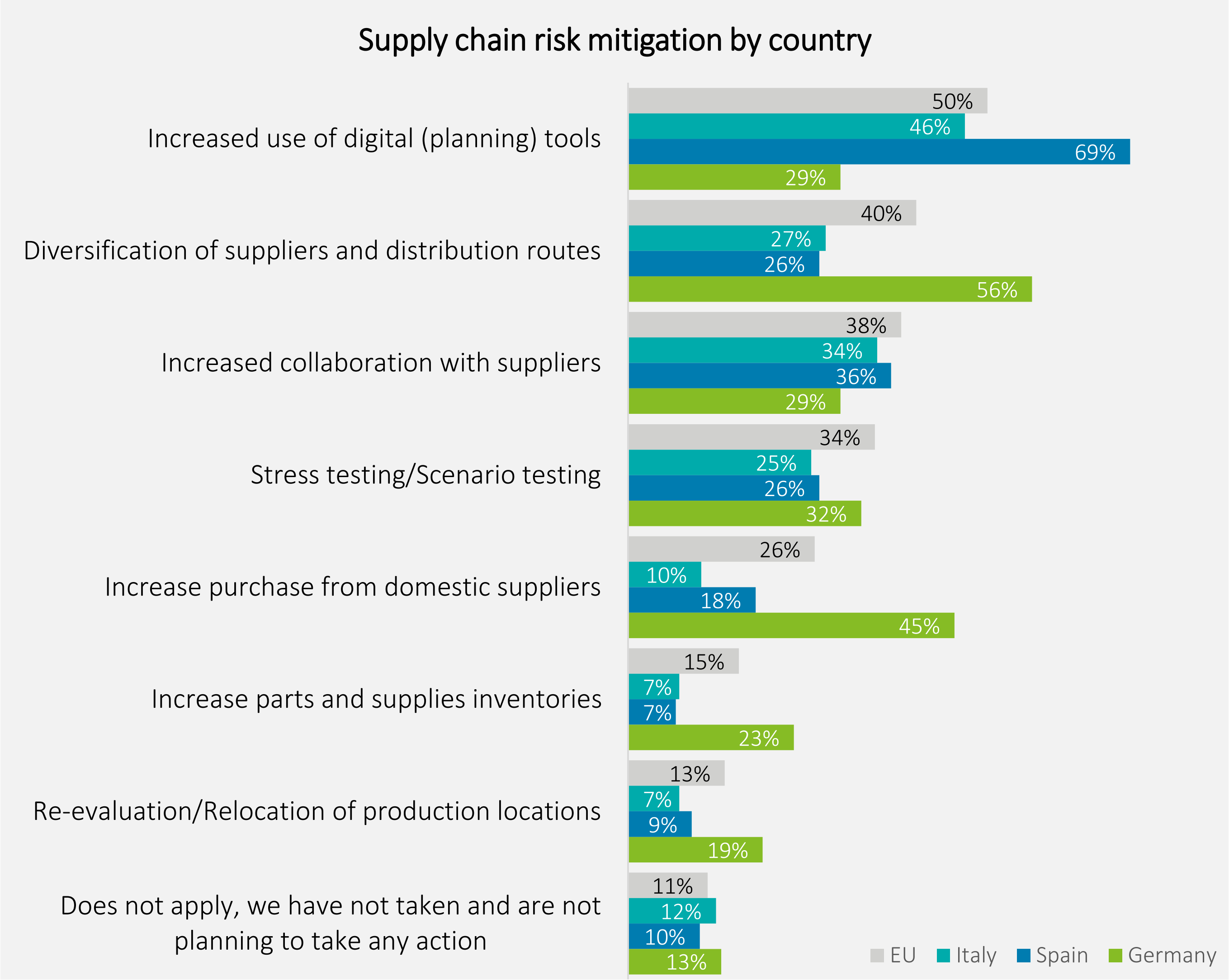
*Note: This question was not asked in Finland, Poland and the UK.

Though supply chain concerns have become somewhat less severe in recent months they are keeping CFOs busy.

In this edition of the survey, as in the spring 2022 edition, CFOs were asked how they aim to mitigate their supply chain difficulties. Half the CFOs report that they are making increased use of digital planning tools.

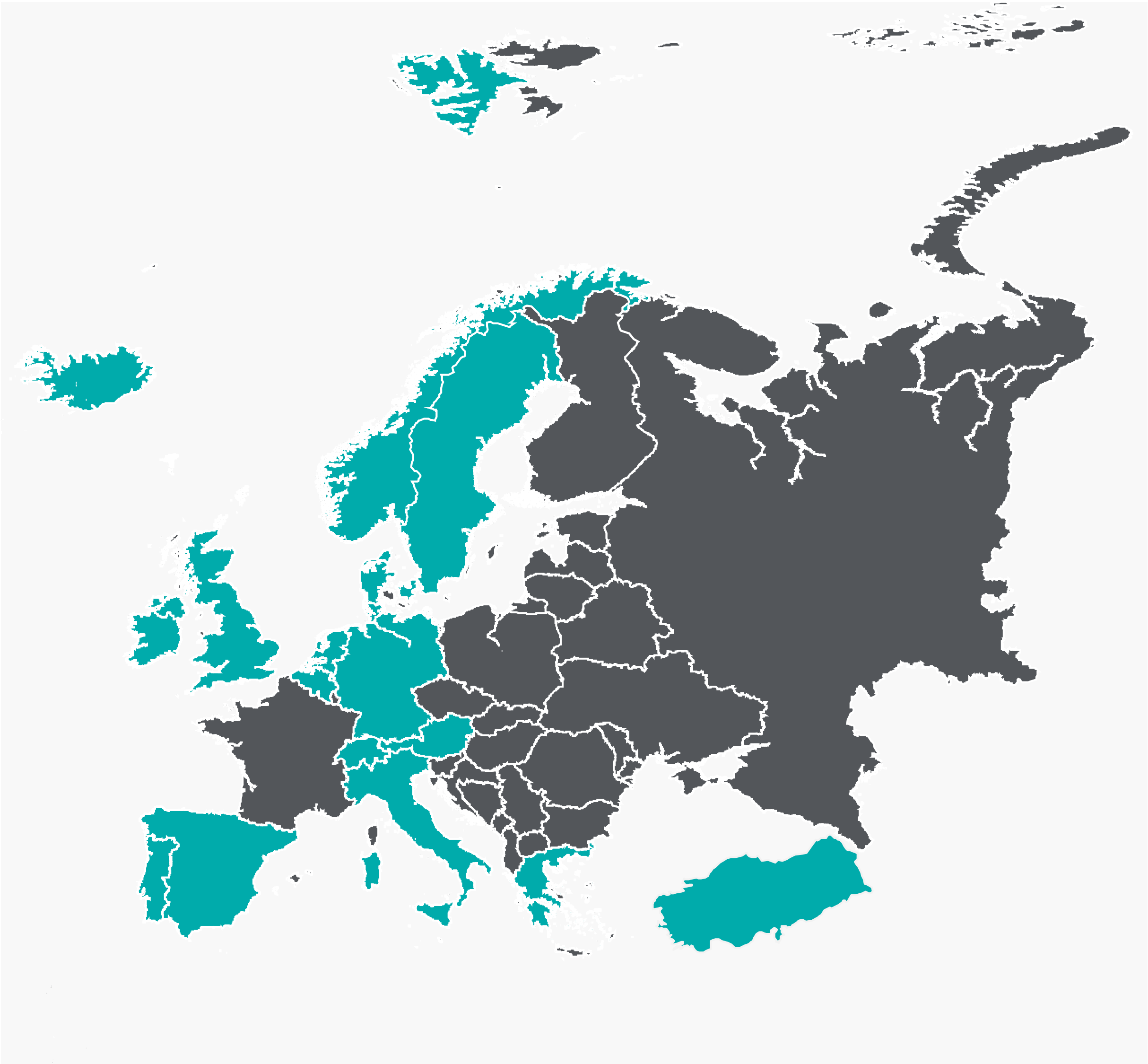
Diversification of suppliers and distribution routes (40%), increased collaboration with suppliers (38%), and stress or scenario testing (34%) were the next most commonly used strategies.

Since only 11% of European firms report that they have not taken or are not planning to take any action, CFOs are devoting time and effort to making their supply chains more dependable. And, in general, mitigating supply chain issues seems to be paying off because the companies whose CFOs reported that they have addressed the issue rate their financial prospects more optimistically than those that have not taken any action.



Methodology

Methodology



The European CFO Survey is one of the largest C-suite surveys in Europe. It started in 2015 to provide a regional perspective by consolidating the views from local surveys.

Number of respondents and participating countries in the European CFO Survey (2015 – 2022).

Number of participating countries

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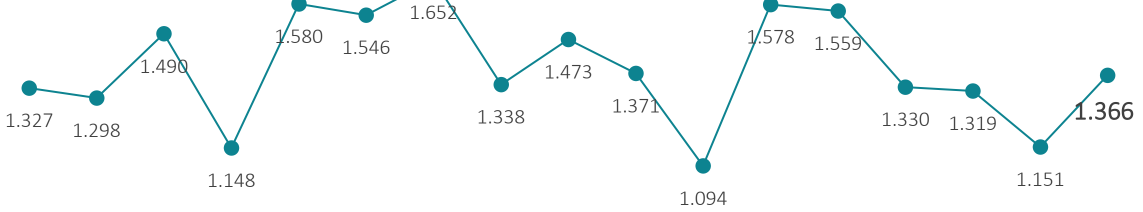
Number of respondents



Survey period
February to March 2023

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