CFO Survey Europe – Quarterly Report

Tilburg University

Understanding Society

Q4 2012

- *Growth Strategies Expected to be Difficult to Implement in 2013*
- *Economic Outlook may Have Bottomed Out as Company Confidence Grows*

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Introduction

CFO optimism in US is shattered, continuing the trend of the last 3 quarters

Economic sentiment in the US has eroded further during this fourth quarter and continues the trend of the last three quarters. After the negative sentiment of the previous quarter, in which nearly 44% of the surveyed CFOs indicated to be less optimistic, the number of pessimists has increased to over 50%.

Emerging markets typically drivers of world economy

In Latin America, the economic sentiment is much better. With almost 50% of the respondents being more optimistic about the economy, this region is clearly leading the way. The Asian region follows right behind. Over 40% of the financial directors in Asia state to have a more optimistic outlook.

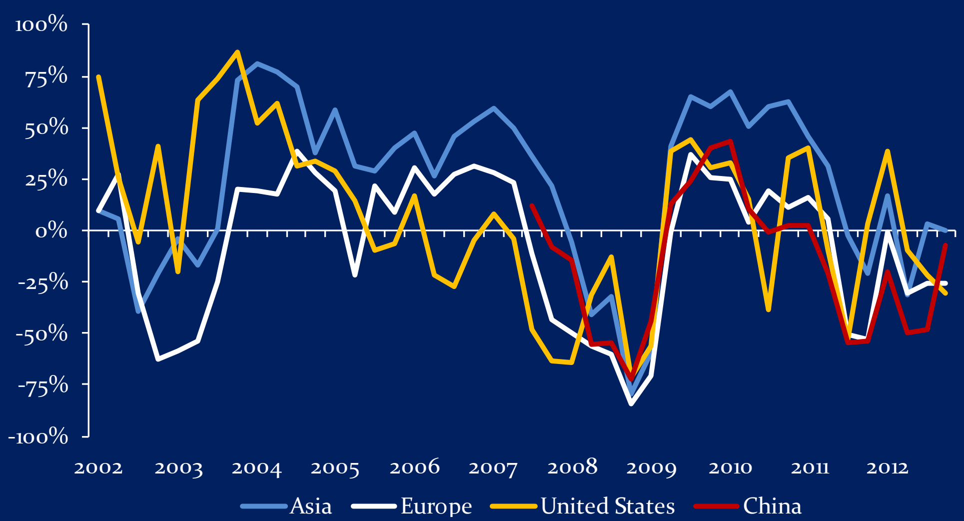
Piecemeal improvement in European economic sentiment..

The optimism among European CFOs has witnessed a slight improvement during this last quarter. An actual improvement of the European economy however, has yet to come to fruition. Over 50% of the financial executives foresee difficulty in successfully implementing their growth and expansion plans for 2013.

..does not stand in the way of slight euphoria at company level

Contrary to what one might expect under such dire economic circumstances, the financial directors in Europe are actually fairly optimistic about the financial prospects of their company. The prolonged crisis in Europe has led many companies in various sectors to drastically cut costs across the board. This has not only enabled them to place themselves in a much better position to weather the crisis, but also allows them to benefit from any economic upturn much faster.

Figure 1. Optimism index for CFOs in Asia, Europe, US and China



CFO optimism & sentiment

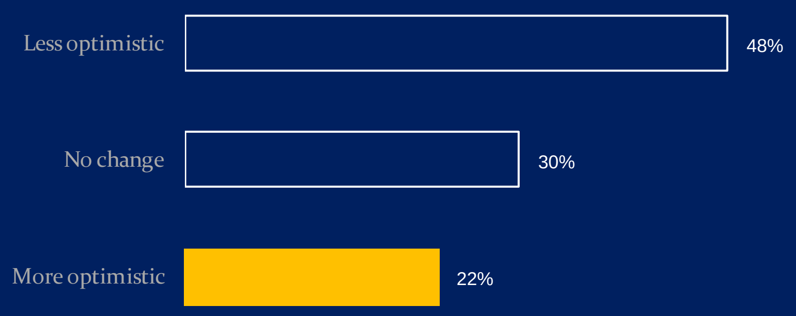
Dire economic outlook among European CFOs may have bottomed out

During the fourth quarter of 2012, economic sentiment among European CFOs witnessed a slight improvement. The optimism level has increased very moderately to 52 on a scale of 100. Compared to the previous three quarters, where the optimism level was on a losing streak (54 in Q1, 52 in Q2, and 49 in Q3), this small uptake may indicate that the dire economic outlook in Europe might have bottomed out.

But has not translated yet into more optimists

Although the overall level of optimism among European CFOs has gained moderately, the distribution of optimists and pessimists actually has not changed much compared to the previous quarter. For instance, whereas in Q3 about 19% of the financial executives were optimistic about the economic prospects, now around 22% of the respondents state to be more optimistic, representing an increase of only 3%. Also, compared to Q3, the number of pessimists has pretty much remained the same (an increase from 47% to 48% during the last quarter of 2012).

Figure 2. European CFO sentiment regarding economy of own country



CFO sentiment in emerging market regions remains solid

The outlook for other major economic regions in the world, with the exception of the US, shows a much brighter picture. Latin America and China both exhibit a strong increase in their respective optimism levels: Latin America with 64 and China with 68 on a scale of 100.

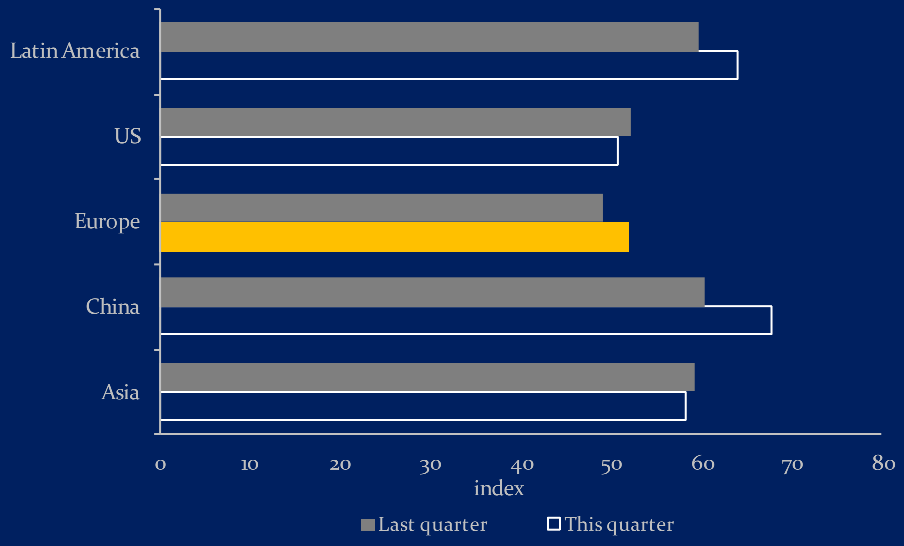
The economic sentiment in the Asian region (with the exception of China) shows a slight deterioration but remains solid, just under the 60 mark (on a scale of 100).

The US seems the big loser

Compared to these regions, the economic outlook for the US and Europe seems quite mediocre. However, in contrast to Europe where sentiment seems to be somewhat picking up again (albeit very moderately), the sentiment among CFOs in the US deteriorated for the third quarter in a row signaling a potentially difficult economic year ahead.

Figure 3. Optimism level about own country's economy

Latin America and China are the big gainers in Q4 2012…

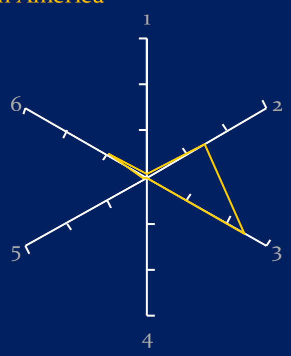


The emerging market regions such as Latin America and China currently remain the drivers of the global economy. When asked what the effect would be of an economic slowdown in one of these regions, European financial executives indicated that a slowdown in China and Latin America (to some extend) would have a negative effect on their company performance.

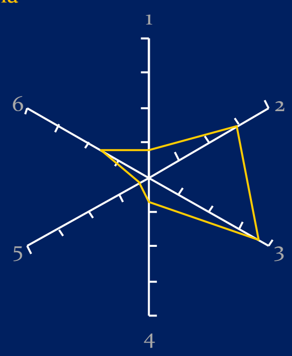
Figure 4. What would be the effect on your company if economic growth in 2013 continues to slow in one of the following two regions?

And a slowdown in 2013 in one of these regions would, to some degree, have a negative effect on European companies

A. Latin America



B. China



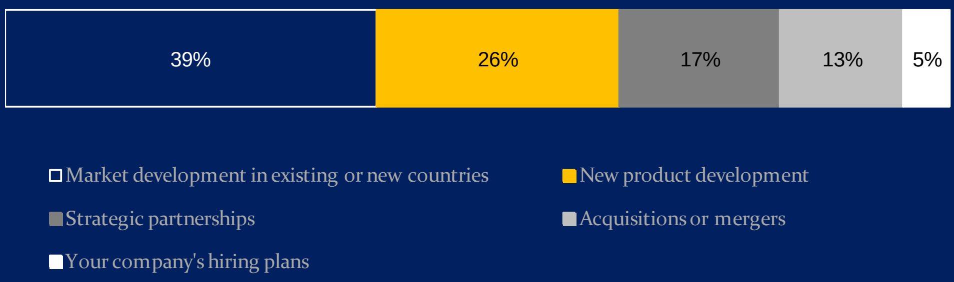
1=very negative effect, 5=very positive

This is not surprising if we consider the ever increasing globalization of markets and economies. Consequently, any slowdown would potentially pose implications for those companies that are pursuing business outside of their domestic market.

Market and product development are the preferred growth strategies for the next 3 years

For the next three years, more than one third of the European companies (39%) pursue market development as their primary growth strategy. Product development and strategic partnerships are also highly preferred growth strategies for the next three years.

Figure 5. What are the main growth strategies for European companies in the next 3 years?



But their success depends heavily on the economic climate

The success of these strategies in particular is very much conditional on the economic climate in the target regions (domestic and foreign). The fact that the economic outlook for the US and Europe remains moderate at best is therefore worrisome. Global financial instability and consumer demand remain the top concerns of European CFOs, together with price pressure from competition and the ability to maintain margins.

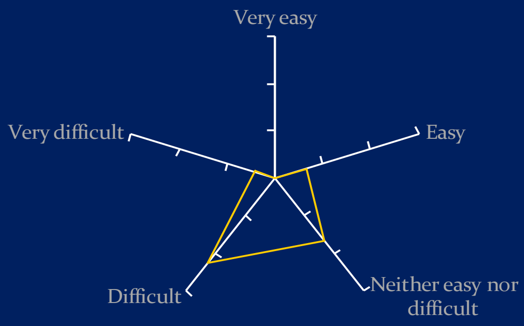
Table 1. Macro and internal concerns of European CFOs

Macro concerns	*Internal concerns*
➢ Consumer demand	➢ Ability to maintain margins
➢ Global financial instability	➢ Ability to forecast results
➢ Price pressure from competitors	➢ Working capital management
➢ National government policies	➢ Attracting and retaining qualified employees

And within the current global economic environment, European CFOs anticipate a tough year ahead for their growth and expansion plans

The macro and internal concerns of European financial executives immediately raise questions about the success rate of the companies' growth and expansion plans for 2013.

Figure 6. How do you perceive the chance of success of your company's growth and expansion plans in 2013?



Notwithstanding the strategic challenges for 2013 as anticipated by the companies in the Eurozone, the CFOs actually show remarkable optimism regarding the financial prospects of their companies.

Despite the challenges ahead European executives are confident about their own company's performance

Not only has the number of optimists increased from 28% in Q3 to 36% during the last quarter of 2012, the actual optimism level has also significantly increased to almost 62 on a scale of 100, a level that has not been observed since the first half of 2011.

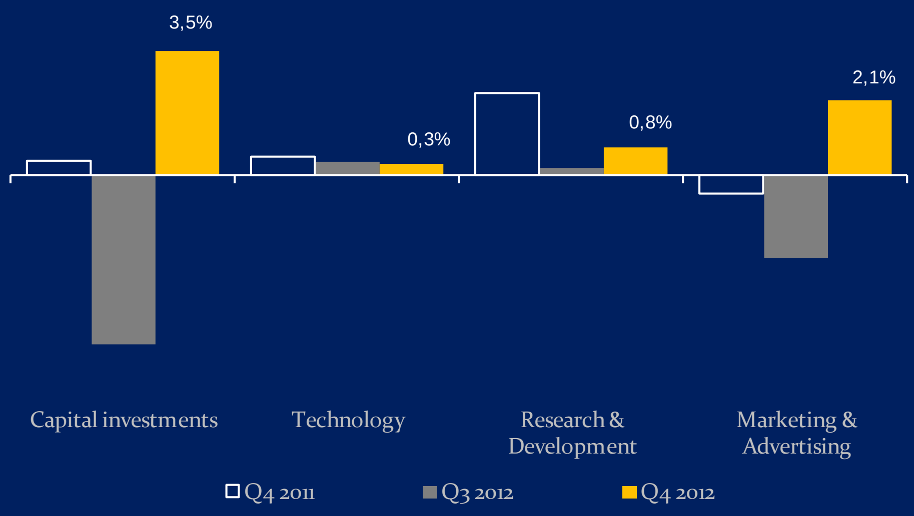
Figure 7. European CFO sentiment regarding financial prospects of own company

Finance & capital

The increase confidence at company level translates into improved business expenditures

The uptake in CFOs' optimism regarding the financial prospects of the own company is translated into positive growth expectations for the major business components (figure 8). Capital investments and spending on Marketing & Advertising are expected to witness a reversal from the previous quarter where spending was actually in negative territory.

Figure 8. CFOs' quarterly expected growth in spending for next 12 months



Expected business expenditures for the next twelve months are moderate but positive across the board..

- Capital spending and investments are expected to increase at an average rate of around 3.5% compared to -4.7% during the previous quarter and almost back to the levels that could be seen during the first half of 2011
- Spending on technology is expected to remain low but positive at 0.3% compared to 0.4% during the previous quarter
- The expected growth of R&D spending has witnessed a small uptake to 0.8%, up from 0.2% in during Q3 2012
- Expenditures on Marketing & Advertising is expected to grow at 2.1% reversing the negative trend of previous quarters and heading back to the levels observed during the first half of 2011

..and should translate into stronger revenue growth

Compared to one year ago, these business expenditures have experienced a significant improvement and thus signal a growing confidence among European executives. Traditionally, expenditures on capital investments and marketing and advertising have a direct correlation to revenue generation. Whereas in the previous three quarters, the expected 12-months growth in revenue was only a marginal 2% on average, the expected growth in revenues in Q4 2012 has doubled to almost 5% for the next twelve months.

Moreover, around 60% of the European financial executives state that the company sales outside of their (headquartered) country have

Increases in foreign sales may contribute to the positive outlook..

increased during 2012. This may certainly have contributed to their overall positive company outlook for the next twelve months, and strengthened their confidence about new and existing markets that they are eyeing for 2013.

..and encourage companies to expand even further into the international market place

The traditional emerging market regions such as Latin America and Asia seem to remain the most attractive destinations for European companies to expand their business to. Russia is also regarded as an attractive market by more than half of the European CFOs. These three regions are considered most by companies that are pursuing a market entry strategy or those that consider increasing their current investment levels.

Not surprisingly, Southern Europe is currently regarded as relatively unattractive to most European CFOs. Only 28% of the companies will maintain their current investments in the region. However, it is unclear whether they are forced to do so due to illiquidity of their assets. Another 15% seek to decrease their investments entirely in Southern Europe. More than 40% of the respondents indicate that they have no plans at all for this region.

Gross of the European CFOs do not seem to consider economic markets such as Africa and Australia & New Zealand as attractive business destinations for 2013.

Figure 9. Attractiveness of economic regions to European CFOs as indicated by growth and expansion strategies for 2013

	Market entry	Increase investments in the region	Maintain investment levels	No plans	Decrease investments in the region	Withdraw from the region
US and Canada	4%	8%	**27%**	**57%**	4%	0%
Latin America	**8%**	**19%**	**21%**	51%	1%	0%
Scandinavia	1%	12%	**28%**	**53%**	5%	1%
Western Europe	5%	**22%**	**33%**	23%	16%	1%
Eastern and Central Europe	2%	**25%**	**30%**	37%	4%	3%
Southern Europe	4%	11%	**28%**	**42%**	**15%**	1%
Africa	6%	12%	**13%**	**63%**	4%	2%
Russia	**7%**	**28%**	**16%**	47%	0%	2%
Asia	**7%**	**35%**	**13%**	44%	1%	0%
Australia and New Zealand	1%	9%	**23%**	**64%**	2%	1%

With West, East, and Central Europe being attractive home markets to invest in...

...and Latin America, Russia, and Asia being the preferred destination to explore new markets

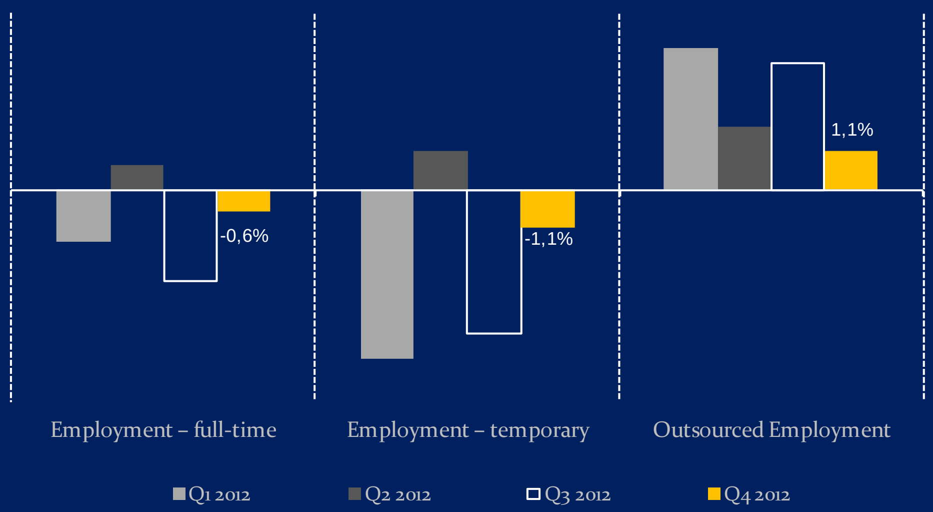
Employment

Q3 2012 showed dramatic decline in expected growth for employment. Contraction was anticipated for both full-time and temporary contracts with outsourced employment making up for the fallback.

Expected growth in the employment mix during the fourth quarter of 2012 and for the next twelve months shows slight amelioration (figure 12). However, layoffs are likely to continue in Europe, with full-time employment expected to shrink by 0.6%, an improvement from a negative 2.6% employment outlook last quarter. Temporary employment is also expected to shrink by 1% demonstrating an actual improvement from the dramatic outlook of -4.1% during the previous quarter.

Employment outlook during Q4 is less dramatic than the third quarter of 2012

Figure 10. European CFOs expected growth for next 12 months in employee mix



Even though the expected growth rates for employment remain in negative territory, the improvements are reflected in the hiring plans of the European companies.

A shift away from outsourcing of employment towards full-time contracting is likely

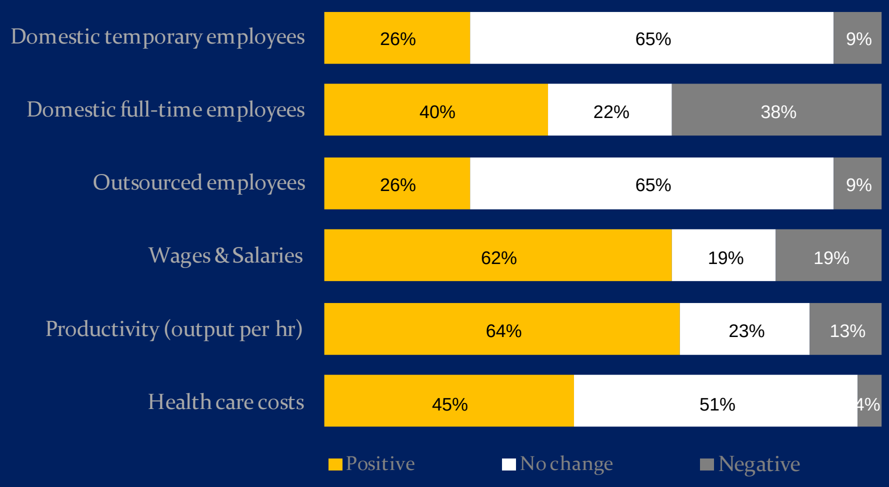
Whereas in the previous quarter outsourced employment was considered the preferred hiring strategy (40% of the CFOs indicated that their company would increase outsourcing compared with only 29% who planned to increase full-time contracts), this last quarter we can observe a shift from outsourcing towards full-time employment contracts. 40% of the respondents expect to see positive change in the recruitment of full-time employees versus 26% who opt for an increase in outsourcing (figure 11).

What is also illustrative in this case is that altogether in the fourth quarter fewer companies expect to cut back on employment during the next twelve months. For instance, during Q3 37% of the companies expected to cut back temporary employment, 53% expected to cut back on full-time employment and another 10% of the companies expected to cut back outsourced employment.

The real improvement lies in the fact that fewer companies are expected to cut back in employment

The last quarter of 2012 shows significant improvement with respect to companies' plans to cut back employment (particularly for temporary and full time contracts): Only 9% of the companies are now expected to cut back on temporary employment, 38% on full-time employment, and 9% is expected to cut back on outsourced contracts.

Figure 11. Relative to the previous 12 months, do you expect a positive or a negative change for your company in the following items?



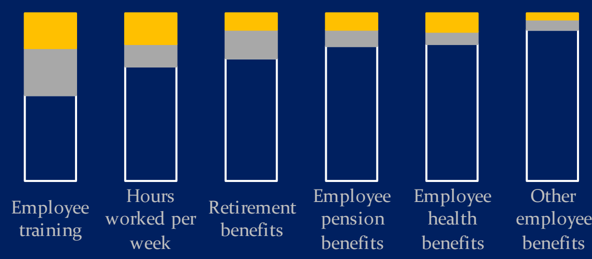
Though European companies still have to restore to pre-recession levels

In the last six years companies have also cut back in employee-related areas such as employee training and the number of hours worked per week. For example, more than 30% of the European companies have made cuts in the working hours per week of which almost half (13.5%) have not yet restored these to pre-recession levels by the end of 2013 (figure 12).

Another half of the financial executives have indicated that their company has made cuts in employee training over the last six years. More than 50% of the companies that made these cuts were unable to restore employee training to pre-recession levels and do not expect to be able to do so before the end of 2013.

Employee training, hours-worked-per-week, and retirement benefits have suffered most over the last six years

Figure 12. Did your company make cuts in employee-related areas during the last 6 years?



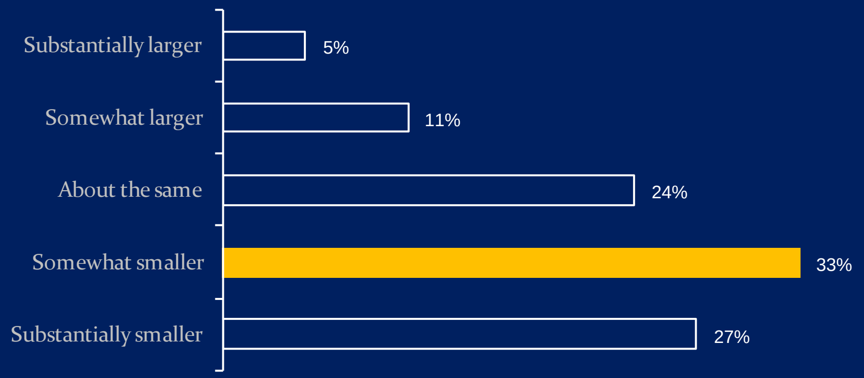
	Employee training	Hours worked per week	Retirement benefits	Employee pension benefits	Employee health benefits	Other employee benefits
Cut in the last 6 yrs but already restored or planning to restore	20,6%	19,0%	9,5%	9,5%	11,1%	4,0%
Cuts in the last 6 yrs and not restored in 2013	28,6%	13,5%	17,5%	10,3%	7,9%	5,5%
Not reduced or eliminated in the last 6 yrs	50,8%	67,5%	73,0%	80,2%	81,0%	90,5%

The majority of European financial executives (70%) have indicated that their company generally pays out bonuses. Following the trend of cost cutting measures in several employee related areas over the last six years, it is only logical to assume that the payout of bonuses has been affected to some extent as well.

Indeed, almost two thirds of the European CFOs indicate that the size of bonuses over 2012 has decreased to some extent compared to 2011. Only 16% of the companies were able to actually increase their bonus regime.

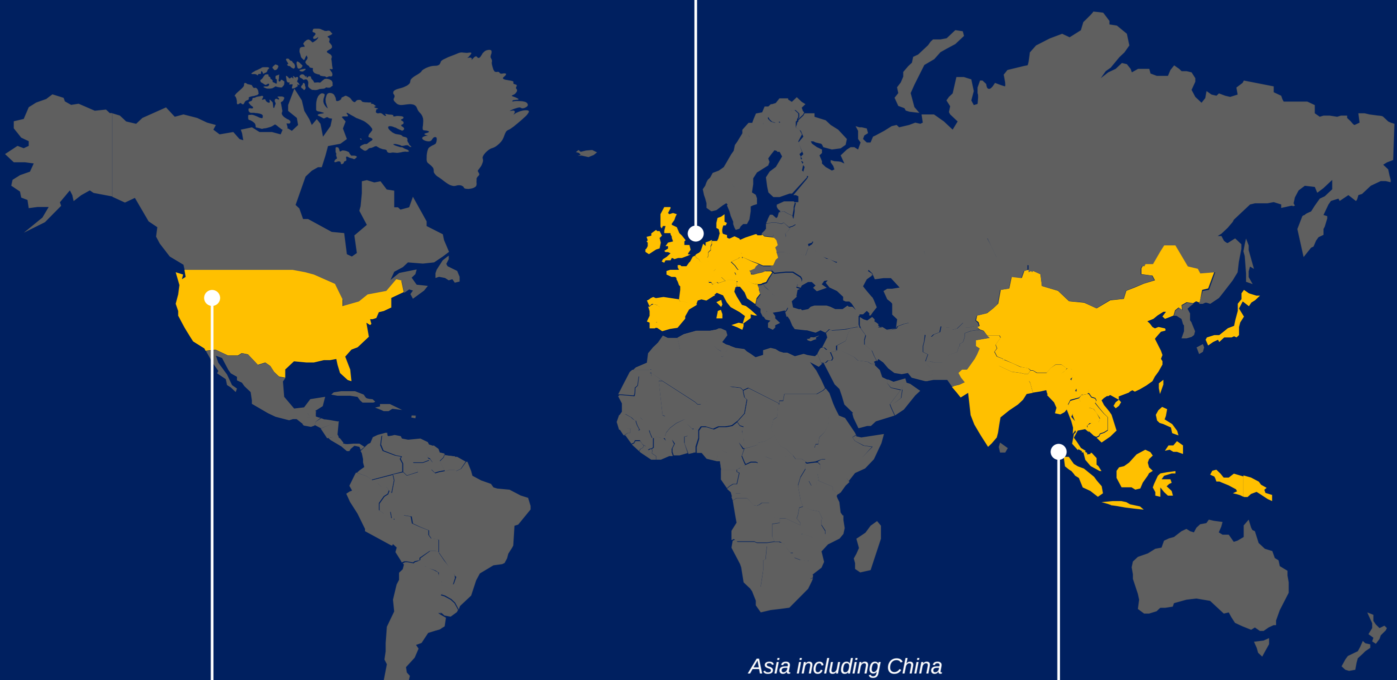
Over half of the companies that pay bonuses have indicated that the 2012 remuneration will be smaller than that of last year's

Figure 13. If your company does pay bonuses, how large will they be this year (2012) compared to last year?



Key results CFO Survey – Europe, US and Asia

Optimism about the country's economy	More opt: 22.5% Less opt: 48.3% No chg: 29.2%	Employment – full-time	-0.6%
		Employment – temporary	-1.1%
		Outsourced Employment	1.1%
Country optimism level	51.7	Wages and Salaries	0.1%
Optimism about own company	More opt: 35.8% Less opt: 28.3% No chg: 35.8%	Productivity	3.1%
		Inflation (own-firm products)	0.9%
Own company optimism level	61.7	Earnings growth*	0.8%
		Dividends*	2.9%
Capital spending	3.5%	Share Repurchases*	0.0%
Technology spending	0.3%	Cash on balance sheet*	2.5%
R&D spending	0.8%	Mergers and Acquisitions	Not asked.
Advertising and marketing spending	2.1%		



Optimism about the U.S. economy	More opt: 21.2% Less opt: 52.0% No chg: 26.8%
U. S. optimism level (0 to 100)	50.7
Optimism about own company	More opt: 27.7% Less opt: 38.7% No chg: 33.6%
Own company optimism level	63.0
Capital spending	2.5%
Technology spending	2.3%
R&D spending	-0.8%
Advertising and marketing spending	2.2%
Employment – full-time	0.1%
Employment – temporary	-1.6%
Outsourced Employment	0.5%
Wages and Salaries	2.6%
Productivity	2.5%
Inflation (own-firm products)	1.9%
Earnings growth*	8.8%
Dividends*	11.9%
Share Repurchases*	-3.5%
Cash on balance sheet*	0.6%
Mergers and Acquisitions	Not asked.

Optimism about the country's economy	More opt: 32.7% Less opt: 46.5% No chg: 20.9%
Country optimism level	59.7
Optimism about own company	More opt: 43.7% Less opt: 33.5% No chg: 22.8%
Own company optimism level	64.4
Capital spending	7.5%
Technology spending	13.7%
R&D spending	4.6%
Advertising and marketing spending	1.8%
Employment – full-time	2.6%
Employment – temporary	3.2%
Outsourced Employment	8.1%
Wages and Salaries	7.2%
Productivity	3.9%
Inflation (own-firm products)	2.5%
Earnings growth*	4.7%
Dividends*	4.2%
Share Repurchases*	15.1%
Cash on balance sheet*	-5.2%
Mergers and Acquisitions	Not asked.

Percentages indicate this quarter's expected growth rates for the next twelve months
** Indicates public firms only*

About CFO Survey

All the figures quoted above are taken from the Global CFO Survey for the fourth quarter of 2012. The survey concluded December 7, 2012. Every quarter, CFOs in Europe, the US, Asia and China are questioned about their economic expectations. Current records go back 67 quarters. The CFO Survey is conducted jointly by Tilburg University, Duke University (Durham, North Carolina) and CFO Magazine.

Note for the Press

Previous editions of the CFO Survey can be found at www.cfosurveyeurope.org. For further information, please contact Reggy van den Bosch, Tilburg School of Economics and Management, tel.+31-(0)-134668923 or e-mail r.vandenbosch@tilburguniversity.edu

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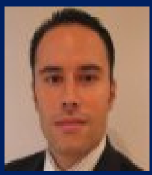

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