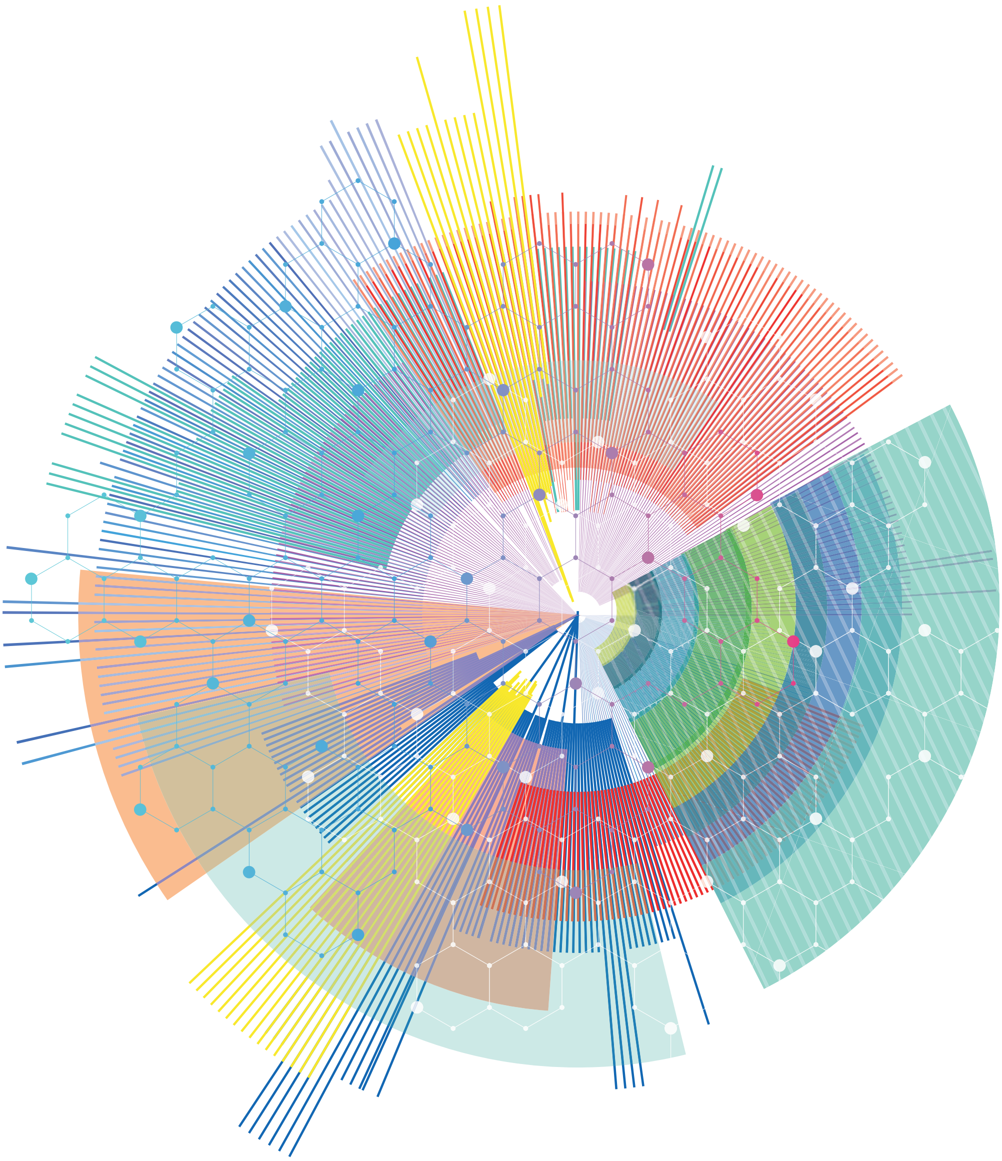
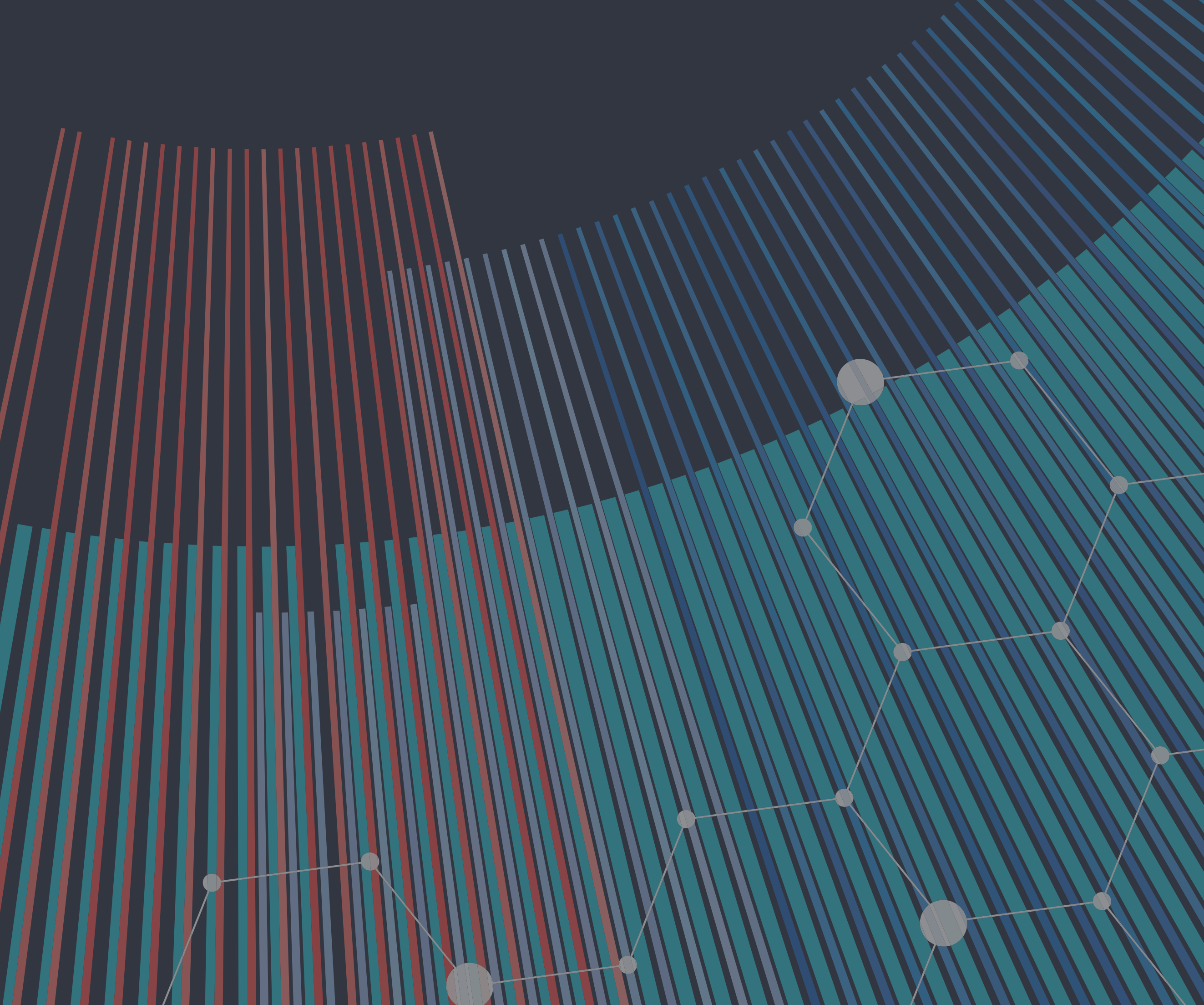


European CFO Survey

A perspective on COVID-19

Spring 2020

“The spread of COVID-19 has compounded Europe’s weak growth and brought some economic activity to a halt.”

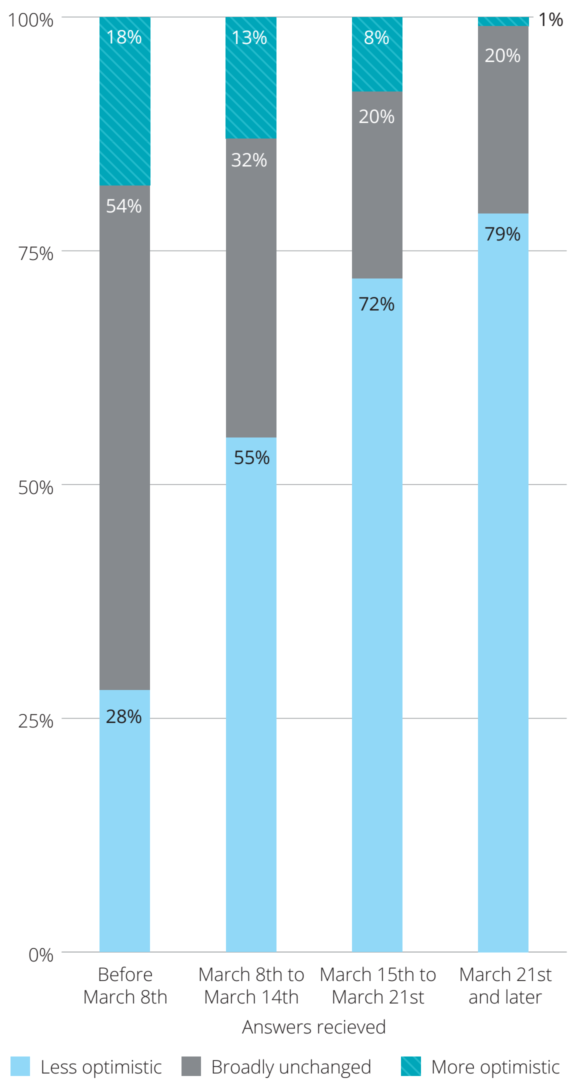


The pandemic has hit business sentiment hard

Heading into 2020, there was no shortage of concerns about the European economy. In the last three months of 2019 quarterly economic growth in the Eurozone disappointed with a meagre 0.1 per cent gain – the weakest since a contraction in early 2013. Business sentiment, as captured by Deloitte's twice yearly survey of Europe's CFOs, was already on a declining path. But the COVID-19 pandemic has changed the environment radically - for the worse. CFOs forsee by far the worst outlook for their businesses since the survey began in 2015.

The spread of COVID-19 has compounded Europe's weak growth and brought some economic activity to a halt. On average, 63 per cent of CFOs report in March 2020 that they are less optimistic about the financial prospects for their company, an increase of almost 30 percentage points in six months. If we look at the data based on when CFOs responded throughout March it is apparent that optimism was dwindling fast as the month progressed (see Figure 1). By the end of the month, 79 per cent of CFOs were less optimistic about their company's prospects.

Figure 1: Weekly development of CFOs' sentiment about their company's financial prospects
Compared to three months ago, how do you feel about the financial prospects for your company?



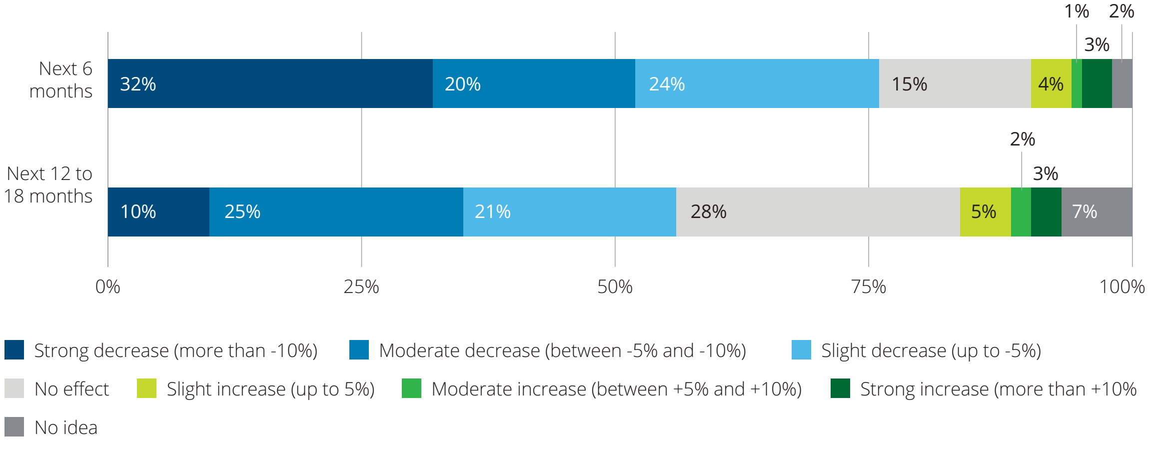
CFOs prepare for a slow recovery

While there is now little doubt that the global economy is heading into a recession, it is unclear how deep it will be, how long it will last and how quickly the economy will bounce back. An optimistic scenario assumes that the recession, though painful, will be short-lived, giving way to a sharp rise in economic activity in the second half of this year, driven by pent-up demand.

The CFOs participating in Deloitte's survey, however, take a more sombre view. Almost 80 per cent of respondents expect the pandemic to have a negative effect on their company's revenues well into the autumn; and one in three expect a double digit decline in the next six months. Perhaps unsurprisingly, CFOs in the tourism and travel industry are particularly pessimistic regarding the impact of the pandemic in the short term, whereas financial executives in the life science and health care industry have slightly more positive views – although even in this sector more than 50 per cent of respondents expect some decline in their revenues over the next six months.

Longer-term expectations are only slightly more positive. While only 10 per cent of respondents foresee a strong decrease in revenues well into next year and almost 30 per cent think that revenues will be at the same level as forecast before the outbreak, more than half still expect the negative effects of the pandemic to stretch into 2021 (see Figure 2). Thus, rather than a quick and sharp rebound, European companies seem to be preparing for a quite gradual recovery in their business, spread over a long time horizon. European companies seem to be preparing for a gradual recovery of their business, spread over the long-term.

Figure 2: Expected effect of the COVID-19 pandemic on companies' revenues compared to their own previous forecasts* Based on the information you have so far and compared to previous forecasts, how do you expect the spread of the coronavirus epidemic to affect the revenues of your company in the next 6 months? And in the next 12 to 18 months?



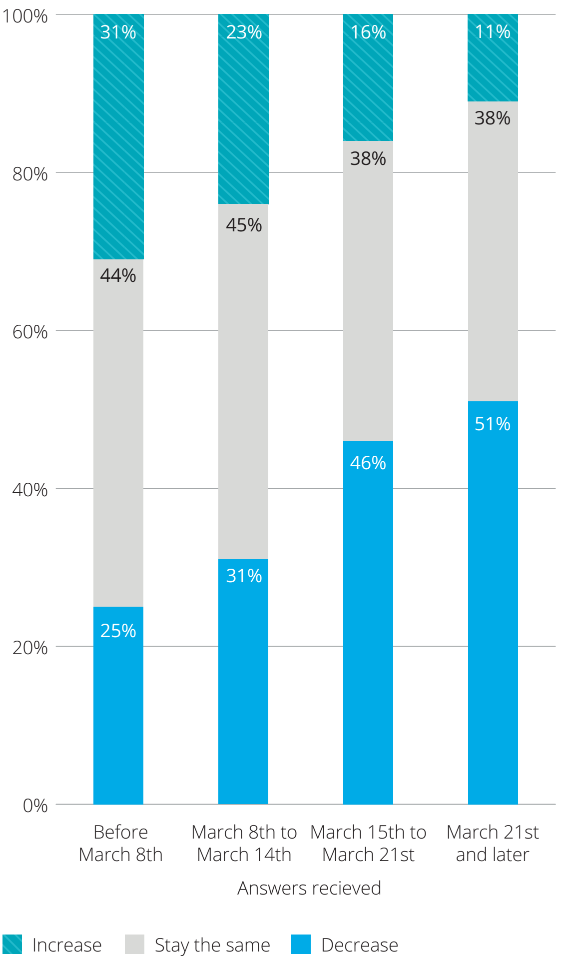
* This question was not asked in Denmark, Poland and Switzerland.

The outlook for investment and employment darkens

Subdued business expectations mean companies are downgrading their investment and hiring plans. Forty-one per cent of CFOs plan to reduce their capital expenditures, twice as many as the 20 per cent who plan to increase them. Similarly, 38 per cent of respondents foresee a decrease in the number of their employees over the next 12 months, against 21 per cent expecting an increase.

Governments and central banks across Europe have approved measures to provide liquidity to the system and ease the economic burden on businesses and citizens. That may help to prevent large numbers of businesses from failing and avert mass joblessness, while also supporting the incomes of workers who lose their jobs. The ability of these measures to cushion the European economy, however, depends crucially on whether the spread of the disease can be brought under control within the next few months. The outlook for hiring deteriorated substantially during the data collection period (Figure 3). Therefore, if the health situation takes longer to improve, the hit to the labour market is certain to be even bigger.

Figure 3: Weekly development of hiring intentions
In your view how is the number of employees for your company likely to change over the next 12 months?



Companies focus on liquidity, working arrangements and communication plans

To steer their companies in these uncharted waters, companies are prioritising short-term reactive measures.

Liquidity is obviously an essential element and about three in four CFOs report that they are cutting spending in response to the crisis. One in five companies are also deferring long-term investment commitments to free up immediate resources.

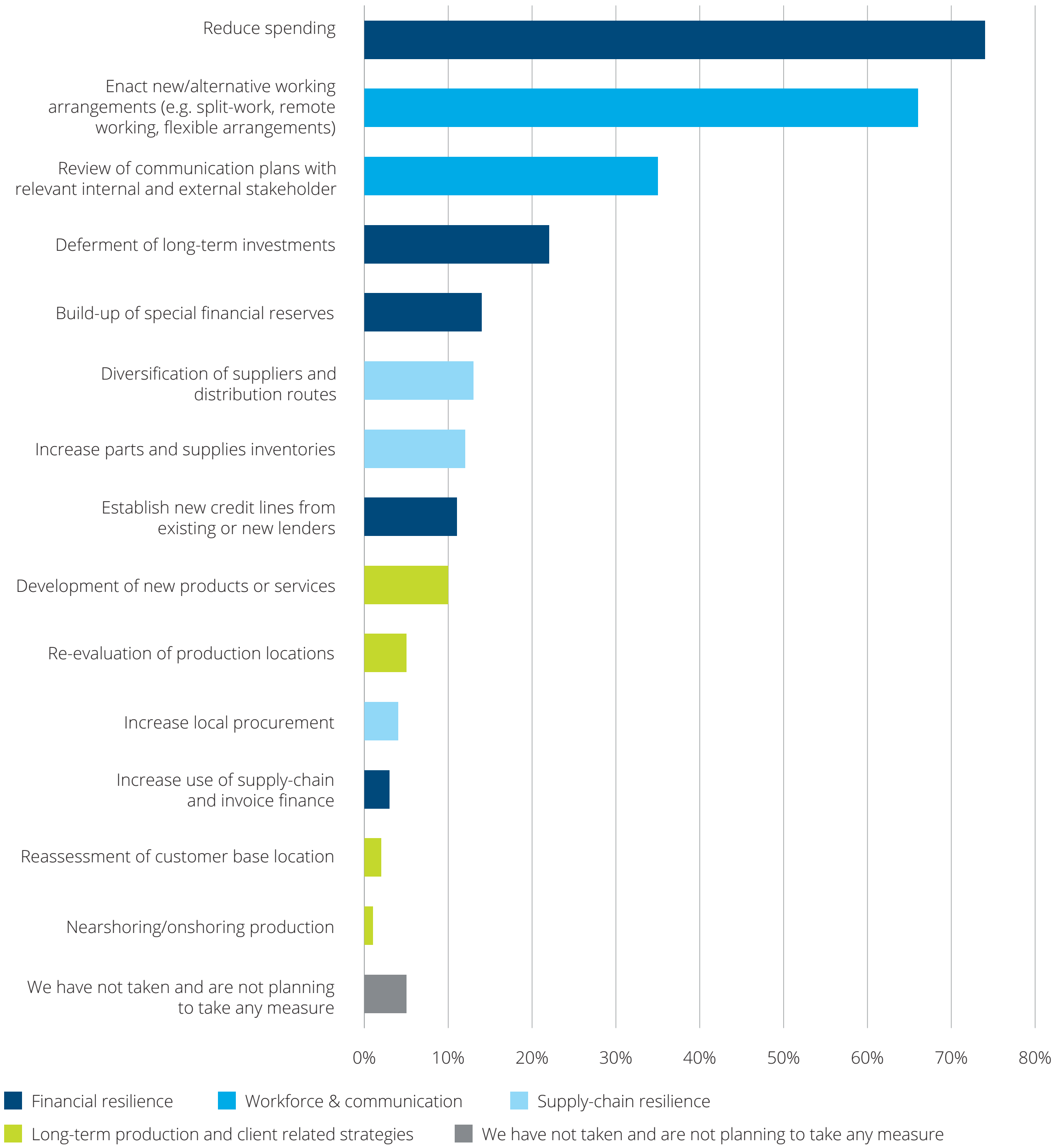
Setting up **new or alternative working arrangements** (such as flexible schedules, emote working or split work) is the second area of priority for European businesses. Remote working, in particular, is essential not only to ensure the health and well-being of the workforce, but also to ensure continuity of operations in many businesses. Of course, this is not an option in all industries or for all types of work. However, companies that have already invested in technology solutions to enable remote working, seamless collaboration and teaming may have a head start in this area. Other companies need to play catch-up fast, not only to create the necessary technological infrastructure but also to adapt their leadership style and culture to a different way of working.

Reworking **communication plans** is the third focus area, prioritised by 35 per cent of businesses. This in an essential step in times of crisis to provide guidance and maintain stakeholders' confidence. A lack of communication, but also incomplete or conflicting communication, can significantly slow the organisation's response.[1]

Besides these three areas, companies are focusing on building up resilience, prioritising the diversification of supply chains and increasing inventories, and securing access to finance. In particular, the number of respondents reporting that they were prioritising the establishment of new credit lines more than quadrupled during the data collection phase, though from a lower base, from 4 per cent in the weeks before March 8th, to 18 per cent among the CFOs who answered the survey after March 22nd. As the crisis continues over a prolonged period of time, measures to guarantee and facilitate access to credit will become increasingly relevant.

1 Deloitte 2020, The heart of resilient leadership: Responding to COVID-19" https://www2.deloitte.com/us/en/insights/economy/covid-19/heart-of-resilient-leadership-responding-to-covid-19.html accessed 04.04.2020

Figure 4: Actions prioritised in response to the spread of COVID-19*
Which of the following actions has your company already taken/is likely to take as a consequence of the spread of the coronavirus epidemic? (select top 3 based on priority)



* This question was not asked in Denmark, Poland and Switzerland.

Summary and conclusions

The COVID-19 pandemic is a health crisis of extraordinary proportions which is also causing serious harm to the global economy. According to the results of Deloitte's European CFO survey, European businesses expect the consequences of the outbreak to persist longer than many predictions initially assumed. In the midst of the crisis, businesses are concentrating on specific areas: liquidity, business continuity through different working arrangements and using communication plans effectively.

Looking ahead, there are a great number of uncertainties. No one can be sure how quickly an effective response to the pandemic can be developed and implemented, how deep the recession will be in individual countries or regions or globally, nor how deep the recession will be in individual countries and regions, or across the globe, and how swiftly the recession will come to an end. But there will eventually be an end to this crisis. To recover and thrive after it, companies need to begin thinking early on about the ways in which their environment is going to change and prepare to be well positioned in the post-crisis world. Identifying strategic areas of growth and diverting adequate resources to these areas is essential. Failing to do so creates the risk of surviving the COVID-19 pandemic but falling victim to more familiar competitive threats.

The Deloitte European CFO Survey

Since 2015 Deloitte has conducted the European CFO survey, giving voice twice a year to senior financial executives from across Europe. The data for the Spring 2020 edition were collected in March 2020 and about 1,000 CFOs in 18 countries participated (see Figure 5 below). Besides providing an overview of business sentiment and expectations for investments and hiring across Europe, each edition focuses on a topical issue. The Spring 2020 edition asked CFOs about the expected effects of the COVID-19 pandemic on revenues in the short and medium term, as well as the actions they are taking in response.

Figure 5: Overview of countries participating

"Companies need to begin thinking early on about how their environment will change and prepare to be well positioned for the post-crisis world. Failing to do so creates the risk of surviving the COVID-19 pandemic but then falling victim to more familiar competitive threats."

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