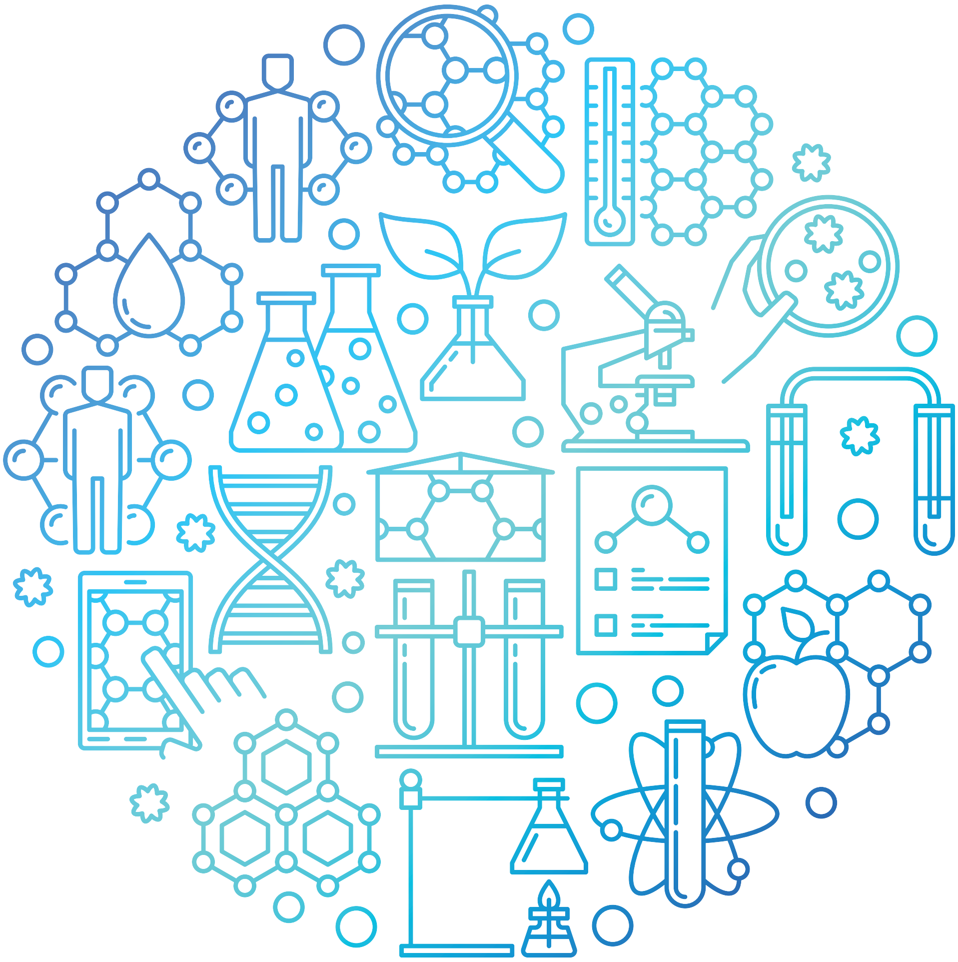


Chemicals Insights
The future of chemical parks

In the new winter 2023/2024 issue of our Chemicals Insights we shed light on the status quo and the future of chemical parks, an area gaining momentum within the chemical industry. We continue our examination of the industry's present and future by reviewing recent market transactions, and also continue our survey on ESG maturity and the economic outlook since our last update.

MAKING AN IMPACT THAT MATTERS since 1845

Hot topics in the market – Chemical Parks

Everyone is talking about it - but what exactly is a chemical park?

A chemical park is a closed industrial park, protected from external access, where various chemical companies conduct research and production. These companies often share material networks and synergies. There is also a chemical park operator responsible for providing proper facilities, real estate, infrastructure, networks, and supply and disposal facilities. Since most chemical parks have grown historically, a clear separation of roles is rare, and often multiple functions are consolidated within a single entity.[1]

Current market developments

The advantages of chemical parks are undisputed, as demonstrated by the approximately 50 parks across Western Europe alone. Prominent examples include Chemelot, Chemiepark Marl, Chemiepark Leuna.

Yet these chemical parks face significant, often capital-intensive challenges. The transformation to sustainability, in particular, severely impacts chemicals company infrastructure and specifically chemical parks.

Chemical park operators must focus their efforts on reducing energy consumption, shifting to green energy supply, limiting emissions, and promoting recycling and the circular economy.

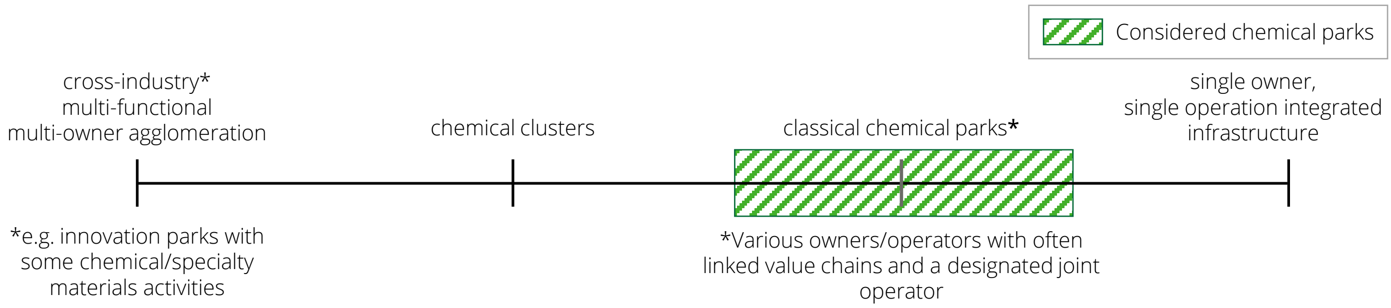
Chemical companies, meanwhile, who are often owners and operators of chemical parks, are under economic pressure due to high energy costs and production declines amounting to 16.5% in Germany alone in the first half of 2023. These imminent challenges, related to capital-intensive and non-core infrastructure and increased economic pressure on chemical companies, have raised the question of whether chemical parks should remain in chemical company portfolios.

Outlook

Some companies have already started separating their infrastructure. As an example, in 2018, a PE owned company extended its chemical parks activity by taking over two neighboring chemical parks, previously owned by two chemical companies, and merging them into a new company. In 2020, two major German chemical companies divested their stakes in a chemical park operator to focus on their "core activities." The business was sold to one of the major global infrastructure investors, for >€3B. In 2021, a U.S. chemical conglomerate offered its German infrastructure for sale. Another major German chemical group plans to split the services of its technical and infrastructure division into cross-location technology and location-specific infrastructure activities.

This organizational separation of the division is intended to enable a more differentiated management of services and reduce the complexity.

Fig. 1 – Definition of chemical parks



1 Prozesstechnik, Von stetigem Wandel geprägt. Chemieparks in Deutschland - prozesstechnik online (industrie.de), press release November 20, 2013.

In light of these developments, divestments will likely follow: Half of the ~50 chemical parks in Western Europe are well positioned for outsourcing/divestment. Chemical parks where the infrastructure has already been spun off into separate entities are predestined for divestment.

This is supported by the fact that sustainability transformation entails very high investment in infrastructure: A German chemical park operator is investing a three-digit million amount in the construction of two new gas turbines and the modernization of the existing gas turbine plant. At the Leuna chemical park, the chemical park operator is investing €145M in the new construction and modernization of its gas and steam turbine power plant in order to supply the resident companies with electricity and steam at competitive prices in an efficient and climate-friendly manner. With chemical companies clearly on track to net-zero, more is certainly to come.

Investor perspectives

These deals offer several advantages for owners and investors. The opportunity to free up capital and management capacity for core activities is one benefit for current owners. Otherwise, these investments into sustainability transformation would not be available for core activities and other forward-looking projects such as innovative products and services.

On the other hand, investment in chemical parks provides a long-term, reliable perspective that appeals to long-term oriented investors. The potential for professionalizing the management of these facilities brings opportunities and there are prospects of attracting for instance in bio-based chemicals and the circular economy.

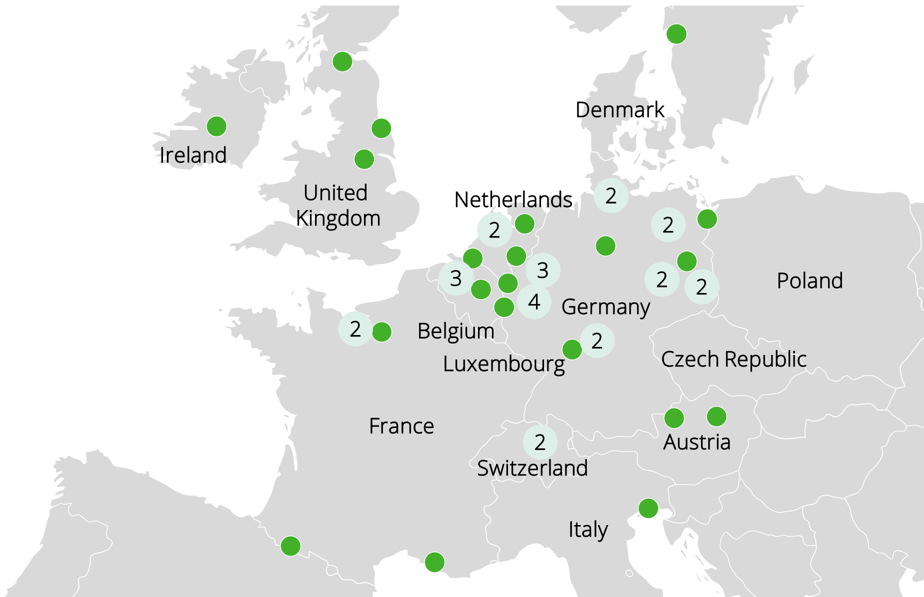
Finally, becoming part of the green energy transformation by leveraging infrastructure opens up new horizons, as several green hydrogen projects illustrate.

Divestments of infrastructure hold huge potentials for buyer and seller.

In 2021, the first electrolysis pilot plant for green hydrogen was commissioned in Leuna, which is fully integrated into a chemical park.[2] A major chemical group is also committed to building hydrogen transport pipelines as part of the "Get H2" initiative, including at the Marl Chemical Park, and aims to avoid CO2 emissions of up to 16 M tons by 2030 through the use of green hydrogen.

Therefore, divestment of chemical parks offers a path to transformation, but also comes with a range of considerations: Securing long-term supply agreements to ensure operational continuity is of utmost importance, and careful transaction planning is essential to effectively manage the complexity of these transitions. Moreover, a rigorous financial evaluation is key to making informed decisions.

Fig. 2 – Overview of major chemical parks in Europe (number of parks)



2 Fraunhofer, Standard (fraunhofer.de), press release May 21, 2021.

Recent multiple developments – Challenging market conditions remain

Private equity firms and strategic buyers have made significant investments in the chemicals industry over the past years, including the logistics supply chain for chemical distribution. Company valuation then becomes crucial to determine the value of the deals. Comparable metrics of publicly traded chemical companies can provide a guide for both strategic buyers and private equity firms when considering mergers and/or acquisitions.

Moderate increase of valuations

Table 1 provides trading multiples including, e.g. Enterprise Value (EV)/ EBITDA multiples and Price-to-Earnings (P/E) ratios of 28 listed chemical companies that span off various sub-sectors and geographies. The multiples are based on the latest reported financial data and stock prices.

Worldwide, the average value of EV/ EBITDA in the chemical sectors as of 2023 was a multiple of 11.6x, remaining at levels close to the 10-year average of c. 11.0x. There is a particular emphasis on highly attractive, growth-oriented segments. Companies operating in the consumer chemicals sector saw the highest valuation multiple with EV/EBITDA valued at 19.4x, followed by the industrial gases sector at 15.4x. Companies operating in the fertilisers sector saw the lowest valuation multiple with EV/EBITDA valued at 5.3x.

Challenging M&A markets

Table 2 gives an overview of the transaction multiples in the chemicals industry for the last two years. Up until 2022, valuations multiples for financial transactions had been generally higher than those for strategic transactions. Since 2022, however, this tendency has been ebbing and beginning to turn around. Strategic buyers now generally experience higher multiples. The difference between strategic and financial transactions becomes even larger in 2023. The median valuation multiple for strategic transactions reaches 14.4x in 2023, which is more than double the value of financial transaction.

Outlook

The complex interplay of the global economy, government and central bank responses, as well as political events will largely determine the outlook in 2024. We believe that better economic transparency in 2024 will likely raise confidence with a corresponding increase in outlook for chemicals M&A.

Tab. 1 – Public Company Valuation Statistics

Company	Country	Share price	Market Cap	EV/Revenue				EV/EBITDA				EV/EBIT				P/E				P/BV			
				LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E
		EURm	EURm	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)
Consumer Chemicals																							
Croda International	UK	55.0	7,618	3.7	3.3	4.0	3.9	16.9	13.0	16.9	15.7	21.2	15.4	21.5	19.8	34.1	25.1	27.8	26.0	2.8	2.7	2.7	2.6
Givaudan	CH	3,577.3	33,009	5.2	5.1	5.2	5.1	26.5	25.4	24.4	22.5	34.3	32.8	31.9	28.5	53.7	53.7	33.8	30.9	7.9	7.4	7.0	6.6
Novozymes	DK	48.0	13,309	5.9	6.0	5.9	5.6	19.0	18.1	18.1	16.3	24.6	23.6	24.4	21.4	43.8	40.5	29.1	26.5	6.9	7.2	6.7	6.1
Symrise	DE	106.0	14,816	3.6	3.7	3.6	3.4	22.1	21.1	18.4	16.7	37.4	34.3	26.9	23.5	65.2	56.5	36.5	30.9	4.2	4.2	3.9	3.6
			Median	**4.5**	**4.4**	**4.6**	**4.5**	**20.6**	**19.6**	**18.2**	**16.5**	**29.5**	**28.2**	**25.7**	**22.4**	**48.7**	**47.1**	**31.5**	**28.7**	**5.5**	**5.7**	**5.3**	**4.8**
			Average	**4.6**	**4.5**	**4.7**	**4.5**	**21.1**	**19.4**	**19.4**	**17.8**	**29.4**	**26.5**	**26.2**	**23.3**	**49.2**	**44.0**	**31.8**	**28.6**	**5.5**	**5.4**	**5.1**	**4.7**
Fertilisers																							
Grupa Azoty	PL	5.4	531	0.8	0.5	0.9	0.7	n.a.	5.0	n.a.	8.0	n.a.	7.2	n.a.	20.4	n.a.	2.3	n.a.	11.9	0.3	0.3	0.2	0.2
K+S	DE	13.7	2,628	0.5	0.4	0.6	0.6	1.6	0.9	3.3	3.4	2.3	1.1	8.8	8.8	4.1	2.0	14.2	15.1	0.4	0.4	0.4	0.4
OCI	NL	18.3	3,868	1.3	0.8	1.5	1.3	7.1	2.2	5.8	4.3	16.1	2.6	10.1	6.4	n.a.	7.2	33.2	10.1	3.3	1.8	2.9	3.2
Yara International	NO	30.2	7,704	0.7	0.5	0.7	0.7	6.0	2.7	6.9	5.1	12.2	3.4	23.2	11.1	13.9	4.2	33.0	10.9	1.2	1.1	1.1	1.1
			Median	**0.7**	**0.5**	**0.8**	**0.7**	**6.0**	**2.5**	**5.8**	**4.7**	**12.2**	**3.0**	**10.1**	**10.0**	**9.0**	**3.2**	**33.0**	**11.4**	**0.8**	**0.7**	**0.7**	**0.7**
			Average	**0.8**	**0.6**	**0.9**	**0.8**	**4.9**	**2.7**	**5.3**	**5.2**	**10.2**	**3.6**	**14.0**	**11.7**	**9.0**	**3.9**	**26.8**	**12.0**	**1.3**	**0.9**	**1.2**	**1.2**

Sources: S&P Capital IQ, Deloitte analysis; priced as of 06 December 2023.

Tab. 1 – Public Company Valuation Statistics (Continued)

Com-pany	Country	Share price	Market Cap	EV/Revenue				EV/EBITDA				EV/EBIT				P/E				P/BV			
				LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E	LTM	2022	2023E	2024E
		EURm	EURm	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)
Specialty Chemicals																							
AkzoNobel	NL	71.5	12,204	1.5	1.5	1.5	1.5	12.5	14.9	11.5	10.2	17.1	22.2	15.1	13.0	29.2	35.8	20.0	15.3	2.8	2.8	2.7	2.5
Arkema	FR	91.3	6,798	0.9	0.7	0.9	0.9	6.0	4.1	5.7	5.1	11.8	6.1	9.2	8.1	17.2	8.1	10.2	8.9	1.0	1.0	0.9	0.9
Clariant	CH	13.6	4,473	1.1	1.0	1.2	1.1	6.5	5.8	8.1	6.9	9.5	8.4	13.1	10.7	15.3	13.0	16.5	13.5	1.8	1.8	1.7	1.6
Evonik Indus-tries	DE	17.3	8,041	0.7	0.6	0.8	0.7	8.6	4.6	7.0	6.1	n.a.	8.3	21.8	14.9	n.a.	9.5	17.5	13.7	0.8	0.7	0.8	0.8
FUCHS Petrolub	DE	38.4	4,683	1.3	1.4	1.3	1.3	9.3	10.0	9.4	8.8	11.5	12.5	11.5	10.6	0.0	23.8	18.3	16.6	0.0	2.9	2.7	2.5
Johnson Matthey	UK	18.3	3,350	0.3	0.3	1.0	1.0	7.0	6.2	6.3	6.5	9.6	8.3	8.8	9.4	14.0	11.1	10.8	10.4	1.2	1.1	0.0	1.1
LANXESS	DE	25.6	2,210	0.7	0.6	0.7	0.7	11.0	5.2	9.0	6.9	n.a.	12.6	n.a.	30.5	n.a.	9.6	n.a.	27.9	0.4	0.5	0.4	0.4
Sika	CH	257.5	41,305	4.2	4.4	4.1	3.7	25.6	24.9	21.8	18.7	32.9	31.1	28.6	23.9	0.0	44.2	33.5	27.8	8.0	7.5	6.7	5.8
Umicore	BE	23.6	5,683	0.3	0.3	1.7	1.6	6.7	6.3	7.2	7.0	9.1	8.3	10.3	10.4	14.5	12.6	13.0	13.4	1.6	1.6	1.5	1.4
Wacker Chemie	DE	113.2	5,621	0.9	0.7	0.9	0.9	6.0	2.9	7.2	6.0	10.1	3.7	14.2	10.7	16.2	5.8	18.6	14.3	1.2	1.2	1.2	1.2
			Median	**0.9**	**0.7**	**1.1**	**1.0**	**7.8**	**6.0**	**7.7**	**6.9**	**10.8**	**8.4**	**13.1**	**10.7**	**14.9**	**11.9**	**17.5**	**14.0**	**1.2**	**1.4**	**1.4**	**1.3**
			Average	**1.2**	**1.2**	**1.4**	**1.3**	**9.9**	**8.5**	**9.3**	**8.2**	**14.0**	**12.1**	**14.7**	**14.2**	**13.3**	**17.4**	**17.6**	**16.2**	**1.9**	**2.1**	**1.9**	**1.8**
Polymers																							
Covestro	DE	51.2	9,671	0.8	0.7	0.8	0.8	14.5	7.9	11.4	8.4	n.a.	18.1	63.3	21.3	n.a.	26.4	n.a.	29.5	1.4	1.4	1.4	1.3
Ems-Chemie	CH	673.9	15,762	6.2	5.9	6.7	6.5	23.9	22.2	26.5	23.8	25.9	24.0	29.5	26.3	43.3	39.5	34.5	31.1	7.3	8.2	8.2	8.1
Lyondell-Basell Industries	US	85.6	27,777	1.0	0.8	1.0	1.0	7.3	5.9	7.4	7.0	11.1	7.7	10.7	9.5	15.2	9.9	10.4	9.6	2.3	2.4	2.3	2.2
Victrex	UK	16.8	1,458	4.1	4.1	4.1	3.9	11.7	11.7	12.6	11.5	14.6	14.6	16.3	14.8	24.8	24.8	0.0	17.7	2.5	2.5	0.0	2.4
			Median	**2.5**	**2.5**	**2.5**	**2.4**	**13.1**	**9.8**	**12.0**	**10.0**	**14.6**	**16.3**	**22.9**	**18.1**	**24.8**	**25.6**	**10.4**	**23.6**	**2.4**	**2.4**	**1.9**	**2.3**
			Average	**3.0**	**2.9**	**3.2**	**3.0**	**14.3**	**11.9**	**14.5**	**12.7**	**17.2**	**16.1**	**29.9**	**18.0**	**27.8**	**25.2**	**15.0**	**22.0**	**3.4**	**3.6**	**3.0**	**3.5**
Industrial Gases																							
Air Liquide	FR	173.5	90,615	3.5	3.4	3.7	3.5	14.2	14.7	13.6	12.7	21.5	22.4	20.3	18.8	33.6	35.3	26.7	24.5	3.9	3.8	3.6	3.3
Linde	UK	370.9	179,840	6.5	6.3	6.4	6.1	17.1	18.5	17.3	16.3	25.7	30.6	23.2	21.7	41.0	49.3	28.4	25.9	5.0	4.9	4.9	4.8
			Median	**5.0**	**4.9**	**5.1**	**4.8**	**15.7**	**16.6**	**15.4**	**14.5**	**23.6**	**26.5**	**21.7**	**20.3**	**37.3**	**42.3**	**27.6**	**25.2**	**4.4**	**4.4**	**4.2**	**4.1**
			Average	**5.0**	**4.9**	**5.1**	**4.8**	**15.7**	**16.6**	**15.4**	**14.5**	**23.6**	**26.5**	**21.7**	**20.3**	**37.3**	**42.3**	**27.6**	**25.2**	**4.4**	**4.4**	**4.2**	**4.1**
Diversified																							
BASF	DE	44.4	39,664	0.8	0.7	0.8	0.8	19.3	9.7	7.6	6.9	n.a.	25.4	15.0	12.8	n.a.	41.9	13.8	11.0	1.0	1.0	1.0	1.0
Solvay	BE	110.8	11,731	1.0	0.8	1.1	1.1	4.8	4.0	4.7	4.8	7.0	5.5	6.3	6.8	10.5	8.0	8.0	9.3	1.2	1.3	1.1	1.0
			Median	**0.9**	**0.8**	**1.0**	**1.0**	**12.0**	**6.9**	**6.1**	**5.9**	**7.0**	**15.5**	**10.6**	**9.8**	**10.5**	**24.9**	**10.9**	**10.1**	**1.1**	**1.2**	**1.1**	**1.0**
			Average	**0.9**	**0.8**	**1.0**	**1.0**	**12.0**	**6.9**	**6.1**	**5.9**	**7.0**	**15.5**	**10.6**	**9.8**	**10.5**	**24.9**	**10.9**	**10.1**	**1.1**	**1.2**	**1.1**	**1.0**
Chemical Distribution																							
Brenntag	DE	79.4	11,726	0.8	0.7	0.8	0.8	9.6	8.0	8.7	8.4	12.8	10.1	11.3	10.9	20.9	16.3	15.0	14.1	2.6	2.6	2.5	2.3
IMCD	NL	145.1	8,254	2.1	2.1	2.1	2.0	16.6	16.3	17.5	16.3	20.5	19.9	22.2	20.0	31.7	29.6	24.1	22.5	5.0	4.9	4.5	4.1
			Median	**1.4**	**1.4**	**1.4**	**1.4**	**13.1**	**12.2**	**13.1**	**12.3**	**16.7**	**15.0**	**16.8**	**15.5**	**26.3**	**23.0**	**19.5**	**18.3**	**3.8**	**3.8**	**3.5**	**3.2**
			Average	**1.4**	**1.4**	**1.4**	**1.4**	**13.1**	**12.2**	**13.1**	**12.3**	**16.7**	**15.0**	**16.8**	**15.5**	**26.3**	**23.0**	**19.5**	**18.3**	**3.8**	**3.8**	**3.5**	**3.2**
Chemical Sector			**Median**	**1.0**	**0.8**	**1.2**	**1.2**	**11.0**	**8.0**	**9.0**	**8.2**	**14.6**	**12.6**	**15.7**	**13.9**	**19.1**	**20.1**	**18.6**	**15.2**	**2.0**	**2.1**	**2.0**	**2.3**
			Average	**2.2**	**2.1**	**2.3**	**2.2**	**12.5**	**10.4**	**11.6**	**10.4**	**17.3**	**15.0**	**19.1**	**15.9**	**24.6**	**23.1**	**21.1**	**18.5**	**2.8**	**2.8**	**2.6**	**2.6**

Sources: S&P Capital IQ, Deloitte analysis; priced as of 06 December 2023.

Fig. 3 – EV/EBITDA, 2024e

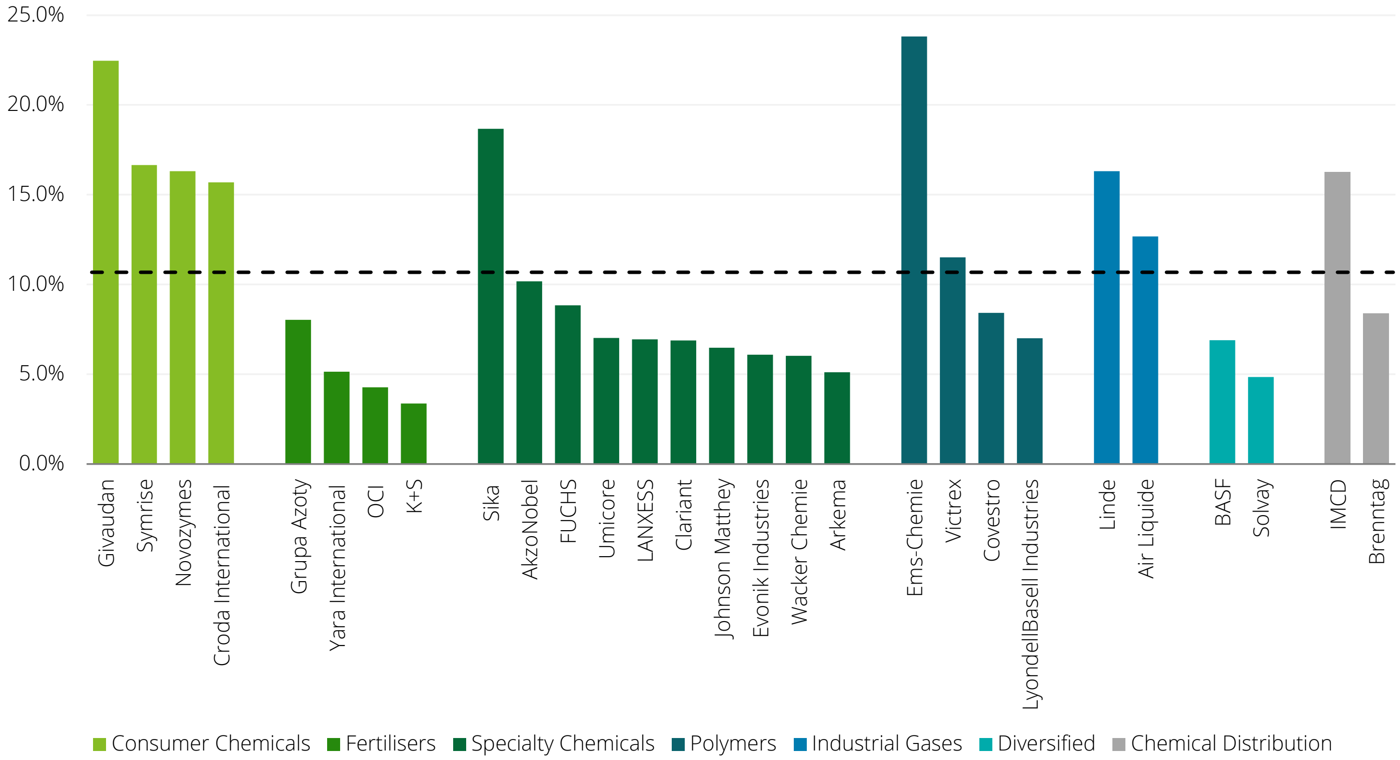
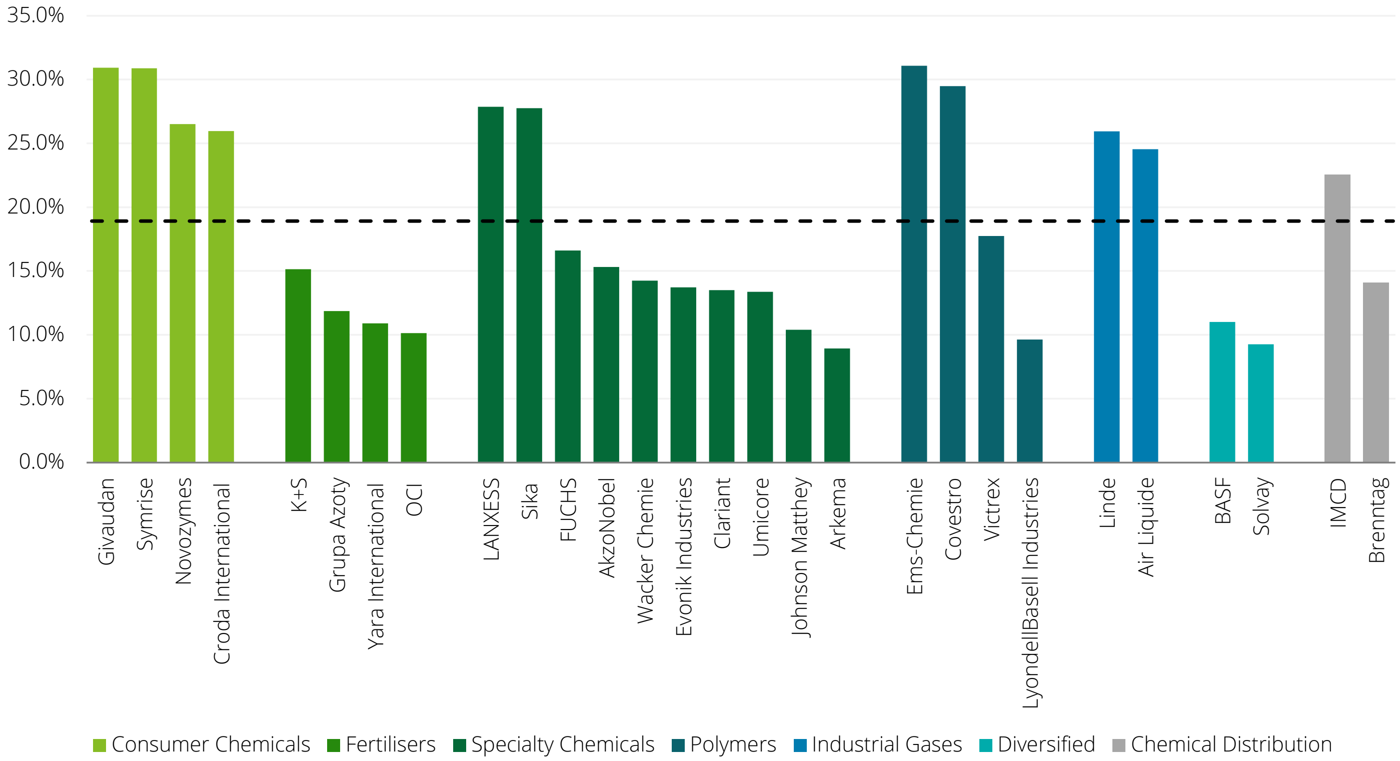


Fig. 4 – P/E, 2024e



Sources: S&P Capital IQ, Deloitte analysis.

Tab. 2 – Chemicals M&A Activity (Selected Transactions)

Strategic Buyer **Median Strategic Buyer 13.1x** Financial Buyer **Median Financial Buyer 7.0x**

Year	Date	EV ($m)	Target Company	Country	Bidder Company	EV/EBITDA (reported)
2023	Oct-23	2,045	Dongyue Group Limited		Dongyue Group Limited	3.2x
	Sep-23	1,015	Ciech Group SA		Kulczyk Investments SA	4.3x
	Aug-23	6,214	Clariant AG		40 North Management LLC	7.0x
	Jul-23	1,308	Chase Corp		KKR & Co Inc	13.9x
	Jun-23	6,926	JSR Corp		JIC Capital Ltd	28.9x
	Jun-23	766	Flex Composite Group SA		Compagnie Generale des Etablissements Michelin SA	3.5x
	Jun-23	14,159	Braskem SA		Unipar Carbocloro SA	4.5x
	May-23	2,936	RHI Magnesita NV		Rhone Group LLC	5.7x
	Apr-23	3,014	Vilmorin & Cie SA		Groupe Limagrain; Societe Cooperative Agricole Limagrain	21.8x
	Apr-23	1,209	Blackmores Ltd		Kirin Holdings Company, Ltd.	22.8x
	Mar-23	54,431	Rongsheng Petro Chemical Co., Ltd.		Saudi Arabian Oil Co; Aramco Overseas Company B.V.	12.5x
	Mar-23	8,170	Univar Solutions Inc		Apollo Global Management Inc; Abu Dhabi Investment Authority	7.8x
	Feb-23	936	Ciech Group SA		Kulczyk Investments SA	5.7x
	Feb-23	975	Fuso Chemical Co Ltd.		Kunpusha Co Ltd	5.7x
	Feb-23	545	Thai Central Chemical pcl		Sojitz Corporation; ISTS (Thailand) Co Ltd	14.4x
	Feb-23	10,645	Hengyi Petrochemical Co Ltd		Zhejiang Hengyi Group Co., Ltd.	17.4x
	Feb-23	1,812	Halcyon Agri Corporation Limited		China Hainan Rubber Industry Group Co., Ltd.	29.5x
2022	Dec-22	11,180	OMV AG		Abu Dhabi National Oil Co	0.7x
	Dec-22	13,264	Chr. Hansen Holding A/S		Novozymes AS	30.1x
	Nov-22	1,905	Anhui Jiangnan Chemical Industry Co., Ltd.		Zijin Mining Zinan (Xiamen) Investment Partnership	6.3x
	Nov-22	3,530	Zibo Qixiang Tengda Chemical Co., Ltd.		Shandong Energy Group New Material Company Limited	8.9x
	Oct-22	1,348	Qurain Petrochemicals Industries Company		Al Futtooh Holding Company KSC	9.9x
	Sep-22	9,873	ORLEN SA		PKO Bank Polski SA	1.8x
	Sep-22	1,075	Central Glass Co. Ltd.		Central Glass Co. Ltd.	17.1x
	Sep-22	713	SK Chemicals Co., Ltd.		SK Discovery Co Ltd	1.5x
	Jul-22	1,542	Meridian Bioscience Inc		SJL Partners Co Ltd; SD Biosensor, Inc.	15.1x
	Jun-22	2,142	Robertet SA		Robertet SA	16.2x
	Jun-22	1,858	PI Advanced Materials Co Ltd		BPEA EQT Ltd	24.3x
	Jun-22	3,899	Grupa LOTOS SA		ORLEN SA	2.4x
	Apr-22	1,485	Royal DSM N.V (Protective Materials business)		Avient Corp	13.1x

2023: Median: 14.4x; Median: 6.4x

2022: Median: 11.0x; Median: 9.9x

Note: Selected transactions with target company's enterprise value over $500 million.
Sources: Mergermarket, Deloitte analysis.

Sustainability update – ESG Maturity Study

The chemical industry is committed to a sustainable future and continuously works on its ESG performance. To determine the status quo, Deloitte has conducted extensive research and a wide range of interviews with various market participants and academics on the ESG maturity of corporate functions at today's chemical companies.

Two areas of focus in the study involved identifying key issues within individual corporate functions, as well as providing practical guidance on how to move forward.

Key issues of corporate functions for ESG transformation

Corporate functions of chemical companies are currently facing several challenges, including:

- Investment into new, less mature, and more complex business models in the M&A department
- Managing trade-offs between traditional profit-related KPIs and new ESG-related ones in Controlling/Finance
- Planning and forecasting in more complex, multi-product property and mass-balanced environment for Supply Chain/Operations
- Communicating and valuating the sustainable product range in the Market & Sales function
- Developing low-carbon technologies – cleaner and more energy-efficient chemical processes based on alternative feedstocks and recycled materials – in the Research & Development department
- Managing the needs of ESG skilled and motivated employees that make it happen in the HR function
- Managing changing scopes of statutory audits as more non-financial KPIs will be a key component in the future.

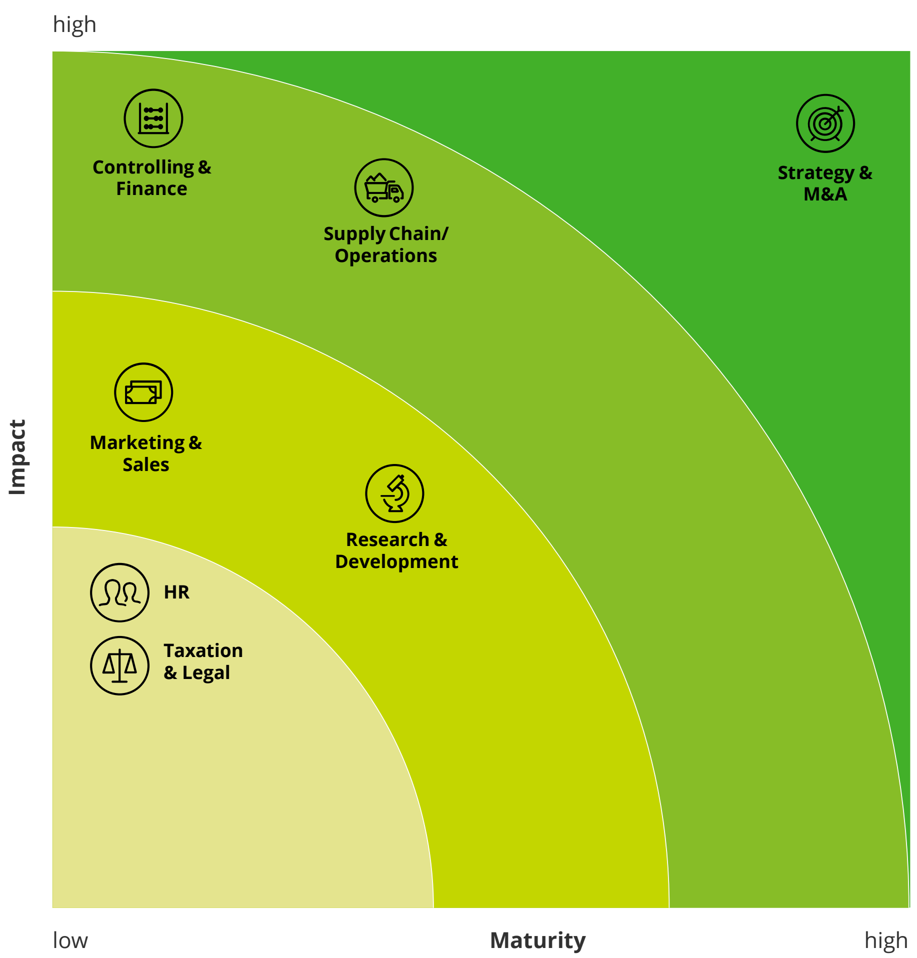
Rolling out the ESG transformation

We have learned that companies may not have the resources to transform all corporate functions at once, and that certain enablers such as IT systems must be in place. A good place to start is evaluating which functions will have the biggest impact on the path to net zero and which functions are already well on their way to full ESG integration. This will allow companies to achieve full ESG integration in several waves.

When mapping the corporate functions to impact and maturity in a matrix (Fig. 5), the waves become more evident. We suggest companies start by transforming Controlling and Finance, as well as Supply Chain/Operations and Marketing and Sales departments, since we can expect these functions to have the biggest impact. In the next wave, the focus could fall on R&D, HR and Tax and Legal. Unsurprisingly, Strategy and M&A departments tend to already be rather mature in terms of incorporating sustainability, and have a strong impact as role models for all other functions to follow.

For deeper insight into the ESG maturity and transformation of key coporate functions, we invite you to explore the Deloitte study « Pathway to sustainable chemicals – beyond net zero | Guidelines for a successful ESG transformation in the chemical industry ».

Fig. 5 – Mapping corporate functions according to their maturity and corresponding impact potential



Economy update – European CFO Survey

The latest Deloitte European CFO Survey reveals that the mood of Europe's CFOs has deteriorated in the last months. In the spring edition of the survey, Europe's CFOs were cautiously optimistic, assuming business conditions would improve after a winter that had proven not as bad as expected. Over the course of the year, however, businesses in Europe have had to deal with persistently high inflation and rising interest rates. The momentum of the global economy has also weakened, with China's economic recovery proving a disappointment so far. The manufacturing sector has been struggling globally and services have started to feel the pain too. Europe still faces the huge geopolitical challenge presented by Russia's invasion of Ukraine. Altogether, the economic climate in Europe is subdued and the outlook fragile. Inflation is expected to decline further, but the pace at which it will fall is unclear. Tight monetary policy will probably restrain growth in coming months.

Sentiment takes a hit

Europe's CFOs have become much less positive about their current financial situation. The net balance of business sentiment has declined since our spring survey from +8 per cent to –12 per cent, as 34 per cent of the CFOs surveyed are less optimistic than before and only 22 per cent are more optimistic. The gloom is greater in larger companies: Financial executives from medium-sized (with revenue between €100M and €999M) and large (more than €1B) companies are less optimistic than their peers in smaller enterprises (less than €100M). The most notable fall in confidence was reported in Germany and Austria, with German growth hurt by struggling manufacturing industry, especially weak automotive and energy-intensive sectors, among other things.

Expectations fading

CFOs' hopes for the near future have also faded. While CFOs on balance remain optimistic about future revenues, the share of CFOs expecting revenues to increase in the next 12 months fell from 63 per cent to 53 per cent. Executives in Germany, Italy and Portugal have revised down their revenue expectations radically.

Investment and employment to decrease as poor economic prospects weigh

CFOs across the continent agree that the economic outlook is the main risk for their business over the next 12 months. As a result, they have become more cautious about their capital expenditure and recruitment plans. For both key metrics the net balance has turned negative, pointing to small decreases in investment and employment over the next 12 months – reinforcing the poor outlook for Europe's economic growth.

Generative AI enters Europe's businesses

A difficult macroeconomic environment is not the only challenge Europe's CFOs currently face. There is also the question of what to do about generative AI. About a year after ChatGPT was launched, three out of four financial executives in Europe think that generative AI is to some degree important for their strategy. However, its adoption has not yet gone very far. Few European businesses have already implemented it, though many are experimenting with it. European CFOs see generative AI as having clear potential to reduce costs, boost efficiency and make better forecasts as well as improve customer experience. But they are having difficulty finding professionals with the skills to use generative AI to its fullest potential. In already tight labour markets, talent acquisition may prove to be a bottleneck holding back adoption of generative AI in Europe.

Outlook

Inflation is still elevated and interest rates at levels that are, historically, normal rather than particularly high, but from the rock bottom, near-zero rates of the previous decade and a half. Consumers are struggling with spiralling costs, and CFOs face the same problem: they too are now focusing on major efforts to reduce costs – rather than planning to invest, hire staff and expand.

With generative AI, many see the potential to help them reduce costs and improve their business performance in general. Yet, most are still in preparation mode. If competitors find benefits in using generative AI and steal a march on them, they will be swift to join the new trend – provided they can find staff with the knowledge required. If generative AI expands rapidly, competition for the respective skills will become intense.

Would this winter, like the last one, prove less difficult than feared? That might be possible if inflation falls, interest rate hikes cease and consumers spend more freely than expected. An end to the Ukraine conflict and an alleviation of geopolitical tensions generally would also help, but the latest developments in the Middle East are a discouraging setback. As was the case this year, the spring may see CFOs in a more positive mood. Much will depend on how consumers and the economy as a whole weather the impact of the inflationary shock of the past year.
For more information on the latest CFO survey results, please visit our Deloitte insights Europe CFO Outlook - Autumn 2023 | Deloitte Insights.

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