European CFO Survey
Italian focus

Business sentiment stabiles but optimism fades with rising risks

Agenda

Executive Summary

Key insights

Sentiment stabilises, but optimism fades with rising risks

Europe's CFOs have not returned to their anxiety of a year ago, nor built further on their optimism of the spring. Instead, they seem neutral: **27% of CFOs are downbeat about their firms' prospects, while 28% remain optimistic**. **Most of Italian CFOs are showing a similar pattern**: **slightly less than 6 in 10 respondents are "neutral"** while the remaining equally splits between feeling more / less optimist.

Over half of European CFOs now perceive the level of external uncertainty as very high, with **nearly 70% believing it is not a favorable time to take on additional risk**, reflecting this heightened uncertainty. However, Italian CFOs are approaching these uncertain times with more confidence showing a higher risk-tolerance (35%) - relatively speaking.

Italian CFOs are **optimistic about revenue growth** but **remain cautious about operating margins** due to cost pressures and economic challenges. **Capital expenditure (CAPEX) spending is expected to be limited** but **hiring intentions are likely to experience a slight increase**.

Italian CFOs have identified **geopolitical risks, weaker domestic demand** and **the economic outlook** as their **foremost risks.** The **shortage of skilled labor** and **talent retention** (while keeping costs under control) are other relevant perceived risks. Additionally, **regulatory risk has also emerged as a pressing issue**, indicating a heightened awareness of the potential impact of regulatory changes on business operations.

Reflecting the current climate of caution**, Italian CFOs are prioritising** (by far) **cost reduction as their top strategy** for the coming year. This is **followed by a focus on organic growth through internal expansion** and leveraging existing strengths, with **digitalization** and **market expansion** also being key strategic priorities. **Inorganic growth** is also confirming to be a powerful strategy for uncertain times bringing together the ability to increase capacity and access to new IP / capabilities, while reducing fixed costs.

Recommended actions

How to successfully navigate the current scenario

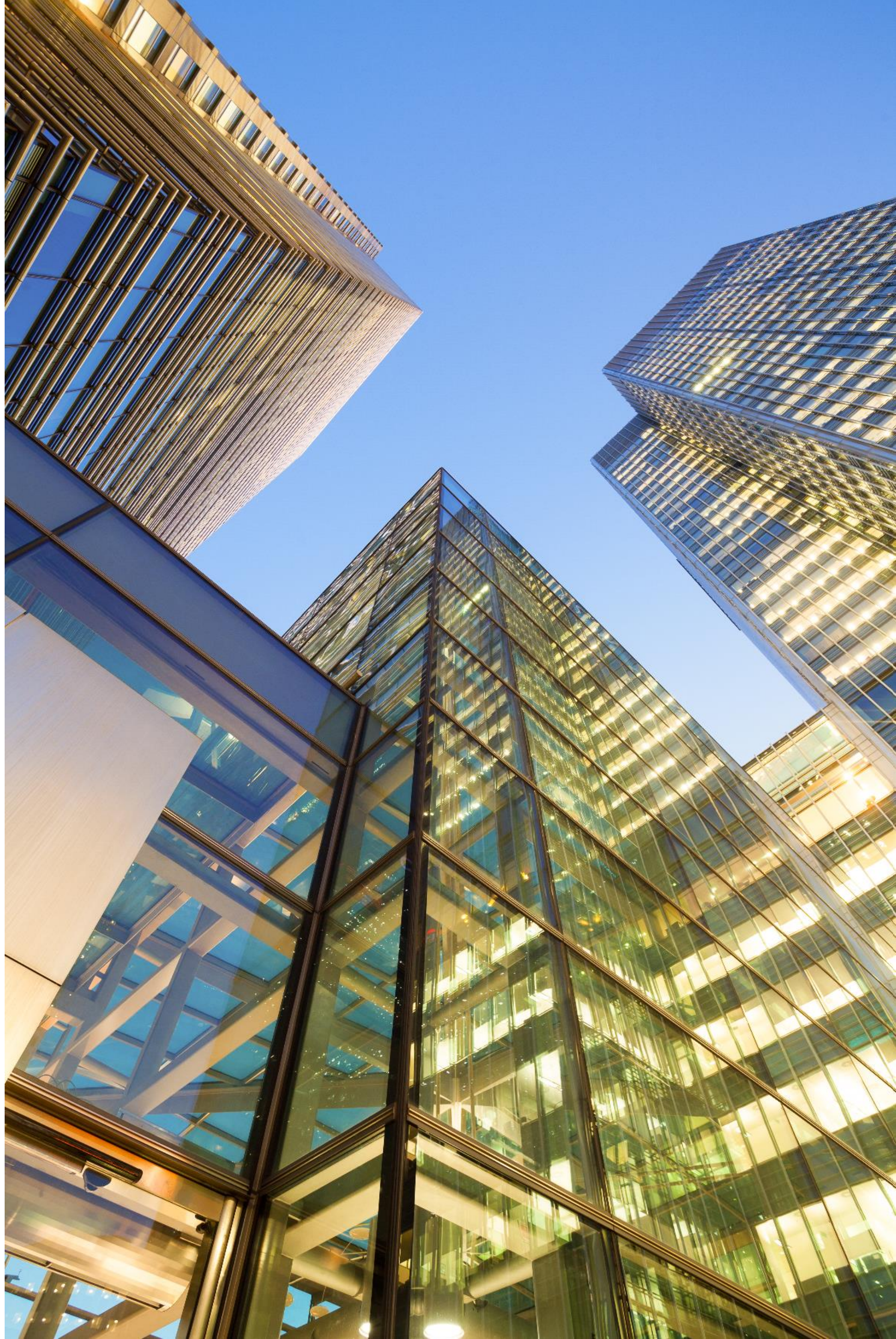
Italy's CFOs face a delicate balancing act: sustaining positive revenue expectations while navigating a landscape of economic and geopolitical uncertainty. While the decline in inflation offers a glimmer of hope, the lingering effects of the energy crisis, persistent talent shortages and escalating geopolitical tensions demand a strategic response.

To navigate this terrain, Italian CFOs should:

Embrace a pragmatic approach: This can be achieved by prioritising cost reduction and organic growth strategies, optimising operations and leveraging existing strengths –including the power of digital technologies. This approach can involve scrutinising spending across all departments, streamlining processes and exploring opportunities for operational efficiency. Pursuing organic growth through internal expansion allows for greater control and minimises risk in a volatile market. Inorganic growth is also confirming to be a powerful approach in such a context.

Stay ahead of the talent crunch: CFO should actively attract and retain skilled employees through proactive recruitment and talent development, particularly in critical sectors. Investing in upskilling and reskilling programmes for existing employees, competitive compensation and innovative recruitment strategies can help secure top talent in a tight labour market.

Stay agile in regulatory compliance: Maintaining robust compliance systems and proactively managing regulatory risks could help companies adapt to evolving regulations. This includes monitoring regulatory changes closely, building strong compliance frameworks and establishing dedicated teams to navigate complex compliance requirements.

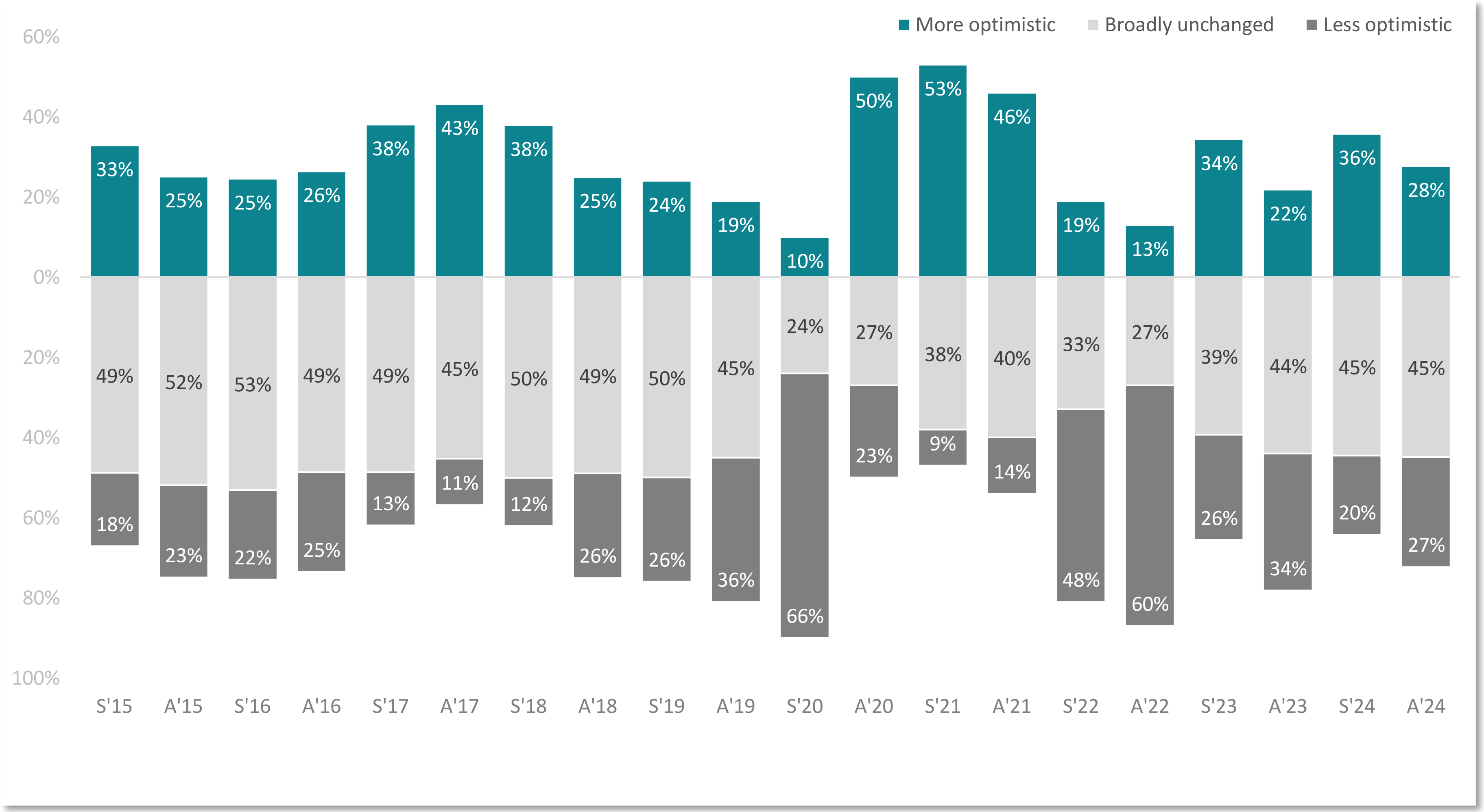


Financial Prospects

Financial prospects | CFOs in neutral

Europe's CFOs have not returned to their anxiety of a year ago, nor built further on their optimism of the spring, instead, they seem neutral

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



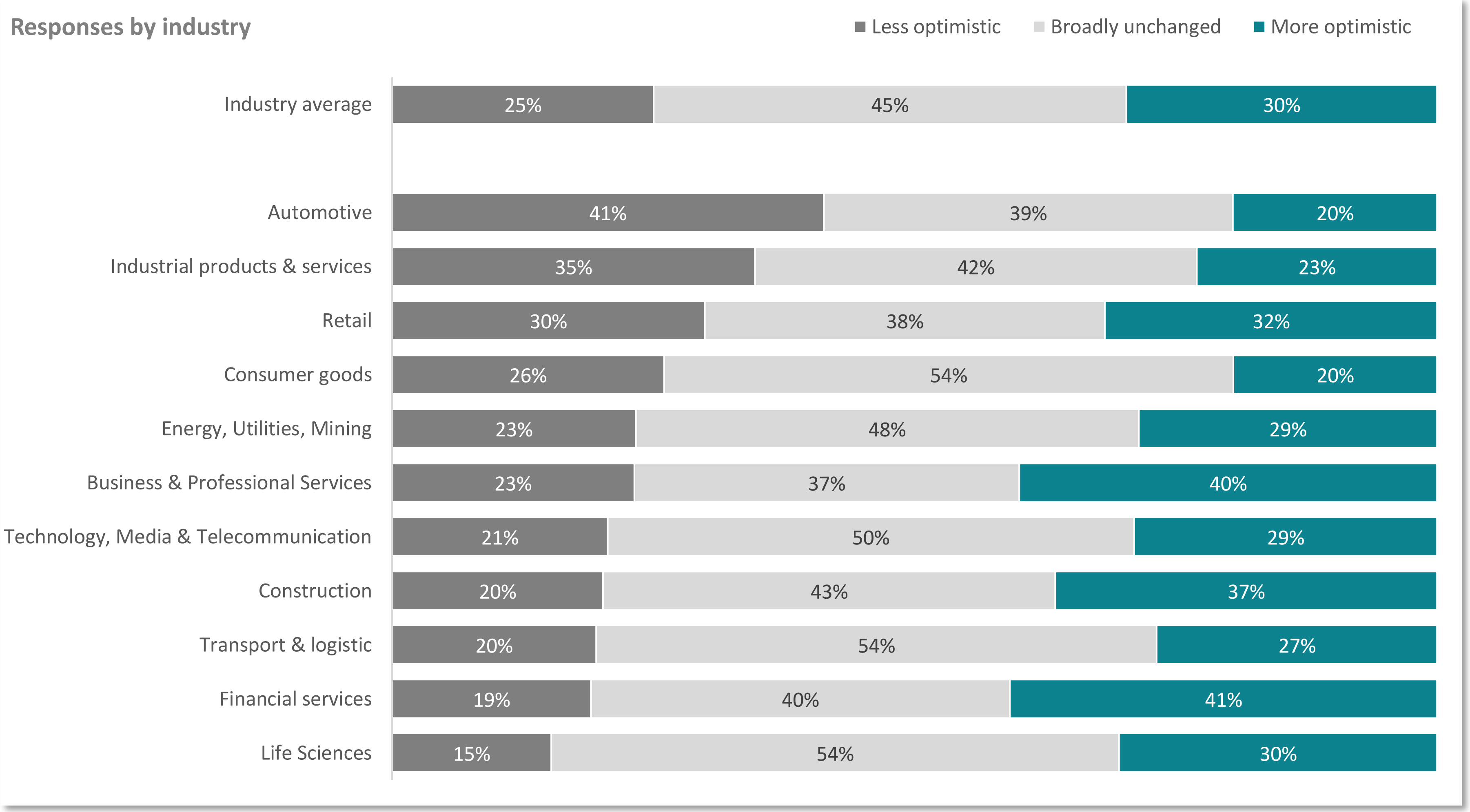
Note: The question specified a six-month period in Denmark and Norway

- In the spring 2024 survey, 36% of CFOs were optimistic about their company's prospects. This represented a notable improvement from autumn 2023, when only 22% of CFOs felt optimistic, while 34% were pessimistic about their company's outlook.
- However, **our latest survey shows that Europe's CFOs have not returned to their anxiety of a year ago, nor built further on their optimism of the spring**. Instead, they seem neutral: **27% of CFOs are downbeat** about their firms' prospects, **while 28% remain optimistic.**
- Over the past year, **most European CFOs have retained a largely neutral outlook on their company's prospects**, seeing little room for robust growth yet no danger of steep decline.

Financial prospects | Automotive pains continue

Automotive and industrial products & services are the least optimistic sectors in Europe

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



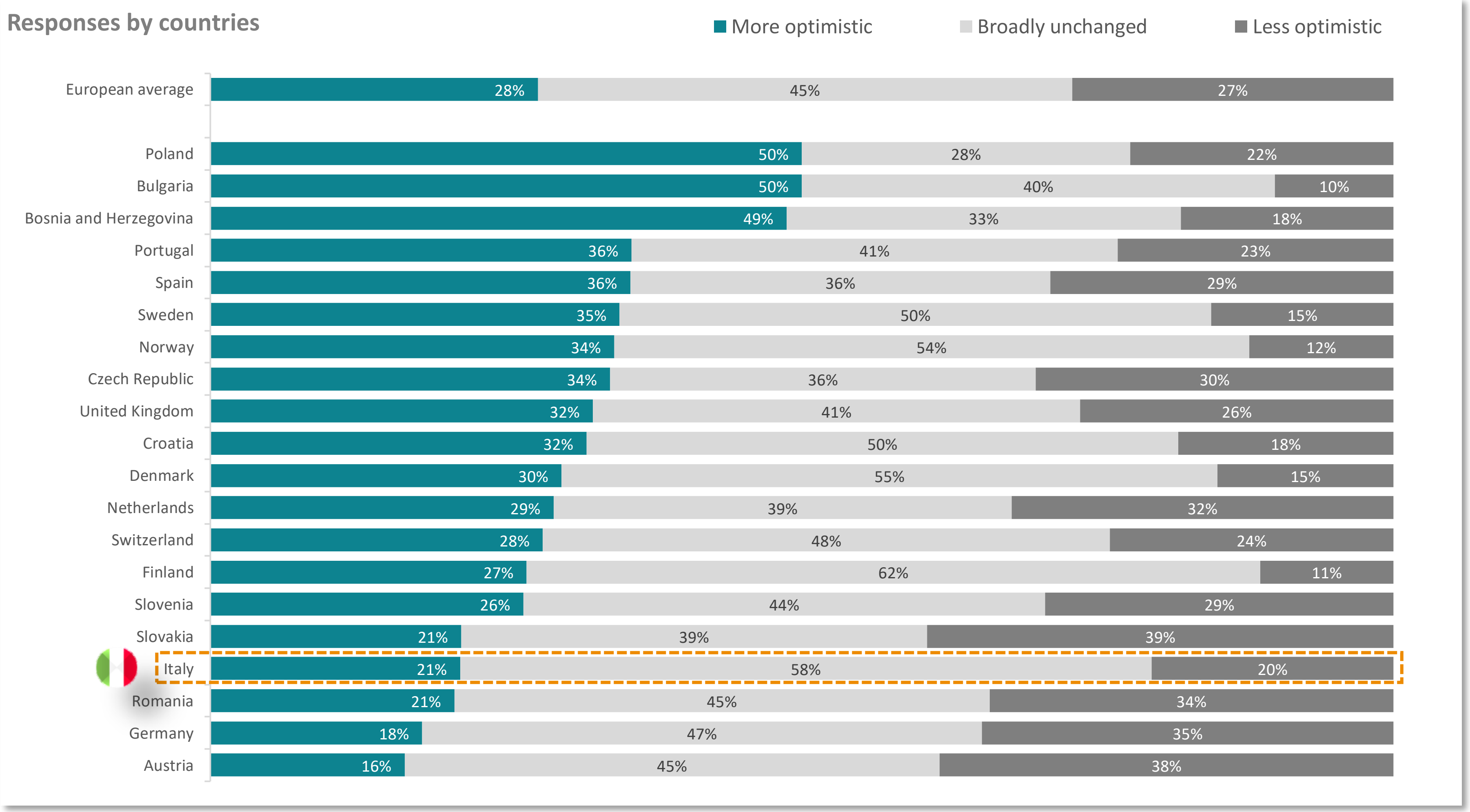
Note: For industry analysis, we excluded the Aerospace & Defense, Leisure, Public Sector, and Tourism & Travel sectors due to a sample size of fewer than 30 respondents in each sector.

- Macroeconomic trends are strongly reflected at the industry level.
- CFOs in **financial services (41%)** and **business and professional services (40%)** report the **highest optimism about their companies' financial prospects.** With the European Central Bank having cut key interest rates three times this year by a quarter of one per cent, and the Bank of England twice, further reductions are expected – a prospect the financial sector views positively.
- Interest rate cuts, meanwhile, are no comfort for European car manufacturers. **Automotive sector remains the least optimistic, with 41% of CFOs feeling less hopeful** than three months ago. This pessimism stems from persistent supply chain disruptions, the ongoing transition to electric vehicles and weakening consumer demand for new cars.

Financial prospects | Central and eastern European countries are optimistic

Optimism is highest amongst CFOs in central and eastern Europe and lowest in Austria and Germany. Italian CFOs exhibit a more balanced and neutral business outlook

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



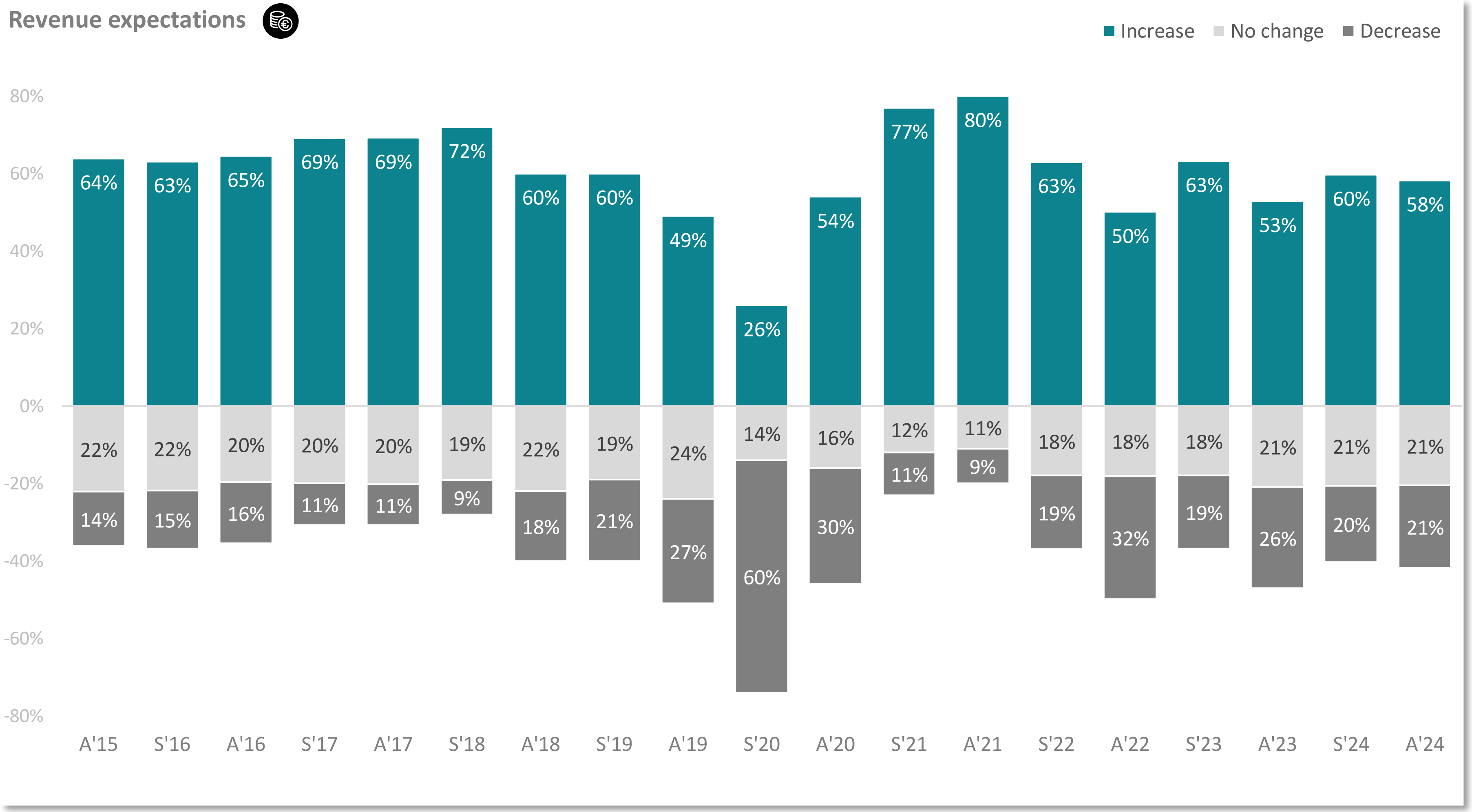
Note: Albania, Estonia, Hungary, Latvia, Lithuania, and Serbia are note reported because of a sample size of fewer than 30 respondents.

- **Optimism is highest** amongst CFOs in **central and eastern European countries**, with 50% in Poland and Bulgaria and 49% in Bosnia and Herzegovina, expressing confidence in their companies' prospects. This upbeat optimism is likely driven by strong economic growth and access to EU funding, particularly for development and infrastructure programmes.
- **Pessimism is particularly dominant in Austria and Germany**, where 38% and 35% of CFOs, respectively, are less optimistic than 3 months ago**.** Austrian and German CFOs face pressures from the energy crisis, pronounced weakness in the domestic industrial sector, compounded by geopolitical uncertainties and a persistent talent crunch.
- Most of **Italian CFOs** have retained a largely **neutral outloo**k on their company's prospects, remaining cautious about the expected business confidence. In fact, **slightly less than 6 in 10 respondents are "neutral"** while the remaining CFOs equally splits between feeling more/ less optimist.

Outlook | Revenues

CFOs' expectations for revenues expected to grow even in less optimistic regions and sectors

Question asked: In your view, how are revenues for your company likely to change over the next 12 months?

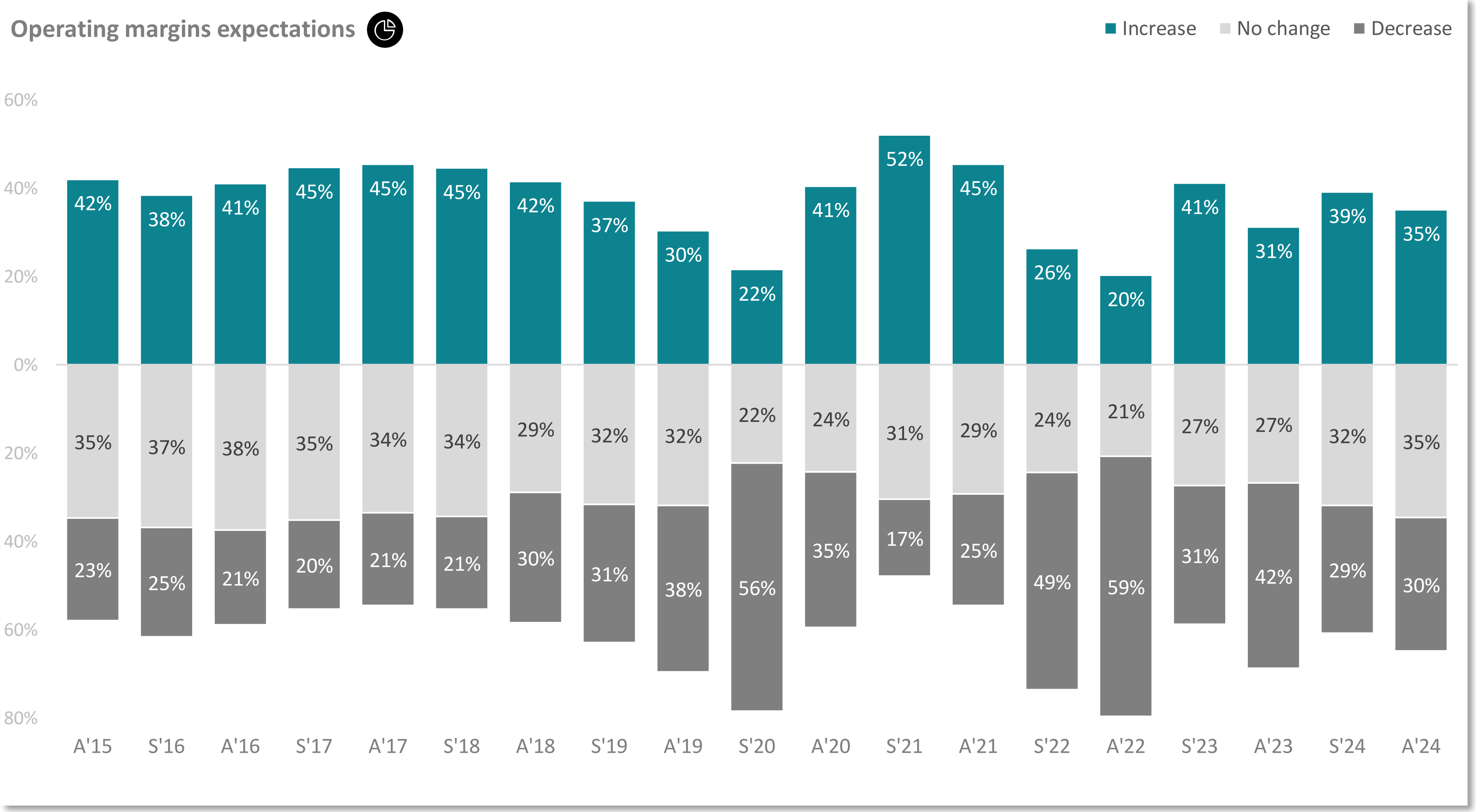


- **CFOs remain confident that they can grow revenues: 58% expect an increase over the next year, while only 21% anticipate a decline**. This confidence extends even to Germany, where half of CFOs surveyed expect revenue to rise. Optimism is particularly strong among CFOs in Bulgaria (88%), Sweden (74%), Bosnia and Herzegovina (72%) and Denmark (70%).
- Among sectors, **CFOs in tourism and travel (75%), retail (73%)** and **life sciences (72%) are the most optimistic** about revenue prospects. However, **automotive remains in the slow lane, with 45% of automotive CFOs expecting a fall in revenues** over the coming year

Outlook | Operating margins

CFOs' expectations for operating margins expected to decline (a little)

Question asked: In your view, how are operating margins for your company likely to change over the next 12 months?

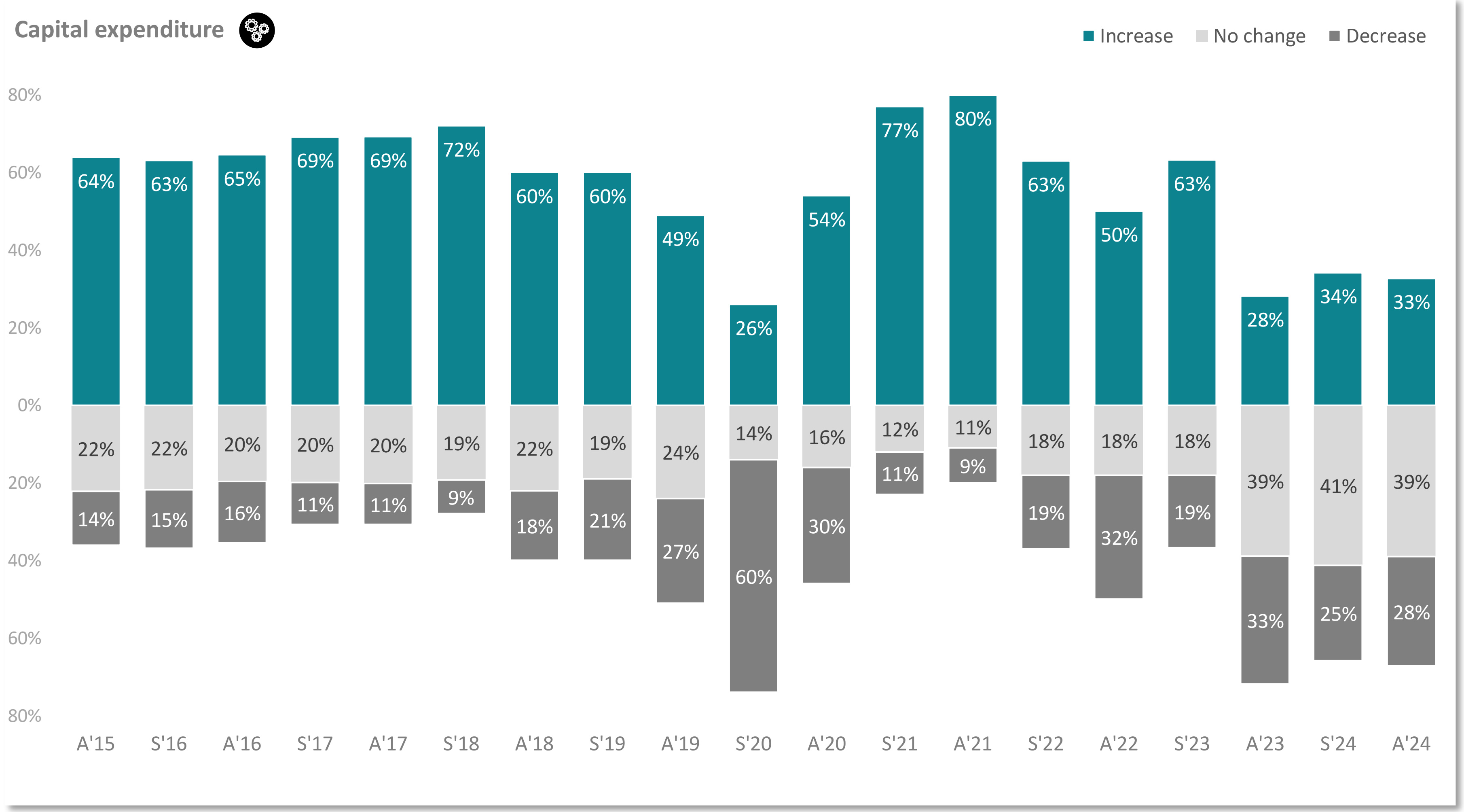


- While European CFOs remain confident in revenue growth, their **sentiment on operating margins is tempered by concerns about cost pressures and a challenging economic environment. Only 35% of CFOs expect margins to increase** over the next 12 months, **just slightly above the 30% who expect a decrease**.
- Margins concerns are especially pronounced in Europe's two largest economies: **in Germany, 39% of CFOs foresee a decline, with a similar sentiment in the UK, where 37% feel the same**.

Outlook | Capital expenditure

CFO’s expectations of capital expenditure is likely to remain cautious

Question asked: In your view, how are capital expenditure for your company likely to change over the next 12 months?

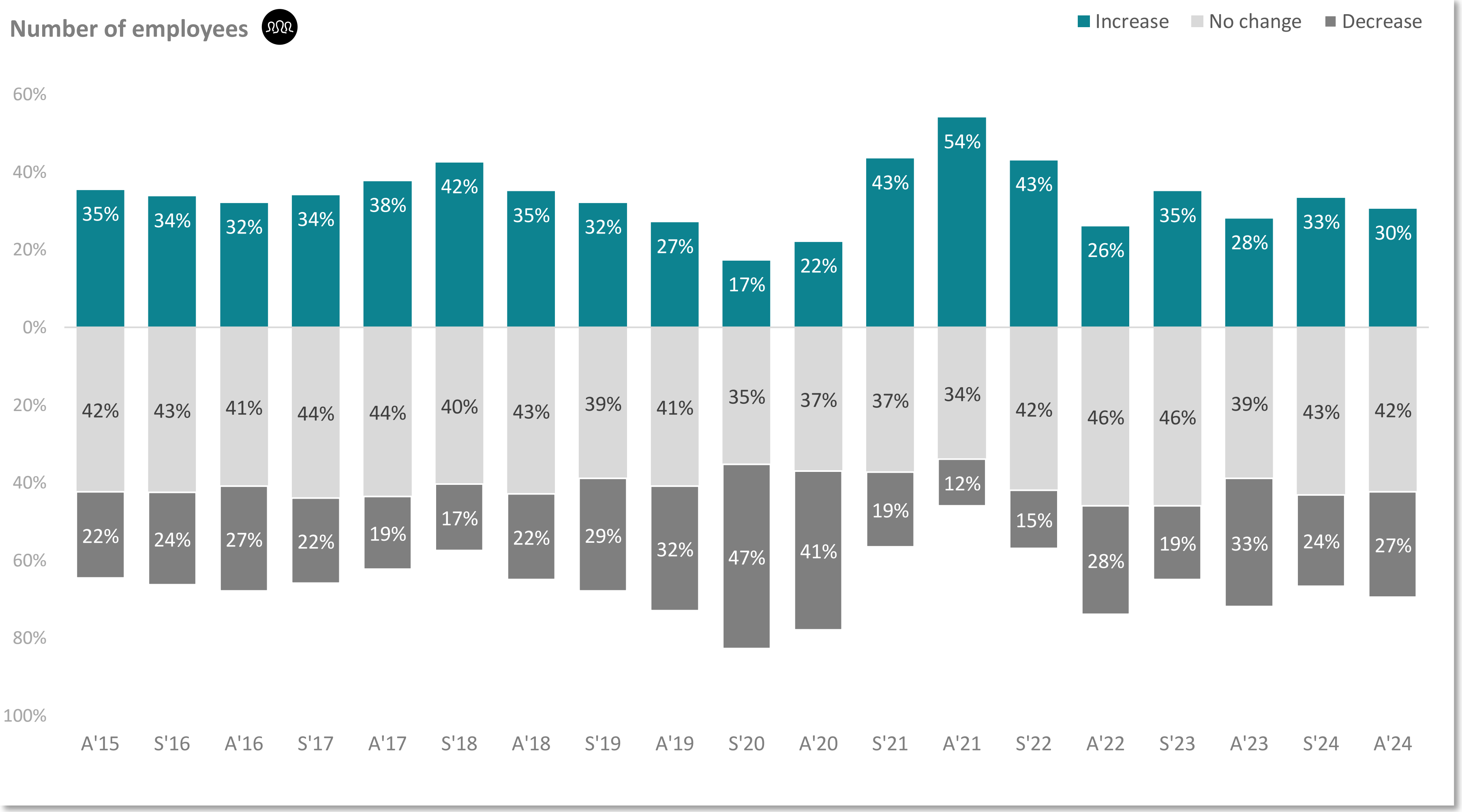


- While **33% of CFOs anticipate increased CAPEX**, **28% plan a decrease and 39% foresee no change.** CFOs in the energy, utilities, and mining sectors plan substantial CAPEX increases to support renewable energy infrastructure and modernise their operations, the broader survey indicates limited investment spending.
- However, **optimism is notably higher, with CFOs in Portugal (49%), Croatia (47%) and Spain (46%) expecting to increase CAPEX**. EU funding is a significant driver here, particularly in Portugal and Spain, where digitalisation, green energy and infrastructure projects are attracting and catalyzing investment. Croatia's recent Eurozone entry is also spurring investment and boosting business confidence, fuelling domestic companies’ CAPEX growth.

Outlook |Hiring employees

CFO's expectations of hiring of employees is likely to decline slightly

Question asked: In your view, how are number of employees for your company likely to change over the next 12 months?

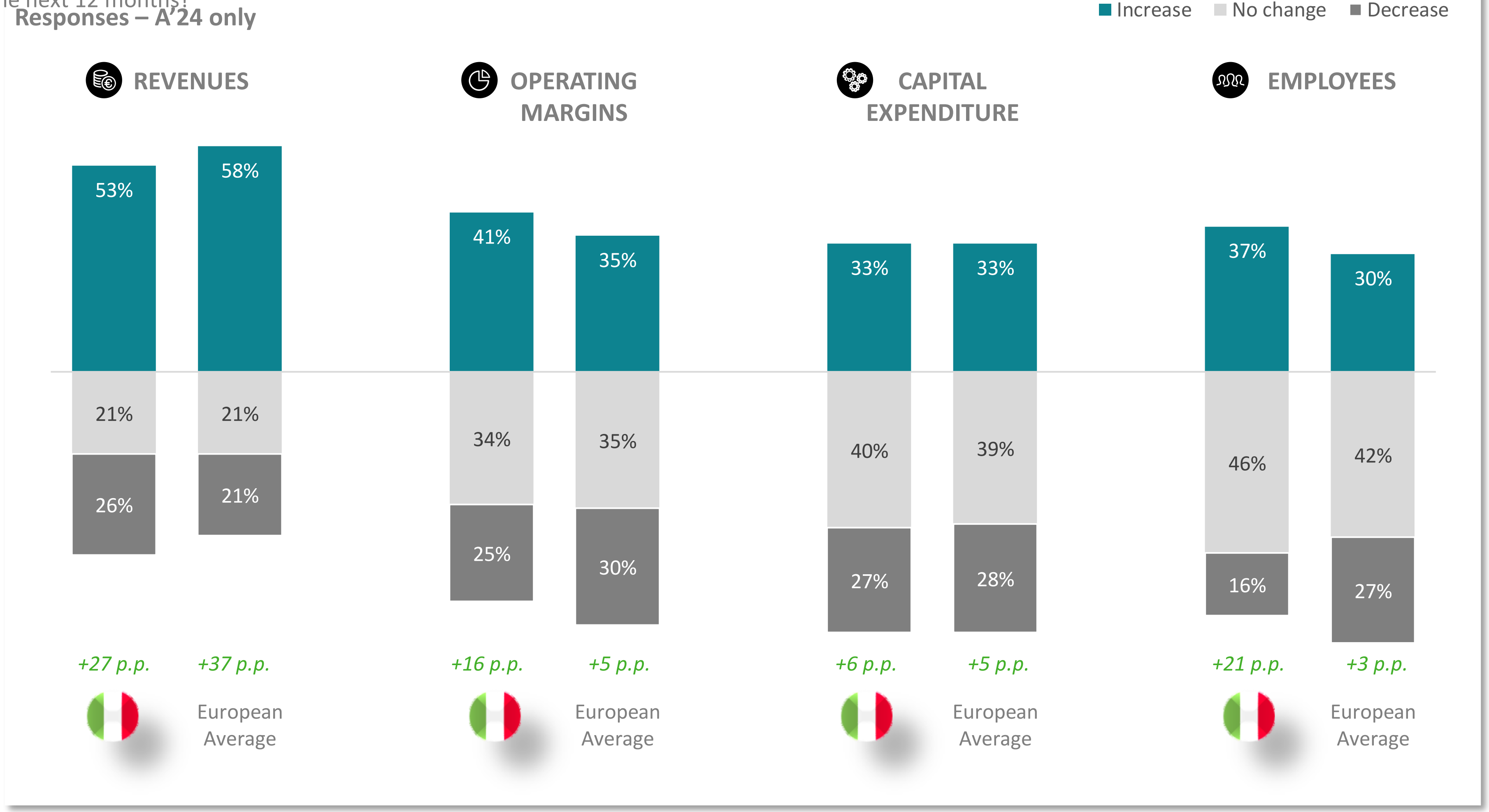


- **30% of European CFOs report that their companies plan to hire more workers – compared with 27% who expect to cut payrolls**. The remaining 42% intend to keep their workforce stable.
- **Hiring intentions are notably strong in Belgium**, **where 63% of CFOs plan to add staff, and in the Netherlands and Hungary, where 47% report similar intentions**. In Belgium, investment in digitalisation, green energy and infrastructure drives job creation, while the Netherlands benefits from a thriving tech sector; Hungary's robust manufacturing base supports hiring.
- The **business and professional sectors show the highest hiring demand, with 43% of firms planning to recruit**, spurred by demand for specialised skills in cloud computing, cybersecurity and data analytics amid ongoing digital transformation efforts.

Outlook | Italy

Italian CFOs’ are more positive in term of profitability and hiring intentions, while capex and revenues expectations are more aligned to the European pattern

Question asked: In your view, how are revenues / operating margins / capital expenditure / number of employees for your company likely to change over
the next 12 months?



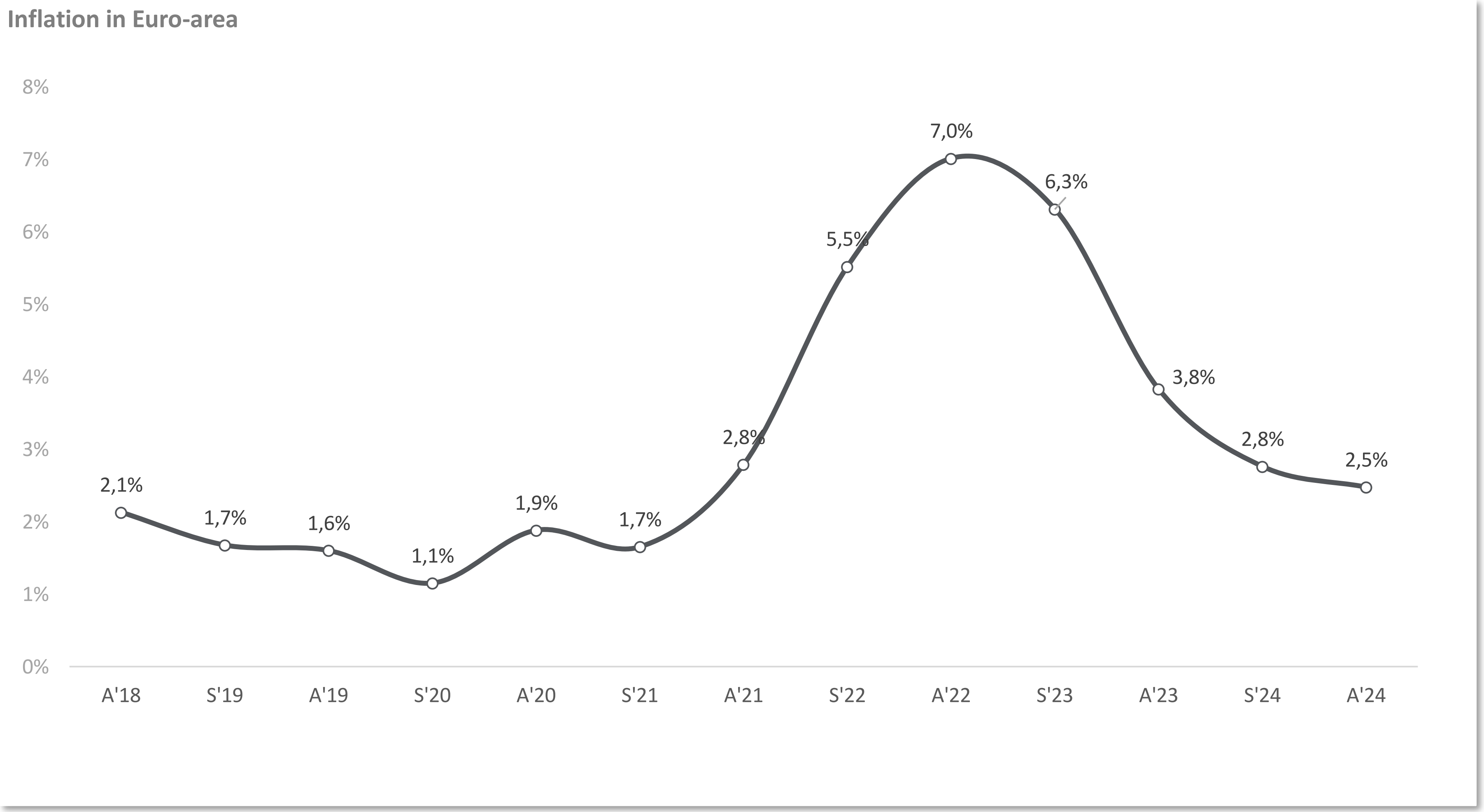
- **Italian CFOs are somehow confident about their ability to grow revenues for their companies**: 53% expect an increase over the next year while only 26% anticipate a decline. This situation makes Italy better positioned compared to 6 months ago when the optimists were 48% of the sample.
- Despite the overall uncertainty, **Italian CFOs are slightly more optimistic than their European colleagues about business profitability**. In fact, 41% of the sample has a positive outlook on operating margins while only 25% envisions a decrease.
- **Capital expenditure is likely to remain cautious for Italian CFOs – mirroring their European peers and industry specific dynamics.** While 33% of respondents anticipate increased CAPEX, 27% plan a decrease and 40% foresee no change.
- **Hiring intentions in Italy are robust**: 30% of CFOs report their companies plan to hire more workers – compared with 16% who expect to cut payrolls. The remaining 46% intend to keep their workforce stable.

Uncertainty & Business Risks

Inflation rate

European and Italian CFOs expect inflation to decline over the next 12 months

Question asked: **Inflation in Euro-area:** What do you think will be the inflation rate (for the Consumer Price Index) in the Euro-area over the next 12 months?*



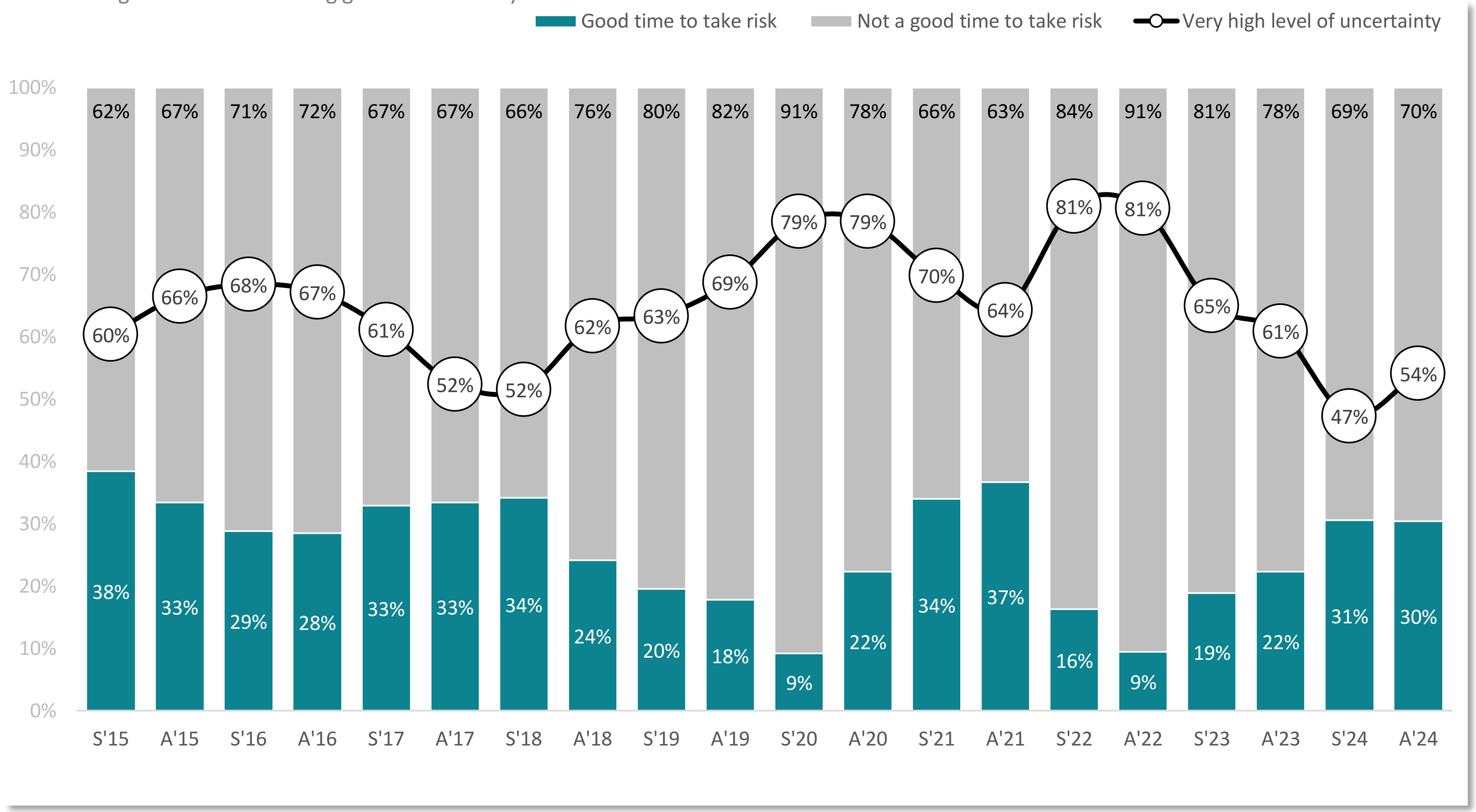
*Note: This question was not asked in Germany, Netherlands, Switzerland and the UK.

- European CFOs now **expect an average inflation rate of 2.5% over the next 12 months**, close to the European Central Bank's 2% target and a significant drop from the 3.8% predicted a year ago. **However, optimism about inflation has given way to concerns over broader uncertainties**.
- Despite mild upward pressures, **Italian CFOs envision a steady downward path for national inflation**. According to their perspective**, the domestic inflation rate will stabilise at 1.8% in 2025**.

Uncertainty & risk aversion increase

The level of financial and economic uncertainty increases, while risk-taking appetite remains the same

Question asked: **Uncertainty**: How would you rate the overall level of external financial and economic uncertainty facing your business?*
Risk: Is this a good time to be taking greater risk onto your balance sheet?^



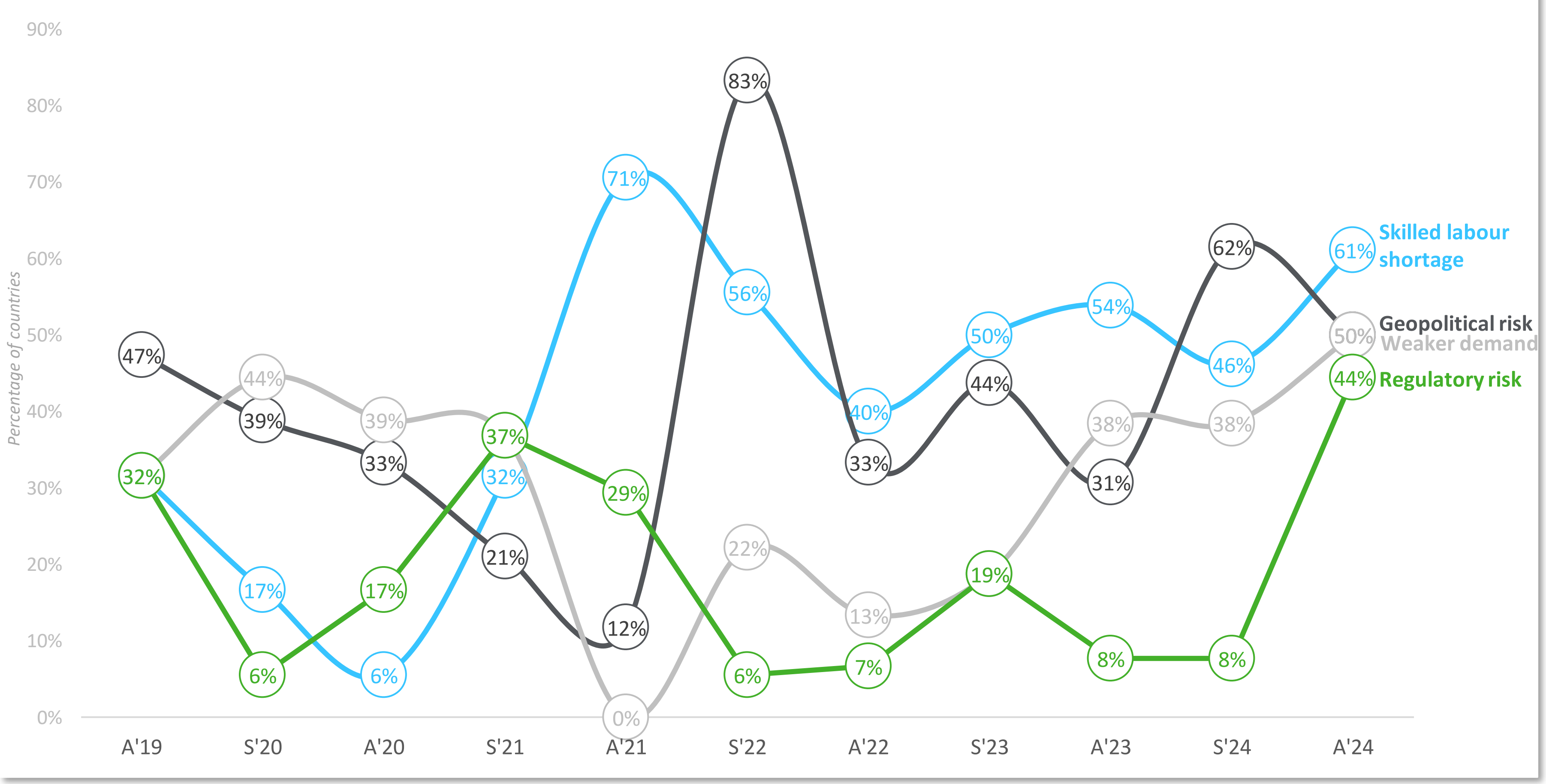
*Note: This question was not asked in the Netherlands.
^Note: This question was not asked in Germany, Netherlands, Sweden and Switzerland

- **Over half (54%) of European CFOs now rate the level of external uncertainty as "high" or "very high,"** an increase from 47% in the spring survey, though still lower than last year's 61%. Historically, this level of uncertainty is not unusual: since autumn 2018, at least 60% of CFOs have regularly reported high levels of uncertainty.
- Reflecting this uncertainty, **nearly three-quarters (70%) of European CFOs believe it is not a favourable time to take on more risk.**
- **Italian CFOs are among those experiencing the highest rate of uncertainty (61%)**. Interestingly, the percentage is decreasing compared to 6 months ago – when it peaked at 68%- making Italy a bucking country in Europe. In such a context, slightly more than 1 in 3 CFOs is likely to deal with greater risks (35%). **Italian companies confirm to be more risk tolerant than their European counterparts.**

Business risks

European CFOs identify a shortage of skills and geopolitical issues as their top concerns

Question asked: Which of the following factors are likely to pose a significant risk to your business over the next 12 months?*
(Showing only the number of countries where the specific risks rank in the top three)



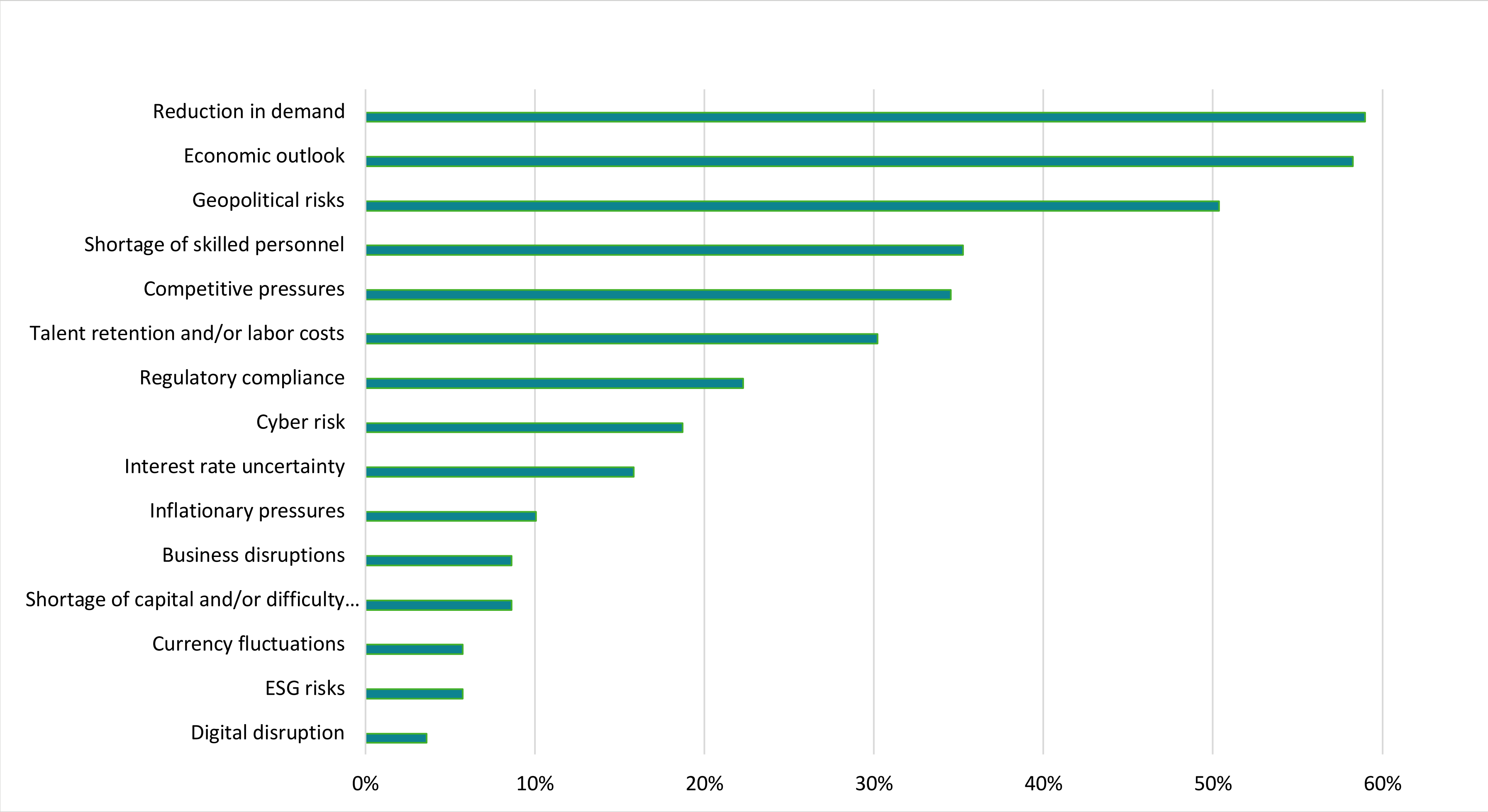
*Note: Each country identifies the answer options that are relevant to their geography. The common or similar responses are mapped to get the top risks per country.

- The **shortage of skilled labour is identified as the top risk by Europe's CFOs in 11 out of 18 countries**. This challenge is driven by Europe's ageing population, which is shrinking the workforce and creating a gap in younger talent. Additionally, rapid advancements in fields such as artificial intelligence, data analytics and robotics are increasing the demand for workers with specialised skills.
- **Geopolitical risks and weaker domestic demand are also significant concerns, cited in 9 out of 18 countries.**
- **Regulatory risk has emerged as a new and pressing concern, now ranked the 3rd most significant in 8 of the 18 countries.** This signals a growing awareness of how regulatory changes could impact business operations, compliance costs and market access.

Business risks | Italy

Italian CFOs are primarily worried by the overall macroeconomic outlook. The labour market evolution and industry competitive dynamics and

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



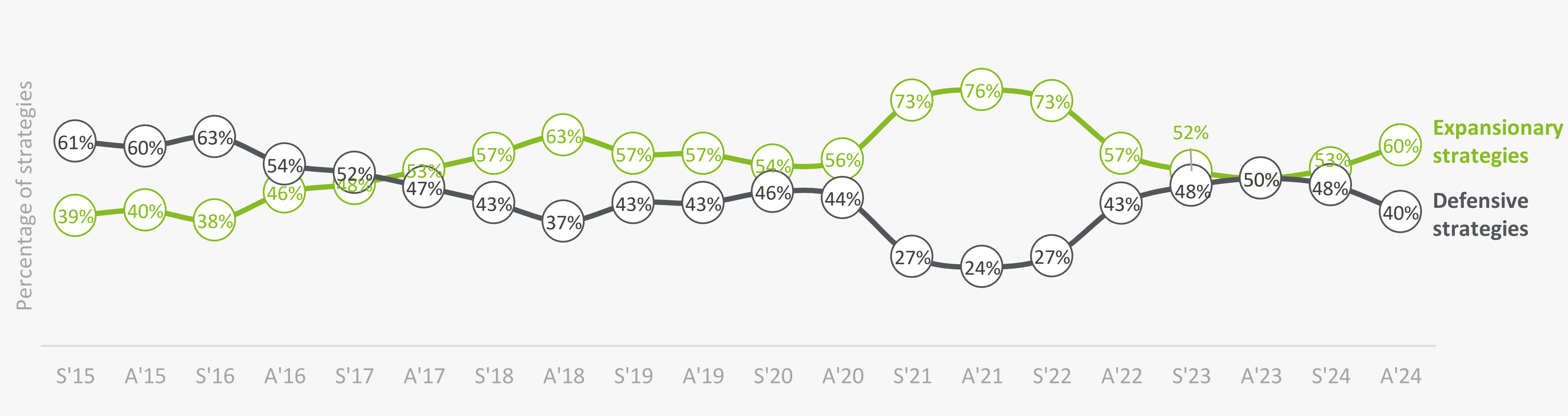
- A **weaker demand** (59%), a **sluggish economic growth** (58%) and **geopolitical issues** (50%) such as the Russia-Ukraine conflict, tensions in the Middle East and fears over protectionism, trade disruption are keeping Italian CFOs quite anxious.
- Labour is another important area of perceived risk for Italian CFOs. On the one hand, companies will have to face a **shortage of skilled labour** (35%), on the other, they will be challenged in **keeping their talents while streamlining labour costs** (30%).
- With traditional industry boundaries blurring and new markets trajectories opening up, Italian CFOs are worried by **higher and more intense competitive pressure** (35%).
- **Regulation** and **cyber risks** are among the new expected risks in 2025, as highlighted respectively by 22% and 19% of Italian CFOs.
- Other **more traditional risks** are still on Italian CFOs' agenda, but they are perceived as less urgent to deal with at the moment.

Strategic priorities

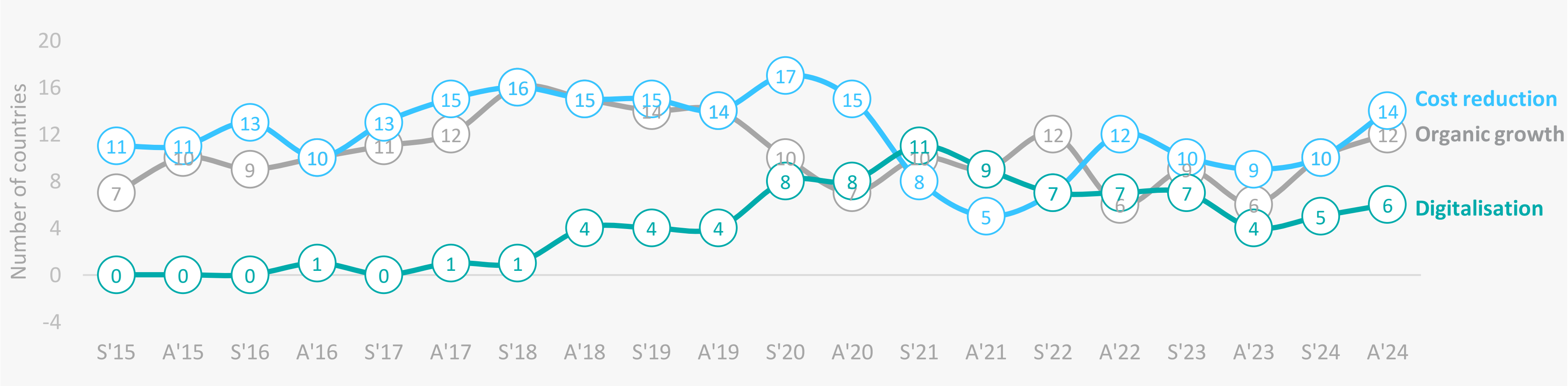
Strategic priorities

In line with the current climate of caution, European firms are focusing on cost-cutting and organic growth

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



(Showing only the number of countries where the specific strategies rank in the top three)



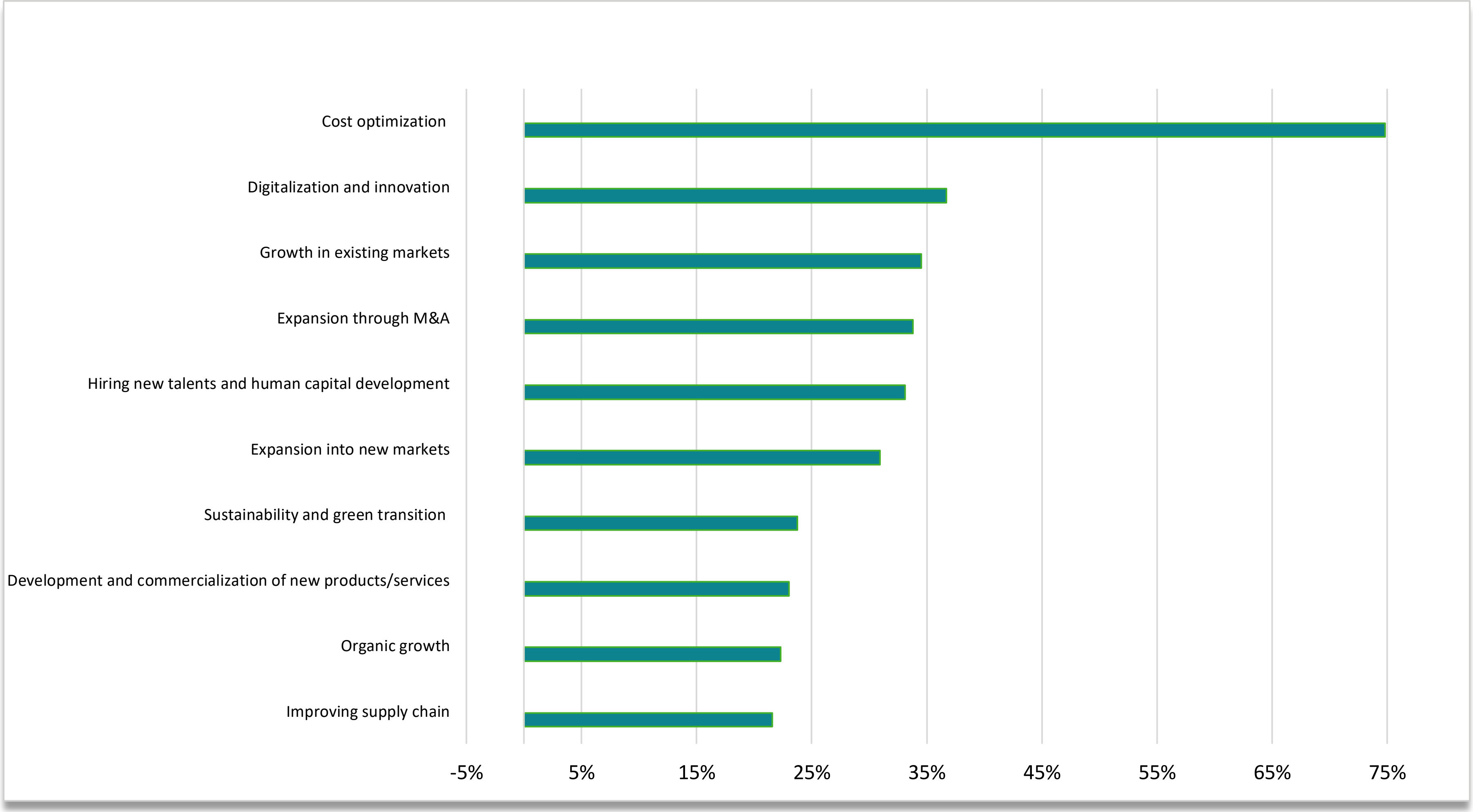
*Note: Each country identifies the answer options that are relevant to their geography. The responses are mapped to identify the expansionary and defensive strategies per country. This question was not asked in Switzerland.

- **CFOs in a resounding 14 out of 20 European countries have identified cost reduction as their top strategic priority** for the coming year. This focus underscores the need to optimise operations and preserve profitability amidst ongoing political and economic uncertainty.
- **Organic growth through internal expansion and leveraging existing strengths is the second most important strategy, selected by CFOs in 12 out of 20 countries**. This approach reflects a preference for sustainable growth by capitalising on current market opportunities rather than high-risk ventures.
- **Digitalisation** and **expansion within existing markets** are the third most popular strategies highlighted by CFOs in 6 out of 20 countries.

Strategic priorities | Italy

Uncertain times push Italian companies to focus on streamlining costs and increase profitability. However, existing and new way to deliver revenues are still being explored

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



- In line with the current climate of uncertainty, **cost reduction is by far the most pressing strategic priority** for Italian CFOs. Compared to 6 months ago, it is still ranked as #1 strategy but the percentage is almost doubled (75%).
- **Driving (digital) innovation** (37%), **reinforcing the competitive position in existing markets** (35%) and **expanding the company presence into new markets** (31%) are still strategic priorities for Italian companies. Digitalisation supports efficiency gains, streamlined operations and cost savings, while expanding in existing / new markets provides a safer growth path in uncertain times, allowing firms to rely on established and enlarged customer bases and market knowledge for manageable and profitable growth.
- **Inorganic growth** (34%) confirms to be a powerful strategy in uncertain times. In fact, it allows to circumvent any possible stagnation by merging with another company to increase capacity or reduce fixed costs.
- **Hiring talents** and **developing the human capital potential** (33%) is now perceived as a more pressing strategic priority more than 6 months ago (33%)

Survey demographics

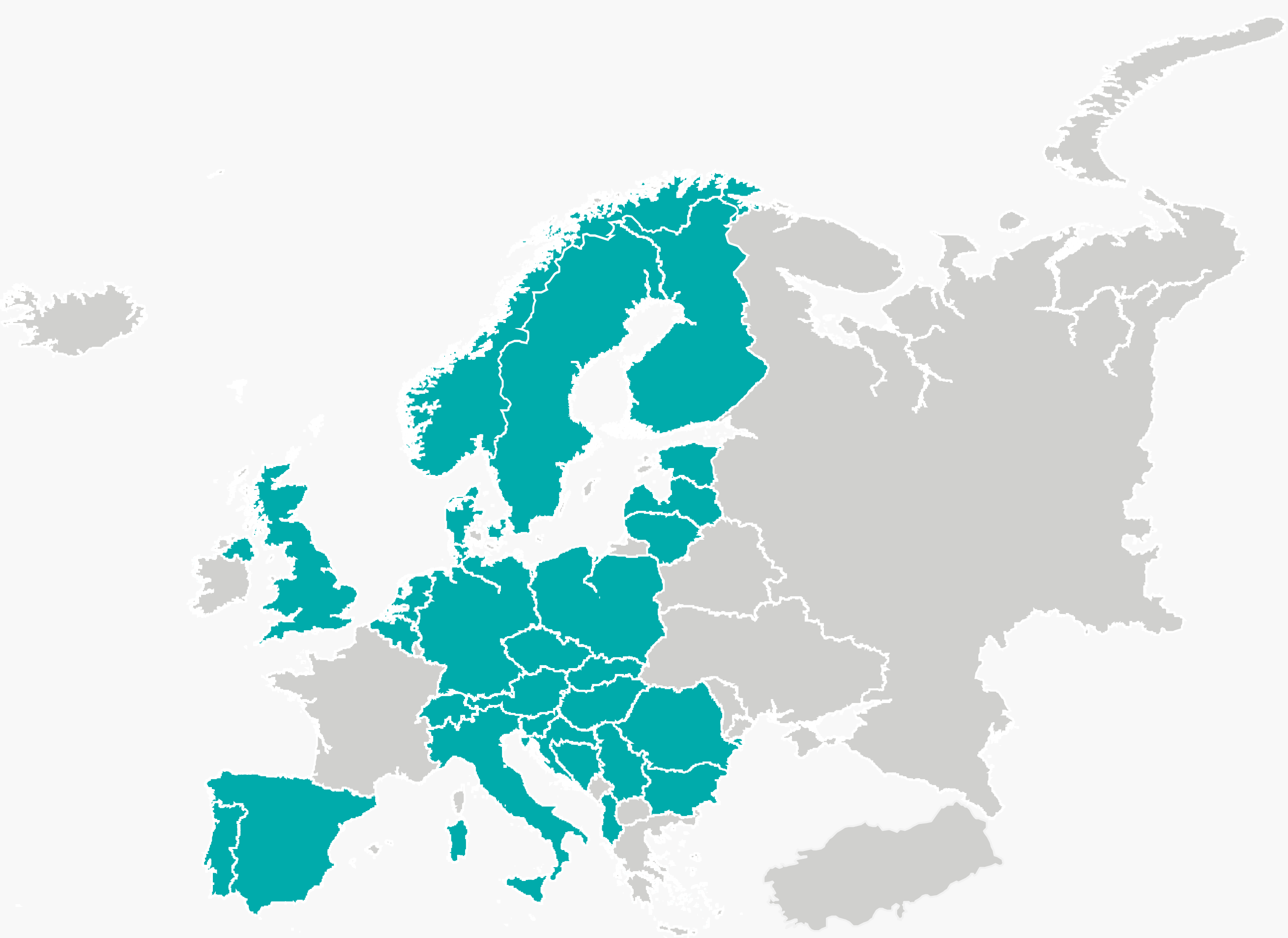
Geographical spread

1,839 CFOs from 26 European countries participated in the autumn 2024 edition of the CFO survey

About the survey

The autumn 2024 European CFO Survey is the 20th edition of a bi-annual research project that gathers insights from Chief Financial Officers of leading companies in 26 European countries. The data for the autumn 2024 edition was collected in September and October 2024 via an online survey and reflects responses from 1,839 CFOs in 26 countries and across a wide range of industries.

To ensure reliable and valid findings, we set a minimum respondent threshold of 30 per country. Six of the 26 surveyed countries did not meet this threshold, each having fewer than 30 respondents. Consequently, we excluded Albania, Estonia, Hungary, Latvia, Lithuania, and Serbia from the analysis due to insufficient sample size.



Participating countries

- Albania
- Austria
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Denmark
- Estonia
- Finland
- Germany
- Hungary
- Italy
- Latvia
- Lithuania
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Serbia
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom

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