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**Deloitte CFO Survey
of the Leading Companies in Russia**

Key Trends

Spring-Summer 2018
Deloitte CIS Research Center

#CISCFO

Overview

We are pleased to present the insights from the annual Deloitte CIS CFO Survey of the leading companies in Russia.

This is the seventh time we have conducted the survey in Russia as part of our global research efforts. The opinions provided by the respondents have enabled us to identify major concerns, key drivers, and development priorities for the Russian economy, and perform a comparative analysis of the existing trends.

The survey was held in March 2018, and includes responses from **80** experts. This report has been prepared by the Deloitte CIS Research Centre.

Survey goal and objectives

Survey goal

Perform a comprehensive analysis of trends in the Russian business environment.

Survey objectives

- Describe the 2018 business outlook for Russia
- Provide forecasts for key financial metrics in 2018
- Evaluate the level of uncertainty and key risks of doing business in Russia
- Identify key business strategies and areas for change
- Identify business development drivers and barriers faced by businesses in Russia
- Analyze company-client interaction
- Determine the levels of companies' innovative activities in Russia

Research methodology

Target audience

CFOs of the leading companies across key Russian industries.

Research methodology

Data was collected through an online questionnaire and personal interviews.

Our comprehensive analysis was based on the following approaches:

1. Identification and examination of general market trends;
2. Comparative analysis of data in meaningful subgroups (analysis of data differing significantly by subgroup and/ or from the overall population);
3. Multivariate data analysis (an in-depth analysis of the results to identify hidden differences and incorporate the findings).

Sampling

The Survey was performed on a random sample of respondents from a closed and highly specialized population. The final sample included **80** respondents who were divided into several industry groups.

Definitions

Industries



Consumer business



E&R (Energy and resources)



Manufacturing



Technology, media and telecommunications



Financial services and insurance



Healthcare and pharmaceuticals

Revenue in 2017



Over RUB 50 billion



RUB 10 billion – RUB 50 billion



Up to RUB 10 billion

Key findings

Financial climate in 2018

- Overall, by early 2018, the positive expectations concerning financial prospects became more moderate. Over a half of CFOs (**55 percent**) did not expect significant changes in the current financial position of their companies.
- The highest share of 'optimists' was observed among the CFOs of manufacturing companies (**40 percent**).
- CFOs of small companies (up to 250 people) were the most pessimistic (**22 percent**).
- In the past six months, the number of CFOs expecting company revenue growth increased by **11 p.p.**
- Expectations regarding operating profit have remained almost flat since the second half of 2016. Presently, over half of the companies (**60 percent**) expect profits to grow.
- The expectations regarding operating profit growth are higher by **9 p.p.** compared to the second half of 2017.
- CFOs do not expect the cost of capital to change significantly in the next six months (**65 percent**).
- This time, CFOs cited expected increases in the number of staff more frequently (**6 p.p.**). Overall, this indicator increased by **10 p.p.** in the past two years.
- A total of **73 percent** of CFOs expect salaries to increase. These expectations were significantly lower (**15 p.p.**) just six months ago.
- Our experts expect increases in operating costs by **50 percent**, number of staff by **48 percent**, and company revenues by **28 percent**.



Uncertainties, risks, and development strategies



In early 2018, we saw gradual increases in the level of uncertainty. Starting from the second half of 2017, the uncertainty increased by another **10 points** reaching the 2H2016 level.

The higher level of uncertainty seems to have had an impact on the risk appetite as in the past six months it has decreased by **29 points**.

Risk factors that had the most negative impact on business in Russia in 2018:

- Higher trade barriers / protectionism
- Geopolitical risks
- Lower core business revenue
- Rising barriers to entry into new markets
- Lower consumer interest in new products

Priority business strategies in Russia in 2018:

- Ongoing cost control
- Business development through organic growth
- Cost cutting

Business drivers and barriers

Business drivers in Russia in 1H2018:

- Production costs
- Digitalization
- Liquidity

Barriers for business drivers in Russia in 1H2018:

- Focus on core operations
- Currency risks
- Domestic production



About company clients and innovations

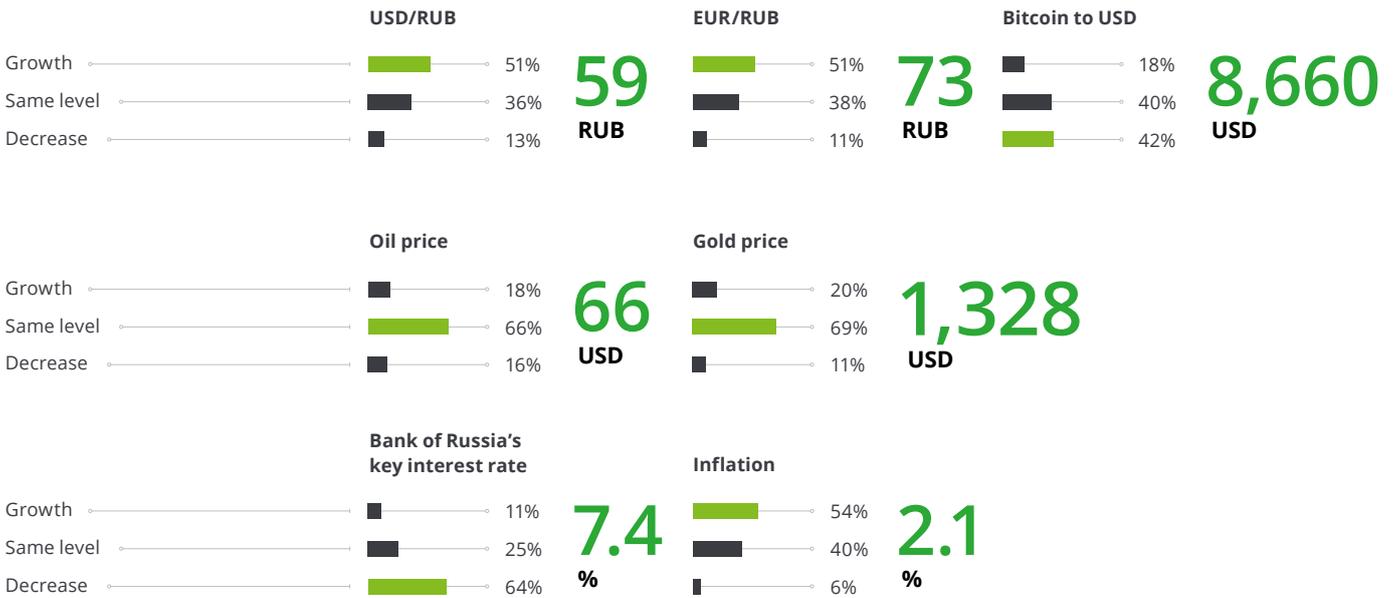


- Almost one in two survey participants (**49 percent**) said that his/her company implemented the balanced governance policy, i.e., equally took the interests of both the company and its clients into consideration.
- One in two CFOs (**51 percent**) noted an increase in new clients compared with the previous year (with the balance reaching **0.42**).
- One in two respondents (**49 percent**) noted that their company's value rose after implementing innovative approaches. Among them, one in three respondents (**33 percent**) indicated that their company grew by 5 percent, almost half (**52 percent**) indicated a 5–10 percent growth, and another **11 percent** witnessed a 10–20 percent increase in their company's value.
- In early 2018, the innovation ratio of companies was estimated at **0.15**. Last year, it increased by **4 points**. The highest growth occurred in 1H2017.
- Over one third of respondents (**37 percent**) said that their company plans to spend 1–5 percent of its revenue on R&D in 2018. This trend shows that companies want to implement a digitalization strategy.
- Most innovations are implemented by dedicated divisions in **66 percent** of the companies surveyed.
- According to our respondents, the market and competition are seen as the key drivers for digital strategies. The management strategy ranks the second.

Expectations and personal experience of CFOs

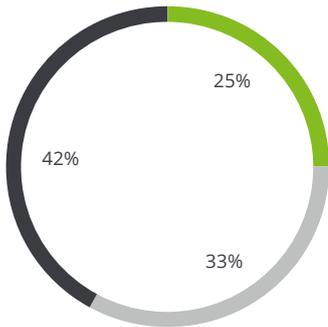
Expectations related to the changes in performance

We asked our respondents about their expectations regarding changes in currency rates and commodity prices for autumn 2018.

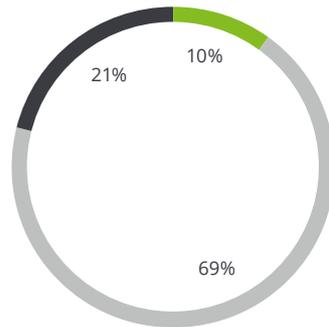


Personal experience of the respondents

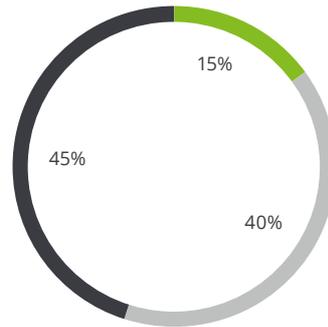
The use of virtual reality technologies



Experience in the smart home technology market



Use of cryptocurrency



■ Yes
 ■ No, although I would like to test it
 ■ No, this technology is of no interest for me

Trends

- One in four surveyed CFOs has experience in using virtual reality technologies (VR). This indicator rose by **5 p.p.** in the past six months. Representatives of the FSI industry (**60 percent** of respondents) became leaders in using this technology.
- The number of respondents experienced in cryptocurrency markets has significantly increased by **11 p.p.** in the past six months. The most frequent users of cryptocurrencies were found in the healthcare industry, with **50 percent** of them having had experience in buying a cryptocurrency (bitcoins).
- **10 percent** of respondents used a smart home technology.

Highlights

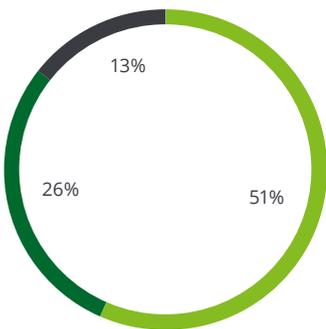
- The most experienced in using the above-mentioned technologies are CFOs from companies with revenues exceeding RUB 50 billion (**21 p.p., 5 p.p., and 15 p.p.** above average).
- Overall, last year's data lead to the conclusion that the respondents interested in a given technology tested it in practice. At the same time, those who were not interested in these technologies did not become interested in them.

Our respondents

40% were representatives of **foreign companies** with production facilities in Russia

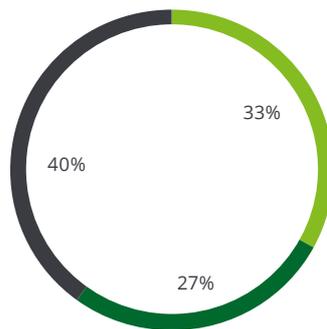
60% were representatives of **Russian companies**

Revenue in 2017



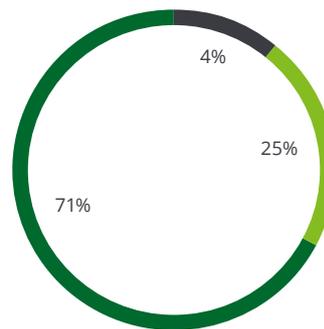
- RUB 0-10 bn
- RUB 10-50 bn
- Over RUB 50 bn

Number of staff



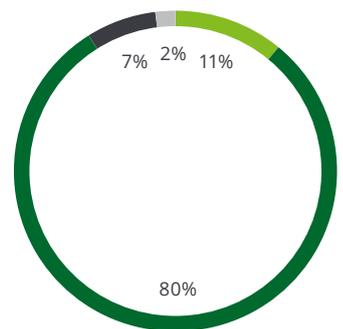
- Up to 250 employees
- 251-1,000 employees
- Over 1,000 employees

Form of ownership



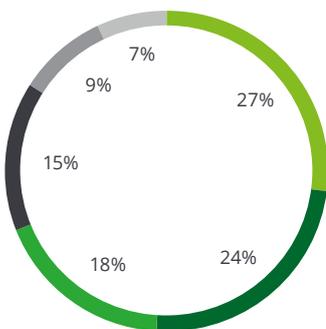
- Public
- Private
- Government-owned

Strategy implementation horizon



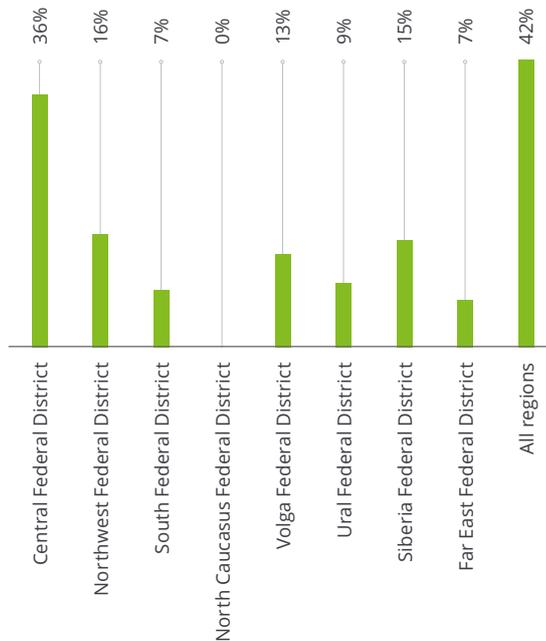
- 1-2 years
- 3-5 years
- 6-10 years
- Over 10 years

Industry



- Consumer business
- Technology, media and telecommunications
- Manufacturing
- Healthcare and pharmaceuticals
- Financial services and insurance
- Energy and resources

Geography of operations



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If you have any questions regarding the survey, please do not hesitate to contact us.



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