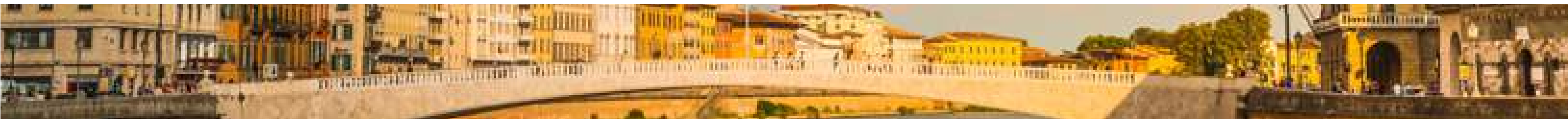
AN EXECUTIVE PERSPECTIVE OF EUROPE

THE CONTINENT'S BUSINESS CLIMATE ACCORDING TO NORTH AMERICA'S C-SUITE

A STUDY JOINTLY CONDUCTED BY
GLOBAL FINANCE MAGAZINE AND
DEVELOPMENT COUNSELLORS INTERNATIONAL
FALL 2015



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2015 EXECUTIVE SUMMARY

The Great Recession rocked global markets to such a degree that the aftershocks are still rumbling quite boisterously. Emerging markets have cooled considerably. Europe remains uneasy, but is slowly regaining its footing after avoiding the potential Grexit crisis. The United States has held its own despite a sluggish recovery that has kept it within arms' length of another dip. And now China, the seemingly unstoppable force, has run into an immoveable wall of economic headwinds, sending stock markets everywhere in the wrong direction.

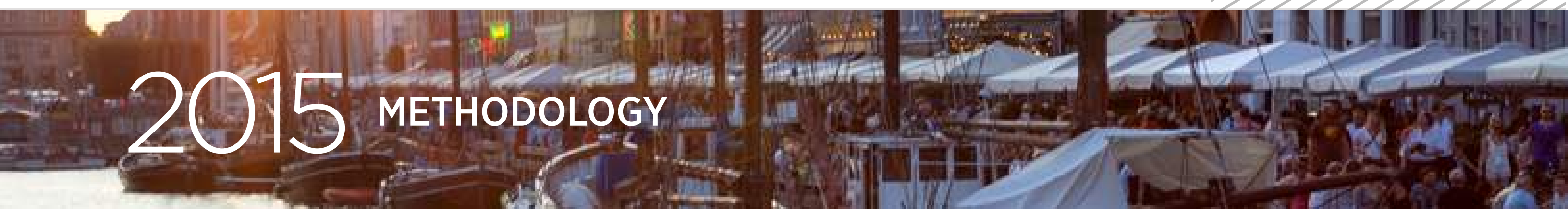
Needless to say, the deck has been reshuffled numerous times since the depths of the decline. With questions of growth abound, this report attempts to peel away a small layer of the current corporate expansion climate as it relates to foreign direct investment from North America into Europe. *Global Finance* Magazine and Development Counsellors International have partnered together to provide this brief snapshot of executive sentiment specifically for European investment promotion agencies. The 341 respondents represent a mix of corporate decision-makers from the U.S. and Canada, who were asked about three key areas:

- How are location decisions being made within their companies (and how does that responsibility vary by company size)?
- Are they planning European expansion in the next 24 months?
- What do they think about the European business climate as a whole, as well as by individual country?

Chief Executive Officers led the way in our survey, representing nearly 42% of the responses. Corporate Finance professionals (27%) and Division Heads (13%) also displayed strong showings. Together, they indicated that while roughly four out of 10 site selection decisions were exclusively made at the C-level, a healthy dose of activity can be found further down the chain of command—more than 45% said decisions do originate at divisional levels before climbing the ladder to the corner office.

Our respondents also indicated a healthy appetite for corporate expansion in the next 24 months, with 26% acknowledging plans for foreign investment and another 26.5% suggesting it was under consideration, but unclear at the present time. Of both of those groups, four in 10 said that a location in Europe was among the sites under consideration, with most of those geared toward "Service" functions like regional sales or service centers and corporate, regional or divisional headquarters.

Finally, with Europe's countries listed side by side, we asked our executive audience to rate the business climates individually on a five-point scale so we could see where peers stacked up versus one another. Germany landed No. 1 overall, followed by Switzerland, UK, Sweden and Norway. Poland was ranked first among the Eastern European subset of countries.



2015 METHODOLOGY

It is important to note that our survey audience consists exclusively of *Global Finance* subscribers, a highly engaged audience we entrusted to fill out the entire survey with their insightful reactions on the European economy. A total of 8,993 North American corporate executives received our online survey by email, which was open from early May to late August to maximize responses during the busy summer travel season.

A total of 341 responded, representing a healthy four percent of the overall distribution. Readers of *Global Finance* are the Chairmen, Presidents, CEOs, CFOs, Development Officers, Treasurers and other top financial officers at the world's leading companies and financial institutions.

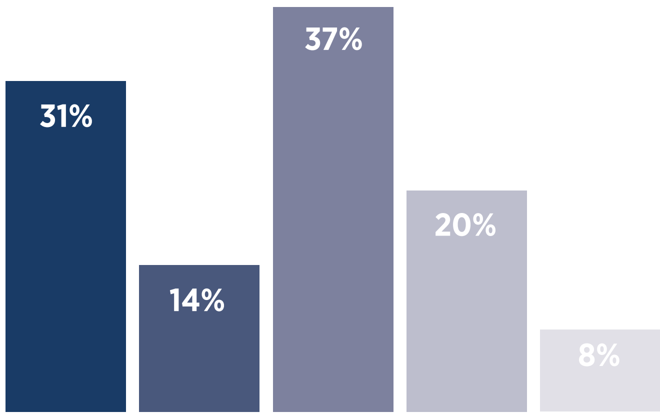
Our survey consisted of 24 predominantly multiple choice questions, with three open-ended follow-ups when asking about the current economic climate in Europe and its impact on a company's decision to locate there. Data was matched against company size by revenue, as the *Global Finance* audience stretches across a wide spectrum of small and large business entities.

2015 CHAPTER I: WHO IS THE DECISION-MAKER?

Any great salesperson simply wants to talk to a decision-maker. Ever-confident in her abilities to make a deal, once she's talking to the right person, she'll find a way to make the sale. But finding "the one" can be elusive in the site selection process, as it varies so strongly between companies and—as it relates to European IPAs—between global regions as well.

We attempted to bring some level of clarity to this search for gold by asking our audience the following: "Where do location decisions originate within your company?" Respondents had the option of marking more than one, as project circumstances can often change the origin of the decision (thus why our totals exceed 100%). As indicated in the table below, the predominant answer was "Exclusively at the C-Level." However, closer attention shows that divisional and regional heads are an influential bunch, especially at larger firms.

TABLE 1.1: WHERE DO LOCATION DECISIONS ORIGINATE WITHIN A COMPANY?



- At the division/department level, then work up to the C-level
- At a regional (EMEA/LATAM/APAC/ etc.) office, then work up to the C-level
- Exclusively at the C-level for the entire process
- At the C-level, then delegated to a division/ region before going back to the C-level
- Outsourced to a consultant, then confirmed by the C-level

Consider that a healthy 31% indicated that decisions begin at the divisional/departmental level before reaching the C-suite, while another 14% originate at the regional office before going upstream. That's 45% of companies indicating that many of their decisions often begin further down the chain of command. Added to this is another 20% that said site selection flows in the opposite direction, starting with the C-suite and moving downstream to the divisional or regional executive. That's nearly two-thirds of our respondents indicating that a divisional or regional director has a significant say in FDI decisions.

In splicing the data further by company revenue, the findings reveal more trends as seen in table 1.2. While there's no surprise that the C-level dominates these types of decisions at the sub-$50 million revenue mark (50%), the extent may not be quite as steep as originally thought. A solid 23% of these decisions still begin at the divisional level within these firms, then make it onto the C-suite desk.

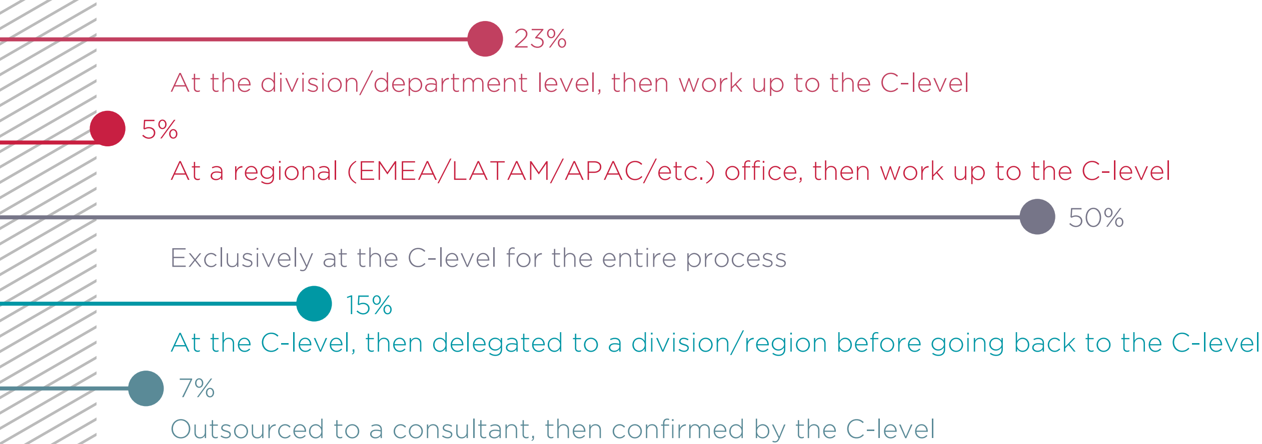
For those between $50 million and $500 million, the department level is equally as involved, but another 25% of decisions will start at the C-suite and head downstream to divisional or regional heads (this direction of decision-making was only marked 15% of the time for sub-$50 million companies).

At much larger organizations with more than $500 million in revenue, decisions are originating at the divisional level 45% of the time, with "Exclusively within the C-suite" only generating a 17% response rate. Also notable is the bump in decisions originating at the regional level (EMEA, APAC, etc.), with 23% of executives selecting this option. Altogether, 80% of respondents among this demographic indicated that divisional and regional heads play a significant role in where projects end up.

In contrast, the use of third-party multipliers—also called site selection consultants or location advisors—for FDI tracked fairly low in this survey, with only 8% noting its significance. Of course, this survey had an emphasis on where projects "originate," as opposed to who carries out the primary research process, so that is a likely cause of this low turn-out.

TABLE 1.2: LOCAL DECISION ORIGIN BY COMPANY REVENUE

Companies less than $50M in Revenue



Companies $50M - $500M in Revenue

25%
At the division/department level, then work up to the C-level

4%
At a regional (EMEA/LATAM/APAC/etc.) office, then work up to the C-level

35%
Exclusively at the C-level for the entire process

25%
At the C-level, then delegated to a division/region before going back to the C-level

10%
Outsourced to a consultant, then confirmed by the C-level

Companies more than $500M in Revenue

45%
At the division/department level, then work up to the C-level

23%
At a regional (EMEA/LATAM/APAC/etc.) office, then work up to the C-level

17%
Exclusively at the C-level for the entire process

12%
At the C-level, then delegated to a division/region before going back to the C-level

3%
Outsourced to a consultant, then confirmed by the C-level

2015 CHAPTER 2: EUROPE AND THE FDI EXPANSION RADAR

The survey audience is decidedly on the move, with nearly half of the companies either expanding or considering expansion in the next 24 months. Four in 10 of those companies are considering expansion into Europe, with a breakdown of the type of facilities they are likely to pursue outlined in Table 2.1.

TABLE 2.1: WHICH TYPE OF FACILITY IS BEING CONSIDERED?

11%
Back Office (Shared Services, Data Processing, or Telemarketing Center)

34%
Corporate, Division, or Regional HQ

18%
Distribution Center

27%
Manufacturing/Production Plant

40%
Regional Sales Office or Service Center

16%
Research and Development Operations

7%
IT/Software Development

A regional sales office or service center was listed most frequently (40%), followed by corporate, division, or regional headquarters (34%). Manufacturing or production plants also received significant attention with 27% of respondents favoring those types of facilities.

Asked what the primary motivation for expansion to Europe was, the leading answer was the pursuit of new growth markets (59%). This makes sense considering the total EU population of over 500 Million and GDP of over \$18.5 Trillion (2014), representing a larger market even than the US. The second highest response was to service existing business" (38%), followed by tax structure and incentives" (26%) and cost of doing business" (25%).

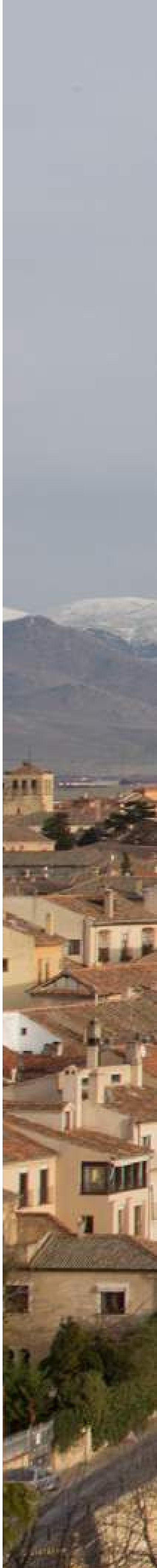


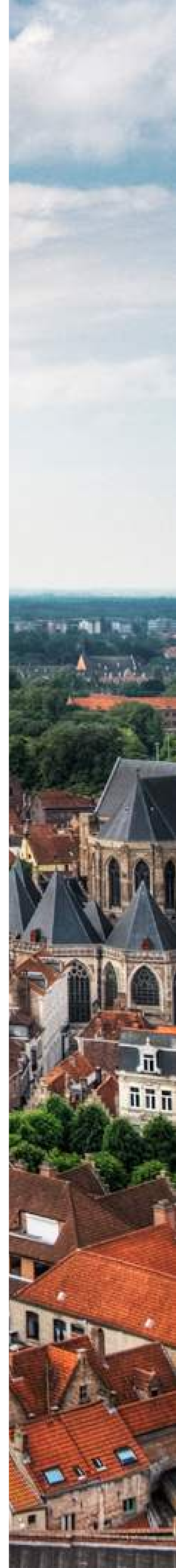
TABLE 2.2: MOTIVATION FOR EXPANSION

Motivation	%
Pursuit of new growth markets beyond North American border	59%
To service existing business	38%
Secured new contracts for service	17%
Diversifying supply chain and manufacturing operations	16%
Tax structure and incentives programs	26%
Cost of doing business	25%
Mergers and Acquisitions	19%
Quality of R&D partnerships with universities and researchers	10%
Concentration of talent and skills available	25%

We asked those who were not currently considering Europe if they had done so within the last two years, allowing for the possibility that it may have been on the table at one point. Nearly 20% of this audience subset said they had done so, with a similar breakdown by facility type. Headquarters operations were first (39%), with manufacturing, distribution and sales/service centers all at 19%.

TABLE 2.3: WHICH TYPE OF FACILITY HAD BEEN CONSIDERED IN THE LAST TWO YEARS?

Facility type	%
Back Office (Shared Services, Data Processing, or Telemarketing Center	16%
Corporate, Division, or Regional HQ	39%
Distribution Center	19%
Manufacturing/Production Plant	19%
Regional Sales Office or Service Center	19%
Research and Development Opertions	10%
IT/Software Development	16%

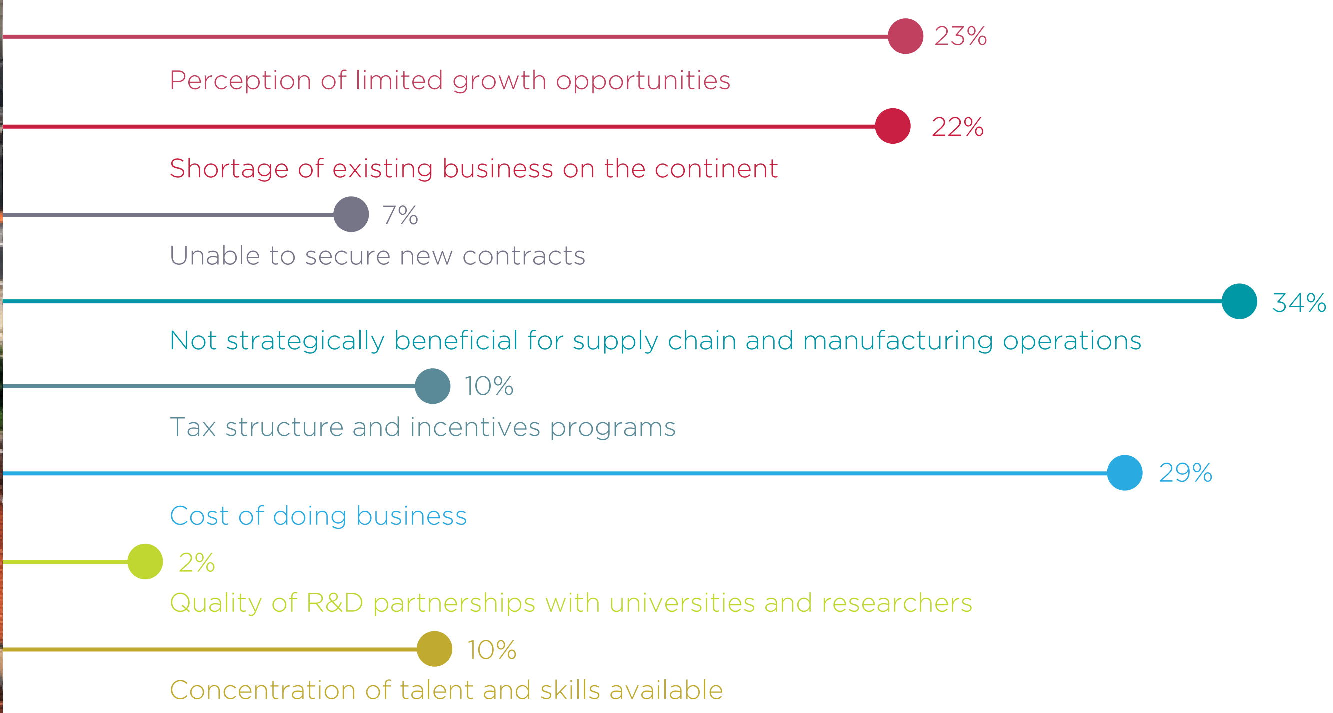


We followed this up by asking why companies who had considered Europe ultimately did not select the continent for its office or facility. "Not strategically beneficial" led the way with 34% of responses, followed by the cost of doing business (29%), a perception of limited growth opportunities (23%) and a shortage of existing business on the continent (22%). While some of the world's most expensive cities are in Europe, the cost of doing business response is contrary to KPMG's Competitive Alternatives, which cross-examined between a number of mature European countries. The Netherlands, France, Italy, and the UK all ranked as slightly less expensive than the US, with only Germany ranking marginally higher in business costs. This study also took place when the US/EU exchange rate was 1.35, which has since fallen significantly to 1.12 USD/Euro, further assisting in the cost effectiveness of doing business in Europe.

As Europe has been on the radar for a significant portion of our survey audience, the question arises: Where in Europe did they look? In asking this question, it is important to note that we allowed respondents to select multiple locations so as to account for the possibility of several locations considered as a part of the same search or multiple searches.

The predominant answer for two thirds of the executives was Western Europe, loosely defined as the region west of the German-Switzerland-Italy borders and south of Denmark. Central & Eastern Europe, considered all countries east of the same demarcation and south of Lithuania, was second at 53%. The Nordics and Baltics, which account for the northern reaches of Europe, was last at just 16%.

TABLE 2.4: REASONS FOR NOT SELECTING EUROPE



2015 CHAPTER 3: THE PERCEPTIONS UNVEILED: WHAT NORTH AMERICAN EXECUTIVES THINK OF EUROPE

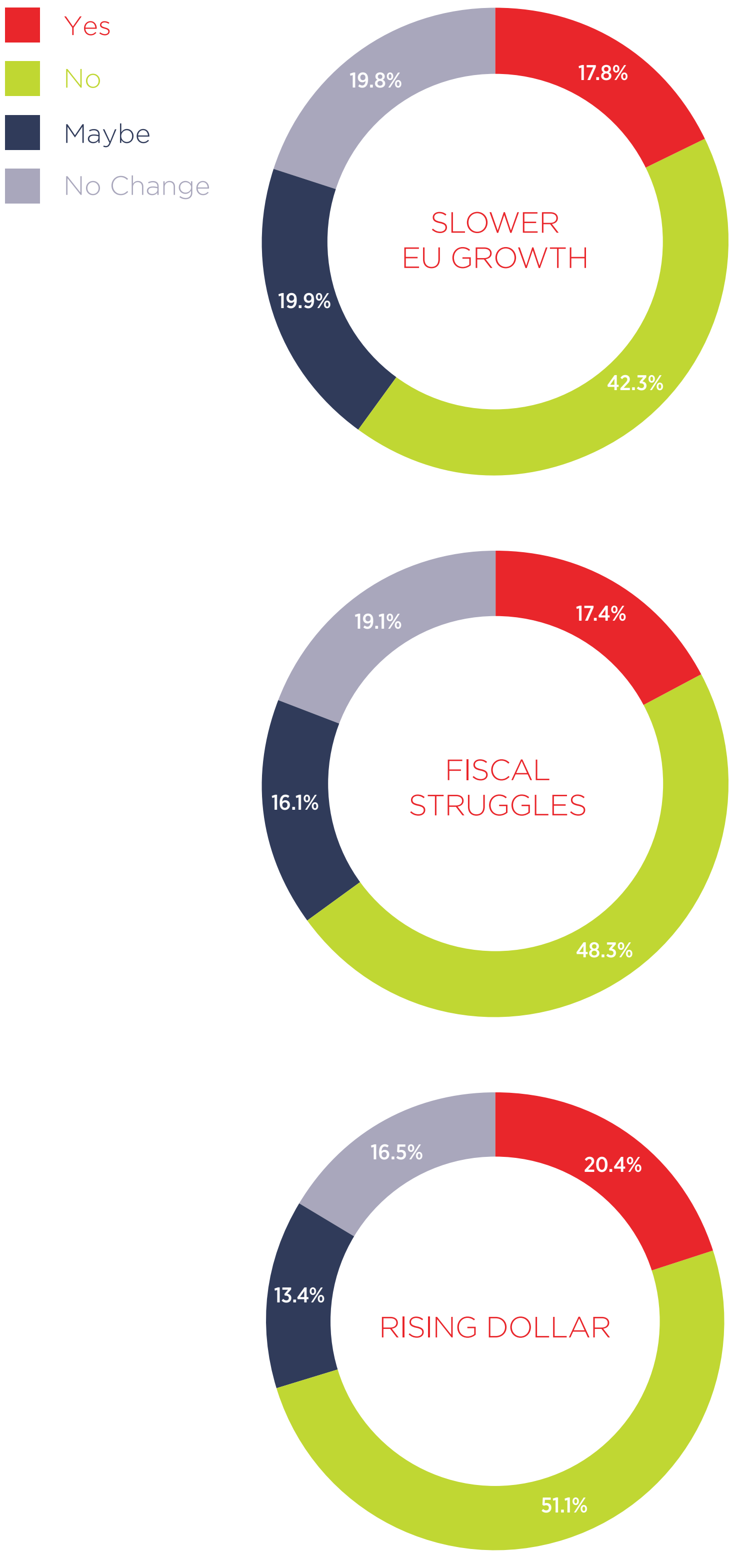
The EU has suffered lackluster growth in recent years, and financial instability in a handful of countries has caused concern about growth prospects for the future. However, with the dollar rising against the Euro, that has created an opportunity for products made in the EU to sell at a discount in the U.S. Given this rebalancing, we wanted to find out what North American executives thought of expansion opportunities in the Euro zone, so we asked them a series of questions about how the current climate has influenced their overall perceptions of the region, and how they would rate each of its countries' business climates.

We began by assessing the current economic climate in Europe with three simple, subtly different questions:

> **Has slower EU growth affected your likelihood of pursuing expansion, relocation or other FDI projects in Europe in the next 24 months?**
>
> **Have fiscal struggles among key EU members affected your likelihood of pursuing expansion, relocation or other FDI projects in Europe in the next 24 months?**
>
> **Has the rising dollar versus the Euro affected your likelihood of pursuing expansion, relocation or other FDI projects in Europe in the next 24 months?**

Answers for all three were similar, with at least 42% of respondents saying "No" to all questions (and close to 50% for the latter two) and a tight range of 17%-20% replying "Yes." Similarly, a range of 16-19% said there was "No Change" as a result of the current climate, and the rest were unsure.

TABLE 3.1 CHANGE IN LIKELIHOOD OF CONSIDERING EUROPE FOR FDI PROJECTS



We opened this up to the audience to share their insights on why current events were or were not impacting their expansion strategy. The predominant sentiment was that the European Union would remain strong long term, and that a relatively stronger U.S. actually benefits their business. Here are a few select responses:

- *"The struggles between members will be solved, because continuation would be suicidal for all concerned and common sense will ultimately prevail."*
- *"The EU will continue to endure growth pains but is the wave of the future."*
- *"European countries fighting is good for me, as that makes competing firms less likely to out-bid my firm on projects."*
- *"EU growth has no bearing on our decision. It is strictly a matter of competition."*
- *"A stronger dollar has improved our ability to buy."*

For those who said they were influenced by the economic climate, the main reasons cited are the increased risk of disintegration and the approach towards less business-friendly policies. Here are a few examples:

- *"As EU's policies get less friendly to business, we could lose customers there."*
- *"The uncertainty of the continuation of the UK's participation and general economic uncertainty is worrisome."*
- *"We are awaiting more stability with respect to Ukraine and Greece."*
- *"Of course with no clear political direction in any country you have a very poor business environment."*
- *"It is something we are looking at closely from a risk perspective."*

There is no surprise that what may be good for one company is bad for another, as some of the comments point out. However, it should be reassuring that the scales of corporate expansion sentiment are in favor of a limited impact.

As for which countries are viewed most favorably by North American executives, we asked our audience to grade each one side by side with its peers. To maximize responses for this section, we took the liberty of breaking the full list of countries into smaller groups of contemporaries in "Western Europe," Eastern & Central Europe," and "The Nordics & Baltics," which break out similarly to the regions referenced in Chapter 2. We also did not include some select nations due to their size and relative anonymity on the business radar in North America, but we kept our exclusions to a minimum.

Before reviewing the business climate data,

TABLE 3.2 BEST BUSINESS CLIMATES OVERALL

GERMANY	3.88
SWITZERLAND	3.86
UK	3.85
SWEDEN	3.65
NORWAY	3.59
NETHERLANDS	3.57
DENMARK	3.45
AUSTRIA	3.36
BELGIUM	3.34
IRELAND	3.06

TABLE 3.3
THE BEST BUSINESS CLIMATES BY REGION

Western Europe

GERMANY	3.88
SWITZERLAND	3.86
UK	3.85
NETHERLANDS	3.57
AUSTRIA	3.36

Central Europe

POLAND	3.05
CZECH REPUBLIC	2.80
TURKEY	2.74
HUNGARY	2.72
ROMANIA	2.52

The Nordics, Iceland, & Baltics

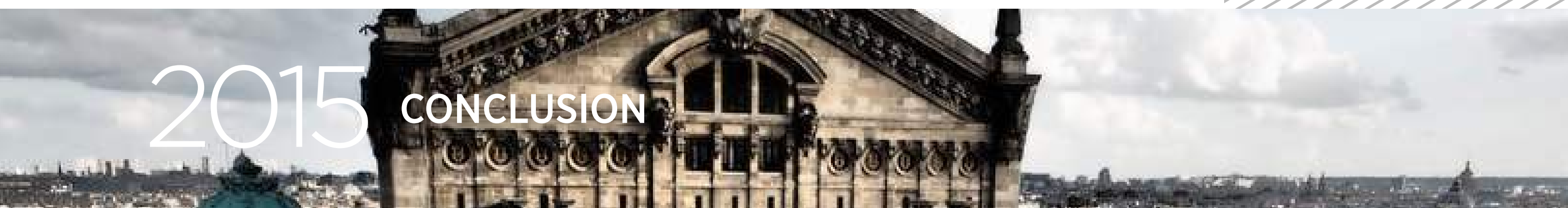
SWEDEN	3.65
NORWAY	3.59
DENMARK	3.45
FINLAND	3.27
ICELAND	2.99

it is important to consider the many factors that go into a *perceived* business climate, as opposed to a *data-generated* one. Some companies favor access to talent more than others, while cost of doing business, available incentives, and market size are all significant considerations as well. If we were to ask for a rating based on each of these factors, we could get very different answers, but in asking our audience to “rate the business climates” overall, their top responses are in Table 3.2.

What is curious about this result is that, while the Nordics were rated as the least common destination for business by region, companies tend to view these countries as favorable—two of the top five and three of the top seven locations were from the area.

In grouping the responses by region, the top five in each are listed in Table 3.3.

A full listing of all countries in the survey and their corresponding scores are available in the Appendix.



2015 CONCLUSION

This survey revealed three key takeaways. First, expansion decisions are very much decided at the top level, but the impact executives have further down the chain of command is greater than anticipated.

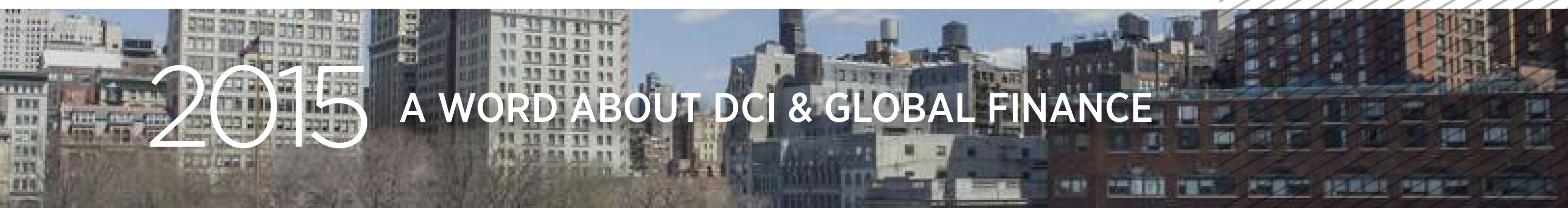
Second, half of our audience is either in expansion mode or considering such a move, with nearly 40% of those likely to look at a European location among the candidates. “Service” operations (headquarters and regional sales/service centers) appear to be the most in-demand for Europe, with manufacturing operations not far behind.

Finally, the overall attitudes toward Europe as a business destination will see minimal negative impacts based on fiscal struggles among key member states and overall sluggish growth. The long-term prospects and relative strength of the region are still very much in demand, even if the current economic climate is less than ideal.

2015 APPENDIX

The Business Climates Rated—All Responses

Germany:	3.88
Switzerland:	3.86
UK:	3.85
Sweden:	3.65
Norway:	3.59
Netherlands:	3.57
Denmark:	3.45
Austria:	3.36
Belgium:	3.34
Ireland:	3.06
Poland:	3.05
Iceland:	2.99
France:	2.92
Estonia:	2.88
Czech Republic:	2.80
Turkey:	2.74
Hungary:	2.72
Lithuania:	2.71
Spain:	2.70
Latvia:	2.67
Italy:	2.61
Portugal:	2.54
Romania:	2.52
Slovenia:	2.39
Croatia:	2.36
Bulgaria:	2.31
Montenegro:	2.29
Slovakia:	2.26
Macedonia:	2.17
Russia:	2.07
Kosovo:	2.07
Serbia:	2.01
Ukraine:	2.00
Greece:	1.69



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215 Park Avenue South

New York, NY 10003

Phone: 212-725-0707 Ext. 107

Fax: 212-725-2254

andy.levine@aboutdci.com

www.aboutdci.com

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NEW YORK

Michael Ambrosio

212-523-3223

mambrosio@gfmag.com

LONDON

Richard Scholtz

44-207-929-0756

richard@gfinance.co.uk