UBN NETWORK

VOICE OF THE MARKET REPORT

Benchmarking Survey Results & What Businesses are Saying

February 2024

“I get scared of the war only when I’m watching it on TV in London”

\- *Kyiv-based general manager*

Powered by Ukraine Business News

Executive Summary

Ukraine 2024 Buget Survey Results

KEY FINDINGS

- The survey was conducted in December 2023/January 2024 with respondents all senior executives leading multi-national businesses in Ukraine.
  - 52% are managers with responsibility for Ukraine alone, 33% covering Ukraine and some regional countries, and 15% with some Other geographical remit (that includes Ukraine).
  - 29% Consulting/Financial/Legal Services, 19% Consumer Goods, 17% B2B/Industrials, 10% Healthcare, 6% Real Estate, 2% Energy, 17% Other
- After a quite successful 2023, when 70%+ of companies hit both revenue and profit targets, for 2024, nearly 60% of the business expect some level of growth, with most of them planning for double-digit growth. Most firms are confident they can hit these targets too.
- Despite the positive expectations for revenue and plans by over 40% of firms to invest further this year, 40% of respondents noted that the business environment will be worse this year than last year.
- Businesses are largely hesitant to raise prices beyond inflation levels, and are mostly using greater sales volumes to hit profitability targets.
- 50% of respondents expect demand to revive back to pre-war levels by the end of 2025 at the latest. Most of the market is very uncertain given the highly fluid market conditions. Longer term, businesses are very optimistic: over 80% hold an optimistic view of the market.
- 70% of firms consider the labor market tight, which may be an issue as nearly 50% are hiring.
- Positively, supply chain, route-to-market, currency, and inflation are no longer top concerns for companies, ending the trend of 2022 and 2023.
- “I get scared of the war only when I’m watching it on TV in London” one executive noted. Unfortunately, this fear of Ukraine from management abroad hinders investment.

**The survey covered 52 respondents*

***All quotes in the report are edited as necessary to ensure anonymity and confidentiality*

2023 Top- and Bottom-Line Sales (1/2)

Most companies successfully hit their targets in 2023

- While some 70% of companies hit revenue targets set for last year, even more businesses (75%) hit their profitability targets, obviously a pleasing sign to corporate. The higher percentage of companies that were profitable than those that hit revenue targets reflects the focus on cost-cutting seen in the market, which protected profits.

2023 Top- and Bottom-Line Sales (2/2)

Executives from consumer companies reported the strongest performance of all businesses

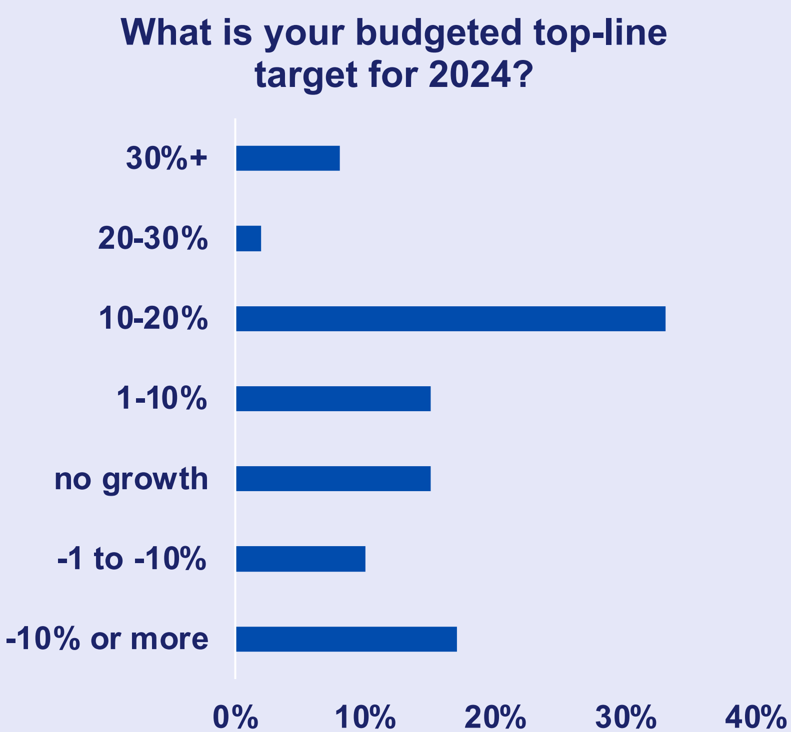
WHAT BUSINESSES ARE SAYING

- Of all the companies UBN has spoken with over the past year, businesses in the retail (and particularly food/drink) have outperformed the market, which makes sense considering consumer spending was solid in 2023 and drove Ukraine's economic growth. Executives from this sector expressed generally more positive results and confidence than other economic sectors, with over-the-counter pharmaceutical firms perhaps enjoying the best results of all.
  - Most of the companies in these sectors have reported stronger results in 2023 than even in 2021 before the full-scale invasion, despite losing up to 10 million consumers from emigration and loss of territory. Depending on the company and specific consumer sector, companies were even up double digits in terms of revenue compared to 2021.
  - An executive in the auto sector noted that sales surpassed sales in 2021, with the premium segment in particular leading the way.
- B2B firms are less optimistic than B2C. As one B2B general manager from a firm in the construction sector noted, "B2C of course are doing better – people are not investing for tomorrow but enjoying today". Still, most B2B firms posted generally positive results, have not lost their key accounts, and the market has stabilized, though without much growth in the past year. A few executives from professional services firms noted that they retained their key customers through the war to now, though demand has been largely stagnant as those customers remain hesitant to invest.
- Another major Western firm in the construction materials sector reported single-digit growth in both revenue and profitability, despite the pressure on the sector in general. Management noted their ability to continue production in their facilities despite air raids, maintain their core customers thanks to their high-quality products and key account management, and pass on their rising costs, protecting profitability.

2024 Top-Line Targets (1/2)

Businesses are mildly positive about sales performance this year

- For 2024, the market is quite varied in its outlook, though broadly positive in terms of both corporate targets and ability to hit those targets. Positively, nearly 60% of the market is expecting some level of growth, with most of them – 43% – planning for double-digit growth. Still, 15% expect no growth this year while 27% expect clear revenue declines.
- 63% of businesses are generally confident they can hit their targets, with only 14% unsure due to market uncertainty, a surprisingly low figure for a nation at war.



2024 Top-Line Targets (2/2)

B2C firms are optimistic about this year, B2B firms are more concerned

WHAT BUSINESSES ARE SAYING

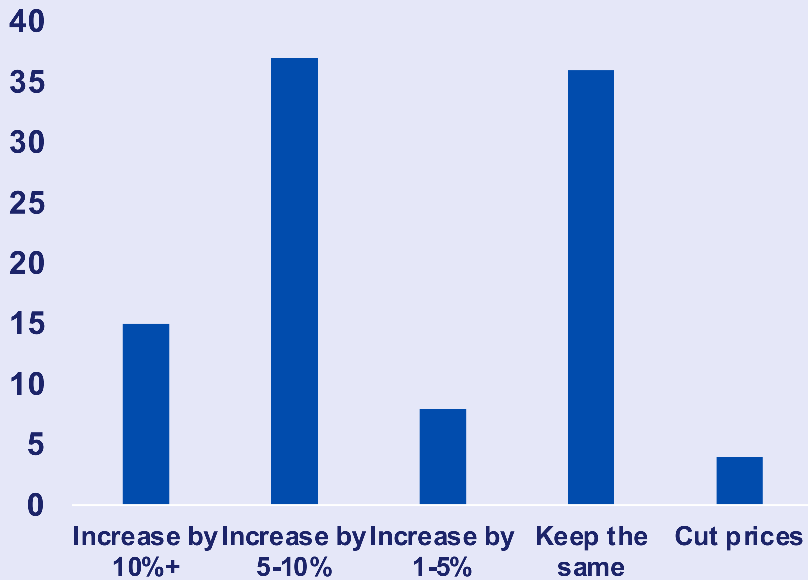
- Similar to last year, B2C firms are more optimistic than the rest of the market. An executive at a major cosmetics firm noted that sales remained consistent and strong across the winter, with expectations that sales will grow by up to 10% this year after sales recovered past 2021 levels last year. Drinks companies remain some of the most optimistic as well: one executive noted that nearly each quarter for the past year they had exceeded targets, with high double-digit targets this year they are confident to hit and may even exceed again.
- There has been a notable uptick this winter in general despair towards the outlook. This better correlates to conditions on the battlefield rather than sales results. As one general manager of a B2B consulting firm noted: “my staff is clearly invigorated when there’s progress in the war, and get demoralized when things aren’t good, like the last several months”. As it pertains to the staff, another executive noted: “Ukraine needs good news in the war: Take out the Crimean Bridge and I know my employees will work better!”
- Lack of progress for Ukraine lately in the war likewise has an impact in general on demand. There is of course worry among B2B firms about demand when the war is not going in Ukraine’s direction, as they report greater hesitance towards investment from their customers.
- Another B2B consultancy noted that they are less optimistic at the start of this year than they were at the start of last year. While sales were flat in 2023 and have similar expectations for this year, the stagnation of market demand in their sector drives worry and dashes hopes.
- B2B firms also worry about planning this year, particularly considering they have largely flat targets and worry about downside risks more. B2C firms likewise find difficulty in planning for this year but are generally optimistic considering the strength of their sales for many quarters now.
- Positively, in speaking with executives, not a single firm felt headquarters was being unreasonable or too aggressive with targets in the market.; rather, all said their targets are within reason, which is creating a positive, supportive dynamic between corporate and local teams.

Pricing and Profit Strategy (1/2)

Firms are not confident to test the market with price increases

- Businesses are very hesitant to raise prices in these market conditions, and are only doing so roughly at the rate of inflation this year (7-9%), if that. Overall, 40% of businesses are not raising prices at all or are even cutting. As a result, companies are not using price increases in order to protect profitability, but instead are focusing on driving up revenues by sales volumes, seeking premium customers, and cutting costs.

Across categories/ranges, what will you do with prices in 2024? %



How are you planning to increase profitability in 2024?
(Choose top two)

Pricing and Profit Strategy (2/2)

Companies are tapping into resilient demand while ensuring efficiency

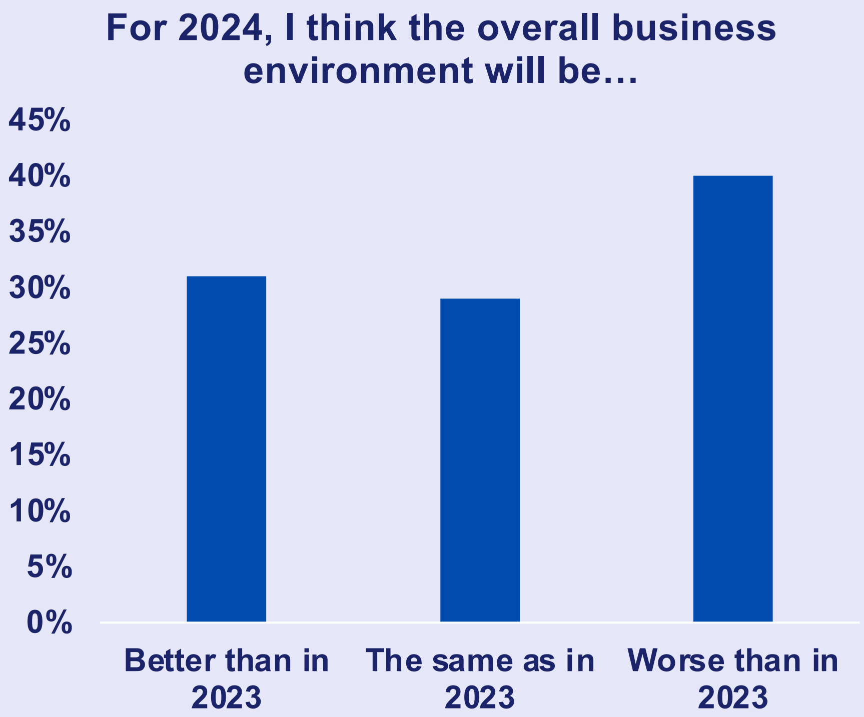
WHAT BUSINESSES ARE SAYING

- Businesses are worried about testing the market and pushing up prices on customers/consumers this year. A B2C firm in the FMCG space noted their positive outlook but also hesitancy to raise prices as there is considerable reliance on consumption arising often from stress-release and escapism.
- Still, it is also clear there is plenty of consumption occurring thanks to resilient purchasing power and even rising wages over the past year. Executives have also noted that consumers have additional financial resources available clearly given the level of retail sales compared to official statistics and wages reported by firms. Businesses selling to premium consumers have noted solid spending in the real estate and the auto sectors for the past year and see it continuing this year, albeit at a perhaps more moderate level.
- Most firms were generally profitable last year and have similar hopes for this year. B2C firms naturally drive this trend; however, even many B2B firms are seeing profits and can reinvest in their business to a degree as a result. The general manager for an office management consultancy noted that despite stagnant revenue growth last year and planned for this year, they have been able to protect profits thanks to their strong focus on efficiency. Corporate has also allowed for price cuts and a resulting slight decrease in margins this year, demonstrating continued support for the business and satisfaction with the performance and the efficiency of the local team.
- Businesses are largely planning to drive revenue and win in 2024 by continuing their existing offering, meaning they are relying on the long-term established competitiveness of their brand, brand integrity, and loyalty. In this case, few firms are driving innovation or new major sales strategy. However, a general manager from a fast-growing drinks firm noted they are launching some new products this year, tapping into more premium consumers and those seeking distraction/escapism.

Business Environment and Investment Plans (1/2)

Despite some pessimism related to the business environment, firms are continuing with investments

- Strangely, despite both the positive expectations for revenue noted earlier and the plans by over 40% of firms to invest further this year, 40% of respondents noted that the business environment will be worse this year than last year. The results are particularly odd considering this winter Russian air raids have been less damaging than the previous winter.
- Still, most firms (60%) expect the business environment to improve this year or at least be the same as last year, and only 20% of firms are reducing the size of their business or actively divesting.



Business Environment and Investment Plans (2/2)

Worries about the business environment are leading to hesitation from investors

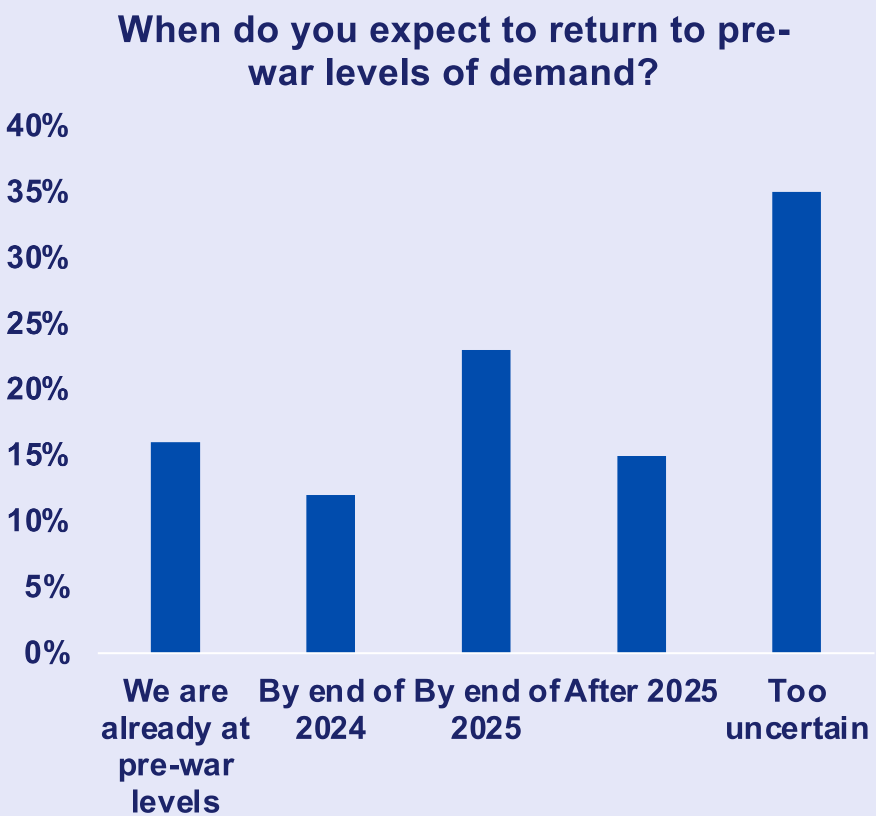
WHAT BUSINESSES ARE SAYING

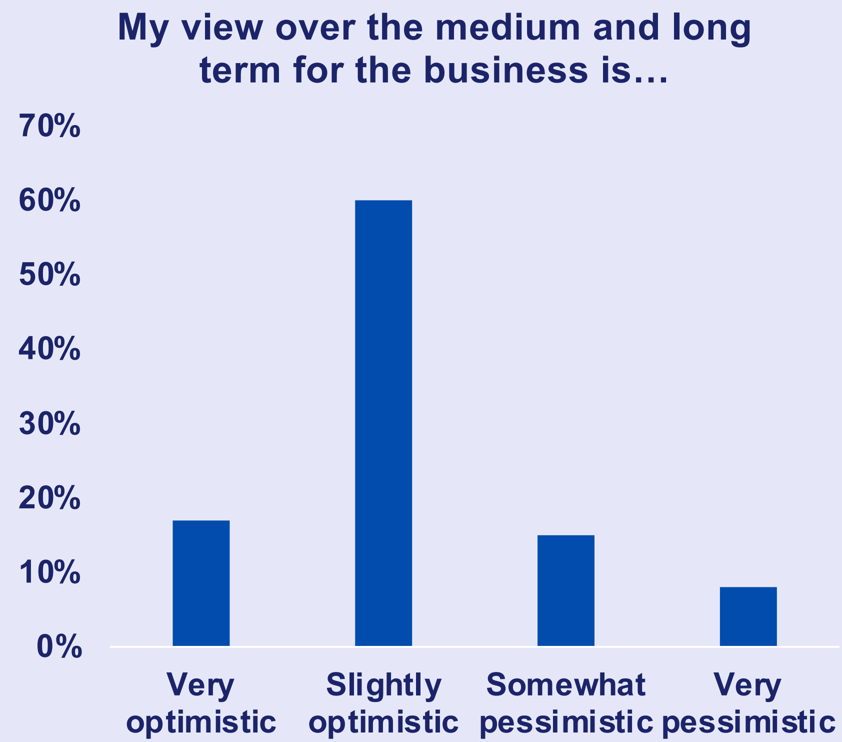
- As one B2C executive put it: “I hear a lot of pessimism lately from businesses, but why do so many speak about business here so badly when results are strong or at least ok?”
- Across the board, it has been rare to hear of firms whose headquarters are not supportive of the Ukraine business and do not have a positive long-term outlook. Effectively all companies we spoke with noted headquarters’ devotion to the market and hopeful long-term outlook. In particular, headquarters for one B2C firm is “less worried about money and the returns now, but more worried about people and retaining good workers”.
- Specifically for 2024, headquarters had been hoping to use this year to invest further but moods have soured given the prolonged nature of the war. “Hesitation” is the most common response from general managers when discussing headquarters’ willingness to invest this year. A B2B consultancy noted that “progress is expected in the coming months, some growth for our business for the year, but there are too many unknowns we can’t plan for – things like the war, which we know about, but also black swan events we can’t know about.”
- For B2B firms in particular, as their customers are hesitant to invest this year, they’re likewise unable to invest further as a result. Most B2B firms have noted they are focused this year on retaining their existing clients and strengthening partnerships and are not devoting resources towards business development to find new clients.
- Several firms noted this importance of building relationships with local partners, which allows Western investors to share the investment risk with local partners who receive better contractual terms in exchange.
- Investors see clear improvements in the operational environment lately, but also more generally since the 2014 Maidan. Everyone recognizes high-level corruption is an issue, but lower level graft is far less problematic than it used to be years ago, when it in fact defined the business environment. “Nowadays, if you do things by the book, no one will mess with you” as one executive noted. Another executive noted that the movement towards European standards in terms of paperwork and regulations has already very clearly helped improve the operational environment and streamline business operations.
- On the negative side, businesses routinely cite the lack of investment guarantees and labor market issues arising from mobilization as weighing on sentiment this year.

Longer-Term View of the Market (1/2)

Uncertainty reigns in the market, though considerable optimism exists for the long term

- Despite the nearly 30% YOY contraction in GDP, and only a forecasted ~5% YOY rebound in 2023, 2024, and 2025, 50% of Western investors expect growth to revive back to pre-war levels of demand by the end of next year (and ~25% by the end of this year). Still, most of the market is very uncertain given the highly fluid market conditions.
- Positively, businesses retain optimism for the longer term, with over 80% holding an optimistic view of the market.





Longer-Term View of the Market (2/2)

Headquarters of nearly all firms are very supportive for the market

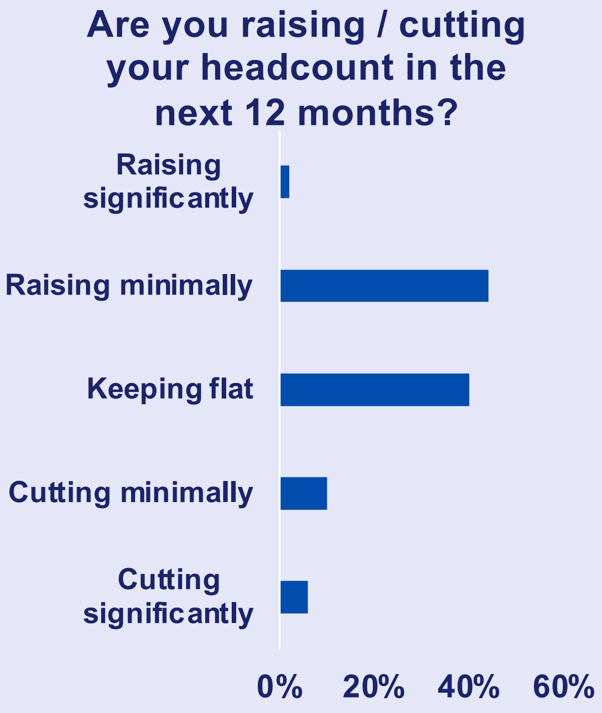
WHAT BUSINESSES ARE SAYING

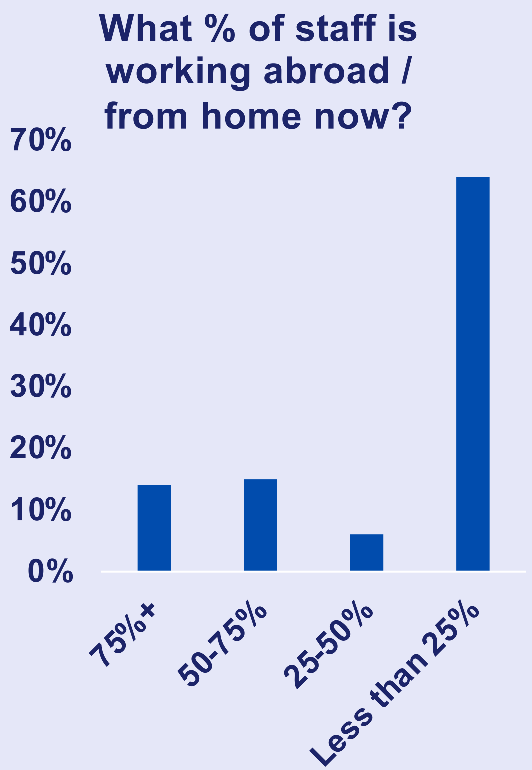
- It is clear from dozens of conversations with companies that headquarters is typically patient in the short term and supportive for the long term. The question being what do companies need to see in order to invest further. Many say a full end to the war and all hostilities, other say at least a moderation in the war and more certainty about the war's direction, while others (mostly B2B) indicate that they can't invest at all unless they see their customers investing further, and they are not yet. One firm said they needed a 'clear vision of Ukraine's future' referring to both the war but also to a government plan to drive reconstruction.
- The big question: "When to invest?". The answers to this have evolved in a generally positive progression since 2022. While back in late 2022 and early 2023 the view was opposition to investing further in Ukraine, gradually the view has become interest in investing, but not exactly sure when. There is a clear feeling amongst firms that they are concerned they could invest too late, and get behind the competition – a feeling that did not exist widely in H1 2023. This is creating some level of urgency: many executives have told us that they don't see much investor activity in their sector until after the winter and the air raids are over; however, if they wait until the end of 2024 to increase investments, they believe it is likely too late.
- In many cases, corporate can be convinced to invest, but just need to see the relevant information. Making the case to corporate has become critical, and also somewhat of an art form in the past year. One B2C executive noted that headquarters was very surprised to hear that they could open new stores and begin new projects here in Kyiv and other major cities in the west. It took 6 months to convince them, but a combination of positive sales, stabilization in the war, stability of the hryvnia, and continued Western funding convinced corporate to conduct this business expansion.
- Similarly, a firm in the auto sector has "always been bullish on Ukraine" and is now in the process of building a new plant, with corporate just needing some convincing and demonstrated sales capacity.
- Another executive in the furniture sector noted that he sees his primary responsibility as the general manager to get corporate to invest in Ukraine, to "make this happen and provide the plan and convince corporate, because we all understand that we have a strategic vision for the market and the opportunity is clear and undeniable."
- The construction/real estate sector has been struggling, but even these firms have strong support from corporate for the long term. For one company in the sector, Ukraine is "in parking mode" for now and no one is talking about strategic investments and several projects were stopped.

HR Trends (1/3)

Firms are contending with a very tight labor market

- Unsurprisingly, given the mobilization, companies are dealing with a very difficult labor market, with more than 70% of firms calling it 'tight' or 'very tight'. This could be problematic as almost half of companies surveyed (46%) are in fact raising their headcount this year (though most only minimally), creating a war for talent.
- Positively, only a minority of firms are in fact cutting staff (16%), reflective of the continued support from corporate even if companies are struggling in the market.



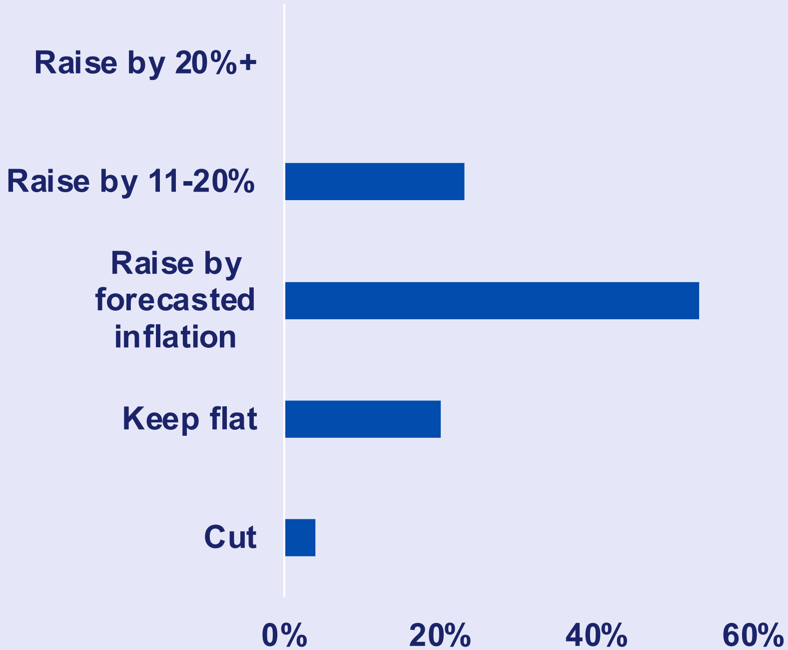


HR Trends: White vs. Blue Collar Salaries (2/3)

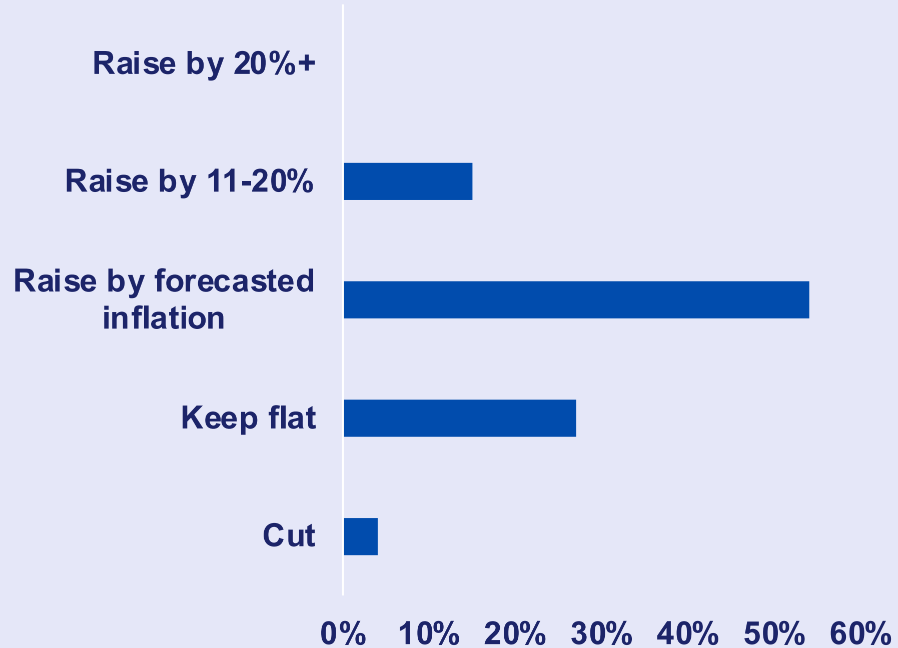
Salaries for both white- and blue-collar workers are going up by inflation, at most

- Somewhat surprising, just over half of firms are raising both their white- and blue-collar salaries only by inflation. While this is understandable considering hesitant corporate investment, this may be a risky strategy in such a tight labor market where workers are accruing greater negotiating power and can demand higher salaries. For white-collar, 23% of companies are raising salaries by at least 11% (compared to 15% for blue-collar), which reflects the ongoing shortage of skilled labor.
- A substantial amount of firms (24% for white collar; 31% for blue collar) are not raising salaries at all (or cutting).

How much are you planning to raise/cut white-collar salaries (management, sales, finance, etc.)?



How much are you planning to raise/cut blue-collar salaries (non-management, admin, factory labor)?



HR Trends (3/3)

A tight labor market is about to get much tighter, presenting issues for firms

WHAT BUSINESSES ARE SAYING

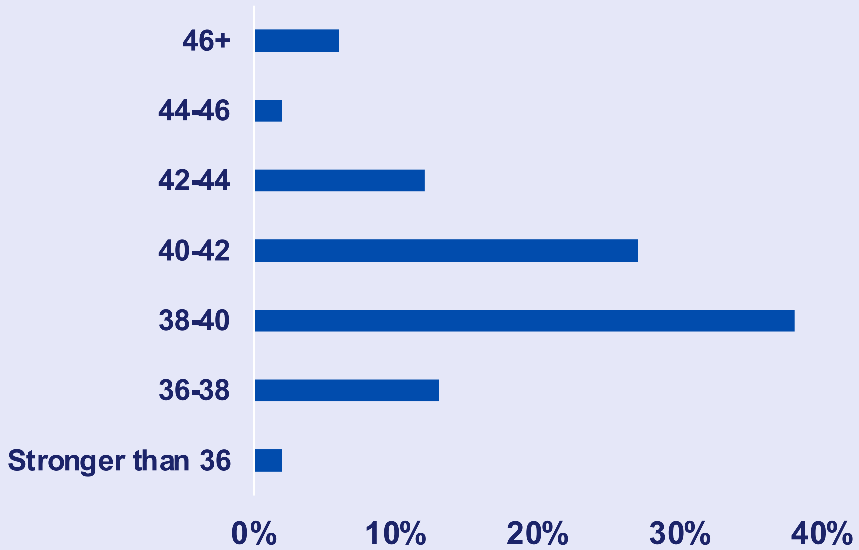
- As controlling costs is so consequential to protecting profits, businesses are reporting a strong focus on talent management lately.
- Across the entire CEE region, executives are facing a clear war for talent, with Ukraine as no exception. A director at a top HR firm in CEE noted that its becoming problematic at the corporate level to not only recruit but to retain staff. Firms are in fact hoarding staff as they believe they will need them in the region. As it pertains to Ukraine, sitting in the CEE portfolio, corporate's attitude towards the market is the same as the rest of the region: develop strong retention strategies and find ways to satisfy increasingly demanding workers with higher demand for both remuneration as well as non-financial benefits. According to this executive, the mantra has been and will be for 2024: "The best recruitment strategy is a good retention strategy". Firms need to develop strategies to ensure they don't lose their best people.
- As a director at a law firm noted: "our business has been performing well since late 2022 and we've been hiring for the past year; however, there is a hard war for talent going on across all levels – from partners to admin. We're getting worried about skills shortages, not to mention the much higher pay."
- Numerous firms reported not only raising salaries notably, but also focusing on non-financial compensation much more, including driving much stronger corporate culture, flexible working from home policies, and training and education programs to ensure worker loyalty. A firm in the construction sector noted the severe intensification in the war for talent given the impact of mobilization on a sector overly-reliant on male labor, causing much higher non-financial demands even as pay goes up dramatically. Several other B2B firms reported such pressure and similar responses by their business to retain staff.
- An auto firm employing both substantial white- and blue-collar labor noted that they are keeping additional labor capacity as a preventative measure against the coming mobilization and expected loss of up to 10% of their male staff (after having already lost 10% earlier). Other firms noted plans to perhaps curtail some services given the expected loss of talent.
- Businesses are finding it difficult to benchmark salaries as they clearly need to rise, but hard to know by how much and the danger of getting it wrong and losing talent/failing to attract new hires. As a healthcare executive noted, the prevalence of payments under the table make it impossible to truly know market rates and what the competitive rate is. As a result, the business – like most businesses we spoke with – is raising salaries on average by nearly 10% (above inflation) this year, after a 20% hike last year. But is it enough?

Exchange Rate: US$ and Euro

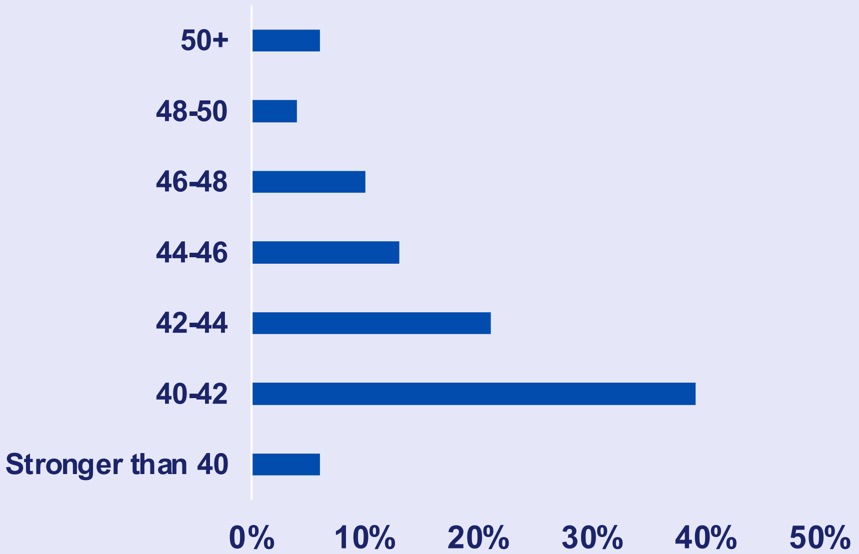
Most firms see only mild hryvnia weakness this year

- Companies' expectations for the hryvnia against both the dollar and euro are in line with our forecasts as well as with the forecasts of the Ukrainian government and primary financial research houses in Ukraine (~40 to the US$; ~43 to the Euro).
- Clearly there is concern about further depreciation given worries over external funding and the uncertainty related to war and trade, which is causing some weaker expectations by another 10%+.
- As a major B2C general manager noted, "it sends an excellent message to corporate when we discuss further investing in the Ukraine business when I can show them the consistency and stability of the hryvnia since the summer of 2022. They're shocked to see the hryvnia so stable when the country is at war and it really builds their confidence."

What is the average UAH to the US$ rate you expect in 2024?



What is the average UAH to the Euro rate you expect in 2024?



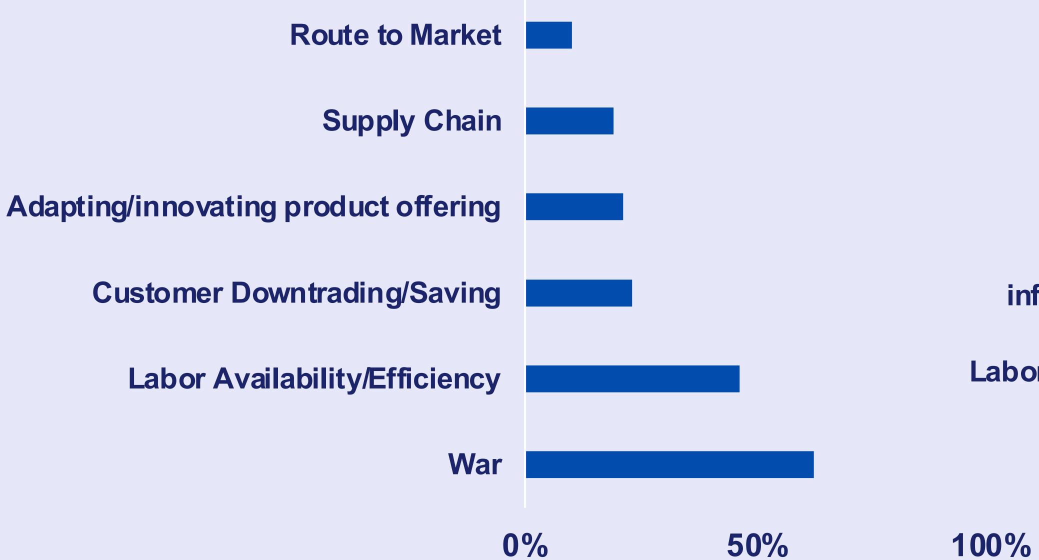
Operations and Risks (1/2)

The war naturally dominates investor concerns, with the labor market increasingly worrisome

- The war of course is the top executional issue for firms as well as the biggest risk factor to the business, which is far from surprising. More concerning, given the increased mobilization, the labor market is now nearly the top concern in terms of operations and external risk factors for businesses.
- The good news is that in 2022 and into 2023, the route to market and supply chain were primary issues for most firms, which is no longer the case. In addition, customer downtrading is not one of the top operational issues, despite firms' earlier fears. With inflation under control, the hryvnia stable, and Russia's winter air raids far less impactful than a year ago, these fears in the external environment have subsided as well.

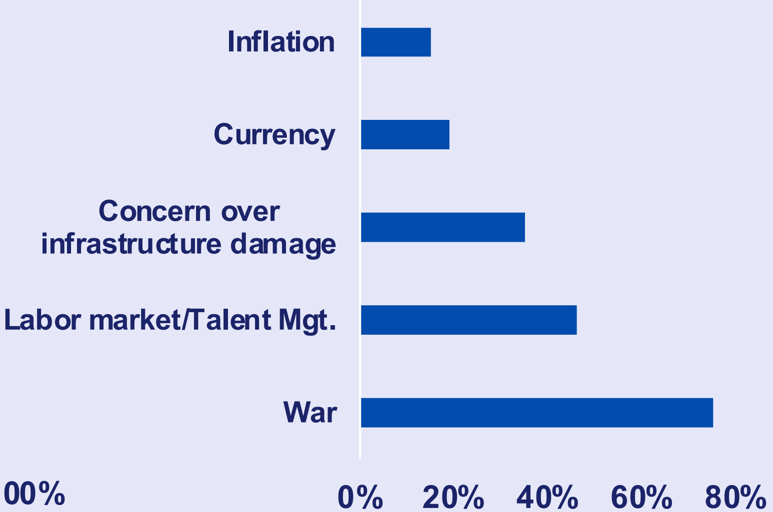
What are your top 2 operational/executional issues?

(Choose 2)



What top 2 external factors pose the greatest risk to your business?

(Choose 2)



Operations and Risks (2/2)

The optics of the war, the labor market, and the border blockade are top-of-mind for investors

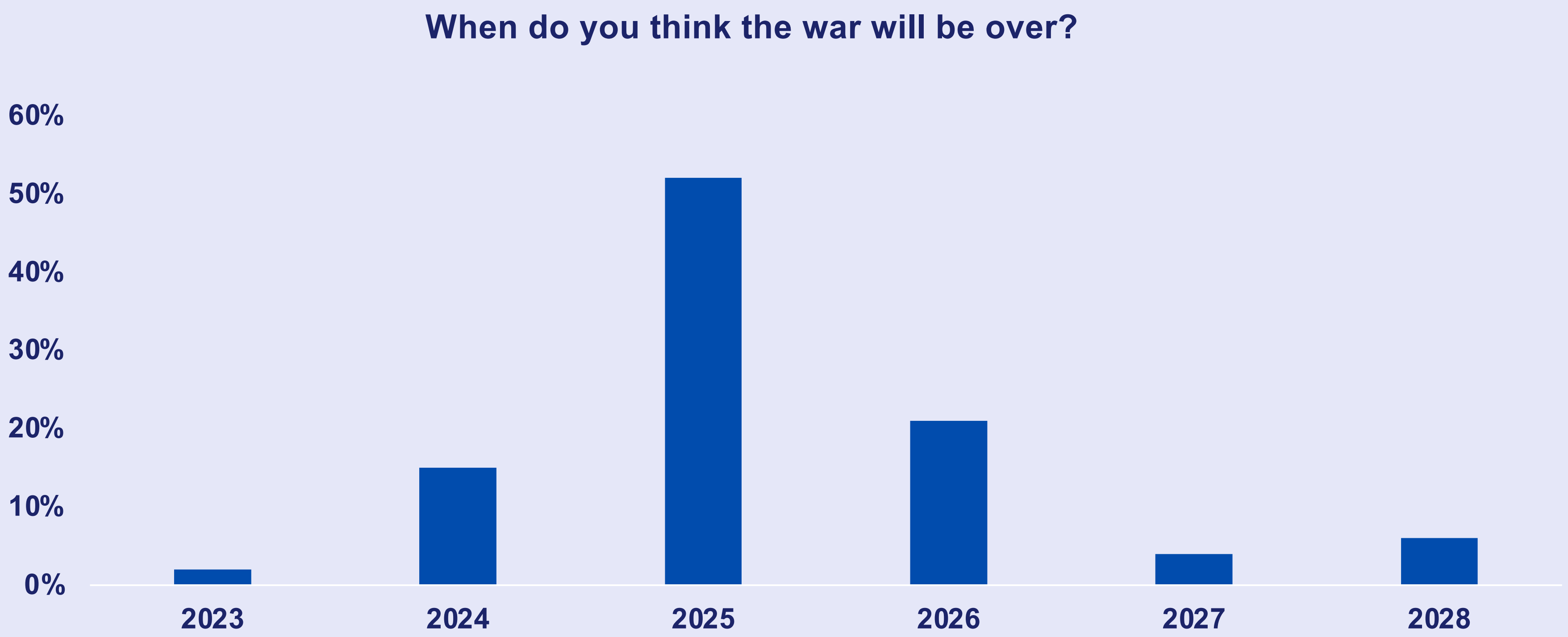
WHAT BUSINESSES ARE SAYING

- "I get scared of the war only when I'm watching it on TV in London" as one executive noted. The problem is this fear of management outside Ukraine, who receive a poor picture of the market, is what fundamentally deters investment. Naturally, this makes the job of every executive based in Ukraine that much harder considering the need to make the case to corporate amid the war and all its resulting risks to the business.
- Most executives were extremely fearful of Russia's air raid campaign this winter, expecting this winter to be worse than in 2022/2023 given Russian stockpiling. With much of the energy network not repaired from the previous winter, many feared infrastructure would be damaged much further. Fortunately, these fears were avoided, as both active defense and passive defensive structures at energy plants and business facilities proved to be robust enough to withstand Russia's offensive. Most executives have been pleasantly surprised to see the market performing much more stably than last winter, helping sustain confidence.
- All firms have been complaining about struggles at the border given the trucker blockade at various checkpoints with Poland and other EU countries. Naturally, logistics firms note this as their main challenge for now, but all firms are impacted. Goods are stuck 2-3 weeks, which pharma companies and some FMCG firms have noted is highly problematic given the nature of their goods. Costs are likewise rising, pushing up inflation mildly. Executives feel blind to the future of this issue. There is recognition that any resolution will require top-level political focus by Ukraine, the bordering nations, and the EU, but this remains lacking to date despite the blockades persisting since November. As one executive noted, this also points to a deeper structural problem of a lack of checkpoints and well-developed checkpoint infrastructure.
- The labor market is a persistent challenge for nearly every company we have spoken too, and worries have worsened over the winter. Companies are even looking ahead to 2025 given the prolongation of the war and what the labor market will look like then as tens of thousands of men are mobilized and likely more into next year.

The War Outlook (1/2)

2025 is the year the war ends for most companies

- After the lack of victory from the 2023 counteroffensive, businesses have re-evaluated their timelines for the end of the war, with a slight majority (52%) believing it will end in 2025. Another 31% believe it will end in 2026 or later. These expectations are in line with our view of the end of the war as well.



The War Outlook (2/2)

Firms are getting more realistic about a ceasefire deal and lack of Western security guarantees

WHAT BUSINESSES ARE SAYING

- Business sentiment matches the predictions of most military analysts: the war will not end in 2024 and is likely to last two more years at least. It is widely understood that the West is only giving enough to not allow Ukraine to lose, and that has become more questionable in executives' minds in the most recent weeks.
- The head of research at a financial firm in Kyiv noted correctly that the war cannot end until there is some sort of political change in Moscow, which would be brought on by a combination of an inability for Russia to win the war plus the negative impact on society and politics from the weakening economy and mobilization. Unfortunately, many executives in Kyiv and their headquarters abroad are looking strictly to the battlefield and the success/lack of success of offensives by each side to determine who will win the war. Given the status of the war to date, this has naturally weakened moods.
- There is wide recognition that as the war continues, investment cannot pick up until there are legitimate war risk insurance schemes. With these programs in their infancy, businesses are simply waiting to understand how they perform and if they drive a stronger recovery.
- Compared with the view of the market in H1 2023 and for much of H2 2023, as executives have become more pessimistic about the war and witnessed the horrific sacrifices of Ukrainians in the counteroffensive, there is more openness to finding a path towards some ceasefire. However, it is also understood that there is no realistic path in the near term towards a genuine ceasefire as Russia is not interested in peace but simply an operational pause.
- Longer term, executives are pessimistic about Western security guarantees, for the obvious reason that the West has failed to provide them in the past, leading to the situation today. There is little optimism about joining NATO in the near future and even if Ukraine were to, whether that would deter Russia or otherwise compel Western troops to fulfil their NATO obligations when Russian attacks. Thus, numerous executives have noted the need for Ukraine to build up its own economy, military production, and defense in order to protect itself. However, it is also understood that it would take years to reach this end-state.
- There is the widely held belief of course that Ukraine will win over time and Russia will lose, which entails the end of the Putin regime and major problems for Russia. However, most executives tend to believe that even in a post-Putin Russia, the political culture and Kremlin mindset and policy towards Ukraine and the West will remain similar to that of the past 25 years of Putin's rule (or centuries longer to be sure). This fact reinforces the view that Ukraine must rely on its own resources to forge its future.

The UBN Network membership offers

UBN Network membership is available to Ukraine Business News readers

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- Discussions with panellists from different sectors, with 80-100 attendees
- Macroeconomic, political, and business briefing, including best management practices
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RESEARCH REPORTS AND SURVEYS

- 4 Benchmarking Surveys focused on Budgeting, Talent Management, Channel Management, Digitization, etc...
- 4 quarterly reports on Ukraine's political, economic, and business outlook
- Monthly reports with macroeconomic forecasts for Ukraine, as well as analysis for the broader region and global markets

NETWORK AND INSIGHTS

- Ad hoc webinars and two analyst briefings for your company with our in-house Ukraine expert
- Facilitation of introductions and relationship-building in the Ukraine business community

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