VOICE OF THE MARKET REPORT

Q3 2024

Benchmarking Survey Results & What Businesses are Saying

“Every conversation with corporate starts with labor issues”
General Manager of a professional services firm

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EXECUTIVE SUMMARY

Ukraine Q3 2024 Benchmarking Survey Results

KEY FINDINGS

- The survey was conducted in Q3 2024 with respondents all senior executives leading multinational businesses in Ukraine.
  - 47% Consulting/Financial/Legal Services, 18% Consumer Goods, 14% B2B/Industrials, 9% Construction/Real Estate, 6% Healthcare, 6% IT
- Confidence has fallen due to power cuts and labor issues. While in Q1, more than 60% of companies were confident in hitting their 2024 sales targets, now less than 40% believe this.
- Planning for 2025 has become far more conservative. While 63% of businesses are planning for some revenue growth, 37% are forecasting no growth or declining sales.
- Most firms (66%) are optimistic they can hit their 2025 targets.
- Talent management remains the top concern for businesses, becoming only more of an issue over the past several months.
- More than a quarter of companies are at pre-war levels of demand, while 31% are not and do not know when they will be.
- 38% of businesses think the business environment will be better in 2025 than in 2024; however, 50% of companies are investing further, with another 31% continuing their business as in 2024.
- Businesses are not raising prices to drive profitability, with over 40% of companies not even raising prices by inflation in 2025.
- 44% of companies are increasing their headcount next year, while just 9% are decreasing it. More than 50% are not raising salaries even by inflation next year, surprisingly.
- Most firms continue to feel strong support from headquarters despite tough market dynamics.
- Most executives now believe the war will end in 2026 or later.
- Levels of support and opposition to a land-for-peace deal are roughly the same, suggesting it will remain highly controversial.

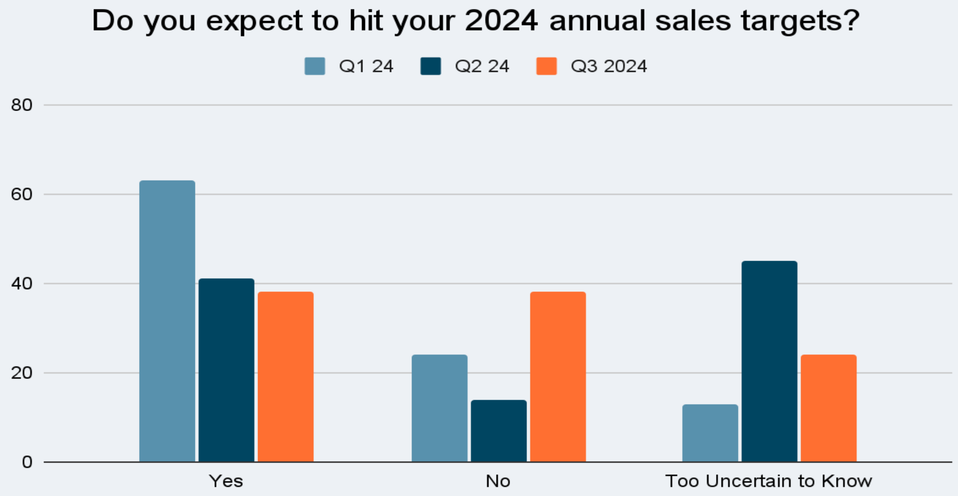
**The survey covered 51 respondents*

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

2024 SALES TARGETS (1/2)

Since the beginning of the year there has been a clear decline in optimism

- Compared to survey results at the start of the year, confidence in hitting 2024 sales targets has clearly fallen as a result of the delayed US defense aid in H1 and resulting greater destruction of the energy system. Nearly 40% of executives believe they can still hit 2024 targets, while a similar amount no longer believe this.
- However, more businesses (47%) believed they would hit their profitability targets (31% not), indicating success in controlling costs in 2024.



2024 SALES TARGETS (2/2)

Power cuts and labor market issues have disappointed businesses after a tough winter

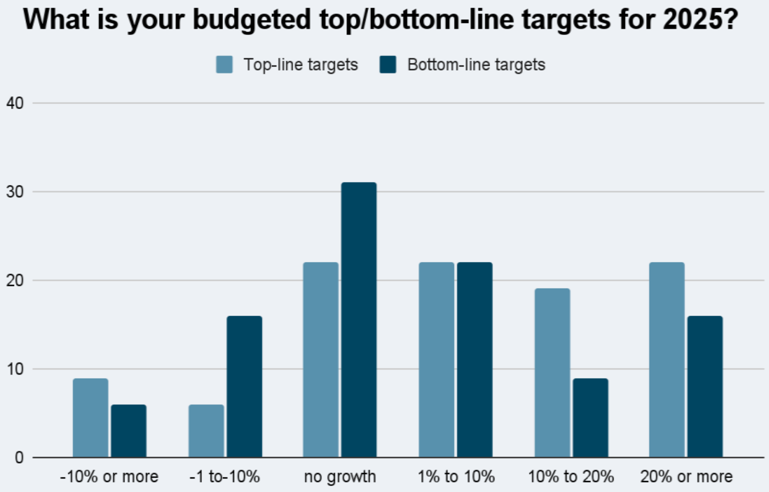
WHAT BUSINESSES ARE SAYING

- The problems of the mobilization on the labor market and power cuts in Q2 and into early Q3 clearly weighed on business sentiment and the outlook for the rest of the year. “There is no way I can hit my goals for this year; however, corporate is very understanding of course so it takes the pressure off. Still, it’s not good of course,” an FMCG executive shared. This mood is pervasive across most sectors.
- However, more recently, businesses are noting their own adaptation and their customers’ adaptation to the tough conditions, which is driving some positivity. In addition, far more secure electricity supplies from August to now, have buoyed sentiment. “We are resilient. Those months (May, June, July) were a struggle but we found ways to adapt, our customers were patient, and everyone understands the situation. We’re at war and we do our best. And now things are clearly better lately and we’re less concerned for this winter than before.”
- Much of this rising optimism for the winter is merited. A recent Deloitte/AmCham survey noted that some 90% of businesses have a plan in place or are currently developing one for ensuring consistent electricity supply. Meanwhile, 76% of businesses can maintain operations for at least 6 hours with their own electricity supply. There is still a sense of calm currently as electricity supply has been more predictable and steady. “Things are better lately, but we are still of course worried about this winter. Also, will Russia destroy more energy facilities?” a B2B manager said, speaking about his production capacity.
- The labor market remains a clear problem. Several managers have noted that they have or may have to reduce their product offering next year as they struggle to find talent. This has impacted their 2024 sales, while also demanding much time and energy to try to find workers.

2025 SALES TARGETS (1/2)

Businesses have more conservative expectations for 2025

- Planning for 2025 has become far more conservative after the disappointment of 2024 for many firms. Some 37% of firms are planning for no revenue growth or declining revenues next year, though leaving a clear majority (63%) expecting sales growth.
- As a result, less than half of firms (47%) are planning for growth in profitability next year.
- Positively, 66% of companies are optimistic (somewhat or very confident) that they can hit their 2025 sales targets.



2025 SALES TARGETS (2/2)

Corporate remains supportive of the business

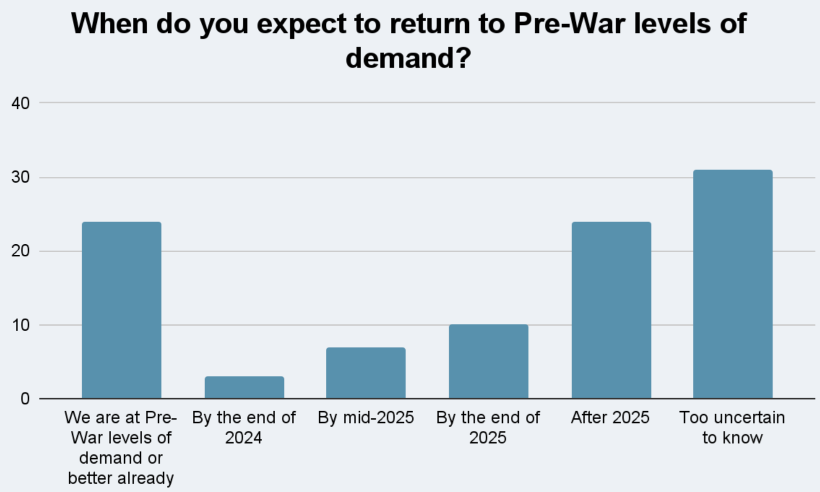
WHAT BUSINESSES ARE SAYING

- As the war continues and with the power shortages and labor shortages, headquarters is demonstrating great flexibility, understanding, and patience according to the clear majority of the businesses we have spoken to. “Planning has become harder than ever, but at the same time my staff and headquarters are all very understanding and patient, so there is much less pressure,” said a B2C manager. As both polling results and conversations with numerous businesses show, corporate is demanding less from the Ukraine business and is generally more accepting of mild revenues and weak profits.
- Some of this strong corporate support relates to business performance throughout this war. “Headquarters was shocked each quarter with the strong results I kept showing them from late 2022 until early 2024, so when sales struggled since then they were very understanding,” said a general manager of a drinks company.
- Ultimately, this support for 2025 after a disappointing 2024 for many companies also shows corporate’s continued, long-term devotion to the Ukrainian market. This fact remains consistent in nearly every conversation we have had with businesses throughout the year. “Corporate continues to remind me that they’re primary concern is the health and safety of our workers, and they want to make sure we maintain our staff in these times as we don’t want to lose them,” said one general manager, reflecting a common trend.
- However, not every company enjoys such unending strong support from headquarters, and the longer the war drags on, some executives are getting concerned. One B2B general manager noted that “Yes, corporate is still committed to the Ukraine business, but seem to be losing interest and focus on the market. I can understand of course. I’m not concerned yet, but I’m worried over time they may start downsizing.”

PRE-WAR LEVELS OF DEMAND

A surprising number of companies have already returned to pre-war levels of demand

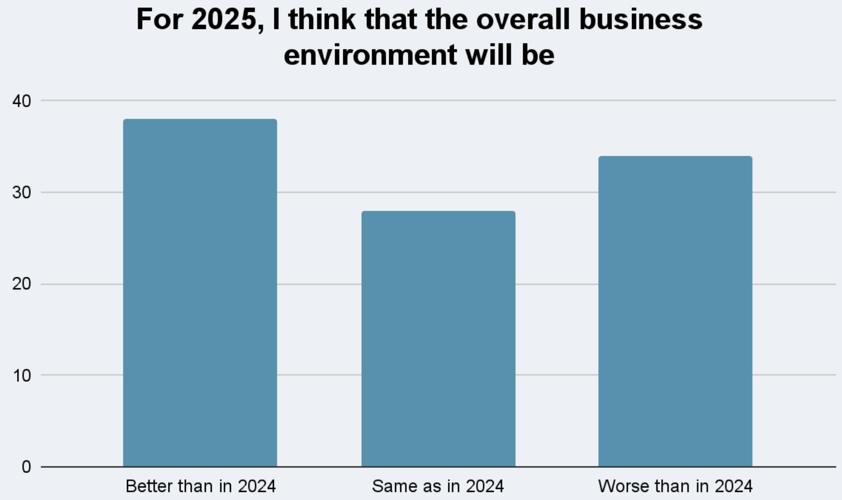
- 27% of businesses surveyed indicated that they were already at (or will be by the end of 2024) pre-war levels of demand. Another 17% believe they will be there by the end of 2025.
- However, the most popular response (31%) was that they are not at pre-war levels of demand and it is too uncertain to know still.
- Client conversations clearly indicate that B2C firms and some logistics companies are generally those that have already come back to pre-war levels of demand.

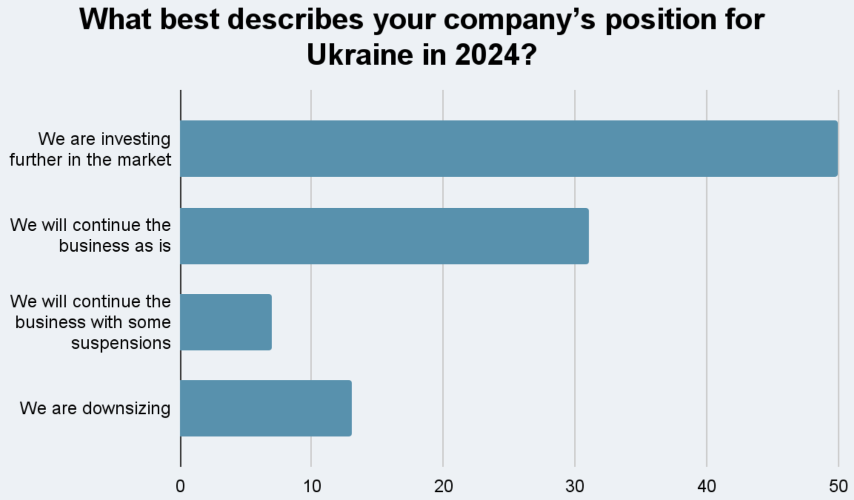


2025 BUSINESS ENVIRONMENT & PLANS (1/2)

The business environment is not expected to improve, though businesses are investing further

- Less than 40% of companies expect the business environment to improve next year, while around a third expect it to deteriorate.
- Still, 50% of companies are investing further in the market, with another 31% continuing their business as in 2024.





2025 BUSINESS ENVIRONMENT & PLANS (2/2)

While moods seem a bit downbeat, companies continue to try to improve their position in the market

WHAT BUSINESSES ARE SAYING

- Considering all the consistent worries we hear from businesses about the electricity situation this winter and problems finding labor, the polling results about the business environment and investment plans for next year were surprising. Most firms are quite worried about this winter, more destruction of energy infrastructure, and the prolonged nature of the war deep into 2025. However, more companies expect the business environment to be better next year than those who think it will be worse (and the remaining believing it will be the same). "We stay optimistic because we have no choice," a B2C manager said, reflecting a common sentiment.

- However, that is not the whole story, because most businesses are matching that optimism with both rising growth targets and further investment into the market next year. Also, many companies have noted that they are ready for this winter and believe that it will be manageable after everything the business has been through the past 2.5 years.

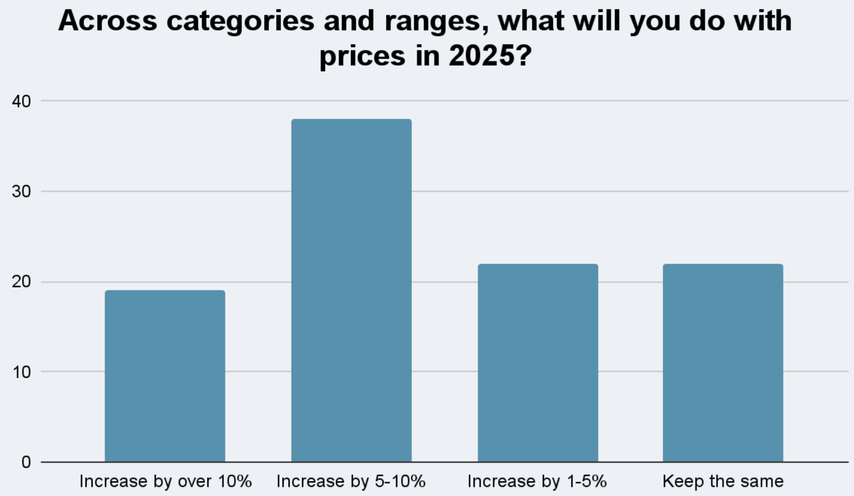
- Other businesses remain focused on addressing the labor shortages, which is more of an issue for them for the year ahead than energy. As a B2C executive said, "In our line of work, the power situation this winter is less of a concern than labor. We would maybe invest further if it weren't for the problems in finding talent." The level of pay is not the issue and most firms can afford to pay the salaries demanded while still enjoying acceptable margins. The problem rather resides in simply finding qualified workers and, in some cases, retaining increasingly demanding employees.

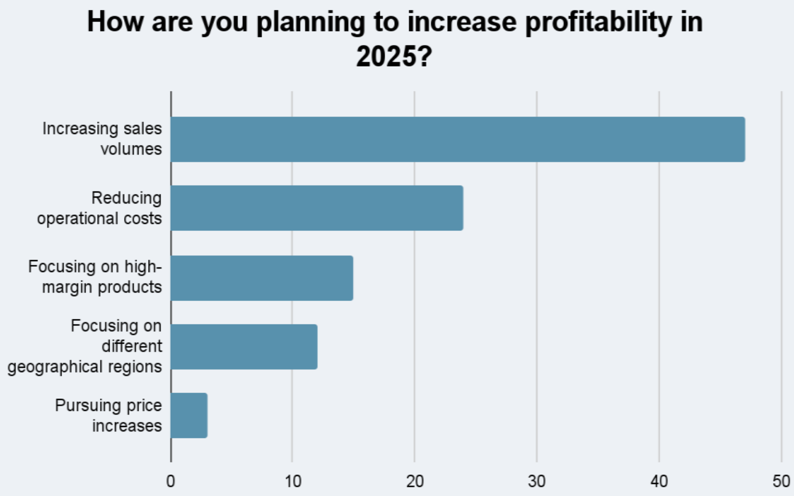
- Despite some sour moods, ultimately companies have the support from corporate to further invest. As the manager of a professional services firm noted, "We see an opportunity to drive more growth so we are making incremental investments in this direction. Nothing dramatic but we want to make sure we keep up with or are ahead of the competition."

PRICES & PROFITABILITY

Businesses remain hesitant to push up prices

- Only 38% of the market is raising prices by roughly inflation (5-10%) next year, and less than 20% are raising prices above 10%. More than 40% in total are either keeping prices the same or otherwise raising by just 1-5% (i.e. less than inflation).
- Therefore, very few companies are increasing profits by raising prices. Instead, there is a clear focus on increasing sales volumes and, secondarily, cutting costs.

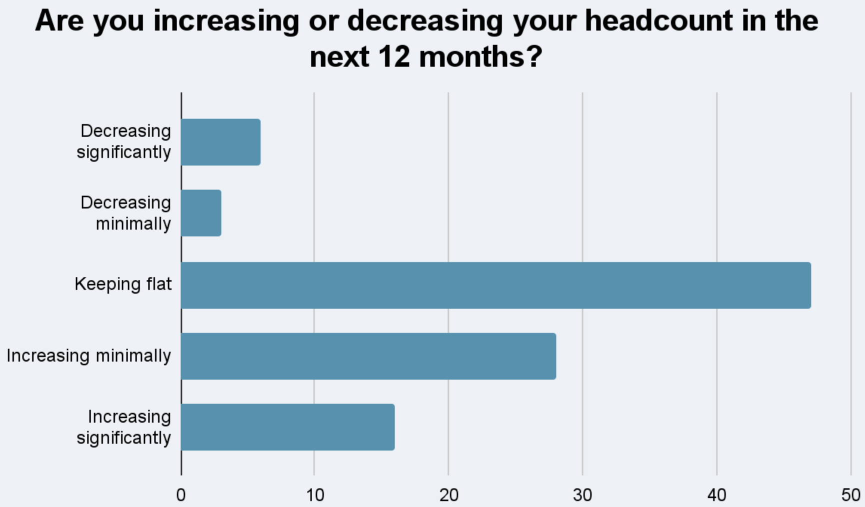


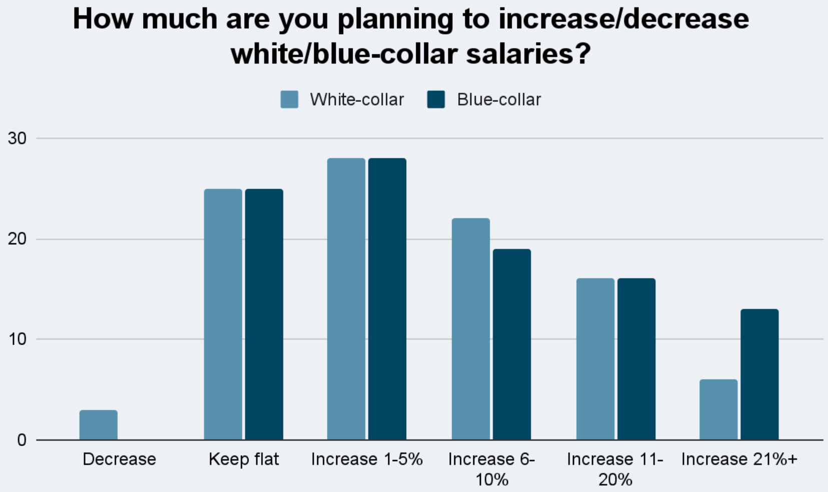


TALENT MANAGEMENT (1/2)

A large amount of businesses are raising their headcount

- 44% of firms are raising their headcount either minimally or significantly next year, while nearly half (47%) will keep staffing levels flat. Only 9% are cutting staff.
- A surprising amount of companies - more than 50% - are not raising salaries for their workers or are raising by only 1-5%, less than inflation next year. There is a slightly greater tendency to raise salaries more for blue-collar workers than for white-collar ones.





TALENT MANAGEMENT (2/2)

Companies have consistently noted the labor market as the top issue for most this year

WHAT BUSINESSES ARE SAYING

- "For all the negativity in the market about the war, electricity, and labor, we're still hiring and the business keep growing," said the general manager of a professional services firm serving both domestic and foreign businesses. "In the end, difficulty finding labor is a good problem to have because it means for us that we are growing," said a B2C manager.

- Similar to the last two quarters, B2C firms are struggling even more to find staff (waiters, bartenders, cooks, etc..), leading one executive to claim it is "the worst labor market in my career." Several managers believe the situation is not sustainable for the long-term and the government will have to do something, but the solution is unclear. "Maybe we need to start government programs to import labor from Asia and Africa?" said one B2C manager. B2B firms are likewise impacted notably. Salaries have gone up dramatically for truck drivers, logistics providers, and warehouse workers, among other related sectors, demanding firms not only raise wages but offer many non-salary benefits.

- Numerous executives have continued to note the importance of providing a range of non-salary benefits to retain and attract staff (training, English lessons, hybrid working, mental health support, generators, etc...). As a B2B general manager noted, "Our business would be in alot of trouble if we had not been providing all these benefits for the past year." Another insurance executive noted that his business has been hiring consistently since business is doing well; however. candidates are frequently rejecting job offers if there is no hybrid working model or subsidized trainings/educational courses.

- Meanwhile, though the labor market is under pressure across the board, the pressure is slightly worse for blue-collar workers given the higher proportion mobilized relative to white-collar workers. Nonetheless, several consultancies and professional services firms have noted the "dire situation" for finding and retaining white-collar staff.

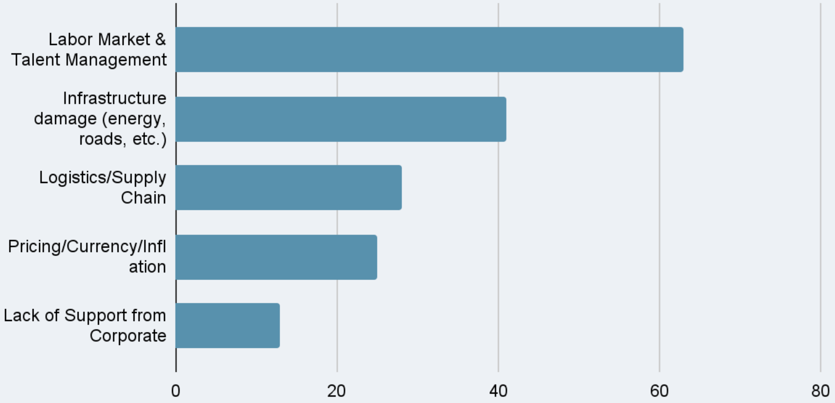
RISKS TO THE BUSINESS (1/2)

Talent management has only become a more worrying concern

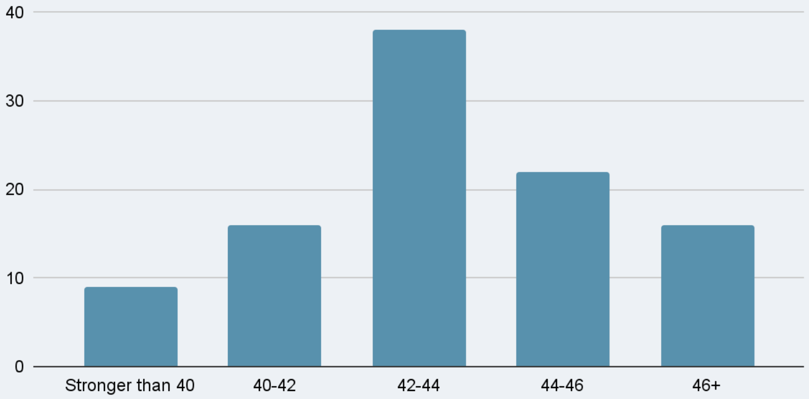
- As it was throughout H1, companies in Q3 overwhelmingly (62%) again cited the labor market and talent management as the top risk to their business, even more often than citing the impact of infrastructure damage. As before, lack of support from corporate remains a rare issue of concern for investors.
- Despite rising prices and expected currency depreciation, this is not a major concern for businesses, which foresee only mild hryvnia weakness in 2025 from current rates.

What are the greatest risks to your business in 2025?

Total responses for all choices, thereby exceeding 100%



What average exchange rate do you expect for the hryvnia to the US$ in 2025?



RISKS TO THE BUSINESS (2/2)

Talent management has only become a more worrying concern

WHAT BUSINESSES ARE SAYING

- Unsurprisingly, talent management remains the top problem for businesses, as it has been for most firms across 2024. "Nothing has changed since the beginning of the year. Every conversation with corporate starts with labor issues and most days our focus at the office here is simply on labor." Said by the general manager of a professional services firm, this reflects the feeling across sectors. Another manager of a B2B consultancy advising a large Western investor expanding investments said, "Congratulations, but now your real task is beginning on how you'll find the labor to do the work." The same manager worries that within his client base that in a matter of months he expects that some businesses will be forced to reduce their offering in light of the lack of labor.

- Somewhat surprisingly, infrastructure damage was not a more prominent response given the destruction seen this year. Managers of B2C firms in particular remain confident in customer demand growth even with power shortages.

- (cont'd) However, executives of B2B firms are more concerned about the months ahead given the impact on production from a lack of electricity. The higher cost of procuring electricity also weighs on their operations and margins.

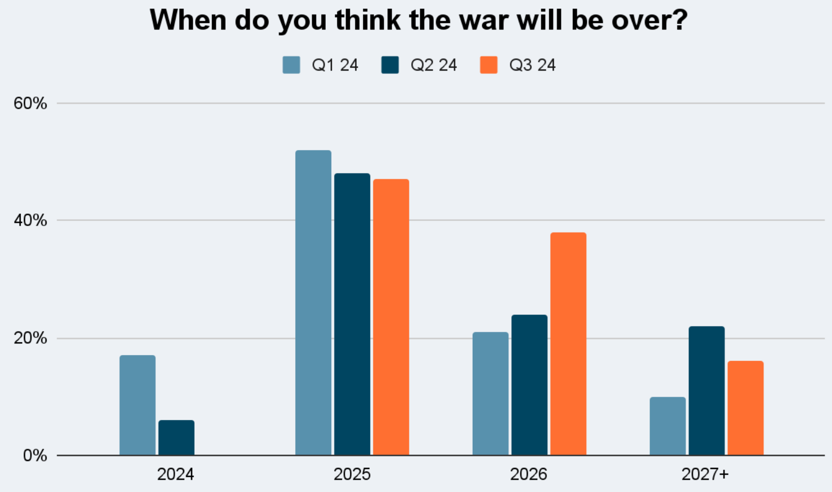
- Businesses expect further hryvnia depreciation than at the start of the year, but are not particularly worried by it. In part, as many managers noted, this relates to the strong support from corporate as well as the lack of intention to repatriate funds out of the country (despite the loosened capital controls this year), meaning there are no losses incurred from currency conversion.

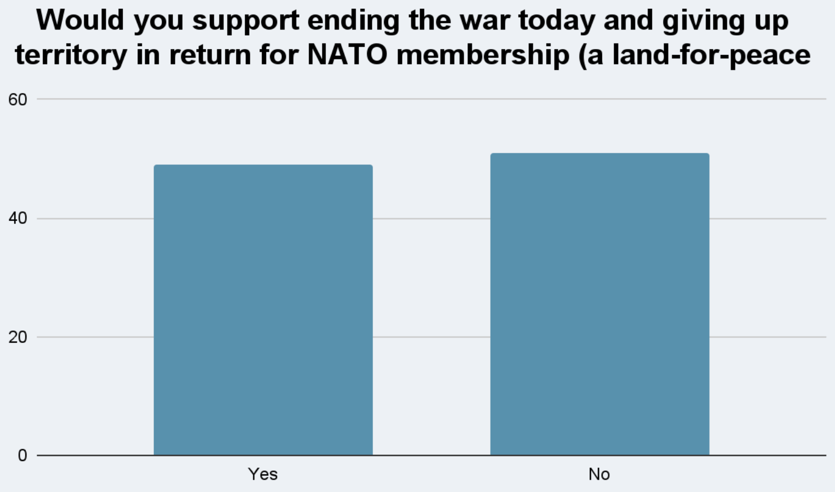
- Meanwhile, a lack of support from corporate remains the least of businesses' problems, indicating the persistence of support from headquarters throughout this year, despite rising difficulties. Most executives in fact site continued corporate support as the most important factor in continuing business operations, sustaining staff morale, and reducing stress levels.

THE WAR OUTLOOK (1/3)

Nearly half of executives remain hopeful for an end to the war next year

- Moods are slowly shifting for a longer war. While most respondents since the beginning of the year had believed the war would end by the end of 2025, executives are starting to believe the war will last longer than initially expected, with more than half of respondents (54%) believing the war will end in 2026 or later.
- A land-for-peace deal remains highly controversial, with support and opposition to a deal roughly the same amongst respondents.





THE WAR OUTLOOK (2/3)

The prolonged nature of the war is driving more executives to be more open to a land-for-peace deal

WHAT BUSINESSES ARE SAYING

- Naturally, as the full-scale war drags on into its fourth year, business moods are deteriorating. However, over the course of this year, the reality of a long war with no clear end in sight is setting in. “We can’t control the war and there is no end coming so we just continue doing what we can to drive the business. Headquarters is supportive for the long-term, so we just keep going. Everything is so uncertain, we can’t plan for even a month ahead, so what’s the point in stressing about it,” as one healthcare executive noted.

- There is a rising resignation that the war will go on for years, but executives prefer to remain hopeful of a coming end. Several have noted that they “have no idea when the war will end” but “we need to believe” it is in the relatively near future so we have something to hope for. With such uncertainty, it is no surprise there is a rising openness to a land-for-peace deal, as seen in our polling as well as at the national level.

- Our view is similar to that of the survey respondents. We believe the war is likely to last well into 2025, with a rising likelihood of the start of talks by mid-2025 that lay the groundwork for a possible ceasefire in 2026. Many executives worry about how long Ukraine can continue to fight and about Western support. “It’s clear, this was can’t go on forever for us, but it can for Russia. Somehow we need to get out of this war of attrition,” one general manager noted.

- However, managers based in Ukraine also know Putin will not stop unless the West stops him. “It’s pointless to trade land for peace because we will never have peace unless the West actually puts boots on the ground here to stop Putin - this is why I’m against a land-for-peace deal,” a manager at a professional services consultancy said. Another executive admitted, “Honestly, I don’t care about those lands in the east and am ready to give them away, but that won’t end the war. Moscow isn’t fighting for the Donbas but for all of Ukraine.”

THE WAR OUTLOOK (3/3)

When talking about the future of the war, executives focus on the US elections

WHAT BUSINESSES ARE SAYING

- Fear of a Trump presidency, and its expected negative impact on Ukraine, has increased notably in these months before the US elections in November. As polled during our September live event in Kyiv, 79% of the audience believe that Harris will win. However, as numerous audience members noted, this is likely wishful thinking reflecting more the fear of a Trump presidency and his policy towards Ukraine. “As Ukrainians, we need to be hopeful, so this (poll) probably shows our hopes rather than reality”, as one attendee said.

- Still, the general consensus amongst executives is that with either Harris or Trump in office, Western support will remain inadequate. “If its Trump it could be a disaster, but it just means we have to rely on ourselves again. If its Harris, then we just keep fighting for longer as she’ll keep doing what Biden has been doing. In either case, we can only really rely on ourselves,” said one executive.

- For some businesses, corporate outside Ukraine has put investments on hold this entire year, waiting for the US elections. Numerous executives have noted that headquarters cannot plan for the future until the elections are over, a new president is inaugurated, and a clear Ukraine policy is outlined, which in turn means extending this uncertainty for business planning. Still, a few executives have noted their and corporates’ hopes of a Trump presidency in the belief that Trump will provide overwhelming support to Ukraine to win the war once he understands that Putin is disinterested in a Trump deal to end the fighting. In our view, this hope is highly risky and potentially misplaced, particularly in light of Trump’s latest comments towards Ukraine in recent weeks.

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