

Ukraine business resilience - survey results

American Chamber of Commerce in Ukraine
& McKinsey

February 2023

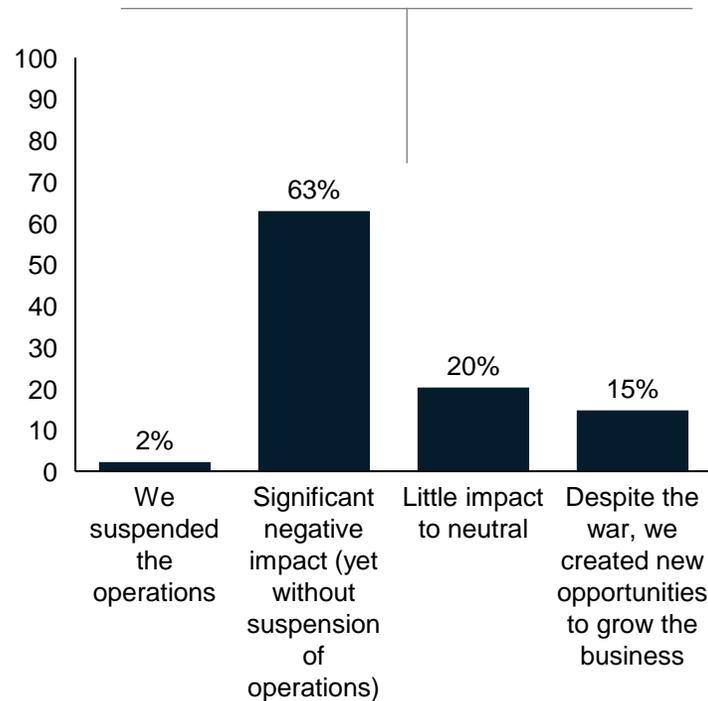
Key findings

- 1. The war has put massive toll on Ukrainian business, however companies demonstrated strong resilience, with some even capturing growth opportunities**
 - 47% of companies experienced sales decline >30% (incl. 19% >50% decline), with agriculture, retail, mining and metallurgy being the most hit
 - Only 2% of companies reduced headcount more than 30% despite more significant sales decline
 - ~15% of companies have grown in 2022 despite the war
- 2. The war pressure on business is likely to stay or even increase in 2023**
 - “Decreased demand” (25%), “physical damage of facilities” (23%), and “disrupted supply chains” (19%) have been called among the main single challenging impacts of war in 2022
 - Aggregated demand is likely to further deteriorate in 2023 as overall GDP growth remains uncertain and the consumer spending power might further weaken (incl. drain of savings, increasing unemployment, salaries cuts)
- 3. Most companies have developed in-house “contingency plans”, but >40% of companies see their plans as not fully effective**
 - 90% of companies have developed “contingency plans”, out of which: 61% have established pre-war dedicated task forces (cross-functional teams or specialized risk function), 33% have developed such plans by the business units, and 6% have leveraged professional external help to prepare such plans
 - 40% of companies acknowledged that the plan did not properly work, incl. 29% did not anticipate the scale of disruption, and 7% did not have adequate resources to implement the plan
- 4. While agile operating model is seen as the most helpful factor to address ongoing crisis, going forward businesses see diversification, more effective contingency planning, and building resilient teams as key priorities**
 - Agile operating model and strong corporate culture have been seen by business as the key factors, helping to address the war challenges (called #1 factor by 26% of companies)
 - Going forward, the companies see the following priorities to better prepare for the crisis:
 - Strategy and business diversification, which would require rethinking investment plans (46%)
 - More effective (and unbiased) contingency planning (29%)
 - Attracting and maintaining a resilient team and workforce (18%)

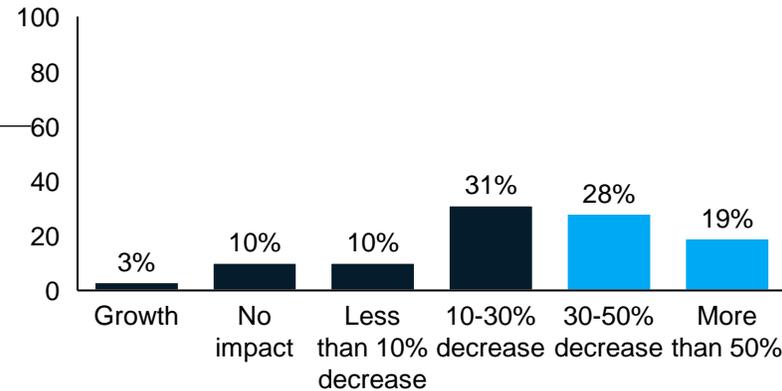
1: The war has put a massive toll on Ukrainian business; however, companies demonstrated strong resilience, with some even capturing growth opportunities

What was the impact of war on your company? (% of all respondents)

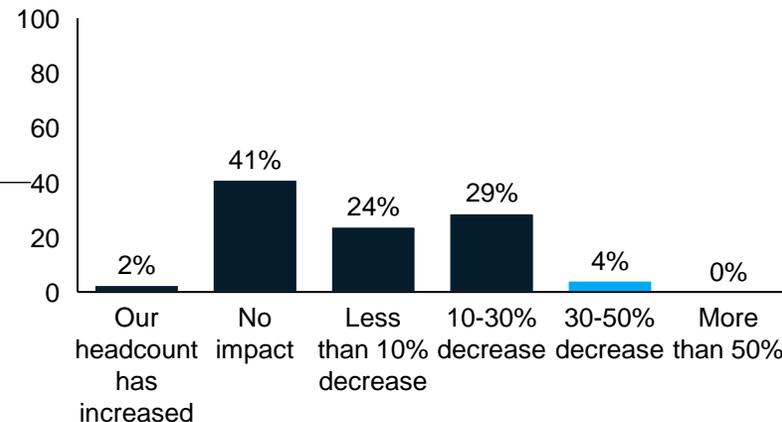
- 4% of companies closed operations and don't know when will be able to re-start
- 30% closed and restarted
- 60% have not terminated operations



How has it affected the sales volumes of your organization? (% of all respondents)



How has your headcount been impacted? (% of all respondents)



Most damaged sectors (% of companies >30% decrease)

- Retail and wholesale (67%)
- Transportation and logistics (67%)
- Mining and metallurgy (63%)
- Agriculture and food processing (63%)

- Retail and wholesale (17%)
- Manufacturing (17%)
- Professional services (10%)

~2/3 of all companies have experienced "significant negative impact"

- ~47% of companies had drop in sales >30%

At the same time business has demonstrated strong resilience to the crisis

- Only ~4% of businesses have terminated their operations and haven't restarted

- Headcount reduction has been lagging behind that of sales drop

Despite the war some companies have identified opportunities for growth (e.g., banking and financial sector, IT)

2: Decreased demand, physical damage, and disrupted supply chains are among the key challenging impacts of the war. Unfortunately, some of these challenges are likely to stay or even deteriorate in 2023

What were the most challenging impacts of the war? (% of all respondents)

	Top-1	Among top-3	% of companies selected Top-1
Decreased demand for your products or services	25%	52%	<ul style="list-style-type: none"> Machinery (60%), Retail (42%), Professional services (40%)
Physical damage of facilities	23%	34%	<ul style="list-style-type: none"> FMCG (67%), Transport / Manufacturing (50%), Agriculture (38%)
Disrupted supply chains	19%	60%	<ul style="list-style-type: none"> Pharma (50%), Machinery (40%), Transportation / Agriculture (~32%)
Energy disruption	10%	66%	<ul style="list-style-type: none"> IT (30%), Banking (25%)
Other options (please indicate) ¹	6%	8%	<ul style="list-style-type: none"> Trading (50%), Energy (20%)
Employees morale	5%	30%	<ul style="list-style-type: none"> Banking (25%), IT (10%)
Access to finance	4%	13%	<ul style="list-style-type: none"> Banking (13%), Professional services (10%), IT (10%)
Unsustainable fiscal regime	2%	10%	<ul style="list-style-type: none"> Energy (20%), Mining, metallurgy (13%)
Deployment of equipment vehicles to war	1%	2%	<ul style="list-style-type: none"> Transportation (17%)
Cybersecurity	0%	3%	<ul style="list-style-type: none"> N.a.
Lack of labour	0%	3%	<ul style="list-style-type: none"> N.a.

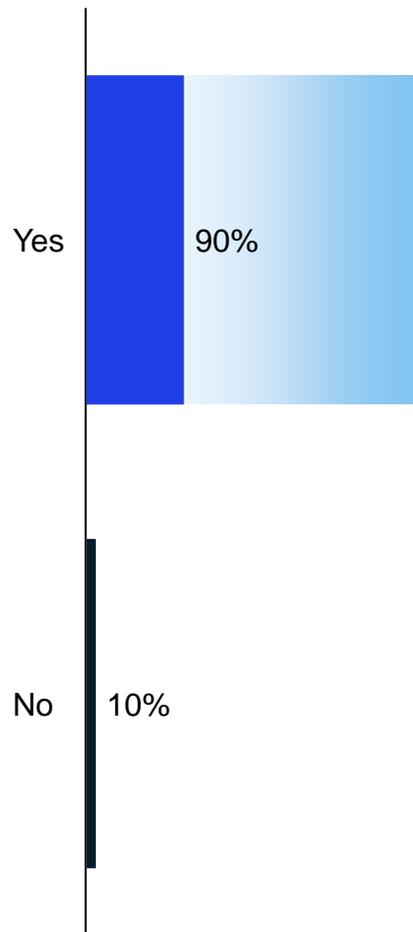
- “Decreased demand”, “physical damage of facilities”, and “disrupted supply chains” have been called as the main single challenges of war in 2022
- Overall GDP growth remains uncertain and aggregated demand is likely to be under pressure in 2023 due to deterioration of real income, drain of savings, and increasing unemployment (26% in 2023 vs 28% in 2022)²
- We can see weak aggregated demand as a major risk for UA business in 2023

1. Staff security and need of relocation (IT, trading), possibility of employees drafting to war (IT), inflation (education), projects on temporarily occupied territories (energy)

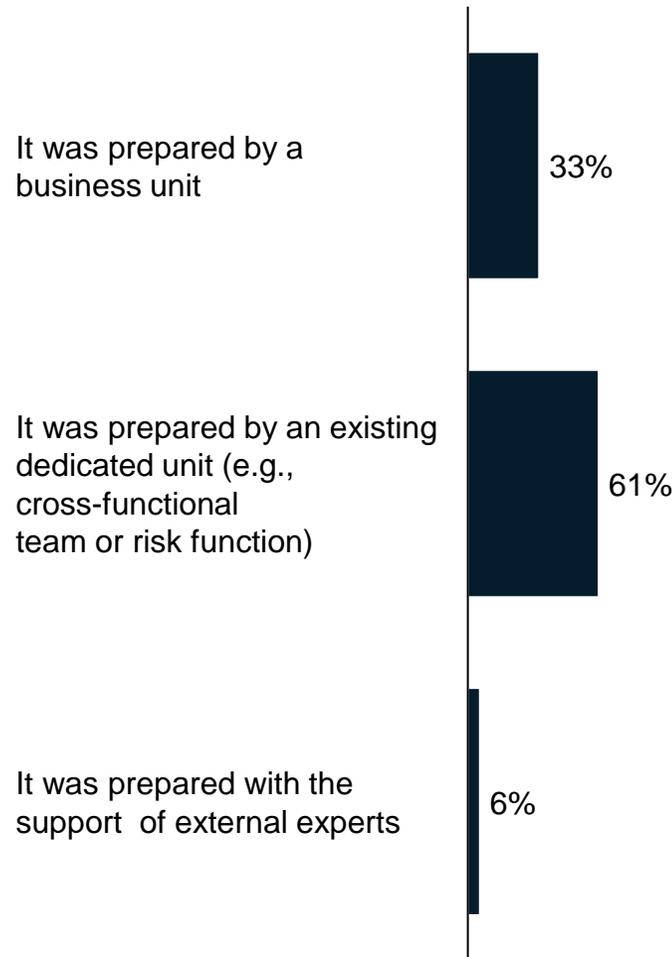
2. According to NBU forecast update (Jan 2023)

3: Most companies have developed in-house “contingency plans”, but >40% of companies see their plans as not fully effective

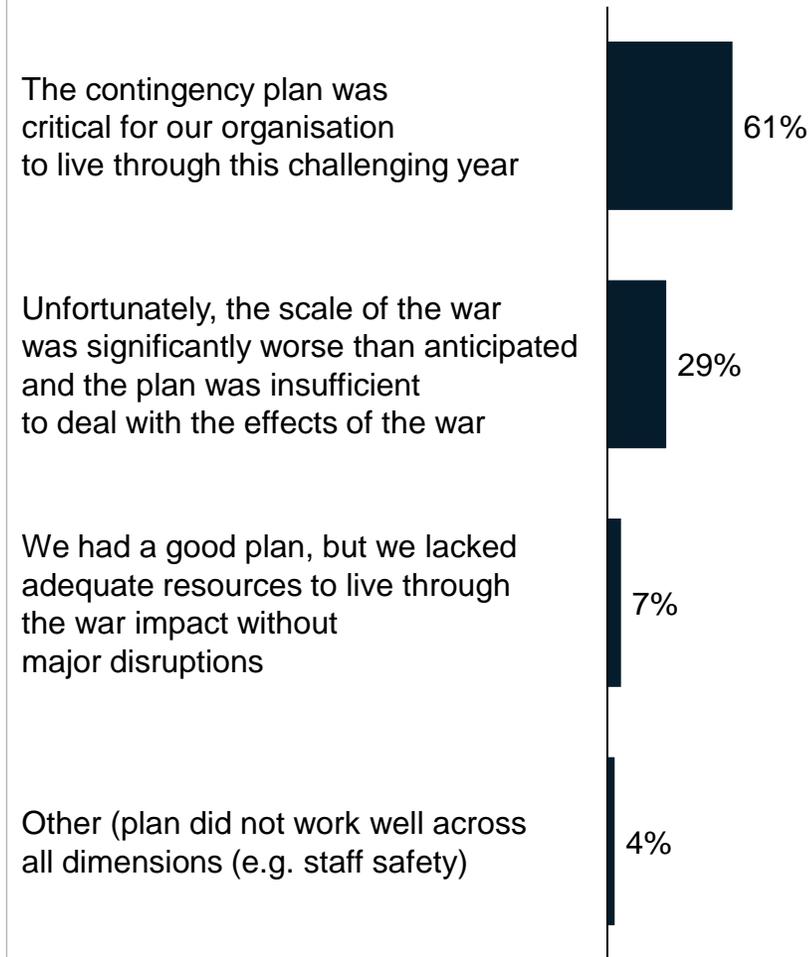
Did you have a contingency plan?
 (% of all respondents)



What was your approach to develop a contingency plan?
 (% of all respondents)

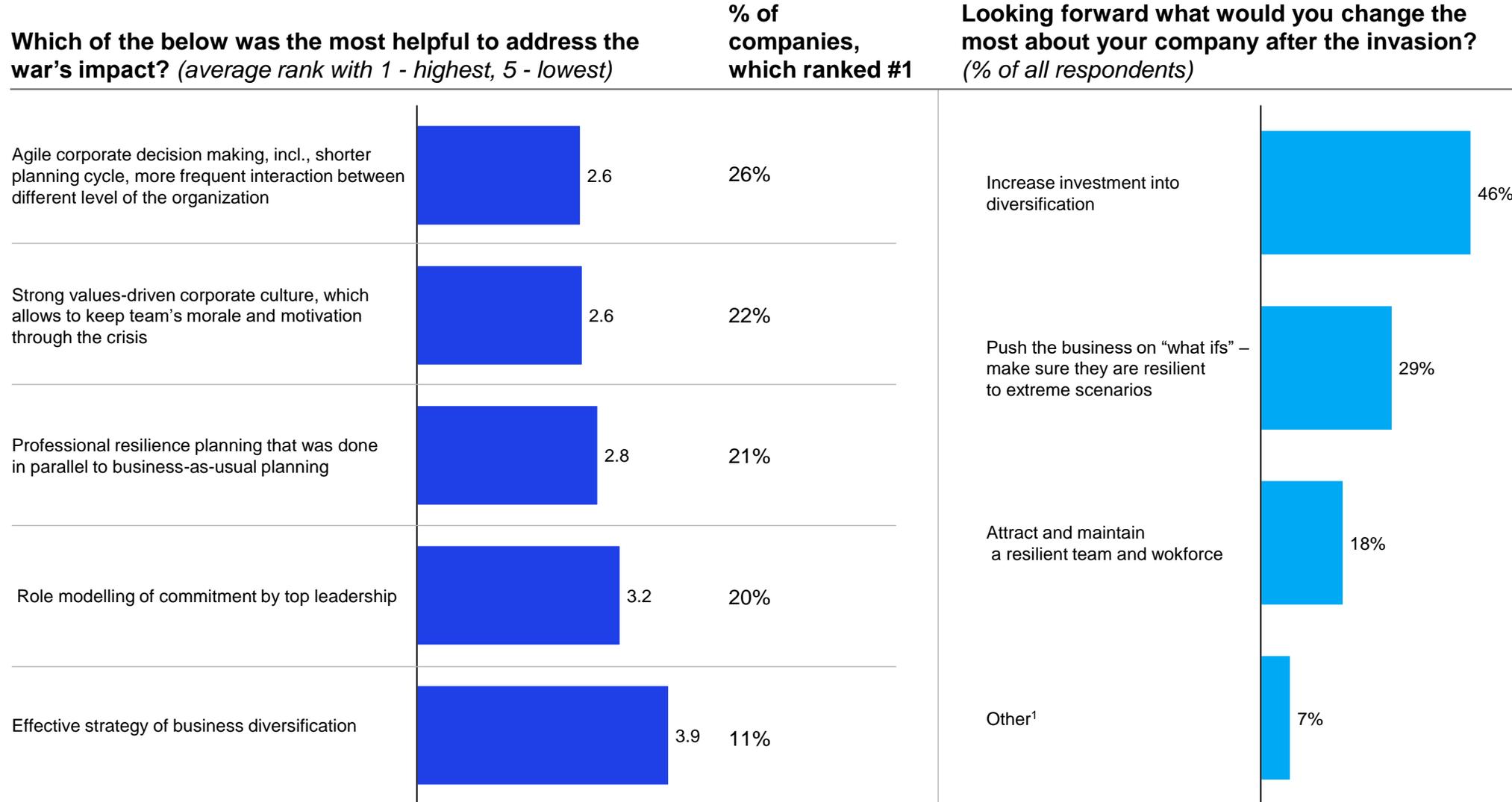


How effective was your contingency plan? (% of all respondents)



- ~90% of companies have prepared a contingency plan before the war, but only ~61% consider this plan as very effective
 - ~29% did not anticipate scale of crisis in their contingency plan
 - ~7% did not plan all required resources to implement the plan
- Vast majority of companies developed plan in-house (incl. by the existing BU w/o a dedicated team ~33%)
- Only 6% leveraged specialize external expertise

4: While agile operating model is seen as the most helpful factor to address current crisis, going forward businesses see diversification, more effective contingency planning and building resilient teams as key priorities



Agile operating model and strong corporate culture have been seen by business as the key factors, helping to address the war challenges

Going forward the companies see the following priorities to better prepare for the crisis:

- Strategy and business diversification, which would require rethinking investment plans
- More effective (and unbiased) contingency planning
- Attracting and maintaining a resilient team and workforce

1. Foster collaboration in the leadership team, foster resilience with professional assistance, provide infrastructure to ensure safety of employees, increase digitization and agility, ensure IT independence