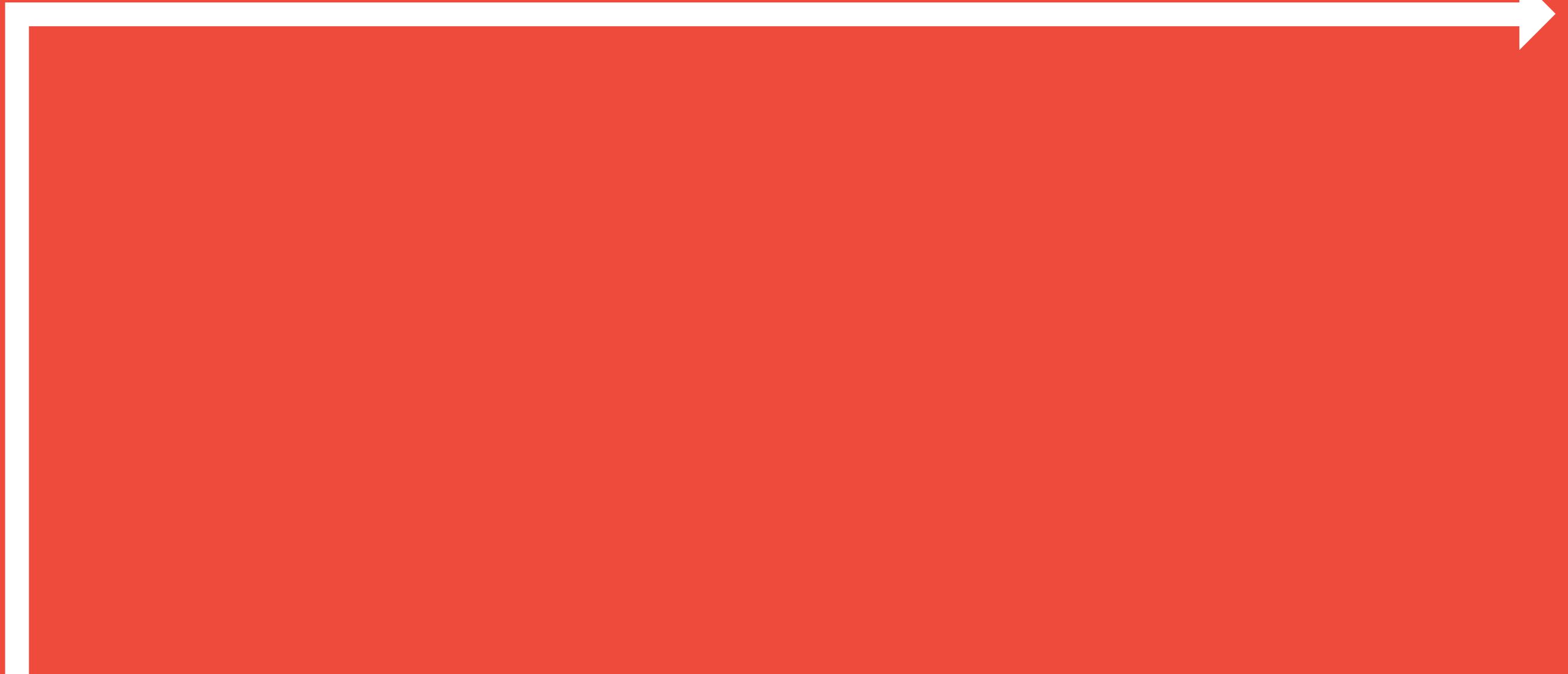




22nd CEO Survey - Middle East Findings

Confidence down, disruption all around



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Three Key Findings:

1. Reality check for our CEOs

Following a significant uptick in optimism last year, Middle East CEOs are more cautious about growth in the region. Only 28% of our CEOs were 'very confident', on revenue growth over the next 12 months compared to 33% last year. This is lower than global CEOs, 35% of whom felt 'very confident' about their company's revenue growth prospects.

Globally, we see a 9% drop in the percentage of CEOs who are 'very confident' about their revenue growth prospects over the next three years, with many regions experiencing low levels of confidence. Whilst regional CEOs are more optimistic about medium-term prospects compared to the short-term, only 40% are 'very confident' about medium term revenue growth - a record low that we reached in last year's survey and have maintained.

Middle East CEOs are also more pessimistic about the short-term global economic outlook for 2019. Only 28% of Middle East respondents thought global growth would improve in the next 12 months, compared to 42% in our global survey.

Taken as a whole, the CEO confidence story in our region is a sobering one.

2. Focus on efficiency and growth closer to home

Middle East CEOs are adapting to the sustained lower growth environment in the region. Like their peers globally, Middle East CEOs are prioritising operational efficiencies to drive growth and profitability over the next 12 months. Most strikingly, the proportion of regional business leaders who expect their headcount to fall is more than double the global figure (43% vs 19%).

Fewer Middle East CEOs are focused on organic growth (62% vs 71%) and launching new products (51% vs 62%) than their global peers. However, Middle East CEOs are more open to new strategic alliances or joint ventures (49% vs 40%) than global CEOs.

Middle East CEOs are generally looking closer to home for growth. Saudi Arabia is firmly on the minds of CEOs based in other parts of our region. As the engine of growth for the region and with the Vision 2030 transformation continuing at pace, it is clear that to be successful in the region, our CEOs believe, you have to be successful in the Kingdom. Egypt has emerged this year as a key growth market for Middle East companies (identified by 15% of CEOs in the region), second only to Saudi Arabia (28%) in the rankings. Regional CEOs have also shown interest in Iraq (10%).

3. Digital disruption hits our region, at speed

Regional CEOs are grappling with rapidly changing consumer behaviour as the digital revolution, initially slower to have an impact in the Middle East, takes hold at speed. Middle East CEOs see changing consumer behaviours (79%) and the speed of technological change (75%) as the most significant threats to their organisations.

The overwhelming majority (91%) of our regional CEOs believe artificial intelligence (AI) will significantly change how they do business in the next five years, in line with the global results. However, only 23% of Middle East CEOs say they have already introduced AI initiatives, barely half the global figure, suggesting regional companies need to catch up fast.

Two things are holding back regional organisations, according to CEOs: data and skills. Only 13% believe the quality of their company's data is adequate for assessing customers' preferences and needs. Some 61% of regional CEOs cited the lack of analytical talent as the primary reason they do not have adequate information.

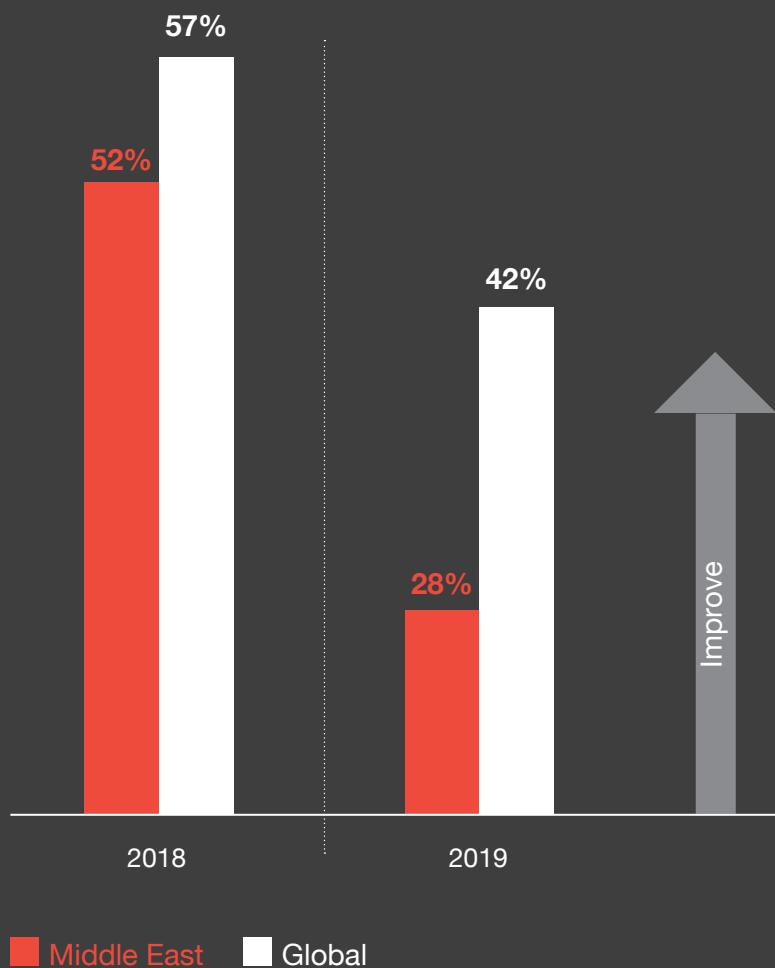
Reality check for our CEOs

The overall message from Middle East CEOs who took part in this year's 22nd CEO Survey is clear. Whilst last year we saw a dramatic jump in optimism, our CEOs have curbed their enthusiasm both at a global, and regional level.

CEOs in the Middle East share a pragmatic view of the short-term worldwide outlook with global counterparts: only 28% of respondents in the region believe global economic growth will improve in 2019, compared with 52% in 2018. Globally, 42% of CEOs expect an improvement this year.

QUESTION

Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



The proportion of regional CEOs who are positive about their companies' immediate prospects is also lower than the global result: 28% said they are 'very confident' about revenue growth over the next 12 months, compared with 35% globally.

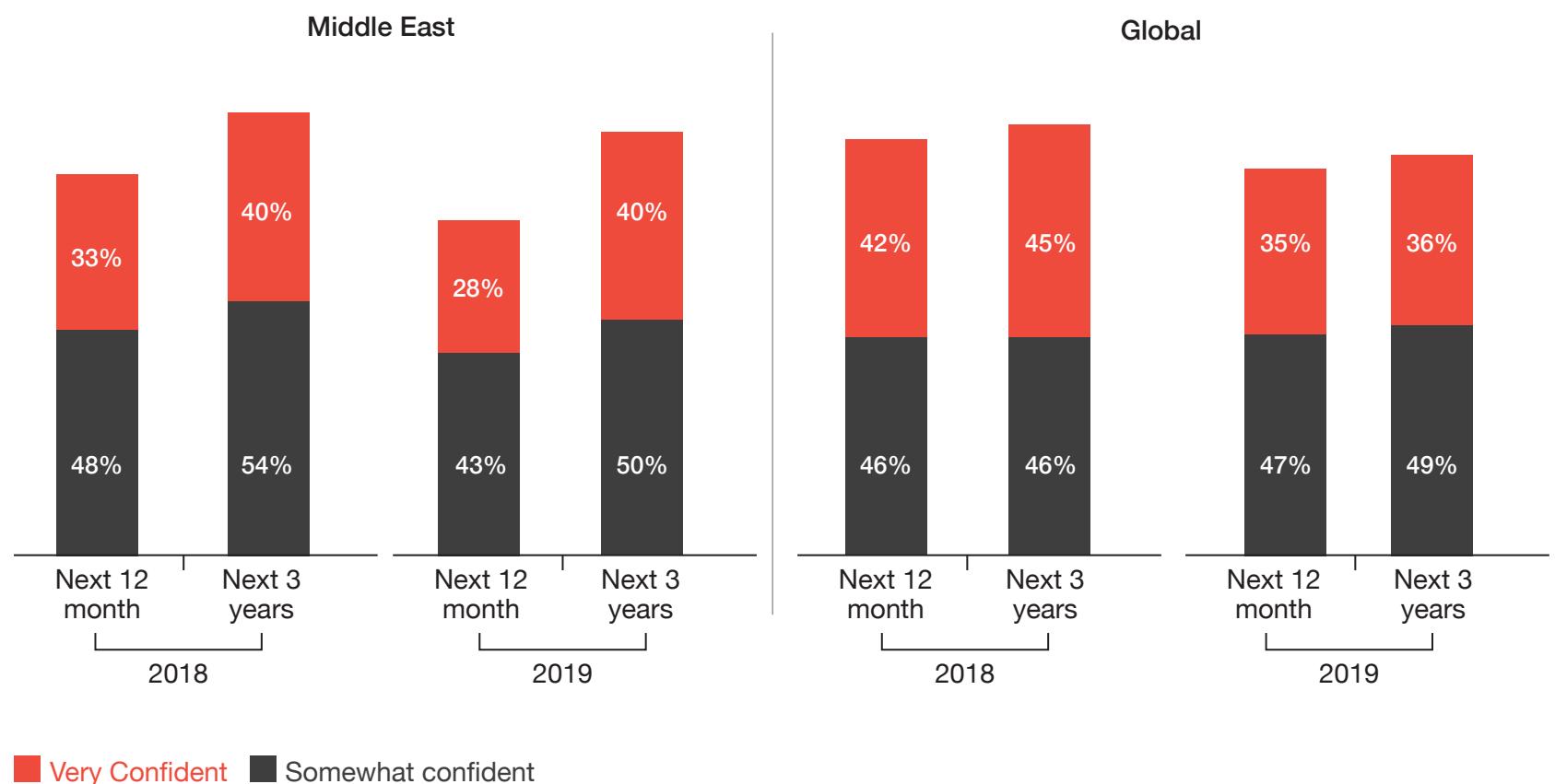
Their caution is to be expected, given that oil prices started to fall again in late 2018, growth in the private sector has stalled in the region and consumer spending is still feeling the impact of job cuts between 2015 and 2017. Yet despite the current uncertainty, our CEOs remain slightly more upbeat about their companies' medium-term prospects compared to global peers.

Overall 90% of CEOs are "confident" about revenue growth over the next three years, almost unchanged from 2018 (94%) and higher than global CEOs this year (86%), however only 40% of this figure were 'very confident'.



QUESTION

How confident are you about your company's prospects for revenue growth over the next 12 months and next 3 years?



There is a consensus among Middle East CEOs that new market opportunities still exist: Egypt has emerged as a major territory where an increasing number of regional CEOs are hoping to grow their business. Our survey also indicates that Middle East CEOs are aligned with their peers worldwide in prioritising operational efficiencies to remain fit for growth.

Lastly, our CEOs share their global counterparts' keen awareness that new technology – in particular artificial intelligence (AI) – could dramatically strengthen their companies' competitiveness.

Overall, the region's CEOs see 2019 as a year to keep one eye fixed on short-term hazards and risks, without losing sight of future opportunities.

Focus on efficiency and growth closer to home

Egypt redux

In 2018, Egypt did not feature highly when we asked our CEOs to name the three most important foreign territories for their company's growth over the next 12 months. In contrast, this year, 15% of Middle East CEOs named Egypt as their leading foreign market for potential growth in 2019, with only Saudi Arabia (28%) ranking higher.



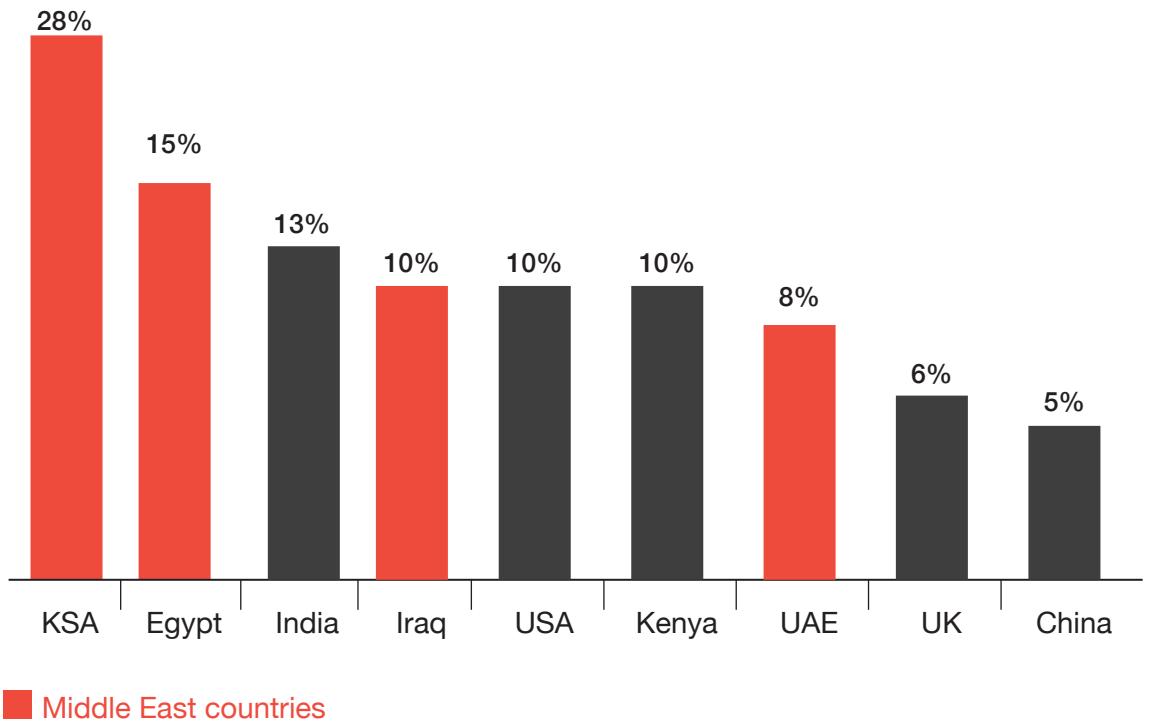
15%

Of Middle East CEOs named Egypt as their leading foreign market for potential growth in 2019



QUESTION

Which three territories, excluding the territory in which you are based, do you consider most important for your organisation's overall growth prospects over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey

Greater stability has put Egypt back on the radar for CEOs in the region. Its rise this year also highlights the country's economic weight, with a population of more than 100m, and offers persuasive evidence that the government's market reform programme is starting to register with regional investors. Egypt's inflation rate remains high at more than 20%, yet the message from our survey is clear: CEOs are cautiously optimistic about the country's potential.

Saudi Arabia is firmly on the minds of CEOs based in other parts of our region. Our CEOs can see the transformation that Vision 2030 is having on the country and know that to be successful in the region, you have to be successful in the Kingdom.

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Streamlining for growth

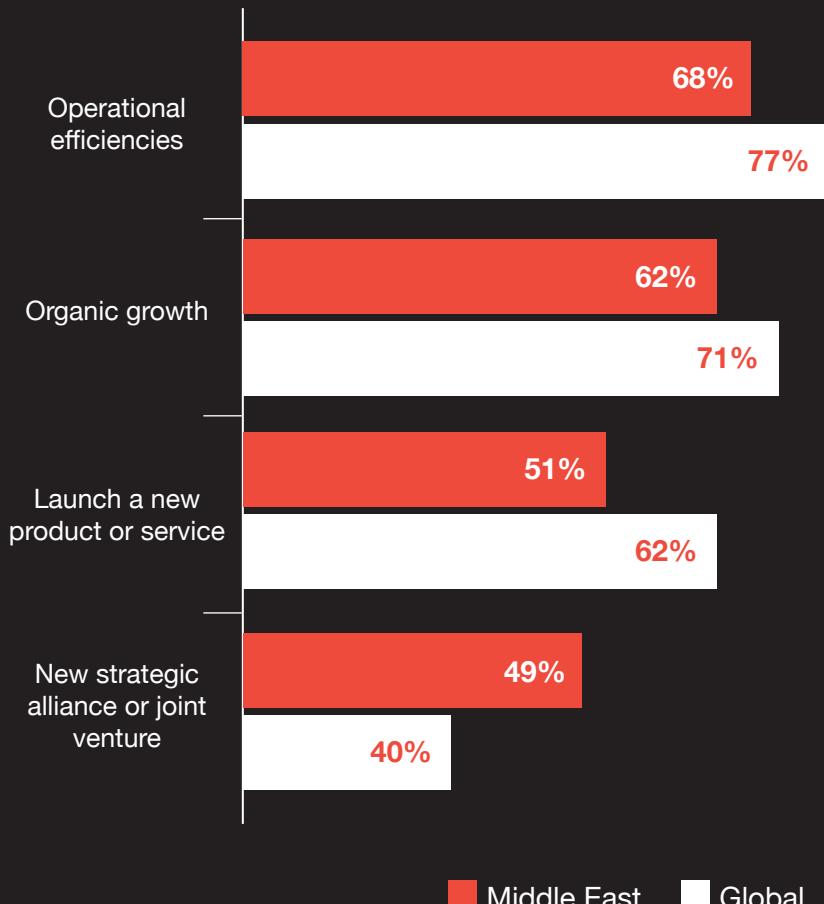
This was the first year that operational efficiency was included as a choice in the survey and it clearly made an impact. More than two-thirds (68%) of regional CEOs put “operational efficiencies” at the top of their list of planned activities to drive profitability in the next 12 months, just ahead of organic growth (62%). Both figures are slightly lower but broadly in line with the global results (77% and 71% respectively).

68%

Of Middle East CEOs said they are planning operational efficiencies in the next 12 months to drive corporate profitability

QUESTION

Which of the following activities, if any, are you planning in the next 12 months in order to drive corporate growth or profitability?



Source: PwC, 22nd Annual Global CEO Survey

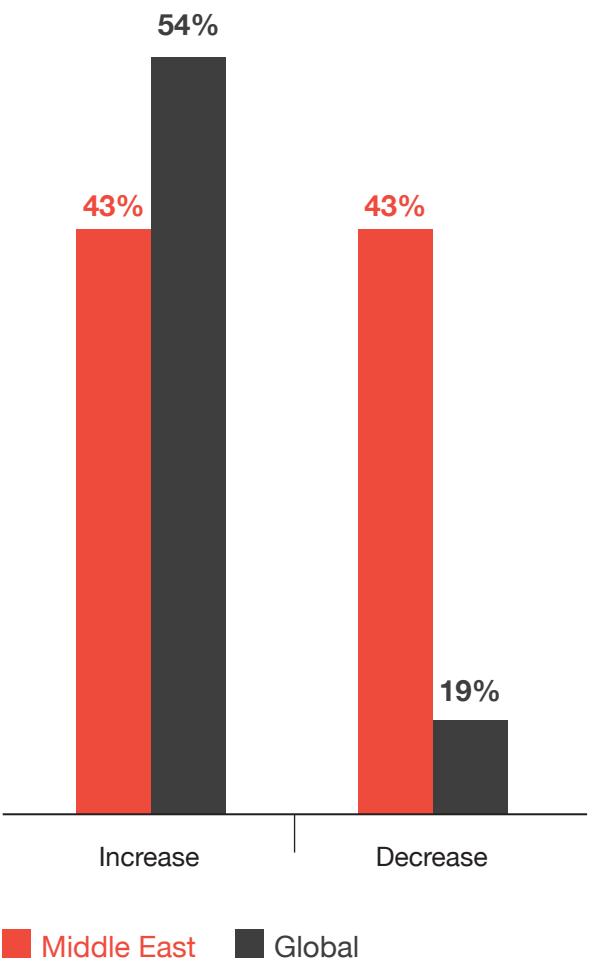
“Some of the crude cost-cutting in the region in 2015-2017 had cut into muscle, and with improving economic conditions last year, some pressure came off. We are now seeing a far more strategic, fundamental look at efficiency within businesses, where they are looking to leverage technology to sustain a lower cost base.”

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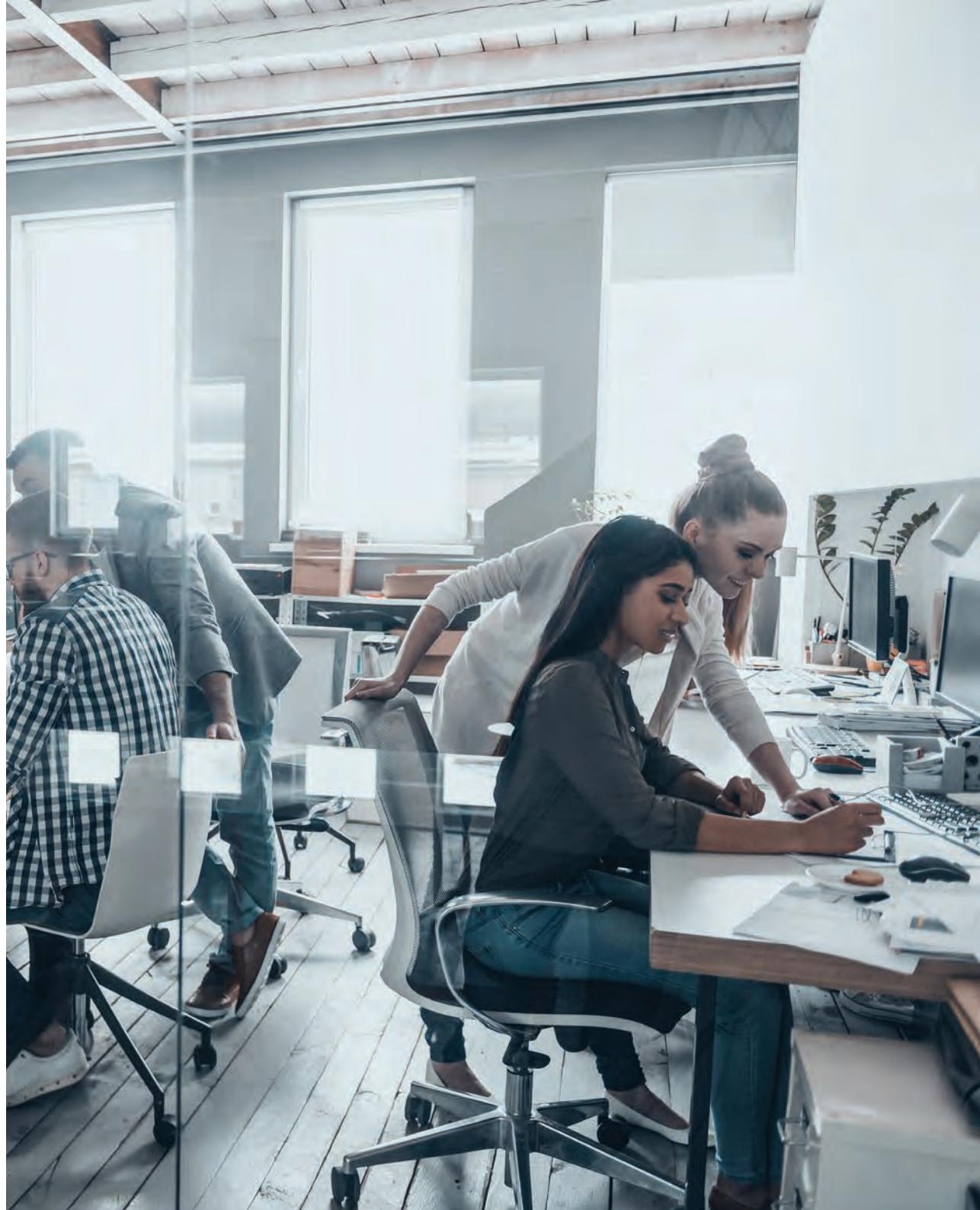
There is one marked regional difference regarding how Middle East CEOs plan to tackle the challenge of streamlining their companies. More than double the proportion (43% vs 19%) of Middle East CEOs said they expected their headcount to decrease over the next 12 months, compared with the global survey. Some of our Middle East CEOs lead companies that are set to accelerate or embark on automation programmes, reducing employee numbers as a result. In addition, the higher proportion of CEOs expecting their payroll to shrink may reflect their short-term wariness about the economic outlook.

QUESTION

Do you expect headcount at your organisation to increase, decrease or stay the same over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey



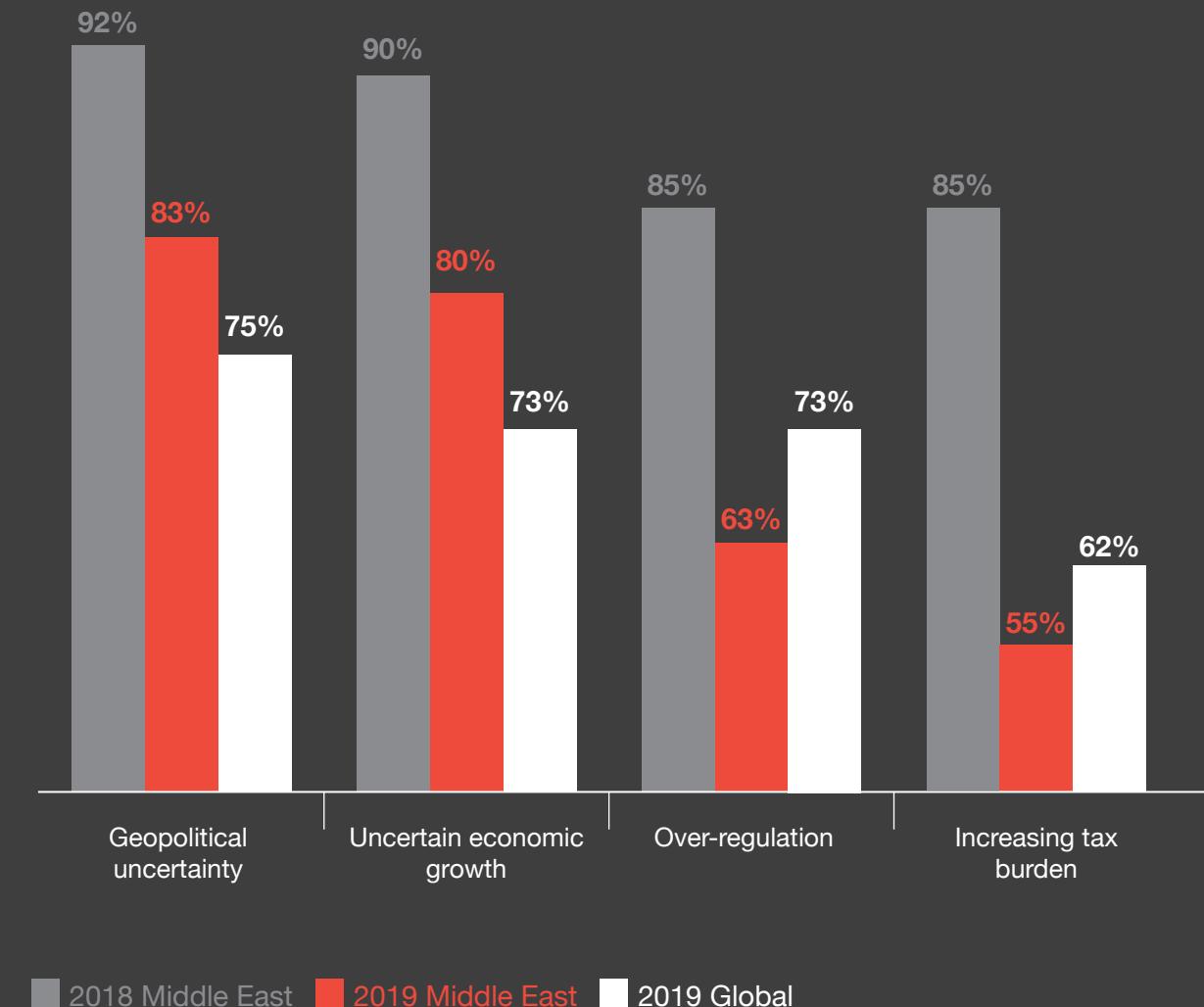


Middle East CEOs are markedly less pessimistic than their global counterparts about the potential impact of government red tape on performance. Around two-thirds (63%) of Middle East CEOs said “over-regulation” posed a threat to their organisation’s growth prospects, compared with 73% globally.

In one area – taxation – the anxieties of Middle East CEOs seem to have been partially eased. Last year, 85% of our CEOs expressed concern about an increasing tax burden over the coming 12 months, with the focus on the introduction of VAT in Saudi Arabia and the UAE. This year the proportion has dropped to 55%, suggesting that companies may have managed the transition better than they anticipated.

QUESTION

How concerned are you about the following economic, policy, social and environmental threats to your organisation’s growth prospects?



Digital disruption hits our region, at speed

53%

Of our CEOs strongly agree that AI would significantly change the way they did business in the next five years.

In the Middle East, 91% of our CEOs agreed* that AI would significantly change the way they did business in the next five years, similar to the results we see globally. In the region we expect to accrue 2% of the total global benefits of AI by 2030, equivalent to \$320 billion¹.

Some 66% of the region's CEOs said they had either introduced AI to their business or plan to start in the next three years. However companies must accelerate the process of realising their plans or risk being left behind: that includes 43% confirming they have a plan to roll out AI initiatives, with only 23% of regional CEOs already having introduced them into their business, barely half the proportion globally.

*Includes 53% strongly agree + 38% agree

QUESTION

Please select the statement that best applies to your organisation

43%

We have plans to start introducing AI initiatives in our organisation in the next 3 years

28%

We have no plans to pursue any AI initiatives at the moment

23%

We have introduced AI initiatives in our business, but for limited uses

Source: PwC, 22nd Annual Global CEO Survey

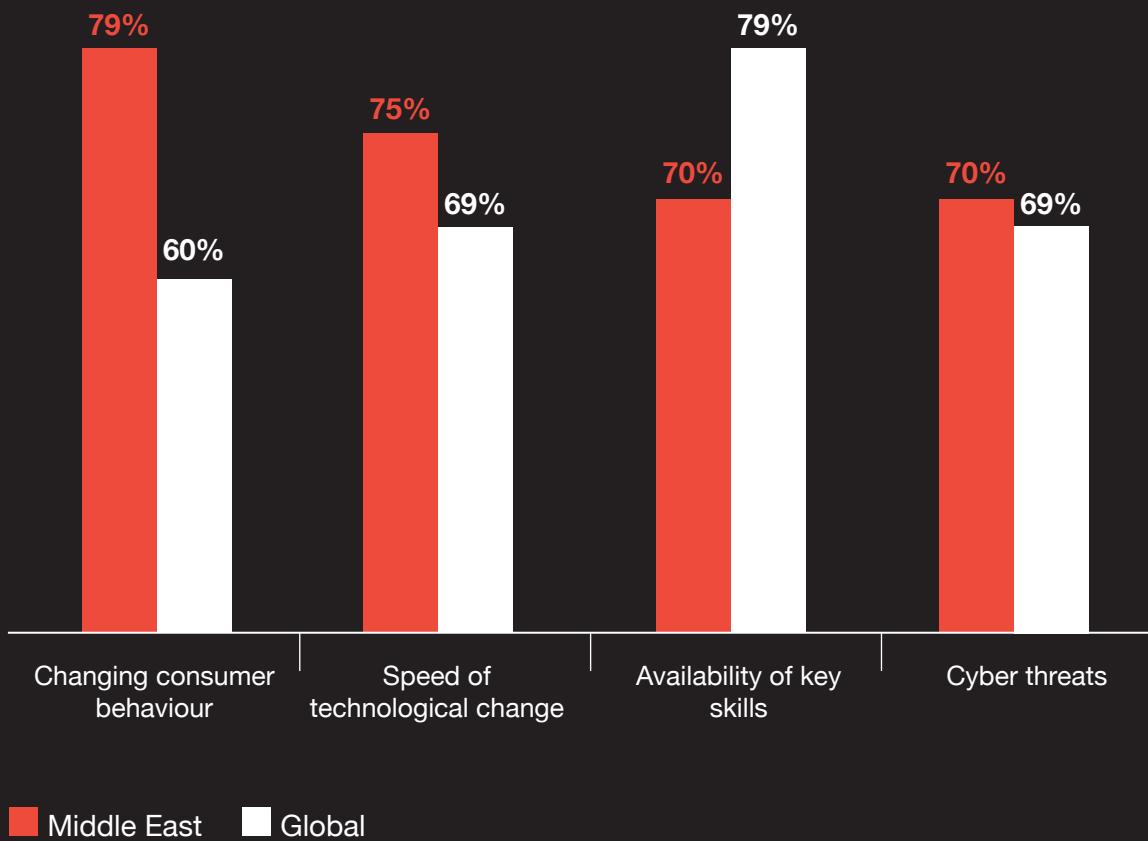
Middle East companies can count on the support of the region's governments, which in recent years have ramped up investment in AI development and education. An outstanding example is the UAE, whose ambitious AI 2031 strategy is led by the country's first Minister of State for AI.

The region's CEOs seem to welcome this government backing: only half (48%) of respondents thought governments should allow organisations to self-regulate the use of AI, less than the global proportion of 59%.

However there is anxiety in the region about the progress of technology: three-quarters (75%) of our CEOs regard "the speed of technological change" as a business threat, second only to "changing consumer behaviour" (79%). Cyber-security threats (70%) remain a substantial concern for Middle East business leaders, as they do for most CEOs globally (69%).

QUESTION

How concerned are you about the following potential business threats to your organisation's growth prospects?



Source: PwC, 22nd Annual Global CEO Survey

Companies in the region also have work to do to get the best results from data capture and analytics, with less than half (46%) reporting that their data is 'comprehensive' for financial forecasts, compared with 41% globally, and only 13% saying they have 'comprehensive' data on customers' and clients' preferences and needs.

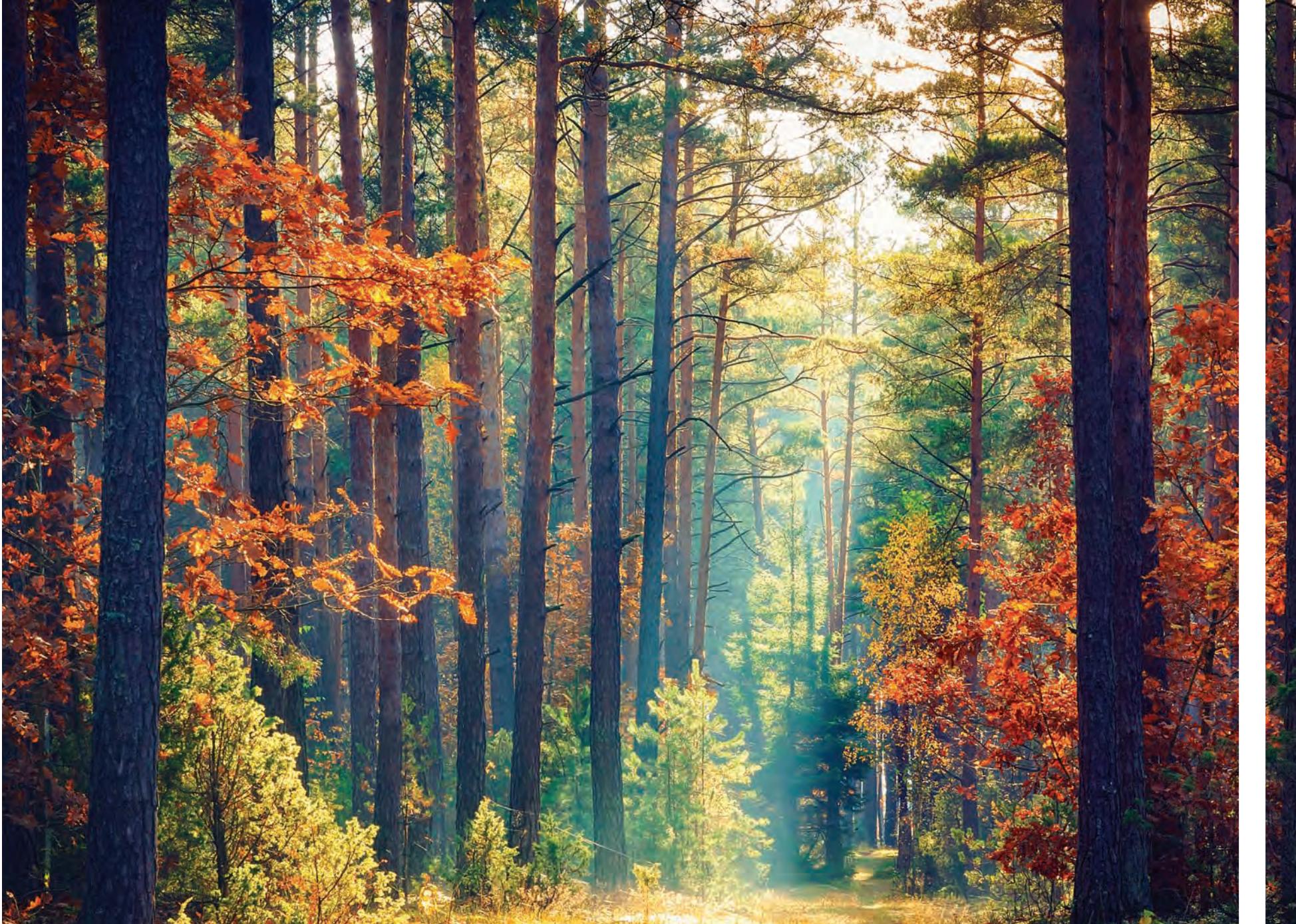


“Digital transformation is 20% technology infrastructure, 30% data and 50% skill, and in order to realise the full benefits of digitisation, companies in the region must invest substantially in upskilling their people. Bringing in staff from other countries will not fill the Middle East’s considerable digital skills gap, because of a global shortage of qualified people.”

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Seizing the moment to build for the future

Successful Middle East CEOs will be those that can drive efficiencies to get fit for the new lower growth realities of the region and, free the required investment to, transform their business to get ahead of ever increasingly fast paced disruption. They must do all this whilst inspiring their people to go on the digital upskilling journey vital to fuel the transformation. Who'd want to be a CEO?



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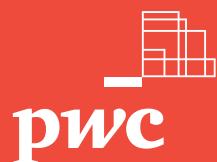
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