



The Race for Recovery

France Attractiveness Survey

May 2020



Thanks to all the company leaders and experts who shared their perspectives with us...

Doris Birkhofer (CEO Siemens Smart Infrastructure France & Belgium), Ana Boata (Director of macroeconomic research at Euler-Hermes), Pascal Cagni (France ambassador for International Investments), David Cousquer (Founder of Trendeo), Henriette Dræbye Rosenquist (President of Pfizer France), Benoît Grossmann (President of France Digitale), Christophe Lecourtier (Executive Director of Business France), Jean-Luc Moudenc (President of Toulouse Métropole and France urbaine), Valérie Péresse (Président of the Île-de-France region), Amélie Vidal-Simi (President of Henkel France).

... and to the EY teams who worked on or contributed to this 2020 edition of the France Attractiveness Survey

Hugo Alvarez, Bertrand Baret, Chloé Benayoun, Marie-Armelle Benito, Élise Carrard, Rudy Cohen-Scali, Guillaume Cornu, Eric Fourel, Amélie Fournier, Isabelle Girardot, Camille de Guillebon, Quentin Hacquard, Sandra Hurel, Marc Lhermitte, Jean-Pierre Lieb, Alain Perroux, Fabien Piliu, Clémence Marcout, Laurent Miannay, Camille Ragnet, Vincent Raufast, Enzo Sauze, Emmanuelle Raveau, Florent Schmidt, Franck Sebag, Charlotte Thomas, Frantz Toussaint, François Weill et Hugo Zelli.



Éric Fourel
Country Managing Partner
of EY in France



Marc Lhermitte
Partner, Ernst & Young
Advisory, EY EMEA Leader,
Geostrategic Business Group

Editorial

Reassessing attractiveness in light of the crisis

The consequences of this unprecedented modern-age crisis are not just human. At the time of writing, the most tragic phase of COVID-19 appears to be behind us. Now comes recovery, reopening, and reinvention. At an economic level, we are entering an equally uncertain time. Managing it will be a real leap into the unknown for governments, businesses, and citizens. While government action kept our economy from imploding, there is no guarantee that things will resume back to what they were.

During this momentous health crisis, the issue of France's attractiveness was not centre stage, and rightly so. Yet, now that our bruised bodies and souls are beginning to recover, it is. Why? Foreign companies with locations in France employ two million people, make up 21% of private R&D spending and account for 31% of our exports, and are therefore inextricably linked to our economy and its transformation. Also, in 2019, France overtook the UK and Germany, its historical competitors, and topped Europe's foreign investment rankings.

Now, in May 2020, investors are rethinking their international strategy and their choice between France and the rest of Europe. Why is that? Primarily because the impact of the crisis on the European economy and its component states is being closely scrutinized. Also, because investors must adapt their production, sales, and scientific organisation to a post-COVID-19 world, thus resuming the debate about whether to (re)locate some strategic activities (pharmaceuticals and agri-food are vital and therefore priority industries...).

Other factors could also impact trade-offs and location choices. Government action is an essential consideration. As the central driver of the French economy, its investments will be a determining factor in how the recovery unfolds. However, recovery plans must have a lasting impact on public finance. One key

consideration is whether the deterioration of France's finances is likely to curtail government action to ensure that France remains competitive. Once the crisis is over, what fiscal trade-offs of the recovery plan will be implemented, and how will public expenditure be optimized?

New consumer behaviours and expectations must also be taken into consideration. Businesses can no longer ignore environmental factors. They must be wary of where they source their products, and their closer production lines. More generally, international companies must lead by example, especially in light of pending changes in technology, society, and global warming.

As you may have noticed, the pandemic has altered our habits. Beyond the traditional accounting and analysing of investments, this edition of the EY Attractiveness Survey forces us to look further. With this report, in this ever so particular context, we want to offer both a current and forward-looking view of France's pulling power and the crucial role of international investment in our economy as France reopens for business. We have neither magic formulas nor miracle recipes. Yet, at a time when optimism is in short supply, we think that the lever of international investment, which we have believed in for 20 years now, provides one of the answers.

Foreign investments are essential to the French economy, its diversity and its strength. No doubt competition to attract these investments will further strengthen and lead the race to recovery.

France Attractiveness Survey

Executive summary

1 At the end of 2019, France became the leading destination for international investment in Europe

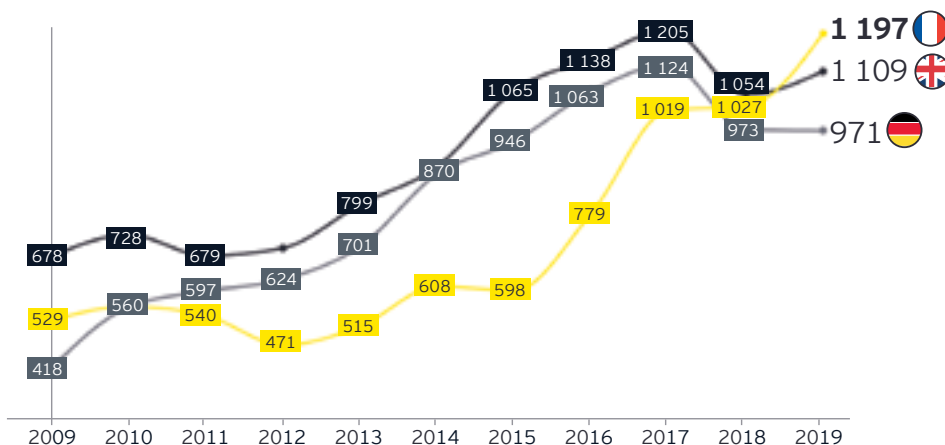
With 1 197 projects in the works in 2019, France overtook the United Kingdom (1109) and Germany (971) for the first time. It held the top spot for production and R&D, in line with the strong growth witnessed in 2017 and 2018.

Our annual "Perception" survey, conducted in February 2020, confirmed this: 32% of business leaders thought France was becoming more attractive, and 50% believed it was stabilizing despite the social unrest of 2018 and 2019.

+0.9%

Increase in the number of investment projects in Europe (47 countries)

Comparison of the evolution of the number of foreign investments announced in France, Germany, and the United Kingdom before correction of the impact of the crisis (2009-2019)



Source: EY European Investment Monitor - 2020

France

1 197 projects

+17%

United Kingdom

1 109 projects

+5%

Germany

971 projects

+0%

2 The crisis is prompting a rethink of investment plans, nevertheless about 65% of projects are either complete or in process

According to EY's analysis, some **65% of announced 2019 investments are still in place, 25% postponed or substantially revised, and 10% cancelled**. However, those revised projects may not meet their capacity, capex, or hiring targets per initial estimates.

This "achievement" rate is the same in major European countries, except Poland and Portugal, where nearly 80% of projects are on track because of the favourable competitive conditions in these two destinations. When it comes to European FDI market share, **France gained three points** (18.7%) between 2018 and 2019 and had the strongest momentum of Europe's top three destinations.

Source: EY analysis, survey among 113 international business leaders (April 2020)

Estimation of the impact of coronavirus on investments announced in 2019

25%

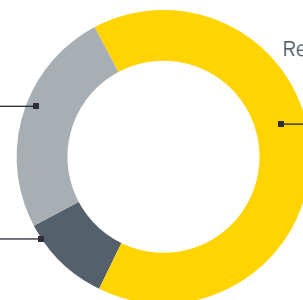
Postponed or strongly revised

10%

Cancelled

65%

Realized in 2019 or at the beginning of 2020



3

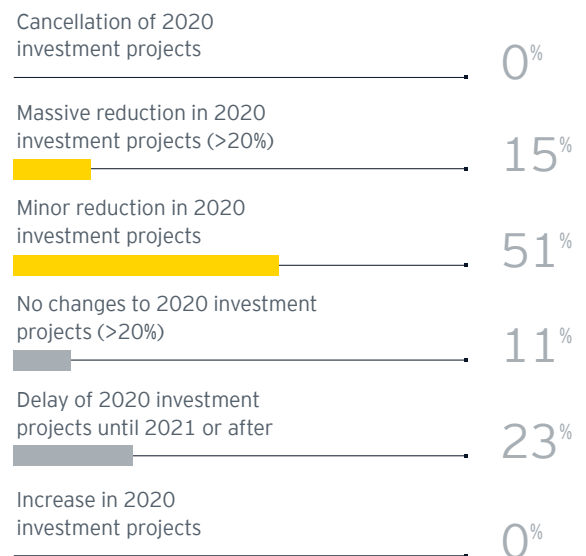
Foreign investment – a cornerstone of the French economy – could nonetheless slow down significantly in 2020 and 2021

According to our second survey conducted between April 20 and 30, **66% of business leaders were contemplating a minor or major reduction in their projects in 2020**, and 15% a postponement until 2021. None of them mentioned cancellation... or expansion.

This slump in international investment must be closely monitored because foreign investment accounts for almost **2 million jobs, 31% of industrial exports and 21% of private R&D in France**. This is also a material issue for most countries in Europe and around the world.

We think **investments should continue** in some sectors, including healthcare, online entertainment, and e-commerce. However, aviation, automotive, equipment, and chemicals and plastics sectors face substantial decline.

To what extent have you amended your investment projects in 2020 due to COVID-19?



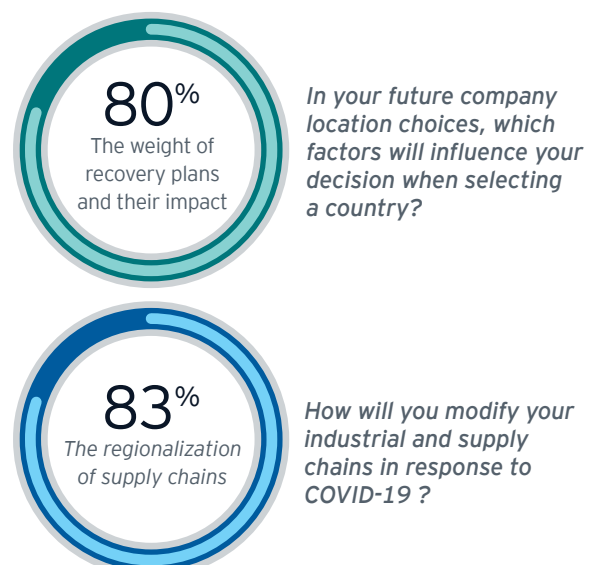
Source: EY analysis - Euromoney (20th - 30th April 2020, 113 international business leaders)

4

Business leaders will be making trade-offs in their recovery plans and are thinking about how to best balance reshoring, nearshoring, and offshoring

When surveyed at the end of April 2020, **80% of leaders felt that the type and scope of their recovery plans – most of them national – as well as the paths for exiting the crisis will be major factors in their decisions on where to locate future investments.**

Is a massive relocation movement in the offing? According to our survey, **83% of leaders are planning to regionalize supply chains** by bringing some production sites closer to their value chains along EU borders, as well as in Africa.



Source: EY analysis - Euromoney (20th - 30th April 2020, 113 international business leaders)

5

Three major trends will determine where international investment will head between now and 2025

Trend N°1

Automation and digitalization of industrial processes, back offices, and customer relations:



Greater financial leeway and increased agility are two of the many benefits technological processes and tools offer.

Trend N°2

New environmental and societal requirements:



The current crisis has highlighted strong trends such as local procurement and responsible consumption. On this matter, cooperation between public and private sectors will be essential in driving environmental policies forward.

Trend N°3

Reconfiguring global trade and supply chains:



This reconfiguration could result in a change in siting layouts, the factoring of carbon footprints in logistics and a new combination of reshoring, nearshoring, and offshoring.

6

France is being closely watched and must provide reassurance about its immediate strategy by:

Confirming the tax and regulatory competitiveness that has enhanced France's attractiveness since 2017.

1

Placing a bet on the Paris-London competition for FDI. In theory, 2020 is the year of Brexit and bringing head offices and service functions back home.

4

Reassuring investors that France is resilient and explaining its crisis exit and recovery plan.

2

Imagining solutions to help companies become more agile and restore confidence.

5

Continuing to compete actively in Europe while the recovery is in full swing.

3

Optimizing the national/regional network of recovery plans and backing investment.

6

7

To reinvent itself and stay attractive, international business leaders are encouraging France to...



Facts and figures

France was the **1st** European destination for international investments in 2019.

1 197

projects announced in 2019 (+17%), mainly in digital, services, and R&D sectors.

32%

of business leaders see an improvement in France's image, 50% believe it is stable.

65%

of projects announced in 2019 were launched or are still in place, but under revision...

... and **81%**

of 2020 investments are reduced or postponed, but only a few are cancelled.

80%

of decisions in Europe in 2020 will revolve around recovery plans.

3 major trends leading up to 2025

Digital (customer relations, automation, remote working...)

Industrial (new combination of reshoring, nearshoring, and offshoring)

Environmental (local consumption, decarbonization, minimalism...)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 Ernst & Young Advisory.
All Rights Reserved.

Studio BMC France - 2005BMC076-03.
SCORE France N° 2020-047.
ED NONE.

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and it is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

Contact



Marc Lhermitte

Partner, Ernst & Young Advisory,
EY EMEA Leader,
Geostrategic Business Group

+33 1 46 93 72 76
marc.lhermitte@fr.ey.com