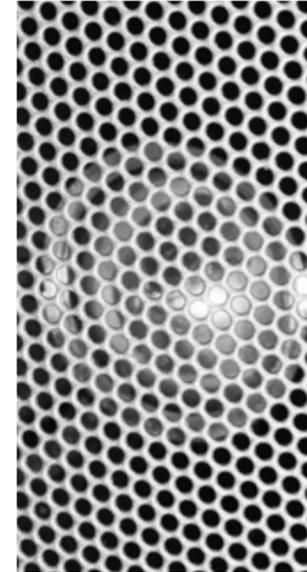


# Deloitte.

Risk-averse pragmatists

Central Europe CFO Survey 2015



2015 results | 6<sup>th</sup> edition  
Croatia

powered by  
**The CFO Program**

Croatian CFOs have become slightly more optimistic over the last year, thanks to the expectation of modest growth in GDP. They still, however, demonstrate a risk-averse attitude due to the unstable macro-economic environment.

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## Introduction

It gives us great pleasure to introduce this sixth edition of the Deloitte CFO survey for Croatia. Once again, we have documented Croatian CFOs' sentiment across a range of economic and business issues that are relevant to their interests. It also enables comparison between the views of Croatian CFOs and those of their peer groups from elsewhere in Central Europe: Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia.

The Croatian economy has still not recovered from the onset of the global financial crisis more than six years ago. Croatia's GDP is expected to have declined by up to 1.0% in 2014, for the sixth consecutive year. However, there are some signs of recovery, such as rising exports and industrial production, caused mainly by increased demand from neighbouring EU markets and easier trading following Croatia's accession to the EU. The unemployment rate in quarters one to three 2014 was slightly lower than the same period in the previous year, but was still high at 19.2% (reported in November 2014). It is too early for EU funding to have positively impacted economic growth.



*Marina Tonžetić*

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In such a macro-economic environment, Croatian CFOs have become slightly more optimistic since 2013, although they continue to demonstrate a risk-averse attitude. As a result, 57.6% of the interviewed Croatian CFOs expect modest GDP growth in 2015 (between 0 and 1.5%), while 35.6% expect the recession to continue. Croatian CFOs recorded the highest general level of external financial and economic uncertainty of all countries included in the survey, followed by those from Serbia and Slovenia.

According to their response to the question, “Compared with six months ago, how do you feel about the financial prospects for your company?”, Croatian CFOs’ came 10th in terms of optimism out of the 14 countries included in the survey. The most optimistic CFOs were from Albania, Kosovo and Serbia. Those from Hungary, Estonia and Latvia were the least optimistic.

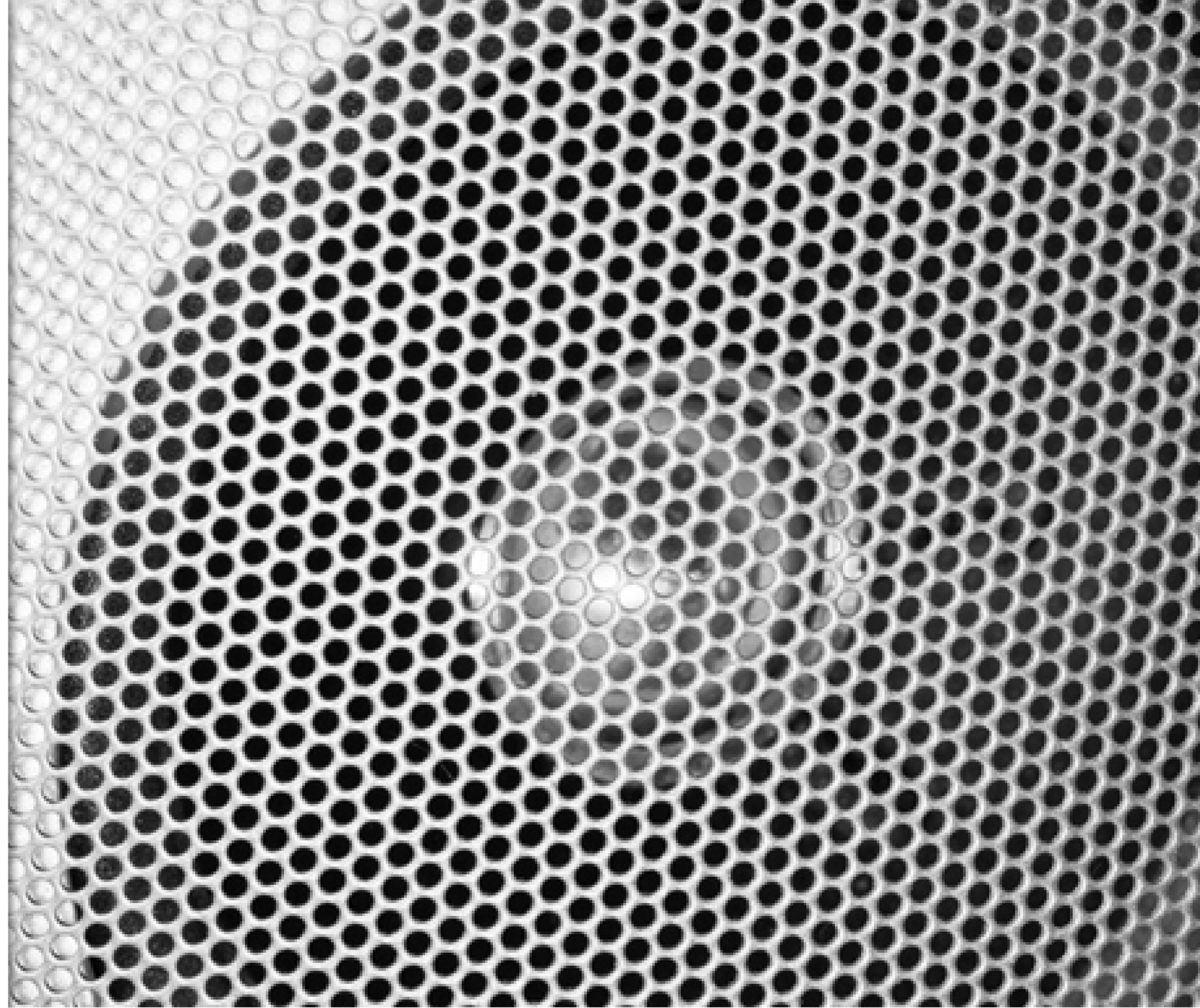
Our survey has revealed that a majority of interviewees are not planning to make any EU co-funded strategic investments in the next six months, indicating that more attention should be paid to exploiting EU funding opportunities. There is also a great opportunity for the finance function to reap the benefits of its multi-functionality, its depth of knowledge and its impact within an organisation, as well as to leverage its capability to govern and manage various aspects of strategy, operations and implementation towards achieving the organisation’s vision. We therefore invite you to participate in our next survey, due towards the end of the year, by which time we hope to have seen some more tangible evidence of economic recovery in Croatia.

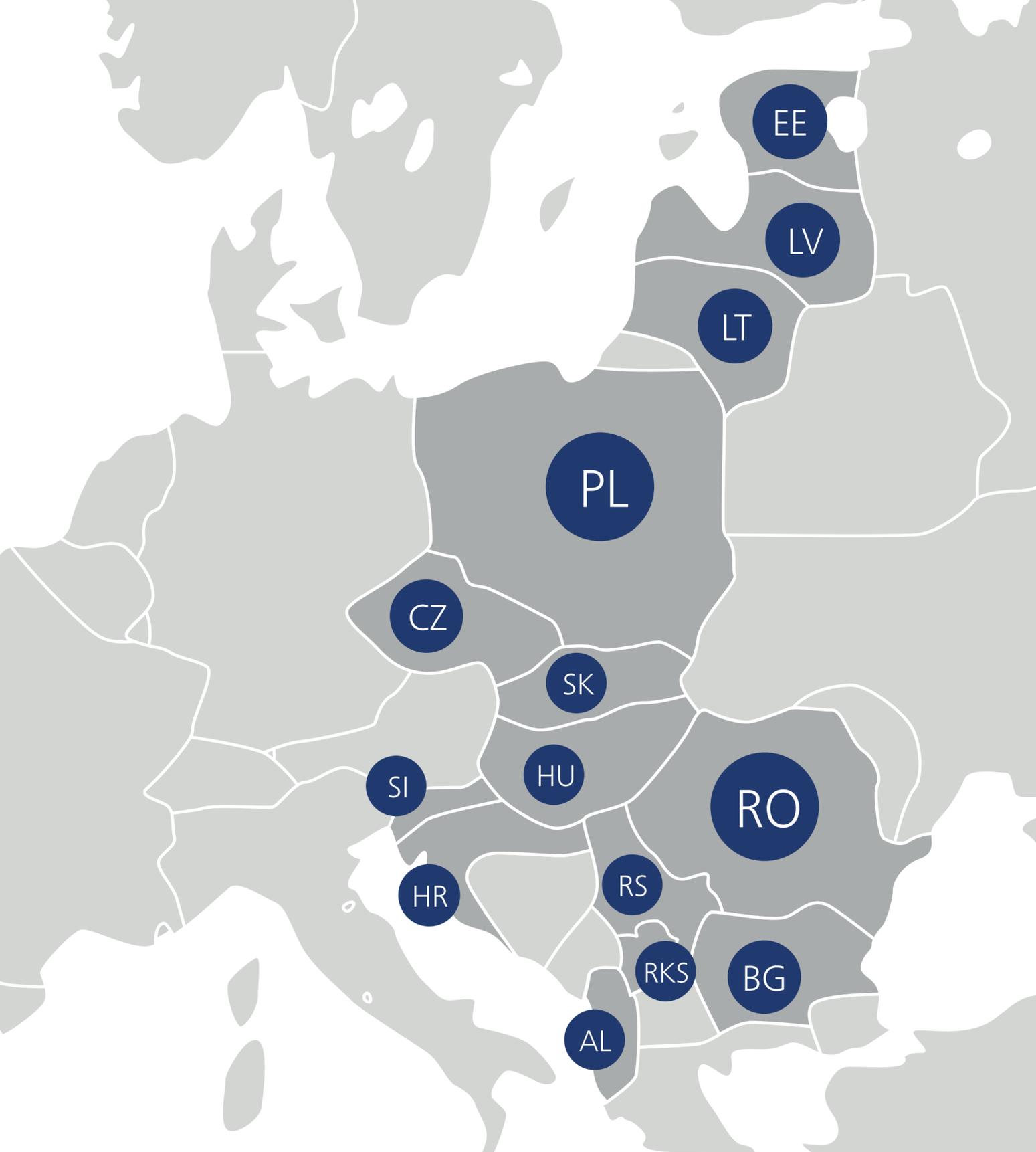


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About the sixth  
Deloitte CE  
CFO Survey





This report compares the expectations of CFOs from 14 Central European economies (Albania **AL**, Bulgaria **BG**, Croatia **HR**, the Czech Republic **CZ**, Estonia **EE**, Hungary **HU**, Kosovo **RKS**, Latvia **LV**, Lithuania **LT**, Poland **PL**, Romania **RO**, Serbia **RS**, Slovakia **SK** and Slovenia **SI**). It is based on the answers of 560 CFOs from a broad range of industries who responded to our survey in October and November 2014. The survey captures shifts in CFOs' opinions on factors including risk, GDP growth and financing priorities.

It has become a benchmark for agile decision-making that takes into account the financial attitudes of major corporations across Central Europe.

# Key Findings



# Key findings

- Croatian CFOs are slightly more optimistic about their companies' financial prospects. In this survey, 44.4% of CFOs felt somewhat or very optimistic, compared to 36.0% in the survey conducted a year ago.
- After six years of recession, the majority of CFOs expect modest GDP growth of 0–1.5%.
- There are diminished expectations for merger and acquisition activities over the next 12 months.
- Revenue growth from current markets remains a primary focus for CFOs over the next 12 months.
- CFOs increasingly see business remodelling or restructuring as a moderate or strong priority.
- The highest perceived level of external financial and economic uncertainty among all surveyed countries underlies the risk-averse attitude of Croatian CFOs.
- The overall availability of new credit and the ability to service debt have both improved since the last survey.
- 61.0% of CFOs are not planning any EU co-funded strategic investments in the next six months, indicating a need to pay more attention to EU funding opportunities.
- Expectations of a shortage of senior-level finance talent have increased substantially since last year. However, the proportion anticipating shortages at the top level has fallen.

# Growth



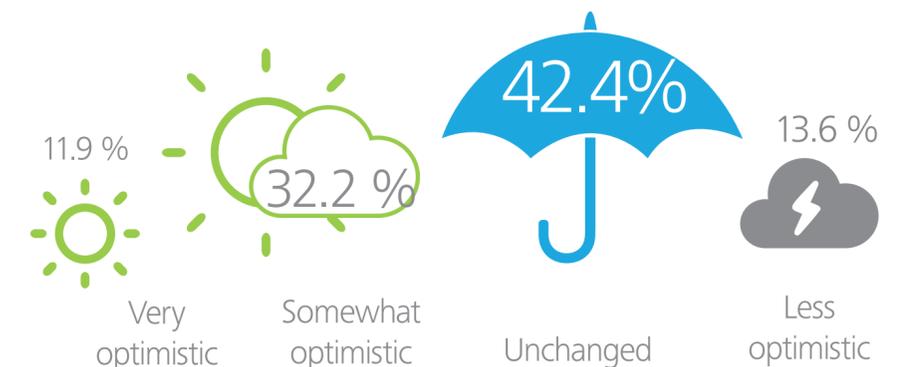
# Growth

CFOs' optimism about their organisations' financial prospects have slightly increased since six months ago; they also expect GDP to increase modestly after six years of recession.

Our survey indicates a slight increase in CFOs' optimism, with 44.1% feeling somewhat or very optimistic about the financial prospects for their companies – up from 36.0% a year ago. However, 42.4% remained neutral.

In terms of optimism, Croatian CFOs came 10th of the 14 countries included in our survey. The most optimistic CFOs were from Albania, Kosovo and Serbia. Those from Hungary, Estonia and Latvia were the least optimistic.

Graph 1  
Compared with six months ago, how do you feel about the financial prospects for your company?

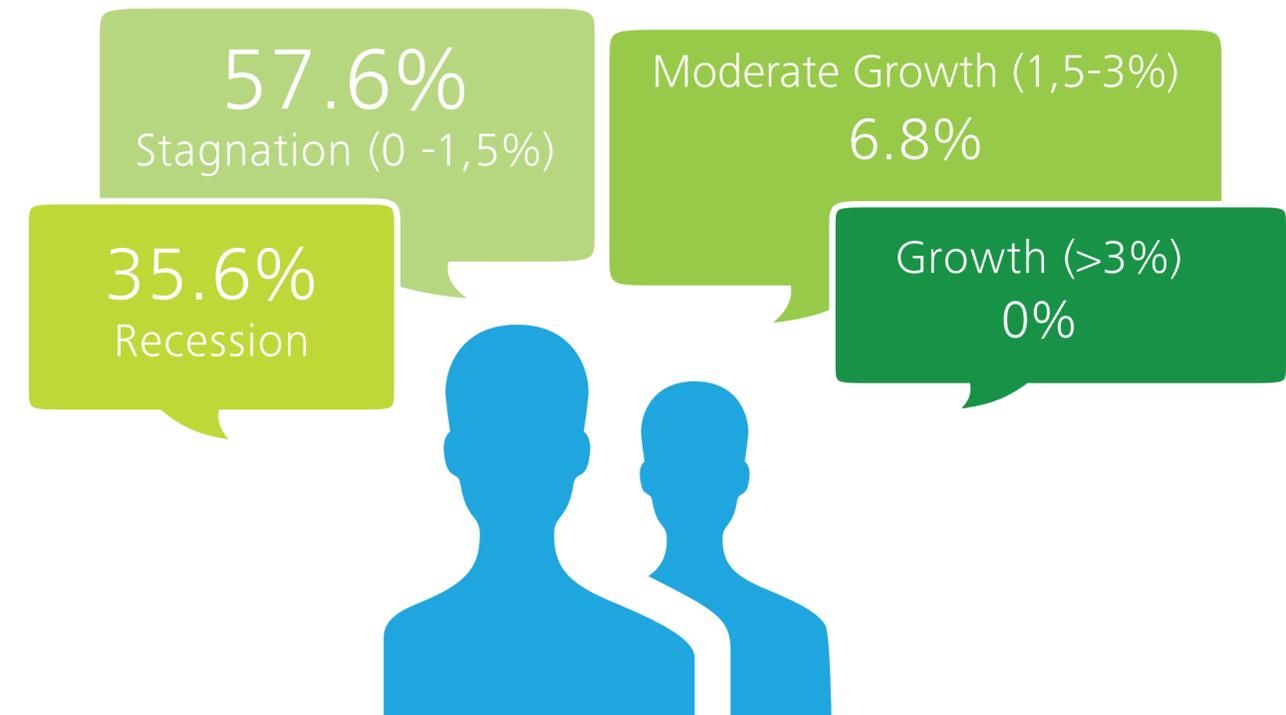


57.6% of Croatia's CFOs expect modest GDP growth of up to 1.5% in 2015, while 35.6% expect recession to continue. This expectation of slight growth in GDP after six years of recession could be a cause of the slightly more optimistic view of companies' financial prospects that is noted above.

However, it is slightly disturbing that, of CFOs from all the countries covered by the survey, those from Croatia reported the highest percentage expecting continued recession.

It is also of concern that 51.7% of CFOs expect unemployment to increase (the second-highest proportion after Serbia). Meanwhile, 37.9% of Croatian CFOs expect unemployment to stay at the same level.

Graph 2  
CFOs expectations for Croatian GDP growth in 2015



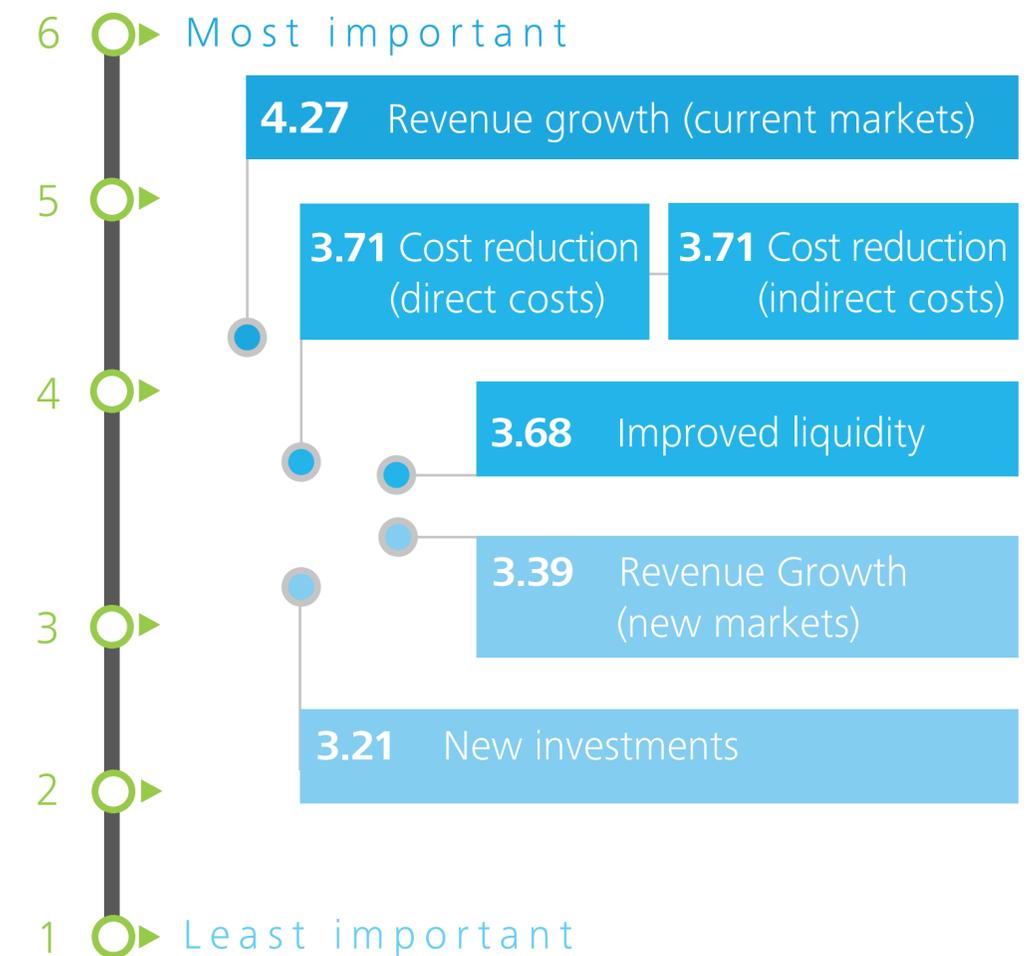
Growing revenues from current markets is set to remain a primary focus for the next 12 months. CFOs increasingly see business remodelling or restructuring to be a moderate or strong priority.

The business focus for the largest proportion of surveyed companies over the next 12 months will be on increasing revenues from current markets. This was also the most important business focus for CFOs in the last survey. In this survey, CFOs have placed equal importance on reducing direct and

indirect costs alike – a shift from last time, when the focus was on cutting indirect costs. This indicates the growing importance of optimising direct costs to achieve targeted profit margins. Improved liquidity remains one of the top priorities for Croatian CFOs, with 49.2% placing it among their top three priorities for the next 12–18 months.

New investments remain the least important business focus area for the next 12 months. This could partly be explained by CFOs' risk aversion, which is further elaborated in Section 2. There may also be other contributing factors, such as a lack of investment opportunities or the high business and/or financial risks of new business ventures.

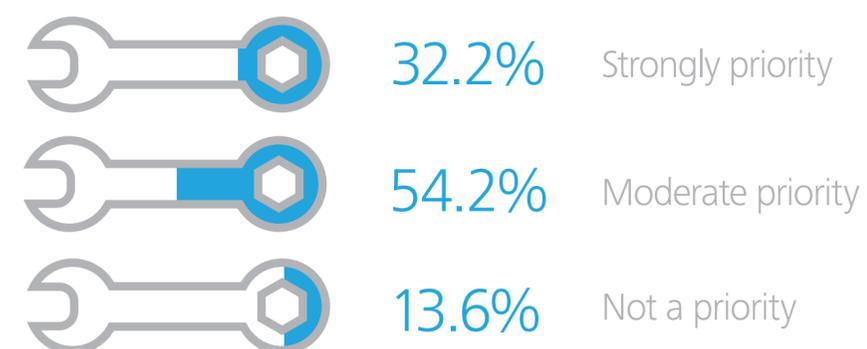
Graph 3  
What is your company's business focus for the next 12 months?



Over 86.4% of those surveyed consider business remodelling or restructuring to be a moderate or strong priority – a significant increase from 67% a year ago. Competitive pressures fuelled by Croatia joining the EU could be an underlying reason for this. The percentage shows Croatian CFOs ranking second (after Kosovo’s CFOs) in claiming that business remodelling or restructuring is likely to be a priority over the next 12 months.

Graph 4

To what extent is business remodelling or restructuring likely to be a priority for your business over the next 12 months?



## The Deloitte perspective

Business remodelling and restructuring activities can help companies redefine their business and operating models to best support the overall business strategy and position them for long-term, sustainable performance and growth. Before launching a programme of restructuring or remodelling, companies should first answer the following three basic questions:

1. **WHY** do we need to restructure/remodel?
2. **WHAT** is the appropriate level of restructuring/remodelling and pace of change?
3. **WHERE** will the restructuring/remodelling generate the most value?

## Diminished expectations for mergers and acquisitions over the next 12 months.

The percentage of Croatian CFOs who believe that M&A activities will increase somewhat over the next 12 months decreased from 57% in the last survey to 44.1% this time. Consequently, it appears that more CFOs would now prefer to grow organically than through merger or acquisition.

These results could again be explained by an unwillingness on the part of some CFOs to adopt and implement risky M&A strategies. Also, some CFOs may think it would be difficult to repeat the acquisition values realised in 2014, when the mega acquisition of Mercator by Agrokor was completed.

## The Deloitte perspective

Croatian CFOs and other strategic decision makers may reconsider M&A as a strategic option for achieving growth. The combination of relatively low market valuation multiples compared to pre-crisis levels, alongside the improved availability and cost of debt-financing for successful companies, could create an environment offering acquirers the potential to add value. However, it remains important to look at each potential merger or acquisition as a high-risk project. Consequently, the careful planning and implementation of pre-acquisition activities (e.g. due diligence, estimation of synergies, valuation etc.) as well as post-merger integration activities are crucial to mitigate risks and realise value from an acquisition for the acquirer and its shareholders.

# Risk



# Risk

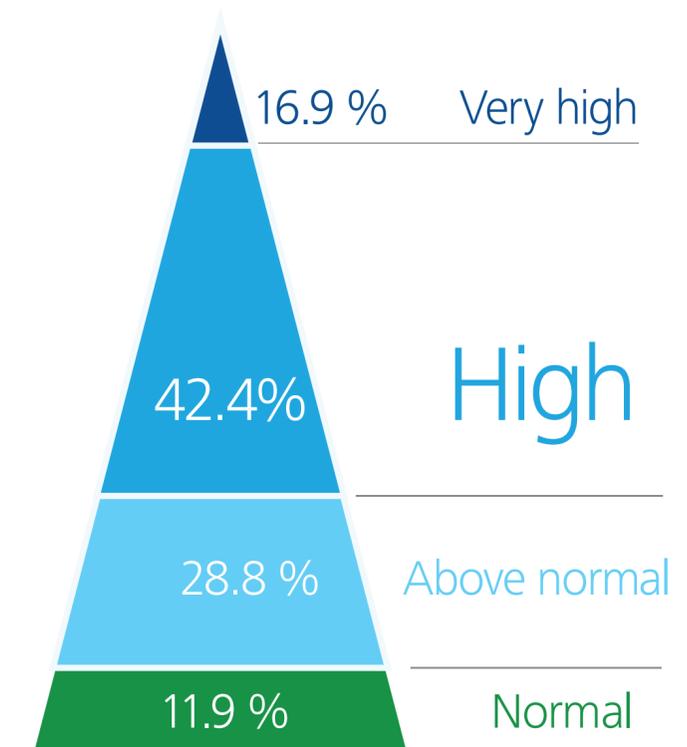
The generally perceived high level of external financial and economic uncertainty is contributing to the risk-averse sentiment of Croatian CFOs.

Well over half (59.3%) of respondents rated the overall level of external financial and economic uncertainty facing their businesses as high or very high, which is similar to the 58.6% reported a year ago.

In fact, Croatian CFOs rated the general level of external financial and economic uncertainty as the highest of all surveyed countries, followed by those from Serbia and Slovenia.

It is likely that this generally perceived high level of external financial and economic uncertainty is contributing to the risk-averse sentiment of CEOs.

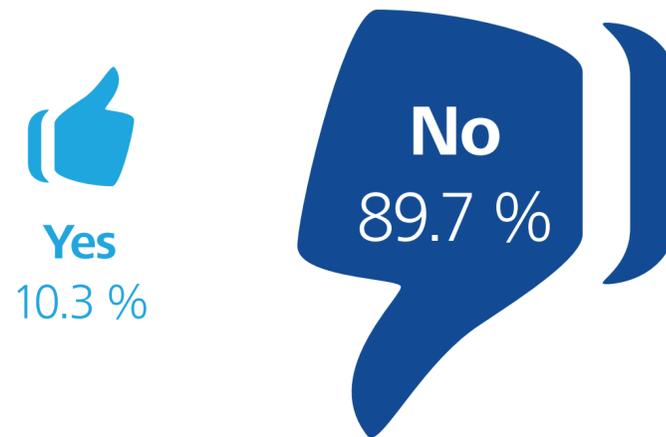
Graph 5  
How would you rate the general level of external financial and economic uncertainty facing your business?



Accordingly, 89.7% of interviewed CFOs also believe that this is not a good time to be taking greater risks on to their companies' balance sheets (last year: 78.6%).

On this question, Croatian CFOs are the third most risk-averse after those from Albania and Slovakia.

Graph 6  
**Is this a good time to be taking greater risk onto your company's balance sheet?**



## The Deloitte perspective:

External risks and uncertainties continue to represent significant challenges for CFOs and businesses. It is likely that companies will need to further develop risk-management systems and processes to allow timely risk identification, evaluation, treatment and reporting. Companies also need to consider the potential upside of risks, looking at them as opportunities to improve their business results.

# Debt

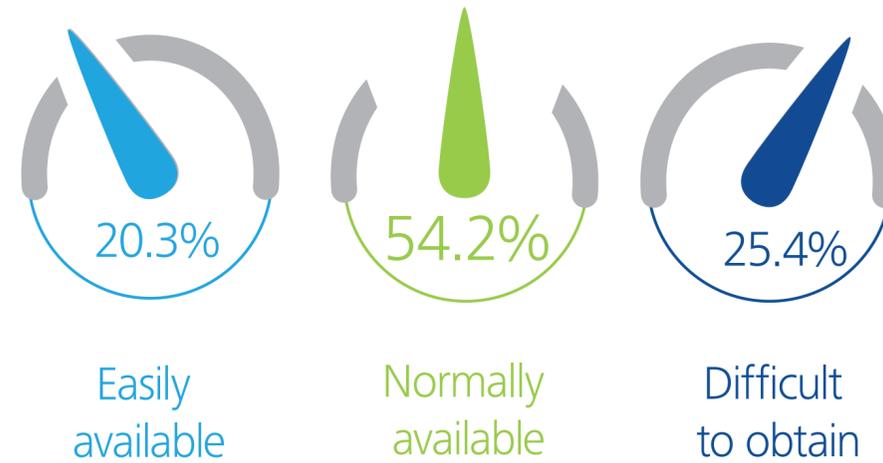


# Debt

## Improved overall availability of new credit and abilities to service debt.

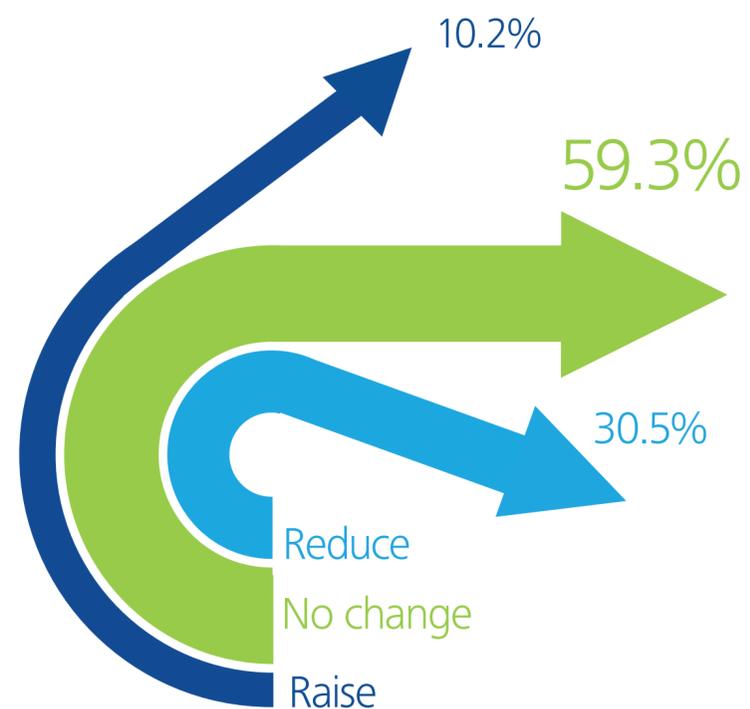
The perceived overall availability of new credit has improved over the last year, with 74.5% of CFOs feeling that new credit is normally or easily available (2013: 57%). This is of little surprise in an environment where low interest rates prevail and banks face a lack of healthy corporate clients.

Graph 7  
How would you rate the overall availability of new credit for companies nowadays?



The percentage of Croatian CFOs expecting no change in their companies' gearing ratios in the year ahead increased from 45% in 2013 to this year's 59.3%. This is an indication that a majority of companies included in the sample have reached an optimum gearing level and are unwilling to accept additional financial risks.

Graph 8  
**What is your aim for your level of gearing over the next 12 months?**



The percentage of Croatian CFOs in the sample who believe they will be able to repay their debt more easily in the next three years has increased from 14% to 33.9%. This could be viewed as a positive sign of anticipation of increased future liquidity. Approximately half the CFOs in both surveys were of the opinion that their capacity for serving debt would remain unchanged.

# Financing



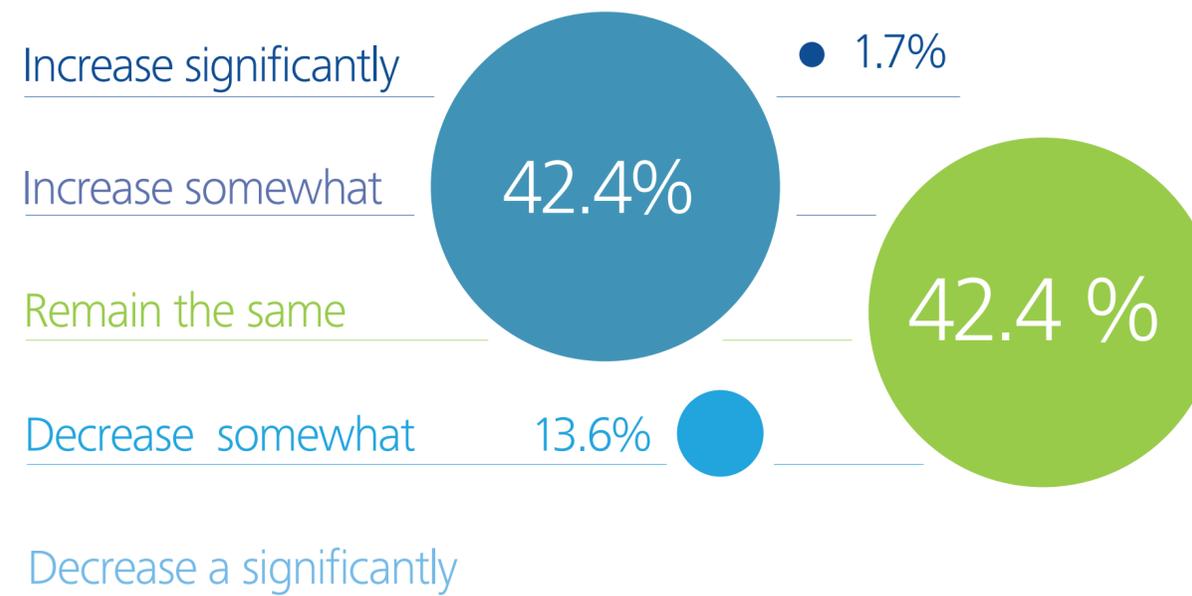
# Financing

61.0% of CFOs are not planning any EU co-funded strategic investments in the next 12 months. This indicates the need to pay more attention to EU funding opportunities.

An equal proportion of Croatian CFOs (42.4%) expect a moderate increase or no change in the costs of finance on the domestic market over the next 12 months.

Graph 9

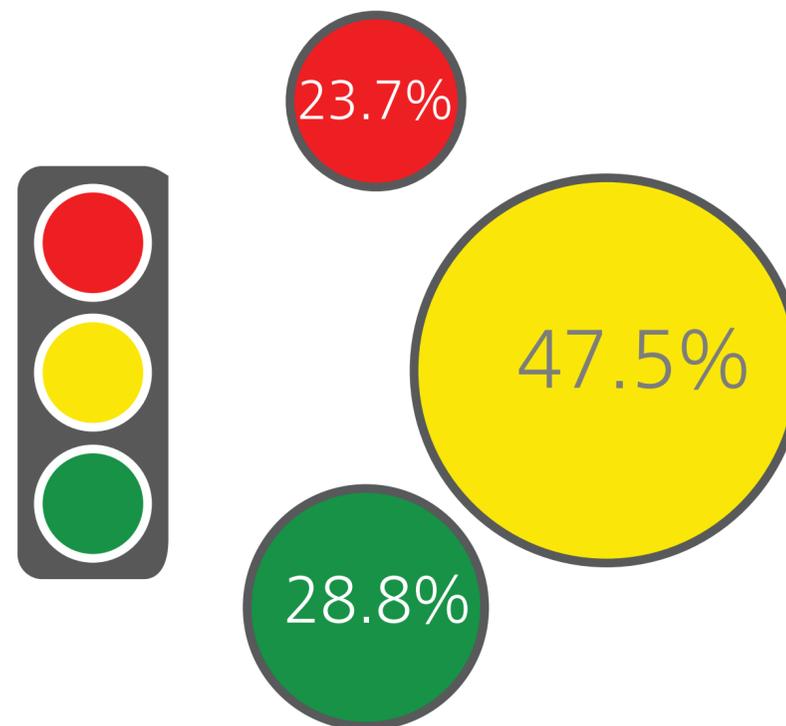
In your view how are financing costs for companies in your country likely to change over the next 12 months?



Raising equity as a source of funding is considered neither attractive nor unattractive by 47.5% of the interviewed CFOs. Similarly, 50.0% of respondents see bank borrowing as neither attractive nor unattractive.

The proportion of responses stating that raising equity is more attractive than debt financing (28.8% vs. 20.7%) has increased.

Graph 10  
**Currently raising equity as a source of funding is:**



## The Deloitte perspective

The survey suggests that CFOs and other company stakeholders should pay more attention to opportunities associated with EU funding and explore the availability of funds for their organisations' investment projects. EU financing should reduce the cost of capital of investment projects and may increase projects' net present value (NPV), or even reverse the status of NPV-negative investment projects into NPV-positive activities.

# Talent



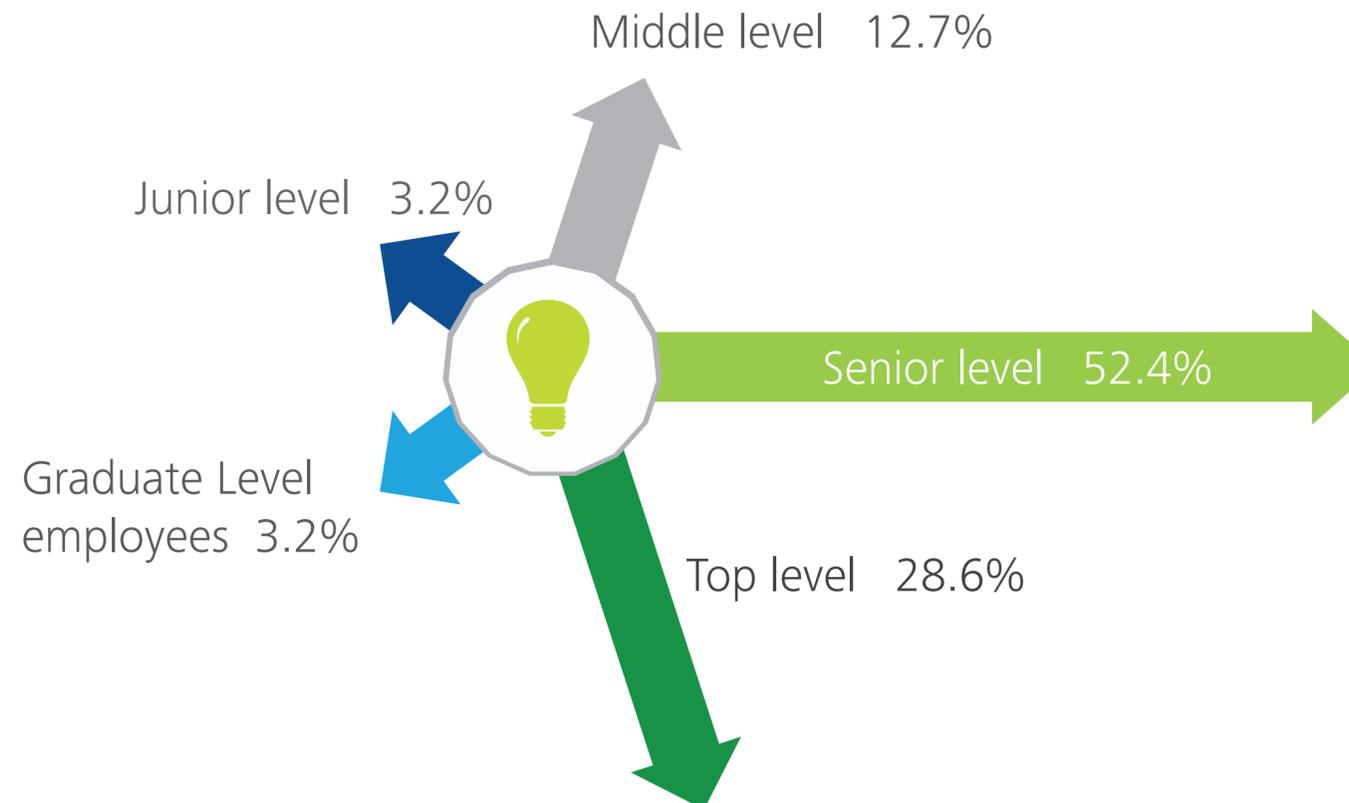
# Talent

Expectations of a shortage of senior-level finance talent have increased substantially over the last year, while anticipated shortages at the top level have diminished.

Over a fifth of Croatian CFOs anticipate finance-talent shortages over the next year, a slight increase since the last survey when 25% of CFOs anticipated talent shortages.

Expectations of a shortfall in finance talent at senior levels increased from 36% to 52.4%. The opposite situation is found when it comes to anticipated shortages at the top level, which fell from 39% to 28.6%.

Graph 11  
Where do you expect significant shortages in talent in finance over the next year?



## The Deloitte perspective

The survey findings regarding finance talent follow the global human capital trends in indicating a significant gap between, on the one hand, the urgency of the talent and leadership issues that leaders face today and, on the other, their organisations' readiness to respond to them. On every critical issue – leadership, retention and hiring, learning and development, analytics – executives recognise the need to take action but express reservations about their teams' ability to deliver results.

Companies should develop and implement strategic HR programmes in order to recruit, identify, develop and retain key talent. These programmes are of critical importance for profitable and sustainable business operations over the mid and longer terms. Also, CFOs and other key stakeholders should be aware of and act accordingly with the CFO's strategic role and responsibilities.



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We would like to thank all participating CFOs for their efforts in completing our survey. We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organization rates among peers.

#### **About the survey**

The 6th CE CFO survey took place in October & November 2014. A total of 550 CFOs across 14 countries completed our survey. The Deloitte CFO Survey is the only survey that seeks to establish the views of CFOs in relation to the financial markets, economic outlook and business trends on a quarterly basis.

Deloitte CE CFO survey is a “pulse survey” that provides CFOs with information regarding their peers’ thinking across a variety of topics. It is not, nor is it intended to be, scientific in its number of respondents, selection of respondents, or response rate —especially within individual industries.

For more information on the Deloitte CFO Survey please contact:

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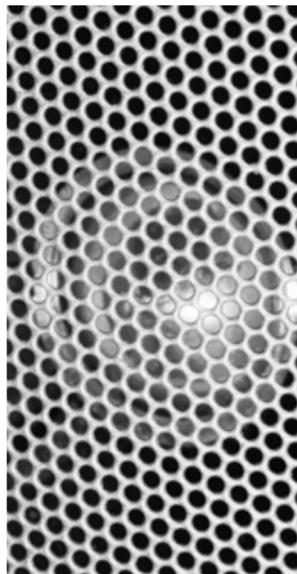
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