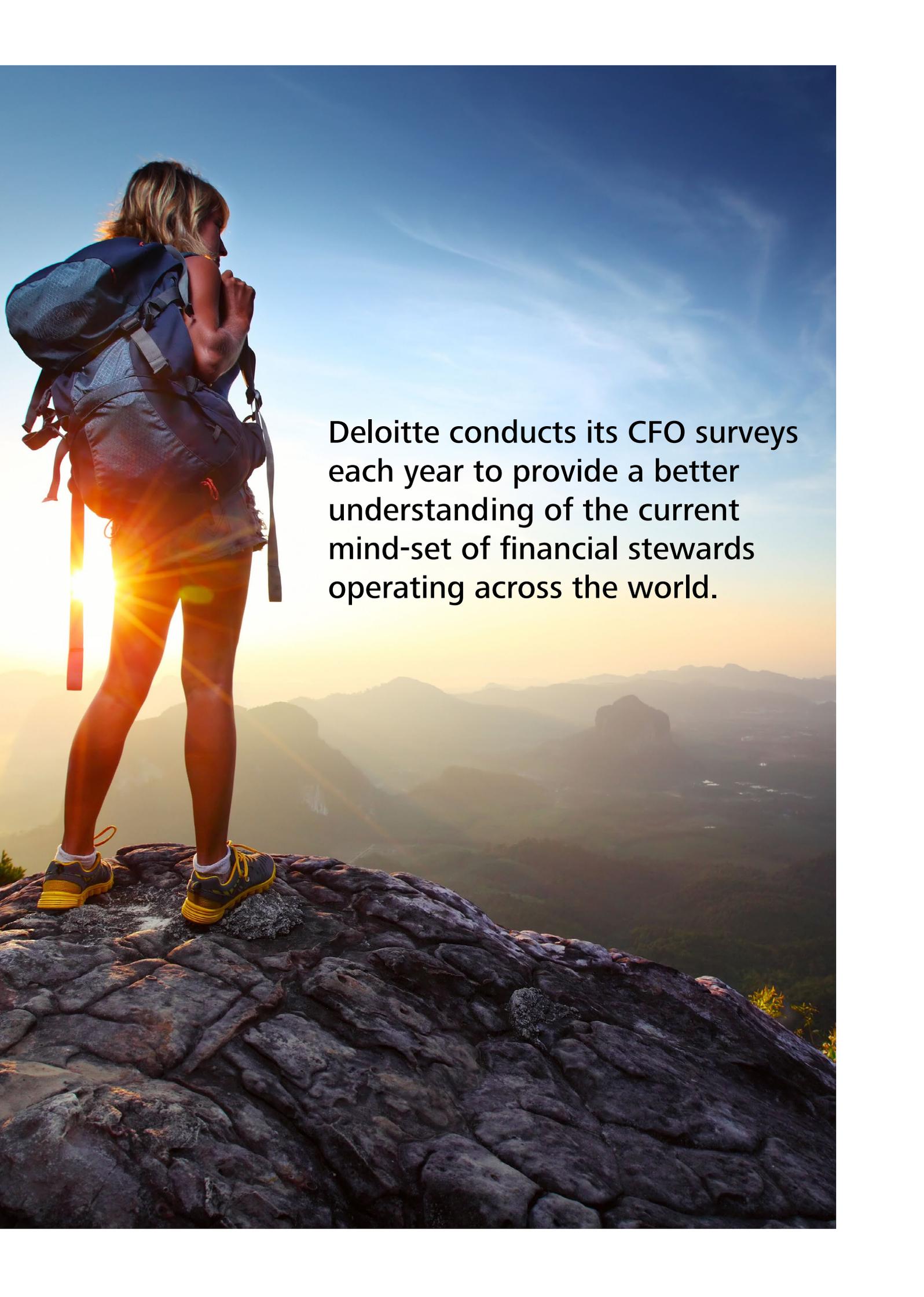


Deloitte.

Botswana **CFO** 2014 Report

We've climbed mountains.
Now we're ready to do it again.





Deloitte conducts its CFO surveys each year to provide a better understanding of the current mind-set of financial stewards operating across the world.

Welcome to the 2014 Deloitte Botswana CFO Survey

Foreword

Dear Reader

We are pleased to present our 2nd Deloitte CFO Survey for Botswana, consistently one of the most stable and well-managed economies in Southern Africa.

Deloitte conducts its CFO surveys each year to provide a better understanding of the current mind-set of financial stewards operating across the world. From this survey, we hope to gain a better understanding into the underlying mood of Botswana's CFOs and to ascertain what the underlying drivers are which are shaping their behaviour and strategic choices. In our survey we also seek to determine whether there is a convergence or divergence of views on a number of topics and whether or not there are common trends among actions proposed by CFOs that may be insightful to their peers and to other readers of this report. This involves canvassing CFO views on:

- The economy and current business climate
- Their strategic intent
- The cost of funding (interest rates) and the availability of funding
- Short and medium term currency outlook
- Cash flow and investment priorities for 2014 and beyond
- Availability and use of key talent
- Growth opportunities in the rest of Africa and other markets
- Topical subjects such as industry challenges, smart technology and social media
- The role of the CFO

This has provided us with rich insights as to what is top of mind for CFOs in Botswana as they navigate through today's exciting but challenging times. Deloitte recognises the crucial role that CFOs play around the globe as key decision makers in their respective companies and the daily challenges that CFOs face as they juggle the roles of Steward, Operator, Catalyst and Strategist.

We have a well-established CFO Programme with the purpose of supporting and partnering with CFOs to better equip them to meet these everyday challenges. We have assisted many CFOs in unlocking great potential for themselves and their companies in the past. We sincerely hope that the insights and information provided in this report will be of great value to our valued clients and readers alike.

Best Regards



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Summary

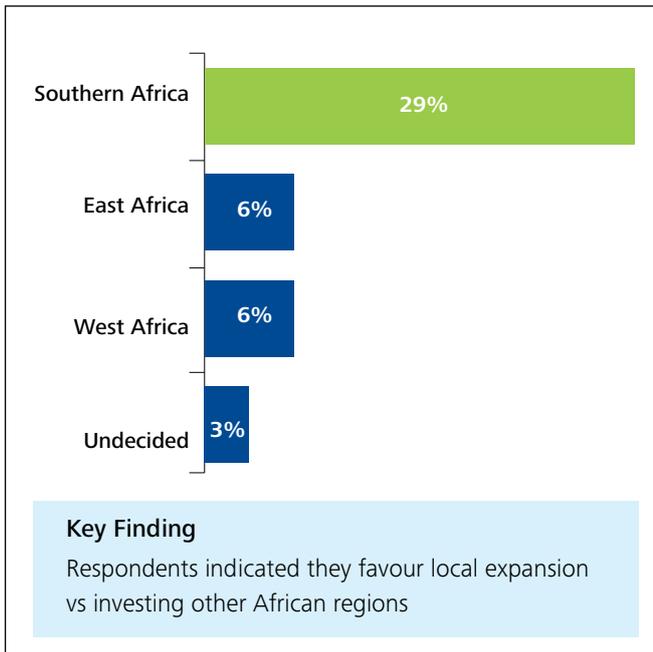
The 2nd Deloitte Botswana CFO Survey was conducted against a background of prevailing economic pessimism across Southern Africa. This was largely driven by the general feeling of uncertainty in South Africa, the continent's second biggest economy and the commercial juggernaut of the region.

The prevailing climate of economic stasis in South Africa seems to have rubbed off on Botswana, which still conducts an inordinate amount of trade with its southern neighbour. South Africa's monetary policy also has a direct impact on that of Botswana, whose currency is pegged to a basket of currencies of which the rand accounts for a large weighting.

In total 34 CFOs and Financial Directors participated in the Botswana survey with financial services (11), construction (5) and mining (4) accounting for the majority of respondents. The majority (62%) of Botswana's CFO respondents represent companies with annual turnovers of less than \$25 million with a further 21% hailing from entities with turnovers of between \$25 million and \$50 million.

As with the findings from the Southern Africa CFO Survey for 2014, respondents from Botswana indicated that companies favoured expanding within their region rather than other parts of the continent. Of those looking to expand into new markets in the rest of Africa, 29% favoured Southern Africa while only 6% indicated a desire to expand in each of East and West Africa.

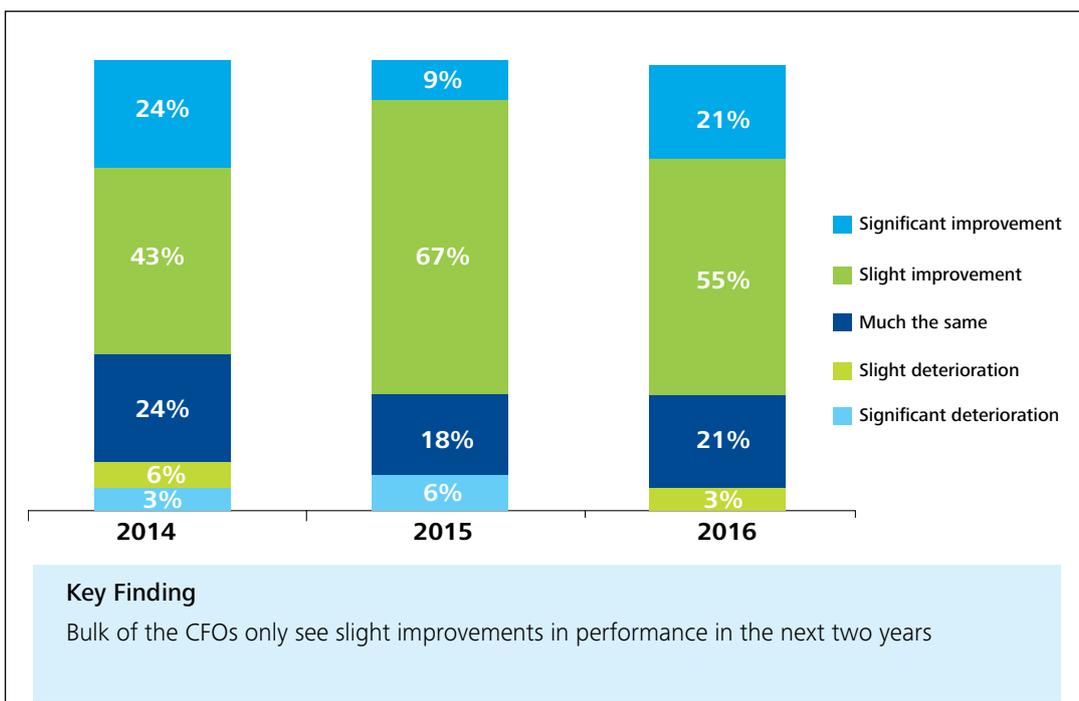
Figure 1. Regions for future expansion



Expected company performance

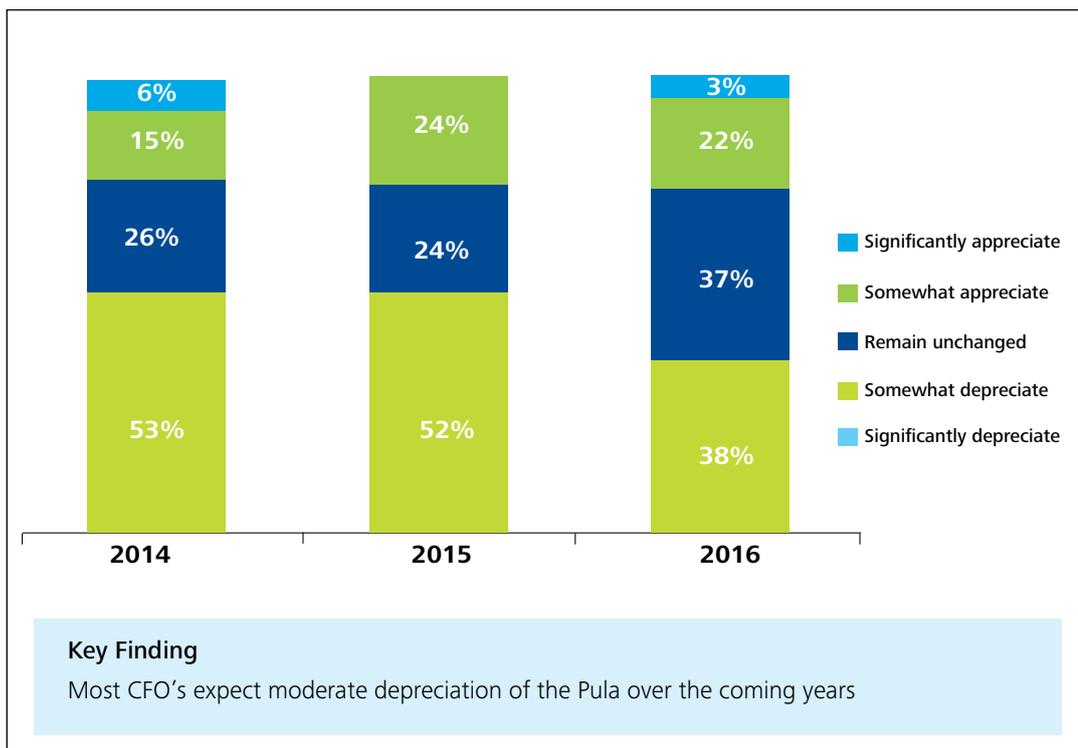
Moderation seems to be the name of the game in terms of how CFOs from Botswana see the fortunes of their companies over the next few years. The bulk of CFOs foresee only slight improvements in company performance this year as well as 2015 and 2016. Moreover, while 24% predict significant improvement in 2014 this figure moderates to just 9% in 2015. Worryingly, 3% of Botswana’s CFOs expect significant deterioration this year and a further 6% predict the same outcome for 2015.

Figure 2. Company performance outlook 2014, 2015, 2016



Currency

Figure 3. Local currency Pula vs US dollar



Most CFO's in Botswana predict moderate Pula depreciation both this year and next with stability only returning in 2016. This echoes the sentiment in neighbouring South Africa where the bulk of CFOs remain bearish on prospects for the rand, a currency that has plummeted 21% since the beginning of last year and 16 July 2014.

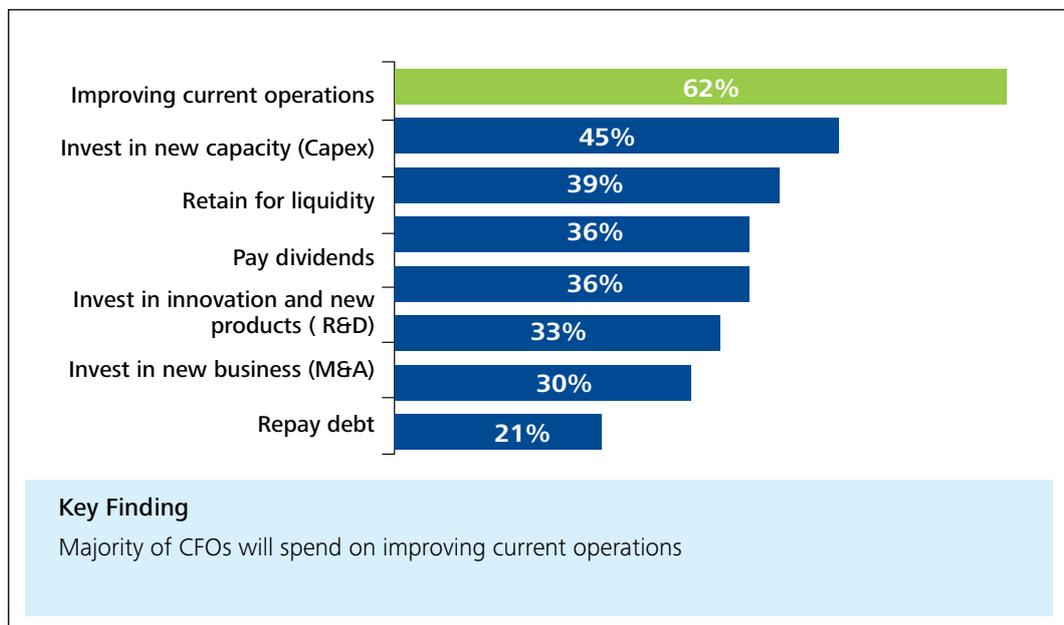
Cash flow priorities

In keeping with the generally cautious mood in the country, the majority of Botswana's CFOs favour deploying cash to improve existing operations. No less than 62% of respondents rank this among their top three cash flow priorities for this year, slightly higher than the 59% who said the same thing in 2013. Interestingly, despite the general sense of caution among Botswana's CFOs about investing in the rest of Africa, this did seem to be a cash flow priority with 33% of respondents ranking this among their top three priorities for cash, a slight improvement on last year's 26% figure.

Surprisingly, CFOs in Botswana appear more willing to return cash to shareholders with 36% favouring this as a top cash flow priority. This was in stark contrast to South Africa where returning cash to shareholders has consistently ranked among the least favoured uses of cash.



Figure 4. Cash flow priorities

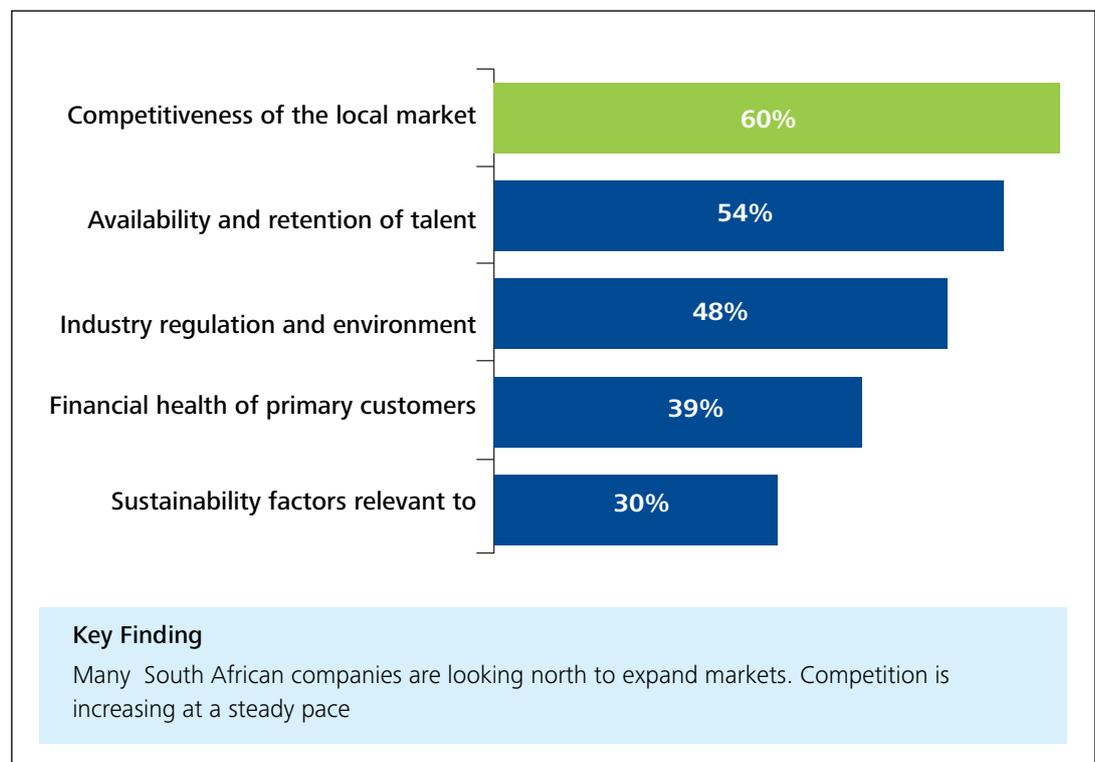




Deloitte's Southern African CFO report found that 52% of South African respondents indicated that their companies had recently expanded into the rest of Africa and of those who hadn't a massive 80% were planning to do so this year.

Industry concerns

Figure 5. Top 5 industry concerns (Top three concerns, aggregate %)



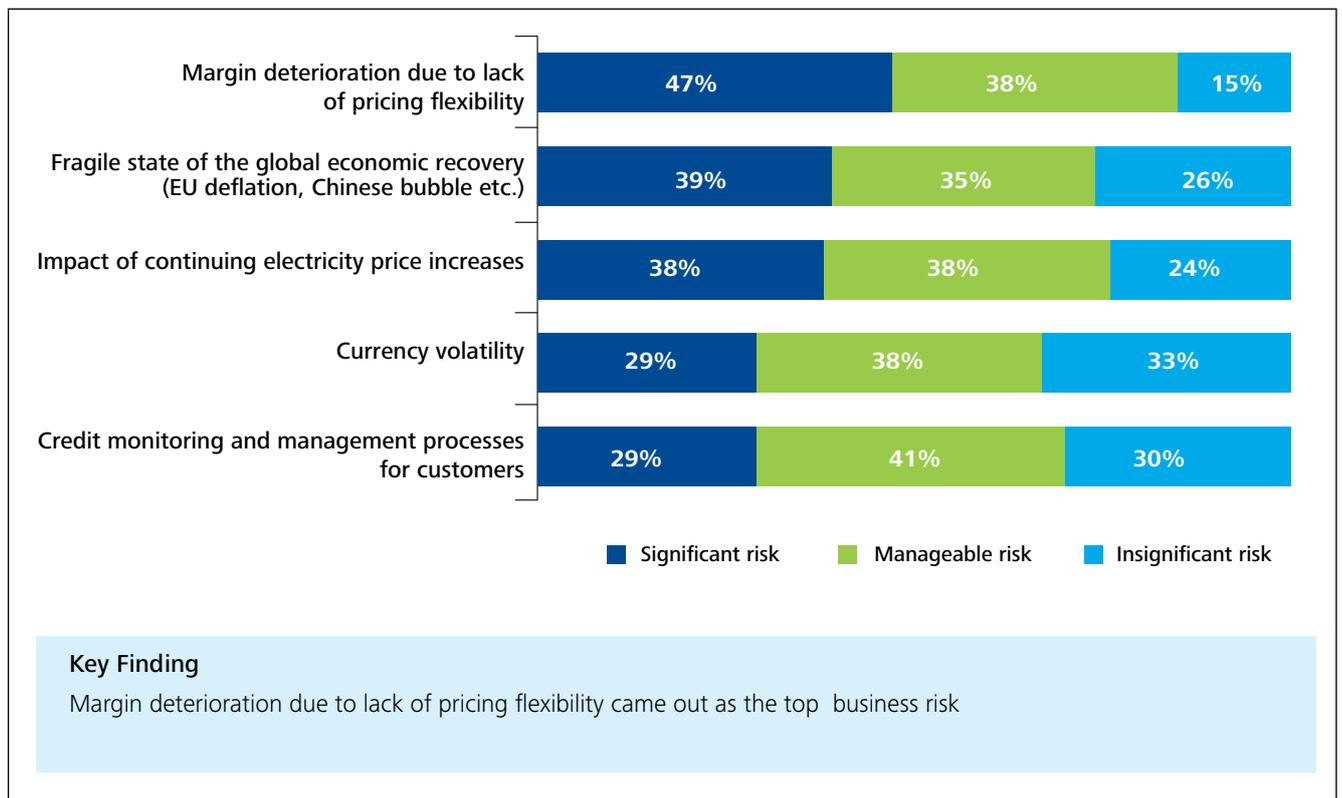
As is the case in the rest of Southern Africa, CFOs in Botswana are very concerned about competition in their local market with 60% of respondents ranking this among their top three industry concerns. This may be due to the steady influx of South African firms who are almost uniformly looking north of their own country's borders for growth opportunities. Deloitte's Southern African CFO report found that 52% of South African respondents indicated that their companies had recently expanded into the rest of Africa and of those who hadn't a massive 80% were planning to do so this year.

As is the case elsewhere in Africa, regulation is becoming an increasing challenging for businesses operating in Botswana. Regulation was identified by 21% of respondents as their most pressing concern with a further 18% ranking it second and 9% naming it as the third most important industry concern. Other issues raised by Botswana's CFOs were the availability and retention of talent, sustainability and the financial health of their primary customers. Sourcing the appropriate skills and talent was a common challenge raised by CFOs across the continent, having featured strongly in Deloitte's Southern and East African surveys.

Risk factors

One of the consequences of the moderate growth being experienced across most economies in Southern Africa is the frequency with which margin deterioration was mentioned by CFOs in the region as a major concern. Rising competition in domestic markets is no doubt also a contributor. In Botswana, 47% of CFOs rated margin deterioration due to lack of pricing flexibility as a “significant” risk factor followed by the fragile state of the global economy (39%), the impact of power price increases (38%) and currency volatility (29%). While not shown in the table below, a further 24% ranked margin deterioration due to input costs pressures as a significant risk, highlighting the tide of inflationary pressure that is adding to profitability concerns among Botswana’s CFOs.

Figure 6. Top 5 business risk factors



Business strategy

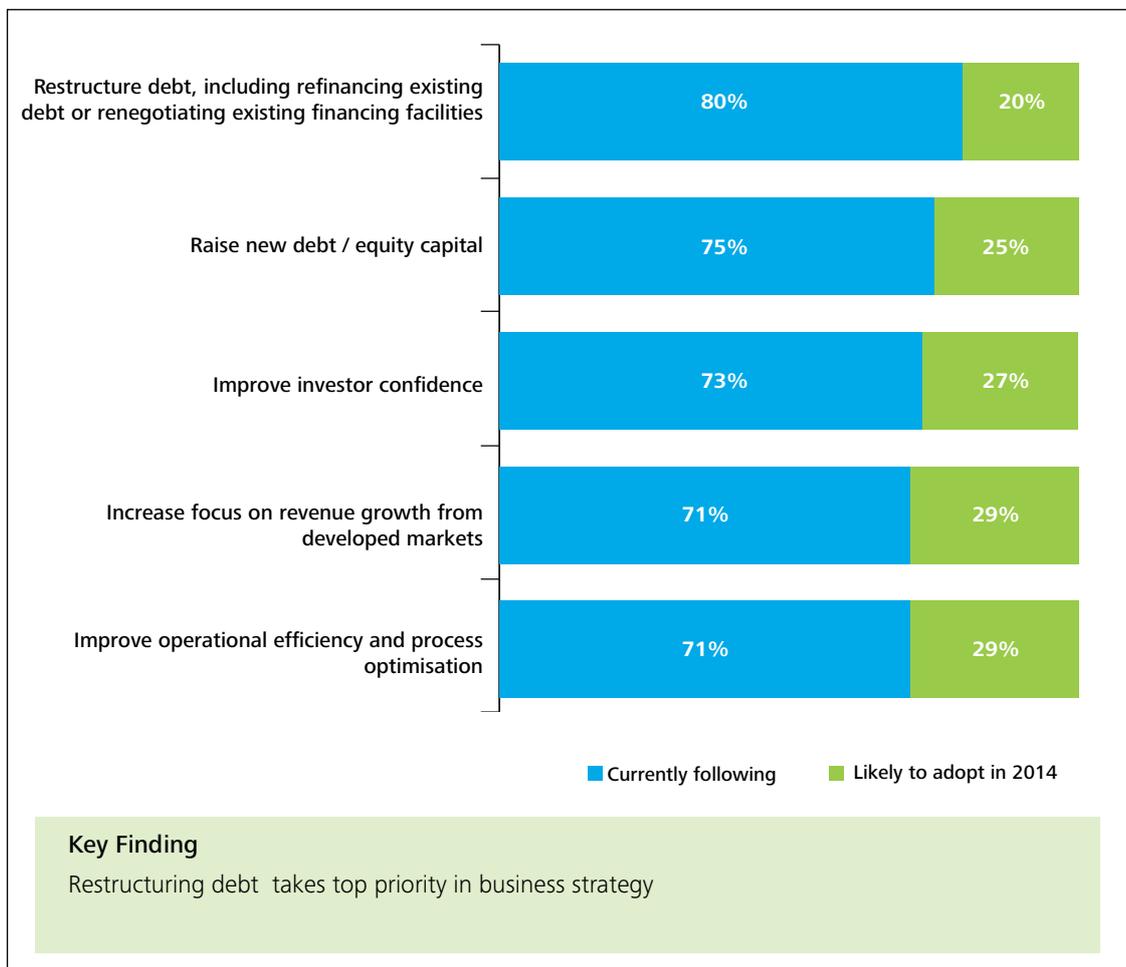


Botswana's CFOs seem to be overwhelming in favour of restructuring or refinancing existing debt facilities with 80% saying they are currently implementing this as a key business strategy. The most likely reason for this is the uptick in inflation in neighbouring South Africa and the consequent warnings from that nation's Reserve Bank that monetary policy has moved into a tightening phase. Given that Botswana's monetary policy is still influenced by that of its southern neighbour and major trading partner, it's not surprising that Botswana's CFOs would favour locking in low interest rates before the rate hiking cycle begins in earnest. A further 75% of CFOs in Botswana favour raising new debt or issuing additional equity to shore up finances. Other strategies include improving investor confidence (73%), growing revenue from developed markets (71%) and improving operational efficiency (71%).



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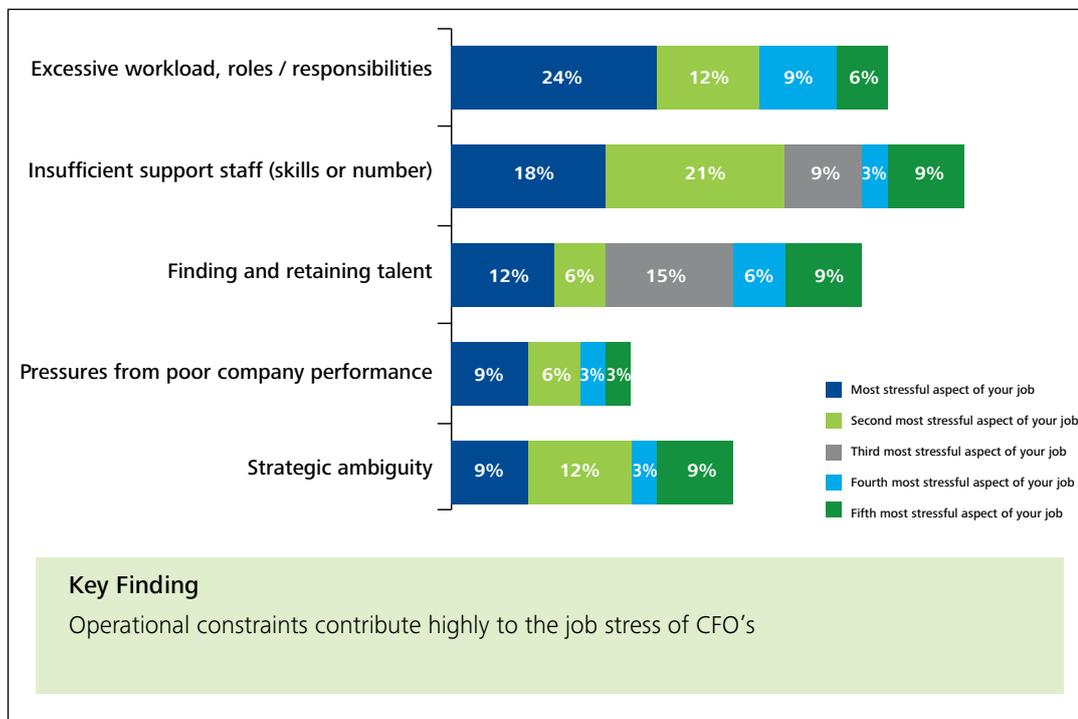
Figure 7. Strategic approach



Job stresses

As with past CFO reports in various constituencies, CFOs in Botswana feel they are overworked, under pressure from poor company performance, distracted by low-value administrative tasks but fairly remunerated. An excessive workload has highlighted by 51% of CFOs in Botswana as being among the top five job stresses followed by low-value administrative work (63%) Human capital was identified as a big challenge for CFOs with finding & retaining talent (48%) and insufficient support staff(60%). Just 12% rated poor remuneration as a top five job stressor.

Figure 8. Top 5 Job stresses





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