



Dutch Caribbean CFO Survey

Ready for new challenges

Winter 2021

Foreword

As part of our commitment to the local community and local leaders, we are pleased to present you with the results of our second edition of the CFO Survey

Following the successful first edition of the CFO survey, we present you the second edition of our survey with market and business sentiments of the local CFOs and financial directors for 2021.

In the first survey edition we presented the results separately for the islands of Aruba and Curaçao. However, due to the current turbulent times and since both island are facing similar challenges, we decided to present this edition's results in a combined report. When relevant we provide a breakdown and separate analysis for each island.

We believe that gaining insights into the current market conditions is of great importance to the Dutch Caribbean leaders and decision makers. Our survey showcases how organizations and its leaders are planning to adapt to the challenging economic environment and overcome the structural weaknesses while accentuating their strengths. This survey is able to show how the market sentiment and expectations have evolved since the last edition.

We hope that this initiative will bring the CFO community together and facilitate a discussion on how to better overcome the current financial crisis and economic challenges. We would like to thank all the participating CFOs and financial directors for their time in contributing to this initiative.

We look forward for your feedback and we are open to any questions you may have. We also invite any other executives to get in touch if they would like to participate in future editions, or if they would like a more in-depth discussion on the contents of this report.



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Executive Summary

Although most local CFOs expect an initial recovery from the current COVID-19 crisis before the end of 2021, the confidence levels and risk appetite are still low. As a result, defensive strategies are prevailing and some interesting trends are arising

The global pandemic COVID-19 is having an unprecedented impact on the Dutch Caribbean economies with a decline in real Gross Domestic Product (GDP) of 26% in Aruba and 20% in Curaçao during 2020.

This recession is affecting both islands' economies due to a sharp decline in (external) demand for local goods and services. The main concern for the local CFOs is the current economic outlook and growth prospects for both islands' economies and their companies' products. With respect to the recovery timing, the majority of CFOs has either seen the start of a recovery in 2020 (23.8%) or expects it to happen in 2021 (35.7%).

The risk appetite and willingness to invest is nevertheless low and CFOs do not think this is a favorable time to take risk onto their balance sheets.

In our survey we also asked CFOs what are the most attractive sources of financing for their new initiatives and operations. On average, equity financing and corporate debt (i.e. bonds) are the most interesting sources of finance. Bank borrowing lost much of its attractiveness since the last survey perhaps as companies already received payment holidays from their banks or since the conditions to borrowers are less attractive than before.

For the next twelve months, cost reduction seem to be the priority strategy to be implemented according to the local CFOs. This strategy is followed by other defensive strategies such as liquidity management and working capital efficiency. Notably many leaders chose digitalization as a strategy to follow in 2021, which shows innovation and adaptation to the local sanitary constraints.

Looking ahead

The islands' financial executives believe there are certain challenges that require special attention from the islands' decision makers in order to create the necessary conditions for a better economy and more foreign investment.

The CFOs would like to see more economic diversification. They point out that tourism still provides opportunities, especially the quality tourism, but it is not enough as seen by the current shock that our economy is experiencing.

Part of the solution may relate to the ability to attract more foreign investment including loans and grants from the Netherlands. Other CFOs mention higher labor flexibility and less red tape as key factors for higher economic growth.

The local CFOs see the high unemployment rates and the lack of leadership as one of the biggest challenges to overcome. As pointed out in the previous edition, budget discipline and government excessive expenditure also need to be addressed.



Macroeconomic update: A tough year in review

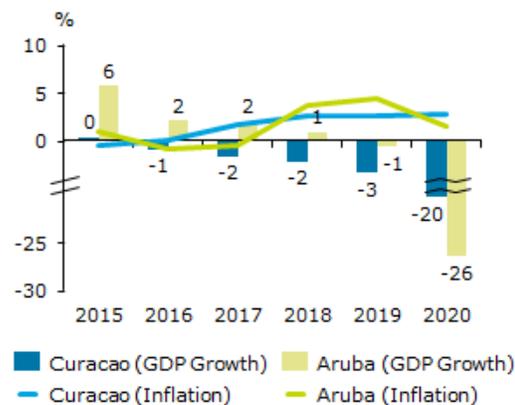
The COVID-19 outbreak aggravated the ongoing economic depression

The economies of Aruba and Curaçao have reported structural economic growth challenges in the last years, as shown by the low real Gross Domestic Product ("GDP") growth rates.

The difficulties in finding a new refinery operator for the local oil refineries has been one of the main reasons for the economic depression leading to high unemployment rates, low net foreign exchange inflows and a great impact on many other sectors of our economy, such as logistics, commerce and financial services.

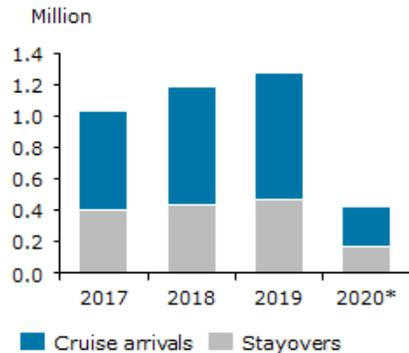
In addition, Venezuela's long-lasting socio-economic crisis has both directly and indirectly contributed to the GDP contraction. Several once-important drivers of the economy, such as financial trust services and manufacturing, have been losing their importance.

Chart 1. GDP and inflation rate



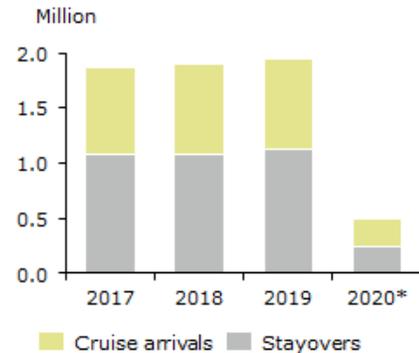
Source: Central Bank of Curaçao and Sint Maarten
Central Bank of Aruba

Chart 2a. Total Tourism Arrivals (Curaçao)



Source: Curaçao Tourism Board

Chart 2b. Total Tourism Arrivals (Aruba)



Source: Aruba Tourism Authority, Aruba Ports Authority

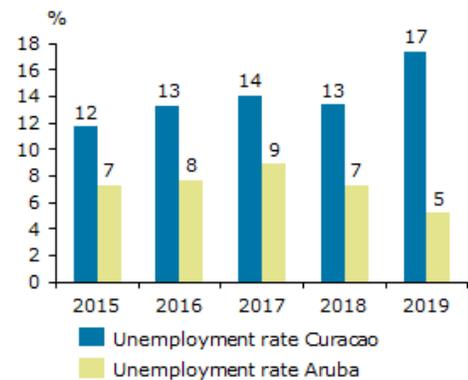
The ongoing crisis caused by the COVID-19 outbreak has resulted in an unprecedented economic and social crisis.

The Aruban and Curaçao economies, strongly dependent on tourism arrivals and foreign consumption, have been initially affected by the border closure as seen by the sharp decline in both cruise tourists and international visitors arriving by plane.

The crisis was later aggravated by precautionary measures from the local authorities such as lockdowns and night curfews which prevented the local businesses to operate as normal. Despite receiving economic support from the Government many business owners decided to (temporarily) close their doors and/or reduce their work force which has increased the already high unemployment rates in Curaçao.

Also when the financial support from the Government and the banks comes to an end, it is expectable to see some changes in the local economies' competitive landscape.

Chart 3. Unemployment Rate



Source: Central Bureau of Statistics Curaçao
Central Bureau of Statistics Aruba



CFO Sentiment



Certain sectors expected a recovery before the end of the year

The majority of CFOs has either seen a recovery during 2020 (24%) or expects one during 2021 (36%)

The ongoing COVID-19 outbreak is having a very negative impact on the local economies of Aruba and Curaçao as witnessed by the GDP contraction during 2020.

We asked our local CFOs when they expect their company's revenues to recover to pre-crisis levels and learned that 23.8% of the companies have seen their revenues returning to or exceeding the pre-crisis levels.

The recovery expectations also vary depending on the company's industry as shown in graph 4b. The CFOs of real estate and construction companies have, on average, achieved a recovery during 2020. The financial services and trade companies expect, on average, a recovery later during 2021.

Companies in the hospitality and food service sector as well as health care and technology companies were affected the most and expect a recovery no sooner than 2022.

Chart 4a. Financial recovery expectation

Based on the information you have so far, when do you expect your company's revenues to return to the pre-crisis levels?

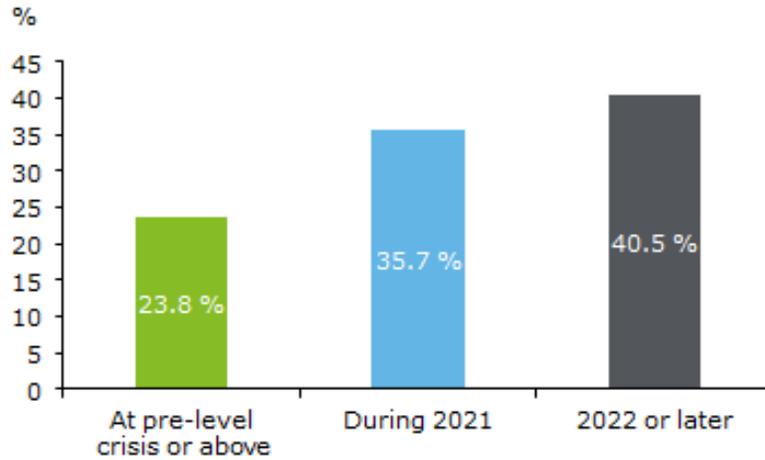
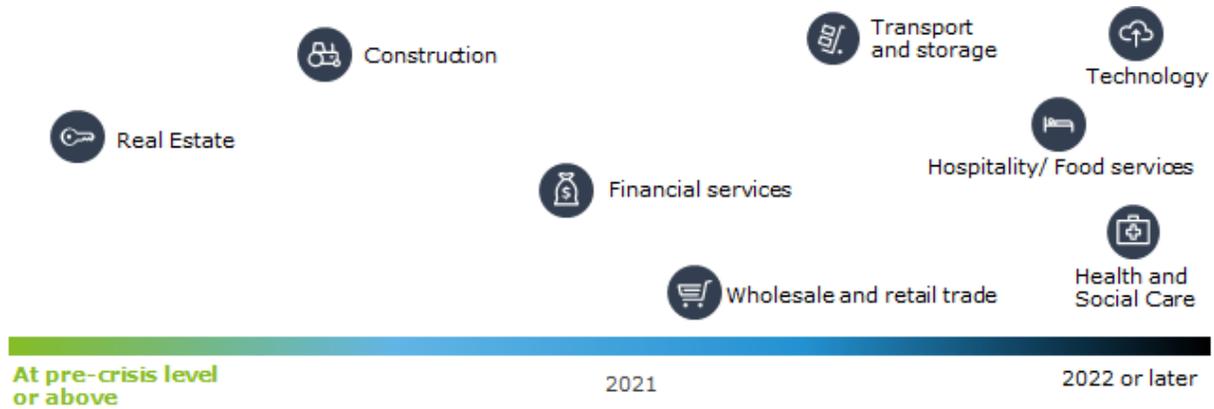


Chart 4b. Financial prospects per sector

Compared to three months ago, how do you feel about the financial prospects for your company?



* Expectations per sectors based on weighted average expectations of industry respondents



Lower profitability and less investments planned

CFOs expect a decrease in operating margins in the next twelve months. CAPEX and human capital investments may be postponed

When asked about the financial prospects over the course of the next twelve months we noticed an increased pessimism compared with the previous survey performed one year ago.

On average, CFOs expect profitability, measured by operating margins, to decline over the course of the next twelve months, with a -29% net balance index*. This shows a decrease compared with the last year's net balance index of -4%.

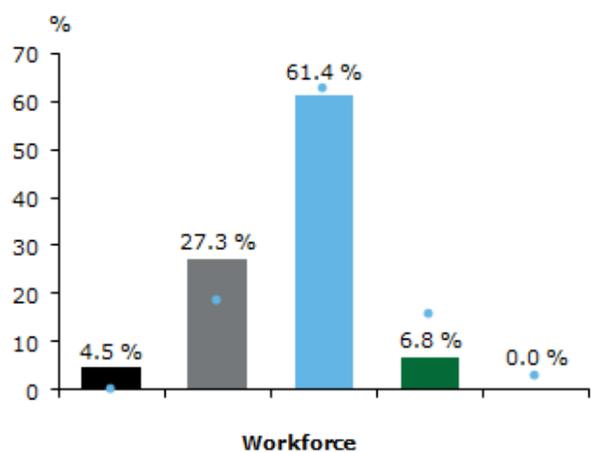
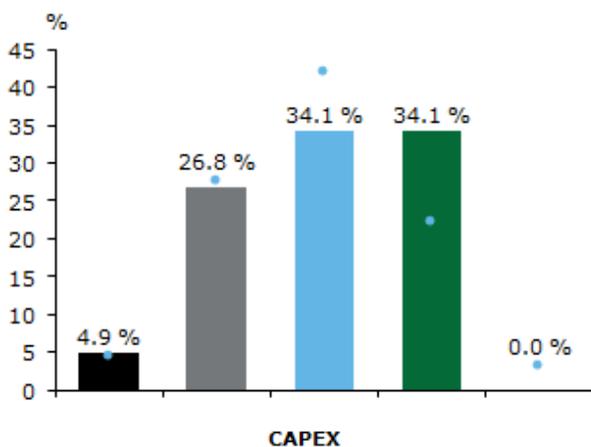
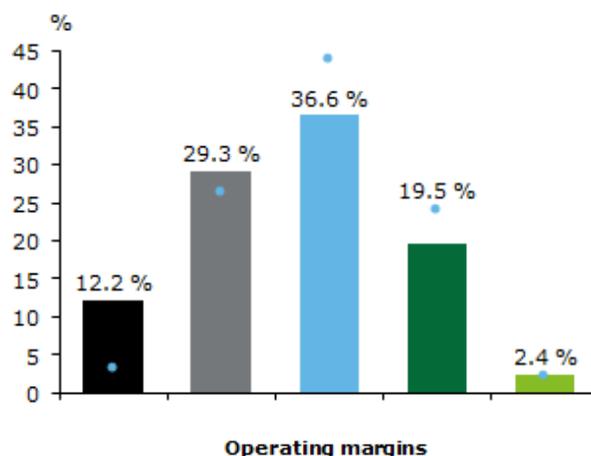
Our islands' executives also seem cautious when proceeding with capital investments, as seen by the negative net balance index of -2%. This metric shows an improvement compared with the previous year net balance of -8%.

Investments in human capital also seem less likely than last year as measured by a negative net balance index of -30% when compared with last year's index of 0%. The end of the Government support program (FASE and "Loonsubsidie" in Aruba; the "NOW regeling" in Curaçao) may result in companies proceeding with workforce restructuring.

** Net balance is an index value calculated by subtracting the percentage of respondents whose response is negative from the percentage of respondents whose response is positive. Significant increases or decreases are weighted strongly (double).*

Chart 5. Expected company profitability and investments (%)

How are the following key metrics for your company likely to change over the next year?



Decreasing significantly
 Decreasing
 Same
 Increasing
 Increasing significantly

• Previous survey results

* Net balance is an index value calculated by subtracting the percentage of respondents whose response is negative from the percentage of respondents whose response is positive. Significant increases or decreases are weighted strongly (double).

Ready for new challenges

CFOs' economic prospects are still negative for 2021...

Despite the great contraction of 2020, local CFOs expect, on average, a further GDP decline of -1.6% and an inflation rate of 3.4%

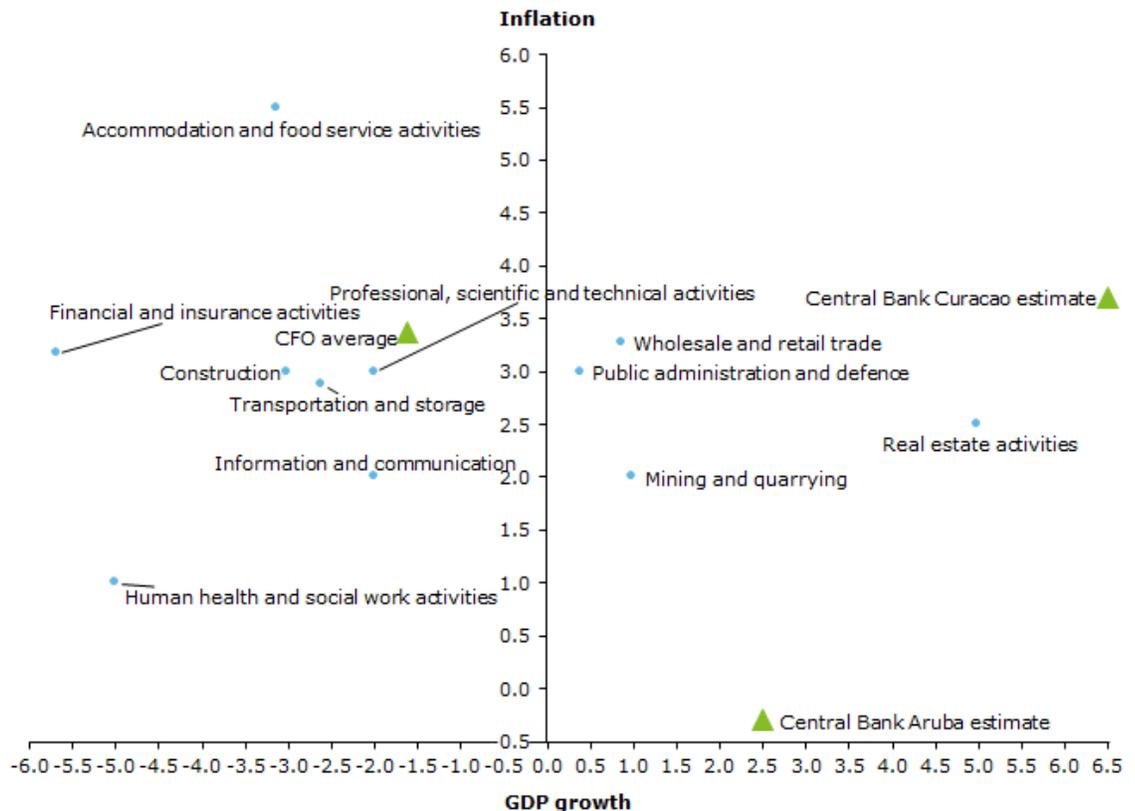
The islands' CFOs seem to have mixed expectations about GDP growth and inflation developments for the next twelve months. On average, these expectations are negative, with an average GDP growth of -1.6% and inflation rate of 3.4%.

Certain sectors (i.e. Real Estate) have a more positive outlook than others (i.e. Financial and Insurance activities) as shown in chart 6. Another interesting point is that, on average, the CFOs' GDP growth expectations are lower than the estimates of the Central Banks of Aruba and Curaçao of 2.5% and 6.5%, respectively.

As for inflation, the CFOs' expectations in Curaçao are in line with those of the Central Bank (3.7%) while in Aruba the CFOs have a higher estimate (3.1%) than that of the Central bank (-0.2%).

An interesting insight from the answers collected is that Hospitality related companies (i.e. hotels, restaurants) and Financial services companies, arguably two of the best performing sectors on the islands, have some of the most negative expectations, both in terms of GDP growth and inflation.

Chart 6.
Macroeconomic expectations - GDP growth and inflation rate
What do you think the inflation rate (Consumer Price Index and GDP growth in Curaçao will be over the next twelve months?



...which brings uncertainty and may prevent risk-taking at a corporate level

The current high uncertainty levels may lead to less risk taking, either in terms of new investments or additional leverage

The current adverse financing conditions and the economic uncertainty are causing high levels of uncertainty with a net balance confidence value of -66% in Aruba and -73% in Curaçao.

Hence, the great majority of CFOs does not believe this is the right time to be taking significant risk onto their balance sheet. The Aruban CFOs' risk appetite, measured by a net balance index of -66%, seems to have improved compared with last year's survey index of -69%. Curaçao CFOs on the other hand seem to be more risk averse than the last year with a net index balance -73%.

As far as the preferred sources of financing are concerned, we note a marked shift in preferences from our previous survey. Bank borrowing became a much less favorable source of financing, while equity financing is now considered to be the most advantageous option.

This may be due to the fact that loan repayment holidays provided by the banks during the pandemic may have led to less interesting conditions offered to new potential borrowers.

On the other hand, equity financing has become a much more interesting, which may be due to the fact that implied valuations may not be reflecting the negative impact of COVID-19 on future cashflows.

Chart 7. Risk appetite (net balance %)

Is this a good time to be taking risk onto your balance sheet?

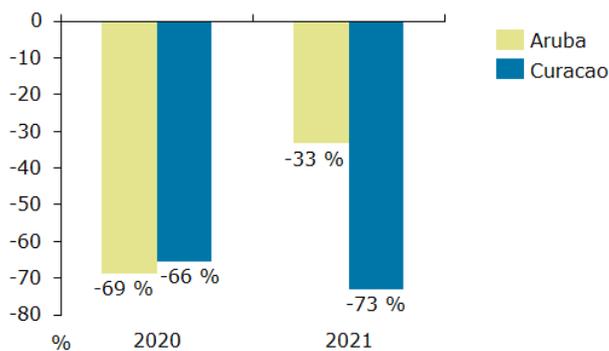
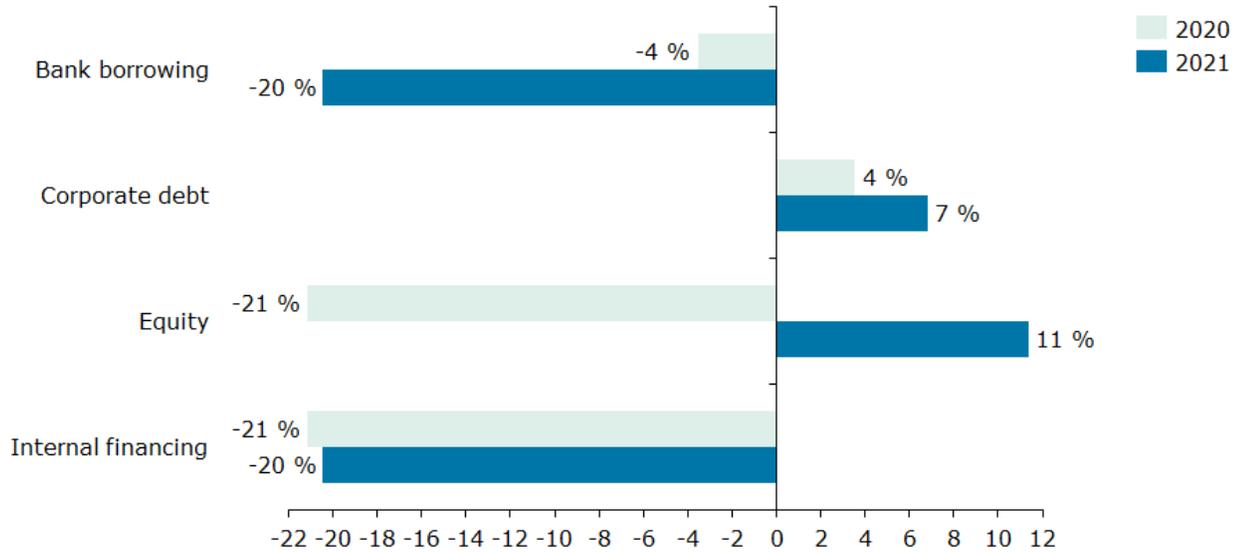


Chart 8. Sources of financing

How do you currently rate the following sources of funding for your company?



Unfavorable economic outlook is still a major concern for the local CFOs

Reduction in customer demand and the fear of additional lock-downs were also referred to as important business risks for the coming year

Our survey asked our respondents to pick the three biggest risks affecting their businesses. The responses obtained show high consistency amongst the islands' CFOs.

The majority of the CFOs (78%) expressed their concern about the negative economic outlook and low growth prospects for the economy in 2021. This was also the biggest business risk chosen by CFOs in last year's survey.

Other business risks chosen by CFOs were a reduction in demand (61%) and additional COVID-induced lockdowns/ curfew (54%). These risk factors are interrelated as they fundamentally translate to lower sales and profitability.

Another COVID-19 related risk mentioned by CFOs is the health risk of top employees (20%).

Even though less CFOs chose the increase in regulations and geopolitical risks, the CFOs still consider these as major business risks (20% and 17%).

Finally it is worth mentioning that currency fluctuations (15%) and cyber risk (12%) gained much more importance while the shortage of skilled employees became less relevant (7%).

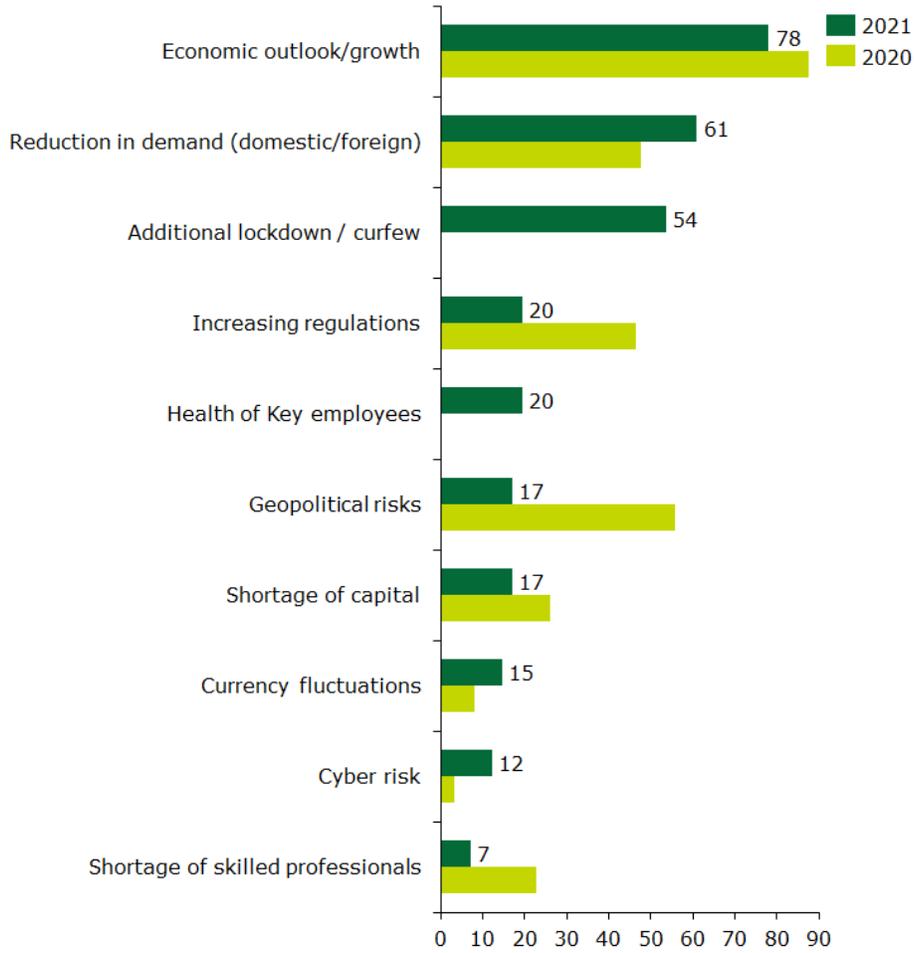
Chart 10a. Business risks

Which of the following factors are likely to pose a significant risk to your business over the next twelve months?



Chart 10b. Business risks

Which of the following factors are likely to pose a significant risk to your business over the next twelve months?





Defensive strategies on the horizon of many CFOs

However certain expansionary strategies such as digitalization and environmental and social responsibility standards are gaining traction

When inquired about the main initiatives and strategies for the upcoming year, the CFOs indicated a diverse range of strategies, with defensive strategies gaining traction in relation to last year.

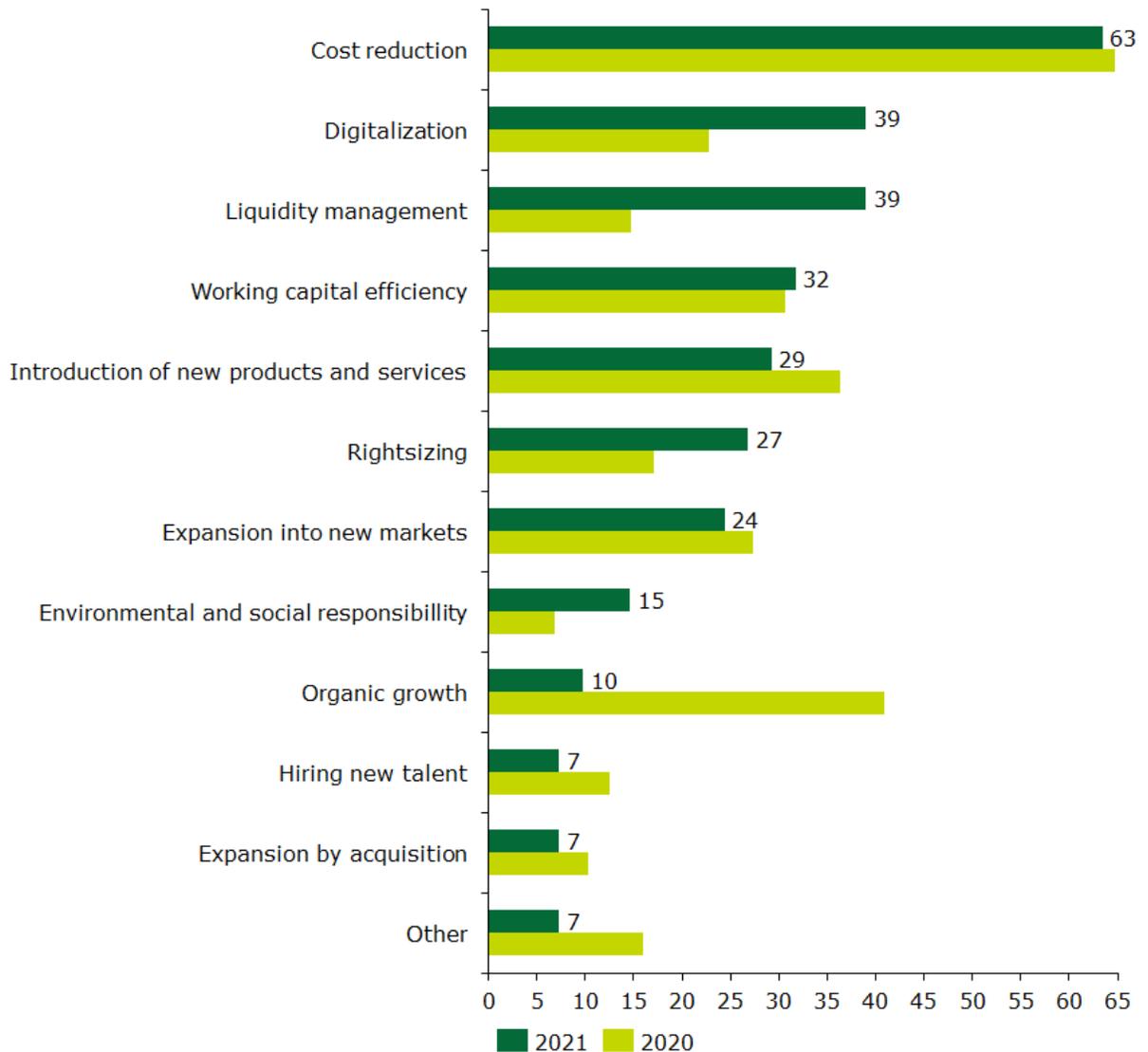
The top priority for our responding CFOs in the next twelve months remains cost reduction (63%), combined with other related defensive strategies such as liquidity management (39%), working capital efficiency (32%) and work force rightsizing (27%).

On the other hand, to maintain their competitiveness in the new normal situation, many organizations (39%) will be investing in digitalization and in introducing new products and services.

Another relevant point to note is the increase in environmental and social responsibility strategies to 15% this year from 7% in last year survey.

Chart 11. Strategies

Please select the following initiatives / strategies that will likely be a priority for your business over the next twelve months



Looking ahead

Looking ahead: Biggest opportunities

The biggest priority is economic diversification although tourism is still seen as a major opportunity for the island

In last year's survey the local CFOs mentioned tourism as the greatest opportunity for our islands including certain related terms such as niche tourism, medical tourism and eco-tourism.

This year's biggest priority for the CFOs is economic diversification. Our islands' economy strongly depends on tourism and the severe economic shock due to the current travel restrictions is illustrative of this.

Another major new trend in this survey edition relates to the positive role that foreign investment, especially the support from the Netherlands, can have in our local economies.

Labor flexibility, the development of our logistic infrastructure and the energy transition were also popular terms. They are seen as potential catalysts for development and growth.

12. Opportunities word map

What are the biggest opportunities for Curaçao in the next two years?



Looking Ahead: Challenges to overcome

The current high unemployment rate is our CFOs' biggest concern followed by quality of the islands leadership

Our islands' CFOs chose the current high unemployment rate as the biggest challenge to overcome in the next two years. This contrasts with the answers of last year's survey which focused more on the refinery future (Curaçao) and the increase in regulations (Aruba).

The Government and its leadership quality are also referred as a major challenge to overcome. Additionally many CFOs stated that corruption is an important obstacle for growth as well as the negative impact that unions have in our local economies.

The responding CFOs also frequently mention the Government's budgetary discipline and high levels of public debt as detrimental to the islands' success.

Finally, the lack of growth perspectives, lack of digitalization and inadequate infrastructure were other issues mentioned by the islands' financial leaders. All these challenges may result in a brain drain which is also referred by some CFOs as a major challenge to overcome.

Interestingly, both islands will have elections in 2021, a year of hope but also one filled with challenges.

Chart 13. Challenges word map
What are the biggest challenges for Curaçao in the next two years?







In Conclusion

The general sentiment of the CFOs of the Dutch Caribbean islands is very negative partly because of how the COVID-19 outbreak affects the local economies. Many CFOs do not expect recovery until 2022 or later, leading to a low risk appetite and defensive strategies. Looking ahead, economic diversification and more foreign investment are the main hopes for the coming year together with less unemployment and less excessive public spending

Acknowledgment

We would like to thank all participating CFOs for their support in completing the survey.

Participating in our survey

If you would like to take part in our next survey or would like to receive further copies of this report please contact us at ddcfinancialadvisory@deloitte.nl.

To be continued

Our next joint CFO survey for both Aruba and Curaçao is scheduled for the Winter of 2021/2022, enabling us to make comparisons between the two islands, and analyze potential trends over time.

About the CFO survey

The CFO Survey is part of a global cohort of surveys benchmarking the current and future intentions, sentiment and opinions of Chief Financial Officers. This second edition includes the views of 44 CFOs from Aruba and Curaçao grouped into 12 different industries

The data

The findings discussed in this report were collected from 44 participating organizations between October and December 2020 and across a variety of industries.

Some of the charts in the survey show the results as an index value (net balance), which is calculated by subtracting the percentage of negative responses from the percentage of positive responses given by our respondents. Significant increases or decreases receive a higher weight (double). This index displays the overall sentiment regarding the different aspects of our survey.

Sample composition by industry

Accommodation and food service activities	14%
Construction	2%
Financial and insurance activities	27%
Human health and social work activities	2%
Information and communication	5%
Mining and quarrying	2%
Other service activities	7%
Professional, scientific and technical activities	5%
Public administration and defence	2%
Real estate activities	5%
Transportation and storage	11%
Wholesale and retail trade	18%

Sample composition by size (revenues)

Less than ANG 1M	13%
ANG 1M- ANG 10M	19%
ANG 10M - ANG 100 M	47%
More than ANG 100M	22%

References

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https://cdn.centralbank.cw/media notes_and_advices/20201120_note_economic_2020_curacao_october.pdf
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4. Central bureau of statistics. Labor statistics
5. Curaçao Tourist Board. Arrival Performance.
6. Aruba Port Authority. Cruise arrival and calls
7. Aruba Tourism Authority. Stayover passengers statistics.

Meet the Team



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Saskia started in the audit practice, after which she made a switch in her career in 2016. She now works in financial advisory, on a variety of engagements including (re)financing projects, valuations, financial modelling and due diligence. Saskia is a Registered Accountant.



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Lia started working for Deloitte Audit in 2007, and made a move to Deloitte's Financial Advisory practice in 2016. She has worked on a wide variety of engagements within several industries. Lia is a Registered Accountant.



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Pedro joined Deloitte in 2018 bringing valuable corporate finance expertise acquired in the region. Pedro started his career in 2008 in France and has since then worked in Amsterdam, Chicago and São Paulo. Pedro is a Chartered Financial Analyst.



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Alexander joined Deloitte Dutch Caribbean in 2020. He started his career in 2009 in The Netherlands and worked in different industries such as the financial sector, retail and semi-government sector. He has a background in Accounting and control. "

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