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News Release

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10th Deloitte Fiduciaire SME Compass reveals:

Average SME generates virtually no additional shareholder value over a 10-year period

Gap between financially strong and financially weak SMEs widening
Rising staff overheads weighing heavily on SME returns

Brussels, 16th October 2014 – Deloitte Fiduciaire, the market leader in accountancy, tax, legal and financial advice to family-owned businesses and SMEs, today announced the main results of its SME Compass 2014 survey. This survey, which celebrates its 10th anniversary this year, outlines a historic picture of the way Belgian SMEs have performed over the past 10 years, specifically from 2004 to 2013. This survey also highlights the fiscal pressures weighing on Belgian SMEs.

Some of the main conclusions:

- **Own resources have become significantly stronger over the past 10 years;** a marked decline in assets derived from banks
- **Gap between financially strong and financially weak SMEs is widening;** more than 1 in 4 SMEs are faced with insufficient repayment capacity; but strong SMEs are becoming increasingly strong
- **Rising staff overheads weighing heavily on SME returns;** yields from the average SME have contracted by over 30%
- **The average SME generates virtually no additional shareholder value over a 10-year period;**
- **SMEs contribute the most to their overheads through their employment;** the average SME pays more than 5 EUR in tax and tax-equivalent charges for every 100 EUR in turnover.

For this 10th edition of the survey, Deloitte Fiduciaire examined the financial details of more than 560 companies over a 10-year period. In addition to “public” and “non-public” data, the study is also based on details such as turnover, shareholder loans and the detailed statement of tax and tax-equivalent charges.

Equity capital has become significantly stronger over the past 10 years

To fund its operation, growth and investments, the average Belgian SME turns initially to its own resources. In fact, capital, profit reserves and virtual equity capital make up 56% of the total assets available to the average SME. By 'virtual equity capital', we mean current accounts and advances made by the shareholders/partners, business owners and directors and that should be considered in the same way as risk capital. Currently, one-quarter of family-owned SMEs finance themselves using as much as 78% of their own resources, or even more.

By contrast, there has been a sharp decline in assets provided by banks. Whereas at the end of 2004 for every 100 EUR of available assets an average of 13.20 EUR still came from banks, at the end of 2013, this figure had fallen to 8 EUR. Nikolaas Tahon, managing partner of Deloitte Fiduciaire, explains, *"Also, the number of SMEs not taking out loans or finance arrangements over the past 10 years rose steadily from 24% at the end of 2004 to 35% by the end of 2013."*

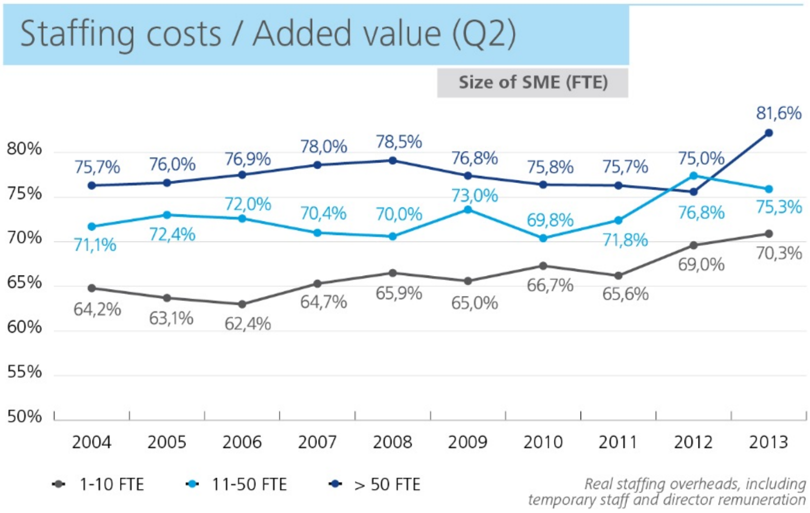
Gap between financially strong and financially weak SMEs widening

However, of the 65% of businesses still funding their operations partly using assets provided by banks, a growing number of companies are experiencing acute repayment problems. At the end of 2013, a record number of SMEs – 26% – found themselves having to cope with a negative repayment capacity. In practical terms, this means that insufficient cashflow is being generated to meet financial obligations – i.e. the repayment of debts and interest charges.

This means that the gap between financially strong companies capable of operating entirely independently of any funds provided by banks and financially weak companies finding it difficult to meet their repayment obligations to the banks has widened significantly.

Rising staff overheads weighing heavily on SME returns

Companies employing staff, on average, spend 73.8% of their added value on staffing overheads. On this point, Deloitte Fiduciaire interprets staff overheads in the broad sense by including not only the cost of wages and employer charges, but also the cost of any temporary staff and director remuneration. In practical terms, this represents an increase of at least 5.6% over a period of 10 years.



In large companies – in this case businesses with over 50 FTE – overall staffing overheads had even increased to 81.6% of added value by the end of 2013. But even in small SMEs employing up to a maximum of 10 staff, total employee overheads have risen dramatically over the past 10 years. At the end of 2013, the average company was for the first time investing over 70% of its added value in staffing costs.

Returns from the average SME have fallen by over 30%

Whereas at the end of 2006, half of companies recorded an operating return (i.e. EBITDA on turnover) of 10% or better, by the end of 2013 this figure had shrunk to 8.2%. A quarter of companies have an operating profit of less than 2.8%.

In the same period, net financial returns also dipped from a record level of 10.2% to barely 6.4% for the average company. Even in the best-performing companies, the past 7 years have seen net financial returns decline from 21.3% to 15.9%.

Return on capital employed indicates the profitability for shareholders and other providers of funds (i.e. banks and leasing companies). Here again the historic highs of 9% in 2006 have made way for historic lows of barely 5.9% for the average SME.

Average SME generating virtually no additional shareholder value

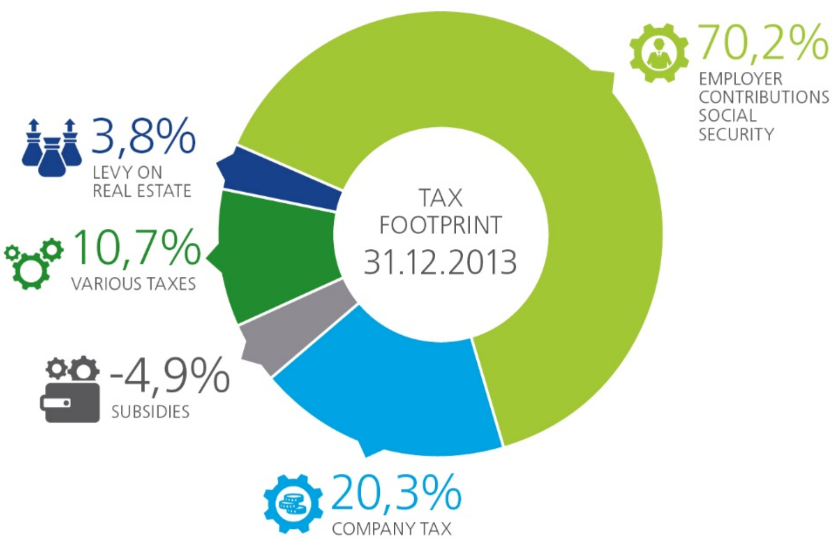
Whereas in 2006 and 2007 we were still seeing some appreciable growth figures, the market value of the average SME has fallen sharply since 2010. The survey by Deloitte Fiduciaire shows that over a period of 10 years, the average family-owned SME struggled to create 2% additional shareholder value. Nikolaas Tahon explains, *"A company with a market value of 100 EUR at the end of 2004, had an average value of 102 EUR at the end of 2013. This may appear to be very little, but in fact it represents a significant improvement over 2012, when the average SME was faced with a 5% loss in value."*

SMEs contribute the most to overheads via their employment

The tax impact analysis adds all tax and tax-equivalent charges together and measures how much a company pays to the government. A small SME – one employing a maximum of 10 people – pays an average of 5.50 EUR in taxes and social security contributions for every 100 EUR in turnover. This amount rises to 6.50 EUR for companies with a headcount in excess of 50 employees.

Components Tax Footprint (average manufacturing company*)

*transport sector not included



The predominant importance of employer contributions to social security as part of tax impact – representing 70.2% for the average operating company – springs immediately to mind. In fact though, over the past 4 years, this component has only increased slightly in size, driven by the rising cost of wages in Belgium. Henk Hemelaere emphasises, *"The fiscal impact analysis shows clearly that creating additional jobs in SMEs is vitally important for funding the Government."*

The second-largest component is company tax, which represents 20.3%. In recent years, however, the proportion of company tax in the total fiscal impact has fallen steadily due among other things to the enormous pressure on company results caused by the current financial and economic situation.

"Over the past 10 years, the strongest SMEs have become stronger across the board, while the average small to medium-sized enterprise has lost yield and stagnated in value," concludes Nikolaas Tahon, managing partner of Deloitte Fiduciaire. *"Their solid financial structure has been the lifebuoy for most Belgian family-owned companies. The main task is keeping the total wages bill under control while still managing to grow through innovation. Only that way can more family-run SMEs start creating value again."*

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About Deloitte Fiduciaire

Deloitte Fiduciaire is part of Deloitte Belgium. Deloitte Fiduciaire is the Belgian market leader in serving SMEs and family businesses with accountancy guidance and a range of multidisciplinary services. Deloitte Fiduciaire serves more than 5,000 SMEs in Belgium, and has over 75 years of experience in accountancy and fiscal-juridical advice. Backed by a strong regional network, 11 offices in Belgium and more than 470 multidisciplinary accountants, tax and legal consultants, and specialists in M&A, business reporting and IT, Deloitte Fiduciaire develops in-depth SME specialisations going far beyond traditional bookkeeping services. The Deloitte Fiduciaire team covers Accountancy, Taxation & Legal services, as well as Business Control & IT and Financial and M&A advice.
SMEs served by Deloitte Fiduciaire differ from young professional starters, spin-offs from universities and research centres, growing and innovative companies, management and real estate firms to mature family-owned companies throughout the country, with annual revenues below 50 million euro.

About Deloitte
A leading audit and consulting practice in Belgium, Deloitte offers value added services in audit, accounting, tax, consulting and financial advisory services.

In Belgium, Deloitte has more than 2,800 employees in 11 locations across the country, serving national and international companies, from small and middle-sized enterprises, to public sector and non-profit organisations. The turnover reached 370 million euros in the financial year 2014.

The Belgian firm is a member of the international group Deloitte Touche Tohmatsu Limited, an organisation of independent member firms devoted to excellence in providing professional services and advice. We are focused on client service through a global strategy executed locally in more than 150 countries. With access to the deep intellectual capital in the region of more than 200,000 people worldwide, our member firms (including their affiliates) deliver services in various professional areas covering audit, tax, consulting, and financial advisory services. Our member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global companies. In 2014 DTTL's turnover reached over 34.4 billion dollars.