

Deloitte Belgian CFO Survey *More appetite for risk*

Benchmarking corporate financial attitudes



Key points

Positive indicators

- CFOs had entered 2014 in an optimistic mood, and remain optimistic about the future prospects of their businesses today.
- Optimism is confirmed in actual performance: for the first time in 2,5 years, close to 70% of CFOs reported performance on or better than budgeted – up from around 50% in most quarters in the past years.
- Over 70% of survey respondents expect the top line to grow in 2014 as compared to 2013, 50% expect higher margins as well.
- The level of uncertainty amongst CFOs has continued its decreasing trend: only 16% of the respondents currently perceive the general level of financial and economic uncertainty as high, down from 33% one year ago and 42% two years ago.
- Risk appetite amongst CFOs went up significantly and has now even reached the highest level in the past three years: 35% of the CFOs believe now is a good time to be taking greater risk onto their balance sheet.
- The favourable perception of risk and leverage, the availability of internal cash and the availability and attractiveness of external financing motivates corporates to increase investments going forward.
- Expectations on mergers and acquisition activity for the next 12 months went up.

Focus areas

- Safeguarding or improving their company's competitive position in the market remains the top concern for CFOs.
- Corporates seek to strike the right balance between prudent expansionary strategies on the one hand and defensive strategies on the other hand.
- Defensive strategies such as efficiency improvements & cost reduction remain important for all companies. Larger companies see more room for further cost reductions.
- Low expected growth rates for Belgium and the Eurozone remain important inhibiting factors for investment.
- For organisations deriving at least 70% of their revenues from outside Belgium, actual or expected growth in US, Japan, Asia-Pacific and the emerging markets has a positive impact on current investment plans.

Attention points

- CFOs are more optimistic for the growth potential of their own organisation as they are for the economy as a whole: only few CFOs believe the Belgian economic growth for 2014 will be higher than 1%.
- Labour market and taxation policies are not contributing to the long term success of businesses in Belgium.
- With the continued need within organisations to further reduce costs, taking into account the perception of (too) high labour costs, 40% of survey respondents plan for headcount reductions in the course of the year.
- Overall, the attractiveness of all three forms of financing (bank borrowing, corporate debt and equity) went down somewhat. Although that credit is generally considered available and considered relatively cheap, the cost is increasing.

The macroeconomic backdrop to the Deloitte CFO Survey 2014 Q1

The underlying pace of growth in major advanced economies improved in the first quarter. The recovery in the euro area broadened, with some gains in the peripheral economies that bore the brunt of the euro crisis. Fears of deflation in the euro area led the German Bundesbank to soften its stance on further monetary easing in the region. Events in Ukraine added to concerns about emerging market economies. Equities were volatile. Developed markets saw the largest gains with emerging markets lagging behind. Appetite for deal-making rose, with a number of large transactions driving the value of global M&A activity up by 54% in Q1 on a year earlier, while global initial public offerings almost doubled in value.

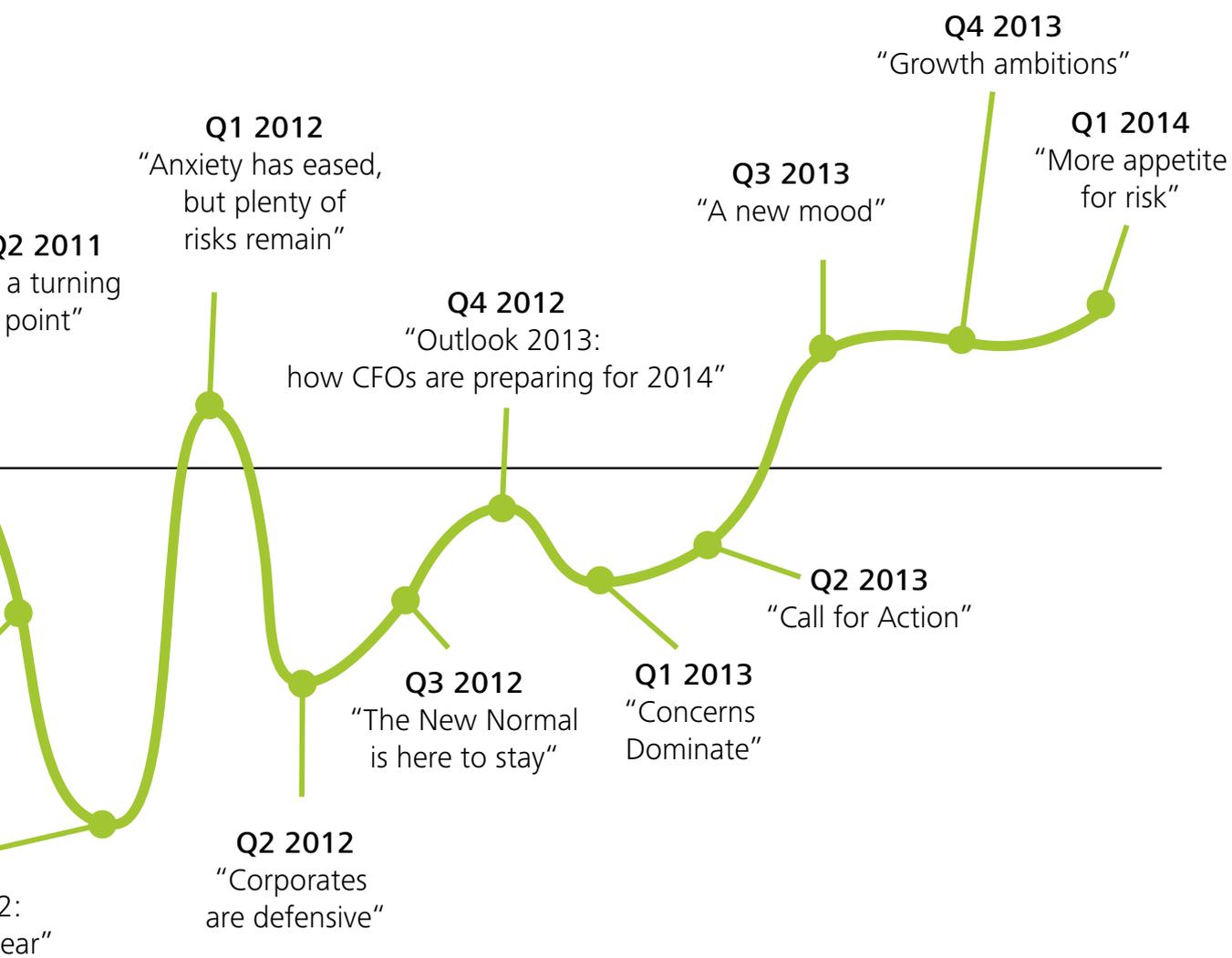
Ian Stuart, Chief Economist Deloitte UK

Looking Back: Business confidence through the financial crisis (2009-2014)



Risk appetite went up significantly and is even coming close to the highest levels we have reported since the launch of the survey in 2009.

Financial and economic cycle



More appetite for risk

This edition of the Deloitte CFO survey reports a significant positive increase of two of its key indicators: risk appetite and performance to budget. More CFOs believe it is a good time to take additional risk onto the balance sheet as has been the case in the past three years. More CFOs report that their businesses are financially performing at least as planned as has been the case in the past 2,5 years. As competitiveness has replaced the economic recovery as the number one concern, corporates seek to strike the right balance between defensive and expansionary strategies. Labour market and taxation policies are not contributing to the long term success of businesses in Belgium.

Things are looking up

CFOs had entered 2014 in an optimistic mood, and remain optimistic about the future prospects of their businesses today. Over 70% of survey respondents expect the top line to grow in 2014 as compared to 2013, 50% expect higher margins as well.

CFOs' perception of the general level of financial and economic uncertainty continued its gradual decline. Today 16% rate the level of uncertainty high or very high, down from 33% one year ago and 42% two years ago. Although 50% of CFOs still rate the uncertainty above normal levels, the situation has significantly improved.

Good financial performance in the first quarter has likely helped drive optimism higher: for the first time in 2,5 years close to 70% of CFOs reported performance on or better than budgeted – up from around 50% in most quarters in the past years.

Risk appetite went up significantly and even comes close to the highest levels we have reported since the launch of the survey in 2009. 35% of CFOs believe now is a good time to be taking greater risk onto the balance sheet. Larger companies seem more inclined to take on additional risk than smaller organisations. The balance of opinion is that Belgian balance sheets are today underleveraged.

The favourable perception of risk and leverage, the availability of internal cash and the availability and attractiveness of external financing, motivates corporates to increase investments going forward. Along the same lines, expectations on mergers and acquisition activity for the next 12 months increased as well.

Focus (also) on growth

Over the past quarters, safeguarding the competitive position of their businesses has gradually overtaken the economic recovery as top concern for CFOs. With this, it is not surprising that corporates seek to strike the right balance between prudent expansionary strategies on the one hand and defensive strategies on the other. To what extent this prudent approach makes it possible to realise the ambitious growth objectives CFOs have generally expressed, and that we reported in our previous survey report, remains to be seen.

Emerging markets growth as well as growth in the US and Asia Pacific continue to have a positive impact on investment plans, in particular for organisations deriving most of their turnover outside Belgium. Lower expected growth rates for Belgium and the Eurozone remain important inhibiting factors for investment.

Efficiency improvement and cost reduction are still high on the agenda for all companies. Larger organisations seem to see more room for further cost reduction than do the smaller organisations.

Attention points remain

CFOs are more optimistic for the growth potential of their own organisation than they are for the economy as a whole. CFOs' expectations of the pace of Belgian economic growth are less upbeat than those of international organisations or the Belgian National Bank.

Few CFOs today believe the Belgian economy will grow with more than 1% in 2014. The impact of a potential escalation of the crisis in Ukraine is to date unclear. Most CFOs report Belgian labour market policy and labour costs are not appropriate to support the long

term success of Belgian businesses, and negatively impact organisations competitive positions. CFOs' evaluation of the priorities set by government remains very poor. As the competitive position of their businesses tops the list of CFOs' key concerns, the topic should remain high on the agenda of policy makers.

Cost reduction continues to be an important priority for the majority of organisations, and many initiatives have already been undertaken in recent years. Few options for cost reduction remain. Following the need to further improve costs to ensure competitiveness and taking into account the perception of (too) high labour costs, 40% of survey respondents plan for headcount reductions in the course of the year.

Notwithstanding that credit is generally considered available and considered relatively cheap, the cost is increasing. The attractiveness of other forms of financing – corporate debt and equity – has gone down somewhat as well. Although central bankers indicate that money tapering will be slow and interest rates will likely remain low for the coming period, uncertainty about the financing environment increases.

Looking forward...

CFO optimism already improved in the second half of last year, but this regained optimism had not yet translated into improved financial performance. It is hopeful that in the first quarter of this year - for the first time in 2,5 years - two thirds of organisations are performing as planned, or are even doing better than initially budgeted. The CFO Survey's performance to budget indicator marked a significant increase in the first quarter. Provided that the second quarter survey confirms this performance, things are indeed looking up. Close to 30% of the CFOs even expect revenues of their company to increase with more than 5%.

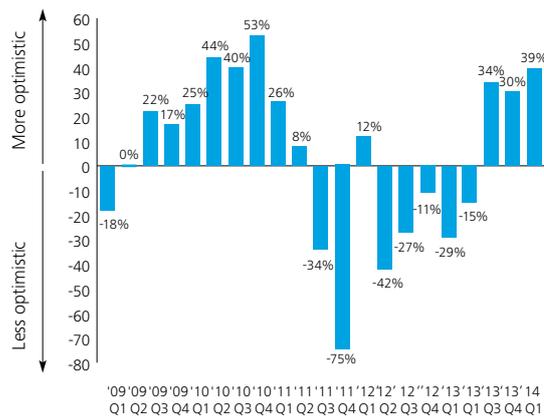
Thierry Van Schoubroeck,
Partner Deloitte CFO Services

Joël Brehmen
Finance Lead, Partner

Positive indicators

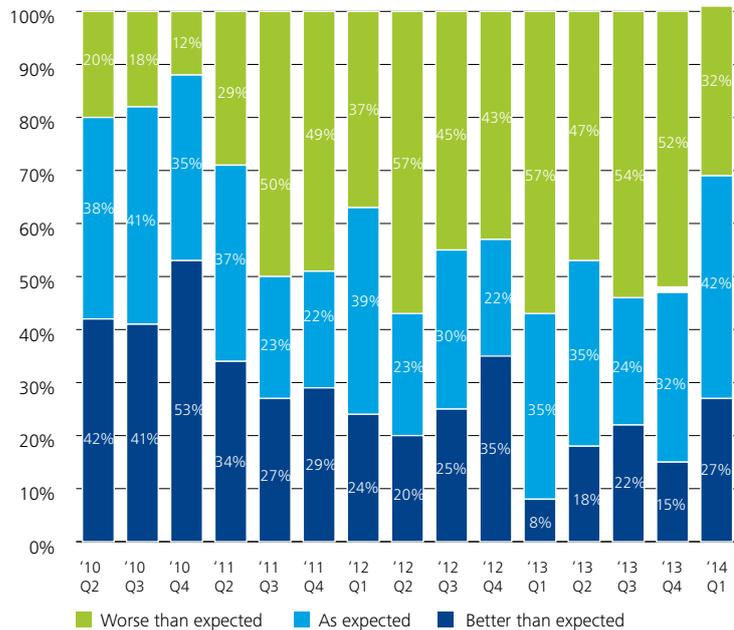
The optimism that had surfaced amongst CFOs since the third quarter of 2013, continues its positive trend. More than half of the respondents are more optimistic about the financial prospects for their company compared with three months ago, versus only 13% who are less optimistic. On average, smaller companies are more optimistic than larger companies.

Net % of CFOs who are more/less optimistic about financial prospects for their company



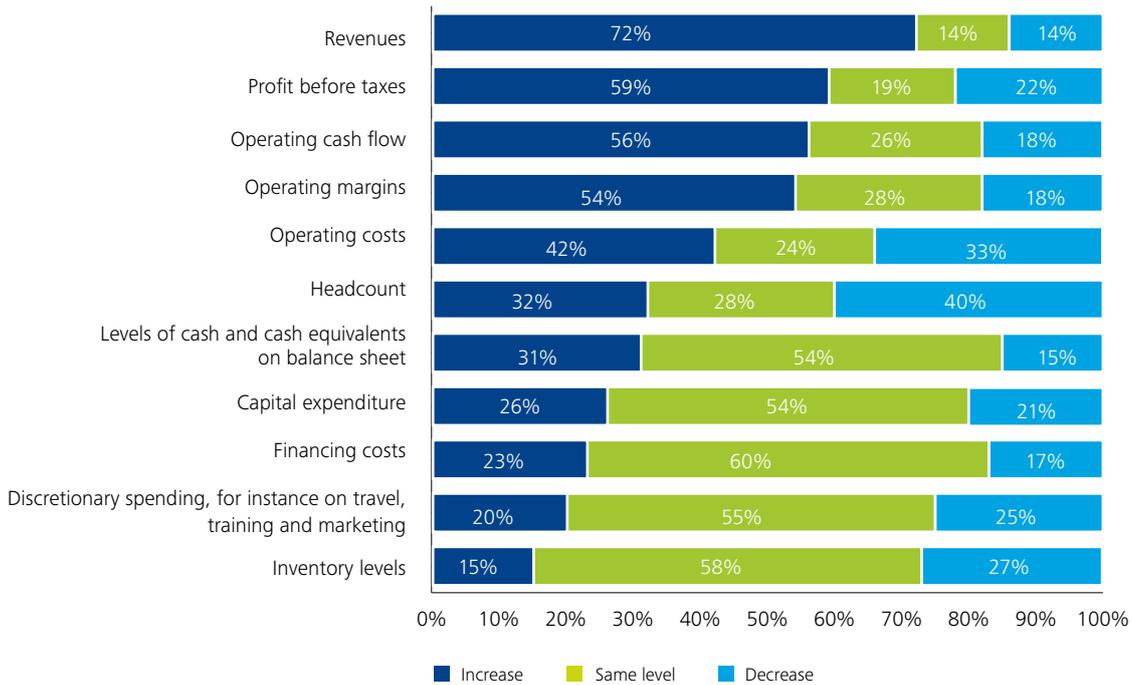
The level of optimism is also confirmed in the actual performance, close to 70% of the respondents' organisations are on track compared to budget, compared to 43% same time last year. 26% exceeded expectations in the first quarter.

Comparison of the surveyed organizations' actual performance versus budget over time



CFOs are bullish about the evolution of the top line growth and operating margins for their company: more than 70% of the respondents expect higher revenues in 2014 compared to the 2013 actuals and over half of the respondents expect operating margins and profit to increase in 2014. Close to 30% of the CFOs even expect revenues of their company to increase with more than 5%. 40% of the respondents still foresee headcount reductions for their organisation in the course of 2014.

CFOs' expectation on the evolution of the following metrics in 2014 compared to 2013 actuals



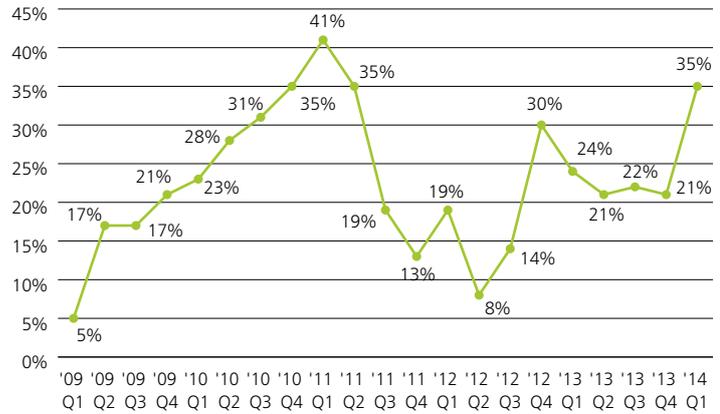
The increased optimism coincides with the decreasing trend in the level of uncertainty amongst CFOs: at this point only 16% of the CFOs perceive the general level of external and economic uncertainty as high, down from 33% one year ago and 42% two years ago.

% of CFOs rating the general level of external financial and economic uncertainty high/very high

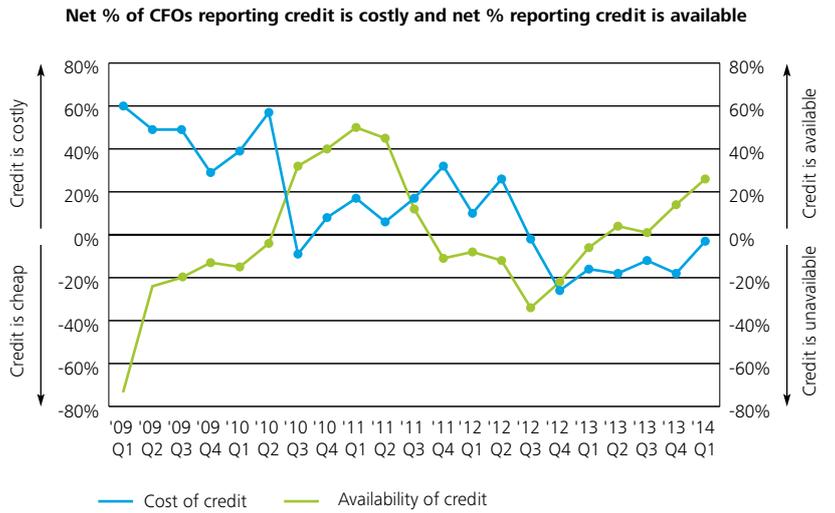


Risk appetite went up significantly and is close to the highest levels we have reported in the highest level in three years: 35% of the CFOs believe now is a good time to be taking greater risk onto their balance sheet. Larger companies are more inclined to take on additional risk compared to smaller companies.

% of CFOs who think now is a good time to be taking greater risk onto their balance sheet

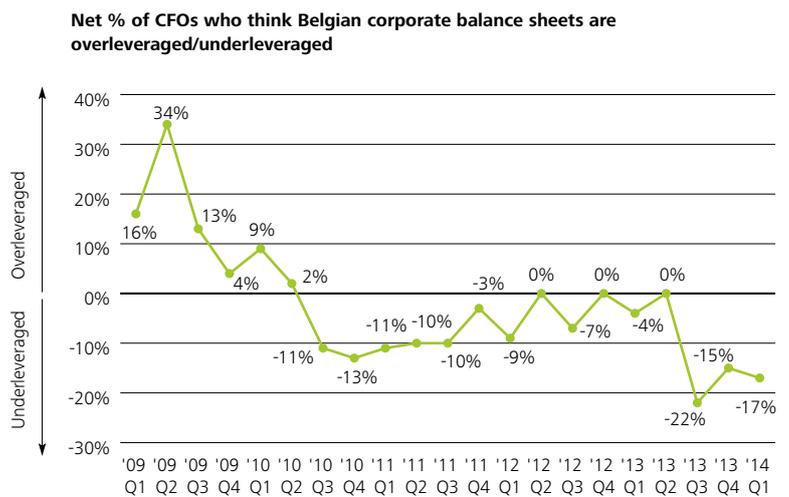


The availability of bank borrowing has again slightly increased compared to the previous quarter. As the cost is increasing, the cost of bank borrowing is now perceived as neutral by the average CFO.



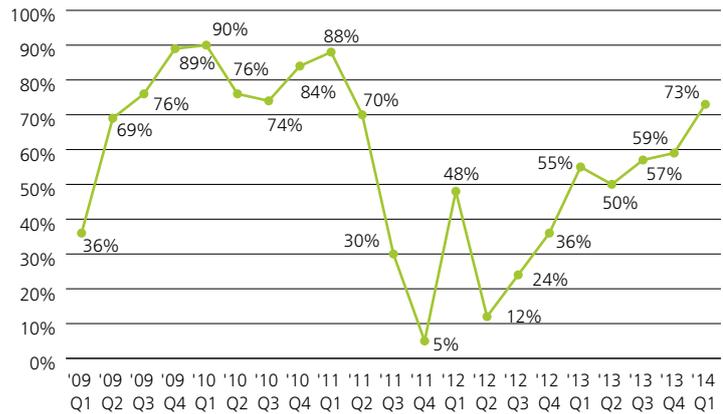
Balance sheets continue to be perceived as underleveraged by the average CFO.

The low degree of leverage and the availability of bank borrowing allows organisations to increase investments going forward.



M&A expectations for the next 12 months also went up. Over 70% of the CFOs expect M&A activity to increase in the next 12 months, up from 59% last quarter. None of the respondents expect M&A activity to decrease in the next 12 months.

Net % of CFOs who expect M&A activity to increase over the next 12 months

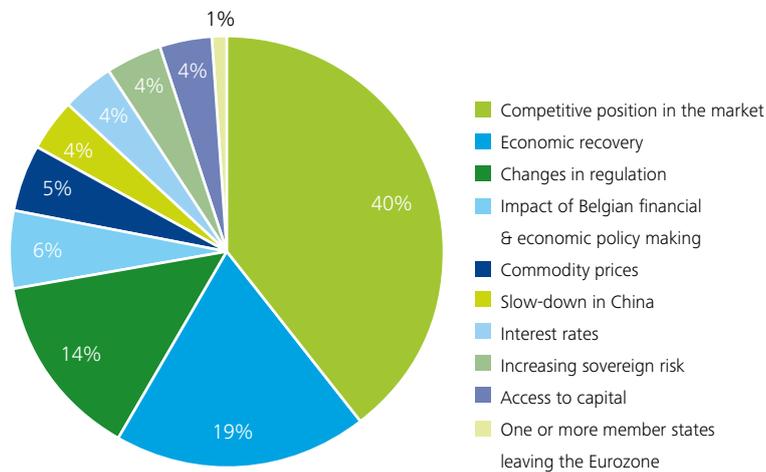


CFOs' evaluation of the priorities set by government remains poor. As the competitive position of their businesses tops the list of CFOs' key concerns, labour cost reduction should remain high on the agenda of policy makers.

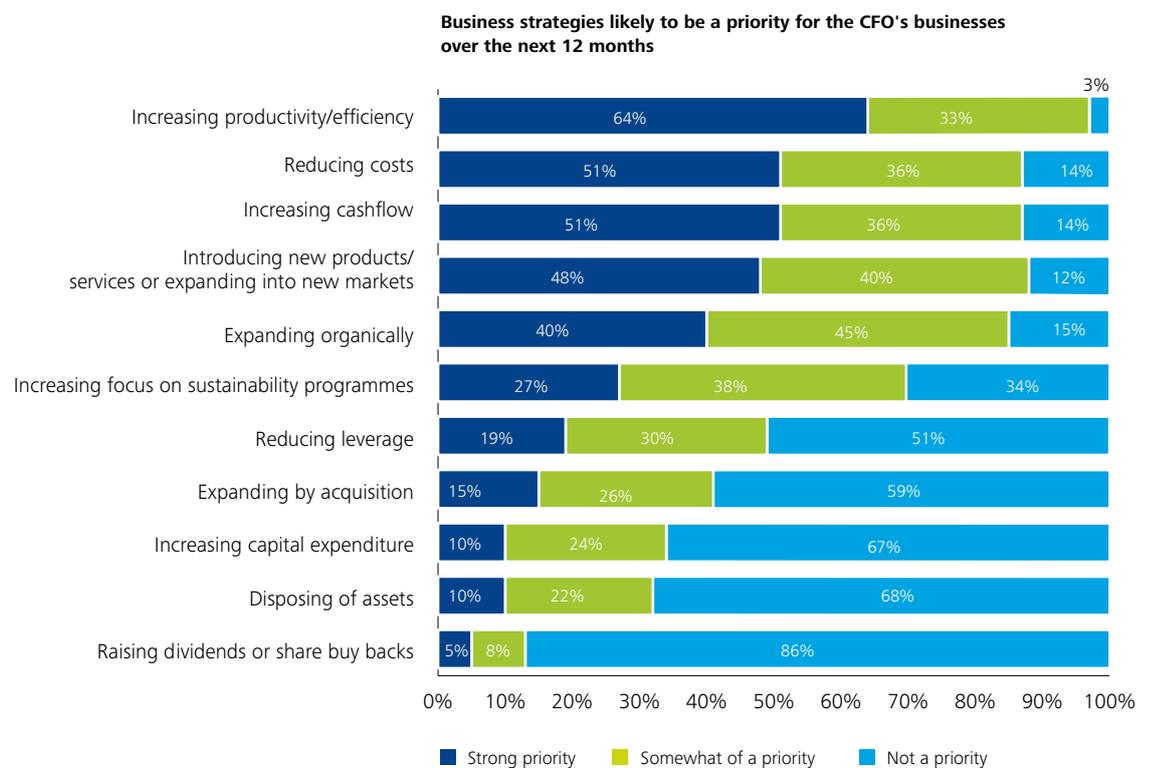
Focus Areas

CFOs are above all concerned with their company's competitive position. As compared to the previous quarter, CFOs are today significantly less concerned about the economic recovery (down from 27% to 18%). The impact of changes in regulation completes the top 3 concerns.

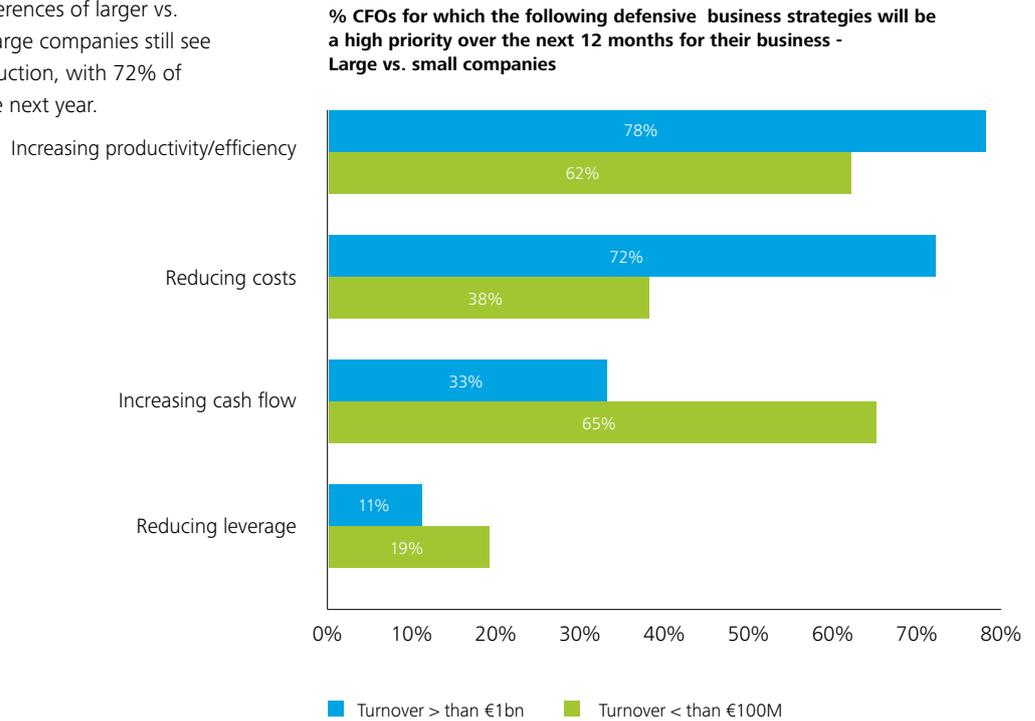
CFOs' perception on the greatest concern for their business in the next 12 months



Notwithstanding improved financial results, higher risk appetite and a more favorable economic environment, Belgian CFOs have not (yet) fundamentally changed business priorities. In the next 12 months, they will continue focusing on increasing efficiency and reducing cost. Expansion of their product portfolios/penetration into new markets is more likely to be driven by organic growth than by acquisitions.



Defensive strategies remain popular amongst companies of all sizes. When looking at preferences of larger vs. smaller companies, we see that large companies still see opportunities for further cost reduction, with 72% of them setting this a priority for the next year.



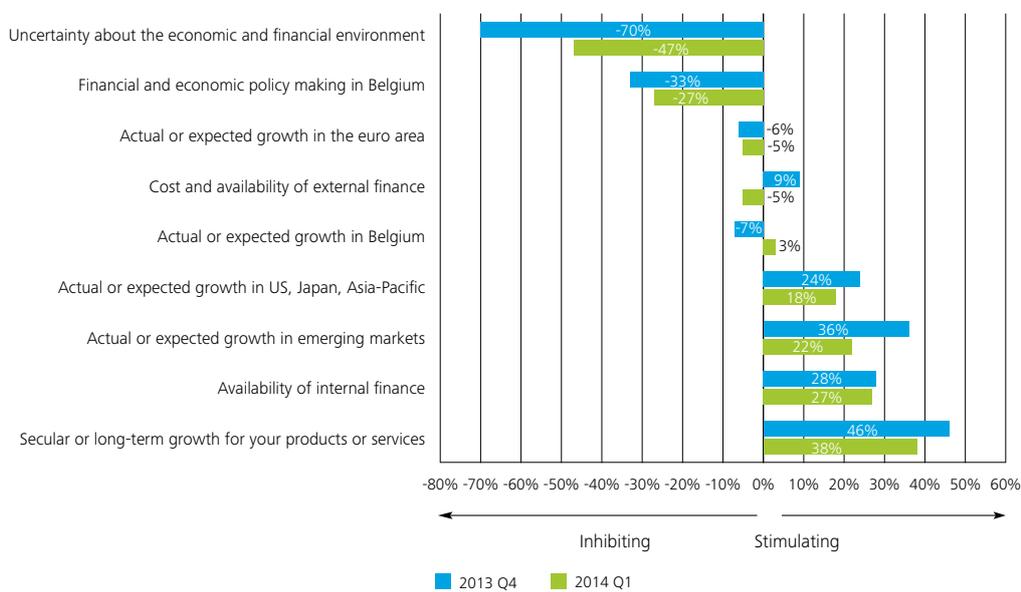
Overall, Belgian CFOs continue promoting defensive strategies in their respective companies and this tendency is strengthening despite the growing optimism and risk appetite.



Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong priority for their business in the next 12 months. Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies reducing costs, reducing leverage and increasing cash flow.

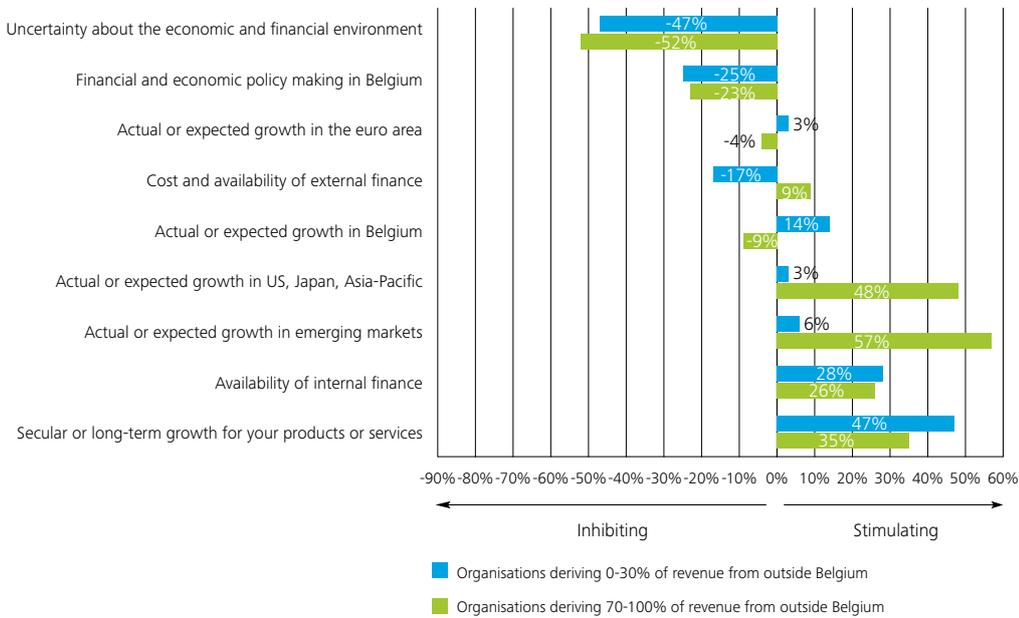
Although the perception has slightly improved compared to the previous quarter, both the uncertainty about the economic and financial environment and policy making, and the (limited) growth projections in Belgium, remain inhibiting factors for investments. Following the trend from previous quarters, secular or long-term growth for product or services and availability of internal finance remain the main drivers for investment plans. Actual or expected growth in US, Japan, Asia-Pacific and the emerging markets is perceived to be a stimulating factor.

Stimulating/Inhibiting factors to investment plans (current impact)



In particular organisations who derive at least 70% of their revenue from abroad expect growth in the US, Japan, Asia-Pacific and the emerging markets to have a positive impact on their investments. For companies that are mainly operating in Belgium, expected growth in Belgium provides some stimulus for investment.

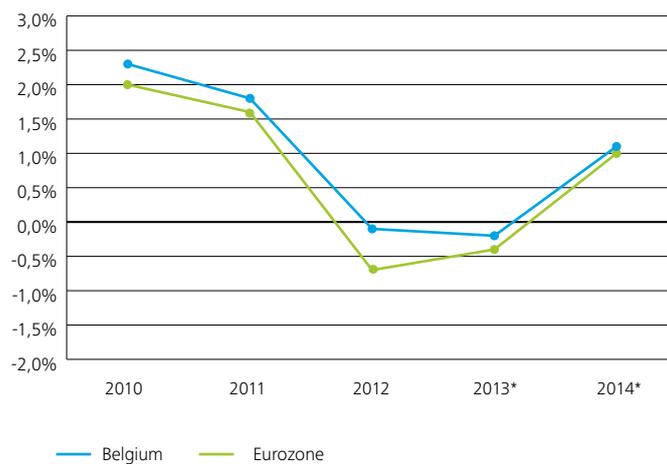
Stimulating/Inhibiting factors to investment plans (current impact) - Local vs. international companies



Attention points

The National Bank of Belgium projects a growth of 1,1% for Belgium and 1,0% in the Eurozone.

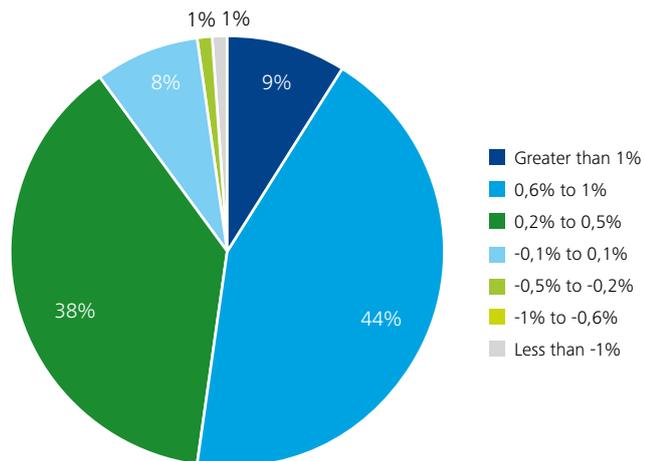
Real GDP evolution: Belgium vs. the Eurozone



*Source of data: Economic Indicators for Belgium N° 2014-13, National Bank of Belgium 2013 & 2014 data are forecasts, Belgian forecasts are based on NBB estimates from December 2013 (2014 figure) and February 2014 (2013 figure), Eurozone forecast based on OECD preliminary version November 2013

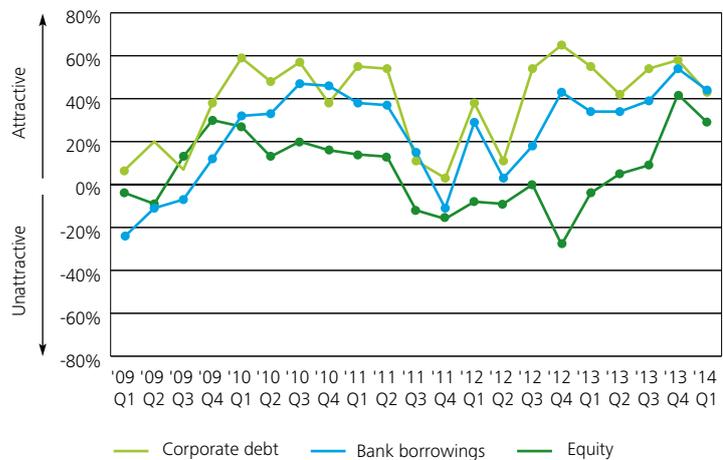
90% of the participating CFOs expect economic growth in Belgium in 2014. Their growth predictions are however more moderate than those officially published by the National Bank of Belgium: the overall majority of CFOs expect a growth between 0,2% and 1,0%, and only few respondents in our survey panel expect a growth of more than 1%.

CFOs' expectations for the Belgian economic growth in 2014



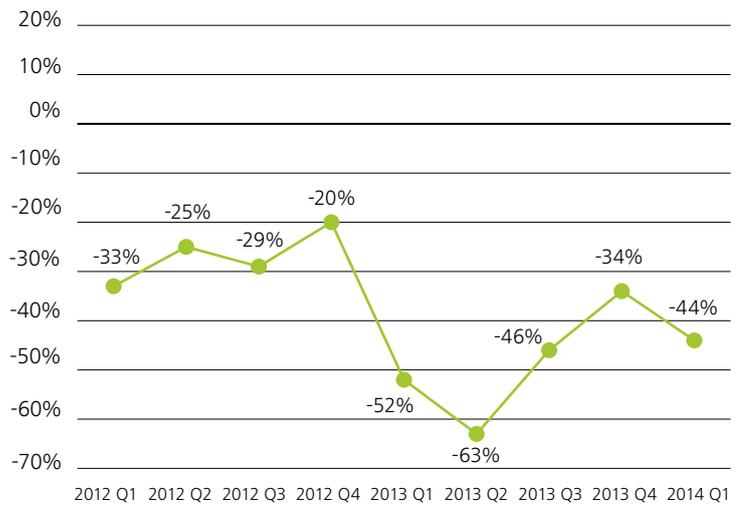
The attractiveness of all three forms of financing decreased somewhat since last quarter.

Net % of CFOs reporting the following sources of funding as attractive/unattractive



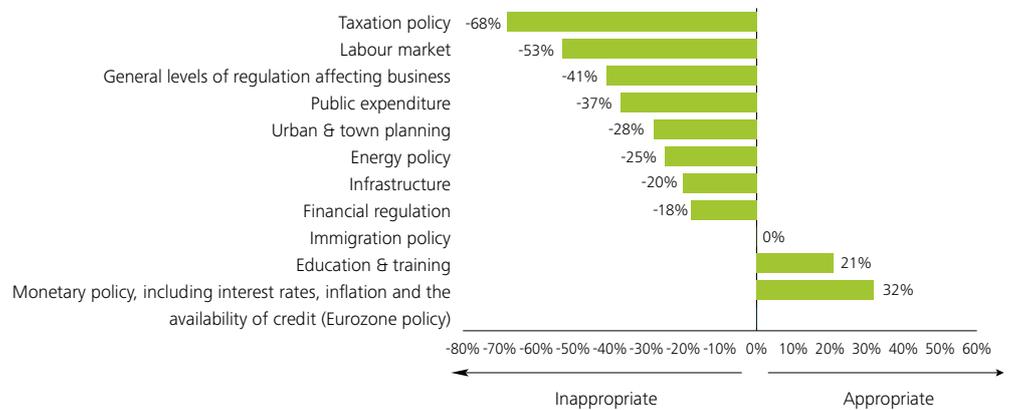
CFOs continue to be unhappy with the way in which the Belgian government is setting priorities for financial and economic policy making. After a slight improvement last quarter, the net perception has fallen back to -44%, same level as in Q3 2013.

Perception of a net % of CFOs of the way in which the Belgian government is setting the right priorities for financial and economic policy making



The main policies of which the appropriateness is negatively evaluated by Belgian CFOs are Taxation, Labour market policy and General levels of regulation affecting business. With the competitive position of companies as main concern for CFOs, these topics should be high on the agenda for the upcoming elections.

Net % of CFOs evaluating appropriateness of the current policy settings in the following areas for the long-term success of business in Belgium

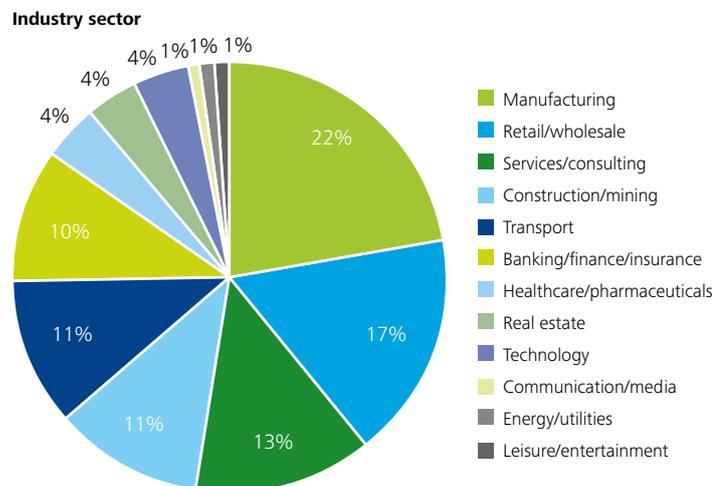


Profile Q1 survey participants

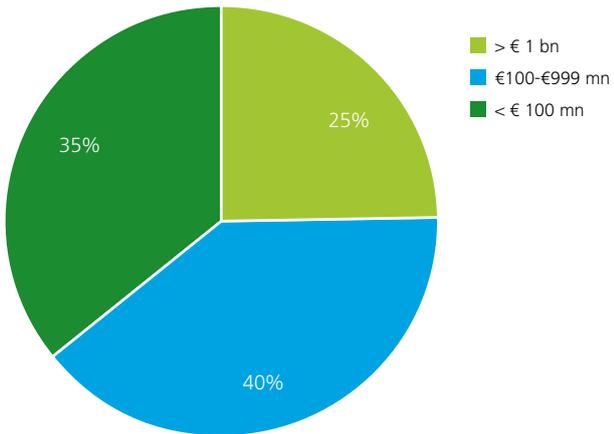
A total of 80 CFOs completed our 2014 first quarter survey.

25% of the participating companies have a turnover of over €1 billion, 40% of between €100 million and €1 billion, and 35% of less than €100 million.

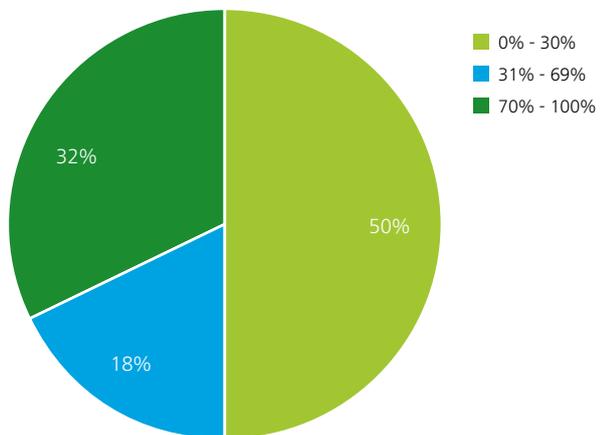
The participating CFOs are active in a variety of industries. 50% of the participating companies derive up to 30% of their revenues from outside Belgium, 18% between 31% and 69%, and 32% derive more than 69% of their revenues from outside Belgium.



Turnover



Revenues from outside Belgium



The Deloitte Belgian CFO Survey is produced by Thierry Van Schoubroeck, Partner, Ann Moerman, Senior Consultant and Romana Jelinkova, Consultant.

A note on methodology

Not all survey questions are reported in each quarterly survey. Survey questions will be selected in response to the current financial economic situation. In case you participated in the survey and would like to receive information about non-reported questions, do not hesitate to contact us.

Some of the charts in the Deloitte CFO survey show the result in the form of a net % balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive minus the percentage saying bank credit is unattractive. This is a standard way of presenting survey data.

The 2014 first quarter survey took place between 6 March and 26 March, 2014. A total of 80 CFOs completed our survey. The participating CFOs are active in a variety of industries. 25% of the participating companies have a turnover of over €1 billion, 40% of between €100 million and €1 billion, and 35% of less than €100 million.

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 organisation rates among peers.

Delivering the voice of
the CFO community

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