



Deloitte
Belgian CFO Survey
Amid more uncertainty,
declining optimism

Benchmarking corporate financial attitudes



Keypoints

Key points from the 2014 Q3 Belgian CFO survey

- CFO perception of the financial and economic uncertainty rose for the first time in two years. Once again the euro area lies at the centre of concerns about the global economy. Non-economic events have added to the uncertainties.
- Despite significant decline in the third quarter, the overall optimism indicator remains positive. Larger international organisations have turned more negative about the financial prospects of their businesses.
- At the end of the third quarter, performance to budget is good with two thirds of CFOs reporting revenues and margins that are in line with what was budgeted, or are even exceeding budgets.
- Financing options are available and attractive and are an important driver for investment spending. Credit is today more available and cheaper than it has been at any time in the past three years.
- Capital spending and focus on growth is likely to increase somewhat next year, while CFOs continue to focus on increasing cash flow and reducing costs. Rising international financial and economic uncertainty and the low growth projections for the eurozone remain the main inhibitors for investment.
- CFOs are positive about appropriateness of the financial and economic priorities that are set forward by the new (regional and) federal government(s) and their potential impact on the long term success of their businesses.

Macro-economic backdrop to the third quarter CFO survey

Euro area growth remained disappointingly weak and fears of deflation grew. The IMF now sees a 40% chance of the euro area falling back into recession. Weakness has spread from the periphery to the core, with the IMF scaling back German and French growth forecasts. The European Central Bank announced further measures to support lending including the introduction of negative deposit rates for the first time. US economic activity rebounded in the second quarter bolstering sentiment about the world's largest economy. Geopolitical uncertainties surrounding the conflicts in the Ukraine and the Middle East moved centre stage. In Scotland, 55% of voters chose to stay in the United Kingdom. Financial markets remained generally strong, with the S&P 500 reaching new record highs and risk assets rallying in Europe on hopes of further monetary easing.

Ian Stuart, Chief Economist Deloitte UK

Amid more uncertainty, declining optimism



Non-economic events - including the spread of Ebola, conflicts in the Middle East and in Eastern Ukraine - and the worsening economic outlook for the euro area, which are at the centre of concern for the global economy, drive the mood of CFOs. Performance to budget remains strong and CFO appetite for risk lies well above the multi-year average, but CFO optimism has nonetheless dropped significantly in the third quarter. CFOs are once again above all concerned about the economic outlook and the pace of recovery, especially in the Eurozone. One third of our survey panel reports suffering negative impact of the EU economic sanctions against Russia. On the positive side, for the first time since the launch of the survey CFOs are positive about the government's (planned) financial and economic policymaking and its likely impact on the competitiveness of the Belgian economy.

Revenues and margins grow

At the end of the third quarter – and for the third consecutive quarter - two thirds of our survey participants report their companies' financial performance lies at or above budget. In comparison with 2011 - 2013 when about half of organisations were consistently underperforming as compared to budgets, the performance to budget ratio for 2014 will be good.

The majority of survey participants expect to achieve revenue growth and margin growth this year, although larger companies expect better performance than smaller ones.

Increased uncertainty

In the course of the third quarter conflicts in the Ukraine and the Middle-East have further escalated. The sentiment about economic growth in the emerging markets and the Eurozone, and its main engine Germany more in particular, has declined. By contrast, CFOs remain optimistic about the growth forecast in the US and Asia Pacific.

The general level of financial and economic uncertainty has gone up for the first time in two years.

The pace of economic recovery is again top of the list of what worries CFOs most. CFO optimism, one of the key indicators of the survey, remains positive but has dropped significantly in the third quarter. CFOs of the larger companies with mainly international businesses are much more pessimistic than those operating smaller and predominantly Belgian activities.

Appetite for risk

But appetite to take on additional risk on the balance sheet remains significantly above the multiyear average and companies face few challenges in raising finance. Financing conditions are an important positive factor enabling investments. All main sources of funding are rated attractive and credit is today cheaper and more available than at any time since 2009.

The dominant view amongst CFOs is that pricing and lending terms will not change in the next 6 months. Many organisations have internal financing options available.

Defensive strategies such as cost reduction and efficiency improvement have lost some importance, but we see no significant evidence that expansionary strategies are gaining ground. The rising uncertainty about the international financial and economic environment in general is the main inhibitor for investment spending for the internationally oriented organisations. For more local businesses, low growth projections for the Eurozone and Belgium are the main inhibitors for investment.

Optimism about new financial and economic policy

During the survey period, the formation of the Centre-Right federal government that was inaugurated on 11 October was still in process. But for the first time since the launch of the survey in 2009, CFOs were positive about the priorities for financial and economic policy and the potential impact on the success of their businesses.

CFOs evaluate several of the policies that have been included in the charter of the new federal government as important contributors to the future success of business in Belgium. CFOs see most benefit from the reduction of the employer's social contribution, the decrease in corporate tax, and the suspension of the automatic wage indexation mechanism. All three measures have been retained to some extent in the government charter.

Need for a long term perspective

In the second quarter edition of the survey we reported that many businesses are willing and ready to invest, provided the long-term perspective is clear. Political stability and regulatory predictability are key elements to that. It is now up to the new regional and federal governments to live up to expectations.

Thierry Van Schoubroeck,
Partner, CFO Services

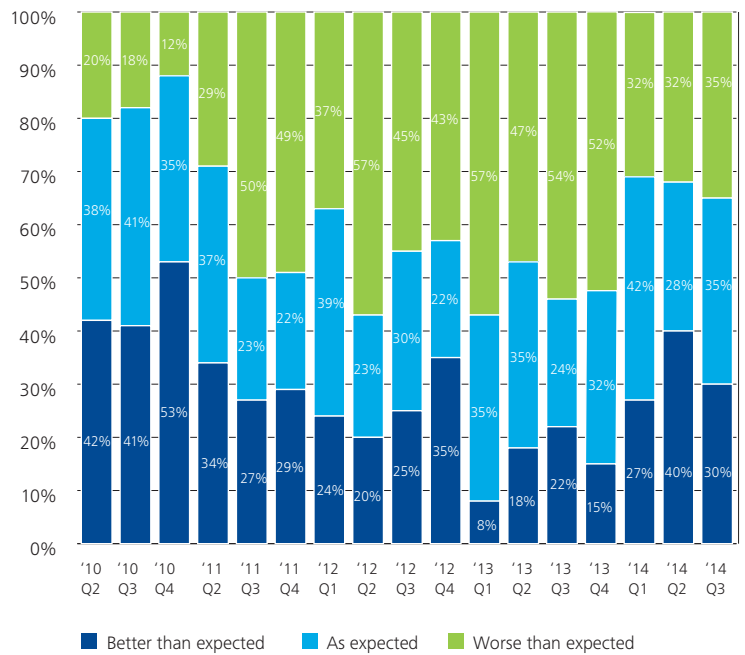
Joël Brehmen
Finance Lead, Partner

Actual performance is good

Actuals remain good

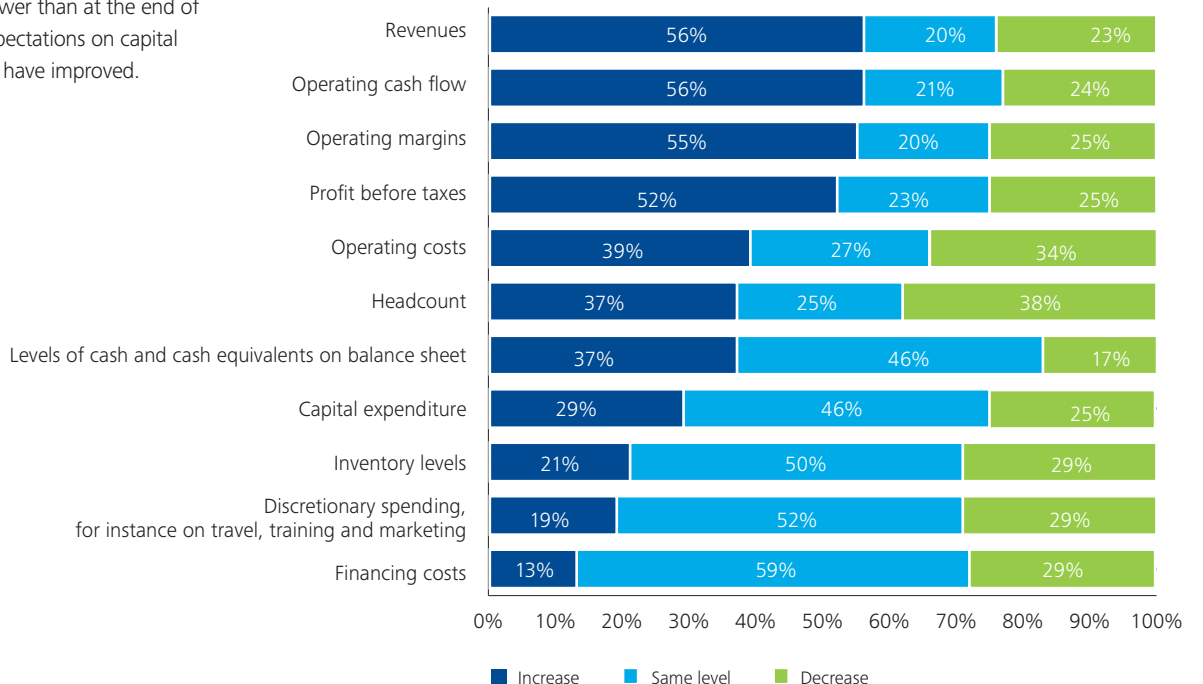
Performance to budget remains largely in line with the positive trend since the beginning of the year. At the end of the third quarter, 65 % of organisations report their financial performance is in line with, or better, than budgeted.

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

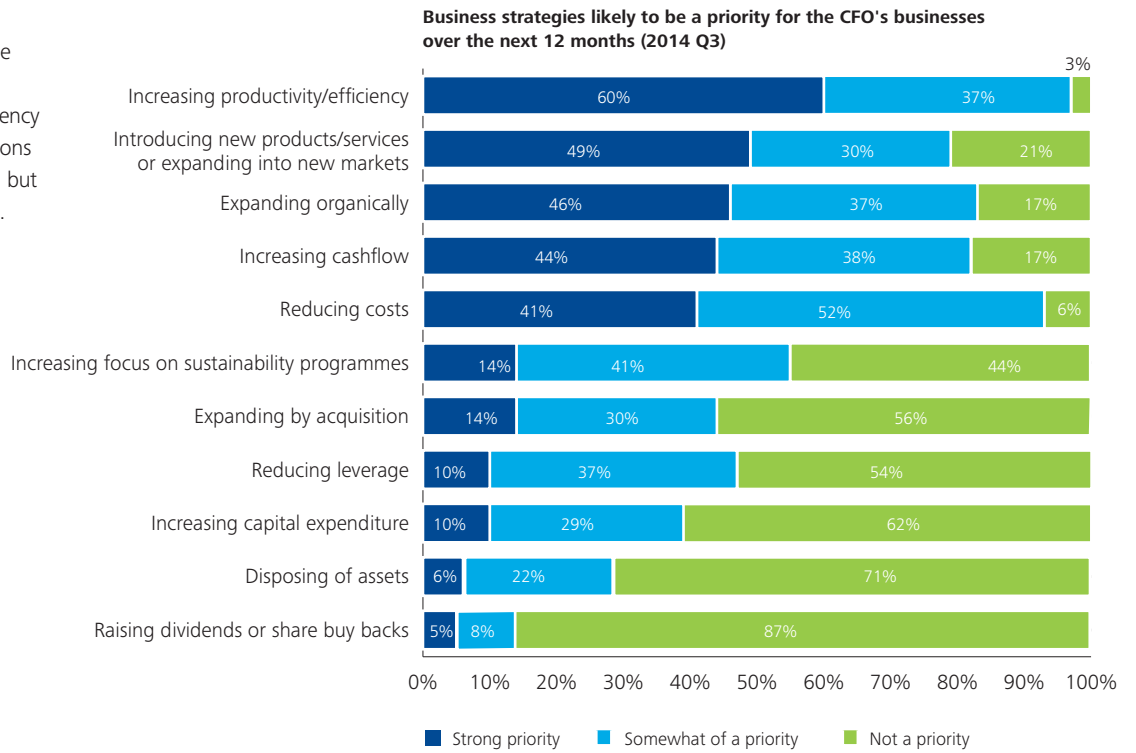


Over half of CFOs expect to grow in terms of revenue, margins and profits in the next 12 months - somewhat lower than at the end of the second quarter. Expectations on capital expenditure and hiring have improved.

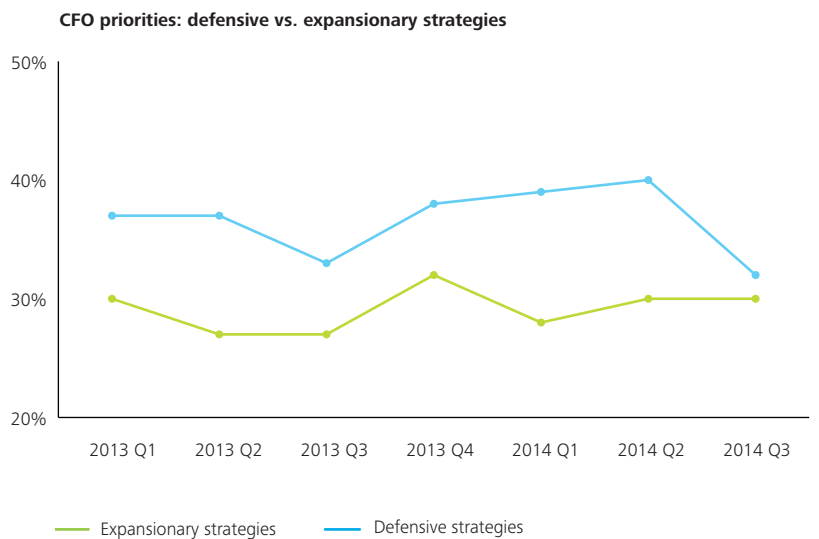
CFOs' expectations on the evolution of the following metrics in the next twelve months



For most CFOs, the defensive strategies lost some importance while focus on expansionary strategies remains stable: efficiency enhancement and cost reductions remain high on the priority list, but dropped 10 percentage points.



It remains to be seen if organisations have not cut back too deep in functions or processes that are key for growth realisation.

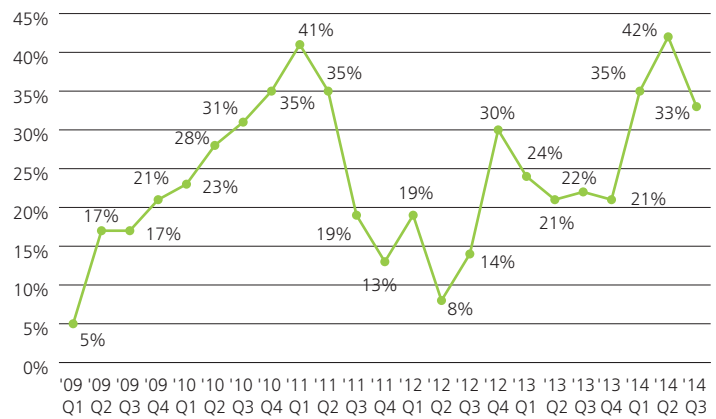


Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong priority for their businesses in the next 12 months. Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure.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

Appetite for risk remains high

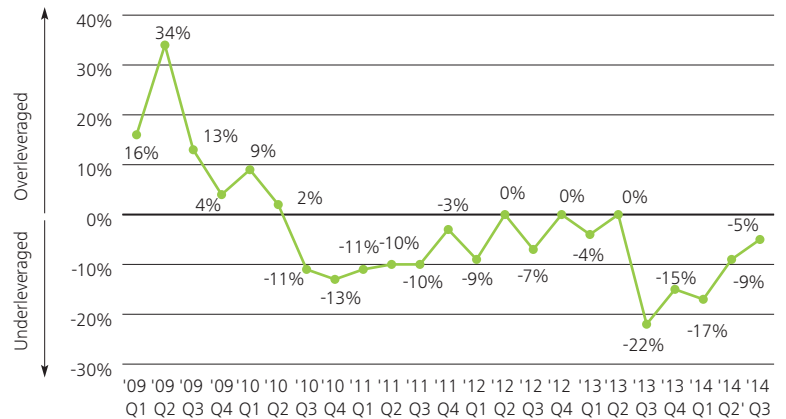
Although lower than in the second quarter, risk appetite trails significantly above the multi-year average, with 33% of CFOs saying it is a good time to be taking greater risk onto their balance sheet.

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



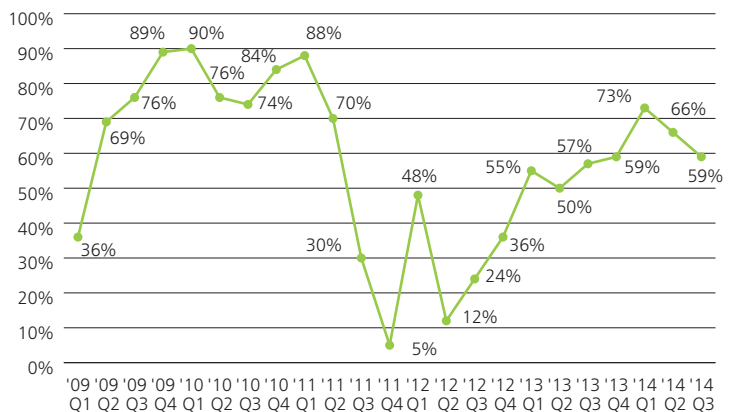
Belgian corporates are believed to hold a healthy level of debt with only 5% of CFOs thinking the balance sheets are underleveraged.

Net % of CFOs who think Belgian corporate balance sheets are overleveraged/underleveraged



Almost 60% of CFOs expect the Mergers & Acquisitions activity to increase over the course of the next 12 months. Following the steady increase since the beginning of 2012, the trend however seems to have reversed.

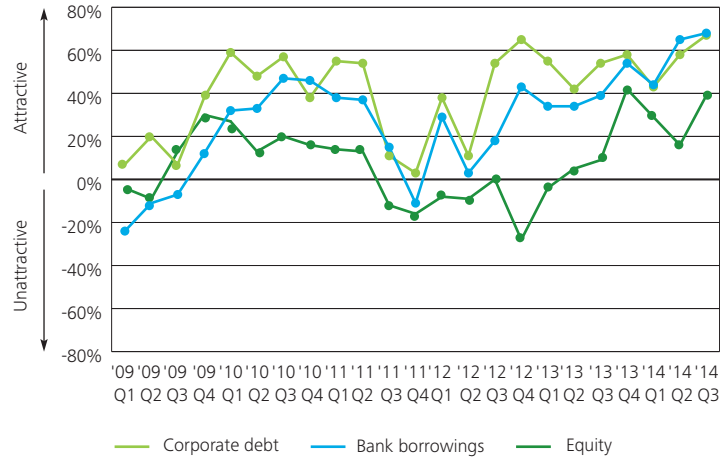
Net % of CFOs who expect M&A activity to increase over the next 12 months



Funding is attractive and available

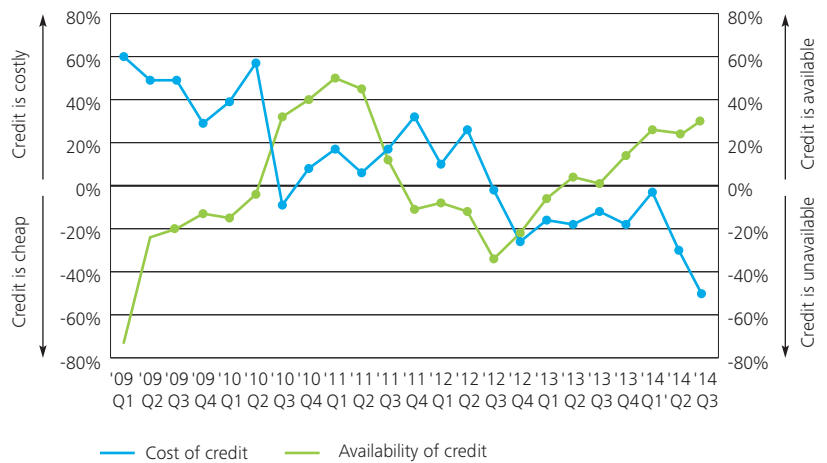
All main sources of funding are attractive. Since the start of the financial crisis, bank borrowings and corporate debt have never been more attractive than today.

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



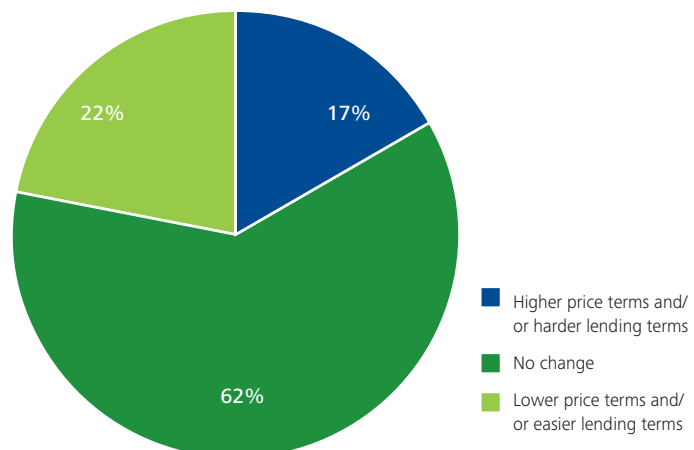
Bank borrowing is cheap and overall available. As in previous quarters, we see no evidence that smaller organisations have more difficult access to bank borrowing than the larger ones.

Net % of CFOs reporting credit is costly and net % reporting credit is available



Over two thirds of CFOs expect that price and lending terms will not change significantly in the upcoming 6 months.

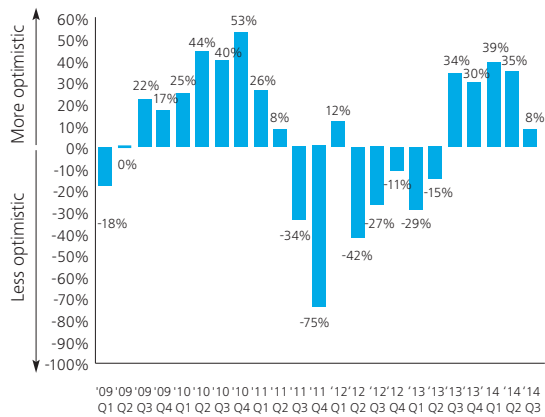
CFOs' expectations about evolutions of price terms and lending terms in the next 6 months



Concerns about economic recovery surface

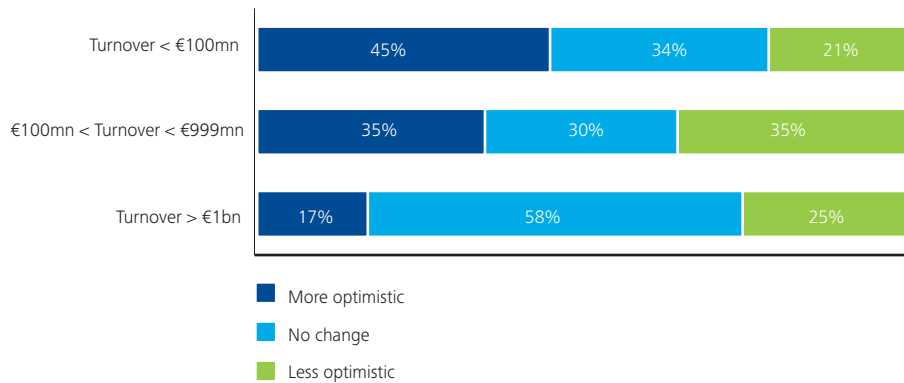
Despite the good actual performance, this quarter's survey shows a sharp decrease in optimism. 27% of the respondents reported they are less optimistic today about the financial prospects of their company compared to three months ago, versus 35% who are more optimistic. Following 4 quarters of stable optimism, this quarter's results reflect significant worries about the pace of the economic recovery.

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

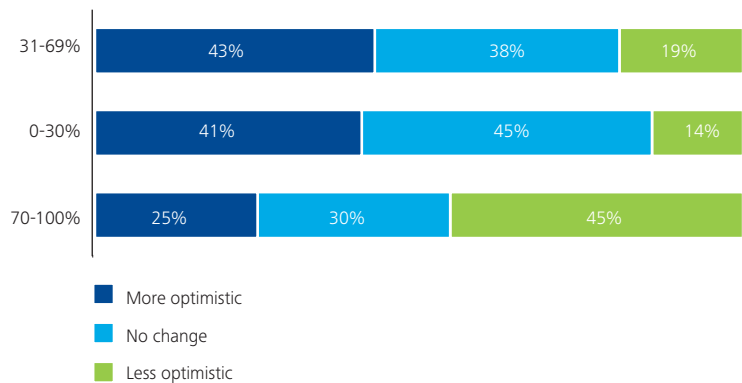


Larger and more internationally oriented organisations are less optimistic about their financial prospects compared to the smaller and local ones.

Optimism of CFOs about financial prospects for their company by turnover

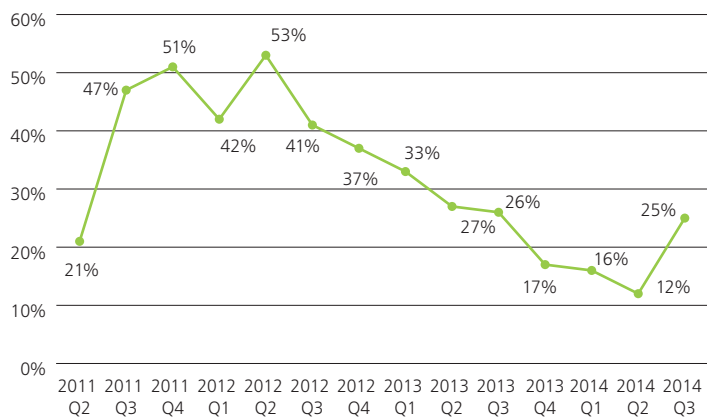


Optimism of CFOs about financial prospects for their company by % of revenue derived from outside of Belgium



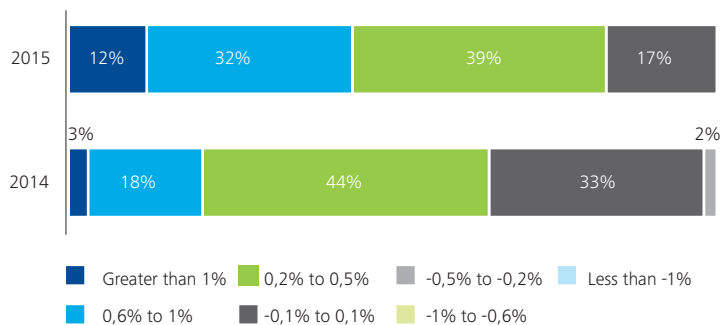
This quarter's decrease in optimism coincides with an increase in the general level of financial and economic uncertainty.

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



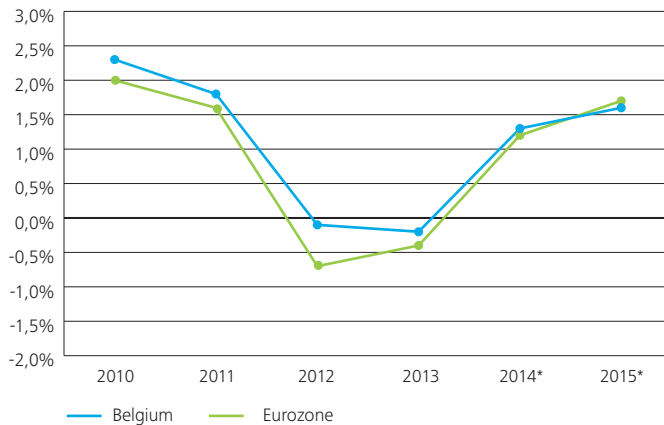
CFOs do not have strong expectations for economic growth in Belgium. Only 20% of CFOs expect growth to exceed 0.5% in 2014. Expectations for 2015 are marginally more optimistic.

CFOs' expectations on Belgian economic growth in 2014 and 2015



This means that CFOs continue to have substantially lower expectations than the National Bank of Belgium. In their last published forecast, the NBB estimates growth of 1.3% in Belgium in 2014 and 1.6% in 2015.

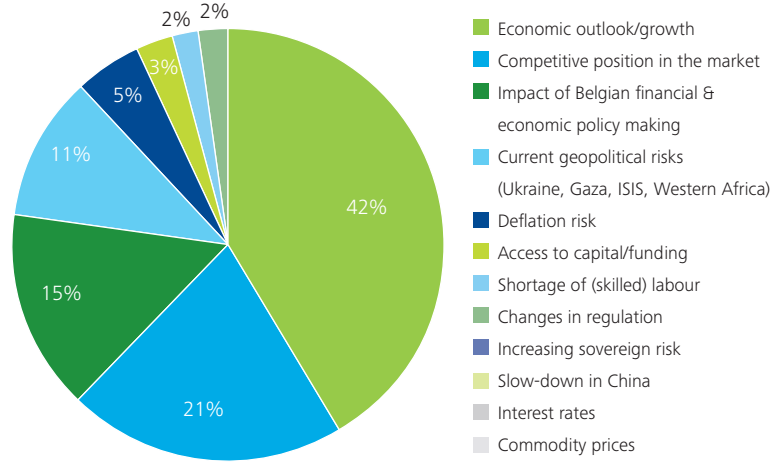
Real GDP evolution: Belgium vs. the Eurozone



*Source of data: Economic Indicators for Belgium N° 2014-39, National Bank of Belgium 2014 & 2015 data are forecasts, the Belgian forecast is based on NBB estimates from June 2014, Eurozone forecast on OECD data from May 2014

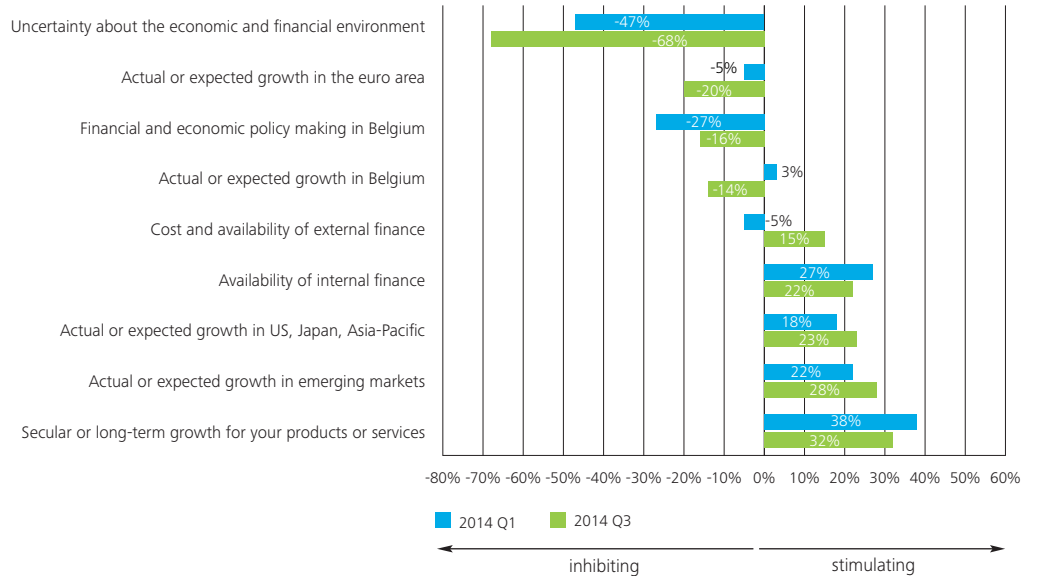
In an environment of low growth & rising uncertainty, CFOs again become above all concerned about the economic outlook/growth. As in previous quarters, the competitive position in the market and the impact of Belgian financial and political decision making complete the top 3 concerns. Unsurprisingly, current geopolitical risks also raise in importance to CFOs.

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



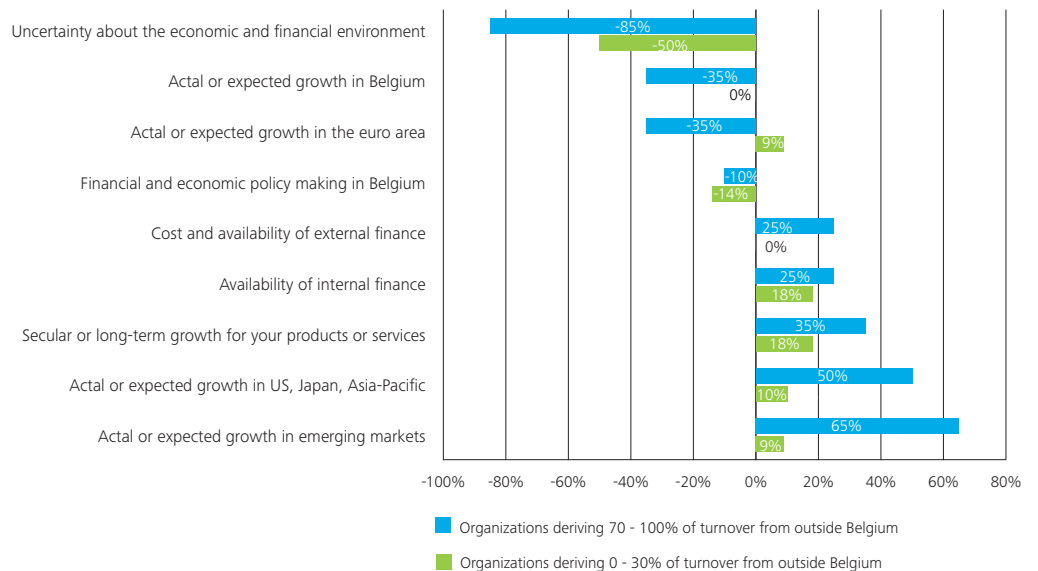
The low growth environment in Belgium and the Eurozone and the uncertainty about the economic and financial environment remain the most important factors blocking investments.

Net % of CFOs who perceive the following factors to have a positive/negative impact on their investment plans (current impact)



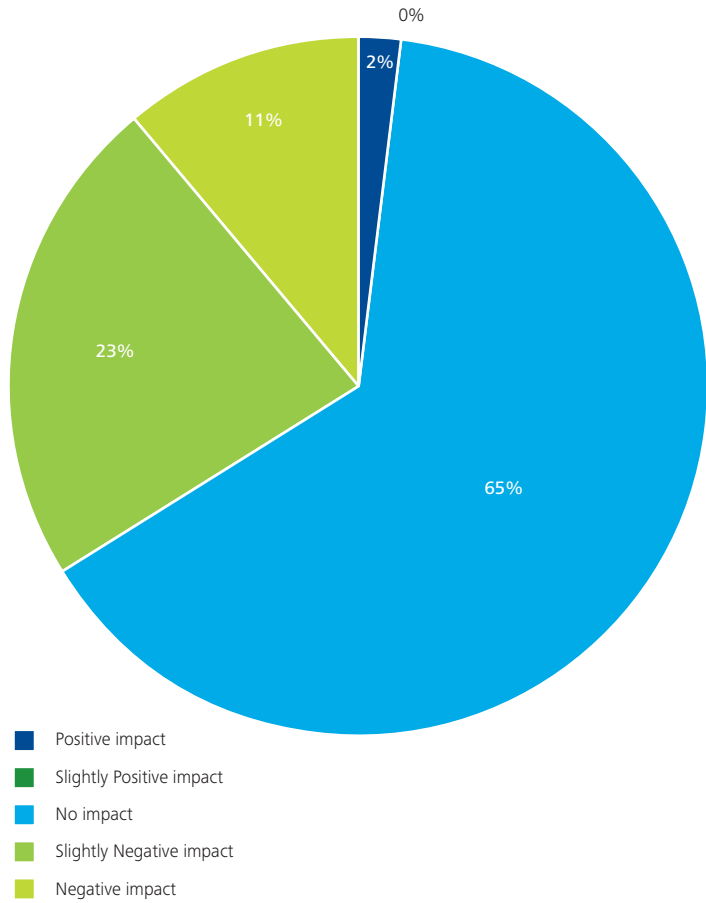
Growth in overseas and emerging markets are the main drivers for investment, local Belgian organisations have few stimuli for investment.

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

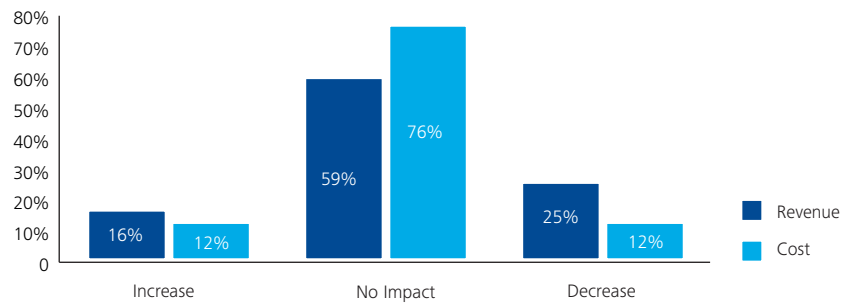


In Q3 economic sanctions against Russia were taken. A third of the responding CFOs report that they brought about a negative impact. Although the crisis in Ukraine is still not top of the CFOs' priority list, a rising number of CFOs do consider current geopolitical risks to be their top concern, namely 11%.

Impact of current sanctions against Russia on CFO's company/business



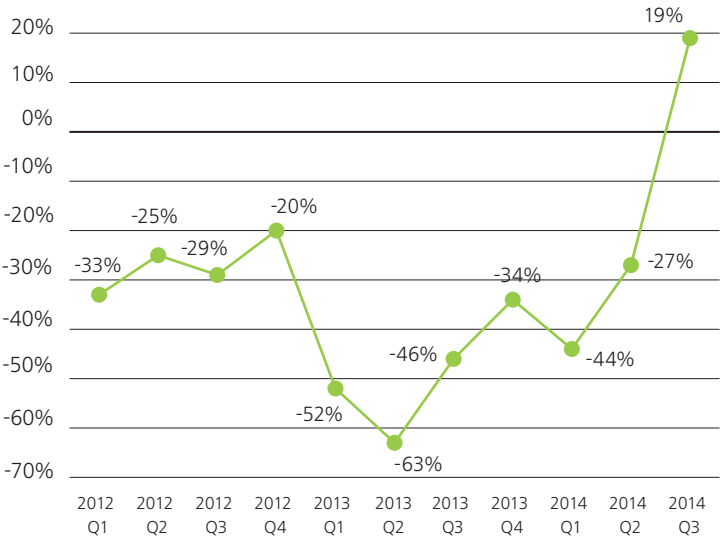
Financial impact of current sanctions against Russia on Revenue and Cost of CFO's company/business



Politics raise positive expectations

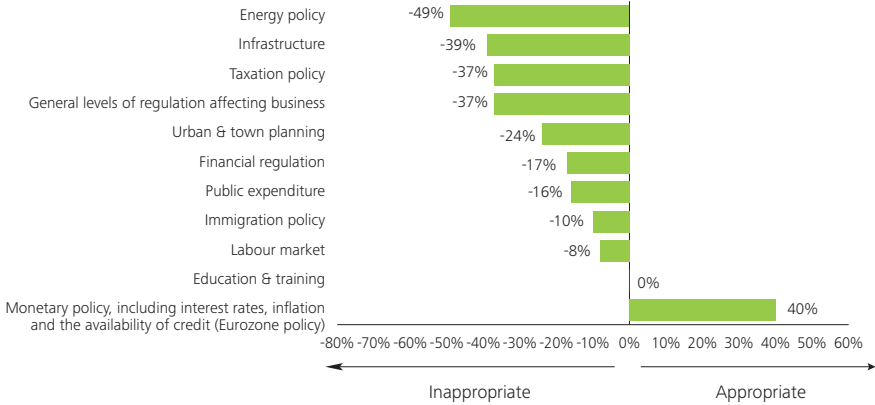
For the first time in the history of the CFO survey, CFOs have expressed a positive net opinion on the way, in which the Belgian government is setting the right priorities for financial and economic decision making.

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



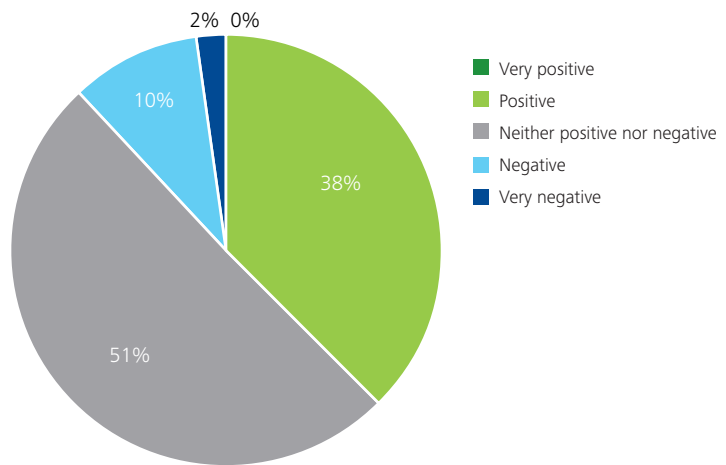
CFOs remain largely positive about the monetary policy of the European Central Bank. As in previous quarters, none of the policy areas under the responsibility of the Belgian authorities that we surveyed are perceived as appropriate. The ranking of inappropriate policies has, however, changed since last quarter, with energy policy now being evaluated the worst and taxation and labour market policy scoring better than previously.

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



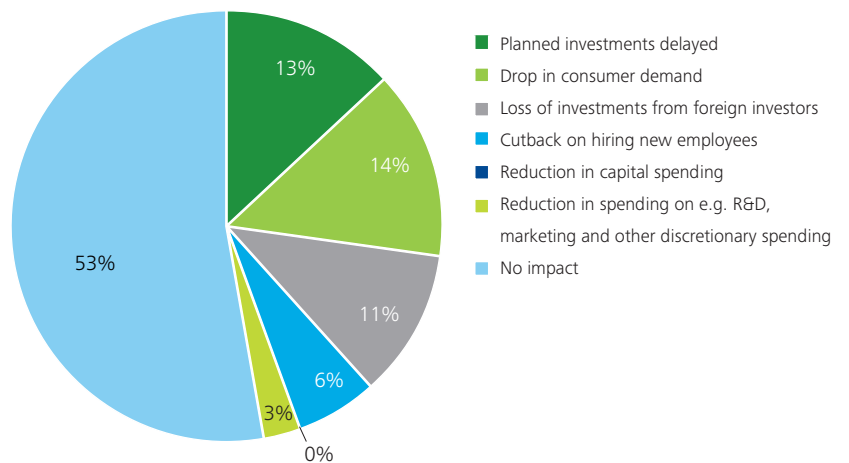
In Q3 2014 the composition of the regional governments was already known. Although half of the CFOs don't expect them to have any specific long-term impact on their businesses, the rest is more positive with a net percentage of 27% saying that the agreed charters of the regional governments will have a positive impact on businesses also in the long-term.

Extent to which the agreed charters of the regional governments will have a positive impact on businesses in Belgium, also in the long-term



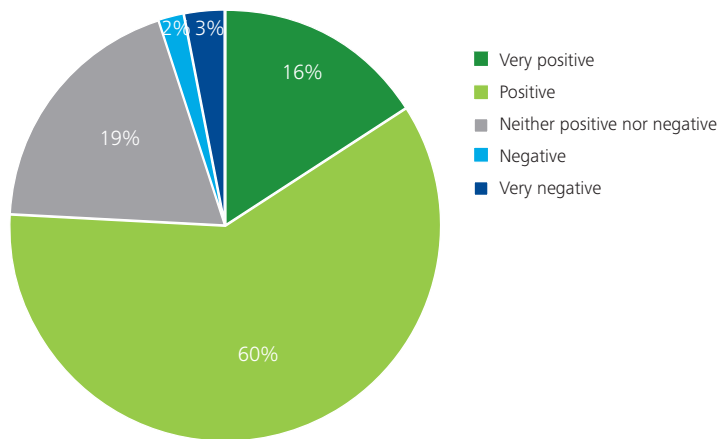
If the government formation process would be very long, as was the case after the 2010 elections, impact will be limited to half of the surveyed organisations. On the other hand, for the other half continued political instability will result in lower or delayed capital spending, reduced consumer demand, and reduced foreign investment.

Expected impact of a long federal government formation process of CFOs' companies



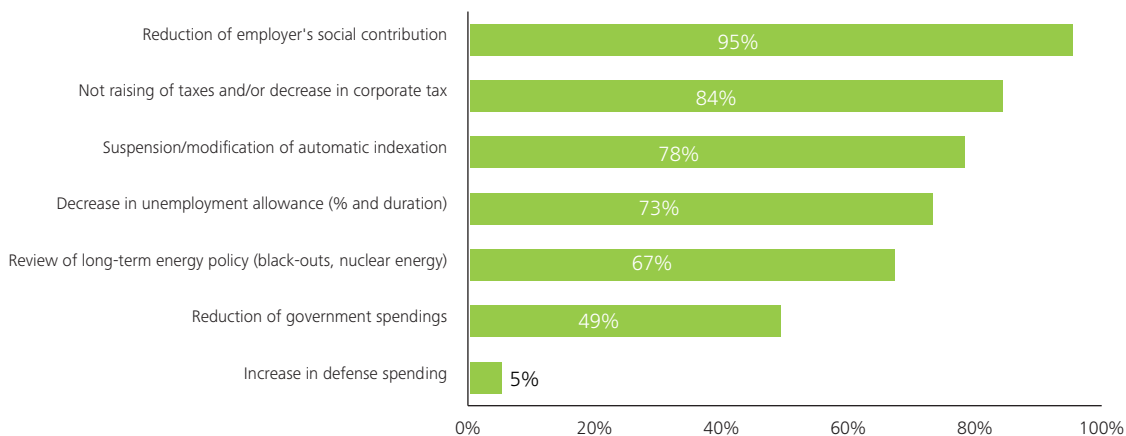
While the newly forming centre-right government was engaged in advanced programme discussions, 76 % of the Belgian CFOs expressed their belief that this government would have a long-term positive impact on businesses in Belgium. Only 5% currently predicts the contrary.

Extent to which the forming center-right federal government will have a positive impact on businesses in Belgium, also in the long-term



Given the negative evaluation the appropriateness of policy making traditionally receives in this survey, CFOs see many key points that the forming government should take up. At the top of all these topics are the high tax and social contribution in Belgium, but modification of the principle of automatic indexation, review of allowances in unemployment and the question of long-term energy policy were all stressed by a majority of CFOs.

Net % of CFOs evaluating the following likely elements of the forming federal government's programme as contributors to future success of businesses in Belgium

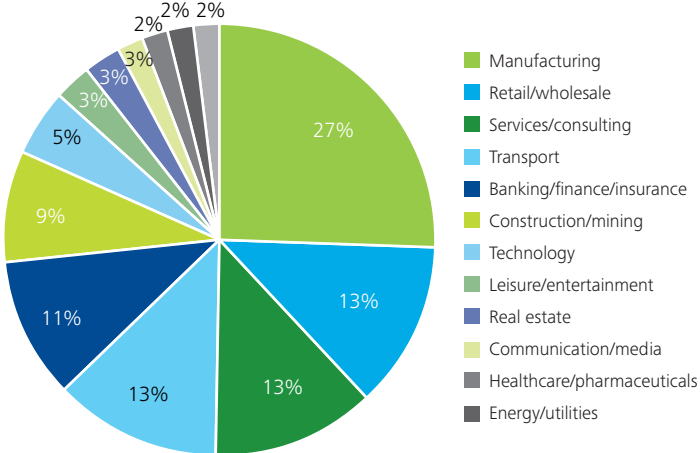


Profile Q3 survey participants

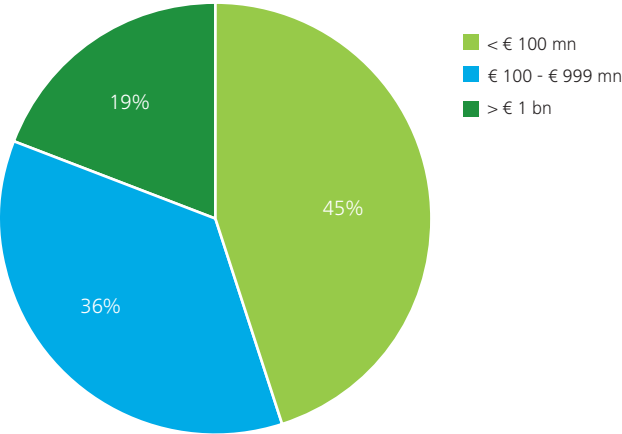
A total of 66 CFOs, active in a variety of industries completed our 2014 third quarter survey. 19% of the participating companies have a turnover of over €1 billion, 36% of between €100 million and €1 billion and 45% of less than €100 million.

35% of the participating companies derive up to 30% of their revenues from outside Belgium, 29% between 31% and 69% and 32% derive more than 69% of their revenues from outside Belgium.

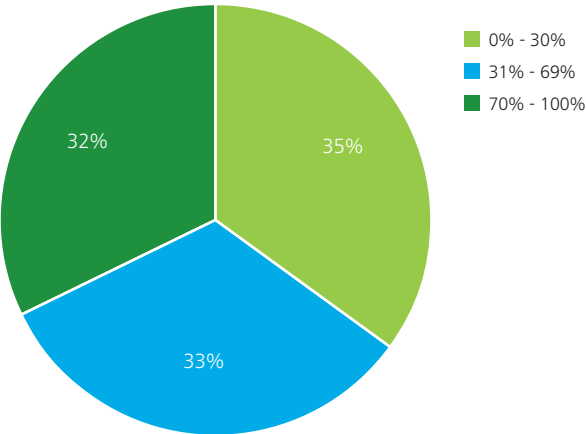
Industry sector



Turnover



Revenues derived from outside Belgium



The Deloitte Belgian CFO Survey is produced by Thierry Van Schoubroeck, Romana Jelinkova and Peter Hajnik.

A note on methodology

Not all survey questions are reported in each quarterly survey. In response to the current financial economic situation survey questions will be selected. In case you participated to 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 third quarter survey took place between 12 - 30 September 2014, 2014. A total of 66 CFOs completed our survey. The participating CFOs are active in variety of industries. 19% of the participating companies have a turnover of over €1 billion, 36% of between €100 million and €1 billion and 45% 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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