

Deloitte
Belgian CFO Survey
Concern over government policies
clouds current optimism

Benchmarking corporate financial attitudes



Key points

Key points from the 2014 Q2 Belgian CFO survey

- CFO optimism has eased slightly this quarter, but continues to run well above its long-term average. Only 10% of CFOs are pessimistic today, down from 40% a year ago
- The positive sentiment is increasingly being reflected in the numbers: 70% of survey respondents report financial performance at the end of the second quarter is in line with – or for 40% above – the budget.
- Levels of financial and economic risk have fallen sharply in the last year and competitiveness has eclipsed worries about the economy. Safeguarding the competitive position of their companies is the CFOs' main concern.
- Defensive strategies with focus on efficiency and cost reduction remain top of the agenda, and expansionary strategies gain little ground. For the current year, top line growth expectations are ambitious, notwithstanding low growth projections for Belgium and Eurozone economies.
- CFOs are above all worried about the long term success of business in Belgium. Political stability and regulatory predictability are key factors to investment and expansionary strategies. Current policy making - across all areas - is inappropriate for the long term success of business.
- Long government formation processes will lead to lower hiring, delayed capital spending and reduced foreign investment.

Macro-economic backdrop to the second quarter CFO survey

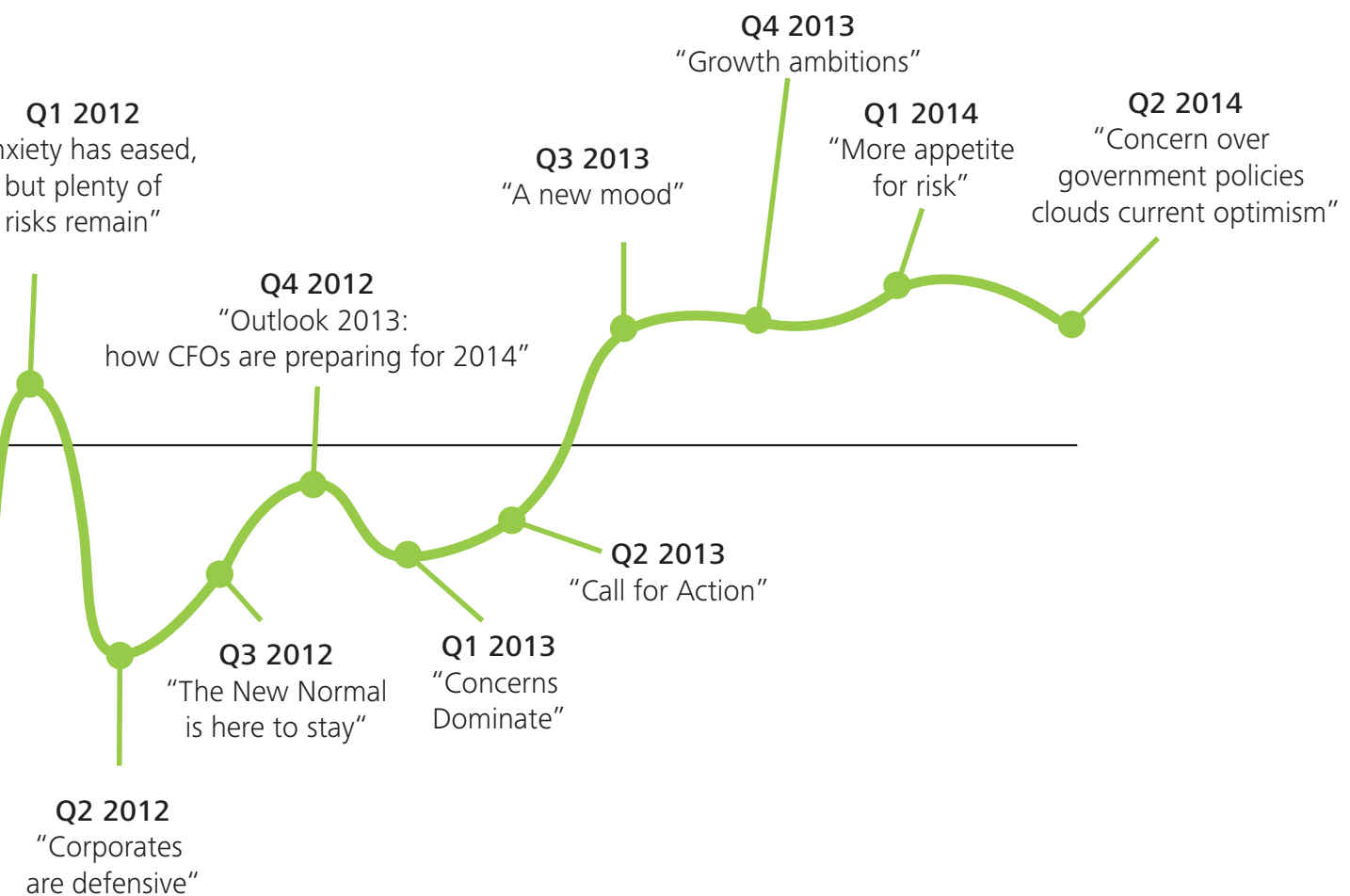
Global equity markets rose 4.2% in the second quarter and yields on the US and German bonds fell. Growth forecasts for emerging economies edged lower on a mix of geopolitical, financial and economic concerns. The US economy shrank in the first quarter, although the effects of an unusually harsh winter and business inventory restocking appear to be temporary. Portugal exited its bailout programme and Greece successfully raised money in the markets, but concerns about deflation and low growth prompted the European Central Bank to cut interest rates. In the UK, inflation softened and output rose by 3.1% in the year to Q1 2014, the strongest performance in the developed world.

Ian Stuart, Chief Economist Deloitte UK

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



Financial and economic cycle



Short term prospects improving, but concerns about the future success of business in Belgium



It is tough running a business in Belgium. Taking into account the financial and economic situation in recent years, the outlook for the coming 12 months is overall positive. The mood amongst CFOs remains optimistic. It is encouraging that the proportion of CFOs who are today less optimistic about the financial prospects of their organisations than they were three months ago, has once again decreased. For the first time in several years, one third of CFOs report that their organisations are outperforming the budget. Risk appetite is at the highest level since the launch of the survey in 2009. On the other hand, many organisations remain first and foremost focused on defensive strategies rather than on expansion. CFOs are above all concerned about policy risk and the long-term success of businesses in Belgium. Policy makers are not providing the answers CFOs are looking for.

Business conditions improving

Notwithstanding unexciting overall growth expectations in Belgium and in the Eurozone, CFOs are in an optimistic mood for the fourth quarter in a row.

The general level of financial and economic uncertainty has further decreased, and following the strong run in financial markets last year, equities and government bonds are considered adequately priced. Interest rates are expected to remain low for some time, and the feeling is that central bankers will provide more stimulus to the economy to get things moving if required.

Illustrative for the gradually improving climate is that the percentage of CFOs that turned more pessimistic about the prospects of their own organisation has fallen from 50% at the beginning of 2013 to only 10% today, the lowest reading in years.

Good financial performance

Gradually improving business conditions have translated into good business results: at the end of the second quarter 70% of survey respondents report financial performance is in line with the budget, up from around 50% last year and only 40% in 2012. The percentage of CFOs reporting that second quarter results will outperform the budgets has gone up from 20% in 2012 and in 2013 to 40% today.

More good news on the top line, which is expected to grow for 70% of respondents. Considering the modest growth expectations for the Belgian economy

as a whole – typically between 1 and 1.5%– growth projections of survey respondents for their own companies even seem bullish: 56% expect top line to grow more than 2%. 32% even predict their revenues to go up by more than 5%.

Desire to grow

Risk appetite had seen a marked increase from the beginning of the year, and has stepped up again this quarter to the high levels we witnessed in 2010. Balance sheets seem healthy and funding is overall attractive and available. Growth expectations in overseas and emerging markets and, to a much lesser extent, in the Eurozone or Belgium are the most important drivers for investment.

Cost control, debt reduction and building up cash helped get business through the recession. CFOs are placing emphasis on expansionary strategies such as increasing capital expenditure and expanding by acquisition. Yet we see that for about half of organisations, defensive strategies with focus on efficiency and cost reduction remain the most important priority – more important than growth and expansion.

Safeguarding the competitive position of their businesses remains the CFOs top concern in the short run, but also in the long run. The Ukrainian crisis is to some extent a concern for CFOs. About half of respondents expect that (additional) EU sanctions against Russia will have a negative impact on their businesses, although the impact is likely to be limited.

Worrying long-term perspective

Since the beginning of 2012, we have reported how CFOs evaluate the appropriateness of Belgian financial and economic policy-making for the long-term success of their businesses. Since then, the report has shown reasons for concern. Looking into the details of the various policy areas, Belgian CFOs are most negative about – and this is not new – taxation and labour market policies. But also policy areas related to urban planning, energy, infrastructure, public expenditure and general levels of regulation for businesses are considered inappropriate for the long-term success and viability of businesses in Belgium. Only one policy area is evaluated positively: the monetary policy, including interest rates and inflation which fall under the European authority of the European Central Bank (ECB).

Challenges for policy makers

With June elections just behind us, 30% of CFOs are optimistic that the results of the vote will have a positive effect on the long-term success of businesses, whereas 15% are pessimistic. CFOs are clear about what should be policy makers' key financial and economic priority: reducing the labour cost by lowering employer contributions. Other priorities – but significantly lower on the list – are the reform of the automatic wage indexation system and labour market flexibility.

CFOs hope new Federal and Regional governments will be formed soon. Although half of CFOs report a long government formation process might have a negative impact on consumer demand and delay capital

spending, hiring or foreign investments, the other half report their businesses will likely not be impacted.

CFOs might even prefer a long(er) government formation process, as long as this in the end results in financial and economic policy priorities that will contribute to the long-term viability of their businesses.

It is up to the policy makers to take up the challenge. The results of the Deloitte CFO survey suggest businesses are willing and ready to invest, provided the long-term perspective is clear. To this end, political stability and regulatory predictability are key.

Thierry Van Schoubroeck,
Partner, CFO Services

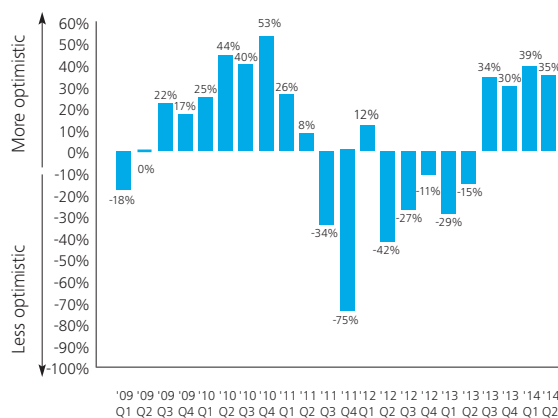
Joël Brehmen
Finance Lead, Partner

Positive highlights

Optimistic mood lasts

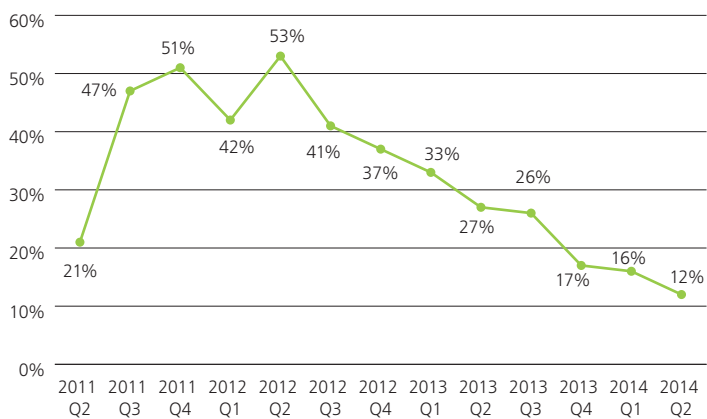
In the course of the last four quarters Net Optimism, one of the key indicators of the survey, has stabilised and remains positive. Since the third quarter of last year, CFOs are overall optimistic about the financial prospects of their company.

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



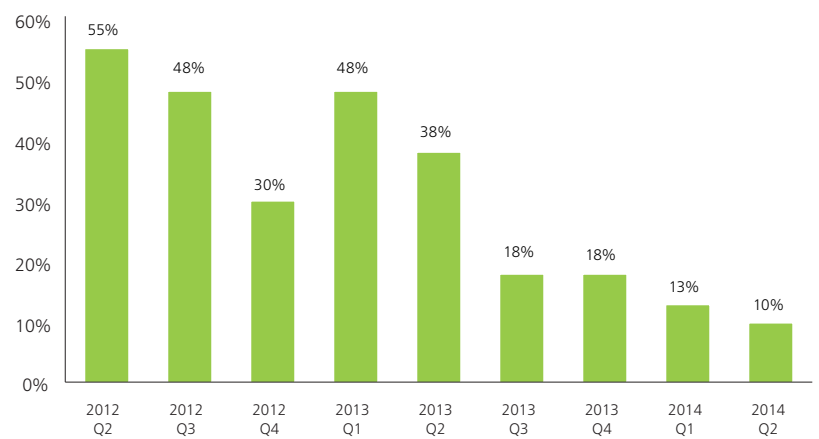
The optimistic mood coincides with a gradual reduction of the general level of financial and economic uncertainty. In the second quarter, the indicator further decreased for the seventh quarter in a row since 2012. 12 % of CFOs now rate the general level of external financial and economic uncertainty high/very high.

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



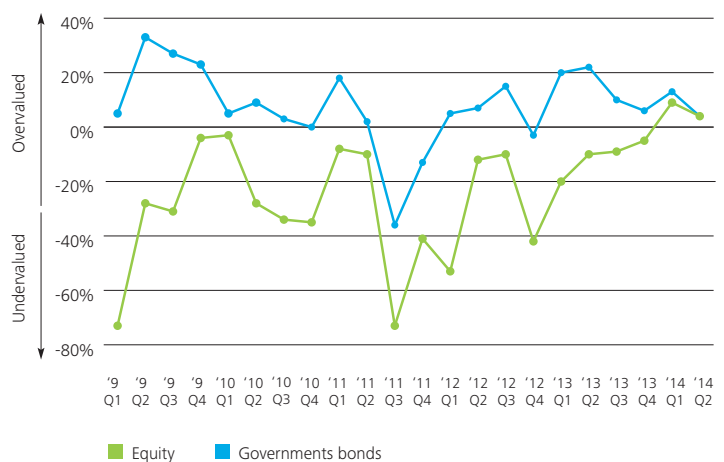
Although Net Optimism has remained relatively constant in the last year (and has hence not increased), we observe that the percentage of CFOs who are less optimistic about the prospects of their company compared to three months ago still continues its gradual decline.

% of CFOs who are less optimistic about the financial prospects for their company



Following the important rally in financial markets in the last year, and the further stabilisation of the sovereign debt crisis, equity and government bond valuations are considered normal.

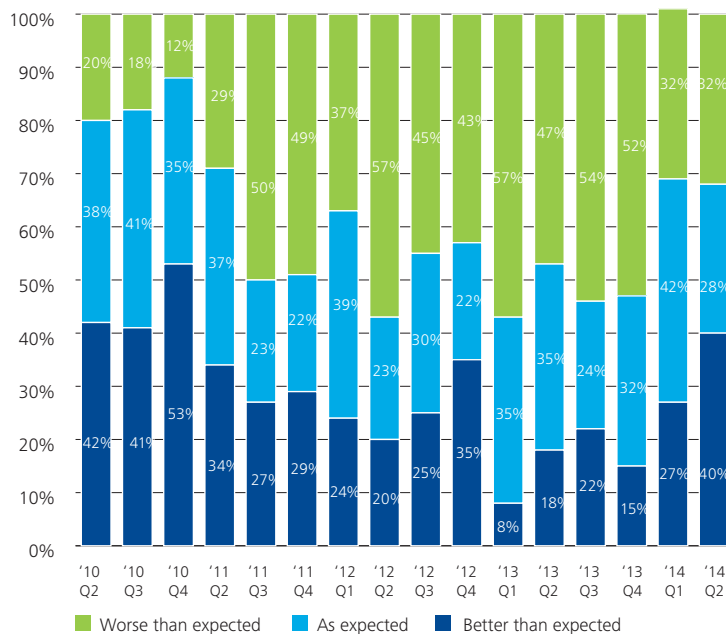
Net % of CFOs who think that the following assets are overvalued/undervalued



Actual performance & expectations on the rise

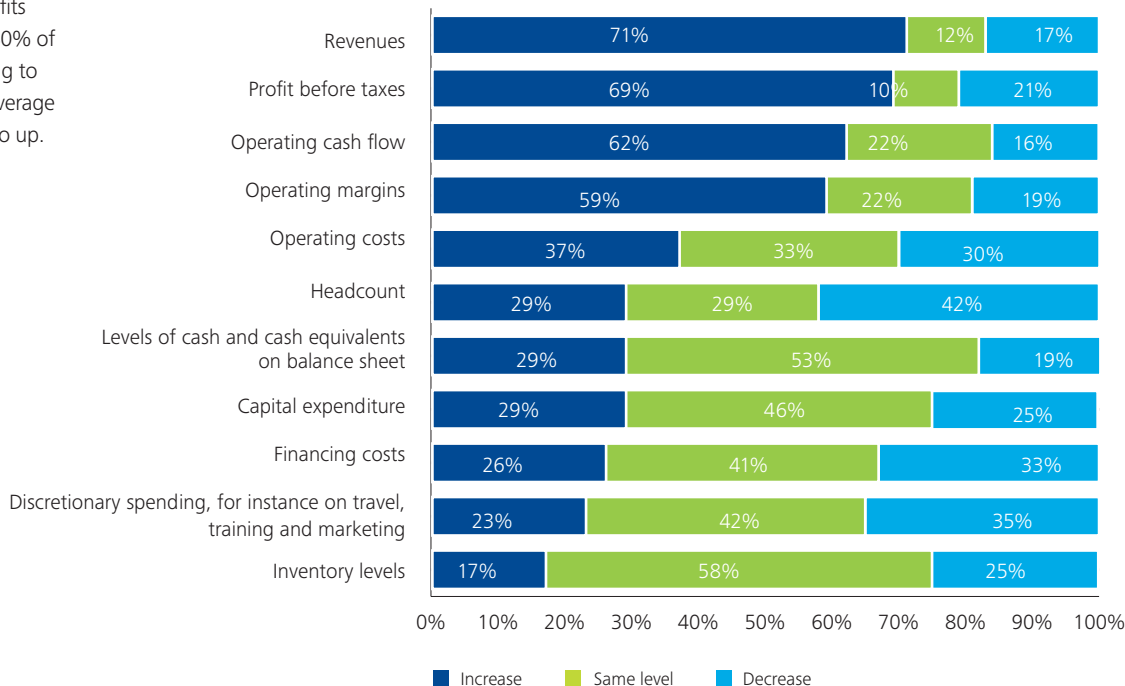
Performance to budget marked an important improvement in the first quarter of the year. At the end of the second quarter, 70% of organisations report their financial performance is in line with, or better, than budgeted. Since a few quarters, the percentage of companies that are outperforming their budgets has been increasing, reaching 40% today.

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

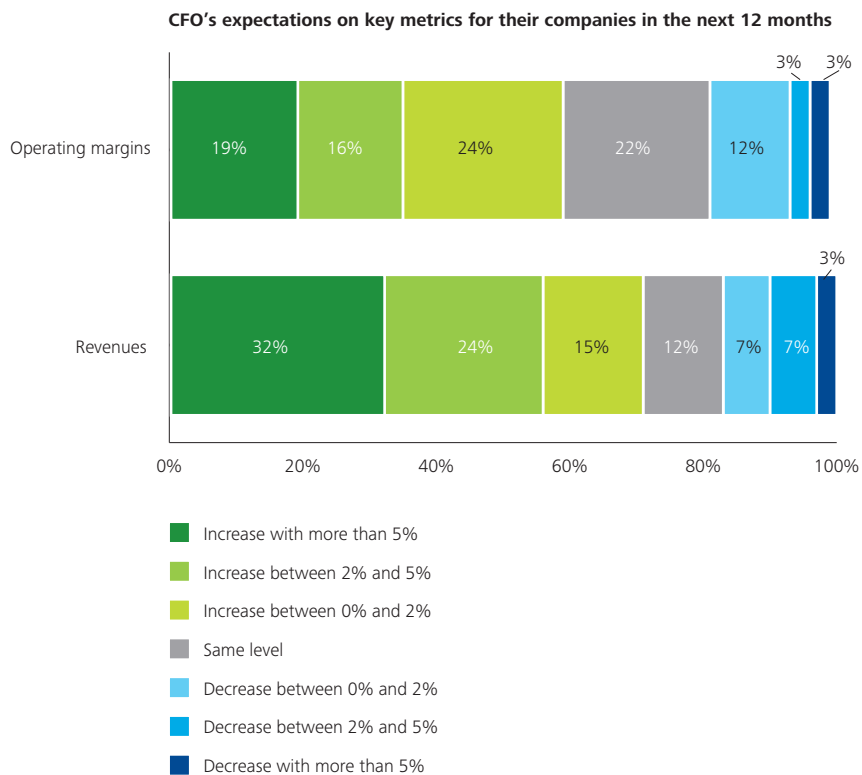


The vast majority of CFOs expect to grow their top line, margins and profits this year. With over 40% of organisations planning to reduce headcount, average productivity should go up.

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



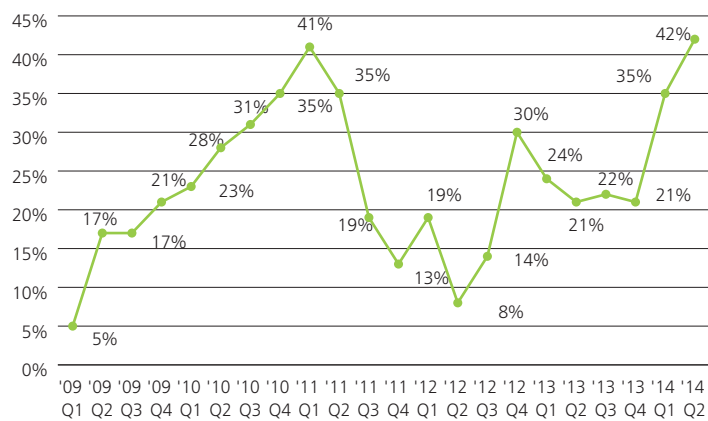
Taking into account the moderate growth expectations for the Eurozone and Belgium, many CFOs seem bullish with regards to the growth expectations for their businesses: 80% expect to beat general economic growth, with one third looking at +5% growth.



Appetite for risk grows

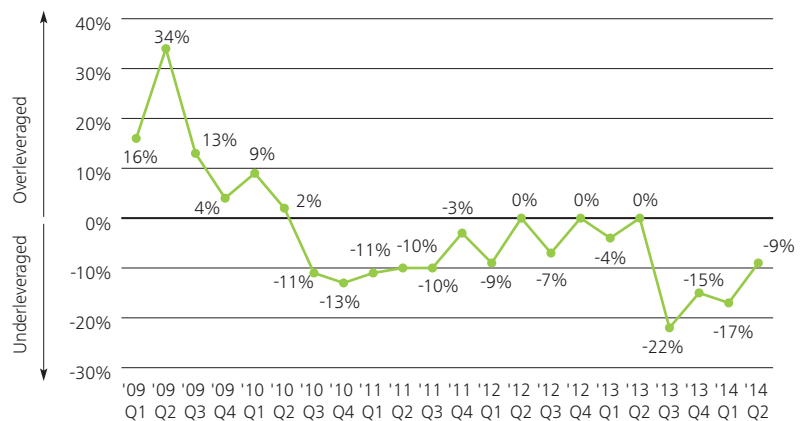
Risk appetite continues its sharp increase since the beginning of the year with 42% of the responding CFOs saying that now is a good time to take greater risk onto their balance sheet. With this, we are back at the levels we witnessed at the end of 2010 – just before the Eurocrisis escalated.

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



Belgian corporate balance sheets seem healthy and allow for opportunity for leverage.

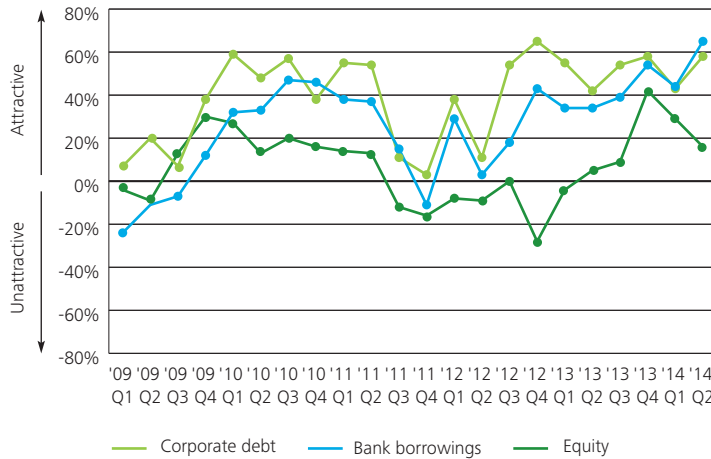
Net % of CFOs who think Belgian corporate balance sheets are overleveraged/underleveraged



Funding is attractive

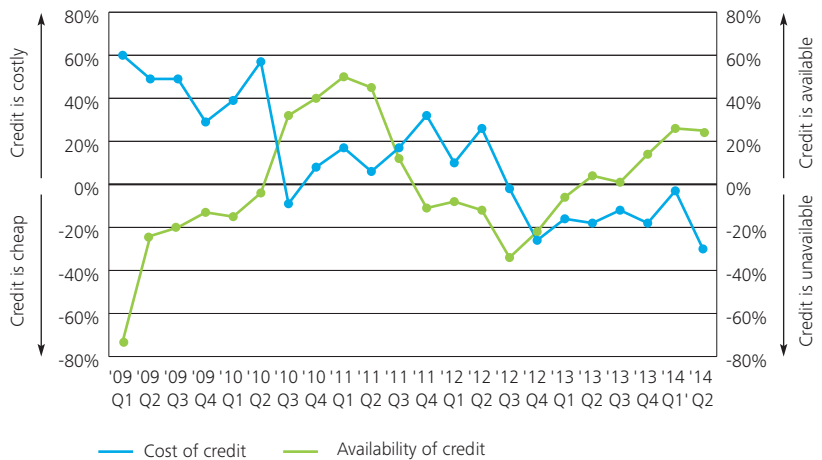
All sources of funding are reported to be attractive. Whereas bank borrowing and corporate debt grew in attractiveness since last quarter and continue to follow an upsloping trend, the attractiveness of equity decreased in the past two quarters.

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



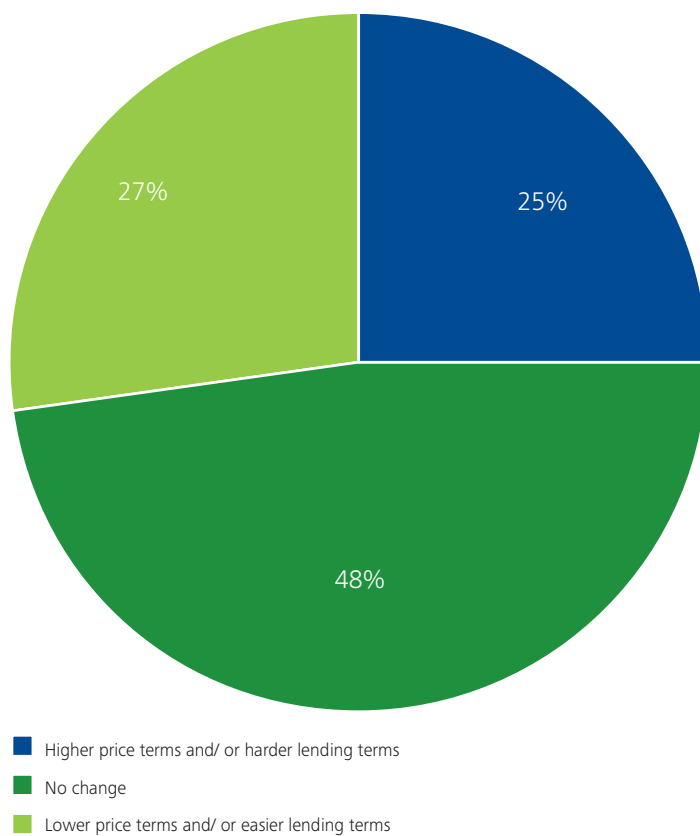
On average, bank credit is cheap and available, although one quarter of CFOs still complain about unavailability of bank credit. Survey results also indicate that larger organisations have easier access to bank credit than smaller ones.

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



Overall, most Belgian CFOs expect that price and lending terms will not change significantly over the next 6 months.

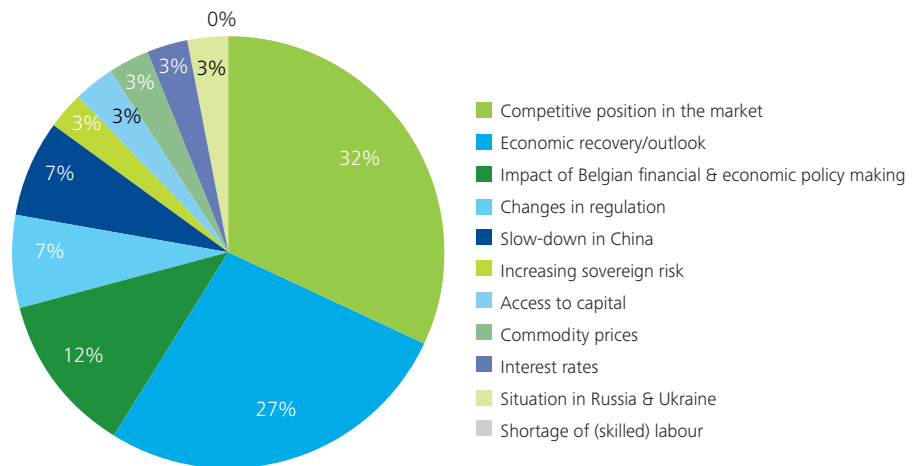
CFOs' expectations about evolutions of price terms and lending terms in the next 6 months



Current Focus Areas

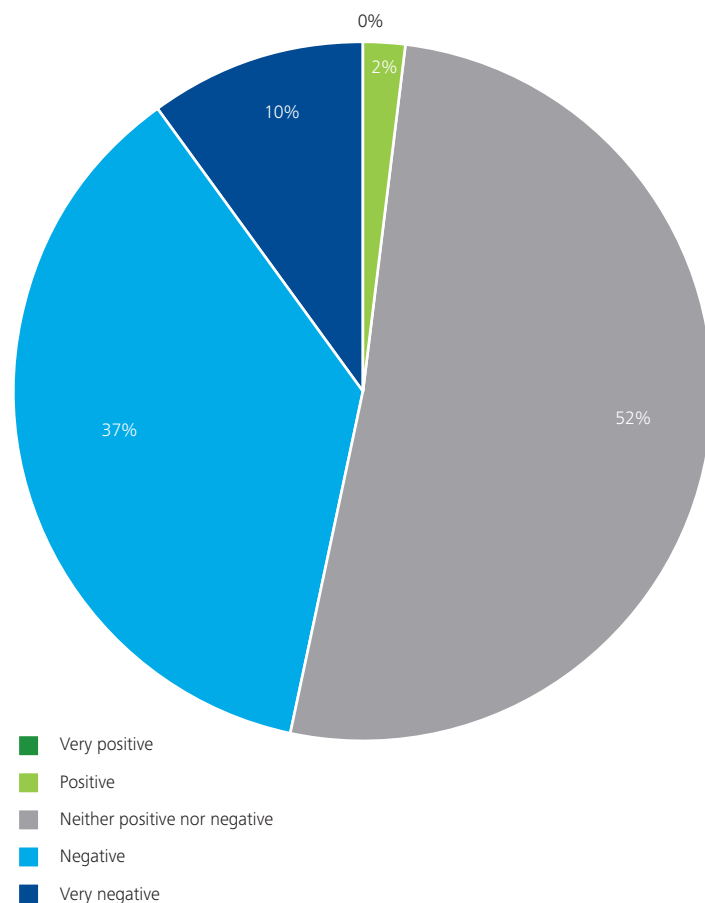
With the economic recovery pretty much on track, CFOs are most of all concerned about their competitive position in the market. As in previous quarters, CFOs also remain concerned about the impact of financial and economic policy making and regulatory changes.

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

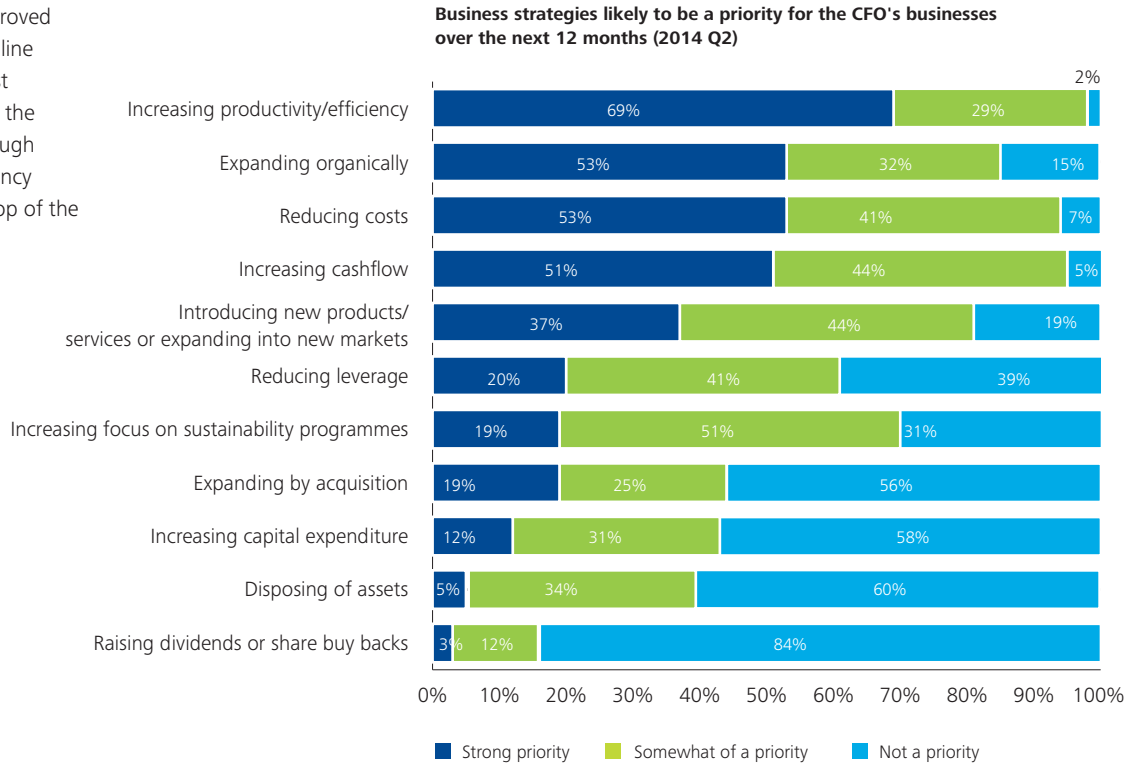


Although the crisis in the Ukraine is not top of the CFOs priority list, it might have an impact on the business environment in Belgium. In case additional sanctions will be imposed on Russia, approximately half of the surveyed CFOs expect some negative impact on their business.

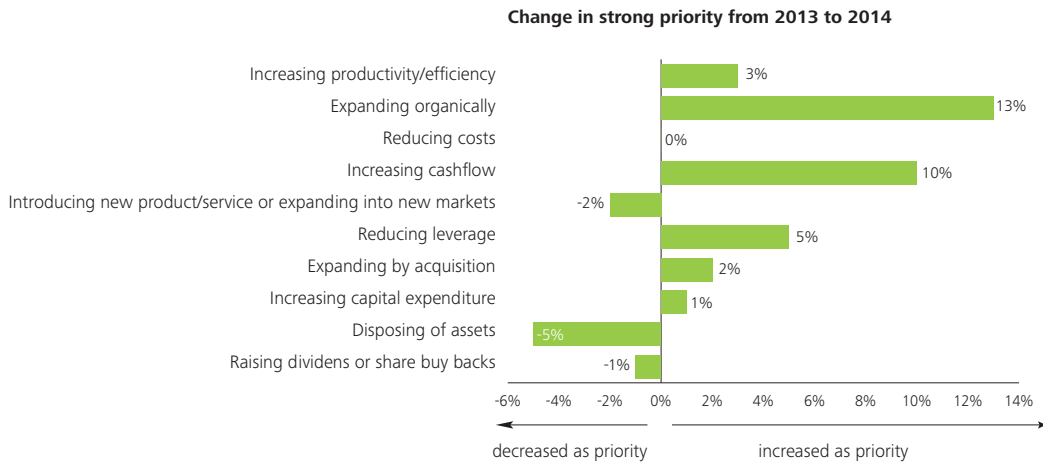
Impact of additional sanctions against Russia in the context of the Ukrainian crisis on CFO's company/business



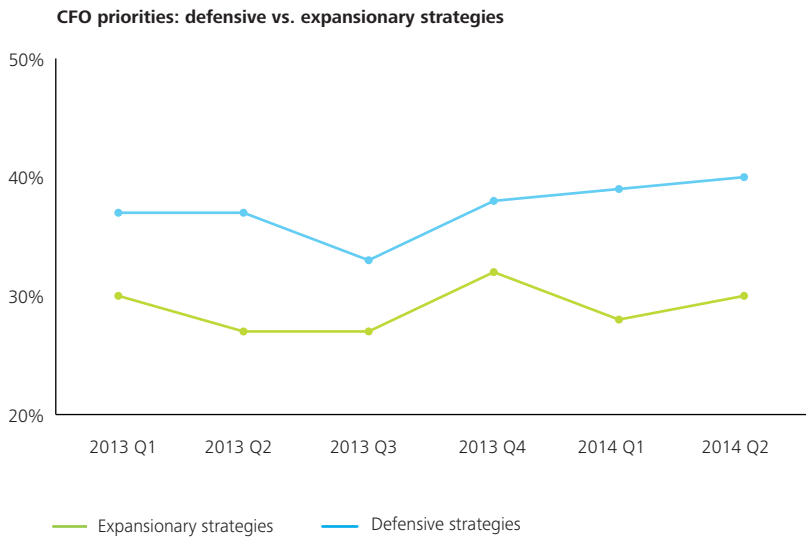
Notwithstanding the improved business climate and top line growth ambitions of most companies, safeguarding the competitive position through cost reduction and efficiency improvement still ranks top of the strategic priority list.



Today's strategic priorities are not very different from those reported one year ago. Organic expansion has gained some ground, reflecting top line growth ambitions.

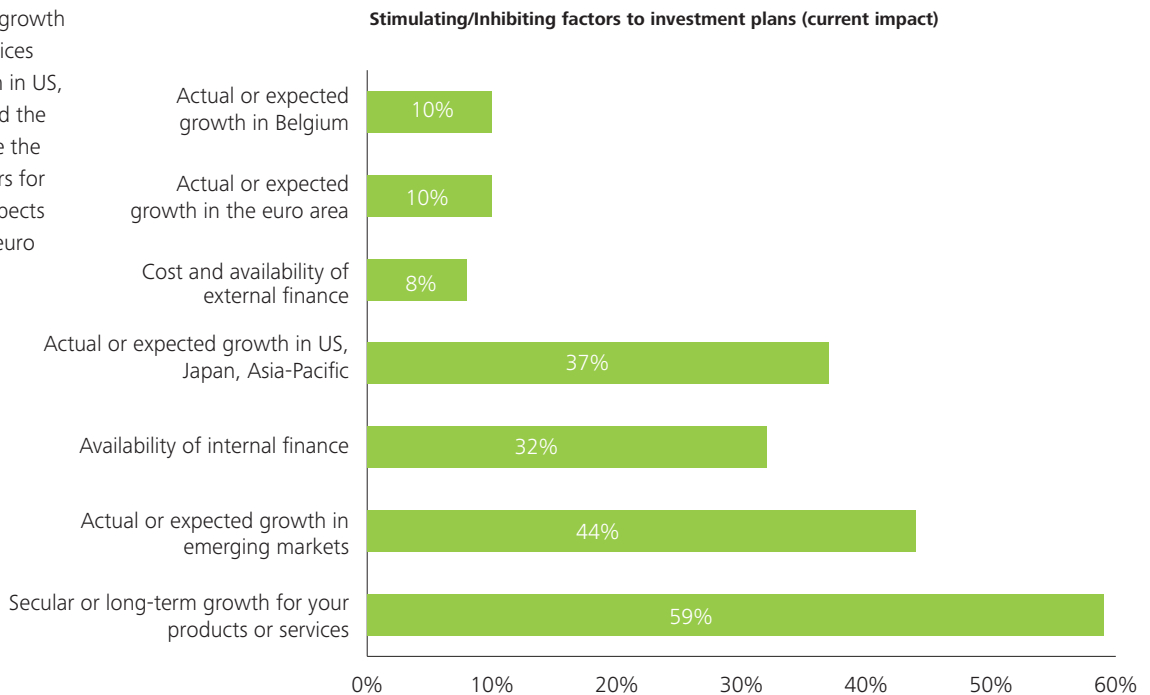


For most CFOs, defensive strategies remain more important than expansionary strategies in spite of growing optimism and risk appetite.



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.

Secular or long-term growth for products and services together with growth in US, Japan, Asia Pacific and the emerging markets are the most important drivers for investment. The prospects for Belgium and the euro area are less exciting.



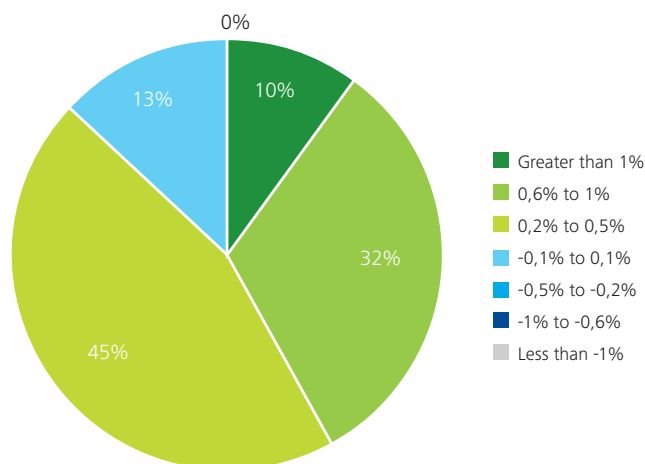
In particular organisations who derive at least 70% of their revenue from abroad, expect growth in US, Japan, Asia-Pacific and the emerging markets to have a positive impact on their investment. They are also more positive about the impact of the availability of internal finance and long-term growth for their products and services.



Attention points

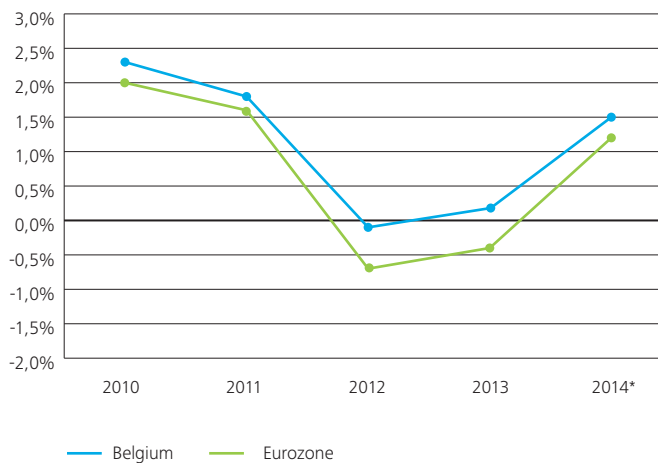
Although CFOs are positive about both the top and bottom line prospects for their own organisations, they are less optimistic about Belgian economic growth prospects for this year. 90% expect that growth will not exceed 1%.

CFOs' expectations for the Belgian economic growth in 2014



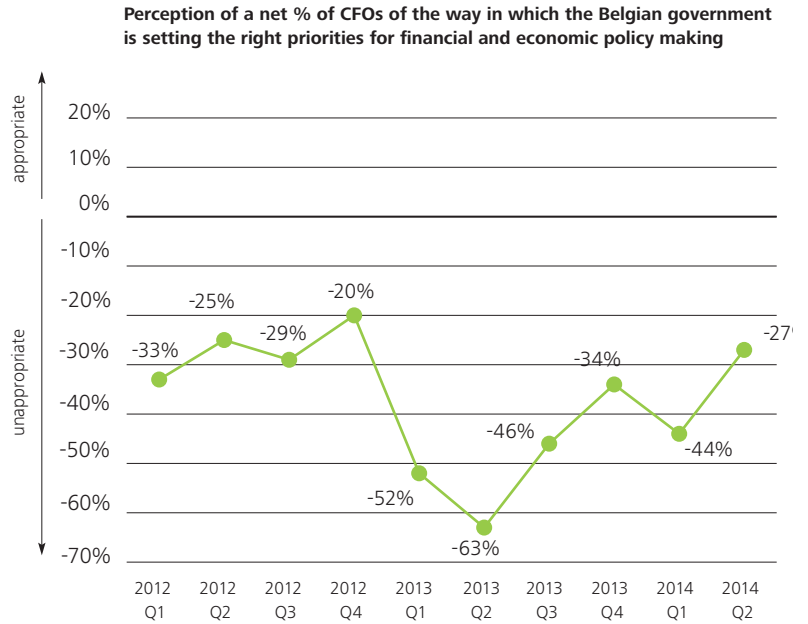
This means CFOs are significantly less optimistic than The National Bank of Belgium. In their June forecast, the NBB anticipates growth of 1.5% for Belgium in 2014.

Real GDP evolution: Belgium vs. the Eurozone

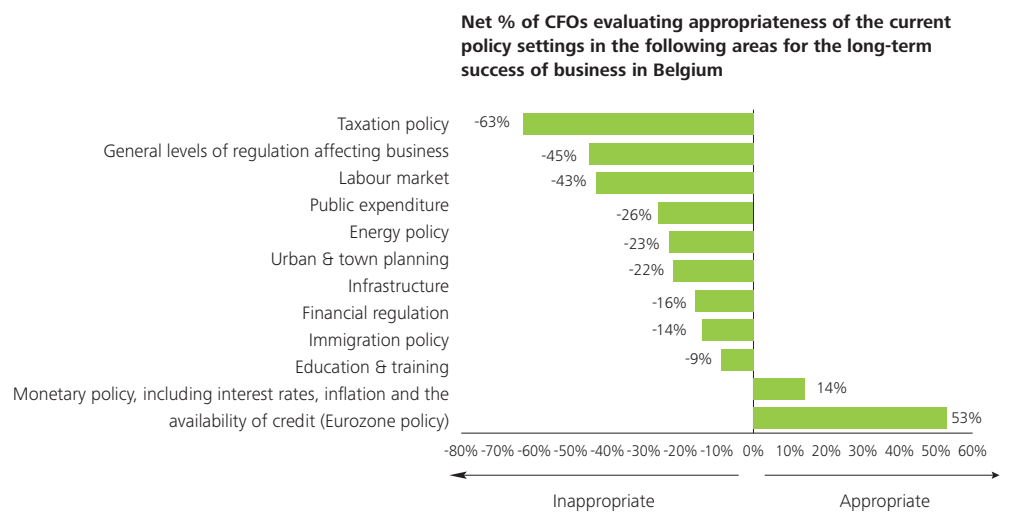


* Source of data: Economic Indicators for Belgium N° 2014-24, National Bank of Belgium
2014 data are forecasts, the Belgian forecast is based on NBB estimates from June 2014,
Eurozone forecast on OECD data from May 2014

CFOs have generally been dissatisfied with Belgian priorities for financial and economic policy-making. This remains the case today. However, it is somewhat encouraging that the positive trend of decreasing dissatisfaction seen in the past year continues.

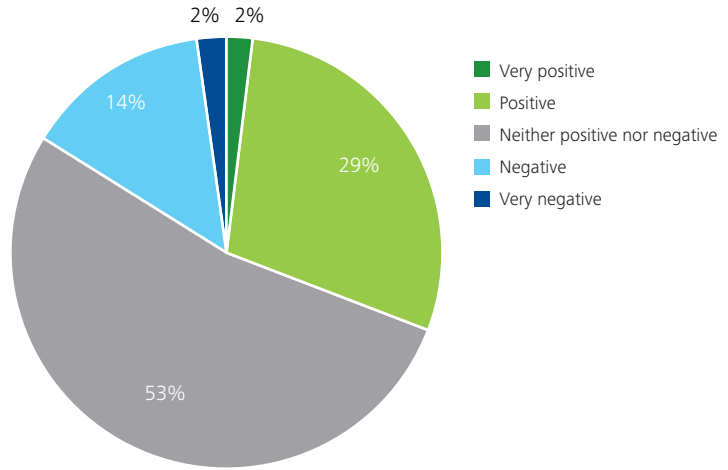


CFOs are today positive about the monetary policy of the European Central Bank. It is worrying that – with the exception of education - none of the policy areas under the responsibility of the Belgian/regional authorities that we surveyed are perceived as appropriate for the long-term success of businesses in Belgium.



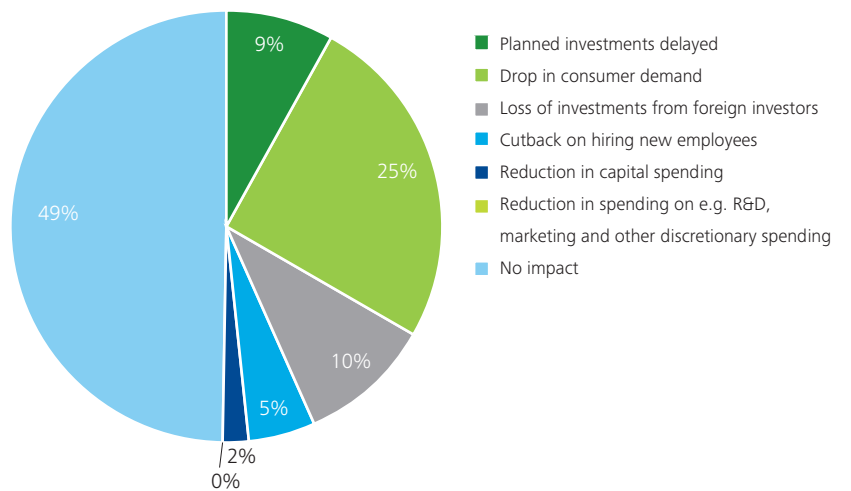
Shortly after the latest regional and federal elections, most CFOs do not expect the newly created political situation will result in a marked change in the business environment in Belgium. However, with a net balance of + 15 and with the government formation process still ongoing, the average CFO is somewhat positive about the potential for improvement.

Extent to which outcome of current elections will have a positive impact on businesses in Belgium, also in the long-term



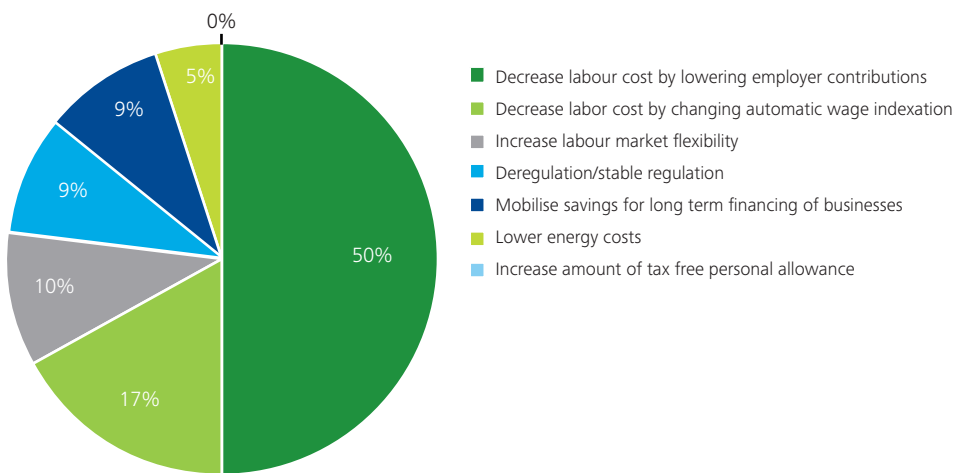
If the government formation process would be very long, as was the case after the 2010 elections, impact will be limited to half of the surveyed organisations. On the other hand, for that half continued political instability will result in reduced consumer demand, lower or delayed capital spending, and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

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



Above all, CFOs demand policy makers to give priority to labour cost reduction by lowering employer contributions. As CFOs are overall concerned about their competitive position in the market and focused on cost reduction, this direct measure could provide the oxygen that many organisations need.

Measures that would have the most positive impact on CFOs' business

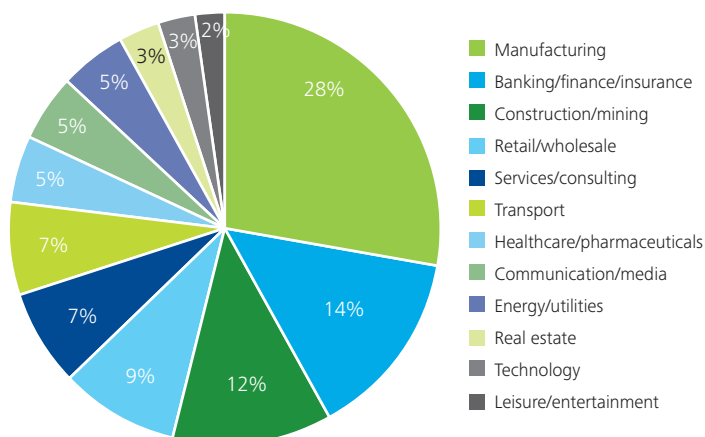


Profile Q2 survey participants

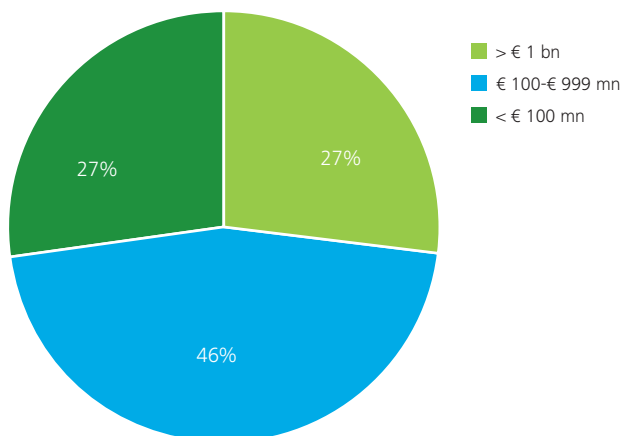
A total of 60 CFOs, active in a variety of industries completed our 2014 second quarter survey. 27% of the participating companies have a turnover of over €1 billion, 46% of between €100 million and €1 billion and 27% of less than €100 million.

31% of the participating companies derive up to 30% of their revenues from outside Belgium, 29% between 31% and 69% and 41% derive more than 69% of their revenues from outside Belgium.

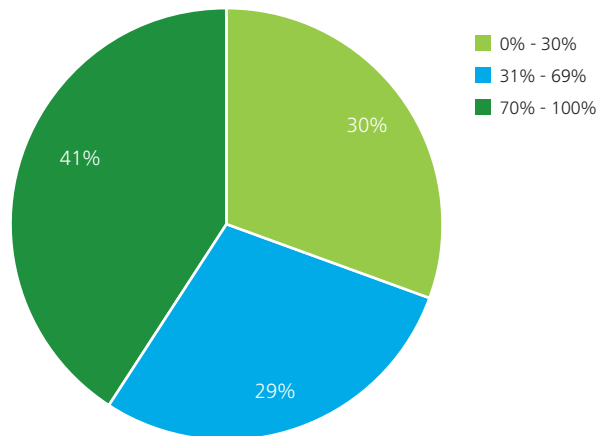
Industry sector



Turnover



Revenues derived from outside Belgium



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

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 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 second quarter survey took place between 2 June and 19 June, 2014. A total of 60 CFOs completed our survey. The participating CFOs are active in variety of industries. 27% of the participating companies have a turnover of over €1 billion, 46% of between €100 million and €1 billion, and 27% 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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