

The Deloitte CFO Survey Summer 2016 Flash edition

Post Brexit Vote Outlook



The second quarter edition of the CFO survey was postponed till June 24th to avoid the uncertainty related to the UK's Brexit vote on June 23th. The British jury has spoken and the UK will leave the EU. CFO optimism turned negative and is down to its lowest level in three years. But at the same time the outlook for growth and expansion remains positive and the second quarter financial results appear strong. The performance to budget to ratio is one of the best since the launch of the survey in 2009, and expansionary strategies remains high on the CFO agenda.

The results of this quarter's survey show that the EU referendum and the UK's decision to leave the European Union hit business confidence. CFO's increasingly worry about the stability of the European Union and the Eurozone and of the Euro exchange rate, today all in the top 5 list of key concerns.

As a result, the corporate willingness to take risk has also declined sharply. Just 23% of CFOs say now is a good time to take risk onto their balance sheet, down from 38% in the first quarter and 44% a year ago. The question is whether this represents a lasting or a more temporary shock to confidence.

So far the economic effects of Britain's Brexit vote have been pretty localised. The pound and business confidence have plummeted and economists have slashed their forecasts for UK growth next year. But there are few signs of contagion from the UK to the rest of the world. Brexit is a huge political shock, but it is not a global economic shock. The damage to business confidence brought by Brexit is likely to be transient.

On the positive side, second quarter financials look good and CFOs expect revenue and margins to grow in the next 12 months. Also, the survey's performance to budget ratio has never been better: 70% of survey respondents report their businesses have met or have exceeded (37%) the financial budget at the end of the second quarter. Expectations for growth in capital spending and hiring continue to increase quarter after quarter.

Our survey panel does not support the UK's key criticisms toward the European Union. Although CFOs share the UK's objective to limit excessive administrative burden and to extend the single market, the second quarter survey indicates there is little support from Belgian based CFO's for the UK's other demands for EU's structural reforms that were at the basis of the Brexit debate. Our survey respondents are widely in favor of the Euro as the single European Union currency and are opposed to the possibility that countries might opt-out of the further political integration of the EU.

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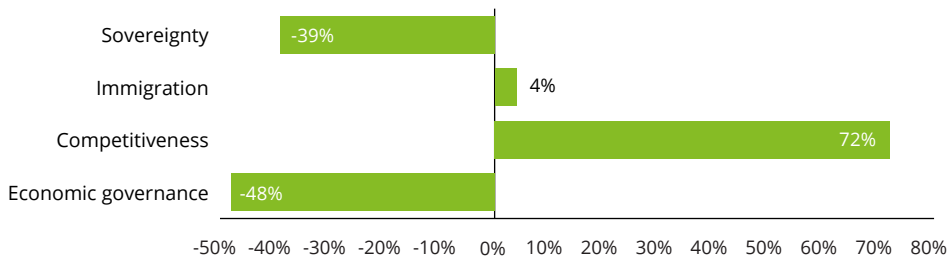
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For current and past copies of the survey, please visit:

<http://www2.deloitte.com/be/en/services/finance/cfo-connect.html>

Net % of CFOs rating the UK's demand for the EU's structural reforms as appropriate



*Economic governance - EURO should not be imposed as the only currency in the EU
 Competitiveness - Target should be set for the reduction of the "burden" of excessive regulation and extending the single market
 Immigration - In-work and out-of-work benefits to EU migrants should be restricted
 Sovereignty - Possibility to opt-out from the further political integration of the EU (i.e. more power to national parliaments to amend/block EU legislation)

The macroeconomic backdrop to the Deloitte CFO Survey Q2 2016

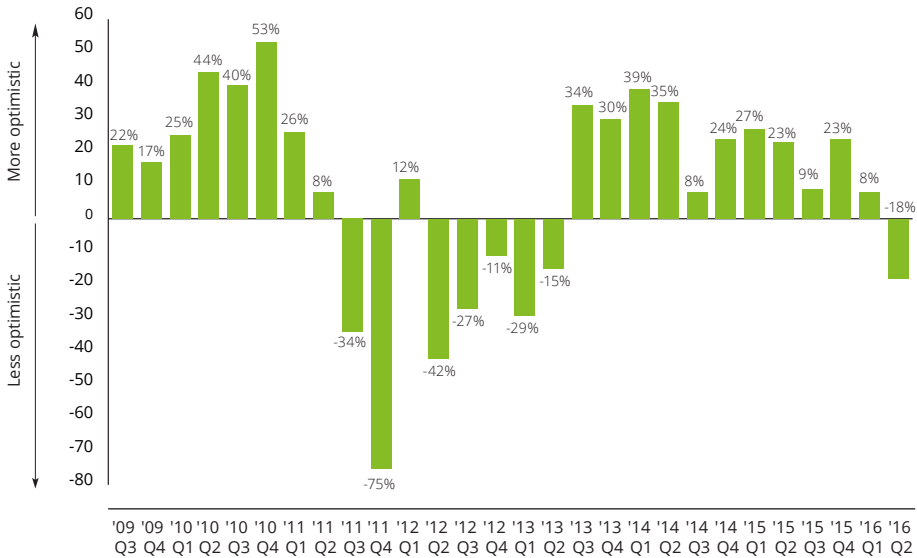
The outlook for global growth softened in the second quarter with the International Monetary Fund making its fourth consecutive reduction in its global growth forecasts. China's slowdown and weak commodity prices are taking a deeper toll on emerging markets than expected and advanced economies are still struggling to escape the legacies of the financial crisis. The UK's vote to leave the EU triggered sharp reductions in average UK growth forecasts and euro area growth forecasts edged lower. Early indicators suggest the vote has had a dampening effect on UK activity; construction activity fell at its fastest pace in seven years in June and consumer confidence saw its sharpest fall in almost 22 years following the referendum. The Bank of England surprised markets by keep UK rates on hold in July but hinted that it will ease policy in August. S&P and Fitch downgraded the UK's credit rating. Concerns about the health of the Italian banking system re-surfaced. Yields on government bonds declined across the world with markets assuming that slower global growth and the Brexit vote would keep interest rates lower for longer. Sterling fell almost 15% against the dollar in the weeks after the vote. After sharp immediate losses, the UK FTSE 100 and FTSE 250 rallied strongly as part of a global rise in risk appetite driven by expectations of easier monetary policy and better US economic data.

Ian Stewart, Deloitte UK Chief Economist

Brexit hits CFO confidence, but outlook remains positive

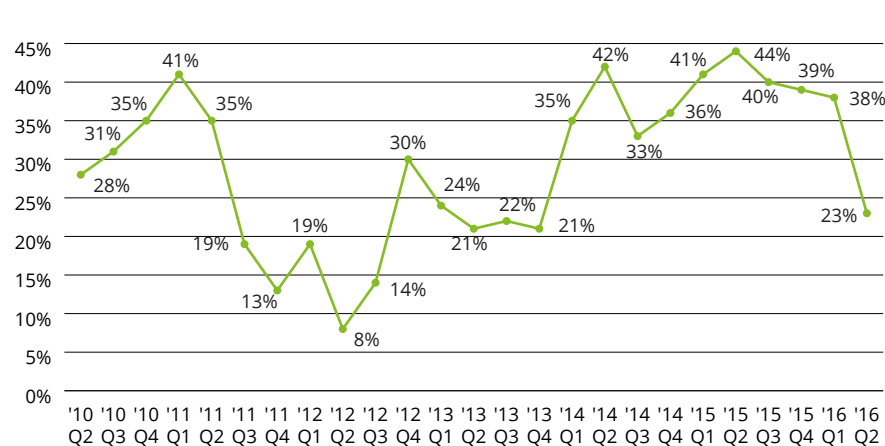
CFO optimism turned negative for the first time since 2013 following the UK's decision to leave the European Union.

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



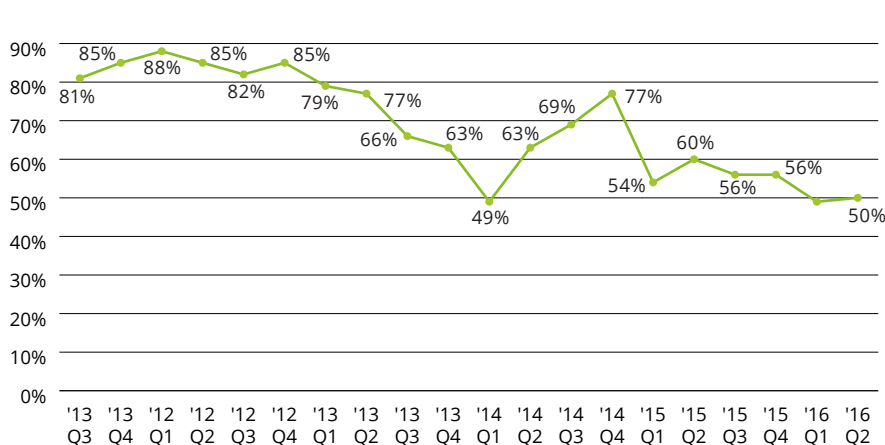
Decreased optimism weighs on CFOs risk appetite, which is down to 23 % from 44% one year ago.

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



Notwithstanding the modalities, timing and consequences of the Brexit remain unclear, CFO's overall perception of the level of financial and economic uncertainty has not changed. As in the previous quarters, half of the CFOs consider the current financial and economic uncertainty facing their business as high or very high.

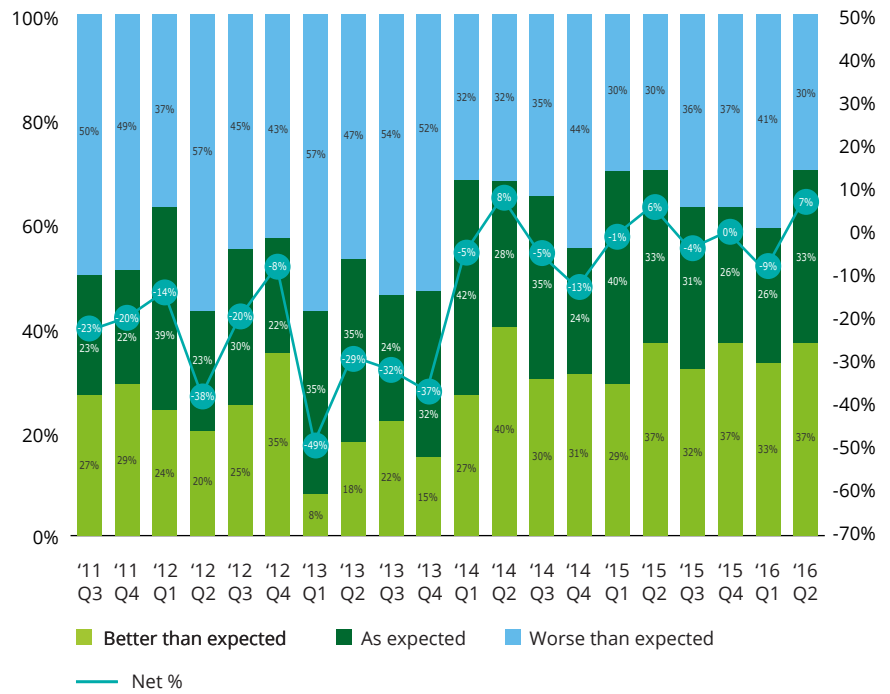
% CFOs rating of the general level of external financial and economic uncertainty facing their business as high/very high



As of Q1 2016, the methodology was updated to be in line with the Deloitte's European CFO survey

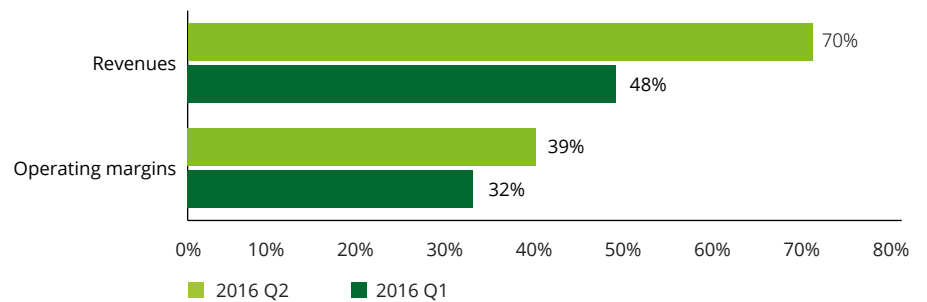
In spite of falling business confidence, financial results have kept up: 70 % of CFOs report their businesses have met or exceeded the second quarter financial budget...

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



... and the short term outlook remains positive as well as expectations about revenue and margin growth have increased significantly.

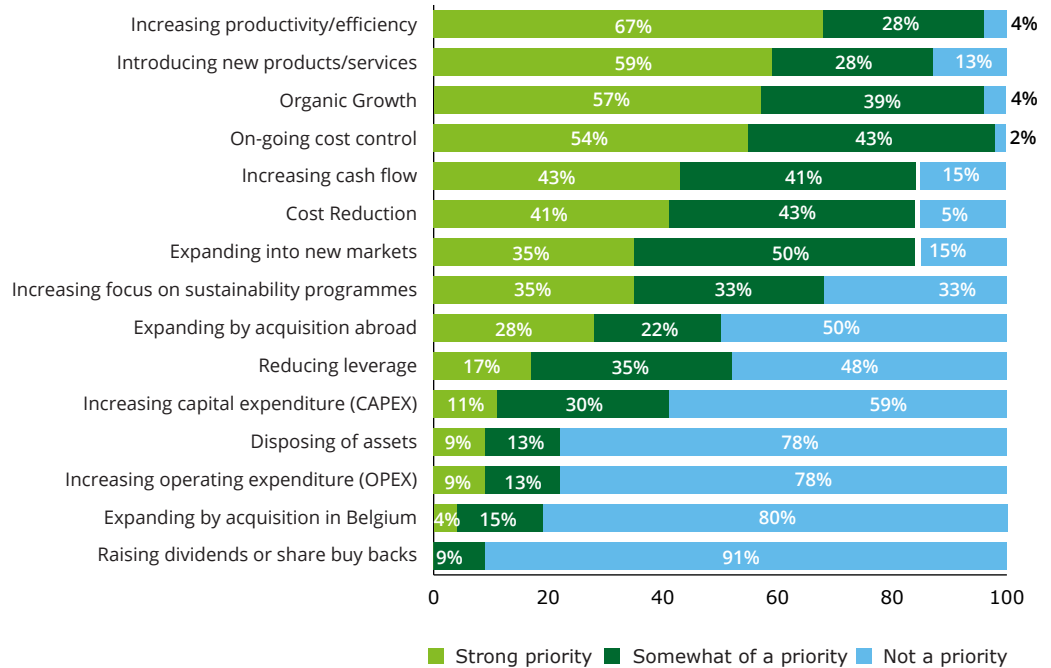
Net % of CFOs evaluating increase of revenues and margins for their company over the next 12 months



Priority focus on expansionary strategies

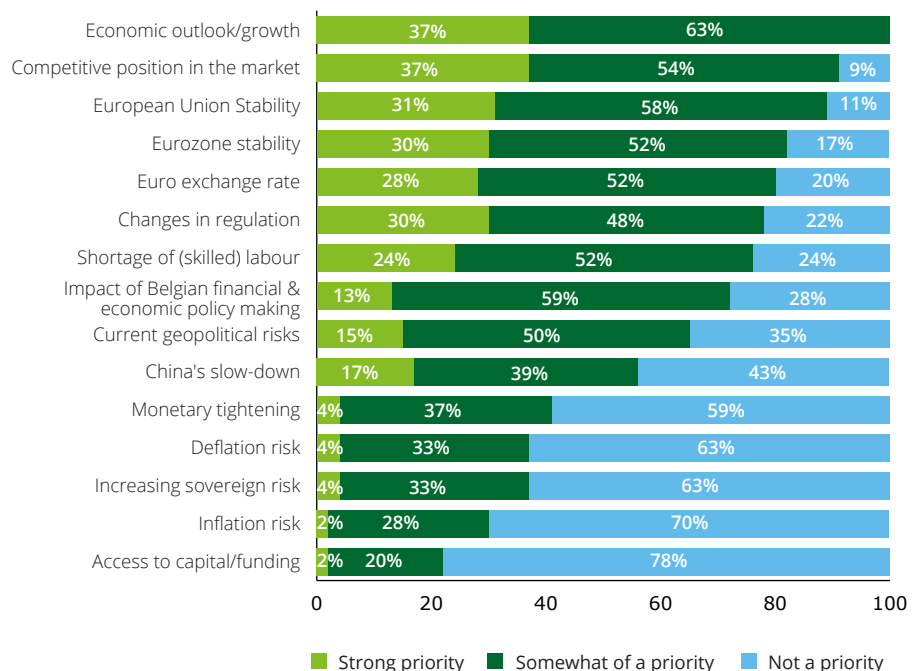
Overall almost two thirds of surveyed CFOs report expansionary strategies are the top priority, up from previous quarters when about half of CFO's gave priority to defensive business strategies. Nonetheless, productivity & efficiency and cost containment are important for all as well to remain competitive in the market.

Business strategies likely to be a priority for the CFOs' businesses over the next 12 months



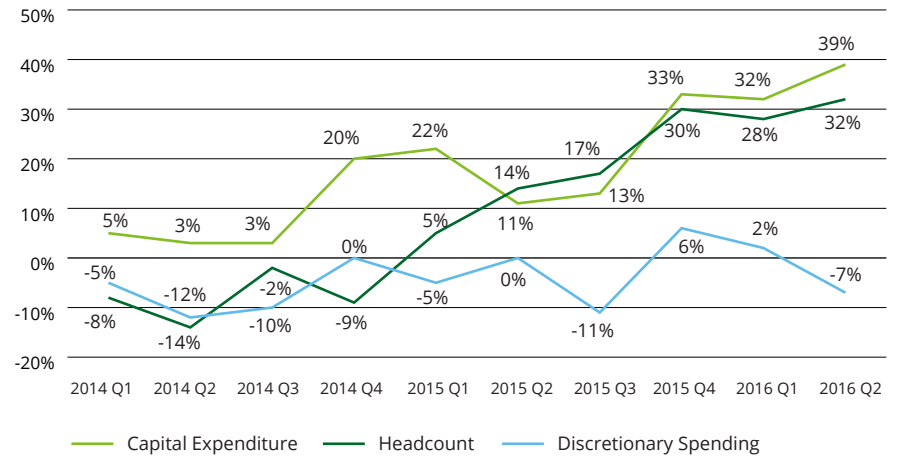
Following the UK's referendum outcome, the concerns related to EU stability, Eurozone and Euro exchange have largely doubled compared to the previous quarter. The economic outlook (with the IMF reducing again its global growth forecasts) and competitive position continue to trouble Belgian CFOs the most.

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



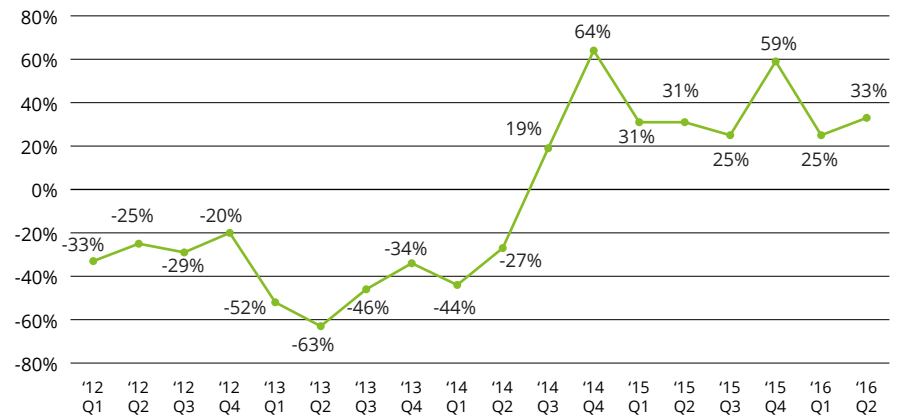
Two out of our three key indicators predicting the investment behaviour continue to grow quarter by quarter. It remains to be seen whether the second consecutive drop in the discretionary spending will translate into future drop of investment appetite.

Net % of CFOs who expect Belgian corporates' capital expenditure, headcount, and discretionary spending to increase over the next 12 months



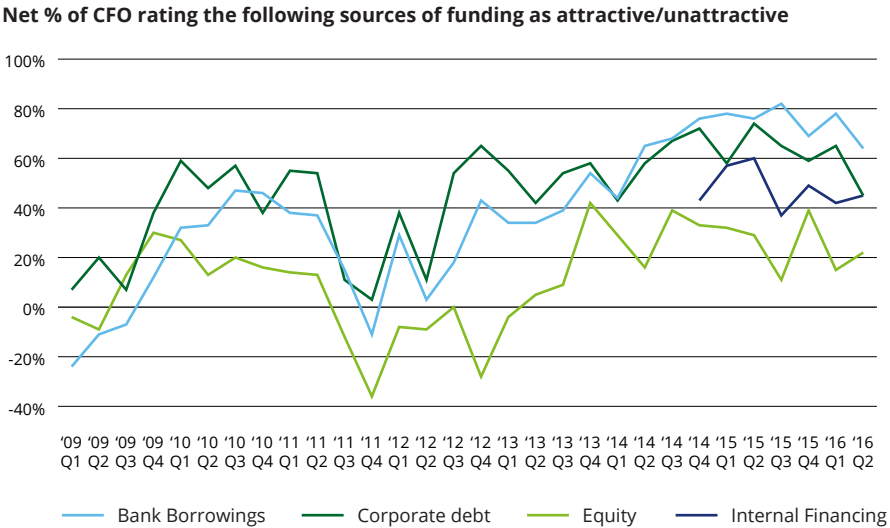
Also positive: CFOs perceive the Belgian government continues to contribute to the positive development of business climate by setting appropriate priorities for financial and economic policy making.

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

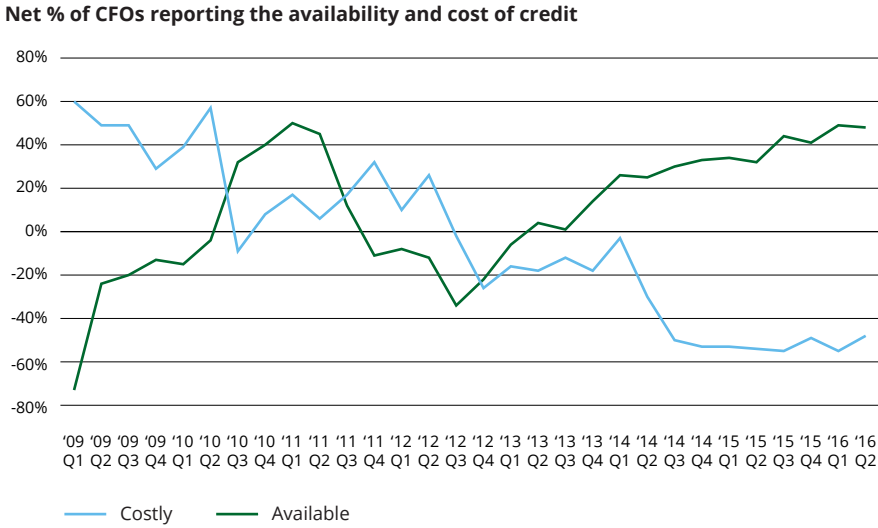


Funding is available and CFOs favor internal financing

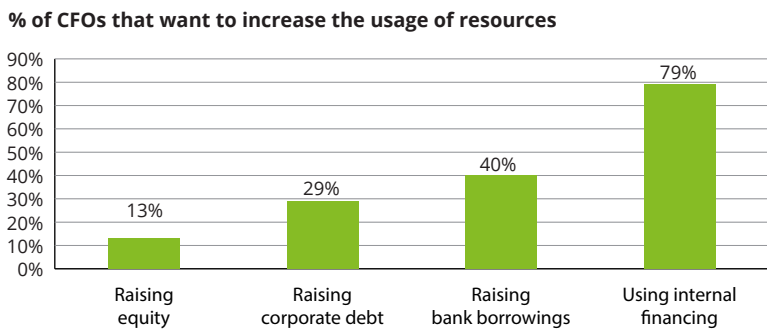
Financing is available and all the main sources of financing are perceived as attractive. The attractiveness of all major sources of funding and bank borrowing and corporate debt more in particular has however decreased somewhat in the past year.



The Belgian CFOs continue to report bank credit as available and cheap. The steadily improving trend seems to have stabilised in the last year.



Notwithstanding the low interest rate environment, internal financing has further strengthened its position as the most used financing option.



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 2016 second quarter survey took place between June 28th, 2016 and July 20th, 2016. A total of 46 CFOs completed our survey. The participating CFOs are active in variety of industries. 23% of the participating companies have a turnover of over €1 billion, 48% of between €100 million and €1 billion and 30% 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 organization rates among peers.

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