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The Deloitte CFO Survey
The view on public policies

Quarter 1 2015 survey results

Leading business advisers

Contents

About the survey

This is the twenty third in a series of quarterly surveys of Chief Financial Officers of major Irish based companies. The survey was conducted in March 2015, and CFOs of listed companies, large private companies and Irish subsidiaries of overseas multi-national companies participated.

The Deloitte CFO Survey is the only survey that seeks to establish the views of CFOs in relation to the financial markets, economic outlook and business trends on a quarterly basis.

Due to rounding, responses to the questions covered in this report may not aggregate to 100.

Quarter 1 overview

Quarter 1 2015 saw Ireland enter the New Year in a positive fashion. NAMA redeemed €16.6 billion of its senior bonds by the of end of 2014 putting it two years ahead of schedule, Ireland ranked third easiest place for multinationals to do business according to TMF Group's Global Benchmark Complexity Index and ESRI forecasts that GNP will grow by 4.1% in 2015 and reports Ireland as the fastest growing European economy last year with a GDP growth rate of 5.2%. At a global level, Barack Obama proposes the construction of a Corporate Tax plan that would target offshore profits of US multinationals at 14% causing fears that this could eventually spark a US corporate exodus. Q1 2015 also saw the Eurogroup and Greek government reps reach agreement to extend the Greek bailout programme following intense negotiations and Greek banks on the brink of solvency and liquidity crisis.

CFO perceptions emerging from our Q1 CFO survey are in line with current economic events. While internal funding is currently viewed as the most attractive option for funding, Irish CFOs are increasingly of the opinion that new credit is easily available, particularly from domestic banks. It is interesting to note how perceived availability of new credit has moved from -31% in Q1 2013 to 64% in Q1 2015. 55% of CFOs believe it is a good time to take more risk on to the balance sheet and unsurprisingly have cited Market risk as the biggest threat to their business. What is interesting is that no respondents saw financial risk as a threat to their business.

Support for the Irish Government's public policies is strong from survey participants, with the majority rating Irish Public Policy measures to be effective in terms of:

- Creating conditions necessary to ensure increased employment in Ireland (100%)
- Policy support for sectors likely to drive growth in the economy (82%)
- Level of interaction with industry including consultation process (82%)

On the other hand, 55% of CFOs surveyed do not believe Irish Public Policy is effective in creating conditions necessary to ensure appropriate credit availability for businesses.

Tourism, International Financial Services, Agriculture and Information and Communications Technologies have emerged as the key industries CFOs believe the Government should focus on. International Financial Services is believed to require policy support while Tourism, Agriculture and Information and Communication Technologies are believed to require both monetary and policy support. Q1 2015, saw EU policy makers lift quotas on milk and Minister for Agriculture, Simon Coveney state that Ireland can become the fastest growing dairy producer in the world in the coming decade. Additional success in the Irish Agricultural sector was announced this quarter with Ireland becoming the first EU member to export beef to the US after a 15 year embargo caused by Europe's "Mad Cow Disease" outbreak in 1998.

Despite uncertainty in the Eurozone, particularly with the rise of the Syriza Party in Greece and the removal of the Swiss Franc "floor" with the Euro, our CFO respondents maintain belief in the Euro currency and know its importance to the Irish Economy.

Expansion and growth are the key corporate priorities emerging from the Q1 2015 survey. While these themes were present in the first three quarters of 2014, the final quarter in 2014 saw CFOs take a more measured approach. However, in Q1 2015, four out of five CFOs believe their corporate strategy to be expansionary, an increase of 11% on Q4 2014. In addition, there has been a notable shift in CFO's priorities from cost reduction to revenue growth. Consistent with previous quarters, long term growth for products and services remains the most positive influencing factor with regard to investment plans being made by companies over the next 12 months.

We look forward to sharing future insights from your peer group with you throughout 2015.

CONTACTS

If you would like further information on the CFO Survey or wish to participate in the future, please contact:

Shane Mohan
Partner
T: +353 1 417 2543
E: smohan@deloitte.ie

Alan Flanagan
Partner
T: +353 1 417 2873
E: aflanagan@deloitte.ie

Emily Cunniffe
Manager
T: +353 1 417 3893
E: ecunniffe@deloitte.ie

Snapshot of key findings

55%

Internal Funding

55% of CFO's view internal funding as the most attractive source of funding.

55%

Risk

55% of CFOs believe it is a good time to take risk on to their company's balance sheet, an increase of 5% from last quarter.

27%

Net Optimism

Net Optimism increased slightly this quarter from 24% in Q4 2014 to 27% in Q1 2015.

100%

Irish Public Policies

100% of CFOs believe Irish Public Policies are effective for creating conditions necessary to ensure increased employment in Ireland.

23%

Tourism and International Financial Services

23% of CFOs believe Tourism and International Financial Services are the top industries the Government should invest in.

- 67% of CFOs believe Tourism requires both Monetary and Policy support
- 80% of CFOs believe International Services requires Policy support

82%

Expansionary Corporate Strategy

82% of CFOs believe their corporate strategy to be expansionary, an increase of 11% on Q4 2014.

70%

Employee Numbers and Revenues

70% of CFOs surveyed expect employee numbers and revenues to increase over the next 12 month for their company's.

91%

Decrease in unemployment

91% of respondents feel the unemployment rate will continue to decrease.

Key economic events and trends

FX Rates

€/$: 1.21
€/£: 0.77

Domestic Economy

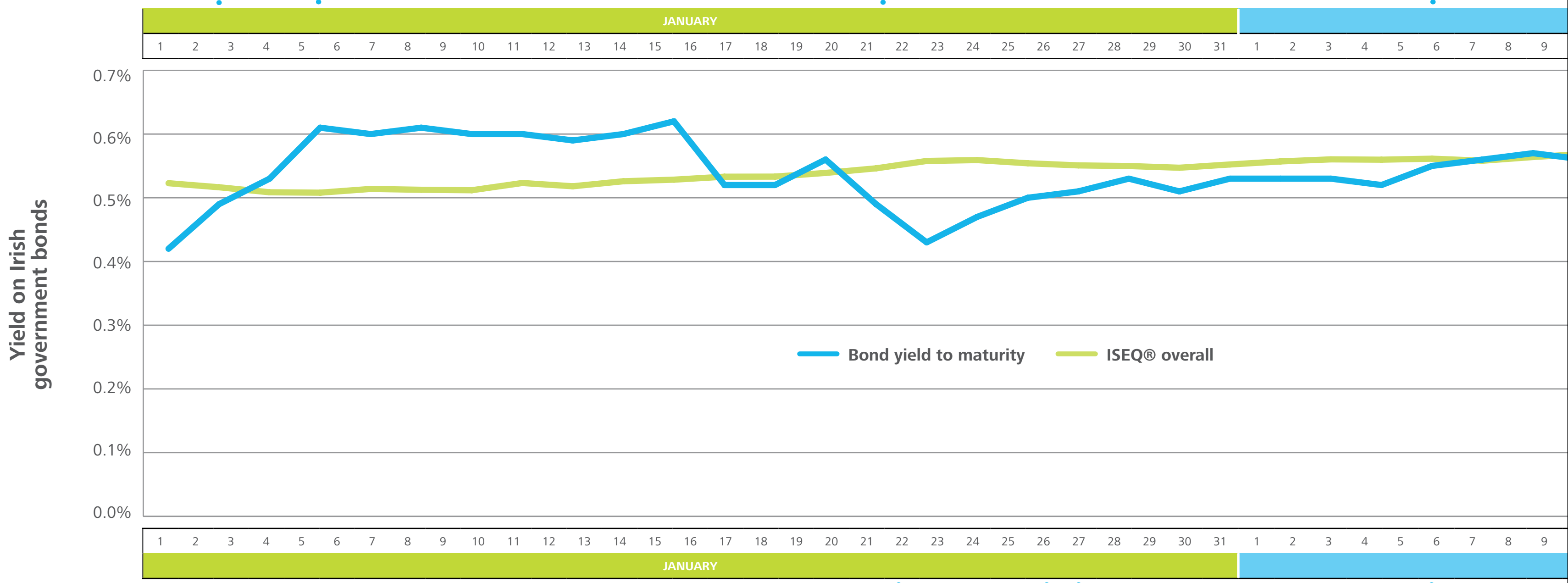
NAMA redeemed €16.6bn (55%) of its senior bonds by the end of 2014, putting it two years ahead of schedule. Total cash generated since inception is now over €23.7bn.

Ireland becomes first EU member state to be approved to export beef to US after a 15 year embargo, which was created following market uncertainty caused by Europe's "Mad Cow Disease" outbreak in 1998.

Ireland ranked third-easiest place for multinationals to do business according to TMF Group's Global Benchmark Complexity Index.

Barack Obama proposes the construction of a Corporate Tax Plan that would target offshore profits of US multinationals at 14%. There are fears that this could eventually spark a US corporate exodus.

IAG continues to negotiate with the Government in a bid to purchase the state's stake in Aer Lingus. Concerns surrounding route closures has dominated coverage of the potential deal.



Global Economy

China imposes record fines on Pollutors. Six companies in the Jiangsu province have been fined $26m. It estimated that 70% of China's lakes and rivers are polluted.

Swiss National Bank abandons 1.20 floor on the Swiss Franc against the Euro in an unanticipated move resulting in a deflationary shock to the Swiss economy.

ECB announces plans to buy €1.1tn of assets, mostly government bonds in a QE package designed to spark eurozone growth and counter deflation.

Far left wing leader of Syriza Party, Alexis Tsipras is sworn in as Prime Minister of Greece. Greek Debt write-offs placed firmly on political agenda. Uncertainty surrounding Greece's future in the EU influences bond yields and Euro currency strength.

S&P downgrade Russian sovereign debt rating to Junk status. This stems largely from the Ukraine conflict along with the sanctions it has brought, falling oil prices, and a weakened Ruble.

IMF grant $100m debt relief to West African nations worst affected by Ebola crisis.

€/$: 1.21
€/£: 0.77

Central Bank publishes figures showing 25% increase in gross new lending to non-financial or property related SMEs last year.

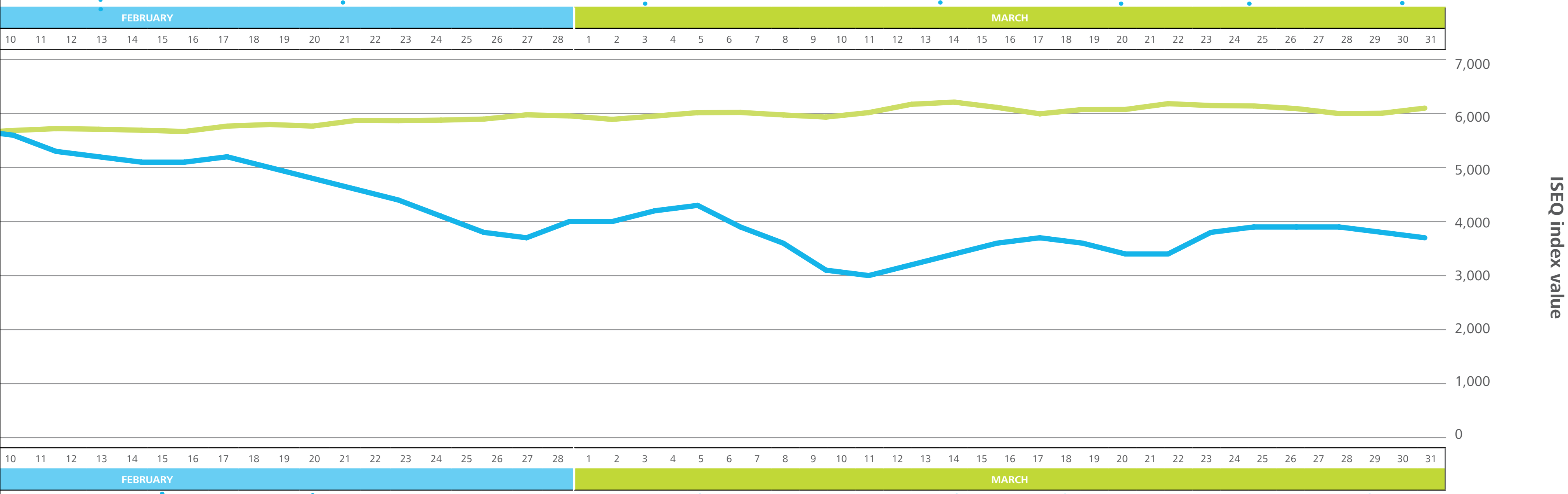
ESRI forecasts that GNP will grow by 4.1% in 2015. Ireland was the fastest growing European economy last year with a GDP growth rate of 5.2%.

Irish Renewable Energy group Gaelectric has announced the purchase of two new wind farms and has cited further acquisition targets. The company already has a presence in US & UK.

Profits at Amazon's Irish unit have doubled over 2014, reaching €24.5m. Average number of employees also rose from 291 to 1,337 over the year.

Company failures have fallen 17% in Q1 compared with the same period last year.

EU policy makers have lifted quotas on milk production. Minister for Agriculture believes that Ireland can become the fastest growing dairy producer in the world over the coming decade.



Tens of thousands of people joined rallies in Greece ahead of talks in Brussels on the new leftist government's bid to revise its massive bailout.

Eurogroup and Greek government reps reach agreement to extend Greek bailout programme following intense negotiations and Greek banks on brink of solvency and liquidity crisis. Euro devalues further against the Dollar.

Once a mobile telecom leader, Europe has lost out in recent years to giant companies in Asia and the United States. Now it wants to get back in the race.

China faces risk of default on its widespread debt-buying strategy. Counties such as Ukraine are heavily in arrears, while others such as Sri Lanka, Venezuela, Zimbabwe, Ecuador and Argentina are default risks.

Head of IMF warns that emerging markets face period of instability as US FED are expected to raise interest rates creating a capital flight and currency depreciation risk for many Emerging Economies. The strengthening Dollar may also create debt repayment difficulties.

Value of M&A globally in Q1 at $811bn, is up 21% compared with the same period last year. The bulk of deals was involving Healthcare groups, but Consumer sectors also showed activity, with US ketchup maker Heinz providing the biggest deal of the quarter. In Telecoms, Telefonica's spin-off of O2 was significant in Europe.

Section 1: The economy and your company – financing, debt and credit

CFOs are currently viewing internal funding as the most attractive option for funding their business.

Equity is viewed as the least attractive financing option, with a net 45% of CFOs polled considering it an unattractive option.

CFOs are increasingly of the opinion that new credit is readily available. A net 64% believe it to be easily obtainable, which is an increase of 25% on last quarter.

This increase is indicative of a trend of increasing perceived availability over the past two years.

The perceived cost of new credit for Irish corporates has decreased slightly, with a net 27% of CFOs believing it to be costly.

Figure 1: How do you currently rate the following options as a source of funding for your company?

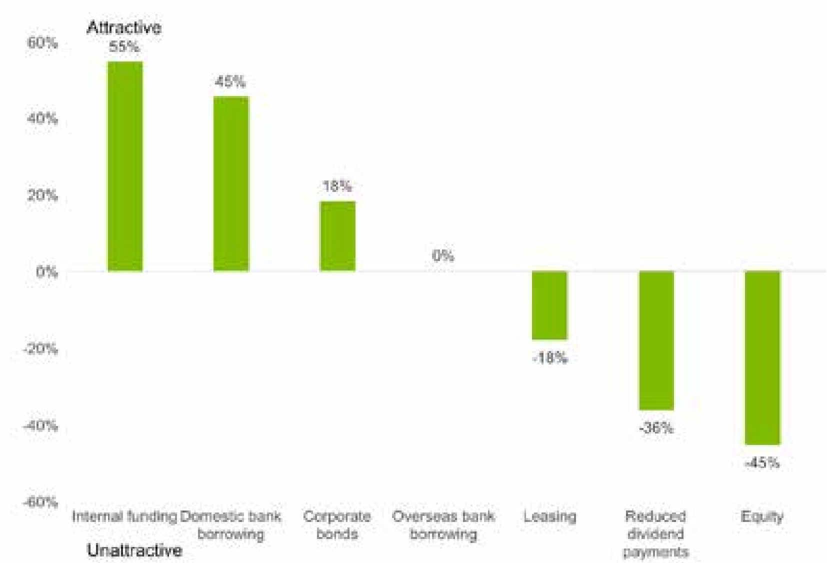
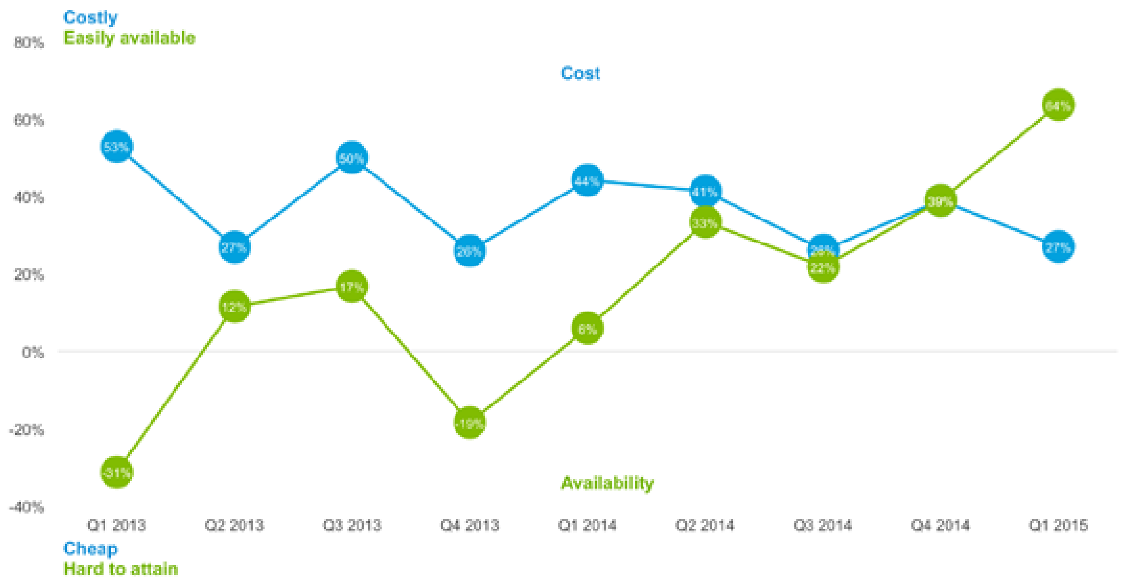


Figure 2: How would you rate the overall cost of new credit for Irish corporates?

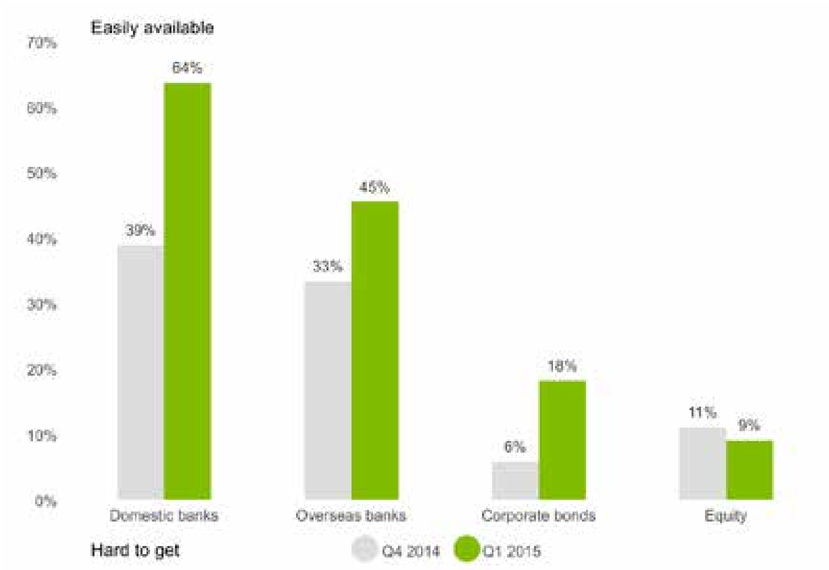


Overall, new credit is viewed as being significantly more easily available, compared with last quarter.

The largest absolute increase in perceived availability has been from domestic banks, with a net 25% more CFOs believing new credit to be readily obtainable. Also worth noting is the threefold increase in the perceived availability of corporate bonds.

New credit sourced from equity is viewed as the most difficult source for CFOs to obtain credit, with only a net 9% believing it to be an easily available source of new credit.

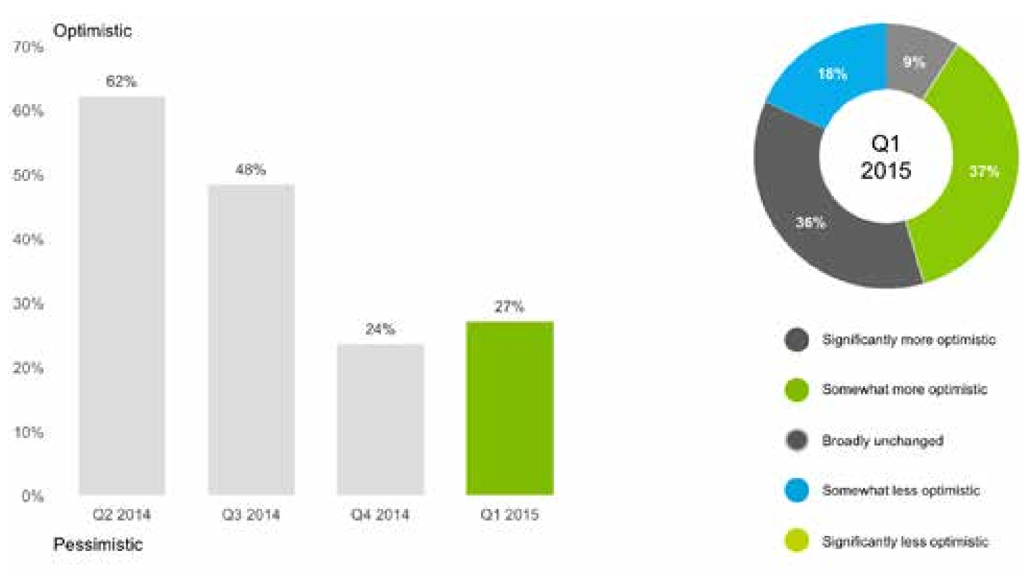
Figure 3: How would you rate the overall availability of new credit for Irish corporates compared to six months ago from the following sources?



Net optimism regarding the financial prospects of their companies among CFOs has marginally increased since last quarter, with a net rise of 3%.

36% of those surveyed had an outlook broadly unchanged since last quarter, while 9% felt significantly more optimistic.

Figure 4: Compared with three months ago how do you feel about the financial prospects for your company?



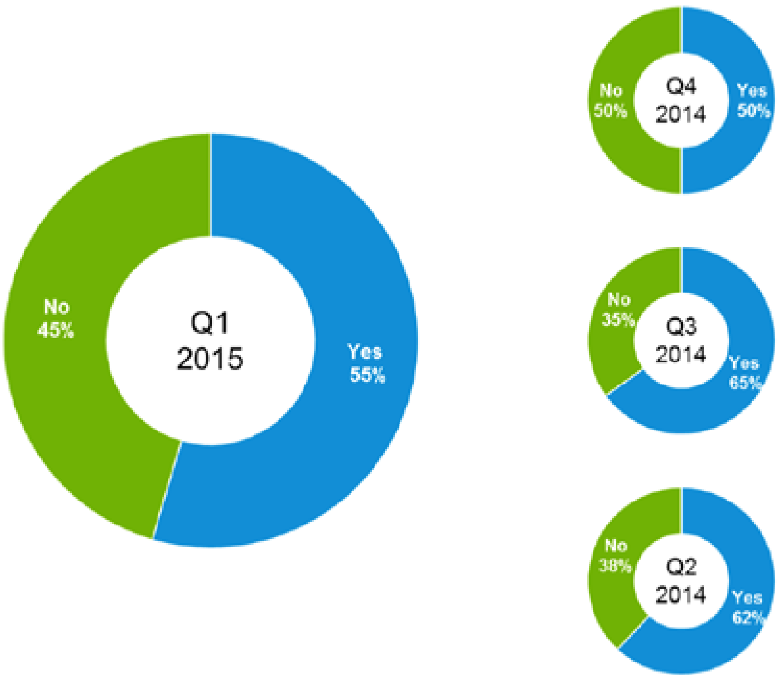
CFOs are continuing a trend of reducing debt levels, with a net 45% decreasing their gearing this quarter.

This trend has seen increasing levels of CFOs deleveraging over the last six months. This is indicative of a decreased reliance of companies on debt for the financing of their businesses.

Slightly more CFOs are viewing now as a good time to take greater risk onto their balance sheets, with opinion shifting from 50:50 last quarter to 55% this quarter.

Figure 5: How has your company's gearing changed since this time last year?

Figure 6: Do you think it is a good time to take greater risk onto your company's balance sheet?



Market risk is viewed as the biggest threat to businesses this quarter, with 55% of CFOs perceiving it as the largest danger.

Interestingly, no CFOs surveyed see financial risk as the biggest threat to their business.

There has been a significant decrease in perceived external uncertainty facing businesses. Opinion since last quarter has changed dramatically, with a net 9% of CFOs viewing the external environment as uncertain, down from 55% last quarter.

The number of CFOs viewing the level of uncertainty as very low is at 9% – the highest it has been in over a year. In keeping with this trend, no CFOs surveyed viewed the level of external uncertainty as very high, and the majority saw the level as normal.

Figure 7: What category of risk poses the largest threat to your business over the next 12 months?

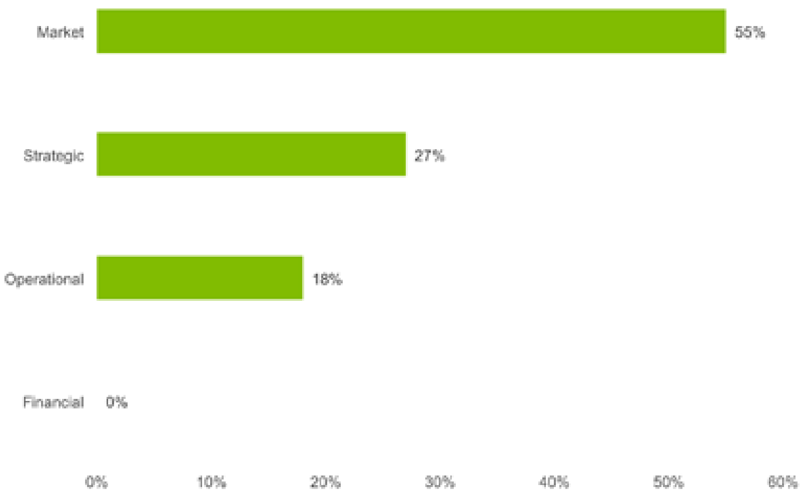
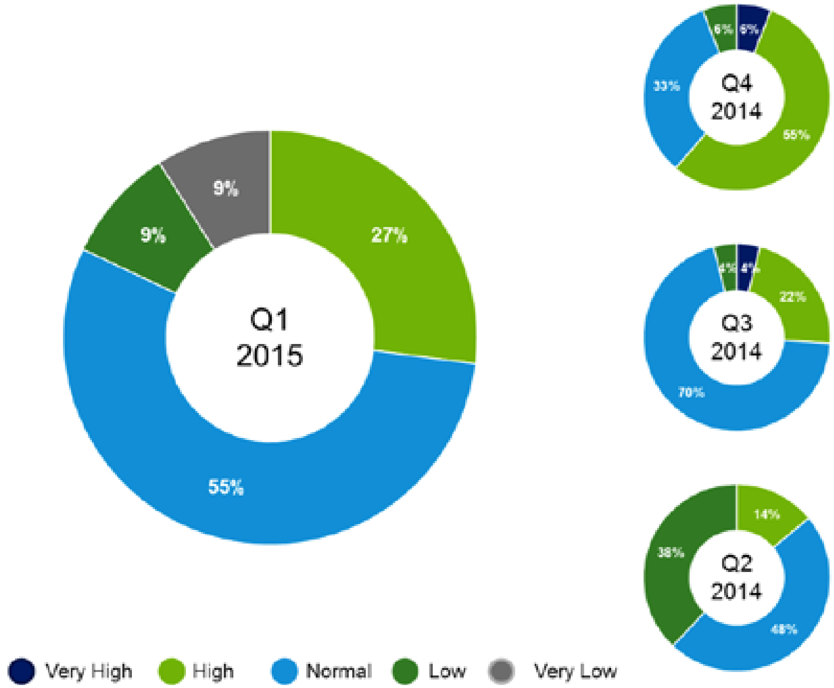


Figure 8: How would you rate the level of external financial and economic uncertainty facing your business?



Deloitte Perspective:

The results of our survey show that CFOs are finding financing their business both less costly and easier than any other time in the last two years. Domestic banks are rated the easiest source from which new credit can be obtained, and domestic bank borrowing is the second most attractive source of funding. While our survey targets listed companies, large private companies and Irish subsidiaries of overseas multi-nationals, we can see a similar positive message amongst small and medium enterprises though recent statistics released by the Irish Small and Medium Enterprise Association announcing that Irish banks are approving more corporate loans, with refusal rates dropping 6% in the last quarter.

The trend over the last six months of companies deleveraging, as shown in Figure 5, is mirrored in the Irish Central Bank's most recent statistics. These show that Irish credit institutions' holdings of debt and equity securities issued by the Irish private sector decreased by €188 million in January, and a further €217 million during February 2015.

CFOs are feeling increasingly secure about the external financial and economic climate in which their business is operating, as illustrated in Figure 8. This is coinciding with a stabilising geopolitical environment and a perception of greater Eurozone stability. It also coincides with the current weakness of the Euro, relative to the GBP and USD, increasing competitiveness of Irish exports to British and American markets. At the same time, the CFOs surveyed are acutely aware of the risks facing their businesses, with over half viewing the market as the single biggest threat, and net optimism increasing only marginally on last quarter.

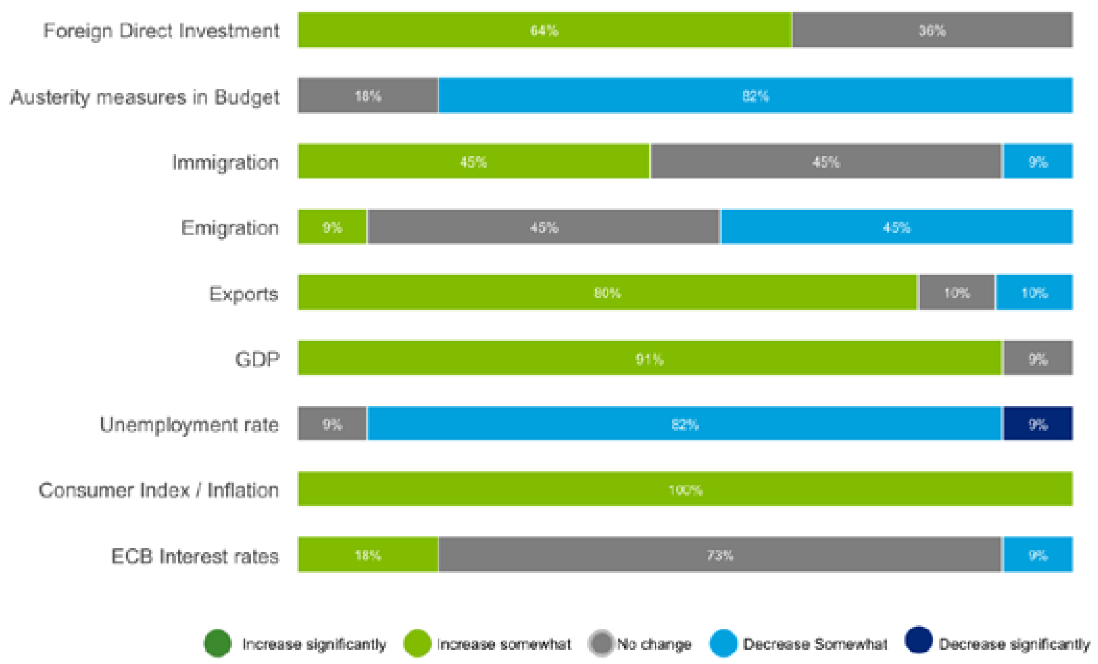
Section 2 – Current economic and other events

A large majority of CFOs expect inflation, GDP, exports and Foreign Direct Investment to increase in the coming months, with rates of 100%, 91%, 80% and 64% respectively.

With ECB interest rates already at historic lows, the majority of respondents feel this rate will see no change.

91% of respondents feel the unemployment rate will continue to decrease, with 82% expecting austerity measures in the budget to be reduced.

Figure 9: What change, if any, do you expect in the following economic metrics over the next 12 months for your company?

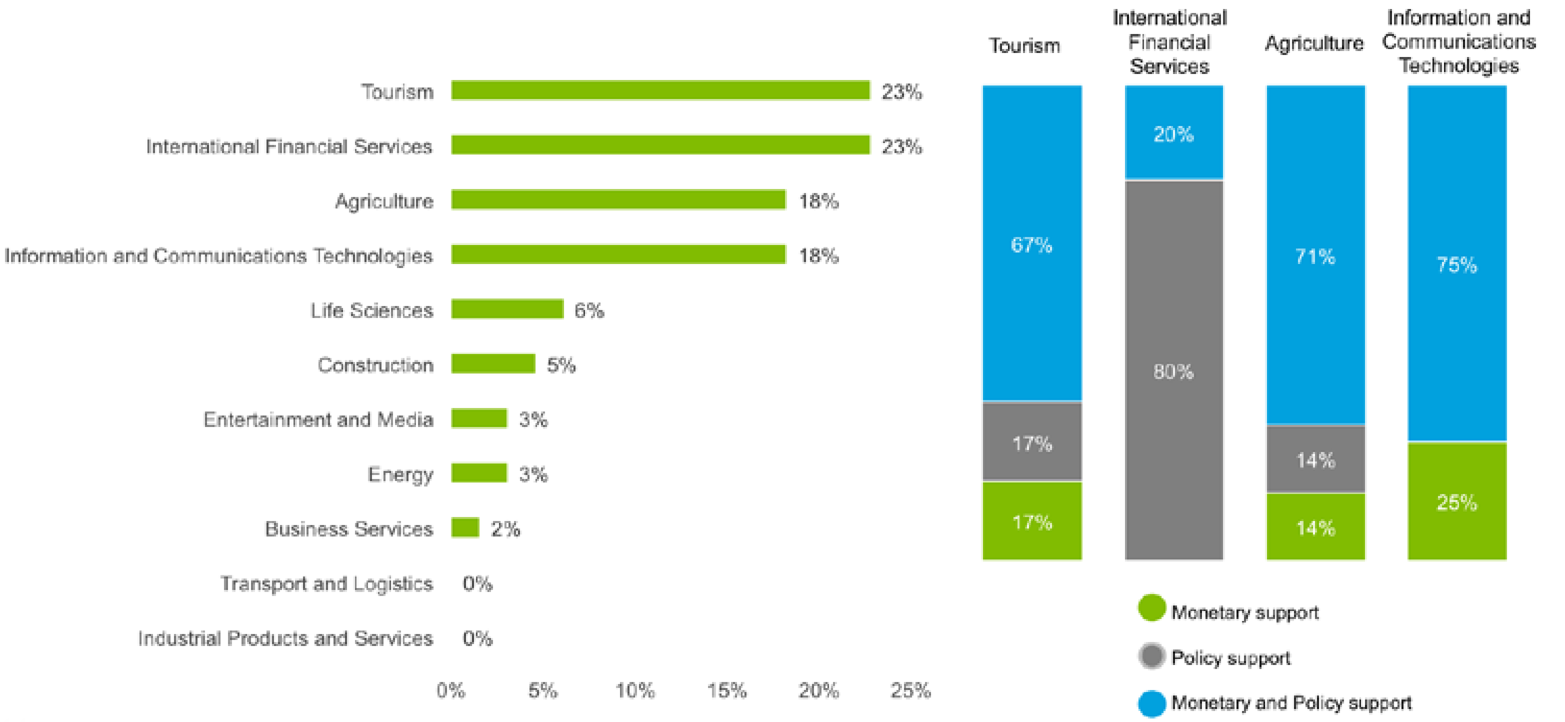


Tourism (23%), International Financial Services (23%), agriculture (18%) and ICT (18%) are the industries which CFOs feel require the most Government investment.

The remaining options in our survey all had 6% or less of respondents believing that they should invest in these areas.

Our respondents feel that Tourism and Agriculture require both Policy and Monetary support; while they feel just Policy support is required for International Financial Services.

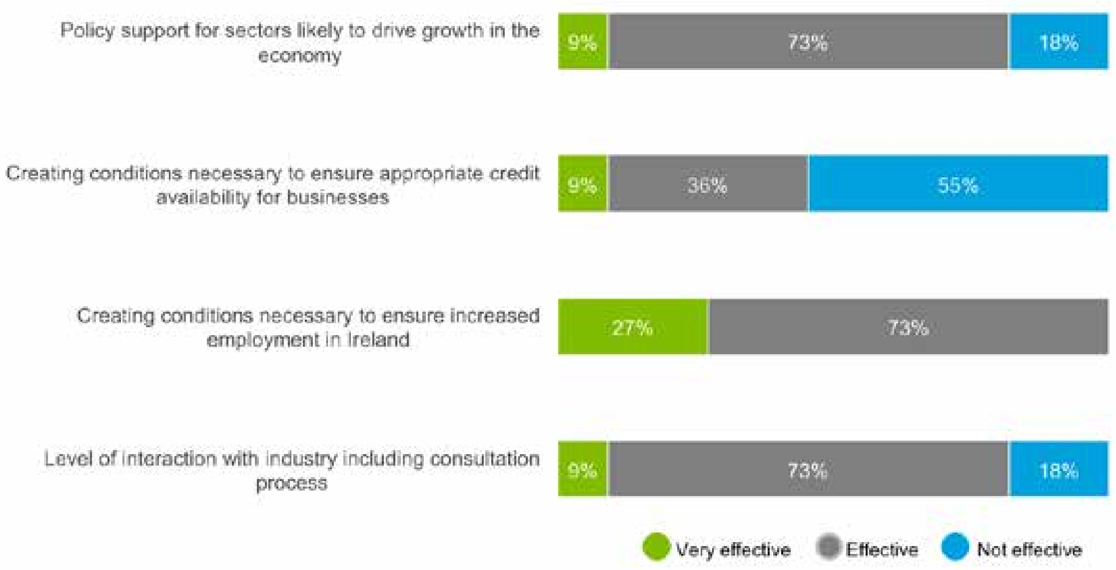
Figure 10: Please rank the top three industries below which you believe the Government should invest in to stimulate our economy and indicate the support you believe the Government should invest in these industries.



100% of CFOs participants feel that Irish public policies relating to creating conditions to ensure increased employment and sustainable growth in the Irish economy are either very effective or effective.

Interestingly 55% of respondents feel that policies to encourage appropriate credit availability for business are not effective.

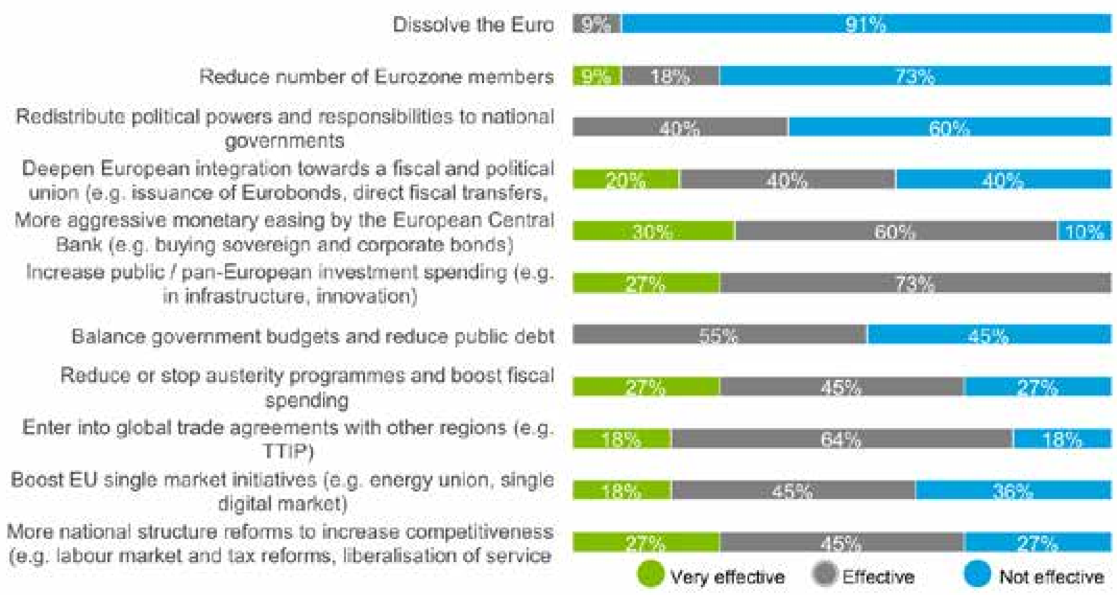
Figure 11: How would you rate Irish public policies measures in relation to the areas below?



CFOs feel that the most effective methods to resolve the current EU/euro area crisis are increasing Pan European investment spending, the use of more aggressive monetary easing by the ECB, and entering into global trade agreements (with 100%, 90% and 82% feeling these would be effective or very effective respectively).

The least effective methods would be the dissolving of the Euro, reduction in Eurozone numbers and the redistribution of political powers to national governments, according to our respondents.

Figure 12: How effective do you think the following policies would be in resolving the current EU/euro area growth crisis?



Deloitte Perspective:

Support for the Irish Government's public policies is strong from survey participants, with the majority feeling that their policies for creating sustainable growth and employment are effective. Creating an environment which ensures credit availability for businesses continues to be a challenge. Another area in which CFOs would like to improve is interacting more with industry in the consultation process when developing new public policy, with 18% of CFOs believe this is ineffective. The industries chosen by CFOs which the government should invest in to stimulate the economy are Tourism, International Financial Services, Agriculture and Information and Communication Technologies. 80% of CFOs surveyed believe International Financial Services requires policy support only while the majority believe Tourism (67%), Agriculture (71%), and Information and Communications Technologies (75%) require both policy and monetary support.

Despite uncertainty in the Eurozone, particularly with the rise of the Syriza Party in Greece and the removal of the Swiss Franc "floor" with the Euro, our CFO respondents maintain belief in the Euro currency and know its importance to the Irish Economy. The majority of respondents feel that the dissolving of the currency, redistributing political power to national governments and reduction in Eurozone members would be ineffective in resolving the current crisis, while they feel that deepening fiscal and political union and increasing Pan European investment would be effective.

Section 3 – Corporate priorities for CFO's businesses in the next 12 months

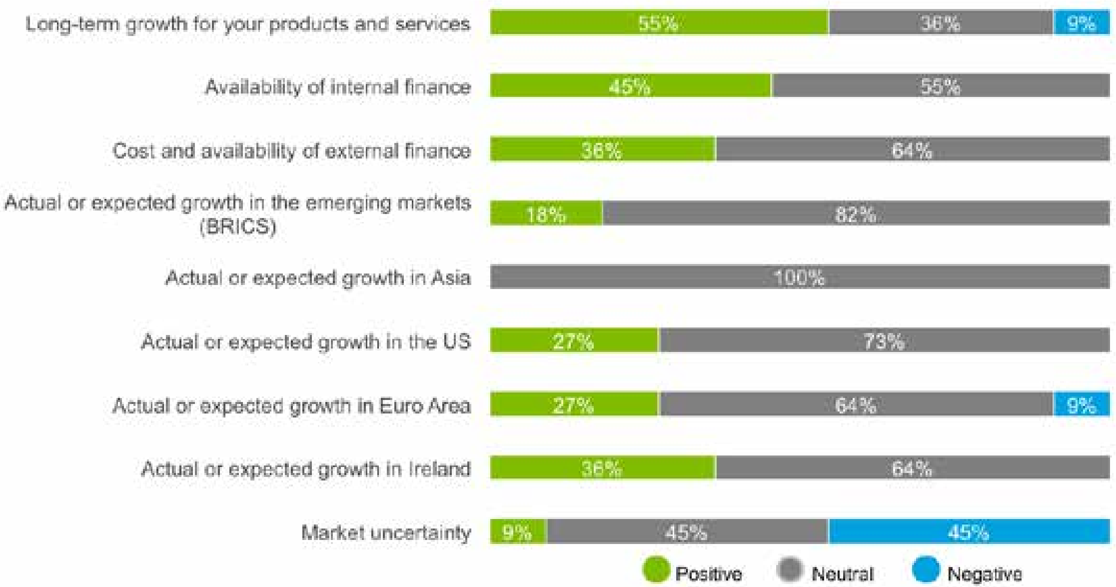
82% of CFOs believe their corporate strategy is expansionary. This figure has increased from 71% in the last quarter.

Less than one in five CFOs now consider their corporate strategy to be defensive.

Consistent with previous quarters, long term growth for products and services remains the most positive influencing factor with regard to investment plans being made by companies over the next 12 months. Expected growth in Asia and the emerging markets are among the factors which contributed to the highest neutral responses. Market uncertainty is again the most unfavourable factor when a company is considering its investment plans.

Figure 13: Would your consider your corporate strategy:

Figure 14: What effect do the following factors have on your company's investment plans for the next 12 months?

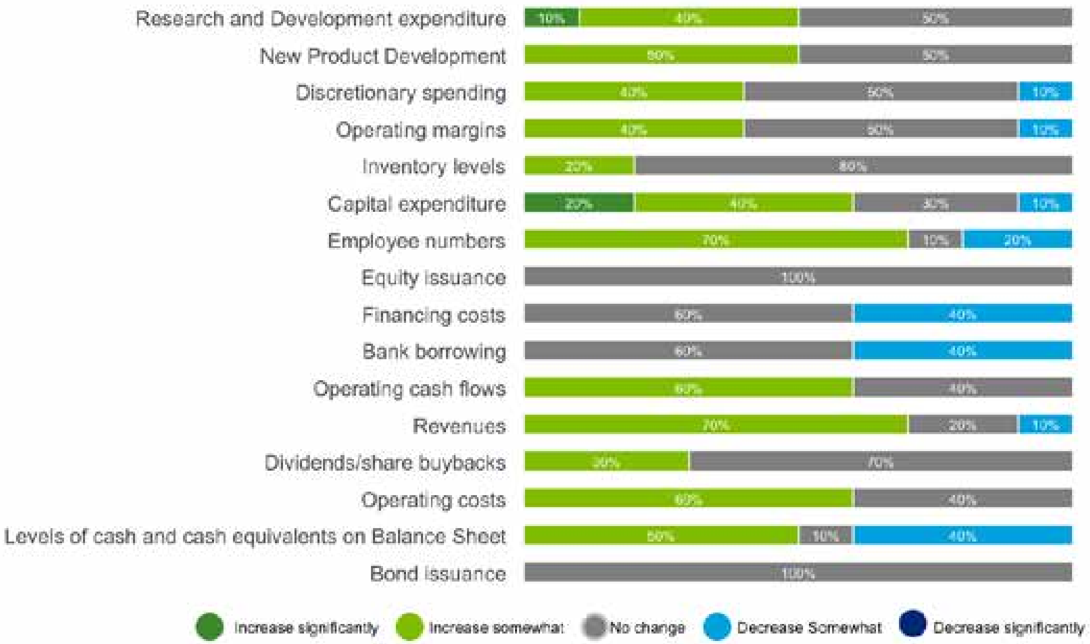


Employee numbers and Revenues are the financial metrics that CFOs expect to increase over the coming 12 months.

Financing costs, bank borrowing and levels of cash on the Balance Sheet are the metrics expected to decrease somewhat.

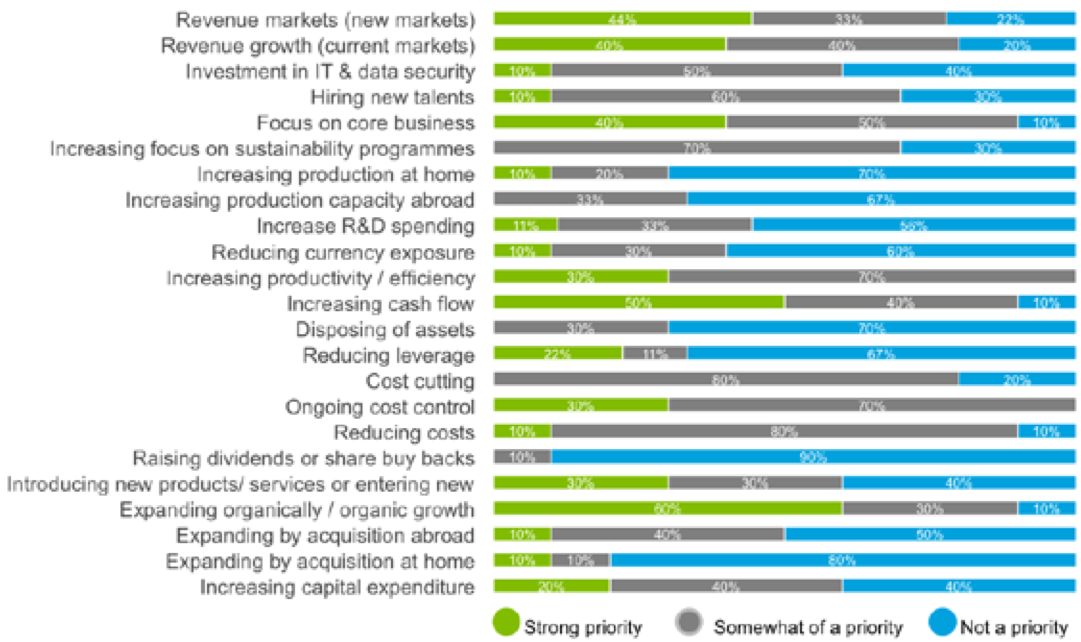
The least amount of change is expected in the areas of equity and bond issuance.

Figure 15: What change, if any, do you expect in the following financial metrics over the next 12 months for your company?



The focus among CFOs is to expand organically in both current and new markets. In contrast, expanding by acquisition at home and abroad are not key priorities. CFOs are intent on increasing cash flows and are not in favour of raising dividends or share buybacks. In addition, CFOs are not prioritising increasing production at home or disposing of assets.

Figure 16: Please state to what degree the following strategies are likely to be a priority for your business over the next twelve months?



Reporting timelines and quality are the stand out indicators which CFOs use to monitor performance within the finance function. The cost of the finance function and engagement with operations are the other factors which CFOs use to appraise performance.

Similar to the previous quarter, CFOs place the least emphasis on retaining talent when ranking the performance of the finance function.

Figure 17: What indicators do you use to monitor the performance of your Finance Function?

Deloitte Perspective:

Expansion and growth are the key corporate priorities emerging from the Q1 2015 survey. While these themes were present in the first three quarters of 2014, the final quarter in 2014 saw CFOs take a more measured approach. However in Q1 2015, four out of five CFOs believe their corporate strategy to be expansionary, an increase of 11% on Q4 2014. In addition, there has been a notable shift in CFO’s priorities from cost reduction to revenue growth.

Long term growth for products and services remains the most positive influencing factor with regard to investment plans and CFOs are anticipating expanding organically in both current and new markets over the next twelve months. Unsurprisingly, market uncertainty is the most unfavourable factor when companies are considering their investment plans.

To facilitate this growth and expansion, CFOs intend on increasing cash flows and are not in favour of raising dividend pay outs or carrying out share buybacks. CFOs expect investments will be made in capital expenditure and research and development and that they will be the financial metrics that will experience the biggest increase over the coming 12 months. Reducing costs has become less of a priority in comparison to the previous quarter and CFO’s anticipate an increase in employee numbers and operating costs over the coming year.

Reporting timelines and quality continues to be the key metric used by CFOs when evaluating the performance of the Finance Function. Engaging with operations is now the second most important indicator for CFOs in grading the performance of the Finance Function, highlighting the role that Finance has in strategy advisory and implementation. The cost of the Finance Function is emerging as the third key performance indicator for CFOs. Despite the importance of talent retention, it was not rated as a key indicator by CFOs surveyed in monitoring the performance of the Finance Function.

Available on the App Store

Download our dedicated Deloitte CFO
Survey app at **www.deloitte.com/ie/cfoapp**

Contacts

For more information on the Deloitte CFO Survey please contact:

Shane Mohan
Partner, Management Consulting
T: +353 1 417 2543
E: smohan@deloitte.ie

Alan Flanagan
Partner, Management Consulting
T: +353 1 417 2873
E: aflanagan@deloitte.ie

Tom Cassin
Partner, Audit
T: +353 1 417 2210
E: tcassin@deloitte.ie

Pádraic Whelan
Partner, Taxation
T: +353 1 417 2848
E: pwhelan@deloitte.ie

Michael Flynn
Partner, Corporate Finance
T: +353 1 417 2515
E: miflynn@deloitte.ie

Cathal Treacy
Partner, Audit
T: +353 61 435511
E: ctreacy@deloitte.ie

Danny Murray
Partner, Audit
T: +353 1 417 2974
E: danmurray@deloitte.ie

For more details please contact:

Dublin
Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
Deloitte & Touche
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte & Touche
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

www.deloitte.com/ie