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CFO Survey 2017 Q4

CFOs are hiring, but concerned about skills shortage

January 2018

Contents

Key points from the survey

48%

say to increase the workforce of their companies.

Hiring back on the agenda

Some 48 per cent of CFOs say that the workforce of their companies will increase over the next 12 months, compared to 13 per cent in 2017 Q3.

66%

see skills shortage as the main business risk.

The risk of skills shortage

A shortage of skills and increasing wage costs are perceived as the main business risks facing CFOs' companies over the next 12 months, followed by geopolitical risks.

45%

is uncertain about financial and economic factors facing their business.

Uncertainty fades aways

The general level of external financial and economic uncertainty facing CFOs' businesses dropped significantly from 71 per cent in 2017 Q3 to 45 per cent in 2017 Q4.

53%

say to enter a strategic partnership over the next 12 months.

Partnership

About 53 per cent of CFOs say that their companies will enter a strategic partnership in the next 12 months, while appetite for acquisitions decreased.

Economic context

Economic growth forecast
The outlook for the Dutch economy is bright. After a 3.3 per cent per cent increase of gross domestic product (GDP) in 2017, growth rates for 2018 and 2019 will be 3.1 per cent and 2.3 per cent respectively, according to the Dutch central bank DNB. Growth in those years will be fuelled mainly by domestic expenditure. These are the highest growth percentages since 2007. Household consumption will increase markedly over the next two years, at 2.2 per cent a year on average.

The Netherlands Bureau for Economic Policy Analysis (CPB) also said that economic growth is projected to continue this year and even speak of an economic boom. GDP will increase 3.1 per cent in 2018.

Employment
CPB reported that employment will see a substantial increase of 2 per cent in 2018. Driven by the less-rapidly growing labour supply, unemployment will decrease further, down to 3.9 per cent of the labour force — the lowest level since 2007. In November unemployment rate in the Netherlands fell to 4.4 per cent of the labour force, its lowest since mid-2009.

Confidence indicators
Confidence among Dutch manufacturers stood at 8.9 in December, down from 9.1 in November.

Consumer confidence stood at +25 in December, up from +23 in November. With the score of +25 the consumer confidence indicator is significantly above its long-term average over the past two decades (-3).

Inflation
Statistics Netherlands (CBS) reported that the consumer price index (CPI) was 1.3 percent higher in December than in the same month one year before. In November, prices of consumer goods and services were up 1.5 percent. The inflation rate over 2017 averaged 1.4 percent.

Prices of goods were an average 1.5 per cent higher than in 2016, while the cost of services increased by 1.2 per cent.

PMI
The Dutch manufacturing purchasing managers' index (PMI) came in at 62.2 in December, a modest decrease from the record high of 62.4 reached in November, but continued to indicate robust output growth in the sector.

All five main components of the PMI indicator—output, new orders, employment, purchased stocks and suppliers' delivery times—were at or close to record-high levels in December.

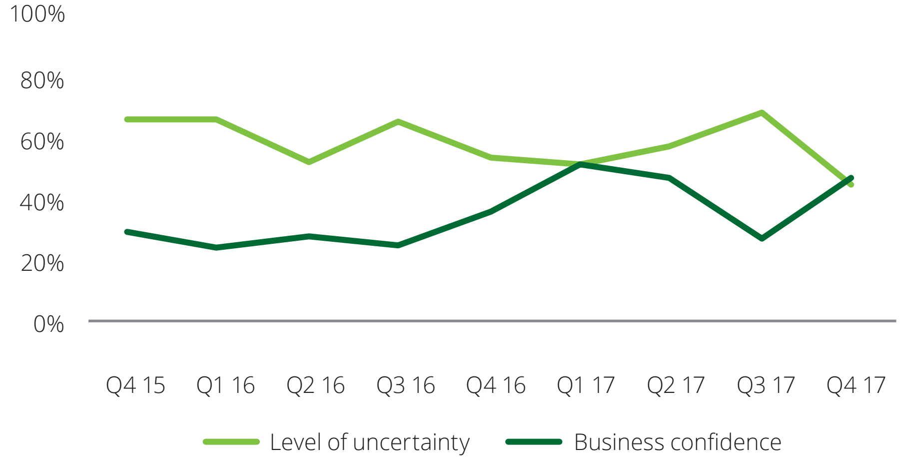
Mergers and acquisitions
According to the Social and Economic Council of the Netherlands (SER) acquisitions and mergers in the public sector reached their highest level for a decade in 2017. SER said companies and organisations logged 588 mergers and acquisitions, 12.5 per cent more than in 2016.

Business outlook

The general level of external financial and economic uncertainty facing CFOs' businesses dropped significantly. Now 45 per cent of the CFOs rate the level of external financial and economic uncertainty facing their business as high or very high – against 71 per cent in 2017 Q3.

Optimism about the financial prospects of CFOs' companies rose to 45 per cent, from 25 per cent. Optimism is back at the level of the first quarter of 2017.

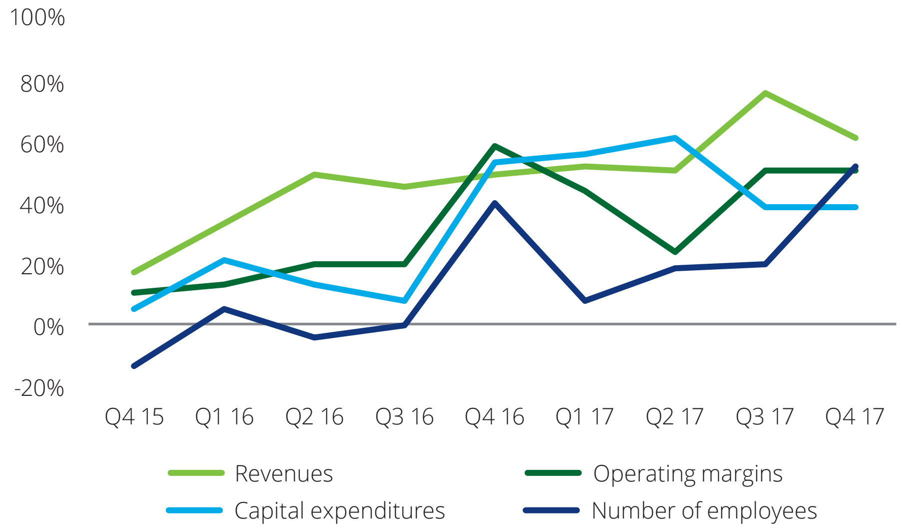
Chart 1. Economic uncertainty and business optimism
Percentage of CFOs who rate the level of economic uncertainty as above normal and percentage of CFOs feeling optimistic about their financial prospects



The percentage of CFOs who believe that their workforces will increase over the next 12 months increased sharply from 13 per cent in 2017 Q3 to 48 per cent now. Hiring is obviously back on the agenda.

Some 58 per cent expect their companies' revenues to grow, from 75 per cent in 2017 Q3, while the percentage of CFOs who see their operating margins improve remained stable at 47 per cent.

Chart 2. CFOs' outlook on revenues, margins, capex and workforce
Net percentage of CFOs' expectation for key metrics to change in the next 12 months



Financing

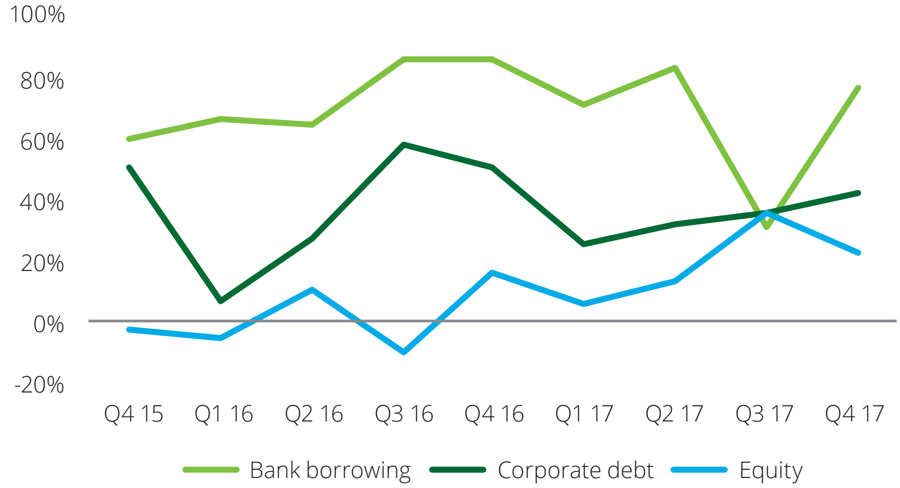
Bank borrowing is the most favoured source of corporate funding again by 75 per cent of the panellists.

The percentage of CFOs who favour corporate debt increased slightly from 35 per cent in 2017 Q3 to 41 per cent now.

Equity issuance is the least favourite source of corporate funding.

Chart 3. Favoured source of corporate funding

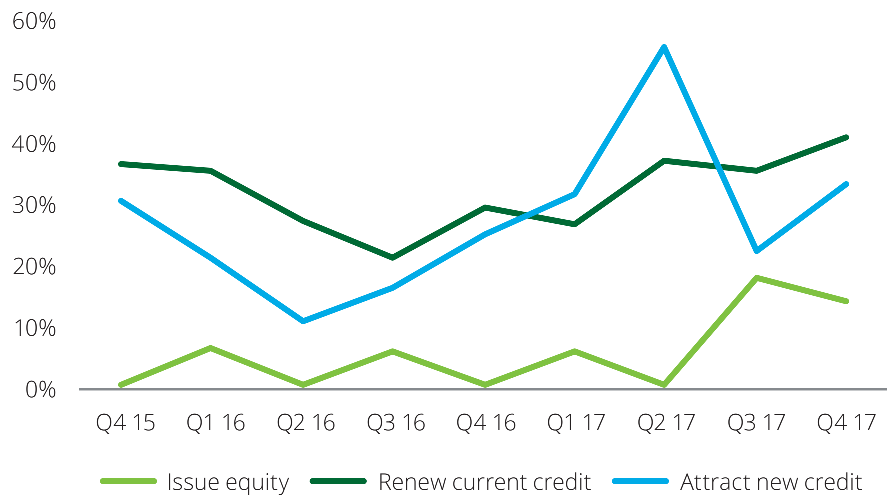
Net percentage of CFOs reporting the following sources of funding as (un)attractive



Some 39 per cent of CFOs report that they will renew current credit, while a third will attract new credit.

Chart 4. Equity and credit lines

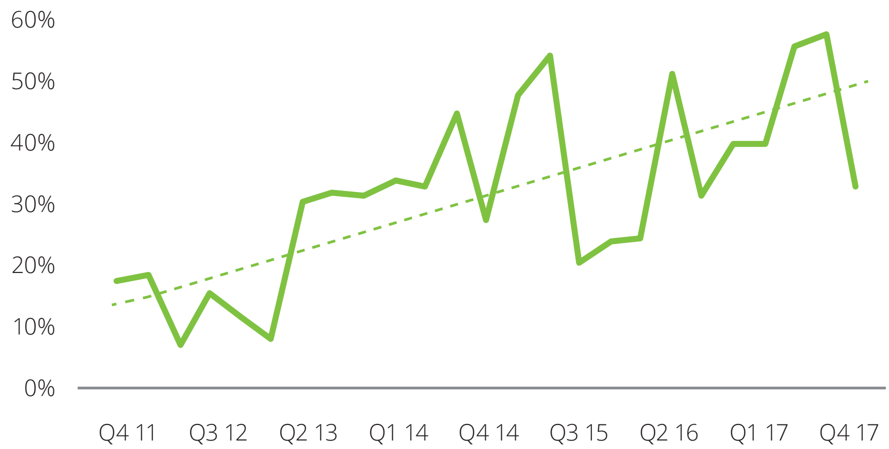
Percentage of CFOs who are (very) likely to issue equity or to attract and renew credit over the next 12 months



Some 33 per cent of CFOs think that now is a good time to take greater risk onto their balance sheets. In 2017 Q3, this metric stood at 58 per cent.

Chart 5. Risk appetite

Percentage of CFOs reporting that now is a good time to be taking greater balance-sheet-related risks

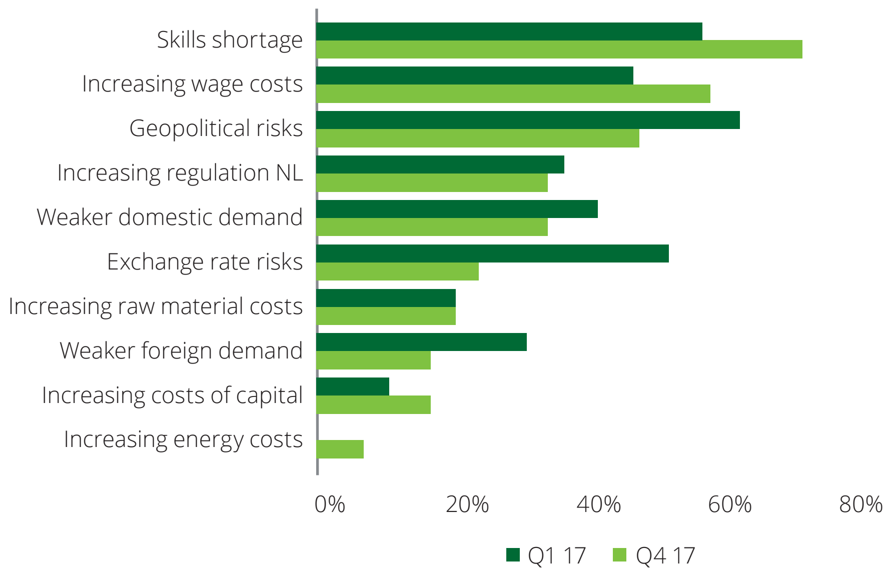


Some 66 per cent of CFOs see skills shortage as the main business risk facing their companies over the next 12 months – compared to 52 per cent in the first quarter of 2017. Increasing wage costs are perceived as the second-largest risk.

Geopolitical risk was the main risk in 2017 Q1, but is now seen as the third-largest risk, according to 44 per cent.

Chart 6. Business risk

Business risks facing CFOs' companies over the next 12 months



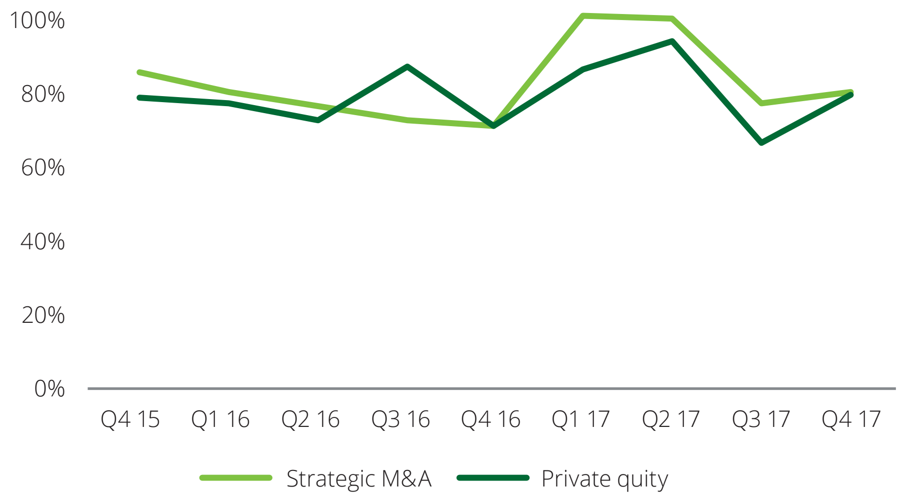
M&A

The M&A outlook for the next 12 months improved compared to the previous edition of this report. Almost three quarters of the CFOs, some 74 per cent, think that corporate M&A activity will increase over the next 12 months.

About 73 per cent expect deal activity of private equity to increase.

Chart 7. M&A outlook Netherlands

Net percentage of CFOs who expect M&A activity to increase/decrease in the Netherlands over the next 12 months

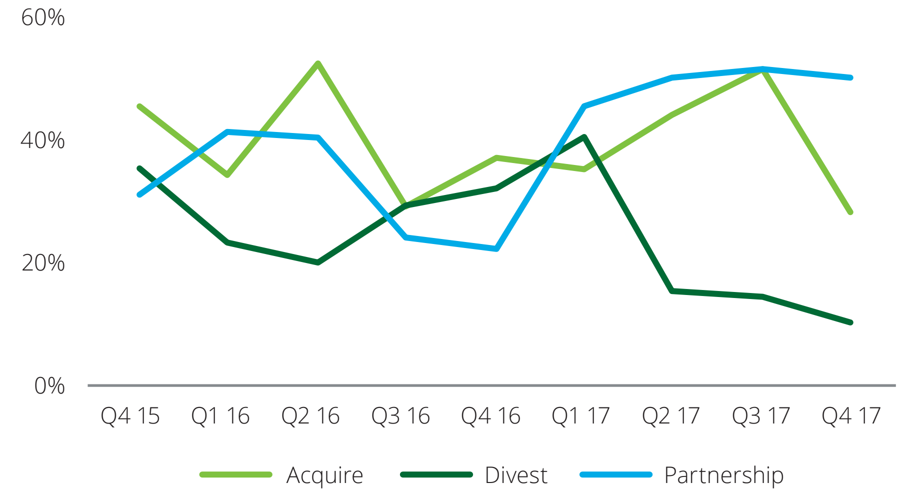


Strategic alliances, joint ventures and other forms of partnership are now the most preferred deal type of 53 per cent of the CFOs.

The appetite for acquisitions came in at 31 per cent, compared to 54 per cent in 2017 Q3. CFOs also say that they will focus less on divestments.

Chart 8. M&A activity at a CFO's company

Percentage of CFOs who expect their companies to be involved in a M&A transaction over the next 12 months



A note on methodology

To enhance readability not all survey questions will be reported in each quarterly survey. Survey questions will be selected in response to the current financial economic situation. If you wish to receive information about non-reported questions, please contact us. The Deloitte CFO Survey is also executed by other Deloitte countries, for instance the UK. Comparisons will be made when relevant.

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

Due to rounding answers may not total 100%.

The 2017 Q4 survey took place between 4 and 22 December 2017. A total of 32 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 1.4 billion. The responding companies can be categorised as follows: publicly listed (34%), privately owned (9%), family owned (19%), government or state owned (6%), private equity portfolio company (16%), other and/or unknown (16%).

We would like to thank all participating CFOs for completing our survey. We trust the report will make an interesting read and highlights the challenges facing CFOs. We also hope it provides you with an important benchmark to understand how your organization compares to your peers.

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