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CFO Survey 2016 Q2

Rising concerns

July 2016

Contents

Key points from the 2016 Q2 Survey

Please note that this survey reflects CFOs' opinion about the period April-June 2016 and was conducted before the EU referendum in the United Kingdom was held on 23 June 2016.

69%

rate the general level of external financial and economic uncertainty as above normal

Uncertainty increases

Although on a quarterly basis the percentage of CFOs who rate the current economic situation as uncertain decreased from 69 per cent to 53 per cent, the moving average (interval is four quarters) deteriorated from 67 per cent to 69 per cent in 2016 Q2.

26%

are optimistic about the financial prospects for their company.

Business confidence further down

CFOs' optimism about the financial prospects for their companies slightly improved from 22 per cent to 26 percent in 2016 Q2, but the moving average was down from 29 per cent to 26 per cent.

31%

believe that now is a good time to be taking greater risk.

Risk appetite lower again

In 2016 Q2, some 52 percent of CFOs believe that now is a good time to be taking greater balance-sheet-related risks, but on a 4-quarters rolling basis the metric decreased for the third-consecutive time and came in at 31 per cent.

55%

report that their companies will grow via acquisitions.

Acquisitions in favour

Some 55 percent of CFOs report that their companies will realize one or more acquisitions over the next 12 months, compared to 37 per cent in the previous quarter.

Economic context

Brexit
On 23 June 2016, the British public have spoken and made clear that they see the United Kingdom's interests best-served by leaving the European Union (EU). The British government now has to invoke Article 50 of the Lisbon treaty, which starts the two-year negotiating period with the EU on the terms of this "Brexit."

Brexit will have impact on the political landscape and economic activity over the next months and years, not only on the UK, but also on many other countries including the Netherlands, which is having a sizeable exposure to the UK.

The Netherlands
In its June 2016 update, the Netherlands Bureau for Economic Policy Analysis, CPB, forecast continuing economic growth and attribute that to increased domestic spending. CPB revised down its economic growth forecasts for 2016 from 2 per cent to 1.8 per cent in March. For 2017, the economy is forecast to grow by 2.1 per cent.

CPB also forecast that inflation will remain low, with 0.1 per cent in 2016 and 0.9 per cent next year. This is the result of moderate wage cost developments, modest increase in retail prices and a decrease in import prices.

The Dutch central bank has also revised down its economic growth forecast for 2016 from 1.7 per cent to 1.5 per cent. However, growth will reach 1.9 per cent next year and 2 per cent the year after.

In May, National Statistics reported that the Dutch economy grew by 0.5 per cent in the first three months of 2016, compared with the previous quarter. The economy has now been growing for eight successive quarters.

National Statistics also reported that the mood among Dutch consumers improved in June. The consumer confidence indicator came in at 5, compared to 1 in May.

Eurozone
Early June, the European Central Bank, ECB, decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility remain unchanged at 0.00 per cent, 0.25 per cent and -0.40 per cent respectively. Despite stimulus measures that start to take effect and despite rise in oil prices, the ECB kept its inflation forecasts for the next two years unchanged, including a 1.6 per cent prediction for 2018 that is still short of the goal of just under 2 per cent.

Global
In its global outlook that was released in the beginning of June, the World Bank warned that the global economy is increasingly vulnerable to a sharp slowdown as troubles in emerging markets mount and as advanced economies struggle to grow. Its latest projection pegs global growth for 2016 at 2.4 per cent, down from the 2.9 per cent forecast in January. The World Bank also cut its forecast for growth in 2017 to 2.8 per cent from 3.1 per cent.

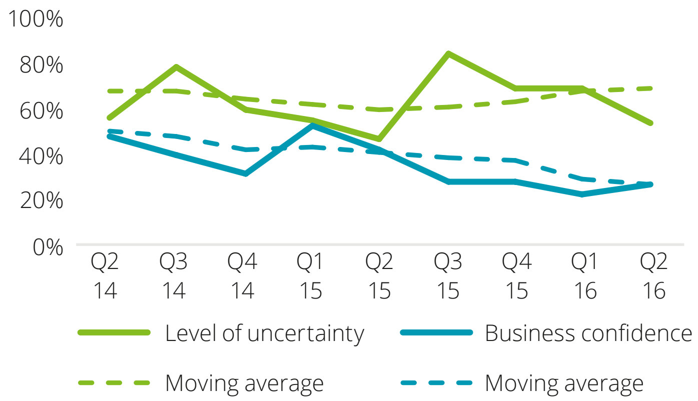
The International Monetary Fund (IMF) cut its outlook for United States economic expansion this year, citing a weak energy sector, a strong dollar and turmoil overseas. The IMF now expects the American economy to grow 2.2 per cent this year, down from its 2.4 per cent forecast in April. However, the IMF kept its forecast for a pickup in 2017 at 2.5 per cent.

CFOs' sentiment and outlook

Due to rising concerns about declined growth perspectives of the global economy, volatility on the credit and equity markets and potential economic and political reforms in the European Union uncertainty among CFOs increased further on a moving average basis (interval is four) from 67 per cent to 69 per cent, although in 2016 Q2 some 47 per cent of CFOs rate the general level of external financial and economic uncertainty as normal or below normal (2016 Q1: 31 per cent).

Business confidence among CFOs in the quarter was up 400 basispoints to 26 per cent, but moving average was further down from 29 to 26 per cent.

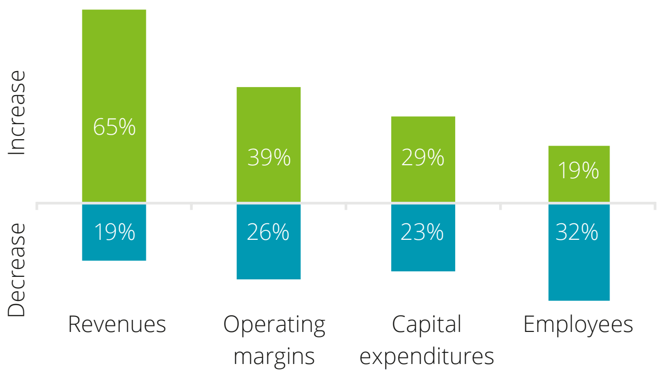
Chart 1. Economic uncertainty and business confidence
Percentage of CFOs who rate the level of economic uncertainty as above normal and percentage of CFOs feeling optimistic about financial prospects



CFOs' outlook on revenue growth improved. Now, 65 per cent say that their revenues will grow over the next 12 months, compared to 56 per cent in 2016 Q1, but 74 per cent a year ago. Less than a fifth of CFOs expect to generate less revenues.

Almost 40 per cent of CFOs say that they expect improved operating margins, whilst a third expect to increase investments. Hiring seems to have less priority since 32 per cent of CFOs expect a reduction in workforce and only 19 per cent say to attract new personnel. Almost half of the panellists expect no change.

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



Financing and risk appetite

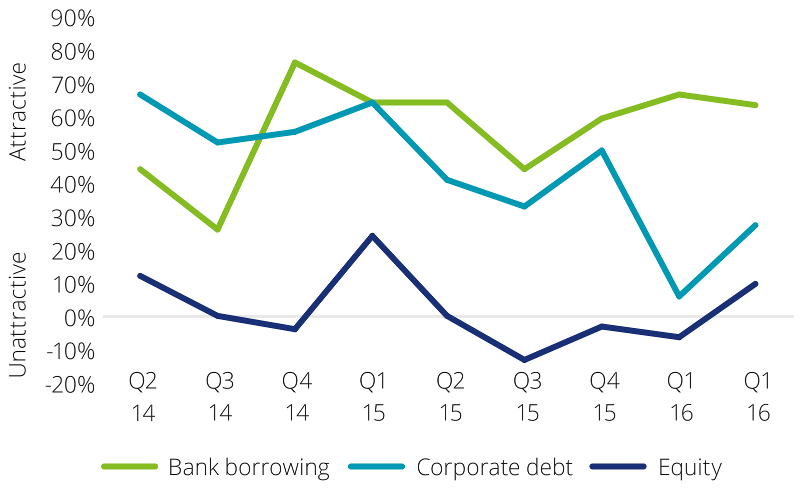
Bank borrowing is still seen as the most favoured source of financing with a net balance of 63 per cent of CFOs who find it attractive.

After its sharp drop in the previous quarter from 50 per cent to 6 per cent, attractiveness of corporate debt recovered somehow and came in at 27 per cent.

A net balance of 10 per cent of CFOs see equity as a favoured source of corporate funding. Although issuing equity is still least appealing it is at the highest level in one year.

Chart 3. Favoured source of corporate funding

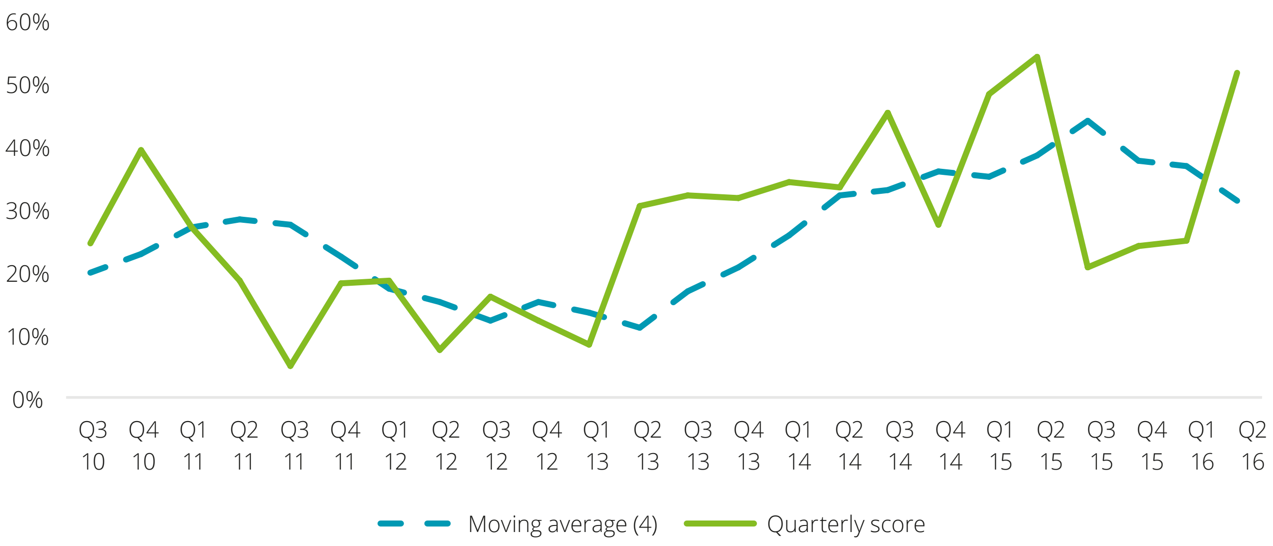
Net percentage of CFOs reporting the following sources of funding as (un)attractive



The appetite to take more risk almost equals the highest level since the start of this survey in 2009. Some 52 percent of CFOs believe that now is a good time to be taking greater balance-sheet-related risks, compared to record-breaking 54 per cent a year ago. This pre-EU referendum data might cause confusion since the moving average (interval is four) was down for the third consecutive quarter and came in at 31 per cent, compared to 37 per cent in the previous quarter, and is moving directly towards credit crisis levels.

Chart 4. Risk appetite

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



M&A

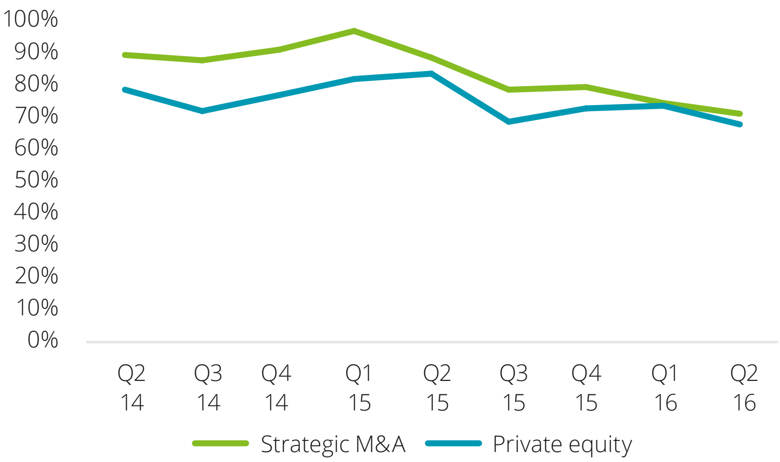
The financial and economic uncertainty shown in chart 1 is weighing heavily on investment and deal decisions.

The outlook for corporate mergers and acquisitions activity continued its slowly but gradually downward trend. Some 70 per cent of CFOs expect M&A levels to increase over the next 12 months, from 74 per cent in 2016 Q1.

The proportion of panellists who expect the number of private equity deals to increase was down from 73 per cent to 67 per cent.

Chart 5. M&A outlook Netherlands

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

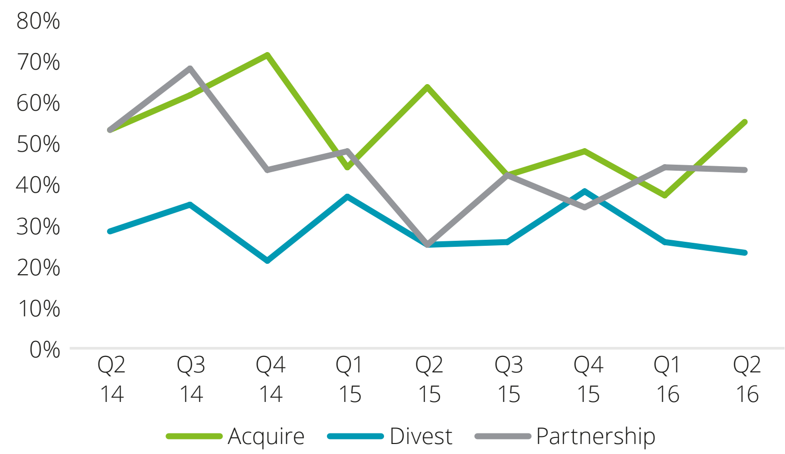


Despite a declining outlook for the M&A levels in the Netherlands, acquisitions are still high on the agenda of CFOs. Some 55 per cent say to seek for inorganic growth by realizing one or more takeovers over the next 12 months, whilst 23 per cent report to sell one or more subsidiaries and/or assets.

Strategic partnership, joint venture, is still a favourite transaction type. Around 45 per cent of the respondents expect to enter a strategic partnership – compared to 25 per cent 12 months ago.

Chart 6. M&A activity at a CFO's company

Percentage of CFOs who expect their company 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 2016 Q2 survey took place between 3 June 2016 and 25 June 2016. A total of 32 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 2.4 billion. The responding companies can be categorized as follows: publicly listed (41%), privately owned (22%), family owned (16%), state or government owned (6%), 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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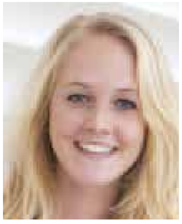

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