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CFO Survey 2017 Q2

Risk appetite increases, M&A activity to soar

July 2017

Contents

Key points from the survey

47%

are optimistic about the financial prospects for their company.

Optimism stable

Nearly half of the CFOs continue to be optimistic about the financial prospects for their business, compared to 52 per cent last quarter.

53%

expect to attract new credit.

CFO will attract new credit

In 2017 Q2, some 53 per cent of CFOs say to attract new cedit over the next 12 months, compared to 30 per cent three months ago.

56%

believe that now is the time to take risks.

Risk appetite rises

Despite increased uncertainty about the external financial and economic situation, risk appetite among CFOs increased to 56 per cent, coming from 40 per cent.

88%

believe that the number of private equity transactions will increase.

Private equity deals to increase

Some 88 per cent of CFOs expect private equity acquisition activity to increase in the next 12 months. A year ago, this metric stood at 67 per cent.

Economic context

Dutch economy

In June, the CPB, the government's macro-economic forecasting agency, raised its economic growth forecasts for the Dutch economy to 2.4 per cent this year and 2 per cent in 2018.

The Dutch central bank is also positive about the Dutch economy. It said the economy will grow at its fastest rate for a decade, but that wage rises are lagging behind. The bank expects growth of 2.5 per cent in 2017. For the next two years, growth rates of 2.1 per cent and 1.9 per cent are forecast respectively.

Statistics Netherlands (CBS) reported that the annual rate of consumer price inflation (CPI) was unchanged at 1.1 per cent in June. The Dutch consumer confidence indicator stood at 23 in June, the same level as in May. Dutch consumers think the economic climate has hardly changed. Willingness to buy improved marginally.

House prices were almost 8 percent higher in May 2017 than in May last year. This is the most substantial price increase since April 2002.

Car sales in the Netherlands rose by 17 per cent in the first six months of 2017 compared to the year-earlier period, automotive sector organizations reported.

Confidence among Dutch manufacturers stood at 7.2 in June, up from 6.1 in May. Manufacturers are much more positive about their order books, said Statitics Netherlands.

In June, the manufacturing purchasing managers' index (PMI) came in at 58.6, a 74-months high, and up from 57.6 in May.

Eurozone economy

The economic situation in the Eurozone looks paradoxical. On the one hand, quite a few political risks continue to threaten Europe's political and economic stability. On the other, financial markets seem unaffected by these risks, and the recovery in the Eurozone continues.

The rate of expansion in the Eurozone manufacturing sector accelerated to its fastest in over six years. Eurozone manufacturing PMI for June came in at 57.4, from 57.0.

The Ecomomist Intelligence Unit (EIU) forecast the Eurozone economy to grow by 1.8 per cent in 2017, and by 1.6 per cent in 2018.

Global economy

The global economy has become stronger in the frst half of 2017. Inflation is rising faster in major economies. Manufacturing purchasing managers' indices (PMI) are higher and unemployment rates have fallen.

According to the EIU's latest forecast, the global economy is expected to grow 3.5 per cent (based on purchasing power parity) in 2017, and 3.3 per cent next year.

Oil prices fell in the second quarter of this year. Crude oil ended the quarter 9 per cent lower, and dropped some 22 per cent June from highs in February. This typically marks the beginning of a bear market.

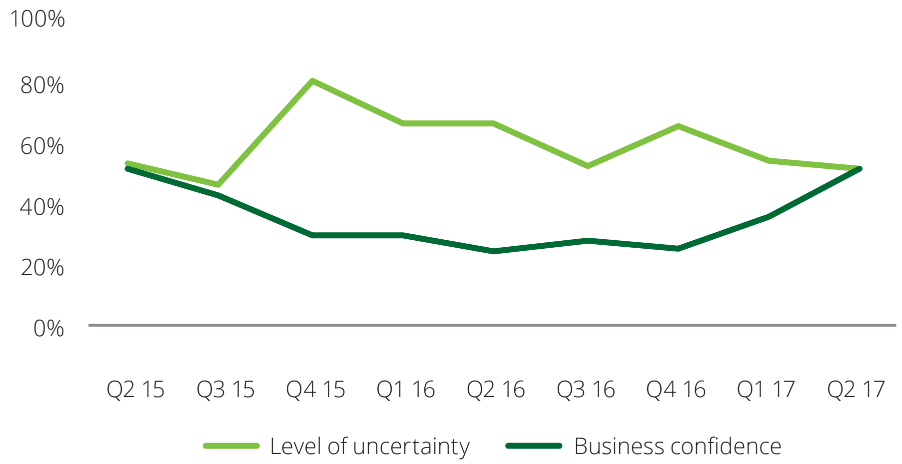
Business outlook

The general level of external financial and economic uncertainty facing CFOs' businesses has increased again, after two quarters of decreased uncertainty. The metric now comes in at 59 per cent, compared to 52 per cent in 2017 Q1, most likely affected by challenges like the Brexit process and political changes in Europe.

CFOs' feeling about the financial prospects for their company dropped from 52 per cent last quarter to 47 per cent now.

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.



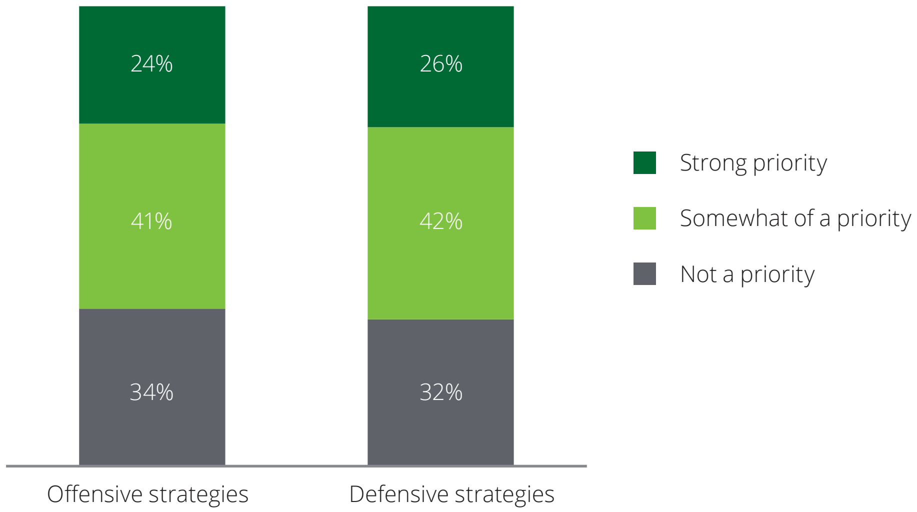
Asked if their strategies are offensive or defensive over the next 12 months, CFOs report a wait-and-see approach.

Some 26 per cent give a strong priority to increasing capital expenditure, expanding by acquisition and introducing new products/services or expanding into new markets (offensive strategies).

A same percentage give strong priority to defensive strategies (reducing costs, reducing leverage and increasing cash flow).

Chart 2. Business priorities

CFOs' companies' strategic priorities over the next 12 months



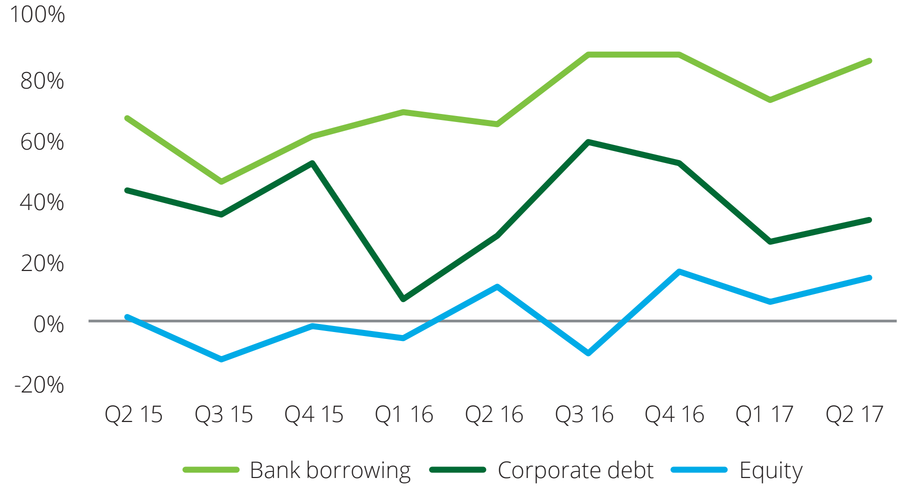
Financing

Due to accommodative credit conditions bank borrowing continues to be the preferred source of funding (82 per cent now compared to 70 per cent in 2017 Q1), followed by corporate debt.

Despite continued strength in European and global equity markets equity issuance remains not appealing

Chart 3. Favoured source of corporate funding

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



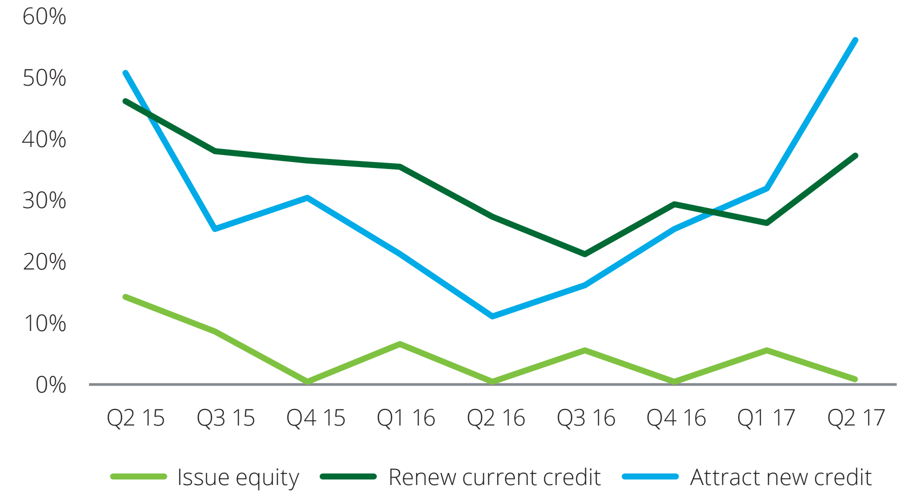
Some 53 per cent of our panellists say to attract new credit over the next 12 months, which is almost double of last quarter's score (30 per cent).

The percentage of CFOs who are to renew current credit increased from 25 per cent to 35 per cent.

No CFO in our panel is likely to issue equity in the next 12 months

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

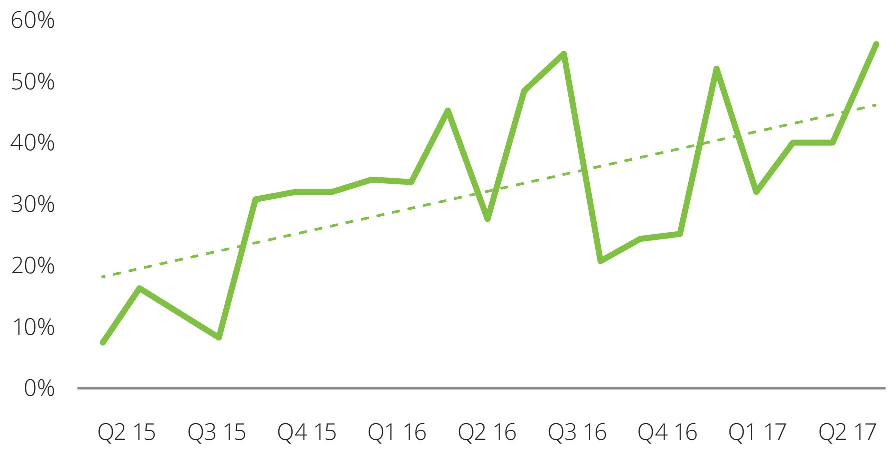


Risk

Despite increased uncertainty about the external financial and economic situation, risk appetite among CFOs increased to 56 per cent, coming from 40 per cent in the past two consecutive quarters.

Chart 5. Risk appetite

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

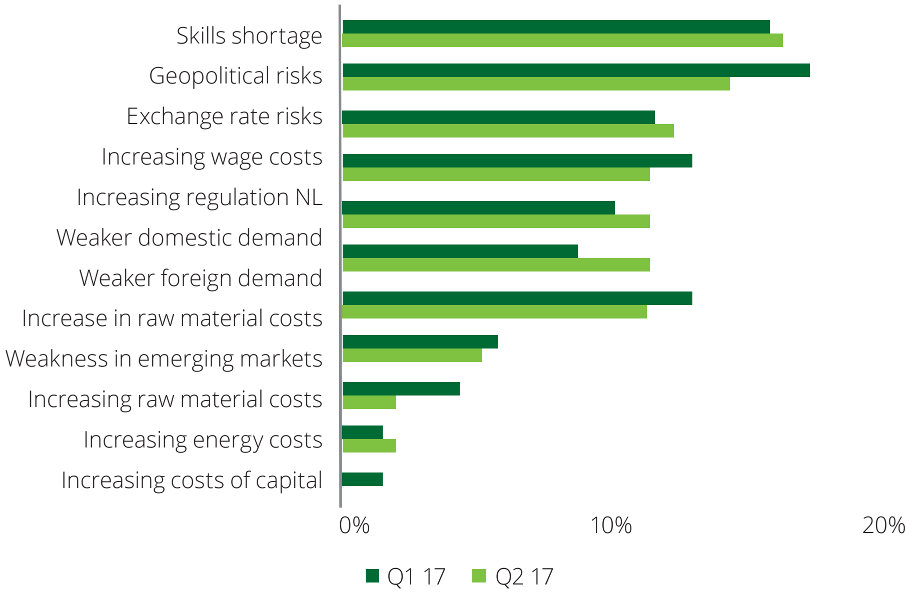


Shortage of skills is now seen as the factor that presents highest risk to CFOs' companies in the next twelve months, followed by geopolitical risks and weaker domestic demand.

Exchange rate risks are now less prominent compared to last quarter.

Chart 6. Business risk

Business risks facing CFOs' companies over the next 12 months



M&A

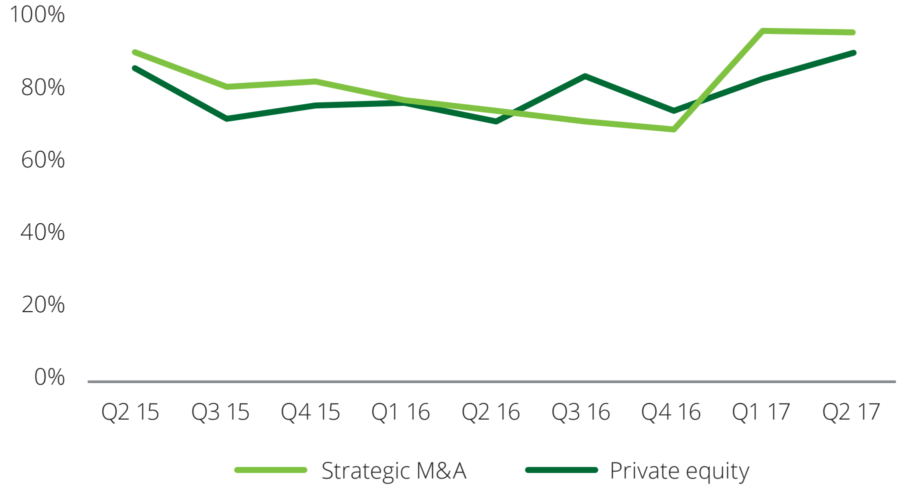
Due to bright economic outlook, higher risk appetite and availability of debt, the number of M&A transactions are expected to increase.

The net percentage of CFOs who expect corporate mergers and acquisitions to increase remains very high: 94 per cent.

Some 88 per cent expect that the number of private equity transactions will rise, compared to 67 per cent one year ago.

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.

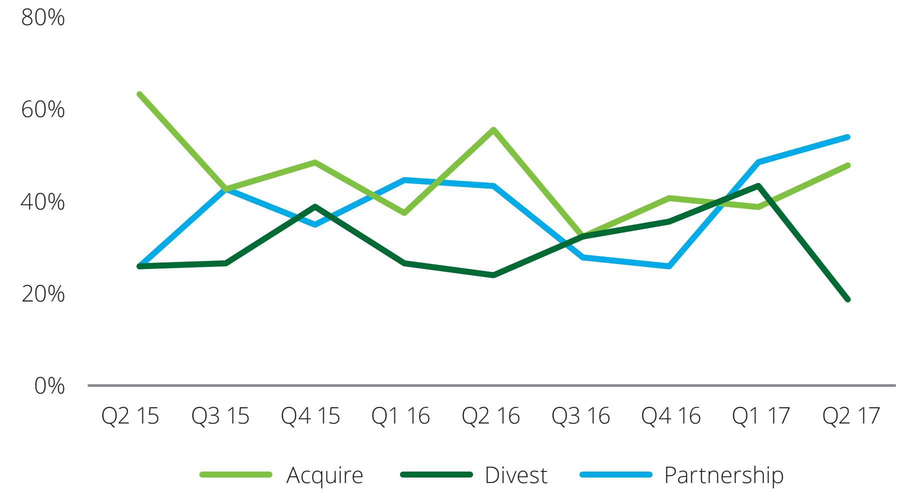


The strong outlook on the corporate M&A market in the Netherlands is reflected in CFOs' anticipated M&A activity over the next 12 months. Some 47 per cent of our panel say to complete an acquisition, while more than half of the CFOs say to work on a strategic partnership.

Divestments of subsidiaries and/or assets are off the agenda, given the drop from 43 per cent in 2017 Q1 to 18 per cent now.

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.

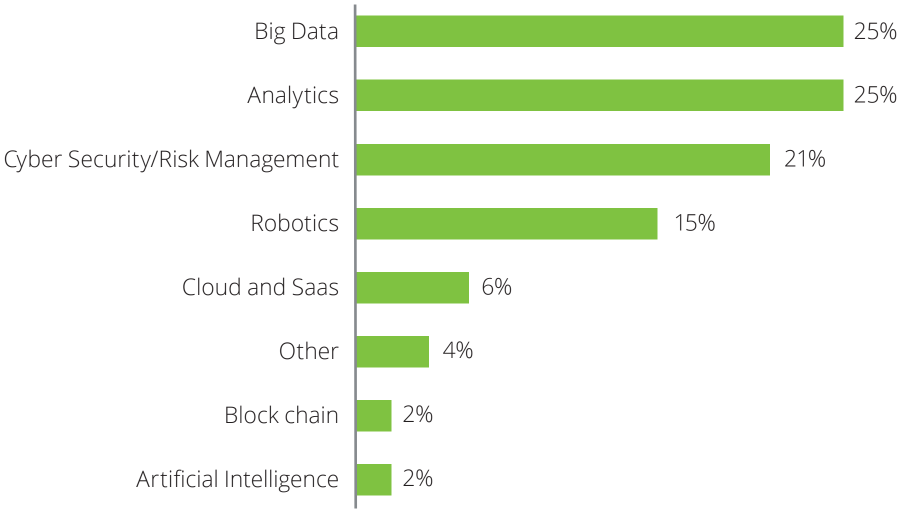


Digitalisation of the finance function

Many organisations are aware of the urgency of digital transformation. Becoming a digital organisation is not only relevant for the outside of business and improving the customer experience, but also for transforming internal functions like IT, Finance and HR.

We asked the CFO panel which digital projects are having the highest priority in their companies. Big data (incl. data management) and analytics (incl. forecasting/predictive modelling) are perceived as the areas with highest priority, followed by cyber security / risk management.

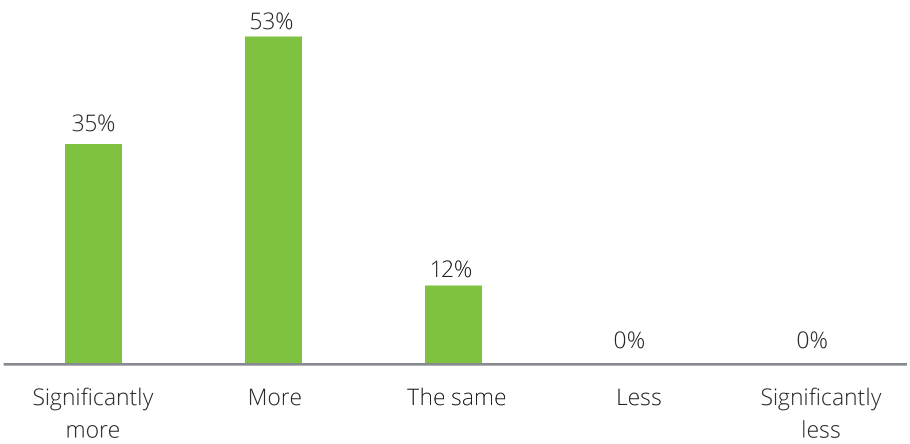
Chart 9. Priority areas digital
Digital projects ranked by priortity according to CFOs.



More than half of the CFOs in our panel said that they will invest more in digital, either technologies, or talent/ways of working

Some 35 per cent say to invest significantly more compared to last year.

Chart 10. Next year's investments in digital
Investment level in digital compaed to last year



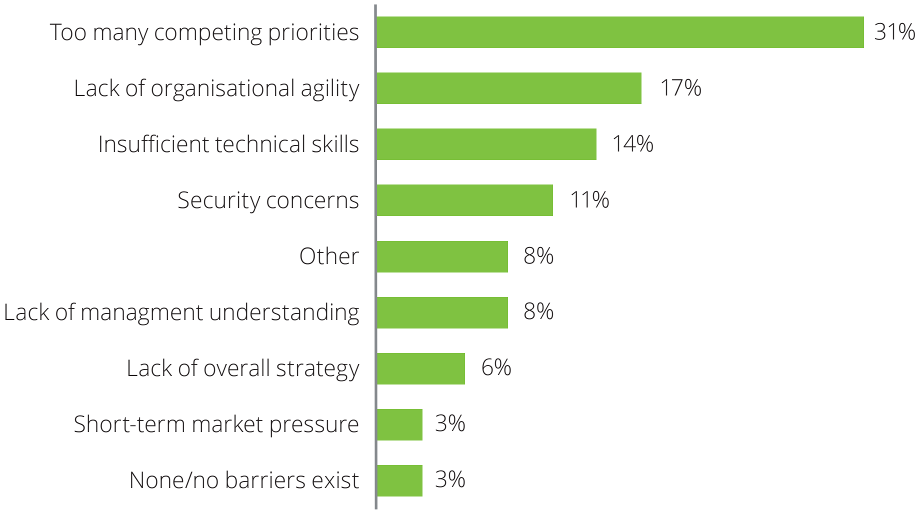
When it comes to implementing digital tools or ways of working within the finance function, CFOs report that there are too many competiting priorities are their biggest hurdle.

There is also a lack of organisational agilty and technical skills.

Only a few CFOs say that there are no hurdles to implement digital in the finance function.

Chart 11. Biggest hurdles

Biggest hurdles when it comes to implementing digital tools or ways of working within the finance function.

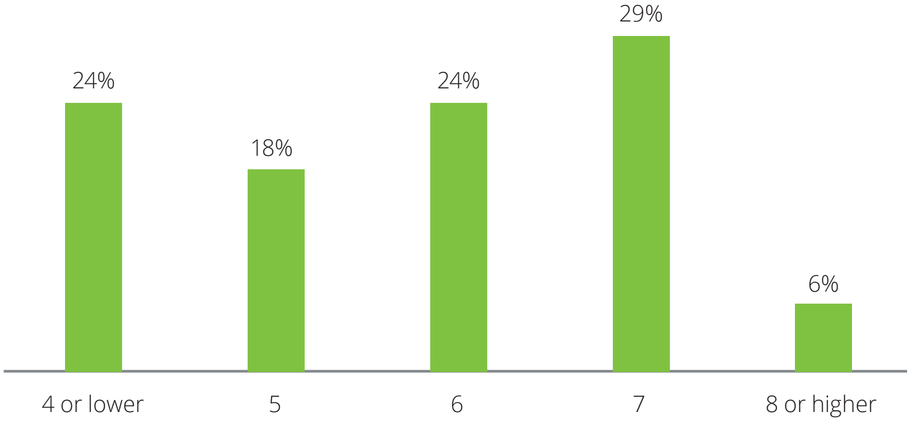


Asked about the digital maturity of their finance function, around a third of the panel rated it as 7, on a scale from 1 to 10, with 1 being not mature at all and 10 very mature.

Some 42 per cent rated the digital maturity as 5 or lower. Only 6 per cent believe that their finance function is relatively mature, rating it at 8.
The average score is 5.7.

Chart 12. Current maturity of finance function

Maturity of the finance function in CFOs' organization (1 = low; 10 = high).



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 Q2 survey took place between 2 June 2017 and 30 June 2017. A total of 17 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 3.6 billion. The responding companies can be categorised as follows: publicly listed (35%), privately owned (18%), family owned (18%), government or state owned (12%), other and/or unknown (18%).

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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