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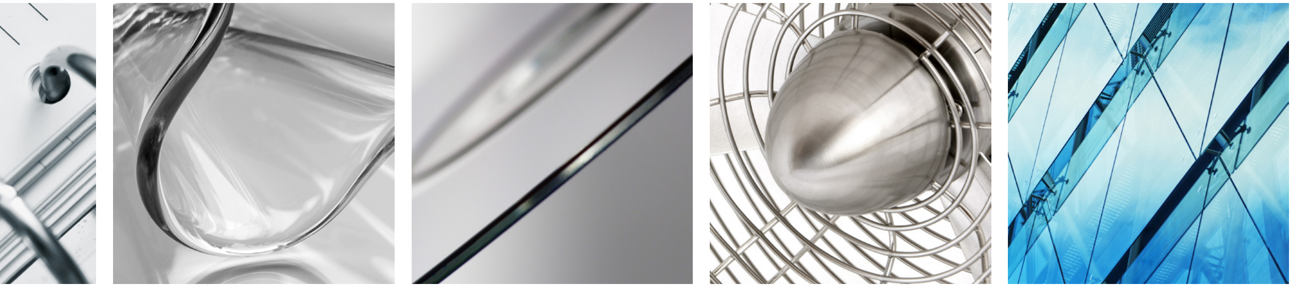
Best is yet to come
Romania CFO Survey 2016



Romania

2016 results | 7th edition

The CFO Program

Contents

Introduction

"If three or four years ago companies were faced with big cuts following economic slowdown, talent shortage appears as an area of concern today."

In a year marked by economic and financial stabilization for Central European countries, I am delighted to introduce the seventh edition of our CFO Survey which highlights the views of the CFOs from 11 countries, including Romania.

With healthy macroeconomic indicators, Romania has continued to dominate the CEE growth wave which started in 2013 thus moving away from the Balkans and closer to the core markets such as Poland, Hungary, Czech Republic and Slovakia.

In this context, Romanian CFOs are optimistic regarding the country's GDP growth this year, according to the survey, and their expectations are in line with the World Bank's prospects forecasting a 3.9% growth for the country in 2016. The estimated growth is one of the highest in the region.

The survey also reveals that 58% of the CFOs in Romania expect an increased M&A activity in the next year which comes after a year in which a few major deals contributed to the highest total value of deals since 2010. The financial services sector was the most active in terms of transactional activity with strategic deals in the banking (transfer of loan portfolio but also sales of banks), insurance and leasing sectors.

One conclusion of the survey is that most CFOs expect that the new Fiscal Code will have a positive impact on their businesses.

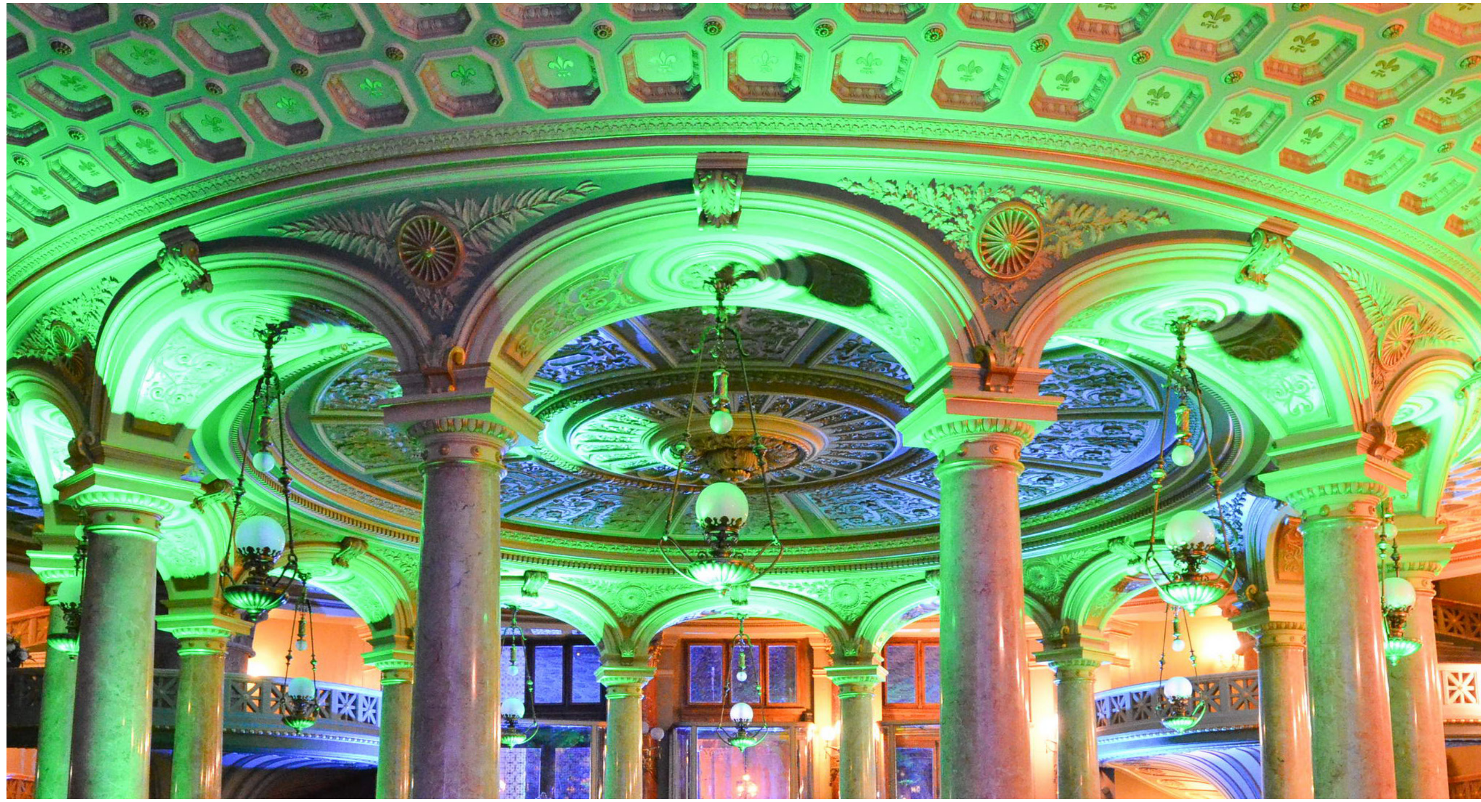
If three or four years ago companies were faced with big cuts following economic slowdown, talent shortage appears as an area of concern today; the survey indicates a growing need for middle, top and senior levels employees. In this context, the expected decrease in unemployment looks natural.

Romanian CFOs seem to have learned a lot from the past as they pay a lot of attention to potential events in the region that may affect their business but which may also boost the current revenue streams or create others.

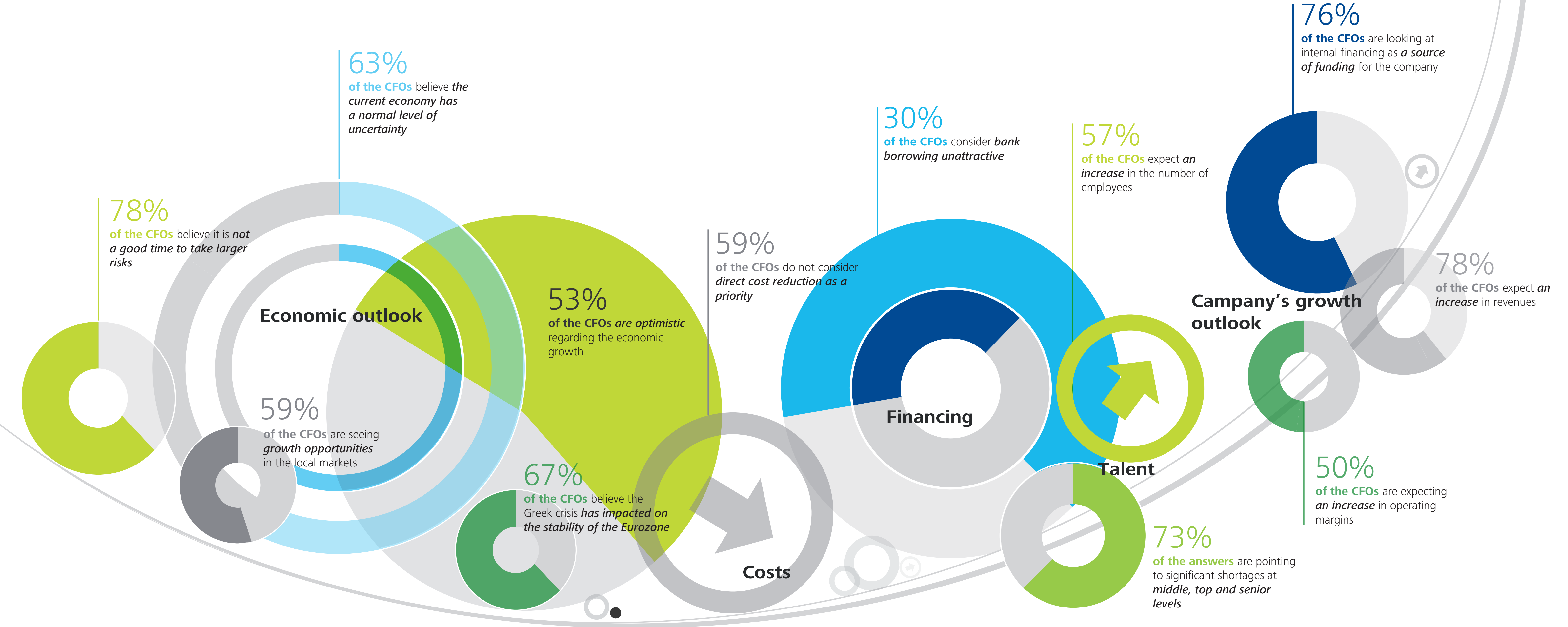
I believe this year's edition of our CFO Survey creates new opportunities for sharing views around it and thus connect in order to generate opinions that matter.

Ahmed Hassan

Partner
CFO Program Leader
Deloitte Romania



CFO Survey key findings in Romania



The New Fiscal Code is expected to have a positive impact on businesses

69% of the CFOs view these changes as an improvement for their business

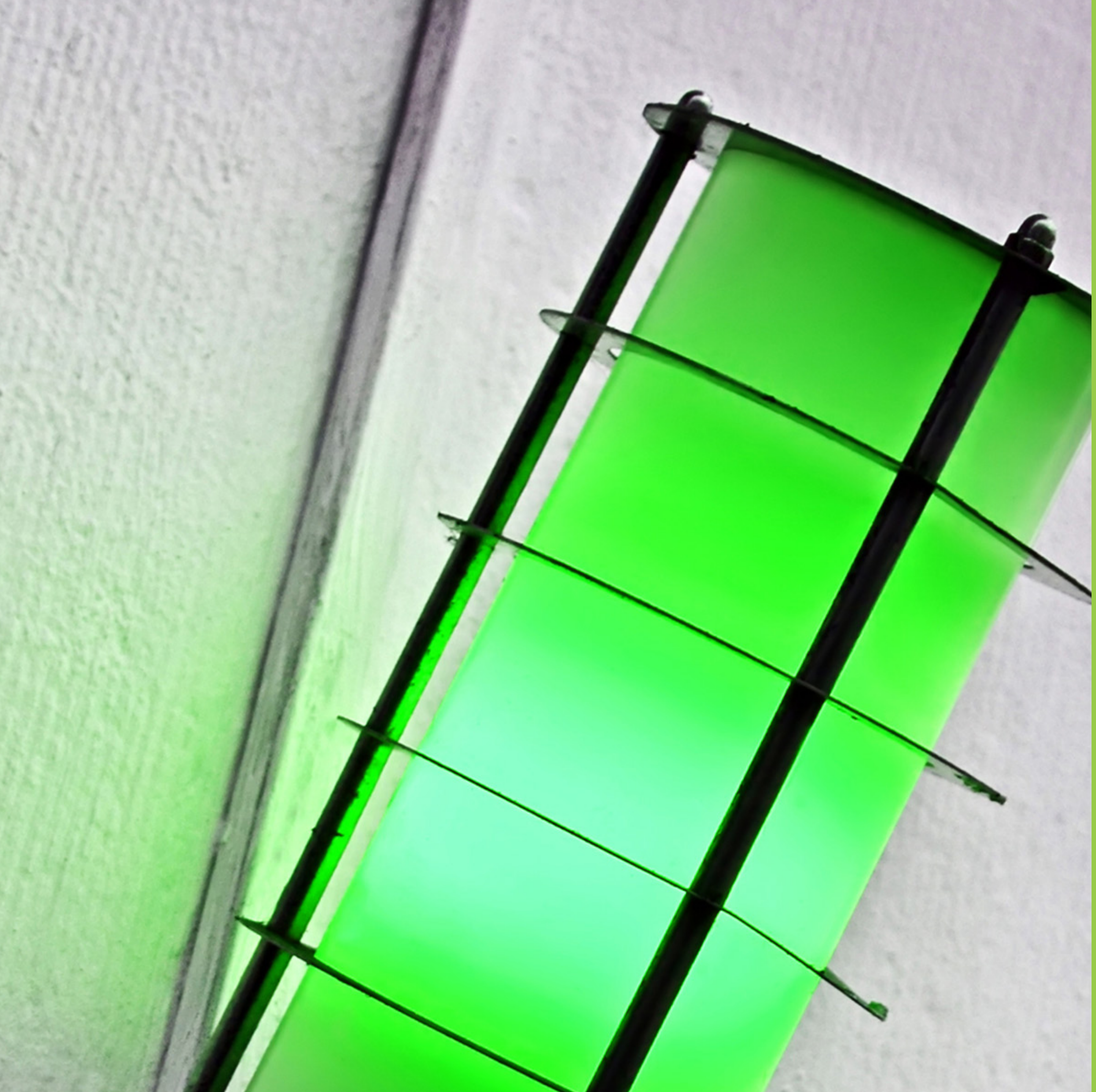
Local insights

When asked about the internal organization of their company, Romanian CFOs expressed a high interest in using shared service centers, considering them to be beneficial in terms of performance and costs.

When it comes to specialized work, the lack of required skills is seen as one of the main threats for the businesses.

Hardware and software investments are seen as a challenge and this has become an area of focus for investments as well.

"CFOs are highly interested in using shared services centers"



Economic outlook

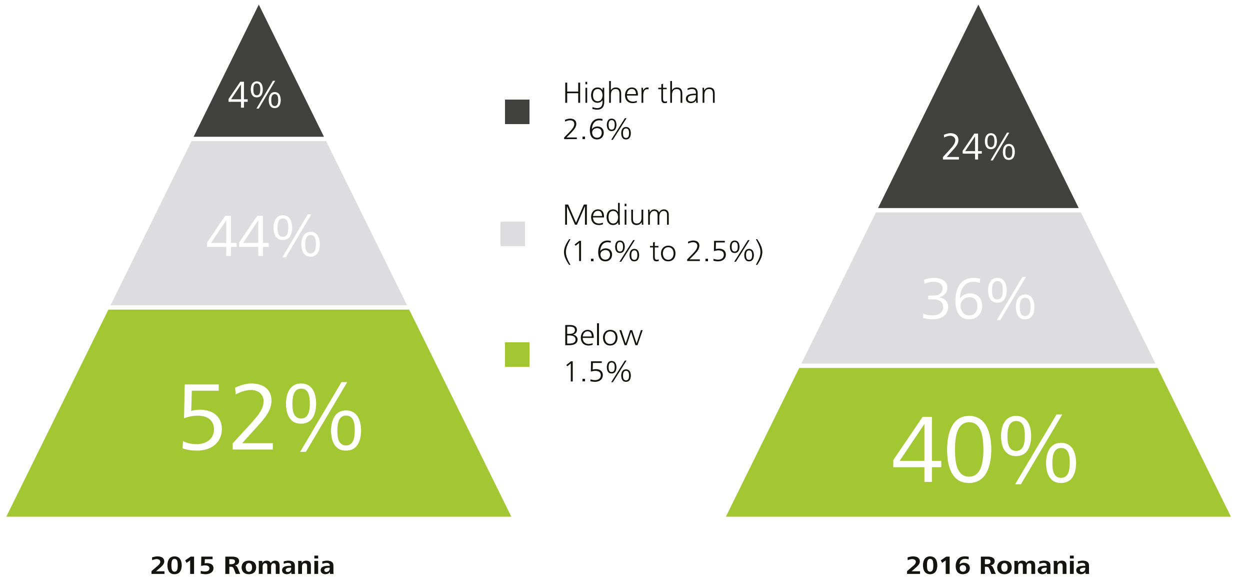
While their peers are cautious regarding the financial prospects of their companies and their revenue growth, Romanian CFOs count as the region's optimists. This positive outlook is reflected in the workforce area with 57% of them expecting an increase in the number of employees. In terms of growth, 78% are expecting a rise in revenue this year.

GDP growth increased in Romania by 3.7% in the first three quarters of 2015, according to the National Institute of Statistics. CFOs believe the trend will be more modest this year, with 24% of them expecting a growth between 2.6% and 3.5%.

Their predictions about unemployment levels are more optimistic with 51% of the CFOs expecting a decrease in unemployment and 57% anticipating an increased number of employees.

GDP growth in Romania

Fig. 1. Local CFO's expectations for the country's economic growth for 2016



Romanian CFOs are becoming more optimistic about the country's economic outlook, after several years when companies had to overcome numerous difficulties and challenges. 24% of the respondents believe that GDP will grow by more than 2.6% which shows a sharp increase as compared to last year. This shift in GDP growth expectations is in line with Romania's growth prospects indicated by the National Bank of Romania, the World Bank and various other analysts who have all projected an average GDP growth between 2.5% – 3% in 2016.

However, in our view such growth targets depend on political and economic stability and continued fiscal and structural reforms in Romania.

The graph below depicts the GDP evolution for Romania since 2010, as per World Bank records. However, starting with 2013 the growth has been more tangible and encouraging for businesses.

Fig. 2. Romania - GDP growth

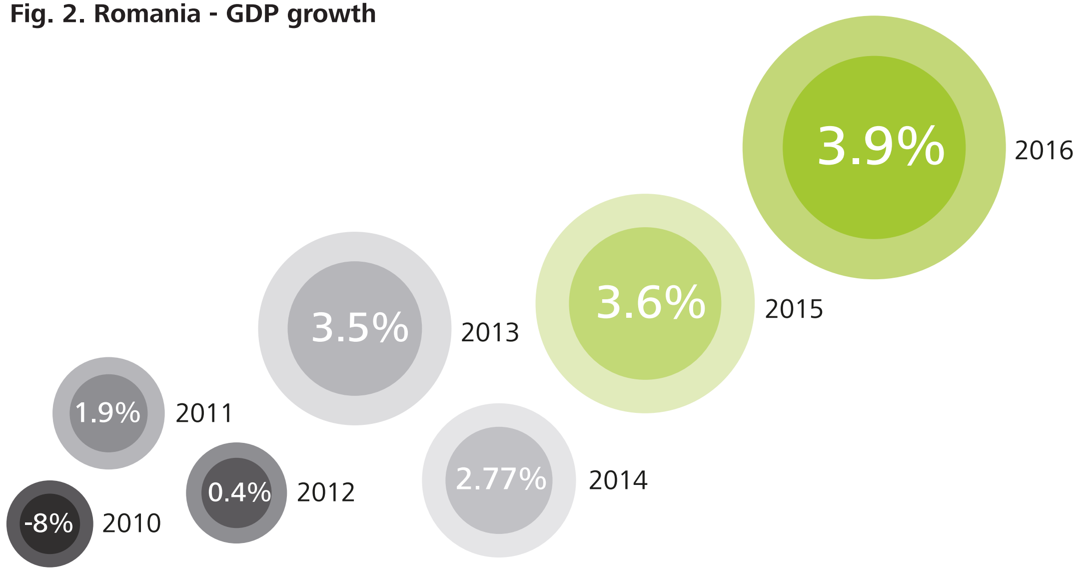
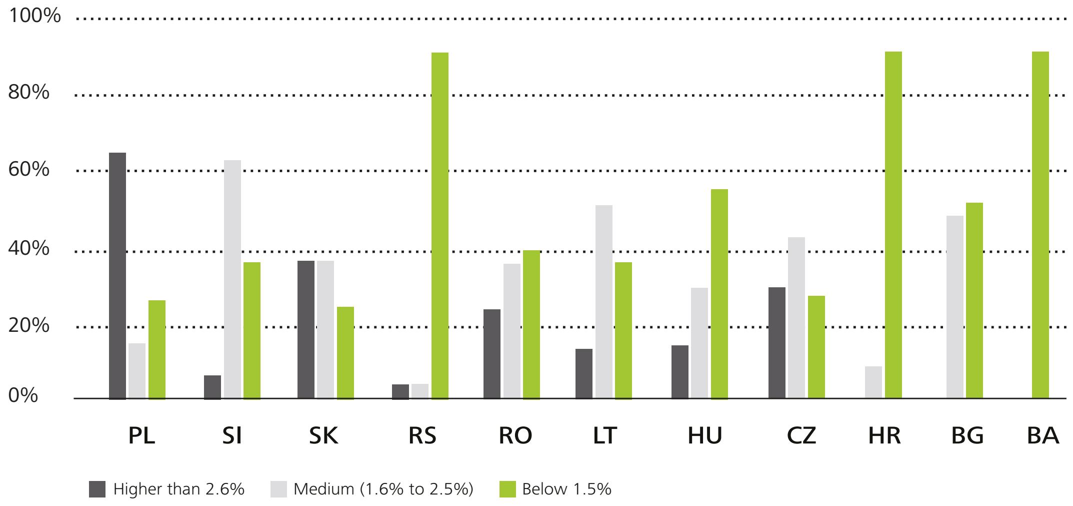


Fig. 3. GDP growth expectation for 2016 in the region



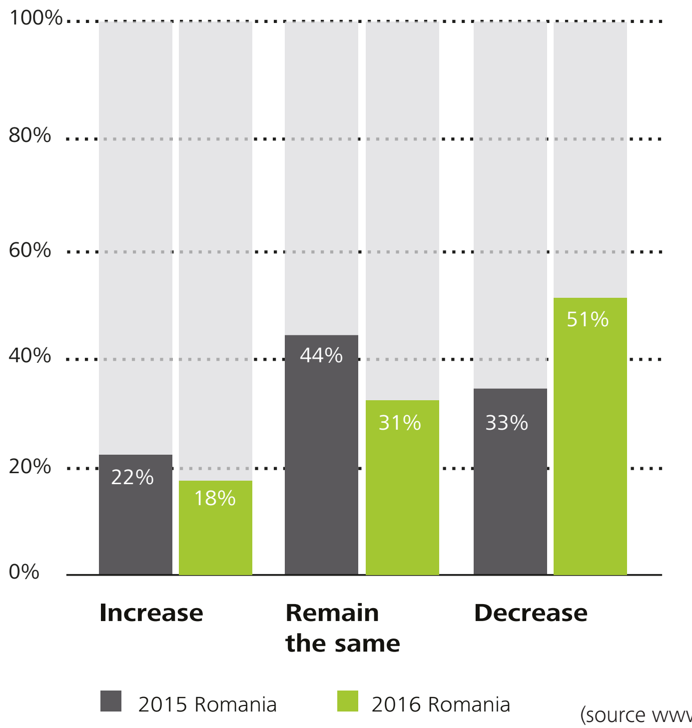
Looking at the region, most Polish CFOs also expect growth higher than 2.6%. At the other end, Bosnia and Herzegovina CFOs all believe that economic growth will be very modest, up to 1.5%. They are closely followed by Serbia and Croatia.

Unemployment

Correlated with the economic growth, the unemployment level in Romania is expected to drop for the year to come, with more than half of the interwiewees sharing this view. The economic growth generates additional demand for workforce. While there are still cases of reorganizations, the unemployment rate continued a declining trend in 2015, from 5.3% in December 2014 to 4.9% in November 2015.

Romania has seen a development in recent years of shared service centers in finance areas, with big international companies choosing Romania as a base for these services. This has created additional demand which has helped the local market in absorbing skilled work force in the services industry.

Fig. 4. Unemployment level in 2016



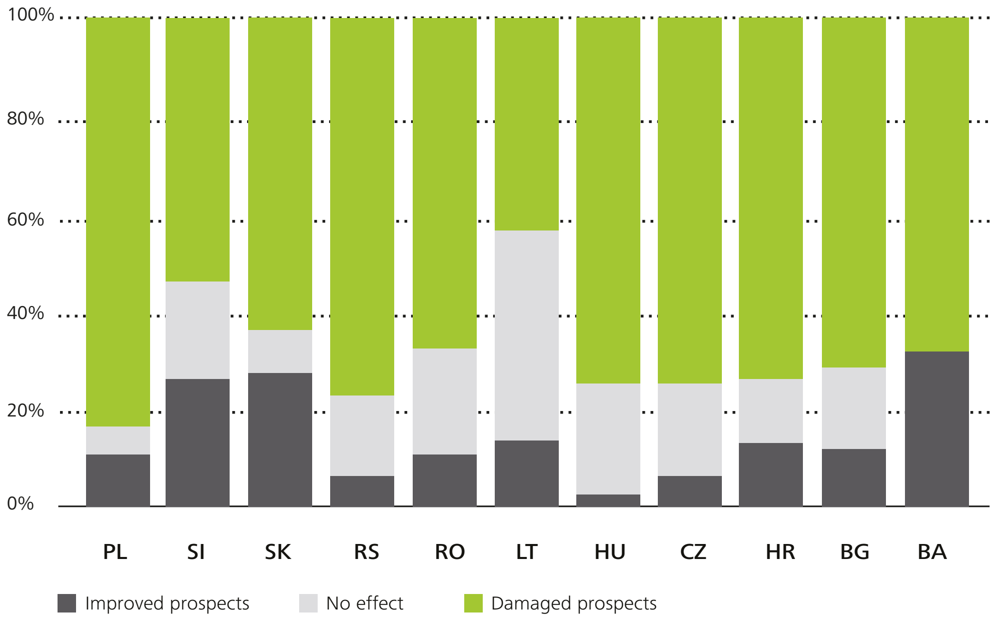
(source www.anofm.ro)

Crisis in Greece

The Greek crisis has been in the headlines for some years with a peak in the summer of 2015. Unemployment in Greece reached a level of over 25% in 2012 and continued to remain at this level in 2015.

Greeks accepted austerity measures with difficulty and most of the CFOs in the participating countries agree that events in Greece have affected the prospects for achieving a stable and closely integrated European monetary union in the longer term.

Fig. 5. Greek events influence the European economy



22% of the CFOs believe that events in Greece will have no effect on the stability in Romania while 67% believe that the events in Greece are negatively affecting the monetary union.

Even though Romania has closer business links with Greece compared to many other CE economies, the economic and political instability did not severely impact Romania until now. However, it is clear that there is a consensus on the negative impact of Greek crisis across the EU.

Infographic 1. Eyes on the macros

53% of Romania CFOs
more optimistic about the country's economic outlook

58% of the CFOs expect M&A MARKET *to increase*

56% CFOs in the region
anticipate CAPEX will *remain high*

24% OF CFOs
believe GDP will grow by more than 2.6%

70% CFOs
see tax changes
have a *positive impact*

78% of CFOs
believe *revenue* will grow

Business environment outlook

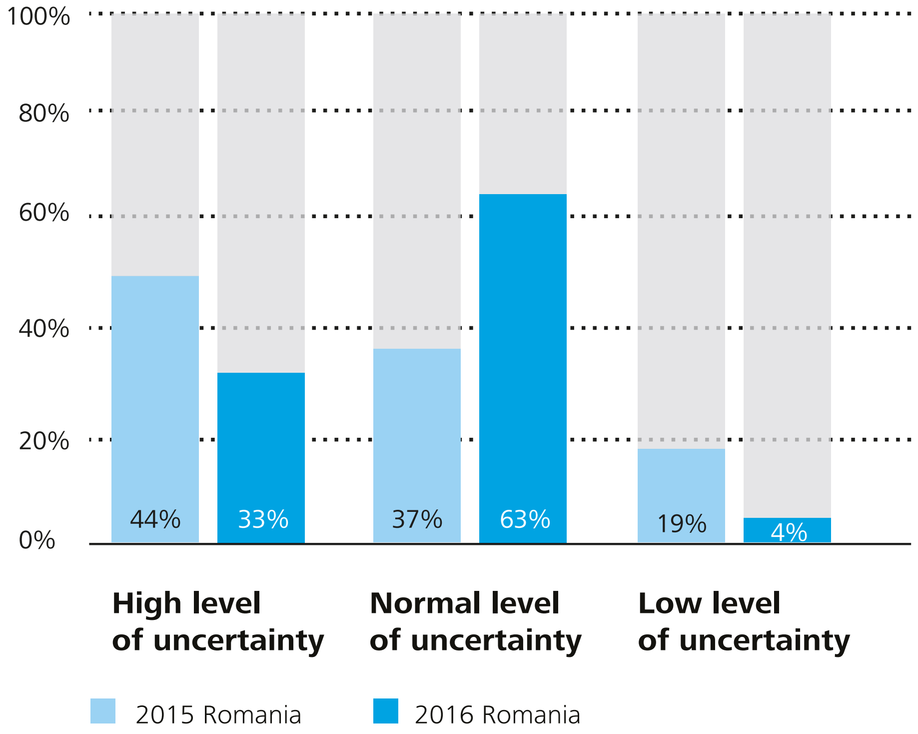
External risks

Most local CFOs are becoming used to the new economic environment and see stability for the future, with 11% less believing that uncertainty will continue to be high, compared to 2015. Also 15% have shifted from believing in a low level of uncertainty to a normal level.

The improvement could indicate the appetite for new investments.

In the region, the CFOs from ex-Yugoslavia countries (Bosnia-Herzegovina, Croatia, Serbia and Slovenia) are more concerned with an increasing level of uncertainty in the economic environment.

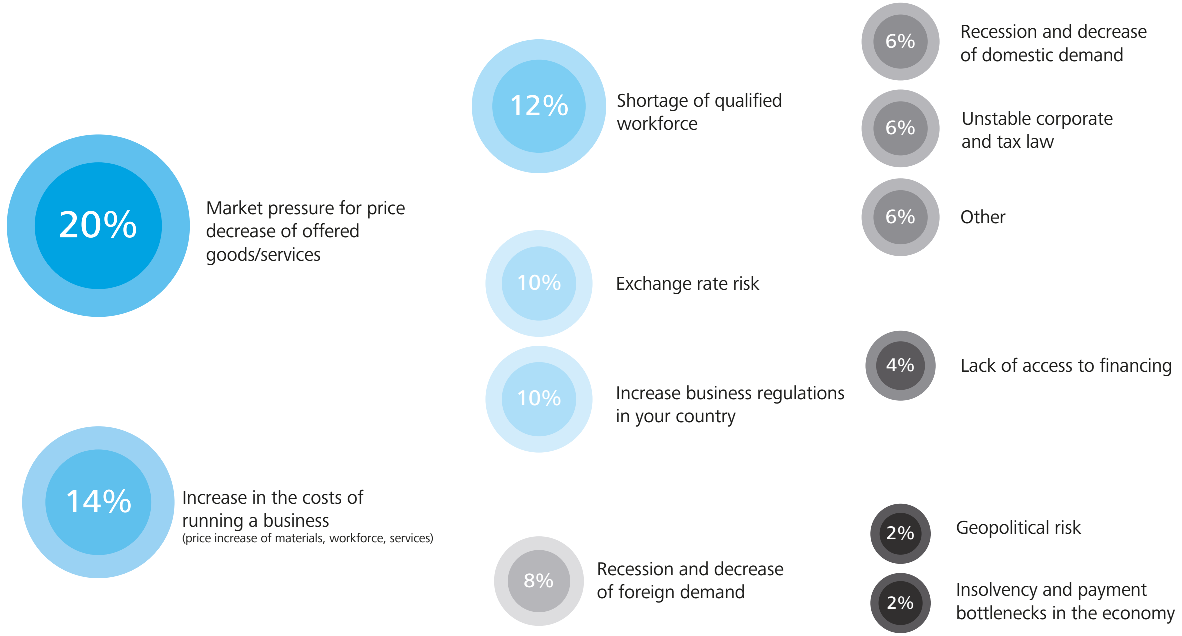
Fig. 6. Overall level of external financial and economic uncertainty facing your business



When asked about the risk factors affecting their business, 20% of the Romanian CFOs are highlighting the pressure faced by the businesses on the selling price. Other significant factors with negative influence on their business refer to potential increase in costs of services and materials and shortage of qualified workforce. A lower risk is seen in areas like geopolitical risk or insolvency and payment bottlenecks, which used to be the case several years ago.

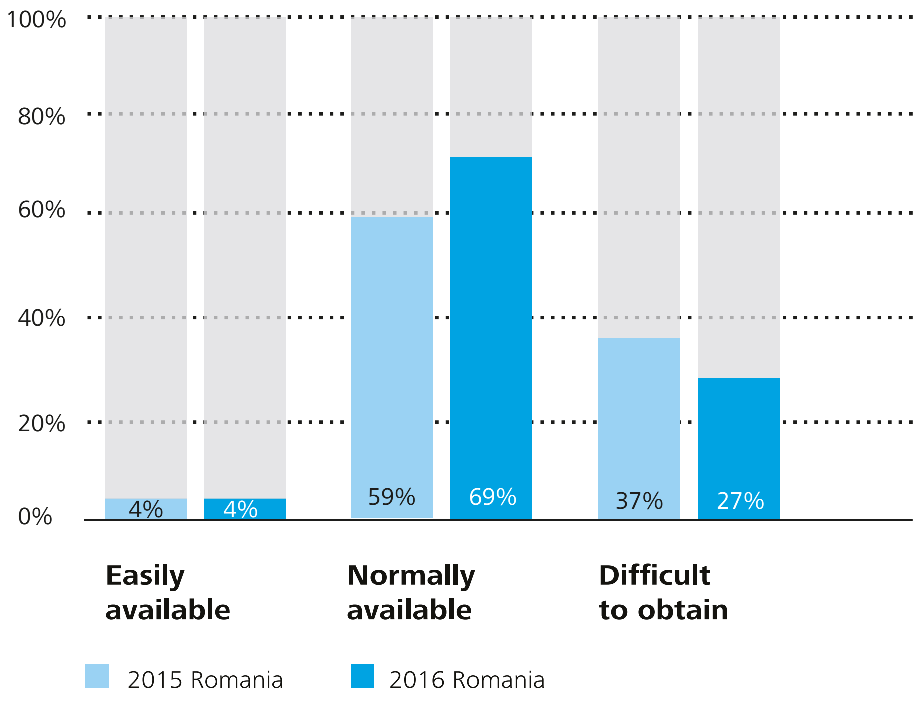
38% of respondents from Slovakia are considering that there is a risk from increasing business regulations in their country while 37% of CFOs from Lithuania consider that recession and the decrease of domestic demand is the biggest risk for their business in 2016.

Fig. 7. Risk factors



Financing

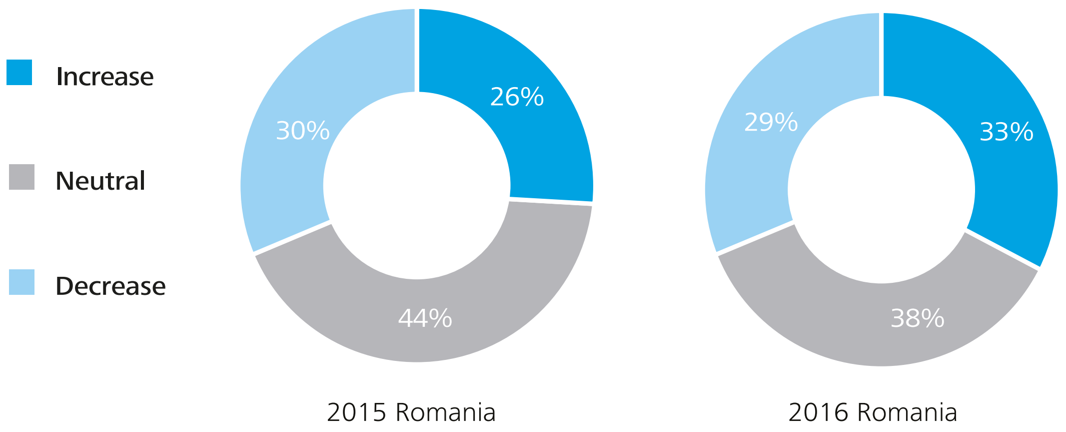
Fig. 8. Overall availability of new money/ credit facilities for companies nowadays



Whilst the perception about accessing new credit lines has improved compared to last year, 27% of CFOs still believe that new credit is difficult to obtain under the current market conditions. The majority of the respondents see credit as normally available. This belief shows the willingness of Romanian banks to cooperate with local companies to find a tailored solution for their needs.

At the same time it is not surprising to say that difficulty to obtain financing is still considered as relatively high by Romanian CFOs. This is due to the fact that after solely looking at balance sheets only many banks in Romania have started to carefully assess and apply credit scoring criteria.

Fig. 9. Financing costs fluctuations



While new credit facilities seem to be more easily accessible in Romania, 33% of the respondents believe that borrowing will become more expensive.

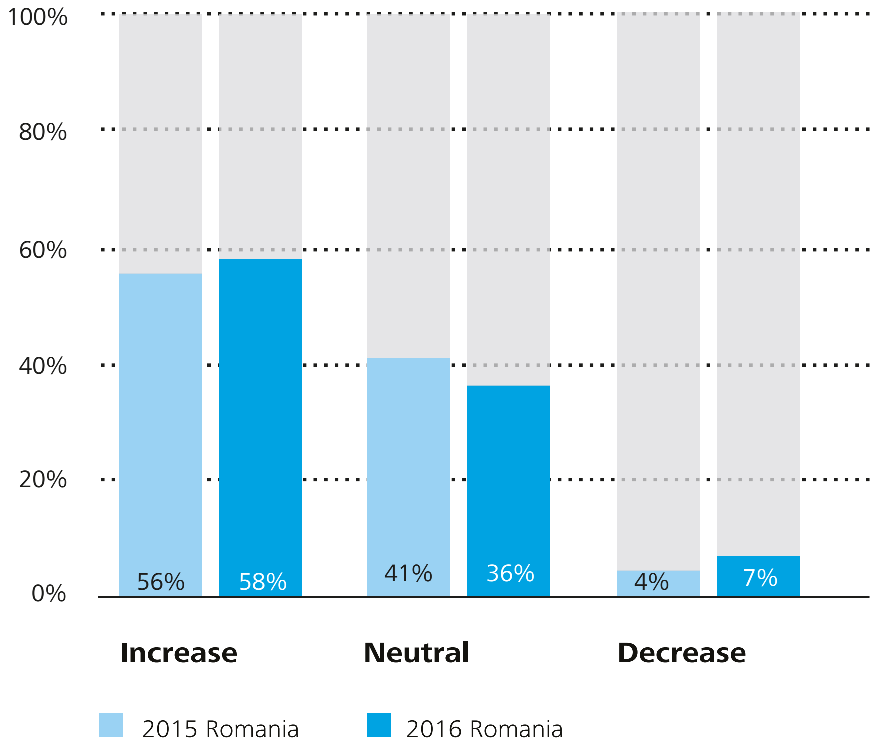
The expectation for an increase in the cost of financing appears to be related to the fact that the business environment considers that the interest rates are currently at a low end and it is likely that we will see an upward trend in the future. Over 50% of the CFOs in Poland and Czech Republic expect an increase in the cost as well. 48% of the Serbian CFOs expect a decrease in the cost of financing.

M&A market

Although there is not a significant change compared to the previous year, expectations for an increased M&A market for 2016 are high. Expectations may be correlated with several factors on the local market, such as new investment funds entering Romania or funds with current investment achieving maturity.

Looking from another angle, the responses may indicate improved business appetite for investment, after a period of investment cuts or other austerity measures. It is clear that companies feel the need to boost revenues and therefore look for M&A as a way to achieve this.

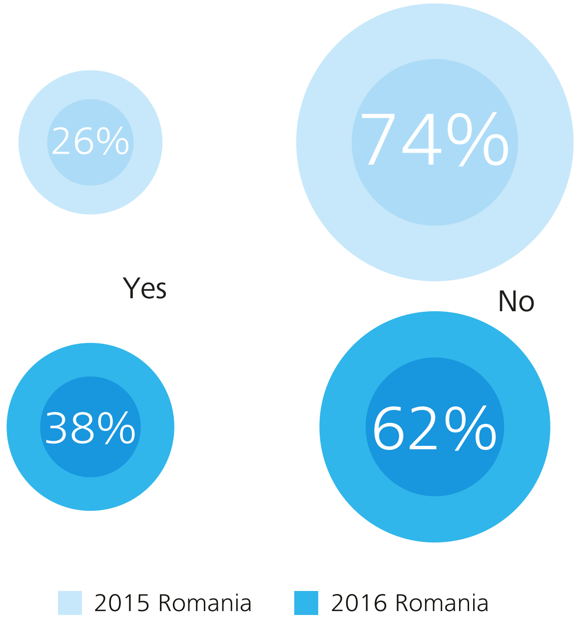
Fig. 10. Level of M&A in Romania



Human capital - talents in finance

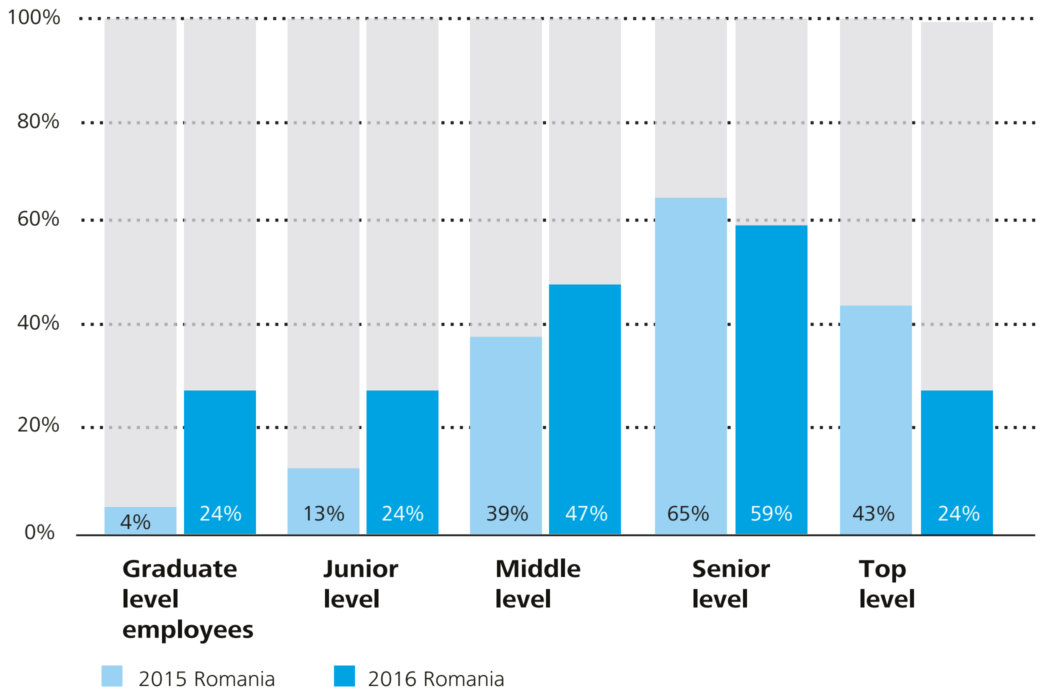
The talent shortage seems to be an area of concern for 38% of the Romanian CFOs. Romania produces a highly qualified workforce, which is quickly absorbed by businesses. The development of shared service centers in finance area has created shortages and increased competition among companies for the best resources. 62% of the Romanian CFOs still believe that they will not be affected by this shortage in the near future.

Fig. 11. Do you expect talent shortages in finance area?



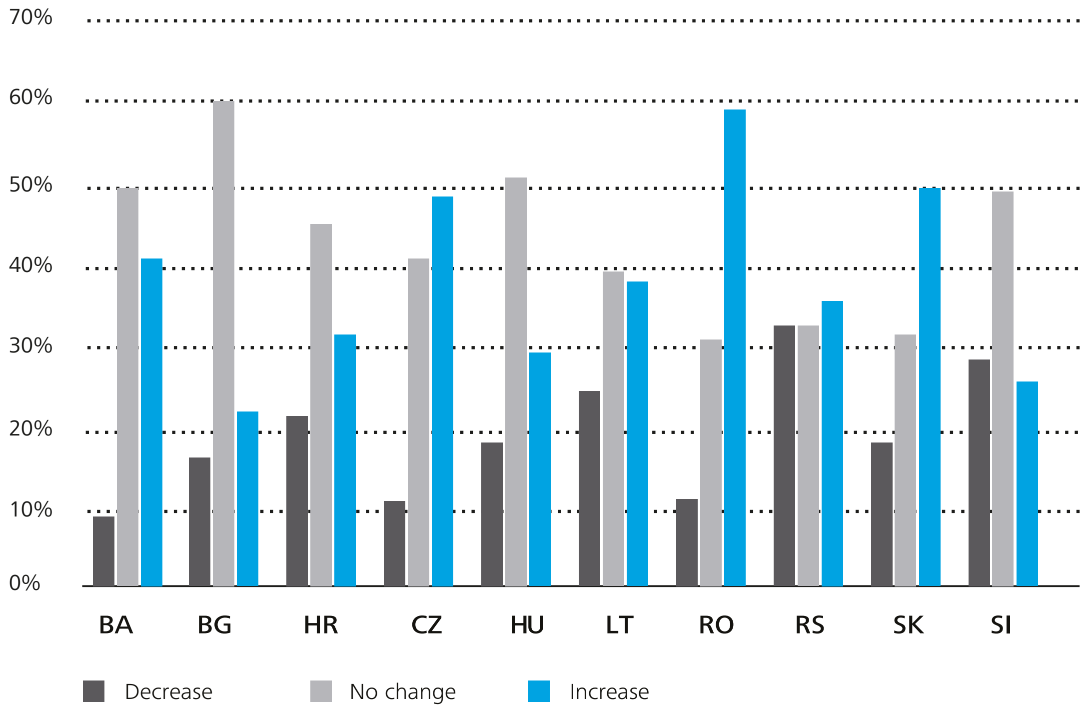
As shown below the pressure will be high for talent management at mid management level. There are several factors contributing to this such as big cuts three-four years ago following economic slowdown, more opportunities internationally (mobility), etc. Also, companies have developed, they are dealing with more complex transactions and need competent personnel. The cost of investments made for training could be another factor for which CFOs prefer to hire directly mid-level personnel instead of internal growth.

Fig. 12. Where will the shortage be?



The majority of local CFOs expect an increase in the number of employees in the following year, which is correlated with the expectation of the decrease in unemployment. Slovakia has the same perception regarding the increase in the number of employees, while Bulgaria and Hungary believe that the changes in the number of employees will not be significant.

Fig. 13. Number of employees evolution



Infographic 2: CFOs views on talent and employment

57%
of the CFOs
expect an increase in ***the number of employees***

40%
of the CFOs
see ***SCCs as beneficial*** for the company

44%
of the CFOs
believe that lack of required skills is ***the main challenge***

62%
of local CFOs
talent shortage is not an area of concern

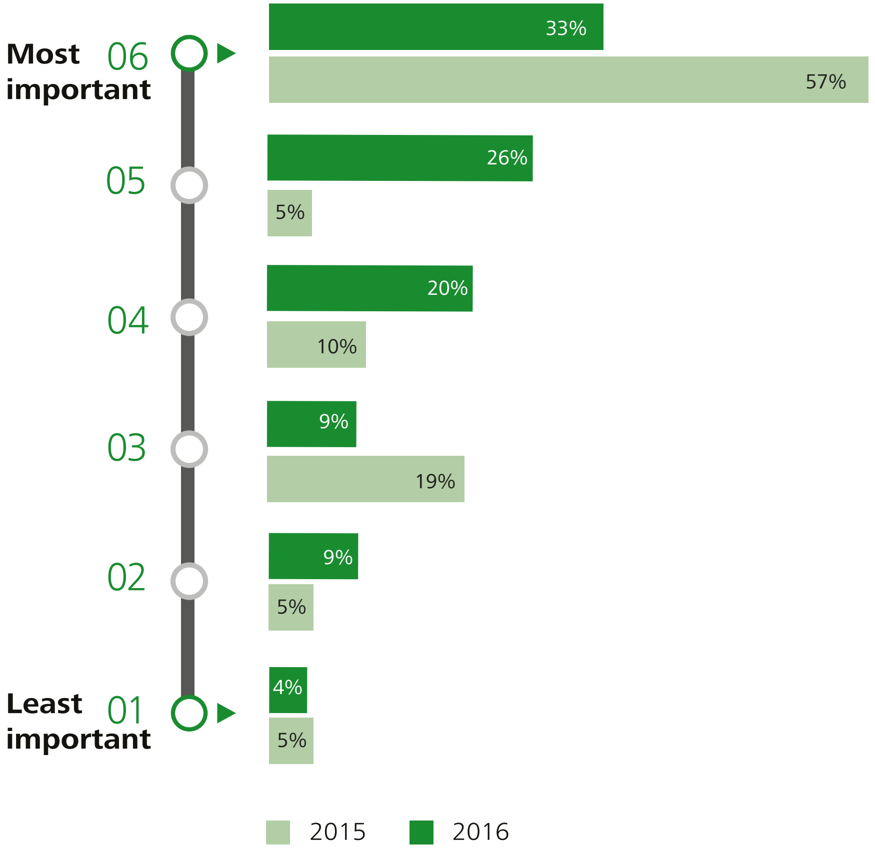
51%
OF THE CFOs
expect that ***unemployment rate*** will drop

Company growth outlook

Priorities and risk apetite

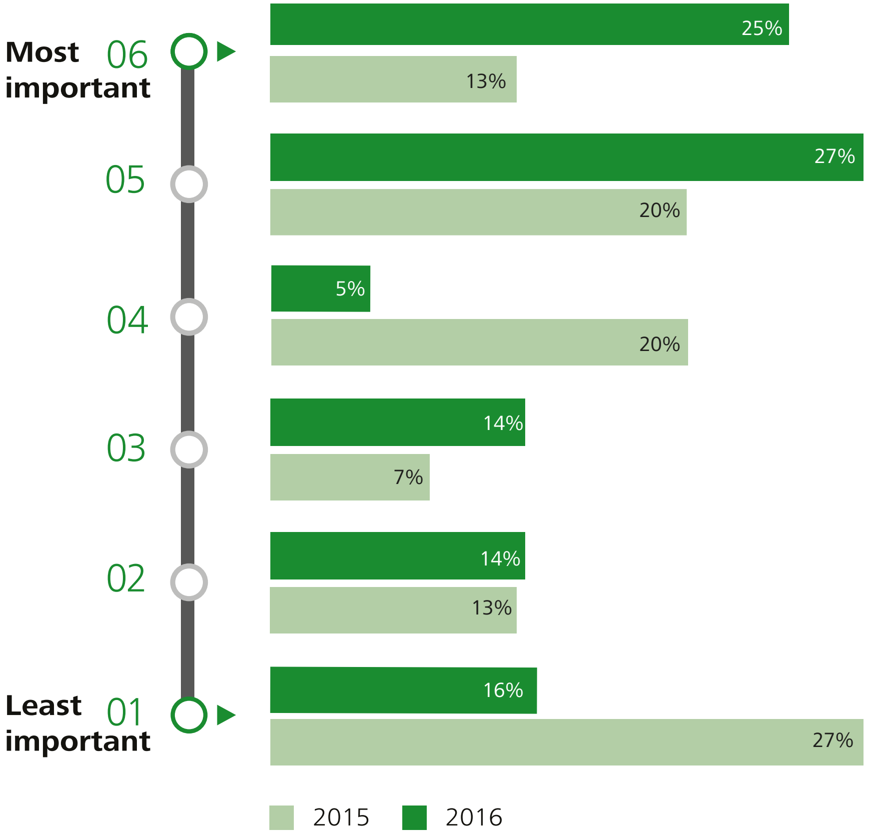
The graphs below depict some of the priorities for Romanian CFOs in the next 12 months. While revenue growth remains an important target, companies are looking at possible opportunities to improve revenues after such tough restructuring measures and are taking advantage of other markets better business environments.

Fig. 14. Revenue growth (current markets) - Romanian CFOs



In 2016, a quarter of the Romanian CFOs are considering new markets as the most important part of their expansion strategies, with 27% rating it as very important. Most countries in the region have the same view and are looking for opportunities in the region.

Fig. 15. Revenue growth (new markets) - Romanian CFOs



Direct costs have most probably reached an optimum level and the CFOs focus has shifted from cost reduction to considering new investments opportunities.

Fig. 16. Cost reduction - direct costs

Cost reduction - direct costs

43% of the CFOs are considering direct costs reduction as not important

39% of the CFOs are neutral about direct cost reduction, as their focus has shifted from cost reduction to new investments

18% of the CFOs are making direct cost reduction a priority

While costs optimization will remain on the agenda, it is it is not considered as a top priority. Indirect costs also do not represent an area of extreme focus for CFOs. As seen earlier, CFOs are focused more on developing their top line, while carefully watching costs. Indirect costs also do not represent an area of extreme focus for CFOs. As seen earlier, CFOs are focused more on developing their top line, while carefully watching costs.

Fig.17. Cost reduction - indirect costs

Cost reduction - indirect costs

13% of the CFOs believe that indirect costs reduction is not an area of focus for them

67% of the CFOs are seeing indirect cost reduction as slightly important

20% of the CFOs are keeping indirect cost reduction on their agenda

Fig. 18. Improved liquidity

Improved liquidity

50%	of the CFOs are regarding the improvement in liquidity as less important
23%	of the CFOs believe there is already sufficient liquidity available for viable projects and growth plans
27%	of the CFOs are making the improvement in liquidity a top priority

The improvement in liquidity is not considered a particular area of risk which is in line with the region and with the improved expectations about the economic growth. Most CFOs believe there is sufficient liquidity available for viable projects and growth plans.

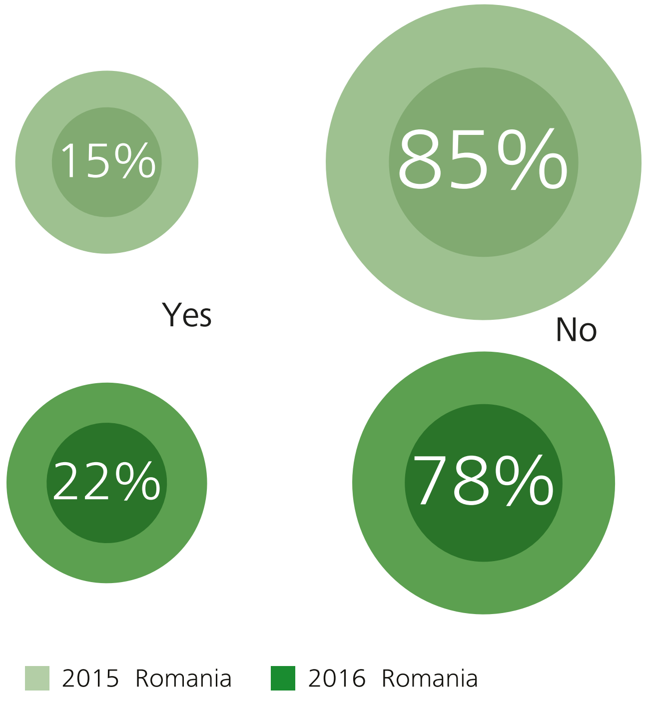
Fig. 19. New investments

New investments

44%	of the CFOs believe that new investments are not a priority, as attention should be given rather to skills and financing
27%	of the CFOs are cautious regarding new investments
29%	of the CFOs are making new investments a top priority

Building on favourable economic context, both local as well as international, companies are looking for new investments to increase revenues, as well as market share. Diversification of portfolios could bring valuable opportunities; however attention should be given to skills and financing.

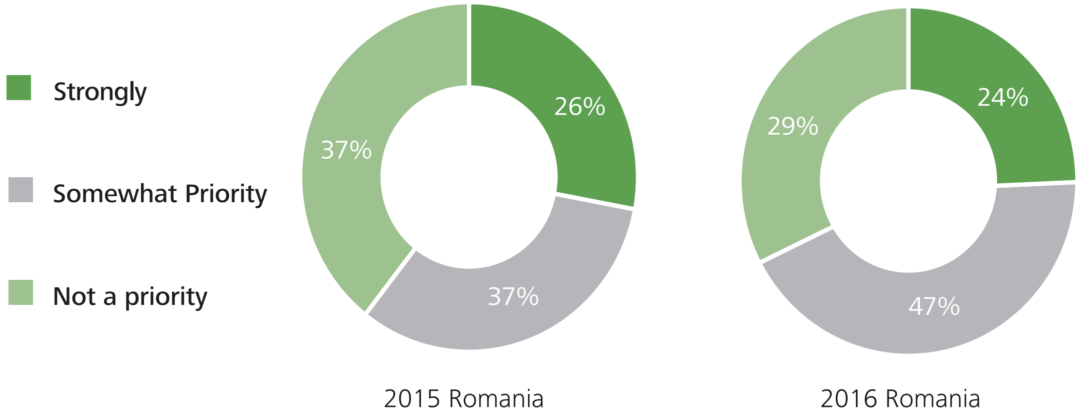
Fig. 20. Is this a good time to be taking greater risk onto your balance sheet?



Even if there is a slight shift from one year to another in favor of risk takers, 78% of the respondents still consider that it is not a good time to take greater risk.

Economies are more and more dependent on each other and international events. Stock markets are very sensitive to "bad news" and CFOs prefer prudence.

Fig. 21. To what extent is business remodeling or restructuring likely to be a priority?



There is a slight increase in the number of local CFOs who consider business remodeling as a priority in 2016. The feeling is mixed within the region, with the majority of the CFOs in Czech Republic and Bosnia-Herzegovina considering that this is not a priority for them.

Romanian CFOs believe this aspect is important but not top priority.

Restructuring has already taken place during the crisis and, as seen earlier, cost cutting is not a priority. Remodelling is not seen too often, as multinational companies are present in Romania with their core business and local entrepreneurs have not yet reached full potential (burn out) of current models.

Growth forecasts

The optimism of the CFOs about the financial prospects of their company slightly increased, with 78% believing that revenue will grow in the next year, making them the most optimistic in the region.

Bulgaria and Czech Republic are following with over 70% of the CFOs expecting revenue growth.

Fig. 22. Financial prospects of the company

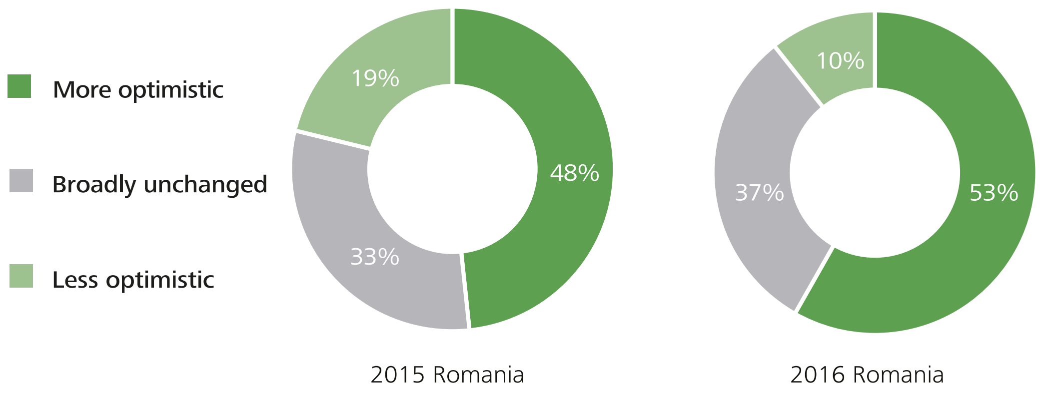
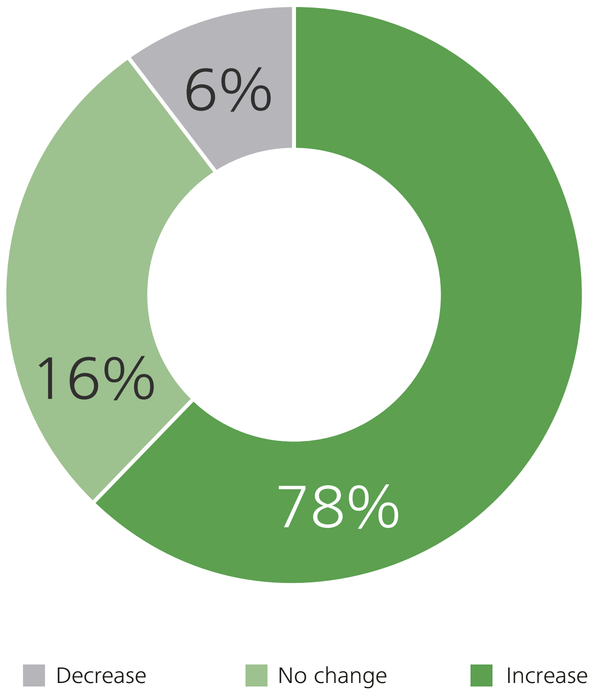


Fig. 23. Revenue evolution expectation for Romania



An improvement in operating margins is generally expected across the region, probably an effect of cost optimization, correlated with the increase in revenues.

Czech Republic and Slovakian CFOs are neutral when they speak about the operating margins, which indicates a linear evolution for revenues and costs.

Fig. 24. Operating margins evolution

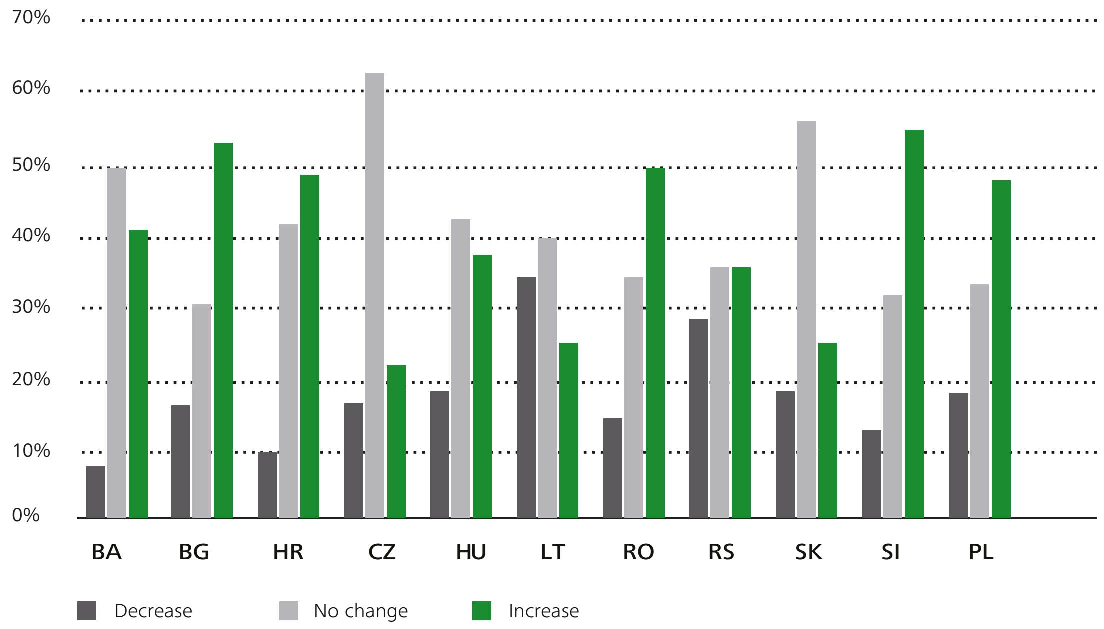
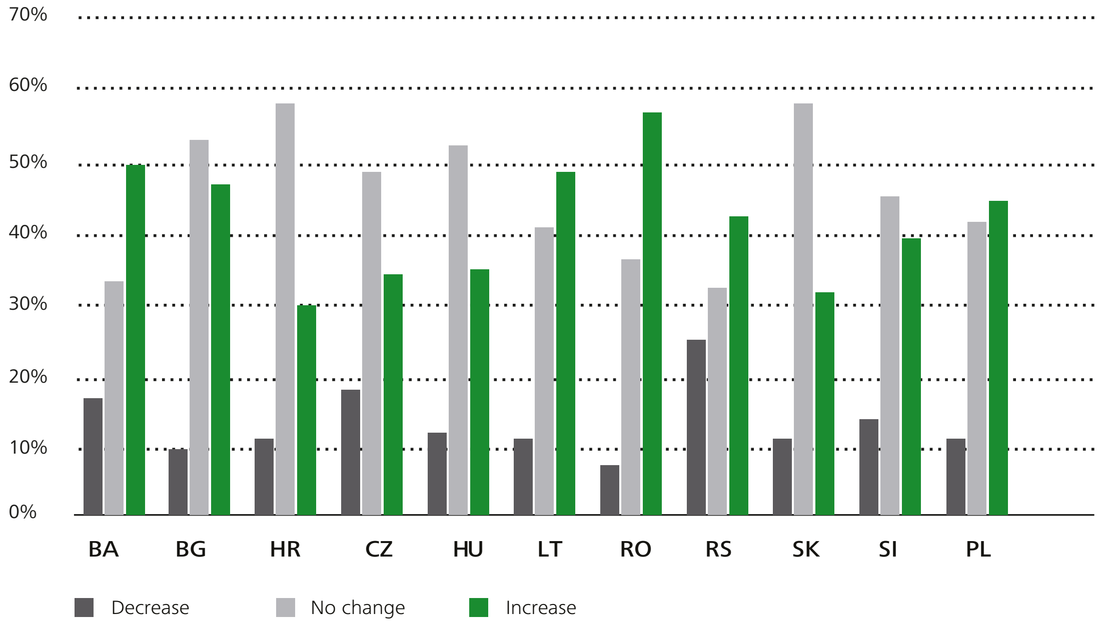


Fig. 25. CAPEX evolution



Most CFOs in the region believe that CAPEX spend will remain high to take advantage of investment opportunities and create further revenue generating opportunities with 56% expecting increase in CAPEX spend. This is linked both with some equipment reaching the end of its useful life as well new equipment required to take benefit.

Debt & financing

Most of the CFOs perceive bank borrowings as neutral: neither attractive, nor unattractive. The same feeling is expressed when asked about equity funding, which may indicate that there is no major need for financing.

Fig. 26. Bank borrowings

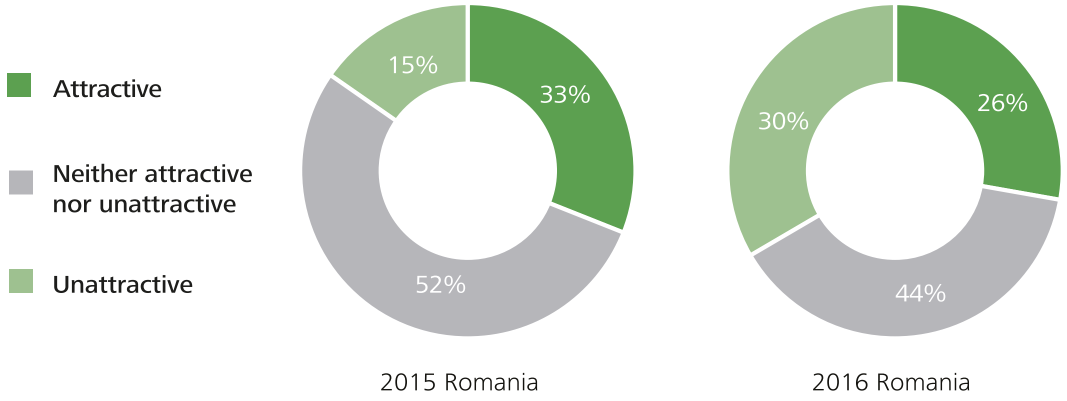
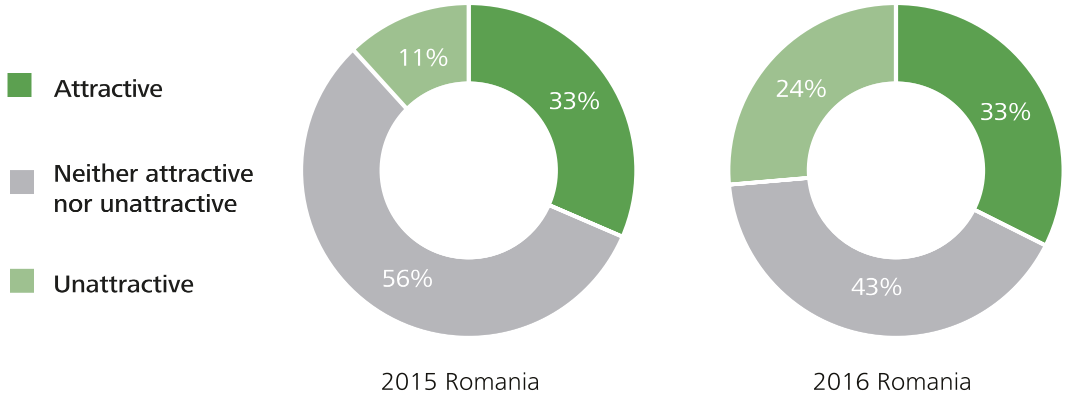
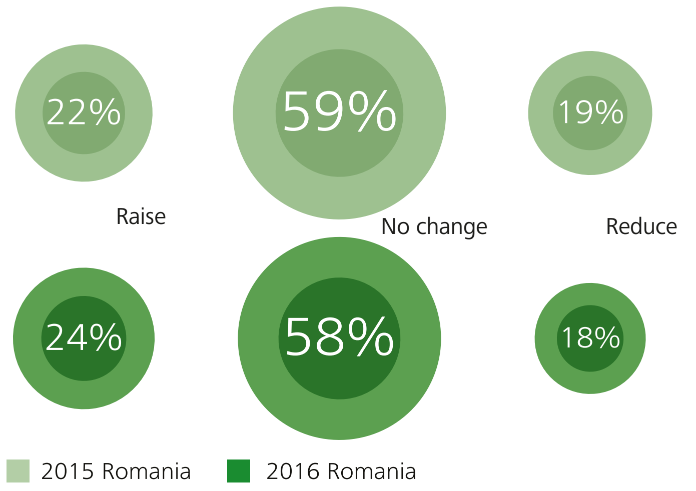


Fig. 27. Equity as a source of funding



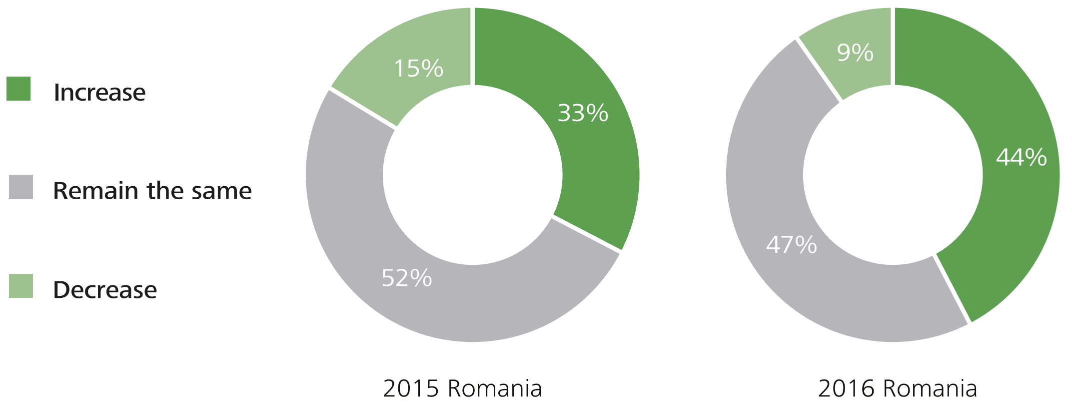
Most CFOs in the region, including Romanian, believe there will be no significant changes to their funding. This is in line with general optimisim regarding liquidity in the market and the perception regarding bank borrowings.

Fig. 28. Expectation for level of gearing 2016



Increased levels of gearing are unlikely for the year ahead. The survey shows no change regarding Romanian CFO's expectations regarding the level of gearing. They do not estimate significant changes taking place during the coming year. As an opposite, Polish CFO's have expressed a high interest in increasing the level of debt.

Fig. 29. Debt service expectation over the next 3 years



When asked how they see their ability to service debt over the next 3 years, 44% of the Romanian CFO's have expressed a positive expectation, compared to only 33% last year. Only 9% foresee an inability in servicing debt.

Infographic 3. CFOs appetite for risk and investment

52%
OF THE CFOs
expect ***revenue growth*** from new markets

33%
OF THE CFOs
believe ***uncertainity*** in Romania will continue to be high

78%
of respondents
not a good time to take greater risk

33%
cost of new credit will likely increase

27%
OF THE CFOs
find ***new credit*** is difficult to obtain

67%
OF THE CFOs
the events in Greece have negatively affected the monetary union

25%
of the CFOs
find that ***Business remodeling or restructuring*** are a top priority

Figures index

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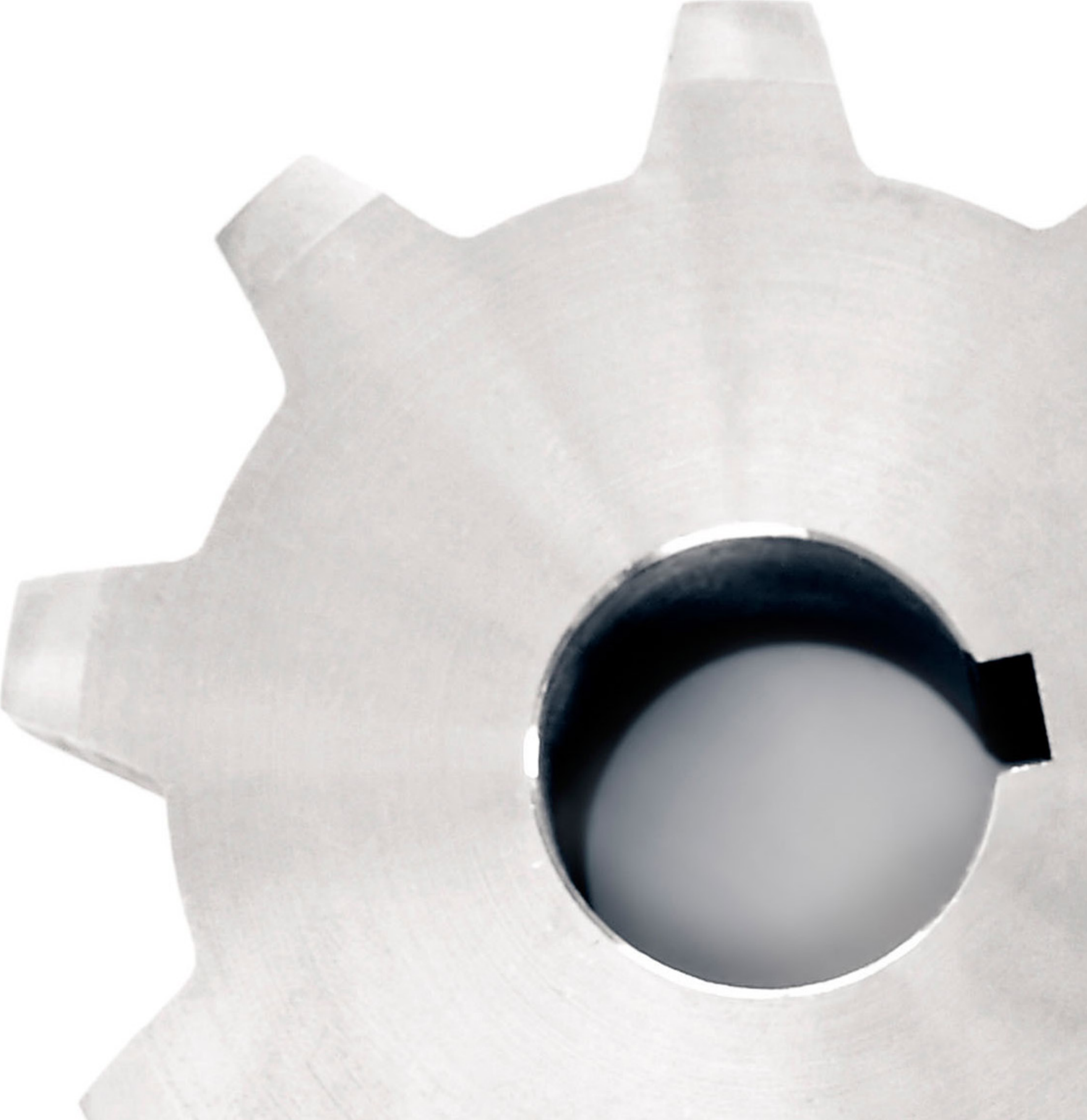

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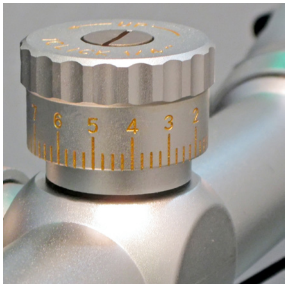

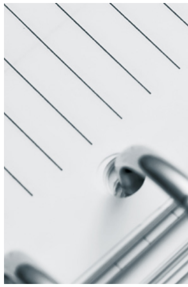

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