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Botswana CFO Report 2015
Staying focused to succeed
in turbulent times



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FOREWORD



Welcome to the 2015 Deloitte
Botswana CFO Survey.



Dear Reader

We are proud to present our 3rd Deloitte CFO Survey for Botswana, which delivers insights from CFOs operating in one of Southern Africa's most fiscally prudent and politically stable economies.

The survey offers a window into the views, expectations and challenges of Botswana's financial stewards as they negotiate current global and local economic fluctuations. To this end, CFOs have been asked to give their views on:

- The economy and business climate
- Current and future operations
- Funding and cash flow
- Business strategies
- Domestic and political challenges
- The role of the CFO

Their feedback has provided us with a bird's eye view of where CFOs see themselves and their companies in the current economic milieu and the strategies they have in place to deal with market fluctuations and grow their businesses.

At Deloitte we understand the multiple roles CFOs are expected to play require a high degree of agility and we are proud to partner with many of the continent's financial stewards through our CFO Programme, which is aimed at assisting them in unlocking their and their companies' full potential. We trust the insights and information provided in this report will be a useful resource for our valued clients and readers alike.

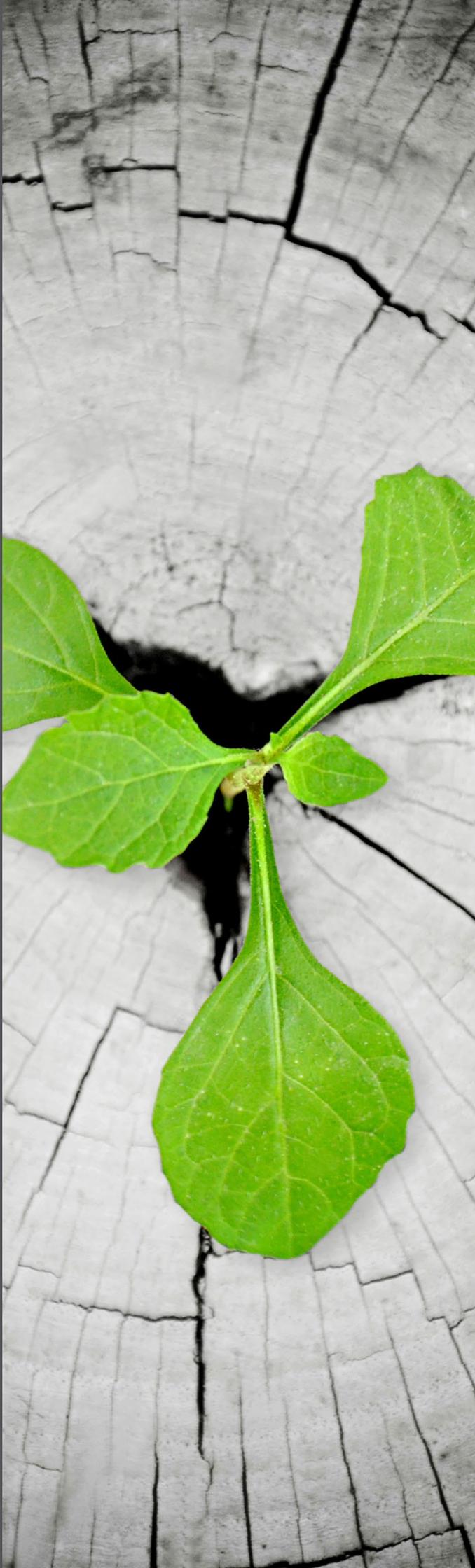
A handwritten signature in black ink, appearing to read 'Freddie Els'.

Best regards
Freddie Els
CFO Programme
Botswana

INTRODUCTION



As an integrated African firm, Deloitte is intent on equipping CFOs with some of the tools and support they need to meet their day-to-day challenges.



The 3rd Deloitte Botswana CFO Survey was conducted against a backdrop of global economic uncertainty and lacklustre growth in South Africa, which is the largest market for Botswana's manufactured goods. In addition, the economy has suffered as a result of a decreased demand for diamonds and a struggling copper and nickel mining industry, which has been exacerbated by power and water supply challenges. This fluctuating environment means CFOs are compelled to adopt a flexible approach to improving company performance and creating shareholder value.

This year 45 CFOs participated in the Botswana survey, up from 34 respondents in 2014. The majority of respondents hail from the financial services (13), mining (9), insurance (8) and investment management (6) sectors and 75.5% of them represent companies with an annual turnover of under \$250m. In addition, they have an average of more than 8 years' experience in their current roles.

Key responses

What did Botswana's CFOs tell us?

- Botswanan CFOs expect the Pula to depreciate against the US dollar by -4.1% in 2015.
- They are cautious about expanding into other regions of the continent.
- They are concerned about the availability and retention of talent.
- The fragile state of global economic recovery is considered the greatest business risk.

What are they doing about it?

- CFOs will be spending their cash on improving current operations.
- Improving investor confidence is the top strategic priority for CFOs in Botswana.
- They are focused on growing their customer base.

ECONOMIC ENVIRONMENT

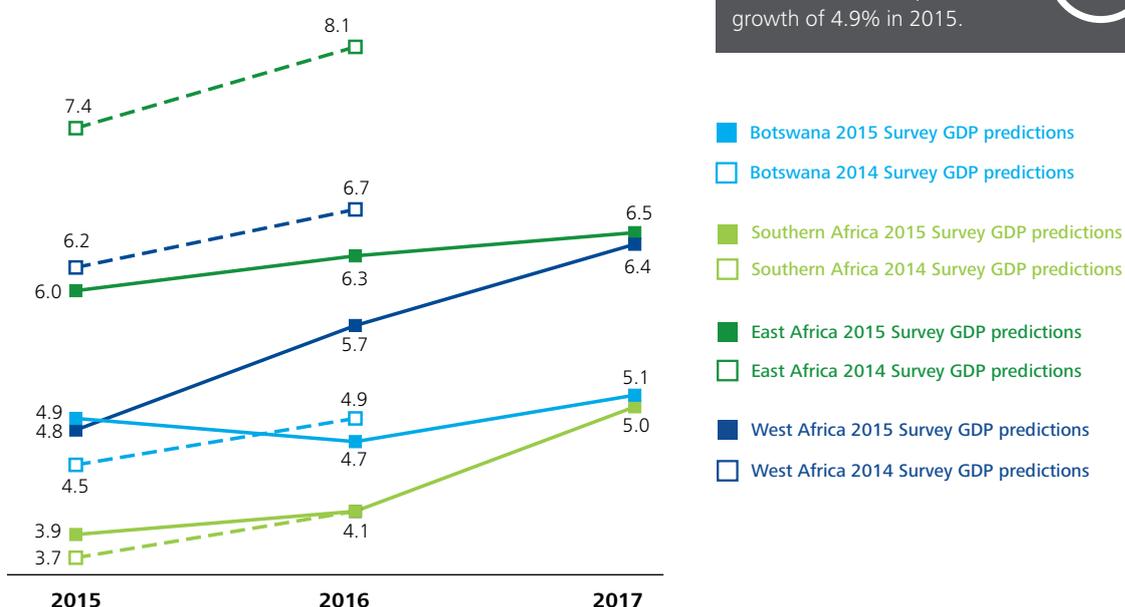


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Botswana's economy is underpinned by a supportive monetary policy, which has led to a stable exchange rate and promoted competitiveness of local businesses in the global market. Sluggish growth in South Africa is worrying as the strength of its economy will largely determine demand for Botswana's manufactured goods. In addition, a reduced demand for diamonds and a beleaguered mining industry has led to further uncertainty.

Botswanan CFOs expect GDP growth of 4.9% in 2015, 4.7% in 2016 and 5.1% in 2017. This is more optimistic than their South African counterparts, who don't expect GDP growth in South Africa to exceed 3.3%. It is also a more optimistic view than recent global and government GDP forecasts, which have been revised following a drop in diamond prices and diminished demand for the gems.

Figure 1: Expectation for GDP growth



Key finding:

Botswanan CFOs expect GDP growth of 4.9% in 2015.

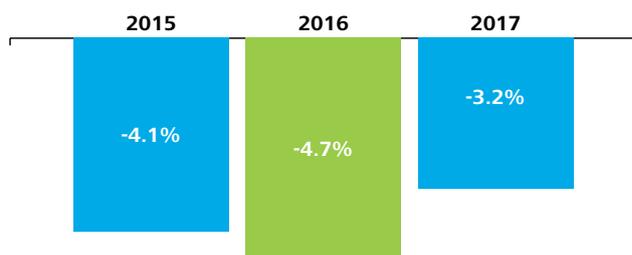


Currency

The expected imminent US rate hike is putting pressure on currencies throughout Africa and CFOs in Botswana predict a depreciation of the Pula against the US dollar of -4.1% for the remainder of 2015, -4.7% in 2016 and -3.2% in 2017. This is better than the expected region-wide decrease of more than 8% for 2015 reported in the 2015 Southern African CFO Report, which comprises responses from CFOs in Southern, East and West Africa.

Figure 2: Local currency Pula vs US dollar

Fluctuations



Key finding:

The Pula is expected to depreciate against the US Dollar over the next three years.



With caution the watchword for CFOs in Botswana, 53% are in favour of deploying cash into improving current operations.

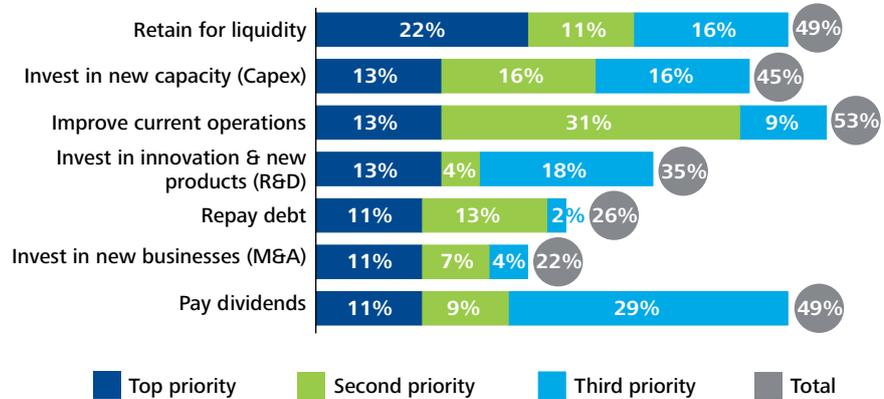
Cash-flow priorities

With caution the watchword for CFOs in Botswana, 53% are in favour of deploying cash into improving current operations while 49% would like to see it retained for liquidity. Also high on their list of priorities is paying dividends to shareholders. This differs significantly from many of their counterparts in South Africa and other regions on the continent where paying dividends ranks low amongst their priorities.

Figure 3: Cash-flow priorities

Key finding:

The majority of CFOs will deploy cash on improving current operations.



Future expansion

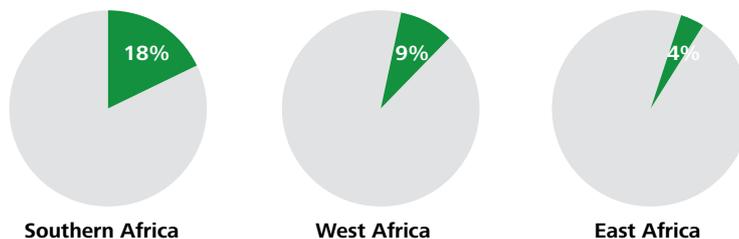
Botswanan CFOs are cautious about expanding into other regions of the continent. Those looking to expand into new markets in Southern Africa over the next three years amount to 18%, down from 29% in 2014. Only 9% are considering expansion into West Africa and 4% into East Africa. This is surprising, given that the slowing GDP growth in South Africa has compelled many leading South African firms to consider international expansion.

For Botswana, the opposite appears to be the case as a reduced number of CFOs report that their firms seek to internationalise. The natural market for Botswana's new intra-regional multinationals is South Africa. The regional expansion in Southern Africa and recent listing of leading retailer, Choppies, on the JSE is indicative of this. Botswana has a relatively small economy. In their search for growth, Botswanan firms will increasingly have to look beyond their borders, first to Southern Africa and thereafter further north into other African regions.

Figure 4: Regions for future expansion

Key finding:

CFOs are cautious about expanding into new markets.



Disruptive power supplies has moved up the list of concerns this year.

Industry concerns

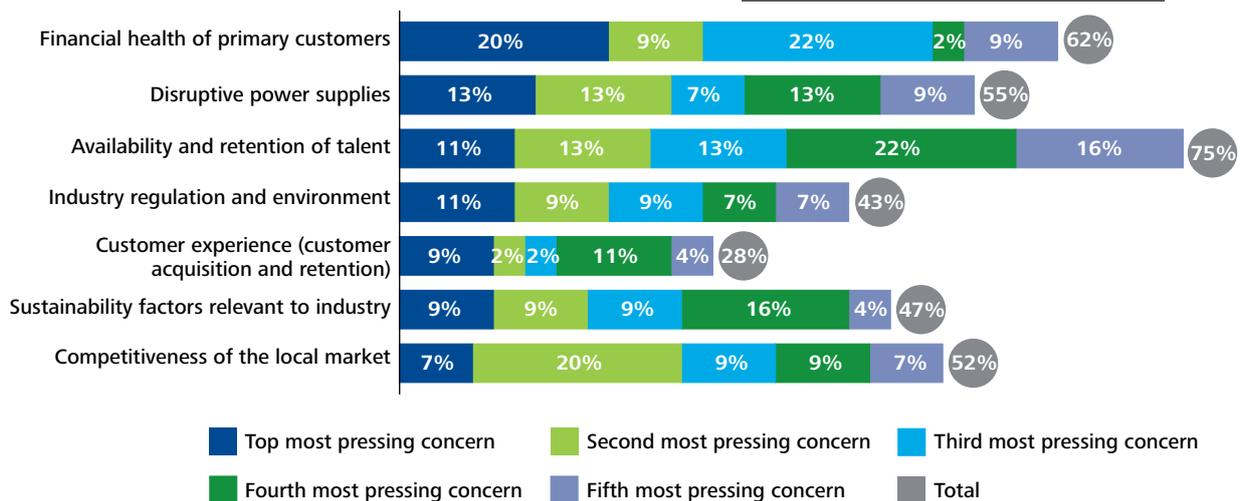
Having the right talent in place is critical to gaining a competitive advantage and the war to attract the best talent in Africa and around the globe is fierce. It is a concern for CFOs in Botswana too, who are most concerned about the availability and retention of talent in their industries. Many respondents are also worried about the financial health of their primary customers.

Notably, disruptive power supplies has moved up the list of concerns this year. This is not surprising given that Botswana obtains the bulk of its electricity from South Africa, which has experienced one of its worst electricity crises in seven years. While Botswana's agreement with Eskom guarantees the supply of 100MW, an additional agreement is in place for the provision of electricity above the 100MW if and when Eskom has sufficient capacity. A shortfall in this supply is generally responsible for the electricity shortages in Botswana.

Figure 5: Top industry concerns

Key finding:

The financial health of primary customers is a key concern of Botswanan CFOs.



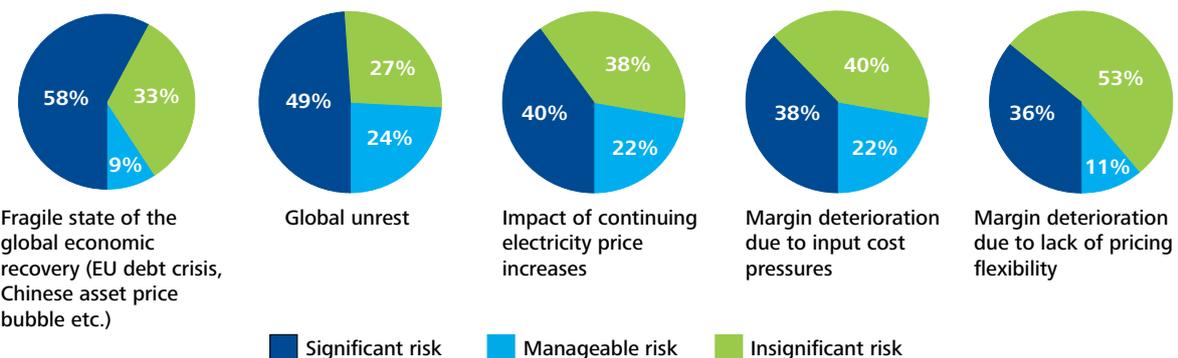
Risk factors

The fragile state of the global economic recovery is considered the greatest business risk for CFOs in Botswana. This is understandable given the uncertainty surrounding economies in the US, Europe and China, which has a direct impact on commodities-based economies such as Botswana. Global unrest and the impact of continuing electricity price increases are also regarded as significant risk factors. The Botswanan government is undertaking various measures to address electricity constraints in the country and a sizeable development budget has been allocated for this in the 2015/16 financial year.

Figure 6: Top business risk factors

Key finding:

Global influences are prioritised as top risks.



BUSINESS ENVIRONMENT

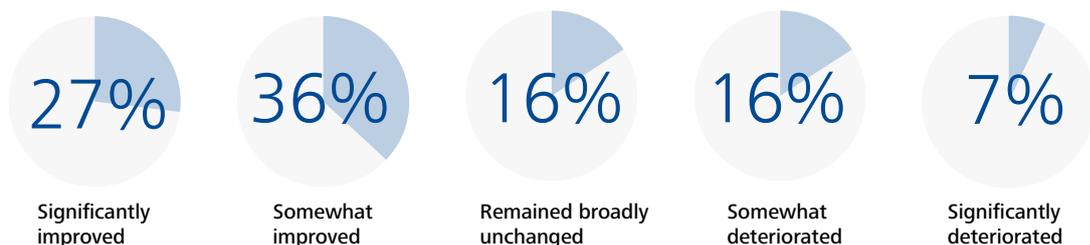


Company performance

Notably, 63% of Botswanan CFOs reported a somewhat or significant improvement in their companies' performance over the past financial year. This is a slightly better result than the previous year when 61% reported an improvement in performance. Worryingly, 23% of CFOs said their companies' performance had deteriorated over the past financial year compared to 15% the previous year.

Figure 7: Financial performance over the past year – Botswana

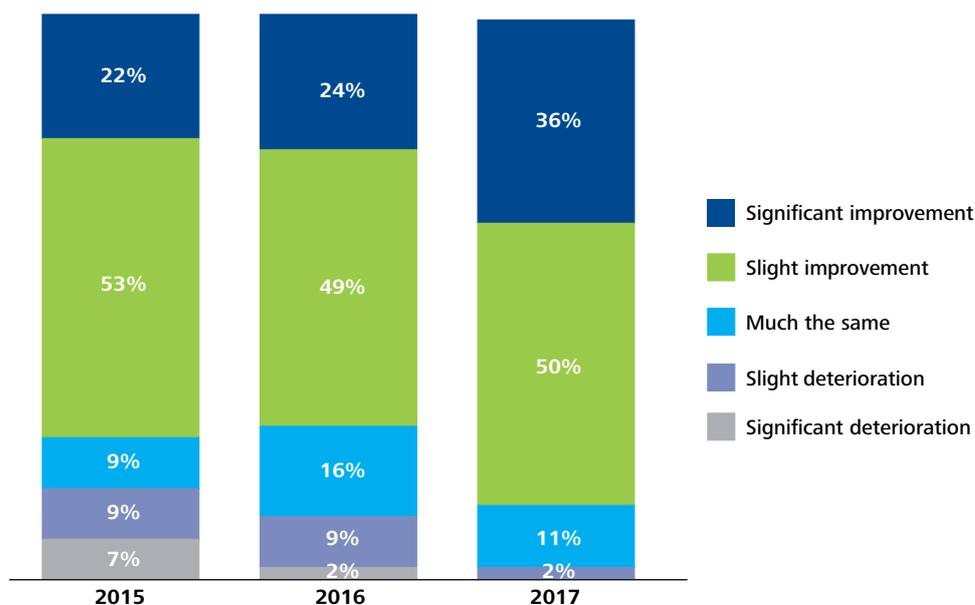
Key finding:
63% of Botswanan CFOs reported a somewhat or significant improvement in their companies' performance over the past financial year.



Looking ahead, CFOs are more positive about their companies' growth prospects over the next three years with 75% of respondents expecting an improvement in performance in 2015, 73% in 2016 and 86% in 2017. While 16% of respondents expect some deterioration in 2015, this number is reduced to 11% in 2016 and 2% in 2017.

Figure 8: Company performance outlook for 2014, 2015 and 2016

Key finding:
The bulk of CFOs expect a slight improvement in performance over the next two years.



BUSINESS STRATEGY



Improving investor confidence is the top strategic priority for companies in Botswana.

They are bogged down by excessive workloads often comprising too much administrative work.

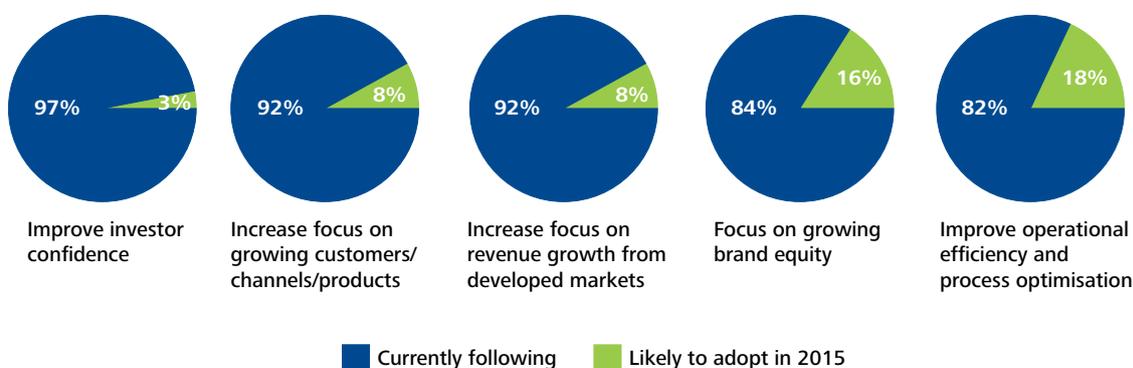
Improving investor confidence is the top strategic priority for companies in Botswana. This aligns strongly with South Africa and other countries in Southern Africa, who have also pegged it as their leading priority. A reduction in investor confidence may relate to political concerns highlighted by Botswanan CFOs in the report, which include the need to effectively prioritise government spending on the provision of social services, job creation and service delivery as well as reduce corruption and deliver more effectively on infrastructure projects.

Companies in Botswana are also directing their strategic energy on growing their customer base, channels and products; increasing revenue from developed markets; and promoting brand equity.

Figure 9: Strategic approach

Key finding:

Improving investor confidence and operational efficiency have become priorities.



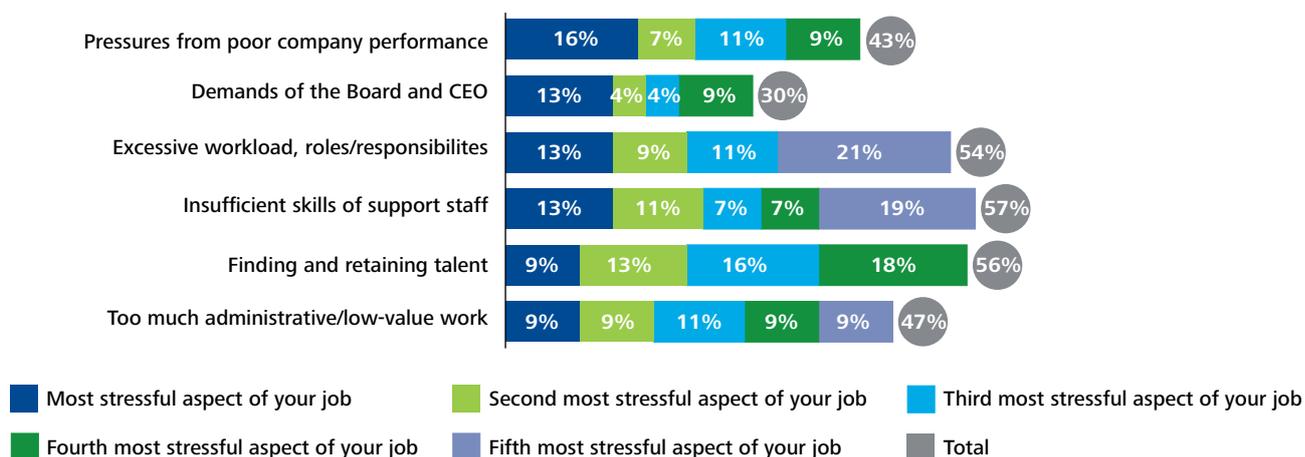
Job stresses

Botswanan CFOs are concerned about poor company performance and meeting the demands of the Board and CEOs. This is surprising given that 63% of CFOs reported a somewhat or significant improvement in their companies' performance. They are also stressed about having insufficiently skilled support staff and are battling to find and retain talent. In addition, they are bogged down by excessive workloads often comprising too much administrative work. This is a feeling echoed by CFOs throughout Africa, who are struggling to juggle the multiple roles they are expected to play, from leading their finance teams and delivering good metrics to the board, to creating value for shareholders and providing strategic direction.

Figure 10: Top job stresses

Key finding:

Pressure as a result of poor company performance and the demands of the Board and CEOs are major contributors to CFOs job stress.



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