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CFO Survey 2017 Q1

Optimism shooting up all over the place

April 2017

Contents

Key points from the 2017 Q1 Survey

52%

are optimistic about the financial prospects for their company.

Optimism increases sharply

CFOs' optimism about the financial prospects for their companies increased to 52 per cent from 35 per cent last quarter, and is now back at the same level as in 2015 Q1.

95%

expect corporate M&A activity to increase over the next 12 months.

Corporate M&A outlook bright

CFOs' outlook on the market for corporate M&A increased steeply. Some 95 per cent expect the corporate M&A market to grow over the next 12 months, compared to 65 per cent in 2016 Q4.

60%

prefer a multi-speed European Union.

Multi-speed EU preferred

Some 60 per cent of CFOs believe that a multi-speed Europe (increased integration for some member states and looser alliance between others) will ensure future success of the EU.

63%

expect the Common Consolidated Corporate Tax Base to harm the Dutch foreign business climate.

Negative impact CCCTB on Dutch foreign business climate

Some 63 per cent of CFOs believe that the potential impact of the Common Consolidated Corporate Tax Base on the Dutch foreign business climate will be negative.

Economic context

Brexit

On 29 March, the British Prime Minister Theresa May triggered Article 50 as the first formal step to the United Kingdom's (UK) exit from the European Union (EU). The process is intended to be finalised in March 2019.

A week earlier, the Dutch parliament released a report which stated that the Netherlands must do all it can to make sure that the Brexit talks have as little impact as possible on Dutch citizens and trade. The rights of the 73,000 Dutch nationals living in the UK must be given 'top priority' in the negotiations, and 'preferably be sorted out before the Brexit negotiations begin'. In addition, efforts must be made to maintain the close free trade relationship between the Netherlands and the UK. Apart from Ireland, the Netherlands is having the highest economic exposure to the UK.

The challenge for the member states in the EU will be to establish common objectives among all 27 members and maintain a united front in the negotiations.

Economy

The Dutch economy is expected to grow by 2.1 per cent this year and 1.8 per cent in 2018, the government's macro-economic think tank CPB reported. Both years will show a budget surplus and unemployment will continue to fall, the CPB said.

CPB's forecast is close to the Economist Intelligence Unit's (EIU) forecast of 1.9 per cent in 2017 and 1.6 per cent economic growth in 2018. EIU forecast the bloc of 28 countries in the EU (EU28) to grow by 1.7 per cent this year and 1.5 per cent next year. This means that the Dutch economy is expected to grow at a faster pace than the EU28's economy.

Annual inflation in the euro area is expected be 1.5 per cent in March, down from 2.0 per cent in February 2017, the EU's statistical office Eurostat reported.

EU-leaver UK will see annual economic growth of 1.8 per cent in the next three years, according to the Bank of England. This suggests that the predicted economic collapse following Brexit will not occur.

Purchase managers index

IHS Markit's Purchasing Managers' Index (PMI) for the Netherlands posted 57.8 in March, and fell marginally from February's score of 58.3. New orders and output grew significantly. The first saw its steepest growth since December 2013. More than half of the purchase managers was optimistic towards future growth prospects, like growth in exports to markets such as North America, Europe and Asia.

The Eurozone PMI index came in 56.4 from 56.0, a near six-year high due to strong acceleration in Germany (57.1, a 70-month high) and France (56.8, also a 70-month high).

Unemployment

The euro area unemployment rate dropped to the lowest level in nearly eight years in February, reflecting the ongoing recovery in the labour market. The jobless rate fell marginally to 9.5 per cent in February from 9.6 per cent in January.

The unemployment rate in the Netherlands was 5.3 per cent, according to data from Eurostat.

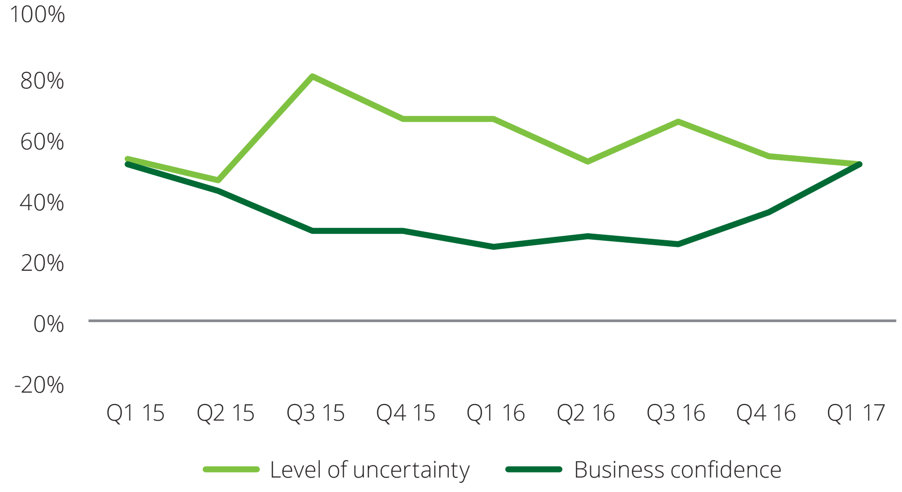
Business outlook

Overall the sentiment and outlook has improved again in the first quarter of 2017. CFOs' optimism about the financial prospects for their companies improved from 35 per cent to 52 per cent.

Uncertainty about the financial and economic context impacting their companies fell further from 55 per cent in 2016 Q4 to 52 per cent now.

Chart 1. Economic uncertainty and business optimism

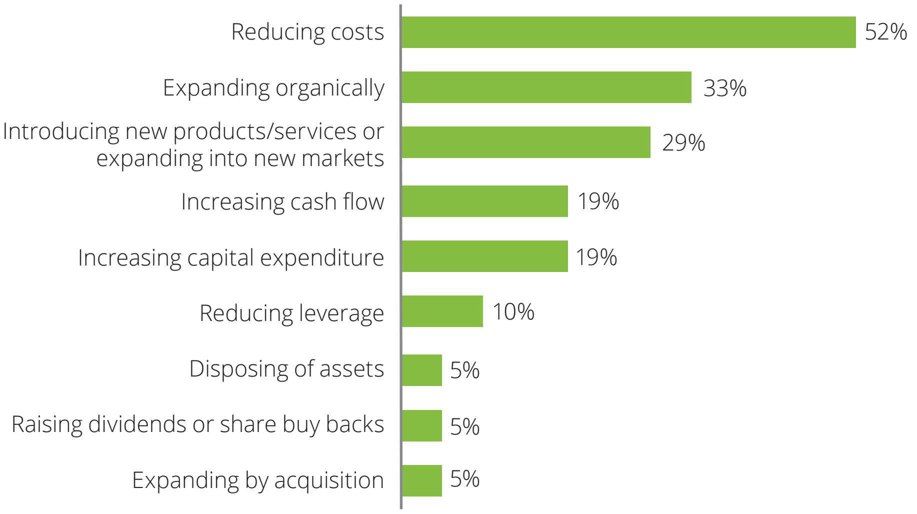
Percentage of CFOs who rate the level of economic uncertainty as above normal and percentage of CFOs feeling optimistic about their financial prospects.



In times of uncertainty, CFOs focus on defensive strategies. Although uncertainty has decreased and business confidence continued its strong upward trend reducing costs is CFOs' strategic priority over the next 12 months. The more offensive strategies of organic expansion and introducing new products or services are ranked second and third. Increasing cash flows and increasing capital expenditures are also high on the strategic agenda of the CFO.

Chart 2. Business priorities

CFOs' companies/ strategic priorities over the next 12 months.



Financing

Although the trend is downward, debt finance remains the most attractive source of funding for CFOs.

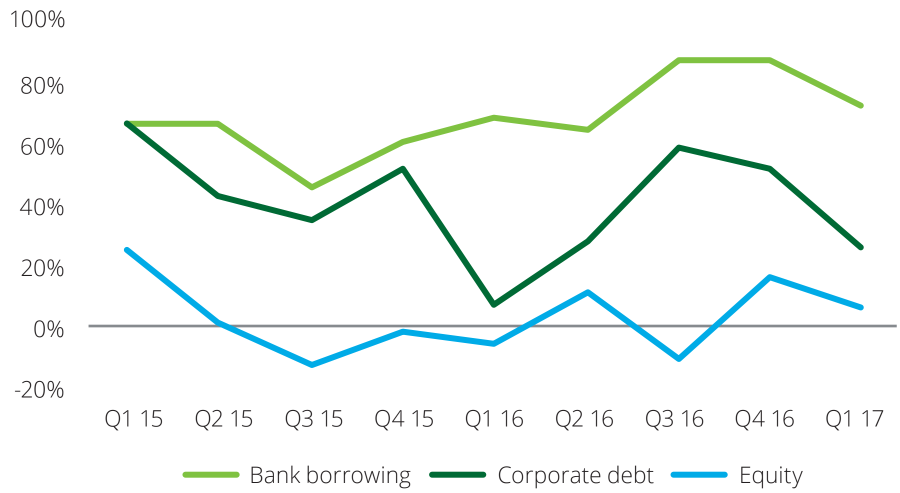
Some 70 per cent say that they favour bank borrowing, compared to 80 per cent in 2016 Q4.

Corporate debt as a favoured source of funding fell from 50 per cent last time to 25 per cent now.

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.



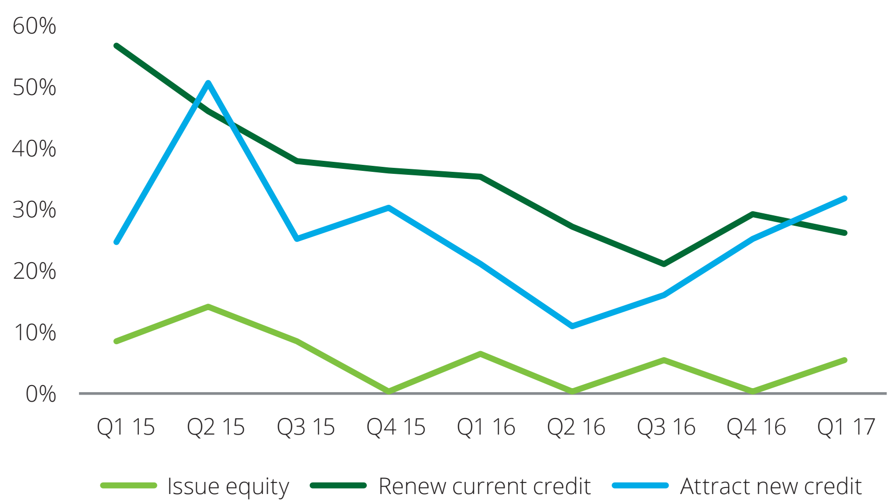
There are now more CFOs likely to attract new credit than CFOs who are going to renew current credit.

Some 30 per cent of the panellists say that they are likely to attract new credit over the next 12 months, while the percentage of CFOs who are likely to renew current credit lines reduced from 28 per cent in 2016 Q4 to 25 percent now.

Only 5 per cent of the CFOs 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.

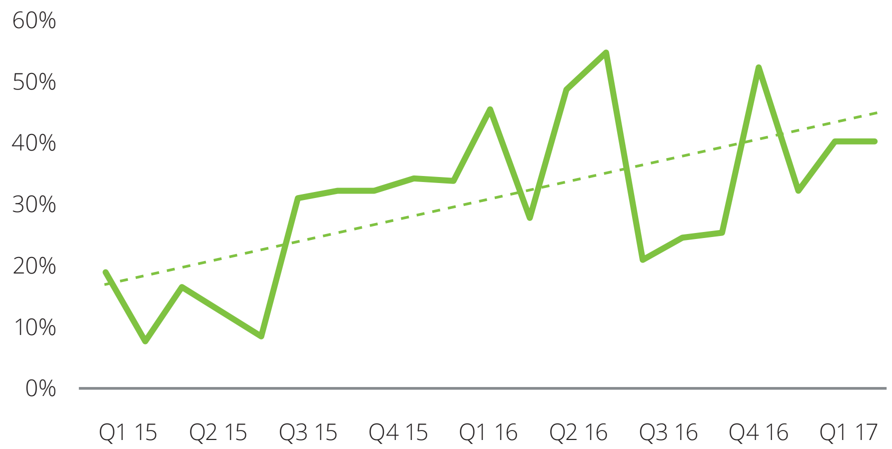


Risk

Corporate risk appetite came in at the same level as in 2016 Q4. Some 40 per cent of CFOs believe that now is a good time to be taking greater risk onto their balance sheets. This implies that 60 per cent still remains cautious.

Chart 5. Risk appetite

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



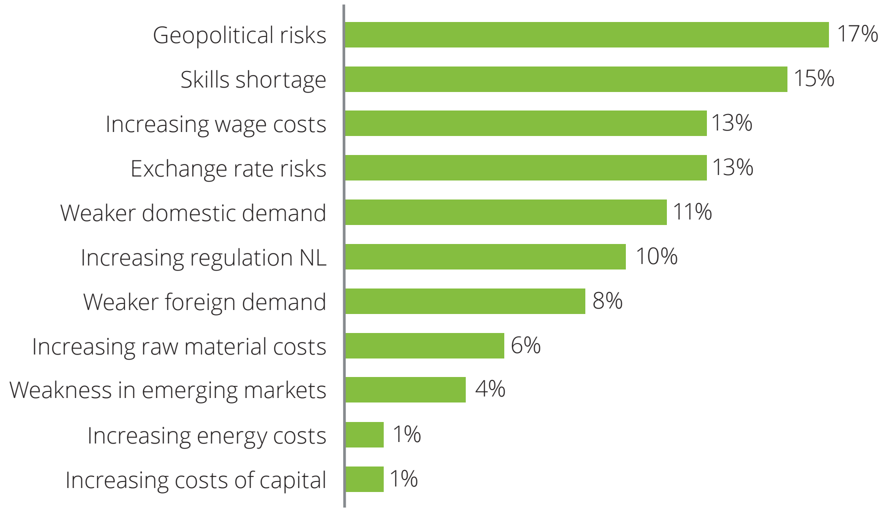
We have asked the panel for their perception of risk.

Geopolitical risk poses the main risk over the next 12 months, whilst also skills shortage and increasing wages are perceived as a business risk.

CFOs are less concerned about the cost of capital, higher energy costs and weaknesses in emerging markets.

Chart 6. Business risk

Business risks over the next 12 months.



M&A

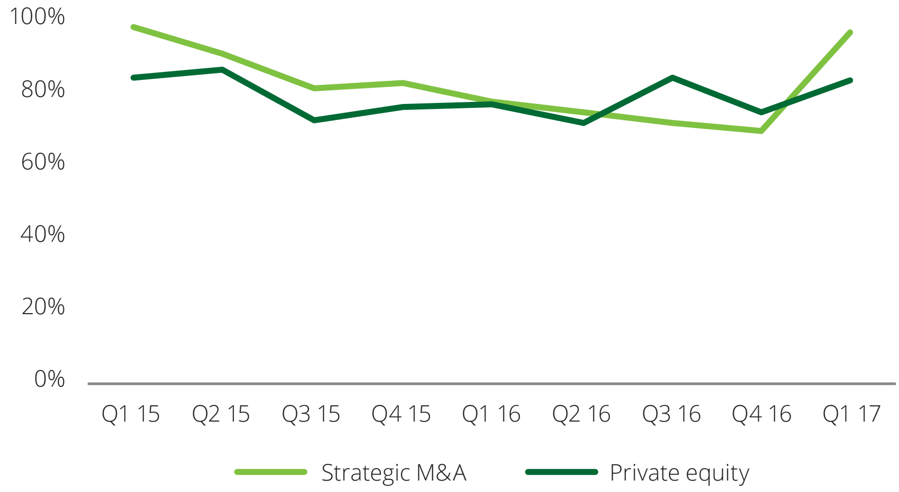
In 2016, the number of transactions on the Dutch market has increased again – despite expecations that the market would slow down due to uncertainties related to political and economic developments. 2016 was even one of the better years for M&A activities since the 2008 crash.

Economic and political uncertainty will remain a central theme for 2017 and will impact M&A deal flows and corporate confidence. However, the Deloitte M&A Index shows that uncertainties create opportunities with bold, decisive moves potentially resulting in successful deal making.

CFOs' perception of the corporate M&A market has increased from 65 per cent in 2016 Q4 to 95 per cent now. Some 80 per cent expect private equity activity 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.

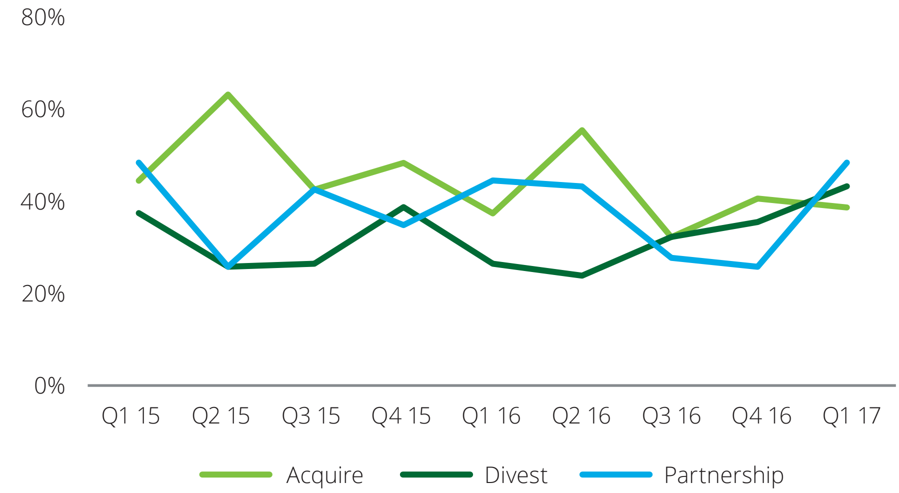


Strategic partnership is now perceived as the most favourite transaction type. Some 48 per cent of CFOs in our panel expect to enter a partnership over the next 12 months.

Divestments are back on the agenda, with 43 of CFOs expecting to divest assets and/or subsidiaries, whilst realizing acquisitions is on top of mind of some 38 per cent of our panelists.

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.



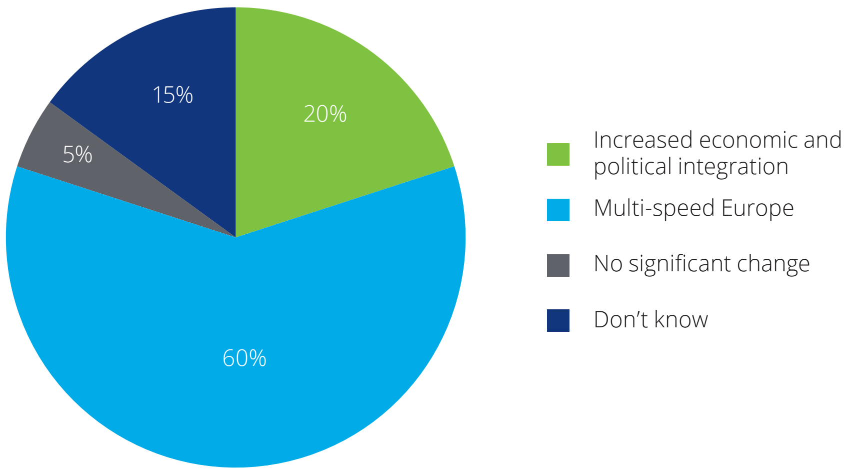
Future of the European Union

2017 marks the sixtieth anniversary of the foundation of the European Union. Its founding principle was progress to "ever closer union". Today, amid challenges created by low growth, migration, the growth of insurgent political parties and Brexit, this principle is in question as never before.

We asked the CFO panel how the future success of the European Union and/or its member states can be ensured. The majority of CFOs, 60 per cent, say that they prefer a so-called multi-speed Europe (increased integration for some member states and looser alliance between others). A fifth say that economic and political integration should be increased, whilst 5 per cent say that we should keep the EU as it is now.

Chart 9. Prefered development of the EU

CFOs' preference of future development of the European Union.

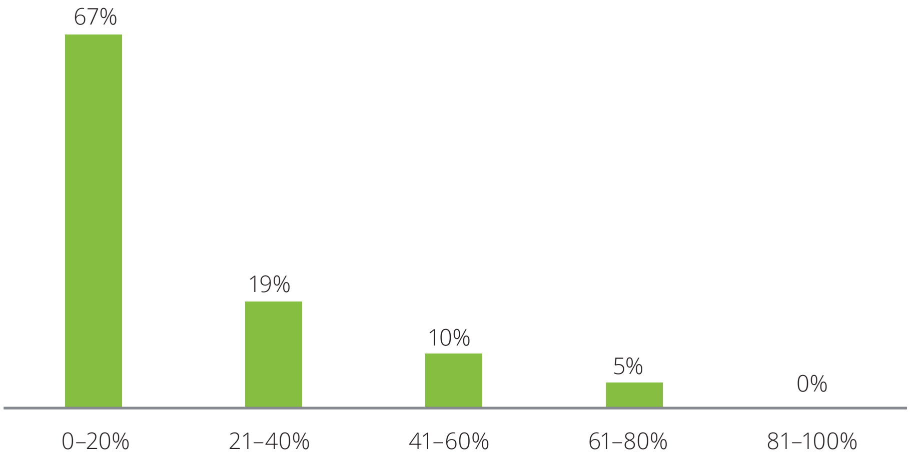


Following Brexit, we also asked for the likelihood that more members of the European Union would leave, or voting to leave, the bloc in the next five years.

According to the panel, there is little chance that other member states will leave the EU in the next five years. Only 15 per cent say that there is more 40 per cent change that other countries will follow the Brexit example.

Chart 10. Probability of countries leaving the EU

CFOs' expectation of countries leaving the European Union in the next 5 years.

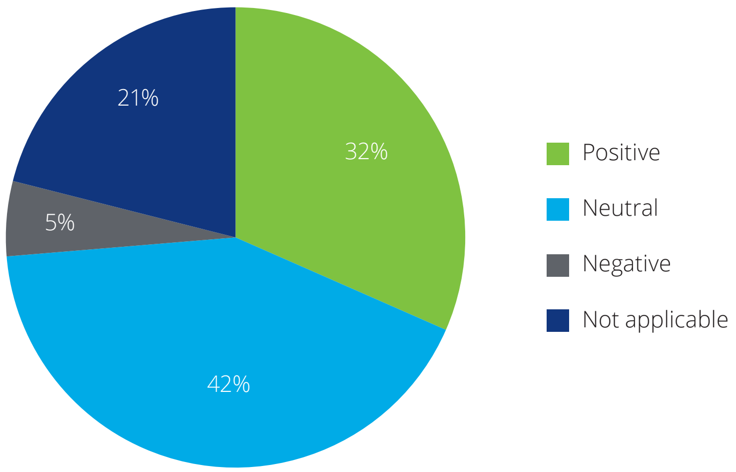


Common Consolidated Corporate Tax Base

In October 2016, the European Commission proposed to re-launch the Common Consolidated Corporate Tax Base (CCCTB), a single set of rules to calculate companies' taxable profits in the EU. The proposal is to come to a single, harmonized corporate tax base for multinational companies with operations in EU jurisdictions. The CCCTB will be mandatory for large multinationals.

Our panelists are neutral about the impact of the CCCTB (42 per cent) on their companies, about one third is positive, whilst only 5 per cent is expecting a negative impact.

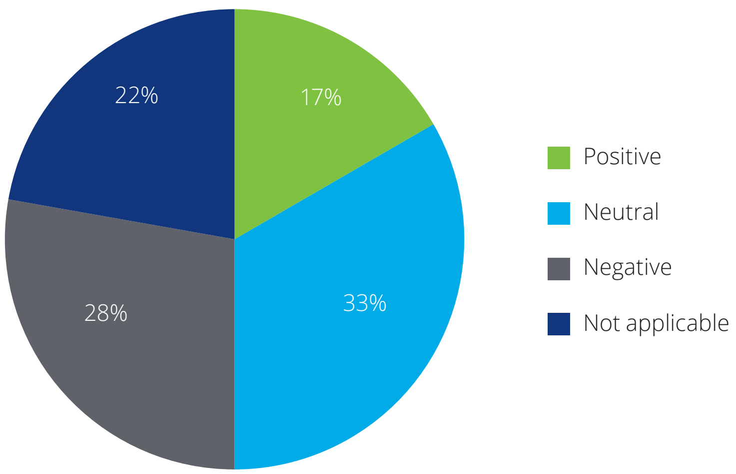
Chart 11. Impact of CCCTB
Anticipated impact of the CCCTB on CFOs' companies



Asked if their companies would pay more taxes under the CCCTB, some 17 per cent believe that would be the case. A third is neutral, and 28 per cent of CFOs don't think that their companies will pay more taxes.

Corporate tax rates in the EU would not be changed by the CCCTB, as EU countries would continue to have their own corporate tax rates.

Chart 12. Probability of paying more taxes under CCCTB
Likelihood that CFOs' companies will pay more taxes under the CCCTB

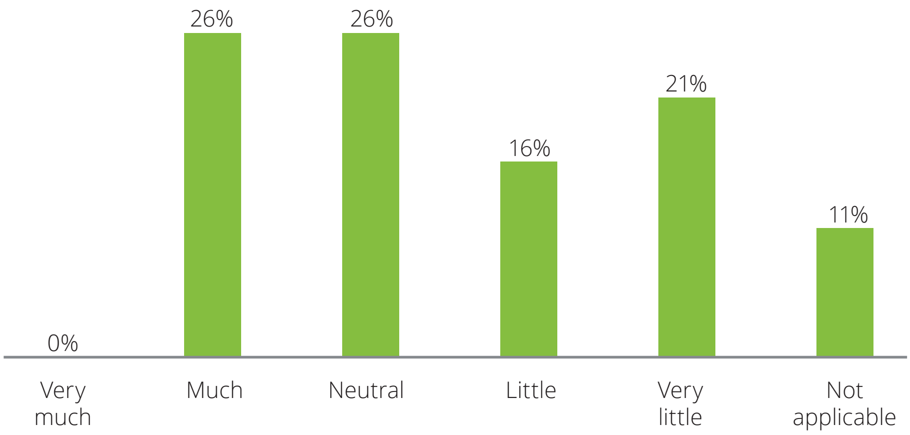


The feasibility of the CCCTB is dependent on the existence of an appropriate procedural and administrative legal framework, including enforcement rules.

Some 26 per cent of the CFOs in our panel say that CCCTB plans are feasible. A same percentage is neutral, whilst 38 per cent believe that the plans are (very) little feasible.

Chart 13. Feasibility of the CCCTB plans

CFOs' opinion of the feasibility of the CCCTB plans.

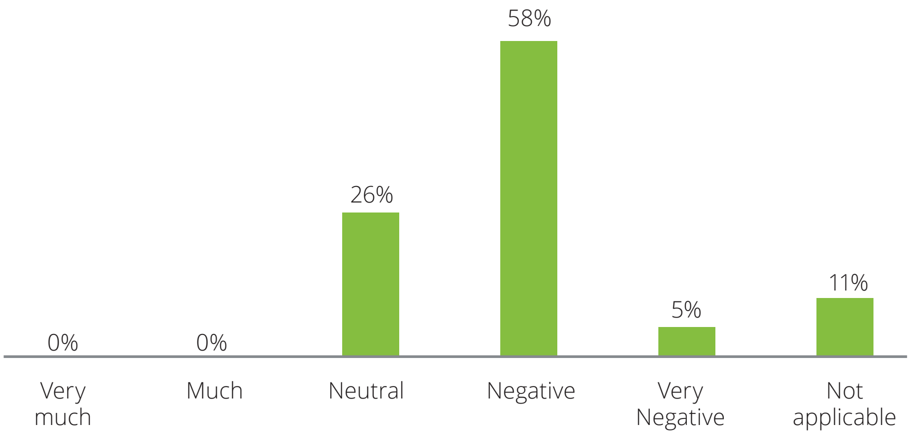


The Netherlands has been known internationally as a tax haven. From that perspective, we asked how the CCCTB would impact the Dutch business climate for foreign companies.

The majority of the panelists believe that the CCCTB is going to have a (very) negative impact: 63 per cent. Around a quarer is neutral whilst no-one is (very) positive.

Chart 14. Impact of CCCTB on Dutch foreign business climate

CFOs' expectation of the impact of the CCCTB on the Dutch foreign business climate.



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 Q1 survey took place between 7 March and 30 March 2017. A total of 21 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 4.4 billion. The responding companies can be categorised as follows: publicly listed (38%), privately owned (29%), family owned (10%), private equity portfolio company (10%), other and/or unknown (14%).

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.

Author: Harm Drent (@hdrent69), Deloitte Research

Contacts

Frank Geelen
Partner Deloitte Consulting
CFO Program Lead Partner
FGeelen@deloitte.nl
+31 6 2239 7053

Wilten Smit
Managing Partner
Deloitte Financial Advisory Services
WiSmit@deloitte.nl
+31 6 5389 7407

Stephen Brunner
Partner
Deloitte Tax and Legal
SBrunner@deloitte.nl
+31 6 5065 62 75

Harm Drent
Manager Research
HDrent@deloitte.nl
+31 6 1201 1716

Maarten Snijders
Deloitte Press Officer
MSnijders@deloitte.nl
+31 6 1382 7025

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