



The Dutch Deloitte CFO Survey The spectre of a prolonged setback

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We are proud to present our tenth quarterly survey of Chief Financial Officers in the Netherlands, as part of the Deloitte CFO Initiative. The survey gauges attitudes to valuations, risk and financing, and reports trends and turning points for you and your business.

Key points from the 2011 Q2 Survey

- CFO optimism has dropped to the lowest level of the last two years.
- Corporate debt (e.g. bonds) and bank borrowing are now together perceived to be the most attractive source of corporate funding, whereas equity issuance is considered to be the least attractive.
- Almost three quarters of CFOs believe now is not a good time to issue equity.
- CFOs' top priority remains realizing organic growth followed by expansion strategies, either by introducing new products or services or expanding into new markets.
- 70% of CFOs expect their free cash flow to rise over the next twelve months. However, this rise will be more modest than last quarter.
- Less CFOs expect Private Equity activity to increase over the next twelve months compared with the previous quarters.
- More than half the CFOs use Cloud computing or intend to start using it within the next two years, mostly for non-core applications.
- When using Cloud computing, CFOs need vendors to provide (external) reassurance on data security, compliance and legal issues.

General economic environment

Europe's financial focus this last quarter was on the sovereign debt crisis.

Greece barely avoided bankruptcy. Its impact, including Greece potentially leaving the euro, was unknown.

During June, when this questionnaire had been sent out, the Greek debt crisis triggered red flags all across the European Central Bank. European governments and banks released a rescue funding plan mid-July and this averted a Greek default.

According to CPB Netherlands Bureau for Economic Policy Analysis the Dutch economy is expected to grow by 2% this year. For next year, GDP is projected to increase by 1¾%. Exports will primarily drive economic growth in 2011 and 2012. Consumer spending and investments will also contribute to growth this year and next – if only slightly. Overall, public spending will not contribute. The Dutch economy is expected to profit from the recovering German economy

Last April (Q2), the Governing Council of the European Central Bank decided to increase the key ECB interest rates by 0.25%, after having maintained them at historically low levels for almost two years. Recently, on 13 July (Q3), the rates were raised again, by 0.25%. Although we may thus conclude that the cost of credit is slightly running up, such interest rate levels can still be considered historically low.

CFO Survey

The business optimism observed in the first quarter of the CFO Survey has fallen sharply, with CFO sentiment dwindling at the fastest rate since this survey was first performed.

The cash flow expectations the CFOs express reflect some cautiousness. Even though 70% of CFOs still expect their company's cash flow to increase over the next twelve months, they have tempered their expectations somewhat.

Cost and availability of credit is perceived to be nearly as good as during the last quarter. The risk appetite of CFOs has lessened, with most CFOs reporting that it is not a good time to increase balance sheet risks.

Less CFOs expect Private Equity activity to increase over the next twelve months compared with the previous quarters. This reflects the period of the economic cycle the economy is in. Private Equity companies typically continue their M&A activities during recession years, when corporate companies focus on rebalancing their portfolio and cost controls and are not pursuing acquisitions. Corporate companies then postpone the pursuit of interesting acquisitions to match their expansion strategies until later in the economic cycle.

Cloud computing

Cloud computing refers to providing computational resources (data, software) on-demand, through a computer network rather than from a local computer.

More than half the CFOs already use Cloud computing for some of their applications, or intend to start using it within the next two years. However, the level of core application users is low. Over three-quarters of CFOs do not consider the strategic use of Cloud computing to be a theme on the board agenda. In general, it is considered wise to start using Cloud computing with non-core applications in order to gain experience.

As far as the use of Cloud computing is concerned, the CFOs' biggest concern regards data security, compliance and legal issues. They consider it important that (external) assurance is provided on these issues. Two thirds of CFOs consider the own IT environment to be the safest regarding application and data security. Cloud computing vendors should be advised that these concerns could prevent CFOs from switching to Cloud computing.

More than half the CFOs indicate that reducing IT investment levels would be their number one business driver if they were to switch to Cloud computing. The rapid elasticity and flexibility when using Cloud computing, offering up- and downscaling opportunities, are also recognized by CFOs as one of the main advantages of Cloud computing.

These business drivers CFOs refer to generate immediate operational benefits for a company. The long term question is what Cloud computing could add to each company strategically?

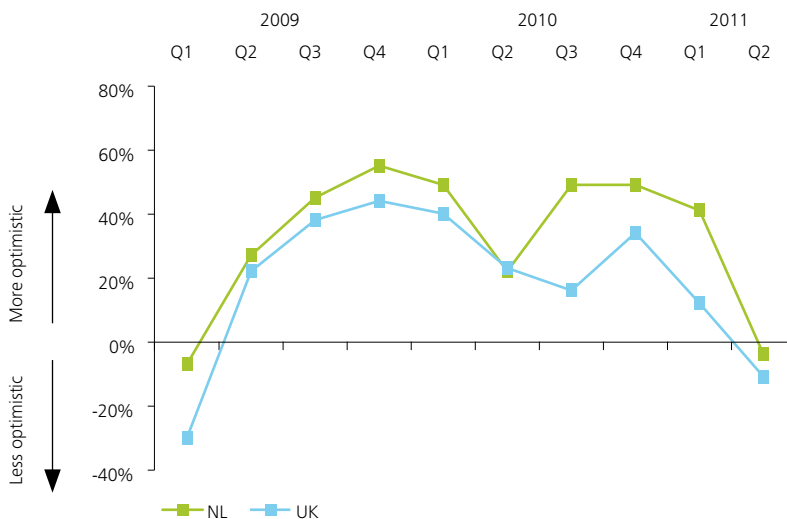
Financial outlook

This last quarter the level of optimism has dropped seriously, the sharpest drop since we started this survey in 2009. It marks a two-year low.

The levels have fallen to those of early 2009, at the end of the banking crisis. The trend is similar to that in the UK.

Chart 1. Financial prospects NL & UK

Net percentage of CFOs who are more optimistic about the financial prospects for their company now versus three months ago.

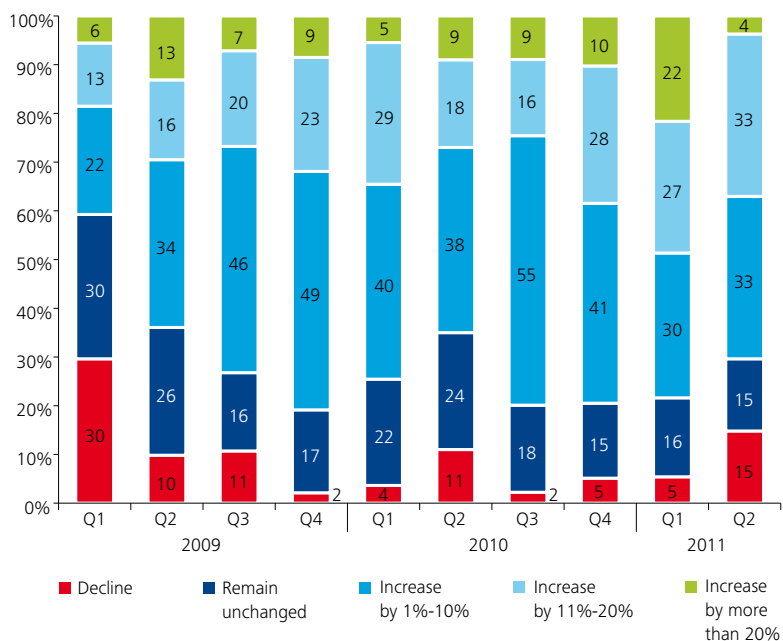


More CFOs now expect their company's free cash flow to decline over the next twelve months.

The group of CFOs expecting an increase of their company's cash flow by more than 20% has fallen to 4%.

Chart 2. Change in cash flow next 12 months

Percentage of CFOs who expect the operating or free cash flow for their company to increase/decrease over the next 12 months.



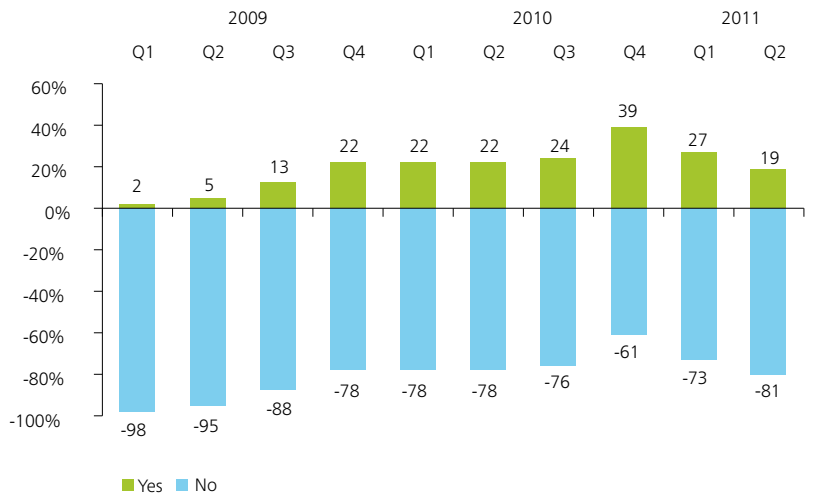
Risk

The risk appetite decreases during 2011, to the earlier levels of the end of 2009 and first half of 2010.

81% of the corporate CFOs think now is not a good time to be taking greater balance sheet related risks.

Chart 3. Attitude towards greater risk on balance sheet

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



CFOs return to lowering their financial risks on their balance sheet again.

The cautious optimism glimmering in the first quarter has evaporated.

Chart 4. Change in financial risk* on balance sheet

Percentage of CFOs reporting the level of financial risk on their balance sheet increased/decreased over the last 12 months.



* Financial risk could include, levels of gearing, uncertainty about the valuation of assets and interest rate and exchange rate sensitivity.

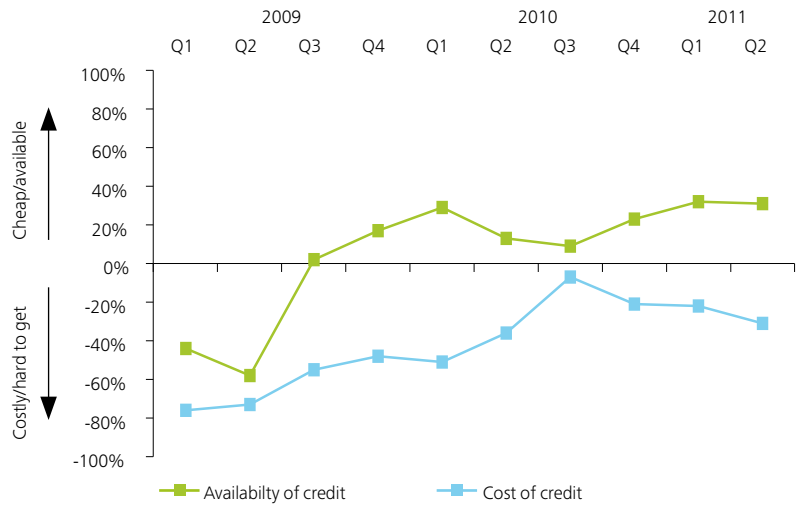
Funding

Where optimism and risk appetite have decreased, the conditions regarding cost and availability of credit have not changed drastically.

The perceived level of cost is rising slightly. CFOs are still positive about the availability of credit.

Chart 5. Cost and availability of credit

Net percentage of CFOs reporting that funding for corporates is cheap or expensive, and funding is easily available or hard to get.

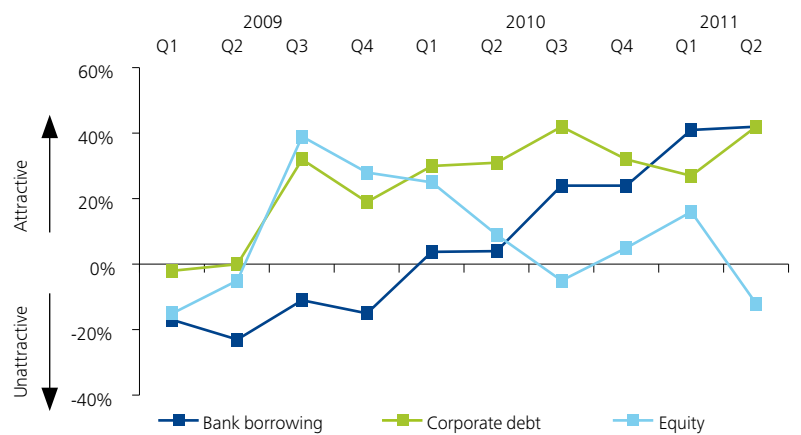


Corporate debt (e.g. bonds) and bank borrowing are now together perceived to be the most attractive source of corporate funding. This endorses the viewpoint of spreading the funding sources, to lower the financial risks and dependency.

The fall of equity is striking. The earlier revival of the attractiveness of equity has ended abruptly. No doubt the turmoil on the financial markets, especially the stock market, contributed to this.

Chart 6. Favoured source of corporate funding

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



Regarding whether now is a good time to issue equity, the levels have fallen to those of one year ago. Only 31% of CFOs think now is a good time for issuance.

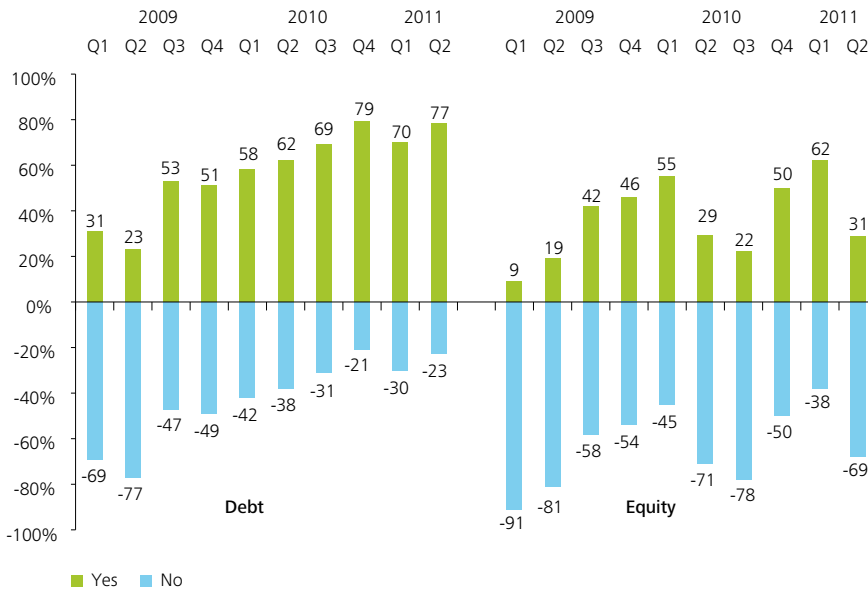
The AEX index level has dropped since the optimistic start of 2011. The highest closing rate of 2011 occurred in February (374.19). The average AEX index closing rate during the second quarter was 349.30.

Only 52% of the CFOs remain optimistic about the AEX index increasing in the next twelve months (78% Q1).

Because equity has lost its momentum, debt is considered an attractive alternative. 77% of CFOs consider now to be a good time to issue debt.

Chart 7. Good time to issue debt/equity?

Percentage of CFOs who think now is a good time to issue debt/equity.

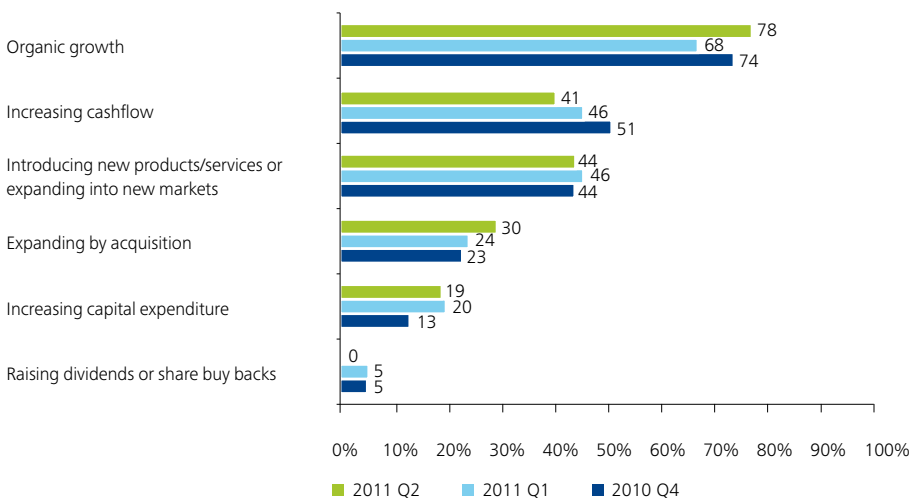


The urgency of organic growth has returned. 78% of CFOs select organic growth as their strongest business priority.

Growth is followed in priority by expansion strategies, like introducing new products, expanding into new markets, or expanding through acquisition.

Chart 8. CFOs' priorities for the next 12 months

Percentage of CFOs who have selected each of the following strategies as a strong priority for their business for the next 12 months.



M&A / Equity

Expectations for increased M&A activity levels slightly drop, but remain high.

Less CFOs (62%) expect Private Equity activity to increase over the next twelve months compared with last quarter.

Chart 9. M&A and Private Equity outlook

Percentage of CFOs who expect M&A and PE activity to increase in the next 12 months.



The level of Dutch M&A and Private Equity activity is slightly increasing. Despite moving upwards, these levels are still modest compared with the levels of 2007 and 2008.

Chart 10. M&A and Private Equity activity

Dutch M&A and Private Equity activity expressed in number of deals and their value.



Source: mergermarket

Cloud computing

Cloud computing refers to providing computational resources (data, software) on-demand, through a computer network rather than from a local computer. Users can perform a task, such as word processing, by using cloud services without actually possessing the software or hardware.

More than half the CFOs already use Cloud computing for some of their applications, or intend to start using it within the next two years. However, the level of core application users is low.

This endorses the view of the adaptation life cycle model, where the intensity of use will gradually increase. In general, companies are recommended to gain experience through putting non-core applications in the cloud first, and not to start with core applications.

For 18% of the CFOs Cloud computing is one of their strategic themes during board meetings or meetings with their CIOs. 78% of the CFOs do not consider this theme to be of strategic importance.

The large non-core use of Cloud computing (chart 11) already indicates that it is not yet considered to be of strategic importance. Chart 12 confirms this viewpoint. For the short term, Cloud computing can be used very well at an operational level to reduce IT investment costs.

Chart 11. Use of Cloud computing

Percentage of CFOs who already use Cloud computing or intend to start using it in the near term.

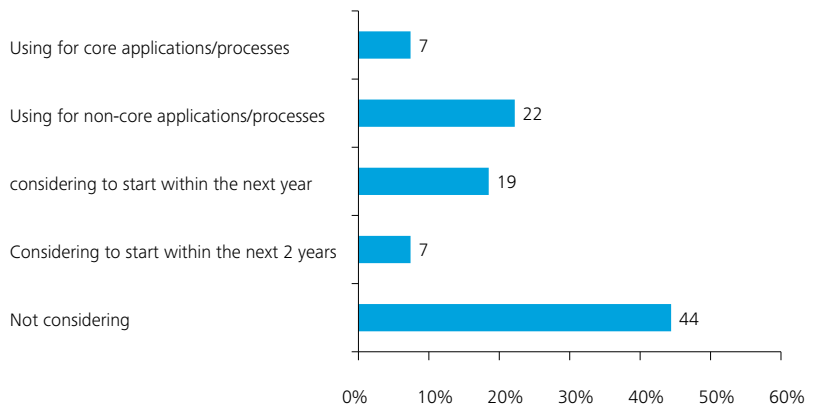
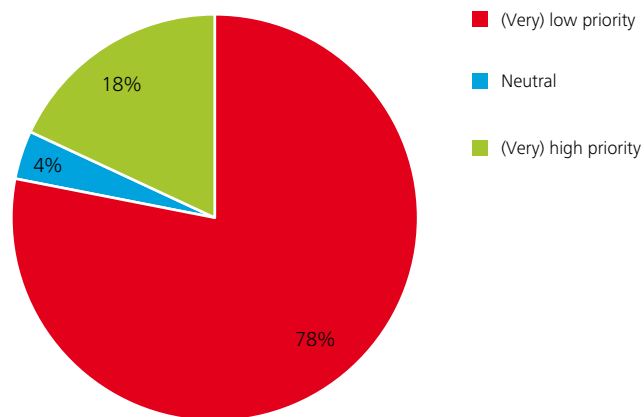


Chart 12. Cloud computing as strategic theme in board room meetings or with CIO

Percentage of CFOs assessing to what extent Cloud computing is a strategic theme in meetings of the board of with the CIO.



More than half the CFOs indicate that reduction of IT investment levels would be their most important business driver for switching to Cloud computing. CFOs also recognize the rapid elasticity and flexibility to be one of the main advantages of Cloud computing, offering up- and downscaling opportunities (chart 13).

CFOs consider data security issues to be by far their biggest concern about Cloud computing (chart 14). Now, two thirds of the CFOs consider their own IT environment to be the safest regarding application and data security. However, cloud providers have a huge interest in implementing the very best security measures, which may make them arguably more secure than most corporate networks. Besides data security, more uncertainties will prevent CFOs from switching, such as a lack of assurance standards, compliance issues, rights of data ownership, a vendor lock-in.

88% of the CFOs consider it to be important or very important that external assurance is provided on data security (chart 15). Considering the concerns referred to, Cloud computing providers are advised to provide external assurance on some of these issues.

Chart 13. Business drivers supporting Cloud computing

Percentage of CFOs assessing which of the following aspects could be a potential business driver for switching to Cloud computing.

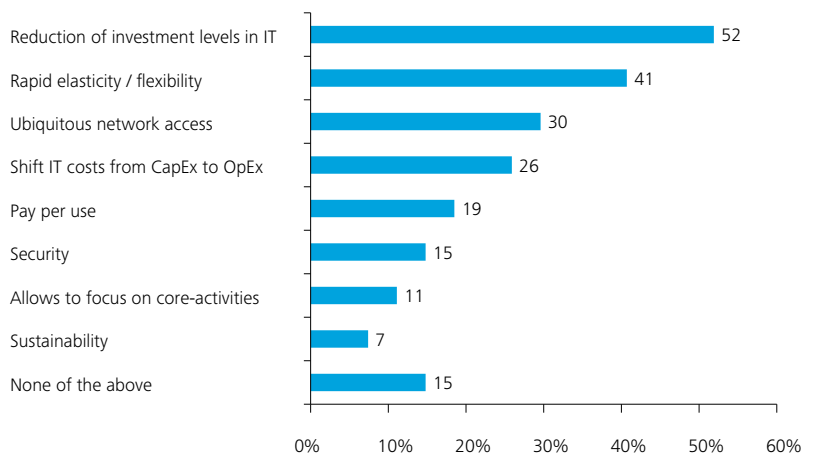


Chart 14. Concerns around Cloud computing

Percentage of CFOs which consider one of the following aspects to be much or very much of a concern preventing them from switching to Cloud computing.

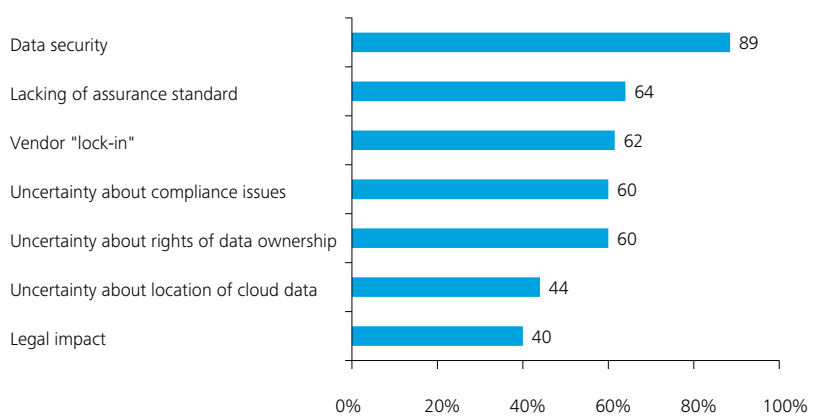
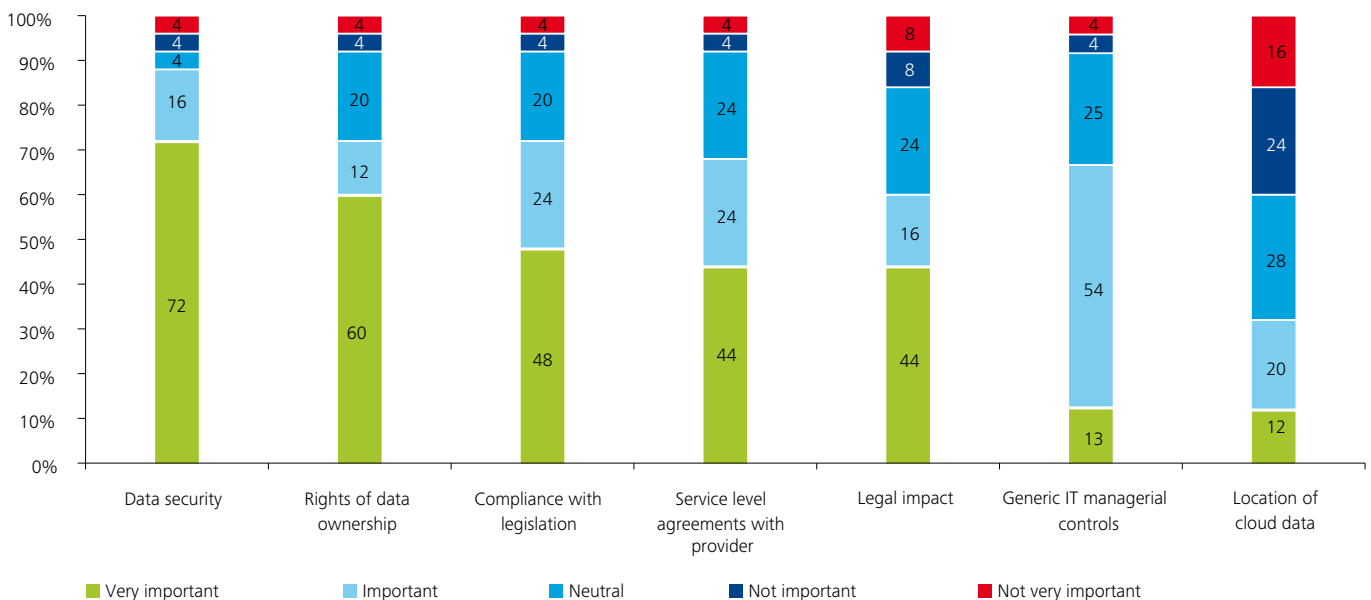


Chart 15. Importance of assurance

Percentage of CFOs assessing the importance that external assurance is provided on the following aspects.



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 in 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 sum to 100%.

The 2011 Q2 survey took place between 16 June and 15 July. A total of 27 corporate CFOs, representing a net turnover per company of approximately EUR 1.6 billion, completed our survey. The responding companies can be categorized as follows: less than 100 million (7%), 100 – 499 million (41%), 500 – 999 million (22%), 1 – 4.9 billion (19%), more than 5 billion (11%).

The participating CFOs are active in a variety of industries: Retail / Wholesale, Manufacturing Technology Real Estate, Consulting, Communication, Energy & Utilities, Transport, and Banking / Finance / Insurance.

We would like to thank all participating CFOs for completing our survey. We trust that the report makes an interesting read and highlights the challenges facing CFOs. We also hope it provides you with an important benchmark to understand how your organization rates among your peers.

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