



The Dutch Deloitte
CFO Survey
Adapting to a new reality

Adapting to a new reality

We are proud to present our twelfth 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 Q4 Survey

- CFO optimism remains negative. However, the sentiment indicator turns less negative than the previous quarter.
- More than half of CFOs still expect an increase of their company's cash flow over the next twelve months.
- Striving for organic growth stays the most prioritized strategy to exercise. Increasing cash flow gains priority.
- The continuing decline in the risk appetite has stopped. The appetite for risk rises to the level seen in 2011 Q2.
- The overall assessment of the conditions regarding availability and cost of credit remains negative.
- Corporate debt is perceived to be the most attractive source of funding. The sentiment on bank borrowing turns negative.
- One third of CFOs expect M&A levels to increase in the next twelve months.
- Over 80% of CFOs assess the strategic relevance of innovation to be crucial to very crucial, when striving for growth or the continuation of their company.

General economic environment

In 2011 the Euro crisis has been the main issue in the financial mindsets of European policy makers and financial institutions, and continues to be so. Greece received an additional package of funds from the other Euro countries in the last quarter of 2011, to avoid a Greek default. This did not yet stop the worries around the survival of the Euro. Banks and other financial institutions are negotiating large depreciations on their claims against Greece.

This last quarter, banks continued to store record figures for overnight deposits at the European Central Bank, an indicator that mutual trust between banks is low. Banks are still reinforcing their balance sheets, which will impact the cost and availability of credit. Banks are very risk averse in their assessments of granting new credits to companies. The willingness of banks to take high (balance sheet related) risks is low. In December, the European Central Bank (ECB) provided the euro-area banks with an extra 3-year lending facility worth 489 billion euros to expand credit.

Last December, CPB Netherlands Bureau for Economic Policy Analysis published its fourth forecast of the Dutch economy in 2011 and beyond. According to this forecast the Dutch economy is projected to shrink by 0.5% in 2012, under the assumption that although the European debt crisis will not be resolved quickly, it will not escalate any further either.

During the last quarter of 2011, the ECB twice lowered the interest rates, each time by 0.25%. The interest rate on the main refinancing operations was 1.5% in October, 1.25% in November, and has been 1.0% since 14 December.

CFO Survey

CFOs are still fairly gloomy about their financial prospects compared to three months ago. The sentiment indicator remains negative. However, the indicator is climbing again, as though CFOs are adapting to a new reality of uncertainty and a harsh financial and economic climate.

One of the growing business priorities is to increase the cash flow. Over 50% of CFOs expect an increase of their company's cash flow over the next twelve months.

Over 80% of corporate CFOs think now is not a good time to be taking greater balance sheet related risks. However, due to increased external economic and financial uncertainty CFOs experience higher balance sheet related risks.

The perceived availability of credit remains negative. Again, all sources of funding are perceived to be less attractive compared to last quarter. Corporate debt (e.g., bonds) remains the most favoured source of funding. However, the indicator is heading fast in the direction of the zero point, where CFOs are equally positive or negative. Bank borrowing is no longer perceived to be an attractive source of funding by most CFOs. Equity remains the most unfavourable source of funding.

CFOs expectations for both M&A and Private Equity activity levels remain low this quarter. One third of CFOs expect M&A levels to increase in the next twelve months.

Innovation

CFOs want to stay in control of their cash flow. However, today's business environment is characterized by a high economic uncertainty that CFOs have to deal with. Any opportunities for minor cutbacks and other reductions have been seized over the past quarters. These measures can no longer be expected to provide the solution for continuing the daily business or even when striving for growth. A policy of reform is in place and innovation can be a significant pillar.

Over 80% of CFOs assess the strategic relevance of innovation to be crucial to very crucial, when striving for growth or the continuation of their company during these current economic hard times. Innovation is prioritized high to very high by some 70% of CFOs on the agenda of the board. Innovation has to be followed up in order to be effective. It is important that organizational goals are set, and KPI's are formulated to monitor its progress and effectiveness. Innovation has to be concretized in order to be effective and what is being preached needs to be practiced.

What is the role of a CFO regarding innovation? Most organizations struggle to concretize innovation. CFOs can contribute to helping their organization structure innovation by setting organizational goals and formulate KPIs. Only then will an organization be able to monitor and track the evolvments and results of innovation.

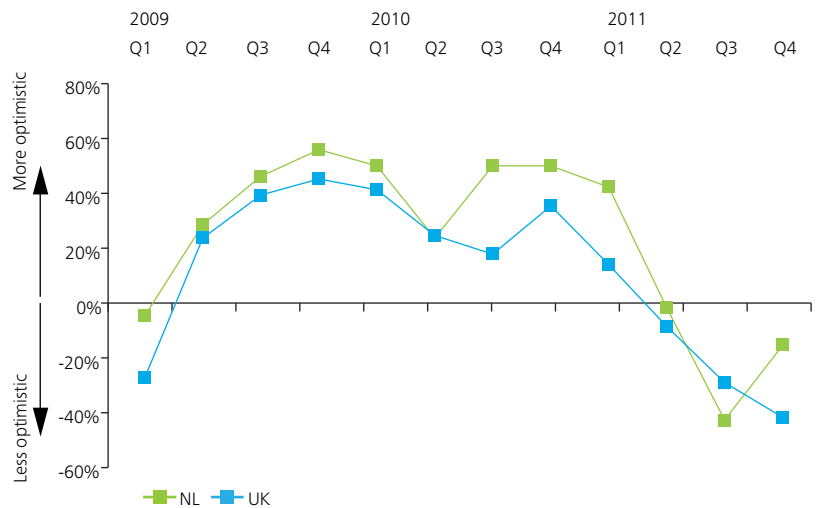
Financial outlook and priorities

CFO optimism does not drop any further after three consecutive quarters of declining sentiments. However, the sentiment remains negative.

The trend is not similar to that in the UK this quarter. The sentiment of CFOs in the UK drops to the level of Dutch CFOs during the third quarter.

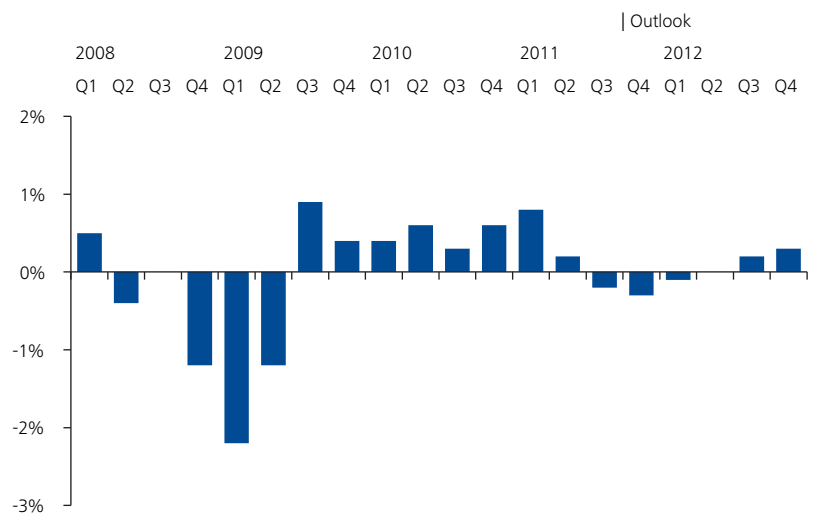
Chart 1. Financial prospects NL & UK

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



The Dutch economy went into recession as of the third quarter of 2011. It is expected that this will last during the first half of 2012, but that economic growth will return again in the second half of 2012.

Chart 2. Percentage of economic growth and outlook of Dutch GDP 2008-2012



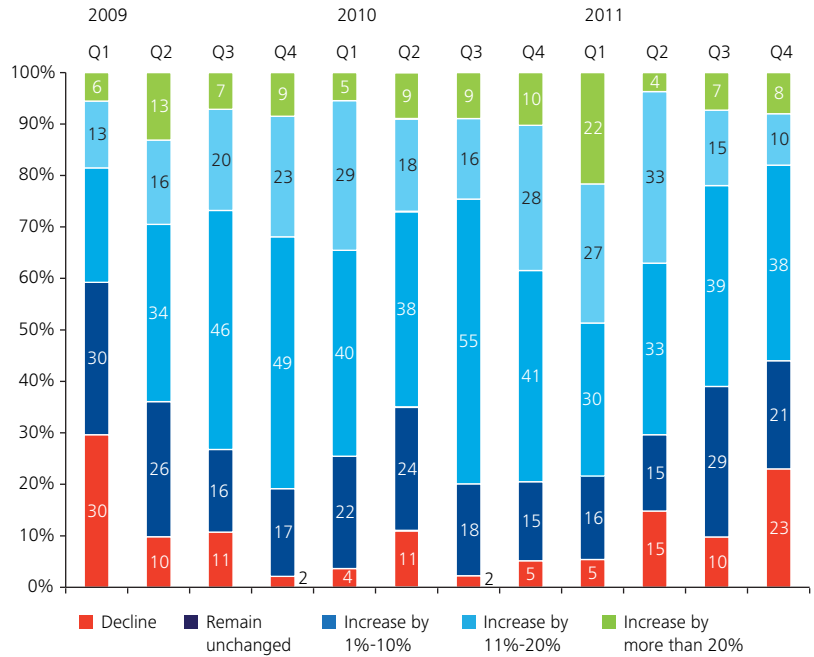
Source: Statistics Netherlands, CPB Netherlands Bureau for Economic Policy Analysis

The number of CFOs that expect their cash flow to decline has more than doubled compared to the previous quarter.

More than half the CFOs still expect an increase of their company's cash flow over the next twelve months. Compared with twelve months ago, 44% of the CFOs expect a stable cash flow or decline (was 20% 2010 Q4).

Chart 3. Change in cash flow over 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.



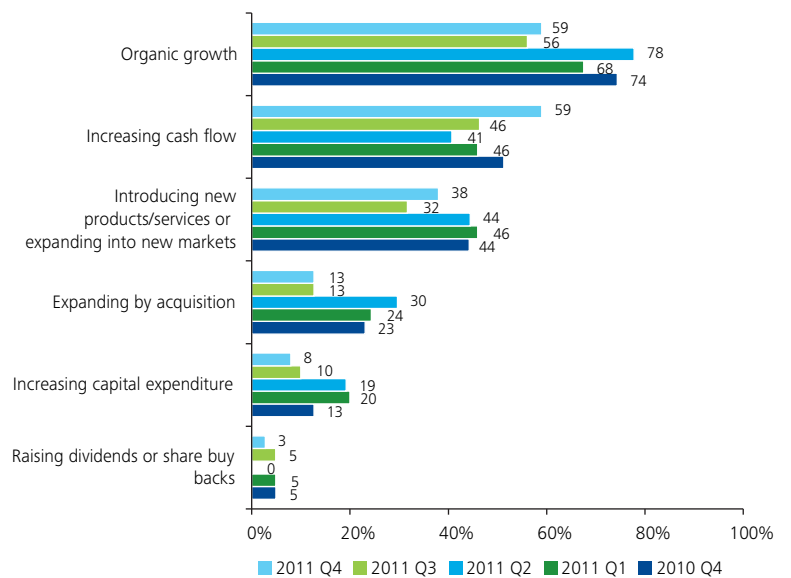
Striving for organic growth continues to be the most prioritized strategy.

Organic growth is followed in priority by increasing cash flow and expansion strategies, such as introducing new products or expanding into new markets.

Increasing cash flow gained priority this quarter.

Chart 4. 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.



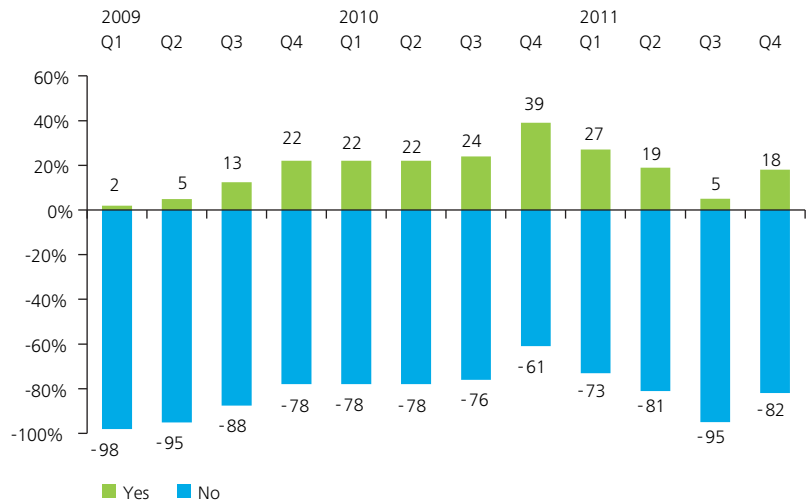
Risk

The risk appetite has dipped in the third quarter of 2011 to the same levels of the first half of 2009. However, in the fourth quarter the levels go up again, and return to the same level of the second quarter of 2011.

82% of the corporate CFOs think now is not a good time to be taking greater balance sheet related risks, against 18% who think it is.

Chart 5. Attitude towards greater risk on balance sheet

Percentage of CFOs reporting that now is (not) a good time to be taking greater balance sheet related risks.



During the last quarter the financial risk on the balance sheet over the last twelve months decreased for more CFOs than the previous quarter.

When CFOs were asked to assess the level of external financial and economic uncertainty facing their business, 59% of CFOs rated this level as high to very high (not shown in chart). Some 28% of CFOs rate these conditions to be above normal level. This is rather similar to the previous quarter.

Chart 6. 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

The conditions regarding cost and availability of credit turn slightly less negative compared to last quarter. However, the overall sentiment remains negative.

The availability of credit is considered hard to get by most CFOs, while the perceived level of cost is considered high. Banks still need to reinforce their balance sheets, and this clearly influences the availability of credit.

The results of the ECB's third quarter Bank Lending survey state:
 "Looking ahead to the fourth quarter of 2011, euro area banks expect a further increase in the net tightening of credit standards on loans to Non-financial corporations in comparison with the results for the third quarter."

Chart 7. 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.

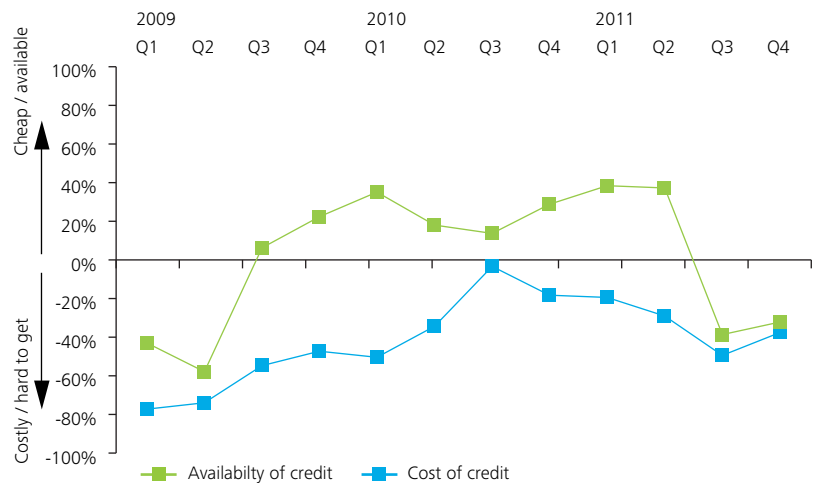
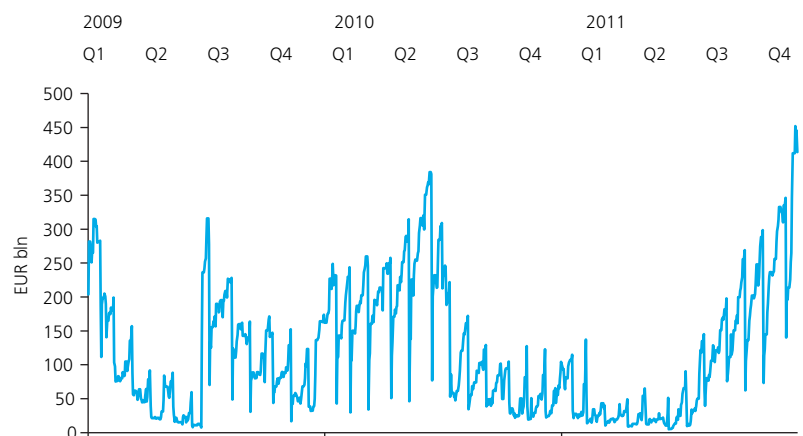


Chart 8 presents an overview of the amount of billions of euros which European banks have stored overnight at the overnight deposit facility of the European Central Bank.

The amounts stored overnight at the ECB increased in the second half of 2011, peaking at the end of the year. This indicates that the mutual confidence between banks is low and decreases even further. The banks rather store their money overnight at the ECB at a lower rate of interest or at some expense, than lend it to other banks.

Chart 8. Overnight deposit facility European Central Bank 2009-2011

Amount of billions of euros stored by European banks at the overnight deposit facility of the European Central Bank



Source: European Central Bank

The limited perceived availability of bank credit has turned into a negative sentiment this quarter, as shown in chart nine.

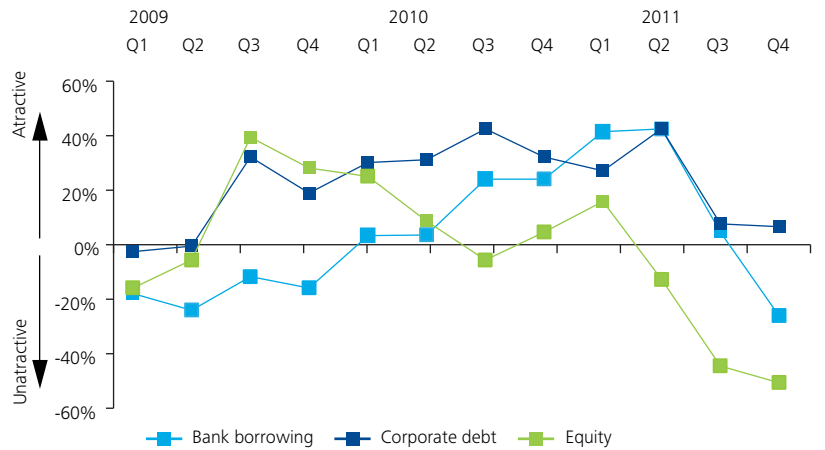
And again, all sources of funding are perceived to be less attractive compared to last quarter.

CFOs are almost equally divided regarding the attractiveness of corporate debt: more than one third considers it to be attractive, almost one third is neutral, and one third considers it to be unattractive

Equity is perceived to be the least attractive.

Chart 9. Favoured source of corporate funding

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

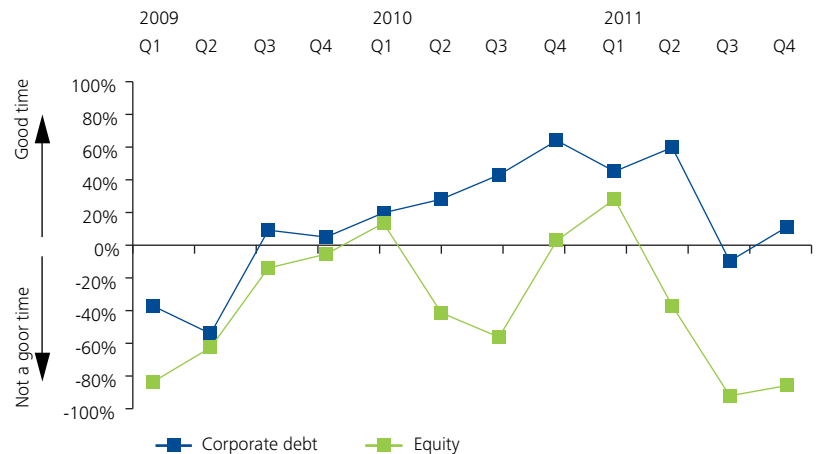


In general, it is not considered to be a good time to issue debt or equity. The sentiment is almost equal to the previous quarter.

This last quarter, the average closing rate of the AEX-index was 296.67 (minus 1% compared with the average Q3 closing rate). The lowest closing rate was 270.06 on 4 October, and the highest Q4 closing rate was 315.45 on 27 October. The volatility of the current stock markets remains high.

Chart 10. Good time to issue debt/equity?

Net percentage of CFOs who think now is (not) a good time to issue debt/equity.



CFOs expectations for both M&A and Private Equity activity levels remain low this quarter.

Some 36% of CFOs expect M&A levels to increase in the next twelve months. 28% of CFOs expect PE activity to increase.

The trend of CFOs expectations of Private Equity activity is rather similar to the one shown in the M&A outlook chart.

Chart 11. M&A outlook

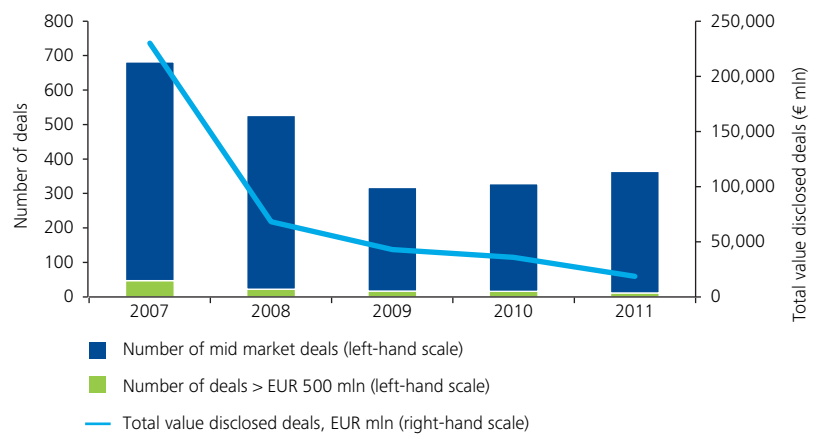
Percentage of CFOs who expect M&A activity to increase/decrease in the next 12 months.



In 2011, the number of deals slightly increased compared to 2010 and 2009. However, the average value of disclosed deals decreased.

Chart 12. Dutch M&A market 2007-2011

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



Source: mergermarket

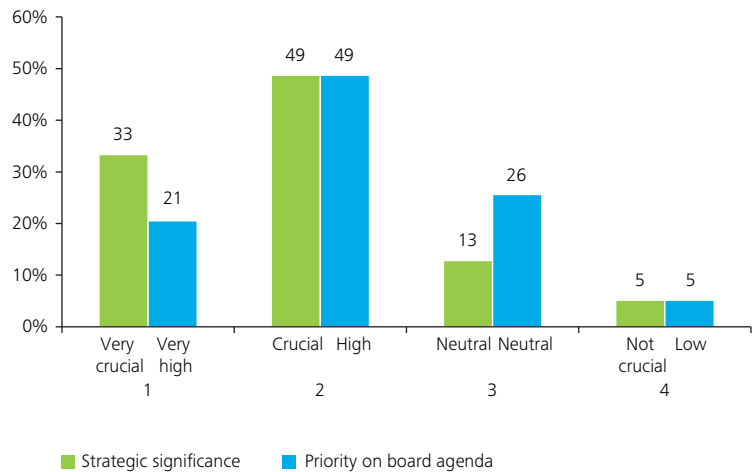
Innovation

82% of CFOs consider the strategic significance of innovation crucial to very crucial, when striving for growth or the continuation of their company during these current economic hard times. Over 50% of CFOs state that the strategic significance of innovation increased much or very much because of the crisis.

Some 70% of CFOs state that high to very high priority is given to innovation on the agenda of the board.

Chart 13. Strategic significance of innovation

Percentage of CFOs who assess the strategic significance of innovation within their organization to be (not) very crucial.



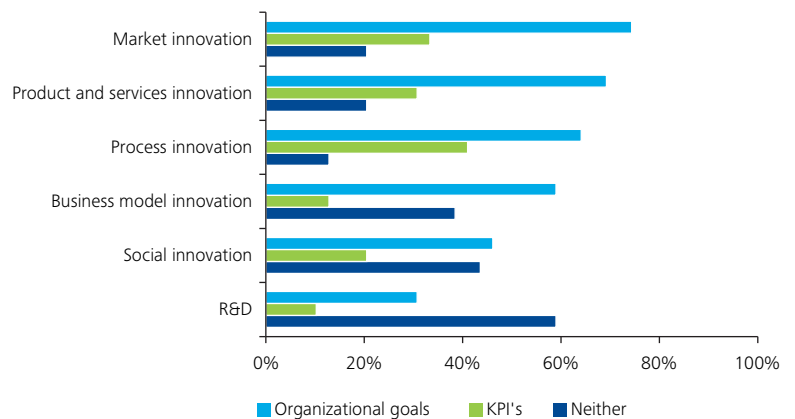
To ensure that innovation will be successful it is essential that the different types of innovation are embedded by organizational goals and KPIs.

According to the CFOs, market innovation, product and services innovation, and process innovation are most embedded in organizational goals. However, the conversion rate into KPI's is much lower.

It is strongly advised to make innovation related actions concrete and measurable, so they will be transparent and effective.

Chart 14. Embedding innovation into organizational goals and KPIs

Percentage of CFOs who assess the embedding within their own organization of the different types of innovation into organizational goals of KPIs.



OPEN INNOVATION

Combining internal and external sources for both research and commercialization of new technologies and products (source Van de Vrande, Rochemont; 2006)

Successful open innovation will result in formal or informal partnerships with other companies, customers or suppliers.

Three-quarters of CFOs claim their company already acts in some or many partnerships.

During the commercialization phase of new products or services, 39% combines external and internal sources in a formalized way. One third combines these sources in a more informal way, like brainstorming.

More than 60% of CFOs state that more attention should be given to open innovation within their organization to a larger or smaller extent.

CFOs consider agreements on intellectual capital and arrangement on secrecy of information to be the biggest threat of open innovation. Suppliers becoming competitors is also experienced to be a threat, although to a lesser extent.

Chart 15. Number of formal business partnerships

Percentage of CFOs assessing the number of formal business partnerships (e.g., joint ventures, licensing) of their organization.

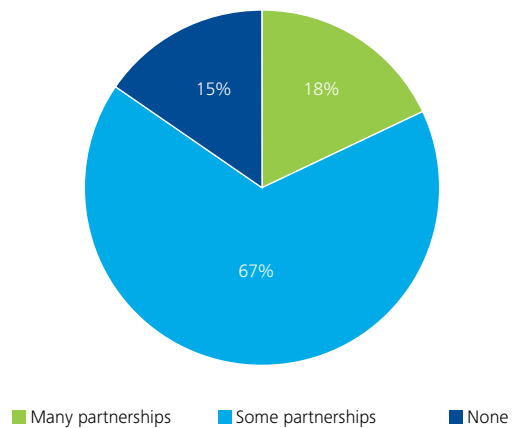
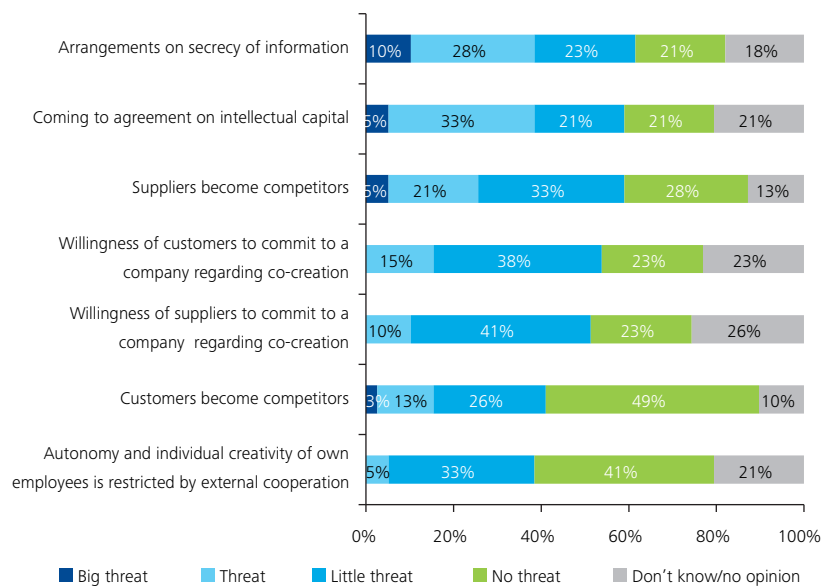


Chart 16. Threats of open innovation

Percentage of CFOs who assess the following aspects to be a threat to open innovation.

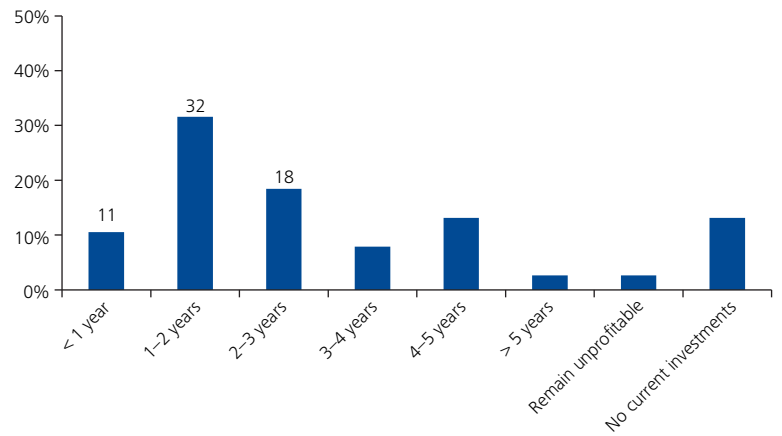


A quarter of CFOs assess the return on investment of current innovation investments within their organization to be high or very high.

Most CFOs (32%) assess their current innovation investments within their organization to become profitable within one to two years. Only 3% assesses their investments to remain unprofitable.

Chart 17. Return on investment of current innovation investments

Percentage of CFOs who assess the time frame in which the ROI of current innovation investments within their organization will become positive.



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 Q4 survey took place between 15 December and 13 January. A total of 39 corporate CFOs, representing a net turnover per company of approximately EUR 2.3 billion, completed our survey. The responding companies can be categorized as follows: less than 100 million (5%), 100 – 499 million (33%), 500 – 999 million (19%), 1 – 4.9 billion (31%), more than 5 billion (12%).

The participating CFOs are active in a variety of industries: Retail/Wholesale, Manufacturing Technology Real Estate, Consulting, Entertainment, 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.

Source

Deloitte Research NL

Contacts



Jan de Rooij

Partner Deloitte Global Employer Services
JandeRooij@deloitte.nl
+31 (0)6 5336 6208



Wilten Smit

Function Leader Deloitte Financial
Advisory Services
WiSmit@deloitte.nl
+31 (0)6 5389 7407



Wassili Bertoen

Director Deloitte Innovation
WBertoen@deloitte.nl
+31 (0)6 2127 2293



Liesbeth Bax

Deloitte Research NL
LBax@deloitte.nl
+31 (0)6 1201 0798



Marinda Giethoorn

Deloitte Press Officer
MGiethoorn@deloitte.nl
+31 (0)6 1234 5063

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2012 Deloitte The Netherlands

Designed and produced by Communications at Deloitte, Rotterdam.