Deloitte.

The Dutch Deloitte CFO Survey

Rearing to go…or not?

2012 Q2 results
July 2012

Contents

Rearing to go…or not?

We are proud to present our fourteenth quarterly Chief Financial Officers Survey 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 2012 Q2 Survey

- CFO optimists and pessimists are almost equally divided about the financial prospects of their own companies: the net score hovers around the zero mark.
- Almost one third of CFOs expect their cash flow to remain unchanged over the next twelve months (only 6% in Q1).
- CFOs remain consistent in striving for organic growth as their most prioritized strategy for their business for the next 12 months.
- The risk appetite has dropped to low levels again: a mere 8% of CFOs think now is a good time to be taking greater balance sheet related risks.
- The overall sentiment regarding the conditions of availability and cost of credit remains negative.
- Corporate debt is perceived to be the most attractive source of funding. However, all funding sources have become less attractive compared with the first quarter.
- Around 41% CFOs expect M&A levels to increase in the next twelve months, representing a drop in perception compared with the previous quarter.
- CFOs rate their company with a moderate 6.8 when assessing their company in being cyber secure.

General economic environment

In June, the European Commission's Economic Sentiment Indicator for the euro area - measuring confidence of both industry and consumers - dropped to the lowest point (89.9) since the end of 2009.

Even though the prospects for the rest of the year started to look brighter at the end of the first quarter, the past quarter was tumultuous.

The liquidity and solvency issues of Spain's banks led to mounting economic tension, once again creating unrest on the financial markets. As a result, in June the interest rate on the Spanish government's 10-year bond topped 7% - a level perceived as unbearable for any country. The increasing interest burden then simply overrules all the effects of cutbacks in government spending.

The Greek elections in May and June both caused Europe to speculate further on a Greek euro exit. The establishment of a permanent European emergency fund still has government leaders embroiled in heated discussions with politicians in their own country.

In April, the Dutch Rutte cabinet resigned after crucial negotiations over the country's budget collapsed. These negotiations were aiming for the 2013 budget deficit to remain below 3%. Elections are now scheduled to take place on 12 September.

According to CBS Statistics Netherlands, the economic growth in the first quarter compared with the previous quarter (Q4) has been adjusted upwards by 0.5%. As a result, instead of shrinking by 0.2%, the Dutch economy grew by 0.3%. Technically, the Dutch economy went out of recession.

The economic outlook remains fragile though and a new recession is looming. According to CPB Netherlands Bureau for Economic Policy Analysis figures published on 14 June last, Dutch GDP is expected to shrink by 0.75% in 2012. A slight recovery is forecast for 2013: a growth in GDP of 0.75%, an adjustment of -0.5% compared with the previous outlook.

During the previous three months, the governing council of the ECB decided not to change the ECB key interest rates. The interest rate on the main refinancing operations has been 1.0% since December 2011. Nevertheless, at the start of the third quarter the ECB announced to change this rate to 0.75%.

CFO Survey

CFO optimists and pessimists are almost equally divided about the financial prospects of their own companies: the net score hovers around the zero mark. More than half of CFOs expect their cash flow to increase (69% in Q1). Almost one third of CFOs expect their cash flow to remain unchanged over the next twelve months (only 6% in Q1).

Around 82% of CFOs expect the financing costs to increase for Dutch corporates over the next 12 months.

The risk appetite drops to the level last seen in the third quarter of 2011. Only 8% of CFOs think now is a good time to be taking greater balance sheet related risks.

Corporate debt is again perceived to be the most attractive source of funding this quarter. However, all funding sources have become less attractive compared with the first quarter.

CFOs expectations for both M&A and Private Equity activity levels dropped this quarter, undoing the rise in expectations of the first quarter.

Cyber Security

This quarter's special topic is about Cyber Security. We all live, act and operate in a hyperconnected world. People are connected online, but many organizational processes, too, depend on the reliability and availability of online services. Because of the impact a security breach would have on daily operations, Cyber Security as a theme should go beyond the IT department as sole stakeholder. If this is at stake it affects processes throughout the whole organization. Separately managing all these risks would be inefficient. So, integrated risk management and responsibilities placed at board level are favourable. Should a security breach occur this will be the best way to advance and secure the resilience of the organization.

Around 36% of CFOs consider cyber security to mainly be an IT theme. More than a quarter of CFOs is positioned in the middle of this attention paradigm. 38% consider this theme mainly to be an organizational issue.

CFOs do not appear convinced of their own organization's cyber security. On average they rate their company with a moderate 6.8, implying there's work to be done. Given this score and the last twelve month's news reporting on hacking, we doubt whether CFOs have an understanding of the current Cyber threat landscape. Simply complying with current regulations will be insufficient. Striving for excellence in this area should be the desired standard for each organization taking its business and online processes seriously. If done well, an organization can distinguish itself by reputation, reliability and output.

By far, the greatest risk of a potential cyber-attack perceived by CFOs is "loss of reputation among stakeholders". CFOs also perceive reputational damage to have the greatest effect on the value of the organization.

CFOs are fully aware that organizations do not operate as a stand-alone, but are part of networks with lots of stakeholders. Therefore, it is wise to acknowledge these interdependencies and tune with your stakeholders as part of integrated risk management regarding Cyber Security.

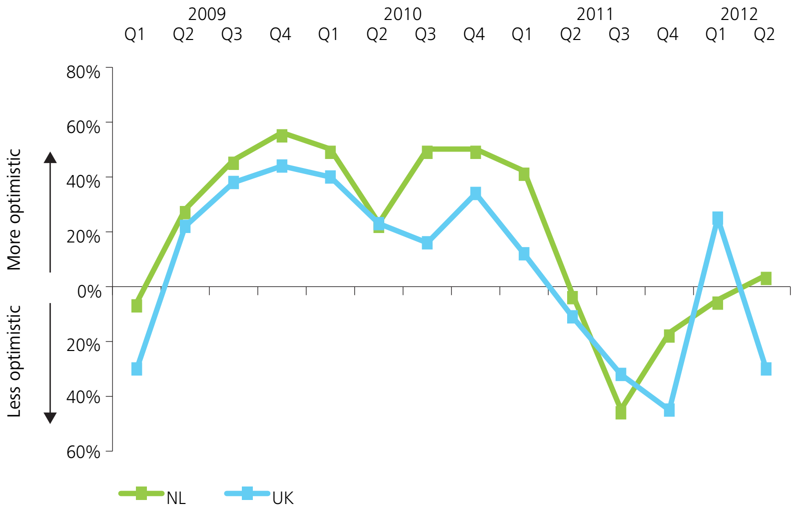
Financial outlook and priorities

Dutch CFO optimism about the financial prospects of the own company still hovers around the zero mark, meaning CFOs are almost equally positive and negative about their companies' financial prospects. These figures reflect the current economic uncertainty.

The euro crisis and a marked deterioration in growth prospects for the UK and the euro area have had a big effect on UK CFO sentiment after the rise seen in the first 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.

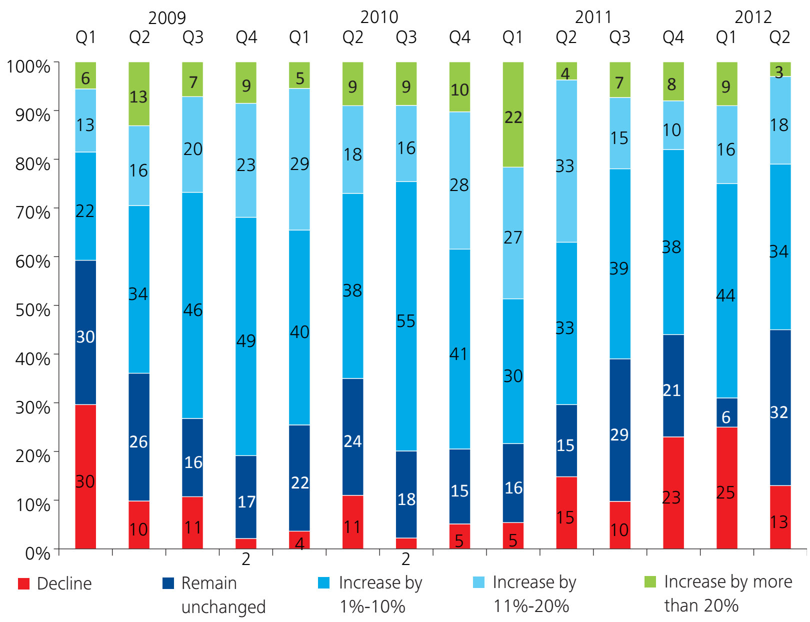


More than half of CFOs expect their cash flow to increase (69% in Q1).

Almost one third of CFOs expect their cash flow to remain unchanged over the next twelve months (only 6% in Q1).

Chart 2. Change in cash flow over the next 12 months

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



CFOs remain consistent in striving for organic growth as their most prioritized strategy for their business for the next twelve months.

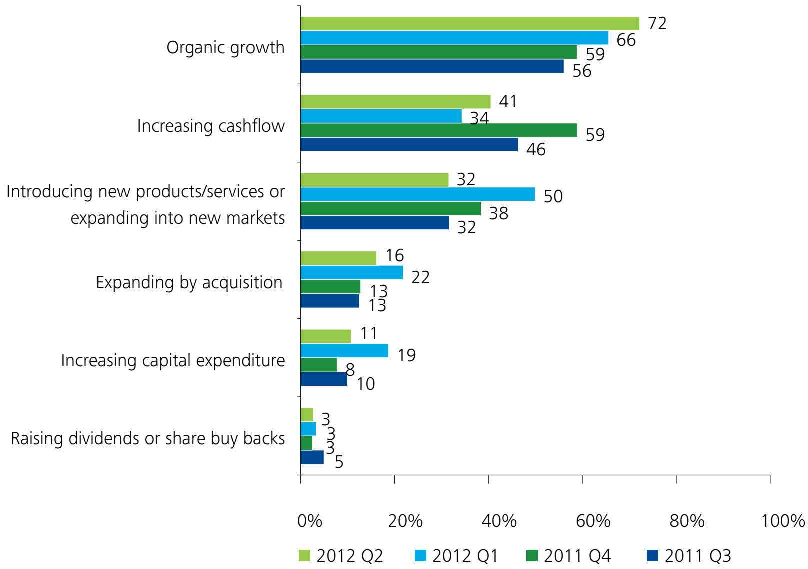
Other expansion strategies, like introducing new products, expanding into new markets, or expanding by acquisition become less of a priority.

Organic growth is followed in priority by increasing cash flow.

Increasing capital expenditure decreases as a priority, undoing the rise of the previous quarter.

Chart 3. 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.



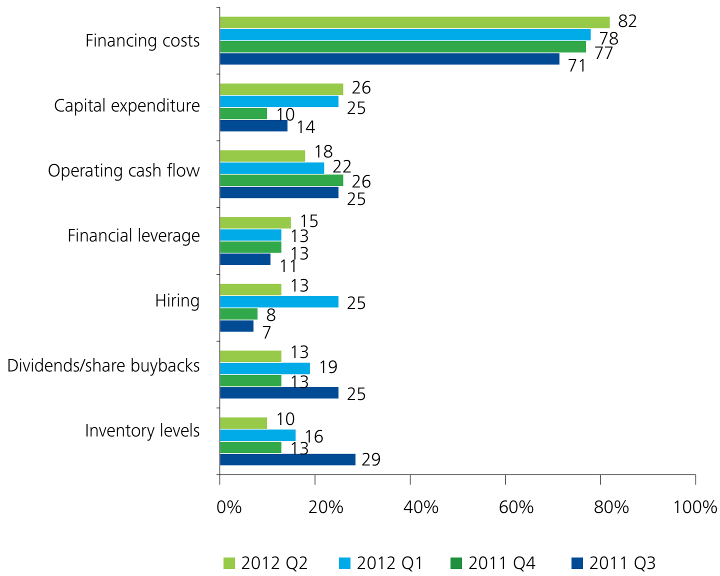
Over 80% of CFOs expect the financing costs to increase for Dutch corporates over the next twelve months.

More than a quarter of CFOs expect the capital expenditure of Dutch corporates to increase - in contrast to the 11% of CFOs who expect to increase their own capital expenditure (chart 3).

Hiring and inventory levels are expected to be reduced.

Chart 4. Expected change in key metrics of Dutch corporates

Percentage of CFOs who expect the following key metrics to (significantly) increase for Dutch corporates over the next 12 months.

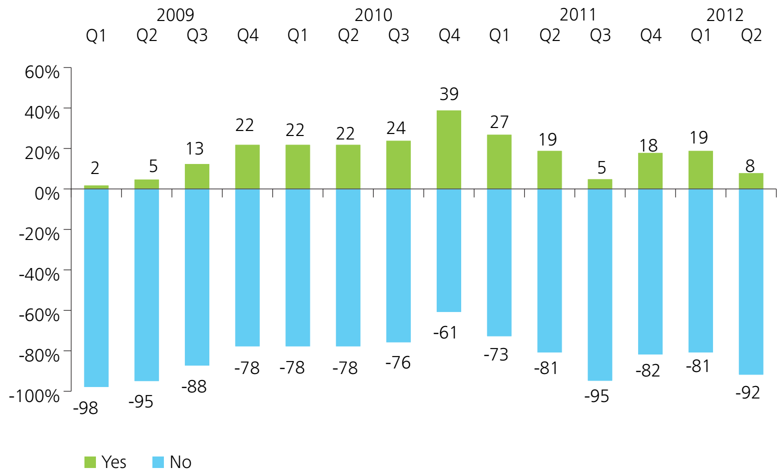


Risk

The risk appetite once again drops, to the low levels last seen in the third quarter of 2011 and early 2009. Only 8% of CFOs think now is a good time to be taking greater balance sheet related risks.

Chart 5. Attitude towards greater balance sheet related risks

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



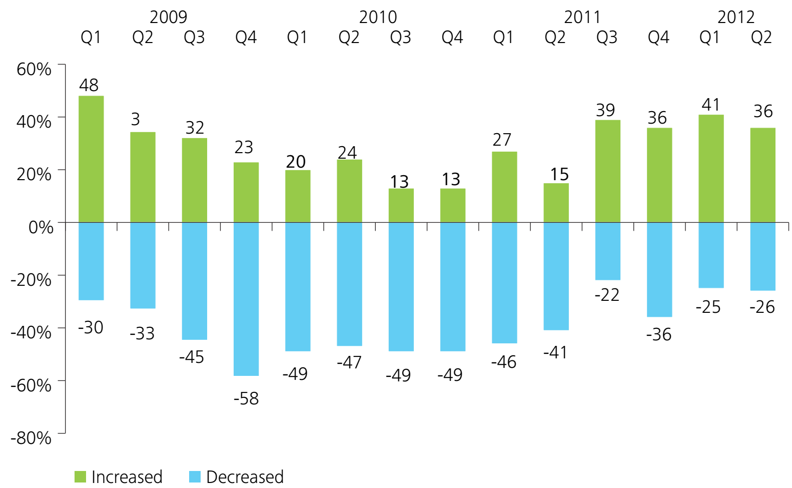
No great shifts can be observed in the levels of financial risk that CFOs are willing to take on the balance sheet.

When CFOs are asked to assess the level of external financial and economic uncertainty facing their business, 67% of CFOs rate this level as high to very high (not shown in chart), with the “very high” score increasing to 21%, up from 9%.

Some 21% of CFOs rate these conditions to be above normal level.
Only 13% of CFOs rate the external financial and economic uncertainty facing their business to be normal or below normal.

Chart 6. Change in financial risk* on balance sheet

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



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

Funding

The perceived conditions regarding cost and availability of credit are diverging in contrast to the previous quarters. The overall sentiment remains negative.

The availability of credit is considered low by most CFOs, but improves as opposed to the last quarter. The perceived level of cost of credit is considered even higher than last 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.

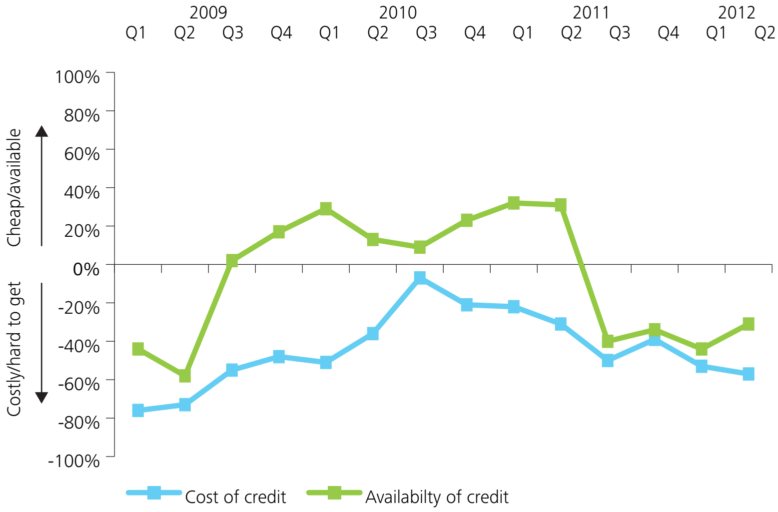
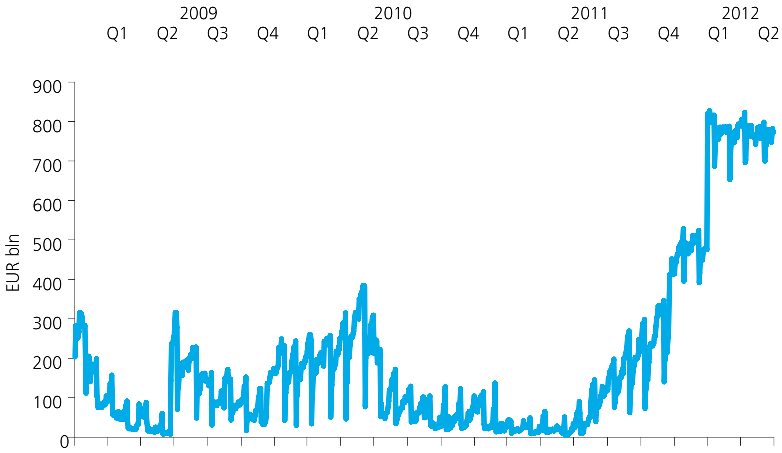


Chart 8 presents an overview of the billions of euros which European banks have stored overnight at the overnight deposit facility of the European Central Bank.

The ECB eased the financial markets with two LTRO rounds, in December 2011 and February 2012. After both rounds the banks' liquidity increased. However, a new base level of stored overnight deposits at the ECB seems to have set in excess of EUR 700 billion. Inter-bank lending remains low.

European banks still use the ECB as a trusted intermediary. However, at the start of the third quarter the ECB decided to change the deposit interest rate from 0.25% to 0.0%. It will be interesting to monitor in the next survey report, if this has led to changes in the deposits stored overnight.

Chart 8. Overnight deposit facility European Central Bank 2009-2012 Q2
Billions of euros stored by European banks at the overnight deposit facility of the European Central Bank



Source: European Central Bank

All sources of corporate funding are perceived less attractive than last quarter.

The results in this chart are highly volatile. Both bank borrowing and equity have lost the attractiveness they had regained in the previous quarter.

Although perceived as less attractive, corporate debt continues to be considered as the most attractive source of corporate funding. The longer terms of these bonds (e.g. 10 years) may be part of this appeal.

Chart 9. Favoured source of corporate funding

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

The time to issue debt is perceived to have improved to the same level seen one year ago. Most CFOs consider now a good time to issue corporate debt. However, the attractiveness decreased compared with Q1 of this year (chart 9).

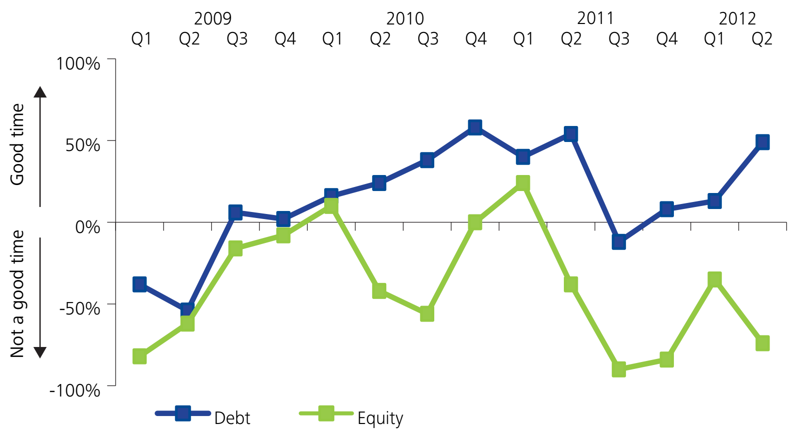
Even though the perception whether it is a good time to issue equity seemed to revive during the first quarter of this year, the prevailing financial unrest nipped the recovery in the bud.

This last quarter, the average closing rate of the AEX-index was 300.12 (-7.11% Q1). The lowest closing rate was 283.07 on 4 June, while earlier on, on 2 April, the highest Q2 closing rate was 326.39.

44% of CFOs expect the AEX-index to increase in the next twelve months, 13% expect a decrease.

Chart 10. Good time to issue debt/equity?

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



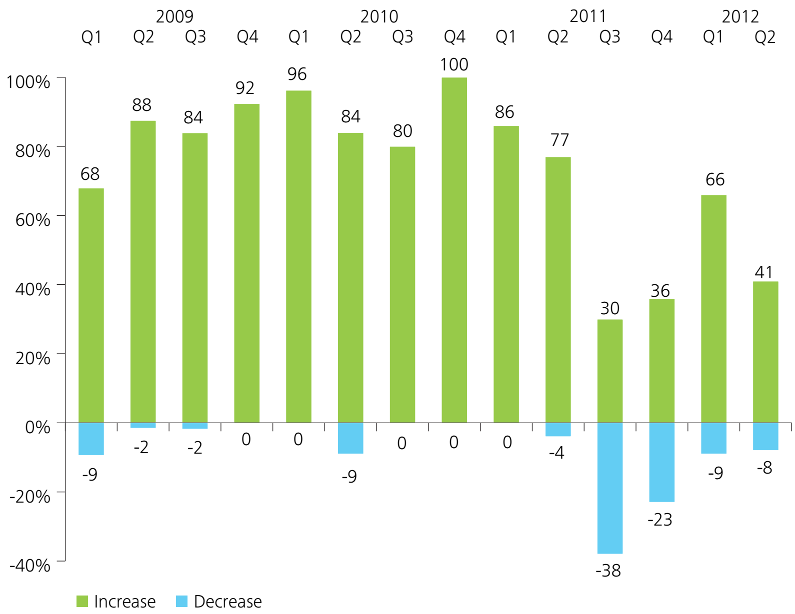
M&A

Less CFOs (41%) expect the M&A activity levels to increase in the next twelve months compared with the last quarter.

Only 8% of the CFOs expect the M&A levels to decrease any further from the current level.

The trend of CFOs expectations of Private Equity acquisitions is rather similar to the one shown in the M&A outlook chart (increase 41%, decrease 15%).

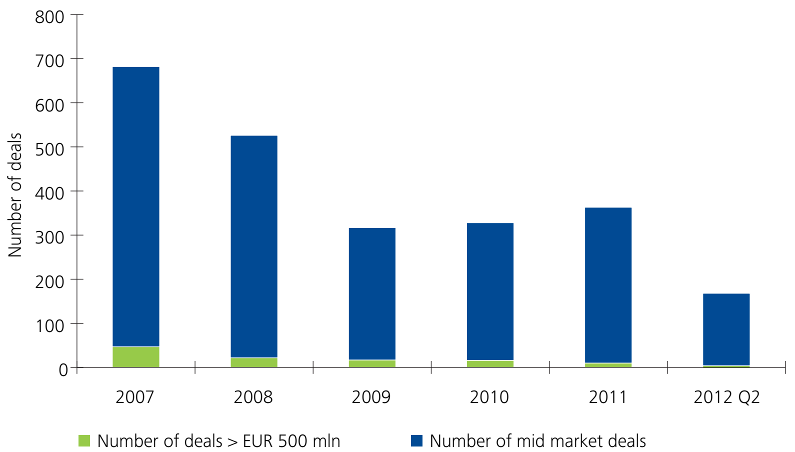
Chart 11. M&A outlook
Percentage of CFOs who expect M&A activity to increase/decrease in the next 12 months.



In 2012, up to and including Q2, the number of deals remains just below the level of 2011 in relative terms (46% in number of deals).

The economic and political turmoil that sustain the uncertainty on the financial markets, prevent the M&A market from recovering to the levels last seen before the crisis.

Chart 12. Dutch M&A market 2007-2012 Q2
Dutch M&A activity expressed in number of deals.



Source: mergermarket

Cyber Security

Cyber Security is this quarter's special topic. How do CFOs perceive the effects and risks of a cyber-attack, should their organization be compromised?

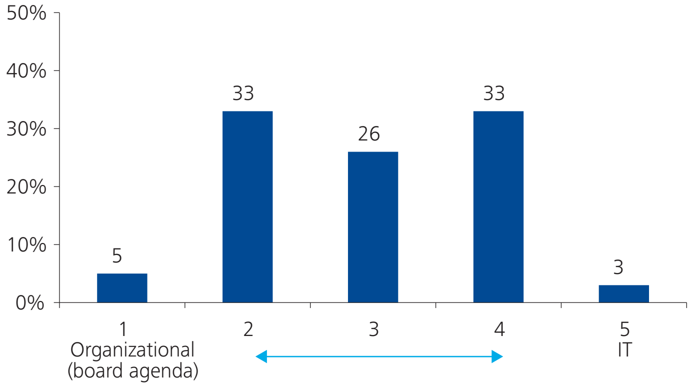
Cyber Security as a theme deserves to go beyond the IT department as sole stakeholder. If this is at stake it affects processes throughout the whole organization.

After a company has been compromised in this area, this theme is sure to enter the corporate board room. It is advised to put it on the board agenda earlier on, before any real harm is done.

36% of CFOs consider cyber security to be mainly an IT theme. A quarter of CFOs is positioned in the middle of this attention paradigm. 38% consider this theme to mainly be organizational.

Chart 13. Cyber Security: Organizational versus IT theme

Percentage of CFOs who consider Cyber Security within their organization to be an organizational or IT theme.

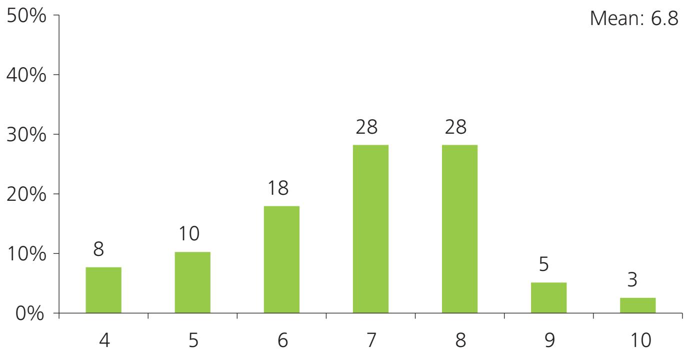


CFOs do not appear convinced of their organization's cyber security. On average they rate their company with a moderate 6.8, implying there's still a lot of work to be done.

18% of CFOs rate their company with unsatisfactory marks. 36% rate their company with a score of 8 or higher.

Chart 14. Rating of own organization as being "cyber secure"

Percentage of CFOs who rate their own company as being "cyber secure" (report mark: 1 being very bad – 10 being very good).



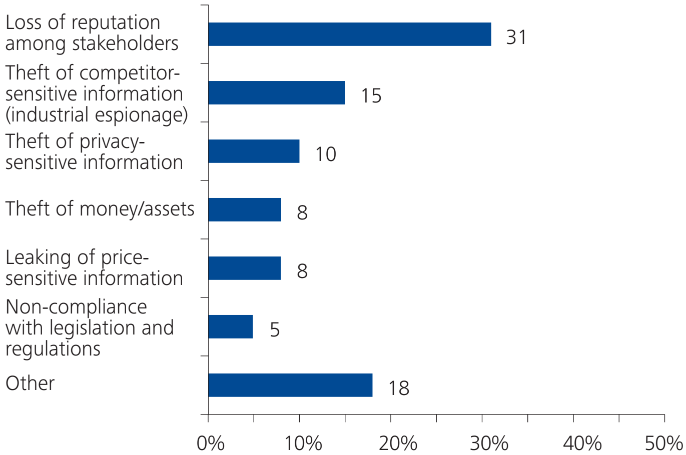
By far, CFOs perceive the greatest risk of a potential cyber-attack to be "loss of reputation among stakeholders". CFOs are fully aware that organizations do not operate on their own. Instead, they are part of networks with lots of stakeholders so they can operate effectively.

Theft of competitor-sensitive information takes second place after the reputational risk. This implies the fear of cyber industrial espionage, which would lead to a competitive disadvantage.

Risks indicated at "Other" are the operational risks due to the harm done to the network infrastructure, or a combination of risks referred to in the chart.

Chart 15. Greatest risk regarding Cyber Security

Percentage of CFOs considering what is the greatest risk (both material/immaterial) regarding Cyber Security.



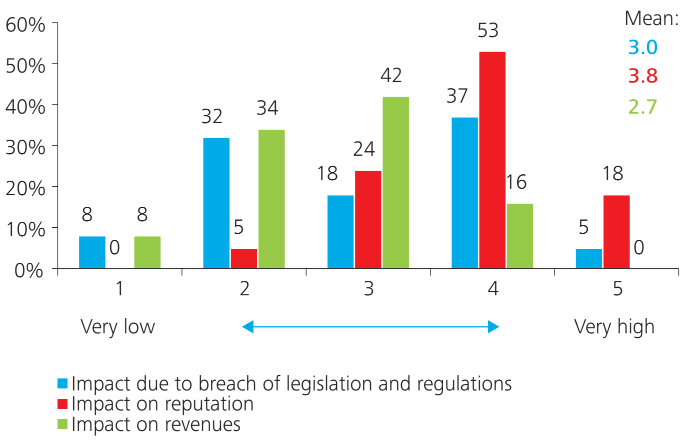
It is interesting to see how CFOs assess the impact of a cyber-attack on the value of their organization.

Consistent with the greatest risk perceived (chart 15), CFOs perceive reputational impact to have the greatest effect on the value of their organization, either materially or immaterially.

CFOs assess the impact of an attack on the revenues as lower.

Chart 16. Impact of a cyber-attack on the value of the organization

Percentage of CFOs rating the impact on the value of their organization (both material and immaterial) of the following themes, should their organization be compromised by a cyber-attack.



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 2012 Q2 survey took place between 15 June and 5 July 2012. A total of 39 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 2.5 billion. The responding companies can be categorized as follows: less than 100 million (8%), 100 – 499 million (28%), 500 – 999 million (23%), 1 – 4.9 billion (18%), more than 5 billion (18%), unknown (5%).

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
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