Deloitte.

The Dutch Deloitte CFO Survey

Regulatory compliance incidents as value killers?

2013 Q1 results
May 2013

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Regulatory compliance incidents as value killers?

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

Key points from the 2013 Q1 Survey

- Dutch CFOs' optimism has slightly risen but remains low.
- Two thirds of CFOs expect an increase in their cash flows over the next twelve months.
- Three quarters of CFOs remain consistent in striving for organic growth as a strategic priority for their business for the next 12 months.
- The risk appetite levels remain low. Some 92% of the corporate CFOs think now is not 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.
- Around 71% of CFOs expect M&A levels to increase over the next twelve months.
- Half the CFOs rate the impact of potential regulatory compliance incidents on the value of the firm to be high.
- Regulatory compliance incidents are largely perceived as a high risk value killer and CFOs are not all comfortable (21%) with or neutral (21%) about their current compliance controls preventing these value killer risks.

General economic environment

The European Commission's Economic Sentiment Indicator (ESI) decreased in both the euro area and the EU in March, putting on hold the recovery that had started in November last year. Sentiment declined by 1.1 points in the euro area (to 90.0) and by 0.6 points in the EU (to 91.4).
In April 2013, the European Commission's flash estimate of the consumer confidence indicator improved by 1.2 points in both the EU (-20.4 up from -21.6 in March 2013) and the euro area (-22.3 up from -23.5 in March 2013).

According to Statistics Netherlands, Dutch consumers were less negative in April than in March. The consumer confidence indicator rose by 6 points, to -35. In March, the mood had also been less negative than in the preceding month. That said, this rise comes on the back of the lowest level of consumer confidence ever recorded and it still remains very low.

The contracting economy in the Netherlands in 2013 will largely result from lagging domestic consumption levels, according to CPB Netherlands Bureau for Economic Policy Analysis figures published on 13 March last. Despite a slight recovery later this year, GDP volume is projected to decline by 0.5% in 2013. S 1% economic growth is projected for 2014. A fragile growth - almost entirely due to the recovering world trade.

On 2 May, for the first time since 5 July 2012, the ECB's governing council announced to lower its main interest rate by a quarter point to a new historical low of 0.5% in response to a drop in inflation well below its target level, and rising unemployment. The interest rate on the marginal lending facility is now set at 1.0% (effective from 8 May 2013). The interest rate on the deposit facility remains 0.0%.

CFO Survey

Dutch CFOs' optimism has slightly risen, but remains low. For nearly half the CFOs (46%) the financial prospects remain unchanged.

Two thirds of CFOs expect an increase in their cash flows over the next twelve months. A quarter of CFOs expects no change.

Organic growth remains a strategic priority. Three quarters of CFOs have selected this strategy to be a strong priority.

The risk appetite remains low; only 8% of CFOs think now is a good time to be taking greater balance sheet related risks.

Corporate debt is now perceived to be the most attractive source of funding this quarter. Funding preferences continue to be of a highly volatile character.

CFOs' expectations for M&A activity over the next twelve months slightly increase for the third consecutive quarter. Around 71% of CFOs expect M&A levels to increase over the next twelve months. Two thirds of CFOs expect an increase in the Private Equity activity levels.

Regulatory compliance

This quarter's special topic is about regulatory compliance and how CFOs prioritize it. Companies have to ensure they comply with relevant laws and regulations around the world. Regulatory compliance relates to these efforts. The organization and prevention of compliance incidents is one of the CFO's areas of responsibility.

Half the CFOs rate the impact of potential regulatory compliance incidents on the value of the firm to be high. These CFOs are fully aware of the potential financial risks and reputational losses that compliance incidents can cause.

Some 57% of CFOs indicate "Safety, Health & Environment" to be the compliance area that can most impact the company's operational results, followed by "Anti-bribery and corruption" and "Product restrictions".

When asked whether they feel comfortable about their company's current compliance controls preventing major regulatory compliance incidents, 58% of CFOs state they do. Being in control requires a constant focus on this topic and always keeping up-to-date with upcoming regulations. Appropriate boundaries are crucial if the company's strategy is to be accomplished in a compliant way.

CFOs have to make sure they organize, restructure and enhance the regulatory compliance requirements within the firm – varying from insight into current regulations to anticipating upcoming regulations. Only then will they be able to create a sustainable compliance system without hampering day-to-day business.

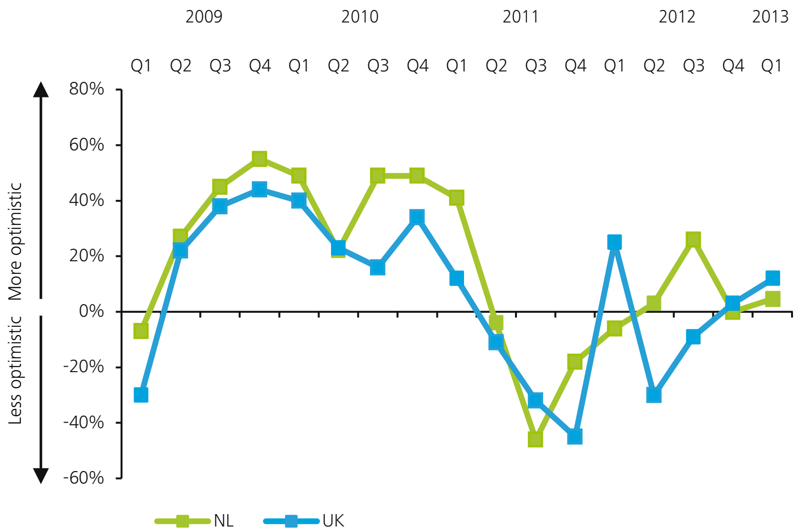
Financial outlook and priorities

Dutch CFO optimism has risen, but only slightly. Nearly half the CFOs (46%) indicate the financial prospects remain unchanged.

In the UK, business confidence has risen for the third consecutive quarter.

Chart 1. Financial prospects NL & UK

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

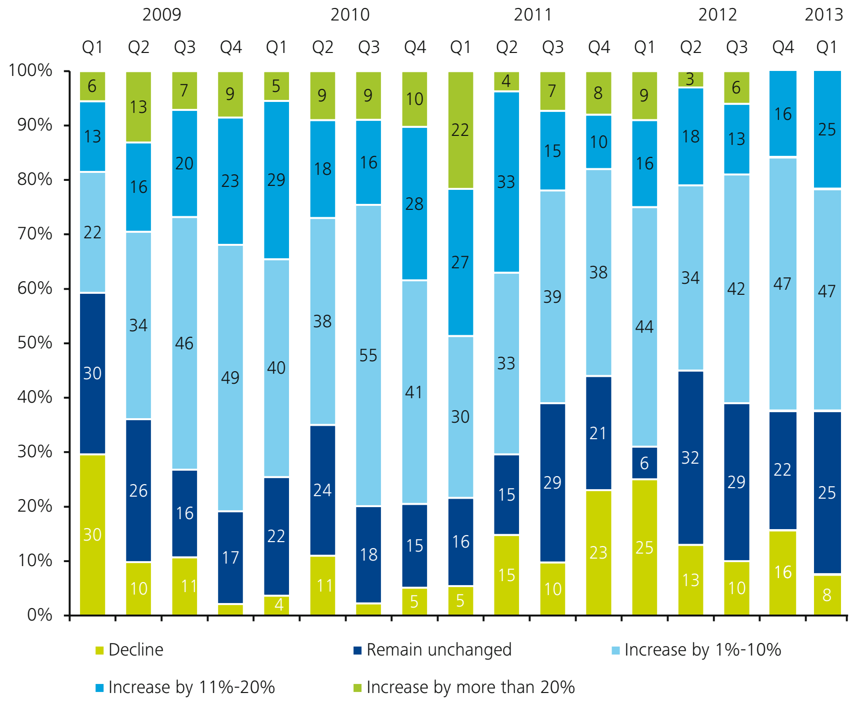


Two thirds of CFOs expect an increase in their cash flows over the next twelve months. A quarter of CFOs expect an increase by 11 to 20%.

A quarter of CFOs has indicated the expectations remain unchanged.

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

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

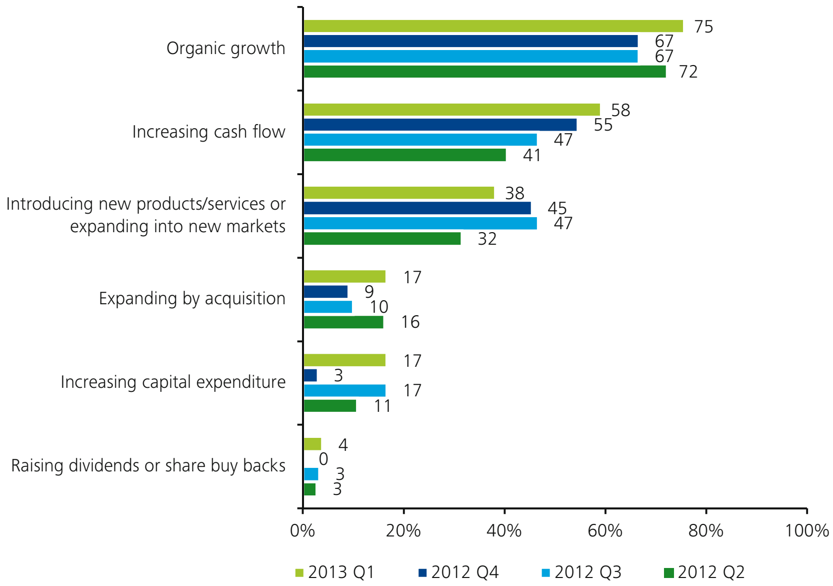


Striving for organic growth for their businesses continues to be the prime strategic priority of most CFOs over the next twelve months. Three-quarters of CFOs select this strategy to be a strong priority for their business.

Increasing cash flow continues to be selected by CFOs as the next strong priority.

Chart 3. CFOs' priorities over the next 12 months

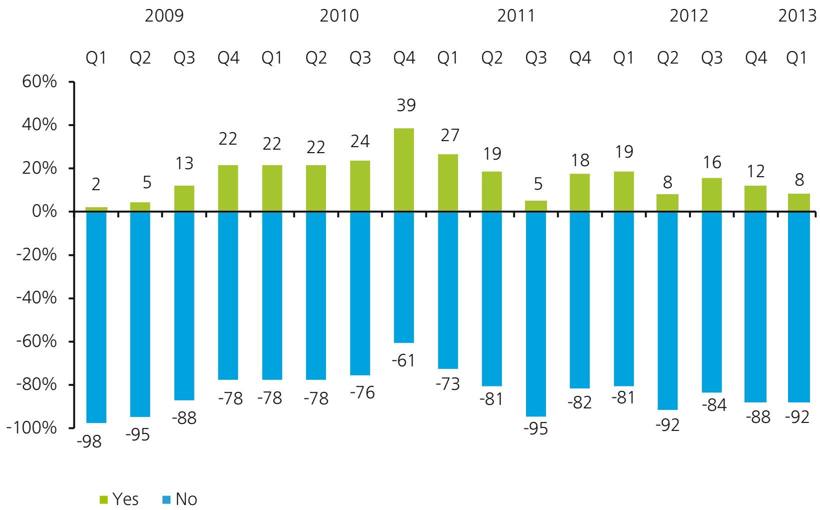
Percentage of CFOs who have selected each of the following strategies as a strong priority for their businesses over the next 12 months.



Risk

The risk appetite levels remain low. Some 92% of the corporate CFOs think now is not a good time to be taking greater balance sheet related risks, against 8% who think it is.

Chart 4. 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.

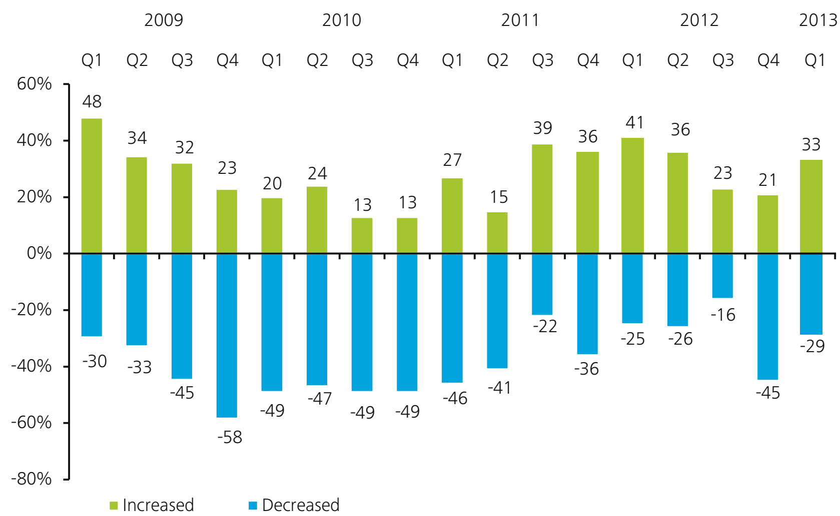


One third of CFOs report that the level of financial risk on their balance sheet has increased over the last twelve months.

Of the CFOs asked to assess the level of external financial and economic uncertainty facing their businesses, 54% rate this level to be high (not shown in chart).

Another 33% of CFOs rate these conditions to be above normal level (same as in Q4).

Chart 5. 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.



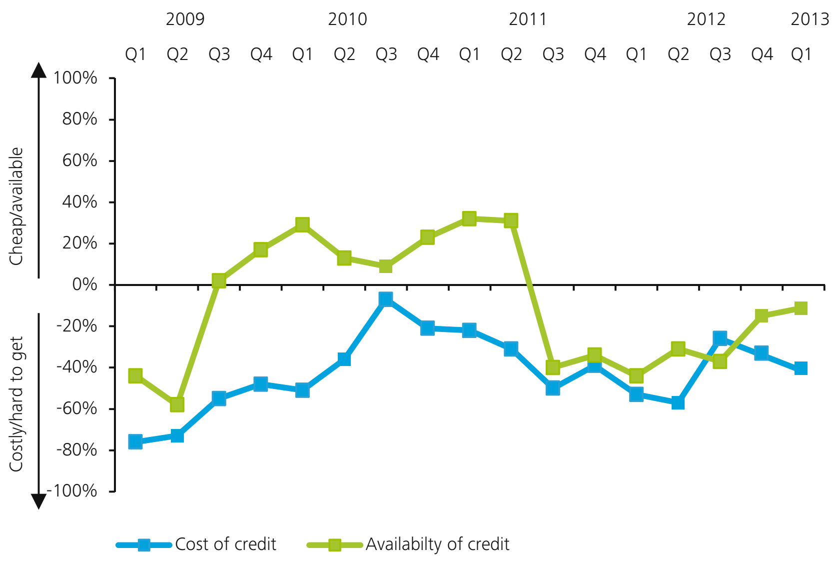
*Financial risk could include levels of gearing, uncertainty about the valuation of assets, and interest and exchange rate sensitivity.

Funding

The overall sentiment regarding cost and availability of credit remains negative.

Chart 6. Cost and availability of credit

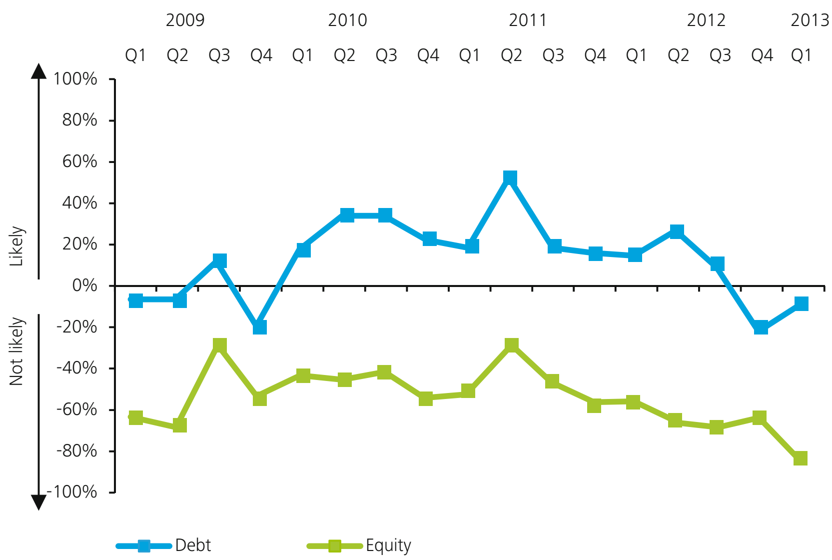
Net percentage of CFOs reporting that funding for corporates is cheap or expensive, and funding is easily available or hard to get.



Most CFOs are not very likely to issue either debt or equity over the next twelve months. The decision whether or not to issue will probably be determined by any prior need.

Chart 7. Likely to issue debt/equity?

Net percentage of CFOs who are (not) likely to issue debt/equity over the next 12 months.



CFOs' preferences in their favoured source of corporate funding remain volatile. Bank borrowing lost its regained perceived attractiveness, and is considered to be the least attractive source of corporate funding.

Corporate debt is now perceived to be the most attractive source of corporate funding.

Chart 8. Favoured source of corporate funding

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

The time for issuing debt is perceived to have slightly improved again. CFOs do not think now is a good time to issue equity. However, the net percentage is increasing for the second consecutive quarter and moving towards the zero mark.

This last quarter, the average closing rate of the AEX-index was 348.68 (+4.3% Q4). The lowest closing rate was 335.29 on 26 February, and the highest Q1 closing rate was 358.08 on 29 January.

54% of CFOs expect the AEX index to increase over the next twelve months (64% Q4), 13% expect a decrease.

Regarding the Dutch equity valuations in general, 30% of CFOs perceive these to be (significantly) overvalued and 43% to be (significantly) undervalued. 5% of CFOs perceive the valuations of their own company (if appropriate) to be somewhat overvalued, and 41% as somewhat to significantly undervalued.

Chart 9. Good time to issue debt/equity?

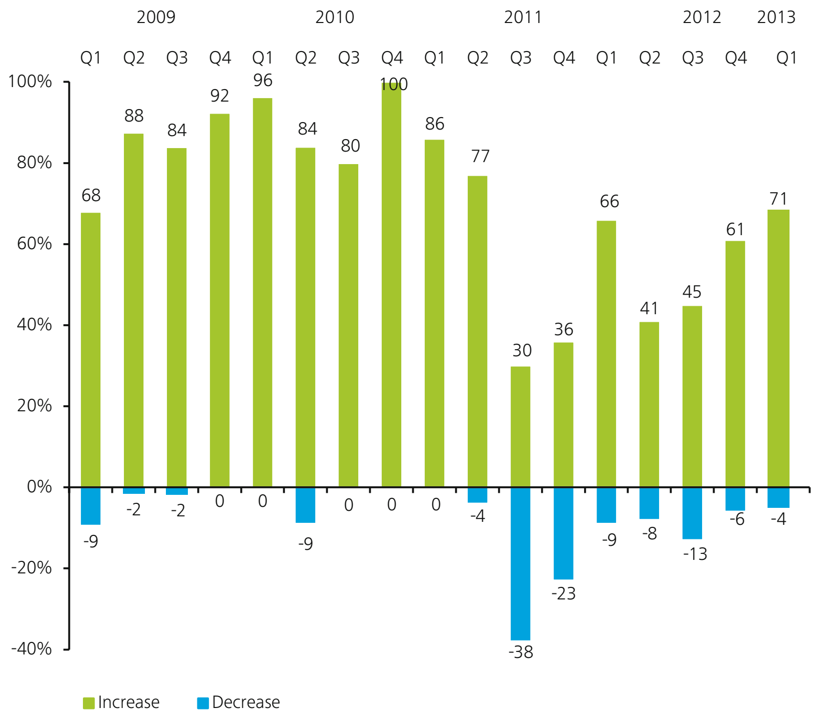
Net percentage of CFOs who think now is a good time to issue debt/equity.

Some 71% of CFOs expect M&A activity levels to increase over the next twelve months, while only 4% of CFOs expect M&A levels to decrease further from current levels, which are still considered to be low.

The trend of CFOs' expectations of Private Equity activity is rather similar to the one shown in the M&A outlook chart (+67%; -13%).

Chart 10. M&A outlook

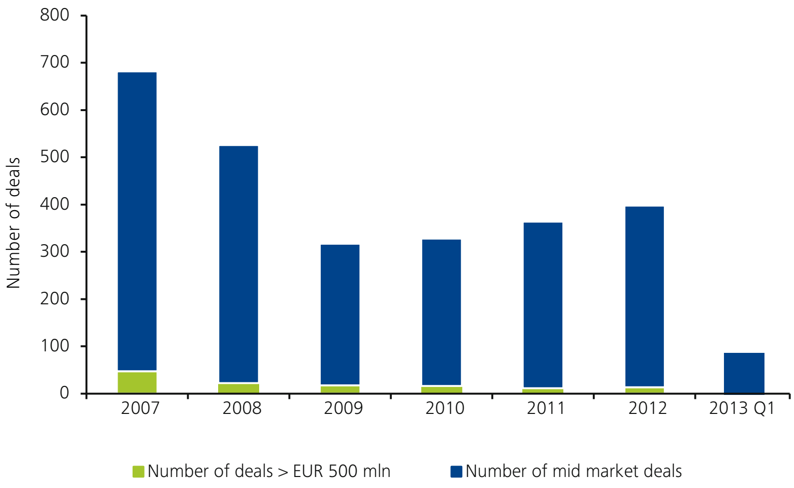
Percentage of CFOs who expect M&A activity to increase/decrease over the next 12 months.



The M&A market figures of the first quarter of 2013 are just behind the figures of the first quarter of 2012. When extrapolating these figures, no growth can yet be expected.

Chart 11. Dutch M&A market 2007-2013 Q1

Dutch M&A activity expressed in number of deals.



Source: mergermarket

Regulatory compliance

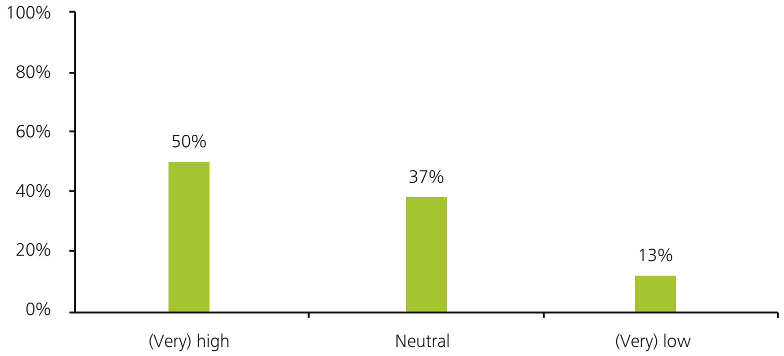
Regulatory compliance relates to the efforts of companies to ensure they comply with relevant laws and regulations. Due to the increasing number of regulations, the need for operational transparency and enforcement by regulatory bodies, companies increasingly need to organize 'compliance' within their organization. This organization and prevention of compliance incidents is one CFO's areas of responsibility.

Half the CFOs rate the impact of potential regulatory compliance incidents on the value of the firm to be high to very high. However, more than one third of CFOs consider this impact to be neutral while 13% deem it to be low.

When asked whether they feel comfortable about their company's current compliance controls preventing major regulatory compliance incidents, 58% of CFOs state they do. 21% state they are not comfortable, and 21% is neutral.

Chart 12. Impact of compliance incidents

Percentage of CFOs who rate the impact of potential regulatory compliance incidents on the value of the firm as high or low.

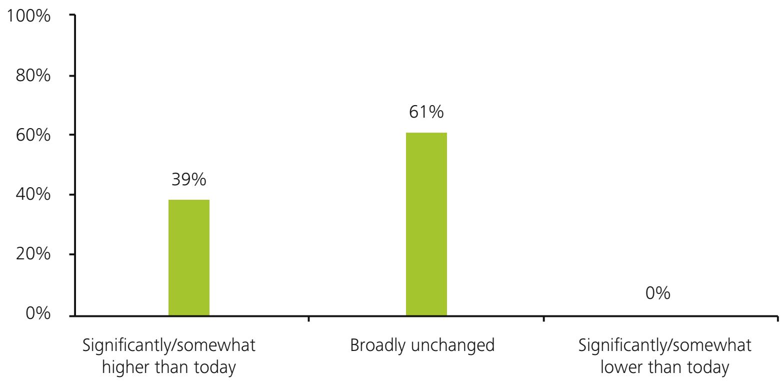


Of the CFOs 61% believe stronger enforcement and penalties will not change or affect the priority for regulatory compliance. For some 30% of CFOs the priority is somewhat higher than today, and for 9% even significantly higher.

Chart 13. Will CFOs priority be affected by stronger enforcement?

Percentage of CFOs who state that stronger enforcement and penalties will affect the priority for regulatory compliance over the coming period.

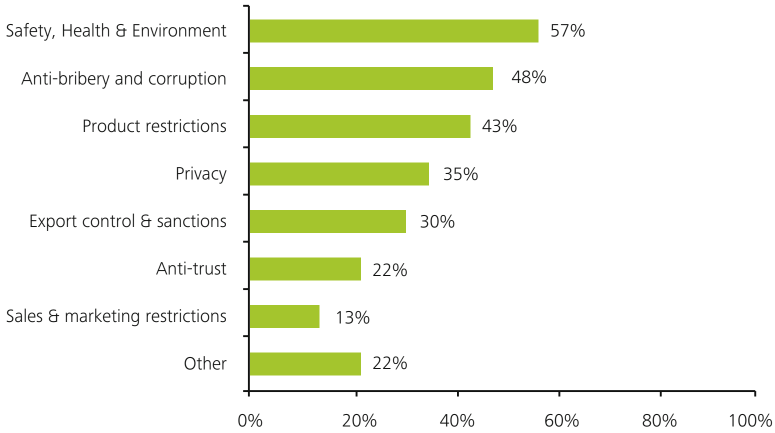
Priority will be:



Safety, Health & Environment is indicated by 57% of CFOs as the compliance area that can most impact the company's operational results, followed by anti-bribery and corruption and product restrictions.

Chart 14. Top regulatory compliance areas

Percentage of CFOs rating their top regulatory compliance areas that can most impact the company's operational results.

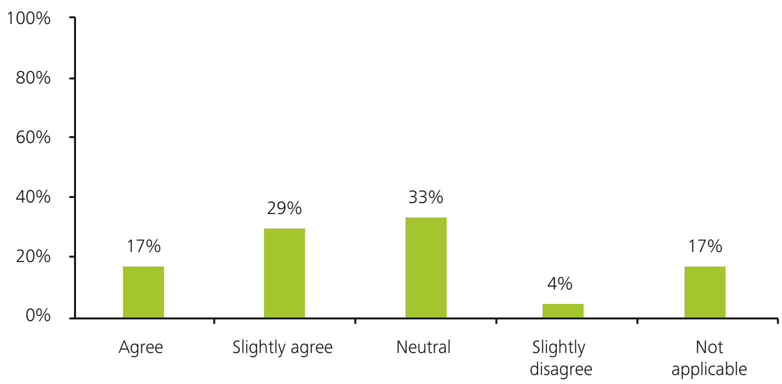


Almost half the CFOs (slightly) agree that growth in emerging markets requires more investments to prevent reputational damage.

One third of CFOs do not consider extra investments to be necessary when growing in emerging markets.

Chart 15. Prevention of reputational damage in emerging markets

Percentage of CFOs reporting whether the growth in emerging markets requires more investment to prevent reputational damage.



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 2013 Q1 survey took place between 6 March 2013 and 2 April 2013. A total of 24 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 2.8 billion. The responding companies can be categorized as follows: less than 100 million (8%), 100 – 499 million (29%), 500 – 999 million (5%), 1 – 4.9 billion (33%), more than 5 billion (17%), and unknown (8%).

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 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 rates among your peers.

Source
Deloitte Research & Market Intelligence

Contacts

Jan de Rooij
Partner Deloitte Core Audit
JandeRooij@deloitte.nl
+31 (0)6 5336 6208

Wilten Smit
Managing Partner Deloitte Financial Advisory Services
WiSmit@deloitte.nl
+31 (0)6 5389 7407

Walter Swinkels
Senior Manager Risk Services
WSwinkels@deloitte.nl
+31 (0)6 5204 8236

Harm Drent
Manager Research & Market Intelligence
HDrent@deloitte.nl
+31 (0)6 1201 1716

Wilma Bontes
Deloitte Press Officer
WBontes@deloitte.nl
+31 (0)6 2127 2102