Deloitte.

CFO Survey 2016 Q3

Brexit and the return of concern

October 2016

Contents

Key points from the 2016 Q3 Survey

68%

rate the general level of external financial and economic uncertainty as above normal

Uncertainty increases further
The uncertainty about the external economic and financial environment has increased from 53 per cent in 2016 Q2 to 68 per cent now.

23%

are optimistic about the financial prospects for their company.

Business optimism down again
CFOs' optimism about the financial prospects for their companies slightly decreased to 23 per cent from 26 percent last quarter.

67%

expect corporate M&A activity to increase.

Corporate M&A sentiment down
Some 67 per cent of CFOs expect corporate M&A levels to increase over the next 12 months, compared to 78 per cent one year ago.

48%

expect Brexit to impact their business negatively.

Negative impact Brexit foreseen
Some 48 percent of CFOs believe that Brexit negotiations between the EU27 and the UK will have a negative impact on their business.

Economic context

Brexit

The decision of the United Kingsom (UK) to leave the European Union (EU) is an unprecedented event. It is assumed the UK government will treat the result as final and will trigger Article 50, most likely before the end of March 2017. This will be the start of an untested negotiation process with unknown consequences for organisations. What lies ahead for many organisations is a period of uncertainty. The future remains unclear but is likely to be complex, firm-specific, and open-ended.

The Netherlands Bureau for Economic Policy Analysis (CPB) suggests that the Brexit will have a major effect on the economy of the Netherlands, projected at costs running up to 1.2 per cent of the Dutch GDP, or 10 billion euros, by 2030. If losses in trade-induced innovation is taken into account, this cost rises to 2 per cent of the Dutch gross domestic product (GDP). For most such an economic impact also comes with great potential to excel when risks managed and opportunities capitalised.

Click here to read more about the Dutch perspective of Brexit.

The Netherlands

On the third Tuesday in September, the Dutch government traditionally presented next year's budget. Deficit will fall to 0.5 per cent of gross domestic product in 2017, down from an expected shortfall of 1.1 per cent in 2016. In August, the government's think-tank CPB already cut its growth forecast for 2017 to 1.7 per cent from 2.1% in response to the UK's vote to leave the EU. Growth this year is also forecast at 1.7 per cent.
According to Statistics Netherlands (CBS), the mood among Dutch consumers is much more positive in September than in August. Consumers' willingness to buy is also improving. The consumer confidence indicator has risen by 6 points, from + 2 in August to + 8 in September. This is mainly because consumers are more positive about the economic climate.

International

Inflation in the euro area accelerated to the fastest since late 2014, reported Eurostat, the statistical office of the European Union. Euro area annual inflation is expected to be 0.4 per cent in September 2016, up from 0.2 per cent in August 2016. This is till below the European Central Bank's (ECB) goal of close to 2 per cent.

The Organization for Economic Cooperation and Development (OECD) cut its UK growth forecast to 1 per cent and said the UK economy may weaken further despite the signs of stabilization since the shock of the Brexit vote in June.

German unemployment unexpectedly rose in September, in a sign of concern among businesses over an economic slowdown and the consequences of Britain's decision to leave the EU.

Weak trade growth and financial distortions are exacerbating slow global economic growth, according to the OECD's latest Interim Economic Outlook that was published late September.
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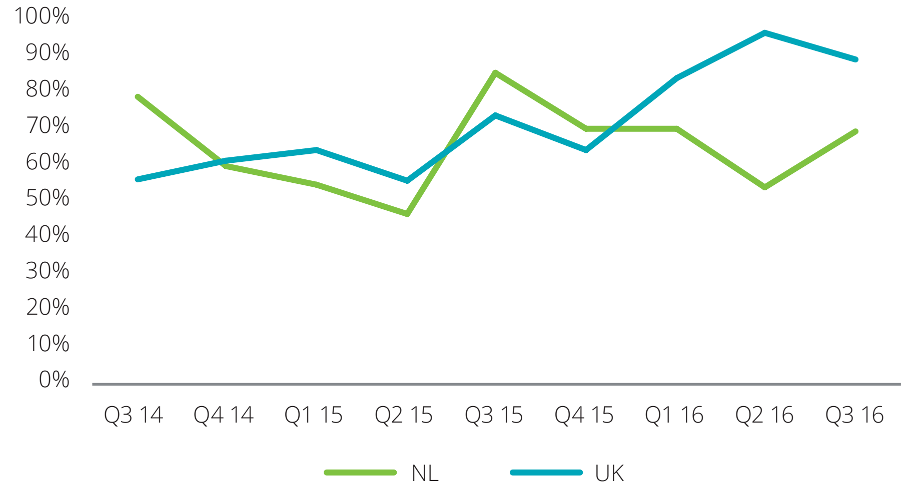
Uncertainty and confidence

The percentage of Dutch CFOs who rate the general level of external financial and economic uncertainty facing their business as above normal increased from 53 percent in the second quarter (pre-Brexit vote!) to 68 percent.

In the UK, perceptions of uncertainty have soaked in the wake of the Brexit vote. In 2016 Q2, it peaked at 95 per cent in 2016 Q2 (measured post-Brexit vote) and now comes in at 88 percent.

Chart 1. Economic uncertainty

Percentage of CFOs who rate the level of economic uncertainty as above normal.

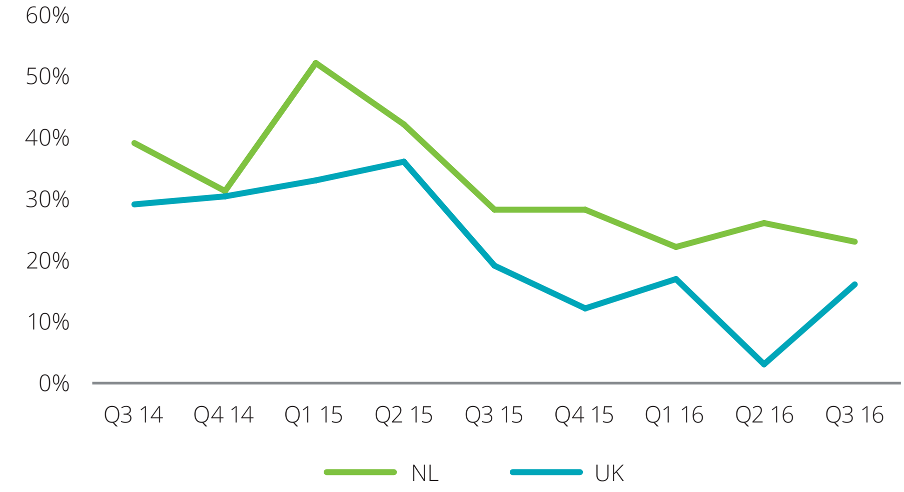


The percentage of CFOs who feel more optimistic about the financial prospects for their companies dropped to 23 per cent, from 28 per cent one year ago. Most likely, Brexit has hit CFOs' confidence, but not to the extent in the UK.

Their UK counterparts' optimism plunged to 3 per cent in 2016 Q2 and now recovered modestly to 16 percent.

Chart 2. Business optimism

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



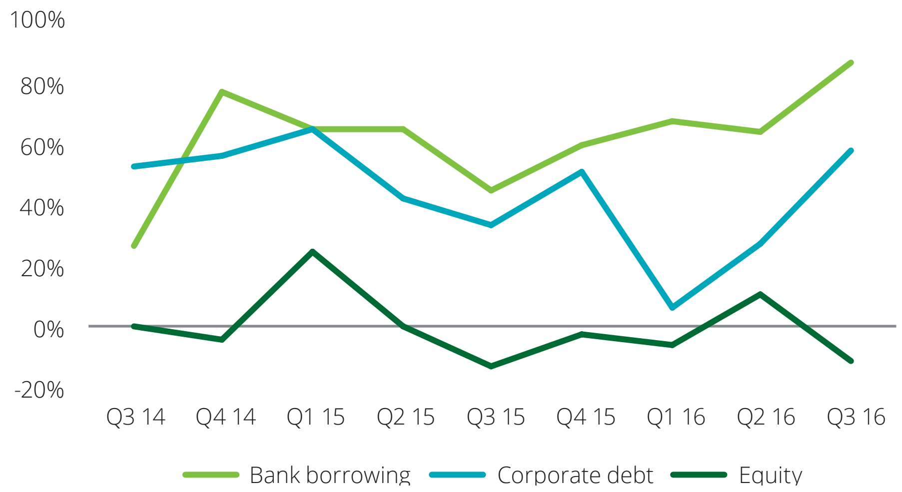
Financing and risk appetite

Debt finance – bank borrowing and bond issuance – remains the most attractive source of funding for CFOs.

Equity issuance is still less appealing, with its attractiveness below zero again.

Chart 3. Favoured source of corporate funding

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

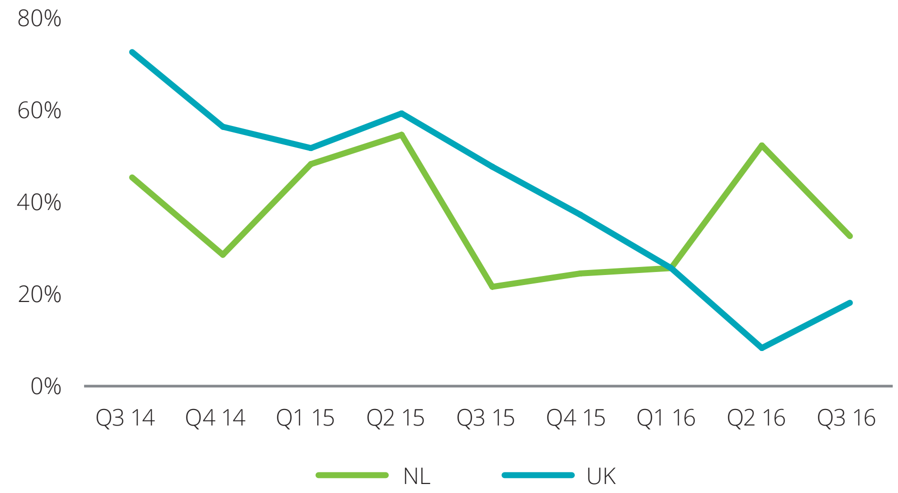


The percentage of CFOs who believe that now is a good time to be taking greater balance-sheet-related risks dropped sharply from 52 percent last quarter to 32 per cent in 2016 Q3.

In the UK, corporate willingness to take risk has seen one its largest ever declines in 2016 Q2 to 8 percent and now stands at 18 percent. Brexit concers are weighing heavily on the UK CFOs' risk appetite. The same can be said about Dutch CFOs.

Chart 4. Risk appetite

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



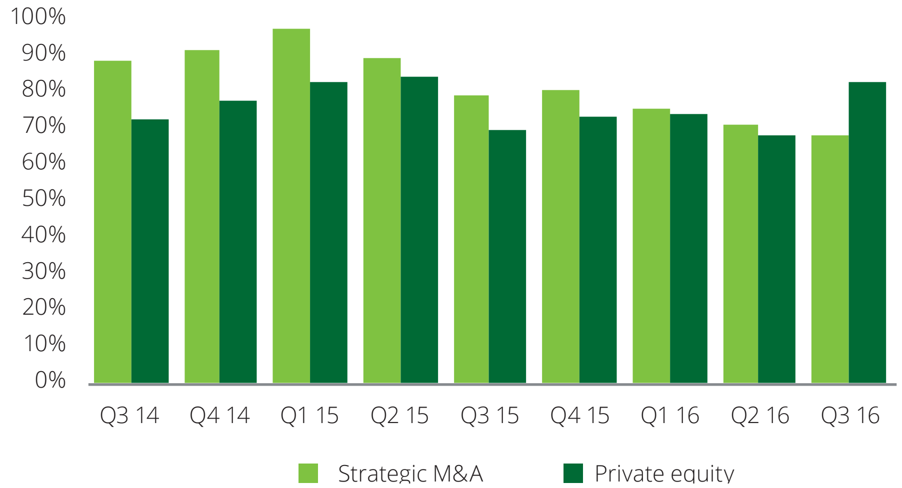
M&A

For the first time since the first quarter of 2014 CFOs expect private equity transaction activity to increase more than corporate M&A. Some 81 percent of CFOs expect private equity to increase over the next 12 months, compared to 67 percent last quarter, and 68 percent a year ago.

The percentage of CFOs who expect the corporate M&A market in the Netherlands to grow continued its downward trend and came in at 67 percent.

Chart 5. M&A outlook Netherlands

Net percentage of CFOs who expect M&A activity to increase/decrease in the Netherlands over the next 12 months.

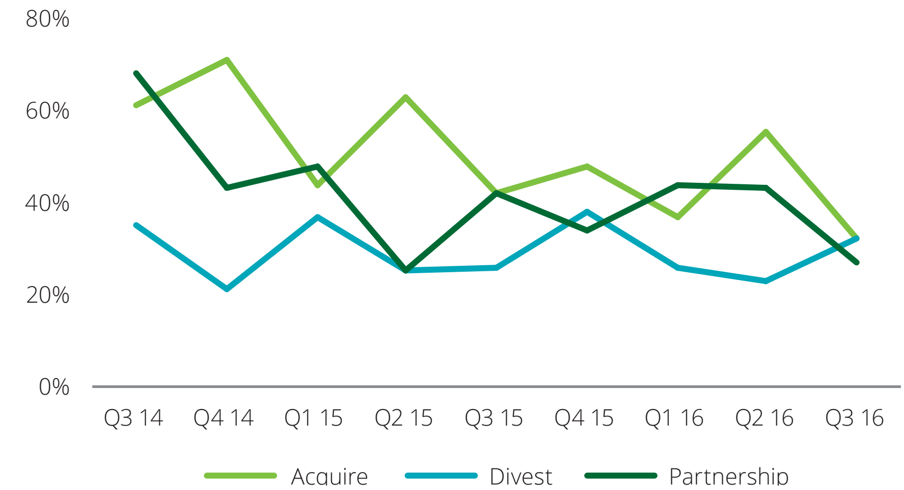


Increased uncertainty, less risk-taking, and falling business optimism seem to impact acquisition appetite. Almost a third of CFOs say that their companies will realize on more acquisitions over the next 12 months, compared to 55 percent in 2016 Q2.

Divestitures seem to be back on CFOs' agenda (32 percent, from 23 percent) while partnerships/joint ventures are now seen as the least preferred transaction type.

Chart 6. M&A activity at a CFO's company

Percentage of CFOs who expect their company to be involved in a M&A transaction over the next 12 months



Brexit

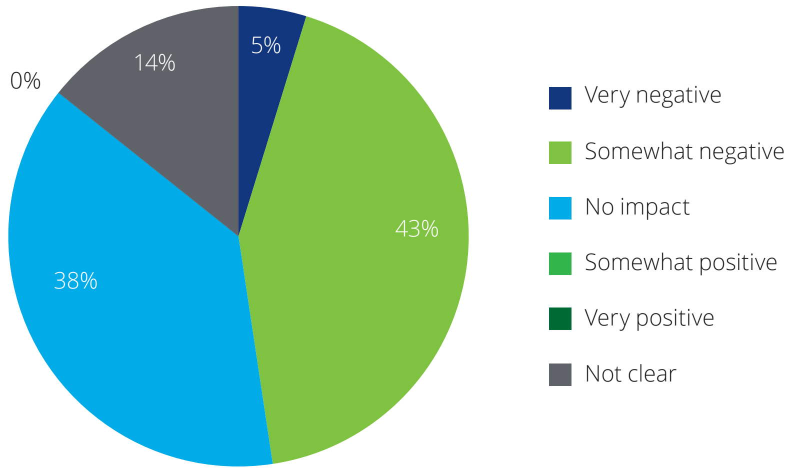
This quarter we asked our pannelists how a possible Brexit would impact their business.

Some 48 per cent of Dutch CFO believe that Brexit will be somewhat or very negative. In 2016 Q1 we also asked about the potential impact. Then, 44 per cent was expecting a negative impact.

In the UK, roughly two-third of CFOs believe Brexit to have a negative impact on their businesses throught a deteriorated business environment.

Chart 7. Impact of Brexit on CFOs' business

The level of impact that Brexit negotiations between the EU27 and the UK will have on CFOs' business



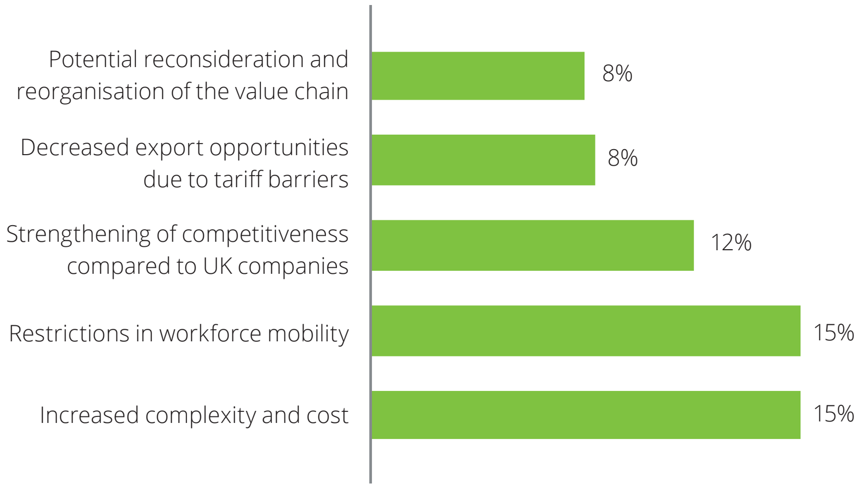
We also asked CFOs to rate the effects of the Brexit vote.

Increased complexity and cost due to the introduction of different regulatory requirements between the EU and the UK and restrictions in workforce mobility were both mentioned as the key areas where Brexit would impact CFOs' companies.

Dutch CFOs also believe that their competitive strength compared to UK companies will increase due to advantageous EU market access and/or positive currency movements.

Chart 8. Effect of Brexit vote

Top 5 effects that impact CFOs' business



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 2016 Q3 survey took place between 1 September 2016 and 29 September 2016. A total of 22 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 3.0 billion. The responding companies can be categorized as follows: publicly listed (41%), privately owned (18%), family owned (14%), state or government owned (14%), 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.

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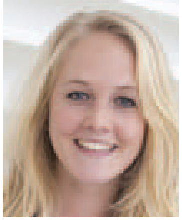

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