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CFO Survey 2016 Q4

Good mood, outlook fragile

January 2017

Contents

Key points from the 2016 Q4 Survey

55%

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

Uncertainty down

The uncertainty about the external economic and financial environment has decreased from 68 per cent in 2016 Q3 to 55 per cent now.

35%

are optimistic about the financial prospects for their company.

Business optimism increases

CFOs' optimism about the financial prospects for their companies increased to 35 per cent from 23 per cent last quarter.

40%

intend to hire over the next 12 months.

Number of employees will increase

Some 40 per cent of CFOs expect to increase their workforce over the next 12 months, compared to 21 per cent one year ago.

47%

expect the Trump administration to impact the global economy negatively.

Negative impact Trump foreseen

Some 47 per cent of CFOs believe that the US administration under Donald Trump will have a negative impact on the global economy.

Economic context

Dutch economy continues to expand

Most people don't like it at all, but traffic congestion in the Netherlands increased by 12 per cent in 2016, an indicator of the improved economic climate. Traffic jams are here to stay, and most likely get worse, as the Dutch economy will continue to expand and is now above the pre-2008 crash level. In its December report, the government's macro-economic think tank Netherlands Bureau for Economic Policy Analysis (CPB) forecast economic growth in 2017 at 2.1 per cent of gross domestic product (GDP), up from its prediction of 1.7 per cent three months earlier. Forecasts from the Economist Intelligence Unit (EIU) are 1.7 per cent for 2017 and 1.6 per cent for 2018 and 2019. CPB also forecast that unemployment will fall to 5.3 per cent and that the government budget will be balanced in 2017, whilst purchasing power is anticipated to increase by 0.7 per cent.

Consumer confidence in the Netherlands remained at a record level of 12 in December, for the third consecutive month and the highest level in nine years, National Statistics (CBS) reported. Rising employment, steady wage gains, low borrowing costs and "wealth effects" for homeowners due to rising house prices are driving this confidence.

Central banks' decisions

In December, the European Central Bank (ECB) said it extends its quantitative-easing programme by nine months to the end of 2017, buying, mostly sovereign, bonds at a slower monthly pace to €60 billion each month, from €80 billion previously. The ECB also reported that its projection for euro-area inflation of 1.7 per cent for 2019 is "not really" close to the ECB's goal of just under two per cent. ECB kept the main interest rates unchanged.

The Federal Reserve in the United States (US) raised short-term borrowing costs and said that interest rates would rise at a faster pace in 2017 than earlier projected due to increased optimism about the US economy.

The United Kingdom's (UK) central bank, the Bank of England (BOE), kept the main rate at 0.25 per cent and said to proceed with a £70 billion programme of bond purchases.

Capital markets

There has been less deal activity in the equity markets, while mergers and acquisitions activity has also slowed. Syndicated loan activity has also dropped. Debt capital markets is the only business that saw an increase in 2016, according to Dealogic. Global issuance of bonds amounted to US$6,621 billion, an increase of eight per cent compared to 2015.

Stock indices performed strong in the last months of 2016. The UK's FTSE 100 index closed at record high on December 28, whilst the US' Dow Jones index reached its latest record high on 13 December. The final days of December brought the Amsterdam Stock Exchange its highest close in the year.

Fragile global outlook

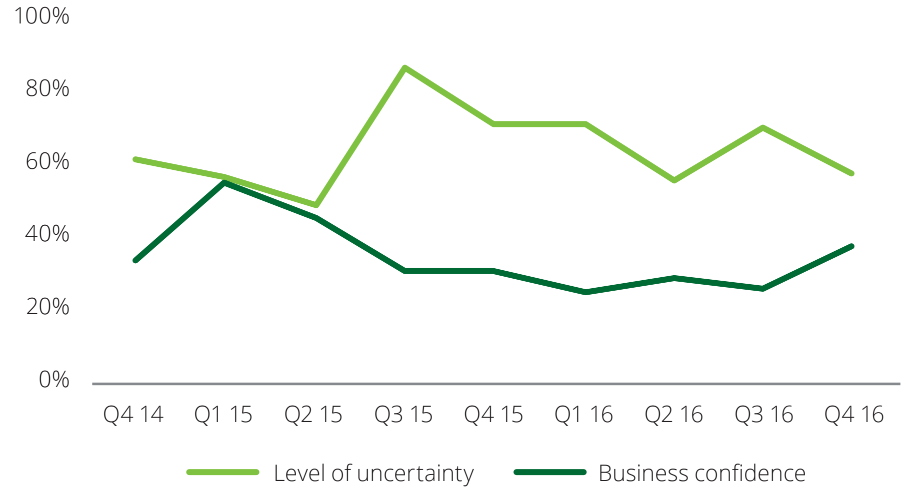
Despite positive domestic indicators for the near-term, the international situation remains uncertain. Global trade is sliding into more gloomy territory, with 2016 being the worst year since 2009. Upcoming elections in the Netherlands, France, Germany and possibly Italy and Greece are a source of uncertainty itself. The UK's decision to leave the European Union (EU) and the election of populist Republican Donald Trump in the US provide a clear warning sign for political leaders facing the judgement of electorates in Europe in 2017 and beyond. The results of the elections will have national importance, but will also have a weighty leverage on the political debate in the EU and the wider region – and thus on businesses.

Uncertainty and optimism

The level of concern about the financial and economic environment has decreased from 68 per cent in 2016 Q3 to 55 per cent now. Its mirror, CFOs' optimism about the financial prospects of their companies, increased from 23 per cent to 35 per cent.

Chart 1. Economic uncertainty and business optimism

Percentage of CFOs who rate the level of economic uncertainty as above normal and percentage of CFOs feeling optimistic about their financial prospects.

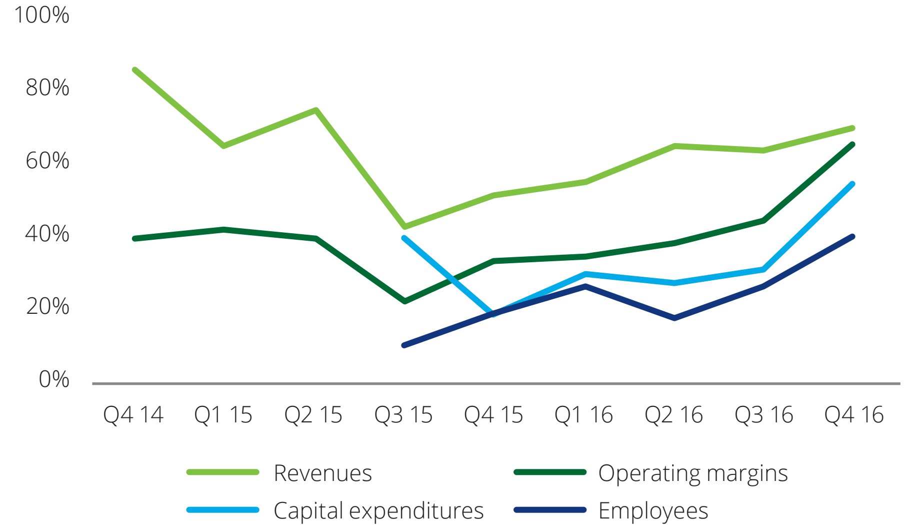


CFOs' expectations for growth, operating margins, capital expenditures and workforce were all up compared to the previous quarter.

Some 70 per cent of CFOs expect their revenues to increase in 2017, compared to 52 per cent one year ago – whilst 65 per cent also expect better operating margins. Four out of ten CFOs say to hire in 2017. Some 55 per cent say that their number of employees remains the same and only 5 per cent has the intention to reduce workforce.

Chart 2. CFOs' outlook on revenues, margins, capex and workforce

Expectation of key metrics for CFOs' companies to change in the next 12 months.

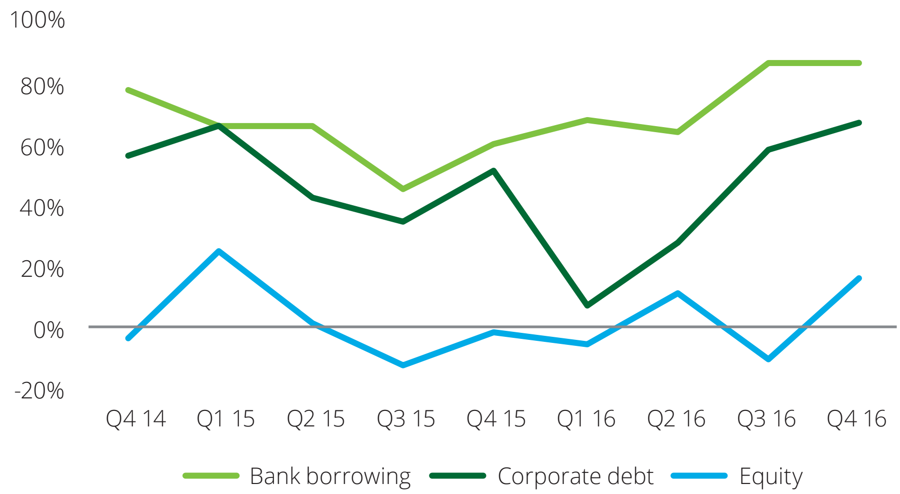


Financing and risk appetite

Debt finance – bank borrowing and bond issuance – remain the most favoured source of corporate funding for CFOs. Equity markets have shown strong performance in the last three months of 2016 and equity issuance has become more attractive as a result, although it remains the least attractive of the three sources of funding.

Chart 3. Favoured source of corporate funding

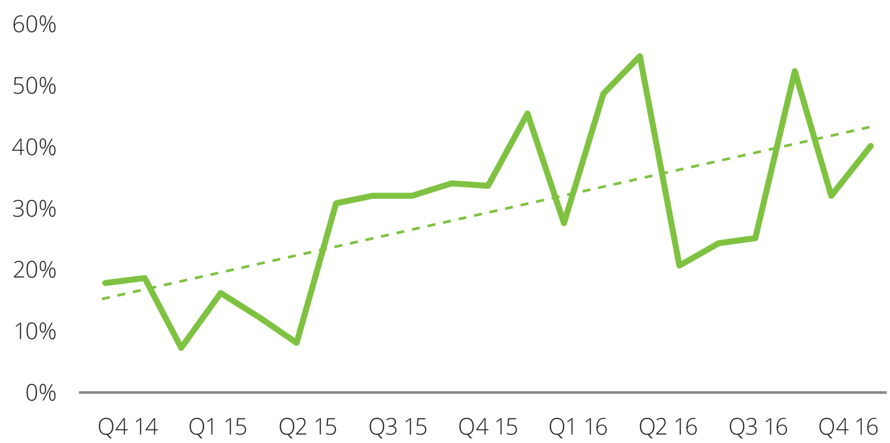
Net percentage of CFOs reporting the following sources of funding as (un)attractive.



In line with increased optimism about the financial prospects of their companies, some 40 per cent of our CFO panel say that now is a good time to take greater risk onto their balance sheet – a recovery of 800 basis points after the sharp Brexit-related decline in the previous quarter.

Chart 4. Corporate risk appetite

Percentage of CFOs who think now is a good time to take greater risk onto their balance sheets.



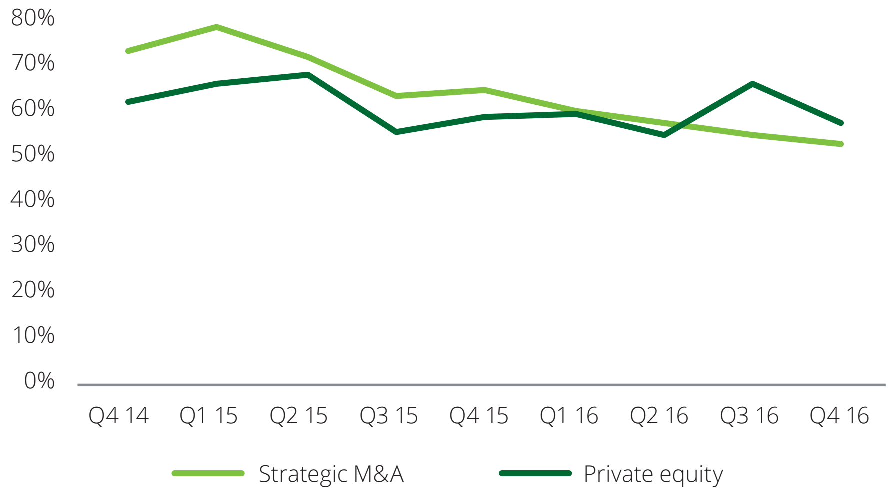
M&A

In 2016, deal volumes in the Netherlands slowed down – this compares to European and global levels. CFOs' outlook on the corporate M&A market continued its downward trend, with 65 per cent of CFOs who expect M&A activity to increase in 2017 – compared to 79 and 90 per cent one year and two years respectively.

Some 70 per cent expect private equity activity to increase over the next 12 months (81 per cent in 2016 Q3).

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.

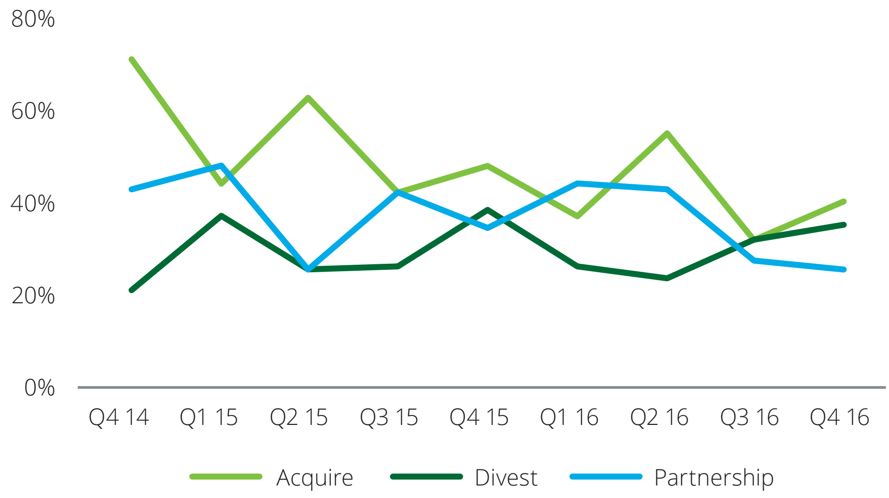


Some 40 per cent of the panellists expect their company to realise one or more acquisitions over the next 12 months, whilst 35 per cent say to be working on the disposal of subsidiaries and/or assets.

Partnership, e.g. joint ventures, is the least favourite 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.

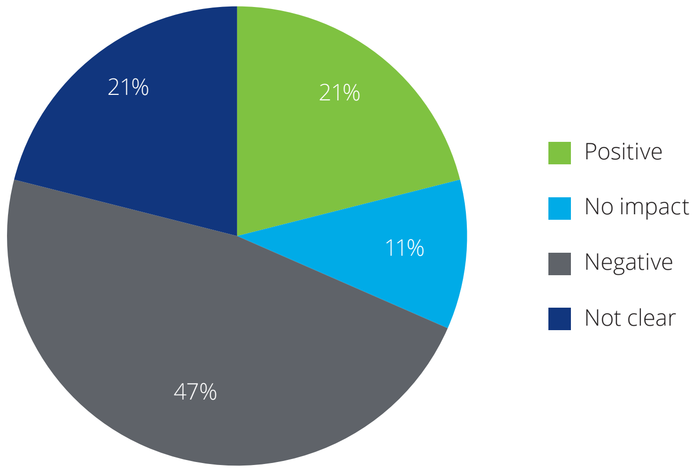


US elections

Donald Trump has been elected as President of the United States. His inauguration will be on 20 January 2017. We asked our panellists about the impact they expect the Trump administration to have on the global economy.

Some 21 per cent expect the Trump administration to have a positive effect on the global economy, whilst 47 per cent expect a negative impact. A fifth is having a wait-and-see approach.

Chart 7. Impact of Trump administration on global economy
CFOs' expectations of the level of impact that the US administration under Donald Trump will have on the global economy.

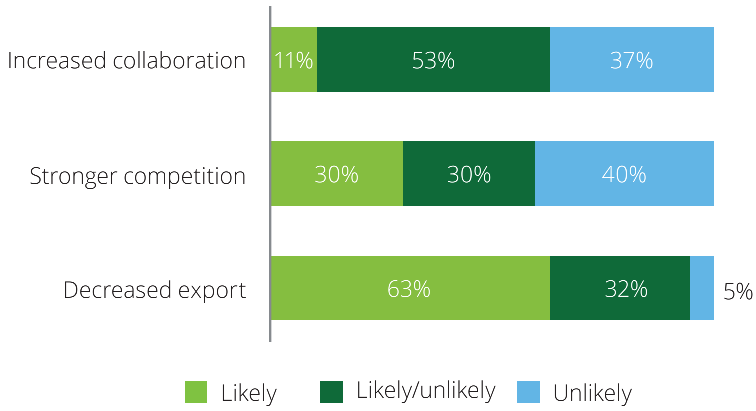


After Germany, the US are the second-most important export country for the Netherlands. Decreased exports is what CFOs fear most, since 63 per cent believe that exports to US will fall as a result of increased protectionism.

Stronger competition from the US due to weakening of the US dollar versus the euro is considered by a third of our CFO panel.

Only 11 per cent of CFOs believe that the economic policy of the Trump administration will result in more possibilities to collaborate with US-based companies.

Chart 8. Impact of US economic policy on business in the Netherlands
Level of impact of economic policy under the Trump administration on businesses in the Netherlands.

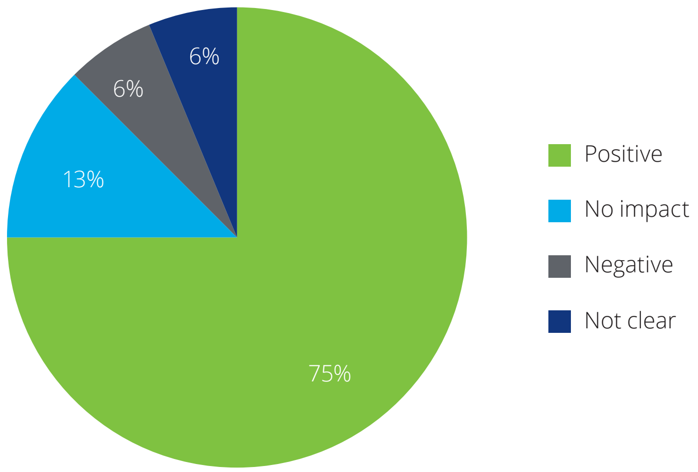


Dutch elections

The coalition government of the centre-right Liberals (VVD) and the centre-left Labour Party (PvdA) is nearing the end of its term. Parliamentary elections will be held in the Netherlands on 15 March 2017. The Rutte 2 cabinet had to take a series of austerity measures but also promised to reduce the pressure of rules for corporates.

The far majority of our panellists is positive about the economic policy of the cabinet – only six per cent is negative.

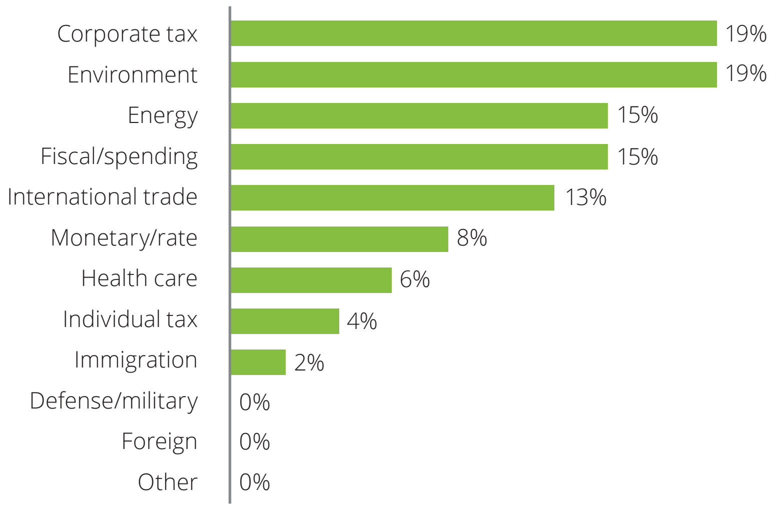
Chart 9. CFOs' assessment of Rutte 2 cabinet
CFOs' assessment of the economic policy of the cabinet Rutte 2.



We asked our CFO panel which policy changes the new cabinet should focus on to have a positive effect on their businesses.

Policy changes in both corporate tax and environment were mentioned most, followed by changes in energy policy and around fiscal/spending.

Chart 10. Policy changes in benefit of corporates
Changes in cabinet policy that would affect corporates most.



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 Q4 survey took place between 7 December 2016 and 23 December 2016. A total of 20 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 2.1 billion. The responding companies can be categorised as follows: publicly listed (45%), privately owned (25%), family owned (15%), state or government owned (10%), other and/or unknown (5%).

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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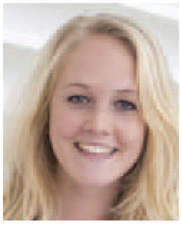

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