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CFO Survey 2017 Q3

Revenue outlook up despite higher uncertainty

November 2017

Contents

Key points from the survey

71%

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

Uncertainty increases

Some 71 per cent of CFOs in our panel rate current levels of economic and financial ucertainty as above normal, high or very high, compared to 59 per cent in 2017 Q2.

75%

expect revenues to increase over the next 12 months.

Revenue outlook up

The revenue outlook of CFOs improved considerably. Some 75 per cent expect their companies' revenues to increase over the next 12 months, compared to 47 per cent last quarter.

58%

believe that now is the time to take risks.

Risk appetite at all-time high

CFOs' risk appetite came in at the highest level in the past 20 quarters: 58 per cent, versus 32 per cent one year ago.

46%

expect interest rates to increase over the next 12 months.

Interest rates increase

Almost half of the CFOs, some 46 per cent, expect interest rates to rise over the next 12 months with some 50 per cent expect the interest rates to stay the same. This is in line with the economic context that the ECB will recalibrate its quantitative easing policy and the FED raising interest rates.

Economic context

Netherlands

According to a report published by the World Economic Forum in September, the Netherlands has the most competitive economy in the European Union (EU), and the fourth most competitive economy in the world behind Switzerland, the United States and Singapore.

On the third Tuesday of September the Dutch outgoing cabinet presented the 2018 annual budget. It expects to run a budget surplus of 7.8 billion euro next year. The cabinet will increase spending on care homes and primary education, and will restore purchasing power of pensioners and those receiving state benefits. Shortly after the presentation of the 2018 annual budget, a new coalition was formed. Its programme for the next four years is aimed in large parts at changes to the tax system.

In its latest macro-economic outlook, the CPB Netherlands Bureau for Economic Policy Analysis forecast the Dutch economy to grow by 3.3 per cent this year and 2.5 per cent in 2018. The Economist Intelligence Unit (EIU) made an upward revision in their economic growth forecast. EIU now expect the Dutch economy to grow by 3.2 per cent in 2017, from 2.2 per cent previously, and 2.3 per cent in 2018. For the period 2019-2021 EIU expect an average growth rate of 1.8 per cent.

Statistics Netherlands (CBS) reported that confidence among Dutch manufacturers stood at 8.5 in September, up from 5.4 in August. This is well above its long-term average in the past two decades (0.7) and the highest level in 9.5 years. Statisitics Netherlands also reported that manufacturing output was nearly four per cent up in August, compared to one year ago.

HIS Markit's manufacturing purchasing managers' index (PMI) signalled a dynamic end to the third quarter, rising to 60 in September, up from 59.7 in August (a score higher than 50 implies an improvement in overall business conditions).

National Statistics reported that consumers were less positive in September. The consumer confidence indicator came in at 23, down from 26 in August. In September the annual rate of consumer price inflation rose slightly, to 1.5 per cent, from 1.4 per cent in August.

International

Eurostat reported an increase of 1.4 per cent in industrial production in the Eurozone in August, compared to July. Year-on-year, industrial production was up 3.8 per cent.

In August, the unemployment rate in the Eurozone stood at 9.1 per cent, the lowest rate recorded in the Eurozone since February 2009.

The European Central Bank (ECB) has recently announced to cut (but extend) its bond-purchase program, known as quantitative easing. Its purchase program will fall to 30 billion euros from 60 billion euros, starting in January. The ECB will extend its monetary stimulus program until at least September of next year.

Analysts surveyed by the Wall Street Journal (WSJ) see the United States' Federal Reserve (FED) raising interest rates once more in 2017 and three times in 2018. The EIU forecast the global economy to grow by 2.9 per cent this year and 2.8 per cent in 2018. US and European economies are both forecast to grow by 2.2 per cent in 2017 and resp. 2.2 per cent and 1.9 per cent in 2018.

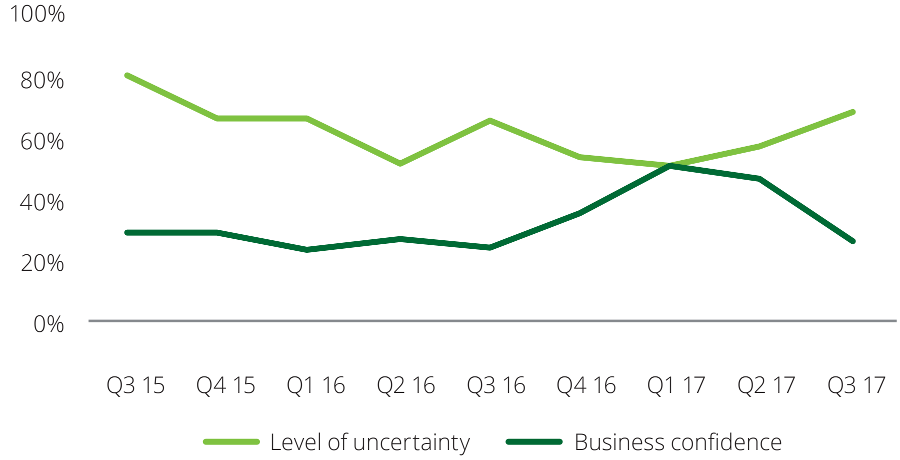
Business outlook

The general level of external financial and economic uncertainty facing CFOs' businesses has increased for the third consecutive quarter.

Some 71 per cent of CFOs in our panel rate current levels of economic and financial ucertainty as above normal, high or very high.

Business optimism fell sharply in the third quarter from 47 per cent to 25 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.

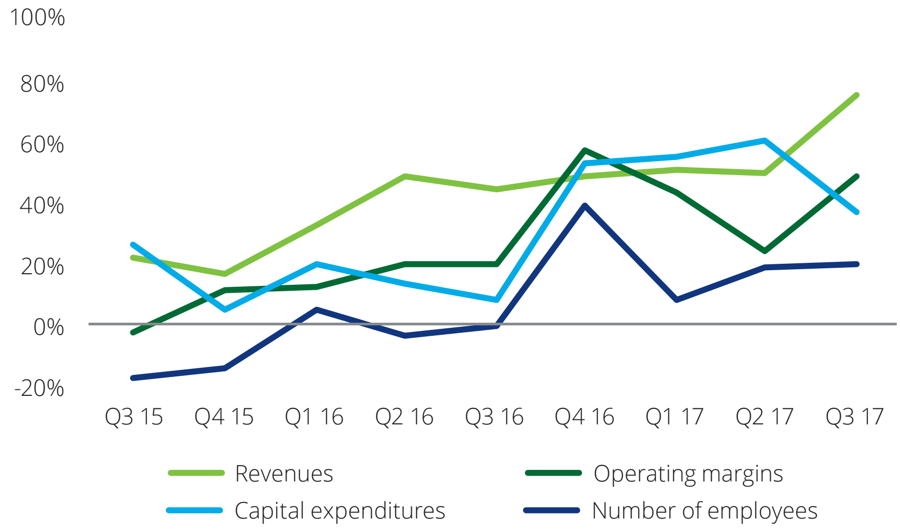


CFOs remain optimistic about the revenue prospects for their companies. A net percentage of 75 expect revenues to increase over the next 12 months.

The margins outlook improved from 18 per cent in the second quarter to 46 per cent now, while a third of CFOs expect to reduce their capital expenditures.

CFOs do not expect major changes in their workforces in the next year.

Chart 2. CFOs' outlook on revenues, margins, capex and workforce
Net percentage of CFOs' expectation for key metrics to change in the next 12 months.



Financing

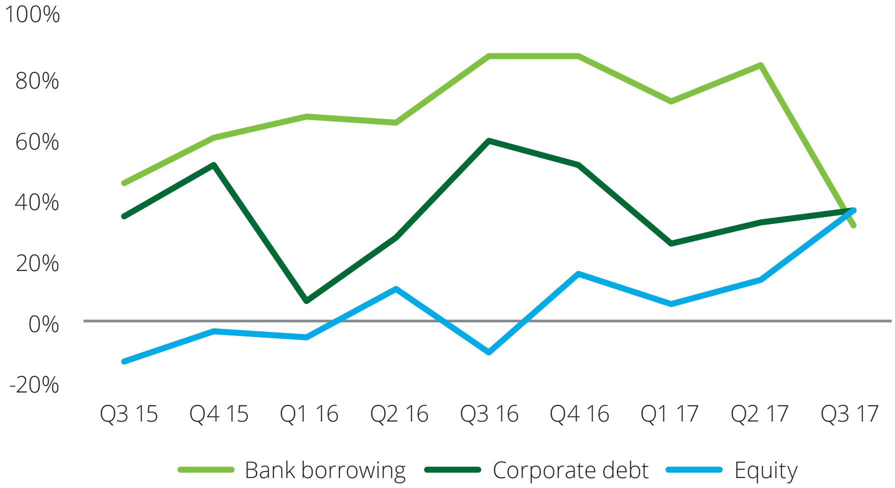
Corporate debt is now perceived by 35 per cent of the CFOs as the most favoured source of corporate funding.

Attractiveness of bank borrowing decreased sharply in the third quarter from 82 per cent to 30 per cent now.

CFOs' views on equity funding have improved from 13 per cent to 35 per cent in the third quarter.

Chart 3. Favoured source of corporate funding

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

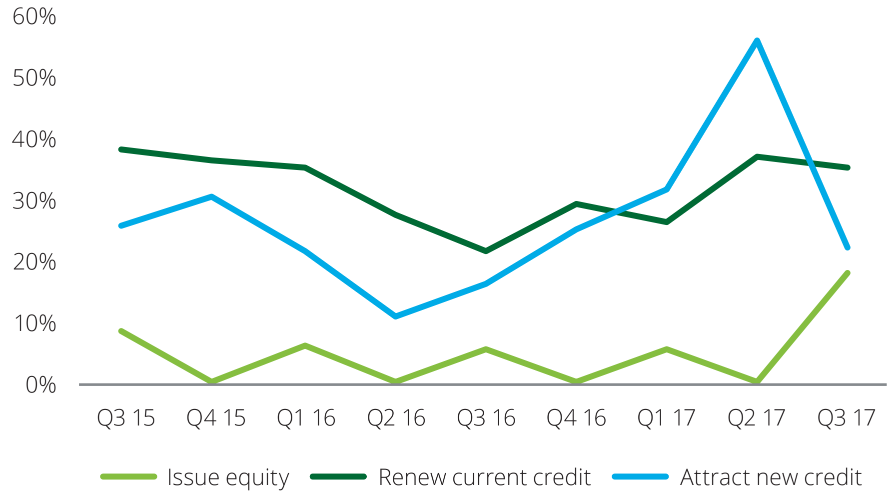


Some 33 per cent of our panellists say to renew credit in the next 12 months, while 17 per cent will issue equity.

Attracting new credit came in at 21 per cent, down from 53 per cent.

Chart 4. Equity and credit lines

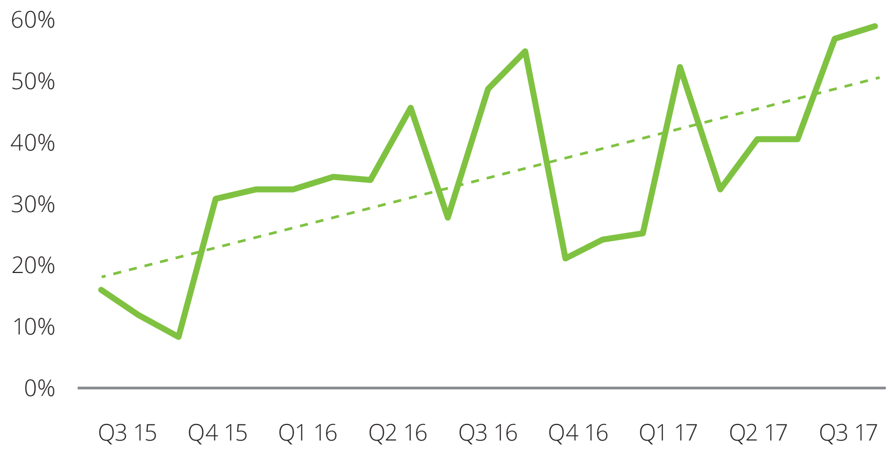
Percentage of CFOs who are (very) likely to issue equity or to attract and renew credit over the next 12 months.



Risk

Corporate risk appetite has slightly decreased in the third quarter. Some 58 per cent of CFOs believe that now is the time to take more balance sheet related risks. Compared to the past 20 quarters this is the highest level.

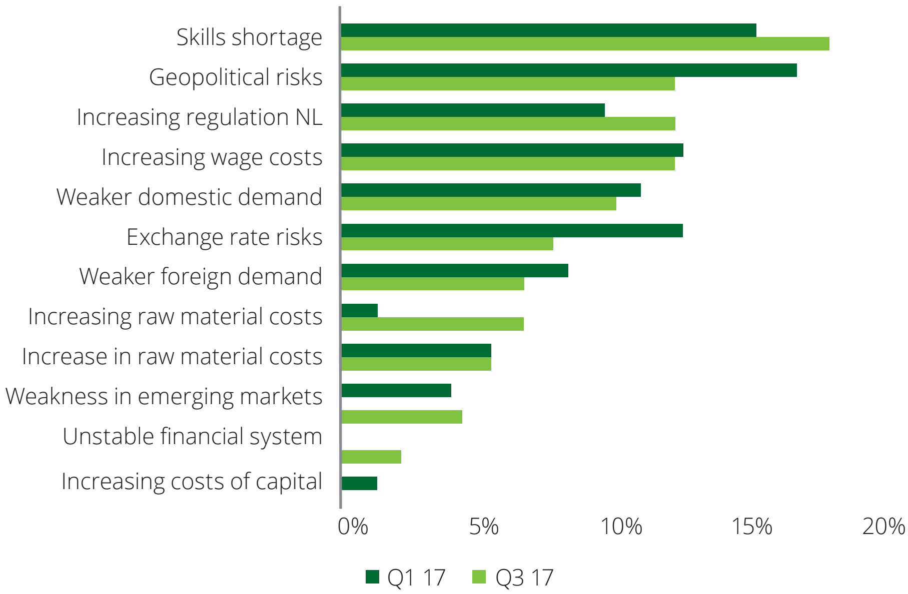
Chart 5. Risk appetite
Percentage of CFOs reporting that now is a good time to be taking greater balance-sheet-related risks.



The main risk perceived by our CFO panel is a shortage of qualified workforces.

Geopolitical risks and exchange rate risks are less prominent this quarter, while increasing regulations in the Netherlands is now a runner-up.

Chart 6. Business risk
Business risks facing CFOs' companies over the next 12 months.



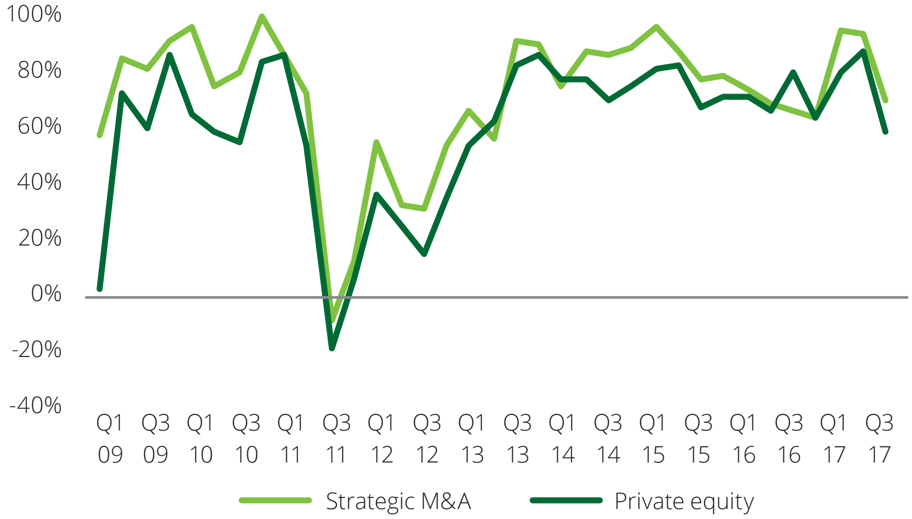
M&A

The M&A outlook for the next 12 months plunged for the first time since the global credit crisis broke out.

Some 71 per cent of CFOs expect corporate M&A activity to increase, compared to 94 per cent in the second quarter.

Private equity activity is expected to grow by 60 per cent of respondents, down from 88 per cent.

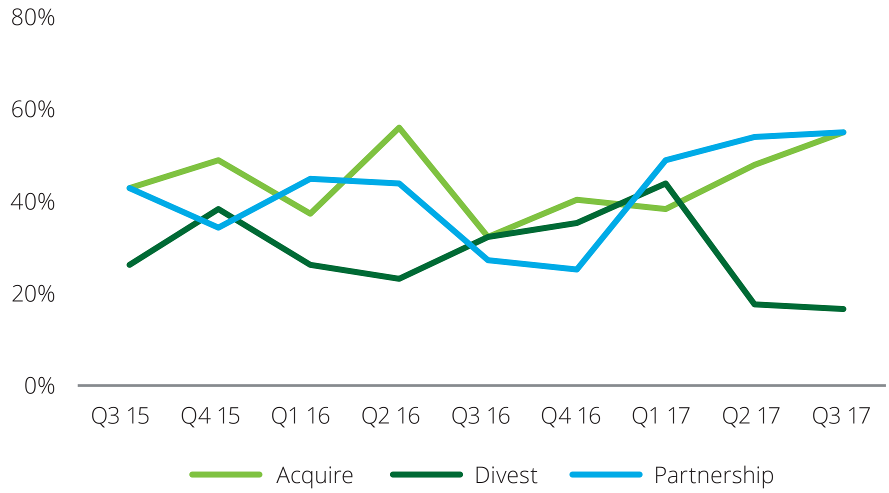
Chart 7. M&A outlook Netherlands
Net percentage of CFOs who expect M&A activity to increase/ decrease in the Netherlands over the next 12 months.



Establishing a strategic partnership is now perceived as the most favourite type of transaction. Almost two-third of CFOs expect their companies to establish a partnership over the next 12 months.

Some 54 per cent say that their companies will realize an acquisition while disposals are not high in the agenda.

Chart 8. M&A activity at a CFO's company
Percentage of CFOs who expect their companies to be involved in a M&A transaction over the next 12 months.

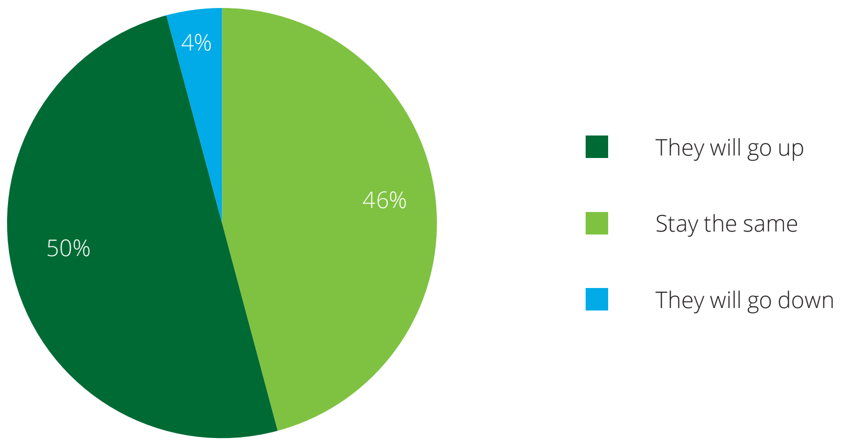


Special questions: Interest rates

With interest rates still at historically low levels, we asked our panel about their interest rate expectations.

Half of the respondents believe that the interest rates will stay the same, and remain at low level, but some 46 per cent is expecting an increase over the next 12 months.

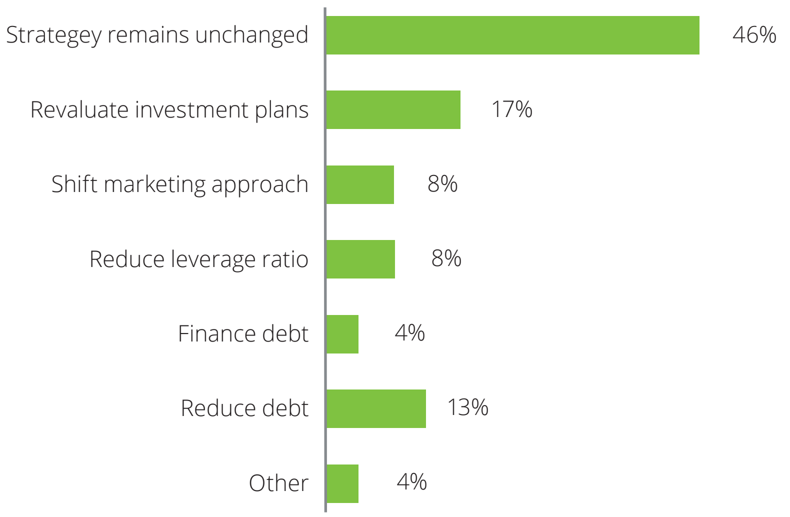
Chart 9. Interest rate expectation
Percentage of CFOs who expect the interest rates to increase, decrease or stay the same in the next 12 months.



We also asked if CFOs would change their strategies if interest rates were to increase.

Half of the CFOs say that their companies' finance strategies will remain unchanged, as the impact will be low or even absent.

Chart 10. Finance strategies at higher interest rates
Response of CFOs' finance strategies to rising interest rates.



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 2017 Q3 survey took place between 4 and 26 September 2017. A total of 24 corporate CFOs completed our survey, representing a net turnover per company of approximately EUR 3.4 billion. The responding companies can be categorised as follows: publicly listed (46%), privately owned (17%), family owned (8%), government or state owned (4%), private equity portfolio company (17%), other and/or unknown (8%).

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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