

Deloitte Belgian CFO Survey Outlook 2015: Reasonable Year, Prudent Growth

Benchmarking corporate financial attitudes



Belgian Outlook 2015:

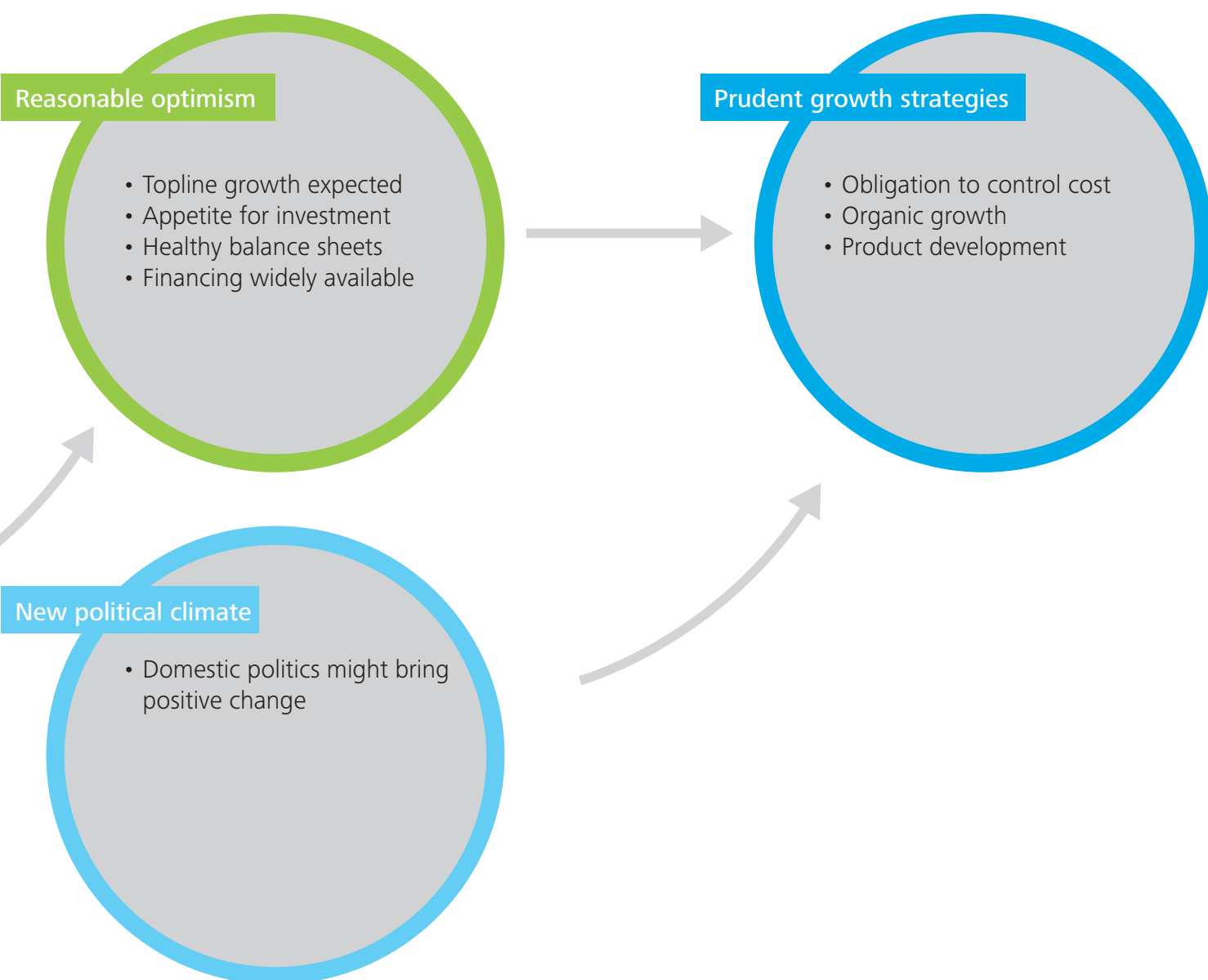
Reasonable year, prudent growth

Things to worry about

- Increasing uncertainty
- Stagnating euro area
- Threatening geopolitical environment
- Low Belgian growth

Things to build on

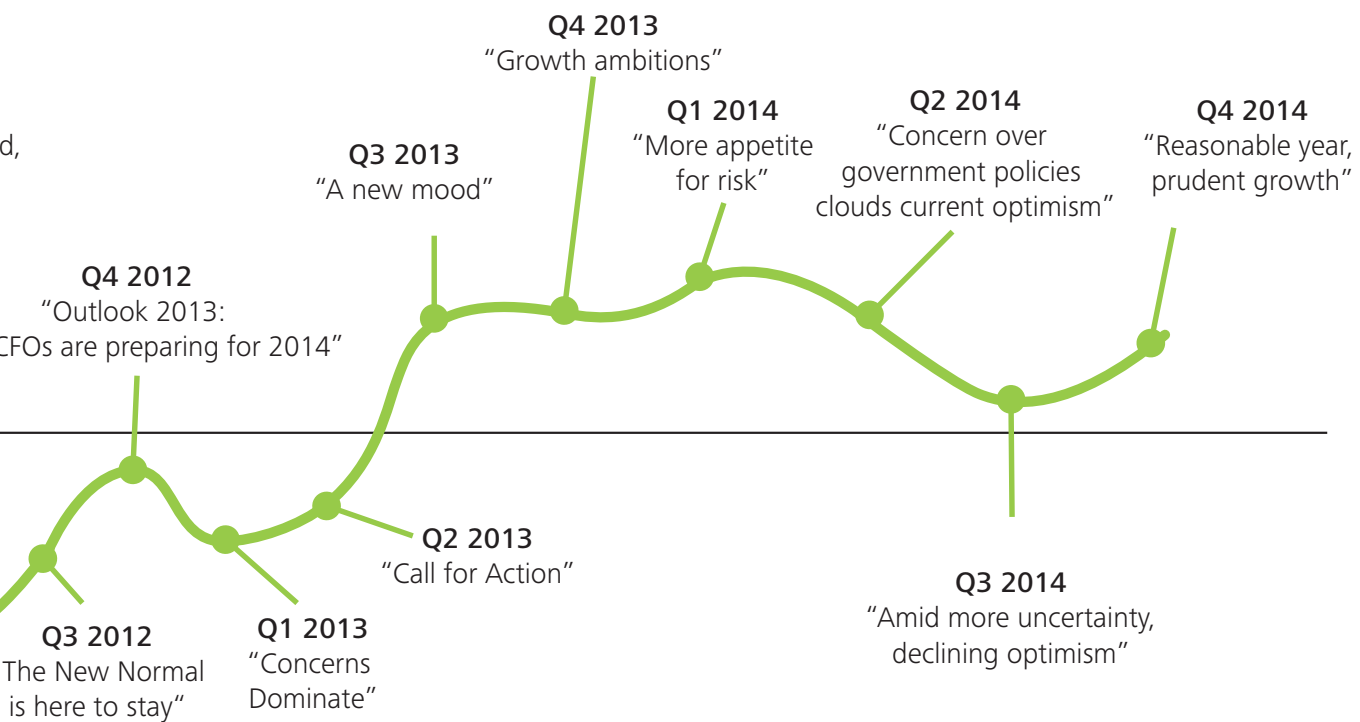
- Money remaining cheap
- Low oil and commodity prices
- US growth picked up



Looking Back: Business confidence through the financial (2009-2014)



Financial and economic cycle



Reasonable Year, Prudent Growth



CFOs have a lot to worry about. One third of our survey participants consider the external financial and economic uncertainty high or very high, more than double than a year ago. Geopolitical risks, growth prospects in the euro area and in emerging markets and the competitiveness of their own companies are important concerns. CFOs have less faith in the Belgian economy as has the National Bank, expecting only about half of the 1% GDP growth officially forecasted. But overall CFO optimism has recovered from the dip in the third quarter. CFOs are specifically positive about topline growth potential in 2015, and many plan to increase capital expenditure. Domestic politics fuels the optimism, as CFOs report to believe that new government's policies will have a positive impact on business in Belgium, also in the long run. Companies prioritize prudent growth strategies, and focus on organic expansion and the introduction of new products and services in existing markets.

Things to worry about

Close to 80% of CFOs enter 2015 reporting the levels of uncertainty facing their businesses are above the normal level. Over 30% consider the external financial and economic uncertainty high or very high, more than double than a year ago. There is indeed a lot to worry about.

The pace of global activity and emerging markets slowed in the fourth quarter. Geo-political risks have not decreased. Western sanctions hurt the Russian economy, but have had negative financial repercussions on almost 40% of participating CFOs organisations as well.

The euro area's weak recovery is threatened by the risk of Greece giving up on austerity and leaving the monetary union. Concerns grow about a sustained period with deflation, specifically in the Eurozone.

Eurozone and Belgian economic GDP growth forecast are around 1%. As last year, CFO participants are more conservative on these growth prospects, expecting less than 0.5% GDP growth. As it turned out, last year CFOs were right... One third of our respondents consider a new recession in the Eurozone and in Belgium in the coming 2 years likely.

Belgian CFOs remain worried about the competitiveness of their organisation, taking into account labour market and tax policies.

Things to build on

Money is cheap and financing is available. Internal financial resources are an important driver for investment for many organisations, but also external funding is plentiful.

Bank credit and corporate debt are attractive. The perceived cost of bank credit has never been lower since the launch of the survey in 2009. Interest rates in the Western world are rock bottom and central banks have responded to lower inflation and growth by signalling that credit will stay cheap for longer.

The European Central Bank is likely to undertake Quantitative Easing. Markets are assuming interest rates will stay lower for longer and this is pushing down the cost of borrowing for corporates and consumers. Cheaper credit can stimulate investment activity in 2015.

Oil and other commodities are cheap as well. And though financial markets worry that lower oil prices are a sign of lower global growth, the IMF thinks falling oil prices will add to global growth in 2015. Lower commodity prices hurt commodity producing nations but also boost activity in the world's large commodity consuming economies such as Europe, China, Japan and North America.

US growth already accelerated through 2014 and job growth last year was the highest in 15 years.

Reasonable optimism

CFOs remain overall optimistic about the financial prospects of their businesses in 2015. CFO Optimism recovered somewhat from the decline in the third quarter, although trails somewhat lower today than it did throughout the second half of 2013 and the largest part of 2014.

Over 70% of participants expect their topline to grow in 2015, up from 50% last year. CFOs are significantly more optimistic about the growth prospects of their own organisations than they are for the Belgian economy as a whole: almost half of CFOs expect their topline to grow with more than 2%, almost 30% expect to grow more than 5%, significantly outperforming projected GDP growth.

Rising uncertainty in the last quarter of the year has not reduced CFOs appetite for risk either. And throughout 2015, appetite for risk might translate into investments: balance sheets look healthy and over 40% plan to increase capital expenditure in 2015, up from just 30% last year.

Domestic politics

Contrary to what we have seen in the past years, the optimistic mood amongst CFOs is fuelled by domestic politics and the expectation that government policies will have a positive impact on business in Belgium, also in the long run.

With the new government coalitions in place, the vast majority of CFOs are positive on the way in which the Federal Government and the Flemish Regional government are setting the priorities for financial and economic decision making.

As compared to previous periods, CFOs have become in particular more positive on labour market policy, tax policy and immigration policy. The appreciation for the Brussels and Walloon regional governments is negative to neutral.

Prudent growth strategies

About half of survey respondents report some growth strategies are a strong priority for 2015. The net balance percentage of CFOs reporting capital expenditure is likely to increase in the next 12 months is at the highest level since the launch of the survey.

Focus is on prudent growth strategies through organic expansion and the introduction of new products and services in existing markets. More aggressive growth strategies, through expansion into new markets, or through acquisitions in Belgian or abroad are lower on the agenda.

Local oriented companies – realising over 70% of turnover in Belgium – see few drivers for investment and look for secular or long term growth for their products and services. International companies – realising over 70% of turnover outside of Belgium – see drivers for investment in developed economies outside the Eurozone, and to a somewhat lesser extent in emerging markets as well.

Outlook

The big story is likely to be of decent global growth in 2015. But as always, growth will be de-synchronised across countries. Growth in the Eurozone in general and Belgium more in particular will most likely be significantly below average. This brings particular challenges to those companies that focus on these geographies.

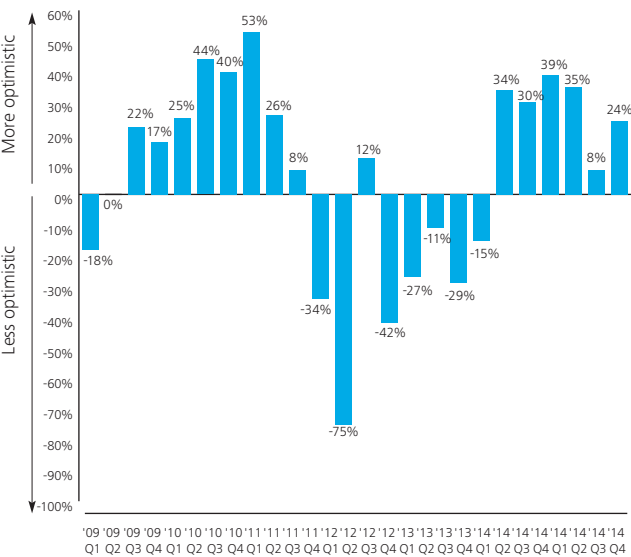
Thierry Van Schoubroeck,
Partner,

Belgian Outlook 2015 Summary:

Reasonable Year, Prudent Growth

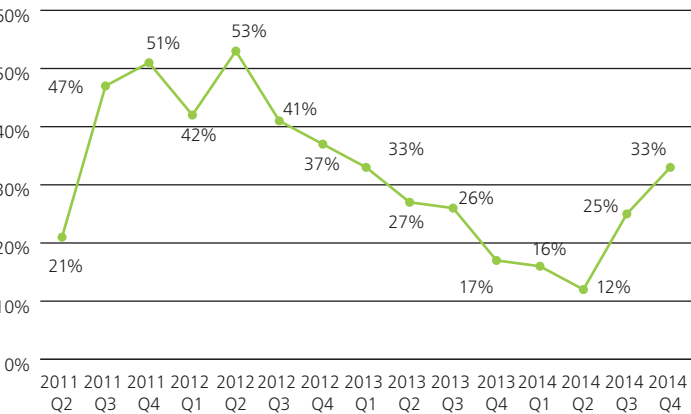
Following a sharp decrease in optimism in the third quarter of 2014, the proportion of CFOs who are optimistic about financial prospects for their company picked up again in the last quarter. Overall optimism remains at the levels similar to what we have seen since the second semester of 2013.

Net % of CFOs who are more/less optimistic about financial prospects for their company



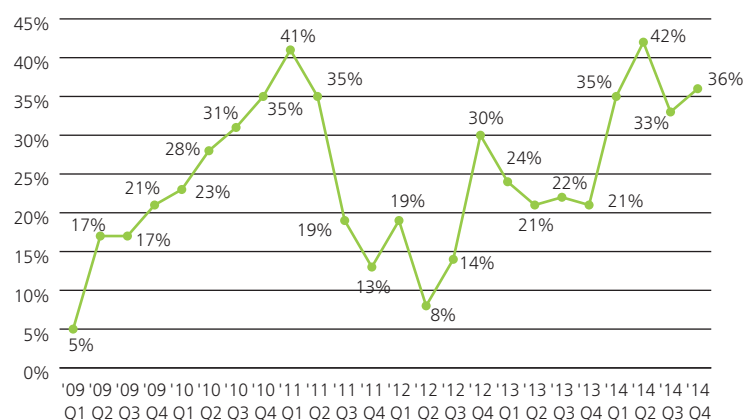
CFO perception of economic and financial uncertainty continued its upward trend in the fourth quarter. 33% of CFOs enter 2015 reporting high or very high levels of uncertainty facing their businesses – almost double compared to one year ago.

% of CFOs rating the general level of external financial and economic uncertainty high/very high



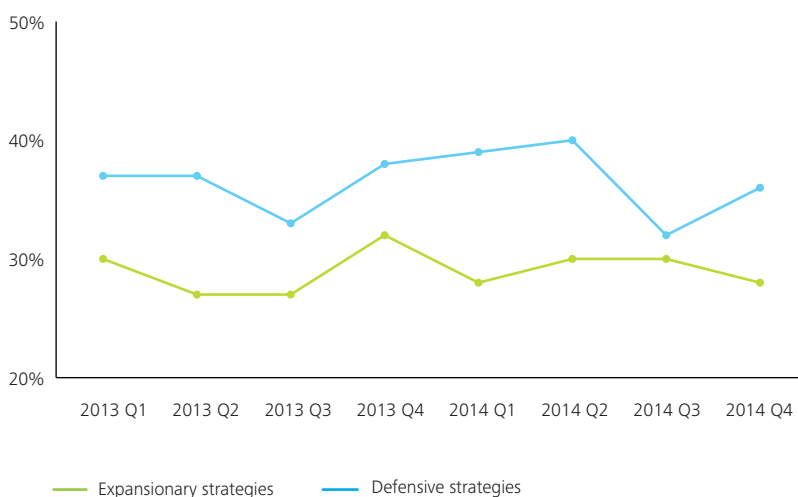
Rising uncertainty however has not fed through to an easing in corporate risk appetite. 36% of CFOs say that this is a good time to take greater risk onto their balance sheets. The risk appetite remains well above the long-term average.

% of CFOs who think now is a good time to be taking greater risk onto their balance sheet



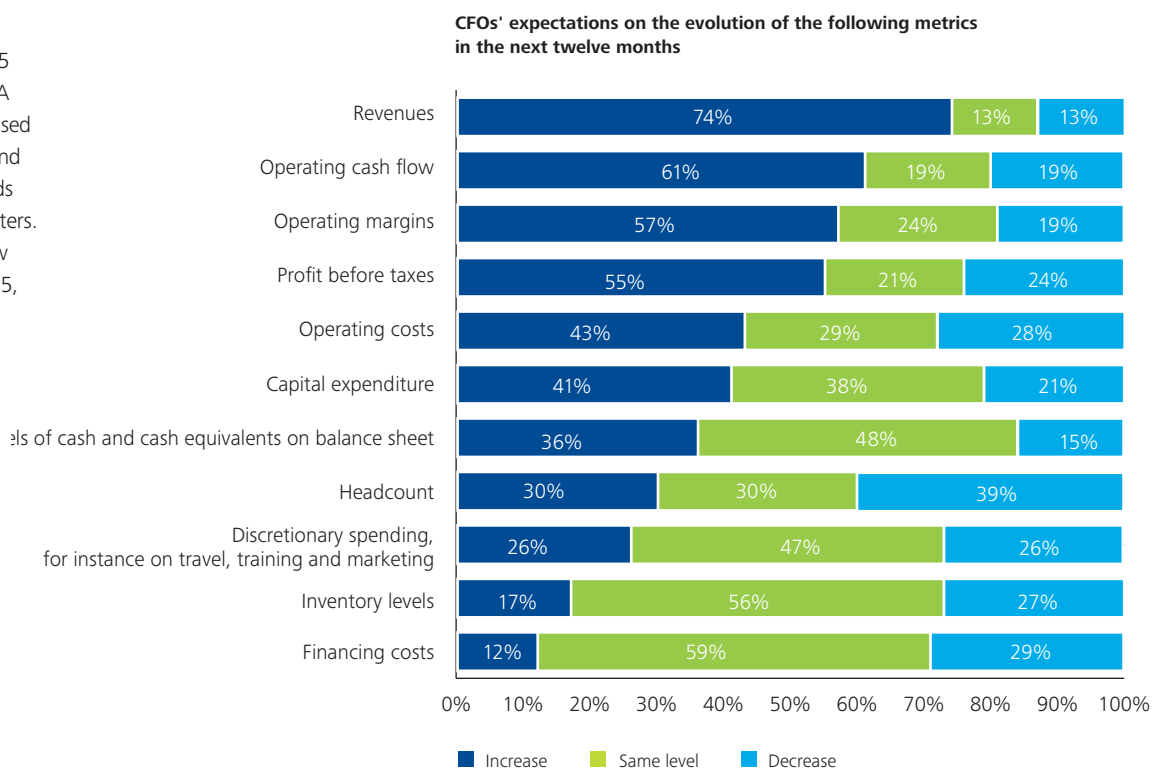
Despite their optimistic mood, CFOs remain prudent about the strategic priorities for the next 12 months. Following a decrease in Q3, defensive strategies regain importance, while expansionary strategies keep their stable position.

CFO priorities: defensive vs. expansionary strategies

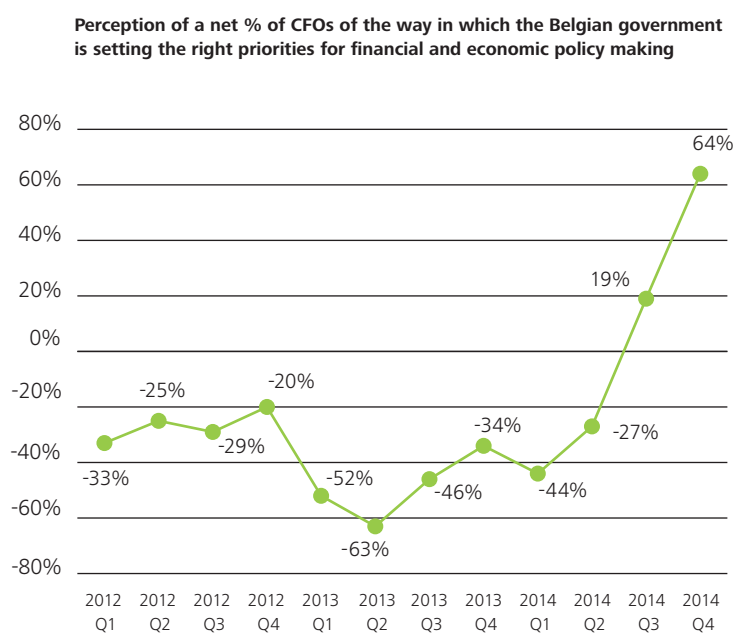


Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong priority for their businesses in the next 12 months. Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are increasing productivity/efficiency, reducing costs, reducing leverage, disposing of assets and increasing cash flow.

Based on CFOs financial forecasts, it looks like 2015 will be better than 2014. A majority of CFOs have revised expectations of revenue and operating margins upwards compared to the last quarters. 41% of CFOs plan to grow capital expenditure in 2015, up from 30% last year.



CFOs are upbeat on the way in which the new Belgian Federal government has changed the political agenda. The vast majority of CFOs report the government setting the right priorities for financial and economic policy making. A record 70% express their support to the current policy making.

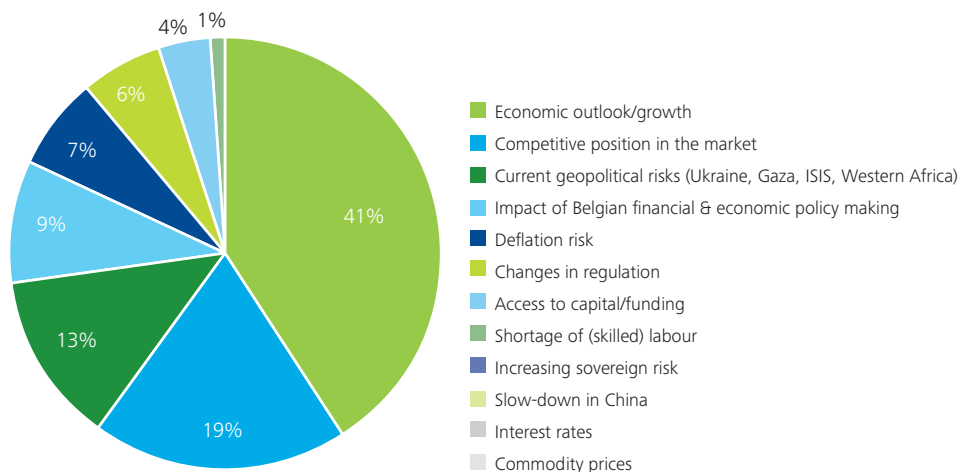


Outlook 2015:

Weak recovery and geopolitical concerns

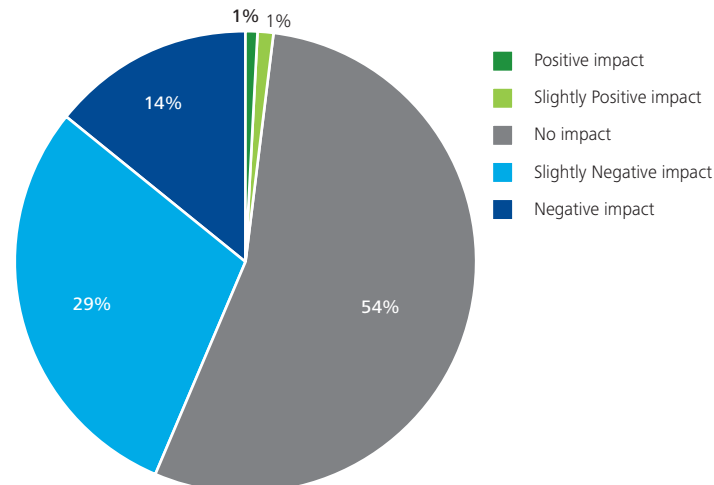
As in the past years, uncertainty related to the economic recovery tops the CFOs list of concerns. Geopolitical risks have made it to the top three concerns of the CFOs in the last quarter of 2014. ISIS, ebola, relationships with Russia and their potential economic repercussions worry CFOs.

CFOs' perception on the greatest concern for their business in the next 12 months



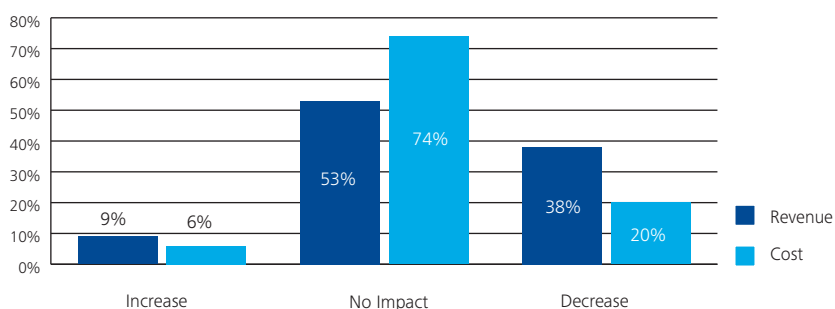
Concerns related to the Ukrain crisis have already been justified. Almost 45% of CFOs report that Western sanctions against Russia have impacted their organisations financials negatively.

Impact of current sanctions against Russia on CFO's company/business



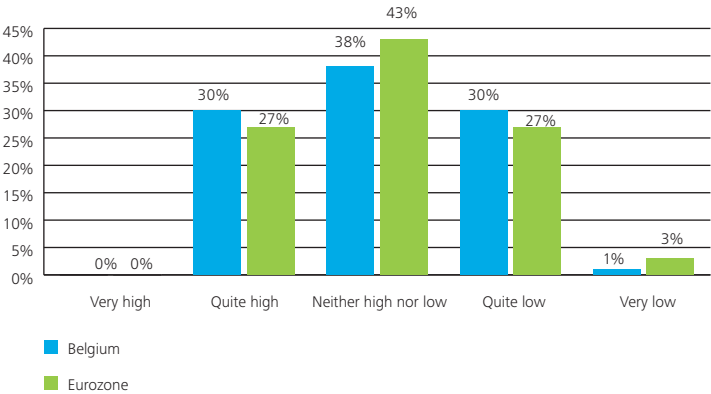
Sanctions primarily result in lower revenue, and to a much lesser extent in increased costs.

Financial impact of current sanctions against Russia on Revenue and Cost of CFO's company/business



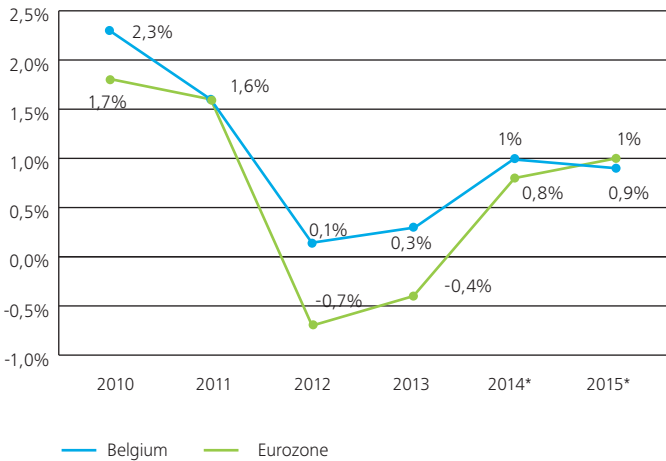
70% of CFOs do not expect Belgium or the Eurozone to enter a new recession in the next two years. As compared to one year ago, however, 8% more of CFOs assign high likelihood of recession both for our economy and for Eurozone.

CFOs' expectations on the likelihood of a (new) recession in Belgium/Eurozone in the next 2 years



CFOs are more conservative on economic growth projections for Belgian and the Eurozone as are the NBB and international institutions.

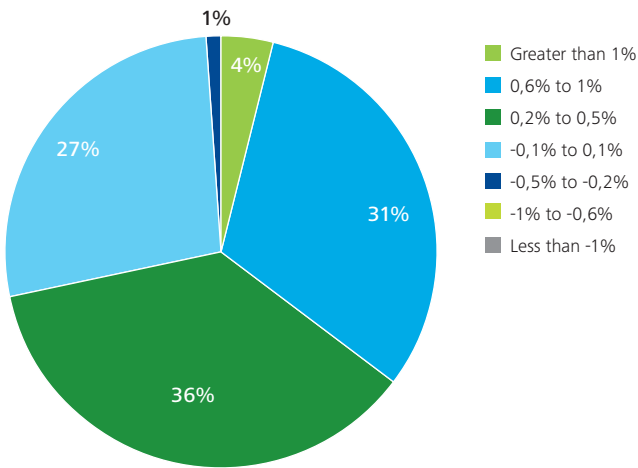
Real GDP evolution: Belgium vs. the Eurozone



*Source of data: Economic Indicators for Belgium N° 2015-02, National Bank of Belgium
2014 & 2015 data are forecasts, the Belgian forecast is based on NBB estimates from December 2014, Eurozone forecast on OECD data from November 2014

CFOs’ projections for the Belgian economic growth in 2015 are modest, with only 4% of the CFOs expecting a growth of more than 1%.

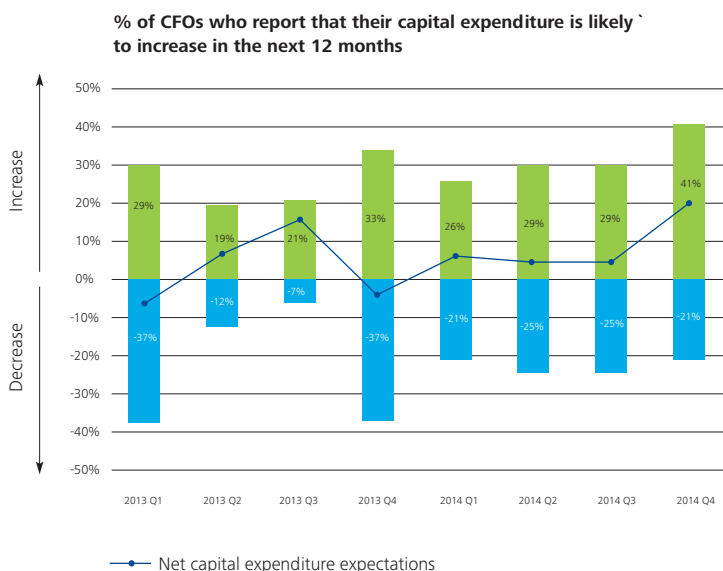
CFOs' expectations for the Belgian economic growth in 2015



Outlook 2015:

Growing appetite for investment

Despite increasing uncertainty, 40% of CFOs plan to increase capital expenditure in the coming 12 months, up from 30% one year ago. The highest proportion of CFOs in the last 2 years (20%) report that their capital expenditure is likely to increase in the next 12 months, which represents an increase of 17 percentage points between Q3 and Q4 2014.



Balance sheets look overall healthy, and on average underleveraged.



Outlook 2015: Money remains cheap and widely available

All main sources of funding are attractive.

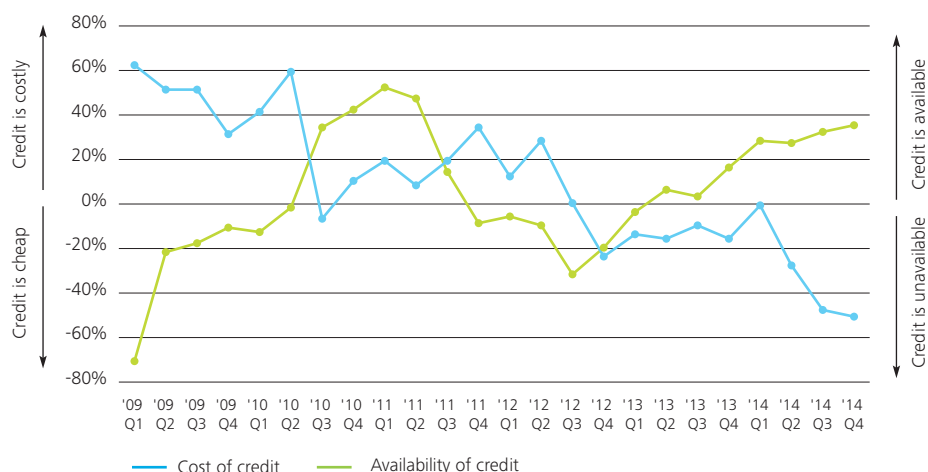
The attractiveness of bank borrowing and corporate debt has further improved and has never been higher since the start of the financial crisis.

Net % of CFOs reporting the following sources of funding as attractive/unattractive



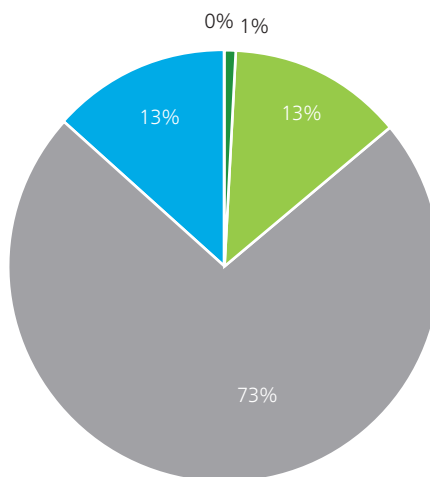
Bank borrowing is available, and the overall cost further declines. Our survey data does not suggest that larger or smaller organisations experience availability or cost of bank borrowing differently than larger ones.

Net % of CFOs reporting credit is costly and net % reporting credit is available



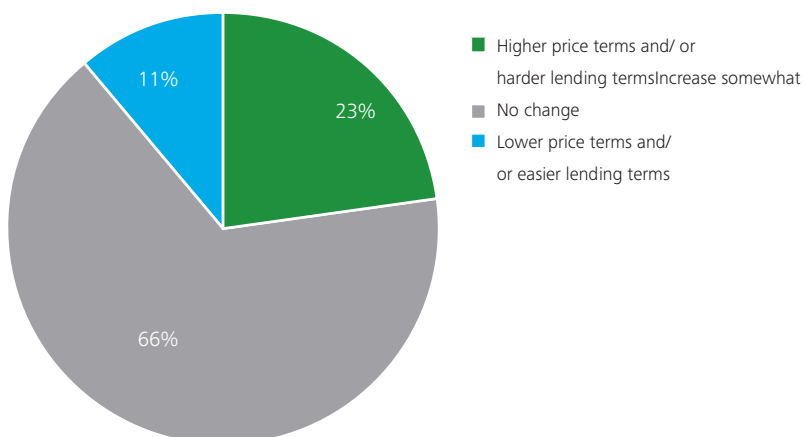
CFOs do not expect long term interest to go up anywhere soon.

CFOs' expectations about the evolution of the long interest rates in the next 6 months



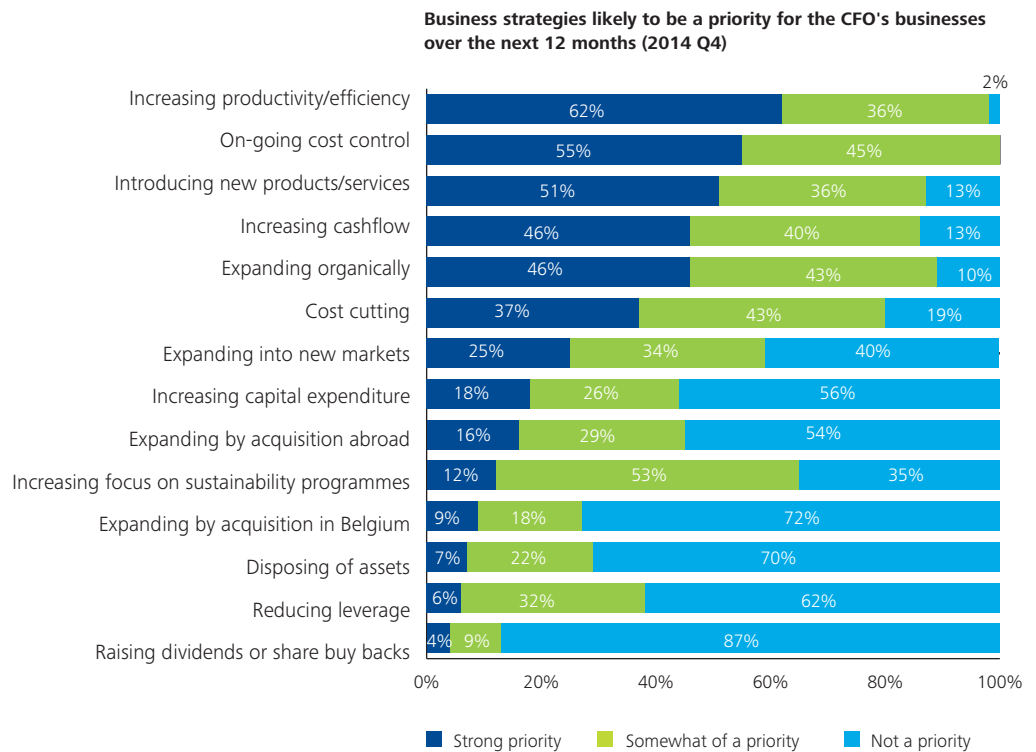
Similarly to the last quarter, over two thirds of CFOs do not expect any change to the price and lending terms in the upcoming 6 months.

CFOs' expectations about evolutions of price terms and lending terms in the next 6 months

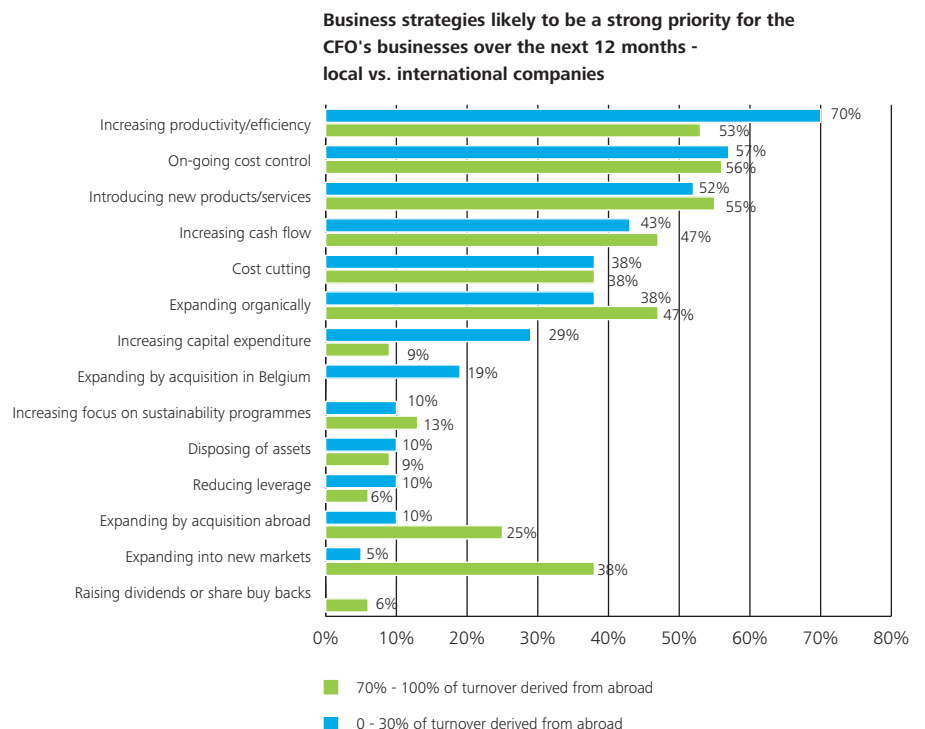


Outlook 2015: Obligation to control cost to stay competitive

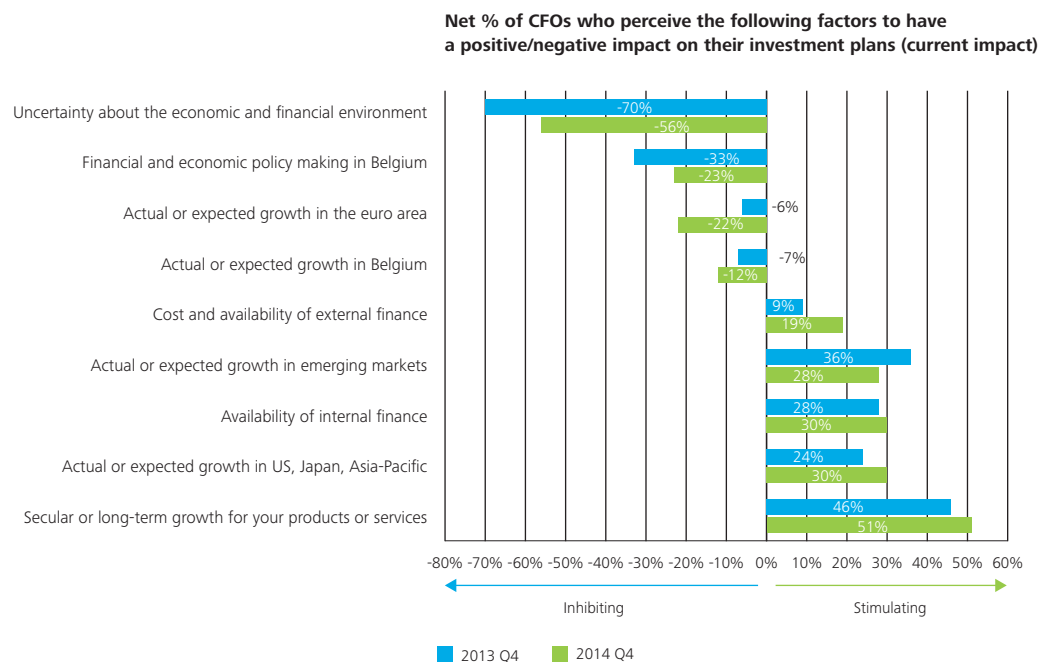
As was the case in 2014, also in 2015 companies will continue to focus on increasing productivity and efficiency. Following actions that have been taken in the past few years, focus is today more on on-going cost control rather than on cost cutting. Growth strategies are prudent, oriented towards organic growth and product development rather than towards market expansion or acquisitions.



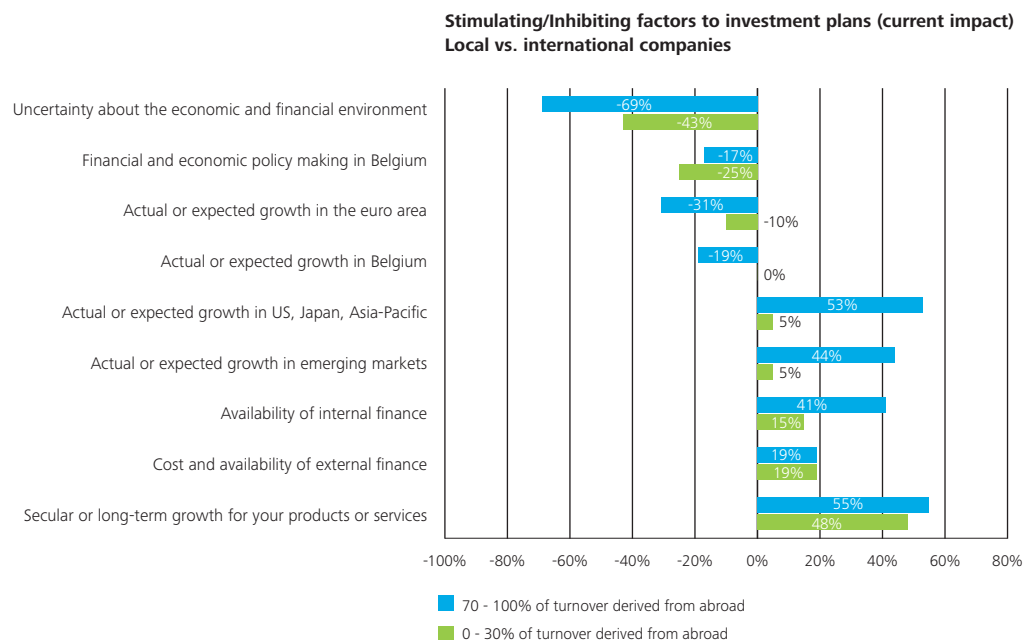
In particular the companies that focus on local markets adhere great importance to productivity and efficiency, to improve or safeguard their companies competitive position in the market.



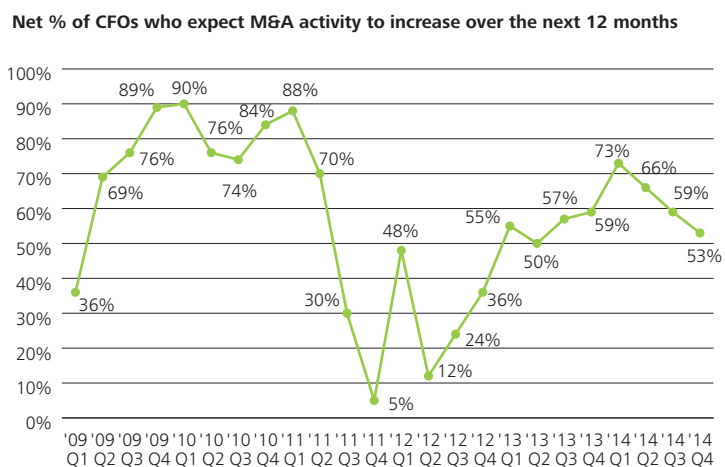
Uncertainty remains the main inhibitor to investment, next to the low growth expectations for the euro area and Belgium. Expected growth outside the Eurozone is the most important driver for investment activity.



Companies with a higher share of turnover derived from abroad have clearer views on external factors impacting their investment plans. Despite being more concerned about the economic environment, they see larger opportunities in US, Japan, Asia-Pacific and the emerging markets and have more internal finance available.

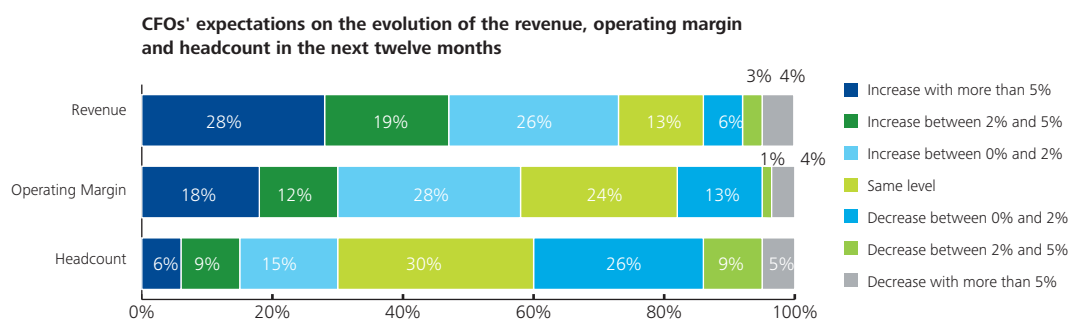


Over 50% of CFOs predict that M&A activity will increase in the next 12 months, down from 73% at the beginning of 2014.



Outlook 2015: Planning for growth

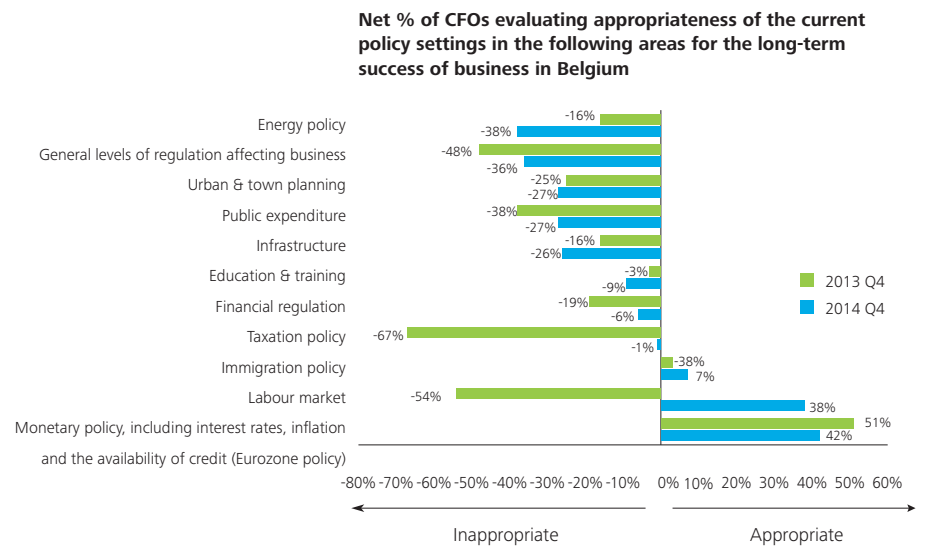
75% of participating companies have planned for growth for 2015. 47% of the CFOs expect to increase revenue by more than 2%. 28% even expect an increase of more than 5%. With productivity improvement and efficiency high on the agenda, headcount growth will not keep up with revenue growth.



Outlook 2015:

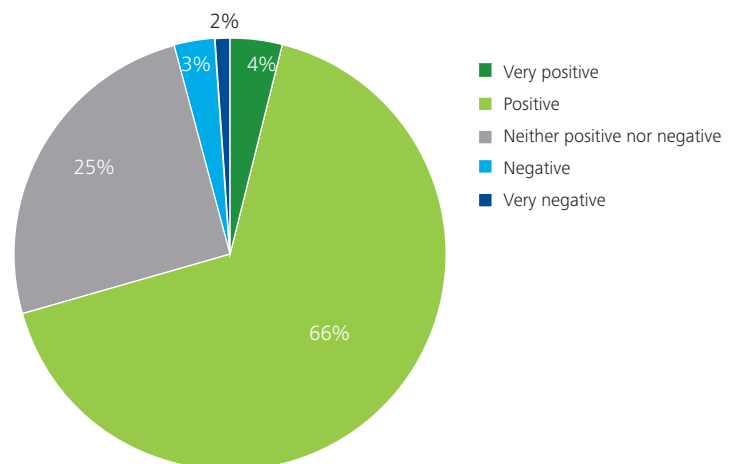
Domestic politics will bring positive change

At the end of 2014, a record 64 net% of Belgian CFOs were positive about the new Federal government and its policy making. As opposed to CFOs evaluation of the policy setting of the previous Belgian Federal government, CFOs report significant improvement in the domains of labour market policy, tax policy and immigration. Energy policy and general level of regulation affecting businesses receive the least credit from CFOs.



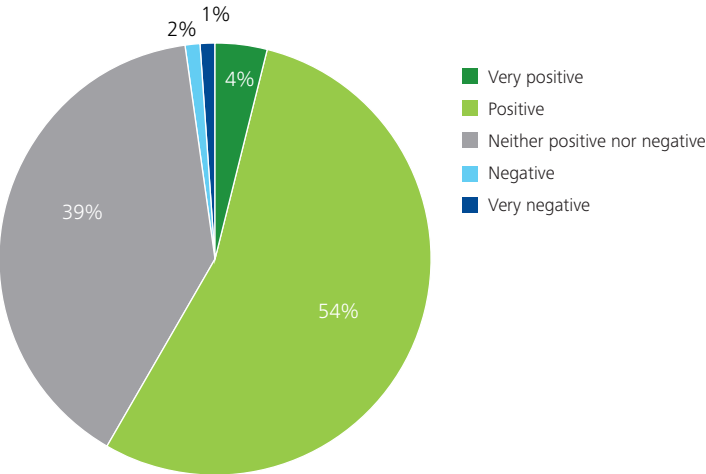
On the Federal level, 70% of CFOs expect that today's Federal government policy will have a positive impact on businesses in Belgium.

Extent to which the Federal government policy will have a positive impact on businesses in Belgium, also in the long-term

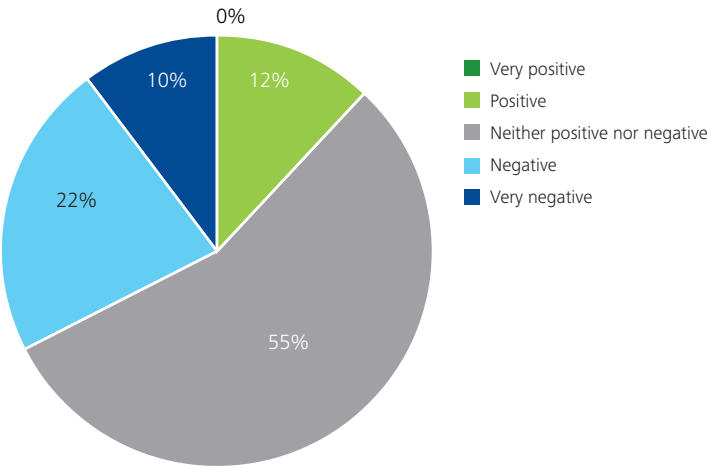


On the Regional level, CFOs are most positive about the way in which the Flemish government is likely to have impact on the long term success of business. CFOs are overall not positive on the Brussels and Walloon governments.

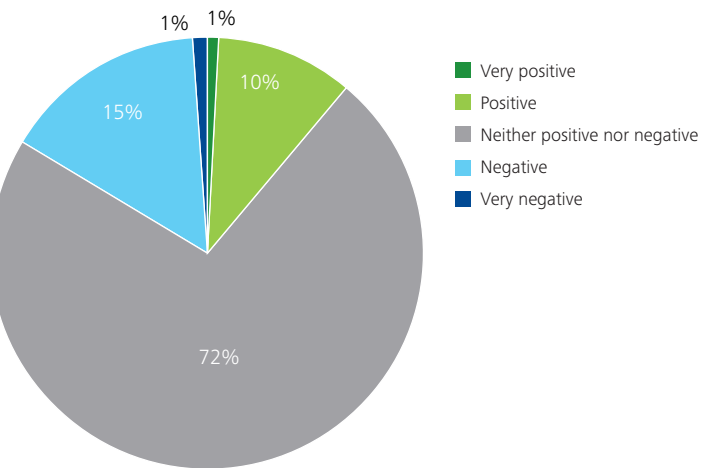
Extent to which the Flemish government policy will have a positive impact on businesses in Belgium, also in the long-term



Extent to which the Walloon government policy will have a positive impact on businesses in Belgium, also in the long-term



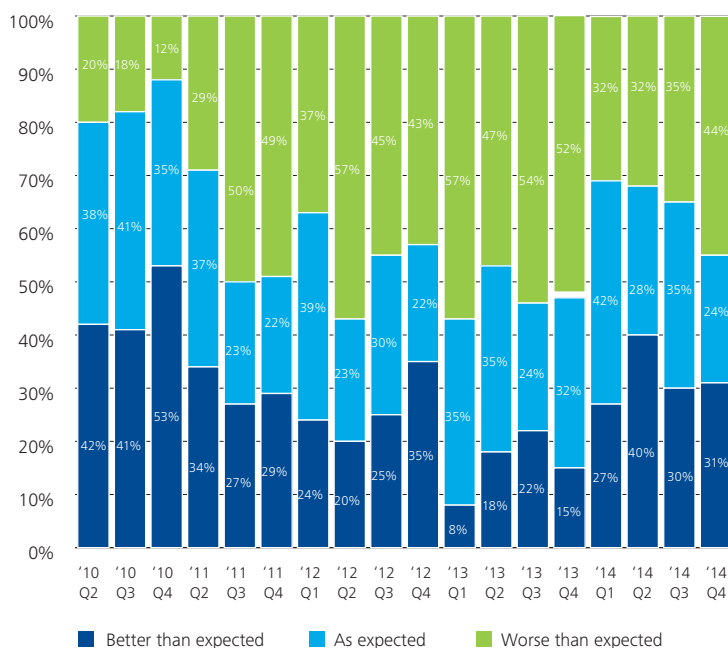
Extent to which the Brussels government policy will have a positive impact on businesses in Belgium, also in the long-term



Q4 2014 Actuals: Financials land below previous quarters' expectations

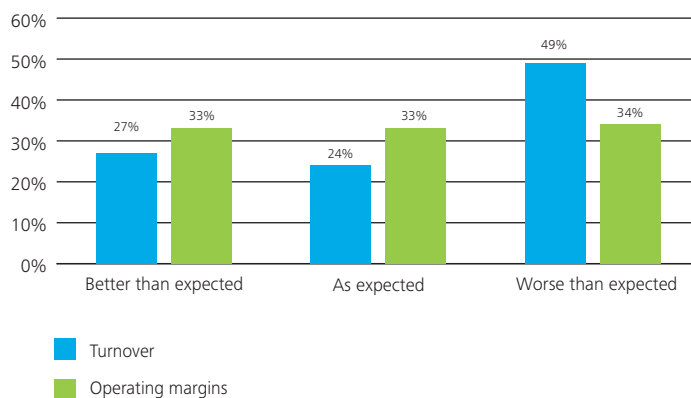
At the end of 2014, 31% of CFOs say 2014 performance to budget will be better than was budgeted. 44% expect to land below the 2014 financial budget. These results are similar to 2013 and 2012. Taking into account the better performance to budget ratios in the first quarters of 2014, year end performance is disappointing.

Comparison of the surveyed organizations' actuals performance versus budget over time



At the end of 2014, half of CFOs expect their companies' topline to be behind budget, an increase of 10% compared to the average of the first three quarters.

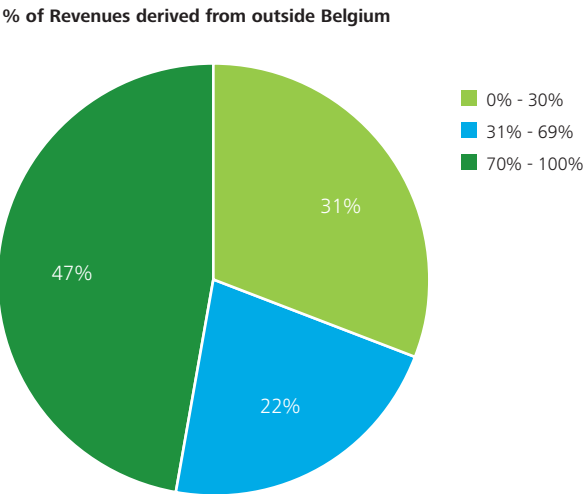
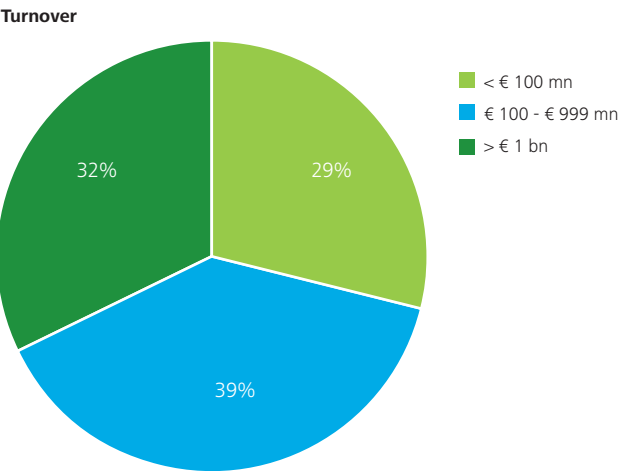
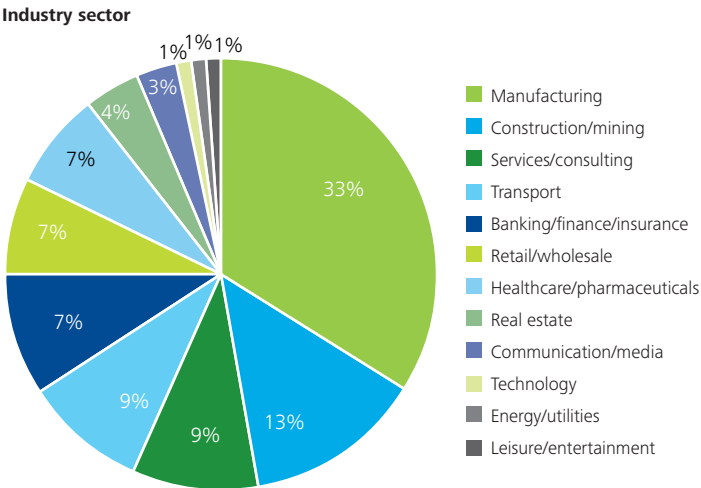
Comparison of the surveyed organizations' actual turnover & operating margin versus budget



Profile Q4 survey participants

A total of 70 CFOs, active in a variety of industries completed our 2014 fourth quarter survey. 32% of the participating companies have a turnover of over €1 billion, 39% of between €100 million and €1 billion and 29% of less than €100 million.

31% of the participating companies derive up to 30% of their revenues from outside Belgium, 22% between 31% and 69% and 47% derive more than 69% of their revenues from outside Belgium.



The Deloitte Belgian CFO Survey is produced by Thierry Van Schoubroeck, Peter Hajnik, Romana Jelinkova, and Maarten Vyncke.

A note on methodology

Not all survey questions are reported in each quarterly survey. In response to the current financial economic situation, survey questions will be selected. In case you participated in the survey and would like to receive information about non-reported questions, do not hesitate to contact us.

Some of the charts in the Deloitte CFO survey show the result in the form of a net % balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive minus the percentage saying bank credit is unattractive. This is a standard way of presenting survey data.

The 2014 fourth quarter survey took place between December 8th 2014 and January 8th 2015. A total of 70 CFOs completed our survey. The participating CFOs are active in variety of industries. 32% of the participating companies have a turnover of over €1 billion, 39% of between €100 million and €1 billion and 29% of less than €100 million.

We would like to thank all participating CFOs for their efforts in completing our survey. We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organisation rates among peers.

Delivering the voice of
the CFO community

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