

Deloitte Belgian CFO Survey Financial repair, economic uncertainty

Benchmarking corporate financial attitudes



Key points from the 2010 Q1 survey

- Uncertainty about the pace of the Belgian economic recovery persists. Following a strong recovery in the second half of 2009 CFO optimism saw a stabilisation, continuing in the first quarter of 2010.
- CFOs expect a sluggish recovery in the economy. Expectations on the timing of accelerated demand for products and services have been pushed back towards 2011
- Credit and financial conditions for corporates are improving. Bank borrowing remains costly, but is regaining popularity as a source of funding. All three forms of finance – bank borrowing, corporate bonds and equity – are rated as being attractive by CFOs.
- Corporates have significantly reduced the financial risk on their balance sheet over the past 12 months, but this process seems to be drawing to a close. Appetite for financial risk remains low, but increases gradually.
- Delocalization continues to gain importance as strategic approach to cost reduction quarter after quarter. More and more corporate consider to shift support or production functions nearshore or offshore.
- Tough cost and liquidity management remain important, typical crisis management measures are less universal than they were one year ago. For a vast majority of CFOs, growth has become again their number 1 priority.

“Expectations on the timing of the accelerated demand for products and services have been pushed back towards 2011”



The 2010 first quarter edition of the Deloitte Belgium CFO survey was conducted from March 15 until April 13 2010. The survey was closed prior to the escalation of the Euro crisis linked to the potential liquidity problems of countries such as Greece, Portugal or Spain – and the European response to this crisis on May 9.

The first 2010 quarter CFO survey suggests that Belgian CFOs remain cautious about the economic recovery. The majority of CFOs anticipate a sluggish recovery and do not expect demand for their products and services to accelerate until 2011.

Corporates stay focused on cost and cashflow management. But they also start to think beyond the crisis: typical crisis management measures such as reducing headcount or marketing and advertising spent, or delaying recruitment have become less universal.

Delocalisation is gaining importance quarter after quarter as means to reduce costs. More and more corporates consider structural measures to cost reduction by shifting production or support functions (ICT, HR, finance) offshore. Where delocalization was only on the radar screen of 15% of survey respondents in the first quarter of 2009, this percentage has increased quarter after quarter to 40% now.

The good news from the first quarter survey is that the financial environment is continuing to improve. Credit availability is up and the CFO survey shows a sharp improvement in the attractiveness of bank borrowing. All forms of financing – bank borrowing, corporate bonds and equity – are now rated as attractive.

Over the last year CFOs have significantly reduced the financial risk on their balance sheet, but this process seems to be drawing to a close – or is at least slowing down.

Economic Uncertainty

Financing conditions for the corporate sector are however not back to normal. Even among the large, quoted companies, which form the core of our survey panel, most continue to rate credit as “costly”. Few CFOs believe it’s a good time to issue debt or equity despite its current attractiveness.

But as we have observed in the past, much of the value of this survey data lies in flagging changes in direction and momentum. What emerges from this quarter’s CFO survey is that financing conditions for larger companies are getting better. That still leaves corporates with plenty to worry about in terms of the pace of the recovery. CFOs see risk ahead. The current Euro crisis might already prove them right.

Going forward

The value of the survey data increases with the ability to identify trends and possible turning points. We are looking forward to the 2011 second quarter Deloitte Belgian CFO survey. This next edition will be conducted in the second half of July.

Participate to future surveys

If you would like to join our survey panel we kindly invite you to contact us and apply for participation.

Thierry Van Schoubroeck

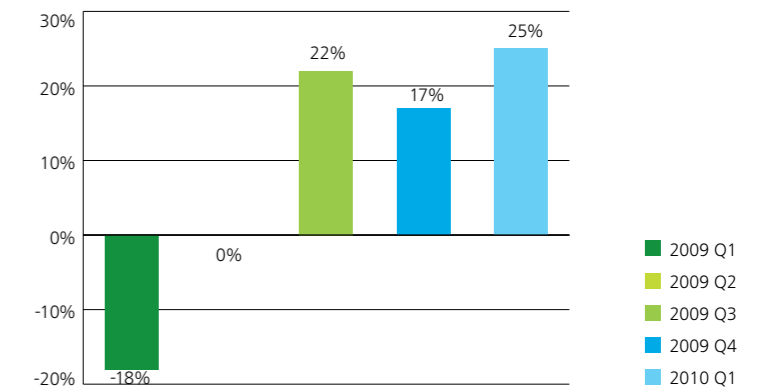
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After a strong recovery in the second half of 2009 CFO optimism saw a stabilisation, continuing in the first quarter of 2010. The modest improvement in the first quarter is still consistent with the general mood of uncertainty about the pace of the recovery of the Belgian economy.

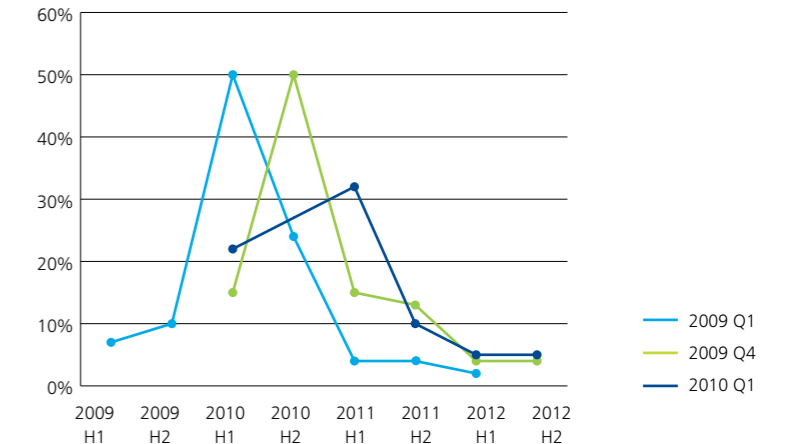
CFOs expect a sluggish recovery in the economy. Expectations on the timing of accelerated demand for products and services have been significantly postponed in the first quarter of 2010: whereas three months ago 65% of the CFOs were expecting the recovery to accelerate in 2010, the percentage has decreased to less than 50% in the first quarter.

CFOs risk appetite remains at low levels and – tough gradually improving - has not seen a significant change over the past 12 months.

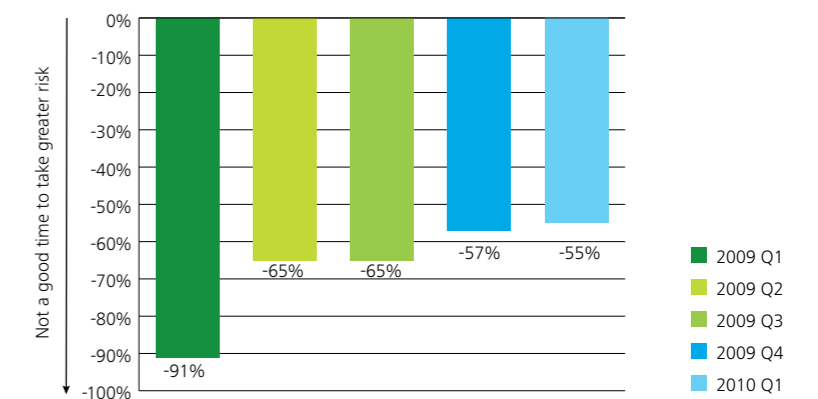
Net % of CFOs who are more optimistic about financial prospects for their company



% of CFOs which expect growth in demand for their company's products and services to accelerate in the period



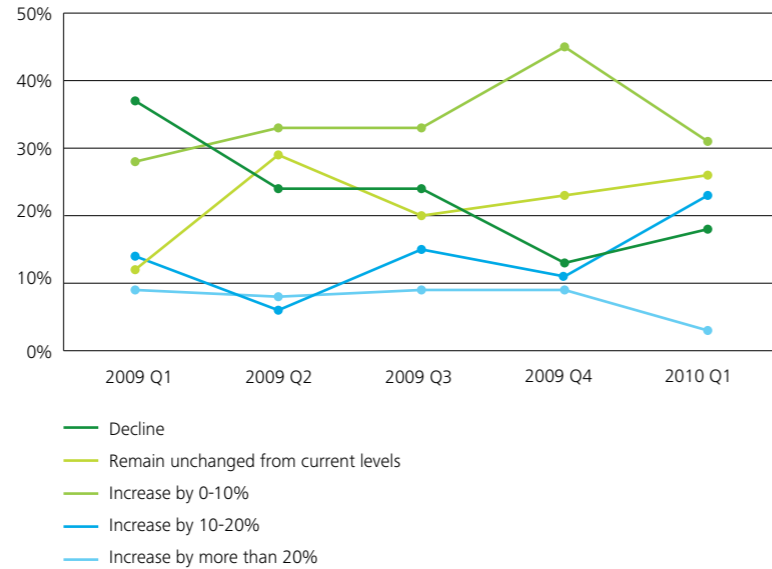
Net % of CFOs who think financial risk on their balance sheet increased/decreased over the last 12 months



Improving financial conditions

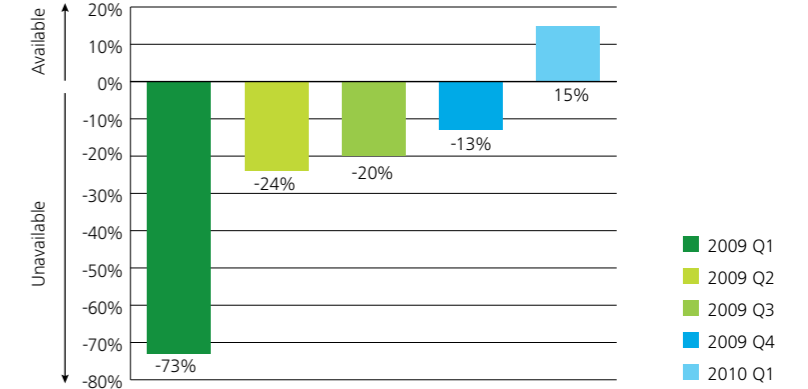
Cashflow evolution expectations have deteriorated for the first time in a year. Though a number of corporates start to recover, the CFO survey suggests that others might be going through a second dip.

Expectation for the free cashflow evolution over the next 12 months



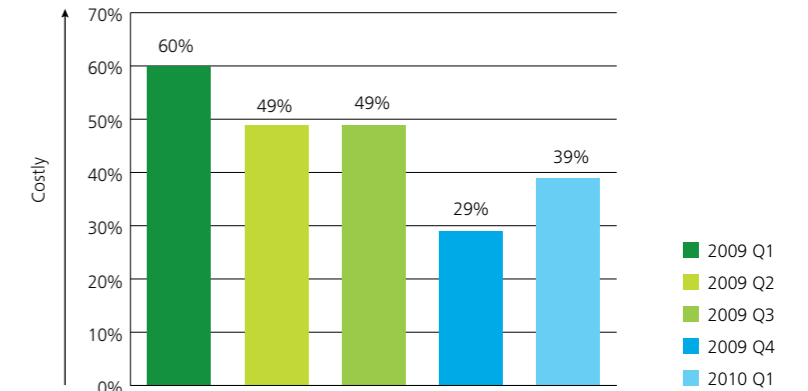
The process of repair in the financial markets has generated an improvement in the cost and the availability of bank credit in the past 15 months.

Net % of CFOs reporting credit is available/unavailable



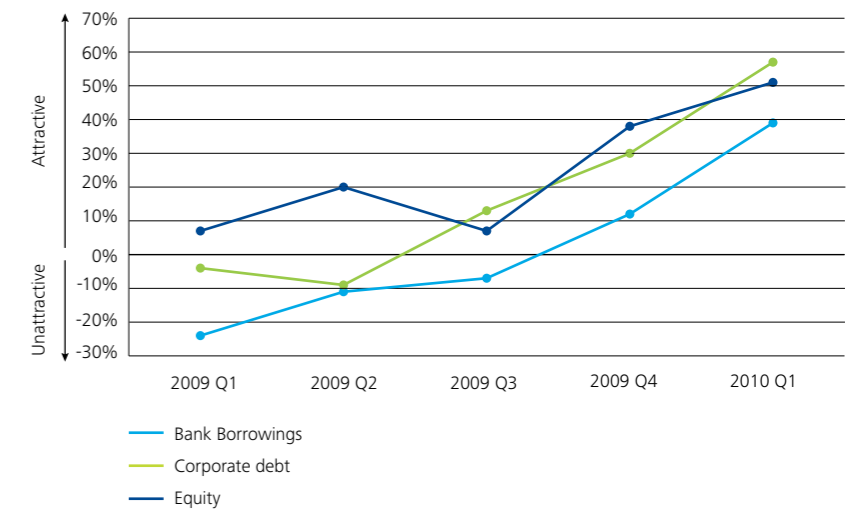
Although the cost of bank credit remains high, for the first time since the launch of the survey the net balance of CFOs who think credit is available became positive.

Net % of CFOs reporting credit is available/unavailable



As a consequence, bank borrowing is continuing to regain popularity as a source of corporate funding with CFOs. The first quarter saw the largest improvement in the attractiveness of bank borrowing since the survey started. All three forms of finance - bank borrowing, equity and bond issuance - are rated as being attractive by a balance of CFOs.

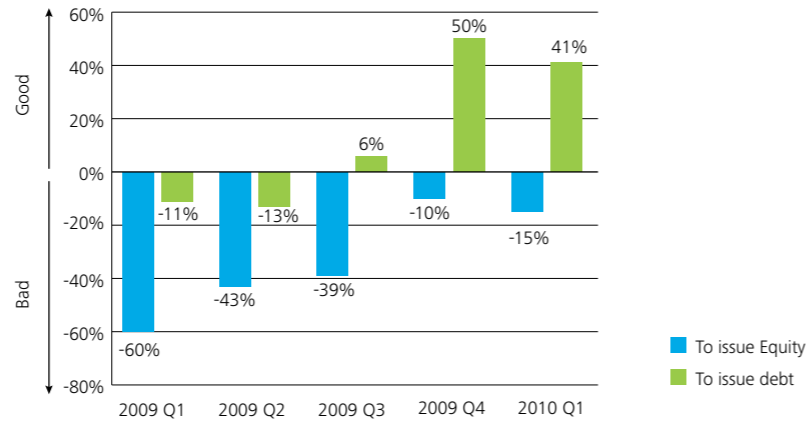
Net % of CFOs reporting the following sources of funding as attractive/unattractive



Financing the corporate sector

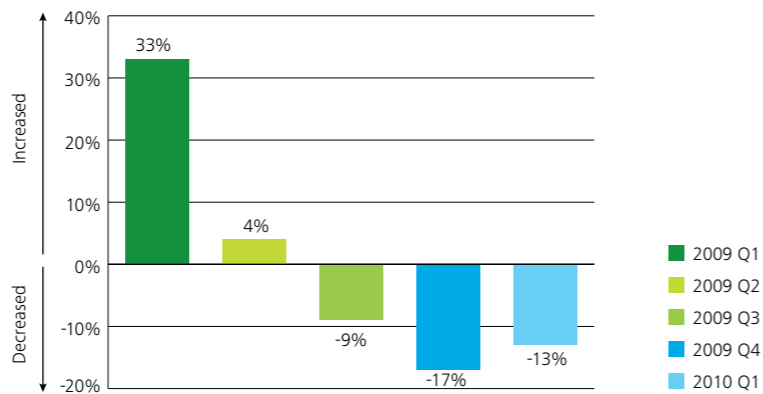
Despite the increase in the overall attractiveness of corporate debt and equity, CFOs perception as to whether it is a good time to issue corporate debt or equity has not changed accordingly. Though the balance of CFOs think it is a good time to issue debt, equity remains out of favour.

% of CFOs reporting good time/bad time to issue debt or equity



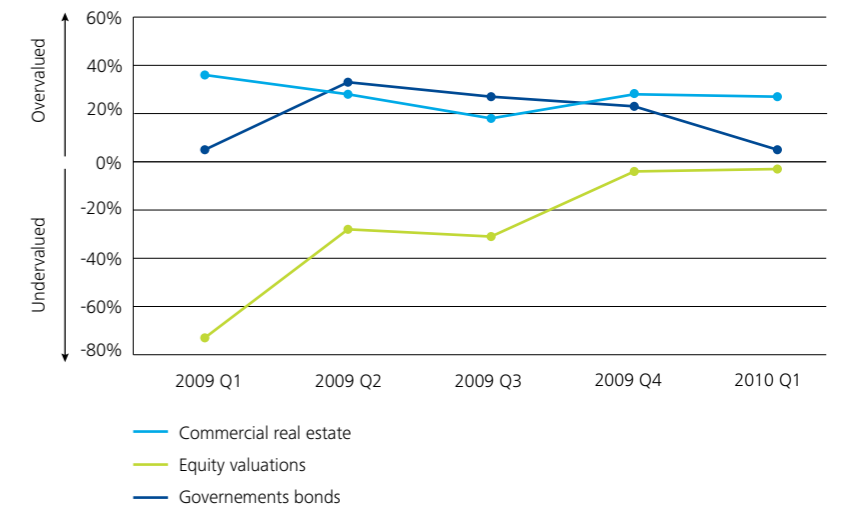
CFOs responded to the recession by reducing the financial risk on their balance sheets. The process of risk reduction - cutting corporate debt levels, increasing liquidity and cutting capital expenditure – seems to be drawing to a close.

Net % of CFOs who think financial risk on their balance sheet increased/decreased over the last 12 months



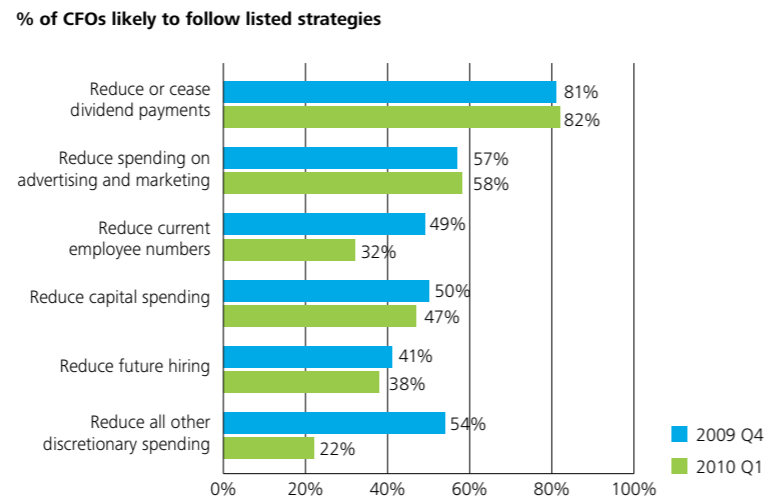
The balance of CFOs feel equity and government bonds are perceived to be adequately priced. Since the date of the close of the first quarter 2010 survey, the markets have however dropped significantly. Commercial real estate is considered to be overvalued.

Net % of CFOs who think the following assets are undervalued/overvalued

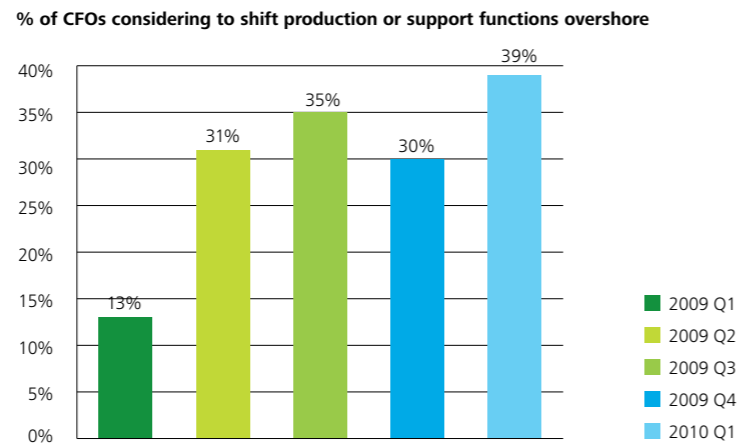


CFO priorities: balancing short term and long term

Typical short terms crisis management measures, such as headcount reduction, marketing & advertising cuts and reducing capital spend are still widespread but are no longer as universal as they were one year ago.

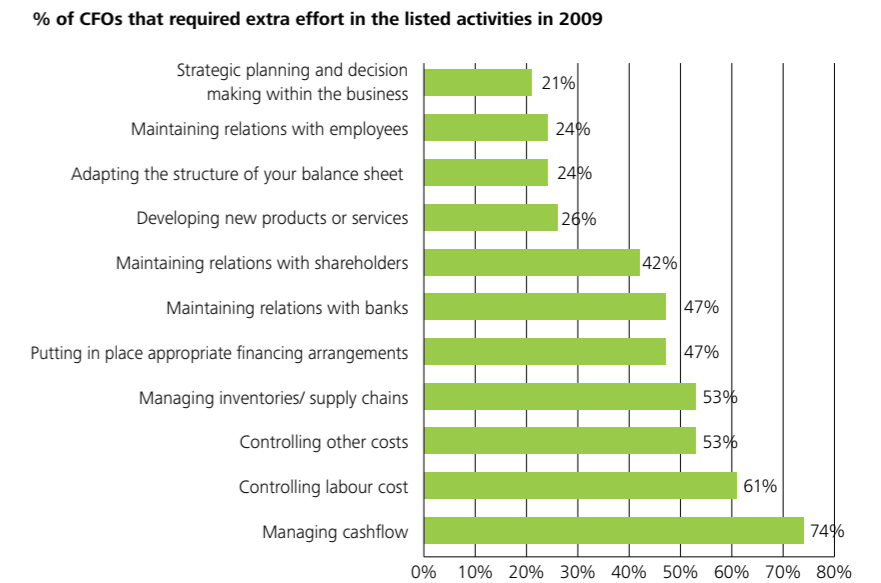


More and more corporates now also consider structural measures to cost reduction shifting production or support functions offshore. Delocalization was only on the radar screen of 13% of respondents in the first quarter of 2009: the percentage has increased to 40% now.

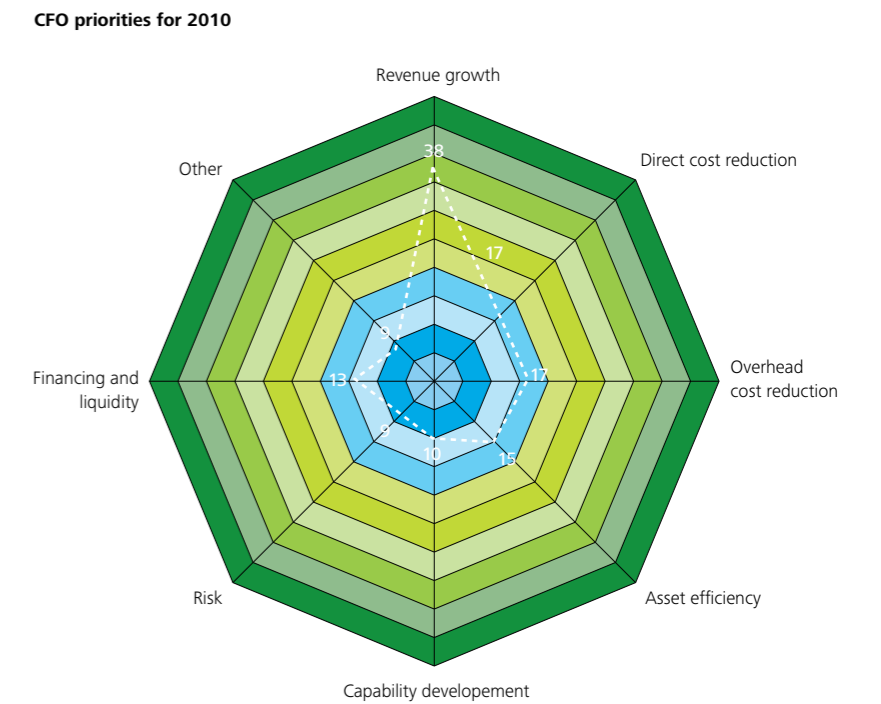


The CFO agenda has been significantly impacted by the economic crisis in 2009: over 50% of CFOs needed extra effort to control costs, manage cashflow and inventories, illustrating short term challenges corporates needed to address to face the crisis.

Taking into account the significantly constrained credit markets in 2009, it is no surprise that management of shareholders and banks gained further importance on the CFOs agenda. In 2009, few CFOs focused extra effort on activities that only have impact in the longer run, such as strategic planning or new products and services development.



One quarter into 2010, revenue growth is again a top priority for almost three quarters of survey respondents.



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 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 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 saying bank credit is unattractive. This is a standard way of presenting survey data.

The 2010 first-quarter survey took place between 15 March and 10 April 2010.

A total of 48 CFOs completed our survey, 50% of the participating CFOs represent a listed company. The rest were CFOs of private companies. The participating CFOs are active in a variety of industries. 41% of participating companies has a turnover of over 1 billion, 36% of between 100 million and 1 billion and 23% 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 organization rates among peers.

Delivering the voice of the CFO community

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