

## Deloitte Belgian CFO Survey Financial conservatism is back

Benchmarking corporate financial attitudes



#### Key points from the 2009 Q3 survey

- Financial optimism has reached the highest level since the beginning of the CFO survey, but CFOs are cautious about the recovery. CFOs believe the upturn over the next 15 months will be sluggish.
- The domestic Belgian political situation continues to worry CFOs. In September 75% of CFOs reported the domestic political situation was going to have negative impact on the efficiency and effectiveness of economic and financial policy making.
- CFOs think the recession will change financial attitudes permanently. They expect to see greater financial conservatism, lower gearing and less reliance on bank credit in the future.
- Most CFOs think the corporate sector needs to reduce debt levels further and think it is still necessary to further cut capital spending, hiring, personnel and other costs - on top of what has been done in the past quarters.
- CFO attention for the next 12 months will remain on cost management, and to a lesser extent on revenue growth. Reinforcing management capabilities and risk management processes to cope with the potential new post recession context is low on the list.
- Credit is still seen as expensive by a majority of CFOs. The availability of credit has gradually improved since the first quarter, indicating a return to less turbulent financial markets. For a minority of CFOs availability of credit will remain difficult in the longer run.
- Disruption in the financial system has fundamentally changed CFOs preferences for financing their businesses. The credit crunch is driving a continued shift away from bank borrowing.
- The area where CFOs were most positive was M&A. The great majority of CFOs expect M&A activity to rise over the next year.
- Equities are seen as more expensive as compared to last quarter. The rally in the Bel 20 in the third quarter has taken equities to levels which fewer CFOs now see as being undervalued.

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Financial conservatism is back:  
disruption in the financial system  
has changed CFO preferences for  
financing their business.



Despite doubts about the timing and the magnitude of the recovery, CFOs have become markedly more optimistic about the prospects for their own companies. Yet there is no expectation that we are on the verge of a strong recovery. CFOs expect activity in their own markets to remain sluggish throughout 2010. Financial conservatism and focus on cost management is in favour, and CFOs seem to think these trends are there to stay also after the recession will have come to an end. Because of the combination of continued limited availability of credit and further backward shifting expectations on the timing of the recovery, companies that start to run out of cash might still face very difficult times in the next three to four quarters.

The third quarter survey was conducted from 10 September till 30 September.

#### **Greater optimism, with a lot of caution**

In September the CFO sentiment about prospects for their own companies rose to the highest level since the launch of the Survey. But CFOs think that the recovery of their markets will only come slowly. Over 60% of CFOs do not expect the demand for their products and services to accelerate prior to the third quarter of 2010. Optimism about M&A and private equity activity has now reached the highest level since the launch of the survey. The same evolution has been remarked in the Deloitte UK CFO survey that is already conducted since September 2007.

#### **CFO as the alter ego of the business**

Some commentators suggest that a resumption of GDP growth is unlikely to bring a swift return to pre-recessionary conditions in the economy. This caution about the outlook is captured in CFOs outlook and plans for the coming 12 months. Almost all CFOs believe that tight cost control will need to remain very high on their agenda, also when the recession will have ended. For the CFOs, the importance of cost management outweighs the relative importance of revenue growth 2 to 1 for the next 12 months. Although a quick return to pre-recessionary conditions is judged unlikely, corporates believe they have the necessary skills and capabilities to cope with this new context.

In this context, CFOs might face the important challenge to act as the “alter ego” of the business: they will have to challenge the business to continue to invest in critical areas - also in the downturn. They will have to educate the business around cash (and not earnings) and change management systems to focus on cash if required. They can have a key role to play in helping the business to distinguish between the different categories of costs, to turn fixed costs into variable and to support cost reduction initiatives.

#### **Financial conservatism is back**

This quarter’s survey asked CFOs for their views on whether the recession and the credit crunch would cause lasting changes to the way in which corporate structure their balance sheet. 65% of CFOs believe the change is indeed likely to be permanent. The corporate sector seems to enter into an era of lower gearing and greater financial conservatism. The downturn will permanently change balance sheets, with corporates running higher levels of cash or liquid reserves and relying more on equity and corporate bonds finance and less on bank borrowing.

These changes are already starting to make themselves felt. Bank borrowing remains the least attractive form of finance. Equity has gained attractiveness. While the economic outlook has somewhat improved, CFOs remain cautious. 83% think now is not a good time to take risk onto their balance sheets and debt remains out of flavour.

The challenge ahead for the CFO is to ensure liquidity. Secure banking relationships are essential and corporates likely need more of them as before. Counterparty risk might not have been an important factor in the past: it is a big factor now, and it will require continued attention CFO attention going forward.

#### **Credit conditions remain tough**

The greater majority of the CFOs believe that short term interest rates are at low levels. Yet sharply lower market interest rates do still not appear to be translating into proportionate declines in the cost of corporate credit. The majority of CFOs continue to rate credit as being costly although perceptions of the cost of credit have fallen slightly over the last year.

Most CFOs also report credit remains hard to obtain, although already significantly less than in the first quarter, when the difficulty to obtain bank borrowing was almost universal. A minority of 35% of the CFOs think however that the availability of credit will remain difficult in the longer run as well.

#### **Evolving towards normal valuations**

Each quarter we ask CFOs for their views on the valuation of three major asset classes – equities, commercial real estate and government bonds. Views on under of overvaluation have not considerably changed over the time for commercial real estate and government bonds, but the undervaluation compared with the first quarter halved for equity.

Notwithstanding the important rally of the Bel 20 in the third quarter - lifting it up 20% - a majority of the Belgian CFOs believe that equity in the Belgian market is still undervalued. This is in contrast with the UK CFOs who after a similar rally of the FTSE 100, now think the FTSE is overvalued. 80% of Belgian CFOs count on the Bel 20 Index to be higher in a year's time.

#### **Policy making in turbulent times**

Out of the second quarter survey we learned that 35% of CFOs expected the outcome of the elections would have a negative impact on the efficiency and the effectiveness of economic policy making. One quarter later, no less than 75% of CFOs are negative about impact of domestic Belgian politics on policy making.

#### **Going forward**

What can we expect going forward? Over the past quarters many companies have taken necessary measures to ensure liquidity, free up cash and cut costs. Though the recovery will be sluggish, many start to see the light at the end of the tunnel and gain confidence that they will be able to manage the coming difficult 3 to 4 quarters. Others however, risk running out of cash. The combination of continued limited availability of credit and further backward shifting expectations on the timing of the recovery, suggests that for these companies the worst is still to come.

It is worth noting that structural measures to cost efficiency are moving up on the agenda: the percentage of companies planning to shift production or support functions offshore continues to increase each quarter.

#### **Participate to future surveys**

The value of the survey data increases with the ability to identify trends and possible turning points. We are looking forward to the 2009 fourth quarter Deloitte Belgian CFO Survey. This next edition will be conducted in the second half of December. If you would like to join our survey panel we kindly invite you to contact us and apply for participation.

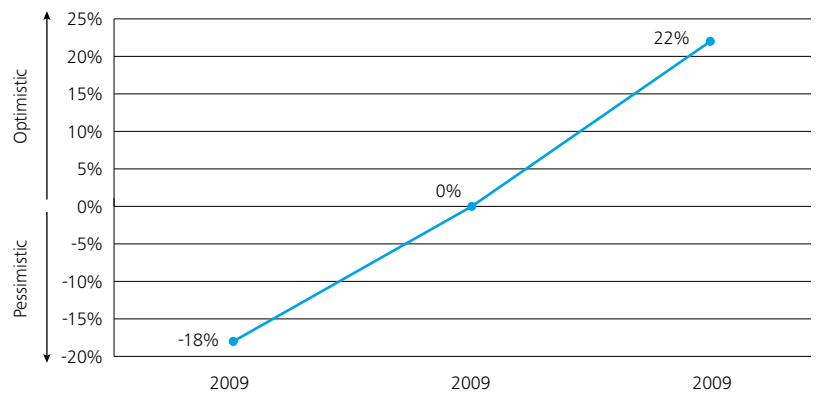
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# Greater optimism, but with a lot of caution

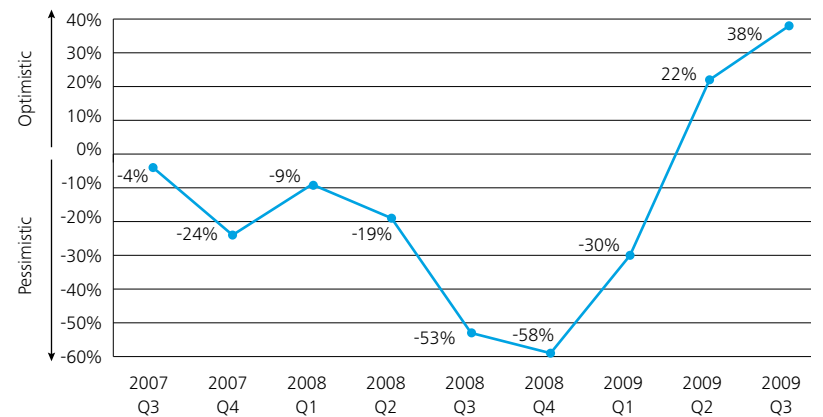
CFOs have become more optimistic about the prospects of their own businesses as compared to three months ago. Overall financial optimism has reached the highest level since the launch of the Belgian survey in the first quarter. For the first time this year, optimists significantly outnumber pessimists.

**Net % of Belgian CFOs who are more optimistic about financial prospects for their company now than 3 months ago**



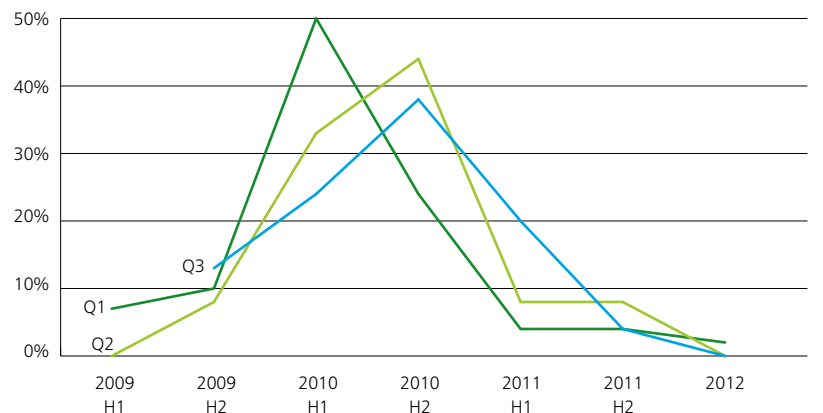
To put this in perspective, we can report that also in the UK the overall financial optimism has reached the highest level since the start of the UK, where the survey started in the fourth quarter of 2007 survey\*. The Belgium trend is in line with the long term evolution in the UK, though slightly lagging.

**Net % of UK CFOs who are more optimistic about financial prospects for their company now than 3 months ago**



Yet, CFOs continue to think that recovery in their own markets will come slowly. For the third quarter in a row, CFOs expectations on the timing of the increase of demand of products and services of their companies have shifted somewhat backwards.

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



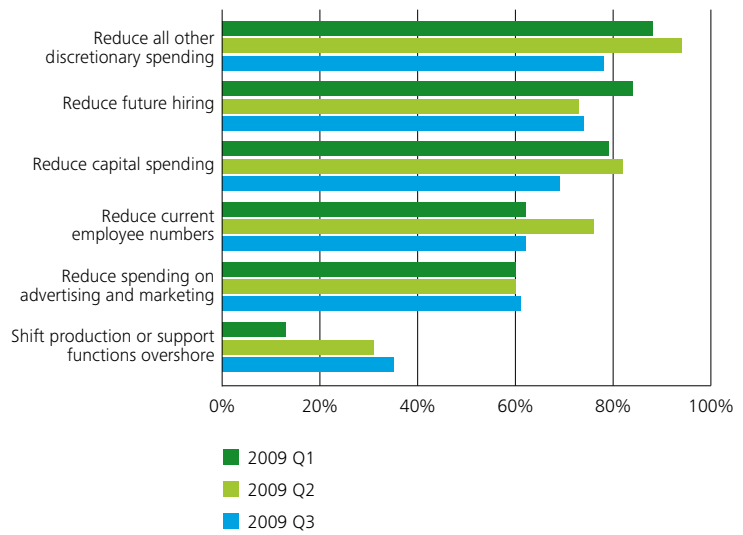
Whereas in the first quarter survey half of the CFOs anticipated the recovery to set up in the course of the first semester of 2010, the percentage has halved to only 24%.

\* Deloitte UK CFO Survey, 19 October 2009

The caution about the pace of the upturn is also reflected in CFOs plans for their own businesses for the next 12 months: despite slight changes in the third quarter the focus on cost reduction, reduction of personnel and reduced hiring remains very high. Crisis management stays on top of the corporate agenda.

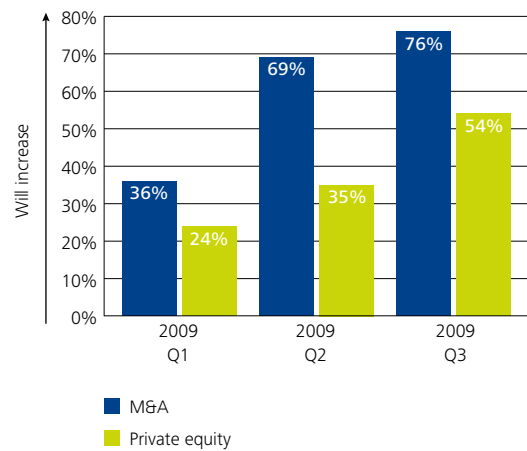
However structural measures to cost reduction are moving up on the agenda: plans to shift production or support functions offshore gain importance each quarter.

**% of CFOs following or likely to follow the strategies below in the next 12 months**



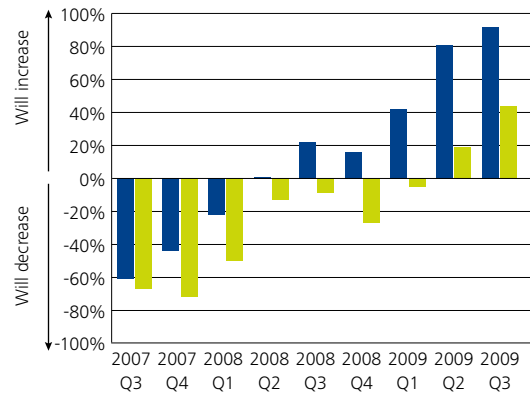
Optimism among CFOs about corporate and private equity activity continued to increase throughout the year, and is now almost universal.

**Net % of Belgian CFOs who expect an increase in the Merger & Acquisition and the quoted equity market activities to increase over the next 12 months**



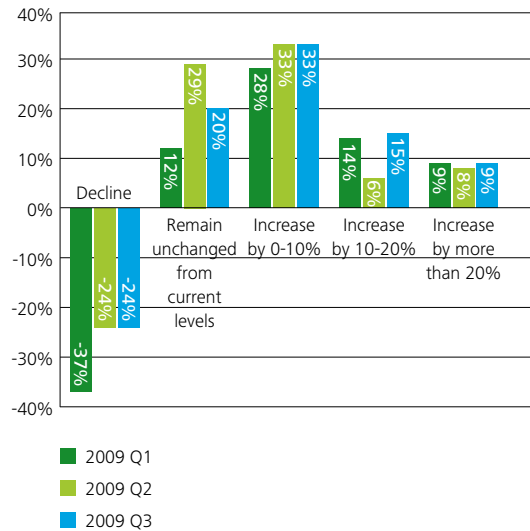
To again put this Belgian evolution into a longer term perspective, also in the UK – with survey data as of September 2007 - M&A activity has reached the highest level since the start of the survey in 2007.

**Net % of UK CFOs who expect an increase in the Merger & Acquisition and the quoted equity market activities to increase over the next 12 months**



The expectations for the free cash flow evolution have only moderately improved over the last three quarters, which also indicates the need for caution going forward.

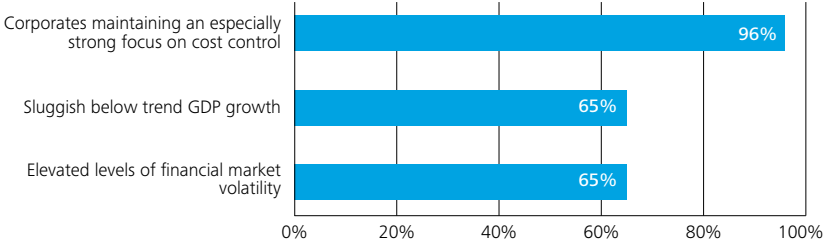
**Expectation for the free cash flow over the next 12 months**



# CFOs in 2010: alter ego of the business

Some commentators suggest that a resumption of GDP growth is unlikely to bring a swift return to pre-recessionary conditions in the economy. CFOs views tie in with those of the commentators: the large majority of CFOs expect sluggish GDP trend growth, and high volatility of financial markets, also beyond the end of the recession. CFOs also believe that focus on cost control will remain important in the future.

**% of CFOs that think that the following factors are likely to persist for a year or more beyond the end of the recession**

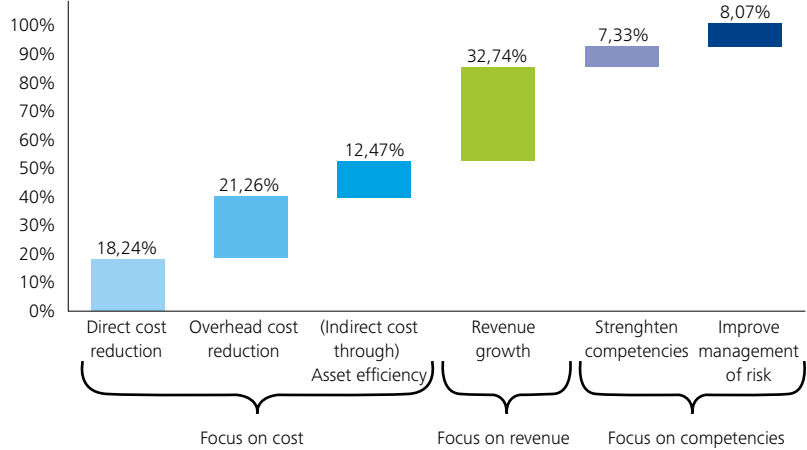


As a consequence, CFOs will focus most of their attention in the next 12 months on further direct and overhead cost reduction and improvement of efficient asset utilization (61% in total attention). Revenue growth remains important with 33% though significant less than the various types of cost reduction initiatives.

As most companies have already cut costs throughout the past quarters, the next wave will likely require further detailed insights into nature and variability of costs, and the criticality of specific investments.

Although CFOs share the belief that a quick return to pre-recessionary conditions is unlikely, most feel their organizations have the necessary skills and capabilities (7% of attention) to cope with the new context. Similarly, most companies will put little focus on improving management of operational and financial risk (8% of attention).

**Average CFO focus in the next 12 months (total = 100%)**



# Financial conservatism

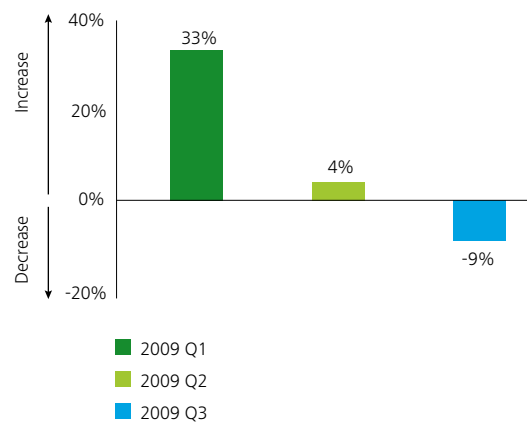
CFOs expect elevated levels of financial market volatility to persist, and expect to continue to face significantly tighter lending terms from banks. On the positive side, only a small minority of CFOs expects to continue to face reduced availability to credit in the long run.

A majority of CFOs believe the recession will result in a long term change in the way which corporations structure their balance sheets.

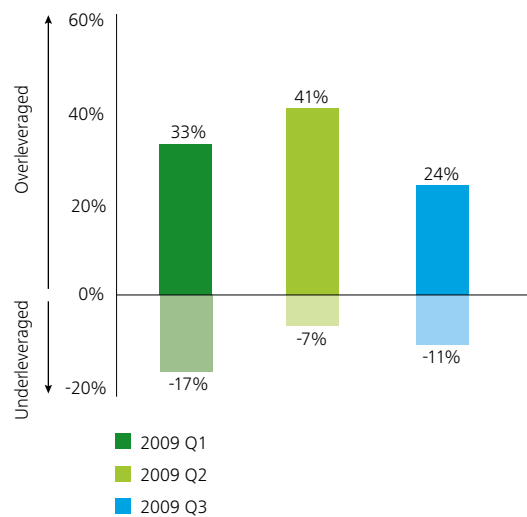
CFOs report the degree of financial risk on their balance sheets fell in the third quarter for the first time in the year. 83% thinks is not a good time to take risk onto their balance sheet.

The stabilisation of financial markets has helped reducing financial risk. In addition, measures taken by companies themselves, such as reducing debt levels and increasing liquidity, contributed to lowering the level of financial risk.

**Net % of CFOs who think the financial risk on their balance sheets has increased over the last 12 months**

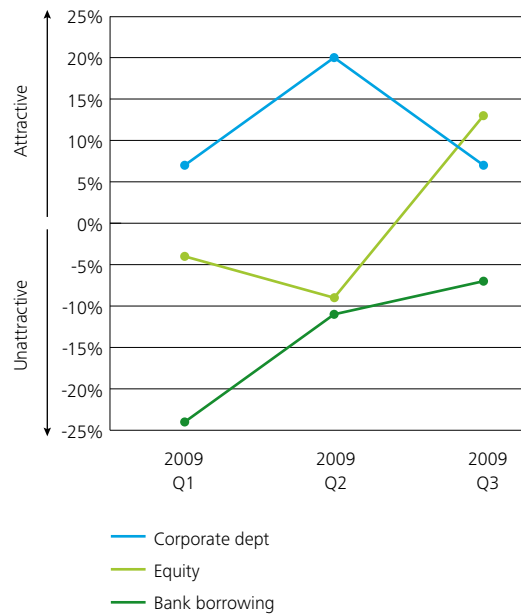


**% of CFOs who think that Belgian corporate balance sheets are overleveraged or underleveraged**



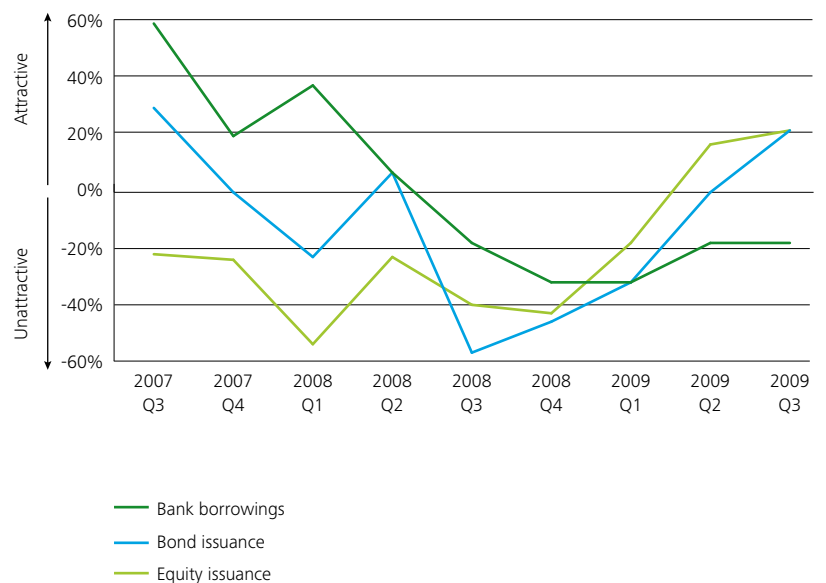
Bank debt remains out of favour, although significantly less than in the first and second quarter. Equity has gained attractiveness as a means of financing and becomes even overall attractive.

**Net % balance of respondents reporting the following sources of funding as attractive**



Though Belgian survey data is too limited to draw further conclusions, Deloitte UK survey data suggests that the disruption in the banking system has fundamentally changed UK CFOs preferences for financing their business. In the UK, bank borrowing has gone from being the most attractive to the least attractive form of finance over 2 years. Wholesale financial markets rather than banks, are now seen as offering corporates the most attractive sources of external finance through equity and corporate bond markets.

**Net % of UK respondents reporting the following sources of funding as attractive**

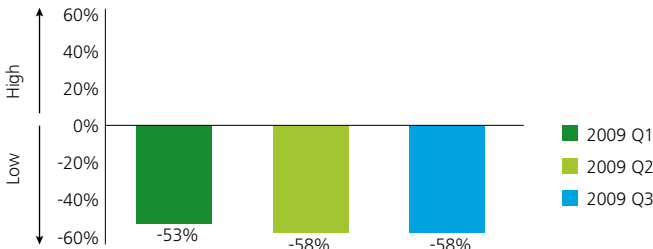


Filling the gap created by the collapse of bank lending would require a far greater increase in corporate bond and equity issuance than has been seen so far.

# Credit conditions remain tough

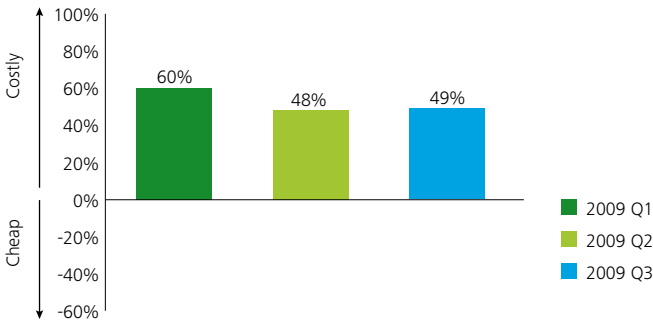
The great majority of CFOs believe that short term rates are low. In our first quarter survey 70% of CFOs reported however that the reduction of base rates did not translate into a lower cost of credit.

**Net % of CFO's who characterise the level of short term market interest rates in Belgium as high**



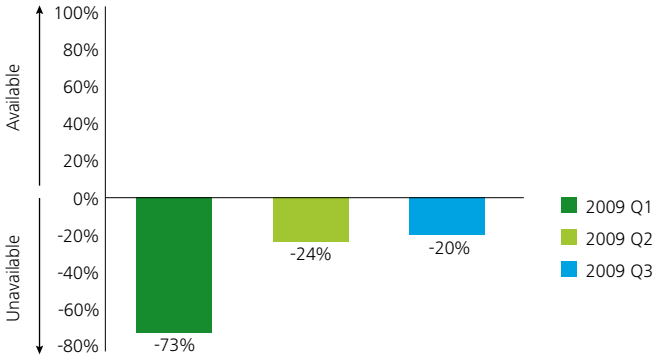
The cost of credit has lowered over the last year, but a majority of CFOs continue to rate credit as being costly. The lower base rates and the lower resulting interbank rates did not translate into proportionate declines in cost to corporate.

**Net % of CFOs that rate the overall cost of new credits as costly/cheap**



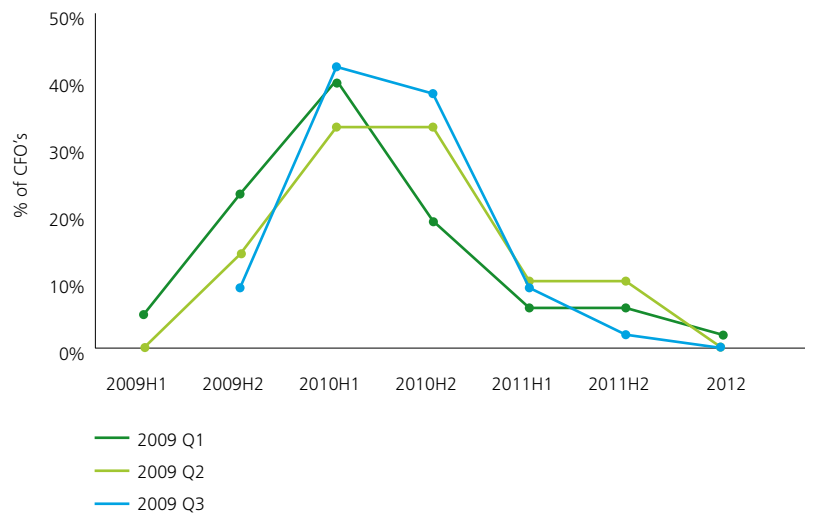
Half of the CFOs report that credit remains hard to obtain, although the availability of credit has significantly improved as compared to the first quarter of the year.

**Net % of CFO that rate credit as available/unavailable**



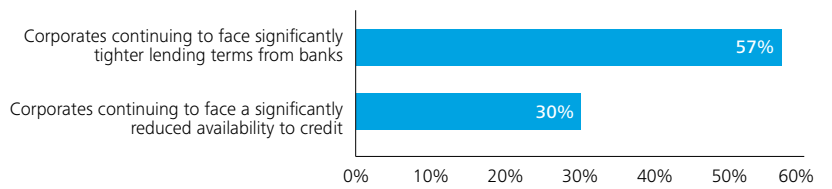
CFOs expectations related to the further improvement in the credit conditions have turned somewhat more positive in the third quarter. As of the first half of 2010, credit conditions are expected to improve.

**% of CFOs who expect an improvement in the supply and price of new credit available for you business**



However, 57% of CFOs think that corporations will continue to face tighter lending terms from banks also beyond the end of the recession. Only a minority think the availability of credit will remain difficult in the longer run.

**% of CFOs that think following factors are likely to persist for a year or more beyond the end of the recession**

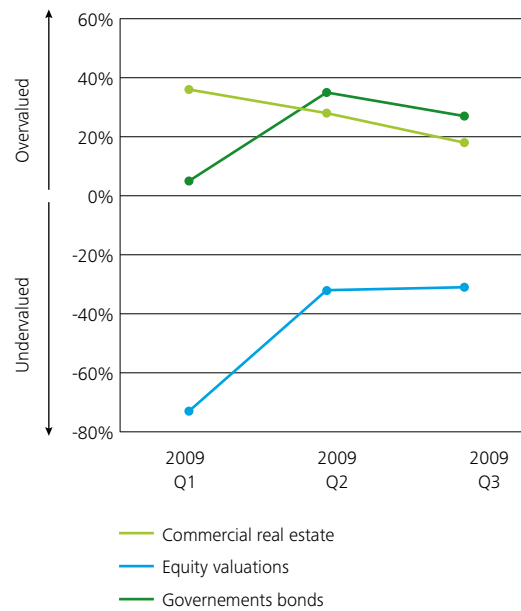


# Valuations

CFOs believe that equity in the Belgian market is still undervalued, though the perception of undervaluation has significantly decreased as compared to the first quarter.

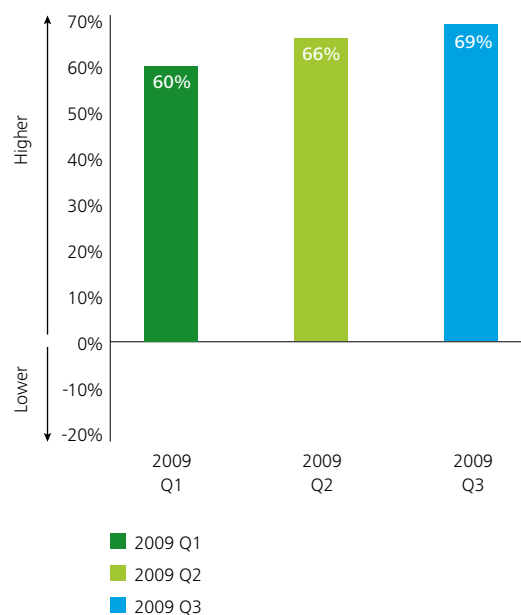
40% of the CFOs believe that the equities are currently at their fair value. Equity has gone from being seen as a very undervalued asset to a more reasonably priced asset. While commercial real estate and government bonds are slowly evolving towards fair pricing.

**Net % of CFOs who think the following assets are overvalued**



Although the rally of the Bel 20 pushed the share index 20% higher in the third quarter, 80% of CFOs count on the Bel 20 Index to be higher than today in a year's time.

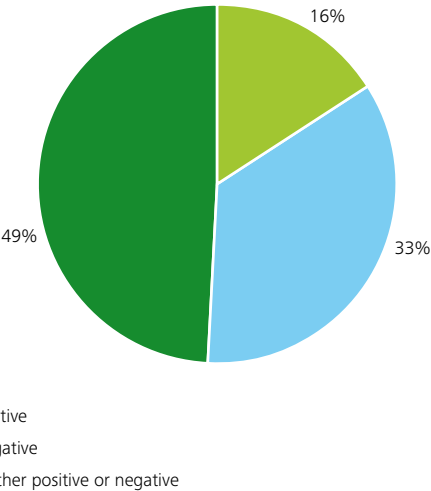
**Net % of CFOs who expect the Bel20 to be higher/lower in 12 months time**



# Policy making in turbulent times

Following the results of the Belgian regional elections on 9 June, CFOs reported limited confidence in the impact of the results these elections on the efficiency and effectiveness of financial and economic policy making in Belgium.

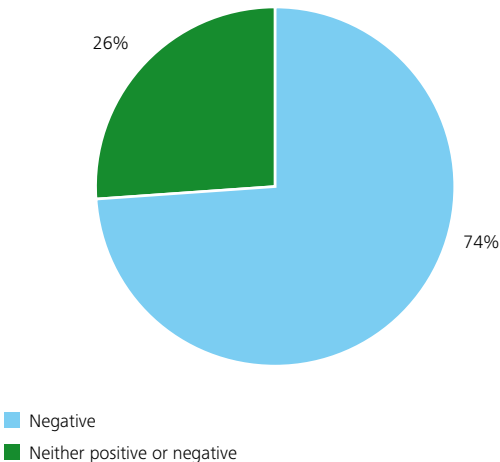
**% of CFOs that think the outcome of the regional elections will have a positive impact on the efficiency and effectiveness of financial and economical policy making (2009 Q2)**



One quarter further in the year, optimism related to the impact of the Belgian domestic political situation has become even more gloomy.

Confidence in politics is low, 74% of CFOs report the domestic political situation will have a negative impact on policy making.

**% of CFOs that think the Belgian domestic political situation will have a positive impact on the efficiency and effectiveness of financial and economical policy making**



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# Delivering the voice of the CFO community

## **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 2009 third-quarter survey took place between 10 September and 30 September. A total of 50 CFOs completed our survey, Two thirds (65%) 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. 35% of participating companies has a turnover of over 1 billion, 45% of between 100 million and 1 billion and 20% 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.

## Contact

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