

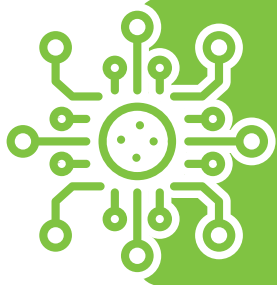


CFO Survey 2021
Middle East

Client Research Centre (CRC)
December 2021

The **CFO** Program

Overall level of uncertainty has reduced as CFOs feel optimistic about financial prospects and recovery



Respond to COVID-19



58%

CFOs chose Digitalisation as the most effective measure to mitigate the adverse impacts of COVID-19



Recover from the pandemic



76%

CFOs are optimistic about recovery over the next 12 months and anticipating revenue to increase



Thrive in post-pandemic world



81%

CFOs expect their workforce to return to office full-time as compared to 24% in Europe



Future expectations



57%

CFOs feel more optimistic about the financial prospects of their companies in 2021 compared to 12 months ago

Impact of COVID-19

“We have proven our resiliency, tested our systems, identified weaknesses...”

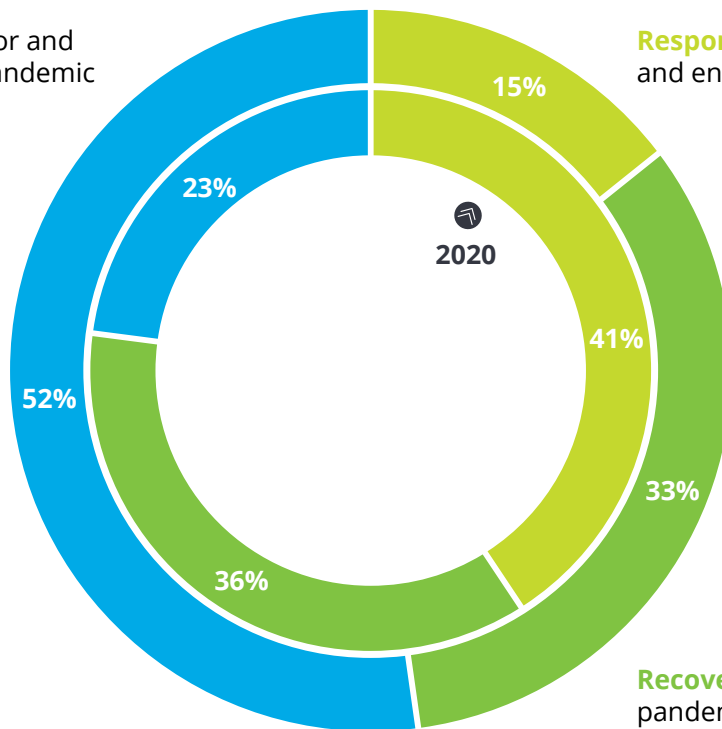
“Change of mentality and concept of how to approach operations and unforeseen events.”

Phase of COVID-19

Business leaders have faced unprecedented uncertainty since the start of the pandemic. As we moved to 2021, leaders have also made significant progress in implementing an action plan which demonstrated their resilience and agility, and have likely made them better prepared for future unpredictability.

Thrive: Preparing for and shaping the post-pandemic future

Respond: Managing continuity and ensuring company survival



Recover: Learning from the pandemic and recovering

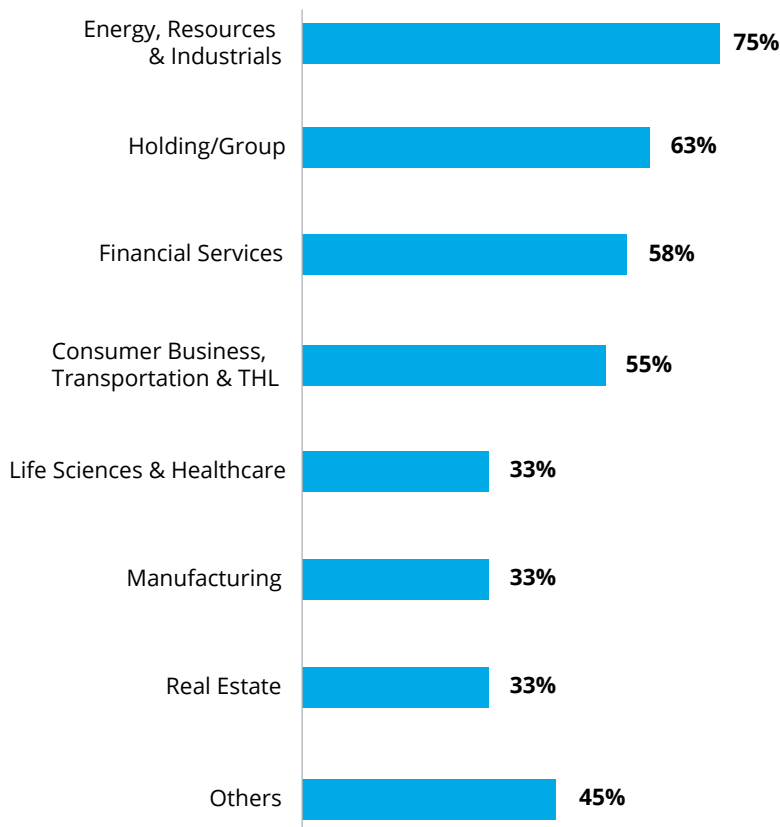
“[Covid-19] Has made us a more agile organisation and open to new ways of working.”

2021
Phase of COVID-19
What phase is your organisation currently in?

Phase of COVID-19 (continued..)

More than 50% of businesses have moved to the Thrive phase in 2021. Among the various industries, Energy, Resources & Industrials; Consumer Businesses and Financial Services have made the most progress in shifting from a short-term focus on ensuring continuity and survival to a more long-term focus on the post-pandemic future.

Thrive phase of COVID-19 by industry
What phase is your organisation currently in?



"In our business, though initially we saw a downturn but recovered fully towards end of the year and we have improved our systems and procedure which will help us in dealing with future challenges."

"Will hopefully not affect the construction sector in the long term but at a company level, it re-emphasizes the importance of being able to react quickly to major events and the importance of cost management as a first re-action."

Respond

“Acceleration of transformation from an operating model and digitalisation stand point, increased focused on client experience and discretionary spending is probably gone for quite some time.”

“Provided a burning platform to drive digital transformation.”

Respond: Impact of COVID-19 on financial metrics

COVID-19 had an adverse impact on almost all financial KPIs. More than 50% of CFOs have faced an adverse or severely adverse impact for all financial metrics used by companies, except the number of employees.

Receivable collection period and supply chain continue to be the most adversely impacted metrics with 70% of CFOs witnessing either an adverse or severely adverse impact.

Revenue and profitability have also been impacted adversely with businesses losing existing customers and having difficulty attracting new customers. In addition, the level of investment remained low in these uncertain times.

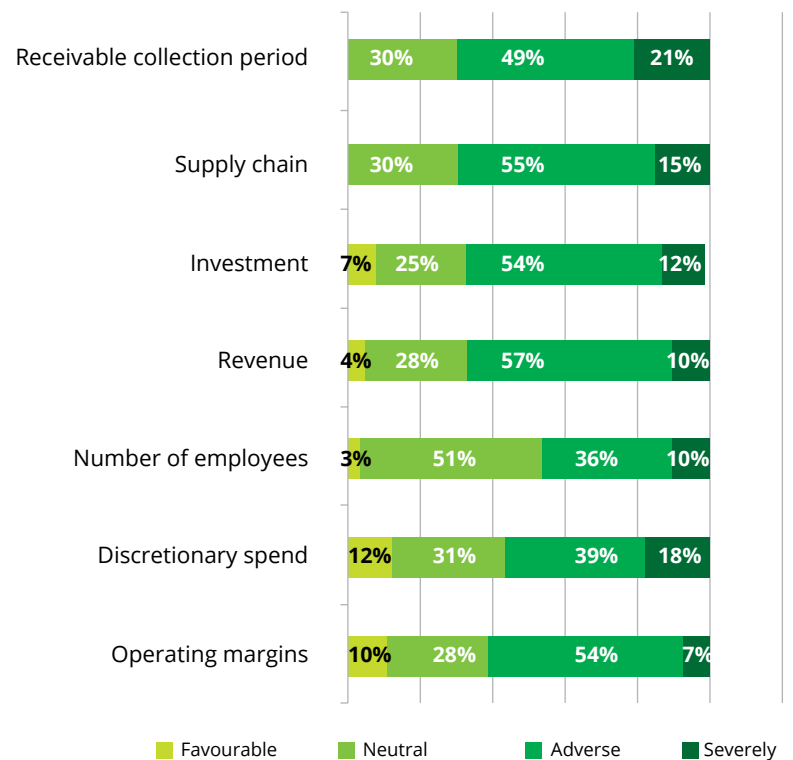
One positive outcome which CFOs spoke about is the impact on the number of employees. Though businesses have suffered in terms of working capital and margins, most leaders did not let it result in high job losses.

"The impact has been adverse since people's capacity to pay has been reduced substantially."

"We have lost customers for these two years from both financing and after sales parts of the business. "

Degree of impact

How would you rate the degree of impact caused by COVID-19 on the below key financial metrics?

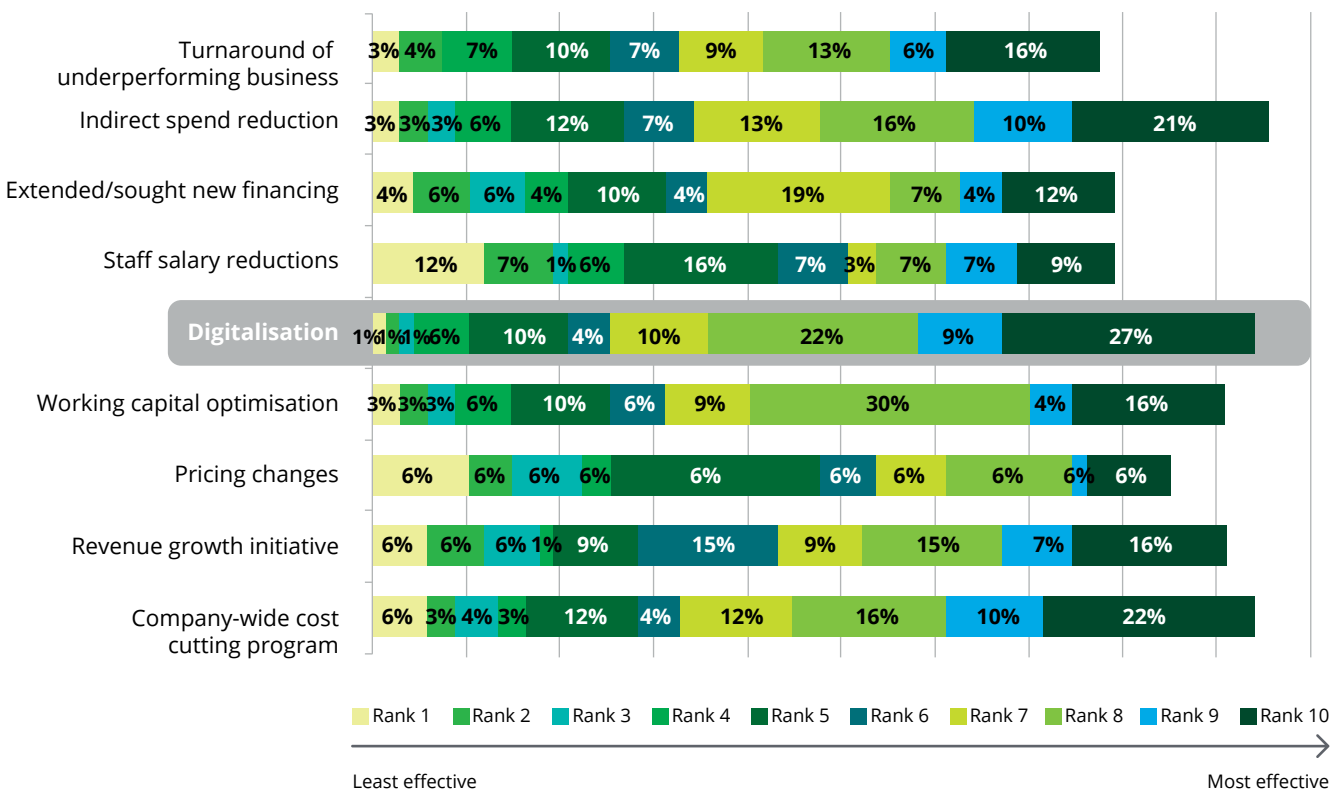


Respond: Mitigating measures

The pandemic has acted as a catalyst for digital transformation initiatives for businesses. Digitalisation has turned out to be the most effective measure in mitigating the impact of COVID-19, 58% of CFOs ranking it as the highest priority item.

Degree of impact

How would you rate the degree of impact caused by COVID19- on the below key financial metrics?



In line with the progress from 'Respond to Thrive' phase, the impact of long-term measures such as digitalisation has gone up significantly.

Operational efficiency related items such as cost cutting, working capital optimisation, and indirect spend reduction continue to be effective in responding to the adverse impacts of the pandemic.

Top industries which have ranked digitalisation to be the most effective



Energy, Resources & Industrials



Financial Services



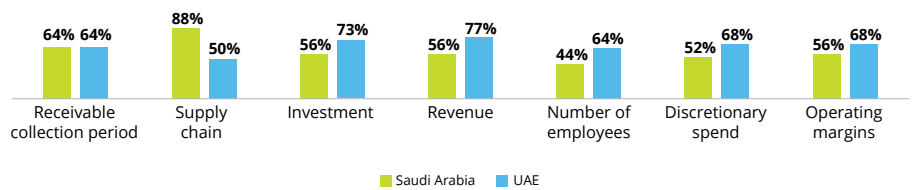
Consumer Businesses

Respond: Mitigating measures

Whilst there are lots of regional similarities, in some cases there was divergence by country, with Saudi Arabia noting higher levels of effectiveness from initiatives to improve working capital and digitalisation.

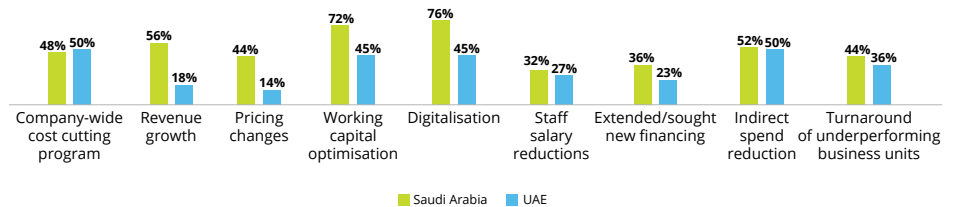
"Despite the short-term disruption, the efficiencies achieved as a direct result of the pandemic (optimised workforce, fast-tracked e-commerce and digitalisation) have made us stronger."

Adverse to severely adverse impact - by country
How would you rate the degree of impact caused by COVID-19 on the below key financial metrics?



"Everyone is thinking about automation, digitisation and e-commerce across all teams in our business. The practice of reaching to the customers through physical presence via expensive branches are not there."

Most effective (rank 8 to 10) mitigating measures - by country
How would you rate the degree of impact caused by COVID-19 on the below key financial metrics?



Recover

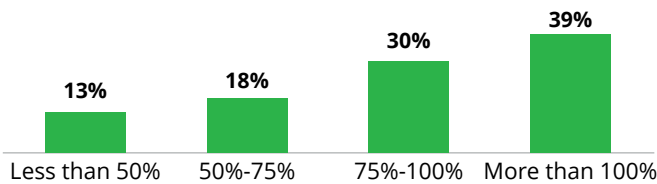
“Working capital and liquidity for our customers has been severely impacted. This has caused our business to look at new funding and reduce investment for short to medium term.”

Recovery: Key financial metrics performance

The first half of 2021 witnessed a strong bounce back in terms of both revenue and profitability: ~70% of businesses saw revenue in H1 2021 to be more than 75% of the revenue in H1 2020, while more than 50% of CFOs agree that their operating margin in H1 2021 was better than that of last year.

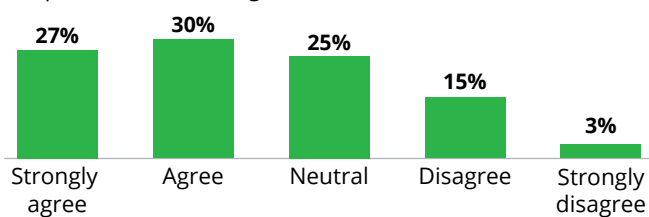
Financial performance of H1 2021 vs H1 2020

How does the first 6 months revenue in 2021 compare to the first 6 months of 2020?



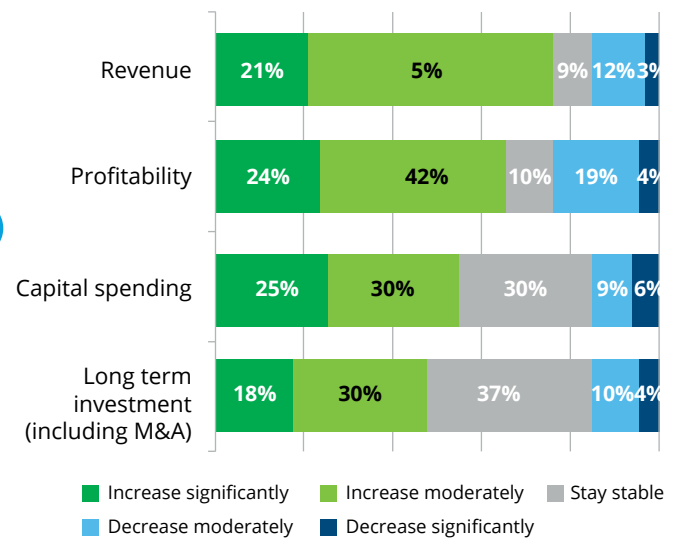
Financial performance of H1 2021 vs H1 2020

The operating profit margin in the first 6 months of 2021 outperformed the margin in the first 6 months of 2020.



Future expectations for financial performance

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months?



The level of optimism is quite high among CFOs for the next 12 month period – with 76% expecting the positive trend to continue for revenue and 66% feel the same for profitability.

Long-term investment is still a little low on the expectation ladder with 48% seeing growth in this field over next year.

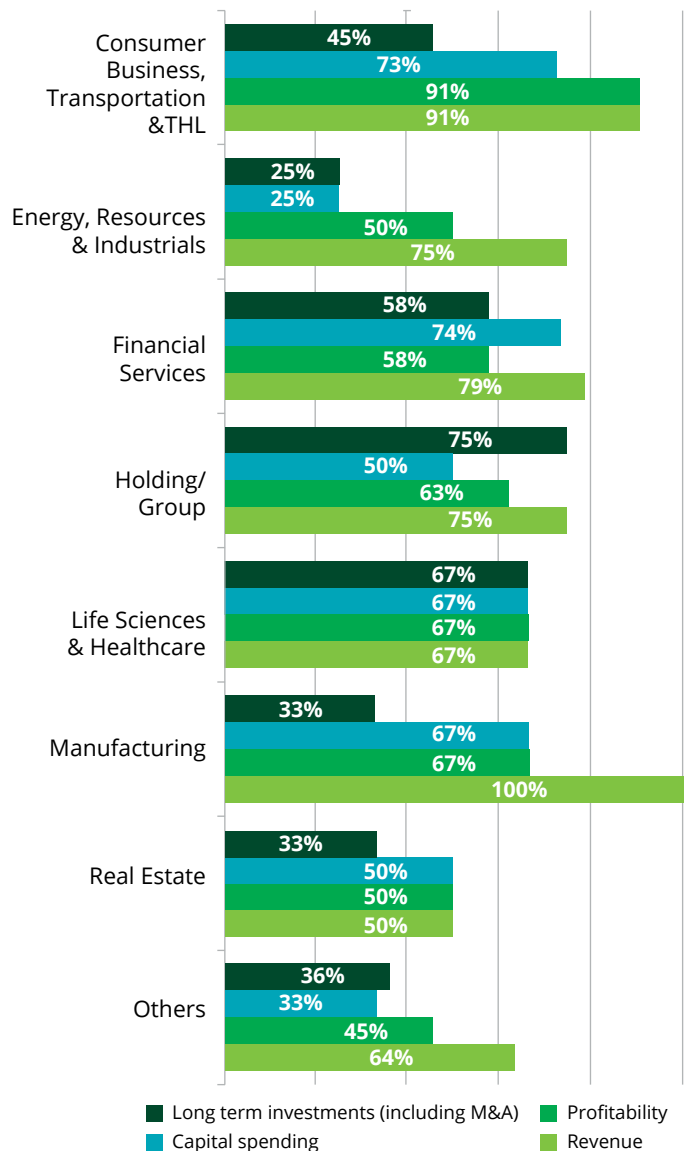
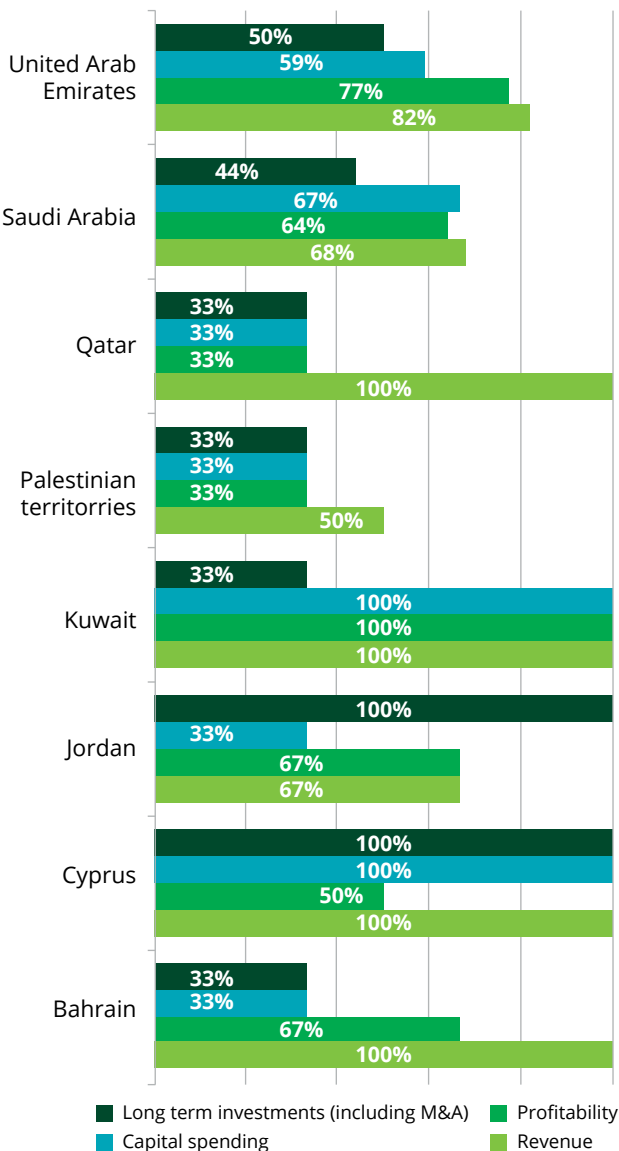
Recovery: Key financial metrics performance (continued..)

UAE is very optimistic about recovery in the next 12 months with CFOs in the country expecting growth in revenue (82%) and profitability (77%). Though the sentiment in Saudi Arabia is a little muted (at least in comparison to UAE) for revenue and profitability, CFOs seem to be more optimistic about capital spending in the country.

Consumer Business, Energy, Resources & Industrials, Financial Services share an optimistic view on the financial performance of their business over the next 12 months, while the Real Estate industry is relatively pessimistic about recovery.

Future expectations for financial performance to increase over the next 12 months – by country and industry

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months?



Thrive

“Changed strategic direction and drive towards digitalisation and new customer focus offering, new products/services and optimisation of turnaround offering.”

Thrive: CFO strategic priorities

Over the course of the next 12 months, CFOs look to prioritise operational efficiency and organic growth to support revenue and profitability growth for the business.

As business sentiment continues to improve, 76% of CFOs expect revenue to increase over the next 12 months, while 66% of CFOs expect profitability to grow during the same period.

The focus on organic growth and new products or services/new markets has increased significantly as compared to 2020. Organic growth was ranked fourth while new products and markets came at seventh position in 2020.

Capital expenditure, divestment of non-core businesses and mergers & acquisitions rank low in order of priority for the business over the next year. In the UAE, 73% of CFOs have selected organic growth in existing markets as their top priority for their business.

Top three ranked priorities in Saudi Arabia	Top three ranked priorities in UAE
Operational efficiency	Organic growth in existing markets
Organic growth in existing markets	Operational efficiency
Introduction of new products or services / entering new market	Introduction of new products or services / entering new market

CFO priorities

Rank the following strategies and key initiatives in order of priority for your business over the next 12 months.

- 1 Seek operational efficiencies (62.7%)
- 2 Organic growth in existing market (56.7%)
- 3 Introduction of new products or services/ entering new market (43.3%)
- 4 Hiring new talent / upskilling existing employees (34.3%)
- 5 Divest non-core business units (17.9%)
- 6 Increase in capital expenditure (13.4%)
- 7 Inorganic growth pursuing new M&A (9.0%)

Thrive: Inorganic growth strategy

More CFOs are seeking to use inorganic growth and M&A as an offensive strategy with only 8% of CFOs looking at M&As as a defensive initiative.

As an offensive strategy, M&A is being used to drive digitalisation and innovation in businesses, along with consolidation by acquiring peers.

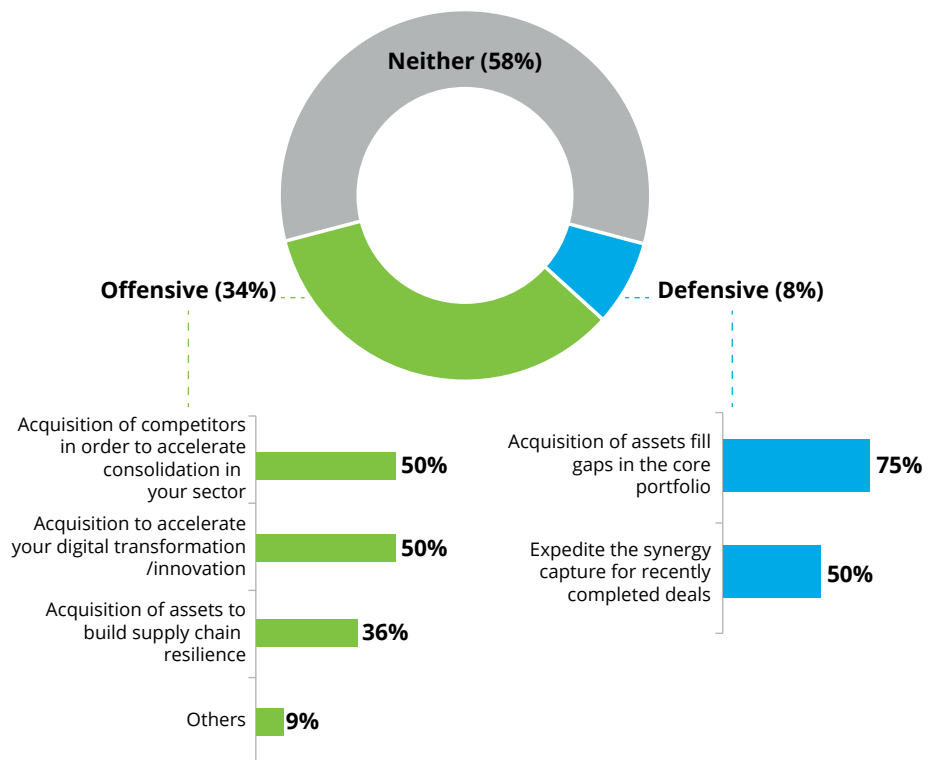
CFOs in Saudi Arabia are more open to inorganic growth via M&A as compared to the Middle East average with 48% of CFOs willing to use M&A as an offensive strategy in Saudi Arabia as compared to 34% across the Middle East.

"Acquisition to drive growth...not consolidation, per se."

"Diversification, both across the whole value chain and geography/sectors."

M&A strategy

What objectives are your M&A strategies trying to achieve?

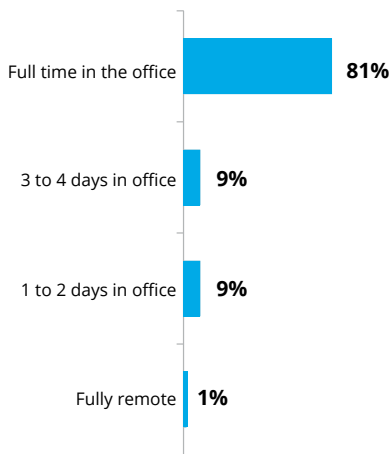


Thrive: Hybrid work model

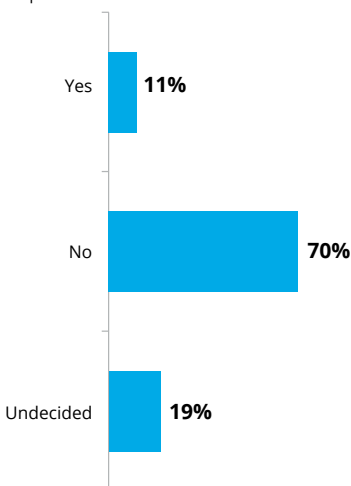
CFOs are not looking to adopt the hybrid work model with 81% expecting their workforce to return to office full-time. As a result of this, there is no plan to reduce the Real Estate footprint of businesses.

Hybrid work model

To what extent will your workforce return to the office or incorporate a hybrid work model?



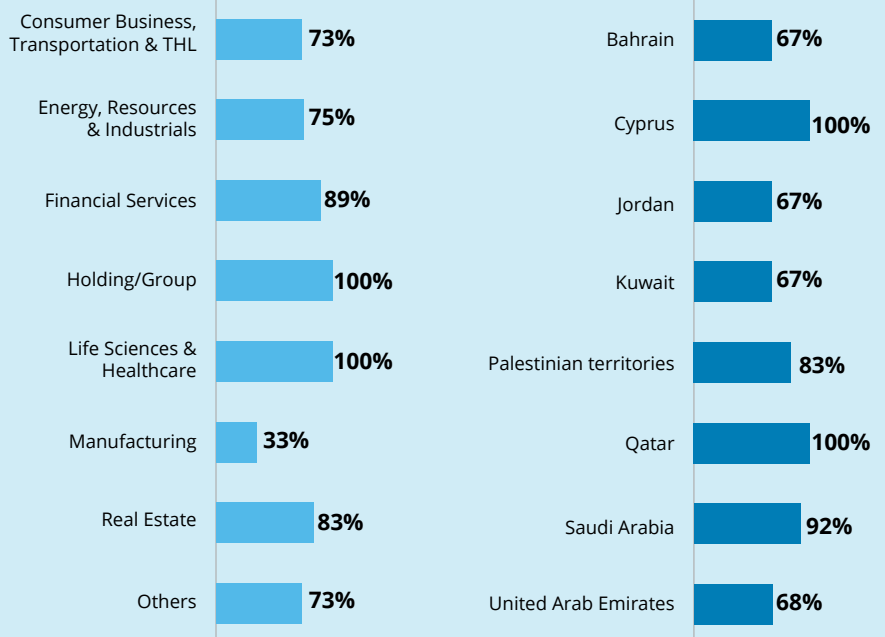
Are you planning to reduce your office Real Estate footprint given the pandemic or switch to a more virtual set-up?



CFOs are more confident this year about not reducing their Real Estate footprint. In 2020, only 23% of CFOs didn't expect their Real Estate footprint to be smaller – this proportion has grown to 70% in 2021.

Among the industries, surprisingly Manufacturing preferred the hybrid working model (3 to 4 days in office) while Financial Services are quite keen to get their workforce back full time.

CFO preference for workforce to return full-time to office – by industry and country



CFOs in UAE are relatively more open towards hybrid working model with 68% choosing full time in office and 18% selecting 3 to 4 days in office. This is in contrast to the situation in Saudi where 92% of CFOs want their workforce to return full-time.

Thrive: Environmental, social and governance

The pandemic has increased the attention on climate issues. Middle East nations have also been making progress in reducing their carbon footprint. Just last month, Saudi Arabia pledged to reduce its net carbon emissions to zero by 2060 while UAE aims to achieve the goal 10 years earlier.

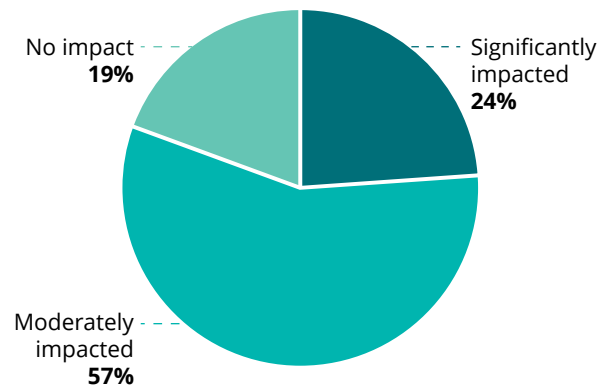
Most businesses (57%) are moderately impacted by the increased interest in ESG. Larger businesses are more significantly impacted by ESG norms as compared to smaller ones (with revenue less than US\$50m).

The impact of ESG measures on business performance will likely increase in the coming years as governments increase the push towards net-zero emissions.

"Long term positive impacts on Real Estate strategy, travel reduction and associated carbon footprint, supply chain and work/life balance."

Sustainability

How is the increased interest in environmental, social and governance influencing your current business?



Confidence and expectations

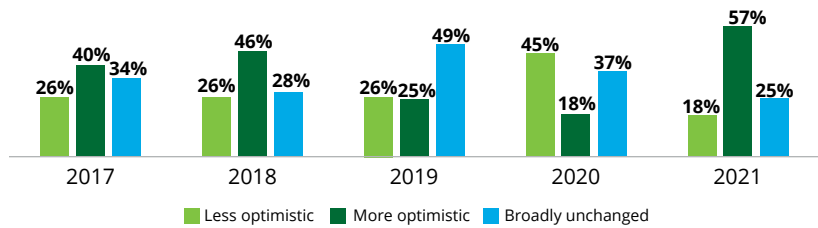
Financial prospects

Post COVID-19 global pandemic recovery has improved the financial prospects for Middle East CFOs.

CFOs confidence in the financial prospects of their companies has improved significantly with 39% more CFOs saying they feel more optimistic now than a year ago. The percentage of CFOs feeling less optimistic has been the lowest in last five years at 18%.

Financial prospects

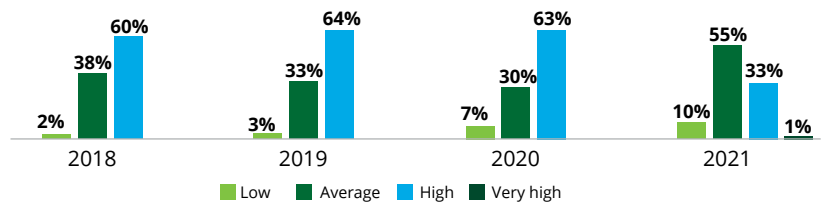
Compared to a year ago, how do you feel about the financial prospects of your company?



Among the CFOs surveyed the risk appetite has comparatively increased with UAE leading the way with 59% of CFOs responding positively to risk capacity followed by Saudi Arabia with 36% of CFOs responding in similar fashion.

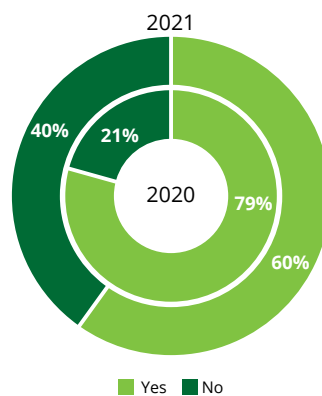
Economic uncertainty

How would you rate the overall level of external financial and economic uncertainty facing your business?



The risk appetite has doubled to 40% in 2021 compared to 2020 which highlights the improving business sentiment in the Middle East.

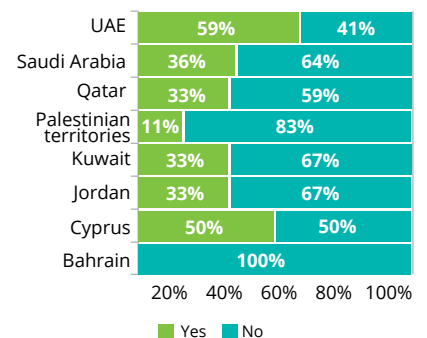
Change in risk appetite



Participants' assessment of the overall economic and financial uncertainty has considerably changed in 2021 compared to previous years with more than 55% of CFOs believe economic uncertainty to be average in 2021.

Risk appetite

Is this a good time to be taking greater risk onto your balance sheet?



Financial prospects (by country and sector)

The majority of CFOs (88%) rated the level of external economic and financial uncertainty as 'average' or 'high', up from 2020.

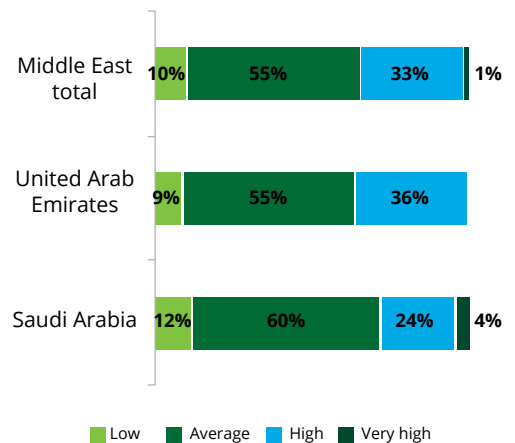
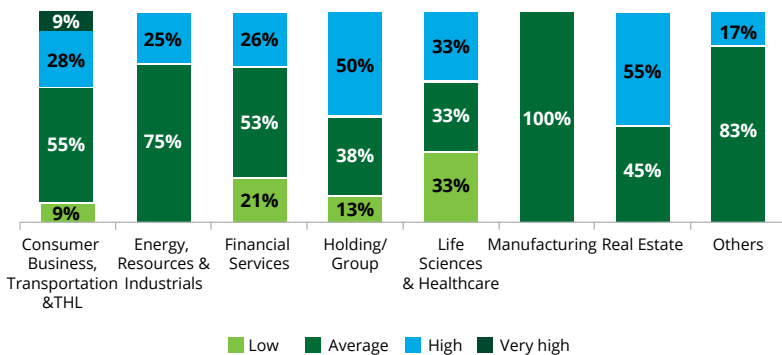
CFOs from Energy, Resources & Industrials (75%), Consumer Business, Transportation & THL (55%) and Financial Services (53%) consider uncertainty as "average".

Despite UAE CFOs being positive in their financial outlook, 12% more (vis-à-vis Saudi Arabia) CFOs in UAE believe they are facing greater overall economic uncertainty.

Saudi Arabia's CFOs in Consumer Business, Transportation & THL (55%) feel their financial prospects are better whereas CFOs of both Saudi Arabia and UAE have mixed opinions in the Financial Services sector.

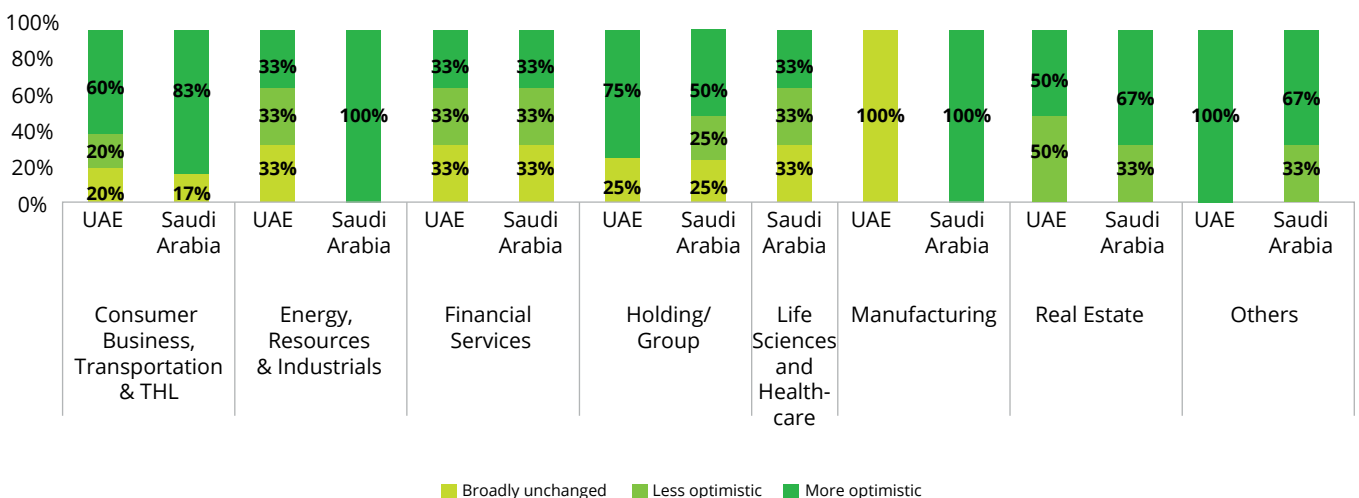
Confidence - by industry and country

How would you rate the overall level of external financial and economic uncertainty facing your business?



Financial prospects by industry and country

Compared to a year ago, how do you feel about the financial prospects of your company?



Project finance expectations

Existing cash/cash flows led finance for company projects has increased over the years and new equity issuance has also emerged as a major source.

There was a significant drop noticed in CFOs who believe existing debt facilities can fund their projects from 22% to 10% .

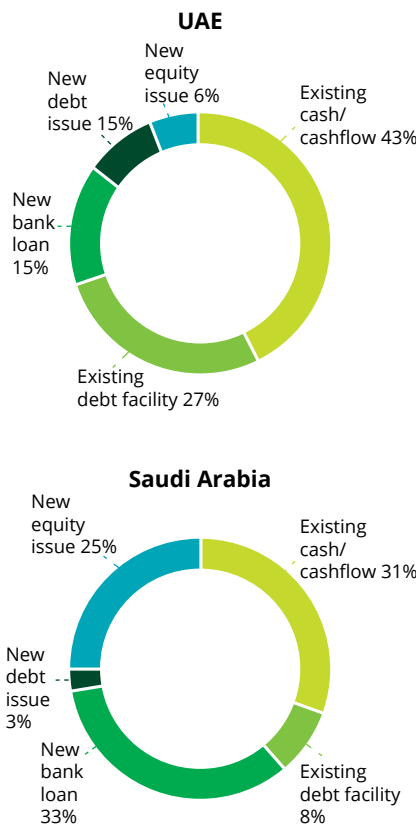
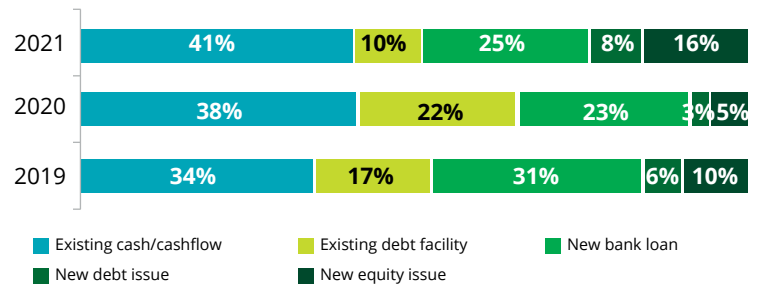
This vacuum was filled by an increase in new funding sources including new debt issue and new equity issue due to cheap availability of fresh capital. This was completely in contrast with 2020 when most of the CFOs were choosing a more cautious approach to financing from Middle East businesses.

According to responses, Saudi Arabia is leading new bank loans and new equity issue indicating easy availability of capital compared to the UAE where CFOs are still mostly relying on existing cashflows and existing debt facilities.

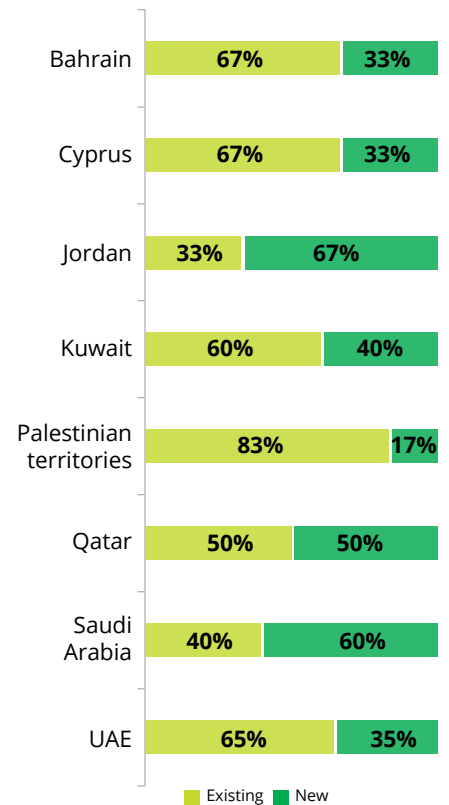
This is cemented by the fact that according to 60% of CFOs all financing in Saudi Arabia is new financing compared to only 35% in UAE.

Sources of finance

For the projects that your company is planning on undertaking, what source of financing are you considering?



Sources of finance by country



Oil price expectations

Oil prices have considerably increased over the last 6 months following the slump in 2020, however half of the CFOs believe a further increase is possible in the near-term; followed by 34% of respondents who predict oil prices to remain broadly unchanged.

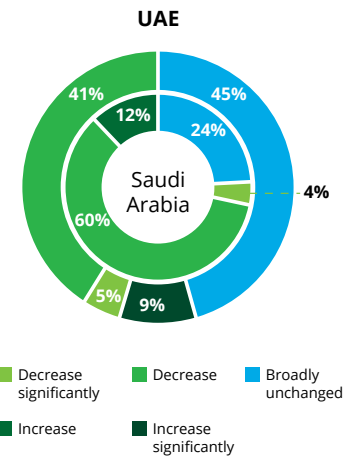
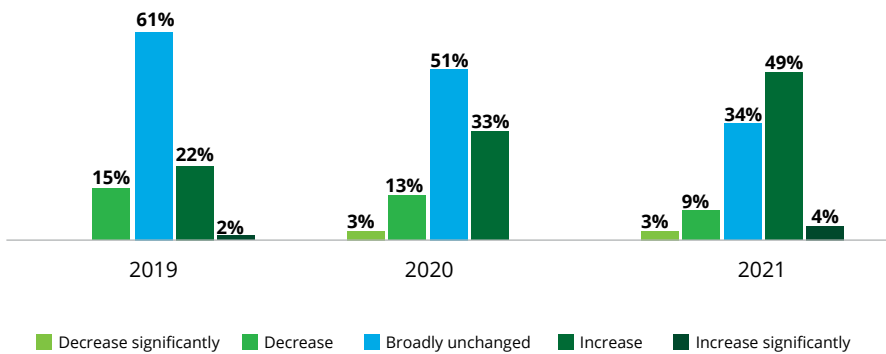
More than 60% of CFOs in Saudi Arabia are expecting a further increase in oil prices in the next 6 months whereas only 41% of UAE CFOs expect the same.

CFOs however, are increasingly expecting the impact of oil prices to be marginal to medium compared to a higher impact in 2020. Hence, the percentage of CFOs who believe there could be marginal impact on their business has increased in 2021.

CFOs (64%) in Saudi Arabia expect a medium to significant impact on their business compared to 46% of CFOs in the UAE.

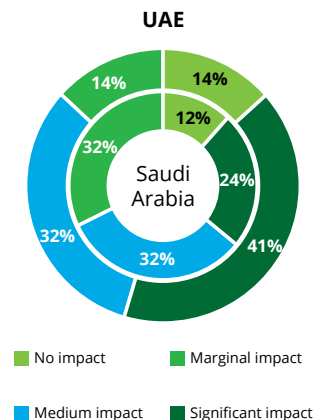
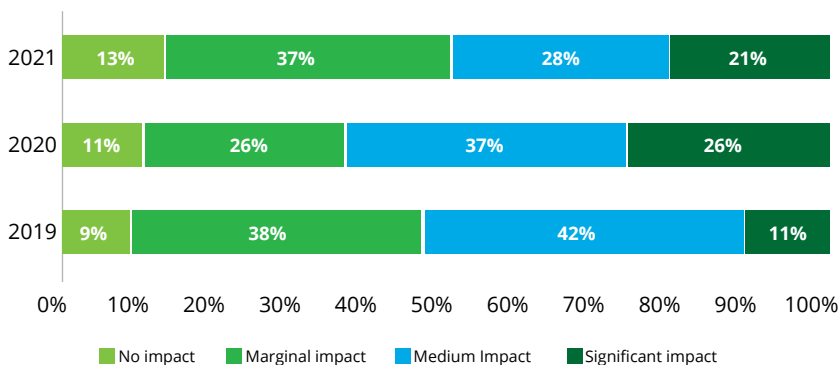
Oil price expectations

What do you believe the oil price is going to do in the next 6 months?



Oil price impact

How will a change in the oil price (either positive or negative) impact your business?



Interest rate expectations

Sentiment around future interest rates has changed drastically compared to 2020. After significant rate cuts last year to revive the economy, 33% of CFOs in the Middle East expect interest rates to rise, significantly up from 16% in 2020.

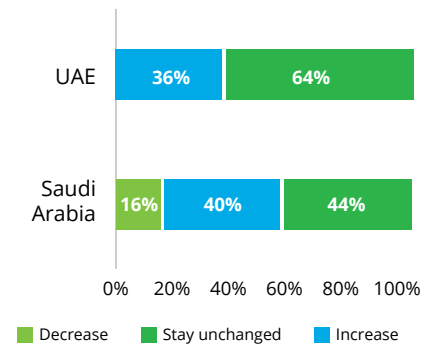
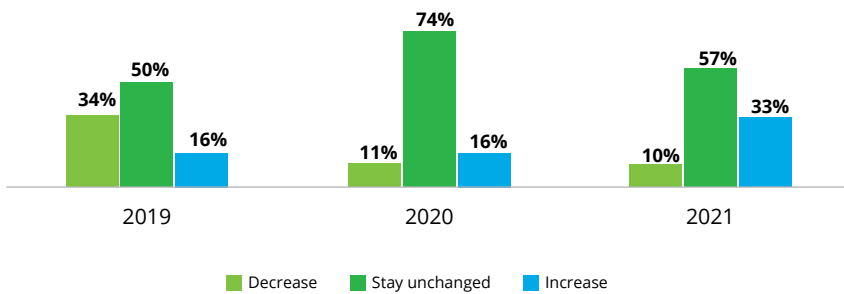
More CFOs in the UAE believe that interest rates would remain unchanged for next 6 months compared to Saudi Arabia where still a few CFOs expect interest rates to go down.

CFOs are expecting marginal impact of interest rates on their business have gone up significantly to 50%. More than a quarter of the CFOs expect a medium impact of interest rates on their business.

More CFOs in Saudi Arabia expect a marginal to medium impact of interest rates in their business. However, 18% of CFOs in the UAE believe interest rates will have significant impact.

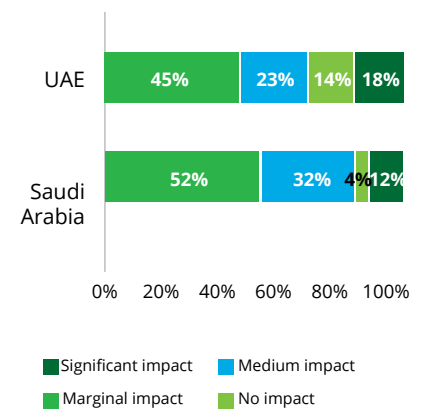
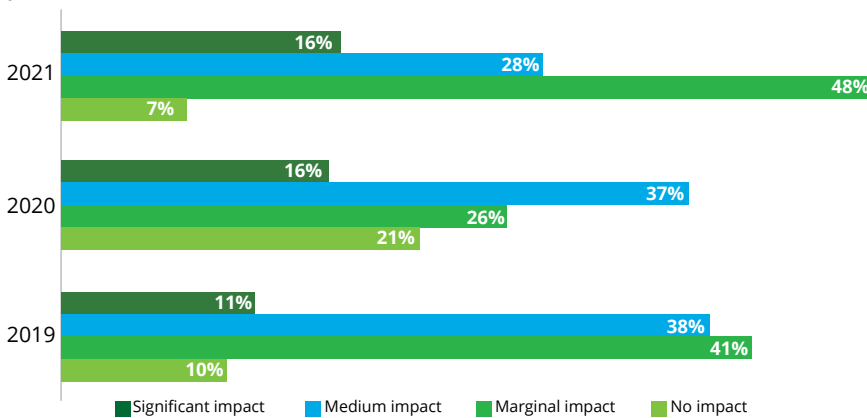
Interest rate expectations

What do you believe the local interest rate is going to do in the next 6 months?



Interest rate impact

How will a change in the interest rate (either positive or negative) impact your business?



Oil price & interest rate impact across industries

CFOs in Saudi Arabia expect oil prices to be higher across industries especially in Consumer Business, Transportation & THL, Energy, Resources & Industrials and Holding/Group companies. However, CFOs in the UAE expect a medium impact across these industries.

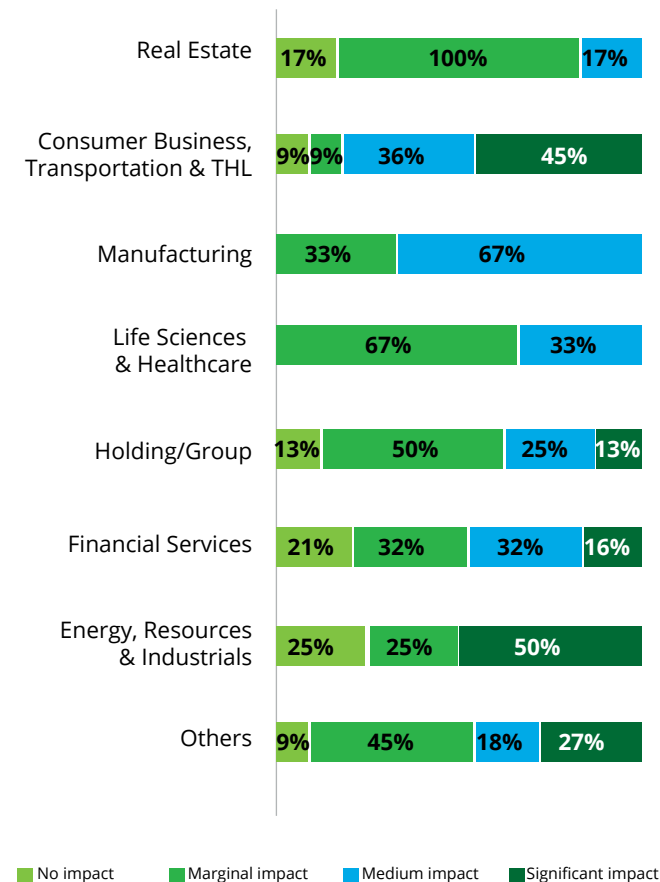
CFOs in Manufacturing, Financial Services and Life Sciences & Healthcare expect medium impact of oil price movement in Middle East.

CFOs in the Financial Services sector along with Consumer Business, Transportation & THL, Energy,

Resources & Industrials expect significant impact of interest rates on their business. However, still an overwhelming number of CFOs in these industries expect marginal to medium impact of interest rates on their businesses.

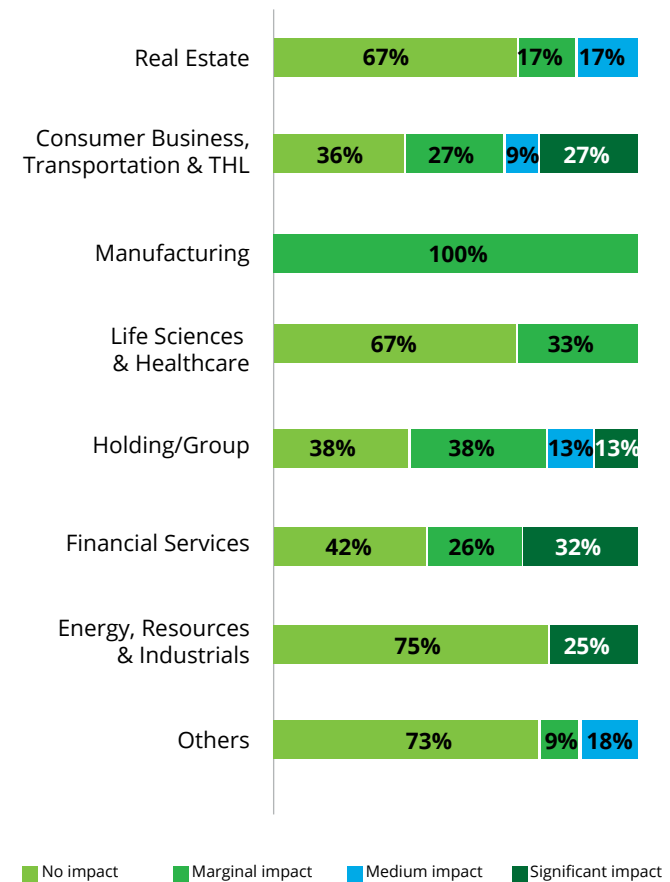
Oil price impact by industry

How will a change in the oil price (either positive or negative) impact your business?



Interest rate impact across industry

How will a change in the interest rate (either positive or negative) impact your business?



About the survey

Brief introduction to the survey and the CFO Program

The Deloitte Middle East CFO survey is in its seventeenth year and provides CFOs with insights regarding their peers' perspectives and sentiments across a variety of topics.

This year, the survey has a special focus on COVID-19 and documents how financial leaders across the region are responding and planning to thrive in a post COVID-19 world.

The CFO survey is a single element in a range of insight gathering, collaborative learning, training and support services offered by the Deloitte Middle CFO Program. For more information on the survey or other services, please reach out to our team of experts.

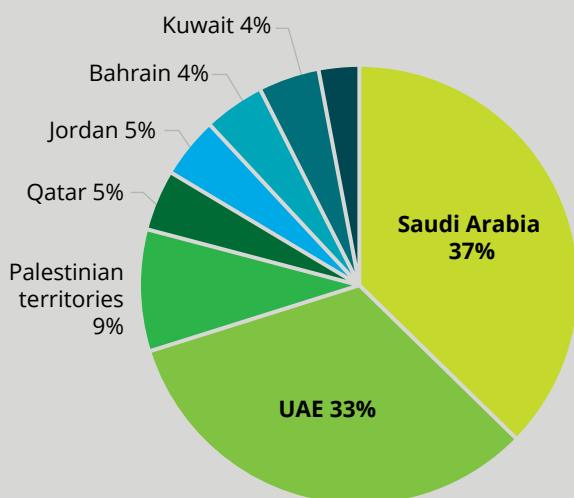
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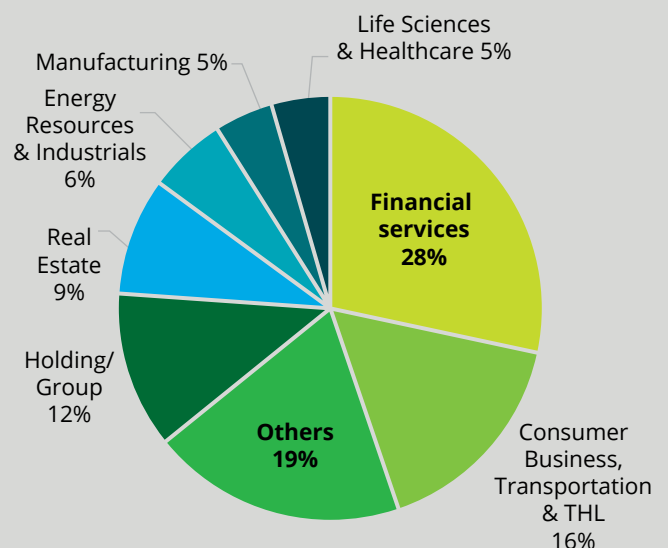
Akbar Ahmad
Clients & Industries Leader
 Emaar Square, Building 3
 Downtown Dubai
 Dubai
 United Arab Emirates
 D: +971 4 376 8888 | M: +971 (0) 50 553 8379
 akahmad@deloitte.com
 www.deloitte.com

Fauwaz Lahori
Senior Manager
 Emaar Square, Building 3
 Downtown Dubai
 Dubai
 United Arab Emirates
 M: +971 (0) 52 324 6157
 falahori@deloitte.com
 www.deloitte.com

Survey participants by country



Survey participants by industry



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