

The Deloitte CFO Survey *A damper on economic recovery*

Spring 2022 | Dutch perspective from the European CFO Survey

Foreword

The Dutch CFO Program helps CFOs stay ahead in an increasingly complex business environment. Among other initiatives, we do this by giving voice to Netherlands-based Chief Financial Officers. We are pleased to present you the spring 2022 edition of the Deloitte CFO Survey.

Our bi-annual CFO survey collects input from over 1,300 Chief Financial Officers across Europe. This report provides an overview of the Netherlands-based CFOs' financial outlook, as well as their views on critical business risks, inflation, strategic priorities and other factors they currently consider to be vital to success. Finally, it contains a supply chain section, and measures taken to curb issues arisen in this area over the past year.

By tapping into CFOs' privileged viewpoints, this report provides reliable insights into how Dutch companies view the current economic climate, as well as strategies they are considering to mitigate the impact of external shocks.

As the direct impact from the pandemic faded, the CFOs' outlook for 2022 was brighter than it had been for the preceding two years. However, the results reveal new concerns, about the current geopolitical situation, inflationary pressure, and supply chain issues. They are influencing CFO sentiment across the board. One notable finding is that CFOs expect supply chain issues to persist until at least the second half of 2023. Particularly shipping costs and intermediate goods form bottlenecks for CFOs and their companies' operations. Most CFOs highlight an increased focus on growth in existing markets over expansion into new markets. Overall, financial prospects are trending downward. However, compared to the EU average, Netherlands-based CFOs are still relatively optimistic*.

We hope that the findings presented in the report bring an interesting dynamic to your internal conversations. If you wish to discuss any specific aspects of the report, please feel free to contact me or one of our other Deloitte leaders. Their email addresses are provided at the end of this document.

Sincerely,

Willem Blom

Managing Partner, Deloitte Tax & Legal
CFO Program Leader

**Note: the data was collected in March and April and the concerns noted above have possibly changed in significance*

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About the Deloitte CFO Survey

The Deloitte CFO Survey was conducted online in March and April 2022. Many Dutch CFOs participated, representing listed companies as well as privately owned firms from every major sector of the economy. We would like to thank all participating CFOs for their support in completing the survey.

This edition also presents the results for selected questions and countries from the overarching European CFO Survey. The European CFO survey is conducted in 18 countries, including the Netherlands. A total of 1,319 CFOs from across Europe took part in the current European Survey. You can find the full aggregated results at www.deloitte.com/europeancfosurvey

A note on the methodology

Some of the charts in the Survey show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither negative nor positive are deemed to be neutral.

Because of rounding, percentages may not add up to 100. The published survey only includes questions related to the current financial and economic situation, to improve readability. If you wish to receive information about unreported questions, please contact us.

1. Summary and key findings of the Dutch CFO Survey



Financial outlooks are showing signs of distress. The percentage of Dutch CFOs that feel optimistic has significantly decreased compared to the autumn edition, encompassing a total of 45% of the overall respondents. This is the third time in the last seven years that the aggregate CFO sentiment on the financial outlook is negative



Revenue expectations are the lowest since the 2016 spring edition. Similarly, expectations for operating margins have decreased to a net balance of 5%. CAPEX expectations over the next 12 months are in line with these developments and have decreased by more than half compared to the last edition. Although all indicators remain positive, a significant decrease in performance is expected across all financial metrics measured in the survey



Current tensions between Russia and NATO seriously impact the global economy and **Dutch CFOs perceive geopolitical risks to be the largest risk to their company over the next 12 months.** As the global economy experiences major setbacks, we see that the majority of Dutch CFOs appears to be **reluctant to add greater risk to their balance sheets.** With a net balance of -66%, the risk appetite ends up lower than 2 years ago, when the pandemic started to have its effects



Inflation is on the rise. The CFOs' expectations for inflation have risen markedly, to 6% for both the Netherlands as well as the Euro area. This is significantly higher than expectations from CFOs in other countries in the Euro area. Although the expectation seemed exorbitant, the current situation teaches us that even higher inflation numbers are expected in the period ahead (this survey was conducted in March 2022 – April 2022)



Of the Dutch CFOs, 75% indicate their companies are affected by supply chain issues. The main bottlenecks reside in the supply side: low product availability and higher costs are a common denominator for CFOs. Nearly 50% of CFOs expect to put effort into diversification of suppliers and distribution routes to mitigate these issues. Almost half of CFOs presume it will take at least until the second half of 2023 before supply chains will return to their pre-pandemic state

2. Financial outlook: financial outlook is showing signs of distress

The latest Deloitte European CFO survey reveals a bleaker sentiment regarding financial prospects for the Netherlands across the majority of industries

The overall share of Dutch CFOs who indicate they feel optimistic about their company’s financial prospects has significantly decreased compared to last autumn’s edition. In total, 45% of the respondents communicate that their financial outlook is unfavorable.

At the same time, following the downward trend also presented in the last edition, the share of respondents who feel optimistic further decreased. Consequently, at -15% the overall net balance of sentiment is negative, the second lowest net balance in the last seven years.

Although most industries report a negative response, in line with the overall results, CFOs of the Dutch Tourism & Travel sector report a positive outlook, as 32% of the respondents are more optimistic about their financial prospects compared to three months ago.

Compared with what Dutch CFOs anticipate, the overall European expectation is worse. As Chart 2 shows, the financial expectations of this subset of countries range from a mildly optimistic view in Luxembourg to very pessimistic in Spain and Germany.

Chart 1. Financial outlook for companies in the Netherlands

Net balance of CFOs rating their financial prospects for the next 3 months as positive/negative

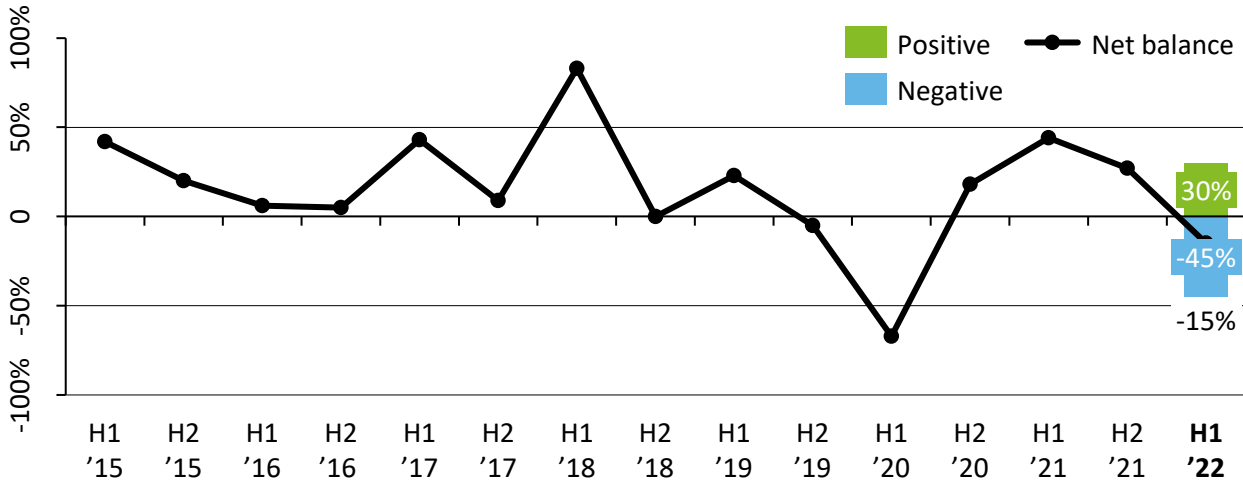
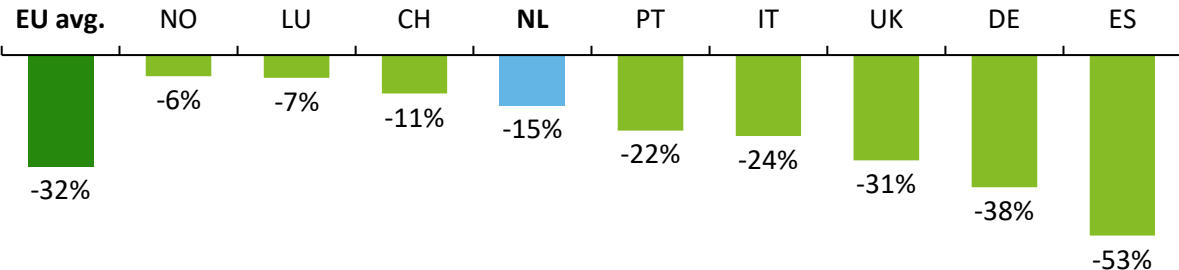


Chart 2. Companies’ financial outlook in the Netherlands compared with other European countries

Net balance of CFOs rating their company’s financial outlook compared with three months ago



2. Financial outlook: Indicators showing downtrend

Overall optimism for many corporate indicators decreased, except for the change in numbers of employees, which are expected to increase over the next 12 months.

The negative trend in Dutch CFOs' sentiment for their short-term financial prospects is in line with the expectations for specific performance indicators over the next 12 months.

While still positive overall, average revenue expectations have decreased significantly. In fact, revenue expectations are the lowest since the Survey's 2016 spring edition. Similarly, expectations for the evolution of operating margins have decreased to a net balance of 5%. The last time we recorded such low expectations was in the Survey's 2016 autumn edition. The same evolution applies to expectations for the CAPEX development over the next 12 months.

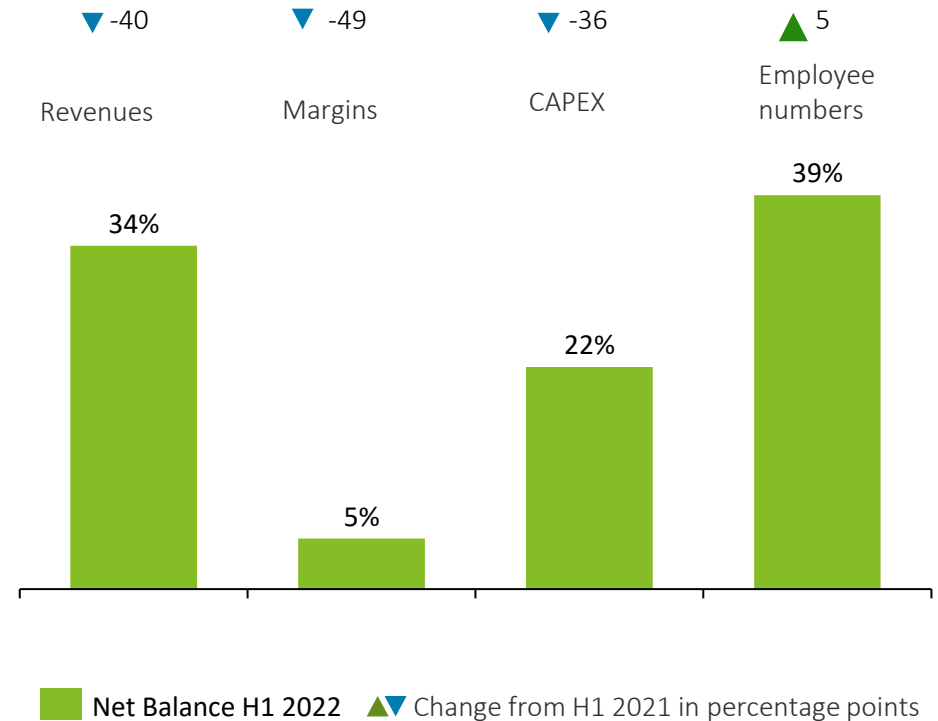
In contrast, expectations for employee numbers are robust and are the only indicator for which a larger majority than in H1 2021 now expects an increase. Despite the uncertainty, it seems that most companies are now ready to invest in higher staffing levels.

The respondents' expected operating margin performance is moderately lower in other European countries and averages at -19%, with UK reporting the lowest expectation: -60%.

Although most sectors show similar outcomes, regarding operating margins expectations some other outliers were recorded, as expectations for this indicator vary greatly between industries. For example, most of the CFOs in the Consumer goods industry (net balance is -42%) expect decreases, while CFOs in the Business & Professional Services industry predominantly expect their operating margins to go up.

Chart 3. Corporate indicators: general downward trend recorded

Net balance of Dutch CFOs who expect their company's performance on the following indicators to improve/worsen over the next 12 months



3. Corporate risk: Concerns over geopolitical tensions

As new concerns for business include geopolitical risks and currency fluctuations, the nature of perceived risks is changing significantly

Geopolitical risks made a huge leap to the top. Current tensions between Russia and NATO have serious consequences for the global economy and Dutch CFOs perceive geopolitical risks as the largest risk to their company over the next 12 months. Although the impact of COVID is decreasing, economic outlook/growth remains one of the main risks for the year ahead, presumably because of the high energy prices, inflationary pressure and

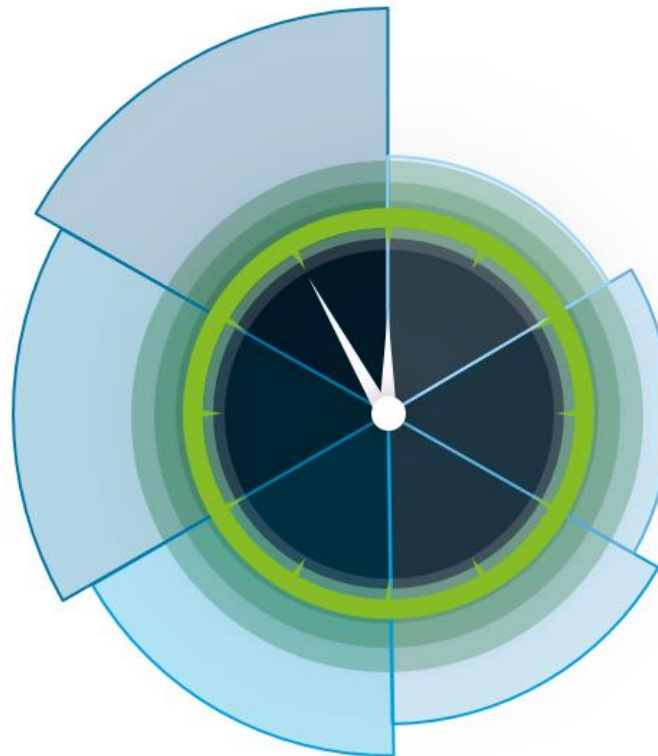
– related – concerns about international stability. Due to these global developments, it should not come as a surprise that currency fluctuation is the risk next in line.

Cyber risk is still relevant for Dutch CFOs. Over the last few years, both private and public infrastructures have evidently become vulnerable to cyber attacks. This is likely to remain a high priority item on the CFOs' and CROs' agendas.

Although not perceived as the highest risk, shortage of skilled professionals continues to be a source of concern.

Chart 4. Dutch CFOs' perception of risks to their company

CFOs' perceptions of the largest internal and/or external risks to their company over the next 12 months as categorised by Deloitte. The triangles show the direction of change from the Spring 2021 Survey: the figure inside each triangle shows the change in the rating for each risk.



1	Geopolitical risks	▲5
2	Economic outlook/growth	▼-1
3	Currency fluctuations	▲4
4	Cyber risk	▼-1
5	Shortage of skilled professionals	▼-3
6	Reduction in demand (domestic)	New
7	Reduction in demand (foreign)	New
8	Increasing regulations	▼-3

3. Corporate risk: Risk appetite slides down

Although the impact of COVID is decreasing, the current economic outlook is making Dutch CFOs more reluctant to take risk than during the peak of the pandemic

With a net balance of -66%, we see that the majority of Dutch CFOs is very reluctant to take greater risk on their balance sheet. As the global economy experiences major setbacks, the risk appetite ends up lower than 2 years ago, when the indirect effects of pandemic hit the global economy.

When comparing the Dutch CFOs' risk appetite to the rest of the European Union, we see they still tolerate risk to a slightly higher extent. Regardless, it is fair to say that financial leaders do not consider this a time to be accepting higher levels of uncertainty.

Chart 5. The risk appetite of Dutch CFOs is decreasing

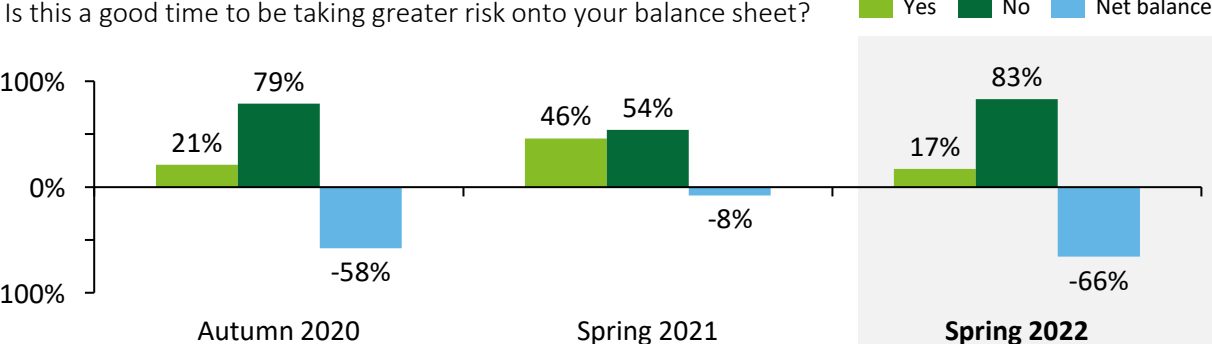
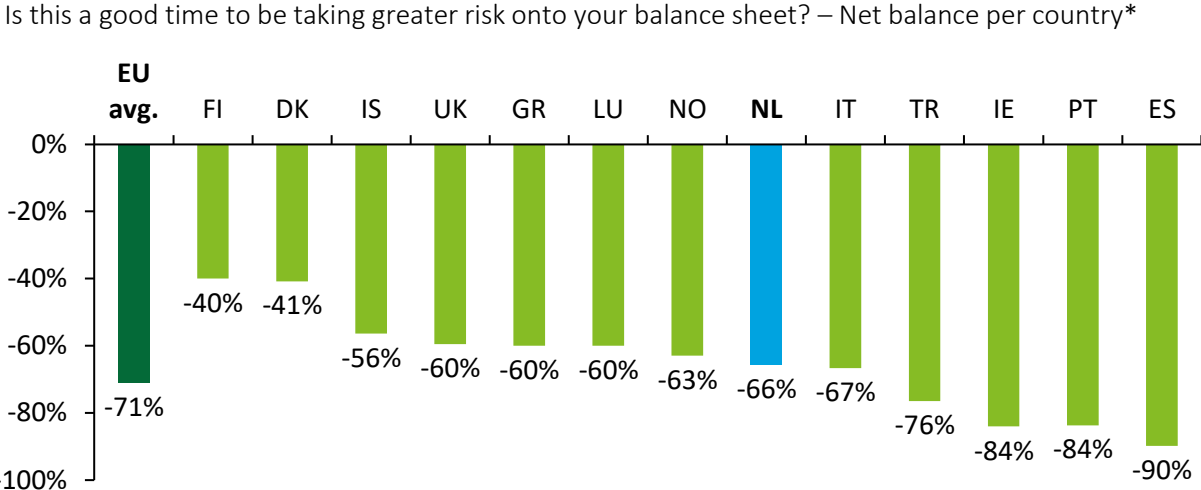


Chart 6. Dutch CFOs are slightly less risk-averse than the EU average at this point in time



4. Inflation: On the rise

On the back of the Covid-19 crisis, inflation has made a comeback in the Netherlands and the broader Euro area

Companies are facing large increases in the cost of raw materials, primary goods and services. CFOs expect a significant increase in inflation compared to previous editions, with a 4 percent point increase since last spring for the Netherlands and a 5 percent point increase for the Euro area. Inflation also impacts companies' risk appetite: economic outlook is viewed as one of the main risks for this year, as seen in the corporate risk section of this survey.

Not all companies are able to pass on even part of this higher cost to their customers. CFOs in the Netherlands expect inflation to be similar compared to other countries in the Euro area.

Chart 7. Dutch CFOs' expectation for inflation in the Netherlands over the next 12 months, compared to past expectations

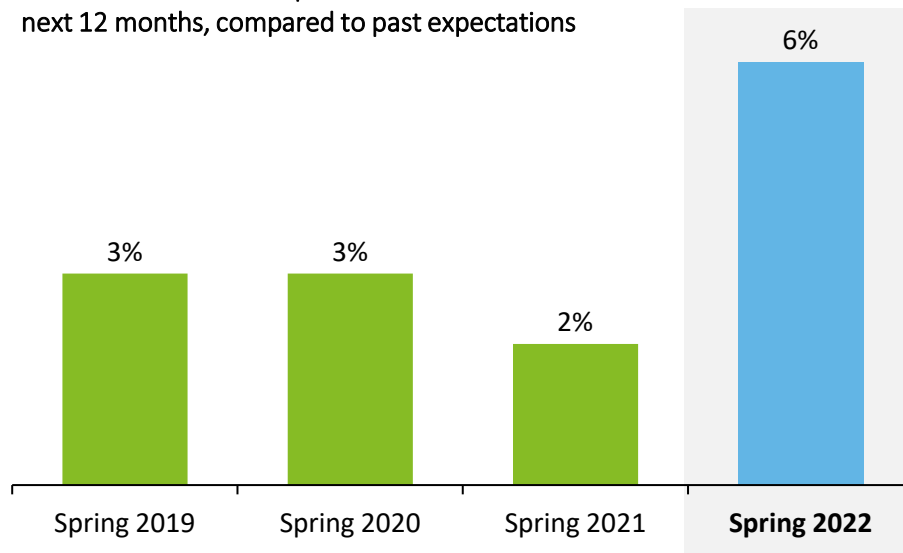
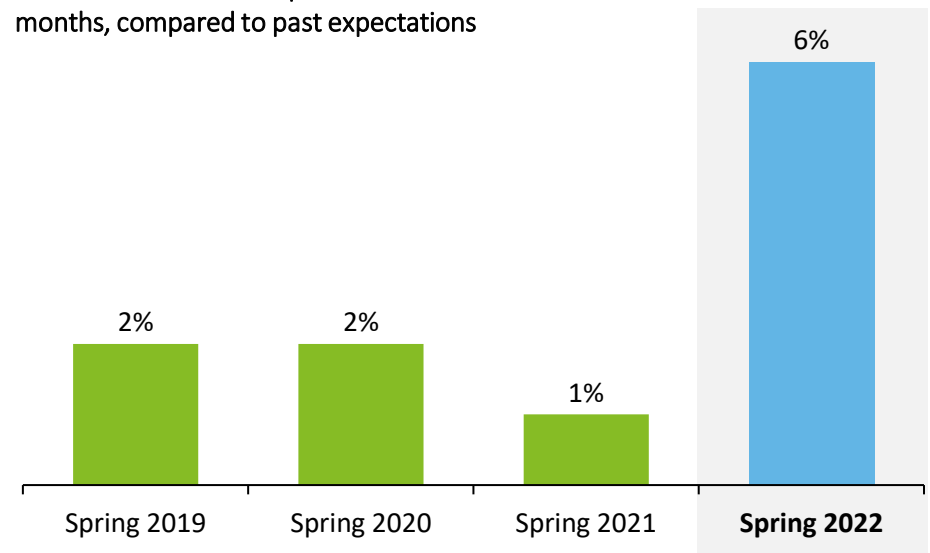


Chart 8. Dutch CFOs' expectation for inflation in the Euro area over the next 12 months, compared to past expectations



5. Strategy: Focus on growth in existing markets

The coming 12 months, Dutch CFOs will mainly focus on growth in existing markets, organic growth and introduction of new products/services

Growth in existing markets

As the economic outlook is sober, Dutch CFOs rather choose to focus on growth in existing markets than on expansion into new markets, with a net balance of 60%.

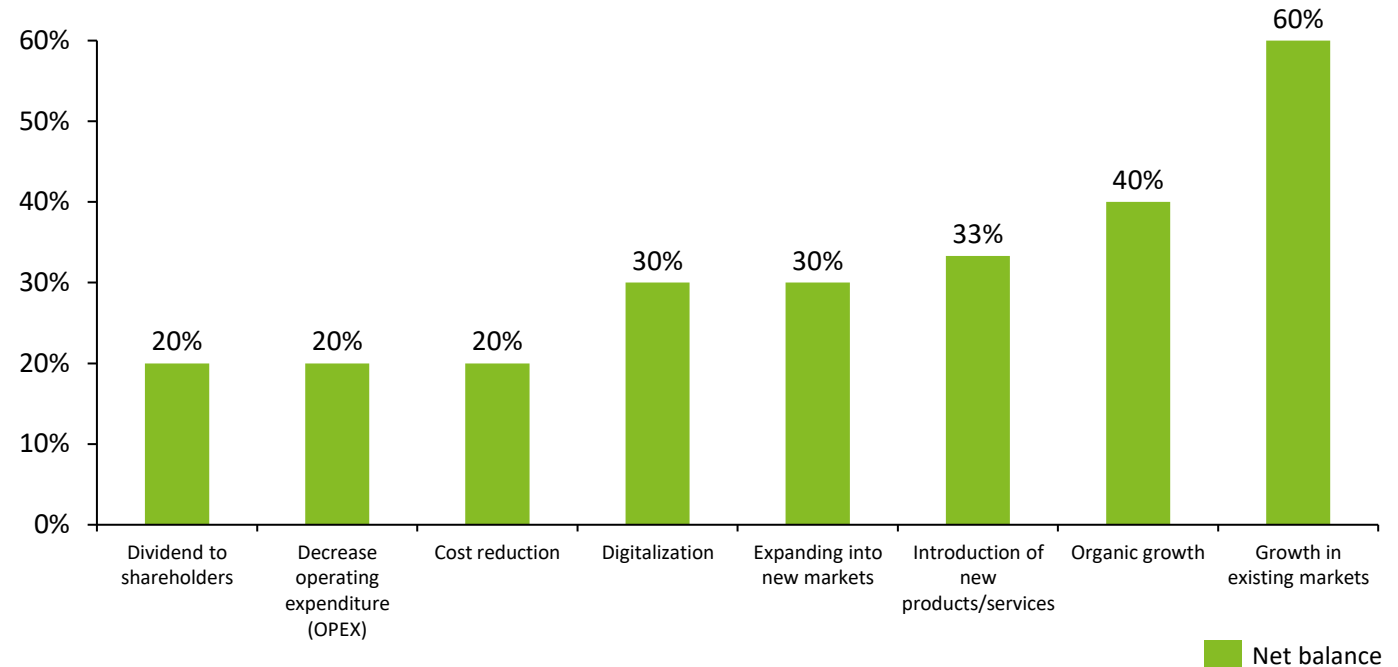
Organic growth & introduction of new products/services

Out of all CFOs, 40% still follow a strategy of organic growth, with 33% of CFOs expecting the introduction of new products and/or services.

All these strategies may include a combination of focus areas, like cost reduction, reduction of OPEX and digitalization.

Chart 9. Prioritized strategies over the next 12 months

Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?



6. Supply chain: Dutch CFOs are greatly affected by supply chain problems

Dutch CFOs indicate they are affected by supply chain problems, specifically by untimely delivery, unavailability of goods and higher prices for commodities/intermediate goods and shipping costs

Out of all respondents, 75% indicate that their organizations were impacted by supply chain problems. By and large, prices for commodities and intermediate goods formed the largest obstacles and sources of supply chain insecurities. A much-discussed example in this respect are the chip shortages that have pushed back delivery and ultimately – in some cases – drove up prices for consumers.

The negative impact was consistently driven by supply side issues: low product availability, untimely delivery or delivery at higher costs.

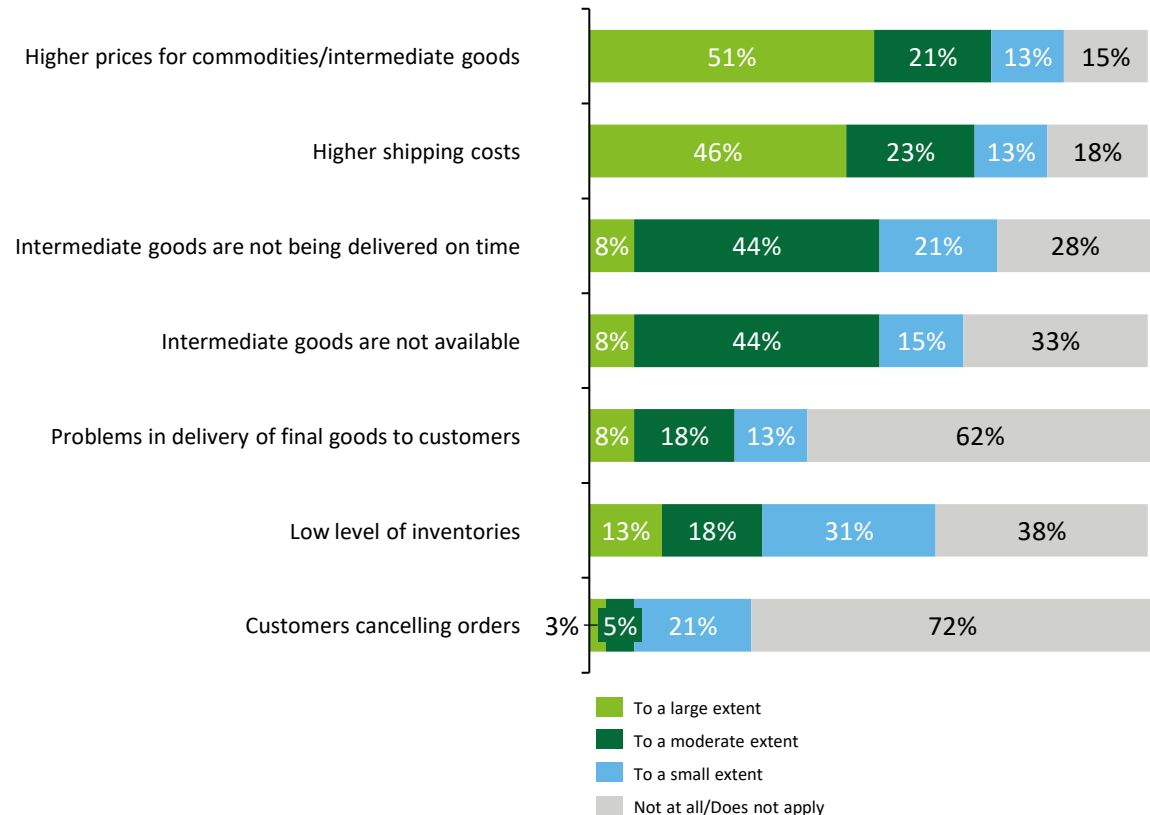
Interestingly, a relatively low percentage of organizations were facing problems to deliver to their customers, suggesting that issues mainly present themselves upstream in their supply chains.

Only in a limited number of cases these problems are caused by customers cancelling orders.

Chart 10. Dutch CFOs Affected by supply chain problems



Chart 11. Main supply chain problems



6. Supply chain: Mitigations and expectations towards normal situation

Dutch CFOs' actions to mitigate current supply chain problems focus on diversification of suppliers and distribution routes, increased collaboration with suppliers and increased use of digital (planning) tools

Building on the major impact (upstream supply chain), the focus is on reducing dependencies. Almost 50% of CFOs indicate they are investigating diversification of suppliers and distribution routes.

Roughly one third of CFOs identify increased collaboration with suppliers and increased use of digital (planning) tools as most likely mitigation actions.

Almost half of CFOs expect that it will take until at least the second half of 2023 before supply chains will get back to normal; only 10% of CFOs expect these problems to be solved this year (2022), indicating that determining actions to tackle supply chain problems will likely remain a prominent agenda item for executives in the upcoming period.

Chart 12. Actions taken to mitigate supply chain problems

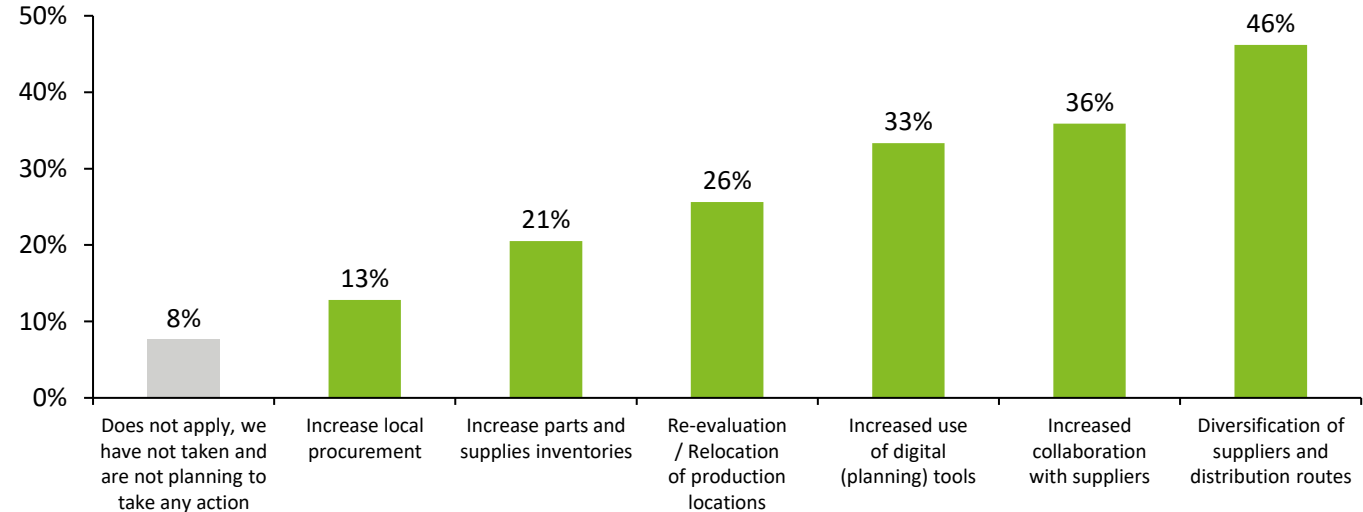
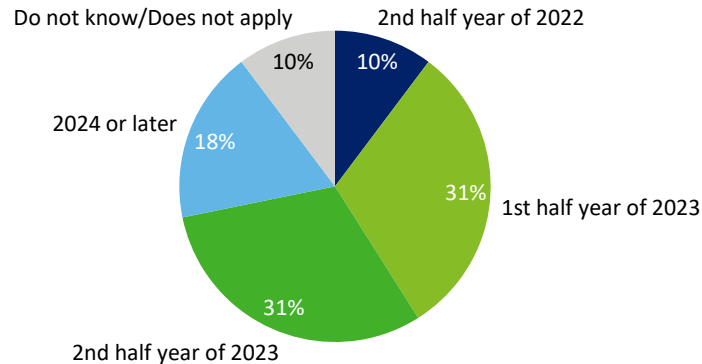


Chart 13. Expectations of supply chain to become normal



7. Contacts and authors

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You can find the European survey results on [our website](#).



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