

Curaçao CFO Survey

Weathering a Storm

Summer 2019

Foreword

As part of our commitment to the local community and local leaders, we are pleased to present you with the results of our first edition of the Curaçao CFO Survey

This initiative, a regular undertaking by Deloitte's European and American offices, presents you with the insights into the market and business sentiments of the CFOs and financial directors of the island of Curaçao. A surprisingly high number of participants provided us with their answers for this first edition. This enables us to provide reliable data across a wide range of industries.

We believe that gaining these insights into the current market conditions is of great importance to Curaçao and its leaders. Curaçao has been facing great uncertainty and adverse economic conditions in the past years, and this research gives us greater insights into how our organizations are planning to adapt to the challenging economic environment to overcome its structural weaknesses and accentuate its strengths.

The CFO survey has enabled us to gain a better understanding of the demands and challenges that our financial executives face on a daily basis. This is especially important in a region where economic data is typically scarce, and in a small society where executives might be less willing to voice their concerns.

We hope that this initiative will bring the CFO community together and can trigger a debate and discussion on how to make our economy more resilient by exploiting its potential. We would like to thank all participating CFOs and financial directors for their time in contributing to this initiative.

We look forward to your feedback and are open to any questions you may have. We also invite any other executives to get in touch if they would like to participate in future editions, or if they would like a more in-depth discussion on the contents of this report in depth.



Saskia Lans

Partner Financial Advisory

Executive Summary

The first edition of the CFO Survey reflects how organizations and their executives are adapting to the challenging economic circumstances in Curaçao and their views and expectations regarding its future

After three years of consecutive real GDP decline, high inflation rates and rising unemployment levels, the island's CFOs have a slightly pessimistic view of the prospects for the Curaçao economy: our executives expect the GDP growth to be 1.4%, and the level of inflation 2.8%.

These negative economic and growth outlook expectations may have an adverse impact on the companies' profitability and result in higher levels of uncertainty. This, in turn, may result in a lower risk appetite and may prevent organizations to proceed with certain investments in physical and human capital. According to the CFOs, they are more likely to use internal sources of financing than external financing, in line with a lower willingness for leverage and arguably less attractive conditions offered in the debt market at the moment.

The geopolitical risks from the proximity to Venezuela are another important concern for the island, together with the possibility of a decrease in both domestic and foreign demand for their goods and services.

Several strategies and initiatives are being prepared and delivered to counter the unfavorable circumstances. The CFOs answered that cost reduction and working capital efficiency top their list, followed by expansionary strategies such as growth in the existing markets and the introduction of new products and services.

The island's financial executives also believe the island faces certain challenges that require special attention to create the necessary conditions for a better economy. The main concern is the future of the refinery and what kind of operator will take on the concession starting in 2020. At the time of writing this report, this is still unclear. The refinery is one of the main pillars of our economy and strongly influences several sectors of our economy.

Another clear message from the CFOs is that political stability and greater government efficiency (better fiscal policy, less corruption and less red tape) are very important in attracting more (foreign) investments. The high unemployment rate and uneducated work force were also identified as major areas that need improvement.

Finally, the CFOs firmly believe that tourism and tourism-related trends such as eco-tourism and medical tourism are the main opportunities to be pursued further. Sustainability and the development of a Green Town project are also listed very high on the opportunities list, followed by the benefits of becoming a logistics hub or air hub by taking advantage of Curaçao's geographical location.

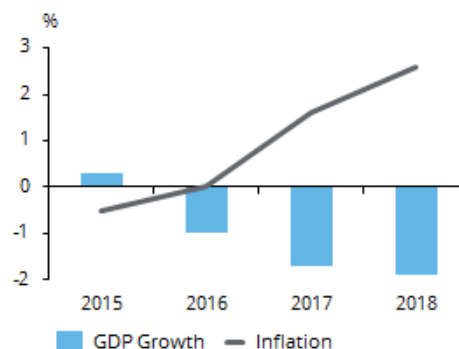


Macroeconomic Update: Last Six Months

After three consecutive years of GDP decline and other negative social-economic indicators, the first half of 2019 has yet failed to bring strong positive indicators

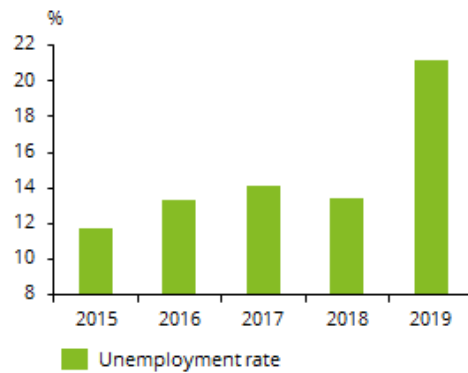
The main culprit for the ongoing recession seems to be the impact of the crisis in Venezuela on Curaçao's economy. The refining operations by ISLA, a subsidiary of a Venezuelan company (PDVSA), have currently stopped, meaning the refinery is idle. This puts great pressure on the Curaçao economy, impacting not only the Oil & Gas industry, but also indirectly influencing several other sectors of our economy, such as logistics, commerce and financial services.

Chart 1. Curaçao GDP and inflation rate



Source: Central Bank of Curacao and Sint Maarten

Chart 2. Unemployment Rate



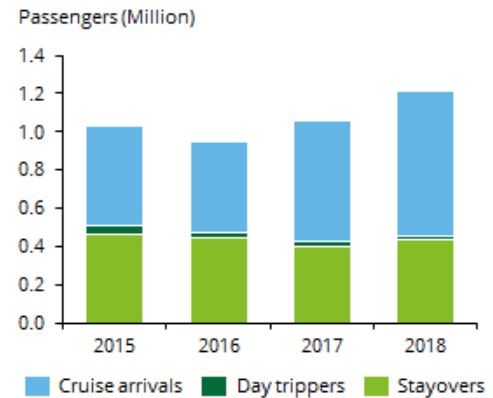
Source: Central Bureau of Statistics (Sep-Oct 2015-2018; April 2019)

At the time of writing this report there is still some uncertainty regarding the identity of the new operator of the refinery, which aims to start a new lease in 2020. As a result, the investments and modernization plans of the refinery infrastructure are unclear as well. According to the CFOs, this results in reduced business confidence and less private investments.

As the sharp increase in the unemployment rate (21.2% in April 2019, up from 13.4% in September 2018)¹ and the rising inflation rate (to 2.8%) - especially in the categories food and housing - show, the current crisis also has a social component. These two factors combined lead to a significant reduction in the purchasing power of the island's households and may partially explain the recent increase in theft and criminality.

As a result of the deteriorating socio-economic conditions, a large number of inhabitants are leaving the island to live in the Netherlands. This outflux is partially compensated with the influx of Venezuelan migrants and refugees.⁶

Chart 3. Total Tourism Arrivals



Source: Curaçao Tourism Board

The Government, which has struggled with the previous years' annual budget exercises, has recently received a budgetary instruction ("Aanwijzing") from the Kingdom's Council of Ministers, requiring a reduction in the budgetary deficit, mostly via a reduction of public spending and collection of higher taxes. The Government has more than just the complexity of managing the public finances to deal with. It also faces issues in securing the necessary funding for important projects. One of those projects is the construction of the new hospital, whose final phase requires financing of ANG 200M in total.

However, it is not all bad news. The tourism sector is showing resilience and positive indicators, such as the increase in the number of passengers and higher revenues for hospitality companies. Hotel operators such as Marriott, Corendon and Avila Beach Hotel have committed to continue to invest on the island and introduce new concepts and products in the island.

What's more, we see an increase in investments in sustainable technologies (i.e. solar power generation and electric cars) with the local utility company playing a support role.



CFO Sentiment



CFOs are less optimistic than three months ago

The CFOs are less positive about the prospects for their companies, especially those working in the education, technology and primary sector

When asked about the financial prospects for their companies, the CFOs are, on average, slightly less optimistic than three months ago, with a net balance index (*) of -5.0%.

These perspectives change per industry and, very often, vary within an industry. The CFOs of the Primary, Education and Technology sectors are far more pessimistic than the CFOs of manufacturing and consulting companies, or than the Government.

We note that the majority of CFOs (51.7%) work in industries (i.e. Financial Services, Real Estate, Utilities) whose prospects they believe on average to have remained balanced over the course of the past three months.

The CFOs of hospitality companies and companies operating in the Transport and Storage sector are more positive about the future, perhaps in line with the positive indicators that these industries have been reporting recently.

** Net balance is an index value calculated by subtracting the percentage of respondents giving a negative response from the percentage of respondents whose response is positive. Significant increases or decreases are weighted stronger (double).*

Chart 4a. Financial prospects (% net Balance)Financial Prospects (net balance %)
Compared to three months ago, how do you feel about the financial prospects for your company?

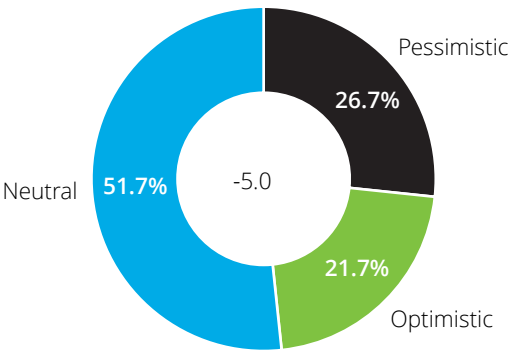
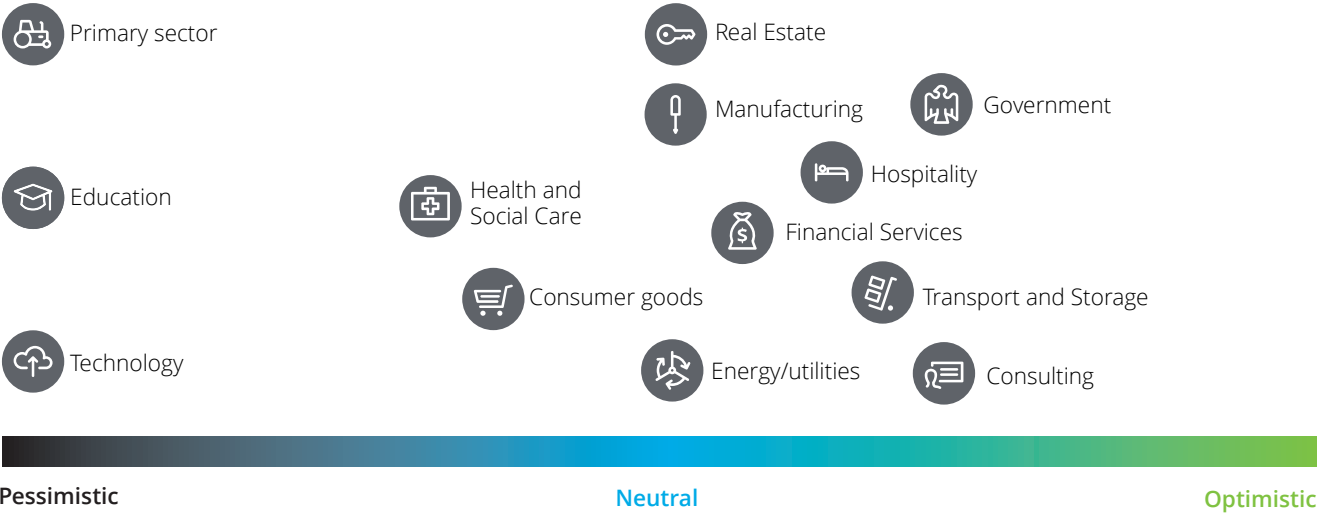


Chart 4b. Financial prospects per sector
Compared to three months ago, how do you feel about the financial prospects for your company?





Lower profitability and less investments planned

CFOs expect a decrease in revenues and operating margins in the next twelve months. CAPEX investments will be postponed and the number of employees is expected to remain the same

When asked about the financial prospects for their companies over the course of the next twelve months, some interesting aspects came to light.

On average, CFOs expect revenues and profitability to decline over the course of the next twelve months, with net balance indices of -5.1% and -10.2% respectively.

Organizations are also hesitant to proceed with capital investments and expand their workforce with net balance indices of -20.3% and 0.0% respectively.

Despite some variability in the answers received, the net balance outcome for all metrics is either negative or neutral

Chart 5a. Expected company performance and investments (%)

How are the following key metrics for your company likely to change over the next year?

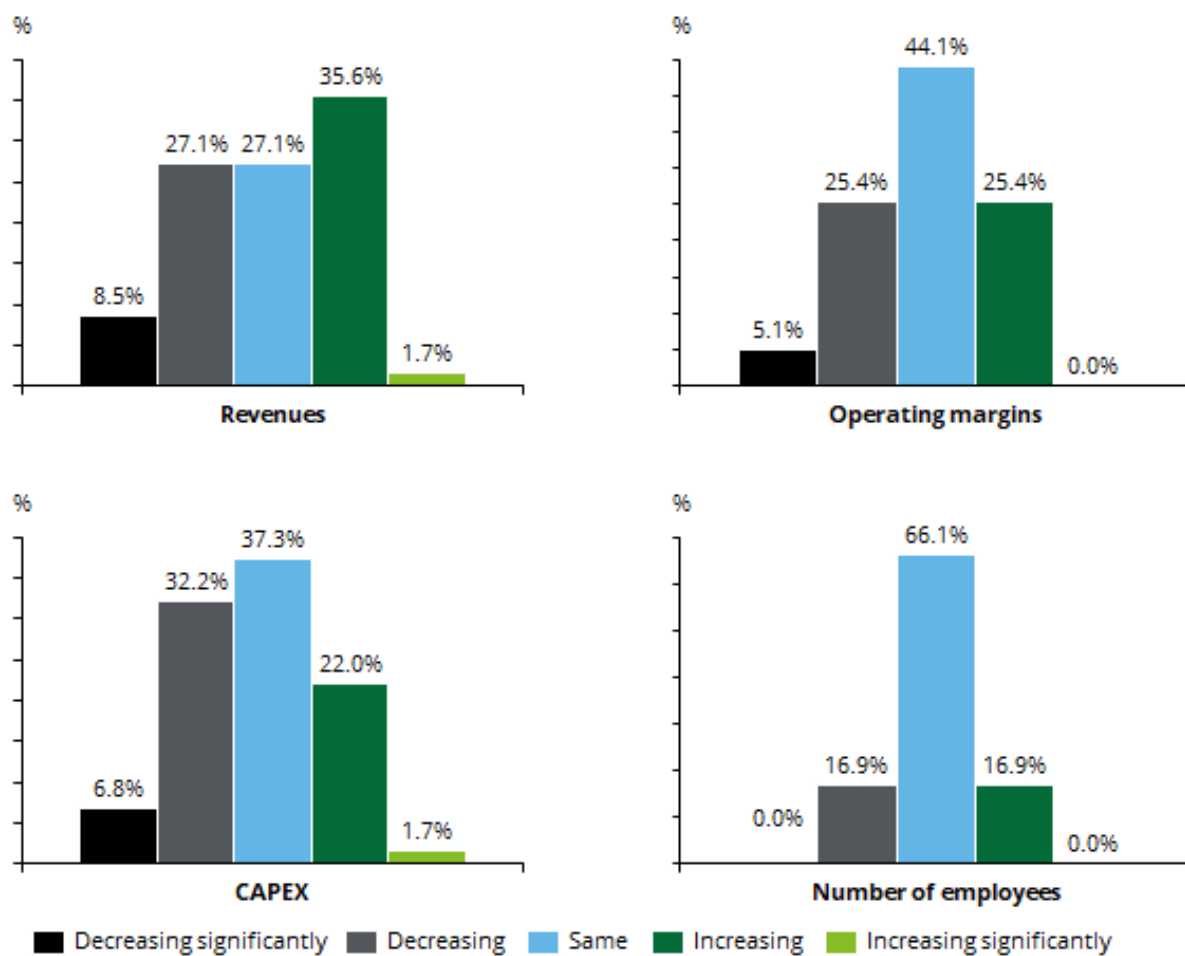
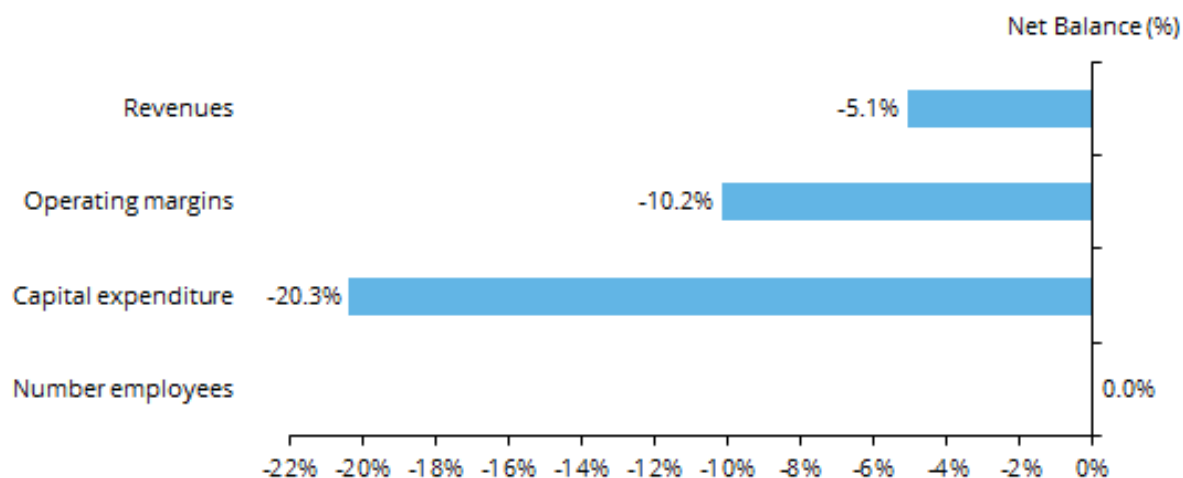


Chart 5b. Expected company performance and investments (Net Balances %) How are the following key metrics for your company likely to change over the next year?



CFOs views on Curaçao's economic prospects are negative

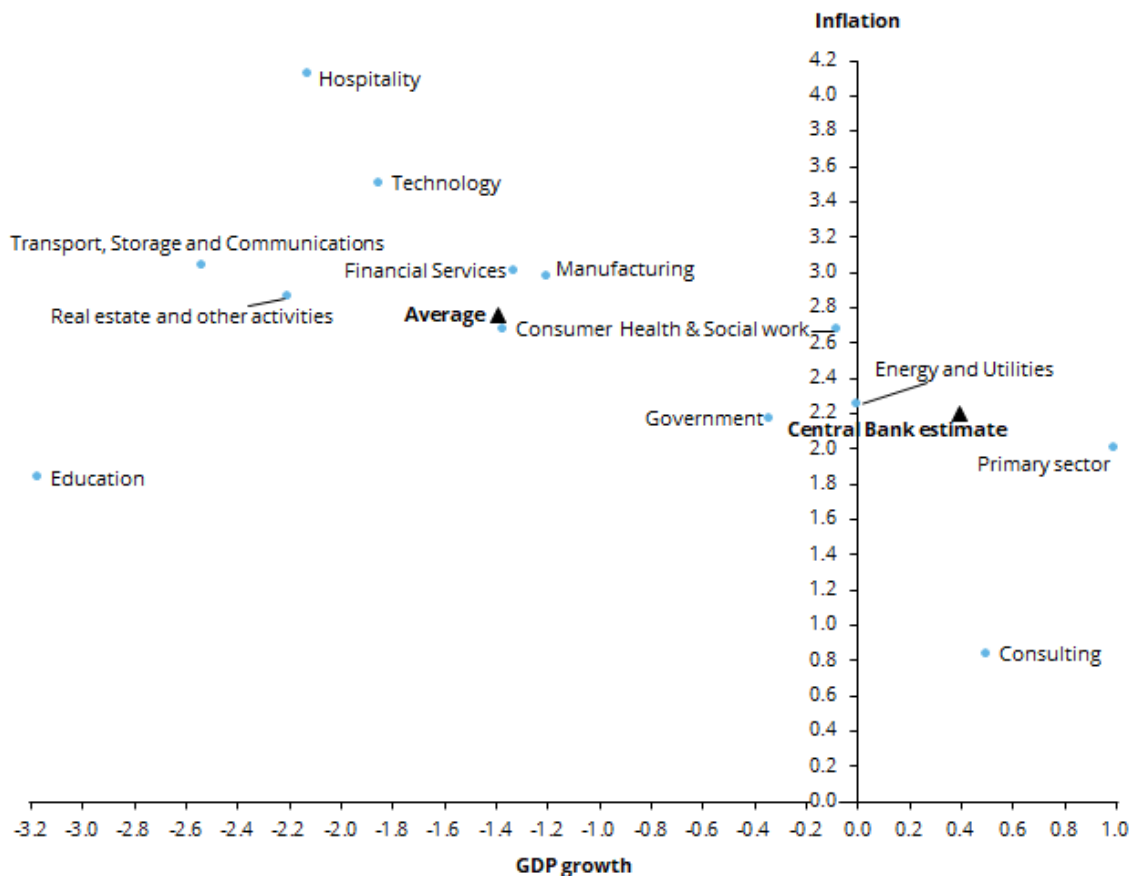
On average, CFOs expect a GDP decline of -1.4% and an inflation rate of 2.8%

The island's CFOs seem to have varied expectations regarding GDP growth and inflation developments for the next twelve months. On average, these expectations are negative, with an average GDP growth of -1.4% and inflation rate of 2.8%.

In terms of GDP growth expectations there is quite some variability, with certain sectors (Consulting) having a more positive outlook than others (Education). The average CFOs' GDP growth expectation is lower than the Central Bank estimate of 0.4%. With regards to inflation, the CFOs' expectations for next year show less dispersion around the mean (2.8%) and are closer to the Central Bank estimate (2.2%).

An interesting insight from this graph is that Hospitality related companies (i.e. hotel, restaurants) and transportation companies, arguably two of the best performing sectors on the island, have some of the most negative expectations, both in terms of GDP growth and inflation. Still, these companies feel confident about their own prospects, as can be seen in chart 4b.

Chart 6.
Macroeconomic Expectations - GDP Growth and Inflation Rate
What do you think the inflation rate (Consumer Price Index) and GDP growth in Curaçao will be over the next twelve months?



...which brings uncertainty and prevents risk-taking at a corporate level

The current high uncertainty leads to less risk taking, either in the form of investments or additional leverage

As indicated by the responding CFOs, the current adverse financing conditions and the economic uncertainty is causing high levels of uncertainty at a company level with an overall net balance value of 34,5%.

As a result, the great majority of CFOs (82.7%) does not believe this is the right time to be taking risk onto their balance sheet, resulting in a net balance of -65,5%.

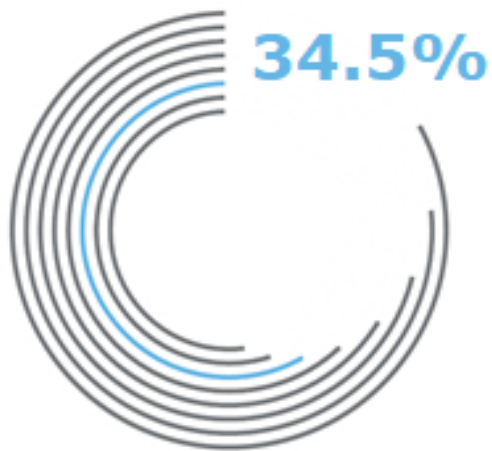
With respect to sources of financing, equity financing (sale or issue of shares) or the use of internal funds (i.e. intercompany, cash) is preferred over external financing from banks or other creditors (working capital, leases).

This reduction in leverage is consistent with a lower risk appetite and high uncertainty in the market. The conditions offered by the debt market in the current economic cycle may not be very interesting either.

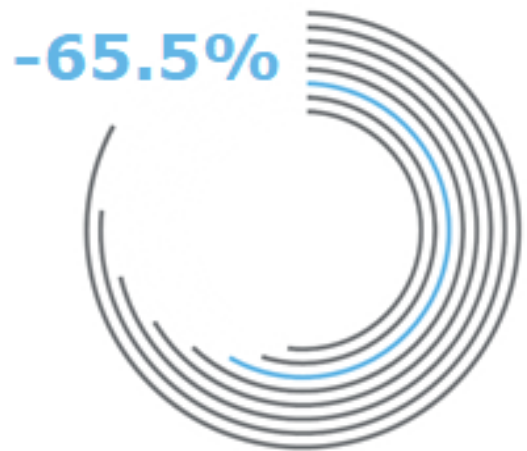


Chart 7. Uncertainty (net balance %)

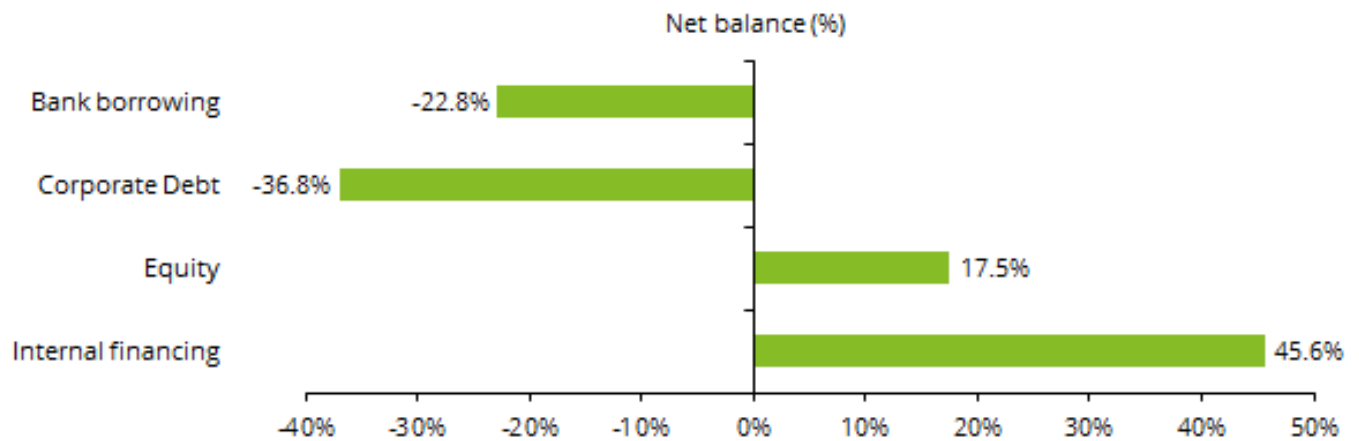
How would you rate the overall level of the external financial and economic uncertainty facing your business?

**Chart 8. Risk appetite (net balance %)**

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

**Chart 9. Preferred sources of financing (net balance %)**

How do you currently rate the following sources of funding for your company?



The unfavorable economic outlook is the top concern for our CFOs

Geopolitical risk from Venezuela and a reduction in foreign / domestic demand are also seen as very impactful

Our survey asked our respondents to pick the three biggest risks affecting their businesses. The responses we obtained were very consistent.

The great majority of the CFOs (91.2%) expressed their concern about the economic outlook and growth prospects for the island.

The geopolitical risks arising from our proximity with Venezuela was the second most chosen risk, picked by 59.7% of our respondents. The political and social instability of Venezuela is directly affecting Curaçao (e.g. halt in the operation of our refinery in January 2019; temporary closure of maritime borders in February 2019).

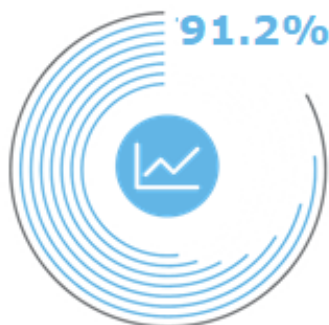
Finally, the reduction in domestic and foreign demand is another great concern, for approximately half of our respondents (52.6%). This relates to the impact that rising unemployment and lower purchasing power may have on the demand for their companies' goods and services.

The other risks indicated by the CFOs are displayed on the next page.

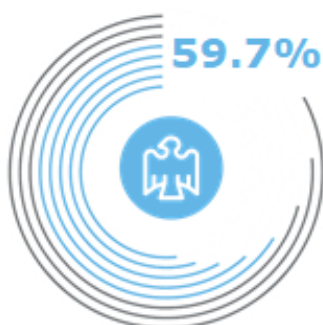
Chart 10. Business risks

Which of the following factors are likely to pose a significant risk to your business over the next twelve months?

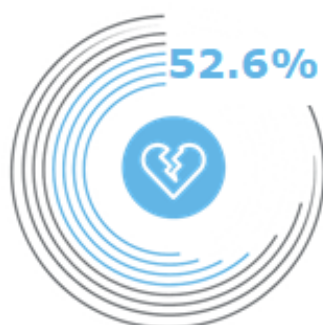
Economic outlook / growth



Geopolitical risk



Reduction in demand



Other Business Risks



Increase in Regulations

35.1%



Shortage of Capital

28.1%



Shortage of Skilled Professionals

21.1%



Currency Fluctuations

10.5%



Cyber Risk

1.8%



A mix of defensive and expansionary strategies is underway

Cost reduction and working capital efficiency seem to be the priority strategies to implement in the next twelve months

When inquired about the main initiatives and strategies for the upcoming year, the CFOs indicated a diverse range of strategies, some with a marked defensive character while others showed a more expansionary character.

The top priority for our responding CFOs was an increase in efficiency, with many organizations aiming to reduce costs (61.4%), increase working capital efficiency (35.1%) and rightsizing the business (19.3%) in the next twelve months. This might be a response to the expected reduction in operating margins described before (page 11).

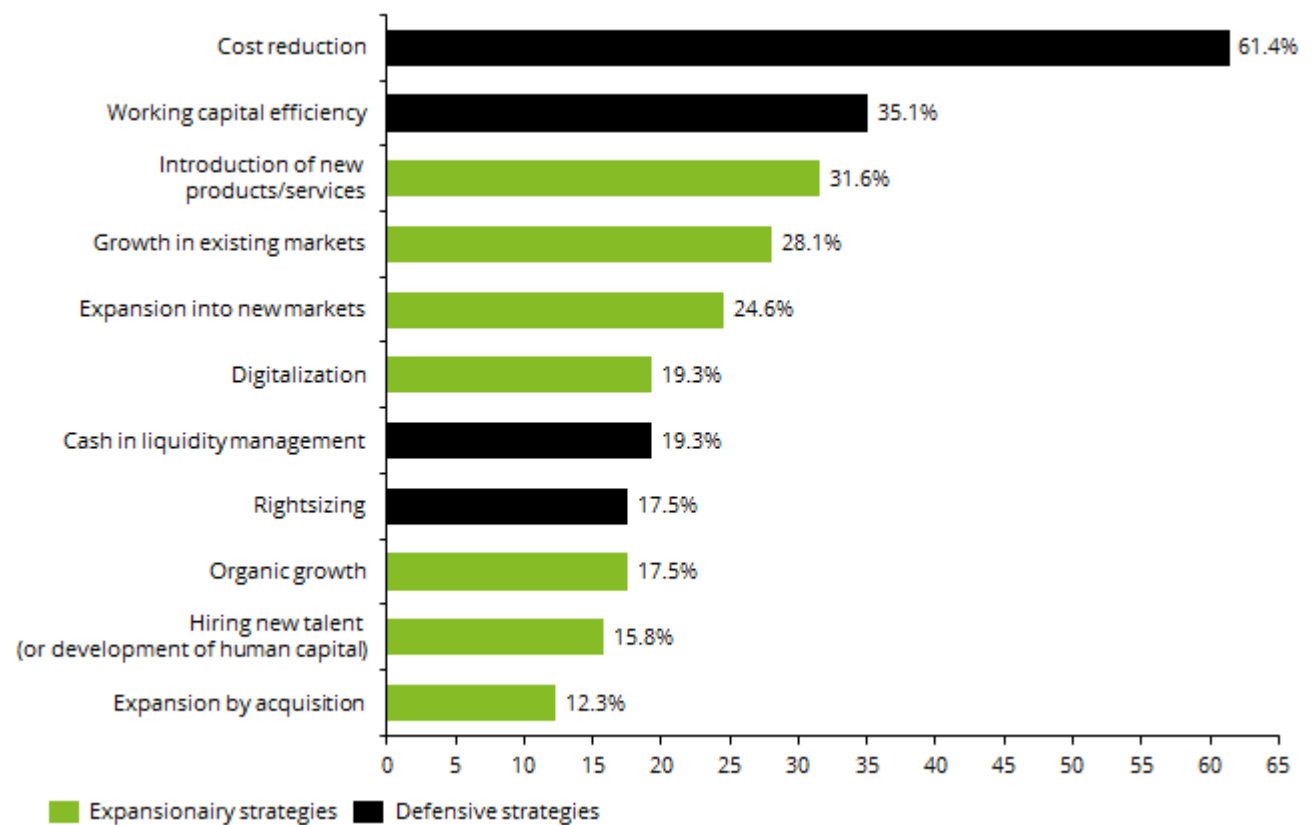
On the other hand, certain organizations pointed out their willingness to innovate by introducing or developing new products and services (31.6%), investing in digitalization (19.3%) and hiring new people, or developing their existing human capital (15.8%).

A significant percentage of CFOs expects to expand into new markets (24.6%) and seek to achieve organic growth (17.5%) vs. achieving growth by acquisition (12.3%).



Chart 11. Strategies

Please select the following initiatives / strategies that will likely be a priority for your business over the next twelve months



Looking Ahead

Looking Ahead: Biggest opportunities

Tourism-related opportunities and sustainability are seen as the biggest opportunities for Curaçao for the next two years

When asked about the biggest opportunities for Curaçao over the next two years, the majority of CFOs answered that tourism and new tourism trends such as eco-tourism, medical tourism or tourism education are the biggest opportunities.

Other trends, such as sustainability or the creation of a “Green Town”, ranked very high in our survey. Additionally, the opportunity to modernize the old refinery or transform it into something new and/or smaller was also mentioned. Some participants also believe that Curaçao can use its strategic geo-location and operate as a logistics hub and air hub.

All these opportunities could facilitate the development of other industries and contribute to economic diversification. For that matter, lower taxes, reduction of red tape, and the use of migrants were also referred to by the CFOs as potential catalysts for development and growth.

Chart 12. Opportunities word map
What are the biggest opportunities for Curaçao in the next two years?







In Conclusion

Even though the general sentiment of the CFOs for Curaçao's near future seems quite negative, they identify positive tendencies too, e.g. in tourism and sustainable energy. The CFOs sentiment is mainly influenced by certain external factors beyond their control, such as the situation in Venezuela and the renewal of the lease of the Curaçao refinery. However, identifying these external factors is the first step in overcoming these challenges

Acknowledgment

We would like to thank all participating CFOs for their support in completing the survey.

Participating in our survey

If you would like to take part in our next survey or would like to receive further copies of this report please contact us at ddcfinancialadvisory@deloitte.nl.

To be continued

After this successful first edition of the CFO Survey in Curaçao, we plan to also introduce our CFO survey on neighboring island Aruba. We aim to issue the Aruba Survey Report in December 2019.

Our next CFO survey for both Curaçao and Aruba is scheduled for Spring 2020, enabling us to make comparisons between the two islands, and analyze potential trends over time.

About the CFO survey

The CFO Survey is part of a global cohort of surveys benchmarking the current and future intentions, sentiment and opinions of Chief Financial Officers. This first edition includes the views of 60 CFOs from Curaçao grouped into 13 different industries

The data

The findings discussed in this report were collected from 60 participating organizations between July and August 2019 and across a variety of industries.

Some of the charts in the survey show the results as an index value (net balance), which is calculated by subtracting the percentage of negative responses from the percentage of positive responses given by our respondents. Significant increases or decreases receive a higher weight (double). This index displays the overall sentiment regarding the different aspects of our survey.

Sample composition by industry

Financial intermediation	20%
Consumer (staples, discretionary)	15%
Transport, storage and communications	13%
Real estate, renting and business activities	8%
Education private	5%
Health and social work	7%
Consulting	5%
Manufacturing	7%
Hotels and restaurants	7%
Government	5%
Energy and Utilities	3%
Technology	3%
Agriculture, fishing and mining	2%

Sample composition by size (revenues)

Less than ANG 1M	10%
ANG 1M- ANG 10M	33%
ANG 10M - ANG 100 M	41%
More than ANG 100M	16%

References

1. Statistics By Subject
Cbs - https://www.cbs.cw/website/statistics-by-subject_3406/
2. Het Werkloosheidspercentage in April 2019 Gestegen Naar 21,2 Procent
Cbs - https://www.cbs.cw/website/press-releases-2019_3580/item/het-werkloosheidspercentage-in-april-2019-gestegen-naar-212-procent_2714.html
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4. C. T. B. (2019, July). Arrival Performance. Retrieved from https://www.curacaoinfo.org/media/uploads/2019/08/27/July_2019_Stayover_Visitor_Arrivals.pdf
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Meet the Team



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Partner

Curaçao, Deloitte Dutch Caribbean
Saskia started in the audit practice, after which Saskia made a switch in her career in 2016. She now works in financial advisory, on a variety of engagements including (re)financing projects, valuations, financial modelling and due diligence. Saskia is a Registered Accountant.



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Lia started working for Deloitte Audit in 2007, and made a move to Deloitte's Financial Advisory practice in 2016. She has worked on a wide variety of engagements within several industries. Lia is a Registered Accountant.



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Pedro has relevant Corporate Finance experience, acquired during his tenure in corporate finance teams of the Big Four companies in the Dutch Antilles and in the Netherlands. Pedro has been a CFA charterholder since 2018.

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