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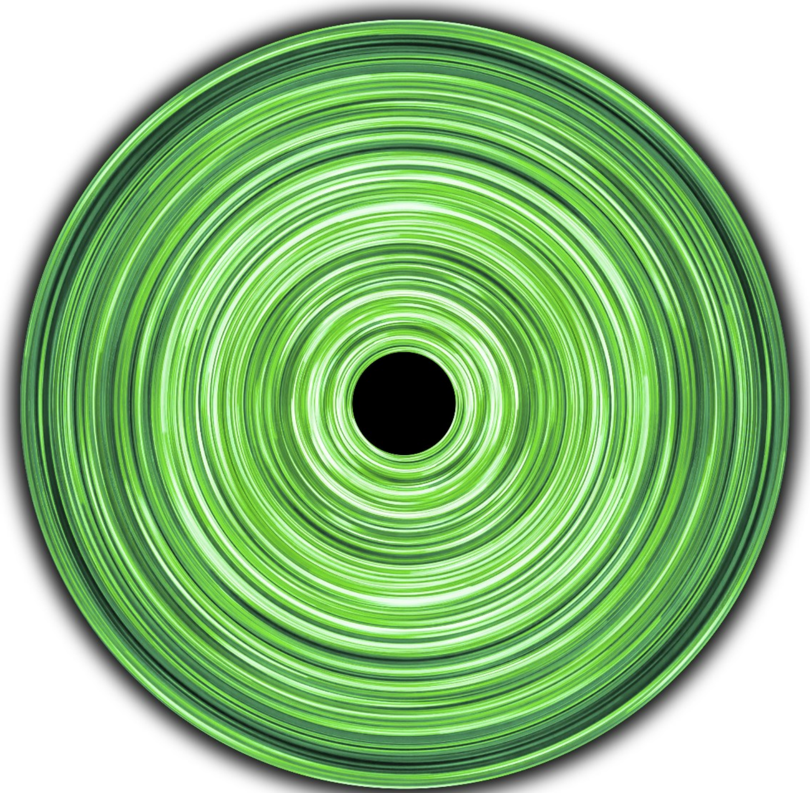


The Deloitte CFO Survey

Navigating Uncertain Times

Autumn 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 aim to achieve this by analysing the sentiment of Netherlands based Chief Financial Officers. We are pleased to present you the fall 2022 edition of the Deloitte CFO Survey.

Our bi-annual CFO survey collects input from over 1,100 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, funding and other factors they currently consider to be vital to success. Many CFOs from a diverse number of industries and from both listed and private companies have contributed to this Netherlands-specific report.

Relative to the previous edition of our survey, the Autumn 2022 results reveal persisting worries of Dutch CFOs have only grown larger. External forces have continued bear down relentlessly on companies: macro-economic instability and a severe talent crunch have come on top of the constant stream of global (supply-chain) disruption and geopolitical unrest, amplifying uncertainty. This volatile economic climate is reflected in the downward trend of CFO expectations with respect to their operating margins and other corporate indicators. Hence, the overall data shows that financial officers are likely to act with heightened levels of precaution, favoring more risk-averse organic growth strategies such as talent attraction, cost reduction, and — to some extend – digitalization.

Although CFOs expect that the inflationary pressures will curb after 2023, its impact is estimated to be felt until at least the end of 2024. In the meantime, given that uncertainty breeds opportunity, the focus on controlling costs should be supplemented by a drive to realize additional market share through, for example, implementing better pricing models and shifting the focus on high margin products. Simultaneously, while interest rates are rapidly rising, those who are best able to manage their cash will bloom while others might unexpectedly find themselves withering. Now, more than ever, sound scenario planning and agility are required to enable firms to move fast, embrace good over perfect and swiftly be able adjust to the latest strategic insights.

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 contacts are provided at the end of this document.

Sincerely,

Willem Blom
CFO Program Leader
Managing Partner, Deloitte Tax & Legal

**Note that the data were collected between September 9 and October 3, while the abovementioned concerns have only increased in significance*

Contents

1. Summary and Key Findings of the Dutch CFO Survey	4
2. Financial Outlook	5
3. Strategy	7
4. Corporate Risk	8
5. Sources of Funding	10
6. Special Focus: Inflation	11
7. Interview with Marjanne van Ittersum, CFO of Ingka Centres: “I am, and I will remain, optimistic”	13
9. Survey Background Information	14
10. Contacts and authors	16

About the Deloitte CFO Survey

The Deloitte CFO Survey was conducted online between September 9 and October 3, 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 15 countries, including the Netherlands. A total of 1151 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. To improve readability, only questions related to the current financial and economic situation have been included in the published survey. If you would like to receive information about unreported questions, please contact us.

1. Summary and Key Findings from CFOs in the Netherlands

Financial outlook

Financial outlooks are continuing their downward trend. Dutch CFOs feel increasingly pessimistic about their firm's financial prospects. Out of the overall respondents, 53% express this depressed sentiment and with the exception of the Spring 2020 survey, this is the lowest since 2015. It also constitutes the fourth period in the last eight years during which the financial outlook was negative.

Key Indicators

The deterioration of CFOs' expectations on operating margin to a net balance of 1% further **reflects this negative stance.** However, since 61% of Dutch CFOs expect their firm's revenues to rise over the coming 12 months, this decrease in operating margin must stem from a larger increase in operating costs. Other corporate indicators—CAPEX and number of employees expectations—do share the downward trajectory as seen in operating margins, **reflective of the current climate of economic uncertainty**.

Strategic Decision Making

Pessimism in the face of uncertainty is reflected both in the CFOs' strategic priorities and the funding methods they find attractive. Strategically, CFOs emphasize organic growth. This is reflected in their focus on hiring new talent and growing within their existing markets. Cost-cutting is also underscored. In terms of funding, Dutch CFOs indicate an increased appeal of using internal financing in the current climate, rather than the appeal of using external sources.

Risks

The precariousness of the present-day financial circumstances has led **77% of Dutch CFOs to shun risk taking on their balance sheet**. Geopolitical tensions and conflicts remain high on the minds of CFOs. Still, macroeconomic uncertainties have led both potential **shortages of skilled professionals and the risks associated with a slow-growth-high-inflation climate to pull ahead** to first and second place, respectively. Interestingly, CFOs do not appear to expect that a shortage of available capital will play a major risk for their firm in the coming year.

Inflation

The inflation curve is expected to turn concave in the not-too-distant future. While Dutch CFOs are predicting the inflation rate in the Netherlands to be around 8% for the coming 12 months, they also expect this trendline to have moved back down to approximately 4% in 2024. In the short term, CFOs are taking strategic steps to alleviate their firms' suffering by passing on costs downstream, improving cash flow management, and decreasing their exposure to high energy prices.

2. Financial Outlook: The Downward Tumble Continues

The latest Deloitte CFO survey reveals an even more negative perception of financials across the majority of industries in the Netherlands compared to the Spring 2022 survey

Compared to the Spring 2022 survey, the share of Dutch CFOs who indicate a positive sentiment with respect to their firm's financial prospects has further decreased, with a total of 53% of the responding CFOs expressing that their financial outlook is unfavourable.

This 8-percentage point jump in negative responses is fully reflected by a proportional decrease in positive responses, leading to the overall net balance of CFO sentiment falling by 16 percentage points to -31%, the second lowest score since the Spring 2015 survey.

However, this negative outlook appears to still be on the more optimistic side compared to the European average of -49%. In fact, bar Iceland, Luxembourg, and Sweden, the Netherlands has the least negative financial outlook within Europe.

While a similar overall negative sentiment is reported within most individual industries, the Life Sciences industry moves against this trend with a net balance of 33% of CFOs in this industry reporting a positive financial outlook. Oddly, the energy, utility & mining sector is one of the two sectors in which the sentiment is the gloomiest, the other one being the retail industry.

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

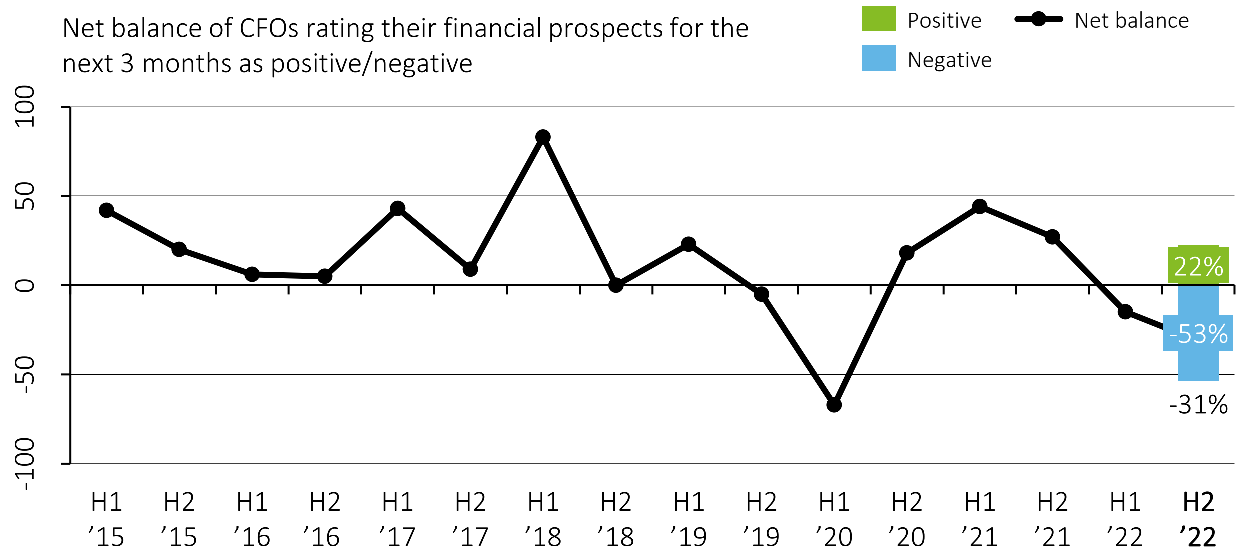
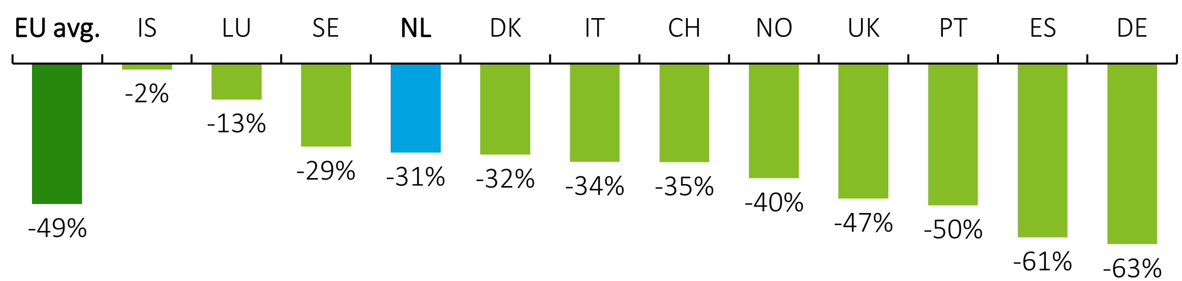


Chart 2. Companies' financial outlook in the Netherlands compared with other European countries

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



2. Financial Outlook: Indicators Trending Down, with a Silver Lining

The optimism for many corporate indicators decreased, except for revenues, which Dutch CFOs expect to increase over the next 12 months

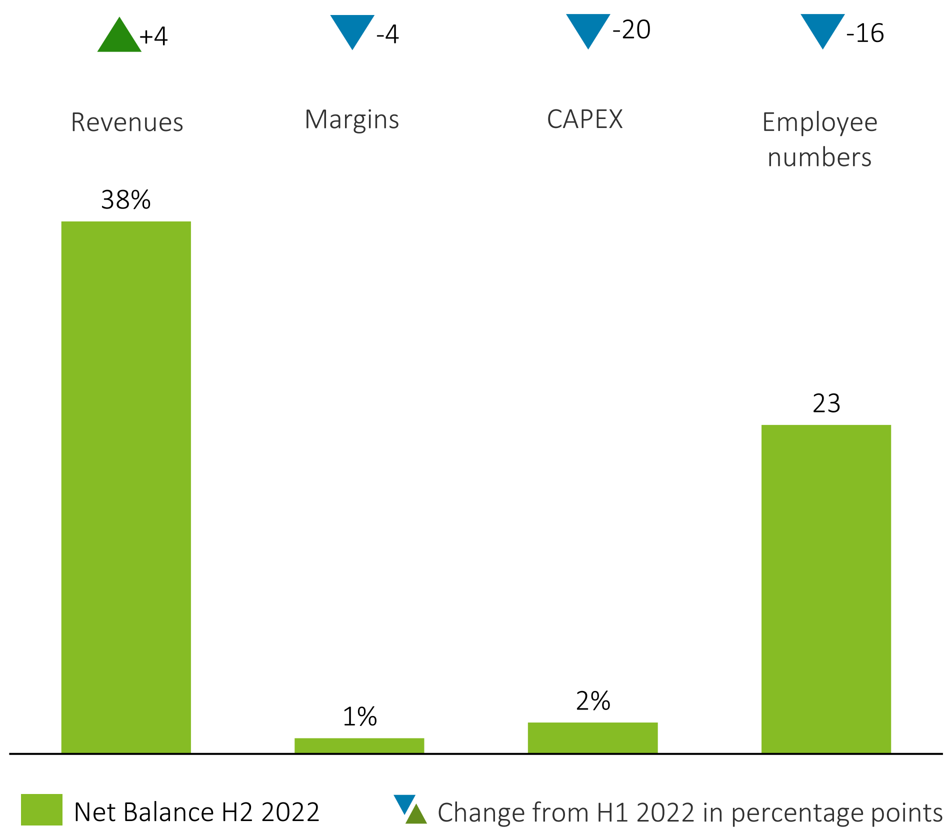
Continuing the decline from the previous Spring survey, the CFOs' expectations for corporate performance indicators have become even less optimistic. Interestingly, although the outlook on firm revenues — up four percentage points since the last survey — is more positive, this effect is not expected to seep through into companies' operating margins. Instead, the survey finds that there is a four percentage points decrease in the net balance of CFOs who expect margins to improve during the next year. The implicit prediction here is that firms' operating costs must rise to a greater extend than firm revenues.

Furthermore, the uncertainty currently associated with making economic forecasts has also led to a 20 percentage points decrease in the number of CFOs who believe their firm will increase their capital expenditures. This implies that firms are hesitant to spend, aiming instead at keeping their free cash flow as large as they can. Likewise, the ongoing combination of tight labour markets and a continuing employee exodus have led CFOs to revise their previous optimistic stance regarding employee numbers, decreasing this net balance by 16 percentage points compared to the Spring 2022 edition.

While the Dutch results with respect to Operating Margins, CAPEX, and Number of Employees are broadly representative of the depressed sentiment found in Europe at large, this is not the case for the revenue prospects. Instead, the EU wide average revenues are expected to decrease by 26 percentage points to a net balance of 18%.

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. Strategy: Troubled Times Lead Firms to Prioritize Safer Options

Dutch CFOs indicate that hiring new talent, reducing existing costs, and organic growth are among their top priorities for the year to come, shying away from higher risk options

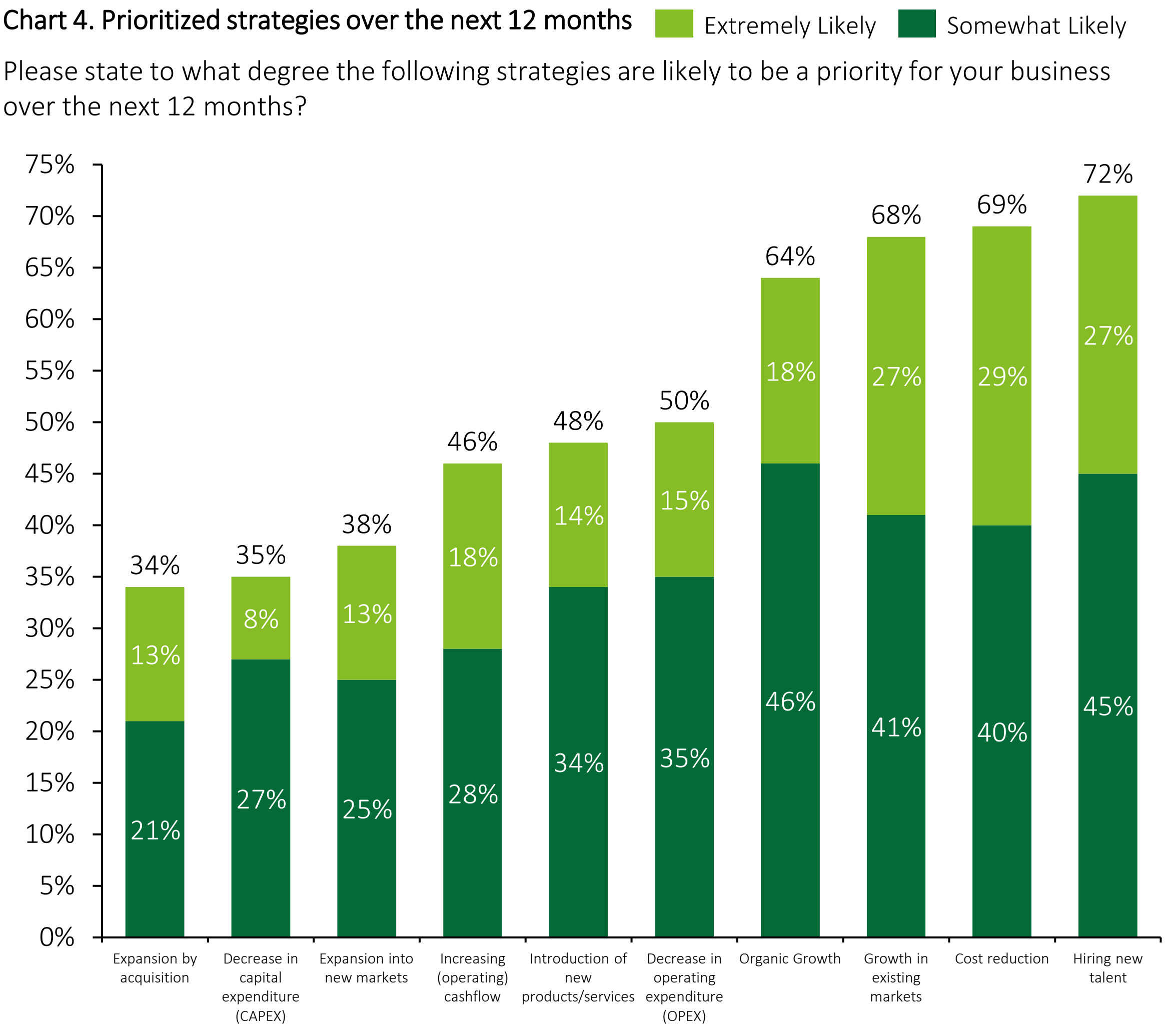
The current macro-environment is forcing companies to emphasize quick adaptability by looking internally in both firm and industry. Such longing for manoeuvrability is reflected in the strategic priorities—beyond the universal focus on digitalisation—that were most commonly present in the survey responses. This edition again finds that organic growth in existing markets remains a top priority. Additionally, the last few months saw a remarkable jump in the share of CFOs who indicated cost-cutting to be a priority on their agenda.

On the other hand, risky expansionary strategies, such as acquisitions or entries into new markets, are overwhelmingly being avoided. These developments are understandable, given that these courses of action require large capital investments while their chances of success, even during normal times, are unpredictable.

Strikingly, while the previous strategies were in line with the priorities as seen across Europe, the prioritisation of hiring new talent—which in the eyes of Dutch CFOs is their prime concern—is not shared across the continent. Instead, the issue only managed to rise to prominence in two other countries: Austria and Denmark. Therefore, it appears that the tightness of today's labour markets is not felt equally throughout the continent

Chart 4. 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?



4. Corporate Risk: A Return to Early Pandemic Risk Aversion

CFOs based in the Netherlands are showing increasing reluctance to take on greater risk onto their balance sheets

In line with the safer choices when it comes to strategic prioritizations, Dutch CFOs indicate a general disinclination towards adding any additional risk onto their balance sheets. In fact, this edition, with its net balance of -72%, is the second lowest level ever recorded in the Dutch CFO survey. The only other time CFOs indicated an even greater unwillingness towards taking on more risk occurred during the start of the pandemic.

Although Dutch CFOs are clearly risk-averse during the current period, their net balance is less negative than the European average. Only Danish and Austrian financial executives are more willing to take risks within the European setting. Southern Europe, as well as the UK and Ireland, are extremely risk-averse, with a net balance of approximately 90% of CFOs in those countries believing that the current uncertainty is extremely unfavourable to those that take more risk onto their balance sheet.

Overall, the average CFO is in agreement with their peers: the present-day climate of volatility and macro-economic uncertainty is not favourable towards risktakers.

Chart 5. The risk appetite of Dutch CFOs is decreasing

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

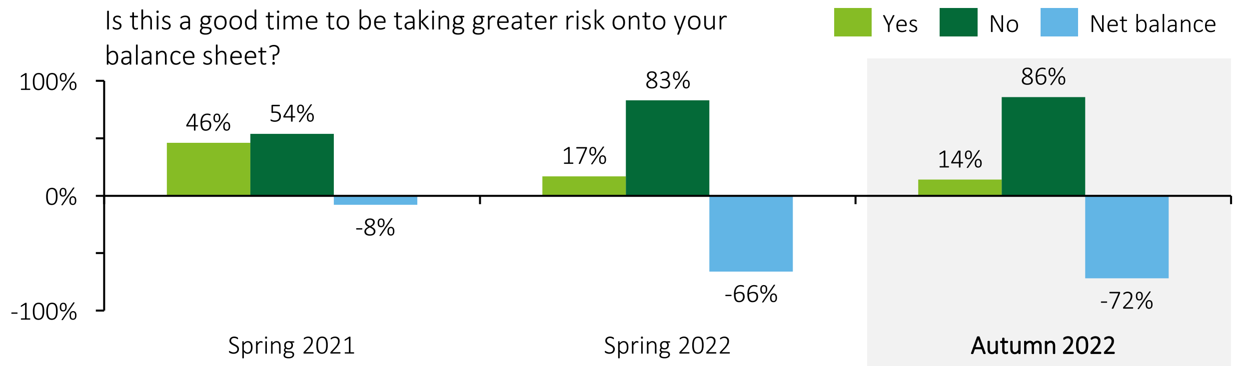
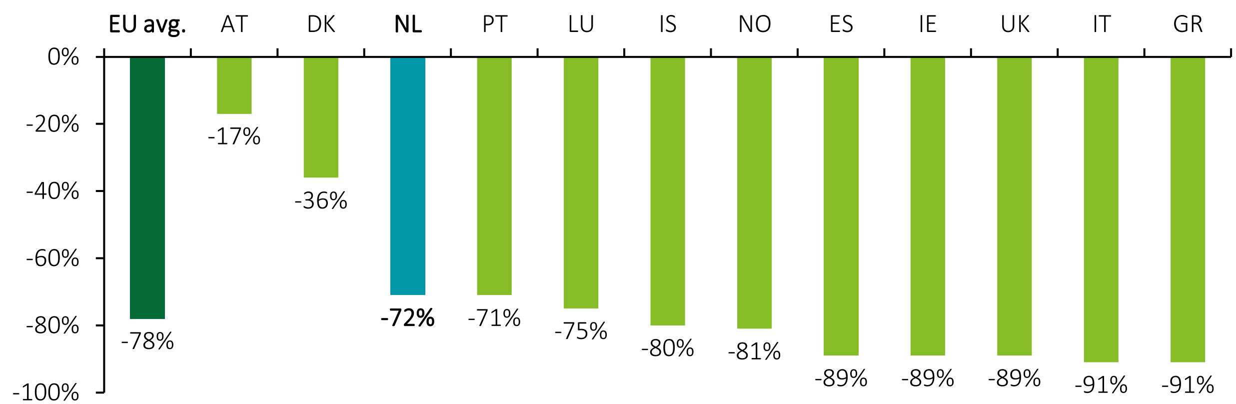


Chart 6. Dutch CFOs are slightly less risk-averse than the EU average

Is this a good time to be taking greater risk onto your balance sheet? – Net balance per country*



4. Corporate Risk: Where is the Talent? Where is the Growth?

The nature of perceived risks has changed significantly since the last Survey; whereas geopolitics were perceived as the main risk earlier this year, the worsening economic outlook and the talent shortage are currently viewed as the dominant risk factors for firms

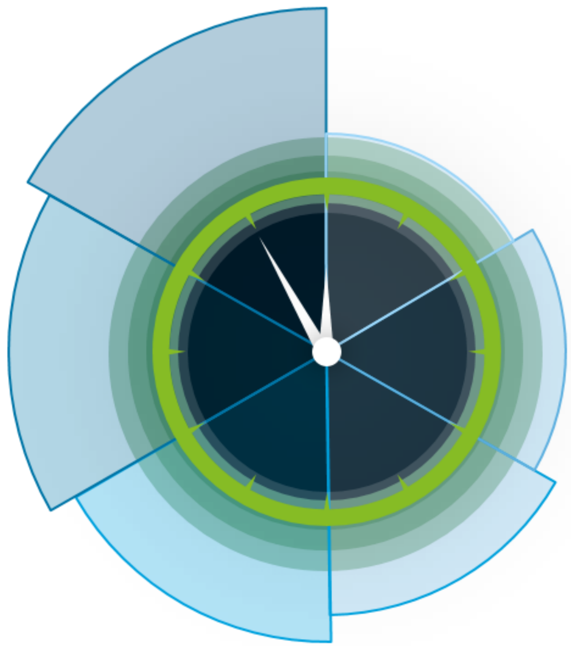
Although also considered the top strategic priority, Dutch CFOs view the shortage of highly skilled professionals as the key risk for the coming year. Stemming from companies' deep-rooted belief that today's climate in itself leads to internal organic growth, for which recruitment of talent is a vital cornerstone, the current tight labour markets and employee exodus logically arise as a major problem that needs to be dealt with.

The second highest risk—for the second survey in a row—is the macroeconomic outlook and slow growth climate in which businesses are find themselves. This issue, paired with the increased perception of a potential reduced level of demand, indicates that there is some fear of a recession creeping up, adding to the already uncertain conditions. Additionally, although not measured in this survey, Dutch CFOs are unsurprisingly also pointing towards the rising energy prices and inflation as core concerns for the near future.

European CFOs—except for Austrian and Irish CFOs—put less weight on potential talent shortages. Instead, they are more focused on those topics that were ranked by Dutch CFOs as number two and three: the slow-growth-high-inflation economy and geopolitical risks.

Chart 7. 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 2022 Survey: the figure inside each triangle shows the change in the rating for each risk.



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

5. Sources of Funding: Is the Attractiveness on the Inside or the Outside?

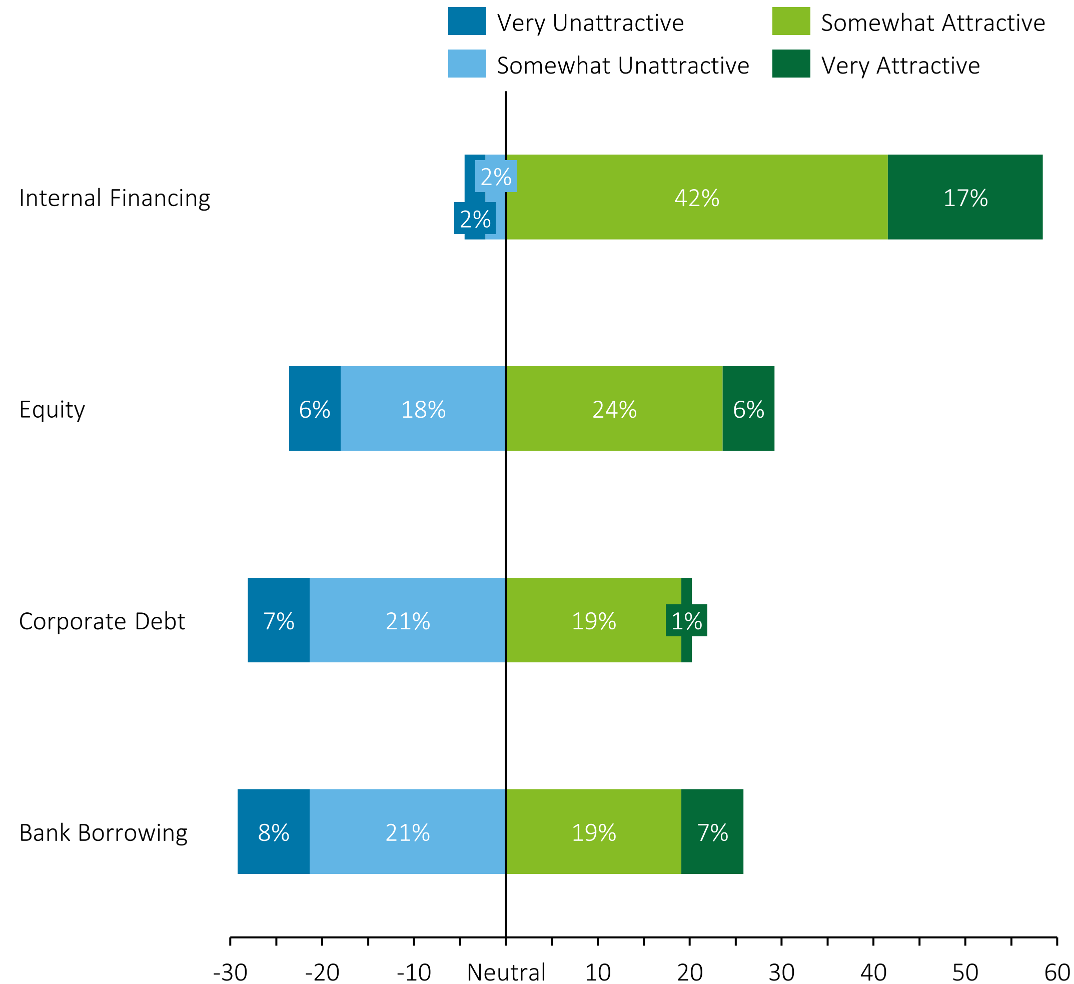
Dutch CFOs indicate that internal financing is considered an attractive source of funding while shying away from corporate debt

As previously mentioned, Dutch CFOs are hesitant to take risk onto their balance sheets. Such unfavourable sentiment is reflected in the attractiveness of different sources of funding. On balance, 59% of Dutch CFOs find internal financing attractive, vastly outnumbering the 4% that look at it unfavourably. Such result makes sense as using retained earnings is the least risky method of financing: not increasing the firm's liabilities, nor committing the firm to make periodic payments, nor forcing the firm to navigate the rising interest rate environment.

Debt on the other hand does expose a firm to these risks. Although corporate debt carries a lower interest rate than a bank loan, the current inflation climate that comes hand-in-hand with rising yields lead CFOs to look unfavourably at both. Although slightly more (1 percentage point) CFOs found bank loans unattractive as compared to corporate debt, the net balance is more unfavourable for corporate debt: -8% vs -3% respectively. This might be attributable to the long-term relations firms have established with banks over time, potentially decreasing the effect of high sudden uncertainty. The selling of stock is also looked down upon in the current climate.

Although similar results were found at the European level concerning the attractiveness of internal financing and both versions of debt financing, equity financing was viewed more unfavourable by most other countries.

Chart 8. Funding attractiveness



6. Inflation: Can We Flatten This Curve As Well?

In the face of rampant inflation, CFOs have continued to upwardly adjust the inflation levels they expect 1 year from now, but they also to appear be confident that these high rates will not become a long-term issue

Not too long ago, economic uncertainty and high levels of inflation had been thought of as a bad memory from times long gone. However, on the back of the Covid-19 crisis, the economic outlook has managed to not only take centre stage during every day's news cycle, it has also come to represent a significant risk for the coming year.

Although up to the autumn of 2021 Dutch CFOs' future inflation expectations appeared to be a good proxy for the level of inflation that would come to be realized, they, too, were taken off guard by the sizeable jump of the curve as seen during the first half of 2022. However, ever since their firms began facing these large increases in the costs of their raw materials, primary goods, and used services, CFOs have begun updating their future expectations to be in line with this new trend.

Interestingly, Dutch CFOs do not believe that the current extreme levels of inflation will continue too far into the distance. Instead, they believe that over the next year inflation will begin to slow down while remaining at an elevated level. This is reflected in the small (2 percentage points) increase in their 12-month forward inflation expectation for both NL and EU as compared to the previous survey's expected increase. Finally, CFOs do not appear to believe that high inflation will become the new normal. Instead, they expect that inflation will be on its way back to normal levels by the autumn of 2024 .

Chart 9. Trendline CFO domestic Inflation Expectations over the next 2 years, compared to past expectations and realized inflation[1]

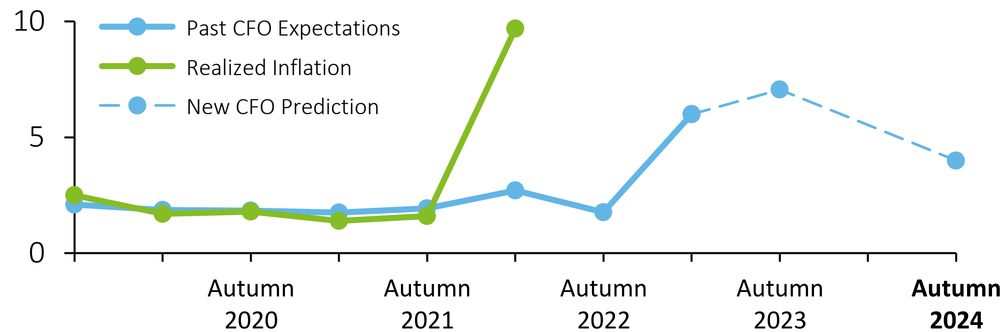


Chart 10. Dutch CFOs' expectation for inflation in the Netherlands over the next 12 months, compared to past predictions

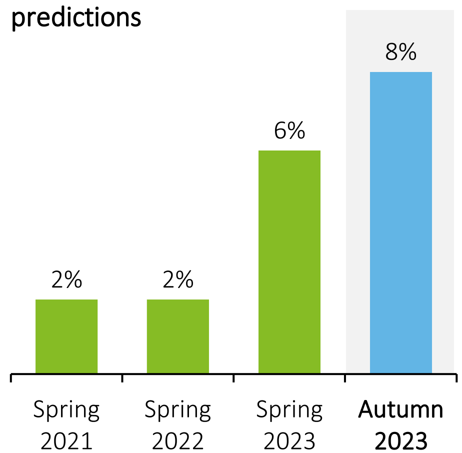
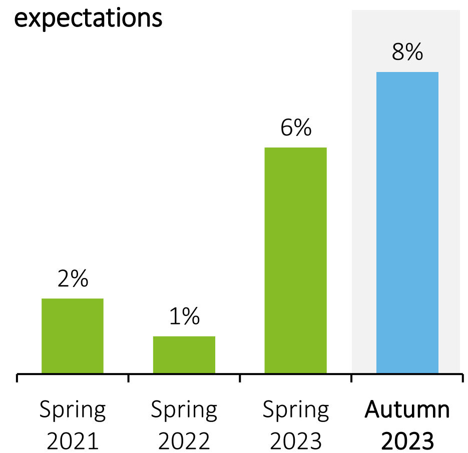


Chart 11. Dutch CFOs' expectation for inflation in the Euro area over the next 12 months, compared to past expectations



[1]Centraal Bureau voor de Statistiek (2022). *Inflatie dashboard.* Link

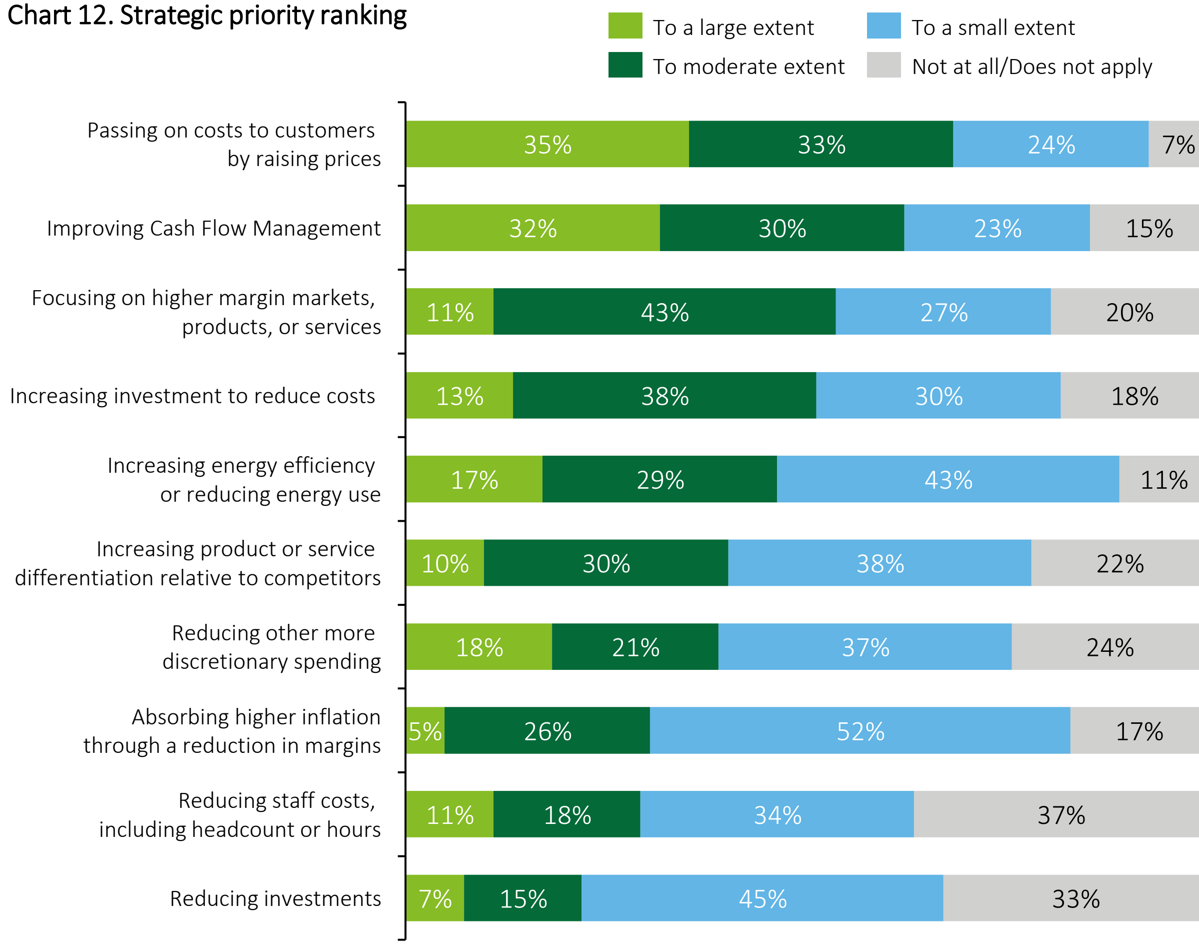
6. Inflation: Strategic Steps to Minimize Inflationary Suffering

Dutch CFOs indicate that they are attempting to curb the effect of inflation on their business by passing on their costs while simultaneously also improving their energy efficiency and their own cash flow management

Although Dutch CFOs are expecting the inflation to reverse itself and return to normal levels in the medium future, they do need to manage its pains, at least in the short run. According to the survey, over 90% of respondents indicate their company attempts to pass on increased costs to consumers by raising prices. Although this partially alleviates rising costs, it is not a perfect fix: the amount a firm can pass on depends on, for instance, the level of competition in a market and how firm specific a cost increase is[2]. This effect is also reflected in the fact that CFOs expect their revenues to rise, but their operating margins to decline as showcased previously in this CFO financial outlook.

Due to the relative inelasticity of firms' demand for energy, this is one of the main cost areas where inflation by itself can bite hard. However, in the current climate of closed pipelines and geopolitical flux, gas—and by extension all forms of energy—is rising even higher and faster. This is one of the reasons why 89% of Dutch CFOs indicate they want to become either more energy efficient or reduce energy use. Additionally, given that inflation means cash loses its purchasing power, it is understandable that 85% of CFOs see improving their cash flow management as a strategic priority.

Chart 12. Strategic priority ranking



[2] RBB Economics (2014). *Cost pass-through: theory, measurement, and potential policy implications.* link

7. CFO of Ingka Centres: “I am, and I will remain, optimistic”

Marjanne van Ittersum is the CFO of Ingka Centres, a global developer and operator of retail-led locations. Ingka Centres has 50 years of experience in commercial real estate and today works with almost 3,000 brands across its portfolio of 44 assets in 13 markets. Deloitte asked Van Ittersum about her view on the CFO Survey results. “I am, and I certainly will remain, optimistic,” she said.

Overall, in fact, financials are less optimistic about the future than they were three months ago. Van Ittersum: “I am optimistic though, because our meeting places have originally been designed for many people, allowing anyone to find what they need, regardless of the size of their wallet. So, we can respond well to a situation where people have less spending power. In addition, we have a strong financial base for operating both our existing business and funding our expansion plans. I also expect the less rosy economic situation to result in cheaper real estate assets available for acquisition, creating opportunities for us as Ingka Centres.”

Passing on inflation

Van Ittersum certainly recognises the concerns of the CFOs who participated in the survey. “Inflation is huge, so co-workers expect their salaries to increase . This is compounded by the significant increase in costs of raw materials for real estate developments, which shrinks the margins. Governments compensate for some of the inflation, and I expect we will have to sacrifice margins ourselves. It’s possible to pass on part of the increased prices. We want to have balanced rent rates, reflecting tenants’ sales dynamics and thus ensuring long-term partnerships with our retailers. This is why we aim for a healthy rent/turnover ratio. This type of long-term thinking is part of our DNA.”

Anticyclical thinking

Most CFOs, 77 percent, see no benefit in taking on additional risks onto their balance sheets. “I clearly have a different perspective,” says Van Ittersum. “Where many in the market stop investing, opportunities arise. You should seize the moment and have the boldness to think countercyclically. We have created the luxury of a good cash position, so in these situations this obviously provides the flexibility to jump on opportunities.” Even before the economic and geopolitical situation the CFOs regarded a shortage of personnel as the biggest risk and, as the survey shows, they still do. “I agree and in line with our vision to create a better

“Where many in the market stop investing, opportunities arise. You should seize the moment and have the boldness to think countercyclically”

everyday life for many people, we constantly work to retain our talents and we launch campaigns to attract new people . In this market, it is also important for us to have good fringe benefits. Mind you, our staff shortage mainly occurs in Europe and the US. Not so much in China, for example.”

Shortage is an ongoing concern

Van Ittersum also points out why she marks the labor market shortage as the number one problem. “Inflation risk is an issue you can deal with in the short term, by cutting costs, passing on higher costs or using your own capital. But the labor market shortage will persist in the long term, so this continues to be a major concern.”

In short, because of Ingka Centres’ good cash position and its business vision Van Ittersum has a positive long-term view, while she keeps a close watch on short-term risks. “We will take mitigating measures if we can, but the current economic situation is not hampering us as much as companies that have taken out more loans. We nevertheless need the financial discipline to continuously anticipate situations like this. One of the things we do is scenario planning, in which we outline the consequences of geopolitical issues for international businesses. As a CFO, I do think it’s impossible to predict all future situations. It's more a matter of being prepared and continuously responding flexibly to any situations that may arise.”

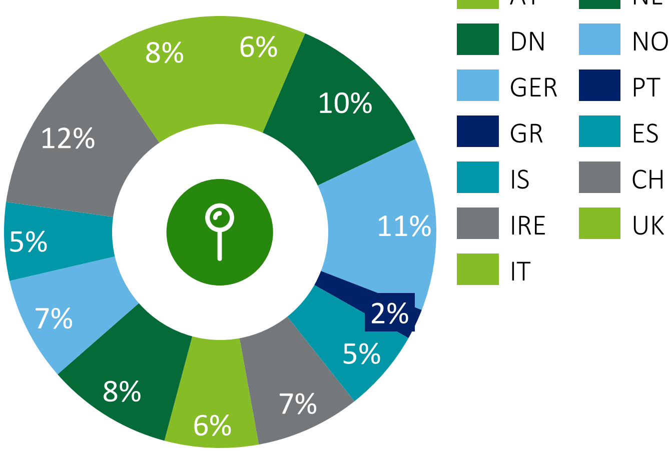
9. CFO Survey Background: EU Sample Background Information

Overview of the countries, annual revenues, and industries of the firms in the European sample

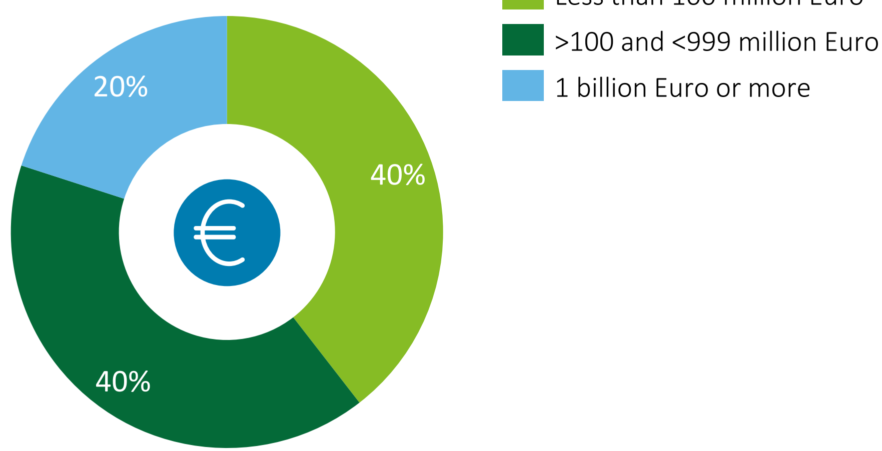
Sample composition by Industry

Aerospace & Defence	0.7%	Financial Services	15.4%	Retail	7.2%
Automotive	3.6%	Forestry, Paper & Packaging	0.8%	Technology, Media & Telecommunications	8.5%
Business & Professional Services	3.0%	Industrial Products & Services	11.2%	Transport & Logistics	7.4%
Construction	7.4%	Leisure	0.8%	Tourism	3.2%
Consumer Goods	6.5%	Life Sciences	6.3%	Other	12.2%
Energy, Utilities & Mining	6.5%	Public Sector	0.9%		

Sample composition by country



Sample composition by business size



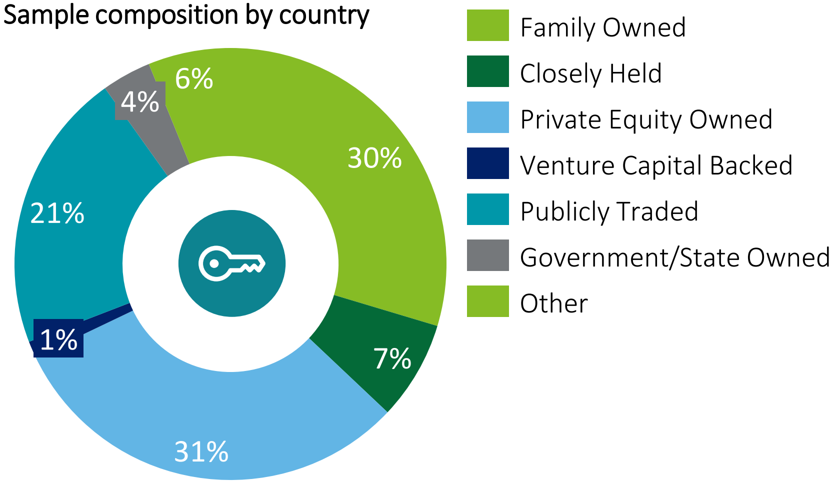
9. CFO Survey Background: Dutch Sample Background Information

Overview of the industries, ownership types, and annual revenues of the firms in our sample

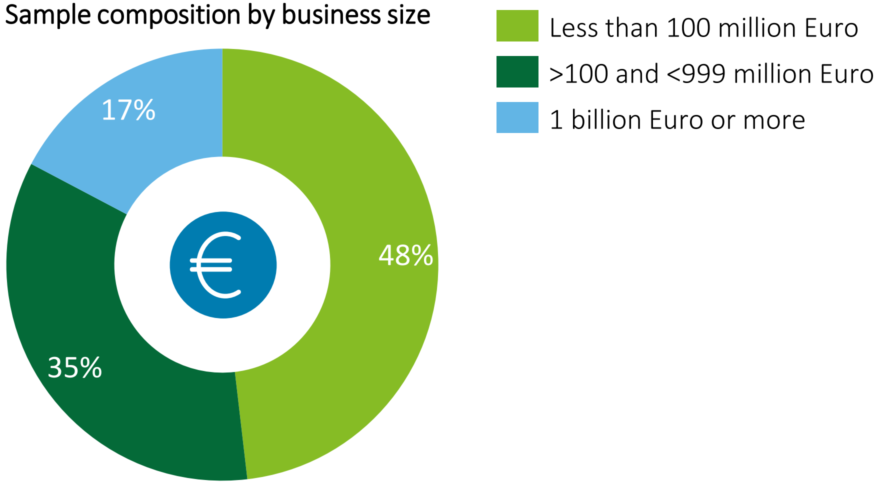
Sample composition by Industry

Aerospace & Defence	1.2%	Energy, Utilities & Mining	3.7%	Public Sector	2.5%
Automotive	4.9%	Financial Services	3.7%	Retail	6.2%
Business & Professional Services	4.9%	Industrial Products & Services	17.3%	Technology, Media & Telecommunications	9.9%
Construction	8.6%	Leisure	2.5%	Transport & Logistics	7.4%
Consumer Goods	9.9%	Life Sciences	3.7%	Other	13.6%

Sample composition by country



Sample composition by business size



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

Participating in our Survey and accessing previous surveys

If you would like to take part in our Survey or if you would like to receive further copies of this report, please contact us at cfo-agenda@deloitte.nl

You can find the European survey results on our website.