The PwC CFO Survey Series

Financial Resilience

June 2020

INTRODUCTION

The PwC CFO Survey Series

The current economic crisis due to the COVID-19 pandemic is rippling throughout businesses across the globe. To gauge its impact on Belgian companies, PwC has launched the CFO Survey Series, consisting of periodic surveys on the effects of the crisis on finance, operations, workforce, supply chains and much more.

Survey 1: Financial Resilience

The first edition of the CFO Survey Series covers financial resilience. PwC asked 42 CFOs of large corporates in Belgium across a variety of sectors to weigh in on the effects of the crisis on their organisations, their coping strategies and their plans and predictions for a post-COVID-19 world.

Highlights

Belgian CFOs expect **revenue to fall 10% or less** over the next six months

Negative business impact is expected to be **felt for one to two years,** according to 62% of respondents

Government measures are **used by 43%** and are deemed insufficient by just 17% of surveyed Belgian CFOs

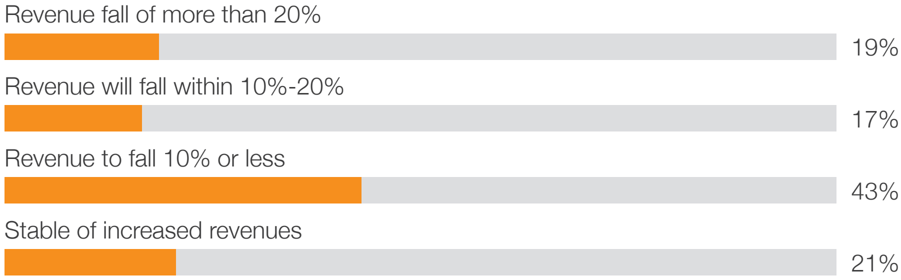
81% are very confident they have the financial resources to continue operating during the crisis, but this number falls to 55% in case of a second COVID-19 wave

CONFIDENCE BAROMETER: REVENUES AND THE BELGIAN ECONOMY

Most respondents (79%) expect Belgian economic growth to decline, with nearly half (43%) believing that the economy will contract greatly. When asked about the short-term outlook on company revenues, 43% of Belgian CFOs surveyed indicated they expect revenues to fall by less than 10% in the coming six months. This is lower than the National Bank of Belgium (NBB)'s recently revised second quarter GDP loss prediction of 16%, a number that's been rising steadily since early speculation at the onset of the pandemic. This relatively optimistic prediction is likely an indication that company size plays a significant role, with larger organisations being more prepared to survive the crisis than small- and medium-sized companies.

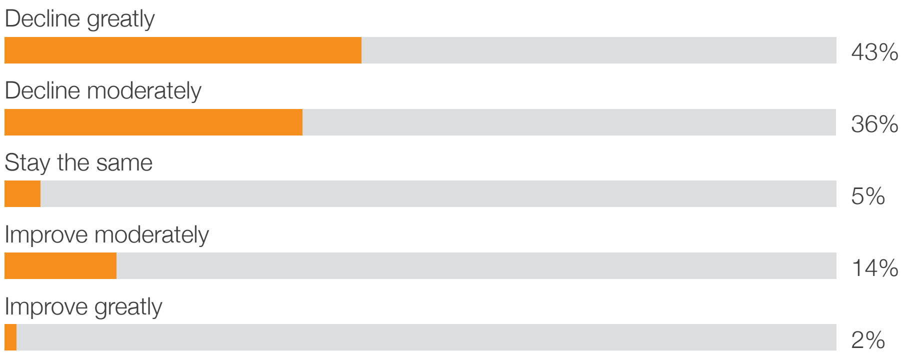
01

What are your organisation's predictions in terms of revenue in the coming 6 months?



02

Do you believe Belgian economic growth will improve, stay the same, or decline over the next 12 months?



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COVID-19 will have an economic impact on every sector, but it will hit them with different intensity. There are a number of anti-cyclical sectors that are less vulnerable to fluctuations in demand and hence will be less inclined to predict strong revenue effects. These sectors - such as pharma, medical devices and food - generally continue to do well in periods of economic downturn, since demand for their products and services continues regardless of the economy.

Certain sectors will be more prone to an L-shaped scenario, with a drastic impact on our economy and a prolonged recession on the horizon. The transportation sector, for example, may never be the same, with permanent shifts in personal and business travel habits. In the coming months, an increasing number of companies from various hard-hit sectors will inevitably face bankruptcy. In the face of these challenges, many companies have listened to the market and are rethinking their entire business models, making COVID-19 an important propeller for new growth. In this sense, this crisis has been an eye-opener that has accelerated corporate decision-making when it comes to building in financial resilience, measures that had been put on the back burner until COVID-19 hit.

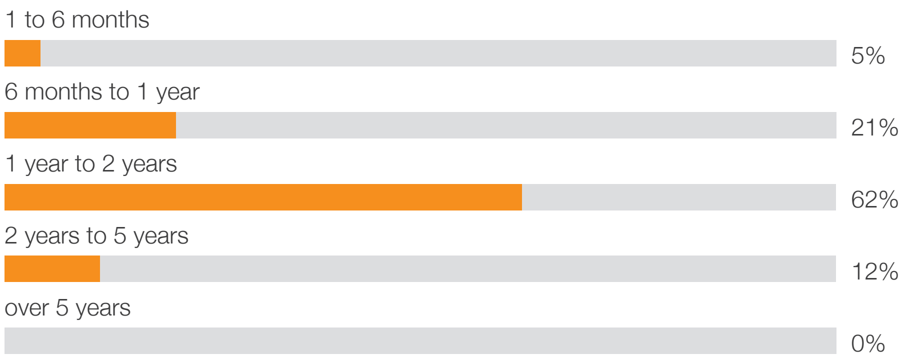
Didier Vandenhaute
Partner
Treasury Consulting
PwC Belgium

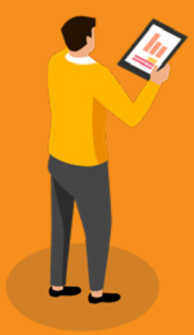
WEATHERING THE CURRENT COVID-19 CRISIS

Survey respondents echoed the results of PwC's Strategy&'s recent analysis Navigating European banks through and preparing for the world after the crisis, that examined economic expectations by country and by sector: Belgian CFOs expect the negative business impact of the crisis to be felt for the next one to two years (62%), suggesting cautious optimism that recovery's ahead.

03

How long do you expect the negative business impacts of the COVID-19 crisis to be felt?



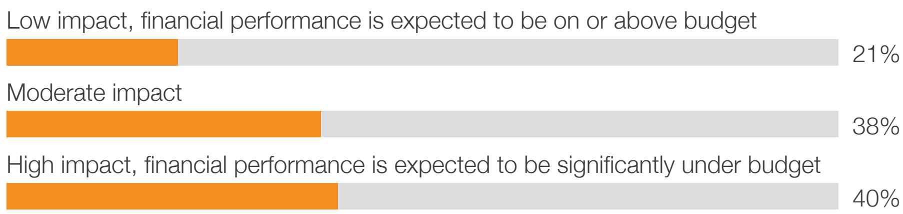


The easing of lockdown measures will provide our economy with a much-needed boost. Still, most countries are facing a U-shaped baseline scenario - with a deep shock followed by several quarters of very low economic activity before we return to previous GDP levels - rather than the initial V-shaped expectation, implying a more swift and complete recovery. Whatever the scenario, contraction in growth is inevitable. A much more important indicator for assessing the economic outlook is the unemployment rate. The study by Strategy& showed that even in the V-scenario, a high unemployment rate will have a more decisive negative effect on consumer demand and hence the overall economic outlook, said Didier Vandenhaute.

Of the Belgian CFOs surveyed, 40% estimate the impact of the COVID-19 outbreak on their overall 2020 financial performance to be high, the rest predicting low to moderate impact. In the short term, most survey respondents are "very confident" (81%) in their financial resilience to weather the crisis. Well-established multinationals in particular have the ability to go to market, as well as sufficient cash resources. They've often built in backup credit lines, funding and financing as a buffer.

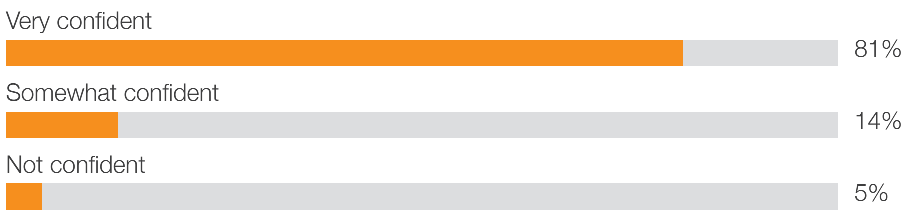
04

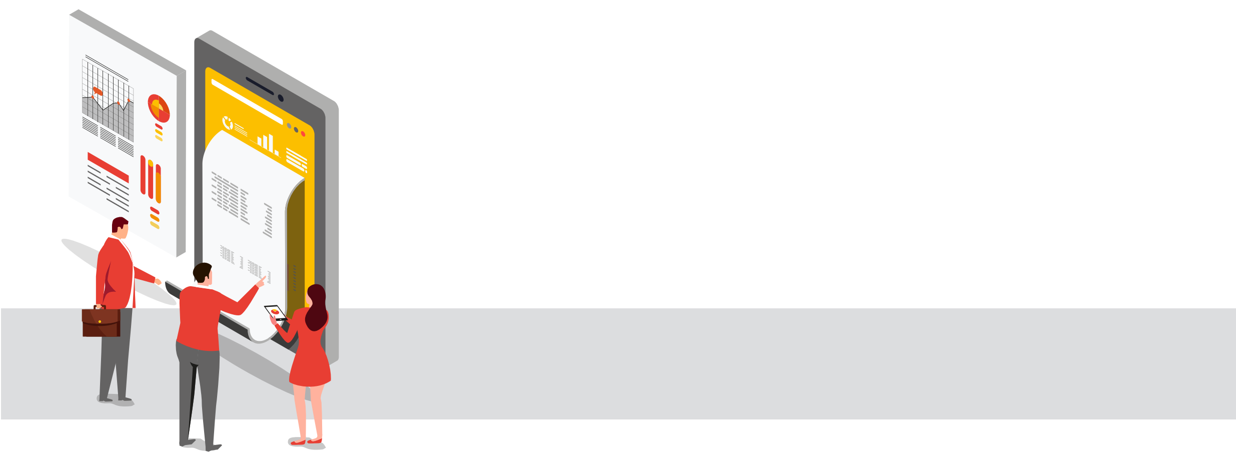
What is the estimated impact of COVID-19 on your company's overall financial performance for 2020?



05

How confident are you that your company has the financial resources to continue operating throughout the current COVID-19 outbreak?





GOVERNMENT AID INITIATIVES LIKELY MORE SUITED TO SMEs

To get through the current crisis, many Belgian companies are securing liquidity by using market funding and drawing on lines of credit. Among the Belgian CFOs surveyed, 43% indicated they've made use of the government measures put in place to protect companies, like deferred VAT payment, a moratorium on insolvency and the 50-billion-euro guaranteed 'bazooka' aid. Only a minority of respondents (17%) find these measures to be insufficient.

06

Have you made use of the governmental measures proposed to support your business (payment deferral scheme for professional credits, guaranteed credit, etc) offered by banks?

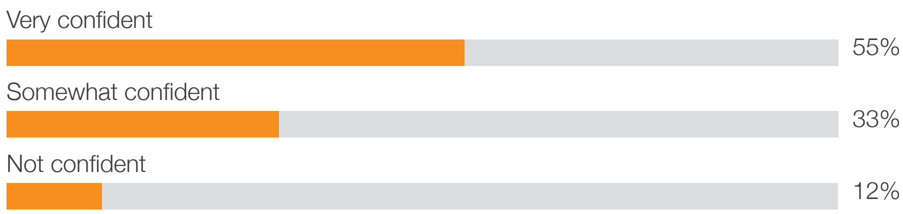
ARE COMPANIES PREPARED FOR A SECOND WAVE?

In the event of a resurgence of COVID-19, just over half of Belgian CFOs are "very confident" (55%) that their organisations have the financial resources to continue operating, with a majority of respondents (83%) estimating their business could survive a slowdown of more than one year. Corporates have generally foreseen a new outbreak and have planned accordingly by building this scenario into their financial strategy. While many have experienced a decline in business and anticipate challenges in the months ahead, perhaps even a restructuring, they don't see overall viability as being at risk.

> In the short term, most CFOs of large multinationals in Belgium - the basis of this survey sample - will have worked towards building in access to financial resources in their business models, protecting them from the next potential crisis. However, not all companies will be that well-prepared, especially SMEs. Smaller companies are much more vulnerable in this situation. Take the example of the much talked-about state loan guarantee scheme of 50 billion euros, in which qualifying loans granted by banks are guaranteed by the Belgian State: while it holds the potential to ensure short-term liquidity, its rather complicated, short-term applicability and additional costs pose a considerable hurdle for large multinationals, explained Didier Vandenhaute.

07

If a second outbreak of the COVID-19 virus would occur, how confident are you that your company has the financial resources to continue operating?



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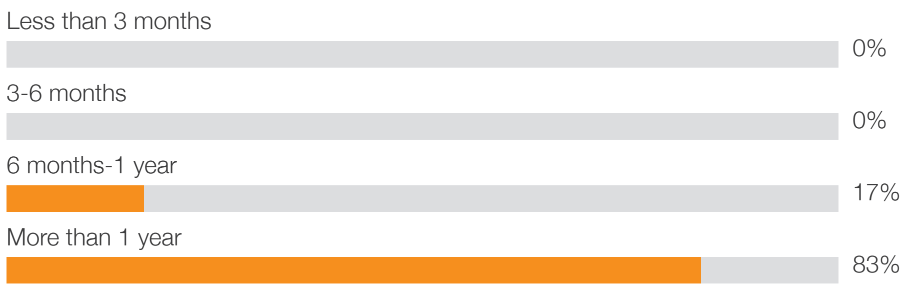
How long of a slow down do you estimate your business could handle before you would be forced to close?



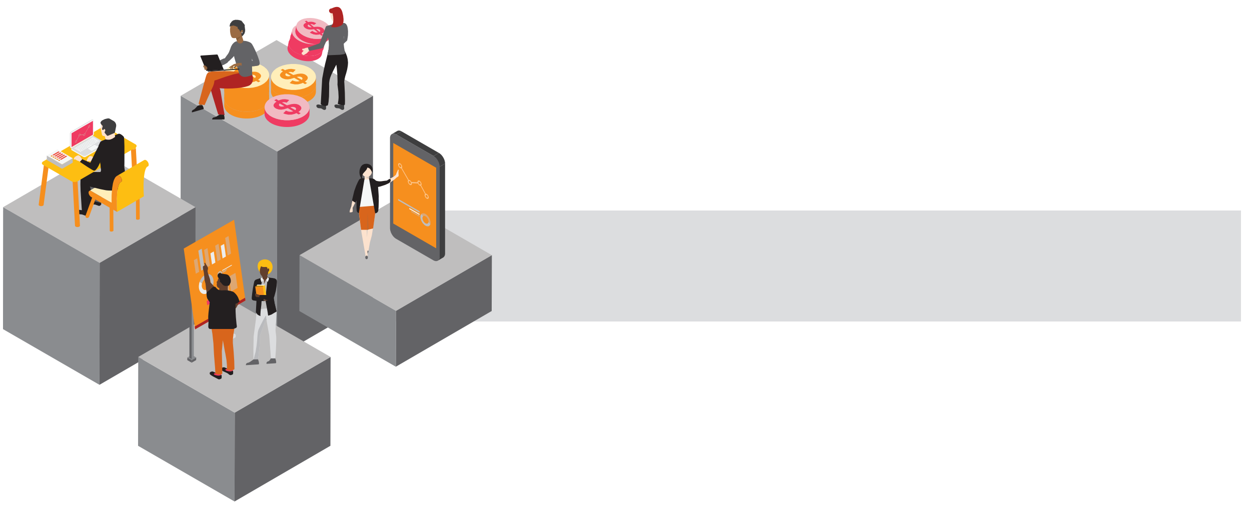
BUILDING FINANCIAL RESILIENCE FOR A POST-COVID-19 WORLD

Among survey respondents, 67% plan to implement additional measures to become more financially resilient, with the majority making reference to cost optimisation (opex and capex) as the first initiative.

09

In the future, do you plan to implement additional measures to become more financially resilient?

The COVID-19 crisis has made it abundantly clear that companies need to boost their financial resilience to future-proof their organisations and prepare for the challenges ahead. Operations must continue throughout COVID-19 and beyond and for many, like those in manufacturing, for example, it's not as simple as working from home. Many companies have realised they need new production plans and new business models. The crisis has served as a sudden catalyst to propel initiatives that were previously on the shelf, like digitisation and robust financial resilience planning.



For questions about the survey or additional information on building financial resilience don't hesitate to get in touch.

Contact
Didier Vandenhaute
didier.vandenhaute@pwc.com