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The CFO Report 2015
Staying focused to succeed in turbulent times

INTRODUCTION

As an integrated African firm, Deloitte is intent on equipping CFOs with some of the tools and support they need to meet their day-to-day challenges.

As a CFO undertaking one of the most demanding jobs in business today, it is important to benchmark one's decisions by gaining an understanding of what others in the CFO role are doing or thinking. Deloitte Africa is proud to present its eighth Deloitte CFO Survey, which incorporates insights of 260 CFOs gleaned over an eight-week period in June and July 2015.

CFOs across Southern, East and West Africa were asked to express their views on the current business climate, the availability and cost of funding, cash flow and investment priorities, expansion plans, future financial expectations, strategic intent and company strategy. We explore this feedback, which highlights tough economic challenges, but also some specific responses to these challenges.

Respondents in South Africa were polled separately, but likewise included in the Southern African sample, which also comprises input from Namibia, Botswana, Zimbabwe, Zambia, Mozambique and Malawi. East African respondents hail from Kenya, Uganda, Tanzania and Ethiopia and West African respondents from Nigeria and Ghana.

As an integrated African firm, Deloitte is intent on equipping CFOs with some of the tools and support they need to meet their day-to-day challenges. This report is one such tool and we hope the information and insights recorded here will be of value to our firm's valued clients and readers.

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Key responses

What did South African and Southern African CFOs tell us?

- Estimated economic growth rates across all regions are weaker this year and over the next two years compared to 2014 predictions.
- Currency volatility and overall exposure to currency devaluation are among top industry concerns.
- The cost of capital is increasing.
- South African CFOs are concerned about the domestic political situation.
- Kenya, Tanzania and Uganda are the most desirable destinations for expansion.
- CFOs continue to spend more time in operator and steward roles than they do as catalysts or strategists.

What are they doing about it?

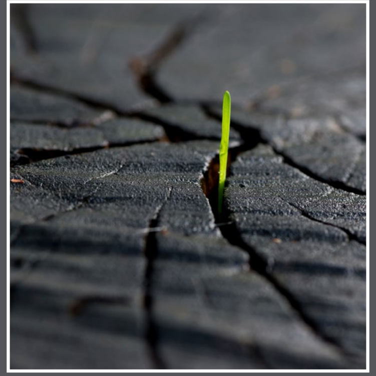
- CFOs are adopting an agile approach to dealing with economic volatility.
- Many CFOs are focused on growing investor confidence.
- Improving operational efficiency and optimising costs is a major strategic thrust for most CFOs.
- The majority of CFOs will be spending their cash on improving current operations.

This report explores various themes in greater detail in the following sections:

- Economic environment
- Business environment
- The allure of higher-growth African countries as investment destinations
- The CFO Agenda

An overview of the respondent profile has been included on page 37 of the report.

ECONOMIC ENVIRONMENT



CFOs in South Africa anticipate subdued economic growth over the next three years.

Agile strategies required for volatile times

Fears around a volatile global market – characterised by a possible US interest rate hike, the deepening slowdown of China's economy and the Eurozone's socio-economic afflictions – have compelled many CFO's to adopt an agile strategy to improving company performance and creating shareholder value.

Diverse growth outlook for Sub-Saharan countries

This year's 2015 Deloitte CFO Survey, which incorporates insights from West Africa for the first time, reveals a significant sentiment gap between East and West Africa and the economies in the southern part of the continent.

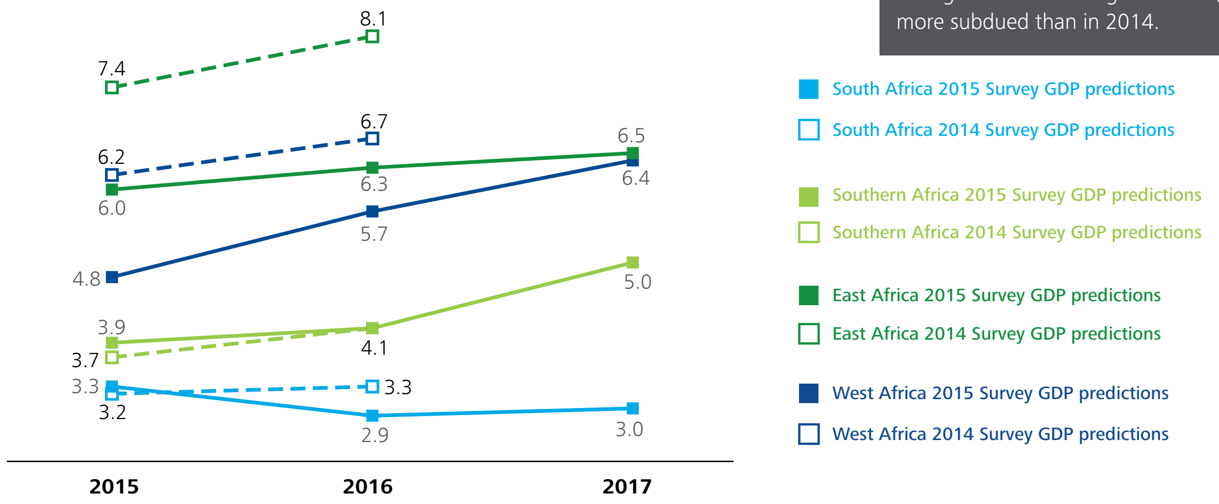
CFOs in South Africa anticipate subdued economic growth over the next three years, with an average economic growth projection of 3.3% for the country in 2015. This view is slightly more optimistic than last year when a more sedate estimate of 2.8% growth was forecast.

Southern Africa, which includes South Africa with 62 out of 176 responses, has a slightly more optimistic outlook for its economies with an average expectation of 3.9% GDP growth for 2015, 4.1% for 2016 and 5% for 2017. The weaker South African growth outlook seems to have been counterbalanced by survey respondents in the other Southern African countries, many of whom forecast a growth rate of between 3.1% and 5%.

In East Africa, the outlook is more positive, with respondents predicting a regional economic expansion of 6% in 2015, 6.3% in 2016 and 6.5% in 2017. CFOs in West Africa have slightly lower expectations than CFOs in East Africa, with 4.8% in 2015, 5.7% in 2016 and 6.4% in 2017. This year's outlook may be a little optimistic, given that Nigerian economy only grew at an annual rate of 2.57% in the second quarter.

Figure 1: Expectation for GDP growth

Key finding:
GDP growth forecast figures are more subdued than in 2014.



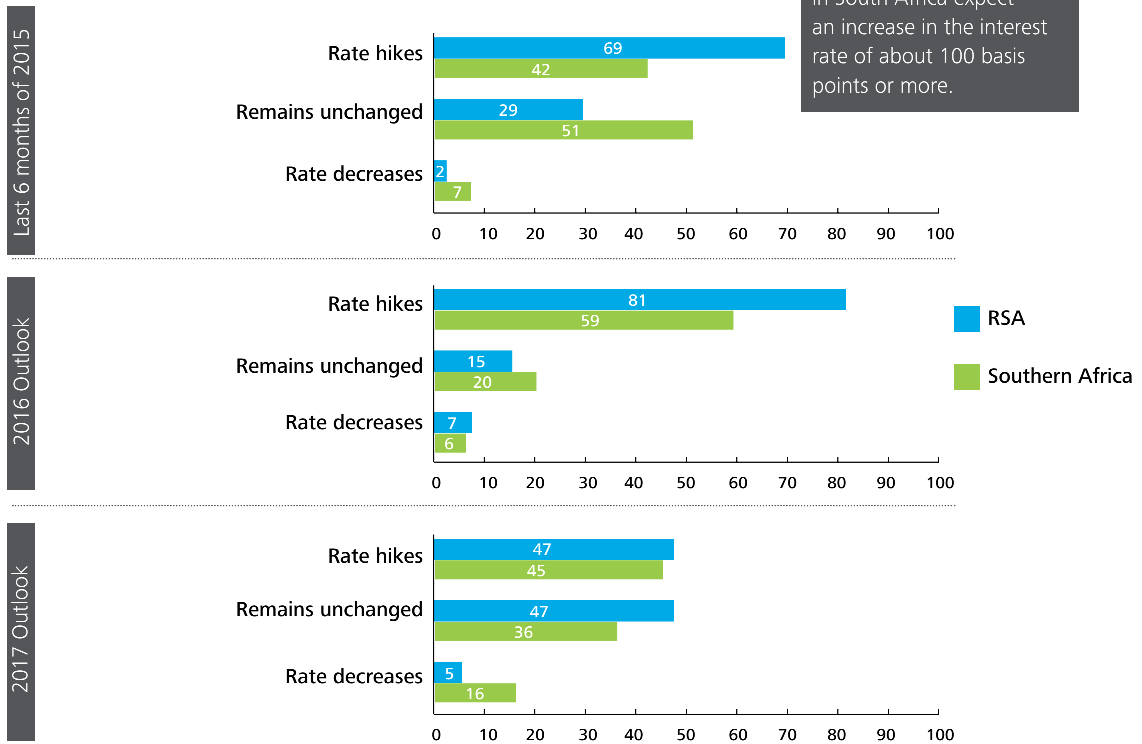
In 2016, a massive 81% of South African respondents expect the interest rate to increase.

Short-term interest rate prospects

Not surprisingly, most CFOs in South Africa expect an increase in the interest rate of about 100 basis points or more. A significant 69% of respondents expect the interest rate to increase within the next six months – which it did in an interest rate hike of 0.25% in August 2015 – and 29% expect it to remain the same. In 2016, a massive 81% of South African respondents expect the interest rate to increase while 15% expect it to remain the same. Looking ahead to 2017, there is a more even view, with 47% expecting it to increase and 47% expecting it to remain the same.

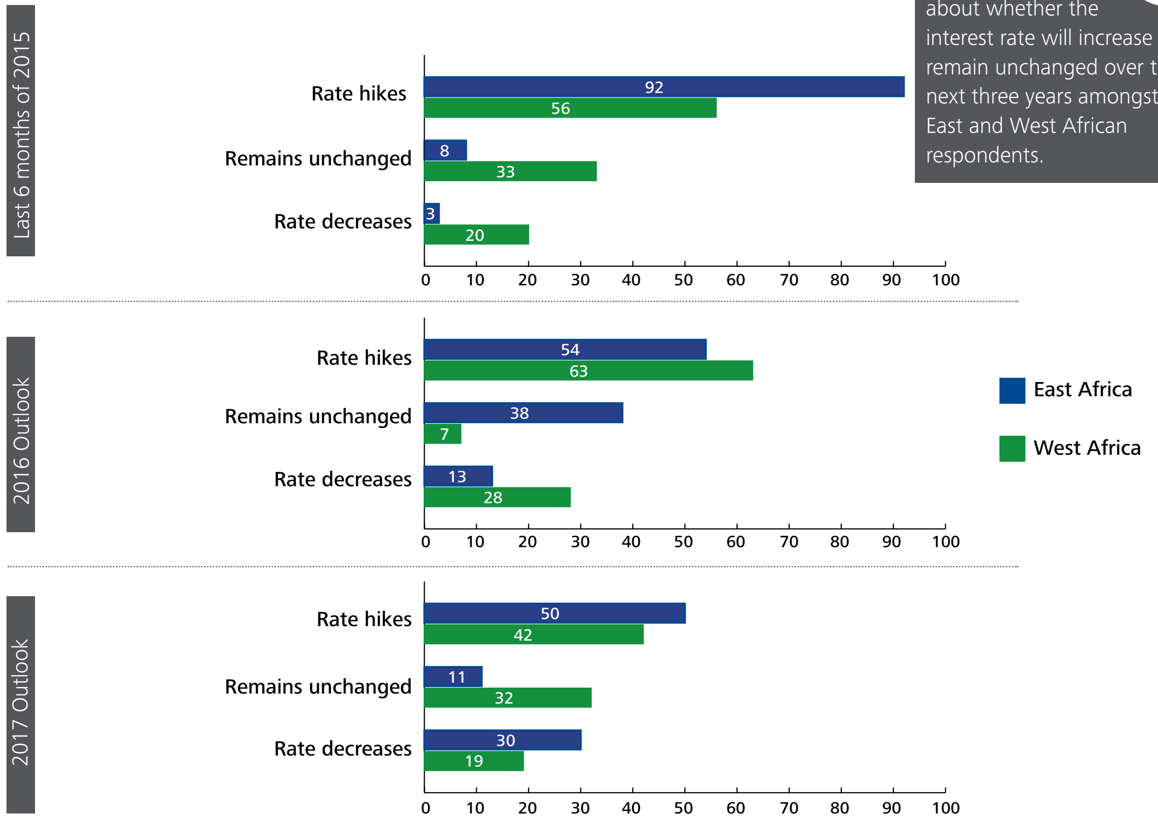
Southern Africa respondents are somewhat more divided in their predictions, with 42% expecting the rate to increase and 51% expecting it to remain unchanged for the rest of 2015. In East and West Africa, views are split as to whether the interest rate will increase or remain unchanged over the next three years.

Figure 2: Short-term interest rate prospects – South Africa vs Southern Africa



Key finding:
The majority of CFOs in South Africa expect an increase in the interest rate of about 100 basis points or more.

Figure 3: Short-term interest rate prospects – East Africa vs West Africa



Key finding:
There is a split view about whether the interest rate will increase or remain unchanged over the next three years amongst East and West African respondents.

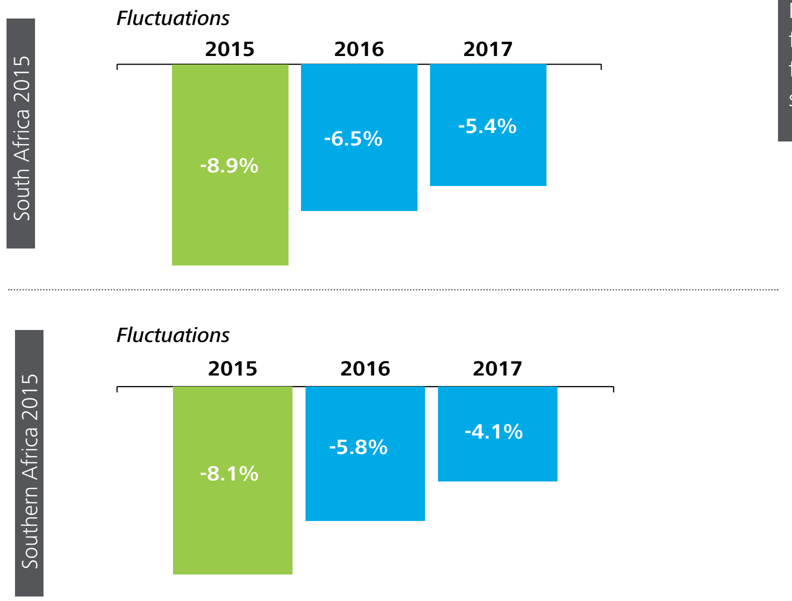
Region-wide currency depreciation

The anticipated rate hike in the United States is placing pressure on currencies worldwide. This is reflected in the CFOs' responses, which show they expect downward pressure on their currencies with a region-wide decrease of more than 8% for the remainder of 2015.

With the exchange rate at ZAR12.11 to US$1 at the time the survey was conducted, South African respondents expect the rand to depreciate by -8.9% to the US Dollar in 2015, -6.5% in 2016 and -5.4% in 2017. The Southern African region shows a similar result with a depreciation of -8.1% expected for 2015, -5.8% for 2016 and -4.1% for 2017.

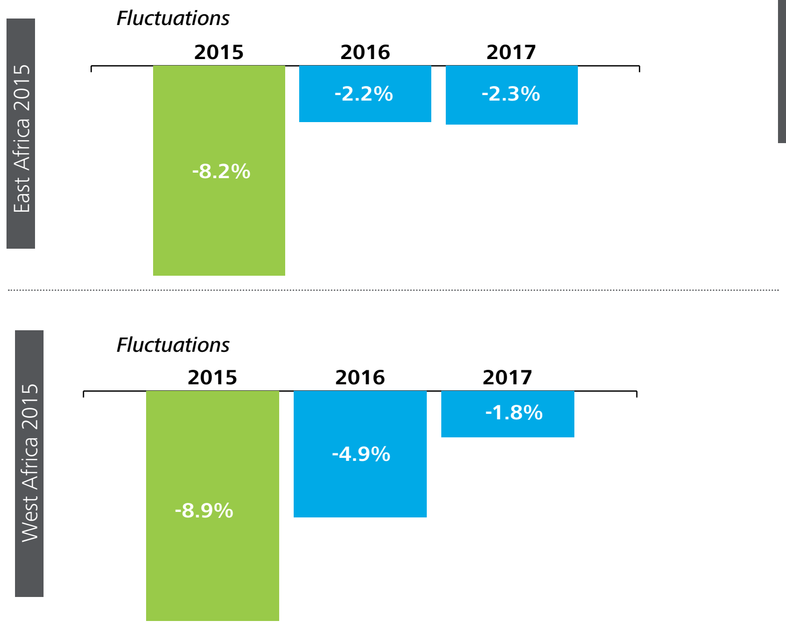
In Kenya, the exchange rate was KS98.5 to US$1 at the time of the survey. While East and West Africa also expect a more-than-8% depreciation against the US dollar this year, they are more positive about what will happen in subsequent years, expecting their currency to remain relatively stable in 2016 and 2017.

Figure 4: US Dollar fluctuations 2015 – South Africa and Southern Africa



Key finding:
South African respondents expect the Rand to depreciate even further to the US Dollar for the rest of 2015 and in subsequent years.

Figure 5: US Dollar fluctuations 2015 – East Africa and West Africa



Key finding:
East African respondents have the view that their currency will depreciate in 2015, but stay relatively stable in 2016 and 2017.

BUSINESS ENVIRONMENT

Similar to South Africa, the ongoing electricity price increases, political landscape and currency volatility are also seen as key risks in Southern Africa.

Significant shift in risk factors

Given the uncertain global economic milieu in which companies are currently operating, it is interesting to note that domestic risk factors are high on the list for South African respondents. The country's political landscape is cited by 61% of respondents as a significant risk. Notably, this figure is up from 33% in 2014.

In addition, 60% of CFOs view the impact of continuing electricity price increases as another significant risk, up from 36% in 2014. This is not surprising, given that the country experienced its worst electricity crisis in seven years. This result differs significantly from 2014 when margin deterioration due to input cost pressures and currency volatility topped South African respondents' list of key risk factors.

The picture changes somewhat for respondents in Southern Africa, 49% of whom mention the fragile state of global economic recovery as their top concern. This is understandable as many of the Southern African economies are commodity-based and would be more exposed to the economic fluctuations of the larger economies such as USA, China and key European markets.

Similar to South Africa, the ongoing electricity price increases, political landscape and currency volatility are also seen as key risks in Southern Africa. This has changed from last year when margin deterioration due to lack of pricing flexibility and input cost pressures were seen as the greater risks.

In East and West Africa, currency volatility is by far the greatest concern, with 74% of respondents in East Africa and 87% in West Africa singling it out as a significant risk factor. Once again, this can be attributed to the commodities-based nature of their economies. Following the upsurge in terrorist activity in Kenya in recent years, 68% of East African CFOs are understandably concerned about the threat of terrorism and its impact on the economy, while 54% of West Africans are worried about margin deterioration due to input cost pressures.

Figure 6: Risk factors – South Africa

Key finding:
Most South African CFOs regard the local political landscape as a significant risk to their businesses.

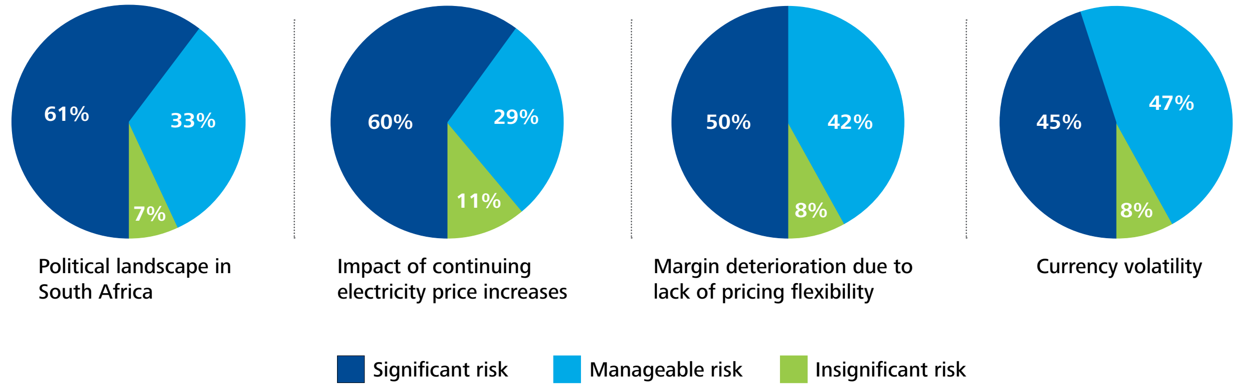


Figure 7: Risk factors – Southern Africa

Key finding:
The fragile state of the global economic recovery is viewed as a significant risk to business by Southern African CFOs.

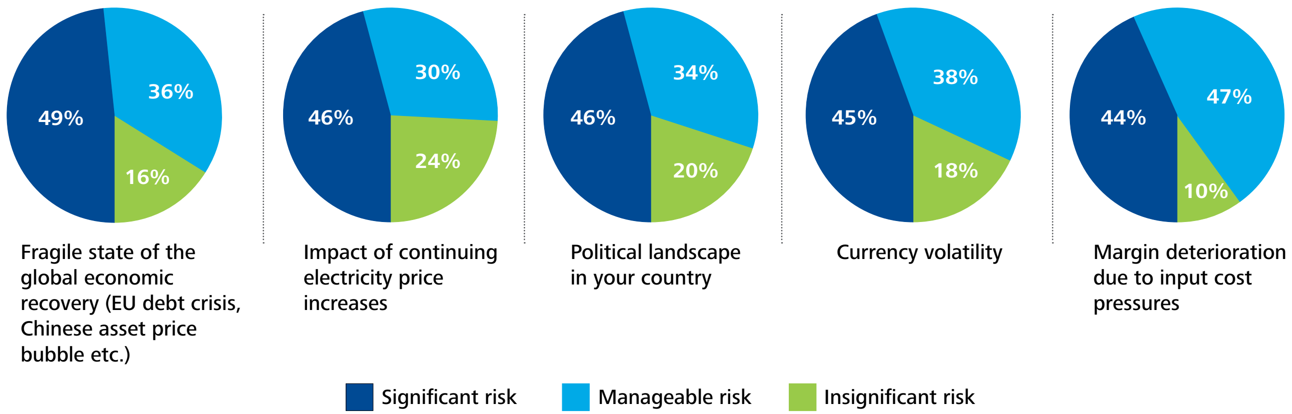


Figure 8: Risk factors – East Africa

Key finding:
East African CFOs regard currency volatility as a top risk factor to their businesses.

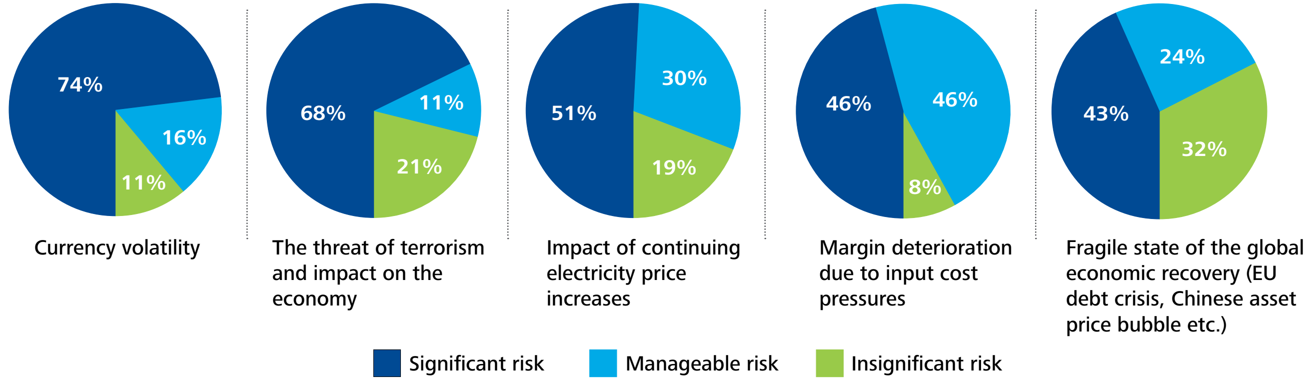
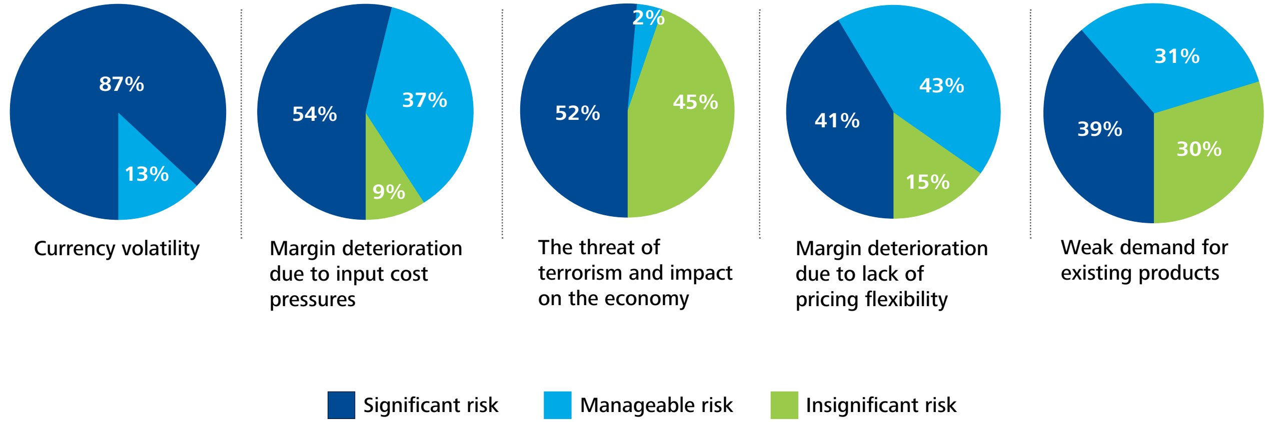


Figure 9: Risk factors – West Africa

Key finding:
West African CFOs regard currency volatility as a top risk factor to their businesses.



Cash to improve current operations

Clearly, it is not business as usual for many corporates. Negotiating the current global and domestic landscape requires agility from CFOs, who need to find ways to maximise opportunities and minimise costs without compromising their businesses.

With the focus on improving operations for many CFOs this year, they continue to be cautious in their outlook, but slightly less so than in 2014 when retaining cash for liquidity was largely the top priority. Higher-risk undertakings such as investing in new businesses, new innovations or new products are lower on their list of priorities.

This year, CFOs in South Africa, Southern Africa and West Africa identified improving current operations as a top priority. Only in East Africa does the result differ slightly with investment in new capacity being a top priority, although improving current operations is a close second. Investing in Africa and other new markets is on the list of top three priorities for South African CFOs, but not for the other economies, perhaps in the knowledge there is money to be made at home.

Figure 10: Cash flow priorities – South Africa

Key finding: Improving current operations has become more important during the past year.

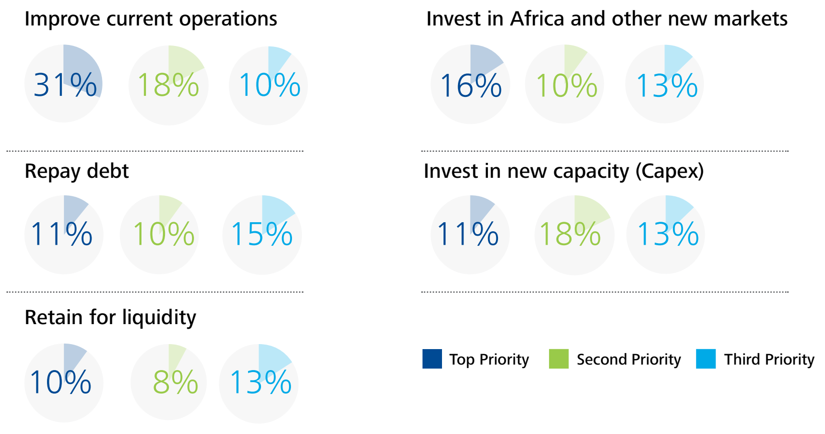


Figure 11: Cash flow priorities – Southern Africa

Key finding: Improving current operations also became more important.

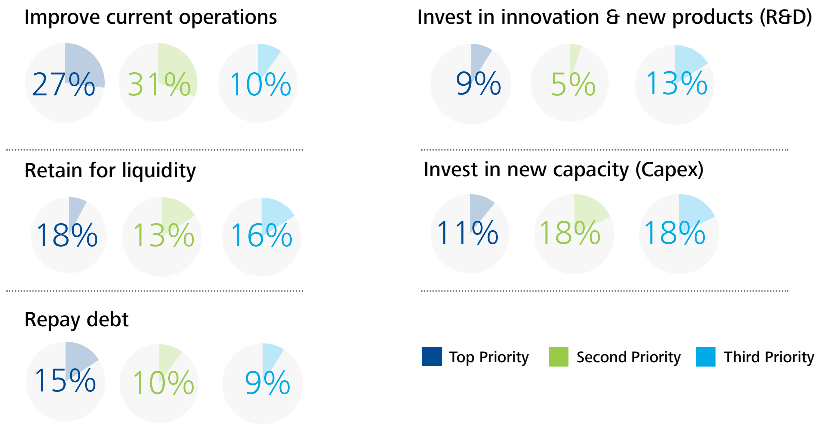


Figure 12: Cash flow priorities – East Africa

Key finding: Investing in new capacity and improving current operations are key priorities

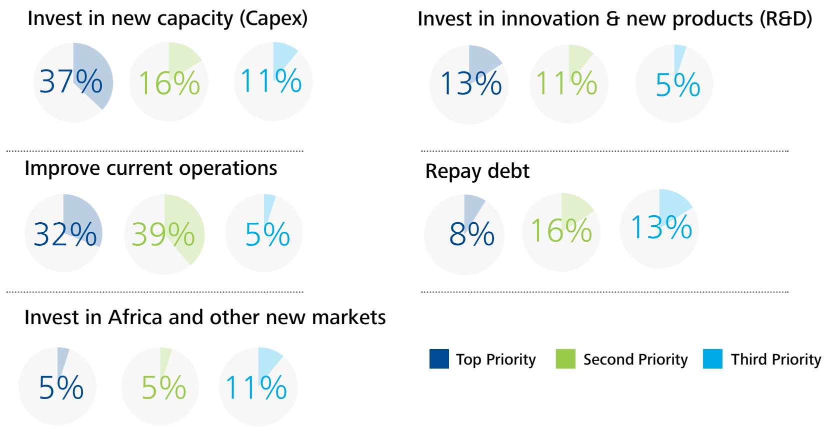
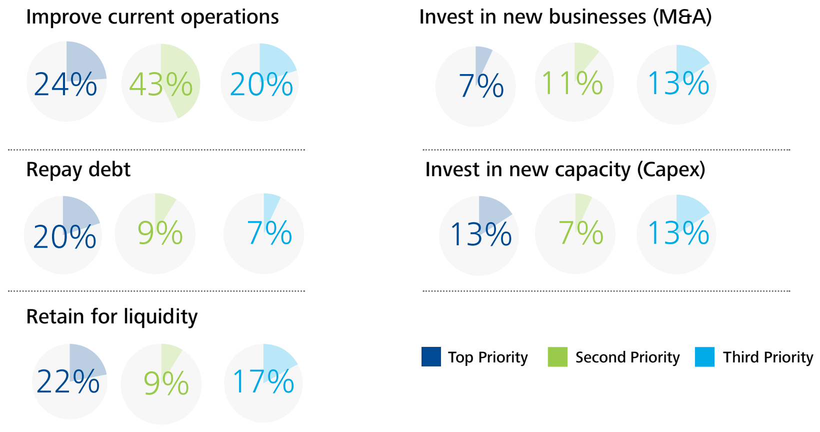


Figure 13: Cash flow priorities – West Africa

Key finding: West African respondents are more divided on what the focus should be.



Negotiating the current global and domestic landscape requires agility from CFOs, who need to find ways to maximise opportunities and minimise costs without compromising their businesses.

Capital is costly

The cost of capital has increased significantly for all regions. It is viewed as expensive by 71% of South African CFOs, up from 43% in 2014. In Southern Africa, 60% of respondents view the cost of funding as expensive, up from 52% in 2014. This is probably as a result of an increase in interest rates, banks being more conservative in their lending criteria and the growth in equity markets.

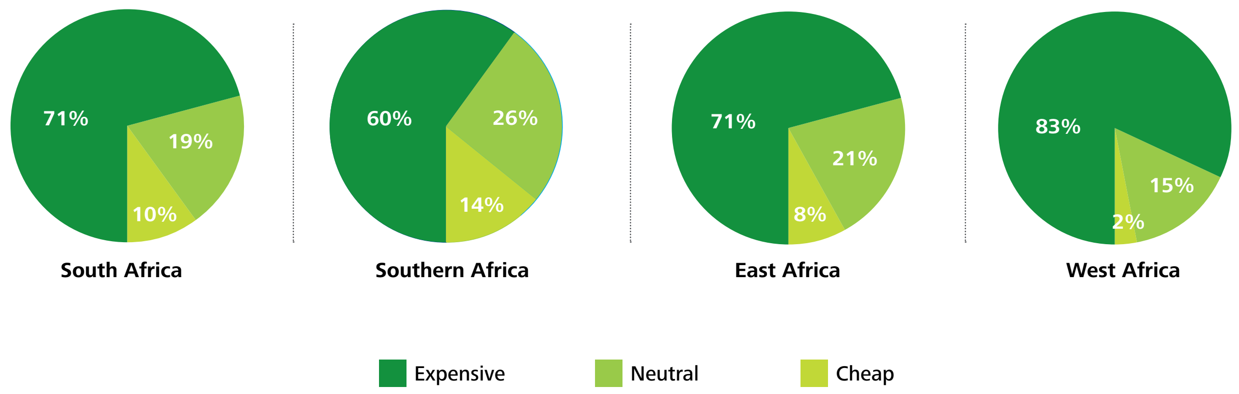
In East Africa, the picture is similar to South Africa, with 71% of CFOs viewing the cost of capital as expensive. West African CFOs concur, with a hefty 83% of respondents regarding capital as expensive.

Even though capital is costly, it is readily available in South Africa, with 74% of CFOs saying it is available compared to 67% in 2014. In Southern Africa, availability has decreased from 66% to 53%.

In East Africa, 64% of CFOs believe funding is readily available, but not so in West Africa where 39% of respondents say it is available, but 44% say it is hard to get. This more challenging scenario, combined with the view that funding is expensive, is probably due to difficult operating and regulatory environments in the countries, particularly Nigeria, which is transitioning from an oil-dependent to more diversified economy.

Figure 14: Cost of new funding / capital

Key finding:
The cost of new funding has become a lot more expensive in South Africa compared to 2014. The cost of new funding is considered more expensive in West Africa compared to East Africa.



CFOs adapt their strategic approach

South African CFOs have shifted their strategic emphasis from an increased focus on revenue growth from developed markets to improving investor confidence and, in line with their cash flow priorities, improving operational efficiency and process optimisation.

The focus on improving investor confidence can probably be attributed to concerns around South Africa's political status quo, which relate largely to corruption and its impact on doing business as well as the effectiveness of government policy. It is clear that in the current scenario there is a strong need for companies to tell good stories with a view to attracting investors, maintaining interest in their shares and accessing capital at attractive rates.

Another significant change from last year for South African CFOs is the greater emphasis on selling non-core assets, with 78% of respondents citing it as a current strategy, compared to 66% last year.

Improving investor confidence has replaced improving operational efficiency as Southern Africa's primary strategic thrust this year, probably swayed by South African respondents. Improving operational efficiency and increased focus on customer experience has moved up the list of strategic priorities for CFOs. Growth is a core theme, with greater focus on growing channels and increasing revenue growth from emerging markets.

In East Africa, the results look a little different, with growing brand equity moving into the top spot, as opposed to last year's focus on improving operational efficiency. This result talks to the region's growth story and positive market outlook. In addition, as South African and other new entrants try to establish themselves in the market, building a brand is probably foremost in their minds as they come to terms with competing with local brands. The same applies to customer experience as they try to build relationships with new customers. Interestingly, research and development is also high on the agenda, perhaps because processes and systems are in the developmental stage for some industries in the region. This would also explain why improving operational efficiency still remains high on the list.

West Africa CFOs hope to increase focus on customer experience, specifically customer acquisition and retention. This is probably similar to East Africa where new entrants into the market are looking to build their customer base. Improving operational efficiency and boosting investor confidence are also key strategic areas.

Improving investor confidence has replaced improving operational efficiency as Southern Africa's primary strategic thrust this year.

Figure 15: Strategic approach – South Africa

Key finding:
Improving investor confidence and operational efficiency have become priorities.

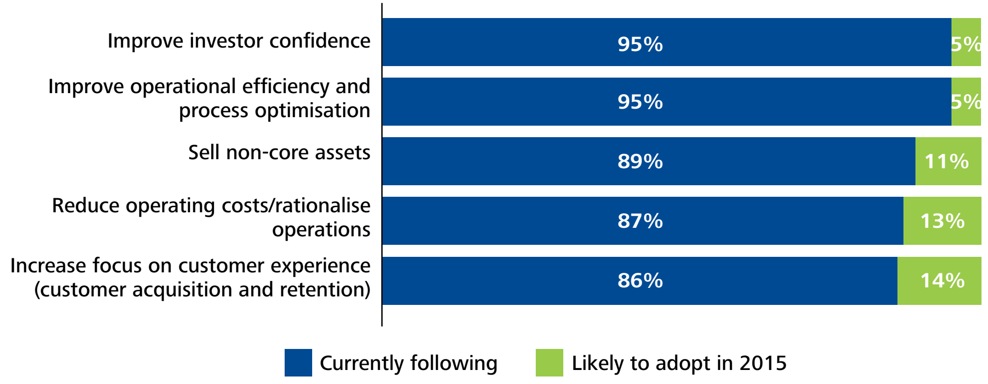


Figure 16: Strategic approach – Southern Africa

Key finding:
While improving investor confidence and enhancing operational efficiency are important for Southern African respondents, growth also has a strong focus.

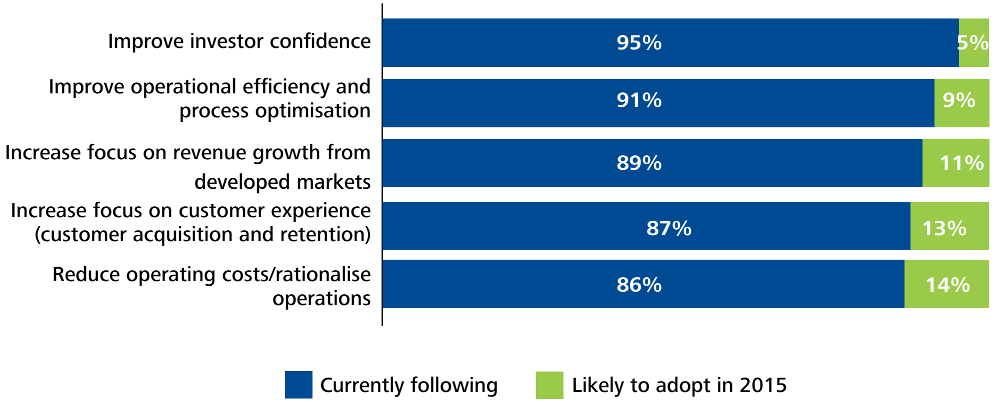


Figure 17: Strategic approach – East Africa

Key finding:
East African CFOs are strongly focused on growing brand equity.

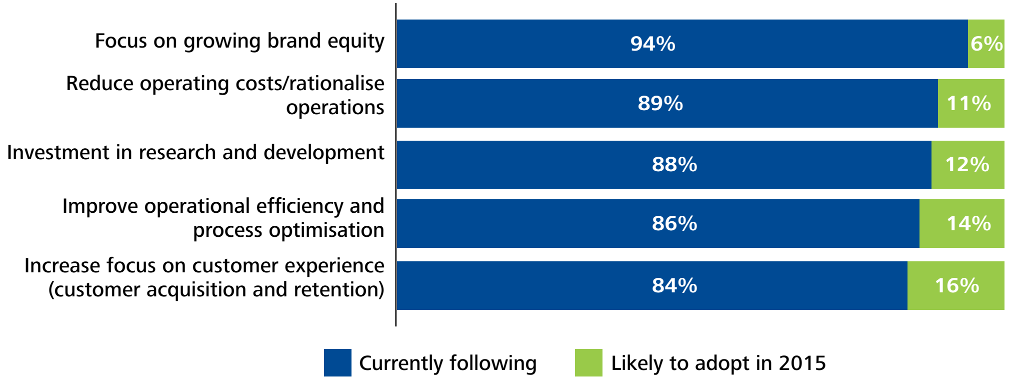
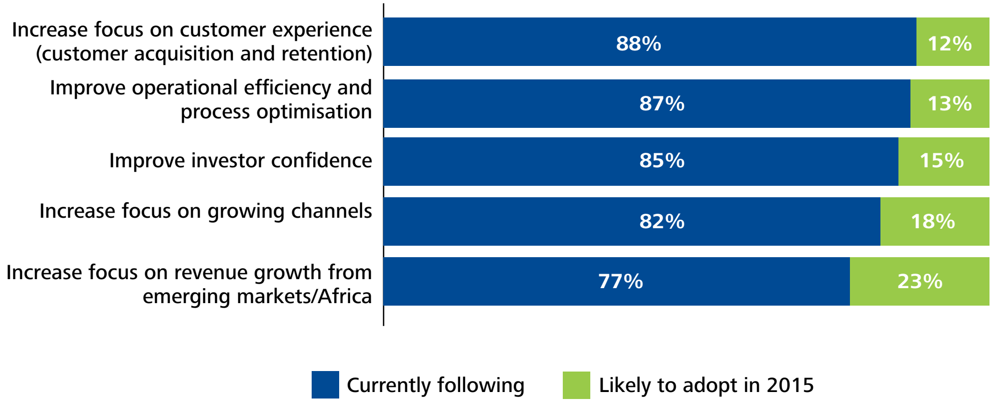


Figure 18: Strategic approach – West Africa

Key finding:
There is an increased focus on customer experience for West African respondents.



THE ALLURE OF HIGHER GROWTH AFRICAN COUNTRIES AS INVESTMENT DESTINATIONS

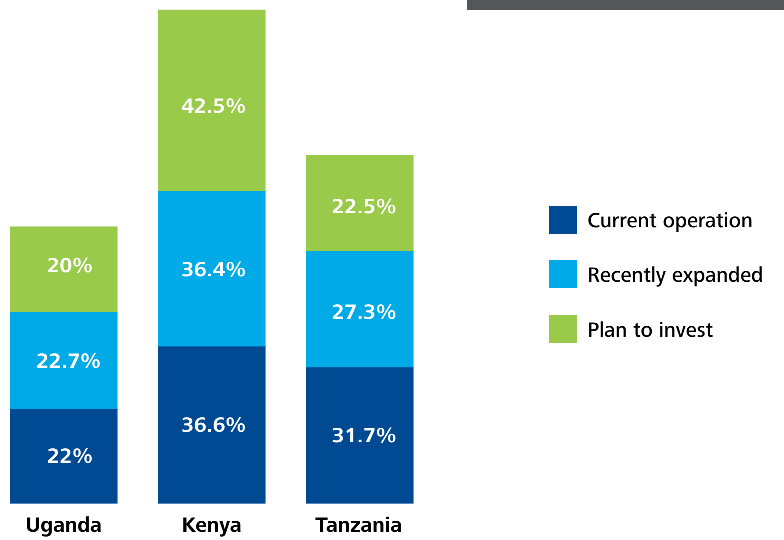
An overwhelming 84% of South African, 84% of Southern African, 71% of East African and 75% of West African CFOs cited growth as their main reason for investing in Sub-Saharan Africa.

South Africa's weak growth economy means several companies continue to look north of the country's borders for growth opportunities. In the Deloitte 2015 CFO Survey, an overwhelming 84% of South African, 84% of Southern African, 71% of East African and 75% of West African CFOs cited growth as their main reason for investing in Sub- Saharan Africa.

South African CFOs most prefer East Africa and Southern Africa as regions for business expansion. In East Africa, the most desirable countries for expansion are Kenya, Tanzania and Uganda, the region's top three performing markets. Their combined population and growth predictions far exceed those of South Africa, and they are seen as a gateway into the eastern part of Africa.

Figure 19: East Africa profile:
South African respondents' view

Key finding:
South African CFOs regard Uganda, Kenya and Tanzania as the most attractive investment destinations in East Africa.



Companies face various operating challenges when deciding to invest in East Africa. For South African CFOs, key challenges include in-country political factors, a shortage of skills, regulation and infrastructure. Southern African CFOs also cited currency volatility and logistics among their top five challenges.

The shortage of skills, which is at the top of East African CFOs' list of challenges, is an interesting view because the education foundations in the region are good and tertiary education output in East African countries is generally of a high standard. This result could relate to specific industries and training may be a good strategy to offset this.

The regulatory environment in East African countries can be frustrating, given the measured pace at which things are done. Notably, CFOs in companies currently operating in East Africa have listed infrastructure as relatively low on their list of operating challenges. This is surprising given that all countries in East Africa have put it high on their government agendas and fiscal budgets. Perhaps CFOs are confident it is being addressed and do not regard it as a major operating challenge.

Figure 20: East Africa operating challenges

Key finding:
South and Southern African respondents consider in-country political factors to be the greatest operating challenges in countries other than their home base.

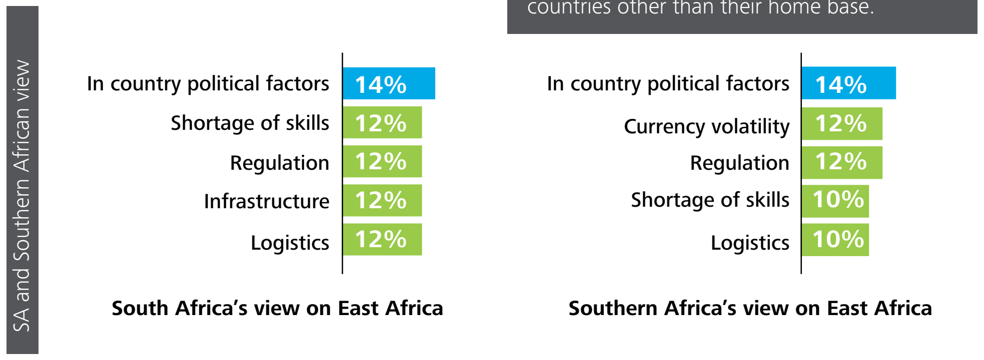
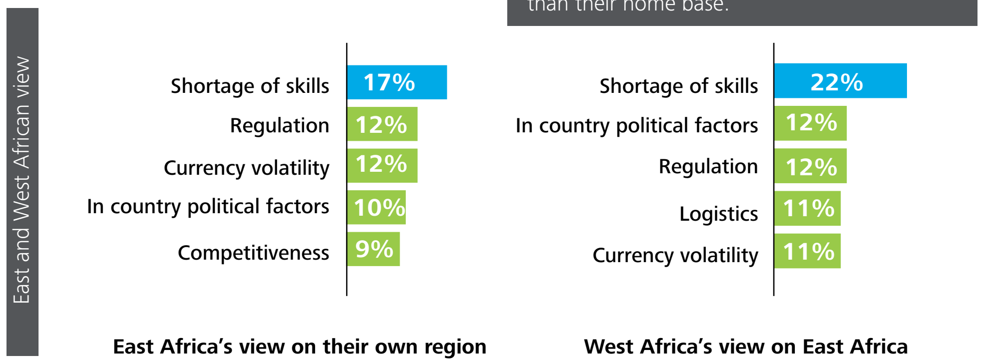


Figure 21: East Africa operating challenges

Key finding:
For East and West African CFOs, a shortage of skills is seen as the greatest operating challenge in countries other than their home base.



In West Africa, the two most popular investment destinations for South African and Southern African companies are Nigeria and Ghana with some interest in Côte d'Ivoire. Nigeria and Ghana both encourage investment. Nigeria's 170-million population means penetration into its market can result in strong growth, especially for telecoms and retail.

CFOs identified logistics, regulation, economic stability, in-country political factors and infrastructure as their most pressing challenges when operating in West Africa. For East and West African CFOs, currency volatility, limited access to capital and a shortage of skills are among the top challenges when investing in countries other than their home base.

This is not surprising given the Nigerian Naira declined by 17.2% at the interbank market in 2014 and another 7.5% between January and August 2015. In addition, oil prices continue to fluctuate and the country's import bill remains relatively high. The Ghanaian Cedi has also experienced turbulence over the past few years, with a 48% depreciation in 2014 and another 23% depreciation in the year to August 2015.

Infrastructure, particularly as it relates to power and transportation, remains a challenge in Nigeria, with issues around the supply of gas and over-reliance on road transportation. In addition, the build-up to the 2015 presidential and gubernatorial elections added yet another layer of uncertainty to the operating environment in Nigeria.

For South African CFOs, challenges of operating in Southern Africa include recurrent themes of infrastructure, in-country political factors, skills shortages, currency volatility and regulation.

Perhaps these challenges can account for the sub-par performance of operations in the various regions. While 35% of South African CFOs believe their operations in East African countries are operating as expected, 53% said they are operating somewhat or significantly below expectations. In West Africa, it is a similar story, with 43% operating as expected and 51% operating below expectations.

CFOs within each region have a generally more positive view of their performance in countries outside of their home country. This might be a reflection of being realistic about what to expect in their home regions as they have a better understanding of the market and may not have set their expectations too high.

CFOs identified logistics, regulation, economic stability, in-country political factors and infrastructure as their most pressing challenges when operating in West Africa.

CFO AGENDA

Pressures as a a result of poor company performance and strategic ambiguity keep CFOs up at night.

In pursuit of a more strategic role

CFOs in all regions are feeling stretched when it comes to their workloads and the meeting of CEO and board demands. Pressures as a result of poor company performance and strategic ambiguity also keep them up at night, as do insufficiently skilled support staff, changing regulatory requirements and excessive administrative work.

This has been a recurring theme in the Deloitte survey since it was first conducted eight years ago. There seems to be scant relief for the CFOs, 'who have multiple roles to play, from leading their finance teams and providing quality metrics to the board, to providing strategic direction'.

Increasingly, CEOs expect their CFOs to partner with them in shaping the company's strategy while boards have various regulatory, risk management and compliance expectations of them. Unfortunately, the 2015 survey continues to show that CFOs in Southern, West and East Africa spend more time in operator and steward roles than acting as catalysts or strategists.

Figure 22: Time allocation – Southern Africa

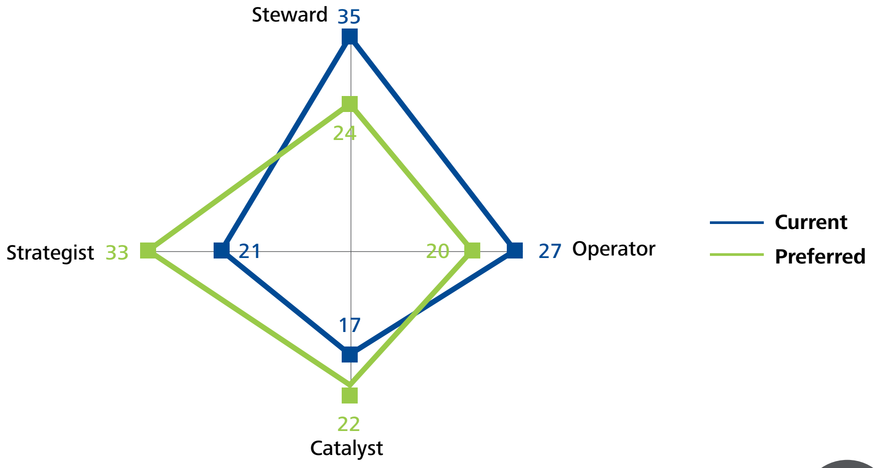
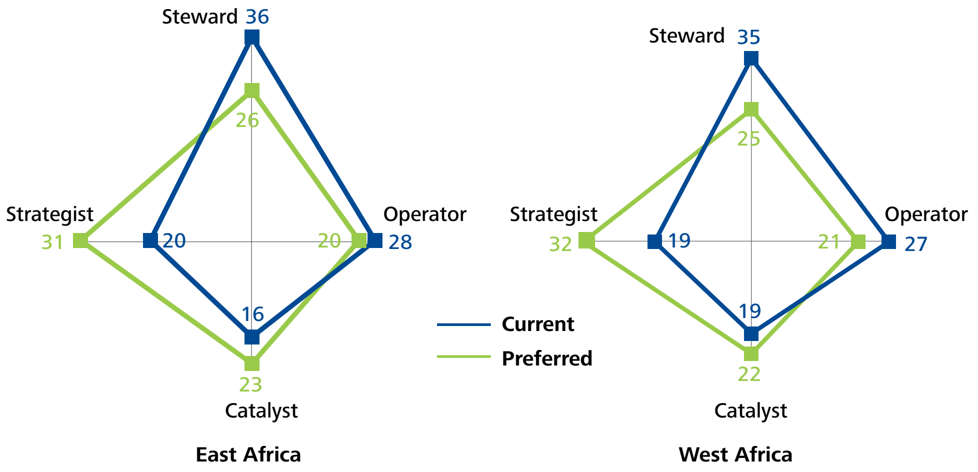


Figure 23: Time allocation – East and West Africa

Key finding:
CFOs throughout all the regions are spending more time in steward and operator roles than as catalysts and strategists.



CFOs in South Africa and Southern Africa expect to spend much of their time on performance optimisation, something that did not feature heavily on their agendas for 2014.

One of the primary reasons for this could be their lack of success in recruiting and retaining talented support staff. Insights gained from discussions with numerous CFOs and over 500 Deloitte CFO Transition Lab sessions also suggest CFOs need to earn their seat at the strategy table by knowing the business, generating valuable strategic ideas and delivering excellent finance and accounting processes.

In addition, they need to have an effective finance team in place and must choose a strategy orientation that is most suitable to the company and the level of permission granted by the CEO.

Over the next 12 months, CFOs in South Africa and Southern Africa expect to spend much of their time on performance optimisation, something that did not feature heavily on their agendas for 2014. Not surprisingly, in East Africa the most pressing issue on the radar is growth. West African CFOs will have to focus on the optimisation of their capital and funding structures.

With 2015 being touted as the year of the currency, CFOs are unlikely to take risks. Their time will be tied up in keeping processes tight, optimising costs and making their organisations more efficient. In difficult times, a focused strategy and tight cost controls are key to assisting the organisation survive and even prosper where others might fail.

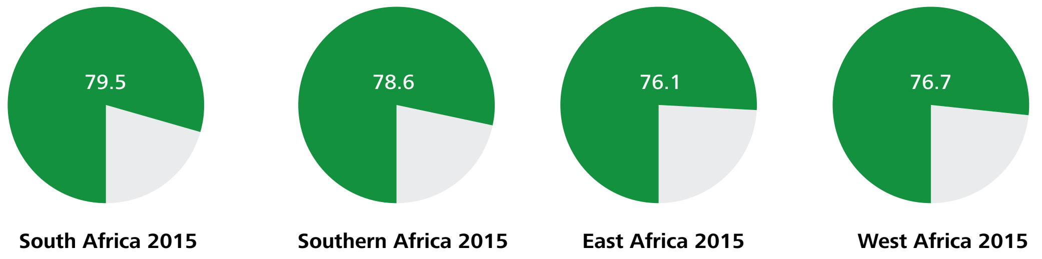
Harnessing big data

In this year's survey, CFOs were asked to rate big data and analytics as an enabler. CFOs in all regions rated it in the upper 70 percentiles with 76.1% for East Africa, 76.7% for West Africa, 78.6% for Southern Africa and 79.5% for South Africa. When rating their current analytics capability within the finance function, their scores were lower, with South Africa the lowest at 59.8% and East Africa the highest at 67.6%.

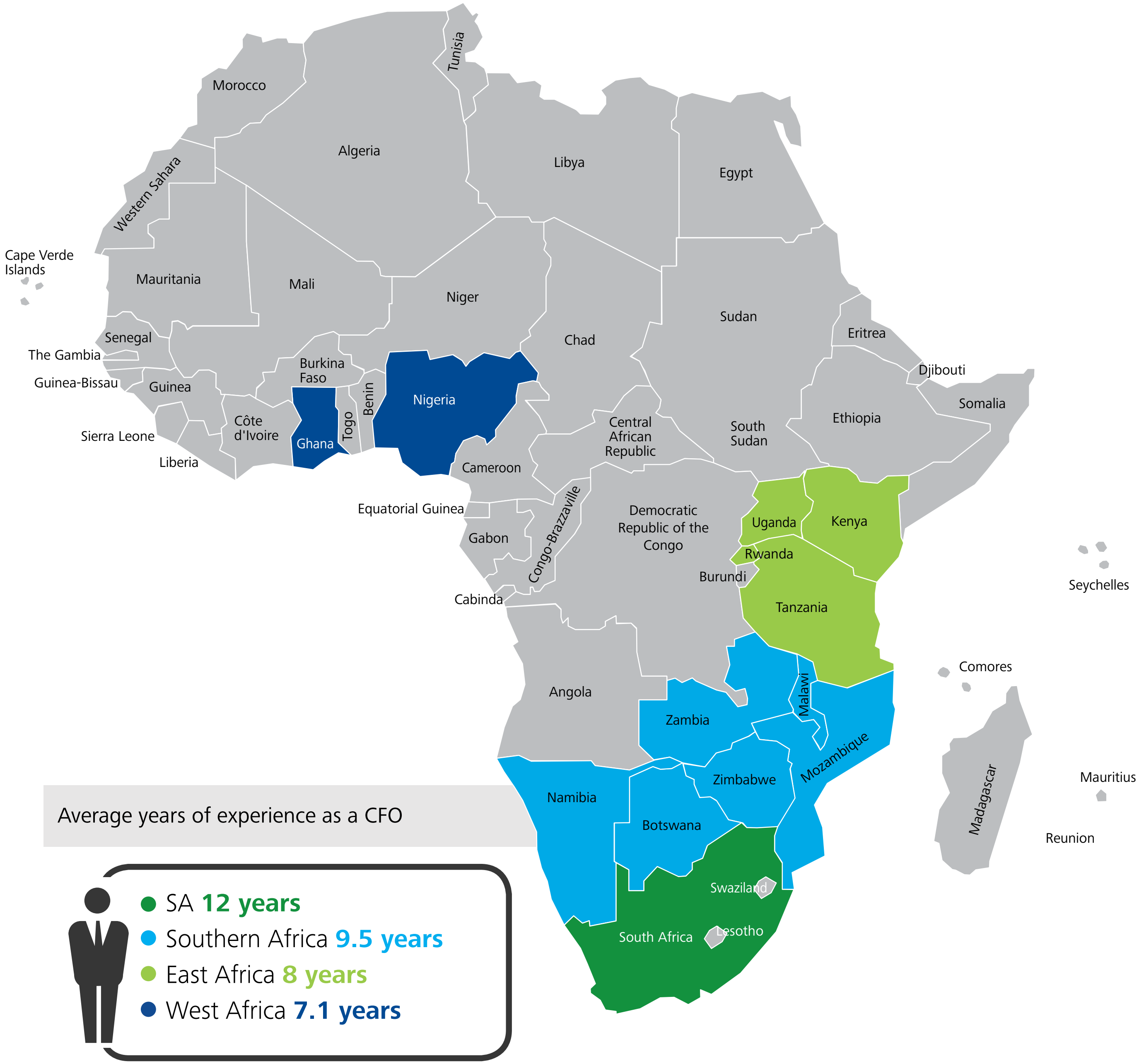
The lower scores probably signify that work needs to be done to ensure that management teams have the right information at their fingertips to enable them to fully apply their minds to the issues at hand and take the correct decisions. Despite significant progress over the past few years, getting this process perfected is a challenge.

Figure 21: Big data and analytics –
To what degree do CFOs see it as an enabler?

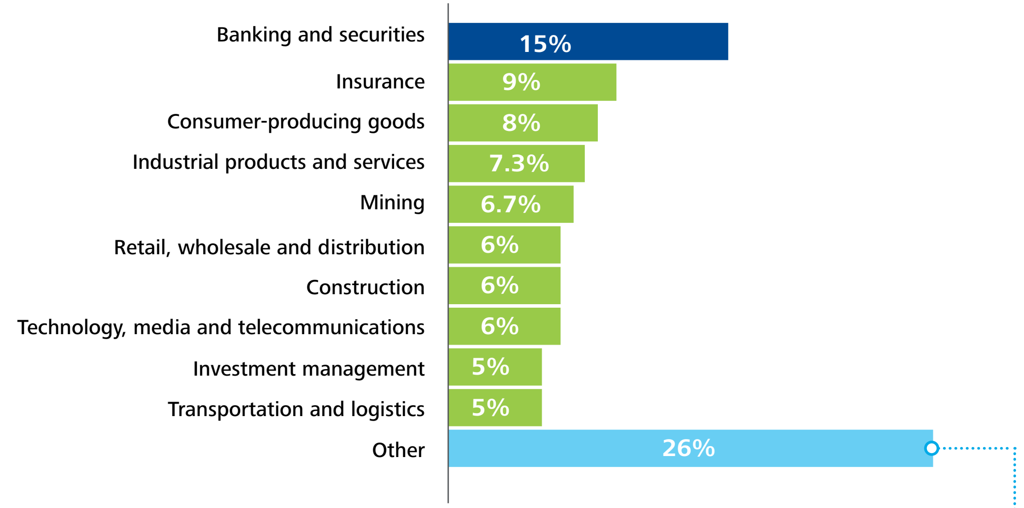
Key finding:
All regions have similar views on the importance of big data analytics.



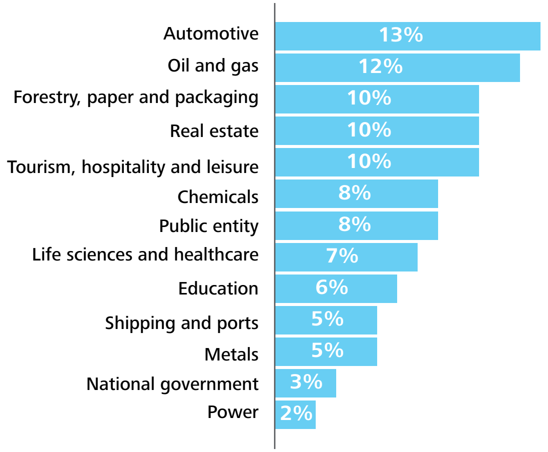
RESPONDENT PROFILE


Morocco
Tunisia
Algeria
Libya
Egypt
Western Sahara
Cape Verde
Islands
Mauritania
Mali
Niger
Chad
Sudan
Eritrea
Djibouti
Somalia
Senegal
The Gambia
Guinea-Bissau
Guinea
Sierra Leone
Liberia
Burkina
Faso
Côte
d'Ivoire
Ghana
Togo
Benin
Nigeria
Cameroon
Central
African
Republic
South
Sudan
Ethiopia
Equatorial Guinea
Gabon
Congo-Brazzaville
Cabinda
Democratic
Republic of the
Congo
Uganda
Kenya
Rwanda
Burundi
Tanzania
Seychelles
Comores
Angola
Zambia
Malawi
Mozambique
Madagascar
Mauritius
Reunion
Namibia
Zimbabwe
Botswana
Swaziland
Lesotho
South Africa
Average years of experience as a CFO
SA 12 years
Southern Africa 9.5 years
East Africa 8 years
West Africa 7.1 years

Industries

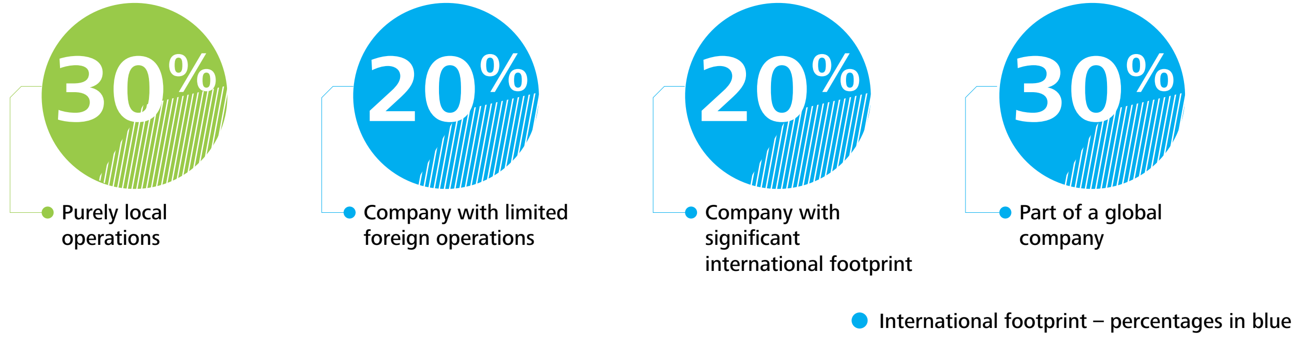


Remaining industries under "Other" comprise:

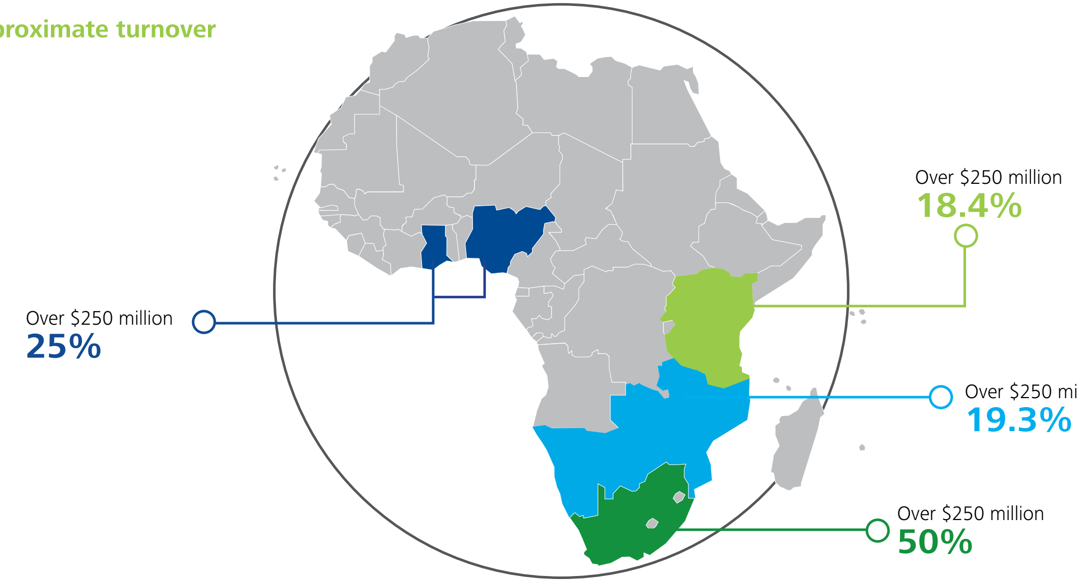


Business category

Nature of respondents' operations



Approximate turnover



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