Deloitte CFO Survey

Spring 2021 I Denmark

Contents

Editorial

Even if you have plenty of experience in your field, you can still be impressed.

I, for one, am impressed when Heine Dalsgaard explains how in 2020, Carlsberg completed three remarkable transactions in an otherwise significantly challenged market.

I am impressed when Barbara Plucnar Jensen from Tryg talks about her company's acquisition of RSA Insurance Group and the related approach and process, which can only be characterised as persistent and solution-oriented.

And I am impressed when CFOs across Denmark have found their way through the crisis, adjusted their business models and managed capital resources during an extremely difficult time. The COVID-19 crisis has challenged all of us but fortunately, we are beginning to see the light at the end of the tunnel. In this edition of CFO Survey, 32 percent of the 140 CFO respondents rate the financial uncertainty as high. In last year's fall edition, that figure was 42 percent. Thus, we see a budding optimism, although the uncertainty is still relatively high compared to pre-crisis levels. At the same time, it is gratifying to note that COVID-19 has not put a damper on companies' appetite for mergers and acquisitions (M&A) – on the contrary! In fact, right now we are seeing the highest ever number of transactions in Denmark, which is testimony to companies preparing for the growth and business transformation that the crisis has proven necessary in many places.

M&A is the main theme for this edition of CFO Survey, and it turns out that especially large companies target M&A. At the same time, according to the survey, almost 40 percent of CFOs consider M&A to be of great value to their business. Only 32 percent of CFOs, however, believe that the CFO plays and important role in the integration/separation phase even though this particular phase is where companies must ensure value creation. In conclusion, there is still room for improvement in this important area, which to many companies will prove crucial for their future development.

All this and more are part of this edition of CFO Survey, which also offers other exciting perspectives on, for example, digitalisation, sustainability and – as always – the general expectations for economic development. Thanks to everyone who participated in the survey and to all our readers. We are happy to see a growing number of readers each year. Please keep in mind that Deloitte's ambitious CFO Programme is still going strong, including CFO Transition Labs, Next Generation CFO Programmes and CFO Dinners and Networks. Do not hesitate to reach out to us if you would like to know more.

Happy reading!

Kim Hendil Tegner
Head of Deloitte's
CFO Programme

Methodology

The spring 2021 edition of our CFO Survey is comprised of data from 140 CFOs from Danish companies. More companies from the top segment (>10 billion DKK) participated in this year's survey than in any previous editions.

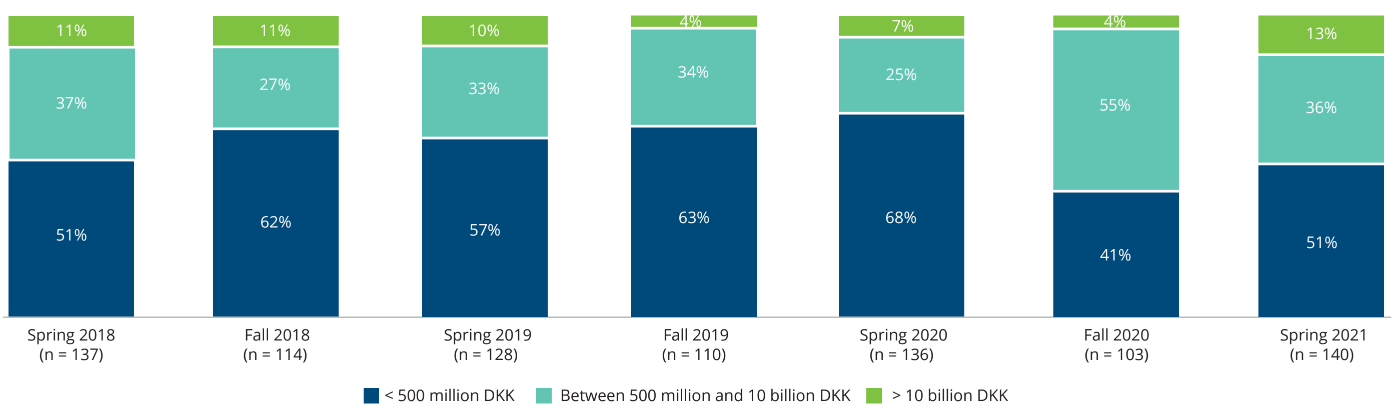
The purpose of this year's CFO Survey is to provide insights into four areas: 1) economic and financial prospects and challenges, 2) the finance function's role in adopting the SDGs into the company, 3) digitalisation of the finance function, and 4) M&A and the CFO's role in these processes (as this year's special theme).

The survey is conducted by Epinion on behalf of Deloitte and has been conducted since 2017. This gives us the opportunity to compare data and provide an overview of the CFOs' main concerns over time. The report is published in the spring, but data is collected in both spring and fall.

Data for this edition was collected in March 2021. 140 CFOs participated in the survey. Please note that, when interpreting the results, a high proportion of the CFOs in this edition of the survey represent companies from the top segment. 13 percent of the CFOs in this year's survey represent companies with a revenue of more than 10 billion DKK. 36 percent represent companies with a revenue between 500 million and 10 billion DKK, and 51 percent represent companies with a revenue of less than 500 million DKK.

Deloitte Denmark carries out the CFO Survey as part of a European CFO Survey.

Figure 1. CFO Survey respondents



CFOs are learning to navigate uncertainty

Last year, the CFOs rated the financial and economic uncertainty higher than in any previous editions of our survey and indicated that they felt less optimistic about the financial prospects for their company. This year, the uncertainty level remains high, but now, the CFOs express a higher degree of optimism about the future.

Data for the 2020 spring edition of the survey was collected in March 2020, just around the time COVID-19 took the world by surprise and Denmark was locked down for the first time. This was clearly visible in the data. The external financial and economic uncertainty, as perceived by the CFOs, increased significantly and the CFOs indicated that they felt less optimistic about the financial prospects for their companies.

The CFOs still perceive the uncertainty as high. The perceived uncertainty increased in spring 2020 (from 19 percent characterising it as high in fall 2019 to 34 percent in spring 2020), increased even more in fall 2020 (42 percent), and is now back on the same level as in spring 2020. Part of the explanation for the decrease in perceived uncertainty from fall 2020 to spring 2021 could be the rollout of the vaccines.

The CFOs were asked to compare their level of optimism to their optimism three months ago. Most of the CFOs indicate that their level of optimism remains the same in March 2021 as in December 2020. 30 percent indicate that they feel more optimistic, which, again, might be explained by the rollout of the vaccines as well as a greater confidence among the businesses in being able to operate in a time of crisis. In the fall 2020 edition of the survey, 48 percent of the CFOs indicated that they felt more optimistic in September 2020 than three months earlier. This might be explained by the relaxation of government COVID-19 restrictions in spring and summer 2020.

Figure 2. External financial and economic uncertainty

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

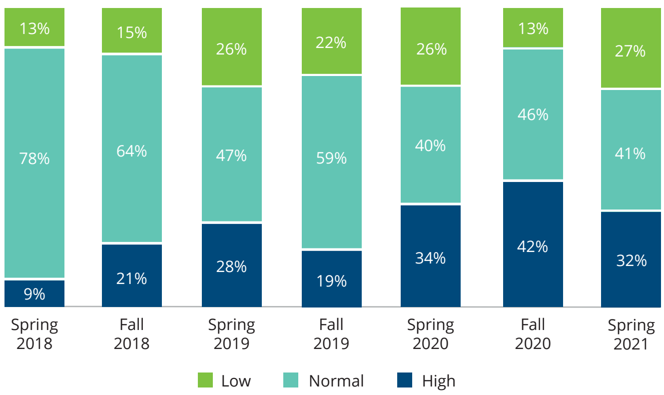
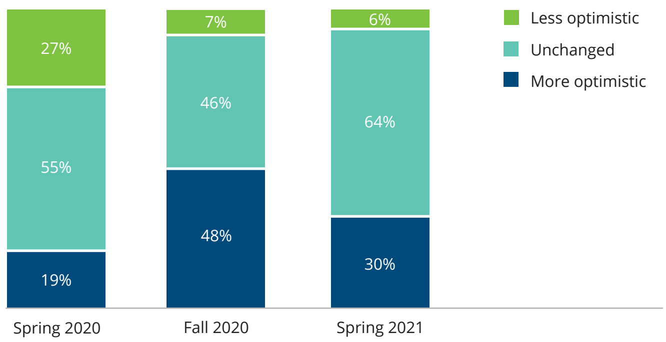


Figure 3. Financial prospects

Compared to three months ago, how do you feel about the financial prospects for your company?



CFOs expect growth in key metrics

The expectations of key metrics are also beginning to look the same as before COVID-19. Looking back at 2020 – with government COVID-19 restrictions and decreases in demand - most CFOs expect the next year to turn out better. More than half of the CFOs expect increases in revenue (59 percent) and in operating margins (57 percent). More than a third expect increases in the number of employees (40 percent) and in CAPEX (36 percent).

Our survey also reveals that many companies (65 percent) have already returned to their pre-COVID-19 level of revenue – a very positive indication that things are moving in the right direction.

81 percent of the CFOs indicate they will prioritise digitalisation when strategising for the next year. The crisis has exposed the companies' lack of digital maturity – those that did not have online distribution and/or digital processes. These companies will focus much more on this in the future, and the companies who were already in the forefront of digitalisation will continue to invest to stay ahead.

Figure 4. Expectations to key metrics

In your view, how are the following key metrics likely to change for your company over the next 12 months?

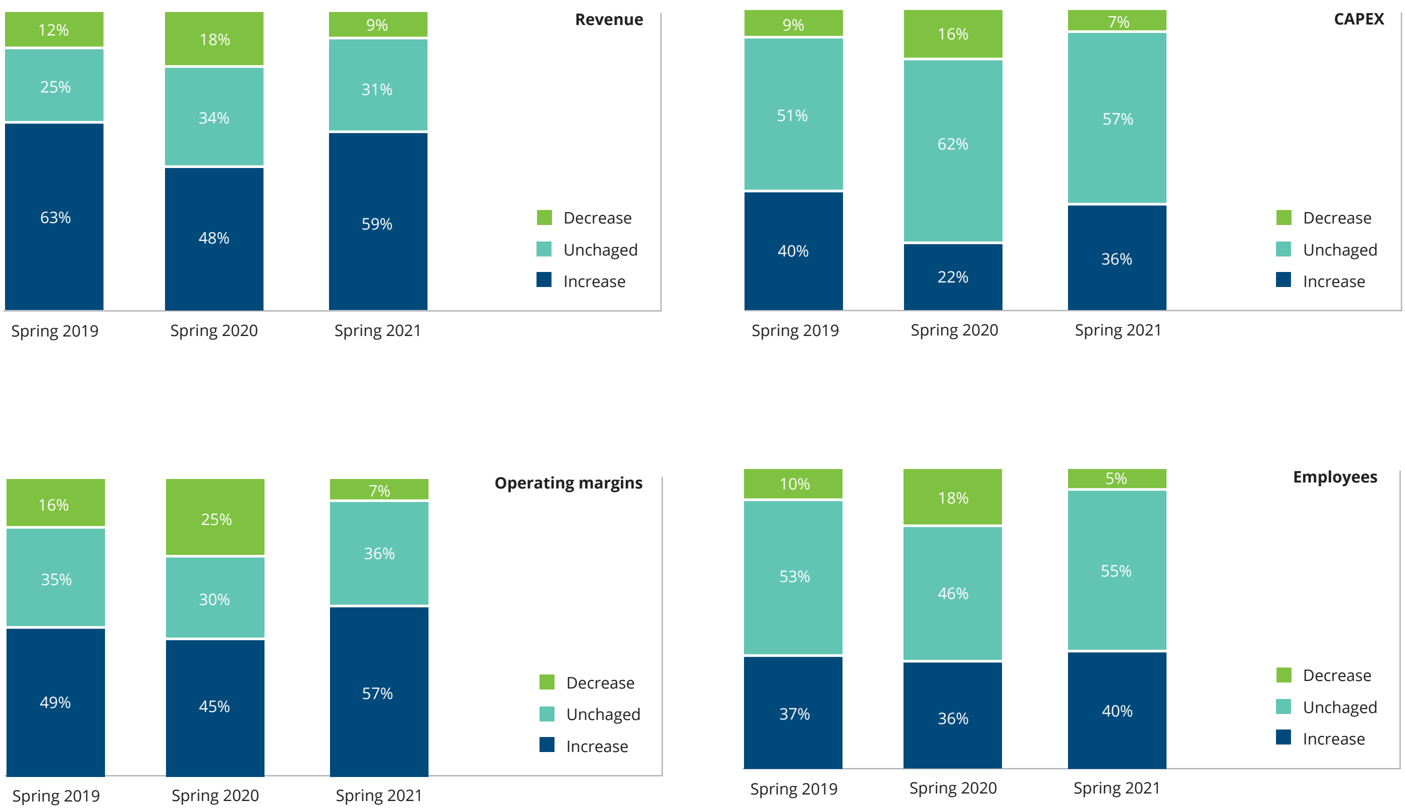


Figure 5. Return to pre-COVID-19 crisis level of revenue

Based on the information you have so far, when do you expect your company to return to a pre-COVID-19 crisis level of revenue?

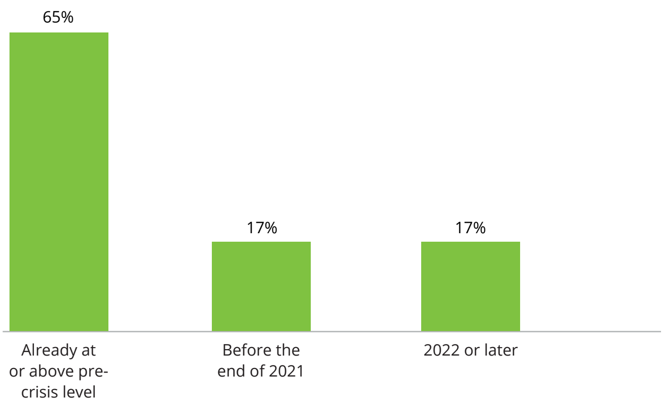
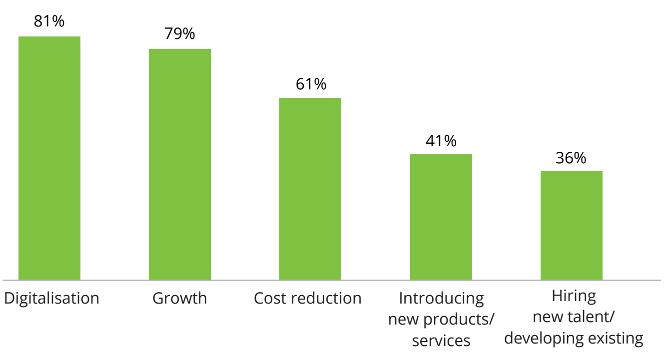


Figure 6. Strategies in the year to come

To which degree are the following strategies likely to be a priority for your business over the next 12 months?*



*CFOs that have answered to a 'very high degree' or 'high degree'.

The economic outlook still poses the biggest risk
The CFOs are still seeing the economic outlook as posing the biggest risk to their company. In fact, the CFOs have pointed to this, and a reduction in demand, as posing the biggest risks in almost all editions of our survey. The COVID-19 category is new in the 2021 edition; this, according to the CFOs, poses the second biggest risk.

41 percent of the CFOs indicate that now is a good time to take greater risk onto the balance sheet of their company. The is a record-high percentage, and a significant increase from spring 2020 (24 percent) and fall 2020 (20 percent). The higher proportion of large companies in this edition of the survey is probably part of the explanation to this, as a higher proportion of these indicate that now is a good time to take greater risk. However, the development is still remarkable, and a complementary explanation could be that the CFOs know that this is the time to invest – and take risks – if they are to take advantage of the (expected) economic upturn after COVID-19.

Figure 7. Risks in the year to come

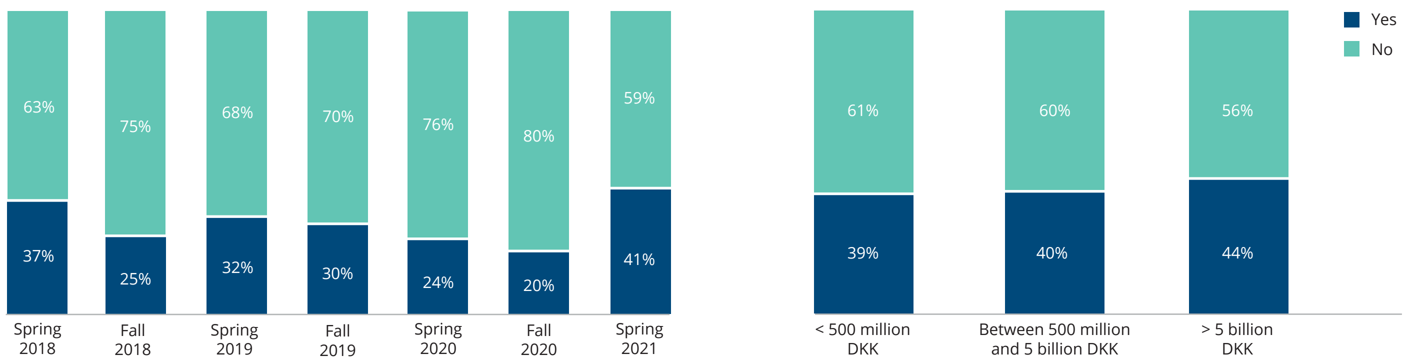
Which of the following factors are likely to pose a significant risk to your business over the next 12 months?

Rank

	1	2	3
Spring 2021	Economic outlook/growth	COVID-19	Reduction in demand (foreign/domestic)
Fall 2020	Economic outlook/growth	Reduction in demand (foreign/domestic)	Increasing regulations
Spring 2020	Economic outlook/growth	Reduction in demand (foreign/domestic)	Lack of new candidates with the right competencies
Fall 2019	Reduction in demand (foreign/domestic)	Economic outlook/growth	Lack of new candidates with the right competencies + Increasing regulations

Figure 8. Taking risk onto the balance sheet

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



When it comes to M&A, commitment and creativity go hand in hand

To Heine Dalsgaard, Group CFO of Carlsberg, M&A is a discipline that you practise and slowly get better at. Today, Carlsberg has a structured process for acquisitions and a strong governance in place while still allowing people to bring new ideas to the table.

Carlsberg has not completed any transformational acquisitions for a long time. However, in recent years, the Danish brewing giant has completed many bolt-on transactions. The last three were conducted in largely shut down markets as a result of the global COVID-19 pandemic. The fact that the transactions were successful, despite the odds, makes Heine Dalsgaard proud on behalf of Carlsberg:

" It certainly is an achievement that we were able to complete three major transactions in 2020 in markets that everyone else turned their backs on due to the enormous uncertainty. This could only be done because we in recent years have worked specifically to improve our financial flexibility to act. For example, we acquired Marston's in England at the peak of the COVID-19 crisis. The entire due diligence process took place in a virtual data room. Only at the final stage did we meet in person before everybody was ready to sign."

Today, Carlsberg has a rigorous governance and process for acquisitions in place, but the journey getting there has been long for the old brewery. After the acquisition of Scottish & Newcastle in 2008, Carlsberg's debt was higher than anticipated. When the new executive management took over in 2016, it therefore focused on reducing debt and restoring the company's financial strength.

" It is no secret that during the Scottish & Newcastle transaction and the financial crisis, it was a turbulent time at Carlsberg. Therefore, it was natural for us to look to a more organic strategy which we named SAIL'22. Based on our assessments, we concluded that we would get the best return on our investments by primarily investing in our own brands, products and markets. As part of our strategic work with SAIL'22, we established some very clear priorities for capital allocation: 1) We will invest in organic growth, in our own brands, products, markets, competencies, etc. 2) We will reduce external debt and restore financial flexibility. 3) We will increase the dividends to shareholders to a level that compares to other global companies within FMCG. 4) We will distribute excess capital to shareholders via additional dividends or buy-back of own shares. 5) We will target acquisitions, but only when they create a clear strategic and financial value," says Heine Dalsgaard.

Anchored in the strategy

According to Heine Dalsgaard, it has been crucial for Carlsberg's success to deliver on the SAIL'22 strategy, restoring the capital market's trust and the company's financial flexibility. Heine Dalsgaard has a clear position on both current and future acquisitions: They must either solve a specific strategic problem or give Carlsberg a clear strategic comparative advantage, and they must live up to the company's requirements in terms of financial return:

"When it comes to M&A, the most important thing for us is that it is clearly anchored within our strategy. One of our challenges in England was that on the one hand, we did not have a sufficient distribution network via on-trade pubs, restaurants, etc., while on the other hand, we did not want to run our own pubs, as it is not our core competence. Our joint venture with Marston's PLC addresses this challenge. Today, we control 60 percent of the company that brews beer and sells the various beer brands from both Marston's and Carlsberg, while Marston's PLC operates more than 1,400 pubs. It is a different set-up to reach consumers, but it addresses a key part of our strategic challenge."

Completing successful M&A transactions requires a special combination of firm business understanding and specialist knowhow within the M&A discipline, and Heine Dalsgaard recognises the efforts of Carlsberg's in-house M&A team:

"While we may have ensured financial flexibility to act and preach commitment, we need to bear in mind that it takes a good deal of creativity and hard work to find the right solution. Many companies are used to controlling 100 percent. In the future, I think companies will need to find more creative solutions in order to recognise each other. We can only do this because we have some dedicated M&A specialists here in Valby who both are technically skilled and know the business very well. They are among the absolute best in Denmark."

Avoid deal fever

When asked about his role as CFO, Heine Dalsgaard says that he sees himself as part of the overall executive management as well as responsible for the financial engine of which M&A is a natural part. The fact that one plays both roles emphasises the importance of the commitment as a CFO to be involved in the entire M&A process, he says:

>>

A clear governance for M&A

At Carlsberg, the M&A process is anchored in a clear governance structure:

1. Once a year, **the Board of Directors and the Executive Committee** discuss the strategic priorities, the general acquisition landscape and potential acquisition candidates relative to the company's financial strength and scope for action.
2. **Strategic considerations and potential acquisition candidates** are analysed on an ongoing basis, and the overall responsibility is anchored and discussed in the Executive Committee.
3. The company's **M&A committee** meets once a month – and when needed – to prioritise efforts and follow up on possible projects.
4. Once an acquisition candidate has been identified and the project has been specified, a **project group** is set up, including the M&A team, the business management and the CFO.

I believe that the CFO should participate in the overall acquisition process to help ensure that only transactions that create value for the company's shareholders are completed. It is clear that we always need a professional due diligence to cover all risks; however, I am also very aware that M&A is an integral part of the strategic toolbox, while, on the other hand, it may be important not to complete certain transactions. In the final M&A phase, there may be a sense of deal fever, because we have already fallen in love with each other, and in that case, it is the executive management's responsibility to ensure that we remain disciplined and do not let ourselves be carried away. Of course, it is OK to dream big, but most importantly, we must follow our strategy and ensure that we create value."

Heine Dalsgaard plays an active role throughout the M&A process, and he believes that the rest of the business management should too from an early stage:

When we make acquisitions, we always make sure that both the business owner and I are part of the steering group. In my opinion, the business management is always ultimately responsible for an integration. This is best done when you have been involved in the process right from the start."

The future

Looking to the future, Heine Dalsgaard predicts more acquisitions for Carlsberg:

There is no doubt that we will continue to complete bolt-on transactions, not least because these transactions can support value creation, and today we have the financial flexibility to act. Over the past five years, we have reduced our debt from approximately DKK 35 billion to approximately DKK 20 billion, and today, we have the type of conservative balance sheet that almost seems to have become a trend. When we launched the strategy, our shareholders' message was that we must return all profits to them. Today, they have given us the green light to invest in M&A where it makes strategic sense and creates value. However, this is a privilege we have earnt over the years, and we do not want to misuse their trust."

And will we complete more transactions via Zoom or Teams? Certainly, says Heine Dalsgaard, because the COVID-19 crisis has taught us that we do not necessarily have to travel the world:

However, I still think that most transactions should be concluded at a physical meeting, where we look each other in the eyes and ensure mutual trust. I would not even buy a used car without having met the seller first, let alone a company worth several billions."

Four tips from Heine Dalsgaard

1. **Establish clear rules for capital allocation,** including debt level criteria, financial gearing and shareholder return, and ensure that these are clearly communicated to the company's stakeholders.

2. **Join from A to Z:** A CFO should not just be pulled in to assess risks or ensure correct accounting. Play an active role throughout the process, from identification to valuation, due diligence, closing and integration. It is important that there is a very clear governance and process for M&A in order to ensure a clear division of responsibilities.

3. **Make sure that you have the right M&A competencies in-house:** The CFO is responsible for ensuring a strong team of dedicated M&A specialists who have both the technical expertise and general business knowledge.

4. **Be creative and see opportunities:** The old idea that you either buy all or nothing is no longer valid. Many strategic challenges can be addressed in joint ventures or other creative set-ups; all it takes is the creativity, hard work and the technical skills to create the right set-up.

The use of M&A is limited despite great value potential

Right now, we see the highest number of transactions in Denmark ever, but for many companies there is still a large untapped potential in M&A.

In this year's CFO Survey, we focus on Mergers & Acquisitions (M&A). We asked the 140 CFOs about their use of M&A, and the results of this you can read below. In addition, we interviewed the CFOs of two companies that are really at the forefront when it comes to M&A, namely Carlsberg and Tryg.

Just under half of the companies in the survey engage in M&A. The survey also shows that it is primarily the larger companies that have M&A on the radar. 37 percent of the companies with a turnover of less than DKK 500 million engage in M&A, while the figure is 38 percent for companies with a turnover between DKK 500 million and DKK 5 billion. For companies with a turnover of more than DKK 5 billion, the figure is 85 percent.

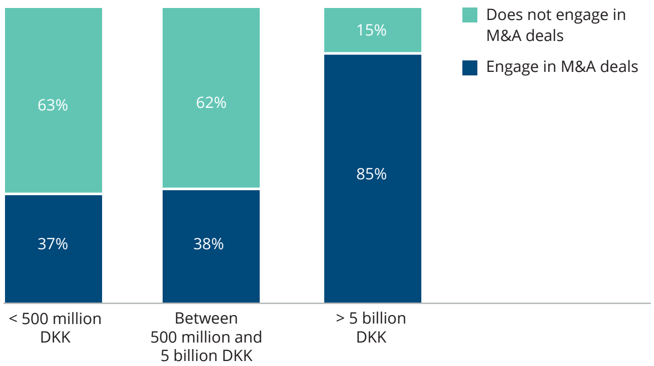
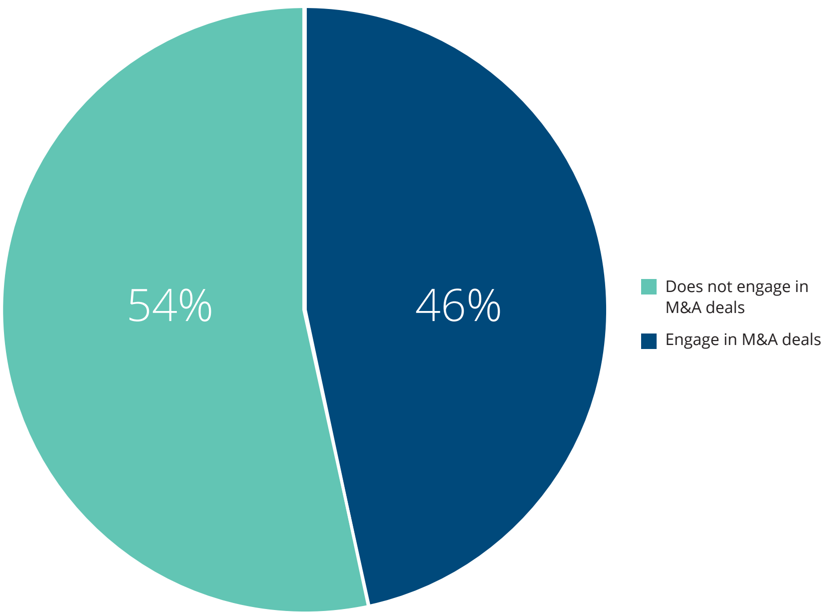


Figure 9. Engagement in M&A deals

Does your company engage in M&A deals?



M&A is used to scale the existing business

37 percent of the CFOs from companies with M&A activities indicate that M&A is important or very important for the future development of their company. 48 percent answer that M&A is to some extent important for this.

The CFOs point to the scaling up of the existing company as the primary reason why they actively seek development through M&A. Half of the CFOs in the survey state this as the primary cause. 28 percent of CFOs point to transformation and safeguarding the future of the company as the primary reason for engaging in M&A. It is a relatively new trend that companies use M&A to accelerate the adoption of digital competencies, and only 3 percent of the CFOs point to this as the primary background for their M&A activities.

Figure 10. Importance of M&A deals

To what degree is M&A deals important for you company's future development?

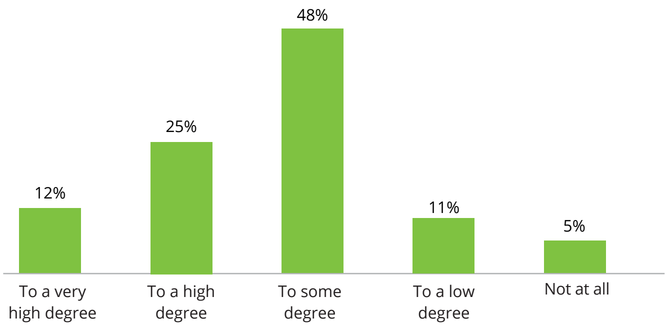


Figure 11. Reasons for engaging in M&A deals

What do you consider as the number one reason for your company to engage in M&A deals?

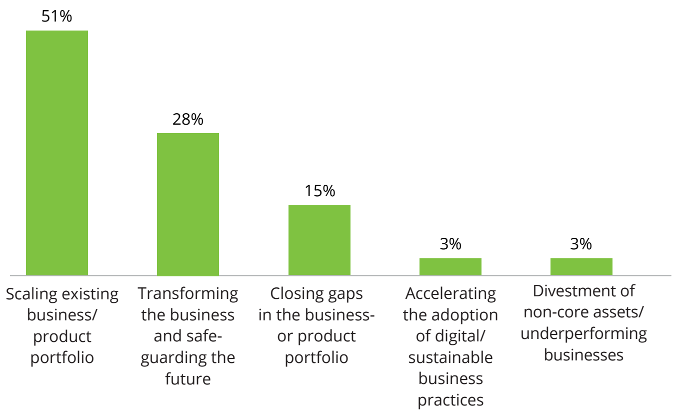


Figure 12. Importance of engagement of the CFO in M&A deal processes

To what degree do you find it important that the CFO is actively engaged in M&A deal processes?

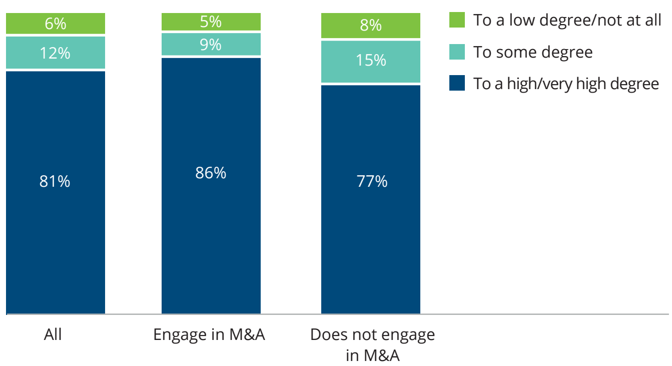


Figure 13. M&A deal processes for the CFO to play a key role in

Which parts of the following M&A deal processes do you believe is most critical for the CFO to play a key role in?

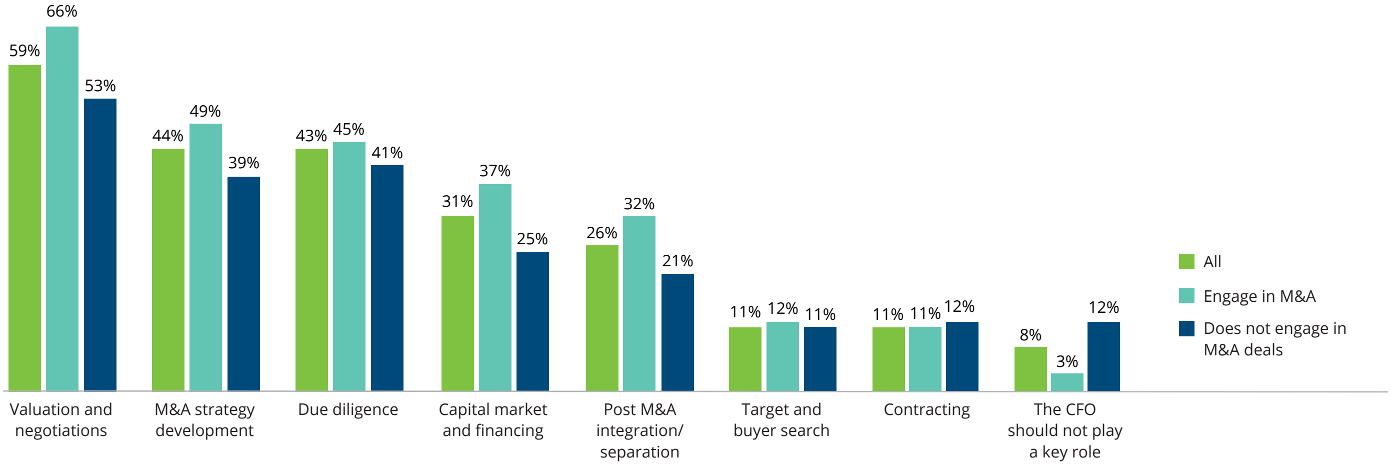
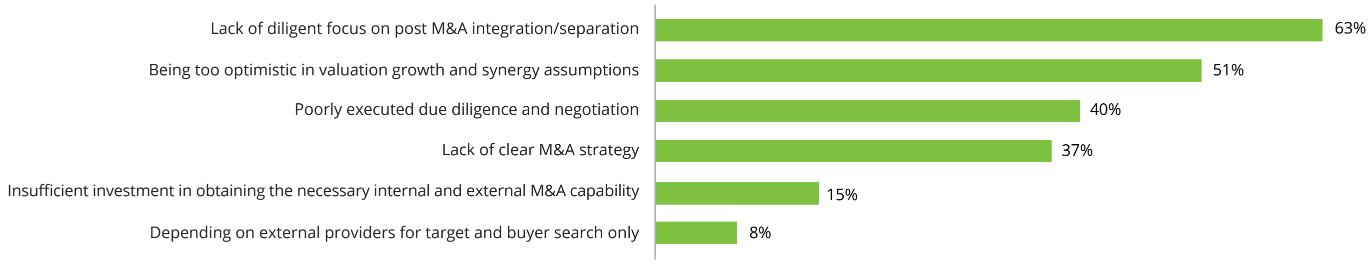


Figure 14. Pitfalls in M&A

Which of the following pitfalls do you consider as the biggest in M&A?

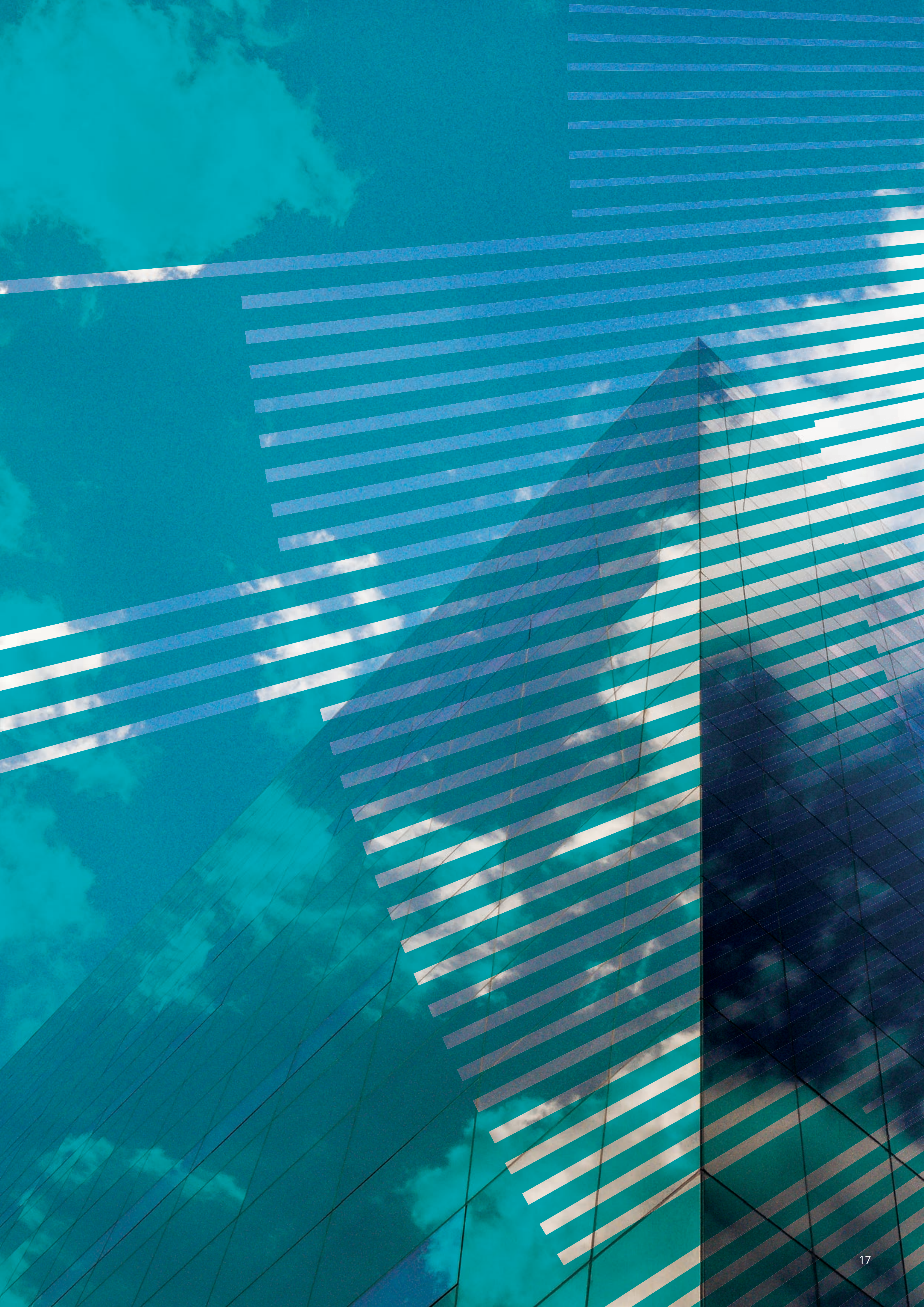


The CFO has a key role – even after the papers have been signed

Whether or not the CFO's business engages in M&A seems to influence how the CFO assesses their own role in M&A. 86 percent of the CFOs from companies with M&A activities answer that active involvement from the CFO to a high degree or very high degree is important in M&A (see page 15). For those CFOs, whose companies do not engage in M&A, the figure is 77 percent. The same trend applies when we ask about the importance of the CFO in the various M&A processes. Here, CFOs from companies that do not engage in M&A generally consider the role of the CFO to be less important than CFOs from companies with M&A activities.

66 percent of CFOs from companies with M&A activities indicate that the CFO should play a key role in terms of valuation and negotiations. M&A strategy development (49 percent) and due diligence (45 percent) are also considered processes where it is important that the CFO has a key role. Only 32 percent state that the CFO should play an important role in the integration/separation phase.

Exactly the integration/separation phase is considered the biggest pitfall when it comes to M&A. 63 percent of the CFOs from companies with M&A activities indicate this as one of the three main pitfalls.



Meticulous planning paved the way for one of the largest acquisitions in Danish history

Several months of negotiations and meticulous planning peaked in fall 2020 when Tryg submitted its bid for British insurance company RSA Insurance Group. At the same time, international events helped pave the way for the transformational transaction, says Group CFO of Tryg, Barbara Plucnar Jensen.

In a year characterised by the COVID-19 crisis, Brexit and the election of a new American president, Tryg managed to complete one of the largest ever Danish acquisitions. Very recently, the Danish insurance group paid close to DKK 35 billion for RSA Insurance Group's activities in Sweden and Norway, respectively, Trygg-Hansa and Codan. Moreover, it now shares the ownership of Codan in Denmark with Canadian Intact.

According to Barbara Plucnar Jensen, Tryg successfully managed to complete the transaction during such a turbulent time thanks to careful planning and a tirelessly solution-oriented approach.

” Detailed preparation has been an absolute key to successfully completing this transaction. Working on a transaction this size with so many parties involved, it has been essential for us to always be at least two steps ahead of the development. This is also why we have done such meticulous scenario planning – especially in the light of the major international events that characterised 2020,” says Barbara Plucnar Jensen.

Before the recent transaction, Tryg was the market leader in Denmark and the fourth largest market player in Norway. For years, it had looked into the possibilities of strengthening its position, particularly in the Swedish market where the company's market share was a modest 3.3 percent. However, it was not until 2020 that an interesting opportunity presented itself, and Tryg was in a position to seize it.

The COVID-19 crisis and Brexit played key roles

As COVID-19 spread during the first six months of 2020 and countries went into lockdown as uncertainty grew, several favourable trading conditions were created, which helped enable the transformational transaction.

“ In the spring 2020, the stock markets suffered some significant setbacks; at one point, they were down by 30 percent. As you know, many companies bounced back, but that did not happen for RSA, making it a favourable time to bid," says Barbara Plucnar Jensen.

Tryg worked out a fulfilling set-up with Canadian insurance company Intact to buy RSA Insurance Group together and split its assets among them.

“ When that worked out, we felt ready to sign," says Barbara Plucnar Jensen and continues:

“ To begin, an internal team of 14 people dedicated their summer to intense work, supported by experienced advisers and, at a later stage, several internal specialists. Everything was done virtually, from valuation over data room and due diligence to the dialogue between stakeholders." She adds:

“ Looking back, lockdown actually worked in our favour. Firstly, it was not clear to others where we were and secondly, COVID-19-related tasks could be used to blur what we were actually doing. It allowed us to work without interference."

Brexit, too, played a significant role in relation to the transaction. The UK's exit from the EU was not yet in place, and there was great uncertainty about the outcome.

“ One year ago, a British pound cost DKK 8.15-8.17, and it has since hit DKK 8.65. This is significant when completing a billion kroner transaction in pounds," says Barbara Plucnar Jensen.

"Always expect the unexpected"

When Tryg realised that the transaction might potentially go through, the company established a core team consisting of different functions such as Finance, Legal, Strategy and M&A, and Investor Relations, as well as individuals with deep insight into other relevant aspects, for example the Swedish market. As the work progressed and the possibility of closing the deal became real, Tryg expanded the core team to ensure that the necessary knowledge in several key areas was in place.

>>

It was essential for us to cover all significant dimensions and be fully prepared throughout the different phases. It was clear to see that Tryg had recent experience with transactions, for example from the acquisition of Alka Forsikring; experienced individuals were involved from A to Z," says Barbara Plucnar Jensen, adding that this was particularly evident in how the team handled very complex issues:

Our mantra was "Always expect the unexpected", and the team demonstrated tremendous drive and a will to find solutions to any challenge we met. When there are bumps on the roads, you can either give up or work hard to find good and constructive ways to solve the problems. I am proud that our team managed to do the latter."

From the beginning, Barbara Plucnar Jensen was particularly involved in the valuation, synergy work and negotiations. As part of the process, she was responsible for financing, including preparation of the prospectus and ensuring the right investor communication.

I was very focused on preparing the organisation for the financing process, as this is one of the largest ever capital increases, both for Tryg and in the market. Therefore, I made it a priority to go through the entire process and the tasks directly with all involved parties to ensure that the execution would be as smooth as possible. As a result, our people, the external advisers, the investment banks and others worked exceptionally well together. It was important that everyone was prepared and fully understood their role, their responsibilities and the dynamics of the transaction," she says.

A detailed script to ensure integration

Barbara Plucnar Jensen and the rest of Tryg now look to the integration. Focus is on getting the engine room to run smoothly, promoting best practices, reaping synergies and retaining the acquired companies' talent and competencies in order to create value for the company.

We all have a lot at stake because this is transformational to the company. Our market value increases from close to DKK 60 billion to just under DKK 100 billion, and we share the responsibility to live up to that," she says.

The four individuals that make up Tryg's Executive Board have split the tasks between them, so that Barbara Plucnar Jensen is now responsible for all transactional aspects, more specifically financing, legal conditions and ensuring financial reporting and structural matters. However, they are all involved in the integration, which follows the same recipe that ensured the successful acquisition: meticulous planning.

We have established a transition team working with 12 work-flows, which result in a detailed roadmap to guide us from day one, when we get the keys, and going forward. Everything is planned to avoid 'noise' for customers and employees alike," she says.

Despite the detailed planning, surprises are inevitable. However, backed by a team of experienced internal and external resources, Barbara Plucnar Jensen has no doubt about the outcome:

Surely, not everything will work out exactly as we have planned, but we are prepared to deal with that too."

Three tips from Barbara Plucnar Jensen

1. **Be prepared.** Many parties are involved in a transaction, and there are many moving parts and many pitfalls. Do careful scenario planning, be rigorous in all phases and surround yourself with experienced people who know their role in detail.

2. **Take advantage of virtual opportunities.** Closed doors and virtual rooms allow you to work without interference. The risk of disruptive leaks increases when large teams fly in and out, read materials at the airport and talk on the phone on the tube. Furthermore, we became extremely efficient, for example, we virtually reached 150 investors globally in just 10-12 days. It felt like we had more hours in the day.

3. **Be true to your equity story.** Your M&A activities must create value and make sense and they need to be in line with your investors' expectations. Substance and careful preparation of your acquisition are the cornerstones of your investor communication.

The CFO plays a significant role in ensuring M&A success

The CFO plays a crucial role in key parts of the M&A process and is a natural choice to assume primary responsibility for M&A transactions in the Executive Board, says Kim Hendil Tegner, partner and head of Deloitte's CFO Programme.

COVID-19 has not damped down the business community's appetite for M&A. On the contrary. In the first quarter of 2021, 119 transactions were completed in Denmark, which is one of the highest levels ever. This trend can also be observed in Deloitte's CFO Survey 2021, in which 37 percent of the responding CFOs working with M&A answer that M&A plays an important or very important role in the development of their company.

Half of the CFOs point out that they primarily apply M&A to grow the existing business as bolt-on transactions, while just under 30 percent primarily apply M&A to transform and safeguard their business looking forward.

” We expect that more and more companies will apply M&A to transform business platforms and that the number of transactions will be at a high level for a long time. Therefore, it is crucial for the CFOs to have an intensified focus on this discipline," says Kim Hendil Tegner, partner and head of Deloitte's CFO Programme.

He points out that the COVID-19 crisis has, among other things, drawn the attention to the fact that companies need to develop their business models, supply chains and digital infrastructure, and this has resulted in an increased focus on M&A in order to get ready for the new reality.

Avoid well-known pitfalls

However, the road to M&A success is not easy. Several global post-transaction studies from, among others, Deloitte and Merrill Lynch show that less than 40 percent of transactions add shareholder value and thus generate a higher return than the cost of capital. Similar studies have shown that this is primarily due to inadequate integration and, secondary, the buyer paying too much.

CFOs should play a significant role in avoiding those pitfalls, Kim Hendil Tegner emphasises, but according to Deloitte's study, the CFOs have various approaches to M&A.

At one end of the spectrum are CFOs who prioritise to be deeply involved in the entire M&A process. At the other end of the spectrum are CFOs with an increased focus on the more technical elements of the M&A process, thus letting the rest of the Executive Board take care of everything else, including the overall responsibility.

According to Kim Hendil Tegner, however, certain characteristics denote companies that repeatedly prove to be able to buy at the right price and ensure value realisation through well-implemented integrations.

" When taking a closer look at the companies that have been extremely skilled at M&A, it seems that most of them have had CFOs playing a significant role throughout the entire M&A process," says Kim Hendil Tegner. He elaborates:

" This does not mean that the CFO did everything or that it was the pivotal factor for success, but it indicates that the active involvement of the CFO is part of the answer to M&A success in the long run."

The firm hand of the Executive Board

He points out that M&A has a great impact on the entire company, involves many parties and can be a landmark for better or worse. In that respect, it is crucial to keep control, to focus on numbers rather than emotions and to maintain a high degree of discipline, which are all qualities typically matching the CFO's role in the Executive Board.

>>

“The CFO often acts as the firm hand of the Executive Board, ensuring focus and disciplined execution. The end-to-end M&A process includes a number of phases that match the CFO’s natural role in the Executive Board, including objectively analysing targets, negotiating prices, conducting due diligence, securing financing and not least ensuring value realisation during the integration,” he says.

To be able to take the leading role, the CFO must have the necessary business understanding and experience as well as a key position in the Executive Board, Kim Hendil Tegner emphasises:

“The CFO is a natural choice to take the lead of the M&A process in the Executive Board, but it requires the CFO to have and maintain the right business and leadership skills. In any case, the CFO should bear in mind that the capital market will always hold the CFO responsible for a transaction, regardless of whether he or she has the formal primary responsibility. This binds the CFO to take the necessary measures and, if needed, positions.”

Three tips from Kim Hendil Tegner

1. **Take the leading role.** The CFO plays a crucial role in key parts of the M&A process and is a natural choice to assume primary responsibility for M&A transactions in the Executive Board. As part of this, it is important to thoroughly review the M&A process and make sure that the company has the necessary skills and the right governance before initiating the work.

2. **Focus on value and keep control.** The CFO must guarantee that the organisation does not get deal fever, pay too much, complete acquisitions that are not in line with the company’s strategy and equity history or take place at a scale and pace that the company does not have the capacity and capabilities to handle.

3. **Consider taking on the role of integration catalyst.** For smaller acquisitions, the CFO can leave the integration to the business and concentrate on reporting and follow-up. For larger transformative transactions, the CFO should be deeply involved in identifying and following up on the key levers in the value creation plan. In addition, the CFO should consider taking on the role of integration catalyst and take responsibility for parts of the value creation plan, such as pricing and the realisation of back office cost synergy.

Three significant M&A transactions during the COVID-19 crisis

1. **Tryg** makes one of the largest Danish acquisitions ever. For almost DKK 35 billion, Tryg acquires the activities of RSA Insurance Group in Sweden and Norway (the companies Trygg-Hansa and Codan, respectively) and shares the ownership of Codan in Denmark with the Canadian company Intact.

2. The Danish worldwide transport and logistics company **DSV Panalpina** acquires Agility Global Integrated Logistics with 17,000 employees for DKK 26 billion.

3. **A.P. Møller Holding** acquires the Danish packaging company Faerch Group, which produces sustainable packaging for the food industry, for DKK 14 billion.

The SDGs are gaining ground in business models

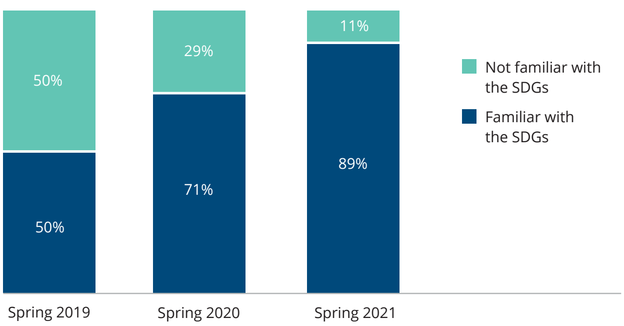
The CFOs' knowledge of the SDGs has increased steadily, and more of them are actively using them to, among other things, achieve strategic goals.

The UN's Sustainable Development Goals (SDGs) represent the first global development agenda that addresses the world's most pressing social, environmental, and economic barriers to sustainable growth. In Deloitte's global Climate Check Report from 2021, eight out of ten top executives say they care about climate change and point out that both companies and governments play a crucial role when it comes to protecting the environment. Implementing the SDGs in the company's core business is not only an essential prerequisite for contributing to this transformation but can also be used as a lever for innovation, growth, and business development.

In this year's CFO Survey, nine out of ten CFOs answer that they are familiar with the SDGs. In 2020, seven out of ten answered that they knew the SDGs, while it was five out of ten in 2019. Knowledge of the SDGs has thus become significantly widespread among the CFOs, and now only 11 per cent have very little or no knowledge of them.

Figure 15. Familiarity with the SDGs

To what degree do you know about the 17 SGDs?*



* CFOs that have answered to a 'very high degree', 'high degree', 'some degree' or 'low degree'.

CFOs use the SDGs more actively

This year, we see CFOs once again using the SDGs more actively in their work. In fact, there has been an increase across the board from last year, so that use in almost all areas is back at the same level as in 2019. CFOs that are familiar with the SDGs are increasingly using the SDGs actively to both measure impact, brand the company, achieve strategic goals, and as a strategic management tool and framework for innovation and business development. Not least, there has been a marked increase in the use of the SDGs to achieve strategic goals (an increase of 16 percentage points from 2020 to 2021).

The reason why we saw a decline in the use of the SDGs in some areas last year may very well be that the SDGs stepped into the background when the COVID-19 crisis hit. Now, in 2021, there is again air to incorporate the SDGs into the company's overall strategy in various ways.

ESG issues are becoming increasingly important for cost of capital

CFOs are also asked how cost of capital are affected by how their business performs when it comes to ESG (Environmental, Social and Governance) issues. Here, 21 percent of the CFOs who are familiar with the SDGs say that it affects cost of capital a lot today, and 53 percent answer that it will affect cost of capital a lot in three years. The importance of the ESG issues has thus increased in the past year and is expected to increase further over the next three years.

Figure 16. Active use of the SDGs

Do you use the SDGs actively...

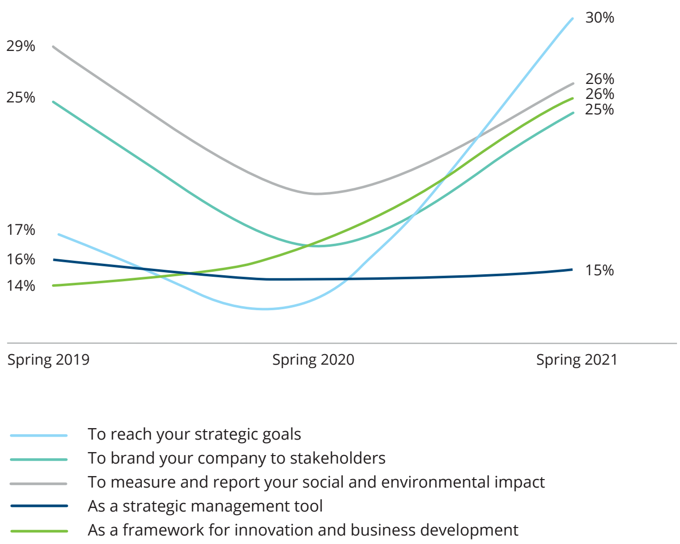
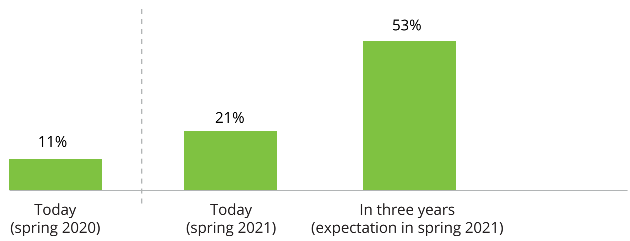


Figure 17. Impact of performance on ESG issues on cost of capital

To what degree do you believe the overall performance of your company on ESG issues has an impact on the cost of capital it faces...*



*CFOs that have answered to a 'very high degree' or 'high degree'.

A more digitalised finance function

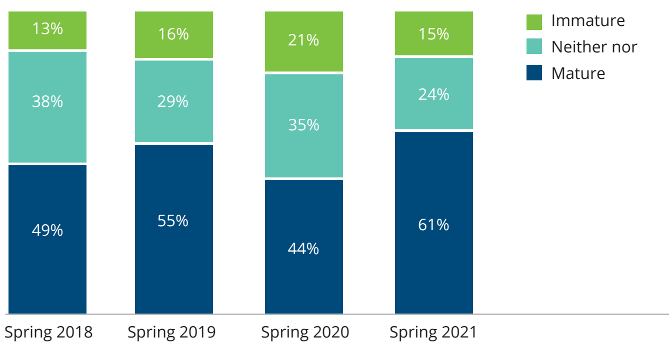
In this year's CFO Survey, we see a marked increase in the finance function's use of digital technologies such as cloud computing and process robotics.

The past year has really emphasised the importance of digital technologies, tools, and processes. Companies that were already far in their digitalisation have stood significantly stronger than more digitally immature companies during the COVID-19 crisis. These companies have been confirmed in the value of digital investments, while many of the more digital immature companies have been forced to embark on a journey of digitalisation.

In this year's survey, we see a larger proportion of CFOs characterising their finance function as digitally mature than in any of our previous surveys. 61 percent characterise their finance function as mature, which is a significant increase from last year, when the figure was 44 percent.

Figure 18. Digital maturity of the finance function

How do you rate the maturity of your company's finance function in terms of digital transformation?



Several CFOs this year are expressing confidence that they have the necessary knowledge and skills to drive digital transformations. For example, 49 percent of CFOs answer that they to a high degree or very high degree have the necessary knowledge and skills to use digital tools to create value for the company (in 2020, the figure was 32 percent). This development is well related to the CFOs' higher assessment of the digital maturity of their finance function.

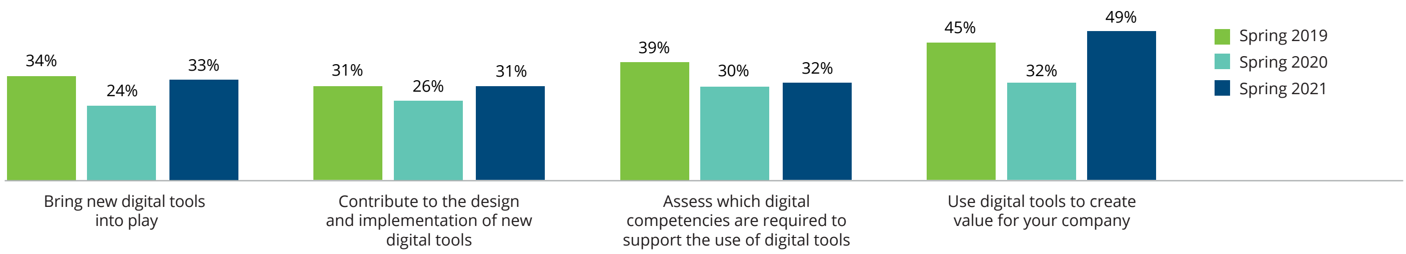
Cloud computing and process robotics occupy the finance function

Every year since 2017, we have asked CFOs about the use of seven technologies in their finance function. We have done this based on an expectation that in the long run, these technologies will have a significant impact on the development of the finance function.

We have also more or less seen an increase in the use of these technologies across the board from year to year (last year, however, we saw a slight decline for some technologies). Cloud computing ranks first as the most widely used of the seven technologies and is now used in three out of four finance functions (74 percent compared to 65 percent in 2020). In second place are visualisation tools, which, however, have experienced a slight decline from

Figure 19. Level of digital knowledge and skills

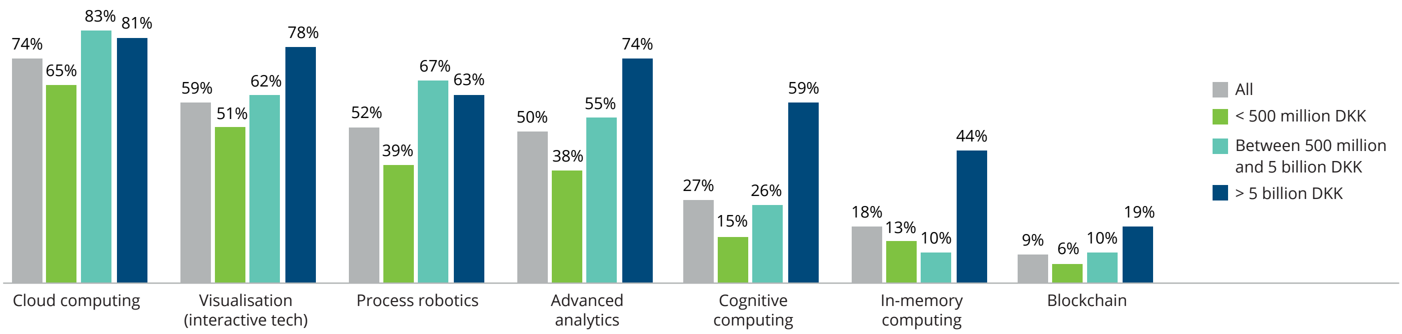
To which degree do you believe that you have the necessary level of knowledge and skills to...*



*CFOs that have answered to a 'very high degree' or 'high degree'.

Figure 20. Use of technologies

To what extent does your financial function apply the following technologies? *



*CFOs that have answered 'fully integrated use', 'widespread use' or 'limited use'.

65 percent to 59 percent. Process robotics comes in third place and has increased from 37 percent in 2020 to 52 percent this year. There has also been a large increase in the use of advanced analytics, from 32 percent to 50 percent.

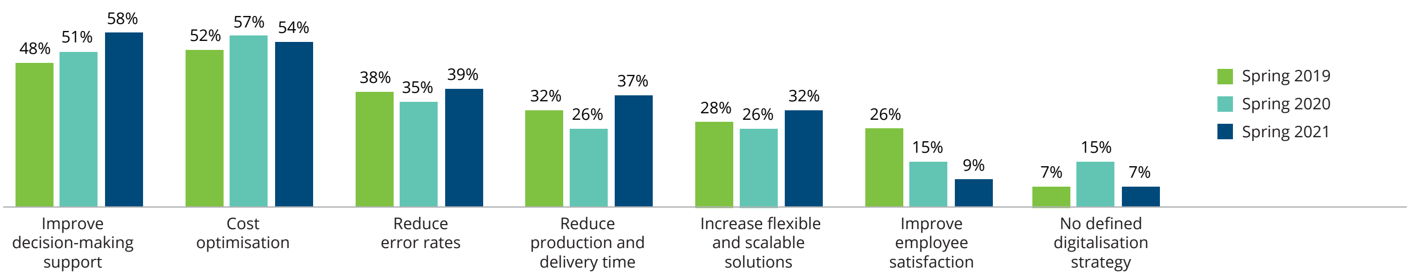
However, part of the explanation for the increase in use compared to last year must probably be found in the fact that this year, we have several larger companies in the survey. As can be seen from the figure, a picture emerges that larger companies are making greater use of many of these technologies. However, it must still be said that digital technologies have certainly made their way into the finance function, which is in line with our prediction four years ago.

Digital tools are used to support decision-making

58 percent of CFOs point out that one of the purposes of using digital tools is decision-making support. 54 percent point to cost optimisation as one of the purposes, while 39 percent point to reducing error rates. Thus, decision-making support has pushed cost optimisation off the first place as the primary purpose of using digital tools. 7 percent of CFOs answer that their finance function has not defined a digitalisation strategy.

Figure 21. Goals of the finance function's digitalisation strategy

What are the primary goals of the finance function's digitalisation strategy?



New technologies to keep an AI on

From the list below, you can learn more about the different technologies and get a better understanding of the degree to which the technologies have been applied in Danish finance functions since 2017.

Cloud Computing
Cloud computing is a kind of computing that uses scalable, elastic technology to deliver services over the internet. Instead of making large investments up front, finance functions can get the full stack of finance functionality 'as a service', delivered through public, private, or hybrid clouds.

Visualisation
Visualisation refers to the innovative use of images and interactive technology to explore large, high-density data sets. Visualisation suites complement business intelligence and analytics platforms, offering rich graphics, interactivity and usability on par with leading consumer experiences.

Robotic process automation (RPA)
Process robots automate transaction processing and communication across multiple technology systems. Robots perform recurring processes just like humans but with less risk of errors and fatigue.

Advanced analytics
Analytics has long been part of the finance arsenal, but new techniques are helping business people tackle the crunchy questions with insightful answers. Often that means combining big data to see patterns that suggest future opportunities.

Cognitive computing
Cognitive computing and artificial intelligence (AI) simulate human thinking. This technology includes machine learning, natural language processing, speech recognition and computer vision.

In-memory computing
In-memory computing refers to storing data in the main memory to get faster response times. Because the data are compressed, the storage requirements are reduced. The result is speed and access to quantities of data that were previously unimaginable.

Blockchain
Blockchain is a digital distributed ledger, where transactions are verified and securely stored on a network of distributed and connected nodes, without a governing central authority.

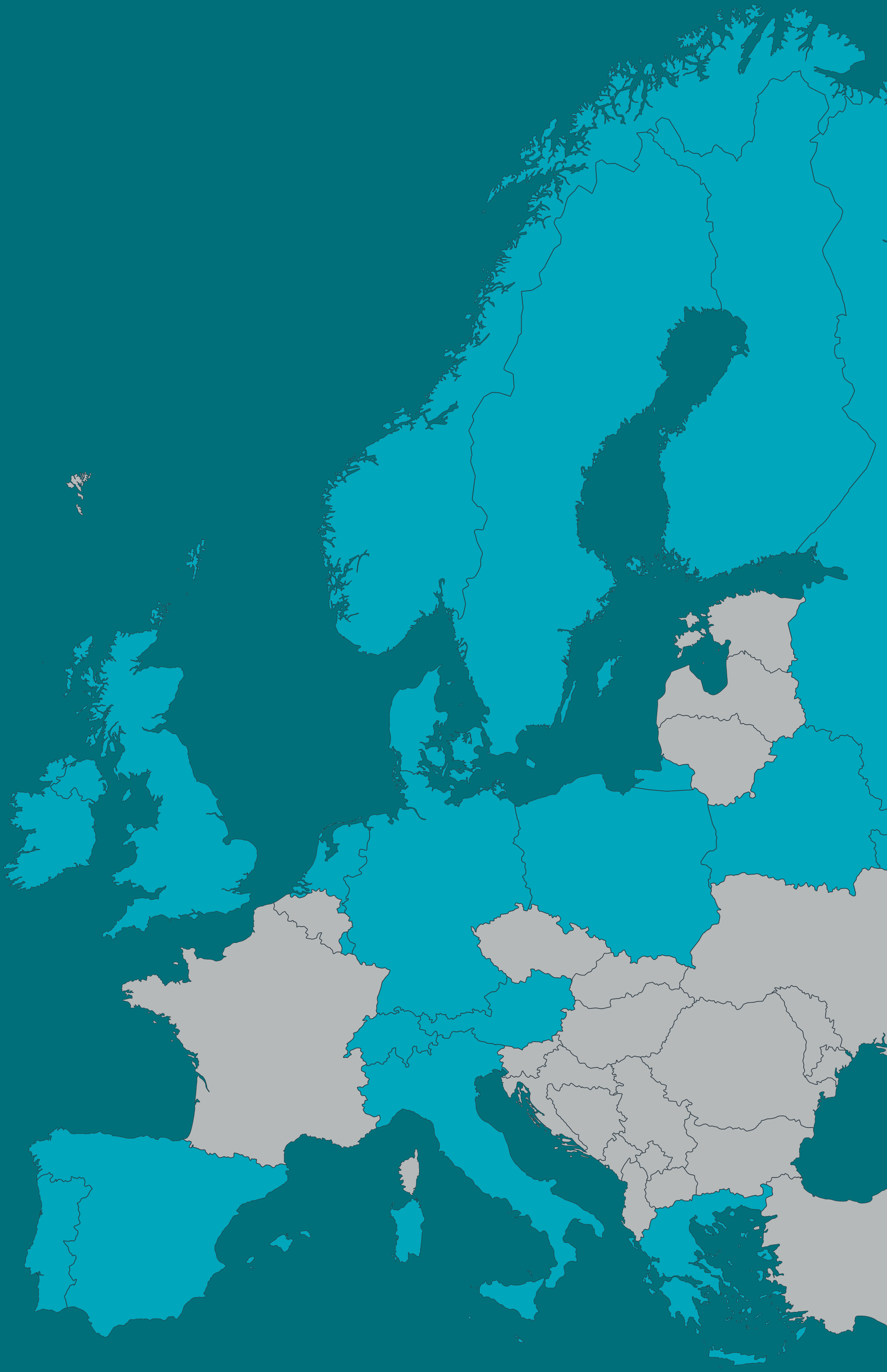
	2017	2018	2019	2020	2021
Cloud Computing	30%	42%	56%	65%	74%
Visualisation	5%	42%	53%	65%	59%
Robotic process automation	14%	30%	39%	37%	52%
Advanced analytics	21%	27%	35%	32%	50%
Cognitive computing	3%	9%	13%	11%	27%
In-memory computing	4%	7%	11%	8%	18%
Blockchain	0%	2%	2%	4%	9%

The Deloitte European CFO Survey

Since 2015 Deloitte has conducted the European CFO Survey, giving voice twice a year to senior financial executives from across Europe. The data for the spring 2021 edition were collected in March 2021 and garnered responses from 1,559 CFOs in 19 countries and across a wide range of industries - including 140 from Denmark.

Kim Hendil Tegner
Partner, Deloitte Consulting
Head of Deloitte's CFO Programme
+45 30 93 64 46
ktegner@deloitte.dk

Lars Siggaard Hansen
Partner, Deloitte Audit & Assurance
Head of Deloitte's CFO Programme
+45 22 20 22 04
lsiggaard@deloitte.dk



Deloitte.