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The Deloitte/SEB CFO Survey  
Eroding competitiveness

Fall 2015



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# Welcome to Deloitte/SEB CFO Survey Fall 2015

We are excited to present the fall 2015 results of the new Deloitte/SEB CFO Survey. The report uniquely combines perspectives from CFOs within large and mid-sized companies in Finland with viewpoints from SEB's Nordic Outlook, SEB research team's flagship report on key forecasts, and global economic trends.

Just like last spring, the survey was conducted simultaneously in other European countries and thus we were able to make valuable comparisons between Finnish and other European CFOs. The European CFO Survey is part of a global cohort of surveys benchmarking the attitudes and future intentions of Chief Financial Officers, gathering views from over 1,300 CFOs in 15 European countries.

We hope that you find the results and our analysis both stimulating and valuable. Please send us all feedback together with any suggestions for improvement.

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# Summary

**In the fall 2015 we are witnessing a somewhat expected turn for the worse in the business prospects of Finnish companies.** Optimism has fallen to the lowest levels in two and a half years. The decline in sentiment is in accordance with central European trends where CFOs in the UK, France, and Germany are even more pessimistic than their Finnish counterparts. Finnish CFOs have the lowest confidence in the Euro in the Eurozone and they are becoming steadily more worried about foreign competition and the cost of labor.

**Upon closer examination, if we are to believe the indications of Finnish CFOs, it is likely that the Finnish economy will not see a significant turn for the better in the coming 6 to 12 months.** Considering the predictions for the GDP growth rate, this is hardly news, but rather the indications stack the evidence supporting the prospects of very slow recovery. Slow global growth, Eurozone growth issues, geopolitical crises combined with companies' increasing risks on balance sheets, and high levels of uncertainty in the business environment indicate difficulties in the coming months.

**Finnish companies are also focusing less on new product development and new market expansion than they are on other organic growth measures, as expanding their customer base in current markets.** This provides a good insight into CFOs' sentiments in different countries as, for instance, Germany is pushing harder on new product development, while we Finns are struggling with existing foreign competition and are worried about our cost-competitiveness.

**As external risks are accumulating and the slow growth signals are making CFOs more cautious, the focus on organic business growth primarily in well-known Nordic and other EMEA countries is increasing.** The respondents' companies will be taking low risks and continue cost-cutting. Simultaneously, 28% of Finnish companies will still reduce the number of their employees, and hiring will be lower than in Germany and the United Kingdom.

**On a positive note, Finnish companies are not in crisis.** The financials are generally solid (56% see the financial situation favorable; 36% average), and key performance indicators such as cash flow, operating margins, and capital expenditures are expected to moderately increase. Also, the lowering cost of raw materials prices, especially oil, provide a welcomed relief on operational expenses.

**The prudent and risk-averse attempt to put the companies back on the growth track will contribute to the investment and financial decisions companies will make.** The preference of companies to make strategic investments in Finland and abroad clearly surpasses the willingness to pay down debts, which is a clear change to the situation we had last spring.



#### IN NUMBERS:

- Net amount of 52% believe that the recent events in Greece have damaged the prospects of creating a closely integrated monetary union
- Net optimism falls from 34% to 0% - there are as many CFOs who are optimistic and pessimistic
- 36% are concerned over the foreign competition
- 22% prefer strategic investment in Finland, only 10% focus on paying down debt
- 60% expect their cash flow to increase
- 50% say that the level of uncertainty facing one's business is high
- 39% on average say that expansionary business strategies are the highest priority
- 28% are reducing their workforce, while 24% are hiring more
- 64% say that this is not a good time to take more risk on the balance sheet

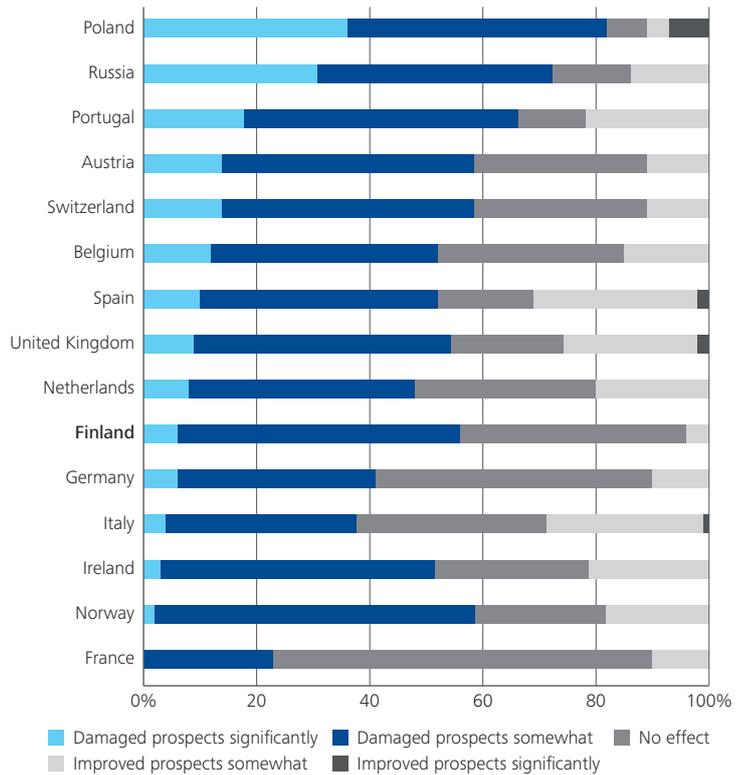
# Hot Topic

According to the majority of European CFOs, the Greek crisis has hindered the long-term prospects of achieving a stable and closely integrated monetary union. Finnish CFOs are standing on the pessimistic side of the debate. According to the survey, Finland has the fewest CFOs who see that the crisis has had any positive effect on the integration of the monetary union. Finland ranks amongst the bottom five countries who have the most CFOs who regard the crisis as having ill effects on the integration.

Finland is the most skeptical of the Eurozone countries based on net value\*, closely followed by Austria. The CFOs are apparently affected by the non-supportive media discourse where even Euro exit has been proposed for Finland.

\* Net value is measured by subtracting the amount of respondents who believe the prospects are damaged from the ones who believe the prospects have been improved.

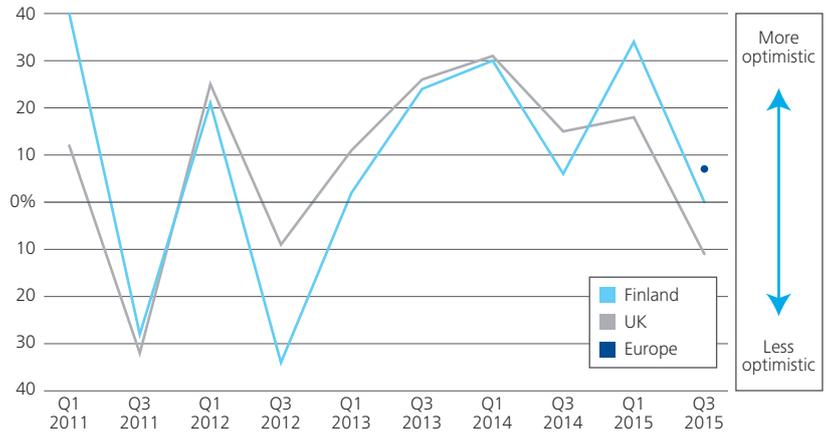
**Chart 1. To what extent have recent events in Greece changed the prospects for achieving a stable and closely integrated European monetary union in the longer term?**



# Business Confidence

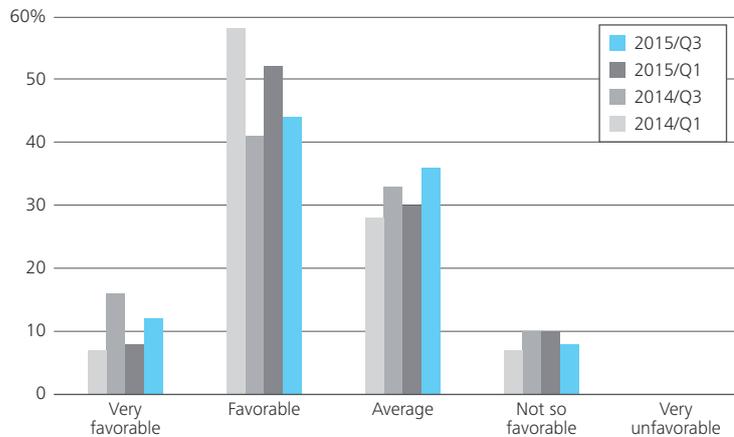
Following last spring's rise to the highest levels since 2011, net optimism is for the first time since Q3/2012 not positive, having fallen to neutral. The trend is similar to that in the UK, where net optimism has fallen to negative levels in the same span of time. The 0% net optimism in Finland indicates that CFOs were in equal part negative and positive about the financial prospects of their companies compared to the outlook six months ago. The development of net optimism between spring and fall has generally followed the same trend over the years, with the spring business sentiment being overly optimistic while the fall outlook towards the end of the fiscal year is more realistic. On the European scale, optimism is clearly highest in Spain, Portugal, and Ireland—all recipients of recent EU and IMF financial assistance, and among the lowest in Germany, the UK and France—Europe's traditional financial engines.

**Chart 2. Compared to six months ago how do you feel about the financial prospects for your company?**



Even though the geopolitical and economic situations in Europe are still unstable, CFOs view the financial position of their companies as being secure. Only 8% of respondents felt their financial position is unfavorable and, as in previous surveys, not a single CFO chose the "very unfavorable" option. 56% of CFOs felt their financial position was at least favorable, implying that companies are more worried about the development of the macroeconomic environment than their financial status. Outlooks were especially positive in both the Energy and Construction sectors, where all respondents indicated their financial position is favorable.

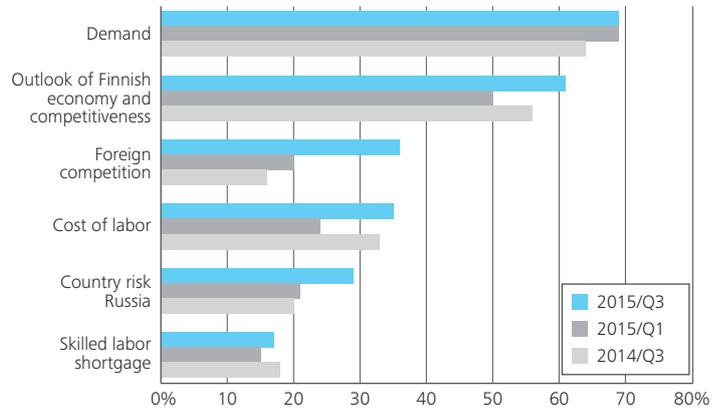
**Chart 3. The overall financial position of your company is seen as:**



# Prospects & Concerns

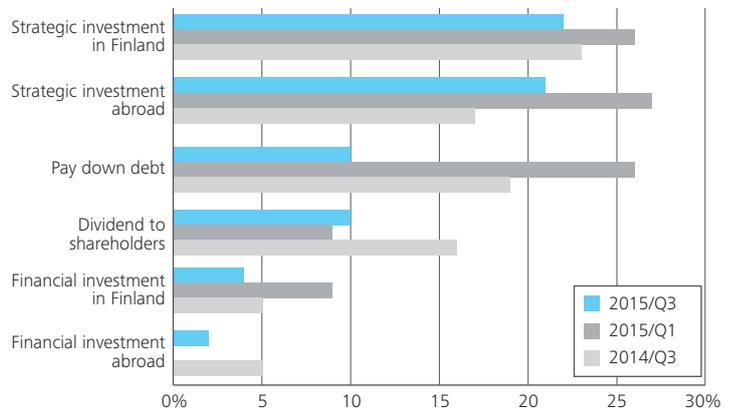
In our recent surveys the greatest overall concern has consistently been the anxiety concerning demand. This time 69% of Finnish CFOs cited demand as the greatest concern. This fall, foreign competition has also become one of the top concerns among CFOs as now nearly 40% of respondents see it as a major risk for their business. Furthermore, concerns are increasing in a number of areas. Country risk Russia has a slight increase from the spring, now being a major concern for 29% of respondents. The only positive trend is that the cost of raw materials and commodities is not seen as a concern by Finnish CFOs.

Chart 4. What are the greatest concerns for your company in 2016?



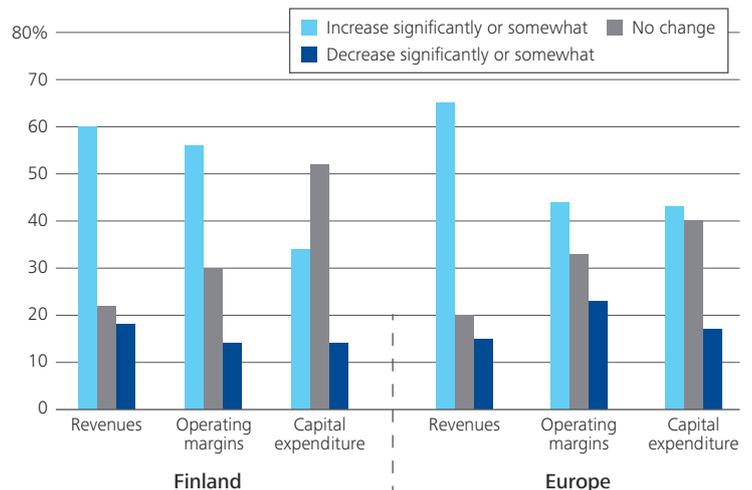
In a current cash surplus position CFOs are refocusing their spending strategies. Among the Finnish CFOs, last spring's most preferred alternative shifted from strategic investment abroad to strategic investment in Finland: it is now preferred by 22% of respondents. Interest towards paying down existing debts remains the third most viable option, but it is now preferred by only 10% of respondents. We expect that low interest rates and the fact that majority of CFOs are viewing their financial position as favorable, reduce the incentive to pay down debt.

Chart 5. Assume a current cash surplus position. How would you prefer to use the money in the next 6 months?



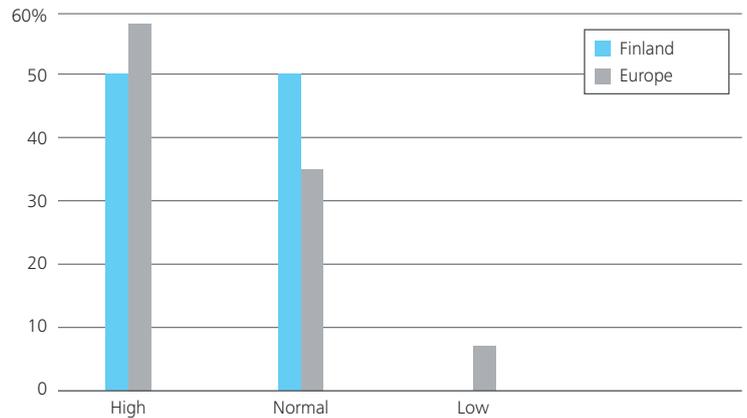
The situation regarding revenues, operating margins, and capital expenditure looks relatively good both in Finland and in Europe in general. In Finland, 60% of CFOs expect revenues to increase while the corresponding European level percentage is 64%. The biggest difference between Finland and Europe concerns operating margins. 56% of Finnish CFOs expect their operating margins to increase over the next 12 months, net balance being 42%. Correspondingly, 42% of all European CFOs expect operating margins to increase, net balance settling down to 19%.

Chart 6. In your view, how are the following key metrics for your company likely to change over the next 12 months?



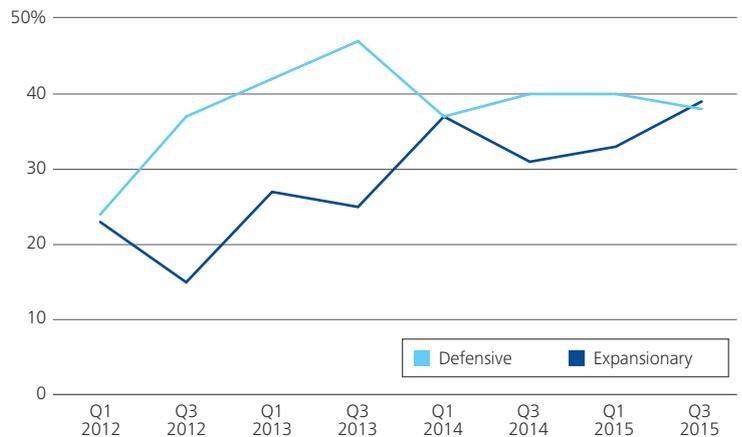
Just like in our spring survey, the level of external uncertainty remains relatively high. A half of Finnish respondents perceive the current financial and economic uncertainty as high. None of the respondents see it as low. It is most likely that the geopolitical crisis, Finland's competitiveness, and the Eurozone's lack of recovery are the issues that will influence CFOs' perceptions. In Finland, the net balance regarding the level of external financial and economic uncertainty facing respondents' businesses is down to 50% whereas in Europe the net balance is 62%.

**Chart 7. How would you rate the overall level of external financial and economic uncertainty facing your business?**



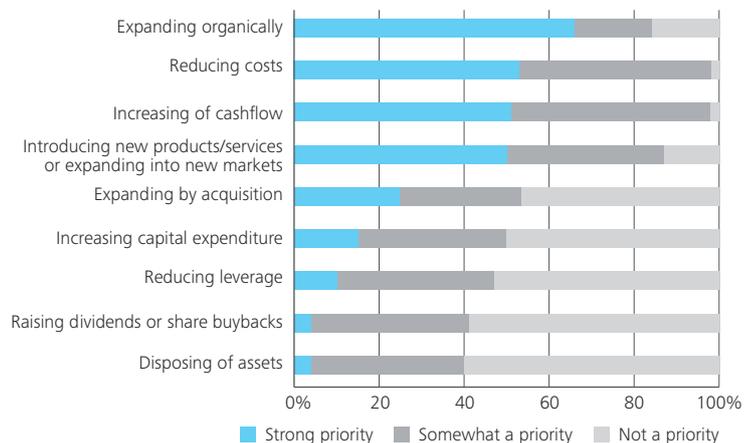
This graph presents the arithmetic average of the percentage of CFOs who rated expansionary and defensive strategies as a strong business priority for their business in the next 12 months. The gap between these strategies closes for the first time since Q1/2014. After a year and a half we are now seeing a slight shift towards growth-oriented priorities as 39% of respondents prioritize expansionary strategies. However, defensive strategies are still strong as they are prioritized by 38% of CFOs.

**Chart 8a. To what extent is each of the following business strategies likely to be a priority for your business over the 12 months?**



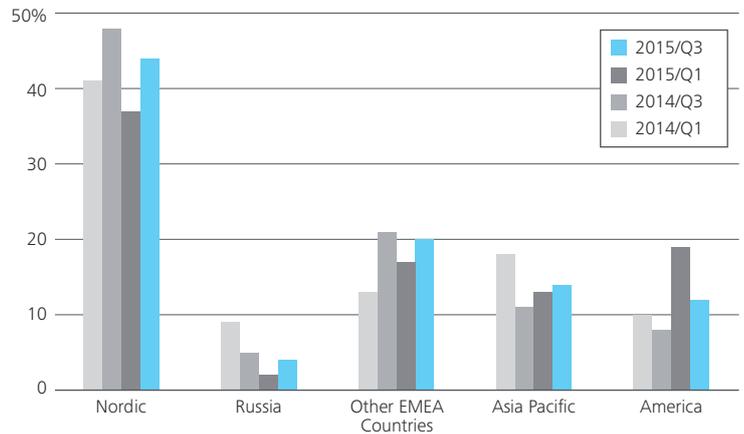
Over the past year and a half reducing costs has dominated as the top priority for Finnish CFOs, but now the situation has changed. Just like in Q1/2014, expanding organically has now become the top priority for CFOs. This fall, 66% of respondents cited organic expansion as their top strategic priority. As a comparison, a year ago (Q3/2014) organic expansion was a strong priority for 49% of respondents. However, despite the slight decrease in reducing costs, it is still one of the top priorities among Finnish CFOs: over half of respondents cited reducing costs as a strong priority. Compared to colleagues in Sweden, over 70% of Swedish CFOs rated reducing costs as the top priority during the coming 12 months.

**Chart 8b. To what extent is each of the following business strategies likely to be a priority for your business over the 12 months?**



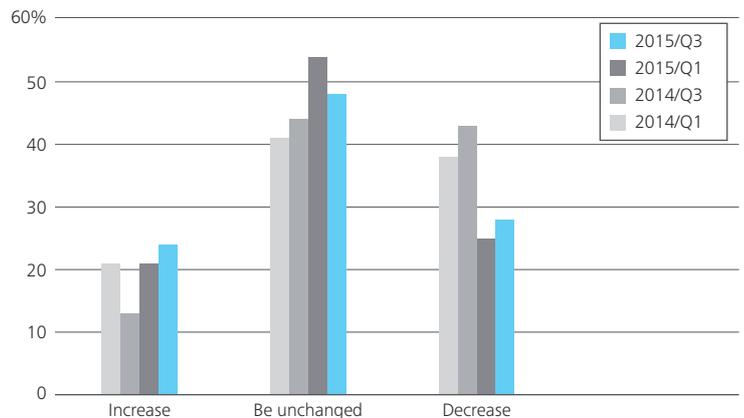
Finnish CFOs have their eyes fixed domestically. Throughout our survey history, the Nordics have been perceived as the primary region for growth. This fall, 44% of Finnish CFOs said that they are seeking growth from the Nordics. Last spring we saw a quite high jump regarding growth expectations in America, but this fall the expectations have returned to their normal level—dropping from 18.8% to 12%. Companies operating in the manufacturing industry are keener to seek growth opportunities from America. 35.7% of respondents in the manufacturing industry think that America has the best opportunities for growth during the next 12 months. In addition, it seems that, so far, China’s recent turmoil has not had any major effect on the opinions of CFOs as 14% of respondents still expect to have the best opportunities for growth in Asia Pacific.

**Chart 9. During the next 12 months, in what region do you expect your company to have the best opportunities for growth?**



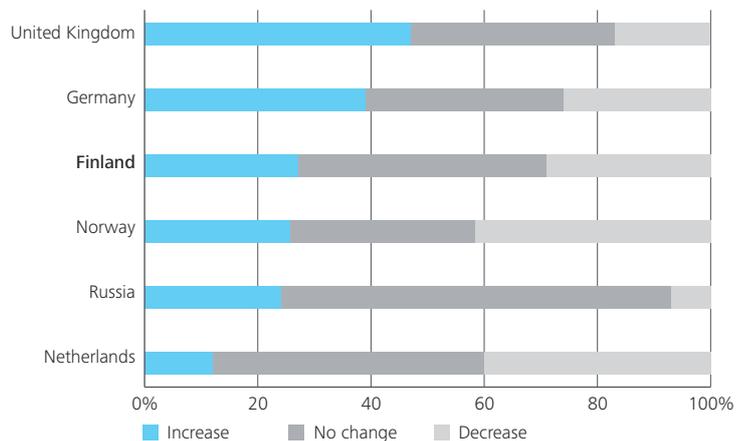
Finnish CFOs’ expectations are in line with our spring survey, which showed a slightly more positive view of employment prospects. The majority of respondents (48%) expect unchanged levels regarding employees in Finland over the next six months. Moreover, nearly a quarter of respondents expect the number of employees in Finland to increase. However, layoffs are not yet over as still 28% of respondents expect the number of employees to decline.

**Chart 10a. The number of employees working in Finland for your company is, in the next 6 months, expected to:**



For the first time the question regarding the number of employees was asked also in other European countries. When looking at the European numbers, 35% of all respondents expect the number of employees to increase and 22% expect the number to decline over the next 12 months. All in all, the European net balance is 13%. The biggest layoffs will most likely be seen in the Netherlands, where 40% of respondents expect the number of employees to decline (net balance being -28%), and in Norway where 42% of respondents expect the number of employees to decline (net balance being -16%).

**Chart 10b. The number of employees working for your company is, in the next 6 months, expected to:**

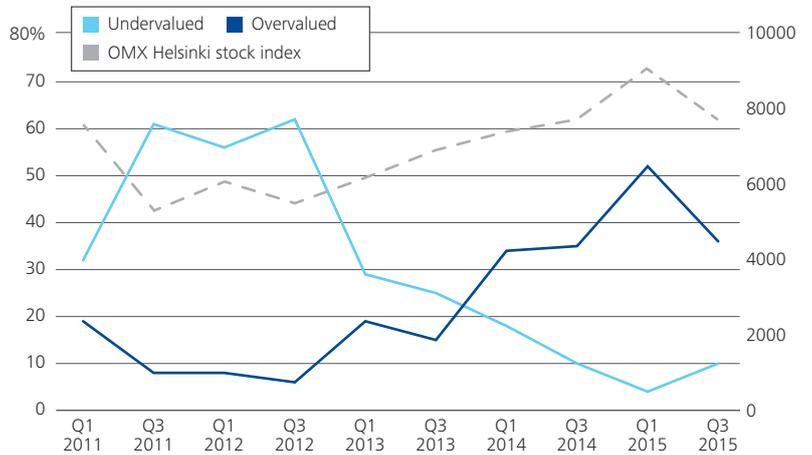


\*In Finland, this question is divided into two different categories; the number of employees in Finland and the number of employees abroad. In chart 10b these two categories have been merged.

# Finance

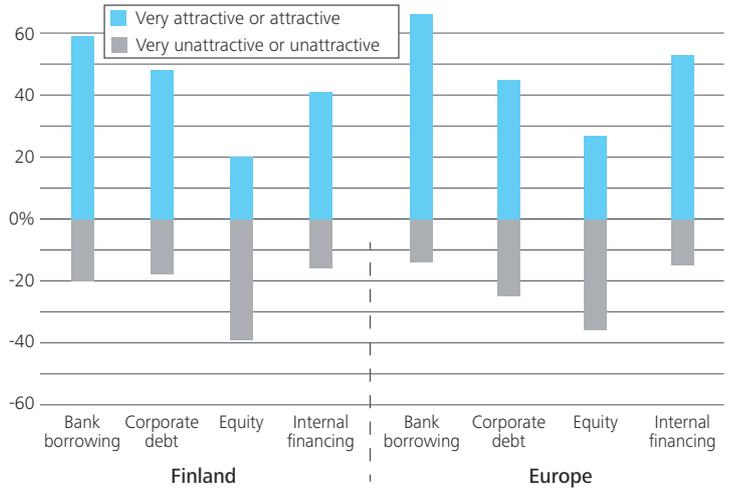
Since the Q1/2014 survey, CFOs have increasingly felt that Finnish shares are overvalued. Up until the survey in the spring, the number of respondents claiming Finnish shares are overvalued has clearly increased, while the number that feel Finnish shares are undervalued has decreased. However, survey results this time around indicate a slight recovery in optimism, with the gap between the two opinions decreasing from 48% to 26%. The most popular answer among the respondents was that Finnish shares are at a fair value (48%), while 36% felt that the market is still inflated. As expected, the trends of the two graphs closely correlate to the progression of the OMX Helsinki stock index. The stock index values correspond to the value on the last weekday of each quartile.

**Chart 11. How do you currently rate valuation of Finnish companies?**



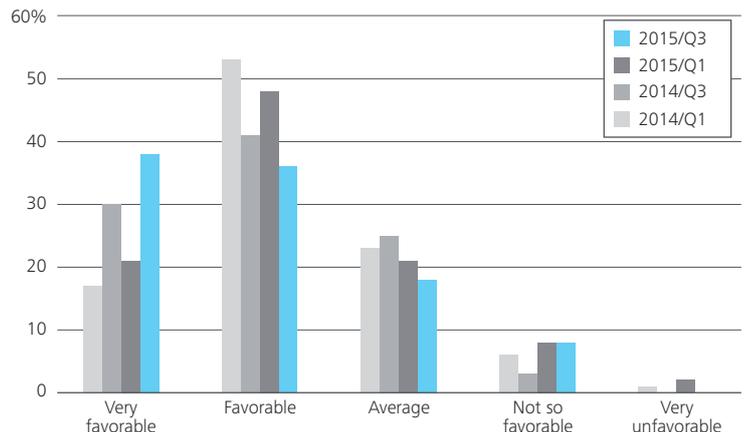
At the moment, CFOs in Finland feel that external funding is still a viable funding option. Similar to the last survey results, bank borrowing and corporate debt were seen as the most favorable options, with bank borrowing overtaking the top position this time. This is good news for the banking sector, but stock market liquidity is not going to improve as equity is still the least attractive alternative. The answer structure across Europe is very similar to that in Finland, with the largest difference being the greater willingness in Europe to use internal financing instead of external funding.

**Chart 12. How do you currently rate [bank borrowing, corporate debt, equity, internal financing] as a source of funding for your company?**



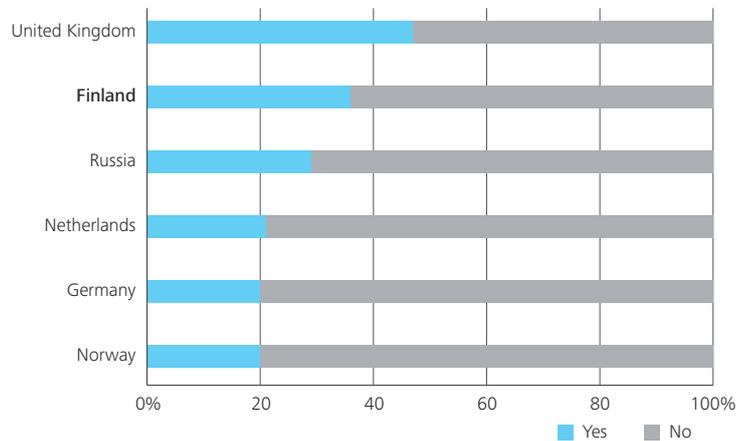
According to Finnish CFOs, the lending attitudes of financial institutions towards their companies have recovered after last survey's dip. "Very favorable" was for the first time the most popular choice, with as many as 74% of respondents indicating that lending attitudes are at least favorable. Only 8% of CFOs felt attitudes were unfavorable, but not a single respondent chose the "Very unfavorable" option. Once again the larger companies seemed to have better access to financing than smaller ones.

**Chart 13. The lending attitude of financial institutions toward your company is seen as:**



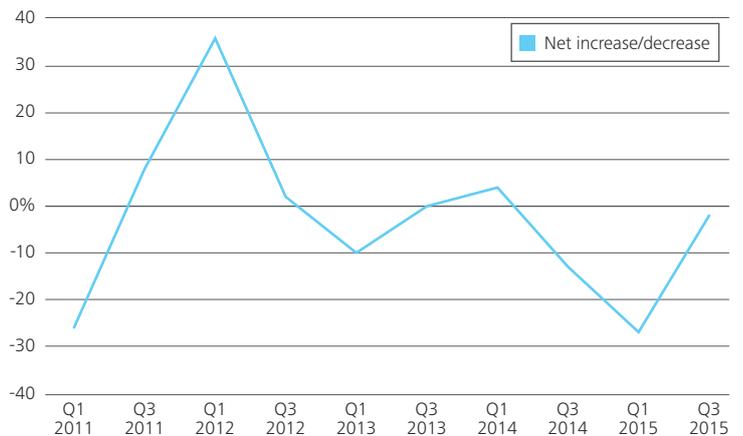
The current economic climate is causing CFOs to be risk averse. In Finland, only 36% of respondents felt that now is a good time to be taking greater risks on their balance sheets. The sentiment is similar across Europe, with only CFOs in Italy being more inclined to increase the risks on their balance sheet. Similar to the answers regarding business confidence, Spain and Ireland were among the most inclined to take more risk on their balance sheet. The attitude towards risk in Finland is slightly more accepting than elsewhere in Europe, with a net balance of -28% compared to an average of -30%.

**Chart 14. Is this a good time to be taking greater risk onto your balance sheet?**



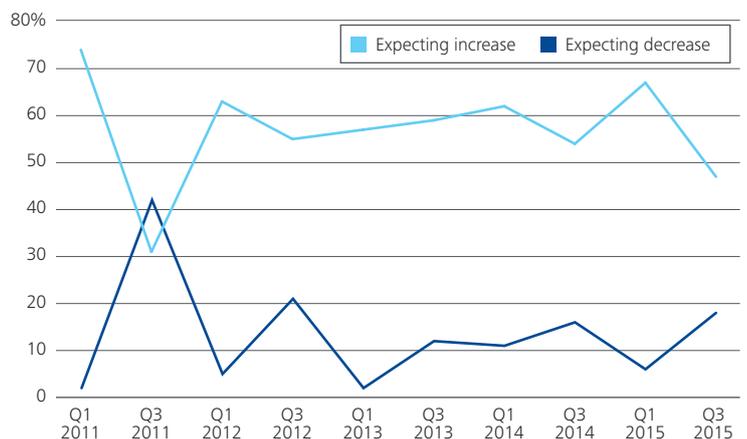
The last survey during the spring indicated that financial risks were at their lowest level since 2011. The effects of the re-structuring phase and cost-cutting period between the end of 2011 and the first half of 2014 were becoming evident, resulting in lower risk sentiments. This time around the risk sentiment is again increasing and approaching neutral levels with just a slight inclination towards a decreasing financial risk level (2%).

**Chart 15. How has the level of financial risk on your balance sheet changed over the last 12 months?**



The gap between opinions regarding the level of corporate acquisitions and divestments has decreased significantly. CFOs are still more inclined to believe an increase is expected, but the difference between the two opinions is now only 29% compared to 61% in the previous survey during the spring. The lack of interesting target companies may again be a hindrance in the amount of completed transactions. M&A activity is expected to grow especially in Business and Professional services as well as Technology, Media and Telecommunication industries.

**Chart 16. Over the next 12 months how do you expect levels of corporate acquisitions and divestments in Finland to change?**



# Macroeconomic Context

According to revised statistics, Finland left its fifth recession since 2007 a bit earlier than expected. But the country is still balancing on the edge of recession with growth during the first half of 2015 at basically zero. The negative factors are the same as those that have plagued the economy since the crisis hit: structural problems in the forest and information and communications technology (ICT) sectors, recession in Russia (including sanctions and import restrictions), competitiveness issues and fiscal consolidation. On the bright side are low energy prices and inflation, an expansionary monetary policy, and a weaker euro.

## KEY DATA: PERCENTAGE CHANGE

	2014	2015	2016	2017
GDP*	-0.4	0.2	0.8	1.3
Unemployment**	8.7	9.5	9.4	9.2
Inflation*	1.2	0.0	0.5	0.9
Government deficit***	-3.2	-3.1	-3.0	-2.8

\* Percentage change, \*\* Per cent of labor force, \*\*\* Per cent of GDP

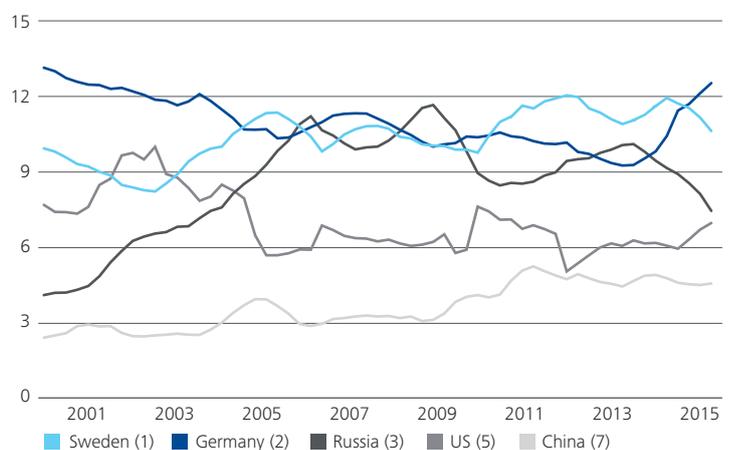
Exports recovered in the second quarter (up nearly 8 per cent in current prices) after plunging early this year. Exporters' order expectations have strengthened since late 2014, but exports are hampered by trade disruptions with Russia. The share of exports sold to Russia has fallen, though, and dependence on exports to countries like the US and Germany has increased.

Because of competitiveness problems and the downturn in its telecom and electronics industry, Finland's international market share has fallen in recent years. It has lost ground to Sweden, as well as the Eurozone as a whole. Sweden's monetary policy ambitions to weaken the krona are having a negative impact on some sectors in Finland, especially forest products, but the krona appreciation that we foresee will ease the pressures on Finnish industry somewhat. A slowdown in pay increases and a generally weaker euro will also have positive effects on exports in the next couple of years. Meanwhile weak domestic demand has caused a decline in imports. As a result, net foreign trade will have a positive effect on GDP, while the current account balance improves.

Chart 17. Divergence with Sweden widening. Index: 2008=100. Source: Marcobond



Chart 18. Germany is strengthening as the main export destination. Per cent of total exports (ranking of most important trading partners). Source: IMF



Manufacturing output has trended downward since mid-2012 and, according to surveys, order bookings point to a weak outlook. Exports have shown weak performance, but on average have contributed to growth in recent years, 2014 being an exception. Since the crisis, export market shares have gradually been lost. Looking ahead, a weaker euro and later regained competitiveness will improve the export outlook, but in the near term the still high, but falling, share of exports going to Russia will contribute negatively to growth.

Unemployment is high and has increased more than expected during the past year. GDP growth of just above zero in the second half of this year means that the labor market will also stay weak. A slightly improved economic outlook together with demographic factors will slowly push unemployment lower in 2016. The number of vacancies continues to be relatively high, given the unemployment level.

Despite pressure on many fronts, households have been relatively resilient. Household confidence has rebounded after a weak start to the year, so has consumption (-0.4% in Q1 and +0.7% in Q2 q/q). More timely retail sales data show a marginal fall in recent months. Real household income is being boosted by low inflation; wage increases will continue to edge lower and fiscal consolidation will hurt social transfers, but low nominal increases still raise household real income. The housing market has been a worry, but recent data indicate that prices have stabilized.

Inflation has dropped significantly. Both the harmonized index of consumer prices (HICP) and the consumer price index (CPI) are currently falling on an annual basis. Given weak demand and a large amount of slack in the labor market, it will be difficult for companies to raise prices and for labor to demand pay increases. Together with government efforts to improve competitiveness, these factors pull in the direction of continued low inflation ahead. We expect inflation to stay below the euro zone average during our forecast period—slowly improving competitiveness.

Chart 19. Indicators improving but from low levels. Source: DG Ecfm



Chart 20. Unemployment at the peak levels. Per cent, thousands. Source: Macrobond

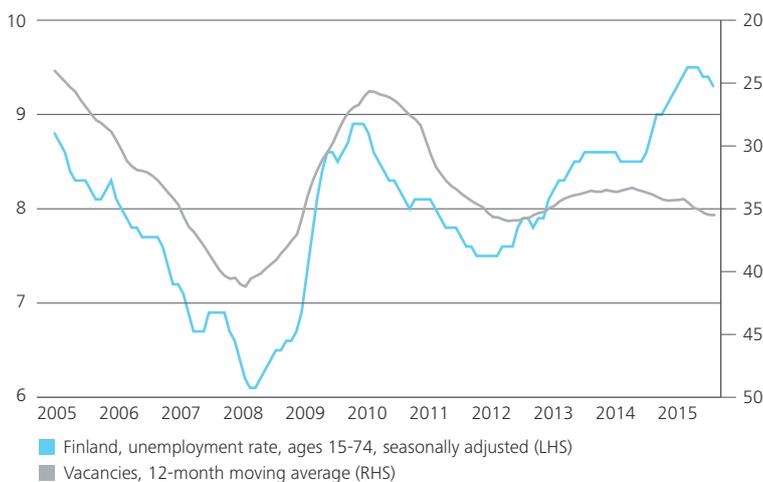


Chart 21. Wages continue to edge lower. Year-on-year percentage change. Source: Statistics Finland, OECD



# About the Survey

This is the third-quarter edition survey of Chief Financial Officers and Groups Finance Directors in Finland. The survey is published twice a year—soon after the first and third quarters. It is the only survey that reflects CFOs' attitudes to the operating environment, valuation, risks, funding, and expectations.

The survey is carried out as a web-based questionnaire. The 2015 third-quarter survey took place between 24 September and 12 October. Fifty CFOs participated, including a good mix of privately held and publicly listed medium, large, and multinational companies across a broad range of industries. This quarter, manufacturing, consumer business and technology, media & telecommunication industries were in the majority. 82% of respondents are from companies that have an annual turnover of more than 100 million euros.

This is the second time when the CFO Survey has been conducted simultaneously in other European countries. The European CFO Survey gathered opinions of over 1,300 CFOs in 15 European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Switzerland, and the United Kingdom.

## Writers & Contributors

The survey was produced by Tuomo Salmi, Partner, CFO Program Leader, Deloitte; Markus Kaihoniemi, Partner, Finance Leader, Deloitte; and Ville Lähde, Financial Strategy, SEB.

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Please visit [www.deloitte.fi](http://www.deloitte.fi) or [www.sebgroup.com](http://www.sebgroup.com) for the latest and past copies of the survey and other publications.

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