



The Deloitte/SEB  
CFO Survey  
Hope for  
Better Days

Fall 2013



# Welcome to Deloitte/SEB CFO Survey Fall 2013

We are excited to present the results of the Deloitte/SEB CFO Survey Fall 2013. The report combines perspectives from CFOs within large and midsized companies in Finland with viewpoints from SEB's Nordic Outlook, SEB research team's flagship report on key forecasts and global economic trends.

We hope that you find our analysis both stimulating and valuable. Please send us feedback if you have any questions or suggestions for improvement.

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# Summary

# Hope for Better Days

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The gloomy outlook of the Finnish economy and the inflamed public debate over the competitiveness has stigmatized the CFOs impacting their willingness to invest and seek new growth. Focus on defensive business strategies has risen to record highs.

**In the uncertain business environment—business confidence amongst Finnish CFOs rises.** After four quarters of falling GDP, Finland left the recession behind with 0.2% growth in the second quarter of 2013. The competitiveness of Finnish economy is weakened by several factors: the overall outlook continues to be weak, the recovery is lagging behind the other Nordic countries, exports have remained weak and the previously resilient household sector is at present also showing signs of weaknesses.

In spite the discouraging signals, the third quarter issue of Deloitte/SEB CFO Survey Finland projects a notable rise in business confidence among Finnish CFOs. They are more optimistic about their financial prospects than at any time in the past two years. Based on the comparison with CFOs in the United Kingdom, it seems that the economic optimism outside the Eurozone has finally reached Finland. Additionally, operating cash flows are expected to increase or at least to remain unchanged over the next 12 months. Altogether, CFOs have been able to manage the financial risks on their balance sheets for the past year and a half. Now, the number of CFOs arguing that the financial risks have remained unchanged has increased from 30% to 40%.

**Companies are in better structural and fiscal position, but austerity is still trending.** The lack of willingness to invest in growth is alarming. Although 48% are ready to make strategic investments in Finland and abroad, the question of which business strategy to follow returns the highest defensive values ever. 47% of the CFOs are focusing on defending their position by reducing costs and leveraging or increasing their existing cash flows. Additionally, the expansionary strategies have taken a slight downturn from 27% to 25% since the first quarter in 2013. Simultaneously, capital spending fell during the first half of 2013 by 1.8% compared to the same period in 2012 and capacity utilization is falling yet again. Altogether, with a weak manufacturing sector, the outlook for investments and expansion is weak.

**The best growth opportunities in the Nordic region.** Manufacturing production has fallen every month in 2013 compared with a year earlier and exports have fallen most months. Confidence among manufacturers improved early in 2013, but has since fallen and is at a low level. Improved international demand will help exports in 2014 and 2015, but in the near term we expect continued weak performance in manufacturing output and exports. CFOs believe the best opportunities for growth are to be found in the Nordic region. 42% of respondents said that their company will have the best opportunities for growth there during the next 12 months.

**The outlook for the Finnish economy and its competitiveness is one of the greatest concerns for CFOs.** The defensive strategies cannot be explained by the factors of global economic development or the micro-economic financial risks imposed on Finnish companies, because both of them return values that have an increasingly positive connotation. In our take it is becoming more apparent that CFOs are stigmatized by the exhausting debate regarding the outlook of the Finnish economy which has risen along with demand as being the greatest concern for Finnish companies, regardless of the size or the industry.

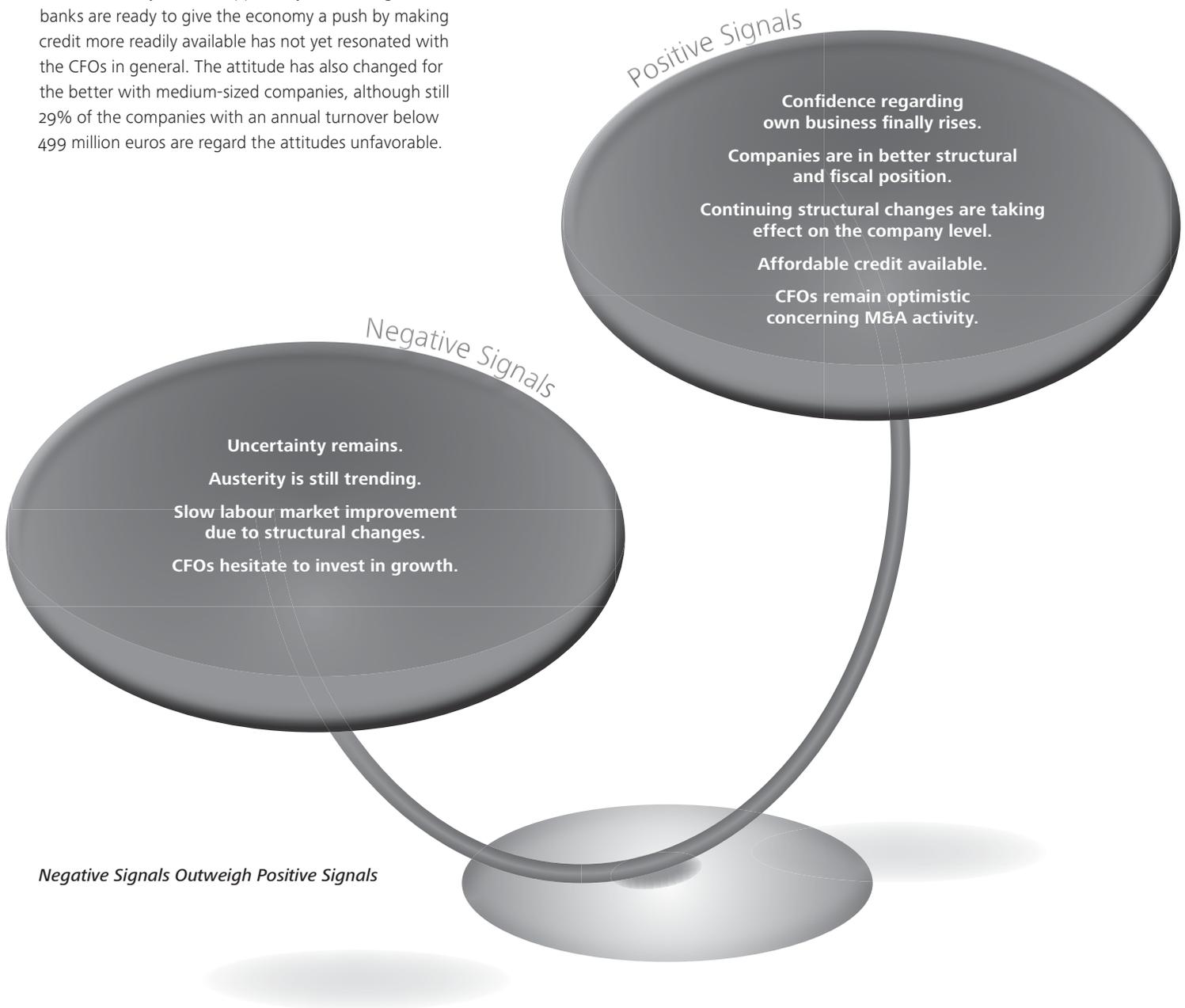
**Lasting structural changes leading to slow labor market improvement.** The economy is not only troubled by cyclical factors, but it has also become increasingly clear that some problems are more deeply rooted. The export ratio has fallen 10 percentage points compared to the pre-crisis level, terms-of trade have fallen and regardless of a slight improvement in employment in the past six months (falling 0.5 percentage points 7.7%) unemployment is expected to decrease only slowly. As a matter of fact, the number of employees in the respondents' companies is expected to decrease. 44% of respondents indicated that the number of employees working for them in Finland will decline. The sentiment is slightly more negative than in our last survey in March.

The sentiment is also slightly more negative than in Sweden where 32% of CFOs expected the number of employees to work for them to decrease.

**Affordable credit available, yet CFOs hesitate to invest in growth.** Demand for new loans is falling. This development is not surprising given that non-financial companies face falling demand and a rising amount of idle capacity. On the other hand, the lending attitudes towards CFOs' companies remain notably positive. 55% of CFOs returned an answer with favorable values when asked about the lending attitudes of financial institutions towards their companies. This doesn't come as a surprise taking into consideration the confident rise of the Scandinavian finance industry in 2013. Apparently the message that banks are ready to give the economy a push by making credit more readily available has not yet resonated with the CFOs in general. The attitude has also changed for the better with medium-sized companies, although still 29% of the companies with an annual turnover below 499 million euros are regard the attitudes unfavorable.

**KEY POINTS:**

- Confidence regarding own business finally rises drastically
- Companies are in better structural and fiscal position, but austerity is still trending
- Lasting structural changes are leading to slow labor market improvement
- Number of employees working in Finland expected to decrease in the short-term
- Affordable credit available, yet CFOs hesitate to invest in growth
- CFOs remain optimistic concerning M&A activity

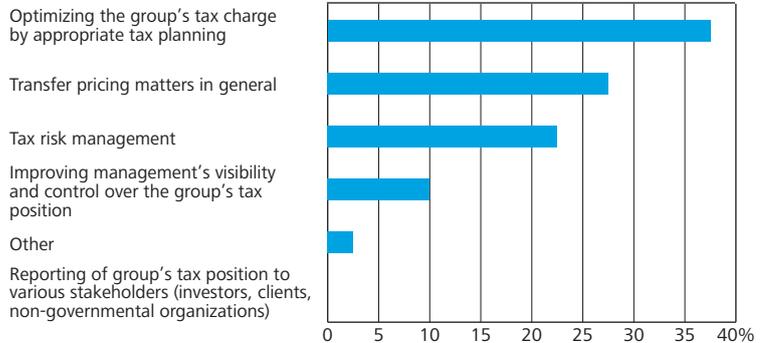


# Hot Topic—Taxation

**In contrast to the public debate, CFOs are not primarily interested in reporting their tax position to stakeholders.** None of the respondents in the third quarter issue of Deloitte/SEB CFO Survey Finland replied that tackling the public debate regarding transparency of tax optimization and finding better ways to report the group's overall tax footprint is their primary tax-related goal in the near future. Quite to the contrary, 65% of the companies are focusing on the optimization of tax charges and matters of transfer pricing in general.

In the near future, 37.5% of CFOs are going to focus on optimizing the group's tax charge. The others are concerned with either transfer pricing task risks or management visibility on the group's tax position.

## *Which of the Following Tax Related Topics is the Most Crucial for Your Company in the Near Future?*



# Business Confidence

*Net % of CFOs Who are More Optimistic About the Financial Prospects for Their Company Now than Six Months Ago.*



## **CFOs are more optimistic about their financial prospects than at any point in the past two years.**

However, the sentiment is still falling short of the highest values at the end of 2010. In detail, 34% of the CFOs are optimistic about their prospects than the 10% who are more pessimistic about their prospects compared to six months ago. There was no significant difference between the industries. Hence, all the industries represented in the survey have experienced similar kind of boost in optimism.

## **Finnish CFOs are as optimistic as their colleagues in the UK.**

Based on the comparison with the UK it seems that some of the economic optimism outside the Eurozone has finally reached Finland.

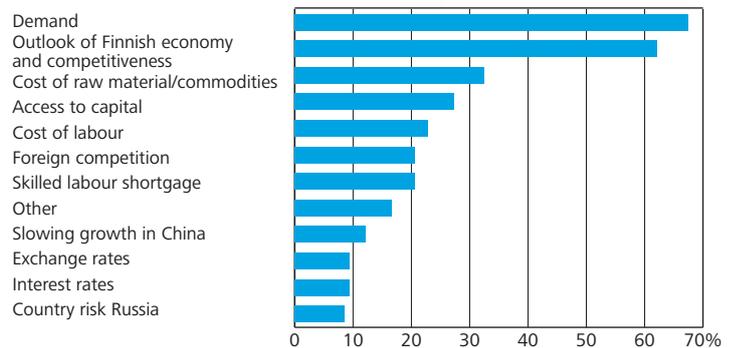




# Prospects & Concerns

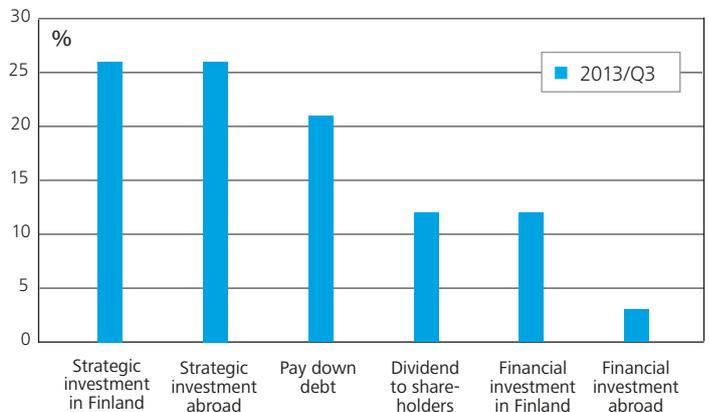
In the recent surveys the greatest overall concern has consistently been the anxiety concerning demand. Now the concern for demand has become equally rivaled by concerns regarding the weakening competitiveness of the Finnish economy. These both are the greatest concerns for more than 60% of CFOs. Interestingly, companies across all industries and all sizes returned high values for concerns regarding the recent developments in the structure of the Finnish economy. As a matter of fact, the largest companies, who are presumably not all equally as vulnerable to downturns in domestic economy as their medium-sized counterparts, were actually the most concerned about the state of economic development in Finland.

**What are the Greatest Concerns (most important) for Your Company in 2013?**



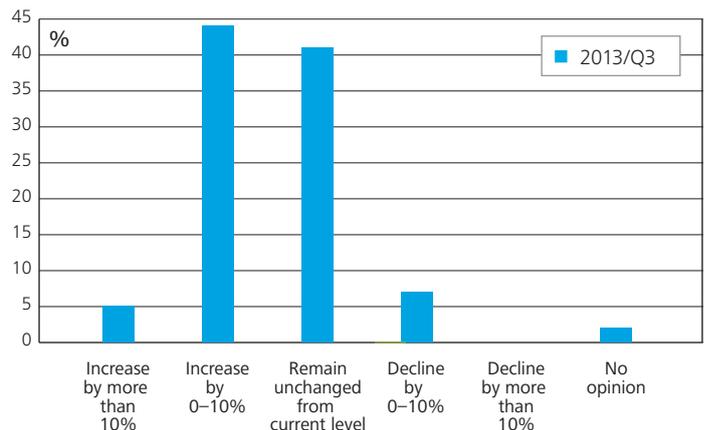
In a current cash surplus position CFOs are re-focusing their spending strategies. In total, 48% of the respondents are considering making strategic investments both in Finland and abroad. Fewer CFOs prefer to pay down debt. Currently 18% of CFOs are considering this, compared to 25% in the first quarter.

**Assume a Current Cash Surplus Position. How Would You Prefer to Use the Money in the Next 6 Months**



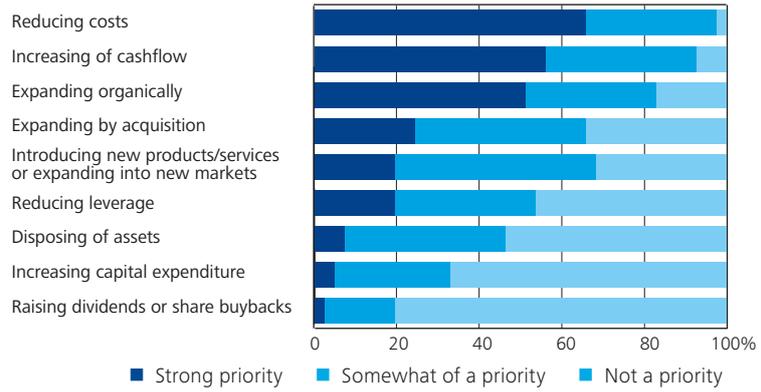
According to 49% of the respondents, corporate cash will be increase. However, 41% of the respondents expect their cash flow to remain unchanged. Only 7% expect their cash flow to decrease.

**How Do You Expect Operating Cash Flow in Your Company to Change over the Next 12 Months?**



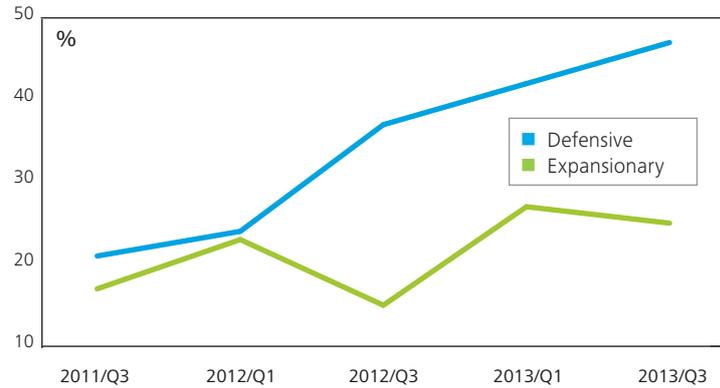
Unlike in the UK, where the increasing optimism is already influencing management decisions towards investing in expansionary strategies<sup>1</sup>, The respondents in Finland believe that the best strategy for them is to focus securing their financial position. Moreover, Finnish companies are more reluctant than ever since late 2011 to invest in introducing new products to the market.

**To What Extent is Each of the Following Business Strategies Likely to Be a Priority for Your Business over the Next 12 Months?**



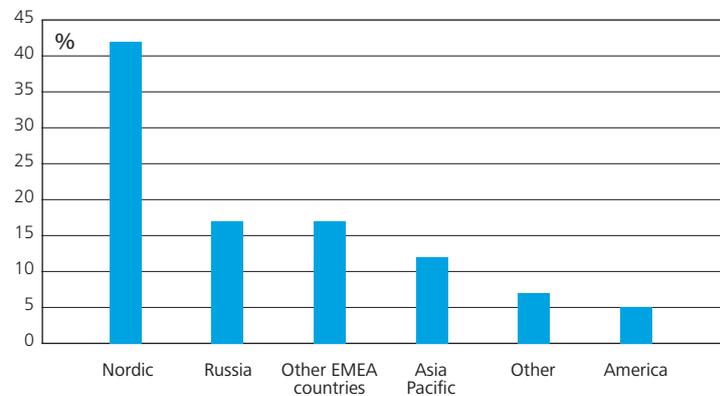
Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong business priority for their business in the next 12 months. Expansionary strategies are introducing new products/services or expanding to new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

**To What Extent is Each of the Following Business Strategies Likely to Be a Priority for Your Business over the Next 12 Months?**



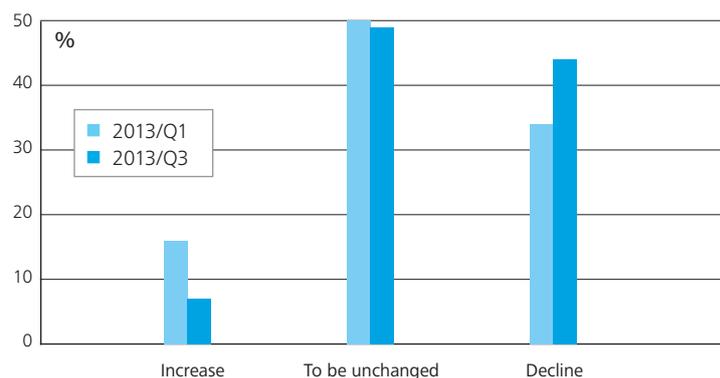
The most of the CFOs are relying on the markets they are most acquainted with like the Nordic countries, Russia and other EMEA countries. Strikingly, the Nordic countries rise to a level unmatched by any other region or country (42% of all the respondents), which underlines the conservative approach to growth strategies amongst CFOs. Finnish CFOs are also less globally focused than their colleagues in Sweden, where 35.5% of CFOs in total were eager to seek growth from the Asia Pacific region and America. However, as the most global industry in Finland the manufacturing industry looks openly to all regions globally.

**During the Next 12 Months, in What Region do You Expect Your Company to have the Best Opportunities for Growth?**



CFOs' are highly reluctant to invest in new talent in Finland. Only 7% of them are going to employ more people, while 44% of them are preparing for new layoffs. Only a few companies namely in healthcare, services and real estate industries are expecting their numbers of employees to increase. For instance, the restructuring of the manufacturing industry can be expected to continue as 53% of CFOs from that industry replied that they are going to discharge employees over the coming six months.

**The Number of Employees Working in Finland for Your Company is, in the Next 6 Months, Expected to:**

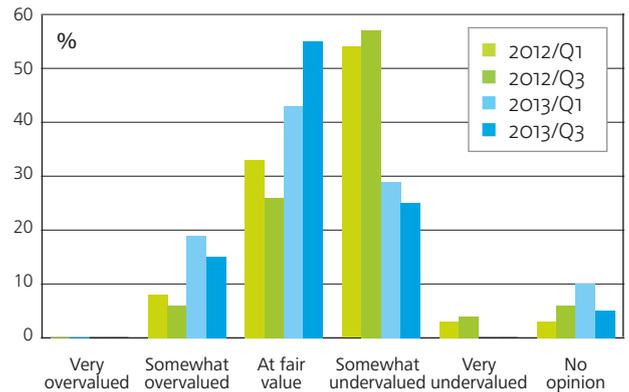


<sup>1</sup> For the first time within two years expansionary strategies were more popular than defensive strategies in the UK (source: UK CFO Survey Q3/2013)

# Finance

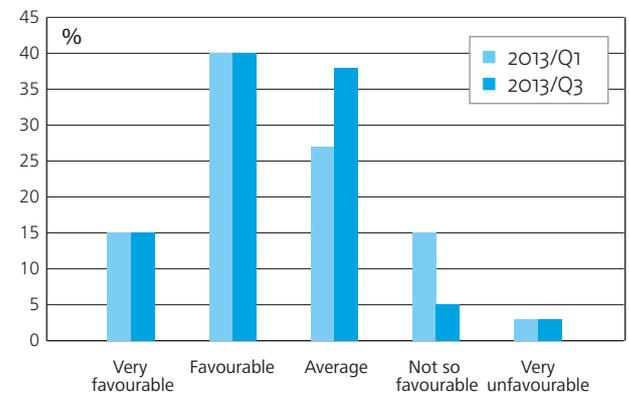
According to Finnish CFOs Finnish companies are reasonably valued. Only 15% of the respondents feel that companies are still overvalued. In comparison to year 2012, when the most of the CFOs argued that Finnish companies are undervalued, less than one third of them argue that valuation of Finnish companies remains below a fair level.

*How do You Currently Rate Valuation of Finnish Companies?*



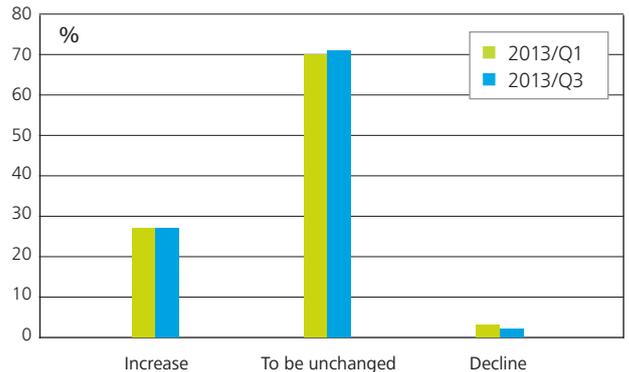
The availability of credit is notably high which reflects the good financial status of the Finnish and Scandinavian finance industry. The finance industry has communicated their willingness to support investments, because 55% of the respondents indicate that the attitude towards them is favorable or very favorable. In this quarter credit has been equally available for companies regardless of their size.

*The Lending Attitude of Financial Institutions Toward Your Company is Seen as:*



The counterparty risks of default are expected to remain unchanged or increase slightly. The situation is similar with quarter 1 when we posted virtually similar values. However, the counterparty default risk trend increased for the year 2013, which indicates that the default risks are slowly climbing.

*The Probability for Counterparties' Default in the Next 6 Months is Expected to:*

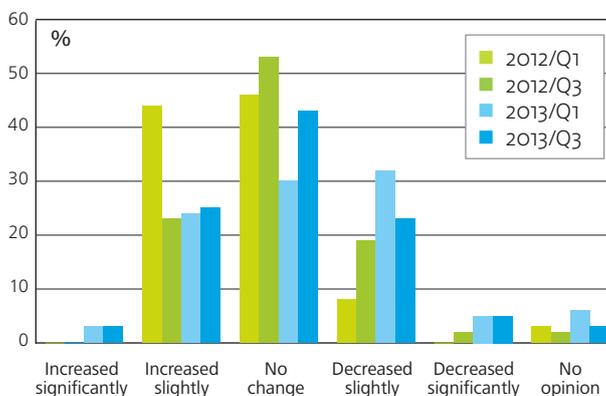




In the first quarter of 2013 we reported that the financial risks on the respondents' balance sheets were decreasing. Now, in the third quarter it seems that measure to manage the risks are taking place and the financial risk remains relatively unchanged. 43% of the CFOs reported the risks have remained the same over the past 12 months.

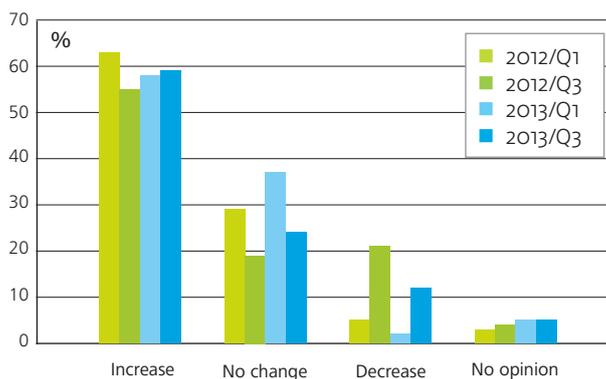
**How Has the Level of Financial Risk on Your Balance Sheet Changed over the Last 12 Months?**

*(Financial risk could include, for instance, levels of gearing, uncertainty about the valuation of assets and interest rate and exchange rate sensitivity.)*



The expectations that M&A activities will increase have remained high. For two years now, some 60% of the CFOs have steadily argued that the M&A market is going to recover soon. The results are roughly aligned with another survey conducted by Deloitte Finland in October 2013, where 78% of the M&A specialists believed that they are going to be involved in M&A activities within the next 6 months<sup>2</sup>.

**Over the Next 12 Months, How do You Expect Levels of Corporate Acquisitions and Divestments in Finland to Change?**



<sup>2</sup> Deloitte. 2013: M&A Barometer

# Macroeconomic Context

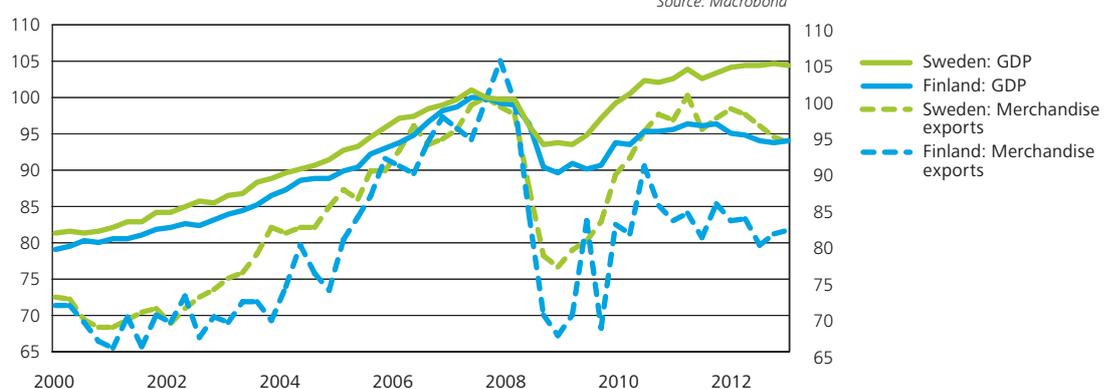
**Slow recovery due to structural weaknesses—SEB Macro outlook for Finland.** After four quarters of falling quarterly GDP, Finland left the recession behind with 0.2% growth in the second quarter of 2013. The outlook continues to be weak and the recovery is lagging behind the other Nordic countries. Exports have been weak and the previously resilient household sector is at present also showing signs of weaknesses.

The economy is not only troubled by cyclical factors, but it has also become increasingly clear that some problems are more deeply rooted and structural. The export ratio has fallen 10 percentage points compared to the pre-crisis level, terms-of-trade have fallen unemployment is expected to decrease only slowly. The current account has trended from 8 to -2% of GDP in 10 years.

We expect growth to be 0.3% each quarter compared to the previous quarter during the second half of 2013 and after that a slight continued improvement. Overall, GDP will fall by 0.8% in 2013, a downward revision compared to our previous forecast. In 2014 and 2015 GDP will grow by 1.4 and 1.6, respectively.

**Weak manufacturing, labor market improving only slowly, consumers getting worried.** Manufacturing production has fallen every month in 2013 compared with a year earlier (current prices) and exports have fallen most months. Confidence among manufacturers improved early in 2013 but has since fallen and is currently at a low level. Improved international demand will help exports in 2014 and 2015, but in the near term we expect continued weak performance for manufacturing output and exports.

**Lack of Export Recovery Points to Structural Downturn**  
Index 2008 = 100



**Leading Indicators Moving Sideways at Low Levels**





Capital spending fell during the first half of 2013 by 1.8% compared to the same period in 2012. Capacity utilization is again falling. Together with a weak manufacturing sector, the outlook for investments is also weak. Investments will fall by 1.0% in 2013.

Domestic demand held up in 2012, but has fallen so far in 2013 (-0.3% in the first and second quarters). Consumer confidence has improved, but households are under pressure from a weak labor market, government belt-tightening and low wage increases. Consumption is expected to fall as an annual average for 2013.

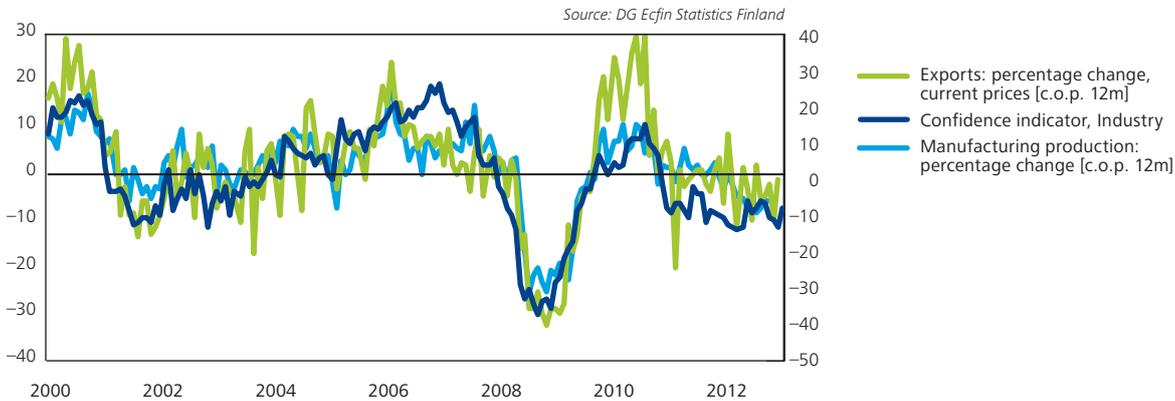
Unemployment fell 0.5 percentage points in six months to 7.7% in August, despite weak growth. Given falling vacancies and a generally weak outlook for the

economy, we do not expect more than a levelling out at above 7.5 percent unemployment in the near term.

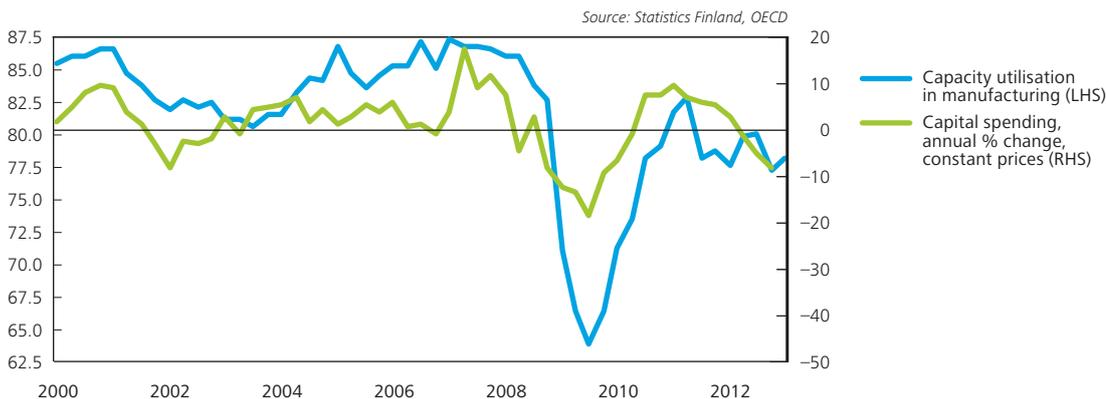
**Falling inflation, bank lending getting weaker, current account stuck in deficit.** Inflation has fallen more than expected. After peaking at 3.5% late in 2012, boosted by tax hikes, it stood at 1.8% in September 2013. Changes in indirect taxes will also push up inflation in 2014—2015, although to a lesser extent. As an annual average, inflation will fall to 2.2% in 2013 and continue downward to just below 2% in 2014 and 2015.

Demand for new loans is falling, especially for households. This development is not surprising, given that non-financial companies face falling demand and rising idle capacity. Household consumption of durable goods is especially weak, and the housing market is flat.

**Weak Production and Export Ahead**

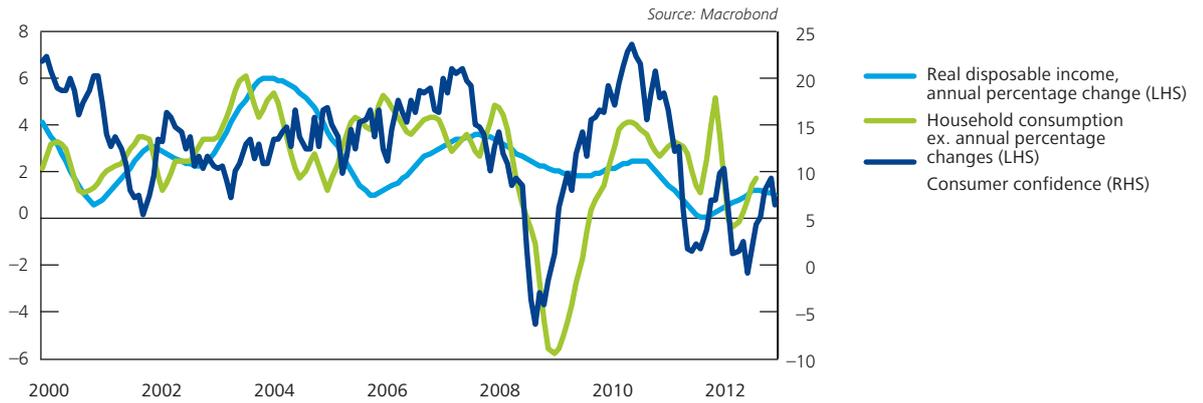


**Capacity Utilisation and Capital Spending**

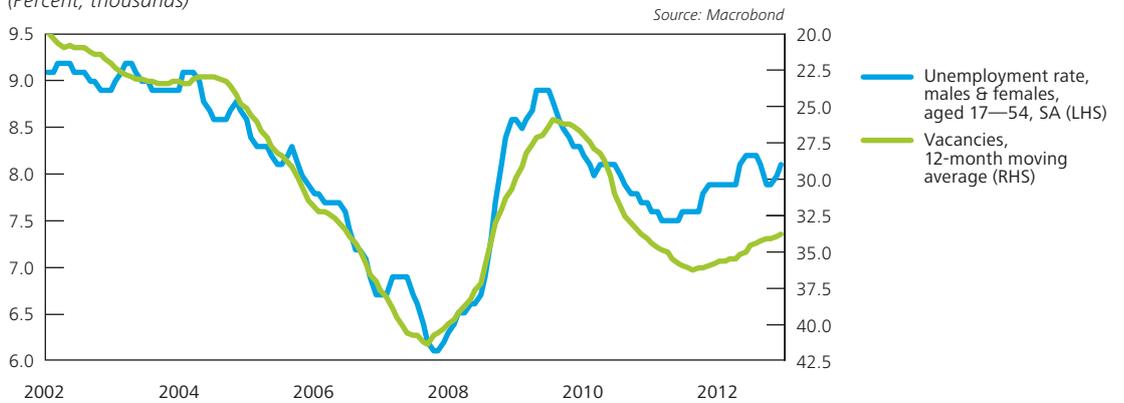




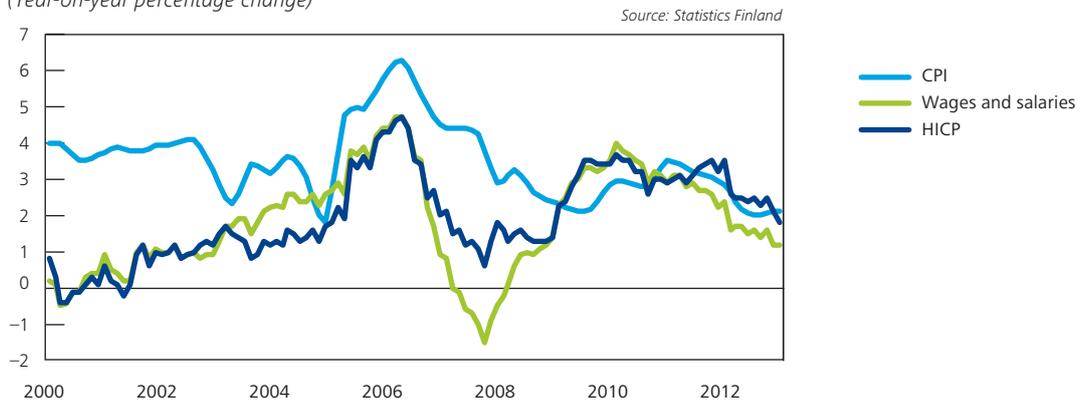
**Household Consumption, income and Confidence Indicator**



**Rising Unemployment and Decreasing Number of Vacancies**  
(Percent, thousands)



**Inflation is Continuing to Fall**  
(Year-on-year percentage change)



# 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 quarter. It is the only survey that reflects CFO attitudes to the operating environment, valuation, risks, funding and expectations.

The survey is carried out as a web-based questionnaire. The 2013 third-quarter survey took place between 16th of October and 30th of October. 41 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, retail, real estate and service industries were in the majority. More than 60% of the respondents are from companies that have an annual turnover of more than 200 million euros. 22% have an annual turnover of more than 1.5 billion euros.



# Writers & Contributors

The survey has been produced by **Tuomo Salmi**, Partner, CFO Program Leader, Deloitte and **Mikko Mäkinen**, Partner, Finance Transformation Leader, Deloitte and **Sakari Järvelä**, Head of Financial Strategy, SEB.

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

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