The Deloitte/SEB CFO Survey
Finding the Rhythm and the Courage

Spring 2015
Welcome to Deloitte/SEB CFO Survey Spring 2015

We are excited to present the spring 2015 results of the new Deloitte/SEB CFO Survey. The report uniquely 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.

For the first time, 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 14 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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The uncertainty facing the economic recovery is not lowering the expectations the Chief Financial Officers in Finland have regarding abilities to improve the financial performance of their companies. According to the first quarter Deloitte/SEB CFO Survey, Finnish-based companies are in a position where they have mostly completed the post-financial crisis restructuring. The risks on balance sheets are sinking and fewer companies are decreasing their workforce on a global scale. The outlook on hiring is balanced, but still we have not seen the last of the job cuts in Finland as 25% of the companies will decrease the amount of employees working for them in Finland in the next 6 months.

Regardless of the positive signals, the duality of business strategies still exist. Finnish CFOs are willing to make strategic investments and business strategies emphasizing growth are at reasonably positive levels. On the other hand, they are risk-averse and 40% of the respondents of the survey are also employing defensive strategies such as cost-reduction and increasing cash flow.

The results of the first quarter survey bring us a set of encouraging signs that Finnish companies are on a path to improve their revenues, cash flow and operating margins altogether. This makes Finnish CFOs more optimistic than ever in the past four years surpassing the UK and European region’s outlook in the same metrics. Finnish CFOs have also a higher level of certainty about the financial and economic development than CFOs in the Europe region have in general. This is interesting, due to the fact that the Finnish economy will likely grow slower than the rest of the Eurozone and CFOs are still agonizingly worried about the demand and the outlook of the Finnish economy.

This time, CFOs were asked specific questions on how would they resolve the pan-European growth crisis and what decisions the Finnish government should make as soon as the new government is formed. From the plethora of options, our respondents seem to mostly agree that firstly Finland needs assertive structural national reforms and fast decision-making during the next six months or the sentiment is going to turn more pessimistic. On the other hand, Finnish CFOs don’t think that dissolving the Euro, redistributing political powers to national governments or deepening the fiscal and political union would make a great difference in resolving the crisis. While it is clear that something should be done, our respondents can’t find a consensus on the methods of improving the economy. Reducing the government spending, balancing the budget and reducing taxes being the traditionally favored options, we also received strong support for boosting the investments and initiatives. As much as 55% of the respondents thought that stopping austerity programs and boosting fiscal spending would be a good method to resolve the crisis.

The prolonging geopolitical crisis and lasting heavy sanctioning policy on Russia have depressed the growth expectations in Russia and none of the respondents were increasing their presence in Russia. Yet, the great majority of CFOs said that they have already made the required decisions and changes in regard to the Russia-related strategy. The growth opportunities in Russia remaining next to random Finnish companies are looking to grow their business elsewhere. The emerging growth in America is expected to have a positive impact on 19% of the respondents’ companies, which is a tremendous leap from last fall when only 8% expected to grow their business in America.

In regard to the valuation of Finnish companies, more than half of the respondents think that the stock market is inflated and Finnish companies are over-valued. Hence, the Finnish CFOs are aggravatingly negative towards equity as a source for new funds. Rather, they prefer bank borrowing and corporate debt. CFOs also expect the M&A market to remain active.
The business optimism in Finland is higher than in Europe. The net business optimism is 34%, which is the highest value in almost four years.

60% of the CFOs are seeing their financial position as favorable.

The business environment remains uncertain, but Finnish CFOs are more assured than CFOs in the Europe region in general: 49% of CFOs rate the uncertainty facing their businesses as high—11 percentage points lower than the Europe region in general.

In Finland, CFOs regard the Finnish stock market as inflated. 52% of the respondents consider that Finnish companies are overvalued.

26% of the CFOs are willing to make strategic investment in Finland in the next 6 months, if the financial position remains the same as now.

The economic recovery in America is affecting Finnish companies. 19% of the CFOs think that their company will have the best opportunities for growth in that specific market.

The job cuts are not completely over. 25% of the respondents’ companies are still reducing workforce in Finland.

National structural reforms are seen as the most effective way to resolve the EU growth crisis. 100% of the respondents in Finland are certain of its effectiveness and 92% in Europe.

Key metrics to improve. 59% of the Finnish CFOs expect the revenues to increase and 65% expect operating margins to increase.
The CFOs of Finland and Europe are seeing the national structural reforms as the most effective policy to resolve the current EU/euro-area growth crisis. The CFOs—Finnish CFOs more than their European counterparts—see reducing austerity measures and increasing public/pan-European spending as a way out also. The CFOs are generally favoring the current status quo in the centralization of power to the EU. 60% don’t want to deepen the integration and simultaneously 64% don’t want to redistribute the political power and responsibilities. On the other hand, European CFOs are significantly more pro-integration than their Finnish counterparts, but also more divided on the subject as they also favor redistributing powers to national governments more than Finns. Generally, global trade agreements (e.g. TTIP) are perceived to have a positive correlation with resolving the EU growth crisis.

In the aftermath of the parliamentary election held on the 19th of April, the CFOs see that general political decision-making influences their business environment quite a lot. They are genuinely interested in the development of the government budget and the direction of decision-making. The CFOs find reducing government spending to be the most important task for the next Finnish government by a large margin. The next most important tasks were found to be lowering tax rates overall and boosting investments, both accelerating the investment environment and to increase government-managed investments.
Business Confidence

The net optimism has recovered from the past fall’s momentary lapse and reached the highest levels in the past 4 years. The optimism in Finland is outstanding (net optimism 34%). This is especially encouraging, because the net optimism in UK (17%) and in the rest of the European region (14%) is clearly lower. This indicates that CFOs in Finland are confident about their companies’ financial position and they are undeterred by the uncertainties regarding the recovery of the European and Finnish economy (see the question regarding greatest concerns).

* European results only available from 2015/Q1

In spite of the development of the economy in the Euro area remaining somewhat obscure and the lingering geopolitical instability, perceptions on the overall financial position of CFOs’ own companies are persistently positive. 60% of the CFOs are feeling confident about their financial position, indicating that companies have managed the risks well and could be ready to be more opportunistic (see preferences to use cash surplus on investments, chart 6). This quarter, especially the manufacturing industry has a favorable tone as 57% of the companies in manufacturing are seeing the position as favorable.

Chart 3. Compared to six months ago, how do you feel about the financial prospects for your company?

Chart 4. The overall financial position of your company is seen as:
Prospects & Concerns

As was the case in the earlier studies, the three biggest concerns for CFOs in Finland are demand, the outlook of the Finnish economy and competitiveness, and the cost of labor. But on the other hand, as the shortage of skilled labor is falling, also the cost of labor seems to have decreased. Country risk Russia has taken a small nudge upwards to 21%. As the geopolitical crisis stabilizes into a standstill and EU sanctions remain level, the situation will probably stay unaltered. It seems that the CFOs are turning their focus away from Russia and the risks involved are being managed comprehensively.

CFOs are less willing to distribute the excess money to shareholders and they are becoming increasingly interested in making strategic investments both in Finland and abroad. 26% of the CFOs would mostly prefer strategic investments in Finland and 27% would prefer strategic investments abroad. Also paying down the existing debts remains as the third viable option.

Finnish CFOs are slightly more conservative in their expectations for revenue development but, on the other hand, much more optimistic concerning operating margins. As with other observations made, the Finnish CFOs are comprehensively more conservative than their European counterparts. At the same time, they do have more trust in the development of their operating margins.
The CFOs’ expectations for operating cash flow development are broadly unchanged. Overall optimism stayed on a highly positive level, but will not affect cash flow expectations.

The balance between CFOs’ prioritizing defensive strategies and expansionary strategies has remained steady. 40% of the CFOs are still mostly prioritizing defensive strategies, but 33% of all the respondents are also willing to employ more expansionary ones.

The search for growth is still primarily made through expanding organically and by introducing new products or entering new markets (like the Americas). However, the focus on new products or market introduction are a stronger priority (strong priority for 48%) now than it was in the fall of 2014 (strong priority for 35%). Simultaneously, the relative weight of CFOs’ prioritizing expansion through acquisitions has dropped from 24% to 18%.

* The phrasing of the question and the response options have changed for the 2015 Q1 questionnaire, therefore the results are not truly comparable. Yet net optimism stayed relevant as the function of the question remained the same.
The strengthening dollar and positive signals of the U.S. economy have improved the expectations of CFOs in Finland. The number of CFOs expecting growth from the Americas has more than doubled, jumping from a moderate 8% to 18.8%. Also 11.5 percentage points fewer CFOs are expecting growth from the Nordics, although the Nordics is still the primary region for growth for 36.9% of CFOs. The overall growth expectations from Russia have reduced to next to nothing.

The survey also included a question* about the still ongoing geopolitical crisis. The answers revealed that there has generally been no change in companies’ Russia strategy in the past six months. It seems that the steps needed have already been taken. But still 10% are going to decrease their presence in the Russian market. A third of the respondents that chose the “Other, please specify” option elaborated their answers to indicate restructuring of their Russian organizations, which could also mean decreasing their presence in the market.

The number of companies that are going to decrease the number of their employees in Finland has dropped to a two-year low. And, at the same time, hiring in Finland has increased and hiring abroad has decreased, so we could be seeing the end of the major restructuring phase and the surge of cooperation procedures. This can be seen as a beginning for a more balanced phase of investing and growth.

Fewer companies cut jobs. Still 25% of respondents expect the number of employees working in Finland to decline.

The number of CFOs that see their staff numbers growing abroad has declined from 31% to 23% and, at the same time, seven percentage points more respondents felt that their staff numbers will remain the same as before.
Since late 2012, when the equity market in the CFOs’ regard was the most devalued, more and more CFOs think that Finnish companies are overvalued. The beginning of 2014 marked the tipping point, because from that point forward we have had more CFOs thinking that companies are overvalued than undervalued. Skepticism towards the sustainability of the recovery of the stock markets in Finland is increasing due to the fact that 52% of the CFOs think that the market is inflated and companies are overvalued and simultaneously the private equity funding is the least attractive source of external funding (see chart 13 [External funding]).

Overall, the CFOs see external funding as a viable funding option at the moment. Corporate debt and bank borrowing are seen as the most favorable options, whereas equity funding is seen as least appealing. Finnish CFOs favor corporate debt as a source of funding, whereas their European colleagues see bank borrowing as a more viable solution. European CFOs are more likely to seek equity funding than their Finnish counterparts, but they’re split on the matter.

* The % of CFOs who chose very unattractive or unattractive has been multiplied by -1 for the sake of visualization.

The lending attitudes of financial institutions towards companies have taken a slight negative turn according to the CFOs. In general, larger companies seem to enjoy good access to financing as smaller ones have more difficulties—although a few of the largest companies did say that attitudes are not so favorable.
The geopolitical crisis, amongst other threats to recovery in the euro zone, has kept the rating of the economic uncertainty elevated. 49% of CFOs rate the level of uncertainty as high. Nonetheless, Finnish CFOs are less anxious than their colleagues in other European countries where 61% rate the level as high.

The effects of the re-structuring phase and cost-cutting period between the end of 2011 and the first half of 2014 can now be seen. The overall financial risk on the balance sheet is finally decreasing and, combined with the positive signals on strategic investments, a period of growth might be imminent. The last time such a low risk-sentiment was imminent in the CFO Survey was in the first quarter of 2011.

67% of the CFOs are expecting more corporate acquisitions and divestments than before, which is a considerable rise from last fall. The M&A-market is indicated to stay active and should continue to grow. In this challenging economic environment, the growth is now sought especially through M&A transactions (Deloitte’s recent M&A Barometer Q2/2015). Yet, the lack of interesting target companies restricts the amount of completed transactions. During the next six months, the M&A activity is expected to grow especially in the manufacturing industry. Transportation, wearable technology and internet are things mentioned as potential new M&A target areas.
The Finnish economy remains anaemic. No recovery like that in the other Nordic countries and elsewhere in Europe seems imminent. Due to the structural and cyclical problems that it has grappled with in recent years, Finland is in a weak starting position. GDP is nearly 7% lower than before the crisis. The corresponding figure in the euro zone is –1% and in Sweden +7%. Economic performance has been far worse than after the early 1990s recession. Indicators are pointing to a growth rate just above zero; industrial production and exports have fallen for three straight months, consumption is weak and home prices are falling. The bright spots are low inflation, which is allowing real wage increases, and a weaker euro that is improving Finland’s competitiveness and exports. But the negative forces will prevent anything but a very feeble recovery, despite the low GDP level. GDP will grow by 0.4% in 2015 and 1.0% in 2016.

There is broad-based weakness in economic indicators, although the trend in construction and manufacturing is more negative than in services. Yet there are signs that exporters will be able to redirect deliveries to other countries as trade with Russia falls. This will help push export growth up above zero in 2015. Combined with a weak import trend, this will be enough to ensure that net exports will contribute positively to growth. The current account deficit will remain around 2% of GDP in 2015—2016. Capital spending, which has fallen by more than 5% for two years in a row, will continue to be squeezed by idle capacity and lack of optimism. Construction investments will also be weak; the housing market is shaky and prices are falling slightly. Yet lending to businesses is continuing to increase by about 5%, which indicates some activity on the capital spending front.
The labour market has also been disappointing. Last year’s downturn in unemployment has ended. Despite a decent level of job openings, unemployment has risen again to 9.4%, well above its 7.5—8.0% equilibrium. This indicates matching problems. Unemployment will continue to climb a bit further before levelling out and falling slowly in 2016.

Households are being pulled in different directions. Pay increases are slowing as unemployment rises. Fiscal policy remains constrictive, but low inflation is leading to real wage increases. Interest rates are low and the stock market has climbed. Inflation will remain low in 2015—2016, driven among other things by downward pressure on wages due to the need to restore competitiveness. The household savings ratio has fallen in recent years but is now levelling off. After falling for two years, consumption will rise by 0.2% in 2015 and 0.5% in 2016. Continued high unemployment and a weak stock market will pose downside risks.

After April’s election, fiscal policy remains tight. In 2014, the public sector deficit rose to 3.2% of GDP: above the EU’s 3% limit for the first time since euro zone accession. Public debt was 59.3% of GDP in 2014, just below the 60% limit. The new government will not enact any major fiscal policy changes. It will supplement a continued focus on cost-cutting and deficit reduction with efforts to improve the labour market, reform health care and tighten spending by local authorities.
About the Survey

This is the first-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 CFO attitudes to operating environment, valuation, risks, funding and expectations.

The survey is carried out as a web-based questionnaire. The 2015 first-quarter survey took place between 4th and 25th of March. 50 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 & wholesale and service industries were in the majority. 74% of the respondents are from companies that have an annual turnover of more than 200 million euros.

For the first time, the CFO Survey was conducted simultaneously in other European countries. The European CFO Survey gathered opinions of over 1,300 CFOs in 14 European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Russia, Spain, Switzerland and the United Kingdom.

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Please visit www.deloitte.fi for the latest and past copies of the survey and other publications.

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