



## **The Deloitte/SEB CFO Survey**

Brexit is confusing prospects

Fall 2016

# The Deloitte/SEB CFO Survey

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We are excited to present the fall 2016 results of the new Deloitte/SEB CFO Survey. The report uniquely combines perspectives from CFOs within large and midsize companies in Finland with viewpoints from SEB's Nordic Outlook, SEB research team's flagship report on key forecasts, and global economic trends.

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 1,400 CFOs in 17 European countries.

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Views were gathered from **over 1,400**  
CFOs in **17** European countries



## Summary

# Summary

**Due to the Brexit decision a few months ago and the lasting sanctions on Russia**, the external uncertainty is remaining high and expectations on growth are low in Finland. Brexit is sending ripple waves all over Europe and Finland is no exception. 47% of CFOs responding to our survey this fall assess that their business will be negatively affected by the decisions of the Brits. Only Portugal, the Netherlands, Ireland and, naturally, the UK have posted higher proportions. Companies in Finland emphasize that they are particularly affected by increased regulatory complexity, reconsiderations in the value chain and restrictions in the workforce mobility.

**The uncertainty is making decision-making of CFOs conservative**, which is adding to the expectations of slow recovery of the Finnish economy. Conservative sentiment is depicted in the priorities of how companies will use their cash surpluses in the next 6 months. One third are looking to pay down debt and one fifth are looking to share their extra surpluses with shareholders. The financial and strategic investment opportunities in Finland are few, because only 5% are looking to invest here financially and 11% strategically. The record-high positive lending attitudes of financial institutions are clearly not having the desired effect on capital spending. After all, still 56% are saying that it is not a good time to take more risk on their balance sheets.

**Many of our indicators being down, companies are naturally hesitant to invest in long-term plans**, however, they keep on making small and positive gains in business operations. More than 60% of all the respondents see their revenues and operating margins improving in the next 12 months. Also, hiring in Finland will be higher than at any time since we started tracking this indicator in the beginning of 2013. The structural changes and need to increase workforce is causing an increasing number of CFOs (22%) to be concerned about the shortage of skilled labor.

**The autumn has traditionally been weak on business optimism and this year has been no different.** Net business optimism has fallen from 24% to 16%. Still, the drop is lower than those of 2014 and 2015 and many of the indicators point that the problem lies in the political and economic environment, not within the companies' financial position.








**All in all, the financial position is positive for the most.** Operating margins and revenues are continuing to improve. Hiring is on the rise, but investments remain low. Considering most of the constraints are external, if the negative impacts of Brexit are contained and Russia and EU are able to solve the issues behind the sanction, the Finnish economy could make a quick turnaround.

Brexit is sending ripple waves all over Europe and Finland is no exception.



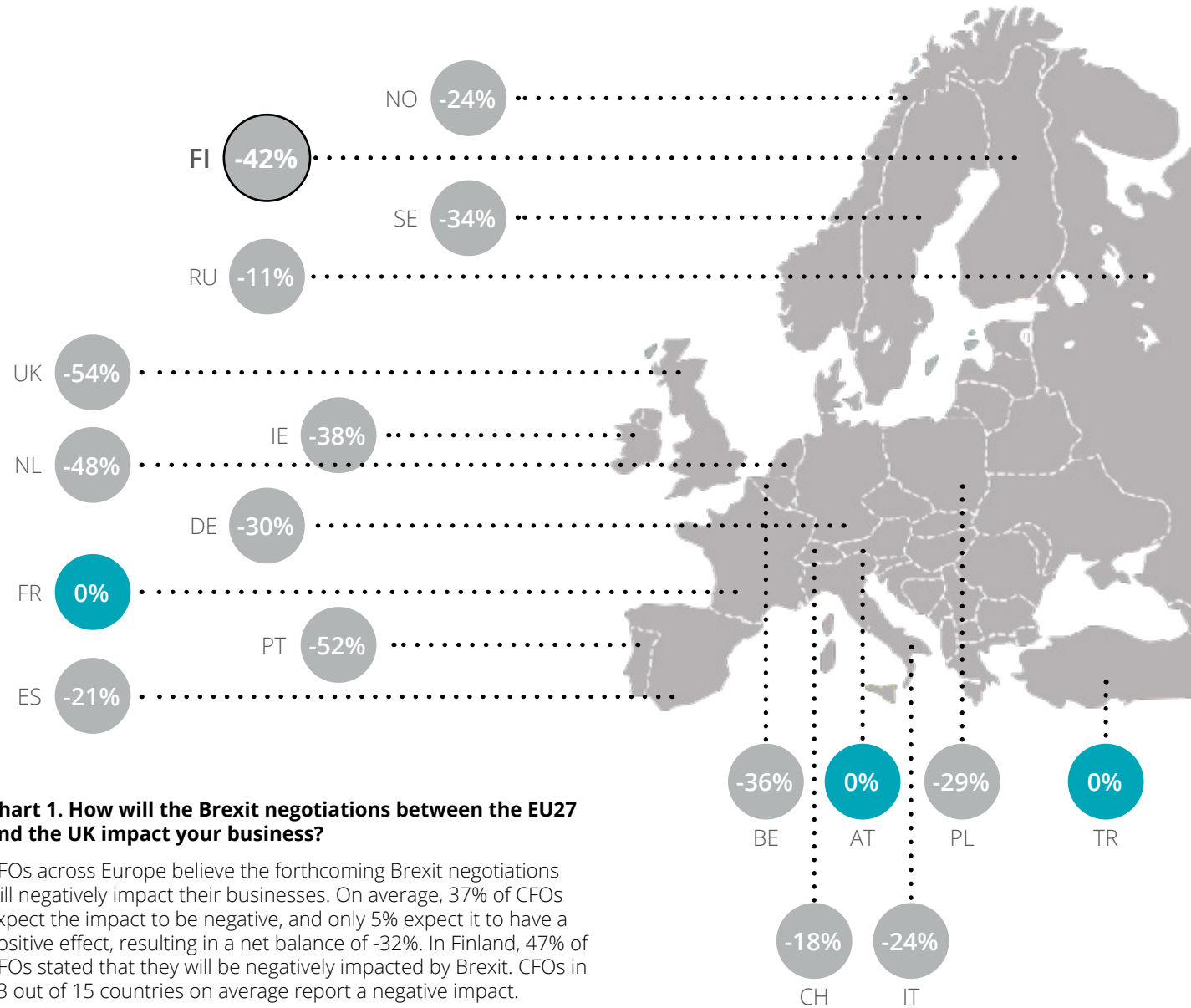
# Summary

## Key findings

-  **Brexit sends ripple waves** 47% of companies affected negatively by Brexit – higher only in the UK, Ireland, the Netherlands and Portugal.
-  **Hiring in Finland has climbed steadily since Q3/2014** 30% of Finnish companies are now hiring more.
-  **Concerns over cost of labor have fallen** This fall 20% sees it as a main concern.
-  **Few financial and strategic investment opportunities in Finland** 11% prefer to invest strategically in Finland. 32% looking to make those investments abroad.
-  **Focus of growth shifts towards Asia-Pacific** 27% of companies see that the best opportunities for growth are in Asia-Pacific. Yet Nordics are still preferred by 31% of respondents.
-  **Extra cash surpluses to be used to pay down debt and dividends** 30% prefer paying down debt, 18% would prioritize paying dividends.
-  **CFOs are balancing their business strategies** Cutting costs remains a strong priority for 52% of respondents, 40% are introducing new products/services and 38% are expanding into new markets.

Hot Topic

# Hot Topic



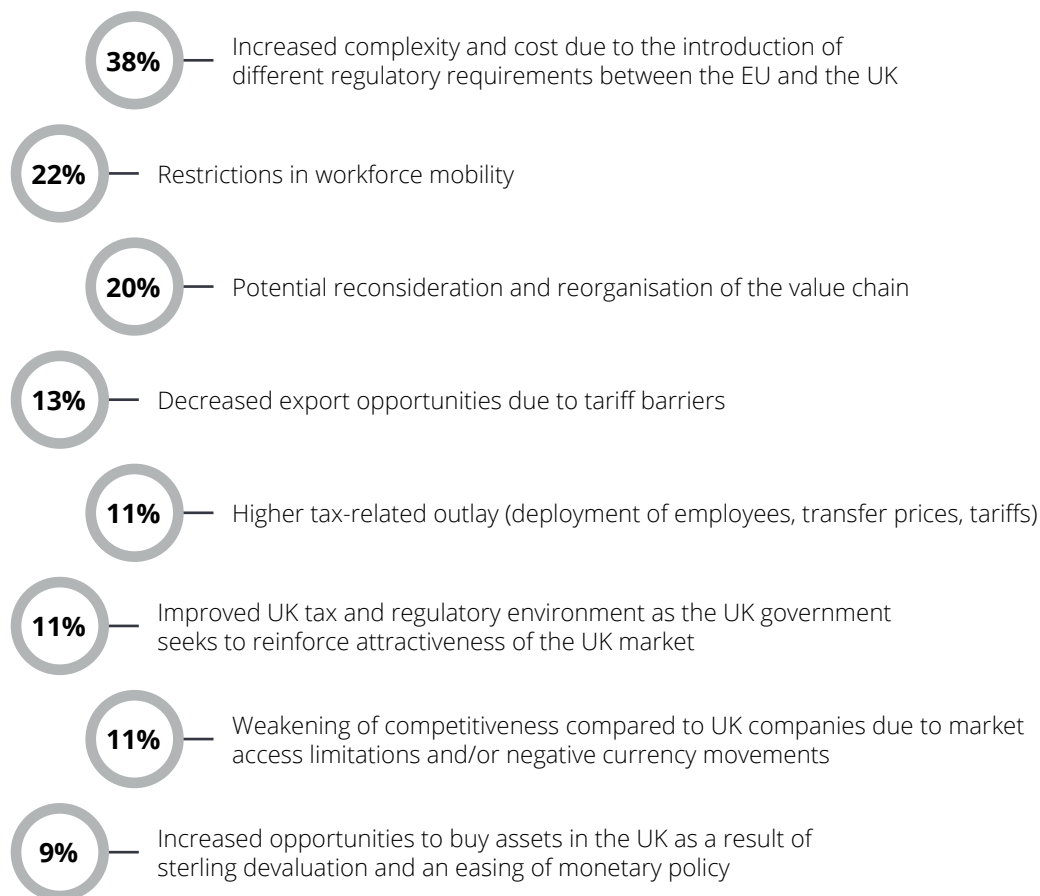
**Chart 1. How will the Brexit negotiations between the EU27 and the UK impact your business?**

CFOs across Europe believe the forthcoming Brexit negotiations will negatively impact their businesses. On average, 37% of CFOs expect the impact to be negative, and only 5% expect it to have a positive effect, resulting in a net balance of -32%. In Finland, 47% of CFOs stated that they will be negatively impacted by Brexit. CFOs in 13 out of 15 countries on average report a negative impact.

● Net balance (difference between negative and positive)

Hot Topic

# Hot Topic



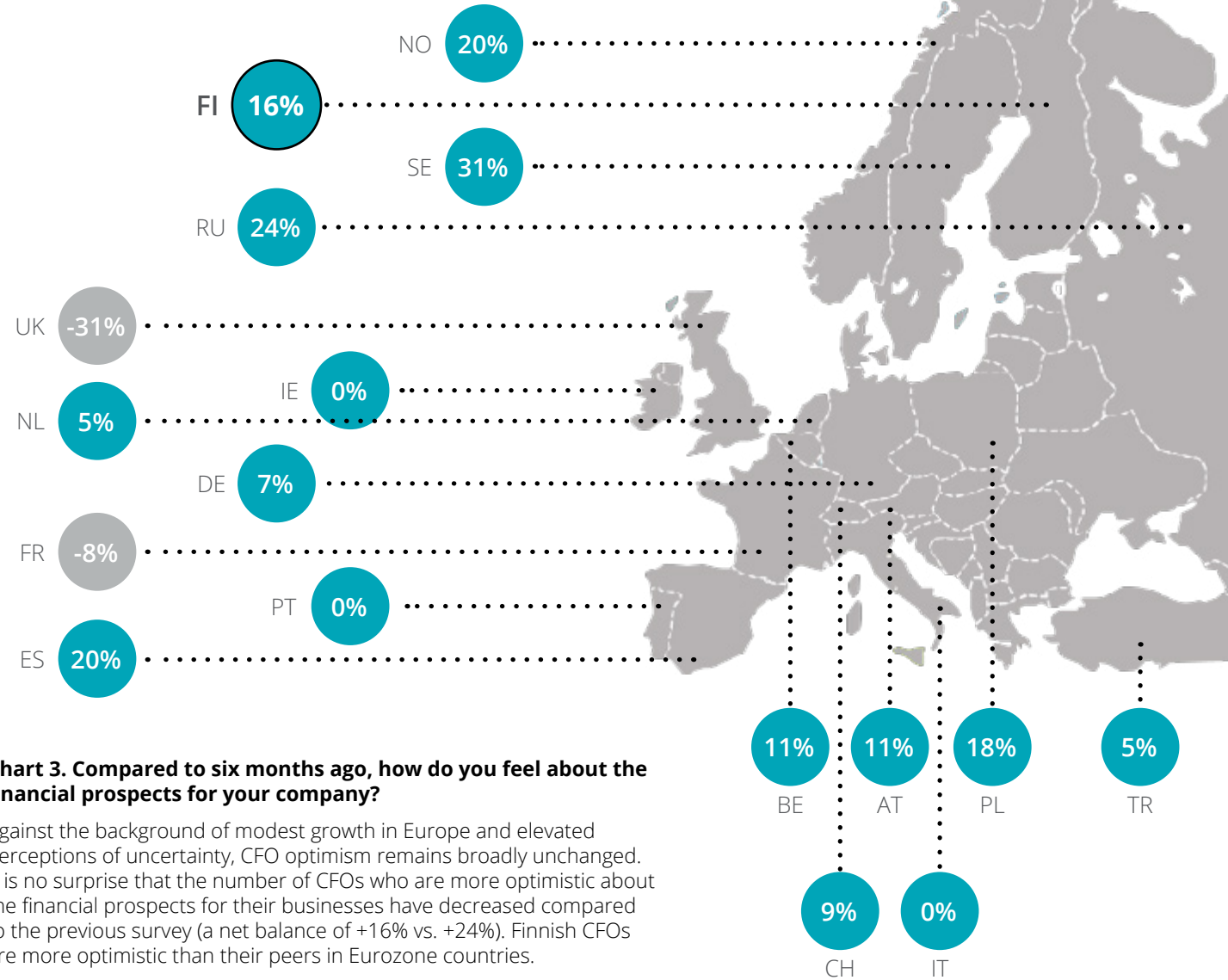
**Chart 2. How do you think your business would be affected if the UK leaves the EU?**

CFOs were also asked which aspects of Brexit they feel will impact their businesses most. In Finland and in many other European countries, CFOs cited increased complexity and costs due to the introduction of regulations between the EU and the UK as having the biggest potential impact on their businesses. They also cited restrictions in workforce mobility and decreased export opportunities due to non-tariff barriers.

Business Confidence

# Business Confidence

Financial prospects



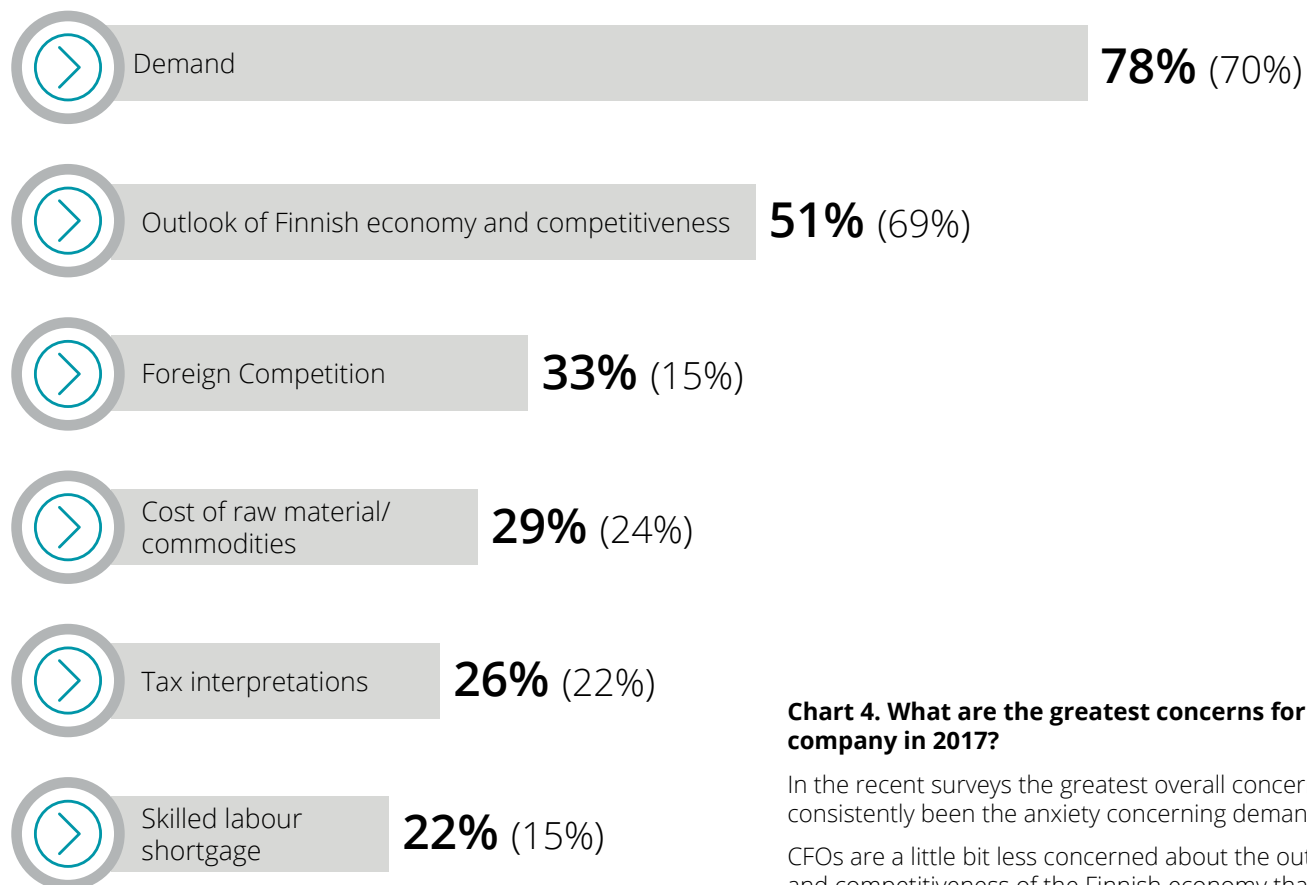
**Chart 3. Compared to six months ago, how do you feel about the financial prospects for your company?**

Against the background of modest growth in Europe and elevated perceptions of uncertainty, CFO optimism remains broadly unchanged. It is no surprise that the number of CFOs who are more optimistic about the financial prospects for their businesses have decreased compared to the previous survey (a net balance of +16% vs. +24%). Finnish CFOs are more optimistic than their peers in Eurozone countries.

● Net optimism (difference between optimistic and less optimistic)

# Prospects & Concerns

## Greatest concerns



**Chart 4. What are the greatest concerns for your company in 2017?**

In the recent surveys the greatest overall concern has consistently been the anxiety concerning demand.

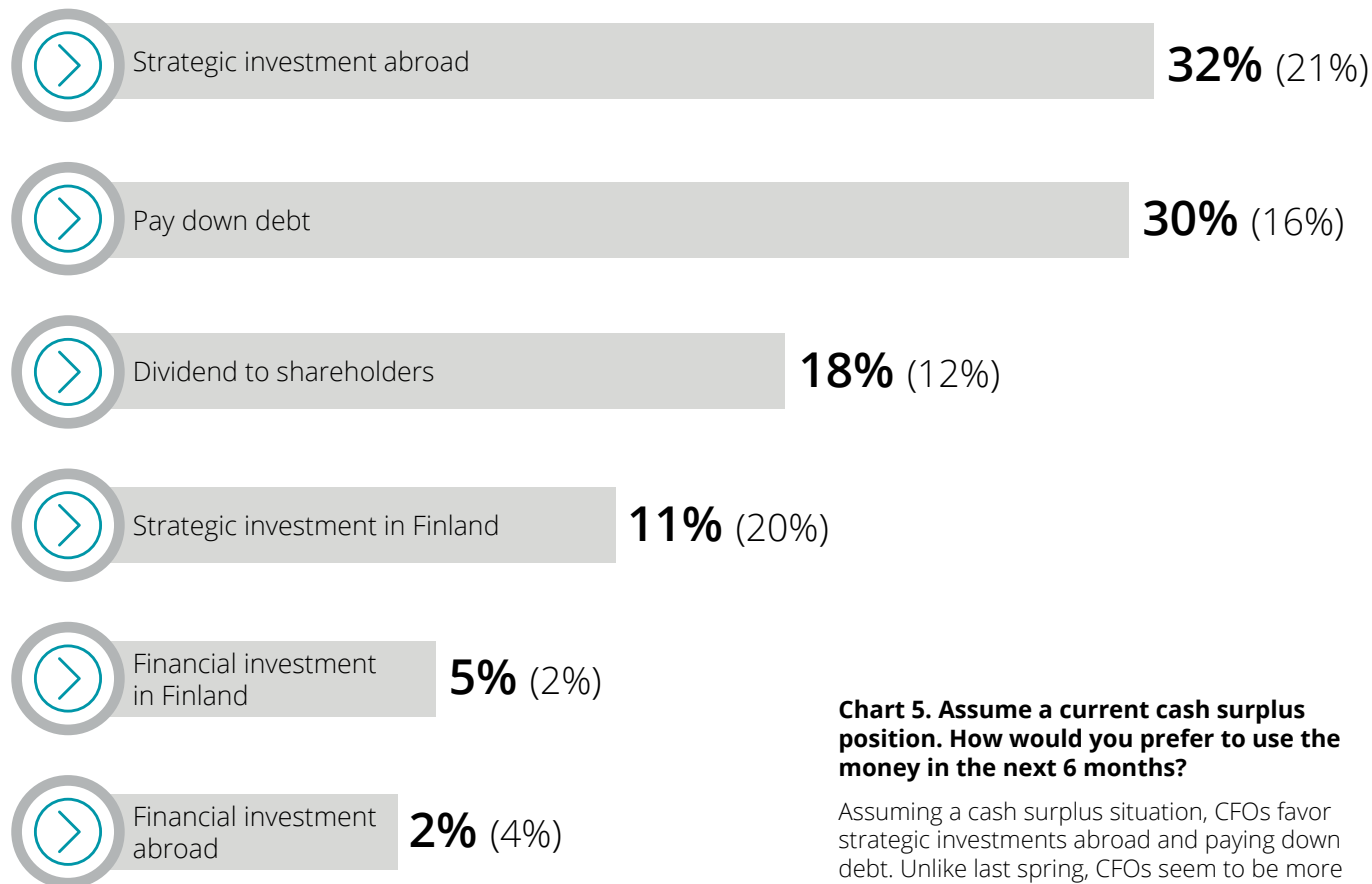
CFOs are a little bit less concerned about the outlook and competitiveness of the Finnish economy than in the previous survey. Compared to six months ago, foreign competition has become a bigger concern.

(In brackets results from The Deloitte/SEB CFO Survey Spring 2016)



# Prospects & Concerns

Most preferred way to use money



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

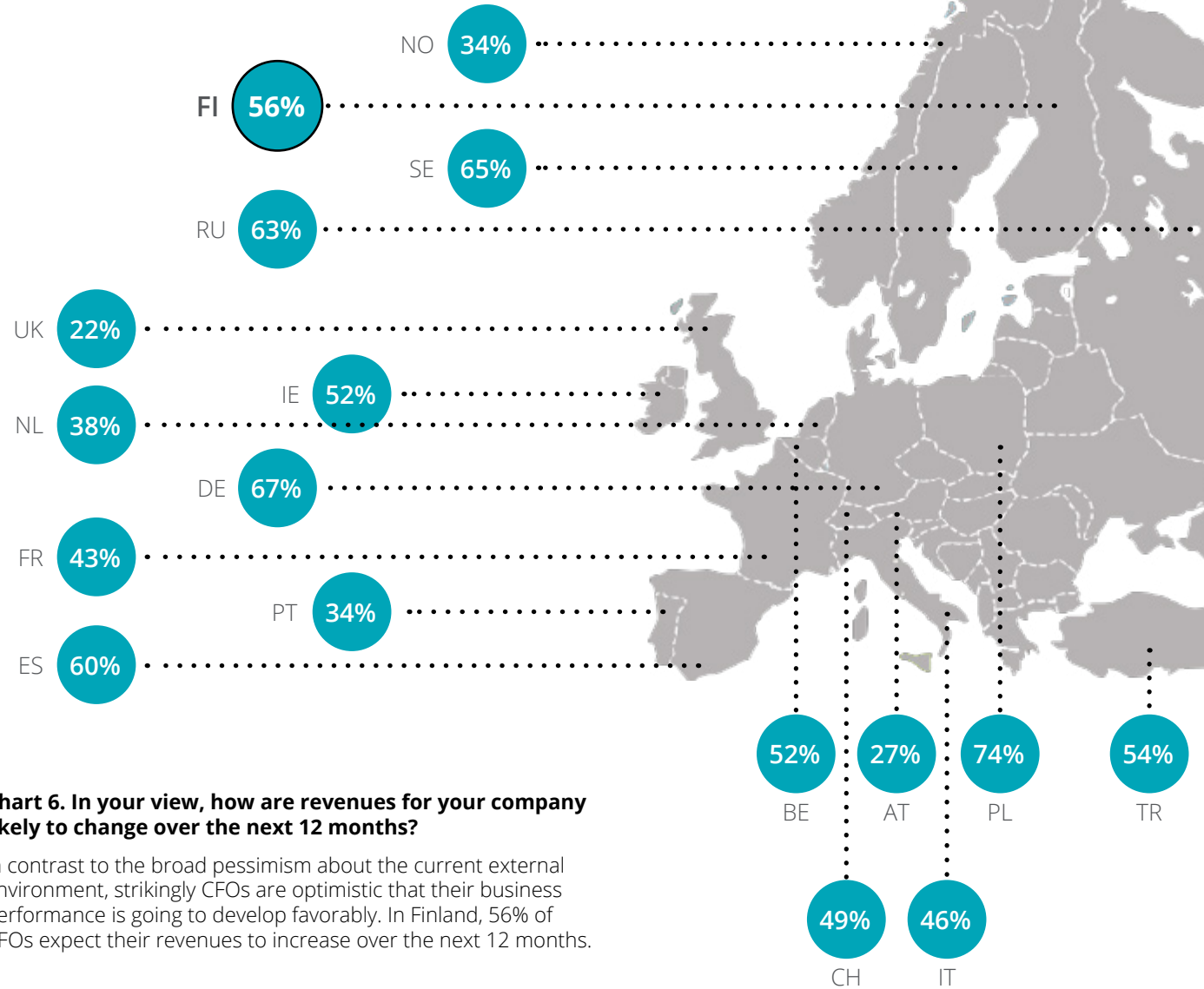
Assuming a cash surplus situation, CFOs favor strategic investments abroad and paying down debt. Unlike last spring, CFOs seem to be more willing to share excess money with shareholders.

(In brackets results from The Deloitte/SEB CFO Survey Spring 2016)

# Prospects & Concerns

## Revenues

Prospects & Concerns



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

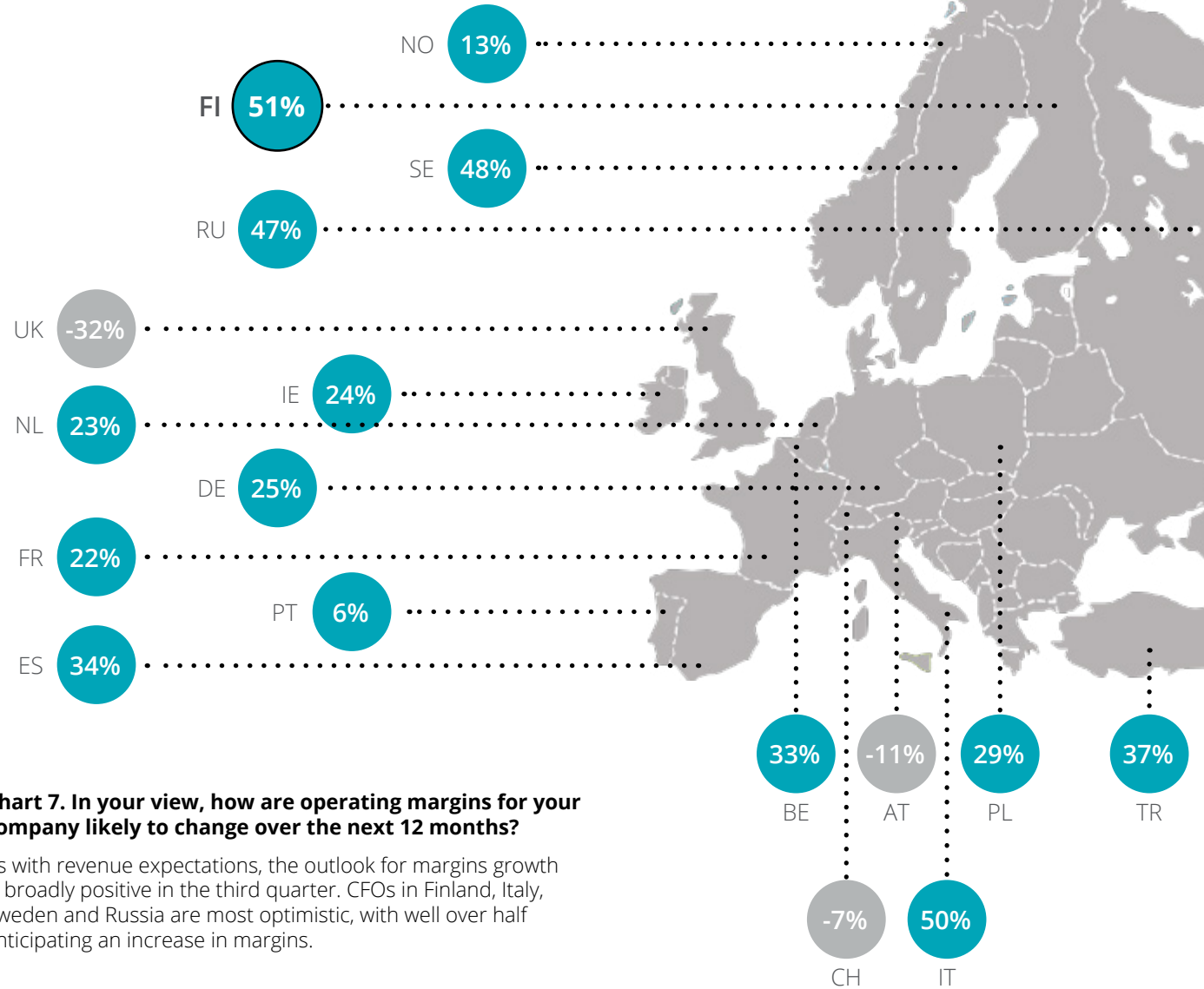
In contrast to the broad pessimism about the current external environment, strikingly CFOs are optimistic that their business performance is going to develop favorably. In Finland, 56% of CFOs expect their revenues to increase over the next 12 months.

● Net balance (difference between increase and decrease)

# Prospects & Concerns

## Operating margins

Prospects & Concerns



**Chart 7. In your view, how are operating margins for your company likely to change over the next 12 months?**

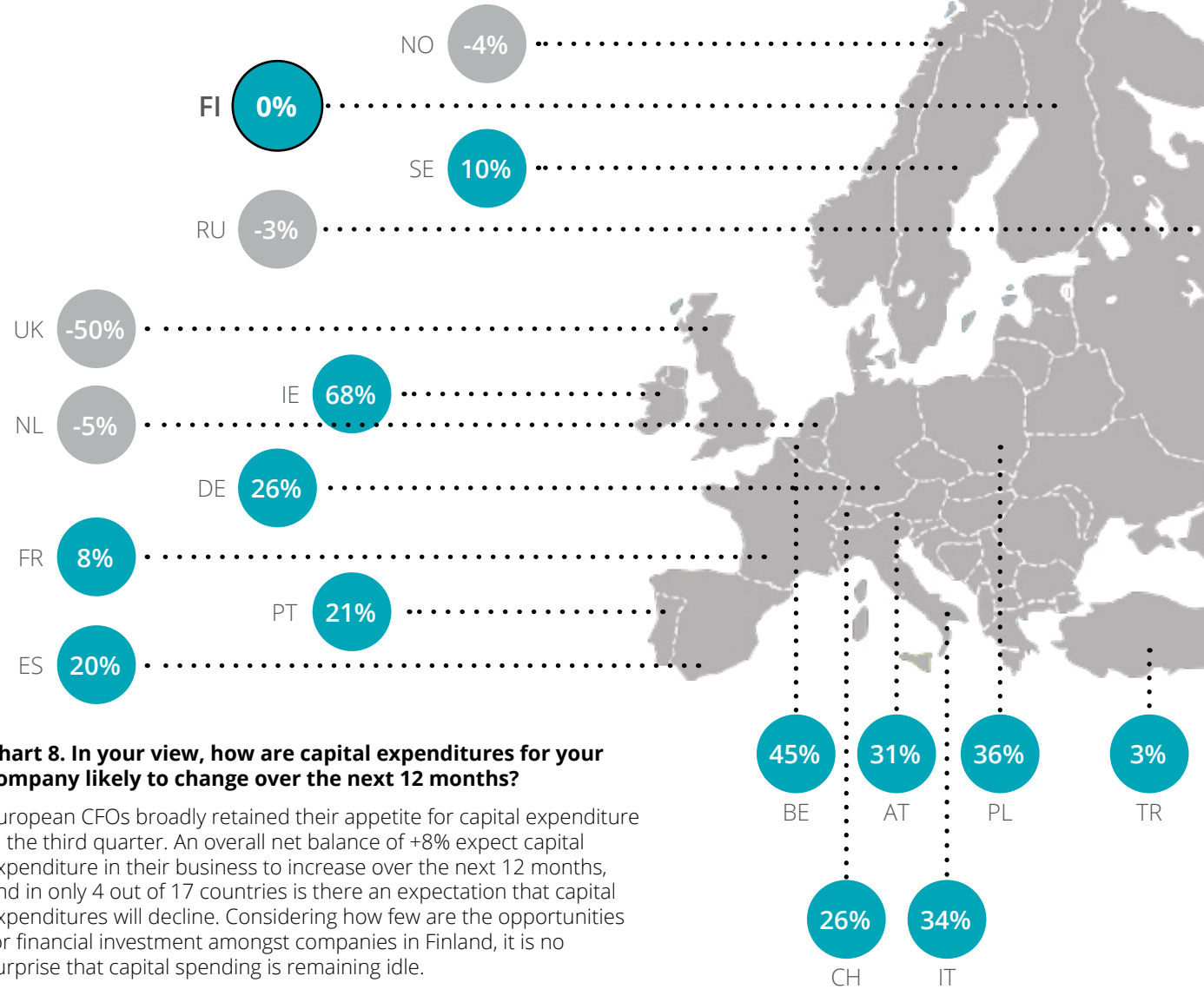
As with revenue expectations, the outlook for margins growth is broadly positive in the third quarter. CFOs in Finland, Italy, Sweden and Russia are most optimistic, with well over half anticipating an increase in margins.

● Net balance (difference between increase and decrease)

# Prospects & Concerns

## Capital expenditures

Prospects & Concerns



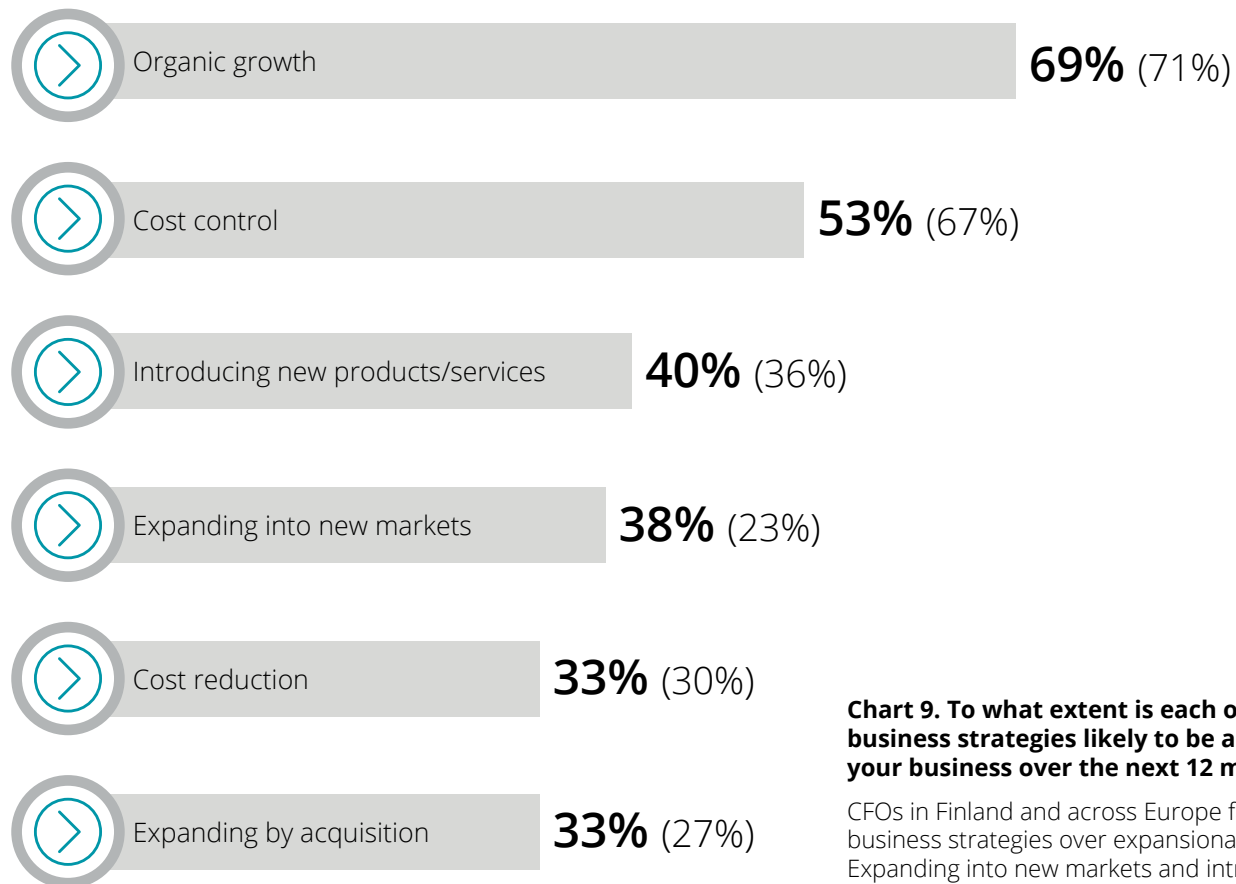
**Chart 8. In your view, how are capital expenditures for your company likely to change over the next 12 months?**

European CFOs broadly retained their appetite for capital expenditure in the third quarter. An overall net balance of +8% expect capital expenditure in their business to increase over the next 12 months, and in only 4 out of 17 countries is there an expectation that capital expenditures will decline. Considering how few are the opportunities for financial investment amongst companies in Finland, it is no surprise that capital spending is remaining idle.

● Net balance (difference between increase and decrease)

# Prospects & Concerns

Business strategies



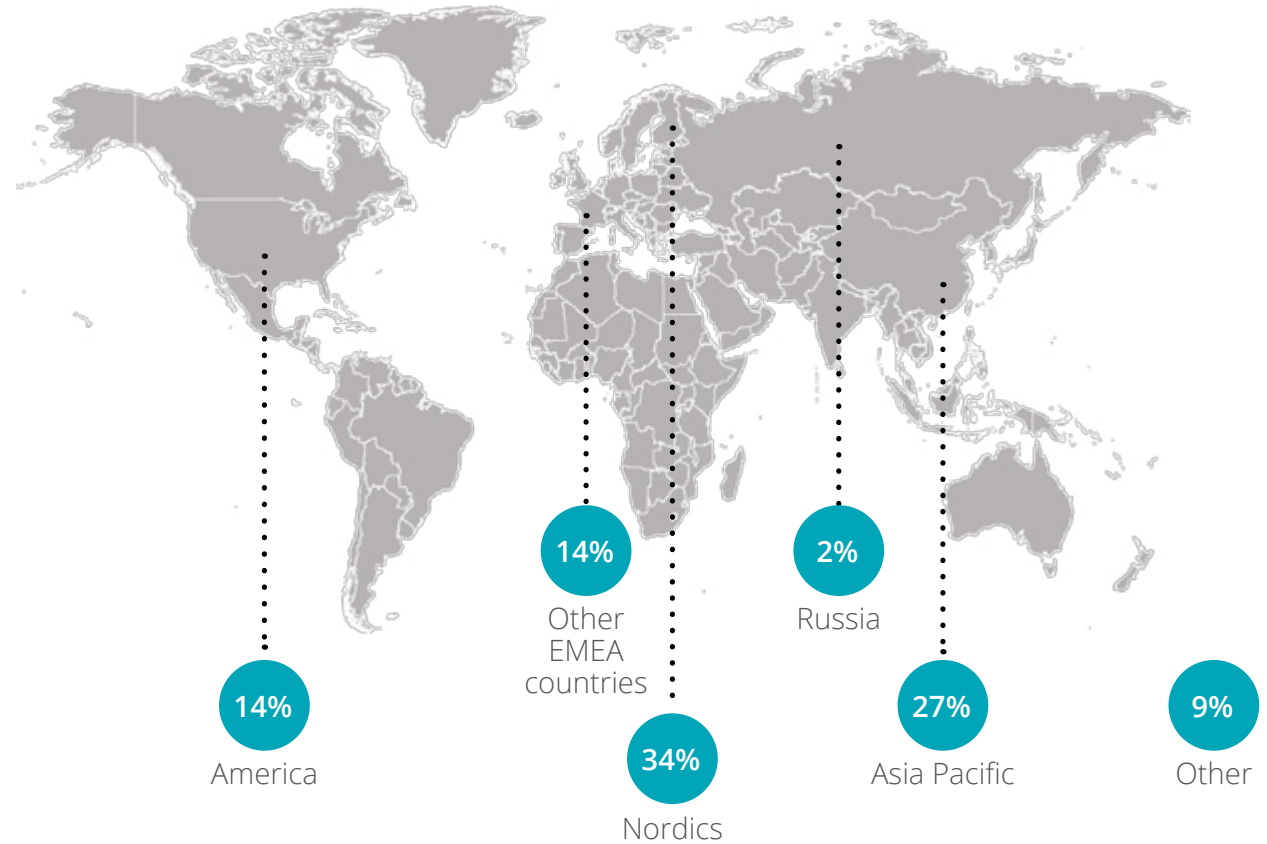
**Chart 9. To what extent is each of the following business strategies likely to be a priority for your business over the next 12 months?**

CFOs in Finland and across Europe favor defensive business strategies over expansionary ones. Expanding into new markets and introducing new products are becoming more important for Finnish companies.

(In brackets results from The Deloitte/SEB CFO Survey Spring 2016)

# Prospects & Concerns

Best opportunities for growth



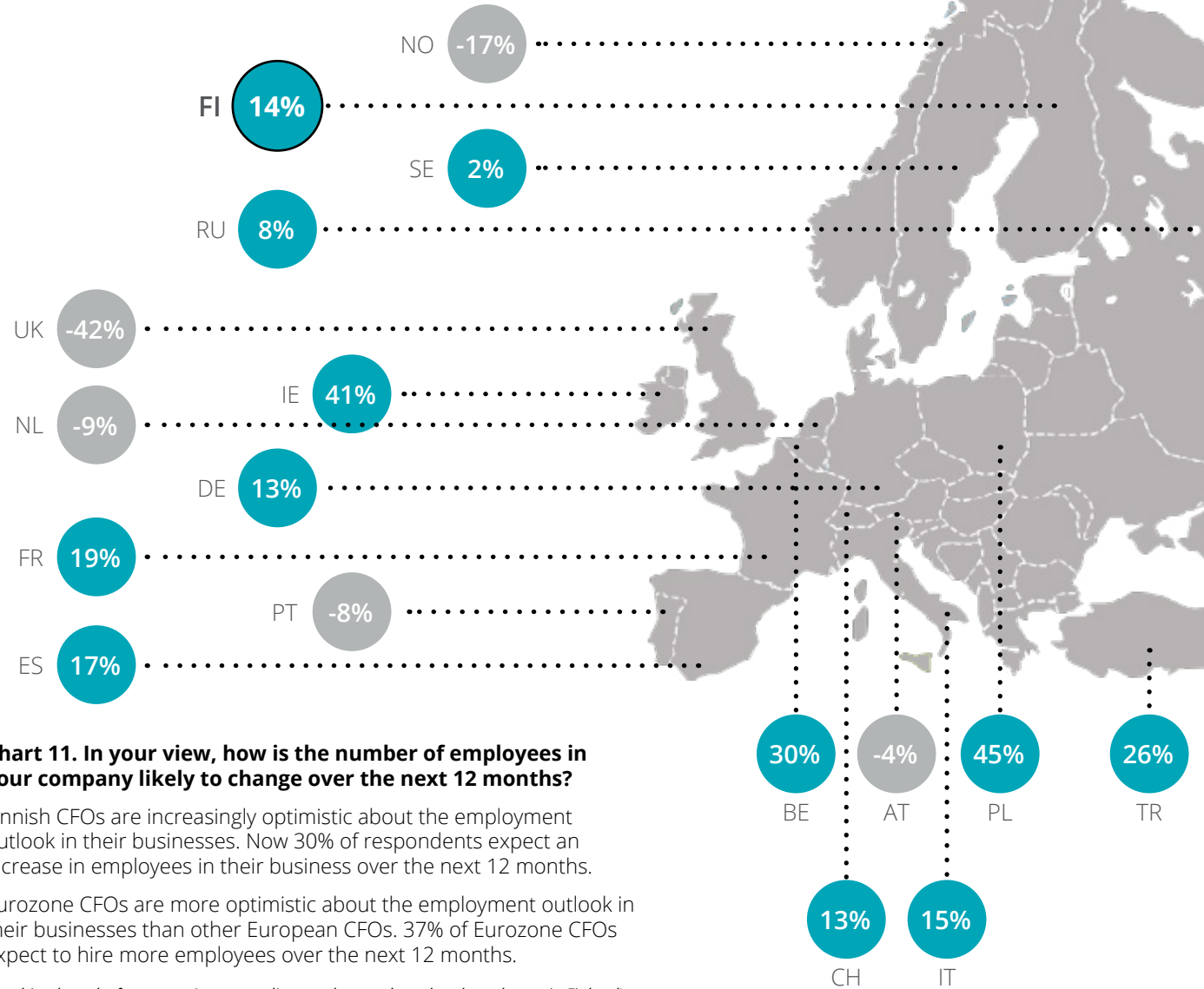
**Chart 10. During the next 12 months, in what region do you expect your company to have the best opportunities for growth?**

The Nordic market is still the most important region. Companies are also increasingly seeking growth further away and especially the Asia-Pacific region is expected to grow rapidly.

# Prospects & Concerns

Number of employees

## Prospects & Concerns



**Chart 11. In your view, how is the number of employees in your company likely to change over the next 12 months?**

Finnish CFOs are increasingly optimistic about the employment outlook in their businesses. Now 30% of respondents expect an increase in employees in their business over the next 12 months.

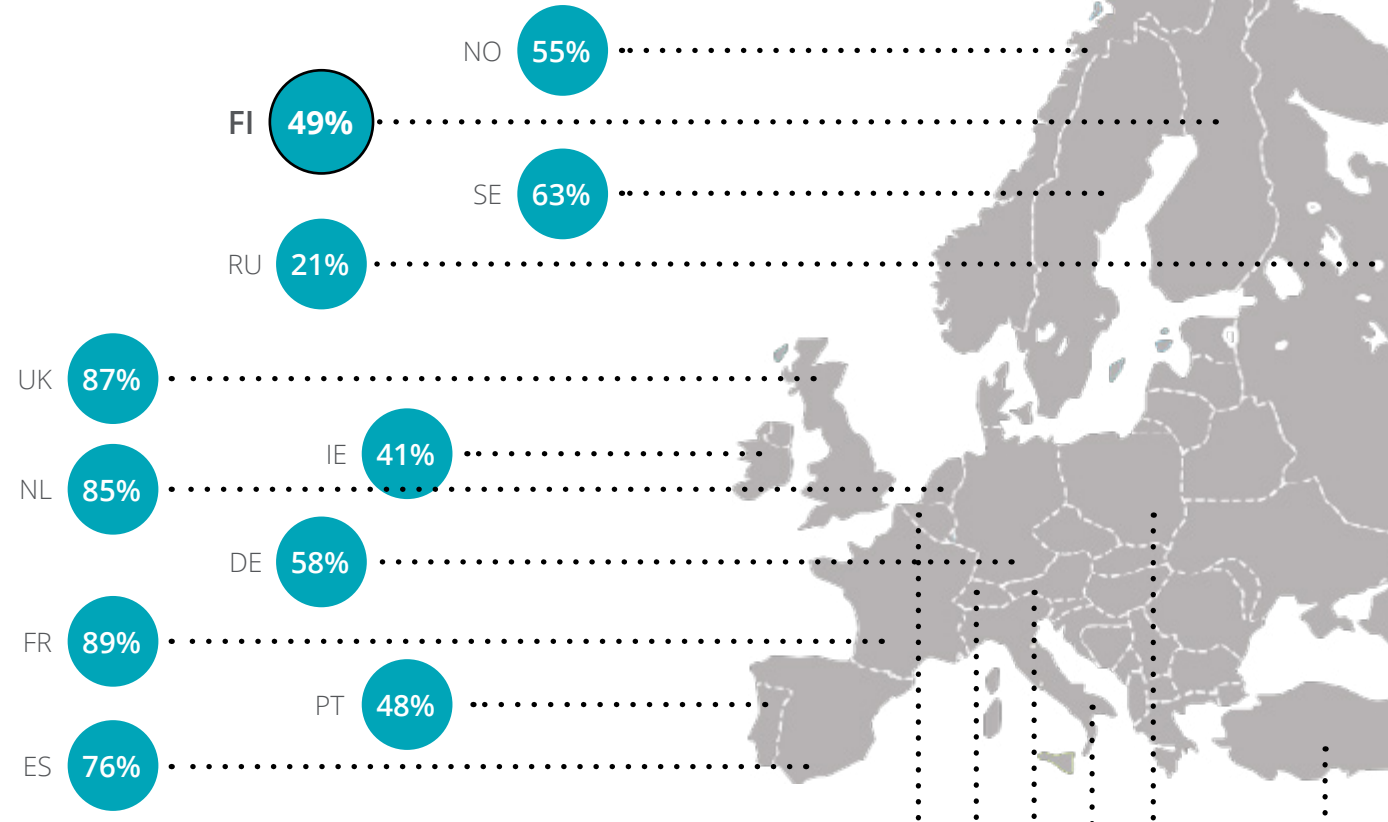
Eurozone CFOs are more optimistic about the employment outlook in their businesses than other European CFOs. 37% of Eurozone CFOs expect to hire more employees over the next 12 months.

*(combined results from questions regarding employees abroad and employees in Finland)*

● Net balance (difference between increase and decrease)

# Finance

## Bank borrowing



**Chart 12. How do you currently rate bank borrowing as a source of external funding for companies?**

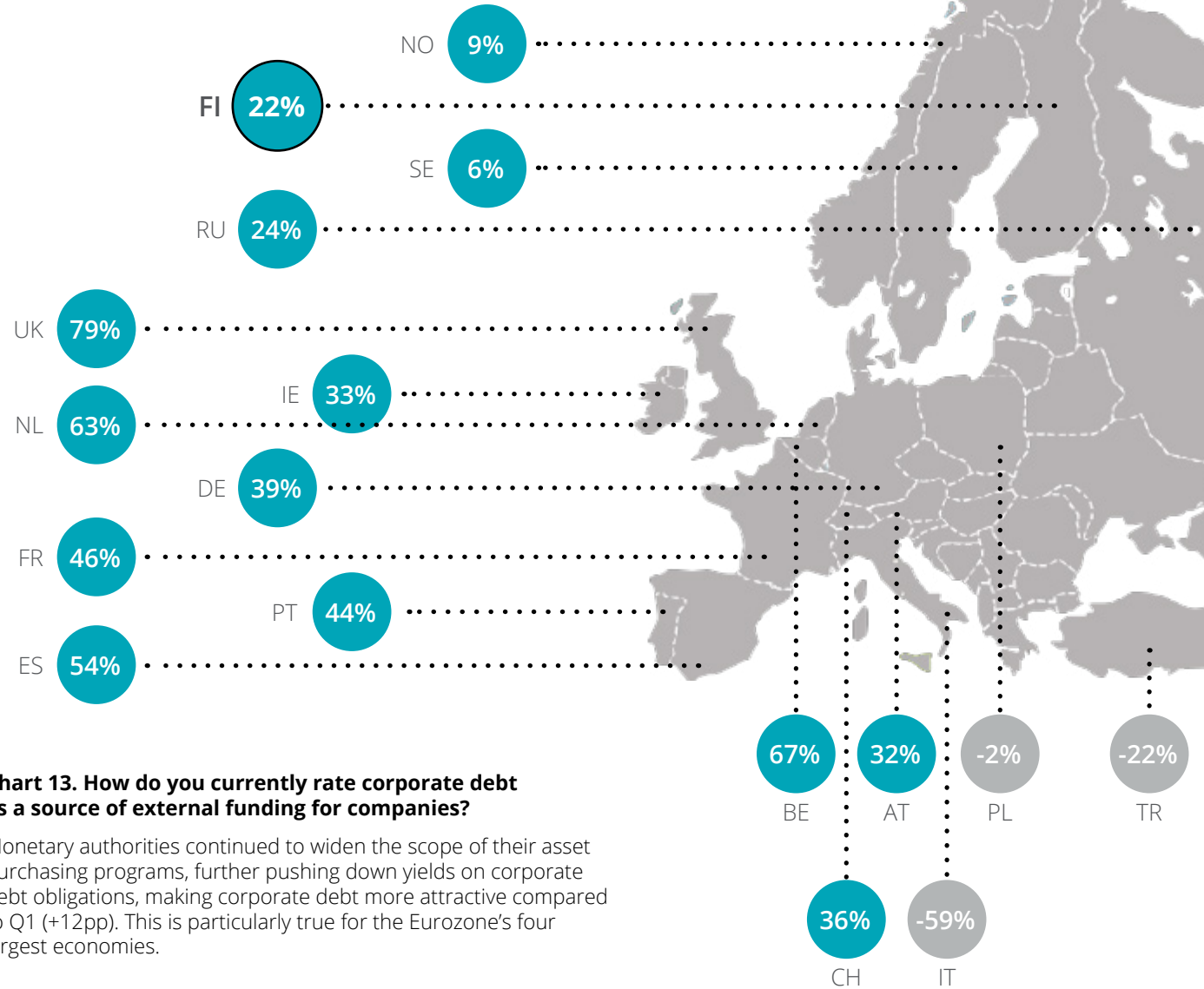
With monetary policy remaining accommodative across Europe, CFOs continue to view debt funding favorably. Bank borrowing again dominates the sources of funding for CFOs in Europe, with a net balance of 60%, on a GDP weighted basis, viewing bank borrowing as an attractive source of funding (+6pp change from the first quarter). Finland is not as prone to utilize bank borrowing like many others in the European Union.

● Net balance (difference between attractive and unattractive)



# Finance

## Corporate debt



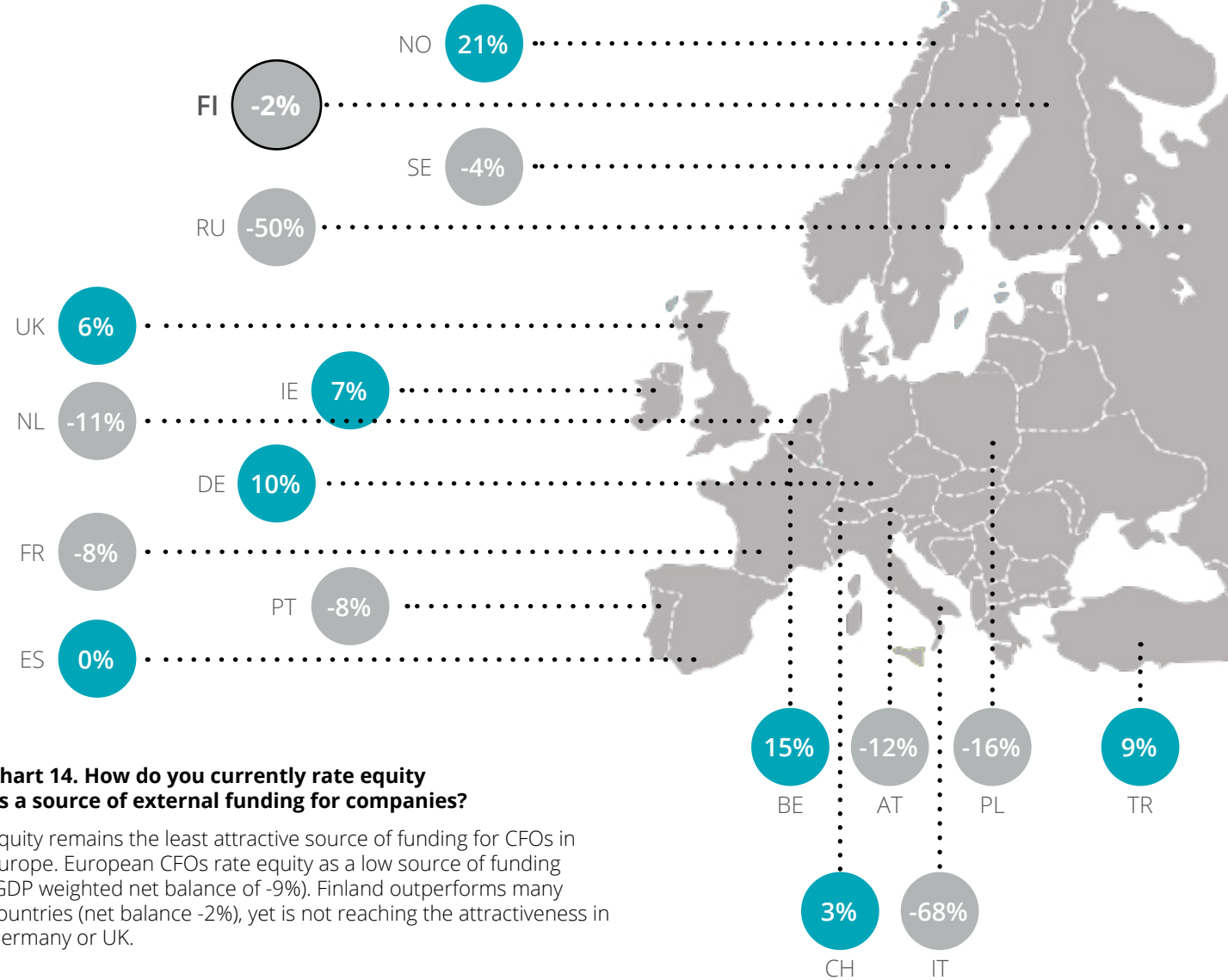
**Chart 13. How do you currently rate corporate debt as a source of external funding for companies?**

Monetary authorities continued to widen the scope of their asset purchasing programs, further pushing down yields on corporate debt obligations, making corporate debt more attractive compared to Q1 (+12pp). This is particularly true for the Eurozone's four largest economies.

● Net balance (difference between attractive and unattractive)

# Finance

## Equity



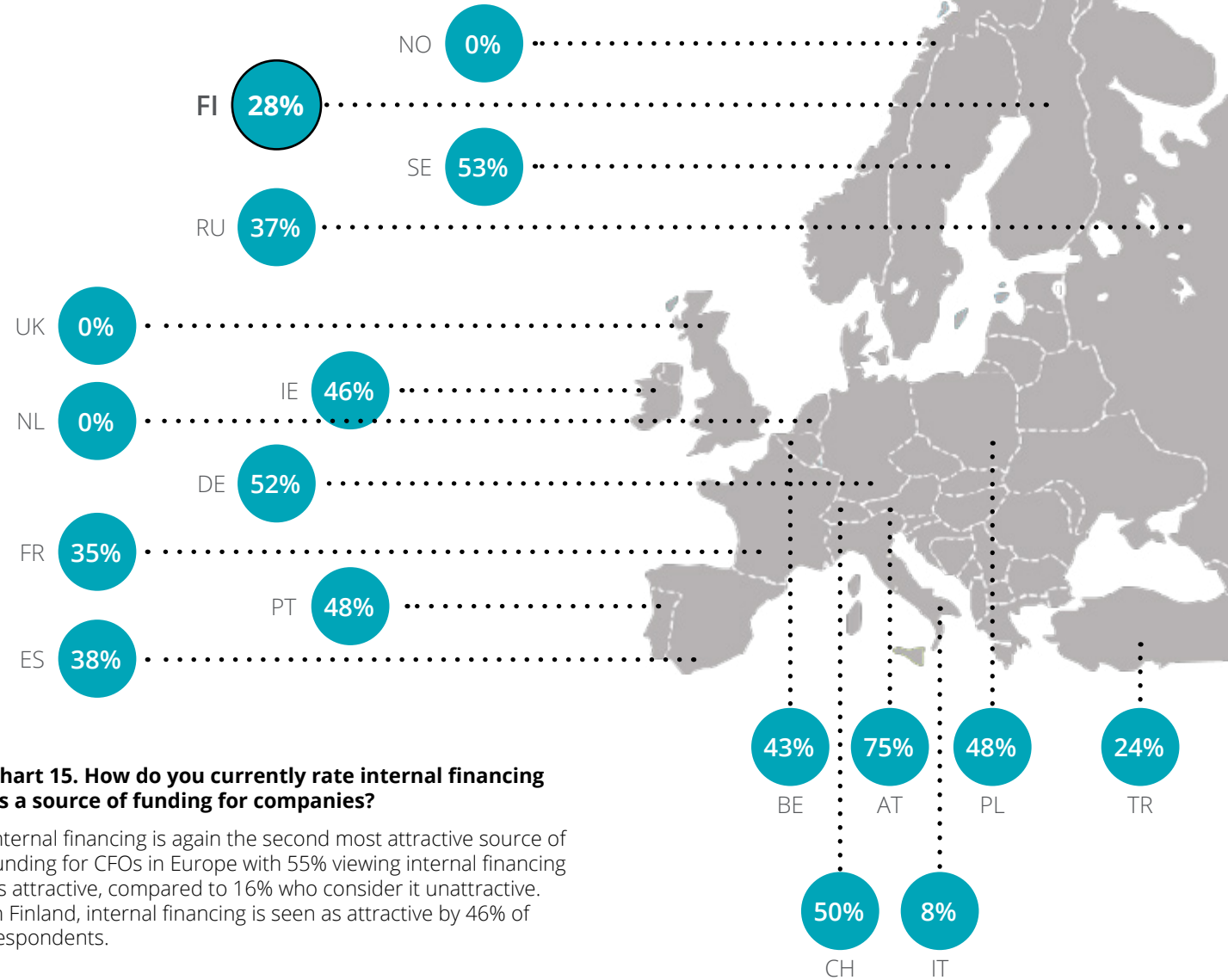
**Chart 14. How do you currently rate equity as a source of external funding for companies?**

Equity remains the least attractive source of funding for CFOs in Europe. European CFOs rate equity as a low source of funding (GDP weighted net balance of -9%). Finland outperforms many countries (net balance -2%), yet is not reaching the attractiveness in Germany or UK.

● Net balance (difference between attractive and unattractive)

# Finance

## Internal financing



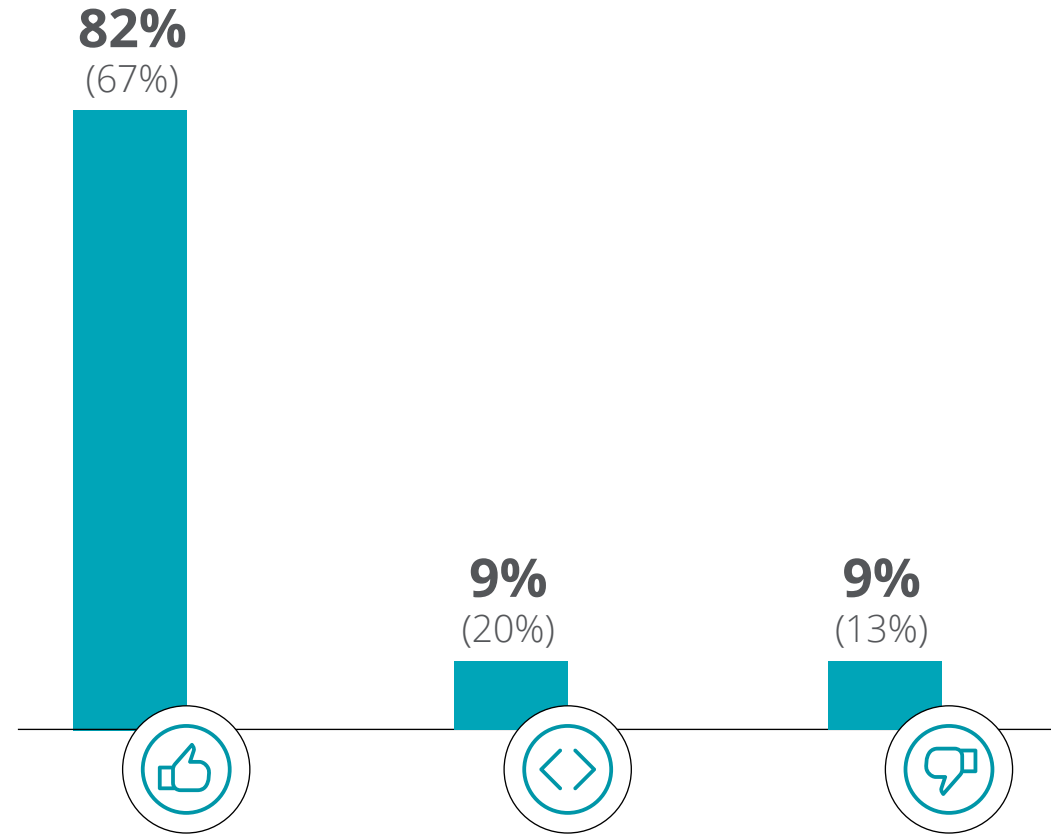
**Chart 15. How do you currently rate internal financing as a source of funding for companies?**

Internal financing is again the second most attractive source of funding for CFOs in Europe with 55% viewing internal financing as attractive, compared to 16% who consider it unattractive. In Finland, internal financing is seen as attractive by 46% of respondents.

● Net balance (difference between attractive and unattractive)

# Finance

Lending attitude



**Chart 16. How is the lending attitude of financial institutions toward your company perceived?**

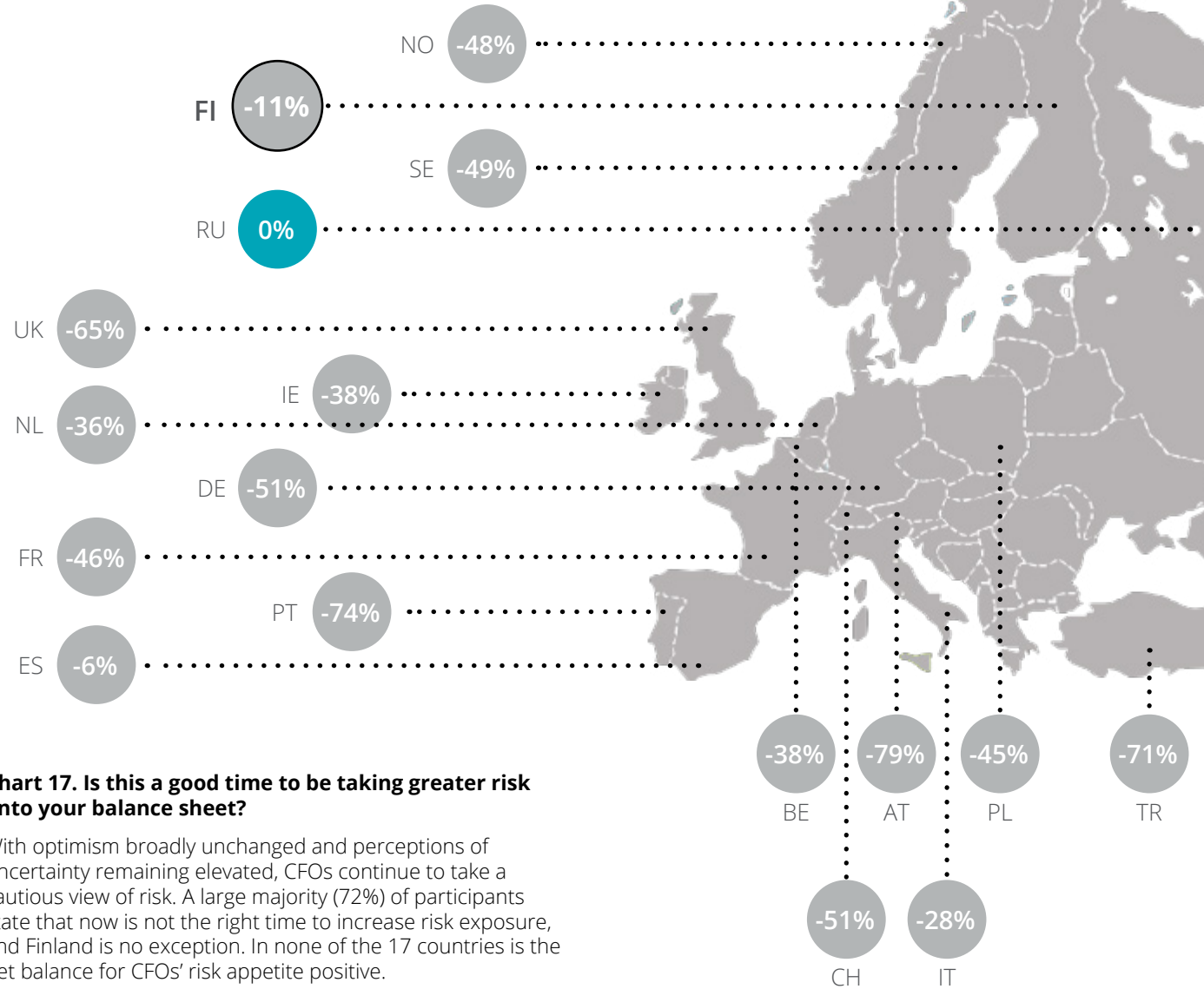
External financing is available, if appetite to borrow increases. The lending attitudes have been very positive already for a while and it seems that this situation will only continue. A staggering 82% of Finnish CFOs see that the lending attitude is either very favorable or favorable.

(In brackets results from The Deloitte/SEB CFO Survey Spring 2016)

# Finance

## Taking risks

Finance



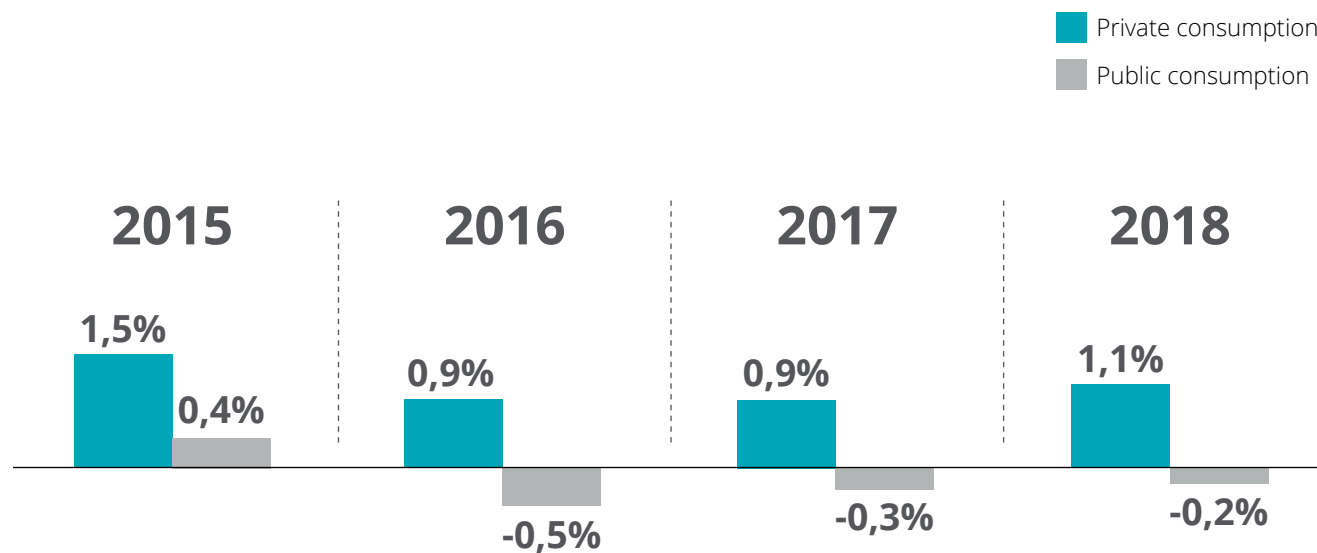
**Chart 17. Is this a good time to be taking greater risk onto your balance sheet?**

With optimism broadly unchanged and perceptions of uncertainty remaining elevated, CFOs continue to take a cautious view of risk. A large majority (72%) of participants state that now is not the right time to increase risk exposure, and Finland is no exception. In none of the 17 countries is the net balance for CFOs' risk appetite positive.

● Net balance (difference between yes and no)

# Macroeconomic Context

Yearly consumption growth estimates



**Chart 18. Yearly change in per cent**

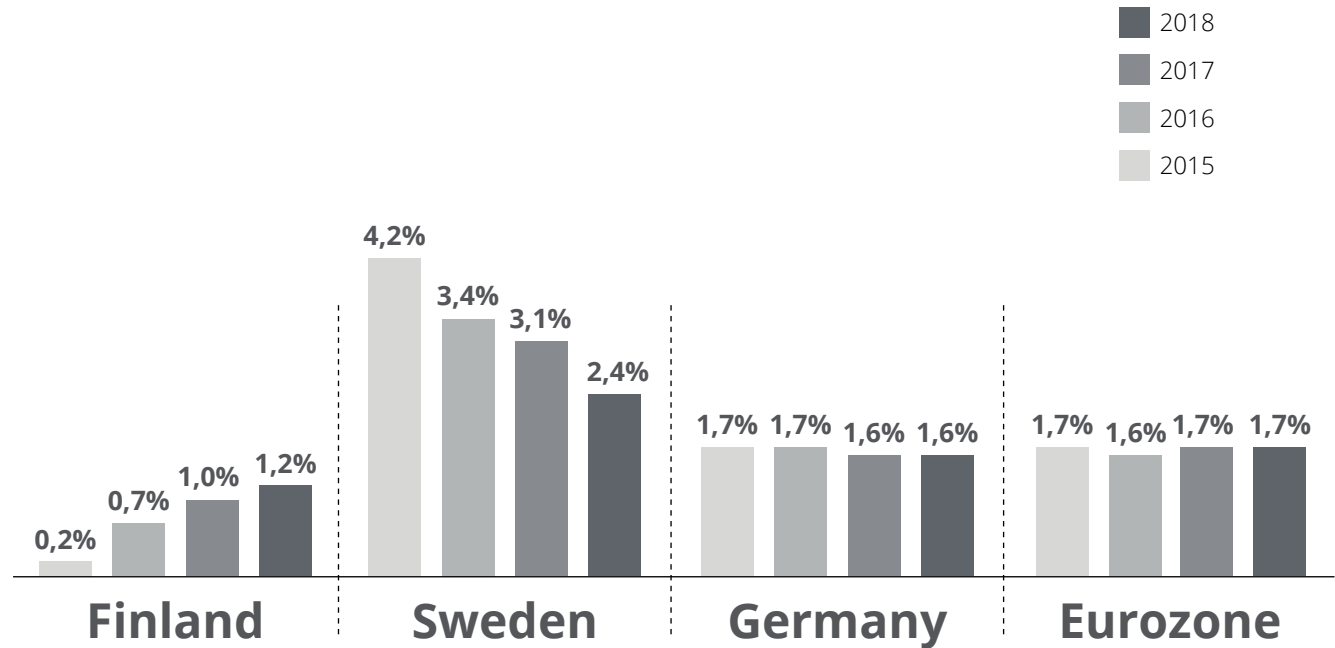
Household demand will remain the biggest growth force during next couple of years. Consumer confidence has rebounded and reached a five-year high.

Source: Macrobond, SEB

# Macroeconomic Context

Yearly GDP growth estimates

## Macroeconomic Context



**Chart 19. Yearly change in per cent**

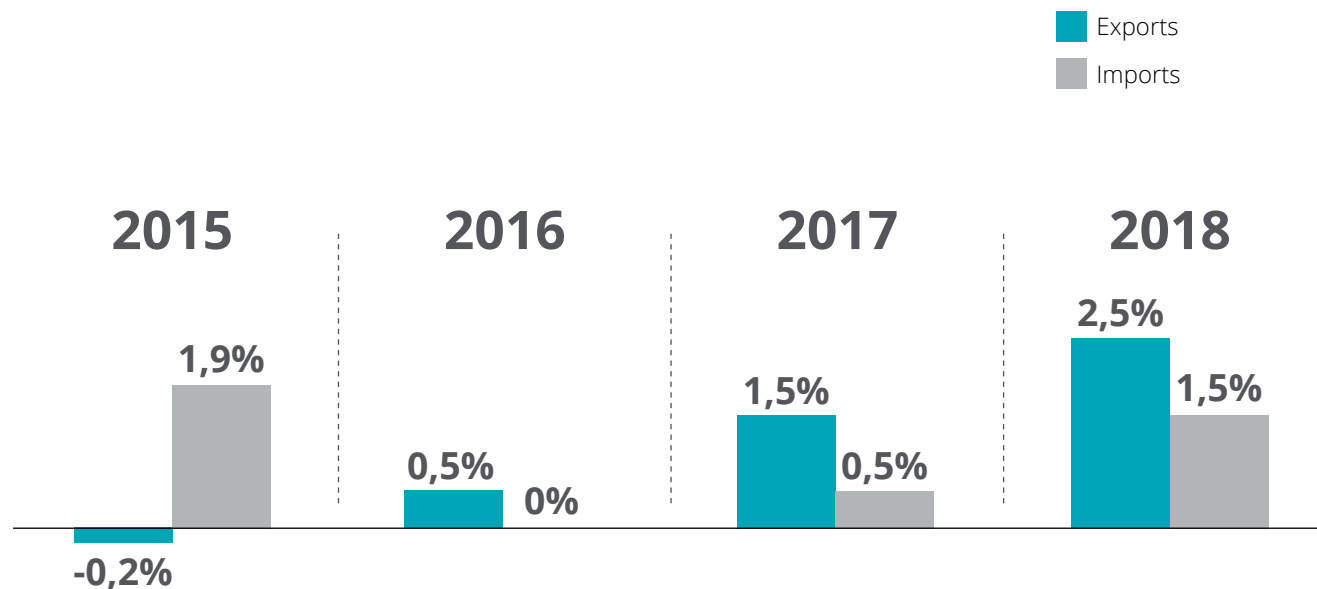
Finnish GDP is taking small steps to right direction. GDP has increased three quarters in a row and growth is estimated to slightly accelerate next year.

Source: Macrobond

# Macroeconomic Context

Yearly improvement in exports and imports

## Macroeconomic Context



**Chart 20. Yearly change in per cent**

Given the stabilisation in Russia and good growth in Sweden, we expect exports to climb by 0.5 per cent in 2016 and accelerate a bit more in 2017-2018.

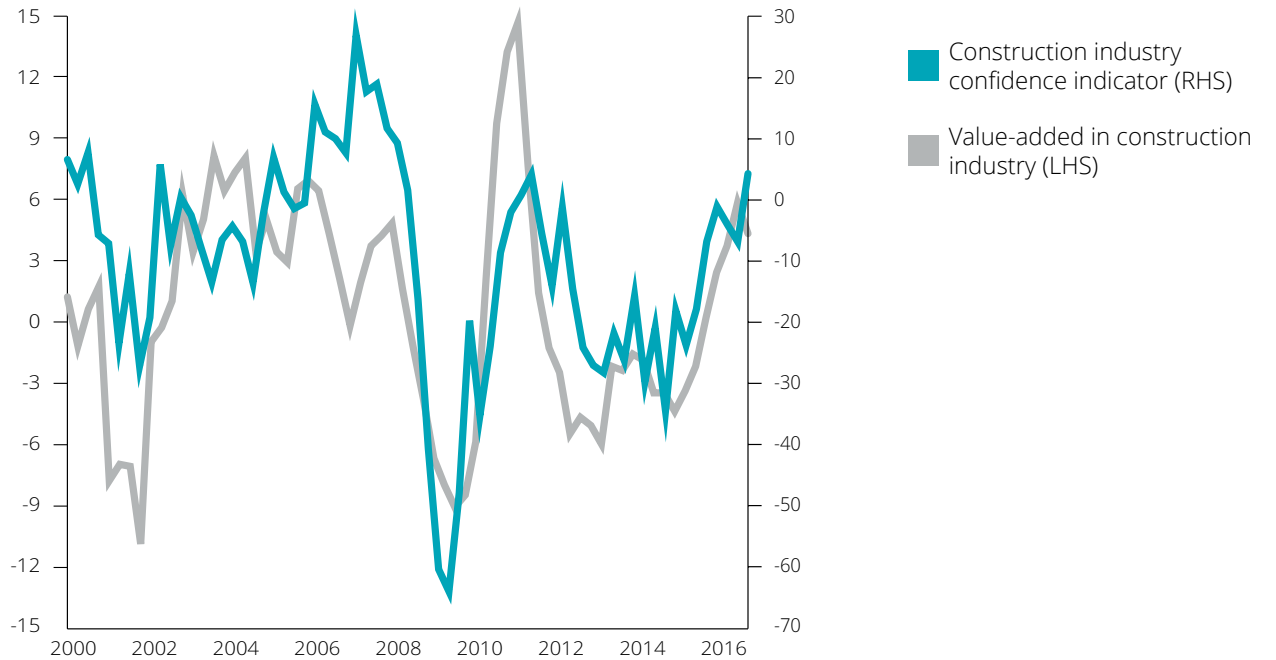
Source: Macrobond, SEB



# Macroeconomic Context

Capital spending has accelerated

## Macroeconomic Context



**Chart 21. Year-on-year percentage change, net balance**

Construction investments are accelerating in Finland and construction industry confidence indicator has reached peak figures since 2008.

Source: Eurostat, DG Ecfm

# About the Survey

This is the first-quarter edition survey of Chief Financial Officers and Groups Finance Directors in Finland. The survey is carried out as a web-based questionnaire. 45 CFOs participated, including a good mix of privately held and publicly listed medium, large, and multinational companies across a broad range of industries. 82% of respondents are from companies that have an annual turnover of more than 100 million euros.

Just like last fall, the CFO Survey was conducted simultaneously in other European countries. The European CFO Survey gathered opinions of over 1,400 CFOs in 17 European countries.

## Writers & Contributors

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

The survey was written by Juha Lintula, Deloitte; Piia Inkinen, Deloitte, Mari Nikitin, Deloitte and Ville Lähde, SEB. The survey's visual design was made by Kristina Jalonen.

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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