



## The Deloitte CFO Survey Improved business sentiment

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# The Deloitte CFO Survey

## – Improved business sentiment

### Key point from the Fall 2009 Survey

- The situation in the Swedish business sector has improved and confidence among Swedish companies has risen further in the third quarter of 2009.
- A large proportion of CFOs are currently more optimistic about their companies' financial prospects compared to three months ago. A similar proportion of CFOs expect operating cash flow in their companies to improve in the coming 12 month period.
- Most CFOs expect M&A activity to increase in the coming 12 months.
- The majority of CFOs think the balance sheets of Swedish companies are appropriately leveraged and most CFOs intend to keep current levels of gearing unchanged over the next 12 months.
- In addition, a significant majority believe it unlikely that their companies will undertake a new share issue during the next 12 months.
- However, and somewhat intriguingly, a significant proportion of CFOs continue to struggle with regular bank financing. 41% of CFOs are likely to renegotiate loan arrangements or arrange for new credit facilities within the next 12 months, and 43% of CFOs state that bank financing is "hard to get".
- The Finance function's roles and responsibilities is a topic on the CFO's agenda, although companies with lower turnover are considering making changes to a lesser extent than larger companies.
- 83% of CFOs indicate that they are currently actively implementing continuous improvements, while a further 10% are planning to initiate improvement programs.
- Compared to the 2008 survey, significantly more CFOs are considering Shared Service Centers and outsourcing financing processes.

As the world changes the prerequisites for the CFO also change. Economic downturn and increased globalization provide more intense competition which in turn leads to more complex corporate structures and changing demands on the CFO role. It is therefore our pleasure to present Deloitte's CFO Survey Fall 2009 – a semi-annual report intending to provide a picture of the CFO agenda in Swedish companies. This is the second survey of CFOs that we have carried out. In total 296 CFOs participated in the survey, representing companies (each with an annual turnover of at least SEK 100 million) across a large variety of sectors and industries.

The CFO Survey consists of two sections. The first section includes the CFOs' attitudes to the current economic situation, funding preferences and availability of financing at a company-specific level as well as for Swedish companies in general. The questions in this section are fixed to allow the monitoring of trends over time. The second section of the report includes current topics on the CFO agenda. One area where we have recently observed an increased interest is the Operating Model for Finance, i.e. how the organization should be working at an overall level - both in terms of structure and soft style dimensions. The ongoing changes in the business climate require many Finance functions to review their processes, organization design and infrastructure. With this in mind, in this CFO Survey report we investigate the CFOs' perceptions and thinking in a number of areas related to the Finance Operating Model.

### Current status of the Swedish economy

According to official forecasts concerning the Swedish economy, the period of significant decreases in GDP is over and demand is expected to start rising during 2010. The sharp decline in exports has slowed and companies are expecting increased orders in the third quarter of 2009. The labor market, however, will continue to deteriorate, with growing unemployment for the next two years. In summary, the National Institute of Economic Research predicts GDP growth in Sweden will develop as follows: -5.0% in 2009, 1.5% in 2010 and 2.9% in 2011.

With regards confidence in the economy, Swedish households have become somewhat more optimistic.

According to the National Institute of Economic Research, consumer confidence regarding the economy has risen gradually since May this year (2009) and attitudes to the current health of the Swedish economy are less negative than previously. Nevertheless, more than half of households still consider that the situation in the Swedish economy is currently weaker than a year ago.

The situation in the Swedish business sector has improved. Confidence among Swedish companies has risen further in the third quarter according to the National Institute of Economic Research. In particular, the manufacturing industry and the private services sector seem to be more optimistic. Moreover, employment plans point to a continued decline but considerably fewer companies forecast staff cuts than previously.

Swedish economic policy is expected to be expansionary over the near term. An expansionary fiscal policy in 2010 will improve both output and employment. The repo rate will be low for some time to come and Riksbanken (the Swedish Central Bank) is not planning to start raising the repo rate until the autumn of 2010. By the end of 2011 the repo rate is expected to be 1.5%.

#### **Increased optimism**

With the turmoil of the last 18 months fresh in the memory and a continuing challenge for countries and governments to assist in the recovery of the global economy, it is promising to see that 58% of the responding CFOs in our latest CFO Survey are currently more optimistic about the financial prospects for their own companies compared to three months ago, indicating a potential turn-around situation. However, with optimism brewing, many industries and businesses continue to struggle with decreasing order books, overcapacity and difficulties finding financing at attractive levels. With the sharp economic decline starting mid 2008 the optimism indicated in the survey may be the result of stabilizing/flattening market conditions rather than a return to growth.

Many companies have, as a result of the economic downturn, optimized working capital requirements and lowered their cost base. This, perhaps in combination with increased optimism, explains why almost 60%

of respondents expect operating cash flow in their companies to improve in the coming 12 month period.

With the financial crisis came an unprecedented slowdown in M&A activity, in particular affecting the Private Equity sector with the freeze on cheap financing. However, the survey also suggests increased optimism in this area with 79% of respondents expecting M&A activities to increase in the coming 12 months, and 69% of respondents expecting an increase in Private Equity activity. Another strong indicator of a turnaround is the response from one third of the participating CFOs that they consider their companies to be currently undervalued, which provides further potential for an upturn in the Swedish economy.

#### **Funding preferences**

One third of the responding CFOs state that their company's financial risk on the balance sheet has increased compared to 12 months ago. However, in general a majority of the respondents think the balance sheets of Swedish companies are appropriately leveraged.

Almost one third of the responding CFOs consider now to be a good time to perform new share issues, although a significant majority believe it unlikely that their company will undertake a new share issue over the next 12 months. These answers are intriguing as respondents continue to struggle with regular bank financing (as discussed later on in the survey). One potential explanation could be that the measures implemented in relation to cost improvements and working capital efficiency, coupled with renegotiated bank credit arrangements, have reduced the need to ask investors for new money.

The downturn in the economy may also, based on some of the answers in the survey, lead to a new era of financial conservatism. This is reflected by equity being considered an attractive source of funding by a large share of responding CFOs, as well as cash returns to shareholder ratios being considered to be low from a historical perspective. Furthermore, the level of gearing over the next 12 months is expected to be unchanged although bank borrowing is rated as an attractive source of external funding by almost half of the responding CFOs, likely to be driven by the extremely low current interest rates.

## Availability of credit

During the coming 12 months 41% of the respondents are likely to renegotiate loan arrangements or arrange for new credit facilities.

As a result of the credit crunch, companies are continuing to struggle to obtain bank funding with 43% of responding CFOs stating that bank financing is "hard to get". A significant majority of CFOs consider short-term interest rates to be low, however increased gearing seems to be held back by restrictive lenders.

Based on the challenges in the credit markets, negotiations on loan arrangements and bank refinancing seem likely to continue to be difficult and require significant effort from management in the coming months.

## Finance Operating Model

The majority of CFOs rate their Finance function's ability to serve the needs of the business as "high". However, our experience shows that there is often a gap between the Finance function's perception of delivered service levels and that of its internal customers.

The survey confirms that roles and responsibilities is a topic on the CFOs' agenda and we can also see that the trend is positively correlated with the size of the companies. Companies with lower turnover are considering making changes to the Finance function's roles and responsibilities to a lesser extent than larger companies. The CFOs' responses also suggest that there are more reasons for considering or carrying out changes to current roles and responsibilities than merely for clarification purposes. This is likely to be explained by the past year's fast pace of business transformation and that it takes time for roles to mature.

Continuous process improvements seem to have become part of "business as usual" for Finance. 83% of respondents indicate that they are currently actively implementing continuous improvements and out of the remaining 17%, 10% answered that they are planning to initiate continuous process improvement programs.

A year ago, in Deloitte's CFO Survey 2008, 49% of the respondents were not considering Shared Service Centers and 63% of the respondents answered that they were not considering outsourcing. In this

year's survey, only 24% answered that they are not considering concentration (e.g. Shared Service Centers) and/or outsourcing of finance processes. This development is likely to be the result of the recent economic climate and companies' desire to find ways of reducing costs.

As expected, companies with larger turnover are considering concentration/outsourcing of finance processes to a greater extent than smaller companies. Economies of scale through concentration/outsourcing are more difficult to realize in smaller companies. When smaller companies decide to concentrate or outsource finance processes, it is often driven by other considerations than purely cost.

## A note on methodology

For the purpose of the survey around 3,000 CFOs in Sweden were contacted. The CFOs who responded represent companies across all industries, with an annual turnover of SEK 100 million or more. The survey was carried out as a web-based questionnaire during October 2009. In total 296 CFOs responded to the survey, representing a response rate of 9.9%. Given the characteristics of the target group this is considered a fairly high response rate.

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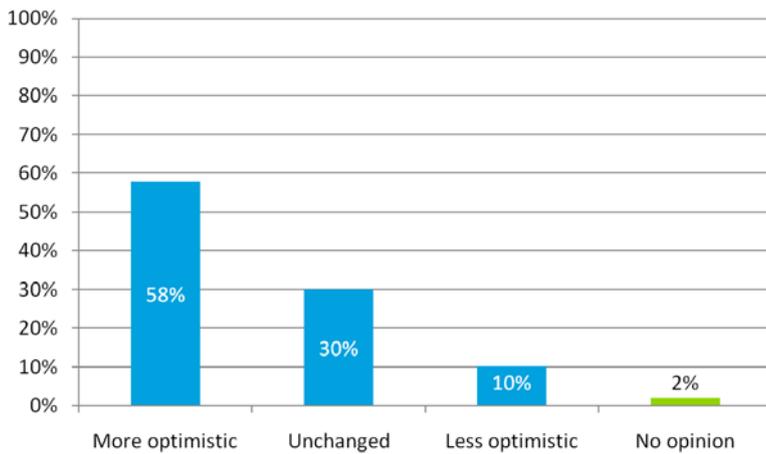
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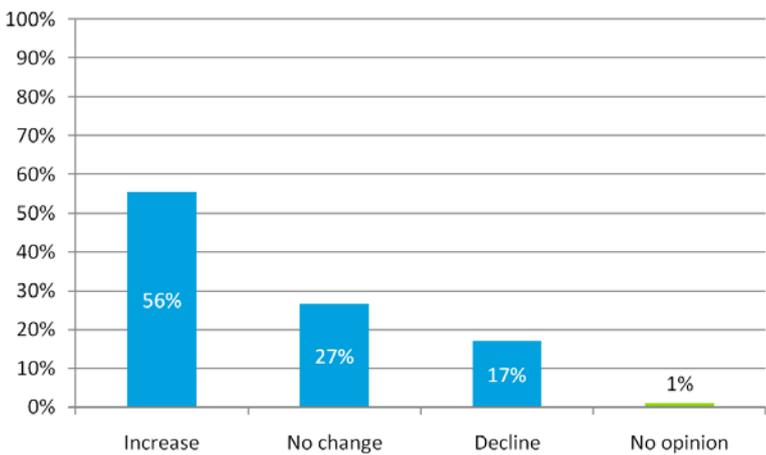
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# Prospects



**Chart 1.**  
**Financial prospects – Company specific**  
**Compared to three months ago how do you feel about the financial prospects for your company?**

Compared to three months ago the majority of the respondents feel that the financial prospects for their companies have improved, implying that optimism about an improving economy is increasing. Respondents from the financial services industry are the most optimistic (91% are more optimistic vs. three months ago), whereas respondents from the transportation sector are the least optimistic. Both of these industries were, and continue to be, significantly affected by the financial crisis emerging in the second half of 2008. However, the results imply that the financial services industry believes that the worst is over.



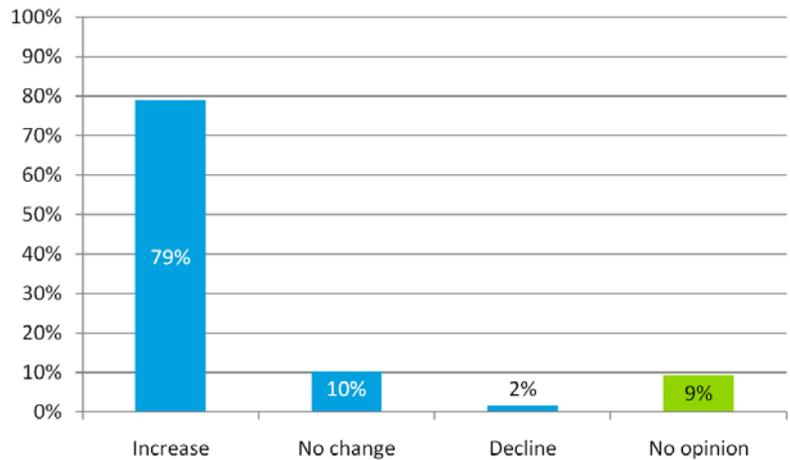
**Chart 2.**  
**Cash Flow prospects – Company specific**  
**How do you expect operating cash flow in your company to change over the next 12 months?**

A majority of the respondents expect operating cash flow in their businesses to increase over the next 12 months. This is a further sign of an expected improvement in the economy. Analysis of the result on an industry level shows there are different expectations: the health- and medical care industry is significantly more optimistic compared with other industries. This industry has, in general, experienced a high degree of economic stability over time. The retail/wholesale and transportation sectors are also expecting improved cash flow. This may be explained by cost cutting programs implemented in these industries. The financial services industry, which as stated above is optimistic about its financial prospects, is however less optimistic about improving operating cash flow over the next 12 months.

# Market views

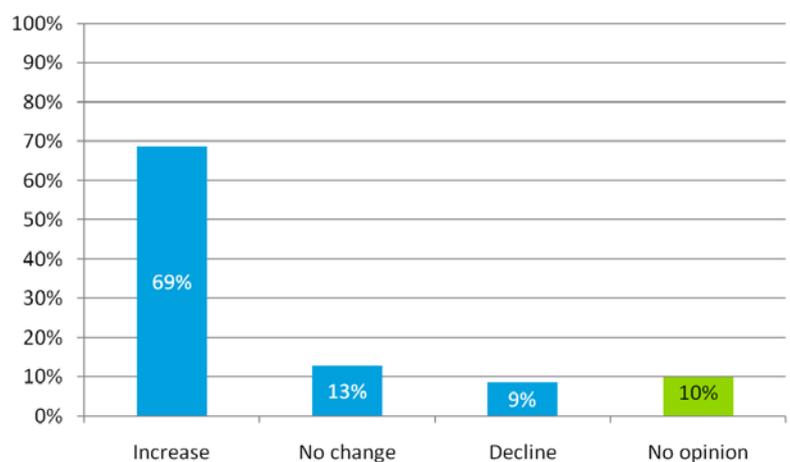
**Chart 3.**  
**M&A activity – Sweden in general**  
**Over the next 12 months how do you expect levels of corporate acquisitions and divestments in Sweden to change?**

An overwhelming majority of the respondents expect the levels of M&A activity to increase over the next 12 months. M&A activity in the past year has been held back by uncertainty over the development of the overall economy and a shortage of funding options, which seem to have built up a backlog of M&A activity to emerge as and when confidence returns.



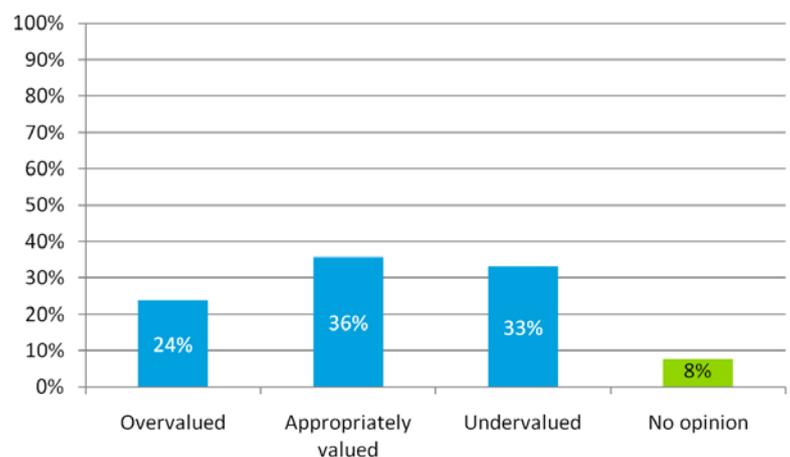
**Chart 4.**  
**Private Equity activity – Sweden in general.**  
**How do you expect Private Equity activity to change in the next 12 months?**

In line with the expectations from the respondents on an uptake in M&A activity, a significant majority (69%) also expect an increase in Private Equity activity in the next 12 months. As shown in chart 3, 79% of respondents expect an increase in M&A activity in the same period. When considered with expectations for Private Equity and low company valuations, this suggests that a significant part of the expected M&A activity uptake could be driven by strategic buyers.

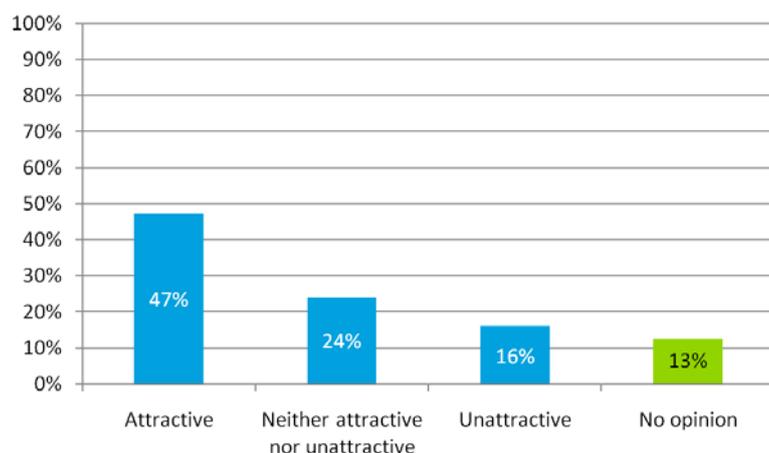


**Chart 5.**  
**Valuation – Sweden in general**  
**How do you currently rate the valuation of Swedish companies?**

The view on the valuation of Swedish companies is broadly divided between those who believe the companies are overvalued, appropriately valued or undervalued. This implies a continued general uncertainty of the current market and where it is heading, which may be a result of the significant valuation changes on the Stockholm Stock Exchange which experienced a significant downturn in late 2008 and the beginning of 2009, as well as a significant rebound in prices since spring 2009.

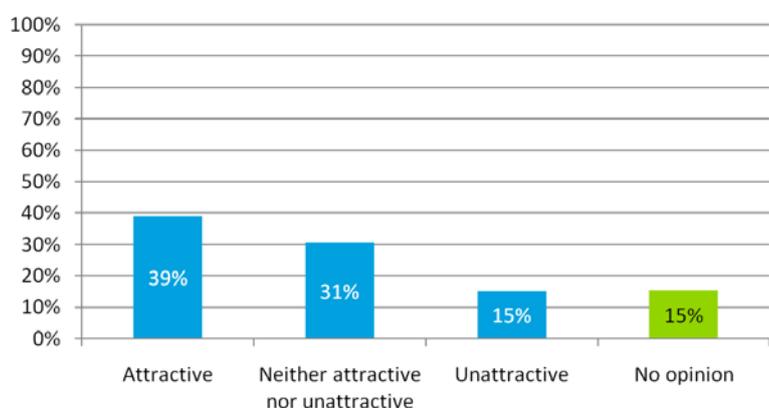


# Funding preferences



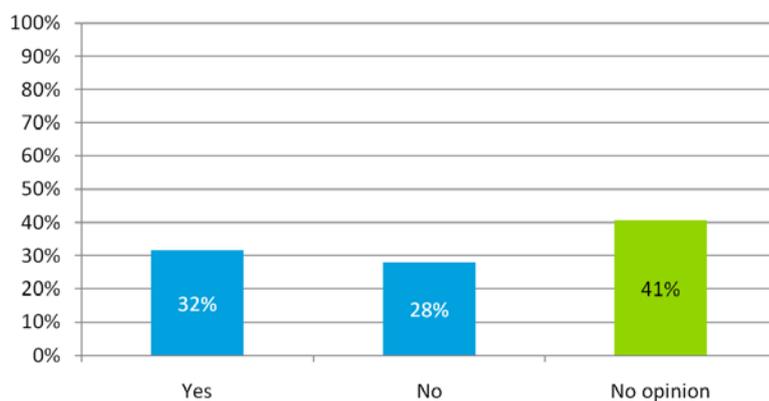
**Chart 6.**  
**Bank borrowing – Sweden in general**  
**How do you currently rate bank borrowing as a source of external funding for Swedish companies?**

Almost half of the respondents rate bank borrowing as an attractive source of external funding and a minor proportion, 16%, as unattractive. A major reason for this is probably the low short-term market interest rate (chart 15).



**Chart 7.**  
**Equity funding – Sweden in general**  
**How do you currently rate equity as a source of external funding for Swedish companies?**

Equity funding is considered to be an attractive source of funding by almost 40% of respondents. This seems to indicate a continued investment interest from shareholders in Sweden.



**Chart 8.**  
**New share issue – Sweden in general**  
**Is now a good time for Swedish companies to perform a new share issue?**

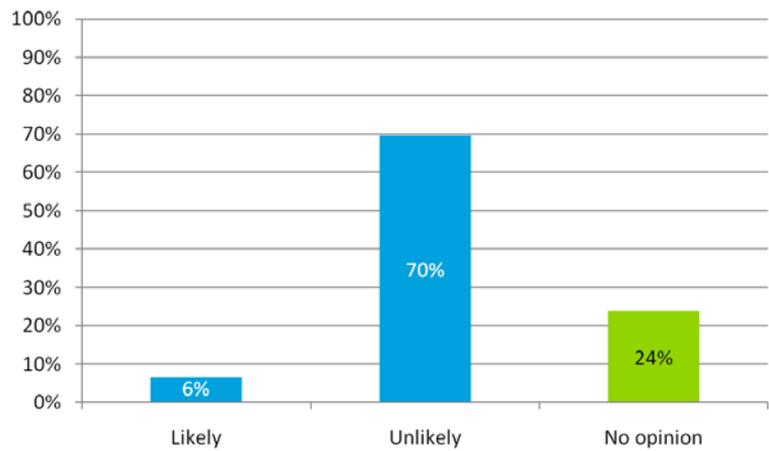
Almost one third of the respondents consider now to be a good time for Swedish companies to perform a new share issue – not significantly more than those who think it is not a good time (28%). A fairly high proportion, 41%, has no opinion in this matter. This might reflect that most respondents have no significant interest in performing a share issue in the near term, as indicated in chart 9 below.

**Chart 9.**

**New share issue – Company specific**

**Are you likely to perform a new share issue over the next 12 months?**

A significant majority of the respondents find it unlikely that their company will perform a new share issue over the next 12 months.

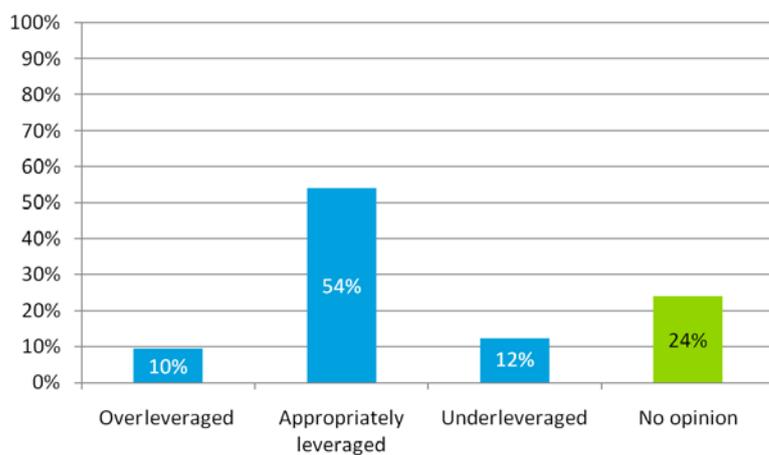


**Chart 10.**

**Leverage – Sweden in general**

**Generally speaking do you think Swedish companies balance sheets are over, appropriately or underleveraged?**

The majority of the respondents consider Swedish companies' balance sheets to be appropriately leveraged. This is in line with the results displayed in chart 9 and 16, showing that most companies are unlikely to perform a new share issue and/or to renegotiate loan arrangements over the next 12 months.

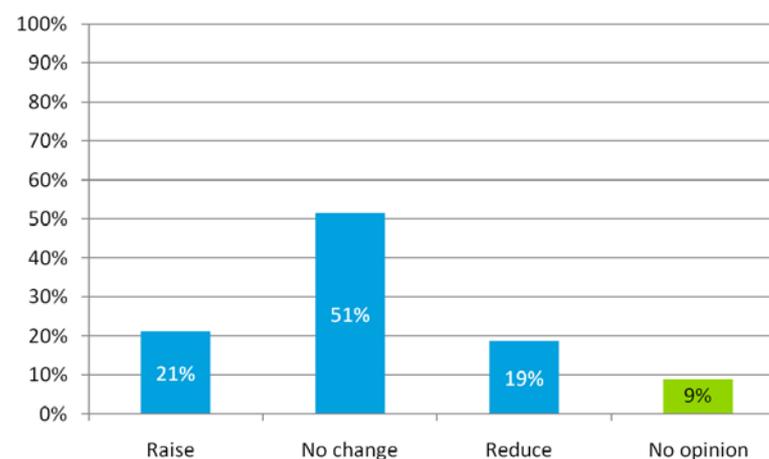


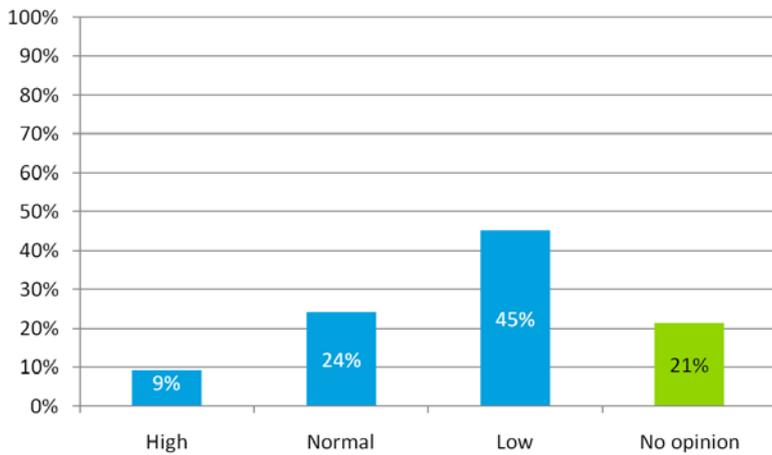
**Chart 11.**

**Level of gearing – Company specific**

**What is your aim for your level of gearing (bank funding) over the next 12 months?**

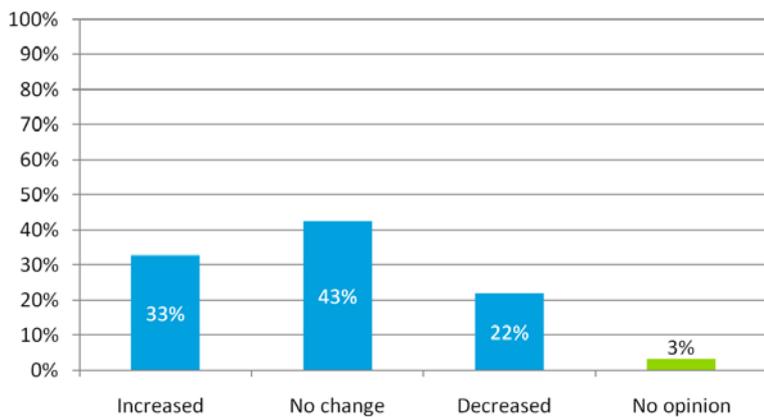
A majority of the respondents aim to keep current levels of gearing unchanged over the next 12 months. This is in line with the aforementioned comment that most companies are unlikely to perform a new share issue over the next 12 months and that a significant proportion of the respondents state that their company's balance sheet financial risk is unchanged compared to 12 months ago (chart 13).





**Chart 12.**  
**Cash return to shareholder ratios – Sweden in general**  
**Do you think current cash return to shareholder ratios (including dividends and share buybacks), compared to a 10 year average, are high, normal or low?**

A significant proportion of the respondents believe current cash return to shareholder ratios to be low from a historical perspective. Many Swedish companies have cut dividends in 2009 compared to 2008 due to the economic downturn.



**Chart 13.**  
**Balance sheet risk – Company specific**  
**How has the level of financial risk on your balance sheet changed over the past 12 months?**

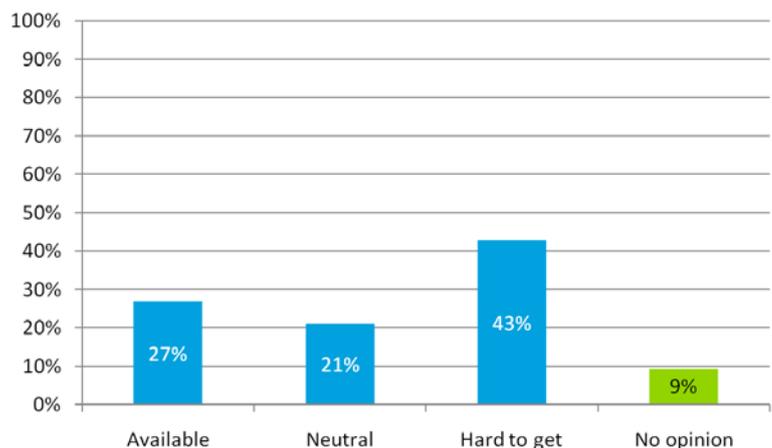
A significant proportion of the respondents state that their company's balance sheet financial risk is unchanged compared to 12 months ago. Those who believe that risk has increased constitute a somewhat larger group than those stating it has decreased. This is in line with the majority of the respondents considering Swedish companies' balance sheets to be appropriately leveraged (chart 10).

# Availability of credit

**Chart 14.**

**Availability of bank funding – Sweden in general**  
**How would you rate the overall availability of bank funding for companies?**

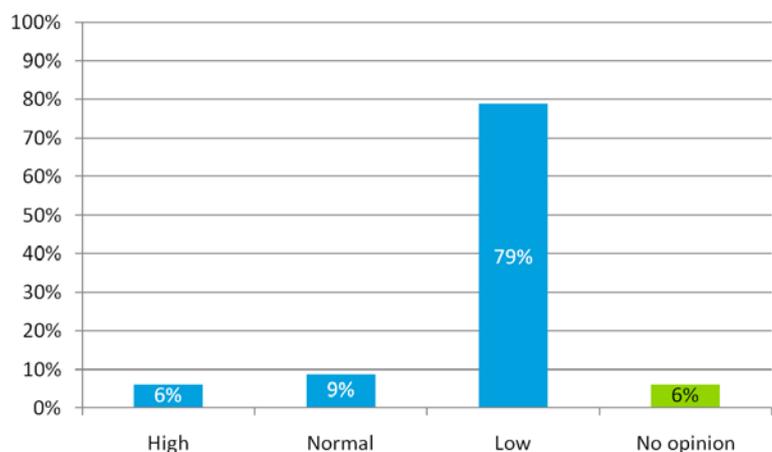
More than 4 out of 10 respondents rate bank funding as “hard to get”, indicating a continued cautiousness from banks with increased documentation requirements.



**Chart 15.**

**Short term market interest rates – Sweden in general**  
**How would you characterize the current level of short term market interest rates in Sweden?**

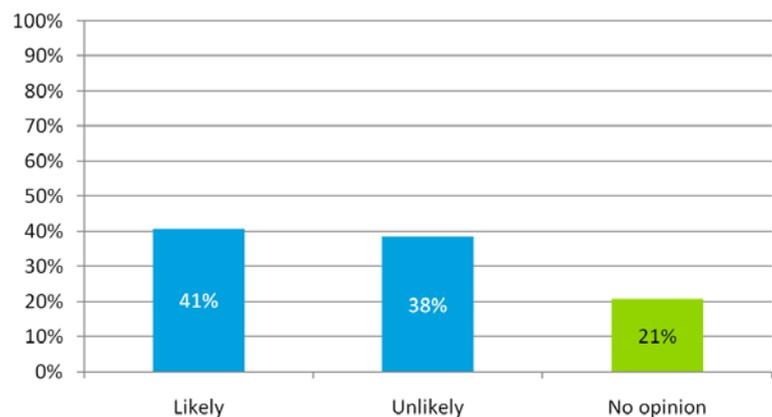
The majority of the respondents characterize the short-term market interest rates in Sweden as low. This is not unexpected since interest rates are below the normal level due to the economic downturn.



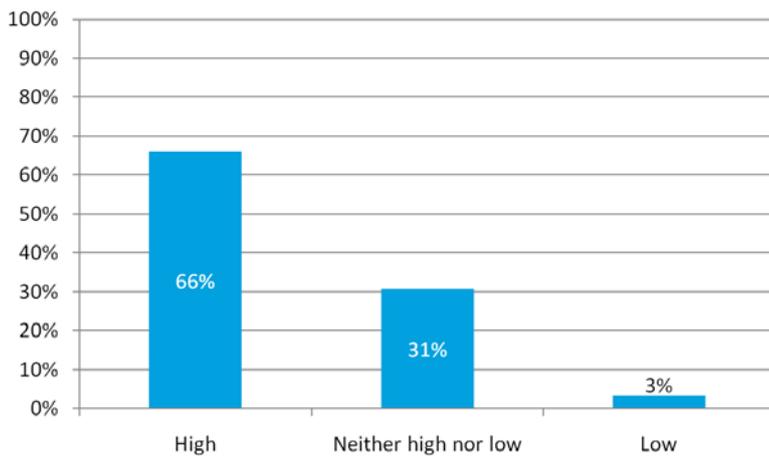
**Chart 16.**

**Credit renegotiations – Company specific**  
**Is your company likely to renegotiate loan arrangements/arrange for new credit facilities over the next 12 months?**

A significant proportion (41%) of respondents are likely to renegotiate loan arrangements/arrange for new credit facilities over the next 12 months. These negotiations/renegotiations could prove difficult based on the 43% (chart 14) of respondents’ view that bank financing continues to be difficult to obtain.



# Finance Operating Model

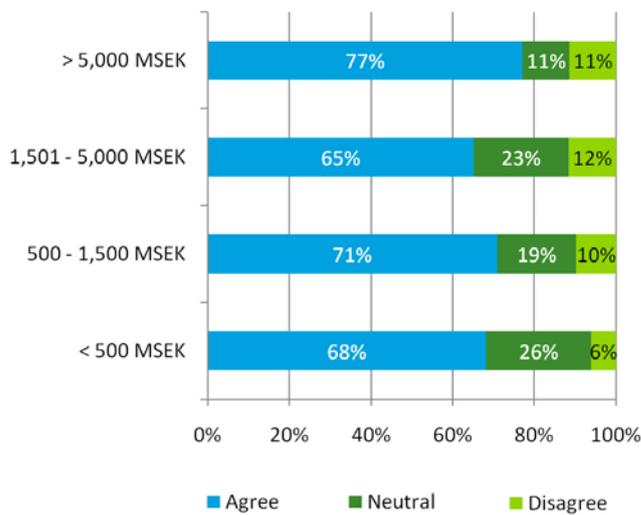


**Chart 17.**

**Ability to serve business needs**

**How would you rate your Finance function's overall ability to serve the needs of the business (from a process, skills, cooperation and system point of view)?**

The majority of the respondents (66%) rate the Finance function's ability to serve the needs of the business as "high". It is interesting to note that only a small share of the respondents (3%) rate the Finance function's ability to serve the needs of the business as "low".



**Chart 18.**

**Roles and responsibilities (specified by business turnover)**

**The Finance function's roles and responsibilities are clearly defined and communicated; a clear delineation of responsibilities exists between Finance and other parts of the organization?**

The majority of the respondents rate the Finance function's roles and responsibilities as clearly defined and communicated. Respondents in organizations with lower turnover disagree to a lesser extent with the statement that roles and responsibilities are clearly defined and communicated than respondents in organizations with larger turnover.

**Chart 19.**

**Changes to roles and responsibilities (specified by business turnover)**

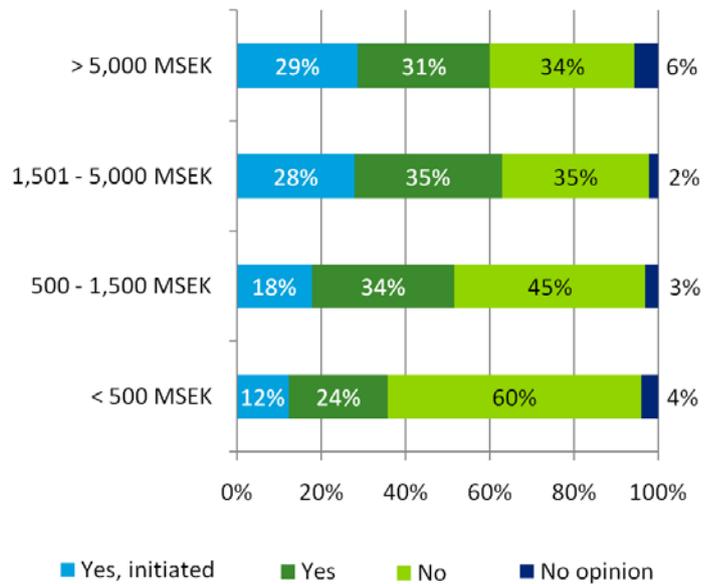
**Are you considering making changes to your Finance function's roles & responsibilities?**

Irrespective of the turnover of the business, roles and responsibilities is a topic on the CFO agenda. The trend is however positively correlated with the size of the company's turnover.

Companies with lower turnover are considering making changes to the Finance function's roles and responsibilities to a lesser extent (60% of the companies with turnover less than SEK 500 million are not considering any changes, as compared to approximately 35% for companies with turnover larger than SEK 1,500 million).

Changes to roles and responsibilities often imply the clarification and formalizing of roles and responsibilities through, for example, work instructions and SLAs. The trend in the responses could be explained by the fact that Finance function employees in smaller businesses tend to have a closer interaction with other functions, which allows information to flow naturally. In such cases it is likely that there will be less need to clarify or formalize roles and responsibilities.

Considering the responses to this question in conjunction with question 18 suggests that there are more reasons for considering or carrying out changes to current roles and responsibilities than merely how clearly defined and communicated they are.

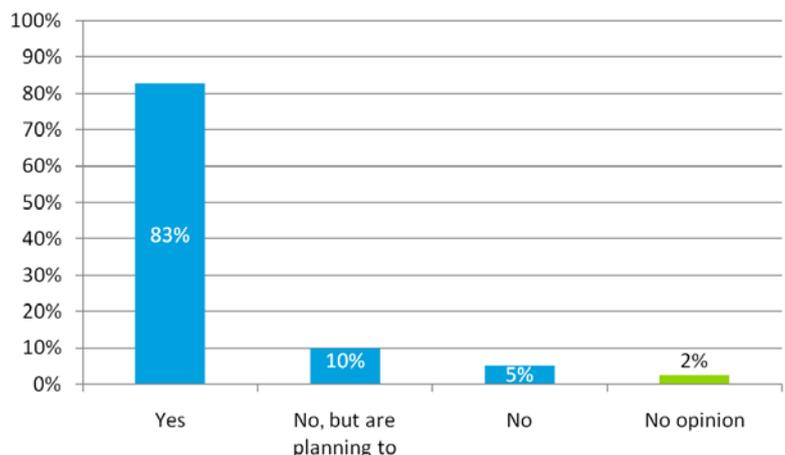


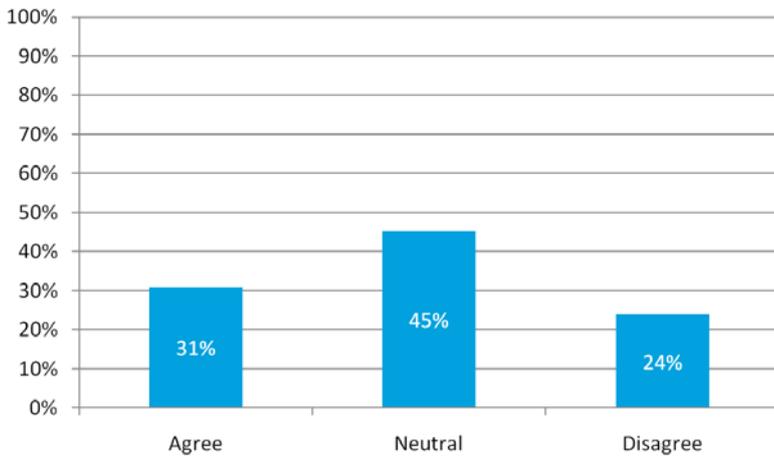
**Chart 20.**

**Continuous process improvements**

**Are you actively working with continuous process improvements (e.g. simplification, standardization and automation) in your Finance function?**

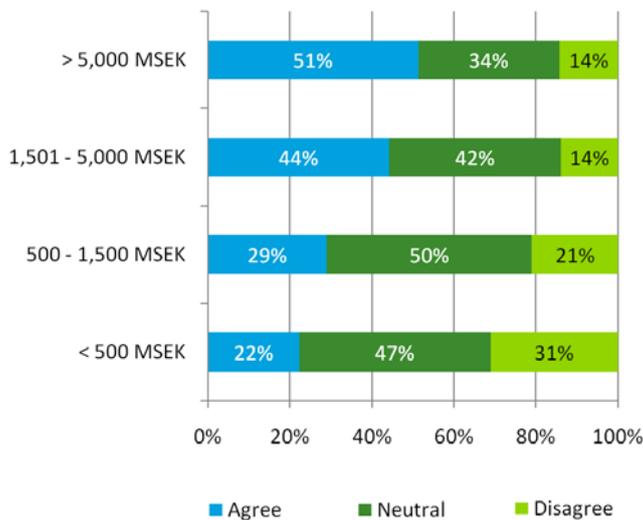
The major part of the respondents, 83%, stated that their Finance function is currently implementing continuous process improvements. Another 10% of the respondents answered that they are planning to initiate continuous process improvement programs. Companies with turnover lower than SEK 500 million employ continuous process improvements to a lesser extent.





**Chart 21a.**  
**Concentration and/or outsourcing of finance processes**  
**Are you considering concentrating and/or outsourcing the finance processes?**

Concentration (e.g. Shared Service Centers) and/or outsourcing of finance processes are being considered by 31% of the respondents. A smaller share of the respondents (24%) answered that they are not considering this. This attitude is considerably different compared to a year ago: in Deloitte's CFO Survey 2008, 49% of the respondents were not considering Shared Service Centers and 63% of the respondents were not considering outsourcing. This development is likely to be a result of the recent economic climate and companies' desire to find ways to reduce costs.



**Chart 21b.**  
**Concentration and/or outsourcing of finance processes (specified by business turnover)**  
**Are you considering concentrating and/or outsourcing the finance processes?**

Companies with larger turnover are considering concentration/outsourcing of their finance processes to a greater extent than smaller companies. A plausible explanation may be the difficulties in achieving economies of scale through concentration/outsourcing of finance processes in smaller companies compared to larger companies.



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