The Deloitte CFO Survey
Growth is stabilising

Spring 2011 results
March 2011

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The Deloitte CFO Survey – Spring 2011
Growth is stabilising

Introduction

It is our pleasure to present the Deloitte Spring 2011 CFO Survey for Sweden, a semi-annual report aiming to provide a picture of the CFO's agenda in Swedish companies. The sentiment in the current survey conveys an optimism about the current situation in the economy and for individual businesses as well as for the upcoming 12 months, both in Sweden and globally. In Sweden M&A activity remains stable at a high level and availability of funding increases.

Key points from the Spring 2011 Survey

- Our survey shows that the economic growth is stabilizing at a high level in 2011 and the majority of CFOs state that "financial prospects for our company has improved compared to three months ago" which further builds on responses in the last survey (Fall 2010).
- 60% of CFOs expect increasing operating cash flows in their businesses over the next twelve months, representing a five percentage point decline from the last survey. A possible explanation for the decreased optimism is that the benefits of cost cutting during the economic downturn have flattened out and companies now need to invest and employ to achieve growth, adversely affecting cash flows.
- Bank borrowing continues to be rated as the most attractive source of funding by responding CFOs, which most likely reflects the continued low short-term market interest rates and increased availability of credit in 2011.
- The majority of CFOs consider Swedish companies to be appropriately leveraged, reflecting strong balance sheets and economic prospects even though short-term market interest rates are increasing.
- Difficulties in finding bank funding were seen throughout most of 2009. The availability of bank funding continues to improve, compared to the surveys six, twelve and eighteen months ago. This development is in line with other survey results across Europe.
- Respondents state that Swedish companies are valued closer to fair market values and expect significant M&A activity over the next 12 months.
- In contrast to the previous survey, the view on new share issue has changed significantly, with 44% of respondents considering the present time to be a good time to perform new share issues compared to 22% in the previous survey. However, very few of the CFOs state it as likely their companies will perform a new share issue within the next twelve months. This could be the result of a number of relatively unsuccessful IPOs on the Swedish market during 2010 and continued uncertainty for IPOs in the first quarter of 2011, but also as bank funding is less cumbersome and remains fairly cheap.
- Surveys conducted in Europe during Q4 2010 demonstrated an increased optimism, from improving credit availability and falling cost of credit, expected improving operating cash flows, strengthened balance sheets and more expansionary strategies. The North American Q4 2010 Survey indicated CFOs' optimism on own-company prospects to be increasing. However, slowing sales growth, increasing competition and unemployment are areas of concern.

Current status of the Swedish economy

The Swedish economy continues to strengthen and grew by 7.3% in the fourth quarter of 2010 compared to the same period in 2009. The positive development was also demonstrated in the Swedish EMI (Export Manager's Index), which increased on the back of strong export sales in the last quarter and positive outlook over the next three months. Almost two thirds of companies are expecting increasing market demand, and only 2% of companies expect a decline. North America takes over the lead from Asia as the region from which most companies are expecting increasing demand. According to the Swedish Central Bank, the world economy is healthy overall and the outlook for the United States has improved. The outlook in Europe is still uncertain due to the fiscal problems in several European countries. For Sweden, the prospects for continued high economic growth are favourable. The Swedish Central Bank projects annual GDP growth at 4.4% in 2011, 2.4% in 2012 and 2.5% in 2013. Current projections (from 15 February 2011) are marginally higher than the projections in December, 2010.

The strength in the Swedish economy has gone hand in hand with improved confidence during 2010, which has continued to date. The National Institute of Economic Research reports the businesses confidence has continued to increase since our last survey in September, 2010, and reached record levels in both November 2010 and February 2011. In particular, the business services sector is experiencing strong growth and reached record confidence levels. The manufacturing industry has experienced strong order and output growth over the past few months and confidence in the construction sector remains high on the back of strong new orders, output and employment. However, in the retail sector sales growth has slowed over the past few months.

Optimism about the Swedish economy among households remains at high levels, in line with the figures presented in our previous survey. Nearly every second Swedish consumer, 47%, consider the Swedish economy to be stronger than a year ago, while 44% expect the economic situation to strengthen further in the next 12 months. The households view on unemployment continues at historically positive levels, with almost every second household expecting unemployment to fall in the next 12 months, compared with 54% in our last survey in September, 2010. Unemployment was 7.8% in December 2010, down from 8.8% in December 2009. The Swedish Central Bank projects unemployment to be less than 6.5% in the beginning of 2014.

The Swedish Central Bank raised the repo rate by 0.25 percentage points to 1.5% in mid- February 2011 as the economic activity has increased. Moreover, the Swedish Central Bank projects faster repo rate increases going forward as inflationary pressures rise from increasing capacity utilisation, together with higher energy and commodity prices. It also slightly raised its expectations for the repo rate, which is predicted to be around 2.5% in Q1 2012 and 3.2% in Q1 2013 (compared to the December 2010 forecast at 2.2% and 3.1% for Q1 2012 and 2013, respectively). In addition, the rate of inflation may increase going forward as the price of oil and other inputs have been increasing, partly driven by the current turmoil in Northern Africa and the Middle East. Continued price increases in inputs may lead to steeper increases in the repo rates going forward.

"According to the Swedish Central Bank, the world economy is healthy overall and the outlook for the United States has improved."

Prospects

Continued optimistic view on financial prospects, slightly less on cash generation

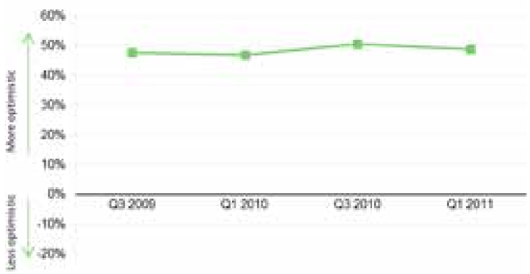
Our Q1 2011 Survey shows that prospects for businesses are strong, although indications show growth stabilising since the last survey in Q3 2009. A majority of CFOs still expressed optimism regarding the financial prospects for their companies, which is in line with the strong macro-economic development in Sweden. The trend is clear in all industries and streches from small to large corporations. Only 9% of the responding CFOs feel less optimistic compared to three months ago.

60% of CFOs expect increasing operating cash flows in their businesses over the next twelve months, while 13% expect a decrease. This represent a decline from the last survey, where 65% of the CFOs expected an increase in operating cash flows and 9% expected decreasing operating cash flows. Companies operating within Services/Consulting, Retail/Wholesale and Real Estate have the most optimistic view regarding the future. The positive cash flow forecasts are likely to be a combination of increased demand and the effects of implemented/ongoing restructuring efforts and cash management programs in businesses across many industry sectors.

Chart 1.

Financial prospects – Company specific

Compared to three months ago how do you feel about the financial prospects for your company?

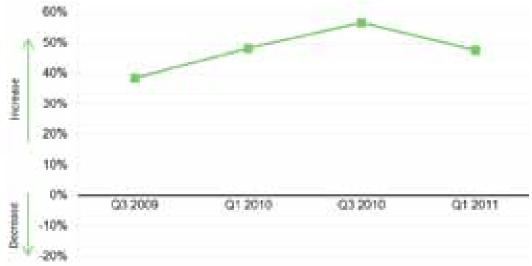


57% of responding CFOs are more optimistic about their specific financial prospects compared to three months ago and only 8% are less optimistic. The trend is similar in all industries and for all company sizes. The pace of recovery has slightly declined compared to the Fall 2010 Survey, however the general view is still very optmistic. Above average optimism in general is also measured in other Swedish surveys such as Konjukturbarometern ("The Swedish Economic Tendency Survey") published in February, 2011.

Chart 2.

Cash flow prospects – Company specific

How do you expect operating cash flow in your company to change over the next 12 months?



The increasing optimistic trend from the previous surveys was broken in Q1 2011 with a slightly less optimistic view on the development in the upcoming year. A possible explanation for the decreased optimism is that benefits from cost cutting in the economic downturn have leveled out. Companies may now see a need to invest and employ to increase growth, adversely affecting cash flows in the short term. Further potential variables affecting the sentiment may be the ongoing upheaval in Northern Africa and the inflationary tendencies and subsequent credit contraction in China. Nevertheless, 60% of the responding CFOs still expect cash flow to increase over the next 12 months. On average, expectations are the highest among CFOs within the Services/Consulting, Retail/Wholesale and Real Estate industries.

Market views

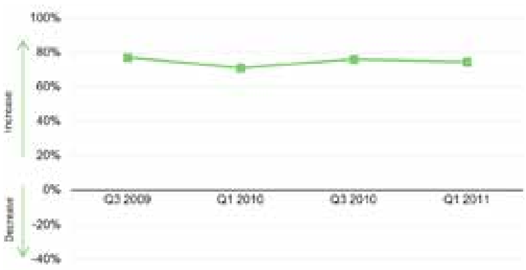
Valuations more closely reflecting fair market values

The general view among the respondents is that Swedish companies are now valued closer to fair values compared to the last survey. The proportion of respondents stating values are fair has increased to more than half (compared to 39% in the last survey) and the proportion stating undervaluation has halved (19% compared to 39% in the last survey). The OMX 30, Stockholm Stock Exchange Index, increased by almost 8% from September to the end of December 2010. In total, the same index increased by 21% in 2010, albeit has decreased by 3% in 2011 to the end of February. The overall increase confirms the CFOs view on the valuation of Swedish companies coming back to pre-financial crisis levels.

IPOs have been scarce on the Stockholm Stock Exchange, but quite a few transactions outside the stock market have occurred as private equity had a strong come back from the downturn with significant amounts of committed capital that needs to be put to work, easier credit from banks and portfolio companies in line for exits. In addition, several well-funded industrial companies have communicated a desire to grow by acquisitions. The number of acquisitions increased by 20% in 2010 compared to the previous year, of which industrial companies accounted for the main part. This trend is likely to continue.

Chart 3.
M&A activity – Sweden in general

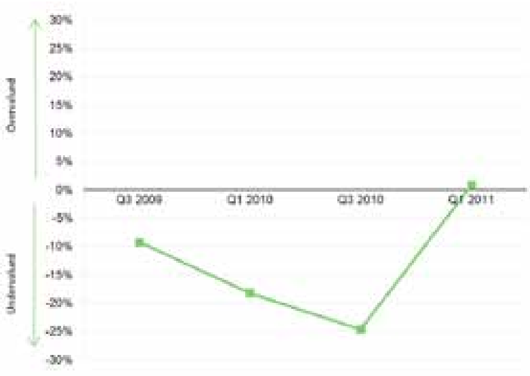
Over the next 12 months how do you expect levels of corporate acquisitions and divestments in Sweden to change?



The trend of CFOs expecting further increases in M&A activity is rather stable from previous periods with 76% of the responding CFOs expecting further increases. However, broken down, the proportion of CFOs stating that M&A activity will "increase significantly" has halved from 10% to 5%, representing the largest impact on the net trend. The expected strong continuation of M&A activity is in line with the strong economic outlook and is a response to the low levels of activity experienced during the second half of 2008 and during 2009.

Chart 4.
Valuation – Sweden in general

How do you currently rate the valuation of Swedish companies?



Swedish companies are more appropriately valued compared to the previous six months according to the responding CFOs, with more than half of the respondents considering companies to be fair valued. Only 19% of respondents now consider Swedish companies to be undervalued compared to 39% in the last survey. This is in line with the general stock market which continued to rise another 7.5% during the fourth quarter last year. The proportion of respondents stating companies are overvalued has increased, and may be supported by the declines seen in the OMX Stockholm 30 index during the first quarter of 2011.

Funding preferences
Equity financing becomes more attractive

Bank borrowing continues to be seen as the most attractive source of funding by responding CFOs. Even though the market interest rates are increasing the current rates are still comparatively low and with a continuously improved availability of bank borrowings. Respondents state equity is becoming more attractive which would be a natural development following stock market increases and the survey results that companies are more fairly valued or even overvalued.

CFOs appear to have a stronger confidence in successfully raising capital through new share issues. The share of CFOs stating that times are good to raise equity has almost doubled from the previous survey. Given the increased valuations of Swedish companies, both according to survey results and stock market data, the more optimistic view on new share issues is expected.

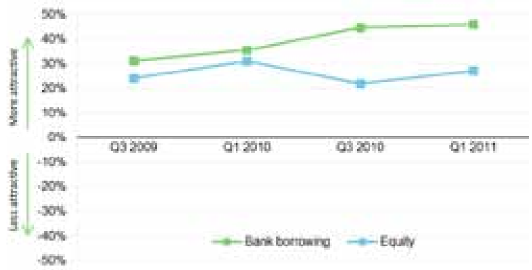
There is a sharp increase in respondents considering shareholders' cash return on investment ratio to be high – an increase from 7% to 25% compared to the last survey. The result is in line with anticipated dividends and share buy backs communicated from quoted companies after the communication of the 2010 results.

It is a clear trend that responding CFOs consider financial risk to have decreased – a trend that continues since the Fall 2009 Survey. 86% of CFOs in the manufacturing sector consider the financial risk on their balance sheet to have decreased over the past twelve months, confirming the strong performance in a core industrial sector in Sweden.

Chart 5.
Bank borrowing and equity funding – Sweden in general

How do you currently rate bank borrowing as a source of external funding for Swedish companies?

How do you currently rate equity as a source of external funding for Swedish companies?



There is a continued high attractiveness of bank borrowing as a source of external funding for Swedish companies. This is a result of easier access to credit as well as low interest rates, although rates are increasing.

The share of CFOs considering bank borrowing as unattractive has decreased from 10% to 6%. However, there is a clear difference between small-size companies and mid to large size companies, where the former continue to have a challenge to get favorable terms of bank funding. None of the respondents of mid-size to large companies rate bank funding as unattractive.

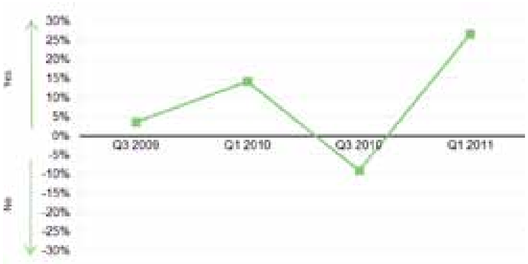
Moreover, respondents that consider equity to be an attractive or neutral source of funding increased from 70% to 73%. The share of respondents finding equity unattractive decreased from 16% to 11%. Hence, we can see that equity is higher rated now than six months ago which is expected given the sentiment described earlier that companies are more fairly valued or even overvalued, the increase in the stock market index, as well as expectations of more expensive bank financing, factors all favoring equity financing.

The overall responses regarding bank borrowing and equity funding (with attractive or neutral responses of 70% or more) clearly shows both sources of funding are currently viable options.

Chart 6.

New share issue – Sweden in general

Is now a good time for Swedish companies to perform a new share issue?



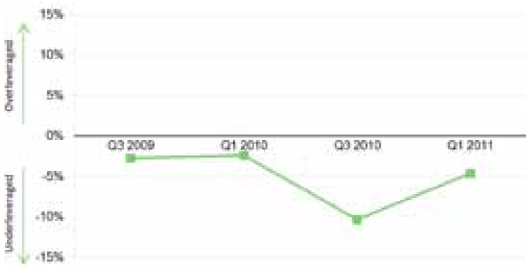
CFOs have a considerably more positive view on raising capital through a new share issue now compared to six months ago. The proportion of respondents that believes now is a good time has almost doubled from the previous survey, albeit from low levels, to more than 40% (and with a large change in the net proportion to more than 25%). A more positive attitude to new share issues is expected given the relatively higher market values of Swedish companies, both according to survey results and stock market data. Also possibly working in favor is the relatively more expensive bank financing, as interest rates are rising more steeply than previously expected.

However, according to the survey results, very few respondents are likely to perform a new share issue within the next twelve months.

Chart 7.

Leverage – Sweden in general

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



65% of the respondents believe that Swedish companies are appropriately leveraged compared to 61% in the previous survey. More CFOs consider Swedish companies to be underleveraged rather than overleveraged, although the net of the two categories are converging.

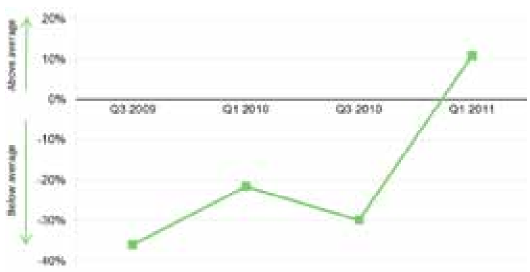
This may be a result of strong reported earnings and well capitalized balance sheets reducing leverage levels. Strong balance sheets are also a key driver of expected future M&A activity.

"There is a continued high attractiveness of bank borrowing as a source of external funding for Swedish companies."

Chart 8.

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?

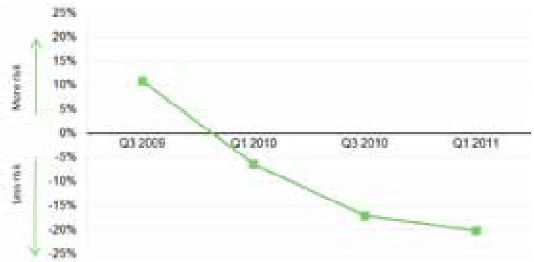


There is a sharp increase in respondents considering cash return to shareholders ratio to be high – an increase from 7% to 25% compared to the last survey. The result is in line with anticipated dividends and share buy backs communicated from quoted companies after year end. Only 15% of respondents consider cash returns to be low as opposed to approximately 40% in the previous survey. The net of proportion of respondents considering returns to be high (high minus low) has increased to +10% compared to -30% in Q3 2010, suggesting that cash returns have returned to more normal levels.

Chart 9.

Balance sheet risk – Company specific

How has the level of financial risk on your balance sheet changed over the past 12 months?



There is a clear trend that a larger proportion of responding CFOs consider their financial risk to have decreased over the last 12 months. As can be seen in the chart, this trend is ongoing since the Fall 2009 Survey. 38% of CFOs responded the financial risk on the balance sheet decreased, 40% are neutral and 18% responded increasing risk.

Furthermore, 86% of CFOs in the manufacturing sector consider their balance sheet financial risk to have decreased over the past twelve months, confirming the strong performance in a core industrial sector in Sweden. Reduced balance sheet risk is in line with strong earnings reported and well capitalized balance sheets.

Availability of credit
Improved access trend continues

Difficulties in obtaining bank funding were seen throughout most of 2009. However, the availability of bank funding continues to improve from the last three surveys according to responding CFOs. The proportion of respondents stating the bank financing is "hard to get" has halved (12% compared to 25% in the Fall 2010 Survey and 29% in the Spring 2010 Survey). This development is in line with survey results across Europe. Again, the results confirm that small-size companies face greater obstacles in obtaining funding at acceptable terms compared to large corporations with solid bank relationships and access to the corporate bond markets.

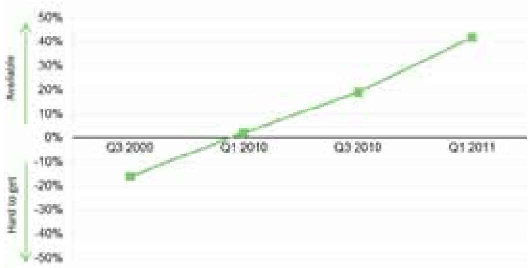
The share of respondents struggling to obtain financing is continuing to decrease. Responses that financing is hard to get is now only apparent among the small-size companies.

Interest rates are still considered to be very favorable by a significant majority of CFOs. The Swedish Central Bank's forecasts indicate the repo interest rate is likely to increase from the current level of 1.5% to 2.5% in Q1 2012 and 3.2% in Q1 2013. A continued high share, 43%, of the responding CFOs believe their companies are likely to renegotiate loan arrangements or arrange for new credit facilities over the next twelve months.

Chart 10.

Availability of bank funding – Sweden in general

How would you rate the overall availability of bank funding for companies?



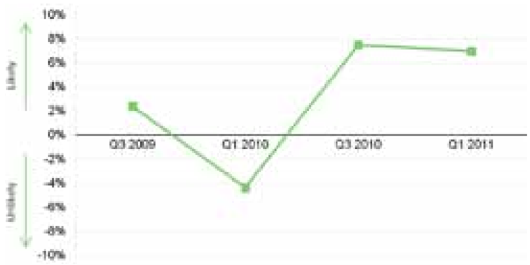
Bank funding is considered more readily available now compared to the surveys carried out six, twelve and eighteen months ago and has in fact doubled since the previous period. 12% of CFOs respond that bank funding is "hard to get", which has significantly decreased from 25% in the previous survey. This trend of anticipated increased availability of credit is expected given the strong growth of Swedish industry and overall strength in the economy.

The vast majority of CFOs still characterize the short term market interest rates in Sweden as low and attractive (see chart 5). The repo rate is currently 1.5%, having increased from 0.75% during the last six months.

Chart 11.

Credit renegotiations – Company specific

Is your company likely to renegotiate loan arrangements/arrange for new credit facilities over the next 12 months?



With the increasing availability of bank funding, a majority of respondents (excluding those with no view) are likely to negotiate credit agreements or arrange for new credit facilities over the next twelve months. The level is relatively unchanged since the last survey. Improved access to credit and still relatively low interest rates may drive refinancing. In addition, significant refinancing volumes are expected in 2012 to 2014 as loan stocks from a large number of acquisitions in 2005 to 2008 are expiring.

"If 2010 was the year of balance sheet rebuilding and cost cutting, 2011 looks set to be the year in which corporates start spending again."

The Deloitte CFO survey – An international outlook

Strong optimism across Europe and in the US

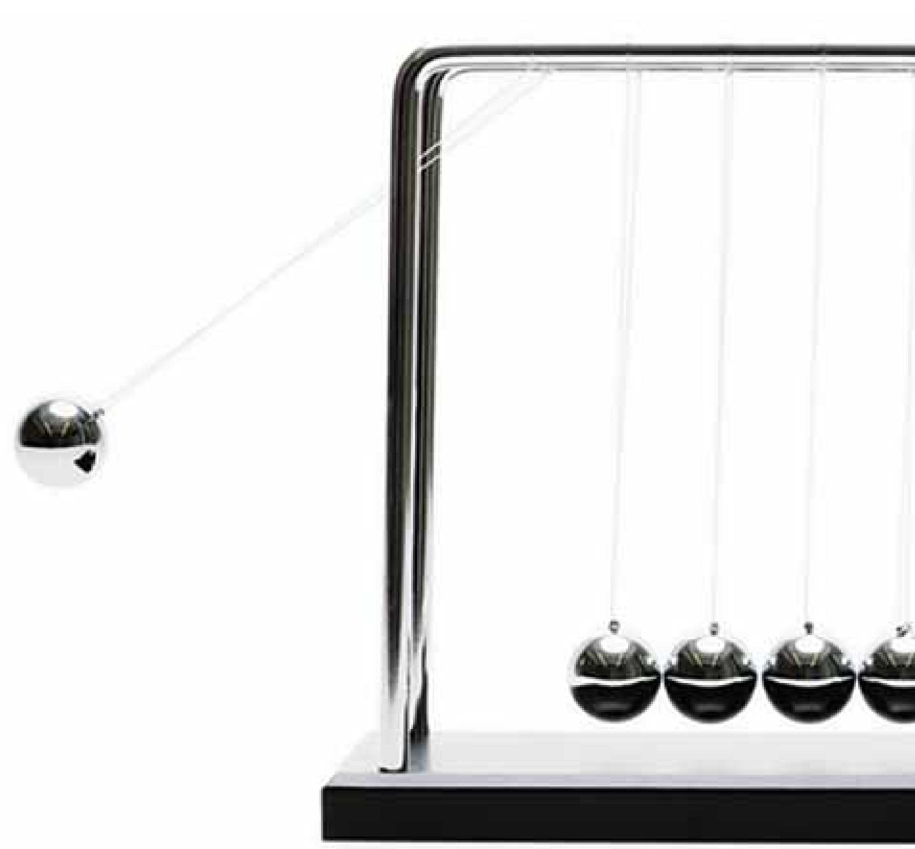
Below we have compiled key points from the most recent CFO surveys in the UK / Euro-zone and in North America (performed in Q4 2010):

UK / Euro-zone

- Financial optimism was strong in Q4 2010.
- Credit availability and cost of credit have fallen and CFOs see bank borrowing and bond issuance as the most attractive form of external financing.
- For example, in the UK, bank borrowing and bond issuance were as popular with CFOs in the fourth quarter as they were before the credit crunch started in 2007, when debt finance fell out of favor.
- Improving credit conditions are also likely to have contributed to rising optimism and risk appetite.
- CFOs expected their company's cash flow to increase over the next 12 months.
- If 2010 was the year of balance sheet rebuilding and cost cutting, 2011 looks set to be the year in which corporates start spending again. Cost control has dropped in importance. Introducing new products or services or expanding into new markets is the first priority for corporates in 2011.
- CFOs expected continued strength in M&A and Private Equity activities over the next 12 months.

North America

- CFOs' optimism on own-company prospects rebounded in Q4 2010 on improved assessment of the business environment after suppressing optimism in the third quarter. More than 50% of CFOs were "more optimistic" and the proportion of "no change" reached a new high, suggesting sentiments may be settling.
- As many markets stagnate, companies are expecting increased competition for near-term growth and profitability. Market growth and pricing trends are both top challenges for more than half of all companies.
- New competitive tactics are a rising challenge on the whole, and factors like overcapacity and foreign competition are on the rise within specific industries.
- Some of Q3`s pessimism appeared evident in Q4´s projections. After two quarters of rising expectations, CFOs projected lower year-over-year sales gains. Capital spending estimates rose slightly in the fourth quarter.
- Based on the persistence of above-normal unemployment levels, government and business leaders have begun to speculate that a structural shift in companies' human resource needs is at work. At least for the large companies in the survey, significant shifts appeared to be taking place. Consistent with their view that economic growth will not fix unemployment, CFOs shun further government spending.



Insight to the CFO community

Finance is the lifeblood of an organization and stakeholders have high expectations of the finance function's performance. An effective finance function, which includes all aspects of finance, tax, treasury and, typically, risk management, makes a positive contribution to the achievement of the organization's strategic objectives and to its value creation goals. To be successful, finance must develop the capabilities that will allow it to fulfill its responsibilities to the organization, meet stakeholder expectations and to service its key business partnerships. The challenge for the CFO is to create a finance function that has both the capabilities and the flexibility necessary to meet the desired levels of performance in these key areas.

At Deloitte, we provide the best advice to CFOs in both the private and public sectors on the complex financial and business challenges they face. We bring together an unrivalled set of services from across the firm to support finance leaders to take these decisions and to support any resulting change or transformation in their finance capability. The breadth of services, combined with our ability to provide independent advice and the capability to support both strategy and delivery sets us apart in the market.

In order to further position ourselves as a pre-eminent advisor to the CFO community, we also conduct the Deloitte CFO survey – a survey of CFOs and group finance directors of major companies. It captures shifts in CFOs' opinions on valuations, risks and financing. It has become a benchmark for gauging financial attitudes of major corporate users of capital in countries around the world. At present, 14 Deloitte member firms are conducting CFO surveys on either a quarterly or semi-annual basis.

A note on methodology

For the purpose of the CFO survey around 2,500 CFOs in Sweden were invited to complete the survey. 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 February 2011. In total 146 CFOs responded to the survey, representing a response rate of 6%. Given the broad range of industries and size of organizations responding, trends observed and conclusions made are considered to be representative for the wider Swedish CFO community. Figures shown in charts are based on the net of responses, for example the net proportion responding "Yes" minus the proportion responding "No". Respondents with "No View" have not been included.

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