



The Deloitte CFO Survey Confidence deteriorating

Introduction

It is our pleasure to present the Deloitte Fall 2011 CFO Survey for Sweden, a semi-annual report aiming to provide a picture of the CFO's agenda, focusing on Market views, Funding preferences and Availability of credit in Swedish companies. The sentiment in the current survey is one of reduced optimism about the upcoming 12 months – both in Sweden and globally – both regarding macroeconomic development and for individual businesses. However, overall CFOs conclude that M&A activity remains stable despite the decreasing availability of funding.

Key points from the Fall 2011 Survey

- The Fall 2011 survey shows uncertainty over economic growth, with 42% of responding CFOs stating that the financial prospects for their company are less optimistic compared to three months ago. This is a significant drop compared to the last survey (Spring 2011), where 9% of the CFOs were less optimistic.
- Despite reduced optimism about the financial outlook, 47% of CFOs still expect increasing operating cash flows in their businesses over the next twelve months, representing a 13 percentage point decline from the last survey. The continued strong belief in increasing operating cash flow for Swedish companies may be correlated to the current market turmoil being caused primarily by fear of a number of defaulting countries, the effects of which have not yet fully reached the companies, as well as uncertainty over the duration of the current debt crisis.
- 54% of respondents find Swedish companies to be undervalued, a significant switch from the previous survey, Q1 2011, when valuations were considered to be closer to fair market values. The considerable decline in the Swedish stock market during the summer of 2011 is likely to be the main reason behind this change in sentiment.
- The results of this survey show that bank borrowing is still attractive, with a slightly decreasing trend noted. 71% of CFOs believe Swedish companies are appropriately leveraged and 10% find Swedish companies to be underleveraged versus 4% overleveraged.
- The trend from the last three surveys of decreasing risk on companies' balance sheets has been broken. The share of CFOs identifying a slightly higher balance sheet risk increased from 15% to 30% but the share of CFOs responding that risk significantly increased actually decreased compared to the previous survey, indicating that the level of risk identified by CFOs is not alarmingly high.
- For the first time in 24 months the availability of bank funding is observed to have decreased. Although remaining optimistic overall, the share of respondents either finding bank funding hard to get or giving a neutral response has increased significantly. The results are likely an effect of the current market turbulence and increased market risk.
- Surveys conducted in Europe during Q2 2011 also demonstrated a fall in optimism; in the UK optimism decreased to the lowest level in more than two years. However, strong corporate balance sheets and good financing conditions mean that many CFOs are continuing to look for expansion opportunities. In North America the strategic focus of many companies has shifted strongly toward revenue growth and away from cost reduction initiatives. Furthermore, it is likely that companies not putting spare cash to use fairly soon will be pressured to return it to shareholders (via dividends or share buy-backs).

Current status of the Swedish economy

The Swedish economy continued to strengthen and grew by 5.3% in the second quarter of 2011, compared to the same period in 2010. Growth had been predicted to slow to a more moderate pace during the second half of the year, however increasing concerns during the summer about the fiscal situation in the U.S. and the Euro area are likely to have a greater impact on the growth of the Swedish economy than earlier predicted. The predictions include a great deal of uncertainty and are highly dependent on how these fiscal problems are solved in the coming months. The Swedish Central Bank projects annual GDP growth of 4.5% in 2011, 1.7% in 2012 and 2.5% in 2013. Compared to its projections in July 2011, current projections (from 7 September 2011) are somewhat higher for 2011, but lower for 2012 and 2013.

The effects of the turbulence in global markets and the uncertainty about the future can now be seen clearly, with business confidence in Sweden decreasing markedly during the recent months from a historically

high level in December 2010. According to the National Institute of Economic Research report, almost all business areas have experienced a downturn in demand and production growth. Order growth in the manufacturing industry has virtually stagnated and production is expected to increase only moderately over the next months. Sales growth in the retail sector has continued to drop and has been slower than expected. Growth in demand for the business services sector has slowed significantly in recent months, but employment has continued to increase. However, companies in the business services sector are relatively optimistic about the coming months and expect a strong growth in demand as well as rising employment. Growth in the construction sector remains stable due to strong output and employment.

During the 2011 summer period we have seen a turnaround in households view of the Swedish economy. A survey from the end of July 2011 shows that households optimism about the Swedish economy is at its lowest level since June 2010. At the end of July, 28.9% of households believed that the Swedish economy would strengthen further in the next 12 months, compared to 42.8% in May. Nearly every second consumer, 45.5%, believed that the Swedish economy will be at the same level a year from now and, for the first time in two years, optimism about the household finances is greater than for the Swedish economy. Further, the view on unemployment has changed rapidly in August, compared to July: 28% of households now believe that unemployment will decrease during the next twelve months while 29% believe in an increase in unemployment, compared to 43% versus 21% in July. Unemployment was 6.9% in July 2011, down from 8% in July 2010. The Swedish Central Bank projects unemployment to be less than 6.5% by the beginning of 2014.

The Swedish Central Bank left the repo rate unchanged at 2.0% in September 2011 as the concern over public finances abroad has increased and global growth prospects have deteriorated. Moreover, the Swedish Central Bank projects slower repo rate increases going forward as underlying inflationary pressures remain low. The repo rate is predicted to be around 2.4% in Q1 2012 and 2.9% in Q1 2013 (compared to the July 2011 forecast of 2.5% and 3.2% for Q1 2012 and 2013, respectively).



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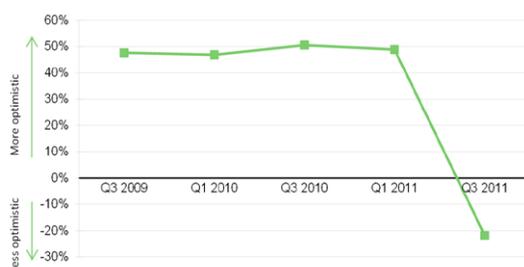
Prospects

Sentiment cooling, less optimism on cash generation

The CFOs' view on the financial prospects for their companies has plunged in our Q3 2011 survey, compared to the last survey in Q1 2011. Despite a strong macro-economic development in Sweden during the first half of 2011, the global debt crisis of recent months has negatively impacted CFOs' views. 42% (9% in the last survey) of the responding CFOs feel less optimistic about the financial prospects for their company compared to three months ago. The negative trend is clear for all analysed sectors.

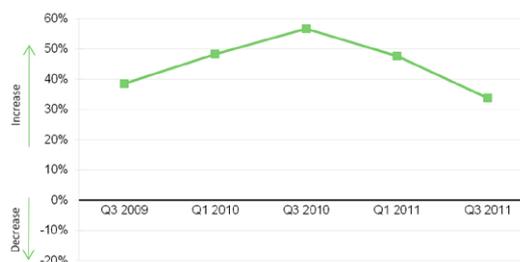
47% of CFOs expect increasing operating cash flows in their businesses over the next twelve months, a decline from the last survey, where 60% of the CFOs expected an increase in operating cash flows. 13% of CFOs, unchanged from the last survey, expect a decrease in operating cash flows over the next twelve months. Companies operating within Services/Consulting, Energy/Utilities and Health- and medical care have the most optimistic view for the coming twelve months. The positive cash flow forecasts are likely the result of historical restructuring efforts and uncertainty over the level of impact from the ongoing global debt crisis.

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



42% (9%) of responding CFOs are less optimistic about their financial prospects compared to three months ago and only 20% (57%) are more optimistic. The broken trend is very clear compared to the surveys performed in the last two years. Less optimistic CFOs primarily represent the Banking/Finance/Insurance, Manufacturing and Transport sectors. The rapid switch in optimism has also been measured in other Swedish surveys such as Konjunkturbarometern ("The Swedish Economic Tendency Survey") published in August, 2011, showing an indicator drop in business and consumer sentiment from 111.8 in May to 100.2 in August.

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 less optimistic view on cash flow development over the past year has continued in the Survey Q3 2011 and is now at the lowest level for two years. However, 47% of the responding CFOs still expect operating cash flow to increase over the next 12 months. One reason for the fairly optimistic scenario may be that CFOs do not yet know how long the current global debt crisis will last and how it will impact their specific markets and companies. On average, expectations are the highest among CFOs within the Services/Consulting, Energy/Utilities and Health- and medical care sectors.

Market views

M&A activity expected to continue with companies considered undervalued

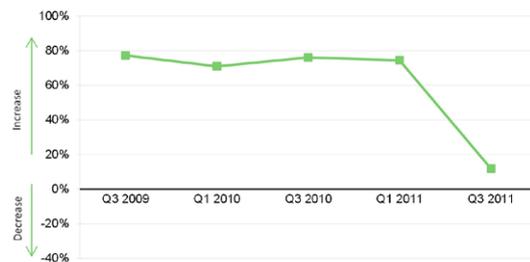
The Q3 Survey 2011 shows a major switch in respondents' views on the valuation of Swedish companies, compared to the Q1 Survey 2011. CFOs consider Swedish companies to be undervalued, mainly influenced by the fall in the Swedish stock market during summer 2011. This reflection is probably based upon the ongoing global debt crisis, which is yet to have a significant impact on the companies' current trading, although this may change depending how the market develops during the remaining months of 2011.

M&A activity recovered in the second half of 2010 and continued to increase in the first half year of 2011. In the Q3 Survey 2011 respondents are expecting a slight increase in M&A activity. One reason for the continuing CFO appetite for growth may be shareholder pressure to make use of the strong balance sheets which many companies have built up. With the ongoing uncertainty over the outcome of the current debt crisis – and therefore banks' confidence to fund M&A activity – the market may see an increase in strategic investors' activity in the final quarter of 2011, should the private equity sector find bank funding scarce.

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?

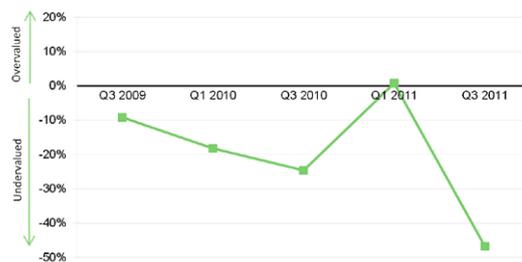


The net trend of M&A activity is still indicating an increase, but at a significantly lower level (12% net increase, compared to 76% six months ago). The first half of 2011 saw intense M&A activity in Sweden and, based on the responses received from CFOs, this trend is expected to continue. This may be fuelled by the buildup of strong and liquid corporate balance sheets.

Chart 4.

Valuation – Sweden in general

How do you currently rate the valuation of Swedish companies?



Swedish companies are currently considered to be undervalued by 54% of the responding CFOs, a very significant change from the Q1 Survey 2011 when respondents, in general, considered companies to be fairly valued. Only 7% of the CFOs now consider Swedish companies to be overvalued, compared to 20% six months ago. This may be a reflection of the 18% drop in the OMX Stockholm 30 index between 1 June and 31 August 2011.

Funding preferences

Bank borrowing continues to be attractive

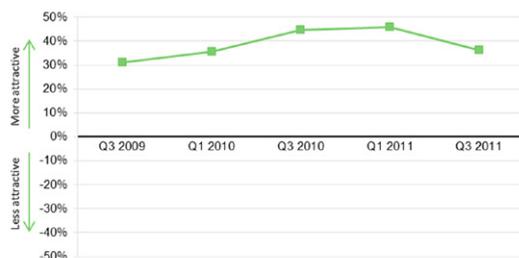
The results of this survey show that bank borrowing is still attractive, despite a slightly decreasing trend. The repo rate has been raised three times during 2011 and short-term interest rates are slowly increasing, which has a direct impact on the attractiveness of bank borrowings. 71% of CFOs believe Swedish companies are appropriately leveraged while 10% find Swedish companies to be underleveraged versus 4% overleveraged.

A large proportion of CFOs continue to view the shareholders' cash return on investment ratio to be normal, compared to a 10-year average. The share of respondents answering both "low" and "no opinion" have decreased, indicating that cash return ratios are more predictable and stable and have reached what could be considered a "normal" level. The reason that there is still a positive trend in the responses is probably that the recent economic turbulence has not yet had an effect on dividends.

The trend from the last three surveys of decreasing risk on the balance sheet has now been broken. In the previous survey, 38% of CFOs indicated a decreasing level of balance sheet risk versus 18% increasing balance sheet risk. Now the response is reversed to 31% increasing risk versus 22% decreasing risk. The share of CFOs identifying a slightly greater risk increased from 15% to 30%, however the share of CFOs responding that risk had significantly increased actually decreased compared to the previous survey. This indicates that the level of risk identified by CFOs is not alarmingly high.

Chart 5.
Bank borrowing – Sweden in general

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



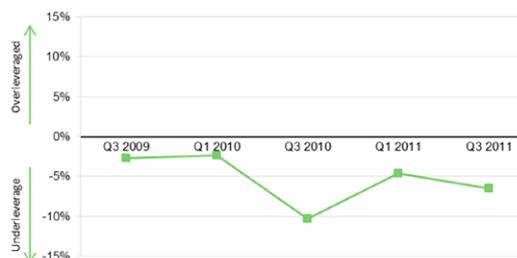
The attractiveness of bank borrowing has decreased marginally since the last survey and is now at the same level as in Q1 2010. This is likely due to a combination of slightly higher interest rates and decreased availability of credit.

Even though short-term interest rates are slowly increasing, they remain at a historically low level. The repo rate has been raised three times during 2011. Market rates are still low but have been slowly increasing. The Swedish Central Bank left the repo rate unchanged in September 2011.

The share of CFOs considering bank borrowing unattractive has increased from 6% to 14% compared to the last survey. An important difference in the outcome of this survey, compared to the last, is that where previously none of the mid or large-sized companies found bank funding to be unattractive, 10% of the mid to large-sized companies now do.

Chart 6.
Leverage – Sweden in general

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



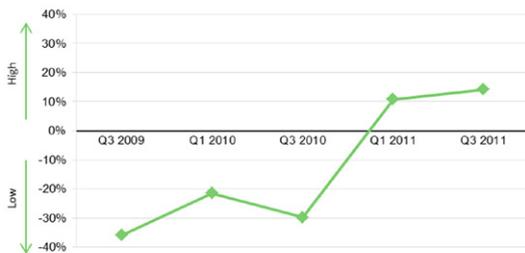
The share of CFOs believing Swedish companies are appropriately leveraged has increased from 65% to 71% compared to the previous survey. The share of CFOs finding Swedish companies overleveraged has decreased slightly and, at the same time, more CFOs consider Swedish companies to be underleveraged. This results in a net opinion skewed slightly towards underleverage compared to the previous survey.

The overall response is somewhat inconsistent with the company-specific question concerning renegotiating/arranging new credit facilities, where about half of the CFOs have no intention (including those responding "no opinion") of changing their companies' current leverage position. CFOs that think the balance sheet is underleveraged would likely want to arrange new credit facilities, but the results in chart 10 show that the likeliness of doing so has decreased since the last survey. This inconsistency may be caused by the economic turbulence making CFOs less willing to act.

Chart 7.

Cash return to shareholder ratios – Sweden in general

Do you think the current cash return to shareholder ratios (including dividends and share buybacks), compared to a 10 year average, is high, normal or low?



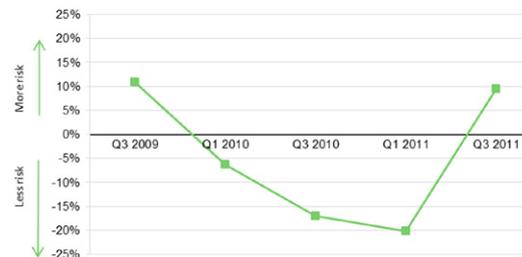
The net response from the respondents shows a continued increase in the opinion that the cash return to shareholder ratios is high, compared to the last survey. The share of respondents that think the level is normal has increased sharply, to 47%, compared to 38% in the previous survey. This supports the fact that cash returns have stabilized and that dividends have reached what could be considered to be a normal level since the last economic crisis. However, the percentage of CFOs that think the ratios are high remains at 25%, the same level as Q1 2011.

The percentage of respondents that answered both "low" and "no opinion" has decreased, which indicates that cash return ratios in 2011 are now more predictable and stable. The net response of high cash return to shareholder ratios in this survey is likely to be because the recent economic downturn has not yet had an effect on dividends.

Chart 8.

Balance sheet risk – Company specific

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



The trend towards decreased risk on the balance sheet from the last three surveys has been broken. While a net of proportion of respondents considering risk to decrease (decrease minus increase) in the previous survey of 20%, there is now a net of 9% response implying increasing risk.

The share of CFOs identifying a slightly higher risk increased from 15% to 30%, however the share of CFOs responding that risk significantly increased actually fell, compared to the previous survey. This indicates that the level of risk identified by CFOs is not alarmingly high.

The CFOs identifying a significantly increased balance sheet risk mainly operate within the Manufacturing sector. A likely reason for this is weaker order development and that negative macro-economic factors often have a rapid impact on manufacturing companies.

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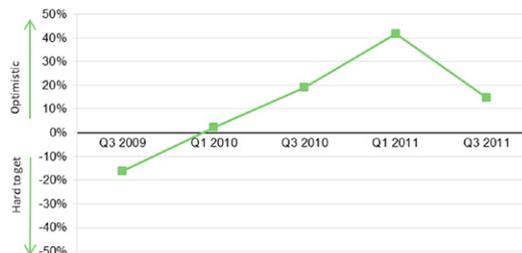
Availability of credit

Decreasing access to bank funding

For the first time in 24 months the availability of bank funding shows a decreasing trend. The respondents remain optimistic, however the share of respondents who were either neutral or finding bank funding hard to get has increased sharply. The results are likely to reflect the current economic turbulence and the increased market risk. The survey's results do not show significant differences between responses from CFOs of small- or large-sized companies. It does, however, seem to be more difficult for mid-sized companies to obtain bank funding, compared to the other two groups of respondents in this survey.

Considering the current economic uncertainty and a decreased availability of bank funding the likeliness of renegotiating loans or arranging new credit facilities has decreased. Still, almost half of the respondents, regardless of their company's size, responded that they are likely to arrange or renegotiate loan arrangements for new credit facilities over the next twelve months.

Chart 9.
Availability of bank funding – Sweden in general
How would you rate the overall availability of bank funding for companies?

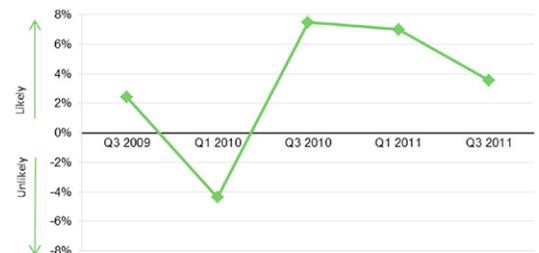


For the first time in 24 months, responses concerning the availability of bank funding show a decreasing trend. The share of CFOs responding that bank funding is hard to get has increased from 12% to 21%. At the same time, the share of neutral respondents has increased from 22% to 33%. This result corresponds with the current economic turbulence and increased market risk.

There is no significant difference between the responses from CFOs in small- and large size companies in the survey. However, CFOs in mid-size companies are finding it more difficult to find bank funding compared to their counterparts representing small and large businesses. Smaller companies may have credit facilities with longer durations and the individual credit risk exposure is limited. Large companies, in general, have the strongest relations and negotiating capacity with finance providers.

Energy/Utilities sector CFOs comprise the highest share of respondents finding bank funding very hard to get, compared to all other sectors. This sector also rated bank funding as least attractive.

Chart 10.
Credit renegotiations – Company specific
Is your company likely to renegotiate loan arrangements/arrange for new credit facilities over the next 12 months?



With decreasing availability of bank funding and the current economic uncertainty there is a slightly decreasing share of respondents that are likely to renegotiate loan arrangements over the next 12 months. 44% of respondents are likely to renegotiate, versus 40% who were unlikely. The share of respondents that have no opinion is 16%, which has decreased since last survey in favor of "unlikely".

The size of the company appears not to have significant influence on whether or not to renegotiate or arrange for new credit facilities. Almost half of the CEOs in small-, mid- and large size companies answered that their company is likely to renegotiate over the next 12 months.

"For the first time in 24 months, responses concerning the availability of bank funding show a decreasing trend."

"Despite falling optimism, strong corporate balance sheets and good financing conditions mean that many CFOs are continuing to look for expansion opportunities"

The Deloitte CFO survey

– An international outlook

Deteriorating confidence both in Europe and 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 Q2 2011):

UK / Euro-zone

- CFO optimism in the UK has dropped to the lowest level in more than two years.
- CFOs are placing greater emphasis on cost control and increasing cash flow.
- Despite falling optimism, strong corporate balance sheets and good financing conditions mean that many CFOs are continuing to look for expansion opportunities.
- Companies with high overseas exposure are prioritizing introducing new products/services or expanding by acquisition, whereas companies generating the majority of revenues from their home market are prioritizing cost reduction and increasing cash flows.
- Leverage is back in favor.
- CFOs see profit margins narrowing.

North America

- Historical pessimism has been driven largely by deteriorating assessments of the macro environment, but roughly half of the increase in pessimism this quarter is driven by internal concerns.
- With growth at the heart of their most pressing challenges and concerns, companies are very concerned about the government's potential impacts on their growth plans, and they are increasingly concerned about inflation, rising input prices, and the possibility of longer-term economic malaise.
- As evident in previous surveys, the strategic focus of many companies has shifted strongly toward revenue growth and away from cost reduction.
- There is a common perception that, if companies do not put their cash to use fairly soon, they will be pressured to give the money back to shareholders (through dividends and/or share buy-backs) or begin to be punished by equities markets (through declining valuations).
- More than 40% of CFOs say they are more concerned now about their level of capital investment than they were three years ago, and 49% say they are more concerned about the quality of those investments. Together, these findings may suggest rising concerns around the current business climate and the longer-term effectiveness of investments that are presently being undertaken.



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 stellar 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, worldwide, conduct CFO surveys on either a quarterly or semi-annual basis.



A note on methodology

The CFOs who responded represent Swedish companies across all industries. The survey was carried out as a web-based questionnaire during August 2011. In total 169 CFOs responded to the survey. Given the broad range of industries and size of organizations responding, trends observed and conclusions made are considered to be representative of 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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