



The Dutch Deloitte  
CFO Survey  
Short-term pessimism,  
long-term optimism

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We are proud to present our first quarterly survey of Chief Financial Officers as part of the Deloitte CFO Initiative. The survey gauges attitudes to valuations, risk and financing, and is about picking up trends and turning points for you and your business. The Deloitte CFO Survey is also executed by Deloitte UK and Deloitte Belgium. Comparisons across borders will be made when relevant.

### Short-term pessimism, long-term optimism

The dominant theme of this first quarterly survey is short-term pessimism, long-term optimism. On the short-term CFOs state they have become less optimistic about the financial prospects for their company and mark funding cost and availability as tough. Further, CFOs rate equity valuations as undervalued and do not think now is a good time to issue equity or debt.

On the other hand, there seems to be some light at the end of the tunnel. Over the next 12 months a majority of CFOs expect levels of M&A activity to increase and three-quarters expect the AEX to be higher in a year's time from today. In addition, UK and Belgian CFOs report first signs of optimism and glimmers of hope in times of uncertainty.

### Funding conditions are tough

The survey results currently show that both cost and availability of funding are a major issue for Dutch corporates. Over three-quarters (80%) of the CFOs report that new funding is costly. Two-thirds (67%) of the respondents rate the overall availability of new funding as hard to get. It is not surprising that a majority of the CFOs have become more pessimistic about the financial prospects of their company, compared with three months ago (net balance -7%).

De Nederlandsche Bank (DNB) statistics show Dutch corporates are more dependent on bank borrowing

than other companies in the overall Euro Area, the UK, and the US. Hence, it is striking to see that Dutch CFOs rate bank borrowing (net balance -17%) as the least attractive source of corporate funding compared with equity issuance (net balance -15%), and corporate debt (net balance -2%). Obviously, CFOs do not believe now is a good time to issue equity (91%) or debt (69%).

The unattractiveness of bank borrowing becomes evident in merely 18% of the CFOs indicating that the cost of short term borrowing from banks has decreased. This is a remarkable finding, because after the survey closing date the ECB announced the seventh rate cut since October 2008. The European Central Bank (ECB) decreased the main refinance interest rate by 25 points to 1.00%, and plans to buy about €60 billion of government bonds.

This apparently limited impact on funding conditions is strengthened by UK and Belgian CFOs saying base rate cuts and government action have had little or no effect on the price and availability of new funding. It may be that corporates face difficulties accessing these lower rates because banks are cautious about extending new funding. In our next quarterly survey, it will be interesting to see whether the ECB policy decisions have produced the desired effect on funding conditions for Dutch corporates.

# Funding conditions are tough

## Equities undervalued, optimism on M&A

The dominant view among CFOs is that both equity valuations in general (80%) and the equity of their own company (62%) are undervalued. Another 36% believe their own equity is priced at fair value.

The April 2009 Euro Area Bank Lending Survey reports that the net demand for loans to enterprises is weak in the first quarter of 2009. This low demand was partly driven by a weak demand stemming from mergers and acquisitions. Nevertheless, the survey results show that a vast majority of CFOs, 68%, believe Mergers & Acquisitions (M&A) activity will increase in the next 12 months.

For the coming year, the overall view on the development of the AEX is positive. A majority of 75% of Dutch CFOs expect the stock market index to be higher than today. The average AEX closing index during the survey fieldwork was 248.32.

## Compulsory diversity and sustainability prominent issues

In continuation of the Deloitte study 'Beyond Rules' we asked CFOs about corporate responsibility. Most CFOs (63%) believe diversity in supervisory boards should be compulsory, and 58% state that sustainability should have a more prominent place in the Tabaksblat Code. Different opinions arise on the question which part of the CFO's remuneration could be linked to financial targets without bringing into discussion integrity and ethical behavior. 11% believes there should be no link at all, and an additional 52% thinks this part should not exceed 25%.

## Key points from the 2009 Q1 Survey

- ECB rate cuts, and other measures to combat the recession seem to have little effect on the cost and availability of funding. Funding conditions for corporates are difficult as funding is characterized as both costly and hard to get.
- Compared with three months ago, the dominant sentiment about the financial prospects for the company is pessimistic.
- In this quarter, a majority of the CFOs rate all three forms of external funding - bank borrowing, corporate bonds, and equity - as unattractive.
- A vast majority of CFOs agrees on now being not a good time to issue debt and/or equity.
- Most CFOs think equities in general and the equity of their own company are undervalued.
- A majority believes M&A activity to increase in the next 12 months.
- A majority of the CFOs expects the AEX index to be higher in a year's time from today.
- A small majority believes diversity in supervisory boards should be compulsory, and state that sustainability should have a more prominent place in the Tabaksblat Code.
- CFOs do not take a unanimous stand about which part of their remuneration could be linked to financial targets without bringing into discussion integrity and ethical behavior.

Since 2007, the UK CFO Survey reported a dramatic decline in credit availability and a rise in its cost. However, the latest UK survey results show a slight improvement in credit conditions with a small reduction in the perceived cost of credit, and a slight improvement in credit availability.

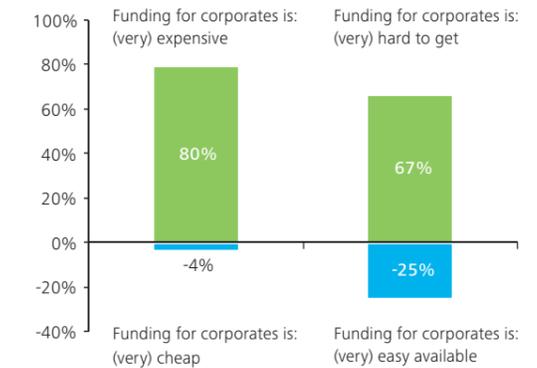
Dutch CFOs report a less alarming level of credit conditions. However, with 80% of the CFOs saying that the cost of funding are high and 67% who report funding is hard to get, we can conclude that both the cost and the availability are a big issue at the moment.

CFOs currently perceive all three forms of external funding - bank borrowing, corporate debt (e.g. bonds), and equity - as unattractive. 50% of the CFOs rate bank borrowing and equity as unattractive and 33% indicate corporate debt as unattractive.

The unattractiveness of bank borrowing is alarming, because the dependency of Dutch corporates on external funding by banks has only increased in the past years, according to DNB.

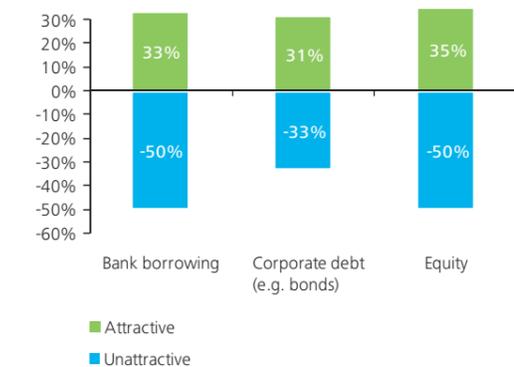
**Chart 1. Cost and availability of credit**

Percentage of respondents reporting funding for corporate is expensive/cheap and hard to get/easy available. (Base: All)



**Chart 2. Favoured source of corporate funding**

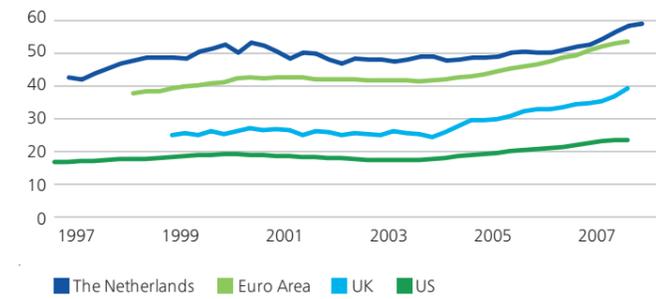
Percentage of respondents reporting the following sources of funding as (un)attractive. (Base: All)



# Equities undervalued, optimism on M&A activity

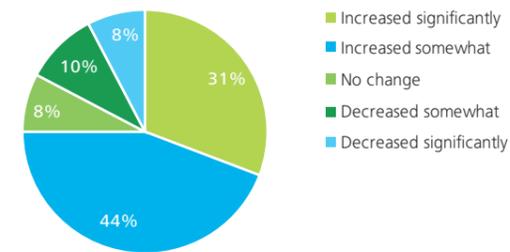
In May 2009, the ECB announced an interest rate cut to a new record low of 1%. This was the seventh rate cut since October 2008. Until now it seems these efforts have not established a decrease in the cost of short term borrowing for corporates.

**Chart 3. Credit loans to non-financial companies as % of GDP**  
Ratio in %, quarterly figures (Source: DNB, ECB & OESO)



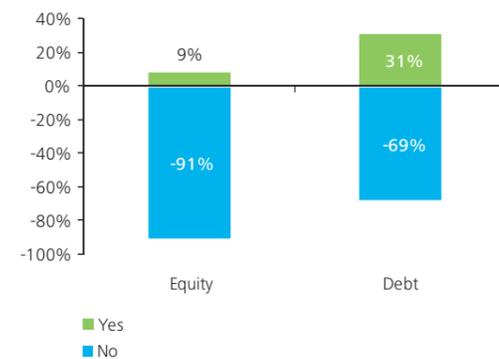
Almost three-quarters (74%) of the CFOs report an increase in the cost of short term borrowing from banks.

**Chart 4. The cost of short term borrowing**  
Percentage of respondents reporting the cost of short borrowing has increased/decreased. (Base: 52)



An overwhelming majority of the CFOs believe now is not a good time to issue equity (91%) or debt (69%), nor is it easily available. However, the survey results show that CFOs prefer debt issuance above equity issuance with respectively 31% and 9% saying it is a good time to issue.

**Chart 5. Is now a good time to issue debt/equity?**  
Percentage of respondents reporting now is (not) a good time to issue debt/equity. (Base: All)



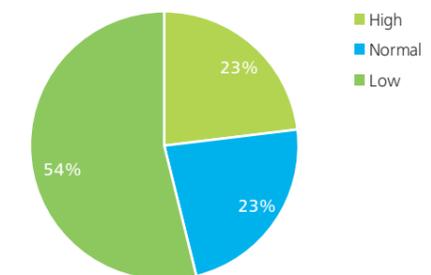
A majority of CFOs say they have become more pessimistic about the financial prospects for their company than they were three months ago. The net balance score shows a negative sentiment of -7%. Interestingly, Dutch CFOs seem to be less pessimistic than UK (net balance -30%) and Belgian (net balance -18%) CFOs.

**Chart 6. Financial prospects**  
Net % of respondents reporting they are more optimistic about the financial prospects for their company than three months ago.



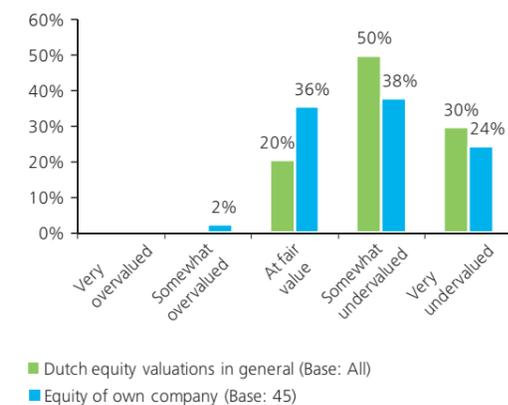
Half (54%) of the CFOs believe that payout ratios - the combination of dividend payments and share buybacks by companies as a ratio of the share price - are low. The current economic environment, and the tough funding conditions (availability), make corporates hold on to cash rather than distribute it to shareholders.

**Chart 7. Cash return ratios**  
Percentage of respondents who think cash return to shareholder ratios (including dividends and share buybacks) are relative to high, normal, or low levels. (Base: 52)



The dominant view among CFOs is that both equity valuations in general (80%) and the equity of their own company (62%) are undervalued.

**Chart 8. Equity valuations**  
Dutch equity valuations in general, and equity of own company.



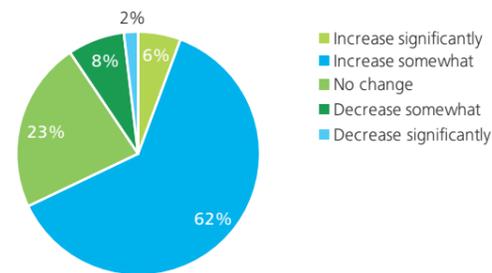
# Compulsory diversity and sustainability prominent issues

The April 2009 Euro Area Bank Lending Survey conducted by the European Central Bank reports that the net demand for loans to enterprises is weak in the first quarter of 2009. This negative demand was driven by a decline in financing needs for fixed investment and a weak demand stemming from M&A, and corporate structure.

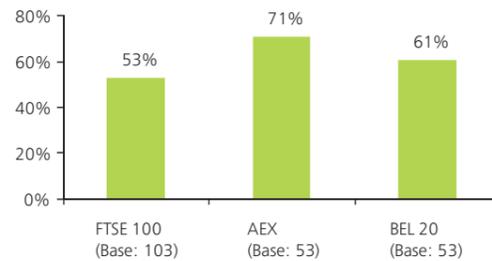
Nevertheless a vast majority of the CFOs (68%) state that M&A activity will increase in the next 12 months. Another 23% believe there will be no change in the current low level of M&A activity.

For the coming year, the overall view on the development of the FTSE 100, AEX, and BEL 20 index is positive. The average AEX closing index was 248.32.

**Chart 9. M&A Outlook**  
Percentage of respondents expecting M&A activity to de- or increase. (Base: 53)



**Chart 10. Stock market value evolution**  
Net % of respondents expecting the FTSE 100, AEX, and BEL 20 to rise over the next 12 months



Recently, Deloitte published 'Beyond Rules – Integrity as the basis of sustainable business success'. And on 26 May 2009, the Dutch Government decided to enact into law the updated Corporate Governance Code, as proposed by the Frijns Committee in December 2008. From January 2010, Dutch listed companies will be obliged to report on their compliance with the 'Frijns Code', which succeeds the earlier Tabaksblat Code of 2004.

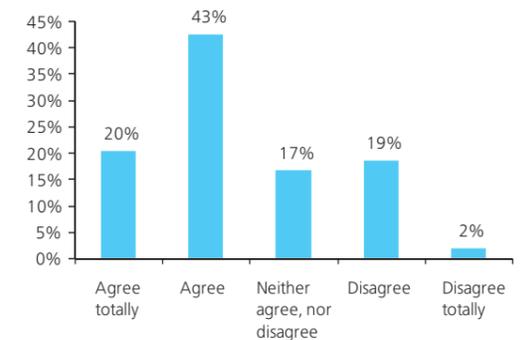
The Frijns Committee states that diversity in supervisory boards is an important factor in supporting its independence. The survey results show that most CFOs agree with this statement and are even prepared to go one step further. Almost two-thirds (63%) of the CFOs believe diversity in supervisory boards should be compulsory and only 21% disagrees.

Note that 'diversity' should be seen in a broader context than female participation solely. Other important dimensions of diversity are: age, expertise, social background, and nationality.

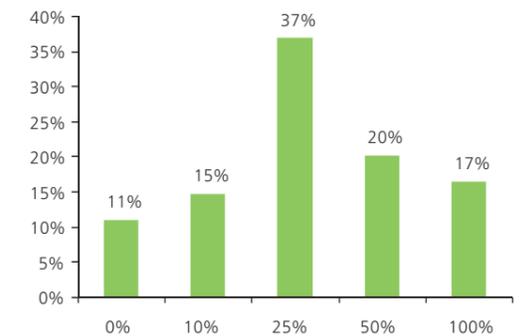
Another striking corporate issue relates to fixed and variable remunerations. Recently, the Maas Committee declared that the maximum bonus amount within financial services institutions should not exceed one annual salary. Two thirds (63%) of the corporate CFOs state that the part of their remuneration that is linked to financial targets should not exceed 25%. Within this group, 11% believes there should be no link at all.

In November 2008, a committee led by Antony Burgmans presented its guidelines on sustainability (by order of the Ministry of Economic Affairs). Burgmans states that corporate governance and sustainability are inseparably connected and should therefore be included in the Tabaksblat Code. His recommendations will largely be adopted in the new Frijns Code (2010) and are supported by 58% of the CFOs, who believe sustainability should have a more prominent place in corporate governance.

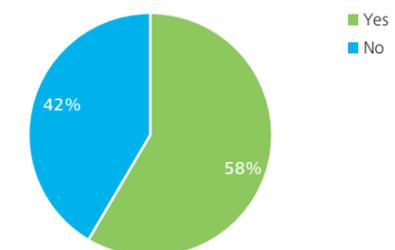
**Chart 11. Diversity**  
Percentage of respondents reporting to (dis)agree with compulsory diversity in supervisory boards. (Base: All)



**Chart 12. Remuneration**  
Percentage of respondents reporting which part of their remuneration should be linked to financial targets to guarantee integrity and ethical behavior. (Base: All)



**Chart 13. Sustainability**  
Percentage of respondents reporting sustainability should have a more prominent place in the Tabaksblat Code. (Base: All)



#### A note on methodology

To advance readability not all survey questions will be reported in each quarterly survey. In response to the current financial economic situation survey questions will be selected. In case you would like to receive information about non-reported questions do not hesitate to contact us.

Some of the charts in the Deloitte CFO Survey show the results in the form of a net % balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive minus the percentage saying bank credit is unattractive. This is a standard way of presenting survey data.

The 2009 Q1 survey took place between 24 April and 12 May. A total of 54 corporate CFOs completed our survey, representing an approximate net turnover of € 100 billion. Almost a third (27%) of the participating CFOs represent a listed company. The rest were CFOs of large private companies. The participating CFOs are active in a variety of industries (Healthcare, Construction, Retail / Wholesale, Real Estate, Consulting, Leisure / Entertainment, Technology, Communication, Energy & Utilities, Manufacturing, Banking / Finance / Insurance).

We would like to thank all participating CFOs for their efforts in completing our survey. We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organization rates among peers.

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Source: Deloitte Marketing Research



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