The Dutch Deloitte CFO Survey

Cautious optimism

2009 Q2 results
August 2009

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Cautious optimism

We are proud to present our second quarterly survey of Chief Financial Officers, in the Netherlands, 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 prevailing theme reported in the first quarter survey (Q1) was *short-term pessimism, long-term optimism.* CFOs were pessimistic about the financial prospects for their companies and primarily assessed funding conditions as tough. In the long term, CFOs expected an increase in the level of M&A activity and the stock market index (AEX).

The results of the second CFO survey (Q2) show a clear improvement in CFO sentiments about the business environment. However, the recovery will be presumably slow and CFOs will remain cautious and alert. According to the second quarter results, CFOs rate funding conditions as tough and believe now is not a good time to be taking greater risks on their balance sheet.

Funding conditions remain tough

In the beginning of August, the ECB Governing Council decided to leave the key interest rates unchanged. According to their information and analysis the current rates remain appropriate. According to the survey results these policy decisions currently do not have the desired effect on funding conditions for corporates. The Q2 results show that an overwhelming majority of CFOs still perceive funding as being scarce and expensive.

For the second consecutive quarter, CFOs rate all three forms of external funding – bank borrowing, corporate debt and equity – as unattractive. Especially, bank borrowing seems to be out of favour, with more than half of the CFOs rating it as unattractive. Nevertheless, equity issuance has become less unattractive to CFOs with a drop from -50% to -39%.

The July 2009 ECB bank lending survey reports a considerable decline in the net tightening of credit standards applied to loans and credit lines to enterprises. Despite the net lowering there is still a larger proportion of banks that have tightened credit standards. It will be interesting to see whether the lowering net tightening and unchanged ECB interest rates will improve the attractiveness of bank borrowing for corporates in the third quarter CFO Survey.

Sharp rise in expectations for M&A activity and Private Equity acquisition

In the second quarter CFOs have become more optimistic about the financial prospects of their own company. Accordingly, the Deloitte Survey among UK CFOs reports the biggest ever increase in sentiment about company prospects since the survey started two years ago. It seems most CFOs are in control and have taken sufficient measures (e.g. cost reductions, improve working capital) to slowly broaden their horizons. Almost two-thirds (63%) of the CFOs expect their operating or free cash flow to increase over the next 12 months.

The prevailing sentiment among CFOs still is that both equity valuations in general and the equity of their own company is undervalued. Nonetheless, the real value in the survey data is in the direction and rate of change in responses. Therefore, the key finding is that the results show a slight improvement in the outlook for equities. Furthermore, a vast majority of 75% of the CFOs expects the AEX to rise over the next 12 months.

An overwhelming majority of 88% expects M&A activity to increase in the next 12 months against 68% in the first quarter. A development which is also visible in the UK and Belgian CFO survey and that fits with an improved economic outlook and still-depressed asset valuations. Private equity acquisition is also on the rise with 77% of the CFOs expecting an increase in the next 12 months.

Although the overall sentiment seems to be improving, CFOs remain cautious and alert. A huge majority of 95% believes that now is not a good time to be taking greater risks on their balance sheet. This percentage roughly equals the corporate risk aversion of Q1.

Pandemic preparedness (quarterly special questions)

The influenza pandemic (H1N1) is a reminder that organisations need to think about their preparedness and resilience against a variety of threats and resulting impacts. Three worldwide (pandemic) outbreaks of influenza occurred in the 20th century, the Spanish in 1918, the Asian in 1957, and the Hong Kong in 1968. In those days, responsible for substantial death rates among the world population.

A pandemic impacts an organization's ability to mobilize its work force to provide products and serve its customers. All business areas (e.g. crisis management, operational continuity, technology, human resources) should be addressed to mitigate the impact.

A majority of the CFOs (72%) believes that their business is prepared for the influenza pandemic. Almost half (45%) expects the influenza to bring about a modest decrease (-3,5%) on their financial statements. According to the surveyed CFOs third parties, human resources, crisis management and operational continuity will be the most impacted business areas, in the next six months.

Key points from the 2009 Q2 Survey

- Optimism concerning the financial prospects of the corporate sector increased substantially.
- In July 2009 the AEX reached the highest index (283) in 2009. CFOs expect a further increase and believe the index to be higher in a year's time.
- Almost two-thirds of the CFOs expect their operating or free cash flow to increase over the next 12 months.
- Funding conditions for corporates remain difficult as funding is characterised as both costly and hard to get.
- All three forms of external funding - bank borrowing, corporate bonds, and equity – are still perceived as unattractive.
- CFOs still unanimously agree that now is not a good time to be taking greater risks on their balance sheets.
- Expectations on M&A and private equity activity have risen sharply. A vast majority expects an increase in the next 12 months.
- Most CFOs are prepared for the pandemic threat of the (H1N1) flu.
- Half of the CFOs expect that the influenza pandemic (H1N1) will have a negative impact on their financial statements (net revenue and net profit).

Funding conditions remain tough

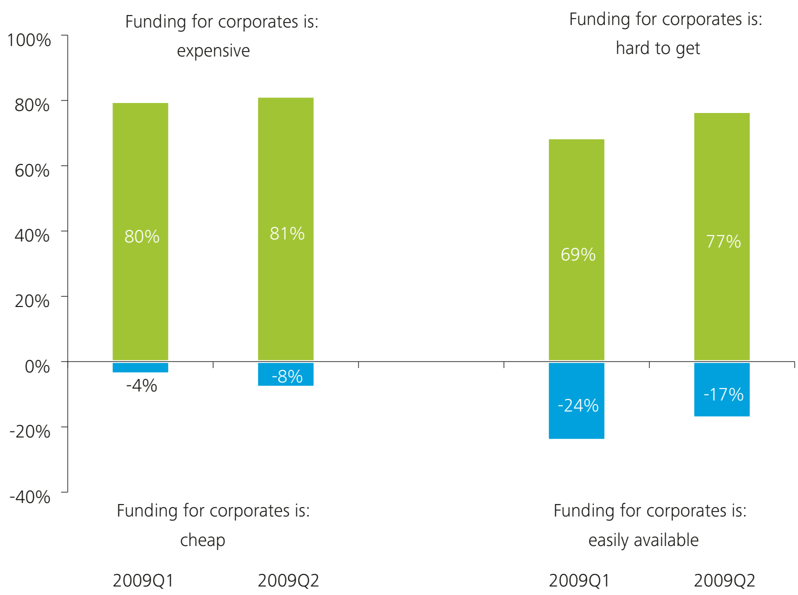
At the moment there is much debate about funding conditions for corporates. To stimulate bank lending the Governing Council of the ECB decided that the interest rate on main refinancing operations will remain unchanged at 1 percent. Furthermore, the Ministry of Economics developed a bank lending guarantee for large and medium-sized companies.

But, with a vast majority of 81% of the CFOs saying that the cost of funding is high and three-quarters (77%) reporting that funding is hard to get, we can conclude that funding conditions remain tough. These percentages represent a (slight) deterioration in credit conditions in comparison with the Q1 survey results.

A recent EIM study – Update Financieringsmonitor MKB, June 2009 shows a similar downswing for small- and medium-sized companies. From December 2008 till June 2009 EIM reports a decline in financing pass rates of 22 percentage points (from 72% to 50%).

Chart 1. Cost and availability of credit

Percentage of respondents reporting funding for corporate is expensive/cheap and hard to get/easily available.

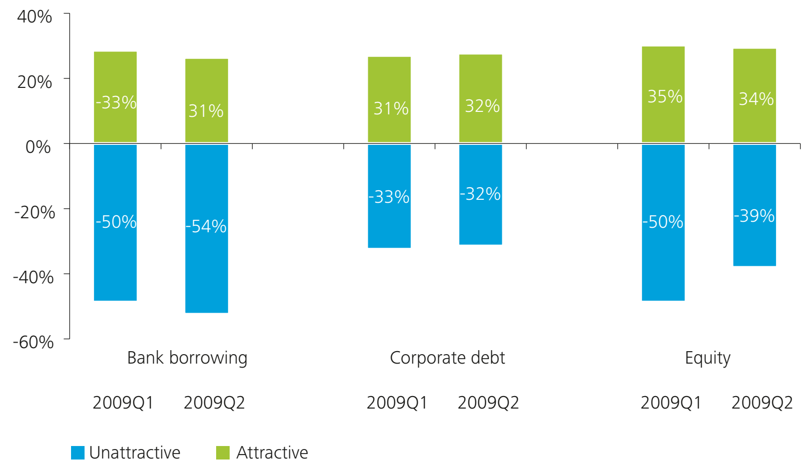


CFOs currently still perceive all three forms of external funding - bank borrowing, corporate debt (e.g. bonds), and equity - as unattractive. There seems to be a status quo situation with regards to the attractiveness and preference for sources of financing for their businesses. However, this quarter equity issuance has become less unattractive to CFO's than in June, with a drop from -50% to -39%.

For the second consecutive quarter CFOs report bank borrowing as the most unattractive (-54%) form of funding. Despite Government and ECB efforts to improve corporate funding conditions, new bank borrowing remains difficult to obtain in Q2.

Chart 2. Favoured source of corporate funding

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

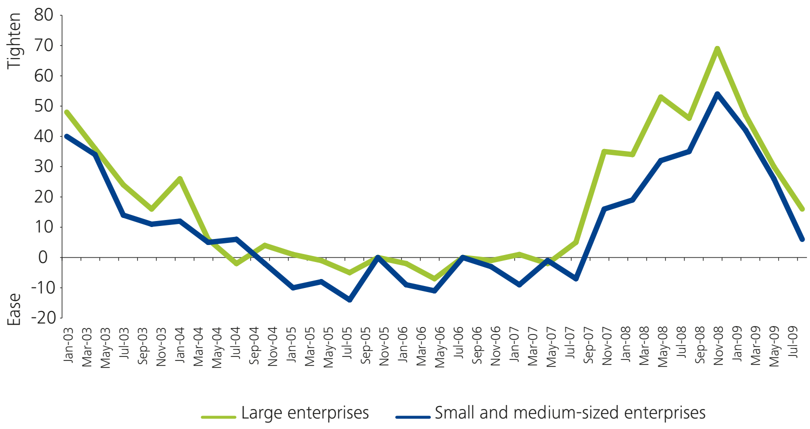


The ECB conducts the euro area Bank Lending Survey on a quarterly basis. Despite the net lowering there is still a larger proportion of banks that have tightened credit standards than the share of banks reporting they have been eased.

"The results of the July 2009 survey show that in the second quarter the net percentage of banks reporting a tightening of credit standards applied to loans and credit lines to enterprises broadly halved, to 21% compared with 43% in the first quarter of 2009 and down from the high level seen in the third and fourth quarters of 2008. For the third quarter of 2009, euro area banks expect a further lowering of the net tightening of credit standards for loans to enterprises."

Chart 3. Expected changes in credit standards for the approval of loans or credit lines to enterprises

Net percentage of banks expecting tightening credit standards



(Source: ECB Bank Lending Survey and Deloitte Marketing Research, 2009)

CFOs rate bank borrowing as unattractive and indicate that they are not looking at the bond and equity markets for capital either. Although CFOs show a more positive sentiment about issuing debt the results show a movement towards an improvement in favour of equity issuance.

A majority of the CFOs still believes now is not a good time to issue equity (-81%) or debt (-77%), nor is it easily available. Furthermore, the survey results show that CFOs no longer evidently prefer debt issuance above equity issuance with 23% and 19% respectively saying it is a good time to issue.

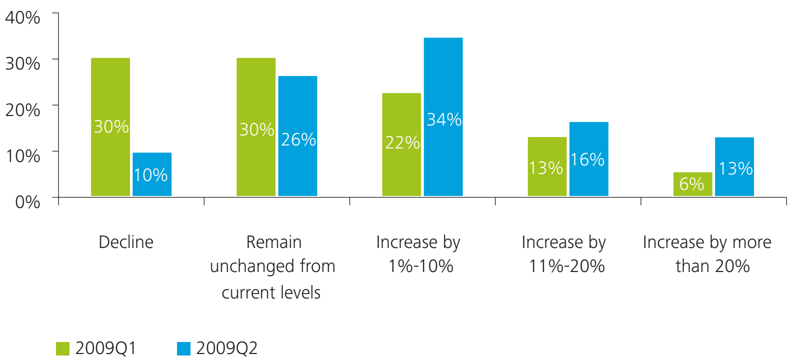
Chart 4. Is now a good time to issue debt/equity?

Percentage of respondents reporting now is (not) a good time to issue debt/equity.

It seems corporates have taken sufficient measures (e.g. cost reductions) to resist the financial market turbulence. Almost two-thirds (63%) of the CFOs expect their operating or free cash flow to increase over the next 12 months. The percentage of CFOs expecting a decline in operating or free cash flow has decreased substantially, from 30% (Q1) to 10% (Q2).

Chart 5. How do you expect your operating or free cash flow for your company to change over the next 12 months?

Percentage of respondents reporting now is (not) a good time to issue debt/equity.



Sharp rise in expectations for M&A activity and PE acquisition

CFOs have become more optimistic about the financial prospects of their own company in the second quarter. The net level optimism – subtracting the percentage of CFOs who are more optimistic from the percentage who are less optimistic – has increased from -8% in Q1 to 26% in Q2. This development seems to be in line with the Deloitte UK CFO survey, reporting the biggest ever increase to a net level optimism of 22%.

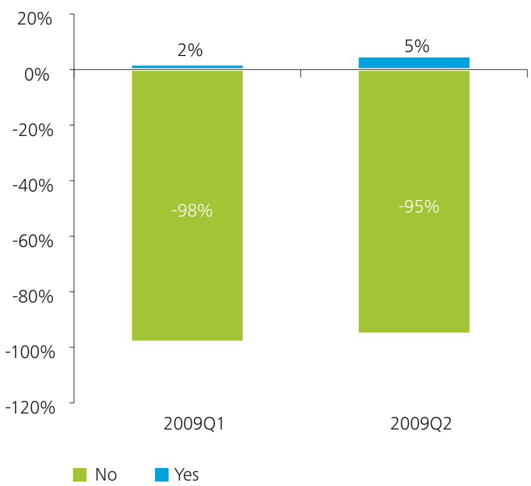
Chart 6. Financial prospects

Percentage of respondents reporting they are more optimistic about the financial prospects for their company than three months ago.

Although CFOs are becoming more optimistic about the financial prospects for their company, they do remain cautious. In Q2 a great majority of 95% believes now is not a good time to be taking greater risks on their balance sheet. This roughly equals the corporate risk aversion of Q1.

Chart 7. Is this a good time to be taking greater risks on your balance sheet?

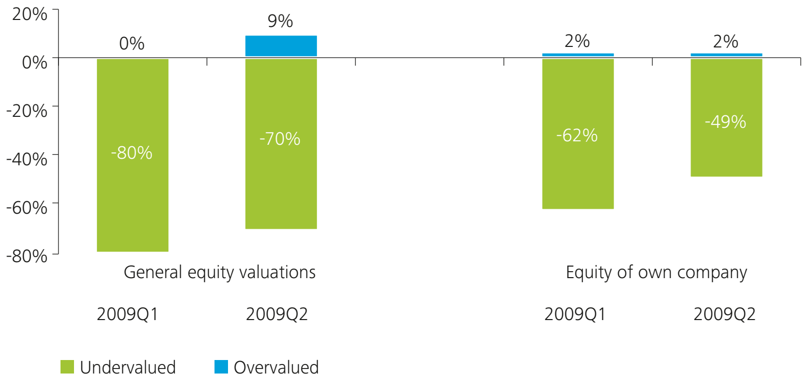
Percentage of respondents reporting they think it is a good time to be taking risk onto their balance sheet.



The real value in survey data is in the direction and rate of change in responses. Therefore, although CFOs are still negative regarding the outlook for equities, the essential finding is that the results show a slight improvement in the outlook for equities. With -49% of the CFOs perceiving their own equities as undervalued in Q1 versus -62% in Q2. And -80% perceiving general equity valuations as undervalued in Q1 versus -70% in Q2.

Chart 8. General equity valuations and equity of own company

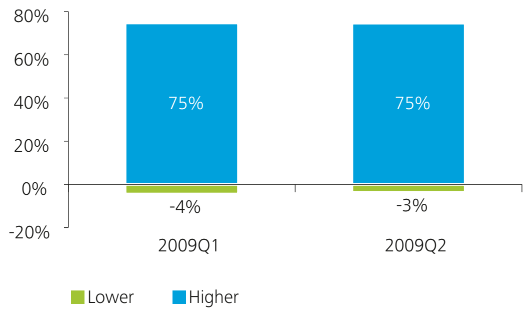
Percentage of respondents rating Dutch equity valuations in general and equity of own company as over- or undervalued.



In the first quarter survey results most CFOs were optimistic about the prospects of the AEX. Three-quarters (75%) indicated that the index would rise over the next 12 months. The average AEX closing index during the Q1 survey was 248. The expectations became reality in an index of 283 in July, the highest index in 2009, which suggests a mildly improving business environment. In Q2 again a vast majority of 75% expects the AEX to rise over the next 12 months. A clear sign of the continued optimism about the stock market evolution.

Chart 9. Stock market value evolution

Percentage of respondents expecting the AEX to rise or drop over the next 12 months.

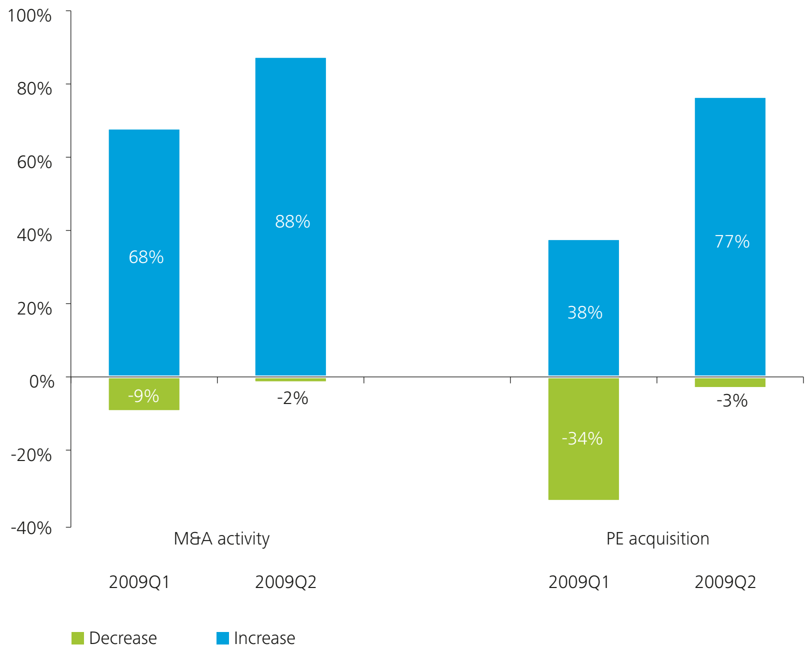


The outlook on M&A activity, one of the most cyclical elements in corporate expectations, has risen sharply in the second quarter. An overwhelming majority of 88% expects M&A activity to increase against 68% in the first quarter. About the same growth is observable in the UK CFO survey. An evident movement that fits the improved economic outlook and still-depressed asset valuations.

CFOs expect private equity to make their comeback in the coming 12 months. This development underlines the increased expectations on M&A activity. The increase is likely to be at least partly driven by corporate spin-outs, which are traditionally an expertise of private equity. While in June CFOs reported to be mainly neutral (net percentage of 4%) on PE acquisition. The second quarter results show a significant increase, with more than three-quarters (77%) expecting PE acquisition to expand.

Chart 10. M&A activity and private equity acquisition

Percentage of respondents expecting M&A activity to increase or decrease.



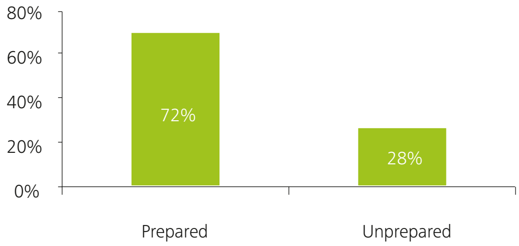
Pandemic preparedness

As of 31st July 2009, 168 countries and overseas territories have reported at least one laboratory confirmed case of Influenza (H1N1). For corporate CFOs a clear reminder that they need to think about their preparedness and resilience to a variety of threats and resulting impacts. And protect the most important asset of the organization – its people.

A pandemic impacts an organization's ability to mobilize its work force to provide products and serve its customers. All business areas (e.g. crisis management, operational continuity, technology, human resources) should be addressed to mitigate the impact. The survey results show that a majority of the CFOs (72%) believes that their business is prepared for the pandemic. A worrisome quarter (28%) is unprepared.

Chart 11. How well do you believe that your business is prepared for the influenza pandemic (H1N1)?

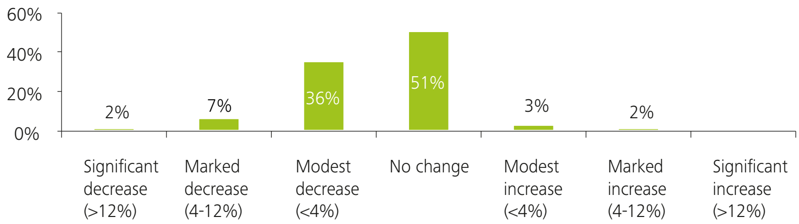
Percentage of respondents reporting their business is prepared or unprepared.



Almost half (45%) of the CFOs expects the influenza to bring about at least an average decrease of 3,5% on their net revenue. Within this group this percentage represents a revenue loss of approximately EUR 1.8 bn. 51% believes the influenza pandemic will have no effect on the company's net revenue.

Chart 12. How do you expect that the influenza pandemic (H1N1) will affect your net revenue?

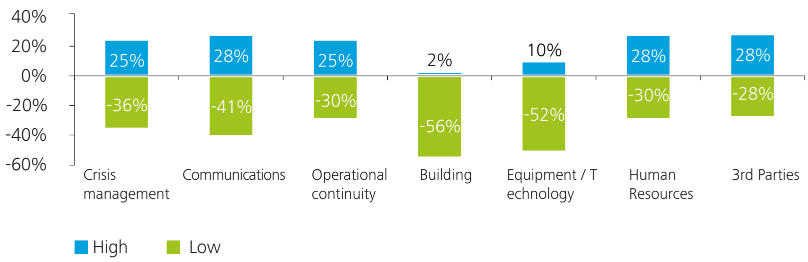
Percentage of respondents expecting their net revenue to decrease or increase.



The next six months, crisis management, communications, operational continuity, human resources, and third parties will be the most impacted business areas according the corporate CFOs.

Chart 13. How do you estimate the impact of the influenza pandemic (H1N1) in the following areas of your business in the next six months? *(Medium impact not shown in chart)*

Percentage of respondents expecting a low or high impact.



A note on methodology

To enhance readability not all survey questions will be reported in each quarterly survey. Survey questions will be selected in response to the current financial economic situation. If you would like to receive information about non-reported questions, please do not hesitate to contact us. All graphs are based on a minimum representative number of 50 observations unless otherwise annotated. The Deloitte CFO Survey is also executed by Deloitte UK and Deloitte Belgium. Comparisons across borders will be made when relevant.

Some of the charts in the Dutch 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 Q2 survey took place between 20 July and 10 August. A total of 65 corporate CFOs completed our survey, representing a net turnover of € 134 billion, divided into the following categories: less than 100 million (10%), 100 – 499 million (35%), 500 – 999 million (19%), 1 – 4.9 billion (27%), more than 5 billion (8%). Approximately a third of the participating CFOs represents a listed company. The rest are 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 and Banking / Finance / Insurance).

We would like to thank all participating CFOs for completing our survey. We trust that the report makes an interesting read and highlights the challenges facing CFOs. We also hope that it provides you with an important benchmark to understand how your organisation rates among peers.

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