



The Dutch Deloitte CFO Survey Change in funding preferences

Change in funding preferences

We are proud to present our seventh 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 reports trends and turning-points for you and your business.

Key points from the 2010 Q3 Survey

- CFO optimism about their financial prospects has recovered from a dip in Q2.
- 80% of the CFOs expect their company's cash flow to increase over the next 12 months.
- Corporate debt is perceived as the most attractive source of funding.
- For the first time, since this survey started, bank borrowing is favoured over equity as a funding source.
- 60% of the CFOs expect to arrange new funding over the next 12 months.
- Three-quarters of the CFOs will refinance (parts of) current debt positions over the next three years.
- The level of risk appetite remains unchanged for the fourth consecutive quarter; one-quarter of CFOs consider now a good time to take more risk on the balance sheet.
- The outlook for M&A remains high over the next 12 months, but expectations slightly dropped since the last quarter.
- Awareness is growing among CFOs that XBRL can be used for both tax filings (28%) and statistics reporting (26%).
- The Dutch Tax Authority and the financial supervisory bodies are best positioned to drive XBRL adoption, according to the CFOs.

General economic environment

World trade showed a sharp incline during the second half of last year after the break-down of late 2008, but has now reached a more stable phase, according to the Netherlands Bureau for Economic Policy Analysis (CPB).

Leading indicators predict further slowing of world trade volumes during the second half of 2010. For the year 2010 as a whole, the relevant world trade is expected to expand by 9%, slowing down to a growth rate of 5.25% during 2011. GDP growth within the euro area is expected to remain limited to 1.75% and 1.50% during 2010 and 2011 respectively. This is significantly less than growth rates normally achieved after a recession has bottomed out.

The Governing Council of the European Central Bank decided that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

CFO Survey

Financial optimism among CFOs recovered this third quarter, returning to the level of 2010 Q1. The cash flow outlook of CFOs for the next 12 months increased, although the expected increase is relative modest.

The risk appetite remains at the same level for the fourth consecutive quarter. About one-quarter of CFOs consider now to be a good time for more risk taking on the balance sheet. The others appear to be awaiting better times.

According to the CFOs funding has become less costly in comparison to the last quarter. Almost half of the CFOs consider funding to be easily available.

The attractiveness of equity as a favourable source of funding dropped below bank borrowing for the first time since this survey started. Corporate debt remains the favoured source of funding. 60% of the CFOs are likely to issue debt over the next twelve months, which will mostly be used for refunding purposes.

The outlook of CFOs for mergers and acquisitions is still very positive, but expectations about its growth are slightly down in comparison to the last quarters.

XBRL, driving efficiencies in the reporting process

XBRL can contribute to resolve some of the efficiency and data quality issues companies have in their reporting processes. Awareness is growing among CFOs that XBRL can be used for tax filings and statistics reporting. However, few companies are currently using XBRL or are even aware of its advantages.

Although both applications of XBRL are part of the Standard Business Reporting (SBR) Program that has been initiated by the Dutch government, a remarkable two thirds of the CFOs are not aware of the existence of the SBR program.

The Dutch Tax Authority and the financial supervisory bodies are best positioned to drive XBRL adoption, according to the CFOs. With 16% of the respondents answering that XBRL adoption is not desirable, there is clearly a need to educate the market about the XBRL business advantages.

A large number of CFOs still envision implementing one version of an ERP system, even though these implementations can be very time consuming and costly. XBRL as an internal data standard allows organizations to facilitate data exchange between systems while leaving current ERP and financial systems intact, and can therefore be an alternative.

eXtensible Business Reporting Language (XBRL) is an XML-based non-proprietary open standard that is used for the preparation, exchange and publishing of financial and business information across disparate computer platforms, software applications and accounting standards.

Financial outlook

Optimism of CFO's, about the financial prospects for their company, has recovered this quarter since the level dropped significantly in Q2.

Remarkable is the break between the Dutch and the UK figures. Dutch CFO's are far more optimistic about their prospects.

The Netherlands Bureau for Economic Policy Analysis (CPB) predicts the Dutch economy to grow 1.75% this year and 1.5% in 2011. This is an adjustment of plus 0.5% for this year and minus 0.25% for 2011 in compared with the outlook of three months ago. The increase in GDP (Gross Domestic Product) is based almost entirely on exports.

UK GDP is estimated to grow by 1.8% in 2011 according to HM Treasury (Her Majesty's Treasury). The UK CFO Survey results show that for UK CFOs costs control remains the top priority for the next 12 months.

CFO optimism about their free cash flow expectations has also recovered in comparison to last quarter.

80% of CFOs expect their free cash flow to increase over the next 12 months. 55% expect an increase of 1% - 10%.

Chart 1. Financial prospects NL & UK

Net percentage of CFOs who are more optimistic about the financial prospects for their company now than three months ago.

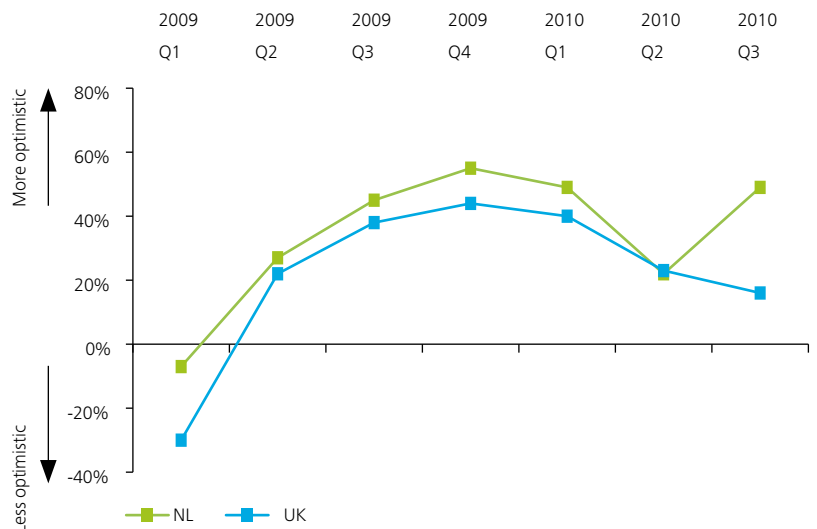
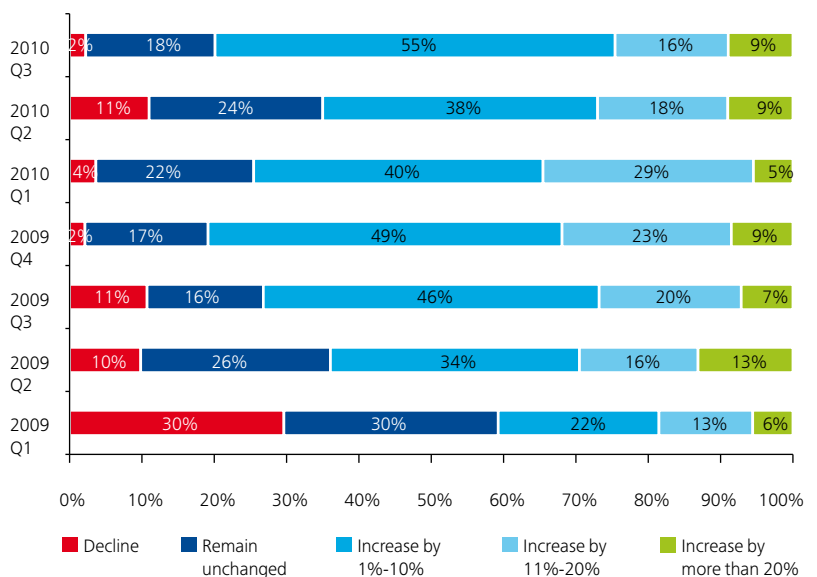


Chart 2. Change in cash flow next 12 months

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



Risk

Almost half of the CFOs continued to reduce their balance sheet risks over the last twelve months.

The number of CFOs who raised their balance sheet risk over the past year has decreased substantially. Risk control remains a priority.

Chart 3. Change in financial risk* on balance sheet

Percentage of CFOs reporting that the level of financial risk on their balance sheet increased/decreased over the last 12 months.



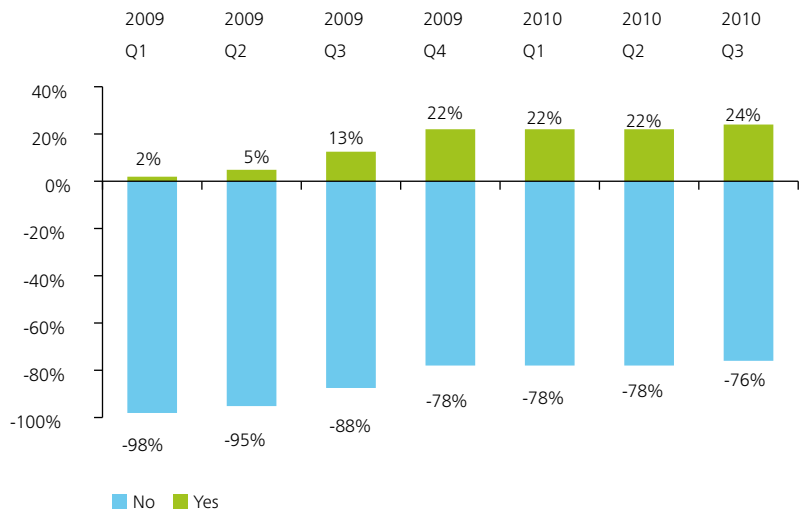
* Financial risk could include, e.g. levels of gearing, uncertainty about the valuation of assets and interest rate and exchange rate sensitivity.

CFOs kept their risk appetite at the same level over the last four quarters.

Given the current market circumstances, CFOs have no interest in taking more risk on their balance sheet than one year ago.

Chart 4. Attitude towards greater risk on balance sheet

Percentage of CFOs reporting that now is (not) a good time to be taking greater risk onto the balance sheet.



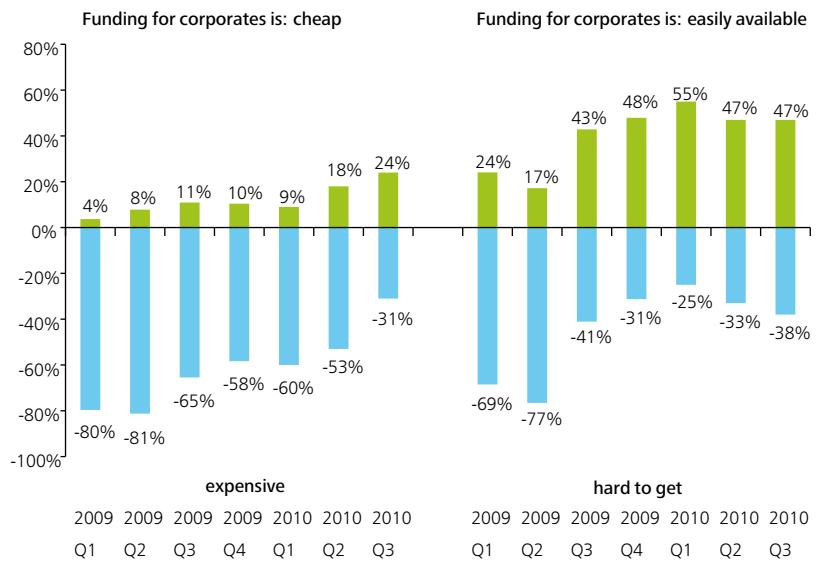
Funding

According to the CFOs funding has become less costly in comparison to last quarter. Most CFOs (44%) respond neutrally on the cost of funding, rating funding as not cheap and not expensive. The trend is moving towards an equilibrium.

Most CFOs (47%) perceive the availability of funding to be good. This is due in part to interest rates remaining low and some banks lowering their surcharge.

Chart 5. Cost and availability of credit

Percentage of CFOs reporting that funding for corporates is cheap or expensive, and funding is easily available or hard to get.



Equity is losing its attractiveness as a source of funding. This may be caused by the favourable credit conditions with low interest rates endorsing the improved attractiveness of bank borrowing.

Corporate debt remains the most attractive source of funding according to most CFOs.

Chart 6. Favoured source of corporate funding

Net percentage of CFOs reporting the following sources of funding as (un)attractive.

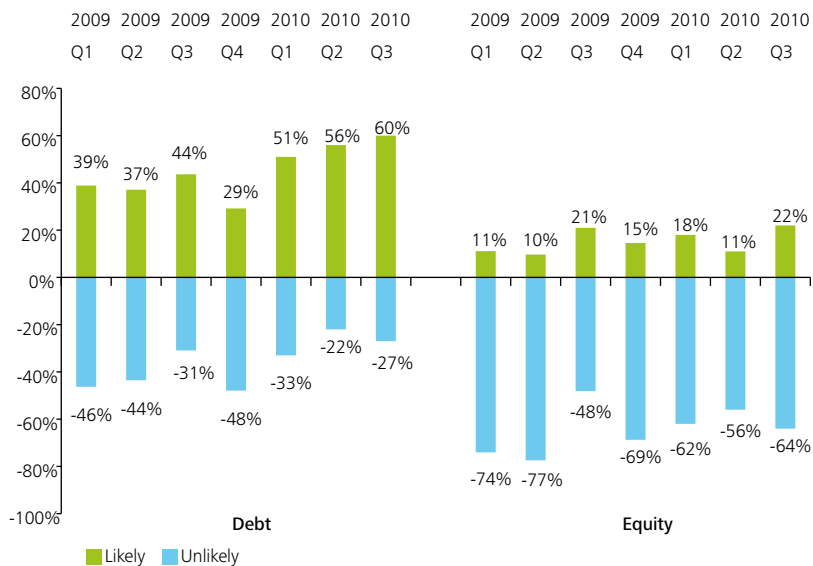


60% of the CFOs are likely to issue debt over the next twelve months. Refinancing of current debt positions does contribute to this, because three-quarters of CFOs expect to refinance (parts of) current debt positions over the next three years.

The equity figures show an increase on both sides (less neutral responses).

Chart 7. Likely to issue debt/equity?

Percentage of CFOs who are (not) likely to issue debt / equity over the next 12 months.

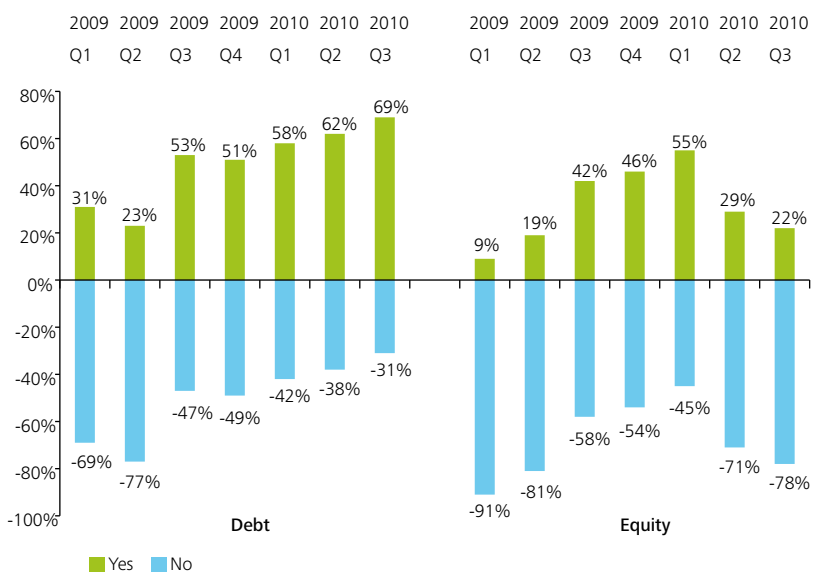


CFOs continue to perceive the timing of equity issuance right now as unfavourable. On the other hand the perceived timing for debt issuance keeps gaining favour.

The average closing price of the AEX-index over the last three quarters has not changed much, and varies between 328.31 (Q3) and 334.85 (Q2). Therefore, uncertainty about price setting of equity will not be the decisive factor. The improved conditions for corporate debt and bank borrowing have likely contributed to equity going out of favour.

Chart 8. Good time to issue debt/equity?

Percentage of CFOs who think now is (not) a good time to issue debt/equity.



M&A / Equity

M&A expectations of CFOs for the next twelve months slightly decrease, but still remain high this third quarter. The CFOs' expectations for Private Equity activity also slightly decrease.

71% of CFOs expect the AEX to be at a higher level in one year. These expectations did not change in comparison to last quarter.

CFOs' valuations of equity in general and of their own company have also not changed much since last quarter. Most CFOs rate equity in general and equity of their own company as undervalued.

Dutch corporate activity is still low with a moderate number of deals and low transaction values on average. However, private equity activity increased since last quarter according to MergerMarket figures.

Chart 9. M&A and Private Equity outlook

Percentage of CFOs who expect M&A and PE activity to increase in the next 12 months.

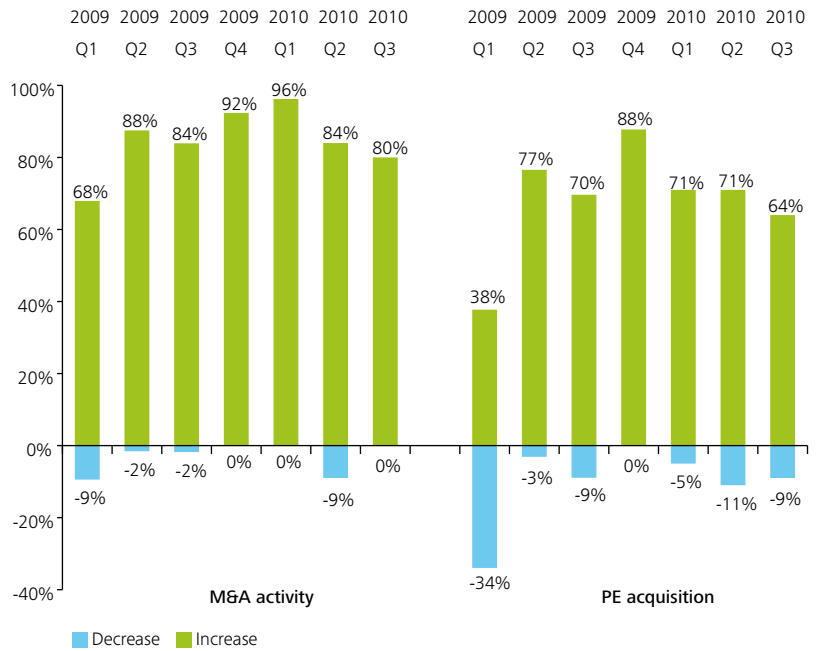
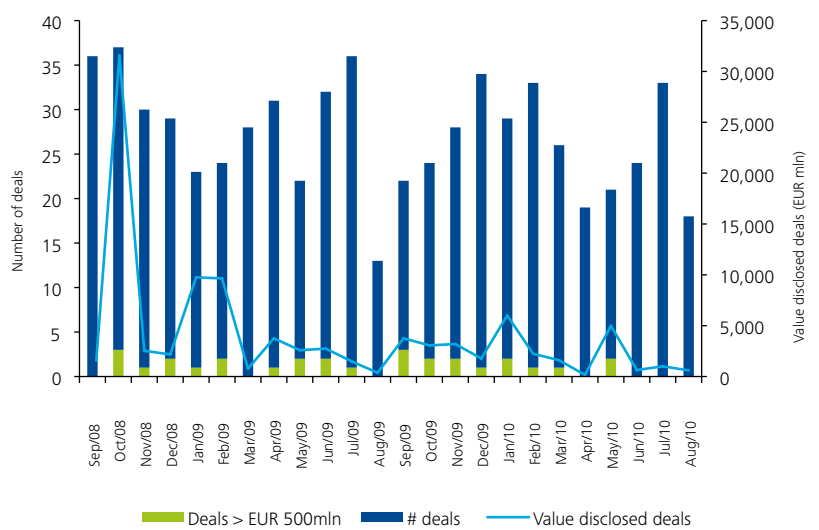


Chart 10. M&A and Private Equity activity

Dutch M&A and Private Equity activity expressed in number and value of the deals.



XBRL, driving efficiencies in the reporting process

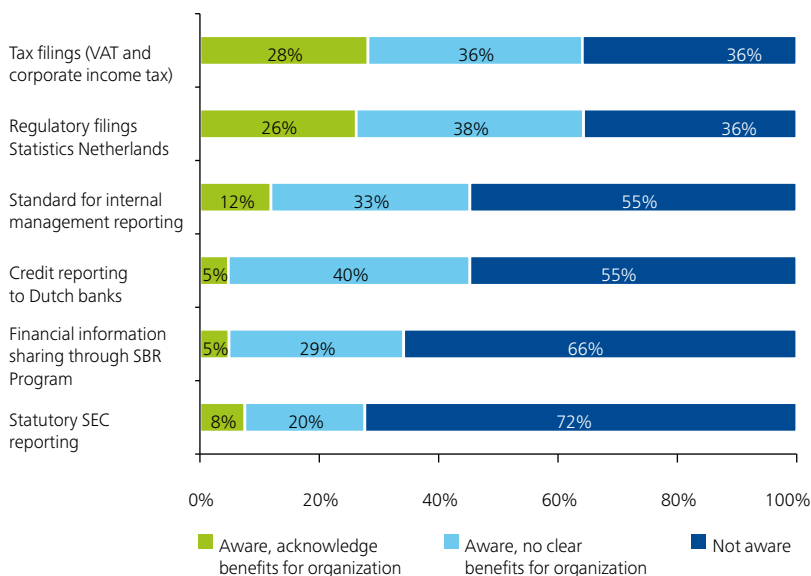
eXtensible Business Reporting Language (XBRL) is an XML-based non-proprietary open standard that is used for the preparation, exchange and publishing of financial and business information across disparate computer platforms, software applications and accounting standards.

XBRL can contribute to resolving some of the efficiency and data quality issues companies face in their reporting processes. Although awareness is growing among CFOs that XBRL can be used for tax filings (28%) and statistics reporting (26%), few companies are currently using XBRL or are even aware of its advantages. Over one third of the CFOs does not foresee clear benefits for their organization using XBRL for these purposes.

Although both applications of XBRL are part of the Standard Business Reporting (SBR) Program that has been initiated by the Dutch government, a remarkable two thirds of the CFOs is not aware of the existence of the SBR program.

Chart 11. Awareness of XBRL

Percentage of CFOs who acknowledge the following purposes of XBRL.



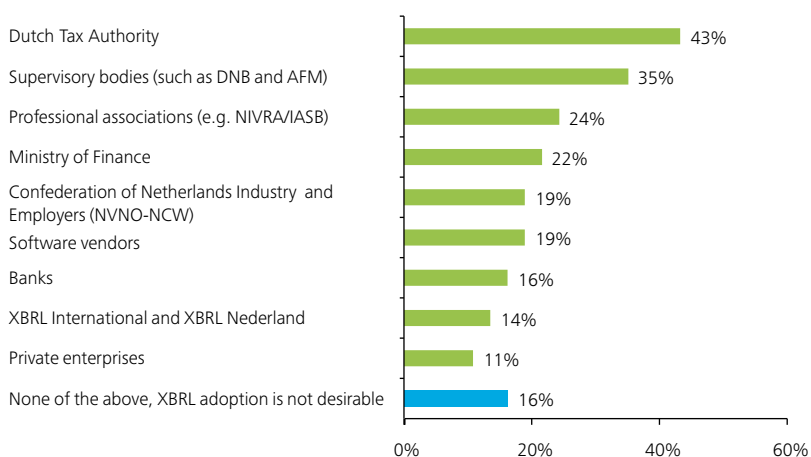
The CFOs clearly agree that the Dutch Tax Authority and the financial supervisory bodies are best positioned to drive XBRL adoption.

At the same time, many CFOs think that other parties should equally contribute to this effort. This is in support of the approach taken by the SBR program to grow XBRL adoption through public private partnership.

With 16% of the respondents answering that XBRL adoption is not desirable, there is clearly a need to educate the market about the XBRL business advantages.

Chart 12. Driving XBRL adoption

Percentage of CFOs stating which organizations should be driving XBRL adoption by businesses (multiple answers possible).

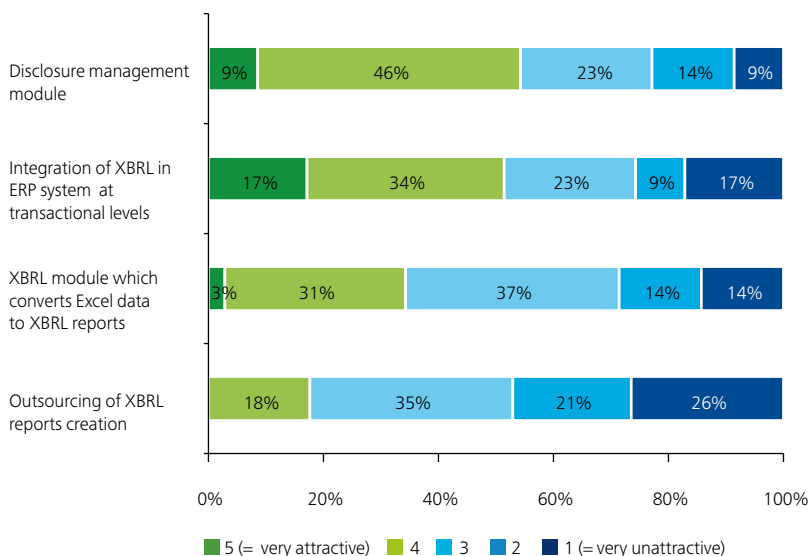


If XBRL would become mandatory, 55% of the CFOs would value a disclosure management solution that supports the creation of XBRL reports through a workflow system as an attractive to very attractive option.

Larger companies can attain benefits by using XBRL as an internal reporting standard by embedding XBRL in transactional layers of their systems. 51% of the CFOs find this an attractive to very attractive option. Outsourcing of XBRL reporting is seen as the most unattractive option.

Chart 13. Attractiveness of XBRL solutions

Rating by CFOs of the attractiveness of the following XBRL solutions, if XBRL would be a mandatory standard for external reporting.



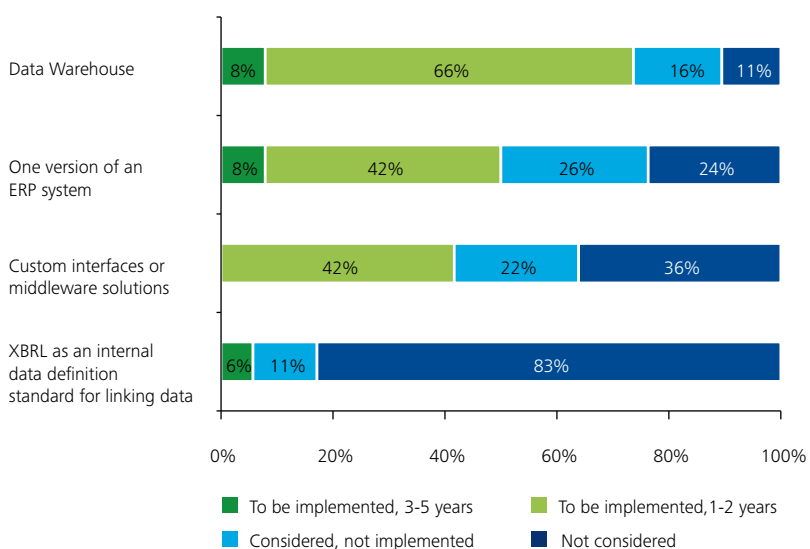
Many companies face data quality and inefficiency challenges in their reporting processes, caused e.g. by manual rekeying of data, using multiple data definitions or multiple information systems.

To tackle these reporting challenges, nearly three quarters of CFOs are considering the implementation of a data warehouse solution within the next five years. XBRL can be complementary to such solutions to gain control over data definitions across the enterprise and linking disparate information systems. Although 83% of CFOs answered not to have considered this use of XBRL, 6% has plans for implementation within 3-5 years. It can be concluded that companies clearly view XBRL as a future innovation.

A large number of CFOs envision implementing one version of an ERP system, even though these implementations can be very time consuming and costly. XBRL as an internal data definition standard, allows organizations to facilitate data exchange between systems while leaving current ERP and financial systems intact, and can therefore be an alternative.

Chart 14. IT solutions considered to tackle reporting challenges

Percentage of CFOs who considered the following IT solutions to tackle certain challenges in the reporting processes.



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 wish to receive information about non-reported questions, please contact us. The Deloitte CFO Survey is also executed by other Deloitte countries, for instance in the UK. Comparisons 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 stating that bank credit is unattractive. This is a standard way of presenting survey data. Due to rounding answers may not sum to 100%.

The 2010 Q3 survey took place between 1 and 22 September. A total of 45 corporate CFOs completed our survey. Representing a net turnover per company of approximately EUR 2.2 billion. The responding companies can be divided into the following categories: less than 100 million (9%), 100 – 499 million (49%), 500 – 999 million (9%), 1 – 4.9 billion (20%), more than 5 billion (13%).

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 organization rates among your peers.

Source

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