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The Dutch Deloitte CFO Survey
Caution and defense

2011 Q3 results
November 2011

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Caution and defense

We are proud to present our eleventh 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 2011 Q3 Survey

- CFO optimism has dropped for the third consecutive quarter to the lowest level since this survey started.
- Over 60% of CFOs still expect an increase of their company's cash flow over the next twelve months. However, more CFOs assess their cash flow expectations to remain unchanged.
- The appetite for risk drops for the third consecutive quarter to the earlier levels of 2009.
- The perceived availability of credit decreased.
- Compared with before the credit crisis, most CFOs stretched the period in which they start to prepare for a refinancing and the moment the refinancing of their debt is due from 3-6 month to 6-12 months.
- All sources of funding are perceived to be less attractive compared to last quarter. Corporate debt and bank borrowing are together perceived to be the most attractive.
- 30% of CFOs expect M&A levels to increase in the next twelve months, compared with 77% last quarter.

General economic environment

This last quarter, the sovereign debt crisis continued to be the main issue in the financial mindsets of European policymakers and financial institutions.
European governments and banks released a rescue funding plan mid-July and this averted a Greek default.

Last quarter, European leaders were discussing the reinforcement of the Euro emergency fund and deciding whether to grant new credit to Greece. In addition, both China and the United States have been urging the European leaders to quickly resolve the European debt crisis.

This last quarter, banks again stored record figures for overnight deposits at the European Central Bank, an indicator that mutual trust is fading. The fear that a new banking crisis will unfold is therefore growing. Banks are again urged to reinforce their balance sheets, which will impact the cost and availability of credit. In addition, the turmoil on the financial markets continued with great intensity and volatility this quarter.

Last September, CPB Netherlands Bureau for Economic Policy Analysis published their third forecast of the Dutch economy this year. According to this forecast the Dutch economy is projected to grow by 1.5% during this year (previous 2%), and by 1% during 2012 (previous 1.75%). The economic growth is largely attributable to exports. These figures have taken into account the recent turmoil in financial markets. However, the possibility of a new financial crisis was not included.

Recently, on July 13, the rates were raised by the European Central Bank again, by 0.25%. The interest rate on the main refinancing operations was raised to 1.5%. For the remaining quarter, the ECB decided month by month to keep the interest rates unchanged. Although we may thus conclude that the cost of credit is slightly running up, current interest rate levels still are historically low.

CFO Survey

CFO optimism dropped for the third consecutive quarter. It marks a two-year low again. CFOs are turning defensive and cautious once more. Over 60% of CFOs expect an increase of their company's cash flow over the next twelve months. However, more CFOs assess their cash flow expectations to remain unchanged instead of increasing, compared to the previous quarter.

95% of corporate CFOs think now is not a good time to be taking greater balance sheet related risks. However, due to increased external economic and financial uncertainty CFOs experience higher balance sheet related risks. The perceived availability of credit decreased. Banks are tightening their standards again. Cost of credit is slightly increasing because of this.

Compared with before the credit crisis, most CFOs stretched the period in which they commence to prepare for a refinancing from 3-6 months to 6-12 months before the moment the refinancing is due.

All sources of funding are perceived to be less attractive compared to last quarter, although there the mutual differences did not change. Corporate debt (e.g. bonds) and bank borrowing are together perceived to be the most attractive. The timing to issue debt and equity is no longer perceived to be very attractive at this time compared to last quarter.

30% of CFOs expect M&A levels to increase in the next twelve months, compared to 77% last quarter.
Under these market conditions, opportunities for a good buy could present themselves to companies with high levels of cash.

Financial outlook and priorities

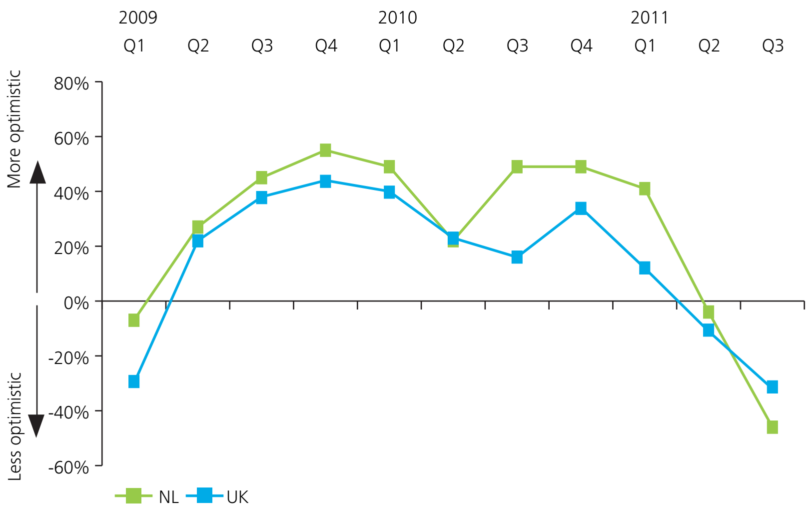
CFO optimism dropped for the third consecutive quarter, marking a two-year low again.

The negative sentiment revives the sentiment seen in the beginning of 2009, at the end of the banking crisis.

The trend is similar to that in the UK. However, for the first time Dutch CFOs are less optimistic than UK CFOs.

Chart 1. Financial prospects NL & UK

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



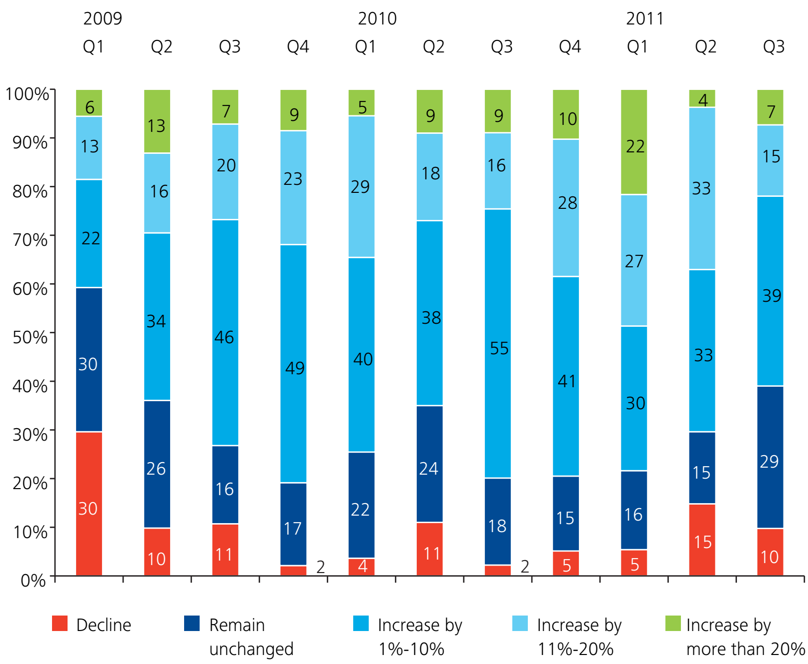
The number of CFOs that assess their cash flow expectations to remain unchanged compared to the previous quarter has doubled.

The number of CFOs that expect an increase of 11% or more has halved.

Over 60% of CFOs still expect an increase of their company's cash flow over the next twelve months.

Chart 2. Change in cash flow over next 12 months

Percentage of CFOs who expect the operating or free cash flow for their company to increase/decrease over the next 12 months.



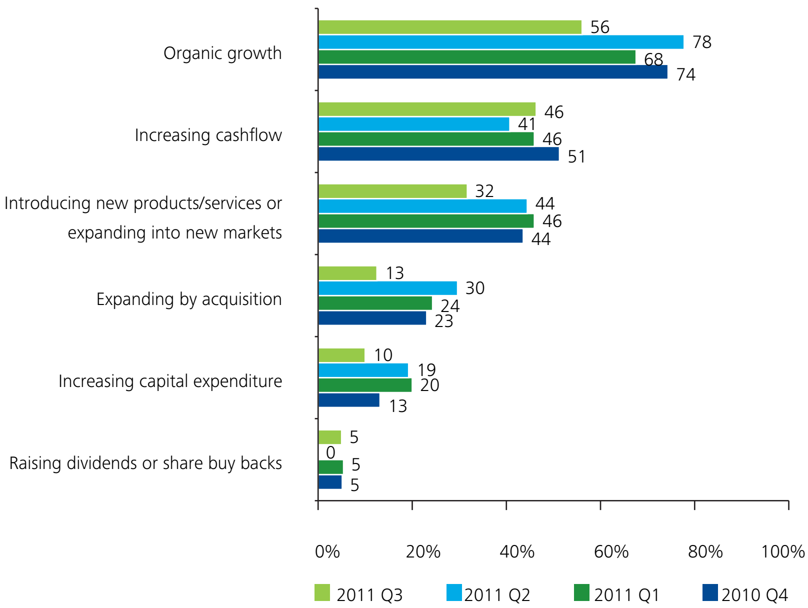
	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4	2011 Q1	Q2	Q3
Increase by more than 20%	6	13	7	9	5	9	9	10	22	4	7
Increase by 11%-20%	13	16	20	23	29	18	16	28	27	33	15
Increase by 1%-10%	22	34	46	49	40	38	55	41	30	33	39
Remain unchanged	30	26	16	17	22	24	18	15	16	15	29
Decline	30	10	11	2	4	11	2	5	5	15	10

The sense of urgency to exercise all strategies mentioned with a strong priority has declined. All bars in the chart of this quarter show a decline, except increasing cash flow and raising dividends or share buy backs. Organic growth stays the most prioritized strategy to exercise.

Organic growth is followed in priority by increasing cash flow and expansion strategies, like introducing new products or expanding into new markets.

Chart 3. CFOs' priorities for the next 12 months

Percentage of CFOs who have selected each of the following strategies as a strong priority for their business for the next 12 months.



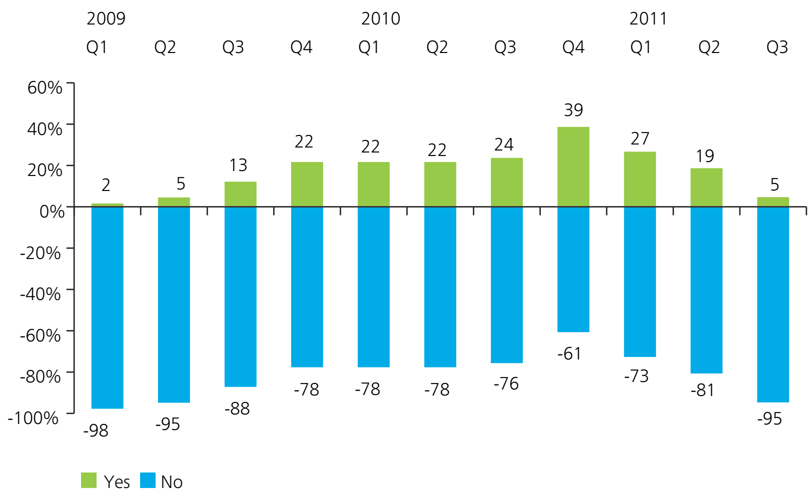
Risk

The risk appetite continues to decrease during 2011, to the earlier levels of 2009.

95% of the corporate CFOs think now is not a good time to be taking greater balance sheet related risks.

Chart 4. Attitude towards greater risk on balance sheet

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

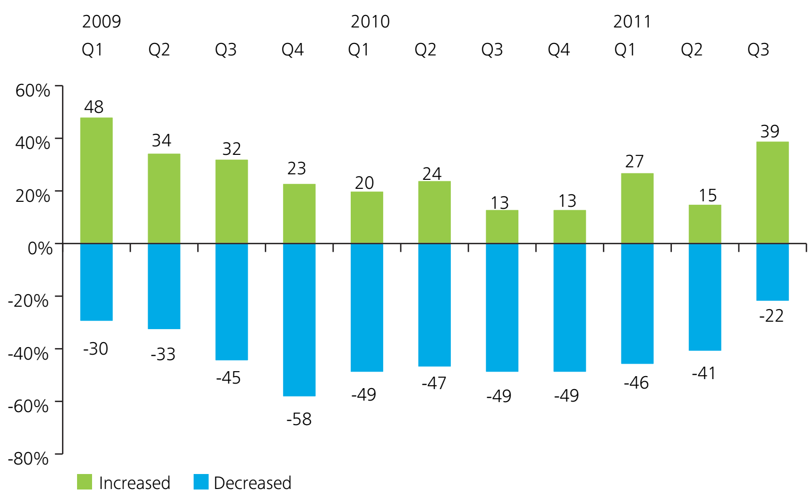


Contrary to the lower risk appetite seen in chart 4, the CFOs indicate their financial risk on the balance sheet to be on the rise again. This corresponds with the increased external uncertainty.

60% of CFOs rate the level of external financial and economic uncertainty facing their business as high to very high. 35% of CFOs rate these conditions to be above normal level.

Chart 5. Change in financial risk* on balance sheet

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



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

Funding

As optimism and risk appetite decreased, the conditions regarding cost and availability of credit move accordingly this quarter.

The availability of credit has dropped steeply, while the perceived level of cost rose only slightly. CFOs assess credit to be less available compared to the previous quarter when most CFOs were still positive about the availability of credit.

Banks reinforcing their balance sheets again clearly influence the availability of credit.

Chart 6. Cost and availability of credit

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

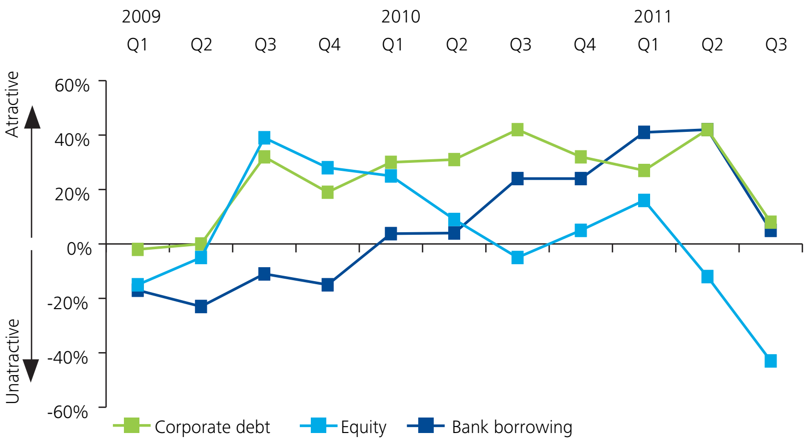
All sources of funding are perceived to be less attractive compared to last quarter. However, the mutual relations did not change.

Corporate debt (e.g. bonds) and bank borrowing are together perceived to be the most attractive source of corporate funding.

Equity is perceived to be even more unattractive than it was last quarter. The turmoil on the stock markets appears to be an important contributor to this.

Chart 7. Favoured source of corporate funding

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

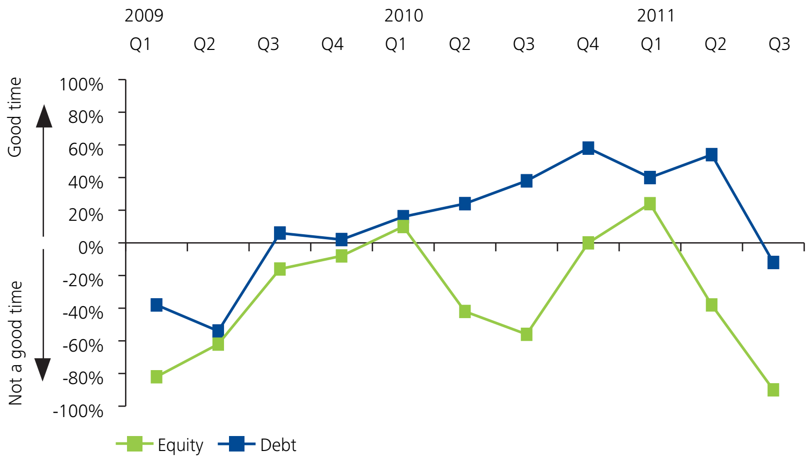


In general, at this time issuing debt is no longer perceived to be very attractive.

The timing to issue equity is perceived to be even less attractive compared to last quarter. This last quarter, the average closing rate of the AEX-index was 299.90 (minus 14% compared with the average Q2 closing rate). The highest Q3 closing rate was 345.16 in July, and the lowest closing rate was 263.44 in September, indicating the volatility of the current stock markets.

Chart 8. Good time to issue debt/equity?

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



M&A and Equity

CFOs expectations for both M&A and Private Equity activity levels have dropped this quarter. CFOs no longer agree on the growth in M&A and seem divided. This indicates the experienced uncertainty that organizations and their management are currently facing. Current uncertainty will most likely lead to valuation issues in transactions as it is hard to predict future cash flows.

30% of CFOs expect M&A levels to increase in the next twelve months. Only 20% of CFOs expect PE activity to increase.

The trend of CFOs expectations of Private Equity activity is rather similar to the one shown in the M&A outlook chart.

Chart 9. M&A outlook

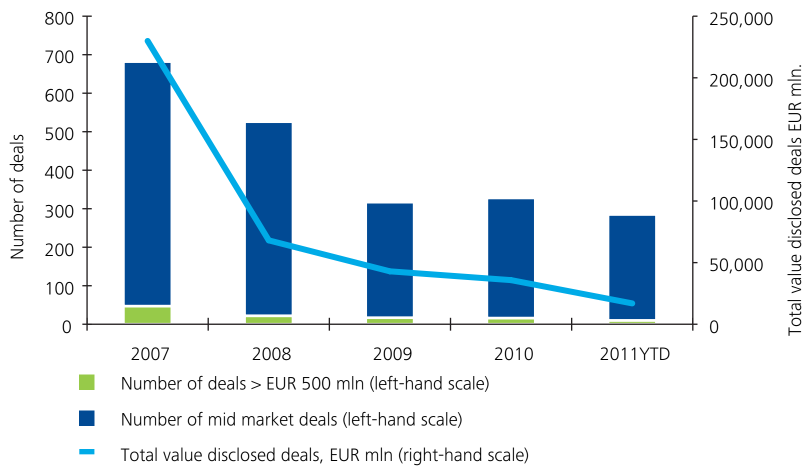
Percentage of CFOs who expect M&A activity to increase/decrease in the next 12 months.

With still 3 months left, the level of Dutch M&A and Private Equity activity is almost as high as in 2009 and 2010.

However, these levels are still modest compared with the levels of 2007 and 2008.

Chart 10. Dutch M&A market 2007-2011 YTD

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



Source: mergermarket

Financial issues

Recently, Deloitte interviewed fourteen top level CFOs of large Dutch companies. The purpose of these interviews was to talk about finance trends and real business issues these CFOs experience in their daily business environment. Topics like financial reporting legislation, talent and leadership, and integrated reporting were discussed. On November 1, 2011, the book*, in which these interviews are captured, was presented at the Deloitte CFO diner. This quarter we have included these topics in our CFO survey.

Financial reporting legislation

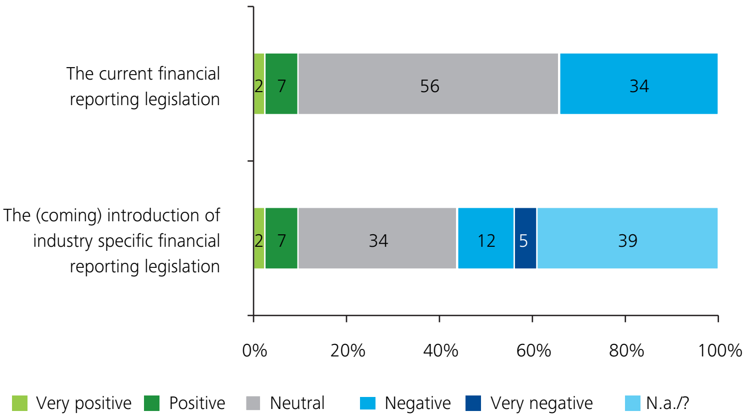
One third of CFOs assess the impact of financial reporting legislation like IFRS, or Basel III on their company's financial reporting to be negative.

More than half of the CFOs remain neutral on this topic. Only 9% of CFOs assess the impact to be positive or very positive.

Some industries will have to deal with (coming) industry specific financial reporting legislation. Almost 40% think this will not affect their industry. Again, only 9% of CFOs are positive about this type of reporting legislation.

Chart 11. Impact of financial reporting legislation

Percentage of CFOs who assess the impact of the following on their company's financial reporting to be positive/negative.



Integrated reporting

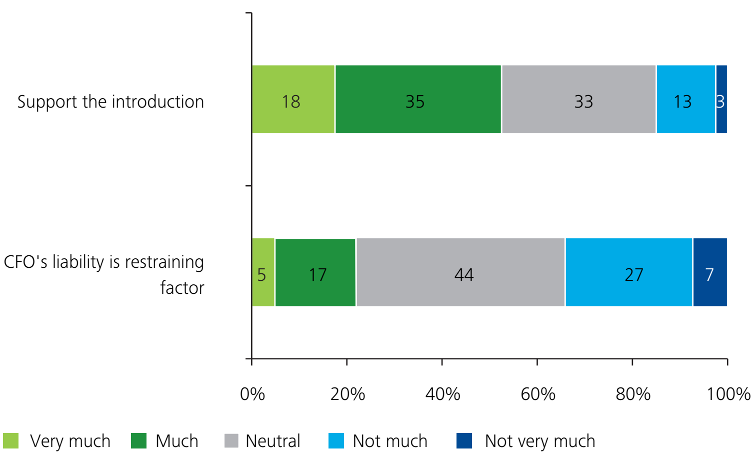
CFOs seem divided in their support of Integrated reporting. More than half of CFOs do support the introduction, 16% is opposed to it.

34% of CFOs do not consider CFOs liability to be a restraining factor when introducing integrated reporting. However, 22% of CFOs do.

Chart 12. Integrated reporting

Percentage of CFOs who support the introduction of integrated reporting within their organization.

Percentage of CFOs who consider CFO's liability to be a restraining factor when introducing integrated reporting.



*Title: Reageren op een nieuwe realiteit. De agenda van de cfo, November 2011.

Talent

Half of CFOs assess that the competency profile of a successful financial professional or executive within their company today requires more interpersonal skills. The competency profile also requires more emphasis on business cultural skills and financial skills than ten years ago.

Chart 13. Change in competency profile

Percentage of CFOs assessing the change in the competency profile of a successful financial professional or executive within their company over the past 10 years (multiple answers possible).

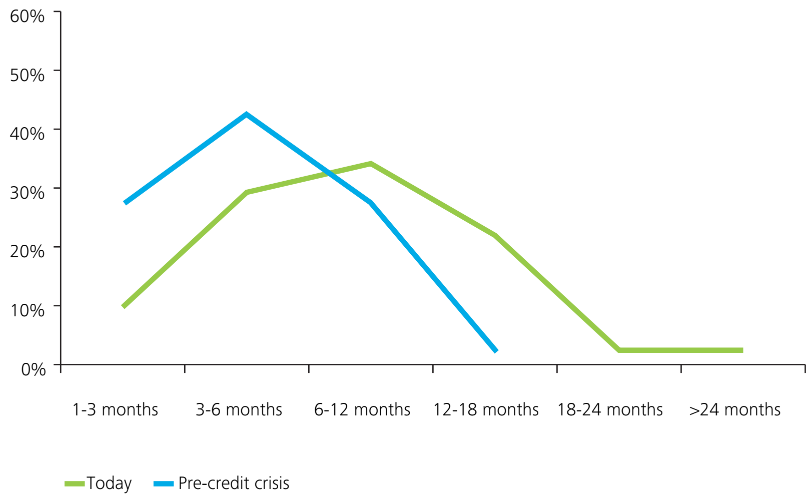
Funding

CFOs are clearly starting earlier today to prepare for a refinancing.

Before the credit crisis, most CFOs started to prepare 3-6 months before the debt was due. Today, most CFOs are stretching this period to 6-12 months.

Chart 14. Change in timing of credit refinancing

Percentage of CFOs assessing the amount of time between the moment they start to prepare for a refinancing and the moment the refinancing of their debt is due, comparing today with pre-credit crisis.



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 2011 Q3 survey took place between 15 September and 12 October. A total of 41 corporate CFOs, representing a net turnover per company of approximately EUR 1.1 billion, completed our survey. The responding companies can be categorized as follows: less than 100 million (7%), 100 – 499 million (63%), 500 – 999 million (17%), 1 – 4.9 billion (8%), more than 5 billion (3%), unknown (2%).

The participating CFOs are active in a variety of industries: Retail / Wholesale, Manufacturing Technology Real Estate, Consulting, Entertainment, Communication, Energy & Utilities, Transport, 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 it provides you with an important benchmark to understand how your organization rates among your peers.

Source

Deloitte Research NL

Contacts

Jan de Rooij
Partner Deloitte Global Employer Services
JandeRooij@deloitte.nl
+31 (0)6 5336 6208

Wilten Smit
Function Leader Deloitte Financial Advisory Services
WiSmit@deloitte.nl
+31 (0)6 5389 7407

Wim Eysink
CFO Program Leader The Netherlands
WEysink@deloitte.nl
+31 (0)6 5141 7099

Liesbeth Bax
Deloitte Research NL
LBax@deloitte.nl
+31 (0)6 1201 0798

Marinda Giethoorn
Deloitte Press Officer
MGiethoorn@deloitte.nl
+31 (0)6 1234 5063

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