

## The CFO Survey: 2009 Q3

Cautious optimism

**Deloitte.**



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This is the first quarterly survey of Chief Financial Officers of the ASX 300.  
This survey was conducted between 15 September and 14  
October, 2009. 75 CFOs of the ASX 300 participated in the Survey

# The Deloitte CFO Survey

## Cautious optimism

### Key points from The CFO Survey: 2009 Q3

- 72% of CFOs are more optimistic about their company's outlook than they were last quarter
- 88% of CFOs believe the worst of the credit crunch is over for their company
- 61% of CFOs anticipate economic recovery in the latter half of 2010
- Polarisation of opinions as corporate Australia falls into two distinct camps
- 43% of CFOs said credit was 'somewhat available' while 42% said credit was 'somewhat hard to get'
- Diversity of views continues on levels of corporate gearing with 24% of CFOs planning to reduce their level of gearing over the next 12 months and 34% of CFOs stating that they are ready to increase gearing levels
- 94% of CFOs expect M&A activity to grow during the next 12 months. 37% of respondents have a clear acquisition strategy for FY10, with a further 41% stating that they are likely to consider expansion through acquisition in this period
- 36% of CFOs believe the market is undervalued, 60% believe their own equity is undervalued
- Equity is the most attractive source of funding in the current market. Corporate debt is the least attractive. There are diverse views on the relative attractiveness of bank financing. 50% of CFOs confirmed they are likely raise equity in the next 12 months.

### THE CFO SURVEY

Quarter 3, 2009

#### Looking up

The Deloitte CFO Survey has found that Australia's CFOs are optimistic about future prospects. They see the financial outlook for their companies reflecting an unexpectedly shallow economic downturn and the speed and strength of the rebound. The prevailing mood is not universally positive, however. While acknowledging that better times are just around the corner, 28% of respondents are still in wait-and-see mode. They expect business conditions to remain difficult through the early stages of recovery and their plans still reflect plenty of caution.

In its November monetary policy statement, the Reserve Bank of Australia (RBA) stated that the Australian economy is expected to grow 'a little over 2%' over the year to mid 2010, and by 3.25% over the year to mid 2011. However, a significant number of CFOs are uncertain that the recent economic improvements will quickly flow through to corporate earnings: 30% of respondents expect a recovery early next year but a larger segment – 61% – anticipates conditions improving only in the latter half of 2010. A further 9% do not expect a recovery until 2011 or later.

Our survey shows that growth is back on the agenda as the number one issue for Australian CFOs. Accordingly, their expectations for mergers and acquisitions (M&A) have soared, with 94% expecting an increase over the next 12 months. The global financial crisis has been a polarising force on Australia's businesses. Our survey confirms a growing gap in financial health, and thus the ability to grow, between stronger companies and the rest.

#### Coping with financial turmoil

In the past 12 months, CFOs have largely focused on business fundamentals. They have minimised risk, managed cash flow and cut costs. Many companies concluded in the past year that their capital structure, and in particular a high level of debt, was not sustainable and that a significant recapitalisation of the company's balance sheet was necessary. Large equity issues, dividend reductions and asset sales all contributed towards a reduction of corporate debt burdens to a manageable level.

Corporate Australia has coped relatively well with the restricted supply of credit. Companies have responded in two ways. First, they reduced their gross funding requirement. Second, they replaced bank-sourced finance with equity issuance. The unexpected strength of equity markets this year created a lifeline for companies whose access to debt was limited. The recent capital-raising cycle has not run out of steam, with 50% of CFOs surveyed still potentially looking to issue equity over the next 12 months.

But while banks are now more willing to lend, they are charging more. Australian CFOs will inevitably be affected by the higher cost of credit, with 59% saying that the cost of new credit is 'somewhat costly' and 25% indicating it is 'very costly'.

When it came to availability of credit, CFO views were polarised: 43% of CFOs surveyed said credit was 'somewhat available'. 42% indicated credit was 'somewhat hard to get'. This underlines our finding that corporate Australia has fallen into two distinct camps as a result of the global financial crisis: the 'haves' and 'have-nots'. This provides a unique dimension to competition and a source of great opportunity for some.

### Into the upturn – a focus on strategy

Economic conditions have had a huge impact on the role of the CFO within the organisation. There has been a swing away from the broader roles of strategist and catalyst towards the steward and operator roles – tracking financial performance, preserving financial health and reining in spending.

The need for CFOs to focus on business fundamentals during the global financial crisis seems to have had an impact on their functional responsibilities. 24% of companies surveyed assign responsibility for strategy to finance, while 27% of CFOs have a shared responsibility for strategy, leaving 49% of CFOs as having no formal reporting responsibility for strategy. Interestingly 31% of companies have the risk management function reporting to an executive other than the CFO with a further 24% having risk management as a shared function between the CFO and another executive. Similarly, 45% of CFOs report that they have no reporting responsibility for IT, with only 37% having direct responsibility for IT.

These trends are not surprising given the priorities required to navigate the turbulent waters of the last 18 months. Significant time has been required to manage the challenges associated with funding, liquidity and economic volatility. Looking forward, most CFOs see their role evolving toward the strategic and catalyst roles as economic conditions improve and the amount of time dedicated to being operator and steward diminishes.

The global financial crisis, which has served to reinforce the importance and visibility of the CFO, has also led to increasingly influential boards. As Australia's boards become more actively involved in company strategy, directors are forging closer ties with management. This is referenced by the survey results which show 37% of CFOs see the responsibility for financial performance as shared between management and the board. The boards' fiduciary responsibility and personal liability should things go wrong have contributed to this perspective.

The response from CFOs is similar to that of the non-executive directors and chairs interviewed for Deloitte's research on Australian boards. *Board effectiveness: the directors cut*, that confirms corporate power is continuing to move away from the CEO towards the board and particularly to the chair. In 2007, 29% of board members said responsibility for financial performance should be shared between management and the board. That percentage jumped to 41% in 2008.

### Contacts

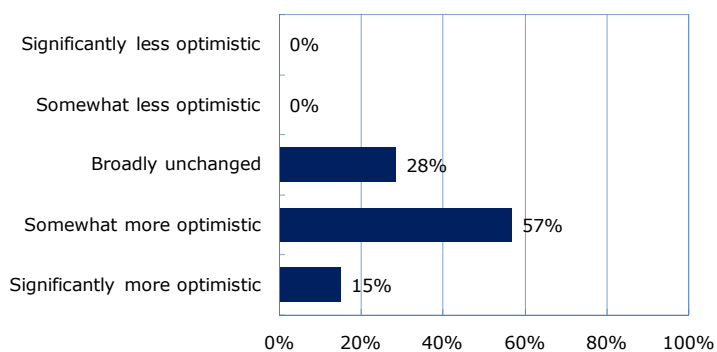
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# Cautious optimism

## 1. Compared with three months ago how do you feel about the financial prospects for your company?

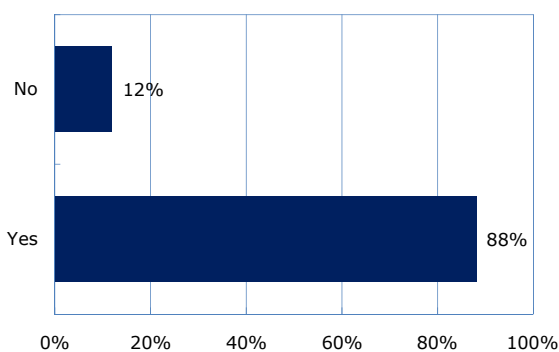


A domestic recovery is clearly underway. In its latest quarterly monetary policy statement, the RBA stated that the Australian economy is expected to grow 'a little over 2%' over the year to mid 2010, and by 3.25 % over the year to mid 2011.

72% of Australian CFOs are more optimistic about their company's outlook than they were last quarter. But the mood is not universally positive, with 28% of CFOs saying that their sentiment has remained broadly unchanged over the last quarter. In contrast, the equivalent UK CFO Survey showed that only 46% of UK CFOs were more optimistic, while 8% are less optimistic about their financial prospects than they were three months ago.

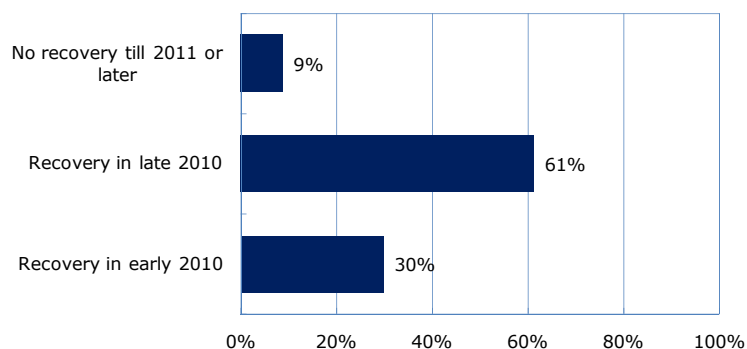
Australian CFOs might be feeling more optimistic than they were three months ago after seeing conditions stabilise, but their plans still reflect plenty of caution.

## 2. Do you think the worst of the credit crunch has passed for your company?



88% of Australian CFOs believe the worst of the credit crunch is over for their company. They have largely focused on maintaining their core business objectives throughout the slowdown, while improving their business fundamentals. CFOs have moved swiftly to minimise risk, manage cash flow and cut costs.

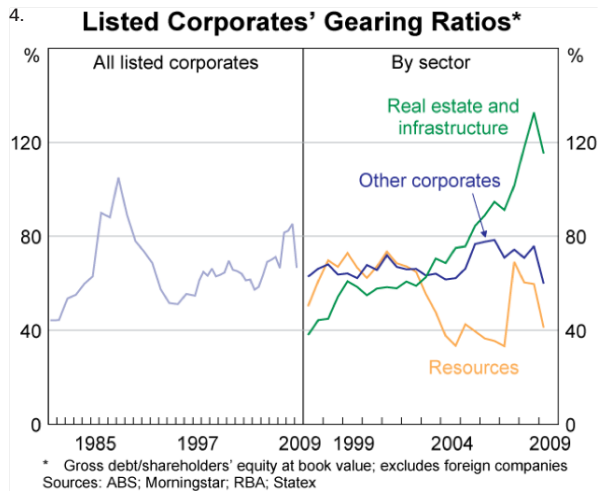
## 3. Which of the following is closest to your view of the outlook of the Australian economy?



The upbeat economic outlook – which is shared by CFOs – is underlined by the central bank's forecast particularly with respect to the global outlook and the resilience of the domestic household sector. However, some CFOs are uncertain that the recent economic improvements can be sustained as we move into a phase where the government withdraws the fiscal stimulus, interest rates rise and the Australian dollar strengthens.

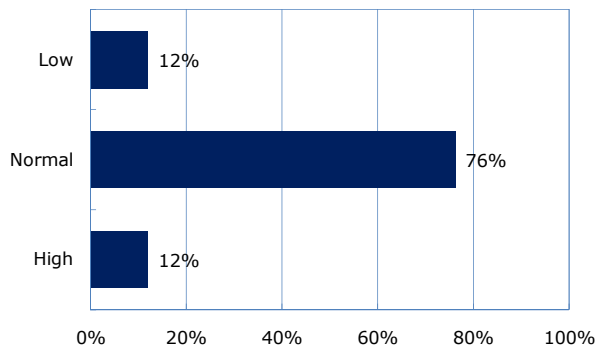
Given the wide range of industry sectors covered by the survey and the mixed bag of economic indicators, CFO responses are understandably diverse. 30% expect economic recovery early next year, but a larger segment – 61% – anticipates recovery in the latter half of 2010. Another 9% of CFOs do not expect the economy to pick up until 2011 or later.

# Raising capital, strengthening balance sheets



Debt levels have fallen dramatically. Our survey results support recent RBA data which states that corporates' gearing levels have declined by around 20 percentage points, close to the historical average of 65%.

## 5. What do you think of the level of gearing on Australian corporate balance sheets?

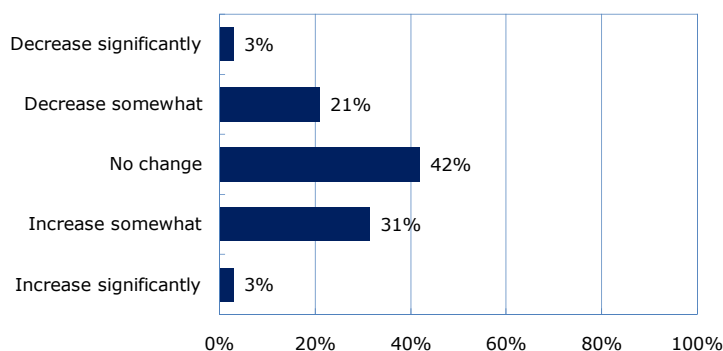


Many companies concluded in the past year that their capital structure, in particular a high level of debt, was not sustainable and that a significant recapitalisation of the company's balance sheet was necessary. Subsequently, companies went to the market for capital with equity issues, dividend reductions and asset sales.

Not surprisingly, 76% of respondents believe gearing levels are normal, with only 12% indicating they were still too high. Another 12% feel that they are now probably under-gearred.

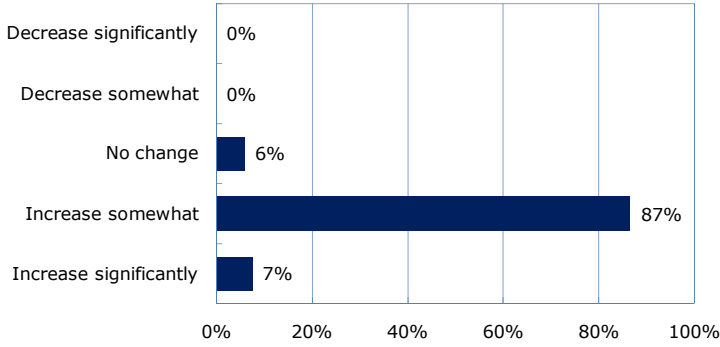
The Deloitte UK CFO Survey for the same quarter indicates that 39% believe UK corporate balance sheets are overleveraged, with only 4% of UK CFOs believing they are underleveraged.

## 6. What is your aim for your level of gearing over the next 12 months?



When asked about plans for their own company, the response was more diverse. 42% of Australian CFOs feel their gearing levels are about right. 24% of CFOs aim to strengthen their balance sheet by cutting their level of gearing over the next 12 months. 34% of CFOs said that they are ready to increase gearing levels, perhaps reflecting greater availability of credit and increasing optimism about the economic outlook.

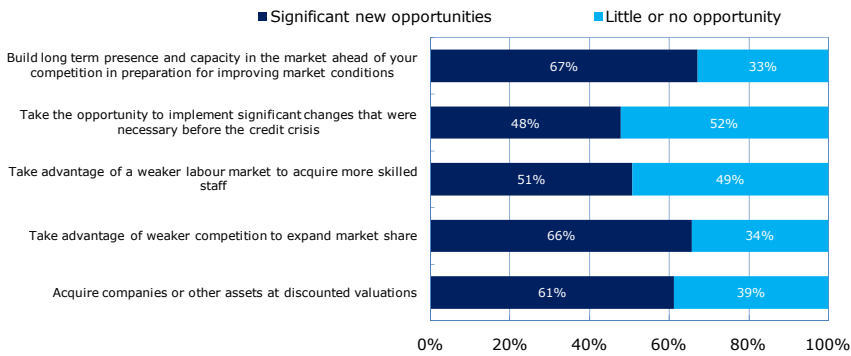
**7. Over the next 12 months how do you expect levels of M&A in Australia to change?**



CFOs are bullish on M&A activity, which ties into their views on the improved economic outlook and business confidence. 94% of Australian CFOs expect M&A activity to grow during the next 12 months as companies move to capture a competitive advantage and boost their market presence.

# Opportunities for growth

**8. Would you identify any of the following as opportunities for your business in the financial year ending June 2010?**

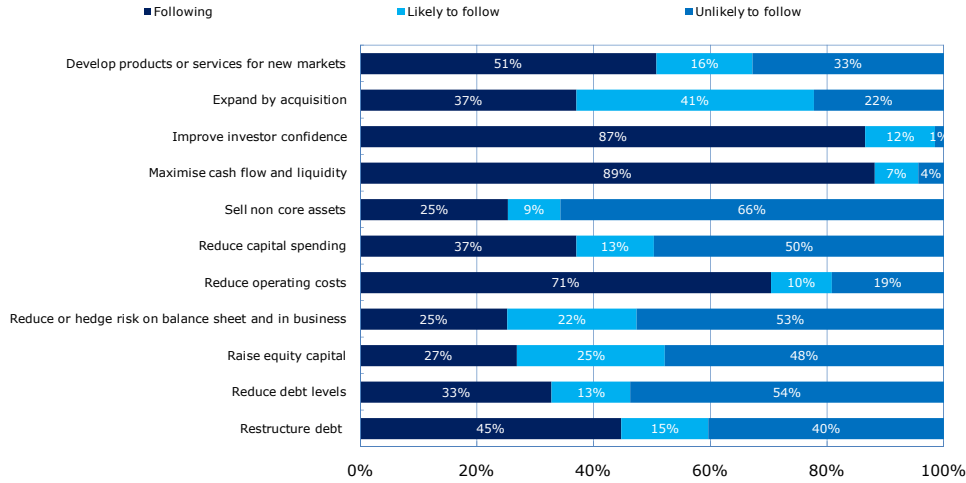


The global financial crisis has been a polarising force on Australian businesses. There is an increasing gap in financial health, and thus the ability to grow, between stronger companies and the rest. This is reflected by the almost even split in responses when it comes to identifying and seizing opportunities.

Our survey shows that 67% of CFOs see significant new opportunities to build long term capacity in the current market. 66% see boosting market share through exploiting weak competitors as a new opportunity.

61% of all respondents see an opportunity to buy assets cheaply while 51% of respondents are keen to take advantage of the weaker labour market to acquire more skilled staff.

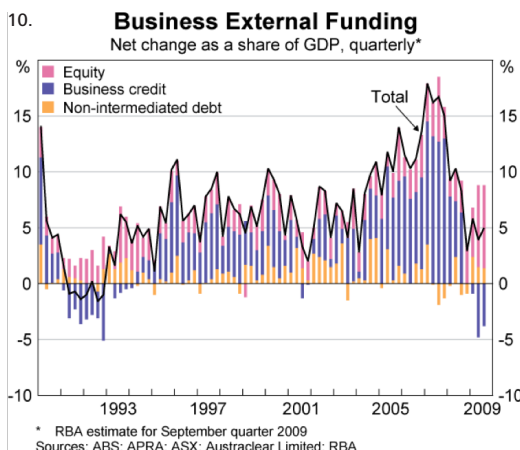
**9. For the financial year ending June 2010 which of the following strategies is your company adopting or likely to adopt?**



With 89% of CFOs identifying maximising liquidity and cash flow as a strategic imperative for this financial year, cash flow and liquidity management are high on the corporate agenda. With 27% of CFOs tapping the equity markets in FY10 and a further 25% likely to do so, boosting investor confidence comes a close second on the list of strategies to be adopted.

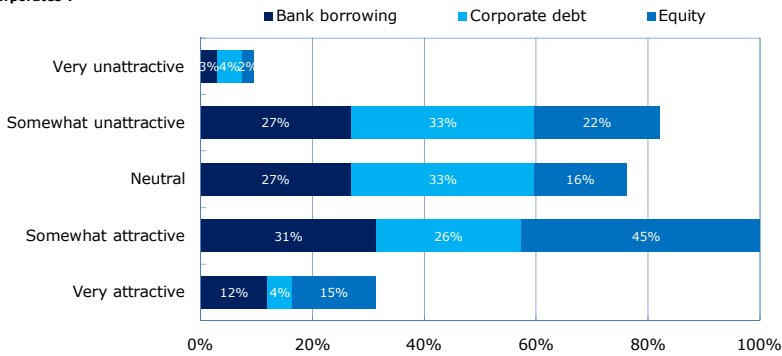
Acquisitions and divestments are key themes. 37% of respondents have a clear acquisition strategy for FY10, with 41% stating that they are likely to consider expansion through acquisition in this period. The fact that 22% of Australian CFOs are unlikely to implement an acquisition strategy this year could reflect the scarcity of discounted assets or continuing funding constraints for some companies. 25% of CFOs have definite plans to sell non-core assets this financial year, with a further 9% indicating that they are considering such a strategy.

# Sources of funding



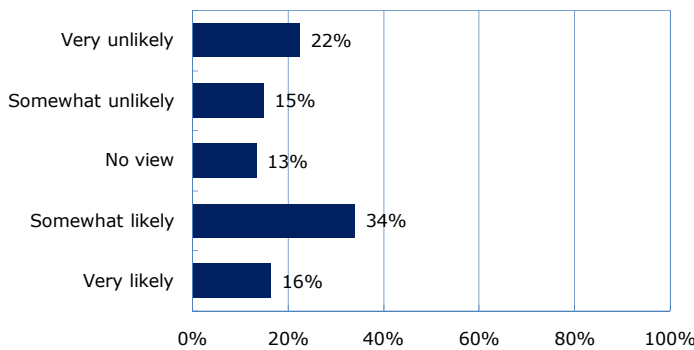
Net debt has declined sharply as corporates continue to raise equity capital. The RBA Bulletin for October states that this occurred in two distinct phases. The first was in 2008, when listed corporates' new borrowings declined to less than \$1 billion, from around \$100 billion in 2007. The slowdown in borrowing was broad-based. The second phase involved more active balance sheet adjustment once market conditions improved slightly, with a high number of corporates raising equity to pay down debt.

**11. How do you currently rate the following as a source of funding for Australian corporates ?**



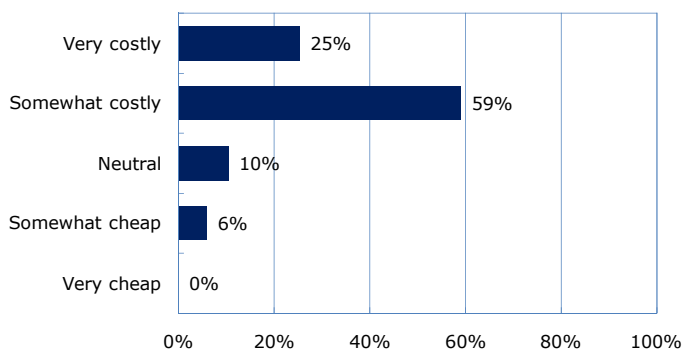
Market conditions continue to dictate the relative attractiveness of different sources of funding. Equity is the most attractive source of funding in the current market. Corporate debt is the least attractive. There are diverse views on the relative attractiveness of bank financing, reflecting the diversity of financial health of survey respondents and the resulting impact on availability and pricing of bank credit.

**12. Are you likely to issue equity over the next 12 months?**



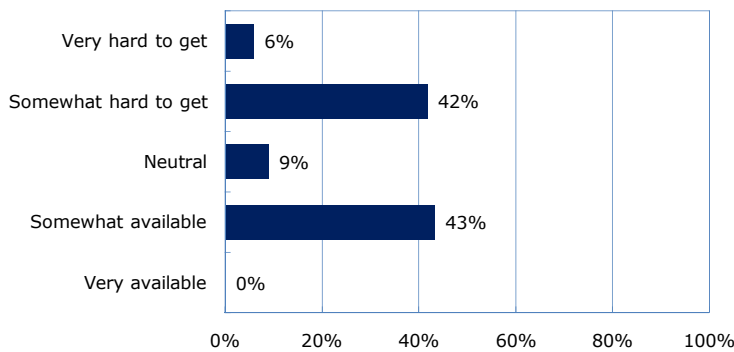
In line with the findings above, 50% of Australian CFOs confirmed they are likely to issue equity in the next 12 months.

**13. How would you rate the overall cost of new credit for corporates?**



While banks are now more willing to lend, they are charging more. Clearly companies have been affected, with 84% of Australian CFOs describing credit as costly.

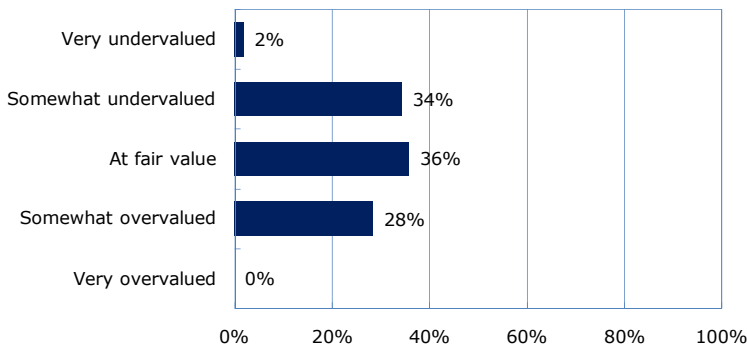
**14. How would you rate the overall availability of new credit for Australian corporates?**



When it came to availability of credit, 43% of CFOs surveyed said credit was available. 42% indicated that they were finding it somewhat hard to get access to credit. While no CFOs found credit freely available, 6% of Australian CFOs are finding it very difficult to access new credit.

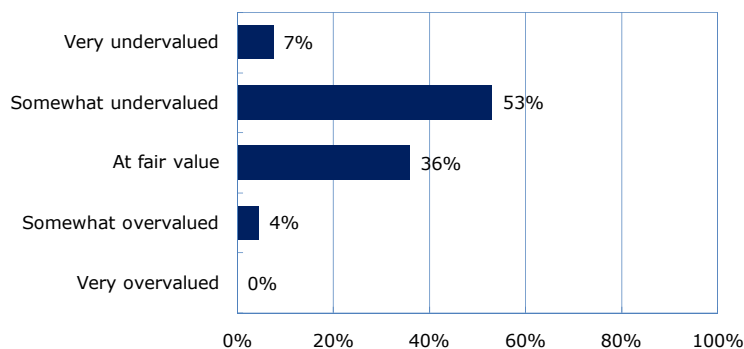
# Valuations

**15. How do you currently rate Australian equity valuations?**



36% of respondents believe Australian equities are at fair value. 36% think shares are undervalued. 28% of the CFOs interviewed consider share prices somewhat expensive, reflecting a nearer term perspective and concern over the strength of the global recovery.

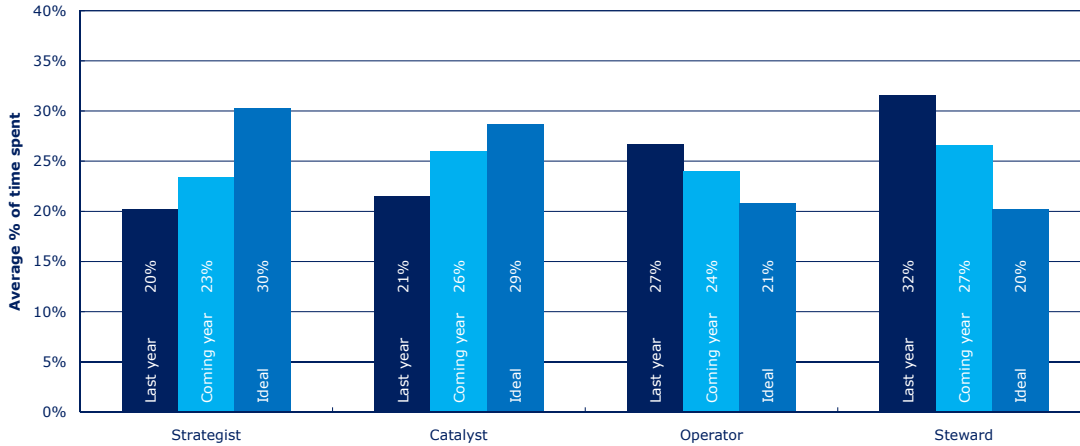
**16. Do you believe your equity is mispriced by the market?**



Interestingly, while 36% of CFOs believe *the market* is undervalued (as above), a significantly higher 60% believe their *own equity* is undervalued. This may be reflective of the increasing optimism of CFOs in the face of continued caution in the market.

# Role of the CFO

17. Average percentage of time spent in different roles

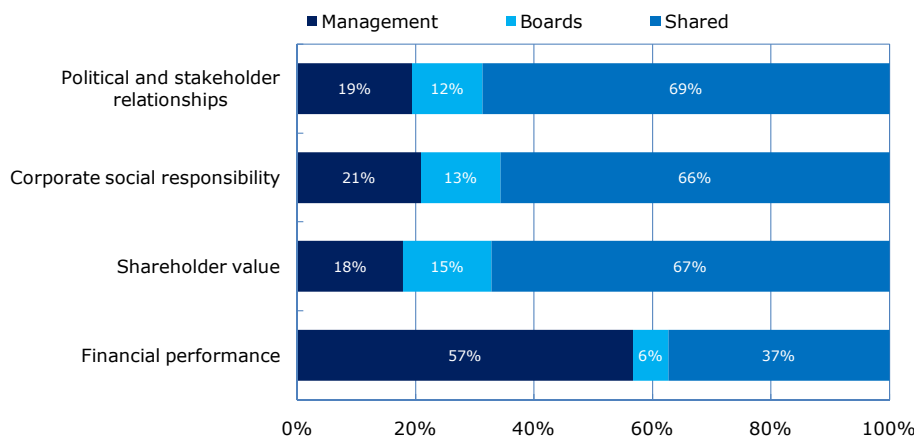


Most CFOs ideally believe they should be spending a larger proportion of their time in their roles of strategist and catalyst for improvements, instead of the traditional roles as operator and steward of the business. As an average, only 41% of the time spent in their role last year was to provide strategic insight and act as a catalyst for improvement, with the other 59% on protecting and preserving assets in getting the financial basics right.

Economic conditions have had a huge impact on the role of the CFO within the organisation. There has been a swing away from the broader roles of strategist and catalyst towards the steward and operator roles – tracking financial performance, preserving financial health and reining in spending.

Most CFOs see the proportion of their time dedicated to these functions as diminishing in the coming year as economic conditions improve, with a move towards a more ideal breakdown of the time that they spend in these roles.

18. Where does the responsibility for performance lie?

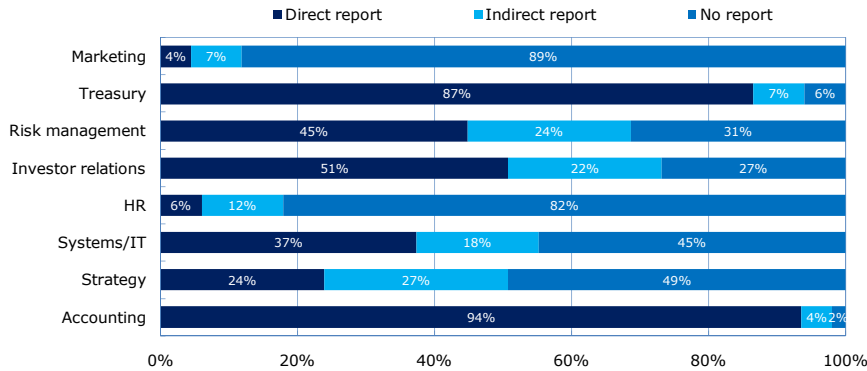


Most CFOs believe the influence of the board is growing as directors more actively involve themselves in issues that affect corporate performance. 37% of CFOs see financial performance as a shared responsibility with the board.

The boards' increasing fiduciary responsibility and personal liability have contributed to this perspective. This also reflects findings of Deloitte's research on

Australian boards. *Board effectiveness: the directors cut* that confirmed corporate power is continuing to move away from the CEO towards the board and particularly the chair. In 2007, 29% of directors said responsibility for financial performance should be shared between management and the board; the percentage jumped to 41% in 2008.

**19. Which functions report to you in your role as CFO?**

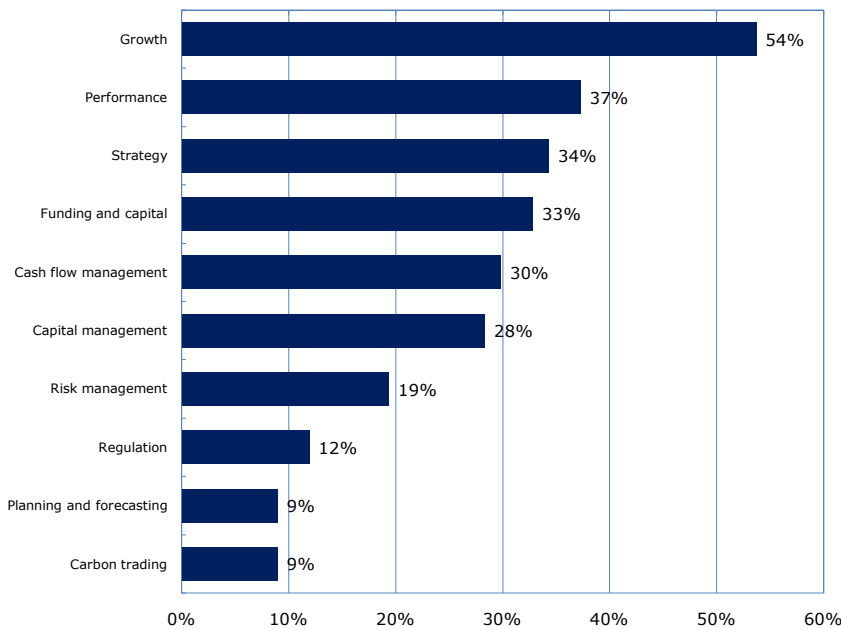


The need for CFOs to focus on business fundamentals during the global financial crisis seems to have had an impact on their functional responsibilities. 24% of the companies surveyed assign responsibility for strategy to finance, while 27% of CFOs have a shared responsibility for strategy, leaving 49% of CFOs as having no formal reporting responsibility for strategy. 31% of companies have their risk management function reporting to an executive other than the CFO, with a further 24% having risk management as a shared function between

the CFO and another executive. Similarly, 45% of CFOs said that they have no reporting responsibility for IT, with only 37% having full direct responsibility for IT.

These trends are not surprising given the priorities required to navigate through the turbulent waters of the last 18 months. Significant time has been required to manage the challenges associated with funding, liquidity and economic volatility.

**20. Key issues on CFO agendas in the next 12 months**

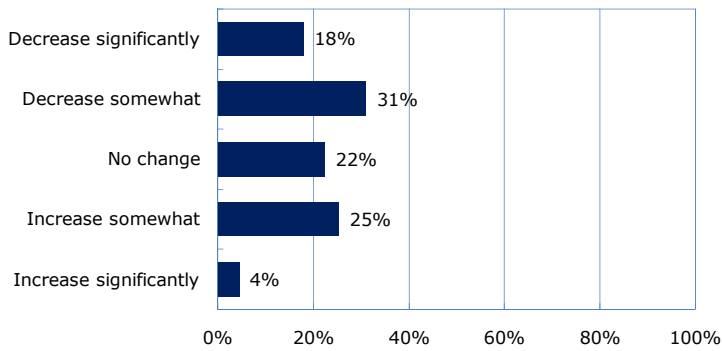


While raising capital and cash management remain high on the list of concerns, growth stands out as the top issue for Australian CFOs. This supports our findings that

having strengthened their balance sheets, raised equity and won the support of their lenders, companies are poised for growth.

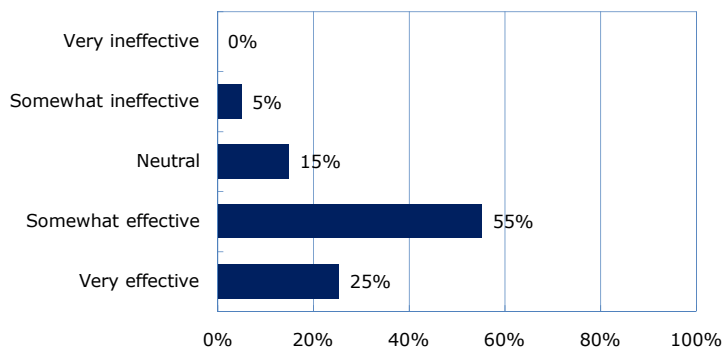
# Risk management

## 21. How has the level of financial risk on your balance sheet changed over the last 12 months?



49% of the CFOs surveyed said the level of financial risk on their balance sheet had decreased, with 18% saying that the lessening was significant. This reflects the underlying caution in the Australian CFO outlook while emphasising the priority for a shockproof balance sheet. 29% of respondents said the level of financial risk on their balance sheet had increased, reflecting difficulty with the high cost and availability of credit or concerns about rising interest rates and a high Australian dollar.

## 22. How effective have your risk management frameworks been in identifying and accessing the key risks faced by your company in the last 12 months?



Only 25% of Australian CFOs believe their risk management frameworks were very effective in identifying and addressing the key risks their companies faced during the global financial crisis. This is a small percentage but one consistent with a findings of Deloitte's research on board and audit committee effectiveness. Both of these surveys showed that board and audit committee members were concerned at the lack of processes to identify and assess the higher-order risks that could unexpectedly disrupt their organisation.



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