Global CFO Signals

Uncertainty mounts; Optimism wanes

Q2 2011 Deloitte Member Firm CFO Surveys:
Austria, Australia, Belgium, Central Europe, Denmark, Ireland, Netherlands, North America, Switzerland, and United Kingdom

DTTL Global CFO Signals
August 2011

About the DTTL Global CFO Program

The Deloitte Touche Tohmatsu Limited (DTTL) Global CFO Program aims to position Deloitte member firms to be the preeminent advisor to the chief financial officer (CFO). Recognizing that the CFO's role has evolved rapidly over the last few years, the Program focuses on building relationships and eminence and has successfully captured the attention of the CFO community through surveys, forums, and executive-development programs. The Program has also produced a rich library of intellectual property, newsletters, and podcasts used to deliver key insights to CFOs in many different countries.

About Deloitte Member Firm CFO Surveys

Eighteen Deloitte member firm CFO surveys, covering 34 countries around the world, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy or industry-wide perceptions or trends. Further, the focus, timing and respondent group of each member firm's survey may vary. Please refer to **"About Deloitte Member Firm CFO Surveys**" (page 13) for local contacts and information on the scope and survey demographics for each participating survey.

About DTTL Global CFO Signals

The purpose of the *DTTL Global CFO Signals* report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the second quarter 2011 CFO Surveys from Deloitte member firms in the following territories:

- **Austria**: *Declining sentiments on economy, job growth*
- **Australia**: *Short-term caution, long-term optimism*
- **Belgium**: *At a turning point*
- **Central Europe:** *A focus on growth*
- **Denmark:** *Springtime for Danish businesses*
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- **United Kingdom**: *Optimism falls, but risk appetite remains*

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CFO Sentiment in Second Quarter 2011

The second quarter of 2011 was marked with continued volatility: global economic uncertainty, debt crises in the U.S. and Europe, and fleeting consumer confidence in most regions of the world.

In North America, the focus centered on the U.S. debt ceiling crisis, with the national debt ceiling of $14.3 trillion exceeded in July 2011. At the time of the Q2 2011 survey, a plan to raise the debt ceiling had not been passed, and the U.S.'s AAA rating from Standard & Poor's remained intact.

In Europe, the sovereign debt crisis continued to create uncertainty, with Greece's second bailout, Italy and Spain's rising debt risk premiums, and the continued post-bailout challenges in Ireland and Portugal.

It is clear from the Q2 2011 survey results that this continued volatility has taken its toll on the optimism levels among CFOs around the world, with significant declines in net optimism in almost every country surveyed.

UK and North America

The dichotomy observed during Q1 2011 between British and North American CFO sentiment has disappeared in Q2 2011, with CFO optimism falling markedly in both regions.

In North America, a substantial shift has taken place with respect to CFO optimism. Despite continued positive financial expectations, only about 40% of CFOs reported increased optimism compared to 62% last quarter. While some of this sentiment may be caused by events that have transpired or intensified since the Q1 2011 survey (political unrest in the Middle East and the catastrophic earthquake and tsunami in Japan are two of the most striking), a substantial portion appears driven by worries about companies' own decisions. Perhaps the most notable finding from the Q2 2011 survey is that many CFOs say they are more concerned about both their level and quality of capital investments now than they were three years ago. And many say the risks they are most worried about have to do with their own ability to execute.

The UK Q2 2011 survey saw the biggest decline in CFO sentiment since the collapse of Lehman Brothers back in 2008. This sharply lower confidence level fits with the ongoing stream of negative macroeconomic news flow over the recent months. Interestingly, falling optimism has not dented CFOs' willingness to take on financial risk. Risk appetite remains at high levels, largely driven by CFOs in multinational companies which derive a high proportion of their revenues from overseas operations.

Europe

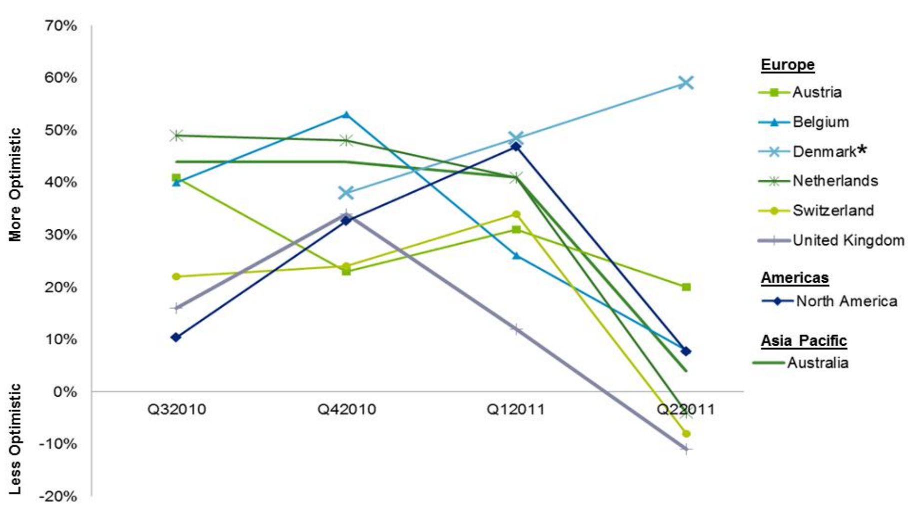
In Europe, the net change in CFO optimism in Q2 is closely aligned with the UK and North America, with the vast majority of CFOs indicating declining expectations for the financial prospects of their companies. The uncertainty surrounding the European sovereign debt crisis is a key contributor to this dampened sentiment. With key European trading partners on the brink of defaulting or receiving a downgraded debt rating, many CFOs are painting a bleak economic future, at least for the short term. Further contributing to the troubled region is increasing foreign exchange risks, particularly with the Swiss franc, and weakening consumer demand both domestically and across Europe.

Asia Pacific

Consistent with Europe and North America, levels of optimism fell sharply among Australian CFOs, reaching the lowest levels since the commencement of the Australian CFO Survey in Q3 2009. The significant drop in optimism is reflective of the economic uncertainty observed around the world, the slowing economic growth within Australia, a strong Australian dollar, as well as uncertainty around the nature and form of the government's proposed carbon tax. Despite this, Australian CFOs are willing and ready to take on additional risk, indicating long-term confidence in the strength of their businesses. With a cited significant increase in the availability of credit, many CFO expect to make strategic acquisitions in the next six months.

CFO Sentiment: Net Change in Optimism

Net % of CFOs who are more optimistic about the financial prospects of their company now than 3 months ago.



*A trend line has been plotted for this country as the survey is conducted on a semi-annual basis. Actual data only available for Q42010 and Q22011.
NB: Comparative survey data was not available for the following participating countries: Central Europe and Ireland

Please note that the surveys conducted vary in timing, sample size and demographic of respondents. As such, these survey responses may not be a statistically accurate representation of the countries / regions identified. Please refer to the end of this publication for information on the scope and survey demographics for each participating survey.

Global CFO Signals

CFO Priorities: A Global Perspective

Growth Strategies

Growth continues to dominate the agenda of CFOs around the world. In North America[1], the shift in strategic focus from cost reduction to revenue growth continued to build in Q2. However, several factors appear to be complicating the transition. Recent jumps in input prices, weak consumer demand, and heightened competition in some sectors appear to be the key factors impeding revenue growth in North America. Meanwhile across Europe, organic growth and overseas expansion are consistently rated as key priorities in 2011. From a strategic standpoint, it appears that overseas exposed companies are focusing on expansionary strategies (acquisitions, introducing new products/services), whereas domestic-facing companies are imploring more defensive strategies (cost reduction). For CFOs in Australia, organic growth remains the top current priority, with a strengthening appetite to grow by acquisition by the end of 2011. Despite a global dip in CFO optimism this quarter, this continued focus on growth and expansion across all regions appears to underlie CFOs' confidence in the long-term financial outlook of their own corporate prospects.

Cash Utilization

The continued uncertainty and volatility in the global economy and macro-environment appears to have created a sense of vulnerability and caution among CFOs in all regions. Unsurprisingly, CFOs are maintaining higher levels of cash and liquidity on company balance sheets. In almost all regions surveyed, CFOs expect their cash flows to increase over the next 12 months. How CFOs will utilize this cash however, is still unclear. In North America, CFOs appear to be increasingly selective with the investment decisions that they make amid this unstable environment. Despite the rising economic uncertainty in Europe, CFOs in this region are relatively bullish on taking more risk onto their balance sheets. In particular, CFOs of multinationals are looking to utilize their capital through strategic acquisitions and introducing new products and services. Similarly, Australian CFOs continue to have positive attitudes toward increasing the level of risk on their balance sheets, reinforced by CFOs' confidence in the strength and performance of their businesses, with most CFOs expecting operating cash flows to increase over the next year. This capital will be drawn on for organic growth and strategic acquisitions.

External Risk Mitigation

With an unstable global economic outlook, it comes as no surprise that risk mitigation is a key priority for CFOs around the world. In North America, a lack of consumer confidence coupled with uncertainty (at the time of the survey) on the outcome of the U.S. debt ceiling crisis weighed heavily on the minds of CFOs. To mitigate against this uncertainty, it appears that North American CFOs are holding onto capital, and delaying any investments and acquisitions until more stable conditions arise. In Europe**,** the European sovereign debt crisis has undoubtedly become the greatest external risk factor affecting CFOs. Consequently, many European CFOs have employed defensive strategies, including working capital management and cost reduction, to manage the threat against an impending debt default on their European trading partners. In Australia, a rising Australian dollar is a key concern for CFOs. Despite this, plans to mitigate the impact of their strong currency have not been addressed by many CFOs—reflecting the real challenge of finding an effective, short-term strategy to manage currency fluctuations in Australia.

Regulatory Policy

The impact of governments and government policies are affecting CFOs' outlook in many parts of the globe. In Belgium, for example, uncertainty over when a new government will be voted in is seen by one-third of CFOs as having a negative impact on their companies; meanwhile CFOs are realistic about the impact the new government in Ireland can have on their fortunes. In the U.S., the prospect of increased and unexpected regulatory changes is seen by a quarter of CFOs to be their most worrisome risk. And in other countries, such as Australia where a new carbon tax has recently been introduced, individual regulations have the power to dampen CFOs' optimism.

[1] In Q2 2011, North America was represented by: Canada, USA and Mexico

Austria
Declining sentiments on economy, job growth

Declining optimism on economy

Austrian CFOs believe that the overall market will emerge marginally worse than what they anticipated in the April and January surveys. In fact, about 50% of respondents believe that the Austrian economy will not improve. Further, the investment climate and the Austrian Traded Index (ATX) are seen as less favorable than in the beginning of the year, with about 61% of respondents indicating that they will not take on more investments in the next few months compared to their investing activity in the first half of the year. Some 70% of CFOs also believe that the inflation rate will climb mildly. However, 43% of CFOs indicated that their companies are expected to sell more products within Austria in the latter half of 2011.

Fractionally higher revenue expectations

Some 58% of respondents believe that their companies will have improved sale volumes, and 32% anticipate that there will be no change to total revenue. This implies that only 10% of Austrian CFOs expect their companies' revenues to recede, nearly the same percentage as in last quarter´s survey.

Credit availability improves

The key priorities for Austrian CFOs for 2011 are almost identical to those of last year. Cash flow and liquidity top the list, followed by talent management, and bank/investor confidence. A reduced importance is observed for topics that are especially relevant in times of crisis, such as cost reduction. On the other hand, talent management and governance, risk and compliance gained importance for Austrian CFOs when compared to last year.

M&A outlook remains steady

Approximately 42% of CFOs indicated that they did not have plans to undergo M&A activity, although almost a quarter of those surveyed, believe that M&A activity plays a major role in the economy. This data comes close to the results of last quarter´s survey.

Highlights from the Q2 2011 Austrian CFO Survey:

- Austrian CFOs are less optimistic about the economic outlook in the second half of 2011 compared to last quarter´s survey.
- Austrian companies are expected to increase their revenues only slightly in 2011.
- Credit availability has improved although the cost of borrowing is rising.
- Along with the declining sentiment on the Austrian economy, employment expectations have fallen this quarter.

Employment expectations contract

In contrast to last quarter's survey, CFOs no longer anticipate that the job market will grow as expected. Only 30% of Austrian CFOs, instead of 49% in April, expect to employ new staff in the latter half of 2011, with 12% indicating their intent to reduce staff in the coming months.

Australia
Short-term caution, long-term optimism

Optimism dips

The CFO Survey in Australia found that levels of optimism among CFOs fell sharply in Q2 2011. A net 4% of CFOs were more optimistic about the financial prospects for their companies than they were three months ago, down from 41% in Q1 2011 and the lowest level since the start of the survey in Q3 2009.

The fall in optimism reflects the global volatility at the end of the second quarter, which saw intensifying speculation about the risk of a Greek default and the consequences of a slowdown in the United States. There were also additional concerns in Australia for CFOs, with indications of slowing economic growth and uncertainty about the nature and form of the government's proposed carbon tax.

Against this backdrop, 68% of CFOs believe they face greater than average levels of external financial and economic uncertainty. While 84% of CFOs believe that the drop in Australia's March quarter GDP result is a one-off and expected to reverse in Q2 2011, 66% feel that the growing risk and uncertain economic fundamentals of the current environment will continue.

Positive attitude toward the future

Despite the heightened sense of uncertainty, the survey reveals signs of strength and a continued willingness among CFOs to increase risk. Some 49% of CFOs still felt it was a good time to take on greater risk, as compared to 52% in Q1 2011. This positive attitude toward the future was reinforced by CFOs' confidence in the strength of their businesses, with 70% expecting operating cash flows to increase in the next 12 months.

The current blend of short-term caution and long-term optimism can also be seen in the way CFOs are prioritizing growth strategies. While organic growth still tops the list, more than half (55%) of CFOs identified acquisitions as a priority, and 43% planned to make an acquisition in the next six months. This further highlights positive signs for the longer term.

More credit available

CFOs indicated a significant increase in the availability of credit, with 68% saying credit was available in Q2 compared to 54% in Q1. This increase in availability has been matched by greater attractiveness of both bank borrowing and corporate debt as sources of funding. For the first time, a majority of CFOs (57%) indicate bank borrowing is attractive, while nearly half (49%) say they found corporate debt favorable. In the same vein, equity seems to have fallen out of favor with only 32% of CFOs reporting it as an attractive source of funding compared to 47% in the last quarter. CFOs also report that the cost of credit is easing and a little more than half of the CFOs (51%) felt that credit was expensive compared to 66% last quarter.

However, the greater availability of credit does not seem to be matched by demand. Some 44% of CFOs expect their need for new credit to remain unchanged in the next year, while 43% anticipate an increased demand for new credit (compared to 53% in Q1); only 8% expect this increase to be significant.

Highlights from the Q2 2011 Australian CFO Survey:

- Only a net 4% of CFOs are more optimistic about their companies' financial outlook than they were three months ago, compared to 41% in Q1.
- Some 68% of CFOs believe they face greater than average levels of external financial and economic uncertainty.
- Despite these concerns, 49% of CFOs believe it is a good time to take on more risk, and 70% expect operating cash flows to rise in the coming year.
- Organic growth remains the top priority for most CFOs, but there remains a strong appetite to grow by acquisition, and 43% believe it is likely they will do deals in the next six months.
- Credit is more available, but this is not being matched by an increase in demand, despite many CFOs finding bank borrowings more attractive.
- Some 77% of CFOs believe the strong Australian dollar is having a negative impact on the economy, and most expect it to remain above parity with the U.S. dollar.

Parity is the new par

Some 52% of CFOs say the strength of the Australian dollar has adversely affected their financial performance, while 77% state that the strength of the currency is negatively affecting the Australian economy. Even so, 65% of CFOs had not implemented changes to counter the effects of the strong dollar.

This lack of a response reflects the challenge of finding effective, short-term measures to manage currency fluctuations. However, with almost all CFOs (89%) expecting the dollar to remain at or above parity with the U.S. dollar over the next 12 months, CFOs are likely to have to implement longer-term operational measures to better align their businesses with the stronger currency.

Increased responsibility for financial performance

CFOs have balanced their workload effectively over the past year, devoting 53% of their time to the core roles of steward and operator of the business and 47% of their time to matters relating to strategy and driving change. They also highlighted strong working relationships and shared responsibility with their boards. However, CFOs are taking greater responsibility for financial performance with 79% indicating this to be the domain of management, up from 57% in Q3 2009.

Belgium
At a turning point

Highlights from the Q2 2011 Belgium CFO Survey:

- Business optimism remains positive, but has declined further for the second quarter in a row. The positive trend that has been witnessed since 2009 has totally reversed since the beginning of the year.
- Financial results appear positive overall, with 70% of CFOs reporting results are on budget; 35% even outperformed budget. But for those that are behind now, catching up might be difficult given the decrease in business optimism and the increasing macroeconomic uncertainty.
- High financial and economic uncertainty appears to be fueling fears of an economic double dip. The Belgian political situation adds to the international uncertainty, and negatively affects one-third of surveyed organizations.
- Top concerns relate to the uncertainty of the recovery and its impact on performance; the increase in sovereign risk and commodity prices are of concern as well.
- Expansionary strategies remain high on the agenda, and surplus cash will be mostly reinvested in the business.
- External financing remains widely available and attractive. Balance sheets are solid and re-leveraging, and further credit expansion is expected.

Midyear results good, optimism declining

The decline in business optimism seen in the first quarter has continued, and is now at levels witnessed coming out of the recession two years ago. The decline reveals that CFOs have not become more optimistic in the second quarter as compared to three months ago. But for the vast majority of organizations surveyed, business optimism remains positive and has not weakened as compared to the previous quarter.

On the positive side, the proportion of CFOs expecting declining cash flows shrunk from 40% two years ago to 14% now. Cash flow projections for the next year remain solid. The optimism the survey reported in the beginning of the year has also translated into good actual results. Half way through 70% of the participating CFOs report results are on budget—35% have even outperformed the budget. But whereas six months ago 75% of surveyed CFOs expected increasing cash flows, that population has dropped to 60% now. For the 30% of companies that are at the end of the second quarter behind budget, catching up might be hard: optimism peaked in the fourth quarter of 2010 when the budgets were prepared, and has since tempered significantly.

Concerns and priorities

Given the macroeconomic backdrop in the second quarter, it is not a surprise that the fear for an economic double dip—a new period of several months in which the Belgian economy would contract— surfaces again, with almost one-third of CFOs assigning high probabilities to this economic downturn scenario. The economic recovery and the impact on the company's performance are—across all industry sectors—seen as the main concern going forward. For financial services organizations, the increase in sovereign risk is the top risk. For companies in the manufacturing industry, the evolution of the commodity prices is seen as the main concern.

In this cautious climate, there has not been any further improvement in risk appetite. Defensive strategies such as cost reduction, working capital management, and balance sheet management remain important. But expansionary strategies, including organic growth or growth by acquisition, introduction of new products and services or expansion into new markets are high on the agenda as well.

Little hope for new government in 2011

In Belgium, the political uncertainty adds to the financial and economic uncertainty. The second quarter survey was closed shortly after Elio Di Rupo presented his proposed reform package on July 4, 2011. CFOs do not expect a new government to be in place any time soon: almost 60% expect new elections will have to take place. Although the Belgian federal political situation remains worrying, only one-third of the surveyed CFOs report this uncertainty has a negative impact on their company —down from two-thirds one year ago and still 45% in the first quarter.

Stable credit conditions

Financing is generally available and all forms of financing—bank credit, corporate debt, and equity—remain attractive, notwithstanding higher expected price terms and lending terms going forward. Following the deleveraging that took place in 2009 and 2010 and the growing confidence in balance sheets as a result, the survey results suggest re-leveraging and further credit expansion—already at a high in 2010—going forward.

Central Europe
A focus on growth

Cautious optimism

CFO sentiment across the six surveyed Central European (CE) countries shows a general sense of cautious confidence, with around 47% of all respondents either very or somewhat optimistic about the financial prospects for their companies compared to three months earlier. This is despite an environment in which more than half of respondents (53%) see the levels of external economic and financial uncertainty as high or above normal, and where more than 80% do not see now as a good time to take additional risk on to company balance sheets.

In fact, only in the Czech Republic did more than one-third of respondents feel that now is a good time to take increased debt onto the company balance sheet. More than half the surveyed CFOs (53%) see now as a time of normal or above normal external financial and economic uncertainty, which explains the very high adversity to risk. Many of the respondents' positive attitudes might be ascribed to the local and regional focus of their trading activities, which provide a buffer against the uncertainties of the global market. While around 14% believe that the UK and Eurozone will make the biggest contribution in 2011 to increasing their companies' revenues, 16% believe that their primary boost will be generated within the CE region, and an overwhelming 62% that it will come from their domestic markets.

Widespread focus on revenue growth

Some 63% of respondents regard growing revenue over the next 12 months as their company's priority. A clear majority of those in every country surveyed saw their existing markets as the primary source of increased revenues. Around half of all respondents are set to focus their primary attention on generating revenue growth from their existing markets in 2011, with around 17% focused primarily on new markets. This again suggests some continuing antipathy to risk, and recognition that current activities represent the best opportunities for continued growth. For close to 35%, however, the primary focus for the year is on improving their financial position through reducing costs, with gaining greater efficiency for their working capital being the most commonly cited reason for doing so (almost 14% of the sample).

Managing debt

There is a general expectation among CFOs that the levels of balance sheet debt will either increase slightly or stay the same over the next three years. However, this headline finding disguises some significant differences of expectations, with nearly 15% expecting their debt levels to increase "a lot" during the period and 19% anticipating a small decline. This trend appears to be of little concern to Central Europe's CFOs. More than half the sample expect to see their ability to service debt improve over the next three years, with more than 12% expecting it to be significantly enhanced. More than 61% of respondents, in fact, have no plans to reduce their debt exposure at all. Among those that do, using cash reserves is marginally the preferred option (12%), followed by asset sales. The least commonly cited means of doing so is via an equity offering, suggesting that the region's CFOs and boards are keen to maximize control of their businesses through retaining ownership.

Highlights from the H1 2011 Central European CFO Survey:

- Overall, Central Europe's CFOs are not keen to jeopardize the steady recovery that many of their companies and economies have been experiencing.
- While an atmosphere of cautious optimism prevails across the region (47% of those surveyed said they are very or somewhat optimistic about the financial prospects for their companies compared to three months earlier), CFOs remain largely risk-averse.
- There is widespread agreement (80%) that now is not the time to place additional risk on company balance sheets.
- Close to half of respondents (49%) also appear to expect total debt on the balance sheet to increase over the next three years, although more than 95% also anticipate an improvement or no change in their ability to service debt in the same period.
- The region's CFOs are also choosing to concentrate on cost reduction for the foreseeable future.

M&A activity seen rising

Expansion by acquisition during the next 12 months is not top of mind for the majority of respondents, with close to 60% saying that it is "not a priority." However, it is a strong priority for a minority (8%) and of some interest to close to one-third of the sample (32%). When considering the wider marketplace as opposed to just their own companies, a clear majority of respondents feel that M&A activity in their own countries is set to grow over the next 12 months, with 11% expecting it to increase substantially and close to 56% anticipating some growth. These findings broadly reflect those of the most recent (April 2011) CE Private Equity Confidence Survey from Deloitte, that showed interest in M&A and levels of M&A activity are gradually returning to pre-crisis levels.

Denmark
Springtime for Danish businesses

The survey from spring 2011 shows a remarkable increase of optimism regarding the financial outlook. In particular, the larger Danish companies seem to have reached the other side of the financial crisis, and their priorities have shifted from cost reduction to creating growth.

Access to new funding eases

Danish companies also seem to have reached the other side of the financial crisis in terms of their funding opportunities. In fact, the Danish CFOs see an improvement in access to new funding compared to before the financial crisis.

Organic growth and M&A focus

Easier access to funding has provided the companies with a better opportunity to start gearing for future growth. The survey shows a renewed optimism and an expectation of prioritizing investments and growth. Particularly, the CFOs have increased their appetite toward M&A. In addition, the companies are working on creating growth through investments in fixed assets and through a stronger focus on innovation. The companies' investments in research and development are expected to have a positive effect on competitiveness.

Finance support the growth agenda

Another indication that Danish companies may have made it through the crisis is a different prioritization within the finance function. Previously, the focus was on cost reduction, but the finance functions have now increased focus on initiatives pointed at business development and growth.

Focus on cost control, product profitability

The CFOs estimate an unchanged demand and also expect sales prices to remain stable over the next 12 months. This in combination with an expected rise in prices on raw material is expected to drive changing behavior for the companies. Increased revenue will likely be a direct result of the companies' ability to adapt production facilities and distribution channels and focus on the products with the greatest potential for growth and revenue. Danish companies must be even more creative and agile in order to avoid being beaten by the competition from abroad.

Highlights from the H1 2011 Danish CFO Survey:

- Many participants are still assessing what impact Japan's devastating earthquake, tsunami, and resulting nuclear power crisis will have on their topline revenue.
- The Danish CFOs are more optimistic about the financial outlook compared to the situation six months earlier.
- Access to new funding is seen as easier than before the financial crisis began.
- Some 41% of the CFOs prefer to use excess liquidity on M&A. This is an increase of 11 percentage points since the October 2010 survey.
- The CFOs continue to rank payment of debt as their top priority, but the share has decreased by 7 percentage points.
- Overall, the economic development seems to have had a predominately positive effect on the demand over the previous three years.

Ireland
Reality bites

Expectations of profitability still buoyant

Consistent with previous quarters, there is an expectation among CFOs that the overall economy will return to growth more slowly than their companies will. One-third of respondents believe that their company has already returned to growth, whereas 61% of respondents believe the Irish economy will return to growth in 2012 and a significant 33% believe that a return to growth in the Irish economy is as far away as 2013. Despite 39% of CFOs believing that their company has or will return to growth by the end of 2011, this percentage is down by one-third from last quarter, when 62% of respondents believed that their company had already or would return to growth by the end of 2011.

Interest rates on the rise after three years

Cost and availability of credit are two factors that will play a key role in Ireland's road to recovery. The results this quarter indicate an improved net perception in the cost of credit (7% net), but an almost equivalent decrease in the perception on its availability (9% net). Compared to this quarter 12 months ago, the overall outlook has notably improved; CFOs' perception that credit is costly has steadily declined from a high of 78%, while the perception of the availability of credit, while still negative, has improved considerably by a net 20% over the same period.

Exchange rate risk continues to rank highest

Exchange rate risk continues to be the highest risk to companies' balance sheets as identified by 41% of respondents. This is an increase on last quarter (6%) and a steady increase over the last four quarters (14%), and is gradually moving toward its peak in Q1 2010. These concerns are undoubtedly due to the volatility in the Eurozone as a result of high risk over member states' potential sovereign debt default. Furthermore, debate around the U.S' ability to manage its public debt has contributed to a significant weakening of the Dollar against the Euro for the first half of this year. With so much uncertainty, it is difficult for CFOs to develop a hedging strategy. The net perception of risk surrounding the valuation of assets has also risen over the quarter. However, this is not as much a reversal in trend, but rather representative of the uncertainty among CFOs on whether or not the devaluation and decrease in the value of assets has bottomed out, or if they are still set to fall further.

Highlights from the Q2 2011 Irish CFO Survey:

- Some 62% of respondents believe that their companies have or will return to growth by the end of 2011.
- Revenue maintenance and growth remains the key challenge for CFOs at 33%, with 22% of CFOs identifying maintaining profit margins as the second key challenge.
- Some 41% of CFOs believe that their company's turnover will increase in the next six months.
- Equity, as a source of funding, has more than tripled in popularity since the last quarter with 25% of respondents citing it as their company's preferred source.
- Exchange-rate risk continues to be the highest risk to companies' balance sheets as identified by 41% of respondents.
- Some 54% of CFOs believe that Irish banking reform has had a positive impact on international confidence in the Irish banking sector.
- Opinions are changing with regard to the impact the government can have on political reform, employment, and job creation, and renegotiation of the EU/IMF rescue package.

Readjusting expectations of government

Over the last two quarters the political landscape has changed significantly in Ireland. In Q1 2011, when the change of government occurred, 78% of respondents thought this would have a significant positive impact on international confidence in the Irish economy. This quarter, 62% of CFOs have responded favorably. This readjustment of CFO sentiment is not necessarily a negative view by CFOs on the ability of the coalition government to affect change, but is an acknowledgement that a change in government alone is not the answer to all of our problems.

Netherlands
The specter of a prolonged setback

General economic outlook mixed

Europe's financial focus this last quarter was on the sovereign debt crisis. Greece barely avoided bankruptcy. Its impact, including Greece potentially leaving the euro, was unknown. During June, when this questionnaire had been sent out, the Greek debt crisis triggered red flags all across the European Central Bank. European governments and banks released a rescue funding plan mid-July and this averted a Greek default.

According to CPB Netherlands Bureau for Economic Policy Analysis, the Dutch economy is expected to grow by 2% this year. For next year, gross domestic product is projected to increase by 1.75%. Exports are expected to primarily drive economic growth in 2011 and 2012. Consumer spending and investments will likely also contribute to growth this year and next year-–if only slightly. Overall, public spending will likely not contribute to growth. The Dutch economy is expected to profit from the recovering German economy.

Last April (Q2), the Governing Council of the ECB decided to increase the key ECB interest rates by 0.25%, after having maintained them at historically low levels for almost two years. Recently, on July 13, 2011 (Q3), the rates were raised again by 0.25%. Although it may thus be concluded that the cost of credit is slightly running up, such interest rate levels can still be considered historically low.

CFO sentiment dwindling

The business optimism observed in the first quarter of the CFO Survey has fallen sharply, with CFO sentiment dwindling at the fastest rate since this survey was first performed. The cash flow expectations the CFOs express reflect some cautiousness. Even though 70% of CFOs still expect their company's cash flow to increase over the next 12 months, they have tempered their expectations somewhat.

Cost and availability of credit is perceived to be nearly as good as during the last quarter. The risk appetite of CFOs has lessened, with most CFOs reporting that it is not a good time to increase balance sheet risks.

Less CFOs expect private equity activity to increase over the next 12 months compared with the previous quarters. This reflects the period of the economic cycle the economy is in. Private equity companies typically continue their M&A activities during recession years, when corporate companies focus on rebalancing their portfolio and cost controls and are not pursuing acquisitions. Corporate companies then postpone the pursuit of interesting acquisitions to match their expansion strategies until later in the economic cycle.

Highlights from the Q2 2011 Dutch CFO Survey:

- CFO optimism has dropped to its lowest level of the last two years.
- Corporate debt (e.g. bonds) and bank borrowing are now together perceived to be the most attractive source of corporate funding, whereas equity issuance is considered to be the least attractive.
- Almost three-quarters of CFOs believe now is not a good time to issue equity.
- CFOs' top priority remains realizing organic growth followed by expansion strategies, either by introducing new products or services or expanding into new markets.
- Some 70% of CFOs expect their free cash flow to rise over the next 12 months. However, this rise will be more modest than last quarter.
- Less CFOs expect private equity activity to increase over the next 12 months compared with the previous quarters.
- More than half the CFOs use cloud computing or intend to start using it within the next two years, mostly for noncore applications.
- When using cloud computing, CFOs need vendors to provide (external) reassurance on data security, compliance, and legal issues.

Cloud computing

Cloud computing refers to providing computational resources (data, software) on demand, through a computer network rather than from a local computer.

More than half the CFOs already use cloud computing for some of their applications, or intend to start using it within the next two years. However, the level of core application users is low. Over three-quarters of CFOs do not consider the strategic use of cloud computing to be a theme on the board agenda. In general, it is considered wise to start using Cloud computing with noncore applications in order to gain experience.

As far as the use of cloud computing is concerned, the CFOs' biggest concern regards data security, compliance, and legal issues. They consider it important that (external) assurance is provided on these issues. Two-thirds of CFOs consider the own IT environment to be the safest regarding application and data security. Cloud computing vendors should be advised that these concerns could prevent CFOs from switching to cloud computing.

More than half the CFOs indicate that reducing IT investment levels would be their number one business driver if they were to switch to cloud computing. The rapid elasticity and flexibility when using cloud computing, offering up- and downscaling opportunities, are also recognized by CFOs as one of the main advantages of cloud computing.

Operationally, it appears that Cloud computing may generate immediate, tangible benefits for a company. The long-term question is: what can Cloud computing add to each company strategically?

North America
Trepidation and a preference for cash

Expectations show signs of weakness

Optimism appeared to be rebounding or at least settling into a narrower range last quarter, but this quarter's results show a shift toward declining optimism. About 40% of CFOs report increased optimism this quarter compared to 62% last quarter. And where declining optimism was at just 16% last quarter—its lowest level in the preceding 12 months—the level doubled to 32% this quarter.

CFOs' optimism is being dampened by deteriorating assessments of both the macro business environment and company-specific factors. Equal proportions of CFOs see external conditions improving and worsening (21%). Only 19% of CFOs are more optimistic primarily because of internal factors, down from 26% last quarter.

Over the past few quarters, CFO optimism continued largely unabated even as projected year-over-year sales and earnings growth moderated. Optimism took a hit this quarter as expectations continued to decline. CFOs expect year-over-year revenue growth (7.1%* this quarter versus 8.2%* last quarter) and earnings growth (14.0%* versus 12.6%* last quarter), but high variability again suggests significant variability in companies' circumstances. Median expected sales growth is 6% (5% last quarter) and median expected earnings growth is 10% (same as last quarter).

Snags in the shift from recovery to growth

As evident in previous surveys, the strategic focus of many companies has shifted strongly toward revenue growth and away from cost reduction. CFOs say more than 50% of their companies' strategic focus is on revenue growth, and their investment levels, although lower than last quarter, are still consistent with this trend. Expected year-over-year capital investment growth is 10.7%* this quarter (down from 11.8%* last quarter) and expected R&D growth is 3.5%* (down from 5.9%).

But several factors appear to be complicating the transition to growth. CFOs now indicate a heightened focus on pricing challenges, likely influenced substantially by recent jumps in input prices, and also by weak consumer demand and heightened competition in some sectors. Consistent with last quarter, availability of the talent necessary for growth is a top concern.

Stay liquid and flexible

There is a common perception that, if companies do not put their cash to use fairly soon, they will be pressured to give the money back to shareholders (through dividends and/or share buybacks) or begin to be punished by equities markets (through declining valuations). While this quarter's findings are somewhat in line with these perceptions, they appear to indicate that the pressures are not as strong as many might expect.

Less than 10% of CFOs say their board is pressuring them to invest their cash and nearly half say they do not feel board pressure to do so (the balance express neutral views). Instead, more than 40% of CFOs say they are more inclined to stay liquid and flexible than to invest their cash, and less than one-quarter indicated a preference to the contrary.

Highlights from the Q2 2011 North American CFO Survey:

- Only 40% of CFOs report increased optimism compared to 62% last quarter; declining optimism reached its lowest level in 12 months at 32%.
- CFOs still expect positive year-over-year revenue growth compared to last quarter (7.1% vs. 8.2%) and earnings growth (14.0% vs 12.6%).
- More than 40% of CFOs say they are more concerned now about their level of capital investment than three years ago; 49% are more concerned about the quality of those investments.
- Detrimental government policy is seen by more than 25% of CFOs as their most worrisome risk.
- More than 40% of CFOs are inclined to stay liquid and flexible than invest their company's cash.
- Factors complicating the transition to growth include pricing challenges, consumer demand, and a lack of talent.

Further fueling CFOs' preference for cash and liquidity seems to be their trepidation over their companies' current investments. More than 40% of CFOs say they are more concerned now about their level of capital investment than they were three years ago. And a whopping 49% say they are more concerned about the quality of those investments. Together, these findings may suggest rising concerns around the current business climate and the longer-term effectiveness of investments that are presently being undertaken.

Tempered expectations

Change has consistently been at the heart of CFOs' top job stresses over the past four quarters. The same three change-related stresses (strategic ambiguity, major change initiatives, and changing regulatory requirements) have appeared in CFOs' top three concerns since the beginning of this survey. But this quarter, CFOs report a substantial shift toward one in particular—major change initiatives—with nearly 56% of all CFOs citing this stress.

As their organizations become more focused on working through major structural changes, CFOs and their finance organizations are playing central roles in assessing business conditions, revisiting strategic choices, and spearheading change. As this process advances and organizations come to grips with the longer-term challenges of recovery and growth, the CFO optimism evident during the faster parts of the recovery seems to have hit at least a plateau—and possibly an inflection point.

To the extent CFOs are expressing concerns about the future of economic recovery; their views appear consistent with those of the equities markets. Despite corporate profits that are near record highs, market valuations are not following suit —a likely indication of broader expectations of a tempered economic future. In any event, the view from CFOs' strategic vantage point appears increasingly influenced by many potential roadblocks to growth, and it also seems to portend a different future from the one CFOs foresaw just a quarter ago.

Switzerland
Risk up, optimism down

So far, the global economic recovery has been rather patchy, with some countries, including Switzerland, powering ahead, and others lagging. Meanwhile, the list of potential risks to global growth has been getting even longer: Japan's difficult reconstruction after the tsunami, continued unrest in North Africa and the Middle East, new worries about U.S. economic growth, and the reemergence of the European sovereign debt crisis. These are, indeed, interesting times and CFOs are beginning to see this old Chinese adage as more of a threat than an opportunity.

For the first time since the initial Swiss survey in Q3 2009, several indicators of business optimism decreased markedly this quarter. While a majority of participating CFOs remains optimistic about the outlook for Switzerland over the next 12 months, economic sentiment is much more subdued than last quarter, particularly in relation to the financial prospects of CFOs' own companies. A net balance of 8% reports a lower level of optimism than three months ago, a 42 percentage point drop compared to last quarter, and the lowest figure on record. Obviously this decline in economic optimism raises questions about the sustainability of the current upturn.

Margins under pressure

Swiss companies are still doing well. Most CFOs expect healthy revenue growth over the next 12 months and plan to invest in both labor and equipment. However, the outlook for margins has deteriorated significantly. A majority of 57% expect a decline in operating margins and plan to counter this by curtailing discretionary spending.

Domestic outlook intact

Swiss CFOs are positive about the domestic outlook and expect demand to remain strong. The biggest domestic risk is expected to be rising labor costs, which points to the pressures created by ongoing growth in a tight labor market. Inflation is not a major concern, with the expected inflation rate in two years' time remaining below the 2% threshold. CFOs do not expect a large rise in interest rates by the Swiss National Bank; on average they expect them to increase by 0.33 percentage points over the next 12 months.

Financing conditions favorable

CFOs report that credit conditions (cost and availability of credit) are the most favorable since the launch of the Swiss survey. Equity is more popular as well.

Highlights from the Q2 2011 Swiss CFO Survey:

- Optimism about the economic outlook for Switzerland has cooled compared to last quarter.
- On balance, more CFOs report that the financial prospects for their own company are worse than three months ago.
- CFOs expect revenues, investment, and hiring to rise over the next 12 months, but operating margins to deteriorate and other discretionary spending to fall.
- The domestic outlook remains good, with rising labor costs seen as the biggest domestic risk.
- Credit conditions are the most favorable since the survey began in 2009.
- CFOs see the biggest risks to future growth as being external: the strong Swiss franc and the risk of weakening foreign demand.
- The European sovereign debt crisis is seen as a major risk, with CFOs calling for more decisive solutions.

External risks increase

CFOs consider the greatest risks to be external. Chief among them is the strong Swiss franc, which 60% identified as the single biggest risk over the next 12 months. Second was the risk of weakening foreign demand, cited by 57% of respondents. The Eurozone is Switzerland's most important trading partner, and consequently, the European sovereign debt crisis is seen as a major risk: a net balance of 33% thinks that it will pose a serious risk for the Swiss economy. CFOs are also dissatisfied with the proposals European policymakers have adopted so far, with 60% calling for debt restructuring, including a haircut in debt conditions for troubled euro countries such as Greece, and 54% demanding greater efforts on the part of the affected countries. Only 10% consider that "muddling through" the crisis by extending existing bailout packages is the right solution.

United Kingdom
Optimism falls, but risk appetite remains

CFO optimism at two-year low

The decline in business optimism seen in the first-quarter CFO Survey has accelerated with CFO sentiment falling at the fastest rate since the failure of Lehman Brothers in September 2008. The CFO optimism measure has dropped to its lowest level since 2009, a time when the UK economy was in recession. Confidence that the recovery can be sustained has also taken a knock. On average, CFOs see a 33% chance of a double dip.

Risk appetite remains high

This mood of caution is reflected in a shift in balance sheet strategies employed by CFOs. They are putting more emphasis on cost control and increasing cash flow than at any time in the last year. There is also a growing belief that the upswing in corporate revenues will likely slow over the next 12 months. A year ago, the dominant view among CFOs was that profit margins were heading higher. Today, the balance of opinion is that margins are set to narrow. CFOs believe that the period of strong growth in profit margins is drawing to an end.

While CFOs have become more cautious, they remain willing to take greater risk. High levels of risk appetite seem to reflect three main factors: the strength of corporate balance sheets, the availability of capital at a relatively low cost, and a perception that, while uncertainties abound, the current environment also presents opportunities for profitable growth.

Business priorities turn defensive

Lower levels of confidence seem to have led to more defensive balance sheet strategies. CFOs are putting more emphasis on cost control and increasing cash flow than at any time the last year In fact, 35% of CFOs rated reducing costs as a strong priority for their business in the next 12 months, compared to 31% last quarter; 35% also cited increasing cash flow compared to 29% last quarter. Nonetheless, CFOs are still focused on growth. Introducing new products and services or expanding into new markets remains the top CFO priority (just beating "increasing cash flow" for the top slot). Expanding by acquisition and raising capital remain prominent priorities.

Overseas expansion, domestic caution

On average, the 131 corporate CFOs who replied to the Q2 survey receive about half their revenues from the UK and half from overseas. Overseas exposed companies—those that derive more than 70% of their revenues from outside the UK have higher risk appetite and better access to credit than UK-focused companies. There is also a pronounced divide in corporate strategies depending on overseas exposure. For overseas exposed companies, the top priorities are introducing new products or services or expanding by acquisition. For companies deriving more than 70% of revenues from the UK, the priorities are cost reduction and increasing cash flow.

Highlights from the Q2 2011 British CFO Survey:

- CFO optimism has dropped to its lowest level in more than two years.
- CFOs are placing greater emphasis on cost control and increasing cash flow.
- Appetite for financial risk remains high among companies surveyed.
- Overseas-exposed companies are pursuing more expansionary policies than UK-facing companies.
- Leverage is back in favor.
- CFOs see profit margins narrowing.

CFOs see profit margins narrowing

Profits have bounced back strongly over the last couple of years, but CFOs think the profit cycle is turning. Most expect revenues to rise over the next year, but the expectation is that costs will increase more sharply and that margins will shrink.

CFO optimism has fallen sharply. Yet, strong corporate balance sheets and good financing conditions mean that many CFOs are continuing to look for opportunities for expansion. This quarter's survey suggests that CFOs see many of those opportunities lying overseas.

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Deloitte Member Firm CFO Surveys

About Deloitte Member Firm CFO Surveys

Eighteen CFO surveys, covering 34 countries around the world, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey may vary.

The following summarizes the survey scope and population of the participating member firms for this quarter. Member firm CFO Surveys can be accessed at www.deloitte.com/cfoconnect.

Member Firm	Contacts	Frequency	Survey Scope and Population
Australia	**Stephen Gustafson** Partner +61 (0) 2 9322 7325 sgustafson@deloitte.com.au	Quarterly	Conducted between June 17, 2011 and July 1, 2011; 101 CFOs participated, representing businesses with a combined market value of approximately $510 billion or 36% of the Australian-quoted equity market.
Austria	**Dr. Georg Krause** Partner +43 1 537 00 4810 gkrause@deloitte.at	Quarterly	Conducted in June 2011; 165 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 24% have revenues in excess of €1 billion, and 68% have revenues greater than €100 million.
Belgium	**Thierry Van Schoubroeck** Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between June 16, 2011 and the July 8, 2011; 62 CFOs completed the survey. The participating CFOs are active in variety of industries, 34% of the participating companies have a turnover of over €1 billion, 44% of between €100 million and €1 billion, and 22% of less than €100 million.
Central Europe	**Gavin Flook** Partner +48 (22) 5110896 gflook@deloitteCE.com	Biannual	Conducted between May 6, 2011 and June 13, 2011; CFOs of 138 leading companies across the region's six largest economies-– Croatia, Czech Republic, Hungary, Poland, Romania, and Slovakia – participated.
Denmark	**Jeppe Larsen** Partner +45 36 10 23 14 jelarsen@deloitte.dk	Biannual	Conducted in April 2011; 106 CFOs and financial executives participated representing companies of which 65% are privately owned, 30% are listed, and 5% are public. 49% of CFOs surveyed represent companies with a turnover of greater than €1 billion.
Ireland	**Shane Mohan** Partner +353 1 417 2543 smohan@deloitte.ie	Quarterly	Conducted in June 2011; CFOs of listed companies, large private companies and Irish subsidiaries of overseas multinational companies participated.
North America *(U.S., Canada, Mexico)*	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between May 13, 2011 and May 27, 2011; 78 CFOs participated from across the United States, Canada, and Mexico. Three-fourths of respondents represent CFOs from public companies, and three-fourths are from companies with more than $1B in annual revenue.
Netherlands	**Jan de Rooij** Partner +31 (0) 6 5336 6208 JandeRooij@deloitte.nl	Quarterly	Conducted between June 16, 2011 and July 15, 2011; 27 CFOs, representing a net turnover per company of approximately €1.6 billion, completed the survey. The responding companies can be categorized as follows: less than €100 million (7%), €100–499 million (41%), €500–999 million (22%), €1–4.9 billion (19%), more than €5 billion (11%).
Switzerland	**Dr. Michael Gramp** Head of Research +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between June 16, 2011 and June 27, 2011; 73 CFOs participated, with 30% representing listed companies and the remaining 70% representing large private companies.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between June 16, 2011 and July 1, 2011; 131 CFOs participated, including the CFOs of 34 FTSE 100 and 44 FTSE 250 companies. The rest were CFOs of other UK listed companies, large private companies, and UK subsidiaries of major companies listed overseas. The combined market value of the 92 UK listed companies surveyed is £616 billion, or approximately 31% of the UK quoted equity market.

***Please contact the DTTL Global CFO Program to obtain further details on these surveys.

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