



CFO Signals™

What North America's top finance executives are thinking—and doing

A rough 2016 start for economies and equities sparks concerns

1st Quarter 2016

High-Level Report

This report is a subset of a full report containing analysis and trends specific to industries and geographies.

Please contact nacfosurvey@deloitte.com for access to the full report.

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About the CFO Signals survey

Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America’s largest and most influential companies. This is the first quarter report for 2016.

For more information about the survey, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

Who participated this quarter?

One hundred eighteen CFOs responded during the two-week period ending February 19. Seventy-two percent of respondents are from public companies, and 83% are from companies with more than \$1B in annual revenue. For more information, please see the “About the survey” section of this report.

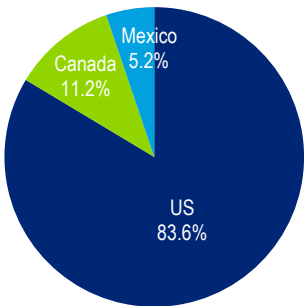
IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

All participating CFOs have agreed to have their responses aggregated and presented.

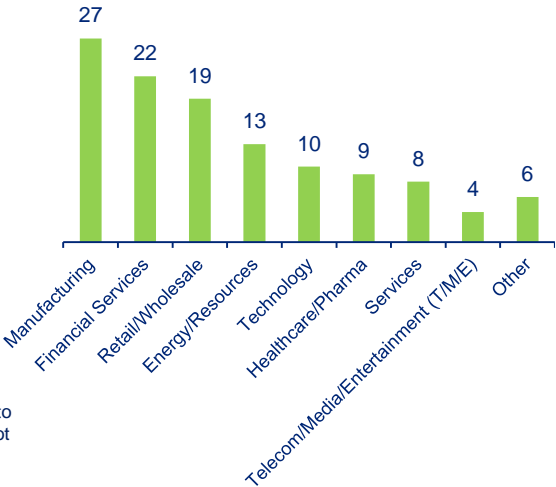
Please note that this is a “pulse survey” intended to provide CFOs with quarterly information regarding their CFO peers’ thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, 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. Except where noted, we do not comment on findings for segments with fewer than 5 respondents. Please see the appendix for more information about survey methodology.

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Participation by country



Participation by industry*



* Sample sizes for some charts do not sum to the total because some respondents did not answer all demographic questions.

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Additional findings available in full report

(please contact nacfosurvey@deloitte.com for full report)

- Detailed findings (by industry)
- Industry-by-industry trends
- Country-by-country trends

Findings at a glance

Perceptions

How do you regard the current and future status of the North American, Chinese, and European economies? Forty-one percent of CFOs describe North American conditions as good (55% last quarter), and 36% expect better conditions in a year (47% last quarter). Nine percent regard China's economy as good (down from 14% last quarter), and 11% expect improvement (down from 16%). Five percent describe Europe as good (down from 8%), and only 17% see it improving in a year (up from 15%). [Page 8.](#)

What is your perception of the capital markets? Thirty percent of CFOs say US markets are overvalued (down sharply from 56% last quarter). Sixty-eight percent say debt is currently an attractive financing option (down from 80%), and 22% of public company CFOs view equity financing favorably (down from 26% last quarter). [Page 9.](#)

Priorities

What is your company's business focus for the next year? Current markets (mostly North American) and offerings remain the overwhelming focus for most companies. The bias toward current markets over new ones hit a survey high. [Page 10.](#)

Expectations

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months?* Revenue growth expectations fell from 5.9% to 3.3%, only slightly above the previous survey low from 2Q15. Earnings growth expectations fell from 8.3% to a new survey low of 6.0%. Capital spending expectations fell drastically from 4.9% to just 1.7%—eclipsing the previous survey low of 4.2% by a wide margin. Domestic hiring growth expectations declined sharply to just 0.6%, well off last quarter's 1.2% and matching the survey low. [Pages 11-13.](#)

Sentiment

Compared to three months ago, how do you feel now about the financial prospects for your company? This quarter's net optimism of +1.7 is the thirteenth consecutive net-positive reading, but it is well down from last quarter's +10.7 and sits at its lowest level since 4Q12. Thirty-three percent of CFOs express rising optimism (about equal to last quarter), but the proportion citing declining optimism rose from 23% to just over 31% (the highest level since 4Q12). [Page 14.](#)

Overall, what external and internal risks worry you the most? Top risks show very strong concerns about the interplay of economic volatility, financial markets, and consumer confidence. [Page 15.](#)

Special topic: Low oil prices

How are low oil prices impacting your company's profitability and/or demand? Nearly 75% of CFOs say low oil prices are impacting demand and/or profitability. Just over half cite negative impacts (Oil/Gas and Insurance lead those citing negative profit impacts; Manufacturing and Retail/Wholesale lead those citing negative demand impacts). Nearly 60% pointed to positive impacts (Manufacturing, Healthcare/Pharma, and Services lead those citing positive profit impacts; Manufacturing and Power/Utilities lead those citing positive demand impacts). Some CFOs cited both positive and negative impacts. [Page 16.](#)

Special topic: Political activity

How active is your company in the political process? Almost half of CFOs said their companies are politically active (more in supporting causes than in supporting candidates), but there is high variability by industry. [Page 17.](#)

Special topic: Income taxes and BEPS

What is your company's approach to preparing for the OECD's Base Erosion and Profit Shifting (BEPS) initiative? The BEPS initiative does not currently appear large on CFOs' radar screens. Just 18% say they have already planned for the initiative, and only 15% say they are currently evaluating its impact. [Page 18.](#)

Special topic: FLSA overtime

Has your company prepared for proposed Fair Labor Standards Act (FLSA) changes? FLSA changes (expected to raise the minimum salary and eliminate exemptions from overtime) are getting significant attention from US CFOs, with nearly half saying they have already planned for the impacts or plan to do so. [Page 19.](#)

Special topic: Trade partnerships

What is the expected impact of trade partnerships on your company and business? Few CFOs said they expect strong impacts from either the TPP or the TTIP. Still, there are significant country and industry differences, and the fact that many CFOs voiced no opinion suggests the jury may still be out. [Page 20.](#)

Special topic: Retirement risk

How aggressive have you been in de-risking your retirement obligations? We have periodically asked CFOs about their use of specific de-risking tactics, and we have learned that the use of relatively aggressive tactics has been increasing over time. This quarter's findings suggest a continuation of this trend, with another rise in the use of voluntary lump-sum payouts, retiree medical buy-outs, and plan terminations. [Page 21.](#)

Which factors have significantly restricted your de-risking efforts? Just under 40% of CFOs who cited the use of at least one de-risking tactic (already or within the next year) say no factors have restricted their efforts. But one-quarter of those said they are waiting for positive asset returns or higher interest rates to reduce de-risking costs, and about 20% said they were not well enough funded to do more. [Page 21.](#)

Special topic: Focus for 2016

As CFO, what is the most important thing you will have accomplished for your company by the end of 2016? At a company level, CFOs predictably cited wide-ranging impacts across the domains of financing, investment, operations, and valuation. A pervasive theme, however, was a focus on helping their company stay focused and perform well in a tough, shifting business environment. [Page 22.](#)

As CFO, what is the most important thing you will have accomplished for your finance function by the end of 2016? CFOs cited a wide range of accomplishments for their finance organizations, with a common focus on upgrading their finance team's ability to acquire, develop, and deploy talent. [Page 23.](#)

*Averages are means that have been adjusted to eliminate the effects of stark outliers.

Summary

A rough 2016 start for economies and equities sparks concerns

Last quarter's survey indicated optimism in CFOs' outlooks heading into 2016. Apparently bolstered by confidence that North America could continue to shoulder the burden of economic growth over the next year, CFOs' expectations for revenue, earnings, and capital investment continued to rebound from their 2Q15 survey lows.

But CFOs also voiced concerns about geopolitical risks, about slowing growth in developed and developing economies, and about a possible global *overreliance* on the US economy. And despite their improving growth expectations, a rising proportion of CFOs began to indicate declining confidence in their companies' longer-term prospects.

That undercurrent of fear combined with a very rocky start to 2016—for both global economic performance and equity market valuations—has clearly shaken CFOs' outlooks. Their performance expectations have fallen sharply to levels at or near new survey lows, and their confidence in their companies' longer-term prospects is on the verge of turning net-negative for the first time in more than three years.

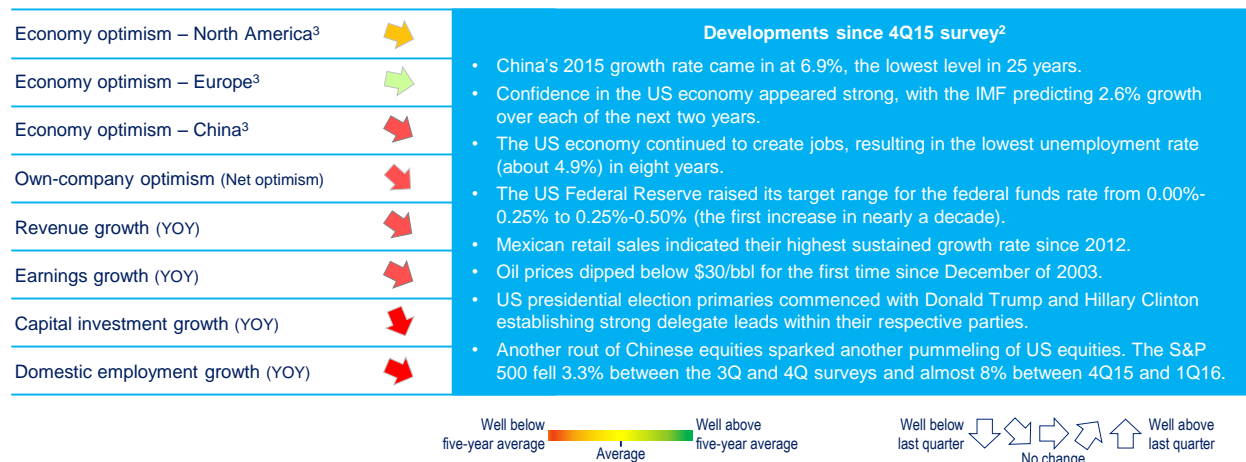
Sharply declining expectations

This quarter's net optimism¹ of +1.7 is the thirteenth consecutive net-positive reading, but it is well down from last quarter's +10.7 and sits at its lowest level since 4Q12. Sentiment is weakest in Manufacturing, Financial Services, and Healthcare/Pharma, all of which indicate net-negative readings.

Consistent with this sentiment, CFOs' expectations for revenue, earnings, capital spending, and domestic hiring all declined to levels at or near their survey lows. Revenue growth expectations fell to 3.3%*, well off last quarter's 5.9%* and only slightly above the previous survey low from 2Q15. Manufacturing and Services showed the most weakness, but almost all industries were below 4.5%*.

Earnings growth expectations, which had rebounded from their survey low from 3Q15 to 8.3%* last quarter, fell to a new survey low of 6.0%* this quarter. Financial

Summary of CFO sentiment and growth expectations



Services, Services, and Technology were lowest, but most other industries were also below their normal levels.

Capital spending expectations posted the most startling decline, falling from 4.9%* to just 1.7%*—eclipsing the previous survey low of 4.2%* by a very wide margin. Low expectations for Manufacturing, Retail/Wholesale, and Oil/Gas weighed very heavily.

Domestic hiring growth expectations also declined sharply to just 0.6%*, well off last quarter's 1.2%* and matching the survey low. All industries except Technology and Financial Services came in below 1%.

Less confidence in North American economy

Behind these declining growth expectations are assessments of the North American economy that, having been a steady influence for many quarters, now appear to be faltering. Assessments of current performance are still mostly positive, but confidence in the economy's trajectory hit its lowest level in three years. Among their most worrisome risks, CFOs voiced growing concern about the toll economic and equity market volatility will take on liquidity and on consumers' willingness to spend.

Meanwhile, CFOs' confidence in Europe remains weak, and their assessment of China hit yet another low. Not surprisingly, CFOs this quarter indicated their highest-ever focus on current geographies over new ones (which, for most surveyed companies, means a continued focus on North American markets).

One potential bright spot in CFOs' sentiment: for the first time since we began asking in 1Q15, and in sharp contrast to all prior quarters, more surveyed CFOs believe US equity markets are undervalued than overvalued. (Note that the S&P 500 index averaged 1865 while the survey was open, but has since rebounded to about 2010, or by almost 8%).

Low oil prices: friend and foe

Low oil prices have negatively impacted the Oil/Gas sector, but have they helped or hurt demand and profitability in other sectors? CFOs' answers paint a mixed picture, with some companies from the same industry on opposite sides of the fence, and with some CFOs citing both positive and negative impacts.

Summary (cont.)

Nearly 75% of CFOs believe low oil prices are impacting demand and/or profitability, with just over half citing negative impacts. Oil/Gas and Insurance lead those citing negative profit impacts, while Manufacturing and Retail/Wholesale lead those citing negative demand impacts.

About 60% of CFOs citing impacts pointed to positive impacts⁴, however, with Manufacturing, Services, and Healthcare/Pharma leading those citing positive profit impacts and Manufacturing and Power/Utilities (within Energy/Resources) leading those citing positive demand impacts.

Mixed preparedness for regulatory changes

Regulatory changes are consistently among the top external worries voiced by CFOs each quarter. So this quarter we asked about their views on impending rule changes in three areas: international taxation (the OECD's Base Erosion and Profit Shifting [BEPS] initiative), international trade (the Trans-Pacific Partnership [TPP] and Transatlantic Trade and Investment Partnership [TTIP]), and labor policy (changes to Fair Labor Standards Act [FLSA] salary and wage rules). Here is a rundown of the findings:

- The BEPS initiative does not currently appear large on CFOs' radar screens. Just 18% say they have already planned for the initiative, and only 15% say they are currently evaluating its impact.
- FLSA changes (expected to raise the minimum salary and eliminate exemptions from overtime) are getting significant attention from US CFOs, with nearly half saying they have already planned for the impacts or plan to do so.
- Few CFOs said they expect strong impacts from either the TPP or the TTIP. Still, there are significant country and industry differences, and the fact that many CFOs voiced no opinion suggests the jury may still be out.

With the 2016 US presidential election on the horizon, we also asked CFOs about their political activity. Almost half said their companies are politically active (more in supporting causes than in supporting candidates), but there is predictably high variability by industry.

More aggressive de-risking of pension obligations

Our CFO panel began voicing interest in reducing retirement plan risks back in 2011. Since then, we have periodically asked CFOs about their use of specific de-risking tactics, and we have learned that the use of relatively aggressive tactics has been increasing over time. This quarter's findings suggest a continuation of this trend, with another rise in the use of voluntary lump-sum payouts, retiree medical buy-outs, and plan terminations.

CFOs' top 2016 contributions

As a follow-up to last quarter's questions regarding CFOs' expectations for their companies' 2016 priorities and plans, we asked CFOs about their expected personal contributions for 2016.

At a company level, CFOs predictably cited wide-ranging impacts across the domains of financing, investment, operations, and valuation. A pervasive theme, however, was a focus on helping their company stay focused and perform well in a tough, shifting business environment. At a finance organization level, the answers were similarly diverse—but with a common focus on upgrading their ability to acquire, develop, and deploy talent.

What's next?

This quarter marked a decidedly downward shift in CFOs' outlooks. A continuation of uninspiring reports on the performance of major economic zones clearly did not help. But one thing that seemed different this quarter was CFOs' growing concern about how financial markets will react to unfavorable economic news and how consumers will react to volatile equity markets—and what all of this means for future capital liquidity and consumer demand.

If anything will relieve CFOs' concerns over the next few months, it does not seem likely to be the US election season. Past surveys have shown that election run-ups tend to have a rather negative impact on CFO confidence, and this particular presidential election so far seems unlikely to provide a calming influence.

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* Arithmetic means adjusted to eliminate the effects of stark outliers.

¹ Net optimism is calculated as the difference between the proportions of those expressing rising and falling optimism. Accordingly, this metric does not explicitly account for the level of "no change" responses.

² Compiled from news stories in major business media between survey periods.

³ Metrics assessed relative to two-year averages.

⁴ Eight percent of respondents chose both positive and negative impacts.

Key Charts: Sentiment

Sentiment regarding the health of major economic zones, industries, and capital markets

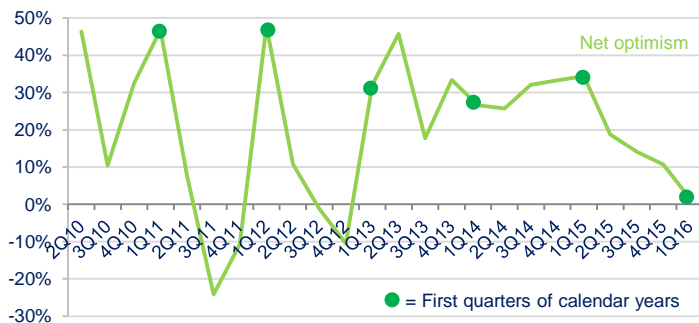
Economic optimism

Average rating based on five-point scales for current state ("very bad" to "very good") and expected state one year from now ("much worse" to "much better")



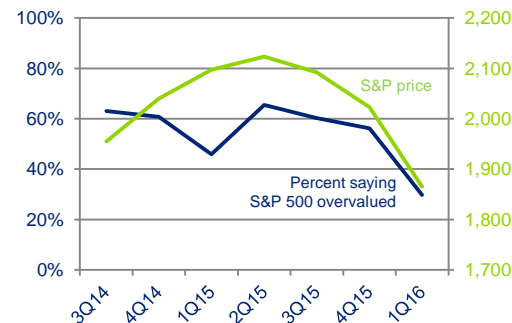
Own-company optimism

Difference between the percent of CFOs citing higher and lower optimism regarding their company's prospects compared to the previous quarter



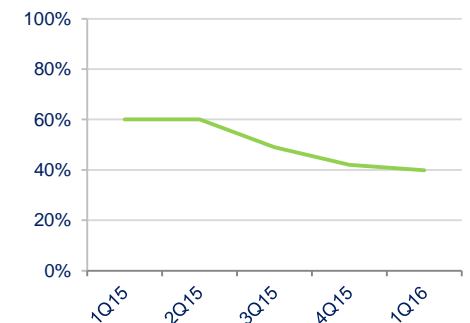
Equity market sentiment

Percent of CFOs saying US equity markets are "overvalued" or "very overvalued"; S&P 500 price at survey midpoint



Risk appetite

Percent of CFOs saying it is a good time to be taking greater risk

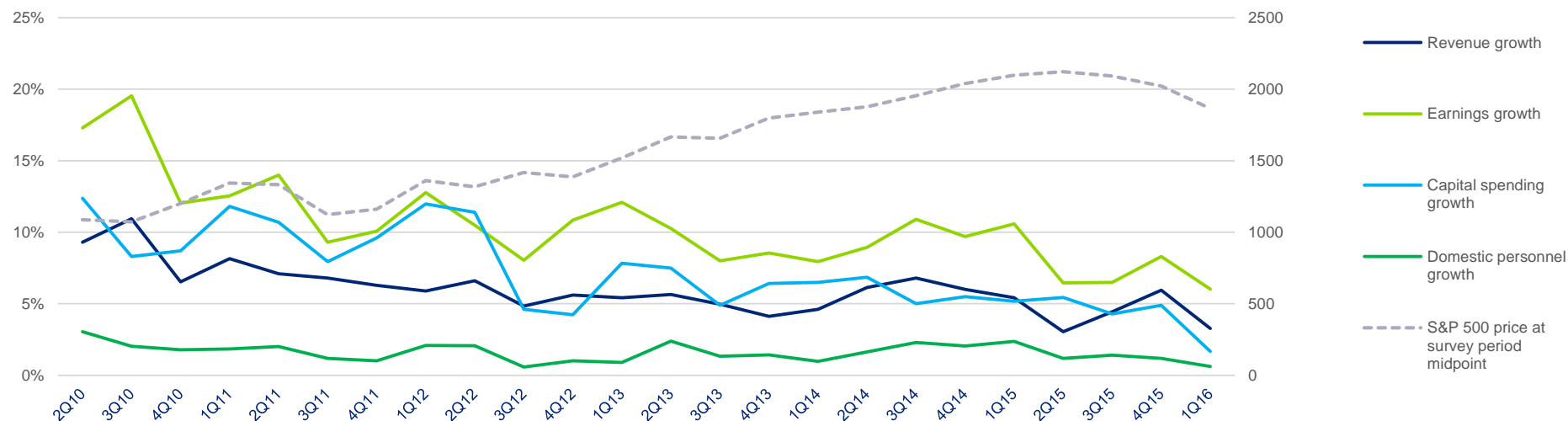


Key Charts: Expectations

CFOs' expected year-over-year increases in key metrics

Consolidated expectations

CFOs' expected year-over-year growth in key metrics (compared to the value of the S&P 500 index at the survey midpoint)



Breakdown by country and industry¹

	Total* (n=111-114)	U.S. (n=93-94)	Canada (n=12-13)	Mexico (n=6)	Manufacturing (n=25-26)	Retail / Wholesale (n=18-19)	Technology (n=7-8)	Energy / Resources (n=12-13)	Financial Services (n=21-22)	Healthcare / Pharma (n=8-9)	T/M/E (n=4)	Services (n=8)
Revenue growth	3.3%	3.3%	2.2%	4.5%	0.7%	4.2%	3.4%	3.1%	4.3%	4.4%	9.1%	1.4%
Earnings growth	6.0%	6.4%	4.2%	3.1%	5.2%	8.7%	3.9%	6.6%	3.3%	10.1%	10.8%	2.1%
Capital spending growth	1.7%	1.4%	-0.4%	10.5%	-1.5%	1.1%	3.1%	0.8%	5.0%	6.9%	6.3%	4.4%
Domestic personnel growth	0.6%	0.7%	-0.9%	2.7%	0.6%	0.4%	1.6%	-0.3%	1.4%	0.0%	-1.3%	0.4%

*Sample sizes may not sum to total due to responses from "other" categories and non-responses.

¹All averages have been adjusted to eliminate the effects of stark outliers.

Highest two industry expectations
Lowest two industry expectations

Perceptions

Assessment of economies

How do CFOs regard the current and future health of some of the world's major economic zones?

North American economy increasingly regarded as mediocre with little change expected over the next year; Europe down slightly, and China at a new low:

North America

North American economy still regarded as comparatively good, but confidence in its trajectory slipped to its lowest level in three years.

- Forty-one percent of CFOs describe the North American economy as good or very good, well down from last quarter's 55%. On a positive note, only 6% describe it as bad, up slightly from 5% last quarter.
- Thirty-six percent believe conditions will be better a year from now (down sharply from 47% last quarter), and 9% expect conditions to be worse (up slightly from 7% last quarter).

Europe

Perceptions of Europe's current state and trajectory both slid.

- Just 5% of CFOs describe Europe's economy as good (down from 8% last quarter). The proportion describing it as bad rose to 39%, from last quarter's 35%.
- Only 17% expect Europe's economy to be better a year from now, up slightly from 15% last quarter, but well below the 30% levels of a year ago. About one-third expect it to be worse in a year, up from the one-quarter who expected worse conditions last quarter. About half expect conditions to remain the same.

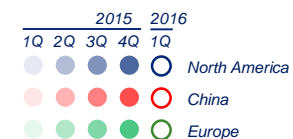
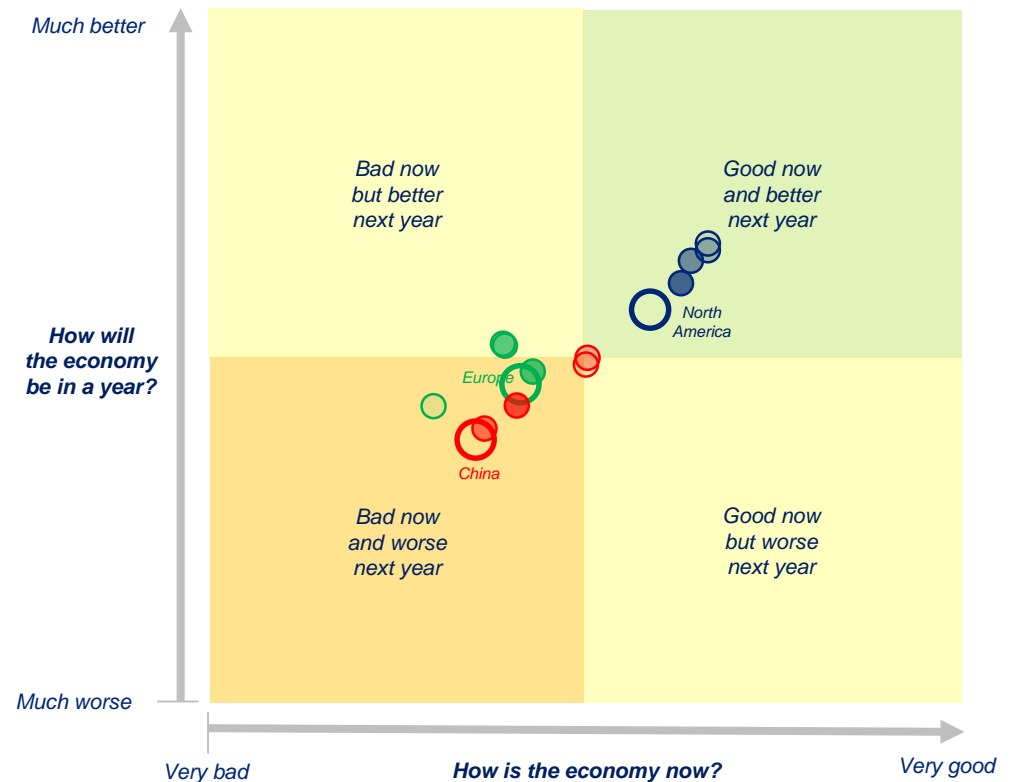
China

Perceptions of China's economy rebounded slightly last quarter, but resumed their slide this quarter—to their worst level in the survey's history.

- Only 9% of CFOs now say China's economy is good or very good, down from last quarter's 14%. Fifty-six percent say the economy is bad, well up from last quarter's 47%.
- Just 11% of CFOs believe China's economy will be better in a year (down from 16% last quarter), while 51% expect it to be worse—up markedly from last quarter's 44%.

How do you regard the current and future status of the North American, Chinese, and European economies?

CFOs' assessment based on five-point Likert scales: "very bad" to "very good" and "much worse" to "much better" (n=117-118)



Perceptions

Assessment of markets

How do CFOs perceive valuations and pricing within the financial markets?

For the first time in more than a year, more CFOs believe markets are undervalued than overvalued (Note that the S&P 500 index declined by nearly 8% between the 4Q15 and 1Q16 surveys):

- Thirty percent of surveyed CFOs say US equity markets are overvalued, down drastically from last quarter's 56% and well below the previous low of 46% from 1Q15. About 36% now say markets are undervalued, up sharply from last quarter's 7% and far above all previous surveys.
- On an industry level, T/M/E (Telecom/Media/Entertainment) and Technology CFOs are the most likely to say markets are overvalued (both at 40% or more), while the Healthcare/Pharma, Financial Services, and Services CFOs are least likely (all under 19%).
- Mexican CFOs are the most pessimistic, with 50% still citing overvaluation; the proportion for US CFOs fell sharply from 55% to 26%.

Debt financing becoming significantly less attractive:

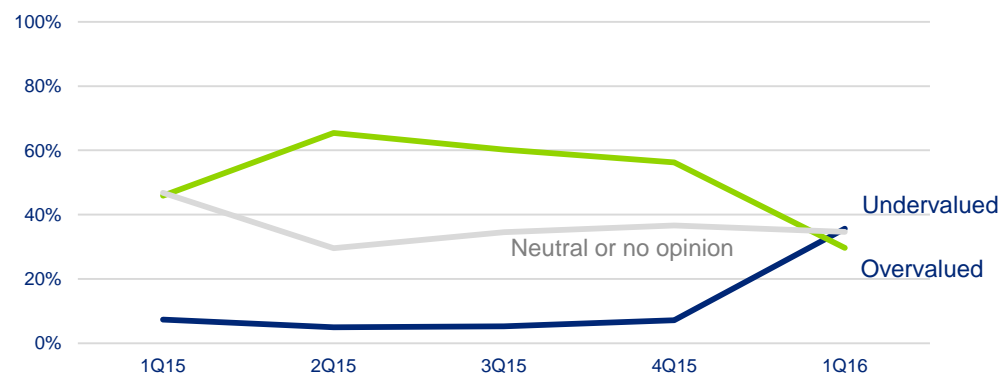
- Sixty-eight percent of CFOs say debt is currently an attractive financing option, down from 80% last quarter, and down significantly from the levels seen in late 2014. Thirty-two percent still say it is a very attractive option, but this is well below last quarter's 42%.
- All industries are at or above 60% except for Energy/Resources (54%).
- Canadian and US CFOs are the most positive, with 77% and 69%, respectively, saying debt financing is attractive. Mexico trails at 33%.

Equity financing becoming somewhat less attractive:

- Twenty-two percent of public company CFOs say equity financing is attractive (down from 26% last quarter), and 56% say it is not (32% last quarter). Eighteen percent of private company CFOs say it is attractive (down from last quarter's 30%), but 45% say it is not (up from last quarter's 22%).
- Healthcare/Pharma is the most likely to say equity financing is attractive (33%), with all other industries about 30% or below.
- Canadian and US CFOs are the most positive, with 23% and 22%, respectively, saying equity financing is attractive. Mexico is lowest at 17%.

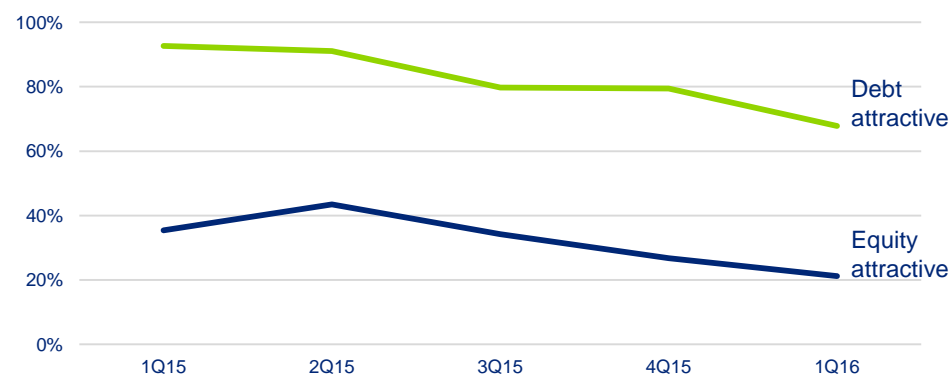
How do you regard US equity market valuations?

Percent of CFOs saying markets are overvalued and undervalued based on five-point semantic differential scale (n=118)



How do you regard debt and equity financing attractiveness?

Percent of CFOs saying debt and equity markets provide attractive financing options based on five-point semantic differential scale (n=118)



Please see full report for industry-specific findings.

Priorities

Business focus

Where do CFOs say their companies are focusing their efforts?

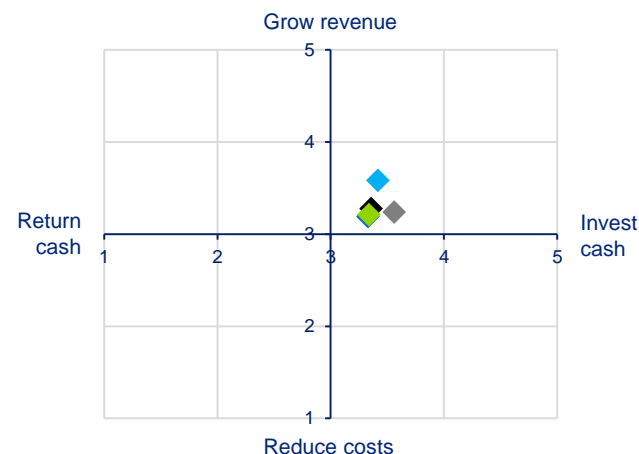
Current markets (mostly North American) and offerings remain the overwhelming focus for most companies:

- **Revenue growth still ahead of cost reduction, but just barely:** Similar to last quarter, just over half of CFOs say they are biased toward revenue growth, while only 28% claim a bias toward cost reduction. Technology and Services are the highest for growth (80% and 63%, respectively), with Energy/Resources again the highest for costs at 54%.
- **Investing cash over returning it:** There is again a strong bias toward investing cash over returning it to shareholders (48% versus 23%). Energy/Resources is the most biased toward investing cash (62%), while Technology is the most biased toward returning cash (40%). Mexican CFOs are the most biased toward investing cash at 67%, with none biased toward returning cash.
- **Bias toward current offerings over new offerings again near survey high:** Overall, 35% of CFOs say their companies are biased toward new offerings (33% last quarter), and 42% claim a bias toward existing ones (up from 38% last quarter). T/M/E CFOs are the most biased toward current offerings (75%), while Financial Services CFOs are the most biased toward new offerings (64%).
- **Focus on current geographies well above new ones—by a widening margin:** Overall, 65% of CFOs say their companies are biased toward current geographies over new ones (61% last quarter), compared with 17% who cite a bias toward new geographies (23% last quarter). Mexico is heavily biased toward current geographies (80%). Since most companies represented in this survey draw the vast majority of their earnings from North America, this suggests most companies are continuing to focus heavily on this region.
- **Organic growth still ahead of inorganic growth:** The bias is again firmly toward organic growth over inorganic (58% are biased toward organic growth, while 21% are biased toward inorganic growth), but the bias is somewhat lower than last quarter's survey high (63% for organic versus 19% for inorganic). T/M/E and Energy/Resources have the strongest bias toward organic growth (75% and 69%, respectively).

What is your company's business focus for the next year?

CFOs' assessments based on five-point semantic differential scale with opposing choices as noted (n=117-118)

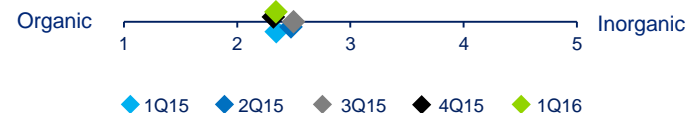
Offense vs. defense



New business vs. current



Inorganic growth vs. organic



◆ 1Q15 ◆ 2Q15 ◆ 3Q15 ◆ 4Q15 ◆ 1Q16

Please see full report for industry-specific findings.

Expectations

Revenue and earnings

What are CFOs' expectations for their companies' year-over-year revenue and earnings?

Revenue¹

Expectations fell back toward their 2Q15's record lows, driven by weakness across all regions and nearly all industries:

- After rebounding from their 2Q15 survey-low 3.1% over the past two quarters, revenue growth expectations fell from 5.9% last quarter to just 3.3% this quarter. The median fell from 5.0% to 3.0%—a new survey low. Just 78% of CFOs expect year-over-year gains, matching the survey low. The distribution² of this quarter's responses is narrow compared to last quarter and most recent quarters.
- Country-specific expectations are 3.3% for the US (down from 6.3% last quarter), 2.2% for Canada (down from 2.8%), and 4.5% for Mexico (down from 7.4%).
- Industry expectations are mostly very low, with Manufacturing lowest at just 0.7% and Services at just 1.4%. Energy/Resources rose slightly from 2.8% last quarter to 3.1% this quarter. All industries other than T/M/E were 4.4% or lower.

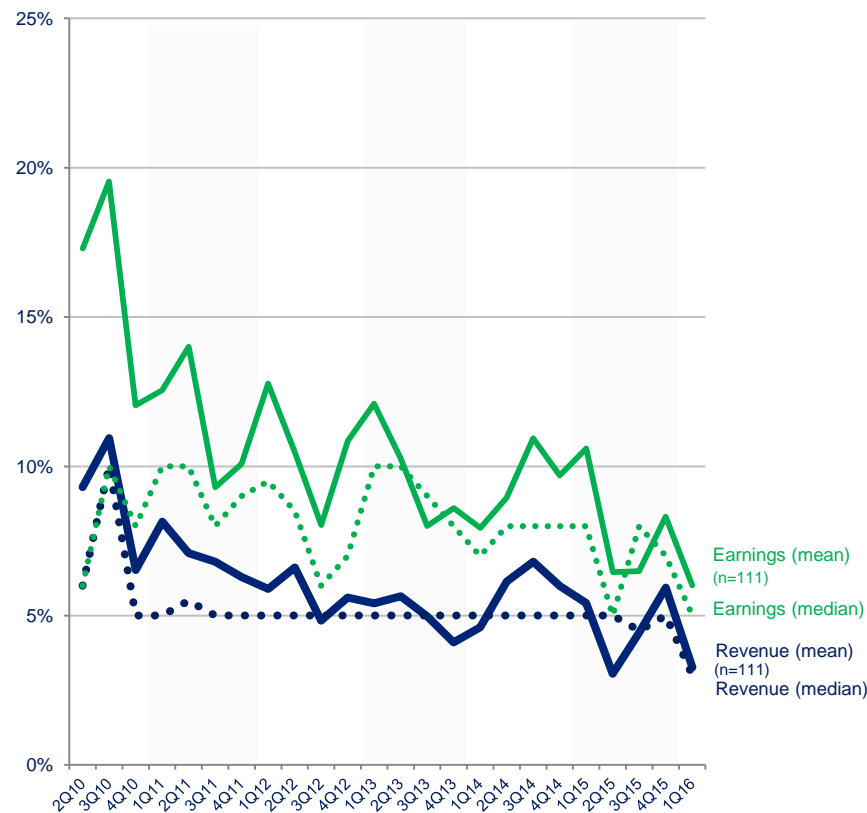
Earnings¹

Expectations reversed recent gains and now sit at their survey low driven largely by weakness in Manufacturing and Financial Services:

- After rebounding from their low of 6.5% in the second and third quarters of last year, earnings expectations fell sharply from 8.3% last quarter to just 6.0% this quarter—a new survey low. The median dropped to just 5.0%, down from 7.0% last quarter. The percentage of CFOs expecting year-over-year gains fell from 82% last quarter to 79% this quarter, and the distribution² of responses was about average.
- Country-specific expectations are 6.4% for the US (down from 9.2% last quarter), 4.2% for Canada (up from 3.3%), and 3.1% for Mexico (down from 6.5%).
- All industries expect positive growth, with Retail/Wholesale at 8.7% and both Healthcare/Pharma and T/M/E above 10%. Manufacturing is low at 5.2%, with Technology, Financial Services, and Services even lower at below 4%.

Compared to the past 12 months, how do you expect your revenue and earnings to change over the next 12 months?

CFOs' expected change year-over-year¹



¹ All averages have been adjusted to eliminate the effects of stark outliers.

² "Distribution" refers to the spread of the middle 90% of responses.

Please see full report for industry-specific findings.

Expectations

Dividends and investment

What are CFOs' expectations for their companies' year-over-year dividends and capital investment?

Dividends¹

Expectations receded from last quarter but are near the survey average:

- Dividend growth expectations declined to 4.0%, down from 4.7% last quarter and in line with levels over the past several years. The median is again 0.0%, and 46% expect year-over-year gains.
- Country-specific expectations are 4.1% for the US (down from 4.4% last quarter), 3.0% for Canada (down from 6.1% last quarter), and 5.0% for Mexico (down slightly from 5.1% last quarter).
- Among the industries, Healthcare/Pharma reported the highest expectations at 7.4%, while Energy/Resources reported the lowest at 0.4% (up from last quarter's 1.4%).

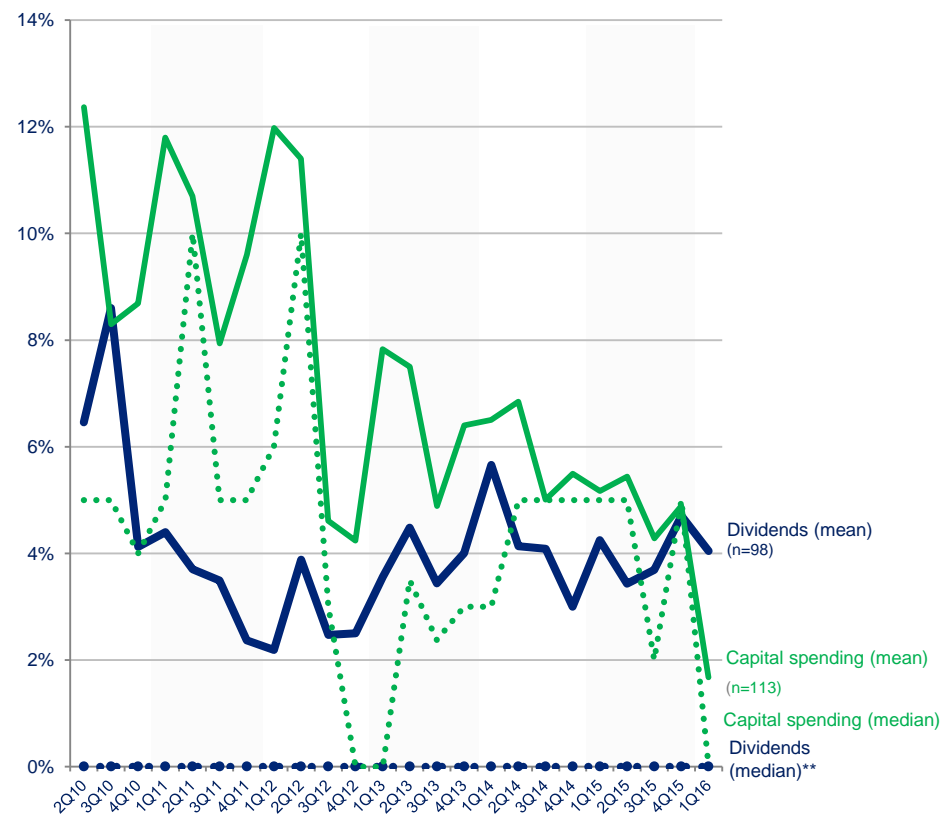
Capital investment¹

Led by weakness in both Oil & Gas (within Energy/Resources) and Manufacturing, expectations declined sharply to a new survey low:

- Capital spending rebounded somewhat last quarter, from 3Q15's 10-quarter-low 4.3% to 4.9% last quarter. This quarter it fell drastically to just 1.7%, the lowest level in the 24-quarter history of this survey. The median fell to 0.0%, down from last quarter's 5.0% and matching the survey's historical low. The proportion of CFOs expecting year-over-year gains fell to 50%, the lowest level in three years. The distribution² of responses this quarter is again about average compared to recent quarters.
- Country-specific expectations are 1.4% for the US (well off of last quarter's 4.3%), -0.4% for Canada (down from 3.4%), and 10.5% for Mexico (down from 13.8%).
- Manufacturing (with its large sample size) weighed heavily on the cross-industry average, with an average expectation of -1.5% (meaning a 1.5% decline in capital spending year-over-year). Retail/Wholesale and Energy/Resources were also very low at just 1.1% and 0.8% growth, respectively (the Oil & Gas sector within Energy/Resources was predictably the lowest at about -8.0%, but the sample size was just 5 with very high variability). Healthcare/Pharma and T/M/E were highest, with both expectations above 6.0%.

Compared to the past 12 months, how do you expect your dividends and capital spending to change over the next 12 months?

CFOs' expected change year-over-year¹



¹ All averages have been adjusted to eliminate the effects of stark outliers.

² "Distribution" refers to the spread of the middle 90% of responses.

**The median for dividends has been zero for all quarters.

Please see full report for industry-specific findings.

Expectations

Employment

What are CFOs' expectations for their companies' year-over-year hiring?

Domestic hiring¹

Expectations fell sharply to match their 3Q12 survey low:

- Domestic hiring expectations fell to 0.6%, down substantially from last quarter's 1.2% and matching the lowest level in this survey's history. The median declined to 0.0%, well below the survey average of 0.7%. The proportion of CFOs expecting gains fell to 47%, also well below the average of 52%. The distribution² of responses is below average compared to recent quarters.
- Country-specific expectations are 0.7% for the US (down from last quarter's 1.3%, and now at the lowest level in three years), -0.9% for Canada (down from 0.6% last quarter), and 2.7% for Mexico (up from 0.5% last quarter).
- Technology and Financial Services are highest at 1.6% and 1.4%, respectively (but still low by historical standards). Energy/Resources again indicated contraction at -0.3% (but that is up from -1.2% last quarter), with T/M/E lowest at -1.3%.

Offshore hiring¹

Expectations declined sharply and are again well below their long-term survey average:

- Offshore hiring growth fell to 1.9%, down from last quarter's 2.8% and now at the lowest level since 2Q14. The median remains at 0.0%, and 45% of CFOs expect year-over-year gains (down from last quarter's 49%).
- Country-specific expectations are 1.8% for the US (down from 3.0%), 2.8% for Canada (up from 2.4%), and 0.4% for Mexico (down from 0.8%).
- Technology indicates the highest expectation at 3.4%, with Energy/Resources and Manufacturing both the lowest at about 1.0%.

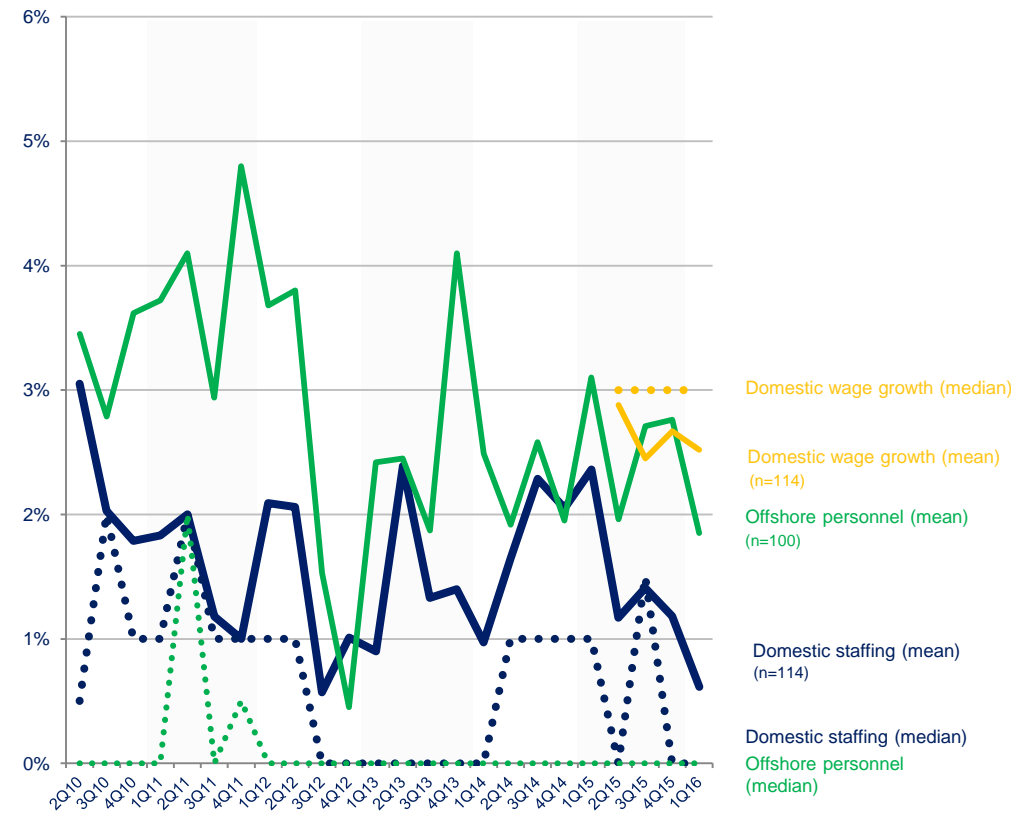
Domestic wage growth¹

Expectations down slightly, but still indicative of substantial upward wage pressures:

- Domestic wage growth declined to 2.5%, down slightly from last quarter's 2.7%. The median held at 3.0%, and 90% of CFOs expect year-over-year gains.
- Country-specific expectations are 2.5% for the US, 2.1% for Canada, and 4.1% for Mexico.
- All industry-specific expectations are between 2.2% and 3.1%, with Energy/Resources and Healthcare/Pharma on the low end and Services highest.

Compared to the past 12 months, how do you expect your domestic and offshore hiring to change over the next 12 months?

CFOs' expected change year-over-year¹



¹ All averages have been adjusted to eliminate the effects of stark outliers.

² "Distribution" refers to the spread of the middle 90% of responses.

Please see full report for industry-specific findings.

Sentiment

Own-company optimism

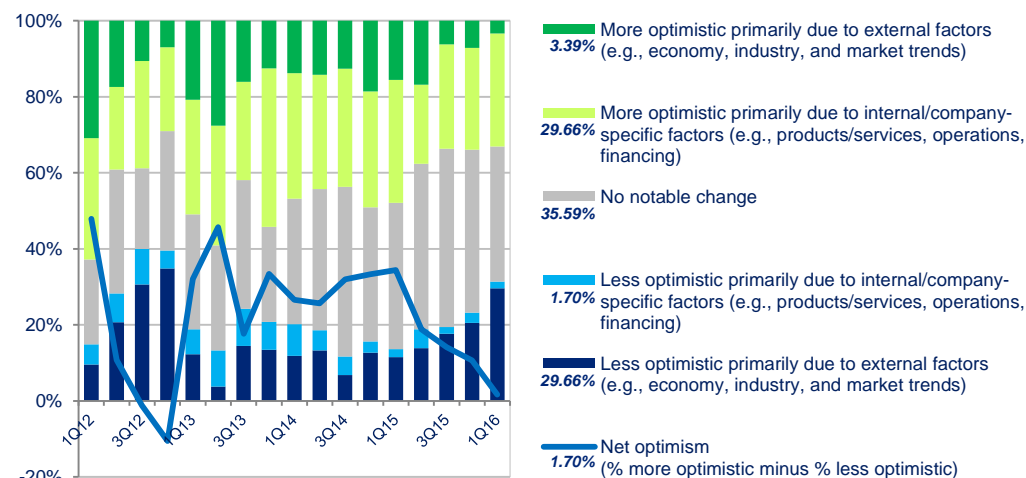
How do CFOs feel about their company's prospects compared to last quarter?

Nearly equal proportions cite rising and declining optimism:

- **Net optimism positive, but nearing zero:** Continuing a string of 12 straight prior quarters of positive sentiment, net optimism came in at +1.7. But this level is down from last quarter's +10.7 and stands at its lowest level since 4Q12. Thirty-three percent of CFOs express rising optimism (about equal to last quarter), but the proportion citing declining optimism rose from 23% to just over 31% (the highest level since 4Q12).
- **US sentiment still falling; Canada better, but Mexico now negative:** Net optimism for the US declined from last quarter's +10 to just +3. Canada's net optimism rose from zero last quarter to just under +8 this quarter. Mexico's net optimism, which had been above +20 for three quarters, plummeted to -33 this quarter.
- **Retail/Wholesale rebounded significantly, but three other sectors now net negative:** Retail/Wholesale rebounded from -25 to +5, but Manufacturing held at -4. Financial Services and Healthcare/Pharma turned negative this quarter at -14 and -11, respectively.
- **T/M/E and Technology anchor the optimists; Energy/Resources also net positive:** T/M/E and Technology are the most positive at +50 and +30, respectively. Energy/Resources is net positive at +8, while Services came in at zero.

How does your optimism regarding your company's prospects compare to last quarter?

Percent of CFOs selecting each sentiment/reason combination (n=118)



Please see full report for industry-specific findings.

Sentiment

Most worrisome risks

Which external and internal risks do CFOs regard as most worrisome?

External concerns: Very strong concerns about the interplay of economic volatility, financial markets, and consumer confidence:

- **Rapidly escalating concerns about global economic volatility:** Last quarter, CFOs' concerns appeared to shift from a specific focus on Europe and China to a more generalized focus on global economic stagnation and volatility. This quarter's findings show a strong acceleration of that trend.
- **Rising concerns about US economy and consumer spending:** Worries rose about a US pullback, with sharply rising concerns about the toll economic and equity market volatility might take on consumers' willingness to spend.
- **Drastically rising concerns about financial markets:** With equity markets falling sharply between surveys, concerns about financial markets skyrocketed this quarter. Many CFOs voiced concerns that rising perceptions of global economic instability might affect the sentiment of financial institutions and investors, which might in turn depress equity valuations and, ultimately, reduce liquidity and consumer spending. FX concerns continued.
- **Rising commodity price worries:** Worries about oil and other commodity prices continued to rise this quarter.
- **Continuing policy and regulation concerns:** Regulatory concerns are again strong and industry dependent. The 2016 US presidential election emerged as a significant concern last quarter and continues to be a factor this quarter.
- **Declining concerns about competition:** Concerns about industry dynamics and competitive behavior continued, but appeared to take a back seat to economic and financial markets concerns.

Internal concerns: Rising focus on adapting to tough conditions

- **Escalating execution concerns:** CFOs voiced growing concerns about executing and adapting their operations and initiatives as business conditions shift.
- **Pricing and margin concerns:** Concerns about managing prices and cost structures rose markedly this quarter.
- **Key talent retention challenges:** Concerns around retention and leadership turnover rose this quarter.

What external and internal risk worries you the most?

Consolidation and paraphrasing of CFOs' free-form comments* (n=100-109)

External

↑↑ Economy

- ↑↑ • **Global growth/recession/volatility (23)**
- ↑ • **Oil/commodity prices (18)**
- ↑ • **US economy pullback (12)**
- ↑ • **China economy/pullback/instability (9)**
- ↑↑ • **Consumer confidence/spending/fear (9)**
 - European economy (3)
 - Emerging market slowdown
 - Indian economy
 - Mexican economy
 - Minimum wage increases / labor cost increases
 - Lower domestic industrial/manufacturing activity
 - Unemployment

↑↑ Capital/Currency

- ↑↑ • **Capital markets liquidity/stability (16)**
- **FX rates / currency markets (9)**
- ↑ • **Impact of strong US dollar (6)**
- ↓ • **Interest rate increases/decreases (5)**
- ↑ • **Impact of equity market struggles (4)**
- ↑ • **Emerging market currency devaluation (3)**
 - Global debt levels
 - Inflation/devaluation
 - Market bubbles/corrections

Geopolitics

- **Geopolitical risk / instability (5)**
- Terrorism (2)
- Effect of global events on sentiment/equities/economies

Government/Regulation

- **Regulation—new/burdensome (16)**
- 2016 elections (3)
- Political dysfunction / conflict (2)
- Tax policy/reform
- Government spending/fiscal policy

↓ Industry

- **Competitive practices/pricing (5)**
- ↑ • **Effects of politics on our industry (2)**
- Impact of new/evolving technologies
- Disruptive/new competitors

Internal

Growth

- **New product development/innovation/R&D (5)**
- Ability to execute growth efforts (4)
- Competing effectively / sales execution
- Aversion to risk
- Growing organically
- Finding new sources of growth

Margins

- ↑↑ • **Managing pricing/margins in tough times (7)**
- **Productivity/efficiency improvement (5)**
- Cost / expense structure (3)
- Costs of meeting regulatory requirements

↑ Execution

- ↑↑ • **Perform/adapt in tough conditions (7)**
- **Execution against strategies/plans (6)**
- ↑ • **Manage M&A integrations/restructuring (6)**
- ↑ • **Complacency / forcing change (6)**
- ↑ • **Technology project execution (5)**
 - Lack of right focus/prioritization (2, 4)
 - Leverage/cash if earnings falter (2)
- ↓ • **Cyber security (2)**
 - Managing operations/disruptions
 - Meeting guidance/commitments
 - Customer service/satisfaction

Talent

- ↑ • **Retaining key employees (16)**
- **Securing qualified talent (10)**
- ↑↑ • **Leadership turnover/succession (6)**
- ↑ • **Replacing retiring talent/knowledge (3)**
 - Leadership alignment/ability (2)
 - Morale
 - Salary expectations

* Arrows indicate notable movements since last quarter's survey. Category movements are indicated by block arrows. Strong movements are indicated by multiple arrows. Large and bolded text indicates most prevalent risks, while gray text indicates topics that have fallen off the list this quarter.

This chart presents a summary of CFOs' free-form responses. CFO comments have been consolidated and paraphrased, and parentheses denote counts for particular response themes. The number of responses does not match the number of respondents because some CFOs provided more than one response. For a more detailed summary of comments by industry, please see the appendix of the full report.

Please see full report for industry-specific findings.

Special topic: Oil prices

Impact of low oil prices

How are low oil prices affecting companies' demand and profits?

Low oil prices are having a mixed, industry-specific impact on companies' demand and profits:

- **Low oil prices are affecting profitability and/or demand for the vast majority of companies:** Nearly three-quarters of CFOs say low oil prices are impacting demand and/or profitability. CFOs from Energy/Resources, Manufacturing, and Retail/Wholesale were the most likely to cite impacts, while Technology and Healthcare/Pharma were least likely.
- **More companies cite favorable impacts than negative impacts¹:** Fifty-nine percent of CFOs citing impacts from low oil prices cite *positive* impacts, with 88% of those citing a positive impact on profits (led by Manufacturing, Healthcare/Pharma, and Services), and 47% citing a positive impact on demand (led by Manufacturing and the Power/Utilities sector within the Energy/Resources industry). The companies citing positive impacts are generally not taking steps to expand businesses that benefit from low oil prices (just 10% indicate they are).
- **About half of companies cite negative impacts¹:** Fifty-one percent of the CFOs who cite impacts from low oil prices cite *negative* impacts, with 80% of those citing a negative impact on profits (led by the Oil/Gas sector within Energy/Resources and the Insurance sector within Financial Services), and 53% citing a negative impact on demand (led by Manufacturing and Retail/Wholesale). About 43% of CFOs citing negative impacts say they are undertaking cost-cutting efforts to cope with low prices. About 23% say they are investing less in parts of their business hurt by low prices, and 20% say they are shoring up their balance sheets to help them survive an extended period of low prices. Only 9% say they are acquiring assets or companies to take advantage of low valuations.
- **Low oil prices generally not seen as a harbinger of a US recession:** Only about 18% of CFOs say low oil prices are sign that a US recession is likely within next year. Technology and Retail/Wholesale CFOs were the most likely to say they expect a recession, while Energy/Resources CFOs were among the least likely.

Are low oil prices impacting your company's profitability and/or demand?

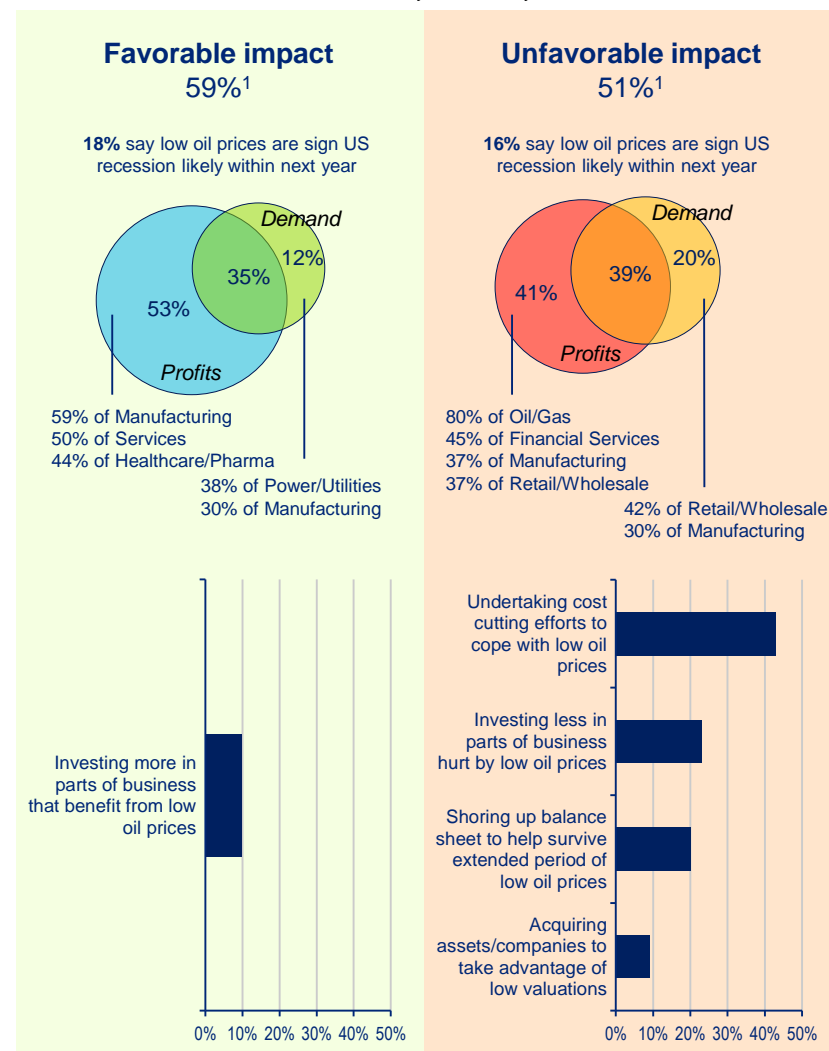
(n=118)

Yes
73%

No
27%

17% say low oil prices are sign US recession likely within next year

19% say low oil prices are sign US recession likely within next year



¹ Percentages add to more than 100 because some respondents chose both favorable and unfavorable impacts

Special topic: Political activity

Companies' participation in the political process

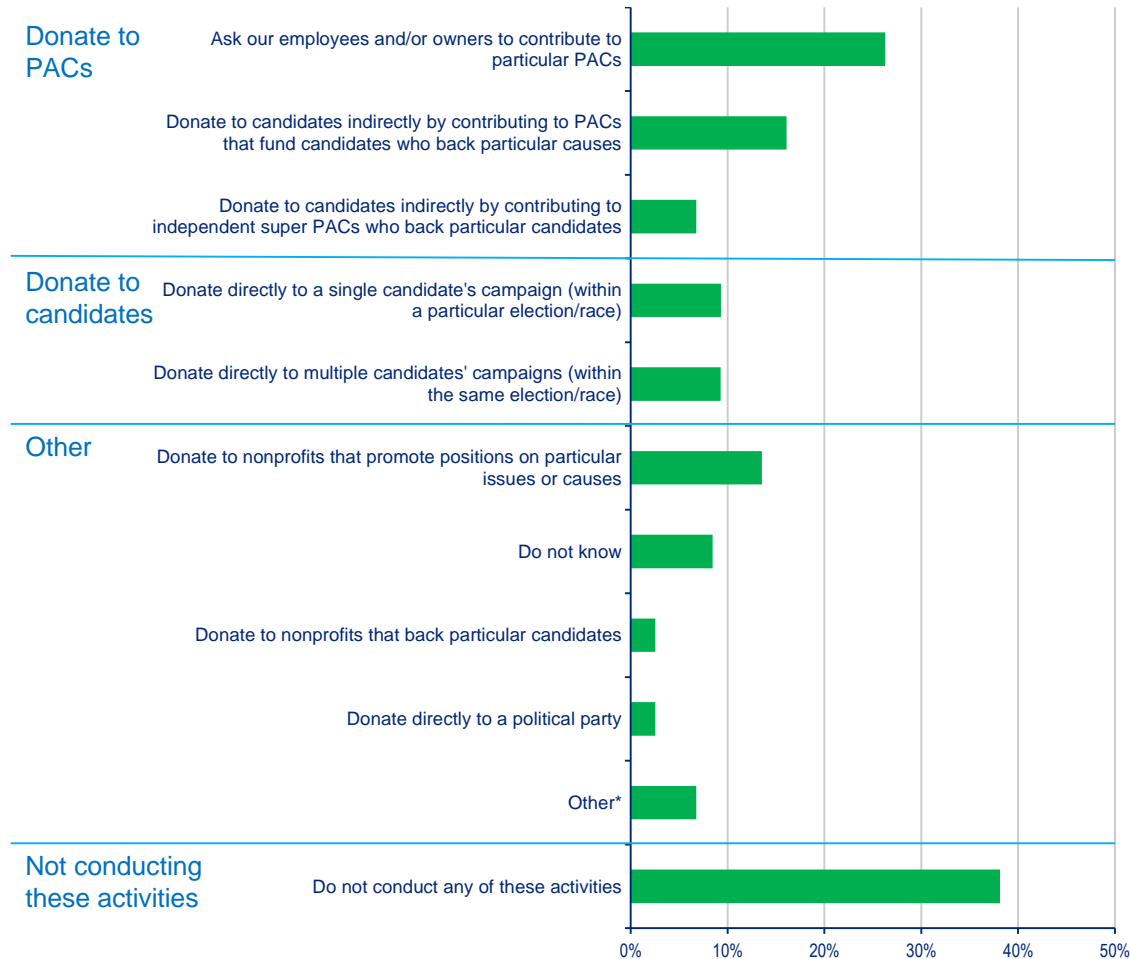
How active are companies in the political process?

About half of companies overall are politically active, but the level and scope of their activity is highly industry dependent:

- **Almost half of companies appear not to be politically active:** Nearly 40% of CFOs say they do not donate to PACs or candidates, and nearly 9% say they do not know whether or not they make donations. US CFOs are significantly more likely to say they are politically active (with 33% citing inactivity), but this question has a strong US election focus and likely does not capture Canadian and Mexican CFOs' activity within their own countries. The vast majority (60%) of politically-active companies seem to focus mostly on a single contribution method, with only about 25% saying they contribute through two mechanisms. Technology CFOs indicated the lowest level of political activity, and Energy/Resources indicated the highest.
- **Companies appear more focused on causes than on candidates:** Sixteen percent of CFOs say they donate to PACs that fund candidates who back particular causes, and 14% say they donate to other nonprofits that promote positions on particular issues or causes (Retail/Wholesale is the high outlier at 32%). By contrast, only 7% say they donate to PACs that back particular candidates, and only 9% say they donate directly to single candidates' campaigns within particular elections (the same proportion says they donate to *multiple* candidates' campaigns within the same election).
- **A substantial proportion of companies contribute indirectly by asking their employees and/or owners to make donations:** More than one-quarter (26%) of CFOs say they ask employees and/or owners to contribute to particular PACs (most likely associated with particular causes based on CFOs' answers to the other parts of this question). Healthcare/Pharma and Energy/Resources are by far the most likely to take this approach at 67% and 54%, respectively.
- **Energy/Resources CFOs indicate the highest and most broad-based political activity:** CFOs for this industry were the most likely to report donating to single campaigns (31%), donating to multiple campaigns (31%), and donating to PACs that fund particular causes (39%).

How active is your company in the political process?

Percent of CFOs citing each action (n=118)



Please see full report for industry-specific findings.

*Other includes hiring lobbyists, engaging political leaders on relevant issues, engaging politicians on a state level, financing a company-owned Super PAC

Special topic: Income taxes and BEPS

Income taxes and BEPS

What have companies done in response to the OECD's Base Erosion and Profit Shifting (BEPS) initiative?

Despite the OECD's 2015 release of a final BEPS package for reform of the international tax system, few surveyed companies have taken steps to respond:

- **Relatively few companies have already prepared for BEPS:** Just 18% say they have already planned for the initiative or have already executed actions to address it. Technology and Manufacturing are highest at 30% and 26%, respectively, with Retail/Wholesale and Healthcare/Pharma next at 22%. Energy/Resources, T/M/E, and Services are all at 0%. There are essentially no differences among the US, Canada, and Mexico responses.
- **Many CFOs do not expect BEPS to have substantial impact on their company:** Just over one-third say they do not expect substantial impacts and are not taking action to address the initiative. Energy/Resources and T/M/E are the least likely to expect a substantial impact, with 50% citing no action; Healthcare/Pharma is next at 44%. Technology is the most likely to expect a substantial impact, with just 20% of CFOs citing inactivity. Canada is the most likely to claim no substantial impact or activity at 54%, with the US and Mexico lower at 32% and 17%, respectively.
- **BEPS is not on the radar screen for many CFOs:** About 22% of CFOs say they do not know if or how their company is approaching BEPS. Services and Financial Services CFOs were the least likely to know; Manufacturing, Technology, and Healthcare/Pharma were the most likely.
- **Quite a few CFOs are still evaluating BEPS or are waiting to take action:** About 15% say they are evaluating the impact of BEPS, and another 12% say they think it is too early to take action.

What is your company's approach to preparing for the OECD's Base Erosion and Profit Shifting (BEPS) initiative?

Percent of CFOs selecting each statement (n=113)



Please see full report for industry-specific findings.

About BEPS

Base Erosion and Profit Shifting (BEPS) refers to tax outcomes that can result in double non-taxation (stateless income) or reducing the tax base in (high tax) countries.

Many tax planning strategies take advantage of the interaction between the tax rules of different countries to achieve these results, which means that unilateral action by countries individually cannot always remedy the situation. Accordingly, the G20 asked the OECD to set up a project to look at BEPS on a more global basis.

The resultant Action Plan sets out 15 actions to address BEPS in a comprehensive and coordinated way.

All OECD member countries and G20 countries are participating and more recently a group of developing countries was added to the project.

All 15 Actions are expected to result in fundamental changes to the basis of international taxation and are based on three core concepts: coherence; restoring the principles of the international frameworks; and transparency. The Action Plan also calls for work to address the challenges posed by the digital economy. Looking for an innovative approach to deliver change quickly, the Action Plan proposes a multilateral instrument the countries can use to implement the measures developed.

For more information please visit: <http://www2.deloitte.com/global/en/pages/tax/articles/about-beps.html>

Special topic: FLSA overtime rule changes

Changes to FLSA overtime rules

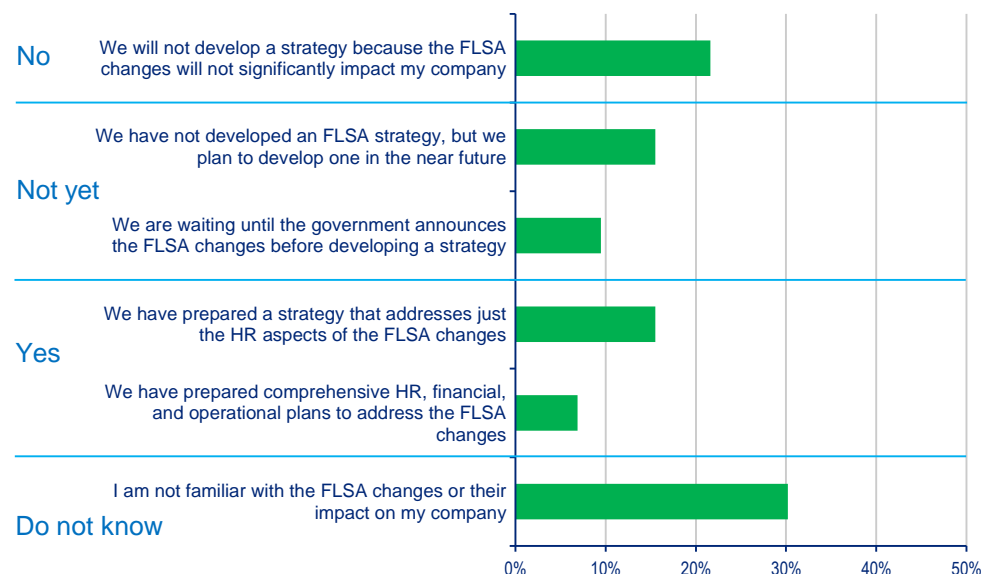
Are companies preparing for Fair Labor Standards Act (FLSA) changes that are expected to raise the minimum salary, eliminate exemptions from overtime, and change how work is assigned and reported?

Especially in the US, many surveyed companies are planning for the impact of FLSA changes—or at least plan to:

- **Just under one-quarter of CFOs overall say they have already planned for the changes:** Just 8% say they have prepared comprehensive HR, financial, and operating plans (led by Retail/Wholesale and Services at about 15%), but about 15% say they have developed a strategy that at least addresses the HR aspects of the changes (Healthcare/Pharma and T/M/E at 22% and 25%, respectively). US CFOs are by far the most likely to say they have already planned for the changes.
- **One-quarter of CFOs say they plan to develop a strategy:** About 15% say they plan to develop a plan in the near future (led by T/M/E and Manufacturing at about 24%), and just under 10% say they are waiting until the government announces the final FLSA changes before developing a strategy (led by Services at nearly 30%).
- **A substantial proportion of CFOs is not familiar with the nature or impact of FLSA changes:** About 30% of CFOs say they are not familiar with the changes or their impact on their company. Mexico and Canada are by far the highest at 67% and 46%, respectively, but about one-quarter of US CFOs also cite a lack of familiarity. Technology and Financial Services CFOs are comparatively unlikely to be familiar with FLSA changes (at about 40% and 36%, respectively).

Has your company prepared for proposed Fair Labor Standards Act (FLSA) changes?

Percent of CFOs selecting each statement (n=116)



Please see full report for industry-specific findings.

About FLSA Regulation Changes

The US Department of Labor (DOL) has proposed to increase the number of employees who must be paid on an hourly basis.

Under current regulations, employees who earn \$455 per week (\$23,660 per year) could qualify for exempt status. The DOL has proposed to increase this threshold to \$50,440 per year. The DOL is also proposing to increase the highly compensated employee threshold, over which employees are deemed exempt if they perform at least one of the exempt duties. These proposed changes are intended to apply the Fair Labor Standards Act's (FLSA) overtime protections more broadly, and they will be adjusted to align with current wages both now and each year in the future.

For more information please visit: <https://www2.deloitte.com/us/en/pages/human-capital/articles/fair-labor-standards-act.html>

Special topic: Trade partnerships

Impact of trade partnerships

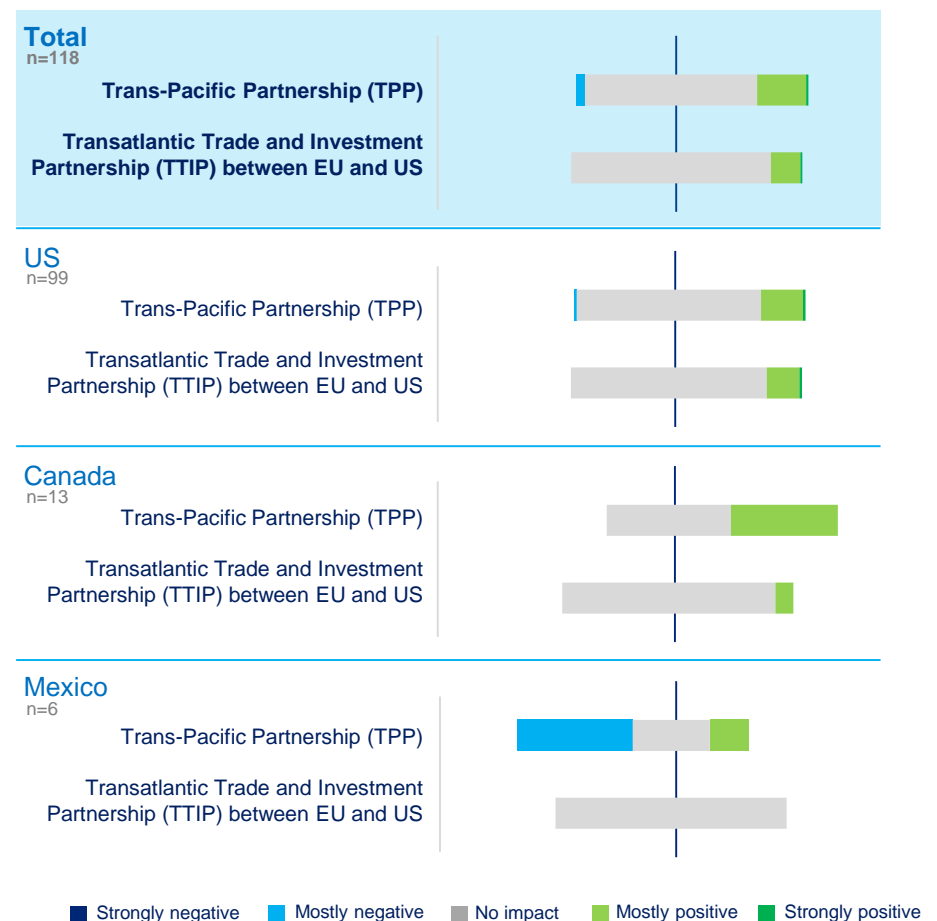
What is the expected business impact of recent and potential trade partnerships?

Relatively few CFOs expect either the Pacific or the Atlantic trade partnership to have much of an impact—but it may be too soon to tell:

- **Trans-Pacific Partnership (TPP) expected to have little impact overall, but the impact recorded is mostly positive; there are country and industry differences:** Overall, only about 25% of CFOs say they expect the TPP to affect their business either positively or negatively. Among those who expect an impact, the vast majority expect a positive impact (22% of the total versus only about 3% for negative impact). But 46% of Canadian CFOs expect benefits, as do 50% of T/M/E CFOs (small sample size) and 37% of Retail/Wholesale CFOs. On the other hand, half of Mexican CFOs expect a mostly negative impact.
- **Transatlantic Trade and Investment Partnership (TTIP) expected to have very little impact overall:** Only about 14% of CFOs say they expect the TTIP to affect their business, and all of those expect benefits. T/M/E is the most optimistic, with 25% of CFOs expecting a positive impact (small sample size). Manufacturing and Retail/Wholesale are also comparatively high at 19% and 16%, respectively. Virtually no CFOs from either Canada or Mexico expect any impact.
- **For many companies, it may be too early to judge the impact of both partnerships:** Nearly one-quarter of CFOs did not provide an answer to this question¹, which may indicate that a significant proportion may not yet have formed an opinion regarding the impact of either trade partnership on their company. Companies that already derive more than 60% of their revenue from outside North America may have already decided the partnerships are not important to them (about half skipped this question entirely), but those who currently derive less than 40% of their revenue from outside North America account for about almost two-thirds of the CFOs who did not answer.

What is the expected impact of trade partnerships on your company and business?

Percent of CFOs selecting each type of impact¹



¹ Respondents who skipped this question were added to the "No impact" category in the chart.

Please see full report for industry-specific findings.

Special topic: Retirement risk

Retirement risk

How are companies managing their retirement risk?

CFOs indicate growing willingness to take aggressive action in de-risking their retirement obligations and appear less inclined to wait for improvement in factors like asset returns and interest rates:

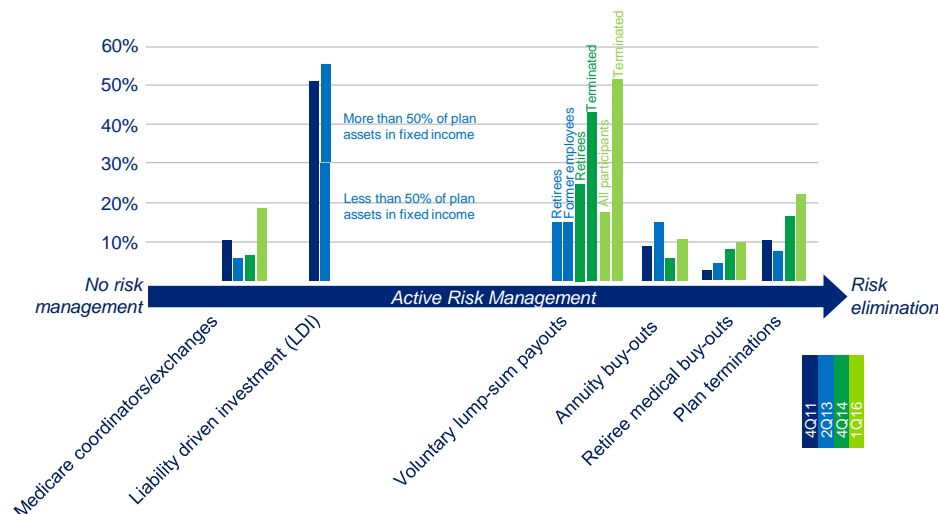
- **Approximately 75% of respondents report pension plans¹:** Seventy-eight percent of CFOs say they have (or have had) pension plans, very close to the proportion the last time we asked this question in 4Q14. Energy/Resources, Manufacturing, and Retail/Wholesale appear most likely to have plans; Technology and Services appear least likely.
- **About 63% of those who have (or have had) pension plans have utilized at least one aggressive de-risking tactic:** This is up from the nearly 45% who reported back in 4Q14. At the high-end are Energy/Resources at 77% and Manufacturing at 59%. On the low-end is Technology at 10%, with TME and Services both at 33%. (These industry patterns are similar to those seen in 4Q14, and they again seem to indicate substantial difference in industries' current and past use of retirement plans.)
- **Use of several aggressive risk management tactics has increased:** The attractiveness of eliminating (or greatly reducing) retirement risks has led to accelerated use of voluntary lump-sum pay-outs for terminated employees (52%), whereas the use of voluntary lump-sum pay-outs² for all participants is considerably lower at 17%. Outright plan terminations, a component of which is annuity buy-outs, have risen as well (to 23%). Annuity-buyouts are up from 4Q14, but they are about average relative to the two quarters before that.
- **Higher use of Medicare exchanges:** Use of Medicare exchanges, perhaps the least aggressive of the de-risking approaches, rose substantially this quarter to nearly 20%—about double the level from any previous quarters.
- **About two-thirds of CFOs with pension plans cite impediments in de-risking their obligations:** Just under 40% of CFOs who cited the use of at least one de-risking tactic (already or within the next year) say no factors have restricted their efforts. But one-quarter of those said they are waiting for positive asset returns or higher interest rates to reduce de-risking costs, and about 20% said they were not well enough funded to do more. Among only those CFOs who have pensions but have not implemented or planned the use of any tactics, 47% said de-risking is not currently a priority (the proportion is 27% for all CFOs who answered this question), and the rest cited a relatively even distribution of impediments.

¹ Respondents without pension plans were asked to skip this question; 75% of CFOs considered this question relevant to them.

² In prior quarters we asked about voluntary lump-sum pay-outs for retirees and former employees. As of this writing, the IRS has stated their intention to eliminate voluntary lump sum payouts going forward, which has led to a reduction in payouts to all participants.

How aggressive have you been in de-risking your pension/retirement obligations?

Percent of CFOs citing past use or intended use (within a year) of each strategy (n=69-81)



Which of the following factors have significantly restricted your de-risking efforts?

Percent of CFOs selecting each option (n=93)



Please see full report for industry-specific findings.

Special topic: CFOs' focus for 2016

Key accomplishments for their company

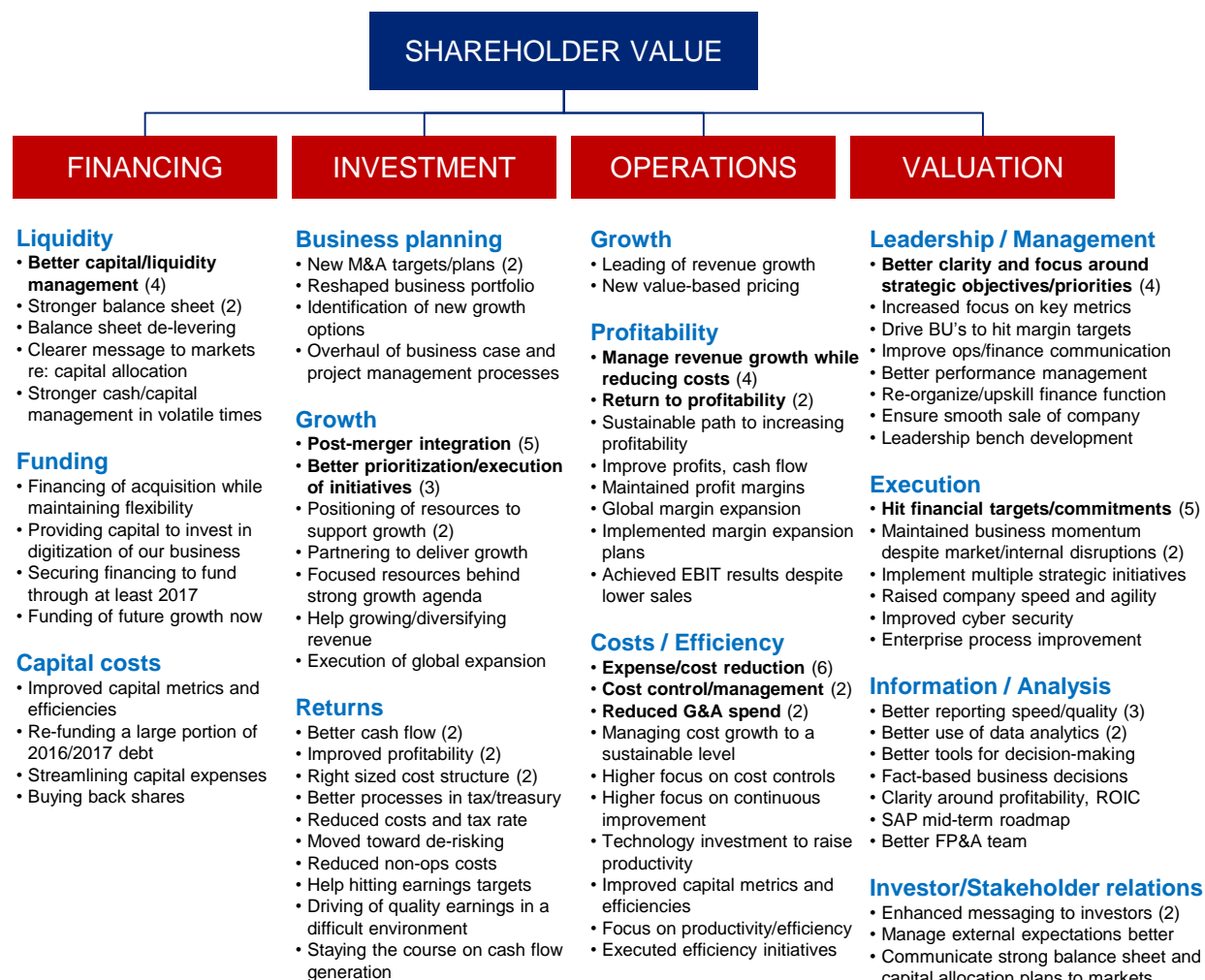
What is the most important thing CFOs expect to accomplish for their companies by the end of the year?

CFOs plan to impact their companies in a variety of areas in 2016, but there is a pervasive and strong theme around helping their companies stay focused and perform well in a tough, shifting business environment:

- **Substantial focus on financing:** CFOs indicate efforts to improve capital and liquidity management and generally build stronger balance sheets. Some also cite efforts to secure funding to support acquisitions and other growth efforts. Relative few say they are focused on reducing their capital expenses.
- **Very strong focus on investment:** A high proportion of CFOs indicate work to support growth, largely through aiding post-merger integrations and the execution of key corporate initiatives. There is also a strong focus on improving corporate returns through better cost controls and improved cost structures. Some also cite work around identifying M&A and other growth opportunities.
- **Very strong focus on operations:** Many CFOs cite a focus on operational results within their business units, with a very high focus on profitability and on reducing costs. Many also cite working to improve margins and establish long-term paths to profitability. A very high proportion indicate a focus on cost reduction (for direct and indirect costs) and on improving productivity and efficiency.
- **Heaviest focus on valuation:** In general, CFOs cite a heavy focus on helping their executive teams focus on key business priorities and deliver on the organization's financial commitments. To accomplish this, many cite efforts to improve the quality of managerial information and analysis, strengthen performance management systems, and get more of the organization focused on key metrics, results, and initiatives.

As CFO, what is the most important thing you will have accomplished for your company by the end of 2016?

Consolidation and paraphrasing of CFOs' free-form comments* (n=105)



* This chart presents a summary of CFOs' free-form responses. CFO comments have been consolidated and paraphrased, and parentheses denote counts for particular response themes. The number of responses does not match the number of respondents because some CFOs provided more than one response.

Special topic: CFOs' focus for 2016

Key accomplishments for their finance organizations

What is the most important thing CFOs will have accomplished for their finance organizations by the end of the year?

About half of CFOs say their key accomplishments will be around how they acquire, develop, and deploy talent:

- **Very heavy focus on talent:** CFOs indicate a wide range of efforts to improve the performance of their finance teams, ranging from strategic and structural shifts to tactical changes in acquiring and developing staff. Particularly prevalent were efforts to improve talent management and development practices and also to strengthen the role finance plays in supporting the business.
- **Substantial process improvement focus:** CFOs cite efforts to improve finance processes, especially around accounting, reporting, and FP&A. They also mentioned efforts to become more process focused and to enhance control processes.
- **Strong focus on information systems:** CFOs cite efforts to improve strategies for managing IT and for providing better data and insight to their companies. They also indicated a broad range of tactical efforts to implement, upgrade, and consolidate financial systems.

As CFO, what is the most important thing you will have accomplished for your finance function by the end of 2016?

Consolidation and paraphrasing of CFOs' free-form comments* (n=105)

PEOPLE		PROCESS	TECHNOLOGY
Structure / Management <ul style="list-style-type: none"> Better performance management processes and reporting (3) Organization restructure (2) Clarify decision rights and spans of control between the corporate and BU's Implement new organizational set-up More cohesive offshoring plan Strategy for centralization Scale finance function to support business growth Build resources around control framework Provide clarity for career progress 	Succession <ul style="list-style-type: none"> Succession planning (2) Implemented robust career progression/succession plan Succession planning for direct reports Implement succession plan Trained/mentored future CFO 	Accounting <ul style="list-style-type: none"> Restructure/modernize global accounting function Solidify accounting team and move to more value-added (not just execution) partnerships across the company Implement low-cost electronic no-paper solution for order-to-cash process 	Strategy <ul style="list-style-type: none"> Lead information systems strategy Data and infrastructure transformation Leverage IT to drive operating effectiveness; move from reporting numbers to providing analytics and forecasting Better systems and analytics Enhance use of technology Improve/upgrade systems and processes which are still manual Strategy for centralization and 3-year plan on financial systems
Roles / Services <ul style="list-style-type: none"> Build finance into business partners Streamlining how we support our business partners Strong engagement with business partners Develop talent to support business functions versus transactional nature of business Deliver financial support to company with reduced funding Improved strategic role in organization Shift to productivity and process improvement mindset; better integration into business Process focus Improve productivity/effectiveness of business partnering Maintain low cost, zero growth organization Improve transparency of costs/investments 	Staffing <ul style="list-style-type: none"> Drive talent acquisition and retention Mature new leaders in the organization Built on positive momentum on talent attraction/retention Stabilize team with a few key placements Staff to meet current/future needs Fill leadership gaps in functional areas Keep top-graded staff 	FP&A <ul style="list-style-type: none"> Accurate business forecasting; better at understanding what's in front of us Move from 12- to 24-month rolling forecast; provide forward-looking information to drive profitability Improved visibility into profitability Better analytical capabilities End-to-end process review; fund Finance decision-making activities Manage payer/product profitability Business analysis to help focus resources where have greatest return Provide functional counterparts with insights into to key business drivers Improve efficiencies and analytics to allow for more thinking-centric activity Increase business intelligence capability Enhance internal reporting Transform business reporting of expenses 	Systems implementation <ul style="list-style-type: none"> New accounting platform New financial system Implement new technologies Integrate financial system with HR system - enhancing cost center management Complete first phase of ERP transition; plan and receive approval for second phase ERP implementation, improved processes and procedures, enhanced/automated controls ERP road map; implement productivity programs in shared services Participate in IT enhancements Initiate program to replace three ERP systems with one Complete system upgrades
	Development <ul style="list-style-type: none"> Raise focus on talent development (5) Strengthen team competencies Upskilling the finance talent Increase org capacity via focused training Formalize development program with top talent rotations and documented plans Better alignment with corporate culture Develop team, broaden roles Implement cultural transformation Increase engagement and cross functional training Encourage movement (lateral or higher) Rotate high performers to other roles Build culture supporting our business/personal objectives Create focus on staff career mapping, training and succession planning 	Reporting <ul style="list-style-type: none"> Streamline financial reporting timelines Common reporting Develop productivity thinking; assure timely/accurate financial information Improve process around financial close 	General process <ul style="list-style-type: none"> Enhance control environment (3) Maintain compliance environment Lean transformation of value streams Finance transformation Streamline processes Pass Comprehensive Capital Analysis and Review (CCAR)

* This chart presents a summary of CFOs' free-form responses. CFO comments have been consolidated and paraphrased, and parentheses denote counts for particular response themes. The number of responses does not match the number of respondents because some CFOs provided more than one response.

Longitudinal trends

Expectations and sentiment

CFOs' Year-Over-Year Expectations¹

(Mean growth rate, median growth rate, percent of CFOs who expect gains, and standard deviation of responses²)

			2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	Survey Mean	2-Year Mean
Operating Results	Revenue	mean	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%	4.8%	5.6%	5.4%	5.7%	5.0%	4.1%	4.6%	6.1%	6.8%	6.0%	5.4%	3.1%	4.4%	5.9%	3.3%	6.1%	5.3%
		median	6.0%	10.0%	5.0%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	5.0%	3.0%	5.3%	4.9%	
		%0	84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%	84%	78%	82%	90%	90%	89%	90%	86%	78%	79%	82%	78%	84%	86%
		standard deviation	8.2%	10.5%	7.4%	7.3%	6.4%	6.5%	4.9%	6.3%	6.1%	5.7%	6.3%	5.9%	4.5%	5.1%	4.9%	3.9%	4.5%	5.9%	4.0%	6.4%	6.3%	5.4%	6.8%	5.1%	6.1%	5.4%
	Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	12.8%	10.5%	8.0%	10.9%	12.1%	10.3%	8.0%	8.6%	7.9%	8.9%	10.9%	9.7%	10.6%	6.5%	6.5%	8.3%	6.0%	10.7%	8.7%	
Investment	Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	2.2%	3.9%	2.5%	2.5%	3.6%	4.5%	3.4%	4.0%	5.7%	4.1%	4.1%	3.0%	4.3%	3.4%	3.7%	4.7%	4.0%	4.0%	4.1%	
		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
		38%	39%	28%	8.6%	35%	41%	27%	31%	33%	30%	29%	38%	40%	39%	37%	47%	45%	44%	47%	43%	45%	45%	46%	38%	45%		
		12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	12.0%	11.4%	4.6%	4.2%	7.8%	7.5%	4.9%	6.4%	6.5%	6.8%	5.0%	5.5%	5.2%	5.4%	4.3%	4.9%	1.7%	7.5%	5.5%	
	Capital spending	5.0%	5.0%	4.0%	5.0%	10.0%	5.0%	5.0%	6.0%	10.0%	3.0%	0.0%	0.0%	0.0%	3.5%	2.4%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	2.0%	5.0%	0.0%	4.4%	4.4%	
Employment	Number of domestic personnel	62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%	57%	54%	59%	57%	64%	60%	62%	63%	59%	53%	59%	50%	59%	60%	
		14.6%	10.3%	16.8%	17.5%	14.9%	13.7%	16.0%	24.5%	22.1%	9.5%	15.3%	17.6%	11.7%	9.0%	11.2%	13.2%	12.1%	8.9%	10.9%	12.7%	16.5%	11.5%	12.4%	11.2%	14%	12%	
		3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	2.1%	2.1%	0.6%	1.0%	0.9%	2.4%	1.3%	1.4%	1.0%	1.6%	2.3%	2.1%	2.4%	1.2%	1.4%	1.2%	0.6%	1.6%	1.6%	
		0.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	0.0%	1.5%	0.0%	0.0%	0.7%	0.7%	
	Number of offshore personnel	50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%	46%	47%	48%	42%	58%	58%	60%	58%	49%	57%	50%	47%	52%	54%	
Employment	Number of offshore personnel	6.8%	5.2%	5.9%	5.8%	4.7%	5.2%	5.2%	7.1%	10.3%	4.1%	3.9%	4.9%	9.6%	5.6%	4.4%	4.9%	3.9%	4.5%	3.6%	3.1%	4.5%	4.8%	3.6%	3.0%	5%	4%	
		3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	3.7%	3.8%	1.5%	0.5%	2.4%	2.5%	1.9%	4.1%	2.5%	1.9%	2.6%	1.9%	3.1%	2.0%	2.7%	2.8%	1.9%	2.8%	2.4%	
		0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%	36%	33%	42%	34%	42%	45%	44%	48%	39%	46%	49%	45%	42%	43%	
Employment	Number of offshore personnel	5.6%	5.9%	4.7%	5.8%	8.7%	6.1%	6.3%	3.3%	2.7%	4.9%	4.3%	3.3%	9.0%	4.4%	3.7%	2.7%	2.8%	4.4%	3.0%	3.4%	3.7%	2.3%	5%	4%			

CFOs' Own-Company Optimism³ and Equity Market Performance

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	Survey Mean	2-Year Mean
Optimism	Optimism (% more optimistic)	63.5%	46.8%	53.3%	62.4%	39.7%	28.6%	28.6%	63.0%	39.1%	38.8%	29.1%	51.0%	59.0%	41.9%	54.2%	46.8%	44.3%	43.7%	49.0%	47.9%	37.6%	33.6%	33.9%	33.1%	45.0%	42.1%
	Neutrality (% no change)	19.3%	16.8%	26.0%	22.0%	28.3%	18.6%	32.1%	21.9%	32.6%	21.2%	31.3%	30.1%	27.7%	33.9%	33.4%	33.0%	37.2%	44.6%	35.3%	38.5%	43.6%	46.9%	42.9%	35.6%	31.2%	40.2%
	Pessimism (% less optimistic)	17.2%	36.4%	20.7%	15.6%	32.0%	52.8%	39.3%	15.1%	28.3%	40.0%	39.6%	18.9%	13.3%	24.2%	20.8%	20.2%	18.6%	11.7%	15.6%	13.5%	18.8%	19.5%	23.2%	31.4%	24.1%	17.6%
	Net optimism (% more minus % less optimistic)	46.3%	10.4%	32.6%	46.8%	7.7%	-24.2%	-10.7%	47.9%	10.8%	-1.2%	-10.5%	32.1%	45.7%	17.7%	33.4%	26.6%	25.7%	32.0%	33.3%	34.4%	18.8%	14.2%	10.7%	1.7%	20.9%	24.5%
S&P	S&P 500 price at survey period midpoint	1,088	1,072	1,200	1,343	1,333	1,123	1,161	1,361	1,317	1,418	1,387	1,520	1,667	1,656	1,798	1,839	1,878	1,955	2,040	2,097	2,123	2,092	2,023	1,865	1,587	2,006
	S&P gain/loss QoQ	-1.5%	11.9%	11.9%	-0.7%	-15.8%	3.4%	17.2%	-3.2%	7.7%	-2.2%	9.6%	9.7%	-0.7%	8.6%	2.3%	2.1%	4.1%	4.3%	2.8%	1.2%	-1.5%	-3.3%	-7.8%	3.1%	1.5%	

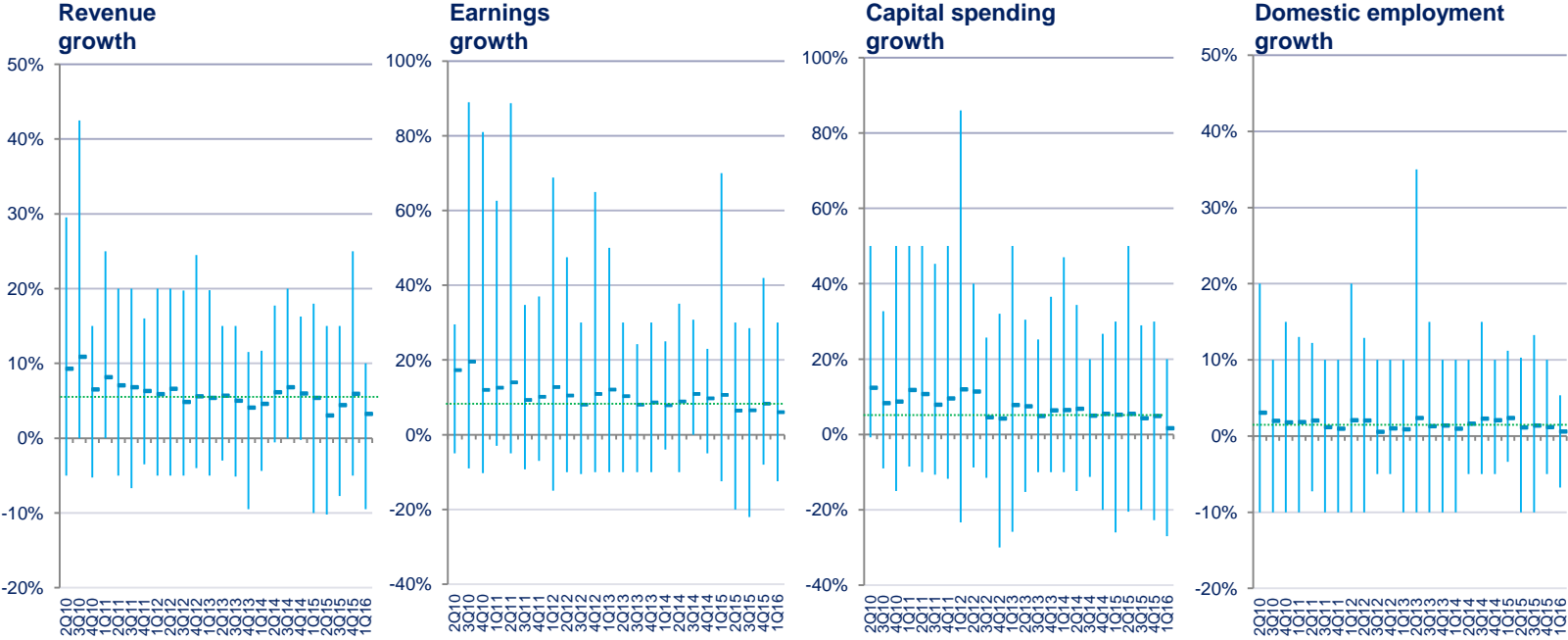
¹ All means have been adjusted to eliminate the effects of stark outliers. The "Survey Mean" column contains arithmetic means since 2Q10.

² Standard deviation of data Winsorized to 5th/95th percentiles.

³ Averages for optimism numbers may not add to 100% due to rounding.

Longitudinal trends

Means and distributions for key metrics



Vertical lines indicate range for responses between 5th and 95th percentiles.

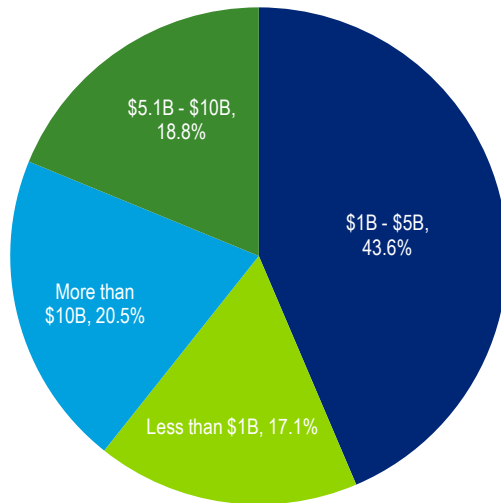
Horizontal marks indicate outlier-adjusted means.

Dotted lines indicate 3-year average (mean).

Demographics*

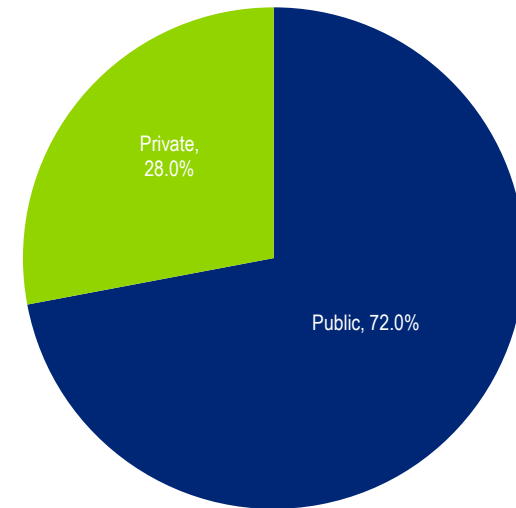
Annual Revenue (\$US)

(n=117)



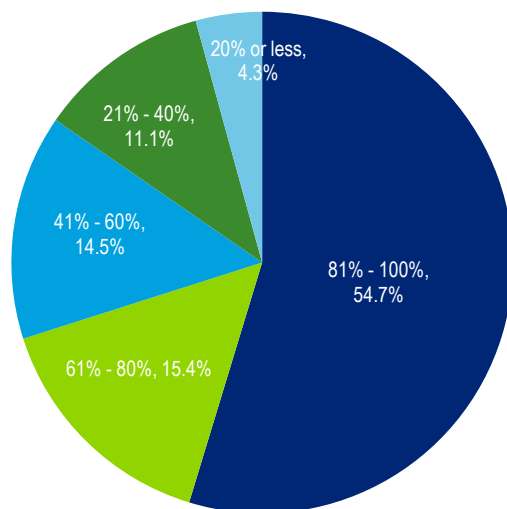
Ownership

(n=118)



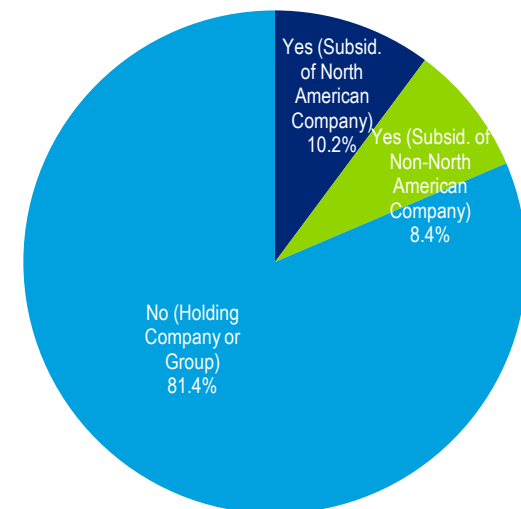
Revenue from North America

(n=117)



Subsidiary Company

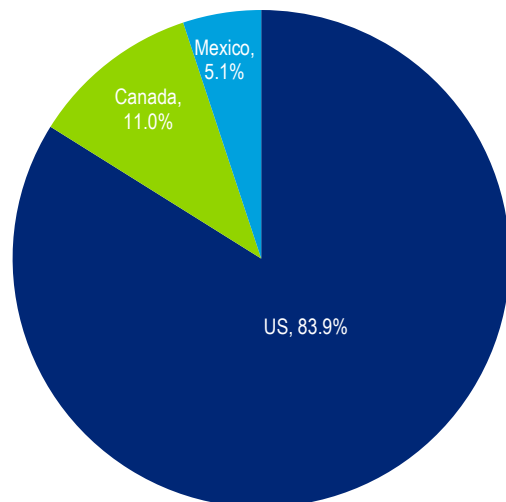
(n=118)



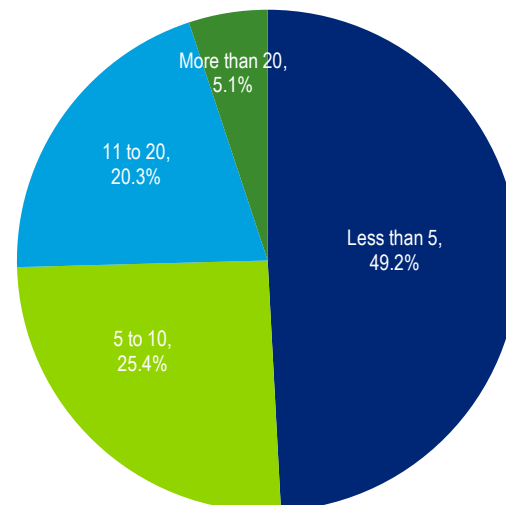
* Sample sizes for some charts do not sum to the total because some respondents did not answer all demographic questions.

Demographics* (cont.)

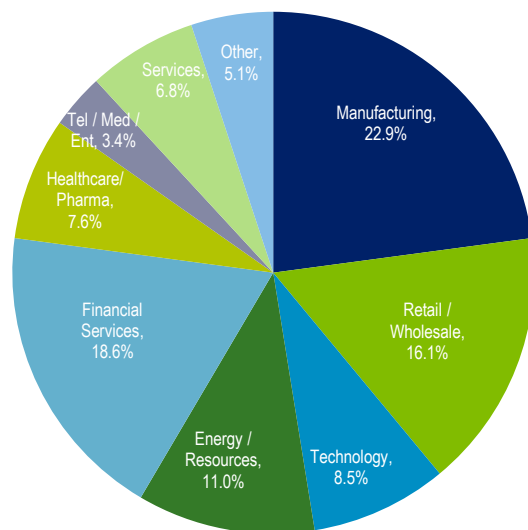
Country
(n=118)



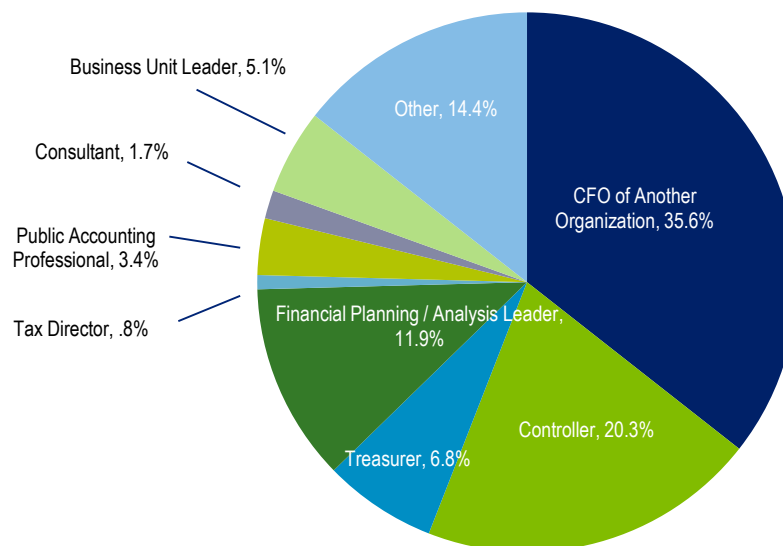
CFO Experience (Years)
(n=118)



Industry
(n=118)



Previous CFO Role
(n=118)



* Sample sizes for some charts do not sum to the total because some respondents did not answer all demographic questions.

Methodology

Background

The Deloitte North American CFO Survey is a quarterly survey of CFOs from large, influential companies across North America. The purpose of the survey is to provide these CFOs with quarterly information regarding the perspectives and actions of their CFO peers across four areas: business environment, company priorities and expectations, finance priorities and CFOs' personal priorities.

Participation

This survey seeks responses from client CFOs across the United States, Canada, and Mexico. The sample includes CFOs from public and private companies that are predominantly over \$3B in annual revenue. Respondents are nearly exclusively CFOs. Participation is open to all industries except for government.

Survey Execution

At the opening of each survey period, CFOs receive an email containing a link to an online survey hosted by a third-party service provider. The response period is typically two weeks, and CFOs receive a summary report approximately two weeks after the survey closes. Only CFOs who respond to the survey receive the summary report for the first two weeks after the report is released.

Nature of Results

This survey is a “pulse survey” intended to provide CFOs with 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.



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