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CFO Signals™
What North America's top finance executives are thinking – and doing

High-Level Report

4th Quarter 2013

CFO Signals

About the CFO Signals survey

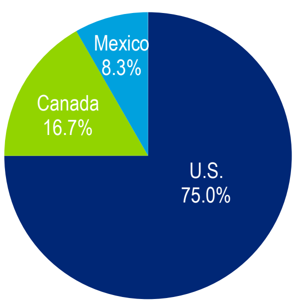
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This is the fourth quarter report for 2013.

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

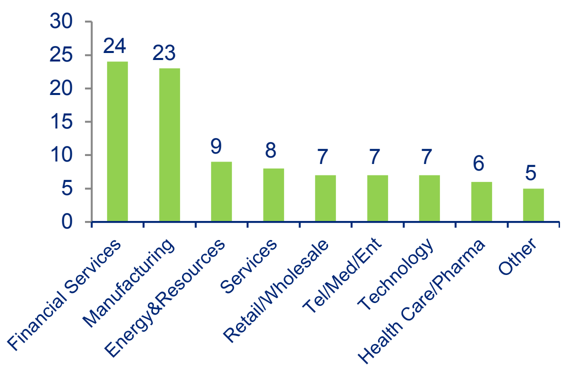
Who participated this quarter?

Ninety-six CFOs responded during the two-week period ending November 22. Sixty-eight percent of the respondents are from public companies, and 79% are from companies with more than $1B in annual revenue.

Participation by Country



Participation by Industry



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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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

Business Environment

Which external factors will substantially drive and/or impede your company's performance over the next year? North American economies and industry-specific demand are the top tailwinds. The top impediments are industry-specific regulation and government budget/spending policy. **Page 8**.

How do you regard the current and future status of the North American, Chinese, and European economies? Perceptions of North America softened with 26% describing conditions as good (down from 38% last quarter) and 55% believing conditions will be better a year from now (same as last quarter). By comparison, 32% regard China's economy as good (25% last quarter), and 38% expect it to be better in a year (25% last quarter); the numbers are 4% and 23% for Europe, respectively. **Page 9**.

Company Priorities and Expectations

What is your company's business focus for the next year? Companies still appear mostly focused on growth, but there are signs of rising conservatism and defensiveness. CFOs still indicate a bias toward pursuing opportunity over limiting risk, but an increasing proportion are now focused on contracting and rationalizing. After three quarters of a strong revenue bias, there is now a roughly equal focus on revenue growth and cost reduction. **Page 10**.

To what extent do you agree with the following statements about your cash? More than half of CFOs say they have added sources of liquidity, and roughly equal proportions say their cash levels will either be higher or lower a year from now. Seventeen percent say they have received Board pressure to return cash, and the same proportion say their Boards are worried about pressure from activist investors. Just over one-third say they are facing conflicting pressures from long-and short-term investors. **Page 11**.

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months?* Sales growth expectations declined to 4.1%, their lowest in the history of this survey. Earnings are expected to rise 8.6%, up from last quarter's survey low of 8.0%, but still comparatively low. Capital spending expectations rose to 6.4% from 4.9% this quarter, but they are still well below the survey average. Domestic hiring is expected to rise 1.4%, about even with last quarter's estimate. **Pages 12-14**.

How does your optimism regarding your company's prospects compare to last quarter? For the first time, CFOs have remained upbeat for the entire calendar year. Fifty-four percent of CFOs express rising optimism (up from 42% last quarter), and just 21% express declining optimism (down from 24% last quarter). **Page 15**.

Company Priorities and Expectations (continued)

Overall, what external or internal risk worries you the most? CFOs' top worries are less about the European economy this quarter and more about general economic growth. Worries escalated about the effects of U.S. monetary policy (especially around the Fed's eventual unwinding of its bond purchases), and also about the ability of governments to make and implement policy. Company-specific concerns rose as well, particularly around industry-specific regulation and margin pressures. **Page 16**.

How are you planning to reduce/control your company's health care costs? Nearly two-thirds of companies have taken at least one major cost control step; the most common are implementing wellness programs and raising employees' financial responsibility. For those companies passing on costs to employees, the dominant tactics are higher premium contributions and deductibles. About 45% say they plan to pursue at least one more step over the next year. **Page 17**.

Has the Affordable Care Act (specifically) caused you to pursue any of the following measures? Forty percent of U.S. CFOs say the ACA is the reason they have pursued or considered passing costs on to staff. About 13% say they have reduced their earnings forecasts as a result of the Act, eight percent say they have constrained hiring, and 4% say they have shifted toward part-time staffing. About 10% say they have added coverage for staff not previously offered benefits, and none say they have raised the level or value of coverage to any staff. **Page 18**.

Finance Priorities

In which areas does your finance organization make a substantial contribution to the business? The average finance organization makes substantial contributions in seven areas. The most common contributions are around supporting business strategy and competitive strategy, and the least common are around supporting sales and marketing. **Page 19**.

What indicators do you use to monitor the performance of your finance organization? CFOs name business support metrics more than any other single category, led by internal client satisfaction scores, achievement of plans and budgets, and forecast accuracy. Timeliness and quality of financial reporting and the close process are among the most-mentioned. About half name costs as one of their top metrics. **Page 20**.

Personal Priorities

What is your top insight for strengthening finance's relationship with the business? CFOs provide three broad strategies: get aligned with the priorities of the business unit leaders, develop and deploy the right finance organization, and help deliver business results. **Page 21**.

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

Summary

Muted 2014 expectations despite improving economies

This quarter's survey marks the first calendar year in which CFOs' own-company optimism stayed net positive for an entire calendar year. In fact, in three of our quarterly surveys (including this one), the proportion of CFOs citing improving optimism was more than 30 points above the proportion citing declining optimism, and the lowest margin was a still-strong 18 points.

This is certainly good news, and it seems very consistent with global economic conditions that are generally improving and with U.S. equity markets that are again hitting record highs. And this sentiment is particularly encouraging in a quarter punctuated by yet another legislative stalemate that left the U.S. government shutdown for 16 days.

But when you dig a bit deeper into what CFOs are saying about their companies' business focus and performance expectations this quarter, the picture becomes less encouraging and more evocative of concerns about what the next few years will really hold for the fundamentals of business performance. It is good that conditions are improving, but real recovery relies on a level of expansion that has seemed "right around the corner" for a few years now. And this quarter's findings suggest CFOs are still not planning for substantial growth—and that a growing number may be becoming more defensive.

Declining expectations; increased defensiveness

CFOs have been mostly optimistic throughout 2013, and this quarter's results provide a high note to end the year. Fifty-four percent of CFOs express improved optimism about their companies' prospects (up from 42% percent last quarter), and 21% express declining optimism (down from 24%).

But similar to last quarter, you would not know CFOs are optimistic by looking at their year-over-year expectations. At just 4.1%*, sales growth expectations are the lowest since the 2Q10 launch of this survey (although 82% of CFOs do expect gains). Earnings growth expectations rose to 8.6* from last quarter's survey-low 8.0%*, but this level is still far off the survey's three-year average of nearly 12%.

Capital spending growth expectations fell sharply to just 4.9%* last quarter and rebounded to 6.4% this quarter—but this level is still well off the survey average of 8.6% (Manufacturing is the relative bright spot at 8.4%). And after a disappointing return to 1.3%* last quarter, this quarter's number for domestic hiring is essentially flat at 1.4%*.

Sentiment and Expectations Compared to Last Quarter

Own-Company Optimism (Net Optimism)	↑
Economy Optimism – North America	↓
Economy Optimism – Europe	↑
Economy Optimism – China	↑
Sales Growth	↓
Earnings Growth	→
Capital Investment Growth	↑
Domestic Employment Growth	→

Developments Since 3Q13

- U.S. government shut down for 16 days – third longest in history
- U.S. Fed decided to continue its bond purchases at prevailing levels
- S&P 500 rose 8% and hit another historic high
- Europe appeared to emerge from recession and China's economy appeared to stabilize

Down sharply | Down | Flat / Nearly flat | Up | Up sharply

Perhaps amplifying these muted expectations are signs that companies are beginning to become more defensive and less growth-focused. After several quarters firmly focused on pursuing opportunity over limiting risk, and much more on growing and scaling than on contracting and rationalizing, the tide appears to be shifting. To a greater extent than at any point in the last year, companies are indicating a focus on risk, business rationalization, and cost reduction.

World economies better, but not great

CFOs still see North America as the strongest growth engine, but their confidence has ebbed a bit. Eighty-one percent of CFOs say economic growth in North America is a substantial growth aid—well above the 42% who say the same for China and 25% for Europe. But just 26% rate the region's economic health as more good than bad (down from 38%), and 12% now rate it as more bad than good (up from 9%). Still, 55% do expect the economy to be stronger in a year, and just 7% expect it to be worse (up from 2%). By comparison, 32% regard China's economy as good (up from 25%), and 38% expect it to be better in a year; the numbers are 4% and 23% respectively for Europe (up from 2% and 14%).

As CFOs look forward, most say they are the beneficiaries of high cash availability and relatively little shareholder pressure around their cash plans. More than half say they have added sources of liquidity over the past few years, but just 17% say they

* All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.
+ Note that net optimism, as calculated, does not explicitly account for the level of "no change" responses.

Summary (cont.)

have received Board pressure to increase dividends or buybacks, and the same proportion say their Board is worried about activist investors. But more than one-third admit they are facing conflicting pressure from long- and short-term investors, and about 20% say increased scrutiny of their cash plans has influenced their business decisions.

Policy pressures mount

This quarter, CFOs' chief worries center less on China and Europe and more generally on worldwide economic growth and government policy. Fueled by another Washington D.C. legislative showdown and a resulting government shutdown, CFOs voice rising concerns about gridlock and fiscal policy. Monetary policy concerns escalated as well as more CFOs expressed concerns about the effects of "quantitative easing" and its eventual wind-down.

Industry- and company-specific concerns continued this quarter as CFOs expressed growing concerns that governments will take more active roles within industries—and not just within Financial Services. Concerns also remain about competition, pricing, aligning costs with revenue, and companies' general ability to execute well on current strategies.

Impact of the Affordable Care Act (ACA)

Our previous surveys indicated that most large companies' scope and quality of health care benefits would not change markedly due to the ACA, and this quarter's findings provide further confirmation: Only 10% of CFOs say they have added coverage for staff not previously offered benefits, none have upped their scope or value of health benefits, and just 10% have reduced plan scope or value.

But the ACA has influenced many companies' costs and cost control measures. Nearly 60% of U.S. CFOs say their companies have raised or will be raising employees' financial responsibility for health care costs, and about half say the ACA is the reason. Another 13% say they have reduced earnings forecasts due to the Act, and about 8% say they have constrained hiring. Interesting to note, however, is that only 4% of CFOs say they have shifted toward part-time staffing to avoid increasing coverage.

Building relationships with the business units

Last quarter's findings showed that CFOs have a growing role in strategic decisions—especially "corporate" or "cross-unit" decisions. This quarter's findings provide insights into how CFOs are building relationships with business unit leaders and supporting operations.

CFOs provide three broad strategies for building solid relationships with the business. First, get on the same page as the business leaders (learn the business, clarify finance's role, and foster frequent communication). Second, deploy the right finance organization (get the right talent, implement the right structure, and set the right metrics/expectations). And third, help deliver business results (get basic "steward" services right, get included in key decisions, and solve business problems).

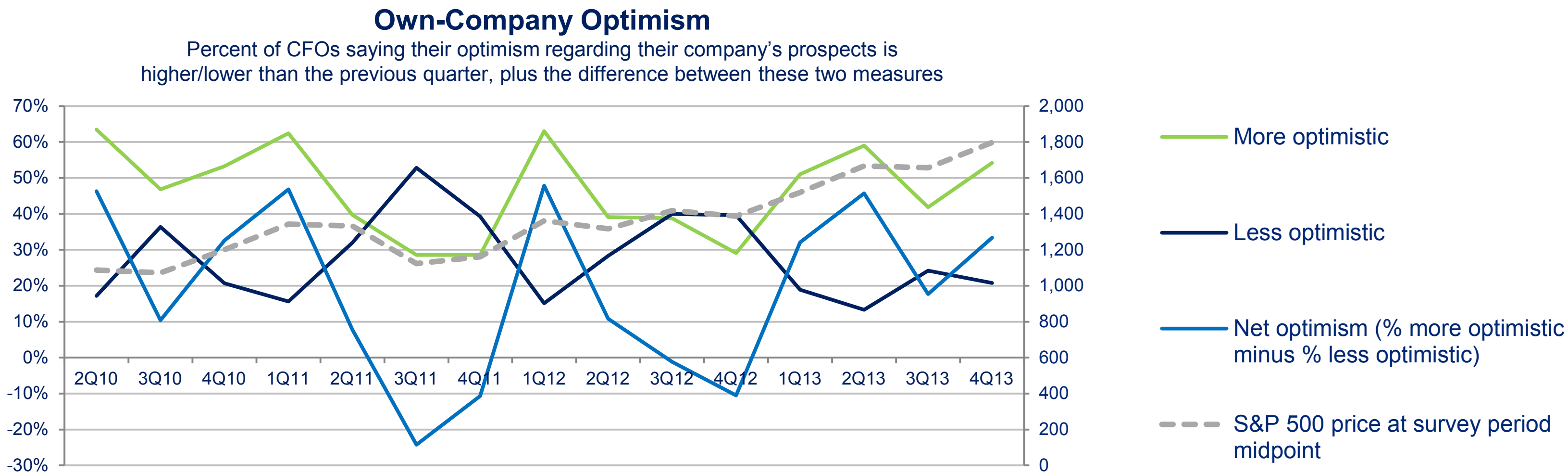
What's next?

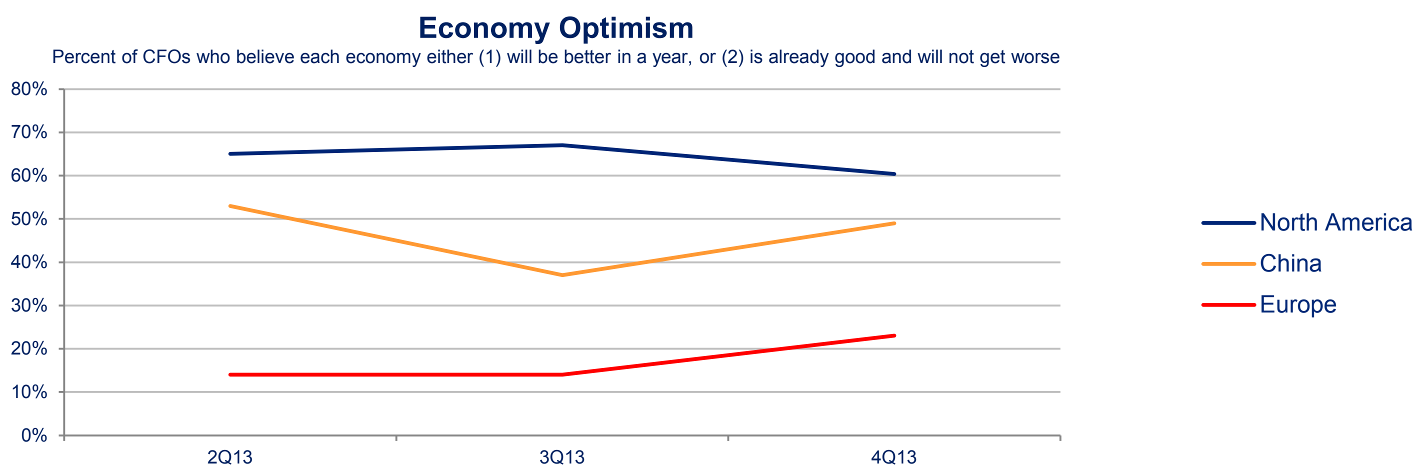
Many economists are optimistic as they look toward 2014, forecasting stronger North American growth, Europe's emergence from recession, and China's stabilization.

But this quarter's CFO worries and expectations suggest several macroeconomic events and trends are casting a shadow on their business planning. Entering a year ushered in by debt ceiling discussions and punctuated by mid-term Congressional elections, U.S. fiscal and monetary policy remain top CFO concerns. And CFOs' still-declining year-over-year expectations suggest they may have doubts about how economic growth will hold up when quantitative easing finally slows and eventually ends.

Key Charts: Optimism

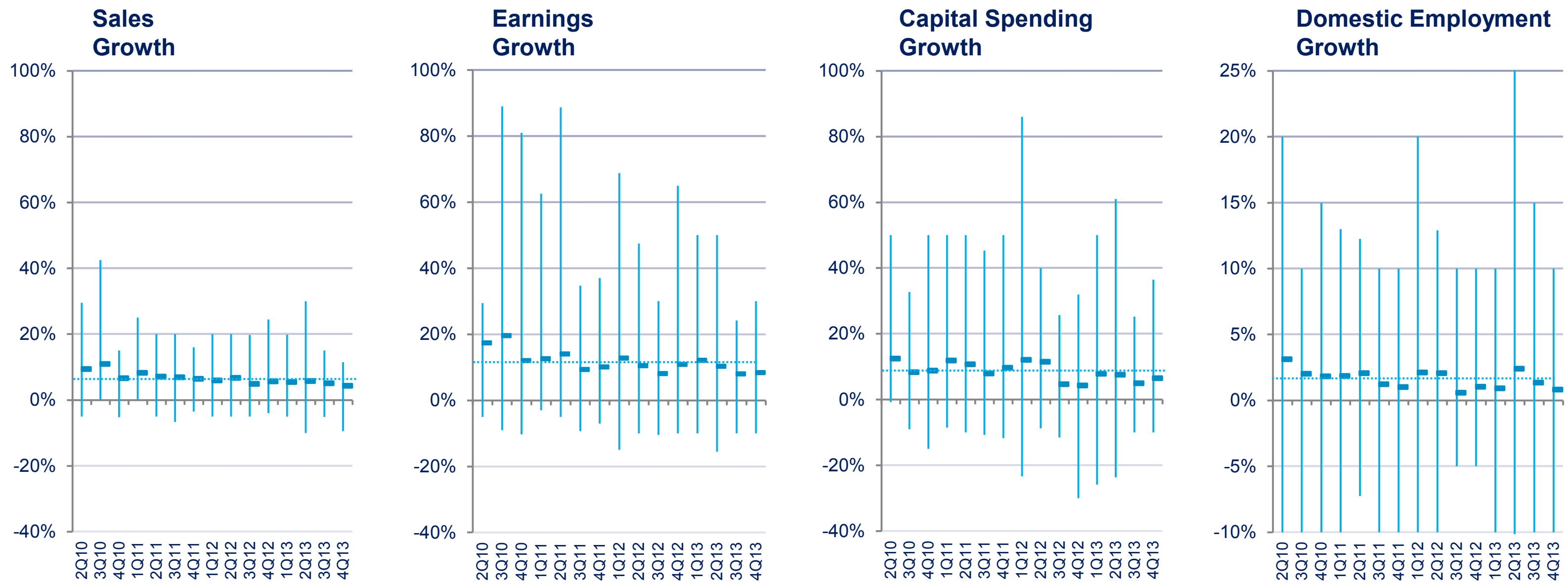
CFOs' sentiment regarding their companies' prospects and the health of major economic zones





Key Charts: Expectations

CFOs' expected year-over-year increases in 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).

Breakdown by Country and Industry

	Total (n=96*)	U.S. (n=72)	Canada (n=16)	Mexico (n=8)	Manufacturing (n=23)	Retail / Wholesale (n=7)	Technology (n=7)	Energy / Resources (n=9)	Financial Services (n=24)	Healthcare / Pharma (n=6)	T/M/E (n=7)	Services (n=8)
Sales growth	**4.1%**	3.8%	4.2%	7.0%	4.4%	6.3%	-2.9%	5.4%	3.5%	4.5%	-0.1%	5.9%
Earnings growth	**8.6%**	9.5%	3.7%	9.8%	14.7%	9.3%	4.9%	3.6%	3.0%	6.3%	15.3%	7.9%
Capital spending growth	**6.4%**	6.7%	2.2%	12.6%	8.4%	6.9%	6.4%	5.3%	1.5%	4.5%	5.0%	6.6%
Domestic personnel growth	**1.4%**	1.7%	0.0%	1.9%	2.0%	2.1%	4.6%	0.5%	-0.3%	6.8%	-0.9%	1.0%

* Sample sizes for industries may not sum to total due to responses from "other" industries.

Highest two industry expectations
Lowest two industry expectations

Business Environment

Aids and impediments to growth

Across the broader business environment, which factors do CFOs believe will substantially help or hinder their companies' growth?

North American economies and industry factors are still the top tailwinds:

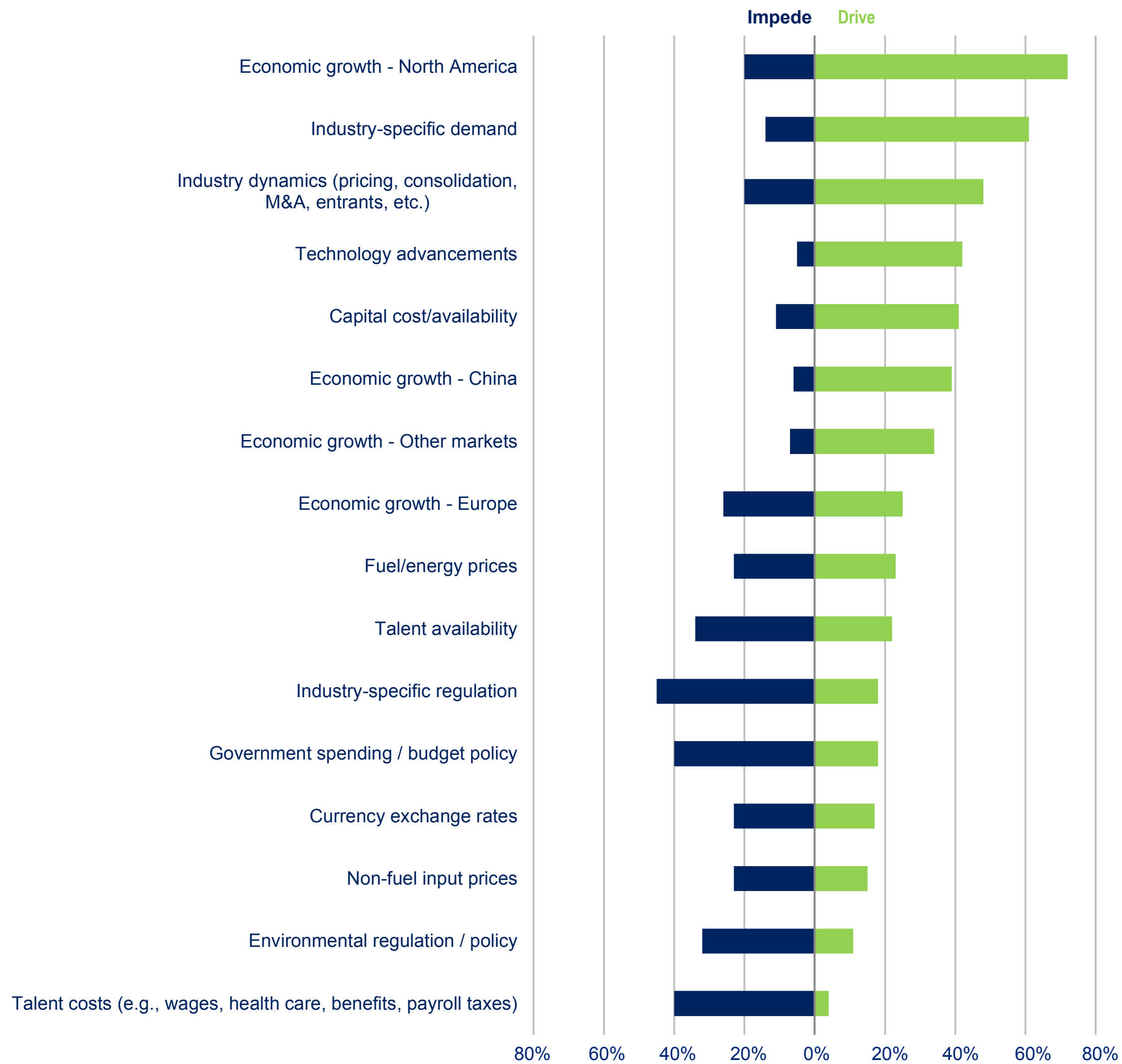
- **North American economies** are again the top growth aid, cited by 72% of CFOs – well ahead of China (39%) and Europe (25%). All sectors are above 55% for North America except for Technology at 43%.
- **Industry-specific demand** is a substantial growth aid for 61% of companies, driven mostly by positive sentiment in Manufacturing and Energy/Resources. Technology and Services CFOs are the most likely to name this factor a top impediment.
- **Industry dynamics** are a positive factor for 48% of CFOs overall and a negative factor for 20%. Manufacturing and Technology CFOs are the most positive, and Healthcare/Pharma is the most negative.
- **Technology advancements** and **capital availability** are substantial aids for about 40% of companies. Retail/Wholesale is the anomaly with little boost from either of these factors.

Impediments center heavily on government policy:

- **Industry-specific regulation** is the top impediment, cited by 45% of CFOs. Financial Services CFOs (54%), Healthcare/Pharma (67%), and Services (63%) are most likely to name this factor an impediment.
- **Government spending/budget policy** is a substantial impediment for 40% of CFOs overall and for 67% of those in Healthcare/Pharma.
- **Talent costs** are a substantial impediment for 40% of CFOs, especially for those in Healthcare/Pharma and T/M/E.

Which external factors will substantially drive and/or impede your company's performance over the next year?

Percent of CFOs selecting each factor (n=96)



Business Environment

Assessment of economies

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

North America still looks strongest, but China rebounded, and Europe is improving:

North America

Conditions and expectations have softened slightly.

- Overall, 63% of CFOs say the status of the North American economies is mediocre (53% last quarter), and 26% describe it as good (38% last quarter). All regions express similar sentiment.
- About 55% of CFOs believe conditions will be better a year from now (the same as last quarter), with Mexico again the most optimistic. Seven percent believe conditions will be worse (up from 2% last quarter), and 38% say they will be the same (43% last quarter).

Europe

Current conditions appear better, but expectations for next year are still poor.

- About 63% of CFOs say the status of Europe's economy is bad, an improvement from last quarter's 80% and the second quarter's 90%.
- Twenty-three percent of CFOs believe the economy will be better a year from now (up from 15% last quarter), and 28% believe it will be worse (about even with last quarter).

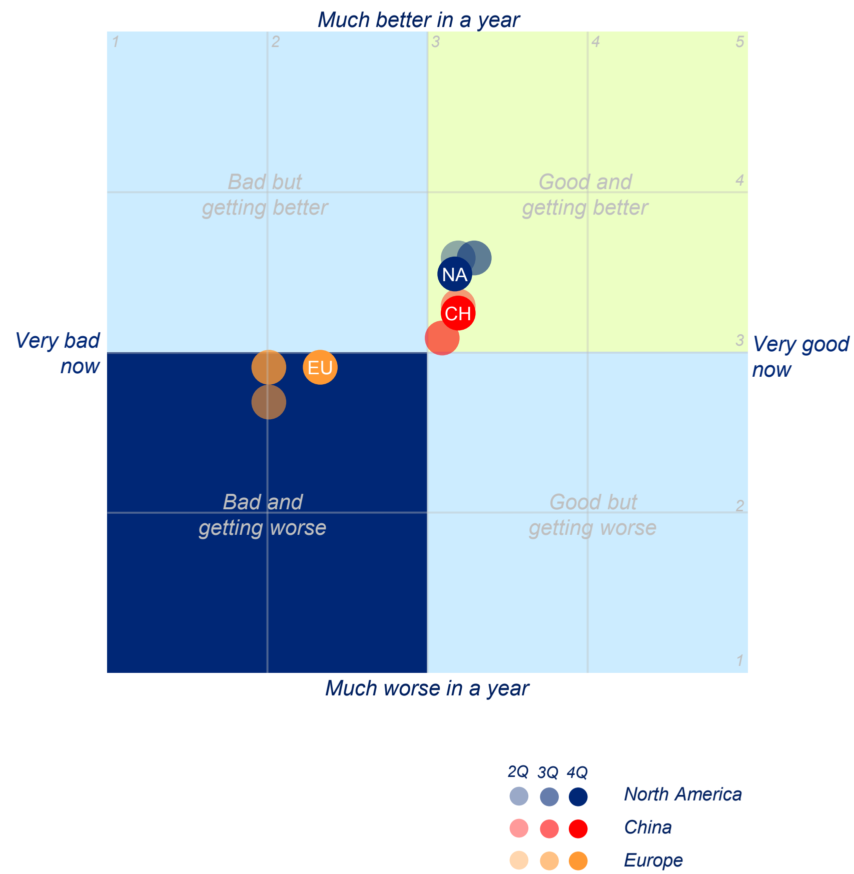
China

After a quarter of worsening expectations, China rebounds.

- Overall, about 32% of CFOs say China's economy is good (up from 25% last quarter), and about 15% regard it as bad (similar to the last two quarters).
- Thirty-eight percent of CFOs believe the economy will be better a year from now (up from 27% last quarter), and 16% believe it will be worse (down from 23% last quarter).

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

CFOs' assessment based on 5-point Likert scales: "very bad" to "very good" and "much worse" to "much better" (n=96)



Company Expectations and Priorities

Business focus

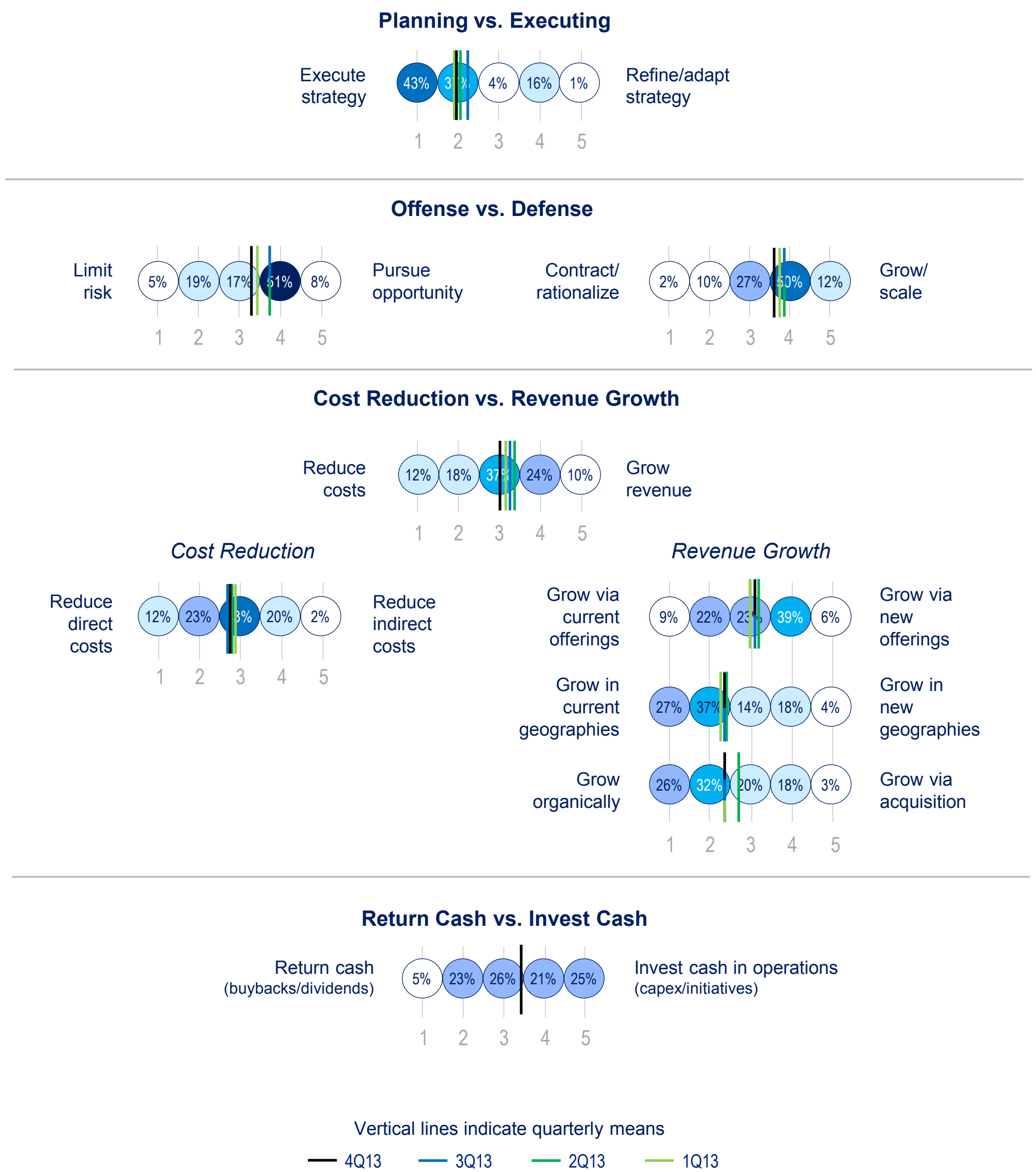
Where do CFOs say their companies are focusing their efforts?

Companies still mostly focused on growth, but there are signs of rising conservatism and defensiveness:

- **Executing still over planning**: The cross-industry bias shifted toward planning last quarter, but that trend reversed this quarter. Technology and Healthcare/Pharma indicate the highest focus on refining/adapting strategy, but both still favor execution on the whole.
- **Offense over defense, but defensiveness increasing**: Companies still indicate a bias toward "pursuing opportunity" over "limiting risk," but the margin declined notably and the proportion of those focused on "contracting/ rationalizing" rose. Energy/Resources is again biased toward limiting risk and is among the most focused on contracting/rationalizing (along with Technology).
- **Equal focus on cost and revenue**: After three quarters of a strong revenue bias, there is now a roughly equal focus on revenue and cost. Only Energy/Resources (higher cost focus) and Services (higher revenue focus) deviate substantially from the average.
- **New offerings over current offerings**: The bias is again slightly toward new offerings, led by Technology and Healthcare/Pharma.
- **Current geographies over new geographies**: The bias is still substantially toward current geographies. Services is about evenly focused on current and new geographies; the other sectors are firmly focused on current geographies.
- **Organic growth over inorganic growth**: The bias is still toward organic growth. Healthcare/Pharma and Retail/Wholesale are the most oriented toward M&A.
- **Direct-cost reduction over indirect-cost reduction**: T/M/E again leans the most toward direct-cost reduction; Retail/Wholesale is biased toward indirect costs.
- **Investing cash over returning it**: Companies are biased toward investing cash in operations over raising dividends or buying back shares. Financial Services shows the highest focus on returning cash, but is still focused primarily on investing it.

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

CFOs' assessments based on 5-point semantic differential scale with opposing choices as noted (n=93 to 96)



Company Expectations and Priorities

Cash

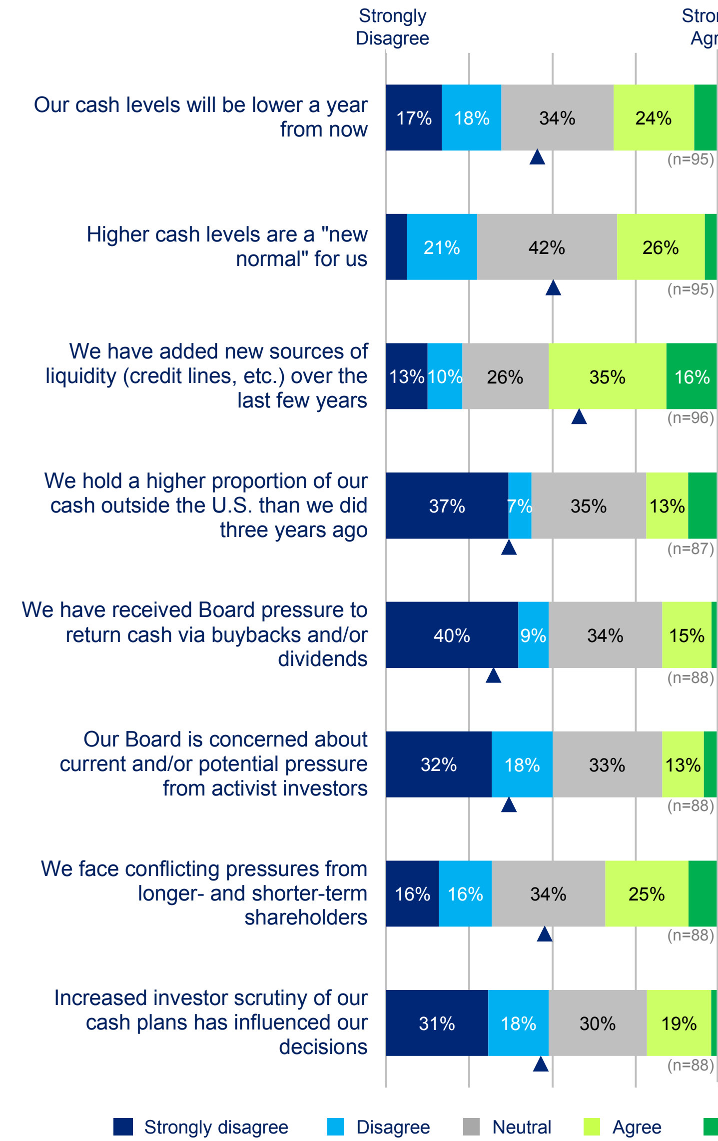
How do CFOs say their companies have adapted their approaches to cash and liquidity?

Other than adding liquidity, companies are inconsistent in how they are approaching cash. And investor pressures are not having a strong influence:

- **Companies have added sources of liquidity:** More than half of CFOs say they have made additions. T/M/E and Technology are highest at 71% and 57%, respectively; Services is lowest at 38%.
- **No clear path for cash levels:** Roughly equal proportions of CFOs say their cash levels will be higher and lower a year from now. Nearly 60% of Technology CFOs say their levels will be lower, and nearly 85% of Healthcare/Pharma CFOs say their levels will be higher. Only Financial Services CFOs say that higher cash levels are a "new normal."
- **Little pressure to return cash:** Seventeen percent of all surveyed CFOs say they have received Board pressure to return cash via buybacks or dividends. Energy/Resources and Financial Services are the anomalies at about 32%. About 22% of private companies cite this pressure.
- **Little worry about activist investors**: Seventeen percent of CFOs say their Boards are worried about pressure from activist investors (Technology is the industry anomaly at 43%, and public companies are higher at 21%). Thirty-four percent say they are facing conflicting pressures from long-and short-term investors (public companies are higher at 38%) . Twenty-two percent say increased scrutiny of their cash plans has influenced their business decisions.
- **Little offshoring of cash:** About 22% of CFOs say they are holding a higher proportion of cash than they did three years ago.

To what extent do you agree with the following statements about your cash?

CFOs' assessments based on 5-point Likert scale from "strongly disagree" to "strongly agree"



Please see full report for industry-specific findings.

Company Expectations and Priorities

Sales and earnings

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

<u>Sales*</u>

Sales growth expectations declined to their lowest level on record—driven primarily by survey-low expectations in the U.S.:

- Sales growth expectations declined to just 4.1% (their lowest in the history of this survey); the median is again 5%, with 82% of CFOs expecting year-over-year gains.
- Country-specific expectations are 3.8% for the U.S. (4.7% last quarter), 4.2% for Canada (5.6% last quarter), and 7.0% for Mexico (5.7% last quarter).
- Expectations for most industries are near the cross-industry mean, but Technology and T/M/E both expect declines. Retail/Wholesale is the most optimistic at 6.3%.

<u>Earnings*</u>

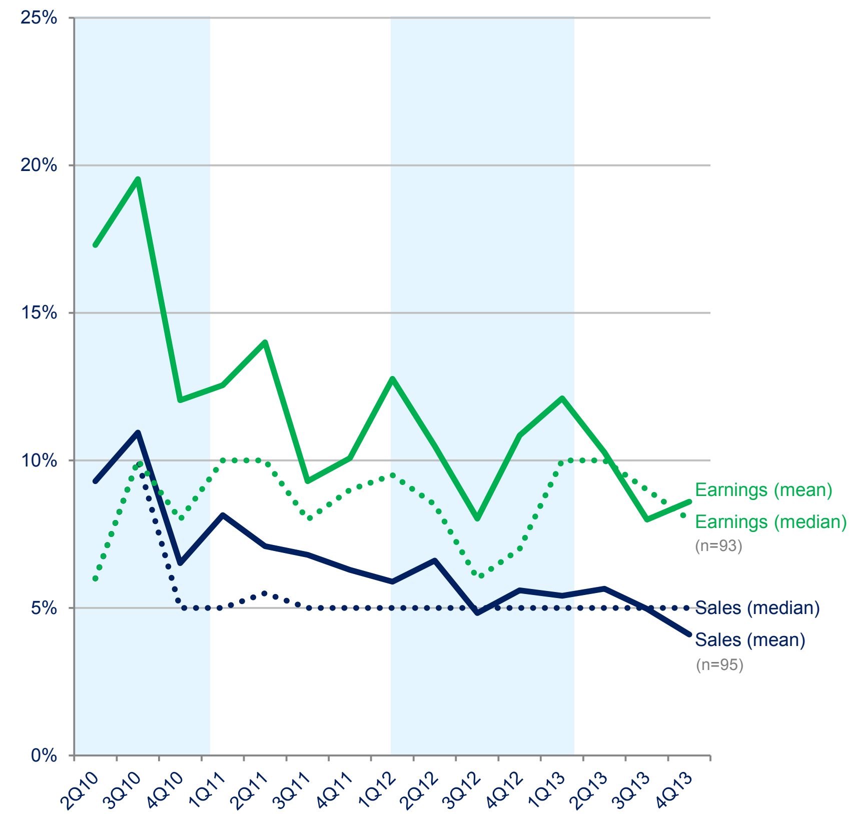
Earnings growth expectations rebounded from their survey low, but they are still near their lowest levels:

- Earnings are expected to rise 8.6%, up from last quarter's survey low of 8.0%; the median fell from 9.0% to 8.0%, and 82% of CFOs again expect year-over-year gains.
- Country-specific expectations are 9.5% for the U.S. (7.9% last quarter), 3.7% for Canada (9.9% last quarter), and 9.8% for Mexico (5.5% last quarter).
- Energy/Resources and Financial Services are the most pessimistic at 3.6% and 3.0%, respectively; Manufacturing and T/M/E are much more optimistic at 14.7% and 15.3%.

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

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

CFOs' expected change year-over-year



**Averages have been adjusted to eliminate the effects of stark outliers. Please see full report for industry-specific findings.*

Company Expectations and Priorities

Dividends and investment

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

Dividends*

Dividend growth expectations remain among their recent highs:

- Dividends are expected to rise 4.0%, up from last quarter and even with the longer-term survey average. The median is still 0.0%, and 37% of CFOs expect year-over-year gains.
- Country-specific expectations are 4.1% for the U.S. (3.2% last quarter), 3.4% for Canada (5.1% last quarter), and 4.8% for Mexico (1.5% last quarter, but note that the sample sizes have been relatively low).
- Manufacturing again bolstered the average, this time expecting a 9.0% gain.

Capital investment*

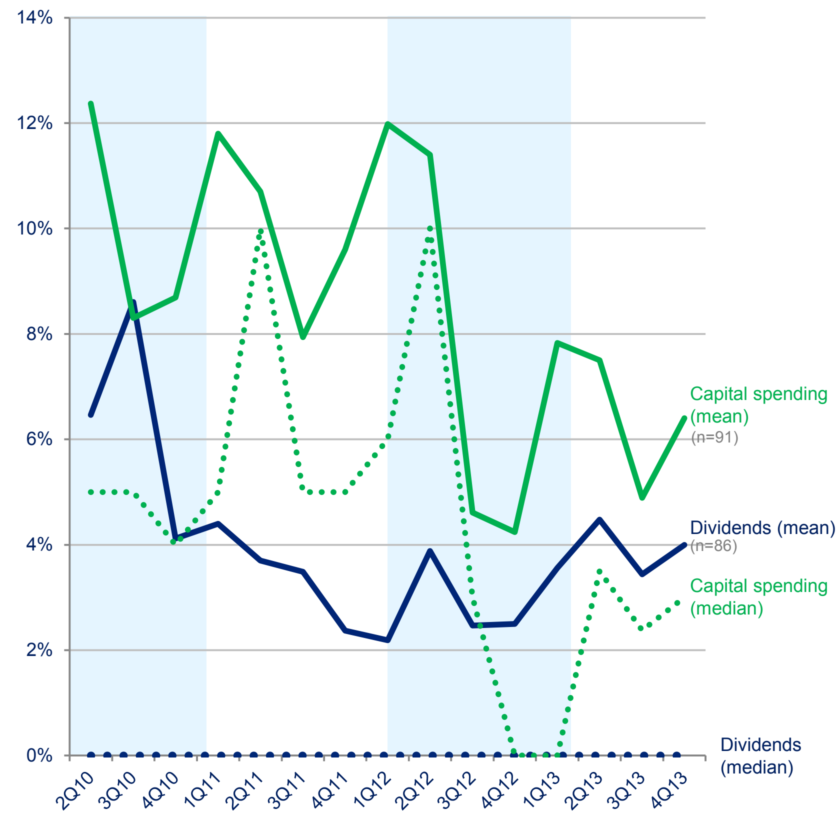
Capital spending growth expectations rebounded, but are still weak by historical standards:

- Capital spending expectations rose from 4.9% last quarter to 6.4% this quarter, but are still below the survey average. The median rose from 2.4% to 3.0%, and 59% of CFOs expect year-over-year gains.
- Country-specific expectations are 6.7% for the U.S. (6.4% last quarter), 2.2% for Canada (4.1% last quarter), and 12.6% for Mexico (-1.8% last quarter).
- Financial Services and Healthcare/Pharma are the lowest at 1.5% and 3.4%, respectively; Manufacturing and Services are highest at 8.4% and 7.5%.

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

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-year



**Averages have been adjusted to eliminate the effects of stark outliers. Dividend averages include only public companies.*

Please see full report for industry-specific findings.

Company Expectations and Priorities

Employment

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

Domestic hiring*

All countries cite modest expectations; most hiring is concentrated in a few sectors:

- Domestic hiring is expected to rise 1.4%, about even with last quarter's1.3% and above most recent quarters. The median is again 0.0%, and variability of responses is comparatively low this quarter. Forty-eight percent of CFOs expect year-over-year gains (comparatively high), and 20% expect cuts (comparatively low).
- Country-specific expectations are 1.7% for the U.S. (1.1% last quarter), 0.0% for Canada (1.1% last quarter), and 1.9% for Mexico (-0.8% last quarter).
- Energy/Resources, Technology, and Healthcare/Pharma are again the comparative bright spots, ranging from 4.6% to 6.8%. Financial Services and T/M/E both expect declines.

Offshore hiring and outsourcing*

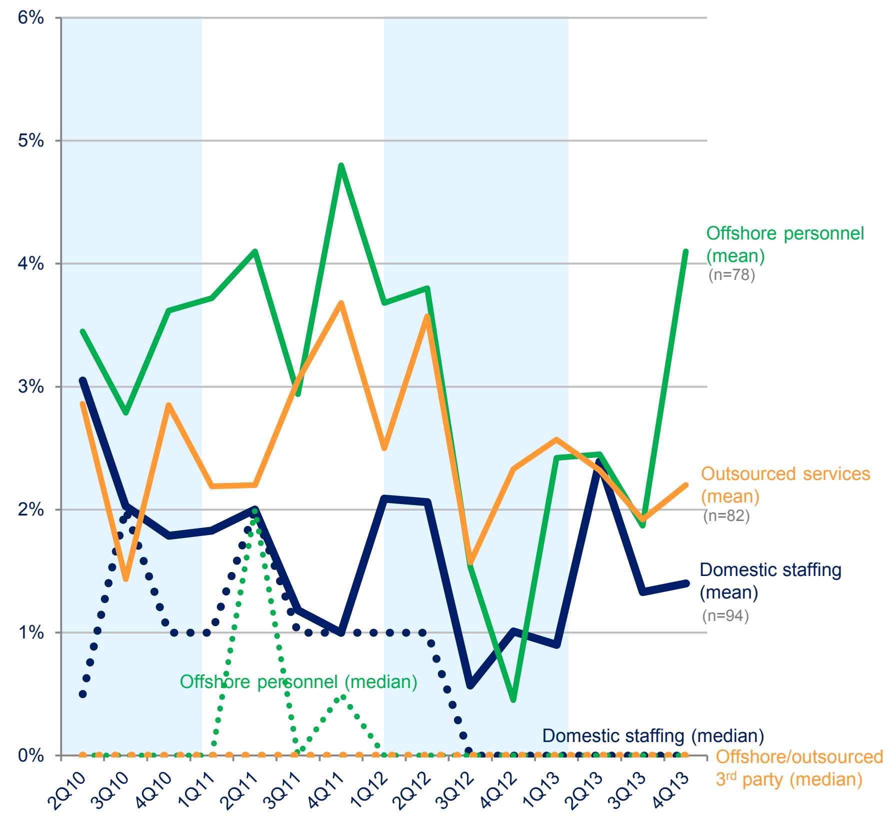
Offshore hiring growth expectations rose sharply; outsourcing may be rebounding:

- Offshore hiring rose sharply to 4.1%—well above the longer-term average of about 3%. Forty-two percent of CFOs expect year-over-year gains (the highest proportion in two years), and just 4% expect cuts. Technology, T/M/E, and Services lead with expectations between 6% and 8.5%.
- Outsourcing is expected to rise 2.2%, again below the longer-term average. The median is still 0.0%, with 40% of CFOs expecting gains (the highest in two years) and 9% expecting cuts (relatively high). Retail/Wholesale, Healthcare/Pharma and Services firms are the highest with estimates in the 4% to 6% range.

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

Compared to the past 12 months, how do you expect your number of domestic personnel, number of offshore personnel, and use of outsourced services to change over the next 12 months?

CFOs' expected change year-over-year



**Averages have been adjusted to eliminate the effects of stark outliers. Please see full report for industry-specific findings.*

Company Expectations and Priorities

Own-company optimism

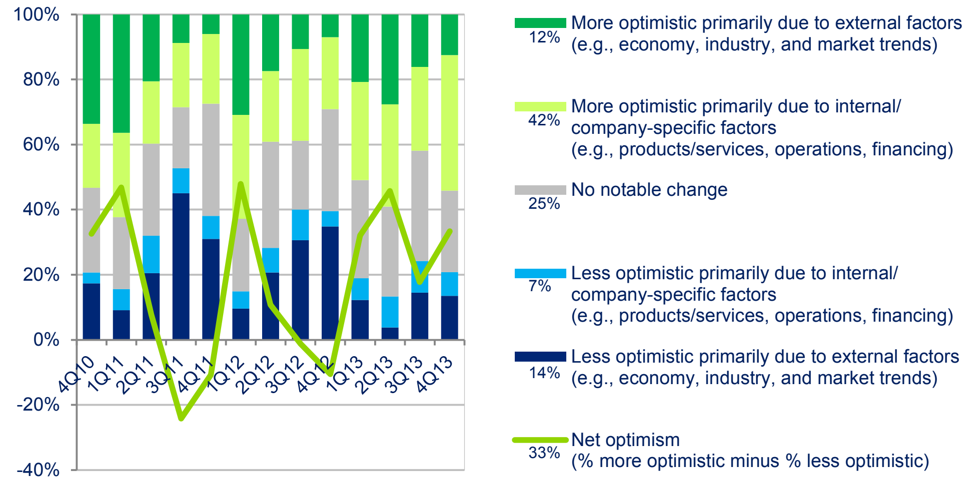
How do CFOs feel about their company's prospects compared to last quarter?

For the first time, CFOs have remained mostly up-beat for the entire year:

- **Optimists dominate:** Net optimism has been high for all four quarters of 2013, bucking a historic trend that typically sees optimism drop sharply at some point in the year. Net optimism rose from +18 last quarter to +33. Fifty-four percent of CFOs express rising optimism (up from 42% last quarter), and just 21% express rising pessimism (down from 24% last quarter).
- **Mostly internal optimism:** About three-quarters of CFOs' optimism is driven by internal factors – not by external factors. About two-thirds of the pessimism is driven by external factors.
- **All countries upbeat**: Net optimism for the U.S. is highest at +36, with Canada and Mexico both at +25.
- **Technology overwhelmingly pessimistic:** More than 85% of CFOs in this sector report declining optimism. Retail/Wholesale, and Energy/Resources are also comparatively pessimistic with equal proportions of optimists and pessimists.
- **Financial Services and Healthcare/Pharma most optimistic:** Optimists far outweigh pessimists in both sectors.

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

Percent of CFOs selecting each sentiment/reason combination (n=96)



Please see full report for industry-specific findings.

Company Expectations and Priorities

Most worrisome risks

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

Top worries are less about Europe and more about general economic growth; government action and inaction remain top concerns:

- **Effects of "quantitative easing" and unwinding**: Worries escalated about the long-term effects of U.S. monetary policy and nearer-term effects of tapering or unwinding the bond-buying program.
- **Government gridlock**: Worries about the ability of governments to make and implement policy continued to accelerate.
- **Industry regulation**: Concerns grew that governments would take more active roles within industries. This factor was mentioned in all sectors except Retail/Wholesale and Energy/Resources.
- **Margin pressures:** Concerns remain about competition, pricing, and the ability to align costs with revenue.
- **Execution**: Worries continued around companies' ability to execute well on current and new strategies.

Overall, what external or internal risk worries you the most?

Themes mentioned in CFOs' free-form responses; size of text proportional to prevalence of themes (n=86)

***Light gray text** indicates worries that completely or nearly disappeared this quarter.*
***Underlined text** indicates worries that did not appear last quarter.*

Company Expectations and Priorities

Controlling health care costs

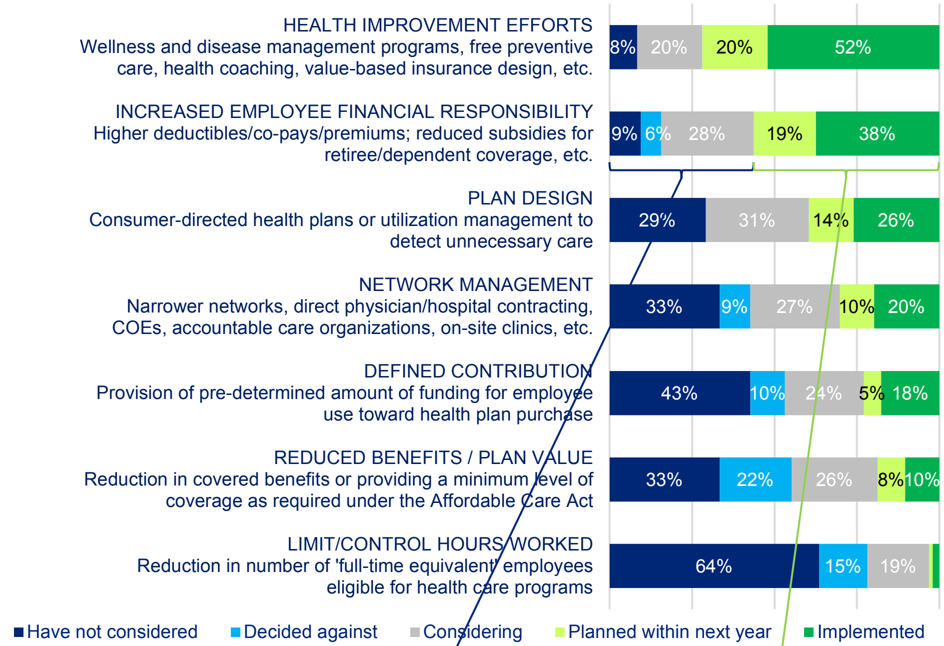
Which tactics do CFOs say their companies have considered and implemented to control their health care costs?

To date, companies have focused primarily on health/wellness and passing costs on to employees, but other tactics are still up for consideration:

- **Most companies have already taken steps:** Nearly two-thirds of companies have taken at least one step toward controlling health care costs. About 45% have already taken at least two steps, and about 25% have taken at least three steps.
- **Health and wellness programs pervasive:** Nearly three-fourths of companies have implemented them or will within the next year. Another 20% are considering them.
- **Employees paying more:** Nearly 60% of companies have passed on costs to employees or will within the next year. Another 28% are considering doing so. For the companies passing on costs, the dominant tactics are higher premium contributions (74%), increased deductibles (72%), and increased copays (49%). Those not passing on costs mostly cite concerns about employees' reaction or say they have not yet fully considered this approach.
- **Relatively little focus on structural changes:** Comparatively few companies have considered changing to defined contribution plans, reducing the scope or value of benefits, or changing their workforce composition to control costs.
- **More changes coming:** About 45% of companies say they plan to pursue at least one additional step over the next year, and about 20% plan to pursue two or more. Most plan to increase employees' financial responsibility and/or implement health improvement efforts. Plan design is also a substantial focus.

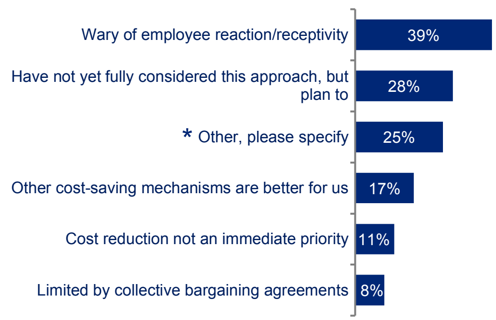
How are you planning to reduce/control your company's health care costs?

Percent of CFOs citing each level of consideration/implementation of common cost management tactics, choices as noted (n=96)



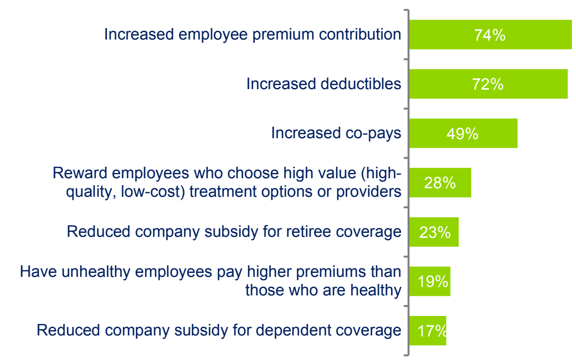
Why have you chosen not to increase employees' financial responsibility for health care costs?

Percent of CFOs citing each reason, unlimited choices (n=36)



What have you done (or what will you do) to increase employees' financial responsibility?

Percent of CFOs citing each tactic, unlimited choices (n=53)



* *Most "other" responses are from Canadian and Mexican CFOs who say this approach is either not relevant or not necessary. U.S. comments focused on the need to stay competitive with other employers.*

Company Expectations and Priorities

Impact of the Affordable Care Act

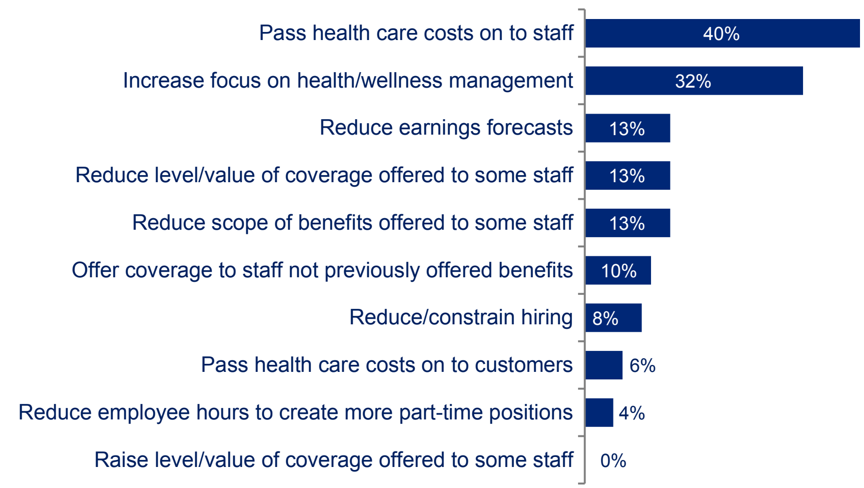
To what extent do CFOs say the ACA has caused their companies to employ different health care cost management measures?

The ACA has had a significant influence on companies' health care cost containment approaches; it has not been a strong driver of improved or expanded coverage:

- **Some drag on earnings:** About 13% of CFOs say they have reduced their earnings forecasts as a result of the Act.
- **Reason to pass on costs to staff:** Forty percent of all U.S. CFOs say the ACA is the reason they have pursued or considered passing costs on to staff. Forty-two percent of the companies who have already done so say the ACA was the reason, and 63% of those doing so in the next year say it is the reason.
- **Limited upside for staff at large companies:** About 10% of CFOs say they have added coverage for staff not previously offered benefits, and none say they have raised the level or value of coverage to any staff.
- **No major impacts on hiring, staffing mix, or benefits:** About 13% say they have reduced coverage levels and scope, about 8% say they have constrained hiring, and 4% say they have shifted toward part-time staffing.

Has the Affordable Care Act (specifically) caused you to pursue any of the following measures?

Percent of U.S. CFOs citing each action, unlimited choices (n=72)



Finance Priorities

Contributions to the business

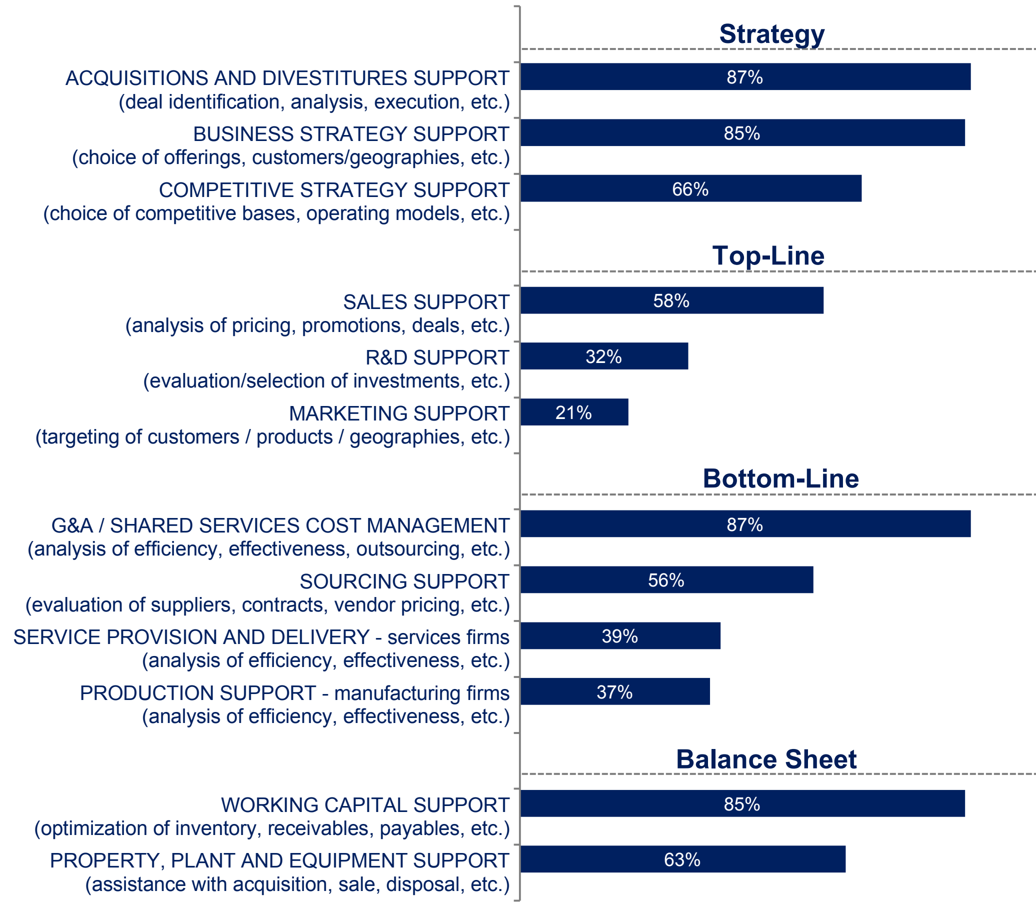
In which areas do CFOs say their finance organizations make a substantial contribution to the business?

The average finance organization makes substantial contributions in seven areas; the strongest contributions are around strategy support, and the weakest are around sales and marketing.

- **Scope of support:** CFOs in Services and Manufacturing indicate broader average reach at 9 areas, while Financial Services and Retail/Wholesale are narrower at 6. All organizations contribute substantially in at least one of the areas of business strategy, acquisitions/divestitures, shared services costs, or working capital; 60% contribute to all four of these areas, with Financial Services CFOs highest at 83%.
- **Strategy contributions:** Eighty-five percent of finance organizations contribute substantially to business strategy support (only Technology and TME are below 75%), and 66% contribute to competitive strategy. Only 5% of organizations do not contribute to either area of strategy development. More than 83% of organizations contribute to acquisitions and divestitures.
- **Top-line contributions:** Finance organizations contribute least to top line-areas. The Manufacturing sector contributes most to top-line and Financial Services contributes the least to marketing. Almost all organizations that contribute to marketing also contribute to sales, and most that contribute to R&D also support production.
- **Bottom-line contributions:** Eighty-seven percent of CFOs say their finance organizations make a substantial contribution to shared services cost management. Eighty percent of those that support production also contribute to PP&E support. The Services sector contributes the most to service delivery and sourcing.
- **Balance sheet contributions:** Ninety percent of CFOs say their finance organizations contribute to balance sheet management. Eighty-six percent contribute to working capital management, and 63% percent contribute to PP&E support. Organizations in Financial Services contribute the least in both areas.

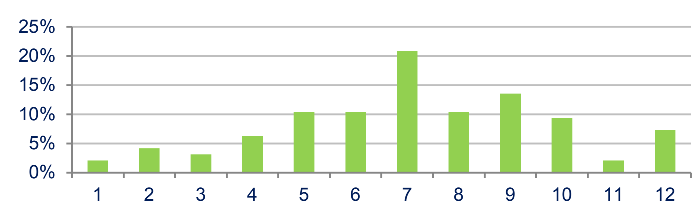
In which areas does your finance organization make a substantial contribution to the business?

Percent of CFOs who say their finance organization contributes substantially in each area (n=96)



Scope of Contribution

Percent of CFOs citing each number of contribution areas (n=96)



Finance Priorities

Measuring Finance's performance

What metrics do CFOs utilize in measuring the performance of their finance organizations?

About one-third of performance measures are business-level, and the remaining two thirds are specific to finance:

- **Cost is the most prevalent:** About half of all CFOs named cost as one of their top metrics (total costs, total headcount, costs as a percent of revenue, etc.).
- **Fundamental reporting is the foundation:** The timeliness and quality of financial reporting and the close process are among the most-mentioned measures at 27% and 21%, respectively.
- **Business support is the core:** Business support metrics were mentioned more than any other single category, led by internal client satisfaction scores, achievement of plans/budgets, and forecast accuracy (at 24%, 22%, and 21%, respectively).
- **Bottom-line business performance is a factor:** About one-third of all metrics were organization-wide metrics, led by compliance, cash flows, and income statement performance.

Please see full report for more detailed findings.

What indicators do you use to monitor the performance of your finance organization?

Consolidation of CFOs' free-form responses, CFOs' answers capped at five (n=84)

Measure	Percent of CFOs who mentioned measure	Weighted score (by CFOs' priority ranking)
Cost (of Finance function)	41%	123
Internal customer satisfaction	24%	67
Reporting timeliness/quality	27%	65
Achievement of plans/budgets	22%	62
Close timeliness/quality	21%	61
Forecast accuracy	21%	53
Compliance	16%	45
Cash flow / FCF	15%	42
Finance talent bench/development/capability	19%	41
Finance transaction efficiency/effectiveness	19%	40
Engagement with operations / seat at table	15%	37
Analysis quality / decision support	12%	33
Cost savings identified/achieved	13%	32
EBIT / EBITDA / Net income	13%	28
Operating margins / yield	10%	27
Revenue growth / market share	12%	24
Financing/capital costs	7%	23
Talent retention	12%	23
Feedback from GMs/Board	10%	21

Personal Priorities

Building strong business partnerships

What are CFOs' best insights for building strong relationships with the business?

While some insights imply a "challenger" and "controller" role, the vast majority suggest roles centered on "facilitation" and "partnership":

- Very few CFOs provided only one insight.
- The notion of "understanding the business" was at the core of the insights provided by roughly two-thirds of CFOs.
- The notion of "providing useful information/insight" was included in the suggestions of most CFOs.
- Technical competency was not mentioned by any CFOs, presumably because this factor is taken for granted.

What is your top insight for strengthening Finance's relationship with the business?

Consolidation and paraphrasing of CFOs' free-form comments* (n=79)

Be strategic

Get on the same page as the business leaders

Know the business

- Know the strategy (goals, tradeoffs, etc.)
- Know the operations (approaches, metrics, etc.)
- Know the facts (targets, performance, etc.)
- Get out of the office / be in the field
- Know what is/isn't making money
- Know which customers matter most
- Know what the business is trying to accomplish
- Business = Finance = Business

Clarify finance's role

- Be an advisor not a "policeman"
- Be a "partner," not overseer, inspector, auditor (3)
- See businesses as customers (3)

Build the relationships

- Build solid relationship with CEO/Board
- Form close business partnerships with operations and functional organizations (4)
- Ask for feedback from leaders
- Create opportunities for dialogue

Build the right organization

Develop, deploy, and motivate the right team

Get the right people

- Get talented staff who can understand the business
- Hire people passionate about running businesses
- Change personnel when necessary

Deploy the right structure

- Embed Finance-trained/loyal staff (focused on intellectual honesty/communication) in the business
- Deploy business unit controllers
- Co-locate finance staff with the business units
- Put FP&A in profit centers; drive fact-based decisions
- Assign analyst to the business unit to respond to financial and qualitative questions

Set the right expectations

- Align Finance's goals with strategic objectives
- Align staff's goals with operating results (2)
- Build business unit feedback into performance reviews
- Give staff time/motivation to understand the company

Create/add value

Help deliver operational and financial results

Get the basics right

- Provide accurate/timely financial information (4)
- Provide solid/insightful analysis

Get included in key decisions

- Demonstrate strong business/ops understanding (5)
- Set expectation for finance to act as a business partner
- Provide insights the business operators do not see
- Prove your value – find savings/growth opportunities
- Instead of saying "no" to requests, describe what is necessary to say "yes"
- Ask lots of good questions and listen very well

Provide focus and clarity

- Provide clarity/consistency around strategy and objectives
- Focus on providing insight into business drivers; connect operations results to financial performance
- Contribute to strategic thinking and financial insight
- Provide forward-looking information/indicators vs. only reporting "actuals"
- Highlight how efforts not only help individual business units but the corporate bottom line as well
- Strengthen knowledge via "Finance for non-financial managers" class for operations leaders
- Require frequent/regular communication (6)

Help solve problems

- Approach business issues from a business (not just financial/quantitative) perspective
- Focus on strategies for growth (3)
- Highlight how efforts not only help business units but the bottom line as well
- Bring insights and analysis with solutions , not rules and procedures
- It cannot only be about the numbers; handle linkages to the finance side of the house behind the scenes
- Help develop solutions
- Stay open/objective; keep emotions out of interactions

* *This chart presents a summary of CFOs' free-form responses. Most wording is near-verbatim, but some comments have been consolidated and paraphrased. Parentheses denote counts for particular responses.*

Longitudinal Trends

CFOs' Year-Over-Year Expectations

(Mean growth rate*, median growth rate, and percent of CFOs who expect gains)

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Survey Mean
Operating Results	Sales	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%	6.5%
		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%	5.5%
		84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%	84%	78%	82%	83%
	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%	11.7%
		6.0%	10.0%	8.0%	10.0%	10.0%	8.0%	9.0%	9.5%	8.5%	6.0%	7.0%	10.0%	10.0%	9.0%	8.0%	8.6%
		89%	93%	80%	83%	83%	82%	84%	79%	81%	84%	76%	84%	83%	82%	82%	83%
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%	4.0%
		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%	36%	35%	41%	27%	31%	33%	30%	29%	38%	40%	39%	37%	35%
	Capital spending	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%	8.6%
		5.0%	5.0%	4.0%	5.0%	10.0%	5.0%	5.0%	6.0%	10.0%	3.0%	0.0%	0.0%	3.5%	2.4%	3.0%	4.5%
		62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%	57%	54%	59%	59%
Employment	Number of domestic personnel	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%	1.6%
		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%	0.7%
		50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%	46%	47%	48%	50%
	Number of offshore personnel	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%	3.0%
		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%	0.2%
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%	36%	33%	42%	41%
	Use of offshore/outsourced third parties	2.9%	1.4%	2.8%	2.2%	2.2%	3.1%	3.7%	2.5%	3.6%	1.6%	2.3%	2.6%	2.3%	1.9%	2.2%	2.5%
		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%
		35%	37%	32%	41%	31%	36%	49%	26%	30%	28%	28%	35%	31%	38%	40%	34%

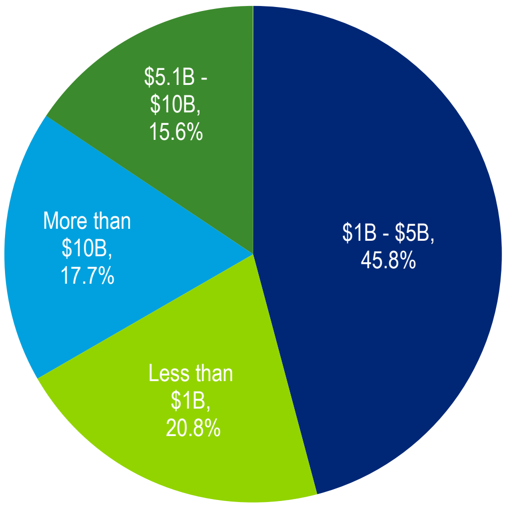
CFO and Equity Market Sentiment

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%	46.1%
	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%	26.3%
	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%	28.1%
	Net optimism (% more optimistic less % 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%	18.0%
S&P	S&P 500 price at survey period midpoint	1088	1072	1200	1343	1333	1123	1161	1361	1317	1418	1387	1520	1667	1656	1798	1363
	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%	3.6%

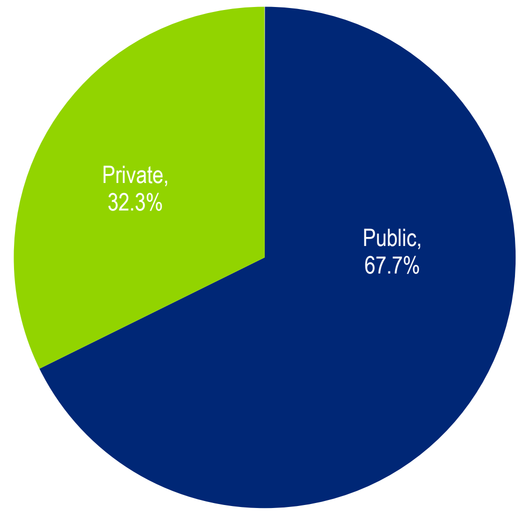
* All averages have been adjusted to eliminate the effects of stark outliers. The "Average" column contains arithmetic means since 2Q10.

Demographics

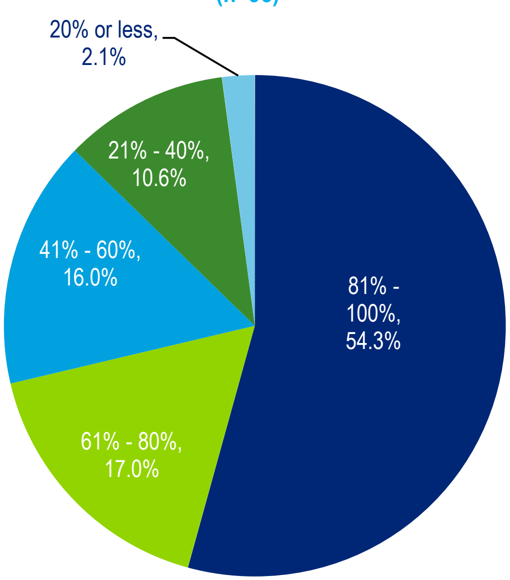
Annual Revenue ($U.S.)
(n=96)



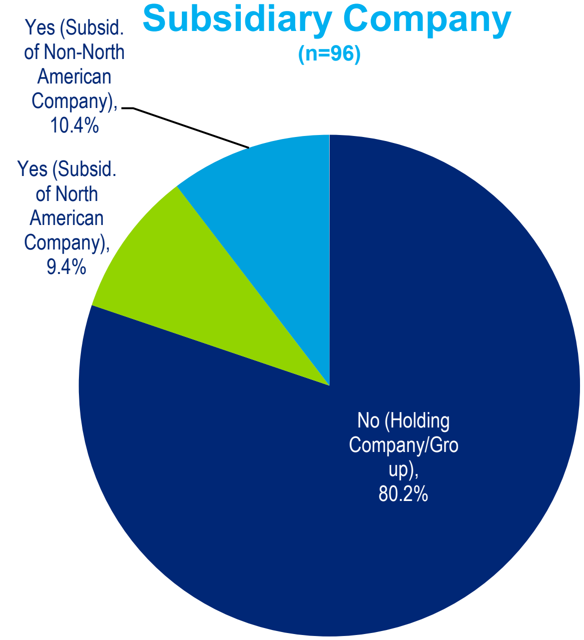
Ownership
(n=96)



Revenue from North America
(n=96)

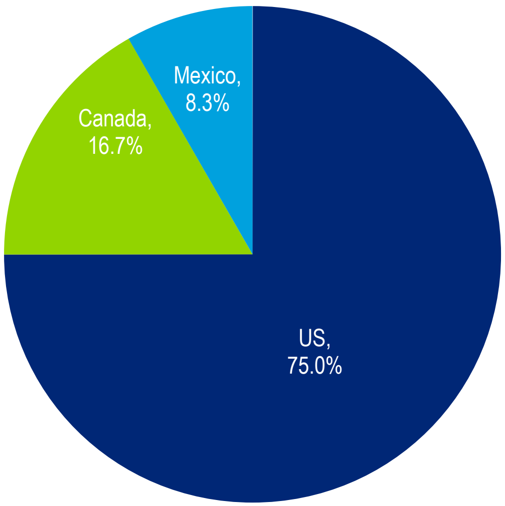


Subsidiary Company
(n=96)

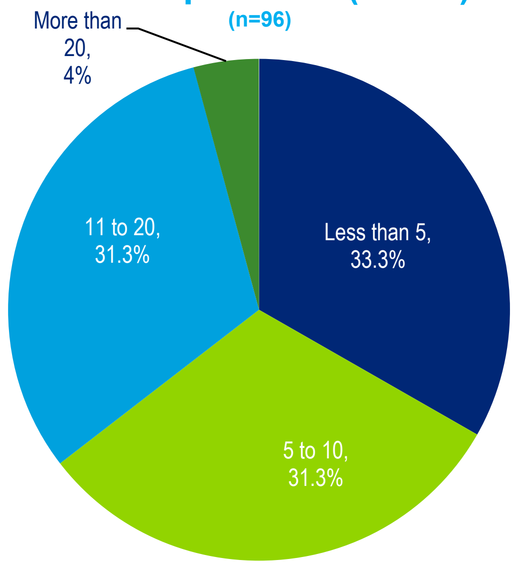


Demographics (cont.)

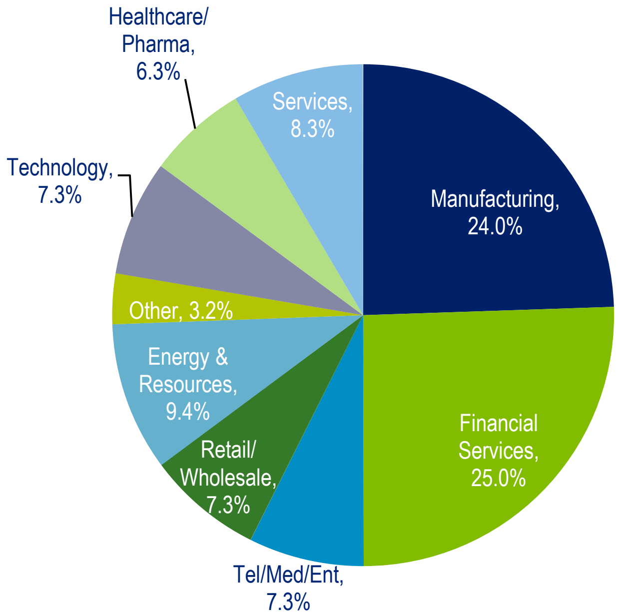
Country
(n=96)



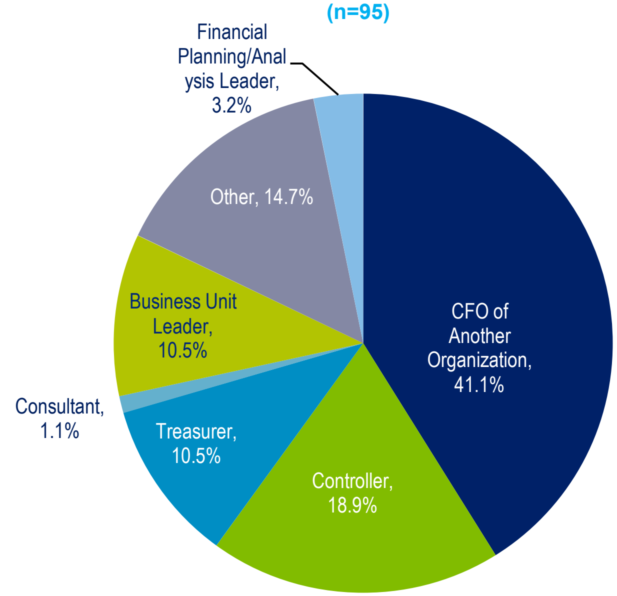
CFO Experience (Years)
(n=96)



Industry
(n=96)



Previous CFO Role
(n=95)



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 five areas: CFO career, finance organization, company, industry, and economy.

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 sectors 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.