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

High-Level Report

1st Quarter 2014
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 2014.

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 and nine CFOs responded during the two-week period ending February 21. Sixty-nine percent of the respondents are from public companies, and 81% 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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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, industry factors, and technology advancements are the top tailwinds. Policy and regulatory factors are still impediments, but not as pervasive. Page 8.

How do you regard the current and future status of the North American, Chinese, and European economies? Views of North America improved, with 42% describing conditions as good (26% last quarter), and 62% expecting better conditions in a year (55% in 4Q13). Thirty-seven percent regard China’s economy as good (32% in 4Q13), and 33% expect improvement (38% in 4Q13). Nearly one-third now see Europe improving in a year—a major sentiment shift. Page 9.

Company Priorities and Expectations

What is your company's business focus for the next year? CFOs still indicate a bias toward “pursuing opportunity” over “limiting risk,” but there is a stronger risk focus this quarter. Growth is again biased toward new offerings and existing geographies. Page 10.

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months? Sales growth expectations rose slightly from last quarter's survey low of 4.1% to 4.6% this quarter. Earnings expectations declined from 8.6% to a survey-low 7.9%. Capital spending held steady at 6.5%, but are below the survey average of 8%. Domestic hiring expectations declined to just 1.0% from last quarter’s 1.4%. Pages 11-13.

How does your optimism regarding your company's prospects compare to last quarter? Coming off the first entire calendar year in which net optimism stayed positive, net optimism remained strong this quarter at +27 (down from +33 last quarter). But sentiment normally peaks early in the calendar year, and this quarter’s net optimism is the lowest for any first quarter on record. Page 14.

Overall, what external or internal risk worries you the most? Worries returned around the health and trajectory of both mature and developing economies. CFOs expressed worries that economies will falter due to weak growth and external shocks, and also about effects of slow job growth on consumer demand. Page 15.

What changes are likely for your company over the next year? Nearly one quarter of CFOs expect a change in their business strategy, more than 20% expect a substantial merger or acquisition, 16% expect a divestiture, and about 14% expect to discontinue operation of a business unit. Twenty-eight percent expect a significant share buyback, and nearly 30% expect a significant increase in dividends. Page 16.

Company Priorities and Expectations (continued)

How will you allocate your capital investments over the next year? More than half of capex is slated for growth and innovation (37% and 14%, respectively). There are strong industry differences, but even the most productivity-focused sectors are focusing 25% or less of their capex on productivity and cost reduction. Page 17.

Other than the U.S., which countries are most important to your company’s growth prospects over the next three years? China is the top non-U.S. growth engine, but Latin America and Europe are also important. Forty-three percent of CFOs named China in their top three. Twenty-six percent named Mexico, and 20% named Brazil. Twenty percent named the U.K., and 13% named Germany. Page 18.

Which best describes your preferred approach to growth opportunities over the next three years? Most CFOs prefer to focus their growth investments, but those in some sectors are more inclined to hedge their bets. Nearly 60% say they prefer a focused approach, but all Healthcare/Pharma and two-thirds of Services CFOs say they prefer to spread their investments across multiple opportunities. Page 19.

Which of the following measures do you expect to take in response to the Affordable Care Act? Two-thirds of CFOs say they expect to increase their focus on health and wellness, and 60% plan to pass costs on to staff. Twenty-three percent expect to reduce the scope of benefits offered, and 11% expect measures undertaken in response to the ACA to reduce their earnings forecasts. Page 20.

Finance Priorities

How is your visibility into profitability? Even at company, business unit, and regional levels, 21% to 29% of CFOs say their visibility needs improvement. At channel and customer levels, more CFOs say they need better visibility than say their visibility is good enough. Page 21.

How successfully do you allocate overhead costs and assets? IT costs are the most allocated costs and customer service/support costs are the best allocated. Allocation of HR costs appears less effective. R&D cost allocations and working capital allocations are comparatively uncommon. Page 21.

Personal Priorities

How many people report directly to you? The average CFO has seven direct reports—five men and two women. Page 22.

How many of your direct reports will be CFO-ready within a year? Three years? About half of CFOs have a direct report who will be ready within one year, and nearly 90% have at least one who will be ready in one to three years. Page 22.

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

Last quarter marked the first calendar year in which CFOs’ own-company optimism stayed net positive for all four quarters. In fact, the proportion of CFOs citing improving optimism exceeded the proportion citing declining optimism by a wide margin for the entire year.

But last quarter’s findings became less encouraging when we noted that key indicators, such as sales, earnings, investment, and hiring growth expectations were all on a downward trend. Moreover, CFOs’ responses to a variety of questions seemed to indicate they were still not planning for substantial growth—and that a growing number were becoming more tentative as they entered 2014.

This quarter looks and feels a lot like the last. CFOs are again optimistic, but their near-term growth expectations are again weak. And there are again rising signs of conservatism and tentativeness.

Optimistic, but constrained
Contributing to CFOs’ optimism are their perceptions of several major economic zones. Optimism regarding North America, for example, rose due to improving assessments of both the economy’s current health and its trajectory. Perceptions of Europe turned a corner, with CFOs’ assessments of current economic health better, and their outlooks on its trajectory finally netting out positive. Assessments of China were mixed with better perceptions of current health, but worse outlooks on the economy’s trajectory.

Perceptions of their own companies’ prospects were mixed as well. Net-optimism is again well above zero (more CFOs cite rising optimism than falling optimism), but sentiment normally peaks in the first quarter of the year – and this is the lowest relative peak on record. Part of this softness may be due to the fact that it is harder for optimism to continue to improve after a full year of rising optimism. But many CFOs are projecting more modest expectations for sales, earnings, investment, and hiring than they did a year ago – suggesting there may be other factors at work.

Case in point: earnings growth expectations, which normally peak in the first quarter of each calendar year, declined to their lowest level on record – far off the first quarters of previous years. Similarly, capital spending expectations normally peak in the first quarter of the year. But they did not get much of a boost this quarter, and are at the lowest level for any first quarter on record.

Sentiment and Expectations Compared to Last Quarter

<table>
<thead>
<tr>
<th>Own-Company Optimism (Net Optimism)</th>
<th>Developments Since 4Q13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy Optimism – North America*</td>
<td>• U.S. economy ended 2013 with one of best half-years of growth in a decade</td>
</tr>
<tr>
<td>Economy Optimism – Europe*</td>
<td>• U.S. Federal Reserve began to taper its bond purchases and Janet Yellen took the Fed reins from Ben Bernanke</td>
</tr>
<tr>
<td>Economy Optimism – China*</td>
<td>• Rising turmoil in some emerging markets</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>• U.S. housing market recovery stalled</td>
</tr>
<tr>
<td>Earnings Growth</td>
<td>• S&amp;P 500 fell more than 5.5% in late January and early February, but rebounded by middle of February</td>
</tr>
<tr>
<td>Capital Investment Growth</td>
<td></td>
</tr>
<tr>
<td>Domestic Employment Growth</td>
<td></td>
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</tbody>
</table>

*Assessed relative to 1-year average

Well below last quarter  Well below 4 yr. average  Well above 4 yr. average  Well above last quarter

Tentative growth
Despite their tentativeness, most CFOs continue to indicate a bias toward growth over reducing costs and toward pursuing opportunity over limiting risk. They say more than half of capex spending is slated for growth and innovation, and most say their preferred approach to growth is to focus on a few targeted opportunities rather than spread investments across multiple ones. And they say that U.S. and Chinese markets are central to their companies’ growth plans – and that the U.K., Germany, and much of Latin America are important as well.

Still, year-over-year expectations for capital investment are not strong by historical standards. Moreover, many CFOs appear likely to direct a larger proportion of their cash to shareholders this year, with both dividends and buybacks gaining momentum. In fact, nearly 30% of public company CFOs say they will significantly increase dividends this year, and roughly the same proportion expect a major buyback.

Overall, it is clear that companies are continuing to adapt in material ways. Nearly one-quarter of CFOs expect a fundamental change to their company’s business strategy over the next year. And many say their companies are continuing to expand and refine their business, with about one-fifth expecting a substantial merger or acquisition, 15% expecting to discontinue the operation of a business unit, and 16% expecting a substantial divestiture.

* 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.)

Reasons to be cautious
CFOs’ expectations appear tempered by resurgent worries about the health and trajectory of mature and developing economies. This quarter they expressed growing concerns that economies will falter due to weak growth rates and unexpected shocks, and also expressed growing concerns about the effects of slow job growth on consumer demand. And across several sectors, CFOs expressed particular concern about the pricing impacts of intensifying competition at the retail level.

At least for now, concerns about the Affordable Care Act seem to have taken a back seat to more pressing concerns. Still, this quarter’s findings indicate that substantial and growing proportions of CFOs expect to pass health care costs onto staff, increase their focus on wellness management, and reduce the scope of benefits offered to some staff.

Overall, regulation at both the national and industry levels was CFOs’ most consistently-voiced worry – and nearly one-third expect their companies to make significant improvements to their compliance approaches over the next year. Interestingly, concerns about the unwinding of the U.S. Fed’s bond-buying program appeared to decline (but not disappear) this quarter.

Foggy views of profitability
As companies make important decisions about their strategy, operations, and investment priorities, visibility into profitability is crucial. This quarter’s findings suggest, however, that profitability analysis is challenging at even the highest levels.

Even at company, business unit, and regional levels, 21% to 29% of CFOs say their visibility needs to improve. And at channel and customer levels, more CFOs say they need better visibility than say their visibility is good enough.

Contributing substantially to this opacity are challenges in allocating costs and assets. Some costs, particularly around HR and R&D, appear particularly challenging to allocate. Allocation of assets appears even more challenging, with about 40% of CFOs saying they do not even attempt to allocate working capital.

CFO leadership and pipeline
Our past surveys have shown that both the formal and informal authority of CFOs has been rising as companies have adapted to challenging and volatile business environments. To better understand what this means for CFOs’ leadership demands and talent development, we asked CFOs about their direct reports’ number, composition, and CFO-readiness.

The average CFO has seven direct reports. The median number of men is five, and the median number of women is two. About half of CFOs say at least one of their reports will be CFO-ready within one year, and nearly 90% say at least one will be ready in one-to-three years.

The CFO pipeline is clearly filled with more men than women. Forty-six percent of CFOs say they have a male who will be ready within a year, and 78% have at least one who will be ready within one-to-three years. For women, the numbers are 15% and 38%, respectively.

What’s next?
Similar to last quarter, many economists are optimistic as they survey 2014. Deloitte’s own economists hold that fundamentals remain strong, and they expect growth engines to pick up steam by the second half of the year. And still-surging equities markets suggest many other interested parties agree.

But this quarter’s CFO worries and still-muted growth expectations again suggest these executives question the durability of global economic growth. And the rising tentativeness in their companies’ strategies and investment plans may turn out to be an indicator that the “just around the corner” acceleration we have been waiting for may still be further off than most would like.
Key Charts: Sentiment
CFOs’ sentiment regarding the health of major economic zones and their companies’ prospects

**Economic Optimism**
Percent of CFOs who believe the status of each economy is (1) good and not getting worse, or (2) will be better in a year

- North America
- China
- Europe

**Own-Company Optimism**
Difference between the percent of CFOs citing higher and lower optimism regarding their company’s prospects compared to the previous quarter
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 Industry

<table>
<thead>
<tr>
<th>Metric</th>
<th>Total</th>
<th>U.S. (n=75)</th>
<th>Canada (n=23)</th>
<th>Mexico (n=5)</th>
<th>Manufacturing (n=22)</th>
<th>Retail / Wholesale (n=5)</th>
<th>Technology (n=13)</th>
<th>Energy / Resources (n=22)</th>
<th>Financial Services (n=3)</th>
<th>Healthcare / Pharma (n=4)</th>
<th>T/M/E (n=6)</th>
<th>Services (n=9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td>4.6%</td>
<td>4.9%</td>
<td>3.4%</td>
<td>5.5%</td>
<td>4.8%</td>
<td>5.2%</td>
<td>3.6%</td>
<td>1.9%</td>
<td>5.5%</td>
<td>6.0%</td>
<td>-1.2%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Earnings growth</td>
<td>7.9%</td>
<td>9.3%</td>
<td>4.1%</td>
<td>6.8%</td>
<td>10.1%</td>
<td>6.6%</td>
<td>12.4%</td>
<td>4.1%</td>
<td>6.3%</td>
<td>11.0%</td>
<td>7.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Capital spending growth</td>
<td>6.5%</td>
<td>6.1%</td>
<td>4.7%</td>
<td>13.4%</td>
<td>12.5%</td>
<td>-0.5%</td>
<td>5.3%</td>
<td>2.7%</td>
<td>5.0%</td>
<td>2.7%</td>
<td>0.0%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Domestic personnel growth</td>
<td>1.0%</td>
<td>1.1%</td>
<td>0.4%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>0.1%</td>
<td>0.7%</td>
<td>-0.3%</td>
<td>0.6%</td>
<td>7.3%</td>
<td>-1.3%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Highest two industry expectations
Lowest two industry expectations

* Sample sizes for may not sum to total due to responses from “other” categories.
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, industry factors, and technology advancements are the top tailwinds:
- **North American economies** are again the top growth aid, cited by 86% of CFOs (up from 72%) – well ahead of China (37%, down from 39%) and Europe (29%, up from 25%). All sectors are above 80% for North America except for T/M/E at 25% (but the sample size is small for this sector).
- **Industry-specific demand** is a substantial growth aid for 69% of companies (61% last quarter), again driven mostly by positive sentiment in Manufacturing and Energy/Resources. Services is much lower at just 33%, and 31% of Retail/Wholesale CFOs name this factor a top impediment.
- **Industry dynamics** are a positive factor for 46% of CFOs overall and a negative factor for 28% (up from 20%). Retail/Wholesale CFOs are about equally likely to regard this factor as an impediment or an aid.
- **Technology advancements** are substantial aids for about 55% of CFOs (42% last quarter). Technology and Energy/Resources are highest at 86% and 77%, respectively.

Policy and regulatory factors are still impediments, but are not as dominant as they have been in previous quarters:
- **Industry-specific regulation** declined as a top impediment, cited by 36% of CFOs this quarter, down from 45% last quarter. Financial Services CFOs (48%), Retail/Wholesale (46%), and Energy/Resources (46%) are most likely to name this factor an impediment.
- **Government spending/budget policy** also declined as a top impediment, falling from 40% last quarter to 26% this quarter. Forty-three percent of Technology CFOs name this a top impediment, however.
- **Talent availability** is the most-named impediment at 39%, and **talent costs** ranks third at 35%. Technology and Retail/Wholesale are far and away the highest for both.

Which external factors will substantially drive and/or impede your company’s performance over the next year?
Percent of CFOs selecting each factor (n=109)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impede</th>
<th>Drive</th>
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<tbody>
<tr>
<td>Economic growth - North America</td>
<td></td>
<td></td>
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<tr>
<td>Industry-specific demand</td>
<td></td>
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<tr>
<td>Technology advancements</td>
<td></td>
<td></td>
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<tr>
<td>Industry dynamics (pricing, consolidation, M&amp;A, entrants, etc.)</td>
<td></td>
<td></td>
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<tr>
<td>Economic growth - China</td>
<td></td>
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<tr>
<td>Capital cost/availability</td>
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<tr>
<td>Economic growth - Europe</td>
<td></td>
<td></td>
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<tr>
<td>Fuel/energy prices</td>
<td></td>
<td></td>
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<tr>
<td>Government spending / budget policy</td>
<td></td>
<td></td>
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<tr>
<td>Talent availability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry-specific regulation</td>
<td></td>
<td></td>
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<tr>
<td>Currency exchange rates</td>
<td></td>
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<tr>
<td>Non-fuel input prices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Talent costs (e.g., wages, health care, benefits, payroll taxes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental regulation / policy</td>
<td></td>
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</tbody>
</table>

Please see full report for industry-specific findings.
Assessment of economies
How do CFOs regard the current and future health of some of the world’s major economies?

North America and Europe are surging:

North America
Better conditions and improving expectations.
• Forty-two percent of CFOs describe the North American economy as good or very good (26% last quarter), and less than 5% describe it as bad.
• Sixty-two percent believe conditions will be better a year from now (55% last quarter), and just 5% expect them to be worse (down from 7% last quarter).

Europe
Finally, a major rebound in sentiment.
• Just 7% of CFOs describe Europe as good. But just 47% now describe it as bad, a marked improvement from 63% last quarter and from 80% and 90% in 3Q13 and 2Q13, respectively.
• Thirty-two percent of CFOs believe the economy will be better a year from now (up from 23% last quarter and 15% the quarter before that), and just 14% expect it to be worse (28% last quarter).

China
Better now, but lower expectations.
• Overall, 37% of CFOs say China’s economy is good (up from 32% last quarter), and just 11% regard it as bad (14% last quarter).
• Thirty-three percent of CFOs believe the economy will be better a year from now (down from 38% last quarter), and 20% believe it will be worse (up from 16% 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=109)

Please see full report for industry-specific findings.
Company Expectations and Priorities

Business focus
Where do CFOs say their companies are focusing their efforts?

Offense still over defense, but there are signs of growth challenges and rising tentativeness:

- **Opportunity ahead of risk**: Companies still indicate a bias toward "pursuing opportunity" over "limiting risk," but there appears to be a stronger risk focus than a year ago. Retail/Wholesale and Energy/Resources are now biased toward limiting risk and are most likely to put contraction ahead of growth.

- **Revenue ahead of costs**: After last quarter’s shift toward cost reduction, this quarter shows a resumed focus on revenue growth. Technology and Services are the most biased toward revenue, while Retail/Wholesale and Energy/Resources are the most likely to put costs ahead of revenue.

- **New offerings and current geographies**: The bias is again slightly toward new offerings and substantially toward existing geographies. Healthcare/Pharma is biased heavily toward new offerings and also new geographies, but note that this sector had low participation this quarter.

- **Organic growth over inorganic growth**: After a brief shift toward M&A in mid-2013, the bias has shifted firmly back to toward organic growth.

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?

Sales*
Sales growth expectations rebounded somewhat from their survey low, but Canadian and Mexican expectations hit new survey lows:
- Sales growth expectations rebounded from last quarter’s survey low of 4.1% to 4.6% this quarter, but are still well below the 5.4% expectation from the first quarter of 2013. The median is again 5%, with 90% of CFOs expecting year-over-year gains (a new survey high). Variability of expectations is comparatively high.
- Country-specific expectations are 4.9% for the U.S. (up from last quarter’s survey low of 3.8%), 3.4% for Canada (a new survey low after 4.2% last quarter), and 5.5% for Mexico (another survey low after 7.0% last quarter).
- Expectations for most industries are near the cross-industry mean, but Energy/Resources and T/M/E are considerably lower. Services is the most optimistic at 6.4%.

Earnings*
Earnings growth expectations reached a new survey low:
- Earnings expectations declined from 8.6% last quarter to a survey-low 7.9% this quarter – well below the 12.1% expectation from the same quarter last year. Since the first quarter of 2013, the median expectation has fallen from 10.0% to just 7.0% – the lowest we have seen since 2012. Variability of expectations is relatively high this quarter, and about 84% of CFOs again expect year-over-year gains (which is relatively strong).
- Country-specific expectations are 9.3% for the U.S. (9.5% last quarter), 4.1% for Canada (3.7% last quarter), and 6.8% for Mexico (9.8% last quarter).
- Energy/Resources is again the most pessimistic at 4.1%. Manufacturing, Technology, and Healthcare/Pharma are all above 10%.

* All averages have been adjusted to eliminate the effects of stark outliers.
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 rose markedly to a recent survey high:

- Dividends are expected to rise 5.7%, the most we have seen since 2010. Forty-seven percent of CFOs expect year-over-year gains – a new survey high.
- Country-specific expectations are 6.1% for the U.S. (4.1% last quarter), 5.0% for Canada (3.4% last quarter), and 4.2% for Mexico (4.8% last quarter, but note that the sample sizes have been relatively low).
- Manufacturing has bolstered the average for several quarters, this time with an expected 9.1% gain. Retail/Wholesale and Financial Services are next at 7.3%. Technology, Healthcare/Pharma, and Services are all 2% or less.

Capital investment*

Capital spending growth expectations are still weak by historical standards:

- Capital spending expectations held steady at 6.5% this quarter, but are still below the survey average of over 8%. The median is again 3.0%, and 57% of CFOs expect year-over-year gains. Variability of expectations is comparatively high.
- Country-specific expectations are 6.1% for the U.S. (6.7% last quarter), 4.7% for Canada (2.2% last quarter), and 13.4% for Mexico (12.6% last quarter).
- Retail/Wholesale and T/M/E are both at around zero percent; Manufacturing and Services are again highest at 12.5% and 16.2%, respectively.

* 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; the median has been zero for all quarters.

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 expectations declined to just 1.0%, below last quarter’s 1.4% and among the lowest in the history of the survey. The median is again 0.0%, and variability of responses is very high. Forty-two percent of CFOs expect year-over-year gains (comparatively low), and 18% expect cuts (comparatively low).
- Country-specific expectations are 1.1% for the U.S. (1.7% last quarter), 0.4% for Canada (0.0% last quarter), and 1.1% for Mexico (1.9% last quarter).
- Healthcare/Pharma and Services are the bright spots at 7.3% and 3.8%, respectively. Retail/Wholesale, Energy/Resources, and T/M/E are all at or below zero percent.

Offshore hiring and outsourcing*
Nearly half of CFOs expect to increase outsourcing:

- Offshore hiring rose sharply to 4.1% last quarter, but returned to 2.5% this quarter – below the longer-term average of about 3%. Thirty-four percent of CFOs expect year-over-year gains (comparatively low). Technology, T/M/E, and Healthcare/Pharma lead with expectations between 4% and 9%.
- Outsourcing is expected to rise 2.0%, below the longer-term average of 2.5%. The median is still 0.0%, with 45% of CFOs expecting gains (the second-highest in four years). Technology and Services firms are the highest with estimates in the 3.5% to 4.5% range.

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

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

Please see full report for industry-specific findings.

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

Offshore personnel (mean) (n=92)
Outsourced services (mean) (n=94)
Domestic staffing (median) (n=90)
Offshore/outsourced 3rd party (median)
Company Expectations and Priorities

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

Still mostly optimistic, but possible signs of future stress:

- Optimists continue to dominate: Coming off the first entire calendar year in which net optimism stayed positive, net optimism remained strong this quarter at +27 (down from +33 last quarter). Forty-seven percent of CFOs express rising optimism (down from 54% last quarter), and just 20% express rising pessimism (down from 21% last quarter).

- Possible signs of future declines: Sentiment normally peaks early in the calendar year. Although strong, this quarter’s net optimism is the lowest for any first quarter in this survey; if it is the high point for 2014 and sentiment falls from here, the rest of the year could show markedly lower sentiment.

- Mostly internal optimism: About 70% of CFOs’ optimism is driven by internal factors – not by external factors. About 60% of the pessimism is driven by external factors.

- North America upbeat, but U.S. weakening: Net optimism for the Canada is highest at +44, with Mexico just behind at +40 (both were at +25 last quarter). The U.S. trails at +21, down from +36 last quarter.

- Retail/Wholesale overwhelmingly pessimistic: Nearly 40% of Retail/Wholesale CFOs report declining optimism, and only 15% report rising optimism. This is the only sector with negative net optimism; no other sectors are close. Note, too, that CFOs in this industry are among the most likely to be expecting share buybacks and rising dividends over the next year.

- Healthcare/Pharma and Energy/Resources most optimistic: Both sectors indicate net optimism above +45. Technology and Financial Services are next at +36.

How does your optimism regarding your company’s prospects compare to last quarter?
Percent of CFOs selecting each sentiment/reason combination (n=109)

- More optimistic primarily due to external factors (e.g., economy, industry, and market trends)
- More optimistic primarily due to internal/company-specific factors (e.g., products/services, operations, financing)
- No notable change
- Less optimistic primarily due to internal/company-specific factors (e.g., products/services, operations, financing)
- Less optimistic primarily due to external factors (e.g., economy, industry, and market trends)
- Net optimism (26.6% (% more optimistic minus % less optimistic))

Please see full report for industry-specific findings.
Company Expectations and Priorities

Overall, what external or internal risk worries you the most?
Consolidation and paraphrasing of CFOs’ free-form comments* (n=93)

Macro / Economy

Economy
- Direction of world economies (4)
- North American growth – OK now, but tends to swoon in Q2
- US economy (7)
- Unexpected economic slowdown
- European economies / another recession (3)
- Mexican economy (2)
- Major shifts in China economy
- Reduced growth in the emerging markets (2)
- Health of currencies/economies in developing markets
- Slowdown in the housing market
- External shocks that impact economic growth
- Political tensions in certain areas with economic effects
- Lack of industrial growth
- Real estate prices in gateway cities

Demand
- World demand
- Discretionary spending of lower-income households
- Declining consumer confidence, income and retail sales
- Health of consumers
- Lack of job growth in US (2)
- Whether we will start to see meaningful job recovery
- Consumer spending (2)
- Demand for our products in developed markets
- Unanticipated market slowdown in retail and manufacturing
- Viability of our largest customers

Capital / Currency
- FX / exchange rate volatility (3)
- Dollar strength depressing international earnings
- Weakening Canadian dollar
- Banking debt / over extension / under capitalization
- Low interest rates / interest rate risk (3)
- Liquidity risk
- Capital availability

Input Prices
- Commodity/input prices
- Rising energy costs
- Commodity market instability (2)
- Commodity prices
- Oil prices and differentials (3)
- Rising cost of construction

Security
- Cyber-security / cyber-crime (2)
- Physical and cyber security
- Data breaches
- Cyber attacks growing in number/impact

Government

Policy
- Trade policy
- Government spending / fiscal policy (2)
- Fed actions / QE phasing out (3)
- US government effectiveness
- Regulatory approvals in energy sector
- EBG debt

Regulation
- Regulation (18)
- Anti-business sentiment in Washington
- Government over-regulation and lack of accountability
- Meeting pace of regulatory changes without hurting growth
- Negative impact from US government regulations
- Regulation that impacts manufacturing
- Increased regulation in our industry (2)
- State government regulation

Industry / Company

Competition
- Increasing competition (2)
- Competition in industry due to prolonged low interest rate cycle and lack of innovation
- Increased competition from existing/new entrants (2)
- Changing industry dynamics
- Very competitive retail environment
- Price competition at retail
- Market tone

Internal Execution
- Brand strength / demand for our brand (2)
- Organization capacity
- Ability to transition from growth-oriented company to one focused on productivity/efficiency
- Internal execution of strategy (2)
- Execution of significant capital expenditures
- Integration risk related to acquisitions
- Ability to expand margins in an environment where pricing doesn’t keep up with inflation
- Risk mitigation capabilities

Talent
- Availability of qualified workers
- Management turnover
- Loss of talent
- Lack of medium and high level talent
- Org capacity

Most worrisome risks

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

Worries returned around the health and trajectory of both mature and developing economies:
- **Resurgent economic worries:** CFOs expressed growing worries that world economies will falter due to weak growth rates and external shocks.
- **Rising concerns about jobs and consumer demand:** CFOs expressed growing concerns about slow job growth and the ripple-through effects on consumer demand.
- **“Regulation, regulation, regulation”:** Concerns about regulation by both federal and state governments were CFOs’ most consistently-voiced worry.
- **Declining worries related to “quantitative easing” and unwinding:** Worries declined, but have not disappeared.
- **Retail concerns:** Worries about competition at the retail level are fueling concerns across most industries.
- **Internal challenges:** Specific company-level challenges are diverse and plentiful, ranging from execution of strategy to talent shortages.

* 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.
Company Expectations and Priorities

Changes in 2014
How likely are companies to make significant changes to their strategies, operations, and capital structures this year?

Substantial proportions of CFOs expect notable changes to their business portfolios, strategies, and risk management – and many plan to return cash to shareholders:

- **Strategic shifts:** Nearly one quarter of CFOs say they expect a change in their fundamental business strategy. Technology is highest at more than 40%.

- **Business portfolio changes:** More than 20% of CFOs expect a substantial merger or acquisition, more than 15% expect a substantial divestiture (23% for Energy/Resources), and about 14% expect to discontinue operation of a business unit (36% for Technology).

- **Shoring up risk and compliance management:** One-third of CFOs say they will make significant improvements to their risk management approaches (54% for Technology), and about 30% will specifically improve their compliance approaches.

- **More outsourcing and offshoring:** Nearly one-third of CFOs expect to outsource or offshore a shared service function (nearly 60% for Technology). Only 7% expect to do so for a core business function.

- **Relatively little deleveraging:** Twenty percent of CFOs plan substantial deleveraging of their capital structure, but nearly two-thirds say deleveraging is unlikely – with 44% considering it very unlikely. Technology is the outlier with 44% expecting substantial deleveraging.

- **Giving cash back:** Twenty-eight percent of CFOs (who have the option of share buybacks) expect to execute one, with Financial Services and Retail/Wholesale significantly higher at 46% and 38%, respectively. Nearly 30% expect a significant increase in dividends, again led by Financial Services (40%) and Retail/Wholesale (38%).

### How likely are the following changes for your company over the next year?

CFOs’ assessments based on 5-point Likert scale from “very unlikely” to “very likely”

<table>
<thead>
<tr>
<th>Change</th>
<th>Very Unlikely</th>
<th>Unlikely</th>
<th>Neutral</th>
<th>Likely</th>
<th>Very Likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant change in fundamental business strategy</td>
<td>41%</td>
<td>25%</td>
<td>11%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Substantial merger or acquisition</td>
<td>27%</td>
<td>30%</td>
<td>22%</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>Substantial divestiture</td>
<td>55%</td>
<td>16%</td>
<td>14%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Discontinue operation of a business unit</td>
<td>53%</td>
<td>17%</td>
<td>16%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Significant improvement of risk management approaches</td>
<td>25%</td>
<td>36%</td>
<td>29%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant improvement of compliance approaches</td>
<td>21%</td>
<td>44%</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsourcing or offshoring of a shared service function</td>
<td>34%</td>
<td>17%</td>
<td>17%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Outsourcing or offshoring of a core business function</td>
<td>53%</td>
<td>26%</td>
<td>14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substantial deleveraging of capital structure (please skip this line if not applicable)</td>
<td>44%</td>
<td>19%</td>
<td>18%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Major share buyback (please skip this line if not applicable)</td>
<td>43%</td>
<td>15%</td>
<td>15%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Significant increase in dividends paid (please skip this line if not applicable)</td>
<td>37%</td>
<td>16%</td>
<td>18%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

* Excludes companies for whom these actions are not applicable

* Please see full report for industry-specific findings.
Company Expectations and Priorities

Capital expenditures in 2014
How will companies direct their 2014 capital expenditures?

More than half of capex is slated for growth and innovation:

- Large investments for growth: Thirty-seven percent of companies’ capex is slated for growth, with all sectors above 29%.
- Innovation somewhat concentrated in sectors: Fourteen percent of capex overall is slated for innovation, but the Technology, Healthcare/Pharma, and T/M/E sectors are all above 25%.
- Large investments in maintenance: Energy/Resources and Healthcare/Pharma are notably above- and below-average, respectively, but most sectors are close to the average of 29%.
- Relatively modest investments in productivity: Even the most productivity-focused sectors (Manufacturing and Financial Services) are focusing 25% or less of their capex on productivity gains and cost reduction. The other sectors average about 15%.

How will you allocate your capital investments over the next year?
Percent of capital investments CFOs allocated to each purpose (n=109)

- Growth 37%
- Innovation 14%
- Maintenance 29%
- Productivity 20%
- Energy/Resources = 40%
- Healthcare/Pharma = 20%
- Manufacturing = 25%
- Technology, Healthcare/Pharma, and T/M/E = 25%+
- Energy/Resources = 3%
- Energy/Resources and Healthcare/Pharma < 15%
- Manufacturing and T/M/E = 29%

Please see full report for industry-specific findings.
Company Expectations and Priorities

Regional growth
Which countries (other than the U.S.) are most important to companies’ growth prospects?

China is the top non-U.S. growth engine, but Latin America and Europe are important, too:

- **China is broadly important**: Forty-three percent of all CFOs named it in their top three, and 48% of U.S. CFOs did so. China is a top-two growth engine for all eight industries, with particularly-high importance to Manufacturing, Technology, Energy/Resources, and Services.

- **Latin America is very important**: Twenty-six percent of CFOs named Mexico in their top three (20% for U.S. CFOs), and 20% named Brazil (27% for U.S. CFOs). About 6% named other Latin American countries. The region is particularly important in Manufacturing, Retail/Wholesale, and Services.

- **Europe matters**: Twenty percent of CFOs overall named the United Kingdom (29% for U.S. CFOs), and 13% named Germany (19% for U.S. CFOs). Germany is particularly important to Technology, and the U.K. is important to Technology, Financial Services, and Services.

Please see full report for industry-specific findings.
Company Expectations and Priorities

Approach to growth
Are companies focusing, distributing, or limiting their growth efforts?

Most companies are focusing their growth investments, but some sectors are much more focused and/or passive than others:

- **Mostly focusing on a few opportunities**: About 58% of companies say their preferred approach to growth is to focus their investments on a few targeted growth opportunities. Technology is the most focused at 86%; Healthcare/Pharma and Services are the least focused at zero and 22%, respectively.

- **Healthcare/Pharma and Services spreading their bets**: All Healthcare/Pharma and two-thirds of Services CFOs say they prefer to spread their investments across multiple opportunities.

- **Concentrated conservatism**: Only about 17% of CFOs say their preferred approach is to grow organically without major investment, and more than half of them are from Manufacturing and Financial Services. None of the Technology CFOs cited this approach.

Which best describes your preferred approach to growth opportunities over the next three years?

Percent of CFOs selecting each approach (n=109)

- Grow organically without major investment: 17.4%
- Spread investments across multiple growth opportunities: 23.9%
- Focus investments on a few targeted growth opportunities: 57.8%
- Other: 0.9%

Please see full report for industry-specific findings.
Company Expectations and Priorities

Impact of the Affordable Care Act (ACA)
What do U.S. CFOs expect their companies to do in response to the ACA?

Last quarter’s findings indicated the ACA had caused 40% of U.S. companies to pass (or to consider passing) health care costs onto staff, and had also caused 32% to increase their focus on wellness management. This quarter shows CFOs expect the use of both tactics to rise as implementation gets closer:

- **Heavy focus on wellness**: Two-thirds of CFOs say they expect to increase their focus on health and wellness.
- **Passing on health care costs**: Sixty percent of CFOs say they plan to pass health care costs on to staff, and 12% expect to pass costs on to customers (Energy/Resources is the most likely to cite this approach).
- **Changing coverage**: Twenty-three percent of CFOs say they expect to reduce the scope of benefits offered to some staff, and 16% expect to reduce the level or value of benefits provided. While just 10% of CFOs overall anticipate offering new coverage to staff not previously offered benefits, more than half of CFOs in Retail/Wholesale expect to do so.
- **Some drag on earnings**: Eleven percent of CFOs say they expect to reduce their earnings forecasts as a result of measures undertaken in response to the Act, roughly the same proportion that had already done so as of 4Q13. The effects appear strongest in Services, where 43% of CFOs expect to reduce their earnings forecasts.
- **No major impacts on hiring or staffing mix**: Just under 7% of CFOs say they expect to constrain hiring, and the same proportion expects to reduce employee hours to create more part-time positions.

Which of the following measures do you expect to take in response to the Affordable Care Act?
Percent of U.S. CFOs citing each action, unlimited choices (n=75)

- Increase focus on health/wellness management
- Pass health care costs on to staff
- Reduce scope of benefits offered to some staff
- Reduce level/value of coverage offered to some staff
- Reduce earnings forecasts
- Pass health care costs on to customers
- Reduce/constrain hiring
- Reduce employee hours to create more part-time positions
- Offer coverage to staff not previously offered benefits
- Raise level/value of coverage offered to some staff

Please see full report for industry-specific findings.
Finance Priorities

**Profitability**
How do CFOs feel about their ability to allocate costs and assess profitability?

Visibility is challenging at even the highest levels – and very difficult at deeper levels:
- **Visibility of profitability at company, business unit, and regional levels is predictably the best, but all three could be better:** Even at these levels, substantial percentages (21% to 29%) of CFOs say their visibility needs improvement.
- **Visibility at the product/service level is challenging:** Forty-one percent of CFOs say their visibility needs improvement, and just 19% rate their visibility as very good.
- **Visibility at channel and customer levels is fairly poor for most companies:** For both levels, more CFOs say they need better visibility than say their visibility is at least good enough. And very few CFOs actually rate their visibility as very good.
- **Industry differences:** Overall, Energy/Resources CFOs report the least visibility into profitability and the highest needs for improvement. Of the industries with substantial survey representation, Manufacturing, Financial Services, and Services appear the most satisfied with their visibility – but even these sectors tend to cite substantial improvement needs at the channel and/or customer level.

Challenges in allocating costs and assets likely contribute to limited visibility:
- **IT costs are the most commonly allocated overhead cost:** The vast majority of CFOs say they allocate these costs, and those who say they do it effectively outnumber those who do not by more than 4 to 1.
- **Customer service/support costs are the best allocated:** The vast majority of CFOs say they allocate these costs, and very few say they are not very effective.
- **R&D costs are the least commonly allocated:** A comparatively large proportion of CFOs say they do not allocate R&D costs, but those who do overwhelmingly say they do it effectively.
- **HR cost allocations are toughest:** About one in four of the CFOs who say they allocate these costs say they do not do it very effectively.
- **Working capital allocations appear relatively uncommon:** Comparatively few CFOs say they allocate working capital at all, but the vast majority of those who do say they do it effectively.
- **Industry differences:** Retail/Wholesale appears the most aggressive and effective when it comes to cost and asset allocation, followed by Financial Services and Manufacturing. Technology and Services companies appear to do both allocations less often and less effectively (of the industries with substantial survey representation).

**How is your visibility into profitability?**
Percent of CFOs’ citing each level of assessment (n=109)

<table>
<thead>
<tr>
<th>Level</th>
<th>Needs to improve</th>
<th>Good enough</th>
<th>Very good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company level</td>
<td>21%</td>
<td>27%</td>
<td>51%</td>
</tr>
<tr>
<td>Business unit level</td>
<td>29%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>Product/service level</td>
<td>1%</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>Geography/region level</td>
<td>13%</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>Channel level</td>
<td>27%</td>
<td>43%</td>
<td>26%</td>
</tr>
<tr>
<td>Customer level</td>
<td>14%</td>
<td>50%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**How successfully do you allocate overhead costs and assets?**
Percent of CFOs citing allocation and each level of effectiveness (n=106)

<table>
<thead>
<tr>
<th>Category</th>
<th>Don’t allocate</th>
<th>Allocate – not very effective</th>
<th>Allocate – moderately effective</th>
<th>Allocate – very effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales / Marketing / Advertising</td>
<td></td>
<td>45%</td>
<td>27%</td>
<td>(n=98)</td>
</tr>
<tr>
<td>Customer Service/Support</td>
<td>17%</td>
<td>58%</td>
<td>19%</td>
<td>(n=101)</td>
</tr>
<tr>
<td>Procurement / Sourcing</td>
<td>21%</td>
<td>43%</td>
<td>20%</td>
<td>(n=99)</td>
</tr>
<tr>
<td>Logistics / Fulfillment / Order Mgt.</td>
<td></td>
<td>45%</td>
<td>26%</td>
<td>(n=93)</td>
</tr>
<tr>
<td>Finance</td>
<td>26%</td>
<td>46%</td>
<td>20%</td>
<td>(n=95)</td>
</tr>
<tr>
<td>IT</td>
<td>15%</td>
<td>50%</td>
<td>18%</td>
<td>(n=105)</td>
</tr>
<tr>
<td>HR</td>
<td>24%</td>
<td>40%</td>
<td>17%</td>
<td>(n=104)</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>37%</td>
<td>30%</td>
<td>15%</td>
<td>(n=86)</td>
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<td>PP&amp;E</td>
<td>23%</td>
<td>36%</td>
<td>27%</td>
<td>(n=100)</td>
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<tr>
<td>Working Capital</td>
<td>39%</td>
<td>13%</td>
<td>33%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Please see full report for industry-specific findings.
Personal Priorities

CFOs’ direct reports and talent pipeline
How many staff members report to CFOs, and how many are on track to become a CFO?

The typical CFO has seven direct reports, one of whom will be CFO-ready within a year:

- The average CFO has seven direct reports (median): There is no significant median difference by company size. The median number of men is five, and the median number of women is two. Eight percent of CFOs report no direct reports who are women. Energy/Resources is the most likely to report fewer than two female direct reports at 54%; Technology is next-lowest at 46%.

- Just over half (52%) of CFOs have a direct report who will be CFO-ready within one year: Just 12% have more than one. The median number is one. Forty-six percent have a male who will be ready, and 15% have a woman who will be.

- Nearly ninety percent (88%) of CFOs have at least one direct report who will be CFO-ready in one to three years: The median is 1.5, and half report two or more. Seventy-eight percent have at least one male who will be ready, and 38% have at least one woman who will be.
### CFOs' Year-Over-Year Expectations

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

<table>
<thead>
<tr>
<th>CFOs Year</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
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<th>3Q13</th>
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<th>1Q14</th>
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</thead>
<tbody>
<tr>
<td>Operating Results</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>9.3%</td>
<td>10.9%</td>
<td>6.5%</td>
<td>8.2%</td>
<td>7.1%</td>
<td>6.8%</td>
<td>6.3%</td>
<td>5.9%</td>
<td>6.6%</td>
<td>4.8%</td>
<td>5.6%</td>
<td>5.4%</td>
<td>5.7%</td>
<td>5.0%</td>
<td>4.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Earnings</td>
<td>17.3%</td>
<td>19.5%</td>
<td>12.0%</td>
<td>12.6%</td>
<td>14.0%</td>
<td>9.3%</td>
<td>10.1%</td>
<td>12.8%</td>
<td>10.5%</td>
<td>8.0%</td>
<td>10.9%</td>
<td>12.1%</td>
<td>10.3%</td>
<td>8.0%</td>
<td>8.6%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Earnings</td>
<td>8.0%</td>
<td>10.0%</td>
<td>8.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>8.0%</td>
<td>9.0%</td>
<td>9.5%</td>
<td>8.5%</td>
<td>6.0%</td>
<td>7.0%</td>
<td>10.0%</td>
<td>9.0%</td>
<td>8.0%</td>
<td>7.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Dividends</td>
<td>6.5%</td>
<td>8.6%</td>
<td>6.1%</td>
<td>4.4%</td>
<td>3.7%</td>
<td>3.5%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>3.9%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>3.6%</td>
<td>4.5%</td>
<td>3.4%</td>
<td>4.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Capital spending</td>
<td>12.4%</td>
<td>8.3%</td>
<td>8.7%</td>
<td>11.8%</td>
<td>10.7%</td>
<td>7.9%</td>
<td>9.6%</td>
<td>12.0%</td>
<td>11.4%</td>
<td>4.6%</td>
<td>4.2%</td>
<td>7.8%</td>
<td>7.5%</td>
<td>4.9%</td>
<td>6.4%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of domestic personnel</td>
<td>3.1%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>0.6%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>2.4%</td>
<td>1.3%</td>
<td>1.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Number of offshore personnel</td>
<td>0.5%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Use of offshore/outsourced third parties</td>
<td>3.5%</td>
<td>2.8%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>4.1%</td>
<td>2.9%</td>
<td>4.8%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>1.9%</td>
<td>4.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>S&amp;P 500 price at survey period midpoint</td>
<td>1088</td>
<td>1072</td>
<td>1200</td>
<td>1343</td>
<td>1333</td>
<td>1123</td>
<td>1361</td>
<td>1317</td>
<td>1418</td>
<td>1387</td>
<td>1520</td>
<td>1667</td>
<td>1656</td>
<td>1798</td>
<td>1839</td>
<td>1383</td>
</tr>
<tr>
<td>S&amp;P gain/loss QoQ</td>
<td>-1.5%</td>
<td>11.9%</td>
<td>11.9%</td>
<td>-0.7%</td>
<td>-15.8%</td>
<td>3.4%</td>
<td>17.2%</td>
<td>-3.2%</td>
<td>7.7%</td>
<td>-2.2%</td>
<td>9.6%</td>
<td>9.7%</td>
<td>-0.7%</td>
<td>8.6%</td>
<td>2.3%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

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

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### Longitudinal Trends

**Expectations and sentiment**

**CFO and Equity Market Sentiment**

<table>
<thead>
<tr>
<th>S&amp;P Optimism</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
<th>1Q12</th>
<th>2Q12</th>
<th>3Q12</th>
<th>4Q12</th>
<th>1Q13</th>
<th>2Q13</th>
<th>3Q13</th>
<th>4Q13</th>
<th>1Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimism (% more optimistic)</td>
<td>63.5%</td>
<td>46.8%</td>
<td>53.3%</td>
<td>62.4%</td>
<td>39.7%</td>
<td>28.6%</td>
<td>28.6%</td>
<td>63.0%</td>
<td>39.1%</td>
<td>38.8%</td>
<td>29.1%</td>
<td>51.0%</td>
<td>59.0%</td>
<td>41.9%</td>
<td>54.2%</td>
<td>46.8%</td>
</tr>
<tr>
<td>Neutrality (% no change)</td>
<td>19.3%</td>
<td>16.8%</td>
<td>26.0%</td>
<td>22.0%</td>
<td>28.3%</td>
<td>18.6%</td>
<td>32.1%</td>
<td>21.9%</td>
<td>32.6%</td>
<td>21.2%</td>
<td>31.3%</td>
<td>30.1%</td>
<td>27.7%</td>
<td>33.9%</td>
<td>33.4%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Pessimism (% less optimistic)</td>
<td>17.2%</td>
<td>36.4%</td>
<td>20.7%</td>
<td>15.6%</td>
<td>32.0%</td>
<td>52.8%</td>
<td>39.3%</td>
<td>15.1%</td>
<td>28.3%</td>
<td>40.0%</td>
<td>39.6%</td>
<td>18.9%</td>
<td>13.3%</td>
<td>24.2%</td>
<td>20.8%</td>
<td>20.2%</td>
</tr>
<tr>
<td>Net optimism (% more optimistic less % less optimistic)</td>
<td>46.3%</td>
<td>10.4%</td>
<td>32.6%</td>
<td>46.8%</td>
<td>7.7%</td>
<td>-24.2%</td>
<td>-10.7%</td>
<td>47.9%</td>
<td>10.8%</td>
<td>-1.2%</td>
<td>-10.5%</td>
<td>32.1%</td>
<td>45.7%</td>
<td>17.7%</td>
<td>33.4%</td>
<td>28.6%</td>
</tr>
</tbody>
</table>

**Survey**

- **Mean**
  - Optimism (% more optimistic): 63.5%
  - Neutrality (% no change): 19.3%
  - Pessimism (% less optimistic): 17.2%
  - Net optimism (% more optimistic less % less optimistic): 46.3%

---

**CFO Signals**
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 ($U.S.)**
(n=108)

- $1B - $5B, 44.4%
- $5.1B - $10B, 14.8%
- More than $10B, 22.2%
- Less than $1B, 18.5%

**Revenue from North America**
(n=107)

- 81% - 100%, 51.4%
- 61% - 80%, 15.0%
- 41% - 60%, 18.7%
- 21% - 40%, 7.5%
- 20% or less, 7.5%

**Ownership**
(n=108)

- Public, 69.4%
- Private, 30.6%

**Subsidiary Company**
(n=108)

- No (Holding Company or Group), 78.7%
- Yes (Subsid. of North American Company), 11.1%
- Yes (Subsid. of Non-North American Company), 10.2%
Demographics (cont.)

**Country**
- US: 69.4%
- Canada: 21.3%
- Mexico: 9.3%
- **Total (n=108)**

**CFO Experience (Years)**
- Less than 5: 36.7%
- 5 to 10: 33.9%
- 11 to 20: 25.7%
- More than 20: 3.7%
- **Total (n=109)**

**Industry**
- Financial Services: 22.9%
- Manufacturing: 20.2%
- Retail / Wholesale: 12.0%
- Tel / Med / Ent: 3.7%
- Other: 5.5%
- Technology: 12.8%
- Energy / Resources: 11.9%
- Healthcare / Pharma: 2.8%
- Services: 8.3%
- **Total (n=109)**

**Previous CFO Role**
- CFO of Another Organization: 36.1%
- Business Unit Leader: 11.1%
- Consultant: 2.8%
- Treasurer: 9.3%
- Controller: 20.4%
- Other: 15.7%
- Financial Planning/Analysis Leader: 4.6%
- **Total (n=108)**

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- **Total (n=108)**
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.