CFO Signals™

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

High-Level Summary

2nd Quarter 2011

CFO Signals

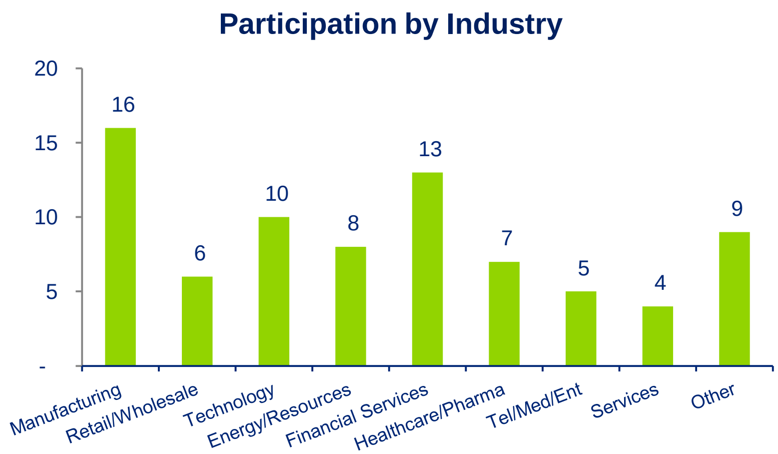
About the CFO Signals survey

Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This report summarizes CFOs' opinions in five areas: CFO career, finance organization, company, industry, and economy.

This is the second quarter report for 2011. For more information, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

Who participated this quarter?

Seventy-eight CFOs responded during the two weeks ended May 27. Three-fourths are from public companies, and three-fourths are from companies with more than $1B in annual revenue.



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 10 respondents. Please see the Appendix for more information about survey methodology.

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This document is a high-level, cross-industry summary

Also available is a full report, which includes detailed charts, industry highlights and more information about survey methodology and respondent demographics.

For access to the full report, please contact NACFOSurvey@deloitte.com

Results at a glance

Career

What are your top three job stresses? Major change initiatives dominate with 56% of CFOs citing this stress. Three other concerns tie for second, each at roughly 40%: strategic ambiguity, changing regulatory requirements, and pressures from poor company performance. The first and last of these four gained substantial ground. **Page 7**.

What most defines your success as a CFO – to yourself and to your CEO? The dominant success criteria for both CFOs and CEOs are the strategic role of CFOs/Finance and the company's financial performance. But CFOs believe their CEOs place a higher emphasis on financial performance. **Page 8.**

What is your division of time between CFO roles? CFOs indicate a heavy shift toward strategic roles since 2Q10: strategist (29%), catalyst (28%), steward (25%), operator (18%). **Page 9.**

Finance Organization

What are your finance organization's top three challenges? Influencing business strategies and operational priorities (rose notably to 53%) is the dominant challenge, followed by providing metrics/info/tools for business decisions (stable at 42%), and forecasting and reporting business results (rose markedly to 39%). Supporting a major infrastructure initiative rose to a close fourth (36%), while ensuring initiatives achieve desired business outcomes dropped to fifth (27%). **Page 10.**

How satisfied are you with your decision-making processes around capital investment? CFOs indicate general satisfaction with their approach. Nearly 90% say it aligns investments with priorities; 85% say it is objective/logical; and 80% say it is relatively efficient and painless. About half say their approach includes a feedback loop for tracking results. There are, however, significant industry differences. **Page 11.**

How do you feel about the use of capital in the current climate? Only 10% of CFOs say they feel pressured to invest their cash, but nearly 30% of CFOs feel pressured to return cash to shareholders. Many indicate a preference to preserve cash and stay flexible, and nearly two-thirds believe their position gives them a competitive advantage. However, many (40%) are more worried about their level of capital investments now than they were three years ago, and nearly half say they are more worried about the quality of their investments. **Page 12.**

Company

What are your top company-specific challenges? Revenue growth from existing markets (steady at 53%), talent (rose from 31% to 40%), and framing and/or adapting strategy (steady at 35%). **Page 13.**

What is your company's business focus for the next 12 months? Continued shift toward revenue growth/preservation with 52% of companies' strategic focus now on revenue growth/preservation (30% on existing markets and 22% on new markets). Only 14% of the focus is on direct cost reduction and just 15% is on overhead-cost reduction. **Page 13.**

Compared to the past 12 months, how do you expect your performance, spending, and hiring to change over the next 12 months? CFO expectations are muted but positive, with projected gains of 7%* for sales (8.2% last quarter), 14%* for earnings (12.6% last quarter) and 10.7%* for capital spending (11.8% last quarter). CFOs expect input prices to rise 5% (3.4% last quarter), and domestic hiring projections remain low at 2%*. **Page 14.**

How does your optimism regarding your company compare to last quarter? Optimism fell markedly with 40% of CFOs saying they have a more positive outlook, down from 62% last quarter. Nearly one third report declining optimism (up from 16% last quarter), meaning that "net optimism" fell to just 7.7 percentage points, the lowest level recorded in the five quarters of this survey. **Page 15.**

What one potentially high-impact risk are you worried about the most? Recession fears gave way to worries about government policy last quarter, but they rebounded this quarter. Now on a par with these two externally-driven worries are internal concerns about investment and execution missteps. **Page 16.**

Industry

What are your company's top three industry challenges? Industry regulation/legislation (steady at 53%) and pricing trends (up markedly to 53%) are the dominant industry concerns. M&A, market growth and input prices are essentially tied for third, all cited by about 25% of CFOs. **Page 17.**

Economy

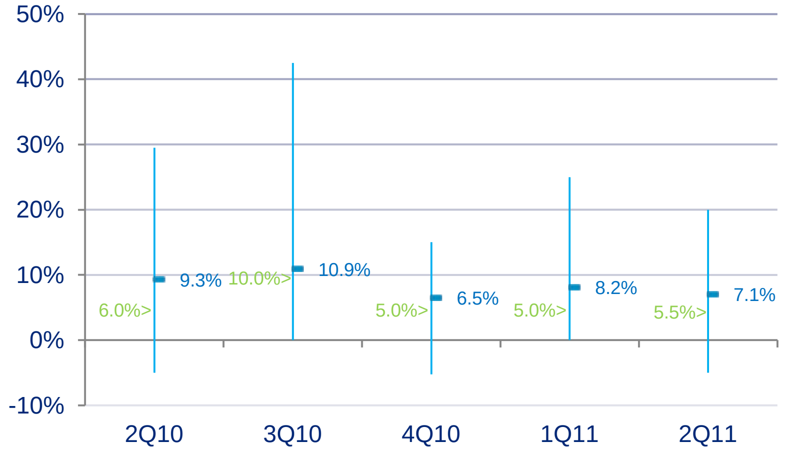
What are your company's top three economy challenges? Social policy/spending/investment (51%, up from 45%), environmental policy (44%, up from 40%) unemployment (steady at 40%), and inflation (up slightly to 30%) are the top three concerns. **Page 18.**

***All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

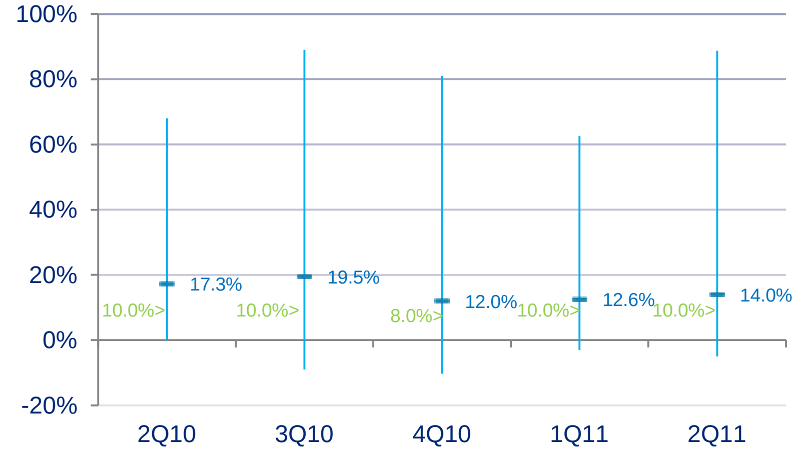
Growth metrics

Expected year-over-year increases in each growth metric

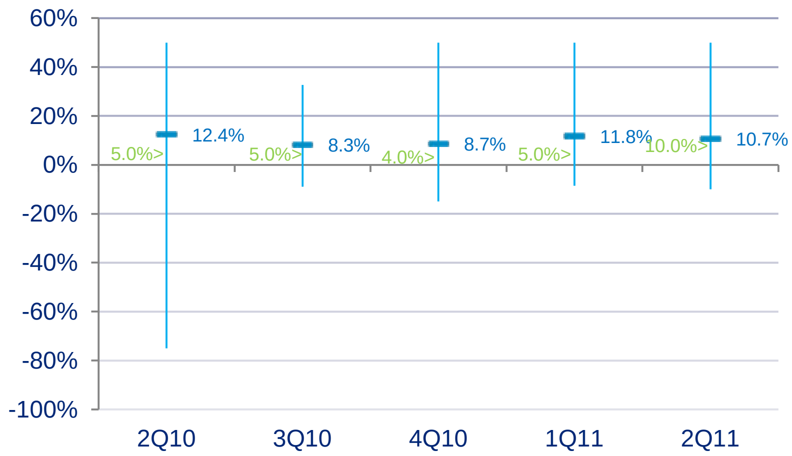
Revenue Growth



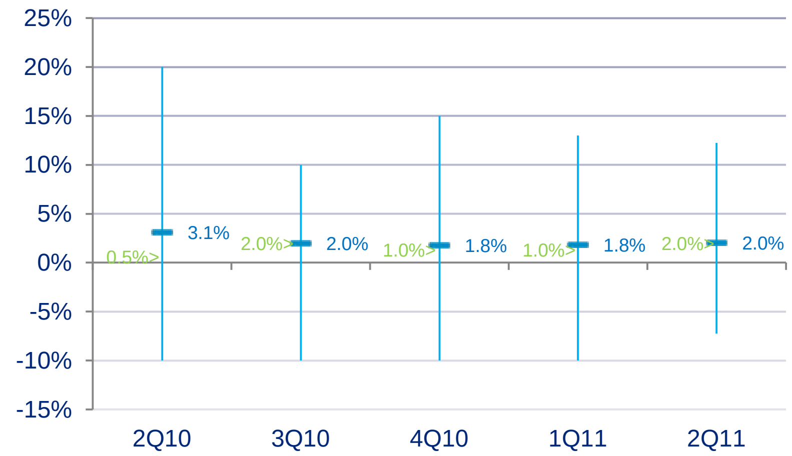
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



Vertical lines indicate range for responses between 5th and 95th percentile.
Horizontal marks (–) indicate outlier-adjusted means.
Arrows (>) indicate unadjusted medians for all responses .

Summary

Growth headwinds are taking their toll on CFO confidence

Last quarter we posited that the fourth quarter of 2010 marked a turning point in the economic recovery. With the "all boats rising" effects of economic recovery apparently fading, with capital supply solidified, and with efficiency gains largely accounted for, companies appeared focused on creating their own tides in a post-recession world. And despite moderating expectations for revenue and earnings growth, CFOs remained overwhelmingly optimistic.

Findings from this quarter's survey appear to provide further support for the idea that growth is the dominant focus and that the fastest recovery-generated gains are behind us. Revenue and earnings expectations remain in line with the tempered (but still positive) expectations that first showed up in 4Q10. Similar to last quarter, capital investment is still rising and employment gains are not expected to keep pace.

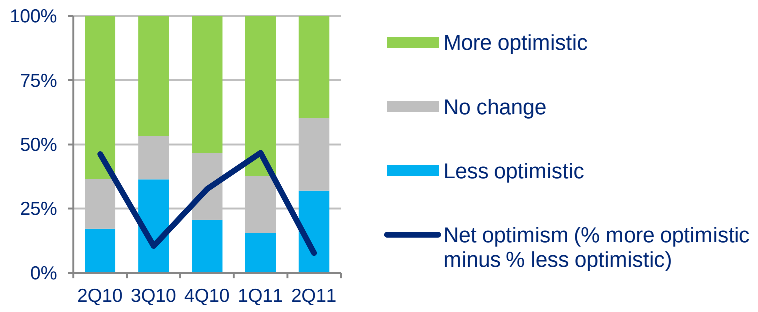
But something appears to have shifted substantially this quarter with respect to CFOs' optimism. Despite continuing positive financial expectations, CFOs' own-company optimism dropped markedly this quarter. The difference between the percentage of CFOs who are more optimistic and those who are less optimistic (or "net optimism") was 47 percentage points last quarter, and it dropped to just 8 this quarter. Moreover, where past pessimism has been driven largely by deteriorating assessments of the macro-business environment, roughly half of the rising pessimism this quarter is driven by internal concerns.

While some of this sentiment may be caused by events that have transpired or intensified since our last survey (political unrest in the Middle East and the catastrophic earthquake and tsunami in Japan are two of the most striking), a substantial portion appears driven by worries about companies' own decisions. Perhaps the most notable finding from this quarter's survey is that many CFOs say they are more concerned about both their level and quality of capital investments now than they were three years ago. And many say the risks they're most worried about have to do with their own ability to execute.

With growth at the heart of their most pressing challenges and concerns, companies are very concerned about government's potential impacts on their growth plans, and they are increasingly concerned about inflation, rising input prices, and the possibility of longer-term economic malaise. And as companies wrestle with these challenges, CFOs and their finance organizations are clearly playing broader and deeper roles. CFOs' heavy focus on their "steward" and "operator" roles a year ago has subsided, and "strategist" and "catalyst" roles are now dominating CFOs' time. This quarter's survey results may indicate, however, that the view from these forward-looking vantage points is increasingly troublesome.

Own-Company Optimism

CFO optimism relative to previous quarter



Expectations showing signs of weakness

Optimism falling as sales and earnings moderate

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

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

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

*All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

Summary

Snags in the shift from recovery to growth

Policy concerns, economic fragility, competition, and input prices

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

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

Many CFOs report potential impediments to growth are related to government policy, and uncertainty in this area continues to be a major concern. Social policy is a top economy-level concern for more than half of CFOs, and roughly the same proportion now put environmental policy in their top three concerns. Moreover, nearly 25% of CFOs name detrimental policy as their most worrisome risk.

Trepidation and a preference for cash

CFOs worry about investing in the current economic environment

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

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

Moreover, nearly two-thirds say they are in a position to use capital access as a competitive advantage—a finding that not only indicates cash's strategic importance, but may also indicate that many large-company CFOs believe their capital conditions are superior to those of their (perhaps smaller) competitors.

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

Tempered expectations for a tough road

CFOs are playing a stronger role in addressing uncertainty

Back in the second quarter of 2010, CFOs indicated that the financial crisis and economic turmoil had necessitated a heightened focus on their "steward" and "operator" roles—despite their preference for "strategist" and "catalyst" roles. Their current time allocation suggests they are now getting more time in their desired roles.

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

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

*****All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

CFO career

CFOs are refocused on strategic roles and wary of change in uncertain environments

Top job stresses

Major change initiatives and pressures from poor company performance

Change has consistently been at the heart of CFOs' top job stresses over the past four quarters. The same three change-related stresses (strategic ambiguity, major change initiatives, and changing regulatory requirements) have appeared in CFOs' top three concerns since the beginning of this survey.

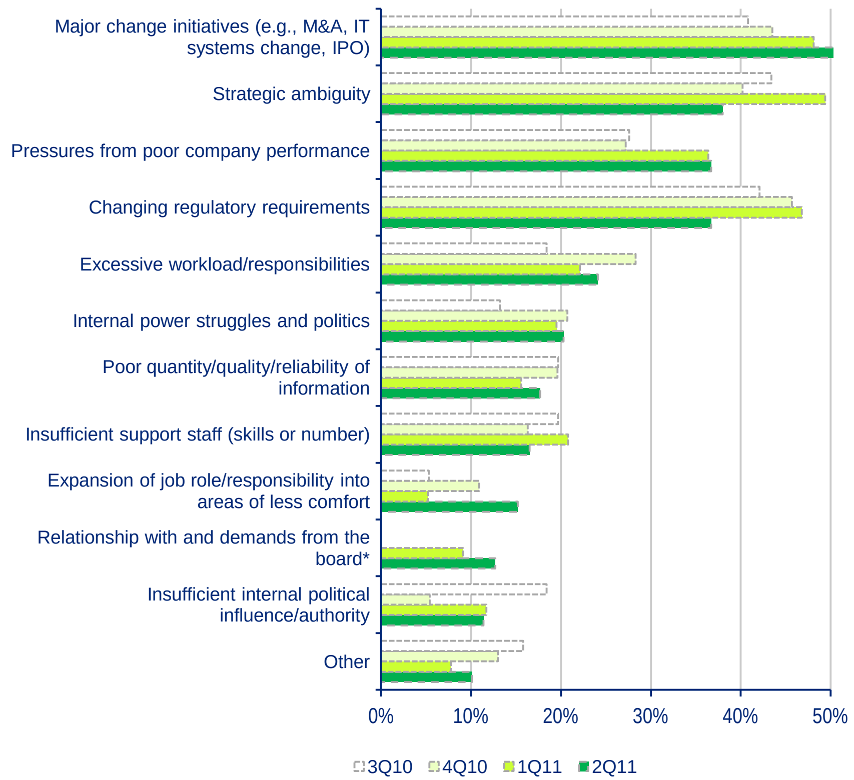
While the dominance of these stresses continues this quarter, CFOs report a substantial shift toward one in particular—major change initiatives. Nearly 56% of all CFOs cite this stress, and half or more of CFOs in every sector (other than Healthcare/Pharma) name it in their top three. These results make change initiatives the most dominant career stress ever mentioned in the five quarters of this survey and, based on other survey results, the contributing factors appear to be a rise in M&A activity, shifts in organization strategies and structures, and a host of new investments.

Still, nearly 40% of CFOs continue to cite strategic ambiguity (highest in Energy/Resources), and more than one third of all CFOs (more than half of those in Financial Services and Healthcare/Pharma) cite changing regulatory requirements. Pressures from poor company performance are now on roughly equal footing with perennials strategic ambiguity and changing regulatory requirements, however. More than 35% of all CFOs and more than half of CFOs in Retail/Wholesale, Technology, and T/M/E cite this stress in their top three.

In one-off findings, Technology CFOs are by far the most likely to cite insufficient support staff, and Healthcare/Pharma CFOs are most likely to cite insufficient internal political influence/authority.

Job Stresses

Percent of respondents who place each option in their top three



Please see Appendix for deeper insights around industry-specific findings

* *"Relationship with and demands from the board"* is an option that was introduced in 1Q11 and not offered in the past *surveys.*

CFO career

Definition of CFO Success

Financial performance and a strategic role are the clear priorities

This quarter we asked CFOs to define their own success criteria and to speculate about how their CEOs rate their success. On the whole, CFOs indicate little difference between their own criteria and their perceptions of their boss's "CFO success" criteria. Topping both lists by a fairly wide margin are the strategic role of CFO/Finance and financial performance.

CFOs' top success criterion is achieving a strategic role for themselves and their finance organizations. On average, they define 22% of their own success by this measure and contend that their CEOs define 19% of CFO success by it. This ranking is reinforced by a very high (and perhaps growing) percentage of CFOs who clearly desire to add value as strategists and catalysts (see page 9). An interesting twist, however, is that nearly 20% of CFOs say their CEOs place no emphasis at all on this strategic role.

CFOs perceive that their CEO's focus on financial-performance criteria is higher than their own. On average, they believe CEOs associate 28% of CFO performance with financial results, notably above their own weighting of 21%. Only 17% of CFOs base more than 30% of their performance on financial results, but they say that more than one third of CEOs do so.

The remaining success factors, although weighted far below the top two, indicate interesting differences in their rank order. For example, CFOs appear to believe that they put higher importance on capability-building and reporting, and that CEOs place higher importance on risk-related factors such as solvency and avoidance of detrimental events. About one quarter of CFOs say their CEOs place no importance at all on capability development. About one quarter also say that 0% of their own success is driven by avoidance of detrimental events, roughly consistent with their perception of their CEO's ranking.

There is also variability by industry. Generally, there appears to be a relatively high focus on financial performance in Manufacturing and Energy/Resources, and a substantial focus on strategic roles in Services. Retail/Wholesale and Energy/Resources appear to place the highest focus on liquidity and solvency.

Canadian CFOs report a lower focus on financial performance, in both their own and in their CEO's views of CFO success criteria. They say they place a higher focus on capability development than do their CEOs and their U.S. counterparts, and they say their CEOs place stronger-than-average emphasis on CFOs' strategic roles.

CFO's Definition of Own Success

(average percent of success determined by each factor)

22%	Strategic role of CFO/Finance
21%	Financial performance
12%	Capability development
12%	Quality of external reporting
12%	Liquidity/solvency
11%	Quality of internal mgmt. reporting
10%	Avoidance of detrimental events
0%	Other

CEO's Definition of CFO's Success

(average percent of success determined by each factor)

28%	Financial performance
19%	Strategic role of CFO/Finance
12%	Liquidity/solvency
12%	Avoidance of detrimental events
10%	Quality of internal mgmt. reporting
9%	Quality of external reporting
9%	Capability development
1%	Other

CFO career

Distribution of time

After focusing heavily on their steward and operator roles during the financial crisis and recession, CFOs are back in their catalyst and strategist roles

	2Q10 Actual	2Q10 Desired	2Q11 Actual
• Catalyst:	22%	29%	28%
• Strategist:	20%	31%	29%
• Steward:	34%	22%	25%
• Operator:	24%	18%	18%

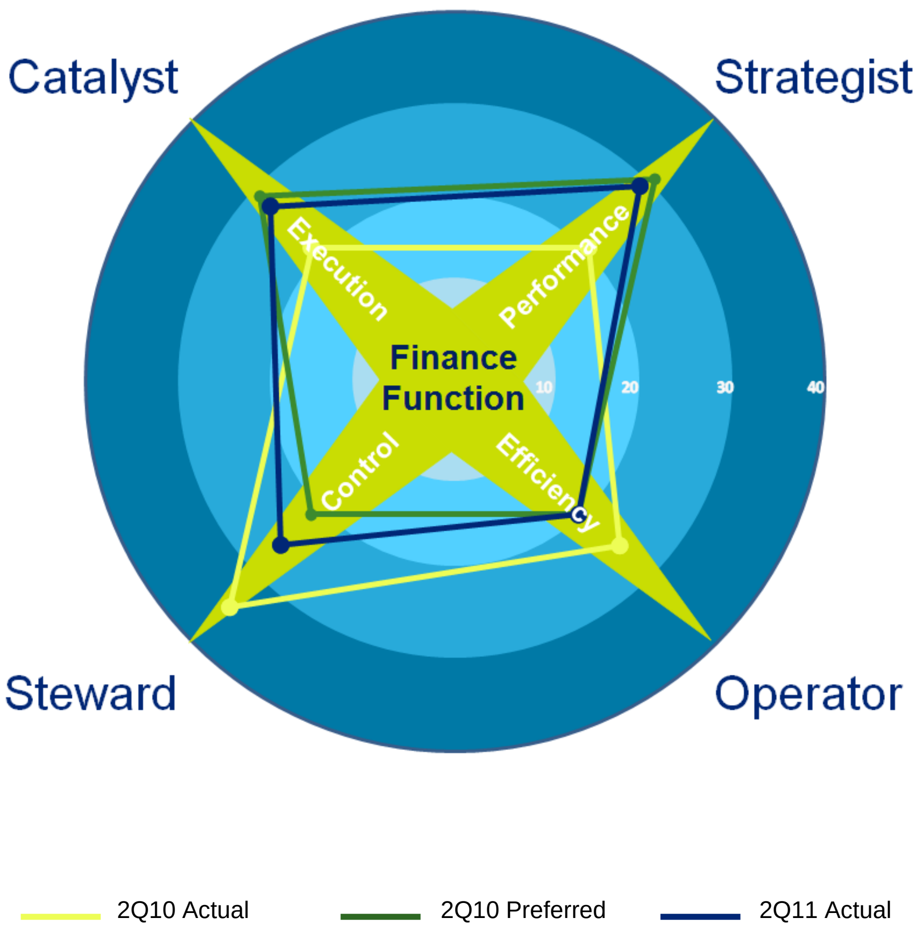
When we asked CFOs about their allocation of time across their four CFO roles back in the second quarter of 2010, they indicated that, in the aftermath of economic turmoil, they were spending a large proportion of their time in their steward and operator roles. To a great extent, CFOs' focus on steward and operator responsibilities crowded out activity in catalyst and strategist roles—roles that they much preferred.

This quarter's results show that, as domestic economies have rebounded over the last few quarters and as companies have shifted back toward growth, CFOs are now able to spend much more of their time in their preferred roles. Strategist and catalyst roles each now occupy roughly 30% of their time. Canadian CFOs report a somewhat higher strategist focus and a lower catalyst focus.

While CFOs' allocation of time differs by industry, no CFOs reported the operator role as a top-two time commitment, and CFOs in only one industry (Energy/Resources) reported the steward role in its top two. Energy/Resources CFOs also report a strong focus on their steward role (consuming an average of 35% of their time). Healthcare/Pharma CFOs report having a highly strategic focus, with their steward and operator roles consuming less than 30% of their time.

Overall, the trend toward increasing catalyst and strategist roles will likely come as a welcome change for the half of CFOs who, in our 4Q10 survey question regarding their natural working styles, indicated they considered themselves to be predominantly "drivers" (as opposed to "pioneers," "integrators," and "guardians"). It also appears to further confirm that that the nature of CFOs is shifting both in terms of base personality type and organizational role. As changing business environments force companies to change strategies, select and execute major change initiatives, and manage a broad range of risks, CFOs appear to be playing bigger and more formal roles in each of these areas.

Allotment of time CFOs prefer to spend and actually spend in each of their four roles



Please see slide 22 for additional information on CFO roles.

Finance organization

Heightened and broader responsibility is yielding rising concerns

Top challenges

Supporting strategic decision-making and investments

Finance organizations' top challenges continue to revolve around managerial decision-making. The dominant challenge this quarter is influencing decisions related to strategy and operational priorities, with more than half of all CFOs and all sectors (except Manufacturing and T/M/E) naming it a top challenge. Running second is providing information, analysis, and metrics (the dominant challenge last quarter), cited by more than 40% of CFOs and in all sectors except Technology, Healthcare/Pharma, and Services.

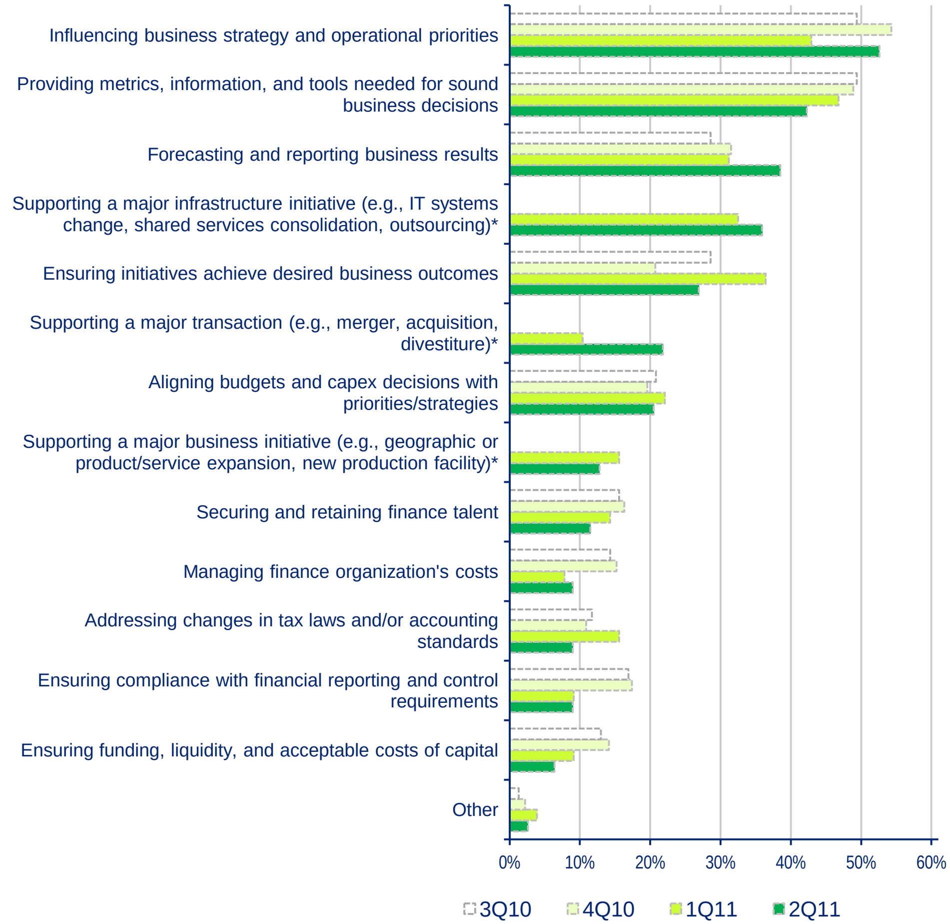
Challenges around forecasting and reporting business results rose notably this quarter, likely in response to continued strategic ambiguity, evolving government policy, and renewed concerns about economic recovery (see the Company and Economy sections of this survey). It is the top concern for Healthcare/Pharma and ties for the top spot in Manufacturing and Retail/Wholesale.

CFOs and their organizations continue to focus on major change initiatives, with more than one third citing infrastructural/back-office initiatives (driven heavily by Retail/Wholesale, Technology, and T/M/E). More than 20% cite support for a major transaction, consistent with the sharply rising focus on M&A evident in the Company section of this report.

T/M/E and Services CFOs report challenges in supporting major business initiatives, and those from Technology report a strong focus on securing and retaining finance talent.

Finance Organization Challenges

Percent of respondents who place each option in their top three



- Starting with the 1Q11 survey, "Supporting a major change initiative (e.g., M&A, IT systems change, IPO)" has been broken out into three options: "Supporting a major infrastructure initiative", "Supporting a major transaction," and "Supporting a major business initiative."

Please see Appendix for deeper insights around industry-specific findings.

Finance organization

Decision-making around capital investment

Considerable maturity and satisfaction overall

On the whole, CFOs appear satisfied with their approach to capital investment.

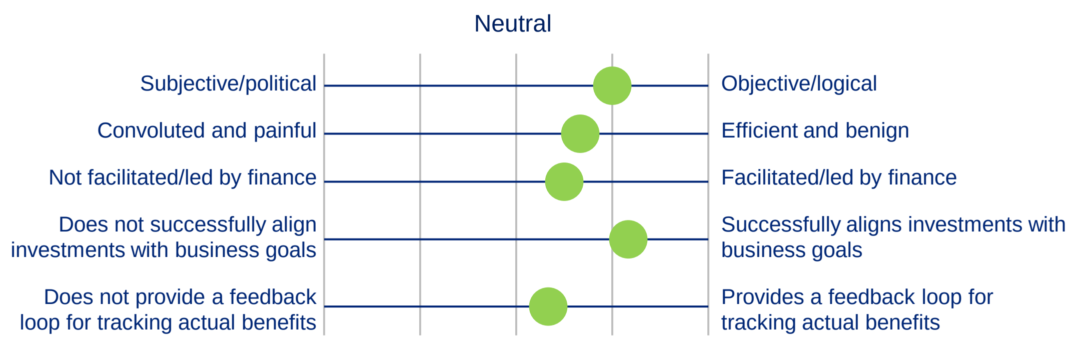
Nearly 85% say their processes are more objective/logical than subjective/political with 40% indicating strong objectivity and logic. Manufacturing reports the highest objectivity/logic (100%), and Energy/Resources reports the lowest (63%).

Roughly two-thirds say their decision-making is led/facilitated by finance, and more than 80% say the process is relatively efficient and painless. Technology and Services indicate the highest facilitation by finance; Energy/Resources indicates the lowest. Nearly two-thirds of Energy/Resources CFOs indicate convoluted/painful processes.

Perhaps most important, nearly 90% of CFOs say their capital investment approach successfully aligns their investments with their business goals, and 30% indicate strong success in this area. The weakest sectors in this regard are Financial Services and Energy/Resources, although 75% of CFOs in both sectors still report at least moderate success.

Just over 55% of CFOs say their approach provides a feedback loop for tracking actual benefits achieved, but less than 20% express high capability in this area. Manufacturing reports the strongest capability by a wide margin (with more than two-thirds claiming a feedback loop), and Retail/Wholesale and Technology indicate the least capability (both with 40% or less claiming a feedback loop).

Characterization of Capital-Investment Approach



Please see Appendix for deeper insights around industry-specific findings.

Finance organization

Use of capital

Trepidation and a preference for cash

Last quarter, CFOs said they were wary of unleashing their high levels of balance sheet cash despite their growth agendas. CFOs cited continuing concerns about the economy and consumer demand, wariness of industry regulation, and a shortage of attractive investment opportunities as the main reasons for constrained spending.

There is a common perception, however, that if companies don't put their cash to use fairly soon, they will be pressured to give it back to shareholders (through dividends and/or share buy-backs) or will begin to be punished by the markets (through declining valuations). Accordingly, this quarter we explored the opportunities and pressures CFOs face due to this built-up cash. On the whole, the findings appear to indicate a continued preference for holding cash and trepidation toward making investments in the current economic environment.

Just under 10% of CFOs say their board is pressuring them to invest their cash and nearly half say they do not feel board pressure to do so. (The most notable exception is Retail/Wholesale where roughly one third of CFOs feel pressure to invest their cash.) However, nearly 30% of CFOs do indicate pressure to return cash to shareholders, and roughly one quarter say they are being substantially impacted by their board's and shareholders' preferences.

On balance, CFOs say they are more inclined to stay liquid and flexible than invest their cash. More than 40% indicate this preference and less than one quarter report preferences to the contrary. The effects are strongest within Healthcare/Pharma where nearly 75% of CFOs prefer to stay flexible and indicate little pressure to invest or return cash. The effects are weakest within Retail/Wholesale, where CFOs indicate pressure to both invest and return cash.

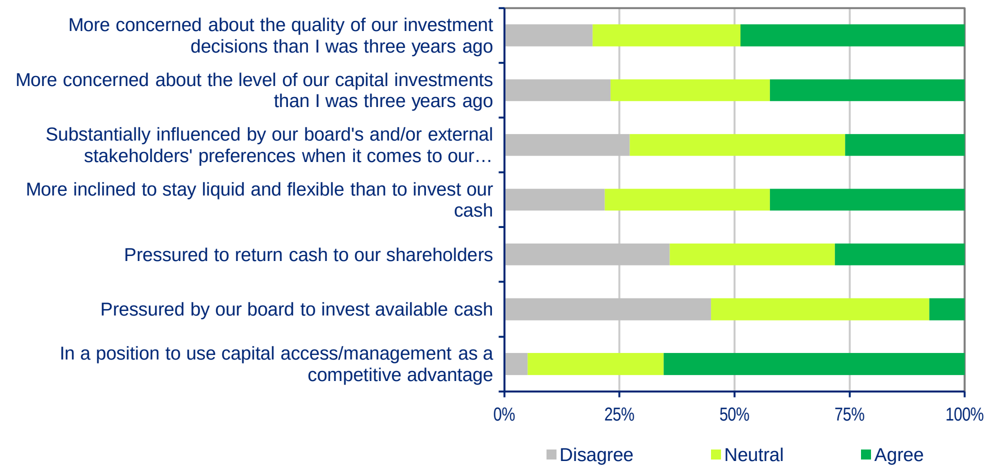
Nearly two-thirds of all CFOs say they are in a position to use capital access and management as a competitive advantage—a finding that may not only indicate CFOs' regard for cash's facilitation of strategic options, but may also indicate a belief that their capital conditions are superior to those of their (perhaps smaller) competitors.

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

Canadian CFOs report above-average inclination to stay liquid and flexible despite indicating higher-than-average pressure from their boards to invest cash.

CFO Views on Capital Usage

Degree to which each factor is affecting investment of cash



Please see Appendix for deeper insights around industry-specific findings.

Company

The primary focus is growing/maintaining revenues in existing markets

Top challenges

Growth-related challenges continue to dominate

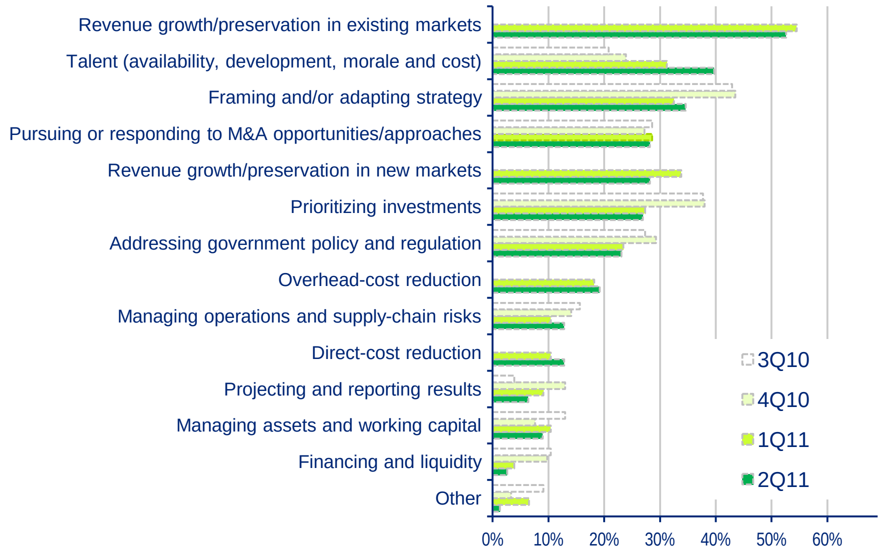
Consistent with findings from the last few quarters, CFOs are focused more on growth than on costs. Revenue from existing markets tops this quarter's list with more than half of all companies naming it a top challenge (Energy/Resources is the only industry below 50%), and revenue from new markets is a top concern for about 30% of companies (primarily for Retail/Wholesale and T/M/E). Overhead cost reduction, however, is a top concern for less than 20% of all companies, and direct cost reduction is a top concern for less than15%.

Talent is a rising challenge for many companies. It is a top three concern for nearly 40% of all companies (up from 30% last quarter) and is a particularly strong concern for Manufacturing and Energy/Resources. As it was last quarter, framing and/or adapting strategy is a top challenge for more than one third of companies, especially within Retail/Wholesale and Financial Services where more than 50% of CFOs name it a top challenge.

Prioritizing investments and M&A-related challenges are in the top three for nearly 30% of companies. Addressing government policy is a top challenge for just under one fourth of all companies, but for roughly half of Energy/Resources and Financial Services firms.

Company Challenges

Percent of respondents who place each option in their top three



Business focus

Revenue growth and preservation in existing markets

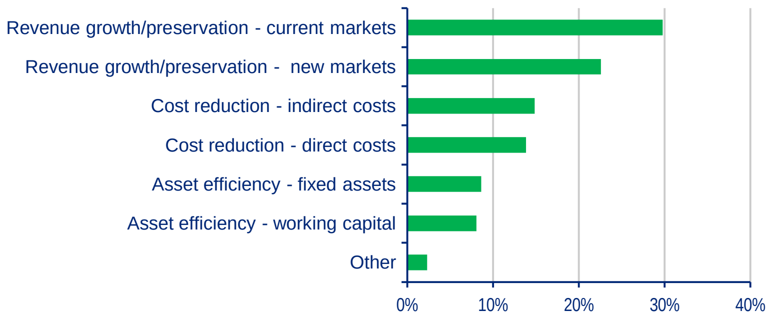
Survey Note: This quarter's questionnaire did not include previously available options related to capital/liquidity and capability development. Recurring very low focus in these areas suggested they are not directly associated by CFOs with "business strategy."

Consistent with findings from the "top company challenges" question above, revenue growth continues to be the primary concern as companies adjust to post-recession realities. This quarter, 52% of companies' strategic focus is on revenue growth and preservation (up from 47% last quarter). By splitting the "revenue growth/preservation" option into two parts this quarter, we can estimate that this 52% focus comes from a 30% focus on revenue growth/preservation in existing markets and a 22% focus on growth in new markets.

All industries indicated at least a 25% focus on revenues from current markets with Services, Technology, T/M/E, and healthcare indicating the highest concentration. Retail/Wholesale and Healthcare/Pharma are the only sectors indicating more than a 25% focus on revenues in new markets. Energy/Resources indicates the highest focus on both cost reduction and asset efficiency.

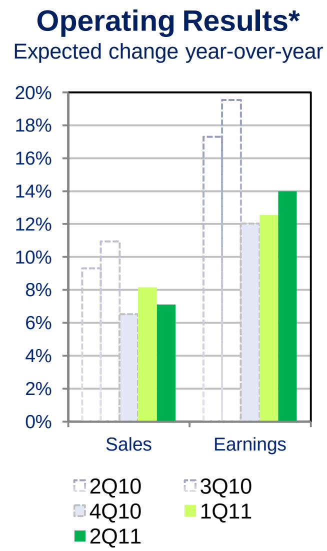
Company Business Focus

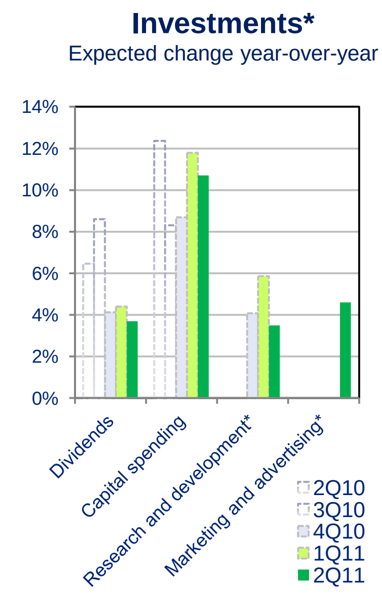
Distribution of company focus among respondents



Please see Appendix for deeper insights around industry-specific findings.

Company





Expected sales and earnings

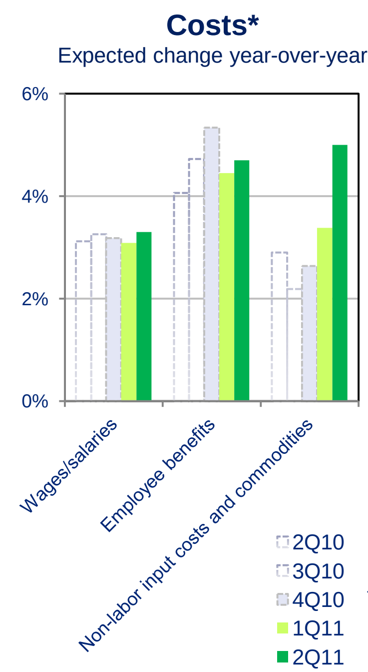
Positive but moderate expectations despite rising input prices

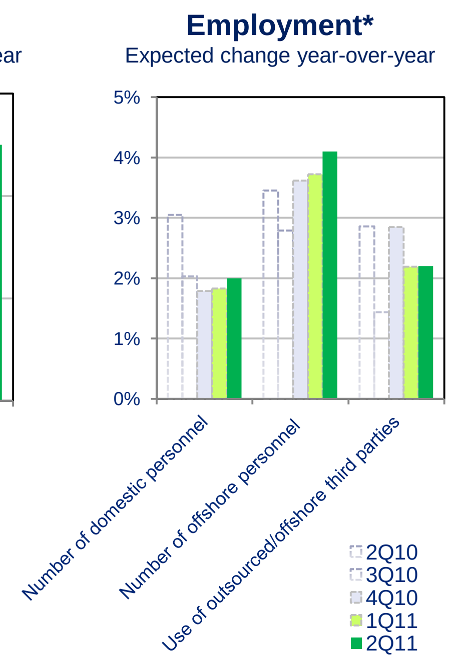
In 4Q10 we noted a substantial drop in expectations, leading us to posit that the fastest recovery-generated gains might be behind us—a hypothesis that seemed bolstered by continued moderate growth expectations in 1Q11. This quarter's expectations further support the notion that gains are now harder to achieve than they were a year ago.

CFOs currently project average year-over-year sales gains of about 7%* (versus 8.2% last quarter) and 80% of CFOs overall project gains. Retail/Wholesale and T/M/E lead the pack with projected gains over 10%, and Healthcare/Pharma trails at just 3%. Variability of expectations is high with median sales growth at 6%.

Expected earnings gains are about 14%* (versus 12.6% last quarter) and 83% of CFOs expect gains. Median earnings growth remains steady at 10%. Retail/Wholesale and Technology are the top sectors, projecting gains of 20% and 25%, respectively. Healthcare/Pharma and T/M/E are the lowest at 6%.

Built into these earnings projections are expected commodity cost increases of 5%, up notably from 3.4% last quarter and from 2.6% in 4Q10 (Manufacturing projects a 9% increase). Wage/salary projections are very consistent with previous quarters, and expected employee benefits cost increases (around 4.5%) are roughly the same as last quarter. Retail/Wholesale and Services, two of the most labor-intensive industries, project employee benefits cost increases of 7% to 8%.





Expected dividends, capital spending, and employment

Investment still outpaces hiring

CFOs expect dividend increases of 3.7%, below last quarter's 4.4% and continuing a decline evident since 4Q10. The median expectation is 0%, and only 35% of CFOs project dividend increases. Energy/Resources projects 10% growth.

As dividend growth slows, capital investment continues to rise. CFOs project capital spending gains of 10.7%* (down from 11.8% last quarter), with the median expectation at 10% and 30% of CFOs projecting flat or decreased spending. Manufacturing, Retail/Wholesale, T/M/E, and Services project gains above 14%, while Financial Services and Healthcare/Pharma project gains below 7%.

R&D spending is expected to rise about 3.5%*, down significantly from 6% last quarter and 4% from 4Q10. Forty-three percent of CFOs expect gains, but the median expectation is 0% growth.

Domestic hiring gains of 2%* are slightly higher than those from the last two quarters. In addition, the outlook for offshore and outsourced employment continues to improve with an expected 4%* increase in offshore personnel (3.7% last quarter) and a 2.2%* increase in outsourced staffing (the same as last quarter).

** Numbers with asterisks have been adjusted to eliminate the effects of stark outliers.*

**Averages have been adjusted to eliminate the effects of stark outliers.*
**Research and development was not offered in 2Q10 and 3Q10 surveys.*
**Marketing and advertising is an option that was not offered in past surveys.*

Please see Appendix for deeper insights around industry-specific findings.

Company

Own-company optimism

Optimism's dominance may be ending

After four straight quarters of optimistic sentiment, and three straight quarters of both rising optimism and falling pessimism, a major shift is now apparent.

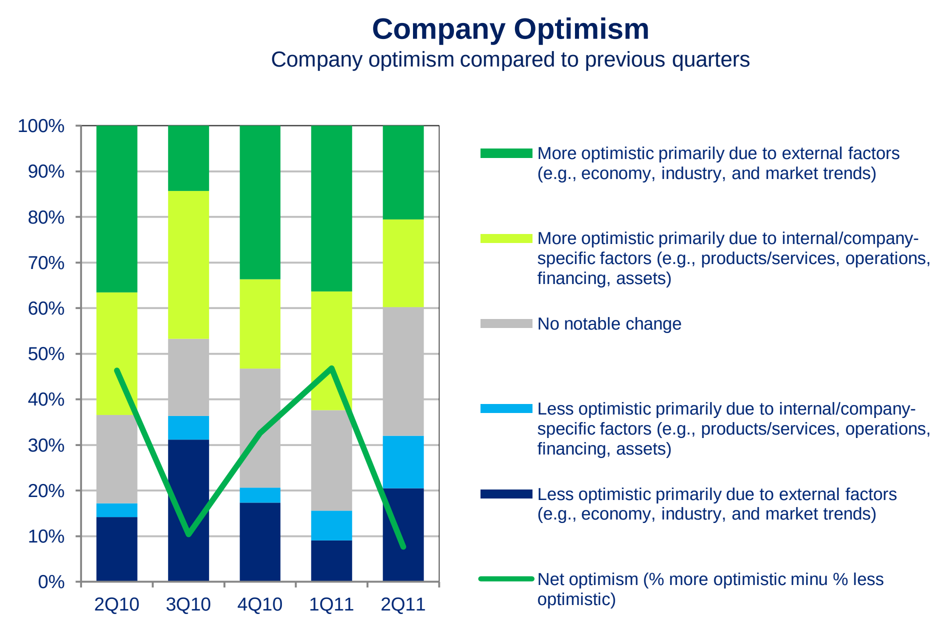
This quarter, optimism rose at its slowest pace in the past five quarters. Moreover, the spread between those indicating rising optimism and those indicating falling optimism ("net optimism") fell to just 7.7%—considerably lower than the spreads we have seen in the past year.

In all previous quarters (except 3Q10 when mid-term elections were on the horizon), improving assessments of the macro-business environment were a strong driver of rising optimism. Externally-generated optimism dropped nearly 50% this quarter and is now at its lowest level since 3Q10. The number of CFOs who indicate higher optimism due to the external reasons is now matched by the number who are less optimistic for external reasons.

The last time externally-driven optimism was matched or outweighed by externally-driven pessimism was in 3Q10 when internally-generated optimism picked up the slack. But this quarter's internally-driven optimism is the lowest on record, and internally-generated pessimism is at its highest.

It is important to note that CFO optimism varies markedly—especially by industry. The most substantial deviations from the mean are Retail/Wholesale (much more optimism, mostly for external reasons), Technology (much more optimism, mostly for external reasons), Energy/Resources (much less optimism, and much more pessimism for external reasons), Financial Services (much less optimism), T/M/E, and Services (both with much more pessimism).

Canadian CFOs reported higher-than-average optimism this quarter, driven almost entirely by more favorable assessments of internal/company-specific factors.



Please see Appendix for deeper insights around industry-specific findings

Company

High-impact risks

Government policy, internal issues, and economic malaise

With their rising focus on growth last quarter, CFOs appeared increasingly concerned about the impacts of government policy on their progress. That sentiment is prevalent this quarter as well, not only within heavily-regulated industries such as Financial Services and Healthcare/Pharma, but also within Manufacturing. The prospect of increased and unexpected regulatory changes is the top concern, and specific concerns about tax and environmental policy continue to rise.

Internally, companies continue to be concerned about their own decision-making and execution—especially around capital investment. Their list of internal worries (captured under the “Internal execution missteps” category in the chart on the right) expanded this quarter to include leadership’s alignment and focus, launching successful products, keeping key talent, and successful mergers and acquisitions. Technology indicates strong concerns around execution missteps, particularly around M&A.

Concerns around further economic turmoil topped the list in 3Q10, but fell notably in our 1Q11 survey. This quarter, economic concerns rebounded and are again a top concern for many CFOs, especially within Manufacturing.

Potentially High-Impact Risks

(Mentions in 2Q11 / Mentions in 1Q11 / Mentions in 3Q10)

Detrimental government policy/regulation (20/21/15)
Internal execution missteps (19/11/0)
Economic turmoil / demand issues (18/13/24)
Increasing competition / pricing pressures (9/5/7)
Tax policy changes (5/0/0)
Worsening capital availability/cost (4/5/5)
M&A (4/0/0)
Inflation and input prices (4/10/3)
Currency risk (4/2/0)
Talent development/loss (3/0/0)

Please see Appendix for deeper insights around industry-specific findings.

Industry

Slow growth and rising input prices are spurring competition; regulation still a worry

Top challenges

Regulation, competition, and growth

As several domestic markets stagnate, many companies face challenges in their attempts to grow. This quarter nearly 30% of CFOs say market growth is a top challenge, and another 25% cite pressures from market contraction.

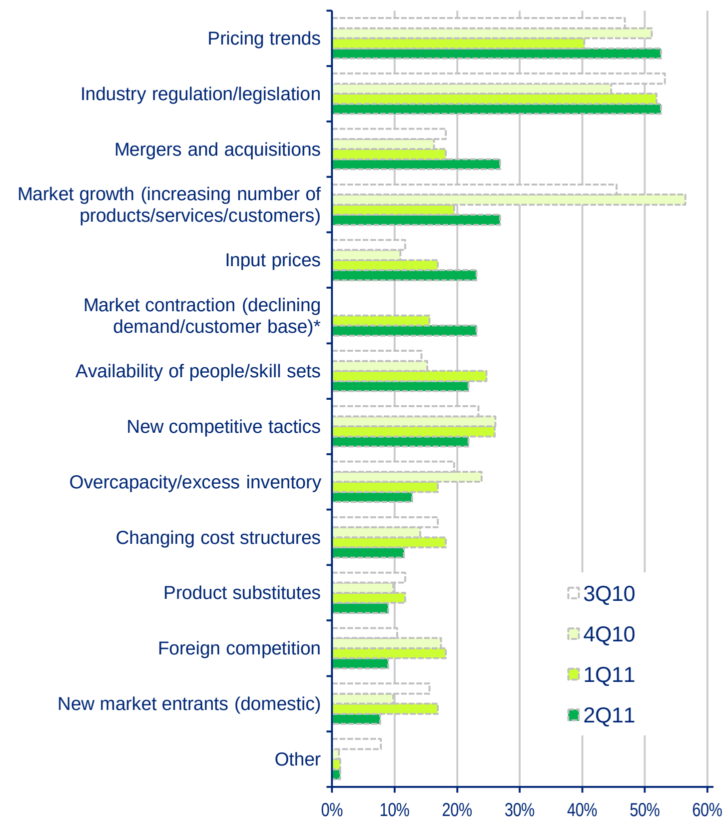
Uncertain demand is leading to other repercussions, including rising competition and pricing pressures. Pricing trends are a top concern for 53% of companies and for five of the eight industries (except Energy/Resources, Healthcare/Pharma, and T/M/E). Rising input prices may be exacerbating pricing challenges with nearly one quarter of CFOs naming this a top three challenge, but industry overcapacity and excess inventories do not appear to be major contributors (except within Services, where overcapacity appears to be a growing challenge).

As it has been for the past four quarters, industry regulation/legislation is a top challenge for more than half of CFOs and the top concern for Energy/Resources, Financial Services and Healthcare/Pharma (roughly 80% of CFOs in Energy/Resources and Financial Services name it a top challenge). Meanwhile, challenges related to M&A rose markedly this quarter with more than one quarter of CFOs naming it a top concern. At least half of CFOs named M&A a top challenge within both T/M/E and Retail/Wholesale.

Other notable findings: Talent concerns are notable within Services, Energy/Resources, and Technology. New competitive tactics are a challenge within T/M/E and Healthcare/Pharma. Pricing trends appear particularly challenging in Retail/Wholesale, Financial Services, and the Services sector.

Industry Challenges

Percent of respondents who placed each option in their top three



** "Market contraction (declining demand/customer base)"*
is an option that was introduced in 1Q11 and was not offered in past surveys.

Please see Appendix for deeper insights around industry-specific findings.

Economy

Companies are concerned about the impacts of policy and economy on growth

Top challenges

Social and environmental policy, then jobs and inflation

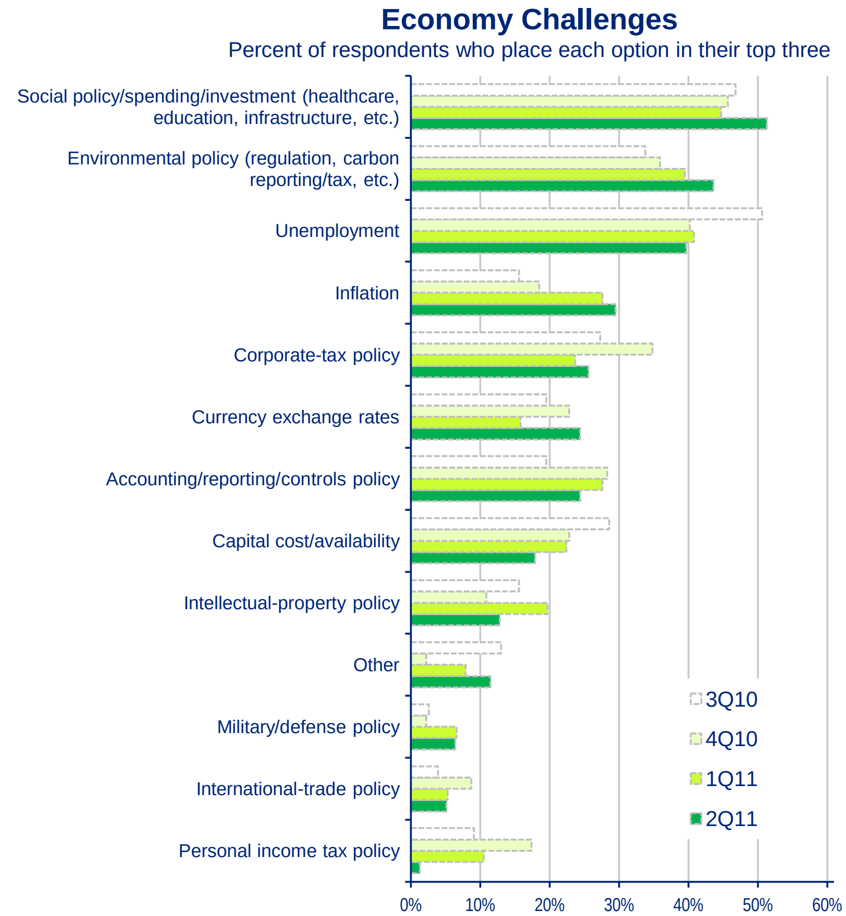
A slowing economic recovery and rising federal and state budget deficits have generated intensified debate around government spending, monetary policy, social programs, and a broad range of regulation. The effects government policy will have on economies and competitive environments are clearly on the mind of CFOs as they help their companies formulate growth strategies.

Social policy repeats as the top concern this quarter, with more than half of CFOs naming it a top three concern, and six of eight industries naming it one of their top two (Energy/Resources and T/M/E are the exceptions). Driven at least in part by volatility in fuel and other input costs, environmental policy jumped from third to second with 45% of CFOs naming it a top concern. It is a top three concern for six of eight industries and repeats as the top concern for both Manufacturing and Energy/Resources.

Unemployment remains a top concern with 40% of all CFOs and six of eight industries naming it one of their top three concerns. It is again the top concern for T/M/E and Financial Services, but no longer the top concern for Manufacturing and Retail/Wholesale—both of which now rank social, economic, and tax policy higher than they did a quarter ago.

After rising markedly last quarter, inflation concerns rose again this quarter with 30% of CFOs naming it in their top three—mostly driven by high importance in T/M/E, Retail/Wholesale, and Financial Services. Corporate tax policy is again a top challenge, especially within Manufacturing, Technology, and Energy/Resources.

Other notable findings: Currency exchange rate concerns are most prevalent in Technology, Energy/Resources, and Retail/Wholesale. Accounting, reporting, and controls policy is a strong concern for Financial Services, and concerns about capital cost and availability are still substantial in Retail/Wholesale and Energy/Resources, but declining. Canadian CFOs' challenges are largely consistent with the overall ranking, except for markedly higher concerns around currency exchange rates (cited by 50% of Canadian CFOs).



Please see Appendix for deeper insights around industry-specific findings.

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