CFO Signals™

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

High-Level Summary

1st Quarter 2013

CFO Signals

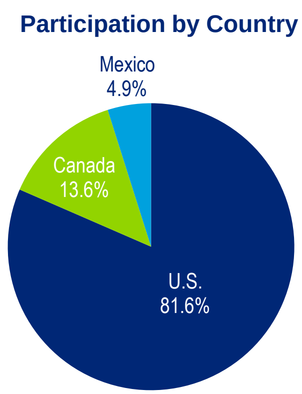
About the CFO Signals survey

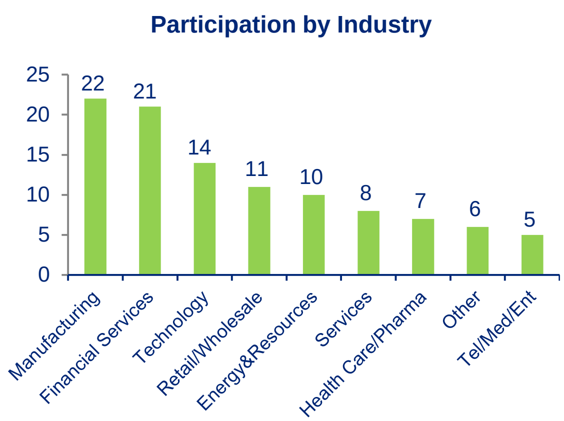
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This report summarizes CFOs' opinions in five areas: business environment, company priorities, company expectations, finance priorities, and personal priorities.

This is the first quarter report for 2013. For more information, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

Who participated this quarter?

One hundred and six CFOs responded this quarter. More than 70% of the CFOs are from public companies, and 85% 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 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 summaries
Country-by-country summaries

Findings at a Glance

Business Environment

Which external factors will most spur and impede business performance? Top growth impediments center on public policy and the state of the North American and European economies; despite weaker-than-desired performance, North American economies are also seen as the most positive factor in helping companies grow. **Page 8.**

How much is public policy debate affecting companies' cash, investment, and hiring plans? Most policy decisions and debates are having at least some impact on companies' plans, but only tax policy appears to be having a substantial impact across industries. **Page 9.**

What are the most significant steps companies are taking in response to prevailing public policy activity? Most companies have substantially ramped up their policy advocacy efforts, altered their strategies and operations, or become more conservative with their cash and investments. **Page 10.**

As part of debt deficit reduction, where do CFOs believe spending should decline? Despite general agreement around the need to cut spending in the largest budgetary areas (Social Security, Medicare, and Defense), there is considerable diversity of opinion about which areas should be cut. **Page 11.**

Company Priorities and Expectations

What are companies' business focus areas for the next year? Most companies are focused more on pursuing opportunity than on limiting risk, and much more on growing and scaling than on contracting and rationalizing. **Page 12.**

What are boards asking management teams to focus on? Boards appear predominantly focused on income statement metrics and risks to operational performance. **Page 13.**

How do companies expect performance, spending, and hiring to change over the next 12 months? At 5.4%*, sales growth expectations are positive and about even with last quarter, but they are still below their long-term average. Earnings growth expectations rebounded to 12.1%* and are now just below their long-term average. Capital spending is expected to rise 7.8%*, up from last quarter, but still below-average. Domestic hiring growth expectations are again modest at 0.9%*, and a substantial proportion of companies (27%) expect cuts. **Pages 14-16.**

Company Priorities and Expectations (continued)

How does CFOs' optimism regarding their companies' prospects compare to last quarter? Sentiment rebounded strongly this quarter with net optimism (the difference between those reporting rising optimism and those reporting declining pessimism) rising from -11 last quarter to +32 this quarter. But the dominant cause may be a cyclical bias toward optimism at the beginning of the year. **Page 17.**

Overall, what external or internal risk are of most concern? Governments' potential detrimental impacts on a stagnating global economy is the top concern. Economic concerns have largely transitioned from worries about crises/collapse to worries about persisting stagnation. **Page 18.**

Finance Priorities

What are finance organizations' CORE FINANCE priorities for the next year? Managing FP&A is the most common focus area, with half of CFOs citing it in their top three. Managing liquidity, finance strategy, and finance talent are the next-highest priorities. **Page 19.**

What are finance organizations' BUSINESS SUPPORT priorities for the next year? Finance organizations are heavily focused on supporting corporate and business unit strategy, with nearly 85% of CFOs placing this priority in their top three. Supporting sales is second at 46%, and supporting the needs of stakeholders is a priority for about 35% of finance organizations. **Page 19.**

Personal Priorities

What are CFOs' personal focus areas for the next year? CFOs' personal focus is broadly distributed and reflective of competing demands. The top four areas are: adding and retaining finance talent, raising their personal influence and authority, completing a key initiative, and building exposure/experience outside their company. **Page 20.**

What do CFOs think their CEO would say are their top personal contributions to executive/strategic decisions? Across industries, four decision-making contributions stand out: providing objectivity, providing a point of view, providing analytical rigor, and challenging assumptions. **Page 21.**

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

Summary

Ready to accelerate; hoping for a tailwind

First the good news: CFO sentiment and expectations have gotten better over the last two quarters. Now the bad news: given just how negative the last two quarters were, this is not saying very much.

In the final two quarters of 2012, we saw declining CFO optimism and this survey's worst-ever expectations for sales, earnings, domestic hiring, and capital investment — notable because the CFOs in the survey represent many of the largest, better-resourced, and most diversified companies in the world. While it is clearly good news that their expectations have improved, it is not great news that the survey's key metrics are all still below their long-term averages — especially since this group of CFOs tends to be pretty optimistic.

Moreover, judging from this quarter's findings, there is not a strong case for substantial improvement anytime soon. CFOs' most-cited driver of growth is the status of North American economies. But given that about one-quarter of CFOs named this factor a top growth *impediment*, and recently-released economic data has been only mildly (and debatably) positive, this is far from great news. In fact, this suggests that CFOs' relative optimism this quarter may be more a matter of a "New Year's optimism" than of a fundamental upturn.

In any event, CFOs and their companies appear poised to move forward. Cash-rich and lean, many are getting even more aggressive about finding and exploiting pockets of growth, spurring both organic and M&A expansion. And in the hope of igniting corporate engines, many are combating lingering uncertainty and stagnation by becoming more proactive about influencing government policy.

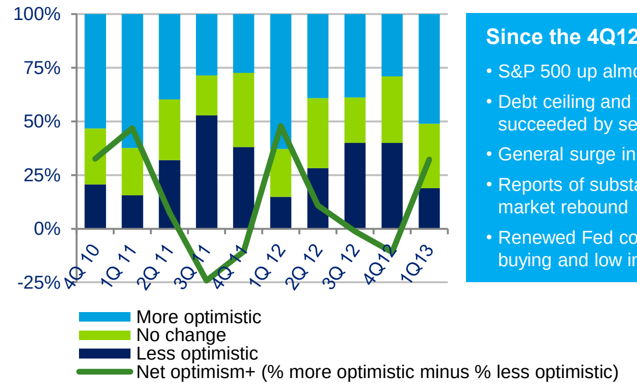
Relative optimism, not fundamental

It is a welcome change to report that none of the survey's key metrics hit a historic low this quarter. CFO optimism rebounded strongly, with net optimism rising from -11 last quarter to +32 this quarter. About half of CFOs expressed rising optimism, and just 20% expressed rising pessimism — a major shift. But this result comes on the heels of three quarters of declining optimism, and for the past three years we have seen optimism spike in the first quarter — only to decline markedly in the following quarters.

Strong recent upticks in U.S. equities markets similarly reflect broader-based optimism and likely bolstered CFO sentiment. But it is not clear whether the rise has been driven more by companies' performance and prospects or simply by the poor returns of other investment alternatives.

Own-Company Optimism

CFO optimism relative to previous quarter



Since the 4Q12 survey…

- S&P 500 up almost10%
- Debt ceiling and fiscal cliff debates succeeded by sequestration debates
- General surge in M&A deals
- Reports of substantial housing market rebound
- Renewed Fed commitment to bond buying and low interest rates

Entering the "acceptance" phase?

In step with optimism, sales and earnings growth expectations have improved, but are still not strong by historical standards. Sales expectations are essentially unchanged at 5.4%*, above the survey-low 4.8%* in 3Q12, but also well below the 7% long-term average. Similarly, expected earnings growth rose from 10.9%* to 12.1%*, but this is still comparatively low.

Muted expectations appear to stem from strong headwinds and weak tailwinds. CFOs said the strongest tailwind (by far) is the status of North American economies — and that is probably not comforting given the slow pace of improvement in the U.S. On the plus side, industry-specific demand and industry dynamics are the next-strongest positive factors, driven mostly by sentiments from the Manufacturing, Technology, and Financial Services sectors. Still, it is hard to see how industry-specific factors can drive long-term growth without help from the broader economies. Some companies (especially Technology) appear to be counting on growth in China, but that does not look like a sure bet, either.

Meanwhile, headwinds appear stronger and more numerous. CFOs say their governments' fiscal policy is the top impediment, driven mostly by sentiments from the Energy/Resources and Healthcare/Pharma sectors. And especially in the Financial Services, Services, and Energy/Resources sectors, CFOs worry that any positive industry dynamics might be negated by industry-specific regulation.

* 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.)

Slow growth causing frustration

Notwithstanding the headwinds, many companies appear ready to transition from defensive and recalibration efforts to offensive action. The vast majority of CFOs say their companies are focused more on pursuing opportunity than on limiting risk, and much more on growing and scaling than on contracting and rationalizing. In response, capital-spending expectations rose this quarter, but again the growth rates are still below their long-term averages.

Cash availability doesn't appear to be the problem; CFOs say their companies are biased toward reducing debt over increasing it, and toward investing cash over holding/building it. Instead, the problem seems to lie in finding good, profitable growth opportunities in the face of slow economic growth and high uncertainty.

Accordingly, many CFOs say their boards are not putting a strong emphasis on investing pent-up cash. They also cite only mild board emphasis on either raising dividends or paying down debt, which may indicate boards' acceptance of higher cash balances as a new and necessary normal — providing strategic options, resilience, and better M&A-fueled growth opportunities.

What boards are advocating is near-term preservation of the income statement. More than 75% of CFOs say revenue growth/preservation is a substantial or strong board focus, with risk management/mitigation and cost cutting next on the list. Clearly, none of this bodes well for employment, and CFOs accordingly expect less than a 1% gain in domestic hiring over the next year — and 27% project cuts.

Rising public policy activism

Over the past few quarters, CFOs' economic focus appears to have shifted away from worries about crises and collapse toward worries about unending stagnation. And when CFOs have expressed worries about stagnation, they have also tended to express both skepticism around governments' ability to solve economic problems, and worries that government actions might actually make things worse.

Especially in the U.S., CFOs express worries about the effects of taxing and spending policies on consumer demand. But it is interesting to note that, when we asked CFOs how much prevailing policy debates are actually affecting their investment plans, only the tax-related policies showed a substantially strong impact. High-profile policies around debt ceiling and sequestration policy were expected to have some impact for 53% and 48% of companies, respectively, but each garnered substantial or strong impact for only about 15% of companies.

Overall, CFOs appear very tired of unending policy debate and posturing — to the point that many are resigned to their need to become much more proactive on the policy front. On the whole, about 40% of CFOs said their most significant approaches to dealing with prevailing economic policy activity involved initiating or ratcheting up their public-policy advocacy efforts. To this end, their most-cited tactics include new or revised government-relations strategies, increased lobbying efforts, and an increased executive presence in Washington.

Finance's heavy focus on strategy

As companies focus on revenue and margin protection, finance organizations' contributions to decision-making are broadening. Nearly 85% of all CFOs said supporting strategy is a top finance priority for this year. Supporting sales efforts is next, consistent with CFOs' citing of rising pricing and margin pressures. And consistent with a shortage of organic growth opportunities and recent reports of rising M&A activity, supporting M&A is a top priority for about one-third of finance organizations.

CFOs' role in strategy definition has ramped up as well. We asked CFOs what their CEOs would say are their strongest personal contributions to executive decisions, and four stood out: providing objectivity, providing a point of view, providing analytical rigor, and challenging assumptions.

These escalating demands clearly create the need for strong finance organizations. More than 40% of CFOs say this year's top priorities include improving both finance strategy and finance talent. Moreover, about 40% say adding and retaining finance talent is one of their top personal priorities for the year.

Finally, it is clear that CFOs' expanding roles are necessitating a stronger outside-in perspective and very strong internal relationships. Accordingly, many say they are making it a 2013 priority to increase their exposure and experience outside their company (substantially through external board roles, based on previous surveys' findings), and almost half are planning to improve their relationship with their CEO, their board, their staff, or an executive peer.

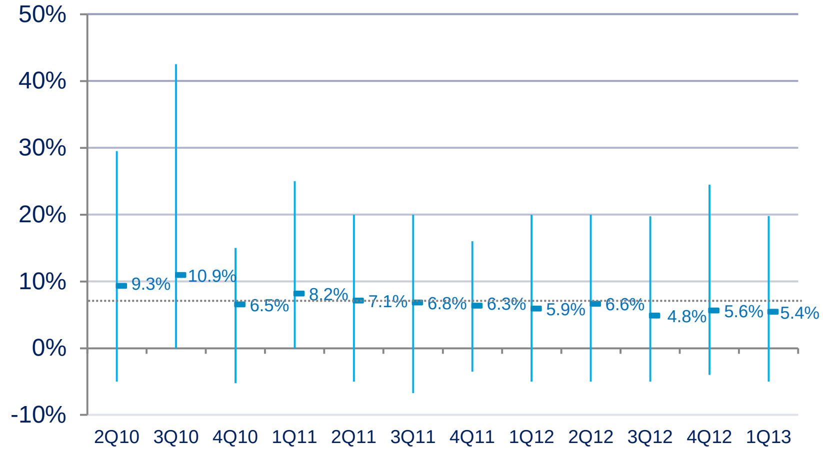
Clearly, CFOs are increasingly serving as advocates and leaders of change — and they are hoping this year's economic and political environments can finally give them a welcome tailwind.

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

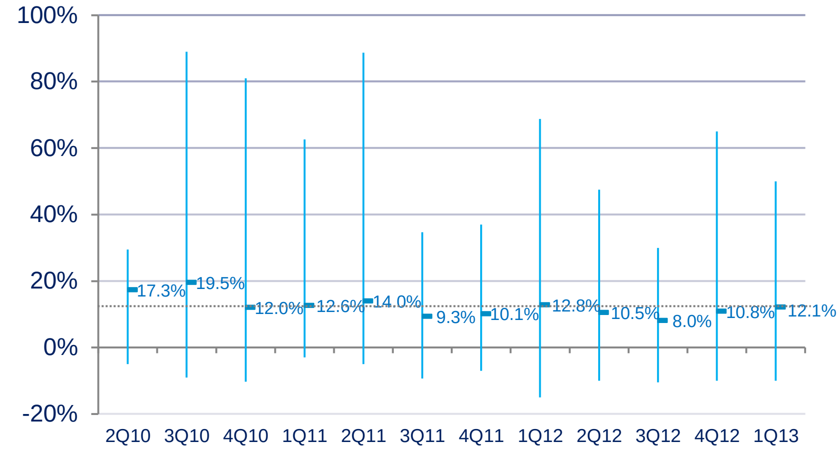
Growth Trends

CFOs’ expected year-over-year increases in growth metrics

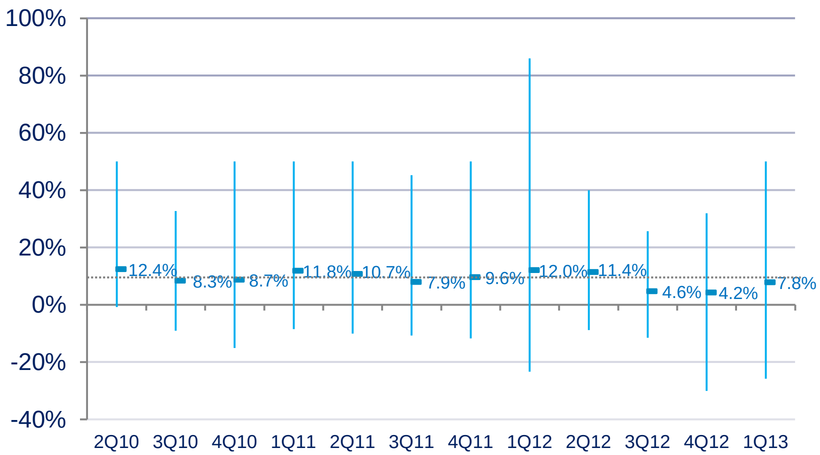
Sales Growth



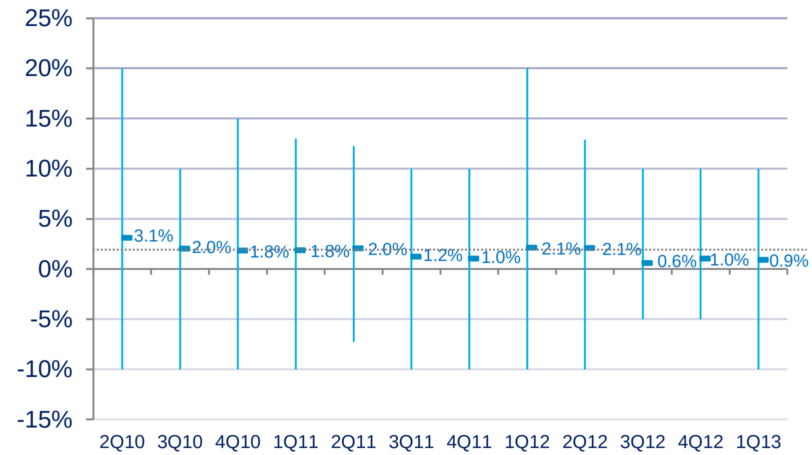
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



Vertical lines indicate range for responses between 5th and 95th percentile.
Horizontal marks indicate outlier-adjusted means.
Dotted lines indicate 3-year average (simple mean)

Growth Trends

CFOs' Year-Over-Year Expectations

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

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Operating Results	Sales	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%	4.8%	5.6%	5.4%
		6.0%	10.0%	5.0%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
		84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%
	Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	12.8%	10.5%	8.0%	10.9%	12.1%
		6.0%	10.0%	8.0%	10.0%	10.0%	8.0%	9.0%	9.5%	8.5%	6.0%	7.0%	10.0%
		89%	93%	80%	83%	83%	82%	84%	79%	81%	84%	76%	84%
Investment	Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	2.2%	3.9%	2.5%	2.5%	3.6%
		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		38%	39%	28%	36%	35%	41%	27%	31%	33%	30%	29%	38%
	Capital spending	12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	12.0%	11.4%	4.6%	4.2%	7.8%
		5.0%	5.0%	4.0%	5.0%	10.0%	5.0%	5.0%	6.0%	10.0%	3.0%	0.0%	0.0%
		62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%
Employment	Number of domestic personnel	3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	2.1%	2.1%	0.6%	1.0%	0.9%
		0.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%
		50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%
	Number of offshore personnel	3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	3.7%	3.8%	1.5%	0.5%	2.4%
		0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%
	Use of offshore/outsourced third parties	2.9%	1.4%	2.8%	2.2%	2.2%	3.1%	3.7%	2.5%	3.6%	1.6%	2.3%	2.6%
		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		35%	37%	32%	41%	31%	36%	49%	26%	30%	28%	28%	35%

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

Business Environment

Top aids and impediments to growth

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

***Top impediments to growth** center primarily on public policy and the state of economies in North America and Europe:*

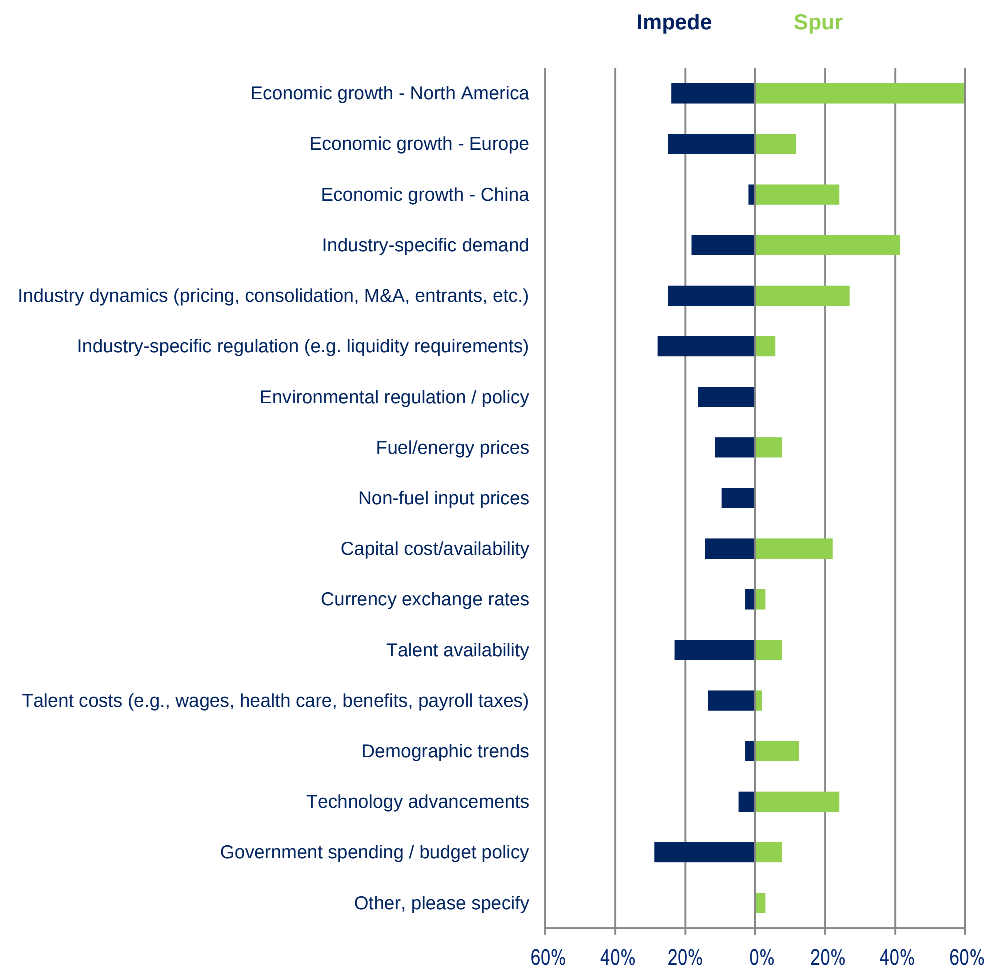
- **Government spending/budget policy** is the top impediment, with nearly 30% of CFOs naming it in their top three. The effects are strongest in the U.S., and also within the Energy/Resources and Healthcare/Pharma sectors.
- **Industry-specific regulation** is next at 28%, again heavily driven by U.S. perceptions. The Financial Services, Services, and Energy/Resources sectors are all over 40%.
- **The state of European economies** is a top impediment for more than 25%, highest within Technology, Healthcare/Pharma, and Manufacturing.
- **The state of North American economies** is viewed as a top impediment by one-quarter of CFOs, but as a top positive factor by more than 60% (see below). Retail/Wholesale and Energy/Resources are the most pessimistic.
- **Talent availability** is a top impediment for 23% of CFOs overall and for nearly 30% of Canadian CFOs. Effects are strongest in Healthcare/Pharma and Technology sectors, both of which are over 50%.
- **Fuel/energy prices** are a top impediment for 21% of Canadian CFOs and for more than half of Retail/Wholesale CFOs.

***The most positive factor in helping companies grow** are the North American economies – despite weaker-than-desired performance:*

- **The state of North American economies** is the top growth aid with more than 60% of CFOs naming it in their top three. This sentiment is strong across all three countries, and in all sectors except Technology, Healthcare/Pharma, and Energy/Resources.
- **Industry-specific demand** is next at about 40%, driven by positive perceptions in all regions and in the Manufacturing and Technology sectors.
- **Industry dynamics** (e.g. pricing, consolidation, M&A) are a positive factor for 27% of CFOs overall and for nearly 40% in Financial Services – consistent with recently positive operating and equity market performance in this sector.
- **The state of the Chinese economy** is a top growth aid for 23% of all companies and for nearly 60% of Technology firms; **Europe's economy** is far behind at just 12%.
- **Capital cost/availability** is a top aid for 23% of CFOs overall. Effects are strongest Canadian CFOs at 29% and for Financial Services CFOs at 43%.

External Factors' Influence on Company Performance

Percent of CFOs naming each factor in their top three growth aids/impediments



Business Environment

Effects of government policy on business planning

Government policy has been on CFOs' minds for many quarters, but how strongly are these particular policies affecting companies' plans for cash, investment, and hiring?

Most policy decisions and debates are having at least some impact on companies' plans, but only tax policy appears to be having a substantial impact:

- More than 90% of CFOs say their plans are at least being somewhat affected by one or more policy areas, but 44% indicate that **none of the policy areas are having a substantial or strong impact**.
- The most impactful policy area is **corporate tax reform**, where 75% of CFOs claim at least some impact and 40% indicate substantial or strong impacts.
- The second-highest policy area is **tax increases for high-earners**, with 55% indicating at least some impact, and 20% indicating substantial or strong impacts.
- **Debt ceiling and sequestration** policy were expected to have at least some impact for 53% and 48% of companies, respectively, but each garnered substantial or strong impact for only about 16% of companies.
- The findings may indicate that, for most industries, companies' high interest in the national debt debate stems much **more from the revenue/tax implications** than from the spending implications.
- Defense cuts were not a particularly strong concern in any sector.
- Most notable industry findings: **Healthcare/Pharma** is the sector most likely to cite strong impacts from current public policy activity, with more than 40% citing substantial sequestration impacts, more than 70% claiming substantial to strong Medicare/Medicaid spending impacts, and more than 40% citing strong corporate tax reform impacts**. Financial Services** is concerned about higher tax rates for high earners (nearly 40% indicate substantial to strong impacts) and the expiration of unlimited FDIC Insurance (almost 30% cite substantial or strong impacts). **Technology** is very impacted by R&D credits, with 70% expressing at least some impact and 30% expressing substantial to strong impact

External Factors' Influence on Business Plans

Degree to which each factor is affecting cash, investment, and hiring plans

Business Environment

How companies are addressing policy activity

As companies consider the impact of recent and potential policy changes, what are the most important steps they have taken?

Most companies have substantially ramped up their policy advocacy efforts, altered their strategies and operations, or become more conservative with their cash and investments:

- Only about 10% of CFOs say their companies have not taken any new steps in response to prevailing public policy activity.
- On the whole, about 40% of CFOs say their most significant approaches involve initiating or ratcheting up their **public policy advocacy** efforts, with the most common tactics including new or revised government relations strategies, increased lobbying efforts (individually or through industry group involvement), and an increased presence in Washington (via government affairs teams or more executive visits).
- About 25% of CFOs say their most important steps have revolved around **strategic and operational changes** – especially reducing their cost structures, diversifying their revenue sources, and improving their internal regulatory awareness and compliance.
- Another 25% of CFOs say their most important steps have revolved around **conservatism** when it comes to liquidity, hiring, and capital investment.
- Please see page 29 for a summary by industry.

Stronger government affairs team
Senior executive visibility in D.C.
Telling our story to stakeholders
Monitoring the situation
More legislator meetings/discussions/education
New/stronger government relation strategy
More industry group involvement
Employee education about issues
Planning conservatively
Outsourcing
Diversifying business/risk
Being cautious
Reducing capital investment
Delaying hiring
Retaining cash / Building liquidity
Examining compensation structure
Improving sustainability practices
Reducing cost structure
Cautious with capital outlays
Improving health and safety awareness/practices

Business Environment

Where government spending should be cut

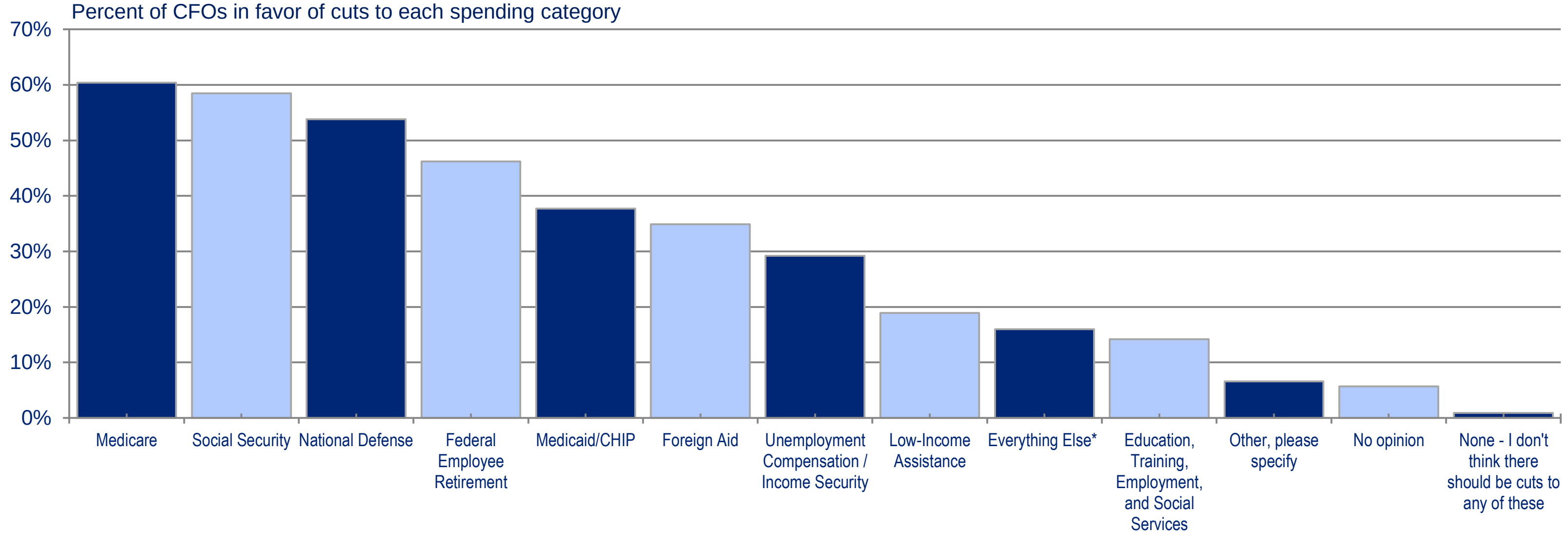
It is generally held that government spending in the U.S. needs to decline – or at least grow less quickly. But in which areas do CFOs think spending should be cut?

Despite general agreement around the need to cut spending in the largest budgetary areas, there is considerable diversity of opinion about which areas should be cut:

- CFOs overwhelmingly believe spending cuts are necessary, and their desired cuts are centered primarily on the areas with the largest current budgets.
- Despite general agreement that spending should decline, opinions vary considerably regarding which areas should be cut – no single category received more than 60% of the vote.
- On average, CFOs selected three categories for cuts, and those who selected fewer overwhelmingly selected Defense. Retail/Wholesale CFOs are by far the least likely to choose Defense cuts, and Services CFOs are the most likely to have selected many areas for cuts.
- Only 15% of CFOs did not include Social Security, Defense, or Medicare in their cuts – tending to focus instead on Unemployment Compensation, Federal Employee Retirement, and Foreign Aid.
- When it comes to social programs, CFOs appear most inclined to cut spending where they believe less funding would not create substantial hardship – i.e. in areas like Social Security and Medicare, where means testing might focus spending on those most in need of benefits. Healthcare/Pharma CFOs are by far the least likely to advocate cuts in Social Security, Medicare, or Medicaid spending.
- CFOs also appear inclined to cut federal spending where they believe current spending might be excessive – i.e. in Defense and Federal Employee Retirement.
- Comparatively few CFOs desire cuts to programs providing aid to primarily low-income individuals and families – i.e. Medicaid, low-income assistance, unemployment compensation, education/training, and social services.

Debt/deficit reduction

Percent of CFOs in favor of cuts to each spending category



*Veterans benefits, transportation, natural resources, science/space/tech, agriculture, etc.

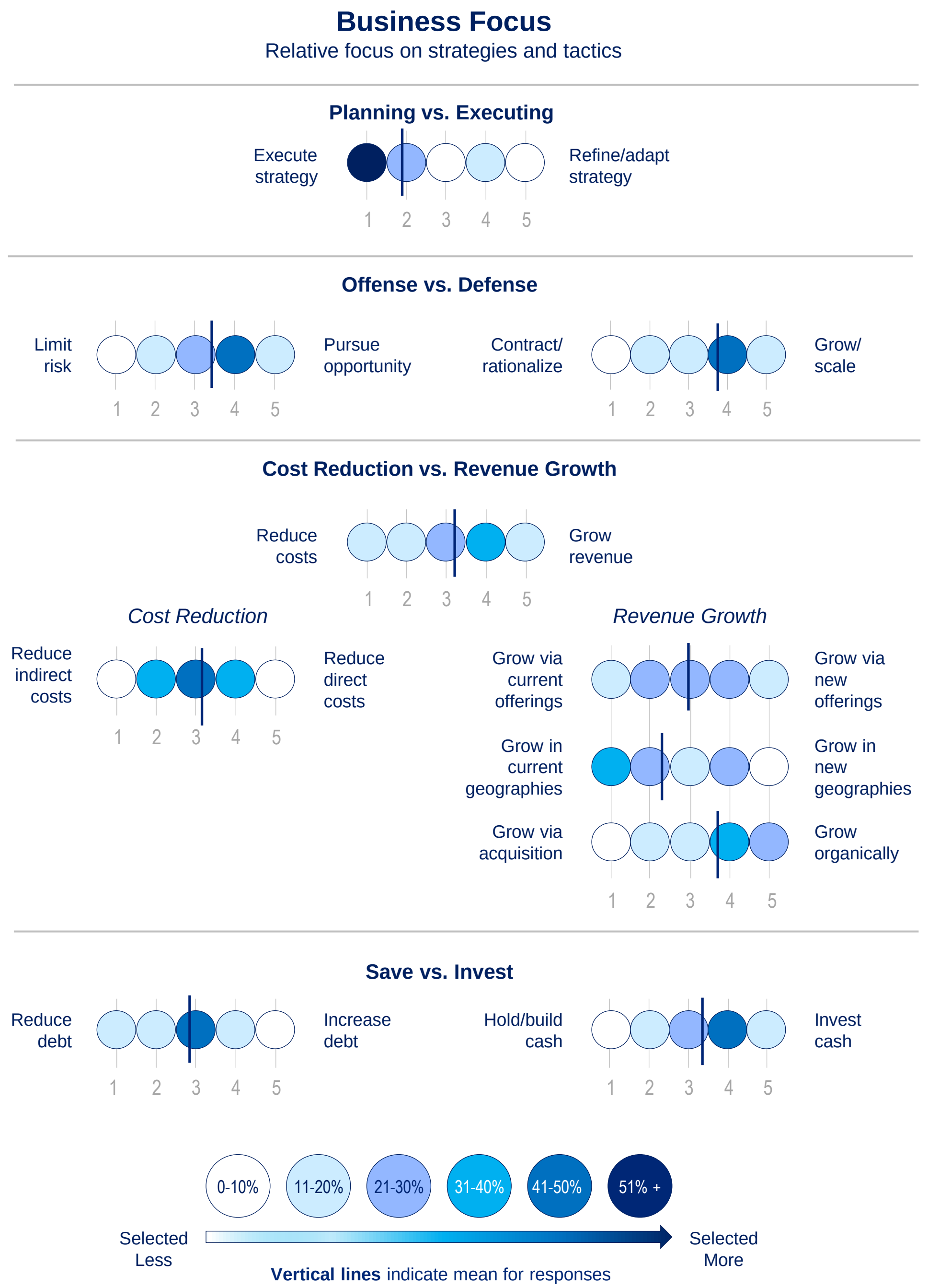
Company Priorities

Business focus

How are economic, political, and industry developments affecting companies' priorities?

Most companies are focused more on pursuing opportunity than on limiting risk, and much more on growing and scaling than on contracting and rationalizing:

- **Executing over planning**: The bias overall is toward executing strategy — possibly indicating that the strategy-rework effort evident in previous surveys has largely run its course for most companies.
- **Offense over defense**: Companies mostly appear on the offensive, with "pursuing opportunity" ahead of "limiting risk" and "growing/scaling" well ahead of "contracting/rationalizing." This orientation is not universal, however, with three sectors biased toward limiting risk (Energy/Resources, Financial Services, and Services) and Energy/Resources only slightly biased toward growing/scaling.
- **Revenue over cost (narrowly)**: The bias is toward revenue growth, but not by a very wide margin. Energy/Resources is the most cost-focused, and Healthcare/Pharma is the most revenue-focused.
- **Current offerings over new offerings (narrowly)**: The bias is slightly toward current offerings, led by Energy/Resources. Healthcare/Pharma and Services lean notably toward new offerings. Technology is (perhaps surprisingly) neutral.
- **Current geographies over new geographies**: The bias is substantially toward current geographies with only T/M/E notably biased toward new geographies.
- **Organic growth over inorganic growth**: The bias is substantially toward organic growth, but Healthcare/Pharma and Services are leaning toward M&A.
- **Direct cost reduction over indirect cost reduction (narrowly)**: Most sectors show little bias, but Services and T/M/E lean substantially toward direct cost reduction.
- **Investing over saving**: Cash appears to be in sufficient supply with companies biased toward reducing debt over increasing it, and toward investing it over holding/building it. No sectors are biased toward increasing debt, and only Healthcare/Pharm is biased (only slightly) toward building cash.



Company Priorities

Board focus

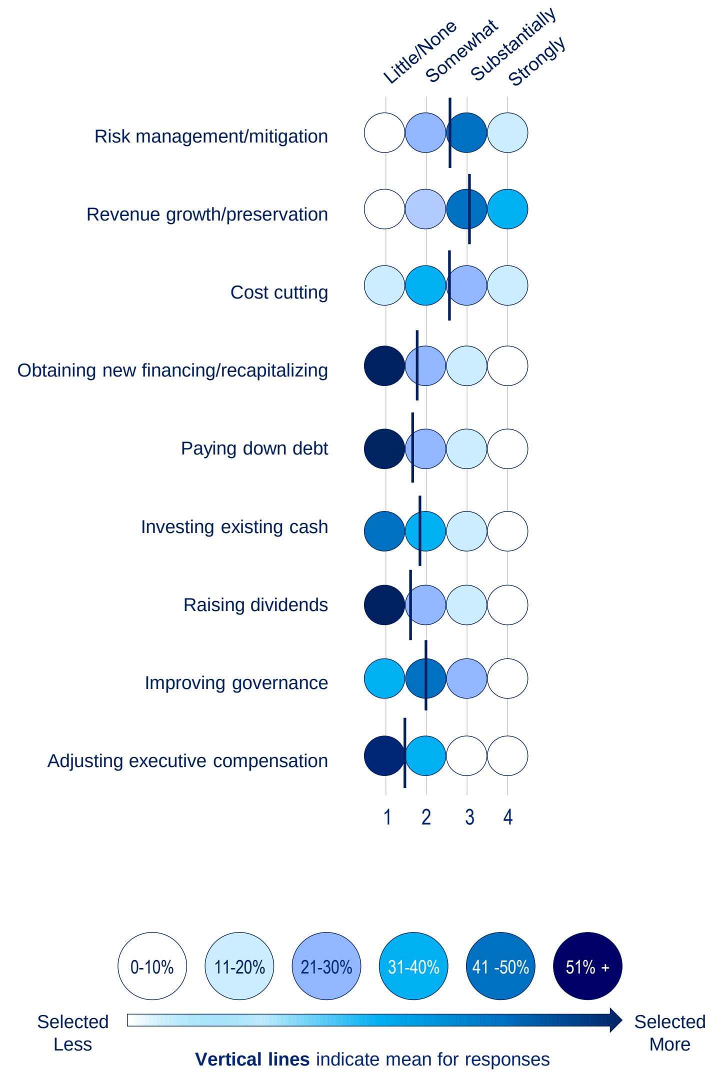
Where are company boards asking their management teams to focus their efforts?

Boards appear predominantly focused on income statement metrics and risks to operational performance:

- **Revenue growth/preservation** is a substantial or strong focus for more than 75% of boards (consistent across all sectors); risk management/mitigation and cost cutting are next at just under 60% and 50%, respectively.
- The **higher focus on revenues than on costs** may indicate that some companies have already exhausted many of their best cost-cutting opportunities — and are turning back toward top-line growth. Boards from the Services, Technology, and Energy/Resources still have a very high focus on cost cutting (about 60% substantial or strong)
- There is a relatively low focus on **financing and liquidity**, with only about 25% of CFOs citing a substantial or strong board focus on obtaining new financing or recapitalizing. Financial Services bucks this trend at 40%.
- Many boards appear to accept that **higher-than-historical cash** balances are acceptable, with little substantial or strong focus on paying down debt (21%), raising dividends (17%), or investing existing cash (22%). Energy/Resources and Services boards are most likely to have a focus on paying down debt (50% and 43%, respectively).
- **Risk management/mitigation** is a substantial or strong focus for almost 60% of boards overall and for 80% and 70% of Financial Services and Healthcare/Pharma boards, respectively.

Board Priorities

Degree to which CFOs say their Boards are focused on each area



Company Expectations

Sales and earnings

How is a slow-growth business environment affecting year-over-year sales and earnings expectations?

Sales*:

- ***Sales growth expectations are positive and above 3Q12 survey lows, but they are still below the long-term average:***
- Sales are expected to rise 5.4% overall, similar to last quarter's 5.6% and above the survey-low 4.8% in 3Q12; the median is again 5%, with 81% of CFOs expecting year-over-year gains.
- Country-specific expectations are 5.2% for the U.S. (4.8% last quarter), 7.4% for Canada (5.5% last quarter), and 6.6% for Mexico (10.6% last quarter).
- Financial Services is highest at nearly 8%; Retail/Wholesale and T/M/E both declined notably this quarter and now sit at just 3.9% and 2.8%, respectively.

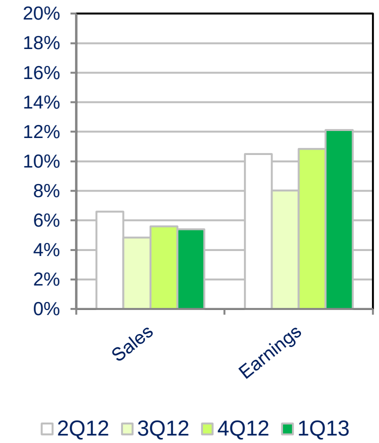
Earnings*:

Earnings growth expectations continued to rebound off 3Q12 lows and are now just below their long-term averages:

- Earnings are expected to rise 12.1%, up from last quarter's 10.9% and well above the survey-low 8.0% in 3Q12; the median rose from 7% to 10%, and 84% of CFOs expect year-over-year gains (above last quarter's 76%).
- Country-specific expectations are 12.0% for the U.S. (10.5% last quarter), 11.8% for Canada (9.2% last quarter), and 13.0% for Mexico (9.2% last quarter).
- T/M/E is highest at 19%, but the sample size is just five, and one company's very high estimate had a strong influence on the average. Technology and Financial Services both posted large gains this quarter and now sit at more than 16%. Manufacturing, Retail/Wholesale, and Healthcare/Pharma all posted notable declines.

Operating Results*

Expected change year-over-year



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

Company Expectations

Dividends and investment

How are companies using their cash in a slow-growth economic environment?

Dividends*:

Dividend growth expectations rebounded to near their long-term average:

- Dividends are expected to rise 3.6%, up from last quarter's near-survey-low 2.5%. The median is still 0%, but 38% of CFOs now expect year-over-year gains – near the survey-highs from more than a year ago.
- Country-specific expectations are 4.0% for the U.S., 1.1% for Canada, and 2.0% for Mexico.
- Technology and Services both posted notable gains and now sit just below 6%. Energy/Resources is lowest at 1.2%.

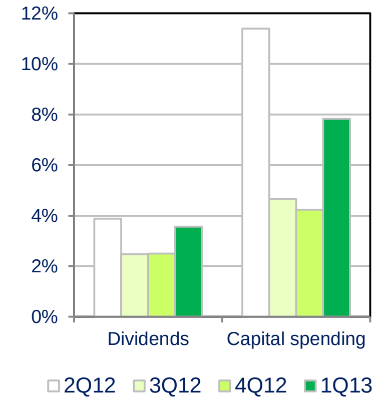
Capital investment*:

Capital spending growth expectations rebounded substantially, but are still below their long-term average:

- Capital spending is expected to rise 7.8%, well above the survey-low expectations of around 4.5% over the past two quarters. The median is still 0%, however, and just 57% of CFOs expect year-over-year gains.
- Country-specific expectations are 10.9% for the U.S., -9.4% for Canada, and 7.6% for Mexico.
- Manufacturing is again highest, rising to nearly 14%. Technology and Financial services are next at just under 10%. Retail/Wholesale, Healthcare/Pharma, and Services all fell off notable this quarter.

Investments*

Expected change year-over-year



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

Company Expectations

Employment

Are companies confident enough in their growth prospects to increase hiring — and what will be the mix of domestic, offshore, or outsourced staffing growth?

Domestic hiring*:

Domestic hiring growth expectations are still modest, with a substantial proportion of companies expecting cuts:

- Domestic hiring is expected to rise 0.9% overall, consistent with last quarter's 1.0% and above the 3Q12 survey low of 0.6%; the median is again 0%, with 43% of CFOs expecting year-over-year gains, and 27% expecting cuts (essentially even with the survey high from last quarter).
- Country-specific expectations are 0.6% for the U.S. (0.7% last quarter), 3.5% for Canada (0.2% last quarter), and -1.0 for Mexico (5.8% last quarter).
- Technology and Energy/Resources are the bright spots at 3.6% and 2.3%, respectively; Retail/Wholesale, Financial Services, and T/M/E are most pessimistic, all posting zero growth or declines.

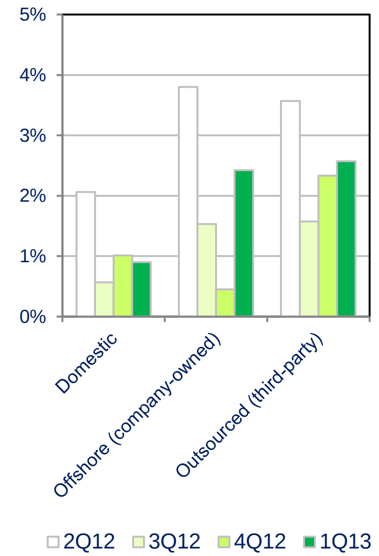
Offshore hiring and outsourcing*:

Offshore hiring growth expectations rebounded from last quarter's survey low; outsourcing is rebounding, but only modestly:

- Offshore hiring is expected to rise 2.4%, well above last quarter's survey-low 0.5% but still below the longer-term average of about 3%; the median is still 0%, with 39% of CFOs expecting year-over-year gains and just 9% expecting cuts. Retail/Wholesale, Technology, and T/M/E all posted substantial gains; Financial Services posted a decline of more than 1%.
- Outsourcing is expected to rise 2.6%, above last quarter's 2.3% and close to the longer-term average; the median is 0%, with 35% of CFOs expecting year-over-year gains and just 4% expecting cuts. Financial Services, Healthcare/Pharma, and T/M/E are highest, all at 3% or more.

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

Employment*
Expected change year-over-year



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

Company Expectations

Own-company optimism

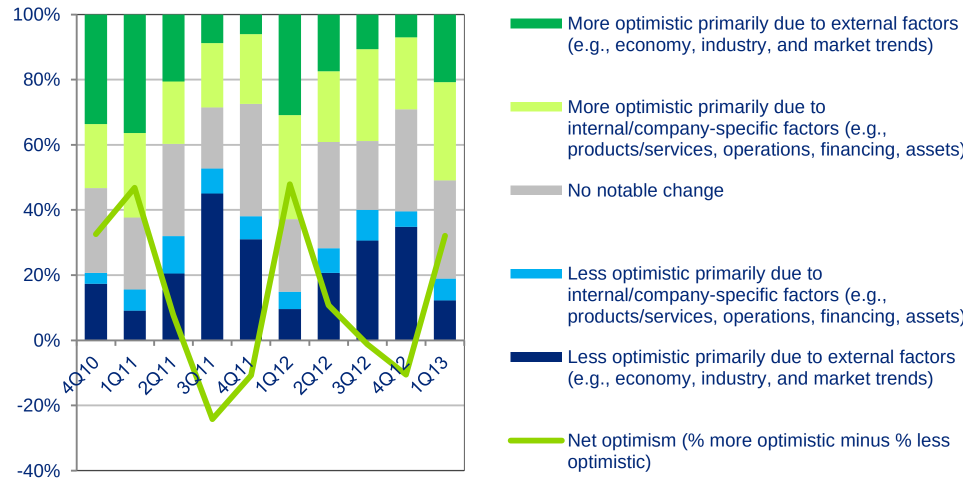
With major equity markets near all-time highs, with housing markets rebounding, and with Europe comparatively stabilized, has CFOs' outlook improved?

CFO optimism rebounded strongly this quarter — but the dominant cause may be a cyclical bias toward optimism at the beginning of the year:

- Since the last survey, the **S&P 500 has risen nearly 10%**.
- Overall, net optimism (the difference between those reporting rising optimism and those reporting declining pessimism) rose markedly from **-11 to +32**.
- About **50% of CFOs expressed rising optimism**, and just under 20% expressed rising pessimism — a major turn of events from last quarter.
- The rising optimism was driven about 50% more by improvements in **internal factors** than by improvements in the external environment.
- About two-thirds of all pessimism is attributed to **external factors**.
- Optimism similarly peaked in the first quarters of 2011 and 2012, only to decline markedly in the following quarters — possibly signifying a bias toward **"New Year's optimism**."
- Optimism in the **U.S.** rebounded strongly — with net optimism rising from -16 two quarters ago and -21 last quarter to +33 this quarter.
- Net optimism in **Canada** fell markedly to -6 last quarter and rose only modestly to +7 this quarter.
- About 60% of CFOs in **Mexico** reported rising optimism, and none reported a decline — which follows last quarter's trend. Again, note the small sample size.
- There are **strong industry differences**, with Financial Services and Healthcare/Pharma most optimistic and Energy/Resources and Services most pessimistic.

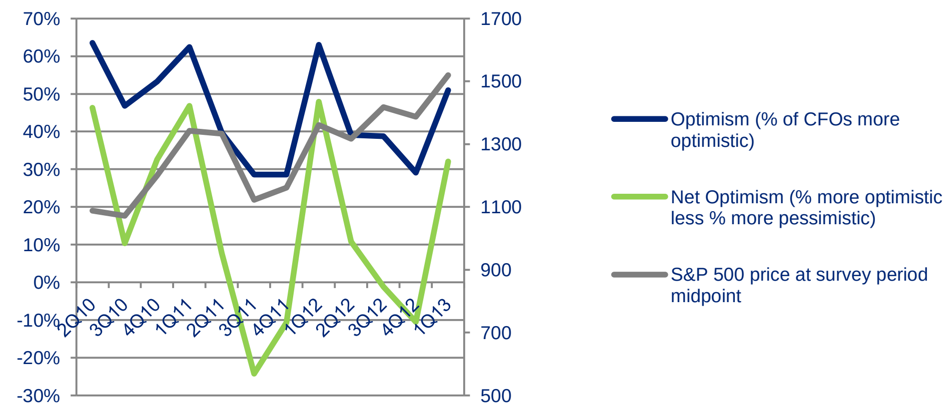
Own-Company Optimism

Net optimism and causes of rising/falling optimism



Own-Company Optimism

Optimism and net optimism relative to S&P500 price



Please see Appendix for industry-specific findings.

Company Expectations

Most worrisome risks

Of all the internal and external factors that compete for CFOs' attention, which are most likely to cause loss of sleep?

Governments' potential detrimental impacts on a stagnating global economy are the top concern:

- The state of the world's major economies continues to dominate CFOs' worries.
- Economic concerns have largely transitioned from worries about crises/collapse to worries about persistent stagnation.
- When CFOs express worries about economic stagnation, they usually also express skepticism around their governments' ability to solve economic problems.
- Especially in the U.S., CFOs express strong worries about the effects of the government's taxing and spending policies on consumer demand and the broader economy.
- At an industry level, several industries expressed concerns about excessive government regulation and punitive actions.
- There is still strong concern about gridlock in Washington and the inability of political parties to compromise.
- Please see page 35 for industry-specific findings

Finance Priorities

Core finance focus (“operator” and “steward” roles)
Of their core finance function responsibilities, which are finance organizations most focused on for the next year?

FP&A is the most common focus area, but there is also a strong focus on liquidity, finance strategy, and finance talent:

- Finances’ top focus areas vary considerably, with a fairly broad distribution of priority and no clearly dominant areas of responsibility
- Managing FP&A is the most prevalent focus area, with half of CFOs placing it in their top three.
- Managing liquidity, finance strategy, and finance talent are the next-highest priorities with about 40%-45% of CFOs naming each in their top three.
- Managing information/IT is a top priority for about one-third of finance organizations — consistent with findings from previous surveys indicating finance’s increasing role in this area.
- Industry differences are substantial; please see page 36 for industry-specific findings.

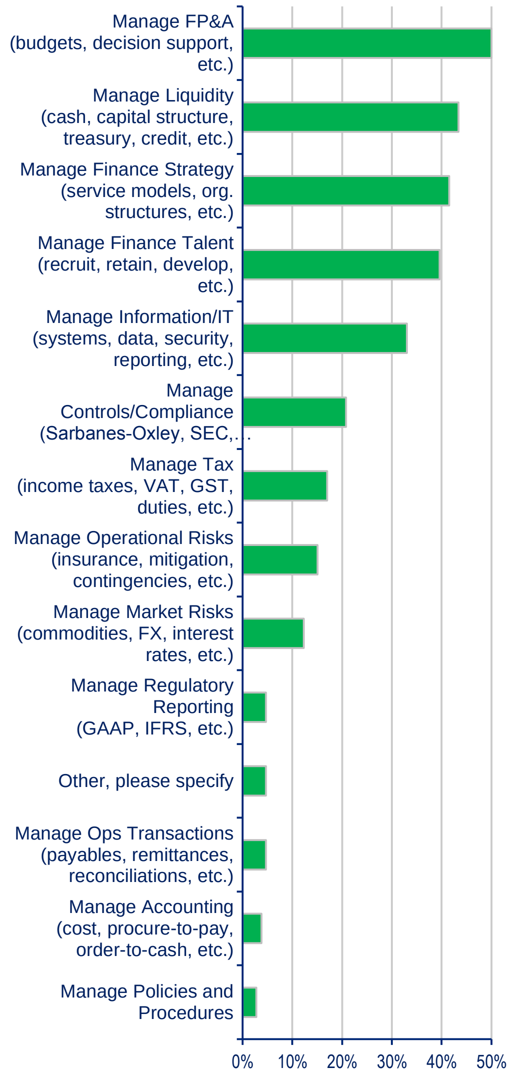
Business support focus (“catalyst” and “strategist” roles)
In which areas of the business are finance organizations most focused on delivering support for the next year?

Finance organizations are heavily focused on supporting corporate and business unit strategy:

- Nearly 85% of CFOs say supporting strategy is a top three priority.
- Supporting sales is a distant second at 46%, consistent with other survey findings citing pricing and margin pressures.
- Supporting the needs of stakeholders is a priority for about 35% of finance organizations, consistent with other survey findings relating to rising information needs of boards, audit committees, and shareholders.
- Supporting M&A is a top priority for 34% of finance organizations, consistent with recent reports of rising M&A/deal activity and previous survey findings around challenges from post-merger integration.
- Industry differences are substantial; please see page 37 for industry-specific findings.

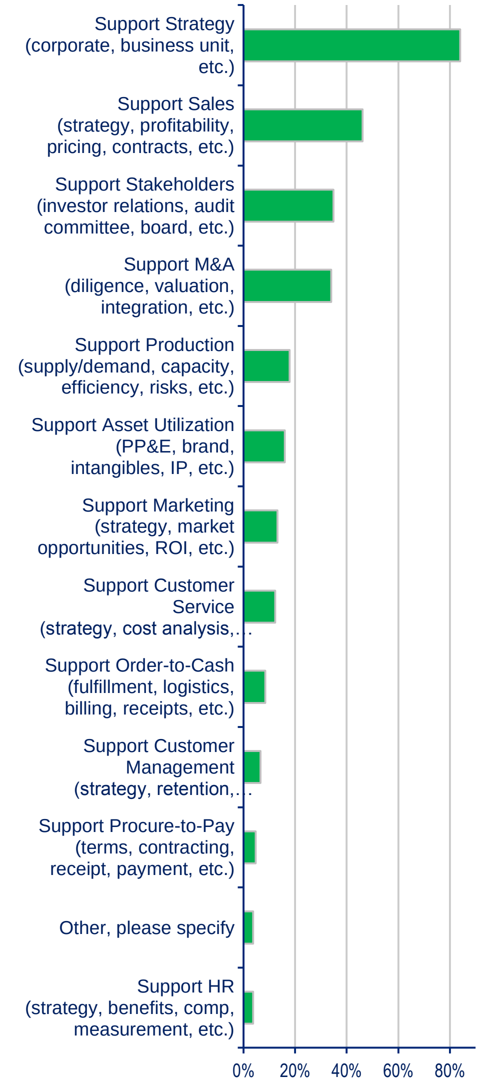
Core Finance Priorities

Percent of CFOs placing each option in their top three



Business Support Priorities

Percent of CFOs placing each option in their top three



Please see Appendix for industry-specific findings.

Personal Priorities

Personal focus

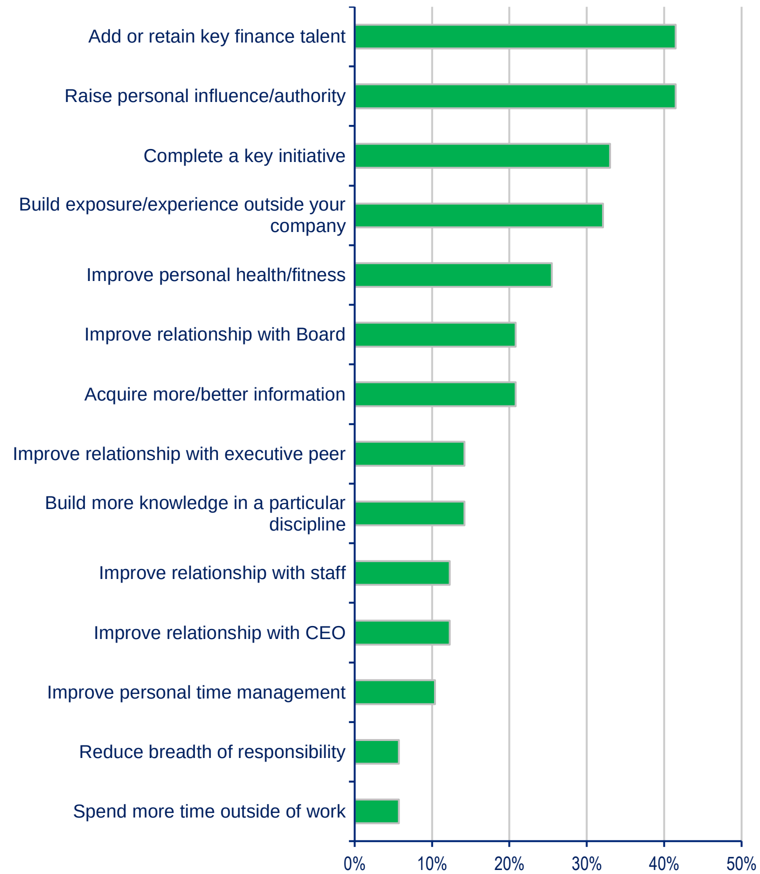
What are CFOs' personal priorities for the next year?

CFOs' personal focus for the next year is broadly distributed and reflective of competing demands:

- **Adding and retaining finance talent** ties as a top personal focus, with about 40% of CFOs naming it in their top three, consistent with previous surveys that have shown concerns about the availability of key finance skillsets and competencies. Services and T/M/E CFOs are the exceptions, citing relatively low focus in this area.
- **Raising personal influence and authority** is the other top personal focus, reflecting a desire for impactful roles evident in our other surveys. Just 6% plan to reduce their breadth of responsibility. Energy/Resources and Services CFOs cite little focus in this area.
- **Improving relationships** is a top priority with about 45% of CFOs indicated a focus on improving their relationship with their CEO, their board, their staff, or an executive peer. About 12% are focused on improving two or more relationships.
- **Completing a key initiative** is a top focus for one-third, consistent with previous survey findings indicating the prevalence of large (often IT-related) efforts.
- **Building exposure/experience outside their company** is a priority for about one-third of CFOs, consistent with previous surveys indicating frequent CFO desire to take on external board roles. Energy/Resources and Financial Services CFOs indicate little focus in this area.
- **Improving personal health/fitness** is a priority for more than one quarter of CFOs, and just 6% plan to spend less time at work.

Personal Focus

Percent of CFOs placing each option in their top three



Please see Appendix for industry-specific findings.

Personal Priorities

CFO contributions to strategic decisions

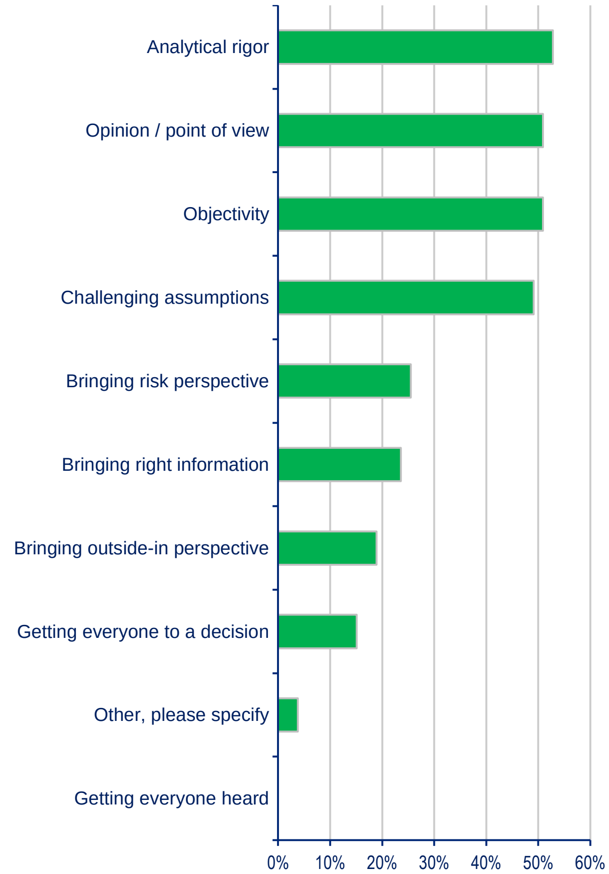
As CFOs take on stronger roles in strategic decision-making, what would their CEOs say are their strongest contributions?

Across industries, four decision-making contributions stand out: providing objectivity, providing a point of view, providing analytical rigor, and challenging assumptions:

- **Analytical rigor** was the top contribution, very strong in the Services sector, but relatively weak in Retail/Wholesale (where challenging assumptions was more important).
- **Objectivity** is next, very strong in Technology and Services, but comparatively weak in Financial Services (where analytical rigor and facilitating decisions were more important) and Energy/Resources (where bringing risk and outside-in perspectives were more important).
- **Bringing an opinion** and point of view is third, very strong in Services and Technology, but relatively weak in Retail/Wholesale (where bringing the right information is more important).
- **Challenging assumptions** rounds out the top four, very high for Healthcare/Pharma and Retail/Wholesale.
- **Other contributions** were not nearly as prevalent on the whole, but several were prevalent within particular industries. For example, bringing an outside-in perspective was strong in Energy/Resources, bringing the right information was strong in Retail/Wholesale and Healthcare/Pharma, and bringing a risk perspective was strong in Energy/Resources.

Top Personal Contributions

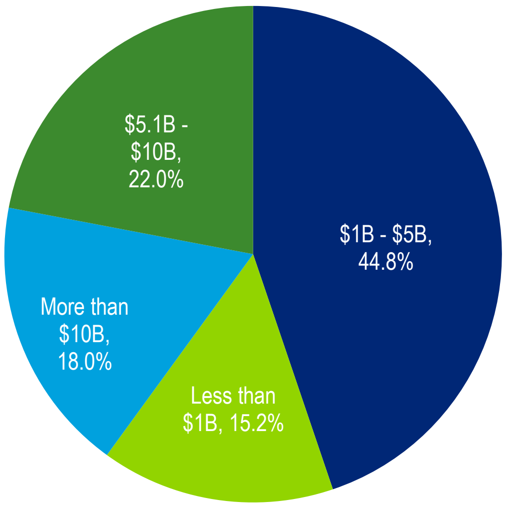
Percent of CFOs placing each option in their top three



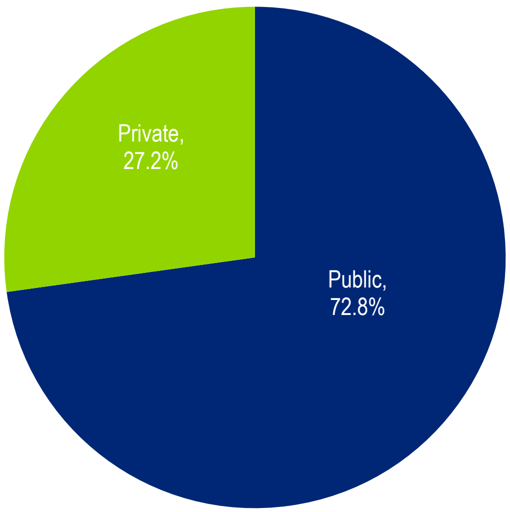
Please see Appendix for industry-specific findings.

Demographics

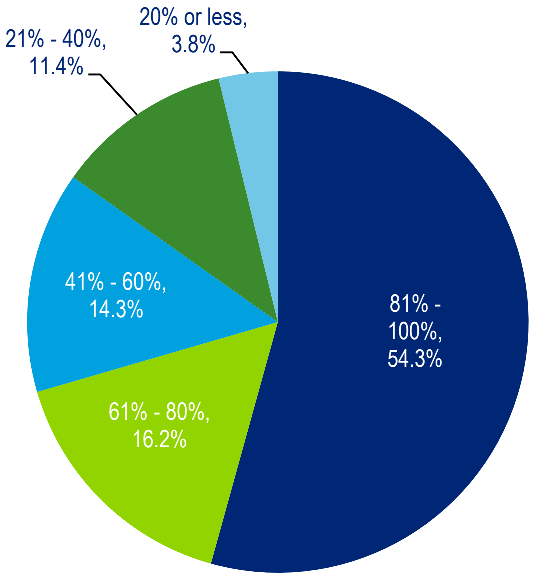
Annual Revenue ($U.S.)
(n=105)



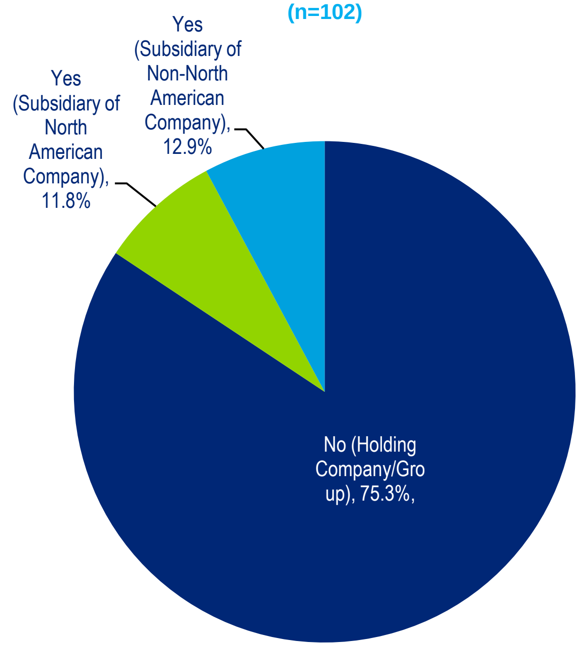
Ownership
(n=103)



Revenue from North America
(n=105)

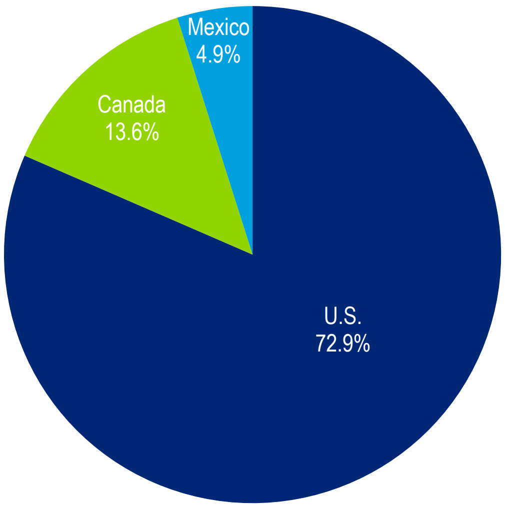


Subsidiary Company
(n=102)

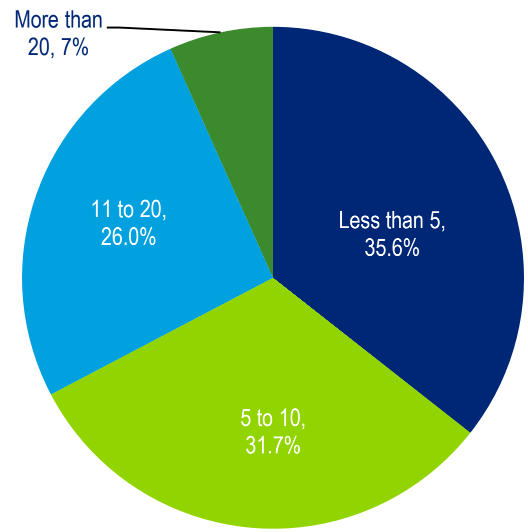


Demographics (cont.)

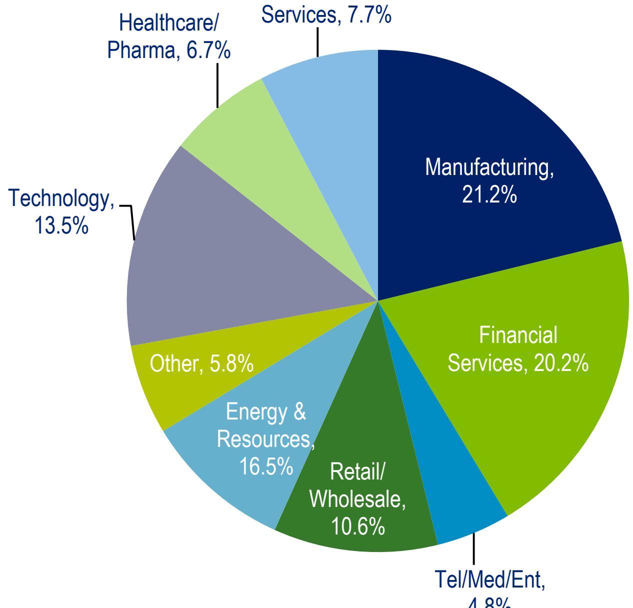
Country
(n=103)



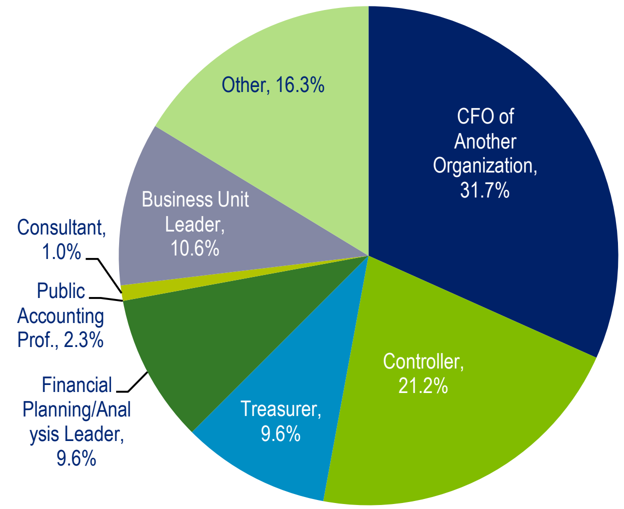
CFO Experience (Years)
(n=104)



Industry
(n=104)



Previous CFO Role
(n=104)



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.

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