CFO Signals™

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

High-Level Report

3rd Quarter 2014

CFO Signals™

About the CFO Signals survey

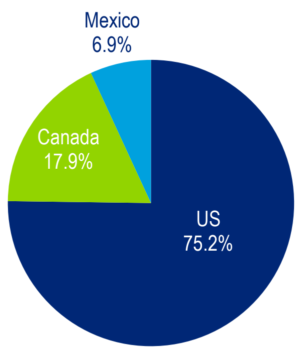
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This is the third quarter report for 2014.

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

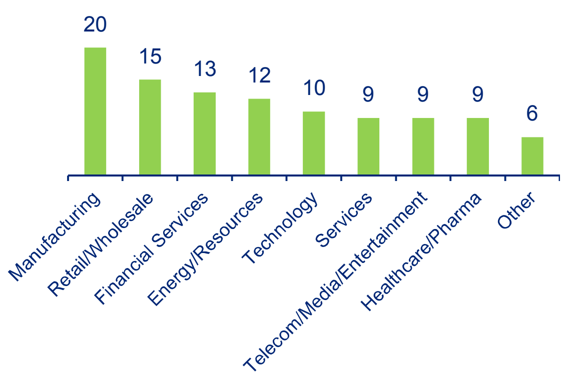
Who participated this quarter?

One hundred and three CFOs responded during the two-week period ending August 22. Seventy-five percent of respondents are from public companies, and 83% are from companies with more than $1B in annual revenue. For more information, please see the "About the survey" section of this report.

Participation by country



Participation by industry



IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

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

Please note that this is a "pulse survey" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends. Except where noted, we do not comment on findings for segments with fewer than 5 respondents. Please see the Appendix for more information about survey methodology.

Additional findings available in full report
(please contact nacfosurvey@deloitte.com for full report)

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

Findings at a Glance

Business Environment

How do you regard the current and future status of the North American, Chinese, and European economies? Views of North America are still strongest, with 44% of CFOs describing conditions as good (up from 40% last quarter), and 55% expecting better conditions in a year (down from 60% last quarter). Twenty-seven percent regard China's economy as good (up from 24%), and 29% expect improvement (up from 21%). Just 5% describe Europe as good, and only 23% see it improving over the next year. **Page 8**.

Company Priorities and Expectations

What is your company's business focus for the next year? CFOs still indicate a strong bias toward growing revenues and investing cash over lowering costs and returning cash. They are also biased toward growth in current geographies over new geographies and toward organic over inorganic growth. **Page 9.**

How do you perceive pricing and risk within the financial markets? Forty-seven percent of CFOs say external financial and economic risks are higher than normal, and 63% believe U.S. markets are overvalued. An overwhelming 86% say debt is currently an attractive financing option, and about 30% of public company CFOs view equity financing favorably. **Page 10.**

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months? Sales growth expectations rose from 6.1%* last quarter to 6.8%*—highest since the third quarter of 2011. Earnings expectations improved from 8.9%* last quarter to 10.9%*—highest since the first quarter of 2013. Capital spending, however, declined sharply to 5.0%*—lowest level since the third quarter of 2013. U.S. CFOs' capital spending growth expectation of 3.5%* is a new survey low. **Pages 11-13**.

How does your optimism regarding your company's prospects compare to last quarter? Even on the heels of six straight quarters of positive net optimism, net optimism registered a very high +32. Forty-four percent of CFOs express rising optimism (about even with last quarter), and just 12% express rising pessimism—the lowest proportion since the survey began in 2Q10. Net optimism is lowest for Manufacturing and Services at about +10. **Page 14**.

Overall, what external or internal risk worries you the most? Worries about the global economy declined this quarter, but geopolitical concerns rose markedly, with growing attention to conflicts in the Ukraine, Middle East, and Latin America. **Page 15**.

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

Company Priorities and Expectations (continued)

How disruptive do you expect government, competition, new business models, security, and investor concerns will be on your business? Government policy is seen as the top business disruptor by a substantial margin, with nearly two-thirds of CFOs expecting at least moderate disruption (nearly one-third expect high disruption). About half expect at least moderate disruption from security threats, and another half expect new competition to be at least moderately disruptive. **Page 16**.

Which types of business activities contribute most to company revenue? Half of CFOs said their company generates *all* of its revenue from just one business model, and about 80% say they generate at least 70% of their revenue from a single model. Business model diversification is much more evident at an industry level, however. For all industries except Manufacturing, Energy/Resources, and Financial Services, at least one-third of revenue comes from a business model other than the company's primary model. **Page 17**.

Finance Priorities

How does your company handle information security risks? Almost three-quarters say cyber security is a high priority for their company, but only 62% say they have a comprehensive information strategy in place, and less than 20% express high confidence in their ability to execute on their plans. **Page 18.**

Personal Priorities

How do you rate your relationships with other leaders? Overall, CFOs report very good relationships across their peer group, particularly with their CEO, Audit Committee Chair, and General Counsel. Board Chair is the only role with whom less than 50% of CFOs report very good relationships. CFOs say their top peer-level allies are other executives with broad, general responsibilities—especially Chief Operating Officers, General Counsel, and CEOs. **Page 19.**

How confident are you in your direct reports? CFOs generally express confidence in the capabilities of their staff, but Controllers rank highest. Confidence appears lowest in the effectiveness of CIOs and internal audit leaders, but CFOs still overwhelmingly rate their confidence in these staff as at least "good." Controllers and FP&A leaders are CFOs' most common allies within Finance—and by a substantial margin. **Page 20**.

Summary

Signs of positive momentum

Mixed messages have been a fixture in our survey findings for the better part of a year. While CFOs have been mostly optimistic about the trajectory of the global economy and their own companies' prospects, their expectations for sales, earnings, investment, and hiring have been on a mostly downward trend.

Last quarter, substantial improvements in CFOs' year-over-year growth expectations seemed to suggest a possible reversal in momentum. But tepid growth expectations among U.S. CFOs, rising pessimism among Manufacturing CFOs, and declining perceptions of global economic health provided dampening counterpoints.

This quarter's findings appear to build foremost on last quarter's positive momentum. And they seem to make the strongest case yet for the sustained economic acceleration that has previously been so elusive.

Positive momentum

CFOs are not saying world economies are out of the woods or have shed their dependency on a seemingly growing list of potentially disruptive factors. In fact, concerns around Europe's economic future rose again, and worries about geopolitical disruptions increased sharply.

But there does seem to be a growing confidence among CFOs that their companies will be able to make the adjustments necessary to survive and thrive in the near and longer term. Sales growth expectations reached their highest level in three years. Moreover, earnings expectations rose to their highest level in more than a year, and 90 percent of CFOs now expect year-over-year gains – the highest level in this survey's 17-quarter history.

Domestic hiring expectations are up substantially as well, hitting their second-highest level in the past four years. Nearly 60% of CFOs now expect gains – the highest proportion in three years.

Consistent with these strong expectations, this quarter's CFO sentiment about their companies' prospects extended an optimistic streak that has lasted since the first quarter of 2013. Net optimism* lies at a very strong +32, and less than 12% of CFOs express declining optimism – the lowest proportion in the history of this survey.

* Note that net optimism, as calculated, does not explicitly account for the level of "no change" responses.

Sentiment and expectations compared to last quarter

Own-company optimism (Net Optimism)
Economy optimism – North America*
Economy optimism – Europe*
Economy optimism – China*
Sales growth
Earnings growth
Capital investment growth
Domestic employment growth

*Assessed relative to 1-year average

Well below 4 yr. average — Well above 4 yr. average

Well below last quarter — Well above last quarter

Developments since 2Q14

- Chinese banks bolstered reserves to protect from deteriorating loans.
- U.S. Senate Democrats began moves to curb "tax inversions."
- Ukraine crisis continued with downing of Malaysia Airlines jet over eastern Ukraine.
- Israel/Hamas conflict emerged; Ebola outbreak began in West Africa.
- U.S. Federal Reserve tapered bond purchases; end targeted for October. ;
- ECB increased stimulus efforts to counteract very low inflation.
- U.S. housing market continued to cool.
- S&P 500 up 4.1% since last survey.

Growth without investment?

As they have for several quarters, CFOs indicate a strong bias toward growing revenues over reducing costs and investing cash over returning it to shareholders. But year-over-year expectations for capital investment hit their lowest level in a year and are very modest compared to the survey's long-term average. Moreover, expectations among U.S. CFOs declined to their lowest level in the survey's history.

On the face of it, CFOs' rising optimism and performance expectations seem to run contrary to their declining capital investment plans. But this phenomenon may provide hints as to what has been happening inside companies as they have planned for growth. Some companies may already own the assets they need to support growth – through efficiency gains or through capacity they have built or acquired over the past few years. Others may be less reliant on hard assets for growth and more reliant on digital technologies that scale relatively inexpensively. And some may be exchanging company-owned assets for outsourced cloud services – and exchanging capital investment for expenses.

Summary (cont.)

Disruptive forces

This quarter, we asked CFOs about the factors most likely to disrupt their businesses, and government policy topped the list by a substantial margin. Nearly two-thirds said they expect at least moderate disruption, and nearly one-third expect high disruption. And in their list of worrisome risks, CFOs expressed particular concern that U.S. policymakers will struggle (and perhaps overreach) with a solution to “inversions.”

Last quarter’s worries about competition and irrational competitor behavior subsided, but about half of CFOs say they expect new competition to be at least a moderate business disruptor within their industries. And more than 40% expect new business models (such as social, mobile, and cloud technologies) will be a substantial disruptor.

On CFOs’ list of worrisome risks, geopolitical concerns rose sharply, with growing attention to conflicts in the Ukraine, Middle East, and Latin America.

Security threats are also expected to be a major business disruptor, with more than half of CFOs citing concerns about security of data, intellectual property, and facilities. Almost three-quarters say cyber security is a high priority for their company, but only about 60% say they have a comprehensive information strategy and plan, and less than 20% express high confidence in their ability to execute.

Evolution of business models

This quarter we asked CFOs about the degree to which different business model types contribute to company revenue, and the results appear to show a gradual diversification of models – admittedly in some industries and companies more than others.

Across industries, the “asset builder” business model (manufacturing and distribution) contributed 47% of revenue. The “service provider” model was next at 37%, followed by the “technology/IP creator” model at 12% and the “network creator” model at 4%. Half of CFOs said their company generates all of its revenue from just one business model, and about 80% say they generate at least 70% of their revenue from a single model.

But much more diversification is evident at the industry level. For all industries except Manufacturing, Energy/Resources, and Financial Services, at least one-third of revenue comes from a business model other than the primary model.

Relationships and alliances

Perhaps not surprisingly, CFOs report very good relationships across their peer group. CFOs say CEO, Audit Committee Chair, and General Counsel relationships are among their strongest, and Board Chair is the only role with whom less than 50% of CFOs report very good relationships – likely more due to lack of direct exposure than to poor interactions.

CFOs generally say their top peer-level allies are other executives with broad, general responsibility, such as COOs, General Counsel, and CEOs (there are some interesting industry differences).

CFOs generally express confidence in the capabilities of their direct reports – particularly those whom they appoint. Controllers top the list, with confidence in treasurers and FP&A leaders also comparatively high. Confidence is lowest (although still mostly good) in CIOs and internal audit leaders.

When it comes to CFOs’ most common allies within Finance, controllers and FP&A leaders are again at the top of the list – and by a substantial margin. When controllers and FP&A leaders are not the top ally, the role typically belongs to a business unit CFO or deputy CFO.

What’s next?

Underpinning CFOs’ growing confidence has been the relative health and resiliency of the U.S. economy. And while economic performance may not yet be strong or consistent enough to call the end of the recovery, conditions have been good enough to generate serious conversations about when the U.S. Federal Reserve should increase interest rates and end of its bond-buying program.

Corporate performance has been and continues to be very good on the whole, and investors have been confident enough to push U.S. equities to their highest-ever valuations. But with major sources of uncertainty lurking in the corners – from the ups and downs of Europe’s and China’s economies to the growing stream of geopolitical events to the ultimate effects of the Fed’s removal of supports – how confident can anyone really be?

For their part, CFOs seem a bit wary, particularly about market valuations. Nearly half say external financial and economic risks are higher than normal, and nearly two-thirds say equity markets are overvalued – against only 7% who say they are undervalued. Still, their improving growth expectations seem to indicate they believe their own companies will do their part to contribute to broader economic growth.

Key Charts: Sentiment

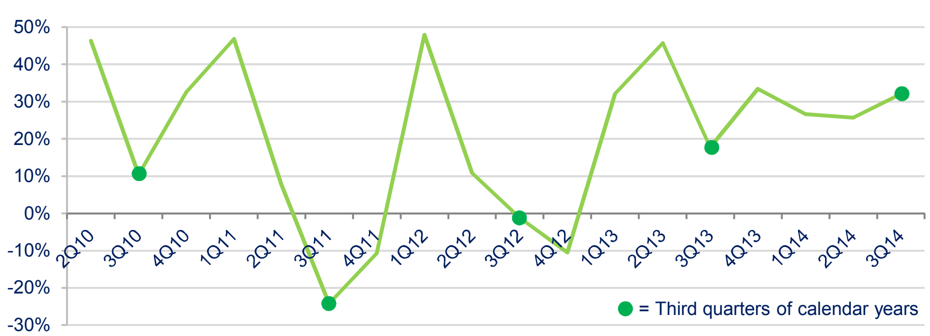
CFOs' sentiment regarding the health of major economic zones and their companies' prospects

Economic optimism

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

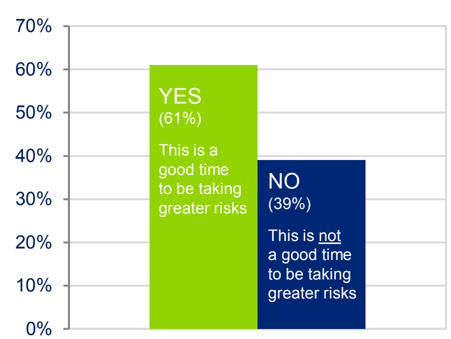
Own-company optimism

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



Risk appetite

Percent of CFOs selecting each sentiment



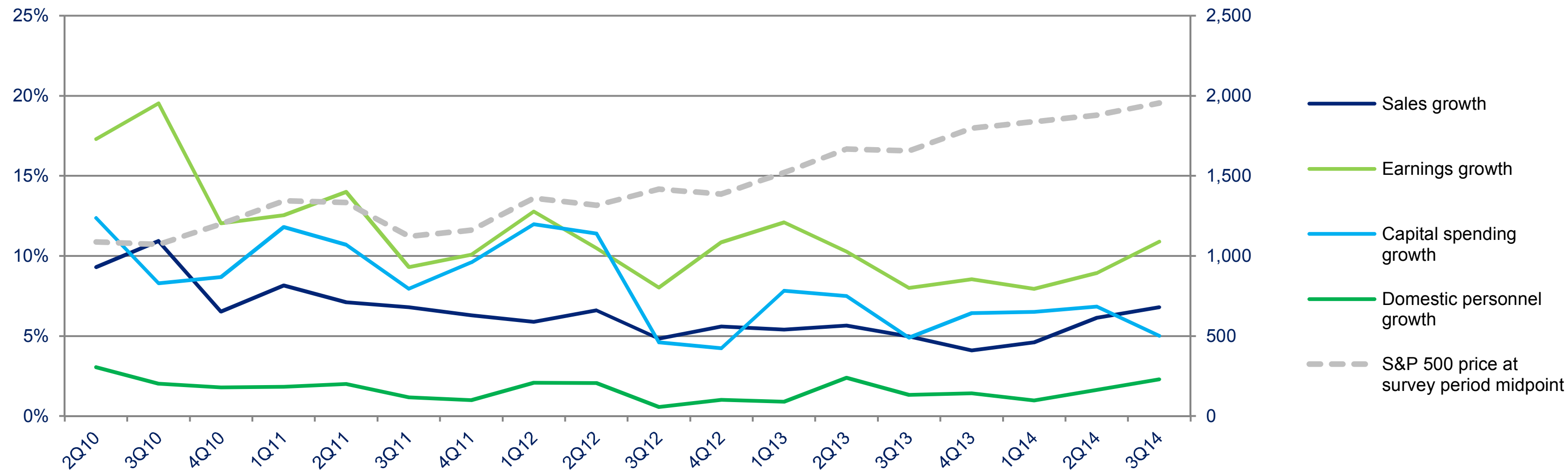
Please see Full Report for industry-specific findings.

Key Charts: Expectations

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

Consolidated expectations

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



Breakdown by country and industry

	Total (n=98*)	U.S. (n=73)	Canada (n=17)	Mexico (n=6)	Manufacturing (n=20)	Retail / Wholesale (n=13)	Technology (n=10)	Energy / Resources (n=11)	Financial Services (n=13)	Healthcare / Pharma (n=9)	T/M/E (n=7)	Services (n=9)
Revenues	**6.8%**	6.2%	9.3%	8.8%	5.2%	4.8%	11.3%	7.3%	4.8%	12.9%	5.1%	6.9%
Earnings growth	**10.9%**	11.6%	10.2%	7.2%	10.9%	7.1%	10.3%	10.3%	8.9%	17.6%	21.4%	8.0%
Capital spending growth	**5.0%**	3.5%	9.7%	9.9%	3.4%	1.3%	6.5%	10.5%	5.7%	3.7%	2.1%	6.9%
Domestic personnel growth	**2.3%**	1.7%	3.5%	6.5%	2.3%	1.5%	4.3%	3.9%	1.8%	2.0%	-0.4%	2.6%

* Sample sizes may not sum to total due to responses from “other” categories.

Highest two industry expectations
Lowest two industry expectations

Business Environment

Assessment of economies

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

Perceptions of Europe's future have declined:

North America

Conditions are better, but confidence slid a bit.

- Forty-four percent of CFOs describe the North American economy as good or very good (up from 40% last quarter), and just 3% describe it as bad (6% last quarter).
- Fifty-five percent believe conditions will be better a year from now (down from 60% and 62% in the second and first quarters, respectively). Just 3% expect them to be worse (about the same as last quarter), and 42% expect them to stay the same.

Europe

Confidence in Europe's trajectory declined again this quarter.

- Just 5% (7% last quarter) of CFOs describe Europe's economy as good or very good. Forty-seven percent describe the economy as bad, but this is still a notable improvement from the 55%, 63%, 80%, and 90% levels we have seen over the last several quarters.
- Twenty-three percent of CFOs expect the economy to be better a year from now (down from 27% and 32% over the last two quarters), and 26% expect it to be worse (up from 23% and 14% over the last two quarters).

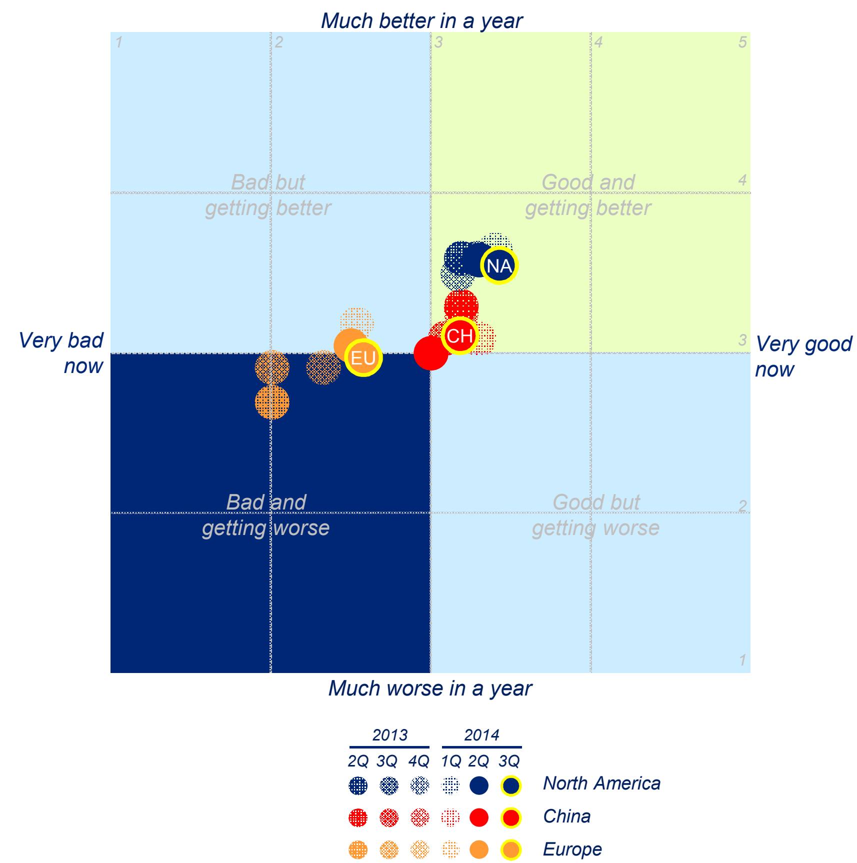
China

Perceptions of China's economy rebounded somewhat from last quarter's survey low.

- Twenty-seven percent of CFOs say China's economy is good, up from 24% last quarter, but still down significantly from the 37% and 32% levels we saw in 1Q14 and 4Q13, respectively. Thirteen percent now regard the economy as bad (down from 20% last quarter).
- Twenty-nine percent of CFOs believe the economy will be better a year from now (up from 21% last quarter, but down from 33% and 38% in 1Q14 and 4Q13, respectively), and 15% believe it will be worse (20% last quarter).

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

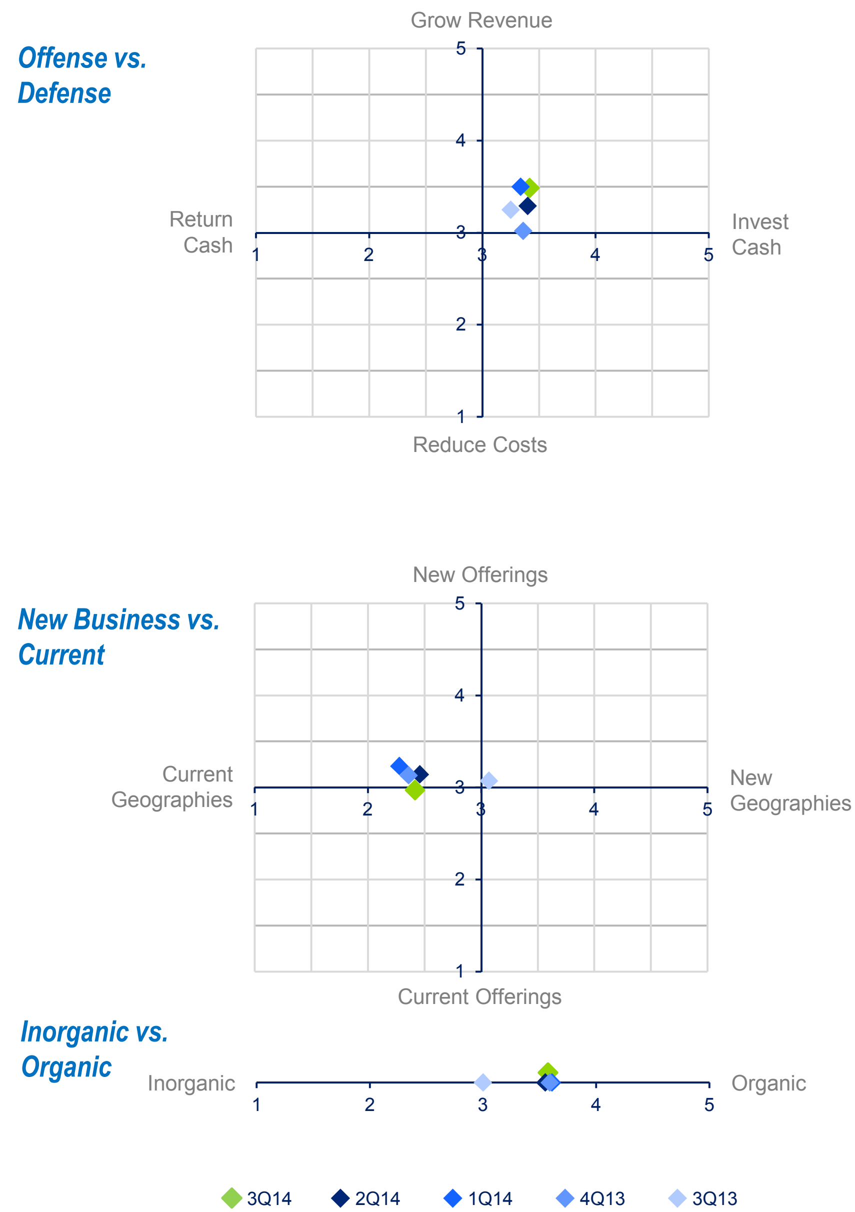
CFOs' assessment based on 5-point Likert scales: "very bad" to "very good" and "much worse" to "much better" (n=103)



Company Expectations and Priorities

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

CFOs' assessments based on 5-point semantic differential scale
with opposing choices as noted (n=103)



Business focus

Where do CFOs say their companies are focusing their efforts?

Growth remains the clear focus:

- **Offense over defense:** There is again a substantial bias toward growing revenue and investing cash over lowering costs and returning cash. Retail/Wholesale and Technology are the most growth-oriented; T/M/E is the only industry biased toward cost reduction. Services companies are the most biased toward investing cash, and Technology is the only industry biased toward giving cash back.
- **A mix of new and old products for mostly current geographies:** There is again about an equal focus on new and current offerings, and a substantial bias toward current over new geographies. Technology and Healthcare/Pharma are biased heavily toward new offerings, while Energy/Resources is biased toward current offerings. All industries (especially Financial Services and T/M/E) are biased toward existing geographies—except for Services, which is neutral.
- **Organic growth over inorganic growth:** The bias is again firmly toward organic growth, with only Technology and Healthcare/Pharma approaching neutrality.

Company Expectations and Priorities

Perception of markets

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

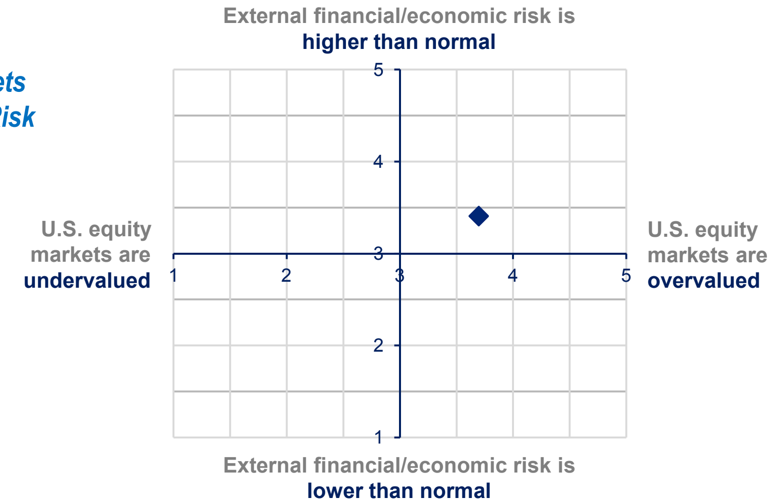
Risk is high, but financing availability is mostly good:

- **Risk is higher than normal:** Forty-seven percent of CFOs say external financial and economic risks are higher than normal; 14% say they are lower. Financial Services CFOs are most likely to see higher risk (69%), and Services CFOs are lowest (33%). More than 60% of Canadian CFOs see higher risk, while the U.S. and Mexico are at 46% and 14%, respectively.
- **U.S. markets are overvalued:** Only 7% say U.S. equity markets are undervalued, and 63% say they are overvalued. More than 75% of CFOs from Financial Services, Technology, and Services say markets are overvalued, while Energy/Resources is lowest at 50%.
- **Debt financing is *very* attractive:** An overwhelming 86% say debt is currently an attractive financing option, and nearly two-thirds of all CFOs say it is a *very* attractive option. Services is the industry outlier at just 22%, and Mexico is lowest of the countries at 43%.
- **Equity financing's attractiveness is mixed:** About 30% of public company CFOs say equity is attractive, but 36% say it isn't. About 20% of private companies say it is attractive, but 44% say it isn't. Healthcare/Pharma and Technology are most likely to say equity is attractive (67% and 50%, respectively), and Retail/Wholesale is lowest at 20%.

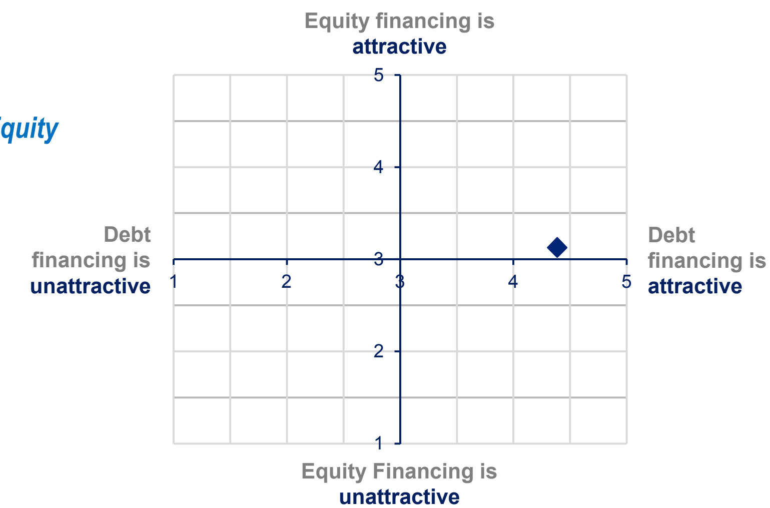
What is your perception of the financial markets?

CFOs' assessments based on 5-point semantic differential scale with opposing choices as noted (n=103)

Markets and Risk



Debt and Equity



Company Expectations and Priorities

Sales, earnings, and cash flow

What are CFOs' expectations for their companies' year-over-year sales, earnings, and operating cash flow?

Sales*

Revenue growth expectations rose to their highest level in three years:

- Revenue growth expectations rose to 6.8%—highest since the third quarter of 2011. The median is again 5.0%, with 89% of CFOs expecting year-over-year gains.
- Country-specific expectations are 6.2% for the U.S. (up from 5.4%), 9.3% for Canada (up from 8.6%), and 8.8% for Mexico (up from 6.9%).
- Healthcare/Pharma and Technology CFOs have the highest expectations at 12.9% and 11.3%, respectively, while Retail/Wholesale and Financial Services CFOs are at 4.8%.

Earnings*

Earnings growth expectations increased, driven mainly by the U.S. and the Healthcare/Pharma and T/M/E sectors:

- Earnings expectations rose to 10.9%—the highest since the first quarter of 2013. The median remained at 8.0%, and 90% of CFOs expect year-over-year gains (a new survey high by a substantial margin). Variability of expectations is comparatively low.
- Country-specific expectations are 11.6% for the U.S. (8.1% last quarter), 10.2% for Canada (11.3% last quarter), and 7.2% for Mexico (7.4% last quarter).
- T/M/E and Healthcare/Pharma are both above 17%; Retail/Wholesale and Services are at 7.1% and 8.0%, respectively.

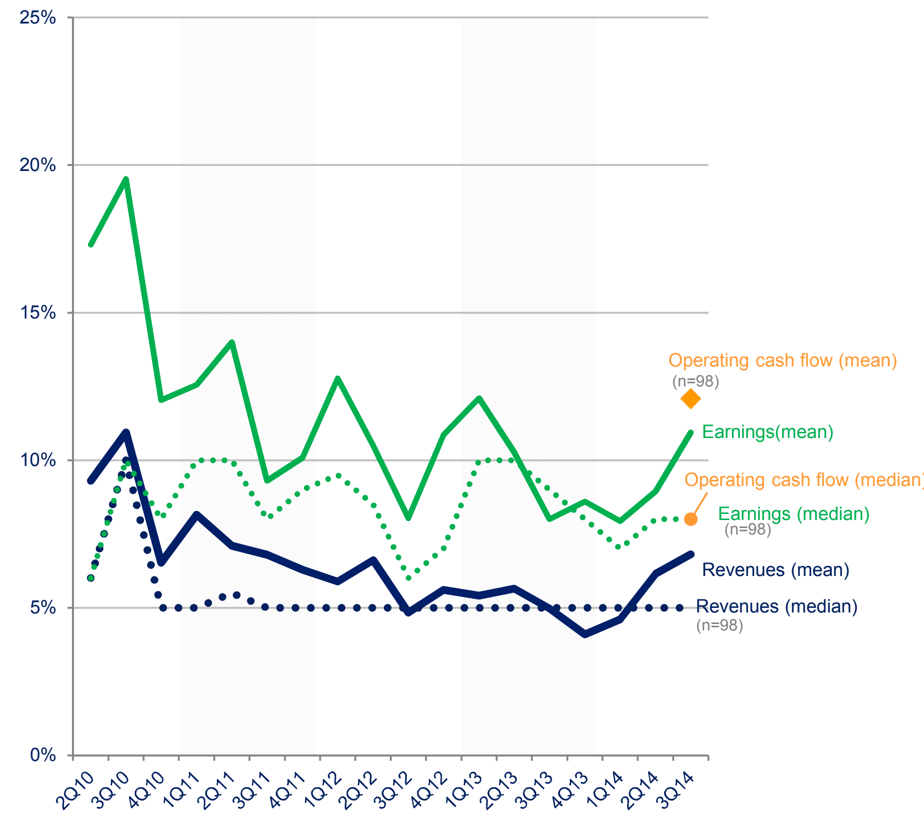
Operating cash flow*

Operating cash flow expectations are positive overall, primarily driven by the Healthcare/Pharma and T/M/E sectors:

- Operating cash flow is expected to increase 12.1%; the median is 8.0%.
- Country-specific expectations are 13.3% for the U.S., 9.2% for Canada, and 8.7% for Mexico.
- T/M/E and Healthcare/Pharma CFOs have the highest expectations at 24.3% and 19.9%, respectively; Retail/Wholesale and Services are both below 7.5%.

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

CFOs' expected change year-over-year*



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

Company Expectations and Priorities

Dividends and investment

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

Dividends*

Dividend growth expectations remained the same as the previous quarter, mostly driven by Mexico:

- Dividends are expected to rise 4.1%. The median is again 0%, and 45% of CFOs expect year-over-year gains.
- Country-specific expectations are 3.8% for the U.S (down from 4.5% last quarter), 2.6% for Canada (down from 4.4% last quarter), and 12.4% for Mexico (drastically up from 0.8% last quarter).
- Energy/Resources reported 6.5%; Healthcare/Pharma reported 0.6%.

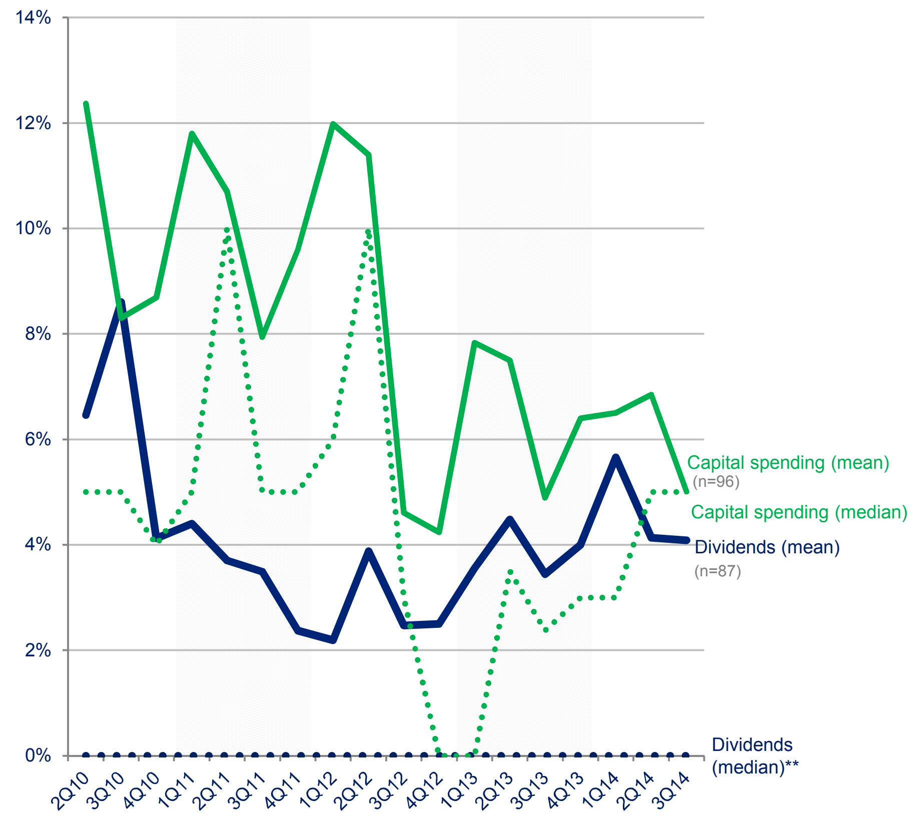
Capital investment*

Expectations declined sharply, driven by lowest-ever expectations in the U.S.:

- Capital spending expectations declined to 5.0%, down from last quarter's 6.8%—lowest since the third quarter of 2013. The median remained the same at 5.0%. Sixty percent of CFOs expect year-over-year gains, down from last quarter's 64%. Variability of expectations is comparatively low.
- Country-specific expectations are 3.5% for the U.S. (well below the previous survey low of 4.0% in 2Q12), 9.7% for Canada (11.1% last quarter), and 9.9% for Mexico (4.4% last quarter).
- Energy/Resources reported the highest expectations at 10.5%. Retail/Wholesale and T/M/E are both at or below 2.1%.

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

CFOs' expected change year-over-year*



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

** *Dividend averages include only public companies; the median has been zero for all quarters.*

Company Expectations and Priorities

Employment

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

Domestic hiring*

Hiring expectations rose to their second-highest level in four years:

- Domestic hiring expectations rose to 2.3%, up from last quarter's 1.6%. This is the highest level we have seen since the second quarter of 2013. The median remained the same as last quarter at 1.0%, and 58% of CFOs expect year-over-year gains, consistent with last quarter's level.
- Country-specific expectations are 1.7% for the U.S (1.4% last quarter), 3.5% for Canada (2.4% last quarter), and 6.5% for Mexico (markedly up from 0.3% last quarter).

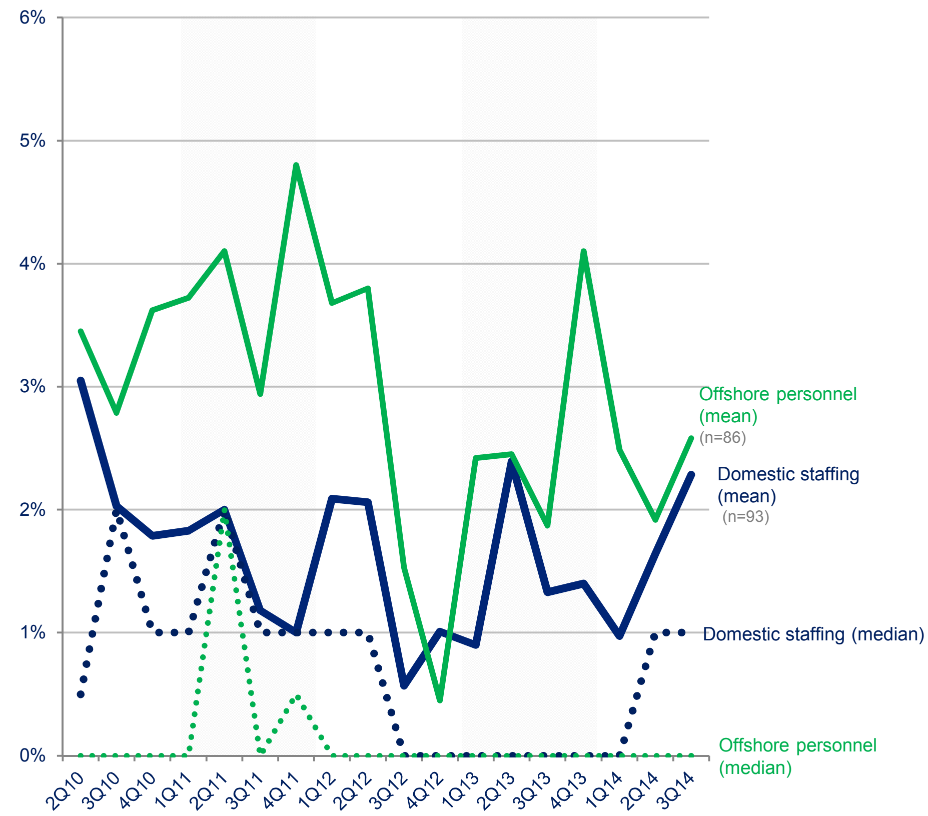
Offshore hiring*

Offshore hiring expectations rose to their highest level in two years:

- Offshore hiring increased to 2.6% this quarter, up from last quarter's 1.9%. This is the highest level we have seen since the second quarter of 2012.
- Country-specific expectations are 2.8% for the U.S., 1.5% for Canada, and 4.0% for Mexico.
- Energy/Resources and Technology have the highest expectations at 5.6% and 5.1%, respectively. Manufacturing, Retail/Wholesale, and Services reported 1.5% or less. Forty-five percent of CFOs expect year-over-year gains, the highest reported in the last two years.

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

CFOs' expected change year-over-year*



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

Company Expectations and Priorities

Own-company optimism

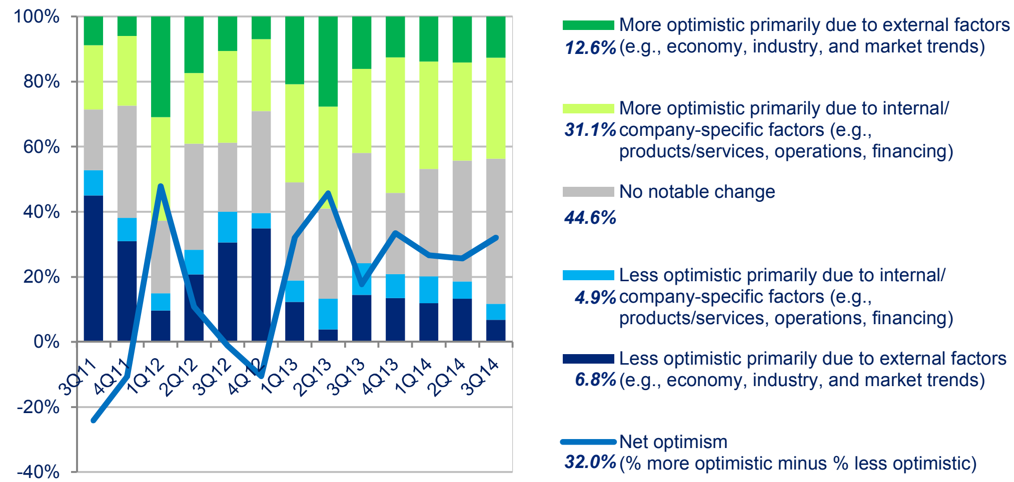
How do CFOs feel about their company's prospects compared to last quarter?

Sentiment still highly positive overall, but Manufacturing and Services again less optimistic:

- **Optimism holding:** Even on the heels of six straight quarters of positive net optimism, optimism is still improving. Forty-four percent of CFOs express rising optimism (about even with last quarter), and just 12% express rising pessimism—the lowest proportion since the survey began in 2Q10.
- **Strong signs of stabilization:** Prior to 2013, net optimism was prone to substantial volatility, dropping below zero once or twice per year. Since then, however, net optimism has stayed in a fairly narrow (and positive) range. This quarter's highest-ever proportion of "no change" and lowest-ever pessimism level seem to suggest significant stabilization in CFO sentiment.
- **External factors still not helping much:** Similar to previous quarters, only about 30% of CFOs' optimism is driven by external factors, while about 60% of their pessimism is driven by external factors.
- **All three countries very upbeat:** Net optimism for Mexico is highest at +71 with no CFOs reporting declining optimism. Canada is again at +44, and the U.S. rose from +22 last quarter to +29 this quarter.
- **Manufacturing, Retail/Wholesale, and Services again significantly pessimistic:** Twenty percent of Manufacturing and Retail/Wholesale CFOs now report declining optimism, as do 33% of Services CFOs. Net optimism is lowest for Manufacturing and Services at about 10%.
- **Energy/Resources, Financial Services, and Technology most optimistic:** All three sectors indicate net optimism above +45, and Healthcare/Pharma and T/M/E are just behind at +**33**.

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

Percent of CFOs selecting each sentiment/reason combination (n=103)



Company Expectations and Priorities

Most worrisome risks

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

Economic and competitive worries declined a bit, but geopolitical and tax policy concerns ramped up:

- **Economic worries:** CFOs generally expressed declining worries about the global economy. Concerns about the U.S. economy declined, but there are lingering concerns about China and Europe, and emerging concerns about Latin America. Concerns about market bubbles and corrections increased somewhat.
- **Geopolitical events:** Geopolitical risk concerns rose notably this quarter, with rising concern about the Ukraine crisis and especially about conflict in the Middle East.
- **Competition:** Last quarter's growing concerns about hyper-competition, irrational competitor behavior, poor margins, industry headwinds, and pricing pressures abated this quarter.
- **Policy and regulation:** Concerns about new regulation, heavy-handedness, and costs of compliance declined somewhat this quarter, but concerns about tax reform increased.
- **Execution:** Execution concerns, which hit a high last quarter, largely continued this quarter. The primary driver is again concerns about executing against strategies, business plans, and priorities. Concerns about investor expectations and activism rose.
- **Cyber security:** Concerns about data security stayed about the same.

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

Consolidation and paraphrasing of CFOs' free-form comments* (n=103)

Macro / Economy

↓ Economy

- European economy (6)
- ↓ Direction of world economies (4)
- ↓ U.S. economy (3)
- ↑ Market bubbles/corrections (3)
- ↑ Conditions in Latin America (2)
- ↓ Housing recovery
- China economy

Demand

- Lack of job growth in U.S. (2)

Capital / Currency

- Interest rate increases/decreases (4)
- Exchange rate volatility
- Inflation

↑ Geopolitics

- ↑ Geopolitical risk (9)
- ↑ Wars in Ukraine (5)
- ↑↑ Wars in Middle East (5)
- Latin American conflict

Government

Policy

- Federal taxes / tax policy (4)
- ↑ Inability of U.S. government to reform tax system
- ↑ Overshooting tax regulations around inversions
- Pace of political decision-making/gridlock (3)
- Government spending/fiscal policy (2)
- ↑ U.S. political environment
- Anti-business sentiment
- Trade risk
- U.S. Federal Reserve policy

Regulation

- Federal regulation – new/burdensome (14)
- State-level regulation (2)
- ↑ Regulatory onslaught for banks
- Lack of clarity around regulations
- Government interference with market forces
- ↑ Mexican energy reform
- Government regulation of health care
- Uninformed regulatory intervention

Industry / Company

↓ Competition

- Price competition at retail
- Tech obsolescence cycles
- Continuous competitive changes/consolidation
- Technological shifts
- ↓ Irrational competitor behavior

↓ Margins

- ↑ Input prices (4)
- Industry demand (3)
- Recovery of industry pricing/margins.

Internal Execution

- ↑ Execution of plans/initiatives (6) up
- Complacency
- Deals collapse before completion
- Executive management focus
- Ability to scale and control spending
- Allocation of cash to growth vs. buybacks
- Managing changes in business portfolio
- ↑ Spend on M&A vs. earnings growth
- R&D execution risk
- ↑ Meeting rising investor expectations
- ↑ Investor activism

Talent

- Availability of qualified workers (2)
- Retention of top talent (2)
- Finding leaders who can grow business

Security

- Cyber-security (3)

** Arrows indicate notable movements since last quarter's survey. Category movements are indicated by block bullets. Strong movements are indicated by multiple arrows.*

This chart presents a summary of CFOs' free-form responses. CFO comments have been consolidated and paraphrased, and parentheses denote counts for particular response themes.

Business Disruptors

Business disruptors

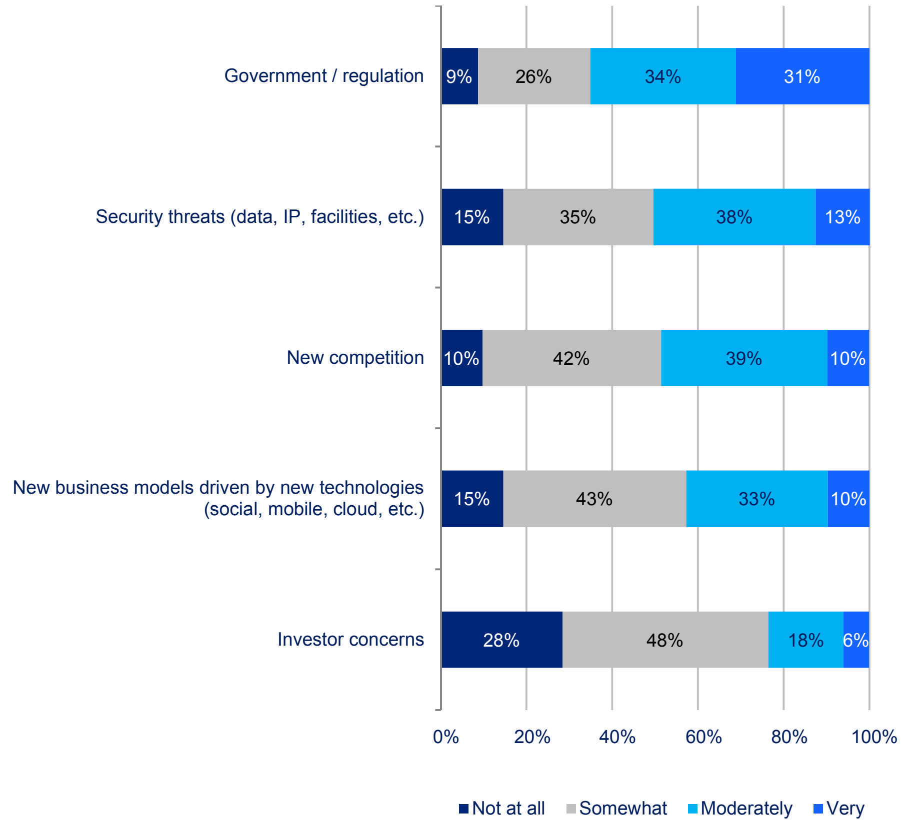
Which factors will be most disruptive to business?

Governments are expected to be the top disruptor—by a substantial margin.

- **Government regulation the strongest disruptor:** Overall, 65% of CFOs expect moderate or high disruption from government regulation, with 31% expecting high. Healthcare/Pharma is highest, with 80% expecting at least moderate disruption and 44% expecting high. T/M/E and Financial Services also expect relatively high disruption.
- **Security threats a common disruptor:** About half of CFOs expect at least moderate disruption from security threats. Technology is highest with 80% expecting at least moderate disruption and 30% expecting high. Manufacturing is lowest with 30% expecting at least moderate disruption.
- **Substantial concerns about new competition:** About half of CFOs say new competition will be at least moderately disruptive. Retail/Wholesale is highest, with 67% expecting at least moderate disruption and 27% expecting high disruption. Technology is also high, with 70% expecting at least moderate and 10% expecting high. Services and Healthcare/Pharma are lowest, with 22% and 33% expecting moderate disruption, respectively, and zero percent expecting high disruption.
- **Technology-enabled business models disruptive in some industries:** Forty-three percent of CFOs overall expect at least moderate disruption from technology-enabled business models. Retail/Wholesale and T/M/E are highest, with about two-thirds of CFOs expecting moderate disruption and about 20% expecting high disruption. Energy/Resources is lowest.
- **Investor concerns a relatively minor disruptor:** About one quarter of CFOs overall expect at least moderate disruption due to investor concerns, and nearly 30% expect no disruption. Energy/Resources is highest, with 33% expecting at least moderate disruption and 25% expecting high disruption. Manufacturing and Financials CFOs are most likely to expect no disruption.

How disruptive do you expect the following factors to be on your business?

Percent of CFOs citing each level of disruption (n=103)



Business Models

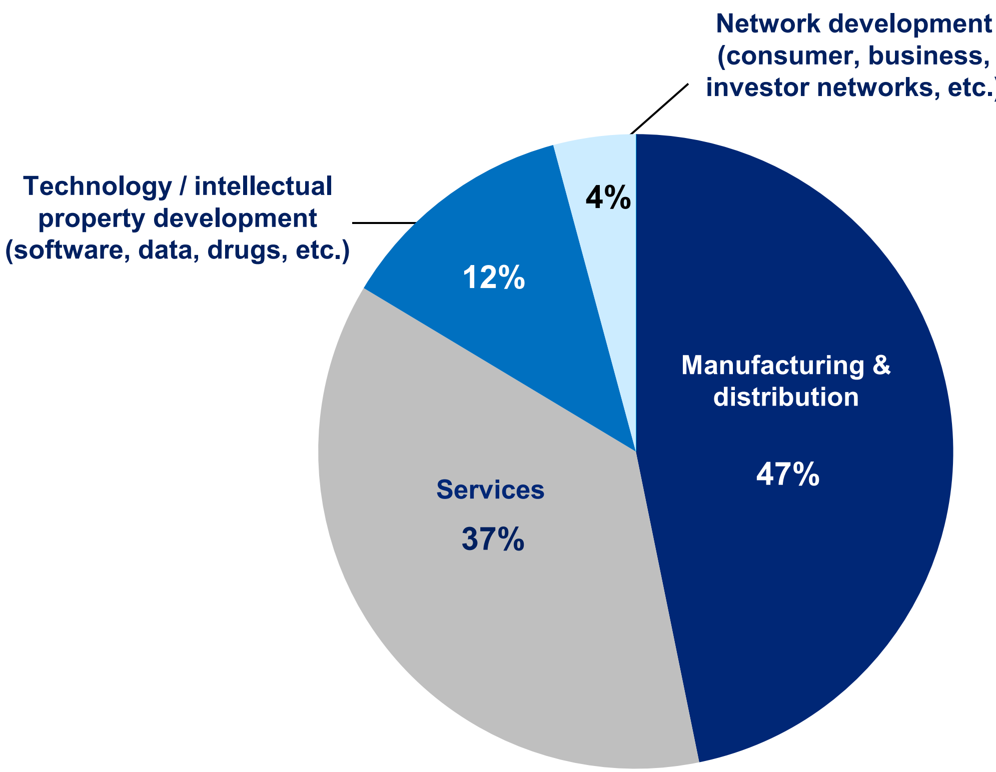
Activities driving revenue

Which types of business activities contribute most to company revenue?

Business models are diversifying—in some industries and companies more than others.

- **Product- and service-based models dominant:** Across industries, business models based on manufacturing and distribution contributed 47% of total revenue. Models based on provision of services were next at 37%, followed by those based on technology/IP creation at 12% and network development at 4%.
- **Use of single business model most common:** Half of CFOs said their company generates *all* of its revenue from just one business model, and about 80% say they generate at least 70% of their revenue from a single model.
- **Business model diversification much more evident at industry level:** For all industries except Manufacturing, Energy/Resources, and Financial Services, at least one-third of revenue comes from a business model other than the company's primary model.
- **Low (but dispersed) use of network development model:** While only 10% of companies generate 10% or more of their revenue from the network development model, these companies are spread across all industries except Manufacturing.
- **Financial Services CFOs report substantial "manufacturing and distribution" revenue:** This may indicate that they regard parts of their business (e.g., mortgage and insurance) as more product-oriented than service-oriented.

How would you characterize your business in terms of revenue generated by each of the following activities?
Percent of revenue CFOs attribute to each activity (n=101)



Information Security

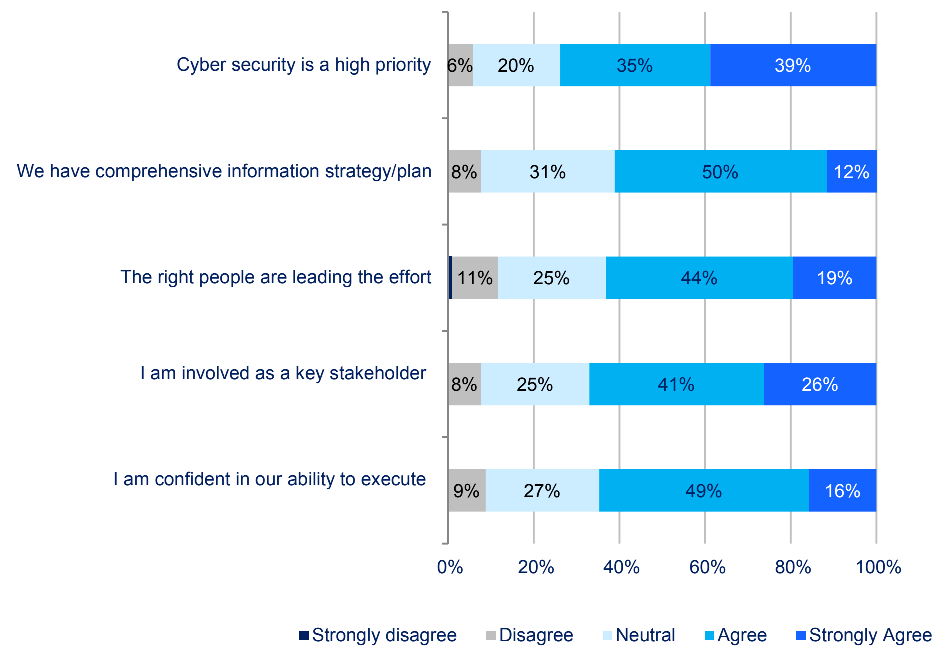
Cyber security

How do companies handle information security risks?

CFOs view cyber security as a high priority, but there are concerns about execution of information security plans.

- **Cyber threats recognized:** Overall, 74% of CFOs say cyber security is a top priority. This is particularly true among CFOs in Financial Services (92%) and Technology (90%). Only 6% (11% in Healthcare/Pharma) do not view cyber security as a high priority.
- **Data protection plans in place:** To combat cyber risks, 62% of CFOs say they have a comprehensive information strategy and plan in place. Financial Services CFOs are more likely than others to have one (93%), while Manufacturing CFOs are the least likely (40%). Twenty percent of Manufacturing CFOs say they do not have a plan in place.
- **Right people involved, including the CFO:** To 63% of CFOs, the right people are leading the cyber security effort at their companies. This is particularly true in Services (78%) and Financial Services (77%). As part of that effort, 67% of CFOs report being involved as a key stakeholder. This is most likely the case in Retail (86%) and Technology (80%). In Services, though, only 33% of CFO agree that they are involved as a key stakeholder, and no one strongly agrees.
- **Not comfortable with ability to execute:** Thirty-six percent of CFOs are not comfortable with their companies' ability to execute on their information security strategies. Retail CFOs (80%) express the most confidence in their companies' ability to execute, while T/M/E CFOs (22%).are the least confident.

How would you characterize your company's handling of information security risks?
Percent of CFOs citing level of agreement with each statement (n=103)



Relationships and Talent

Peer-level relationships

How do CFOs rate their relationships with other leaders?

CFOs report very good relationships across their peer group.

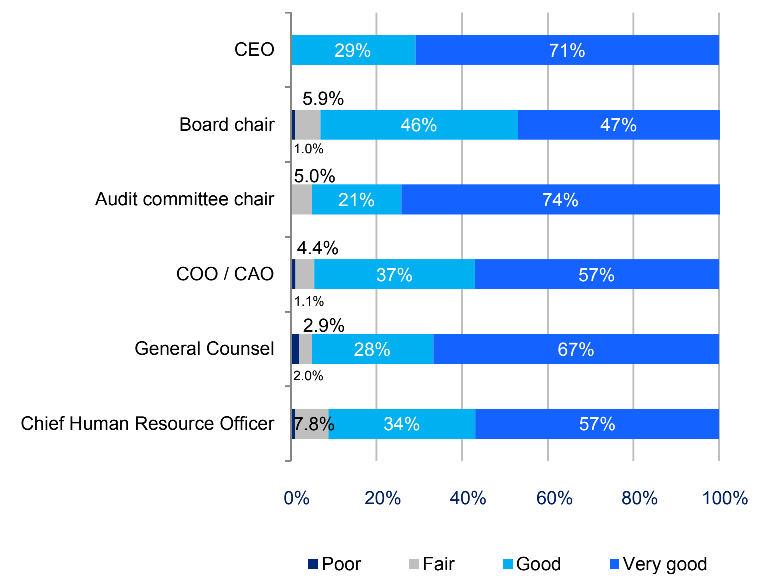
- CEO, Audit Committee Chair, and General Counsel relationships are among the strongest, with more than two-thirds of CFOs reporting very good relationships with these executives.
- Board Chair is the only role with whom less than 50% of CFOs report very good relationships.
- CFOs who are former FP&A leaders report below-average relationships with the Board Chair. They are also the least likely to report very good relationships overall.

CFOs generally say their top peer-level allies are other executives with broad, general responsibilities.

- COOs/CAOs, General Counsel, and CEOs were the most-named peers overall.
- Retail/Wholesale, Financial Services, and Healthcare/Pharma CFOs were most likely to name their COO/CAO.
- Energy/Resources and Services CFOs were most likely to name their CEO.
- T/M/E CFOs overwhelmingly named their General Counsel.

How do you rate your relationship with the following people?

Percent of CFOs citing each rating (n=103)



Who is your strongest "peer-level ally" in your company?

Relative proportion of CFOs citing each title/role; superscripts indicate counts (n=87)

* *CAO represents Chief Administrative Officer*

Relationships and Talent

Confidence in key staff

How confident are CFOs in their direct reports?

CFOs generally express confidence in the capabilities of their staff, but Controllers rank highest.

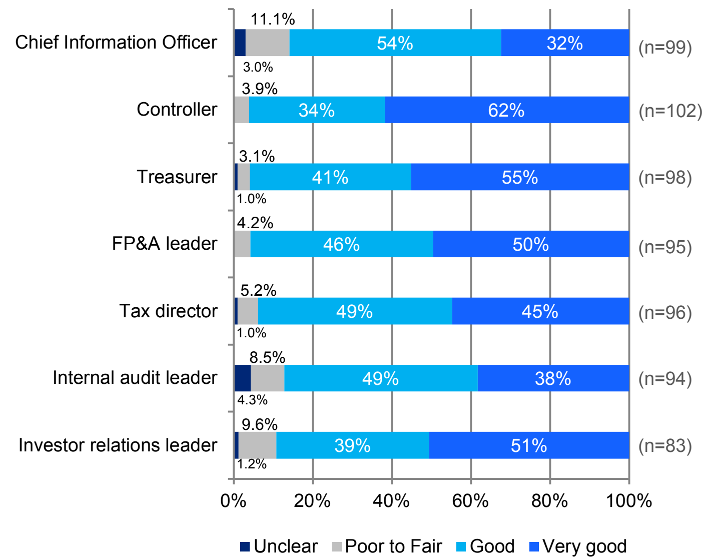
- Controller is the only role for which more than 60% of CFOs say they have very good confidence in effectiveness.
- Confidence in Treasurers is also comparatively high.
- Confidence appears lowest in the effectiveness of CIOs and internal audit leaders—but CFOs still overwhelmingly rate their confidence as at least "good."
- Industry differences are minor.

Controllers and FP&A leaders are CFOs' most common allies within Finance—and by a substantial margin.

- Controllers and FP&A leaders were the top- and second-rated allies within nearly all industries.
- When Controllers and FP&A leaders are not the top allies, the top ally is usually a business unit CFO or deputy CFO.
- Manufacturing is the only industry where there is a significant gap between the top two roles (Controllers are considerably ahead of FP&A leaders). For all other industries, the differences are insignificant.
- Treasurers were named in the top two only within Technology.

How do you rate your confidence in the effectiveness of the following people?

Percent of CFOs citing each level of confidence



Who is your strongest "direct-report-level ally" in your company?

Relative proportion of CFOs citing each title/role; superscripts indicate counts (n=86)

* *VP/SVP Finance includes BU/Regional CFO, Deputy CFO, etc.*

Longitudinal Trends

Expectations and sentiment

CFOs’ Year-Over-Year Expectations*

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

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	Survey Mean
Operating Results	Revenue	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%	4.8%	5.6%	5.4%	5.7%	5.0%	4.1%	4.6%	6.1%	6.8%	6.4%
		6.0%	10.0%	5.0%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.4%
		84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%	84%	78%	82%	90%	90%	89%	84%
	Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	12.8%	10.5%	8.0%	10.9%	12.1%	10.3%	8.0%	8.6%	7.9%	8.9%	10.9%	11.3%
		6.0%	10.0%	8.0%	10.0%	10.0%	8.0%	9.0%	9.5%	8.5%	6.0%	7.0%	10.0%	10.0%	9.0%	8.0%	7.0%	8.0%	8.0%	8.4%
		89%	93%	80%	83%	83%	82%	84%	79%	81%	84%	76%	84%	83%	82%	82%	84%	83%	90%	83%
Investment	Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	2.2%	3.9%	2.5%	2.5%	3.6%	4.5%	3.4%	4.0%	5.7%	4.1%	4.1%	4.1%
		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		38%	39%	28%	36%	35%	41%	27%	31%	33%	30%	29%	38%	40%	39%	37%	47%	45%	45%	37%
	Capital spending	12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	12.0%	11.4%	4.6%	4.2%	7.8%	7.5%	4.9%	6.4%	6.5%	6.8%	5.0%	8.1%
		5.0%	5.0%	4.0%	5.0%	10.0%	5.0%	5.0%	6.0%	10.0%	3.0%	0.0%	0.0%	3.5%	2.4%	3.0%	3.0%	5.0%	5.0%	4.4%
		62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%	57%	54%	59%	57%	64%	60%	59%
Employment	Number of domestic personnel	3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	2.1%	2.1%	0.6%	1.0%	0.9%	2.4%	1.3%	1.4%	1.0%	1.6%	2.3%	1.6%
		0.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	0.7%
		50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%	46%	47%	48%	42%	58%	58%	51%
	Number of offshore personnel	3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	3.7%	3.8%	1.5%	0.5%	2.4%	2.5%	1.9%	4.1%	2.5%	1.9%	2.6%	2.9%
		0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%	36%	33%	42%	34%	42%	45%	41%

CFO and Equity Market Sentiment**

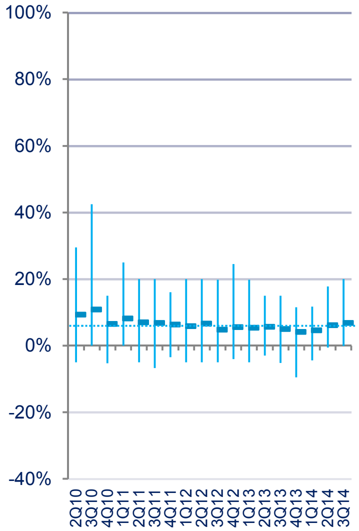
		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	Survey Mean
Optimism	Optimism (% more optimistic)	63.5%	46.8%	53.3%	62.4%	39.7%	28.6%	28.6%	63.0%	39.1%	38.8%	29.1%	51.0%	59.0%	41.9%	54.2%	46.8%	44.3%	43.7%	46.3%
	Neutrality (% no change)	19.3%	16.8%	26.0%	22.0%	28.3%	18.6%	32.1%	21.9%	32.6%	21.2%	31.3%	30.1%	27.7%	33.9%	33.4%	33.0%	37.2%	44.6%	27.4%
	Pessimism (% less optimistic)	17.2%	36.4%	20.7%	15.6%	32.0%	52.8%	39.3%	15.1%	28.3%	40.0%	39.6%	18.9%	13.3%	24.2%	20.8%	20.2%	18.6%	11.7%	25.8%
	Net optimism (% more optimistic less % less optimi	46.3%	10.4%	32.6%	46.8%	7.7%	-24.2%	-10.7%	47.9%	10.8%	-1.2%	-10.5%	32.1%	45.7%	17.7%	33.4%	26.6%	25.7%	32.0%	20.5%
S&P	S&P 500 price at survey period midpoint	1,088	1,072	1,200	1,343	1,333	1,123	1,161	1,361	1,317	1,418	1,387	1,520	1,667	1,656	1,798	1,839	1,878	1,955	1,451
	S&P gain/loss QoQ		-1.5%	11.9%	11.9%	-0.7%	-15.8%	3.4%	17.2%	-3.2%	7.7%	-2.2%	9.6%	9.7%	-0.7%	8.6%	2.3%	2.1%	4.1%	3.8%

* All means have been adjusted to eliminate the effects of stark outliers. The “Survey Mean” column contains arithmetic means since 2Q10.
** Averages for optimism numbers may not add to 100% due to rounding.

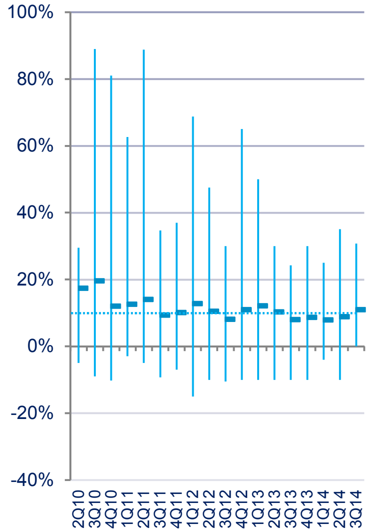
Longitudinal Trends

Means and distributions for key metrics

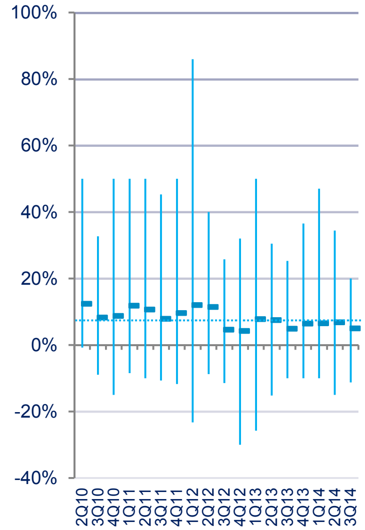
Revenues Growth



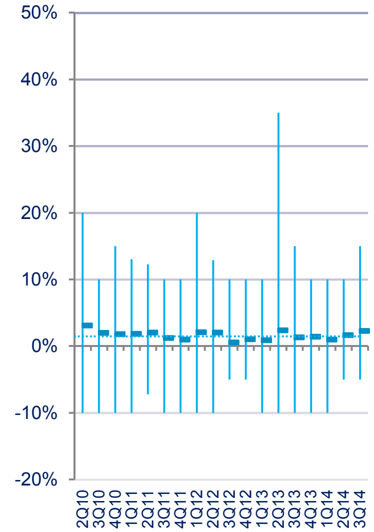
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



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

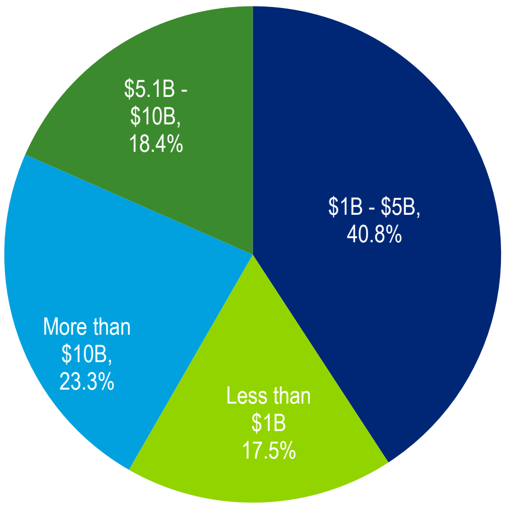
Horizontal marks indicate outlier-adjusted means.

Dotted lines indicate 3-year average (mean).

Demographics

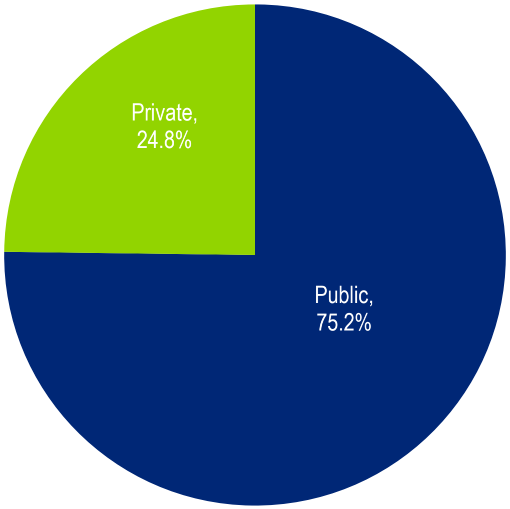
Annual Revenue ($U.S.)

(n=103)



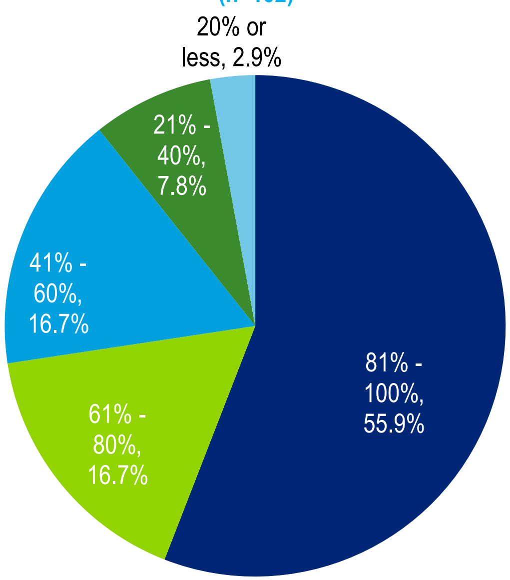
Ownership

(n=101)



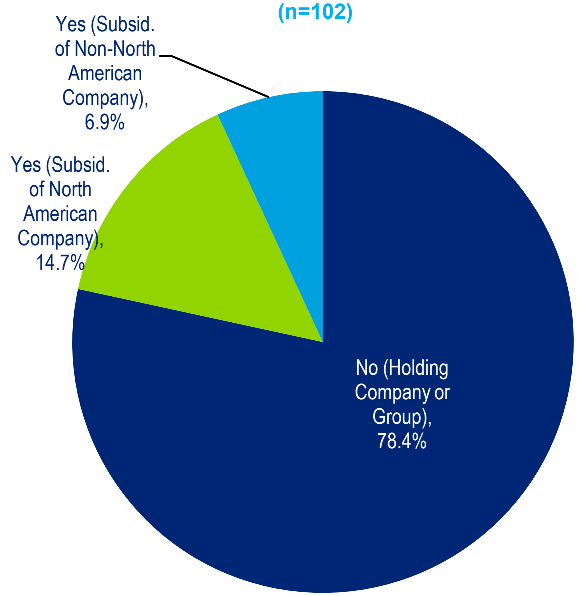
Revenue from North America

(n=102)



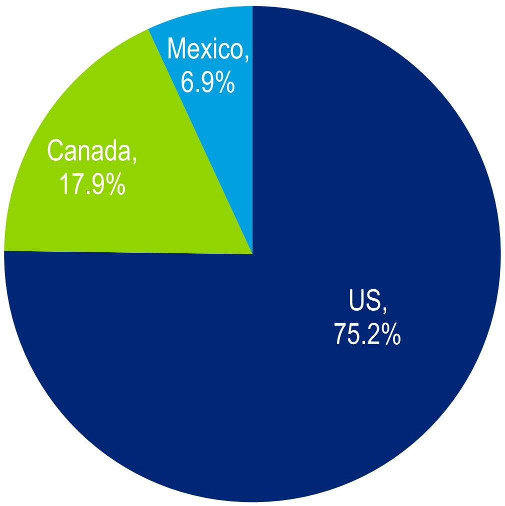
Subsidiary Company

(n=102)

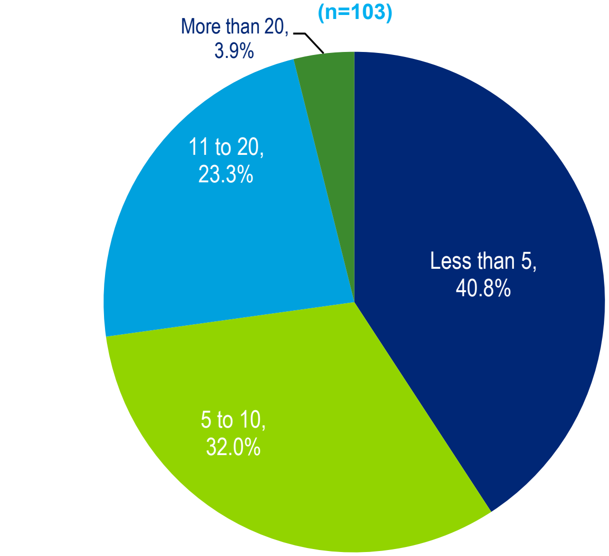


Demographics (cont.)

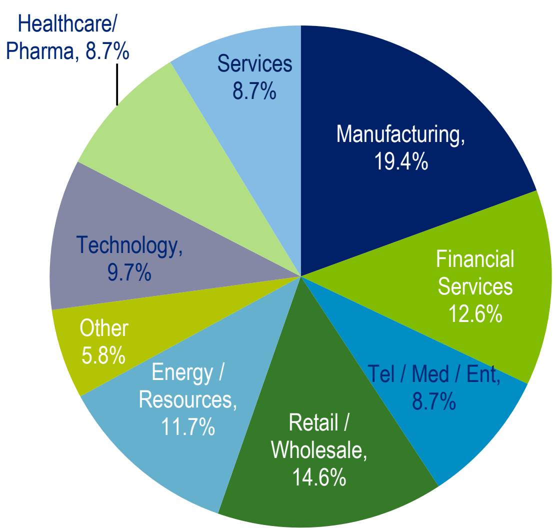
Country
(n=101)



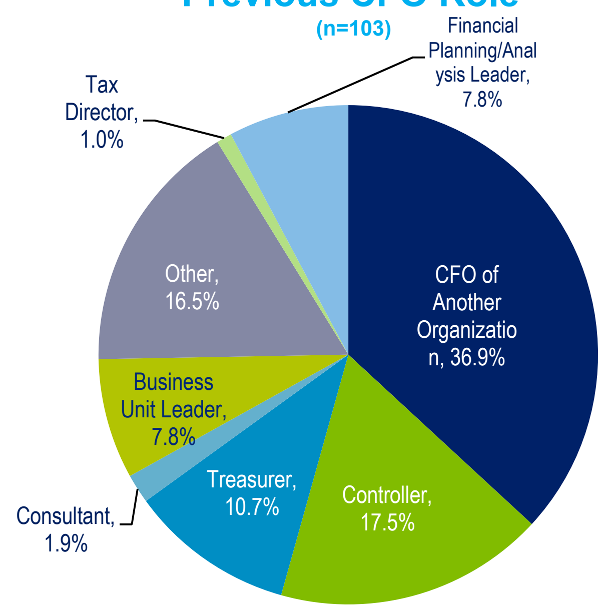
CFO Experience (Years)
(n=103)



Industry
(n=103)



Previous CFO Role
(n=103)



Methodology

Background

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

Participation

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