CFO Signals™

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

High-Level Report

1st Quarter 2012

CFO Signals

About the CFO Signals survey

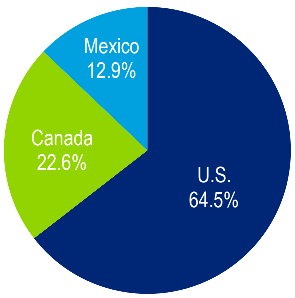
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This report summarizes CFOs' opinions in five areas: economy, industry, company, finance organization, and career.

This is the first quarter report for 2012. For more information, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

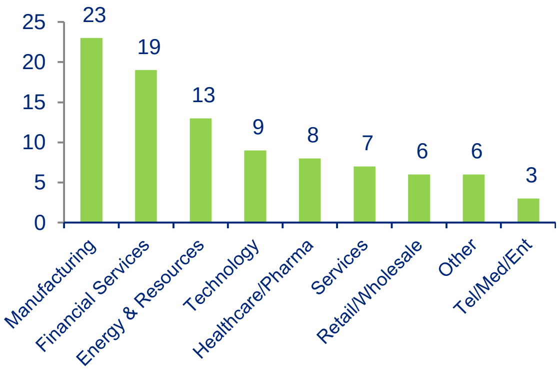
Who participated this quarter?

Ninety-four CFOs responded during the two weeks ended February 24. Over 71% are from public companies, and over 77% are from companies with more than $1B in annual revenue.

Participation by Country



Participation by Industry*



** This chart does not include respondents who did not indicate an industry affiliation.*

IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

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

Please note that this is a "pulse survey" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends. Except where noted, we do not comment on findings for segments with fewer than 10 respondents. Please see the Appendix for more information about survey methodology.

Results at a Glance

Economy

What high-impact risk worries you the most? Europe and the state of the broader global economy are still weighing heavily on CFOs' minds, but concerns about policy and execution missteps are on the rise. In addition, rising tensions in the Middle East appear to be causing concerns about oil and fuel prices and there are more mentions of "black swan" and "unanticipated" events. **Page 10.**

What are your company's top three economy challenges? Similar to last quarter, there are strong differences across the regions. But social policy/spending/investment resonates as a top three concern in the U.S. (62%), Canada (52%), and Mexico (50%) as does environmental policy. The U.S. adds unemployment concerns and Canada adds capital cost/availability. **Page 11.**

Industry

What are your company's top three industry challenges? Industry regulation/legislation is a top concern for the seventh consecutive quarter (51%) . Pricing concerns repeats in the top three, but dropped from 52% to 37%. Changing cost structures appears to have picked up the slack from pricing trends, rising from 13% to 24%. **Page 13.**

Company

What are your company's top three company-specific challenges? Revenue growth from existing markets (60%, up slightly), talent, and prioritizing investments round out the top three. Framing and/or adapting strategy declined notably from 40% to 27%. **Page 14.**

What is your company's business focus for the next 12 months? The focus on revenue continues with 57% of companies' strategic focus on revenue growth/preservation (37% on existing markets, 20% on new markets). The focus on indirect costs actually fell from 14% to 11%, while the focus on direct costs rose. **Page 15.**

Compared to the past 12 months, how do you expect your performance, spending, and hiring to change over the next 12 months? CFO expectations are positive, but pressure on sales growth continues. Expected gains are 5.9%* for sales (6.3%* last quarter), which is a new low for the survey, 12.8%* for earnings (10.1 %* last quarter), and 12%* for capital spending (up from 9.6%* last quarter). Domestic hiring finally rose to 2.1%* from 1.0%* last quarter. **Page 16.**

How does your optimism regarding your company compare to last quarter? Optimism rebounded soundly this quarter with 63% of CFOs reporting a a more positive outlook and only 15% saying they are less optimistic (22% report no change). Net optimism – the spread between those more and less optimistic – improved dramatically to +48 percentage points. **Page 17.**

How much do you utilize particular instruments for your cash holdings? Overall, most cash appears to be held as government bonds (U.S. and non-U.S.), although use of regular bank deposits and money market accounts is also high. Significant variability exists by country and industry. **Page 18.**

What percent of your total cash is currently held abroad? On the whole, about 20% of all companies' cash is held abroad. The U.S. is highest at 24%; Canada is lowest at 11%. **Page 18.**

How will you deploy your cash in 2012? Cash deployment plans reflect both optimism and caution. Plans typically include a solid dose of domestic investment (27%) and liquidity maintenance (24%), plus dividends (14%) and some pay down of debt (13%). **Page 19.**

If taxes were not a consideration, how would you deploy cash differently over the next 12-18 months? Most companies would invest more at home if they did not have to worry about tax implications. Specifically, half of CFOs said they would put more cash toward domestic investment, one third said they would pay down more debt, and one third said they would increase dividends. One third, however, said they would hold onto more cash to maintain higher liquidity. **Page 19.**

How would you describe your current approach to M&A? Although only one company in five is actively pursuing a major transformational deal, nearly 55% are actively seeking smaller strategic deals now to take advantage of favorable opportunities and/or valuations. **Page 20.**

What will likely be the purpose of your M&A deals in the near term? Nearly half of CFOs say their companies' are pursuing deals focused on expanding their customer base in existing markets. About 43% say they are pursuing synergies, 42% are pursuing scale efficiencies, and 38% are pursing diversification of their customer base via new markets. **Page 21.**

Finance Organization

What are your finance organization's top three challenges? Leading the list is providing metrics/info/tools for business decisions (54%) followed by influencing business strategy and operational priorities (32%). Close behind is ensuring business initiatives achieve desired outcomes at 29%. Supporting a major transaction (e.g. merger, acquisition, or divestiture) rose markedly from 13% last quarter to 27% this quarter. **Page 22.**

Career

What are your top three job stresses? Approximately half of all CFOs rank major change initiatives and changing regulatory requirements as top three concerns. Pressures from poor company performance comes in third (31%), and strategic ambiguity continues its downward slide, ranking fifth this quarter at 26%. **Page 23**.

How have the demands, scope, and rewards of your role changed over the past three years? The operative word is more – more interesting (75%), more demanding (88%), more broad (80%), more influential (81%), and more visible (54%). In addition, 56% say their jobs have become more financially rewarding. **Page 24.**

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

Summary

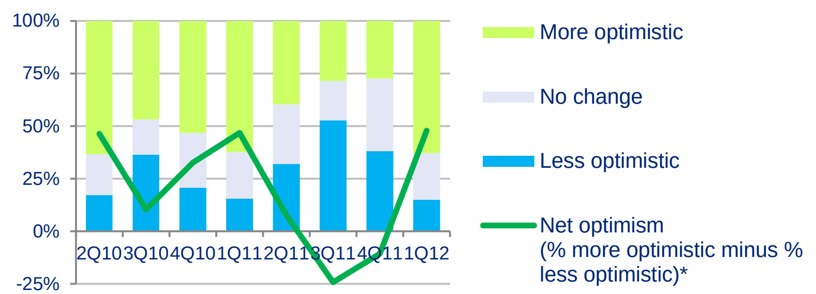
Optimism and earnings growth despite stalling revenue…but for how long?

Since our last survey, several macroeconomic factors have been improving – or at least stabilizing. Unemployment numbers have been mixed but directionally positive. Corporate earnings have been leveling off but still largely trending upward. European debt issues linger, but there appears to be rising expectation of (or at least hope for) improvement. And broader market sentiment has improved, with Dow and S&P 500 valuations rising about 15% since our last survey.

CFO optimism seems to have followed suit, rising markedly after two quarters of sharp declines. But what is not clear is whether CFOs are optimistic in absolute terms, or just optimistic relative to where they were over the past two tumultuous quarters. Continued declines in year-over-year revenue may suggest the latter, but rising expectations for earnings, capital investment, and domestic hiring appear to indicate that many companies are ready to start pushing forward again.

Own-Company Optimism

CFO optimism relative to previous quarter



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

Earnings gains outpace revenue gains

Net optimism (the spread between CFOs citing rising and falling optimism) turned negative near the end of last year – to the tune of a stunning -24 percentage points in 3Q11 and another -9 points last quarter. But the "good" news is that multiple quarters of rising pessimism make it easier for optimism to improve, and that is what happened this quarter.

In fact, net optimism rebounded sharply to +48 percentage points this quarter, with 63% of CFOs reporting increased optimism and just 15% reporting more pessimism. And the sentiment appears to be continent-wide this quarter, with the U.S. at +40, Canada at +57, and Mexico at +73.

Rising optimism is clearly reflected in CFOs' earnings growth expectations. After bottoming out at 9.3%* in the third quarter of last year, expected growth rose to 10.1%* last quarter and to 12.8%* this quarter. Rising variability of projections, however, indicates substantial difference of opinion.

But sales growth projections continued their downward trend. CFOs' expected 5.9%* gains are a new low for this survey, and the U.S. expectation is just 5.2%*. This begs the question, "How long can companies expect earnings to outpace sales?" Eight consecutive quarters of this dynamic appear to suggest companies believe their cost-containment strategies can make up for slowing sales growth – perhaps through some combination of focusing on higher-margin businesses, exiting businesses outside core competencies, reaping benefits of efficiency improvement efforts, offshoring of resources, and expectations of declining input costs.

Growth and investment up along with domestic hiring (finally)

In line with their rising earnings expectations, CFOs' investment and hiring expectations appear to reflect improved optimism. CFOs now cite a nearly 60% strategic focus on revenue growth (mostly concentrated within existing markets) and just a 25% focus on cost reduction (mostly focused on direct costs). They are again mentioning prioritization of investments among their top challenges, consistent with their capital investment growth expectations, which rose from 9.6%* last quarter to 12%* this quarter. Similar to the case for earnings, however, rising variability indicates substantial difference of opinion.

In contrast to the last two quarters, companies' growth plans appear to be spurring hiring at home. CFOs' expected domestic hiring gains of 2.1%* are more than double last quarter's survey-low 1.0%*, and just over half of CFOs project gains. U.S. CFOs' projections rose from 1.4%* last quarter to 1.8%* this quarter, and Canadian projections rebounded from just 0.7%* to 3.7%* (Mexico trails at 1.3%*). But as companies look to hire more staff, about one third claim difficulties finding the right talent – consistent with previous survey findings that indicated the skill sets companies need are not the same as those they may have laid off.

Similar to rising earnings projections, growing investment and hiring expectations raise questions about reasons for confidence as revenue appears to be leveling off. Perhaps companies are focused on anticipated growth that is more than a year away, or perhaps they are simply more optimistic than they should be.

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

Summary

Significant worries – mostly global – remain

Although CFOs are more optimistic and project better company performance, they are certainly not without substantial worries. And most of those worries revolve around Europe and global economic developments.

Whereas a year ago CFOs were focused on prospects for a domestic double-dip recession, they are now more likely to mention “the global economy,” “global recession,” and “effects of Europe” as their most worrisome risks. Moreover, current tensions in the Middle East appear to be causing concerns about oil and fuel prices, and there is rising mention of “black swan” and “unanticipated global” events.

CFOs cite significant domestic and internal concerns as well. Entering a presidential election year in the U.S., many express worries about the prospect of political gridlock and more regulation. They also cite industry challenges around market contraction, pricing trends, and, more recently, changing cost structures. Internally, they continue to be concerned about potential operational miscues and missed financial targets.

Companies want (and plan) to invest their cash – but they’re hedging their bets

U.S. corporations approached 2012 with an estimated $2 trillion in cash sitting on their balance sheets, and about 20% of that cash appears to be held abroad (the U.S. is highest at 24% and Canada is lowest at 11%). Overall, it appears that most cash is held as government bonds, although use of regular bank deposits and money market accounts is also high. Still, there is significant variability by country and industry.

Companies’ 2012 cash deployment plans appear to reflect a mix of optimism and caution, with roughly equal proportions focused on domestic investment and liquidity maintenance. Relatively little cash is slated for dividends, and even less is slated for debt repayment, foreign investment, and share repurchases.

Much of the investment is likely focused on M&A deals. Only about one in five CFOs claims to be seeking major transformational deals, but more than half say they are actively seeking smaller deals with some industries notably higher. Consistent with CFOs’ expressed concerns around building and protecting revenue in current markets, the primary focus of most deals appears to be achieving growth, synergies, and scale efficiencies around their existing businesses.

Taxes are clearly important in cash deployment, but what if they weren’t? Our findings suggest companies would mostly do more of the same things they already plan to do – i.e. put more money toward domestic investment and toward liquidity, albeit with a tilt toward investment. They would also allocate more to debt and dividends.

Less ambiguity; more influence

Although there is still considerable uncertainty and worry about national and global challenges, companies appear to be getting back to their core operations. Whereas findings from past quarters indicated a heavy focus on strategy-setting and prioritization, this quarter’s seem to indicate a stronger focus on execution. Moreover, “strategic ambiguity,” which has been a perennial top CFO job stress, finally fell out of the top three. Perhaps this is a sign that companies are coming to grips with external challenges, that post-recession strategies are firming up, and that leaders are again focusing on their own growth plans.

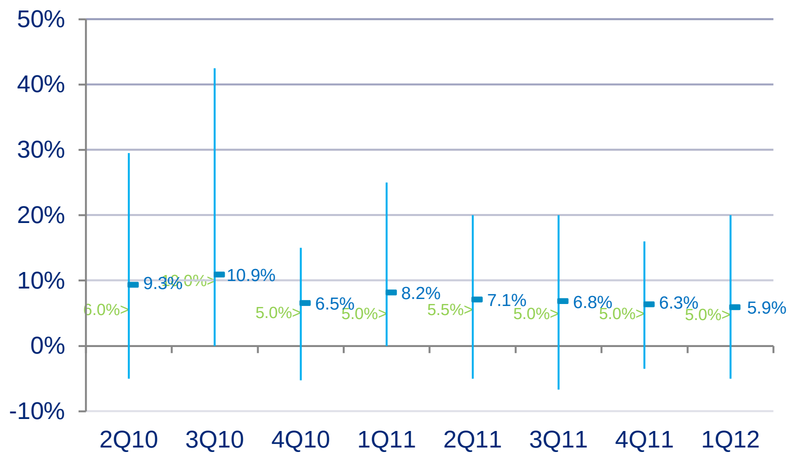
In any event, CFOs appear to be making the most of the opportunities created by new company challenges. Findings from our previous surveys show that CFOs have shifted toward their strategist and catalyst roles, with less emphasis on their steward and operator roles. This quarter’s findings indicate that, as this change has taken place, most CFOs are finding their roles more demanding and broad. Fortunately, the majority also say their roles have become more interesting, visible, influential, and financially rewarding – which may further contribute to their optimistic sentiment overall.

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

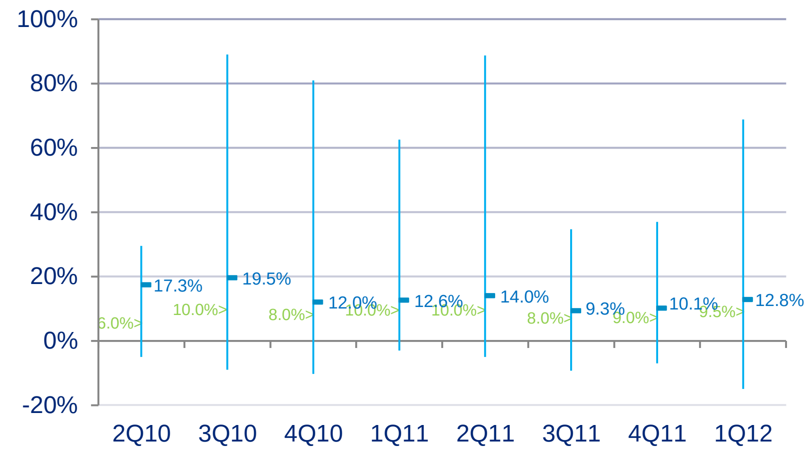
Growth Trends

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

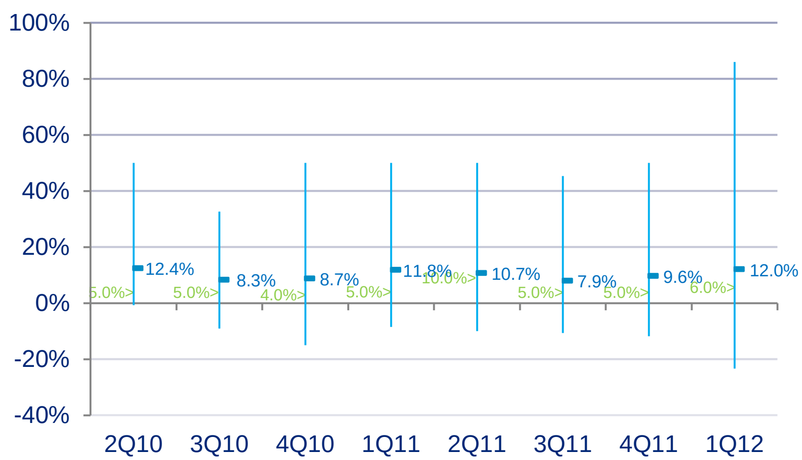
Revenue Growth



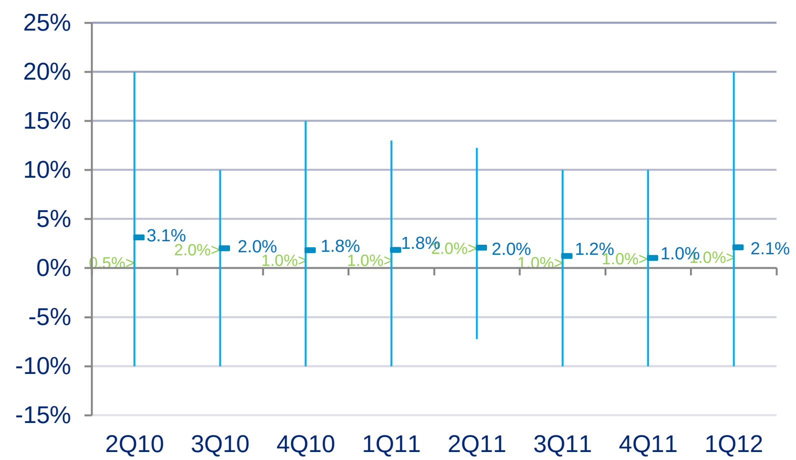
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



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

Operating Trends

CFOs' expected year-over-year increases in operating metrics

Year-Over-Year Projections
(and percent of CFOs who expect year-over-year gains)

	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	**1Q12**	
Sales	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	**5.9%**	Declining since 1Q11
	84%	93%	81%	89%	80%	83%	87%	**79%**	
Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	**12.8%**	Rising since 3Q11 despite declining revenue growth estimates; variability also rising
	89%	93%	80%	83%	83%	82%	84%	**79%**	
Wages/salaries	3.1%	3.3%	3.2%	3.1%	3.3%	3.2%	2.9%	**3.2%**	
	94%	93%	95%	96%	95%	94%	94%	**94%**	
Employee benefits	4.1%	4.7%	5.3%	4.5%	4.7%	4.3%	4.3%	**4.3%**	
	85%	90%	89%	87%	90%	93%	87%	**89%**	
Non-labor input costs / commodities	2.9%	2.2%	2.6%	3.4%	5.0%	4.2%	3.5%	**2.7%**	Peaked in 2Q11 with rising oil prices and declining since
	73%	68%	75%	84%	93%	89%	78%	**78%**	
Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	**2.2%**	Declining as sales projections have declined and as capex projections have risen
	38%	39%	28%	36%	35%	41%	27%	**31%**	
Capital spending	12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	**12.0%**	Rising since 3Q11; variability rose markedly this quarter
	62%	58%	57%	61%	69%	59%	61%	**68%**	
R&D spending			4.1%	5.9%	3.5%	3.9%	5.4%	**3.5%**	
			54%	51%	43%	47%	53%	**38%**	
Marketing and advertising					4.6%	4.4%	3.9%	**4.6%**	
					59%	53%	60%	**56%**	
Number of domestic personnel	3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	**2.1%**	Significant rebound, but high variability (just half of CFOs expect gains)
	50%	60%	48%	61%	64%	52%	51%	**51%**	
Number of offshore personnel	3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	**3.7%**	Offshore hiring consistently outpacing domestic – sign of offshore growth focus?
	41%	49%	47%	41%	57%	37%	50%	**43%**	
Use of offshore/outsourced third parties	2.9%	1.4%	2.8%	2.2%	2.2%	3.1%	3.7%	**2.5%**	Returned to normal level this quarter
	35%	37%	32%	41%	31%	36%	49%	**26%**	

High-Impact Risks

Rising focus on global and unforeseen events

High-impact risks

Still worried about Europe – but less so

As sovereign debt issues in Europe escalated over the past three quarters, global economic concerns overtook internal missteps and government policy as CFOs' most worrisome risks. This quarter's findings suggest Europe and the state of the broader global economy are still weighing heavily on CFOs' minds, but concerns about policy and execution missteps are again on the rise.

- **Global economy concerns**: A year ago, North American CFOs were mostly citing continental economic concerns. But this quarter there are multiple mentions of "the global economy," "global recession," and "effects of Europe." Last quarter's concerns about the possible spread of European financial distress to North American banks and deterioration of capital availability continued this quarter.
- **Geopolitical and "black swan" events**: Rising tensions in the Middle East appear to be causing rising concerns about oil and fuel prices, and there is rising mention of "black swan" and "unanticipated" events.
- **More regulation**: With the commencement of an election year in the U.S., CFOs appear increasingly worried about more regulation and changes in fiscal policy.
- **Internal missteps**: The number and scope of internal worries also appeared to rise this quarter, led mostly by concerns about potential operational failures and missed financial targets. There may be good news in this increased internal focus since it potentially indicates that many companies are coming to grips with external concerns and are again focusing on their own growth plans.

Most Worrisome Risks

(CFO mentions by frequency and category)

Macro/Economy

Global economic recession/turmoil (16)
European economic crisis/collapse (8)
More sovereign debt issues (4)
Euro/currency stability (3)
Europe effect/contagion (3)
Eurozone disintegration (2)
Declining consumer demand (2)

Capital/equity market instability (6)
Capital/credit availability (4)
Interest rates (2)
Deflation
Interbank liquidity crisis

Oil prices/supplies
Commodity prices
Fuel prices

Iran/Israel
War in the Middle East

Black swan/unanticipated events

Government

More government regulation (8)
Detrimental regulation (7)
U.S. fiscal policy (5)
Election year politics/effects (3)
Tax policy

Career

Balancing risk/change/future (3)
Transition to retirement
Succession planning/transition
Championing change
Managing board/CEO relationships

Company

Missing targets (2)
Reporting for remote locations
Major project failures
Major operating failures
Missing industry strategic shifts
Corporate takeover
Reputation damage
Underinvestment
Acquiring and retaining talent
Overreliance on major customers
Decline in government spending

Please see Appendix for industry-specific findings.

Economy

High variance by country, but pervasive government policy concerns

Top challenges

In the U.S., policy and jobs; in Canada, environmental policy

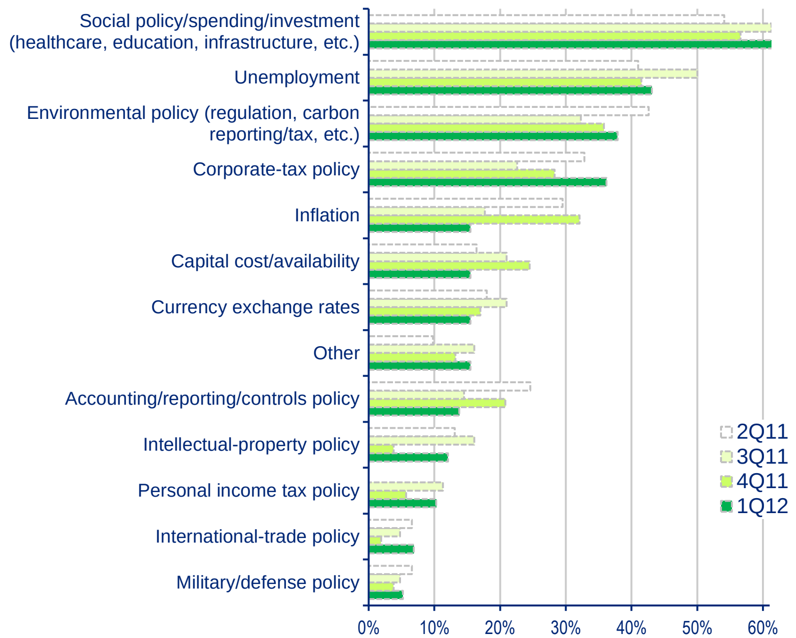
Similar to last quarter, there are strong differences in economic concerns across the North American regions.

In the U.S., continued slow economic growth, rising budget deficits, persistent unemployment, Europe concerns, and election-year policymaking are weighing heavily on CFOs' minds.

- **Social policy/spending/investment** repeats as a top concern this quarter, with 62% (up from 57% last quarter) of U.S. CFOs naming it a top three concern. (Across all geographies, it is the top challenge for five of eight industries – Manufacturing, Retail/Wholesale, and Technology are the exceptions.)
- **Unemployment** concerns held steady this quarter at 43%. (Across all geographies, it is a top-two challenge for five of eight industries – Manufacturing, Energy/Resources, and Services are the exceptions.)
- **Environmental policy** concerns also held steady this quarter and are the top concern for 38% of U.S. CFOs. (Across all geographies, it is the top challenge for Manufacturing and Energy/Resources and a top-two challenge for Healthcare/Pharma and Services.)
- **Corporate tax policy** concerns, which began to rise last quarter, continued their ascent from 28% last quarter to 36% this quarter.
- **Other notable U.S. findings**: **Inflation** concerns fell sharply from 32% last quarter to 16% this quarter (still high in Healthcare/Pharma). **Capital cost/availability** concerns fell from 25% to 16%, but are still strong within Energy/Resources, Financial Services, and T/M/E. **Intellectual property policy** is the top challenge for Technology.

Economy Challenges – U.S.

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Economy

Top challenges (cont.)

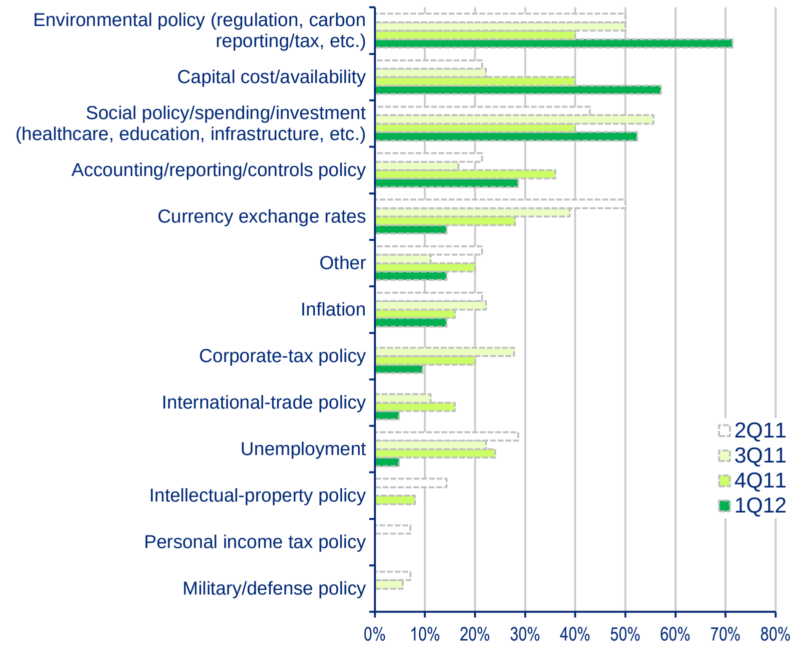
Canadian CFOs' concerns are notably different, likely driven significantly by Canada's economic reliance on energy and resources.

- **Environmental policy** concerns continued this quarter, jumping from 40% to 71%. The concern was prevalent in all represented sectors.
- **Capital cost/availability** jumped from 40% to 57% – driven primarily by Energy/Resources and Financial Services.
- **Social policy/spending/investment** jumped from 40% to 52%.
- **Unemployment** fell from 24% to a remarkable 5%, possibly reflecting a recent tightening of labor markets.

Mexico findings are limited by a relatively small sample size, but they do appear to show a focus on social policy (50%), environmental policy (42%), currency exchange rates (42%), and capital cost/availability (33%).

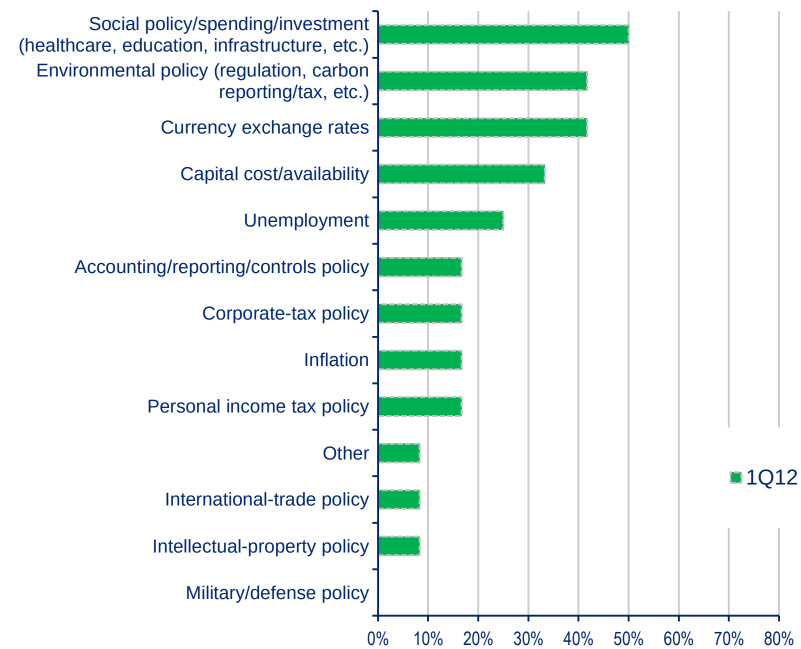
Economy Challenges – Canada

Percent of respondents who place each option in their top three



Economy Challenges – Mexico

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Industry

Growing concerns about changing cost structures and input prices

Top challenges

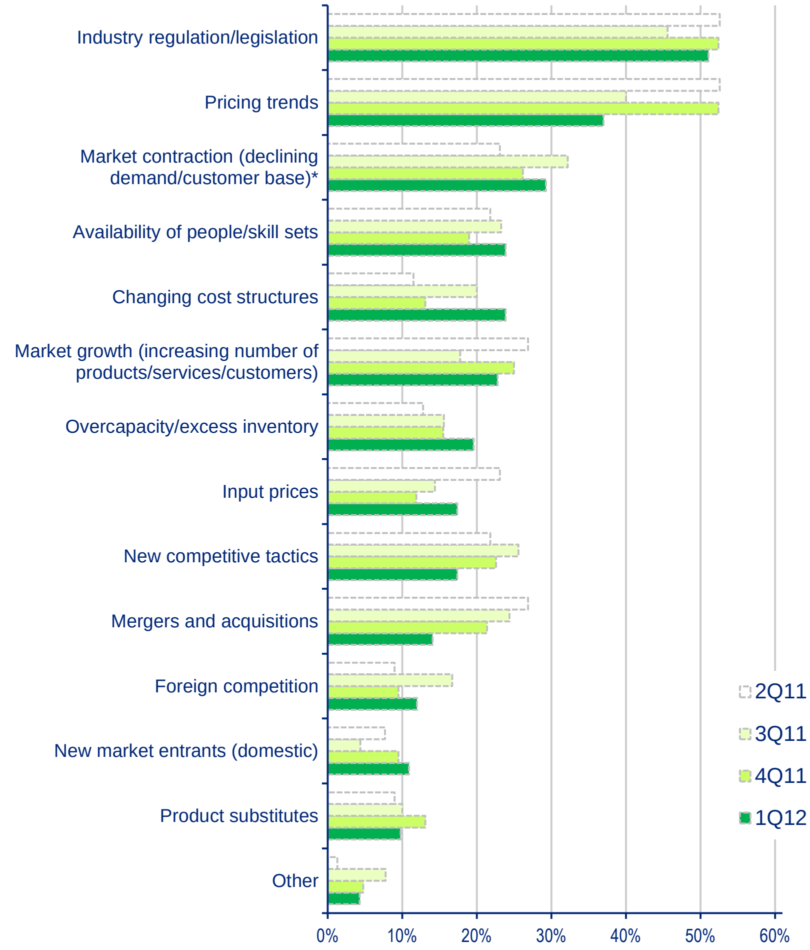
Regulation and profitability

Over the past two quarters, CFOs' growth-related concerns appeared to give way to rising concerns about competitiveness within their core business. This quarter's results suggest a continued (albeit less strong) focus on competitive conditions and rising concerns about profitability – especially due to the cost side of the equation.

- **Industry regulation/legislation** is the top challenge for the seventh consecutive quarter with 51% of CFOs naming it a top three concern, unchanged from last quarter. It is the top concern for Energy/Resources, Financial Services, and Healthcare/Pharma.
- **Pricing trends** are again a top concern but declined from 52% last quarter to 37% this quarter. They are the top concern within Retail/Wholesale and Services and a top-two concern in Financial Services.
- **Changing cost structures** appeared to pick up the majority of the slack from pricing trends, rising from 13% to 24%. They are the top concern in T/M/E and a top-two concern in Healthcare/Pharma.
- **Market contraction** rose slightly from 26% to 29%. It is the top challenge in Manufacturing and a top-three concern for Technology and Energy/Resources. Market growth held steady at 25% and is a top-three challenge for Financial Services and T/M/E.
- **Availability of talent**, which typically hovers around 20%, rose to 24% this quarter. It is a top-three challenge for Retail/Wholesale and Energy/Resources.
- **Other notable findings**: **New competitive tactics** are a top-two challenge for Retail/Wholesale and Services; **input prices** are the top challenge in Manufacturing; **foreign competition** and **product substitutes** are the top challenges in Technology.

Industry Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Company

Optimism, earnings, and investment rise despite stalling revenue

Top challenges

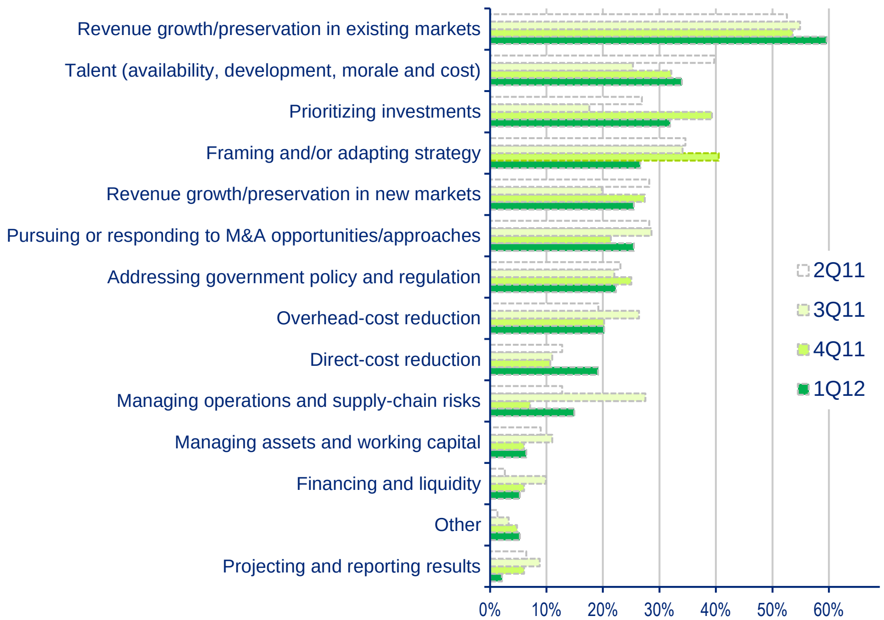
Execution in current markets

After indicating a strong focus on reformulating plans and defending current markets near the end of 2011, companies appear to be more focused on execution this quarter – with a somewhat declining focus on investment planning, and a stronger focus on control of direct costs and growth in current markets

- **Revenue from existing markets** again tops this quarter's list with 60% of all CFOs, slightly ahead of last quarter, naming it a top challenge. Six of eight sectors name it the top challenge (Energy/Resources and T/M/E are the exceptions).
- **Revenue from new markets** is a top company challenge for 26% of companies, essentially even with last quarter. It is the top challenge in Technology and a top-two challenge in Retail/Wholesale.
- **Talent availability** is a top challenge for one third of companies, especially in Manufacturing and Healthcare/Pharma. It is only a minor concern within Services.
- **Framing and/or adapting strategy** declined notably from 40% to 27%, possibly signifying a shift away from strategy revision/formulation and toward execution. It is still a top-two challenge for Financial Services and the Services sector.
- **Prioritization of investments** again ranks third despite a decline to 31% (after falling to just 18% in the third quarter of 2011 and rebounding to 40% in the fourth). It is a top-two challenge in Healthcare/Pharma, T/M/E, and Services.
- **M&A-related challenges** rose to 25% and are the top challenge in T/M/E.
- **Overhead cost reduction** held steady at 20%, although it is the top challenge in Energy/Resources, and **direct cost reduction** nearly doubled to 19% fueled mostly by Technology and Energy/Resources.

Company Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

Company

Business focus

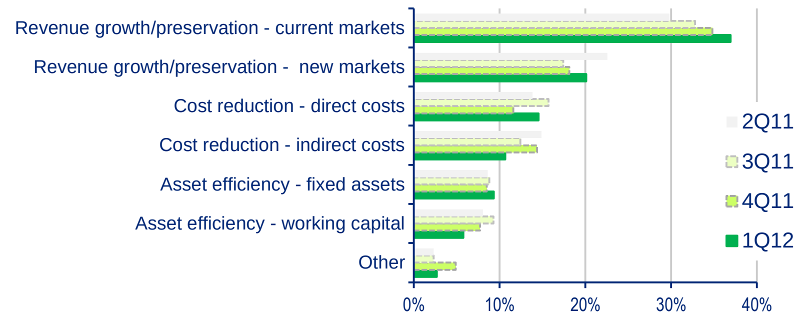
Revenues growth and direct costs

Building on momentum evident over the past few quarters, 57% of companies' strategic focus this quarter is on revenue growth and preservation. Retail/Wholesale and Technology lead with 72% and 64% of their strategic focus concentrated on revenue, respectively. CFOs indicate a 25% focus on direct and indirect cost reduction. T/M/E and Energy/Resources are both above 30%, and Retail/Wholesale is at just 17%.

- **Growth:** Across all companies, CFOs cite a 37% focus on revenue growth/preservation in existing markets with T/M/E and Services both above 42% and Healthcare/Pharma at just 28%. CFOs cite a 20% focus on growth in new markets with Retail/Wholesale and Technology at about 30% and T/M/E trailing at just 10%.
- **Costs**: The focus on indirect costs fell from 14% last quarter to 11% this quarter, but (consistent with findings above), the focus on direct costs actually rose – possibly signaling that companies do not believe they can continue to make effective cuts in overhead areas. Energy/Resources indicated the strongest focus on indirect costs at 15%; T/M/E indicated the highest focus on direct costs at 22%.
- **Asset efficiency**: The highest focus on asset efficiency is within Energy/Resources (fixed assets) and Manufacturing (working capital).

Company Business Focus

Distribution of company focus among respondents



Please see Appendix for industry-specific findings.

Company

Expected sales and earnings

Sales flattening, but earnings accelerating

Consistent with their renewed optimism, CFOs express rising expectations for their companies' performance. Year-over-year growth projections for earnings, capital investment, and domestic hiring all improved. But sales growth projections continued their recent downward trend, which may be cause for longer-term worries.

- **Sales growth** expectations of 5.9%* are a new low for this survey, and are notably below the projections from the previous two quarters. Nearly 80% of CFOs expect year-over-year gains, but this figure is a new low as well. Financial Services and Retail were bright spots, and Technology was the most pessimistic. Canada and Mexico bolstered results with expected gains of 7.4%* and 7.2%*, respectively, but U.S. estimates lagged at 5.2%*.
- **Earnings growth** expectations have been rebounding for three quarters despite declining sales growth estimates. Since bottoming out at 9.3%* in 3Q11, expectations have risen to 12.8%* led largely by the Financial Services and the Services sectors. Nearly 80% of CFOs expect gains, and the median expectation has risen to 9.5%*. Mexico and U.S. expectations lead at 15.8%* and 14.5%*, respectively, and Canada trails at just 6.9%*. High variability, however, suggests significant difference of expectations
- **Non-labor input cost growth** continued to decline this quarter, falling to 2.7%, down from 3.5% last quarter and 4.2% the quarter before that. **Wage/salary projections** are consistent with previous quarters at around 3%, and expected **employee benefits cost** increases of 4.3% are the same as last quarter.

Expected dividends and capital spending

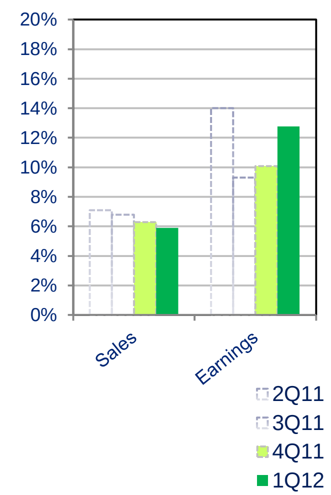
Signs of longer-term optimism?

Declining dividends and growing capital investment suggest companies may be gearing up for the future.

- **Dividend increases** of just 2.2% (a new survey low), continuing a downward trend visible since 2Q11. The median expectation is again 0%, and 31% of CFOs project dividend increases (up from 27% last quarter). Manufacturing is highest at 5% dividend growth.
- **Capital investment growth** expectations rebounded from their survey-low 7.9%* to 9.6%* last quarter. This quarter they surged to 12%* ,and the median rose from 5% to 6%. Nearly 70% of CFOs expect capital spending increases, up from both the third and fourth quarters of last year. Healthcare/Pharma and Services estimates rose significantly, and Retail/Wholesale and Energy/Resources indicated notable declines. Similar to the case for earnings, high variability of projections indicates significant difference of expectations.
- **R&D spending** is expected to rise 3.5%* led mostly by Manufacturing, Technology, and Healthcare/Pharma. **Marketing spend** is expected to rise 4.6%* led mostly by Retail/Wholesale and Financial Services.

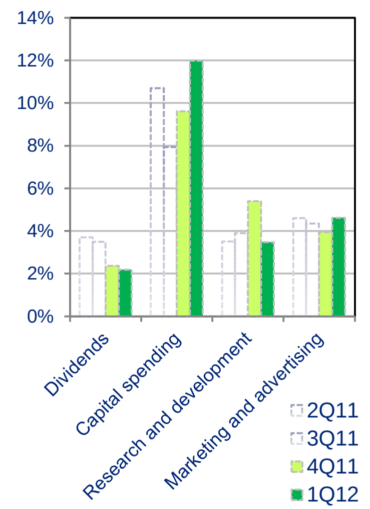
Operating Results*

Expected change year-over-year



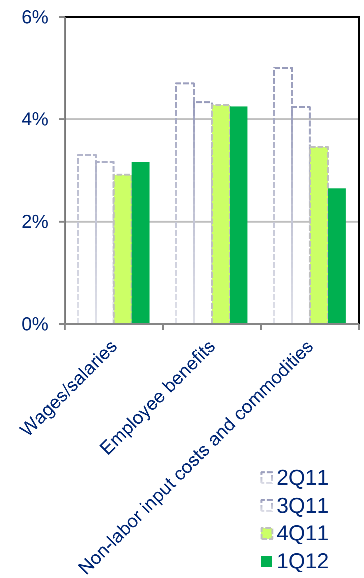
Investments*

Expected change year-over-year



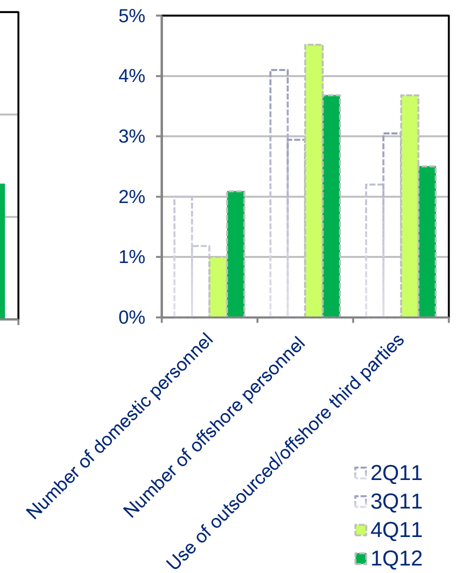
Costs*

Expected change year-over-year



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

Employment

Accelerating at home and slowing abroad

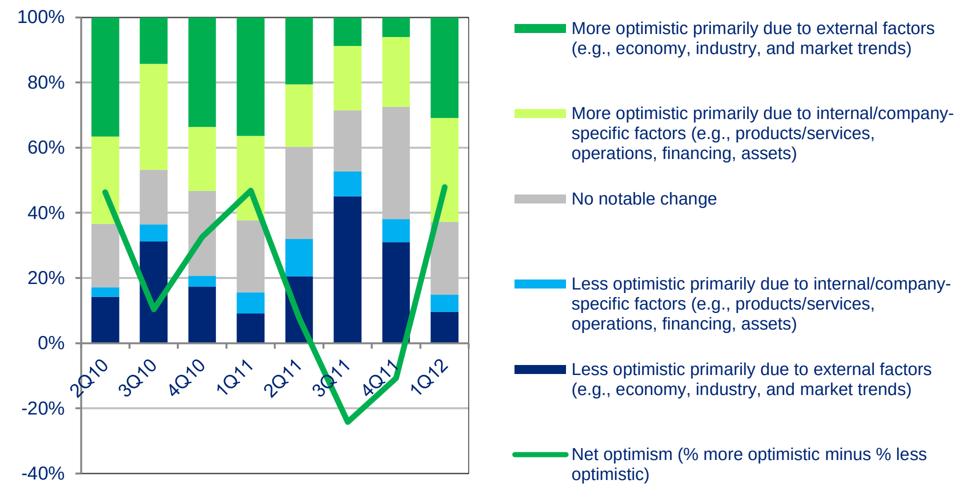
Rising expectations for domestic hiring and decelerating foreign hiring may indicate improving sentiment around North American economies.

- **Domestic hiring** expectations of 2.1%* growth are more than double last quarter's survey-low 1.0%* and just over half of CFOs project improvements. U.S. CFOs' projections rose from 1.4%* last quarter to 1.8%* this quarter, and Canadian projections rebounded from just 0.7%* to 3.7%*. Mexico trails at 1.3%*. Retail/Wholesale and Energy/Resources project gains of more than 4%*.
- **Offshore personnel growth** fell from 4.5%* (the highest in this survey's history) to 3.7%* this quarter. U.S. projections are highest at 4.2%*, just below last quarter's 4.1%*. Canada fell from 4.7%* last quarter to 3.0%* this quarter, and Mexico came in at 2.7%*. Manufacturing is the outlier at 14%*.
- **Outsourced staffing** fell from 3.7%* (another survey high) to 2.5%* this quarter – led by the U.S. at 3.0%* (down from 4.0%*) and Mexico at 2.6%*. Canada is lowest at 1.1%, down from 3.4% last quarter. At an industry level, Financial Services and Services both project increases of around 5%.

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

Company Optimism

Net optimism and causes of rising/falling optimism



Own-company optimism

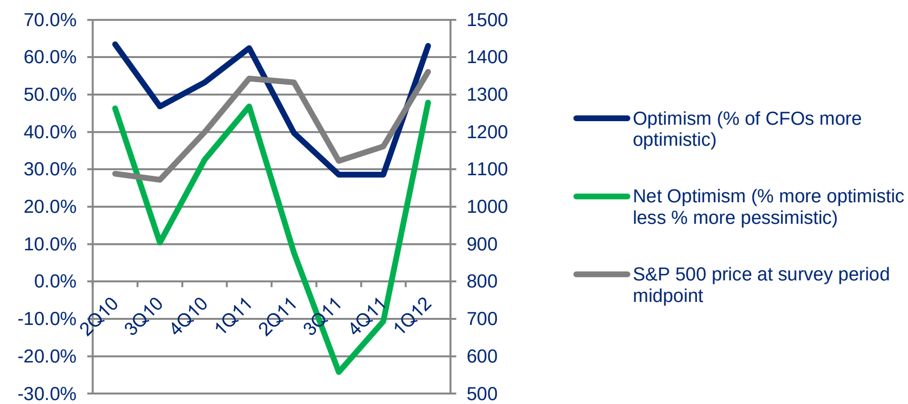
More optimistic than at the end of 2011, but caution remains

As global economic news and national macroeconomic indicators have improved over the last quarter, Dow and S&P 500 indices have risen about 15%. CFO sentiment has mostly followed suit.

- **Major (positive) reversal in optimism**: After two quarters in negative territory, net optimism rebounded sharply to +48 percentage points this quarter. Nearly two thirds of CFO say they are more optimistic this quarter than they were last quarter, with just 15% more pessimistic (22% report no change). The sources of improved optimism are evenly split between internal and external factors, with externally-driven optimism rising from just 6% last quarter (a survey low) to 31% this quarter. Less than 10% of CFOs say they are *less* optimistic because of external reasons – a drastic improvement over the levels we saw over the past two quarters.
- **Optimistic sentiment across U.S., Canada, and Mexico**: Net optimism in the U.S. rose from -15 and -34 in the past two quarters to +40 this quarter, mostly fueled by externally-driven optimism. Canadian CFOs' report net optimism of +57 (up from +4 and +22 over the past two quarters), mostly driven by rising assessments of company-specific factors. Three quarters of Mexican CFOs indicate rising optimism, fueled overwhelmingly by company-specific factors.

Company Optimism

Optimism and net optimism relative to S&P500 price



Please see Appendix for industry-specific findings.

Company

How cash is held

Government bonds, bank deposits, and money market accounts

How are companies holding the record levels of cash they have on their balance sheets? Use of government bonds (U.S. and non-U.S.) is most prevalent, with most companies concentrating on bonds within their home country. Bank deposits and money market accounts are also common, but there is significant variability by country and industry.

- **Bank deposits:** About 45% of CFOs report substantial or high use with little country variance. Retail/Wholesale and T/M/E are notably higher; Healthcare/Pharma is notably lower.
- **Money market accounts:** Almost 45% of CFOs report substantial or high use. The U.S. and Mexico are highest at 48% and 58%, respectively, and Canada is lowest at 30%. Manufacturing, Technology, and Healthcare/Pharma report notably higher use; Retail/Wholesale, Financial Services, and Energy/Resources report lower use.
- **Government bonds (U.S.):** Just over 40% of all CFOs report substantial or high use. Nearly 60% of U.S. CFOs report substantial or high use, and none of the Canadian CFOs do. Technology, Healthcare/Pharma, and T/M/E are notably higher, and Manufacturing, Retail/Wholesale, and Services are notably lower.
- **Government bonds (non-U.S.):** About 20% of all CFOs report substantial or high use. Just 12% of U.S. CFOs report substantial or high use, but 32% of Canadian CFOs and 42% of Mexican CFOs do. Technology, Healthcare/Pharma, and T/M/E are notably higher, and Manufacturing, Retail/Wholesale, and Services are notably lower.
- **Corporate bonds:** Some 15% of all CFOs report substantial or high use. Nearly 20% of U.S. CFOs report substantial or high use, but just 11% of Canadian CFOs and none of Mexican CFOs do so. Healthcare/Pharma is highest at 50%, and both Manufacturing and Retail/Wholesale are at or below 5%.
- **Repurchase agreements:** About 10% of all CFOs report substantial or high use. None of the Canadian CFOs report substantial use, but 36% of Mexican CFOs do. More than 20% of Manufacturing CFOs report substantial use, but most industries report little or no use.
- **Commercial paper:** Just 7% of all CFOs report substantial or high use. Some12% of U.S. CFOs report substantial or high use with no reported use in Mexico. T/M/E and Energy/Resources report at least double the average use.

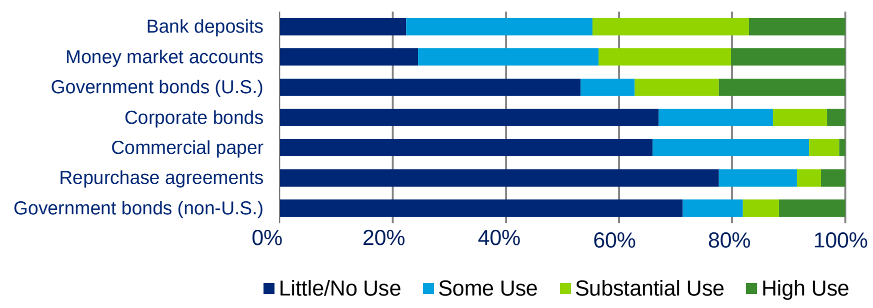
Cash held abroad

About 20%, but significant differences by country and industry

On the whole, about 20% of all companies' cash is held abroad. The U.S. is highest at 24%, and Canada is lowest at 11%. At an industry level, Manufacturing and Technology are highest at 41% and 39%, respectively. Retail/Wholesale and T/M/E are lowest at around 5%.

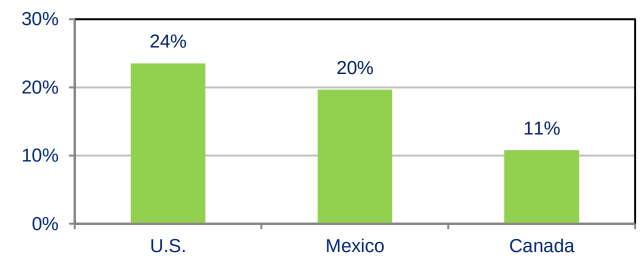
Instruments Utilized For Cash Holdings

Percent of respondents citing each level of use



Please see Appendix for industry-specific findings.

Percentage of Cash Held Abroad by Country



Please see Appendix for industry-specific findings.

Company

How companies will deploy cash in 2012

Domestic investment and liquidity maintenance

Companies' cash deployment plans appear to reflect a mix of optimism and caution, with substantial allocations to both investment and liquidity. Relatively little cash is slated for dividends, which is consistent with the 2.2% dividend growth CFOs indicate in their year-over-year projections. Even less is slated for paying down debt, foreign investment, and share repurchases.

- **Domestic investment (27%):** The U.S. is lower at 23%, and Canada is higher at 37%. Retail/Wholesale, Energy/Resources, Financial Services, and Healthcare/Pharma are all above 35%, but Services and Technology are both below 15%.
- **Liquidity (24%):** Canada is lower at 21% and Mexico is higher at 31%. Retail/Wholesale, Technology, and T/M/E are all above 35%, and Energy/Resources is under 10%.
- **Dividends (14%):** Little country variance. Services and Energy/Resources are highest at 24% and 18%, respectively. T/M/E and Technology are lowest at less than 7%.
- **Debt pay-down (13%):** Little country variance. Services and T/M/E are highest at 24% and 16%, respectively. Retail/Wholesale and Healthcare/Pharma are lowest at 5% or less.
- **Foreign investment (7%):** Little country variance. Manufacturing and Services both exceed 10%, but Retail/Wholesale, Healthcare/Pharma, and T/M/E are all below 2%.
- **Share repurchases (7%):** The U.S. is above-average at 9%. Technology is highest at 13%. Retail/Wholesale and Healthcare/Pharma are lowest at about 5%.
- **Funding of obligations – pensions, retirement, etc. (5%):** Canada is lower at 3% and Mexico is higher at 8%. Financial Services and Healthcare/Pharma are both around 8%, and Technology and T/M/E are both below 3%.

What if taxes weren't a factor in cash deployment?

Most companies would invest more at home

Without tax considerations, CFOs say their companies would mostly do more of the things they already plan to do – but with a higher focus on investment and paying down debt.

- **Increase domestic investment (51%)**: The U.S. is lower at 44%, and Mexico is higher at 73%. Retail/Wholesale and Services are both above 67%.
- **Maintain higher liquidity (34%)**: Canada is lower at 28%, and Mexico is highest at 46%. Technology, Healthcare/Pharma, and Services are all above 40%.
- **Pay down more debt (34%)**: Canada is lowest at 28%. Manufacturing and Technology are higher at 59% and 43%, respectively.
- **Increase dividends (32%)**: The U.S. is highest at 35%; Canada and Mexico are around 28%. Manufacturing and Financial Services are highest at 41% and 38%, respectively.

Deployment of Cash in 2012

Planned use vs. tax-free use

	Projected distribution of cash use given current tax policy	Percent of companies who would increase this use If taxes were not a factor
Domestic investment	27%	51%
Cash liquidity	24%	34%
Dividends	14%	32%
Debt pay-down	13%	34%
Foreign investment	7%	13%
Share repurchases	7%	15%
Funding of obligations (pensions, retirement, etc.)	5%	7%
Other	3%	n/a

Please see Appendix for industry-specific findings.

Company

Current approaches to M&A

Proactive around smaller deals; opportunistic around others

M&A is clearly on the front burner for many large companies. Although only about one in five CFOs claims to be seeking major transformational deals, more than half say they are actively seeking smaller deals. And the numbers are considerably higher within some industries.

- **Actively seeking smaller strategic deals now (to take advantage of favorable opportunities and/or valuations)**: Nearly 55% of CFOs say their companies are utilizing this approach. Retail/Wholesale, T/M/E, and Healthcare/Pharma are highest at 83%, 67%, and 63%, respectively. Financial Services and Technology are both below 45%.
- **Reactively responding to opportunities that arise**: Nearly 30% of CFOs say their companies are utilizing this approach. Energy/Resources, Services, and Financial Services are above 40%. Retail/Wholesale, T/M/E, and Healthcare/Pharma are below 13%.
- **Actively seeking major/transformational deals now (to take advantage of favorable opportunities and/or valuations)**: Nearly 22% of CFOs say their companies are utilizing this approach. Retail/Wholesale, T/M/E, and Financial Services are above 30%. Technology and Energy/Resources are 11% or lower.
- **Delaying major deals (in anticipation of better opportunities and/or valuations in the future)**: Just 8% of CFOs say their companies are delaying major deals, but 17% of Manufacturing CFOs say their companies are utilizing this approach.
- **Other approaches**: Just 8% of companies indicate other approaches, most of which center on deferring M&A altogether.

Approach to M&A

Please see Appendix for industry-specific findings.

Company

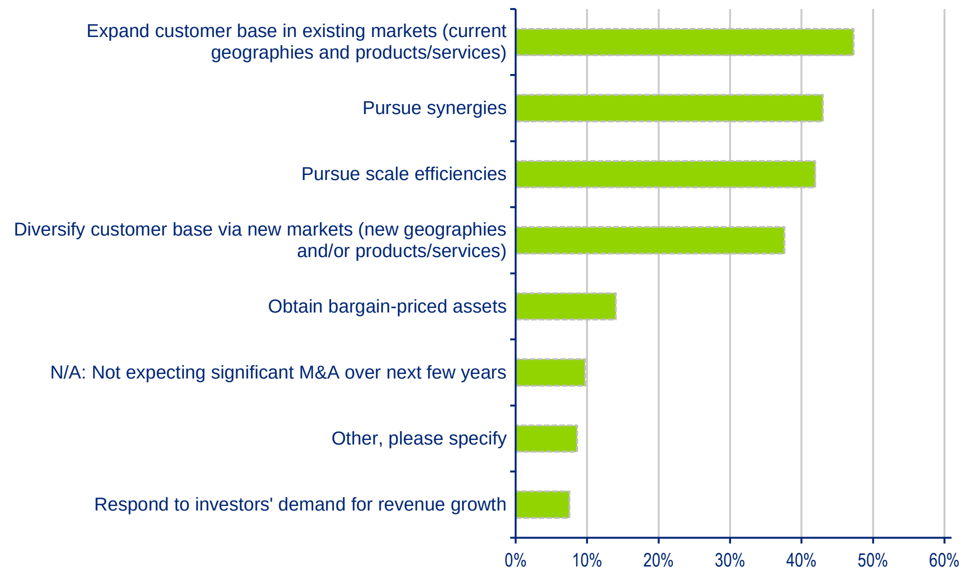
Purpose of M&A deals

Strengthen current business in current markets

What are companies hoping to achieve through their current M&A efforts? Earlier findings around companies' challenges and strategic focus suggest that growth in current markets is the dominant current focus for most companies. Companies' M&A goals are consistent with these findings, reflecting a high focus on existing markets, synergies around current businesses, and scale efficiencies.

- **Expand customer base in existing markets** (current geographies and products/services): About 47% of CFOs say their companies have M&A efforts focused on this purpose. Healthcare/Pharma is by far the highest at 88%, and Services, Manufacturing, and Retail/Wholesale are all above 55%. Technology lags at just 11%.
- **Pursue synergies**: About 43% of CFOs say their companies have M&A efforts focused on this purpose. Services and T/M/E are highest at about 70%. Manufacturing is lowest at 35%.
- **Pursue scale efficiencies**: About 42% of CFOs say their companies have M&A efforts focused on this purpose. Energy/Resources and Services are the highest at about 60%. Healthcare/Pharma is lowest at 13%.
- **Diversify customer base via new markets (new geographies and/or products/services)**: Nearly 40% of CFOs say their M&A efforts are focused on this purpose. Retail/Wholesale is by far the highest at 67%, and Manufacturing and Services are both about 43%. Energy/Resources lags at just 15%.
- **Other approaches**: About 10% of companies indicate other approaches, most of which center on acquiring new technologies, product lines, and talent.

Purpose of M&A Deals



Please see Appendix for industry-specific findings.

Finance Organization

Less decision-making, more execution

Top challenges

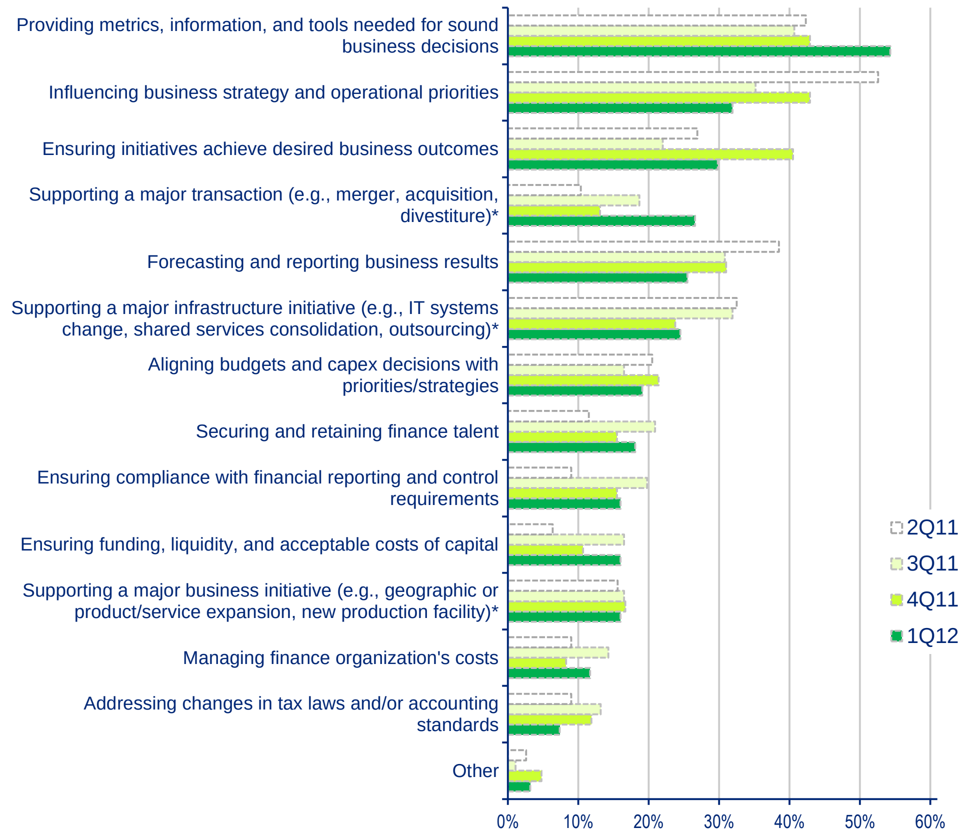
Supporting execution of growth initiatives

Last quarter's results appeared to indicate a renewed focus on supporting growth. But where last quarter's results showed a heavy focus on strategy-setting and prioritization, this quarter's findings appear to indicate a stronger focus on execution.

- **Providing information, analysis, and metrics** repeats as the top challenge this quarter, rising from 43% last quarter to 54% this quarter. It is the top challenge for six of eight industries (Healthcare/Pharma and Services are the exceptions).
- **Influencing strategy and operational priorities** remains a top priority, but it fell from 43% last quarter to 32% this quarter – consistent with a possible shift away from aiming and a stronger focus on execution. It is the top challenge for Services and a top-two challenge for Technology.
- **Ensuring initiatives achieve desired business outcomes** slid somewhat to 29% from its high of 41% last quarter. It is the top challenge for Healthcare/Pharma and a top-two concern for Services.
- **Supporting a major transaction** rose markedly from 13% last quarter to 27% this quarter – a new survey high. (*Note:* This finding is consistent with results from our M&A-focused questions that indicate more than half of companies are actively pursuing deals.) Challenges are highest within Retail/Wholesale, Manufacturing, and T/M/E.
- **Forecasting and reporting business results** is cited by roughly one quarter of CFOs and is a top-two challenge for Financial Services and the Services Sector.
- **Supporting major infrastructure/back-off initiatives** held steady at 25%.
- **Other notable findings: Aligning budgets and capex decisions with priorities** is the top challenge for more than half of Energy/Resources companies.

Finance Organization Challenges

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

CFO Career

Less strategic ambiguity, but more regulatory uncertainty

Top job stresses

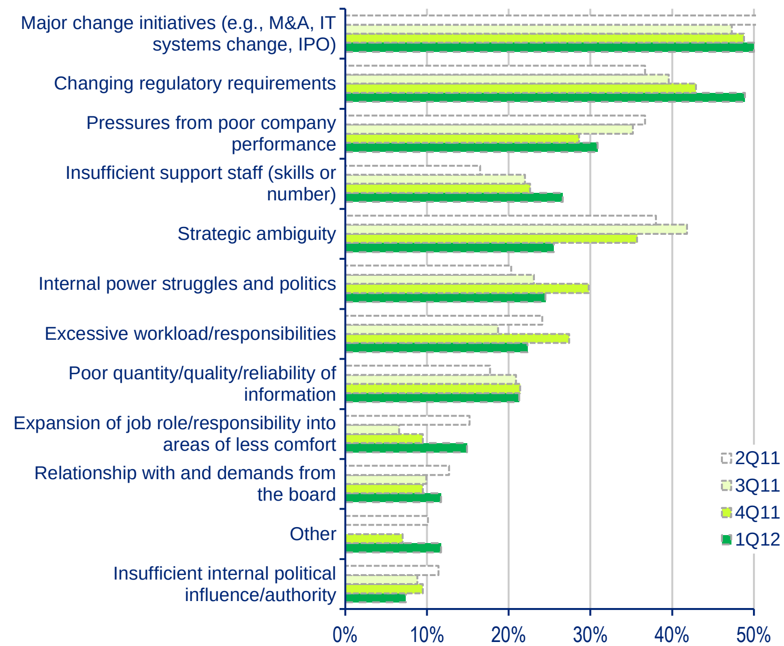
Operational challenges replacing strategic challenges

The same three change-related stresses (strategic ambiguity, major change initiatives, and changing regulatory requirements) have consistently topped the list of CFOs' job stresses over the past two years, but this quarter marks a notable change. Strategic ambiguity, which has been the top job stress twice and a top-two stress three times, finally fell out of the top three. Perhaps this is a sign that companies' post-recession strategies are firming up and that work is now more focused on execution.

- **Major change initiatives** (e.g. M&A, systems changes, IPOs) are again CFOs' dominant career stress, cited by half of all CFOs. It is the top stress for Manufacturing and a top-two stress for seven of the eight industries (Services is the exception).
- **Changing regulatory requirements** are a top career stress for just under half of CFOs. They are the top stress for Retail/Wholesale, Energy/Resources, Financial Services, and Healthcare/Pharma, with only Technology indicating it is a relatively minor stress.
- **Strategic ambiguity** continued its downward slide and now ranks fifth after seven straight quarters in the top three. It topped out at 42% in 3Q11, but now sits at just 26% – consistent with the notion that many companies may have largely completed their strategy reformulation efforts. It is still a top stress for Technology companies.
- **Pressures from poor company performance** now rank third at 31%, essentially even with last quarter. The strongest impact is being felt within T/M/E, Technology, and Services.
- **Insufficient support staff** rose to 27%, perhaps due to increasing pressures around M&A support and other major change initiatives. The strongest effects are within Healthcare/Pharma.
- **Other notable findings**: **Internal power struggles** are a top stress for 25% of all CFOs with the heaviest mentions from Healthcare/Pharma and Services. **Excessive workloads and responsibilities** are a top concern for 22% of CFOs, and 21% cite **information quantity/quality/reliability** issues.

Job Stresses

Percent of respondents who place each option in their top three



Please see Appendix for industry-specific findings.

CFO Career

Changing CFO Role

Mostly changes for the better, with some variation by industry

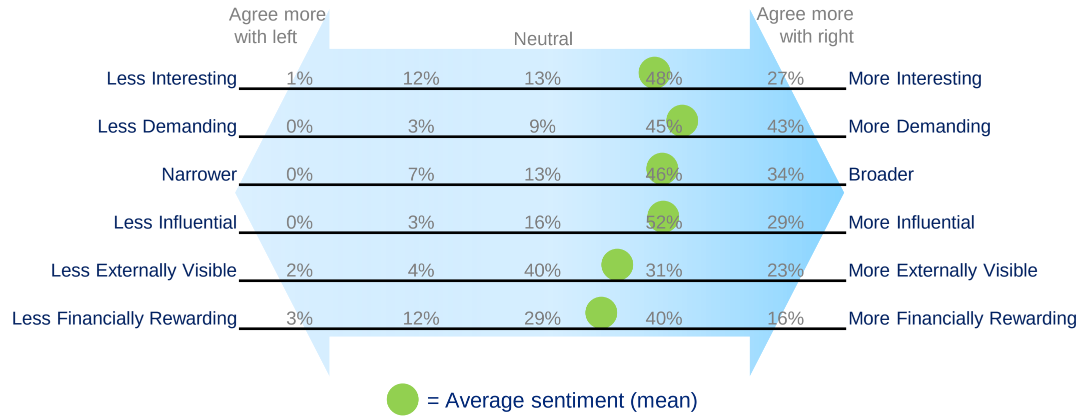
We know from previous surveys that the roles and focus of CFOs and finance organizations have been changing over the past few years. But how do top CFOs view these changes?

On the whole, it appears that CFOs believe the role has become more demanding, broad, visible, and influential. Fortunately, it also appears to have become more interesting and better compensated in most (but not all) industries.

- **More interesting**: Three fourths of all CFOs say their role has become more interesting. This is least true within Retail/Wholesale and Technology where only about half of CFOs report more interesting work.
- **More demanding**: Nearly 90% of all CFOs say their role has become more demanding. Energy/Resources CFOs report the lowest increase in work demands, and nearly 90% of Technology CFOs say demands have risen markedly.
- **More broad**: Some 80% of CFOs say their role has become broader, with Services and Retail/Wholesale reporting the least impact. More than half of Manufacturing and Healthcare/Pharma CFOs report marked increases.
- **More influential**: Just over 80% of CFOs say their influence has expanded, especially within Manufacturing and Healthcare/Pharma.
- **More visible**: Almost 55% of CFOs say their external visibility has risen. More than two thirds of CFOs from Manufacturing and Retail/Wholesale report higher visibility.
- **Better compensated**: Just over 55% of CFOs say their jobs have become more financially rewarding. Approximately 80% of Manufacturing and Retail/Wholesale CFOs report better financial rewards, but 40% or less of CFOs from Technology, Financial Services, and T/M/E report this.

Changes in CFO Role, Past 3 Years

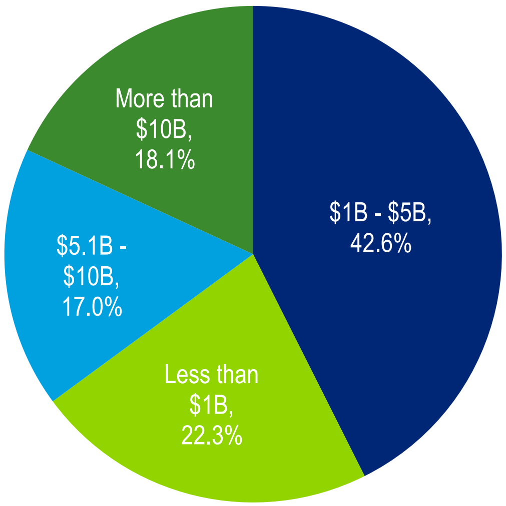
Distribution and mean of CFO sentiments



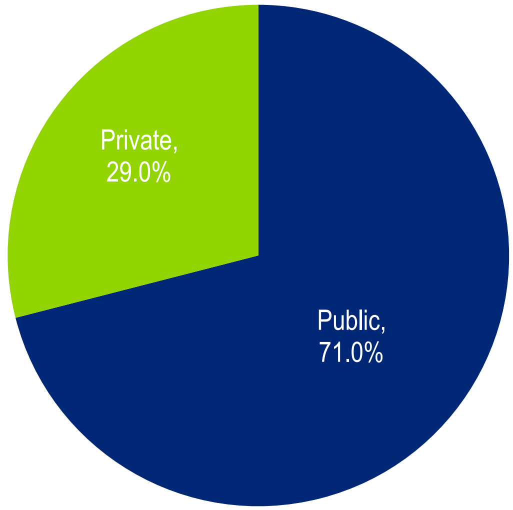
Please see Appendix for industry-specific findings.

Demographics

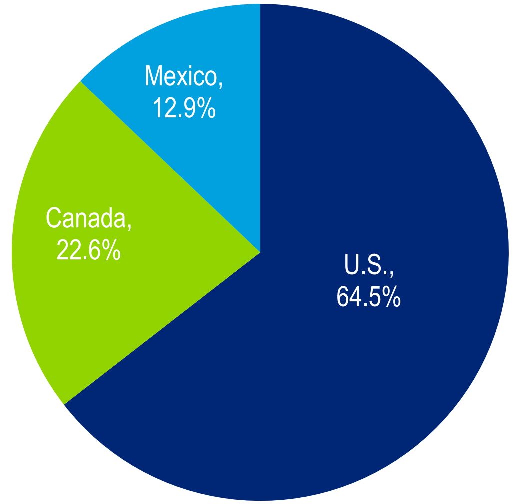
Annual Revenue ($U.S.)
(n=94)



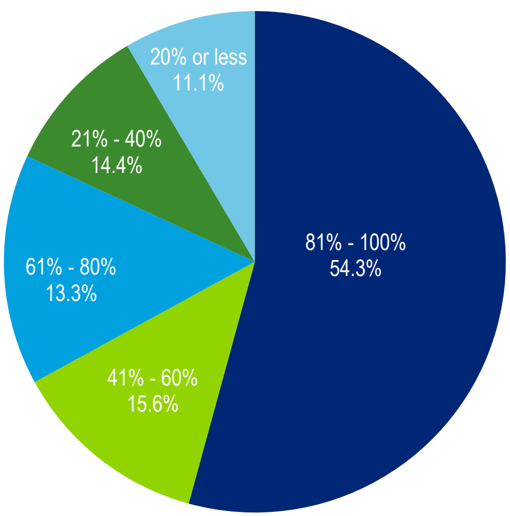
Ownership
(n=93)



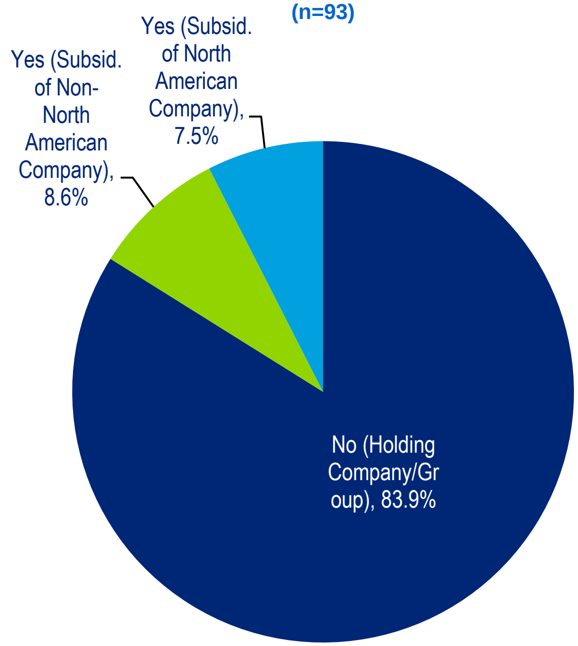
Country
(n=93)



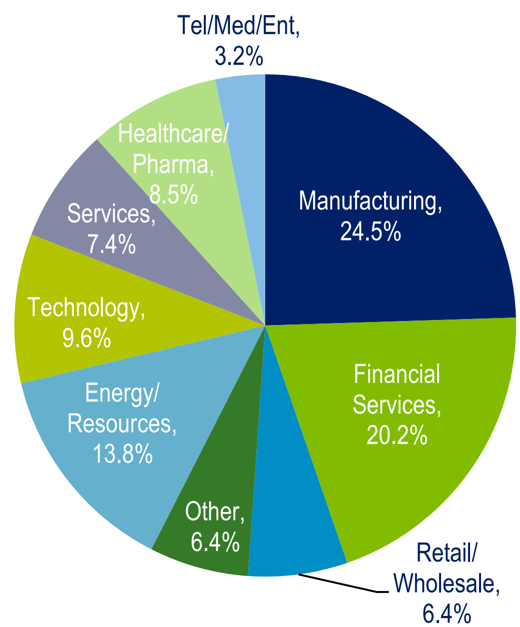
Revenue from North America
(n=94)



Subsidiary Company
(n=93)



Industry
(n=94)



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 30 days 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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