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

High-Level Report

3rd Quarter 2013

CFO Signals

About the CFO Signals survey

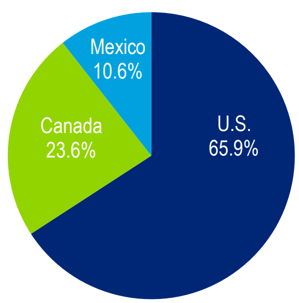
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This is the third quarter report for 2013.

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

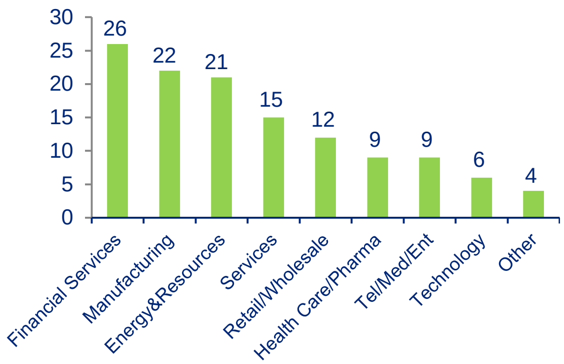
Who participated this quarter?

One hundred and twenty-four CFOs responded during the two-week period ending August 23. Seventy-three percent of the respondents are from public companies, and 77% are from companies with more than $1B in annual revenue.

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.

This publication contains general information only, and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, tax, legal, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decisions that may impact your business, you should consult a qualified professional advisor.

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

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

Findings at a Glance

Business Environment

Which external factors will most spur and impede companies' performance over the next year? North American economies are the top tailwind and also a top headwind. Top impediments center heavily on government regulation and spending. **Page 8.**

How do CFOs regard the current and future health of some of the world's major economies? CFOs are still feeling reasonably good about North America, but expectations for Europe are low, and expectations for China have fallen. Nearly 38% rate North America's economies as more good than bad (up from 30%), and more than half expect the economy to be stronger in a year. By comparison, only 26% regard China's economy as good, and just 27% expect it to be better in a year; the numbers are 3% and 14% respectively for Europe. **Page 9.**

Company Priorities and Expectations

What is the business focus for companies over the next year? Companies still appear very focused on growth, but more appear to be reassessing their strategies. The vast majority of CFOs say their companies are focused on pursuing opportunity over limiting risk, and much more on growing and scaling than on contracting and rationalizing. Notable this quarter is an increasing bias toward planning over execution and toward direct-cost-reduction over indirect-cost-reduction. **Page 10.**

Are companies planning to grow through M&A? Companies are split when it comes to M&A as a growth vehicle. For the half of CFOs who expect significant deals, the primary drivers are their perception of good growth opportunities domestically and abroad, and also their desire to augment organic growth. The half who do not expect deals say that they believe organic growth options are better, that they prefer to rely on internal innovation, and that they do not see good values in the M&A marketplace. **Page 11.**

How do companies expect performance, spending, and hiring to change over the next 12 months? Growth and profitability expectations fell substantially this quarter, with sales growth expectations falling to just 5.0%* (well below the 7% long-term average) and earnings growth hitting a new low at just 8.0%* (well below the 12.3% historical average). Capital spending growth expectations fell sharply to just 4.9%*, and domestic hiring growth expectations declined to 1.3%*. **Pages 12-14.**

Company Priorities and Expectations (continued)

How does CFOs' optimism regarding their companies' prospects compare to last quarter? CFO optimism has been high throughout 2013 and remains high this quarter – bucking a trend that typically sees a steep drop in the second and/or third quarters each year. Forty-two percent of CFOs express improved optimism about their companies' prospects, and 24% express declining optimism. **Page 15.**

Overall, what external or internal risk is of most concern? CFOs' chief worries again center on lack of longer-term economic improvement and on the impact of government actions on economic recovery. Worries about industry-specific regulation grew, concerns about Washington gridlock returned, and new worries emerged about the effects of geopolitical events on economic growth. Industry- and company-specific concerns rose this quarter as well, especially around industry-specific regulation and margin pressures. **Page 16.**

Personal Priorities

How do CFOs distribute their time across their CFO roles? CFOs are spending the most time in their "strategist" role and have recently shifted back toward their "operator" role. **Page 17.**

What roles do CFOs play in their companies' strategic decisions? CFOs indicate an increasing voice in strategic decisions – especially around "corporate" or "cross-unit" decisions. When CFOs claim a lesser voice in a particular type of decision, it is usually because they are instead leading the decision-making process and presumably providing objective rather than subjective insight. **Page 18.**

How do CFOs interact with their CEOs, and how do they feel about a CEO career path? CFOs are working closely with their CEOs around strategic decisions, with the vast majority saying they have good access to their CEOs and serve as strategic sounding boards. Only about 40% say they would like to be their CEO's successor, and only about 40% of these believe they will actually be their company's next CEO. More than 60% of these CFOs believe their CEO would endorse them now for a CEO role outside their company. **Page 19.**

What are CFOs' best insights for building strong relationships? CFOs' overarching advice is to serve as the CEO's right hand, to add value to the business, and to communicate effectively and often. The most common words CFOs mentioned were "communicate," "align," "trust," and "honest." **Page 20.**

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

Summary

Adjusting to a "fits and starts" economic recovery

Our last CFO Signals survey showed that CFOs were feeling better than they had in a while – especially relative to a year prior. And the good news is that their optimism has largely carried over to this quarter, bucking a trend that typically sees a precipitous drop in the second and/or third quarters.

A key reason for continued optimism is that most companies represented in the survey derive a very large proportion of their earnings from North America, and this region's economy continues to be the relative bright spot. While North American economies are not strong by historical standards, both their current status and their near-term trajectories compare favorably to European economies that remain near recession and major emerging markets that are facing slower growth.

Those other economies, however, are giving CFOs pause. While Deloitte's economists hold that global economic conditions are improving, albeit in fits and starts, recent volatility fueled by prospective changes in U.S. monetary policy, a new monetary policy in Japan, instability in China's banking system, and unfolding events in Syria, has clearly taking its toll: this quarter, CFOs' expectations for year-over-year sales, earnings, investment, and hiring are among the worst we have seen.

What is a bit different (and perhaps encouraging) this quarter is that a rising number of companies appear focused on reassessing and adapting their strategies, and also on reducing direct costs – suggesting they may be making longer-term strategy adjustments to account for ongoing volatility in a "fits and starts" economic recovery.

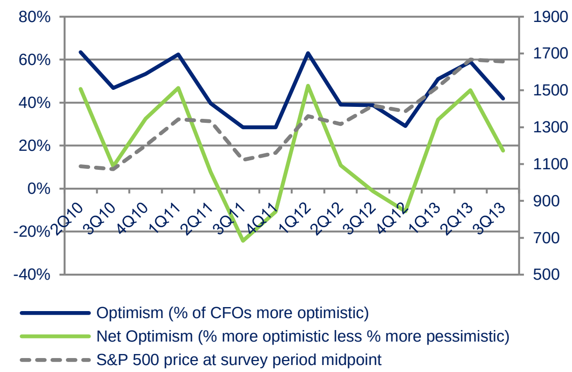
Optimism – amid conservatism and caution

CFO optimism has been high throughout 2013 and remains high this quarter. Forty-two percent of CFOs express improved optimism about their companies' prospects, and 24% express declining optimism.

But you would not know CFOs are optimistic by looking at their year-over-year expectations. At just 5.0%*, sales growth expectations are the lowest in a year, and just 78% of CFOs expect gains – the lowest in three years. Earnings growth expectations are similarly cautious at just 8.0%*, also matching their three-year low.

Own-Company Optimism

CFO optimism relative to previous quarter



Since the 2Q13 survey…

- Expectations that U.S. Fed will taper bond purchases fueled rising interest rates
- S&P 500 rose 3% and hit a historic high, but receded to 0.7% below last quarter
- Eurozone economy improved, but problems in China and Syria emerged
- U.S. housing market improved and consumer sentiment rose

These falling expectations are taking a large toll on companies' investments. After two stronger quarters above 7%, capital spending growth expectations fell sharply to just 4.9%* (the U.S. is the relative bright spot at 6.4%). And after peaking at 2.4% last quarter, domestic hiring growth expectations returned to a ho-hum 1.3%*.

But recognition of a tough global economic environment and muted expectations do not mean companies have become passive. The vast majority of CFOs still say their companies are focused on pursuing opportunity over limiting risk, and much more focused on growing and scaling than on contracting and rationalizing.

The path to growth

Companies are largely aligned on where they are placing their growth bets. Seventy percent of CFOs say economic growth in North America is a top growth engine – more than twice the level of all the other markets combined. Nearly 38% rate the region's economic health as more good than bad (up from 30%), and just 9% rate it as more bad than good. Moreover, more than half expect the economy to be stronger in a year, and just 2% expect it to be worse. By comparison, only 26% regard China's economy as good, and just 27% expect it to be better in a year; the numbers are 3% and 14% respectively for Europe.

***** All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.
+ Note that net optimism, as calculated, does not explicitly account for the level of "no change" responses.

Summary (cont.)

Companies are less aligned when it comes to M&A, evenly split in its role in their growth plans. When they do plan to utilize it, the driving reasons are the perception of good growth opportunities and the need to augment organic growth. When they plan to forego M&A, it is not because companies do not see good domestic and foreign growth opportunities, but rather because they believe organic growth options are better, because they would rather rely on internal innovation, or because they do not see good values in the M&A marketplace.

Pressures at all levels

Consistent with previous quarters, CFOs' chief worries center on lack of longer-term economic improvement in North America, Europe, and Asia, and on the impact of government actions on economic recovery. Concerns regarding fiscal and environmental policy actually declined, but worries about industry-specific regulation continued to grow, concerns about Washington gridlock returned, and new worries about the effects of geopolitical events on economic growth emerged – even before conditions in Syria became front-page news.

Industry- and company-specific concerns rose this quarter as well. CFOs again express frustration around the direction and clarity of industry-specific regulation. And a rising proportion expresses concerns around industry dynamics – especially margin pressures as price competition heats up and as companies struggle to align costs with flat or declining revenue.

CFOs as strategists…and as future CEOs

As companies have continued to adapt to volatility, CFOs have voiced an increased role in strategic decisions and stronger relationships with their CEOs. This quarter's findings provide a view into what CFOs are actually doing to affect both changes.

CFOs clearly indicate an increasing voice in strategic decisions – especially "corporate" or "cross-unit" decisions, such as deciding which industries to enter and exit and which businesses to grow and shrink.

And when CFOs claim a lesser voice in a particular type of decision (such as where to focus cost-reduction efforts), it is usually because they are instead leading the decision-making process and presumably providing objective rather than subjective insight.

It is also clear that CFOs are working closely with their CEOs around strategic decisions. The vast majority say they have good access to their CEOs and boards and serve as strategic sounding boards. Their best pieces of advice for building a strong relationship with a CEO: serve as the CEO's right-hand, add value to the business, and communicate effectively and often. (See page 23 for a summary of their specific suggestions.)

CFOs' views are mixed when it comes to a future CEO role, with only about 40% saying they would like to be their CEO's successor. Only about 40% of these CFOs believe they will actually be their company's next CEO, but more than 60% believe their CEO would endorse them now for a CEO role outside their company.

What's next?

CFOs worsening expectations for key measures, such as sales, earnings, capital investment, and hiring are certainly a cause for concern. Add to this marked uncertainty around governments' future responses to slow economic growth and geopolitical events, and it is difficult to see the pace of recovery quickening anytime soon.

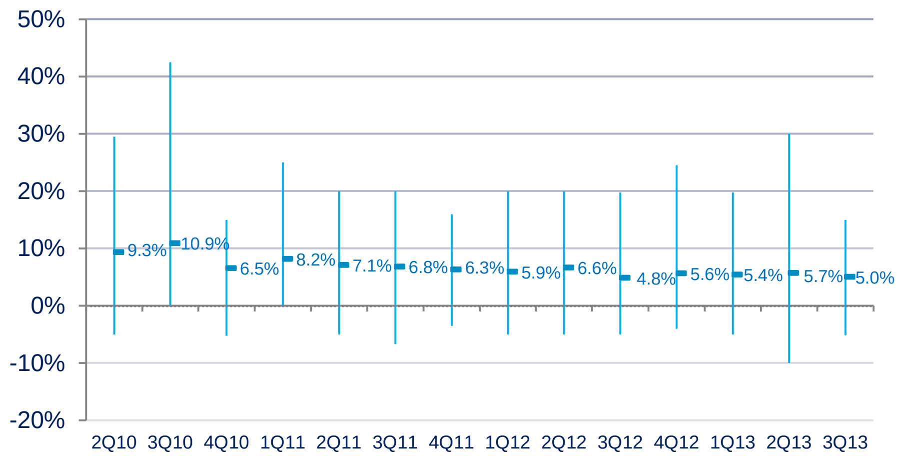
But companies are clearly not standing still. Large companies have fared quite well through very tough circumstances in the recent past, and CFOs' continued optimism suggests they are confident in their ability to make further adjustments. This quarter's findings seem to indicate another period of strategy re-work, and recent news of very large corporate M&A deals and strategic shifts seems to bear this out.

Whatever events unfold at global and national levels, it seems the ability to adjust well to both the "fits" and "starts" may differentiate the long-term prospects of companies across industries and geographies.

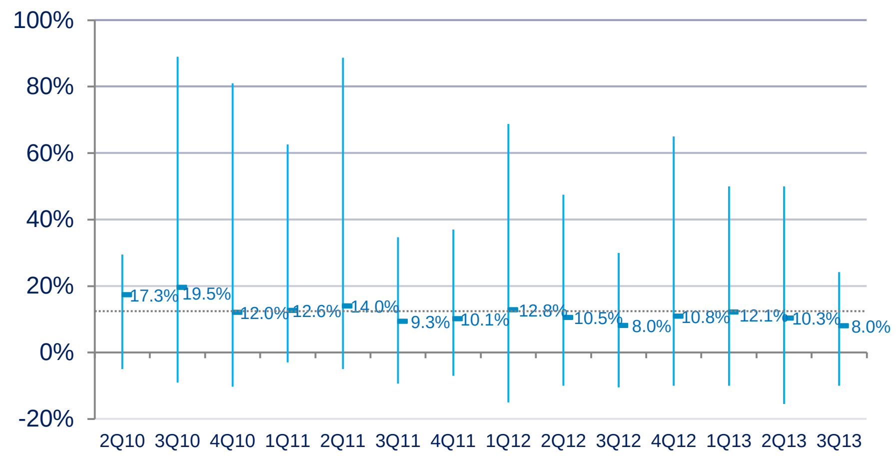
Growth Trends

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

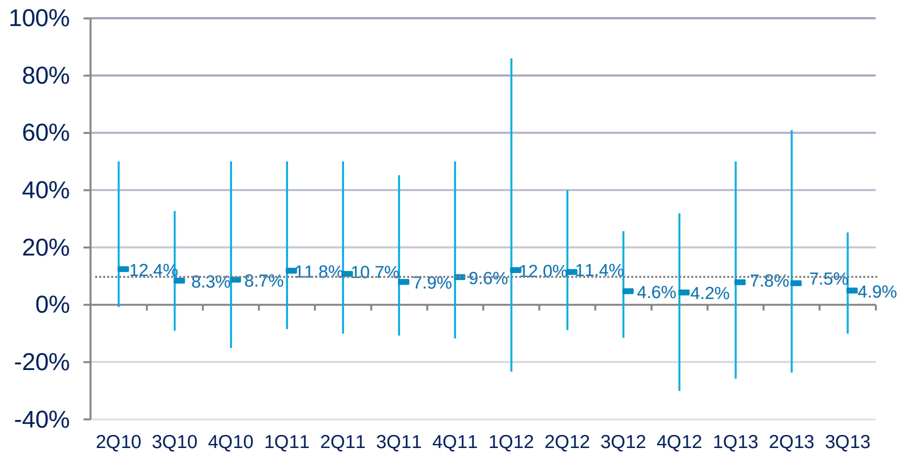
Sales Growth



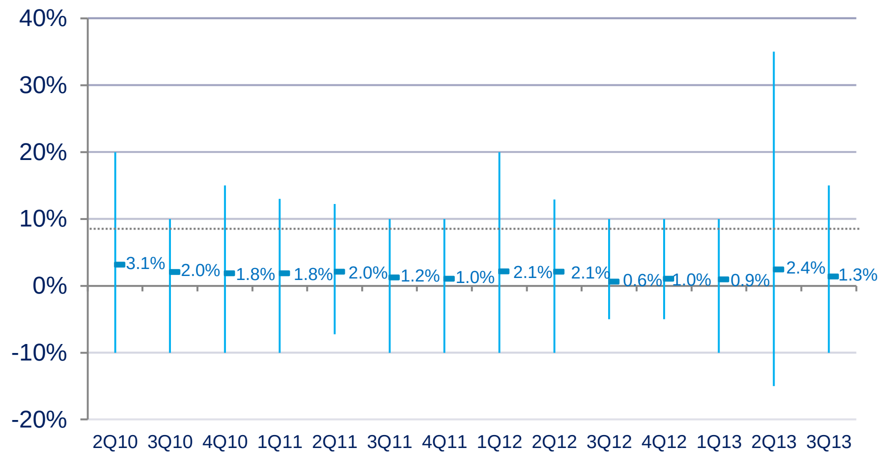
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



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

Growth Trends

CFOs' Year-Over-Year Expectations

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

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	Average*
Operating Results	Sales	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%	4.8%	5.6%	5.4%	5.7%	5.0%	6.7%
		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%	5.5%
		84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%	84%	78%	83%
	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%	12.0%
		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%	8.6%
		89%	93%	80%	83%	83%	82%	84%	79%	81%	84%	76%	84%	83%	82%	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%
		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%	35%
	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%	8.7%
		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%	4.6%
		62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%	57%	54%	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%	1.7%
		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%	0.8%
		50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%	46%	47%	50%
	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%	3.0%
		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%	0.2%
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%	36%	33%	41%
	Use of offshore/outsourced third parties	2.9%	1.4%	2.8%	2.2%	2.2%	3.1%	3.7%	2.5%	3.6%	1.6%	2.3%	2.6%	2.3%	1.9%	2.5%
		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%
		35%	37%	32%	41%	31%	36%	49%	26%	30%	28%	28%	35%	31%	38%	34%

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

Business Environment

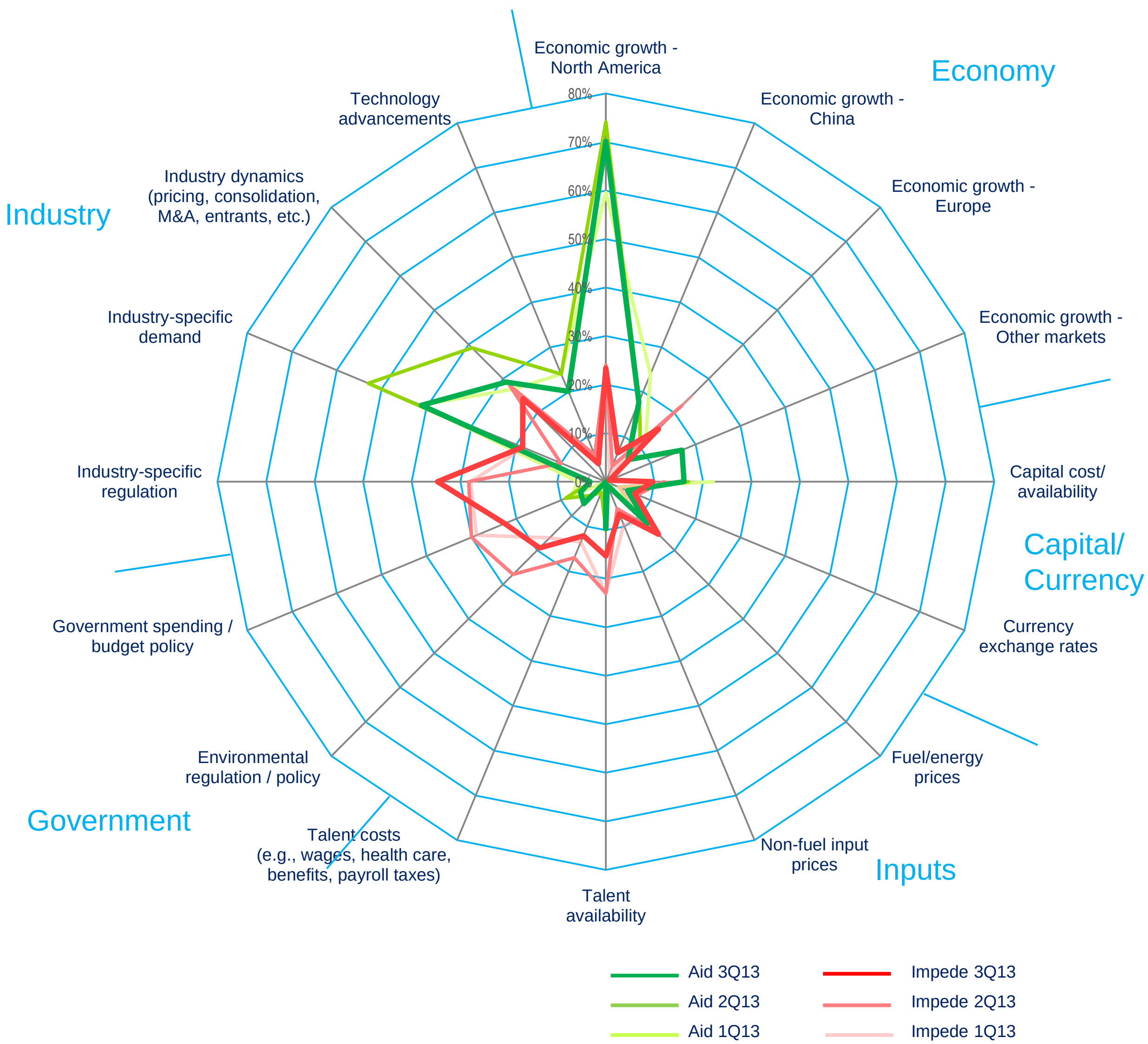
Top aids and impediments to growth

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

North American economies are the top tailwind and also a top headwind; impediments center heavily on government regulation and spending:

- ***The state of the North American economies*** *is again the top growth aid—and one of the top impediments. Overall, about15% of CFOs name this factor both a top aid and top impediment, and within Retail/Wholesale, nearly half of CFOs do so.*
- ***The state of the Chinese economy*** *is a top aid for 18% (same as last quarter), and Europe's economy is behind at just 6%.*
- ***Industry-specific demand*** *is a top aid for 40% (down from last quarter), driven mostly by positive sentiment in Financial Services and T/M/E. Technology CFOs are more likely to name this factor a top impediment.*
- ***Industry dynamics*** *are a positive factor for 29% of CFOs overall (39% last quarter) and a negative factor for 24%. Retail/Wholesale and Technology CFOs are the most positive, and Healthcare/Pharma and T/M/E are the most negative.*
- ***Industry-specific regulation*** *is the top impediment, cited by 35% of CFOs (28% last quarter). About 75% of Financial Services CFOs and 65% in Healthcare/Pharma name it a top impediment.*
- ***Government spending/budget policy*** *is a top impediment for 23% of CFOs overall (down from 30%) and for 90% of those in Healthcare/Pharma.*

External Factors' Influence on Company Performance
Percent of CFOs naming each factor in their top three growth aids/impediments



Business Environment

Assessment of economies

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

Similar to last quarter, CFOs are feeling reasonably good about North America. But expectations for Europe are still low, and expectations for China have fallen substantially:

North America:

- Overall, 53% of CFOs say the status of the North American economies is mediocre (60% last quarter), and 38% describe it as good (30% last quarter). U.S., Canada, and Mexico are similar in CFO sentiment.
- About 55% of CFOs believe conditions will be better a year from now, with Mexico the most optimistic. Just 2% believe conditions will be worse, and 43% say they will be the same.

Europe:

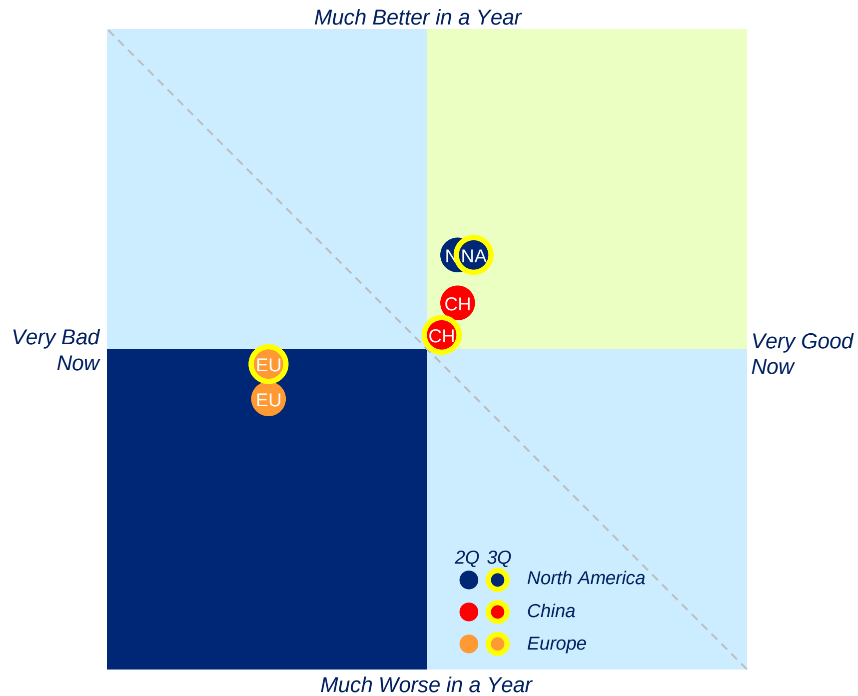
- About 80% of CFOs say the status of Europe's economy is bad, an improvement from last quarter's 90%.
- Less than 15% of CFOs believe the economy will be better a year from now, and about 30% believe it will be worse (an improvement from 40% last quarter).

China:

- Overall, about 25% of CFOs say China's economy is good (down from 35% last quarter), and 15% again regard it as bad.
- Twenty-seven percent of CFOs believe the economy will be better a year from now (down from 37% last quarter), and 23% believe it will be worse (up from 10% last quarter).

Status and Trajectory of Economies

CFOs' assessment of where economies currently stand and where they will be in a year



Region	Percent Optimistic* 2Q13	3Q13
North America	65%	67%
Europe	14%	14%
China	53%	37%

* Refers to the percentage of respondents whose answer places them above and to the right of the dotted line in the top chart.

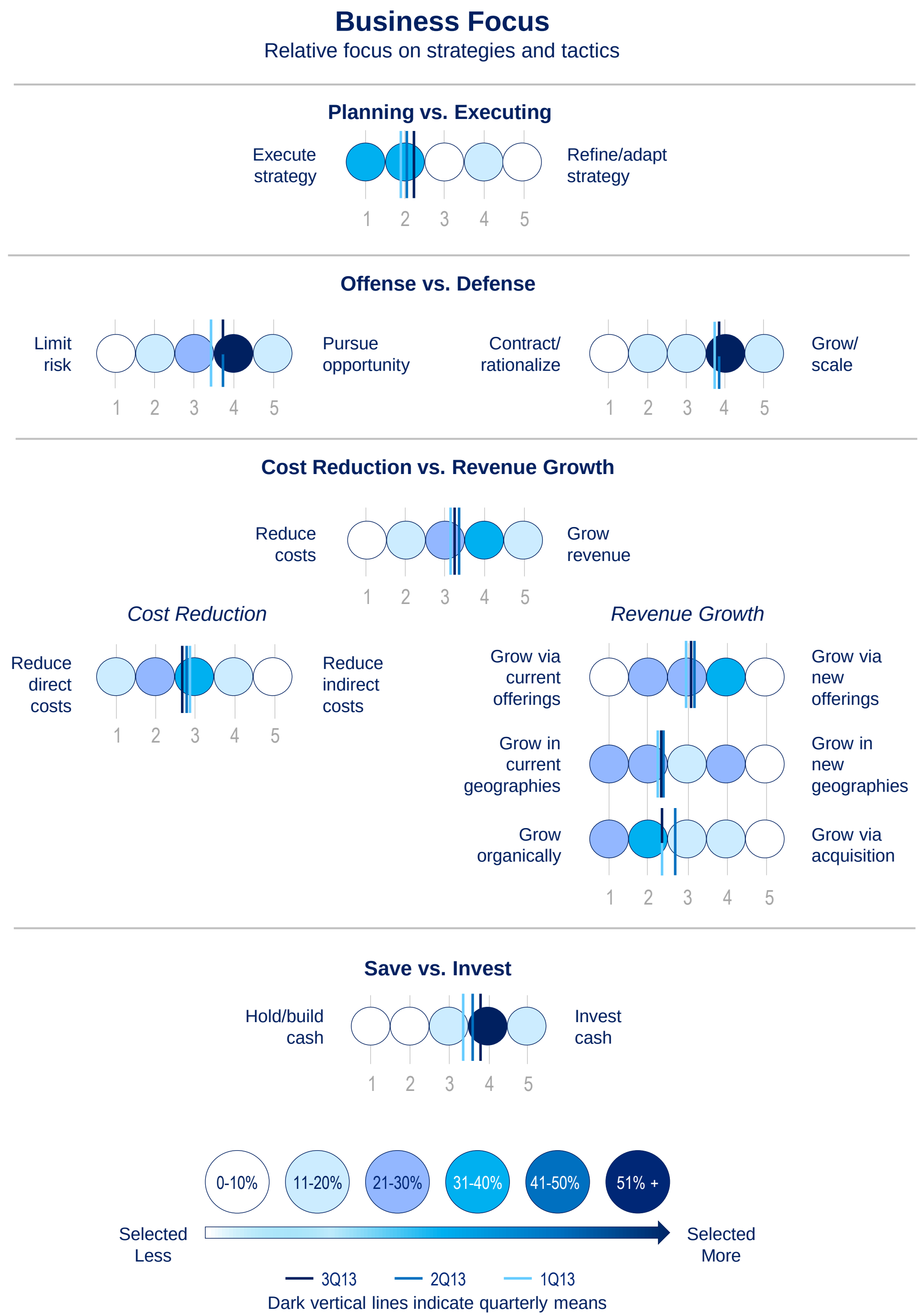
Company Priorities

Business focus

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

Companies still appear very focused on growth, but a rising number appear to be reassessing their strategies for achieving it:

- **Executing over planning (rising focus on planning)**: The cross-industry bias is still toward executing strategy, but Technology and Energy/Resources have shifted toward refining/adapting it.
- **Offense still over defense (wide margin)**: Companies mostly appear on the offensive, with "pursuing opportunity" again well ahead of "limiting risk," and "growing/scaling" again well ahead of "contracting/ rationalizing." Energy/Resources is the most biased toward limiting risk.
- **Revenue over cost (unchanged)**: The bias is again toward revenue growth, with relatively small differences across industries. Energy/Resources is again the most cost-focused.
- **New offerings over current offerings (slightly)**: The bias is again slightly toward new offerings, led by Technology and T/M/E.
- **Current geographies over new geographies**: The bias is still substantially toward current geographies—likely driven by respondents' heavy reliance on the North American markets and the region's comparative economic health. No sectors are biased toward new geographies.
- **Organic growth over inorganic growth (less M&A)**: The bias is still toward organic growth over M&A. Healthcare/Pharma is again the most oriented toward M&A, but less so than in previous quarters.
- **Direct-cost reduction over indirect-cost reduction (increasing)**: T/M/E leans the most toward direct-cost reduction, and Healthcare/Pharma is biased slightly toward indirect costs.
- **Investing over saving (widening)**: Cash still appears to be in sufficient supply, with companies biased substantially toward investing it over holding/building it. There is substantial variability by industry, but only T/M/E shows a substantial focus on holding/building cash.



Company Expectations

Growth through M&A

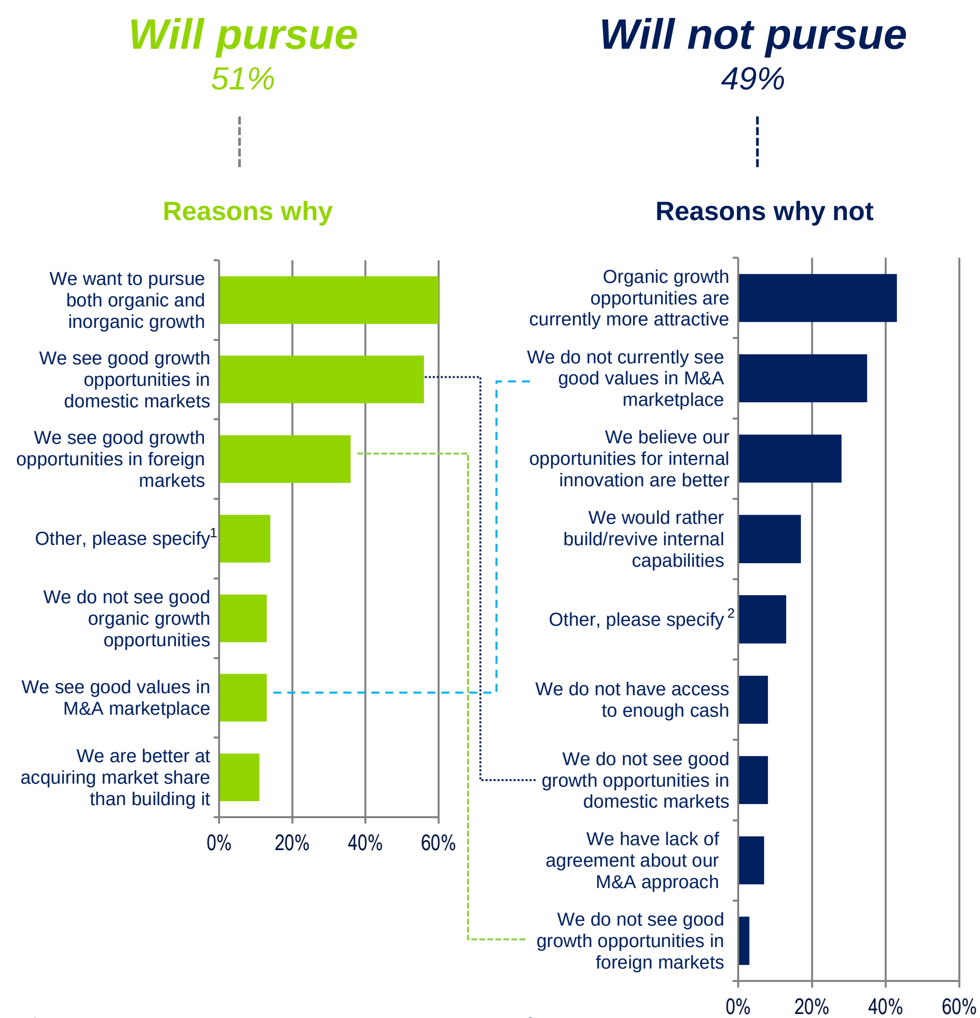
In pursuit of growth, are companies expecting significant deals over the next year…and why?

Although most companies see substantial growth opportunities, they are split when it comes to the best way to pursue them:

- **About half of CFOs expect significant deals:** The driving reason is certainly *not* the perception of good deals in the M&A marketplace (in fact, this factor ranked dead last). Instead, the impetus is the perception of good growth opportunities domestically (in all sectors except T/M/E, Energy/Resources, and Healthcare/Pharma) and abroad (especially in Technology and Services), and companies' desire to augment organic growth. Retail/ Wholesale is the most aggressive overall with two-thirds of CFOs expecting deals.
- **About half do not expect significant deals:** Their reason is not that they do not see good domestic and foreign growth opportunities. Rather, they believe organic growth options are better (especially in Technology), they prefer to rely on internal innovation (especially in T/M/E), and they do not see good values in the M&A marketplace (especially in Healthcare/Pharma and Financial Services).

M&A Deals Expectations

Whether or not CFOs expect to pursue significant M&A deals and why



[1] Other:
- Adding complementary assets and services for scale
- Deleveraging
- Excess capital - need to drive better ROE
- Keep up with scale and synergy standards of industry
- Pursuing industry growth outside of current market
- Finding short term revenue to offset long term projects
- Add new product offerings; augmenting internal R&D
- Technology expansion
- Rationalizing portfolio

[2] Other:
- Focused on divesting non-core businesses
- Focused on internal restructuring & repurchase of shares
- Regulation inhibits options
- Integrating recently-completed acquisitions
- High risk option with few logical targets at reasonable price
- Integrating significant deals done over last few years
- Pending merger

Company Expectations

Sales and earnings

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

Sales:*

Sales growth expectations declined notably—driven mostly by falling expectations in the U.S.:

- Sales are expected to rise 5.0% overall (the lowest level in a year); the median is again 5%, with just 78% of CFOs expecting year-over-year gains (the lowest in three years).
- Country-specific expectations are 4.7% for the U.S. (5.5 % last quarter), 5.6% for Canada (4.9 % last quarter), and 5.7% for Mexico (8.3 % last quarter).
- Expectations for most industries are close to the cross-industry mean, but Technology and Healthcare/Pharma cite much lower expectations this quarter.

Earnings:*

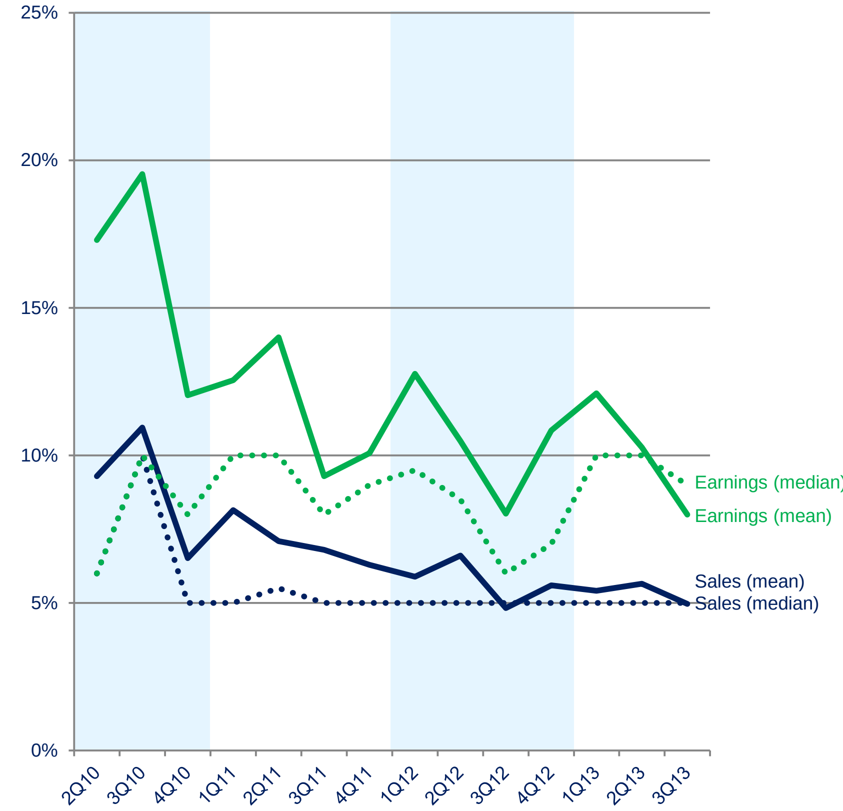
Earnings growth expectations match the lowest in more than three years:

- Earnings are expected to rise 8.0%, matching the previous survey-low from a year ago; the median fell to 9%, and 82% of CFOs expect year-over-year gains.
- Country-specific expectations are 7.9% for the U.S. (10.3% last quarter), 9.9% for Canada (8.0 % last quarter), and 5.5% for Mexico (14.4% last quarter).
- Technology and Healthcare/Pharma are comparatively pessimistic.

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

Sales and Earnings*

Expected change year-over-year



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

Company Expectations

Dividends and investment

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

Dividends:*

Dividend growth expectations declined after a strong quarter, but are still among recent highs:

- Dividends are expected to rise 3.4%, well off last quarter's high and below the longer-term average. The median is still 0%, and 39% of CFOs expect year-over-year gains.
- Country-specific expectations are 3.2% for the U.S. (3.9% last quarter), 5.1% for Canada (1.5% last quarter), and 1.5% for Mexico (14.6% last quarter, but note that the sample sizes have been relatively low).
- Manufacturing and Energy/Resources bolstered the average at roughly 5%.

Capital investment:*

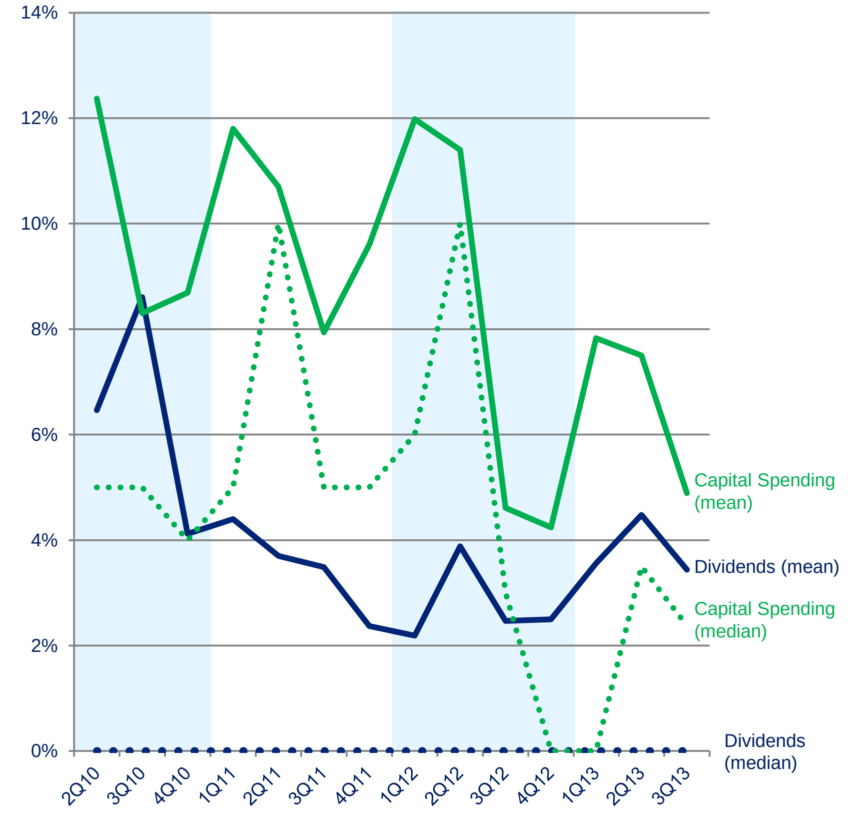
Capital spending growth expectations fell sharply after two stronger quarters:

- Capital spending expectations declined to 4.9% following two quarters above 7.5%. The median fell to 2.4%, and 54% of CFOs expect year-over-year gains.
- Country-specific expectations are 6.4% for the U.S. (7.6% last quarter), 4.1% for Canada (5.5% last quarter), and -1.8% for Mexico (11.5% last quarter).
- Expectations declined substantially in all sectors except Technology and Healthcare/Pharma (note that these are the sectors with the lowest revenue and earnings expectations).

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

Investments*

Expected change year-over-year



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

Company Expectations

Employment

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

Domestic hiring:*

Expectations consolidated this quarter with all countries citing comparatively modest expectations:

- Domestic hiring is expected to rise 1.3%—well below last quarter's peak, but still above most recent quarters. The median is again 0%, but this quarter's variability of responses is much lower than last quarter's. Forty-seven percent of CFOs expect year-over-year gains (comparatively high), and 22% expect cuts (comparatively low).
- Country-specific expectations are 1.1% for the U.S. (1.3% last quarter), 2.1% for Canada (5.4 % last quarter), and -0.8% for Mexico (5.5% last quarter).
- Energy/Resources, T/M/E, and Healthcare/Pharma are the comparative bright spots at between 3% and 4%. Technology and Services both expect declines.

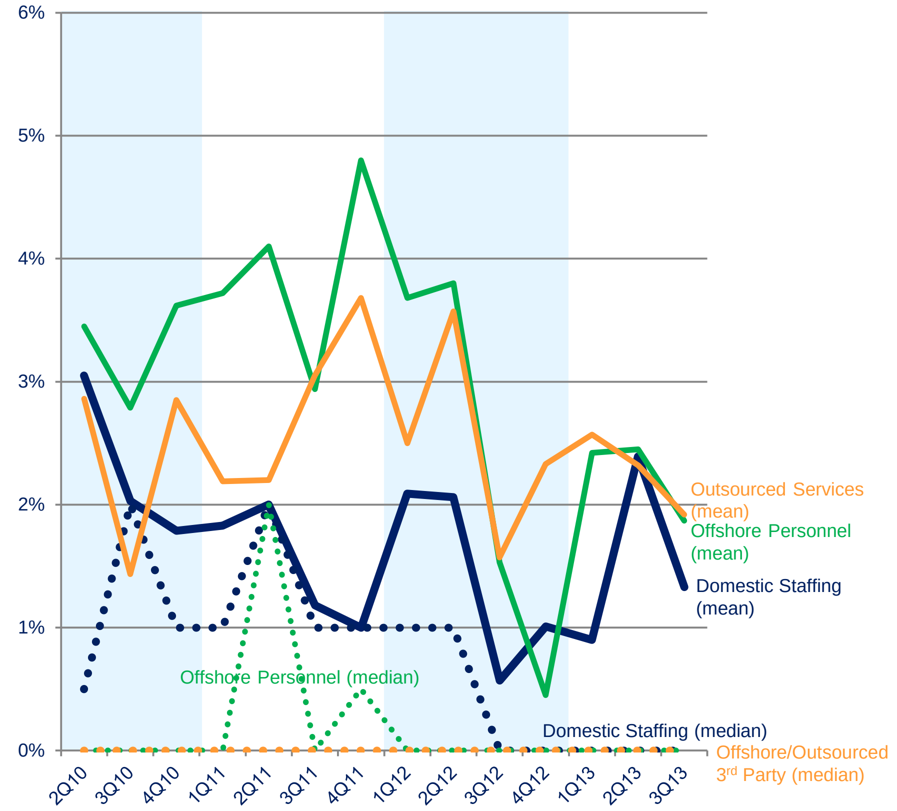
Offshore hiring and outsourcing:*

Offshore hiring growth expectations declined, but stayed above 4Q12's survey low; outsourcing is still relatively weak:

- Offshore hiring fell to 1.9%—well below the longer-term average of about 3%—with 33% of CFOs expecting year-over-year gains, and just 5% expecting cuts. Technology fell sharply, but is again highest at about 4%; Services posted a sharp increase after several very low quarters.
- Outsourcing is expected to rise 1.9%, below expectations over the last three quarters. The median is again 0%, with 38% of CFOs expecting gains (the highest in three years) and 10% expecting cuts (relatively high). For the third quarter in a row, Healthcare/Pharma and T/M/E are among highest; Technology is lowest and expects a decline.

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

Employment*
Expected change year-over-year



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

Company Expectations

Own-company optimism

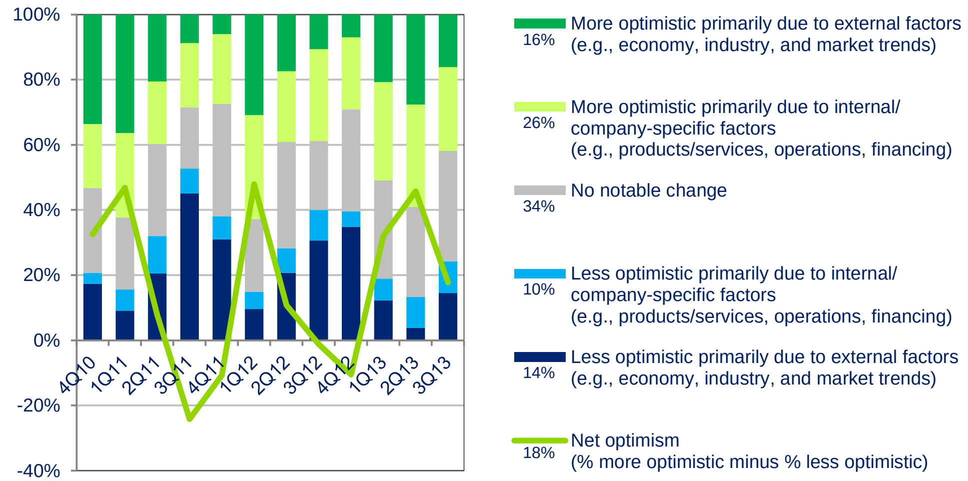
How do CFOs feel about their company's prospects compared to last quarter?

Except for the Technology and T/M/E sectors, CFOs remain upbeat about 2013:

- **Still mostly optimistic:** Net optimism has been high for all of 2013, bucking a trend that typically sees optimism drop sharply in the second and third quarters. Although not as high this quarter, net optimism is still a strong +18—a particularly positive result given that this measure is relative to sentiment the previous quarter. Forty-two percent of CFOs express rising optimism, and 24% express rising pessimism.
- **U.S. and Canada upbeat**: Net optimism for Canadian CFOs is highest at +35, with the U.S. next at +16. Mexico trails at zero.
- **Technology and T/M/E overwhelmingly pessimistic:** CFOs in both sectors are overwhelmingly pessimistic about their companies' prospects. Energy/Resources and Retail/Wholesale are the most optimistic.

Own-Company Optimism

Net optimism and causes of rising/falling optimism



Company Expectations

Most worrisome risks

Of all the internal and external factors that compete for CFOs' attention, which are most worrisome?

Worries center on lack of longer-term economic improvement in North America, Europe, and Asia, and on the impact of government actions on economies and industries:

- **Geopolitics**: New worries emerged that geopolitical events will further stifle global growth.
- **Input and resource prices**: Focus increased on commodity, oil, and energy prices, especially in Energy/Resources.
- **Interest-rate movement**: Worries grew about the direction of interest rates (both up and down), especially in Financial Services.
- **Government gridlock**: Having mostly disappeared recently, worries about the ability of governments to improve economic conditions rebounded.
- **Irrationality**: Concerns grew that slow growth and waning demand might lead to irrational competition.
- **Margin pressures:** Concerns escalated about competition, pricing, and the ability to align costs with revenue.
- **Execution**: Worries returned around companies' ability to execute well on current and new strategies.

U.S. economy
Consumer demand/confidence
Chinese/Asian economies
U.S. unemployment
European economy
World economic recovery/growth
Low interest rates
Geopolitical risks
Rising interest rates
Run-up/crash of U.S. equities
Inflationary factors
Regulatory intervention/expansion in industry
Lack of regulatory clarity
Health care policy
Government spending/budget/deficit
Tax policy
Inability of Washington D.C. to get things done
Long-term impact of U.S. Fed actions
Government policy impacts on economy
Defining right strategic plans
Competition/pricing/overcapacity
Strong execution of plans/strategy
Restructuring/integration
Cyber-security
Ability to align costs with revenues
Ability to raise capital for growth
Demand for our solutions
Managing integration / M&A
Bench strength / succession
Skilled staff availability
Impact of technology on industry

***Light gray text** indicates worries that completely or nearly disappeared this quarter.*
***Underlined text** indicates worries that did not appear last quarter.*

Personal Priorities

Division of Time

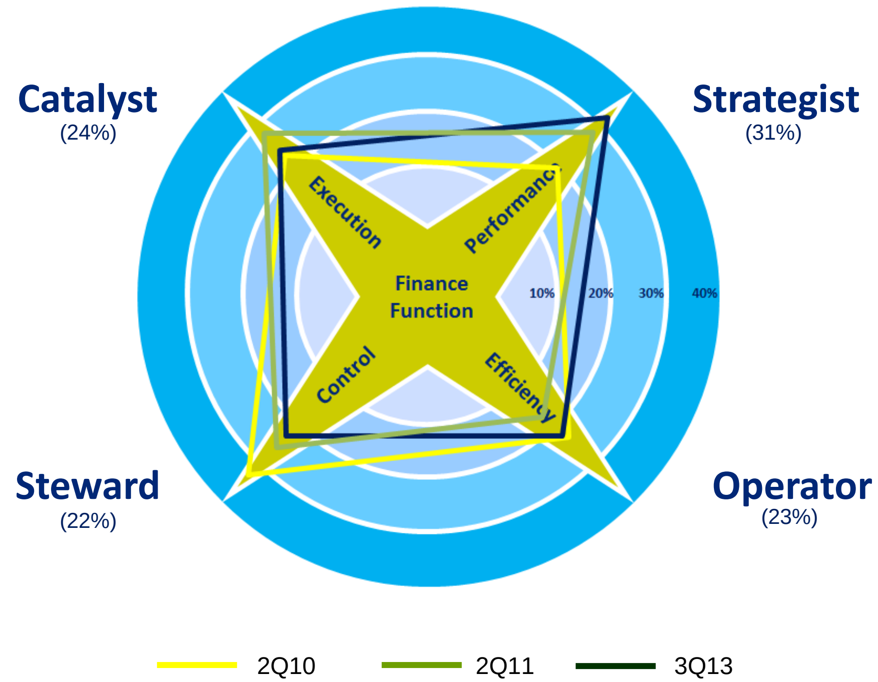
How do CFOs interact with their CEOs, and how do they feel about a CEO career path?

CFOs are spending most of their time in their "strategist" role and have recently shifted back toward their "operator" role:

- **Time spent as a strategist* remains high**: Thirty-one percent of CFOs' time is spent working as a driver of strategy. CFOs from Energy/Resources tend to spend the most time as strategists, while those in Technology, T/M/E, and Services spend the least.
- **Time spent as an operator* has rebounded since 2011**: Twenty-three percent of CFOs' time is spent focused on finance organization's efficiency and service levels/effectiveness. Retail/Wholesale and Healthcare/Pharma CFOs spend the most time as operators, and Energy/Resources CFOs spend the least.
- **Time spent as a catalyst* has declined**: Twenty-four percent of CFOs' time is spent working as an agent for change. CFOs from T/M/E and Technology spend the most time in this role, and those from Retail/Wholesale and Financial Services spend the least.
- **Time spent as a steward* has continued to fall**: Twenty-two percent of CFOs' time is spent overseeing accounting, control, risk management, and asset preservation. Services CFOs spend the most time in this role and Healthcare/Pharma CFOs spend the least.

CFOs' Division of Time

Allotment of time CFOs actually spend in each of their four roles



Personal Priorities

CFOs as strategists

What roles do CFOs play in their companies' strategic decisions?

CFOs' most active roles revolve around "corporate" or "cross-unit" decisions, but they have a voice in almost every type of decision:

Voice in decisions:

- For all types of strategic decisions, more than half of CFOs say they have a voice in the final decision.
- CFOs tend to have their most consistent voice around "which industries to enter/exit" and "which businesses to grow/shrink."
- When CFOs claim less of a voice in a particular strategic decision, it is usually because they instead play a leadership role in the decision-making process (and presumably provide objective, rather than subjective input).
- By a fairly wide margin, Retail/Wholesale CFOs appear to have the most consistent voice across the broadest range of strategic decisions. Healthcare/Pharma CFOs appears to have the least voice.

Facilitation and leadership:

- CFOs lead the most around "corporate" or "cross-unit" decisions, such as "where to focus cost-reduction efforts," "which measures to track," "how to create value," "which businesses to acquire/divest," and "which industries to enter/exit/grow/shrink." This is also where they provide the most analysis.
- CFOs lead the least in decisions involving "which customers/markets to serve," "how to compete," and "where to focus innovation efforts," presumably because business-unit leaders facilitate these decisions.
- CFOs' leadership around decisions tends to correlate strongly with their responsibility for implementing the decisions.

Information and analysis:

- CFOs provide information/analysis to only about half of strategic decisions, suggesting business units may have their own embedded capabilities.
- Analytical responsibility is mostly concentrated around corporate decisions, such as "which businesses to grow/shrink," "which measures to track," and "where to focus cost-reduction efforts."

Implementation of decisions:

- CFOs' implementation responsibilities are mostly in the areas of cost reduction, performance measurement, and acquisitions/divestitures.

Roles CFOs Play in Strategic Decisions

Percent of CFOs citing each role for each type of decision

Personal Priorities

CEOs and CFOs

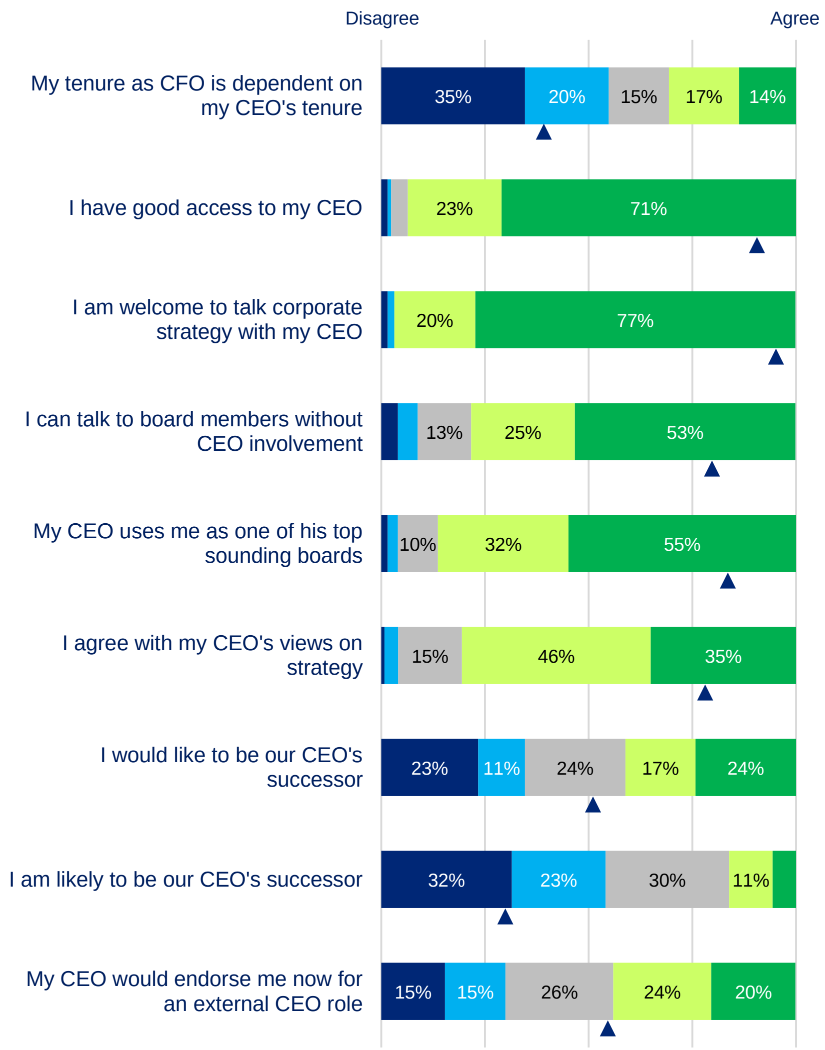
How do CFOs interact with their CEOs, and how do they feel about a CEO career path?

CFOs are working closely with their CEOs around strategic decisions, and many are on a CEO career track:

- **CFOs are recognized as key contributors to strategy:** They have good access to their CEOs and boards, they are sounding boards for their CEOs, and they are welcome to talk strategy. The differences across industries are relatively small.
- **CFOs are mixed (and somewhat undecided) in their desire to become a CEO:** About 40% say they would like to be their CEO's successor, and about 40% of these believe they will be. About 35% specifically say they do *not* want to be the successor, and the remaining quarter are either undecided or not saying. Retail/Wholesale CFOs express the most desire (or at least the lowest resistance) to becoming the next CEO, and Healthcare/Pharma CFOs express the least.
- **Most CFOs either do not believe their CEO would endorse them now for an external CEO role or are not sure**: Overall, about 45% believe their CEO would back them—60% for the CFOs who *do* want to be their CEO's successor, 28% for those who do *not*, and about 33% for those who are not sure or are not saying. Retail/Wholesale CFOs are the most confident, and Services CFOs are the least.
- **CFOs' fates are largely independent of their CEOs':** More than half say they would still be the CFO if their current CEO left. Retail/Wholesale CFOs are the most confident.

CFO and CEO Relationship

CFOs' relative agreement with each statement



Personal Priorities

Building strong CEO relationships

What are CFOs' best insights for building strong relationships?

Included in almost every CFO's advice are elements of trust and communication that is open, honest, and frequent:

- CFOs' overarching advice is to serve as the CEO's right-hand , to add value to the business, and to communicate effectively and often.
- Very few CFOs provided only one insight, with many providing three or more; the most common overlaps had to do with communication.
- The most common words mentioned were "communicate," "align," "trust," and "honest."

CFOs' Insights for Building Strong CEO Relationships*

CFOs' free-form comments grouped by theme

Be the CEO's right hand

Understand how he/she thinks about the critical company issues

Get the chemistry right

- Make sure your personalities are compatible
- Adapt your style/skills if they differ

Get on the same page

- Develop a common vision and operating philosophy
- Put yourself in his/her shoes; proactively help him/her
- Understand CEO's needs and desires; bring solutions and plans
- Eliminate issues; make CEO's job easier
- Make him/her look good

Be a sounding board and advisor

- Listen well (listen long, speak later)
- Offer counsel when the time is right
- Spend time talking all aspects of business, not just financial
- Balance expressing your own view with helping CEO formulate his/her view
- Don't be afraid of tough conversations

Cover his/her back

- Fill in for blind spots; take hits for him/her
- Surface issues to ensure attention to issues that are important but not his/her natural interest
- Say things others won't say to him/her
- Let them know when something they did had a negative impact

Create/add value

Have a solid view on the business and work well with operating folks.

Be a business person first

- Develop a deep understanding of the business
- Understand the strategy
- Run some part of the business to build credibility
- Get into the field to develop informed insights
- Have a holistic view of the company

Drive focus and alignment

- Develop a common view on mission, strategy, implementation
- Develop a common view of main drivers for changing the company
- Have no personal agenda; provide value through insight
- Focus on achieving the end goal, not on being right
- Acknowledge disagreement, but move forward as a team
- Focus on things that move the needle

Be a business partner

- Understand the strategy; challenge appropriately
- Be bold when it's important; be helpful when it's routine
- Bring information, ideas, forward looking options/solutions
- Execute on initiatives
- Be able to make quick changes
- Provide solid financial advice
- Help implement new strategies

Set the right tone

Be open, honest and thick skinned

Build trust – with candor and facts

- Speak with candor
- Be objective, focused and critical
- Substantiate arguments with data and analysis
- Present issues in simple and efficient ways
- Don't let them hear things from others they should have heard from you

Communicate, Communicate, Communicate

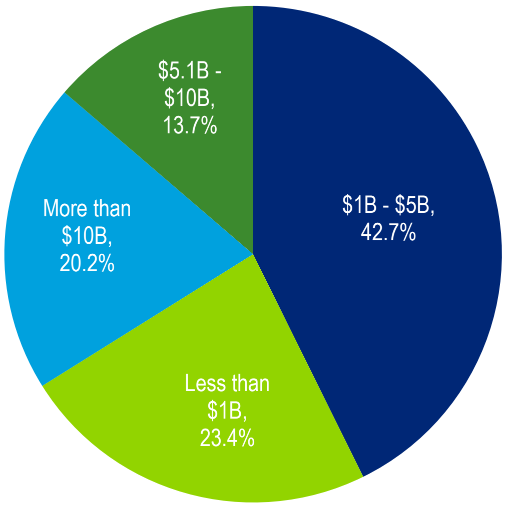
- Frequent/regular communication (7)
- Open/frank/honest communication (14)
- Transparent interactions (6)
- Brief/effective communication (2)

* *This chart presents a representative subset of the responses received, and the wording is essentially verbatim in most cases. Please see the appendix for the full listing of CFO responses.*

Demographics

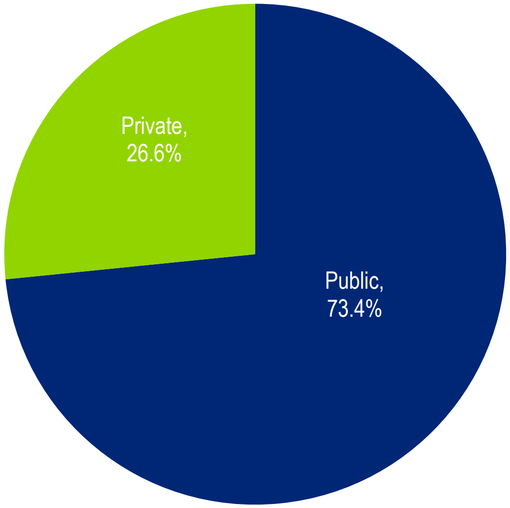
Annual Revenue ($U.S.)

(n=124)



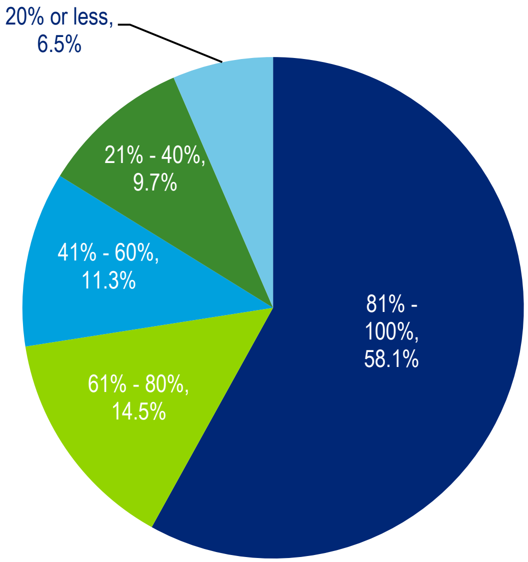
Ownership

(n=124)



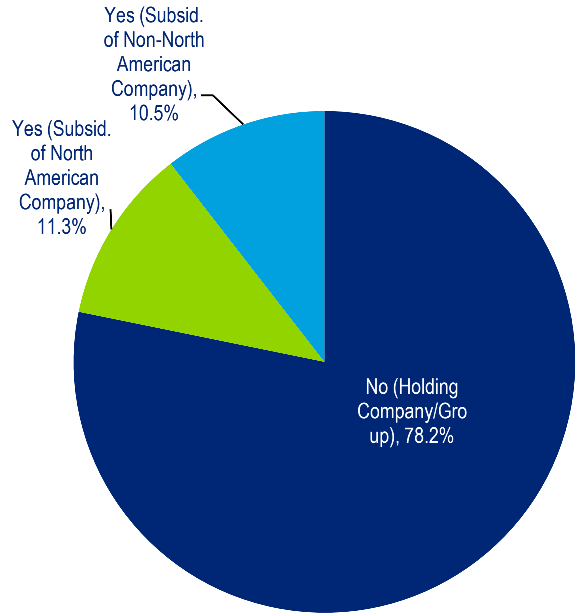
Revenue from North America

(n=124)

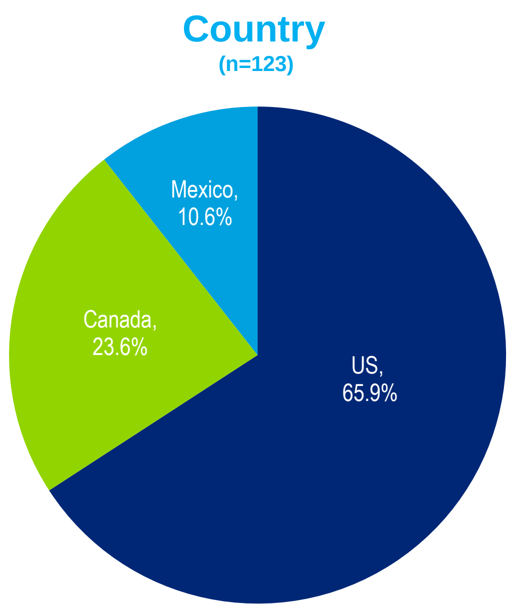


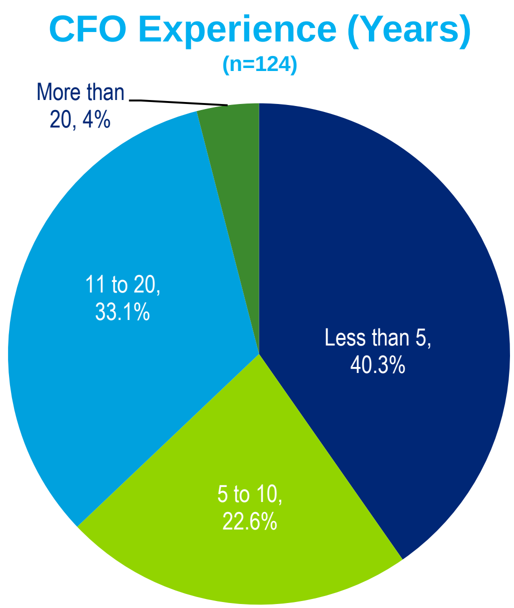
Subsidiary Company

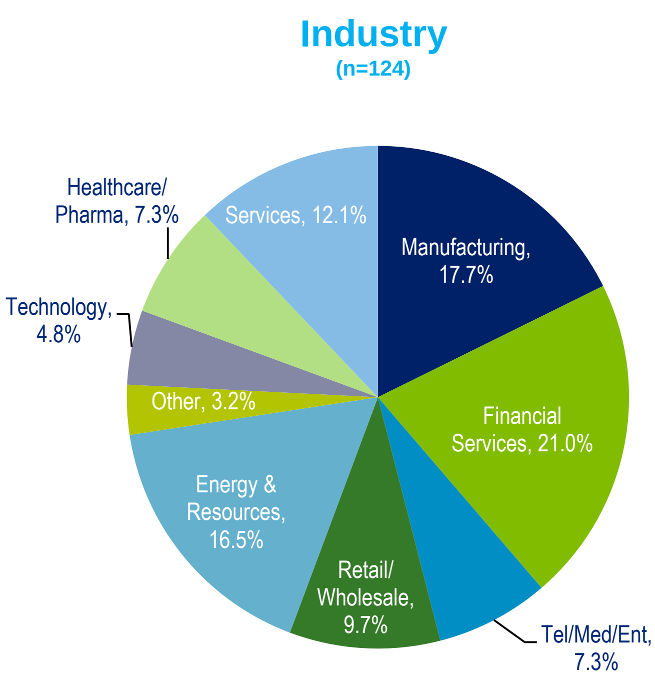
(n=124)

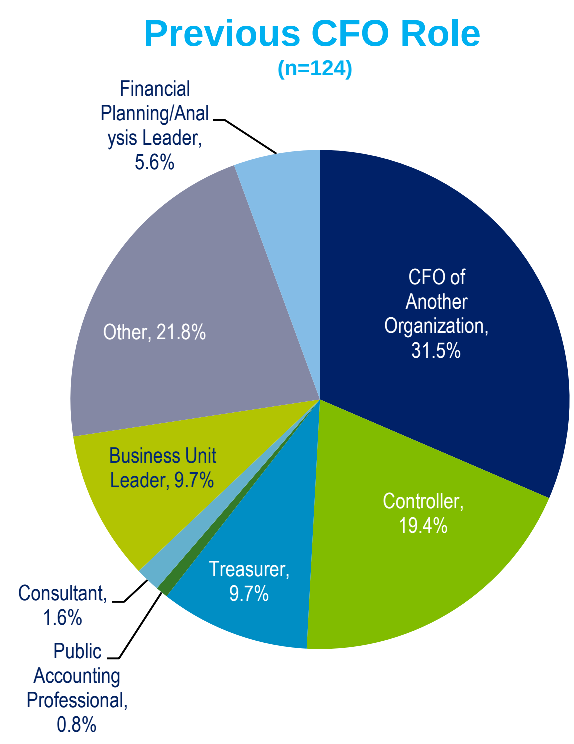


Demographics (cont.)









Methodology

Background

The Deloitte North American CFO Survey is a quarterly survey of CFOs from large, influential companies across North America. The purpose of the survey is to provide these CFOs with quarterly information regarding the perspectives and actions of their CFO peers across five areas: CFO career, finance organization, company, industry, and economy.

Participation

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

Survey Execution

At the opening of each survey period, CFOs receive an email containing a link to an online survey hosted by a third-party service provider. The response period is typically two weeks, and CFOs receive a summary report approximately two weeks after the survey closes. Only CFOs who respond to the survey receive the summary report for the first two weeks after the report is released.

Nature of Results

This survey is a “pulse survey” intended to provide CFOs with information regarding their CFO peers’ thinking across a variety of topics; it is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate – especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends.