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CFO Signals™

What leading CFOs are thinking and doing

In 3Q21, CFOs lower their expectations for revenue, earnings, capital spending, and dividend growth, but raise them for domestic personnel and wages/salaries. Nearly half say supply chain disruptions have increased their costs by 5% or more, with 60% saying shortages and delays have reduced 2021 sales already or will do so by year-end.

- Seventy-eight percent of CFOs rated the current North American economy as good, up from 75% in 2Q21; 54% expect conditions to be better a year out, a decline from 62% in the prior quarter.
- Compared to three months ago, 66% of CFOs are more optimistic about their companies' financial prospects, down from 75% in 2Q21.
- Compared to 2Q21, CFOs have lower expectations for growth in revenue (8.5%), earnings (12.6%), capital spending (8.8%), and dividends (3.8%). They have higher growth expectations for domestic hiring and wages/salaries at 4.8% and 4.3%, respectively.
- Talent and labor concerns dominated internal risks, while COVID-19 and its variants ranked as chief external risk concerns.
- More than 40% of CFOs indicate supply chain shortages or delays have increased their companies' costs by 5% or more, and 60% said this year's sales have either been reduced or will be by the end of the year as a result of supply chain disruptions.
- Some 46% noted they expect as much as 10% of their organizations' growth in the next three years to come from M&A, while 40% said M&A will fuel 11% to 30% of their companies' growth.

Perceptions of the future status of regional economies: Looking a year out, 54% of CFOs expect North America's economy to be better, down from 75% in 2Q21; and 48% expect economic conditions in Europe to improve a year out, up from 46% in 2Q21. More than half (55%) expect China's economy to be better 12 months out, up from 53% in the prior quarter. In addition, 53% of CFOs expect economic conditions in the rest of Asia to improve, and 23% say the same for South America.

CFOs' views on risk appetite and the capital markets: Sixty-five percent of CFOs indicated now is a good time to be taking greater risks, the same as last quarter. Eighty-two percent of CFOs now say US equity markets are overvalued, a dip from 86% in 2Q21. Ninety-two percent consider debt financing attractive; 55% say the same for equity financing, both similar to last quarter.

Growth expectations for key operating metrics over the next 12 months:* CFOs' growth expectations declined in all metrics except for domestic hiring and domestic wages. Revenue growth expectations declined to 8.5% from 9.6% in 2Q21. Earnings growth dropped to 12.6% from 13.6%; capital spending to 8.8% from 12.4%; and dividend growth to 3.8% from 4.0%. Conversely, growth expectations for domestic hiring rose to 4.8% from 4.1% in the prior quarter, and domestic wages/salaries increased to 4.3% from 3.4% in the prior quarter.

Capital allocation: Some 45% of CFOs said they would increase their capital allocation for North America, while 23% expect to increase it for Europe, 19% for China, 15% for Asia other than China, and 6% for South America. Eleven percent of CFOs said they plan to decrease it for South America, while 10% said the same for China, 6% for Asia other than China, 5% for Europe, and 3% for North America.

CFOs' sentiment for their companies' financial prospects compared to three months ago: The optimism index fell from last quarter's +70 to +59, with 66% of CFOs expressing rising optimism, down from 75% in 2Q21.

Most worrisome internal and external risks: Talent and labor, retention, strategy execution, and return-to-work ranked as CFOs'chief internal concerns, followed by rising costs and cybersecurity. COVID-19 and its variants were overwhelmingly the most frequent response regarding external worries, followed by inflation, regulation, and supply chain.

M&A plans: More than half of CFOs (52%) expect M&A to fuel 11% to more than 50% of their companies' growth in the next three years. Twenty-six percent of CFOs expect M&A to generate 11% to 20% of their growth, followed by 14% expecting 21% to 30% of growth from M&A, while 9% expect M&A to drive 31% to 50% of their organizations' growth. Forty percent project 1% to more than 30% of their M&A activity to occur outside their traditional/core industries. CFOs' top three areas of M&A focus are selectively considering acquisitions only if price and fit are favorable (52% of CFOs), seeking inorganic growth (49%), and maintaining competitive positioning (46%).

Finance support models for M&A and biggest challenges: More than half (58%) of CFOs rely on finance talent who are highly trained in M&A, a dedicated M&A finance function (36%), part-time leaders for deals (34%), and standard playbooks and templates (30%), as well as on-call advisors as needed (46%). Fifty-eight percent of CFOs cited valuation of assets/difficulty of financing as their biggest challenge, followed by integration/divestiture execution (55%), and translating business strategic needs into an effective M&A strategy (44%).

Effect of supply chain shortages and delays: In addition to increased costs of 5% or more, cited by 44% of CFOs, 32% say 2021 sales have fallen, and 28% expect future sales to suffer this year. For 32% of CFOs, supply chain shortages or delays have not had a substantial impact on their costs, and 29% noted they do not expect future sales or revenue this year to be affected. In terms of most worrisome supply chain risks, 69% of CFOs indicated cyber risk, followed by operational risk (60%) and geopolitical risk (56%).

Change in supply chains within the next three years: More than two-thirds of CFOs (69%) indicated an increase in the diversification of their supply chain sources, and 23% expect greater vertical integration within the next three years, along with decreases and increases in sourcing by region. They also expect sourcing to increase primarily in North America and Asia (other than China), and to a lesser extent in other regions.

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

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