



1Q18 Highlights: Sentiment swells in wake of US tax and spending bills

- Optimism regarding the health and trajectory of the North American, Chinese, and European economies hit new survey highs.
- With US equities hitting new highs (and recovering from a one-week 10% drop) 76% of CFOs say equities are overvalued.
- Own-company optimism surged to a new survey high.
- Growth expectations for revenue, earnings, capex, and hiring all rose to multi-year highs.
- Many CFOs say US tax reform will raise their domestic investment, hiring, and wages, and also accelerate cash repatriation.
- CFOs' top expected use for repatriated cash is investment—in core businesses, new businesses, and R&D/innovation.
- IT risk/cybersecurity is the most common IT topic for board discussions.
- The dominant approach for educating leaders around new technology is to explain it in the context of strategy discussions.
- The most common approaches to managing IT investments focus more on selection and prioritization than on managing value.
- There appears to be a proliferation of CXO positions focused on managing, utilizing, and protecting IT infrastructure and data.

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

Perceptions of North America improved, with 90% of CFOs rating current conditions as good (up sharply from 74% last quarter and a new survey high), and 59% expecting better conditions in a year (up from 56%). Perceptions of Europe rose to 55% and 51%, respectively (both new highs), and China rose sharply to 50% (new high) and 37%.

What is your perception of the capital markets? Seventy-seven percent of CFOs say debt financing is attractive (down from 85%). Attractiveness of equity financing decreased for public company CFOs (from 46% to 43%) and also for private company CFOs (from 47% to 35%). Seventy-six percent of CFOs now say US equities are overvalued—down from last quarter's survey-high 84%.

Overall, what risks worry you the most? Anticipating higher post-tax-reform investment, CFOs voice very strong internal concerns about securing the talent they need. They again cite external worries about politics and policy (especially trade policy) and also new concerns about rising government debt.

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index rose from last quarter's +47 to +54 this quarter—a new survey high. Nearly 60% of CFOs express rising optimism (up from 52%), and just 6% express declining optimism.

What is your company's business focus for the next year? CFOs indicate a strong bias toward revenue growth over cost reduction (64% vs. 18%) and investing cash over returning it (57% vs. 14%). The bias toward current offerings over new ones held steady this quarter (40% vs. 37%), and the bias toward current geographies over new ones declined slightly (61% vs. 20%).

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months? Revenue growth expectations rose from 4.7% to 5.9% (a two-year high). Earnings growth rose from 8.4% to 9.8% (the highest level in nearly three years). Capital investment rose sharply from 6.5% to 11.0% (a five-year high). Domestic hiring rose from 2.0% to 3.1% (a new high). Manufacturing and Retail/Wholesale led for most metrics.

What will be the impact of new US tax laws on your company? Many CFOs expect tax reform to raise their domestic investment, hiring, and wages; many also expect accelerated earnings repatriation and challenges for their tax function.

What will you do with your repatriated cash? Investment (in both core and new businesses and also in R&D) is far and away CFOs' top expected use for repatriated cash. Many expect some use for hiring and pay, but more extensive use appears focused on debt repayment, buybacks, and dividends.

What technology topics were addressed at your most recent board meeting? IT risk/cybersecurity is by far the topic CFOs are most likely to say they addressed. Digital, innovation, and IT strategy were next. Retail/Wholesale and Financial Services were the most likely to cite a broad range of topics.

What initiatives does your IT function have in place to help business leadership better understand technology?

By a wide margin, CFOs say the most common approach is to explain new technologies in the context of business strategy discussions. The next tier includes sharing thoughtware and holding briefings and training. Healthcare/Pharma cites broad-based approaches.

Which of the following tactics does your company use to manage technology investments? CFOs' most cited tactics focus on IT investment selection and prioritization, with less use of tactics for measuring and managing value. Most CFOs say they spend the right amount on IT.

Which IT-related positions do you have, and to whom do they report? There appears to be a proliferation of management positions focused on managing, utilizing, and protecting IT infrastructure and data.

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

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