CFO Signals 1Q15: Continued optimism despite rising, broad-based volatility

Executive summary

- **Streak of positive sentiment extended to nine quarters:** Net optimism rose from a strong +33.3 last quarter to +34.4 this quarter. Just 14% of CFOs express declining optimism—one of the lowest levels on record. Manufacturing, Energy/Resources, and Services are again the most pessimistic.
- **Sales and capital spending expectations down; earnings and hiring up*:** Revenue growth expectations fell to 5.4% from 6.0% last quarter, mostly on declining expectations from the Energy/Resources sector. Earnings expectations improved from 9.7% last quarter to 10.6%. Capital spending expectations declined slightly to 5.2% from last quarter's 5.5%, also influenced by lower expectations from the Energy/Resources sector. Domestic hiring expectations rose to 2.4%, matching their highest level in two years. US CFOs' expectations were generally well above those of their Canadian and Mexican counterparts.
- **North America at another high; China and Europe down again:** Fifty-nine percent of CFOs describe North American conditions as good (near last quarter's very high 63%), and 64% expect better conditions in a year (63% last quarter). Just 18% regard China's economy as good (down from 34% last quarter), and only 13% expect improvement within a year (down from 25%). Just 2% describe Europe as good, and only 10% see it improving.
- **Markets less overvalued, debt very attractive, equity less attractive:** Forty-six percent of CFOs say US markets are overvalued (down from 61% last quarter). An overwhelming 93% say debt is currently an attractive financing option, and one-third of public company CFOs view equity financing favorably (down from 48%).
- **Economic shifts causing changes to geographic focus:** Many CFOs indicate a higher focus on North America, China, and emerging markets, and a lower focus on Europe. Many also indicate a lower exposure to the euro, and there was an even split between companies increasing and decreasing their debt levels.
- **Strength of US dollar driving currency risk management shifts:** While a substantial proportion of CFOs say they do not have significant foreign currency exposure, quite a few reported becoming more deliberate about their hedging strategies. CFOs of geographically-dispersed companies tended to say they rely mostly on natural hedging, while localized companies are more likely to rely on synthetic hedging.
- **More focus on near-term performance than on value**: Most CFOs say their investor relations activities focus considerably more on analysis and communication of recent operational performance than on assessing and communicating the value of their business units and broader companies.
- **Extensive exposure to shareholder activism:** Just under three-quarters of public company CFOs say they have experienced some form of shareholder activism—most often in the form of communication with management or the board, and sometimes in the form of proposals directly to shareholders.
- **Responding to activists' concerns:** About half of public company CFOs say they have made at least one major business change specifically because of shareholder activism (share repurchases, leadership changes, and divestures being the most common).
- **Some changes to investor relations approaches:** About half of public company CFOs say they have changed very little—mostly citing pre-existing programs that are already working well. The half who say they *have* made substantial changes tend to cite heightened monitoring of activist activity, more proactive planning around activists' concerns, and more (and more preemptive) communication with current and potential investors.
- **A good time to be privately held:** CFOs of privately held companies report a narrower range of reporting and communication activities, and also say they perform these activities less often than their public company counterparts. Relatively few report suffering from limited financing options (likely aided by recently-favorable cash levels and debt markets).

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