



1Q20 Highlights: Capital spending pullback expected—even before coronavirus spread and markets fell

The survey closed after coronavirus emerged, but before it spread substantially beyond China (before equities fell sharply 2/24).

- CFOs' perceptions of the North American and European economies (current and future) improved; views on China's current state fell, but those for its future rose sharply (possibly influenced by the new US-China trade deal).
- Coronavirus emerged as CFOs' most worrisome external risk, displacing trade worries and political turmoil.
- Own-company optimism continued to climb.
- Revenue, earnings, and hiring growth expectations remain at or near multi-year lows; capital spending slid sharply to a four-year low (and the second-lowest level in 10 years).
- CFOs' most-reported enterprise transformations involved major business strategy shifts and operational changes; the top drivers were changing customer demands and disruptive technologies.
- CFOs' primary transformation roles were as co-leaders and enablers.
- CFOs said their finance teams will need to provide new and/or expanded decision support and stronger operational support.
- CFOs' time allocation skews toward catalyst and strategist roles (over steward and operator)—but not to the extent they prefer.

How do you regard the status of the North American, European, and Chinese economies? Perceptions of North America improved, with 80% of CFOs rating current conditions as good (69% last quarter), and 35% expecting better conditions in a year (up from 23%). Perceptions of Europe rose slightly to 10% and 11%, perhaps influenced by Britain's exit from the EU. Perceptions of China's current conditions fell sharply to 10%, but expectations for a year from now rose sharply to 27% (perhaps influenced by the US-China trade deal and early hopes for short/limited coronavirus impacts).

What is your perception of the capital markets? Ninety percent of CFOs say debt financing is attractive, and equity financing is considered attractive by 46% and 37% of public and private company CFOs, respectively. Nearly 85% said equity markets are overvalued, but this was before they fell sharply following news about coronavirus spreading beyond China.

Overall, what risks worry you the most? Supplanting worries that were prevalent in previous surveys around trade policy, political turmoil, and upcoming US elections, CFOs expressed very strong concerns about the impacts of coronavirus—even though the survey closed before news emerged about it spreading to regions outside China and before equity markets fell sharply the week of February 24 (right after the survey closed).

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index continued to improve, rising from last quarter's +11 to +24 (still below the levels from 2017 and 2018). Thirty-eight percent of CFOs expressed rising optimism (30% last quarter), and 14% expressed declining optimism (19% last quarter). Note that this sentiment, too, was expressed before news about substantial coronavirus spreading beyond China.

What is your company's business focus for the next year? Companies continue to focus more on growth and investment than on cost reduction and returning cash, but by a narrower margin than the historical survey average.

How do you expect your key operating metrics to change over the next 12 months?* YOY revenue growth expectations rose slightly from 3.7% (last quarter's three-year low) to 3.9%. Earnings growth held at 6.0% (still second-lowest in nine years); capital spending slid sharply from 3.7% to 2.3% (a four-year low and the second-lowest level in 10 years). Hiring rose slightly from 1.1% to 1.2% (third-lowest in six years). Dividend growth slid from 4.3% to 3.7%.

What is the most important enterprise transformation your company is undertaking? Nearly 40% of CFOs cited strategy/model/offering shifts, led by digital transformations and business strategy/model shifts (product/service shifts were substantial as well). Thirty-five percent reported business process transformation efforts, overwhelmingly for the purpose of improving efficiency and reducing costs (including cost restructuring/outsourcing, and also shared service transformation).

What are the primary drivers of the transformations? Nearly 60% of CFOs cited changing customer demands as a key transformation driver (with high prevalence for business strategy/model shifts, growth/integration efforts, process improvement, and technology/systems transformations). Nearly half named disruptive technologies (with high prevalence for people/organization transformations, finance capability upgrades, and business strategy/model shifts).

What is your primary role as CFO in the transformation? Just under half of CFOs cited a co-leader role (prevalent for growth/integration efforts, technology/systems upgrades, process transformation, and finance transformation). Enabler roles were also relatively common (especially for strategy/model shifts and technology/systems upgrades).

What new/expanded services and capabilities will finance have to provide going forward? CFOs were most likely to cite the need for stronger and faster decision support and deeper operational support.

What is your division of time between your CFO roles? CFOs' allocation of time skews toward their catalyst and strategist roles over their steward and operator roles—but only slightly, and not nearly to the extent they prefer.

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

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