CFO Signals™
What North America’s top finance executives are thinking—and doing
2nd quarter 2018
High-level report

This report is a subset of a full report containing analysis and trends specific to industries and geographies. Please contact nacfosurvey@deloitte.com for access to the full report.
About the survey
Contents and background

About the CFO Signals survey

Each quarter (since 2Q10), CFO Signals has tracked the thinking and actions of CFOs representing many of North America’s largest and most influential companies.

All respondents are CFOs from the US, Canada, and Mexico, and the vast majority are from companies with more than $1 billion in annual revenue. For a summary of this quarter’s response demographics, please see the sidebars and charts on this page. For other information about participation and methodology, please contact nacfosurvey@deloitte.com.

Participation by country*

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* Sample sizes for some charts may not sum to the total because some respondents did not answer all demographic questions.

Participation by industry*

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

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

Survey responses

Survey period: 5/7-5/18
Total responses: 172
- CFO proportion: 100%
- Revenue >$1B: 74%
- Public/private: 73%/27%

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Findings at a glance

Perceptions

How do you regard the current/future status of the North American, European, and Chinese economies? Perceptions of North America improved, with 94% of CFOs rating current conditions as good (up from 90% last quarter and a new survey high), and 52% expecting better conditions in a year (down from 59%). Perceptions of Europe declined to 47% and 36%, respectively (both metrics remain near their survey highs), and China rose to 55% (a new high) and 31%. Page 6.

What is your perception of the capital markets? Seventy-three percent of CFOs say debt financing is attractive (down from 77%). Attractiveness of equity financing decreased for public company CFOs (from 43% to 36%) and increased for private company CFOs (from 35% to 45%). Sixty-three percent of CFOs now say US equities are overvalued—the lowest level in two years. Page 7.

Sentiment

Overall, what risks worry you the most? CFOs express strong external concerns about US politics (especially around trade policy), while concerns about economic risks, which had subsided over the last few quarters, began to rise. They again cite pressure to execute on their growth plans, voicing growing internal concerns about driving initiatives and finding talent. Page 8.

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index fell from last quarter’s survey-high +54 to +39 (still quite strong). Forty-eight percent of CFOs express rising optimism (down from 60%), and 9% express declining optimism. Page 9.

Expectations

What is your company’s business focus for the next year? CFOs indicate a survey-high bias toward revenue growth over cost reduction (67% vs. 17%) and a somewhat lower bias toward investing cash over returning it (56% vs. 18%). The bias toward new offerings over current ones grew this quarter (40% vs. 35%), and the bias toward current geographies over new ones increased slightly (59% vs. 16%). Page 10.

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 5.9% to 6.3% (the highest level in nearly four years). Earnings growth rose from 9.8% to 10.3% (a three-year high). Capital investment slid from 11.0% to 10.4% (still among its six-year highs). Domestic hiring rose from 3.1% to 3.2% (a new high). Technology and Retail/Wholesale showed substantial improvement. Page 11.

Special topic: CFOs’ scope of responsibility

Which business functions report to you? Many CFOs appear to be taking on broader responsibility for business planning, IT/data, and risk. There are notable industry differences, especially around support services and risk. Page 12.

Special topic: CFOs’ roles and experience

What prior roles did you bring to your current CFO role? FP&A, controller, and prior CFO roles are the most common, but there are substantial differences by age and industry. Younger CFOs are comparatively more likely to cite investor relations and strategy roles. Page 13.

Other than technical financial experience, what experience is most important for your successor? CFOs recommend that their successors have backgrounds that enable them to play strong roles around strategy development and implementation. Page 13.

Special topic: CFOs’ legacy

When you complete your current CFO role, what do you want your legacy to be? Overall, CFOs say they want to leave behind companies and finance functions that are world-class and positioned to perform even better after their tenure ends. Page 14.
Summary and context

Strong optimism, but trade policy and geopolitics loom large

Coming out of the 2016 US elections, CFOs’ sentiment soared—with confidence and growth expectations hitting new survey highs. Sentiment ebbed a bit through the middle of 2017 as CFOs began to worry about Washington’s ability to deliver clarity and change, especially around issues such as the Affordable Care Act, NAFTA, immigration, and North Korean threats.

At the end of 2017, sentiment rose as global economic growth accelerated and as the prospects for tax reform appeared to improve. And when tax reform passed last quarter, CFOs’ sentiment climbed again—with own-company optimism hitting a new high, and year-over-year growth expectations for revenue, earnings, capital spending, and hiring all rising to multi-year highs (led by capital spending and hiring, which hit five-year and eight-year highs, respectively).

Last quarter’s positive sentiment largely continued this quarter. Although own-company optimism and expectations for the European and Chinese economies faltered a bit, expectations for revenue, earnings, and hiring all rose again (capital spending declined somewhat, but remains relatively high). In addition, CFOs’ confidence in US equity markets appears to have strengthened, with a comparatively low 63% regarding markets as overvalued (well below the above-80% levels from late last year).

Still, CFOs continue to express concerns about the future—especially around trade policy and geopolitics. As these concerns have risen, worries about global economic growth, which appeared to be declining for the past year, began to rise again. Moreover, although CFOs remain quite optimistic about their companies’ prospects, they voice continuing concerns about securing key talent and executing their strategies, and newly escalating concerns about avoiding complacency and improving organizational focus.

Our recent surveys have shown that as megatrends, such as data proliferation, analytics, industry convergence, and automation, have put intense pressure on companies’ strategies and operations, the role of CFOs has been changing considerably. To better understand the evolution of the CFO role, this quarter we asked finance chiefs about their scope of responsibility, the roles they brought to their current position, and the experiences most important for their successors.

This quarter’s findings show that CFOs appear to be taking on broader formal responsibility for business planning, IT/data, operations, and risk. It also appears that CFOs’ backgrounds are changing, with FP&A, controller, and other CFO positions the most common prior roles, but with younger CFOs comparatively more likely to cite investor relations and strategy roles. Accordingly, CFOs were likely to recommend that their successors have backgrounds in corporate strategy, in their industry, and in investor relations.

Finally, to better understand CFOs’ mindsets about the impact of their careers, we asked about their desired legacies—for their companies, their finance teams, and themselves. Overall, CFOs say they want to leave behind companies and finance functions that are better than they found them (with world-class performance) and positioned to perform even better after they are gone. And at a personal level, they want to be remembered as role models when it comes to being effective business partners, ethical leaders, and strong talent developers.

Perhaps one statement, reiterated by several CFOs, summed it up best: “I want to know I made a lasting, positive difference.”

Key developments since the 1Q18 survey

• The US economy slowed in the first quarter, but its recovery became the second-longest on record.
• US inflation accelerated; unemployment hit an 18-year low; wages stagnated.
• The US Fed raised rates in March, but not in May.
• The US 10-year bond yield hit a 7-year high; 10-year/2-year spreads hit the lowest level since 2007.
• US equities were flat from last quarter’s survey.
• Oil prices hit their highest levels since 2014 after the US exited its Iran nuclear deal.
• President Trump declined to rejoin TPP.
• The eurozone economy decelerated in the first quarter. Retail sales grew slowly; inflation slowed.
• The European Central Bank and Bank of England both left monetary policy unchanged.
• Canada’s job market showed mixed results; the Bank of Canada left rates unchanged.
• Mexico’s economy rebounded, driven by exports and construction; inflation decelerated.

Summary of CFO sentiment and expectations

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<td>(Index)</td>
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<tr>
<td>Own-company optimism (net)</td>
<td>+39.2</td>
<td>+53.5</td>
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<td>Revenue growth (Y/Y)</td>
<td>6.3%</td>
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<td>Earnings growth (Y/Y)</td>
<td>10.3%</td>
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<td>8.1%</td>
</tr>
<tr>
<td>Capital investment growth (Y/Y)</td>
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<td>11.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Domestic personnel growth (Y/Y)</td>
<td>3.2%</td>
<td>3.1%</td>
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<tr>
<td>Percent of CFOs saying US equity</td>
<td>63%</td>
<td>75%</td>
<td>76%</td>
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Well below two-year average
Well below last quarter
Well above two-year average
Well above last quarter
Topical findings
Perceptions
Assessments of regional economies

CFOs’ assessments of the North American, European, and Chinese economies’ current performance remain very strong (with North America at a new high), but their expectations for future performance declined somewhat—particularly for Europe and China.

CFOs’ assessments of the North American economy rose sharply in the first quarter of 2017, then rose again in each of the last two quarters. This quarter’s assessments got even stronger, with 94% of CFOs rating current conditions as good—another new survey high. Fifty-two percent expect better conditions in a year (down from 60%), and the region’s optimism index[1] declined to +51—down from last quarter’s +55, but still very strong.

Perceptions of Europe’s current state and trajectory hit new survey highs over the last two quarters, but they receded significantly this quarter. Forty-seven percent of CFOs now say current conditions are good, and 36% expect better conditions in a year—both metrics down from last quarter’s survey highs of 55% and 51%, respectively. The optimism index[1] declined from last quarter’s survey-high +38 to +27.

Perceptions of China’s economy rose to new survey highs over the last two quarters and did so again this quarter. Fifty-five percent of CFOs say current conditions are good (up from 50%), and 31% expect better conditions in a year (down from 37%). The optimism index[1] declined from last quarter’s survey high +33 to +27.

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1 Indexes reflect the percentage of respondents who rate current economic conditions as “good” or “very good” and who also expect “better” or “much better” conditions in a year. Please note that the calculation of this index changed in 1Q18 and all values from prior quarters have been recalculated based on the new methodology.
Perceptions
Assessments of markets and risk

Equities remain overvalued— but less so
Despite higher recent volatility in US equity markets, CFOs have become less likely to say markets are overvalued. This quarter, 63% of surveyed CFOs say US equity markets are overvalued—down from last quarter’s 76%, and well below the above-80% levels from late 2017. The proportion of CFOs regarding equities as undervalued stayed steady at 6%, with CFOs increasingly saying they are neither over- nor undervalued.

Debt still attractive, but less so; equity attractiveness declining
Seventy-three percent of CFOs say debt financing is attractive, down from last quarter’s 77% and at its lowest level in two years. Attractiveness of equity financing decreased for public company CFOs (from 43% to 36%) and increased for private company CFOs (from 35% to 45%).

Decreasing appetite for risk-taking
Fifty-eight percent of CFOs say now is a good time to be taking greater risk—down from last quarter’s survey high 69% and in line with the levels from a year ago.
Under pressure to execute on their growth plans, CFOs voice growing internal concerns about driving initiatives and finding talent. They still express strong external concerns about politics (especially around trade policy), and their past worries about economic growth returned.

Prior to 2017, CFOs’ top external risks centered heavily on slow economic growth. With global economic performance improving over the last several quarters, CFOs’ worries shifted toward their companies’ ability to capitalize on opportunities and potential threats to continued economic performance.

This quarter, CFOs voiced continuing concerns about US political turmoil and policy uncertainty, with escalating concerns about trade policy in particular. They also raised growing worries about geopolitics, inflation, and interest rates. Moreover, worries about economic growth (which have declined over the last several quarters) began to rise again.

When it comes to internal risks, talent concerns again top CFOs’ list. With CFOs citing growing struggles to execute on initiatives supporting their growth strategies, their focus on talent acquisition, quality, and retention further intensified. Worries about complacency and the need to improve prioritization and focus also increased.

Please see the full report for specific CFO comments by industry.
Sentiment
Optimism regarding own-company prospects

After hitting a new high last quarter, net optimism declined this quarter, but remains relatively strong—despite substantial weakness in Mexico and Healthcare/Pharma.

Net optimism hit a survey-high +50 in 1Q17, then another new high last quarter at +54. This quarter’s net optimism declined to +39—significantly down, but still quite strong by historical standards. Forty-eight percent of CFOs expressed rising optimism (down from 60%), and 9% cited declining optimism (up from 6%).

Net optimism for the US declined from +55 last quarter to +42 this quarter. Canada declined from +47 to +33, while optimism in Mexico fell sharply from +38 to zero.

Sentiment was particularly strong in Services and Technology—both of which came in above +50. Retail/Wholesale and Manufacturing both declined sharply from last quarter’s highs (both were above +60). Healthcare/Pharma declined sharply to -33.

* Please see the full report for charts specific to individual industries and countries.
Expectations
Business focus for next year

The focus on revenue growth over cost reduction reached a new survey high, and the bias toward investing cash over returning it remained among its recent highs.

Approximately 67% of CFOs say they are biased toward revenue growth (among the highest levels in survey history), and only 17% claim a bias toward cost reduction (one of the lowest levels) for a net value of +50% (a new survey high). The bias toward investing cash over returning it to shareholders (56% versus 18%) decreased slightly but remains among its highest levels in the past five years at +38%.

CFOs’ bias toward new versus current product/service offerings shifted this quarter (40% versus 35%, for a net of +5%). The bias toward current geographies over new ones increased somewhat (59% versus 16%, for a net of -43%).

The recent strong bias toward organic growth over inorganic growth continued this quarter and reached a new survey high (67% versus 17%, for a net of -50%).

Please see the full report for charts specific to individual industries.
After hitting multi-year highs last quarter, key growth metrics continued to climb this quarter. Capital spending remained strong in the US, but weakened in Canada and Mexico. Technology, and Retail/Wholesale showed substantial improvement.

**Revenue growth rose** from 5.9% to 6.3%, its highest level in nearly four years. The US rose to a two-year high. Canada rose above its two-year average, and Mexico rose to a three-year high. Technology leads; Services and Manufacturing trail.

**Earnings growth rose** from 9.8% to 10.3%, its highest level in three years. The US declined slightly, but remains near its three-year high. Canada rose to its highest level in nearly four years, while Mexico rose to its five-year high. Technology* leads; Healthcare/Pharma trails.

**Capital investment declined** from 11.0% to 10.4%, but remains at one of the highest levels in the last six years. The US remained near its five-year high. Canada declined and is below its two-year average; Mexico declined sharply to near its two-year average. Manufacturing and Retail/Wholesale are again highest; Healthcare/Pharma and Technology are lowest.

**Domestic personnel growth rose** from 3.1% to 3.2%, a new survey high. The US remained at last quarter’s high; Canada rose to its second-highest level in five years; Mexico rose to its second-highest level in three years. Technology and Retail/Wholesale lead; T/M/E* trails.

* Please note the, due to a very small sample size, T/M/E was not used as an industry comparison point.

Please see the full report for charts specific to individual industries and countries.

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**Growth expectations**

*Compared to the past 12 months, how do you expect the following metrics to change over the next 12 months? CFOs’ expected year-over-year company growth in key metrics (compared to the value of the S&P 500 index at the survey midpoint)*

[Graph showing YOY growth expectations by country and industry (2Q18)]

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<th>Retail/Wholesale</th>
<th>Technology</th>
<th>Energy/Resources</th>
<th>Financial Services</th>
<th>Healthcare/Pharma</th>
<th>T/M/E*</th>
<th>Services</th>
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<td>6.3%</td>
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<td>Capital spending</td>
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<td>4.3%</td>
<td>2.8%</td>
<td>3.9%</td>
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<td>Dividends</td>
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* Please note very small sample size this quarter.

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*Please note very small sample size this quarter.*
Special topic: CFOs’ scope of responsibility
Business functions reporting directly and indirectly to the CFO

Many CFOs appear to be taking on broader responsibility for business planning, IT/data, and risk. There are notable industry differences, especially around operations/services and risk.

Core finance: The most common direct-reporting functions were controllership, treasury, corporate finance, FP&A, tax, and investor relations. Management reporting and financial reporting were more likely to report indirectly to the CFO.

Business planning: Just over half of CFOs say development/M&A reports to them, with 40% citing direct reporting. Nearly 60% say business analytics (beyond FP&A) reports to them, but only 22% cite direct reporting. Forty-seven percent claim responsibility for strategic planning (35% cite direct reporting).

Operations and services: IT responsibility was claimed by 36% of CFOs (30% cite direct reporting), and CFOs rated it the most likely function to be added to their responsibilities in the future. Thirty-seven percent claim ownership of real estate (22% cite direct reporting), and 30% have responsibility for procurement (only 13% cite direct reporting).

Risk/compliance: Just over 60% of CFOs claim responsibility for internal audit (48% cite direct reporting), and 55% claim responsibility for enterprise risk (35% with direct reporting). CFOs said risk-related responsibilities are among the most likely to be added to their responsibility scope over the next three years.

Please see the full report for charts specific to individual industries.
Special topic: CFOs’ experience/expertise
Roles prior to current CFO role

FP&A, business unit CFO, controller, and corporate finance roles were CFOs’ most common prior roles, but there were considerable differences by age and industry. Younger CFOs were comparatively more likely to cite investor relations and strategy roles.

Overall, CFOs were most likely to report a prior FP&A, business unit CFO, or controller role—with more than 40% of CFOs reporting each. The FP&A role’s top ranking (at 47%) was driven mostly by CFO responses in the 41-50 age group, where about 60% reported this role. The business unit CFO role was relatively common for CFOs in the 46-55 age range, and the controller role was most common among CFOs over 60.

Nearly 40% of CFOs reported prior corporate finance and corporate CFO roles, driven mostly by CFOs over 50. CFOs over 55 were comparatively high for prior Chief Accounting Officer, internal audit, and operations roles.

CFOs 45 and under were comparatively very high for prior investor relations roles (at more than 45%), and those 50 and under were also relatively high for prior strategy and sales/marketing roles.

Industry differences were substantial. For example, Services and Technology were very high for the controller role, while Retail/Wholesale was very high for corporate finance and prior corporate CFO roles.

Please see the full report for charts specific to individual industries.

CFOs’ prior roles

What prior roles did you bring to your current CFO role?
Percent of CFOs selecting each role (by age range)

CFO age distribution

Retail/Wholesale and Services CFOs tended to be the oldest, both with at least 70% over the age of 50; Healthcare/Pharma and Manufacturing were lowest at 33% and 47%, respectively. Please see the full report for industry breakdowns.

Other (number of CFOs reporting)
External audit / public accounting (5)
Tax (4)
Enterprise risk (4)
Investment banking (3)
Equity analysis (3)
Program management (2)
Actuarial (2)
HR
Product development
Real estate
Chief of Staff
Aside from technical finance experience, CFOs recommend that their successors have backgrounds that enable them to play strong roles around strategy formulation and implementation. There are substantial differences by industry.

Just over 60% of CFOs rated corporate strategy among the top three experiences that will be important for their successor. This experience was rated highly across all industries except T/M/E*, and was particularly strong in Energy/Resources at 82%.

Fifty-five percent of CFOs rated industry experience in their top three, with a stronger presence in Energy/Resources and Financial Services (at 82% and 67%, respectively). Investor relations was third at just under 50%, with Services, Retail/Wholesale, and Energy/Resources higher at 75%, 61%, and 59%, respectively.

CFOs’ second-tier recommendations included corporate development/M&A and internal company experience (both at 42%), with Retail/Wholesale* highest for the former (at 57%) and with Healthcare/Pharma and Energy/Resources highest for the latter (both about 65%). General/BU management was next at 35%, with Technology highest at 57%.

Other experiences were less likely to appear in CFOs’ top three on a cross-industry basis, but were more common for some industries. Please see the full report for charts specific to individual industries.

* Please note that, due to a very small sample size, T/M/E was not used as an industry comparison point.
Overall, CFOs say they want to leave behind companies and finance functions that are world-class and positioned to perform even better after they are gone.

When it comes to the legacy they want to leave for their company, CFOs were likely to cite a positive impact on company performance during their tenure, and also a strong influence on the company’s ability to perform well in the future. In particular, they mentioned value creation through growth, operational effectiveness, and better competitiveness.

For their own team, many said they want to leave behind a finance organization that is regarded as best-in-class—known for very strong talent, and regarded as a very strong partner to the business. They also said they want their team to be known for providing valuable insight, efficiency, and a culture of high morale and rewarding work.

Finally, when it comes for the legacy they want to leave for themselves, CFOs overwhelmingly said they want to have made a difference for their company and to have left things better than they found them. From a professional perspective, many said they want to be known as strong leaders who drove solid company performance and built a top flight finance function. From a talent and relationship perspective, they said they want to be known for developing people, being a strategic partner, and acting with integrity.

Please see the full report for charts specific to individual age groups.
Appendix
Longitudinal data and survey background
Longitudinal trends
Cross-industry expectations and sentiment (last 24 quarters)

CFOs’ year-over-year expectations¹

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<thead>
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<th>Revenue</th>
<th>Survey mean</th>
<th>2-year mean</th>
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<td>2020</td>
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</table>

CFOs’ own-company optimism³ and equity market performance

¹ All means have been adjusted to eliminate the effects of stark outliers. The "Survey mean" column contains arithmetic means since 2Q10.
² Standard deviation of data winsorized to 5th/95th percentiles.
³ Averages for optimism numbers may not add to 100% due to rounding.

Please contact nacfosurvey@deloitte.com for data as far back as 2Q10.

Deloitte CFO Signals™
About the survey

**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 four areas: business environment, company priorities and expectations, finance priorities, and CFOs’ personal priorities.

**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 industries except for public sector entities.

**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 current and frequent responders 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.
IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

Participating CFOs have agreed to have their responses aggregated and presented.

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