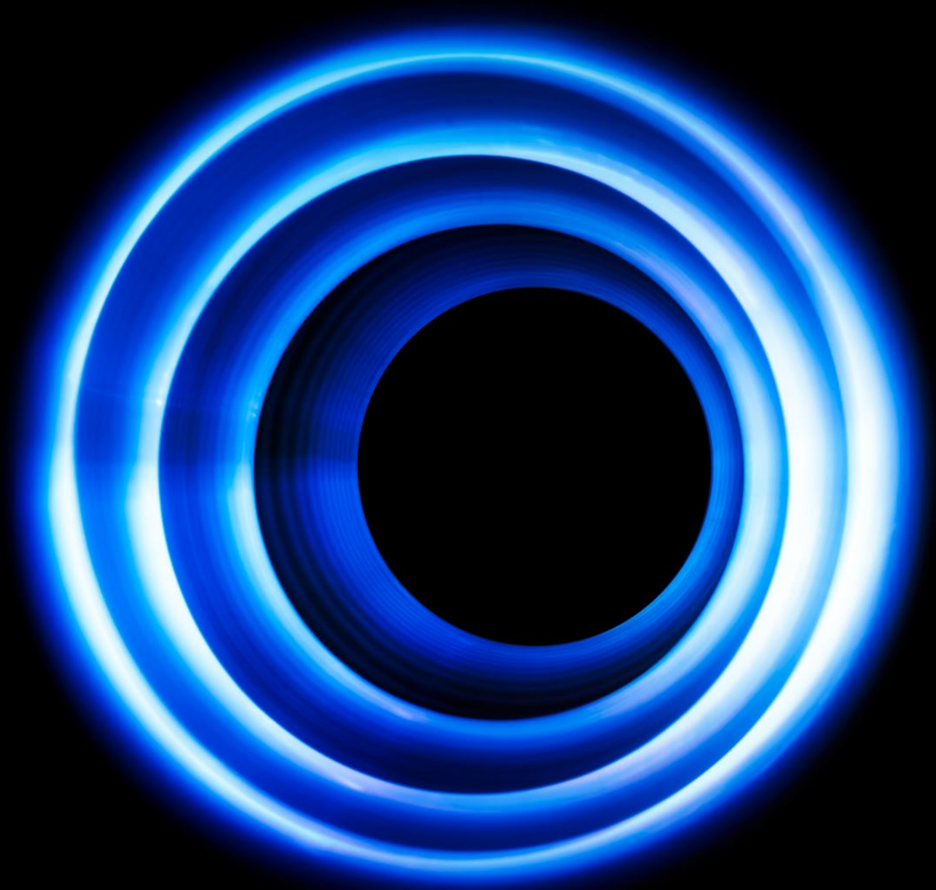


CFO Signals™

What North America's top finance executives are thinking—and doing

3rd quarter 2019

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.

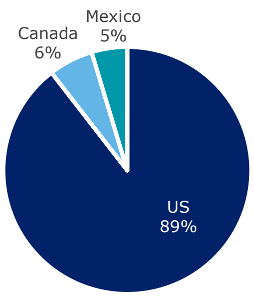
About the survey
Contents and background

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.

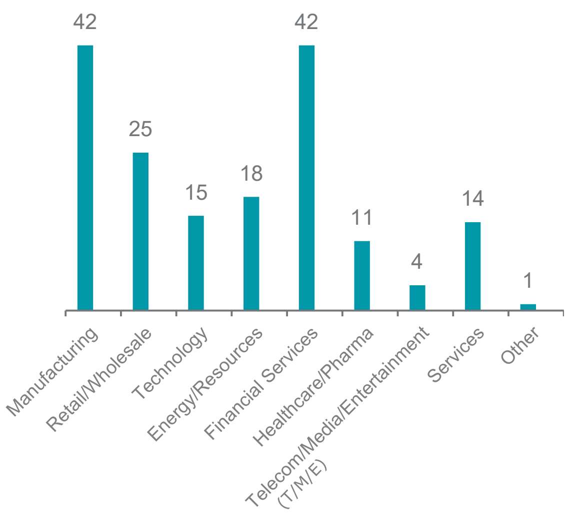
All respondents are CFOs from the US, Canada, and Mexico, and the vast majority are from companies with more than $1 billion in annual revenue. For a summary of this quarter's response demographics, please see the sidebars and charts on this page. For other information about participation and methodology,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

Participation by country*



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

Participation by industry*



Contents

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:	8/5-8/16
Total responses:	172
• CFO proportion:	100%
• Revenue >$1B:	88%
• Public/private:	74%/26%

Survey leaders

Greg Dickinson
Managing Director, *CFO Signals*
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Findings at a glance

Perceptions

How do you regard the status of the North American, European, and Chinese economies? Perceptions of North America fell to a six-year low, with 68% of CFOs rating current conditions as good (down from 79% last quarter), and 15% expecting better conditions in a year (down from 24%). Perceptions of Europe slid to just 5% and 2%; China sits at 20% and 11%. **Page 6.**

What is your perception of the capital markets? Eighty-seven percent of CFOs say debt financing is attractive (up from 77%). Equity financing attractiveness fell for both public (from 40% to 31%) and private (35% to 34%) company CFOs. Sixty-three percent say US equity markets are overvalued, about even with last quarter. **Page 7.**

Sentiment

What external/internal risks worry you the most? CFOs express even stronger concerns about the impact of US trade policy on global growth, and rising concerns about Brexit, the broader European economy, and the 2020 US elections. Talent is again the dominant internal concern, and there are rising concerns about data security and the need to adapt and innovate. **Page 8.**

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index declined from last quarter's +9 to -5 this quarter—the first negative reading in nearly seven years. Twenty-six percent of CFOs express rising optimism (30% last quarter), and 31% express declining optimism (21% last quarter). **Page 9.**

Expectations

What is your company's business focus for the next year? CFOs indicate a bias toward revenue growth over cost reduction (51% vs. 22%), investing cash over returning it (48% vs. 18%), current offerings over new ones (44% vs. 35%), and current geographies over new ones (62% vs. 22%). **Page 10.**

How do you expect your key operating metrics to change over the next 12 months? YOY revenue growth expectations rose from 3.8% to 4.3%. Earnings growth slid from 6.1% to 5.6% (a new survey low), while capital spending fell from 7.7% to 3.6%, and hiring fell from 1.9% to 1.6% (both sit at three-year lows). Dividend growth rose from 3.7% to 3.9%. **Page 11.**

Special topic: Public company investor relations/activism

What is your strategy for providing earnings guidance? Most CFOs say they provide quarterly guidance, but some are not providing guidance at all or are providing less extensive or less frequent guidance than they used to. **Page 12.**

How often does your company conduct IR activities? Most IR-related analysis and communication still occurs quarterly, even when earnings guidance does not; addressing activism appears to be a substantial focus. **Page 13.**

Which forms of activism has your company experienced? About 45% of CFOs said they have experienced shareholder activism in the last three years, with direct management communication the most common form. **Page 14.**

3Q19 Survey Highlights

- CFOs' views on the trajectory of North America's and Europe's economies hit six-year lows; those for China were low as well.
- Own-company optimism turned net negative for the first time in nearly seven years.
- Earnings growth expectations fell to a new survey low and capital spending and hiring fell to three-year lows; revenue rose slightly.
- Most CFOs cite quarterly earnings guidance, but some are providing less extensive or less frequent guidance, or none at all.
- Most investor relations analysis and communication activities still occur quarterly, even when earnings guidance does not.
- About 45% of CFOs said they have experienced shareholder activism in the last three years, mostly via direct communication with management.
- Just over half of public company CFOs said they have considered, taken, or expect to take action specifically in response to activism—including many who say they have not recently experienced it.
- Private company CFOs cited substantially less extensive and less frequent activity around owner-related analysis and communications than do their public company peers.

What actions are you taking specifically in response to activism? Just over half of CFOs said they have considered, taken, or expect to take action—including many who say they have not recently experienced it themselves. Share repurchases were the most common action already taken; board changes were next. **Page 15.**

Special topic: Private company ownership

How often does your company conduct "owner relations" activities? Private company CFOs cite substantially less extensive and less frequent activity around analysis and communications than do their public company peers. **Page 16.**

For your company, what are the most important advantages of being privately held? CFOs cited avoiding a short-term focus and better control/flexibility in decision-making as the top benefits of being private. **Page 16.**

What is your strategy for providing earnings guidance? Like their public company peers, private company CFOs mostly cited traditional quarterly guidance, but they were less likely to be scaling back on depth and frequency. **Page 17.**

Prior to your current role, which other executive roles have you held? Non-CFO roles at public companies were the most common prior role. **Page 18.**

Summary and context
Trade and economic fears drive sentiment to multi-year lows

Going into 2019, citing growing worries about the economic impacts of geopolitics, US political turmoil, and US trade policy, just 28% of CFOs said they expected the North American economy to improve—half the level going into 2018.

CFOs' assessments continued to decline early in the year, with 75% of 1Q19 survey respondents expecting a US slowdown by the end of 2020 (due to trade policy, business and credit cycles, and slowing global growth). Accordingly, growth expectations for revenue, earnings, and hiring declined, and own-company optimism waned.

Still, there was cause for optimism. Only 15% of CFOs said they expected an extended decline in economic activity. And, in the second quarter survey, about 80% said they expected any downturn to be mild. That may help explain why expectations for capital spending growth continued to rise even as other metrics declined.

This quarter, however, CFOs' sources of concern and uncertainty intensified. Major economies showed more signs of slowing. The US tariff threats toward China escalated, a no-deal Brexit became more likely, and questions about trade within North America and between the US and Europe remained unresolved.

In response, governments and investors took steps to mitigate risk. The US Fed lowered rates for the first time in a decade, and other central banks indicated a similar inclination. The US Congress passed a budget deal loosening fiscal policy. The yield spreads between the 10-year bond and both two-year and three-month bills inverted. Meanwhile, US equities whipsawed between new highs and sharp declines.

As Deloitte's Chief Global Economist, Ira Kalish, put it, "The world increasingly appears to be on recession watch." This quarter's survey findings seem to indicate that large companies agree, with several key metrics hitting new multi-year and historic (i.e., 38-quarter) lows. Notably, the survey's own-company optimism index turned negative for the first time in nearly seven years.

Managing investor expectations in the face of escalating policy uncertainty and widespread expectations of slowing economic growth would seem to be both uniquely challenging and very necessary. To find out how companies are communicating with and managing the expectations of their owners, this quarter we asked about companies' investor relations (IR) practices, as well as the prevalence and impacts of shareholder activism.

While most CFOs said their company continues to provide guidance in traditional ways (i.e., quarterly expectations for standard metrics, along with assumptions and drivers), some said they are not providing guidance at all or are providing less extensive or less frequent guidance than they have in the past. Even when earnings guidance is not provided on a quarterly cycle, it appears that most underlying IR-related analysis (e.g., income statement and balance sheet comparisons, company and business valuations, and acquisition/divestiture analysis) is still performed with that frequency—especially for publicly-traded companies.

On top of activities related to regular performance analysis and communication, many public companies appear to be undertaking activities related to anticipating and responding to shareholder activism. Just under half of these CFOs said their company has experienced activism in the last three years. Just over half said they have considered, taken, or expect to take action specifically because of activism—including many who say their own company has not recently experienced activism.

Private company CFOs, for their part, cited substantially less extensive and less frequent activity around owner-related analysis and communications—which aligns with other survey findings indicating that avoiding both a short-term focus and public company reporting/compliance requirements were key advantages of being privately held. Perhaps not surprisingly, nearly 85% said they rarely or never consider taking their company public.

Key developments since the 2Q19 survey

- US growth was moderate, aided by consumer spending, but hurt by investment and exports.
- The yield curve hit its largest inversion since 2007.
- The US Fed cut rates for the first time in a decade.
- President Trump announced a 10% tariff on all remaining Chinese imports, then eased his stance; China allowed its currency to depreciate sharply.
- China's 2Q economy grew at the slowest pace since the government started publishing numbers in 1992.
- After hitting a new high in July, the S&P 500 declined about 3.5% (for a gain of 1.3% between surveys).
- Canada's job market stalled in June.
- Mexico unveiled plans to buttress Pemex; the finance minister resigned, and the peso fell sharply.
- The US and Mexico reached an agreement to avoid new tariffs in exchange for stemming migrants.
- Eurozone growth decelerated and inflation remained low; Germany appeared at risk of recession.
- Boris Johnson replaced Theresa May as UK prime minister, promising to be out of the EU by October.

Summary of CFO sentiment and expectations

	This quarter	Last quarter	2 yr. avg.
Economy optimism—North America (Index)	12.3	23.3	35.5
Economy optimism—Europe (Index)	0.0	1.3	13.6
Economy optimism—China (Index)	6.6	6.3	17.2
Own-company optimism (Net)	-5.2	+9.5	+25.0
Revenue growth (YOY)	4.3%	3.8%	5.2%
Earnings growth (YOY)	5.6%	6.1%	7.8%
Capital investment growth (YOY)	3.6%	7.7%	7.4%
Domestic personnel growth (YOY)	1.6%	1.9%	2.5%
Percent of CFOs saying US equity markets overvalued	63.4%	64.2%	66.5%

Well below two-year average — Well above two-year average

Well below last quarter — Well above last quarter

Topical findings

Perceptions
Assessments of regional economies

CFOs' assessments of the current North American economy declined significantly; Expectations for the future of the North American and European economies hit new survey lows, while China remained among its three-year lows.

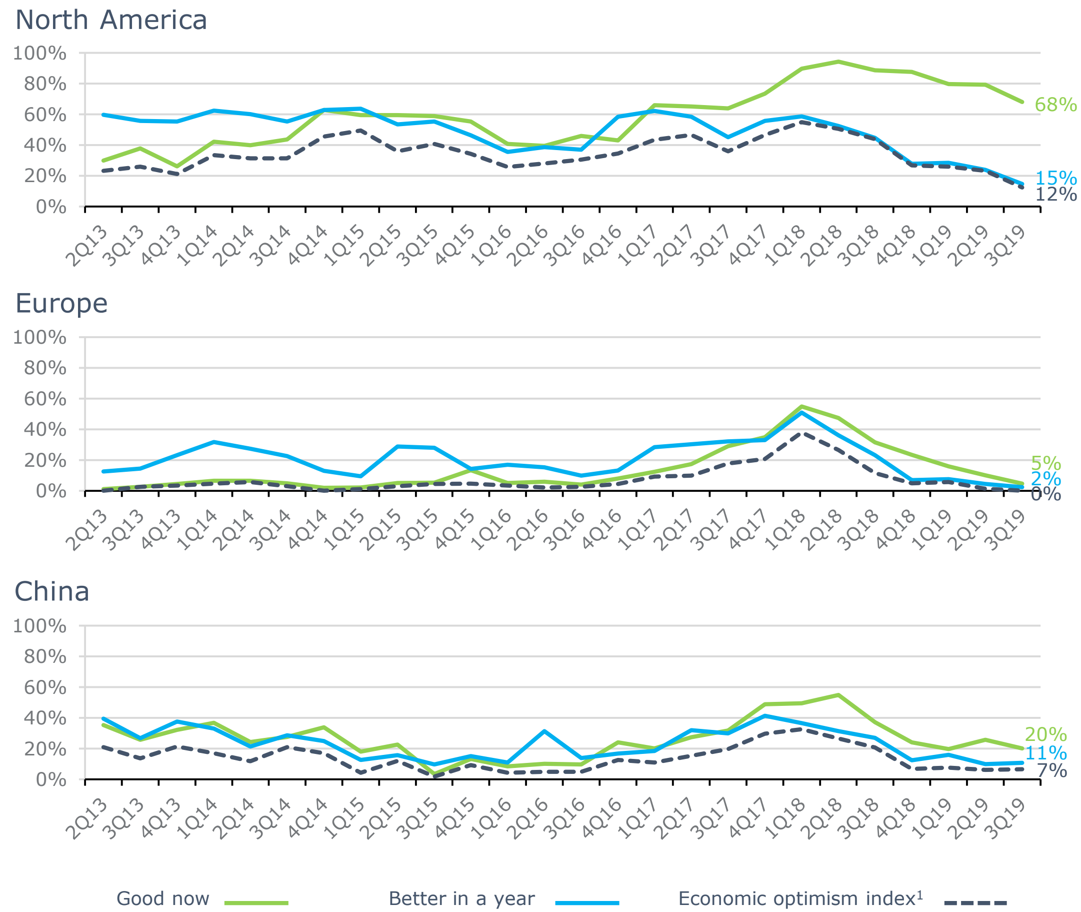
Assessments of North America peaked in 2Q18, with 94% of CFOs rating the economy as good. There have been five straight declines since then, with this quarter's level falling sharply from 79% to 68%. Assessments of the economy's trajectory have also been declining, and just 15% of CFOs now expect better conditions in a year—down sharply from last quarter's 24%, well below the 59% from 1Q18, and a new survey low. The region's optimism index[1] declined from +23 to +12, a new survey low.

Perceptions of Europe's economy have also receded since peaking in 1Q18. Only 5% of CFOs say current conditions are good (10% last quarter), and only 2% expect better conditions in a year (a new survey low). The optimism index[1] fell to zero from last quarter's +1, and it now sits at a new survey low.

Perceptions of China's economy have been mostly declining since early 2018. The proportion of CFOs who say current conditions are good fell from 26% to 20%, and just 11% expect better conditions in a year (up slightly from 10%, but still the second-lowest level in more than three years). The optimism index[1] rose slightly from last quarter's +6 to +7 (the second-lowest level in about three years).

Economic optimism

How do you regard the North American, European, and Chinese economies? Percent of CFOs saying current conditions are good or very good, percent saying conditions next year will be better or much better, and percent saying both (dotted line)



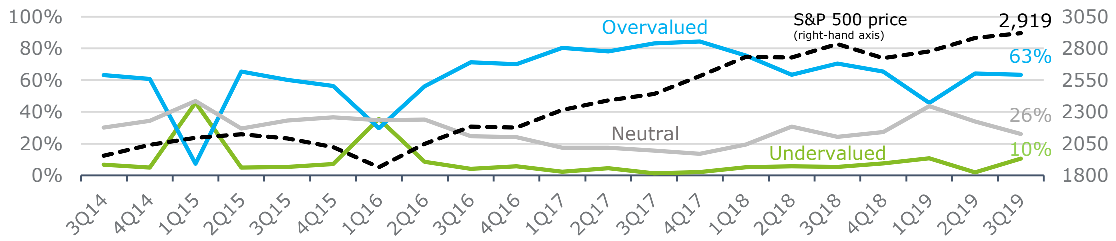
[1] Indexes reflect the percentage of respondents who rate current economic conditions as "good" or "very good" and who also expect "better" or "much better" conditions in a year. Please note that the calculation of this index changed in 1Q18 and all values from prior quarters have been recalculated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

Perceptions
Assessments of markets and risk

Equities remain regarded as overvalued. Equity market volatility was very high this quarter, both between surveys and within the two week survey-open period. Overall, the S&P 500 index netted a 1.3% increase between survey midpoints, with 63% of CFOs now saying US equity markets are overvalued. The proportion saying equities are undervalued rose from 2% to 10%.

Equity market valuations

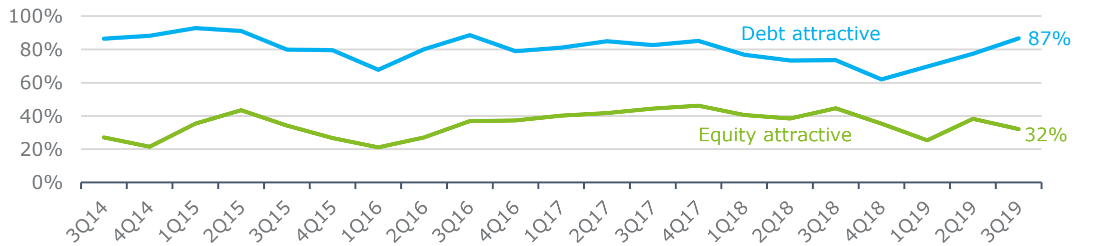
How do you regard US equity market valuations? Percent of CFOs saying markets are overvalued, undervalued, or neither (compared to S&P 500 price at survey midpoint)



Debt attractiveness rose for the third straight quarter; equity declined. With interest rates declining since last quarter, debt attractiveness rose to 87%—the highest level since 3Q16. Attractiveness of equity financing trended downward after last quarter's uptick, dipping for both public company CFOs (from 40% to 31%) and for private company CFOs (from 35% to 34%).

Debt/equity attractiveness

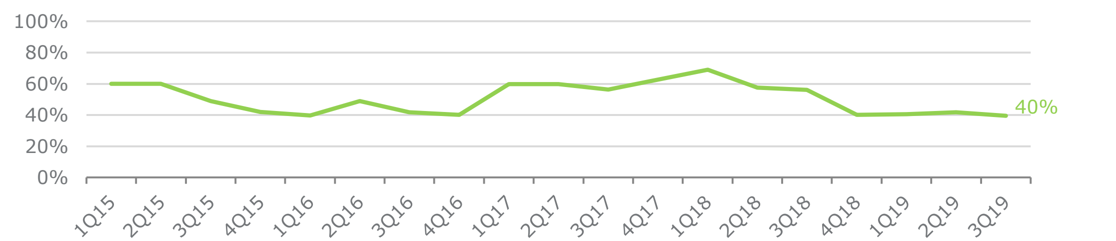
How do you regard debt/equity financing attractiveness? Percent of CFOs citing debt and equity attractiveness (both public and private companies)



Low appetite for risk-taking. The proportion of CFOs saying it is a good time to be taking greater risk has flatlined around 40% since late 2018. This quarter, it decreased slightly from 42% to 40%—the lowest level since this question was first asked in 2015.

Risk appetite

Is this a good time to be taking greater risk? Percent of CFOs saying it is a good time to be taking greater risk



Sentiment
Most worrisome risks

In the wake of new tariff threats and Brexit plans, CFOs express stronger concerns about the impact of government actions on slowing global economic growth. Talent concerns rose, as did challenges around cybersecurity and adaptation to change.

Prior to 2017, CFOs' top external risks focused on slow economic growth. As global economic performance improved through 2018, their top worries shifted toward threats to continued growth. Recently, attention has turned to the possibility of a US and broader global economic downturn—especially as a possible consequence of trade wars and continuing political turmoil.

This quarter, on the heels of renewed US threats, CFOs voiced even stronger concerns about tariffs and their possible effect on global growth. With emerging problems in the European economy and political changes in the UK, they also voiced stronger concerns about growth in that region and Brexit.

When it comes to internal risks, CFOs again expressed very strong talent concerns. Worries about cybersecurity and the need to adapt and innovate both accelerated this quarter. Cost control concerns appeared to recede.

Starting in 4Q18, CFOs began to cite external factors over internal factors as the dominant constraint on their companies' performance. The spread this quarter grew to 55% versus 26%.

Please see the full report for industry-specific charts. *Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.*

Most worrisome risks

What external and internal risk worries you the most? Paraphrasing and normalization of CFOs' most common free-form comments (numbers in parentheses indicate counts of CFOs who mentioned each type of risk; arrows indicate substantial movements since last quarter)

External risks (N=166)

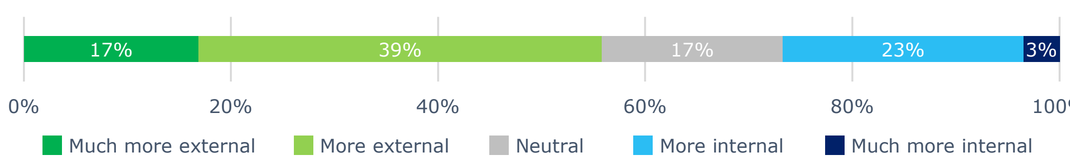
- ↑ Trade policy/tariffs (63)
- ↑ Economic risks/slowdown (34)
- ↓ Political turmoil/gridlock (25)
- ↑ Geopolitical risks (22)
- Detrimental policy/regulation (20)
- ↑ Interest rates (12)
- Equity markets (8)
- ↑↑ Brexit (7)
- ↑ China economy (7)
- ↑↑ Europe economy (6)
- Cybersecurity (6)
- ↑↑ Impact of 2020 elections (6)
- Consumer demand/behavior/sentiment (5)
- FX (5)
- Debt markets (4)
- Competition/disruption (3)
- ↓ Policy uncertainty (2)
- ↓ US budget/deficit (2)
- Input/commodity prices (2)
- ↓ Inflation (1)

Internal risks (N=162)

- ↑ Talent level/quality (59)
- Strategic/execution risk (29)
- ↑ Driving change/initiatives (15)
- ↑↑ Maintaining data security (14)
- ↑↑ Speed/adaptation/innovation (13)
- ↓ Cost control/efficiency (10)
- Prioritization/focus/overload (10)
- Achieving growth/sales (9)
- IT/technical change (9)
- Complacency (6)
- Operations risk/failure (4)
- Organization culture/alignment (4)
- Bandwidth/capacity (3)
- ↓ Labor costs (2)

Growth constraints

Which factors (external or internal) are most constraining your company's performance?



Sentiment
Optimism regarding own-company prospects

Own-company optimism turned negative for the first time in nearly seven years. Canada is highest at just +10, with the US and Mexico overwhelmingly negative at -4 and -50, respectively.

Net optimism peaked in 1Q18 at +54, then declined sharply through the rest of the year. It rebounded somewhat in the first part of 2019, but remained among the lowest levels from the prior three years.

Last quarter, it retreated to just +9, and this quarter it slid sharply to -5, the first negative reading since the fourth quarter of 2012. Twenty-six percent of CFOs expressed rising optimism (down from 30%), while 31% cited declining optimism (up from 21%).

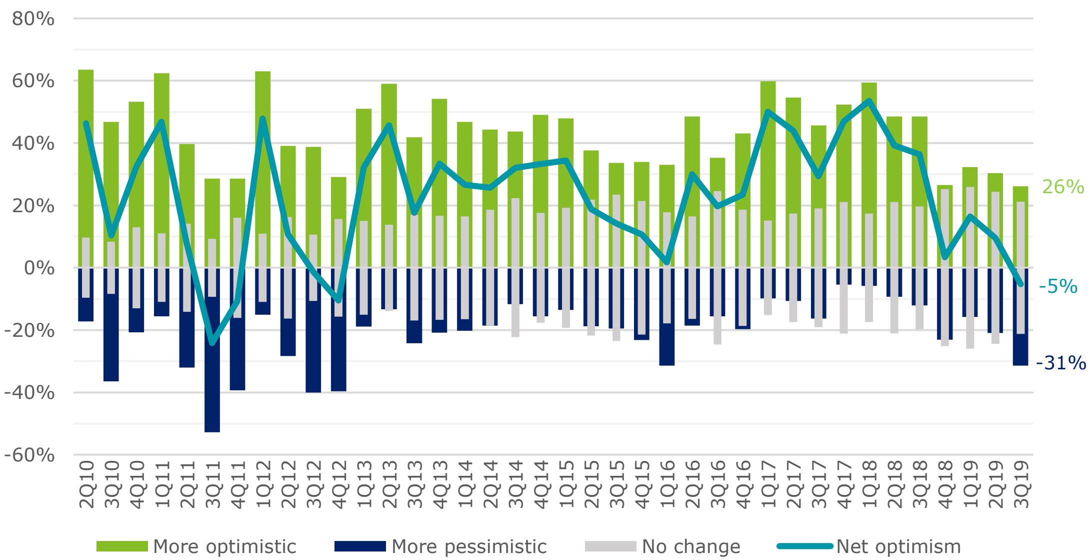
Net optimism for the US declined sharply from last quarter's +15 to just -4, the lowest level in nearly seven years. Canada rose from last quarter's -25 to +10. Mexico declined from last quarter's dismal -43 to -50, the second lowest level in the last two years.

Healthcare/Pharma, Manufacturing, Financial Services, and Services were all overwhelmingly pessimistic (-36, -31, -12, and -7, respectively). Technology was again most optimistic at +53; Retail/Wholesale and Energy/Resources were only mildly positive.

Please see the full report for industry-specific charts.
Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.

Own-company optimism

Compared to three months ago, how do you feel now about the financial prospects for your company? Percent of CFOs citing higher optimism (green bars), lower optimism (blue bars), and no change (gray bars); net optimism (line) is difference between the green and blue bars



Net optimism by country and industry (3Q19)

Total	US	Mexico	Canada	Manufacturing	Retail/ Wholesale	Technology	Energy/ Resources	Financial Services	Healthcare/ Pharma	T/M/E	Services
-5	-4	-50	+10	-31	+4	+53	+17	-12	-36	+50	-7

Red = relative lows
Green = relative highs

Expectations
Business focus for next year

Despite strong economic worries, CFOs continue to report a focus on offense over defense, with a strong focus on revenue growth over cost reduction and investing cash over returning it.

CFOs' focus on growing revenue over reducing costs rose this quarter, with 51% of CFOs citing a bias toward the former, and 22% toward the latter (for a net of +29%). The bias toward investing cash over returning it to shareholders continued, but lessened slightly at 48% versus 18% (for a net value of +30%, down from last quarter's +33%). Technology is highest for growing revenue; Healthcare/Pharma is highest for investing cash.

CFOs' bias toward current offerings over new ones continued, but shifted somewhat toward new offerings at 44% versus 35% (for a net of -9%, up from -15% last quarter). The bias toward current geographies again exceeded the bias toward new ones, but by a narrower margin at 62% versus 22% (for a net of -40%, the highest new-geography-orientation since 1Q17). Technology is highest for new offerings and also for new geographies.

The bias toward organic growth over inorganic growth continued, but decreased slightly this quarter at 64% to 15% (for a net of -49%, up from -55%). Energy/Resources is highest for organic growth; Services is highest for inorganic growth.

Please see the full report for industry-specific charts.
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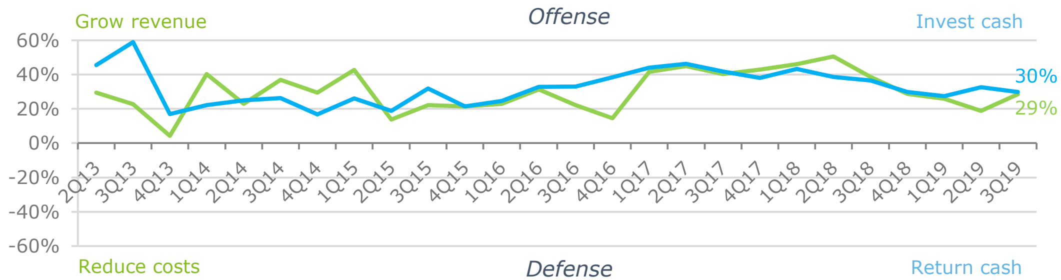
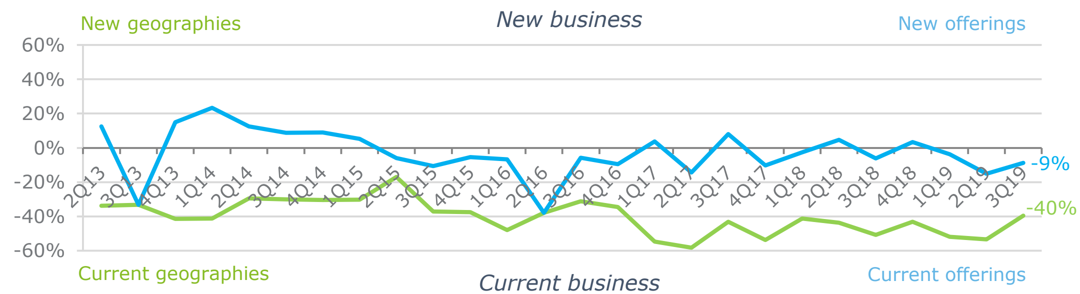
Business focus

What is your company's business focus for the next year? Net percent of CFOs citing a stronger focus on the top choice than on the bottom choice (e.g., grow revenue vs. reduce costs)

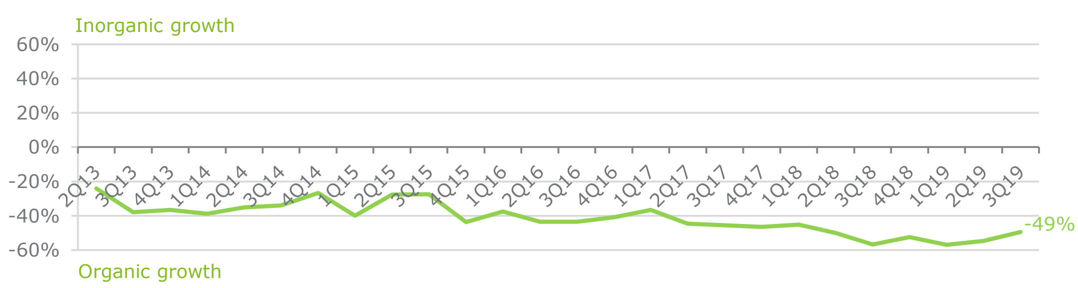
Offense vs. defense



New business vs. current business



Inorganic growth vs. organic growth



Expectations
Growth in key metrics, year-over-year

Earnings expectations slid to a new survey low, and capital spending and hiring declined to three-year lows; Manufacturing led most declines, but Retail/Wholesale and Technology were relative bright spots.

Revenue growth rose from 3.8% to 4.3%, but sits at its second-lowest level since 4Q16. The US rose, but is near its two-year low. Canada rose to just above its two-year average. Mexico rose, but remains below its two-year average. Technology leads; Manufacturing and Healthcare/Pharma trail.

Earnings growth declined from 6.1% to 5.6%, the lowest level in survey history. The US fell to a survey low. Canada rose to well above its two-year average. Mexico dipped to a four-year low. Technology and Retail/Wholesale lead; Manufacturing and Healthcare/Pharma trail.

Capital spending growth fell from 7.7% to just 3.6%, tying the three-year low. The US slid to a two-year low. Canada rose, but remains below its two-year average. Mexico slid to a six-year low. Financial Services, Healthcare/Pharma, and Retail/Wholesale are highest; Energy/Resources and Manufacturing are lowest.

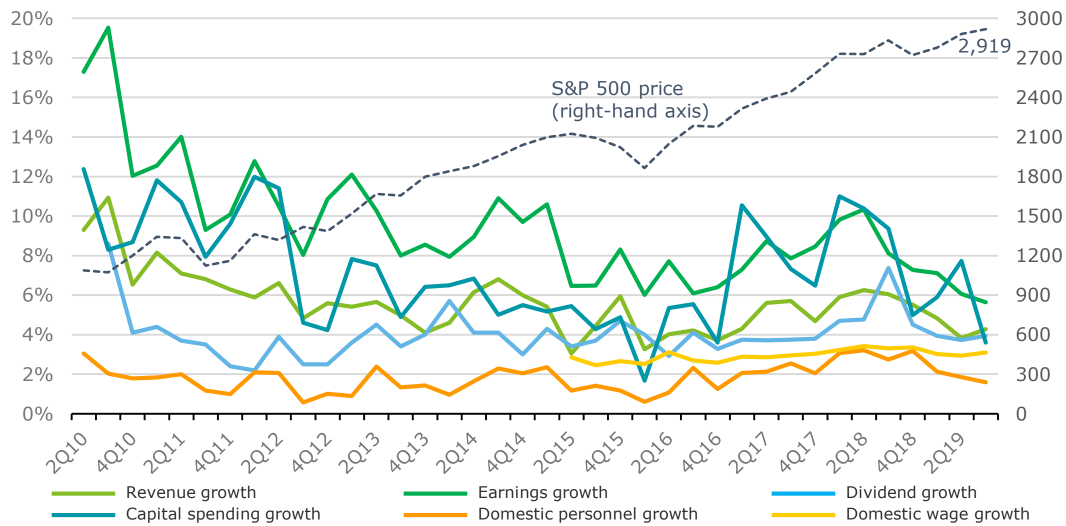
Domestic personnel growth slid from 1.9% to 1.6%, the lowest level since 3Q16. The US fell to its lowest level in nearly three years. Canada slid to well below its two-year average. Mexico rose to just above its two-year average. Technology and Retail/Wholesale lead; Energy/Resources trails.

Dividend growth rose from 3.7% to 3.9%, but remains well below the two-year average.

Please see the full report for industry-specific charts. *Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.*

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)



YOY growth expectations by country and industry (3Q19)

	Total	US	Mexico	Canada	Manufacturing	Retail/ Wholesale	Technology	Energy/ Resources	Financial Services	Healthcare/ Pharma	T/M/E	Services
Revenue	**4.3%**	4.1%	6.0%	5.4%	2.2%	5.3%	8.4%	4.2%	4.7%	3.4%	2.3%	4.6%
Earnings	**5.6%**	5.6%	3.0%	7.7%	3.2%	7.3%	9.1%	5.7%	6.5%	3.2%	3.8%	7.1%
Capital spending	**3.6%**	3.7%	5.8%	6.3%	0.6%	6.5%	3.9%	0.5%	7.5%	6.8%	-5.8%	1.3%
Domestic personnel	**1.6%**	3.6%	0.8%	5.3%	1.0%	2.7%	4.5%	0.1%	1.3%	1.5%	-3.8%	2.3%
Dividends	**3.9%**	1.5%	3.9%	6.3%	3.3%	6.0%	1.6%	3.1%	5.5%	3.2%	1.0%	2.8%
Domestic wages	**3.1%**	3.1%	4.1%	3.1%	2.8%	3.5%	3.8%	3.3%	3.1%	2.6%	2.8%	2.9%

Red = relative lows
Green = relative highs

Special topic: Public company investor relations/activism
Approach to providing guidance

The vast majority of CFOs say they provide guidance in traditional ways involving quarterly estimates and underlying assumptions, but some are not providing guidance at all or are providing less extensive or less frequent guidance.

Nearly two-thirds of CFOs said their strategy for providing guidance to shareholders was to provide best estimates along with the assumptions upon which they are based. Several CFOs specifically called out the provision of a range of possibilities rather than a single estimate, and also the discussion of drivers that would influence where their actual performance would fall within those ranges.

Sixteen percent of CFOs said they provide conservative estimates to allow for volatility in the macroenvironment, led by Technology at 27%. Just 11% said they do not provide any guidance at all, with Financial Services highest at 20% and Technology lowest at zero.

Much less common were strategies that involved less extensive and less frequent guidance. Just 5% cited providing only directional guidance or guidance only around a narrow set of metrics (led by Financial Services at 20%). Only 4% said they provide guidance less frequently than quarterly and/or provide estimates that cover one-year to five-year time horizons (led by Services at 8%).

Please see the full report for industry-specific charts.
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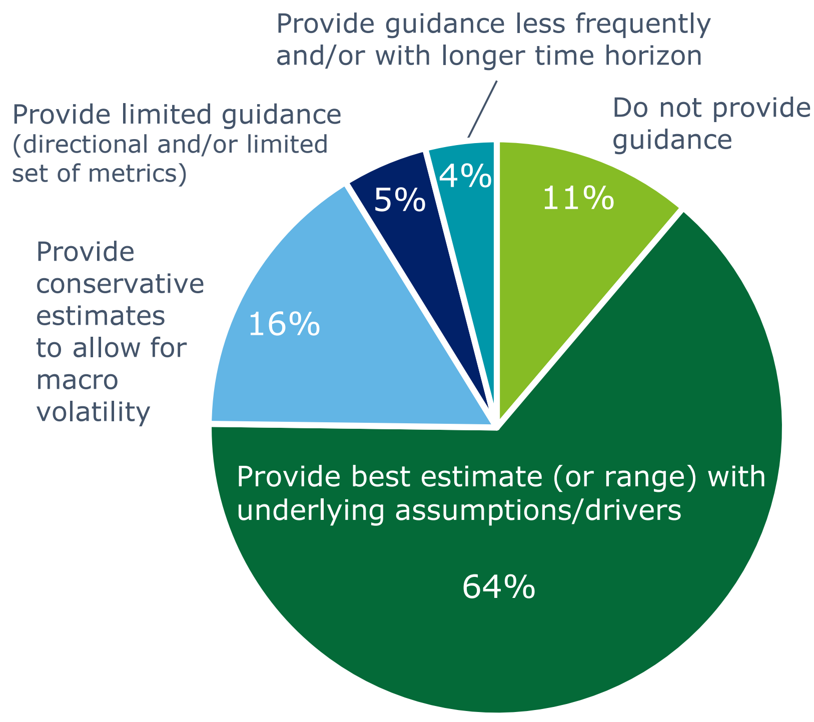
Approach to providing guidance
What is your strategy for providing earnings guidance?
Percent of public company CFOs selecting each option



Special topic: Public company investor relations/activism
Frequency of analysis and communication

Most investor relations analysis and communication activities still occur quarterly, even when earnings guidance does not; addressing activism appears to be a substantial focus.

Seventy percent of public company CFOs said their company provides guidance quarterly, followed by 17% who cite yearly guidance.

Even when they do not provide quarterly guidance, CFOs overwhelmingly cite quarterly cycles for reviewing analysts' views, talking with key analysts, and talking with key shareholders (all cited as quarterly by more than 90% of CFOs). Monitoring their investor base composition, comparing income statement performance, and soliciting investor input were all above 80%.

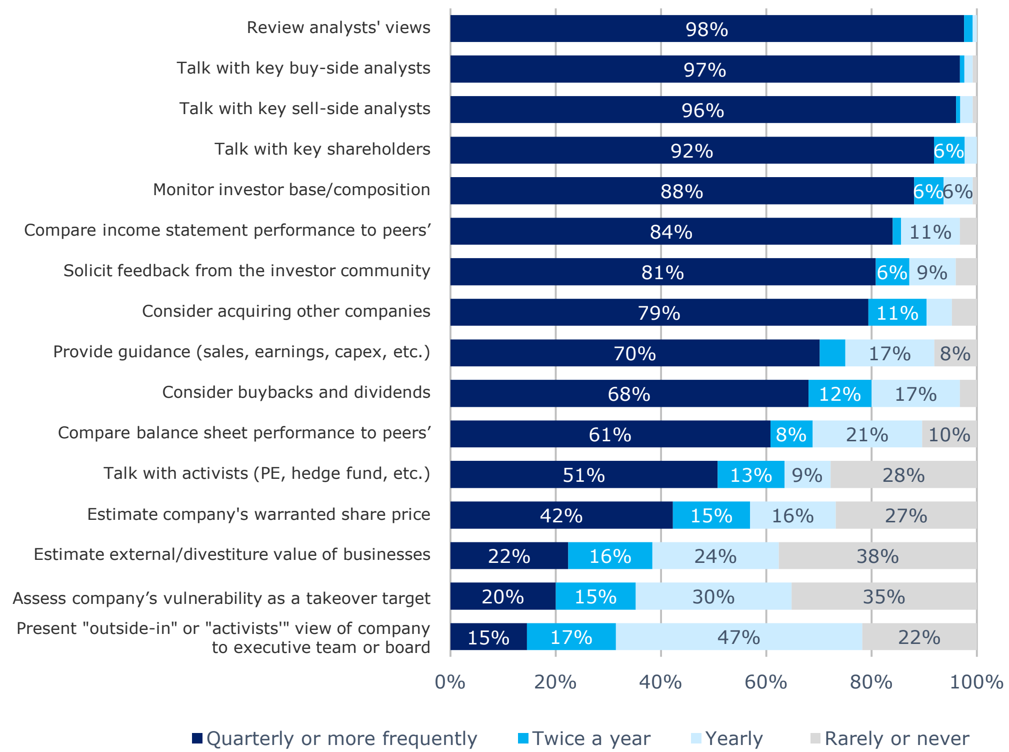
Some activism-related activities appear less frequent, but are still very prevalent. Consideration of buybacks was cited as at least a yearly activity by 97% of CFOs (68% quarterly), and 72% said the same for talking with activists (51% quarterly). Nearly 80% cited at least yearly presentation of an "activists' view" to leaders, and 65% did so for assessing their company's takeover attractiveness.

Estimating their company's warranted share prices was cited as at least a yearly activity by 73% of CFOs; 42% cited quarterly analysis.

Please see the full report for industry-specific charts. *Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.*

Analysis and communication

How often does your company conduct the following activities? Percent of public company CFOs selecting each option for each activity



Special topic: Public company investor relations/activism
Types of shareholder activism experienced in last three years

Nearly 45% of CFOs said their company has experienced shareholder activism in the last three years, with direct management communication the most common form.

Back in 1Q15, we asked CFOs whether or not their company had ever experienced any forms of shareholder activism, and 75% said they had experienced at least one.

This quarter we asked specifically about *the last three years,* and 44% cited at least one form of activism. There were significant industry differences, however, with Retail/Wholesale, Healthcare/Pharma, and Technology the highest (58%, 56%, and 54%, respectively) and Financial Services (28%) the lowest by a wide margin. Just 19% of all respondents (or 44% of those reporting activism) said they have experienced more than one form.

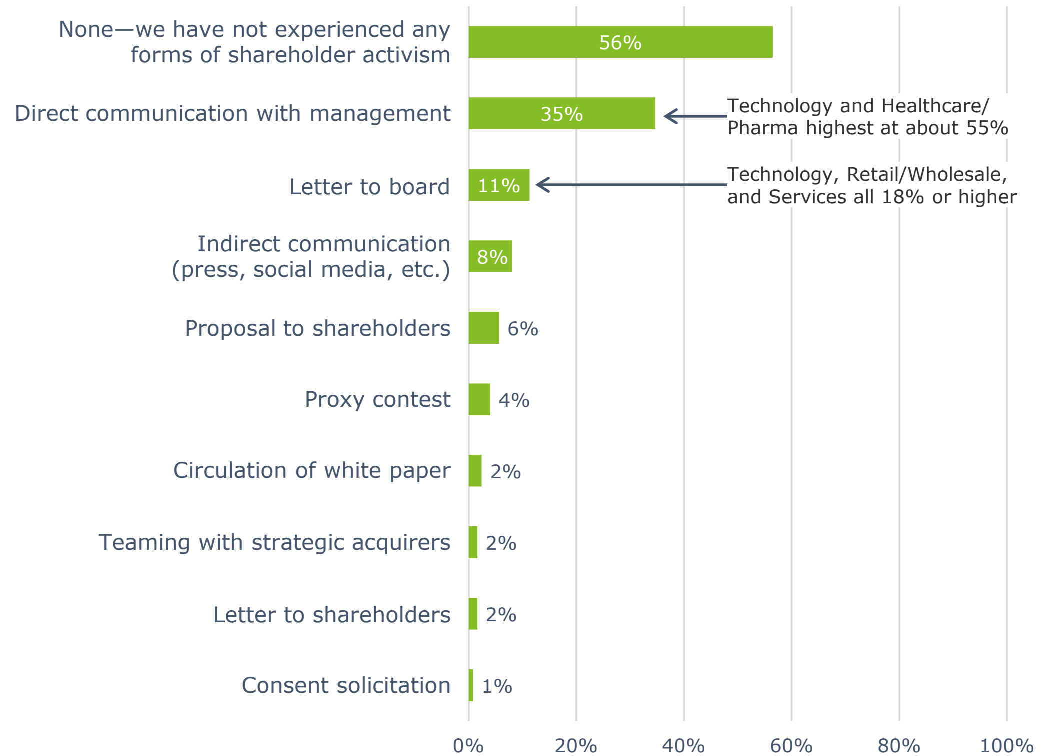
Similar to 2015, direct communication with management was by far the most common form of activism for all industries, with 35% of CFOs citing it over the past three years. Letters to the board came in a distant second at 11%, and indirect communication, which came in second in 2015 at 30%, fell to third this quarter at 8%.

Shareholder proposals and proxy contests again came in fourth and fifth.

Please see the full report for industry-specific charts. *Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.*

Types of activism experienced

Which forms of shareholder activism has your company experienced within the last three years? Percent of public company CFOs citing each form



Special topic: Public company investor relations/activism
Response to shareholder activism

Just over half of public company CFOs say they have considered, taken, or expect to take action specifically in response to shareholder activism.

Fifty-two percent of public company CFOs said they have considered or already made changes in response to shareholder activism, or that they expect to make a change in the next three years. The percentage was highest for those who have experienced activism in the last three years (75%), but it was also substantial for those who have not (31%).

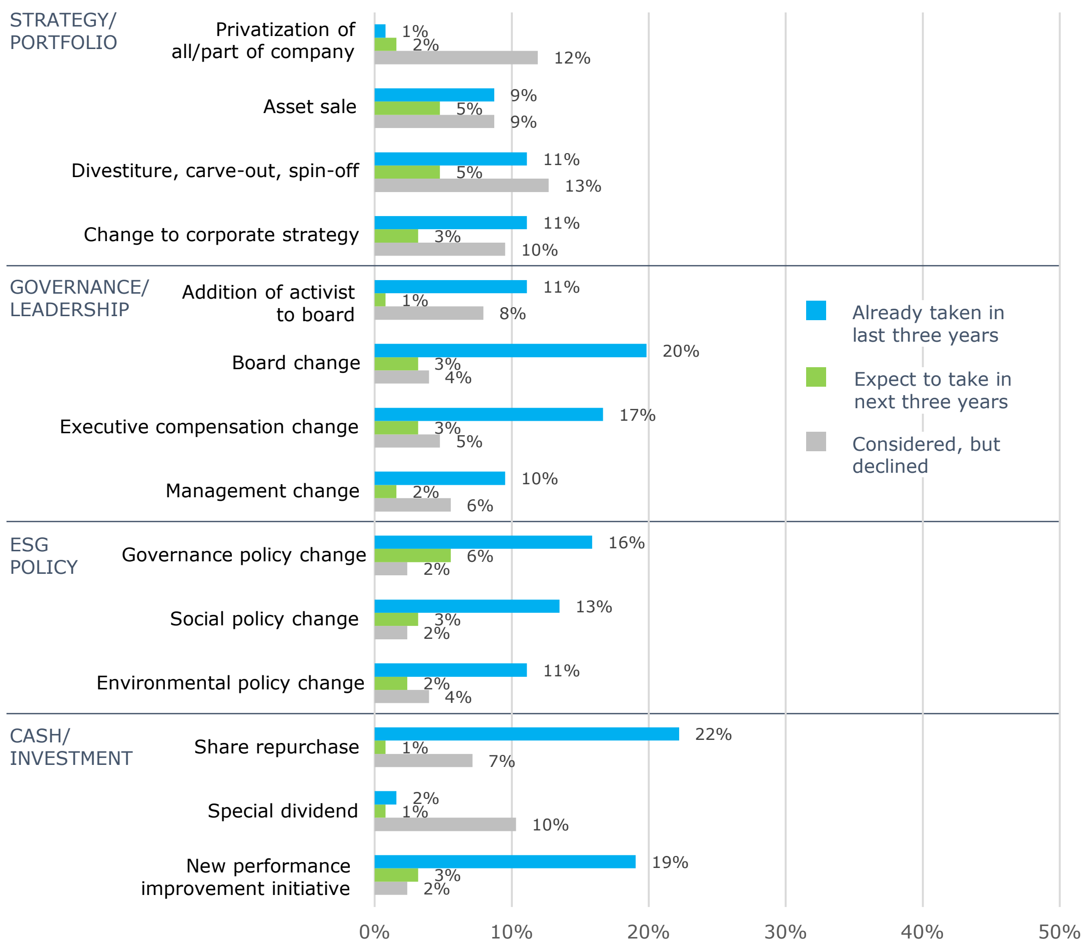
Repurchases were the most common action already taken, with 22% of all public company CFOs citing this action (29% for those who had experienced activism; 17% for those who had not). Board changes were next at 20% (33% and 10%), followed by new performance initiatives at 19% (29% and 11%).

Among CFOs who had experienced activism, the addition of activists to the board, management changes, and governance policy changes were also relatively common (all 20% or higher). Among those who had *not* experienced activism, governance policy changes, executive compensation changes, and environmental and social policy changes were relatively common (all 10% or higher).

Industry activity varied considerably, with Technology and Healthcare/Pharma more active and Retail/Wholesale and Financial Services less so.

Please see the full report for industry-specific charts.
Note that industry sample sizes vary and that results are volatile for the smallest. Due to a small sample size, T/M/E was not used as a comparison point.

Response to shareholder activism
What actions have you taken and/or do you expect to take specifically in response to shareholder activism? Percent of public company CFOs selecting each option for each action



Special topic: Private company ownership
Frequency of analysis and communication; private advantages

Private company CFOs cite substantially less extensive and less frequent activity around owner-related analysis and communications than do their public company peers.

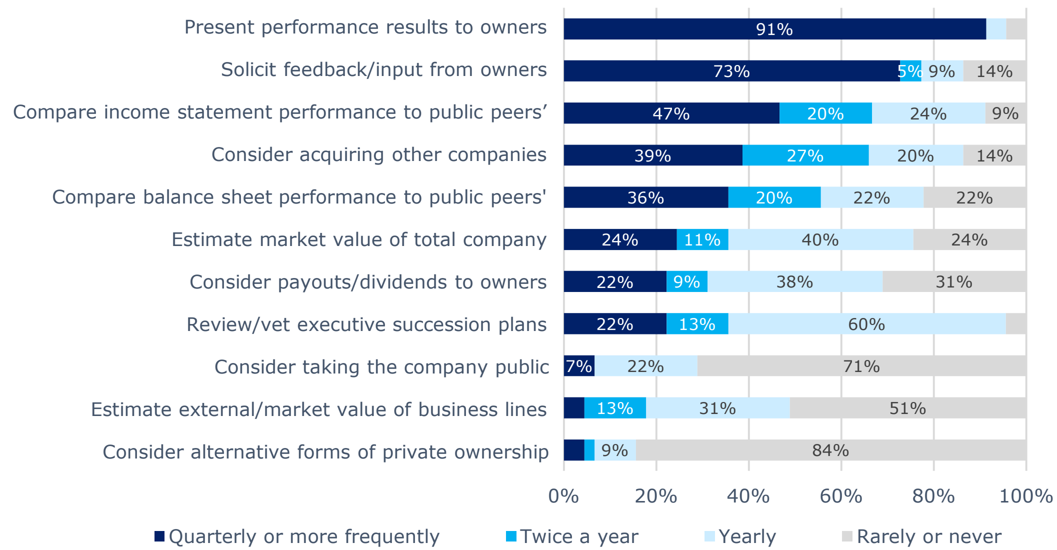
A majority of private company CFOs cite a quarterly frequency for just two activities—presenting performance results to owners (91%) and soliciting feedback and input from owners (73%). Less than half cited quarterly cycles for comparing income statement performance to their public peers’ and considering acquisition of other companies, but more than 85% cited at least a yearly cycle.

Compared to their public company peers (please see appendix chart on page 27 of the full report), private company CFOs reported much lower frequency in comparing income and balance sheet performance to their peers, considering acquisitions, considering payouts to owners, and estimating the external/market value of their businesses (the only similarity was around soliciting feedback from owners). This appears consistent with the advantages these CFOs cited of being privately held, where they mentioned avoiding both a short-term focus and public company reporting/ compliance requirements as key benefits.

Nearly 85% of these CFOs said they rarely or never consider taking their company public.

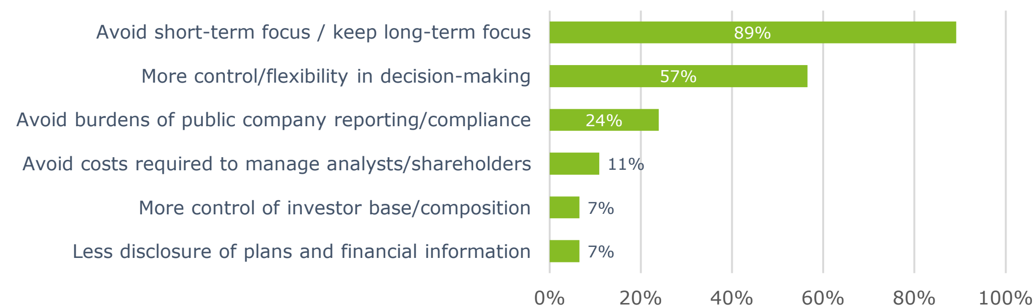
Analysis and communication

How often does your company conduct the following activities? Percent of private company CFOs selecting each option for each activity



Advantages of private ownership

For your company, what are the most important advantages of being privately held? Percent of private company CFOs citing each advantage in their top two



Special topic: Private company ownership
Ownership types; approach to providing guidance

The private company CFOs participating in this quarter's survey are from companies averaging more than $3B in annual revenue; the majority are from family-owned or PE-owned companies.

Twenty-six percent of this quarter's responding CFOs were from private companies, 75% of which have annual revenue above $1B.

Twenty-eight percent were private equity-owned, and the same proportion were family-owned (both averaged about $2.5B in annual revenue). Twenty percent were closely-held, with average revenue of about $2B. Thirteen percent were mutually-owned, most of which were insurance companies (averaging about $10B in annual revenue).

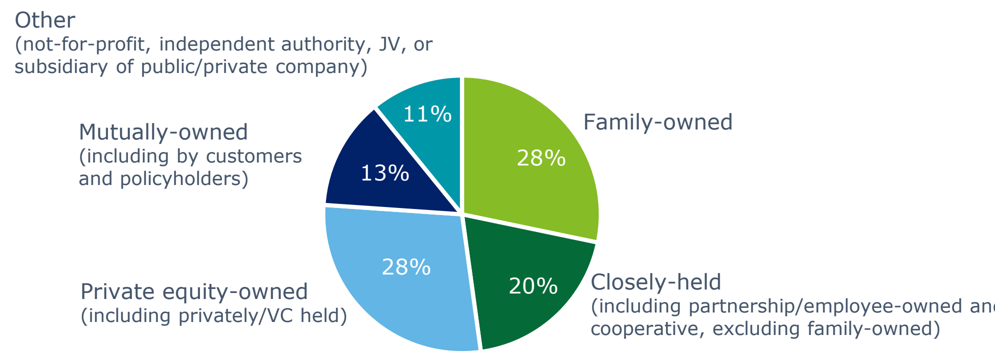
Please see full report for industry-specific charts. *(note very small sample sizes for some industries).*

Like their public company peers, private company CFOs mostly cite traditional quarterly guidance; they appeared relatively less likely to be scaling back on depth and frequency.

About two-thirds of private company CFOs say they provide best estimates with underlying assumptions and drivers, while 15% say they do not provide any guidance (both levels are similar to those of public company CFOs). While some public company CFOs said they are scaling back the depth, breadth, and frequency of guidance, private company CFOs did not.

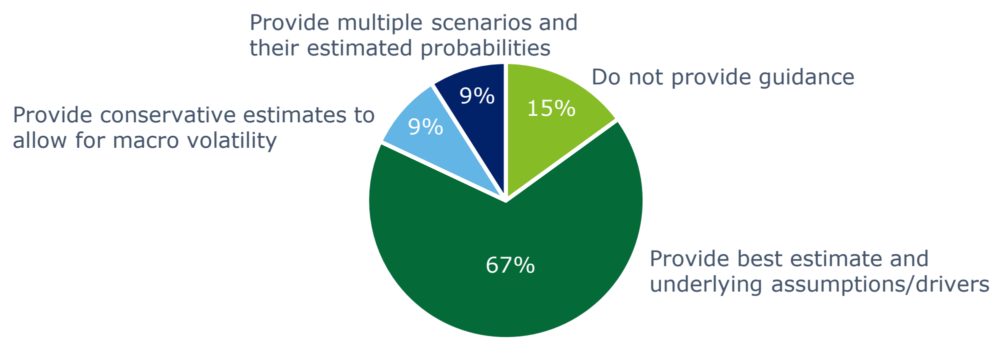
Private ownership types

Which category best describes your company's ownership type? Percent of private company CFOs selecting each option



Approach to providing guidance

What is your strategy for providing earnings guidance? Percent of private company CFOs selecting each option



Special topic: Private company ownership
Prior executive roles of private company CFOs

Private company CFOs are about equally likely to report prior senior finance roles at public companies and private companies; non-CFO roles at public companies were the most common overall.

Eighty-seven percent of this quarter's private company CFOs report prior finance leadership roles.

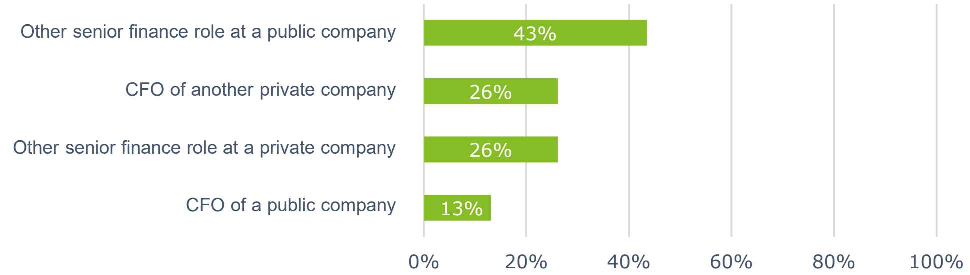
Just over half report prior *private company* leadership roles, evenly split between a CFO role and other senior finance roles at 26%.

Half report prior *public company roles*, with 43% reporting a non-CFO finance leadership role and 13% citing a public company CFO role.

Please see full report for industry-specific charts *(note very small sample sizes for some industries).*

Prior executive roles

Prior to your current CFO role, which other executive roles have you held? Percent of private company CFOs citing each prior role



Appendix

Longitudinal data and survey background

Longitudinal trends
Cross-industry expectations and sentiment (last 24 quarters)

CFOs’ year-over-year expectations[1]

(Mean growth rate, median growth rate, percent of CFOs who expect gains, and standard deviation of responses[2])

			4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	Survey mean	2-year mean
Operating results	Revenue	mean	4.1%	4.6%	6.1%	6.8%	6.0%	5.4%	3.1%	4.4%	5.9%	3.3%	4.0%	4.2%	3.7%	4.3%	5.6%	5.7%	4.7%	5.9%	6.3%	6.1%	5.5%	4.8%	3.8%	4.3%	5.6%	5.2%
		median	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	5.0%	3.0%	4.0%	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.9%	4.8%
		%>0	82%	90%	90%	89%	90%	86%	78%	79%	82%	78%	72%	83%	82%	85%	89%	92%	87%	91%	92%	91%	91%	86%	81%	82%	85%	88%
		standard deviation	4.9%	3.9%	4.5%	5.9%	4.0%	6.4%	6.3%	5.4%	6.8%	5.1%	6.7%	4.8%	3.9%	3.7%	4.4%	3.9%	4.0%	4.1%	4.6%	5.0%	4.3%	4.4%	5.1%	4.9%	5.5%	4.5%
	Earnings		8.6%	7.9%	8.9%	10.9%	9.7%	10.6%	6.5%	6.5%	8.3%	6.0%	7.7%	6.1%	6.4%	7.3%	8.7%	7.9%	8.4%	9.8%	10.3%	8.1%	7.3%	7.1%	6.1%	5.6%	9.4%	7.8%
			8.0%	7.0%	8.0%	8.0%	8.0%	8.0%	5.0%	8.0%	7.0%	5.0%	7.0%	5.0%	6.0%	8.0%	8.0%	7.5%	8.0%	8.0%	10.0%	8.0%	8.0%	7.0%	6.0%	5.0%	7.8%	7.5%
			82%	84%	83%	90%	86%	79%	79%	79%	82%	79%	76%	81%	81%	89%	88%	90%	86%	88%	94%	89%	85%	82%	80%	80%	84%	86%
			9.3%	7.5%	9.8%	8.6%	6.9%	17.1%	11.6%	11.0%	10.5%	9.1%	13.5%	7.0%	7.1%	5.6%	8.6%	5.7%	7.5%	7.7%	7.0%	5.8%	6.2%	4.4%	7.4%	7.0%	10.9%	6.6%
Investment	Dividends		4.0%	5.7%	4.1%	4.1%	3.0%	4.3%	3.4%	3.7%	4.7%	4.0%	2.9%	4.1%	3.3%	3.8%	3.7%	3.8%	3.8%	4.7%	4.8%	7.4%	4.5%	3.9%	3.7%	3.9%	4.1%	4.6%
			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.0%	0.5%	0.0%	0.1%	0.3%
			37%	47%	45%	45%	44%	47%	43%	45%	45%	46%	42%	43%	43%	43%	46%	43%	45%	49%	47%	51%	43%	44%	50%	48%	41%	47%
			6.7%	7.3%	6.1%	4.8%	3.8%	5.9%	5.3%	4.7%	7.0%	6.0%	4.7%	7.6%	3.9%	4.7%	5.5%	6.0%	5.8%	6.6%	6.3%	12.8%	4.7%	6.6%	4.6%	4.6%	6%	6.5%
	Capital spending		6.4%	6.5%	6.8%	5.0%	5.5%	5.2%	5.4%	4.3%	4.9%	1.7%	5.4%	5.6%	3.6%	10.5%	9.0%	7.3%	6.5%	11.0%	10.4%	9.4%	5.0%	5.9%	7.7%	3.6%	7.2%	7.4%
			3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	5.0%	0.0%	4.0%	2.0%	3.0%	5.0%	5.0%	4.5%	3.0%	5.0%	5.0%	5.0%	2.0%	3.0%	2.0%	2.0%	4.0%	3.4%
			59%	57%	64%	60%	62%	63%	59%	53%	59%	50%	61%	58%	57%	66%	66%	61%	59%	70%	73%	70%	58%	58%	57%	53%	60%	62%
			11.2%	13.2%	12.1%	8.9%	10.9%	12.7%	16.5%	11.5%	12.4%	11.2%	16.0%	10.7%	11.4%	20.9%	17.8%	14.2%	12.2%	14.9%	12.2%	14.3%	10.6%	9.7%	14.0%	9.1%	14%	12.1%
Talent	Number of domestic personnel		1.4%	1.0%	1.6%	2.3%	2.1%	2.4%	1.2%	1.4%	1.2%	0.6%	1.1%	2.3%	1.3%	2.1%	2.1%	2.6%	2.0%	3.1%	3.2%	2.7%	3.2%	2.1%	1.9%	1.6%	1.8%	2.5%
			0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	0.0%	1.5%	0.0%	0.0%	1.0%	1.0%	0.0%	1.0%	2.0%	2.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%	1.0%	0.9%	1.6%
			48%	42%	58%	58%	60%	58%	49%	57%	50%	47%	55%	53%	48%	57%	62%	59%	54%	66%	65%	66%	61%	64%	54%	56%	54%	61%
			4.4%	4.9%	3.9%	4.5%	3.6%	3.1%	4.5%	4.8%	3.6%	3.0%	3.8%	3.1%	2.3%	1.9%	2.7%	3.8%	3.3%	4.4%	4.4%	3.7%	4.5%	3.3%	3.5%	3.5%	4.5%	3.8%

CFOs’ own-company optimism[3] and equity market performance

		4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	Survey mean	2-year mean
Optimism	Optimism (% more optimistic)	54.2%	46.8%	44.3%	43.7%	49.0%	47.9%	37.6%	33.6%	33.9%	33.1%	48.6%	35.2%	43.1%	59.9%	54.6%	45.6%	52.4%	59.4%	48.5%	48.5%	26.5%	32.3%	30.4%	26.2%	44.2%	40.5%
	Neutrality (% no change)	33.4%	33.0%	37.2%	44.6%	35.3%	38.5%	43.6%	46.9%	42.9%	35.6%	32.9%	49.2%	37.2%	30.3%	34.8%	38.1%	42.2%	34.8%	42.1%	39.4%	50.4%	51.9%	48.7%	42.4%	34.9%	44.0%
	Pessimism (% less optimistic)	20.8%	20.2%	18.6%	11.7%	15.6%	13.5%	18.8%	19.5%	23.2%	31.4%	18.6%	15.6%	19.7%	9.9%	10.6%	16.3%	5.4%	5.8%	9.4%	12.1%	23.1%	15.8%	20.9%	31.4%	21.1%	15.5%
	Net optimism (% more minus % less optimistic)	33.4%	26.6%	25.7%	32.0%	33.3%	34.4%	18.8%	14.2%	10.7%	1.7%	30.0%	19.7%	23.4%	50.0%	43.9%	29.4%	46.9%	53.5%	39.2%	36.4%	3.4%	16.5%	9.5%	-5.2%	23.1%	25.0%
Equities	S&P 500 price at survey period midpoint	1,798	1,839	1,878	1,955	2,040	2,097	2,123	2,092	2,023	1,865	2,047	2,184	2,177	2,316	2,391	2,441	2,582	2,732	2,728	2,833	2,722	2,776	2,881	2,919	1,950	2,772
	S&P gain/loss QoQ	8.6%	2.3%	2.1%	4.1%	4.3%	2.8%	1.2%	-1.5%	-3.3%	-7.8%	9.8%	6.7%	-0.3%	6.4%	3.2%	2.1%	5.8%	5.8%	-0.1%	3.8%	-3.9%	2.0%	3.8%	1.3%	2.9%	2.3%
	US equity valuations (% who say overvalued)							65.4%	60.2%	56.3%	29.7%	56.1%	71.3%	70.1%	80.3%	78.0%	83.1%	84.4%	75.5%	63.4%	70.5%	65.3%	45.6%	64.2%	63.4%	65.7%	66.5%

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.

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.

This is a "pulse survey" intended to provide CFOs with quarterly 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.

About Deloitte

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