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CFO Signals™

Business Outlook Findings[1] | 4th Quarter 2015

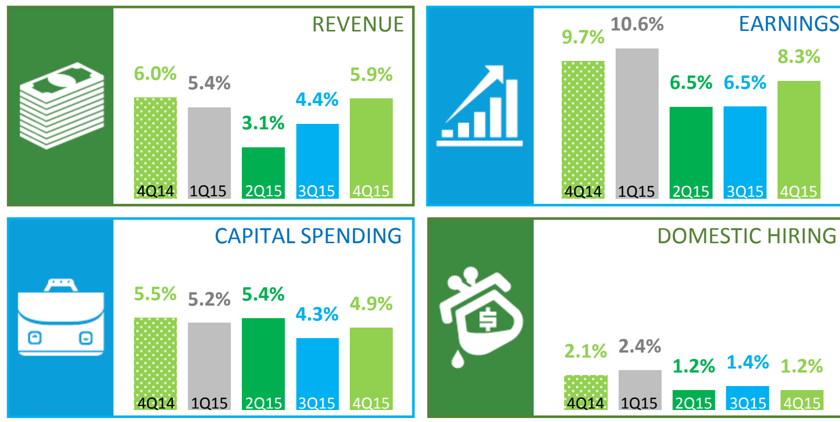
Betting on North America despite 2016 concerns

CFOs' own-company growth expectations, which hit several lows in 2Q15, did not rebound much in 3Q15. Most growth expectations did rebound significantly this quarter, but CFOs' optimism regarding their companies' longer-term prospects is still declining—perhaps influenced by distressing geopolitical events that culminated in terrorist attacks in Paris while the survey was still open.

This quarter's survey focuses on CFOs' business outlook for 2016, and there does seem to be considerable optimism in their expectations and plans. Overall, there seems to be a belief among many that North America (and the US in particular) can continue to shoulder the burden of economic growth again in 2016—despite interest rate increases and a US presidential election that appears already on many of their minds.

COMPANY GROWTH EXPECTATIONS[2]

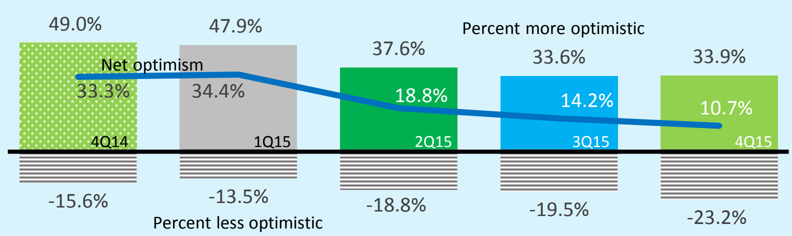
Revenue growth expectations rebounded from their 2Q15 lows and are about even with a year ago. Earnings and capital spending growth expectations also rebounded significantly. Domestic hiring growth expectations remain sluggish.



2. Quarterly numbers represent CFOs expected change year-over-year. Averages have been adjusted to eliminate the effects of stark outliers.

OWN-COMPANY OPTIMISM[3]

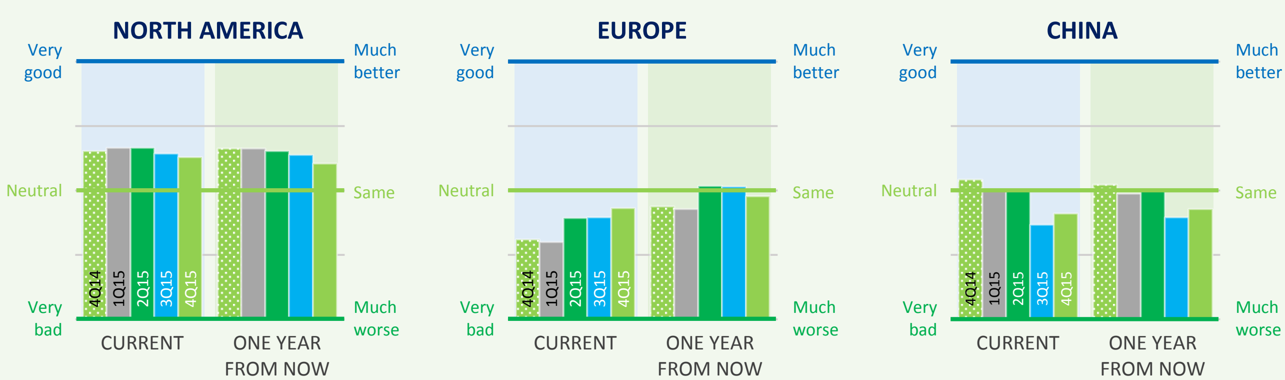
Net optimism came in at +10.7 (a three-year low). Thirty-four percent of CFOs express rising optimism (the second-lowest level in three years), and 23% express declining optimism (a two-year high).



3. Figures represent percent of CFOs saying their optimism regarding their organization's prospects is higher/lower than the previous quarter. The balance indicated no change.

ECONOMIC OPTIMISM[4]

Fifty-five percent of CFOs describe North American conditions as good, and 47% expect better conditions in a year. Eight percent describe Europe as good, but only 15% see it improving in a year. Fourteen percent regard China's economy as good, and just 16% expect improvement.



4. These figures are the average CFO rating based on five-point scales for current state ("very bad" to "very good") and expected state one year from now ("much worse" to "much better").

1. These findings are a subset of the full CFO Signals report. The full report is available at www.deloitte.com.

The 4Q15 survey was conducted during the two-week period ending November 20, 2015. Eighty-two percent of the 112 CFO respondents were from organizations with more than $1 billion in annual revenue and 76% were from publicly-traded organizations.

PERCEPTIONS

What is your perception of the capital markets? Fifty-six percent of CFOs say US markets are overvalued (down from 60% last quarter). Eighty percent again say debt is currently an attractive financing option, and 26% of public company CFOs view equity financing favorably (down from 36% last quarter).

PRIORITIES

What is your company's business focus for the next year? North American markets are still the overwhelming focus, with a rising bias toward current offerings and organic growth. See special-topics questions for detailed findings about 2016 priorities.

SENTIMENT

Overall, what external and internal risks worry you the most? Top risks show concerns about slow global growth and geopolitical instability. Worries continued about a US pullback, with rising concerns about labor costs, declining domestic manufacturing, and the world's reliance on the US economy. Concerns about commodity prices and regulation are again industry dependent. Talent retention is again a worry, and the 2016 US presidential elections emerged as a significant concern.

SPECIAL TOPIC: 2016 business environment

What are your expectations for the 2016 macroeconomic environment? For each individual economy, the proportion of CFOs expecting 2016 to be better than 2015 was matched by the proportion who did not (US CFOs were more pessimistic about their own economy). About half of US CFOs say the presidential election will impact performance. Only 27% of surveyed CFOs said improvement in North America's economy is dependent on improvement in China's. More than 90% say the federal funds rate will rise, but 60% expect rates below 2% through 2017. About 60% expect the US dollar to rise against the renminbi and the euro.

SPECIAL TOPIC: 2016 business priorities

What are your company's business priorities for 2016? Growing existing businesses and getting more efficient are the dominant focuses, but new markets are very significant for some industries. Risk management is a strong focus in Energy/Resources and in Canada. Few are focused on raising prices.

SPECIAL TOPIC: 2016 plans

What are your company's top uses of cash for 2016? About 80% say investing for growth is a top cash use, and about 40% cite investing for efficiency gains. More than 50% say paying dividends will be a top use, and 26% cite buying back shares. Industry and public/private company differences are substantial.

What is your company's geographic focus for 2016? CFOs indicate a push toward higher investment in North American markets with little additional focus on Europe or China. The majority also say China is not particularly important as a supplier.

Which markets will be important to your company's revenue growth over the next five years? CFOs said their home markets (and the US, for non-US companies) are the most important, but there are significant differences by country and especially by industry. The average CFO selected four of the 11 countries presented.

What will be the purpose of your M&A deals for 2016? For the 63% of CFOs who expect deals, there is considerable diversity of purposes—sometimes reflecting industry differences, but more often appearing to reflect company-specific factors. Pursuing scale efficiencies and growth in existing markets were the most mentioned.

What will you do in 2016 to improve your company's profitability? The most common tactic combinations include the execution of productivity improvement efforts—paired with a focus on higher-margin businesses or paired with efforts to reduce labor and/or non-labor input costs. One quarter expect to raise prices.

SPECIAL TOPIC: Personal investments and retirement

How are you allocating your personal investments? Since 2Q12 (the last time we asked this question), cash, foreign stocks (especially in emerging markets), and commodities have lost some of their appeal in CFOs' own portfolios. Domestic stocks and real estate have held up fairly well.

What percentage of your net worth is tied up in your own company's stock? More than 70% of CFOs report an ownership stake in their company, with their average exposure about 30% of their net worth (industry, country, and public/private variability is very high).

In how many years do you expect to retire? CFOs' average years to retirement is about nine, with about 30% retiring in the next five years.

5. These findings are a subset of the full CFO Signals report. The full report is available at www.deloitte.com.