



# CFO Signals™

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

Betting on North America despite 2016 concerns

4<sup>th</sup> Quarter 2015

## High-Level Report

This report is a subset of a full report containing analysis and trends specific to industries and geographies.

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# CFO Signals

## About the CFO Signals survey

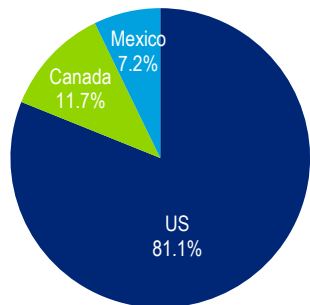
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This is the fourth quarter report for 2015.

For more information about the survey, please see the methodology section at the end of this document or contact [nacfosurvey@deloitte.com](mailto:nacfosurvey@deloitte.com).

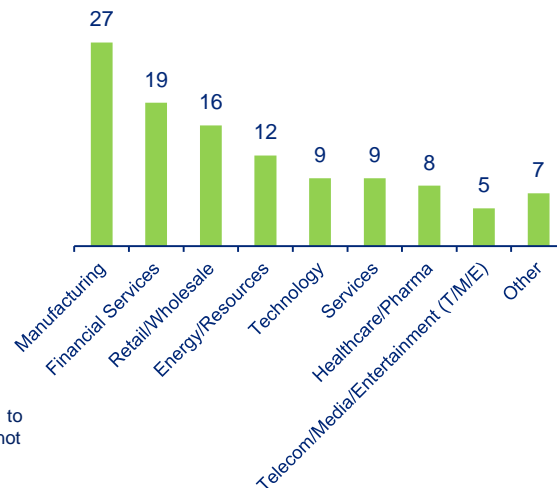
## Who participated this quarter?

One hundred twelve CFOs responded during the two-week period ending November 20. Seventy-six percent of respondents are from public companies, and 82% are from companies with more than \$1B in annual revenue. For more information, please see the "About the survey" section of this report.

Participation by country



Participation by industry\*



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

## IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

All participating CFOs have agreed to have their responses aggregated and presented.

Please note that 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. Except where noted, we do not comment on findings for segments with fewer than 5 respondents. Please see the appendix for more information about survey methodology.

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### Additional findings available in full report

(please contact [nacfosurvey@deloitte.com](mailto:nacfosurvey@deloitte.com) for full report)

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

# Findings at a glance

## Perceptions

**How do you regard the current and future status of the North American, Chinese, and European economies?** Fifty-five percent of CFOs describe North American conditions as good (59% last quarter), and 47% expect better conditions in a year (55% last quarter). Fourteen percent regard China's economy as good (up from 4% last quarter), and 16% expect improvement (up from 10%). Eight percent describe Europe as good (up from 5%), but only 15% see it improving in a year (down from 30%). [Page 8.](#)

**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). [Page 9.](#)

## 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. [Page 10.](#)

## Expectations

**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 4.4% to 5.9%, well above their 2Q15 lows and about even with a year ago. Earnings growth expectations rebounded from last quarter's survey-low 6.5%\* to 8.3%\*—back near the two-year average. Capital spending expectations rebounded from last quarter's 4.3%\* to 4.9%\*. Domestic hiring growth expectations are again sluggish, falling slightly to 1.2% from last quarter's 1.4%. [Pages 11-13.](#)

## Sentiment

**Compared to three months ago, how do you feel now about the financial prospects for your company?** Continuing a string of 11 quarters of positive sentiment, net optimism came in at +10.7, down from +14.2 last quarter and a three-year low. Thirty-four percent of CFOs express rising optimism, also a three-year low. The proportion expressing declining optimism rose from 19% to 23%. [Page 14.](#)

**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. [Page 15.](#)

## 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. [Page 16.](#)

## 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. [Page 17.](#)

## 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. [Page 18.](#)

**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. [Page 19.](#)

**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. [Page 20.](#)

**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. [Page 21.](#)

**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. [Page 22.](#)

## Special topic: Personal investments and retirement

**How are you allocating your personal investments?** Since 2Q12, 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. [Page 23.](#)

**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). [Page 24.](#)

**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. [Page 25.](#)

\*Averages are means that have been adjusted to eliminate the effects of stark outliers.

# Summary

## Betting on North America despite 2016 concerns

Two quarters ago marked a major change in CFOs' sentiment, with rapidly rising concerns about the longer-term prospects for the US economy in light of faltering performance in other major economic zones. Last quarter, despite some positive global economic reports, CFOs voiced even stronger concerns about the impact of global volatility and slowing Chinese growth—and this was *before* the pummeling of Chinese and US equities in late August.

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.

### Rebounding growth expectations

This quarter's net optimism<sup>1</sup> index of +10.7 is the twelfth consecutive positive reading, but it is below last quarter's +14.2 and now sits at the lowest level in three years. Sentiment is particularly weak in the Manufacturing and Retail/Wholesale industries.

But in contrast to their declining sentiment, CFOs' expectations for revenue, earnings, and capital spending growth are up from their 2Q15 lows. (Retail/Wholesale CFOs helped drive the rebounds in all three metrics despite their voicing mostly declining optimism—but this sentiment appears tied to these CFOs' very high expectations recorded last quarter.)

## Summary of CFO sentiment and growth expectations

		Developments since 3Q15 survey <sup>2</sup>
Economy optimism – North America <sup>3</sup>		<ul style="list-style-type: none"> <li>• Syria-related geopolitical risks increased. Russia and a US-led coalition launched strikes against ISIS. Migration to Europe rose drastically. ISIS executed terror attacks in Paris.</li> <li>• Canada's Liberal Party took over a majority of the Parliament, defeating the Progressive Conservative Party after nearly a decade in office.</li> <li>• The US economy showed continuing signs of strength and improvement, with the Conference Board expecting growth of about 2.5% in the coming quarters.</li> <li>• The US dollar traded near its highest level against the currencies of its major trading partners in 13 years.</li> <li>• The Chinese economy showed more signs of slowing, with official GDP growing at its lowest rate (6.9% year-over-year) since the first quarter of 2009.</li> <li>• Declining Chinese equity prices sparked a decline in US equities. The S&amp;P 500 index fell 1.5% between the 2Q and 3Q surveys and 3.3% between 3Q and 4Q.</li> <li>• Oil prices fell to \$40/barrel due to high production, slowing demand, and high inventories.</li> </ul>
Economy optimism – Europe <sup>3</sup>		
Economy optimism – China <sup>3</sup>		
Own-company optimism (Net optimism)		
Revenue growth (YOY)		
Earnings growth (YOY)		
Capital investment growth (YOY)		
Domestic employment growth (YOY)		

In fact, revenue growth expectations rose to 5.9%\* from last quarter's 4.4%\* and are similar to those from 4Q14 (only Manufacturing and Energy/Resources showed substantial weakness). Earnings growth expectations rebounded from last quarter's survey-low 6.5%\* to 8.3%\*—back near the two-year average.

Capital spending expectations also rebounded this quarter, from last quarter's 4.3%\* to 4.9%\*, but domestic hiring growth expectations are again sluggish at 1.2%, down from last quarter's 1.4%\*.

### Mixed expectations for North America

CFOs again voiced concerns about China's slowing growth. But this quarter's concerns seemed related more to broader global stagnation and overreliance on the US economy than to struggles in particular regions. In fact, only 27% of CFOs said improvement in North America's economy is dependent on improvement in China's (34% disagreed and the rest were neutral). Moreover, nearly 60% said China is not an important market for their company (although 40% of US CFOs said it will be important to their five-year growth), and 65% said it is not an important supplier

(with Manufacturing and Retail/Wholesale very notable exceptions).

That said, expectations for the North American economy remain mixed. The proportion of CFOs who expect Canada's economy to be better next year is matched by the proportion who do not—for all surveyed CFOs and also for just Canadian CFOs. The case is similar for Mexico's economy, but Mexican CFOs were a bit more optimistic than the broader group.

Regarding the US economy, the proportion of CFOs expecting better growth in 2016 is equal to the proportion expecting worse, and the proportions are also equal for those expecting GDP growth above and below 2% through 2017. But US CFOs were more pessimistic, with about 20% expecting faster growth and 30% expecting slower. About half of US CFOs say the 2016 presidential election will substantially impact future performance, and about 30% say it will not.

Behind these expectations are CFOs' views that interest rates will rise in 2016 (voiced by 93% of CFOs), but not rise above 2% by the end of 2017 (voiced by 60%). In addition, about 60% of CFOs expect the US dollar to rise against both the renminbi and the euro.



# Summary (cont.)

## Eying 2016: Existing markets and cost control

In response to their economic expectations, 90% of CFOs say they are focused on growth in existing markets (which, for the vast majority of respondents, means mostly North American markets). Accordingly, about 80% say investing for growth is a top cash use, 55% say expanding their customer base in existing markets will be a driver of their M&A deals, and 46% cite more focus on their high-margin businesses.

About 40% of CFOs indicate a 2016 focus on growing in new markets—especially in the Technology, Retail/Wholesale, and Services industries—with more than half of those pursuing M&A deals naming diversification into new markets a top goal.

Profitability is also a heavy focus, with 75% of CFOs naming getting more efficient a top 2016 business priority. About 40% say investing for efficiency gains will be a top cash use, and 60% say scale efficiencies will be a driver of their M&A deals. More than 80% say they will execute substantial efficiency improvement efforts, and 45% say they will work to lower both labor and non-labor input costs. Only about 20% expect to outsource a shared service function, and only about 25% say raising prices will be a key tactic.

Finally, there is a distinct conservatism evident in many CFOs' priorities and expected actions. One-quarter say a top 2016 business priority is managing external and internal risks, with another 20% naming both freeing up cash and consolidating their businesses. Moreover, 52% say paying dividends is a top cash use, with 25% and 20% saying the same for buying back shares and paying down debt, respectively.

## CFOs' own money: risky assets more popular

We know CFOs play a large role in helping their companies acquire, allocate, grow, and protect their companies' capital. And results from this quarter's survey provide a sense of where they believe their very large, highly-diversified companies will focus their formidable

resources. But does their unique vantage point inform the allocation of their own resources?

As it did when we last asked in 2012, CFOs' own investments appear to reflect their views on risks and opportunities for their companies. A contributing factor may be the fact that more than 70% of CFOs report having an ownership stake in their company, with their average exposure equaling about 30% of their net worth (note that industry, country, and public/private variability is very high).

Perhaps not surprisingly, cash, foreign stocks (especially in emerging markets), and commodities have lost much of their appeal in CFOs' portfolios. Likely driven by low interest rates, preference for risky assets is even higher than it was in 2012, and stocks are rated as even more favorable than bonds (note that CFOs' average years to retirement is about nine, with about 30% retiring in the next five years).

Among risky investments, domestic stocks are even more preferred to foreign stock than they were in 2012, and those who venture into foreign stocks appear to have shifted toward mature markets. Real estate has held up well, but commodities have slumped substantially.

## What's next?

CFOs appear to expect 2016 to be similar to 2015 in many respects—with mostly positive (but unspectacular) economic conditions and somewhat higher interest rates in the US, ebbs and flows in the world's other major economic zones, and perhaps even more geopolitical volatility.

But upcoming US elections may make next year significantly different in an economy that has been the backbone of recent global growth. In the election run up, debate will likely escalate dramatically about where the US, North America, and the rest of the world currently stand, about where each should be headed, and about the role governments (especially the US government) should play. CFOs' concerns rose in the 2012 run up, with net optimism plummeting in the second quarter and staying negative through the rest of the year. This quarter's survey suggests many CFOs are already bracing for the 2016 election cycle.

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\* Arithmetic means adjusted to eliminate the effects of stark outliers.

<sup>1</sup> Net optimism is calculated as the difference between the proportions of those expressing rising and falling optimism. Accordingly, this metric does not explicitly account for the level of "no change" responses.

<sup>2</sup> Compiled from news stories in major business media between survey periods.

<sup>3</sup> Metrics assessed relative to two-year averages.

# Key Charts: Sentiment

Sentiment regarding the health of major economic zones, industries, and capital markets

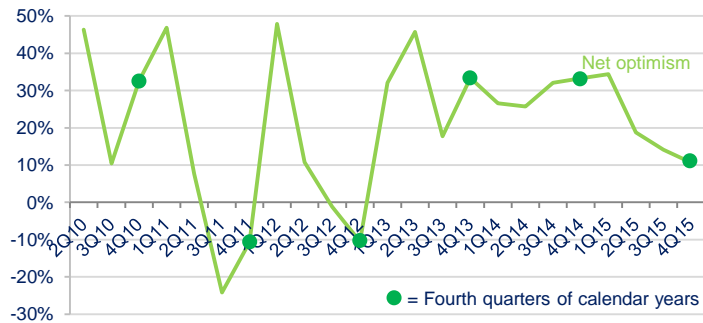
## Economic optimism

Average 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")



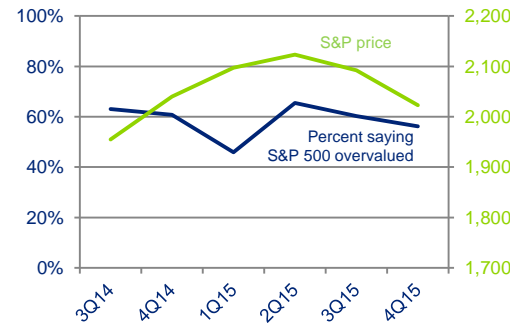
## Own-company optimism

Difference between the percent of CFOs citing higher and lower optimism regarding their company's prospects compared to the previous quarter



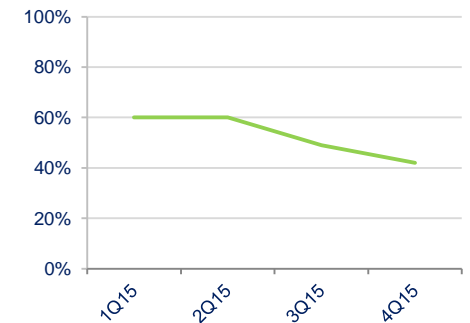
## Equity market sentiment

Percent of CFOs saying US equity markets are "overvalued" or "very overvalued"; S&P500 price at survey midpoint



## Risk appetite

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

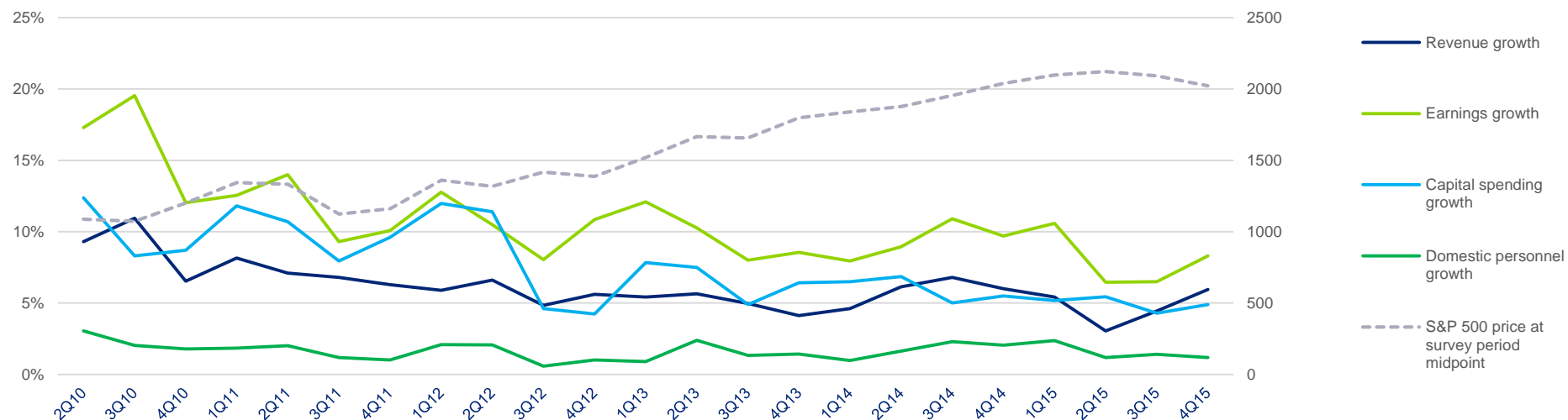


# Key Charts: Expectations

## CFOs' expected year-over-year increases in key metrics

### Consolidated expectations

CFOs' expected year-over-year growth in key metrics (compared to the value of the S&P 500 index at the survey midpoint)



### Breakdown by country and industry<sup>1</sup>

	Total (n=99-111)	U.S. (n=88-89)	Canada (n=12-13)	Mexico (n=8)	Manufacturing (n=25-26)	Retail / Wholesale (n=16)	Technology (n=9)	Energy / Resources (n=11-12)	Financial Services (n=19)	Healthcare / Pharma (n=7-8)	T/M/E (n=5)	Services (n=9)
Revenue growth	5.9%	6.3%	2.8%	7.4%	2.9%	9.5%	7.2%	2.8%	8.6%	7.1%	13.6%	0.7%
Earnings growth	8.3%	9.2%	3.3%	6.5%	8.0%	13.4%	10.3%	3.2%	8.8%	10.0%	13.0%	0.0%
Capital spending growth	4.9%	4.3%	3.4%	13.8%	3.8%	11.9%	6.0%	2.3%	4.5%	5.3%	4.0%	0.9%
Domestic personnel growth	1.2%	1.3%	0.6%	0.5%	0.2%	1.1%	2.4%	-1.2%	2.4%	2.4%	0.6%	1.6%

\*Sample sizes may not sum to total due to responses from "other" categories and non-responses.

<sup>1</sup>All averages have been adjusted to eliminate the effects of stark outliers.

Highest two industry expectations  
Lowest two industry expectations

# Perceptions

## Assessment of economies

How do CFOs regard the current and future health of some of the world's major economic zones?

**North America declined, but is still the bright spot by a wide margin; Europe and China still viewed as problematic:**

### North America

**Confidence in North America's trajectory slipped, but is still comparatively very strong.**

- Fifty-five percent of CFOs describe the North American economy as good or very good (59% last quarter). Only 5% describe it as bad, up slightly from 3% last quarter.
- Forty-seven percent believe conditions will be better a year from now (down from 55% last quarter), and 7% expect conditions to be worse in a year (up slightly from 5% last quarter).

### Europe

**Better perceptions of Europe's current state, but declining expectations for the next year.**

- Just 8% of CFOs describe Europe's economy as good (up from 5% last quarter). The proportion of CFOs describing it as bad declined substantially to 35%, well below last quarter's 51% and 46% in 2Q15.
- On a more somber note, only 15% expect Europe's economy to be better a year from now (well below the 30% levels from the previous two quarters). Just under one-quarter again expect it to be worse, with about 60% expecting it to be the same.

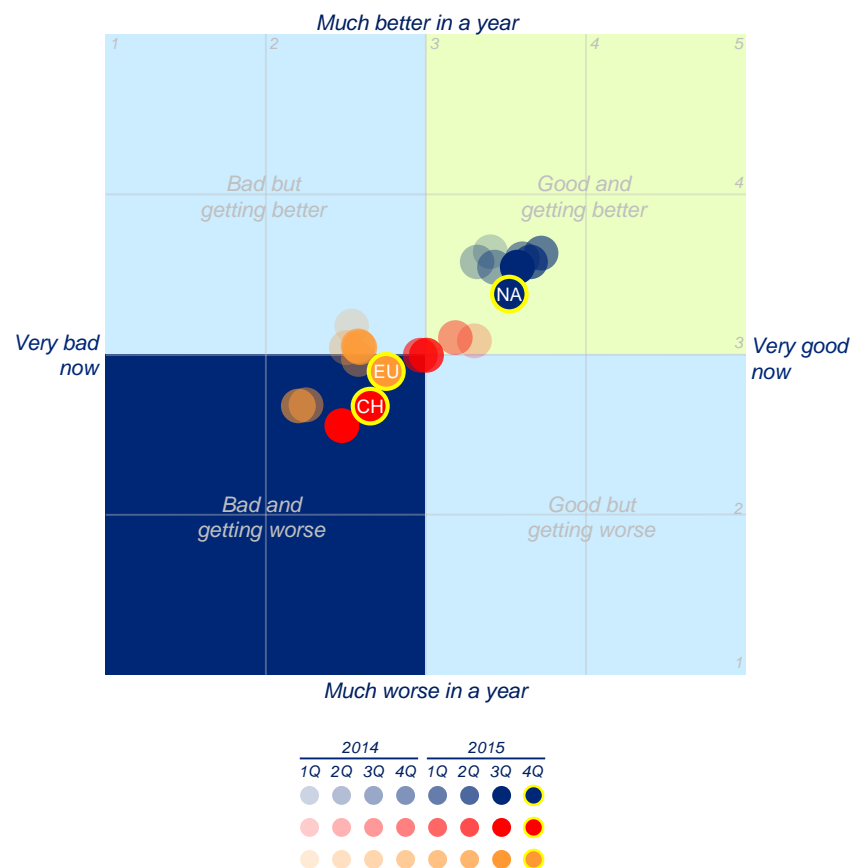
### China

**Perceptions of China's economy rebounded slightly from last quarter's very sharp decline.**

- Only 14% of CFOs now say China's economy is good or very good, up from last quarter's dismal 4%, but well below the levels seen over the past several quarters. Just under half (47%) say the economy is bad, slightly below last quarter, but also comparatively pessimistic.
- Just 16% of CFOs believe China's economy will be better in a year (up from 10% last quarter), while 44% expect it to be worse—similar to last quarter, but drastically higher than the levels a few quarters ago.

## How do you regard the current and future status of the North American, Chinese, and European economies?

CFOs' assessment based on five-point Likert scales: "very bad" to "very good" and "much worse" to "much better" (n=108-112)





# Perceptions

## Assessment of markets

How do CFOs perceive valuations and pricing within the financial markets?

**Despite recent declines in equity markets, most CFOs still regard them as overvalued** (Note that the S&P 500 index declined by about 1.5% between the 2Q15 and 3Q15 surveys and by just over 3% between the 3Q15 and 4Q15 surveys):

- Fifty-six percent of surveyed CFOs say US equity markets are overvalued, down slightly from last quarter's 60% and now at the lowest level since 1Q15's 46%. Only 7% say they are undervalued, slightly up from last quarter's 5%.
- Canadian CFOs are the most pessimistic with 85% citing overvaluation; the proportion for US CFOs fell from 65% to 55%.
- On an industry level, Technology and Energy/Resources CFOs are the most likely to say markets are overvalued (both over 65%), while the Manufacturing, Financial Services, and Services CFOs are least likely (all under 50%).

### Debt financing becoming somewhat less attractive:

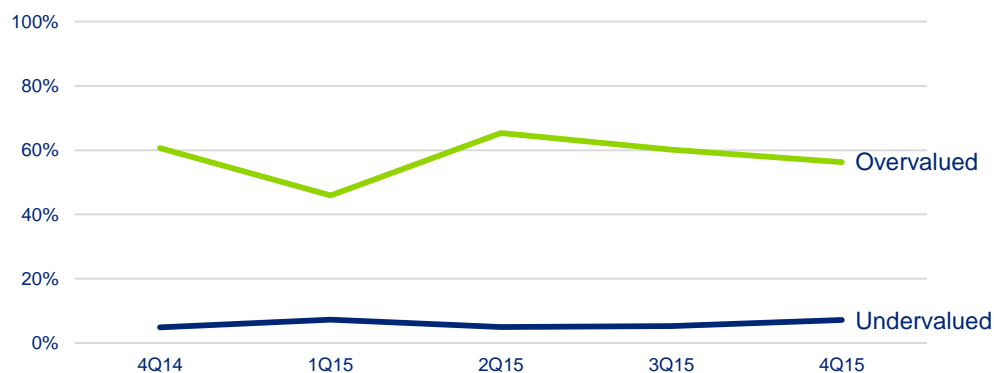
- Eighty percent of CFOs say debt is currently an attractive financing option, even with last quarter, but down significantly from the higher levels seen in late 2014. Forty-two percent say it is a very attractive option, slightly below last quarter's 45%.
- None of the Mexican or Canadian CFOs say debt financing is unattractive.
- All industries are above 70% except for Retail/Wholesale (63%).

### Equity financing becoming significantly less attractive:

- Twenty-six percent of public company CFOs say equity financing is attractive (down from 36% last quarter), and 32% say it isn't (34% last quarter). Thirty percent of private company CFOs say it is attractive (even with last quarter), but 22% now say it isn't (up markedly from 9% last quarter).
- Mexico's CFOs are the most positive, with 50% saying equity financing is attractive and none saying it is not. Forty-six percent of Canadian CFOs say it is unattractive, as do 31% of US CFOs.
- T/M/E (Telecom/Media/Entertainment) is the most likely to say equity financing is attractive (60%), with all other industries below 35%.

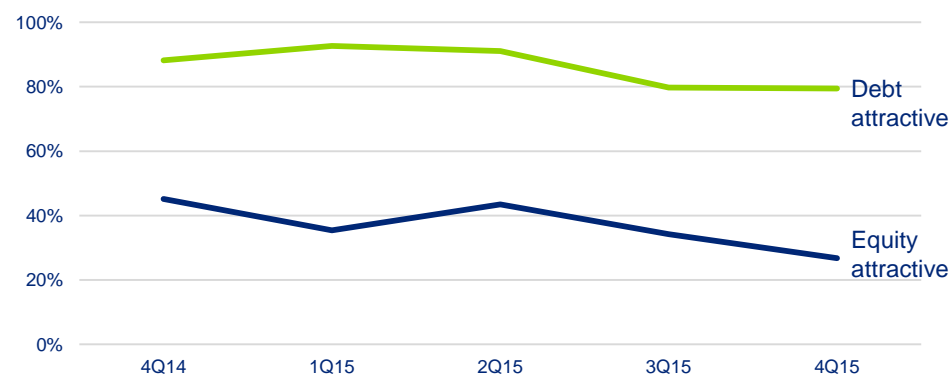
## How do you regard US equity market valuations?

Percent of CFOs saying markets are overvalued and undervalued based on five-point semantic differential scale (n=112)



## How do you regard debt and equity financing attractiveness?

Percent of CFOs saying debt and equity markets provide attractive financing options based on five-point semantic differential scale (n=112)



Please see full report for industry-specific findings.

# Priorities

## Business focus

Where do CFOs say their companies are focusing their efforts?

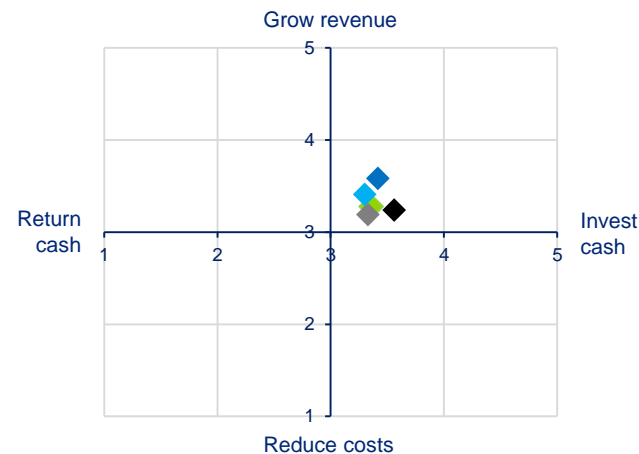
**North America is still the overwhelming focus, with a rising bias toward current offerings and organic growth:**

- **Revenue growth still ahead of cost reduction:** Similar to last quarter, just over half of CFOs say they are biased toward revenue growth, while only 30% claim a focus on cost reduction. The last two quarters indicated a shift toward cost reduction, but this quarter shows a slight shift back toward growth. Healthcare/Pharma, and T/M/E are the highest for growth (88% and 60, respectively), with Energy/Resources the highest for costs at 50%.
- **Investing cash over returning it:** There is again a strong bias toward investing cash over returning it to shareholders (48% versus 27%), but this is below the bias evident last quarter (52% versus 20%). T/M/E and Financial Services are the most biased toward investing cash (both at about 80%); Technology and Energy/Resources are at 56% and 50% for returning cash, respectively. US CFOs are the most biased toward returning cash at 30%, while Canada and Mexico are less biased at 15% and 13%, respectively.
- **Bias toward current offerings again near survey high:** Overall, 33% of CFOs say their companies are biased toward new offerings (31% last quarter), and 38% claim a bias toward existing ones (42% last quarter). Energy/Resources CFOs are the most focused on current offerings (75%), while T/M/E and Technology CFOs are the most focused on new offerings (60% and 56%, respectively).
- **Very high focus on current geographies (mostly within North America):** Overall, 61% of CFOs say their companies are predominantly focused on current geographies (58% last quarter), compared with 23% who cite a bias toward new geographies (21% last quarter). Canada and Mexico are both heavily focused on current geographies (both above 76%). Since most companies represented in this survey draw the vast majority of their earnings from North America, this suggests most companies are continuing to focus heavily on this region.
- **Organic growth over inorganic growth by widening margin:** The bias is again firmly toward organic growth over inorganic (63% versus 19%), significantly higher than last quarter (50% versus 23%) and now at a survey high. Technology, Healthcare/Pharma, and Financial Services have the strongest focus on organic growth, all at or above 75%.

## What is your company's business focus for the next year?

CFOs' assessments based on five-point semantic differential scale with opposing choices as noted (n=112)

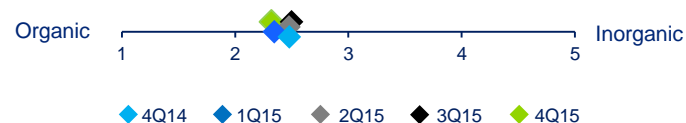
### Offense vs. defense



### New business vs. current



### Inorganic growth vs. organic



Please see full report for industry-specific findings.

# Expectations

## Revenue and earnings

What are CFOs' expectations for their companies' year-over-year revenue and earnings?

### Revenue<sup>1</sup>

**Expectations continuing to rebound from 2Q15's record lows, driven by improvement across countries and in most industries (Services is the exception):**

- Revenue growth expectations rose to 5.9%, significantly up from last quarter's 4.4% and a continuation of a recovery from 2Q15's survey low of 3.1%. The median returned to a survey-normal 5.0%, up from 4.5% last quarter. Some 82% of CFOs expect year-over-year gains, up from last quarter's 79%. The distribution<sup>2</sup> of responses is very broad (the broadest in more than four years), and this phenomenon has sometimes been followed by a significant shift the following quarter.
- Country-specific expectations are 6.3% for the US (up from 5.1% last quarter), 2.8% for Canada (up from -0.7%), and 7.4% for Mexico (up from 6.1%).
- Industry expectations vary considerably, with Retail/Wholesale, Financial Services, and T/M/E strongest (all above 8.5%). Energy/Resources rebounded from last quarter's -3.5%, but is still comparatively low at 2.8%. Services is lowest at just 0.7%.

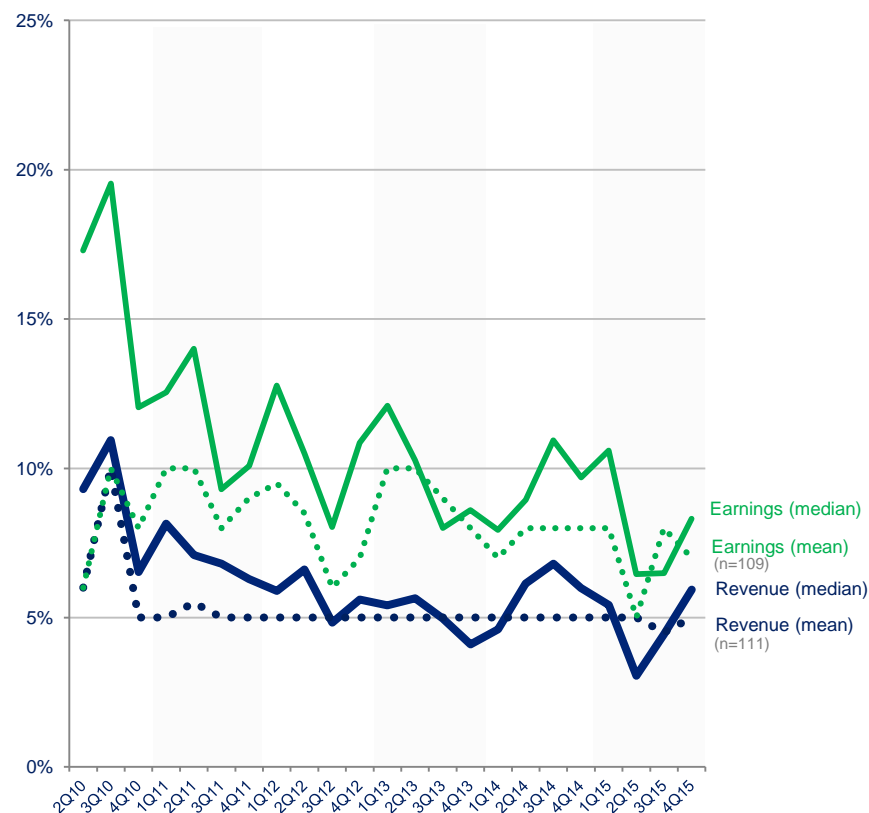
### Earnings<sup>1</sup>

**Expectations still below the two-year average, but improvement seen across countries and in most industries (Services is again the exception):**

- Earnings expectations rose sharply to 8.3%, well above the 6.5% levels from the past two quarters, but still below the levels from a year ago. The median dropped to 7.0% from last quarter's 8.0%. The percentage of CFOs expecting year-over-year gains rose to 82% from last quarter's 79% and is now at the highest level since 4Q14. The distribution<sup>2</sup> of responses this quarter is about average compared to recent quarters.
- Country-specific expectations are 9.2% for the US (up from 7.6% last quarter), 3.3% for Canada (up from -2.7%), and 6.5% for Mexico (down from 7.9%).
- All industries expect positive growth, with Retail/Wholesale and T/M/E the highest at 13.4% and 13.0%, respectively. Energy/Resources improved from -8.9% last quarter to 3.2%, but is still comparatively low. Services is lowest at 0.0%.

## Compared to the past 12 months, how do you expect your revenue and earnings to change over the next 12 months?

CFOs' expected change year-over-year<sup>1</sup>



<sup>1</sup> All averages have been adjusted to eliminate the effects of stark outliers.

<sup>2</sup> "Distribution" refers to the spread of the middle 90% of responses.

Please see full report for industry-specific findings.

# Expectations

## Dividends and investment

What are CFOs' expectations for their companies' year-over-year dividends and capital investment?

### Dividends<sup>1</sup>

**Expectations up across all countries and in most industries and now sit well above the survey average:**

- Dividend growth expectations increased to 4.7%, up from 3.7% last quarter and are at their highest level since 1Q14. The median is again 0.0%, and 46% expect year-over-year gains.
- Country-specific expectations are 4.4% for the US (up from 3.7% last quarter), 6.1% for Canada (up from 2.8% last quarter), and 5.1% for Mexico (up from 4.7% last quarter).
- Among the industries, Retail/Wholesale reported the highest expectations at 8.7%, while Healthcare/Pharma again reported the lowest (1.4%, up from last quarter's 0.0%).

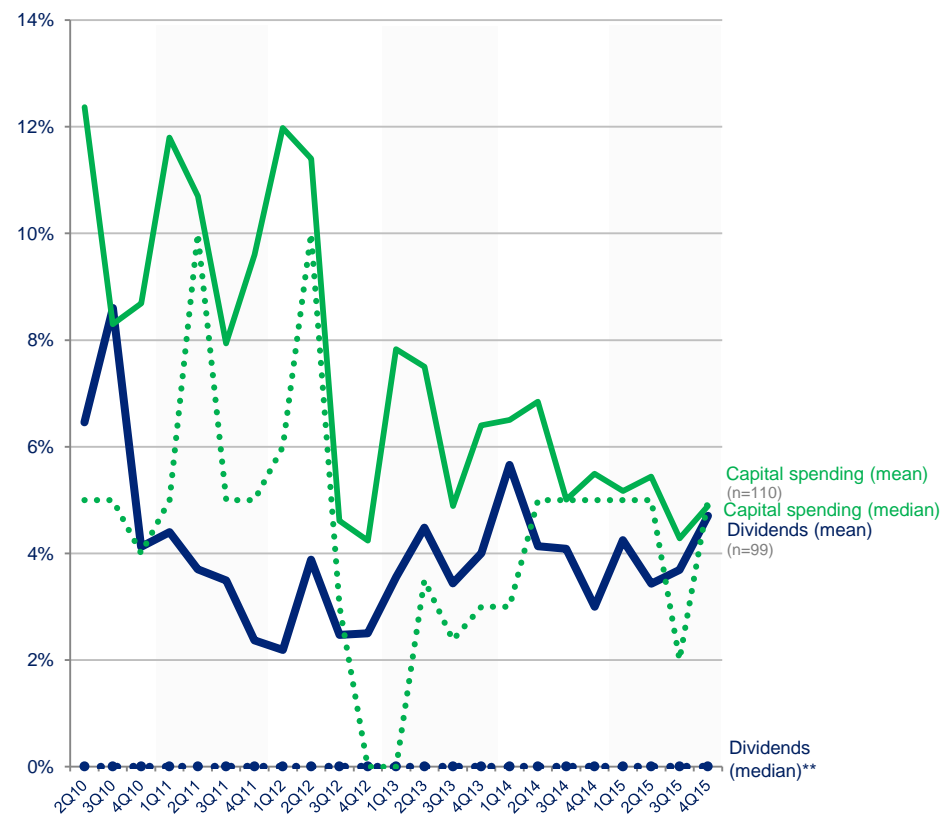
### Capital investment<sup>1</sup>

**Despite improvement in Energy/Resources and strength in both Retail/Wholesale and Healthcare/Pharma, expectations remain low:**

- Capital spending rose from last quarter's 10-quarter-low 4.3% to 4.9% this quarter and is still well below the survey's five-year and two-year averages. The median rose to 5.0%, up from last quarter's very low 2.0%. The proportion of CFOs expecting year-over-year gains rose to 59%, up from last quarter's 53%. The distribution<sup>2</sup> of responses this quarter is about average compared to recent quarters.
- Country-specific expectations are 4.3% for the US (up from last quarter's 3.9%), 3.4% for Canada (up from -3.7%), and 13.8% for Mexico (down from last quarter's 15.1%).
- Retail/Wholesale is the high industry outlier at 11.9%, driven by particular strength among Tourism/Hospitality/Leisure companies (without them, Retail/Wholesale would have been a still-healthy 10.0%). Technology is next at 6.0%, with Services and Energy/Resources on the low end at 0.9% and 2.3%, respectively.

## Compared to the past 12 months, how do you expect your dividends and capital spending to change over the next 12 months?

CFOs' expected change year-over-year<sup>1</sup>



<sup>1</sup> All averages have been adjusted to eliminate the effects of stark outliers.

<sup>2</sup> "Distribution" refers to the spread of the middle 90% of responses.

\*\*The median for dividends has been zero for all quarters.

Please see full report for industry-specific findings.

# Expectations

## Employment

What are CFOs' expectations for their companies' year-over-year hiring?

### Domestic hiring<sup>1</sup>

**Expectations muted and well below those from a year ago:**

- Domestic hiring expectations fell to 1.2%, down slightly from last quarter's 1.4% and again one of the lowest levels in the last two years. The median declined to 0.0%, which is again below the survey average of 0.7%. The distribution<sup>2</sup> of responses this quarter is below-average compared to recent quarters.
- Country-specific expectations are 1.3% for the US (above last quarter's 1.2%, but still among the lowest levels in the past two years), 0.6% for Canada (up from -0.9% last quarter), and 0.5% for Mexico (down from 5.0% last quarter).
- Technology, Healthcare/Pharma, and Financial Services are the highest at 2.4%. Energy/Resources again indicated the lowest average expectation at -1.2% (up from last quarter's -2.1%), with Manufacturing also low at 0.2% (up slightly from last quarter's 0.0%).

### Offshore hiring<sup>1</sup>

**Expectations flat and about equal to their long-term survey average:**

- Offshore hiring growth rose to 2.8%, up slightly from last quarter's 2.7%. The median remains at 0.0%, and 49% of CFOs expect year-over-year gains (up from last quarter's 46%).
- Country-specific expectations are 3.0% for the US (down slightly from last quarter's 3.1%), 2.4% for Canada (up from 2.0%), and 0.8% for Mexico (down from 1.7%).
- Technology indicates the highest expectations at 5.6%, with Energy/Resources again the lowest at 0.0%.

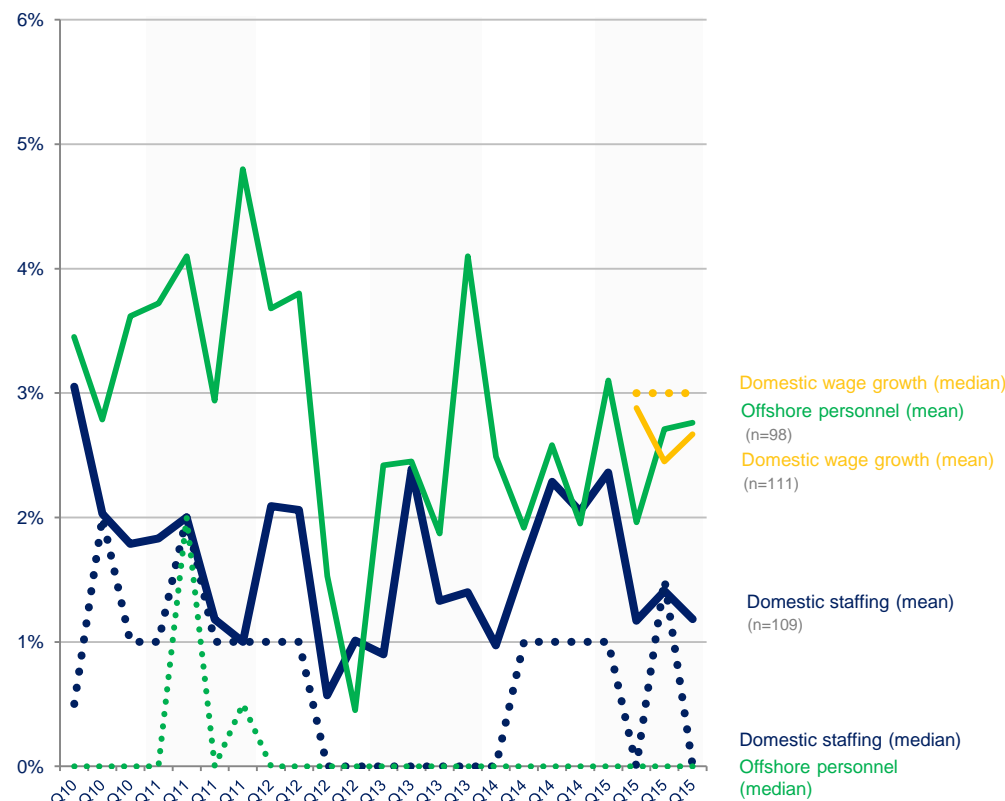
### Domestic wage growth<sup>1</sup>

**Expectations up slightly, but indicative of strong wage pressures:**

- Domestic wage growth rose to 2.7% from last quarter's 2.5%. The median held at 3.0%, and 91% of CFOs expect year-over-year gains.
- Country-specific expectations are 2.7% for the US, 2.0% for Canada, and 3.4% for Mexico.
- All industry-specific expectations range between 1.9% and 3.2%, with Energy/Resources lowest and Services highest.

## Compared to the past 12 months, how do you expect your domestic and offshore hiring to change over the next 12 months?

CFOs' expected change year-over-year<sup>1</sup>



<sup>1</sup>All averages have been adjusted to eliminate the effects of stark outliers.

Please see full report for industry-specific findings.



# Sentiment

## Own-company optimism

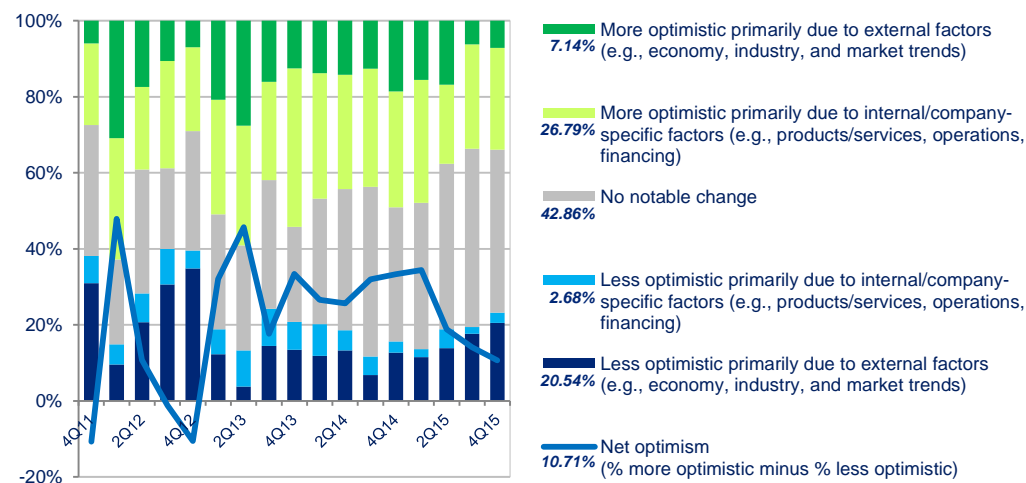
How do CFOs feel about their company's prospects compared to last quarter?

**Sentiment has fallen to its lowest level in three years:**

- **Twelfth straight quarter of positive net optimism, but sentiment clearly declining:** Continuing a string of 11 straight prior quarters of positive sentiment, net optimism came in at +10.7—fairly strong, but also the lowest level in three years. Thirty-four percent of CFOs express rising optimism, equal to last quarter, but again at the lowest level since 4Q12. The proportion citing declining optimism rose from 19% last quarter to 23% this quarter and is now the second-highest since 4Q12.
- **Still very positive sentiment for Mexico; declining sentiment for US and Canada:** Mexico's net optimism maintained its highly-positive streak at +25, even with last quarter and only slightly below the prior quarter's +29. Net optimism for the US declined from last quarter's +14 to +10. Canada's net optimism declined from +7 last quarter to zero this quarter.
- **Retail/Wholesale and Manufacturing net negative:** Retail/Wholesale fell to -25 (from +6) and Manufacturing declined to -4 (from +4). Technology rebounded to +11 (from -11).
- **Healthcare/Pharma, Energy/Resources, and T/M/E anchor the optimists:** These industries indicated net optimism of +50, +42, and +40, respectively.

## How does your optimism regarding your company's prospects compare to last quarter?

Percent of CFOs selecting each sentiment/reason combination (n=112)



Please see full report for industry-specific findings.

# Sentiment

## Most worrisome risks

Which external and internal risks do CFOs regard as most worrisome?

### Strong (and more generalized) concerns about economic growth:

- **Less specific concern about Europe and China, but more about broader economic performance:** Where last quarter's findings indicated a strong and specific focus on China and Europe, this quarter's show rapidly escalating concerns about broader global growth and volatility.
- **Continuing concerns about US economy:** Worries continued about a US pullback, with emerging concerns about labor cost increases (perhaps in anticipation of new Fair Labor Standards Act regulations and minimum wage laws), declining domestic manufacturing activity (perhaps driven by a strong US dollar), and the world's heavy reliance on the US economy. CFOs did not voice strong concerns about US equity market corrections last quarter (the S&P 500 index fell 1.5% between the 2Q and 3Q surveys) or this quarter (the index fell 3.3% between 3Q and 4Q surveys).
- **Strong commodity price worries:** Worries about oil and other commodity prices rose last quarter and continued this quarter (with strong effects in Energy/Resources and Manufacturing).
- **Continuing policy and regulation concerns:** Regulatory concerns are again strong and industry dependent. The 2016 US presidential elections emerged as a significant concern.
- **Rising concerns about terrorism:** Worries continued about geopolitical instability, with escalating concerns about terrorism.
- **Declining concerns about rates; rising concerns about competition:** FX and interest concerns are substantial, but below where they were a quarter ago. Concerns about global debt rose, as did concerns about competition.

### Rising concerns about growth and competitiveness:

- **Growth challenges:** Concerns around taking risks, finding new growth avenues, and competing for sales all rose this quarter.
- **Broadening execution concerns:** CFOs' concerns about strategy execution and cyber security are again substantial. Satisfying customers became a growing concern.
- **Key talent retention challenges:** Concerns around retention are again high, while talent acquisition challenges declined.

## What external and internal risk worries you the most?

Consolidation and paraphrasing of CFOs' free-form comments\* (n=97-99)

### External

#### Economy

- ↕ • **Oil/commodity prices (12)**
- ↕ • **Global growth/recession/volatility (11)**
- ↕ • **US economy pullback (9)**
- ↕ • Problems in EU/China hurting US growth (7)
- ↕ • China economy/pullback/instability (6)
- ↕ • Minimum wage increases / labor cost increases (3)
- ↕ • Lower domestic industrial/manufacturing activity (2)
- ↕ • Emerging market slowdown (2)
- ↕ • Unemployment (2)
- ↕ • Consumer confidence/spending
- ↕ • European economy
- ↕ • Global energy supply/demand/prices
- ↕ • Global overreliance on US economy
- Mexican economy

#### Capital/Currency

- ↕ • **Interest rate increases/decreases (9)**
- ↕ • **FX rates / currency markets (9)**
- Inflation/devaluation (3)
- ↕ • Global debt levels (2)
- ↕ • Impact of strong US dollar (2)
- ↕ • Market bubbles/corrections

#### Geopolitics

- ↕ • Geopolitical risk / instability (4)
- ↕ • Terrorism/ISIS (4)

#### Government/Regulation

- ↕ • **Regulation—new/burdensome (17)**
- Tax policy/reform (3)
- ↕ • 2016 elections (3)
- Political dysfunction / lack of good public policy (2)
- Government regulation of health care / ACA
- Mexican energy reforms
- Government spending/fiscal policy (2)

#### Industry

- ↕ • **Competitive practices/pricing (8)**
- Impact of new/evolving technologies (2)
- Disruptive/new competitors
- Maturing markets
- Industry-specific rules and court decisions

### Internal

#### Growth

- ↕ • **Competing effectively / sales execution (5)**
- ↕ • Aversion to risk (2)
- ↕ • Growing organically (2)
- ↕ • Finding new sources of growth (2)
- ↕ • Ability to execute growth efforts (2)
- ↕ • New product development/innovation (2)
- ↕ • Market contraction / slowing growth

#### Margins

- **Cost / expense structure (5)**
- Executing cost reduction efforts (2)
- Costs of meeting regulatory requirements (2)
- Productivity/efficiency improvement (2)
- Improving margins in new markets

#### Execution

- **Execution against strategies/plans (9)**
- **Cyber security (8)**
- **Project execution (4)**
- Managing operations/disruptions (3)
- Weariness / pace of change (2)
- Lack of focus/prioritization (2)
- Executing integration efforts (2)
- Meeting guidance/commitments (2)
- ↕ • Customer service/satisfaction (2)
- Setting strategies/plans

#### Talent

- **Retaining key employees (12)**
- ↕ • **Securing qualified talent (9)**
- Leadership succession
- Downsizing
- Managing people
- Training people for additional responsibilities
- Unions and unionization efforts

\* Arrows indicate notable movements since last quarter's survey. Category movements are indicated by block arrows. Strong movements are indicated by multiple arrows. Large and bolded text indicates most prevalent risks, while gray text indicates topics that have fallen off the list this quarter.

This chart presents a summary of CFOs' free-form responses. CFO comments have been consolidated and paraphrased, and parentheses denote counts for particular response themes. The number of responses does not match the number of respondents because some CFOs provided more than one response. For a more detailed summary of comments by industry, please see the full report of the full report.

Please see full report for industry-specific findings.

# Special topic: 2016 Business environment

## Economic expectations

What are CFOs' economic expectations for 2016?

### Mixed and muted expectations for North American economic growth:

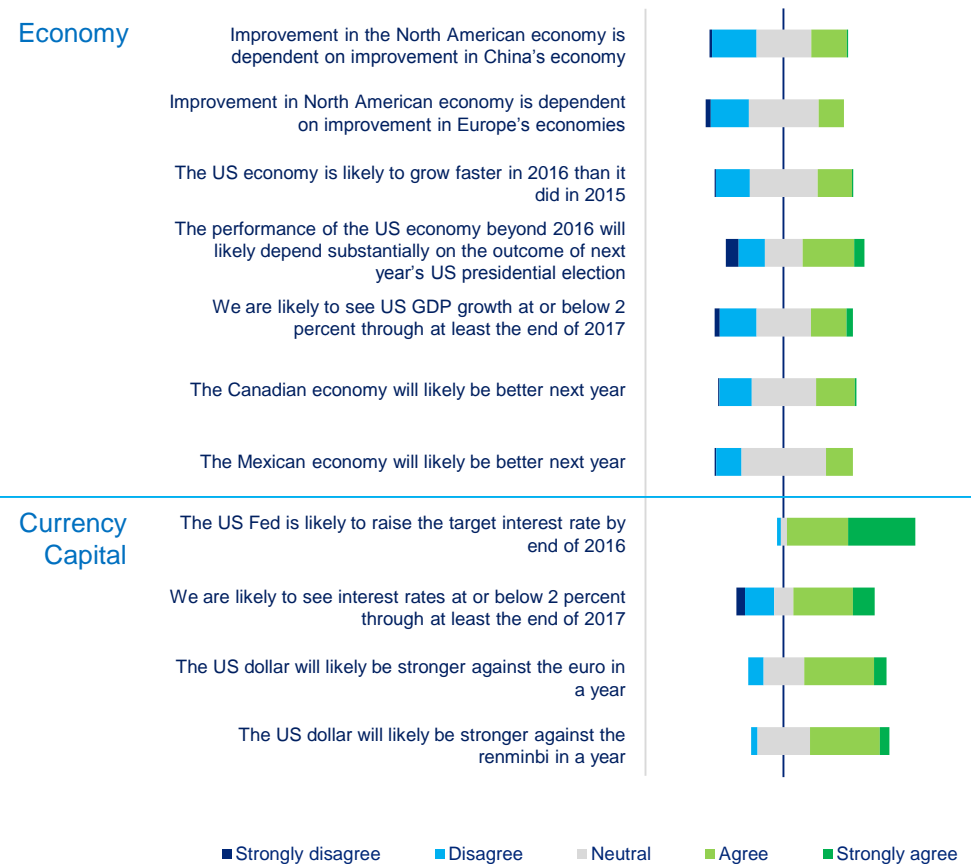
- **North America not strongly dependent on Chinese economy:** Just 27% of CFOs say improvement in North America's economy is dependent on improvement in China's. Retail/Wholesale and T/M/E are the most likely to indicate dependency at 44% and 40%, respectively.
- **North America not strongly dependent on European economy:** Just 18% of CFOs say improvement in North America's economy is dependent on improvement in Europe's (the US is highest at 22%). Retail/Wholesale and Healthcare/Pharma are highest at 31% and 25%, respectively.
- **Mixed expectations for US growth:** Overall, 25% of CFOs expect faster growth in 2016, and an equal percent expect slower growth. Just 19% of US CFOs expect faster growth, while 29% expect slower growth. Canadian CFOs and those from Energy/Resources and Financial Services are the most optimistic. About 30% of CFOs expect the economy to grow at or below 2% through 2017, and the same proportion disagrees.
- **2016 US presidential election will significantly impact US economy:** Forty-five percent of CFOs (49% of US CFOs) say the election outcome will substantially impact future performance, and less than 30% say it will not. Most industries are fairly evenly split, but twice as many CFOs in Retail/Wholesale, Financial Services, and Services believe the election outcome will impact performance as believe it will not.
- **Mixed expectations for Canada and Mexico:** Overall, 29% expect Canada's economy to be better in 2016, and 24% expect it to be worse. Nearly 40% of Canadian CFOs expect improvement, but the same proportion expects a decline. About 20% of CFOs overall expect Mexico's economy to be better, with the same proportion expecting a decline; 25% of Mexican CFOs expect better performance, and 13% expect worse.

### A stronger dollar and only moderately higher interest rates:

- **US dollar will get stronger:** Fifty-seven percent of CFOs (60% of US CFOs) expect the dollar to appreciate against the renminbi over the next year, and the proportion is about the same for appreciation against the euro (60% overall; 59% for US CFOs).
- **Higher rates, but not much higher:** Ninety-three percent of CFOs expect higher interest rates by the end of 2016, but about 60% expect rates to be below 2% through the end of 2017. Only about 30% of CFOs (35% of Financial Services CFOs) expect rates to be higher than 2%.

## What are your expectations for the 2016 macroeconomic environment?

Percent of CFOs selecting each level of agreement/disagreement for each statement (n=103-111)



Please see full report for industry-specific findings.

# Special topic: 2016 priorities

## Business priorities

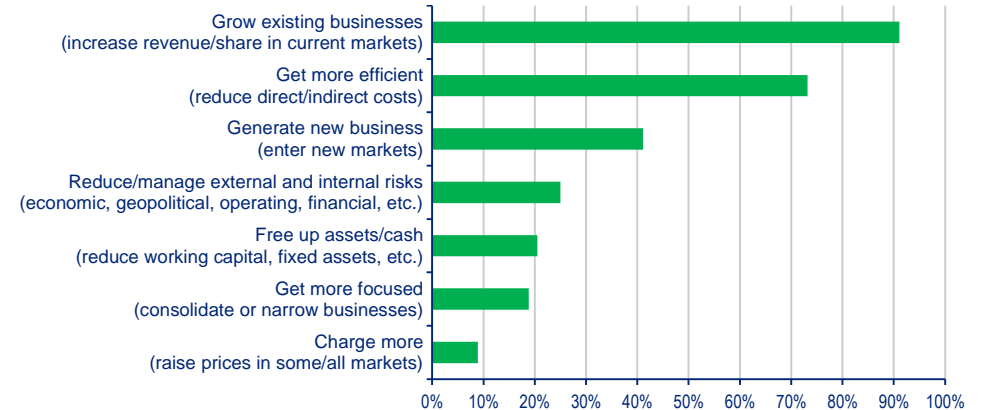
What are companies' business priorities for 2016?

**Existing businesses and gaining efficiencies are the dominant focuses; new businesses very significant for some industries:**

- **Heavy focus on growing existing businesses:** About 90% say a top priority is increasing revenue/share in current markets, with Energy/Resources lowest at 67%. Among those not rating this a top priority, all cite getting more efficient, and 70% cite getting more focused.
- **Strong focus on getting more efficient:** Just under 75% say a top priority is to reduce direct/indirect costs. Energy/Resources and Manufacturing are highest at 92% and 89%, respectively, and Retail/Wholesale is lowest at 56%. Among those who do not rate this a top priority, all cite growing existing businesses, 63% cite generating new business, and 43% cite reducing/managing external and internal risks.
- **Focus on new business varies greatly by industry:** Just over 40% say a top-three priority is to enter new markets. Technology, Retail/Wholesale, and Services are highest at 78%, 56%, and 56%, respectively. Manufacturing, Energy/Resources, and T/M/E are all below 30%. Among those who do not rate this a top priority, 91% cite growing existing businesses, and 83% cite getting more efficient.
- **Risk focus in Canada and Energy/Resources:** One-quarter of CFOs say a top priority is managing internal and external risks. Energy/Resources is the highest at 50%, with Technology, T/M/E, and Healthcare/Pharma lowest (all below 13%). Forty-six percent of Canadian CFOs say managing risk is a priority (interestingly, most are not from Energy/Resources).
- **Little focus on freeing up cash:** Just 21% say a top priority is reducing working capital and fixed assets. Healthcare/Pharma is the highest at 38%. Technology, Energy/Resources, and T/M/E are all at 0%. Thirty-one percent of Canadian CFOs say it is a top priority, and just 13% of Mexican CFOs say the same.
- **Narrower business focus in Financial Services and in Mexico:** Just 19% say a top priority is consolidating or narrowing their business. Financial Services is the highest at 32%. Technology and Services sit at only 11%, and Healthcare/Pharma and T/M/E are at 0%. No Canadian CFOs say it is a top priority, but 63% of Mexican CFOs say it is.
- **Little focus on raising prices:** Just 9% say charging more is a top priority. Manufacturing, Energy/Resources, and Retail/Wholesale are highest at 19%, 17%, and 13%, respectively. All others sit at 0%.

## What are your company's business priorities for 2016?

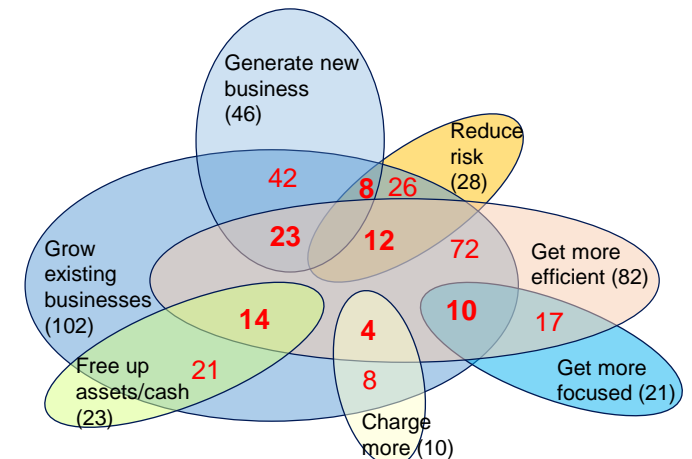
Percent of CFOs selecting each priority in their top three (n=112)



Please see full report for industry-specific findings.

## What are your company's business priorities for 2016?

Number of CFOs selecting the most common combinations of top priorities\* (n=86)



\* This chart addresses some of the most notable 2- and 3-choice (bold) combinations, which may have included additional priorities. Numbers within each priority may sum to more than the total for that priority due to the non-exclusive nature of pairings.

# Special topic: 2016 plans

## Cash uses

What will companies do with their cash in 2016?

**Strong use of cash for growth, but significant differences across industries and between public/private companies:**

- **Heavy cash use for growth investments:** Eighty-one percent say a top-three cash use is investing for growth (80% for public companies, 85% for private). Financial Services is the outlier at 95%, with Healthcare/Pharma lowest at 71%. Among those who do not rate this a top use, 48% cite paying dividends, 38% cite investing for efficiency gains, and 38% cite paying down debt.
- **Majority of public companies will pay dividends:** Just over half say a top cash use is paying dividends (55% for public companies, 42% for private). Technology and Energy/Resources are highest at 75% and 67%, respectively, while Healthcare/Pharma is lowest at 29%. Among those who do not rate this a top use, 79% cite investing for growth, and 49% cite investing for efficiency gains.
- **Less than half cite heavy investment in efficiency gains:** Forty percent say a top-three cash use is to invest for efficiency gains (37% for public companies, 46% for private). Services and Energy/Resources are highest at 78% and 58%, respectively. Healthcare/Pharma and Technology both sit at 0%. Among those who do not rate this a top use, 80% cite investing for growth, 59% cite paying dividends, and 35% cite buying back shares.
- **Many public companies will buy back shares:** Thirty-four percent of public company CFOs say buying back shares will be a top use, whereas none of the private company CFOs say so. Technology is the upper outlier at 63%, with Energy/Resources lowest at 8%. Just 8% of Canadian CFOs say share repurchases will be a top cash use.
- **Some paying down of debt:** Just 20% say a top cash use is paying down debt (no public/private differences). Retail/Wholesale and Manufacturing are highest at 31% and 30%, respectively. Financial Services and Services are lowest at 5% and 0%, respectively. Nearly 25% of US CFOs cite this use, but few Canadian and no Mexican CFOs do.
- **Little holding of cash:** Just 15% say a top priority is holding cash to provide flexibility to pursue emergent opportunities (Healthcare/Pharma and Financial Services are higher at 43% and 26%, respectively), and just 12% say the same for holding cash to protect against volatility (Energy/Resources and Healthcare/Pharma are both around 25%).

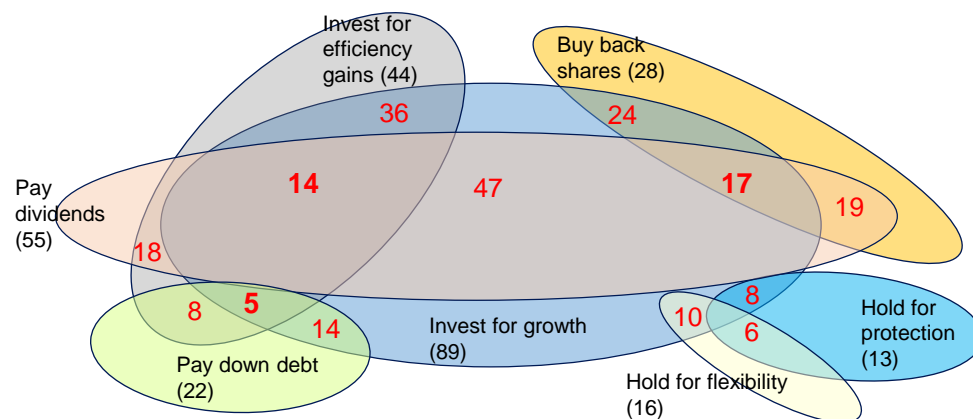
## What are your company's top uses of cash for 2016?



Please see full report for industry-specific findings.

## What are your company's top uses of cash for 2016?

Number of CFOs selecting the most common combinations of cash uses\* (n=110)



\* This chart addresses some of the most notable 2- and 3-choice (bold) combinations, which may have included additional uses. Numbers within each use may sum to more than the total for that use due to the non-exclusive nature of pairings.



# Special topic: 2016 plans

## Geographic focus

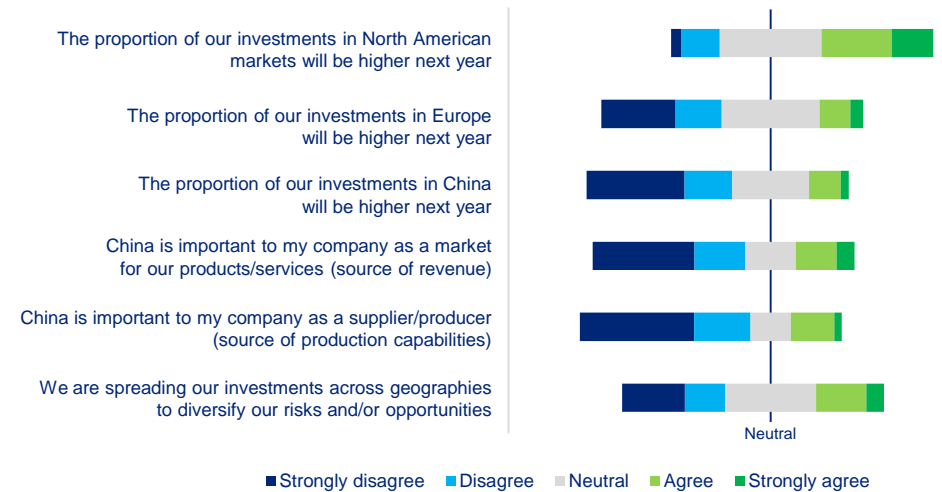
What is companies' geographic focus for 2016?

**Even more focus on North America, with little additional focus on Europe and China (Retail/Wholesale is the main exception):**

- Strong push toward higher investment in North American markets:** About 43% say their proportion of investments in North America will be higher next year, while just 19% disagree. Healthcare/Pharma is the high outlier at 63%, with Financial Services and Manufacturing both around 50%. Canadian CFOs are the most likely to indicate a higher focus on North America at 54%.
- Little additional focus on Europe:** Only 17% say their proportion of investments in Europe will be higher next year, while 46% disagree (28% strongly disagree). Retail/Wholesale and Services are the most positive at 36% and 33%, respectively. Energy/Resources and Healthcare/Pharma are the most negative with more than 63% disagreeing. No Canadian CFOs indicate a higher focus on Europe.
- Little focus (or additional focus) on Chinese markets:** Just 22% of CFOs say China is an important market for their company, while 58% disagree (39% strongly disagree). Financial Services and Retail/Wholesale are the most positive at 31% and 29%, respectively. Accordingly, just 15% say their proportion of investments in China will be higher next year, while 56% disagree (37% strongly disagree). Retail/Wholesale is the positive outlier at 39%. Energy/Resources is the negative outlier with 80% disagreeing.
- China not particularly important as a supplier/producer:** Just 19% say China is an important supplier/producer, while 65% disagree (44% strongly disagree). Retail/Wholesale and Manufacturing are the positive outliers at 43% and 31%, respectively. Technology, Energy/Resources, Financial Services, and Healthcare/Pharma are all quite negative with more than 75% disagreeing. Canadian and Mexican CFOs are the most positive at 31% and 29%, respectively.
- Little spreading of risk and opportunity:** Only 26% say they are spreading their investments across regions to diversify their risks and opportunities, while 39% disagree (24% strongly disagree). Retail/Wholesale, T/M/E, and Financial Services are highest at 50%, 40%, and 40%, respectively. Energy/Resources and Healthcare/Pharma are the most negative with 64% and 50% disagreeing, respectively. Canadian and Mexican CFOs are relatively unlikely to say they are spreading their investments to diversify their risks and opportunities.

## What is your company's geographic focus for 2016?

Percent of CFOs selecting each level of agreement/disagreement for each statement (n=99-108)



Please see full report for industry-specific findings.

# Special topic: 2016 plans

## Market importance

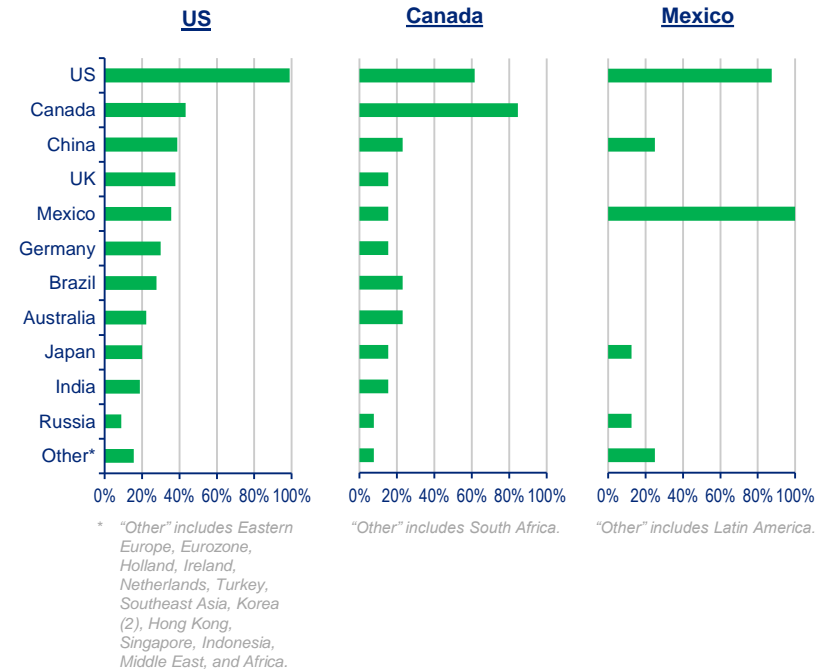
*Which markets will be important to companies' growth?*

**The US and home markets are the most important, but there are significant differences by country and especially by industry:**

- **Considerable diversification overall:** The average number of markets selected was about four (of the 11 presented markets), which means the average CFO selected at least one market outside North America. About 25% selected just one market, and 21% selected more than five.
- **Canadian companies comparatively centered on North America:** Across countries, 35% of CFOs selected only North American markets. About 55% of Canadian CFOs did so, with 31% selecting only Canada. About 40% of Mexican CFOs selected only North American markets, with 13% selecting only Mexico. About 33% of US CFOs selected only North American markets, and 27% only selected the US.
- **Strong focus on US market; less true for Canadian companies:** Ninety-four percent of all surveyed CFOs say the US will be important to their five-year growth, but only 62% of Canadian CFOs say the same. T/M/E is lowest on an industry basis at 80%.
- **Predictably strong focus of Canadian and Mexican companies on local markets:** Forty-six percent of all surveyed CFOs and 85% of Canadian CFOs say Canada will be important. Thirty-eight percent of all CFOs and all Mexican CFOs say Mexico will be important.
- **China important, but mostly to US companies:** Nearly 40% of US CFOs say China will be important, while only about one-quarter of Canadian and Mexican CFOs say the same.
- **Technology most diversified:** The average Technology CFO selected 5.8 markets (the cross-industry average was 3.8) and the average Technology presence in each market was 48%. Manufacturing, Retail/Wholesale, and Services were next at about 4.2 markets and about a 35% average presence in each market. Energy/Resources and Financial Services were lowest at 2.5 markets and about a 20% average presence.
- **US comparatively diversified:** The average US CFO selected 4.0 markets, and the proportion of US CFOs selecting each of the presented geographic markets was 33%. Canada was next at about 3.1 markets and about a 26% average presence in each market, followed by Mexico at 2.6 markets and a 22% average presence.

## Which markets will be important to your company's revenue growth over the next five years?

Percent of CFOs selecting each country (n=1112)



Please see full report for industry-specific findings.

# Special topic: 2016 plans

## Purpose of M&A deals

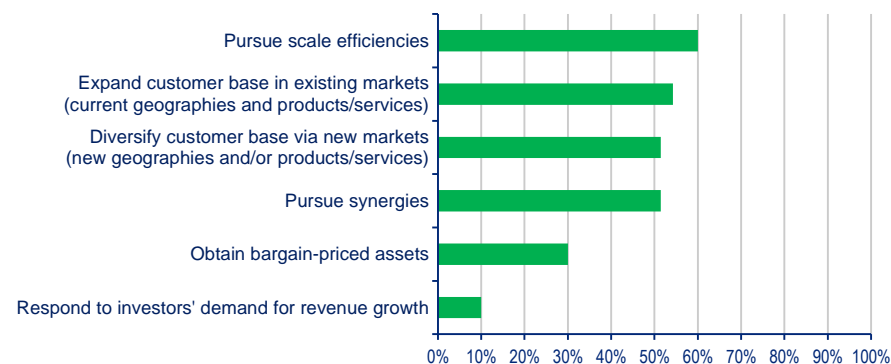
What will be the purpose of M&A deals for 2016?

For the 63% of CFOs who expect M&A deals, there is considerable diversity of purpose—sometimes reflecting industry differences, but often appearing to reflect company-specific factors instead:

- M&A deals to serve multiple purposes:** The average number of purposes selected by CFOs was 2.6, indicating a significant breadth of expected M&A outcomes. Just 17% indicated only one purpose (most often to either diversify their customer base or obtain bargain-priced assets), and 29% selected just two (expanding and diversifying their customer base or diversifying their customer base and pursuing scale efficiencies). Financial Services CFOs indicated the narrowest focus, averaging 1.7 purposes, Healthcare/Pharma and Services were highest at about 3.8 and 3.5, respectively.
- Heavy growth focus:** About 54% of CFOs selected expanding in existing markets, and 51% selected diversifying into new markets (27% selected both). Services, Healthcare/Pharma, and Manufacturing are the highest for existing markets (100%, 100%, and 73%, respectively) and Energy/Resources and Services are the highest for new markets (75% and 83%, respectively). Overall, 80% of CFOs selected at least one of these growth purposes. Those who didn't select growth tended to pick a combination of pursuit of synergies and scale efficiencies, with a significant number selecting obtaining bargain-priced assets.
- Heavy scale efficiency focus:** Sixty percent of CFOs selected pursuing scale efficiencies, with Technology the low outlier at 20% (the other industries are close to the average); only 1% selected just this purpose. Among CFOs not citing scale efficiency, 40% chose pursuit of synergies, half chose growth in current markets, and 54% chose growth in new markets.
- Vertical integration and consolidation synergies:** About half of CFOs selected pursuing synergies, with T/M/E and Healthcare/Pharma highest at 80% and 75%, respectively. More than 80% of these CFOs also chose a growth purpose, selecting expansion in existing markets (which suggests possible vertical integration strategies) or pursuit of scale efficiencies (which suggests possible consolidation strategies).
- Bargain-priced assets often an add-on benefit:** Thirty percent of CFOs selected obtaining bargain-priced assets, and almost all of those also chose at least two other purposes—implying bargain-priced assets are often a secondary (or tertiary) benefit of M&A deals rather than the primary benefit. Healthcare/Pharma was the highest at 75%.

## What will be the purpose of your M&A deals for 2016?

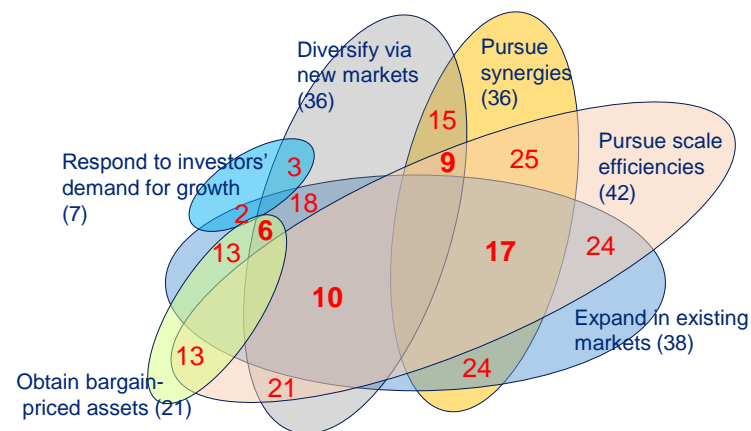
Percentage of CFOs selecting each purpose (N=70)\*\*



Please see full report for industry-specific findings.

## What will be the purpose of your M&A deals for 2016?

Number of CFOs selecting the most common combinations of purposes\* (N=70)



\* This chart addresses some of the most notable 2- and 3-choice (bold) combinations, which may have included additional purposes. Numbers within each purpose may sum to more than the total for that purpose due to the non-exclusive nature of pairings.

\*\* Both charts present results only for the 63% of CFOs who expect M&A deals in 2016.

# Special topic: 2016 plans

## Profitability improvement approaches

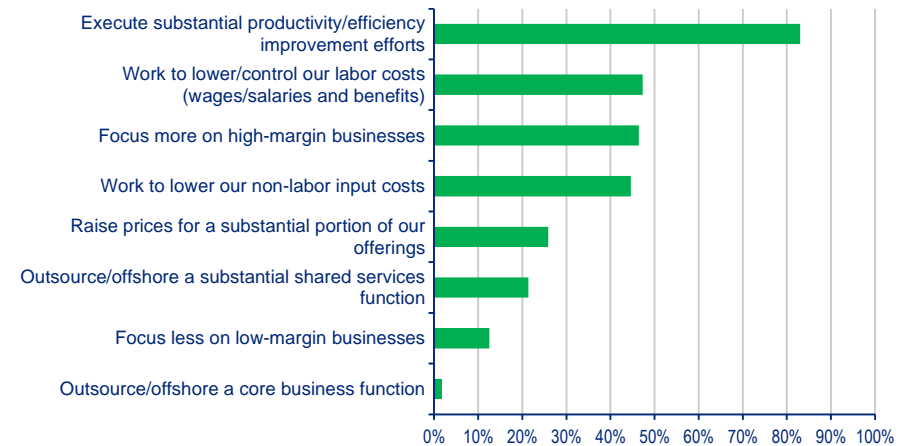
What will companies do to improve their profitability?

**The most common tactic combinations all include the execution of productivity improvement efforts—paired with a focus on higher-margin businesses or with efforts to reduce labor and/or non-labor input costs:**

- **High focus on profitability improvement:** All CFOs selected at least one profitability improvement tactic, with the average number of selections at 2.9.
- **High focus on productivity/efficiency:** More than 80% of CFOs expect to execute substantial productivity/efficiency improvement efforts. Manufacturing, Technology, and Services are highest (all about 90%), with Retail/Wholesale and Healthcare/Pharma lowest at 63%. Among those CFOs who did not select this tactic, about half selected raising prices, and about 60% selected working to lower their input costs (labor and/or non-labor).
- **High focus on labor costs:** Forty-seven percent of CFOs expect efforts to lower/control labor costs. Energy/Resources is highest at 58% and Technology is lowest at 11%. About 60% of CFOs selecting this tactic also chose efforts to lower non-labor input costs, and about 80% also chose productivity/efficiency improvement efforts.
- **High focus on non-labor input costs:** Forty-five percent of CFOs expect efforts to lower/control non-labor costs. Energy/Resources is high for cost cutting in this area as well (see previous bullet); Manufacturing, Healthcare/Pharma, and Services are also comparatively high, with Technology again the lowest.
- **More focus on high-margin businesses:** Forty-six percent expect to focus more on their higher-margin businesses (just 13% expect to decrease their focus on lower-margin businesses) with Services, Manufacturing, and Financial Services highest. The other industries are all considerably lower with Energy/Resources trailing at 17%.
- **Price increases industry dependent:** About 25% expect to raise prices, with Manufacturing, Services, and Retail/Wholesale considerably higher, and Technology, Healthcare/Pharma, and Financial Services considerably lower.
- **Outsourcing plans very industry dependent:** Just over 21% expect to outsource a shared services function, with Technology very high at 78% and several industries below 10%. Few CFOs say they expect to outsource a core business function.

## What will you do in 2016 to improve your company's profitability?

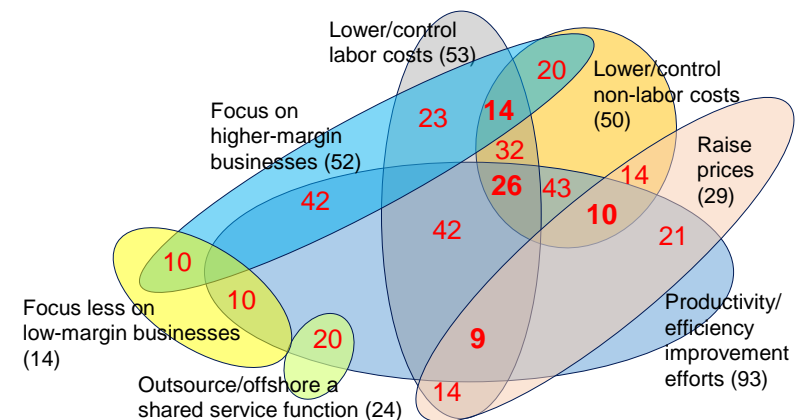
Percent of CFOs selecting each tactic (n=112)



Please see full report for industry-specific findings.

## What will you do in 2016 to improve your company's profitability?

Number of CFOs selecting the most common combinations of tactics\* (n=112)



\* This chart addresses some of the most notable 2- and 3-choice (bold) combinations, which may have included additional tactics. Numbers within each tactic may sum to more than the total for that tactic due to the non-exclusive nature of pairings.

# Special topic: Personal investments and retirement

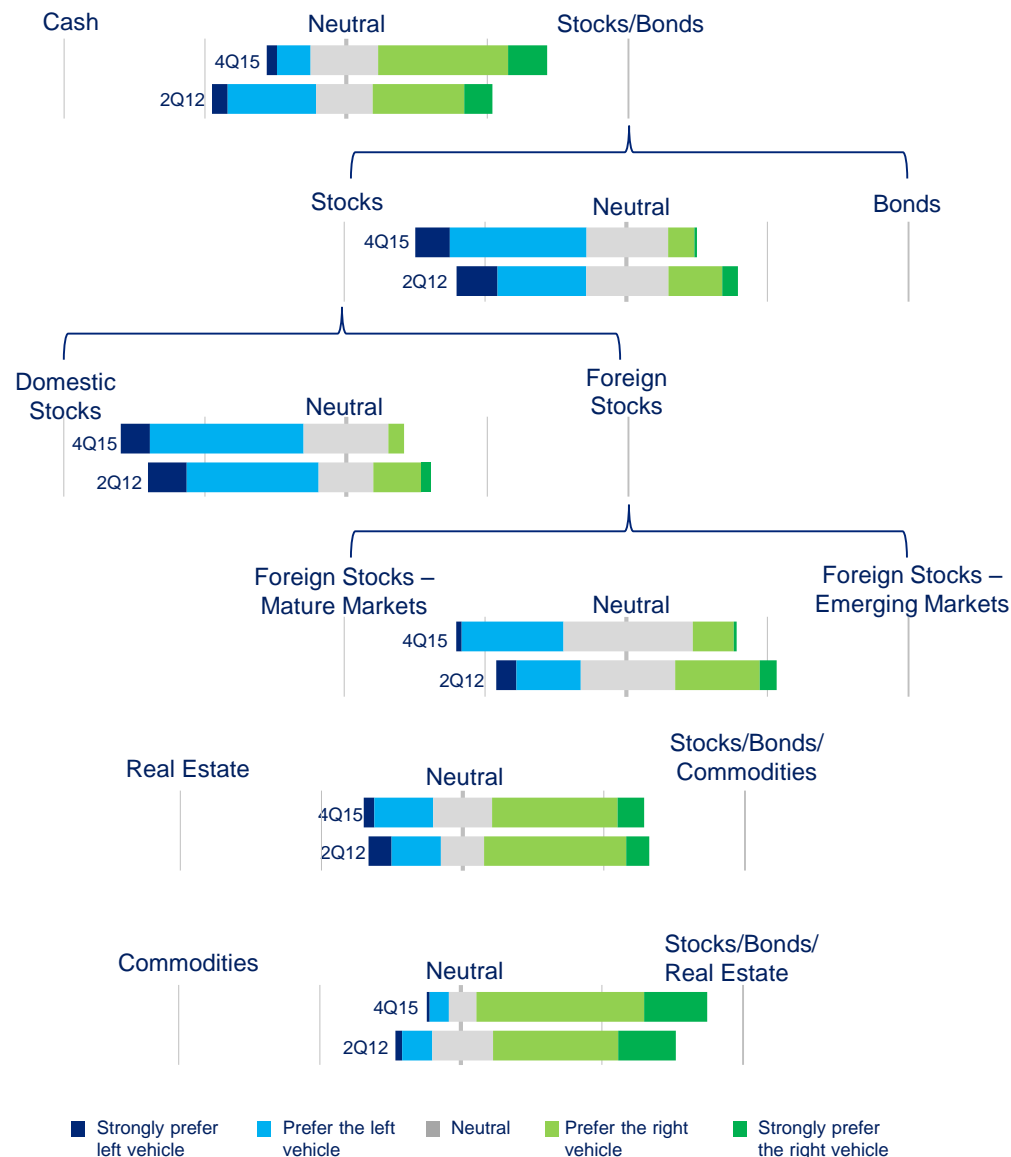
## Personal asset allocation

How do CFOs allocate their personal investments?

Since 2Q12, cash, foreign stocks (especially emerging market stocks), and commodities have lost much of their appeal:

- **Lower demand for cash and equivalents:** Just 16% of CFOs express a bias toward cash over stocks and bonds—less than half the level from 2Q12. Sixty percent prefer stocks and bonds (versus 43% in 2Q12), with Financial Services CFOs highest at about 80%. US CFOs express the strongest preference for stocks and bonds by a wide margin.
- **Stocks over bonds:** Just 10% prefer bonds to stocks (versus 25% in 2Q12), and just over 60% of CFOs prefer stocks (versus 46% in 2Q12). Energy/Resources and Mexican CFOs are the most biased toward stocks at 83% and 75%, respectively.
- **Domestic stocks well above foreign:** Just 6% express a bias toward foreign stocks—less than one-third the level from 2Q12. Sixty-five percent prefer domestic stocks (versus 60% in 2Q12) with Services CFOs highest at 88% and little difference among geographies.
- **Major shift toward established markets over emerging:** Just 16% now prefer emerging markets to established ones, well below the 36% from 2Q12. Thirty-eight percent now prefer established markets (versus 30% in 2Q12) with Financial Services and Services CFOs both above 60%. Of note is the 46% of CFOs overall who express no preference—the highest proportion for any of these investment vehicles.
- **Real estate still a major factor:** While stocks have gained favor since 2Q12, real estate has held its own. About one-quarter of CFOs express a bias toward real estate versus stocks, bonds, and commodities—about even with 2Q12. Fifty-four percent prefer the other vehicles (versus 59% in 2Q12) with Energy/Resources and Healthcare/Pharma above 70%. Eighty percent of Mexican CFOs prefer real estate.
- **Commodities less popular:** Just 8% prefer commodities to stocks, bonds, and real estate (versus 13% in 2Q12), and just over 80% prefer the other vehicles (versus 65% in 2Q12). Among Energy/Resources CFOs, just 8% prefer commodities, and 92% prefer the other vehicles.

**How are you allocating your personal investments?**  
Percent of CFOs selecting each type and degree of preference (n=102-108)





# Special topic: Personal investments and retirement

## Exposure to own company's stock

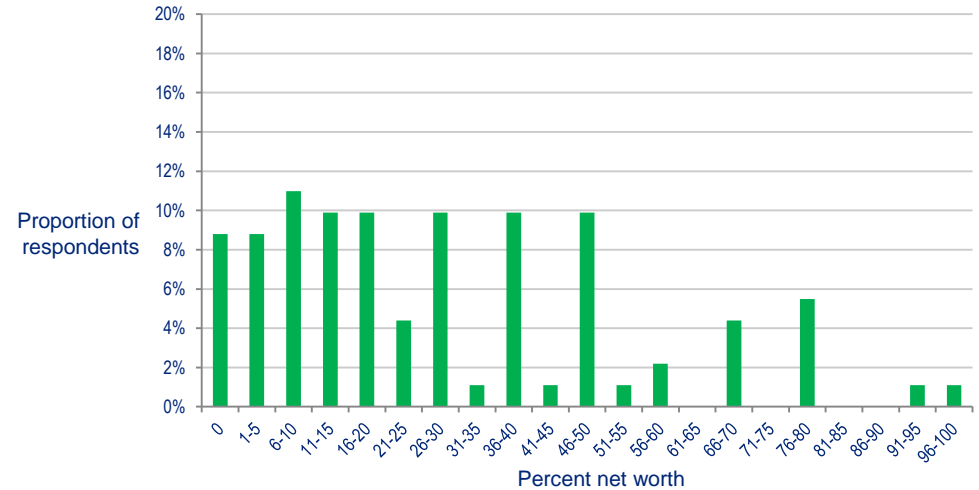
*How much of CFOs' net worth is tied up in their own company's stock?*

**Among those with the option to own company stock, the average proportion of CFOs' net worth in that investment is about 30%:**

- Vast majority of CFOs have an ownership stake in their company:** Of the 81% of CFOs who have the option of owning shares in their own company, 91% say they do. Among US CFOs, 86% report the option of ownership, and 94% of those say they have a stake. The percentages are 77% and 80% for Canadian CFOs, and 38% and 67% for Mexican CFOs. Private company CFOs have relatively low exposure, with 56% claiming an ownership option and 67% of those saying they own stock (the numbers are 89% and 96% for public companies).
- Substantial CFO wealth tied up in own company stock (but less true for private company CFOs):** On average, CFOs say about 30% of their net worth is tied up in their own company's stock. The median value is 25%, and variability is very high. Manufacturing and Technology are highest for both the mean and median levels (about 35% and 40%, respectively, for both industries), and the CFOs in the above-75% range are most likely to be from Manufacturing or Financial Services. Retail/Wholesale and Services are lowest with means and medians in the 20% to 24% range. On a country basis, the means and medians are 30%/25% for the US, 27%/15% for Canada, and 15%/15% for Mexico. The numbers are 33%/30% for public companies and 16%/15% for private companies.
- Time until retirement not much of a factor:** CFOs' stock ownership rates and net worth exposure levels do not vary strongly depending on their years until retirement (see findings, page 26). The exposure level for CFOs retiring in less than two years is 25% (versus the 30% overall mean), and the median level is also 25% (same as the overall median).

## What percentage of your net worth is tied up in your own company's stock?

Percent of CFOs selecting each range of net worth (n=91)



*Please see full report for industry-specific findings.*

# Special topic: Personal investments and retirement

## Retirement planning

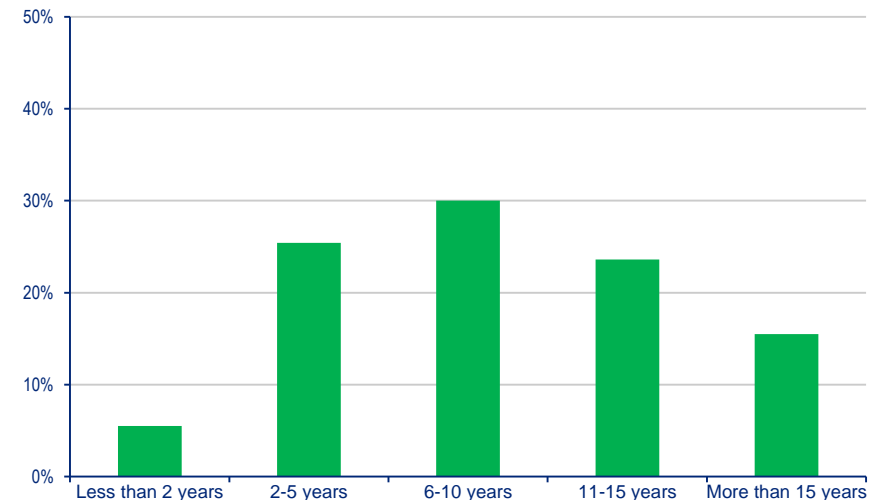
*In how many years will CFOs retire?*

**The average CFO will retire in about nine years\*:**

- **Significant differences by industry and country:** Retail/Wholesale CFOs indicate the most expected years before retirement at approximately 12, with the highest proportions in both the 6-10 and the more than 15 categories. Technology has the shortest expectation at about six years, with 90% indicating between two and 10 years. American and Canadian CFOs' expectation are both close to the nine-year average, but Mexico is higher at about 13 years.
- **Significant generational turnover in the next five years:** Just over 30% of CFOs say they will retire within the next five years. Technology, Energy/Resources, and T/M/E are all above 40%, with Retail/Wholesale and Services lower at below 12%. US CFOs are much more likely to be in this category than are those from Canada and Mexico, and public company CFOs are much more likely than are those from private companies.

## In how many years do you expect to retire?

Percent of CFOs falling into each time range\* (n=110)



\* CFOs selection options correspond to the ranges shown on the chart. Averages were approximated as the weighted average of the midpoints of these ranges (20 was used for the top range).

*Please see full report for industry-specific findings.*

# Longitudinal trends

## Expectations and sentiment

### CFOs' Year-Over-Year Expectations\*

(Mean growth rate, median growth rate, and percent of CFOs who expect gains)

		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	Survey Mean	2-Year Mean
Operating Results	Revenue	9.3%	10.9%	6.5%	8.2%	7.1%	6.8%	6.3%	5.9%	6.6%	4.8%	5.6%	5.4%	5.7%	5.0%	4.1%	4.6%	6.1%	6.8%	6.0%	5.4%	3.1%	4.4%	5.9%	6.1%	5.1%
		6.0%	10.0%	5.0%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	5.0%	5.3%	4.9%
		84%	93%	81%	89%	80%	83%	87%	79%	85%	82%	83%	81%	84%	78%	82%	90%	90%	89%	90%	86%	78%	79%	82%	84%	86%
Investment	Earnings	17.3%	19.5%	12.0%	12.6%	14.0%	9.3%	10.1%	12.8%	10.5%	8.0%	10.9%	12.1%	10.3%	8.0%	8.6%	7.9%	8.9%	10.9%	9.7%	10.6%	6.5%	6.5%	8.3%	10.8%	8.7%
		6.0%	10.0%	8.0%	10.0%	10.0%	8.0%	9.0%	9.5%	8.5%	6.0%	7.0%	10.0%	10.0%	9.0%	8.0%	7.0%	8.0%	8.0%	8.0%	8.0%	5.0%	8.0%	7.0%	8.2%	7.5%
		89%	93%	80%	83%	83%	82%	84%	79%	81%	84%	76%	84%	83%	82%	82%	84%	83%	90%	86%	79%	79%	79%	82%	83%	83%
Employment	Dividends	6.5%	8.6%	4.1%	4.4%	3.7%	3.5%	2.4%	2.2%	3.9%	2.5%	2.5%	3.6%	4.5%	3.4%	4.0%	5.7%	4.1%	4.1%	3.0%	4.3%	3.4%	3.7%	4.7%	4.0%	4.0%
		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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		38%	39%	28%	36%	35%	41%	27%	31%	33%	30%	29%	38%	40%	39%	37%	47%	45%	45%	44%	47%	43%	45%	45%	38%	44%
S&P	Capital spending	12.4%	8.3%	8.7%	11.8%	10.7%	7.9%	9.6%	12.0%	11.4%	4.6%	4.2%	7.8%	7.5%	4.9%	6.4%	6.5%	6.8%	5.0%	5.5%	5.2%	5.4%	4.3%	4.9%	7.6%	5.6%
		5.0%	5.0%	4.0%	5.0%	10.0%	5.0%	6.0%	10.0%	3.0%	0.0%	0.0%	0.0%	3.5%	2.4%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	5.0%	4.4%	4.1%
		62%	58%	57%	61%	69%	59%	61%	68%	70%	53%	43%	57%	57%	54%	59%	57%	64%	60%	62%	63%	59%	53%	59%	59%	60%
S&P	Number of domestic personnel	3.1%	2.0%	1.8%	1.8%	2.0%	1.2%	1.0%	2.1%	2.1%	0.6%	1.0%	0.9%	2.4%	1.3%	1.4%	1.0%	1.6%	2.3%	2.1%	2.4%	1.2%	1.4%	1.2%	1.7%	1.7%
		0.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	0.0%	1.5%	0.0%	0.7%	0.7%
		50%	60%	48%	61%	64%	52%	51%	51%	52%	40%	40%	43%	46%	47%	48%	42%	58%	58%	60%	58%	49%	57%	50%	52%	54%
S&P	Number of offshore personnel	3.5%	2.8%	3.6%	3.7%	4.1%	2.9%	4.8%	3.7%	3.8%	1.5%	0.5%	2.4%	2.5%	1.9%	4.1%	2.5%	1.9%	2.6%	1.9%	3.1%	2.0%	2.7%	2.8%	2.8%	2.6%
		0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.5%	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%	0.1%	0.0%
		41%	49%	47%	41%	57%	37%	50%	43%	41%	30%	32%	39%	36%	33%	42%	34%	42%	45%	44%	48%	39%	46%	49%	42%	43%

### CFOs' Own-Company Optimism\*\* and Equity Market Performance

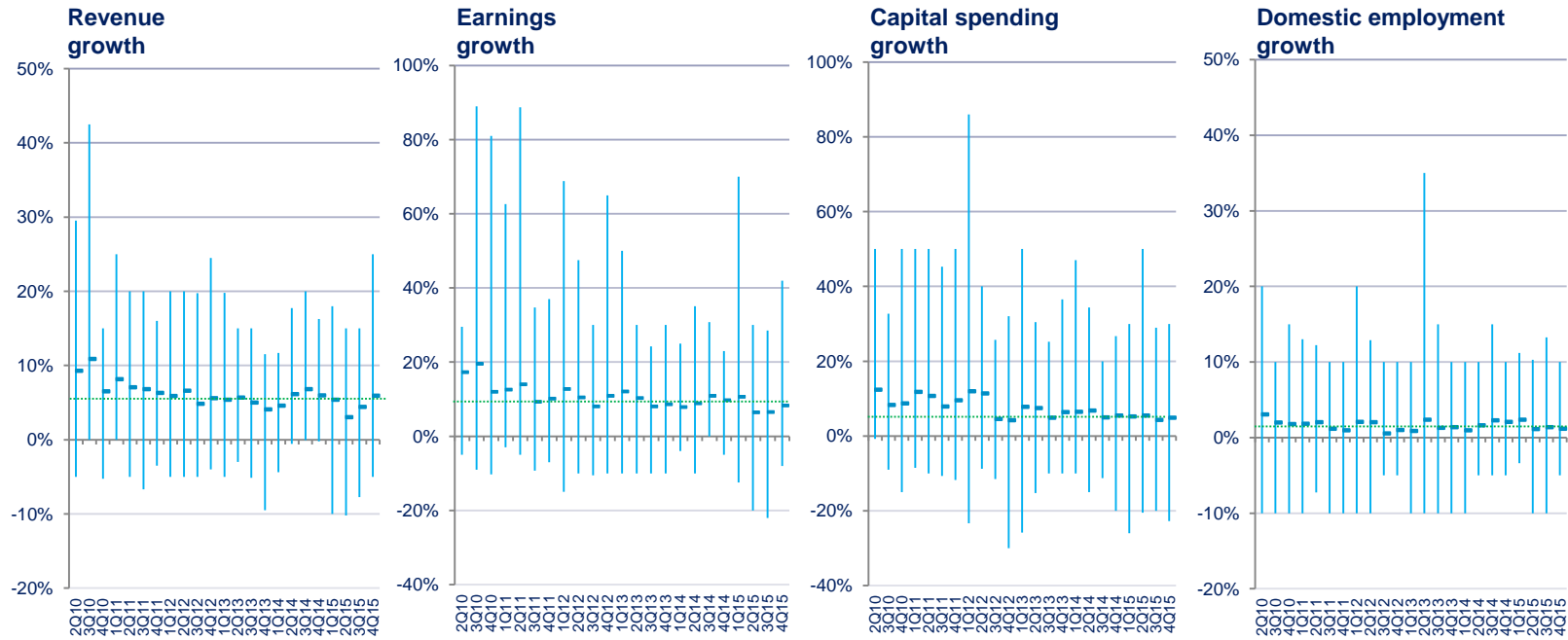
		2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	Survey Mean	2-Year Mean
Optimism	Optimism (% more optimistic)	63.5%	46.8%	53.3%	62.4%	39.7%	28.6%	28.6%	63.0%	39.1%	38.8%	29.1%	51.0%	59.0%	41.9%	54.2%	46.8%	44.3%	43.7%	49.0%	47.9%	37.6%	33.6%	33.9%	45.5%	44.6%
	Neutrality (% no change)	19.3%	16.8%	26.0%	22.0%	28.3%	18.6%	32.1%	21.9%	32.6%	21.2%	31.3%	30.1%	27.7%	33.9%	33.4%	33.0%	37.2%	44.6%	35.3%	38.5%	43.6%	46.9%	42.9%	30.7%	39.1%
	Pessimism (% less optimistic)	17.2%	36.4%	20.7%	15.6%	32.0%	52.8%	39.3%	15.1%	28.3%	40.0%	39.6%	18.9%	13.3%	24.2%	20.8%	20.2%	18.6%	11.7%	15.6%	13.5%	18.8%	19.5%	23.2%	24.2%	17.3%
	Net optimism (% more optimistic less % less optimistic)	46.3%	10.4%	32.6%	46.8%	7.7%	-24.2%	-10.7%	47.9%	10.8%	-1.2%	-10.5%	32.1%	45.7%	17.7%	33.4%	26.6%	25.7%	32.0%	33.3%	34.4%	18.8%	14.2%	10.7%	21.4%	27.3%
S&P	S&P 500 price at survey period midpoint	1,088	1,072	1,200	1,343	1,333	1,123	1,161	1,361	1,317	1,418	1,387	1,520	1,667	1,656	1,798	1,839	1,878	1,955	2,040	2,097	2,123	2,092	2,023	1,567	1,978
	S&P gain/loss QoQ		-1.5%	11.9%	11.9%	-0.7%	-15.8%	3.4%	17.2%	-3.2%	7.7%	-2.2%	9.6%	9.7%	-0.7%	8.6%	2.3%	2.1%	4.1%	4.3%	2.8%	1.2%	-1.5%	-3.3%	3.4%	3.0%

\* All means have been adjusted to eliminate the effects of stark outliers. The "Survey Mean" column contains arithmetic means since 2Q10.

\*\* Averages for optimism numbers may not add to 100% due to rounding.

# Longitudinal trends

## Means and distributions for key metrics



**Vertical lines** indicate range for responses between 5<sup>th</sup> and 95<sup>th</sup> percentiles.

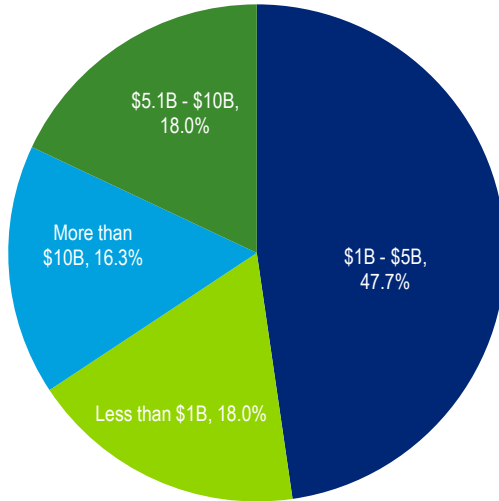
**Horizontal marks** indicate outlier-adjusted means.

**Dotted lines** indicate 3-year average (mean).

# Demographics\*

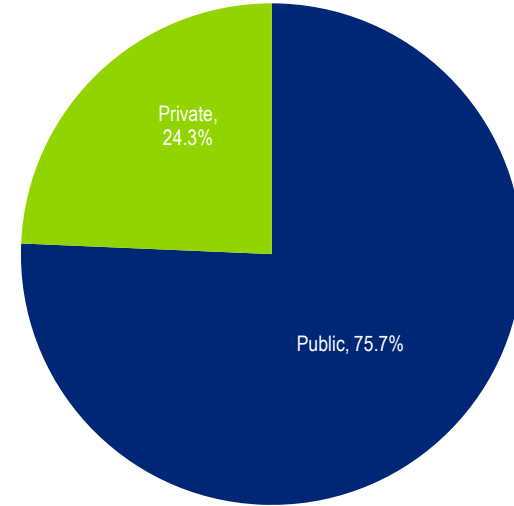
## Annual Revenue (\$US)

(n=111)



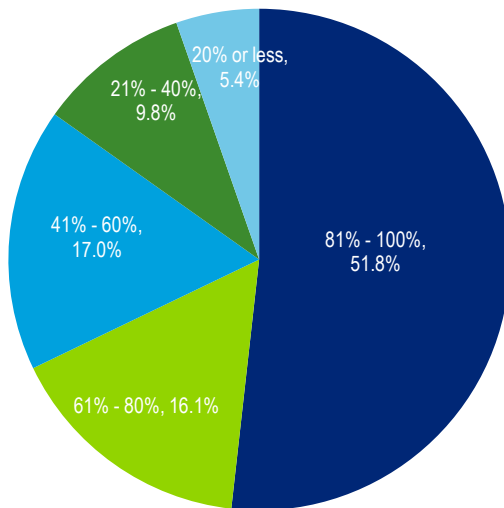
## Ownership

(n=111)



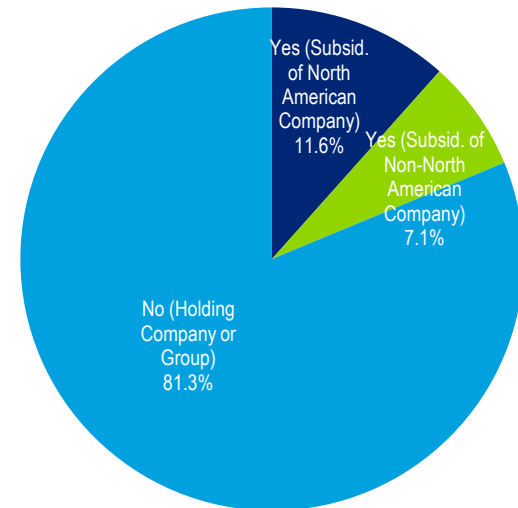
## Revenue from North America

(n=112)



## Subsidiary Company

(n=112)

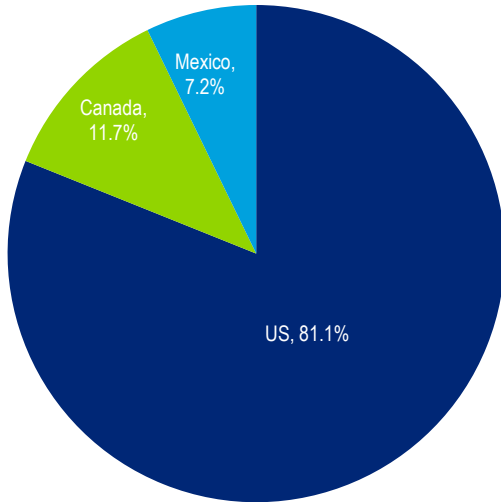


\* Sample sizes for some charts do not sum to the total because some respondents did not answer all demographic questions.

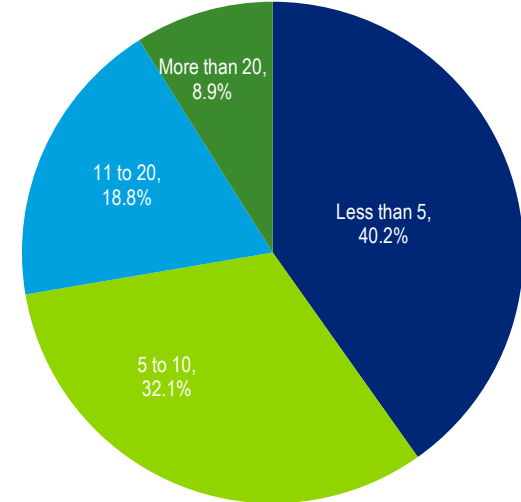


# Demographics\* (cont.)

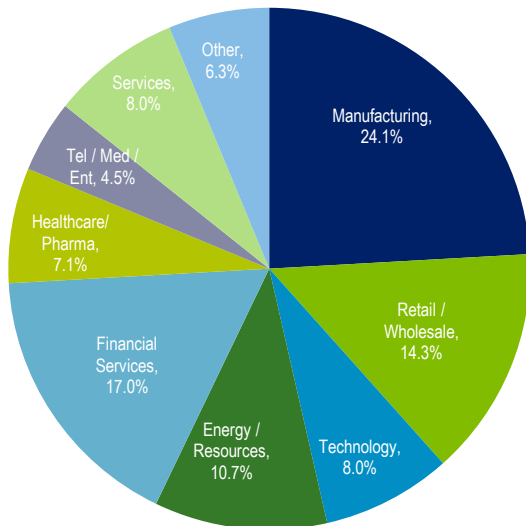
**Country**  
(n=111)



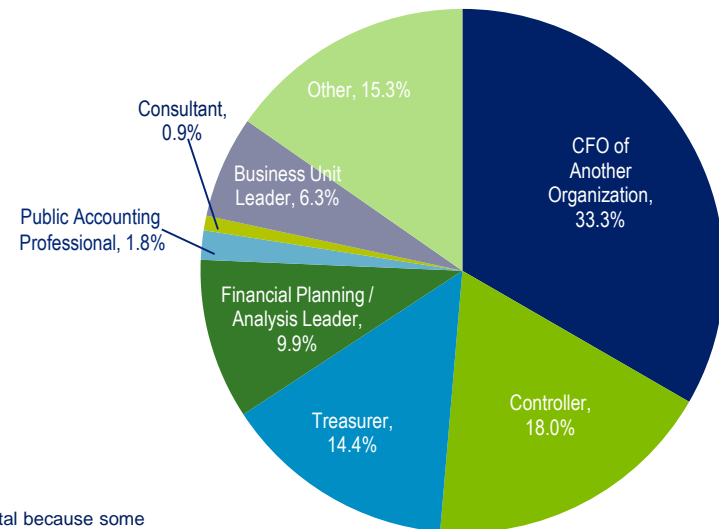
**CFO Experience (Years)**  
(n=112)



**Industry**  
(n=112)



**Previous CFO Role**  
(n=111)



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

# Methodology

## 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 government.

## 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 CFOs who respond to the survey 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.

# Deloitte.

As used in this survey, "Deloitte" means Deloitte LLP and its subsidiaries. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

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