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CFO Signals™

What North America’s top finance executives are thinking—and doing
3rd quarter 2021

MAKING AN IMPACT THAT MATTERS since 1845

Dear CFOs,

As we issue the 3Q21 *CFO Signals* survey report a few days after the Labor Day holiday in the US, I can't help but think how appropriate the timing is because labor and talent issues are weighing heavily on CFOs' minds these days. Labor shortages, talent recruiting and retention, burnout, morale, potential delays in return-to-work, and rising wages are the internal risks CFOs cited most frequently in this quarter's survey. Of course, other challenges are adding to their stress, including the pressure to grow their organizations and to deliver products and services in a timely manner amid supply chain disruptions. That's why we asked CFOs about their M&A plans and how supply chain shortages or delays have impacted their organizations, as well as how their supply chains might change in the near future. I encourage you to read those results and others in this report. Highlights follow:

CFOs' views of regional economies: From an economic perspective, the majority of CFOs remain positive overall and more so than in pre-pandemic quarters. But the percentage of CFOs expecting future economic conditions in North America to be better declined from 62% in 2Q21 to 54% this quarter. Their views on Europe's economy—both current and future—improved, however. They also see conditions improving a year out in China and the broader Asian region, as well as in South America, although to a lesser extent.

Own-company financial prospects and growth expectations: Regarding their own company financial prospects, CFOs remain positive but tempered: Nearly two-thirds (66%) say they feel more positive than they did three months ago. While that's a strong percentage, it's a drop from the prior quarter's 75%. CFOs also lowered somewhat their year-over-year (YOY) growth expectations from the prior quarter, with revenue at 8.5%, earnings at 12.6%, capital expenditures at 8.8%, and dividends at 3.8%. Their growth expectations for domestic hiring and wages/salaries, however, increased—and the latter is certainly a key cost concern for CFOs. For details, see pages 6 and 14.

M&A plans: M&A is on CFOs' agendas, especially in light of the difficulty of growing organically. Slightly more than one-quarter said M&A will fuel 11% to 20% of their companies' growth, and another 14% of CFOs expect deals to create 21% to 30% of their growth in the next three years. Many are looking outside their core/traditional industry for opportunities, and favorable price and fit are their top focus when weighing options. CFOs are also using M&A to maintain their competitive positioning and take advantage of disruptive opportunities to secure future positioning. Still, even in the best circumstances, delivering an M&A deal is challenging, and valuation of assets/difficulty of financing, integration/divestiture execution, and translating the businesses' strategic needs into an effective M&A strategy were cited by CFOs as their top three hurdles.

Supply chains: Forty-four percent of CFOs said supply chain shortages or delays have increased their companies' costs by 5% or more, and 32% reported their 2021 sales already have fallen, while 28% expect future sales to suffer this year as a result. Add to this their top three supply chain risks: cyber risk, operational risk, and geopolitical risk. We also asked CFOs how their supply chains might change within three years. Their responses ranged from increased diversification of sources (69%) to greater vertical integration (23%) to increasing or decreasing sourcing from various regions, with North America expected to see more increases than other regions.

Thank you for taking some of your valuable time to participate in *CFO Signals*. Please reach out with any questions or if you need for more information. We also hope you will attend our next [CFO 4Sight webcast] on September 30th to get an economic update, hear from a guest CFO, and learn more about the survey results.

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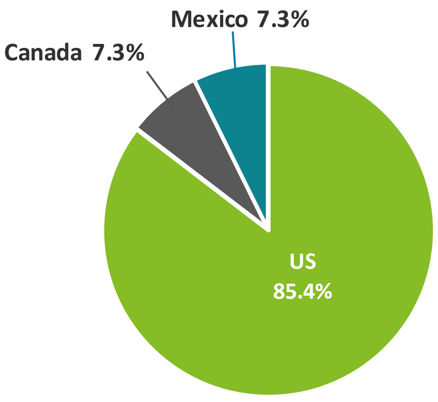
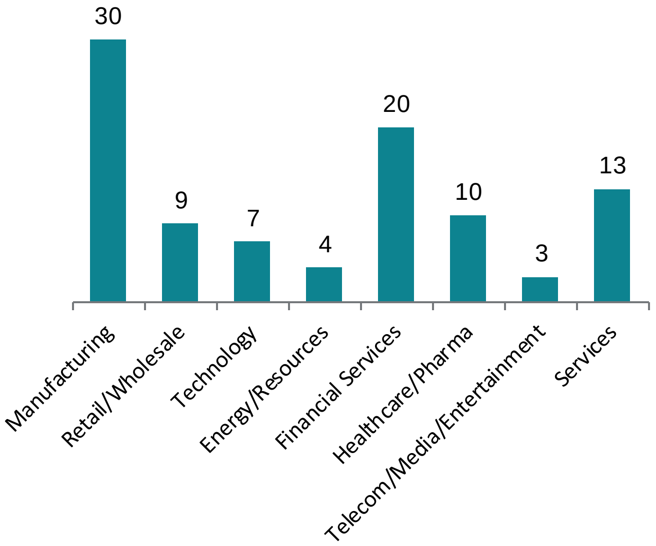
Participation profile

A total of 96 CFOs participated: 72% from public companies and 28% from privately held companies. Respondents are CFOs from the US, Canada, and Mexico, and the vast majority are from companies with more than $1 billion in annual revenue. The 3Q21 survey was open from August 2-14, 2021. For other information about participation, methodology, and industry-specific results, please contact nacfosurvey@deloitte.com.

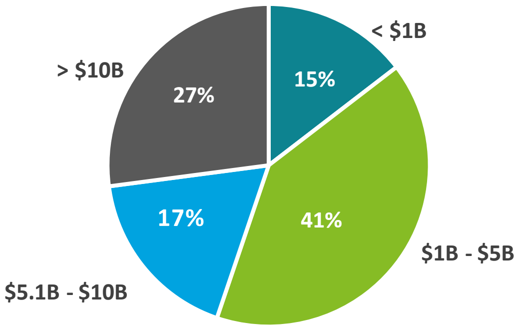
Participation by country



Participation by industry



Participation by company size



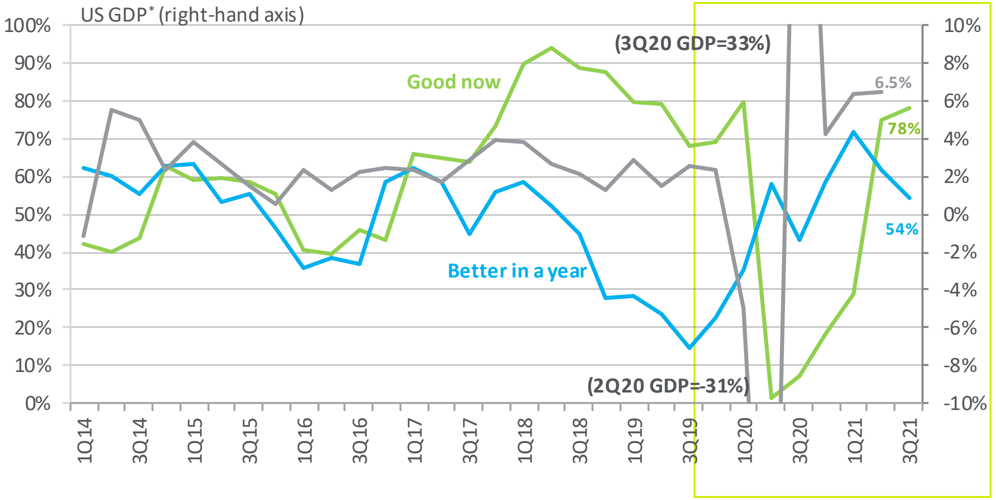
3Q21 LONGITUDINAL BUSINESS OUTLOOK HIGHLIGHTS

CFOs appear upbeat on North America's current economy, while their expectations for conditions a year out declined from 2Q21. CFOs' assessment of both Europe's current and future economic conditions improved from 2Q21. CFOs' views of China's current economic conditions declined from 2Q21, but they improved slightly looking a year out.

Economic assessment by region

- **North America:** 78% of CFOs rated the current economy as good or very good, up from 75% in 2Q21. Fifty-four percent expect better conditions in a year, down from 62% in 2Q21.
- **Europe:** CFOs' assessments of current and future economic conditions rose to 27% and 48%, respectively, from 19% and 46% in 2Q21.
- **China:** 52% of CFOs noted the current economy as being good, down from 62% in 2Q21; 55% expect better conditions in a year, up from the prior quarter's 53%.
- **Asia, excluding China:** 34% of CFOs rated the current economy as good; 53% expect improvement in the next year.
- **South America**: 5% of CFOs considered the current economy good, and 23% expect conditions to improve a year out.

Views on North America's economy



Economy optimism

	Good now	Better in a year	Last quarter	2-yr. avg
North America	↗ 78%	↘ 54%	75/62	45/51
Europe	↗ 27%	↗ 48%	19/46	10/31
China	↘ 52%	↘ 55%	62/53	34/46
Asia, excl. China	34%	53%	NA**	NA**
South America	5%	23%	NA**	NA**

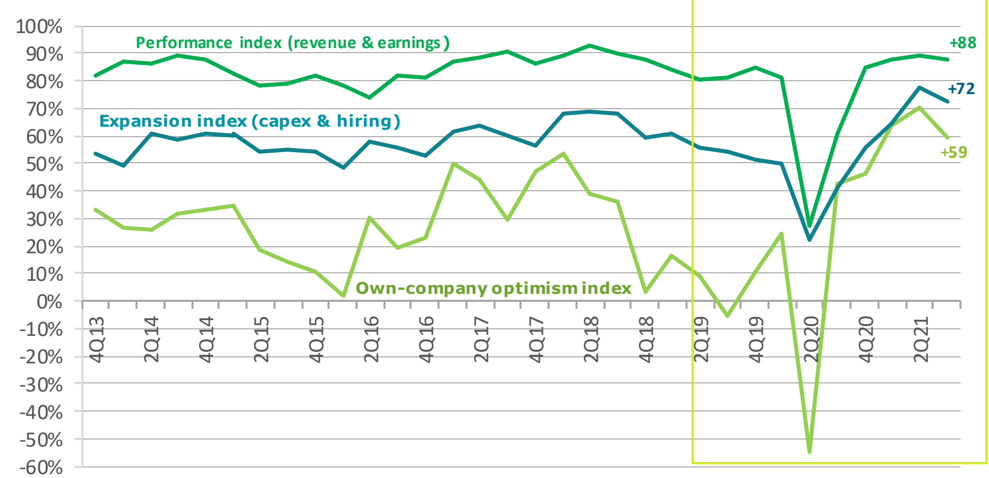
*US GDP = percent change from preceding quarter in real US gross domestic product (source: Bureau of Economic Analysis table 1.1.1)

** Comparisons are not available as this is the first time *CFO Signals* has asked CFOs for their assessments of Asia, excluding China, and of South America.

Company outlook

- The **own-company optimism index** (percent of CFOs citing rising optimism regarding their companies' prospects minus the percent citing falling optimism) fell from +70 to +59 on mixed sentiment, with Technology CFOs being the most optimistic and Energy/Resources CFOs the least optimistic.
- The **performance index** (average of percentages of CFOs citing positive YOY revenue and earnings growth) fell slightly from +89 to +88. The Energy/Resources and Retail/Wholesale industries led the index.
- The **expansion index** (average of percentages of CFOs citing positive YOY growth in capital spending and domestic hiring) declined from +77 to +72. The Services and Energy/Resources industries ranked highest on the index.

Company indexes



Company optimism and growth

		This quarter	Last quarter	2-yr. avg.
Own-company optimism (net)	↘	+59	+70	+33
Revenue growth (YOY)	↘	8.5%	9.6%	4.3%
Earnings growth (YOY)	↘	12.6%	13.6%	6.2%
Capital investment growth (YOY)	↘	8.8%	12.4%	4.2%
Domestic personnel growth (YOY)	↗	4.8%	4.1%	1.2%

3Q21 HIGHLIGHTS—ASSESSMENTS OF REGIONAL ECONOMIES

Compared to the prior quarter, CFOs indicated increased positive assessments of the current economic conditions in North America and Europe, and less positive views of China's current economy. Looking a year ahead, their assessments of Europe and China's economies increased slightly. Meanwhile, their assessment of North America's economy a year from now declined from 2Q21, perhaps reflecting uncertainty of a full return-to-work and other worries they expressed, such as COVID-19 and its variants, inflation, cybersecurity, geopolitical risk, supply chain disruption, and regulatory changes.

For the first time, *CFO Signals* asked CFOs to assess the broader Asian economy, excluding China, as well as South America's economy. Their low assessment of South America's current economic conditions may reflect that region's struggles with COVID-19 and its variants. Looking a year out, CFOs indicate some positive expectations for that economy, as well as for the Asian economy outside of China.

North America

Current conditions: **54%** good and **24%** very good
(**78%** total—up from **75%** in 2Q21)
1% bad

A year from now: **48%** better and **6%** much better
(**54%** total—down from **62%** in 2Q21)
9% worse

Europe

Current conditions: **24%** good and **3%** very good
(**27%** total—up from 19% in 2Q21)
5% bad

A year from now: **42%** better and **6%** much better
(**48%** total—up from **46%** in 2Q21)
4% worse

China

Current conditions: **43%** good and **9%** very good
(**52%** total—down from **62%** in 2Q21)
9% bad

A year from now: **47%** better and **8%** much better
(**55%** total—up from **53%** in 2Q21)
4% worse

Asia, excluding China*

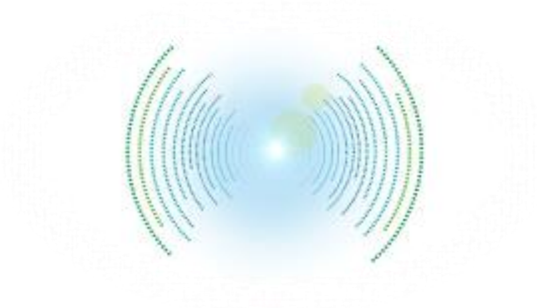
Current conditions: **27%** good and **7%** very good
(**34%** total)
14% bad

A year from now: **46%** better and **7%** much better
(**53%** total)
7% worse

South America*

Current conditions: **4%** good and **1%** very good
(**5%** total)
60% bad

A year from now: **19%** better and **4%** much better
(**23%** total)
23% worse



*Comparisons are not available as this is the first time *CFO Signals* asked CFOs for their assessments of Asia, excluding China, and of South America.

3Q21 HIGHLIGHTS OF CORE SURVEY QUESTIONS AND RESPONSES

CFOs lowered their expectations for year-over-year growth for revenue, earnings, capital spending, and dividends, compared to 2Q21. Meanwhile, they raised their YOY growth expectations for domestic hiring and domestic wages and salaries, most likely spurred by talent shortages and the so-called "great resignation."

Assessments of the business environment and capital markets

How do you regard the current and future status of the following economies—North America, Europe, China, Asia (other than China), and South America? When assessing the *current status* of the five regional economies,78% of CFOs ranked North America as good or very good, up from 75% in 2Q21. More than half (52%) said the same for China, a decline from 62% in the previous quarter. CFOs raised their sentiment toward Europe's economy, with 27% citing it as good or very good, an increase from 19% in 2Q21. For the first time in the survey's history, we asked CFOs to assess the economy of Asia, excluding China, and about one-third of CFOs (34%) consider it to be good or very good. We also asked CFOs to assess South America's economy, again for the first time, with 5% viewing it as good or very good.

Considering the regional economies 12 months out, CFOs had mixed views. Fifty-four percent of CFOs expect North America's economy to be better or much better a year from now, down from 62% in the prior quarter. Almost half (48%) believe Europe's economy will be better in 12 months, a slight improvement from 46% in 2Q21. CFOs' assessment of China's economy a year out also improved slightly, with 55% expecting it to be better or much better, compared to 53% in the prior quarter. In terms of Asia's economy, excluding China, 53% of CFOs expect it to be better or much better in 12 months, and 23% believe South America's economy to improve in the same time period. See page 8 for charts.

What is your perception of the capital markets? Eighty-two percent of CFOs viewed US equity markets as overvalued, down from the survey high of 86%, in the prior quarter. Ninety-two percent of CFOs say debt financing is attractive, consistent with 2Q21. Equity financing's attractiveness dipped to 55% from 56% in the prior quarter. See pages 9-10 for more details.

CFOs' expectations for growth in key metrics and views on financial prospects, capital allocation by region, and risks

How do you expect your key operating metrics to change over the next 12 months? CFOs lowered their expectations for year-over-year growth for revenue, earnings, capital spending, and dividends, compared to the prior quarter. Meanwhile, they raised their YOY growth expectations for domestic hiring and domestic wages and salaries:

- **Revenue:** CFOs decreased their growth expectations to 8.5% from 9.6% in 2Q21.
- **Earnings**: Respondents lowered their growth expectations to 12.6% from 13.6% in 2Q21.
- **Capital spending:** CFOs' growth expectations decreased to 8.8% from 12.4% in 2Q21.
- **Dividends:** They also dropped their growth expectations slightly to 3.8% from 4.0% in 2Q21.
- **Domestic hiring:** CFOs inched up their growth expectations to 4.8% from 4.1% in 2Q21.
- **Domestic wages/salaries:** CFOs raised their growth expectations to 4.3% from 3.4% in 2Q21.

See page 14 for more details, including a breakdown by region and industry.

Compared to three months ago, how do you feel about your company's financial prospects? The optimism index declined to +59 from last quarter's +70 as a smaller percentage of CFOs (66%) expressed rising optimism, compared to 75% in 2Q21. CFOs in the Retail/Wholesale (89%) and Technology (86%) industries were the most positive. No one expressed significantly less optimism; however, some CFOs were somewhat less optimistic, specifically those in Telecom/Media/Entertainment (T/M/E) (33%), Energy/Resources (25%), Services (15%), Retail/Wholesale (11%), Financial Services (5%), and Manufacturing (3%). See page 13 for charts.

In the next year, will your capital allocation to North America, Europe, China, Asia (other than China), and South America increase, stay the same, or decrease? Some 45% of CFOs said they would increase their capital allocation for North America, while 23% expect to increase it for Europe, 19% China, 15% Asia other than China, and 6% South America. Eleven percent of CFOs said they plan to decrease their capital allocation for South America, while 10% said the same for China, 6% for Asia other than China, 5% for Europe, and 3% for North America. Yet, most CFOs expect their capital allocation to the five regions to stay about the same: 83% indicated so for South America; 79% for Asia, excluding China; 73% Europe; 71% China; and 52% North America. See page 15 for charts, including industry results.

Is this a good time to be taking greater risks? Sixty-five percent of CFOs indicated now is a good time to be taking greater risks, flat compared to last quarter's 65%. See page 11 for more details.

What internal risk worries you the most? Once again, talent from various perspectives—retention, morale, burnout, return-to-work challenges, and others—ranked highest among CFOs' internal risk worries. CFOs also cited rising costs and wage inflation, among other concerns.

What external risk worries you the most? By far, CFOs cited COVID-19, along with its variants, resurgence, and impact on return-to-work on-site and normal operations most frequently. Inflation, changes in regulations, supply chain challenges, and cybersecurity were also high on their list of external worries. See page 12 for more details.

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

3Q21 SPECIAL TOPIC: M&A PLANS AND SUPPLY CHAINS

Nearly three-quarters of CFOs expect M&A to fuel as much as 20% of their organizations' growth in the next three years, and more than one-quarter say it could deliver even greater growth. Any boost from M&A might help offset the significant costs organizations have incurred as a result of recent supply chain disruptions, as well as lost sales.

M&A plans

What percentage of your organization's growth in the next three years do you expect to come from M&A? Some 46% of CFOs noted they expect as much as 10% of their organizations' growth in the next three years to come from M&A, while more than one-quarter (26%) of CFOs said M&A will fuel 11% to 20% of their companies' growth. Fourteen percent of CFOs indicated M&A will drive 21% to 30% of their organizations' growth in the next three years. Meanwhile, 4% of CFOs noted that M&A will account for 31% to 40% of their organizations' growth, while 5% indicated 41% to 50% of their growth will come from M&A. And 3% of CFOs said M&A could generate more than 50% of their companies' growth in the next three years.

What percentage of your company's M&A activities do you expect to occur outside your traditional/core industry? CFOs were divided on this question: Slightly more than half of CFOs expect less than 1% of their companies' M&A activities to occur outside their traditional/core industry, while the remaining CFOs expect anywhere from 1% to more than 30% of their M&A efforts to fall outside their traditional/core industry.

Which most accurately describes your finance support model for M&A? More than half of CFOs (58%) noted they use a subset of finance team members who are named, trained, and prepped for acquisitions to support their organizations' M&A activities; 36% have a dedicated M&A finance function; and 34% identify part-time leaders for their companies' M&A deals. Some 46% of CFOs access on-call advisors or M&A as a service, and 30% use standard M&A templates and playbooks.

What are your organization's areas of focus with respect to potential M&A transactions? More than half (52%) of CFOs indicated selectively considering acquisitions only if price and fit are favorable as their top area of focus when considering possible M&A deals, while 49% noted seeking inorganic growth and 46% indicated maintaining competitive positioning as their top focus. For 41% of CFOs, taking advantage of disruptive opportunities to secure their future positioning was their top choice, followed by divesting of non-core assets/underperforming units, mentioned by 32% of CFOs; 28% are considering alternatives to M&A, including alliances and joint ventures.

What do you feel are your organization's biggest challenges to delivering an M&A deal? Fifty-eight percent of CFOs singled out valuation of assets/difficulty of financing as their biggest challenge to delivering an M&A deal, while 55% noted integration/divestiture execution, and 44% indicated translating business strategic needs into an effective M&A strategy.
See pages 16-17 for more details.

Supply chains

Approximately what percentage of your supply chain sources comes from the following regions? North America is the dominant supply chain source on average among respondents, although there are variations by company and industry. The next levels of concentration of supply chain sources are in Europe and China, but to a far lesser degree. The breakdown in concentrations by region most likely reflect the North American base of respondents.

Approximately what percentage of revenue does your company currently derive from the following regions? The concentration of companies' revenue by region also shows North America as the dominant source, although the percentage of companies' revenue sources varied from company to company and industry. Manufacturing and Technology companies derived a higher percentage of revenue (24% each) from Europe than other industries. Again, the results most likely reflect the North American base of respondents.

What effect have recent supply chain shortages or delays had on your company this year? For 44% of CFOs, supply chain shortages or delays increased their companies' costs by 5% or more. Almost one-third (32%) noted that their 2021 sales have fallen due to delays or shortages, with 28% expecting future sales this year to suffer. In contrast, 32% of CFOs said that supply chain shortages or delays have not had a substantial impact on their costs, and 29% noted they do not expect future sales or revenue to be affected this year.

How will your supply chains change within the next three years? More than two-thirds of CFOs (69%) indicated their supply sources will become more diversified, with 23% expecting greater vertical integration of their supply chains. Thirty-nine percent of CFOs said sourcing from North America will increase, while 22% expect sourcing from Asia other than China to expand. In addition, 13% of CFOs said their supply chains would increase sourcing from Europe, 9% from China, and 6% from South America. Nearly one-third of CFOs (32%) indicated their sourcing from China would decrease, while 11% expect to reduce their sourcing from Asia outside of China. A smaller percentage of CFOs expect decreases in their supply sources from South America (9%) and Europe (8%).

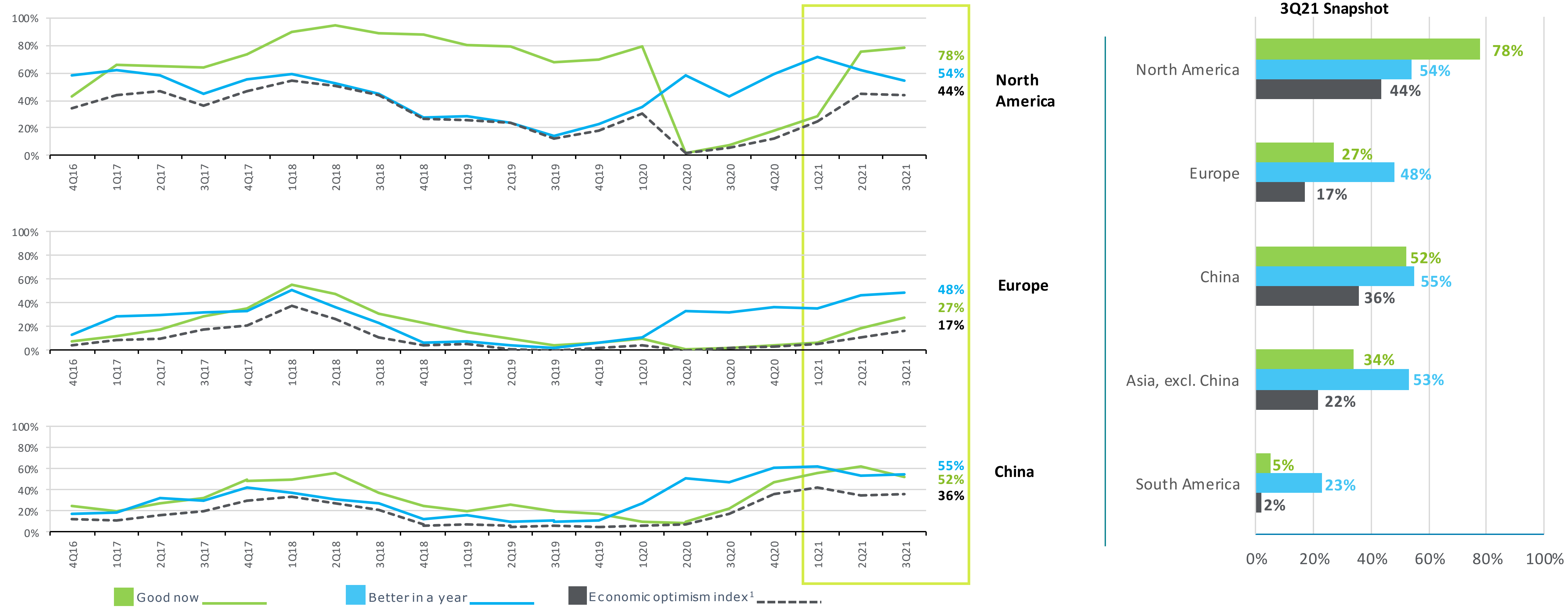
Which supply chain risks concern you the most? CFOs cited cyber risk (69% of CFOs), operational risk (60%), and geopolitical risk (56%) as their top three risk concerns when it comes to their supply chains. To a much lesser extent, they indicated environmental risk (19% of CFOs), financial risk (15%), and legal risk (9%). See pages 18-20 for more details.

ASSESSMENTS OF REGIONAL ECONOMIES

CFOs consider current economic conditions in North America as positive, but they have dimmer views of other regions' economies. Looking out a year, their expectations for North America's economy decreased, compared to 2Q21, but are still more favorable than during several quarters preceding the pandemic.

- **North America:** 78% of CFOs cite current economic conditions as good or very good, up from 75% in the prior quarter. Those expecting improved conditions a year out fell to 54% from 62% in 2Q21.
- **Europe:** More CFOs view Europe's current conditions as good or very good this quarter (27%, up from 19% in 2Q21); 48% expect improved conditions in a year, a slight increase from 46% in the prior quarter.
- **China:** 52% of CFOs see current conditions as good or very good, down from 62% in 2Q21. More than half of CFOs (55%) expect conditions to be better in a year, a slight increase from 53% in 2Q21.
- **Asia, excluding China**: 34% of CFOs consider current conditions to be good or very good, while 53% expect conditions to improve in a year. (No comparison to prior quarters.)
- **South America**: While only 5% of CFOs assess current conditions as good or very good, 23% expect conditions to be better 12 months out. (No comparison to prior quarters.)

How do you regard the current and future status of the following economies: North America; Europe; China; Asia, excluding China; and South America?



 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.

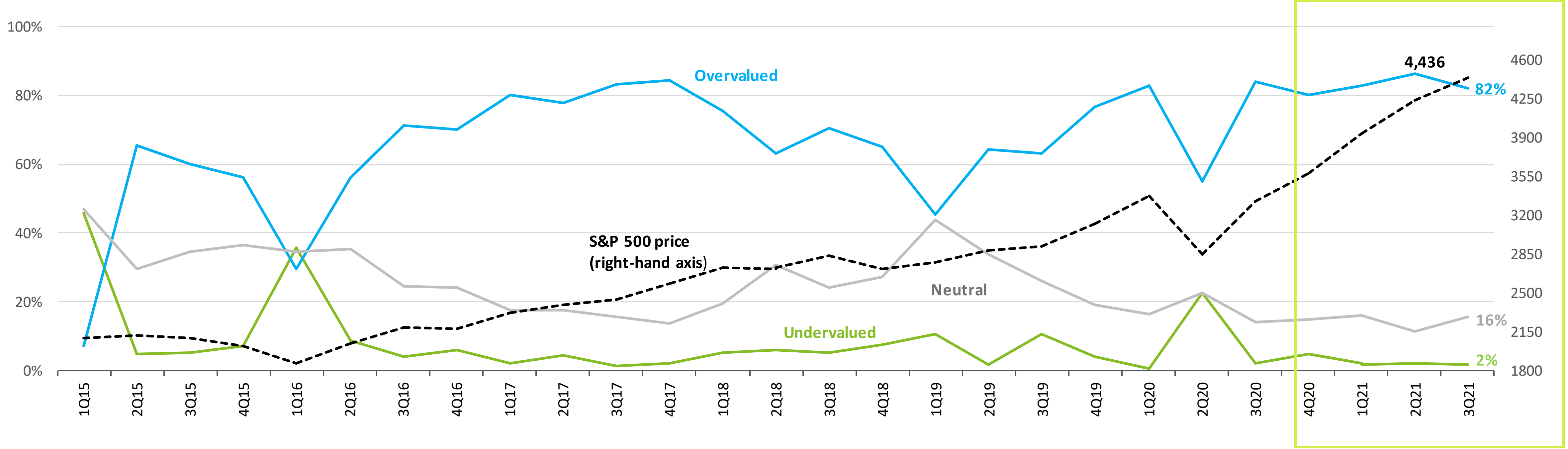
ASSESSMENTS OF CAPITAL MARKETS AND RISK: VALUATION OF US EQUITIES

As US equities continued to ride high during the open period of the 3Q21 survey, 82% of CFOs considered them to be overvalued, a slight decline from the survey high of 86% who said the same in 2Q21.

- Eighty-two percent of the 95 CFOs who shared their views of the US equity markets valuations regard them as overvalued, compared to 86% in 2Q21.
- By industry, CFOs in Healthcare/Pharma (100%), Technology (86%), and Manufacturing (80%) were more likely to regard US equities as overvalued.
- Two percent of CFOs indicated they view US equities as undervalued.
- At the midpoint of our 2Q21 survey data collection on May 7, 2021, the S&P 500 stood at 4,233. It moved to 4,436 at the midpoint of our 3Q21 survey data collection window on August 6, 2021.

How do you regard US equity market valuations?

Percent of CFOs saying markets are overvalued, undervalued, or neither (responses are compared to S&P 500 at survey midpoint)



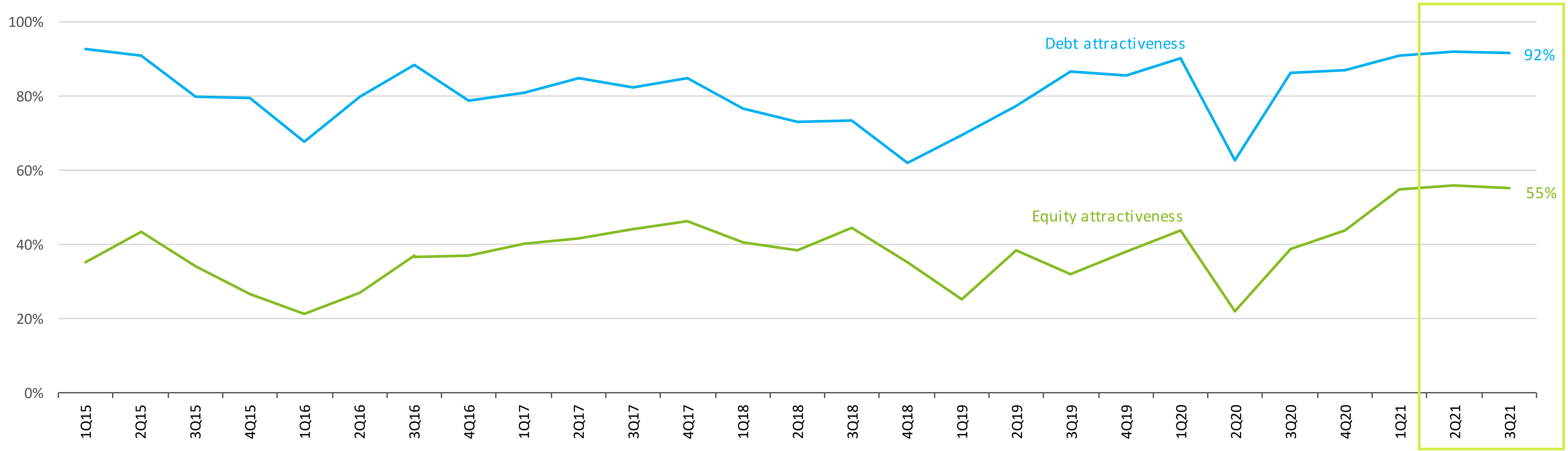
ASSESSMENTS OF CAPITAL MARKETS AND RISK: ATTRACTIVENESS OF DEBT AND EQUITY FINANCING

CFOs' views of the attractiveness of debt and equity financing remained relatively the same as in the prior quarter, with some industry variations.

- With ongoing low interest rates (the US Fed has held the target rate range at 0%-0.25% as of July 28, 2021), debt attractiveness held steady at 92%, consistent with the prior quarter's survey. The breakdown between public and private companies viewing debt as attractive was 96% and 81%, respectively. That breakdown is similar to the prior quarter, when 96% of public companies rated debt financing as attractive, and 80% of private companies did the same.
- CFOs' views on equity financing's attractiveness fell slightly to 55% from 56% in 2Q21. Among public companies, 54% of CFOs regard equity financing as attractive, down from 77% in the prior quarter. More than half (59%) of private companies consider equity financing as attractive, up from 23% in 2Q21.
- From an industry perspective, Retail/Wholesale CFOs found debt financing less attractive than other industry CFOs, while Energy/Resources CFOs found equity financing less attractive than their counterparts.

How do you regard debt/equity financing attractiveness?

Percent of CFOs citing debt and equity attractiveness (both public and private companies)

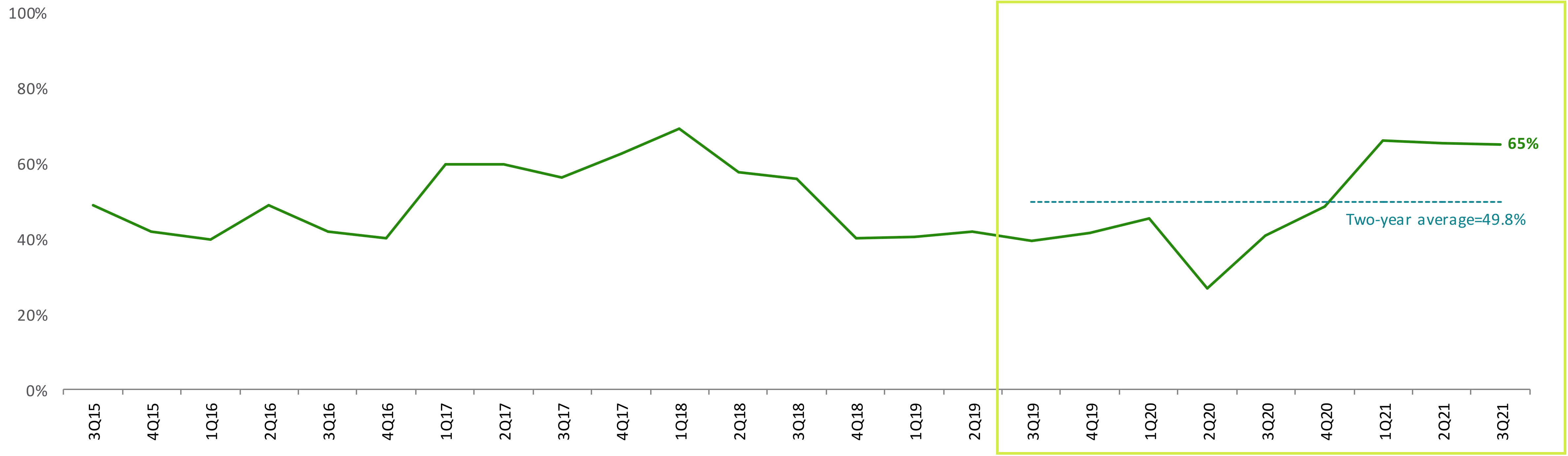


ASSESSMENTS OF MARKETS AND RISK: RISK APPETITE

Nearly two-thirds of CFOs are inclined toward taking greater risk, the same proportion as in 2Q21, despite a host of concerns over internal and external risks.

- Compared to the previous quarter, the percentage of CFOs saying now is a good time to be taking greater risk remained flat at 65%.
- CFOs in the following industries were most inclined toward risk-taking: T/M/E (100%), Healthcare/Pharma (90%), Energy/Resources (75%), Manufacturing (70%), Technology (71%), Services (62%), Financial Services (45%), and Retail/Wholesale (44%).
- The 35% of CFOs who say now is not a good time to be taking greater risk might reflect the uncertainty stemming from the surge in cases of the COVID-19 Delta variant, geopolitical risks, and concern over rising inflation.
- CFOs who said this is not a good time to be taking greater risk were primarily in the Retail/Wholesale (56%) and Financial Services (55%) industries.

Risk appetite: Is this a good time to be taking greater risks?
Percent of CFOs saying it is a good time to be taking greater risks



ASSESSMENTS OF MARKETS AND RISK: MOST WORRISOME INTERNAL AND EXTERNAL RISKS

Attracting and retaining talent/labor and potential slowdown in return-to-work, along with strategy execution, are the internal risks that worry CFOs most. On the external front, COVID-19 and the Delta variant, as well as cybersecurity, inflation, and potential changes in regulations rank among their top concerns.

- **Most worrisome internal risk?** Talent/labor has been a perennial internal risk cited by CFOs in our quarterly surveys. This quarter, though, concerns over talent/labor and a host of related issues—from retention to morale, disgruntlement, and rising wages—are even more pronounced among CFOs. They also frequently cited maintaining focus on their organizations' strategic direction and executing strategies as other major internal risks, particularly as they face a range of other pressures and constraints.
- **Most worrisome external risk?** COVID-19 and its variants, as well as the potential impact they could have on the economy's trajectory and companies' return-to-work plans, stood out as CFOs' greatest external risks—even more so than in the prior quarter. CFOs also reported concerns over inflation, regulatory changes, labor shortages, cybersecurity, and supply chain challenges. On the latter point, see pages 18-20 for CFOs' responses to supply chain-specific questions and pages 27-29 for industry details.

Which internal risk worries you most? *(Key themes and sample responses)*

Which external risk worries you most? *(Key themes and sample responses)*

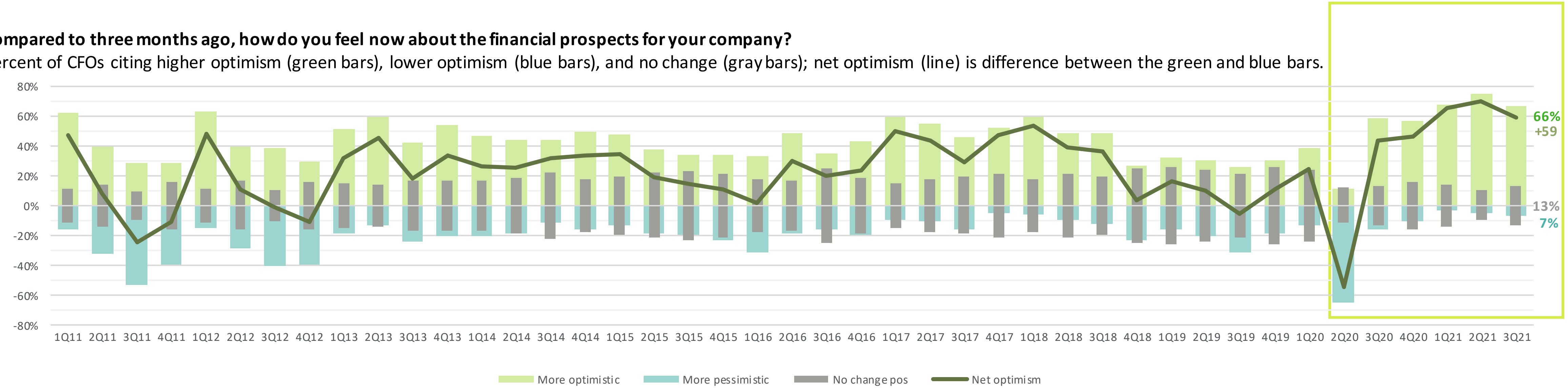
EXPECTATIONS FOR OWN COMPANY'S FINANCIAL PROSPECTS

While CFOs express greater optimism for their companies' financial prospects than during many other quarters pre-pandemic, their net optimism declined from 2Q21.

- Sixty-six percent of CFOs say they are more optimistic about their companies' prospects now than they were three months ago—a decrease from 75% in the prior quarter.
- This quarter's net optimism is +59, as just 7% indicated declining optimism versus the 66% of CFOs who expressed rising optimism.
- Net optimism among US CFOs decreased to +55 this quarter from 2Q21's +74. Among CFOs of Canadian companies, net optimism increased to +71 from +50 last quarter, while the net optimism of CFOs from Mexican companies increased to +100 from +40 in 2Q21. *Note: Only 14.6% percent of participants were from Canada and Mexico (7.3% each), so the sample base was much smaller than for the US.*
- CFOs in several industries indicated high levels of net optimism, particularly Technology (+86), Retail/Wholesale (+78), Healthcare/Pharma (+70). Energy/Resources and T/M/E had the lowest levels of net optimism at +25 and +0, respectively.

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

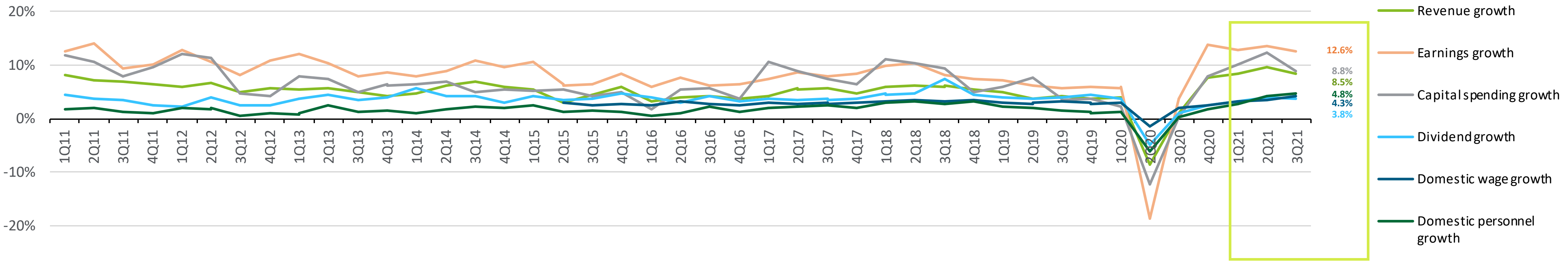
Total	Mexico	Canada	US	Technology	Retail/Wholesale	Healthcare/ Pharma	Manufacturing	Financial Services	Services	Energy/ Resources	T/M/E
+59	+100	+71	+55	+86	+78	+70	+63	+60	+38	+25	+0

EXPECTATIONS FOR GROWTH IN KEY METRICS, YEAR OVER YEAR

CFOs lowered their year-over-year growth expectations for four of six key metrics, despite reflecting greater optimism for their own companies' performance.

- **Revenue growth** decreased to 8.5% from 9.6% in 2Q21. CFOs in Retail/Wholesale (15.4%), and T/M/E (10.8%) reported the highest expectations, while Energy/Resources noted the lowest level of expectations for growth at 4.5%.
- **Earnings growth** fell to 12.6% from 13.6% in 2Q21. The highest expectations for revenue growth were reported by Retail/Wholesale (30.7%), T/M/E (17.3%), and Healthcare/Pharma (12.9%).
- **Capital spending growth** saw a decline to 8.8% from 12.4% in 2Q21. CFOs in Services (13.4%), Manufacturing (10.8%), and Retail/Wholesale (10.7%) indicated the highest expectations for spending growth.
- **Dividend growth** inched down to 3.8% from 4.0% in 2Q21. Industries expecting the greatest growth in dividends were Manufacturing (5.4%) and Financial Services (5.2%).
- **Domestic hiring** rose to 4.8% from 4.1% in 2Q21. Services (8.1%), Technology (7.9%), and Retail/Wholesale (6%) indicated the strongest growth expectations for domestic hiring.
- **Domestic wages/salaries** increased to 4.3% from 3.4% in 2Q21. CFOs in Retail/Wholesale (6.0%), Services (5.5%), and T/M/E (5.3%) noted the highest growth expectations for this metric.

Performance and investment expectations
Compared to the past 12 months, how do you expect key metrics to change over the next 12 months?



Growth expectations by country and industry

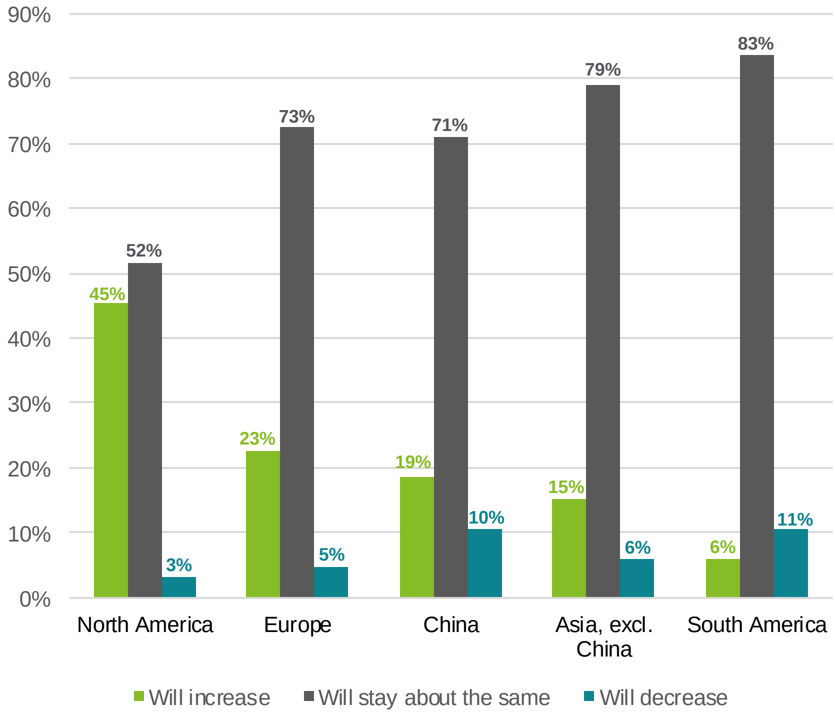
	Total	US	Mexico	Canada	Manufacturing	Retail/ Wholesale	Technology	Energy/ Resources	Financial Services	Healthcare/ Pharma	T/M/E	Services
Revenue	8.5%	8.6%	9.9%	5.9%	8.6%	15.4%	7.9%	4.5%	7.2%	6.5%	10.8%	7.8%
Earnings	12.6%	13.2%	15.1%	3.4%	12.4%	30.7%	10.4%	4.3%	7.0%	12.9%	17.3%	11.9%
Capital spending	8.8%	8.7%	9.9%	8.6%	10.8%	10.7%	9.3%	5.8%	3.6%	6.9%	6.7%	13.4%
Dividends	3.8%	3.4%	9.5%	3.6%	5.4%	3.9%	1.4%	2.3%	5.2%	1.4%	0.7%	2.7%
Domestic hiring	4.8%	4.8%	2.3%	6.9%	4.2%	6.0%	7.9%	3.0%	3.5%	2.9%	3.3%	8.1%
Domestic wages/ salaries	4.3%	4.4%	4.3%	2.9%	4.4%	6.0%	3.4%	4.0%	3.3%	3.4%	5.3%	5.5%

CHANGES TO CAPITAL ALLOCATION PLANS FOR REGIONS

Overall, CFOs expect their capital allocation to specific regions to remain about the same in the next year. Still, 45% of CFOs said they plan to increase capital allocation to North America, while a smaller percentage indicated they will increase capital allocation to Europe and China. Small decreases in capital allocation were indicated in all regions, with the most in South America, China, and other parts of Asia.

- **North America:** 45% of CFOs indicated they plan to increase capital allocation to North America, while 52% said it will stay about the same, and 3% noted it will decrease.
- **Europe:** 23% of CFOs plan to increase their capital allocation for Europe, and 5% expect to decrease it. Seventy-three percent of CFOs expect it to remain about the same.
- **China:** 19% of CFOs indicated their capital allocation to this region will increase in the next year, while 10% said it will decrease. Nearly three-quarters of CFOs do not expect major changes.
- **Asia, excluding China:** 15% of CFOs said their capital allocation to this region will increase in the next year, and 6% said it will decrease, with the remainder of CFOs expecting it to be largely unchanged.
- **South America:** 6% of CFOs expect capital allocation to this region to increase, while 11% noted it will decrease, with 83% expecting it to remain about the same.

In the next year, how will your capital allocation to the following regions change? (N=95*)



Note: *95 (99%) of 96 respondents answered. Totals may not add to 100% due to rounding.

Crosstab: In the next year, how will your capital allocation to the following regions change? (N=95*)
Percentage of CFOs responding by industry

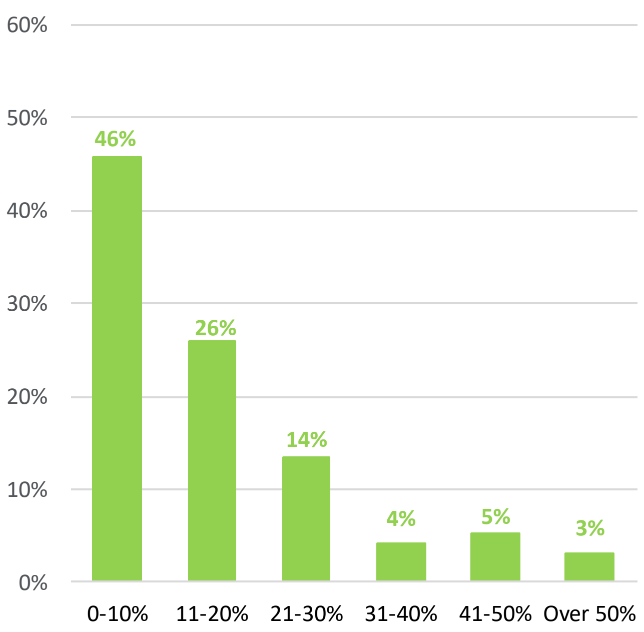
		Mfg.	Retail/ Wholesale	Technology	Energy/ Resources	Financial Services	Healthcare/ Pharma	T/M/E	Services
North America	Will increase	57%	67%	57%	50%	16%	40%	33%	46%
	Will stay about the same	37%	33%	43%	50%	84%	60%	67%	46%
	Will decrease	7%	0%	0%	0%	0%	0%	0%	8%
Europe	Will increase	30%	13%	29%	0%	25%	11%	0%	25%
	Will stay about the same	63%	88%	71%	100%	75%	78%	100%	67%
	Will decrease	7%	0%	0%	0%	0%	11%	0%	8%
China	Will increase	34%	13%	14%	0%	13%	22%	0%	0%
	Will stay about the same	59%	88%	29%	100%	81%	56%	100%	100%
	Will decrease	7%	0%	57%	0%	6%	22%	0%	0%
Asia, excluding China	Will increase	21%	0%	14%	0%	19%	0%	0%	25%
	Will stay about the same	79%	100%	86%	100%	81%	67%	0%	67%
	Will decrease	0%	0%	0%	0%	0%	33%	100%	8%
South America	Will increase	4%	13%	0%	0%	12%	0%	0%	8%
	Will stay about the same	85%	88%	100%	100%	88%	56%	0%	83%
	Will decrease	11%	0%	0%	0%	0%	44%	100%	8%

SPECIAL TOPIC: M&A PLANS

CFOs are counting on M&A to help drive their organizations' growth in the next three years, and some are looking outside their core/traditional industry for opportunities. As CFOs gear up for M&A activity, they primarily rely on specialized and dedicated finance talent and advisors.

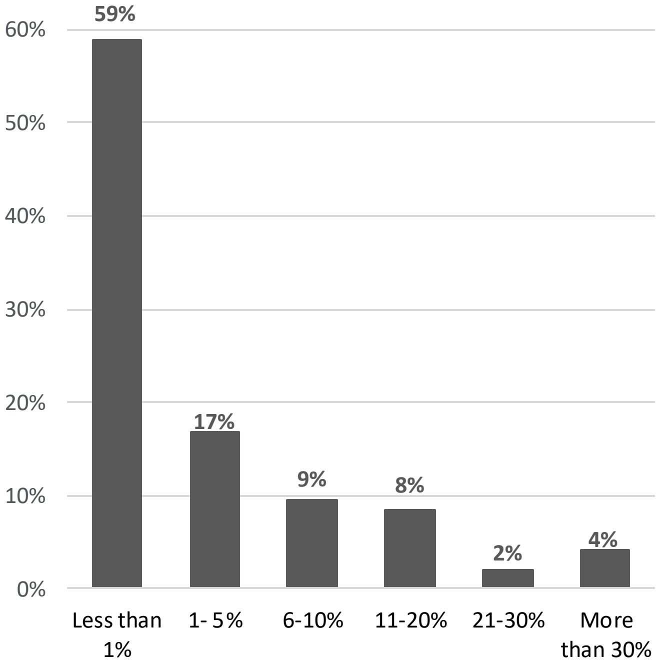
- More than half of CFOs (52%) said M&A will fuel from 11% to more than 50% of their companies' growth in the next three years. More than one-quarter (26%) expect M&A to generate 11% to 20% of their growth, followed by 14% expecting 21% to 30% of growth from M&A. Others have higher expectations: 9% expect M&A to drive 31% to 50% of their organizations' growth.
- In addition, more than half of CFOs (59%) plan to stay primarily inside their traditional/core industries for M&A deals. Stil, a sizable percentage (40%) project 1% to more than 30% of their M&A activity to occur outside their traditional/core industries.
- With such strong expectations of M&A to drive growth, CFOs rely on various supports, particularly finance talent who are highly trained in M&A (58% of CFOs), a dedicated M&A finance function (36%), part-time leaders for deals (34%), and standard playbooks and templates (30%), as well as on-call advisors (46%). Others form cross-functional teams to investigate and execute potential deals.

What percentage of your organization's growth in the next three years do you expect to come from M&A? (N=96)*



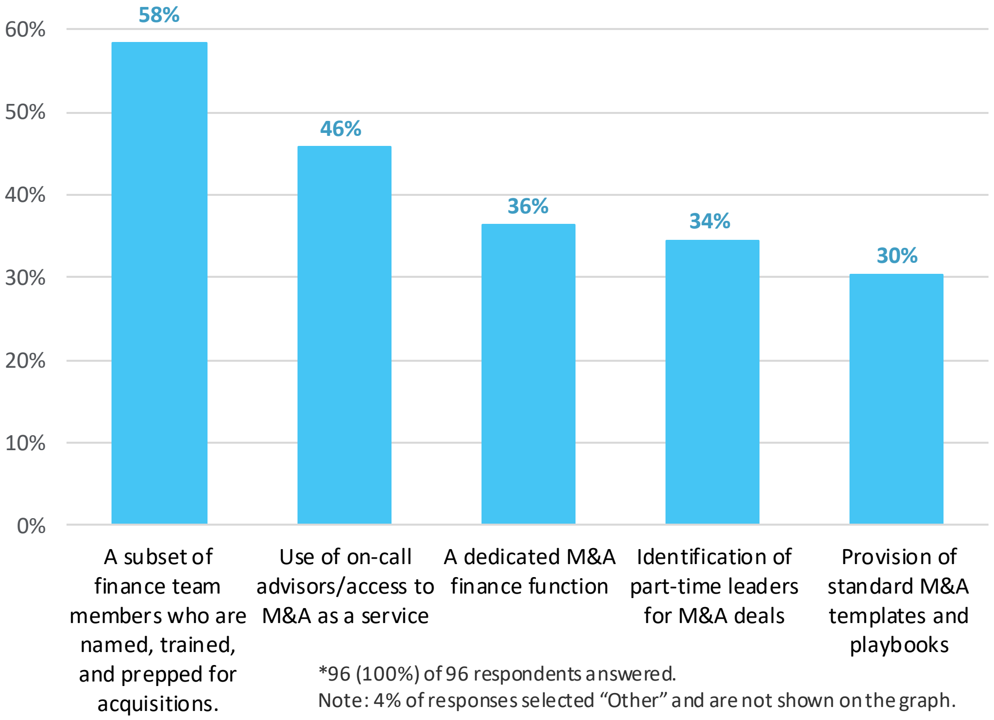
*96 (100%) of 96 respondents answered.
Note: 2% of responses selected "Other" and are not shown on the graph.

What percentage of your company's M&A activities do you expect to occur outside your traditional/core industry? (N=95)*



*95 (99%) of 96 respondents answered.
Note: Totals do not add to 100% due to rounding.

Which most accurately describes your finance support model for M&A? (Select all that apply) (N=96)*



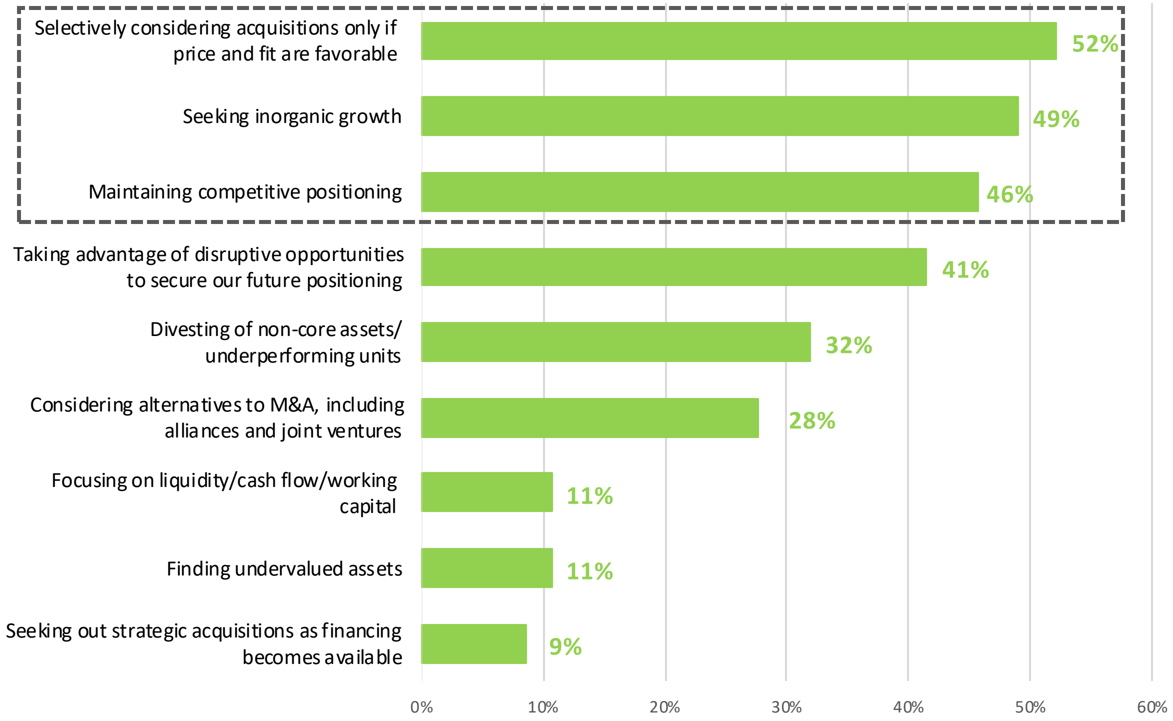
*96 (100%) of 96 respondents answered.
Note: 4% of responses selected "Other" and are not shown on the graph.

SPECIAL TOPIC: M&A PLANS

With M&A activity skyrocketing, CFOs face intense challenges to identify potential deals, particularly those that meet both price and fit, achieve inorganic growth goals, and maintain competitive positioning. More than half of CFOs indicated valuation of assets/difficulty of financing and integration/divestiture execution as their top hurdles in delivering M&A deals.

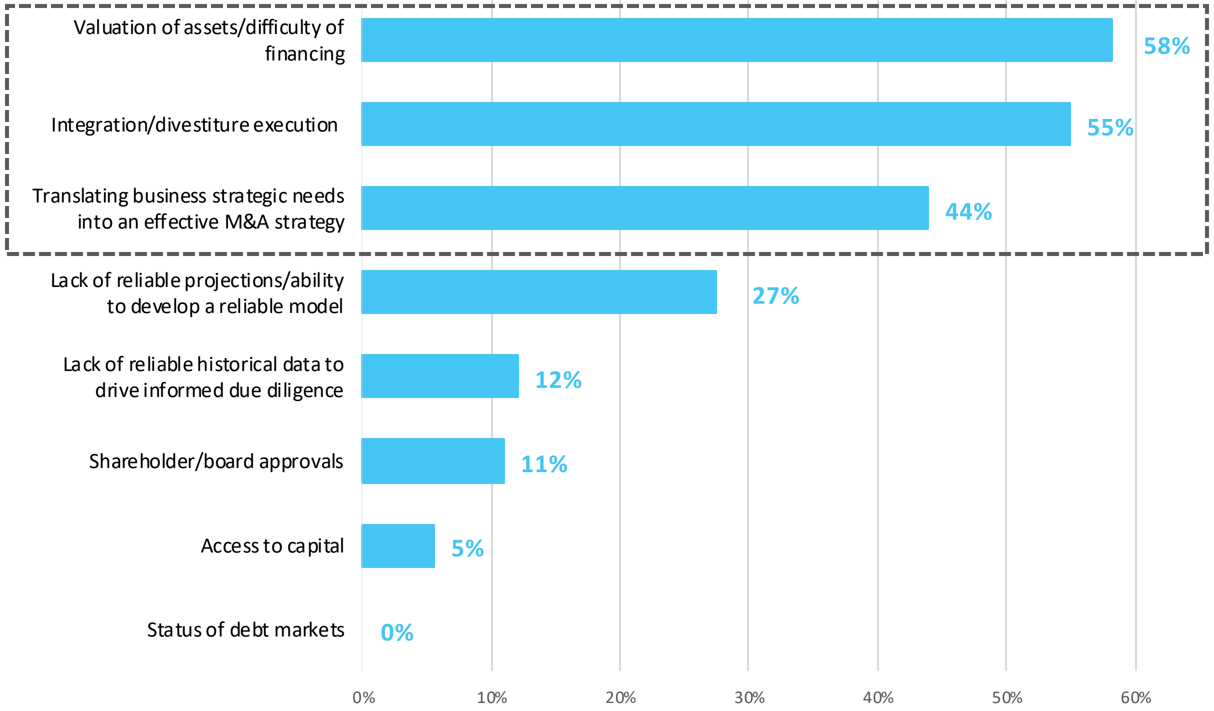
- CFOs' top three areas of focus when considering possible M&A deals are selectively considering acquisitions only if price and fit are favorable, cited by 52% of CFOs; seeking inorganic growth, noted by 49% of CFOs, and maintaining competitive positioning, as indicated by 46% of respondents.
- For 41% of CFOs, taking advantage of disruptive opportunities to secure their future positioning was their top choice in terms of areas of focus, followed by divesting of non-core assets/underperforming units, mentioned by 32% of CFOs; 28% are considering alternatives to M&A, including alliances and joint ventures.
- The biggest challenges to executing an M&A deal include valuation of assets/difficulty of financing, cited by 58% of CFOs; integration/divestiture execution, noted by 55% of CFOs; and translating business strategic needs into an effective M&A strategy, reported by 44% of respondents.

What are your organization's areas of focus with respect to potential M&A transactions? *(Select top three)* (N=94)*



*94 (98%) of 96 respondents answered.

What do you feel are your organization's biggest challenges to delivering an M&A deal? *(Select top three)* (N=91)*



*91 (95%) of 96 respondents answered.

SPECIAL TOPIC: SUPPLY CHAINS

On average, less than 20% of companies' supply chain sources come from outside North America, with the highest representation in China, followed by Europe, Asia other than China, and South America. North America appears to be companies' primary source of revenue, with some concentration in Europe among Manufacturing and Technology industries.

- Among 80 respondents with supply chain sources in North America, an average of 60% of their total supply chain sources is concentrated in that region.
- Among 61 respondents with supply chain sources in Europe, that region represents an average of 16% of their total supply chain sources.
- Of the 57 respondents with supply chain sources in China, those sources represent an average of 19% of their total supply chain sources.
- Fifty-three respondents noted they have supply chain sources in other parts of Asia, excluding China, which represent 15% of their supply chain sources on average.
- For 27 respondents who noted they have supply chain sources in South America, those sources represent 10% of their total supply chain sources on average.
- As expected, there are industry variations, which are depicted below; the breakdown in concentrations by region most likely reflect the North American base of respondents.
- The concentration of companies' revenue by region (depicted in the second table below) also shows North America as the dominant source, although the percentage of companies' revenue sources varied from company to company and by industry. Again, the results likely reflect the North American base of respondents.

Crosstab: Approximately what percentage of your supply chain sources comes from the following regions?

	Number of respondents indicating supply chain sources in each region	Average percentage of supply chain sources from each region	Manufacturing	Retail/Wholesale	Technology	Energy/Resources	Financial Services	Healthcare/Pharma	T/M/E	Services
North America	80	60%	59%	39%	31%	77%	84%	63%	33%	68%
Europe	61	16%	19%	12%	10%	8%	16%	24%	10%	18%
China	57	19%	13%	29%	24%	15%	10%	32%	43%	14%
Asia, excluding China	53	15%	10%	24%	39%	8%	7%	9%	25%	10%
South America	27	10%	11%	15%	5%	N/A	4%	6%	5%	13%

Averages calculated only from CFOs who indicated supply chain sources derived from a region. Percentages do not total to 100% due to multiple response options.

Crosstab: Approximately what percentage of revenue does your company currently derive from the following regions?

	Number of respondents indicating revenue derived from each region	Average percentage of revenue from each region	Manufacturing	Retail/Wholesale	Technology	Energy/Resources	Financial Services	Healthcare/Pharma	T/M/E	Services
North America	90	75%	63%	86%	50%	100%	82%	84%	88%	85%
Europe	58	18%	24%	8%	24%	N/A	15%	14%	9%	14%
China	42	9%	10%	12%	12%	N/A	5%	6%	5%	3%
Asia, excluding China	48	10%	9%	10%	16%	N/A	9%	14%	4%	10%
South America	37	8%	9%	20%	6%	N/A	5%	5%	5%	12%

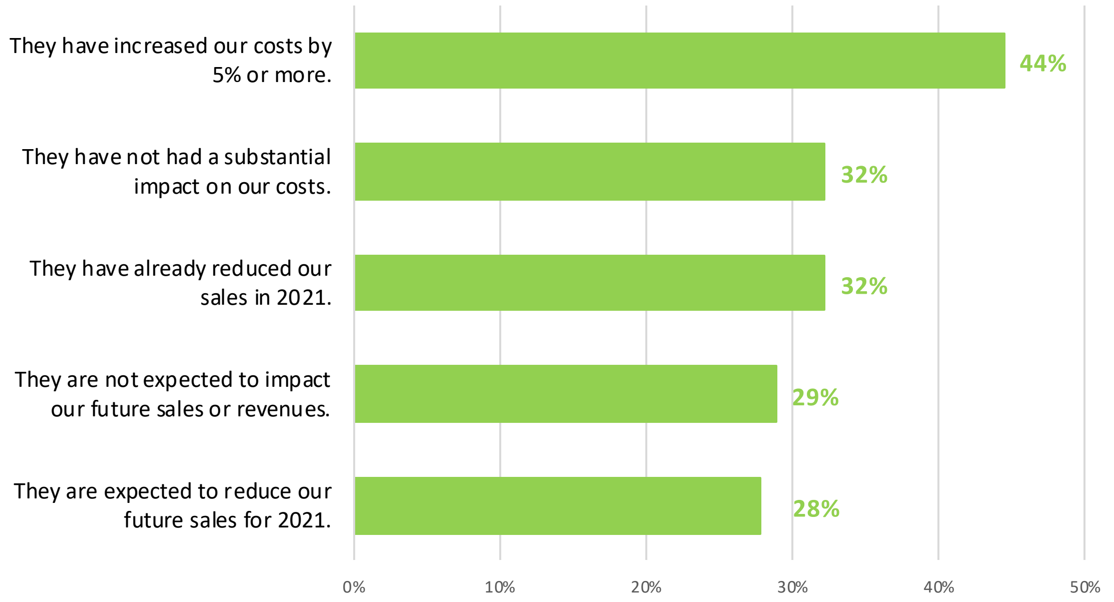
Averages calculated only from CFOs who indicated revenue derived from a region. Percentages do not total to 100% due to multiple response options.

SPECIAL TOPIC: SUPPLY CHAINS

A majority of CFOs indicate that supply chain disruptions have negatively impacted their organizations' costs and sales this year, and further damage is expected before year-end. Other types of supply chain risks are also of concern, notably cyber, operational, and geopolitical risk.

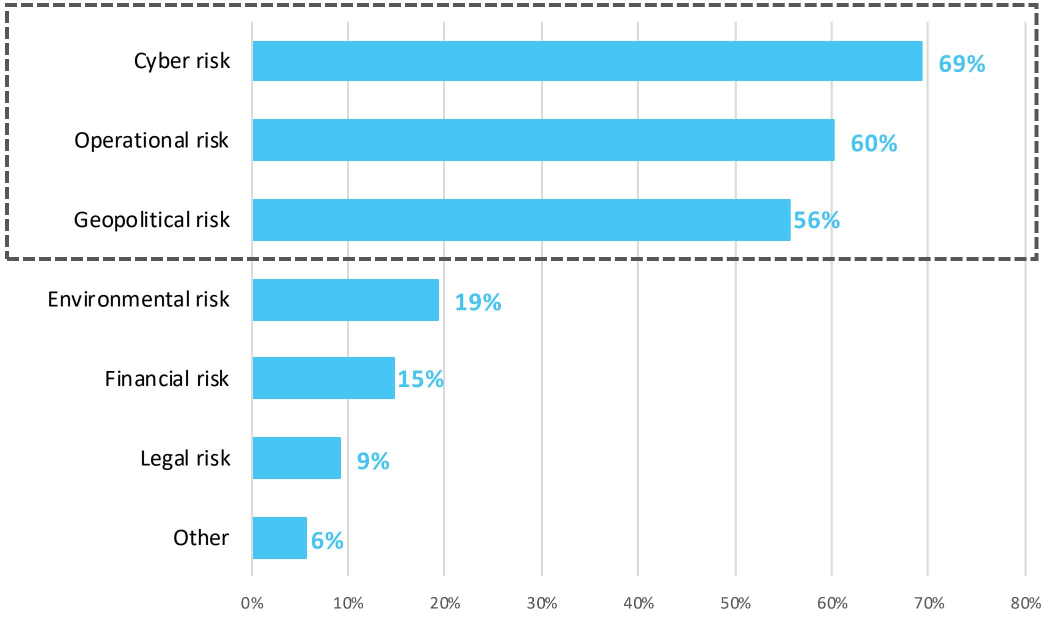
- Some 44% of CFOs noted that supply chain shortages or delays have increased their companies' costs by 5% or more, and almost one-third (32%) reported that their 2021 sales have already fallen due to shortages or delays; 28% expect future sales to also suffer this year as a result.
- For 32% of CFOs, supply chain shortages or delays have not had a substantial impact on their costs, and 29% noted they do not expect future sales or revenue to be affected this year.
- In addition to supply chain shortages and disruptions, CFOs face several supply chain risks. When asked to identify their top three, they indicated cyber risk (69%), operational risk (60%), and geopolitical risk (56%).
- Other types of supply chain risk—notably environmental, financial, and legal—while of concern, were ranked lower. Other types of risk CFOs mentioned were semiconductor availability, capacity and logistics risks, access to a diverse and inclusive supplier base, and labor regulations.

What effect have recent supply chain shortages or delays had on your company this year? *(Select all that apply)* (N=90)*



*90 (94%) of 96 respondents answered.

Which supply chain risks concern you the most? *(Select up to three)* (N=88)*



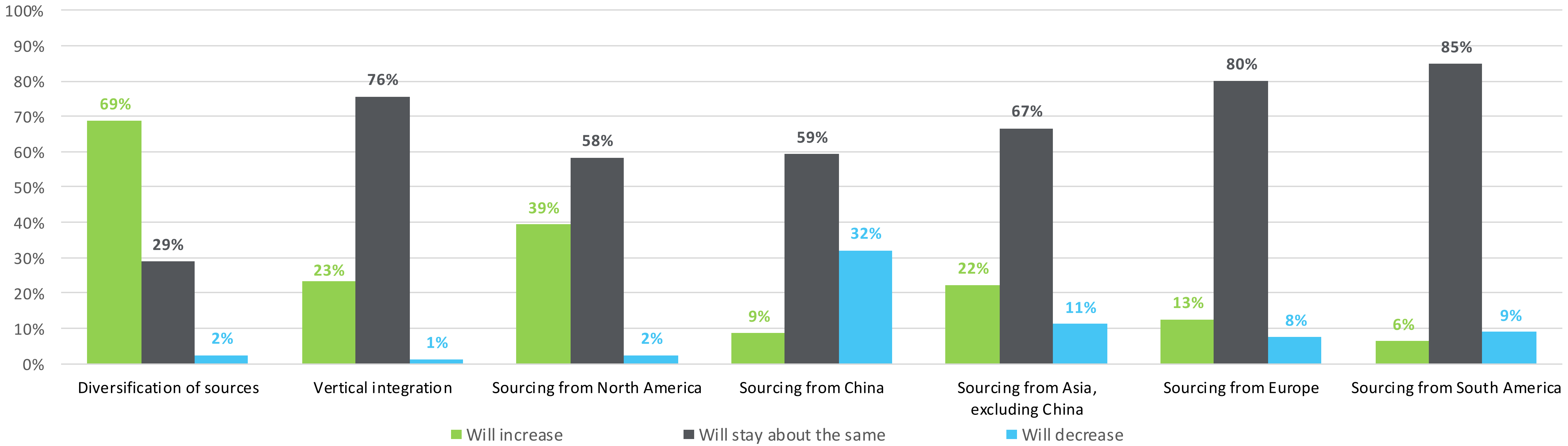
*88 (92%) of 96 respondents answered.

SPECIAL TOPIC: SUPPLY CHAINS

Against the backdrop of recent supply chain disruptions, CFOs indicate their supply chains will become more diversified and more vertically integrated within three years. They also expect sourcing to increase primarily in North America and Asia (other than China), and to a lesser extent in other regions.

- More than two-thirds of CFOs (69%) indicated an increase in the diversification of their supply chain sources, and 23% expect greater vertical integration within the next three years.
- The majority of CFOs noted their supply chains' sourcing by region will stay about the same, but there are expectations to increase or decrease sourcing in select regions:
  - Thirty-nine percent of CFOs noted that supply chain sourcing from North America will increase, while 2% expect it to decrease.
  - Nine percent of CFOs expect their supply chains to source more from China, while nearly one-third of CFOs (32%) indicated their sourcing from that region will decrease.
  - Twenty-two percent of CFOs said their supply chains will expand sourcing from Asia outside of China, and 11% noted it will decrease.
  - With respect to Europe as a supply chain source, 13% of CFOs said they will increase sourcing, offset by 8% who said it will decrease.
  - While 6% percent of CFOs indicated their supply sources from South America will increase, 9% indicated a decrease in sourcing from that region.

How will your supply chains change within the next three years? (N=83, 82, 84, 81, 81, 80, 79)*



Number of responses (% of 96 overall respondents) answered for each question part: 83 (86%) for "Diversification of sources"; 82 (85%) for "Vertical integration"; 84 (88%) for "Sourcing from North America"; 81 (84%) for "Sourcing from China", 81 (84%) for "Sourcing from Asia, excluding China"; 80 (83%) for "Sourcing from Europe"; and 79 (82%) for "Sourcing from South America."
Note: Totals may not add up to 100% due to rounding.

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Important notes about this survey report

The Deloitte North American *CFO Signals*™ survey is a quarterly survey of CFOs from large, influential companies across North America. 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 public and private companies, predominantly with more than $1 billion in annual revenue. Participation is open to all industries except for public sector entities.

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. Participating CFOs have agreed to have their responses aggregated and presented. At the opening of each survey period, the 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 generally two to three weeks after the survey closes.

As a "pulse survey," *CFO Signals* 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.

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