CFO Quarterly Outlook Survey

Conducted by Financial Executives International and Baruch College, The City University of New York

December 2008

fei financial executives international

ferf financial executives research foundation

CFO Quarterly Outlook Survey

December 2008

Table of Contents

ferf
financial executives
research foundation

the source for financial solutions

200 Campus Drive
P.O. Box 674
Florham Park, New Jersey 07932-0674
www.ferf.org

an affiliate of financial executives international

CFO Quarterly Outlook Survey

December 2008

Executive Summary

As CFOs of American companies reflect on the past year and look toward 2009, they reveal their confidence in the nation's economy and their own businesses is alarmingly low, and also acknowledge the increased responsibility and pressures associated with their role as CFO. As a result, significant cutbacks have been, and will continue to be, necessary across the board, according to the most recent survey of CFOs conducted by Financial Executives International (FEI) and Baruch College's Zicklin School of Business.

In the 2008 fourth quarter "CFO Outlook Survey," the CFO Optimism Index for the U.S. economy sunk to a low of 39.85 – a 46% drop from what it was in 2004 (73.55). Similarly, CFOs' outlook toward their own companies continues its steady decline with the Optimism Index for CFOs' own companies dropping more than 3.5 points to 58.07, an all-time low for the survey.

Amidst this challenging environment, CFOs overwhelmingly perceive an increase in the breadth of responsibility and pressure placed on them as CFO by both their employees and shareholders. When asked to compare with this time last year, 88 percent state it is now higher.

Cutbacks Now, and What's Ahead for 2009

CFOs reported that, for cutbacks implemented in 2008, hiring, capital spending, layoffs and marketing/advertising topped the list, with the same areas most frequently identified for cutbacks in 2009. Ninety-two percent of CFOs intend to implement some form of cutbacks in 2009, compared with only 66 percent in Q1 of this year. Nearly 40 percent plan to conduct layoffs in 2009 (versus 24 percent in Q1 of this year), while nearly 80 percent plan a hiring decrease or freeze in the New Year. Moreover, in every single category, cutbacks planned for 2009 increased from already-high 2008 cuts.

A large majority of CFOs (80%) have cut discretionary spending at their companies for the fourth quarter:

- Areas hit hardest by these cuts were: holiday events (cut by an average of 32%); overtime (cut by an average of 22%); and entertainment (cut by an average of 18%).
- While training and education for staff, corporate sponsorships, employee perks and travel were all slated to receive percentage reductions in the double-digits, executive travel was least affected, with an average cut of 11%.

Year-end bonuses were also identified as a major target for companies' cutbacks:

- More than a third (38%) have specific plans to reduce or eliminate year-end bonuses for employees across the board.
- Forty-four percent (44%) intend to reduce or eliminate year-end bonuses at the C-suite level or above.

Philanthropy did not prove immune to cuts either:

- Fifty percent (50%) of those CFOs whose companies have historically given declared that their charitable contributions have decreased during 2008.

- Thirty-three percent (33%) of that same group reported that their giving strategies have shifted to be more aligned with achieving business goals.

Expected Cutbacks	Q4 2008 (implemented during 2008)	Planned for 2009
Hiring	65%	68%
We are not planning any at this time	9%	8%
Layoffs	37%	39%
IT/technology	25%	33%
Benefits	21%	27%
Executive perks	20%	26%
Marketing/advertising	28%	34%
Capital spending	47%	58%
Debt levels and interest costs	19%	25%
Business acquisitions	13%	17%
Research and development	12%	15%
Dividend reductions or eliminations	5%	7%

Biggest Worries and Challenges for 2009?

Key findings include:

- Nearly 40% say U.S. economic growth is #1 economic worry for 2009.
- However, in Q4 of this year, 9% fewer CFOs cited U.S. economic growth as their #1 worry than did in Q2 of this year.
- Thirty-two percent (32%) choose consumer spending/demand as top economic worry for 2009.
- Oil costs, a #1 worry for 35% of CFOs in Q2 2008, are now a #1 worry for only 2% of CFOs.
- Thirty-four (34%) reveal expense control will be their company's top challenge for the first half of 2009, compared with 30% in Q2 2008.
- While 25% in Q2 2008 named competition as their top business challenge, that number dropped to 21% for Q4 2008.

Additional topics CFOs were surveyed on included: the impact of recent accounting regulations, such as FAS 157 and FAS 159, on their companies' EPS; man hours required to meet fair value regulatory requirements; perceived changes in debt terms and conditions.

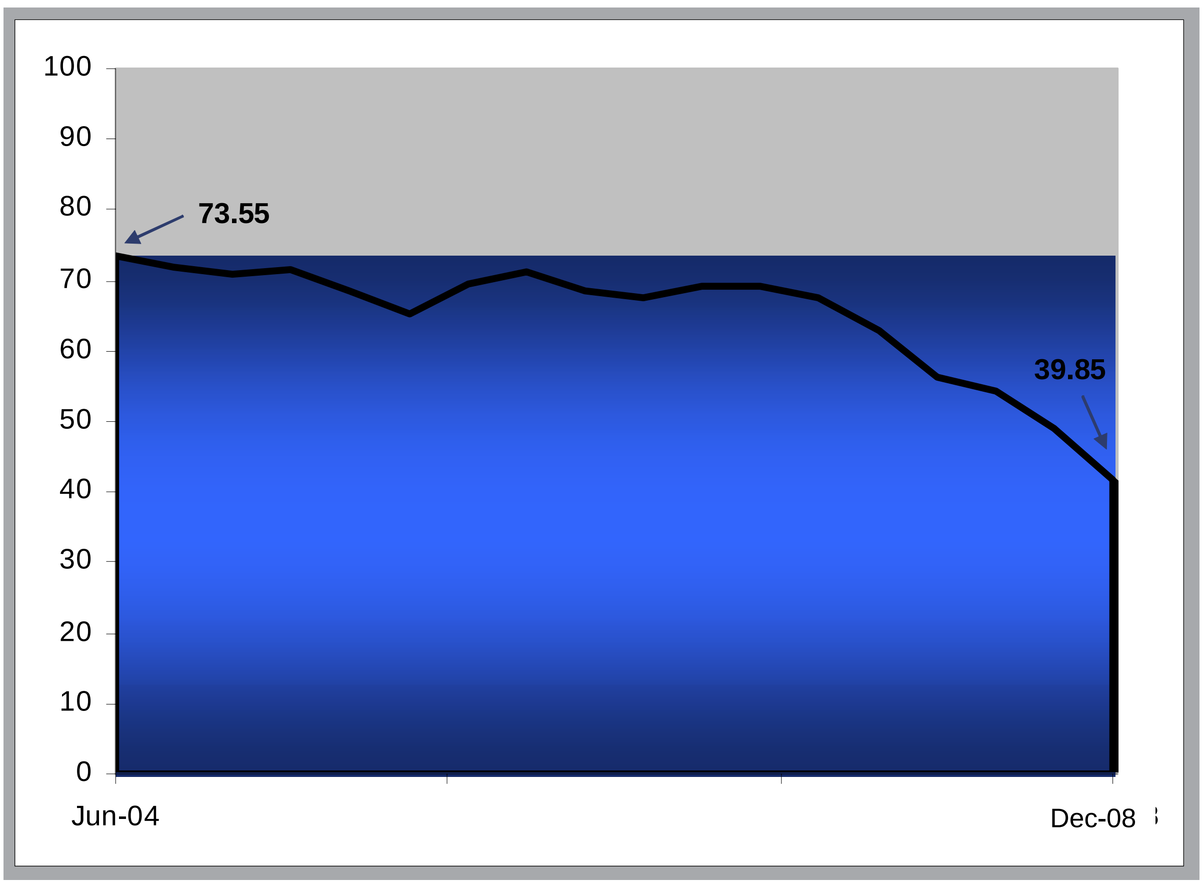
Detailed Survey Results

This quarter, the CFO Outlook Survey, conducted by Financial Executives International (FEI) and Baruch College's Zicklin School of Business, interviewed 345 corporate CFOs electronically from December 2 through December 8. CFOs from both public and private companies and from a broad range of industries, revenues and geographic areas, including some off-shore companies, are represented. FEI has been conducting surveys gauging the country's economic outlook from the perspective of CFOs for more than eleven years. Survey respondents are members of FEI.

1. Rate your optimism about the US economy on a scale from 0-100, with 0 being the least optimistic and 100 being the most optimistic.

This quarter: 39.85
Last quarter: 41.73

This quarter's survey results indicated that CFO optimism is at an all-time low when compared to the results over the past four years.



Source: FEI/Baruch College

Figure A: Median CFO optimism about the U.S. economy

2. Rate your optimism about the financial prospects for your company on a scale from 0-100, with 0 being the least optimistic and 100 being the most optimistic.
This quarter: 58.07
Last quarter: 61.74

Likewise, as with the previous question, CFOs optimism about their companies is also on a continued decline as indicated in Figure B below.

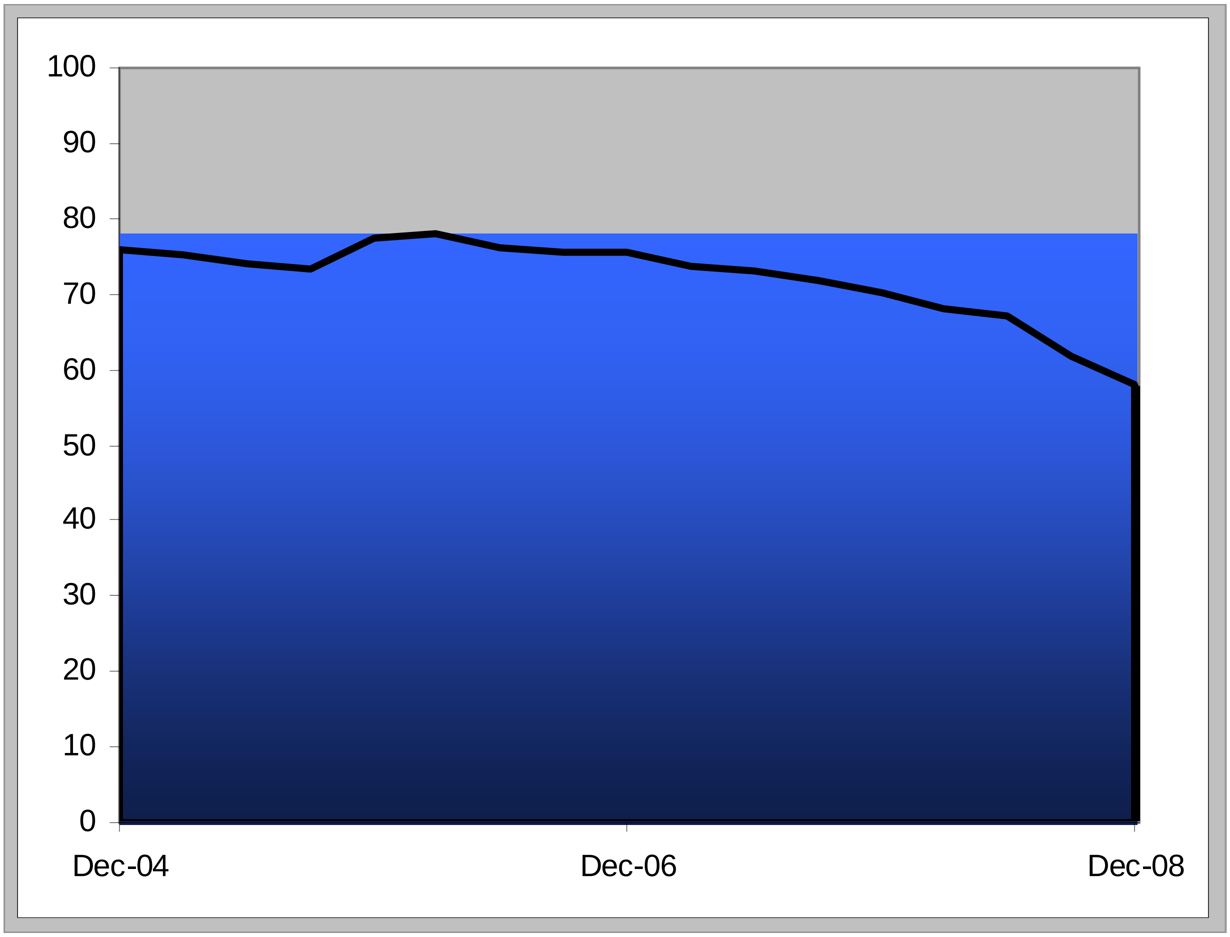


Figure B: Median CFO optimism about their companies

3. The percentage change expected at your own company for the NEXT 12 months (e.g., +3, -2, etc.).

	This Quarter	Last Quarter
Technology spending	0.02%	-0.20%
Capital spending	-4.57%	-1.70%
Hiring	-3.09%	-0.97%
Prices of your products	-0.04%	1.71%
Inventory	-4.34%	-1.49%
Employee healthcare	8.09%	7.88%

The changes expected by CFOs over the next year reflect higher prices and costs, but lower business investment. A full comparison over the past 4 years is provided in Figure C.

Figure C: FEI/Baruch CFO Outlook Surveys – Four-Year Comparison by Quarter

	Dec 2008	**Sep 2008**	**June 2008**	**March 2008**	**Dec 2007**	**Sept 2007**	**June 2007**	**March 2007**	**Dec 2006**	**Sept 2006**
Optimism about the economy	39.85 Decrease of 4.5% from last Q and 29.2% from last year	41.73 Decrease of 14.7% from last Q and 33.6% from last year	48.92 Decrease of 10.8% from last Q and 27.5% from last year	54.29 Decrease of 3.5% from last Q and 21.6% from last year	56.26 Decrease of 10.5% from last Q and 19% decrease from last year	62.85	67.46	69.29	69.28	67.60
Optimism about own company	58.07 Decrease of 5.9% from last Q and 17.3% from last year	61.74 Decrease of 7.93% from last Q and 13.87% from last year	67.06 Decrease of 1.6% from last Q and 8.4% from last year	68.12 Decrease of 3.0% from last Q and 7.5% from last year.	70.26 Decrease of 2% from last Q and 5.31% from last year	71.68	73.19	73.62	75.57	75.46
Capital spending	Expected decrease of 4.57% in the next 12 months	Expected decrease of 1.70% in the next 12 months.	Expected increase of 7.67% in the next 12 months	Expected increase of 9.62% in the next 12 months	Expected increase of 9.96% in the next 12 months	Expected increase of 15.05% in the next 12 months	Expected increase of 2.26% in the next 12 months	Expected increase of 7.87% in the next 12 months	Expected increase of 7.3% in the next 12 months	Expected increase of 7.98% in the next 12 months
Health Care Costs	Expected increase of 8.09% in the next 12 months	Expected increase of 7.88% in the next 12 months.	Expected increase of 8.13% in the next 12 months	Expected increase of 8.39% in the next 12 months	Expected increase of 8.25% in the next 12 months	N/A	Expected increase of 8.19% in the next 12 months	Expected increase of 9.46% in the next 12 months	Expected increase of 9.2% in the next 12 months	Expected increase of 7.72% in the next 12 months
Technology spending	Expected increase of 0.02% in the next 12 months	Expected decrease of .20% in the next 12 months.	Expected increase of 3.71%in the next 12 months	Expected increase of 5.16% in the next 12 months	Expected increase of 11.54% in the next 12 months	Expected increase of 20.78% in the next 12 months	Expected increase of 11.27% in the next 12 months	Expected increase of 9.55% in the next 12 months	Expected increase of 8.4% in the next 12 months	Expected increase of 6.86% in the next 12 months
Hiring	Expected decrease of 3.09% in the next 12 months	Expected decrease of .97% in the next 12 months.	Expected increase of 1.13% in the next 12 months	Expected increase of 2.90% in the next 12 months	Expected increase of 4.65% in the next 12 months	Expected increase of 5.22% in the next 12 months	Expected increase of 4.10% in the next 12 months	Expected increase of 5.24% in the next 12 months	Expected increase of around 4% in the next 12 months	Expected increase of 3.08% in the next 12 months

	June 2006	**March 2006**	**Dec 2005**	**Sept 2005**	**June 2005**	**March 2005**	**Dec 2004**	**Sept 2004**	**June 2004**
Optimism about the economy	68.64	71.06	69.69	65.35 4.8% decrease from last Q	68.66	71.42	70.78	71.98	73.55
Optimism about own company	76.27	78.12	77.37	73.43	74.09	75.34	75.73	76.06	76.40
Capital spending	Expected increase of 8.09% in the next 12 months	Expected increase of 6.6% in the next 12 months.	Expected increase of 9.1% in the next 12 months	Expected increase of 6.0% in the next 12 months.	Expected increase of 5.1% in the next 12 months	Expected increase of 13.1% in the next 12 months	Expected increase of 13.7% for next 12 months	Expected increase of 7.8% for next 12 months	Expected increase of 14.8% for next 12 months
Health Care Costs	Expected increase of 8.38% in the next 12 months	Expected increase of 8.4% in the next 12 months.	Expected increase of 7.2% in the next 12 months	Expected increase of 7.9% in the next 12 months	Expected increase of 7.9% in the next 12 months	Expected increase of 9.3% in the next 12 months	Expected increase of 9.9% in the next 12 months	Expected increase of 9.1% in the next 12 months	Expected increase of 10.6% in the next 12 months
Technology spending	Expected increase of 6.63% in the next 12 months	Expected increase of 12.3% in the next 12 months.	Expected increase of 7.5% in the next 12 months.	Expected increase of 5.4% in the next 12 months	Expected increase of 4.4% in the next 12 months	Expected increase of 8.0% in the next 12 months	To grow average of 12% in next 12 months	To grow average of 6.5% in next 12 months	To grow an average of 5.9% in next 12 months
Hiring	Expected increase of 4.04% in the next 12 months								

4. What are your company's top two economic worries for 2009? Label your choices 1 and 2.

	Choice 1	Choice 2
U.S. economic growth	135 responses or 39.1%	92 or 26.7%
Consumer spending/demand	111 responses or 32.2%	58 or 16.8%

The economy was top of mind to most financial executives. Credit availability was also frequently cited in the responses.

5. What do you consider your company's top business challenge for the first half of 2009?

	Number	Percent
Expense control	116	34.2 %
Other	105	31.0 %
Competition	71	20.9 %
Regulatory issues	17	5.0 %
Finding qualified workers	14	4.1 %
Controlling labor costs	9	2.7 %
Personnel issues	7	2.1 %

For those who cited other, the economy, credit availability, consumer demand were identified as a top business challenge.

6. a. Given the current economic downturn, what areas has your company identified for cutbacks in 2009 (forward looking)?

	Number	Percent
Hiring (decrease or freeze)	236	68.4 %
Capital spending	200	58.0 %
Conduct layoffs	136	39.4 %
Marketing/advertising	116	33.6 %
IT/technology	115	33.3 %
Benefits (increase employee contribution)	93	27.0 %
Decrease executive perks	88	25.5 %
Reduce debt levels and interest costs	86	24.9 %
Business acquisitions	57	16.5 %
Research and development	52	15.1 %
We are not planning any cutbacks at this time	27	7.8 %
Dividend reductions or eliminations	23	6.7 %
Other	14	4.1 %

6b. What areas have your company already implemented cutbacks in during 2008?

	Number	Percent
Hiring (decrease or freeze)	225	65.2 %
Capital spending	162	47.0 %
Conduct layoffs	129	37.4 %
Marketing/advertising	97	28.1 %
IT/technology	85	24.6 %
Benefits (increase employee contribution)	71	20.6 %
Decrease executive perks	69	20.0 %
Reduce debt levels and interest costs	67	19.4 %
Business acquisitions	43	12.5 %
Research and development	40	11.6 %
We are not planning any cutbacks at this time	32	9.3 %
Dividend reductions or eliminations	16	4.6 %
Other	11	3.2 %

7a. For those companies that are in the process of obtaining new debt or renewing debt agreements to finance their company operations, what forms of debt are being used? (Choose all that apply)

	Number	Percent
Not currently negotiating any debt agreements	194	56.2 %
Senior	105	30.4 %
Subordinated	23	6.7 %
Mezzanine	13	3.8 %
Junior	9	2.6 %

7b. Choose how debt terms and conditions have changed versus six months ago?

	Number	Percent
Amounts being lent have decreased	130	48.1 %
Amounts being lent have not changed	124	45.9 %
Amounts being lent have increased	16	5.9 %

When comparing current debt terms to those from six months ago, it is interesting to note that there is an almost equal amount of respondents that said amounts have not changed versus those who said amounts have decreased. However, a majority said that debt terms are stricter and interest rates are higher, which respondents predicted in last quarter's survey.

	Number	Percent
Debt covenants are stricter	149	54.8 %
Debt covenants have not changed	116	42.6 %
Debt covenants are looser	7	2.6 %

	Number	Percent
Interest rates on borrowing have increased	147	53.8 %
Interest rates on borrowing have not changed	54	19.8 %
Interest rates on borrowing have decreased	72	26.4 %

8. How have your company's philanthropic efforts been affected in 2008? (Please select all that apply)

	Number	Percent
Our company has not historically given to philanthropic efforts	111	32.2 %
Charitable giving decreased	107	31.0 %
Giving more focused toward achieving business goals	70	20.3 %
Charitable giving increased	35	10.1 %

9a. Cuts in discretionary spending at your company for the fourth quarter of 2008

	Number	Percent
We have not scaled back discretionary spending	64	19.7 %
We have cut discretionary spending	261	80.3 %

9b. In terms of discretionary spending at your company, by how much do you estimate each of the following was cut for the fourth quarter of 2008 (e.g., +3%, 0%, etc.).

	Percent
Holiday events	31.71%
Overtime	21.56%
Entertainment	17.68%
Training/education (executive/staff)	14.45%
Corporate sponsorships	12.10%
Employee perks (e.g. membership subsidies, subscriptions, etc.)	11.78%
Travel	10.94%

10. Does your company have specific plans to reduce or eliminate year-end bonuses for the following executives? (Please select all that apply)

	Number	Percent
Employees across the board	130	37.7 %
C-Suite executives	87	25.2 %
Chief Executive Officer	65	18.8 %

11. Do you think that new regulation, such as FAS 157 (Fair Value Measurements) and FAS 159 (Fair Value Option for Financial Assets and Liabilities), will have a substantive effect on your company's EPS?

	Number	Percent
Yes	25	7.4 %
No	147	43.4 %
Not Applicable	167	49.3 %

12a. Approximately how much time (in terms of man hours) has your company spent in 2008 to meet the requirements of FAS 157 as it relates to financial assets and liabilities?

Maximum = 2000
Mean = 53.64

12b. Select how your company's fair value work will change going forward?

	Number	Percent
Not applicable to my company	143	41.4 %
Time spent will increase due to fair value of financial assets and liabilities	90	26.1 %
Remain the same	65	18.8 %
Time spent will increase due to fair value of non-financial assets and liabilities	45	13.0 %
Time spent will increase due to fair value of pension plan assets	22	6.4 %
Time spent will decrease	4	1.2 %

13. Compared with this time last year and going into 2009, how would you rate the breadth of responsibility and pressure placed on you as CFO by your employees and shareholders?

	Number	Percent
Higher	300	87.5 %
Same	42	12.2 %
Lower	1	0.3 %

COMPANY DEMOGRAPHICS

Industry

	Number	Percent
Manufacturing	73	21.3 %
Service/Consulting	46	13.4 %
Retail/Wholesale	43	12.5 %
Other	43	12.5 %
Banking/Finance/Insurance	32	9.3 %
Tech [Software/Biotech]	32	9.3 %
Mining/Construction	22	6.4 %
Healthcare/Pharmaceutical	22	6.4 %
Transportation/Energy	15	4.4 %
Communications/Media	15	4.4 %

Sales Revenue

	Number	Percent
Less than $25 million	78	22.7 %
$25-$99 million	94	27.3 %
$100-$499 million	91	26.5 %
$500-$999 million	31	9.0 %
$1-$4.9 billion	29	8.4 %
Over $5 billion	21	6.1 %

Number of Employees

	Number	Percent
Fewer than 100	76	25.3 %
100-499	91	30.3 %
500-999	44	14.7 %
1,000-2,499	32	10.7 %
2,500-4,999	17	5.7 %
5,000-9,999	15	5.0 %
Over 10,000	25	8.3 %

Headquarters

	Number	Percent
Midwest	88	26.1 %
Northeast	71	21.1 %
Pacific	61	18.1 %
South Central	51	15.1 %
South Atlantic	45	13.4 %
Mountain	12	3.6 %
Outside U.S.	9	2.7 %

Ownership

	Number	Percent
Private	253	76.7 %
Public, NYSE	39	11.8 %
Public, Nasdaq/AMEX	38	11.5 %

Foreign Sales

	Number	Percent
0%	143	41.7 %
1-24%	132	38.5 %
25-50%	38	11.1 %
Over 50%	30	8.7 %

About FEI
Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers, and controllers. FEI enhances member professional development through peer networking, career planning services, conferences, publications, and special reports and research. Members participate in the activities of 84 chapters, 73 of which are in the United States and 11 in Canada.

Financial Executives Research Foundation (FERF) is the non-profit 501 (c)(3) research affiliate of FEI. FERF researchers identify key financial issues and develop impartial, timely research reports to FEI members and non-members alike, in a variety of publication formats.

For more information, visit www.financialexecutives.org.

About Baruch
Baruch College is a senior college of the City University of New York. The Zicklin School of Business at Baruch College is the largest and most diverse AACSB accredited collegiate school of business in the nation. Baruch has a long tradition of producing accounting and finance graduates who become leaders as CPAs and CFOs. www.baruch.cuny.edu