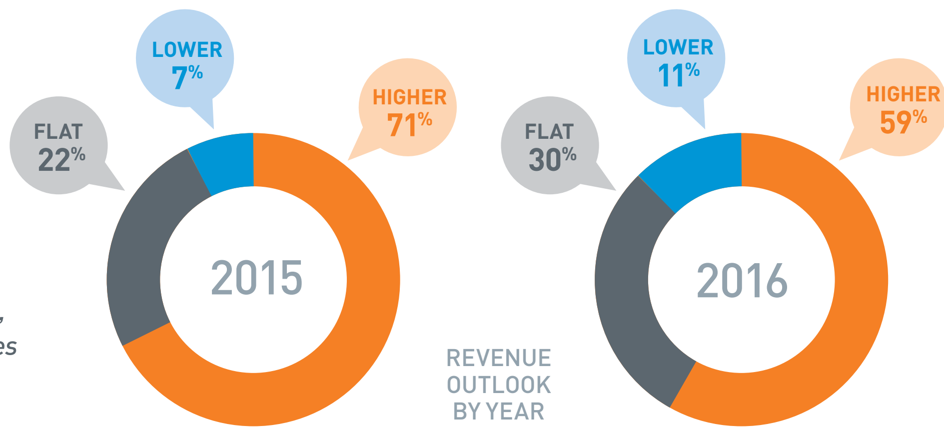
PNC'S DEBT CAPITAL MARKETS GROUP

2016 CFO OUTLOOK SURVEY

The opinions of other financial leaders can provide valuable insights as you plan for your company's future. How do they view the overall economy? Do they plan to pursue acquisitions this year? What about revenue growth — are they optimistic or pessimistic? And do they plan to hire more or fewer new employees than they did last year? PNC's third annual CFO Outlook Survey provides a look at what financial leaders are currently thinking about these issues and more.

PNC's survey of 253 corporate CFOs, primarily in the middle market ($50 million to $500 million) and large corporate ($500 million+) spaces, reveals cautious optimism among CFOs about the overall U.S. economy. Most CFOs expect their companies' revenue to increase this year. However, fewer CFOs believe that their companies are likely to pursue an acquisition, and most say their CAPEX budgets will be flat or lower than they were last year.



Uncertain economic conditions will have a big influence on corporations this year.

Here are some detailed observations and analysis of the survey results that will help shed some light on what CFOs believe is in store for their companies this year.

Cautious optimism for economy, a little less for revenue

About half of the survey respondents believe that there will be minimal change in the overall U.S. economy in 2016, while about a third believe the economy will improve this year. Only 16% of respondents believe the economy will weaken. As for the external factors CFOs believe will have the biggest impact on their companies, uncertainty about U.S. markets and competitive pressures topped the list. Uncertainty about global markets, rising interest rates, a weakening consumer, and the inability to attract talent were among the other external factors CFOs said they're concerned could impact their businesses this year.

CFOs are a little less optimistic about revenue growth for their companies this year than they were last year. About six in 10 CFOs expect their revenue to increase this year — seven in 10 CFOs anticipated higher revenue last year.

A slowdown is expected in acquisition activity

Acquisition activity in 2016 could slow down from 2015's record pace based on the survey results. Large corporations are more optimistic in the likelihood of completing an acquisition versus middle market companies. Only 25% of CFOs said they are likely to pursue an acquisition this year, compared to 29% of CFOs who said they were likely to pursue an acquisition last year.




Moreover, 30% of CFOs said they are highly unlikely to pursue an acquisition this year, compared to 26% of CFOs who said this last year. Only 12% of CFOs said they are highly confident that they'll complete an acquisition this year, while 32% said they're not at all confident about completing an acquisition in 2016. Among the reasons for this lack of confidence are unattractive deal terms, uncertain economic and market conditions, and regulatory hurdles.

When it comes to driving growth, increasing market share remains the primary strategy — this was cited by 35% of CFOs. Meanwhile, 23% cited strong growth in existing markets or price increases, and 14% cited new product and service launches.

40% expect their companies to hire more employees this year.

Fewer than 10% of CFOs believe economic conditions will be down from 2015

Only 6% of CFOs believe that improving economic conditions will drive growth this year — 28% cited improving economic conditions as an anticipated growth driver last year. Also, the majority of CFOs (64%) plan to fund growth via internal cash flow — only 17% plan to use existing bank credit facilities, and just 9% plan to issue bonds.

CAPEX spending looks mostly flat, with technology leading the way

About two-thirds of CFOs said their CAPEX budgets will be flat or lower this year than they were last year. Among their CAPEX funds, however, more than half of CFOs plan to allocate more than 25% of resources to growth (as opposed to maintenance).

How are CFOs planning to spend CAPEX funds? Mainly on technology and facilities. Transportation assets, machine tools, office equipment, energy-saving–related equipment, and infrastructure are other asset categories in which CFOs said they plan to spend CAPEX resources.

61% of large corporate CFOs' companies have made changes in their cybersecurity processes.

Technology spending, meanwhile, is heavily concentrated in five categories: software, PC/servers, cybersecurity, business analytical tools and mobile platforms for customer engagement. The rise in the importance of cybersecurity as a CAPEX spend category is especially noteworthy: 104 CFOs listed cybersecurity this year, compared to just 65 CFOs who listed it last year.

In fact, more than half of CFOs said their companies had changed their cybersecurity processes in the past year due to high-profile incidents of customer data theft. Six out of 10 large corporate CFOs' companies have made changes in their cybersecurity processes, while half of middle-market CFOs' companies have made such changes.

Projections for hiring, compensation, healthcare and raw material expenses

On the hiring front, only four out of 10 CFOs said that they expect their companies to hire more employees this year. Last year, 50% of CFOs said they anticipated hiring more employees in the upcoming year. About two-thirds of CFOs expect their compensation expenses to rise this year, while only 5% expect compensation expenses to fall in 2016.

One of the main causes of the expected rise in compensation expenses is anticipated higher healthcare benefit costs. About three-quarters of CFOs expect their healthcare benefit costs to rise this year, while only 2% expect them to fall. Approximately 30% of middle-market CFOs expect their healthcare benefit costs to rise at least 10% this year — only 11% of large corporate CFOs anticipate healthcare expenses rising this much in 2016.

Due at least in part to falling energy and commodity prices, fewer CFOs are projecting higher raw material costs this year than did last year. About half of CFOs are projecting flat raw material costs this year, and 20% are projecting lower raw material costs in 2016.

Improving quality is the key to improving customer experiences

When asked what are the most important things they can do to improve the customer experience, CFOs overwhelmingly said that improving the quality of products and services was the most important factor. Among the least important factors listed by CFOs in improving the customer experience are product packaging and presentation, connecting with customers via feedback channels and forums, and providing strong customer support via 24/7 telephone/electronic and one-on-one.

Key takeaways from the study

Among the key takeaways from the 2016 CFO Outlook Survey are the following:

- Uncertainty in both U.S. and global markets, along with competitive pressures, will be among the top factors affecting businesses this year.
- CFOs have less confidence this year than they did last year in the likelihood of their companies to complete acquisitions.
- Increasing market share is the main growth strategy that companies will employ this year, as opposed to growing existing markets or raising prices.
- CAPEX budgets are generally flat or lower than last year, and CAPEX funds will be spent primarily on technology and facilities.
- Cybersecurity remains a top priority for CFOs, with more than half saying their companies changed their cybersecurity processes over the past year.

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. If you would like more information about this survey or would like to discuss your capital needs, please contact your PNC Relationship Manager or visit **pnc.com/ideas**.

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