

# The impact of the U.S. economy on corporate expectations, concerns and strategic focus

Industry-centered analysis of selected results from the  
Duke University / CFO Magazine Global Business Outlook Survey

1<sup>st</sup> Quarter, 2009



Shareholder Value

## Additional Analysis for First Quarter, 2009

This quarter we have prepared two separate analyses:

1. **The impact of the U.S. economy on corporate expectations, concerns and strategic focus** Our regular quarterly analysis addressing our normal analytical scope, released March 4, 2009.
2. **U.S. company reliance on cash and credit, and the impact of the credit crisis** A special study of credit crisis related questions from the 4Q08 and 1Q09 surveys, to be released March 13, 2009

Please see [www.cfosurvey.org](http://www.cfosurvey.org) for both of these documents.

# Executive Summary

## Background

Deloitte works with the *Duke University / CFO Magazine Global Business Outlook Survey* on a quarterly basis to better understand how prevailing market and broader economic conditions are affecting the expectations, concerns and plans of U.S. companies.

The purpose of this report is to examine survey findings specifically through an **industry-focused lens**. While the standard, economy-level findings provide uniquely broad and deep insights around economic trends and expectations, this industry-level analysis highlights what are frequently marked differences across the survey's nine industry groupings.

Little did we know when we began this industry-based analysis three quarters ago that we were standing on the precipice of a stunning credit market and economic collapse. In the third quarter of 2008, the economic outlook of U.S. companies was on the rise following several quarters in the doldrums – which made the fourth-quarter collapse all the more surprising. While the events of first quarter of this year may not have constituted as stunning of a shift, the events themselves have been no less dramatic.

## Unprecedented attempts to contain unprecedented conditions

Since the fourth quarter survey, financial institutions and credit markets have continued to be heavily stressed. Nine U.S. banks (and counting) have failed this year, and Standard & Poor's has downgraded the credit rating of eleven of the world's largest banks – including Bank of America, Wells Fargo, Citigroup, Morgan Stanley and Goldman Sachs. In response, the U.S. Treasury Secretary has introduced a Financial Stability Plan to clean up the U.S. financial system.

Government intervention has continued to rise. GM and Chrysler have received massive loans to prevent their collapse and protect roughly one million jobs. The U.S. Treasury Department has begun purchasing U.S. bank preferred stock under a Capital Purchase Program and has restricted executive pay for financial institutions receiving government assistance. Having lowered interest rates below 0.25 percent, the Federal Reserve Bank is on the verge of losing one of its most powerful recession-fighting tools.

In spite of these measures, the broader economy has continued to struggle. GDP shrank 6.2 percent in the fourth quarter, the worst result since the first quarter of 1982. Unemployment has risen to 7.6%, almost double the rate before the credit crisis and the highest rate in sixteen years. With job losses reaching 3.5 million in the last twelve months, mortgage foreclosures have continued to mount, stemmed only by the nation's largest banks agreement to halt foreclosures until the release of the government's mortgage restructuring program.

The \$787 billion American Recovery and Reinvestment Act of 2009, a stimulus plan centered on government spending measures and tax cuts, has recently been signed into law by President Obama after sharp partisan debate. On its heels has come the Homeowner Affordability and Stability Plan, a mortgage restructuring program expected to reduce foreclosures through lower monthly loan payments.

Conditions are dire outside the U.S. as well. Countries like Russia and Greece have seen their S&P ratings plummet due to economic and fiscal worries. Bank failures in Iceland led to the collapse of the country's financial system and its currency, and Ireland was forced to nationalize its third-largest bank. Two bank rescue plans have already been implemented in the U.K., and China has recently announced its slowest growth rate in seven years.

## Coming to grips with the credit market fallout

Last quarter, optimism was lower than at any other time in the fifty-one quarter history of the *Duke University / CFO Magazine Global Business Outlook Survey*. This quarter continues that trend.

As shown in the graph on the next page, CFO optimism continued to decline this quarter, although at a decreasing rate. Having worked this quarter to understand and address the fallout of the credit crisis, more than two thirds of these executives are even less optimistic now than they were last quarter around the U.S. economy. Last quarter, 60 percent of executives believed the economy would begin recovery by the end of 2009; only 35 percent are that optimistic now. The vast majority (70 percent) of executives now believe recovery will begin before the second half of 2010, although there is substantial disagreement both within and across industries.

More than half of companies are less optimistic about their own company's prospects as well. Year-over-year earnings projections have worsened from a 10.2 percent drop last quarter to a 13.5 percent decline this quarter. There are substantial industry differences, however. Manufacturing and retail/wholesale expect declines of roughly 20%, while the healthcare/pharmaceutical and services/consulting industries project low single-digit gains. Public firms appear to be struggling more than private, projecting an average 20 percent earnings decline, and 14 percent of firms plan to sell

## Key findings for the 1<sup>st</sup> quarter of 2009:

- ▶ **Continued decline in optimism regarding the U.S. Economy** Thirty-five percent of executives expect recovery to begin in 2009 (60 percent last quarter), seventy percent by mid 2010.
- ▶ **Bleak employment picture** The employment picture is dismal with 54 percent of U.S. companies planning to reduce their workforces in the next 12 months (at an average rate of nearly 8 percent), and there is a strong trend toward hiring freezes, wage freezes and work hour reductions. Not surprisingly, maintaining employee productivity and morale is a top three internal concern for eight of the nine industries.
- ▶ **Increased pessimism around earnings and spending** Earnings are expected to decline 13.5 percent over the next 12 months, even more pessimistic than the 9 percent decrease projected last quarter. Consequently, capital spending is expected to fall by more than 13 percent, tech spending by 5.5 percent and marketing/advertising by 7.5 percent, all more pessimistic than last quarter.
- ▶ **Consumer demand and credit/interest worries again top external concerns** Consumer demand is the top concern for six of the nine industries, with over 68 percent of respondents naming it in their top three and 43 percent naming it their top concern. Credit markets and interest rates are second with 64 percent naming it in their top three external concerns.
- ▶ **Sharp increase in concerns about the administration and Congress** Nearly 45 percent of firms now place this worry in their top three external concerns, and three industries place it in their top two.
- ▶ **Forecasting results and working capital management top internal concerns** Forecasting results repeats as the dominant internal concern with 60 percent of respondents naming it in their top three and nearly 30 percent naming it their top concern. It was the top concern for five of the nine industries. Working capital management, a new selection for this quarter, jumped to second and is the top concern for three industries.
- ▶ **Financial market turmoil affecting all sectors** More than 54 percent of firms report being negatively impacted, with nearly 60 percent of those citing availability issues and nearly half saying the cost of credit is higher when they can get it. About one-third of companies' funding has come from credit lines over the past 6 months, with these credit lines drawn down an average of 38 percent.

# Executive Summary (cont.)

all or part of their companies (29 percent are looking to buy) within the next 12 months..

Kate O'Sullivan, senior writer at CFO Magazine, finds this declining optimism troubling. "Throughout the history of our survey, CFOs have shown a remarkable ability to predict future economic conditions, anticipating the current recession as far back as September 2007. Given the CFOs' track record, the historic pessimism CFOs are currently expressing certainly indicates a tough road ahead in 2009."

Nearly 60 percent of companies have already reduced headcount and more than half will do so again within the next 12 months. Those who cut jobs let go an average of 13 percent of their workforces in the last 12 months, and those who will continue to cut anticipate 8 percent reductions over the next year. More than 50 percent of firms have frozen hiring, and 60 percent will do so going forward.

"Even with the stimulus plan, CFOs expect to lay off about 6 percent of their workforces. Given that 134 million are employed right now, this represents a staggering 7.6 million job losses," said Fuqua international finance professor Campbell Harvey, founding director of the survey. "In addition to the layoffs, many CFOs plan wage freezes and working hour reductions for employees who are retained."

Executives' response to the U.S. government's stimulus efforts is lukewarm, with only 32 percent of executives believing the U.S. economy will be better off than if the government had not acted and 36 percent believing there will be no change. Nationalized health care received an equally tepid response with 53 percent of companies believing they would not benefit from such a program

## Access to credit increasingly important across all industries

The credit crunch continues to take a toll with 54 percent of companies feeling the effects of decreased credit availability and/or increased costs. Seventy-four percent of firms utilize credit lines with levels averaging 23 percent of assets – the same as a year ago. Roughly 32 percent of companies' funding over the past six months has come from these credit lines (behind cash from profits and retained earnings at 61 percent), and these credit lines have been drawn down an average of 38 percent.

"Bank lines of credit are usually a temporary source of funding or are used as a last resort," says John Graham, Duke finance professor and director of the survey. "In the current market, many companies have few funding options beyond their credit line. In fact, there has been a 'bank run' of sorts on credit lines, with poorly rated companies drawing funds in case their bank decides not to lend to them in the future. This action has in part 'crowded out' banks' ability to lend to other firms, exacerbating the lack of credit elsewhere in the system."

What may be a bit surprising is that some of the industries most reliant on credit lines are among the least affected by the credit turmoil so far. For example, while more than 85 percent of manufacturing firms utilize credit lines that have been drawn down an average of 40 percent (and have provided roughly 40% of these firms' funding over the past 6 months), these firms indicate relatively little negative credit market impact. The tech/software/biotech industry, which uses credit lines only 50 percent of the time to provide less than 15% of firms' funding, is one of the most affected industries. "At least for now, companies and industries that already have well-established cash access through secured credit lines are faring comparatively well," explains Greg Dickinson, Director of Deloitte's Value Initiative. "Companies and industries that have traditionally relied on retained earnings for funding appear more likely to be struggling in finding new funding sources."

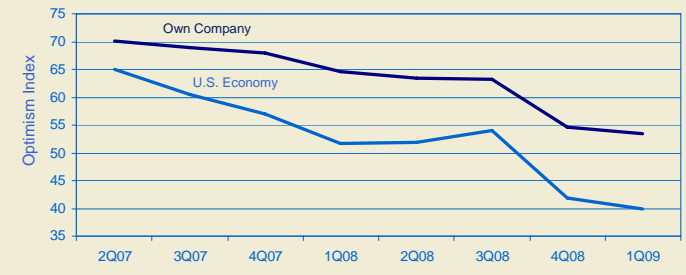
## Worries over consumer demand and credit markets

Weak consumer demand again dominates external concerns with over 68 percent of firms naming it in their top three and 43 percent naming it their top concern. It is the top concern for six of the nine industries and is highly dominant for the retail/wholesale, manufacturing and communications/media industries. Credit market concerns, which rose markedly last quarter, are a top concern for 64 percent of firms and topped the financial services and mining/construction industries. Concerns about the new administration and Congress posted the largest gain this quarter with nearly 45% of firms naming it a top external concern. It is the dominant external concern for the healthcare/pharmaceutical industry and is second for the mining/construction and financial services industries.

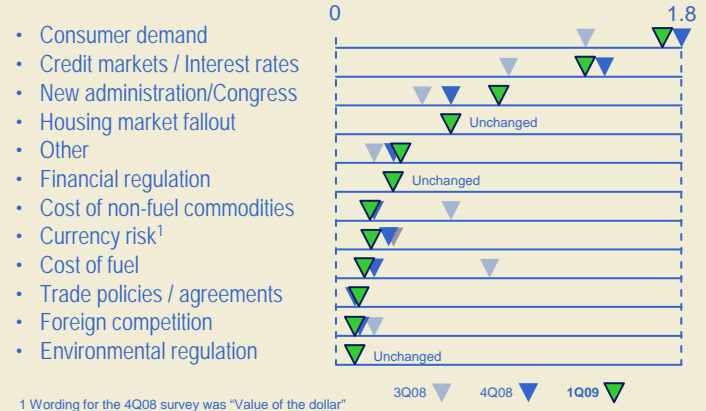
## Difficulty forecasting results, managing working capital and maintaining morale

Economic uncertainty continues to make forecasting results the top concern for U.S. companies. It is the top internal concern for five of the nine industries and was a top three concern for nearly 60 percent of respondents. Working capital management has become a top concern for over half of firms and for seven of the nine industries. Maintaining employee productivity and morale during the downturn is a top three concern for eight of the nine industries.

## Rate your optimism about the U.S. economy and the financial prospects for your own company on a scale from 0-100



## What are the top three EXTERNAL concerns facing your corporation?



## What are the top three INTERNAL concerns facing your corporation?



# Survey Highlights – Industry Insights (1 of 3)

## • **Retail / Wholesale** (Sample size = 77; YTD Total Shareholder Returns\*: Retail = -29%; Wholesale = -31%)

- Optimism regarding the U.S. economy has been on a steady decline for the past two years. Having fallen to below average last quarter after being above average for the previous seven, it is back to average this quarter. Although own-company optimism rose this quarter and is now above average after two below-average quarters, current optimism is well below its levels from the past two years.
- Year-over-year earnings are projected to decline nearly 20% overall and nearly 28% for public firms. Capital spending is expected to decline by 16%, marketing/advertising spending by 5.7% and technology spending by 9%.
- External concerns changed relatively little this quarter. Consumer demand is still the top concern, but it is not as dominant as it has been in previous quarters. This is likely due more to increasing concerns around other external issues than to declining importance of consumer demand. Roughly 84% of firms still place it in their top three, and 56% name it their top concern. Credit markets and interest rates held steady with about 65% naming it in their top three, which is about average for all industries. Concerns around the new administration and Congress rose significantly but are still relatively low and below the cross-industry average.
- This is one of three industries indicating that working capital management<sup>1</sup> is the top internal concern. Over 57% of firms place it in their top three and 26% name it their top concern. Ability to forecast results is a close second with 56% of firms placing it in their top three and 22% naming it their top concern. Maintaining employee morale/productivity and balance sheet weakness are third and fourth, respectively.
- Nearly 65% of firms reduced headcount in the past 12 months, at an average reduction of nearly 11%. Half of firms plan to make further cuts in the next year at an average rate of 6.5%.

## • **Mining / Construction** (Sample size = 26; YTD Total Shareholder Returns\*: Mining = -55%; Construction = -40%)

- Most pessimistic of all industries regarding the U.S. economy both this quarter and last quarter, with one of the largest declines in optimism of any industry this quarter. For the past two years, this industry had comparatively volatile own-company optimism. This quarter there was a substantial upturn that left it slightly below the cross-industry average.
- Year-over-year earnings are projected to decline more than 11%, 5% for just the public firms. Capital spending is expected to decline nearly 8%, marketing/advertising spending by 1% and technology spending by 7.5%.
- Credit markets and interest rates, having surged last quarter, remain the top external concern this quarter. About 73% of firms placed it in their top three, and 27% named it their top concern. Concerns around consumer demand fell notably this quarter (lower than for any other industry), as did housing fallout. Concerns around the administration and Congress rose to well above the cross-industry average, in the top three for nearly 70% of firms and the top concern for 27%.
- Forecasting results and maintaining morale/productivity are high internal concerns with both named a top three concern by 65% of firms. Working capital management<sup>1</sup> was close behind at 62%. Forecasting results is the top concern for 39% of firms; morale/productivity and working capital management<sup>1</sup> hold the top spot for 23% and 12%, respectively. This industry has the highest concerns over morale and productivity.
- Nearly 50% of firms reduced headcount in the past 12 months at an average reduction of a whopping 28%. Nearly three quarters of firms plan additional cuts in the next year at an average rate of 8%.

## • **Manufacturing** (Sample size = 132; YTD Total Shareholder Returns\*: Manufacturing = -52%)

- Two years of fairly steady declines in both U.S. economy and own-company optimism with comparatively little volatility. Below average optimism around both the U.S. economy and their own companies for the fourth straight quarter. Own-company optimism is now second lowest overall.
- Year-over-year earnings are projected to decline more than 23% overall and more than 30% for the public firms. Capital spending is projected to decline by an industry-leading 21%, marketing/advertising spending by an industry-leading 11% and technology spending by 6.2%.
- External concerns changed relatively little this quarter, especially at the top. Consumer demand is still the dominant concern with 82% of firms placing it in their top three and around 55% naming it their top concern. Credit/interest concerns are a distant but steady second, in the top three for 54% of firms. Concerns around the administration and Congress rose notably to third, but are still well below the cross-industry average.
- Forecasting results repeats as the top internal concern with nearly 70% naming it in their top three and more than one third naming it their top concern. Although working capital<sup>1</sup> is second, it is more important to this industry than to any other with nearly 65% of respondents naming it in their top three and nearly one fourth naming it their top concern. Maintaining morale/productivity is a fairly distant third.
- More than two thirds of firms reduced headcount in the past 12 months, at an average reduction of more than 13%. The same percentage of firms plan additional cuts in the next 12 months at an average rate of more than 9%.

\* Means, as of 2/26/09. Please see appendix for information about the performance indexes.

<sup>1</sup> Working capital management is a new category for 1Q09.

# Survey Highlights – Industry Insights (2 of 3)

## • **Transportation / Energy** (Sample size = 29; YTD Total Shareholder Returns\*: Transportation = -35%; Energy = -46%; Utilities = -36%)

- Has had above average optimism around the U.S. economy for the past four quarters, with the highest industry optimism last quarter and second-highest this quarter. Own-company optimism has been above average for seven straight quarters (frequently leading all other industries) but has fallen to the industry average this quarter. Both categories of optimism are at their two-year lows.
- Year-over-year earnings are projected to decline nearly 6% overall and more than 14% for the public firms. Capital spending is projected to decline nearly 8% and marketing/advertising spending by 3.4%. Technology spending is projected to increase by a modest 1%.
- Concerns around consumer demand fell notably this quarter but still top the list with 66% of firms naming it in their top three and 45% naming it their top concern. Credit/interest is in the top three for 62% of firms and the top concern for 21%. Concerns around the administration and Congress are third but well below average.
- Forecasting results, last quarter's top internal concern, declined markedly to third place this quarter. Working capital<sup>1</sup> and maintaining morale/productivity are now the dominant internal concerns with 52% of firms placing each in their top three. Working capital<sup>1</sup> is the top issue for 35% of firms, and maintaining morale/productivity is the top concern for 14%. Worries about balance sheet weakness, which rose last quarter, fell substantially this quarter.
- Half of firms reduced headcount over the past year at an average rate of nearly 9%. Roughly 40% of firms plan additional cuts over the next 12 months, at an average rate of almost 5%.

## • **Communications / Media** (Sample size = 10; YTD Total Shareholder Returns\*: Telecommunications = -41%; Media = -58%)

- Has been more pessimistic than average around the U.S. economy for six of the past seven quarters and is second lowest this quarter. Own-company optimism plummeted this quarter, falling well below all other industries and even below the average level for the U.S. economy – the only time this is happened in the past eight quarters for any industry.
- Year-over-year earnings are projected to be flat for all firms and to rise nearly 7.5% for public firms. Capital spending is projected to decline nearly 9.5%, marketing/advertising spending by 2% and technology spending by nearly 5%.
- Concerns around consumer demand, the top external concern last quarter, rose again this quarter – making this industry the most concerned overall about consumer demand with 90% of firms placing it in their top three and 60% naming it their top concern. Credit/interest concerns declined somewhat and are a fairly distant second. Concerns around housing market fallout rose markedly into third place this quarter. This industry appears to have the lowest overall concern about the administration and Congress.
- Forecasting results repeats as the top internal concern this quarter with 80% of firms naming it in their top three and 30% naming it their top concern. Balance sheet weakness skyrocketed this quarter and is the top concern for 50% of firms. Maintaining morale/productivity plummeted and worries over healthcare costs rose to third. Working capital<sup>1</sup>, the dominant concern across industries, ranks only sixth in this industry.
- A whopping 80% of the 10 firms answering this question reduced headcount over the past year at an average rate of 9%. Two thirds of firms plan cuts in the next 12 months at an average rate of nearly 10%.
- For all of these findings, it is important to keep in mind that the sample size for this industry is relatively small – only 10 firms.

## • **Tech / Software / Biotech** (Sample size = 27; YTD Total Shareholder Returns\*: Hardware = -44%; Software = -41%; Biotech = -13%)

- Well above average optimism around the U.S. economy for the past four quarters and third-highest this quarter after falling slightly from last quarter. Own-company optimism was above average and flat for four straight quarters but has fallen to third lowest over the past two quarters.
- Year-over-year earnings are projected to decline 12.5% overall and 17% for public firms. Capital spending is projected to decline by nearly 2% and technology spending by 1%. Marketing/advertising spending is projected to rise 7%.
- Consumer demand, overtaken as the top external concern last quarter by sharply increasing concerns around credit/interest, is again the top external concern this quarter with 63% of firms placing it in their top three and 52% naming it their top concern. Credit/interest concerns are a close second with 63% of firms placing it in their top three and 22% naming it their top concern. Concerns about the administration and Congress are a very distant third with no significant movement.
- Internal concerns changed relatively little this quarter. Forecasting results, the dominant concern last quarter, declined somewhat but is still the top concern with 70% of firms placing it in their top three and over half naming it their top concern. Maintaining morale/productivity and working capital management<sup>1</sup> are second and third, respectively.
- More than 70% of firms reduced headcount over the past year at an average reduction of nearly 16%. Just over half of firms plan further reductions in the next 12 months, at an average rate of nearly 7%.

\* Means, as of 2/26/09. Please see appendix for information about the performance indexes.

<sup>1</sup> Working capital management is a new category for 1Q09.

# Survey Highlights – Industry Insights (3 of 3)

## • **Banking / Finance / Insurance** (Sample size = 71; YTD Total Shareholder Returns\*: Banking/Finance/Insurance = -49%)

- Slightly higher than average optimism regarding the U.S. economy after six straight quarters of below-average optimism. Although still quite low, economic optimism rose slightly this quarter. Despite all of the financial institutions chaos, own-company optimism rose more than two points this quarter – more than for any other industry.
- Year-over-year earnings are projected to decline nearly 15% overall and more than 20% for public firms. Capital spending is projected to decline 7%, marketing/advertising spending by a comparatively high 10.8% and technology spending by nearly 6.5%.
- Credit markets/interest rates are again the dominant external concern with 82% of firms naming it in their top three and 38% naming it their top issue. Credit market concerns are stronger for this industry than for any other industry, including mining/construction. Concerns around the new administration and Congress are the second highest (leapfrogging housing fallout, financial regulation and consumer demand this quarter) with half of firms naming it in their top three and 17% naming it their top concern.
- Internal concerns changed very little this quarter. Forecasting results and balance sheet weakness are again the top concerns, named in the top three by 56% and 48% of firms, respectively. Both are named the top concern by roughly 30% of firms. Maintaining morale/productivity declined somewhat but is still third. Working capital<sup>1</sup> concerns are fourth and second lowest across industries.
- Roughly 47% of firms reduced headcount over the past 12 months at an average rate of 14%. Around 40% of firms plan further cuts over the next year at an average rate of 7.3%.

## • **Services / Consulting** (Sample size = 48; YTD Total Shareholder Returns\*: Services/Consulting = -39%)

- Normally middle-of-the-pack regarding the U.S. economy, optimism this quarter fell more sharply than for any other industry and is now third lowest overall. Own-company optimism has been significantly above average the last three quarters but fell sharply this quarter and is now slightly above the average.
- Year-over-year earnings are projected to rise nearly 5.5% on the whole, but to decline 4.3% for the public firms. Capital spending is projected to decline nearly 7% and marketing/advertising spending by nearly 3%. Technology spending is projected to rise around 1.5%.
- External concerns changed relatively little this quarter. Consumer demand ranks first with 60% of firms naming it in their top three and 40% naming it their top concern. Credit market/interest concerns are second, roughly at the cross-industry average. Concerns about the administration and Congress are third and are above average with more than half of firms naming it in their top three and 20% naming it their top concern.
- As is typical within this industry, no internal concerns are particularly dominant. Maintaining morale/productivity and forecasting results are again the top concerns with 54% and 46% of firms placing it in their top three, respectively. Working capital<sup>1</sup> concerns are third at 42%.
- Roughly 60% of firms cut jobs over the past 12 months at an average rate of 11.6%. Around 45% of firms plan further cuts over the next year at an average rate of 9.4%.

## • **Healthcare / Pharmaceutical** (Sample size = 40; YTD Total Shareholder Returns\*: Healthcare = -34%; Pharmaceuticals = -16%)

- Optimism regarding the U.S. economy has been close to the cross-industry average for the past five quarters but jumped substantially this quarter, posting the largest gain and the highest optimism across industries. Own-company optimism has been above average for the past four quarters and rose markedly this quarter leaving this industry with the highest optimism overall. In spite of this gain, own-company optimism is lower than in all previous quarters except 4Q08.
- Year-over-year earnings are projected to rise 2.2% overall and more than 7% for the public firms. Capital spending is projected to decline 10%, marketing/advertising spending by 5.5% and technology spending by 4.3%.
- Concerns about the administration and Congress skyrocketed this quarter to take over the top spot. More than three fourths of firms rated this concern in their top three, and nearly 38% named it their top concern – much higher than for any other industry. Consumer demand is a distant second and is well below the cross-industry average. Credit market concerns are third and are lower for this industry than for any other.
- Perhaps due to its comparatively strong performance, there are no particularly dominant internal concerns for this industry. Working capital<sup>1</sup> is the top concern with 52% of firms naming it in their top three and 20% naming it their top concern. Managing IT systems and maintaining morale/productivity are next with 40% and 38% of firms placing it in their top three, respectively. Forecasting results, the dominant internal concern across industries, comes in sixth. This appears consistent with the relative optimism of this industry.
- A comparatively low 38% of firms reduced their workforces over the past 12 months at an average rate of 10.5%. Roughly one third of firms plan to make cuts in the next year, at an average rate of 9.3%.

\* Means, as of 2/26/09. Please see appendix for information about the performance indexes.

<sup>1</sup> Working capital management is a new category for 1Q09.

# Survey Highlights – Topic Insights (1 of 2)

## • U.S. Economic Outlook

### – Optimism Index:

- More than two thirds of executives indicate they are less optimistic now than they were last quarter.
- Optimism has declined for three straight quarters with this quarter's index falling from 41.8 to 39.9 – the lowest level on record. The index was at 65.0 eight quarters ago and at 51.8 four quarters ago. Since the 4Q08 meltdown the index has fallen nearly 14 points.
- Seven of the nine industries are more pessimistic around the U.S. economy this quarter than last quarter (the exceptions being the financial services and healthcare/pharmaceutical sectors). The most pessimistic industries are mining/construction and communications/media, both of which dropped sharply this quarter. The biggest changes in optimism are within services/consulting (5.3 point decline) and healthcare/pharma (3.8 point increase).

### – Economic Recovery:

- Last quarter, 60% of executives believed the economy would begin recovery by the end of 2009; only 35% are that optimistic now.
- The vast majority of respondents (nearly 70%) currently believe recovery will begin in the first half of 2010 or earlier, and nearly 90% project commencement before 2011.
- Two of the industries with the most optimistic 2009 earnings estimates are considerably more optimistic about the timing of the economic recovery. Forty-five percent of transportation/energy and healthcare/pharma companies expect a 2009 recovery, with only 14% and 25% believing recovery will start after the middle of 2010, respectively.
- Mining/construction, communications/media and tech/software/biotech companies are more pessimistic with only 30% expecting a 2009 recovery and more than a third of them projecting mid 2010 or later. Nearly one third of communications/media companies (the industry with the lowest representation in the survey at just 10) don't expect recovery to begin until at least 2011.

## • Own-Company Outlook

### – Own-Company Optimism:

- Own-company optimism hit its new low this quarter falling to 53.4 from 54.7 (63.2 two quarters ago). The index was at 70 eight quarters ago and 63 four quarters ago. It has fallen nearly 10 points since the credit crunch escalated in the third quarter of 2008.
- Communications/media is the only industry whose own-company optimism is below their U.S economy optimism. Manufacturing is second-most pessimistic, with a strong index decline this quarter. Transportation/energy and services/consulting both had notable 5 point declines this quarter.

### – Earnings Outlook:

- Year-over-year earnings projections have worsened from a 10.2% drop last quarter to a 13.5% decline this quarter. Public firms appear to be struggling more than private, projecting a 20% earnings decline year-over-year.
- The manufacturing and retail/wholesale sectors were the most pessimistic with 23% and 19% declines, respectively. Healthcare/pharma projected a 2.2% earnings increase, and services/consulting projected a 5.5% increase.

### – Hiring/Employment:

- More than 50% of firms have frozen hiring, and 60% will do so going forward.
- Nearly 60% of companies have already reduced headcount and more than half will do so again within the next 12 months. 70% or more of manufacturing, communications/media and tech/software/biotech companies made cuts, versus less than 40% of healthcare/pharmaceutical companies.
- Those who cut jobs let go an average of 13% of their workforces in the last 12 months. The rate was a whopping 28% for mining/construction companies and less than 9% for transportation/energy and communications/media. Those who will make cuts next year anticipate 8% reductions.

### Economy Optimism vs. Own-Company Optimism

The optimism index for the U.S. economy has historically been below the own-company index with the spread running between 4 and 13 points over the past two years. This quarter's spread reached 13.5 after the economy index fell 1.9 points and the company index declined a more modest 1.3 points. This result is consistent with the historically higher volatility of the economy index. This quarter is a bit unusual, however, in that own-company optimism fell faster than economy optimism within five of the nine industries.

# Survey Highlights – Topic Insights (2 of 2.)

## – M&A Outlook:

- 29% of firms plan to make acquisitions this year, and 14% of respondents plan to sell all or part of their companies. Tech/software/biotech firms (60% buying and 26% selling) and communications/media firms (40% buying and 30% selling) are particularly active on both fronts. Financial services firms are among the most likely to sell and are the least likely to acquire.

## – Credit Crisis:

- 54% of companies are at least somewhat affected by the credit crisis with the primary difficulty being decreased credit availability.
- Services/consulting has the highest percentage of firms indicating no effect; banking/finance/insurance the highest percentage of firms indicating strong effects.
- 74% of companies utilize credit lines, with levels averaging 23% of assets – the same as a year ago.
- Approximately 32% of companies' funding over the past six months has come from these credit lines (behind cash from profits and retained earnings at 61%), and these credit lines have been drawn down an average of 38%.

## • Top concerns

### – External:

- Consumer demand again dominates external concerns, with over 68% of respondents naming it in their top three (71% last quarter) and 43% naming it as their top concern (44% last quarter). It is the top concern for six of the nine industries, and is highly dominant in the retail/wholesale, manufacturing and communications/media industries.
- Credit markets/interest rate worries repeat as the second most pressing external concern with 64% naming it in their top three (versus 66% last quarter). It was in the top three for all nine industries and was the top concern for mining/construction and banking/finance/insurance.
- Concerns around the new administration and Congress rose substantially this quarter, with 44% of respondents (and eight of nine industries) naming it in their top three concerns. The healthcare/pharmaceutical sector named it their top concern, far ahead of any other. Of all sectors, communications/media had the lowest concerns in this area.
- Housing market fallout and concerns fell to fourth this quarter with 32% naming it in their top three. Concerns around the costs of fuel and non-fuel commodities, substantial in the third quarter of 2008 but weak in the fourth, remained mild this quarter.

### – Internal:

- The ability to forecast results was again the dominant internal concern with 58% of respondents naming it in their top three (66% last quarter), and nearly 30% naming it their top concern (33% last quarter). It was the top concern for five of the nine industries.
- Working capital management, a new addition for the 1Q09 survey, is the second highest concern this quarter with 52% of respondents (and seven of nine industries) naming it in their top three. It was the top concern for 21% of respondents and three industries. ***This heavy importance is remarkable in light of the fact that one of respondents' other options, balance sheet weakness, contains significant topical overlaps that make it compete with this concern for votes. Balance sheet weakness was still a top concern, indicating a strong shift in attention toward balance sheet and liquidity issues.***
- Maintaining morale and productivity during the downturn is the third highest concern this quarter with 52% naming it in their top three. Only 13% named it their top concern, but it was in the top three for eight of the nine industries and was the top concern in services/consulting.

# Survey Highlights – Strategic Focus\*

- **Strategic focus highest for revenue growth across all industries**

- Revenue growth was the dominant focus for all industries with 44.2% focus overall.
- The heavy focus on revenues is consistent with "consumer demand" being the dominant external concern.
- Margins were second with 32.2%, split between direct costs (17.4%) and overhead costs (14.8%).
- While employee attraction/retention was the top internal concern, capability development received only 10.8% of strategic focus.
- The survey results for this question will come into better perspective as we measure strategic focus over time.

- **Company size correlated with strategic focus**

- The smallest three classes of companies (less than \$500 million) had the heaviest focus on revenues/growth.
- The largest three classes of companies (more than \$1 billion) had the heaviest focus on costs and on asset efficiency.

- **Ownership type correlated with strategic focus**

- NYSE, government and nonprofit enterprises tended to have the highest focus on costs.
- NYSE, and nonprofit enterprises tended to have the highest focus on asset efficiency; government had the lowest focus on asset efficiency.
- NASDAQ and private companies tended to have the highest focus on growth and lowest focus on costs.
- Government, private and nonprofit enterprises tended to have the highest focus on capability development – considerably higher than that of public companies.

\* The findings on this page are carried over from the 3<sup>rd</sup> quarter of 2008, as are the charts relating to strategic focus in the "charts/analysis" section. The question regarding companies' strategic focus will be asked yearly, but the results will be included in all quarterly reports to provide consistent context and insight.

# Charts / Analysis

Please see [www.cfosurvey.org](http://www.cfosurvey.org) for survey source data and further analysis

# Industry Performance

## Industry Total Shareholder Returns

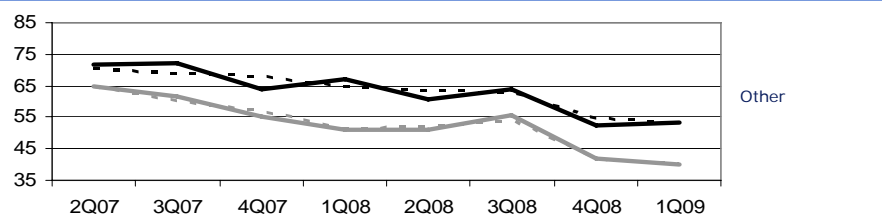
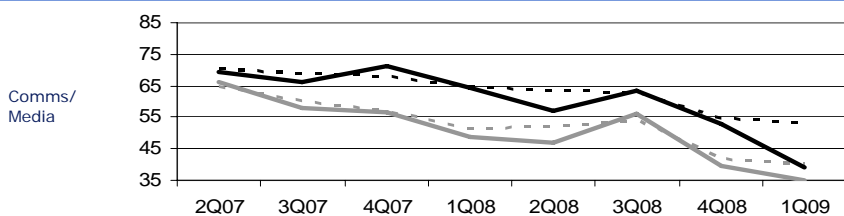
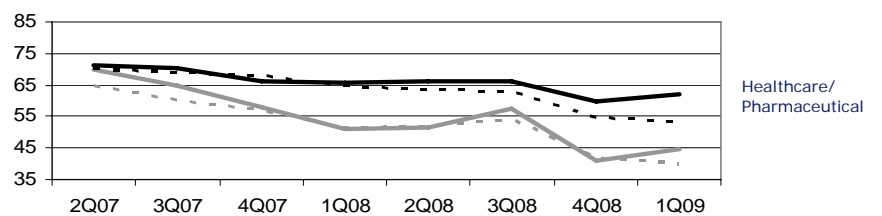
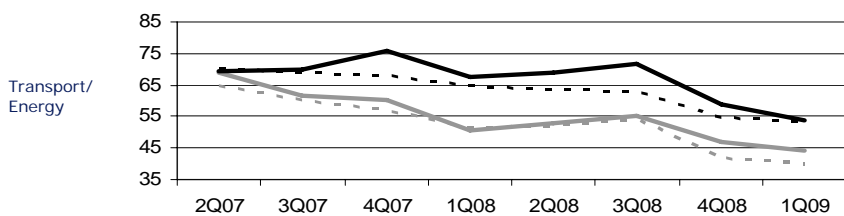
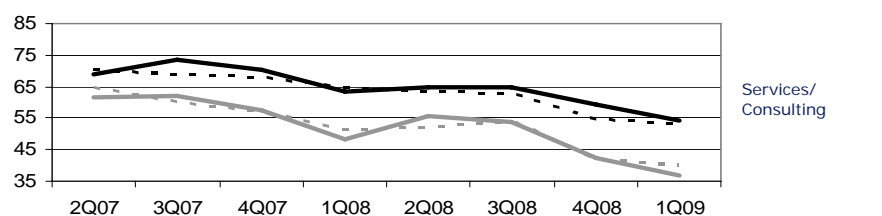
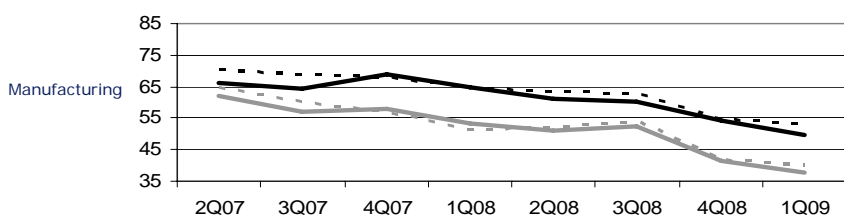
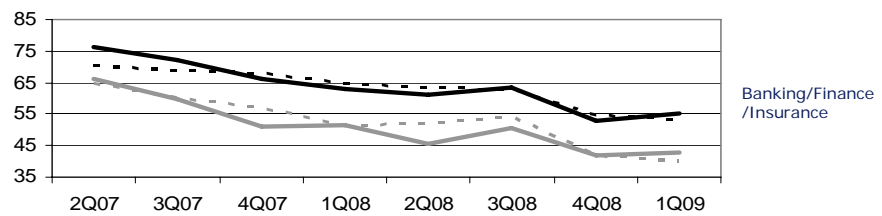
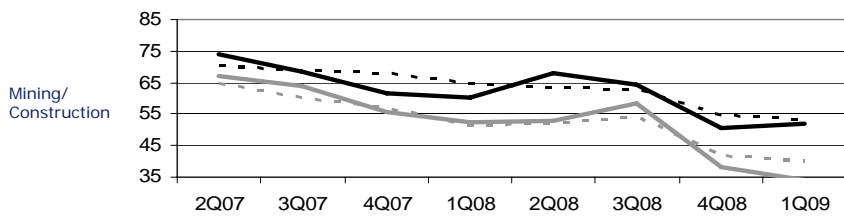
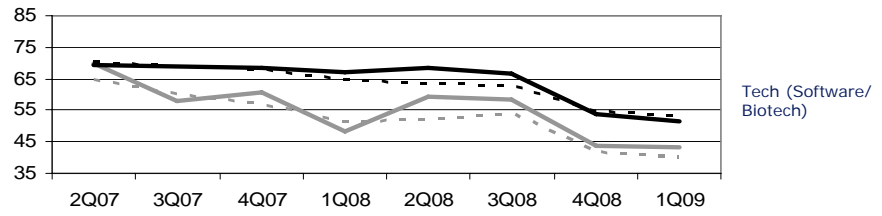
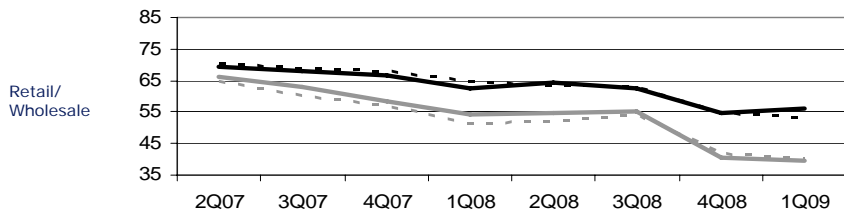
(as of February 26, 2009)

<u>Survey Industries</u>	<u>Corresponding Indexes</u>	YTD		3 Year	
		<u>Mean</u>	<u>Median</u>	<u>Mean</u>	<u>Median</u>
Retail/Wholesale	<i>Consumer Services</i>	-29%	-31%	-5%	-7%
	<i>Consumer Goods</i>	-31%	-30%	-6%	-5%
Mining/Construction	<i>Mining</i>	-55%	-62%	-15%	-9%
	<i>Construction</i>	-40%	-41%	-26%	-24%
Manufacturing	<i>Manufacturing</i>	-52%	-52%	-13%	-12%
Transportation/Energy	<i>Transportation</i>	-35%	-36%	-17%	-12%
	<i>Energy</i>	-46%	-49%	-6%	-7%
	<i>Utilities</i>	-36%	-34%	-5%	-3%
Communications/Media	<i>Telecommunications</i>	-41%	-40%	-11%	-8%
	<i>Media</i>	-58%	-59%	-28%	-27%
Tech/Software/Biotech	<i>Hardware</i>	-44%	-43%	-13%	-11%
	<i>Software</i>	-41%	-44%	-11%	-11%
	<i>Biotech</i>	-13%	-13%	2%	0%
Banking/Finance/Insurance	<i>Banking/Finance/Insurance</i>	-49%	-50%	-21%	-19%
Services/Consulting	<i>Services/Consulting</i>	-39%	-39%	-10%	-11%
Healthcare/Pharmaceuticals	<i>Healthcare</i>	-34%	-35%	-9%	-7%
	<i>Pharmaceuticals</i>	-16%	-32%	-5%	-7%

Source: Analysis of Deloitte-defined indexes. Component companies are publicly-traded, US-based companies with market capitalizations of approximately \$500m or more. Note that the indexes are NOT restricted to survey participants, many of whom are not publicly traded.

# Optimism – Industry Level

Black lines = Own company  
 Gray lines = U.S. economy  
 Dotted lines = Cross-industry averages (static for all graphs)  
 Solid lines = Industry-specific



# External Concerns (By Industry)

## Actual Question Asked:

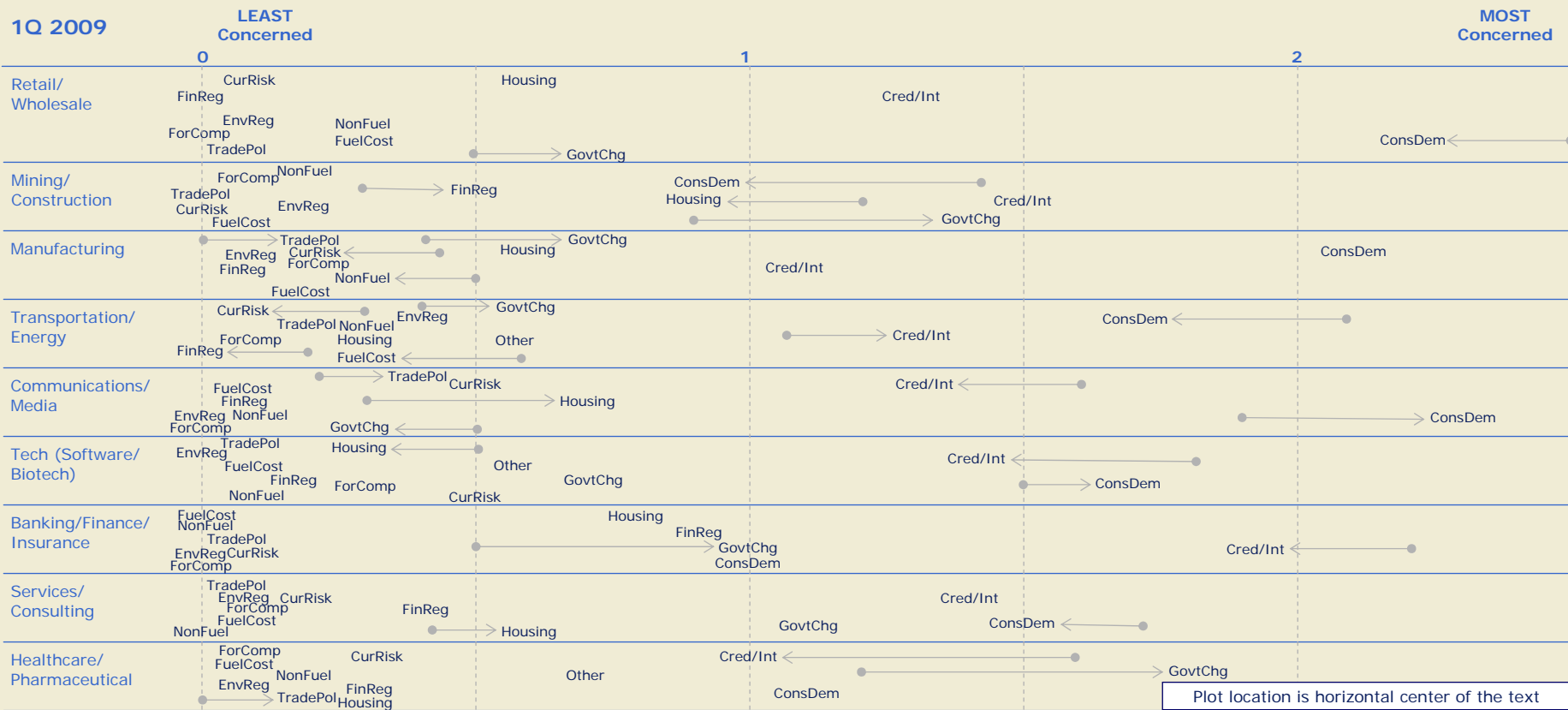
What are the top three EXTERNAL concerns facing your corporation?

- Consumer demand (**ConsDem**)
- Credit markets / Interest rates (**Cred/Int**)
- Cost of fuel (**FuelCost**)
- Cost of non-fuel commodities (**NonFuel**)
- Housing market fallout (**Housing**)
- New administration/Congress (**GovtChg**)
- Currency Risk (**CurRisk**)
- Financial regulation (**FinReg**)
- Other (**Other**)<sup>2</sup>
- Foreign competition (**ForComp**)
- Environmental regulation (**EnvReg**)
- Trade policies and trade agreements (**TradePol**)

	Current	Previous
Mean = 1.7	Mean = 1.8	
Mean = 1.3	Mean = 1.4	
Mean = 0.2	Mean = 0.2	
Mean = 0.2	Mean = 0.2	
Mean = 0.6	Mean = 0.6	
Mean = 0.9	Mean = 0.6	
Mean = 0.2	Mean = 0.3 <sup>1</sup>	
Mean = 0.3	Mean = 0.3	
Mean = 0.3	Mean = 0.3	
Mean = 0.1	Mean = 0.1	
Mean = 0.1	Mean = 0.1	
Mean = 0.1	Mean = 0.0	

<sup>1</sup> Wording for the 4Q08 survey was "Volatility of the dollar"  
<sup>2</sup> "Other" only noted on chart if it was material (only on Tech (Software/Biotech), Transportation/Energy and Healthcare/Pharmaceutical)

Reverse Scale, Weighted by Number of Respondents (Higher number = greater weighted importance)



Data provided by Duke University/CFO Magazine Global Business Outlook Survey, 1st Quarter, 2009. Analysis framework provided by Deloitte.

# Internal Concerns (By Industry)

## Actual Question Asked:

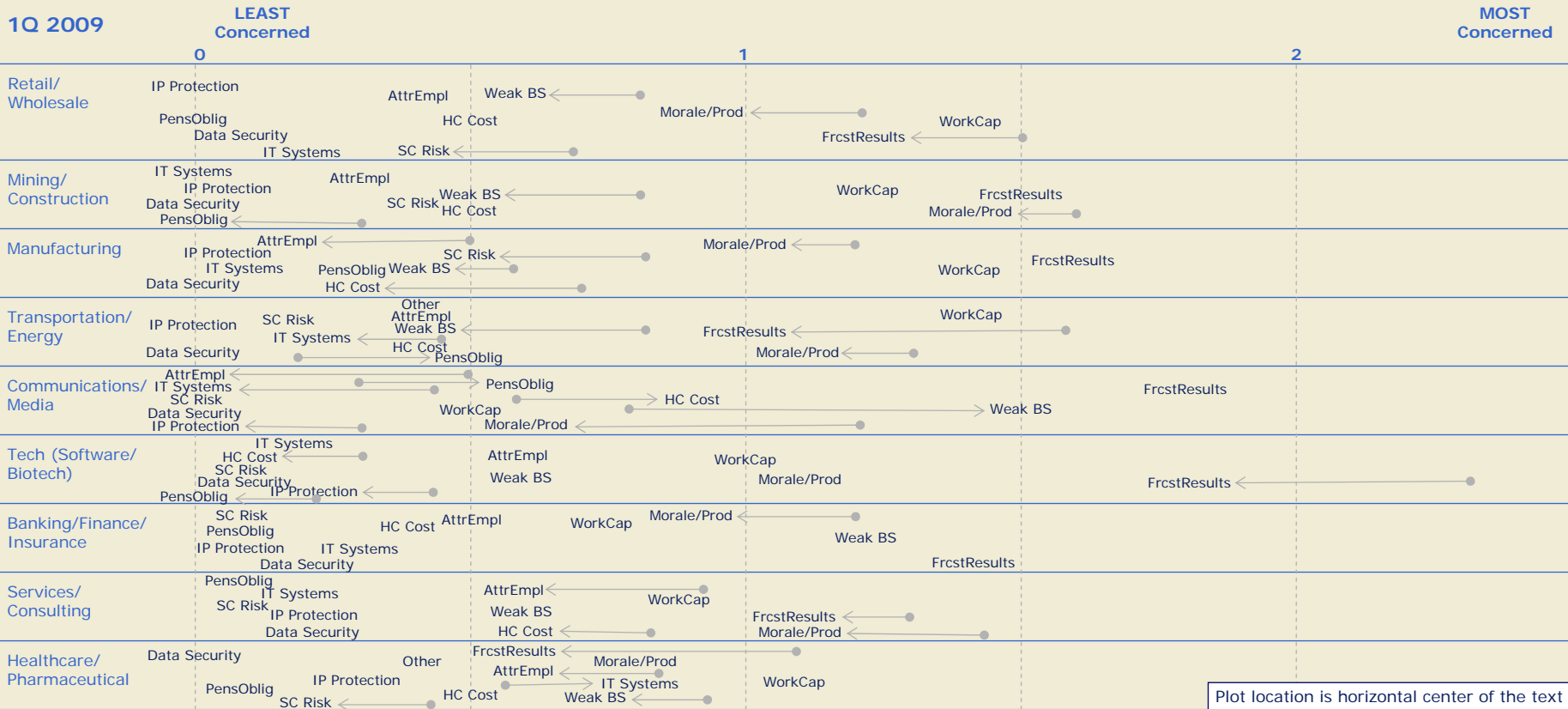
What are the top three INTERNAL concerns facing your corporation?

	Current	Previous
- Attracting and retaining qualified employees ( <b>AttrEmpl</b> )	Mean = 0.4	Mean = 0.5
- Ability to forecast results ( <b>FrcstResults</b> )	Mean = 1.3	Mean = 1.5
- Cost of health care ( <b>HC Cost</b> )	Mean = 0.4	Mean = 0.6
- Supply Chain risk ( <b>SC Risk</b> )	Mean = 0.3	Mean = 0.4
- Managing IT systems ( <b>IT Systems</b> )	Mean = 0.2	Mean = 0.3
- Balance sheet weakness ( <b>Weak BS</b> )	Mean = 0.7	Mean = 0.8
- Other ( <b>Other</b> ) <sup>1</sup>	Mean = 0.2	Mean = 0.3
- Maintaining morale/productivity in downturn ( <b>Morale/Prod</b> )	Mean = 1.0	Mean = 1.2
- Pension Obligations ( <b>PensOblig</b> )	Mean = 0.2	Mean = 0.2
- Protection of intellectual property ( <b>IP Protection</b> )	Mean = 0.1	Mean = 0.1
- Data security ( <b>Data Security</b> )	Mean = 0.1	Mean = 0.1
- Working capital management <sup>2</sup> ( <b>WorkCap</b> )	Mean = 1.1	NA - New

Reverse Scale, Weighted by Number of Respondents (Higher number = greater weighted importance)

<sup>1</sup> "Other" noted on charts only if material

<sup>2</sup> Working capital is a new category for 1Q09

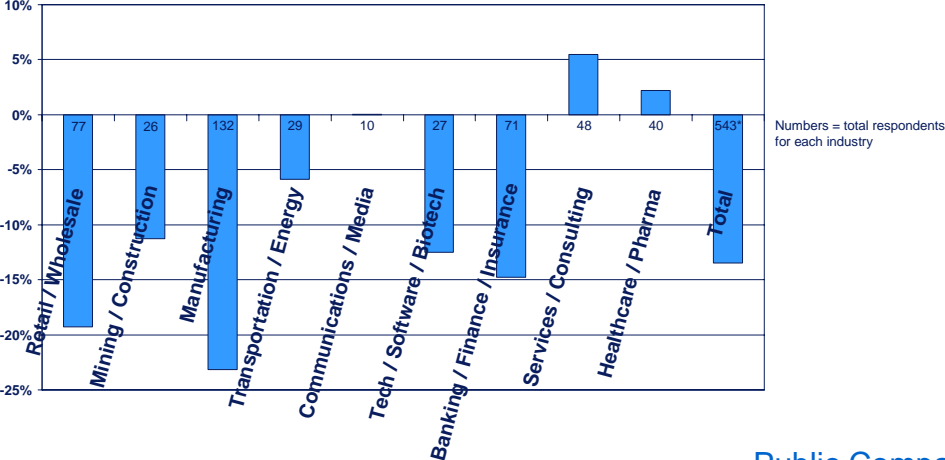


Data provided by Duke University/CFO Magazine Global Business Outlook Survey, 1st Quarter, 2009. Analysis framework provided by Deloitte.

# Projected Earnings

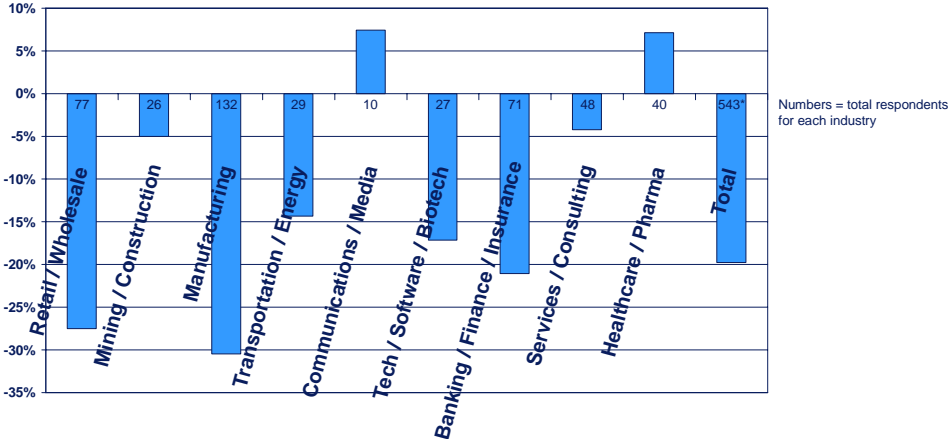
Relative to the previous 12 months, what will be your company's PERCENTAGE CHANGE during the next 12 months?

## Public and Private Companies



Numbers = total respondents for each industry

## Public Companies Only



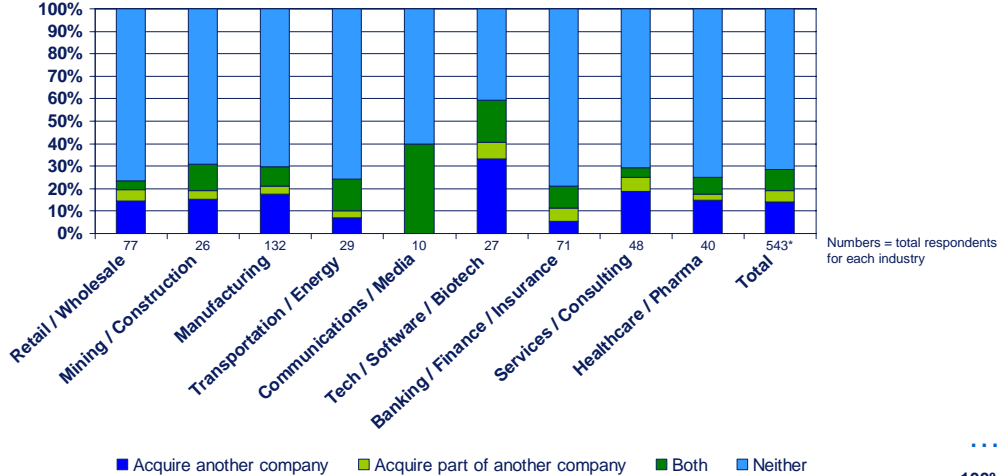
Numbers = total respondents for each industry

\*Data and Calculation Notes:  
 • All results Winsorized and revenue weighted.  
 • Totals (N) include answers provided by companies not specifying an industry and by those specifying "other"

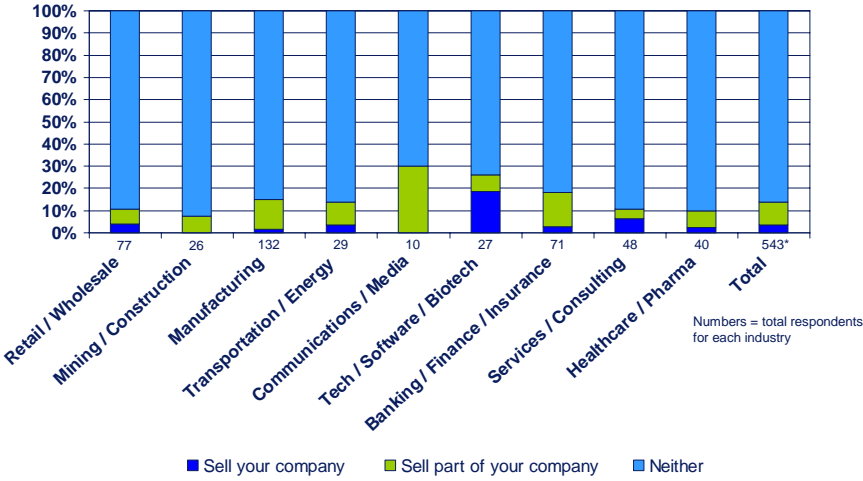
# Merger and Acquisition Plans

During 2009, does your company plan to...

...acquire all or part of another company?



...sell all or part of your company?

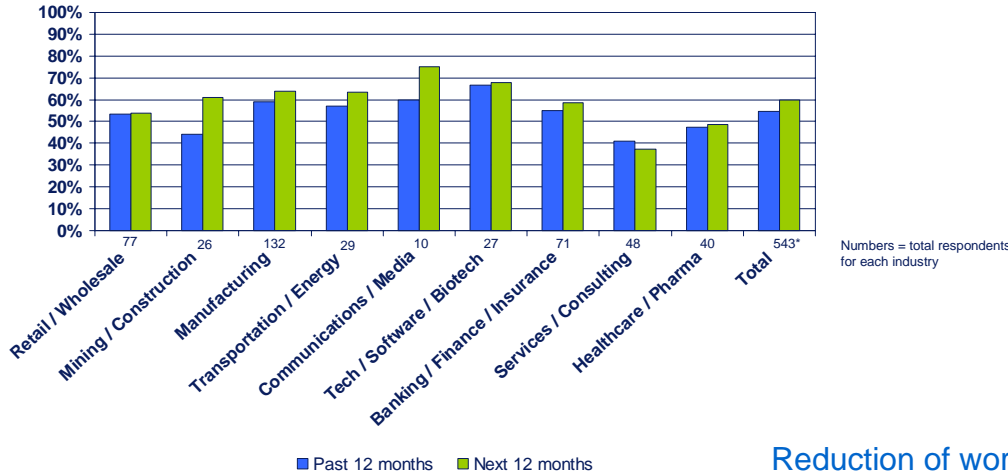


\*Data and Calculation Notes:  
 • Totals (N) include answers provided by companies not specifying an industry and by those specifying "other"

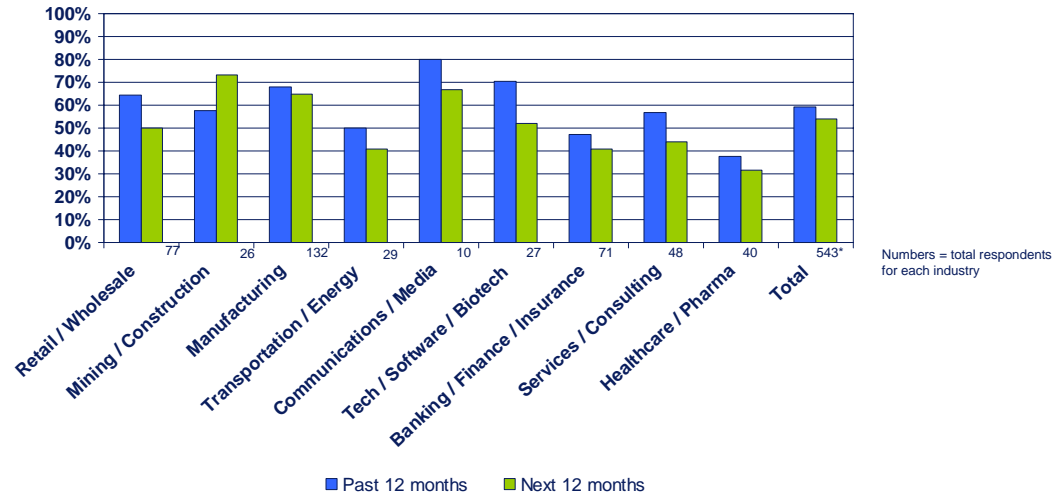
# Payroll Tactics

What payroll actions has your company taken or are you planning to take in response to the recession?

## Hiring freeze



## Reduction of workforce



**\*Data and Calculation Notes:**

- Totals (N) include answers provided by companies not specifying an industry and by those specifying "other"

# Strategic Focus for 2009

## (Results by Industry)

Note: The findings on this page are carried over from the 3rd quarter of 2008, as are the charts relating to strategic focus in the "charts/analysis" section. The question regarding companies' strategic focus will be asked yearly, but the results will be included in all quarterly reports to provide consistent context and insight.

**Actual Question Asked:**  
**What is your company's strategic focus for 2009?**  
 To answer this question, distribute 100 points among the various choices. For example, if half of your strategic focus is revenue growth, enter 50 in the top box and distribute the remaining 50 points to reflect the relative importance of the other categories. (should add to 100)

### Shareholder Value



3Q 2008		Revenue Growth		Direct Cost Reduction		Overhead Cost Reduction		Asset Efficiency		Expectations	
Industry	Count (%)	Value (%)	SD SE	Value (%)	SD SE	Value (%)	SD SE	Value (%)	SD SE	Value (%)	SD SE
<b>Totals</b>	524 (100%)	44.2%	20.3 / 0.9	17.4%	12.8 / 0.6	32.2%	14.8%	10.9%	11.5 / 0.5	10.8%	11.6 / 0.5
Retail/ Wholesale	63 (12.2%)	49.9%	16.9 / 2.1	15.6%	10.0 / 1.3	28.2%	12.6%	13.3%	13.7 / 1.7	7.9%	9.4 / 1.2
Mining/ Construction	26 (5.0%)	44.3%	22.1 / 4.4	15.5%	9.9 / 2.0	30.1%	14.6%	10.3%	10.9 / 2.2	14.5%	16.9 / 3.4
Manufacturing	139 (26.8%)	39.2%	18.6 / 1.6	20.3%	12.2 / 1.0	34.3%	14.0%	14.8%	12.9 / 1.1	10.3%	10.0 / 0.9
Transportation/ Energy	21 (4.1%)	46.4%	24.2 / 5.3	19.3%	14.5 / 3.2	31.9%	12.6%	12.4%	12.3 / 2.7	9.3%	12.5 / 2.7
Communications /Media	18 (3.5%)	45.6%	18.9 / 4.6	21.8%	16.2 / 3.9	40.3%	18.5%	7.8%	8.4 / 2.0	5.7%	7.2 / 1.7
Tech (Software/ Biotech)	22 (4.2%)	47.7%	19.4 / 4.1	16.1%	16.2 / 3.4	32.5%	16.4%	6.3%	14.0 / 3.0	12.1%	10.8 / 2.3
Banking/Finance /Insurance	88 (17.0%)	45.6%	23.7 / 2.6	16.2%	11.9 / 1.3	31.8%	15.6%	7.9%	13.0 / 1.4	10.7%	10.9 / 1.2
Services/ Consulting	41 (7.9%)	55.2%	18.4 / 2.9	13.0%	9.7 / 1.5	28.5%	15.5%	4.6%	8.6 / 1.3	10.3%	11.6 / 1.6
Healthcare/ Pharmaceutical	43 (8.3%)	42.2%	17.8 / 2.7	18.0%	15.2 / 2.3	32.7%	14.7%	9.9%	16.5 / 2.5	14.3%	13.5 / 2.1
Other	57 (11.0%)	40.1%	19.3 / 2.6	15.3%	13.0 / 1.7	32.3%	17.0%	11.8%	14.1 / 1.9	12.1%	13.7 / 1.8

Data provided by Duke University/CFO Magazine Global Business Outlook Survey, 3rd Quarter, 2008. Analysis framework provided by Deloitte.

# Strategic Focus for 2009

## (Results by Company Revenues)

Note: The findings on this page are carried over from the 3rd quarter of 2008, as are the charts relating to strategic focus in the "charts/analysis" section. The question regarding companies' strategic focus will be asked yearly, but the results will be included in all quarterly reports to provide consistent context and insight.

**Actual Question Asked:**  
**What is your company's strategic focus for 2009?**  
 To answer this question, distribute 100 points among the various choices. For example, if half of your strategic focus is revenue growth, enter 50 in the top box and distribute the remaining 50 points to reflect the relative importance of the other categories. (should add to 100)

### Shareholder Value

#### Revenue Growth

Pursue new customers, increase business with existing customers, etc.

#### Operating Margin (after taxes)

##### Direct Cost Reduction

Improve cost efficiency of sourcing, manufacturing, distribution, service delivery, etc.

##### Overhead Cost Reduction

Improve efficiency of shared services, SG&A

#### Asset Efficiency

Improve management of inventory, PP&E, receivables/payables, etc.

#### Expectations

##### Capability Development

Improve long-term performance by strengthening managerial and operational capabilities

3Q 2008

		Revenue Growth		Direct Cost Reduction		Overhead Cost Reduction		Asset Efficiency		Expectations	
		Percentage	SD SE	Percentage	SD SE	Percentage	SD SE	Percentage	SD SE	Percentage	SD SE
<b>Totals</b>	524 100%	44.2%	20.3 0.9	17.4%	12.8 0.6	32.2%	14.8%	10.9%	11.5 0.5	10.8%	11.6 0.5
Less than \$25 million	35 6.8%	① 54.6%	21.8 3.7	14.7%	13.1 2.2	25.9%	11.2%	8.8%	9.1 1.5	8.8%	8.9 1.5
\$25-99 million	125 24.1%	② 47.0%	19.4 1.7	15.8%	11.9 1.1	29.3%	13.5%	10.8%	11.5 1.0	② 11.9%	11.1 1.0
\$100-499 million	160 30.9%	③ 46.0%	20.3 1.6	17.2%	11.6 0.9	32.3%	15.1%	9.8%	10.4 0.8	10.7%	12.1 1.0
\$500-999 million	45 8.7%	44.3%	18.8 2.8	16.4%	13.5 2.0	31.2%	14.8%	11.0%	11.8 1.8	① 12.1%	12.7 1.9
\$1-4.9 billion	80 15.4%	41.9%	19.7 2.2	19.2%	14.8 1.7	33.3%	14.1%	② 12.7%	12.5 1.4	9.2%	10.3 1.1
\$5-9.9 billion	26 5.0%	32.9%	16.6 3.4	19.0%	14.0 2.9	42.1%	23.1%	③ 12.3%	14.6 3.0	③ 11.5%	17.2 3.5
More than \$10 billion	47 9.1%	32.4%	18.3 2.7	20.7%	10.4 1.5	38.1%	17.4%	① 13.7%	12.4 1.8	10.4%	10.1 1.5

Data provided by Duke University/CFO Magazine Global Business Outlook Survey, 3rd Quarter, 2008. Analysis framework provided by Deloitte.

# Strategic Focus for 2009

## (Results by Ownership)

Note: The findings on this page are carried over from the 3rd quarter of 2008, as are the charts relating to strategic focus in the "charts/analysis" section. The question regarding companies' strategic focus will be asked yearly, but the results will be included in all quarterly reports to provide consistent context and insight.

**Actual Question Asked:**  
**What is your company's strategic focus for 2009?**  
 To answer this question, distribute 100 points among the various choices. For example, if half of your strategic focus is revenue growth, enter 50 in the top box and distribute the remaining 50 points to reflect the relative importance of the other categories. (should add to 100)

### Shareholder Value

#### Revenue Growth

Pursue new customers, increase business with existing customers, etc.

#### Operating Margin (after taxes)

##### Direct Cost Reduction

Improve cost efficiency of sourcing, manufacturing, distribution, service delivery, etc.

##### Overhead Cost Reduction

Improve efficiency of shared services, SG&A

#### Asset Efficiency

Improve management of inventory, PP&E, receivables/payables, etc.

#### Expectations

##### Capability Development

Improve long-term performance by strengthening managerial and operational capabilities

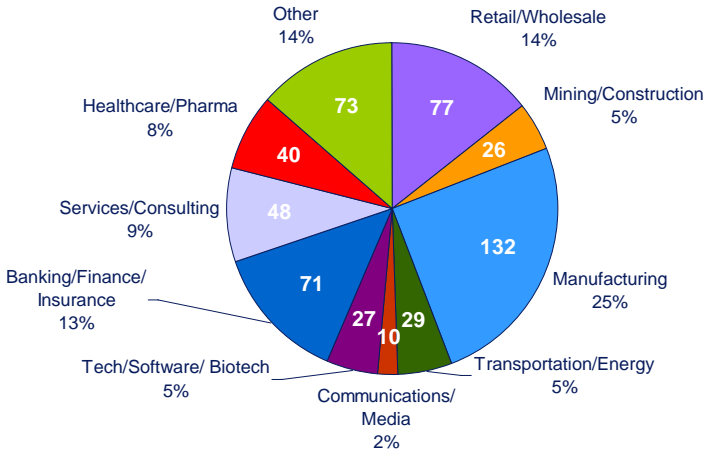
3Q 2008

		Revenue Growth		Operating Margin (after taxes)		Asset Efficiency		Expectations				
		Percentage	SD SE	Percentage	SD SE	Percentage	SD SE	Percentage	SD SE			
<b>Totals</b>	524 100%	44.2%	20.3 0.9	12.8 0.6	17.4%	32.2%	14.8%	12.2 0.5	10.9%	11.5 0.5	10.8%	11.6 0.5
Public, NYSE	110 23.1%	40.7%	20.6 2.0	13.5 1.3	19.5%	37.0%	17.5%	12.8 1.2	10.9%	11.9 1.2	8.8%	10.1 1.0
Public, Nasdaq/AMEX	43 9.0%	52.1%	19.1 2.9	17.1 2.6	15.9%	28.9%	13.0%	10.3 1.6	6.6%	7.0 1.1	10.0%	9.6 1.5
Private	288 60.4%	44.9%	20.4 1.2	11.6 0.7	16.5%	30.5%	14.0%	11.7 0.7	11.8%	11.9 0.7	11.3%	11.9 0.7
Government	7 1.5%	30.8%	22.5 9.2	28.4 11.6	21.7%	35.9%	14.2%	6.6 2.7	7.5%	9.4 3.8	25.8%	28.5 11.6
Nonprofit	29 6.1%	41.2%	19.8 3.7	12.9 2.4	19.1%	36.3%	17.2%	18.4 3.4	8.6%	9.3 1.7	13.1%	12.4 2.3

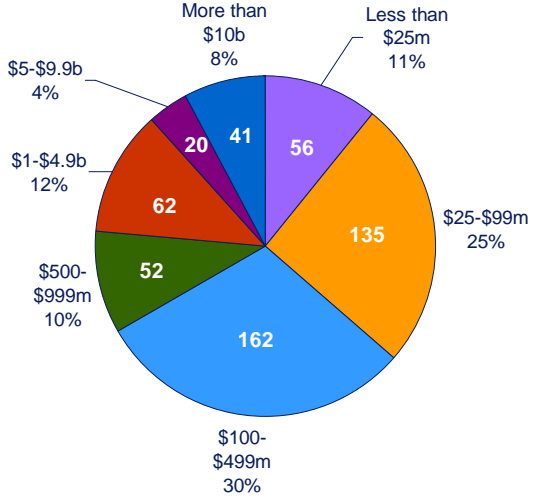
Data provided by Duke University/CFO Magazine Global Business Outlook Survey, 3rd Quarter, 2008. Analysis framework provided by Deloitte.

# Respondent Demographics

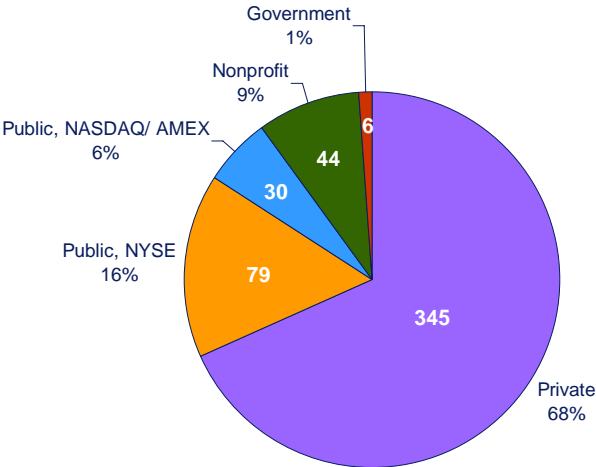
## Industry



## Sales Revenue



## Ownership



# Contacts

- Duke University / CFO Survey:
  - John Graham ([john.graham@duke.edu](mailto:john.graham@duke.edu))
- Deloitte Value Initiative:
  - Greg Dickinson ([gdickinson@deloitte.com](mailto:gdickinson@deloitte.com))
  - Baisali Sarkar ([bsarkar@deloitte.com](mailto:bsarkar@deloitte.com))

# Deloitte.

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