BDO’s latest survey research shows finance leaders at middle market organizations feel optimistic about their growth prospects in the year ahead but recognize success will require adaptation and agility.

Two years into the pandemic, speculation about when it will end is just that: speculation. Each month brings new findings that impact how businesses operate. A baseline of normalcy has yet to be reestablished. While the economy is recovering, that recovery is uneven and highly correlated with company size and sector. Looking across all sectors, only 38% of businesses are currently experiencing strong growth, according to this year’s BDO Middle Market CFO Outlook Survey.

That’s significantly lower than predicted: 62% of CFOs polled in our 2021 survey believed their business would be thriving by this time. But with the sole exception of the healthcare sector, less than half of respondents in every industry described their business as thriving currently. Every industry — including healthcare — underperformed relative to last year’s expectations.
Despite these headwinds, the middle market is primed for growth. Two-thirds (66%) of CFOs in our survey anticipate their business will be thriving one year from now. And while COVID-19 remains on CFOs’ radars as a significant business threat, it is no longer foremost in their minds. Survey results indicate that supply chain disruption is now seen as the greater risk — serving as a powerful reminder that the case for resilience does not end with the COVID crisis.
However, the rise of other pressing issues beyond COVID-19 does not point to a return to way things were. The rapid transitions made in the way we work and how we live may not change back — and that isn't necessarily bad. New priorities are in play for businesses and their stakeholders alike. Profit no longer has primacy over purpose. Impact has earned a seat at the table next to innovation and agility as critical determinants of success in the post-pandemic era. In the year ahead, the most ambitious companies will accelerate out of recovery with a more inclusive and sustainable growth strategy.
The next ten years will be driven by a mindset of sustainability and stewardship that prioritizes the needs of all stakeholders while accelerating digital innovation to create lasting business value. We might not yet know what obstacles lie in our path, but if a higher purpose is our north star, we know a brighter, more prosperous future is ahead — for our businesses, our people, the communities we serve and the planet we share.

WAYNE BERSON
Chief Executive Officer, BDO USA

The BDO Middle Market CFO Outlook Survey is an annual poll of U.S. CFOs at organizations with between $100M and $3B in annual revenue. This year’s survey polled 600 CFOs across six industries.

CLICK ON THE ICONS BELOW TO VIEW THE FINDINGS BY INDUSTRY

- ENERGY
- MANUFACTURING
- HEALTHCARE
- RETAIL
- LIFE SCIENCES
- TECHNOLOGY
The Rise of Responsible Business

Growth ambitions for 2022 are high, with the majority of CFOs in all industries except manufacturing anticipating revenue and profitability increases. However, while meeting financial targets is a top priority, respondents have a new lens on value creation that is changing the way they pursue growth: Nearly two-thirds (64%) of respondents believe implementing an Environmental, Social and Governance (ESG) program will improve their long-term financial performance.

FINANCIAL FORECASTS FOR THE NEXT 12 MONTHS

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue Increase</th>
<th>Profitability Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>66%</td>
<td>63%</td>
</tr>
<tr>
<td>Energy</td>
<td>65%</td>
<td>62%</td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
<td>73%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td></td>
<td>69%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>46%</td>
<td>48%</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td>77%</td>
</tr>
</tbody>
</table>

Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.

Business Roundtable Statement on the Purpose of a Corporation
Incorporating ESG into growth strategy is no longer optional. Support for sustainable development and stakeholder capitalism — the principle that businesses should serve the needs of all constituents — was already building before the pandemic, codified in 2019 by the Business Roundtable (BRT), an association representing chief executive officers at some of America’s largest companies. Nearly 200 CEOs signed on to the BRT’s Statement on the Purpose of a Corporation, pledging “to lead their companies for the benefit of all stakeholders — customers, employees, suppliers, communities and shareholders.”

COVID-19 has since served as a catalyst for stakeholder capitalism and sustainable business. It exposed cracks in the current economic system while shedding light on the role businesses can play in addressing them. Expectations of businesses have changed. In 2022, simply abiding by the rules is no longer good enough. Stakeholders of all kinds, including shareholders, want businesses to deliver social and environmental outcomes in addition to financial returns.

WHAT IS A SUSTAINABLE BUSINESS?

Sustainability prioritizes long-term stability over short-term financial reward — creating lasting value for all stakeholders and evaluating where their priorities intersect with the material economic, environmental and social issues of the underlying business. Sustainable enterprises aim to both mitigate risk and improve performance, while optimizing impact on the business, society and the planet.

Businesses that prioritize ESG underscore resilience — positioning themselves to adapt to changing environmental, societal, governing and market conditions combined with evolving regulation to generate greater value for all stakeholders.

64% believe implementing an ESG program will improve their long-term financial performance

36% will pursue a sustainability strategy this year
While most middle market businesses believe ESG will improve their long-term value creation potential, only about a third (36%) plan on pursuing a sustainability strategy this year. That isn’t to say the other 64% of respondents have no ESG initiatives in place; to the contrary, 99% have at least one stated ESG objective for 2022. ESG is certainly nothing new, but in the past several years it’s become a core tenet of major businesses. Now, it’s time for the middle market to catch up.

Improving brand reputation through external reporting is the most frequently cited ESG objective for 2022, indicating some CFOs still view ESG as primarily a public relations play. But that mentality is shifting: 41% of respondents are focused on creating value across the organization through their ESG initiatives. Other top goals include leveraging ESG as a workforce strategy and improving ESG ratings.

**ESG OBJECTIVES FOR 2022**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve brand reputation through external reporting</td>
<td>43%</td>
</tr>
<tr>
<td>Create value across the organization</td>
<td>41%</td>
</tr>
<tr>
<td>Attract and retain talent</td>
<td>39%</td>
</tr>
<tr>
<td>Improve ESG rating</td>
<td>38%</td>
</tr>
<tr>
<td>Address board and investor demands</td>
<td>36%</td>
</tr>
<tr>
<td>Mitigate risk</td>
<td>36%</td>
</tr>
<tr>
<td>Improve governance practices</td>
<td>35%</td>
</tr>
<tr>
<td>Improve access to capital</td>
<td>34%</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>31%</td>
</tr>
</tbody>
</table>
ESG is the future of business. Those who don’t embrace it will be left behind. For CFOs used to making decisions based on a traditional cost-benefit analysis, this transition will require a significant mindset shift and a new decision-making framework. Strategies to create long-term value may mean making upfront investments today that will result in greater cost optimization and better financial performance tomorrow. Philosophically, most of us understand the advantages of adopting these sustainable practices — and the consequences of failure to do so. But we need to recondition ourselves to think this way.

CHRISTOPHER TOWER
ESG Strategy & Services Leader
Empowering your People

Over the last two years, few stakeholders have gained more influence than employees. Between the tight labor market and historic turnover, America’s workers hold a significant amount of leverage — and they’re using it. Across industries, workers are asking for more engagement, higher pay, better benefits and more flexibility. In the current market, these requests are often fulfilled.

<table>
<thead>
<tr>
<th>TALENT SHORTAGE THREAT LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of risk posed to respondents’ businesses in 2022</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Moderate Risk</th>
<th>Minimal Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>41%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Never has the value of talent been clearer: There are currently more open positions than applicants in the United States, according to data from the U.S. Bureau of Labor Statistics. Research from The Wall Street Journal shows that since the onset of the pandemic, labor participation in low-paying service industries has dropped precipitously. Failure to fill roles fast enough, regardless of the experience level required, could result in unrealized output and revenue. With growth on the line, the talent shortage ranks second in frequency cited out of all business risks.
To close the talent gap, businesses need to balance recruiting new employees with stemming the tide of attrition. The survey suggests that CFOs recognize reducing turnover can’t take a backseat to hiring: Respondents express slightly more concern about retention of key employees than talent acquisition.

**TOP WORKFORCE CHALLENGES IN 2022**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retaining key talent</td>
<td>42%</td>
</tr>
<tr>
<td>Attracting new talent</td>
<td>39%</td>
</tr>
<tr>
<td>Managing a partially remote workforce</td>
<td>36%</td>
</tr>
<tr>
<td>Skilled labor gap</td>
<td>36%</td>
</tr>
<tr>
<td>Increasing labor costs</td>
<td>36%</td>
</tr>
<tr>
<td>Creating a more equitable &amp; inclusive culture</td>
<td>36%</td>
</tr>
<tr>
<td>Addressing employee health &amp; wellness needs</td>
<td>35%</td>
</tr>
<tr>
<td>Building the right leadership team</td>
<td>30%</td>
</tr>
<tr>
<td>Managing furloughs or layoffs</td>
<td>28%</td>
</tr>
<tr>
<td>Managing labor disputes</td>
<td>28%</td>
</tr>
</tbody>
</table>

Managing a workforce that is at least partially remote ranks — in a virtual five-way tie — third among CFOs' top workforce challenges, a response to the remote work revolution and talent migration away from urban hubs. Personal lifestyle decisions are now personnel decisions. As working from home becomes normalized, many businesses are embracing remote and hybrid work models. The alternative is an even smaller talent pool and the potential for more departures.

CFOs are also focused on creating a more equitable and inclusive company culture and addressing employee health and wellness needs, possibly as measures to aid in attracting and retaining talent. Such investments are also in line with a growing commitment to ESG.

Every CFO bar one has planned investments to address these and other workforce challenges this year. Chief among them are improving flexible workforce arrangements and increasing compensation. The prevalence of these investments is a win for workers but may not be enough to differentiate businesses from the competition in the war for talent.
A challenge for middle market organizations will always be large enterprises’ deep pockets. However, differences in planned workforce investments between respondents of different sizes are relatively small — with one exception: 40% of CFOs at $1B+ organizations plan to redesign their office space this year, compared to 33% of CFOs at organizations with revenues below $1 billion. As the way we work has shifted, the real estate needs of the physical workplace have shifted as well. Larger businesses are more closely scrutinizing their real estate assets — 37% of CFOs at $1B+ organizations are reevaluating their real estate footprint, compared to 30% of respondents at smaller organizations. Investments in physical workplaces are aimed at improving the employee experience, whether they are remote or in person.

### 2022 PLANNED INVESTMENTS IN THE WORKFORCE

<table>
<thead>
<tr>
<th>Culture</th>
<th>Compensation</th>
<th>Capabilities</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Icon" /> 42% are improving flexible workforce arrangements</td>
<td><img src="image2.png" alt="Icon" /> 40% are increasing compensation</td>
<td><img src="image3.png" alt="Icon" /> 36% are investing in upskilling or reskilling workers</td>
<td><img src="image4.png" alt="Icon" /> 32% are expanding their recruiting or HR department</td>
</tr>
<tr>
<td><img src="image5.png" alt="Icon" /> 39% are taking actionable steps on diversity, equity and inclusion</td>
<td><img src="image6.png" alt="Icon" /> 38% are enhancing employee benefits</td>
<td><img src="image7.png" alt="Icon" /> 28% are outsourcing roles or functions</td>
<td><img src="image8.png" alt="Icon" /> 37% are automating manual tasks</td>
</tr>
</tbody>
</table>
People are more than an organization’s most valuable asset — they’re also critical business stakeholders. Leaders must think about how to create the most value for their people alongside the value they are creating for their clients and customers. Prioritizing the employee experience will not only ensure that your people thrive, but that your business does as well — both today and well into the future. Putting your people first will always be a competitive differentiator.

CATHY MOY
Chief People Officer, BDO USA
Supply Chain, Interrupted

SUPPLY CHAIN DISRUPTION THREAT LEVEL
Degree of risk posed to respondents’ businesses in 2022

- **45%** Significant Risk
- **38%** Moderate Risk
- **16%** Minimal Risk
- **84%** Total

Supply Chain Disruption is the #1 Business Risk for 2022

Percentages may not total 100 due to rounding.

It isn’t only people in scarce supply. Shortages in everything from raw goods and critical components to freight capacity and warehouse space have global supply chains in snarls. Costs continue to climb with minimal to no reprieve in the near term. Customers’ expectations are as high as ever — people want and expect same-day shipping. It’s no wonder supply chains are CFOs’ biggest headache: 84% of respondents say supply chain disruption poses at least a moderate level of risk to their business, with 45% saying it’s a significant risk.

CFOs are more concerned about the symptom than the cause: Rising material costs tops the list of significant supply chain threats, ahead of delays and shortages. The issue of cost is ultimately one of control: The more control the business maintains over its own supply chain, the more control it has over costs. Businesses lose control of the supply chain when they can’t see changes coming, an issue reflected by the 31% of respondents that cited lack of supply chain technology as a significant threat. Increasing supply chain visibility through technology improves cost predictability and allows time to be proactive to any potential disruptions that could impact the supply chain. It also plays an essential role in addressing higher customer expectations, cited by 31% of respondents as a significant supply chain risk. With supply chain disruptions expected to continue well into 2022, a combination of anticipating delays, proactively communicating and implementing alternative solutions is the best way to keep customers satisfied.
While costs, shortages and delays top the list, demand unpredictability is also of concern, perceived as a significant threat by roughly a third of respondents. Demand volatility increased during the pandemic, straining lean inventories with little if any buffer, resulting in extensive lead times. The predominant inventory system for decades, just-in-time (JIT) manufacturing was never intended to be implemented without building in any redundancy — but in many cases, keeping costs low took precedence. Focused on optimizing inventory levels for greater resilience, CFOs rank accurate demand and inventory management as their top supply chain priority for 2022. The ever-challenging balance of supply and demand will continue to pressure supply chains until demand begins to level off or transportation, suppliers and labor constraints are minimized.
Supply chain moves are seldom made with a short-term lens, and so some businesses may be hesitant to make major shifts until uncertainty abates. But it would be a mistake to view supply chain disruption and soaring prices as transitory. While the pandemic exposed weaknesses in global supply chains, these issues were percolating well before we first heard the name COVID-19. Many businesses began rethinking their sourcing strategies in response to the imposition of tariffs and trade tumult under the Trump administration. Recently announced billion-dollar investments in new U.S.-based facilities are five-plus years in the making. The long-term view is already clear: Businesses need to reengineer their supply chain for optimal resiliency and service over lowest cost.
Over the next decade, we are likely to see a dramatic shift in how companies establish and manage their supply chains. Companies will prioritize minimizing the distance between their products’ source and the customer, which will lead to a transformation in many businesses’ global physical footprints. Supply chain reconfiguration of this scale is a massive and complex undertaking but may be a necessary one to control costs and keep customers happy in the long run.

ESKANDER YAVAR
Manufacturing National Practice Leader, BDO USA and NAM Board Member
Partnering with Purpose

In a sustainable economy, value creation is shared with all stakeholders — not only in terms of who benefits from it, but also in terms of who generates it. Digital advancements enable companies to reach beyond their own walls to collaborate with entities working toward the same goals. Going it alone may work for small-scale pilots, but co-innovation can be a more effective and efficient means to solve big business and societal challenges.

To innovate at speed and scale, nearly half of middle market businesses plan on collaborating with strategic partners this year — the most frequently cited pathway to innovation. A quarter plan to pursue formal partnerships through new joint ventures. And while innovation is often rooted in commercial intent, many businesses see opportunity in sustainable innovation: 42% of respondents plan to build new business models that offer greater affordability or make a product accessible to a wider population.
To grow and thrive in the post-pandemic economy, businesses need to innovate with agility. CFOs recognize it is critical to adapt to the accelerating pace of technological and societal change. Developing and executing digital strategy lays the foundation for continual innovation and sustainable growth, which is why digital transformation is the top-cited strategy for businesses in 2022.
TOP 3 STRATEGIES FOR 2022

- Digital Transformation: 53%
- Product / Service Expansion: 47%
- Sustainability / ESG: 36%

Few middle market businesses are making big innovation bets, with just over one in five CFOs (21%) taking a "big risk, big reward" approach to growth this year. Most are taking a gradual, continuous approach. Each approach has its own merit, but they can also be deployed in tandem. Innovation can be both incremental and transformational, especially if knowledge, resources and risks are pooled with collaboration partners.

FINANCE LEADERS FAVOR GROWTH IN INCREMENTS OVER BIG BETS

Which of the following best describes your approach to growth this year?

- 21%: Big risks, big rewards
- 54%: Gradual, continuous growth
- 20%: Slow down to speed up
- 6%: N/A - don't expect to grow this year

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Accelerating Through Acquisition

From digital transformation to market expansion, CFOs are looking to deals to accelerate value creation and recalibrate for the future. Following a record year of activity in deal volume and dollars, just under a third (31%) of respondents plan to pursue M&A in 2022, up from 24% last year and 25% the year prior. The anticipated uptick in deal activity reflects a desire to capitalize on the current robust market, driven by an abundance of capital and seller motivation.

In this active M&A environment, businesses are also reviewing their portfolios for opportunities to divest underperforming and non-core business assets. Twenty-two percent of respondents plan to pursue a divestiture or carveout in the next 12 months, up slightly year over year. However, appetite for selling to private equity is down. The drop-off may be caused by businesses’ desire for a quick close: The diligence process is complex, and it takes PE firms a longer time to disentangle the carve out relative to a strategic buyer.
M&A is one of the most impactful levers a business can pull to accelerate growth in priority areas. While the capital is there, the stakes for getting these deals right are higher than ever. Middle market CFOs should go into an M&A transaction confident and with a strong plan in place to get the most out of their deal activity.

RYAN GUTHRIE
Transaction Advisory Services National Practice Leader
Survey results indicate that dealmakers are prioritizing scope deals over scale deals, targeting transformational investments that will help them reset for growth in the post-COVID environment. Enhancing digital capabilities is the top strategic goal for dealmaking, as organizations strive to either fill capability gaps or leverage technology in new and innovative ways. Respondents view M&A as a digital transformation accelerant.
Identifying the right deal target is only half the battle, and even closing the deal is no guarantee that it will deliver on its promise. Integration is where deals succeed or fail. When asked how well they were able to capture expected synergies from any acquisitions made in the past three years, respondents report mixed results. Over the next three years, shortfalls in synergy realization are likely to increase, as scope deals are more prone to integration stumbles and increased valuations require greater reliance on harder-to-achieve revenue synergies to secure both investment committee and lender approval.

**Deal Synergy Capture Over the Past Three Years**

- **19%** Exceeded expectations
- **45%** Met expectations
- **28%** Fell short of expectations
- **8%** Failed to capture synergies

*Deals fail to deliver for three primary reasons: misunderstanding of critical functions, post-deal departures and execution blunders. The commonality across all three is the human element. Evaluate the deal without the requisite technical knowledge and get stuck with assets you can’t use. Underestimate the importance of key personnel, and watch their relationships and revenue walk out the door with them. Fail to dedicate enough resources to manage the transition, and distraction will destroy deal value. To maximize synergies, make sure your plan puts people front and center.*

**JIM CLAYTON**
Value Creation Leader, Management Advisory Services
The Next Chapter

The COVID-19 pandemic revealed systemic inefficiencies and inequities that catalyzed much-needed shifts in business strategy. Flexibility in how, when and where we work is now the workplace standard. Uncertainty and unpredictability are the new constants, elevating operational resilience as a strategic priority beyond times of crisis. Innovation is increasingly the product of collaboration across company and industry boundaries. And the focus on sustainability has redefined "long term." Today’s companies are adopting practices that will serve stakeholders not just in the next quarter, but in the next generation as well. Businesses that welcome these changes in the year ahead will unlock competitive advantage and growth that endures.

Looking for more data and insights?
CLICK ON THE ICONS BELOW TO EXPLORE CFO INSIGHTS BY INDUSTRY

- ENERGY
- MANUFACTURING
- HEALTHCARE
- RETAIL
- LIFE SCIENCES
- TECHNOLOGY
Respondent Profile

The **2022 BDO Middle Market CFO Outlook Survey** polled 600 CFOs at organizations with between $100M and $3B in annual revenue across six industries: energy, healthcare, life sciences, manufacturing, retail and technology. The survey was conducted in October 2021 by Rabin Research Company, an independent marketing research firm, using Op4G’s panel of executives.

### Revenue
- 1% Under $100M
- 8% $100M-250M
- 20% $251M-500M
- 26% $501M-750M
- 22% $751M-999M
- 17% $1B-2B
- 6% $2B+

### Ownership
- 50% Public
- 12% Private (VC backed)
- 13% Private (PE backed)
- 25% Private (independent)

### Industry
- 17% Technology
- 17% Retail
- 17% Manufacturing
- 17% Energy
- 17% Healthcare
- 17% Life Sciences

### Regional Operations for U.S.-Based Companies
- 67% U.S. only
- 27% Canada
- 19% Latin/South America
- 5% Africa
- 16% Asia-Pacific
- 17% Europe
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