2023 BDO CFO OUTLOOK SURVEY

The Resilient Middle Market

BDO

The middle market at a glance

In 2023, the middle market is full of new and familiar risks. Inflation remains high. Talk of a potential recession dominates the headlines. BDO's CFO Outlook Survey found that nearly 70% of CFOs believe economic volatility poses a risk to their businesses over the coming year. For the second year in a row, CFOs cited supply chain disruption as their top business challenge.

Despite these risks, CFOs have reasons to feel optimistic. In 2022, 38% of CFOs said COVID-19 posed a significant threat to their businesses. This year, that number dropped to 21%. Last year's financial performance exceeded both revenue and profitability expectations. Nearly half of middle market CFOs (47%) predict double-digit growth in 2023 — a perspective we're keen to track as recessionary pressures strengthen.

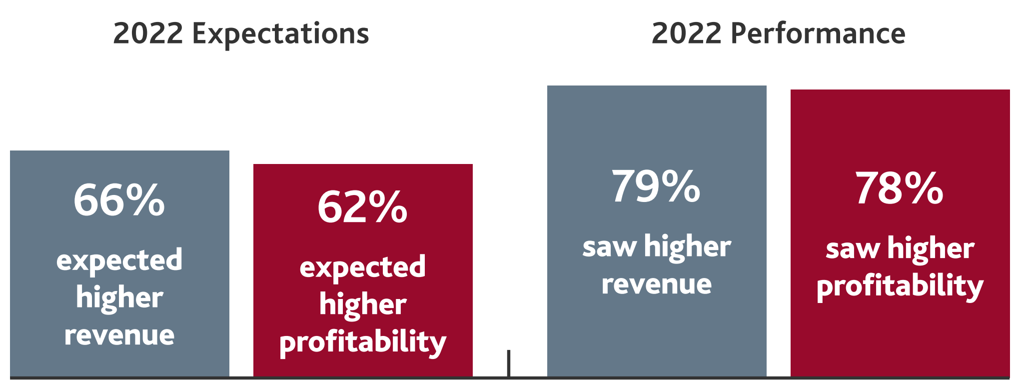
Key trends in BDO's 2023 CFO Outlook Survey include:

- **Middle market companies are outperforming expectations, a trend CFOs expect to continue in 2023.**
- **Compared to the frenzied dealmaking pace of 2022, the middle market's appetite for acquisitions and IPOs has dropped.**
- **Greater requirements for in-office work and a reduced focus on hiring indicate that the workplace power dynamic may be shifting from employees to employers.**
- **CFOs are more concerned with the impact of new tax regulations (i.e. the Inflation Reduction Act) than with minimizing their tax liability.**
- **ESG is the top business strategy CFOs plan to pursue in 2023, followed by cost optimization.**

Methodology
The ***2023 BDO CFO Outlook Survey*** polled 625 CFOs with revenues ranging from $50 million to over $3 billion in October 2022. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

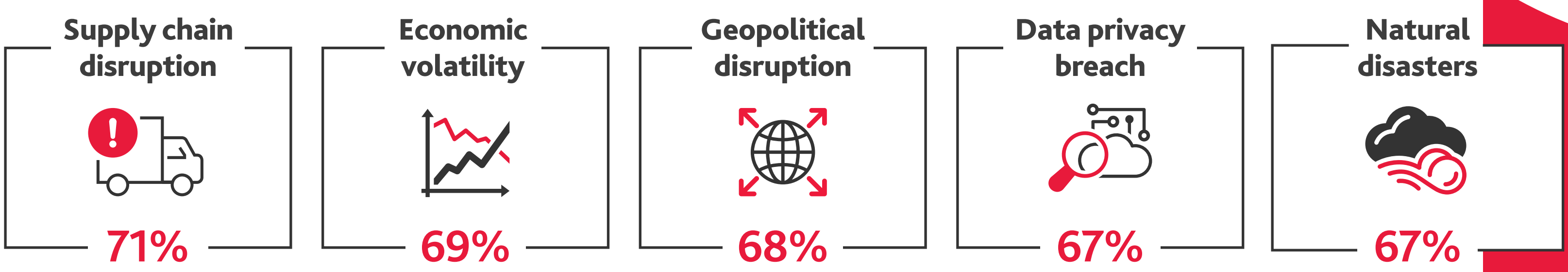
Resilience amid volatility

Despite persistent economic headwinds and geopolitical volatility, the middle market is showing its resilient nature. Nearly 80% of CFOs report that their companies experienced revenue and profitability increases in 2022 — a trend they expect to continue over the coming year.



Middle market CFOs are tracking many risk vectors in 2023. 71% of CFOs say supply chain disruption poses some or significant risk to their businesses in 2023, followed closely by economic volatility (69%) and geopolitical disruption (68%).

Significant Business Risks in 2023



Facing these risks, middle market CFOs are focused on ESG and cost optimization as key business strategies in 2023. Forty-one percent of CFOs plan to pursue ESG over the coming year, while 38% say ESG investments have improved their organizational resilience. These numbers indicate that CFOs are looking to sustainable business practices as a stabilizing force in volatile times.

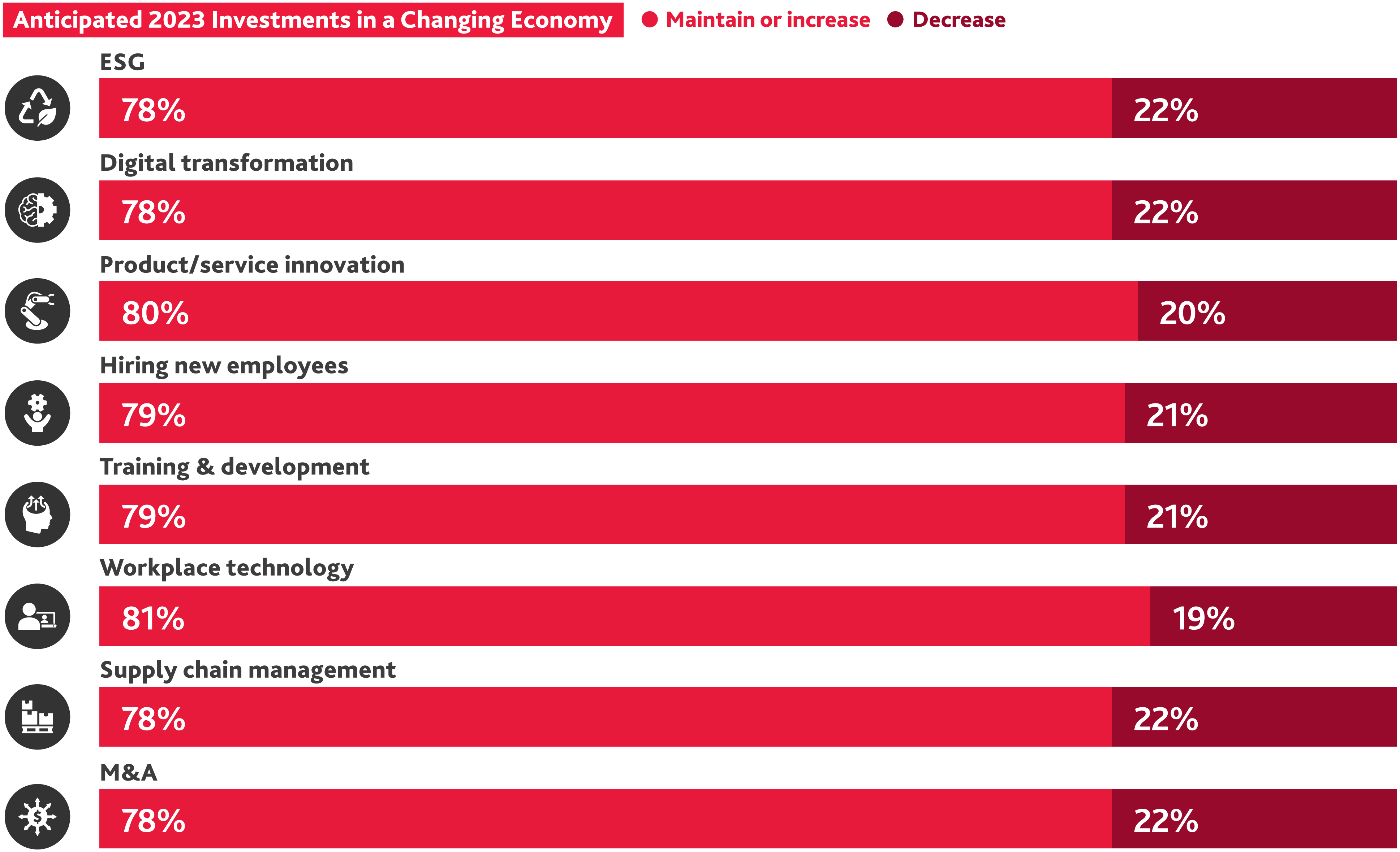
In previous cycles of economic turbulence, companies that focused on cost optimization generally saw short-term success. But companies that also made smart investments in innovation gained out-sized advantage and widened the competitive gap between them and their peers. In 2023, CFOs should remember this lesson and seek opportunity in volatility.

Eskander Yavar
National Managing Partner, Advisory

The dual pressures of inflation and a looming recession make it easy to see why 36% of CFOs plan to pursue cost optimization strategies in 2023. In the retail sector, perhaps the industry hit hardest by the pandemic, half of CFOs are pursuing cost optimization. These strategies may include cost variablization, which replaces fixed costs with variable costs (outsourcing or co-sourcing talent, for example, instead of increasing headcount).

Despite current volatility, middle market CFOs are confident in their strategies. This is perhaps the clearest sign of optimism in 2023: Overwhelmingly, CFOs plan to maintain or increase their expenditures in key areas if economic conditions worsen. Here is how CFOs' investment plans will change if economic conditions worsen.

Anticipated 2023 Investments in a Changing Economy



Recommendations

Resilience principles do not only benefit struggling companies. In fact, a strong financial position can enable your business to expend resources where others cannot, building resilience and honing your competitive edge at the same time. Volatility and disruption will persist; the time to prepare your business for unforeseen crises is now.

Last year's growth sets the stage for strategic investment in areas like risk management, supply chain optimization and innovation. By developing the ability to adapt when trouble strikes, your business will be well-positioned to withstand shocks and pivot to new opportunities — the core of strategic resilience.

For CFOs focused on the bottom line think cost optimization, not cost cutting.

Cutting is a short-term solution to decrease costs; optimization is a disciplined process designed to unlock value.

Don't cut so deeply that you jeopardize long-term growth.

Variabilize your cost structure to free-up capital while improving your organizational agility.

CHECK OUT BDO'S STRATEGIC RESILIENCE FRAMEWORK for guidance on how your business can navigate economic volatility. ▶

Spotlight: Thriving in today's market

BDO's research revealed that thriving companies — those that saw increased profitability and revenue in 2022 — are doing things differently than their peers.

Thrivers vs. Everyone Else

Here are CFOs' areas of strategic focus in 2023: Thrivers Everyone else

BDO's take

Follow the lead of thriving companies and invest in your workforce to improve performance and build resilience in the coming year. Flexible work options, opportunities for reskilling and upskilling, and a genuine commitment to ESG principles are all ways to energize employees in 2023.

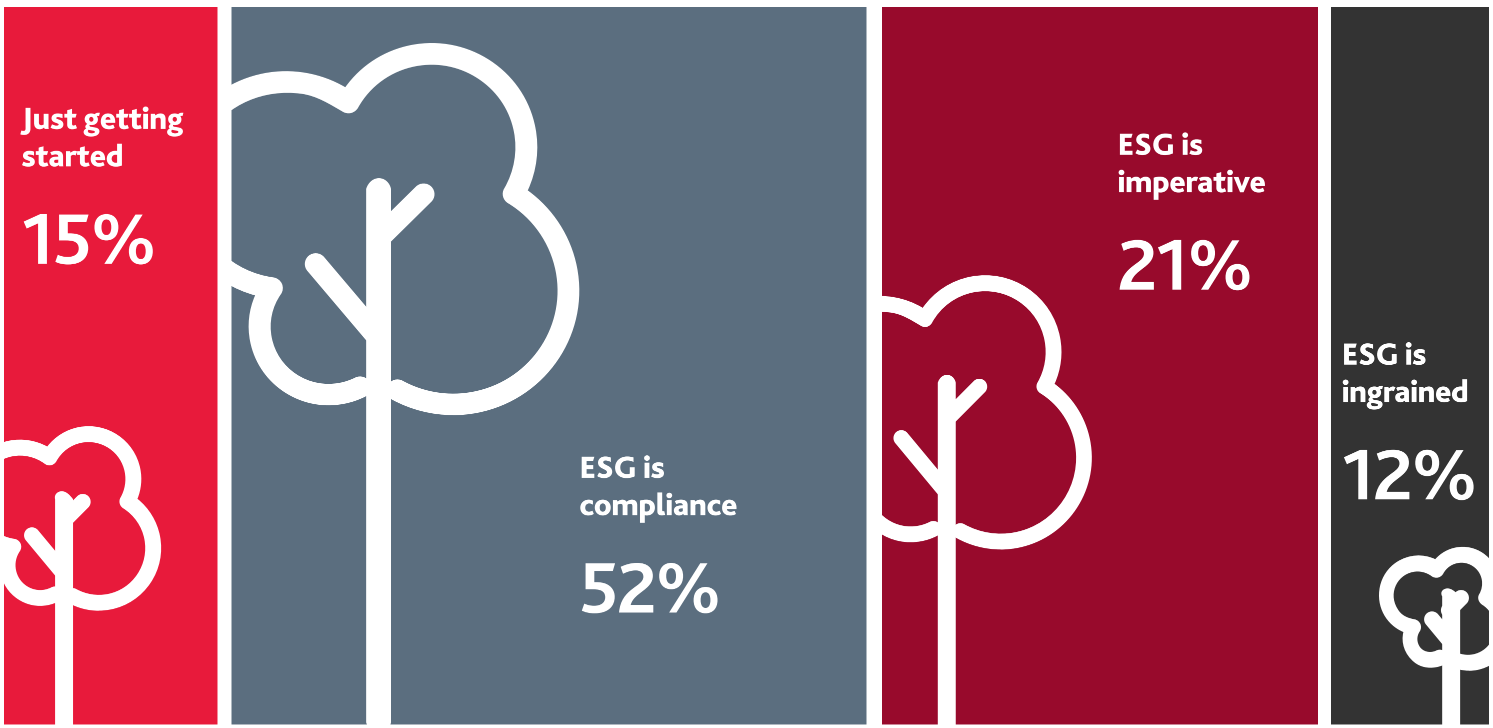
ESG is also key to building resilience. Thriving companies are betting that investment in ESG programming will help them weather uncertainty. Forty percent say ESG initiatives have already improved their business resilience.

ESG's evolving role

In the middle market, many still see ESG as a compliance play — but not for long.

Forty-one percent of middle market CFOs plan to pursue an ESG strategy over the coming year, up from 36% in 2022. Even if economic conditions worsen, nearly 80% will maintain or increase their ESG investments. The retail sector shows the most interest of any industry, with more than half of CFOs planning to pursue ESG in 2023.

ESG Maturity



In terms of ESG goals, 52% of CFOs are primarily focused on compliance. Only one-third of CFOs say ESG is either a strategic imperative or already engrained in their business model — a number expected to grow as business leaders and stakeholders recognize the full scope of benefits that ESG programming brings to financial resilience.

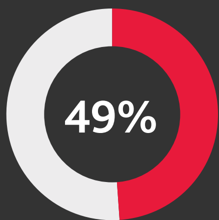
We're witnessing the evolution of ESG from compliance to business strategy. There's a limited window of time for companies to transition from business as usual to striking a long-term view that incorporates sustainability and resilience. Larger companies are leading the way and the middle market has begun to take notice.

Christopher Tower
ESG Strategy & Services Leader

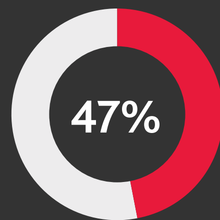
ESG Benefits

In which ways have your ESG initiatives benefitted your business so far?

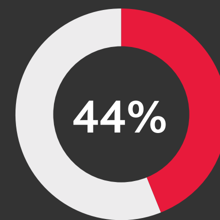
Improved ESG ratings



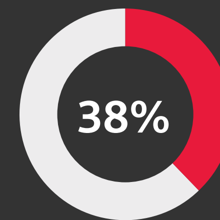
Supported recruiting and retention



Improved brand reputation



Improved business resilience



The past year saw a clear correlation between ESG maturity and company performance. Compared to their peers, CFOs of thriving companies are over three times more likely to say ESG is engrained in their business model.

Who's Interested in ESG?

Retail	51%
Healthcare	47%
Life Sciences	44%
Technology	41%
Energy	37%
Manufacturing	26%

During the pandemic, health equity challenges thrust healthcare into the ESG spotlight. The result? A full 47% of healthcare and 44% of life sciences CFOs are currently pursuing ESG strategies — more than every industry besides retail. Now, recent high-profile news stories have cast the same ethical spotlight onto the technology industry.

Is tech ready for the pressure? More than their peers in other industries, tech CFOs cite investor demands and access to capital as their top ESG objectives — a clear indication that tech industry stakeholders expect tangible progress towards ESG commitments in 2023.

The energy industry is also paying greater attention to ESG. Thirty-seven percent of CFOs in the energy sector plan to pursue ESG in 2023. Thirty-five percent plan to embed sustainability into investing criteria in 2023 — the highest of any industry.

Recommendations

CFOs with a compliance-driven mindset are missing the bigger picture. ESG and resilience are inseparable. Companies that focus on ESG in 2023 will better position themselves to see benefits, both financial and non-financial, that go far beyond improved ratings.

For sustainable transformation don't wait for regulators to force your hand.

Consider conducting a materiality assessment to understand your ESG risks and opportunities.

Invest in ESG initiatives.

ESG is becoming increasingly important to stakeholders. Invest in ESG initiatives or risk competitive pressures and falling behind in areas like improving brand reputation, raising capital and addressing investor demands.

Business leaders should recognize ESG's importance in recruiting and retention.

More and more employees are interested in working for companies that demonstrate a genuine commitment to ESG principles.

LEARN MORE about how BDO can help you on your ESG journey. ▶

Invest in your workforce

Over the past few years, a tight labor supply and high attrition saw workers gain significant leverage in both the workplace and the hiring market. In 2022, 38% of middle market CFOs said a talent shortage posed a significant threat to their businesses. This year, despite historically low unemployment rates and fierce competition for talent, only 20% of CFOs report the same concern — a sign that the pendulum of workforce influence may be swinging back towards management.

Percentage of CFOs who say **talent shortages** pose a significant **threat** to their business:

For many companies, increasing headcount is no longer the top priority. Instead, they're investing in their people by committing resources to upskill and re-skill their workforce. This is particularly true of thriving companies, 41% of which plan to upskill and re-skill workers over the coming year. CFOs are betting that these investments will help their companies remain agile during an economic downturn, when belt-tightening measures like hiring freezes may force them to do more with less.

Although 31% percent of thriving companies are increasing **remote work** options in 2023, the same number (31%) are also increasing in-office requirements. This indicates that while thriving companies are leaning into flexible work arrangements, they still see value in physical office space and in-person collaboration.

Leaders help their businesses thrive by helping their people thrive. To build a resilient workforce, executives must learn from their people. From workforce flexibility to social justice and beyond, we must keep conversations alive that inform everything from company culture to an organization's larger sense of purpose.

Cathy Moy
Chief People Officer

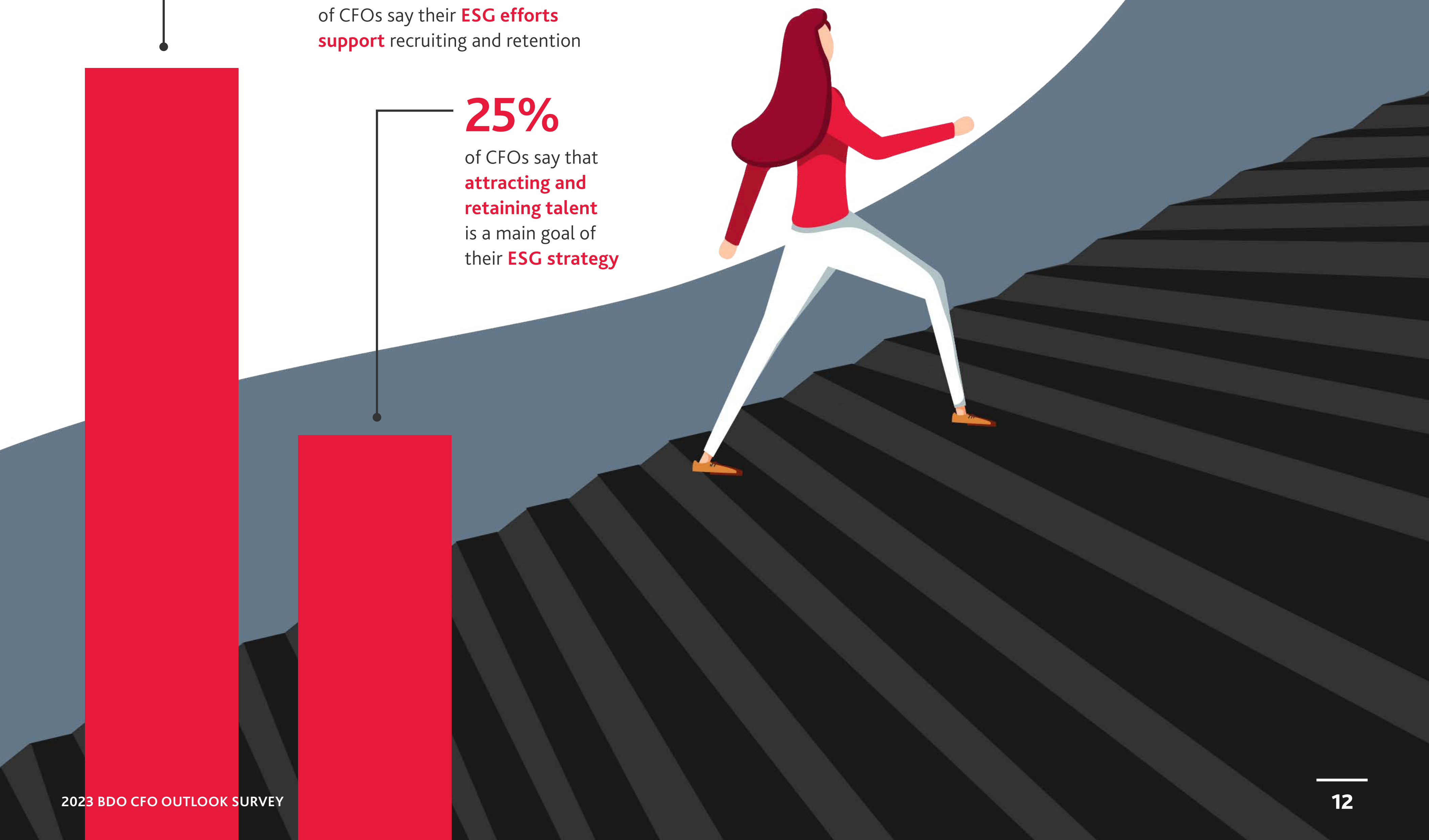
Workers care about corporate purpose and business leaders are taking notice. Both current and prospective employees want to see companies articulate their values and pursue purpose-driven goals. ESG can help companies live up to their purpose by providing a framework to define goals, set benchmarks towards progress and establish a regular reporting cadence to keep stakeholders informed.

47%

of CFOs say their **ESG efforts support** recruiting and retention

25%

of CFOs say that **attracting and retaining talent** is a main goal of their **ESG strategy**



Recommendations

Companies can differentiate themselves in 2023 by setting a standard around the employee experience. All employers — even those who plan to reduce hiring over the coming year — can materially improve the employee experience through engagement and innovation. Introducing benefits like flexible and remote work can also boost employee retention.

Define organizational purpose to give meaning to work.

Align your ESG strategy with this purpose to increase credibility and demonstrate both commitment and progress.

Define employee benefits that showcase your corporate culture.

Including setting policies for in-office, remote and flexible work.

Companies that are upskilling and reskilling employees must prioritize employee retention.

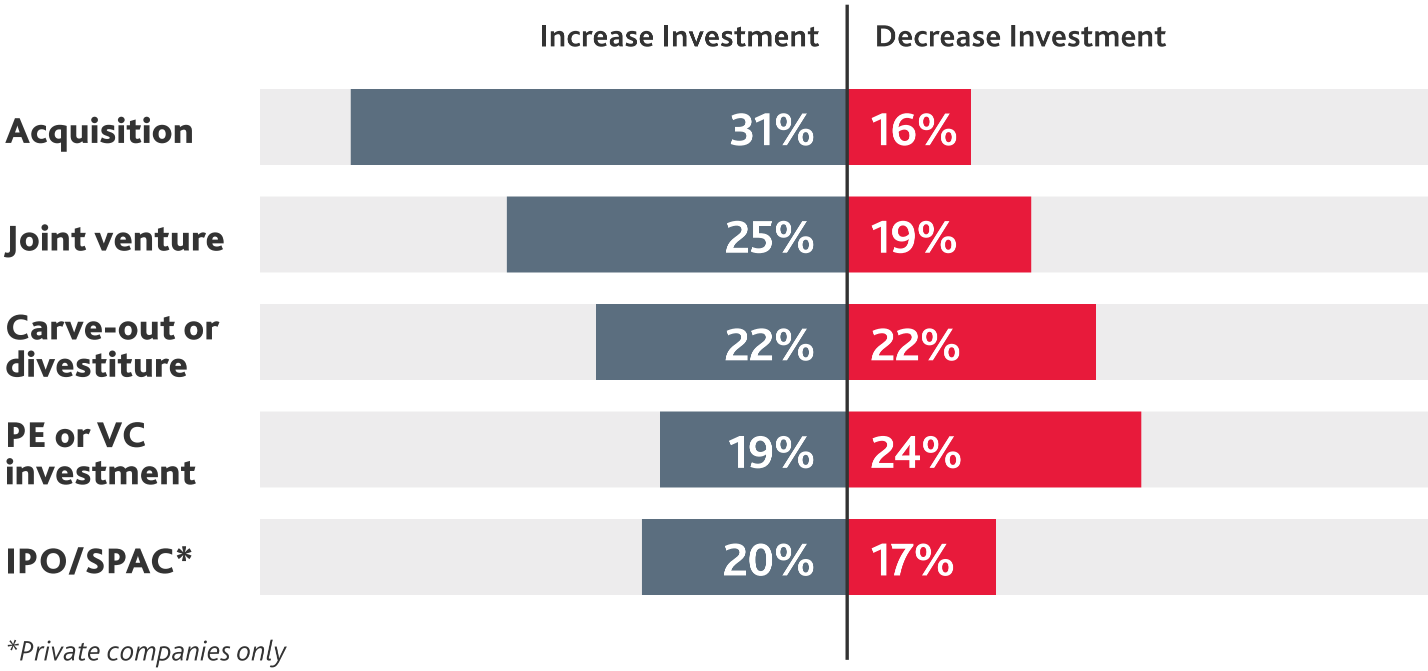
Listen to your people and invest in the things they care about — or else risk jeopardizing their loyalty or losing them altogether.

CHECK OUT HOW BDO CAN HELP YOU about turn workforce challenges into opportunities. ▶

Decelerated dealmaking

The frenzied sellers' market of 2021 gave way to a more measured 2022. With only 16% of middle market CFOs planning an acquisition in 2023, this trend seems likely to continue.

Dealmaking Plans: 2022 vs. 2023



*Private companies only

Although middle market companies are showing less interest in acquisitions this year as compared to last, the opposite is true of a potential sale. Nearly one-third (31%) of CFOs are considering selling their businesses to a strategic buyer or competitor in 2023. CFOs who plan to seek private equity or venture capital investment rose slightly, while interest in carve-outs and divestitures remained flat at 22%.

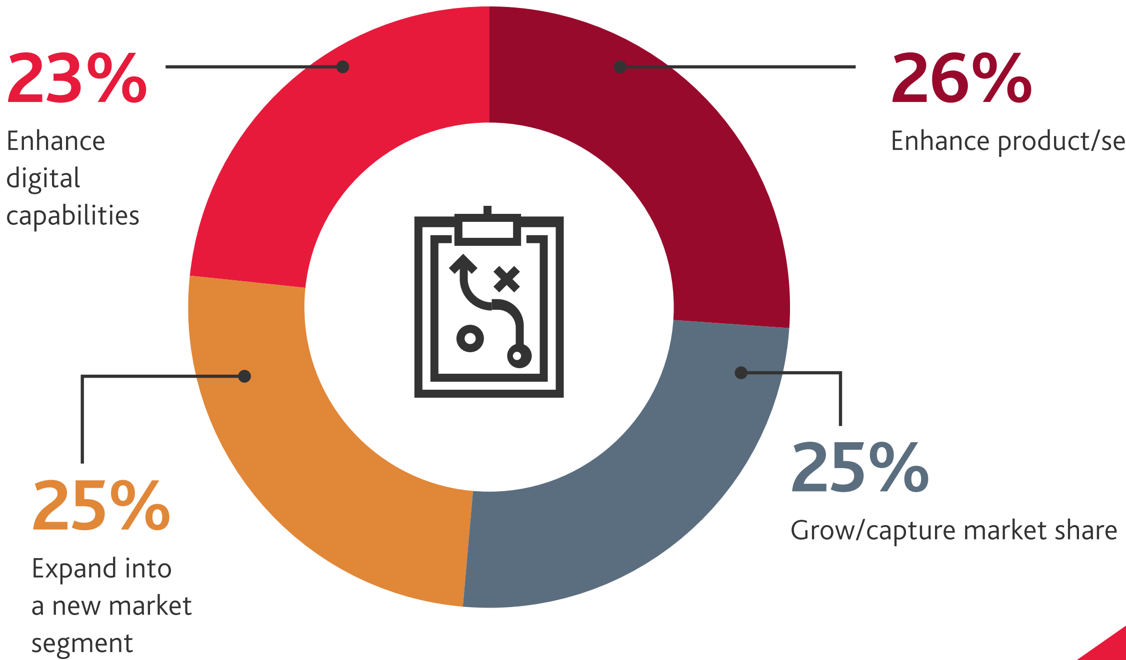
Among financial sponsors, there is still interest in dealmaking and dry powder ready to be spent, though rising interest rates are making deals less appealing to some private equity and venture capital funds. These funds have a mandate to deploy capital; they'll be looking for solid fundamentals and strong growth potential in potential acquisitions and will likely target companies in counter-cyclical industries.

Although U.S. dealmaking declined from the historic heights of last year, middle market activity remains robust. While the market faces economic headwinds, private equity fundraising over the past two years may drive dealmaking activity in 2023. As valuations become attractive, well-capitalized investors have the opportunity to earn increased returns

Patrick Donoghue
National Leader,
Advisory Corporate Finance

For companies pursuing **acquisitions** in 2023, strategic goals are split among several priorities: enhancing product and service offerings, expanding into a new market segment, growing market share and enhancing digital capabilities.

Top Strategic M&A Goals



**Note: Due to rounding, numbers may not total 100%*

More than one-quarter of middle market CFOs who plan to pursue an acquisition are looking to enhance their product or service offerings in the coming year. Nearly 40% of the companies within this group saw revenue decreases in 2022. They likely see new products and services as their ticket to a more successful 2023.

In tech, sharp drops in valuations have led many companies to search for new value-creation opportunities. Some are reconsidering their **integration** plans for recent acquisitions and setting shorter time horizons that align with current market conditions and near-term forecasts.

Recommendations

From greater scrutiny in the due diligence process to more contentious price negotiations, companies should expect the M&A process to be more measured, deliberate and exacting in the year ahead.

Companies entering the M&A marketplace must adjust their timelines to account for a slower pace of dealmaking over the coming year.

A slower pace of dealmaking means greater scrutiny on every deal.

When readying their companies for a sale, CFOs must anticipate this scrutiny and not rush the process

Companies planning for a sale or an IPO should prepare immediately, rather than waiting for conditions to improve.

By getting ready now, companies can act as soon as the opportunity presents itself, avoiding the need to scramble or play catch-up.

Buyers should treat this market downturn as an opportunity to find strong targets at attractive valuations.

CURIOUS HOW BDO CAN HELP YOU ACHIEVE YOUR STRATEGIC M&A GOALS? ▶

Tax policy uncertainty

With details of the 2022 Inflation Reduction Act (IRA) still being processed by businesses, middle market CFOs are concerned about the impact of new tax legislation on their operations and strategic decisions. This year, CFOs report that their top tax priority is understanding the business implications of tax policy changes.

Sixty-five percent of CFOs cite additional tax reform as a business risk in the coming year. This figure is considerably lower than the 79% who said the same in 2022 — before the IRA was enacted — but still a significant majority of CFOs. Clearly, the Treasury Department still has work to do in communicating the tax-policy impacts of the IRA to companies.

Top Tax Priorities in 2023

21% Understanding the business implications of tax policy changes

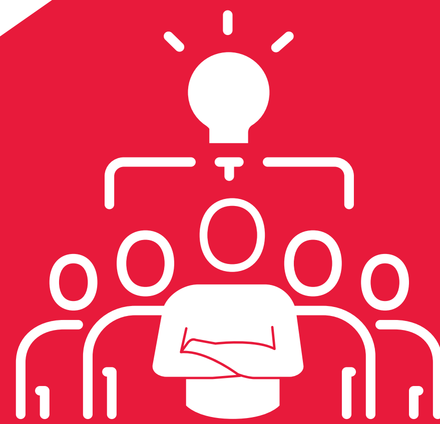
21% Understanding the tax implications of strategic business decisions

19% Increasing tax transparency in our reporting

18% Improving tax risk management

12% Transforming tax operations

11% Lowering our total tax liability



One-in-five CFOs are most concerned with the tax implications of their strategic business decisions, like acquiring a company or expanding into a new market. With so much still unknown about the impact of new tax regulations, this question can feel like a moving target.

By contrast, only 11% of middle market CFOs report lowering total liability as their top tax priority. This number doubles to 22% when looking at CFOs who saw revenue decreases in 2022, a sign that persevering companies see tax as an opportunity for cost savings in 2023.

An increasing number of stakeholders — not only investors and regulators, but customers, employees and more — seek greater **visibility** into companies' tax obligations, risks and contributions. In fact, 19% of CFOs say increasing transparency in reporting is their top tax priority. A **total tax transparency approach** can bring clarity to this complex and often opaque domain, offering stakeholders a comprehensive view into an organization's total tax contribution.

New legislation like the Inflation Reduction Act still poses questions for middle market CFOs. How will evolving tax policy impact business strategy, risk management, and of course, the bottom line? In today's uncertain economic climate, the onus is on CFOs and their tax teams to solve these critical questions.

Matthew Becker
National Managing Partner, Tax

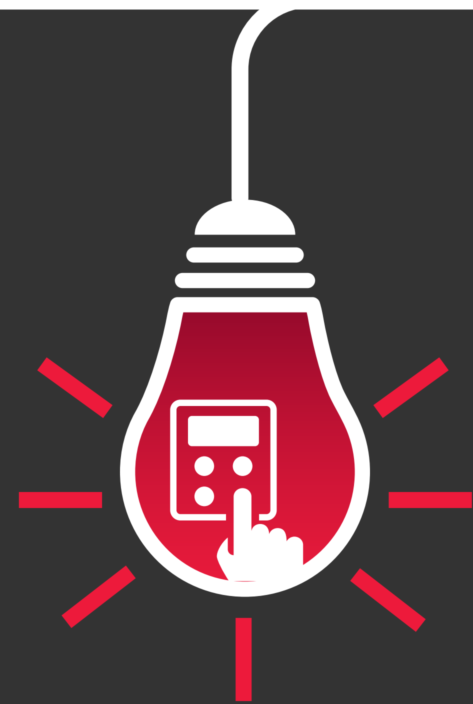
Recommendations

Every business decision has a tax implication — making it critical for tax officers to have a seat at the table when it comes to business strategy. As the Treasury continues to issue IRA guidance, companies must be both vigilant and flexible to optimize their tax positions in step with the latest rules and regulations.

Invest in your tax team; give them the resources to understand new regulations, model the impacts and incorporate them into strategic planning.

Introduce new technology like tax automation to help meet emerging compliance demands.

Companies should look to tax transparency as a key tool to meet growing stakeholder expectations, particularly around corporate ESG commitments.



LEARN MORE ABOUT HOW BDO CAN HELP YOU turn tax optimization into a source of competitive advantage. ▶

Facing risks like supply chain disruption, economic volatility and geopolitical disruption, middle market CFOs are pursuing strategies like ESG and cost optimization to build resilience. From the boardroom to the office — and the home office — they are investing in areas like product/service innovation and workplace technology to transform their businesses.

Want to read the rest of BDO's 2023 CFO Outlook Survey?
Check out our industry reports here:

Energy	Technology	Manufacturing
Healthcare	Life Sciences	Retail

Methodology

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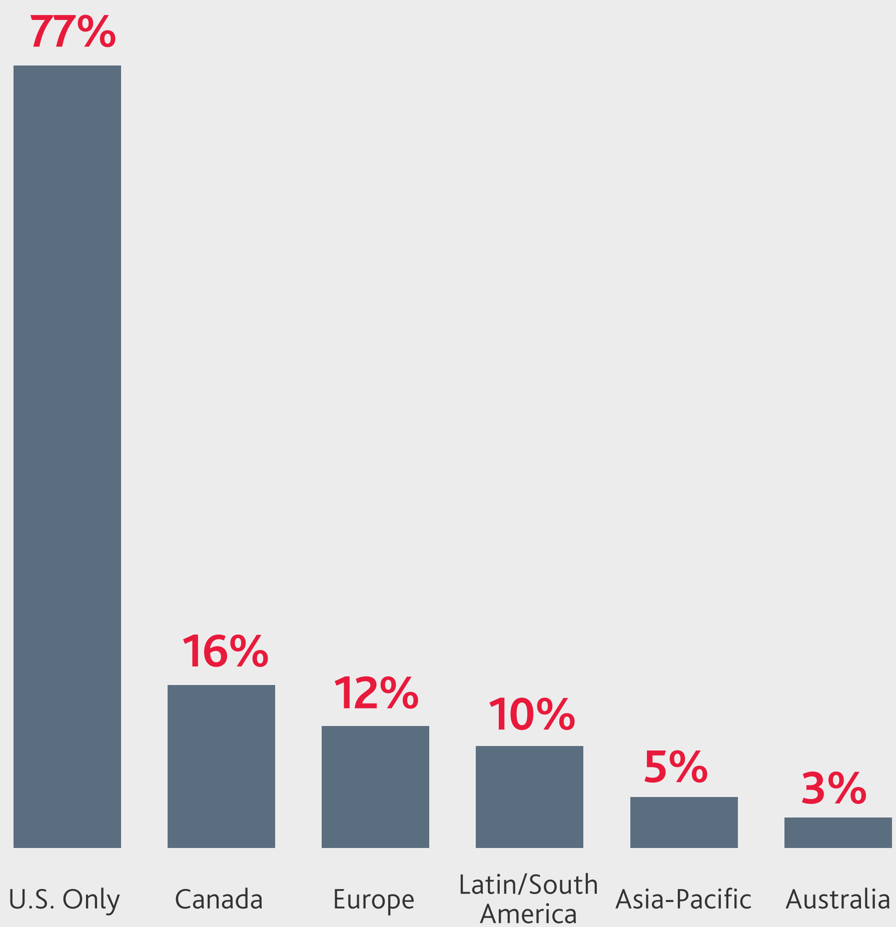
Region

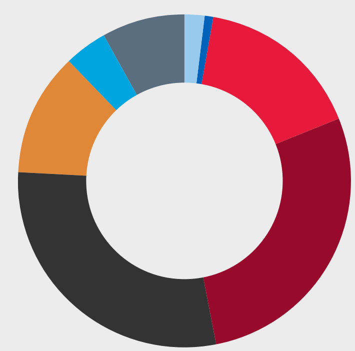


Industry

Energy/Natural Resources	17%
Healthcare	17%
Life Sciences	17%
Manufacturing/Distribution	17%
Retail	17%
Technology	17%

Revenue

$50M to under $100M	2%
$100M-$250M	1%
$251M-$500M	16%
$501M-$750M	28%
$751M-$999M	29%
$1B to just under $2B	12%
$2B-$3B	4%
Over $3B	8%



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