



2021 BDO MIDDLE MARKET CFO OUTLOOK SURVEY



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View the survey results by industry:

 Energy

 Healthcare

 Life Sciences

 Manufacturing

 Retail

 Technology

Pivot to New Potential

The global pandemic forced a critical reflection period across every business, and the middle market made the most of it.

While the impacts of the public health and economic crisis affected every industry differently—leading to unexpected surges for some and steep declines in demand for others—there was a common purpose in response. A desire not just for a return to the previous normal but for a renaissance.

From protecting their workforces, to rethinking strategy, to preserving revenues and seeking relief to ensure stability, companies took action and took charge of their plans for resilience.

The crisis put everything into a new perspective. Middle market CFOs reconsidered what is truly essential and discovered new areas of opportunity. Long term plans were accelerated by necessity, and businesses took advantage of newfound clarity to go beyond business as usual and aimed to create something better than usual.

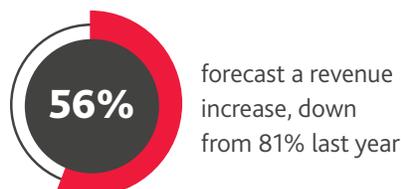
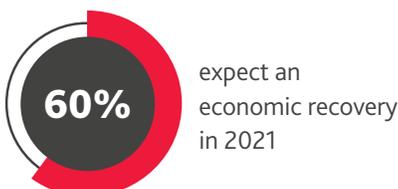
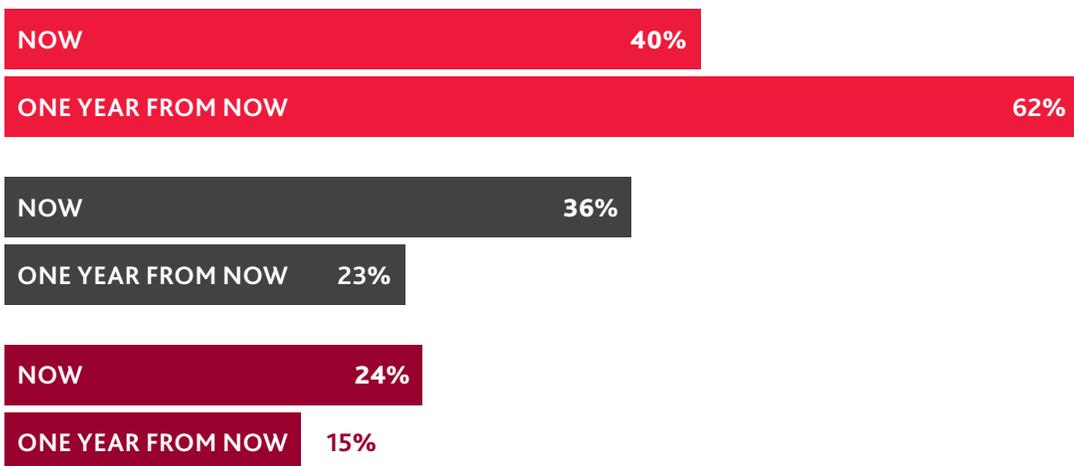
The **2021 BDO Middle Market CFO Outlook Survey** of 600 CFOs found that companies are ready to turn the page on a challenging year and focus on the future. There are certainly new realities that may require reorganization, a reimagined workforce and a fresh look at risk in a still uncertain market, but there is also extraordinary potential.

MIDDLE MARKET CFO OPTIMISM

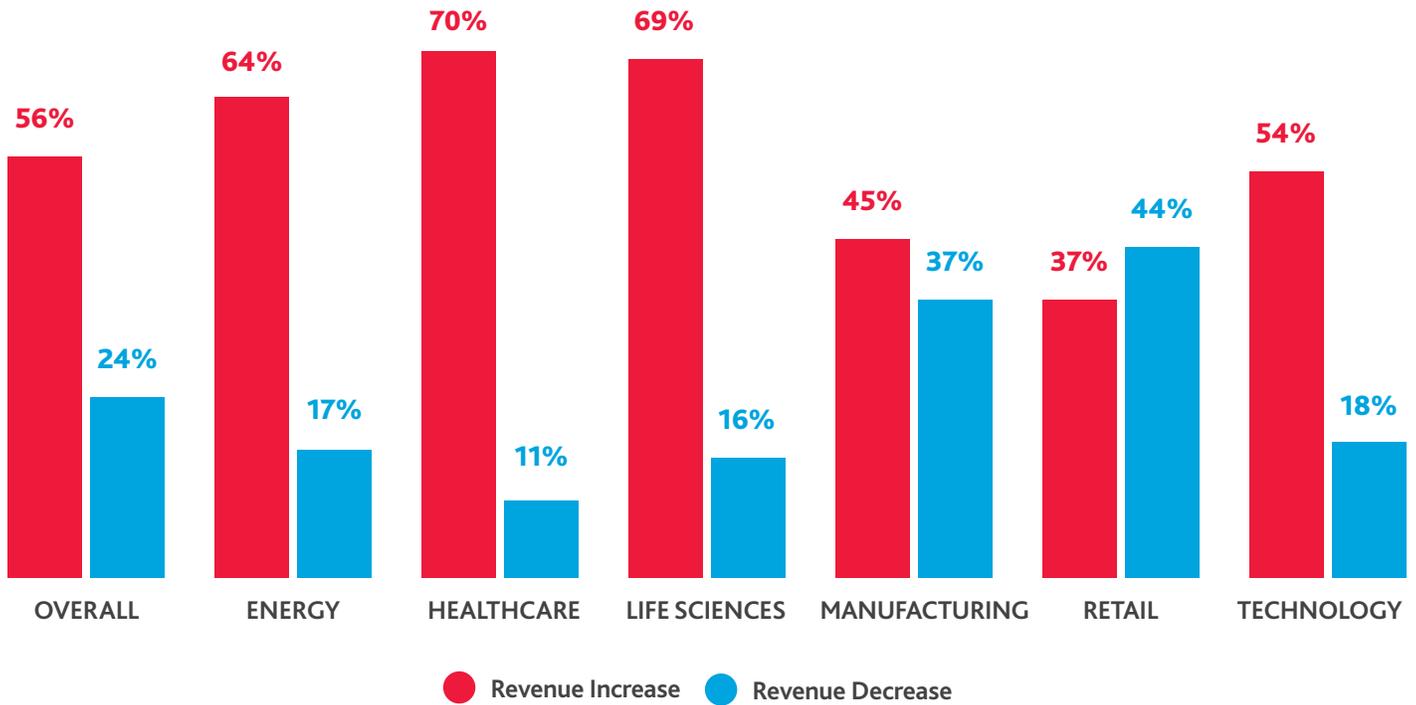
While a majority of middle market companies expect 2021 will bring financial growth and broad economic recovery, their expectations come following a year of steep declines in revenue for many. For some companies, growth may mean a return to pre-pandemic financial performance rather than reaching new records, but most believe the deepest hardship is over.

CFOs IDENTIFY AS

● Thriving ● Surviving ● Struggling



FINANCIAL FORECASTS FOR THE NEXT 12 MONTHS



Industries like Technology, Life Sciences and Healthcare—that are chiefly responsible for powering business continuity and ensuring advancement in coronavirus care—are among the most optimistic for growth in 2021.

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Unprecedented was the buzzword in 2020 for good reason. Many middle market companies persevered through levels of transformation and disruption in one year akin to what some companies experience in a full lifecycle. But rather than hunker down and endure, middle market leaders endeavor to move forward to refresh strategy and enhance agility. While we're not out of the woods, the middle market is poised to pivot to new levels of potential.



WAYNE BERSON
CEO

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What's Next for Growth

OPPORTUNITY

From urgent needs for PPE, plexiglass, sanitizer and signage, to overnight surges in the need for virtual workplace collaboration and communication solutions, 2020 brought unexpected demands to every corner of the marketplace.

Looking ahead, companies across the middle market are anticipating more opportunities to evolve and serve changing customer needs. Life sciences companies are pivoting production and resources to develop COVID-19 therapeutics, technology companies are investing to enable better remote work collaboration, and apparel retailers are meeting increased demand for facemasks and athleisure.

Nearly half of CFOs say one silver lining of the pandemic was faster decision making in their organization, which they are using to press go on growth opportunities that will further the middle market's path to recovery.

55% will increase R&D spending in the next year



OPPORTUNITIES FOR GROWTH

	DIGITAL TRANSFORMATION	PRODUCT OR SERVICE EXPANSION	GEOGRAPHIC EXPANSION
PLANNING TO PURSUE IN 2021	50%	45%	38%
HOW THE PANDEMIC IMPACTED STRATEGY	Accelerated 39%	Opened new opportunity 36%	Created new investment or expansion opportunities 31%

Agility in the middle market was the result of intentional investment in digital transformation over the past several years which proved to be a key enabler of resilience and business continuity. With the return on investment in digital clearer than ever before, the middle market plans to continue to focus on building the right technology infrastructure to both meet customer needs for reliability and consistency and power their businesses forward. As companies continue to focus on resilience, data-driven decision making and analysis will be critical to their ability to plan with precision, mitigate emerging risk and enhance profitability.

DIGITAL ROI

Middle market companies will prioritize technology in 2021 as they ensure their ability to meet changing demands, bolster security and safely enable work-from-anywhere eligible employees.



will increase
IT spending
in 2021



say investing in technology
and infrastructure is their
top business priority

For more on middle market companies' digital transformation strategies, view the latest BDO Digital Transformation Survey [here](#).

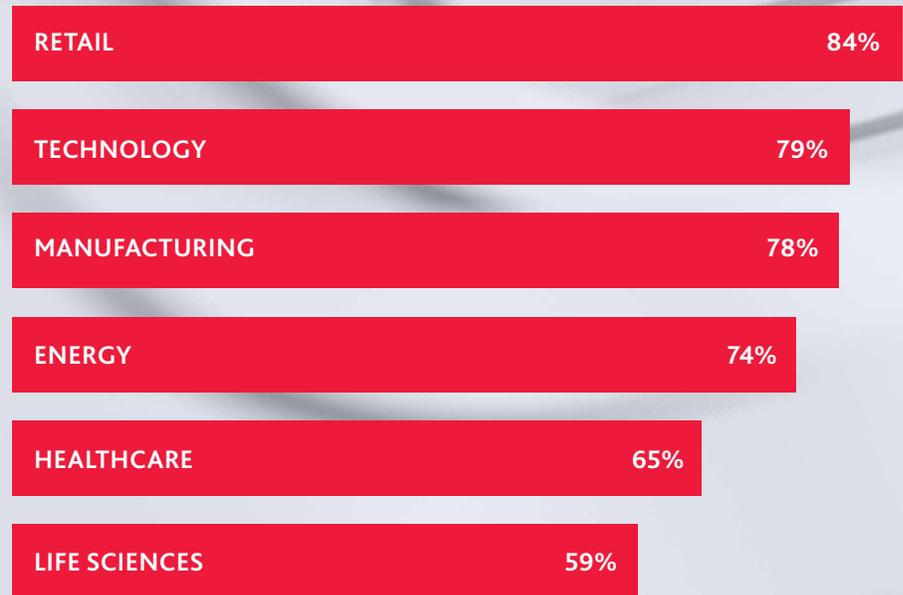
OPTIMIZATION

Strategic reflection also meant a focus on essentialism and reassessing value in a new business environment. Some companies experienced depressed revenues for many months and declined demand for products and services that may not return to prior levels. Now, they must decide which areas of the business to prioritize and where they can optimize costs as part of their path forward.

As of September 2020, nearly three in four middle market companies received government assistance as a result of the crisis.

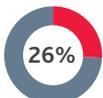
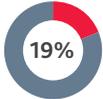
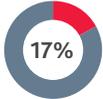
While the government has provided needed relief, many companies will need to take more measures to develop a sustainable operating model.

SECURED GOVERNMENT RELIEF*



*As of September 2020

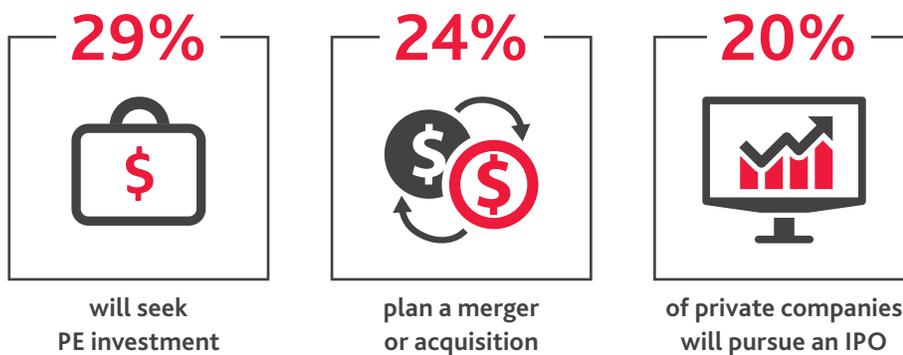
OPERATIONS OPTIMIZATION

STRATEGY	MIDDLE MARKET PLAN	INDUSTRY HIGHLIGHTS	CONSIDERATIONS
Reorganization 	37% will pursue a restructuring or reorganization strategy this year	 49% Manufacturing  42% Retail	Restructuring or reorganization is a critical strategy for companies who cannot recover under current conditions. Key warning signs of distress include insufficient cashflow to meet payables, declining profitability, fully tapped credit facilities and the loss of key customers without viable alternative revenue streams. When considering the path forward, companies should focus on core capabilities and areas of the business that meet the needs of a post-COVID era. They should also make use of new or continued government stimulus opportunities and any alternative funding strategies on their path to sustainability.
Real Estate Reevaluation 	32% will reevaluate their real estate footprint	 40% Retail	One major real estate consideration for 2021 is whether, when and how it will be safe for employees to return to the office at full or modified capacity. To address this, companies need to align real estate strategy to enterprise goals. This will require understanding employee work preferences, styles and needs to maximize productivity and support projected growth and investments, as well as customer shifts. The priority will be creating an agile and flexible real estate portfolio structure that allows a company to more easily respond to market changes and unforeseen events. Completing scenario planning that anticipates potential future disruptions will be critical for companies to build resiliency into their portfolio planning.
Carve-out 	21% will pursue a carve-out or divestiture	 26% Retail  25% Life Sciences	Carve-outs are a key strategy as companies take a sharper focus to streamlining their operations and focusing on core capabilities. But with more opportunities in the market, buyer scrutiny is high. Companies must first define what is in and what is out, and then create a standalone financial snapshot of the carve-out business to articulate both the value and risk profile to potential buyers. Ensuring strong governance and thorough planning throughout the separation process will also be essential.
Cost Cutting 	27% will decrease spending on operations this year 13% say cutting costs is their top business priority	 19% Technology  17% Manufacturing	The appropriate cost cutting strategy will be different for every organization but should focus on applying the appropriate technique to the business situation, including: <ul style="list-style-type: none"> ▶ Reviewing investment theses to see if they still hold true ▶ Considering an 80/20 analysis. ▶ Evaluating zero-based budgeting ▶ Fine-tuning rather than mandating flat rate cuts In all cases, organizations should focus on high value areas of the business and seek cost savings by negotiating new discounts, optimizing inventory and supply chains, and outsourcing or automating certain work processes.

OUTLOOK FOR DEALS

Deal flow saw highs and lows in 2020. After a strong start in Q1, then shifting to a pause in Q2 as many businesses and investors braced for the initial impact of the COVID-19 pandemic, Q3 saw the floodgates open as buyers and sellers returned to the table to close deals prior to the end of year, in large part due to concerns stemming from the election and potential unfavorable changes to capital gains tax policy. Uncertainty in the economic outlook for 2021 also drove seller motivation to close deals in 2020. Despite this uncertainty, many middle market CFOs plan to proceed with deals to aid in growing their business and scaling.

ACCORDING TO MIDDLE MARKET CFOs



Choosing the best path for growth will depend on the matchup of priorities between buyer and seller, or company and investor. There is particular interest in sectors that have new potential or a stake in COVID-19 recovery, including technology, life sciences, and healthcare. But across the board, the success of deals will be dependent on strong governance, including a thorough and accurate view of a company's risk profile and future opportunity.

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Balancing opportunity with optimization is the middle market mantra. Changes to the marketplace mean new and untapped potential to seek advantage, but companies must ensure their operational and digital strategy reflects new realities before embarking on any strategic move or partnership.



JAY DUKE

National Managing Partner of Advisory

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The SPAC Track

We're in the midst of a SPAC surge. A [special-purpose acquisition company](#) (SPAC) is an entity formed solely to go public and generate cash to make acquisitions. According to Dealogic, SPACs raised \$41B through 120 IPOs as of September 2020, dwarfing previous years' results by 4x. Behind the popularity, particularly in the current climate, is that it is a simpler and lower risk process for companies considering an IPO.

For every great IPO success story, there is an equally significant failure. In a volatile environment, the SPAC path to late-stage funding through a 1:1 diligence and negotiation process is likely more attractive than a roadshow with considerable pre-IPO scrutiny.

While the trend has reached investors from SoftBank to Shaquille O'Neal, companies should keep in mind that even if the process of going public is more streamlined, there will still be stringent reporting requirements and investor scrutiny on the other side. Whether preparing for a traditional or SPAC IPO, reporting and governance readiness is essential to success.



What's Next for Work

From protecting workforce health, to managing a remote work environment, to providing resources for professionals contending with new stressors like managing remote learning during their workday, middle market employers and employees have faced significant hurdles to both physical and mental health, and productivity. Employees are experiencing widespread burnout, and businesses will need to proactively combat it to ensure they maintain performance levels.

In addition to pandemic impacts, calls for social and racial justice have rightfully reached every middle market boardroom. When asked about workforce strategies for the coming year, prioritizing diversity and inclusion was the most commonly cited plan. Companies across every industry are ramping up efforts to build a more diverse workforce, including enhancing their recruiting, training and leadership development programs. Transparency around diversity reporting is also a growing priority for stakeholders and shareholders, but executives know this is about much more than reputation. Diverse perspectives are essential to growth. Research consistently shows inclusive teams and leadership foster more innovation and creativity, build better products and services for end users, and provide more effective oversight and guidance.

Roughly one third of middle market CFOs say that a silver lining of the pandemic was improved workforce culture and unity—even in a remote environment. Now, companies must stay focused on building and enhancing a workplace culture rooted in empathy that both meets the moment and positions them for new potential.



42%
are prioritizing
**diversity and
inclusion** as a
workforce strategy



WORKFORCE PRIORITIES



RETURN TO WORK

- 24%** are focused on returning all professionals to work as soon as possible
- 22%** will increase remote work options for all professionals
- 21%** will increase remote work options for some professionals

On-site work remains essential in industries like healthcare, manufacturing, retail, energy and more. As a result, companies must maintain their focus on ensuring safety in the work environment and establishing evolving protocols to protect workers throughout 2021.

For jobs that can be performed remotely, middle market leaders can expect flexible work arrangements to go from perk to prerequisite. Many companies will find themselves managing a more geographically dispersed workforce which may create some challenges in collaboration but also open up new areas for talent recruitment.



SPACE

- 36%** are redesigning office or floor space for social distancing
- 28%** will eliminate or consolidate office floor space

According to Cushman & Wakefield, roughly 215 million square feet of office space will be vacant due to the changes in work and economy brought on by the pandemic.

Whether by necessity or opportunity, many middle market companies will be seeking to optimize their office space and real estate footprint in the coming year.

As companies consider developing or modifying their real estate strategy, they should justify their space needs not on the past but on projected future demand. Demand will depend on overall changes to the organization, as well as how their employees prefer to work. For some workplaces, considering a balance of hub, flexible space and remote work strategies may help optimize their portfolio and create competitive advantage.



EFFICIENCY

- 38%** will seek to automate manual labor
- 21%** will outsource to a low-cost center
- 11%** say outsourcing roles or functions is a top business priority

Middle market companies have rightfully invested significant time and resources into keeping their workforce healthy and enabling continuity.

In 2021 and beyond, companies will be increasingly focused on workforce optimization, flexibility and efficiency—including ensuring the right work is done by the right people (or right technology) in the right location.

From automating back office finance processes to leveraging robotic process automation (RPA) for customer service, building more agility into workflows will be critical.

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It's people who are powering resilience and recovery. People who have weathered significant hardship and new challenges—both personally and professionally—and yet still maintained their effort and energy in the workplace. Workforce strategy should lead with empathy and focus on enabling employees to reach their next level of potential. That starts with building and reinforcing an equitable culture with advancement opportunities for all, and extends to optimizing work through technology and outsourcing.

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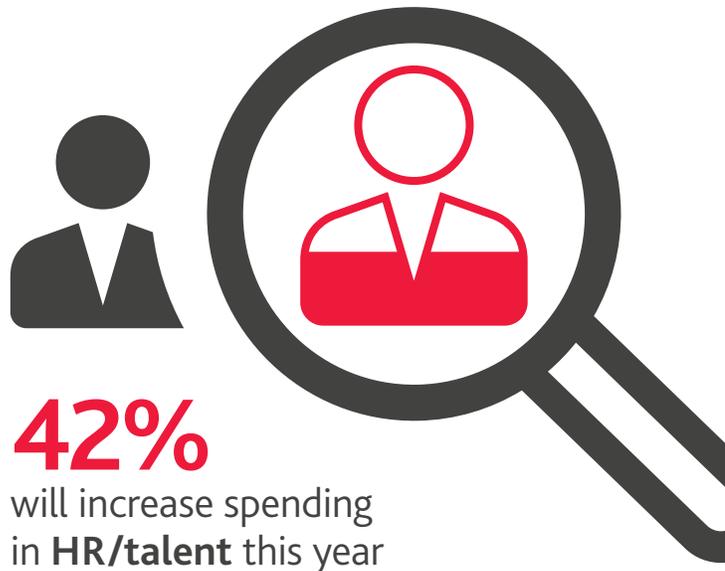


KELLY JOHNSON

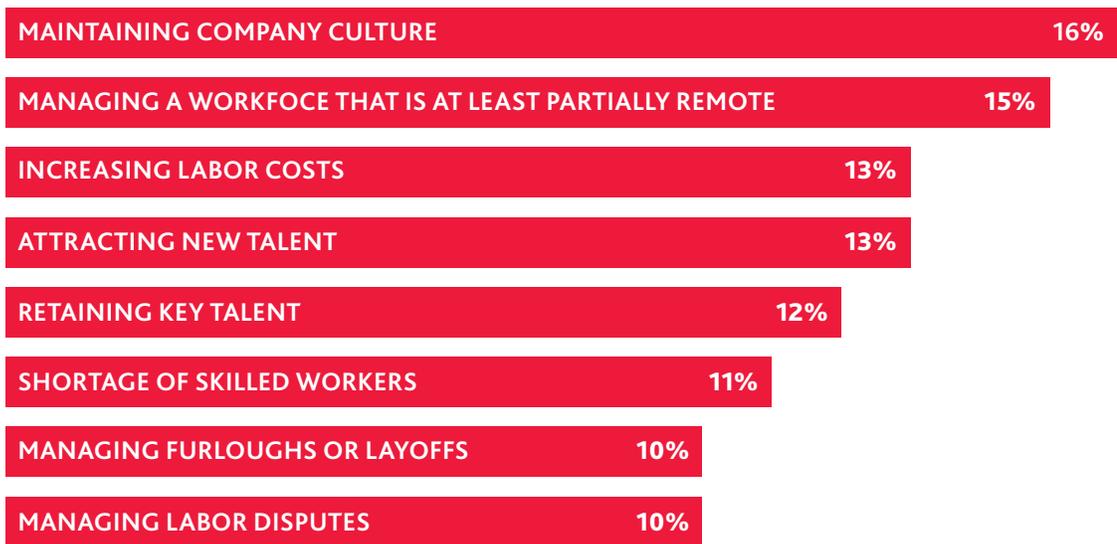
BDO Board Chair and Business Services & Outsourcing Practice Leader

Shifts in overall workforce and productivity strategies coupled with continued economic uncertainty leave CFOs split on their top workforce challenge for the year ahead. While maintaining company culture and managing a dispersed workforce during a time of so much disruption are the most cited issues, CFOs also note concern over increasing labor costs and the ability to attract and retain key talent.

Maintaining top talent is a perennial issue given competition for key leaders and the costs associated with attractive compensation and benefits packages. Now companies are up against a new challenge: According to the annual Women in the Workplace study from LeanIn.org, more than one in four women are considering downshifting their careers or exiting the workforce—a higher rate than men for the first time in the study's history—due to COVID-19. As the pandemic threatens to undo years of progress toward more gender parity, companies should ensure continued focus on supporting women and diverse professionals to help avoid the burnout that is often the root cause of talent exiting.



CFOs DIVIDED ON TOP WORKFORCE CHALLENGES



What's Next for Risk

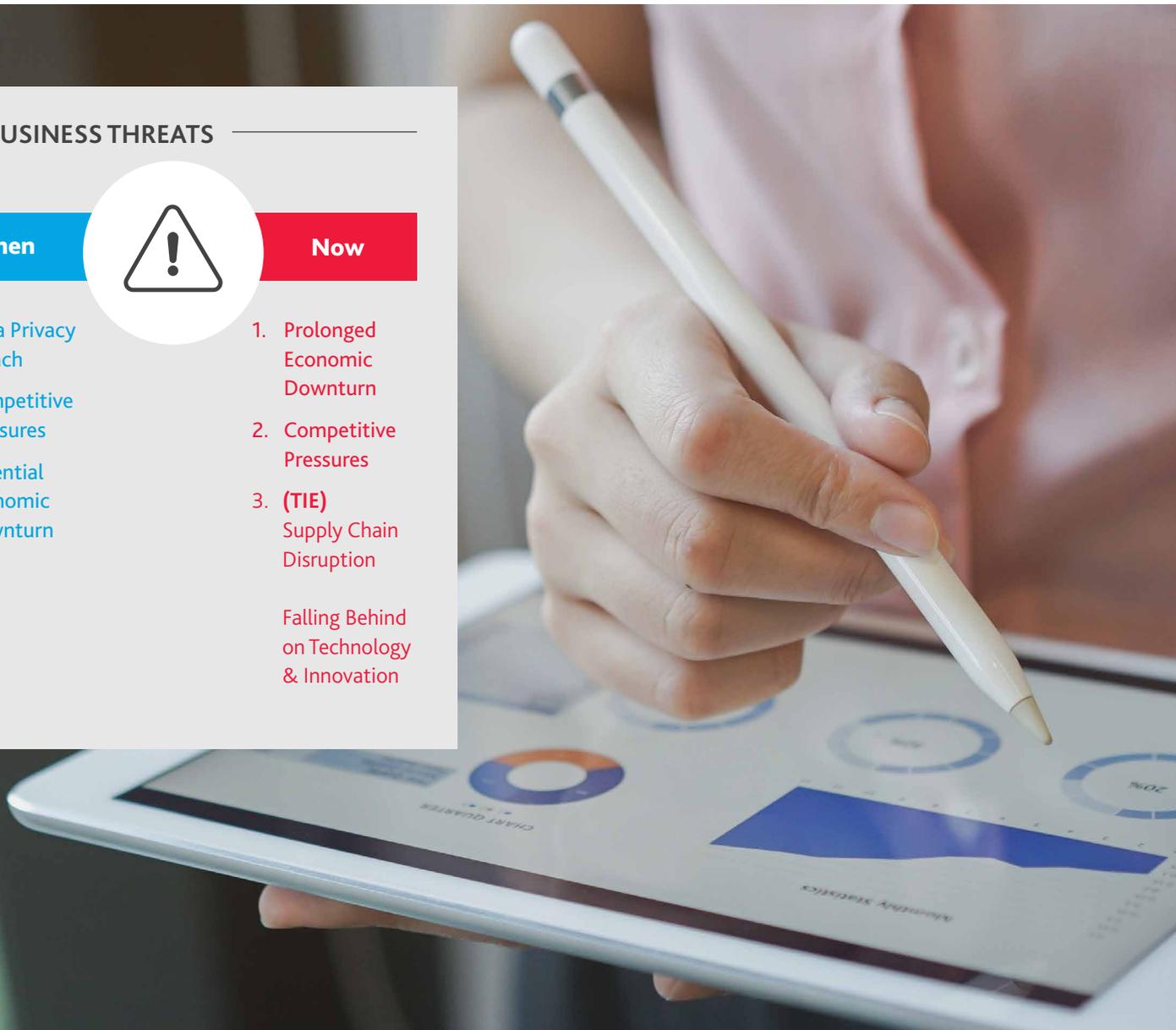
It's a new year, and middle market CFOs have a new perspective on risk.

Just as the crisis required a shift in focus to resilience, it also put previous areas of concern in new context. Prior to the pandemic, even though a majority of CFOs forecasted a recession within one to two years, data privacy was the most prevalent concern. With a more challenging economic picture at their front door, middle market companies now note more concern over a prolonged downturn.

Still, CFOs should not lose sight of other areas of risk, like privacy, which is likely to remain a major stakeholder and regulator priority as the economy stabilizes. Similarly, while reputational risk did not rise to the top areas of concern this year, how companies respond to both the pandemic and social justice crises, and where they did—or didn't—take action will be a major contributor to their brand reputation going forward. Even as the economy and supply chain take important focus, the middle market should not overlook reputational risks that could have a longer-term impact.

TOP BUSINESS THREATS

Then	Now
<ol style="list-style-type: none"> 1. Data Privacy Breach 2. Competitive Pressures 3. Potential Economic Downturn 	<ol style="list-style-type: none"> 1. Prolonged Economic Downturn 2. Competitive Pressures 3. (TIE) Supply Chain Disruption <p>Falling Behind on Technology & Innovation</p>



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The supply chain has historically been viewed as a cost center, but now it's proven essential to the health and continuity of business across the entire world. This is an opportunity for middle market companies to go beyond the goal of meeting demand to creating more value and optimizing each link of the chain. Having a more holistic view can help reduce risk, increase speed and transparency, and unlock competitive advantages.

**ESKANDER YAVAR**

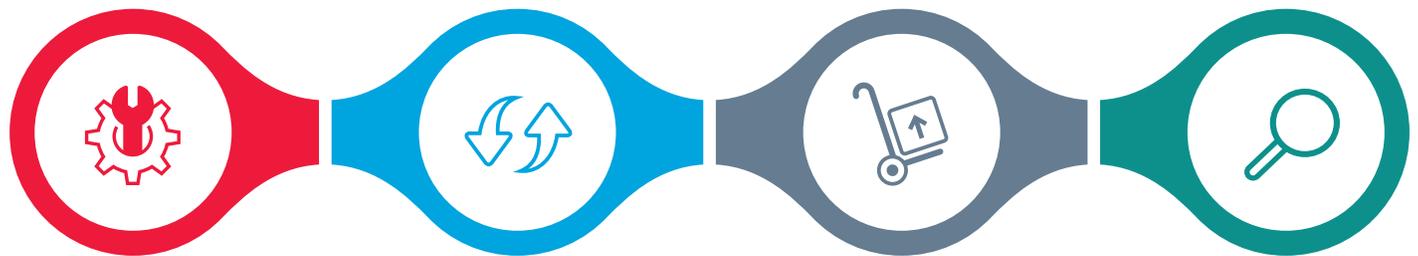
Principal and Global Value Chain Practice Leader

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The supply chain is now a clear priority across the middle market following a year marked by shortages, delays and unused inventory. In fact, our [BDO Board Pulse Survey](#) found that 48% of public companies experienced high or moderate supply chain disruption in 2020. This level of disruption will have lasting impacts.

There's also no guarantee that the disruption is over. Rather, the more likely scenario is that more disruption is ahead. Middle market companies across every industry should be focused on building more security and resilience into their supply chains.

SUSTAINABLE SUPPLY CHAIN STRATEGIES



Demand Recalibration

- ▶ What are the long-term impacts on changes to customer behavior and need?
- ▶ What factors are reshaping demand?
- ▶ Do we need to build in redundancy?
- ▶ How can we build in more agility to respond to change?

Diversification

- ▶ Is our business too reliant on any key regions or suppliers?
- ▶ Can we move activities closer to our end customer?
- ▶ What are the tax and tariff implications of our sourcing strategy?

Supplier Relations

- ▶ Do we need to establish new or backup supplier relationships?
- ▶ Can we adjust our contracts to build in more guarantees or more flexibility?
- ▶ How healthy are our critical suppliers/vendors?

Visibility

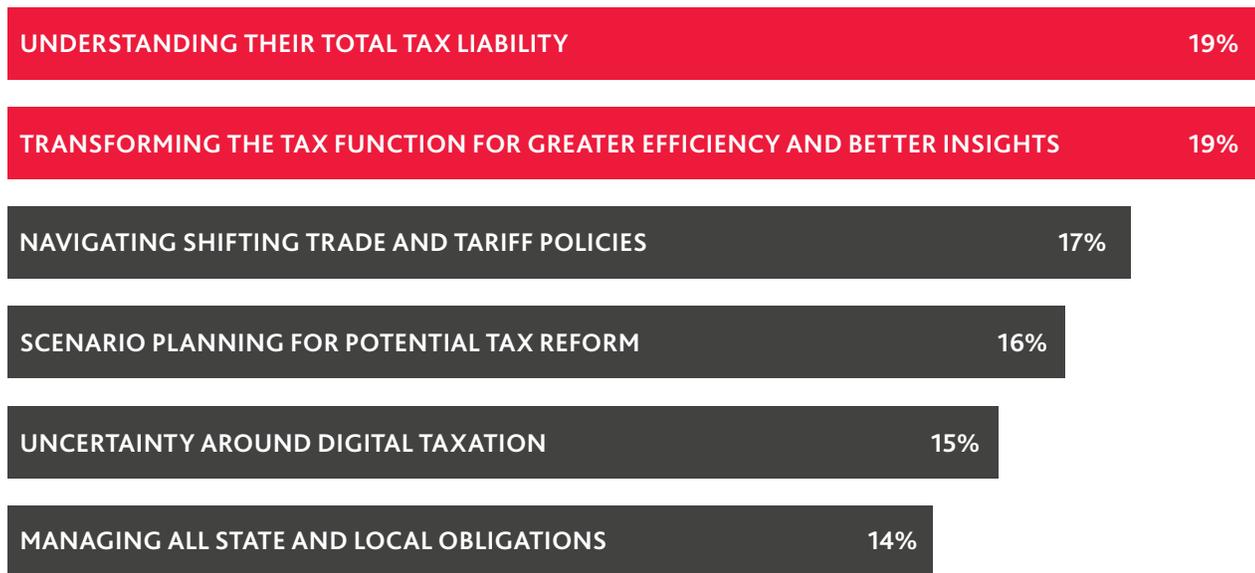
- ▶ Can we increase transparency across our supply chain?
- ▶ Can technology solutions like RFID or cloud-based GPS help us be more agile to change?

Companies are also making supply chain decisions based on changes in exposure to tariffs. In fact, trade and tariffs topped the list of policy concerns for CFOs (22%)—exceeding healthcare (20%) and tax reform (13%).

With a new administration installed in 2021, CFOs should be conducting scenario planning for altered trade agreements and seek to minimize the impacts of any major changes. Building in more flexibility and agility to the supply chain will remain a priority, regardless of potential policy change.

Uncertainty around potential changes to tariffs is just one of the critical tax challenges facing the middle market. With every growth, optimization or supply chain decision comes a resulting impact to tax exposure on some level, be it federal, state and local or international. Properly assessing the impact of any new actions on a company's **total tax liability** is a crucial element to determining if the strategy will help ultimately reduce tax costs, or conversely add new ones that could diminish or even eliminate its value.

CFOs' TOP TAX CHALLENGES



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The events of the past year have forced many middle market businesses to reassess their overall business plans and to evolve their tax strategies to go hand in hand with those efforts. While exposure to new tax liabilities can come at a significant cost, effective tax planning can optimize them, leaving businesses with the cash they need to pursue their plans.



MATTHEW BECKER
National Managing Partner of Tax

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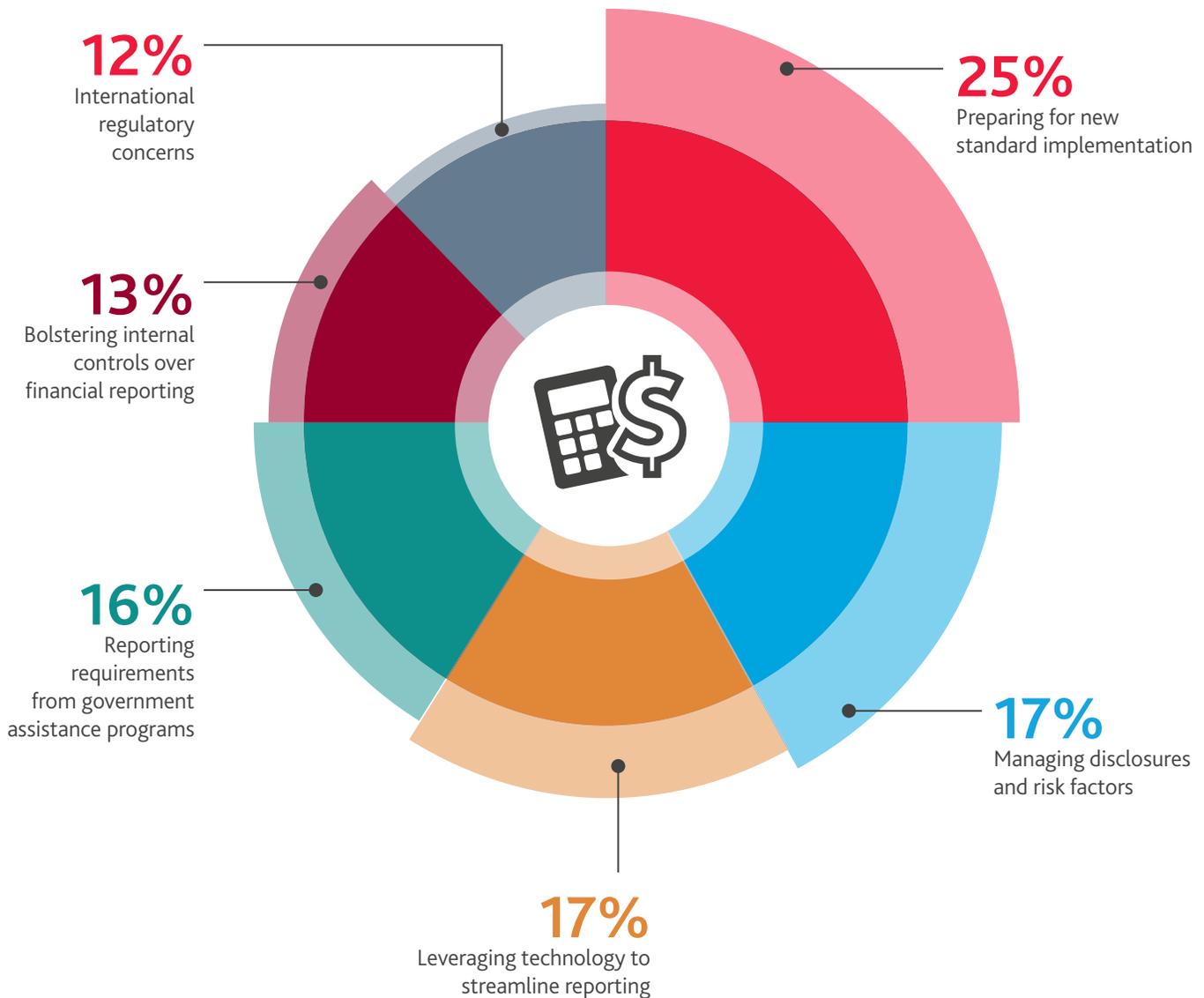
REPORTING ON RISK

Companies are also focused on how to best communicate changes to risk posture, business continuity plans and ongoing impacts of the pandemic and economic downturn. When asked about financial reporting challenges, 17% of CFOs said managing disclosures and risk factors would be their top issue. A report from the Corporate Governance Research Initiative at the Stanford Graduate School of Business and the Rock Center for Corporate Governance at Stanford University found that 99.4% of the 3,644 public companies they analyzed made some type of disclosure related to COVID-19 between January and May 2020.

Following this surge of new risks, the SEC issued guidance to help public companies provide COVID-19 impact disclosures on matters that may be material to investors, including access to credit, ability to service debt, reliance upon key customers or suppliers and ability to continue as a going concern. Liquidity continues to be a critical area of focus and concern, even following stimulus efforts. Complying with the reporting requirements from government assistance programs will also be a key challenge, with a majority of middle market companies securing assistance and thus needing to ensure they have the proper [documentation, recording and reporting](#) to stand up to potential audit and avoid penalties or repayment, where possible.

54% 
will increase spending in
finance and **accounting**
departments this year

TOP FINANCIAL REPORTING CHALLENGES



On the Horizon: Lease Accounting

As middle market companies reset and rethink strategy for 2021, leasing is likely to be a key part of their real estate and cost optimization strategy. Companies should be mindful of the landmark new lease accounting rules, which are in effect for public companies and will begin in 2021 for private companies. The new rules bring leases to the balance sheet as a liability for the first time and require careful planning, documentation and resources to implement.

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The middle market has been a model of flexibility, and when it comes to risk and reporting requirements, consistent diligence is the prized approach. Stakeholders will have increased scrutiny as the long-term impacts of crisis continue to play out, and companies will need to rely on a transparent and accurate financial picture to help them realize their new potential and plan with more precision.

**BILL EISIG**

National Managing
Partner of Assurance

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Nothing is normal about the year ahead. Customers will have unforeseen demands, and new innovations will rise to meet them. Policy and economic changes will continue. More issues will arise that put the middle market to the test.

But that is the whole point of resilience: The goal is to build a company that can withstand unknown risk, plan for the future while being adaptable to inevitable change, and empower a workforce that can pivot to new potential.

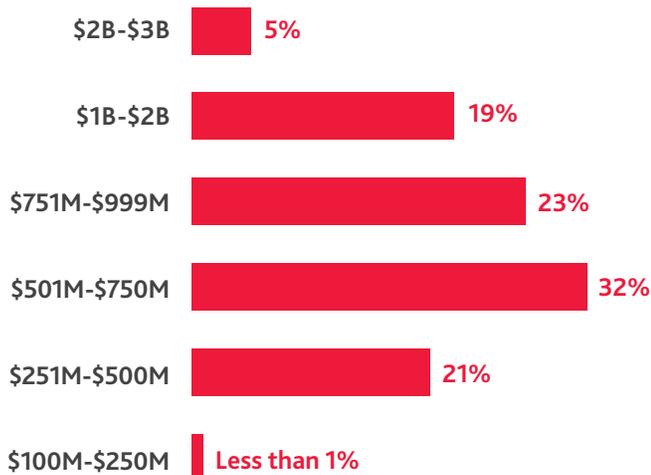
The middle market is ready to move forward and not just experience what's next, but define it.

Respondent Profile

The **2021 BDO Middle Market CFO Outlook Survey** is a survey of 600 middle market CFOs in the U.S. The survey was conducted by Rabin Research Company, an independent marketing research firm, in September 2020.

Average tenure in current CFO role: 5.2 years

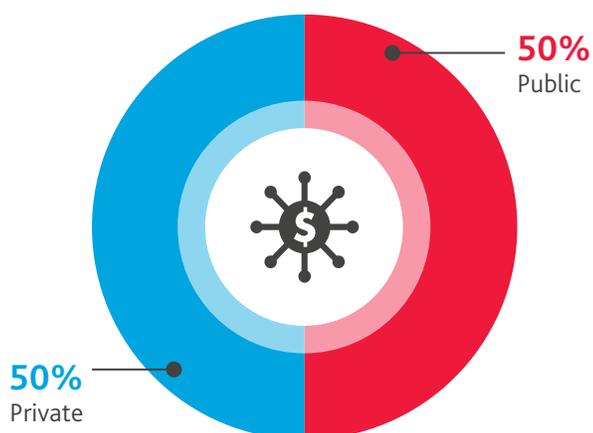
ANNUAL REVENUE



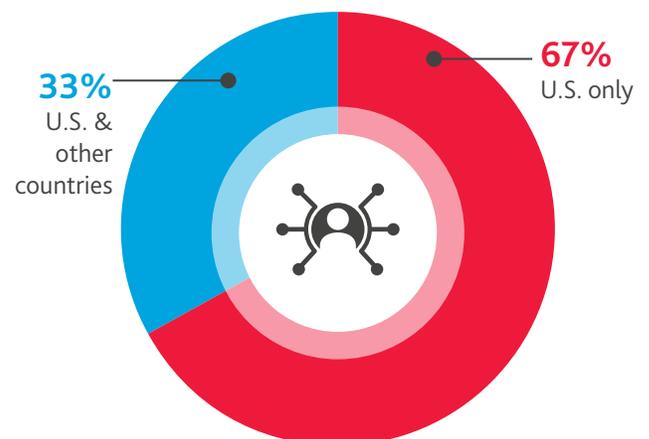
INDUSTRIES

- ▶ Energy: 100 respondents
- ▶ Healthcare: 100 respondents
- ▶ Life Sciences: 100 respondents
- ▶ Manufacturing: 100 respondents
- ▶ Retail: 100 respondents
- ▶ Technology: 100 respondents

COMPANY TYPE



REGION OF OPERATIONS



View the survey results by industry:



Energy



Healthcare



Life Sciences



Manufacturing



Retail



Technology



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