

Management Barometer™

Business outlook report
February 2009

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Quarterly highlights

In the fourth quarter of 2008, PricewaterhouseCoopers interviewed a cross section of 130 US-based executives about their current business performance, the state of the economy, and their expectations for business growth over the next 12 months. We then compared their business outlook with the prior quarter's results to see how the 12-month outlook has changed. The results show that own-company revenue targets for the next 12 months have been reset slightly negative year-over-year in the face of increased pessimism about the US and world economies. Although lack of demand leads among concerns, decreasing profitability is a close second as revenue projections continue to slide.

Key findings:

- **Pessimism radiates around globe.** Looking ahead, 66 percent of senior executives of US-based multinationals interviewed are pessimistic about prospects for the US economy over the next 12 months, only 9 percent are optimistic, and 25 percent are uncertain. Of panelists who market abroad, 63 percent are pessimistic about prospects for the world economy over the next 12 months, only 6 percent are optimistic, and 31 percent are uncertain. Survey responses about views on the US economy remain parallel with views on the global economy, and each largely mirrors the survey's third-quarter results.
 - **Revenue expectations dim.** Own-company revenue projections for the next 12 months dropped more than 4 points in the fourth quarter from an average 3.8 percent to minus 0.6 percent. Only 35 percent of panelists expect positive revenue growth, with 6 percent forecasting double-digit growth and 29 percent single-digit growth. An increasing number projected zero growth, up 21 points to 35 percent, and more expect negative growth, up 10 points to a survey high of 25 percent.
 - **International sales dip.** In the fourth quarter, declining sales outpaced increasing sales, providing further evidence that markets abroad are softening. Only 29 percent of executives reported an increase in international sales, down from 43 percent the prior quarter, while 33 percent reported a decrease, up from 16 percent last quarter.
- Although projections for total revenue are declining, the contribution of international sales to total revenue is holding steady. Looking at the next 12 months, the contribution of international sales to total revenue is expected to increase 4 points from the prior quarter to 29 percent.
- **Demand remains top concern.** The leading potential barrier to own-company growth over the next 12 months will be lack of demand, cited by 74 percent of those surveyed. Concern about decreasing profitability will weigh heavily, too, as it was cited by 57 percent. Two other concerns about growth over the next 12 months rose slightly this quarter: Capital constraints (34 percent) and taxation (31 percent).
 - **Gross margins tighten.** Looking ahead, concern about decreasing margins over the next 12 months rose to 57 percent, reflecting the impact of overall revenue cutbacks. In the fourth quarter, gross margins showed downward momentum: up for 21 percent but down for 39 percent, for a net minus 18 percent. Meanwhile, the spiral of rising costs and prices has ended. Costs increased for 26 percent and decreased for 27 percent, meaning costs decreased for a net minus 1 percent. Prices followed suit: They increased for 20 percent and decreased for 25 percent, for a net minus 5 percent reporting a decrease in prices.
 - **Capital spending plans drop off.** Fewer respondents are planning major new investments of capital over the next 12 months—31 percent, down from the prior quarter's 35 percent. Operational spending increases over the next 12 months are down, too—55 percent, compared with the prior quarter's 68 percent.
 - **Workforce is shrinking.** Only 19 percent plan to hire workers over the next 12 months, and 28 percent plan to reduce their staff. More composite workforce layoffs are expected, at minus 2.9 percent, down from minus 0.3 percent in the previous quarter.

A quarter-by-quarter comparison of the key indicators shows the business outlook for the next 12 months and how the views of the panel changed each quarter (see chart 1.1). The pages that follow provide a detailed look at each question for the previous five quarterly surveys.

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion from the last two quarters.

Business outlook, next 12 months	2007	2008				Change	Page
	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08	3Q - 4Q '08	
Optimistic about US economy	23%	19%	12%	8%	9%	=	7
Optimistic about world economy	53%	42%	30%	8%	6%	=	9
Expect positive revenue growth	81%	74%	71%	65%	35%	↓	19
Average growth rate expected	5.4%	4.5%	4.5%	3.8%	-0.6%	↓	19
Planning major new investments	48%	51%	43%	35%	31%	↓	23
New investments as a % of sales	7.7%	5.9%	8.1%	7.8%	6.7%	↓	23
Planning to hire	40%	34%	35%	22%	19%	↓	21
New workers as a % of workforce (net)	-0.8%	-0.1%	-0.6%	-0.3%	-2.9%	↓	21
Expected barriers to growth							
• Lack of demand	56%	62%	53%	72%	74%	=	25
• Decreasing profitability	38%	44%	47%	45%	57%	↑	25
• Legislative/ Regulatory pressures	30%	35%	36%	36%	39%	↑	25
• Monetary exchange rate	36%	47%	36%	36%	37%	=	25
• Capital constraints	17%	34%	28%	27%	34%	↑	25
• Taxation policies	19%	18%	25%	24%	31%	↑	25
• Oil/energy prices	56%	62%	71%	53%	25%	↓	25
• Competition from foreign markets	32%	23%	24%	18%	24%	↑	25
• Higher interest rates	30%	18%	23%	33%	20%	↓	25
• Pressure for increased wages	29%	30%	43%	20%	9%	↓	25
• Lack of qualified workers	27%	23%	18%	18%	5%	↓	25

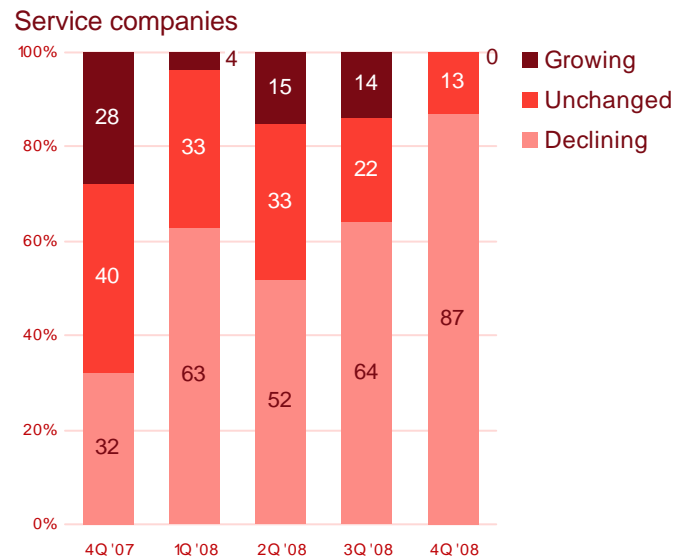
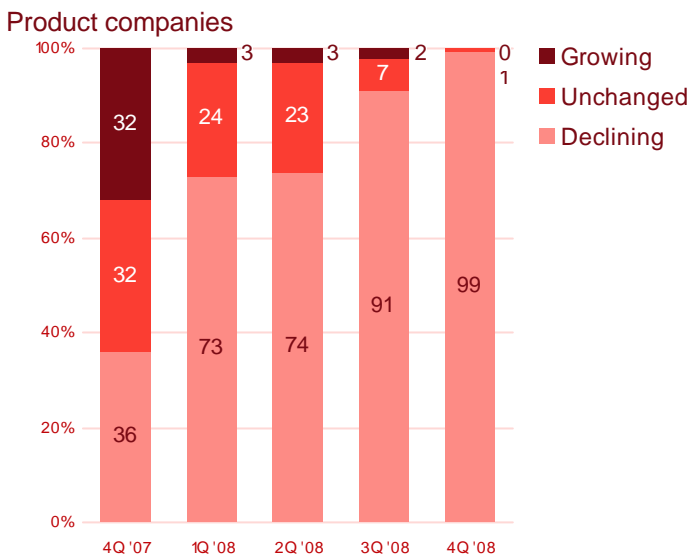
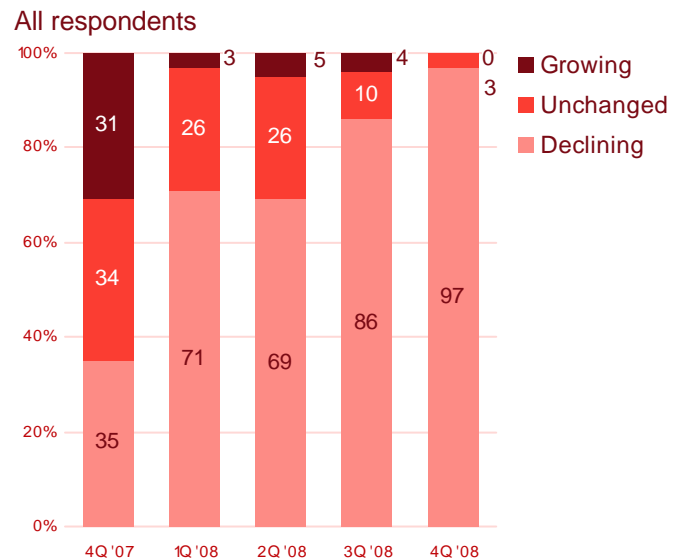
Economic views

View of the US economy, this quarter

Which best describes your view of the US economy this quarter?

Virtually all panelists believe the US economy is declining, up 11 points to 97 percent. Only 3 percent continue to see it as unchanged, and none believes the US economy grew in the fourth quarter of 2008.

Chart 2.1 View of the US economy, this quarter



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

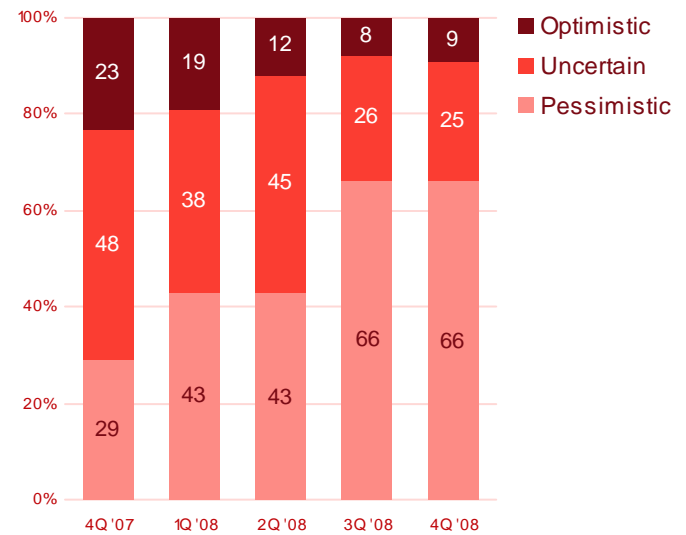
View of the US economy, next 12 months

Looking at the next 12 months, how do you feel about the prospects for the US economy?

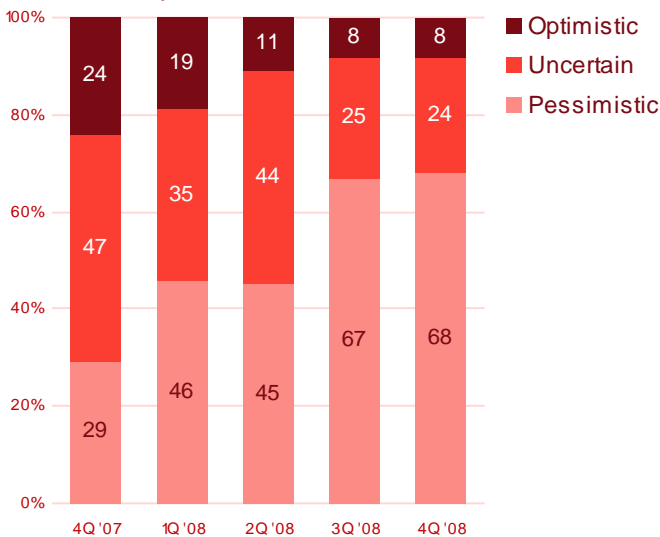
Similar to last quarter but sharply lower than a year ago, only 9 percent of those surveyed expressed optimism about the prospects for the US economy. Sixty-six percent are pessimistic, and 25 percent are uncertain.

Chart 2.2 View of the US economy, next 12 months

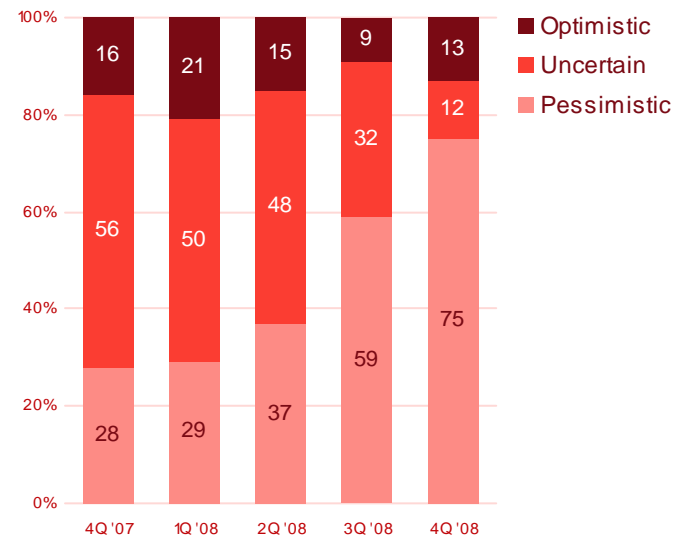
All respondents



Product companies



Service companies



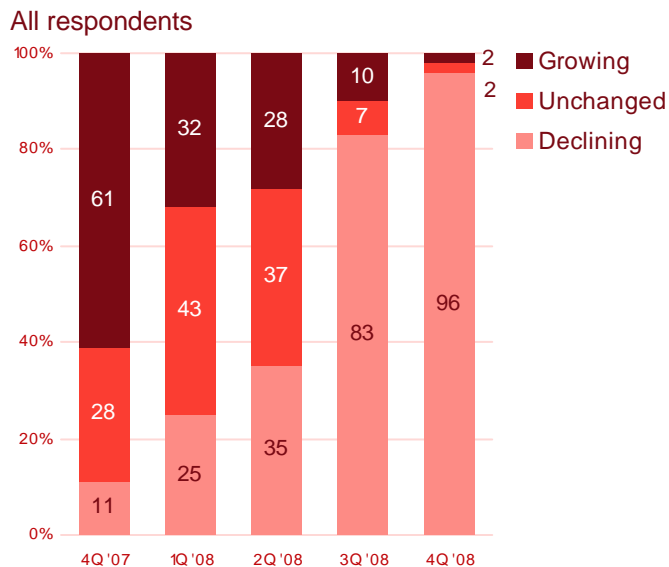
Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

View of the world economy, this quarter

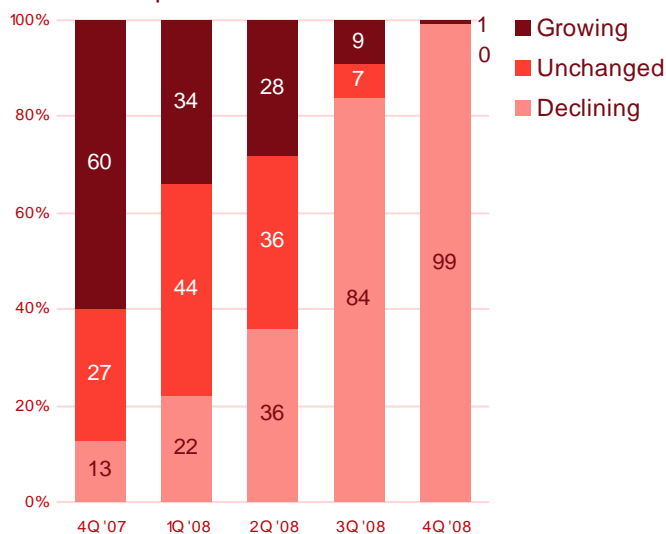
Which best describes your view of the world economy this quarter? (international marketers only)

Of those marketing abroad, only 2 percent viewed the world economy as growing in the fourth quarter—down from 10 percent in the prior quarter and well below last year’s 61 percent. Virtually all panelists saw it as declining, up 13 points from last quarter to 96 percent.

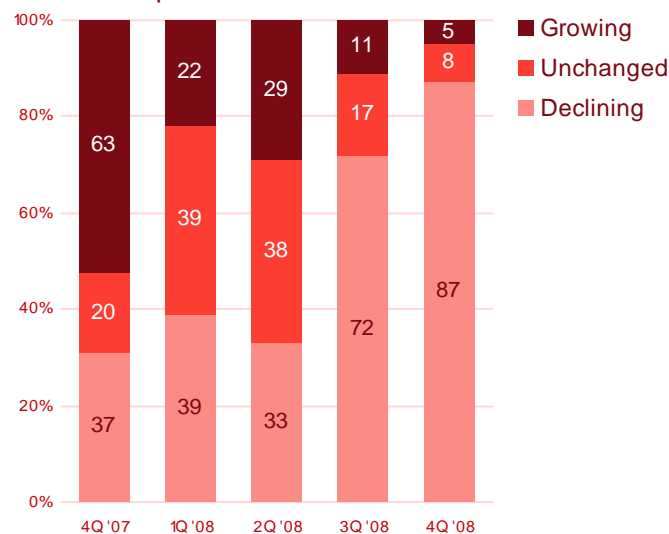
Chart 2.3 View of the world economy, this quarter



Product companies



Service companies



Note: In 4Q 2008 International marketers n=115, Product companies n=95, Service companies n=20

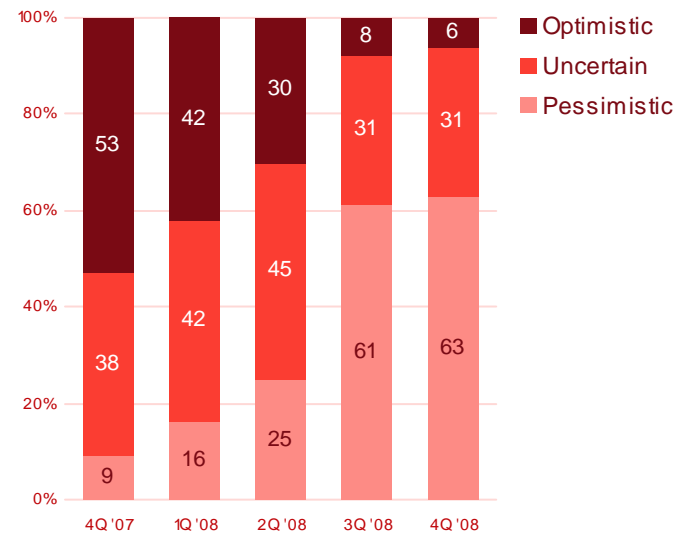
View of the world economy, next 12 months

Looking at the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

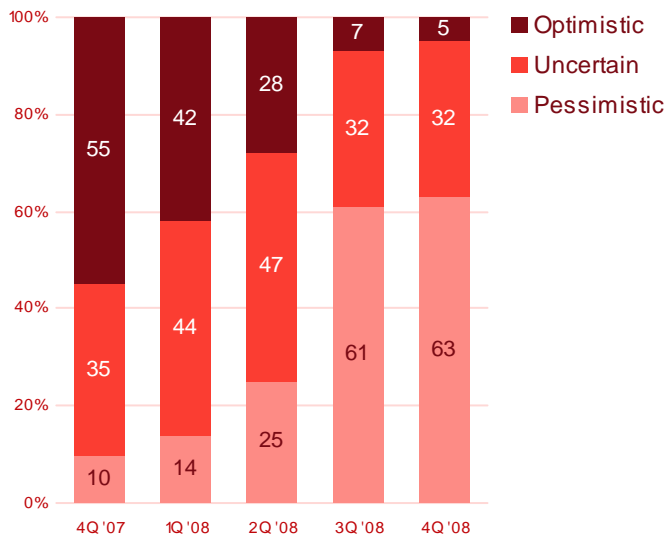
Similar to last quarter, only 6 percent of panelists who market abroad are optimistic about the prospects for the world economy over the next 12 months, 63 percent are pessimistic, and 31 percent are uncertain.

Chart 2.4 View of the world economy, next 12 months

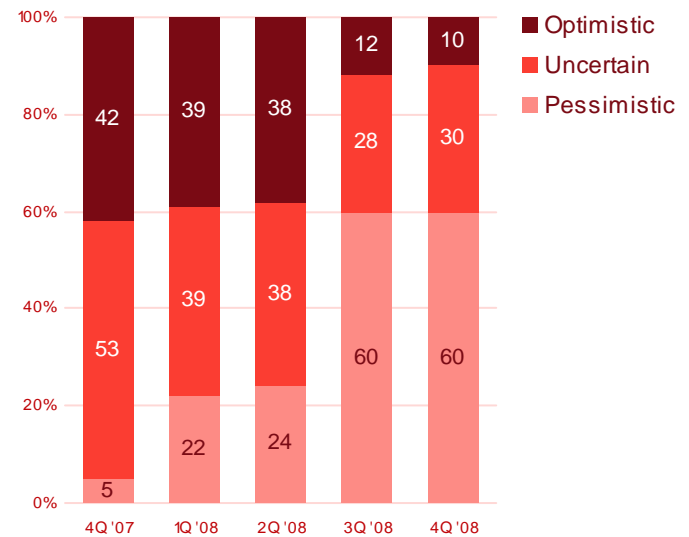
All respondents



Product companies



Service companies



Note: In 4Q 2008 International marketers n=115, Product companies n=95, Service companies n=20

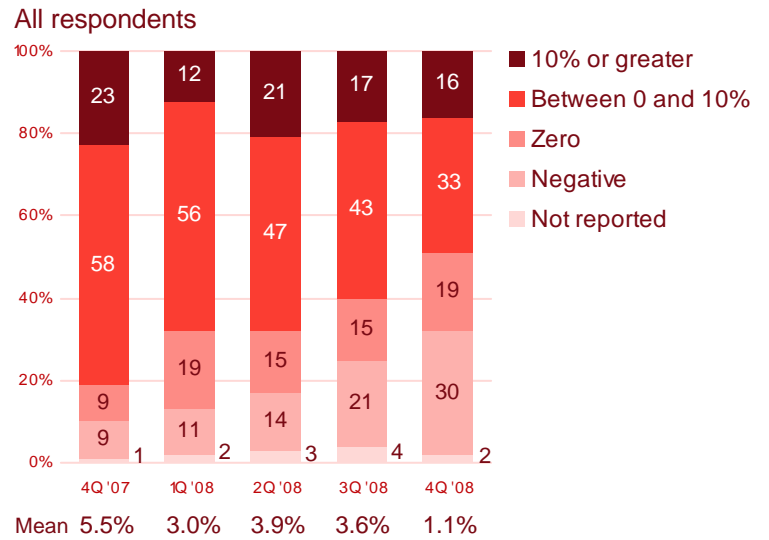
Company performance

Company revenue growth, calendar year

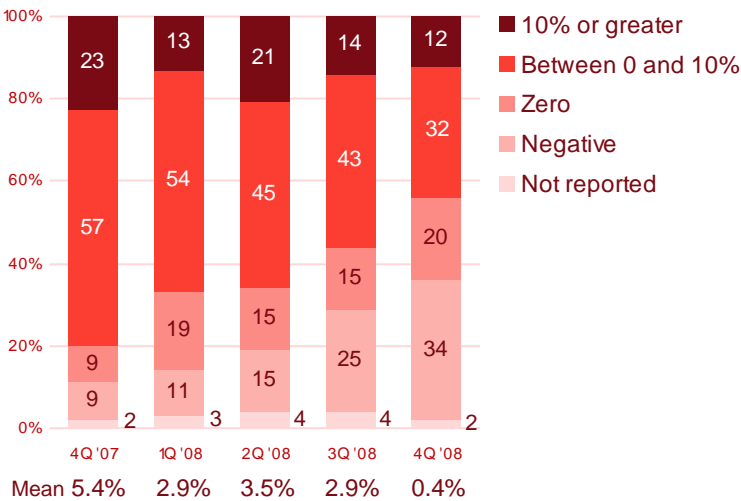
What is your company's estimated revenue growth rate for the calendar year?

In the fourth quarter, 49 percent of respondents estimated positive growth in the calendar year, down from 60 percent in the third quarter. Only 16 percent expect double-digit growth, and 33 percent expect single-digit revenue growth, both slightly down from the previous quarter. Overall, the average growth rate this quarter is a flat 1.1 percent, down from 3.6 percent last quarter.

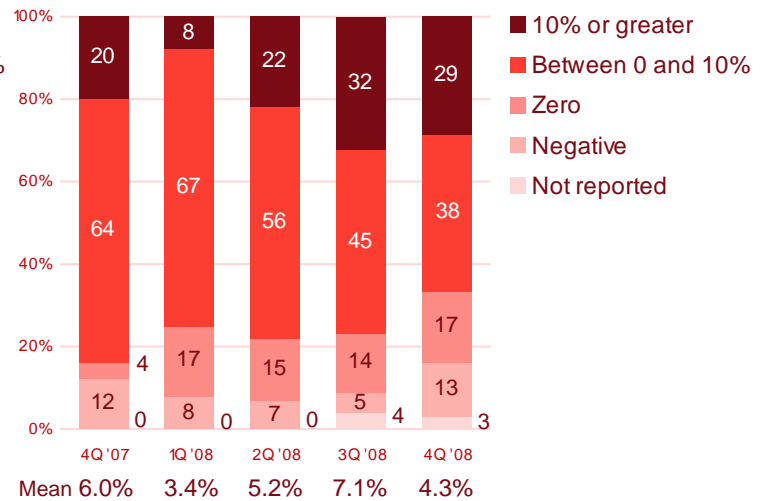
Chart 3.1 Company revenue growth, calendar year



Product companies



Service companies



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

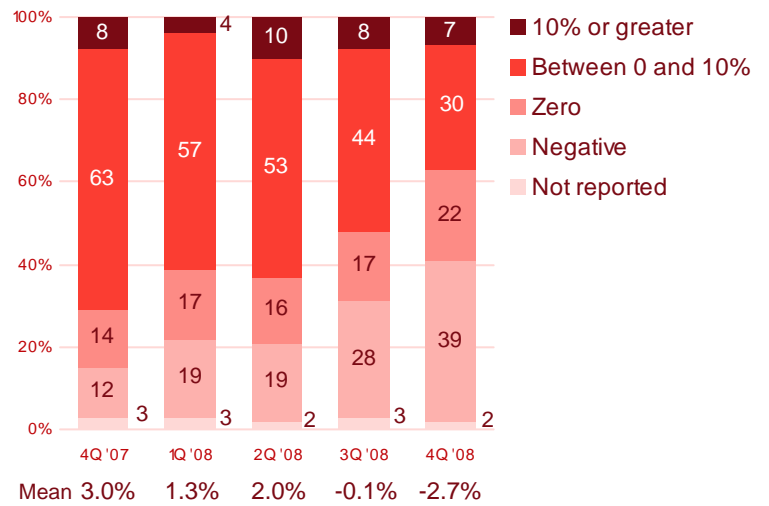
Industry growth, calendar year

What is your industry's estimated growth rate for the calendar year?

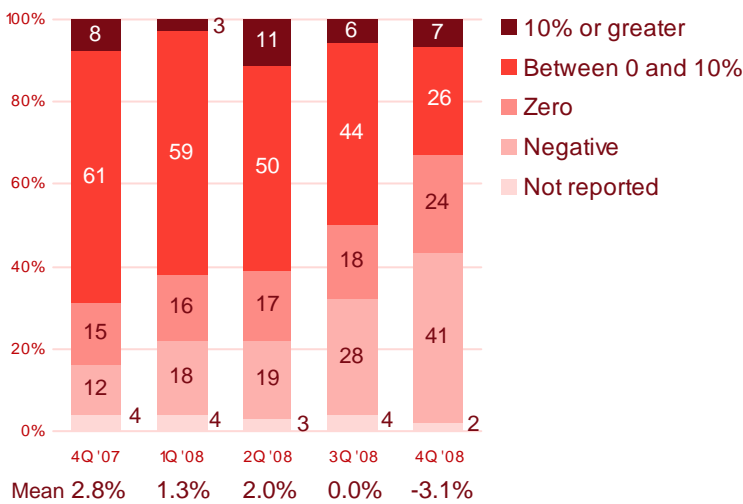
Industry sector 2008 growth estimates averaged minus 2.7 percent in the fourth quarter, down from a flat minus 0.1 percent last quarter and well below last year's plus 3.0 percent.

Chart 3.2 Industry growth, calendar year

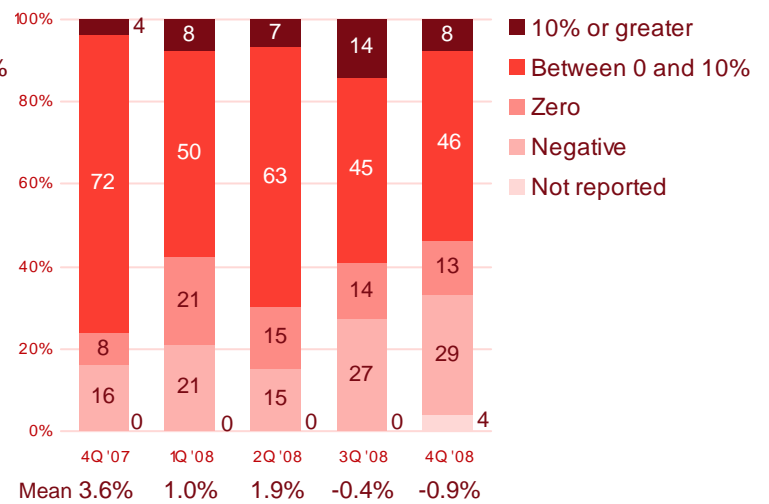
All respondents



Product companies



Service companies



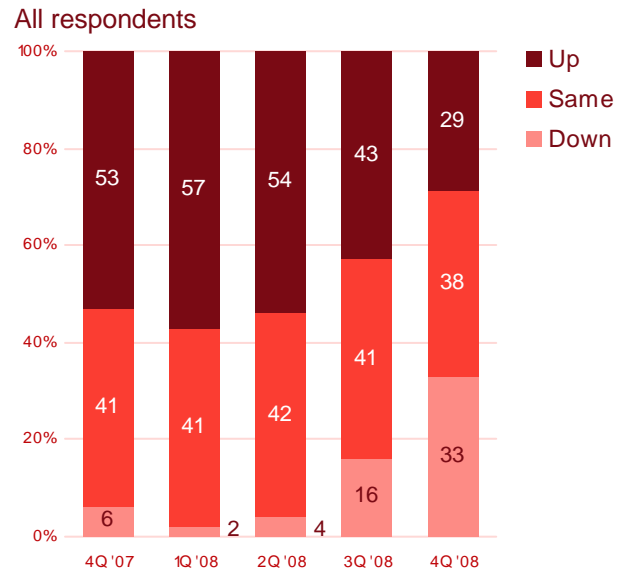
Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

International sales

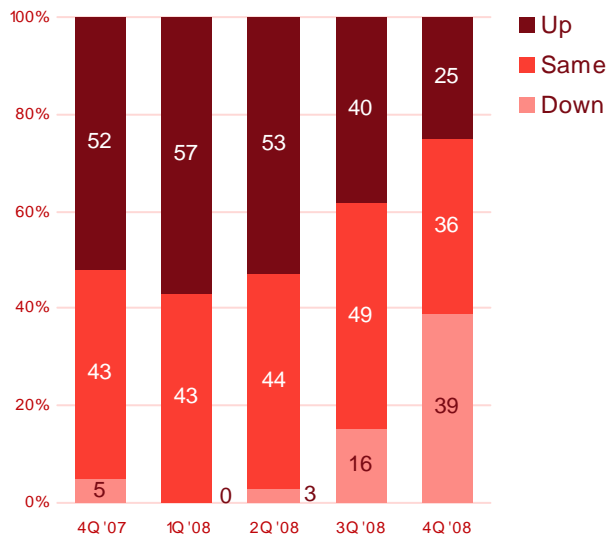
Are international sales up, down, or the same compared with three months ago?

International markets softened in the fourth quarter. Among those interviewed, 29 percent of international marketers reported increased sales abroad, below the prior quarter's 43 percent and last year's 53 percent. The number of companies reporting a quarterly decrease rose 17 points to 33 percent.

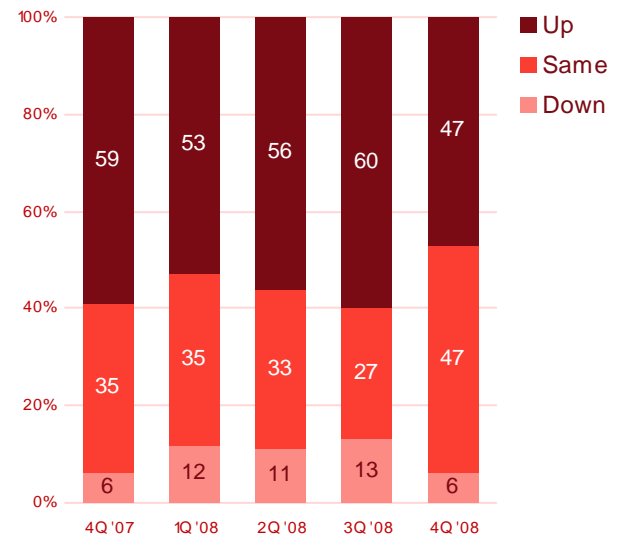
Chart 3.3 International sales



Product companies



Service companies



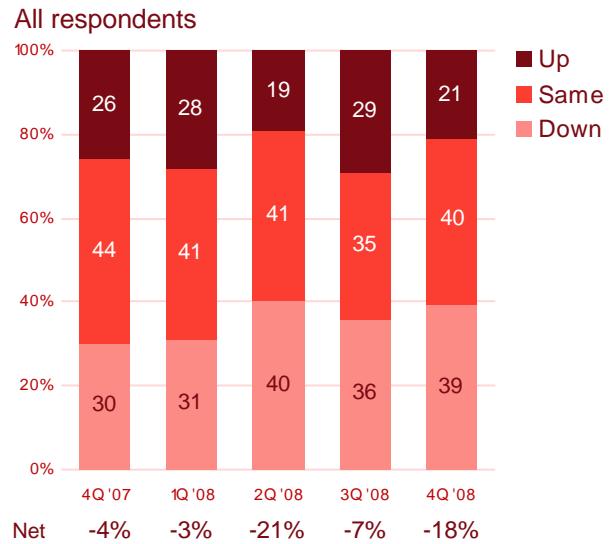
Note: In 4Q 2008 International marketers n=115, Product companies n=95, Service companies n=20

Changes in gross margins

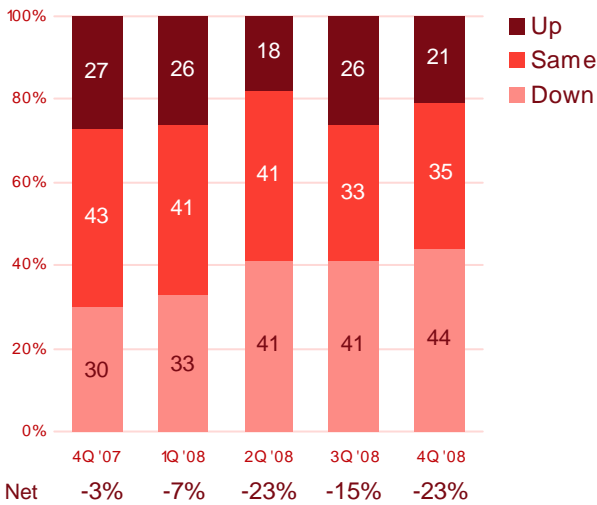
Are gross margins up, down, or the same compared with three months ago?

In the fourth quarter, net gross margins tightened. Of those surveyed, they were higher for 21 percent and lower for 39 percent. The net minus 18 percent was 11 points below last quarter and 14 points below last year.

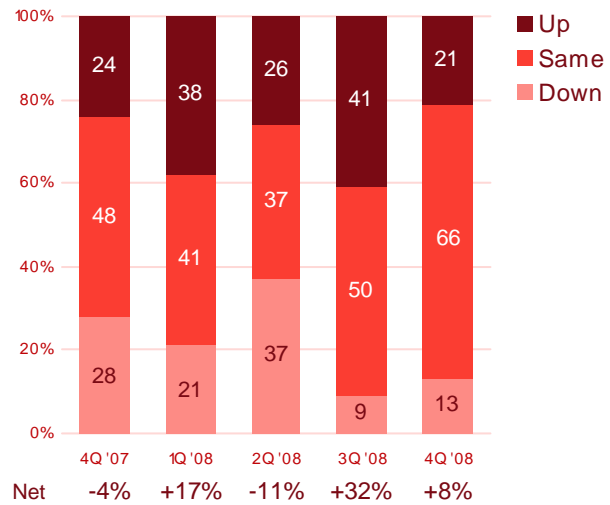
Chart 3.4 Changes in gross margins



Product companies



Service companies



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

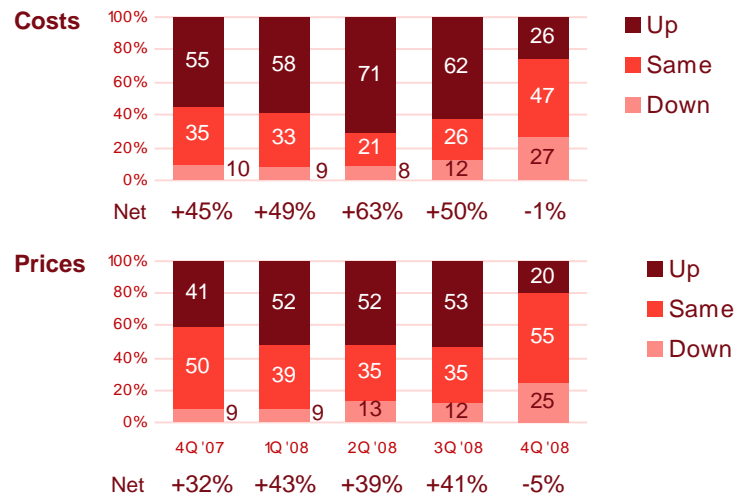
Changes in costs and prices

Are costs up, down, or the same compared with three months ago? Prices?

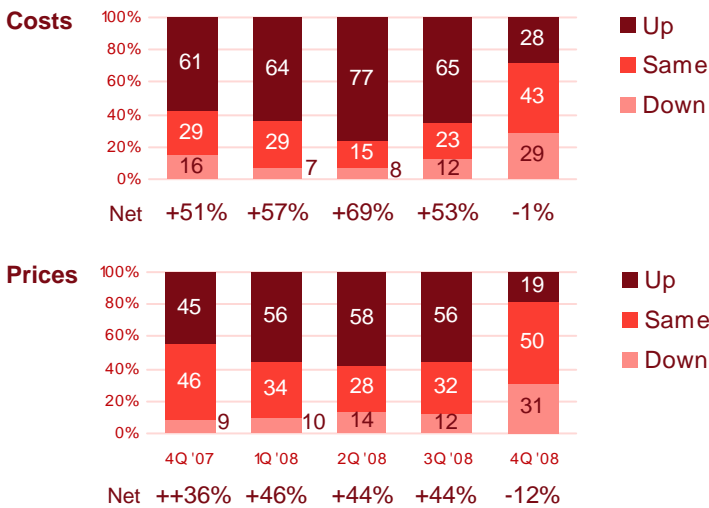
Costs increased for only 26 percent of panelists and decreased for 27 percent, for a net of minus 1 percent with lower costs. In turn, only 20 percent increased prices, and 25 percent decreased prices, for a net of minus 5 percent decreasing prices.

Chart 3.5 Changes in costs and prices

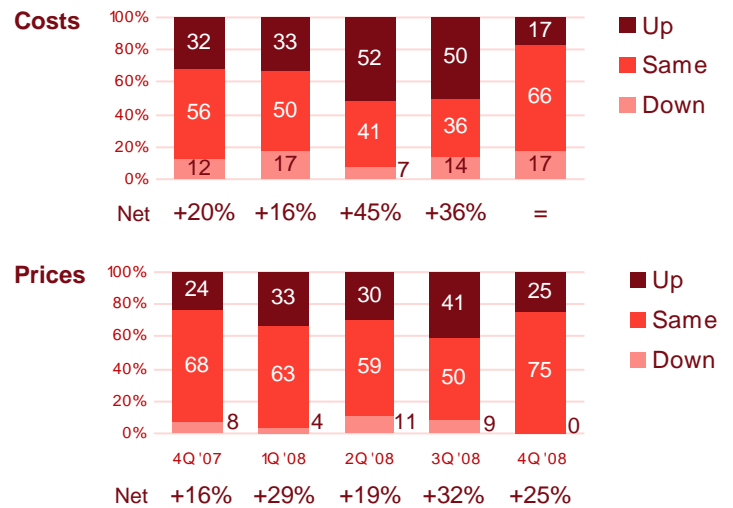
All respondents



Product companies



Service companies



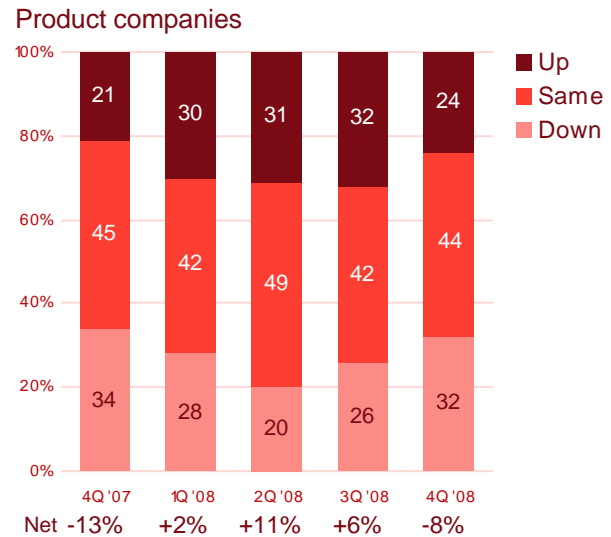
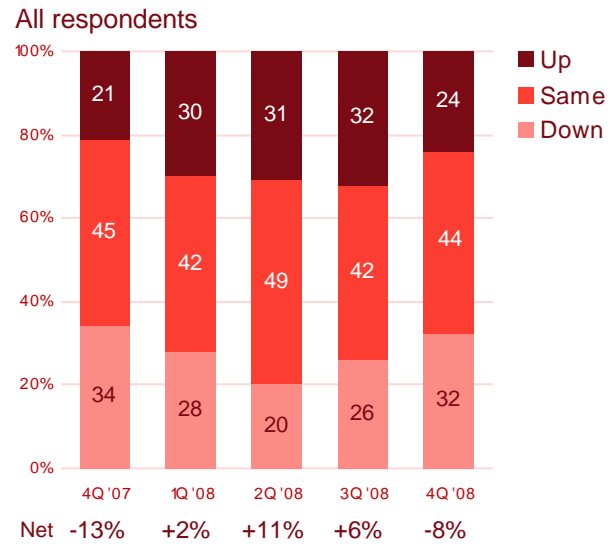
Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

Inventory movement

Are finished inventories as a percent of sales up, down, or the same compared with three months ago? (product companies only)

Inventories in the fourth quarter were up for 24 percent of respondents but lower for 32 percent, for a net minus 8 percent with higher inventories, below the prior quarter's plus 6 percent.

Chart 3.6 Inventory movement



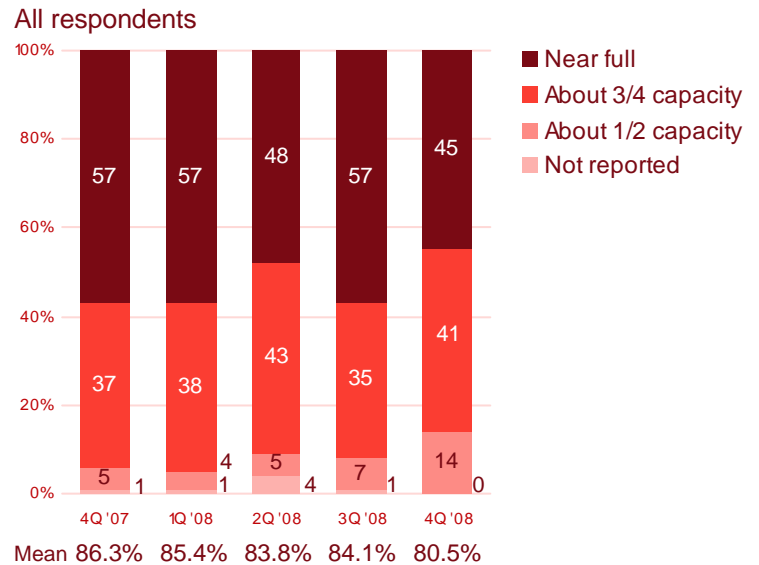
Note: In 4Q 2008 All respondents n=106, Product companies n=106

Level of operating capacity

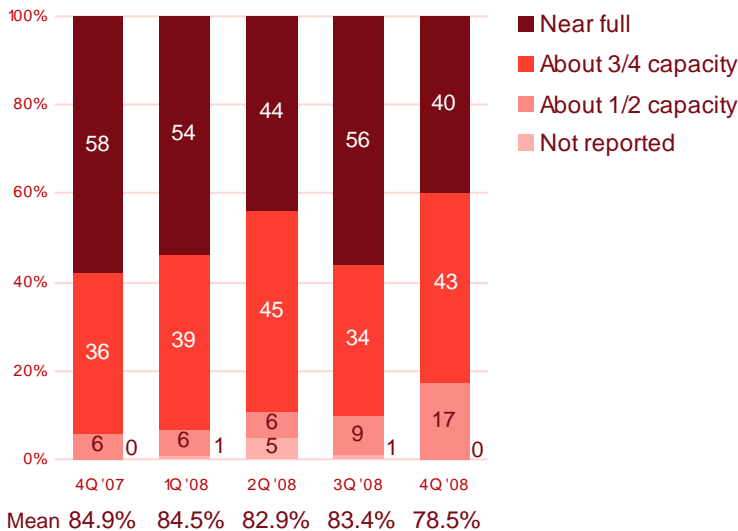
What is your organization's current operating capacity?

Operating capacity is an estimate of the current level of permanent staffing compared with what is needed for full-capacity output. In the fourth quarter, the level of operating capacity for those surveyed was an estimated 80.5 percent, below last quarter's 84.1 percent and last year's 86.3 percent. This quarter, only 45 percent said they are at or near full capacity, down 12 points from the prior quarter.

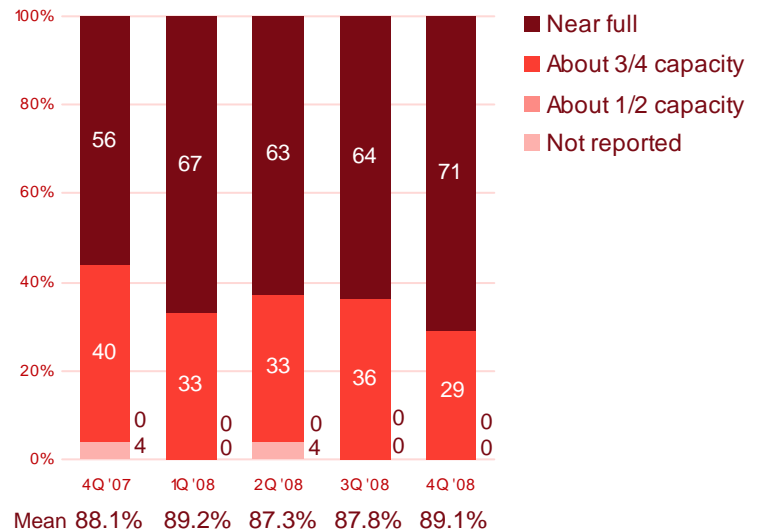
Chart 3.7 Level of operating capacity



Product companies



Service companies



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

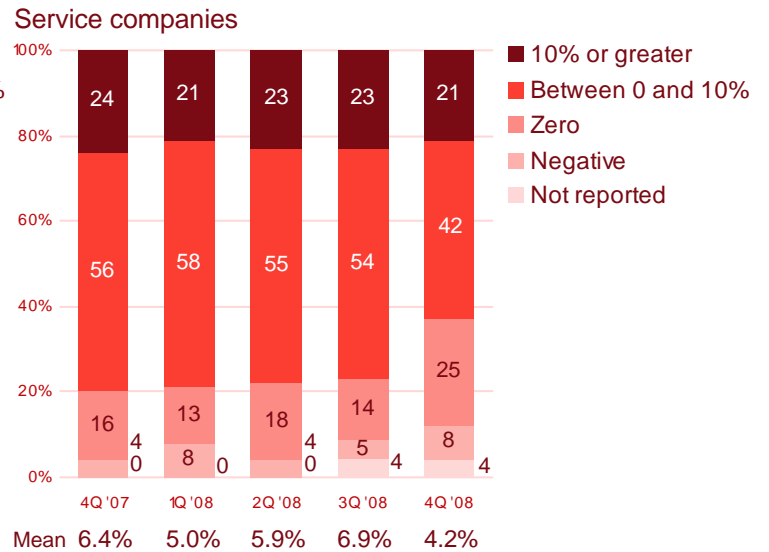
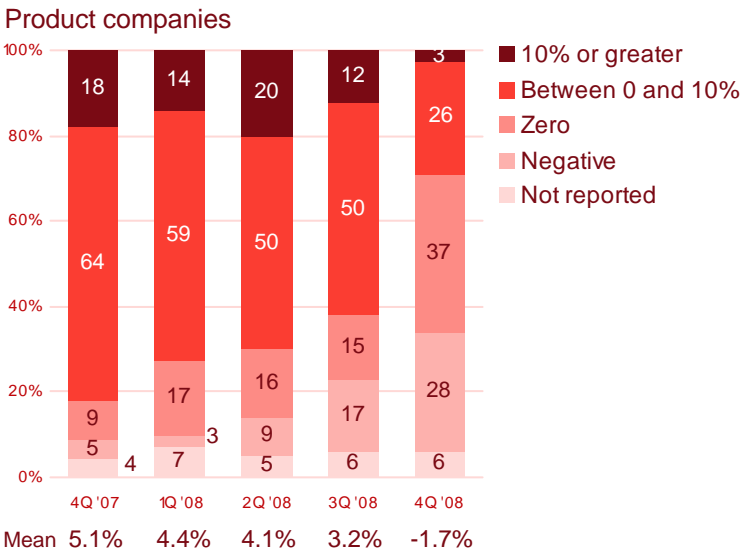
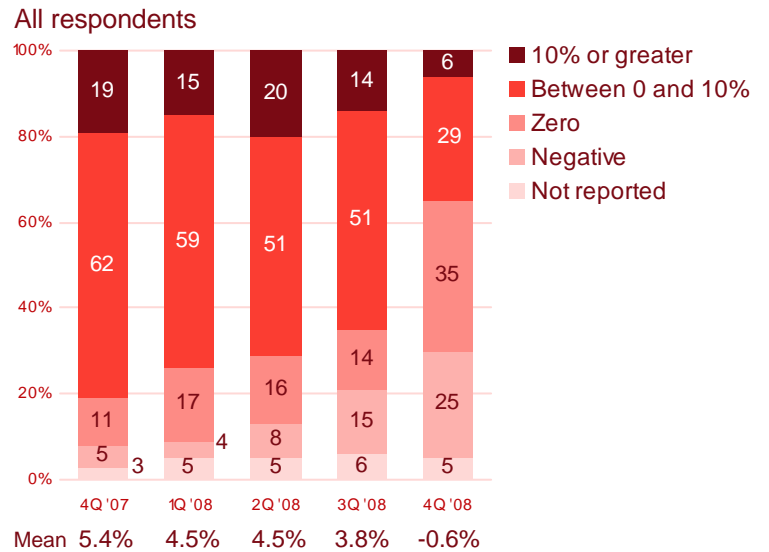
Business outlook, next 12 months

Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

Panelists project a slightly negative average revenue growth rate for their companies over the next 12 months of minus 0.6 percent. This is a noticeable drop from the prior quarter's 3.8 percent projection and last year's 5.4 percent. Only 35 percent forecast positive revenue growth, with 6 percent expecting double-digit growth and 29 percent expecting single-digit growth.

Chart 4.1 Revenue growth, next 12 months



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

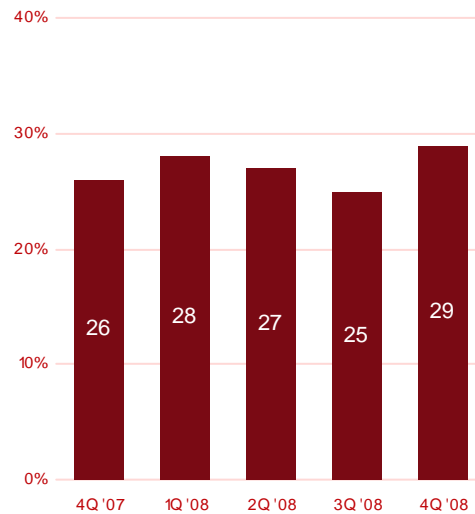
International sales, next 12 months

What percent of your business's total revenue over the next 12 months do you expect to be derived from international sales?

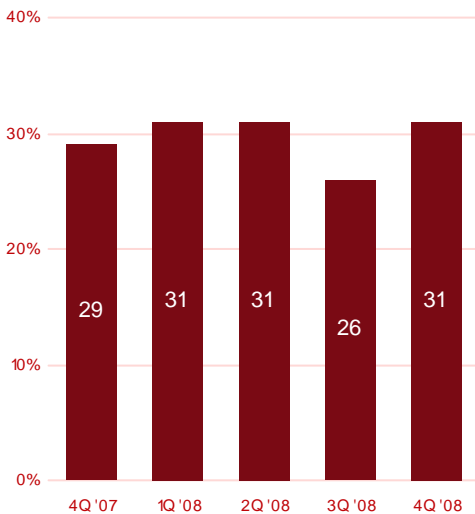
Over the next 12 months, those selling abroad projected international sales to contribute 29 percent of total revenue, above the prior quarter's 25 percent and last year's 26 percent. Although projections for total revenue are declining, the contribution of international sales to total revenue is holding steady.

Chart 4.2 International sales, next 12 months

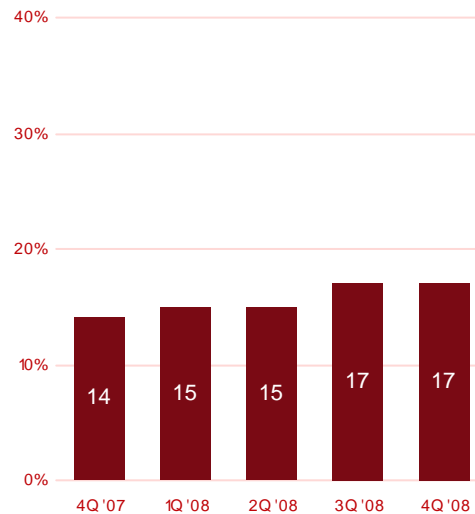
All respondents



Product companies



Service companies



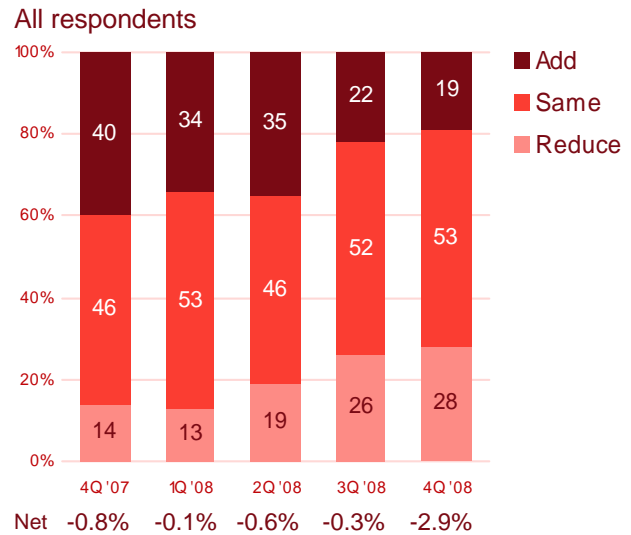
Note: In 4Q 2008 International marketers n=115, Product companies n=95, Service companies n=20

Percent planning to hire

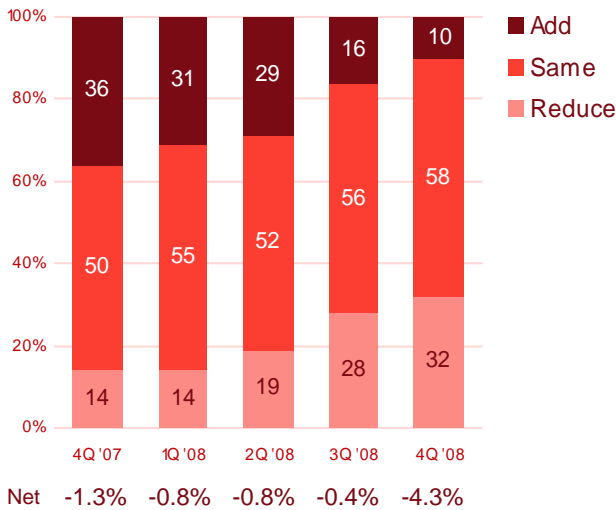
Do you plan to add or reduce the number of full-time equivalent employees over the next 12 months?

Only 19 percent of respondents plan to add workers, below the prior quarter's 22 percent and last year's 40 percent. With 28 percent expecting to reduce their staff levels, a net minus 2.9 percent is projected in the composite workforce over the next 12 months, well below the prior quarter's minus 0.3 percent.

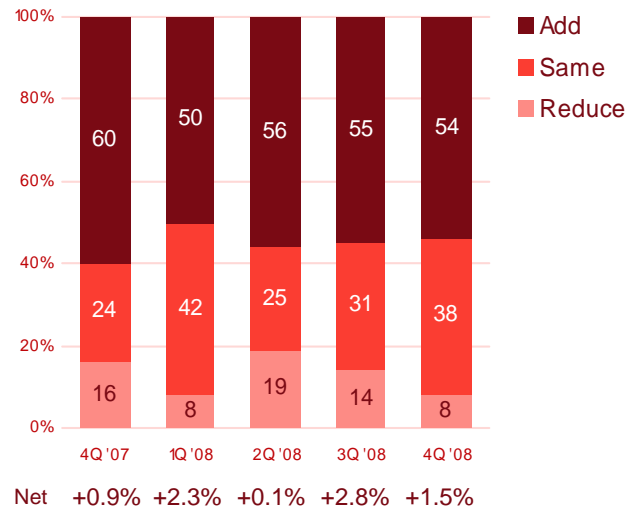
Chart 4.3 Percent planning to hire



Product companies



Service companies



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

Percent planning to hire by type of employee

What types of employees do you plan to add or reduce over the next 12 months?

Over the next 12 months, 19 percent of those surveyed are planning to hire, down 3 points from the previous quarter.

Chart 4.4 Percent planning to hire by type of employee

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Planning to hire (net)	40%	34%	35%	22%	19%
• Professionals/technicians	26%	23%	24%	15%	9%
• White-collar support	16%	15%	14%	8%	9%
• Production workers	13%	13%	9%	5%	7%
• Sales/marketing	16%	12%	16%	8%	5%
• Skilled labor	19%	15%	9%	7%	5%

Product companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Planning to hire (net)	36%	31%	29%	16%	10%
• Professionals/technicians	20%	18%	23%	9%	4%
• White-collar support	15%	14%	14%	6%	6%
• Production workers	15%	13%	10%	2%	4%
• Sales/marketing	13%	10%	15%	5%	2%
• Skilled labor	18%	16%	9%	7%	4%

Service companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Planning to hire (net)	60%	50%	56%	55%	54%
• Professionals/technicians	52%	42%	30%	45%	33%
• White-collar support	20%	17%	15%	23%	25%
• Production workers	4%	8%	7%	18%	21%
• Sales/marketing	28%	21%	22%	27%	21%
• Skilled labor	20%	8%	7%	5%	13%

Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

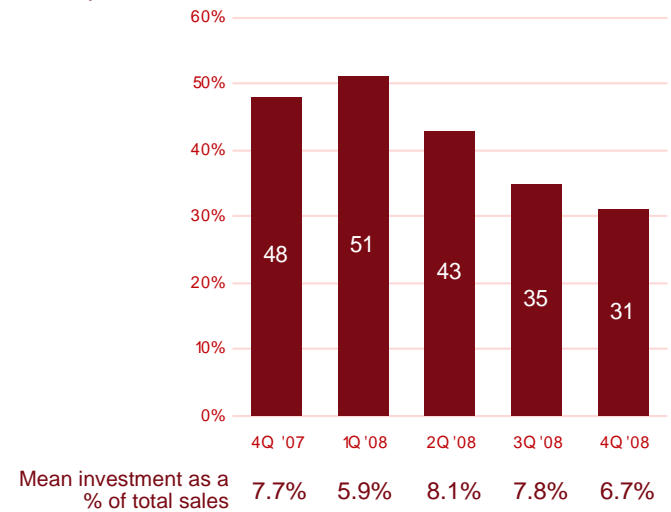
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales do you expect to invest?

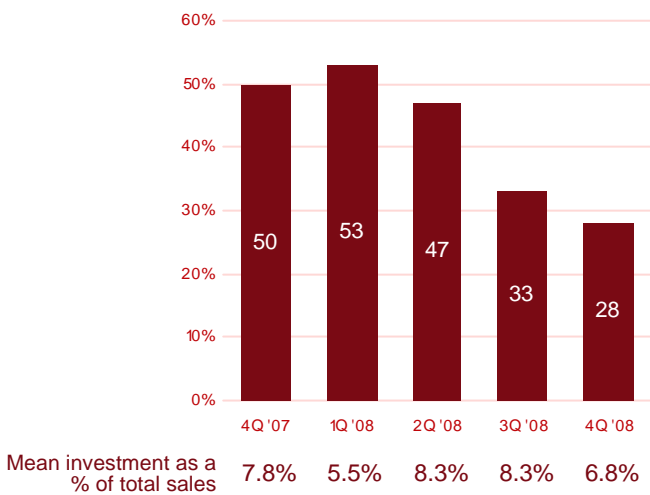
Quarter over quarter, far fewer respondents are planning major new investments of capital for business growth over the next 12 months, dropping from 35 percent to 31 percent. The mean investment also declined to 6.7 percent of total sales from 7.8 percent last quarter.

Chart 4.5 Percent planning major new investments of capital

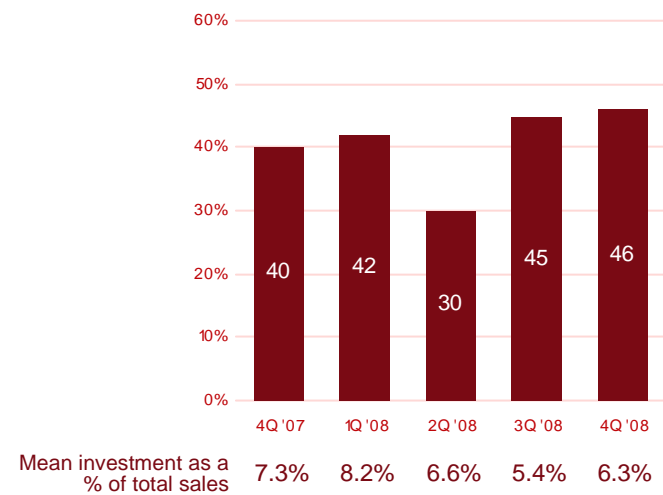
All respondents



Product companies



Service companies



Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

Over the next 12 months, 55 percent of panelists plan to increase spending in a wide range of operational areas, down 13 points from the prior quarter and 29 points from a year ago. Investments in information technology and geographic expansion rose slightly in prospective operational spending increases.

Product companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Percent planning to increase spending (net)	86%	80%	77%	65%	49%
• Information technology	51%	39%	41%	24%	25%
• New product or service introduction	45%	39%	48%	31%	22%
• Geographic expansion	27%	22%	25%	16%	20%
• Business acquisition	37%	32%	28%	23%	17%
• Facilities expansion	36%	26%	27%	21%	14%
• Research and development	30%	29%	31%	13%	11%
• Marketing & sales promotion	31%	21%	18%	18%	9%
• Advertising	19%	14%	15%	17%	7%
• Internet commerce	14%	13%	20%	14%	3%

Chart 4.6 Percent planning to increase operational spending

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Percent planning to increase spending (net)	84%	84%	78%	68%	55%
• Information technology	51%	42%	43%	28%	30%
• New product or service introduction	45%	39%	49%	33%	21%
• Geographic expansion	29%	26%	27%	22%	24%
• Business acquisition	36%	34%	30%	24%	20%
• Facilities expansion	33%	27%	30%	22%	18%
• Research and development	26%	27%	29%	14%	13%
• Marketing & sales promotion	33%	23%	18%	20%	12%
• Advertising	23%	15%	13%	17%	9%
• Internet commerce	15%	16%	19%	13%	5%

Service companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
Percent planning to increase spending (net)	76%	98%	82%	86%	83%
• Information technology	52%	54%	48%	50%	54%
• New product or service introduction	44%	38%	52%	46%	17%
• Geographic expansion	36%	42%	37%	50%	42%
• Business acquisition	32%	42%	37%	27%	33%
• Facilities expansion	24%	33%	44%	27%	33%
• Research and development	12%	17%	19%	18%	21%
• Marketing & sales promotion	44%	29%	19%	27%	29%
• Advertising	40%	17%	7%	18%	21%
• Internet commerce	20%	25%	15%	9%	17%

Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

Expected barriers to business growth

Over the next 12 months, will any of the following represent barriers to business growth?

Respondents predict the chief barrier to growth over the next 12 months will continue to be lack of demand, rising 2 points in the fourth quarter to 74 percent. Concern about decreasing profitability rose 12 points to 57 percent. Capital constraints and taxation policies concern more respondents as potential barriers to growth over the next 12 months.

Chart 4.7 Expected barriers to business growth



Note: In 4Q 2008 All respondents n=130

Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Plans for M&A activity over the next 12 months among respondents remain low, at 30 percent, 9 points below a year ago. The number planning to reduce activity in markets abroad (12 percent) is not far off from the number expanding facilities abroad (17 percent).

Product companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
New business initiatives (net)	63%	57%	60%	59%	58%
• Expand to new markets abroad	26%	26%	26%	24%	28%
• M&A activity (net)	40%	34%	37%	30%	26%
- Purchase another business	34%	31%	32%	26%	22%
- Sell part/all own business	14%	6%	9%	5%	9%
- Equity carve-out/spin-off	6%	9%	7%	5%	4%
• New strategic alliance	34%	30%	24%	30%	26%
• New joint venture	20%	26%	26%	23%	23%
• New facilities abroad	16%	21%	15%	18%	20%
• Reduce activity in markets abroad	11%	7%	7%	14%	12%
• Close/reduce facilities abroad	8%	4%	5%	6%	9%

Chart 4.8 Plans for M&A and other business initiatives

All respondents

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
New business initiatives (net)	64%	60%	64%	61%	61%
• Expand to new markets abroad	26%	30%	29%	27%	32%
• M&A activity (net)	39%	38%	40%	31%	30%
- Purchase another business	34%	35%	33%	27%	25%
- Sell part/all own business	13%	7%	10%	5%	9%
- Equity carve-out/spin-off	5%	8%	7%	5%	4%
• New strategic alliance	37%	32%	25%	30%	26%
• New joint venture	25%	27%	29%	26%	23%
• New facilities abroad	15%	17%	12%	15%	17%
• Reduce activity in markets abroad	9%	9%	6%	13%	12%
• Close/reduce facilities abroad	6%	4%	4%	5%	7%

Service companies

	4Q '07	1Q '08	2Q '08	3Q '08	4Q '08
New business initiatives (net)	68%	71%	78%	68%	75%
• Expand to new markets abroad	28%	46%	41%	41%	46%
• M&A activity (net)	32%	54%	52%	36%	46%
- Purchase another business	28%	50%	37%	32%	42%
- Sell part/all own business	12%	13%	15%	5%	8%
- Equity carve-out/spin-off	4%	4%	7%	5%	4%
• New strategic alliance	52%	42%	30%	32%	25%
• New joint venture	44%	33%	41%	41%	25%
• New facilities abroad	8%	---	4%	---	4%
• Reduce activity in markets abroad	---	17%	4%	9%	13%
• Close/reduce facilities abroad	---	4%	---	---	---

Note: In 4Q 2008 All respondents n=130, Product companies n=106, Service companies n=24

Survey demographics and research methodology

Demographics

Who	Senior executives of large US-based multinational companies		
Interview dates	November 12, 2008 to January 29, 2009		
	All respondents (130)	Product companies (106)	Service companies (24)
Average number of employees	9,712	8,959	13,010
Average business unit revenues	\$3.36 billion	\$3.66 billion	\$2.10 billion
Average enterprise revenues	\$10.85 billion	\$10.88 billion	\$10.75 billion
Average market capitalization	\$8.88 billion	\$8.57 billion	\$10.15 billion
Industry sectors	Products 82% Manufacturing 74% Trade/Distribution 2% All other 6% Services 18%		Caution: A small sample size is presented for service companies. Key differences between product and service companies are noted in the text.

Methodology

PricewaterhouseCoopers' Management Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior executives from a geographically balanced sample of large multinational companies based in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or other related title.

About the research:

The Management Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com.

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