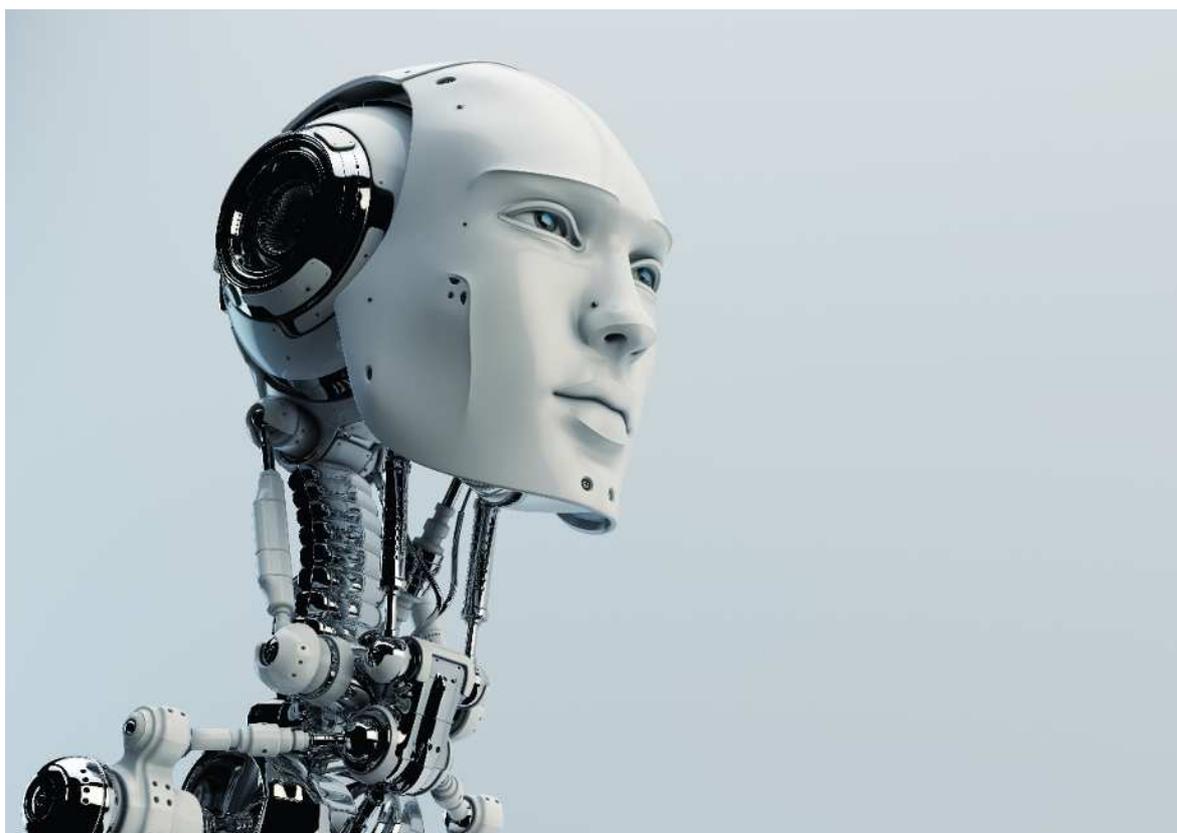


**Deloitte.**

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# Deloitte CFO Signals Survey Report

Q2 2017

August 4, 2017

# Contents

About Deloitte CFO Signals.....	2
Financial environment prospects.....	3
Business performance outlook .....	4
Uncertainty.....	6
Key change factors in the Japanese economy .....	7
Key change factors in the global economy .....	9
Use of cloud computing.....	11
Concerns about cloud computing.....	13
Areas where AI/Cognitive can be used .....	14
Concerns about AI/Cognitive.....	15
What is the CFO Program? .....	16

# About Deloitte CFO Signals

Deloitte CFO Signals is a survey conducted globally at regular intervals by Deloitte to find out what is on the minds of Chief Financial Officers (CFOs). After every survey, the answers of CFOs are compiled and analyzed by Deloitte's experts and published as "Signals" from CFOs.

The survey consists of a survey on the economic environment, which is used globally every time, and a topical survey, whose content differs by country.

The first survey in Japan was taken in August 2015, and we are now reporting on its eighth edition. Regarding the survey on the economic environment, we analyze chronological changes in CFOs' thinking as well as their latest forecasts at the time of the survey. In addition to the recurring questions, this time we also asked macro-level questions on the Japanese economy and possible risk scenarios affecting the world's major countries. As for Japan-specific topics, we chose to ask CFOs about how they and their finance teams go about implementing cloud computing and AI.

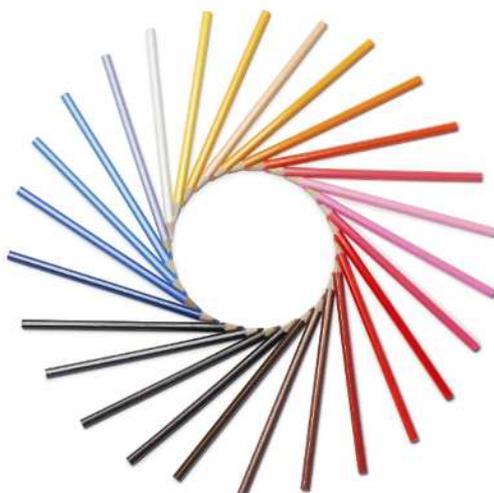
This edition of the survey was conducted between July 3 and 14, 2017, and received responses from the CFOs of 46 companies.

Thank you for your cooperation.

Deloitte Tohmatsu CFO Program

August 4, 2017

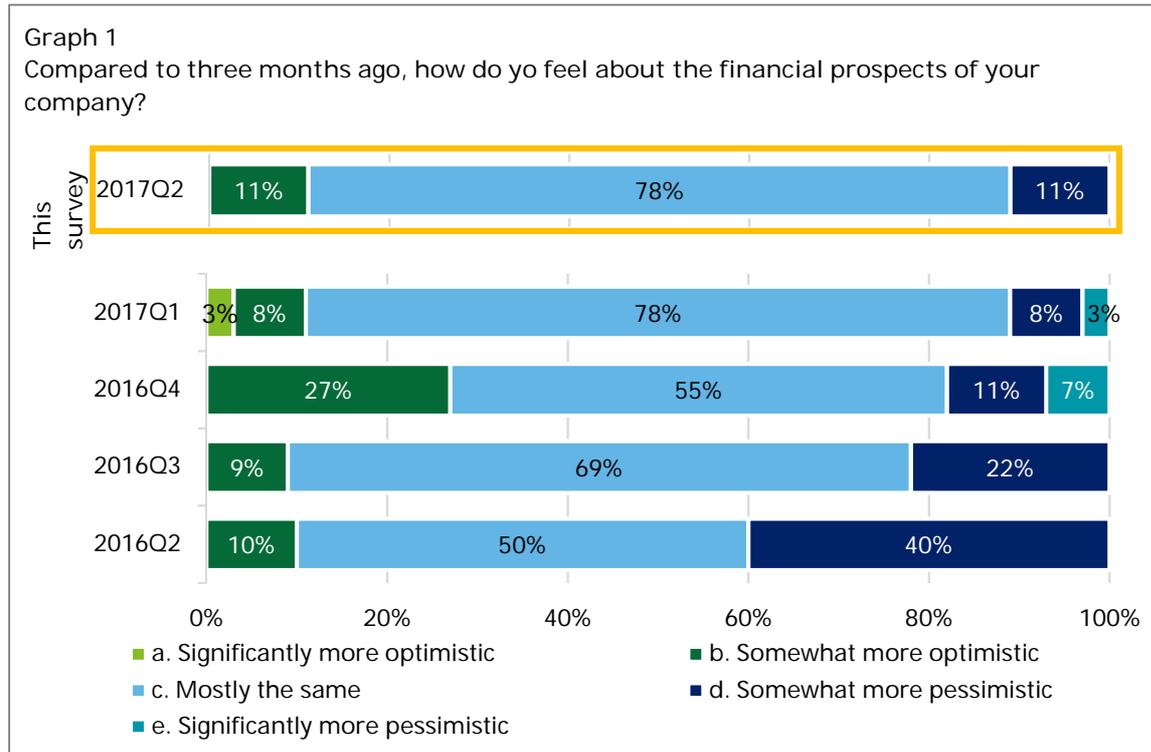
The **CFO** Program



# Survey on the economic environment

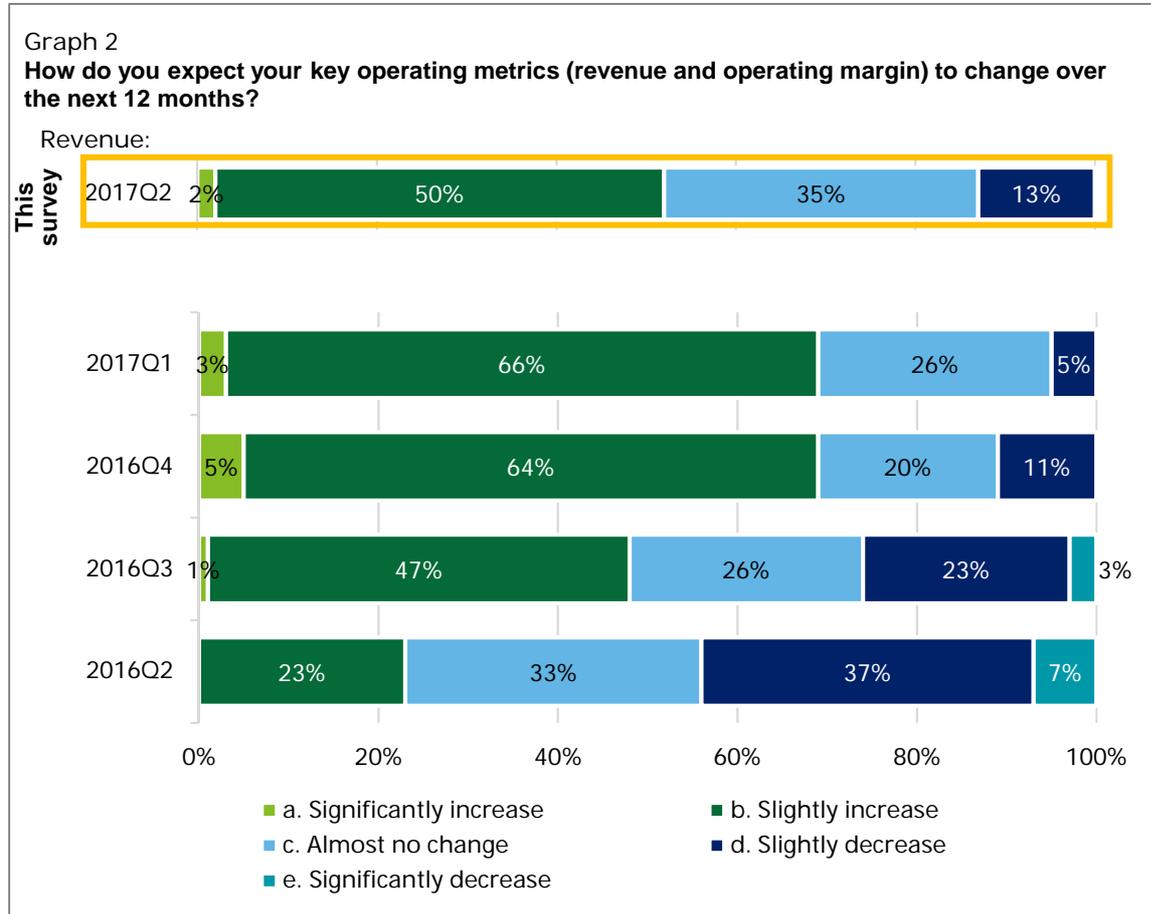
## Financial environment prospects

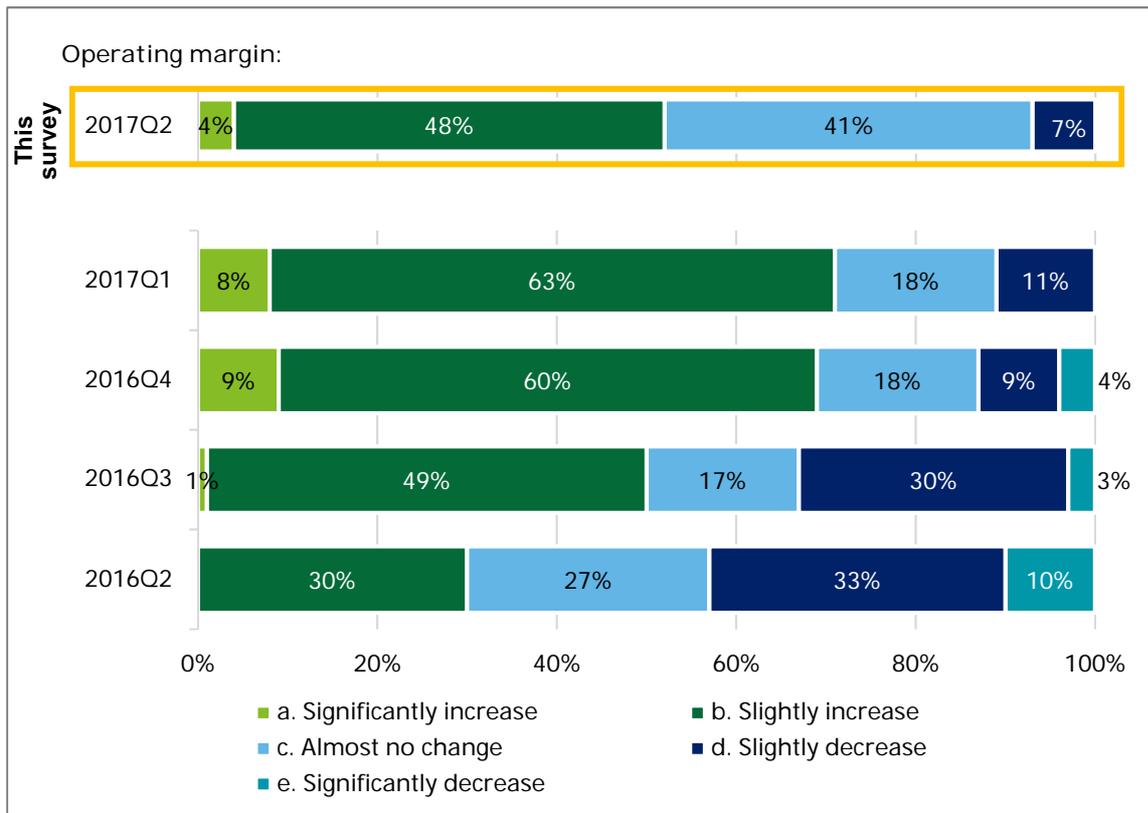
CFOs' prospects for the financial environment of their businesses are stable



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. Expectations regarding the financial environment had suddenly improve in Q4 2016, two surveys ago, but the level of optimism receded after that. Pessimistic and optimistic outlooks almost cancel out now: together, choices a, "Significantly more optimistic," and b, "Somewhat more optimistic," account for 11% of answers, as do choices d, "Somewhat more pessimistic," and e, "Significantly more pessimistic." Given that, just as last time, 78% of the CFOs answered c, "Mostly the same," it seems that CFOs' prospects for the financial environment have stabilized, especially compared to the period that preceded President Trump's election. The sudden surge of optimism recorded in Q4 2016, when 27% of respondents reported that they were b, "Somewhat more optimistic," took place just after the election, but before then pessimists had outnumbered optimists.

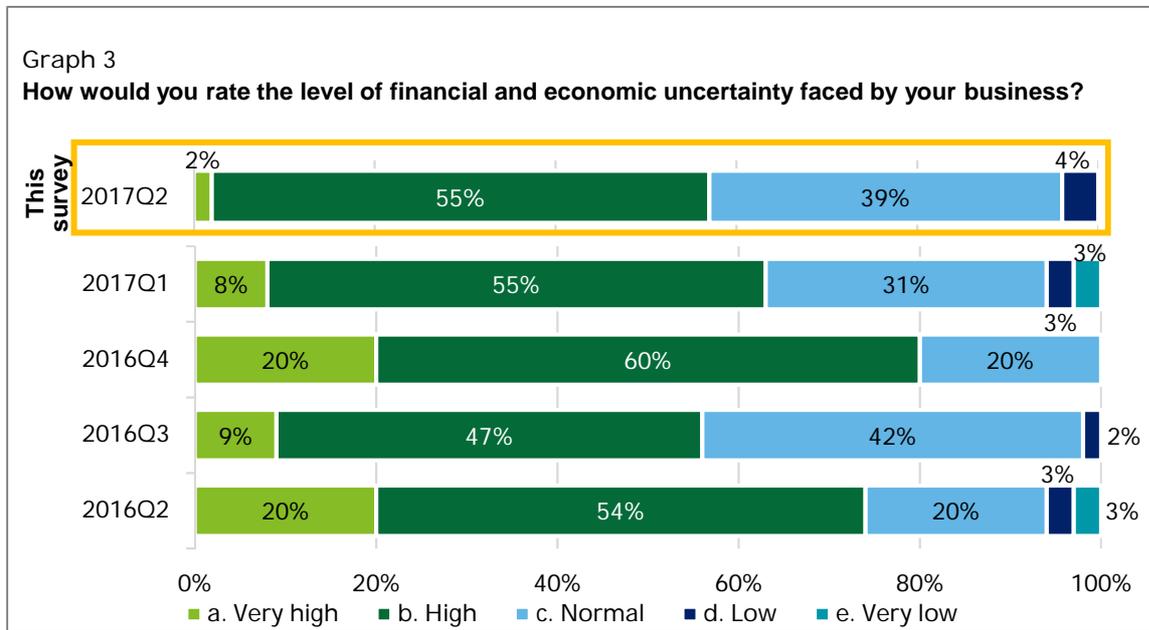
The trend toward increasing revenue and profit prospects has settled down.





Graph 2 shows CFOs' outlook for their company's financial performance over the next 12 months. Although CFOs' outlook for revenue and profit had improved in the last two surveys, it has diminished this time. The percentage of respondents who answered a, "Significantly increase" or b, "Slightly increase" went down from around 70% to just over 50%. Nevertheless, this survey's results still show a more positive outlook compared to Q3 2016 and earlier. Looking separately at revenue and operating margin, the proportion of respondents who believe revenue will a, "Significantly increase" or b, "Slightly increase" decreased from 69% (Q1 2017) to 52%; as for operating margin, the same number went down from 71% to 52% over that period. However, confidence regarding both indexes is still higher than in Q3 2016, when 48% were optimistic regarding revenue and 50% regarding operating margin. Finally, pessimistic outlooks (the sum of d, "Slightly decrease" and e, "Significantly decrease") stand at 13% for revenue and only 7% for operating margin. Both of those numbers are also better than in Q3 2016.

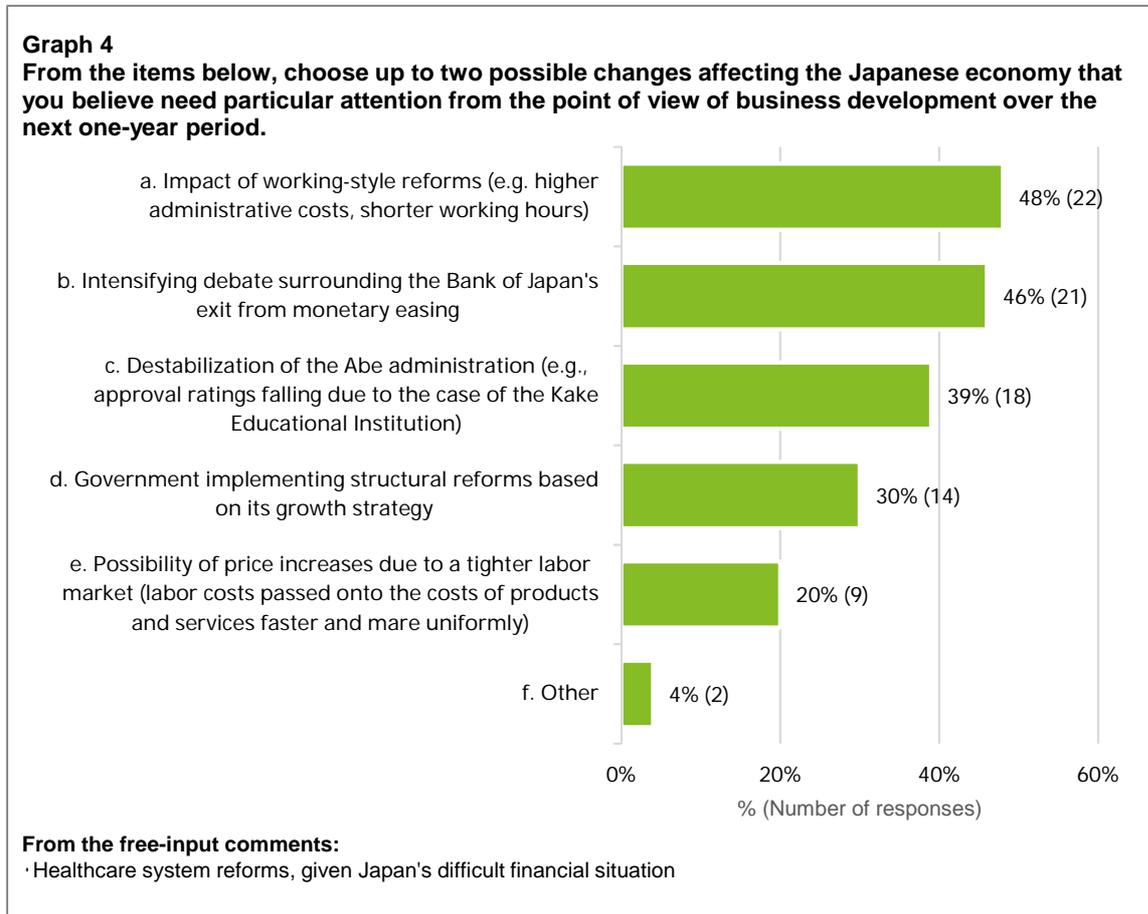
Financial and economic uncertainty may have decreased, but there is no clear sense of direction.



Graph 3 shows CFOs' perceptions of financial and economic uncertainty. Compared with the last survey, slightly fewer CFOs answered d, "Low" or e, "Very low," but a, "Very high" and b, "High" put together still gathered over 50%, showing that respondents lack a sense of direction. The sum of a, "Very high" and b, "High" reached 57% this time, showing a decrease from Q1 2017 (63%) and Q4 2016 (80%), when uncertainty peaked. Compared to before the peak (Q3 2016, 56%), uncertainty is still high. Q4 2016, just after the US presidential election, saw the peak of both financial prospects improvement and uncertainty. We guess that the gradual unveiling of the new US government's policies reduced the uncertainty; on the other hand, unstable Japanese politics and rising foreign geopolitical risks are remaining factors of uncertainty.

 Key change factors in the Japanese economy

In terms of the Japanese economy, CFOs keep their eyes on potential protective factors and threats, such as working-style reforms, the Bank of Japan’s policy for exiting monetary easing, and destabilization of the Abe administration.



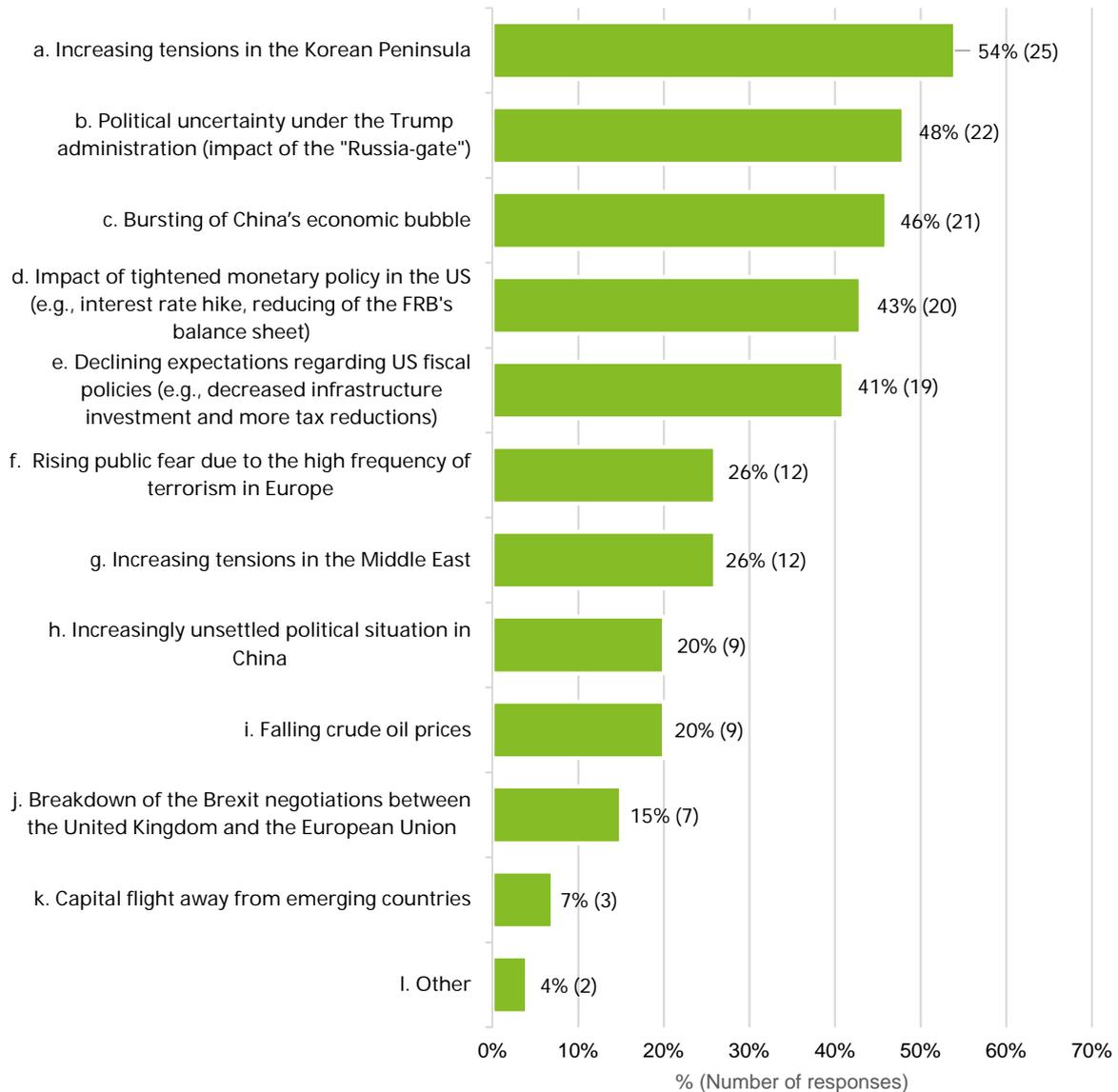
Graph 4 shows the main possible changes in the Japanese economic climate that might influence the CFO’s businesses in the coming year. The choices that gathered many votes in this survey show a defensive attitude in respondents, with much consideration for the protection of business against financial policies and political instability. In the last survey, there were forward-looking answers mentioning “a clearer path to recovery for the Japanese economy” and “progress of structural reforms,” but this time many answers went to concerns such as a, “Impact of working-style reforms (higher labor management costs, shorter working hours)”, b, “Intensifying debate surrounding the Bank of Japan’s exit from monetary easing” and c, “Destabilization of the Abe administration (e.g., approval ratings falling due to the case of the Kake Educational Institution).” With regard to working-style reforms, we can think of them as both a threat and an opportunity, with the CFOs on the defensive about possible dangers to business, such as higher administrative costs and shorter working hours. It is worth noting that, even though it is difficult to see the point of overcoming deflation for now,

the possibility of an increase in long-term interest rates and a drop in stock prices triggered by the exit policy of the Bank of Japan garnered attention. In terms of Japanese politics, the possible bad influence on business development of a fall in the Abe government's approval ratings garners more attention than the possible benefits of its growth strategy or "Abenomics" structural reform.

Growing tensions in the Korean Peninsula have come top of the list of foreign risk factors.

**Graph 5**

**From the items below, choose up to four events that risk affecting foreign economies and that you believe need particular attention, based on their likelihood and expected impact on business**



**From the free-input comments:**

- Our global business connections falling victim to cyberterrorism
- The US economy is in a historically long expansion phase, but judging from indicators such as the inventory cycle, it might be on the brink of a slowdown. I would like to expect that "Trumpnomics" will avoid or mitigate this, but the political confusion does not give me any confidence.

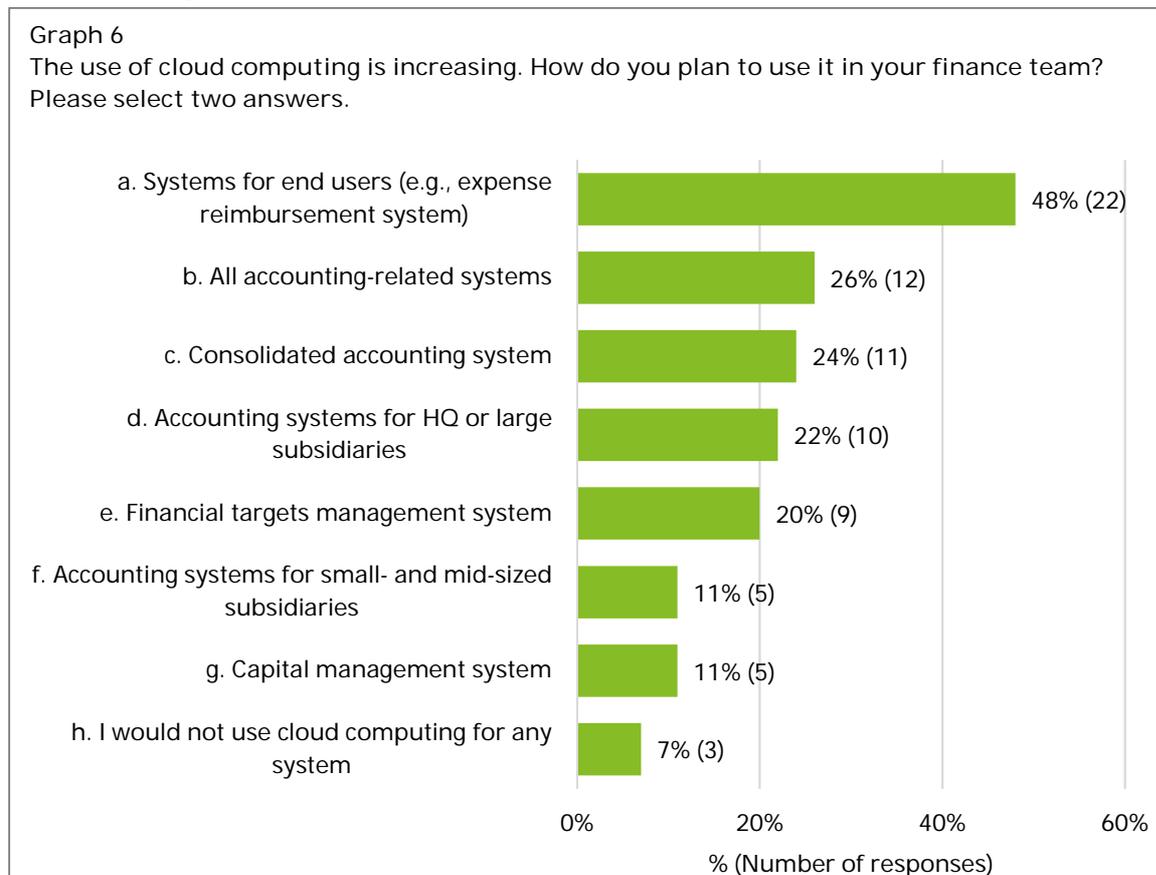
Graph 5 shows the main possible changes in the global economy that might influence the CFOs' businesses in the coming year. A characteristic feature of this survey is that US political issues, such as the geopolitical crisis in North Korea or the "Russia-gate" scandal received a lot of attention. The most popular answer was a, "Increasing tensions in the Korean Peninsula" (54%). Geopolitical events around Japan, such as repeated missile launches by North Korea, garnered the most attention. The second most chosen answer was b, "Political uncertainty under the Trump administration (impact of the "Russia-gate")" (48%). "US protectionism" or "political events in Europe" had gathered many answers in the previous survey (Q1 2017), but planned political events in Europe wound down safely, and in the United States, political scandals ended up getting more attention than international trade policy. This may be why geopolitical developments in countries closer to Japan were seen as having a larger impact on business development this time.

# How the CFOs and finance team will get involved with implementation of Cloud computing and AI.

## Use of cloud computing

In the last two CFO Signals surveys, we asked CFOs for their opinions on newer, rapidly spreading digital technologies; cloud computing and in-memory databases as development of usage environment itself; recognition or machine-learning technologies such as cognitive computing and AI; automation technologies such as robotic process automation (RPA); and advanced analytics/predictions using IoT or Big Data.

In this survey, which was the third one in our digital series, we asked CFOs what kind of expectations and concerns they have about cloud computing and AI, which, according to the past surveys, CFOs paid much attention to, with some of them already having started to implement them.

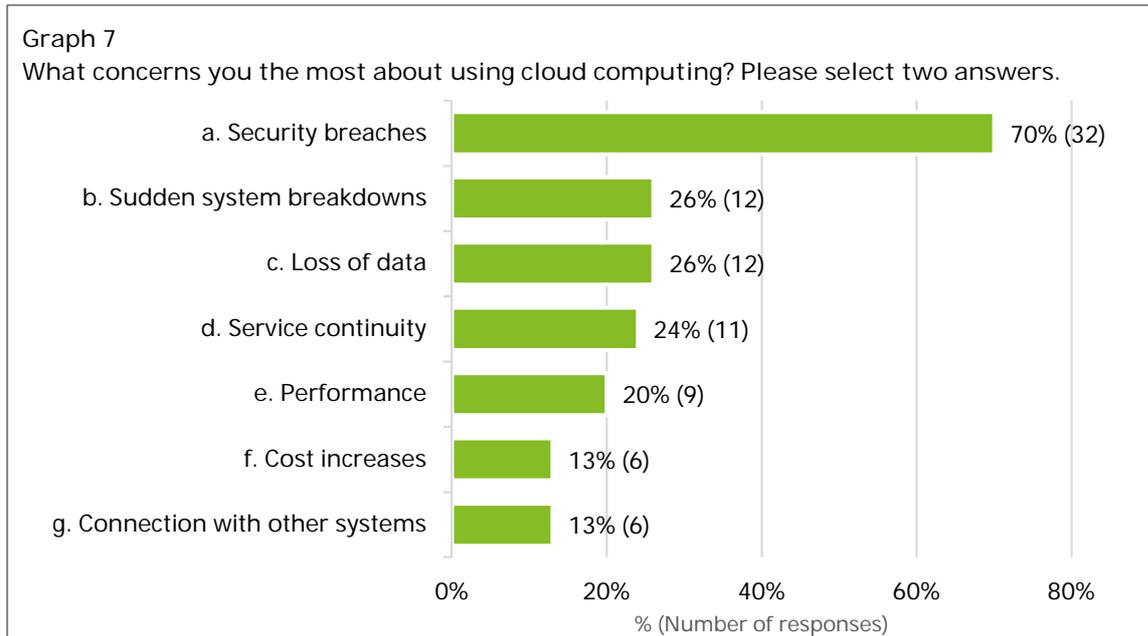


Graph 6 shows the potential uses of cloud computing in the future. Choice a, "Systems for end users (e.g., expense reimbursement system)," gathered by far the most

answers (48%). The completely opposite option b, "All accounting-related systems," came next, and the similar d, "Accounting systems for HQ or large subsidiaries" came fourth. Those results hint at two types of CFOs, present in almost the same numbers. The first type only thinks of using digital technology for limited ends, such as expense reimbursement. The second type is ready to use it in all accounting systems, be it at HQ or in subsidiaries. In other words, the perception of cloud computing is currently polarized.

## Concerns about cloud computing

The next question was about CFOs' concerns regarding cloud computing.

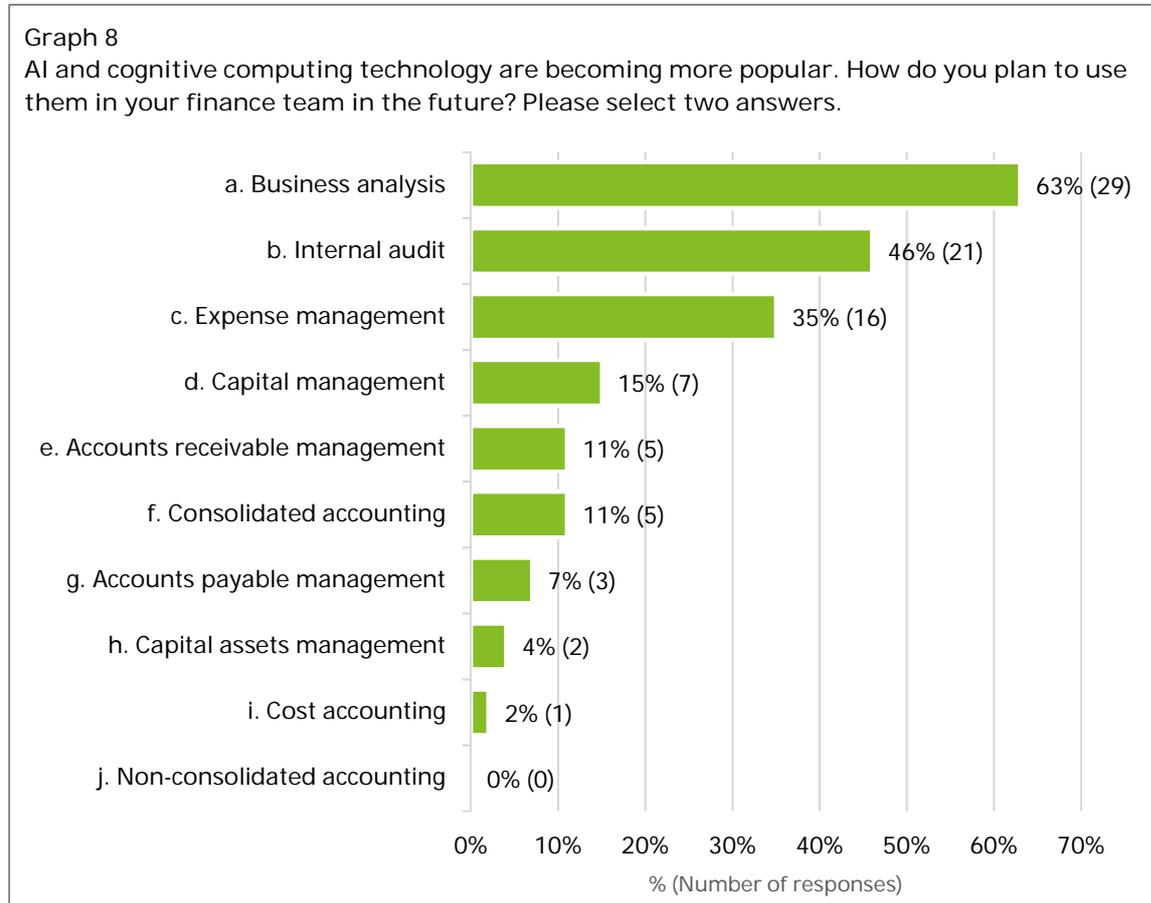


Graph 7 reveals CFOs' fears concerning stability (security breaches, loss of data) and usability (costs, performance). We can see that CFOs have been paying attention to security breaches. Cyber-security is an important management issue and there is a need for objective validation to confirm if a company's systems have been hacked, or if their system monitoring is sufficient compared to pure-play cloud companies offer. An important fact to consider is that most security incidents are caused by a person belonging or related to the company, and not by external hackers. Given that the cloud also offers higher levels of security, our guess is that this survey has shed light on the instinctive unease of CFOs. It is important to avoid sensationalism, reconsider one's own company systems' security, and properly compare different options.

It is notable that some CFOs perceive cloud technology as cheap, given how little concern there is about increasing costs. However, one should not only worry about initial costs, but also about running costs and exit costs. This is the way to calculate cost performance meaningfully.

## Areas where AI/Cognitive can be used

The following question was about AI and cognitive computing technology. These technologies have only just begun to spread, and we can sense different opinions of them.

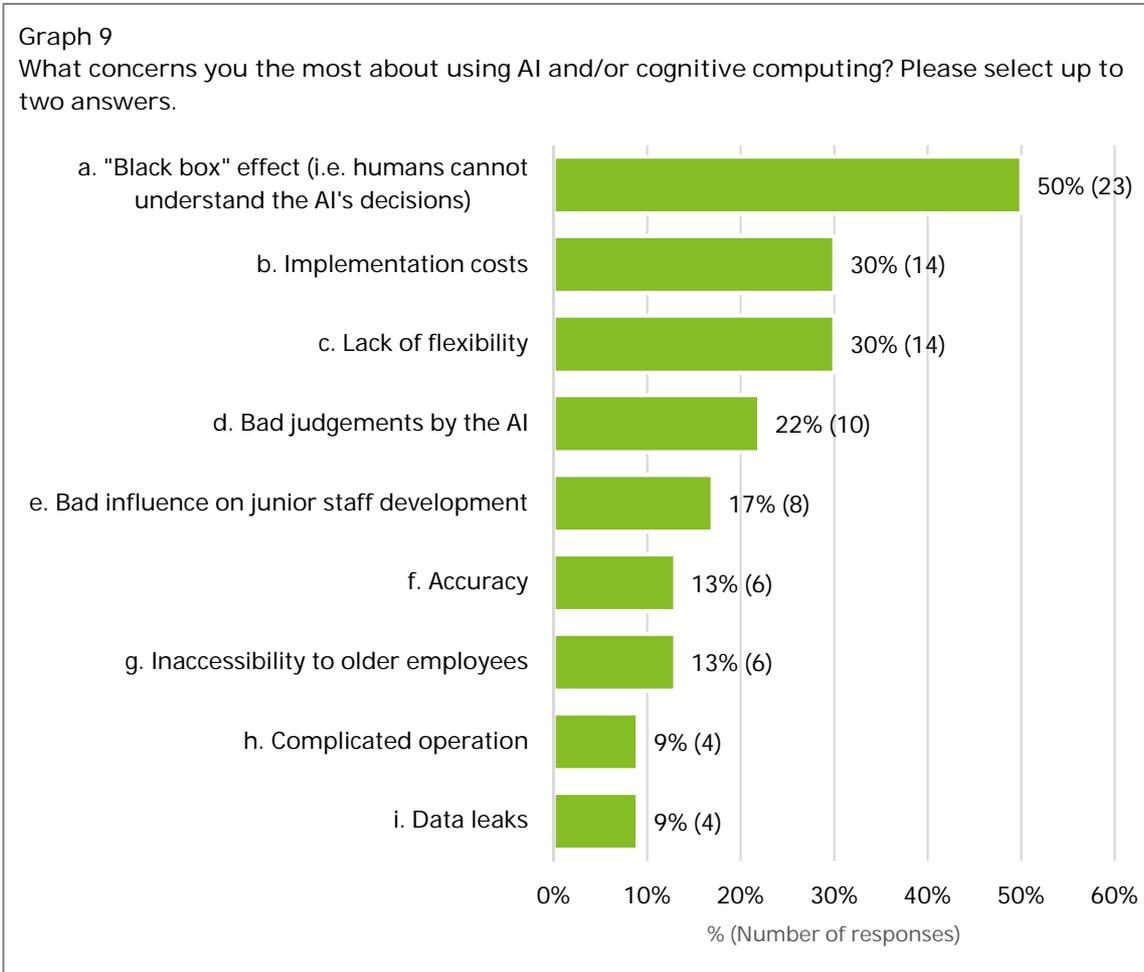


Probably influenced by some companies' already made announcements that they will use AI for business analytics, a, "Business analysis" was the most popular answer. We can deduce two things from this result. First, there is an underlying perception that business analysis takes too much time and manpower. Second, business analysis require objective and multilateral analysis devoid of human prejudice. However, we should not forget that being able to evaluate the value of results provided by analytics is also crucial.

In second and third position, we have b, "Internal audit" and c, "Expense management." CFOs expect digital technologies to improve monitoring and help humans deal with large amounts of data.

 Concerns about AI/Cognitive

As with cloud computing, we asked CFOs about their concerns regarding AI and cognitive computing.



Many CFOs are worried that AI and cognitive computing will function as “black boxes,” whose workings are not understandable or perceivable by humans. There is a need to distinct simple automation tasks from taskf AI/Cognitive to clarify what kind of tasks will be handled by those technologies. Looking at the answers in detail, the CFOs who selected a, “Black box’ effect” also selected c, “Lack of flexibility” or d, “Bad judgments by the AI,” showing a somewhat preceding concern on the inability to evaluate the results provided by AI. In any case, it appears that those digital technologies are still uncommon around CFOs. In the free-input comments, some CFOs said that they would like to see real-world examples, especially of the technology being implemented for accounting purposes.

## What is the CFO Program?

Deloitte's Chief Financial Officer (CFO) Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands.

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