



Deloitte CFO Signals Survey Report

Q3 2017

November 13, 2017

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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 ninth 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 their awareness of issues related to business management and financial results management.

This edition of the survey was conducted in October 2017 and received responses from the CFOs of 60 companies.

Thank you for your cooperation.

Deloitte Tohmatsu CFO Program
November 13, 2017

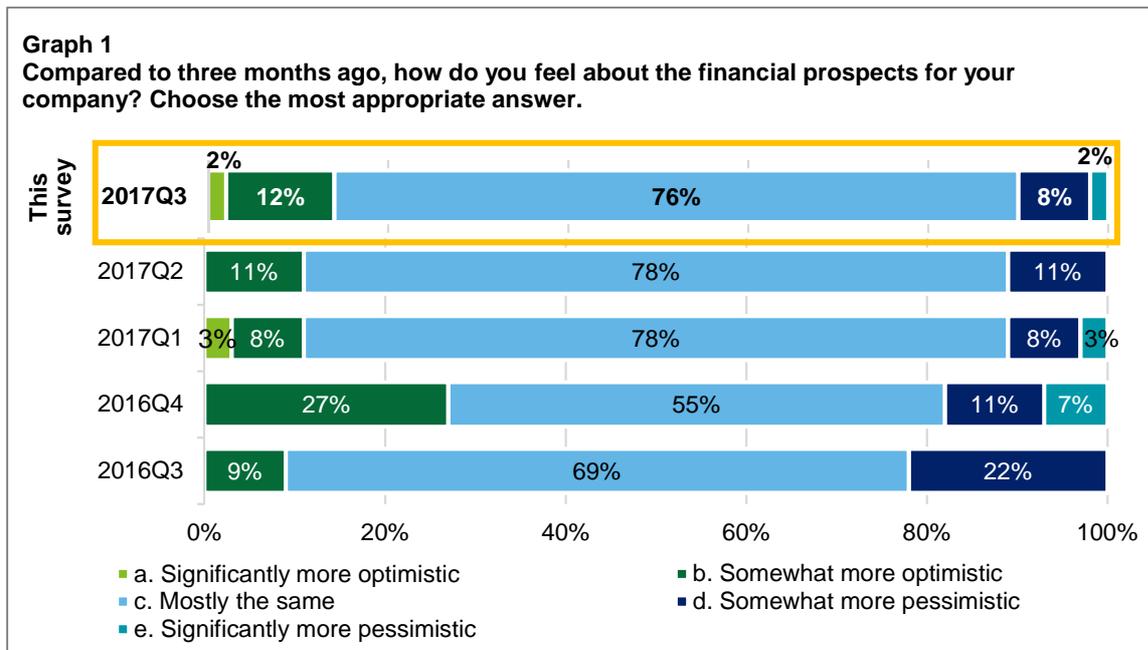
The **CFO** Program



Survey on the economic environment

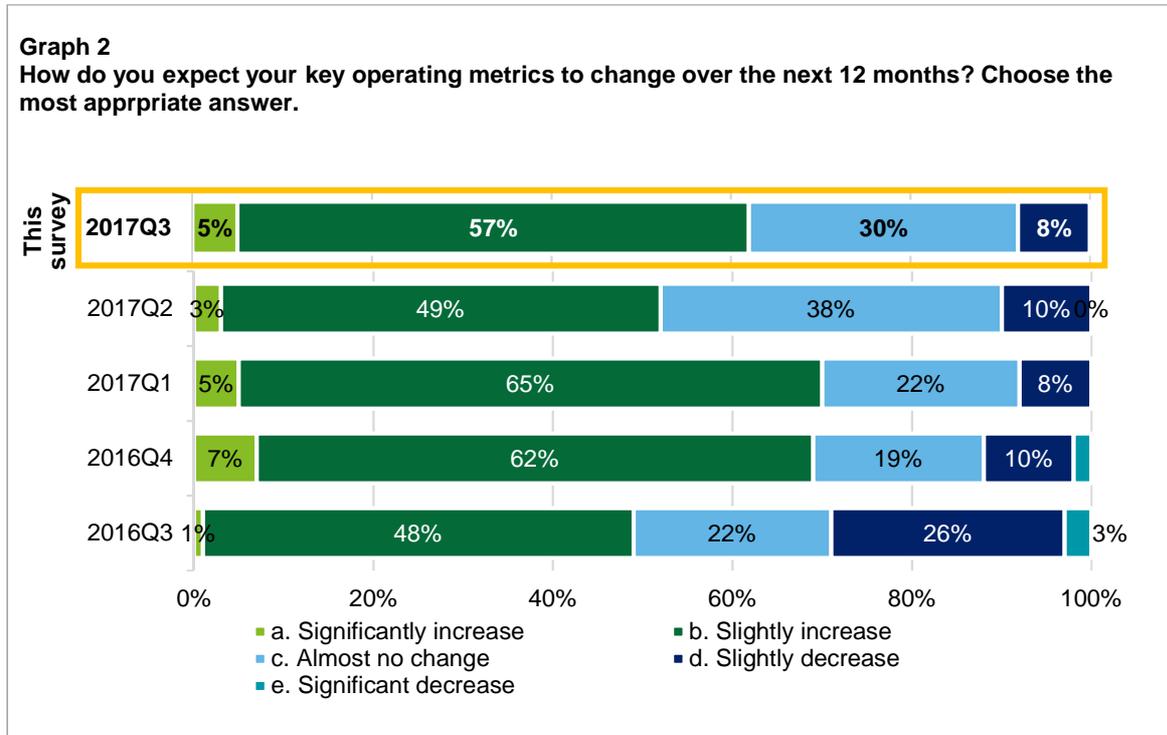
Financial environment prospects

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. Almost three in four answered c, "Mostly the same," indicating that expectations regarding the financial environment, which had suddenly and significantly improved in Q4 2016 (at the time of President Trump's election), remained almost perfectly stable this quarter. Together, choices a, "Significantly more optimistic," and b, "Somewhat more optimistic," account for 14% of answers, a slight increase compared to 11% in the previous survey. On the whole, we believe that steady economic growth in Japan, the United States, and Europe, as well as healthy financial markets with rising share prices lie behind those stable financial prospects.

The trend toward rising revenue and profit prospects continues.

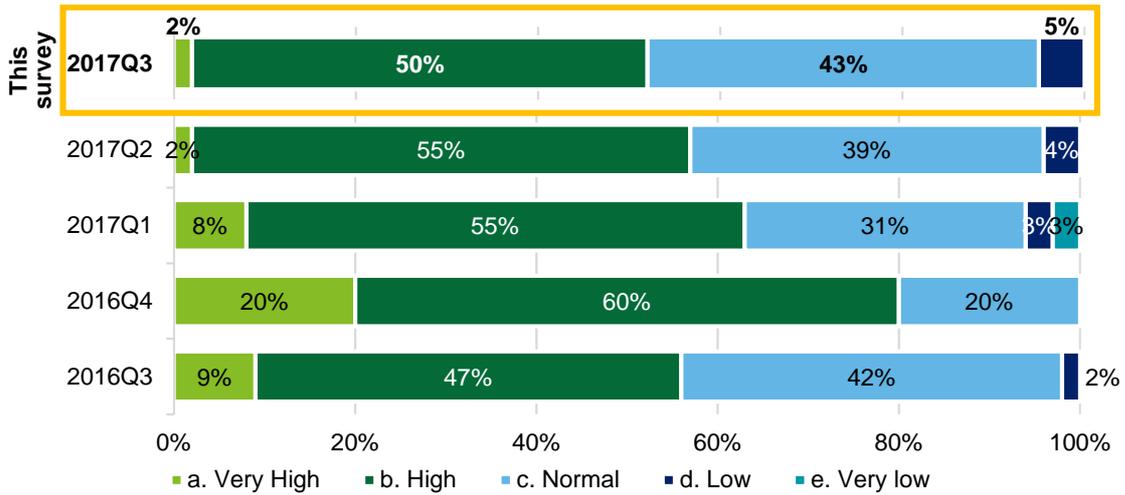


Graph 2 shows CFOs' outlook for their company's financial performance (revenue and profit) over the coming year. 62% of respondents chose either "a. Significantly increase" or "b. Slightly increase," an increase from 52% in the previous survey. However, the proportion of positive outlooks reported this time (Q3 2017) remains below the number achieved in Q1 2017. It appears that businesses' revenue and profit outlooks have reached an equilibrium following their sudden improvement after the election of President Trump. As with the financial environment prospects, this stability may be underpinned by steady growth in Japan, the United States, and Europe, as well as healthy financial markets. As we will see below, economic and political uncertainty is rife, with potential causes for externally-imposed shocks, such as the North Korean situation; yet baseline prospects for the economy and businesses remain stable. Signs of an end to monetary easing policies in Europe and the United States do not seem to have much of an effect on the confidence of businesses either.

Uncertainty is receding.

Graph 3

How would you rate the level of financial and economic uncertainty faced by your business? Choose the most appropriate answer.



From the free-input comments:

· Rather than “uncertainty,” I think “lack of transparency” is a growing problem.

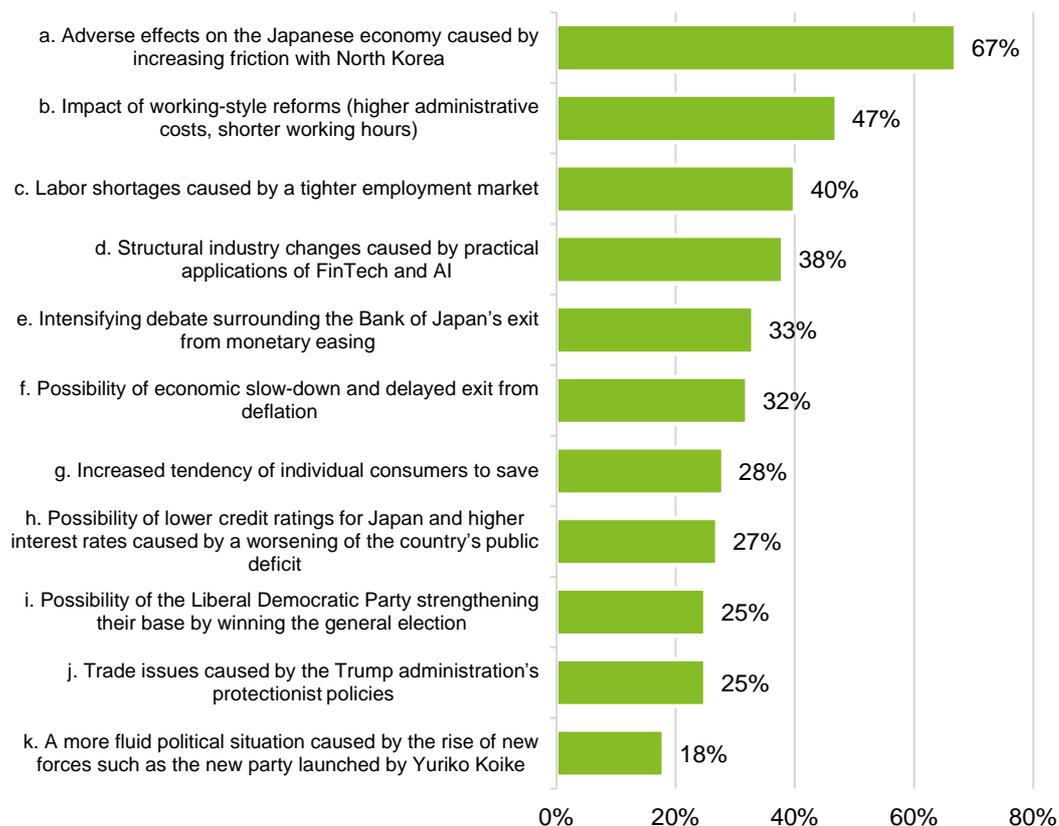
Graph 3 shows CFOs’ perception of financial and economic uncertainty. This time, the total proportion of respondents who answered “a. Very high” or “b. High” was 52%, decreasing for the third quarter in a row and reaching its lowest point in the last five quarters. However, those answers still account for over half of respondents, telling us that a majority of businesses continue to see uncertainty as high. Possible causes for the decline of uncertainty in the last three quarters may be that details of the Trump administration’s policies have become clearer since its inauguration at the beginning of the year, and that national elections in major European countries such as France and Germany are behind us. As for the causes of uncertainty staying high, there remain many unpredictable factors, such as geopolitical risk including the situation in North Korea, the state of Japanese politics (the survey was conducted after the Abe government announced its intention to dissolve the lower house of parliament, but before the subsequent election), the details of Brexit, and a possible slow-down of the Chinese economy. While the risk of unexpected events has decreased since the end of last year, contributing to the stabilization of prospects regarding public finances and business performance, it is also true that the next big changes affecting public finances and the economy seem difficult to predict.

 **Key change factors in the Japanese economy**

The situation in North Korea, working-style reforms, and labor shortages received the most attention.

Graph 4

From the items below, choose up to two possible changes affecting the Japanese economy that you believe need particular attention from the point of view of business development over the next one-year period.



From the free-input comments:

- The evolution of the situation in Europe (Spain, the United Kingdom, and the EU), terrorism
- I chose c and d because they will have a large impact when considering how to develop our business in the future, but not necessarily over the coming year. It was not included in the possible choices, but if exchange rates were to change a lot, unrelated to other basic factors such as public finances, current account balances, and interest rates, our company would not be able to react fast enough.
- This is not really related to FinTech, but changes in industry structure and consumers' buying habits due to the development of AI and the internet seem important to me.

Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when planning business development over the next one-year period. Named by two out of three companies, the topic that garnered the most attention is “increasing friction with North Korea,” which is the most urgent geopolitical risk faced by Japan. “Working-style reforms” and “labor shortages” respectively came second and third, but overall answers were spread across a wide range of concerns, including “FinTech and AI” as well as “debate surrounding

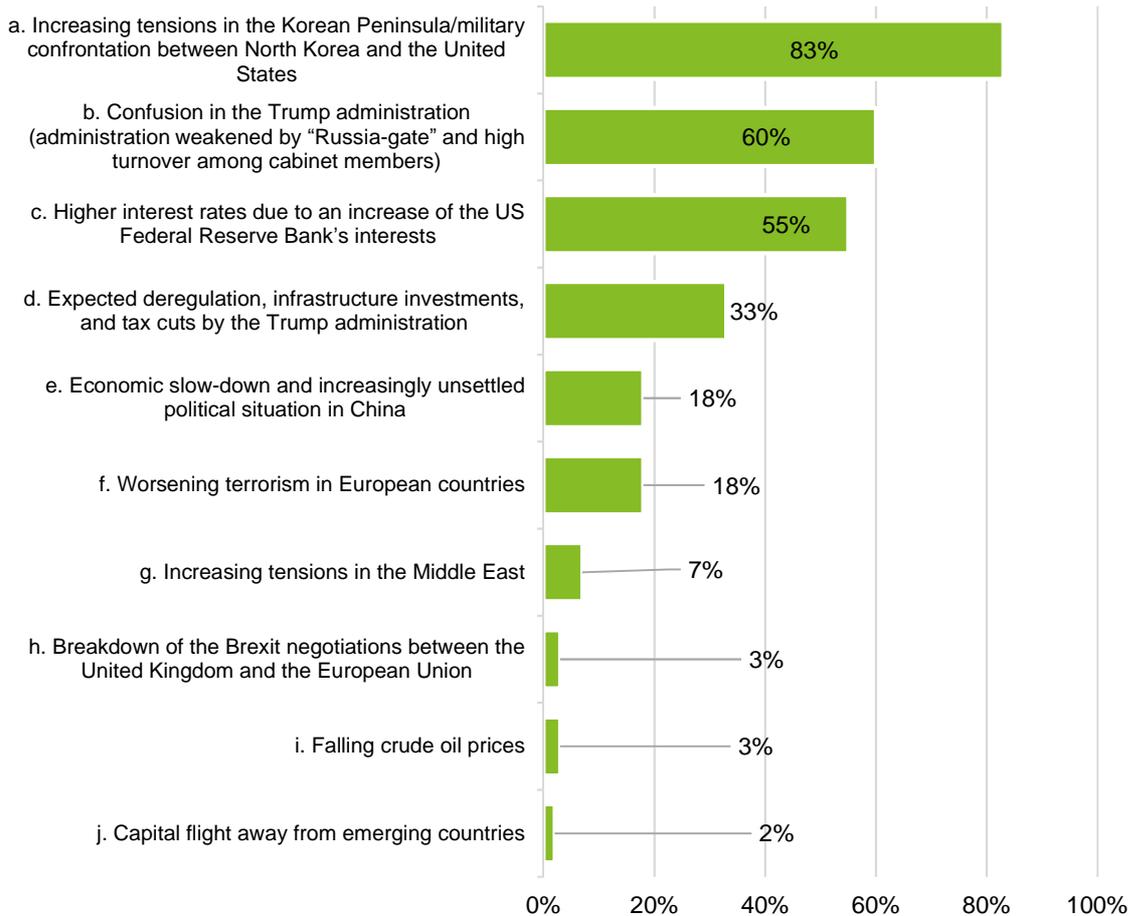
the Bank of Japan's exit from monetary easing." We can see that labor-related issues are on businesses' minds: choice b, "Impact of working-style reforms," is in second position after coming first in Q2 2017, while choice c, "Labor shortages caused by a tighter employment market," remains in third position. We can deduce that against a background of labor shortages, it is a pressing challenge to increase productivity, reduce long working hours, and make other labor-related adaptations in line with working-style reforms. Besides, we also noted that there was not that much interest in choices i, "Possibility of the Liberal Democratic Party strengthening their base by winning the general election," and k, "A more fluid political situation caused by the rise of new forces such as the new party launched by Yuriko Koike," which together were named by 33% of respondents, even though the survey was conducted between the Abe government's announcement of its intention to dissolve the lower house and before the subsequent election. (The result of the election was a comfortable victory for the ruling LDP/Komeito coalition, which won over two thirds of seats.)

€ Key change factors in the global economy

Once again, the situation in North Korea was the most cited risk.

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 development prospects over the next one-year period.



From the free-input comments:

- I think that we need to watch the capital flight away from China that has happened until now, as well as changes to Chinese policies regarding the renminbi exchange rate.
- Rather than heading for instability, I think China will keep a stable cruising speed over the next five years. As for risks coming from the United States, I think they are actually limited aside from the concern regarding military confrontation between the United States and Korea.

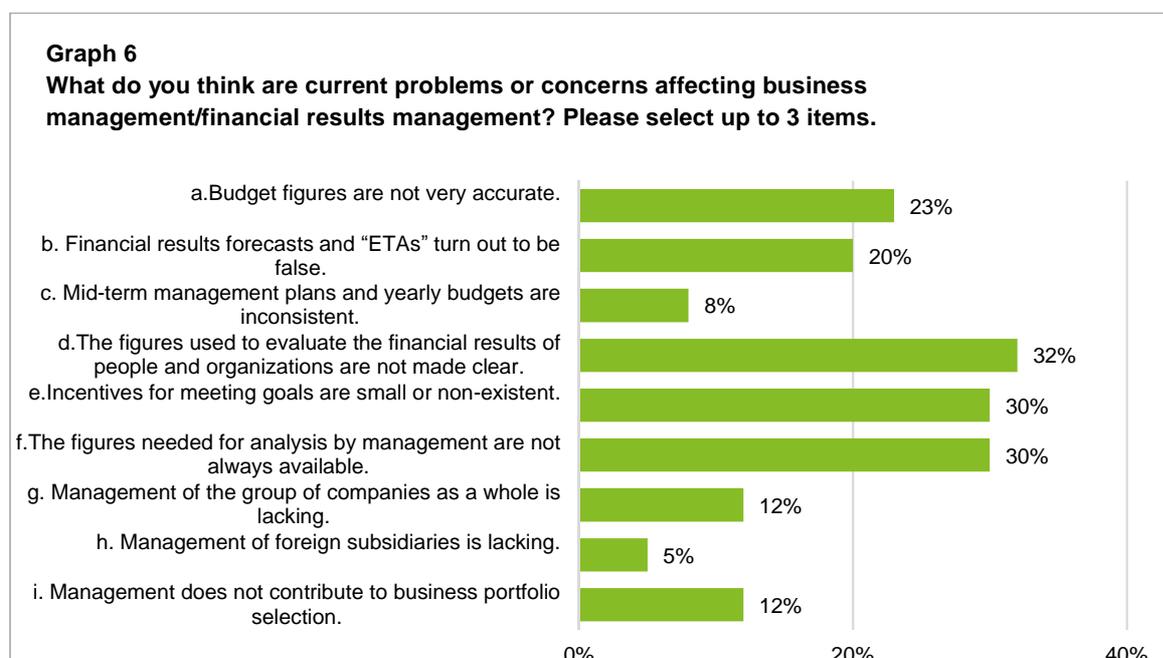
Graph 5 shows what trends in the global economy are most closely watched by CFOs when planning business development over the next one-year period. Just as last time, choices a, "Increasing tensions in the Korean Peninsula/military confrontation between North Korea and the United States," and b, "Confusion in the Trump administration," came in first and second position respectively. Choice c, "Higher interest rates due to an increase of the US Federal Reserve Bank's interests," rose from the fourth to the third position. Each one of those top three answers were chosen by more than half of responding companies. On the other hand, risk associated with China dropped from the third to the fifth position. The situation in the Korean Peninsula is still tense and it naturally garnered the most attention,

perhaps even more so because respondents remain worried that the US government might lose some of its executive capacity given the high turnover among key cabinet figures of the Trump administration. As for the uptick in attention given to rising interest rates, the FRB's September announcement that it intends to reduce its balance sheet may be what lies behind it.

CFOs' awareness of issues related to business management and financial results management

Issues related to business management and financial results management

In the last three surveys, we asked CFOs for their views on how digital technology, especially robotics and AI, affects their work and organizations. In this survey and the next few, we plan to go back to basics and ask CFOs what problems they perceive concerning the duties, organization, and data of finance and accounting divisions. In this survey, we asked for the first time about CFOs' thoughts on current issues in business management. (For next time, we plan to prepare questions on accounting processes and organizational strategy for finance and accounting.)



Graph 6 shows answers to a question about budget management and financial results management.

First of all, the accuracy of budget and performance forecasts is not seen as much of a problem, and it looks like the expected accuracy is attained overall. On the other hand, CFOs feel that the way those figures are used does not always meet intended purposes, which include evaluating financial results and conducting analyses for management. Concern for the management of subsidiaries (including foreign subsidiaries) and group-level management is not so marked either. However, when we talk with employees from accounting and finance or corporate planning divisions as part of our job as consultants, the issue that always seems to come out first, often with a sense of crisis, is a lack of awareness of the situation of foreign subsidiaries. We are curious to know if the CFOs who

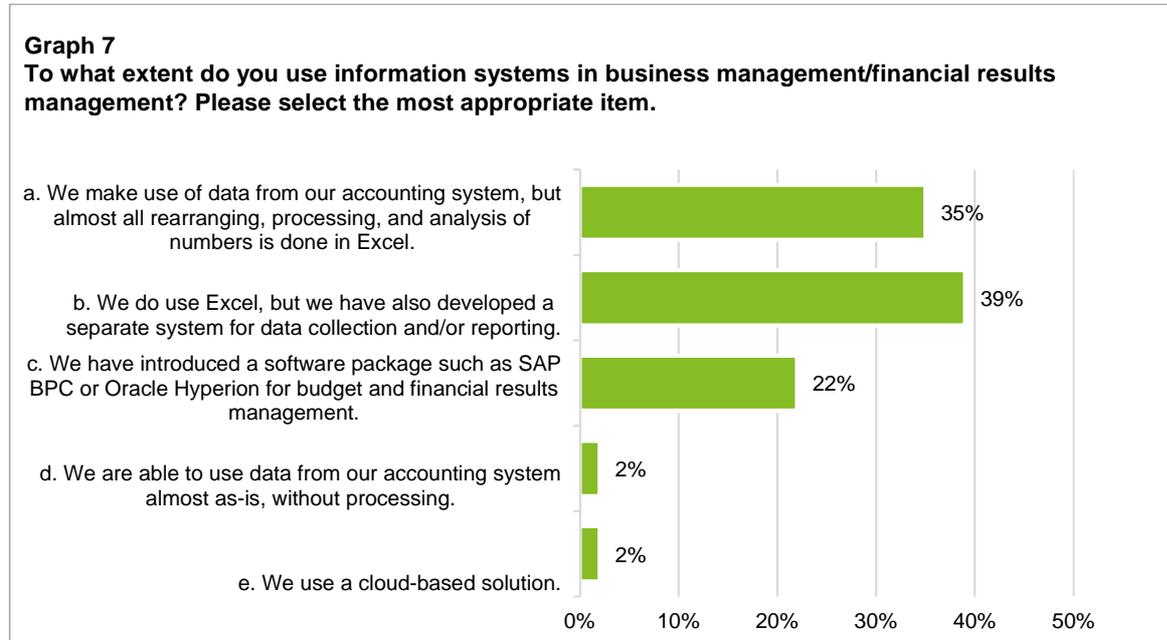
answered this survey all come from companies that have got this under control, or if the concerns of rank-and-file employees do not reach CFOs.

Finally, let us report the following concerns that were shared as additional comments: insufficient governance of foreign subsidiaries; overall tendency for company divisions to go for conservative targets and forecasts, leading to discrepancies with results; and the importance of knowing how much information the corporate planning division should have about the state of the business and how much authority it should have in its assessment of sums requested by each division of the company.



Degree of utilization of information systems in business management and financial results management

The second question asked how many intermediary tasks are involved in compiling numbers and making documents used for business management.



The way documents are prepared for management does not seem to have changed in the last 20 years: results figures are exported from the accounting system and processed in Excel or similar. However, it is worth noting that in this survey, slightly more respondents used Excel together with a data collection or reporting tool than only Excel. Put together with those who reported using SAP BPC or Oracle Hyperion, we see an increase of the use of specialized systems. What has not changed, though, is that some kind of intermediary work is required to collect and edit management data, even with an information system: only 2% of respondents were able to use figures from their accounting system as-is.

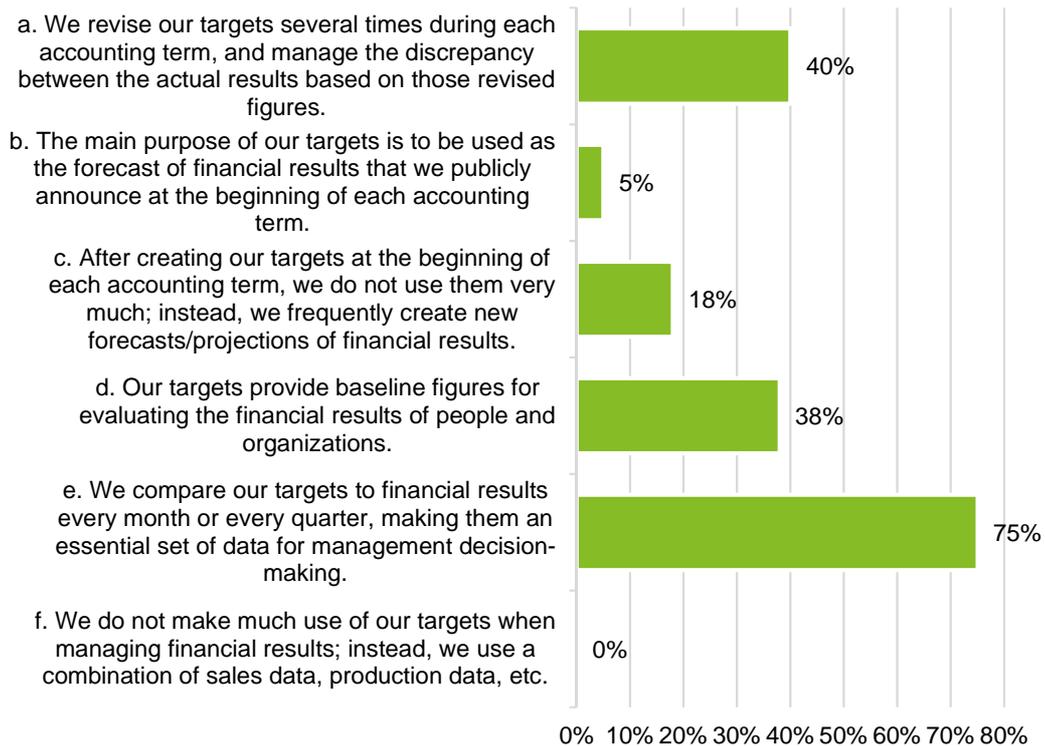


On financial target management systems

Next, we asked about financial target management systems.

Graph 8

What is the current state of your company's target management system? Please select up to 2 items.



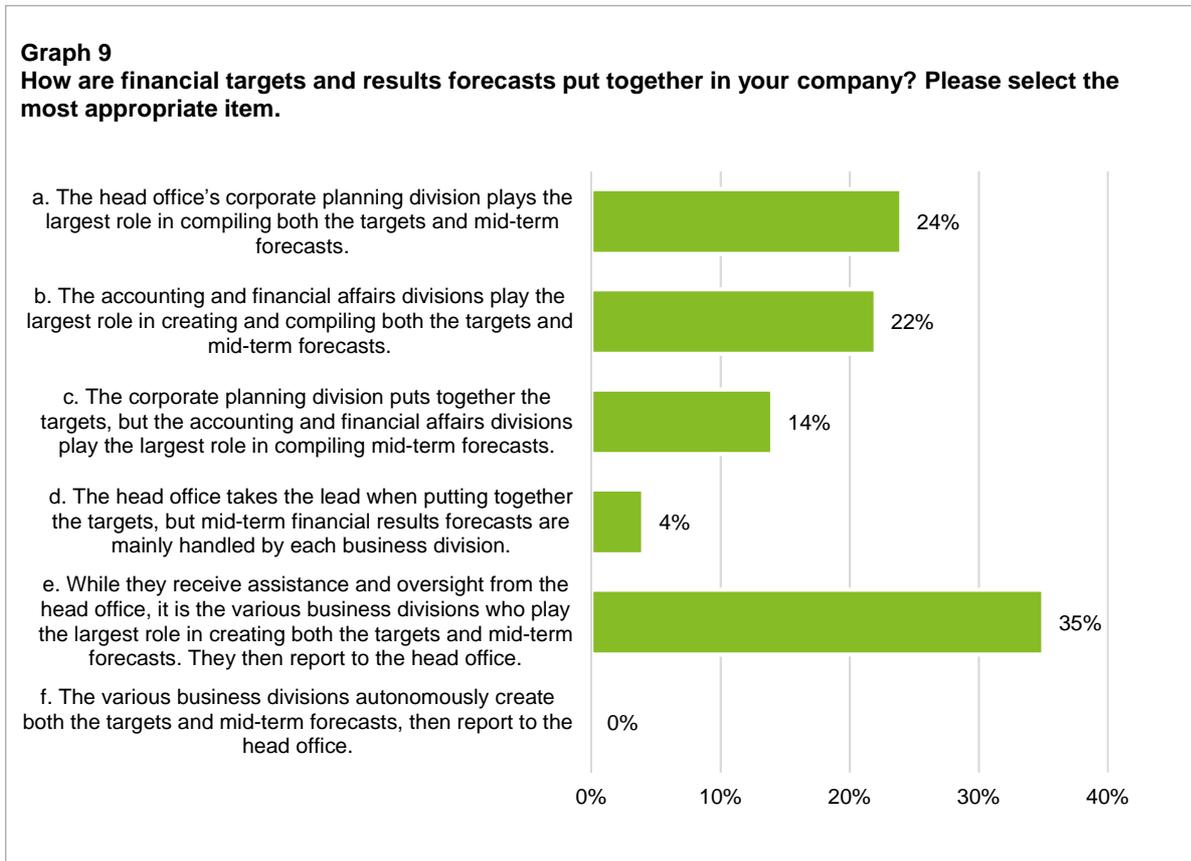
The most chosen answer reports that financial targets are compared to actual results every month or every quarter and provide material for management decisions, showing that target management systems are well-run and function properly. Many respondents also use their targets to get baseline figures for the evaluation of business performance: financial results management through target comparison, which is the target management system recommended by accounting textbooks, seems to be in actual use. However, when we speak to managers in the accounting and finance divisions of large companies in our role as consultants, many people mention that targets are being reduced to a formality. Others put it this way: targets are forgotten once they are drawn, and during the accounting term, results forecasts are widely used instead; therefore, there is no linkage between targets, which are the basis on which business performance is evaluated, and results forecasts, which are actually used to make management decisions.

In the additional comments, concerning the comparison of results against targets, some respondents mentioned that comparing results to the previous year's results also provided

an important indicator for financial results management, hinting at a division between companies that use this method and those who do not. Incidentally, in Europe and the United States, many businesses emphasize year-on-year growth rates.

 On financial target creation and results forecasts

Then, we asked how the financial target management system is operated.

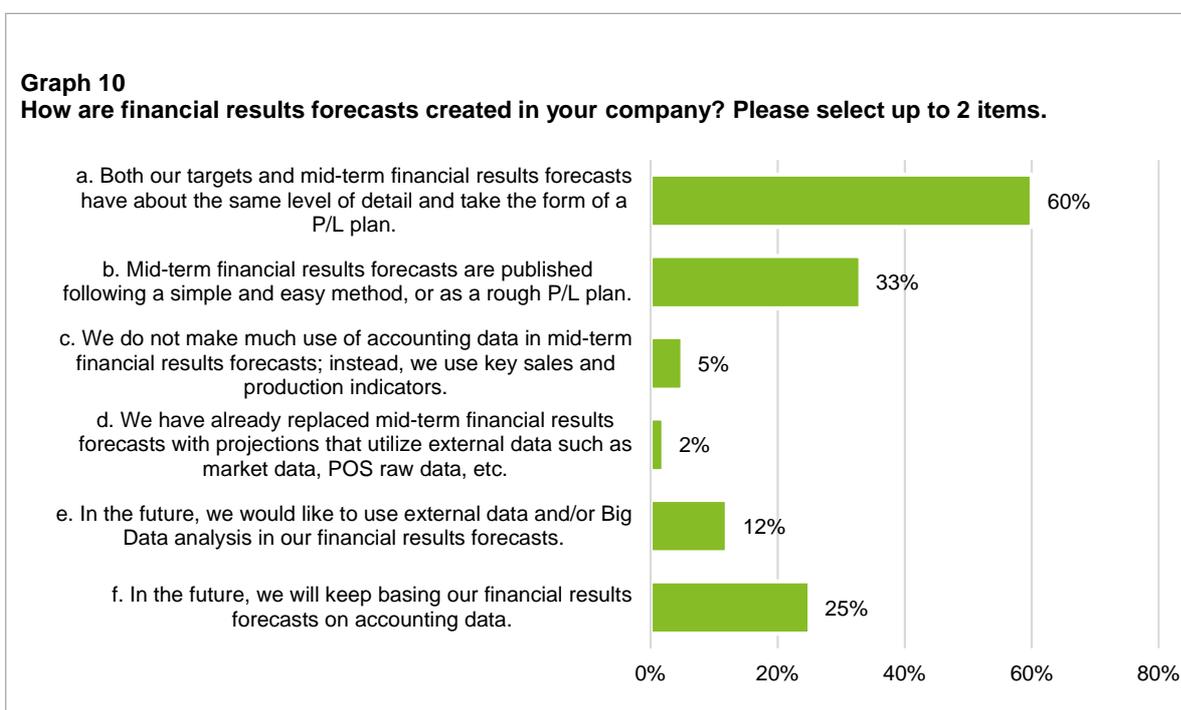


When asking what division is in charge of operating the target management system and compiling figures, we expected to confirm the typical trend observed in Japanese businesses, namely that either the corporate planning or accounting division is in charge. Indeed, those two choices received almost the same number of answers, and if we add respondents who said that corporate planning creates the targets while accounting handles mid-term financial results forecasts, our expectations were more or less correct. In other words, the way Japanese companies manage their targets is to have the corporate planning division and the accounting division follow this process either together or after splitting the work in two: create targets and compare them against the actual results; share the results of that analysis with management; and compile the basic figures needed to evaluate financial results yearly. Another characteristic result of this survey is that one in three respondents answered that it is not any part of the head office, but specific business divisions that autonomously create targets and handle comparisons against the actual results while receiving assistance and oversight from corporate planning and accounting. One respondent added a concrete explanation in the comments: “under the lead of the accounting and finance division, business divisions play the main part in creating a plan for their business, which finance and accounting then use to put together a company-wide plan.” Another described the opposite distribution of roles: “the head office analyzes the business projections submitted by each

business division, draws policies in response, and leads the business divisions. The main actor is the head office (and its finance division in particular).” It seems to depend on the industry, but the role of accounting and finance divisions in business management differs between companies.

On the creation of financial results forecasts

Finally, we asked about financial results forecasts. Unrelated to the previous answers, we found out that Japanese companies tend to use the following business management method: besides the “financial targets”, balance-sheet forecasts that are put together once a year (then revised several times), changes in financial results are reported to management as appropriate using “financial results forecasts,” also called “projections,” which require irregular, temporary forecasting work. Let us look at this management method from a few different angles.



Mostly as expected, even if “targets” are renamed as “forecasts,” the numbers must be just as precise, according to 60% of respondents. We get the same impression when we listen to employees of the relevant divisions in companies: figures are obtained in the same way for large, once-a-year budgeting work and for sporadic or monthly forecasting work, even though they are supposed to have different purposes. This results in heavy workloads. The main source of those figures remains the company’s accounting system. Some respondents even answered that forecasts are more detailed than targets.

While it only applies to a very small number of companies, we have seen examples of a different way of doing things outside this survey. Some companies make financial results forecasts using data from the front lines of their business, for example on sales fluctuations and customer attitudes. Not only have those companies suppressed the task of making monthly projections, but in some cases the new method gives more accurate results than forecasts that were made internally. Accounting data may be useful for P/L forecasts, but the next trend may be to use front-line data together with accounting data in order to increase the

accuracy of financial results forecasts, reduce the forecasting workload, and achieve speed gains.

What is the CFO program?

The CFO Program is a comprehensive initiative by Deloitte Tohmatsu Group, aiming to provide support to the CFOs of companies that underpin the Japanese economy, add to the capabilities of those CFOs' organizations, and thus revitalize the Japanese economy itself. Professionals with different specializations work together as trusted advisors to help CFOs solve the problems they face. We also endeavor to improve the competitiveness of Japanese businesses by providing CFOs with the latest information, including global trends, as well as networking opportunities across different companies and industries.

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