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Deloitte CFO Signals Survey Report

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About Deloitte CFO Signals

Deloitte CFO Signals is a CFO opinion survey conducted by Deloitte periodically at the global level in cooperation with the member firms from each country. The responses obtained from the CFO survey are gathered and analysed by Deloitte professional specialists, then the report is distributed as the "CFOs Signals" to the CFOs.

The questionnaires in the survey are comprised of the globally conducted "survey on the economic environment" and "survey on a hot topic" tailored to each region.

The first survey was conducted in Japan in August 2015, and this is the fifth survey. "The survey on the economic environment" investigates the chronological change of views of CFOs, as well as the latest economic prospects at the time of the survey. In addition to this regular survey, an opinion survey regarding risk scenarios in a macro viewpoint for both Japan and other developed nations were conducted too.

Company rejuvenation has been featured as the hot topic in this survey for Japan.

This survey was conducted at the CFO VISION conference on September 27th. The responses from 108 CFOs was obtained, but also included respondents who did not attend the conference.

We are sincerely grateful for your cooperation.

Deloitte Tohmatsu CFO Program
2016/11/17

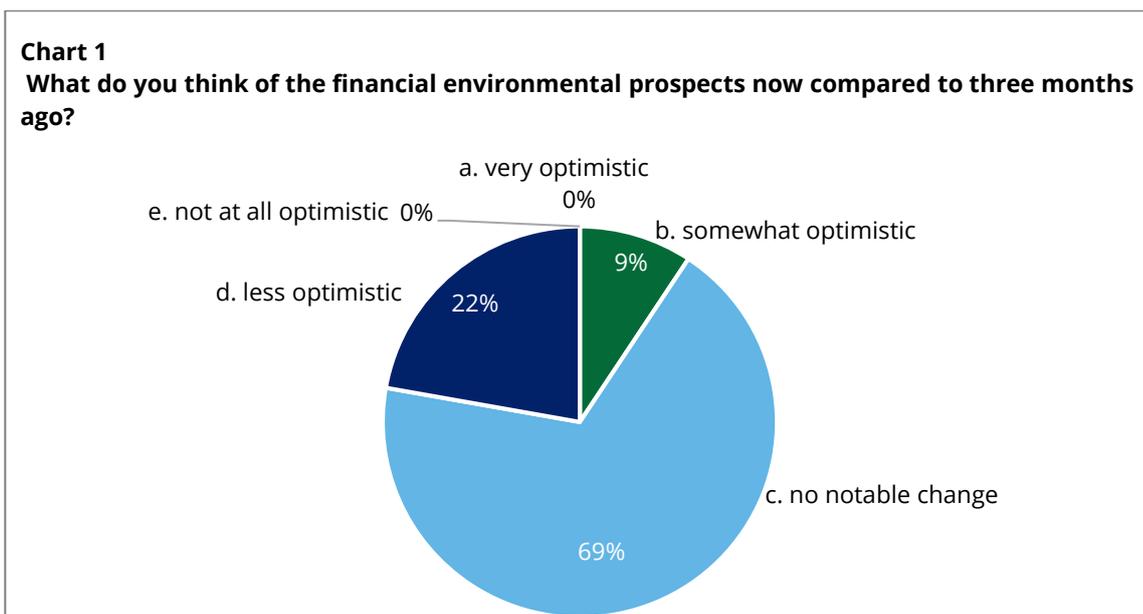
The **CFO** Program



Survey on the Economic Environment

Financial environmental prospect

This survey aims to compare the financial environmental prospect in comparison to the last survey conducted in August 2016. Chart 1 shows the views on the financial environmental prospects compared to the situation three months ago.

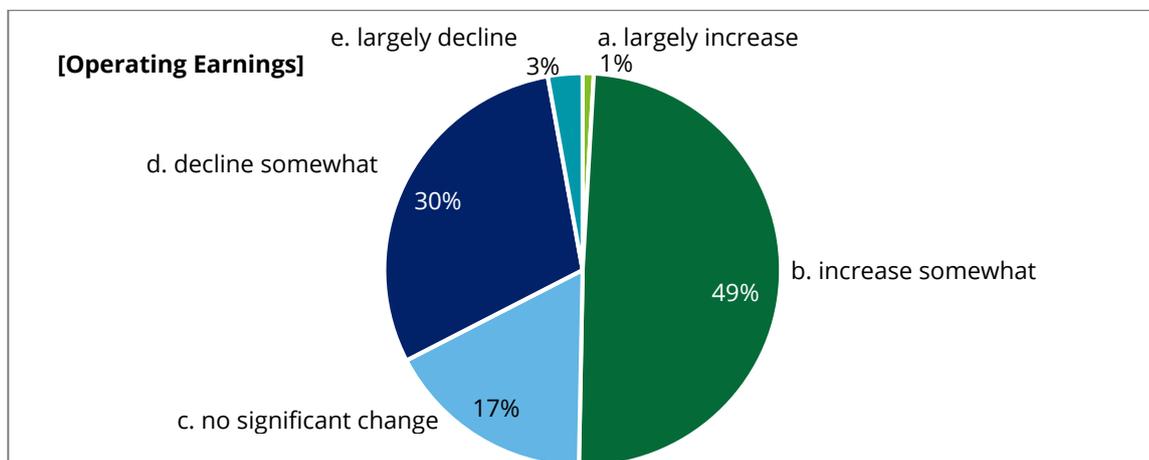
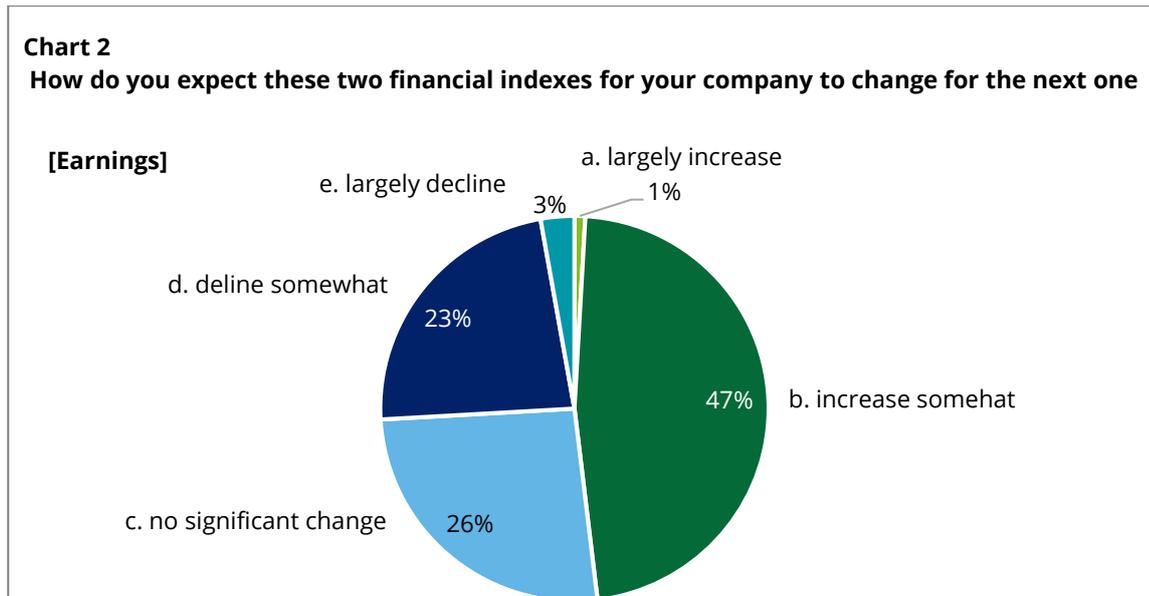


As for the financial environmental prospects, most CFOs have been cautious since the beginning of the year. However, in this survey, we can see that there is an increasing number of CFOs expecting a stable outlook. As can be seen from the above survey result, “d. less optimistic”, has decreased to 22% while was over 40% in the last survey. The option “c. no notable change” has increased significantly from 50% to 69%. The results indicate that the financial environment has become more stable in the recent months.



The prospects of performance

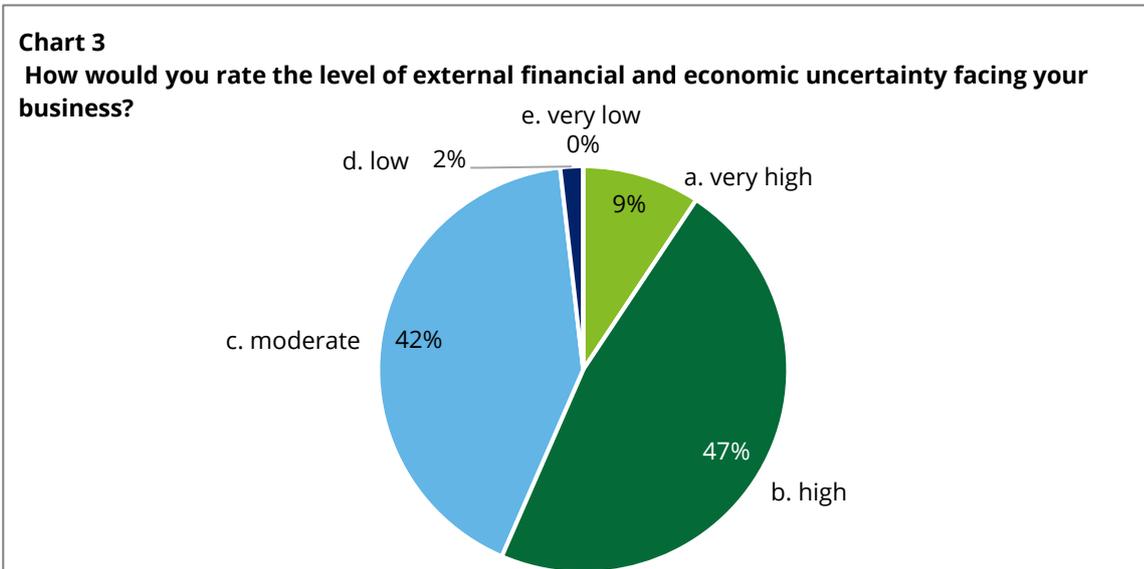
In contrast to the last survey, in which many CFOs anticipated their companies' earnings / operating earnings would get worse, this survey indicates more CFOs expect it to become better this time. Chart 2 shows the views on the prospects of performance for the next one year.



In terms of the prospect of earnings for the next one year, only 1% of CFOs expect “a. largely increase” whereas “b. increase somewhat” increases significantly to 47% from 23% in Q2. At the same time, the CFOs who answer “d. decline somewhat” and “e. largely decline” decreased to 26% from 44% in the last survey.

The same trend can be seen for operating earnings. There are 50% of the CFOs who choose either “a. largely increase” or “b. increase somewhat”. The number fell down to 30% in the last survey, but this time it marked even higher than the survey before the last one (43%). These results indicate that the earnings is rapidly improving.

Uncertainty among CFOs is getting lower. Chart 3 shows the views on the level of the financial / economic uncertainty.



This shows 56% of CFOs answered either “a. very high” or “b. high”. Although it is still more than half of the CFOs, the number decreased significantly from 73% at the last survey.

 **Events CFOs regard as important when considering potential risk scenarios for the Japanese Economy**

Unreliability of the financial policies is attracting CFOs' attention as a factor that could open up for a risk scenario in the Japanese economy.

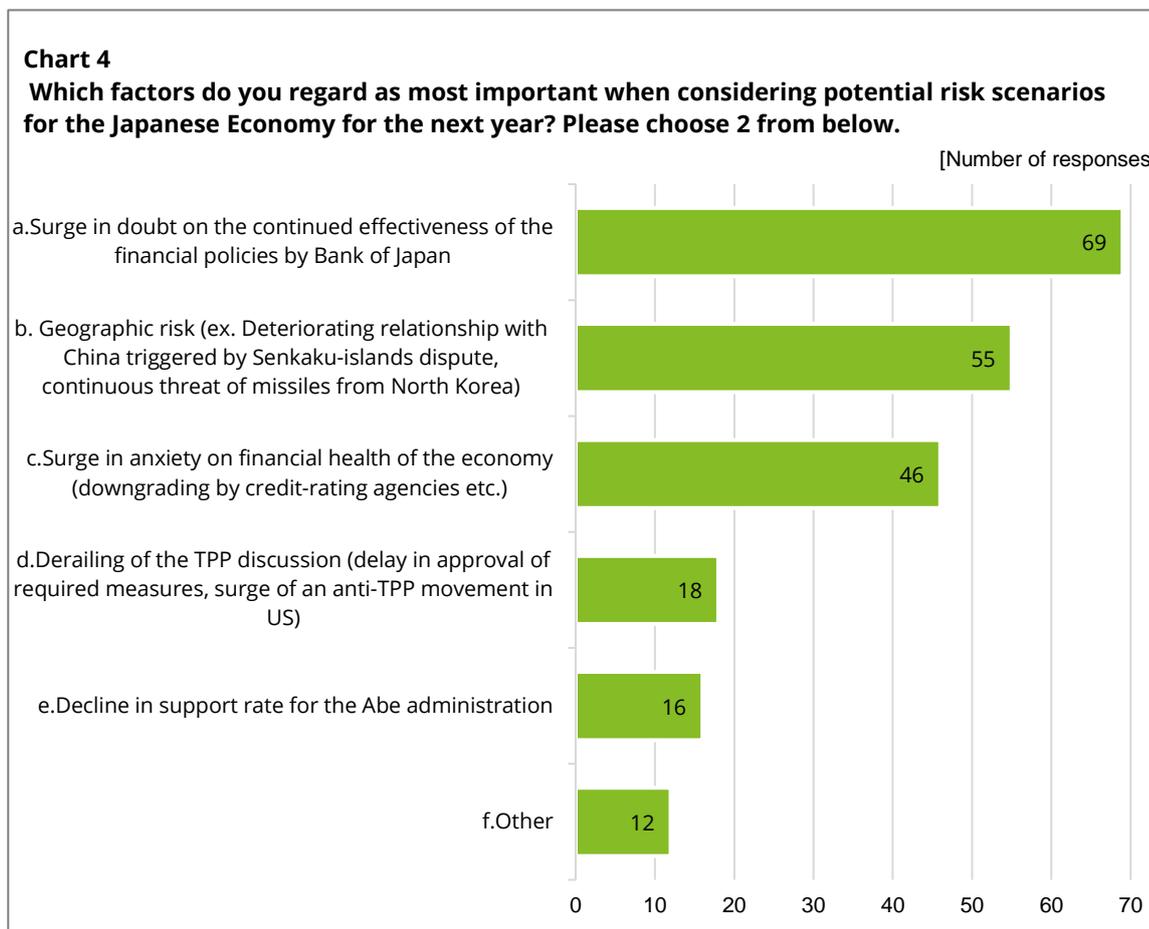


Chart 4 shows what factors are regarded as important for prospects of the risk scenarios of Japanese economy for the next one year. The most chosen answer is “a. surge in doubt on the contributed effectiveness of the financial policies by Bank of Japan”. This may be affected by Bank of Japan’s announcement on the New Framework for Strengthening Monetary Easing: "Quantitative and Qualitative Monetary Easing with Yield Curve Control" on September 21st, right before the survey was conducted, but it appears that the CFOs also considers various impacts coming from the limit of the BOJs financial policies. This survey does not cover the individual impacts that the CFOs are concerned about. But these impacts may include fluctuation in exchange rates, decreasing bank profits and the consequent impact on the banks` lending, as well as rising fund procurement cost due to rising in long-term interest rates.

It is also notable that “c. surge in anxiety on financial health of the economy” became the 3rd most chosen answer. CFOs may have been pessimistic of the recent plans for fiscal

expansion by the Japanese government. Consequently, CFOs have concerns about Japanese finance policies in itself such as the framework of macro economy policies. However, in terms of TPP, one of the key policies of the government, the consequences of TPP is not seen as an important factor for the CFOs judging from the number of “d. Derailing of the TPP discussion” is small. Furthermore, while few CFOs chose “e. Decline in support rate for the Abe administration”, many CFOs chose “b. Geographic”. This could suggest that CFOs do not have much doubt about the stability of the current government, however they may think there is a risk of conflict with neighboring countries.



Events CFOs regard as important when considering potential risk scenarios for the US Economy

The election of Donald Trump is regarded as the riskiest factor for the US economy.

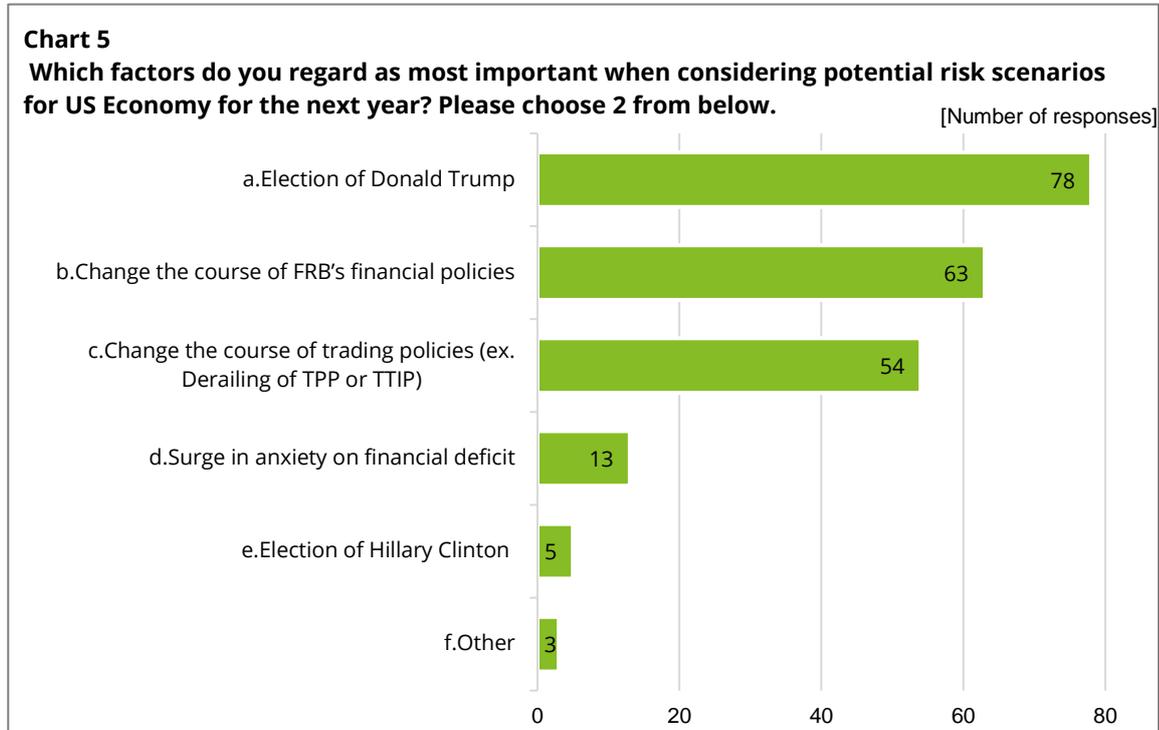


Chart 5 shows what factors are regarded as important for the prospects of triggering one or more risk scenarios for the US economy within the next year. While “a. Election of Donald Trump” was the most prominent answer, “e. Election of Hillary Clinton” was only chosen a handful of times. This indicates CFOs’ high concerns on the future of the US economy in case should Donald Trump become the president. It should be noted that “c. Change of course of trading policies” was also frequently chosen, which makes a contrast to previously mentioned CFOs’ views that “derailing of TPP discussions” is not a significant trigger to put the Japanese economy at risk. This may indicate that CFOs are not specifically concerned of TPP, but rather concerned about the US’s trade agreements as a whole. It could also mean that CFOs are expecting a global instability in free trade in the near future.

“b. change of course of FRB’s financial policies” was also chosen a number of times. This choice may be affected by the speculation about the FRB’s policies, which has caused confusion amongst developing countries and large fluctuations in the USD/JPY exchange rate over the past several years,.

Unexpectedly, “d. surge in anxiety on financial deficit” was only chosen a few times. Caution may be needed when considering the US’s financial deficit, specifically in respect that Donald Trump’s election may potentially increase the deficit..



Events CFOs regard as important when considering potential risk scenarios for the EU's Economy

Events regarding political factors is regarded as most most important to triggering risk scenarios for EU economy. The Merkel administration's low approval ratings, along with far-right political parties remaining popular in countries such as Austria, France, and Hungary, seems to be the background for this.

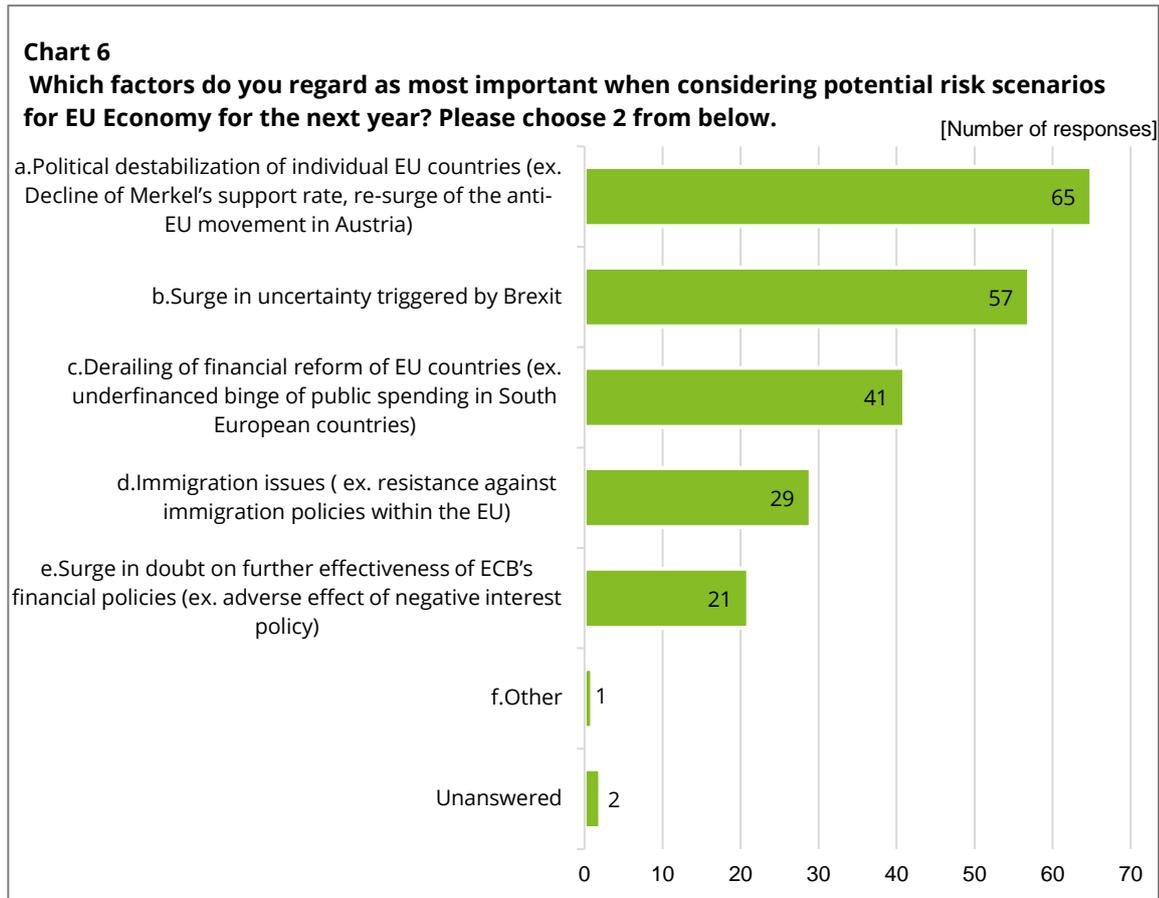


Chart 6 shows which factors the CFOs regard as most important when considering risk scenarios for the EU economy for the coming year. The most chosen answer is "a. Political destabilization of individual EU countries", followed by "b. Surge in uncertainty triggered by Brexit". It appears that the CFOs are strongly concerned about political instability in the EU. While the "e. surge in doubt on further effectiveness of ECB's financial policies" was selected relatively few times, the sustainability of the financial easing is uncertain, especially given the current situation of the ECB. With the heightened financial uncertainty of the Southern European countries, the overall stability of the financial system in Europe should be closely observed.



Events CFOs regard as important when considering potential risk scenarios for the Chinese Economy

In terms of the factors of risk scenarios for Chinese economy, CFOs is most concerned about the setback in structural policies and deterioration of the bad-loan situation.

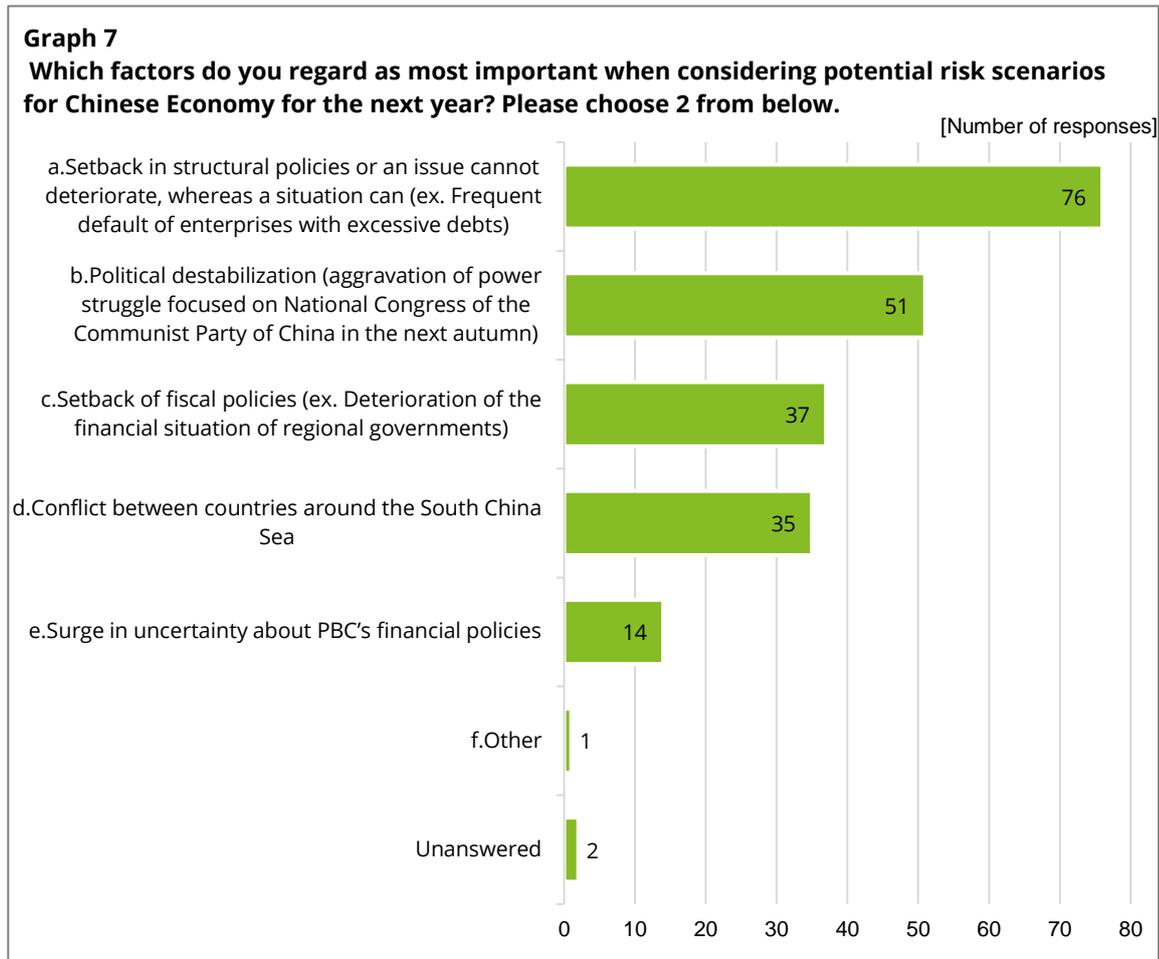


Chart 7 shows which factors the CFOs regard as most important when considering risk scenarios for the Chinese economy for the coming year. The response that stood out was “a. setback in structural policies of deterioration of bad-loan situation” and “b. political destabilization”. It is a widely known issue that the Chinese government is facing difficulties in policy making as there are conflicts, hindering discussions within the party. It is likely that CFOs also believe that the stability within the government is required for the successful drafting of financial policies, and vice versa. Compared to the aforementioned 2 responses, “c. setback of fiscal policies” and “e. surge in uncertainty about PBC’s financial policies” was not chosen very often. Given the survey results, CFOs expect that the fiscal policies will be implemented somewhat smoothly, but do foresee that possible setbacks in structural policies and bad loans could be important issues.

Survey on company rejuvenation

In order to deal with intermittently changing business environment around Japanese companies, it is indispensable for them to renew their businesses and products. The importance of doing so has been growing significantly compared to the past, when stable growth was expected. It is one of the most important issues on the management agenda especially for some Japanese companies which are facing a number of problems about their business profitability and growth potential.

Based on the awareness of the abovementioned problem, this survey aims to look into the actual status of company rejuvenation in order to help Japanese companies to realize sustainable growth.

- “Decisions in the past” is the most popular response as the obstacle to make new decisions. It can be said that internal issues are being main cause that prevents company rejuvenation.
- Around 60% of the CFOs answered “Launching and fostering a new business would be the priority in order to rejuvenate the company's business”. On the other hand, many CFOs also think that “Selling a business unit or pulling out from a business area with bad prospects or lower profitability would be the priority”.



Obstacles for company rejuvenation

“Decisions in the past” is reported by CFOs as being the most important factor in making company rejuvenating difficult. This was the same result as last year.

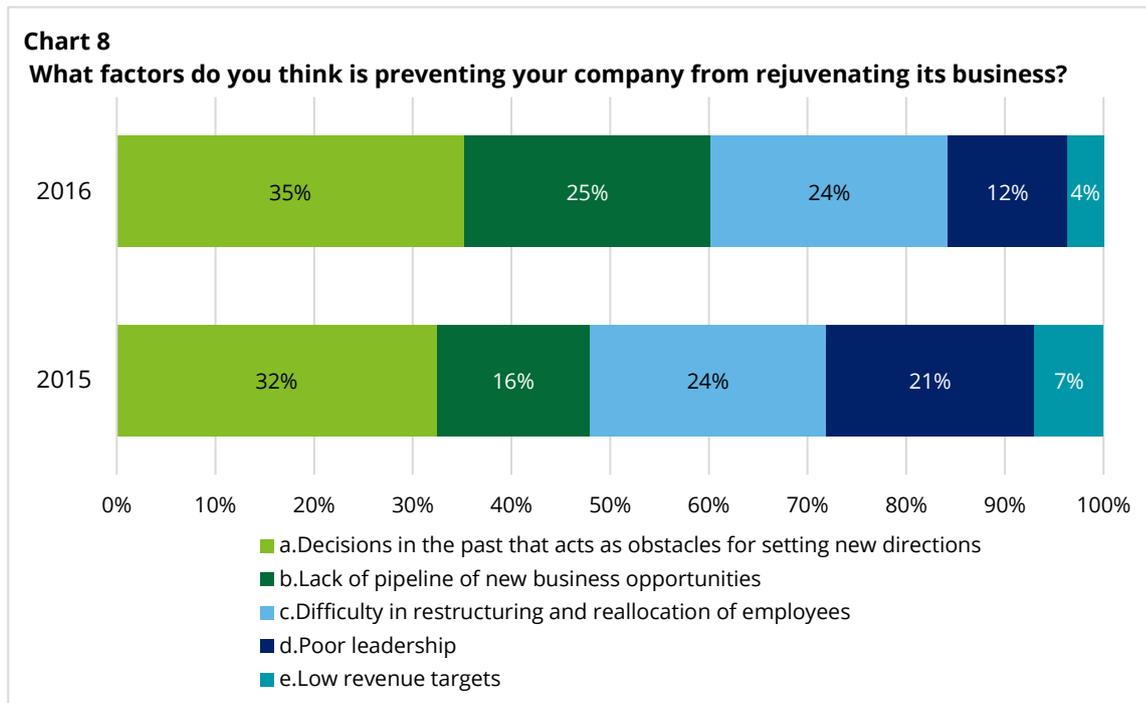


Chart 8 shows the factors that make decision making to support companies' rejuvenation difficult, such as selling existing businesses. In a hostile environment where companies compete, even though companies might have some businesses with problems in growth or profitability, or business activities which does not match with the corporate strategy, “decisions in the past”, an inside issue so to speak, still make it difficult to make new decisions.

On the other hand, “b. lack of pipeline of new business opportunities” is gathering more responses than last year. While many companies are shifting their position from defensive to aggressive, it can be conjectured that CFOs are facing a problem of having a non sufficient pipeline of new businesses, as a result of already launching new businesses to rejuvenate their companies.



Fundamental thoughts on company rejuvenation

It turned out that more than half of the CFOs think that launching and fostering a new business would be of highest priority in order to rejuvenate their companies

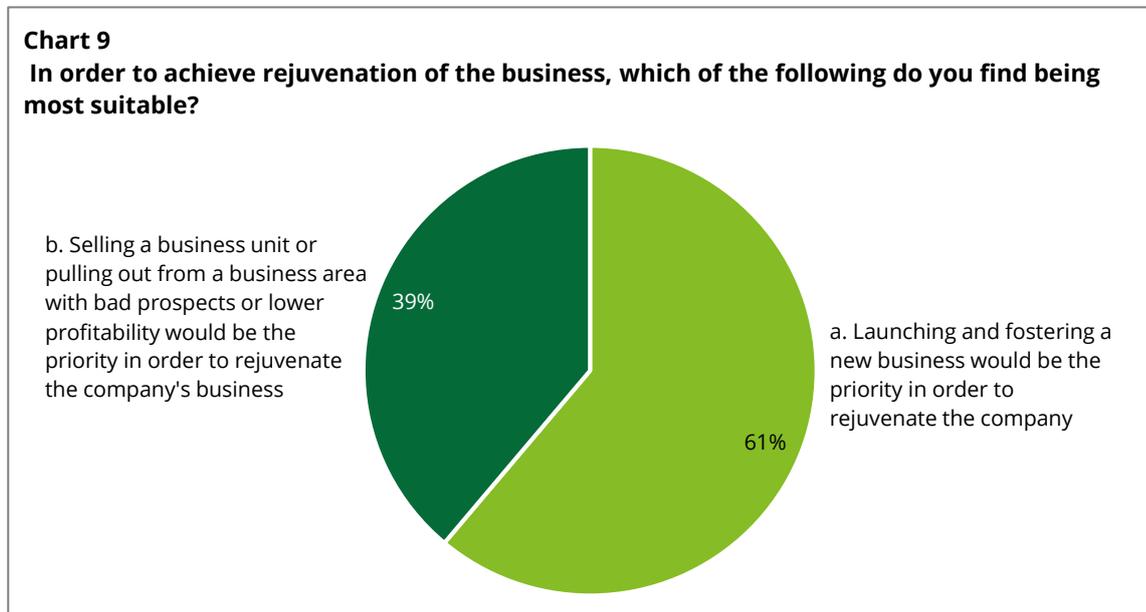


Chart 9 shows the CFOs' fundamental thoughts on company rejuvenation. When seen in combination with Chart 8, one could get the impression that the CFOs would like to shift their resources smoothly to launch and / or grow the new business with a background of "difficulty in restructuring and reallocation of employees".

At the same time, nearly 40% of the CFOs responded that "b. sell a business unit or pulling out from a business area with bad prospects or lower profitability would be the priority in order to rejuvenate the company's business". It might be that many CFOs would prefer to make surplus of manpower by releasing resources and clarify their companies' direction by clearing up the past decisions before they will launch and/or grow new business.

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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