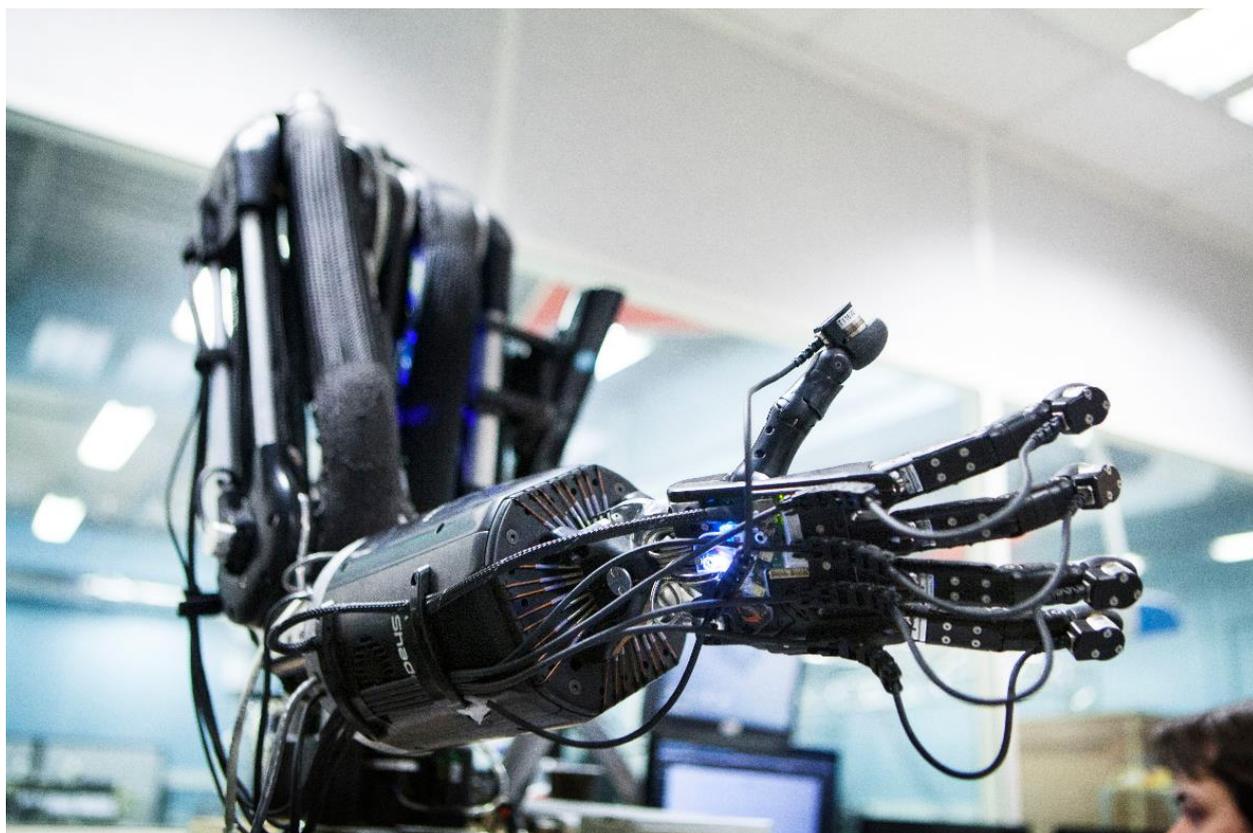


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Deloitte CFO Signals Survey Report

2017 Q1

Date 2017/5/12

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About Deloitte CFO Signals

Deloitte CFO Signals is a CFO opinion survey conducted by Deloitte periodically at a global level in cooperation with the member firms of each country. The responses obtained from the CFO survey are gathered and analysed by Deloitte professional specialists, then compiled into a report that 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 participating region.

The first survey in Japan was conducted in August 2015, and this is the seventh survey.

"The survey on the economic environment" investigates the chronologically changing 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 from a macro viewpoint for both Japan and other developed nations were conducted too.

The impact of the rapid progress of digital technology on corporate management and the CFO / finance team has been featured as the hot topic in this survey for Japan.

This survey was conducted from April 3rd to April 14th, and answers from the CFOs of 38 companies were obtained.

We are sincerely grateful for your cooperation.

Deloitte Tohmatsu CFO Program

2017/5/12

The **CFO** Program



Survey on the Economic Environment

Prostepct of the financial environment

We can see the financial environment around the companies begins to stabilize.

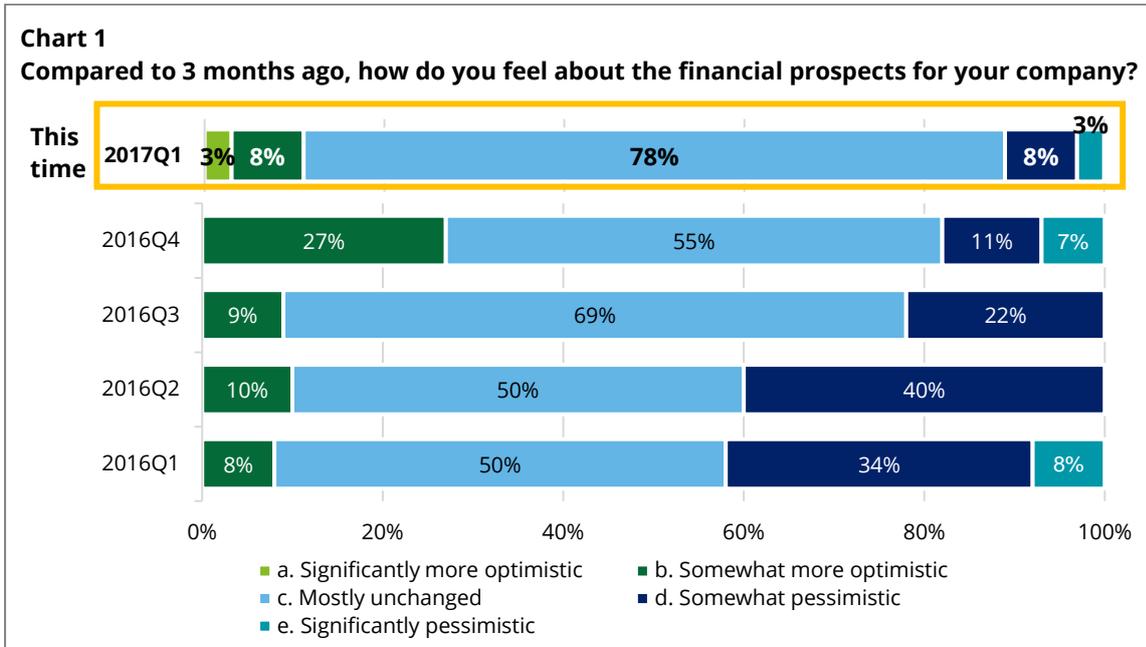


Chart 1 shows how CFOs saw the financial environment compared to 3 months ago for each survey since 2016Q1. The improvement that started since the middle of last year has been slowing for now. It appears that many CFOs feel that the financial environment is not changing much these days. Specifically “c. mostly unchanged” got 78% of responses at this time which has been the highest number so far. Even though most of the CFOs sees stable prospects, both “a. significantly more optimistic” and “e. significantly pessimistic” got 3% of responses, implying a of gap in the outlook between some companies.

The trend of increasing incomes and profits that appeared at 2016Q4 continues.

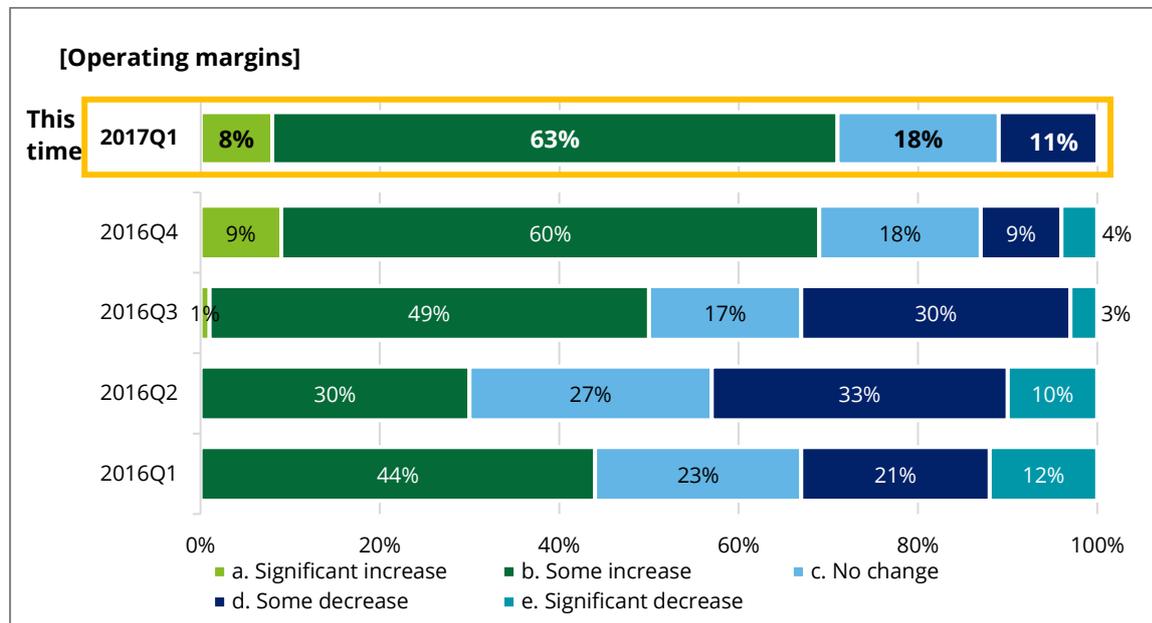
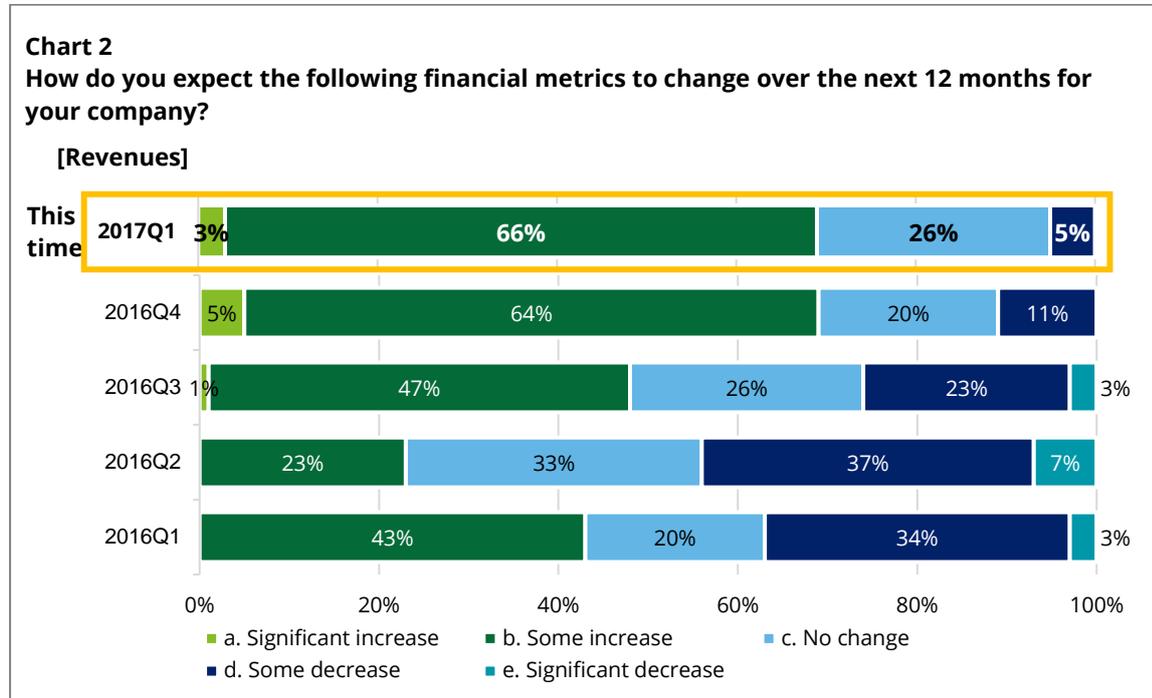


Chart 2 shows the business performance outlook for the coming year. The trend of increasing income and profit of companies that appeared at 2016Q4 continues and at about 70% of the companies their business performance is expected to improve. Looking at the revenues, “a. significant increase” and “b. some increase” gathered 69% of responses combined retaining the same high level as the 2016Q4 survey. Furthermore,

“d. some decrease” and “e. significant decrease” declined to 5% from 11%, showing less and less of the CFOs forecasted that their business performance will deteriorate.

The same thing can be said for operating margins. The answers indicating an expected increase in operating margins, “a. significant increase” and “b. some increase”, summed up to 71%. It is the highest number so far. Furthermore, the CFOs who answered that their companies’ operating margins will decrease went down to 11%. In summary a continuing trend of increasing revenues and operating margins of the companies can be seen.

 **Uncertainty**

An indication of less uncertainty is appearing along with the financial environment and the status of profits looking better.

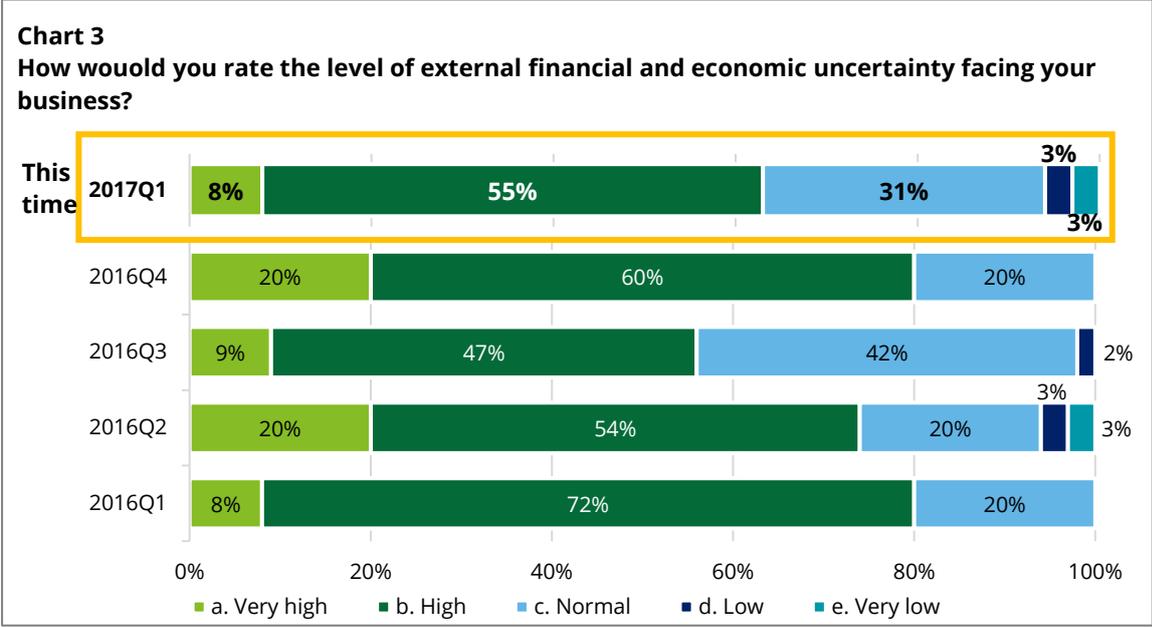


Chart 3 shows the prospects of financial and economical uncertainty. In the latest survey (2016Q4), the number CFOs who thought that uncertainty was high was increasing, while their financial environment and profit was improving. In contrast, “a. very high” and “b. high” decreased remarkably and “d. low” and “e. very low” has increased in this survey. Considering these results, it is possible that many CFOs are conducting business without being significantly troubled by uncertainty or worries of regarding the current business environment.

 **Key points that can influence the Japanese economy**

In terms of the Japanese economy, positive factors such as economic recovery or structural reforms have been receiving more and more attention.

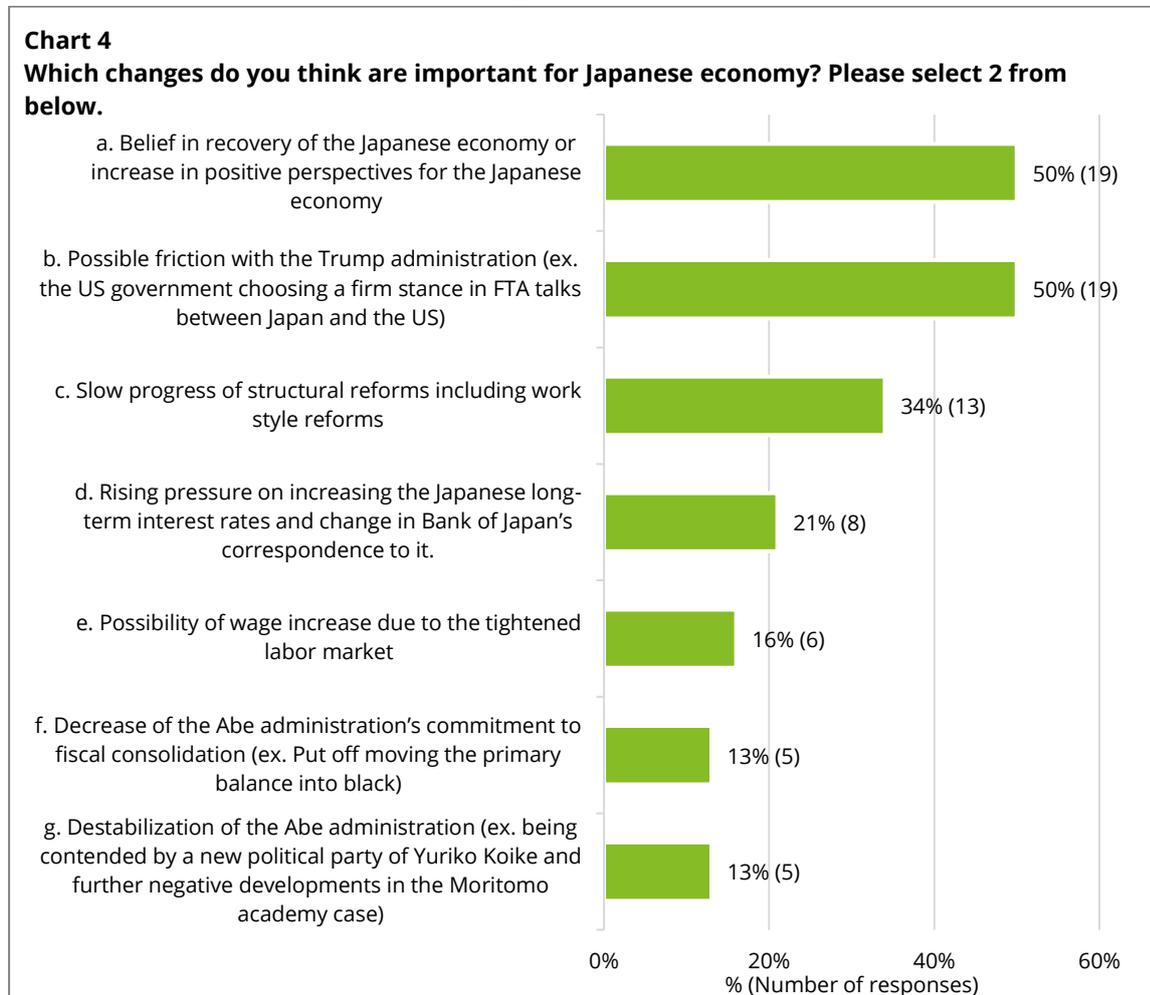


Chart 4 shows the important possible Japanese economic movements that might influence the CFO's businesses in the coming year. It is notable that the business cycle of the Japanese economy and structural reforms drew significant attention. Specifically, "a. belief in recovery of the Japanese economy or increase in positive perspectives for the Japanese economy" was the most popular answer while "c. slow progress of structural reforms including work style reforms" also got 34% of responses. Considering that the CFOs had been taking a cautious stance to the structural reforms that is showed by past surveys, it seems CFOs have a certain expectation for current work style reform. Additionally, "f. decrease of the Abe administration's commitment to fiscal consolidation (ex. put off moving the primary balance into black)" and "g. destabilization of the Abe administration (ex. being contended by a new political party of Yuriko Koike and further negative developments in the Moritomo academy case)" were not prominent answers. Judging by this, it appears that the CFOs sees some value

in Abe administration's policy management. In addition, it is also notable that "b. possible friction with the Trump administration (ex. the US government choosing a firm stance in FTA talks between Japan and the US)" was the second most popular choice. It could be that the CFOs are concerned about the relationship between Japan and the US, especially regarding trade conflict risk.

€ Key points that can influence Western counties' economies

In terms of Western countries' economies, "political risks" in a broad sense attracts significant concern.

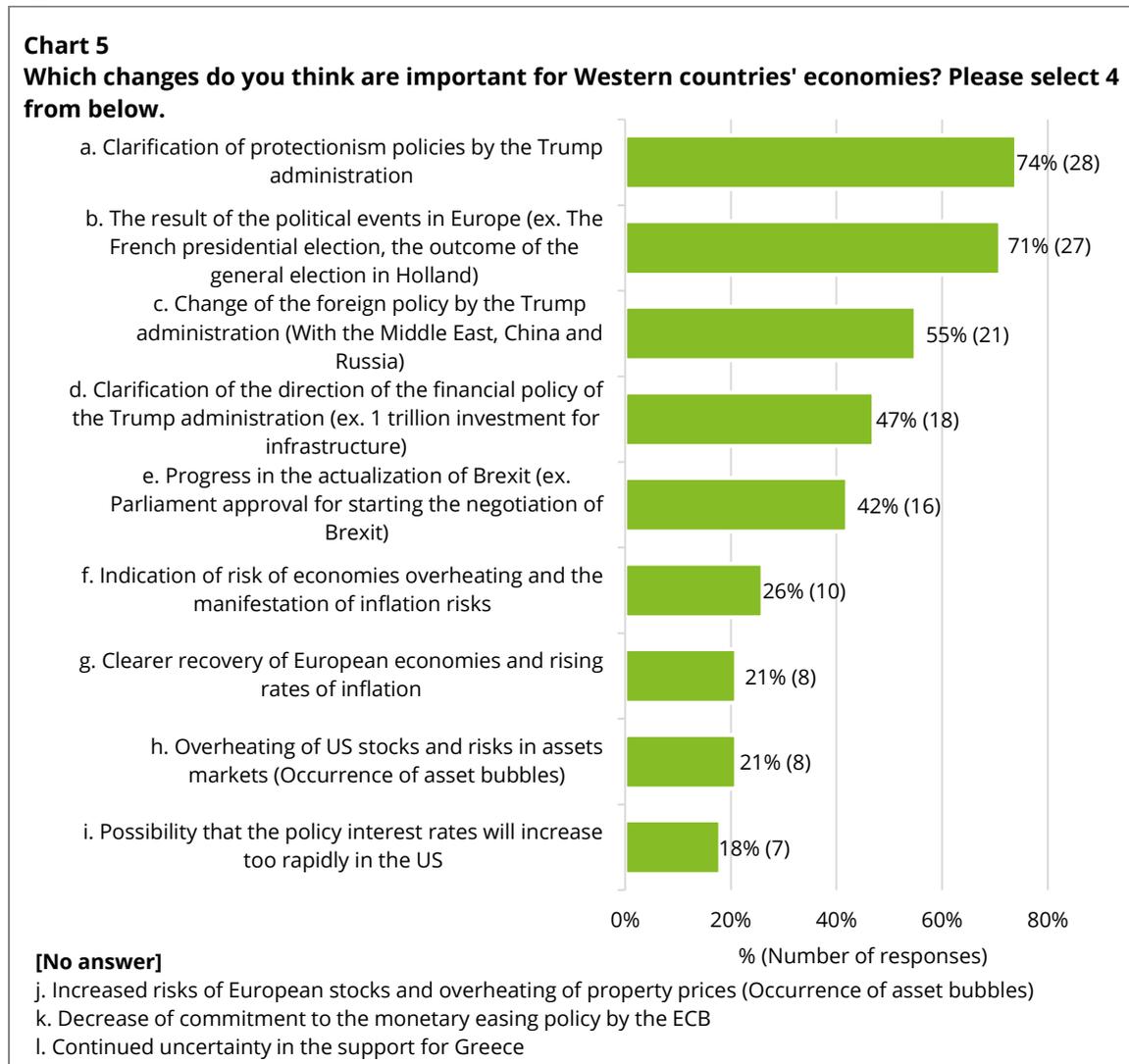


Chart 5 shows the important possible European economic movements that might influence CFO's businesses in the coming year. The CFO's greatest concern is the policies of the Trump administration, especially "a. clarification of protectionism policies by the Trump administration" and "c. change of the foreign policy by the Trump administration (with the Middle East, China and Russia)". Except for the Trump administration, the CFOs are concerned about "b. the result of the political events in Europe (ex. competition between Marine Le Pen and Emmanuel Macron in the French presidential election, the outcome of the general election in Holland)". Compared with political risks, the risk of economies overheating, an asset price bubble or monetary policies did not get as much attention. As for the US, 21% answered "h. overheating of US stocks and risk in assets markets (occurrence of asset bubbles)" and 18% answered

"i. possibility that the policy interest rates will increase too rapidly in the US". As for Western countries, none selected the choices for risks regarding European stocks or Greece nor the stance of ECB on its monetary policy. From the perspective of the CFOs, it seems they think they should pay attention to political risks rather than European economies or overheating financial markets under in the current European economies.

 **Key points that can influence the Chinese / emerging countries' economies**

In terms of the Chinese / emerging countries' economies, a variety of movements and events were regarded as important, such as geopolitics, macro economics, commodity markets.

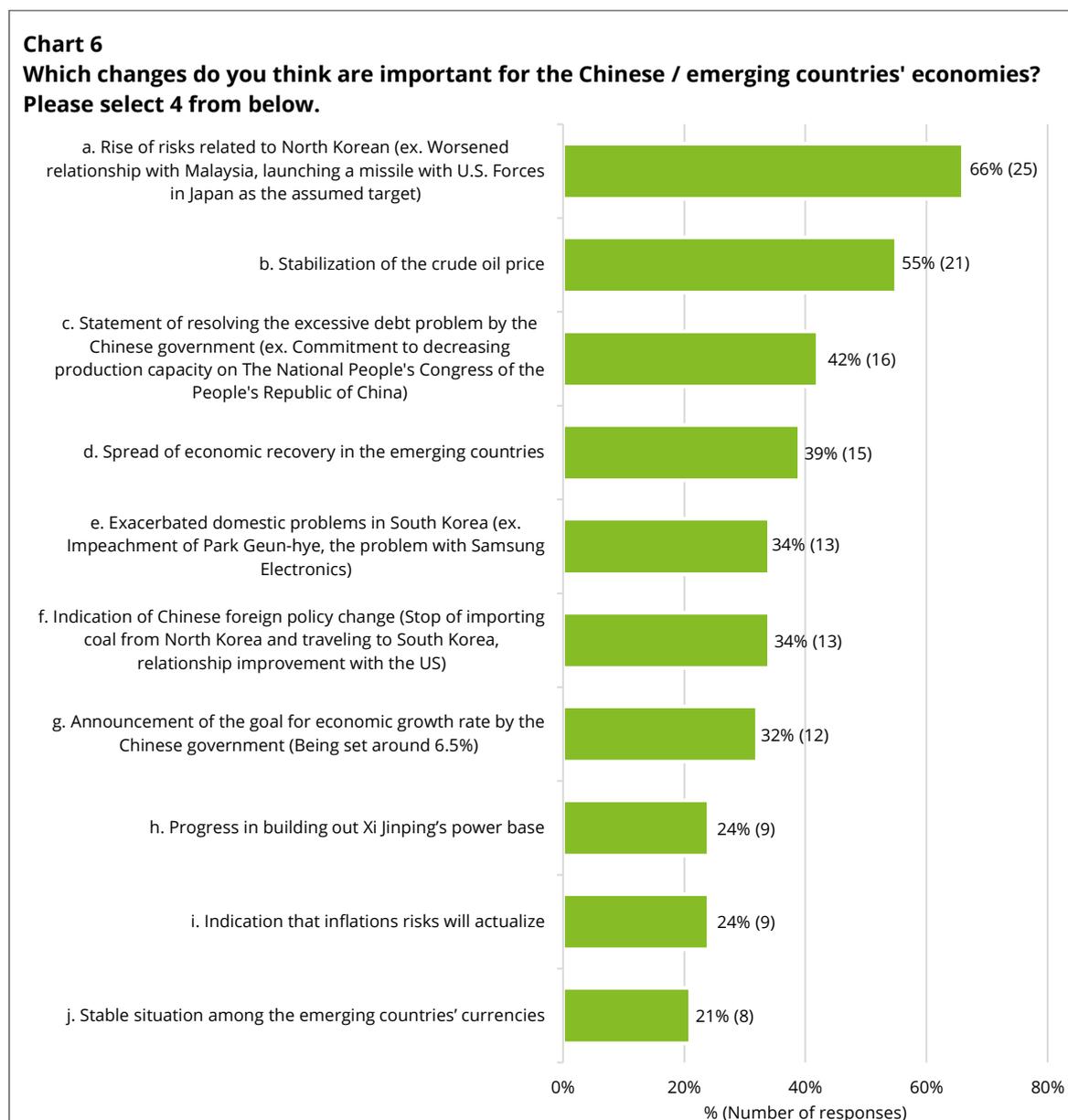


Chart 6 shows the important possible Chinese / emerging countries' economic movements that might influence CFO's businesses in the coming year. The top response was "a. Rise of risks related to North Korea (ex. worsened relationship with Malaysia, launching a missile with the U.S. Forces Japan as the assumed target)" and next was "b. stabilization of the crude oil price". The remaining responses diverge in various directions. The policy of the Chinese government against the excessive debt problem and emerging countries' economic recovery has gained much attention

relatively. The risks in relation to North Korea seems to be the most major concern, possibly because of its unpredictability. Meanwhile it also seems that stabilization of the crude oil price and the emerging countries' economic recovery build a sense of ease for the CFOs. Although the movement of Chinese economy has been important to follow for a long time, at this moment, it is notable that the CFOs regard the individual issues such as the excessive debt problem as more important than the Chinese economic growth rate or the progress in building out Xi Jinping's power base. It seems that most of the CFOs start to be so interested in Chinese individual issues that they have less interest in how Chinese economy performs on a high level.

The impact of the digital technology to corporate management and the CFO / finance team

How the progress of digital technology such as AI, IoT and Cloud computing influences accounting operations

We asked the CFOs how they think their corporate management especially themselves and their team get impacted by rapid progress of digital technology such as AI, IoT, Cloud computing and big data analysis. The CFOs showed their opinions on their expectations regarding the progress of digital technology, which can change the business environment remarkably and influence the employees' work styles.

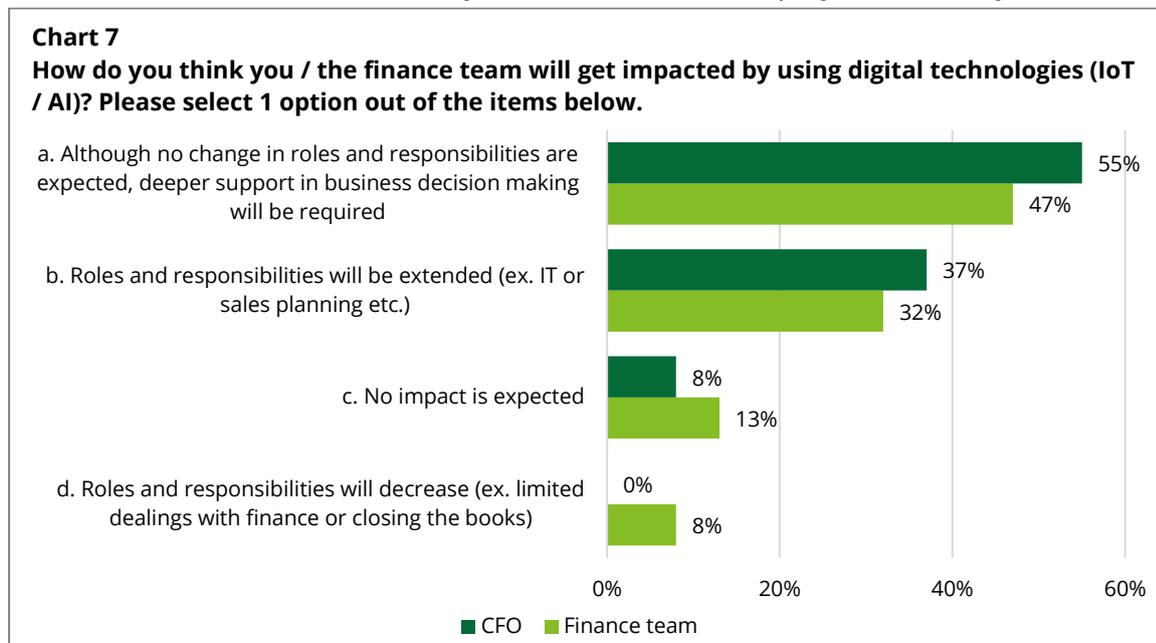
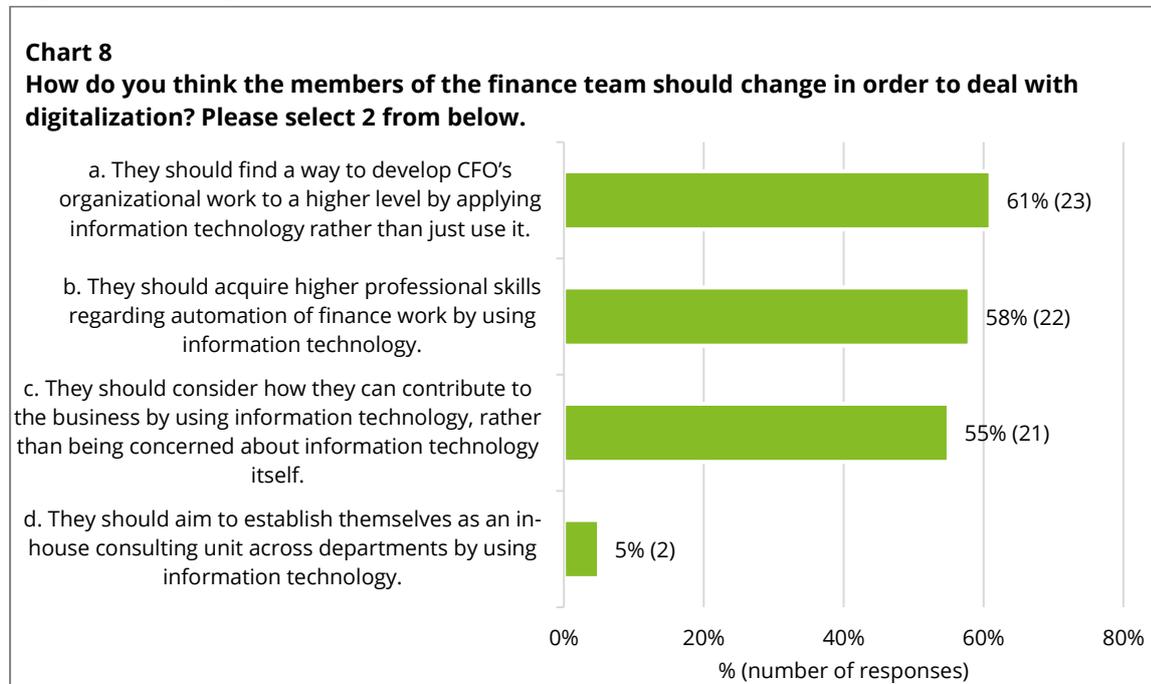


Chart 7 shows what the CFOs think about the influence of digitalization. Most of the CFOs answered that they and their team would be impacted to some extent while few answered "c. No Impact is expected". "B. roles and responsibilities will be extended (ex. IT or sales planning etc.)" and "a. although no change in roles and responsibilities are expected, deeper support in business decision making will be required." both got chosen to a big extent. In addition, seeing that CFOs answering that they themselves would get more impact than their team may suggest the CFOs see digital technology influence their management issues rather than their actual affairs issues.



How the finance team should change to deal with digitalization

We asked how the finance team should deal with digitalization or the progress of digital technologies.

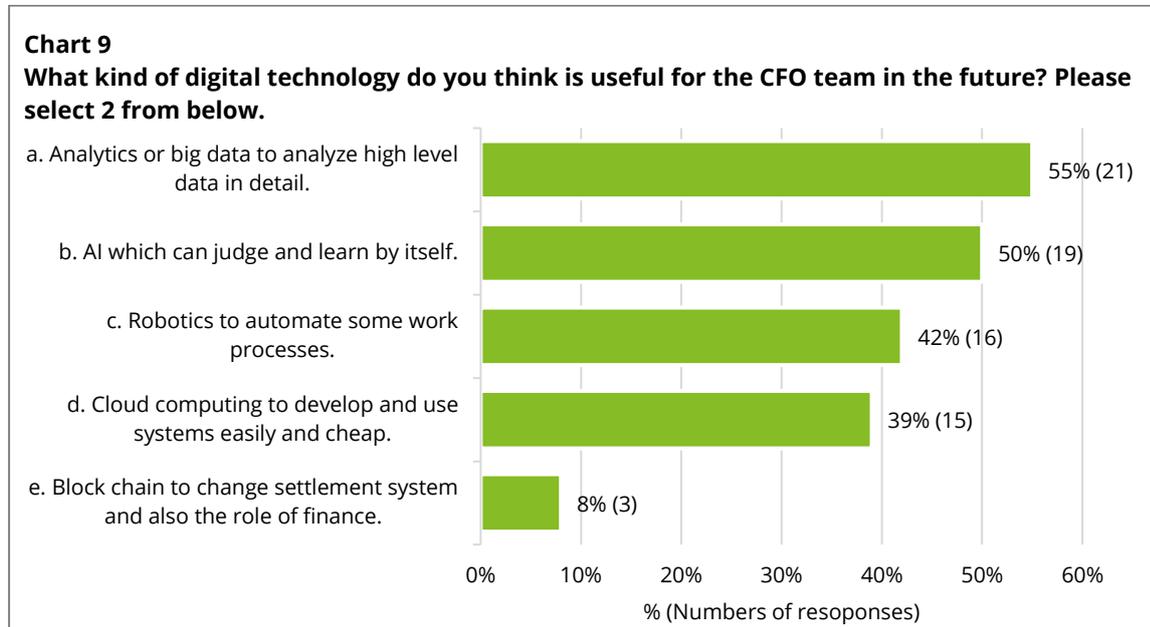


The low share of answers for “d. they should aim to establish themselves as an in-house consulting unit across departments by using information technology.” implies that CFOs do not think the finance team can work as in-house consultants using advanced IT. Meanwhile, other the remaining three choices had in almost the same percentage of answers. “A. they should find a way to develop CFO’s organizational work to a higher level by applying information technology rather than just use it.” and “b. they should acquire higher professional skills regarding automation of finance work by using information technology.” are similar “automation of finance work” was purposely stated in the survey question. Nevertheless, it is notable that many CFOs selected these choices without hesitation. Although the question “whether if robots can automate finance affairs” had been taboo to some extent, because the topic has been discussed in a variety of contexts, we can see the CFOs expect to use some automation technologies such as robots as alternative methods and view them positively rather than feel strange about them.



Expectation form digital technologies

In the next questions, we asked specifically what kind of digital technology the CFOs think is useful.



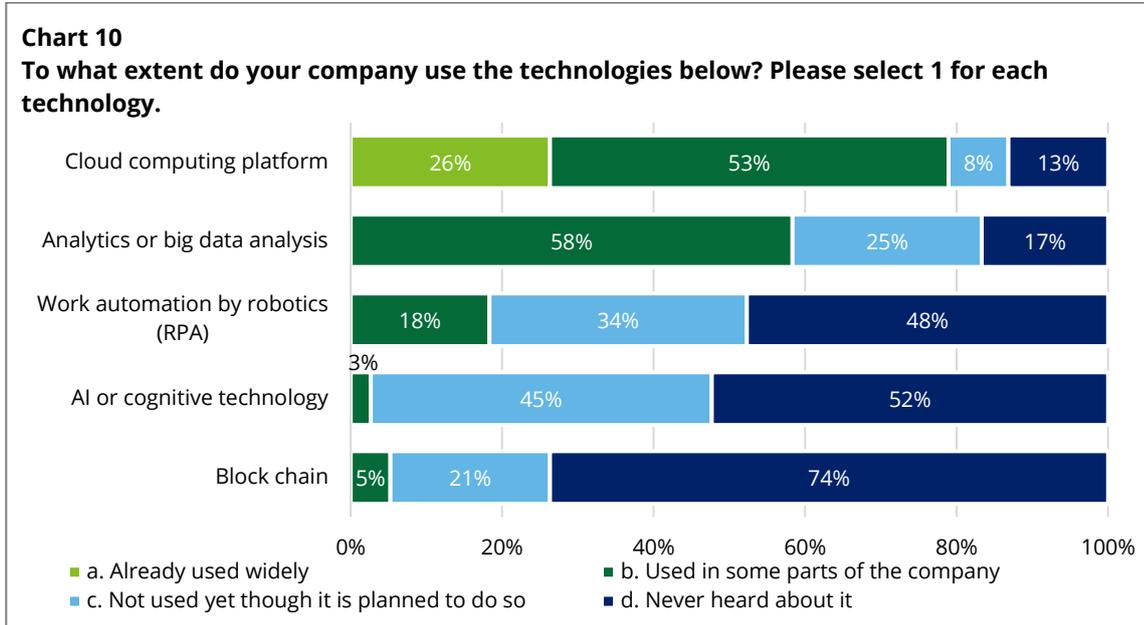
The answer “e. block chain to change settlement systems and also the role of finance.”, was not selected by many, because it seems to be related to the financial services industry. On the other hand, it is interesting that other four choices got almost the same number of answers.

In chart 8, making a suggestion to business functions by using digital technology was the third most popular answer, but chart 9 shows “a. analytics or big data to analyze high level data in detail.” was the most popular answer for the questions about the usefulness of digital technologies.

In any case, it is clear that there is a lot of expectations around these technologies in CFO teams, except for block chain.

 **Utilization of digital technology**

Chart 10 shows the status of digital technology utilization, now and in the future.



Only cloud computing platform got the answer “a. already used widely” while the other technologies turned out to be used in some parts of the company or not being used yet, though planned to do so. Regarding Analytics and big data analysis, 80% of the CFOs answered they (will) use it including “c. not used yet though it is planned to do so”, implying it is becoming the most familiar technology after cloud computing.

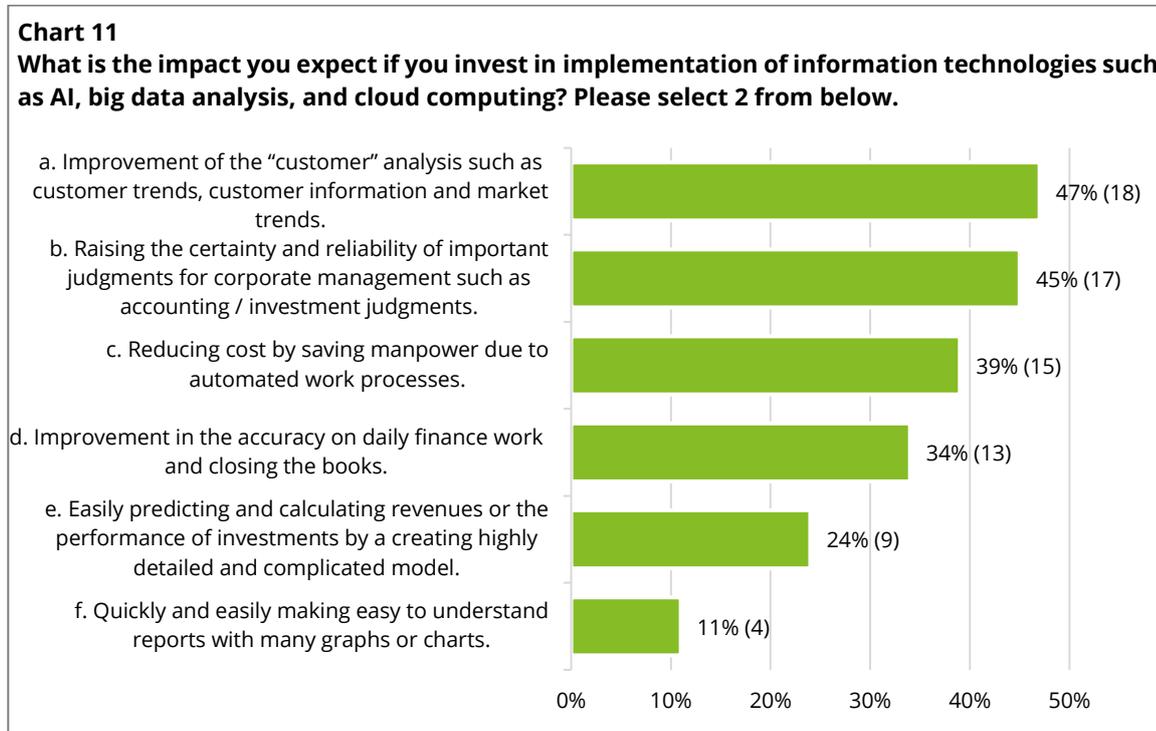
In terms of robotics, which the CFOs see as “automation technology for financial affairs” in the former survey question, only 18% answered “used in some part of the company”. For AI, only 3% answered “b. used in some parts of the company” while “c. not used yet though it is planned to do so” got 45% of answers, which means the CFOs are paying high attention to this technology. When Deloitte conducted the same type of survey in US in August 2016¹, the ratio of CFOs who answered they were already using this technology, including partial use, were respectively 40% for robotics and 37% for AI. Considering this, it can be expected that those digital technologies may spread widely in Japan the coming year.

¹ CFO Signals 2016Q3 “What North America’s top finance executives are thinking—and doing”, question “What is your current use of the following digital technologies?”, 2016.08 (www.deloitte.com/us/en/pages/finance/articles/cfo-signals-survey-executives-sentiment-tenor-worldwide-geopolitics-creating-concerns-2016q3.html)



Investment objectives and expectations in implementation of information technologies

Lastly, chart 11 shows the impact the CFOs expect if they invest in implementation of information technologies, based on a multiple choice question.



“A. improvement of the “customer” analysis such as customer trends, customer information and market trends.” got slightly more answers than “b. raising the certainty and reliability of important judgments for corporate management such as accounting / investment judgments.” Considering this, the CFOs might think they have company-level “client-related” issues that they need to manage. In any case, it is interesting that the expectation of analytics or judgement technology got more answers than the impact of manpower savings, as typified by robots.

Considering “e. easily predicting and calculating revenues or the performance of investments by a creating highly detailed and complicated model”, which CFOs often mention as an issue, did not get many responses, it seems they think solutions to this issue cannot be expected from the digital technologies in the foreseeable future. We expect the research about utilizing these technologies will proceed in the future.

In the same type of the survey in the US², “customer analysis” similarly got the most responses. However “f. quickly and easily making an easy to understand analysis reports with many graphs or charts” got only 5% of responses in Japan, even though it was a very popular answer in the US. Although it is often heard that the CFOs have a problem with

² CFO Signals 2016Q3 “What North America’s top finance executives are thinking—and doing”, question “What are the top purposes of your company’s analytics investments?”, 2016.08

finance teams taking a long time to gather data by hand to make materials for each meeting, surprisingly few CFOs acknowledge the problem can be solved by adopting reporting technology.

Continuing from the previous CFO Signals survey about robotics, this time we asked the impact of the digital technology to the finance teams and the CFOs. Generally speaking, the CFOs have great expectations. However we can clearly see the usages of these technologies are only “dawning” and it is not yet know how much they will be used and how much they will impact, thus postponing any plans to introduce them. Considering that the result in US is half a step ahead of this survey results, the “blooming” may happen in the near future in Japan.

What is 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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