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Deloitte CFO Signals Survey Report

2019 Q2
Sept. 2019

The **CFO** Program

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About Deloitte CFO Signals

Deloitte CFO Signals is a quarterly global survey to find out the thinking and actions of leading Chief Financial Officers (CFOs). We will share the highlights of survey results with analysis from Deloitte Tohmatsu and published report as "Signals" from CFOs.

This is the 16th edition as it was conducted for the first time in August 2015. The survey consists of two sessions; "Economic Environmental Survey" which is assessed every time globally and "Geopolitical Survey" which is different for each country. In "Survey on the economic environment", we analyze chronological changes in CFOs' thinking and the latest prospects at the time of the survey. In addition to the recurring questions, we also asked the risk scenarios of the Japanese economy and the world major countries from a macro-level perspective. As for Japan-specific geopolitical topics, we chose to ask CFOs about the accounting process issues, current initiatives, and future prospects.

This edition was conducted in July 2019, and we were able to receive responses from 50 CFOs and Finance and Accounting Executives.

Thank you for your cooperation.

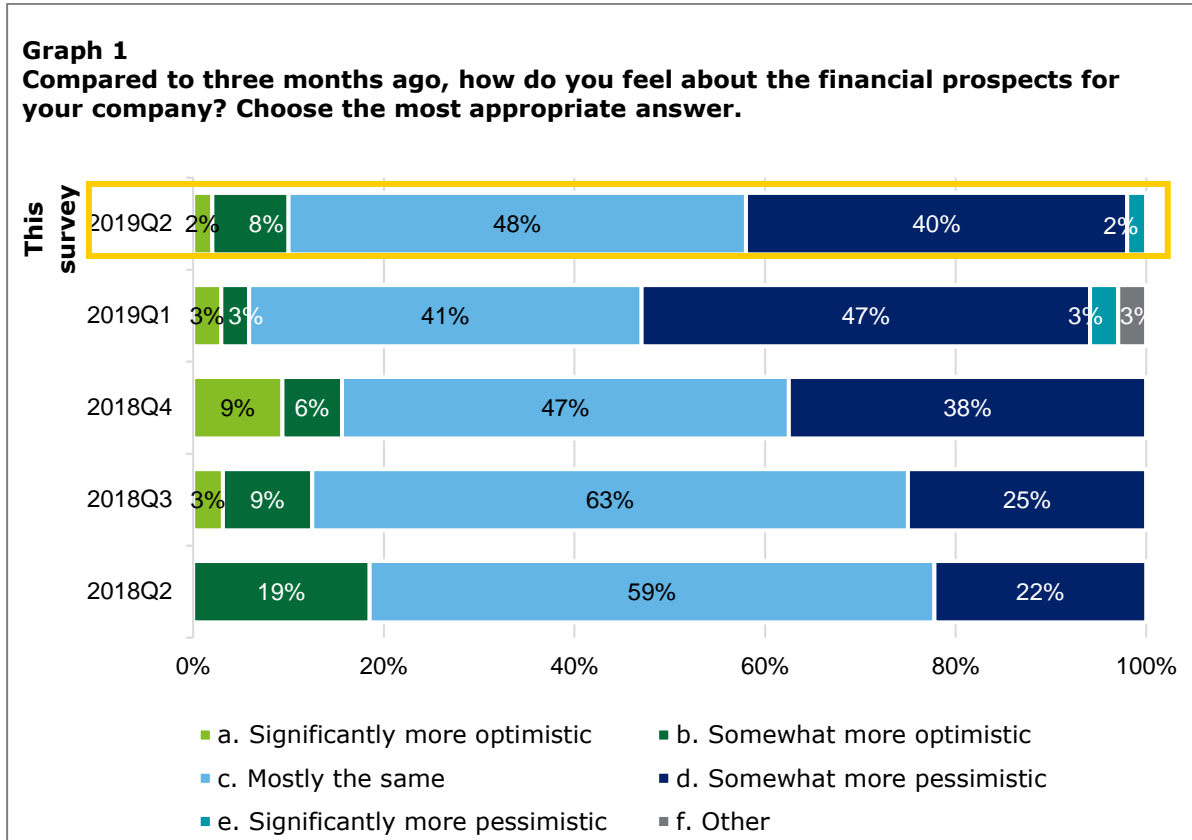
Deloitte Tohmatsu CFO Program
September, 2019



Survey on the economic environment

Financial environment prospects

Financial prospects have improved only marginally



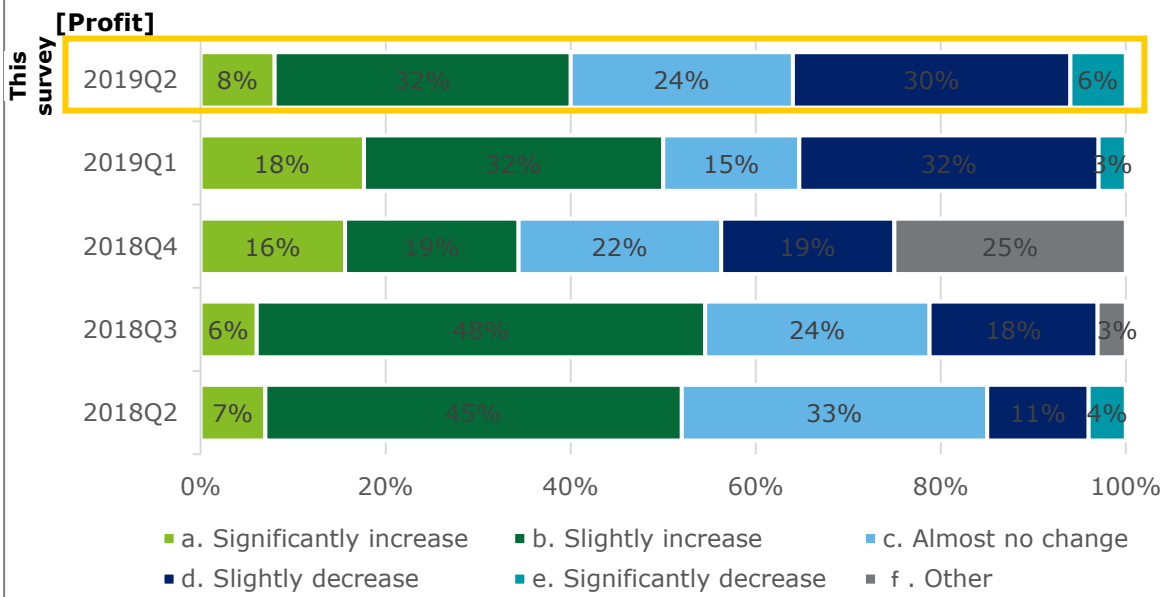
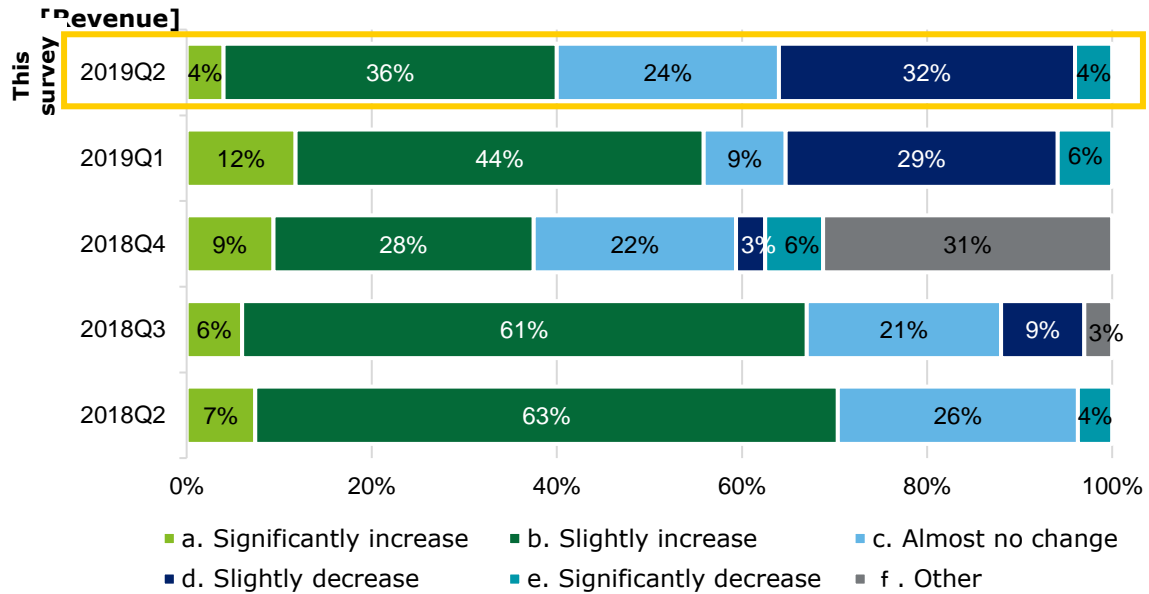
Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. Pessimism toward financial outlook has diminished only slightly in the 2019Q2 survey. While the percentage of those answering “Somewhat more pessimistic” or “Significantly more pessimistic” decreased a little from 50% in last quarter’s survey to 42% in this survey, the percentage answering “Significantly more optimistic” or “Somewhat more optimistic” increased 4% over the previous survey to 10%. Although CFOs’ financial outlook has improved slightly overall, the degree of improvement was limited, suggesting that CFOs continue to be cautious about financial outlook. During the 2019Q2 survey period, the US and China agreed to restart trade negotiations and declined to implement the so-called 4th round of punitive tariffs at the G20 summit at the end of June. President Trump also announced he would partially lift the export ban against Huawei. The US FRB and the central banks of several other major countries clarified their inclination toward monetary easing, and stock prices went up significantly in response to expectations of lower interest rates. Such external conditions are probably what made some CFOs’ financial outlooks more favorable. Nevertheless, the US’

previous 3 rounds of tariffs on Chinese imports (already raised from 10% to 25% in May), as well as China's retaliatory tariffs, continue to be in effect. Chinese economic indicators of personal consumption, production, and foreign demand all continue to slow down. China's actual GDP growth rate slowed down significantly in Q2 to 6.2%. In this environment of both positive and negative factors, it seems the restarting of China-US trade negotiations was not enough to greatly improve CFOs' economic outlook. In addition to that, U.S President Trump had announced the implementation of the 4th round of punitive tariff on China in early August. CFO sentiment is expected to worsen again.

Business performance outlook

Business performance outlook has become somewhat more pessimistic

Graph 2
How do you expect your key operating metrics to change over the next 12 months?
Choose the most appropriate answer.

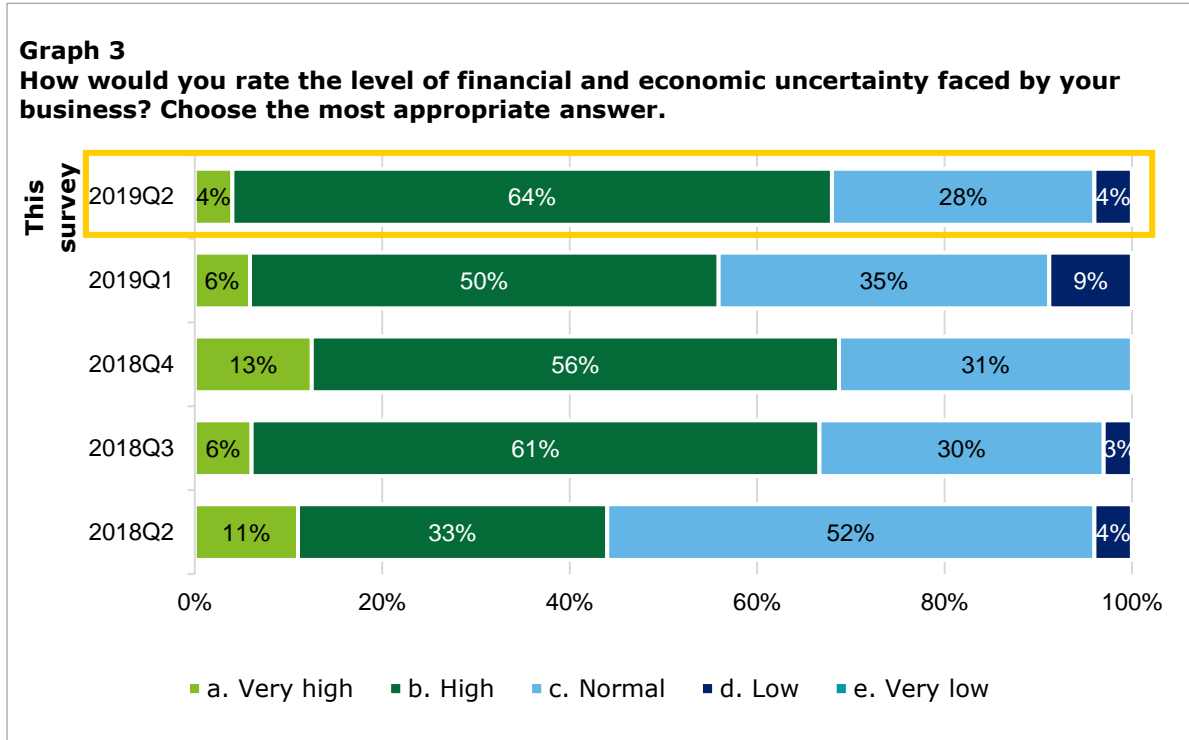


Graph 2 shows CFOs’ outlook for their company’s financial performance (revenue and profit) over the coming year. Overall performance outlook has worsened compared to the previous survey. 40% said they expected revenue to “Significantly increase” or “Slightly increase”, which is considerably less than the 56% who felt so last time. 40% said they expected profit to “Significantly increase” or “Slightly increase”, which was less than the 50% who felt so last

time. Possible reasons for a worse performance outlook despite (only slightly) more favorable financial environment prospects are: fewer exports from Japan to China, sluggish industrial production indices in Japan, and the continuing slowdown of the Chinese economy as these things negatively affect the Japanese economy. In Japan, the government's composite indices (CIs) show us that the Cabinet Office's judgment of economic conditions temporarily fell into the "bad" rating, raising fears that Japan is entering a recession. Another possible factor is the yen continuing to appreciate against the dollar in 2019Q2 due to expectations that the US FRB will lower interest rates. In its short-term outlook (survey conducted in June), the BOJ determined the business conditions of Japan's major manufacturing companies worsened for the second quarter in a row. In our most recent survey period as well, global trade problems continue to worsen the manufacturing industry's economic prospects. It looks like companies may already expect to revise their performance plans downward even though they only just made the plans in 2019Q1.

 **Uncertainty**

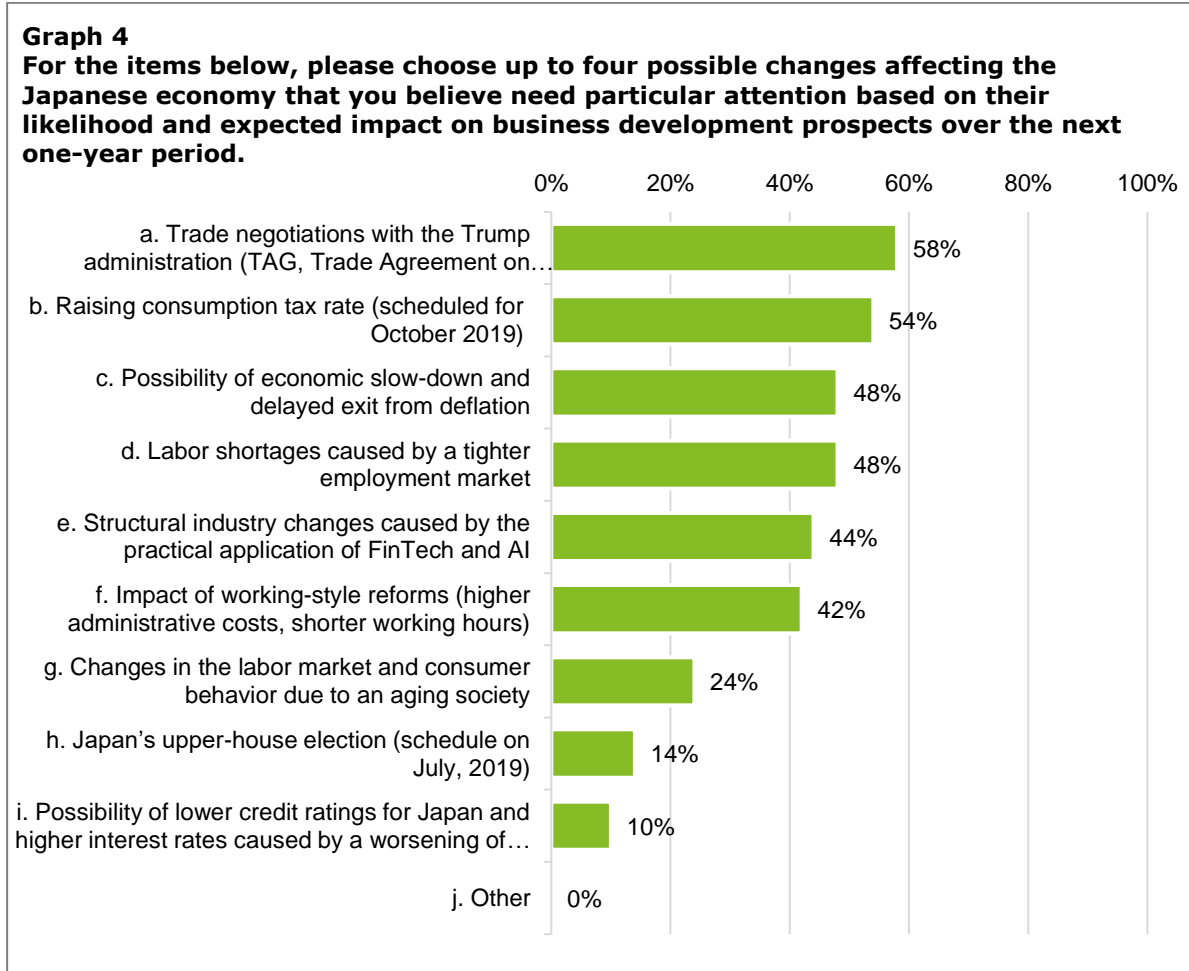
Uncertainty over the business environment has increased again



Graph 3 shows CFOs’ perception of financial and economic uncertainty. This time, 68% of respondents said that uncertainty was either “high” or “very high”, which was a big increase over last time’s 56%. This is same level of uncertainty as in 2018Q4 when uncertainty over US-China trade negotiations and the risk of a no-deal Brexit increased. Although China and the US restarted trade negotiations in 2019Q2, we do not yet know when the negotiations will conclude, and there are concerns the punitive tariffs will continue for a long time. In response to Theresa May’s announcement of her resignation as Conservative party leader, the UK held an election to pick the new party leader, and Hard Brexit proponent Boris Johnson was seen as the likely winner and therefore next prime minister. The risk of a no-deal Brexit by the October 31 deadline (postponed from the original March 31 deadline) is once again increasing. In Japan, there are many highly uncertain variables such as the impact of the planned consumption tax increase in October and what will happen with the Japan-US Trade Agreement on Goods (TAG). The business environment is expected to remain in a state of high uncertainty until the end of the year. In early August, U.S. President Trump announced the implementation of the fourth round of punitive tariff on China. Uncertainties in the business environment are expected to remain high toward the end of the year.

 Key factors in the Japanese economy

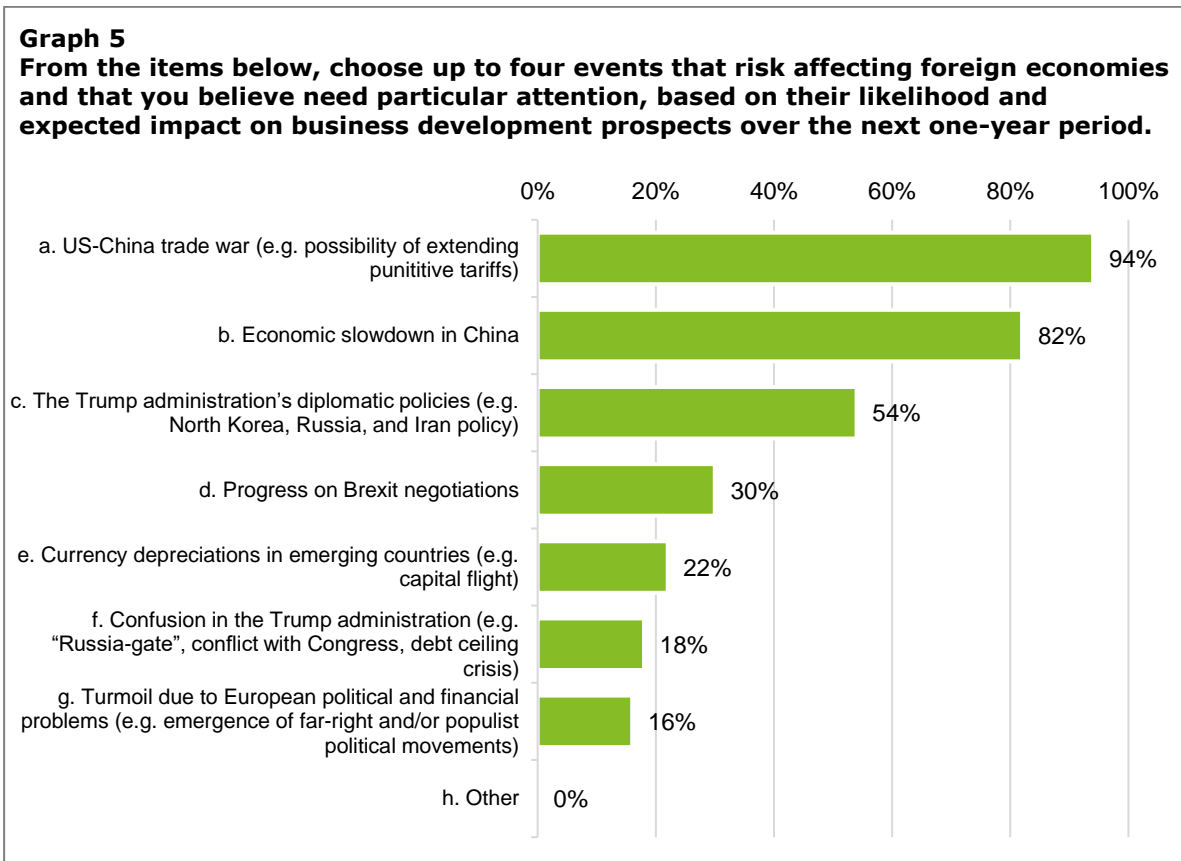
Focus has shifted to the Japan-US TAG



Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when preparing business plan over the next one-year period. "Trade negotiations with the Trump administration (TAG, Trade Agreement on Goods", which was #2 last time, rose to #1 in this survey while the previous survey's top answer, "Raising consumption tax rate (scheduled for October 2019)", fell to #2. While the positions of the choices have shifted around, both of them are expected to have a major impact on the Japanese economy and foretell its movements for the near future. The target deadline for TAG is in August after July's upper house elections, and negotiations are becoming more serious. Given its attempt to dominate China in those trade negotiations, the US may be hoping to take a hard stance against Japan over motor vehicles and agricultural products. This concern was all too familiar for CFOs in Japan. Leading up to the consumption tax hike, the Japanese economy is showing more signs of a slowdown. At this time, we are not seeing a markedly growing rush in demand before the hike. "Possibility of economic slow-down and delayed exit from

deflation” was also #3 last time. A slowdown of Japan’s export- and production-centered economy continues to be a concern for CFOs. Labor shortages and working style reforms continue to be at numbers 4 and 5, respectively. There is a high possibility that increasing economic uncertainty and internal cost structures will continue to be the external and internal factors that directly influence companies’ performance.

€ **Key factors in the global economy**
 China-related risks continue to be key points



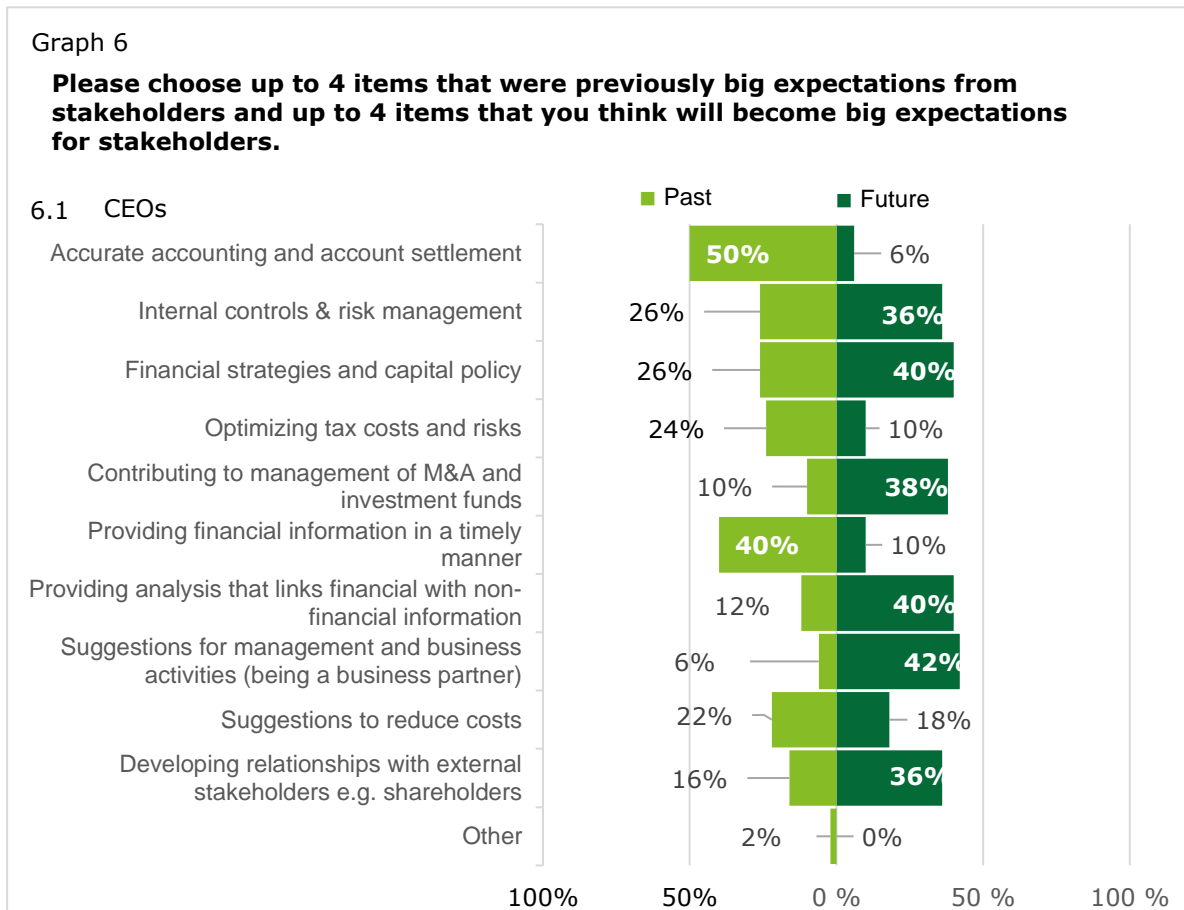
Graph 5 shows what trends in the global economy are most closely watched by CFOs when preparing their business plan over the next one-year period. This time, "US-China trade war" and "Economic slowdown in China" were the number 1 and 2 answers. Although their positions have shifted since last time, China-related risk events continue to remain in the top spots. Although the US and China declined (for the moment) to implement a 4th round of tariffs, U.S. President Trump had announced the implementation of the 4th on China in early August. The risk of a slowdown in the Chinese economy is growing further as a result of the strengthening and protracted punitive tariffs.

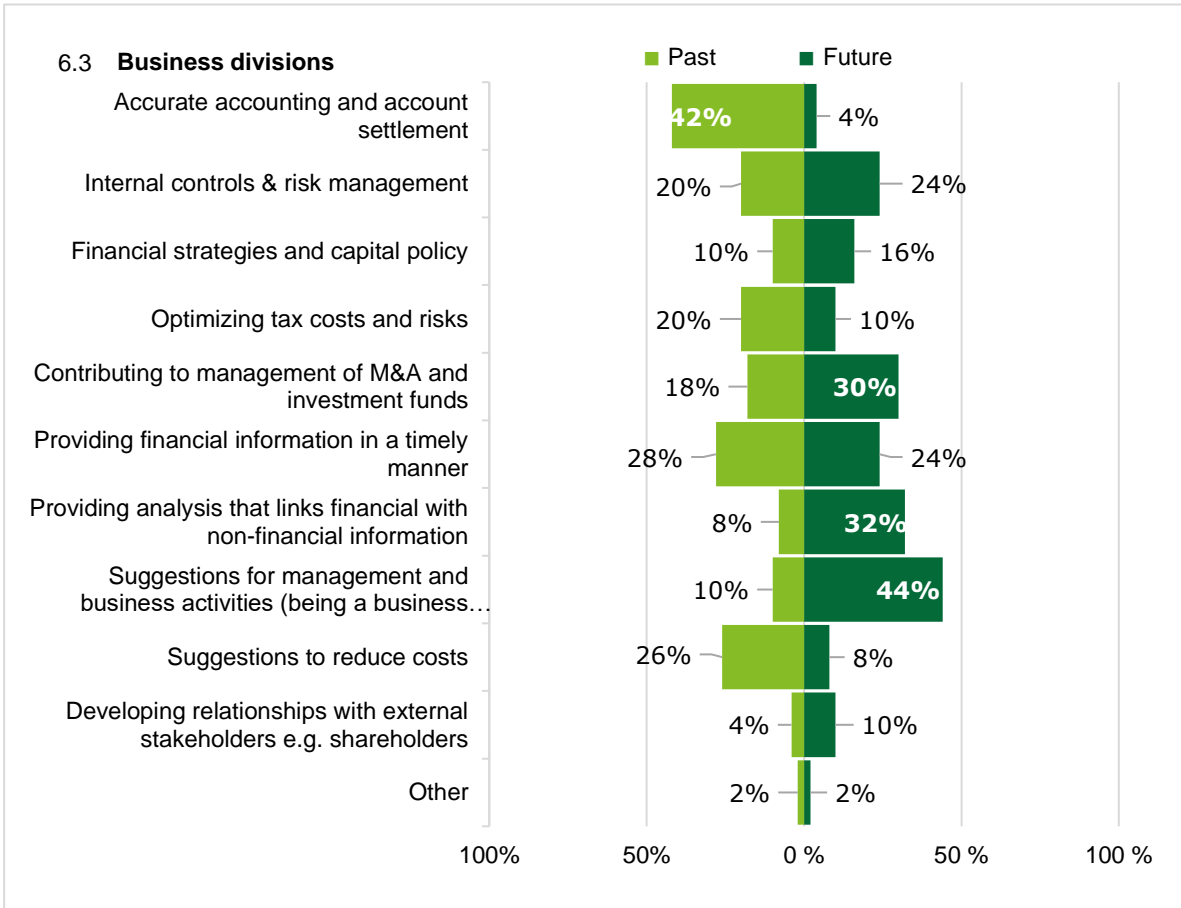
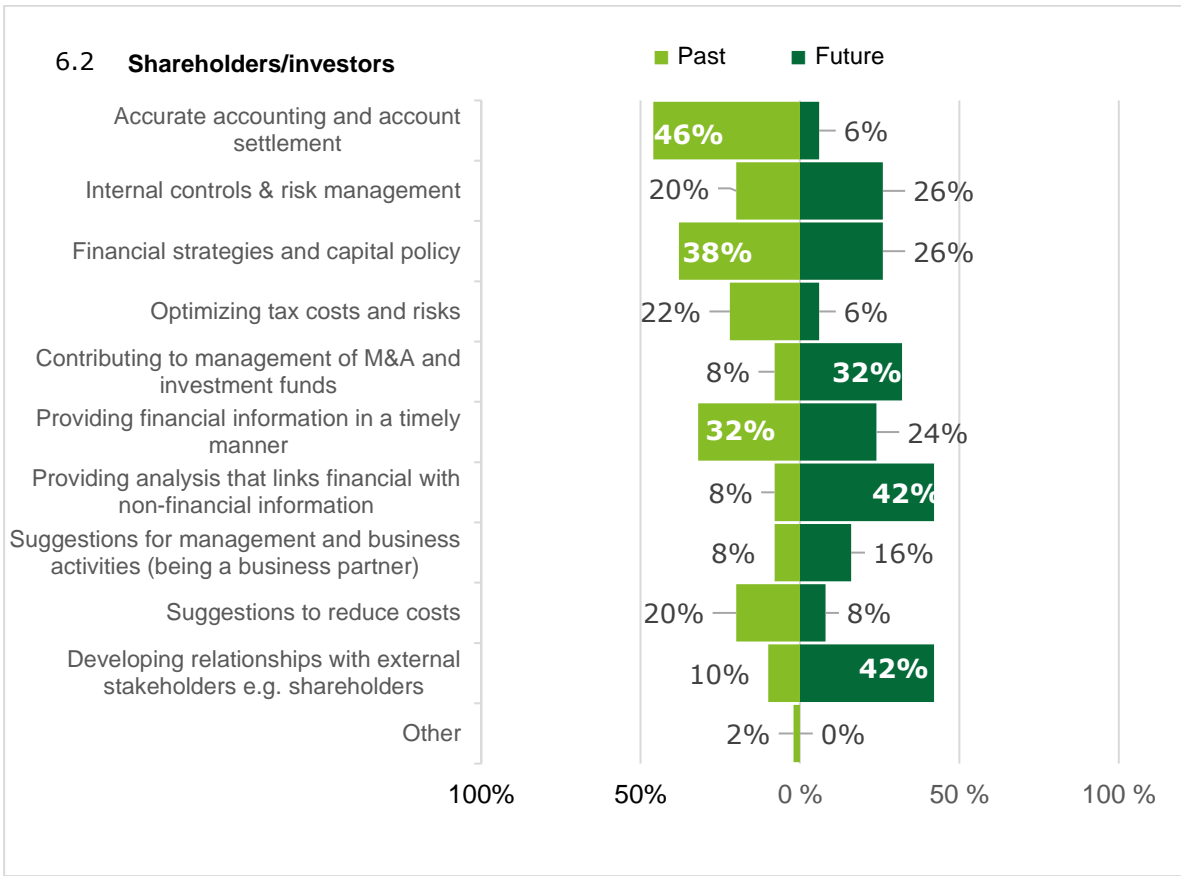
The #3 answer "The Trump administration's diplomatic policies" rose from #4 last time. The geopolitical situation between the US and Iran has turned into a powder keg: in May, the US announced it would pull out from the Iran nuclear deal and shortly thereafter deployed aircraft carriers to the Strait of Hormuz. US sanctions against Russia continue. President Trump is taking hard economic and diplomatic stances as he sets his sights on next year's presidential election. The risks that President Trump's policies will bring to the global economy are expected to continue for the foreseeable future.

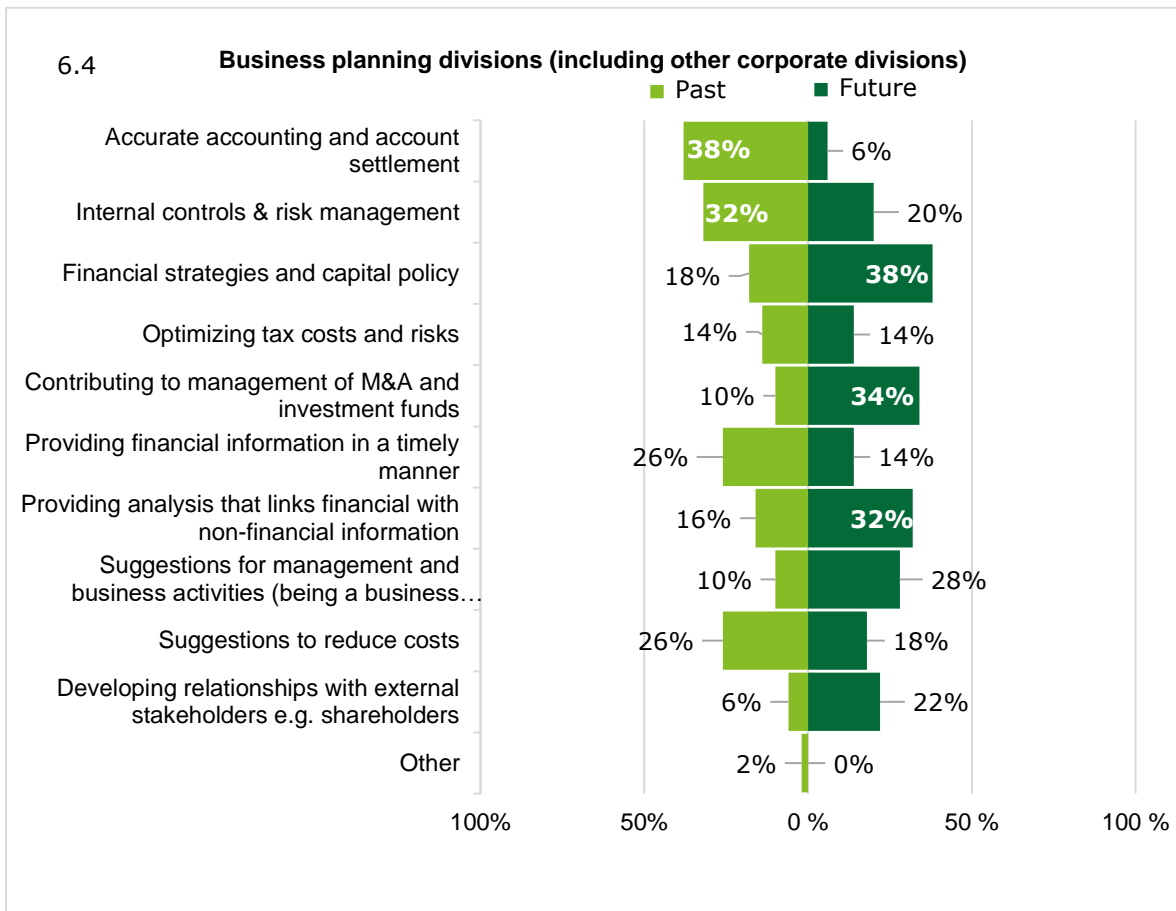
Survey on expectations stakeholders have of finance and accounting departments

Expectations from stakeholders

In this survey, we asked CFOs about stakeholders' (CEOs, shareholders/ investors, business divisions, and business planning and other corporate divisions) expectations of finance and accounting departments. We investigated the major expectations of stakeholders in the past and the predicted major expectations in the future.







“Accurate accounting and account settlement” and “providing financial information in a timely manner” were in the top 3 past expectations for all stakeholder categories. Many finance and accounting departments have begun closing operations earlier or switched their accounting processes to IT systems to improve accuracy and speed. These changes seems to be based on stakeholder expectations.

Conversely looking toward the future, we can see that “contributing to management of M&A and investment funds” and “providing analysis that links financial with non-financial information” will occupy a greater proportion of expectations among all stakeholders. This suggests that in contrast to previous expectations of quickly and accurately reporting results, the importance of providing and analyzing information needed to predict the company’s future is increasing.

Given recent technological developments, these days more and more companies are examining how to:

- flexibly set up infrastructure that uses cloud-based management systems in a shorter amount of time
- organize data so that financial information can be link to non-financial information, and then analyze it.

Based on stakeholder expectations, finance and accounting departments will be strongly expected to provide “history” by accurately recording information, in addition to the “future” in the form of information and analysis for proposing and evaluating management and business strategies.

44% of business division respondents felt that accounting and finance departments will be expected to make “suggestions for management and business activities (being a business partner)”, and 42% of shareholder/investors felt that accounting and finance departments will be expected to “build relationships with external stakeholders e.g. shareholders”. This suggests that stakeholders will have more diverse expectations of finance and accounting departments but in order to answer those expectations, finance and accounting departments will have to find the talent to fill new roles and probably also have to redesign what talent development in their departments should look like.

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.

Deloitte Tohmatsu LLC

CFO Program

Marunochi Nijyubashi Building, 3-2-3 Marunouchi Chiyoda - ku, Tokyo, 100-0005

Tel 03-6860-3300

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