



Deloitte CFO Signals Survey Report

2019 Q3
November 2019

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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 17th 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 October 2019, and we were able to receive responses from 33 CFOs and Finance and Accounting Executives.

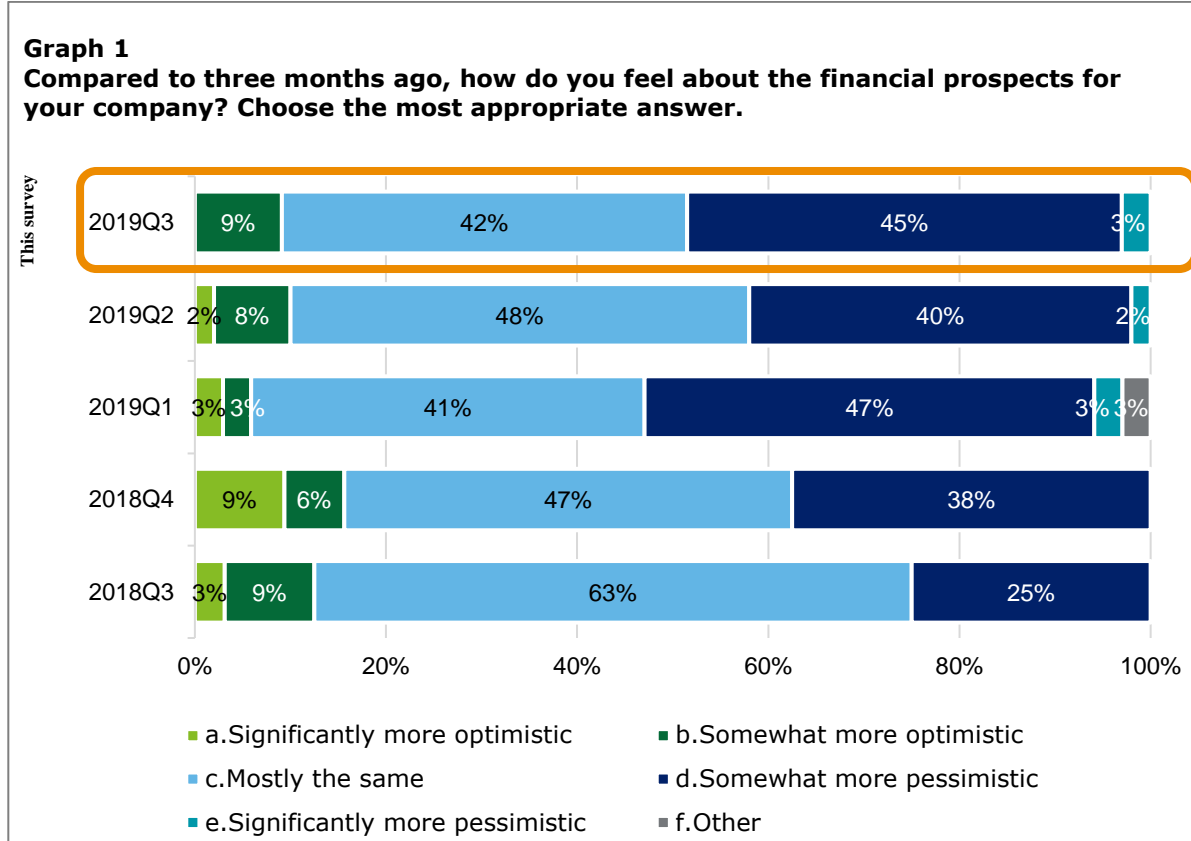
Thank you for your cooperation.

Deloitte Tohmatsu CFO Program
November, 2019

Survey on the economic environment

Financial Environment Prospects

Financial environment prospects worsened

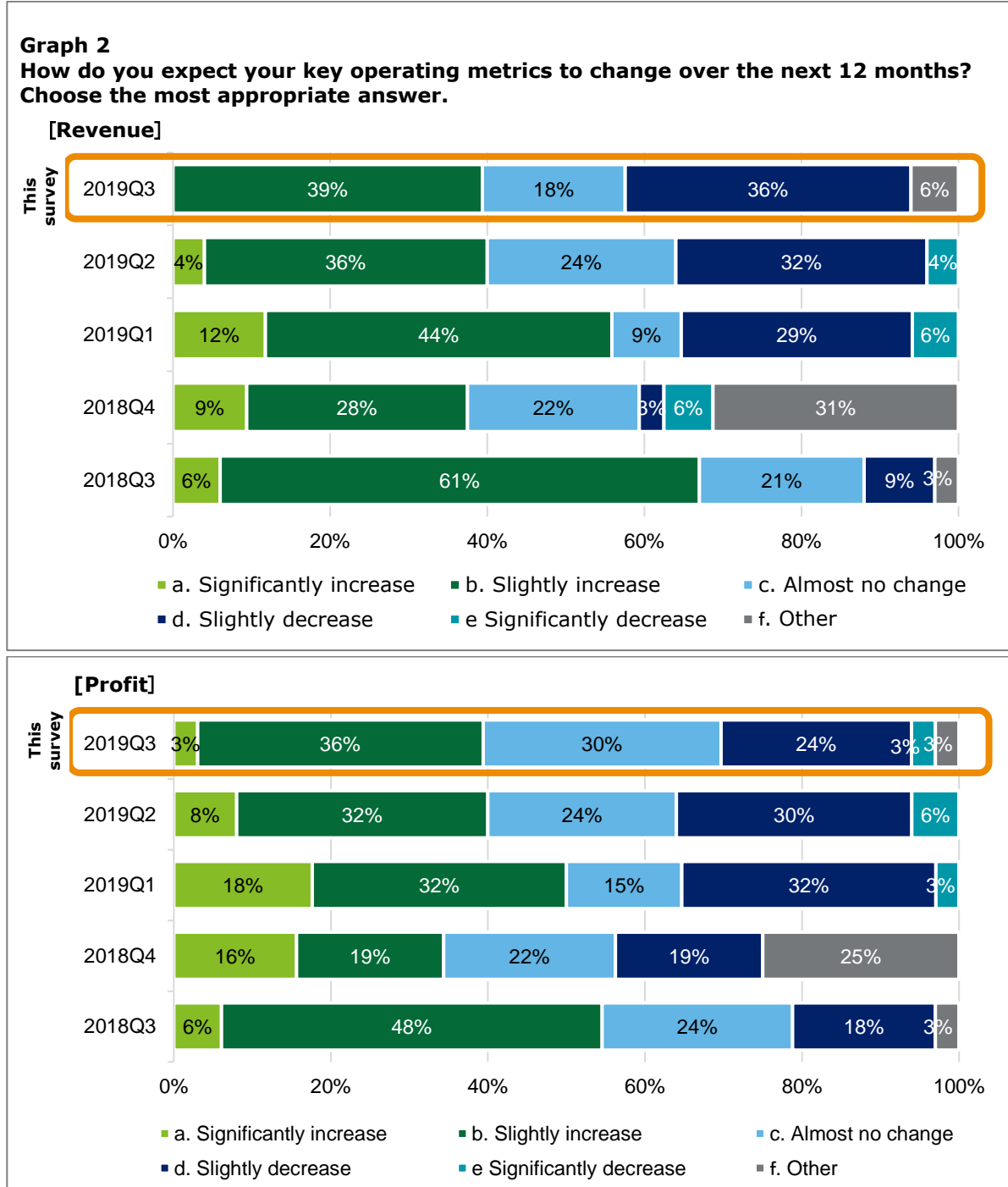


Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three month. The pessimistic fiscal outlook has widened again in this 2019Q3 survey. The survey also has found that 48% of respondents said they answered "somewhat more pessimistic" or "significantly more pessimistic", up slightly from 42% in the previous survey, while 0 percent said they became "significantly more optimistic" and only 9% said to became "somewhat more optimistic". Overall, the CFO's financial perspectives are moving in a pessimistic direction. During the 2019Q3 survey period, the US imposed a part of the so-called 4th round of punitive tariff in September and raised the existing punitive tariff to 30% in October. For the negotiation of Brexit, Prime Minister Johnson maintained his position of no-deal Brexit at the end of October, the level of uncertainty remained high. China is facing the increasing the risk of a rapid slowdown in the their economy as a result to continuous slowdown in the areas of personal consumption such as retail sales, capital investment and foreign demand such as exports. The uncertainty over the trade situation and the slowdown in the global economy is believed to have hurt the CFO's financial prospects. After this survey period, the United States and

China were said to be making progress toward an agreement on "First Phase" of US-China trade negotiation in this November, and the deadline for Brexit was extended to January 2020. However, the slowdown in the global economy has also led to the stagnation of the German economy in Europe and the deterioration of the consumer attitude index in Japan, making it difficult to expect a sharp improvement in this financial perspectives.

Business performance outlook

Business performance outlook remains unchanged overall



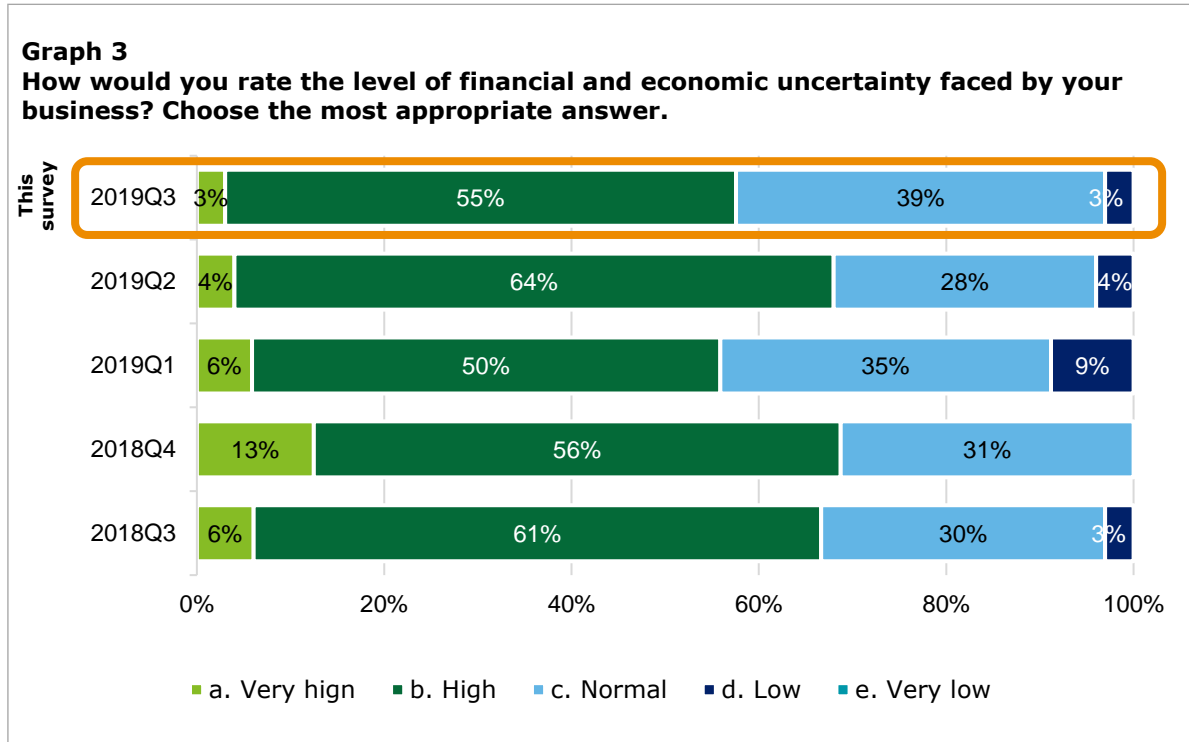
Graph 2 shows CFOs' outlook for their companies' financial performance (revenue and profit) over the coming year. Overall, the company's performance outlook was worse than last survey. 39% of the respondents said they expected revenues to "slightly increase" (No "significantly increase" response this time), which is almost the same as the previous survey's 40%. Also 39% expected profits to "significantly increase" or "slightly increase", which almost unchanged

from 40% in the previous survey. Possible reason why the financial prospects remained unchanged despite the deterioration in the business outlook is; CFOs has not yet to fully evaluate uncertainties such as the US-China trade negotiations. In the capital markets, the yen has risen relatively well, partly due to the Federal Reserve's interest rate cut (Regular meetings in July and September), and there has been no significant trend toward a stronger yen in foreign exchange markets.

As for the future, while the US-China trade negotiations remains uncertain, the slowdown in the Chinese economy continues (China's real GDP growth slowed to 6.0% in 2019Q3 period compared to the same period last year). In Japan, it is a noteworthy of a reactionary decline and rise in consumption following the consumption tax hike in October. Overall, the economic slowdown in China and other developed countries is likely to suppress CFO sentiment.

 **Uncertainty**

Business environment remains highly uncertain

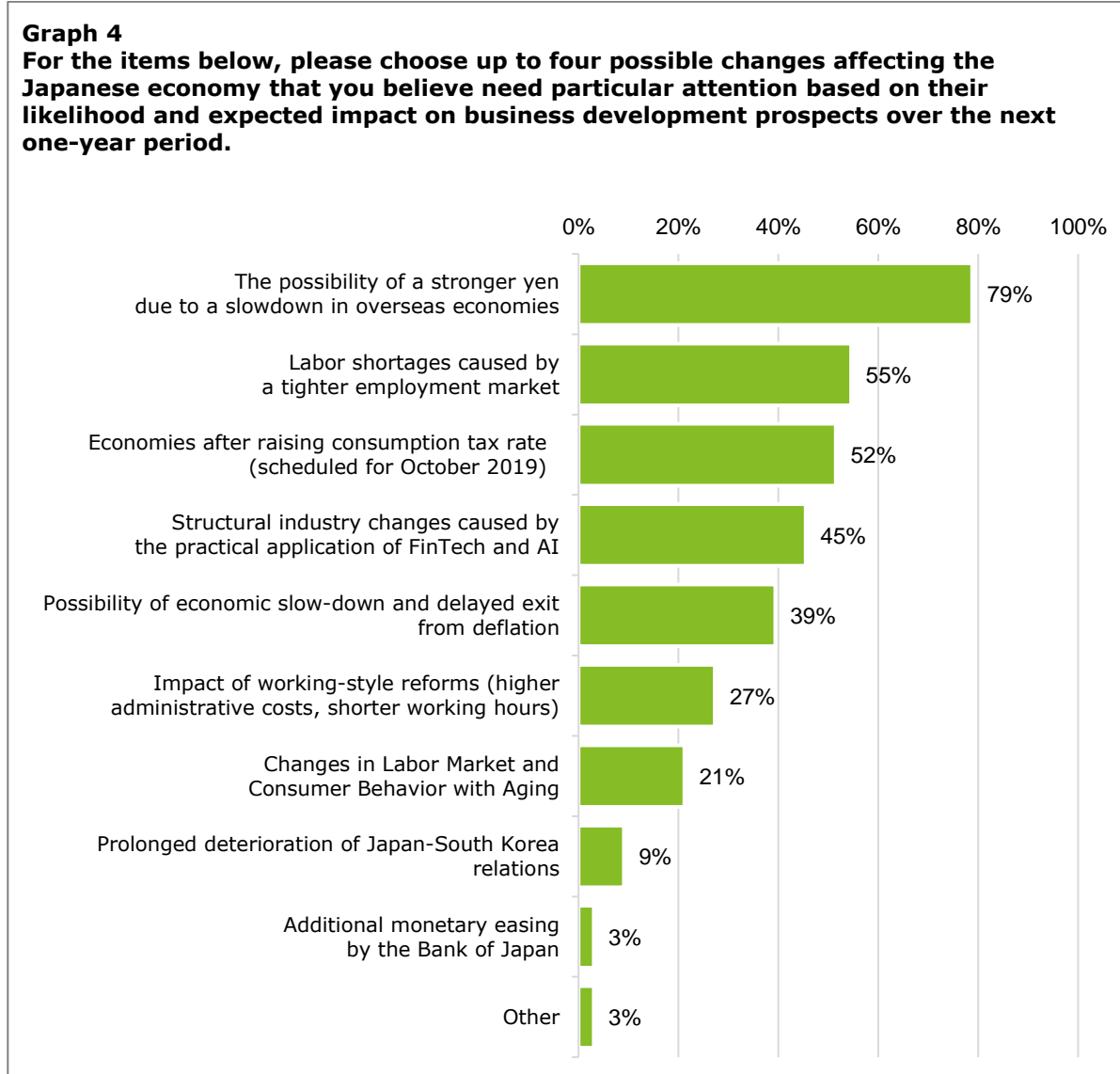


Graph 3 shows CFO’s perception of financial and economic uncertainty. In this 2019Q3 survey, 58% of respondents said the uncertainty was either "high" or very high", which was a big decrease from 68% in the last 2019Q2 survey. Although more than 50% answered that the uncertainty was either “high” or “very high”, the business environment remains highly uncertain.

In 2019Q3 period, additional punitive tariffs were also imposed in the US-China trade negotiations; although the road to a "the First phase" agreement in this November is clear, the situation is still unpredictable situations. In Britain, The possibility of “no-deal Brexit” in late October by Prime Minister Johnson has increased uncertainty. In Japan, the impact of the consumption tax hike scheduled for October was a factor of uncertainty. As for the Japan-US Trade Agreement on Goods, it was good news that an additional 25% tariff on automobiles was avoided. In general, uncertainty is expected to remain high due to the US-China issue and the future of the Japanese economy.

Key factors in the Japanese economy

The strong yen is the biggest focus of attention.



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. This time, the new option "the possibility of a stronger yen due to a slowdown in overseas economies" was ranked #1. The CFOs seem to be focusing on the risk of stronger yen due to the global economic slowdown and the US Federal Reserve rate cut. The Federal Reserve's interest rate cut and other measures have not led to a significant appreciation of the yen today, but depending on the future of overseas economies, the risk of a strong yen still exists. #2 was "labor shortage caused by a tighter employment market" up from #4. In 3rd place, "economy after the consumption tax increase" continued to be in the top 3, although down from 2nd place in the previous survey. The "labor shortage" has risen to the 2nd place for the first time in a long time, in responding to the demand from the

preparation for the consumption tax hike, the Tokyo Olympics in 2020, and natural disasters. The surge in demand ahead of the consumption tax hike in October appears to be lagging. As the Japanese economy slows down, the CFO must be very concerned about the recovery of the economy after the downturn.

€ Key factors in the global economy

US-China trade war remains first

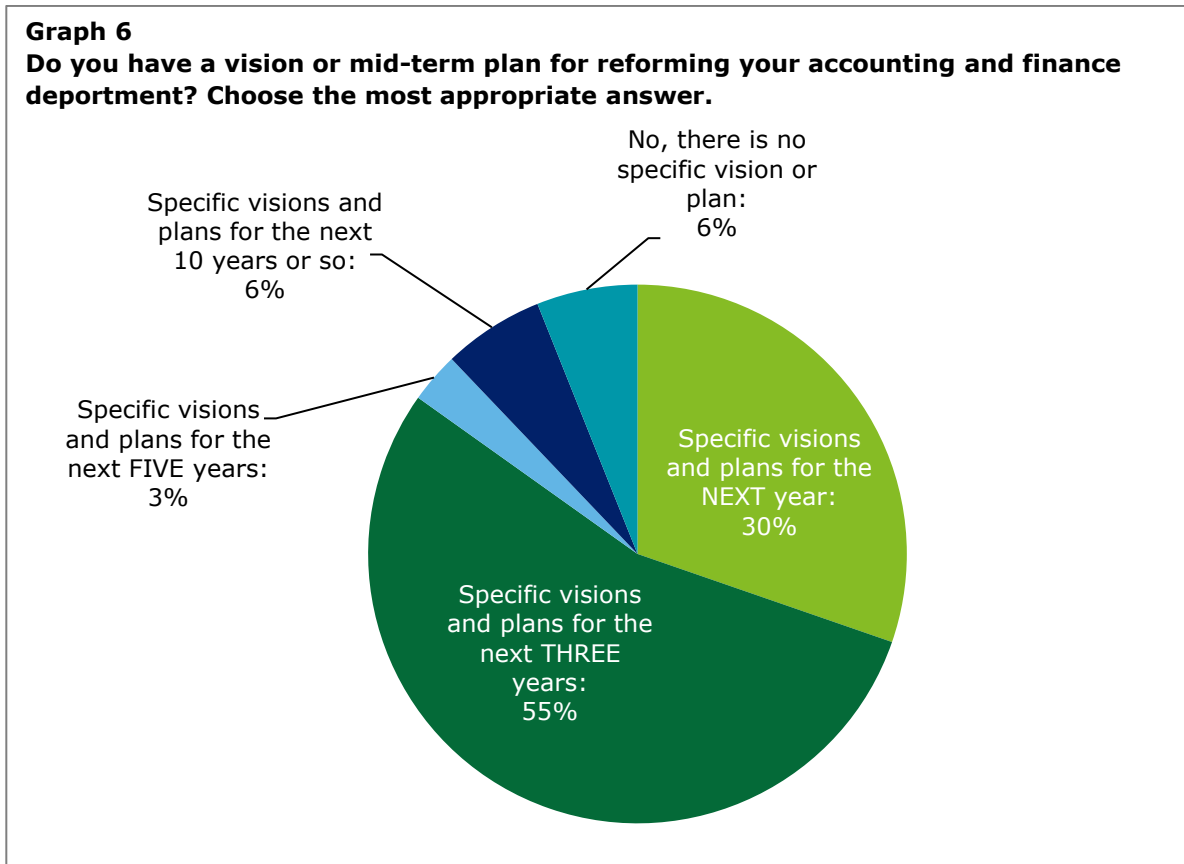


Graph 5 shows what trends in the global economy are most closely watched by CFOs when preparing their business plan over the next-one year period. This time, "US-China trade war" was number 1, "economic slowdown in China" was number 2, and "the Trump administration's diplomatic policies" was number 3, showing the same results as the previous 2019Q2 survey. The United States imposed a part of the so-called 4th round of punitive tariff in September and raised the existing punitive tariff to 30% in October. It has been widely believed that the impact on the Chinese economy is greater than that on the US economy, and concerns about the Chinese economy remain high. The US diplomatic policy tends to conclusively increase geopolitical risks; such as intensifying conflict between Saudi Arabia and Iran by attacks on Saudi Arabian oil fields shortly after attempts to engage in dialogue with Iran and Turkey's incursion into Kurdish areas after the withdrawal of US forces from Syria. With an eye on the presidential election in next year, President Trump is shifting his tough attitude toward economic and diplomatic policies to one that shows results, but it is difficult to say that necessarily well. The risks Trump's policies pose to the global economy are likely to continue for the time being.

Survey on vision and mid-term plan for reforming the accounting and finance department

Current situation of preparation the vision for reformation

Majorities of accounting and finance departments has developed a reformation vision and mid-term plan for 1 to 3 years.

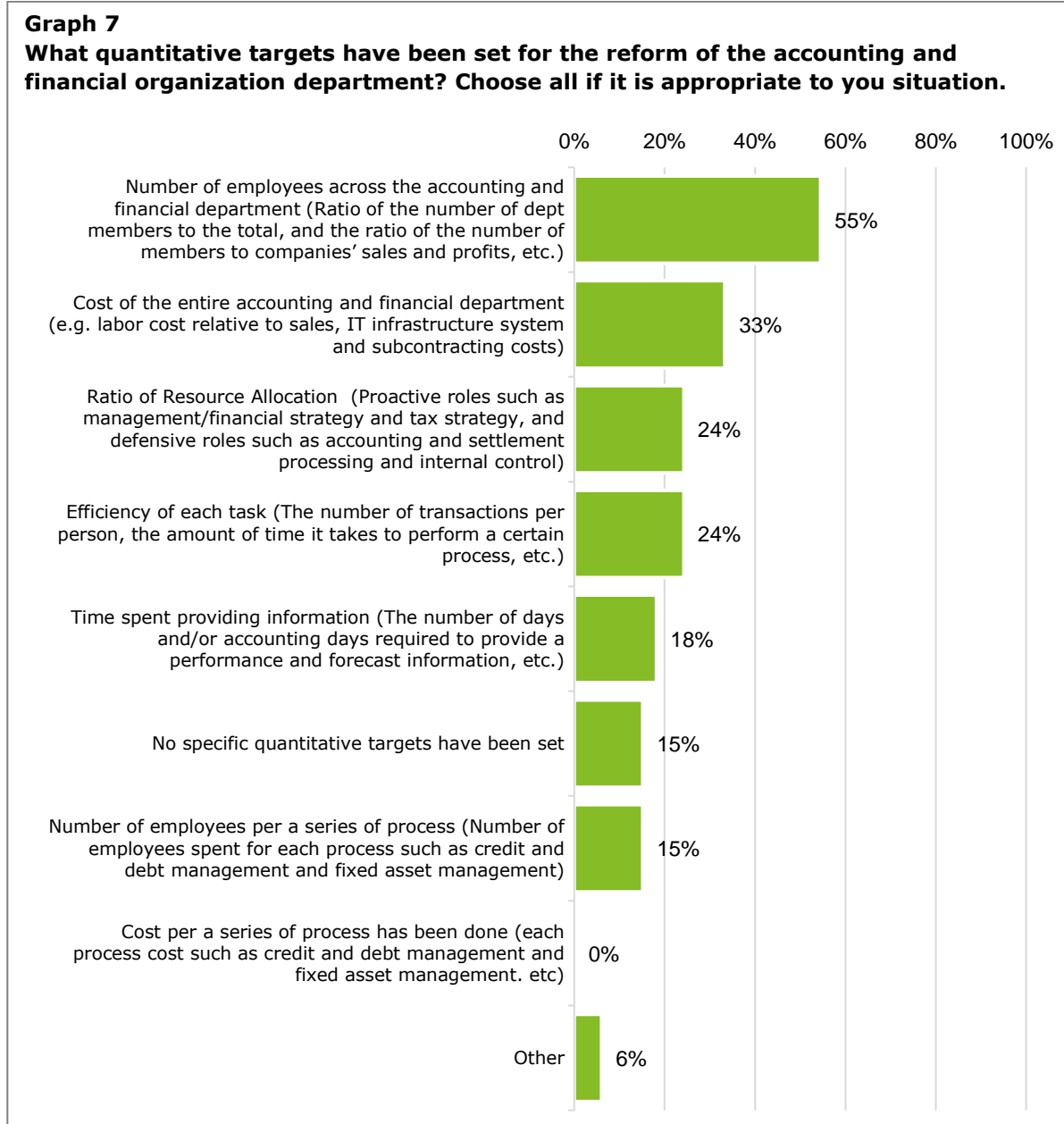


Graph 6 shows the current situation of preparation of their visions and mid-term plans for reformation of the departments. Over 90% of companies had developed visions and mid-term plans. To be specific, 55% answered that there are specific visions and plans "for the next three years" and another 30% answered they formulate them "for the next year." The companies with a vision and plan over 5 years ahead was 9%.

This indicates that the company has formulated its vision and plan in response to a company-wide single-year plan and/or mid-term management plan.

Quantitative targets for reformation

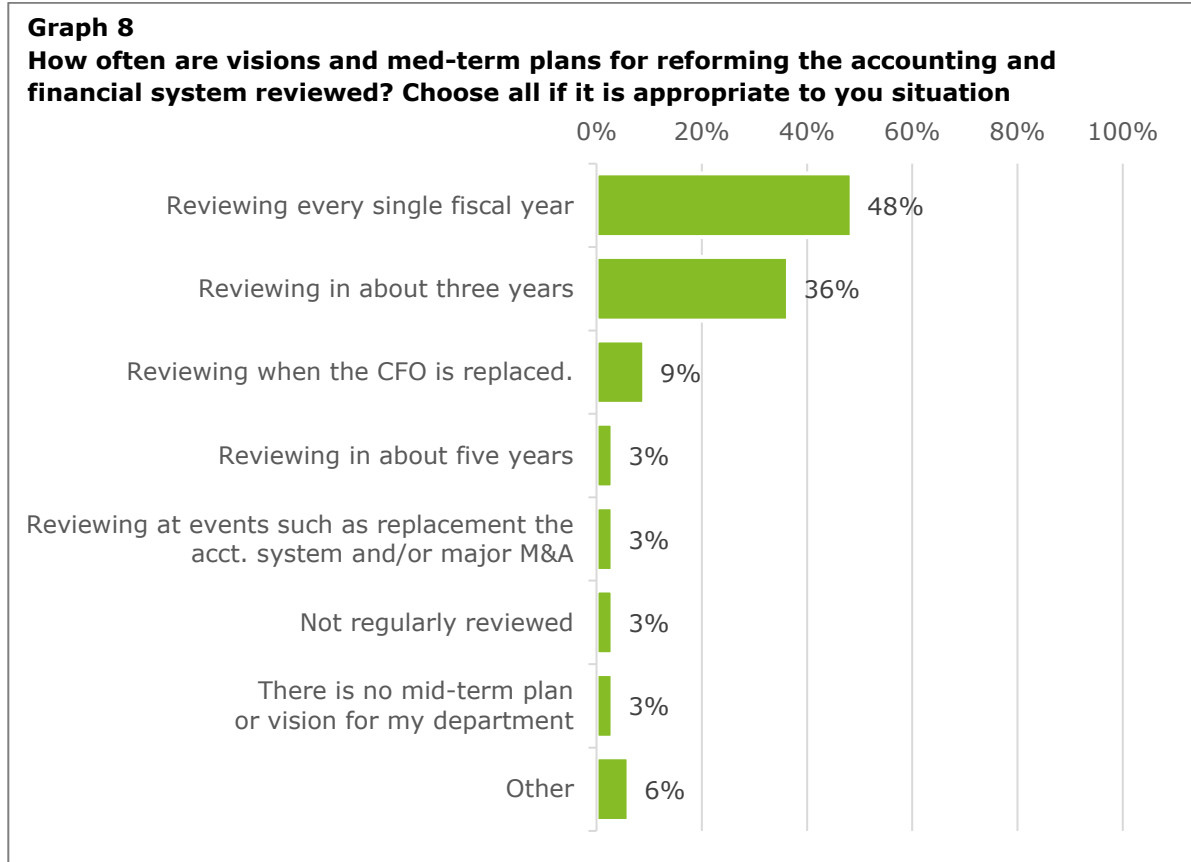
Companies are likely to set targets in the areas of employees numbers and costs



Graph 7 shows what quantitative targets set in reformation plan. More than half of the respondents set targets with "number of employees across the accounting and financial department" and the second most common answer was the quantitative targets relating to "costs of the entire accounting and financial department" (33%). On the other hand, only 15% set targets for the number of employees per process, and zero set a cost target per process. From these results, it was concluded that many companies set quantitative targets for the entire accounting and financial organization, but few companies set quantitative targets for the efficiency of each processes or tasks.

Frequency of revising the vision and mid-term plan

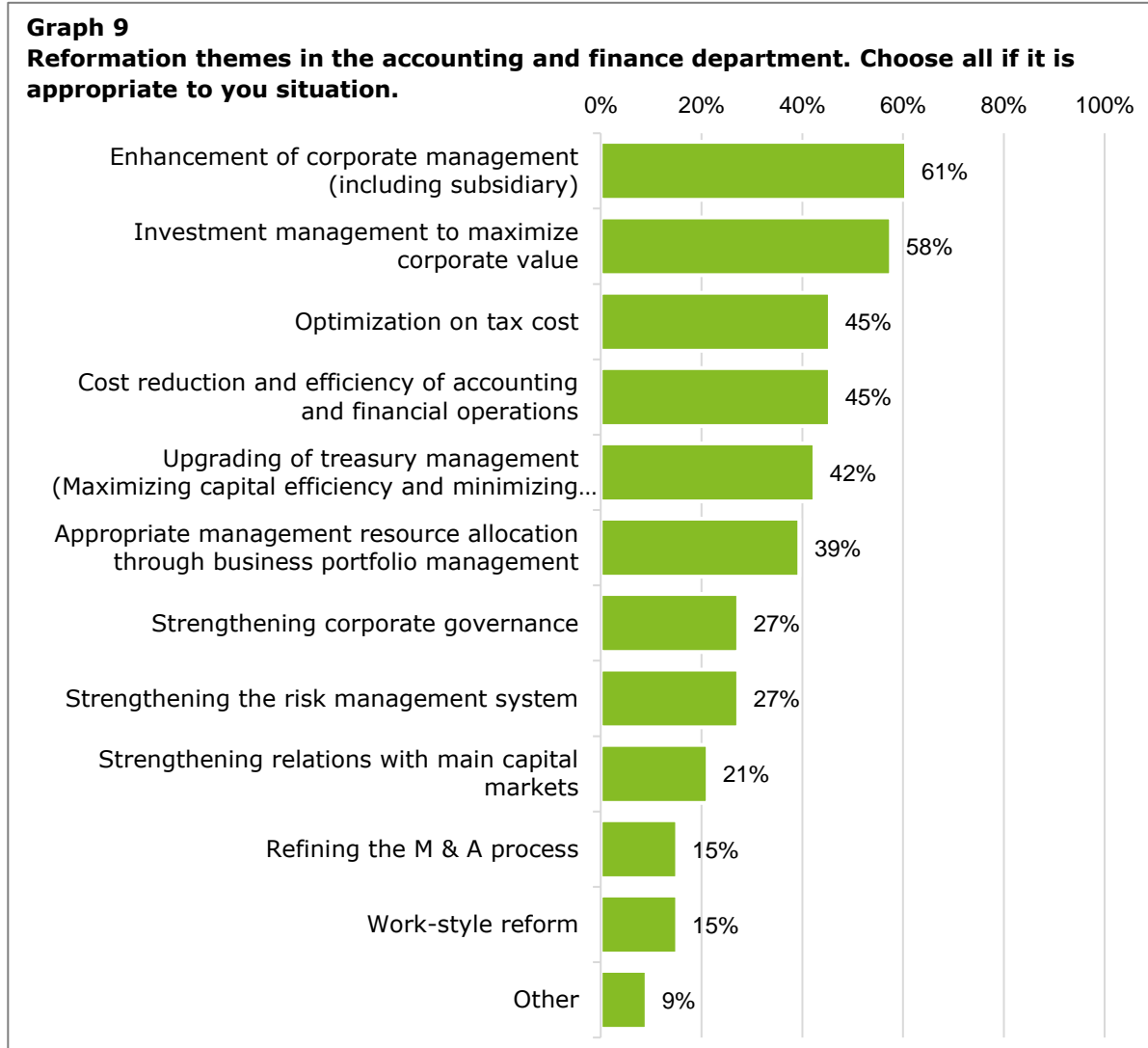
Companies are likely to review the vision and mid-term plan every year



Graph 8 shows the frequency of revising to the vision and mid-term plan for reformation of the accounting and financial department. The largest number of companies, approximately half of the total, reviewed their plans every year. The second most common response was "reviewing in about three years" (33%). These results indicate that many companies are reviewing their accounting and financial vision and mid-term plans in line with the formulation cycle of a companywide annual plan or mid-term plan. The accounting and financial departments, which are required to respond quickly to changes in the business environment, are required to review their plans for the new fiscal year based on the progress of reforms made in the previous fiscal year; however, many companies are tend to review their plans regularly.

 **Reformation themes**

Many companies raise reformation themes regarding to group management and investment management.



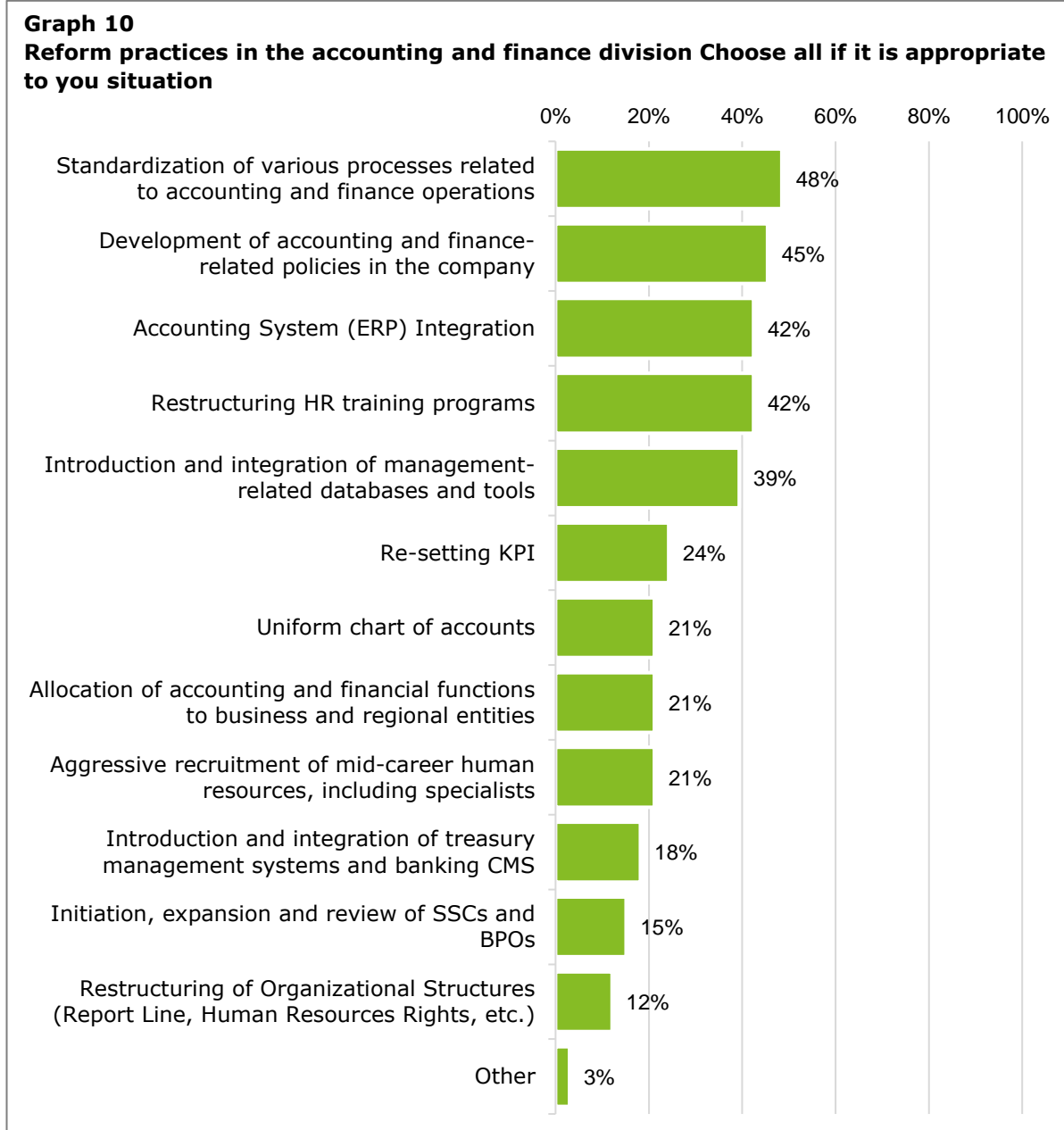
Graph 9 shows that the reformation theme that the accounting and finance department set. The top common themes are likely to contribute to the entire group and each business, such as "enhancement of corporate management" and "investment management to maximize corporate value."

The next common themes are regarding to "optimization on tax cost" "cost reduction and efficiency of accounting and financial operations" and "upgrading of treasury management" which enable the accounting and finance organization to directly contribute to cost reduction and capital efficiency.

It has been concluded that the accounting and finance departments have been required to make direct contributions to corporation and business management.

Reformation practices

The companies priorities standardization of processes and development group policies relating to the accounting and finance operations.



Graph 10 measures the reformation practices of the accounting and finance department. Many companies priorities the unification and standardization of rule processes such as "development of accounting and finance-related policies in the company" and "standardization of various processes related to accounting and finance." Practices related to system infrastructure such as "accounting System (ERP) Integration" and "Introduction and integration of management management-related databases and tools" are listed next.

These results indicate that many companies are working on process, policy, and system infrastructure as the basis for realizing the themes mentioned in the previous questionnaire. It becomes increasingly important that measures that form the basis for realizing the role of the accounting and finance division in the process of promoting global expansion and new businesses (including overseas M&As).

"Restructuring HR training programs", which was ranked 4th, reflects the fact that companies recognize the necessity of internal HR development again in the face of external factors such as the recent demand for work-style reform and the difficulty of hiring well-skilled candidates. It means that, the need for human resource development is highlighted again; it ultimately depends on the internal human resources even though expectations for contributions to the management and business management and requests for digital reform are increasing.

What is the CFO Program?

The CFO program is a comprehensive effort by the Deloitte Tohmatsu Group to revitalize the Japanese economy by supporting the CFO of companies that support the Japanese economy and contributing to the improvement of the CFO organization's capabilities. As a trusted advisor (The Trusted Advisor), we bring together professionals from all walks of life to help you solve your CFO's challenges. In addition, we aim to improve the competitiveness of Japanese companies by providing the latest information, including global trends, and CFO-networking beyond corporate and industry boundaries.

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