



Deloitte CFO Signals Report

2022Q2

September 2022

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About Deloitte CFO Signals

Deloitte CFO Signals is a quarterly global survey for investigating the thinking and actions of leading Chief Financial Officers (CFOs). We share the highlights of survey results with analysis from Deloitte Tohmatsu and publish them as the CFO Signals report.

The survey consists of two sections: the “Survey on the Economic Environment,” which is assessed globally in every edition, and the “Survey on Hot Topics,” which varies for each country.

In Japan, it was conducted for the first time in August 2015, making this the 29th edition. In the “Survey on the Economic Environment,” we analyze chronological changes in CFOs’ thinking as well as the latest forecast at the time of the survey. In addition to recurring questions, we also inquire about Selection and Development of CFO Successor Candidates.

Surveys for this edition were conducted in August 2022, and we were able to receive responses from 34 CFOs and finance and accounting executives.

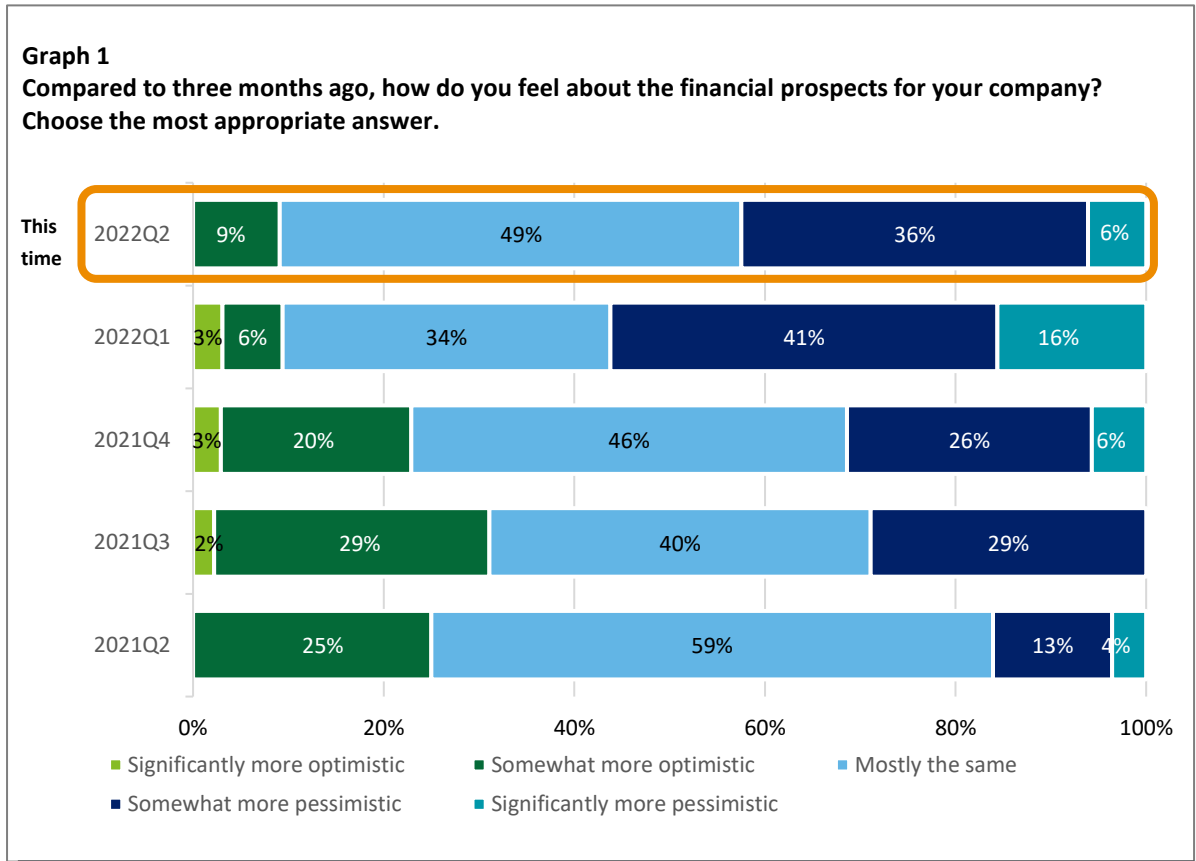
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Deloitte Tohmatsu Group
The CFO Program
September 2022

Survey on the Economic Environment

Financial environment prospects

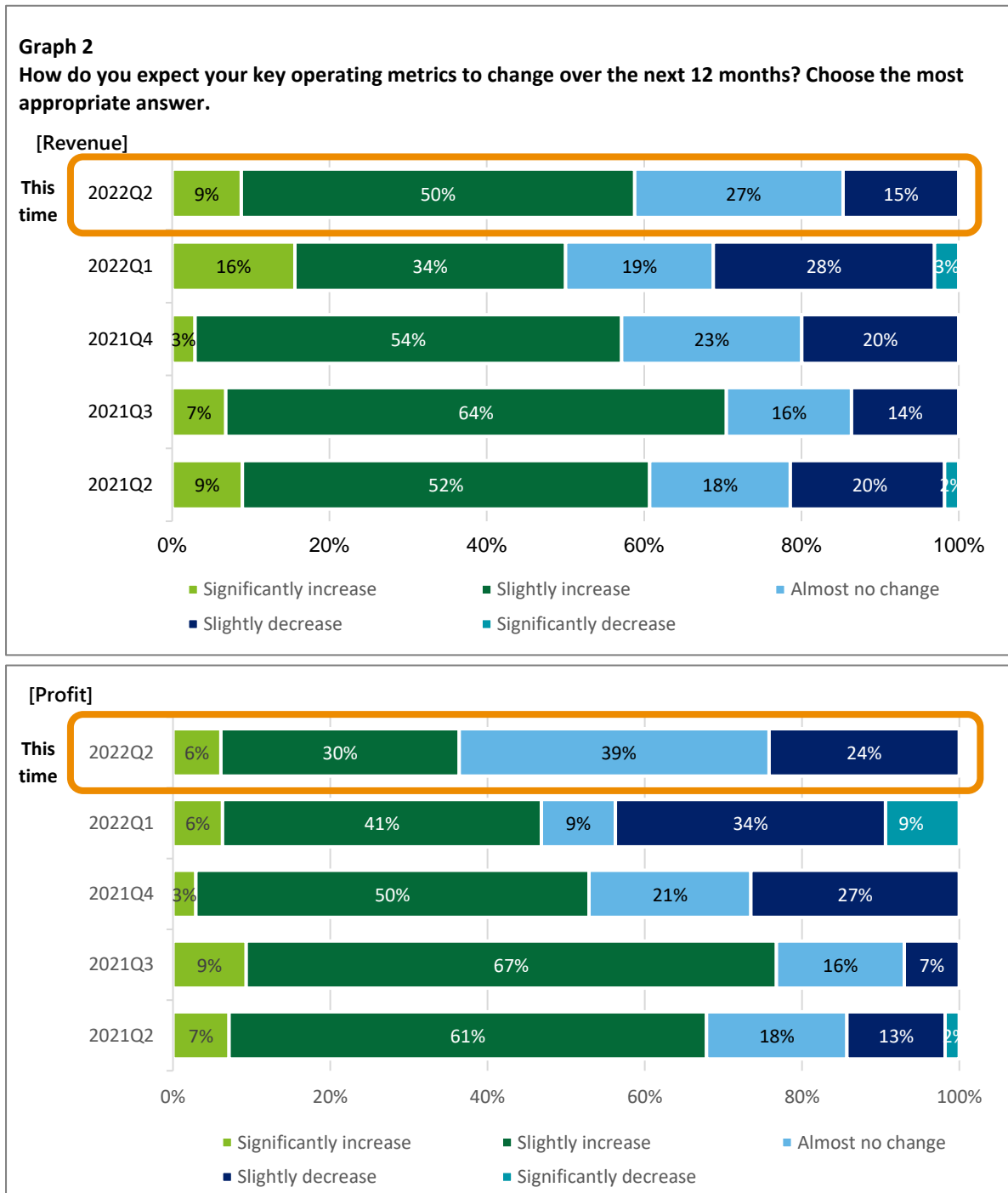
Optimism remains low.



Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. In the this 2022Q2 survey, only 9% of respondents said they were “Significantly more optimistic” or “Somewhat more optimistic” about the financial prospects, the same percentage as in the previous 2022Q1 survey. On the other hand, 42% said they were “Somewhat more pessimistic” or “Significantly more pessimistic,” a significant decrease from 57% last time, followed by 49% - nearly half of the total who said “Mostly the same.” The previous survey was the first since the beginning of Russia’s invasion of Ukraine, and it was at a time when the economic sentiments among CFOs had deteriorated significantly. The war looks to be prolonged, and many CFOs’ financial outlook seems to have remained flat at a low level amid rising inflation concerns and economic sentiment interest rate rises. The Russian-Ukrainian problem is likely to continue for a prolonged period of time, and global inflation due to rising energy prices is likely to continue. In addition, monetary tightening measures by central banks in the U.S. and Europe will lead to economic slowdowns in major countries, and this may spread to Japan as well. Looking ahead to 2023, the CFO's financial prospects is likely to remain low or deteriorate even further.

Business performance outlook

Business performance -Revenue and profit- outlook are generally favorable.

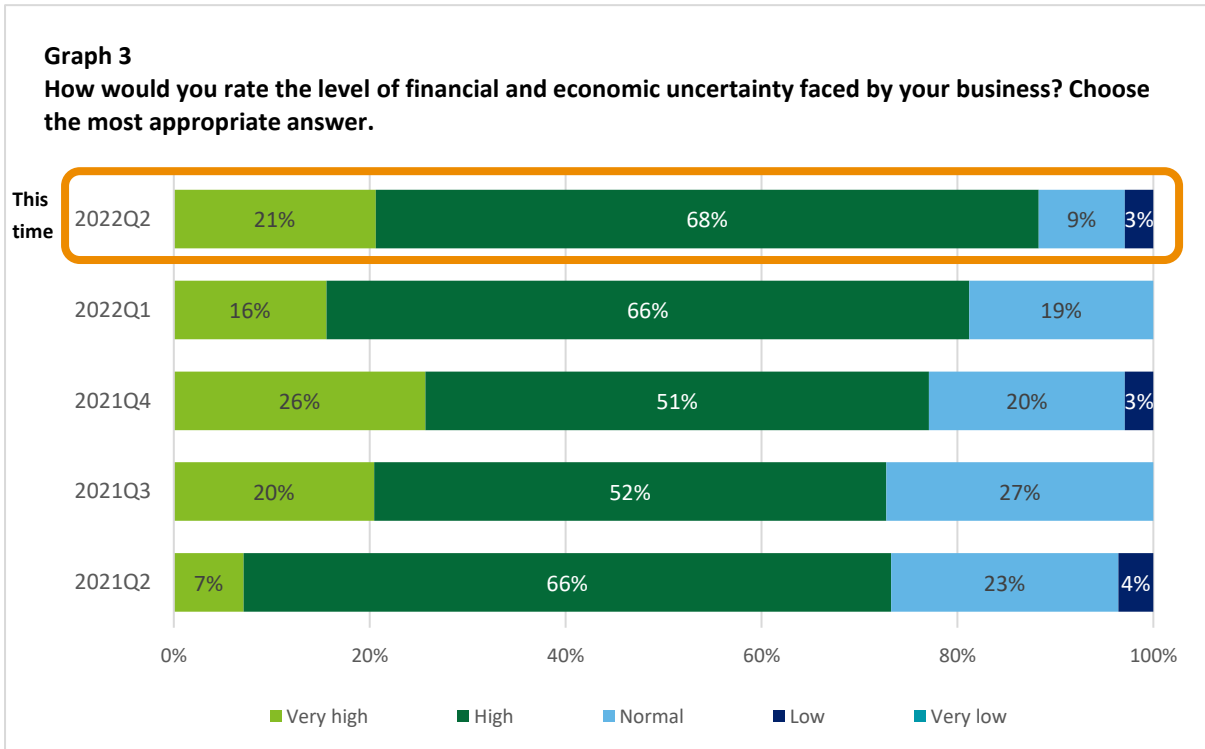


Graph 2 shows the CFOs' prospects for each company's financial performance (revenue and profit) for the coming year. 59%, a further increase from 50% in previous survey, of respondents said that they expected revenue to "Significantly increase" or "Slightly increase," while 36% said that they expected profit to "Significantly increase" or "Slightly increase," down from 46%. It shows the revenue outlook has improved over the past few quarters, and the profit outlook has remained flat without huge deterioration for the three consecutive quarters. As for sales, it is expected that exports will lead economic activity increases due to

the decline in the impact of COVID-19 in the United States, and domestic consumption will recover after Japan's 7th COVID-19 wave. Meanwhile, the profit outlook continues to deteriorate. This is presumably due to shrinking corporate margins caused by rising production costs including raw materials/parts and labor costs. On the top that, rising US dollar procurement costs associated with higher FRB interest rates will further compress companies' profit margins.

 **Uncertainty**

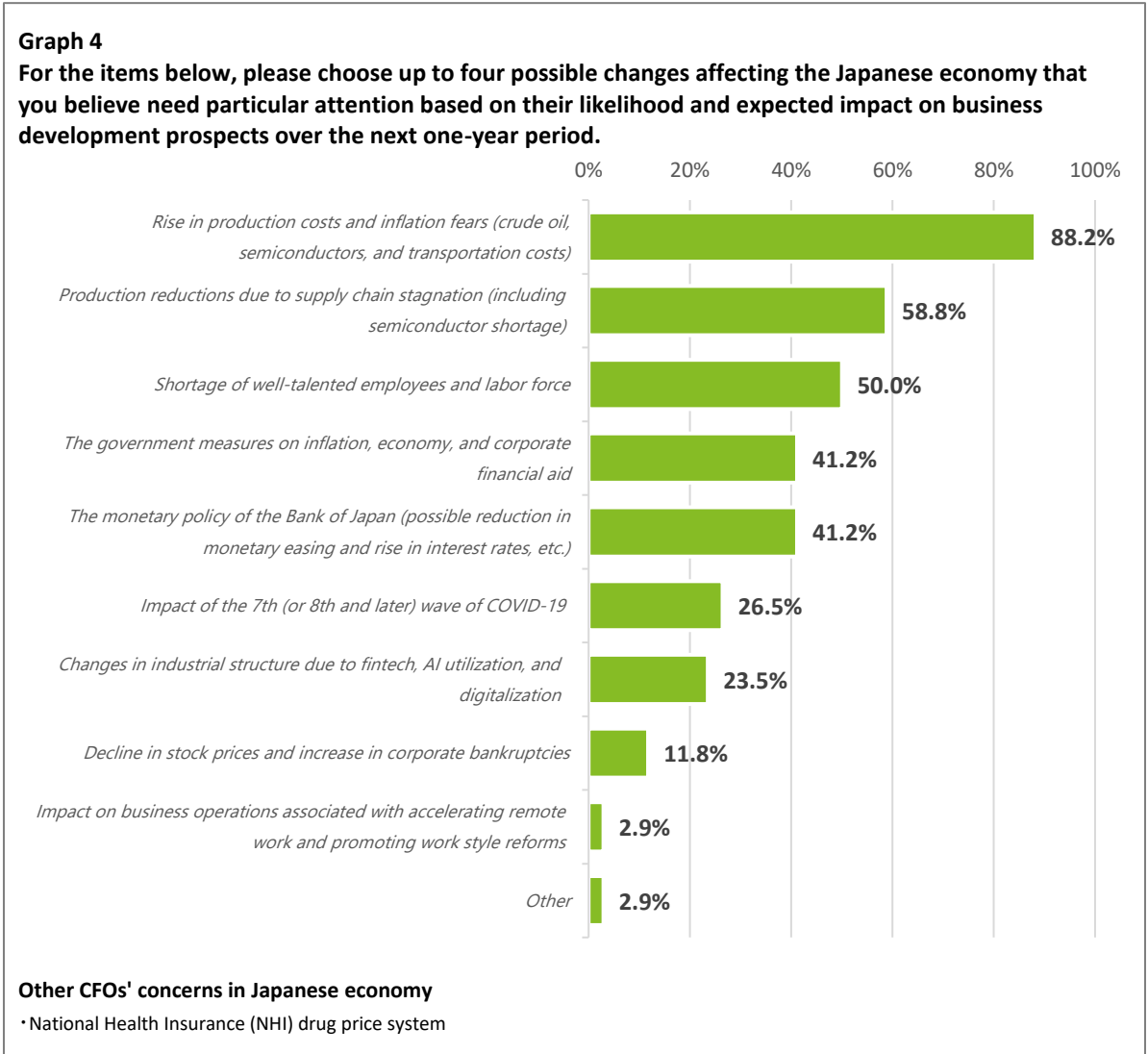
Uncertainty remains extremely high



Graph 3 shows CFOs' perceptions of financial and economic uncertainty. A total of 89% of respondents said that financial and economic uncertainty was “Very high” or “High,” a further increase from the previous 72%. It is understandable that the Russian-Ukrainian issue, inflation, and monetary policy are all highly uncertain situations for CFOs, which will also be hard to predict in the future. As the Russian-Ukrainian problem is prolonged, uncertainty will continue to be high. There are other factors of high global uncertainty, such as concerns about the Chinese economy (zero COVID-19 policy, deteriorating real estate market) and increasing geopolitical risks between China and Taiwan. Although it seems that the 7th wave of COVID-19 has finally passed the peak in Japan, it must be said that suppression of COVID-19 in Japan is lagging behind that of the United Kingdom and the United States. CFOs also are likely to feel uncertainty about personal consumption in Japan and labor shortages in companies.

Key change factors in the Japanese economy

Production cost, inflation, and supply chains remain the top concerns.

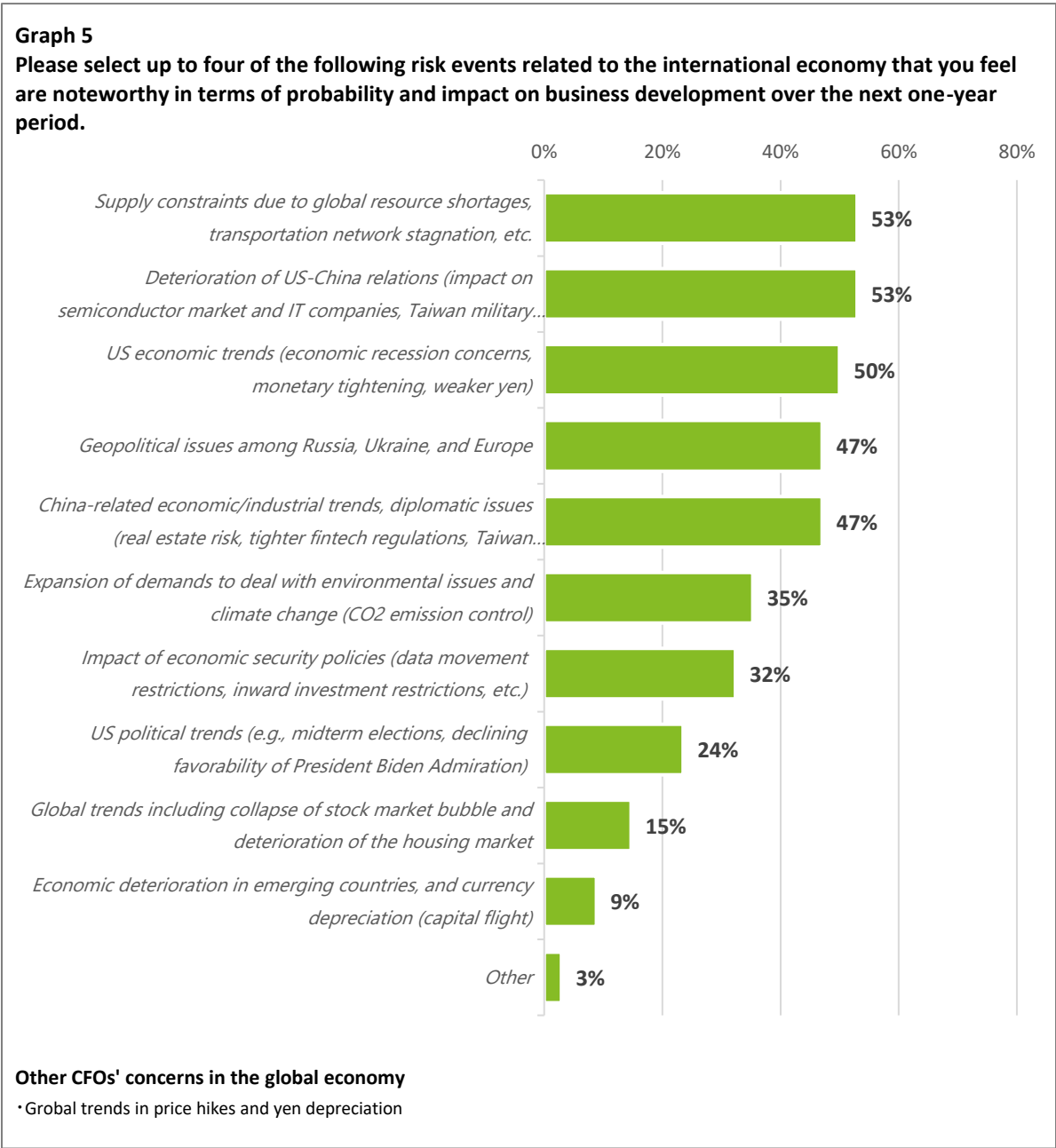


Graph 4 shows the key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. The first and second places in the survey were the same as previous survey: “Rise in production costs and inflation fears,” and “Production reductions due to supply chain stagnation.” Nearly 90% of CFOs cited rising costs and inflation as matters of concern, driven by concerns about rising costs due to rising raw material and labor costs, and concerns about weak consumer spending due to inflation. It is thought that the high number of responses for supply chain stagnation was because some companies are forced to suspend their production activities due to the impacts of China’s zero COVID-19 policy and sanctions against Russia. In third place, “Shortage of talented employees and labor force” ranked significantly higher from the previous sixth place. The Ministry of Health, Labour and Welfare has announced that the effective job openings-to-applicants ratio in Japan will be 1.26 times as of July 2022, which is about 1.1 times the FY2020 average when the COVID-19 pandemic started, indicating that supply and demand for labor is tightening. There are some other possibilities including the shortage of professional talents due to drastic

changes in business models and enhanced DX initiatives, and the absence of employees from the workplace due to the 7th wave of COVID-19 may have accelerated the shortage of human resources. Going forward, rising costs and supply chains will continue to be at the top of CFOs' concerns.

€ **Key change factors in the global economy**

Supply constraints, US-China relations, and the US Economy are the key change factors.



Graph 5 shows what trends in the global economy CFOs will most closely watch when preparing their business plans over the next year. As in the previous survey, “Supply constraints due to global resource shortages” ranked first. “Russia and Ukraine,” which was second place last time, fell back to fourth place, and instead “Deterioration of US-China relations” rose to second place, and “US economic trends” was third place. Supply constraints are of primary concern, as they are for Japanese factors above and as they were in the past survey, but it should be noted that this time US-related responses rose to the top of the list of concerns. During the survey period of this 2022Q2, China’s military threats against Taiwan increased sharply due to the visit of US dignitaries to Taiwan, and this led to increased tensions between the US and China as the US’s commitment to respond to any military action

by China against Taiwan. On the economic side, growth in the US has been negative for the second consecutive quarter, with some suggesting the possibility of recession. As for owing to the expectations for the FRB's accelerated interest rate rises, the currency exchange market experienced a rapid appreciation of the dollar and depreciation of the yen. In addition to the fact that military tensions between the United States and China are a source of uncertainty that is difficult to predict, the FRB's monetary policy stance has shifted to become more hawkish, and the end of the rate rises is difficult to predict. The Russia-Ukraine issue continues to be a concern, but the battleground is limited to inside Ukraine. CFOs seem to be shifting their interest to factors that have created more practical risks.

Survey on Selection and Development of CFO Successor Candidates

As the business environment and corporate values change, the responsibilities and required roles of individuals are also changing. In particular, the previous CFO Signals 2022Q1 revealed that the role of the CFO as a partner of the CEO has become expanding and diversified, and more increasingly important.

In the second section of this survey, we asked how current CFOs consider regarding the selection and development of successor candidates for CFO.

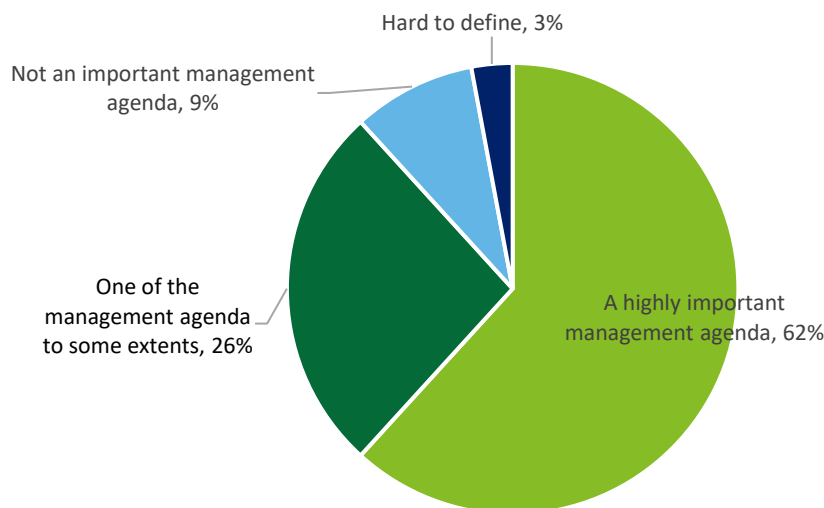


Selection and development of successor candidates for CFO as a management agenda

Nearly 90% of respondents said that they consider the selection and development of successor candidates for CFO as an important management agenda.

Graph 6

How do you, as a CFO, consider the selection and development of your successor candidates to be an important management agenda? Please select the answer that applies.



Nearly 90% of companies said that the selection and development of successor candidates for CFO was an important management agenda. Of these, more than 60% responded that it is very important, and many companies believe that CFOs, who are also responsible for whole corporate management with CEOs, should be selected and developed systematically.

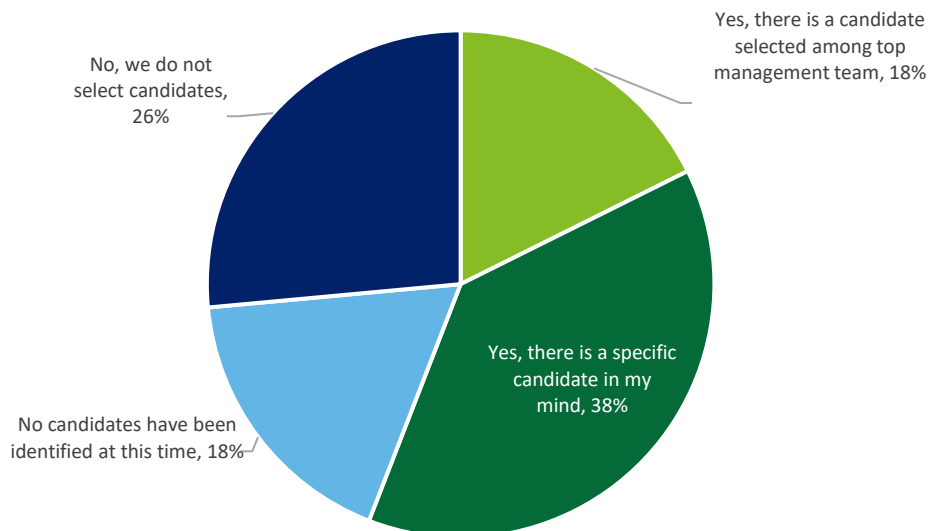


Whether or not there is a successor candidate for CFO

Half of the companies that said they had a successor candidate for CFO.

Graph 7

Do you currently have a candidate to take over the next CFO role ? Please select the appropriate one.

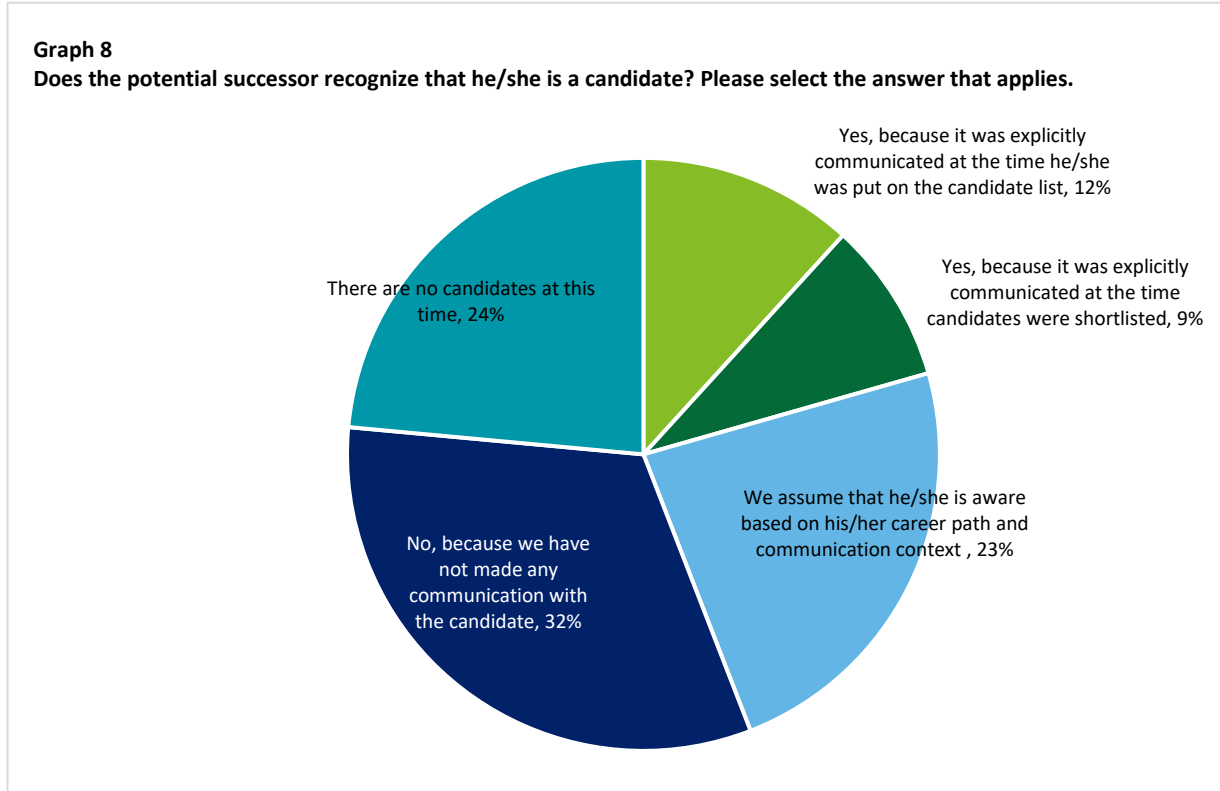


This result showed that each companies take different approaches in terms of whether or not there is currently a successor candidate for CFO. The survey revealed that more than half of the companies responded that there was a candidate in some form, and that a certain number of companies are considering specific candidates.

In addition, the survey shows that even in companies where said there are candidates, the hurdles are high to move from the stage of "CFO's preferred candidate" to the stage of "candidate selected by top management executives."

Recognition of successor candidates

Companies' responses were dispersed as to whether or not successor candidates recognized themselves as the candidate.



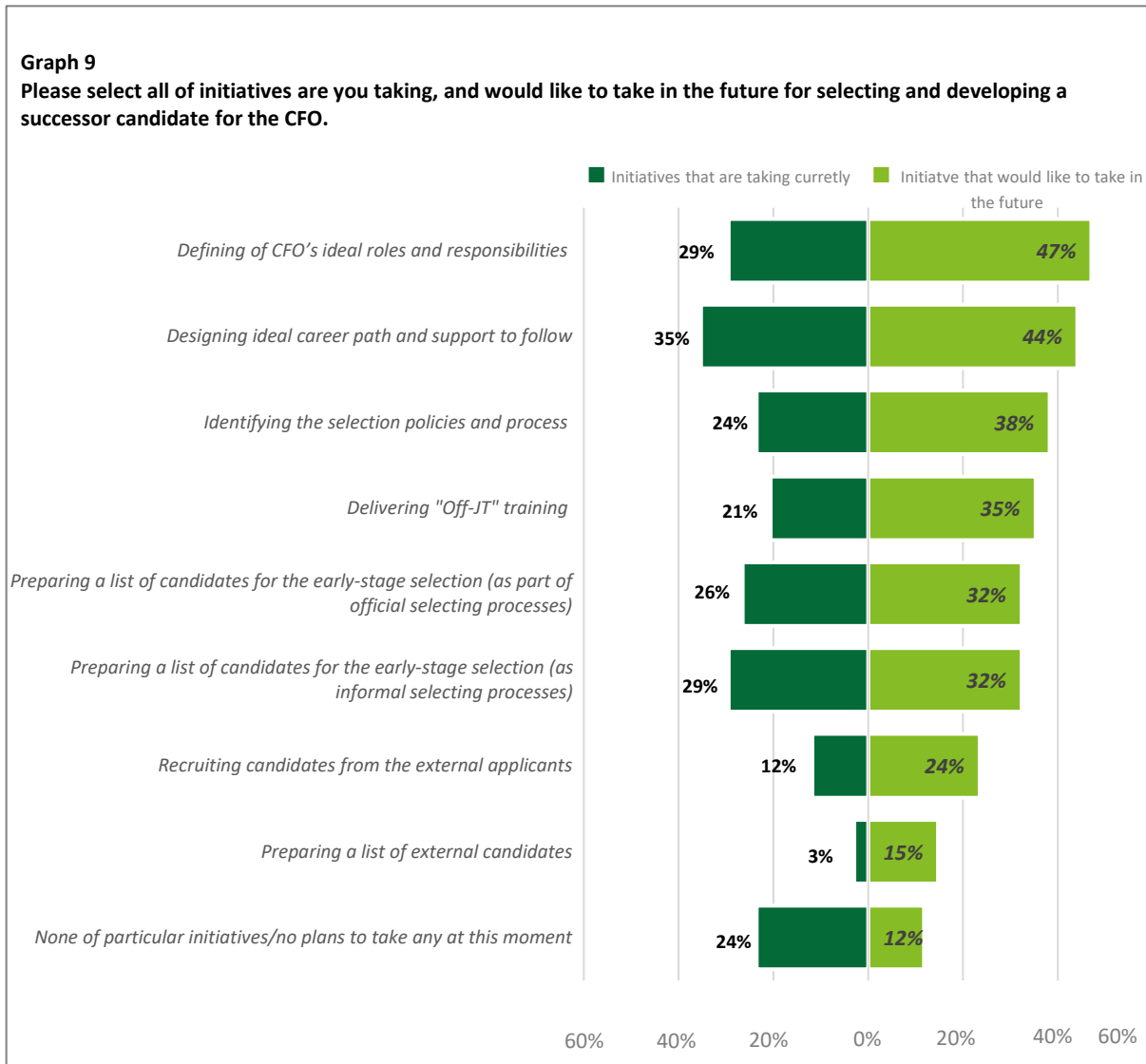
Regarding successor candidates, about 10% of companies said "it was explicitly communicated at the time he/she was put on the candidate list" and another 10% said "it was explicitly communicated at the time candidates were shortlisted." 20% of companies said "We assume that he/she is aware based on his/her career path and communication context" and 30% said "No." These results show differences among each company regarding whether or not candidates recognize that they are successor candidates, and the timing of communication.

Nearly half of companies said "No candidates have been identified at this time" or "No, we do not select candidates" in Graph 7 and more than half of the companies said that the "candidate is not aware" or "There are no candidates" in Graph 8, it can be considered that it is also presumed that the human resources requirements have become complicated due to the expansion of the role of the CFO. (Of course, it can be also considered that it is not yet the time to select a successor due to circumstances such as the current CFO having taken office recently.)



Initiatives related to the selection and development of successor candidates for CFO

The Responses were dispersed for both current and future initiatives.



The results showed that responses were dispersed regarding both initiatives currently being implemented and initiatives that companies would like to implement in the future. This is likely because there is no established "Standard" guideline for the selection and training of CFO successor candidates, and companies are experimenting with their own approaches in the trial-and-error stage. While 90% of companies responded that it was an important management agenda in Graph 5, some companies have not implemented any initiatives at this moment, and it can be seen that they are at the stage of planning to implement some in the near future.

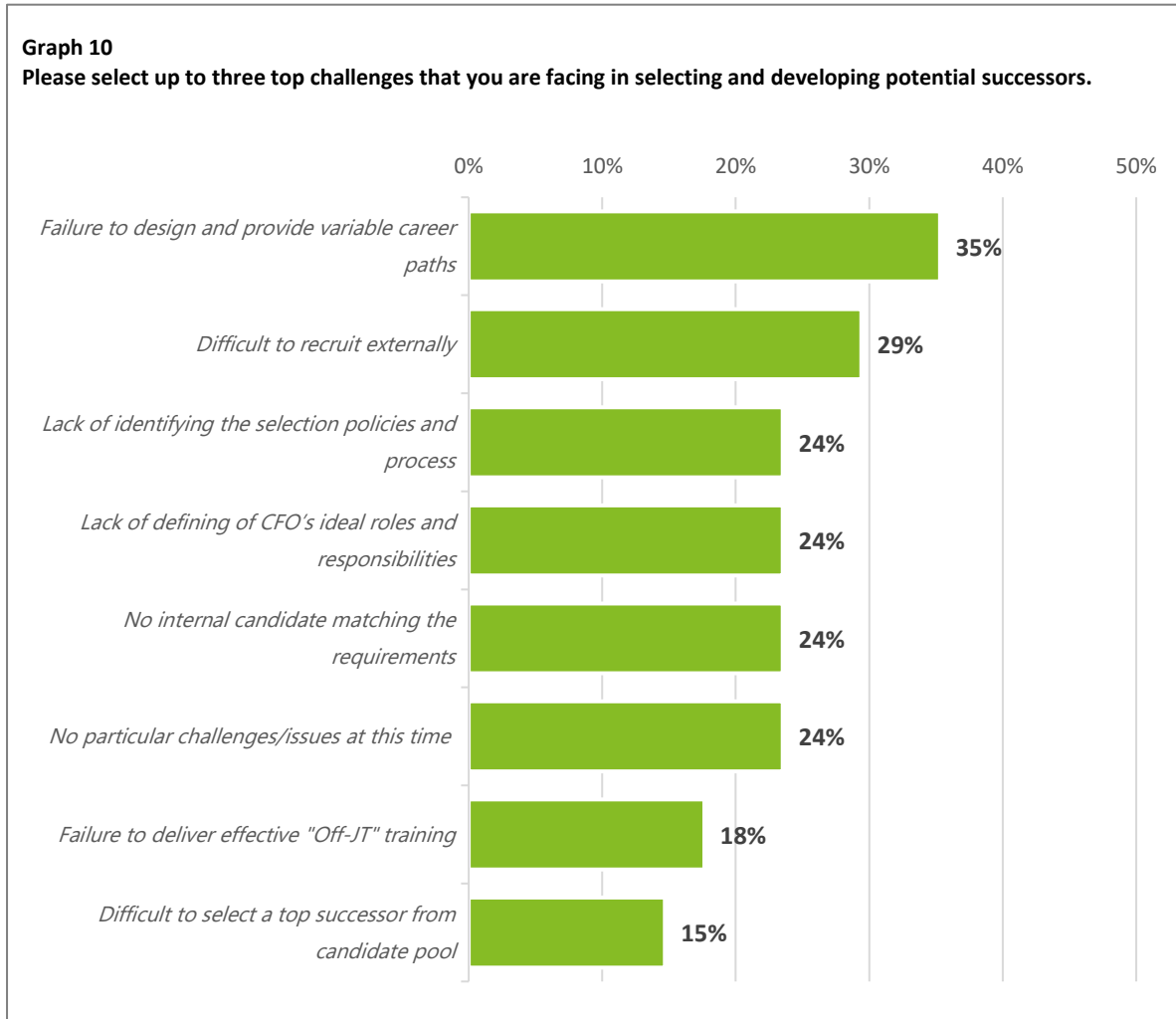
While 24% of the companies are not currently taking any particular initiative, the percentage of companies that answered that they do not have any initiative they would like to take in the future dropped to 12%. It can therefore be seen that a certain number of companies would like to implement some kind of initiatives.

Few companies selected “Recruiting candidates from the external applicants” and “Preparing a list of candidates” compared to other initiatives for both current and future initiatives. This may be due in large part to the importance that Japanese companies attach to understanding corporate culture and internal communication.



Challenges in selection and development of successor candidates for CFO

There are wide-ranging challenges in selecting and developing successor candidates.



The challenges that each company sees in selecting and developing successor candidates for CFO were dispersed again here in Graph 10. As the responses are also scattered in Graph 9, it indicates that the companies have not yet identified the typical challenges they will face while they are still in the process of determining what constitutes an effective approach. Moreover, since it is a once-every-few-years occurrence to select a potential successor, it is assumed that the companies have not been able to determine whether their selection processes are good or bad.

It is considered that one of the factors behind a relatively large number of companies said they have "Failed to design and provide variable career paths" was because the diversification of the CFO role has made it necessary to gain a balance of both accounting and financial experience with business experience, and it has become more difficult to design variable career paths.



To conclude this section...

In this later section of 2022Q2 CFO Signals survey, we asked what initiatives companies are implementing to select and develop successor candidates amid the expanding and increasingly diverse role and importance of the CFO.

While most companies said that the selection and development of successor candidates for CFO is an important management agenda, there was wide variation in the responses regarding the status of such initiatives and challenges they face. This can be said to be because no “standard” guidelines have been established for this theme, and companies are experimenting with their own approaches.

The results from each company were varied regarding the content of initiatives they wanted to implement. However, we can see that for all these initiatives, more companies said that these were initiatives they wanted to implement in the future rather than initiatives they were implementing now. This can be concluded that there is a growing interest in this agenda.

We believe that more companies will take steps to design and enhance the selection and training process as the importance of CFOs increases in the future.

What is CFO Program?

The Deloitte Tohmatsu Group's CFO Program is a comprehensive program to revitalize the Japanese economy by supporting the CFOs of companies that it rests on and contributing to improving the capabilities of CFO organizations. As a Trusted Advisor, we bring together professionals from all walks of life to help CFOs solve 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.

Deloitte Tohmatsu Group

The CFO Program

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