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CFO Program

The SEA CFO Agenda
Five imperatives for the new normal

August 2020

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Foreword

Without a doubt, the global COVID-19 pandemic has thrust the role of the CFO under the spotlight. Given the ambiguity, uncertainty, and lack of perfect information that have characterised our recent circumstances, Southeast Asia (SEA) CFOs have found themselves in an unprecedented position to offer strategic counsel to the CEO, and provide the financial leadership to drive business strategy amidst this crisis.

Across the board, the initial response from Southeast Asia CFOs to the COVID-19 pandemic had been decisive. Focusing unwaveringly on balance sheet fundamentals, most adopted a strong emphasis on cost control, cash conservation, debt reduction, and deleveraging to defend their organisations against the onslaught of the crisis.

Many are also beginning to look towards the new normal, embracing the important roles that they recognise they need to play above and beyond their traditional mandates of financial reporting and performance to catalyse change across their organisations, and ensure their organisation's resilience now and into the future.

In this report, we will explore the five imperatives that SEA CFOs face in navigating the new normal. Specifically, we will examine some of the new realities that have emerged, and the actions that that SEA CFOs are considering – or perhaps should consider – to address their top-of-mind issues along the following dimensions: reimagine and adapt business models, invest in digital transformation, rethink the future of work, increase risk and cyber resilience and restructure to stay relevant and seize M&A opportunities.

Throughout the report, we will augment our point of view with observations of marketplace examples, as well as perspectives obtained from a series of one-on-one interviews conducted by Deloitte Southeast Asia with SEA CFOs across a variety of industries within the region in the second quarter of 2020.

I hope that you will find this report insightful as you prepare your organisations for the new normal in these unprecedented and uncertain times.

Timothy Ho

CFO Program Leader
Deloitte Southeast Asia

Methodology

In the second quarter of 2020, Deloitte Southeast Asia conducted a series of in-depth, one-on-one interviews with SEA CFOs across several different industries within the region to understand the impact of COVID-19 on their businesses and operations. Their insights – encompassing a range of perspectives from the consumer products; retail; mining and metals; oil, gas and chemicals; banking; real estate; health care; and telecommunications sectors – have contributed to the development of our point of view presented in this report.

Overall CFO sentiments

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Pre-COVID sentiments

Earlier in January 2020, Deloitte conducted the Asia Pacific CFO Signals 2019 survey with CFO respondents across the region to gain a deeper understanding of their overall sentiments and risk perceptions. Some of these findings remain relevant – or may have even become magnified – as a result of the pandemic.

Uncertain global economic climate is top concern

Before the onset of COVID-19, SEA CFOs had ranked a global economic slowdown and recession, global trade wars, and currency fluctuations as their top three external risks (see Figure 1).

Given the uncertainty around the pandemic, we expect a global economic slowdown and recession to remain the top concern for the foreseeable future, as economic growth forecasts were repeatedly revised downwards: in mid-April 2020, the International Monetary Fund estimated that the five largest SEA economies – Indonesia, Thailand, Malaysia, Singapore and the Philippines – will collectively contract by 1.3% this year[1].

Globally, the response to COVID-19 by CFOs has been swift. A recent survey found that by June 2020, 96% of all finance leaders will have taken cost reduction actions, with discretionary spending the most common target for cost cuts, followed by capital expenditure[2]. Cash also continues to remain a top concern, with nearly half of finance leaders indicating plans to delay payments[3].

Complexity of the region and lack of digital talent are key challenges

In terms of internal risks, the survey found that disruptions in products or markets, inability to execute strategies, and technology implementation were the SEA CFO's top three concerns (see Figure 2).

With the diversity and heterogeneity of the region, SEA CFOs need a more nuanced approach in navigating the differences in regulations, government grants, and cultural norms when implementing business strategies. These concerns, already salient in the pre-COVID world, is likely to become even more intensified in the COVID-19 world and beyond.

Technology implementation was another risk cited by a majority of SEA CFOs as they recognised talent and skills gaps in the areas of financial planning and analysis (FP&A), and advanced business analytics.

With the increasing digitalisation of the finance function, we expect that these issues will continue to dominate the SEA CFO's agenda.

Figure 1: Top three external risks

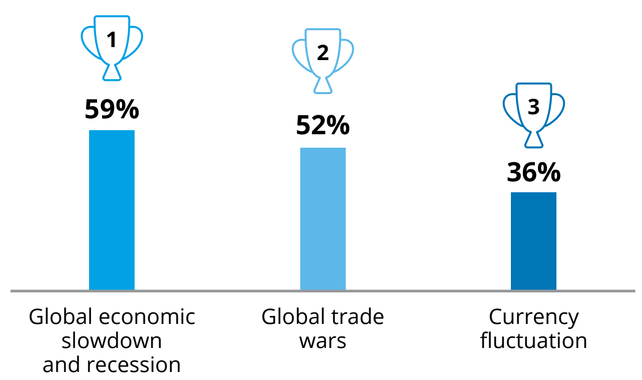
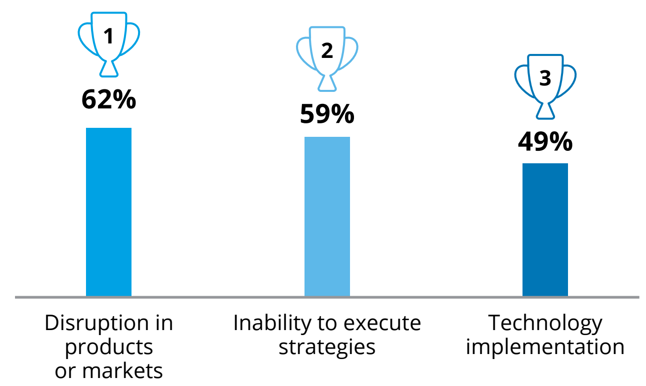


Figure 2: Top three internal risks



Response to COVID-19

Given the rapid unfolding of the pandemic in the first half of 2020, Deloitte Southeast Asia embarked on a series of in-depth, one-on-one interviews with SEA CFOs across several different industries within the region to gain a better understanding of the impact of COVID-19 on their businesses and operations.

Overall, we have observed that the concerns of many SEA CFOs – both in the immediate, short-term and in the year ahead – fall broadly into three common themes:

Financing and liquidity

The immediate focus is determining the business' cash position, modelling cash flows for the next few months, identifying mitigating actions to preserve cash in the short- and medium-term, and running stress tests for worst case scenarios.

Many SEA CFOs also recognise that a coordinated focus on working capital managing payables, receivables, and inventory – and are resetting their key performance indicators (KPIs) for the receivables cycle and collections process during this pandemic.

Supply chain resilience

SEA CFOs are concerned with minimising supply chain shocks, and protecting revenue streams as lockdowns continue regionally and globally.

Supply chain diversification emerged as one of the most important concerns amongst SEA CFOs. For example, one consumer products CFO has shared with us that they are looking at increasing their global presence to reduce their heavy reliance on raw materials and intermediate goods from China, and increasing sourcing from a range of local suppliers across SEA.

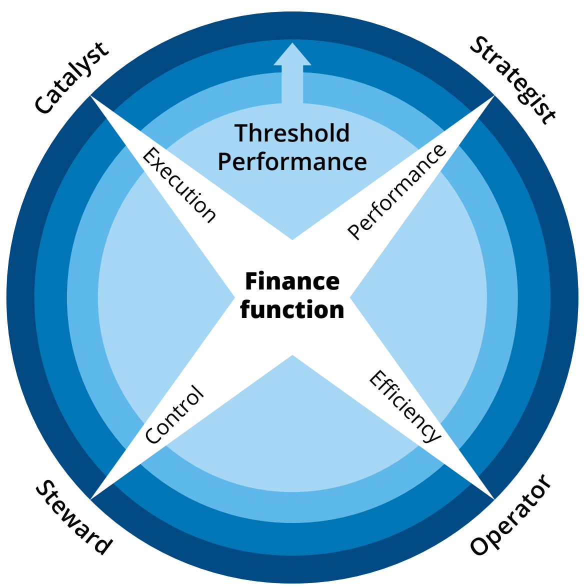
Workforce agility

During our conversations with SEA CFOs, it was acknowledged that finance and other functions are often not used to working remotely. As social distancing measures were introduced, the initial focus for SEA CFOs had been on ensuring that the finance function is able to operate effectively in a remote and virtual environment, and rolling out the necessary technology tools to keep teams engaged and productive.

The CFO's job has become more complex with COVID-19

Over the last few months, SEA CFOs have had to make quick decisions to respond appropriately to the immediate crisis at hand, while ensuring timely reporting to senior management and shareholders.

In the longer haul, we expect SEA CFOs to play greater roles as Strategists and Catalysts, partnering with the CEO on big picture issues and charting the way forward, in addition to their traditional roles as Operators and Stewards (see below for for "The Four Faces of the CFO").



The Four Faces of the CFO

Strategist

Provides financial leadership in determining strategic business direction, M&A, financing, capital market and longer term strategies

Operator

Balances capabilities, talent, costs and service levels to fulfil the finance organisation's core responsibilities efficiently

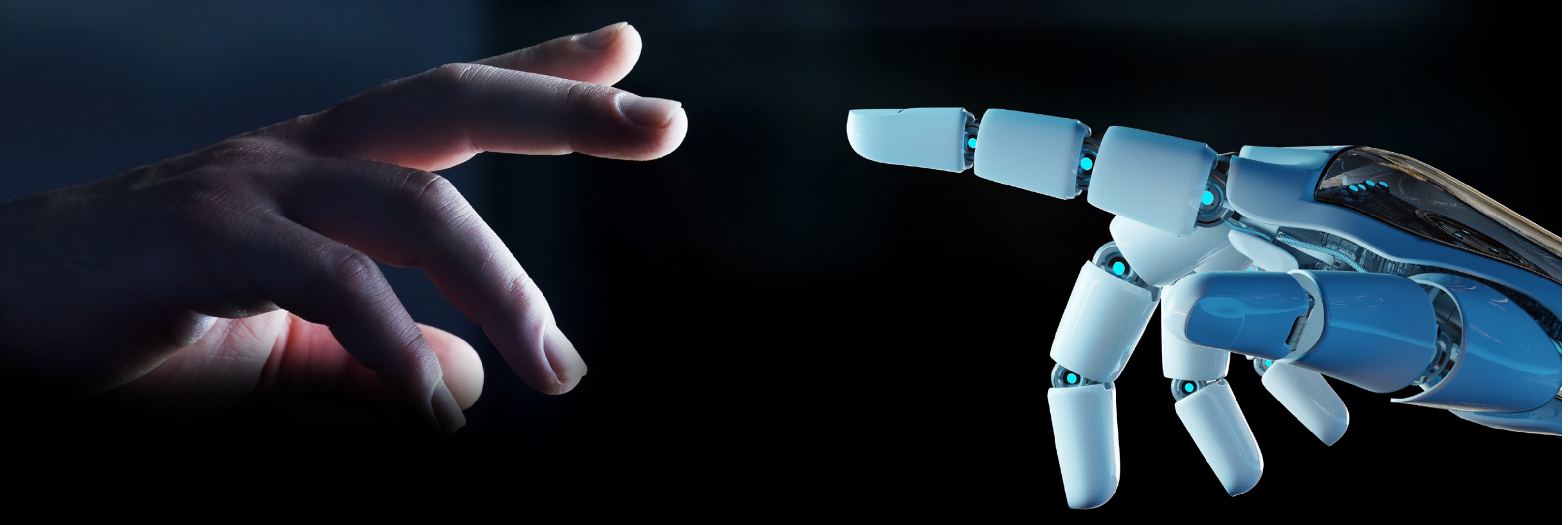
Catalyst

Catalyses behaviours across the organisation to execute strategic and financial objectives, while creating a risk intelligent culture

Steward

Protects and preserves the critical assets of the organisation, and accurately report on its financial position and operations to internal and external stakeholders

Five imperatives for the new normal



Most SEA CFOs have responded decisively and swiftly to the outbreak, and some found stark realisations of the vulnerabilities of their organisations and finance teams to significant disruption during the lockdowns across the region.

For those who came into the crisis slightly more prepared, there has also been a newfound appreciation of the importance of sustained, long-term investments in areas such as digital infrastructure and capability upskilling.

Through our interviews, we have identified five imperatives that SEA CFOs must address in order for them to play a more value-added role when navigating their organisations through the new normal:

- **Reimagine and adapt business models**
- **Invest in digital transformation**
- **Rethink the future of work**
- **Increase risk and cyber resilience**
- **Restructure to stay relevant and seize M&A opportunities**

Reimagine and adapt business models

As SEA CFOs look ahead to the future, they recognise that agility – the ability to respond quickly to market needs with new business models – is key to enabling them to gain a competitive edge and emerge as a leader of the pack.

Investing in product innovation

Most SEA CFOs believe that product innovation is the key to enabling their organisations to capitalise on some of the new demand that has emerged during this pandemic – and which are expected to persist as permanent consumer habits in the long haul.

Examples include a CFO at a regional beverage giant, who believes the intensified consumer focus on hygiene will change the product mix with an increase in sales of bottled water, as a result of COVID-19.

Another consumer products CFO is also planning to increase the focus on standardised food products, such as those sold in convenience stores and manufactured in central processing units, which grew in popularity during the lockdown period.

Repurposing existing inventory

Other SEA CFOs also looking at innovation through a different lens. One noticeable trend that we have observed has been the innovative and rapid repurposing of existing inventory to protect revenue streams.

For example, one CFO at a luxury retailer shared that when lockdowns resulted in difficulties securing access to raw materials, the business began to re-purpose materials from unsold products to produce new products in line with the latest fashion trends.

Market and product diversification

Market and product diversification is also important to survive in the new normal.

One consumer products CFO explained how they have identified new opportunities to serve in-home diners during the pandemic, for example, with family size packaging of juice booster packs.

Another consumer products CFO, whose business focuses primarily on wood products, shared with us how they recognise the critical need to diversify their business in the medium to long term, both in terms of product range and geographical coverage, to mitigate risks associated with the slowdown in consumer spending experienced by their main buyers in China, Japan, and India, as well as tariffs in the US.

Other marketplace examples also include an oil and gas company in Thailand, which has been able to convert its raw material into other by-products that are in higher demand, as well as a hotel in Singapore that pivoted to accommodating different types of guests as tourist arrivals came to a standstill (see "Something old, something new").

Enhancing distribution channels

SEA CFOs also highlighted the need to enhance their distribution channels to enable them to deliver on these new value propositions. In particular, many have plans to achieve this through the formation of strong external partnerships and collaborations.

Something old, something new

With the COVID-19 pandemic causing a domino effect on demand across nearly every industry and sector, several regional heavyweights have moved quickly to repurpose their inventory to meet new sources of demand, as their traditional sources of revenue suffered declines. Two such examples include:

- **CapitaLand**
  In response to COVID-19, CapitaLand's wholly owned lodging business unit, The Ascott Limited, has stepped up to provide accommodation for health care workers, returning citizens, guests affected by border closures or lockdowns, as well as migrant workers and other stranded due to COVID-19[4].

- **PTT**
  With fully integrated refineries, Thailand's oil and gas corporation was able to quickly convert its raw materials into other by-products in response to changes in demand. Specifically, as consumers increased their consumption of takeaway food packaging and intensified their focus on hygiene with one-use items, PTT recognised the opportunity to address this increased demand for plastics by converting jet fuel to feedstock used to produce plastics. This would enable it to offset its huge surpluses of jet fuel, which has seen demand plunge by about 90% due to reduced aviation activity[5].

For consumer products companies, this may mean working with delivery platforms and e-commerce players to reach stay-home consumers or adapting their product range to meet increasing consumer demands for healthier alternatives.

Even companies that are traditionally more focused on brick-and-mortar are also looking at how they can enhance their digital distribution channels to create 24/7, omnichannel consumer experiences.

Marketplace examples include Singapore's largest retail landlord, CapitaLand, which has announced plans to launch an e-commerce platform and an online food ordering platform as extensions of its physical malls[6], and increased collaborations between restaurant operators and technology platforms, such as Oddle, which focuses on helping restaurants grow their online sales and presences, including creating more effective social media ads and electronic direct mailers[7].

For example, one consumer products CFO shared that although food production is considered to be an essential activity, and has been allowed to resume with the necessary precautions in place, the lack of availability of labour in areas such as Nigeria for its raw and intermediate goods has resulted in knock-on effects on the business' supply chain.

Similarly, another CFO also shared their experience dealing with the spike in demand for certain food product categories, such as rice and grains, as a result of panic buying, while other food product categories typically supplied to business consumers, such as hotels, restaurants, caterers, and officers, experienced a sharp decline.

Supply chain resilience

COVID-19 has made many SEA CFOs grapple with rapidly shifting bottlenecks within their systems as they struggle to ensure that products – and essential goods in particular – remain well-stocked on shelves.

Looking ahead, SEA CFOs will need to have oversight over their entire value chain: one CFO shared with us how their strategy to own and manage their entire supply chain – from plantations and forest concessions to mills, machinery, and real estate – had paid off during this crisis as it enabled them to avoid the supply chain disruptions experienced by other organisations.

> Consumers are more discerning with their purchases today, with an increasing focus on health and wellness. Product innovation is key to meeting changing consumer needs and finance has the responsibility to help management make informed decisions to pivot the business to adapt and thrive in this highly competitive industry.

Michael Chye

Executive Vice President Finance & Accounting Group, Thai Beverage

The CFO To Do List

Customer centricity is key

Consumer buying patterns have radically shifted as a result of social distancing measures. The most nimble among them have innovated and scaled alternative digital models to stay engaged with their customers during this period, but the real challenge is to anaylse customer behaviour and find the right product mix, as well as marketing and promotion channels to fulfil customer needs. CFOs should take a lead in this to assess the risks and ensure that the appropriate budget is available for the business to make the necessary investments and secure its profitability.

Secure supply chains and consider alternative routes and modes

Even in the recovery period, there may be irregular flows of goods for extended periods as regions emerge from (or re-enter) periods of lockdown. CFOs will need to have oversight over the entire value chain and be nimble to support their organisations in anticipating and responding to potential mismatches in demand and supply, including through the use of dynamic sales and operations planning processes.

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Invest in digital transformation

While digital transformation is not new for many SEA CFOs, the COVID-19 pandemic has made many of them acutely aware of its critical importance in ensuring business continuity and driving growth.

- Accelerating the digital mind-set
- Reaping the benefits organisation-wide
- Increased reporting and scenario planning
- Increasing emphasis on analytical tools

Accelerating the digital mind-set

SEA CFOs echoed our view that COVID-19 may have accelerated digital mind-sets, and recognised the importance of having digital finance systems in place to make informed decisions as they look to unlock value and growth in the new normal. As a CFO of a Philippines conglomerate put it, one "silver lining" of the past few months has been a more in-depth understanding of the degree to which finance processes in their organisation have been running manually.

Another consumer products CFO also shared with us how prior investments in digital transformation have enabled the finance team to perform efficiently and effectively, even as the entire team is working from home. Their technology infrastructure – coupled with the agility of the finance team – have enabled them to close their month-end accounts on time, and also equipped them with the ability to adapt and respond quickly to changing market dynamics by reducing the time required to conduct forecasting and scenario planning.

Reaping the benefits organisation-wide

Some SEA CFOs also saw the benefits digital transformation bring to their entire organisations (see "Reaping the rewards"). As SEA CFOs re-evaluate or defer some of their larger capital expenditures in the pipeline, some shared that digital transformation projects have been given greater importance, with these often carrying on with funding as planned or even accelerated.

As they look towards a future where they expect to be faced with different value chains, addressable markets, customer preferences, and even competitors than they had experienced pre-pandemic, SEA CFOs will also need to find ways to be more thoughtful about anticipating future customer needs and leveraging technology throughout their organisations to deliver the right value propositions.

One example is Halodoc, an Indonesia-based telemedicine platform. As soon as Indonesia announced its first two COVID-19 cases in March 2020, the platform experienced a surge of queries on its platforms as hundreds of thousands of people began flocking to the platform with COVID-19-related questions. To reduce the severe bottlenecks caused by the sudden demand influx, Halodoc quickly launched a special COVID-19 section on Halodoc's website and mobile app, and trained the system's artificial intelligence (AI) chatbot to respond to FAQs on COVID-19 to take some pressure off the doctors[8].

Looking ahead, SEA CFOs will need to re-examine how they can collaborate more closely with their technology counterparts, including CTOs and CIOs, to put in place the necessary business continuity plans and supporting digital infrastructure so that they can be better prepared for future business disruptions. Furthermore, with the explosion in the number of digital applications, SEA CFOs will also need to develop a clear understanding of their business requirements so that they can support their businesses in selecting a fit-for-purpose digital solution.

Reaping the rewards

DBS Bank had put in place a multi-year strategy to prepare its infrastructure to embrace "Mobility First" even before the COVID-19 outbreak, which have enabled it to scale up split operations and work-from-home arrangements quickly once the pandemic unfolded.

Initiatives that were implemented include:

- Deployment of cloud technologies as early as 2016
- An early shift towards laptops which enabled them to avoid a surge in spending for a large-scale purchase of laptops
- Deployment of collaboration tools and video conferencing capabilities with higher bandwidth requirements to cater to regional teams in China, India, Indonesia, Thailand, Hong Kong and Taiwan
- Long-term investments in cyber security to ensure operational safety as employees have remote access to critical business applications outside the office network without compromising security[9].

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> Through our digital transformation which has been going on for the last eight years, DBS has invested significantly in enhancing our technology tools and boosting the capabilities of our digital services. These strategic investments are paying off amid the global COVID-19 pandemic during which physical interactions have minimised. More customers are able to shift seamlessly onto our digital platforms to do their banking. We have not only been able to effectively serve these customers, further accelerate our overall digital progress but also generate new revenue streams.

Sanjoy Sen

CFO and Head of Strategy for Consumer Banking and Wealth Management, DBS

Increased reporting and scenario planning

Reporting activities have increased, including profit-and-loss forecasts and cash flow forecasts, as both C-suites and Boards demand frequent, typically weekly, updates. To make judgements on these forward-looking estimates, SEA CFOs will need to take into account the uncertainty associated with the pandemic trajectory, and its impact on areas such as human capital, supply chain, inventory levels, and production.

At the same time, across the board, SEA CFOs have shared that management teams have begun to ask many more "what-if" questions during the pandemic. CFOs have done more scenario planning during this crisis, leveraging technology tools and predictive analytics when planning for specific scenarios – including possible restructuring or M&A activities – and modelling their impacts on margins.

Increasing emphasis on analytical tools

Companies who have already invested in these analytical tools before the onset of the crisis are in a much better position to deal with this challenge.

A regional oil and gas CFO shared with us that prior to the COVID-19 outbreak, they had embarked on several innovations to transform their business models, including reorganising their operations to apply data analytics more effectively, and putting in place a single source of data, and these efforts have enabled them to make rapid pivots in their business model in response to real-time events.

On the other hand, finance teams who have been slower to adopt analytical tools have found it much more challenging to cope with the increasing demand for forecasts and analyses while making concurrent efforts to digitalise their finance processes.

One real estate CFO, for example, shared their experience working to accelerate digitalisation within the finance function during the pandemic, and the challenge in upgrading existing tools and harmonising platforms across the group's asset classes and geographies to ensure the accuracy of their forecasts and projections without compromising efficiency.

Looking ahead to an uncertain future, SEA CFOs will need to focus on developing realistic and flexible business plans, fortifying their digital infrastructure and technology tools for increased accuracy, accessibility, and flexibility of their budgeting processes and leveraging on scenario-planning forecasting to define plausible alternate futures for their businesses.

> "Agility is key in uncertain market conditions. There is a clear business need for frequent forecasts and multiple scenario planning in times of COVID-19, hence the finance function has to be responsive to this change in a shorter turnaround time to truly become a business partner to the organisation."

Suleman Punjwani

CFO of Food Solutions in Southeast Asia, Africa and the Middle East, Unilever

The CFO To Do List

Re-evaluate digital priorities

CFOs should leverage the use of digital technologies, including enterprise resource planning tools, AI and machine learning algorithms, as well as virtual collaboration tools and ensure the necessary controls are embedded in the digital applications. Prioritise data quality to generate accurate insights with the use of analytical tools to make informed business decisions.

Reallocate funding for agility

CFOs should develop flexible approaches to support innovating and operating at speed, which will require them to forge tighter collaborations between the technology and finance functions in terms of budgeting and appropriations.

Implement organisation-wide analytical tools

CFOs should establish a forecast advisory team made up of key leaders from the relevant functions, including marketing, sales, finance, supply chain, HR, and IT, to obtain a diverse set of perspectives on the possible futures for the business. A good starting point is developing a specific mission objective, or "burning platform", that reflects the leadership's priority issue or challenge for a pre-defined timeframe – whether one year, or three years from now.

Rethink the future of work

To ensure that the workforce is able to perform amidst increased digitalisation and the emergence of new ways of working, SEA CFOs will also need to re-examine their existing notions of the workplace, workforce – and even work itself.

Re-examining the workplace	Re-evaluating the workforce	Rethinking work	Upskilling and integration

Re-examining the workplace

As pockets of the economy begin to resume operations across the region, SEA CFOs saw the emergence of irreversible and permanent shifts in the way they do business. Remote work is one clear example that is here to stay.

According to Deloitte estimates, a potential 50 million jobs could switch to remote work across the ASEAN-6 economies of Indonesia, Malaysia, Singapore, Philippines, Thailand, and Vietnam over a multi-year time horizon (see Figure 3).

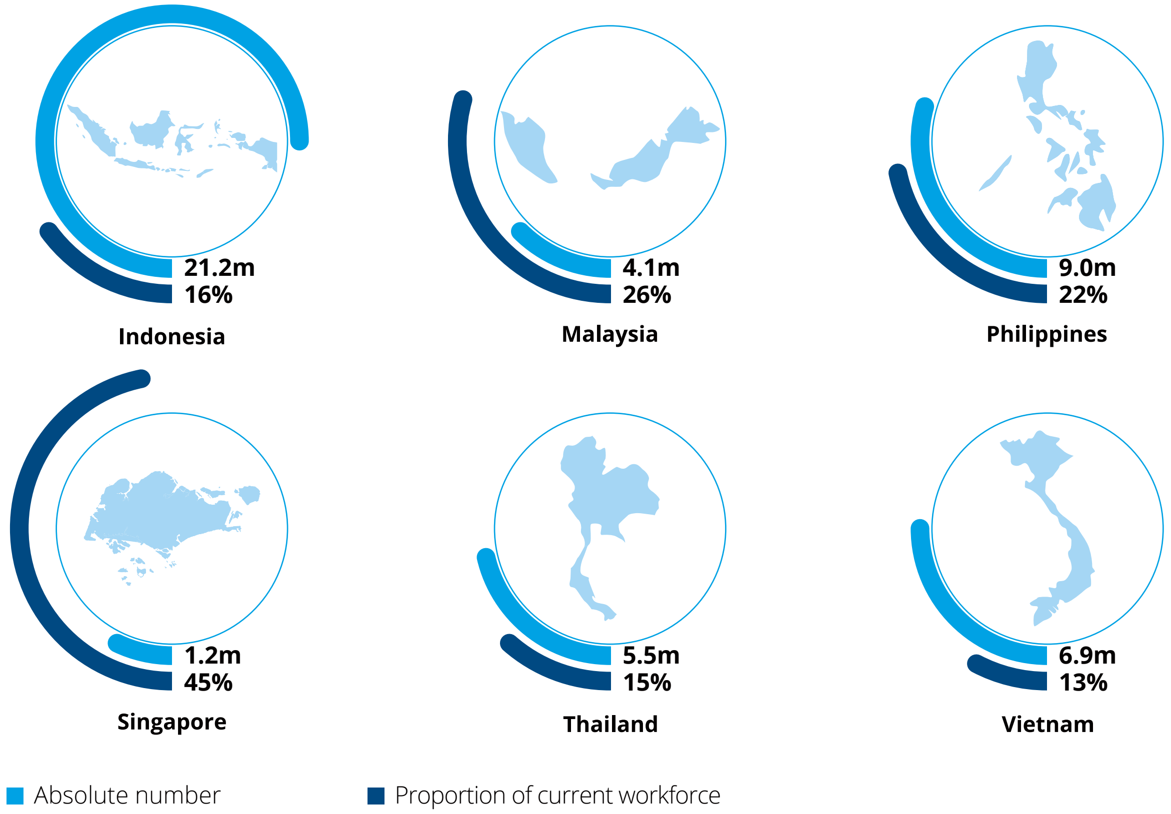
Singapore and Malaysia are expected to lead the region, with potential remote workforce compositions of up to 45% and 26% respectively due to the relative dominance of service industries in these economies.

The business case for Thailand, Indonesia, Philippines and Vietnam is also fairly strong, given the massive productivity losses related to urban commute time[10].

Many SEA CFOs have shared that the abrupt transition to remote, work-from-home arrangements during this pandemic has not been ideal. Apart from the sudden stress on their technology infrastructure, some homes may lack a fit-for-purpose space with the necessary infrastructure, security, and privacy required for their employees to work productively.

Yet, even with sub-par spaces and novice remote working practices, many firms have demonstrated their resilience in shifting to remote work, and in some cases even shown productivity gains in doing so.

Figure 3: Potential workforce transition to remote working arrangements across ASEAN-6 nations



Looking ahead, significant cost savings from reduced real estate, travel and infrastructure costs are likely to be the impetus for many SEA CFOs to reset many of their preconceived notions of what a workplace entails, and support their organisations and employees in improving their conditions for working from home, and practices for working remotely.

Quite conceivably, with complete work-from-home arrangements or a full-scale return to congested central business districts unlikely, a "best of both worlds" solution – work-near-home – may emerge as the new dominant solution for many companies. These communal or shared suburban worksites, located close to where people live, can provide functional, albeit less premium workspaces than central business district areas, but still retain the benefits of safety, security, connectivity, and comfort of an office.

Re-evaluating the workforce

As remote work becomes the norm for companies, the geographical limitations of talent will disappear, and companies will gain access to talent in international locations without the burden or complications of mobility costs.

Organisations may look to flex their workforce size, composition, and cost by leveraging gig workers and cross-border teams.

Anecdotally, one regional oil and gas CFO has also mentioned to us that the pandemic has made the business more aware of the benefits of virtual and remote working. As result, they will be looking more closely at how they can increase their usage of off-balance-sheet workers, such as contractors.

Looking ahead, the key challenge for SEA CFOs will be to re-examine their workforce composition by determining which operations can be maintained in a remote or alternative capacities, and the offerings or services that may be added or changed as a result.

With a more diverse talent pool, they should consider ways to integrate their various employees – whether working remotely or physically, and whether or permanent or temporary contracts – into a more cohesive workforce.

Rethinking work

During the pandemic, it was observed that companies across various industries have been able to rapidly redeploy their workforce as jobs in several industries came to a standstill, while demand for others surged (see "All in a day's work").

Several SEA CFOs have also been quick to utilise the downtime that employees may have to send them for reskilling and retooling.

For example, one consumer products CFO shared with us that in addition to personnel redeployment and retraining to relocate them to other parts of the conglomerate's business with greater demand, they have also invested in programs to enable their employees learn from the best practices of their overseas peers. These investments have also begun to bear fruit, as they have been able to leverage these new insights to establish inroads to buyers and suppliers in markets such as Indonesia, Taiwan, and Vietnam.

Upskilling and integration

With the increased emphasis on the use of digital tools during this pandemic, work is likely to become more digital in nature for the foreseeable future. Employees will require new languages, skillsets, and toolsets.

One consumer products CFO, for example, shared with us that despite having enterprise resource planning tools in place, their finance team continues to rely primarily on spreadsheets as employees lack the know-how to build more sophisticated financial models.

SEA CFOs should capitalise on this momentum to review where digital technologies, automation, and AI could make the finance function more agile, resilient, and innovative. Workforce training and retraining is also critical to ensuring that organisations are able to leverage technology to its fullest potential, and realise the benefits of these investments.

All in a day's work

With the aviation industry coming to the standstill during the pandemic, several affected companies in Singapore have responded by reassigning underused staff to other sectors where manpower is urgently needed in the new reality[11]. Two such examples include:

- **SATS**
  The provider of ground handling and catering services to airlines has redeployed about 5,000 people into new roles and activities, with some of them working at the National Environment Agency, the Ministry of Health, the Singapore Tourism Board and the Immigration & Checkpoints Authority. Examples of tasks that have been assigned to them also include carrying out checks on people serving Stay Home Notices.
- **Singapore Airlines**
  The Singapore Airlines Group committed to provide at least 300 of its staff to hospitals and at least 1,000 to train stations and other public transport networks. In their new roles, inflight managers and cabin crew assist nursing staff at hospitals, where they help patients sit up in bed, serve their meals, collect feedback, and manage visitors to reduce the burden on health care workers. Others support public transport operators in employing safe-distancing measures, resolving passenger queries, and operating thermal scanners at train stations and bus stops.

> COVID-19 has accelerated our efforts to digitalise our processes and overall finance function. In addition to putting in place harmonised platforms within the Group for our different asset classes across the various geographies, our finance team has been able to adapt to remote working arrangements, and fulfil our financial reporting requirements even in these challenging times.

Andrew Lim

Group CFO, CapitaLand

The CFO To Do List

Adopting a virtual-first mind-set

CFOs will need to reimagine what work will be like when the majority of us may be working remotely. High performing virtual teams will require adaptive senior executives capable of leading from the front, agile and tech-savvy managers capable of driving outcomes remotely, as well as work environments conducive to maintain or increase productivity. To that end, the rapid retraining of leaders and managers at scale will be critical.

Provide IT with critical resources and funding for organisation-wide virtualisation initiatives

CFOs should work with their CIOs and CTOs to support more efficient and effective remote access to key systems and data, while maintaining proper security of information. Employees will also likely need more remote training and support to help them better adapt the new systems and collaboration tools permanently in their work.

Identify opportunities for further virtualisation of the finance function

The marked shift towards digitalisation is an opportunity for CFOs to rethink the ways their finance team and the rest of the organisations pair humans and emerging technologies, such as AI , and approach them not as a substitute for human skills but as a means to augment them. This view can enable organisations to streamline costs while creating value and providing meaning to the workforce.

Implement new ways of working in the finance function

CFOs should work with HR on building trust and implementing new ways of working to lead highly effective teams in both face-to-face and virtual environments. Other than training their finance team to complement machines, CFOs also need to be mindful of any potential impacts on productivity and motivation in the long run, as the virtualisation of work could sometimes have the flipside of potentially undermining some traditional sources of employee satisfaction.

Increase risk and cyber resilience

In addition to new financial reporting considerations, SEA CFOs also need to watch out for the emergence of interdependent risks. In a volatile environment, the trigger of a single risk could lead to a series of cascading risks with unknown consequences or impacts.

Financial reporting

Financial and credit risks

Fraud and cyber security

Financial reporting

As a result of COVID-19, certain key accounting and disclosure considerations may arise both in the short and long-term. Many SEA CFOs are re-assessing potential accounting implications for their organisations, applying the appropriate impairment and loss recognition guidance, and re-evaluating which aspects of their business will be more or less profitable in the long run.

Impairment testing, in particular, emerged as one particular area of concern among SEA CFOs, who have shared that they are evaluating whether the impact of COVID-19 is significant enough to warrant establishing a new cost basis for long-lived assets, intangibles, and goodwill. A similar concern can also be observed for short-lived inventory.

For example, one CFO at a luxury retailer is looking at inventory impairments, as some of these products' lifespans are closely associated with fashion trends.

When analysing how recent events may affect their financial reporting in the near and longer term, SEA CFOs are also carefully considering their unique circumstances and risk exposures.

For example, one real estate CFO shared that the business could experience long-term impacts to the operating revenues of its 50 hospitality and lodging properties across the world if a second or even third wave of the pandemic hits.

Nevertheless, some other CFOs are more upbeat: one banking CFO expects structural changes in the economy with full recovery in one to two years, while a consumer products CFO expects business to pick up towards end of the year, with certain economies, such as Philippines and Thailand, leading the recovery in SEA.

Then, there are also others who will need to consider how the COVID-19 will exacerbate existing industry challenges.

For example, the pandemic has compounded the concerns of a regional beverage giant CFO over the prolonged alcohol bans in Thailand and Vietnam, as well as an anticipated global decline for luxury goods for a CFO at a luxury retailer. Some CFOs are also dealing with several concurrent crises, such as the plunge in global oil prices, and forex movements.

Financial and credit risks

Liquidity and currency risks are perennial top-of-mind issues for CFOs. Although some businesses have seen a reduction in operating expenses as employees switch to virtual working arrangements, CFOs have also taken a range of different measures to contain costs, including freezing salaries, moderating personnel replacement headcounts, and deferring non-essential local and global travel. At the same time, challenges for many SEA CFOs include constant currency fluctuations in more volatile world dealing with the aftermath of the COVID-19 shock.

A regional consumer products CFO, for example, shared that the strengthening of the US Dollar against local currencies has resulted in an increased cost for raw materials, such as sugar, that is required to produce candy and other end products. This has posed some challenges to their margins and liquidity, especially since the nature of the business is working capital-intensive.

In addition, businesses need to manage fluctuations in liquidity across their portfolio of businesses.

A CFO at a leading regional bank shared that while the COVID-19 outbreak has resulted in more cash deposits, it is also trying to mitigate liquidity reductions in its other businesses, such as lending, credit cards, mortgages, and wealth management, as consumers and businesses alike become more cautious and risk-averse.

SEA CFOs also expressed concerns with managing counter-party exposures for contracts, as well as potential increases to credit risk.

For example, a telecommunications CFO mentioned that although there appears to be less credit risk from larger corporations, certain segments of their corporate clientele – such as small and medium enterprises, or locally owned chain businesses – may pose greater levels of credit risks.

Under the pressure to bring products quickly to market or find alternative intermediaries due to supply chain disruptions, some organisations may also have fast-tracked new suppliers and other business partners – including customers, suppliers, agents, intermediaries, or other advisors – during the pandemic. By accelerating their onboarding processes, such actions could increase the organisation's third-party risks if these external parties have not been fully vetted or screened.

Fraud and cyber security

SEA CFOs have also identified these risks are magnified during a crisis and its aftermath, and organisations where layoffs, cost reductions, or workforce reorganisation occur are likely to be more vulnerable, especially if employees become stretched or disengaged.

Overall, SEA CFOs are growing increasingly concerned about their funding support for critical IT infrastructure, and the effectiveness of their safeguards and training for employees in areas of cyber security.

As economic challenges set in, some cyber security teams may be facing reduced budgets and under-resourcing of information security functions. The combination of reduced spending and dormant threats means some organisations may lack the appropriate resources to detect and respond to threat events, putting information security, service availability, and data integrity at risk.

More importantly, however, SEA CFOs are concerned about how cyber threats have the potential to become a real menace to supply chains, given the growing convergence between information technology (IT) and operational technology (OT) systems. As the two become increasingly integrated and reliant on off-the-shelf technology, any existing weak links can translate into an expanded attack surface that could compromise confidential information or result in disruptions to operations.

Looking ahead, SEA CFOs will need to partner with their CTO and CIO counterparts to conduct a thorough re-evaluation of whether their existing controls are sufficient, and implement measures to fortify cyber security and insider threat management programs.

Given the comprehensive view available to CFOs – across balance sheets, corporate transactions, and the business – they are strategically positioned to recognise, manage, and report risks and opportunities to key stakeholders. By developing a more strategic vision and approach, SEA CFOs can assist their organisations in taking the right risks – and taking the right amount of them (see "Not just an IT issue").

Not just an IT issue

Across the SEA region, cyber security has become a top-of-mind issue for many organisations as digitalisation initiatives accelerate following the COVID-19 outbreak. Increasingly, the consensus is that cyber security is not just an IT issue, but a corporate governance issue.

Earlier in June 2020, the Securities and Exchange Commission (SEC) in the Philippines issued a notice encouraging corporations to assess their exposure to cyber security risks and craft the appropriate policies and measures, in light of recent reports of hacking incidents during the pandemic. In particular, the SEC emphasised that "boards of directors of companies must ensure that a robust cyber security strategy is in place and that existing measures, including regular penetration testing and risk assessments, remain effective amid the evolving security landscape"[12].

In a similar vein, a high-profile customer data leak affecting millions of customers on an e-commerce platform also prompted Indonesia's Communications and Information Ministry and the National Cyber and Encryption Agency (BSSN) to request for a thorough internal investigation of the incident[13], with Communications and Information Minister Johnny G. Plate pledging that his office would continue to ramp up cybersecurity and protect personal data with the BSSN[14].

> As a telecommunications provider and operator of a critical information infrastructure, cyber security is core to StarHub's business. Over the recent years, we have made a number of significant, strategic investments in enhancing our cyber security assets and capabilities, to ensure that we are well-positioned to support our enterprise clients with their increasing cyber security needs.

Dennis Chia

CFO, StarHub

The CFO To Do List

Adopting a strategic risk management posture

CFOs will need to think about what they must do now to prepare for the new normal. Specifically, they will need to examine how COVID-19 is changing the finance function along five dimensions – people; operating processes; data; technology; and workplace – and re-examine how their organisation's assumptions on credit exposure, liquidity adequacy and debt levels will need to change.

Strengthening cyber risk resilience

CFOs need to review their business continuity programs, pandemic scenarios, and management practices and ensure that they are defensible and aligned with the applicable cyber security and privacy requirements, fiduciary duties, and industry expectations – even in a remote setting.

They would also need to better understand their third party risks, including mapping out critical vendors and contingency plans and integrating them into the organisation's overall contingency strategy, and monitor the dark web to identify organisational exposures, educate and engage remote users with training and awareness of evolving organisational risks, and deploy technology to improve threat visibility across infrastructure.

Restructure to stay relevant and seize M&A opportunities

As SEA CFOs look towards the future, a combination of restructuring and M&A strategies should emerge as companies strive to safeguard existing markets, accelerate recovery, and position themselves to capture unassailable market leadership.

Restructuring | M&A

Restructuring

Many SEA CFOs expect the COVID-19 crisis to unleash structural and systemic changes to the deal-making environment. When the slew of mitigating measures introduced by governments to help businesses cope with the COVID-19 fallout eventually come to an end, it is conceivable in the short-term that some companies will require corporate and debt restructuring. As a result, some SEA CFOs will turn to distressed M&A – whether by choice or necessity – to safeguard their future.

In particular, sectors hardest hit by COVID-19 can expect to see a greater number of distressed assets coming to market.

Some CFOs in the real estate sector, for example, are looking to shift their portfolio focus to fast-growing regional markets such as Vietnam, where the COVID-19 impact has been less severe. Whether these deals gain momentum over the next few quarters remain to be seen, however, as travel restrictions continue to prevent dealmakers from physically meeting overseas investors.

Nevertheless, SEA remains attractive to investors due to its largely untapped market of 600 million people and abundance of natural resources.

Overall, we expect to see investments flowing into the region from the broader Asia Pacific region, including markets such as China, Japan, and South Korea, with Indonesia, Malaysia, Singapore, Thailand, and Vietnam as their key destinations.

Singapore, in particular, will continue to be an attractive location for holding companies and regional financial hubs due to its access to funding. As governments look to co-fund infrastructure projects with private enterprises to create job opportunities and stimulate growth, we can also expect to see an increased number of public-private partnerships coming to fore.

Furthermore, SEA CFOs are looking at how they can deploy a wide range of inorganic growth strategies such as partnerships with their peers, co-investments with private equity, investment in disruptive technologies, cross-sector alliances with specialists, and partnerships with governments, to reduce risk and capital outlay.

As an example, a health care CFO whose Thailand-based business relies heavily on medical tourism shared with us their experience with a drastic drop in demand due to COVID-19 travel bans. Strategies that the CFO are considering include potentially forging partnerships with insurance players to extend their market share amongst corporate clients.

Ultimately, the need for restructuring depends on the ability of distressed companies to secure short-term financing options.

In the hotel sector, for example, a pivot in investor activity may just be the lifeline for some: given the sector's substantial funding requirements, private equity groups and family offices have emerged important complements to the existing volume of capital from traditional debt funds. Although these sources of capital are more expensive, they can offer short-term solutions until more permanent financing can be secured, or perhaps until the asset can be divested at a suitable price[15].

M&A

For most SEA CFOs, the COVID-19 crisis has demonstrated the attraction of new digital channels, agile operating models, and supply chain links.

Many will look to actively pursue transformative acquisitions to rapidly adapt to the irrevocable changes to their business models, as well as increase their footprints across geographies and business lines.

Given the emergence of new consumer behaviours and increased e-commerce uptake during the pandemic, the consumer sector is one industry that is expected to witness increased M&A activity. This, in turn, could also have spill-over effects on other adjacent industry sectors, such as payment platforms and other FinTech players. Indeed, even in the midst of the COVID-19 crisis, we are already witnessing a number of deals taking place as companies seek to take advantage of new opportunities that have emerged as a result of the pandemic (see "Seizing pockets of opportunity").

At the same time, given the plunge in global oil prices, markets such as Indonesia, Myanmar and Philippines may be poised for more activity in the oil and gas as well as renewable energy sectors. Other target sectors also include life sciences and health care, particularly in the medical devices and pharmaceuticals space within untapped economies in the region, such as Indonesia and Vietnam, as investors seek to gain a first-mover advantage in these markets.

Companies with a strong balance sheet but expecting a significant degree of disruption to their sector could use also M&A to safeguard their customer base and supply chain.

A consumer products CFO, for example, shared with us that some of their targets include mid-sized firms in the food ingredients space that would enable it to consolidate its supply chain and market share.

Following the global supply chain disruption as a result of COVID-19, such supply chain-related acquisitions could present potential bright spots for M&A activity within the region as companies search for alternative locations outside China to diversify their manufacturing hubs. In particular, locations such as Thailand and Vietnam are expected to witness greater supply chain-related M&A activity, especially in the medical equipment, sportswear, furniture, food additives manufacturing, food processing, and pharmaceutical sectors[16].

Other SEA CFOs may also want to use M&A to acquire disruptive companies at the edge of their existing businesses and use those as the springboard to launch new offerings that will shape their sectors in the future.

For example, under-the-radar picks could also include productivity and technology platforms, including remote working and online edtech applications, with their usage rates soaring during the pandemic. Digital health care platforms, focusing on the health-tech areas of online pharmacies and telemedicine, have also seen a surge in investor interest[17].

Seizing pockets of opportunity

In the midst of COVID-19, several investors have already identified investment opportunities to bet on the trends that they foresee will take off in the new normal. Two such examples include:

- **The acquisition of Anytime Fitness by a consortium**
  With the expectation that the COVID-19 pandemic has made people more acutely aware of the importance of their health and well-being, Inspire Brands Asia recently acquired the master franchise for Hong Kong, Taiwan, Macau, Singapore and the rest of SEA where Anytime Fitness has more than 250 gyms. The consortium, composed of top franchisees in the region, Exacta Capital Partners and Aura Group, expects to double its gyms to more than 500 in the next three years, and intends to double down on its virtual business to reach customers who are unable to visit the gym[18].
- **The acquisition of Singapore-based digital lender AsiaKredit by FinTech start-up GoBear**
  With economic growth in developing countries set to decline sharply in 2020 due to the impact of COVID-19, GoBear expects that providing consumers with access to credit will become increasingly important to its business. Through the acquisition of AsiaKredit, GoBear hopes to acquire sophisticated data-driven underwriting and collections capabilities that will in turn provide it with end-to-end digital lending capabilities[19].

> In line with Olam's multi-year plan to invest in our key growth areas, we have divided our portfolio of diverse products into two new operating businesses. This move will enable us to explore potential carve-outs and IPOs in a sequential manner, and attract additional investors who are aligned with the vision of these two new groups and to maximise the returns to the shareholders of Olam.

N. Muthukumar

Group CFO, Olam International

The CFO To Do List

Building relationships will require overcoming virtual barriers

CFOs must make a conscious effort to “read” the virtual room, so that information and touchpoints are better tailored to address individual needs, expectations, and circumstances.

Broadening due diligence

In response to COVID-19, acquirers may want to take more time and focus on areas where vulnerabilities have been exposed. Such hotspots include supply chains, IT infrastructure, cyber security effectiveness, and relevant clauses in contracts. Diligence should also expand to include integration options, a critical consideration given the systemic changes occurring. The underlying capabilities of a target asset, for example, may not align with the strategic opportunity of the deal thesis – which should be uncovered during the due diligence process.

Accelerating digital tool adoption

We expect an increase in the information that vendors share digitally in the new deal environment with usage of technology. This poses a greater opportunity to identify pockets of opportunity and risk through the overlay of existing benchmarks and other aligned data lakes. Effective and consistent use of analytics and AI can also help companies transform their post-deal value-creation programs by making better decisions when the stakes are high, time frames are compressed, and social distancing continues.

Forecasting with the new math

Given the one-two punch of the pandemic and recession, historical financial data cannot be used for forecasting purposes. CFOs should take a flexible approach to forecasting scenarios on a range of pandemic or recession durations to better understand their options and reassign probabilities.

Closings may be hindered by unforeseen circumstances

The complexity of the closing process has only increased with travel disruptions and closed offices. Given all the approvals required, the logistical challenges alone can fuel delays. As always, be ready with contingency plans.

Making the next move

As we progress through the crisis, SEA CFOs must recognise and reinforce critical shifts from a "today" to a "tomorrow" mind-set for their teams. They should embrace playing the growing roles as Strategists and Catalysts in their organisation – to formulate critical judgements of how major COVID-19-related market and societal shifts have caused substantial uncertainties that need to be navigated and seize them as an opportunity to grow and change.

Given the uncertainties, it is important that SEA CFOs consider the following;

- Perform scenario planning across a range of plausible futures of differing depth and duration, and from worst case to best case
- Re-examine at their talent, operations, suppliers, customers, and other key stakeholders, and consider the possibility that COVID-19 could persist for an extended period and cascade to create other risks
- Reimagine and scale digital capabilities across the organisation to reap cost efficiencies, improve productivity and agility, and prepare for future business model transformation
- Explore different concepts and models of work, workforce, and workplace for greater organisational agility, while ensuring that the talent are equipped with the necessary digital tools and skillsets that they require to perform in the new normal

Fundamentally, there will be no return to business as usual. In fact, it may be quite the opposite. But amidst all the changes, one thing will always remain constant: CFOs in organisations with relatively stronger balance sheets and cash reserves are likely to be better positioned to seize opportunities to innovate and pursue opportunistic acquisition opportunities to outdistance their competitors, and grow more quickly in the ensuing recovery.

About the SEA CFO Program

Leading with Confidence

CFOs are increasingly challenged to lead the organisation to adapt strategically to market changes we face today. Deloitte's SEA CFO Program brings bold, relevant offerings with forward thinking insights for every stage of a CFO's career to help them drive business impact and lead with confidence into tomorrow.

To learn more on our program offerings, please visit our website or email us at: cfoprogramsea@deloitte.com

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