



Insights from the CFO Survey

Transport, Logistics,
Hotel and Leisure Sector

8 June 2022

Transport, Logistics, Hotel
and Leisure Sector
KPMG in Japan



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Executive Summary



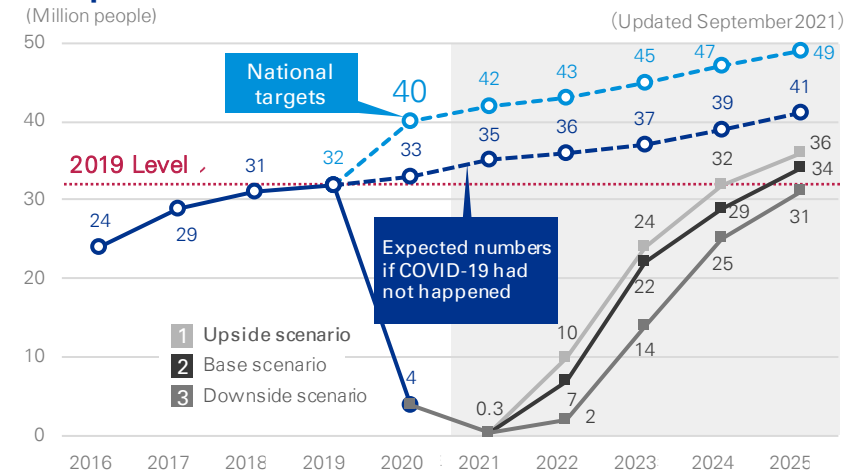
Takeshi Kurata
Head of Transport, Logistics,
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KPMG in Japan

The key to achieving competitive advantage: moving forward from the wait-and-see approach to taking a lead in SX measures

The transport, logistics, hotel and leisure sector has suffered some of the biggest blows of COVID-19. Especially in transport and leisure, inbound demand that drove growth has evaporated, and with remote working becoming the new norm, it is difficult to expect a recovery in demand. Many industries in this sector require large capital investments, and a finance strategy for business continuity is imperative.

CFOs responding that corporate strategy is a role for which they are currently responsible was 14 percent lower than the overall response, while finance strategy was 15 percent higher as a role which will become more important in the future. Meanwhile, performance improved for some companies in the logistics subsector driven by stay-at-home demand, indicating a clear divide between industries in this sector.

Analysis of COVID-19 impact on number of foreign visitors to Japan



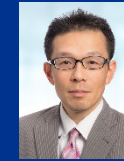
Notes: (a) The number of foreign visitors to Japan reflects actual figures up to May 2021 and estimated figures for June and July 2021.

(b) National targets are annual targets based on the calendar year.

(c) As entry restrictions, approximately 1,000 visitors per day were allowed entry into Japan for commercial purposes from four countries including Thailand from July to September 2020, and from additional countries including China and South Korea from September 2020 onward. Border measures continued to apply for all other countries. From October 2020, entry restrictions were eased for commercial visitors and study-abroad students from all countries. However, the entry of new foreign nationals has been suspended since January 2021 until the state of emergency is lifted, and as of September 2021, it is unclear when restrictions will be eased.

Source: KPMG analysis based on IATA "Air Passenger Forecasts April 2021 Country Report - Japan" and JNTO's data on the number of visitors to Japan.

Executive Summary



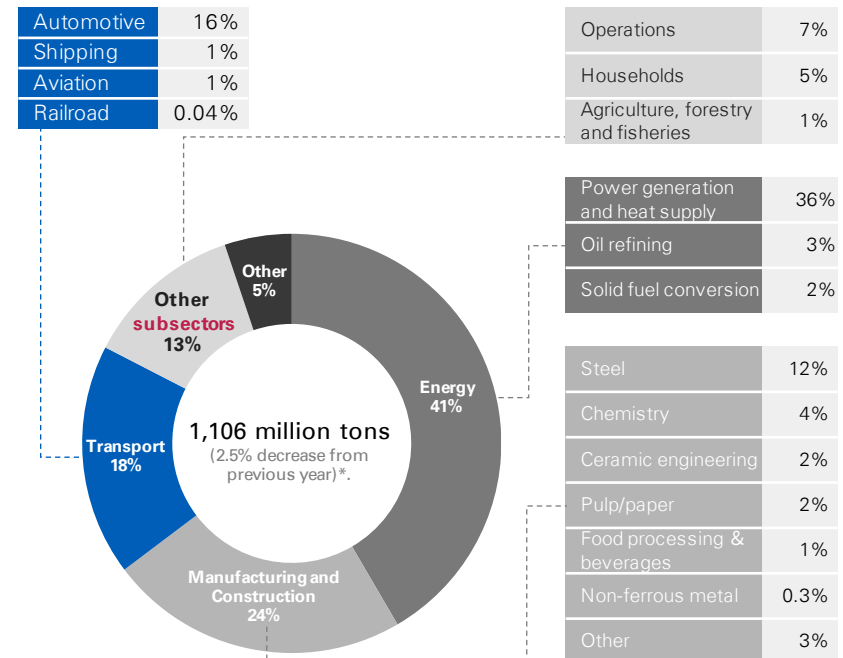
Takeshi Kurata
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The key to achieving competitive advantage: moving forward from the wait-and-see approach to taking a lead in SX measures

Compared to the average of all industries, a “wait-and-see” approach appears to be more prevalent with regard to addressing SX, a topic that is rapidly attracting attention. This applies to the positioning of SX as a management agenda, and to the implementation of specific SX initiatives and tax measures. We believe this is attributable to the fact that the sector focus is on strengthening financials, an issue at hand due to uncertainty regarding the return of demand, in addition to the fact that the portion of the country’s total CO2 emissions for this sector is smaller compared to energy and manufacturing industries, and companies in this sector are more on the side of “using energy” rather than “emitting CO2.” While the transport subsector accounts for 18% of Japan’s total CO2 emissions, most emissions are from the automotive industry. In addition, the electrification of railroad operations in particular has progressed, making the percentage of emissions from railway operations negligible.

However, as demand for clean energy increases in the future, we can expect securing supply at estimated prices to become challenging due to soaring carbon taxes and other factors. The key to maintaining a competitive advantage in the industry will be to keep a close eye on the trends of companies taking a lead, and to implement effective business strategies ahead of competitors.

CO2 Emission by Industry (2019)



Source: Prepared by KPMG based on National Greenhouse Gas Inventory Report of Japan 2021, Center for Global Environmental Research, National Institute for Environmental Studies

*Total CO2 emissions excluding LULUCF (land use, land use change, and forestry)

Executive Summary



Takeshi Kurata
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The key to social activities as a new initiative: securing profitability

The COVID-19 pandemic has not only impacted businesses. It has also changed the way people work, and with remote working becoming more common, more people are now moving from the city center to the suburbs of Tokyo, or further to the countryside. To address this new trend, many companies, including those in the transport and logistics industries, are implementing initiatives that combine new mobility and new ways of working with social activities such as regional revitalization, SDGs, and decarbonization.

Given the boost by the government for initiatives relating to these social activities, more than 1,000 companies are involved in smart city projects promoted by the Cabinet Office, the Ministry of Internal Affairs and Communications (MIC), the Ministry of Economy, Trade and Industry (METI), and the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

Through such new endeavors, companies aim to pursue new sources of revenue while addressing environmental changes. However, most companies have yet to establish these initiatives as pillars of revenue, and finding a good balance between profitability and social responsibility will be a major challenge for them in the future.

Smart City projects in Japan

	Companies participating in consortiums	Companies participating in government-sponsored experiments
Lists subject to the survey	List of consortiums and councils participating in the Smart City Public-Private Partnership Platform (LINK)	Project lists summarized on the Smart City Public-Private Partnership Platform (LINK)
Cases listed	88 Organizations	182 Projects
Number of companies	1,160 Companies (Companies belonging to 57 of the 88 organizations with websites)	753 Companies (126 of 182 projects with information about participating businesses subject to this survey)

*Survey subjects: "Future technology societal implementation project" by the Cabinet Office, "Project to promote smart cities of data utilization and application" by the MIC, "Local demonstration project for new mobility services utilizing self-driving vehicles" by the METI, and "Smart City model project" and "Project for the promotion of new mobility services" by the MLIT.



01

Business Strategy

Urgent need to address sustainability issues



As sustainability-related issues that may have a major impact on business strategy, companies citing **carbon tax which may impact income and expenditure (★1)** was 16% higher for this sector than overall responses, while the **ESG investment which may impact corporate funding (★2)** was 14% higher.



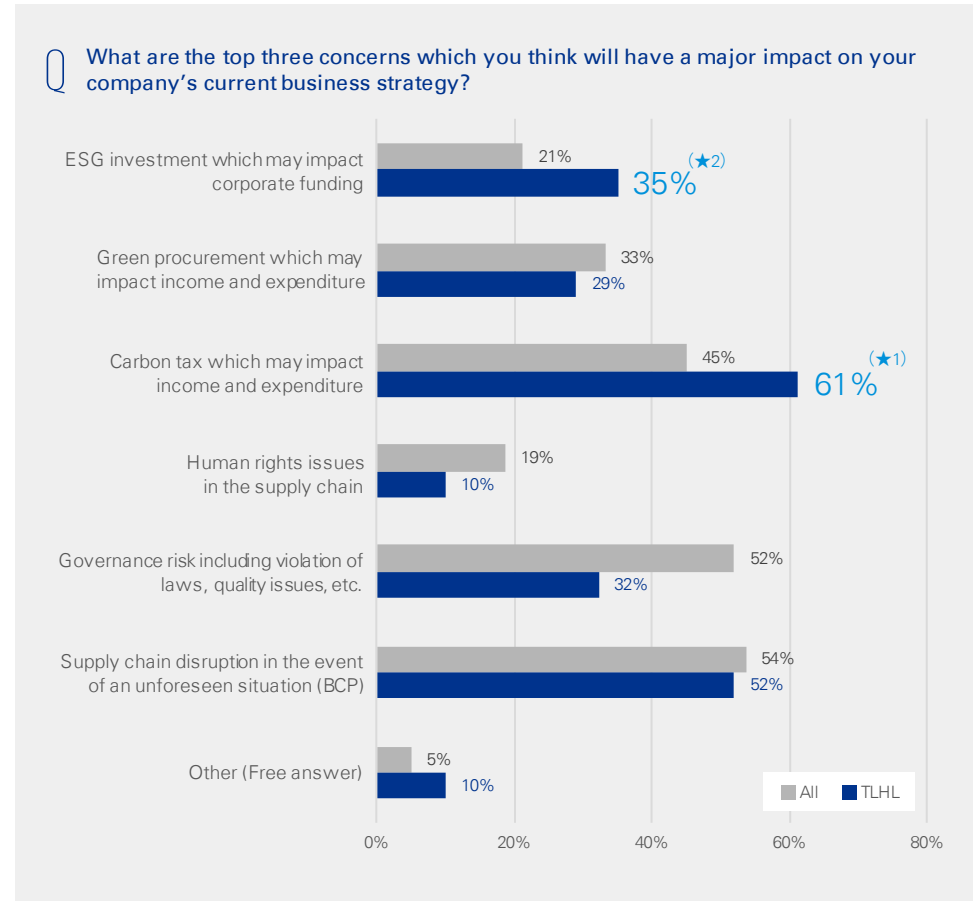
In particular, all logistics companies in this sector that responded to this survey, regardless of size, consider “arbon tax which may impact income and expenditure” to be an important issue.



Many logistics companies have already been promoting green logistics that are environmentally friendly, such as the reduction of CO₂ emissions in logistics operations. The visualization of loading ratio, fuel consumption, and mileage will be an important factor for the promotion of green logistics. DX investment is also expected to increase.



The demands for logistics companies to reduce CO₂ emissions is expected to intensify in line with the increasing focus on sustainability issues. The speed and scale of specific initiatives will therefore become important. Such initiatives include a modal shift, where the means of transport is changed from trucks and cargo planes to freight trains and cargo ships, conversion of trucks to EV and FCV vehicles, and joint logistics for reducing mileage.



All: All Sectors
 TLHL : Transport, Logistics, Hotel and Leisure Sector



01

Business Strategy

Addressing BCP also urgent as a sector with key role in social infrastructure



Supply chain disruption in the event of an unforeseen situation (BCP) (★3) was also high for this sector as for the overall result, after carbon tax and ESG-related responses mentioned in the previous slide.



We can infer that while supply chain disruptions will have an impact as in the other sectors, companies in this sector are particularly conscious of their role as social infrastructure that supports the movement of people and goods.



This is a reflection of their strong social responsibility to continue to function as social infrastructure in the event of large-scale natural disasters, which have been increasing in frequency in recent years, or in the wake of pandemics such as COVID-19.



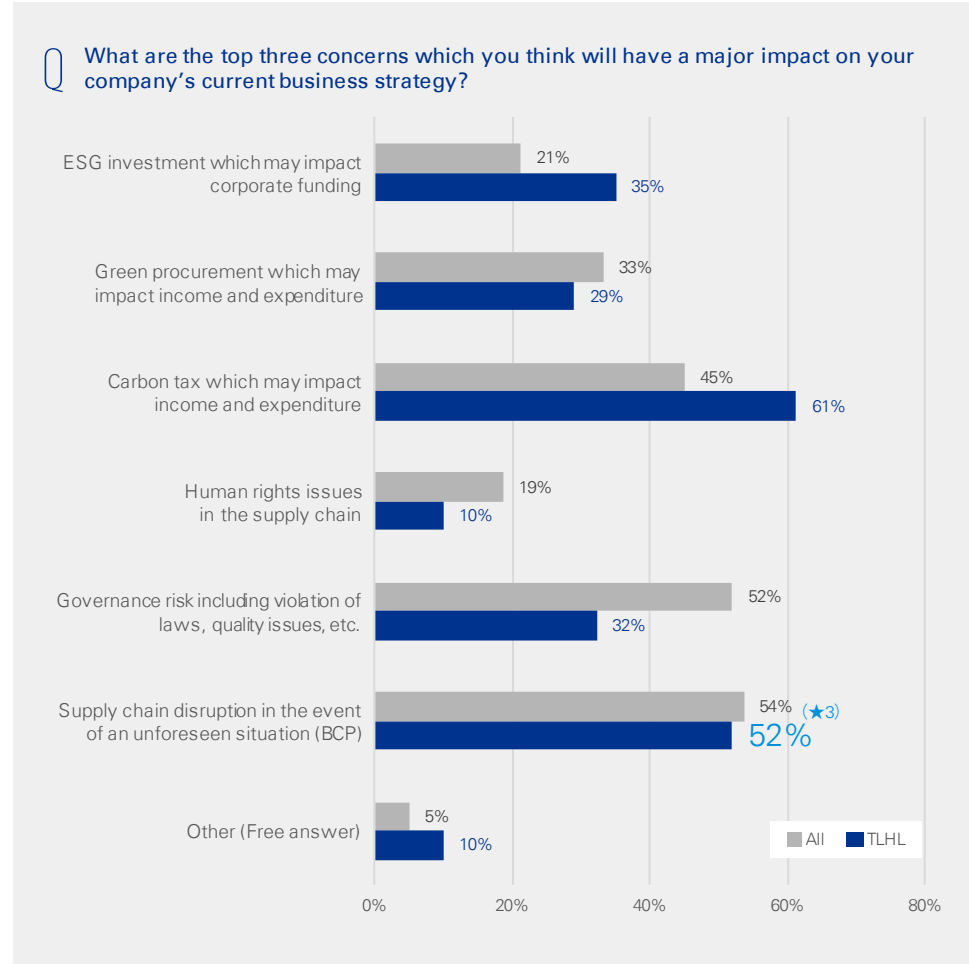
For the railroad and other businesses, an interruption of the service network (or the track itself in the case of the railroad business) in the event of a major natural disaster such as a big earthquake, flood, or heavy rainfall would not only result in a disruption of business income, but also in the loss of the function of society as a whole, and various initiatives have been implemented with this in mind.



For example, in recent years, some companies have disclosed hazard maps of their railroad lines that incorporate the risk of flooding during heavy rainfall and specific business continuity risks.



In the future, companies in this sector will be required to proceed further with current initiatives, while developing multiple scenarios regarding the frequency and magnitude of major disasters caused by global warming and disclosing them as business continuity risks in response to TCFD recommendations. They will further be required to develop and disclose strategies that include investment in railroad and rolling stock asset maintenance and securing personnel for managing operations in the wake of a pandemic.





02

Investment Strategy and Corporate Funding

Employee health and well-being key to enhancing corporate value (1)



Most companies selected **diversity (★1)** and **human capital management (★1)** as sustainability issues that will greatly impact corporate value.



On the other hand, there were **no companies indicating plans to actively increase investment in human resources** as a future SX-related investment (★2). This contrasts with the overall trend for all sectors, where the majority of companies indicated that they plan to increase investments in human resources. We can infer that this result is due to the severe impact that the COVID-19 pandemic has had on performance and employment for hotel, tourism and leisure companies, where human resources are key assets for providing personalized services. While CFOs acknowledge the importance of human resource investments, they likely do not have the leeway at present to be making decisions regarding SX-related investments.

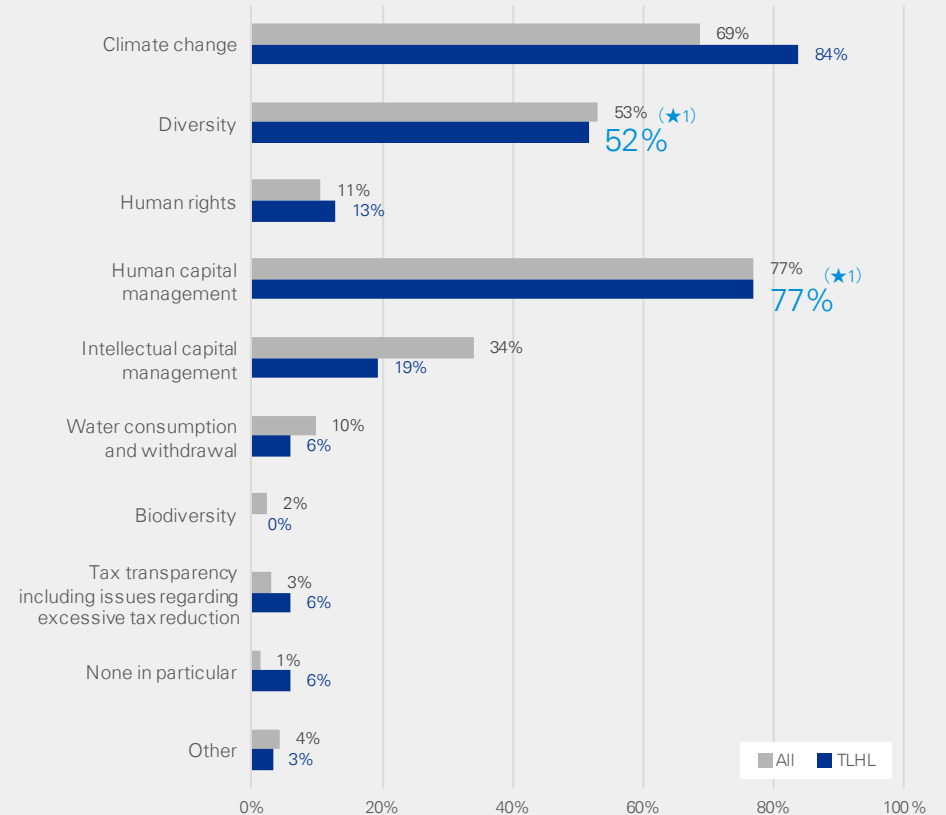


According to a survey conducted by KPMG on the hotel industry in September 2020, the outbreak of COVID-19 has led to changes in employees and employment, and if anything, an efficiency-oriented HR and human resource strategy is expected to continue. While the working environment and perceptions of the industry have undoubtedly changed compared to the past, it can be said that it is increasingly important to take care of employees who deal directly with guests.



In the wake of the COVID-19 pandemic, many companies in this sector are grappling with rebuilding their business foundation and financial position, while focusing on DX-related investments designed to reduce labor and improve operational efficiency. However, investing in human resources with the health and well-being of employees in mind is essential for achieving sustainable corporate value over the medium to long term, while also making various SX-related investments.

Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



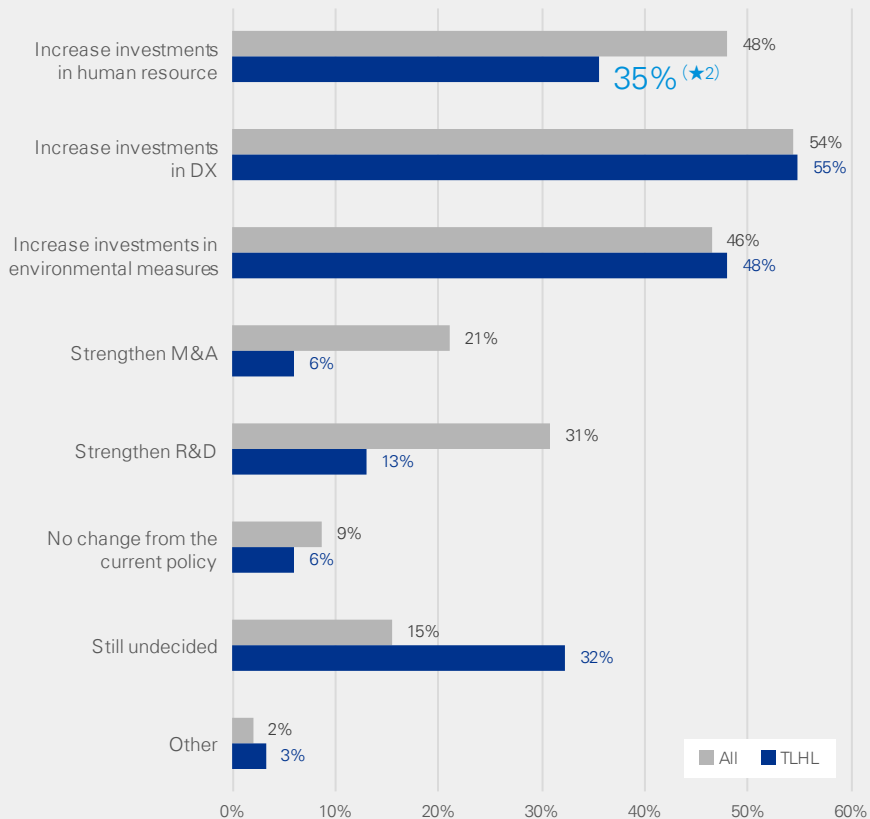


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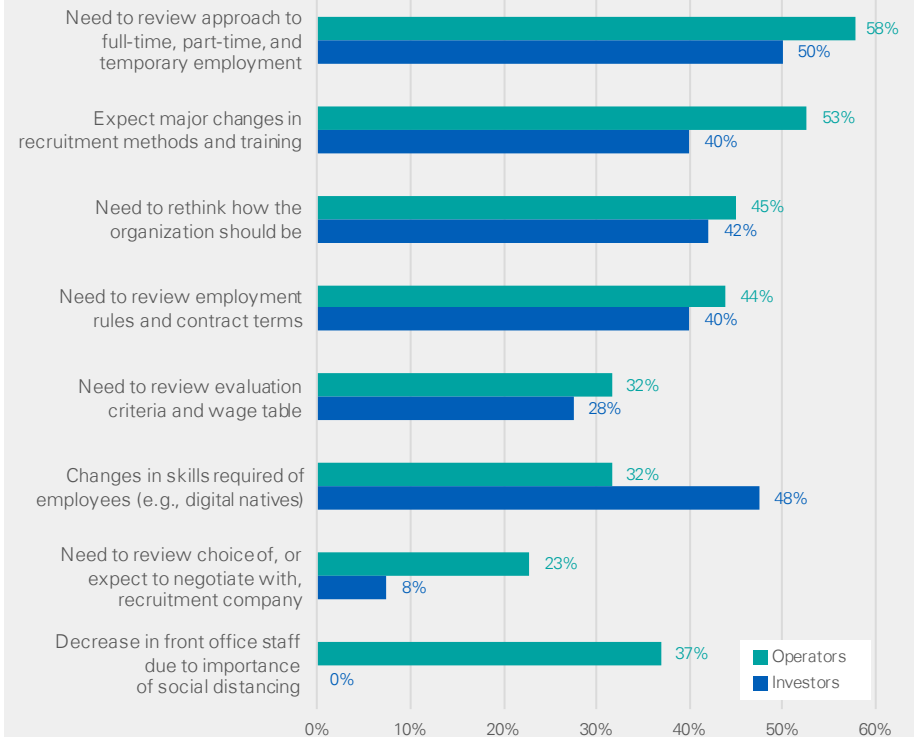
Investment Strategy and Corporate Funding

Employee health and well-being key to enhancing corporate value (2)

Q How will you change your investment strategy in promoting SX?
Please select up to three answers.



Changes in employees and employment (Multiple answers, N=116)



Note: Questionnaire survey conducted with parties involved in the accommodation business (operators and investors) regarding the impact of COVID-19 on the business.

Source: KPMG FAS "Accommodation market outlook in the era of living with COVID-19" (September 2020)



03

Governance and Risk Management

Addressing sustainability for governance, and integrating risk management and addressing sustainability are challenges (1)

45% and 32% of CFOs in this sector cited addressing **diversity and sustainability, respectively, as challenges that need to be addressed in line with the revised Corporate Governance Code (★1).**

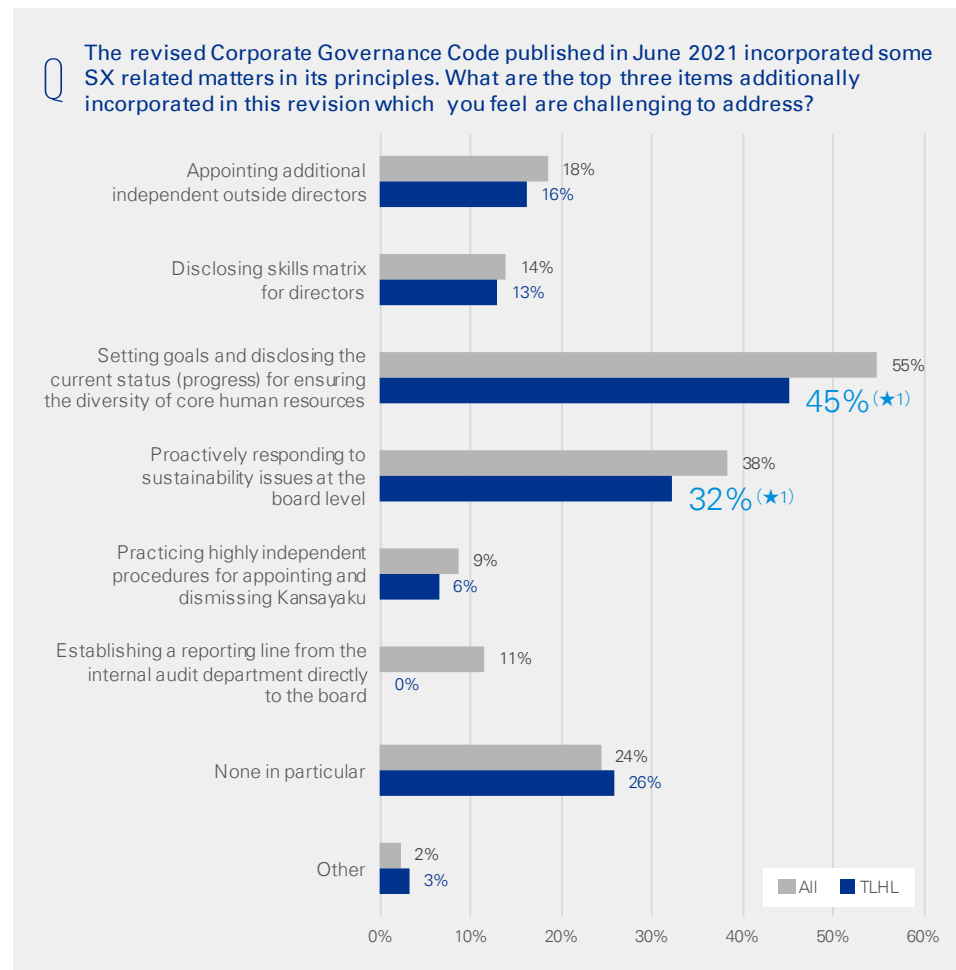
Meanwhile, companies **recognize addressing disclosures related to climate change (42%) as a challenge when transitioning to the Prime Market (★2).** As shown on the next page, from the viewpoint of risk management, companies recognize **the need for the integration of sustainability management and risk management (52%) and addressing new sustainability-related risks (42%) (★3).**

In the logistics sector, the shipping industry is facing a variety of environmental regulations that are becoming more stringent. In order to comply with these regulations, shipping companies need to review their fleet portfolios from a long-term perspective.

In the EU, policies for addressing climate change are being developed in the shipping industry, such as the provision introduced in May 2019 for renewable energy to account for at least 14% of final energy consumption in the transport sector by 2030.

Financial institutions are beginning to incorporate initiatives relating to climate change into their ship financing decision-making. The introduction of new vessels with low GHG emissions is expected to accelerate when existing vessels are replaced by shipping companies.

Japanese shipping and shipbuilding companies are making progress with research on zero-emission electric vessels, hydrogen fuel cell ships, and the use of ammonia as a marine fuel, and are expected to introduce these products for use as soon as possible.



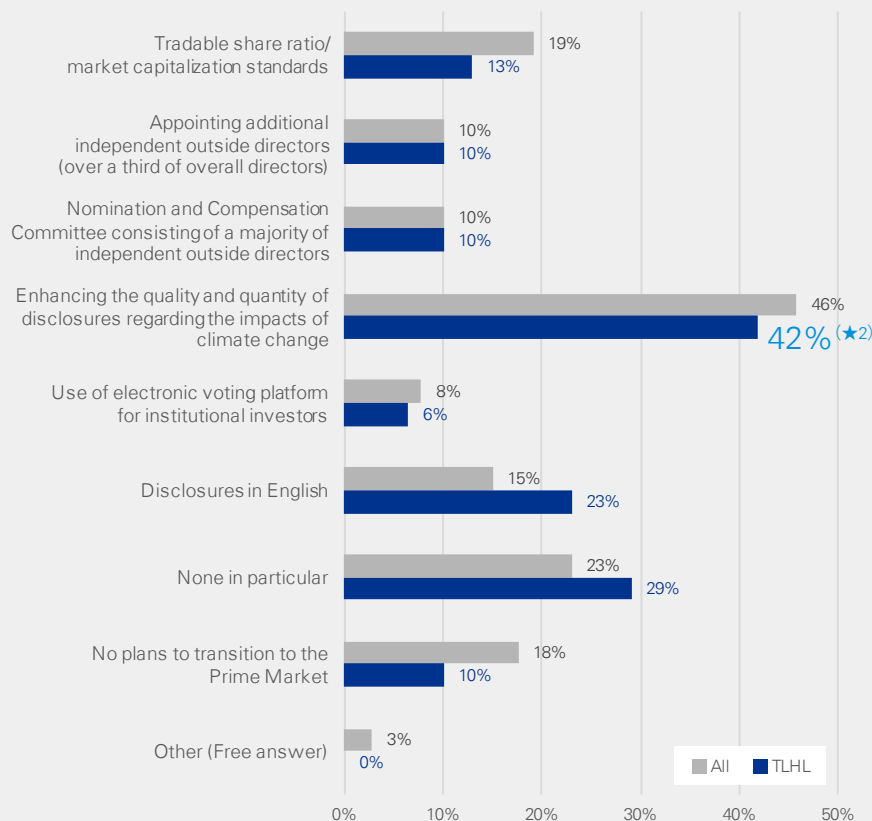


03

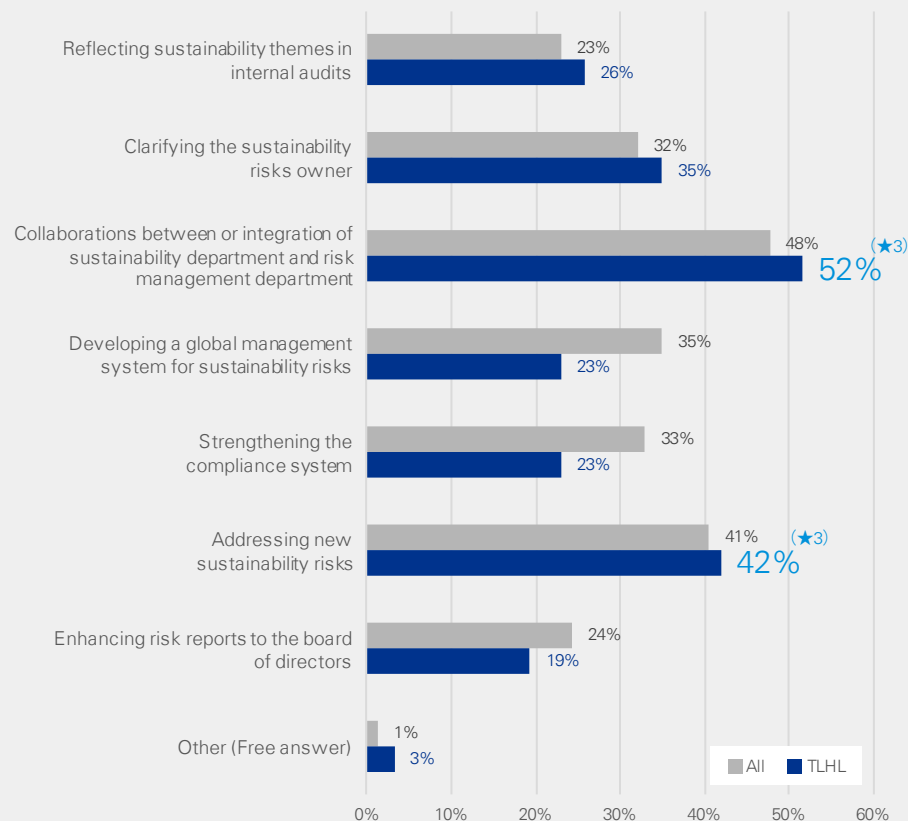
Governance and Risk Management

Addressing sustainability for governance, and integrating risk management and addressing sustainability are challenges (2)

Q What are the top three criteria which you expect to be challenging when transitioning to the Prime Market?



Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?





04

Comprehensive Reporting Including Non-financial Information

Industry-wide decarbonization target (1)



In light of public demands for decarbonization, the air transportation industry is addressing climate change collectively, with the International Civil Aviation Organization (ICAO) beginning discussions on long-term CO2 reduction targets toward 2050.

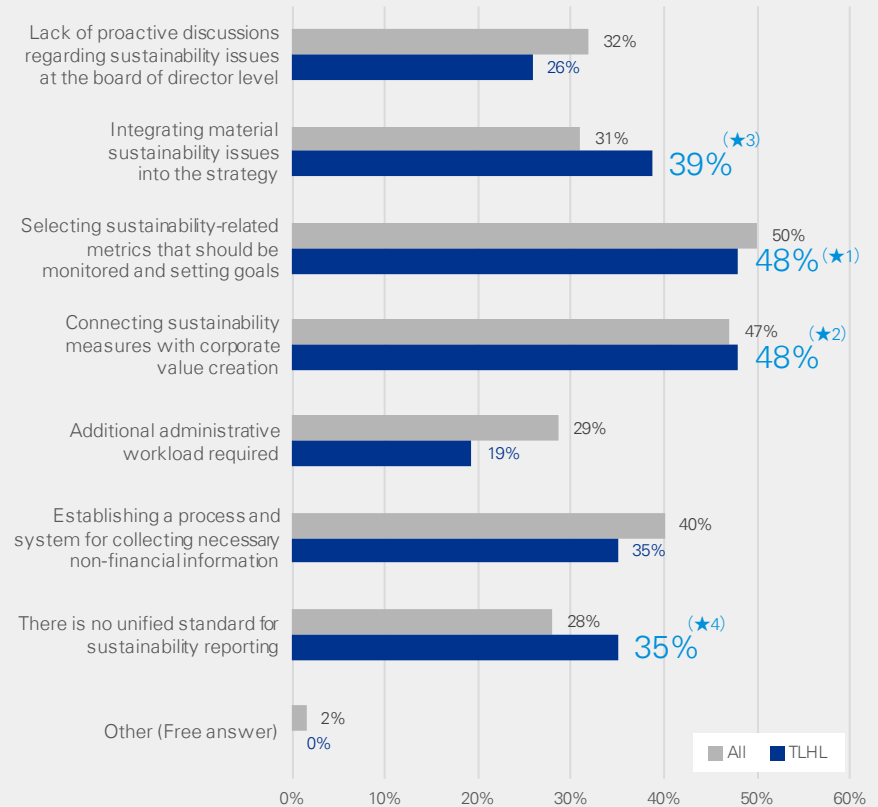


The introduction of fuel-efficient aircraft and the use of SAF (Sustainable Aviation Fuel) are common responses to transition climate change risks cited by Japanese airlines. In addition, industry companies are participating in a study group led by the Japanese government and aiming to strengthen the air transportation industry through public-private sector initiatives, thereby enhancing the corporate value of all Japanese airlines. As part of these initiatives, a specific numerical target of replacing 10% of fuel consumption in 2030 with SAF has been announced. In the future, the industry will be able to interact with stakeholders by incorporating the impact of achieving this target in financial information.



Many companies in this sector also cited [selecting sustainability-related metrics that should be monitored and setting goals \(★1\)](#) and [connecting sustainability measures with corporate value creation \(★2\)](#) as issues, reflecting the challenge of a practical response to the disclosure of quantitative information. On the other hand, a higher percentage of CFOs [cited integrating material sustainability issues into the strategy \(★3\)](#) and [there is no unified standard for sustainability reporting \(★4\)](#) than in other sectors. This reflects the fact that while many companies have a sustainability strategy, few have linked it to their business strategy. This sector has many stakeholders, and most emissions in the sector are Scope 3 emissions for other companies. Therefore, meeting stakeholder expectations by showing how corporate sustainability impacts their business and how it relates to their financial information is a key element of the sustainability strategy of companies in this sector. We believe this is the key to maintaining a competitive advantage in the industry.

Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



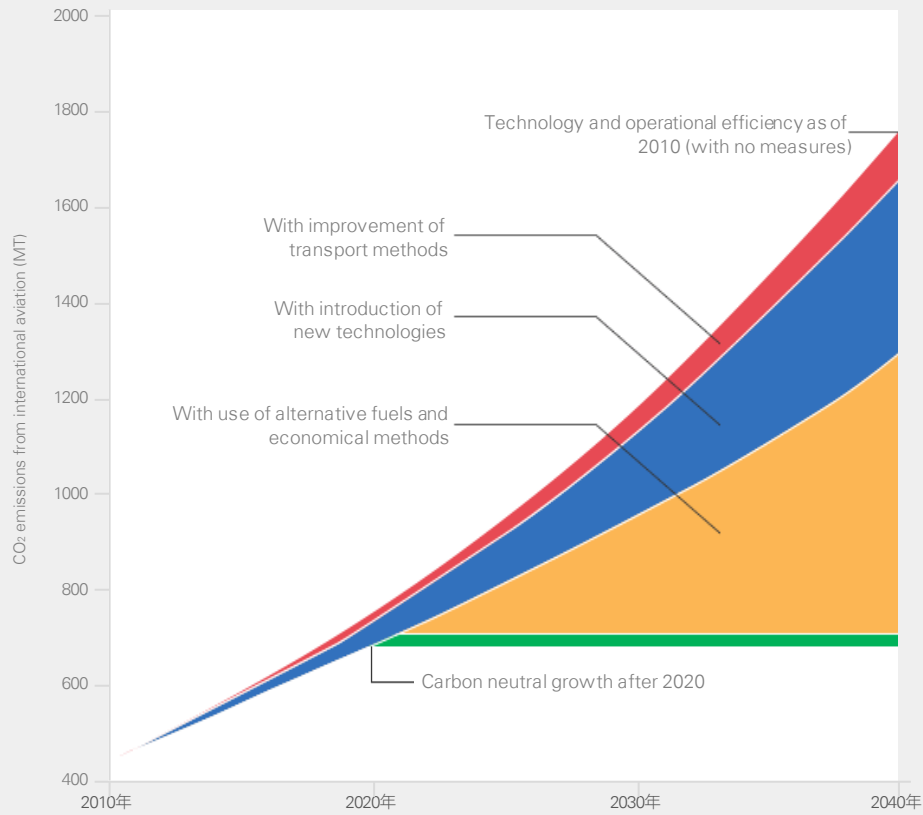


04

Comprehensive Reporting Including Non-financial Information

Industry-wide decarbonization target (2)

CO₂ emissions forecast from international aviation and emission reduction target



Source: ICAO <https://www.icao.int/Meetings/RS2019/Pages/Presentations.aspx>



05

Accounting and Finance

Sustainability-conscious financial strategy a priority (1)



Due to the impacts of COVID-19, remote working becoming more common, and a significant decrease in inbound tourists, a stable source of corporate funding is a management issue for this sector, including the issuance of corporate bonds with a view to gaining financial soundness in the future, **and newly setting and reviewing commitment lines with banks (★1).**

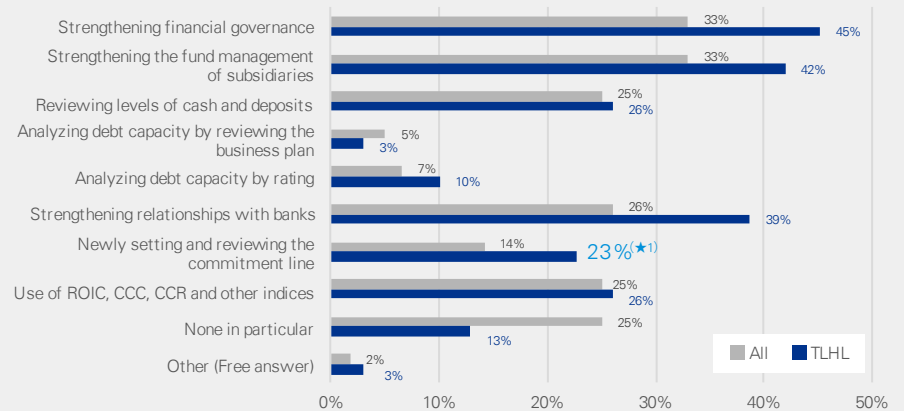


In addition, more companies in this sector **have issued or are considering issuing ESG bonds (★2)** compared to overall results, amid large capital needs such as for fleet improvement and renovation, and safety measures.

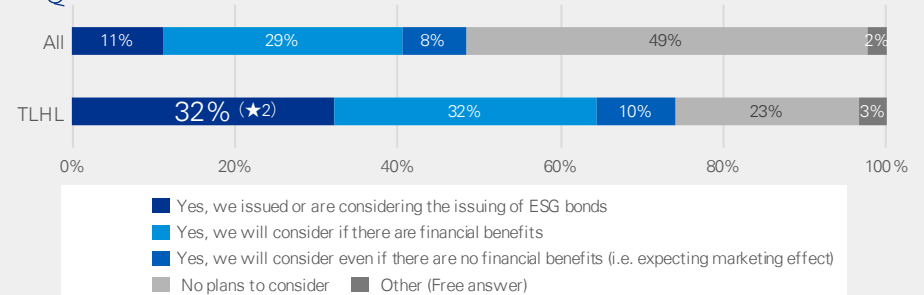


In the railroad industry, an increasing number of companies are expected to issue ESG bonds for building new rolling stock that reduce CO₂ emissions due to lower electricity consumption, renovating existing rolling stock, and introducing buses that use clean energy.

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)



Will you utilize ESG bonds in line with SX?





05

Accounting and Finance

Sustainability-conscious financial strategy a priority (2)

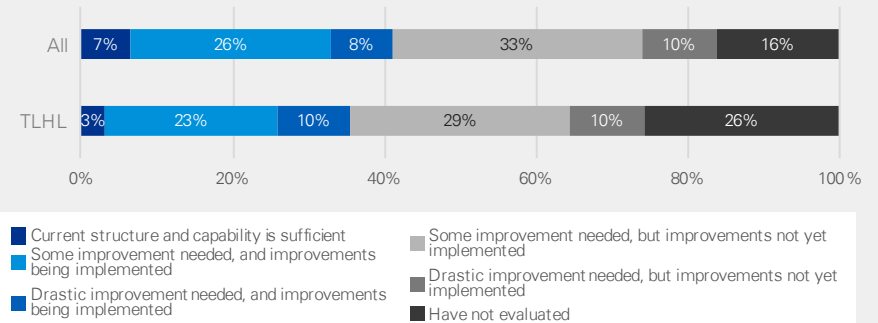


In addition, serious industry-wide initiatives are being considered to address sustainability-related issues, bearing in mind the impacts of enhancing corporate value toward achieving a sustainable society, together with sustainability initiatives by individual companies—focusing particularly on railroad lines—on how investors and other stakeholders will evaluate the industry. However, there appear to be many remaining challenges, including the development of human resources.

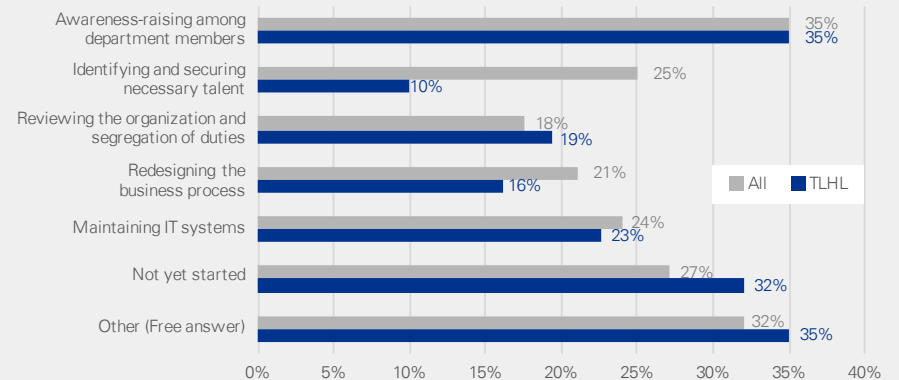


The railroad industry also lags behind compared to other industries in its promotion of DX, with a tendency to view DX as an area concerned with accounting and finance. We believe this is because the industry in many cases still relies on traditional manual work. This means that a transformation of the entire business will be required by applying the latest digital technologies and data to know-how and processes that are dependent on individual human skills amid an intensifying competitive environment in which companies will find themselves making DX an important management strategy in the future.

Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.

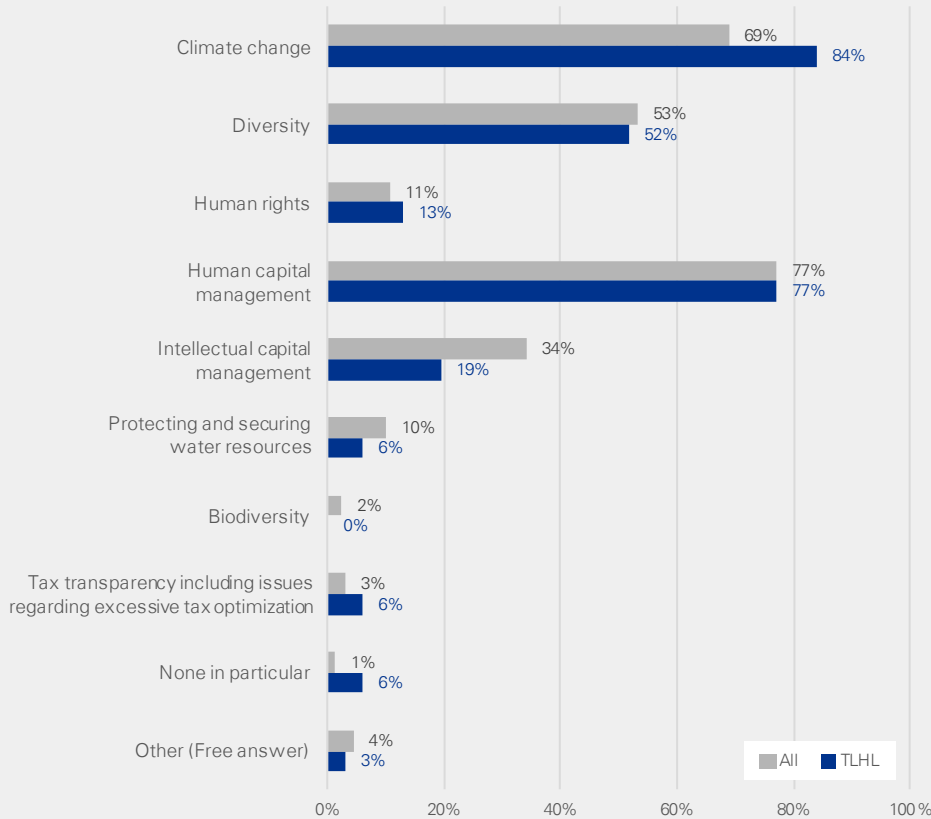




Survey responses

1.Introduction

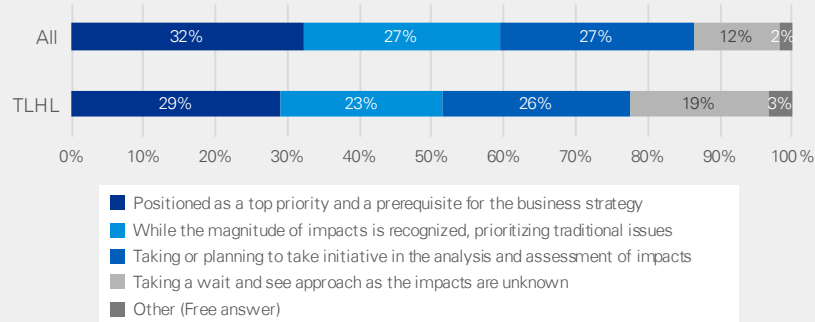
Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



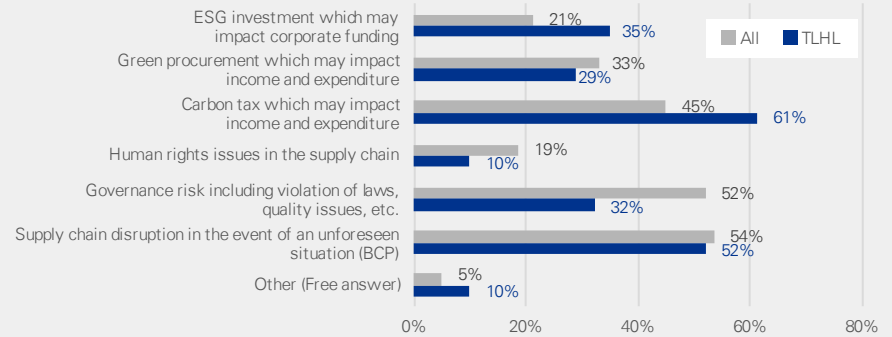
All: All Sectors
TLHL : Transport, Logistics, Hotel and Leisure Sector

2. Business strategy

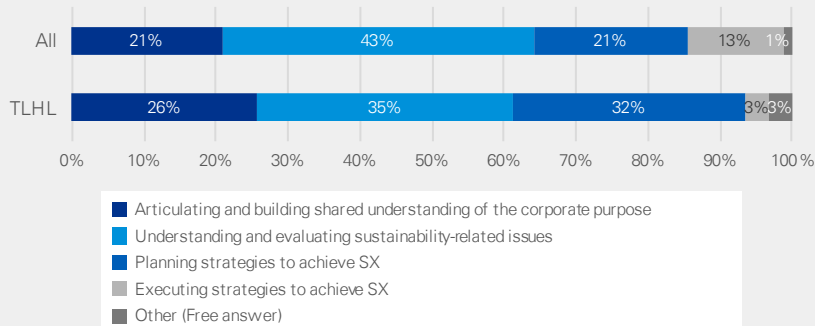
Q Which statement best reflects the positioning of SX within your company's management issues?



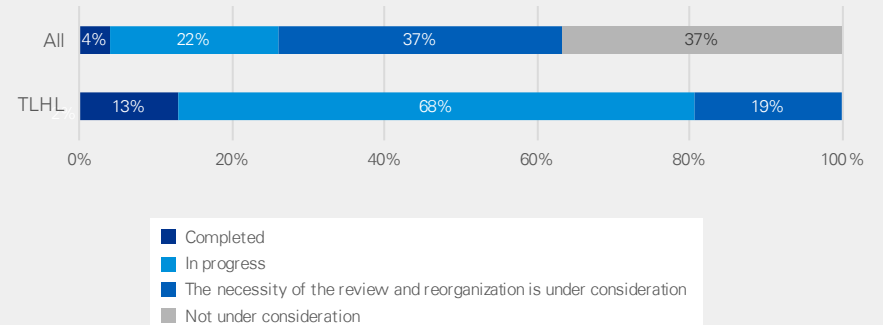
Q What are the top three concerns which you think will have a major impact on your company's current business strategy?



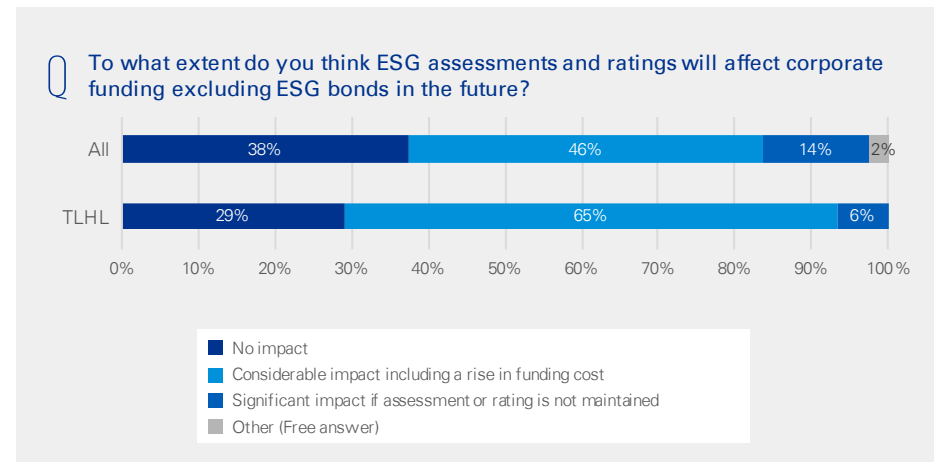
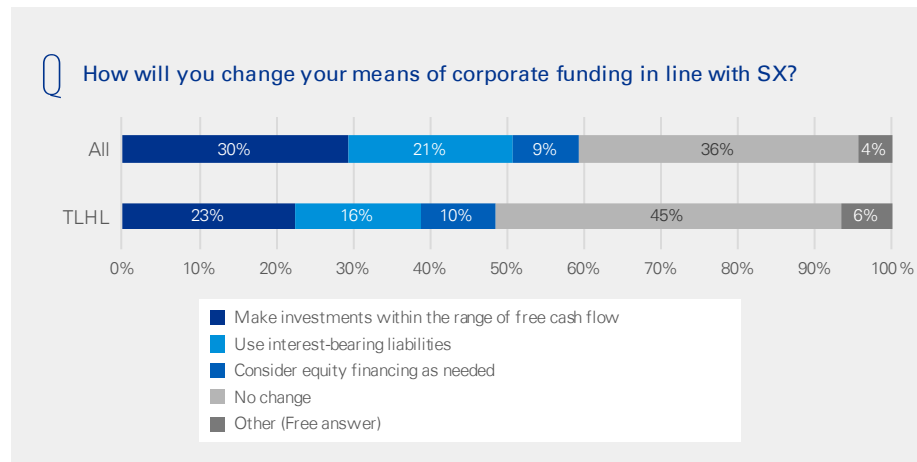
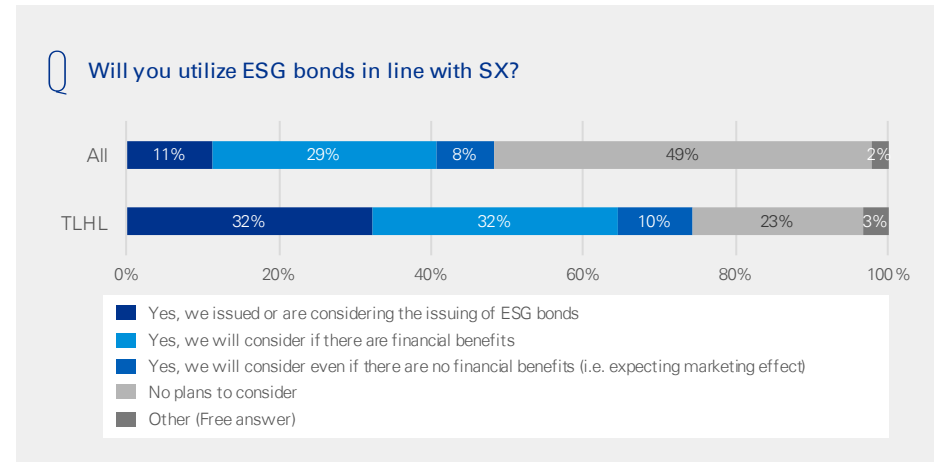
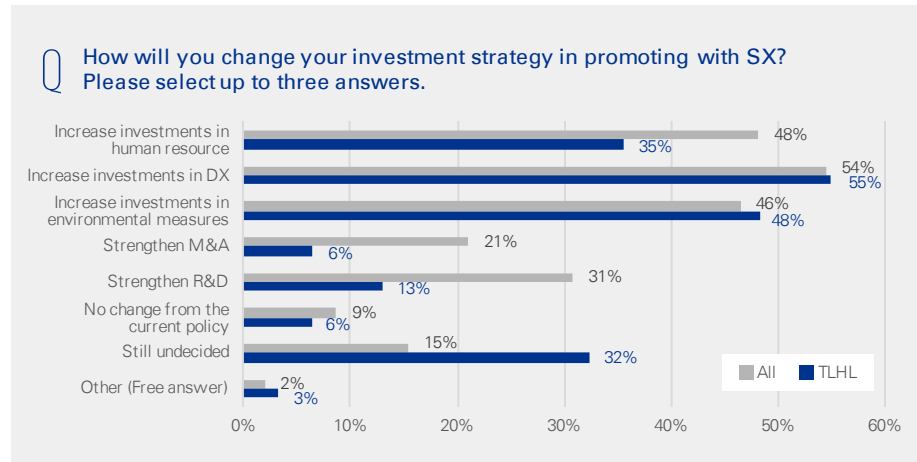
Q What is the most critical issue your company faces in promoting SX?



Q What is the status of reviewing and reorganizing the business portfolio on the premise of SX?

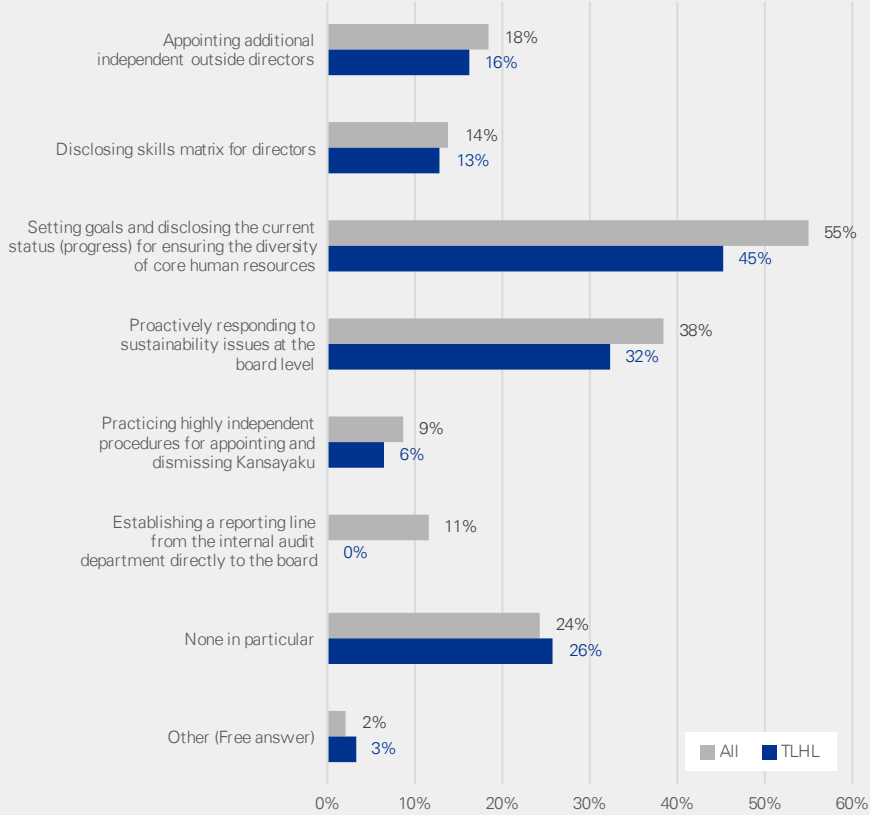


3.Capital policy and corporate funding

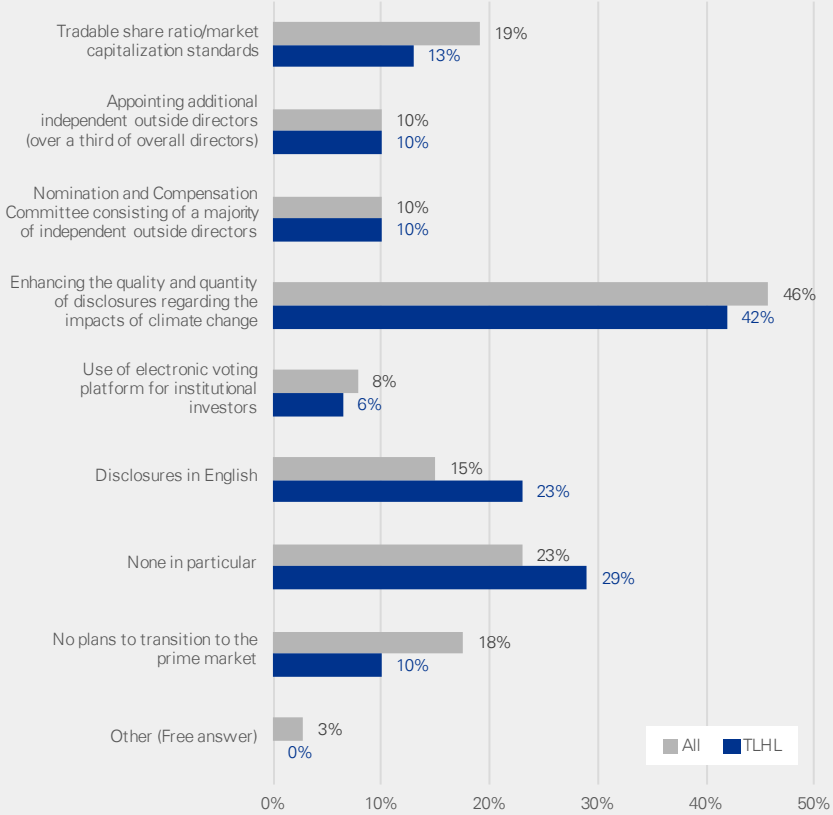


4. Governance

The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

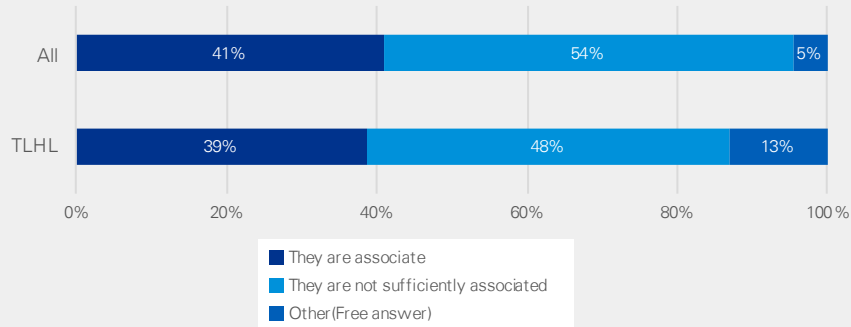


What are the top three criteria which you expect to be challenging when transitioning to the prime market?

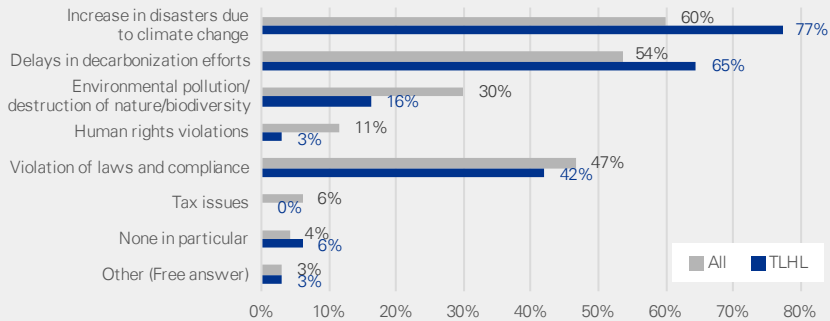


5. Risk management

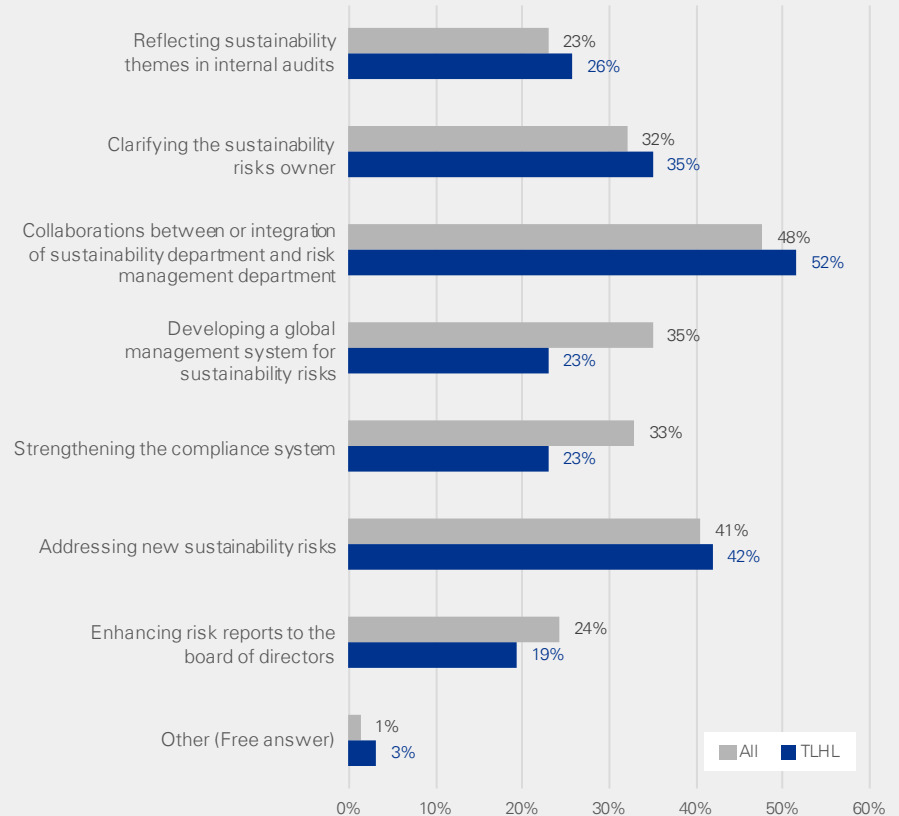
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations?

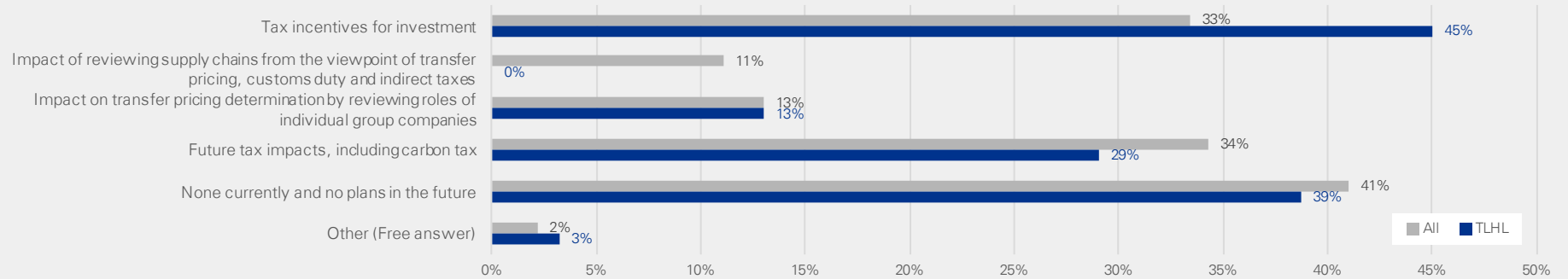


Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?

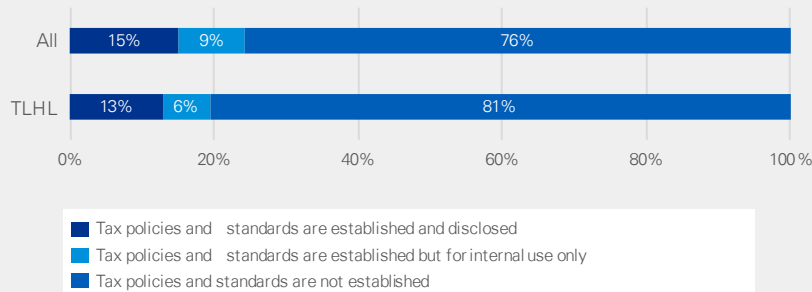


6.Tax

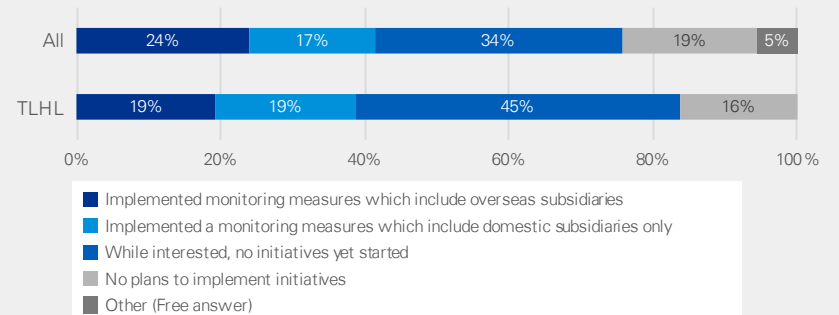
Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

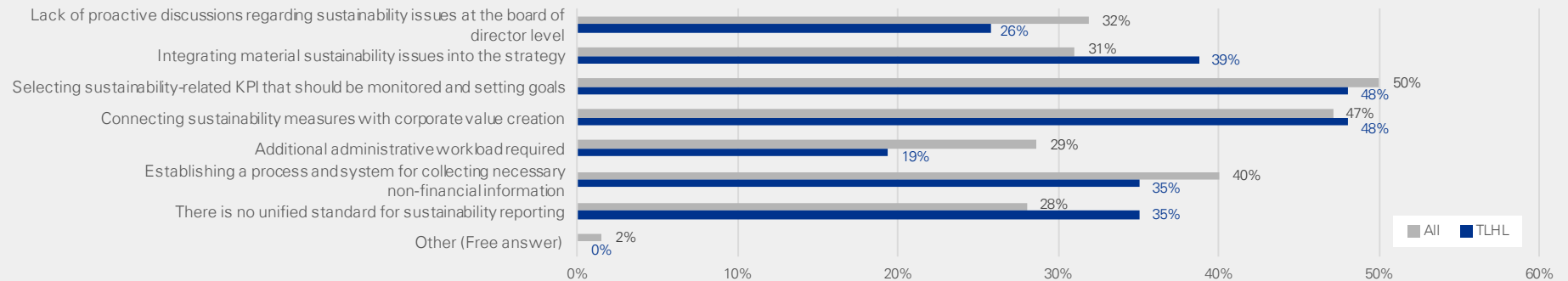


Q Which statement best describes the status of initiatives for visualizing your group companies' tax information?

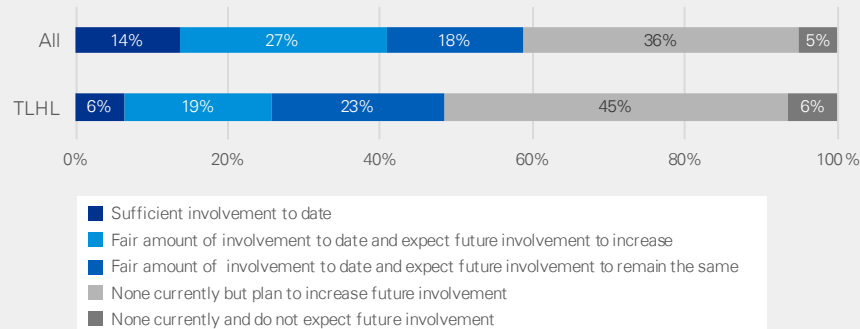


7. Comprehensive corporate report including non-financial information

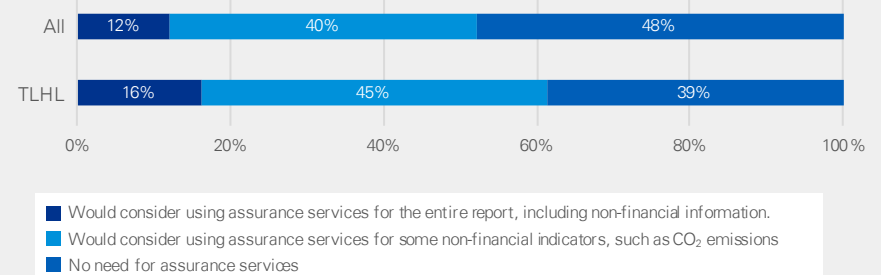
Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What is the current level of involvement of CFO in sustainability reporting?

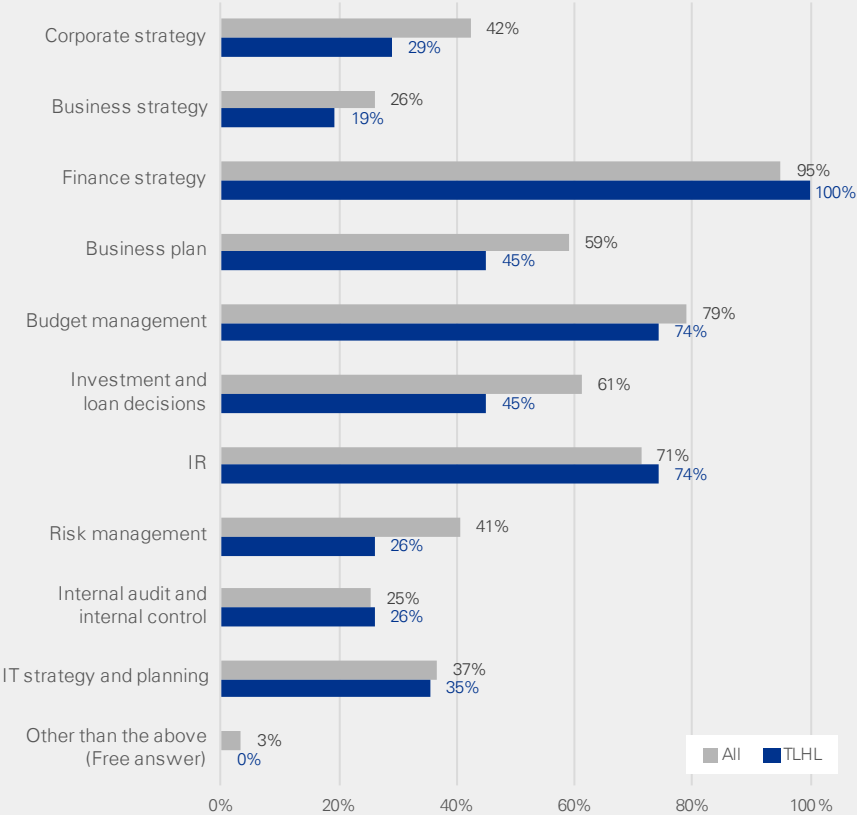


Q In the EU, mandatory requirements for external assurance of corporate sustainability reports have been proposed. What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?

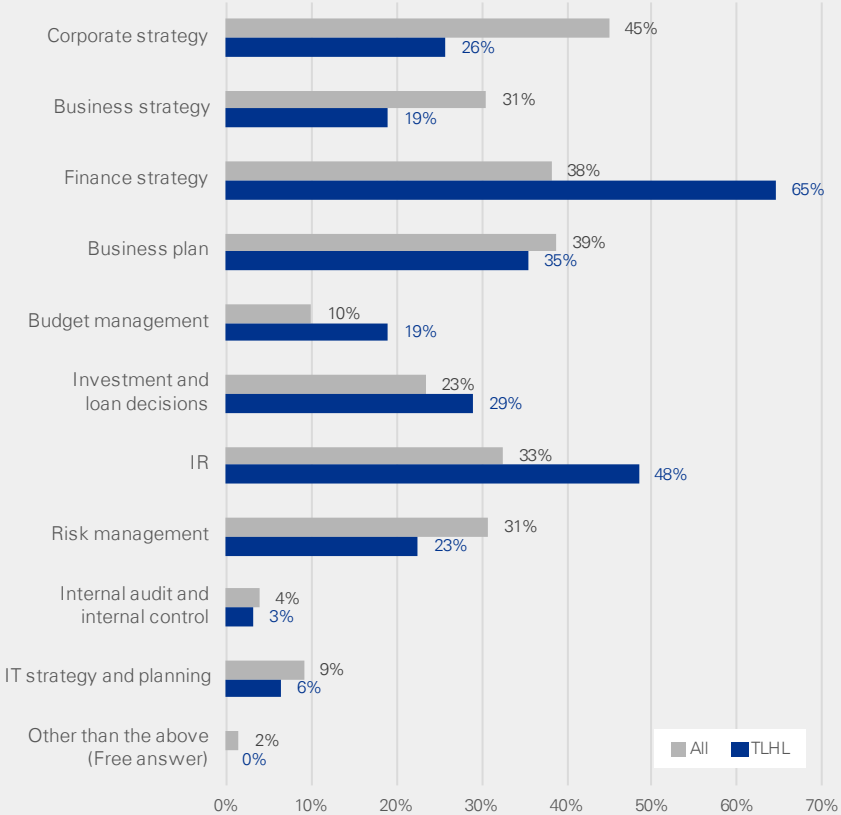


8.Accounting and Finance (1)

Please select all business area for which the CFO is currently responsible. (Multiple choice possible)

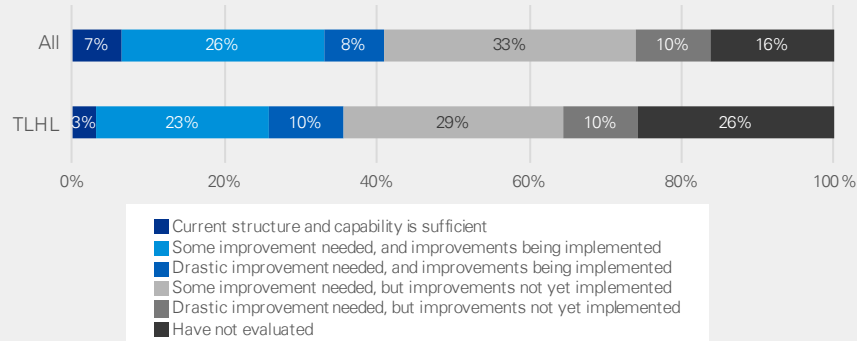


It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

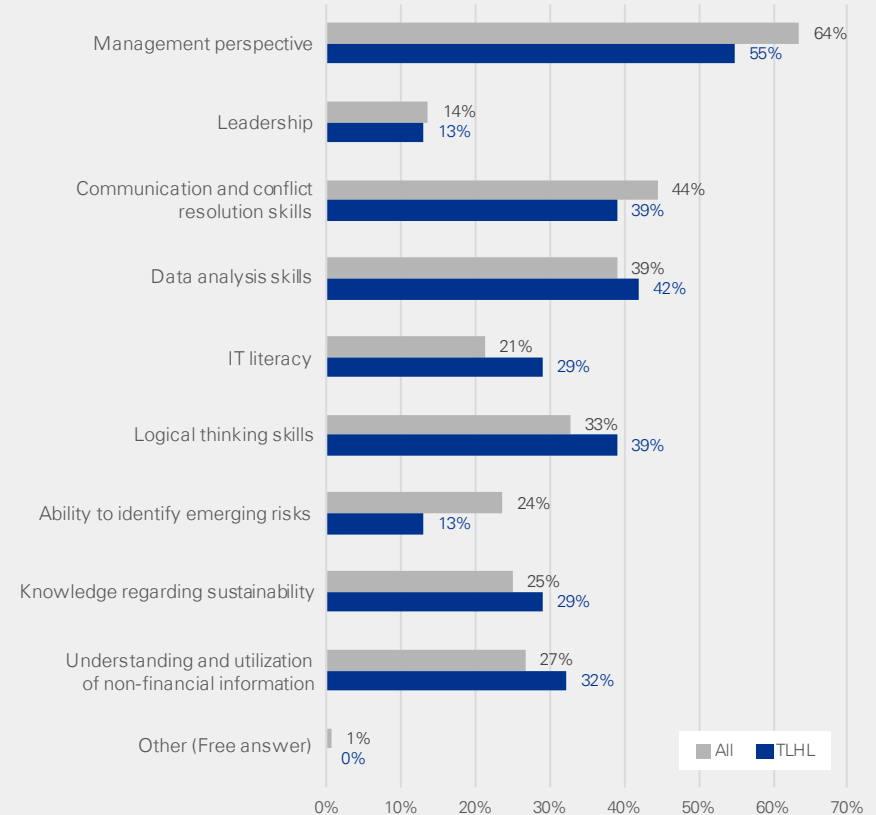


8.Accounting and Finance (2)

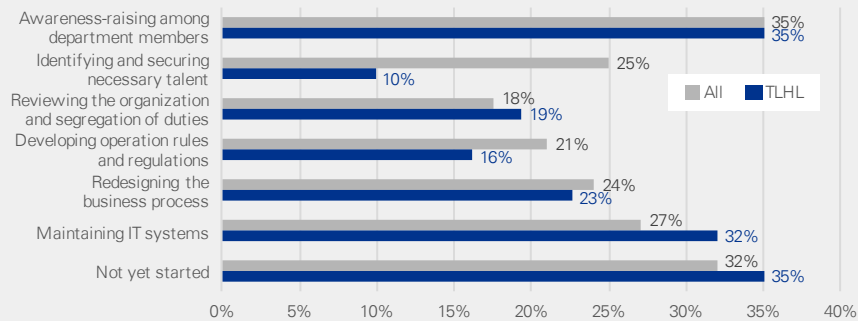
Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.

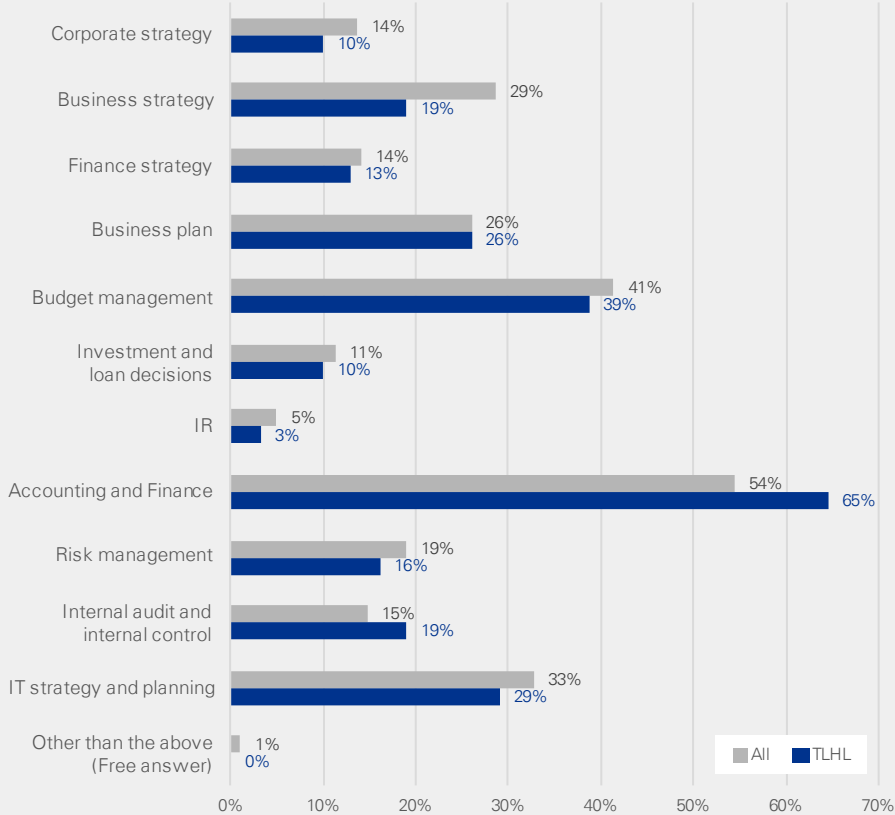


Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.



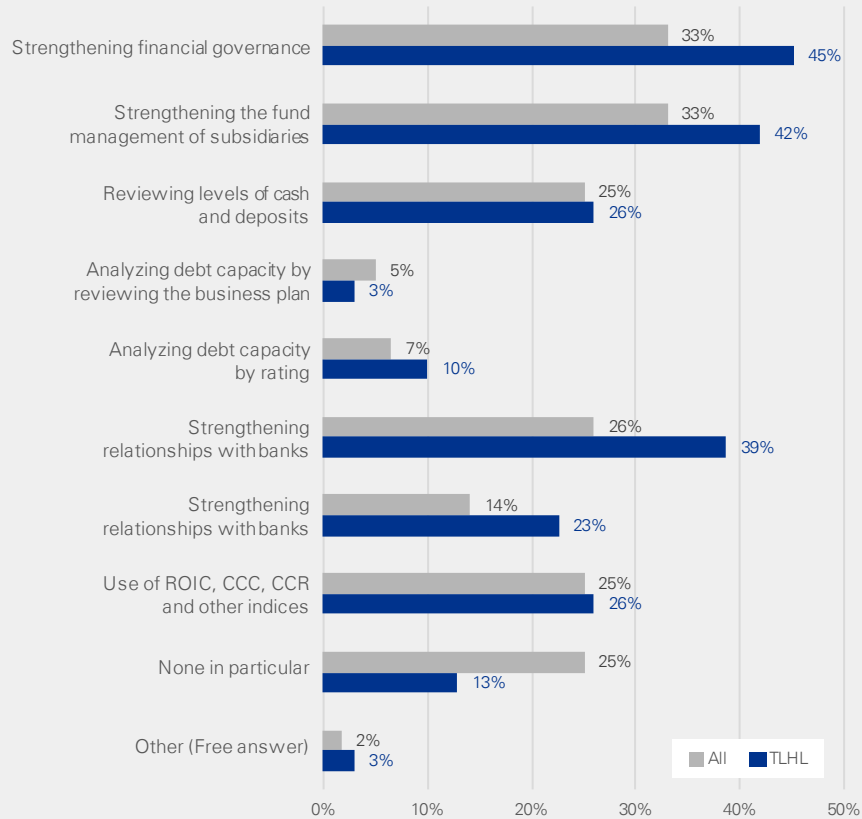
8.Accounting and Finance (3)

In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

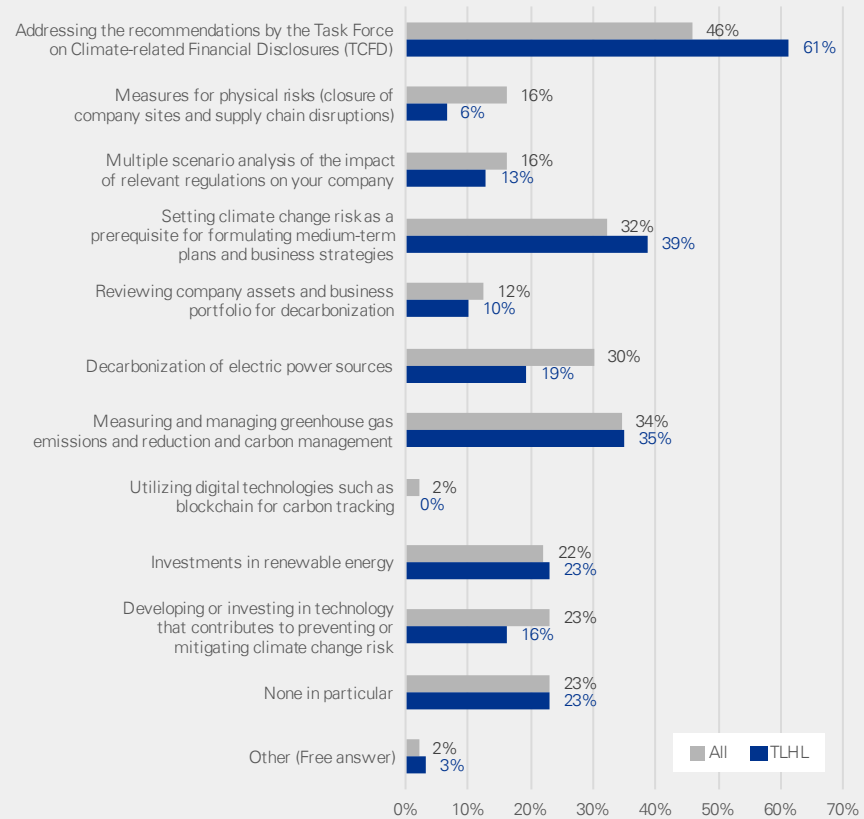


9.COVID-19

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and “cash.” (Multiple selections possible)

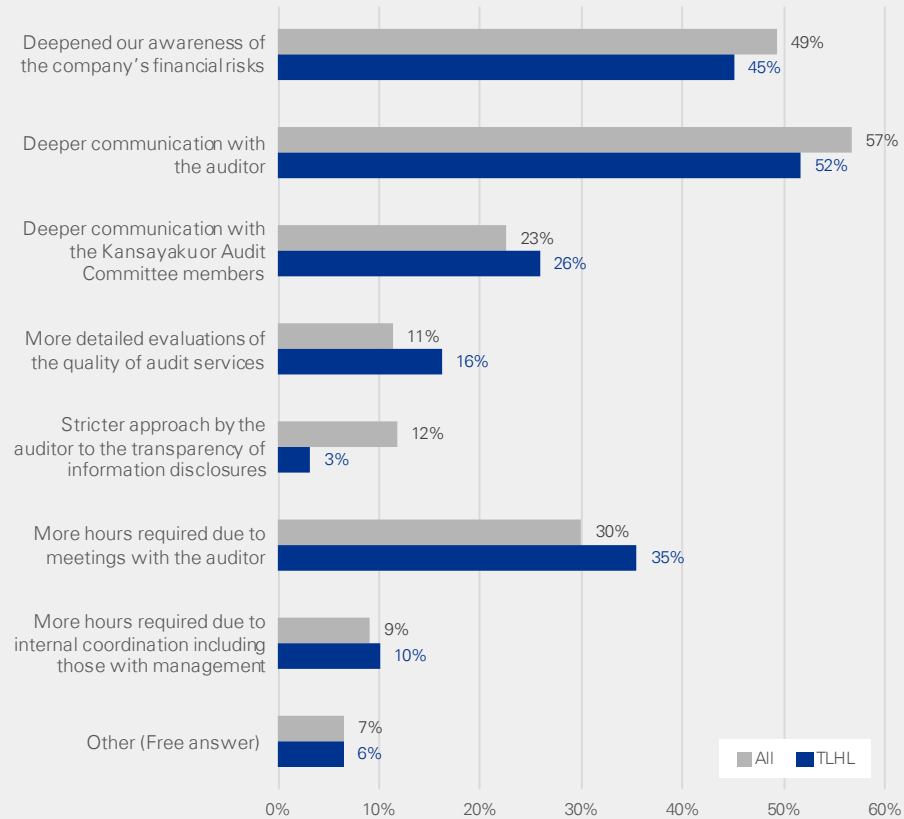


Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10.KAM introduction

What are the top three effects of KAM introduction you recognize?



Presentation of survey results as a ratio
 Survey results as a ratio are rounded to the nearest first decimal place and may not add up to 100 percent.

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