KPMG Japan CFO Survey 2020

COVID-19 (Special Edition)

January 2021

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Foreword

The spread of the coronavirus (COVID-19) has caused a tremendous impact on Japanese companies, as it has worldwide. These include slowing demand for products and services, supply chain disruptions, fundamental changes in customer behavior, and the swift shift to remote working. While the issues and range of the impacts vary by industry, many firms are still being forced to operate under crisis conditions.

To understand the changes in business strategies at companies as they faced this unprecedented trial, KPMG Japan conducted the CFO Survey 2020 COVID-19 (Special Edition) (hereafter, "the survey"), which surveyed the CFOs of listed Japanese companies in October 2020. This report analyzes the survey results regarding the priority issues of CFOs amid the crisis, as well the changing roles of CFOs.

The survey found that the conditions which companies are under vary greatly by scale and industry, and that there are differences among companies in the expected time required for performance to recover. Furthermore, it has become clear that companies are not only adjusting and swiftly responding to their priority issues under this environment, but have also begun to re-evaluate their corporate purpose and revise strategies from a long-term perspective. In particular, renewed emphasis on "people" is one of main impacts due to COVID-19, which has placed the health of employees and the community at risk.

On the other hand, the survey shows that many specific individual measures show a tendency to be taken with a silo approach and addressing short-term goals. It seems that not many companies are yet able to make bold reforms necessary to prepare for the post-COVID future.

CFOs must tackle the impacts of COVID-19 on the various business areas not from a short-term viewpoint, but rather reprioritize initiatives that would generate greatest value over the long-term, and reallocate resources accordingly. According to the survey, there are not many companies that hold priority on the redefinition of materiality, which is the foundation for the allocation of management resources. From now on, with consideration of the expectations of various stakeholders, it will be important to construct a value creation story underlying their purpose.

We would like to express our heartfelt gratitude to the 560 CFOs who cooperated with the survey amid the pandemic, which is unlike any seen before. We hope that this survey report will help companies as they navigate towards the new normal future.

Masahiko Chino
Head of Clients & Markets
KPMG Japan

KPMG Japan CFO Survey 2020

COVID-19 (Special Edition)

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Survey Methodology

Survey period

October 1–October 30, 2020

Survey contents

30 questions

COVID-19 measures and future outlook in following areas: accounting and finance, business strategy, M&A, ESG, etc.

Number of valid responses

Listed companies

560 companies

(USD 1 = JPY 100)

Breakdown of 560 companies by annual revenue

Annual revenue	Companies
Less than JPY 100 billion	294
Between JPY 100 billion and JPY 500 billion	145
Between JPY 500 billion and JPY 3 trillion	92
JPY 3 trillion or more	29

Breakdown of 560 companies by sector

Sector	Companies
Machinery & Materials	56
Consumer Goods	54
Retail	43
Transportation, Logistics & Leisure	39
Electric Appliances & Electronic Devices	32
Software	29
Professional Services	29
Building & Construction	28
Chemicals	28
Food & Drink	25
Automobiles	25
Banking	24
Steel & Metals	23
Pharmaceuticals & Medical Devices	22
IT Services	16
Media	15
Telecommunications	14
Real Estate	14
Power, Utilities, Gas & Oil	14
Securities	9
Healthcare Services	8
Insurance	7
General Trading Company	6

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Industry classification

Building & Construction
Construction services, engineering & construction

Food & Drink
Agribusiness, food and beverages, tobacco

Chemicals
Chemicals, chemical industry

Pharmaceuticals & Medical Devices
Brand-name drugs, generics, medical devices manufacturing, pharmaceuticals & medical devices wholesaling, biotechnology, nutritional supplements, medical research

Power, Utilities, Gas & Oil
Electricity, water supply, oil, coal, gas, mining

Steel & Metals
Steel, metal products, nonferrous metals industry

Machinery & Materials
Machinery manufacturing, construction manufacturing, industrial manufacturing, rubber, glass, soil & stone, textile products, pulp & paper

Electric Appliances & Electronic Devices
Electric appliances, electronic devices

Automobiles
Automobile OEMs, automotive industry suppliers, commercial vehicles included truck and buses

Consumer Goods
Furniture, apparel, household goods

Transportation, Logistics & Leisure
Ground transportation, sea freight transportation, air transportation, warehousing, railroads, leisure

Telecommunications
Wireline and wireless

Software
Software

IT Services
IT services

Media
Advertising, television, radio, movies, music, publishing, newspapers

General Trading Company
General trading company

Retail
Grocery retail, department stores, other retail shops, e-commerce, restaurants

Banking
Banking

Insurance
Insurance

Securities
Securities

Real Estate
Real estate, REIT, asset management, leasing

Professional Services
Professional business services

Healthcare Services
Hospitals, nursing facilities

Key Findings

58%

Area requiring radical reform is
"Improvement of business processes"

75%

Governance issue is
"Flexible response to changes and crises"

84%

Stakeholders whose importance increases with changes in behavior and values caused by COVID-19 are
"Employees"

87%

Geographical area with M&A activity is
"Japan"
(excluding "none in particular" and "undetermined")

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Strengthening the inside to move beyond

We are presently under the unprecedented environment of the COVID-19 crisis. While the survey showed some similar trends, on the whole the impacts of COVID-19 vary by business scale and industry, and we learned that consequently the initiatives that companies are presently implementing or considering also vary. For that reason, we have compiled this report into two sections: one overall analysis (including revenue size), and a separate analysis by industry.

Also, contrary to the thoughts of the CFOs acting to respond to changes in the environment, the survey has revealed that companies are still at the starting point of driving their initiatives. CFOs have a full agenda of future issues which are becoming more difficult and complex. Thus, we have included in this report the analytical perspectives of experts to bring insight into the issues that CFOs need to prepare for.

One overall characteristic of the survey results is that there is a strong awareness of the keywords "employees," "organizations," and "domestic" due to the changes in the environment under COVID-19. Although internal reinforcement strategies are a priority for business continuity amid the crisis, for survival and further growth, advancing bold reforms from a long-term perspective will be a key issue.

67%

Banking

Information security issue with heightened importance is

“Response to online crime and fraud”

68%

Automobiles

Area requiring radical reform is

“Leveraging and withdrawal from unprofitable businesses”

88%

Retail

(Revenues of JPY 500 billion or more)

Business restructuring area being implemented or considered under COVID-19 is

“Reinforcement of core businesses”

83%

General Trading Company

Business restructuring area being implemented or considered under COVID-19 is

“Sale of non-core businesses”

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Emphasis varies by industry

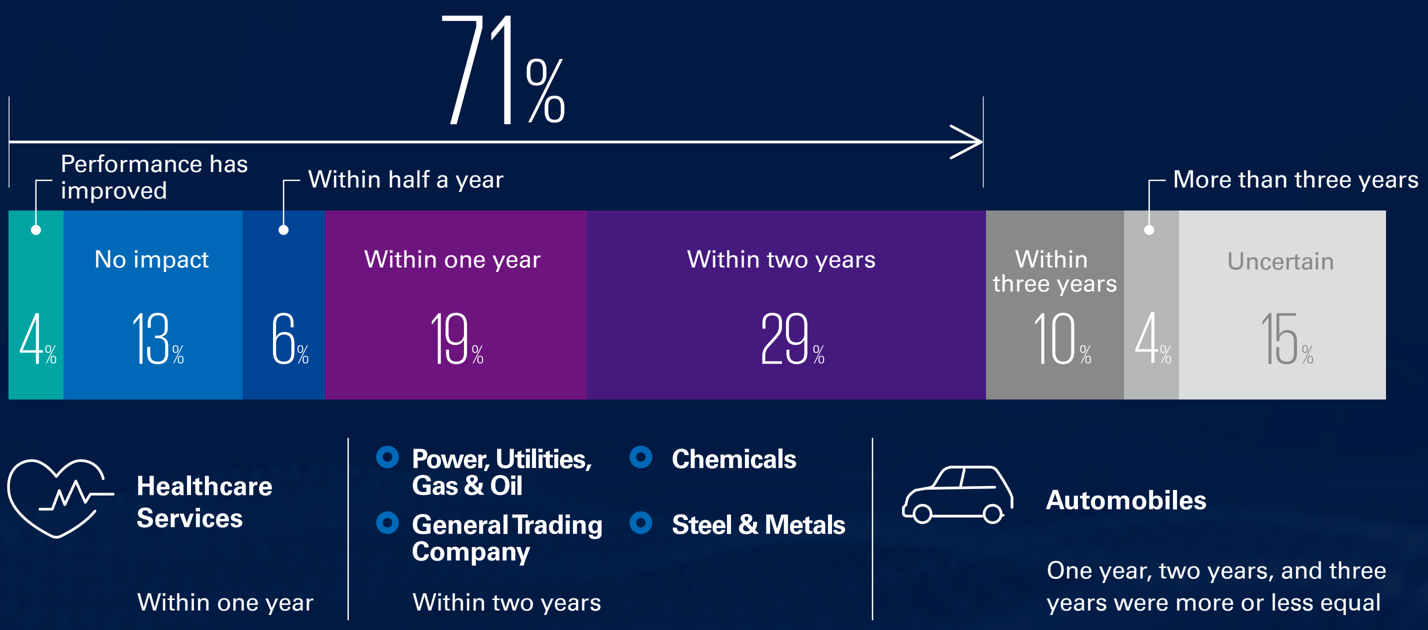
Changes in behavior due to COVID-19 has shifted consumption patterns and brought about changes in the corporate environment. Changes in behavior is impacting employees, consumers, and companies, and consequently businesses and the industries. This report highlights industries which showed distinctive characteristics, with added insights from the sector leaders of KPMG Japan.

How will business strategies be developed?

The necessary business strategies to address the corporate environment and execution approach vary by industry and by company. In this report we have focused on the significant trends of industries, rather than addressing characteristics of individual companies.

Overall Trends

Time required for business performance to recover to the pre-COVID level (single choice)



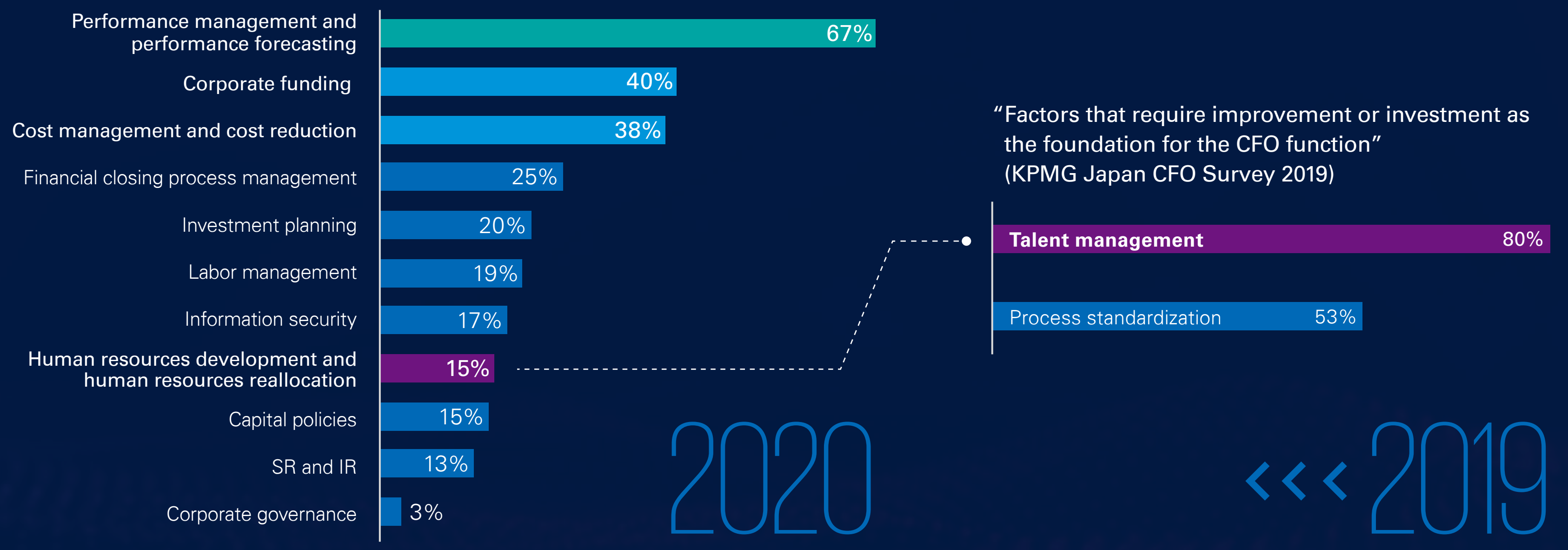
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

71% expect results to recover within two years

Among the 560 companies, 71% project that their business performance will recover within two years (including 4% which selected "performance has improved" and 13% which selected "no impact"). While there are news emerging including the lockdowns in Europe, the third wave of COVID-19 in Japan, and information on vaccine development, overall, these projections were apparently made incorporating uncertain factors.

There are differences in the recovery projections by industry: companies in the healthcare services industry responded "within one year" while those in the power & utilities, gas & oil industry, chemicals industry, general trading companies, and steel & metals industry projected "within two years." In the automobile industry, the numbers of companies projecting one year, two years, and three years were roughly equal.

Areas where the roles of CFOs have become more important under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

The areas that CFOs emphasize have greatly changed due to the slowdown in demand and increased uncertainty caused by COVID-19

As areas where the roles of CFOs have become more important due to COVID-19, 67% of the respondents chose "performance management and performance forecasting." This shows that with the downturn in earnings and heightened uncertainty caused by COVID-19, more highly refined performance management and performance forecasting discerning present and future demand have become difficult.

In the KPMG Japan CFO Survey conducted in 2019, 80% of the respondents selected "talent management" as the top factor requiring improvement or investment. The great difference in the responses to this year's survey also clearly indicates the shift in CFOs priorities.

"Corporate funding" and "cost management and cost reduction" were also selected by a high percentage of respondents, at 40% and 38% respectively, revealing the tough business situation they face. "Corporate funding" was chosen by 61% of companies in the machinery & materials industry and the steel & metals industry, and "cost management and cost reduction" was chosen by an outstanding 80% of companies in the automobiles industry.

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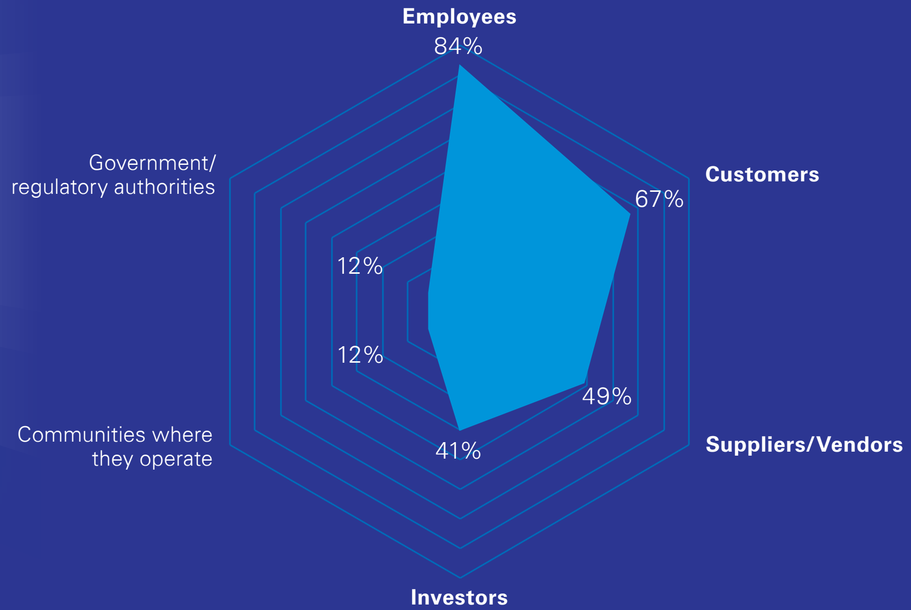
> **What greatly influences corporate value is the behavior of employees.**

Stakeholders whose importance increases with changes in behavior and values caused by COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

As stakeholders whose importance has increased or is expected to increase with the changes in behavior and values caused by COVID-19, the top response was "employees," which was selected by 84% of the CFOs. Having to reassess all aspects of employees' working environments devise measures to protect their safety and health in a short period of time was probably an underlying factor. Moreover, another factor may have been the recognition of the heightened importance of employees as companies were forced to seek new methods for business processes and human capital management including employees' health protection along with the introduction of remote working.

Recently, new acronyms are being used in addition to ESG, such as EESG (the second "E" stands for "employee") and ESHG (the "H" stands for "human capital"). The U.S. Securities and Exchange Commission has advanced efforts (the amendment of Regulation S-K) to promote the disclosure of information on employees and other human capital as a factor that greatly influences corporate value. There is no question that the employees are key drivers of value creation and their behavior greatly impact corporate value.

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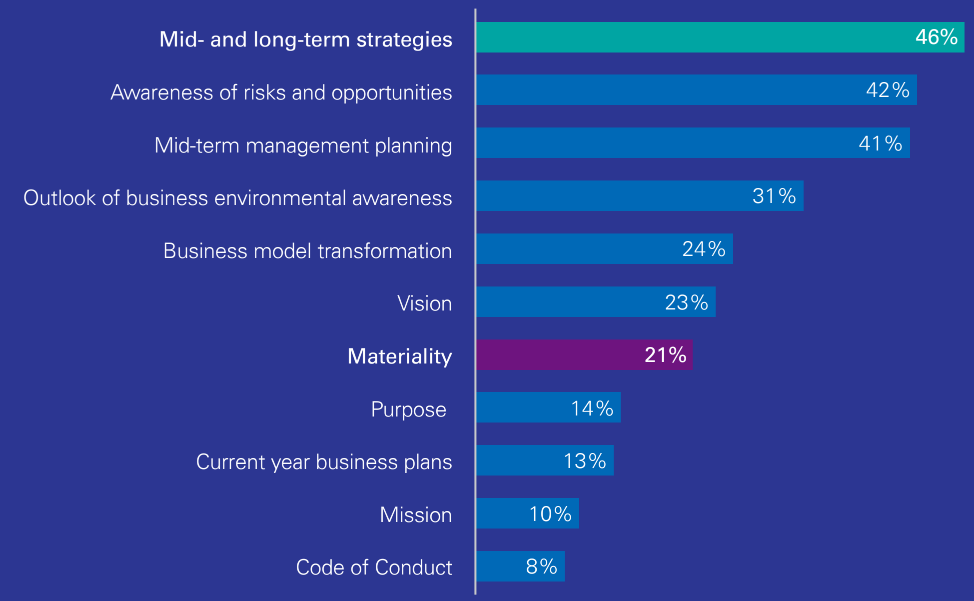
CFOs should reassess Materiality.

”

Items that need to be redefined (reviewed) to enhance corporate value under COVID-19 while upholding both corporate social responsibility and economic performance (multiple choice)



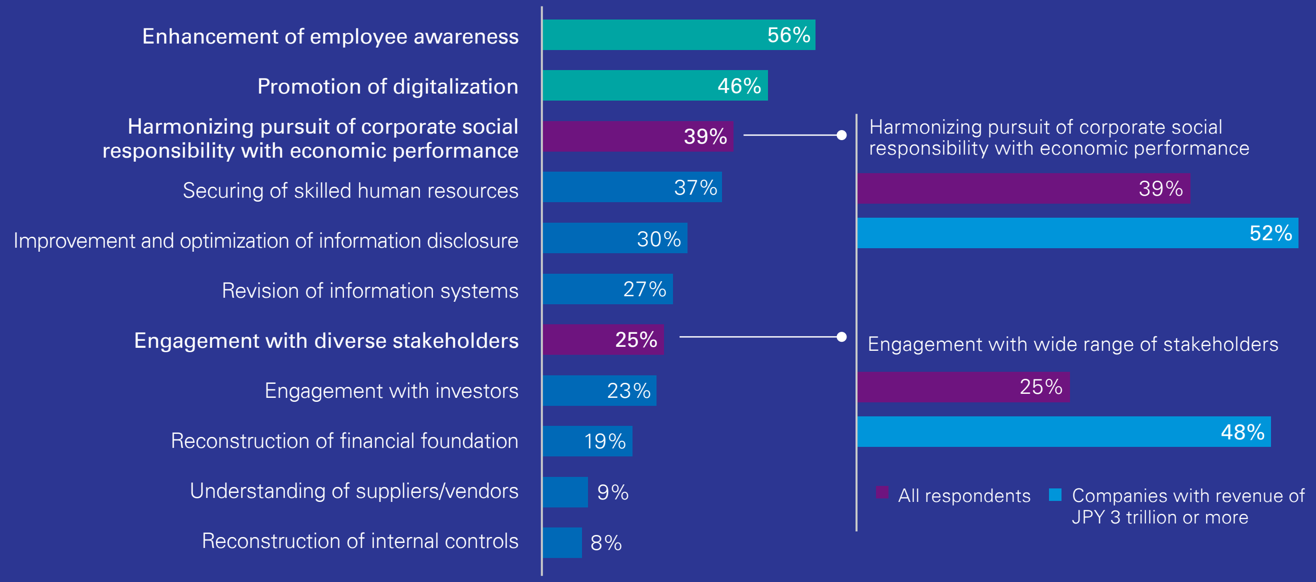
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

On the other hand, “mid- and long-term strategies” was the top response at 46% for items that need to be redefined (reviewed) to enhance corporate value under COVID-19 while upholding both corporate social responsibility and economic performance, while “Materiality” was chosen by just 21%.

In revising mid- and long-term strategies, companies should come up with a value creation story starting from the type of value they provide, rooted in their own purpose which should be defined in its relations with society. Materiality is the foundation for making decisions on the allocation of management resources. For that reason, it is essential not only to reassess the preconditions assumed when strategies were planned, which have been changed by COVID-19, and revise mid- and long-term strategies, but also to re-evaluate materiality in order to analyze the changes in factors which have a financial impact, and this is a task that requires the commitment of the CFO.

CFOs have a stronger awareness of responsibilities to society going beyond financial results.

Practical issues in promoting corporate value
amid the rising focus on ESG under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Amid the rising focus on ESG, when asked about issues in promoting corporate value, "enhancement of employee awareness" was the top answer, cited by 56% of the respondents, followed by "promotion of digitalization" at 46%. With the introduction of remote working advancing faster than expected, it is only natural that so many companies gave these responses. Also, what should be noted is that among companies with sales of JPY 3 trillion or more, as many as 52% chose "harmonizing pursuit of corporate social responsibility with economic performance" and 48% chose "engagement with diverse stakeholders." It is also worth noting that as an area requiring future improvement with regard to disclosure, while 45% of companies overall selected "fulfillment of social responsibility," the ratio was 55% at companies with sales of JPY 3 trillion or more (Figure 1). This is

Areas in information disclosure that the company wants to enhance in the future (multiple choice)

Fulfillment of social responsibility

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

| Figure 1 |

Connect non-financial factors which have potential financial impacts with corporate value and monitor them

Column

In 2019, Business Roundtable, a US association of CEOs, expressed commitment not only to shareholders but also to other multiple stakeholders, and the many discussions at the 2020 World Economic Forum on the subject of "how stakeholder capitalism can resolve global issues" are still fresh in mind. Companies are entering an era of stakeholder capitalism where they clarify their purpose in relation with society and seek harmony between social responsibility and economic performance to maintain sustainability of their businesses. From now on, CFOs, who are partners to CEOs, are expected to connect non-financial factors which have a potential financial impact with corporate value, monitor them, and support the implementation of strategies.

because high revenue companies also have a big impact on society, extensive supply chains, and high potential reputation risk. In addition, there may be many companies that find social responsibility as critical in a longer term beyond "enhancing employee awareness" and "promoting digitalization," which they are already facing. In anticipation of a shift in focus of capitalism, CFOs are becoming increasingly aware not just of financial performance but of mid- and long-term non-financial performance which is the driver of value creation, and of engagement with diverse stakeholders who greatly impact that performance.

"

The responses to climate related risks vary.

"

Measures being implemented or considered as a response to climate related risks, which is drawing heightened market attention under COVID-19 (multiple choice)

(USD 1 = JPY 100)

	Sales of less than JPY 100 billion	Sales between JPY 100 billion and JPY 500 billion	Sales between JPY 500 billion and JPY 3 trillion	Sales of JPY 3 trillion or more	All respondents
Disclosures incorporating the TCFD (Task Force on Climate-related Financial Disclosures)'s recommendations	2%	20%	53%	66%	18%
Response to physical risks (company base shutdowns and supply chain disruptions)	9%	13%	15%	21%	12%
Multiple scenario analysis of the regulatory impact on the company	6%	9%	18%	34%	10%
Considering climate related risks when drafting mid-term plans and business strategies	20%	33%	26%	48%	26%
Review of company assets and portfolio toward de-carbonization	2%	13%	18%	48%	10%
Decarbonization of electric power sources used	5%	15%	25%	31%	12%
Measuring greenhouse gas emission and reduction performance, and carbon management	12%	28%	57%	45%	25%
Use of digital technologies (blockchain, etc.) for carbon tracking	0%	3%	1%	7%	2%
Investments in renewable energies	12%	17%	35%	55%	19%
Technology development/investment that contributes to averting/mitigating climate related risk	6%	17%	41%	41%	17%
No particular measures	53%	30%	8%	7%	38%

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

As a response to climate related risks, the results indicate that initiatives centered on disclosures incorporating the TCFD's recommendations are advancing at companies with revenues of JPY 500 billion or more, and that there is a significant gap versus smaller-scale companies. The larger companies may be taking action early because the larger the company, the more likely it is to be impacted by macro factors such as climate change, and the greater the time required to correct course for the business. Even at these companies, however, analyses of the impacts of regulations concerning climate change on the company have not yet progressed very far.

Addressing climate related risks is essential to secure proper evaluation of corporate value

Column

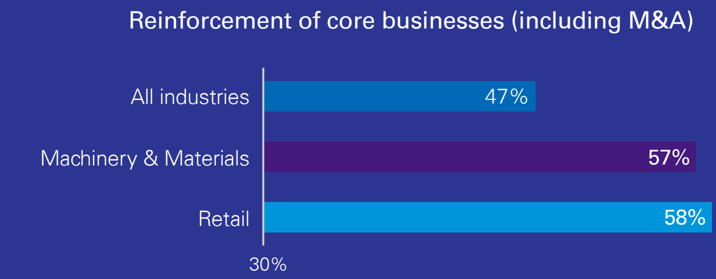
Japanese companies have been world leaders in responding to climate change. But as the movement toward net zero (de facto zero greenhouse gas emissions) is accelerating at the policy level, Japanese companies are being pushed even further to address climate related risks.

In the UK, disclosures incorporating the TCFD's recommendations is expected to become mandatory. Furthermore, the EU has positioned the "European Green Deal" as a new growth strategy, and the EU Taxonomy Regulation, which presents the rules for classification as environmentally sustainable, is being finalized. These developments will effectively highlight those companies whose response to climate related risks is insufficient, and are considered likely to affect companies conducting business in the EU. Some large-scale institutional investors have announced they will divest in companies with a high level of climate related risks, and financial institutions have also begun to consider climate related risks in their credit risk determinations.

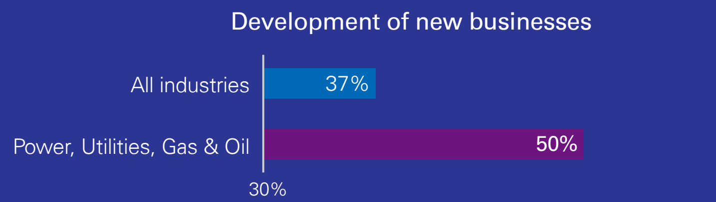
Given these developments, companies that do not respond appropriately to climate related risks are likely to have their businesses limited by regulations, and encounter obstacles to corporate funding. Regardless of scale, companies must accurately grasp the climate related risks throughout their value chains and implement the high-level judgments of revising their business strategies and adjusting their business portfolios, and also re-examine their supply chains. Constantly advancing such initiatives enhances resilience to climate related risks and gains proper evaluation from the market.

“While “reinforcement of core businesses” was easily expected, “development of new businesses” continues regardless of COVID-19.”

Business restructuring areas being implemented or considered under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

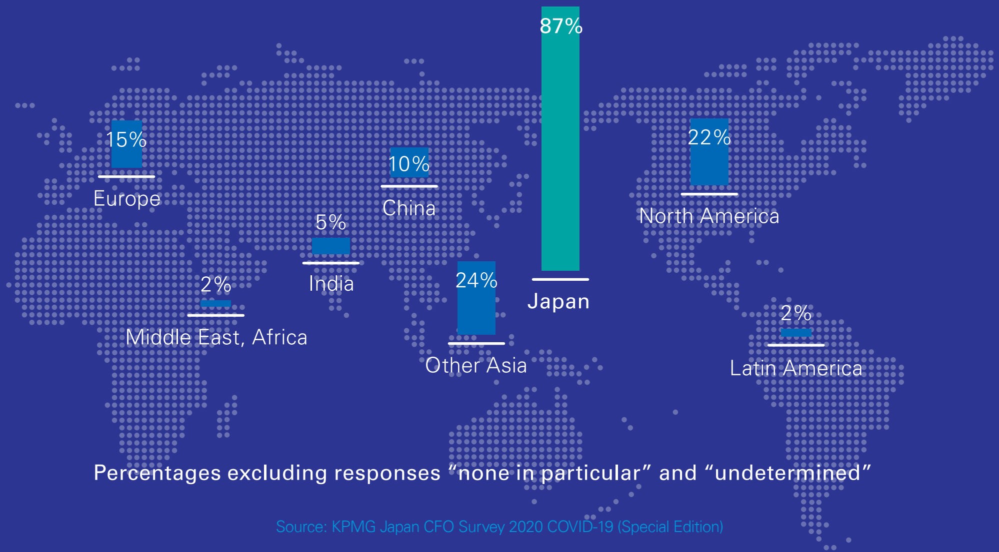


Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

“Reinforcement of core businesses” was selected by 57% of companies in the machinery & materials industry and by 58% in the retail industry, surpassing the average for all industries of 47%. This is consistent with the progress of digitalization in these industries.

Meanwhile, “development of new businesses” was cited by 37% in all industries on average, showing that this is continuing even under COVID-19. The percentage of companies that are engaged in development of new businesses is particularly high in the power & utilities, gas & oil industry at 50%. Energy transition has been an issue in this industry for the past several years, and the responses indicate an awareness of the need to develop new businesses in the electric power field, decarbonize, and shift to next-generation businesses including renewable energy.

Main geographical area in which examinations of new M&A are underway (multiple choice)



Percentages excluding responses "none in particular" and "undetermined"

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Conditions of overseas M&A under COVID-19

Column

Overseas M&A activities were temporarily subdued amid the confusion as governments in each country launched COVID-19 countermeasures and because restrictions were placed on international travel.

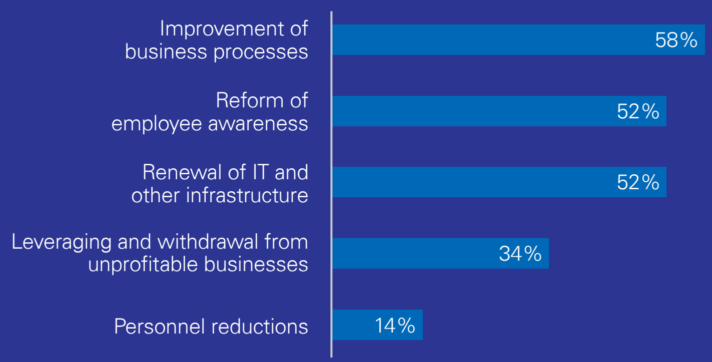
Even under such conditions, it seems that many Japanese companies continue examining overseas M&A. In particular, as the necessity for business operations under a remote environment is coupled with changing market needs, general trading companies and other companies with large overseas investment portfolios are seeking out new ideas such as making full use of technologies to effectively utilize their existing assets, and linking those assets and expanding value chains. To that end, they are considering M&A as one approach.

Because the Japanese market has topped out, it seems that many companies which have not advanced overseas in the past now want to proceed with their examinations of overseas M&A in search of overseas markets.

The perception of Japan as the initial target for M&A reflects the conditions under the restrictions on international travel and the understanding that this may be the only option for the time being. This is consistent with the decline in the outbound ratio and the growing trend toward domestic ICT/tech firms and carve-outs. That could change greatly as the restrictions on international travel are eased.

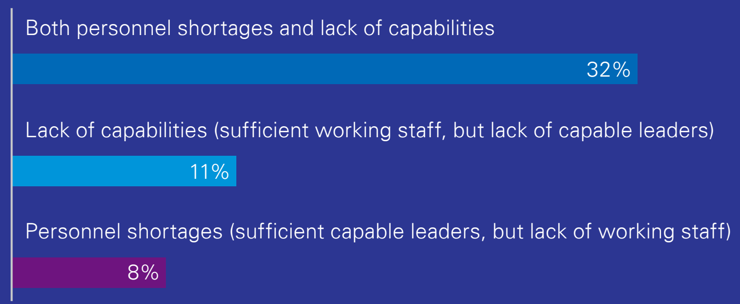
Amid the present situation with many companies taking a completely defensive stance, it is not difficult to imagine a growing gap in the ability to generate profits between winning companies that are taking action with a view toward the next growth strategies even under the current conditions and others that remain as they are. Will industry restructuring advance from this gap between winners and losers, and will there be merits for the survivors as the weak are eliminated? In any case, this is expected to lead to changes in the industry environment.

Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Concerns upon selling/restructuring existing investments, or discovering new M&A opportunities (single choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Under the remote working environment, in addition to “improvement of business processes” and “renewal of IT and other infrastructure,” “reform of employee awareness” is necessary.

As areas that require radical reform, many companies selected (1) “improvement of business processes,” (2) “reform of employee awareness,” (3) “renewal of IT and other infrastructure,” and (4) “leveraging and sale of unprofitable businesses,” in that order. The necessity for (1)–(3) was felt almost equally in all industries, while the necessity for (4) was recognized primarily in the automobile industry and general trading companies.

Under the remote working environment, the transformation of management and business operations has become essential for corporate groups with many overseas affiliates, with a strong need for self-management at the individual level, redefinition of job descriptions, and reform of employee awareness.

Utilizing external resources in view of the future business environment

On the other hand, as for concerns upon the selling or restructuring of existing investments or upon the discovery of new M&A opportunities, many companies are concerned about human resources, as more than half the respondents cited a shortage of personnel, or a lack of capabilities, or both. This could be a rehash of the old excuse “I want to do it, but the staff…” Efforts that need to be launched now in light of the future business environment should be implemented making full use of outside resources and with a detailed PMI already in mind. Of course, reckless gambles are not encouraged, but the question is whether serious attention is being given to what is deemed necessary.

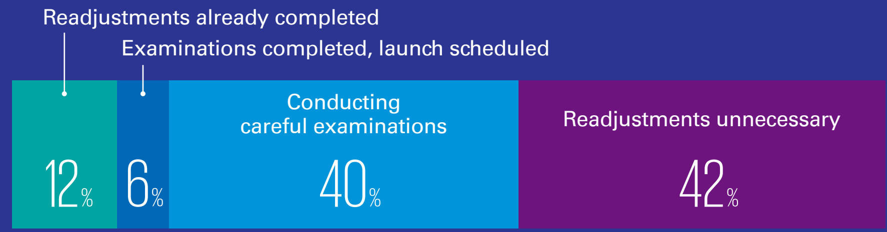
3. Supply chains

> **"It is important to examine the direction of supply chains by making impacts visible."**

Masaaki Maruyama

Strategy & Operations Partner
KPMG Consulting

Status of supply chain readjustments in response to COVID-19 (single choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

While many companies began readjusting their supply chains in response to the US-China trade friction, the international trade environment is abruptly changing because of COVID-19. In the survey, 18% of the companies either have completed or plan to begin revisions of their supply chains, while 40% of companies responded that they were "conducting careful examinations."

Revisions to supply chains affect tariffs as well as changing costs, and when relocating bases, it is also necessary to consider the implications under transfer pricing taxation systems. Many companies responded "conducting careful examinations" probably because they are moving to grasp the current conditions of group companies worldwide and the future changes in their supply-demand balances, and to discern the direction of environmental restrictions and taxation systems.

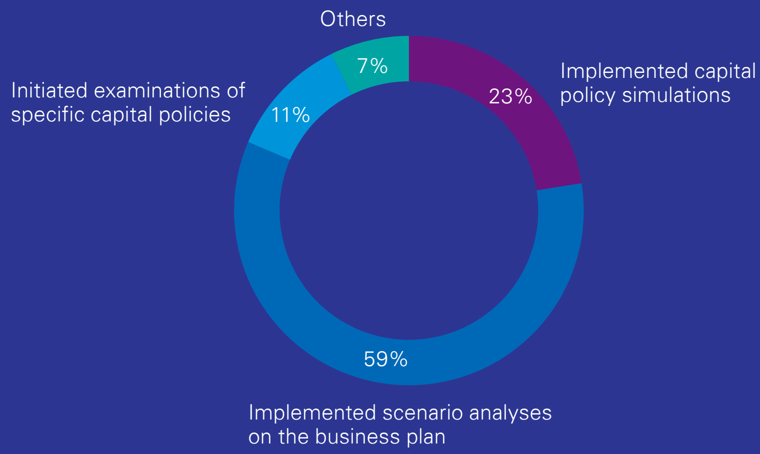
However, under the present conditions of rising uncertainty and volatility, rather than deriving one steady and correct answer as in the past, it is now necessary to presume future scenarios beforehand, make impacts visible, and advance examinations on a supply chain that is robust to change and risk. One effective plan is to begin from the following types of approaches that can make impacts visible, and advance reorganization starting from areas with a great impact.

- Survey the actual conditions of procurement, manufacturing and distribution costs and quality, lead times, tariffs, inventory assets, and other aspects of the supply chain.
- Draft future scenarios for demand, pricing, systems, etc. and simulations of the impact of changes on the company's supply chain.

> **CFOs need the perspective of how to effectively practice financial governance.**

Daisuke Tsuchiya
Global Financial Management Director,
Advisory Headquarters
KPMG AZSA LLC

Status of analyses regarding the outlook for equity capital in response to COVID-19 (single choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Under COVID-19, many CFOs have recognized a need to increase the accuracy of performance forecasting and conduct more highly detailed business plan scenario analyses. Yet, regardless of how accurately business plans can be projected, they are meaningless unless headquarters can flexibly use cash that is unevenly distributed at group companies during a crisis. The most important thing during crises is securing liquidity, and the uncertainty of performance projections and business plans entails risk that could cause funds to become exhausted.

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Business management which emphasizes cash generation is important even during normal times.

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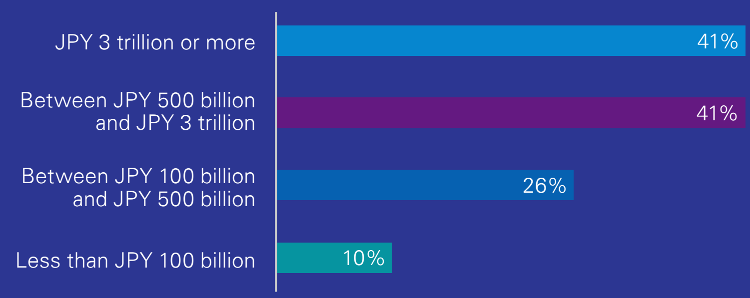
Measures regarding corporate funding and “cash” presently being implemented or considered (multiple choice)

Use of ROIC, CCC, CCR and other indices



ROIC: Return on Invested Capital **CCC:** Cash Conversion Cycle **CCR:** Cash Conversion Ratio

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

For headquarters to flexibly control cash, a technical response whereby cash is automatically centralized at headquarters through CMS is required, but the perspective of how to effectively implement financial governance for the group as a whole is an essential prerequisite. Financial governance is a fundamental corporate principle on how to gain a balance between boosting the group’s overall corporate value and the efficiency of funds operations as well as financial discipline. Many Japanese companies recognize the independence of their subsidiaries, while the financial positioning of subsidiaries is sometimes left vague. Companies need to define the investment authority, corporate funding, dividend, and other financial policies of their subsidiaries, and then utilizing group finance or CMS, should construct cash centralization schemes for the whole group that is in line with the business model.

Furthermore, business management which emphasizes the generation of cash is necessary to respond to crises. The survey this year found that many CFOs, especially at large companies, are using indices such as ROIC, CCC, and CCR to generate cash. ROIC is an index that assesses the productivity of capital, but it also contributes to the generation of cash through balance sheet control. The ongoing generation of cash is important to maintain and increase corporate value, and this is the most effective when it is implemented during normal times as well.

5. Human resources and labor affairs

> **Training human resources who can respond to changing businesses and organizations, and the optimizing allocation of personnel are imperative.**

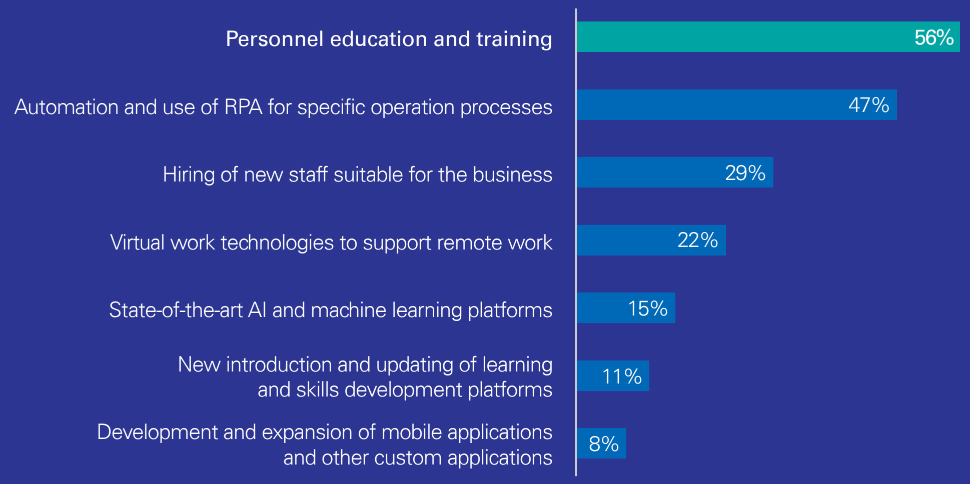
HR and labor affairs measures being implemented or considered in response to COVID-19 (multiple choice)

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

There are unaddressed human resources and labor affairs issues beyond remote working.

As HR and labor affairs measures being implemented or considered under COVID-19, "arranging the working environment for remote working" was the most common response policy, cited by 83%, and "measurement of productivity" which is the foundation for job-based employment was the least common at 17%. Making the organization suitable for the remote work environment requires not only labor aspects such as employee time tracking but also improved measurement of performance for employee evaluations and the upgrading of leadership and communications skills to maintain organizational performance while boosting team spirit.

HR and labor affairs initiatives the company wants to implement after COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Measures to which the human resources division is presently devoting a lot of time and effort (multiple choice)

(From 2019 KPMG Consulting questionnaire survey "Future of HR")

Changes in HR and labor affairs issues due to COVID-19

"Personnel education and training" was the most common response for HR and labor affairs initiatives to be implemented after COVID-19, selected by 56% of the respondents. This was followed by "Automation and use of RPA for specific operation processes" at 47%.

According to the survey "Future of HR" conducted by KPMG Consulting in 2019, the measure to which human resources divisions are devoting the most time and effort is "identification of new methods to create value within the organization," and the measures that should be implemented were not yet clear.

Because HR divisions were the target of that survey, there could be some differences of understanding versus CFOs, but the CFOs emphasized "personnel education and training" to adapt to the new environment and generate better performance as remote working spreads under COVID-19. Further, under the "new normal" environment, improving skills that can respond to changing work and organizations, and the appropriate allocation of personnel with the increase in job-based personnel, are urgent issues. In implementing business strategy, it is necessary to clarify aptitude for important jobs and build frameworks for optimal personnel allocation based on the suitability of personnel.

6. Governance and BCP

Governance issues which have gained importance for the group as a whole (multiple choice)

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Measures being implemented or considered in the management of overseas subsidiaries (multiple choice)

(USD 1 = JPY 100)

	Less than JPY 100 billion	Between JPY 100 billion and JPY 500 billion	Between JPY 500 billion and JPY 3 trillion	JPY 3 trillion or more	All respondents
Establishment of local rules and systems, and standardization of operations	24%	37%	41%	48%	32%
Human resources development and delegation of authority	13%	22%	21%	28%	17%
Remote monitoring from headquarters	23%	41%	47%	41%	33%
Reinforcement of security	6%	14%	23%	31%	12%
Drafting and strengthening BCPs	3%	12%	24%	21%	10%
None in particular	52%	27%	16%	21%	38%

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

CFOs must respond on the presumption of unexpected situations

In answer to the question regarding governance issues under COVID-19, many respondents chose "flexible response to change and crises." More and more corporate managers want to secure real risk resilience on the presumption that unexpected situations are certain to occur, rather than just pro forma risk management.

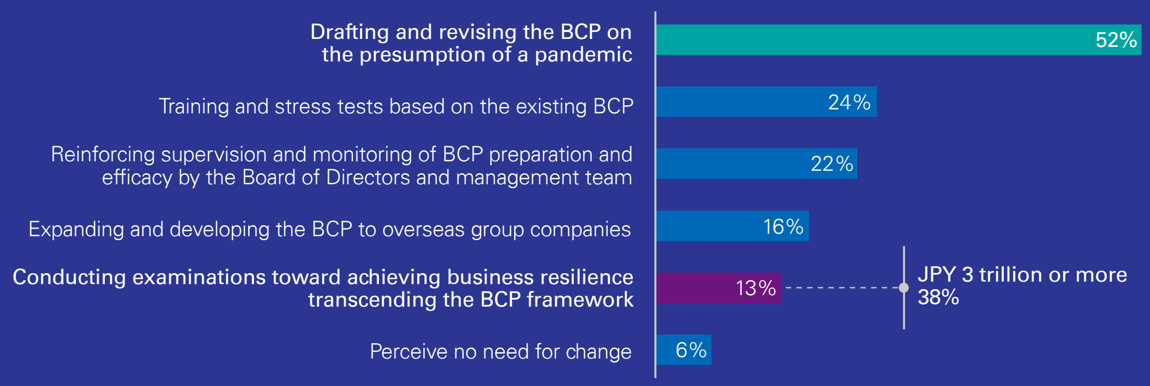
Heightened interest in remote monitoring to maintain group governance

In group governance, a substantially wide range of companies with sales of JPY 100 billion or more showed a high level of concern regarding "establishment of local rules and systems, and standardization of operations" and "remote monitoring from headquarters." As travel to and from overseas subsidiaries has been cut off by COVID-19, efforts for internal controls that leave management up to the staff of local subsidiaries are gaining more and more attention. In particular, many companies are examining the introduction of remote monitoring aimed at discovering signs of accounting fraud and improprieties based on data analysis. However, the standardization of the accounting systems and accounting procedures of local subsidiaries is essential for the implementation of remote monitoring. This may prompt great progress in the unification of systems at overseas subsidiaries, which have tended to be left unaddressed, and the introduction of cloud-based, agile work systems. These survey results underline again how corporate groups with sales of less than JPY 100 billion have taken almost no measures for the management of overseas subsidiaries.

"BCPs alone are not sufficient to achieve business resilience."

Keisuke Adachi
Partner,
KPMG Consulting

Future initiatives regarding BCP under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

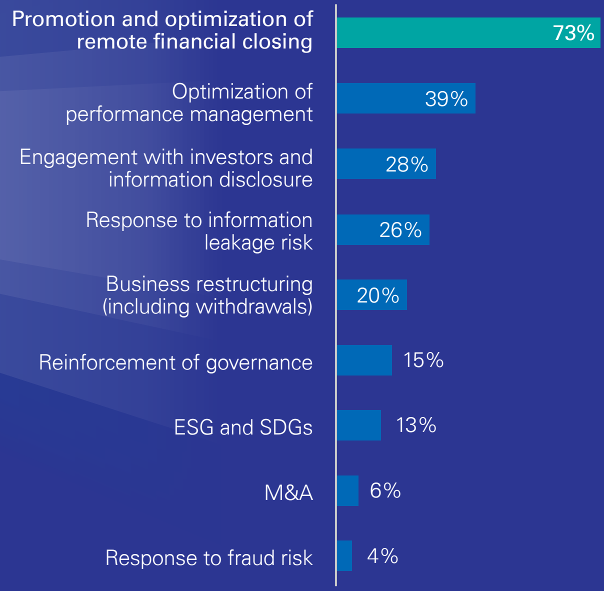
Examinations toward achieving business resilience are accelerating.

52% of the companies are examining "drafting and revising the BCP on the presumption of a pandemic." In the past, BCPs were centered on disaster preparations, but very few companies made preparations for an infectious disease, let alone one that would spread worldwide. Going forward, the preparation of BCPs that consider all hazards is desirable to expand the range of responses to unexpected situations as well.

Moreover, 38% of companies with sales of JPY 3 trillion or more intend to conduct "examinations toward achieving business resilience transcending the BCP framework," far surpassing the 13% average overall, illustrating the heightened awareness of issues at these larger companies. Interest in resilience management has been rising in recent years over concerns regarding the uncertainty of the external environment, and this trend will be further accelerated by COVID-19. To move toward resilience management, aside from drafting BCPs, companies need to advance digitalization, remote operations and decentralization of operations, establish micro supply chains, disperse portfolios, and take other measures to enhance their resilience to risk.

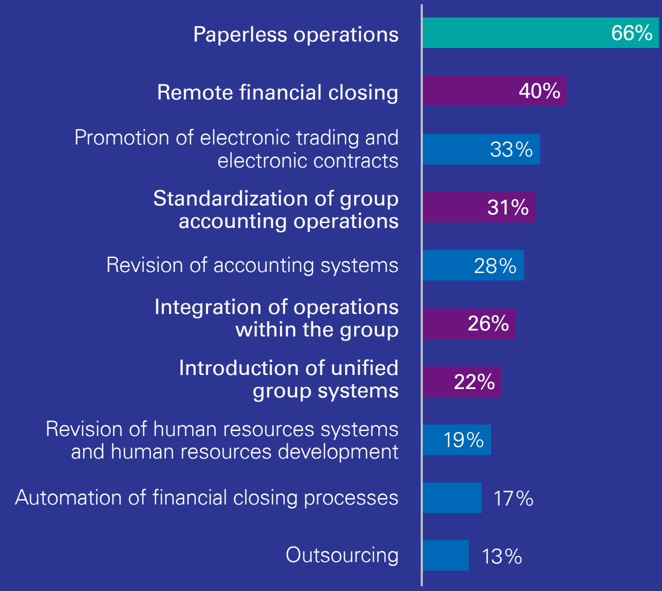
> “Reform must be realized under a management-driven story.”

Areas where the need for response has risen under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Accounting and financial operation measures presently being implemented or considered (multiple choice)

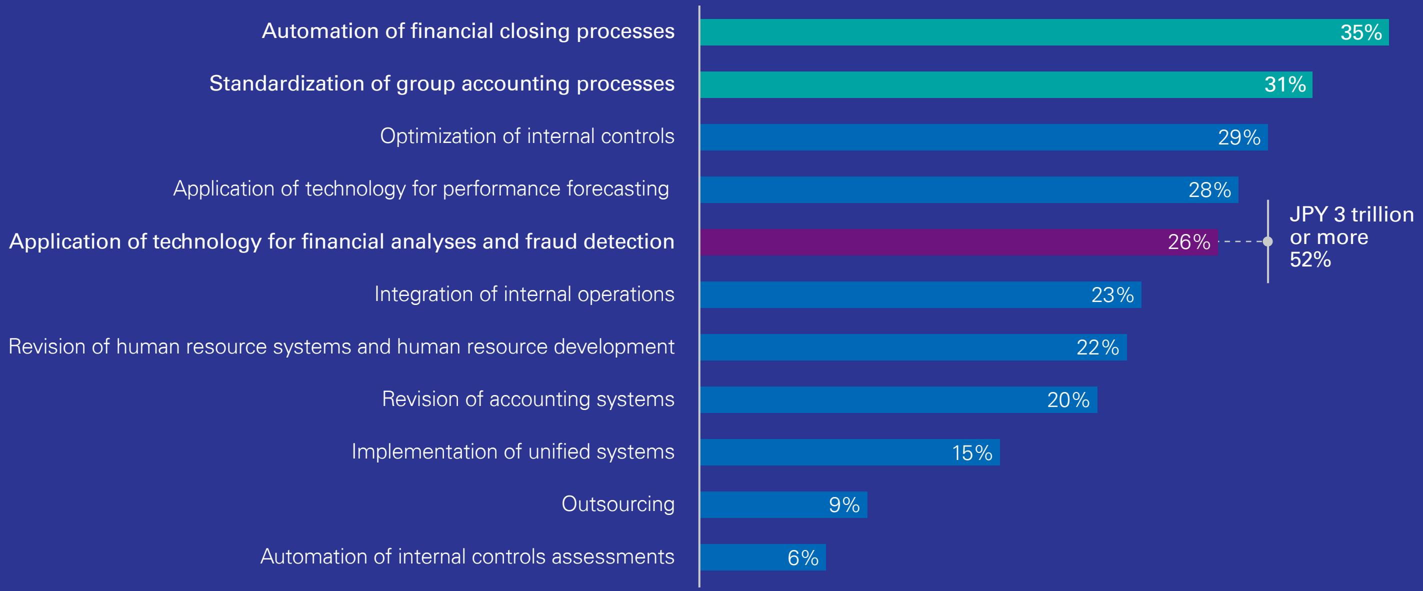


Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

From standardization and efficiency improvement triggered by remote financial closing, to optimization and high added-value

Under COVID-19, 73% of companies recognize the need for “promotion and optimization of remote financial closing,” revealing that financial closing under a remote working environment is recognized as an issue regardless of corporate scale or industry. In particular, 66% are advancing efforts toward “paperless operations.” Paperless operations are effective when they go beyond materials prepared and used inside the accounting departments to include the electronic processing and digital storage of invoices and other documents received from outside.

To achieve remote financial closing, the accounting and finance divisions must realize remote work, but at the same time extend measures for remote audits. Once remote work is realized, there are no longer any physical restraints on location for accounting operations, Post-Covid accounting and finance initiative plans (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

and the "integration of internal operations," reallocation of accounting functions, and standardization of operations toward those ends become the next issues for consideration. In addition to standardizing financial closing, which include many manual operations that tend to be dependent on individuals, it is also important to digitalize these operations and make them visible.

Many respondents selected "automation of financial closing processes" and "standardization of group accounting operations" as initiatives to implement after COVID-19, illustrating that many companies are grasping their response to the remote working environment as an opportunity for fundamental efforts to improve overall group accounting and financial closing efficiency. Large companies with sales of JPY 3 trillion or more are implementing these initiatives to boost efficiency (including "implementation of unified systems" and "integration of internal operations") early as present responses to the impact of COVID-19 and intend to advance efforts for more sophisticated operations after COVID-19 including "application of technology for financial analyses and fraud detection" (cited by 52% of these companies).

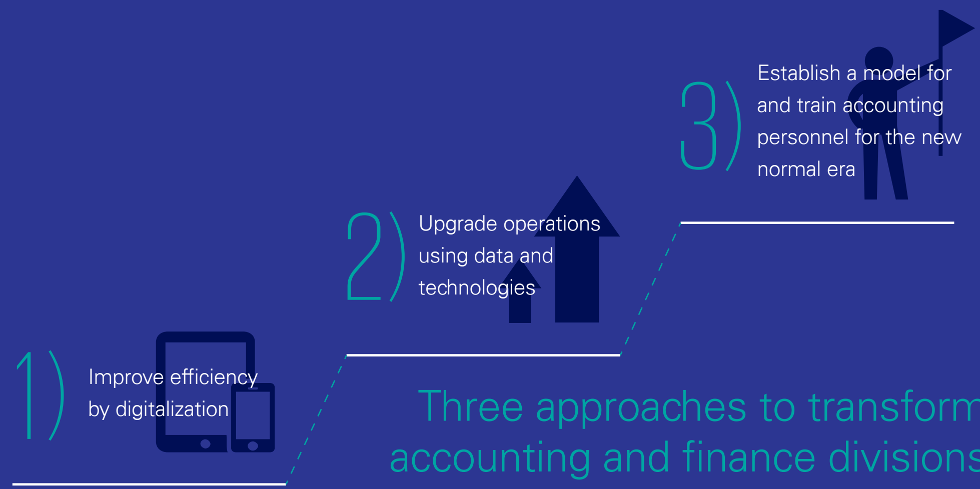
Column

Three approaches to transform accounting and finance divisions

1) Improvement of efficiency by digitalization
2) Optimization of operations using data and technology
3) Definition of a new normal accounting personnel role and training

Efforts toward resolving these issues are being accelerated by the response to COVID-19. Companies, especially large companies, are already in the implementation stage for 1), and have already entered the stage of beginning concrete examinations regarding 2), and these trends are expected to spread regardless of corporate scale or industry.

For accounting and finance divisions, it is now important to (1) secure resources through improving operations efficiency by digitalization, (2) invest resources to upgrade operations and attract superior personnel, and (3) train accounting personnel suitable for the new normal era who can freely utilize data analyses and technologies. These are the reforms required to create the accounting and finance divisions of the future, and it is important for this to be led by management and strategically planned.



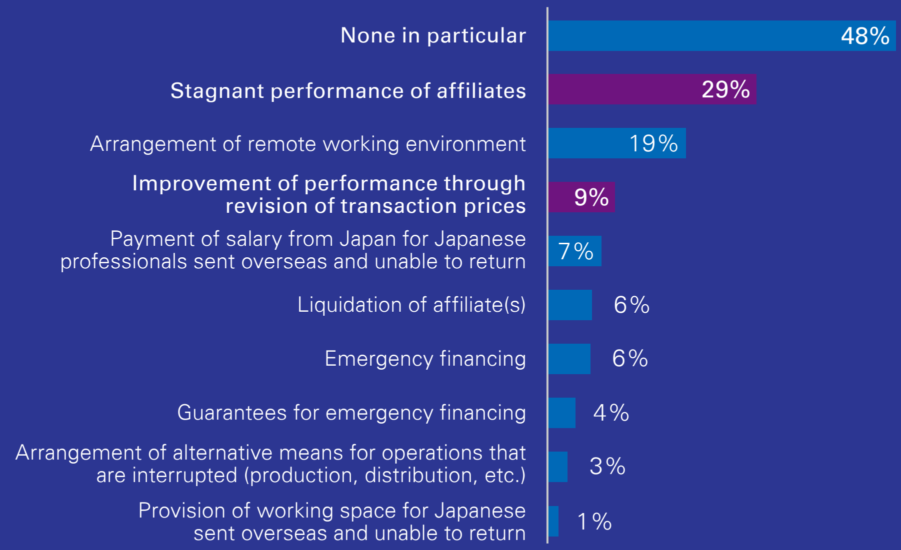
Three approaches to transform accounting and finance divisions

8. Tax

> **Do losses at overseas subsidiaries under COVID-19 correspond to 'force majeure'? Preparations must be made as early as possible.**

Koichiro Fujimori
Partner,
KPMG Tax Corporation

Tax risk of aid from headquarters to domestic and overseas affiliates, and of countermeasures, etc., under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

While many companies are suffering from lackluster performance under COVID-19, such phenomena are highly likely to become a tax issue. While 48% responded "none in particular" regarding tax risk, 29% chose "stagnant performance of affiliates" and 9% "improvement of performance through revision of transaction prices."

Under the transfer pricing taxation systems that have been strictly implemented in recent years, the respective tax authorities have been seeking greater allocation of profits in transactions among the affiliates of multinational corporations. For that reason, in some cases, companies may be pushed by tax authorities to supplement performance. On the other hand, the Japanese tax authorities may view the "easy" supplementing of overseas subsidiaries as problematic, but this is not true in every case. For example, in setting transaction prices, there are cases which presume leaving some profit with overseas subsidiaries, but if the lackluster performance and losses under COVID-19 are due to inevitable external factors, this may be deemed as corresponding to force majeure, which allows some exemption from tax liability. Or, conversely, objectively judging that this does not fall under force majeure and exchanging memos reflecting that content may lessen the tax risk to some extent. In the judgment on force majeure, it is essential to verify, using economic indices and other data, the fulfilment of the requirements that (1) the phenomenon could not be predicted, (2) the phenomenon could not be avoided by the company alone, and (3) the company is experiencing a grave economic impact.

As each nation is forced to implement large-scale fiscal stimulus policies under COVID-19, tax authorities are expected to become more active regarding the supplementing of fiscal resource shortages. Accordingly, it is desirable to make preparations as early as possible with the response to the tax authorities in mind.

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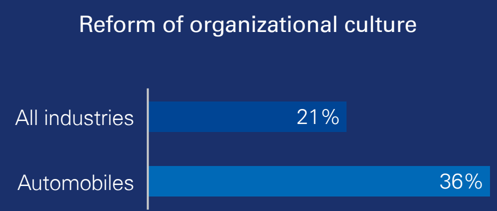
Automobiles

> While the automobile industry is suffering a heavy blow from COVID-19, it is also being forced to respond to the unprecedented transformation called C.A.S.E. at the same time.
>
> This wave of change is unlikely to settle down until the industry is greatly restructured.

Megumu Komikado

National Sector
Head of Automotive,
KPMG Japan

HR and labor affairs measures being implemented or considered in response to COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Items that need to be redefined (reviewed) to enhance corporate value under COVID-19 while upholding both corporate social responsibility and economic performance (multiple choice)

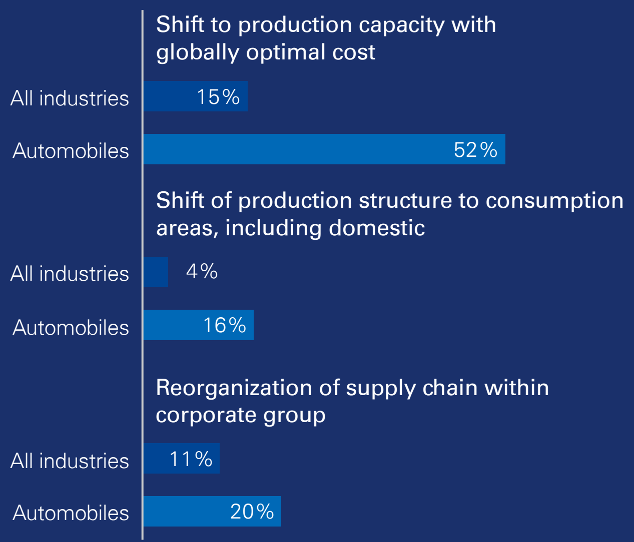
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Self-improvement abilities questioned through reform of organizational culture

Even among suppliers that have supported manufacturing in response to demands from automotive companies for lower costs, not many companies have experienced reform in the true sense amid ongoing growth. How will the automobile industry face the stereotypical yet real proposition that there is no future in simply extending the line from the evolution to date?

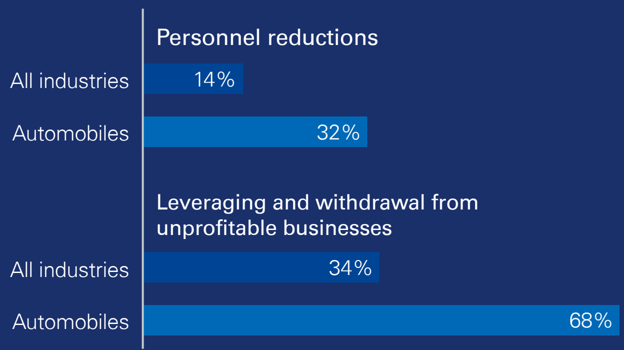
The necessity of "reform of organizational culture" specified by the survey questions the self-improvement abilities of companies literally to survive as the relative presence of the existing automobile industry continues to decline.

Measures presently being implemented or considered under COVID-19 and trade friction (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Global Automotive Executive Survey 2020

KPMG has conducted and published the results of our 21st Global Automotive Executive Survey covering 1,154 automobile industry executives and over 2,000 consumers in 30 countries. The survey shows the increasing fragmentation and scattering of the global automobile market, accelerated by COVID-19.

https://home.kpmg/pl/en/home/insights/2020/07/kpmg-international-report-global-automotive-executive-survey-2020.html

Revision of mid- and long-term strategies and leveraging of unprofitable businesses are urgent issues.

Because of COVID-19, the number of automobiles produced will change from previous plans. Under one pessimistic scenario, it will require about five years to recover to the 2019 level, and therefore automakers are being forced to reconsider their mid-term plans.

The once-in-a-century industrial reform presented by C.A.S.E. is being accelerated by COVID-19, just as digitalization is rendering manufacturing more market-oriented, and many supply chains links are being rearranged.

While the automobile industry has endured the impact of the pandemic with agile production adjustments, there are numerous issues including the change of global procurement and production structures considering supply chain risks, and the integration and streamlining of operations inside groups. Now that companies are reducing capital investment and are experiencing funding difficulties, it is urgent, though challenging, for them to respond to environmental problems and other social responsibilities, rebuild unprofitable businesses, and develop new businesses.

Consumer Goods, Retail, Food & Drink

“The larger the company, the greater the efforts toward reinforcement of core businesses while rushing to change supply chains—this trend is particularly strong in the retail industry.”

Yuji Ito
National Sector
Head of Consumer & Retail,
KPMG Japan

Business restructuring areas being implemented or considered under COVID-19 (multiple choice)

Reinforcement of core businesses (including M&A)

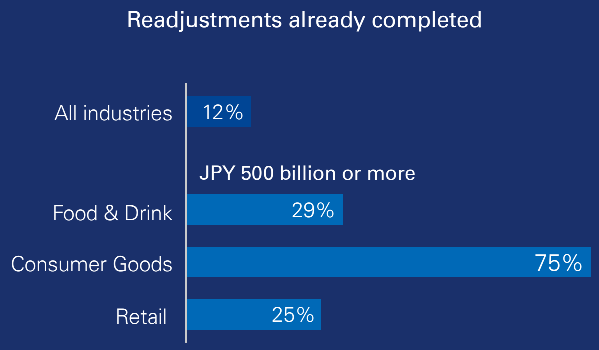
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

The larger the company, the greater the efforts toward reinforcement of core businesses

The percentage of companies in the consumer goods, retail, food & drink industries with sales of JPY 500 billion or more which selected “reinforcement of core businesses” were all far higher than the 47% average for all industries. This indicates that the larger the company, the greater the efforts toward reinforcement of primary businesses. It seems that the consumer shift toward e-commerce channels which has been accelerated by the COVID-19 pandemic and the response to diversifying purchasing behavior (i.e. purchasing impulse) have become urgent issues to maintain primary businesses.

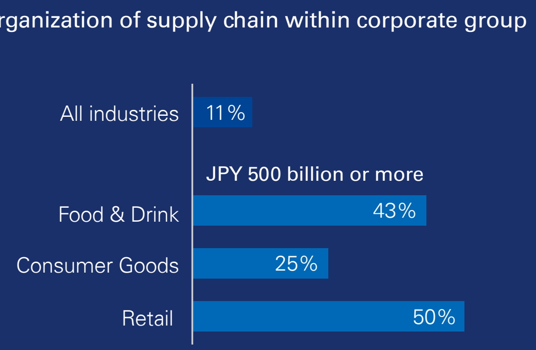
The shift to e-commerce in perishable foods is especially pronounced, and even within the retail industry, for companies with supermarket formats, the radical reinforcement of primary businesses is urgent to maintain customer loyalty through both their primary businesses and the consumption switch to e-commerce. Also, in the retail industry, in addition to dealing with the low profitability since before COVID-19, responding to the increased costs pertaining to security and safety under COVID-19 is a top priority issue for survival.

Status of supply chain readjustments in response to COVID-19 (single choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Measures presently being implemented or considered under COVID-19 and trade friction (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Achieving visibility and upgrading entire supply chains

Among companies with sales of JPY 500 billion or more, the percentage of companies which replied that they have already revised their supply chains is higher than the average 12% for all companies in each industry. Under the COVID-19 pandemic, direct person-to-person exchange with overseas bases has become difficult and consumer demands concerning quality such as security and safety have heightened. In this situation, there may be demands for reinforcing information links using IT and reorganization from the perspective of strengthening corporate governance in the company's supply chain regardless of whether it is internal or external. There are also many companies moving to return to domestic supply chains under COVID-19, and this tendency is expected to gain momentum. Traceability is also sought from the perspectives of strict consumer checking of raw materials and production locations, quick and accurate response when product recalls occur, and response to the SDGs and certification of sustainable procurement. There are cases emerging where in order to achieve visibility and upgrading of entire supply chains companies are utilizing state-of-the-art financial technologies and gaining the cooperation of business partners in reorganizing their supply chains.

Also, in each industry, the percentage of companies with sales of JPY 500 billion or more that cited "reorganization of supply chain within corporate group" as measures being implemented or considered was higher than the average for all companies of 11%. The larger the company, the more the supply chain revision is being advanced within the group.

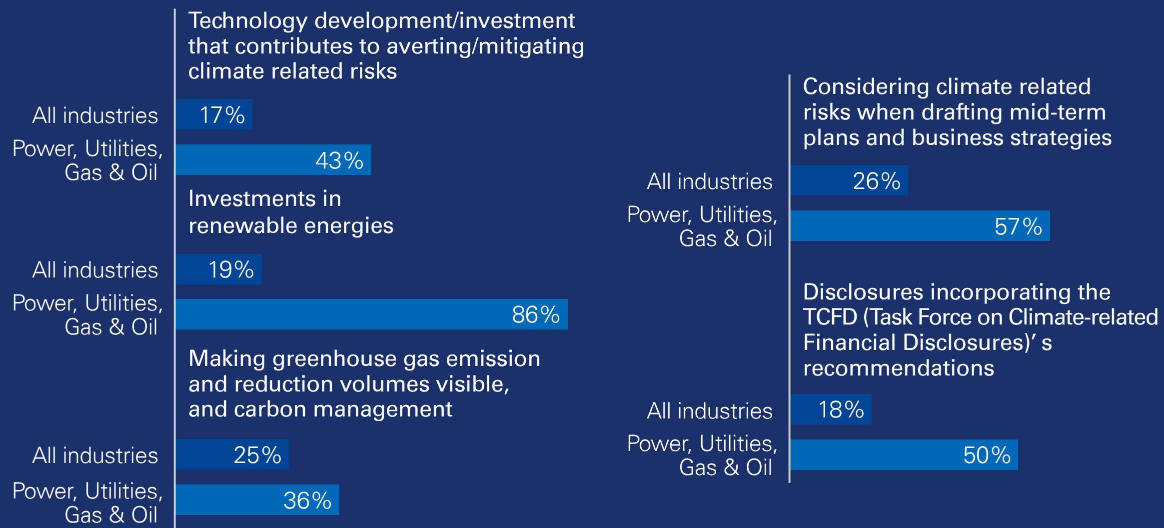
Power, Utilities, Gas & Oil

> **The response to climate related risks is accelerating business model shifts and asset swaps.**

Mina Sekiguchi

National Sector
Head of Energy & Infrastructure,
KPMG Japan

Measures being implemented or considered as response to climate related risks, which is drawing heightened market attention under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

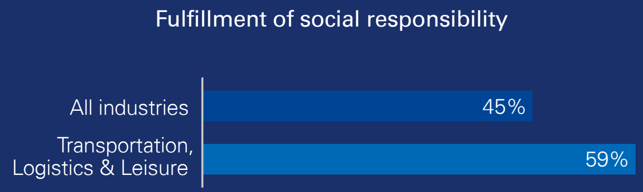
Priority policies on climate related risks

In the power, utilities, gas & oil industry, the awareness, volume of information, knowledge level, and status of examinations of SDGs, ESG, climate related risks, and decarbonization issues greatly surpasses the average for all industries. Because this industry is essentially a hardware industry, it is accustomed to considering business over the mid- and long-term. For that reason, the industry seems to be ready to take a mid-term approach to sustainability and the environment as well. However, what differs greatly from the past is that companies are now being forced to shift business models and swap assets because it is virtually impossible to continue using into the future assets that are massive and heavy and have large carbon emissions. It seems the industry recognizes the need to make new investments and develop technologies to achieve greener power and electricity.

Transportation, Logistics & Leisure

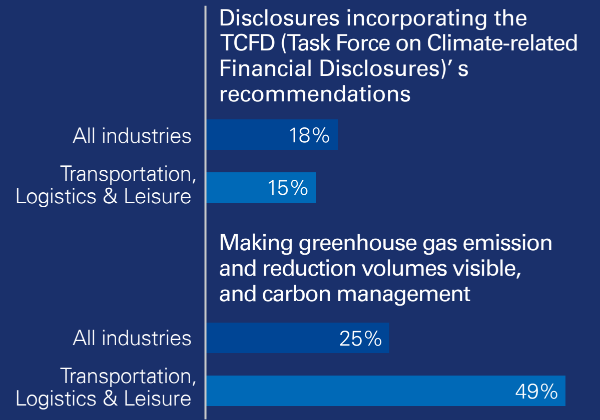
> "The industry is facing a difficult situation as the movement of people has drastically decreased, and it is expected to respond to decarbonization and other new trends while maintaining its function as social infrastructure."

Areas in information disclosure that the company wants to enhance in the future (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Measures being implemented or considered as a response to climate related risks, which is drawing heightened market attention under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Emphasis on fulfillment of social responsibility

In the transportation, logistics & leisure industry, 59% of the companies responded that they want to expand disclosure regarding the fulfillment of social responsibility, surpassing the average for all industries of 45%. As the movement of people is limited under COVID-19, this is the industry suffering the most long-term economic shock, but at the same time it is expected to maintain services as important social infrastructure. Companies are facing the difficult challenge of maintaining a balance between the fulfillment of social responsibility and company business management.

Delayed response to climate change

On average, 18% of companies in all industries cited response to TCFD. That is not a very high figure, but in the transportation, logistics & leisure industry the percentage was lower than this overall average, at 15%. One reason may be that many of the companies in this industry are domestic companies, and the sensitivity to global trends at these companies is not all that high. On the other hand, the greenhouse gas emissions of the transportation, logistics & leisure industry are the highest following the electricity industry, and response to decarbonization and other issues is expected from now on. Accordingly, 49% of the companies selected "making greenhouse gas emission and reduction volumes visible, and carbon management," surpassing the average for all industries. Regardless, overcoming the present management conditions under COVID-19 is undeniably the immediate priority issue, and response to climate change may be losing priority in the industry as a whole.

Banking & Securities

> The companies are seeking a sustainable business model toward building diverse financial intermediary systems that support the transformation to the new normal.

Kiyomi Uchi

National Sector
Head of Financial service,
KPMG Japan

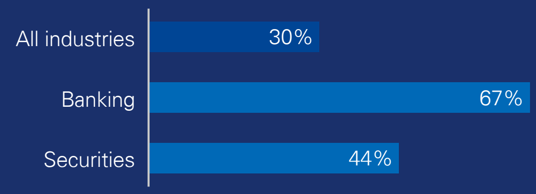
Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)

Improvement of business processes

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Information security issues with heightened importance (multiple choice)

Response to online crime and fraud



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Business process improvement toward construction of sustainable business models

Before COVID-19, business process improvements in the banking and securities industries were mostly carried out from the need to cut costs reflecting the long-term low interest rate policies and otherwise harsh profit environment. With COVID-19, however, rather than the simple cost cutting to date, companies need to implement business process improvement with a view to the post COVID-19 era, that is, the revision of operating models considering the changes in the behavior patterns and values of companies and customers, as well as the provision of business operations structures including the use of digital technologies to respond to the new business environment. There is a growing need for radical business process improvements toward building sustainable business models.

Renewed recognition of cyber security risk

In the banking and securities industries, there was already a recognition of the importance of management of cyber security risk, but new online crimes and fraud have emerged with the expansion of web-dependent work styles with the introduction of telework and the move toward digital services and operations under COVID-19, so this is being recognized anew by CFOs as an important management issue. Meanwhile, the review of data flows and work flows to enhance the response to cyber security risk may accelerate digital transformation including the accounting and financial field, and this will demand the more active involvement of CFOs.

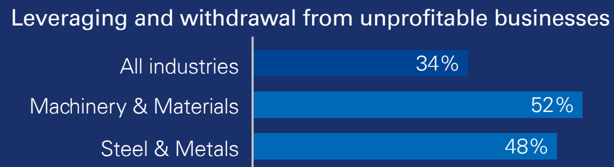
Machinery & Materials, Steel & Metals

It is necessary to grasp growth opportunities early and take concrete action for self-reform to survive and win globally amid great uncertainties regarding the future.

Jun Okamoto

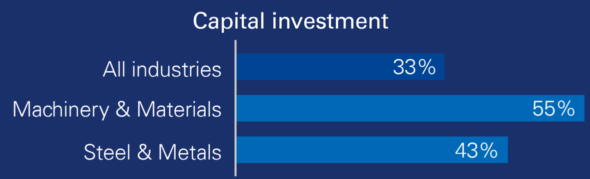
National Sector
Head of Manufacturing,
KPMG Japan

Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)



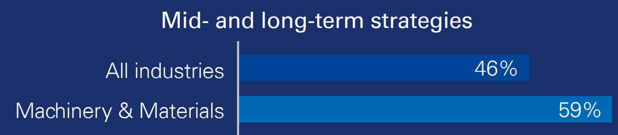
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Investment areas reduced or discontinued (including plans) (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Items that need to be redefined (reviewed) to enhance corporate value under COVID-19 while upholding both corporate social responsibility and economic performance (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Can companies reallocate resources via selection and concentration?

The decline in demand for automobiles and airplanes under COVID-19 has brought great changes to the machinery & materials and steel & metals industries, with a large impact that requires the leveraging of unprofitable businesses and the reduction of capital investment. In fact, these are the industries with the greatest impact leading to the leveraging of unprofitable businesses and the reduction of capital investment. In both the machinery & materials industry and the steel & metals industry, the percentage of companies responding "leveraging and withdrawal from unprofitable businesses" as areas requiring radical reform exceeded the average for all industries of 34%. The percentage citing reduction of capital investment was also higher than the average for all industries of 33%. The global competition in the machinery & materials and steel & metals industries was already intensifying prior to COVID-19. Because players in North America and Europe in particular are accelerating Industry 4.0 and other digital platform strategies starting with IoT, it will be increasingly difficult to survive without implementing technological reform. Under such an environment, it may become difficult to allocate resources to growth fields such as automobile electrification and factory automation unless companies advance selection and concentration more than ever.

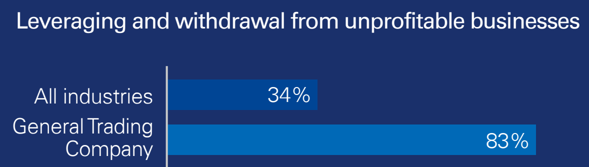
Revision of mid- and long-term strategies considering ESG

In the machinery & materials industry, 59% of the companies selected "mid- and long-term strategies" as an area requiring redefinition to boost corporate value. While full-scale response to environmental issues is required along with revision of business strategies, in the materials industry which requires thermal energy, chemicals, and other resources, the switch to green energies with low CO2 emissions and a concrete roadmap toward becoming carbon neutral are necessary in addition to the responses to date.

General Trading Company

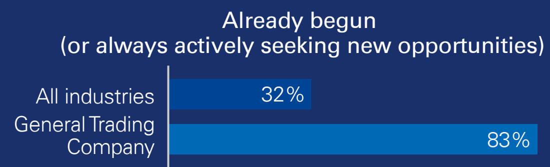
> "General trading companies are capitalizing on their strengths which extend to diverse industries to accelerate sales of non-core businesses and advance active investment in growth fields."

Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)



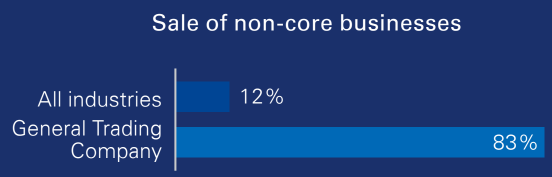
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

If seeking M&A opportunities, expected time of taking full-scale action (single choice)



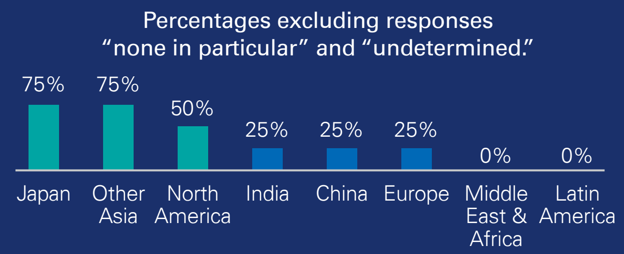
Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Business restructuring areas being implemented or considered under COVID-19 (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Main geographical area in which examinations of new M&A are underway (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Acceleration of business portfolio revision and sale of non-core businesses

A large 83% percent of the companies selected "leveraging and withdrawal from unprofitable businesses" because general trading companies were already examining revisions to their business models prior to COVID-19 due to DX/IT technological innovations and considerations of SDGs. The importance of business restructuring has increased with the pandemic, and this trend has accelerated. Also, the fact that 83% of general trading companies chose "sale of non-core businesses" compared with the average for all industries of 12% shows that general trading companies are grasping COVID-19 as a good opportunity for investment, and are using these sales as a means to generate capital for making new investments.

New M&A strategies under COVID-19

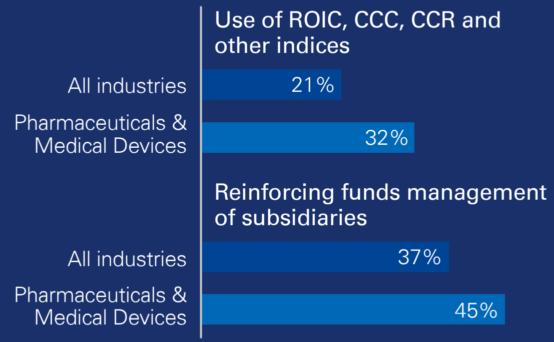
The search for M&A opportunities continues even under COVID-19, with high percentages of respondents targeting North America, Japan, and "other Asia" aside from China and India. While there are some preferences, M&A investigations are being conducted regardless of location in a worldwide search for investment opportunities for new businesses. The survey results also indicate the difficulty of entering the Indian market, compared with "other Asia."

Pharmaceuticals & Medical Devices

> **Companies are implementing measures to stabilize governance and finance, and aiming at business growth and rebuilding after COVID-19.**

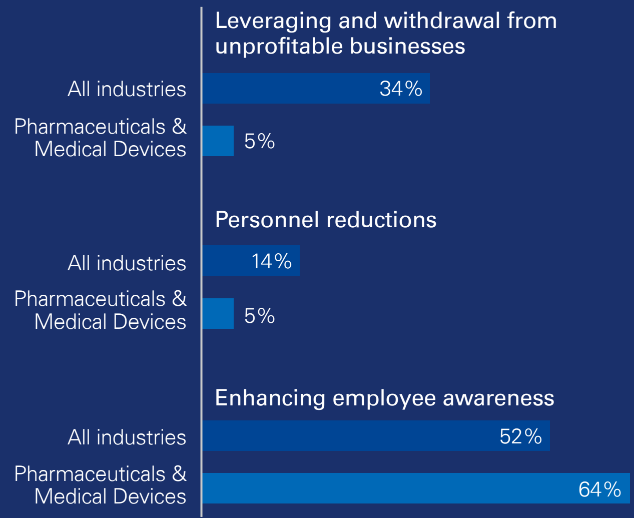
Junichi Kurihara
National Sector
Head of Life Sciences,
KPMG Japan

Measures regarding corporate funding and "cash" presently being implemented or considered (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Areas presently recognized (or standing out anew) as requiring radical reform (multiple choice)



Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Orientation toward financial stability including funds management of subsidiaries

The percentage of companies in the pharmaceuticals & medical devices industry devising such measures as "use of ROIC, CCC, CCR and other indices" and "reinforcing funds management of subsidiaries" is higher than the average for all industries, centered on pharmaceutical companies and medical devices manufacturers developing global business, and these companies are selecting measures to enhance financial stability aimed at business growth after COVID-19. From now on, along with adjustments to pricing and reconstruction of supply chains, the global companies in particular will have to work on reviewing and responding to their transfer pricing taxation system risk.

Enhancing employee awareness is an important strategy.

With the sudden rise in the demand for pharmaceuticals and medical devices under COVID-19, there are presently few business strategies requiring radical reform in the pharmaceuticals & medical devices industry, compared with other industries. On the other hand, more than half (64%) of the pharmaceuticals & medical device companies cited "enhancing employee awareness" as a business strategy. This may reflect the need to radically revise the ways in which business was conducted to date, with MRs refraining from visits to medical facilities to ensure the safety of the medical practitioners who are the customers as well as the employees and their families and as a measure to prevent the spread of the virus. From now on, the companies are likely to discern the trends after COVID-19, advance business restructuring and the establishment of business revenue models, and further accelerate digitalization including drug development utilizing AI.

(Reference)
Financial performance trends of the responding companies by industry

The impacts of the changes in consumption behavior due to COVID-19 on the business environment and corporate performance vary by industry.

As a reference, the change in quarterly operating profit compared to the same period of the previous year at the companies which responded to the survey are presented.

On overall average, the profit decline in the July–Sept. quarter was less than that during the April–June quarter, and corporate performance appears to be recovering, but the trends vary with industries. Some of them have not recovered, some recovered greatly in July–Sept., and others experienced little impact on performance.

Financial performance trends based on percentage change in operating profit compared to the same period of the previous year*

Industry	Jan. –March	April –June	July –Sept.	Industry	Jan. –March	April –June	July –Sept.
Building & Construction	-5%	-25%	-15%	Steel & Metals	-73%	-156%	-182%
Food & Drink	86%	-24%	22%	Machinery & Materials	-48%	-33%	-26%
Chemicals	-46%	-72%	-62%	Electric Appliances & Electronic Devices	-25%	-11%	-2%
Pharmaceuticals & Medical Devices	9%	-15%	-5%	Automobiles	-85%	-165%	-12%
Power, Utilities, Gas & Oil	-61%	-50%	3%	Consumer Goods	-37%	-54%	-21%

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

Improved performance | Small impact | V-shaped recovery | Gradual recovery | Not yet recovered

Financial performance trends based on percentage change in operating profit compared to the same period of the previous year*

Industry	Jan.–March	April–June	July–Sept.
Transportation, Logistics & Leisure	-133%	-258%	-171%
Telecommunications	-30%	-1%	8%
Software	-19%	-8%	-2%
IT Services	15%	-58%	-18%
Media	44%	31%	0%
General Trading Company	-68%	-52%	-52%
Retail	20%	-45%	-28%
Banking	27%	3%	7%
Insurance	-91%	9%	4%
Securities	-36%	-32%	-8%
Real Estate	20%	8%	6%
Professional Services	-4%	-29%	10%
Healthcare Services	-16%	-3%	-9%
Overall average	-35%	-40%	-21%

Source: KPMG Japan CFO Survey 2020 COVID-19 (Special Edition)

* The percentage change in operating profit compared to the same period of the previous year is determined for the 547 companies for which data could be obtained from among the 560 companies that responded to the survey, calculating the percentage increase or decrease of operating profit for each quarter in 2019 and 2020 by industry (ordinary profit figures are used for companies that do not disclose operating profit).

For companies with accounting periods that do not match calendar year quarters, the calculations are made using the concerned companies' quarterly figures. For example, Dec.–Feb, March–May, and June–August are used for companies with the annual period on the last date of February and Nov.–Jan., Feb.–April, and May–July are used for companies with the annual period ending on the last date of January.

The financial performance trends categories are determined at KPMG's judgment based on the operating profit increase or decrease ratios versus the previous year, and do not reflect the results of the survey.

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