KPMG

CFO Focus

Top of mind issues confronting the CFO

Issue #1: Tax

CFOs are seeing their role continue to evolve and become more complex. That means keeping up with today's most pressing issues can be a challenge. KPMG created this series to provide cross-functional updates on the top-of-mind issues facing CFOs. This report includes information on trends and topics collected from discussions and interactions between KPMG professionals and the CFOs at some of our client companies. It also provides related resources on the topics as they pertain to the CFO and the finance function.

Communications around tax savings

Tax reform has thrust many CFOs into the spotlight, as investors, employees, board members, and the media inquire about their companies' intentions to address the tax overhaul. In particular, many CFOs have received intense interest from Wall Street about their plans for tax savings. But for the most part, CFOs aren't changing their capital-allocation programs, and are only responding to analysts' expectations for largescale share repurchasing.

Other CFOs have made conscious decisions to avoid any special communication around tax reform since the U.S. market only constitutes a small portion of their global business. In most cases, CFOs are waiting until quarterly earnings calls or fiscal year-end filings to communicate the impact of their tax savings. Likewise, many CFOs are opting against filing a Form 8-K, but rather in some cases issue press releases or host conference calls to explain forecasting changes and balance sheet impacts.

One reason for the caution around communicating the effects of tax reform is concern that provide that information would require additional auditing or explanations on filings.

Internally, the communications challenge CFOs must face is balancing the expectations of employees and board members. Announcements by some companies intending to provide bonuses for employees arising from tax reform have created an expectation for similar treatment among employees at many organizations. CFOs are now determining the best ways to communicate bonus programs—or lack thereof—to expectant employees. When communicating with their board, CFOs have found that clarity is key. In some cases, CFOs have clearly expressed their priorities for how they are managing their tax savings, noting that only after optimizing the balance sheet, investing in growth, or increasing dividends would savings go towards share buybacks or employee bonus programs.

Related KPMG resources

— Tax Reform—KPMG report on new tax law

Capital allocation

The expected savings from tax reform have led many CFOs to review their capital allocation strategies. Several CFOs that have met with KPMG said they are always considering capital allocations—tax reform simply provides more cash to work with. In many cases, CFOs are accelerating or augmenting their existing plans (e.g., investment in new technologies), but, in a few instances, CFOs are considering new uses of capital (e.g., employee bonuses).

Many executives intend to return excess cash to shareholders by way of dividend increases or share buybacks. Executives that already have structured buyback programs are either accelerating the timetables for the repurchases or increasing the amount of the buybacks. Buyback strategies differ between executives—some executives repurchase shares every quarter unless the stock price goes beyond what the company considers intrinsic value. Others may only buy back stock when it makes sense (e.g., enough to cover dilution every year). Several CFOs use Rule 10b5-1 to create structure for their share buybacks. To get increased flexibility, we've seen companies use multiple 10b5-1s of different sizes and also buys back under 10b18 when circumstances allow. Another approach is to create a matrix for 10b5-1's detailing different values, amounts of shares and daily limits for different prices. In addition to 10b5-1s, organizations may use accelerated stock buybacks (ASBs) through a bank. ASBs are attractive because they allow the stock issuer to set parameters for their buybacks. For example, to protect from cyclical changes in their business, CFOs may put a cap in place so that if the stock rises above a certain price they can stop to reevaluate their position.

However, stock repurchasing plans are without challenges. Companies may have to deal with criticism from lawmakers who would rather the tax savings go towards investment or job creation. As a hedge against such criticism, some CFOs are steering the majority of savings towards stock repurchases, while also devoting funds to 401(k)s and training.

Tax savings strategies

Several CFOs KPMG has engaged with have stated that tax reform, while positive, hasn't been transformational to their businesses. The greatest benefit for many companies has been the access to their offshore funds, which has led CFOs to explore strategies for the allocation of repatriated funds and tax savings.

What are CFO's asking KPMG?

— How are people maximizing value from tax reform?

— How do people think about long-term planning if this tax reform will sunset in 2025?

— Will buybacks have a political cost down the road?

— What type of assumptions are other CFOs making when planning compensation changes for next year?

— How are other CFOs addressing inflationary pressure in wages?

— What are other CFOs planning to do with the windfall from repatriation?

— In response to tax reform, are organizations making changes to their capital allocation strategy or just doing additional investments?

— What are people thinking in terms of restructuring or operating adjustments as they plan for the future?

— Are people moving manufacturing and back-office operations to the U.S.?

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