Manufacturing Trends Quarterly

Q3 2016

Executive summary

1 Economic outlook

Manufacturing sector CFOs' expectations for economic growth in Switzerland have improved sharply and they are slightly more optimistic regarding the next 12 months than CFOs in other sectors.

2 Company prospects

Manufacturing sector CFOs are more positive than CFOs in other sectors about the financial prospects for their company over the next 12 months.

3 Growth prospects

Manufacturing sector CFOs expect a substantial improvement in revenues and margins over the next 12 months, with higher capex and an increase in the number of employees.

4 Business risks

The strength of the Swiss Franc, geopolitical risks and weaker domestic demand remain the biggest threats, followed by increasing regulation in Switzerland.

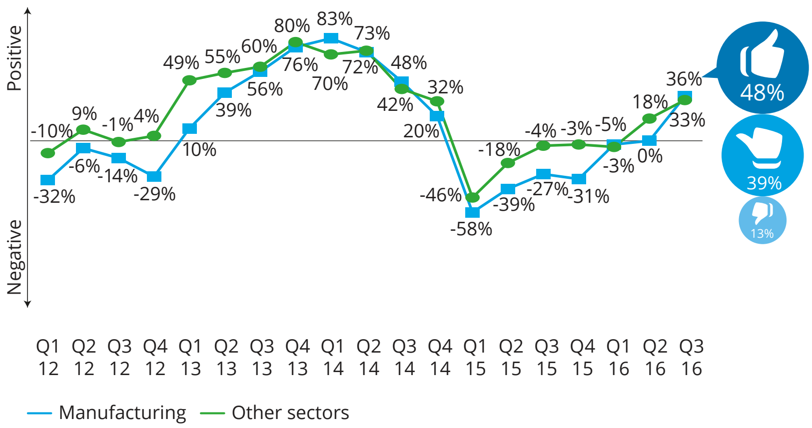
5 Strategic priorities

Cost control remains the top priority for manufacturing sector CFOs in the next 12 months, followed by introducing new products/services and expanding into new markets, with the latter gaining in importance compared to the previous year.

1. Economic outlook

Manufacturing sector CFOs' expectations for economic growth in Switzerland have improved sharply and they are slightly more optimistic regarding the next 12 months than CFOs in other sectors.

Economic outlook (net balance) (Q1 2012 – Q3 2016)
Question: How do you judge the economic outlook for Switzerland over the next 12 months?

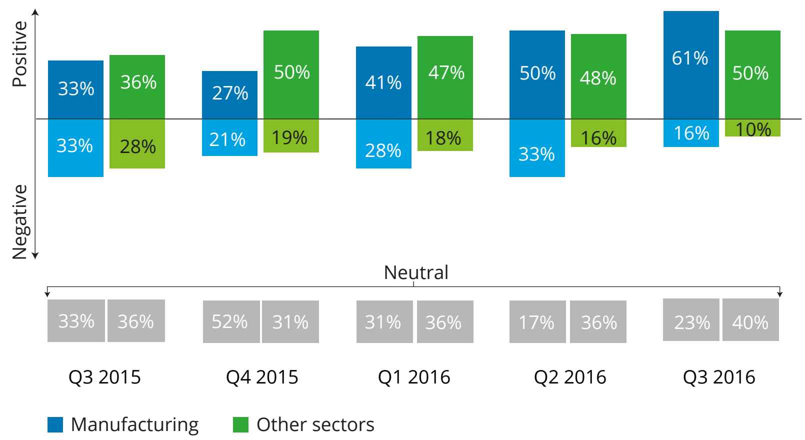


- The views of Swiss CFOs about the **economic outlook** have improved sharply in Q3 2016.
- The confidence of manufacturing sector CFOs is now clearly positive with the net balance at 36%, compared to 0% in Q2. The net balance of other sectors improved also from 18% to 33%.
- The majority of manufacturing sector CFOs (48%) are now optimistic (previous quarter 29%). Only 13% of manufacturing sector CFOs remain pessimistic (previously 29%) and 39% are neutral in Q3 (previously 42%).
- This is a marked improvement compared to the beginning of 2015 after the removal of the exchange rate floor against the euro, when only 5% of manufacturing sector CFOs had positive expectations while a large majority (63%) had a negative outlook for the economy.
- Manufacturing companies have managed to adapt better to the strong Swiss Franc in the last two years and the negative impact of the Brexit referendum has so far been limited.

2. Company prospects

Manufacturing sector CFOs are more positive than CFOs in other sectors about the financial prospects for their company over the next 12 months.

Companies' financial prospects (Q2 2015 – Q3 2016)
Question: How do you rate your company's financial prospects over the next 12 months?



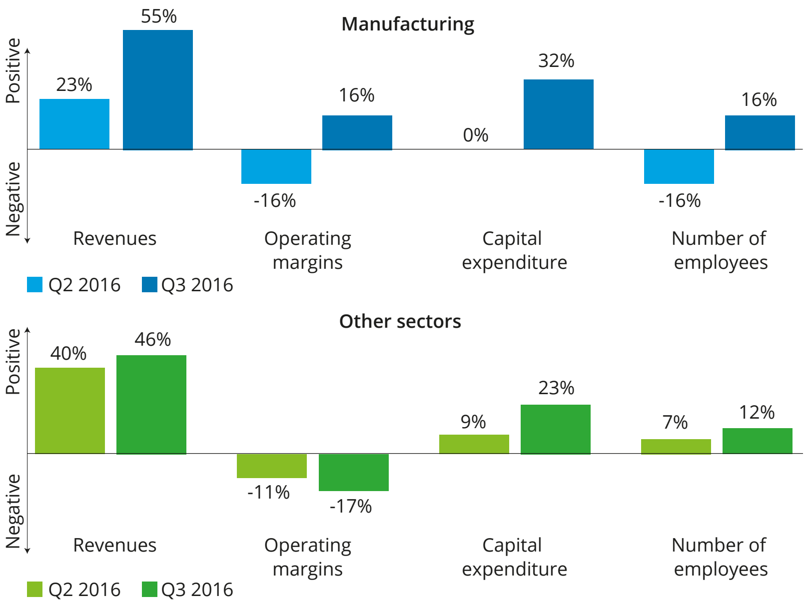
- There has also been a noticeable improvement among manufacturing sector CFOs regarding the **financial prospects** for their company over the next 12 months.
- 61% of manufacturing sector CFOs view their company's financial prospects in Q3 2016 as positive.
- Only 16% of manufacturing sector CFOs rate them as negative, a sharp decrease from the previous quarter (33%). The number of manufacturing sector CFOs who judge the financial outlook as neither positive nor negative increased from 17% to 23%.
- Almost the same number of CFOs in other sectors remain optimistic (50%) compared to Q2 (48%). The number of CFOs in other sectors who judge the financial outlook as negative decreased from 16% to 10%.

Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte CFO Survey.

3. Growth prospects

Manufacturing sector CFOs expect a substantial improvement in revenues and margins over the next 12 months, with higher capex and an increase in the number of employees.

Key metrics (net balance) (Q1 2016 vs. Q3 2016)
Question: In your view, how are the following key metrics for Swiss corporates likely to change over the next 12 months?



- **Revenue** expectations of manufacturing sector CFOs have increased substantially in Q3 2016 to a net balance of 55% (previous quarter 23%). 71% expect an increase in revenue over the next 12 months and only 16% a decrease. Revenue expectations of CFOs in other sectors have increased slightly (from a net balance of 40% to 46%).
- Expectations for **operating margins** among manufacturing sector CFOs have also improved, with the net balance moving from -16% to 16%. 39% of manufacturing sector CFOs expect margin increases, with 23% expecting decreases. Margin expectations of CFOs in other sectors remain negative, as in the previous quarter.
- Manufacturing sector CFOs expect higher **capital expenditure** than CFOs in other sectors. Capital expenditure expectations of manufacturing sector CFOs increased sharply from a net balance of 0% to 32%.
- The expected **number of employees** in all sectors has increased compared to the previous quarter, with a sharp increase in the expectations of manufacturing sector CFOs from -16% in Q2 to +16 in Q3.

4. Business risks

The strength of the Swiss Franc, geopolitical risks and weaker domestic demand remain the biggest threats, followed by increasing regulation in Switzerland.

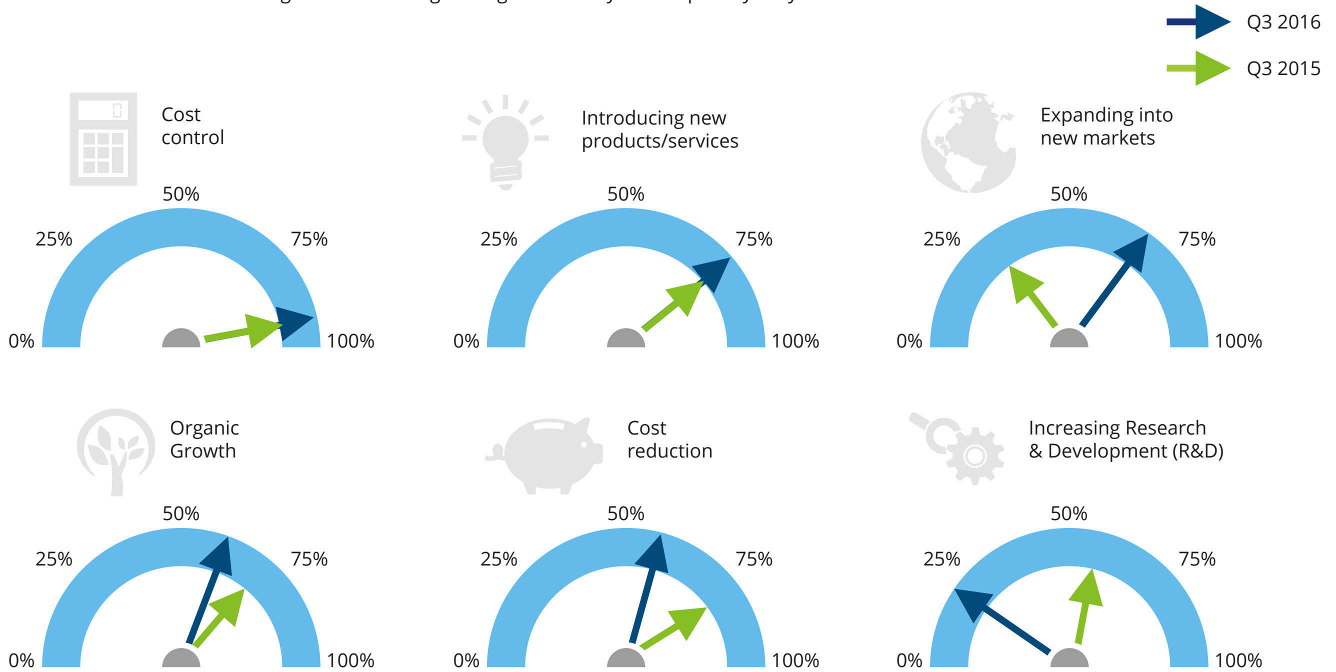
- The strength of the Swiss Franc remains the most significant risk factor for Swiss manufacturers in the next 12 months.
- Weaker domestic demand is seen as the second biggest risk, followed by geopolitical risks – especially the ongoing tensions in Middle East, Turkey and Russia, and the uncertain outcome of the US election.
- Future relations with the EU as well as future regulation on migration are also seen as significant risks for the next 12 months.
- In addition, the shortage of skilled professionals remains an issue for many Swiss manufacturers.

Notes: The figures for business risks are for the manufacturing sector only. The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte CFO Survey.

5. Strategic priorities

Cost control remains the top priority for manufacturing sector CFOs in the next 12 months, followed by introducing new products/services and expanding into new markets, with the latter gaining in importance compared to the previous year.

Strategic priorities (net balance) (Q3 2015 vs. Q3 2016)
Question: Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?



Interview with Rainer Duebi, Vice President Design and Manufacturing Systems Division, Burckhardt Compression AG

Deloitte: Expectations of Swiss manufacturing CFOs for economic growth in Switzerland and for their company's financial prospects for the next 12 months have improved sharply in Q3 2016. Do you think that the crisis for the Swiss manufacturing industry has now bottomed out and that manufacturers have overcome the Swiss Franc shock?

Rainer Duebi: The exchange rate for the Swiss Franc has never been particularly important for us. We have always taken advantage of favourable purchasing conditions, both within Europe and internationally, and over recent years we have strengthened our global position by opening three new production plants. Only a very small proportion of our business comes from Switzerland, so growth would have very little impact on us. On the other hand, it will improve the situation for our Swiss suppliers, who are now in a better position to trade in the global market.

In general terms, we are seeing less global pressure and cautious growth in markets that have been very weak for the last two years.

Deloitte: What do you see as the main strategic priorities for your business over the next 12 months in light of the positive economic outlook?

Rainer Duebi: Our priority is to drive forward globalisation of our business. Our projects are based on longer-term investment, which is not contingent on a single factor. As a result, it is important that we remain flexible with regards to future trends and are able to take rapid global action. We are keeping a very close eye on what and where our customers plan to invest around the world. We are also expanding our supplier network so that we can remain competitive, both in cost terms and as regards delivery times.

Notes: The figures for strategic priorities are for the manufacturing sector only. The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte CFO Survey.

Deloitte: The strength of the Swiss Franc, geopolitical risks and weaker domestic demand remain the key business issues for Swiss manufacturers. What do you see as the biggest risks for your business over the next 12 months?

Rainer Duebi: For us, the greatest risk is the uncertainty our customers face in a number of areas. Uncertainty about costs, global conflicts, and trade embargos are all hampering major investment, so long-term projects are not getting off the ground – and that kind of project is the major market for our compressors. Many countries are also pulling back from the global approach, with some now actively taking steps to promote local business. We are keeping a very close eye on our markets so that we can respond rapidly. However, what we are seeing is that the service market is more robust, so that will be Burckhardt Compression's major growth market for the future. In this area in particular, we shall be using industry 4.0 tools to roll out new business models and approaches over the next few years.

Deloitte: How important are innovation and digitalisation/industry 4.0 for the future growth of your business?

Rainer Duebi: Our main priority is to supply our customers with products that integrate the latest technologies and equip them to meet the challenges of industry 4.0. The major benefit to our customers is the competitive edge it gives them. In production terms, we need to become more efficient – especially resource-efficient – and to boost our flexibility. Industry 4.0 is part of this strategy and opens up new ways of managing production, something that is becoming increasingly important, particularly in the global environment. Accordingly, innovation is the key to our future as a production location within Switzerland, although only time will tell whether we shall be producing new compressors or new services.

Profile:
Rainer Duebi has been Vice President of the Design and Manufacturing Systems Division at Burckhardt Compression since 2012. He joined Burckhardt Compression in 2003 as a Sizing Project Engineer and then served as a Manager Sizing and Senior Sales Manager. Prior to that he was Commissioning Engineer at ABB Switzerland and Commissioning Lead Engineer at Alstom Switzerland. Rainer Duebi holds a degree in Mechanical Engineering from the HTL Winterthur and a Master's degree in Advanced Studies of Business Administration (MASBA) from the School of Management, Switzerland.

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