



The Deloitte CFO Survey

Higher growth rates back on the horizon

Autumn 2016

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This is the 29th quarterly survey of Chief Financial Officers and Group Financial Directors of major companies based in Switzerland. The Survey gauges their attitudes towards the outlook for business, financing, risk and strategies, and is designed to identify trends and key themes in the Swiss corporate sector. The CFO Survey is the only survey of its kind in Switzerland.

The autumn 2016 CFO Survey was conducted between 29 August and 21 September 2016. A total of 111 CFOs took part, representing listed companies as well as privately owned firms from every major sector of the Swiss economy.

The Deloitte CFO Survey is written and produced by Dr. Michael Grampp, Chief Economist, and Dennis Brandes, Senior Economic Analyst, Deloitte Research.

A note on the methodology

Some of the charts in the Survey show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither negative nor positive are deemed to be neutral.

Because of rounding, percentages may not add up to 100. To improve readability, only questions related to the current financial and economic situation have been included in the published Survey. If you would like to receive information about unreported questions, please contact us

Summary and key findings of the Swiss CFO Survey

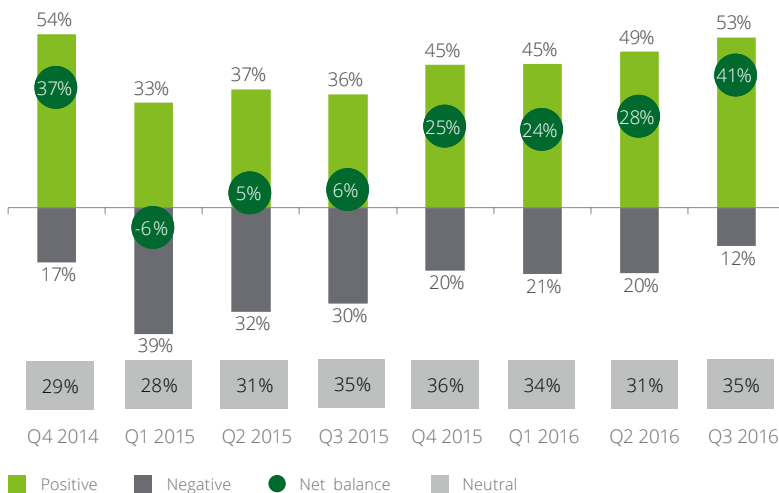
During the entire 11-year period from 2004 to 2014, the Swiss economy grew more rapidly than the eurozone economy. Only the shock waves that followed the removal of the exchange rate floor against the euro in 2015 and the eurozone's gradual recovery brought this impressive record to a halt. At first, it looked as if it could be years before the Swiss economy would be again able to outstrip the eurozone in growth terms. However, current forecasts for quarterly GDP and economic growth now suggest that Switzerland may be able to close the gap by the end of this year.

This prospect is borne out by the findings of the most recent CFO Survey. Swiss CFOs are increasingly optimistic about the country's economy and, for the first time since the end of 2014, more than half of those taking part in the Survey are also optimistic about their own company's prospects over the next 12 months (see 'This quarter's key chart' below). Expectations for revenues, capital expenditure and number of employees have also improved.

Nevertheless, Swiss companies still face major challenges. Pressure on margins persists, and geopolitical risks continue to dominate the headlines. Despite a slight improvement in confidence, CFOs continue to rate uncertainty in the economic and financial environment as high. The US elections and Italian constitutional referendum this year and French and German elections next year will send important signals at a time when the business world is still coming to terms with the UK's decision to leave the European Union. There is also concern about Switzerland's monetary policy and the interest rate environment. CFOs remain very risk averse, but Swiss businesses increasingly seem to have adjusted to a less favourable environment. Unless external risks worsen, for example a renewed deterioration in the eurozone crisis, Switzerland appears well placed to return to previous rates of economic growth.

This quarter's key chart: Companies' financial prospects

How do you rate your company's financial prospects over the next 12 months?





45%

rate the prospects for the Swiss economy over the next 12 months as positive.

Brighter outlook for the Swiss economy and for companies

Swiss CFOs' expectations for the Swiss economy have improved significantly this quarter: 45% rate the outlook as positive, 14 percentage points more than in the summer 2016 Survey. CFOs are also more optimistic about the prospects for their own company, with 53% rating them as positive compared with just 12% rating them negative.



64%

expect revenues to increase over the next 12 months.

Corporate indicators improve, but pressure on margins persists

Almost two-thirds of CFOs expect revenues to increase over the next 12 months, while around 40% expect higher capital expenditure and increases in the number of employees. Pressure on margins persists, however, with more CFOs expecting margins to decrease than to increase (31% as against 24%).



63%

rate uncertainty in the economic and financial environment as high.

External risks continue to dominate

The economic and financial environment remains uncertain. As in previous surveys, external risks are a particular cause for concern: CFOs most frequently cite the strength of the Swiss Franc, geopolitical risks and the regulatory environment. Other perceived risks include Switzerland's monetary policy and the interest rate environment.



48%

see negative interest rates as having a negative impact on their company.

Negative interest rates having a negative impact

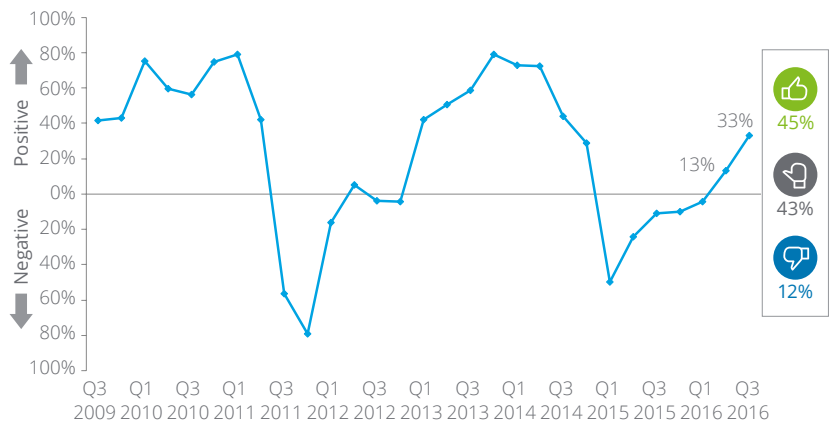
Almost half of CFOs think that negative interest rates are having a negative impact on their company, with just 13% reporting a positive impact. The positive impacts include the lower cost of debt financing, while among the negative impacts, CFOs cite (potentially) negative interest on savings capital, a widespread lack of investment opportunities and the impact on pension schemes.

Economic outlook brightens

There has been a further improvement in Swiss CFOs' expectations for the economy. 45% currently rate Switzerland's economic prospects over the next 12 months as positive, compared with 12% who rate them as negative. This represents a marked improvement on Q1 2015 when, following the removal of the exchange rate floor against the euro, just 10% of CFOs rated Switzerland's economic prospects as positive and 60% rated them as negative. Companies have increasingly adapted to the strong Swiss Franc, while the mood of CFOs has not yet been negatively impacted by the outcome of the UK referendum on EU membership (Brexit).

Chart 1. Economic outlook

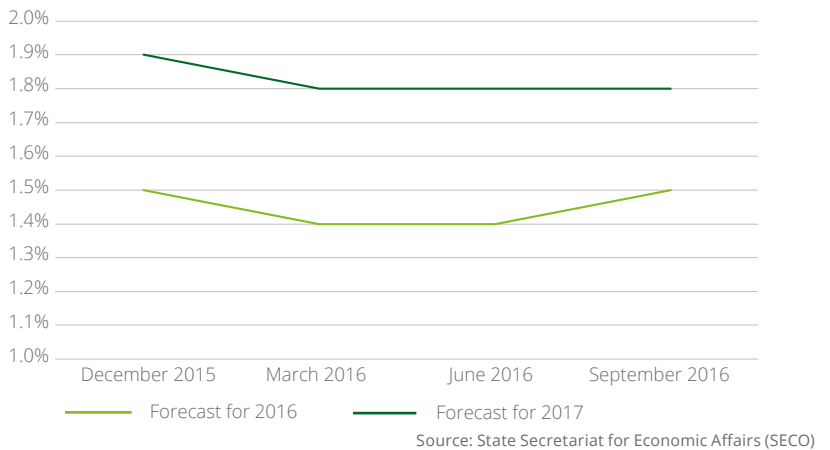
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



This upturn has taken many forecasters by surprise and many forecasts have been adjusted upwards. In September, for example, Switzerland's State Secretariat for Economic Affairs (SECO) updated its forecast for growth in 2016 to 1.5%, 0.1 percentage points higher than its March and June 2016 forecast.

Chart 2. Development of economic forecasts

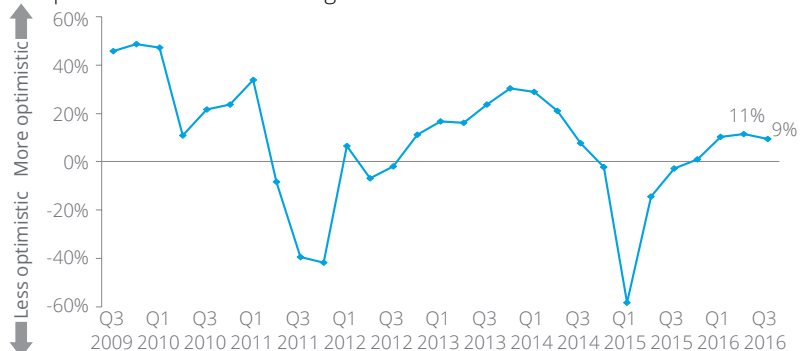
GDP growth forecasts for 2016 and 2017, according to SECO quarterly estimates



CFOs are slightly more pessimistic about the financial outlook for their own company this quarter compared with three months ago, but the net balance remains positive. For a small majority of companies, the situation has therefore improved over the last three months, as was the case in preceding quarters.

Chart 3. Financial outlook for companies compared with the previous quarter

Net balance indicating how CFOs rate their company's financial prospects compared with three months ago

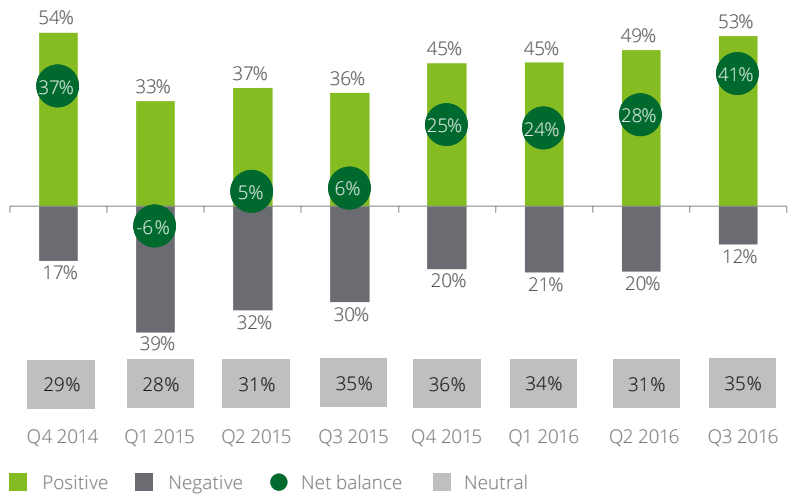


Improved corporate indicators

There has been a marked improvement in CFOs' assessment of the financial prospects for their own company over the next 12 months. The net balance (of those rating their company's prospects as positive) has risen by 13 percentage points to 41%. For the first time since the removal of the exchange rate floor in early 2015, more than half of CFOs (53%) rate their company's financial prospects as positive.

Chart 4. Financial prospects for the next 12 months

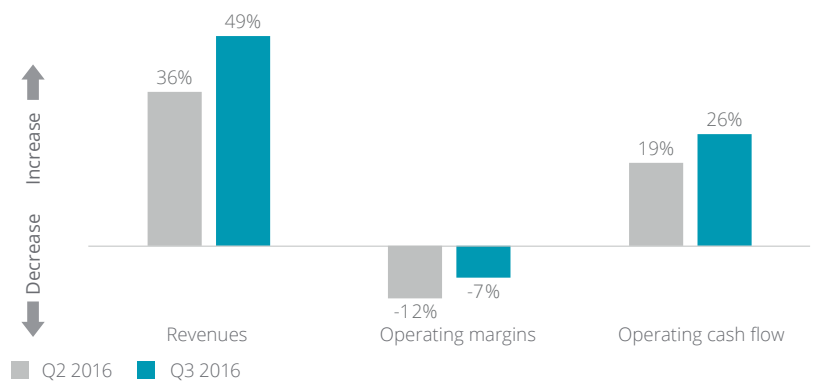
How do you rate your company's financial prospects over the next 12 months?



This greater optimism is also reflected in individual corporate indicators. The net balance for revenue expectations over the next 12 months has improved markedly (up 13 percentage points), with a more modest improvement in expectations for operating margins and cash flow. Pressure on margins persists, but a substantial majority of CFOs (net balance 26%) do not expect problems in relation to their company's cash flow.

Chart 5. Corporate indicators I

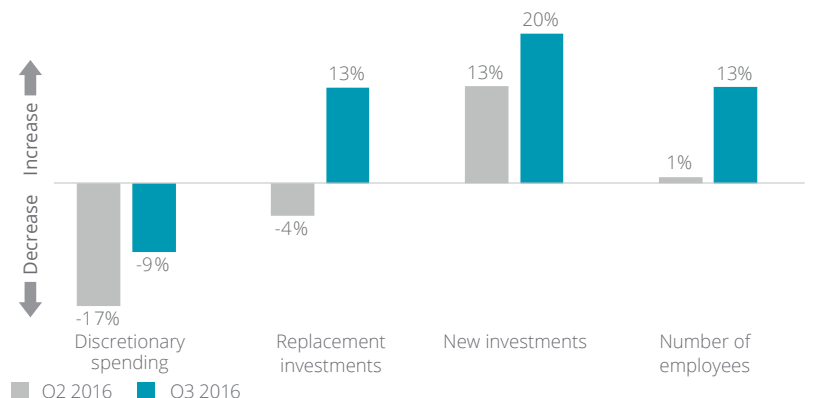
Net balance of Swiss CFOs who expect the following indicators to increase/decrease for their company over the next 12 months



Over the year, CFOs expect both investment and number of employees to increase. A majority expect both replacement investments and new investments to increase over the next 12 months. A slightly smaller majority also expect employee numbers to increase, though this is a markedly higher proportion than in the summer Survey. CFOs are continuing to curb discretionary spending and remain cautious in their expectations, with a net balance of 9% expecting such spending to decrease.

Chart 6. Corporate indicators II

Net balance of Swiss CFOs who expect the following indicators to increase/decrease for their company over the next 12 months

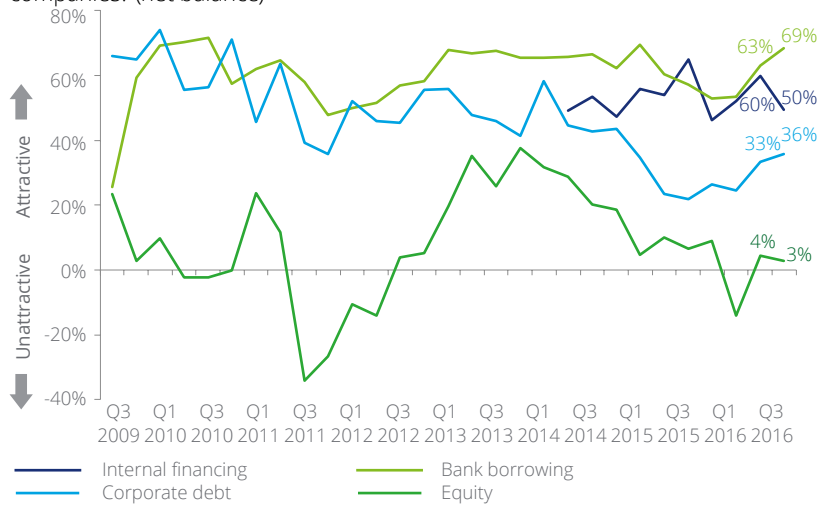


Financing environment remains attractive

Bank borrowing remains the most popular form of financing and is somewhat more attractive this quarter than in Q2. Internal financing is the second most attractive form of financing, with corporate debt and, in particular, equity rated as less attractive.

Chart 7. Corporate financing

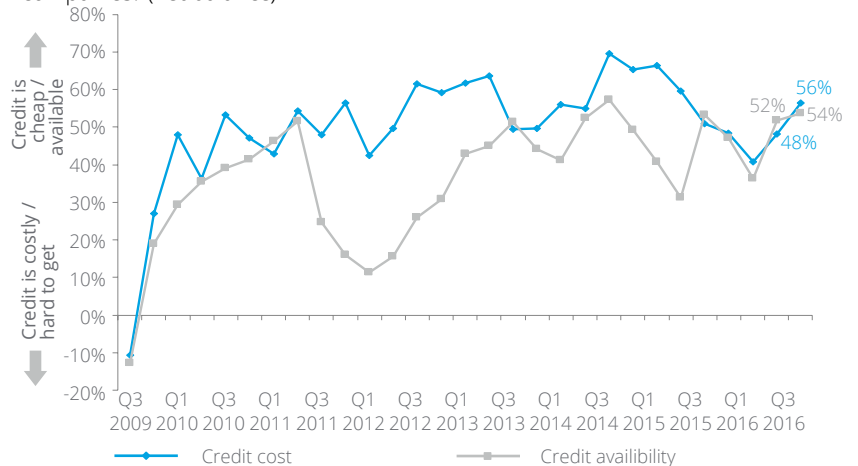
How do you currently rate the following financing sources for Swiss companies? (net balance)



CFOs are more positive about both the cost of credit and its availability than in Q2, the second successive quarter in which their rating has improved. Despite some fluctuations, a majority of CFOs have rated the conditions for borrowing as attractive since winter 2009. Given the historically low level of interest rates, this is hardly surprising.

Chart 8. Cost and availability of credit

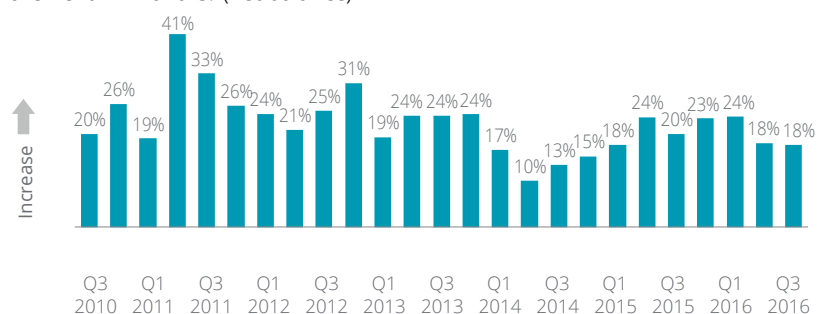
How do you rate the cost and general availability of new credit financing for companies? (net balance)



CFOs' expectations for their company's demand for new credit over the next 12 months remain modest, despite their assessment that credit has become more attractive. One reason for this may be that they see internal financing as very attractive (Chart 7). This suggests that companies have substantial cash reserves. It also reflects an ongoing risk aversion on the part of CFOs (Chart 11) and concerns about the impact of negative interest rates (Chart 14). If a company has adequate cash reserves to finance investment, this strategy may be more attractive than incurring additional risk and potentially having to pay negative rates of interest on its existing reserves.

Chart 9. Future demand for credit

How do you expect your company's demand for new credit to change over the next 12 months? (net balance)

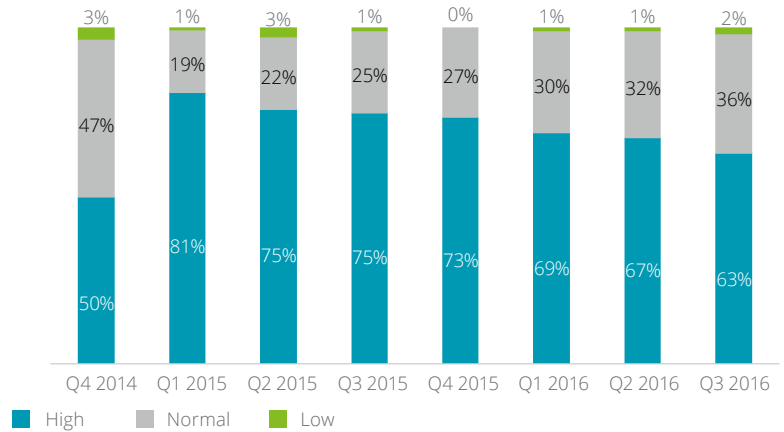


High level of uncertainty, high aversion to risk

Slightly less than two-thirds of CFOs rate the current level of uncertainty in the economic and financial environment as high. However, this proportion has fallen gradually from the record 81% recorded in the aftermath of the removal of the exchange rate floor against the euro. The most recent Survey shows that new causes for uncertainty, including the possibility of Brexit, have had no effect on this gradual decline in perceived uncertainty.

Chart 10. Uncertainty

How do you rate the current level of uncertainty in the economic and financial environment?



Swiss CFOs' aversion to risk remains high, however. Just over three-quarters do not believe that this a good time to be taking greater risk onto their balance sheet, slightly more than in the summer Survey.

Chart 11. Risk appetite

Is this a good time to be taking greater risk onto your balance sheet?



The greatest perceived risk remains the strength of the Swiss Franc. Geopolitical risks, including the future relationship between Switzerland and the EU and future rules on migration, are also a major concern. Few CFOs currently cite Brexit as a risk, however, probably because it is still a distant prospect and its impact is unclear. By contrast, CFOs are concerned about Switzerland's current monetary policy and the interest rate environment as well as business regulation. Overall, CFOs are most concerned about external risks, citing internal risks markedly less often.

Chart 12. Risks

What do you see as the greatest internal or external risks to your company over the next 12 months? (up to three responses possible)

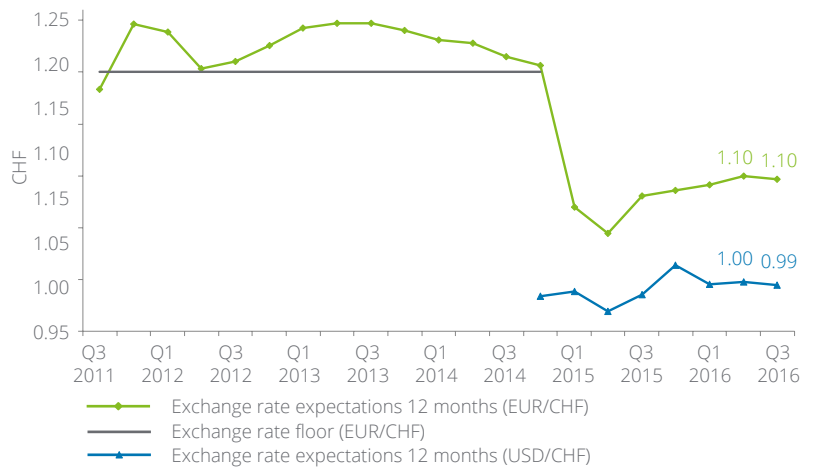


A wide range of external risks

On average, Swiss CFOs expect virtually no change in exchange rates over the next 12 months, with expectations for CHF 1.10 against the euro and CHF 0.99 against the US dollar. If these expectations are borne out, the Swiss Franc would remain strong but would not rise further in value. The expectations reported by CFOs range between EUR/CHF 1.05 and EUR/CHF 1.20, while for the US dollar they range from USD/CHF 0.95 to USD/CHF 1.10.

Chart 13. Exchange rate expectations

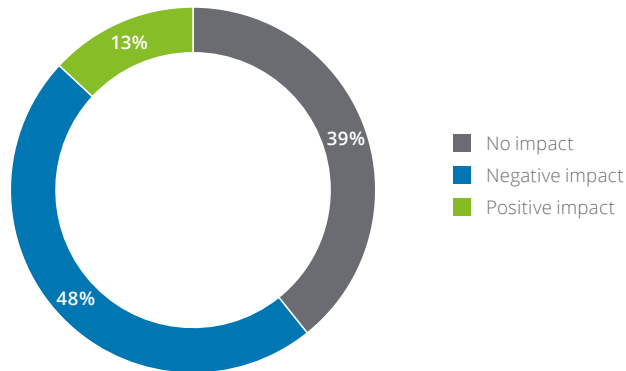
What exchange rate do you expect for the Swiss Franc against the euro and the US dollar in 12 months' time?



A majority of companies (61%) report that negative interest rates are having an impact, and in the majority of cases, the impact is negative. In a separate question about the nature of the impact, CFOs indicate that positive impacts include favourable rates of interest on debt financing, while negative impacts include increased costs, negative interest on savings capital and a widespread lack of investment opportunities. CFOs also cite the effects on their company's pension scheme.

Chart 14. Impact of negative interest rates on companies

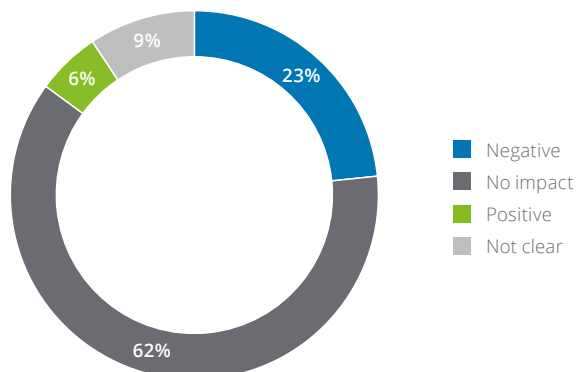
Are negative rates of interest currently having an impact on your company? If so, are they impacting positively or negatively overall?



Geopolitical risk remains a concern for Swiss CFOs, but the possibility of Brexit does not yet feature prominently on their list of concerns. The process of withdrawing from the EU is likely to take years, and the outcome is currently unclear, so any impact on Swiss businesses is still uncertain. Nevertheless, 23% of CFOs already expect negative fallout from the exit negotiations between the UK and the EU. As responses to a separate question show, however, once the UK has actually left the EU, its withdrawal is expected to have an overwhelmingly negative impact (see Appendix 1). The effect most commonly cited by CFOs is the increased complexity and higher costs resulting from different regulatory requirements.

Chart 15. Impact of Brexit on companies

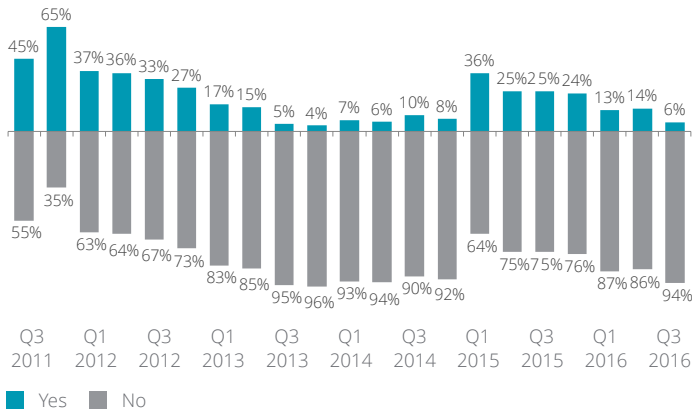
What impact will the Brexit negotiations between the UK and the remaining 27 EU Member States have on your business activities?



Appendix 1: Additional charts

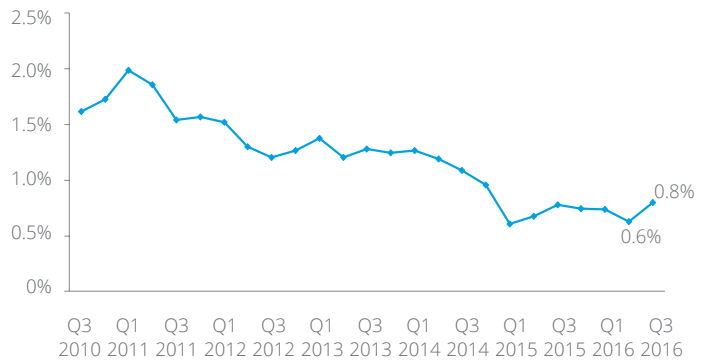
Recession expectations

Do you expect Switzerland to face a recession over the next two years?



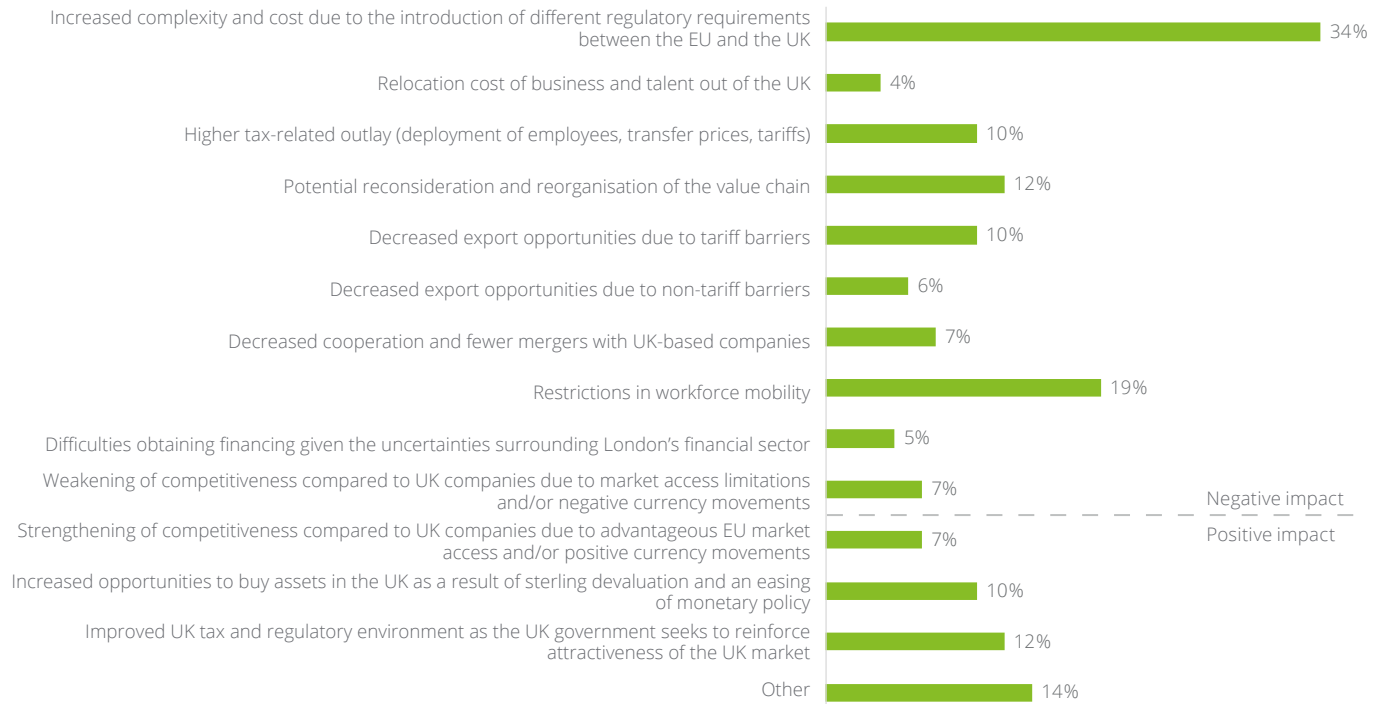
Inflation expectations

What inflation rate do you expect in two years' time as measured against the Swiss Consumer Price Index?



Impact of possible Brexit on Swiss companies

What impact do you think UK withdrawal from the EU will have on your business activities (Please select all that apply.)?



Appendix 2: Data archive

To make the results easier to interpret, this table contains a full breakdown of responses to some of the questions covered by the Survey. Because of rounding, percentages may not always add up to 100. You can find all the survey results since Q3 2009 on our website at www.deloitte.com/ch/cfosurvey

	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
How do you judge the economic outlook for Switzerland over the next 12 months?																	
Positive	26%	28%	53%	56%	63%	80%	76%	75%	53%	41%	10%	16%	26%	24%	24%	31%	45%
Neither positive nor negative	44%	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%	36%	43%	47%	50%	43%
Negative	30%	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%	37%	33%	28%	18%	12%
Net balance	-4%	-4%	42%	51%	59%	79%	73%	73%	44%	29%	-50%	-24%	-11%	-10%	-4%	13%	33%
Compared with 3 months ago how do you feel about the financial prospects for your company?																	
More optimistic	26%	35%	32%	36%	37%	38%	37%	33%	26%	21%	6%	20%	23%	21%	27%	31%	27%
Unchanged	46%	42%	52%	45%	50%	55%	55%	56%	55%	55%	29%	46%	51%	59%	57%	50%	55%
Less optimistic	28%	23%	16%	19%	13%	7%	8%	12%	18%	23%	65%	34%	26%	20%	16%	19%	18%
Net balance	-2%	11%	17%	16%	24%	30%	29%	21%	8%	-2%	-58%	-14%	-3%	1%	10%	11%	9%
In your view how are the following key metrics for your company likely to change over the next 12 months? - Revenues																	
Increase													56%	58%	64%	59%	64%
No change													19%	20%	18%	17%	20%
Decrease													25%	22%	18%	23%	16%
Net balance													30%	36%	46%	36%	49%
In your view how are the following key metrics for your company likely to change over the next 12 months? - Operating margins																	
Increase													32%	26%	28%	26%	24%
No change													28%	39%	31%	36%	44%
Decrease													40%	35%	41%	38%	31%
Net balance													-8%	-9%	-14%	-12%	-7%
In your view how are the following key metrics for your company likely to change over the next 12 months? - Operating cash flow																	
Increase													37%	40%	39%	45%	44%
No change													30%	34%	36%	30%	39%
Decrease													33%	26%	25%	25%	18%
Net balance													4%	14%	14%	19%	26%
In your view how are the following key metrics for your company likely to change over the next 12 months? - Discretionary spending																	
Increase													12%	22%	16%	17%	12%
No change													42%	46%	59%	50%	67%
Decrease													45%	32%	24%	33%	21%
Net balance													-33%	-10%	-8%	-17%	-9%

Appendix 2: Data archive

	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
In your view how are the following key metrics for your company likely to change over the next 12 months? - Replacement investments																	
Increase																15%	22%
No change																66%	69%
Decrease																19%	9%
Net balance																-4%	13%
In your view how are the following key metrics for your company likely to change over the next 12 months? - New investments																	
Increase																41%	39%
No change																31%	41%
Decrease																28%	19%
Net balance																13%	20%
In your view how are the following key metrics for your company likely to change over the next 12 months? - Number of employees																	
Increase													27%	33%	32%	30%	38%
No change													39%	37%	47%	42%	37%
Decrease													34%	31%	21%	29%	-25%
Net balance													-8%	2%	11%	1%	13%
How do you currently rate the following sources of funding for Swiss corporates? - Internal financing																	
Attractive								61%	66%	56%	67%	65%	73%	59%	61%	70%	65%
Neither attractive nor unattractive								27%	22%	35%	22%	24%	20%	28%	30%	19%	19%
Unattractive								12%	13%	9%	11%	11%	8%	13%	9%	10%	16%
Net balance								49%	53%	47%	56%	54%	65%	46%	52%	60%	50%
How do you currently rate the following sources of funding for Swiss corporates? - Bank borrowing																	
Attractive	62%	64%	73%	72%	72%	71%	70%	75%	74%	71%	77%	73%	70%	67%	69%	73%	77%
Neither attractive nor unattractive	33%	30%	21%	23%	24%	23%	25%	16%	18%	20%	16%	14%	16%	20%	15%	18%	15%
Unattractive	5%	6%	5%	5%	4%	6%	5%	9%	8%	9%	7%	13%	13%	14%	16%	10%	8%
Net balance	57%	58%	68%	67%	68%	66%	65%	66%	67%	62%	70%	61%	57%	53%	54%	63%	69%

	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
How do you currently rate the following sources of funding for Swiss corporates? - Corporate debt																	
Attractive	54%	62%	61%	60%	62%	59%	67%	61%	58%	60%	58%	47%	45%	49%	46%	53%	52%
Neither attractive nor unattractive	38%	32%	34%	28%	22%	24%	24%	22%	27%	24%	19%	30%	32%	29%	33%	28%	32%
Unattractive	8%	6%	5%	12%	16%	17%	9%	17%	15%	16%	23%	23%	23%	22%	21%	19%	16%
Net balance	45%	56%	56%	48%	46%	41%	58%	45%	43%	44%	35%	23%	22%	26%	25%	33%	36%
How do you currently rate the following sources of funding for Swiss corporates? - Equity																	
Attractive	28%	30%	39%	53%	46%	48%	46%	45%	43%	35%	32%	35%	30%	31%	18%	32%	30%
Neither attractive nor unattractive	27%	26%	38%	50%	42%	43%	44%	39%	36%	32%	27%	32%	26%	27%	18%	28%	26%
Unattractive	24%	25%	20%	17%	20%	11%	15%	16%	23%	17%	27%	25%	23%	22%	32%	27%	27%
Net balance	4%	5%	20%	35%	26%	38%	32%	29%	20%	19%	5%	10%	7%	9%	-14%	4%	3%
How would you rate the overall cost of new credit for corporates?																	
Costly	9%	5%	5%	6%	10%	12%	6%	8%	5%	5%	7%	6%	10%	16%	15%	13%	10%
Neutral	21%	31%	28%	25%	31%	26%	31%	28%	20%	25%	19%	28%	30%	20%	29%	27%	23%
Cheap	70%	64%	67%	69%	59%	62%	62%	63%	75%	70%	73%	66%	61%	64%	56%	61%	67%
Net balance	62%	59%	62%	64%	50%	50%	56%	55%	69%	65%	66%	60%	51%	48%	41%	48%	56%
How would you rate the overall availability of new credit for corporates?																	
Available	42%	49%	54%	54%	61%	56%	53%	61%	63%	56%	54%	48%	63%	60%	53%	59%	60%
Neutral	41%	32%	34%	36%	29%	33%	35%	31%	31%	36%	34%	36%	28%	26%	30%	34%	33%
Hard to get	16%	19%	11%	9%	10%	11%	12%	8%	6%	7%	13%	17%	10%	13%	17%	7%	6%
Net balance	26%	31%	43%	45%	51%	44%	41%	53%	57%	49%	41%	31%	53%	47%	36%	52%	54%

Note

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