The Deloitte CFO Survey

External environment dominates CFOs' concerns

Summer 2016

Contents

This is the 28th 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 summer 2016 CFO Survey was conducted between 30 May and 23 June 2016. A total of 115 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 positive nor negative 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.

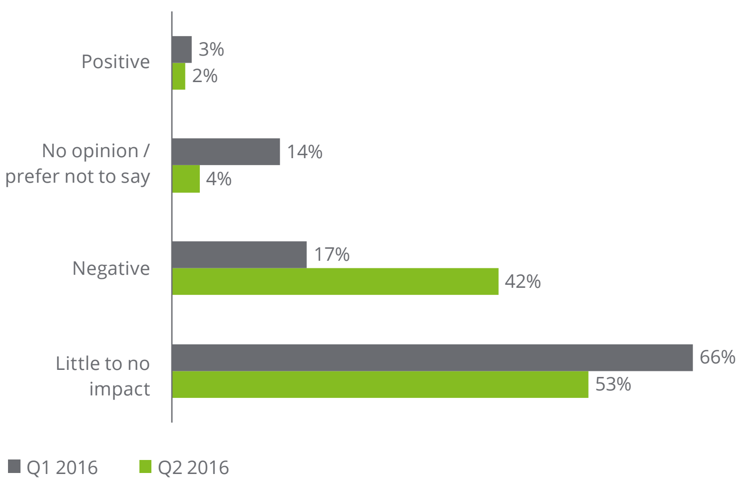
Summary and key findings of the Swiss CFO Survey

The environment in which Swiss companies are currently operating is not an easy one. After a partial recovery from the shock waves caused by last year's removal of the exchange rate floor against the euro, the second quarter of 2016 has been dominated by growing concern about risk, in particular (geo)political risk. The survey period was overshadowed by uncertainty about the potential impact that a decision by the United Kingdom to leave the European Union would have. This concern grew in the run-up to the referendum (see this quarter's key chart), and external uncertainty is likely to remain high now that the UK has indeed voted to leave the EU. The situation in which Swiss business now finds itself is challenging and unprecedented. Pressure on the exchange rate is not, however, unfamiliar: over recent years, companies have already had to adjust to a stronger Swiss Franc, so they are prepared, at least to some extent. The Swiss National Bank is also ready to step in to prevent too large a rise in the value of the currency. Moreover, it will take a long time for the UK to negotiate its exit from the EU and for new arrangements to be put in place. While Swiss companies have considerable time to prepare for such change, they should use it wisely to carry out strategic scenario analyses and make contingency plans.

Provided the reaction to Brexit is considered and cautious, and the process is managed relatively smoothly, any negative impact on Swiss companies should be limited. The greatest risk is political: there is now a greater likelihood of major political upheaval both within the UK and across the EU. The best case scenario is that the desire to minimise risk and uncertainty actually brings about business-friendly reforms. Given this external uncertainty, it is particularly important that internal risks to the Swiss economy are minimised. It is not, therefore, a good sign that increasing business regulation within Switzerland continues to be a major source of anxiety for CFOs. Indeed, CFOs are currently more concerned about increasing regulation than about the skills shortage.

Despite the unfavourable external environment, the mood among Swiss CFOs is more positive than in our March 2016 Survey. For the first time since the end of 2014, a majority of CFOs rate the country's economic prospects over the next 12 months as positive. Expectations for revenues are also positive, although there is sustained pressure on operating margins. For the first time in two years, CFOs' risk appetite has increased, which is a further encouraging sign. Swiss CFOs expect the exchange rate against the euro and the US dollar to remain broadly unchanged both over the next 12 months and over the next 36 months as well. However, in the short and medium term, some market turbulence is likely as a reaction to the Brexit decision.

This quarter's key chart: Swiss companies fear negative impact from the UK's decision to leave the EU
What impact would a decision by the United Kingdom to leave the EU (Brexit) have on your company?



31%

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

Swiss economic outlook more positive

A small majority of CFOs rate Switzerland's economic prospects as positive, the highest level since the end of 2014. Around a third are optimistic about the country's economic outlook over the next 12 months, while 18% are pessimistic. CFOs are also positive about their company's financial outlook and most are optimistic in their expectations for revenues. However, there is still sustained pressure on operating margins.

68%

of British CFOs expect the long-term business environment in the UK to deteriorate once it leaves the EU.

Brexit anxiety both in Switzerland and the UK

While concern was already growing among Swiss CFOs in the run-up to the referendum, the first results from the Q2 UK CFO Survey, conducted shortly after the referendum, indicate that sentiment among UK CFOs worsened sharply. CFOs in the UK are more negative about company prospects and also expect the long-term business environment to deteriorate.

69%

see geopolitical risk as the greatest current risk to their company.

Focus on geopolitical risk, but Iranian market opens up opportunities

The external environment holds many challenges for Swiss companies, and geopolitical risks remain the major source of CFOs' concern about risk to their own company. However, CFOs also see opportunities, including Iran's reintegration into the global economy. But Swiss companies wishing to enter the Iranian market face obstacles, notably legal and political risk.

0%

believe that Swiss National Bank will end negative interest rates within the next 12 months.

No change expected in interest rates

A majority of CFOs believe that the monetary environment will remain stable over the next 12 months. However, with a strong Swiss Franc and negative interest rates, that environment remains challenging. More than 70% of CFOs do not expect interest rates to change and, on average, believe that the value of the Swiss Franc will fall only slightly over the next 12 months. Their inflation expectations over the next 24 months are also stable at 0.6%.

Swiss economic outlook more positive

CFOs' view of Swiss economic prospects has improved this quarter. For the first time since the end of 2014, a majority of CFOs now rate the country's economic prospects over the next 12 months as positive, a net balance of +13%. The UK's decision to leave the EU is likely to have economic repercussions, but the impact on Switzerland is expected to be limited provided the process runs largely smoothly or, in the best case scenario, actually promotes reform. Swiss companies have recently faced – and in most cases successfully overcome – a number of other economic challenges.

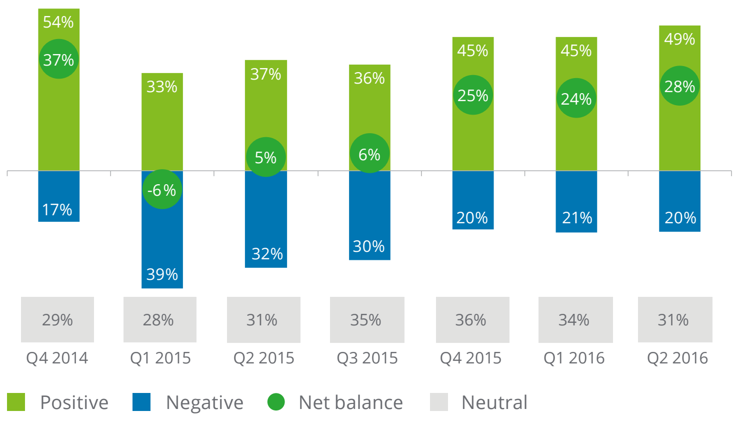
Chart 1. Economic outlook

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

Over recent quarters, CFOs have been consistent in their view of their company's financial prospects. 49% rate their company's financial prospects as positive, up slightly on Q1, while 20% rate them as negative. There is, however, greater variation when it comes to individual indicators.

Chart 2. Companies' financial prospects over the next 12 months

Net balance of CFOs rating their company's financial prospects over the next 12 months as positive/negative

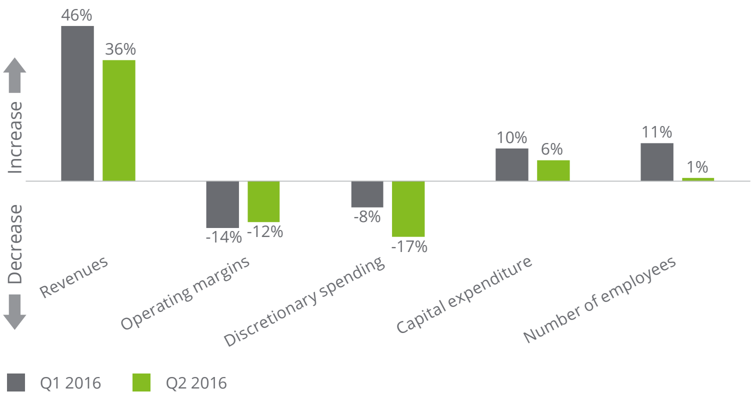


The net balance of CFOs expecting revenues to increase has fallen from 46% in Q1 to 36%. A relatively large majority (59%) still expect revenues to increase over the next 12 months, while 23% expect them to decrease. Pressure on operating margins remains high, with 38% of CFOs expecting margins to decrease and 26% expecting them to increase, a net balance of 12%.

A small net balance of 6% of CFOs expect capital expenditure to increase, with 33% of companies planning an increase compared to 27% planning a decrease. The distinction between new and replacement expenditure is interesting. While a net balance of +13% of CFOs expect new capital expenditure to increase, this falls to -4% in the case of replacement expenditure. Measures to cut costs often require investment, so it is likely that the continued pressure on operating margins will boost capital expenditure.

Chart 3. Detailed company prospects

Net balance of CFOs who expect performance on specific corporate indicators to increase/decrease over the next 12 months



A challenging external environment

In the run-up to the UK referendum on EU membership, fears grew about the impact a Brexit decision would have on Swiss companies. At the end of Q1 2016, just 17% of CFOs in Switzerland believed Brexit would have a negative impact on their company, but this proportion had more than doubled to 42% in Q2. Only 2% of CFOs expect Brexit to have a positive impact on their company, while just over half – 53% – believe it will have little or no impact on their company.

The CFO Survey in the UK was conducted shortly after the referendum and provides the first indications about the impact on UK companies. Company sentiment worsened sharply in the UK after the referendum with CFOs viewing the financial prospects for their companies more negatively than at any point since the survey started in 2007. A majority of 68% expects the overall long-term business environment in the UK to deteriorate once the UK leaves the EU while only 12% expects an improvement. The Brexit decision is also having a major impact on business decisions: CFOs in the UK expect lower investment and discretionary spending, less hiring and fewer mergers and acquisitions.

As in Q1, Swiss CFOs' main concerns remain centred on geopolitical risk and increasing business regulation within Switzerland.

Turbulence in the financial markets is once again a major risk: 40% of CFOs see this as the great current risk to their company, a rise of 6 percentage points from Q1 2016. As with the rise in geopolitical risk, this may have been triggered by fears over Brexit and expectations of greater market turbulence in the short and medium term following the UK's decision to leave the EU.

In the run-up to the UK referendum, exchange rates for the Swiss Franc against the euro and the US dollar remained relatively stable. However, once the outcome was known, exchange rates became more volatile, and it is likely that CFOs' fears of a strong Swiss Franc will increase again, at least in the short term.

Chart 4. Swiss companies fear negative impact from the UK's decision to leave the EU
What impact would a decision by the United Kingdom to leave the EU (Brexit) have on your company?

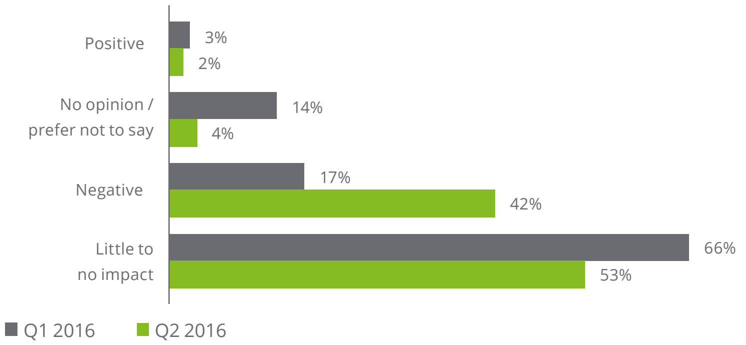


Chart 5. Impact of a Brexit on UK companies
Results from the Deloitte CFO Survey UK, share of CFOs who expect spending in the following areas to decrease over the next three years as a consequence of Brexit

Chart 6. Company risk
Which of the following factors are likely to pose a substantial risk to your company over the next 12 months? (Multiple answers possible)

Company internal risks

48% (+1 pp)	Shortage of skilled professionals
35% (-6 pp)	Deterioration of cash flow
30% (+5 pp)	Rising input costs
19% (-4 pp)	Rising labour costs
8% (-4 pp)	Shortage of capital
7% (-1 pp)	Cost of capital

Company external risks

69% (+6 pp)	Geopolitical risk
58% (+3 pp)	Increasing business regulation in Switzerland
56% (-11 pp)	Strength of the Swiss Franc
50% (-6 pp)	Weaker domestic demand
43% (-1 pp)	Weaker foreign demand
40% (+6 pp)	Stress in the financial system

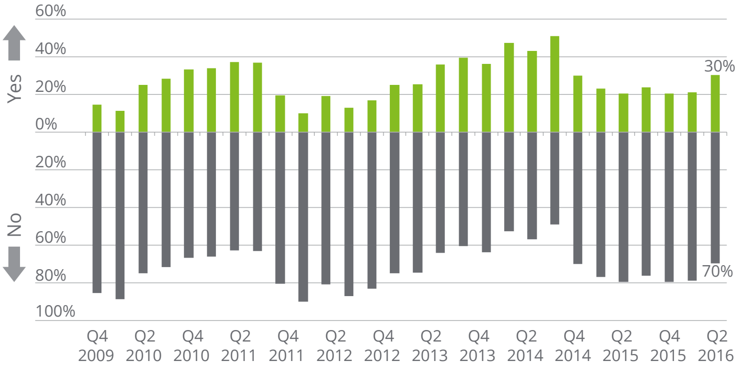
Parenthesis: Change to Q1 2016 in percentage points (PP)

Slight easing of FX tension, Iranian market opens up opportunities

Risk appetite has increased, although from a low level: 30% of CFOs think that this is a good time to be taking greater risk onto their balance sheet. At 9 percentage points, this is the largest increase since Q1 2014. Nevertheless, 70% of CFOs remain cautious and do not believe that this is the right time to be taking on greater risk.

Chart 7. Risk appetite

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

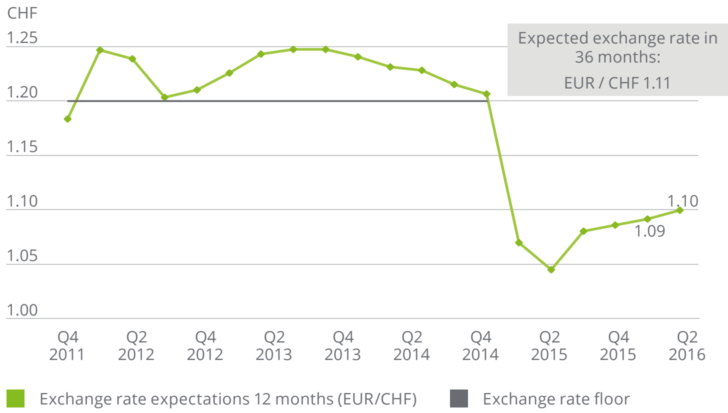


Before the referendum, the value of the Swiss Franc had been falling slightly. However, the UK's decision to leave the EU is likely to heighten exchange rate volatility in the short to medium term. The strong Swiss Franc clearly remains a risk factor and is still perceived as such by companies, despite a slight improvement in levels of concern before and during the survey period (see Chart 6).

While more CFOs now expect the value of the Swiss Franc to fall over the next 12 months (see Chart 8 for EUR/CHF and Appendix 1 for USD/CHF), they do not expect a major drop. Nor do they over the next 36 months.

Chart 8. EUR/CHF exchange rate expectations over time

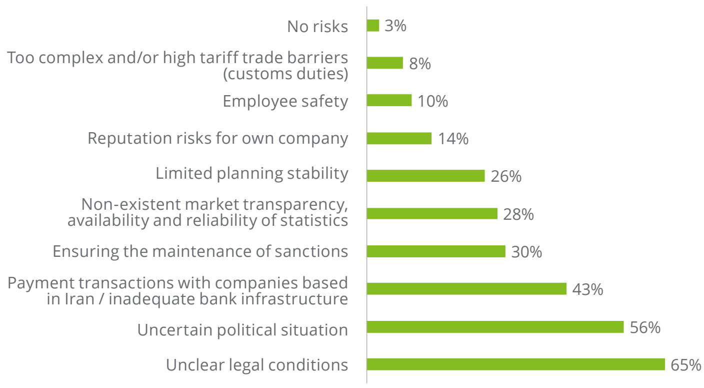
What exchange rate do you expect for the Swiss Franc against the euro in 12 months' time and in 36 months' time?



Despite geopolitical and exchange rate risks the external environment could also provide opportunities for Swiss companies. For example, the lifting of economic sanctions against Iran is seen as having a potentially positive impact on Swiss companies. Iran has extensive oil reserves, a population of nearly 80 million and is a middle-income country, so its reintegration into the global economy represents potential opportunities for Swiss business. In a separate question, 70% of CFOs see this as an opportunity, although there are obstacles: almost two-thirds of CFOs see the uncertain legal situation as a risk for Swiss companies seeking to enter the Iranian market. 56% see the uncertain political situation as a risk, with payment problems also cited by more than two in five CFOs.

Chart 9. Iran

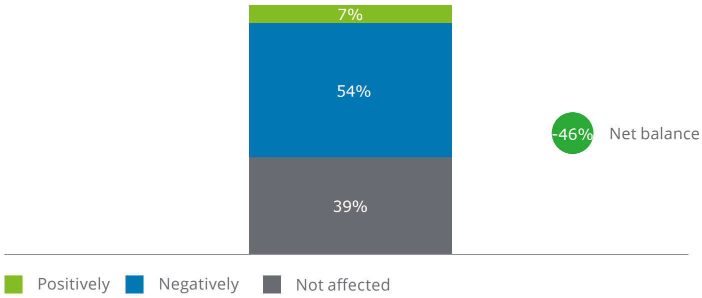
What do you believe would be the greatest risks faced by Swiss businesses entering the Iranian market? (Up to three responses possible)



Stable interest rate and inflation expectations

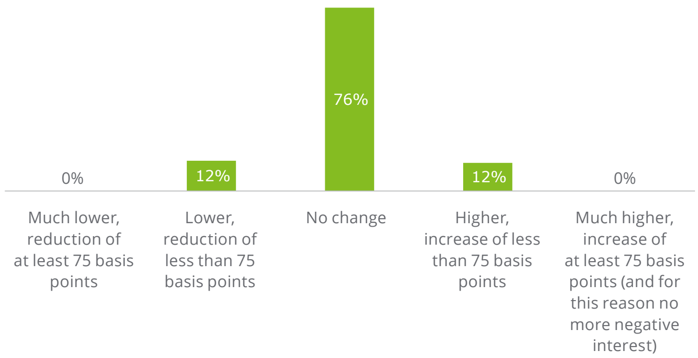
Switzerland has now had negative interest rates for more than 18 months. Over half of all CFOs report that this is having an impact on their company, with 7% reporting a positive impact and 54% a negative impact. Most of the impact is likely to be indirect, particularly affecting pension schemes. Companies' own investments are also now less lucrative and banks have been able to pass on some of their increased costs to borrowers with mortgage loans. It is becoming increasingly unattractive for companies to keep large cash deposits with the banks.

Chart 10. Impact of negative interest rates on companies
Are negative rates of interest having an impact on your company's deposits or borrowing? If so, are they impacting positively or negatively overall?



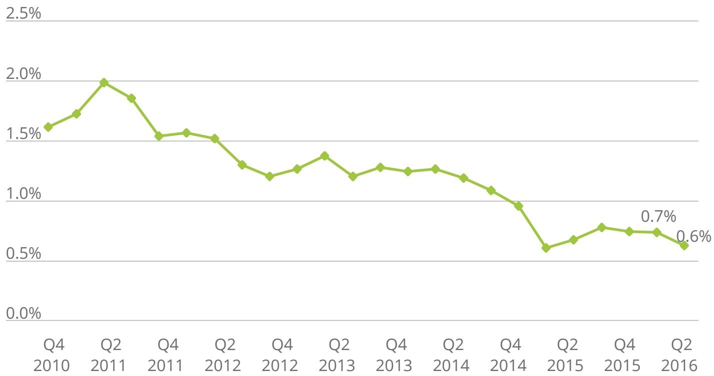
CFOs do not expect the interest rate environment to change in the short term. 76% of CFOs expect no change over the next 12 months. 12% expect interest rates to fall by less than 75 basis points and a further 12% expect them to rise by the same amount. However, if market turbulence persists in the wake of Brexit firmer intervention by the Swiss National Bank, including interest rate cuts, cannot be ruled out. Notably, not a single CFO expects a return to positive interest rates over the next 12 months.

Chart 11. Majority expect no change to interest rates
What change do you expect in the Swiss National Bank's negative interest rates in 12 months' time?



Inflation expectations also remain largely unchanged. Since Q2 2015, CFOs' expectations have remained stable at around 0.7%, only marginally higher than this quarter's figure of 0.6%.

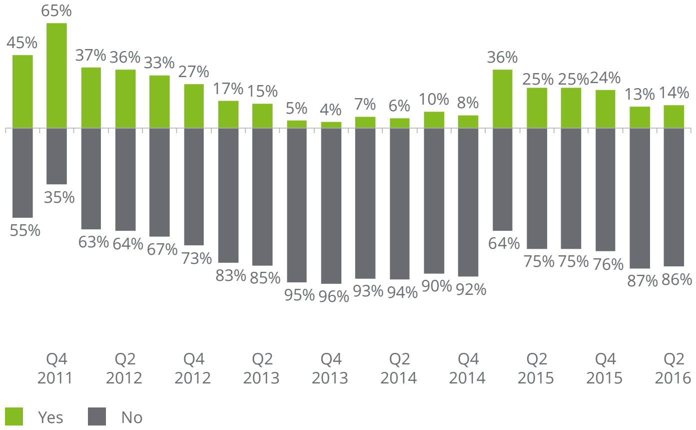
Chart 12. Inflation expectations largely unchanged
What inflation rate do you expect in two years' time as measured against the Swiss Consumer Price Index?



Appendix 1: Additional charts

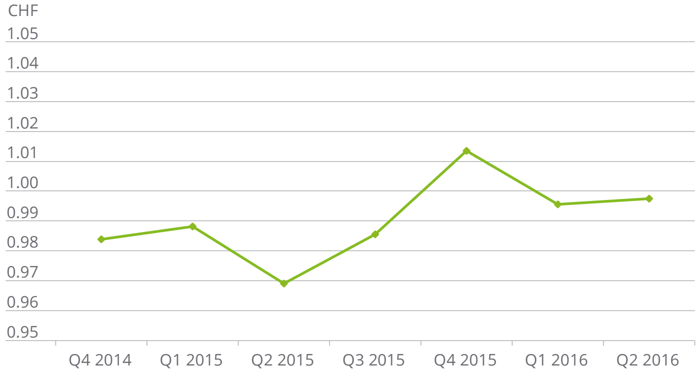
Recession

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



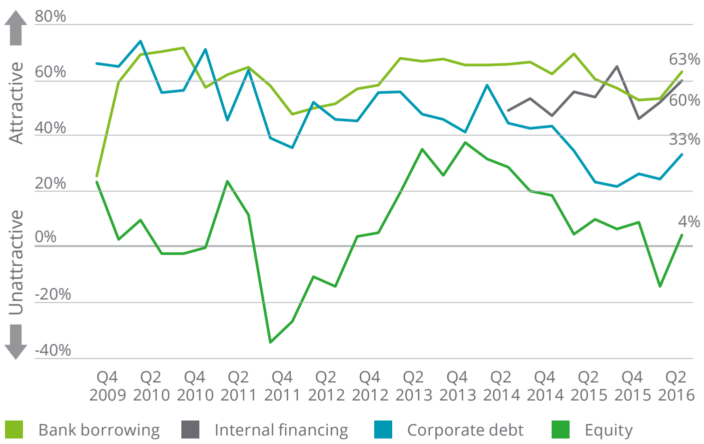
USD/CHF exchange rate expectations

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



Attractiveness of the financing environment

How do you rate the following forms of financing as possible sources of funding for Swiss companies? (net balance)



Cost and availability of credit financing

Net balance of CFOs who rate credit as costly/cheap and hard to get/available

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**

	Q4 2011	Q1 2012	Q2 2012	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
How do you judge the economic outlook for Switzerland over the next 12 months?																			
Positive	4%	20%	33%	26%	28%	53%	56%	63%	80%	76%	75%	53%	41%	10%	16%	26%	24%	24%	31%
Neither positive nor negative	13%	45%	39%	44%	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%	36%	43%	47%	50%
Negative	83%	36%	28%	30%	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%	37%	33%	28%	18%
Net balance	–79%	–16%	5%	–4%	–4%	42%	51%	59%	79%	73%	73%	44%	29%	–50%	–24%	–11%	–10%	–4%	13%
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%
No change																19%	20%	18%	17%
Decrease																25%	22%	18%	23%
Net balance																30%	36%	46%	36%
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%
No change																28%	39%	31%	36%
Decrease																40%	35%	41%	38%
Net balance																–8%	–9%	–14%	–12%
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%
No change																42%	46%	59%	50%
Decrease																45%	32%	24%	33%
Net balance																–33%	–10%	–8%	–17%
In your view how are the following key metrics for your company likely to change over the next 12 months? – Capital expenditure																			
Increase																41%	39%	34%	33%
No change																24%	35%	42%	41%
Decrease																36%	26%	24%	27%
Net balance																5%	13%	10%	6%
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%
No change																39%	37%	47%	42%
Decrease																34%	31%	21%	29%
Net balance																–8%	2%	11%	1%

Contacts and authors

Contacts

Jamie Schmidt
Partner Audit and Advisory
+41 58 279 7612
jamschmidt@deloitte.ch

Markus Koch
Partner Consulting
+41 58 279 6133
markkoch@deloitte.ch

Reinhard Langenhövel
Partner Audit and Advisory
+ 41 58 279 7240
rlangenhoevel@deloitte.ch

Rolf Schönauer
Partner Audit and Advisory
+41 58 279 6318
rschoenauer@deloitte.ch

Jan-Dominik Remmen
Partner Financial Advisory
+41 58 279 6432
jaremmen@deloitte.ch

Authors

Dr. Michael Grampp
Chief Economist and Head
of Research
+41 58 279 6817
mgrampp@deloitte.ch
Follow me on Twitter
@michaelgrampp

Dennis Brandes
Senior Economic Analyst
+41 58 279 65 37
dbrandes@deloitte.ch

Acknowledgement
We would like to thank all participating CFOs for their support in completing the Survey.

The Deloitte CFO Survey is supported by the CFO Forum Schweiz, the independent association of Chief Financial Officers in Switzerland.

Participating in our Survey and accessing previous surveys
If you would like to take part in our Survey or would like to receive further copies of this report, please contact us at **cfosurvey@deloitte.ch**

For copies of previous CFO Surveys, please visit **www.deloitte.com/ch/cfosurvey**

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