The Deloitte CFO Survey
Signs of recovery?

Q3 2015 Results
October 2015
Switzerland

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This is the 25th 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 Q3 2015 CFO Survey was conducted between 25 August and 18 September 2015. A total of 110 CFOs participated, representing listed companies and relevant private companies. The participants represent all major sectors of the Swiss economy.

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

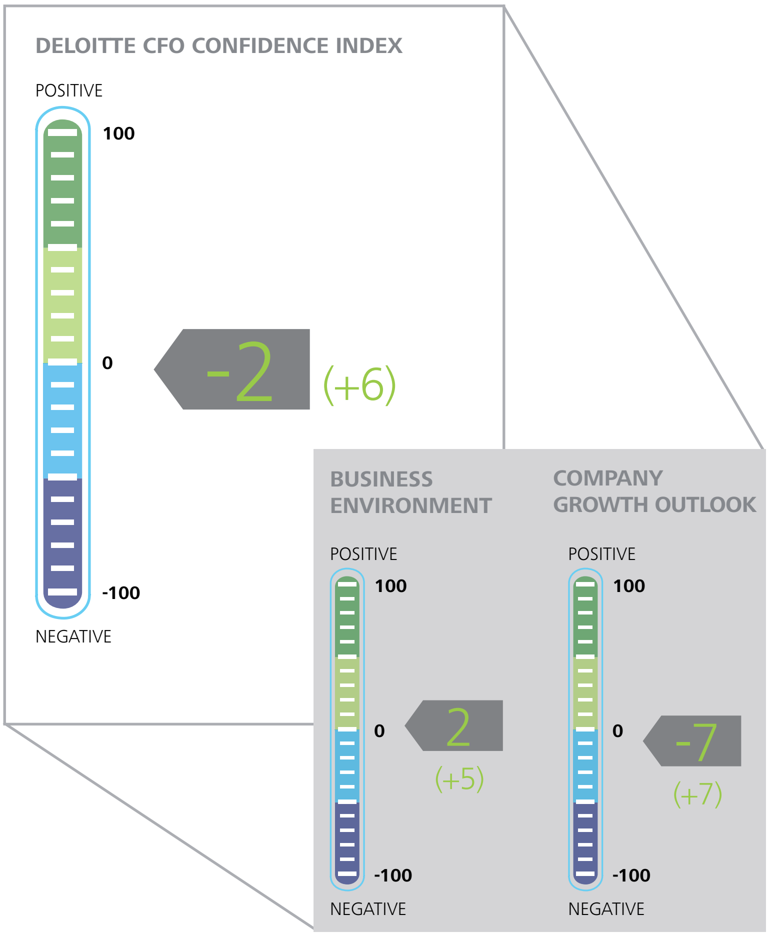
Because of rounding, percentages may not add up to 100. To improve readability, only questions relevant to the current financial and economic situation have been included in the published Survey. If you would like to receive information about unreported questions, please contact us.

Deloitte CFO Confidence Index

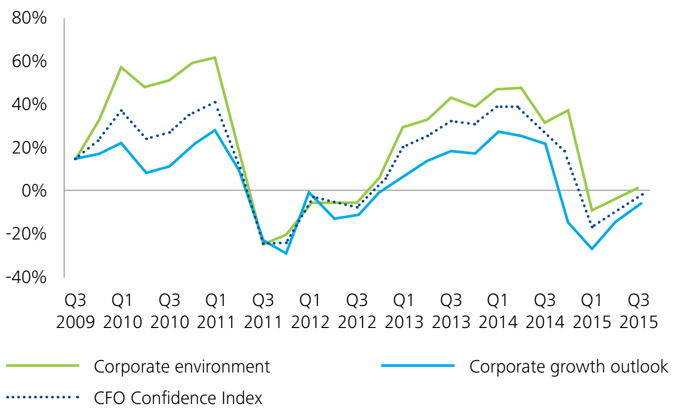
CFOs' confidence seems to have stabilised after the sharp decline that followed the removal of the exchange rate floor: at -2 percentage points, the Deloitte CFO Confidence Index is only just in negative territory and is 6 percentage points up on Q2. CFOs are more confident this quarter both about their own company's prospects for growth and about the corporate environment.

There has been a clear improvement in the overall mood, with many CFOs welcoming the recent weakening of the Swiss Franc. Meanwhile, an interest rate increase by the Federal Reserve in the short term could further relieve upward pressure on the Swiss Franc.

However, concerns and uncertainty are still evident, not least because of the mixed signals coming from the global economy. China is trying to rebalance its economy and the likelihood of success is difficult to predict. At the same time, concerns remain over the sustainability of the recovery in the eurozone.



DELOITTE CFO CONFIDENCE INDEX



The Deloitte CFO Confidence Index

The Deloitte CFO Confidence Index aggregates findings of the regular CFO Survey. It comprises two sub-indices, the Corporate Environment sub-index and the Corporate Growth sub-index. All values within each sub-index are equally weighted. The way the Deloitte CFO Confidence Index is calculated has undergone a minor change this quarter.

The Corporate Environment sub-index reflects CFOs' view of the economic situation as a whole and includes their views on prospects for the economy, the financing environment (cost and availability of credit), currency risk and foreign demand. The Corporate Growth sub-index reflects corporate views on growth and includes CFOs' views on the prospects for business, risk appetite and M&A activities.

Key findings of the CFO Survey

37%

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

Economic outlook still subdued

This quarter a higher proportion of CFOs rate the prospects for the Swiss economy over the next 12 months as negative. 37% take a pessimistic view while 26% are optimistic.

One CFO in four expects Switzerland to face a recession over the next two years.

75%

rate the current level of economic and financial uncertainty as high.

High levels of uncertainty determine strategic outlook

Perceived economic and financial uncertainty in Switzerland remains high: 75% of CFOs rate the current level of uncertainty as high, with only 1% rating it as low. Controlling and reducing costs is, therefore, the top priority for many CFOs. However, they are also promoting the launch of new products and services as a key strategy over the next 12 months.

67%

see the strength of the Swiss Franc as a major risk for their company over the next 12 months.

Strong Swiss Franc seen as greatest risk to companies

As in previous quarters, external risks – in particular exchange rate risk – dominate CFOs' concerns. More than two-thirds of CFOs see the strength of the Swiss Franc as a risk for their company, with increasing business regulation in Switzerland and geopolitical risk also high on the list.

78%

do not see a EUR/CHF 1.10 exchange rate as a disadvantage for their company.

Fears fade of EUR/CHF 1.10 exchange rate

CFOs rate the impact of a EUR/CHF 1.10 exchange rate considerably less negatively than they did a year ago. Only around one in five CFOs currently sees this rate as a disadvantage for their company, while around two-thirds see it as neither an advantage nor disadvantage. These percentages are broadly unchanged from Q3 2014, when CFOs were asked about the exchange rate floor then in place (EUR/CHF 1.20). Now, by contrast, a majority see EUR/CHF 1.20 as advantageous to their company. Most companies appear to be taking a more positive view of a higher exchange rate. However, a further rise in the value of the Swiss Franc would be problematic, with a rate of even 1.05 seen as a clear disadvantage.

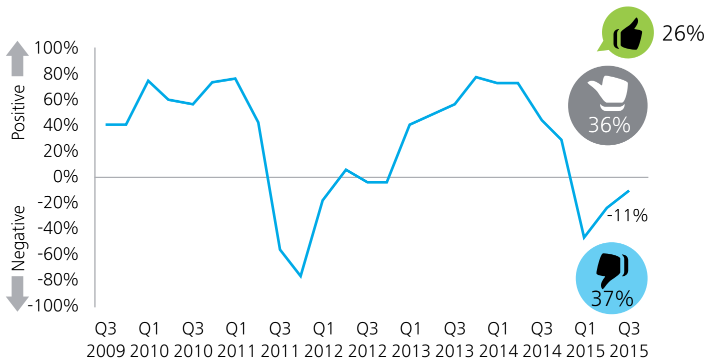
Stabilisation of economic and business prospects

Swiss CFOs' pessimism about the country's economic and business prospects following removal of the exchange rate floor lifted somewhat in Q2 and has improved further this quarter. CFOs seem to have come to terms with the new reality, but while their expectations for Switzerland's economic prospects over the next 12 months are slightly better than in Q2, they are still negative overall. Just 26% of CFOs rate the country's economic prospects as positive (up from 16% in Q2), while 37% rate them as negative (slightly down from 41% in Q2), giving a net balance of -11% (-24% in Q2).

Responses to an additional question not reported in this Survey show that fears of a recession remain largely unchanged from Q2: one in four CFOs expects Switzerland to face a recession over the next two years.

Chart 1. Expectations for the economy remain negative

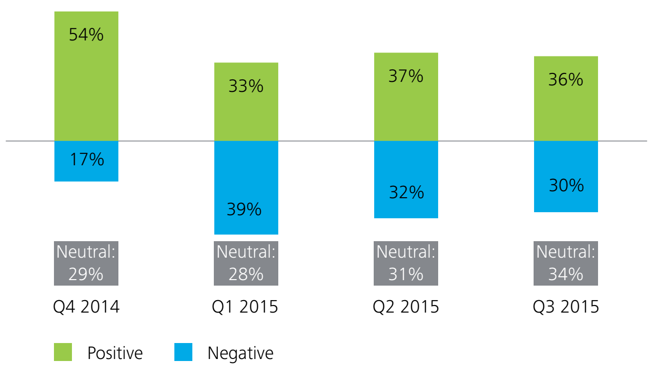
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



The picture is rather brighter when it comes to CFOs' rating of their own company's financial prospects over the next 12 months. Here, almost equal proportions of CFOs rate their company's prospects as positive and negative, with a net balance of just 6%. There is an increase of 3 percentage points over Q2 in those giving a neutral response, while the figure for positive responses has fallen by one percentage point. As a result, CFOs take a gloomier view of the prospects for the Swiss economy as a whole (see Chart 1) than for their own company's prospects.

Chart 2. Companies' financial prospects

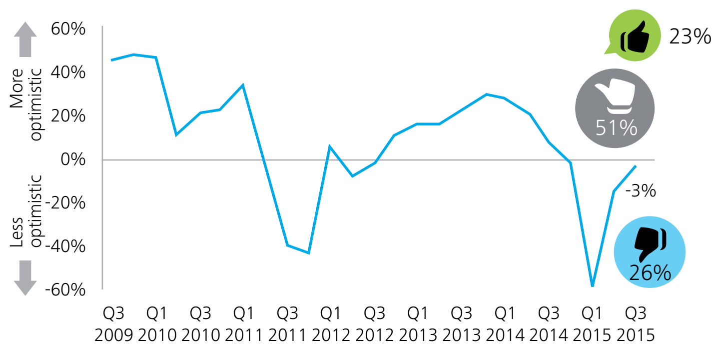
Share of CFOs rating their company's financial prospects over the next 12 months as positive/negative



Financial prospects of CFOs' own companies today compared with three months ago also show improvement. A slightly higher percentage are more pessimistic about their company's financial prospects than optimistic (26% pessimistic against 23% optimistic, a net balance of -3% after -14% in Q2). The general mood among Swiss CFOs has, therefore, sustained the bounce back from Q1, but there have been changes in their perception of risk and strategic outlook, as we explain below.

Chart 3. Companies' financial prospects quarter on quarter

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

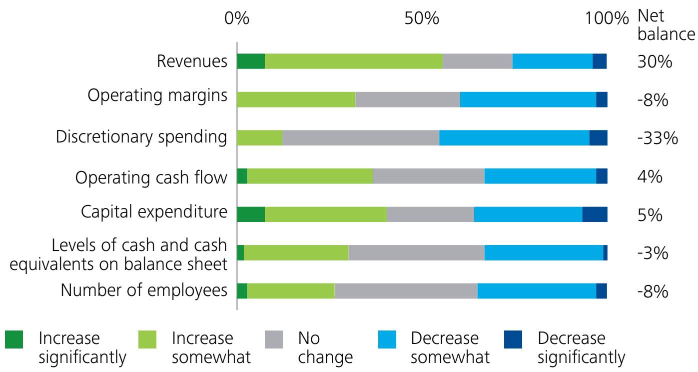


High levels of uncertainty determine strategic outlook

CFOs' expectations for a range of corporate indicators present a mixed picture this quarter. A majority of CFOs expect revenues to improve over the next 12 months (56% as against 25% decrease) , but a smaller majority (40% as against 32%) continue to expect operating margins to deteriorate over the same period. It is interesting that a significant proportion (41%) say they plan to increase capital expenditure, a positive signal that is echoed by CFOs' responses to the question about their company's corporate strategy over the next 12 months (see Chart 5). In terms of the number of employees in their company, around one-third of CFOs expect this to decrease, while 27% expect it to increase.

Chart 4. Detailed company prospects

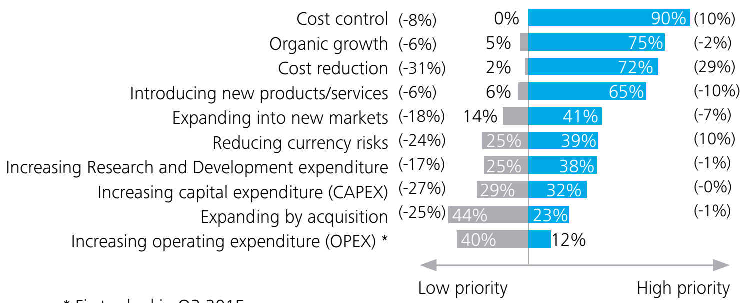
Net balance of CFOs who expect performance on specific corporate indicators to increase / decrease over the next 12 months



Strategic decisions are generally strongly focused on business growth and perceived opportunities and risks. It is, therefore, not surprising that at a time of high uncertainty and modest prospects for business growth, many CFOs are focusing on controlling and reducing costs. On a positive note, Swiss CFOs consider the launch of new products and services as the most important strategy for their company over the next 12 months. They are also focusing more on reducing their exposure to exchange rate risks: 39% currently see this as a top priority, compared with 29% a year ago, when this question was last asked. The impact of the removal of the exchange rate floor has had a dramatic effect on companies' strategic outlook.

Chart 5. Corporate strategies

Share of CFOs assigning high/low priority to the following corporate strategies over the next 12 months

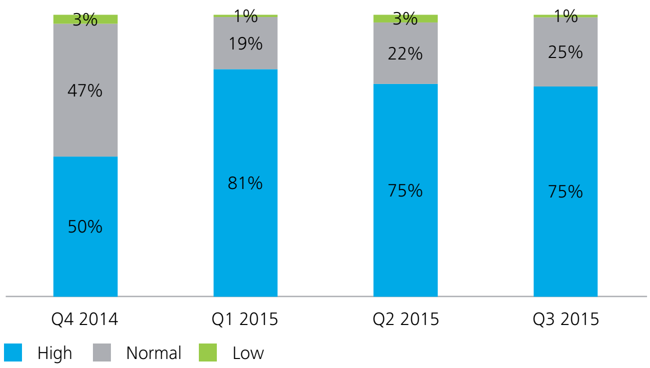


* First asked in Q3 2015
Figures in brackets represent percentage point (PP) change from Q3 2014

As noted above, Swiss CFOs' perception of uncertainty in the economic and financial environment remains strong. 75% of CFOs rate the current level of uncertainty as high, with just 1% rating it as low this quarter. These values remain relatively unchanged from Q1 2015, when the exchange rate floor was removed.

Chart 6. Uncertainty

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

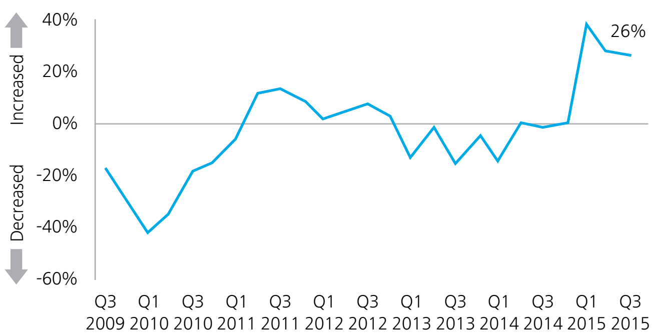


External risks dominate

Slightly fewer CFOs report an increased level of financial risk on their company's balance sheet than in preceding quarters. However, at 26%, the net balance is higher than in Q3 2014. As responses to an additional question not reported in this Survey show, companies' risk appetite remains comparatively low, with just under a quarter of all CFOs reporting that they think this is a good time to be taking greater risk onto their balance sheet. As the following charts show, external risks currently dominate CFOs' overall perceptions of risk.

Chart 7. Risk on balance sheets

How has the level of financial risk on your balance sheet changed over the past 12 months? (net balance)

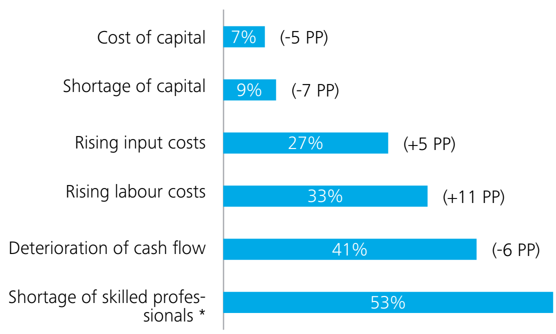


Financial risk includes such factors as indebtedness, uncertainty in relation to the valuation of assets, interest rates and exposure to fluctuations in exchange rates.

For some time, CFOs have considered internal risk to be less serious than external risk, and this quarter a majority rate only two internal risk factors as likely to pose a substantial risk to their company over the next 12 months. These risks are deterioration of cash flow (41% of CFOs) and, in response to a question first asked this quarter, a shortage of skilled professionals, which was the most significant perceived internal risk (53%). These responses show that recruiting highly skilled staff remains important to companies even when they plan to reduce their overall staffing levels (see Chart 4).

Chart 8. Internal risk

Which of the following factors are likely to pose a substantial risk to your company over the next 12 months? (multiple answers possible)

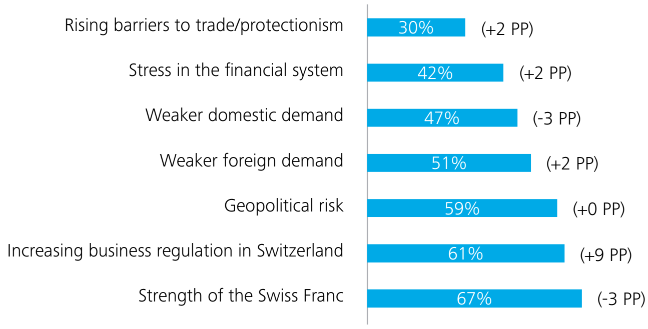


* Question first asked in Q3 2015
Figures in brackets represent percentage point (PP) change from Q2 2015

The highest perceived external risk remains the strong Swiss Franc, despite a slight weakening in both the actual exchange rate and CFOs' perception of the exchange rate risk this quarter. The next most commonly reported risks are increasing business regulation in Switzerland and geopolitical risk. The risk of weaker foreign demand is rated as high by just over half of all CFOs.

Chart 9. External risk

Which of the following factors are likely to pose a substantial risk to your company over the next 12 months? (multiple answers possible)

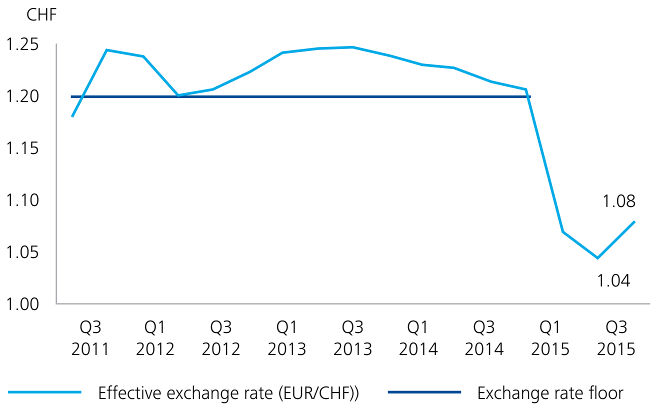


Figures in brackets represent percentage point (PP) change from Q2 2015

Concern at strong Swiss Franc but fears fade of EUR/CHF 1.10 exchange rate

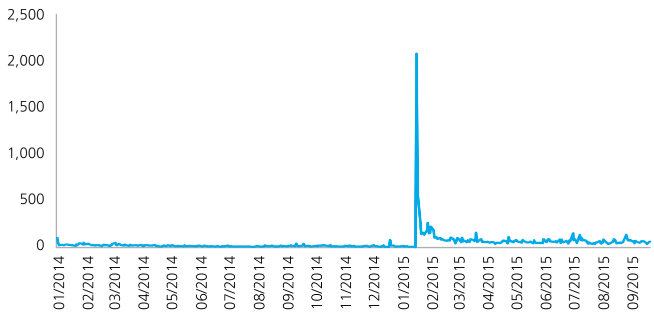
In line with trends in the exchange rate in Q2, CFOs are, on average, expecting a slightly weaker Swiss Franc (EUR/CHF 1.08) in 12 months' time. However, the spread of expectations remains broad, ranging from EUR/CHF 0.95 to EUR/CHF 1.15 in 12 months' time and from EUR/CHF 0.90 to EUR/CHF 1.30 in 36 months' time.

Chart 10. EUR/CHF exchange rate expectations over time
What exchange rate do you expect for the Swiss Franc against the euro in 12 months' time?



After the massive but short-lived rise in the exchange rate in January 2015, exchange rate volatility has largely stabilised again. The slight weakening of the Swiss Franc over recent weeks has taken pressure off exchange rate-dependent companies, with only isolated and comparatively minor instances of volatility.

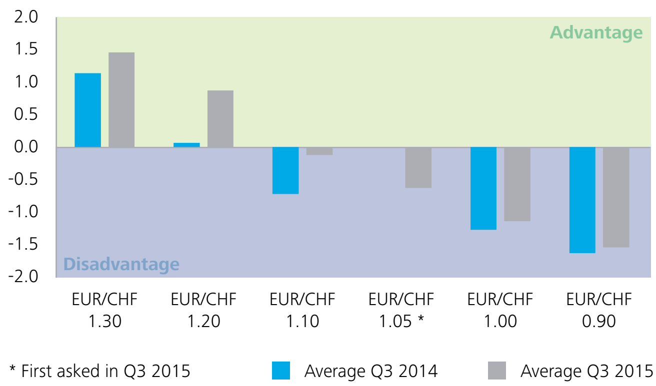
Chart 11. Exchange rate volatility
Exchange rate volatility (in standard deviation)



Source: Bloomberg

Swiss CFOs currently rate the impact of a EUR/CHF 1.20 exchange rate considerably more positively than they did a year ago. In Q3 2014, their overall assessment was neutral, but this quarter, a majority (61%) see a EUR/CHF 1.20 rate as an advantage for their company. Their perception of a EUR/CHF 1.10 exchange rate has also shifted markedly, from being a clear disadvantage a year ago to a slight disadvantage this quarter. Around two-thirds of CFOs see this rate as neutral, with just one in five seeing it as a disadvantage for their company. A year ago, in Q3 2014, these figures were reversed, with 21% rating EUR/CHF 1.10 as neutral and 67% seeing it as a disadvantage. Since the removal of the exchange rate floor, companies seem to have gradually adapted to a higher exchange rate. However, an even stronger Swiss Franc would pose problems, and a rate of even EUR/CHF 1.05 is now perceived as a clear disadvantage.

Chart 12. Impact of the exchange rate for the Swiss Franc
Average rating of the impact of different EUR/CHF exchange rates on Swiss companies on a scale from -3 to +3, with -3 representing a major disadvantage, 0 representing a neutral response, and +3 representing a major advantage



* First asked in Q3 2015

Interview with Markus Gisler, Chairman of the CFO Forum Switzerland

Deloitte: Just a year ago, not many CFOs could have imagined living with a euro/franc exchange rate of 1.10, but now quite a few can.
Are you surprised by the speed with which they have adapted?

Markus Gisler: No, I am not surprised at all. In fact, my existing opinion has been borne out: Swiss companies are highly adaptable and flexible. Because our domestic market is so small, because we are lucky enough to have a very liberal business policy, and because of the pragmatism that is part of the Swiss character, we are able to react quickly to changed circumstances, devise new solutions and implement them swiftly.

Deloitte: What is your view on the impact of the low interest rate environment or negative interest rates on company financing?

Markus Gisler: Low interest rates over an extended period can lead to decisions being made that later turn out to be incorrect. Let's imagine that I am looking to expand a business and need to base my investment calculations on borrowing costs of 15%, as I myself encountered when working as a CFO in the Philippines. I would set much higher demands on the profitability of the goods to be produced than if I were paying interest at 3%. When interest rates are too low because of politically minded decisions, too many investments are nodded through that would not stand up to critical scrutiny. That scrutiny will come as soon as rates start to rise. And there will be a rude awakening for companies that have made ill-considered investments in the current interest rate environment.

Deloitte: The next Swiss CFO Day will be based around the theme of competitiveness. How topical is that?

Markus Gisler: Competitiveness always has to be on the agenda for any management team. However, there are situations in which it comes more to the fore. Switzerland got just such a wake-up call on 15 January 2015, which coincidentally happened to be the day after the CFO Forum Switzerland's Swiss CFO Day. Removing the Swiss franc/euro cap was like a tectonic shift for competitiveness, with repercussions in all manner of areas. The task facing companies now is to regain their previous competitive position through hard graft. I know some firms that will find this relatively easier, because they have always nurtured their competitiveness. Sadly, I also know others that have previously done too little in this area and now have a massive task on their hands – in the face of heavy time pressure and with scant resources available.

Deloitte: In your opinion, what can CFOs do to make a business more competitive?

Markus Gisler: A great deal. As members of the management team, CFOs are committed to improving their company's competitiveness. In particular, they contribute their own ideas and provide the financial resources and infrastructure (IT, fixed assets) to make the company's products and services better than those of its competitors in terms of quality, design and cost.
CFOs also keep their own departments fit and competitive. This includes the perennial question of which tasks and steps are necessary and how can this work be carried out efficiently. It also entails continuous process improvements and capitalising on digitisation and automation trends. I know a CFO who looks to achieve annual efficiency gains of 5–8% in his department. A lot of shocks can be absorbed with a cushion such as this. At the CFO Day 2016 we will hear several other examples of how CFOs can boost the competitiveness of Swiss companies.

Deloitte: At times of such heightened uncertainty, and above all with the many external risks that exist, what are the biggest challenges for CFOs?

Markus Gisler: Challenges can come not only from the many external sources of risk, but also – as we all saw in September – from massive internal risks. Although it may not necessarily be spelled out in every CFO's job description, risk management is one of their core duties. They need to keep abreast of and draw attention to all known risks – and all unknown risks (which is of course a far harder job). They must be able to assess the potential impact of the risks on the company as accurately as possible. The best way to achieve this is to devise scenarios and carry out simulations, but this is something that not all CFOs want or are able to do. To take a topical example: if million-selling products are fitted with software applications, then a scenario is required that examines the impact on the business of an application error or manipulation. This could involve the costs of recall and repair, legal consequences and costs and loss of reputation. Working out the possibilities and taking action to control these risks are then an almost automatic next step.

Deloitte: In your opinion, how have the job of CFO and the demands on office-holders changed over recent years?

Markus Gisler: The greatest changes have been in automation and digitisation – two trends that are still in progress and will continue to have long-term implications for finance departments. Manual tasks are increasingly being automated – very quickly in some companies and at a more leisurely pace in others. Modern businesses are linked up to a variety of external organisations via electronic interfaces, and each of these interfaces carries data and information that is also used by their finance departments. It is now much more important than before to think in terms of processes, and to do so across entire companies and beyond to business partners. That takes knowledge and understanding of IT systems and processes, which must be continually updated. CFOs these days process far more information in a much shorter period of time, with fewer – but more highly qualified – people. To do that, they require technical financial expertise and good people management skills. The specialists working in a finance department today need a completely different style of leadership to the employees of 10–15 years ago.

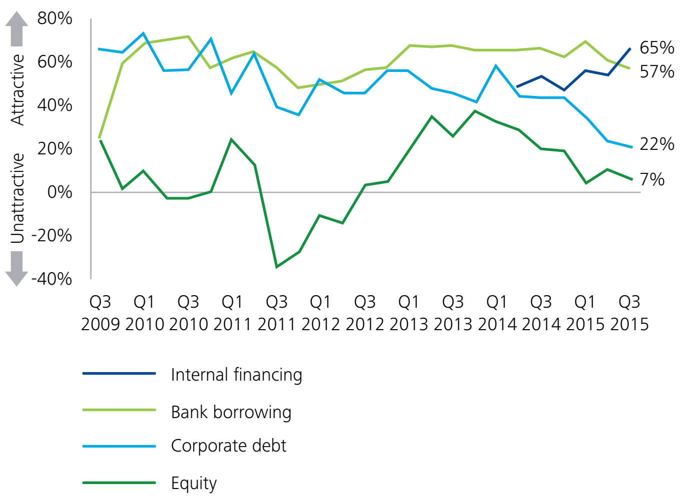
Profile:
Markus Gisler is Chairman of the CFO Forum Switzerland. After training as a Swiss-certified account with Arthur Andersen he spent 16 years with DKSH Group, including eight years in Asia as CFO in Japan, the Philippines and Hong Kong. For the last two years he has been a full-time lecturer and project manager at the Institute for Financial Services Zug (IFZ), part of Lucerne University of Applied Sciences and Arts.

The next Swiss CFO Day takes place on 13 January 2016 (www.cfos.ch).

Appendix 1: Additional charts

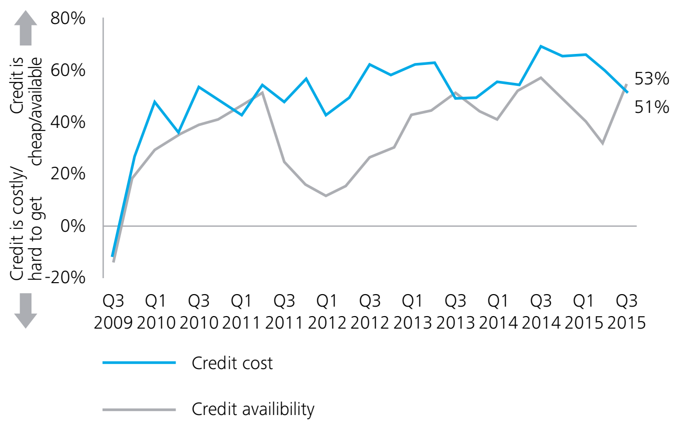
Attractiveness of the financing environment

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



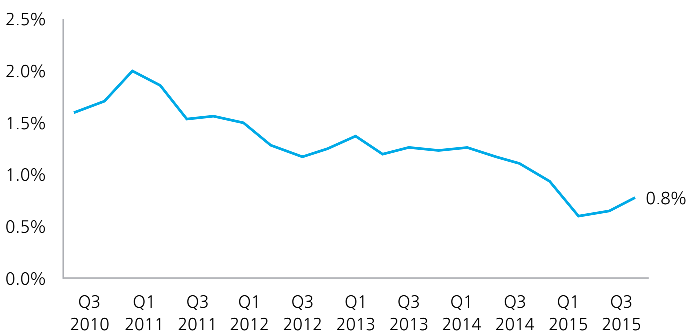
Cost and availability of credit financing

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



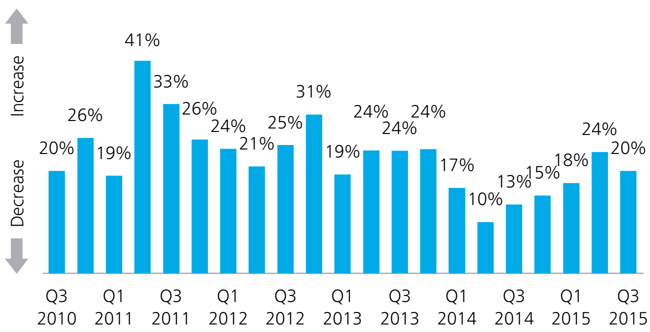
Inflation expectations

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



Future demand for credit

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



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
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
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%
Neither positive nor negative	13%	45%	39%	44%	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%	36%
Negative	83%	36%	28%	30%	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%	37%
Net balance	-79%	-16%	5%	-4%	-4%	42%	51%	59%	79%	73%	73%	44%	29%	-50%	-24%	-11%
Do you expect a recession in Switzerland in the next two years?																
Yes	65%	37%	36%	33%	27%	17%	15%	5%	4%	7%	6%	10%	8%	36%	25%	25%
No	35%	63%	64%	67%	73%	83%	85%	95%	96%	93%	94%	90%	92%	64%	75%	75%
Compared with 3 months ago how do you feel about the financial prospects for your company?																
More optimistic	10%	27%	20%	26%	35%	32%	36%	37%	38%	37%	33%	26%	21%	6%	20%	23%
Unchanged	38%	52%	53%	46%	42%	52%	45%	50%	55%	55%	56%	55%	55%	29%	46%	51%
Less optimistic	52%	21%	27%	28%	23%	16%	19%	13%	7%	8%	12%	18%	23%	65%	34%	26%
Net balance	-42%	7%	-7%	-2%	11%	17%	16%	24%	30%	29%	21%	8%	-2%	-58%	-14%	-3%
How has the level of financial risk on your balance sheet changed over the last 12 months?																
Increased	38%	31%	32%	33%	26%	26%	28%	21%	28%	23%	29%	28%	28%	52%	45%	43%
No change	32%	40%	41%	43%	50%	34%	42%	42%	38%	40%	42%	42%	45%	36%	38%	40%
Decreased	30%	29%	27%	25%	24%	40%	30%	37%	33%	38%	29%	29%	27%	12%	17%	17%
Net balance	9%	2%	4%	8%	2%	-14%	-2%	-16%	-5%	-15%	0%	-1%	1%	40%	27%	26%
How would you rate the overall cost of new credit for corporates?																
Costly	9%	15%	12%	9%	5%	5%	6%	10%	12%	6%	8%	5%	5%	7%	6%	10%
Neutral	27%	27%	26%	21%	31%	28%	25%	31%	26%	31%	28%	20%	25%	19%	28%	30%
Cheap	65%	58%	62%	70%	64%	67%	69%	59%	62%	62%	63%	75%	70%	73%	66%	61%
Net balance	56%	42%	50%	62%	59%	62%	64%	50%	50%	56%	55%	69%	65%	66%	60%	51%
How would you rate the overall availability of new credit for corporates?																
Available	37%	38%	38%	42%	49%	54%	54%	61%	56%	53%	61%	63%	56%	54%	48%	63%
Neutral	41%	35%	39%	41%	32%	34%	36%	29%	33%	35%	31%	31%	36%	34%	36%	28%
Hard to get	21%	27%	23%	16%	19%	11%	9%	10%	11%	12%	8%	6%	7%	13%	17%	10%
Net balance	16%	11%	16%	26%	31%	43%	45%	51%	44%	41%	53%	57%	49%	41%	31%	53%

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