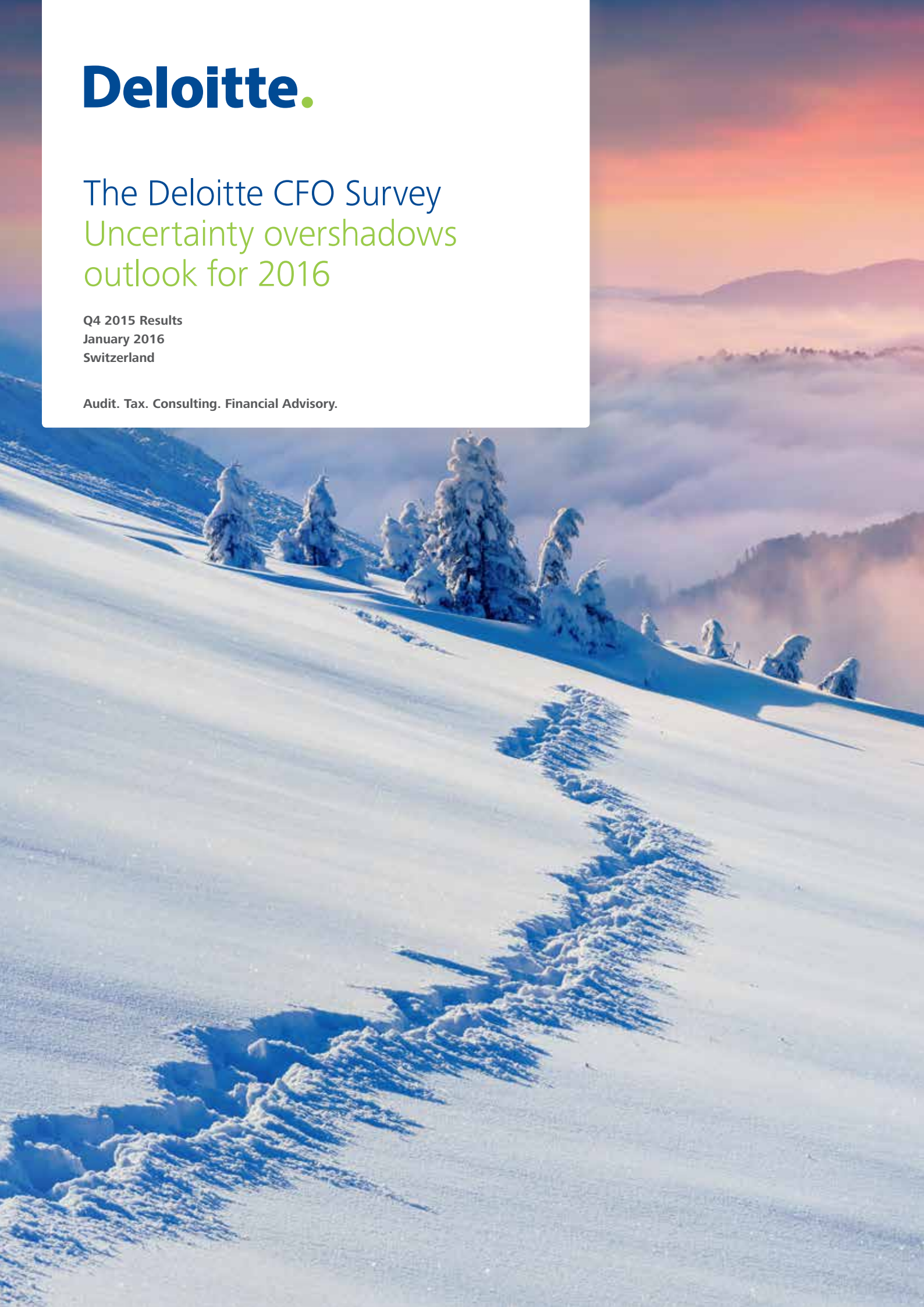




The Deloitte CFO Survey Uncertainty overshadows outlook for 2016

Q4 2015 Results
January 2016
Switzerland

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This is the 26th 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 Q4 2015 Survey was conducted between 18 November and 14 December 2015. A total of 123 CFOs participated, representing limited 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.



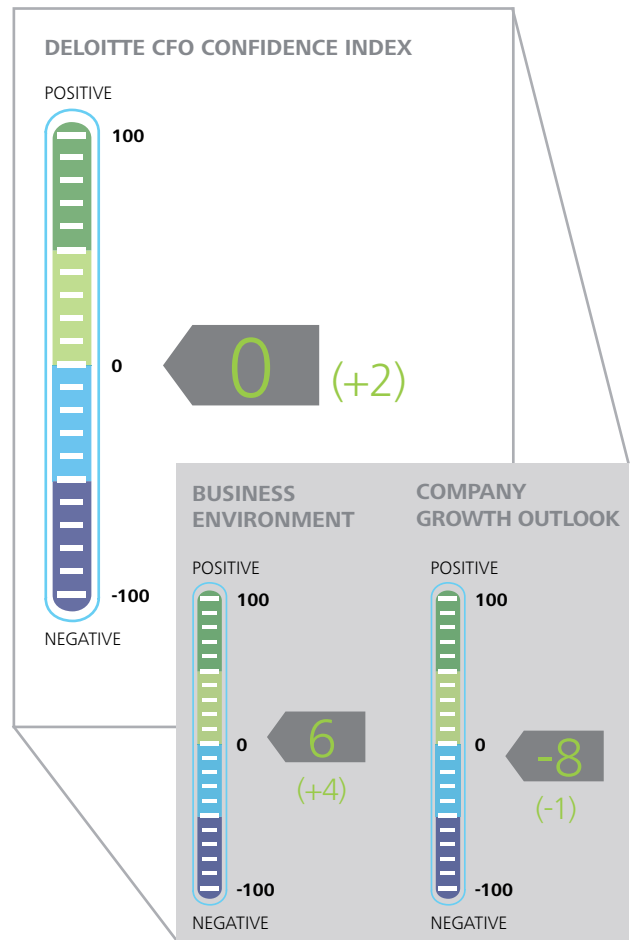
Deloitte CFO Confidence Index

2015 brought many challenges – and some unwelcome surprises – for Swiss companies. The event with the widest impact was, without doubt, the removal in January of the exchange rate floor against the euro, a move that took many in the business world by surprise. The state of shock that followed this decision was clearly reflected in our Q1 2015 Survey, which recorded a 33 percentage point slump in the CFO Confidence Index. There has been a modest recovery over the last three quarters, but the Index remains low at 0 in Q4.

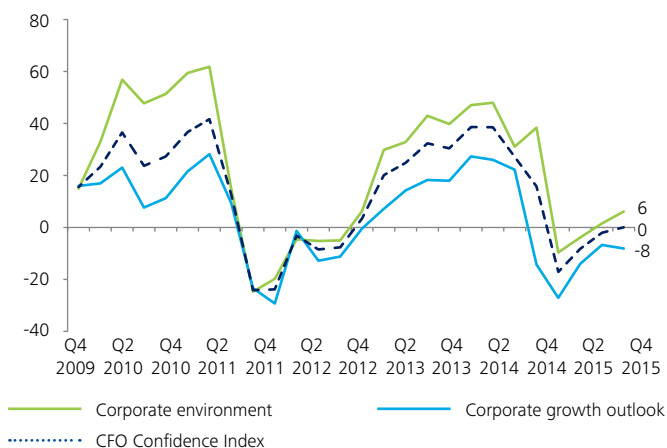
This may indicate that the impact of the challenging environment has bottomed out. Responses suggest that some sectors of the Swiss economy and some companies have come to terms with the sudden rise in value of the Swiss Franc and have adapted to the new conditions. Others, however, are still struggling with the impact. Meanwhile, geopolitical uncertainty and increasing business regulation have joined the strong Swiss Franc as causes for concern for many CFOs this quarter.

Their downbeat mood is exacerbated by further external factors. For example, the global economy has slowed down, and there is increasing concern about growth in some of the world’s largest emerging economies and export markets. As Deloitte’s most recent European CFO Survey shows (www.deloitteresearchemea.com), the only bright spots at the moment are the robust US economy and the outlook in some individual European countries.

However, there are positive signs as we move into 2016. Almost half of all CFOs rate the financial outlook for their company over the next 12 months as positive, while more than half expect to see a modest increase in revenues and a somewhat greater willingness to invest. As they look ahead to 2016, CFOs also see corporate growth and innovation as representing major opportunities.



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 Corporate Environment sub-index reflects CFO’s 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



33%

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

Sustained pessimism about economic prospects

Swiss CFOs remain downbeat about the outlook for the country's economy. Around one-third rate the prospects for the economy over the next 12 months as negative, with just under a quarter (24%) rating them as positive.



45%

rate their company's financial prospects over the next 12 months as positive.

A more positive view of financial prospects

CFOs are more optimistic about their company's financial prospects over the next 12 months. Almost half (45%) rate them as positive, up from 36% in Q3, while one in five rates them as negative, down from 30% last quarter. CFOs are similarly optimistic about growth in revenues, and there is a greater willingness to increase capital expenditure.



70%

see geopolitical risk as the greatest risk to their company.

Focus on geopolitical risk

Swiss CFOs currently see geopolitical risk as the greatest risk to their company, which is undoubtedly a reaction to the recent terrorist attacks in Paris. Other major risks include the strength of the Swiss Franc, increasing business regulation in Switzerland and the shortage of skilled professionals.



56%

do not expect Swiss interest rates to rise until 2018 at the earliest.

Most do not expect interest rates to rise before 2018 but are cautious in exchange rate calculations

56% of CFOs do not expect Swiss interest rates to rise before 2018, and 17% believe they will not rise until 2019. Expectations for future inflation rates and exchange rates remain virtually unchanged from Q3: Swiss CFOs expect an average rate of inflation of 0.8% in two-years' time and a EUR/CHF exchange rate of 1.09 in 12 months' time. They are cautious in relation to 2016 corporate budgets, basing their calculations on an expected average EUR/CHF exchange rate of 1.07. This is consistent with the cautious and risk-averse stance that characterises many Swiss CFOs at the moment.

Challenges and opportunities for 2016

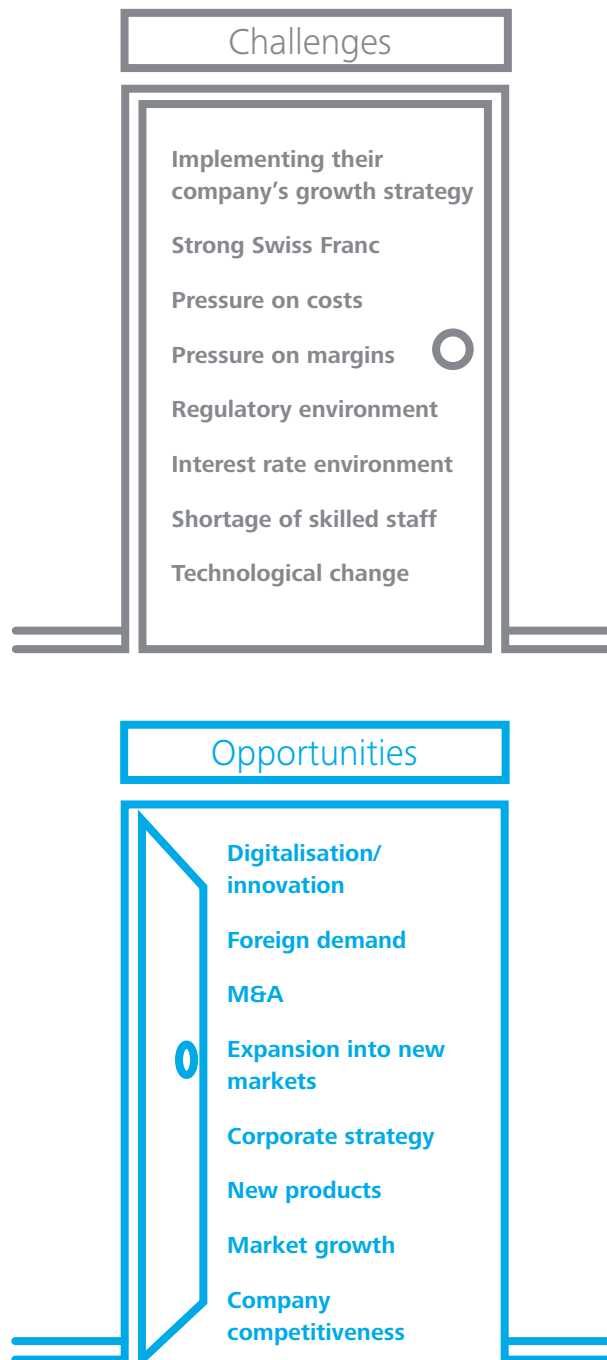
As they move into 2016, Swiss CFOs have mixed feelings and there is a general belief that they face no fewer challenges than they did when entering 2015.

About a quarter of CFOs cite the strength of the Swiss Franc as the main challenge facing their company in 2016 (respondents were able to list up to three challenges and three opportunities). The interest rate environment, the shortage of skilled professionals and business regulation are further causes for concern. More than one-third of CFOs also mention the problems caused by pressure on prices, costs and margins.

Companies are not remaining passive in this challenging environment. For example, almost one-third of Swiss CFOs cite implementation of their company's growth strategy right as a key focus, demonstrating that growth is a key priority for companies.

However, the external environment is not perceived solely as a challenge. For example, more than a fifth of CFOs cite rising demand, both at home and abroad, as one of the opportunities lying ahead in 2016. The US is the most frequently cited foreign market, followed by Europe and China.

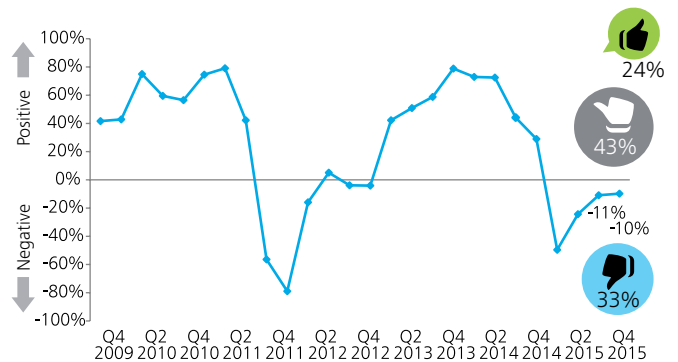
Nonetheless, CFOs are relying predominantly on their company's own strengths to ride out the challenges. Swiss CFOs frequently refer to competitiveness with the company's market position or the quality of its products and services to justify that confidence. Many Swiss CFOs also see their company's corporate strategy as an opportunity to improve its positioning. Almost one-tenth of CFOs see digitalisation and innovation as a challenge, but more than double this percentage see it as a major opportunity. Around one in five CFOs say their company will be prioritising these areas, with a further tenth saying that the introduction of new products will be a priority. Growth is also seen as an opportunity, with almost one company in ten prioritising organic market expansion, inorganic growth or cooperation arrangements.



Economic outlook stabilises

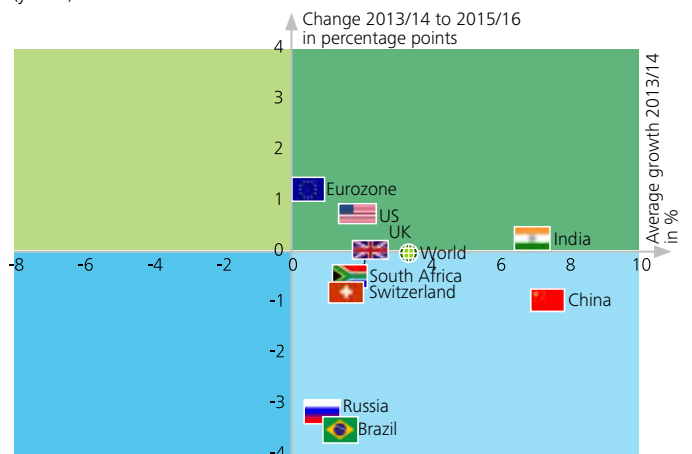
Swiss CFOs' expectations for economic growth remain largely unchanged from Q3. A small majority are still pessimistic about Switzerland's economic prospects over the next 12 months (33%, as opposed to 24% who are optimistic). However, compared with the drastic fall in optimism in Q1 2015, expectations have recovered significantly.

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



A similar picture emerges with regard to growth forecasts for 2015 and 2016, with CFOs expecting a downturn in the Swiss economy stopping short of negative growth. The picture emerging from other major economies is mixed: while growth in China, South Africa and, particularly, Brazil and Russia is expected to be lower than in 2013/14, it is expected to pick up in the US and, especially, in the eurozone. However, recovery in the eurozone is from an extremely low base and is accompanied by a range of downside risks.

Chart 2. Trends in global GDP growth rates
Average growth in GDP in 2013/14 (x-axis) and change between 2013/14 and the forecast average for 2015/16, in percentage points (y-axis)

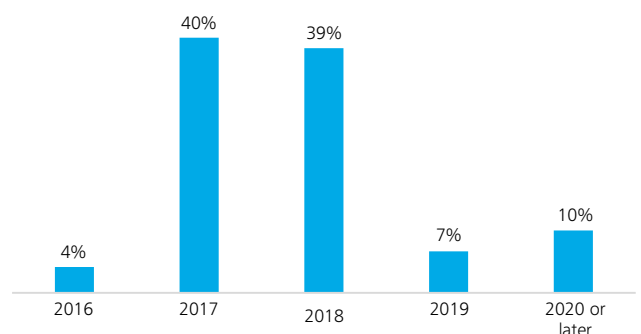


Sources: International Monetary Fund, SECO

Since the financial crisis, interest rates in Switzerland and elsewhere have been at historic low levels. In Switzerland, the sustained low level has been exacerbated by the removal of the exchange rate floor, bringing with it negative rates of interest. Normalisation of the economic environment across the board would include normalisation of interest rates, but CFOs' responses make it clear that they do not believe this will happen in the near future. More than half (56%) do not expect interest rates to rise until 2018 at the earliest, with 17% believing that they will remain unchanged until at least 2019. As a result, their expectations for exchange rates and inflation also remain largely unchanged (see Appendix 1).

Chart 3. Interest rate expectations

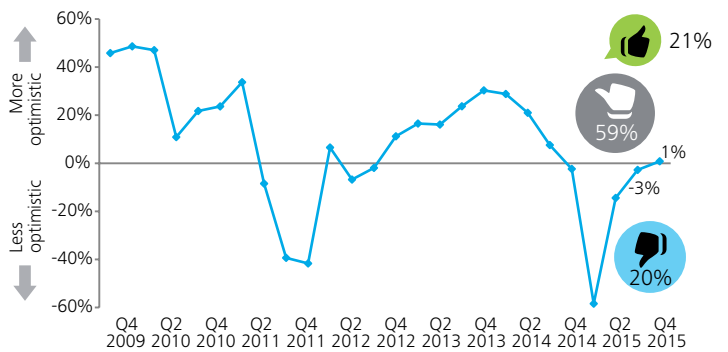
When do you expect the basic rate of interest in Switzerland to rise?



A brighter corporate outlook

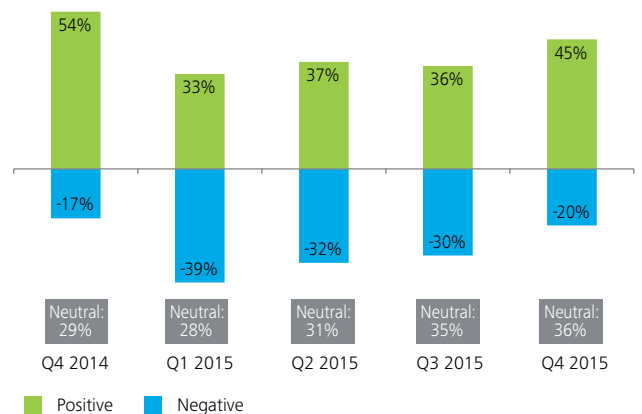
Companies' financial prospects have stabilised quarter on quarter but are still nowhere near the record highs seen in 2013. For a large majority of Swiss CFOs (59%), their rating of their company's financial prospects is unchanged from Q3, while 21% are more optimistic and 20% more pessimistic (a net balance of 1%).

Chart 4. Companies' financial prospects quarter on quarter
Net balance showing how CFOs rate their company's financial prospects now compared with three months ago



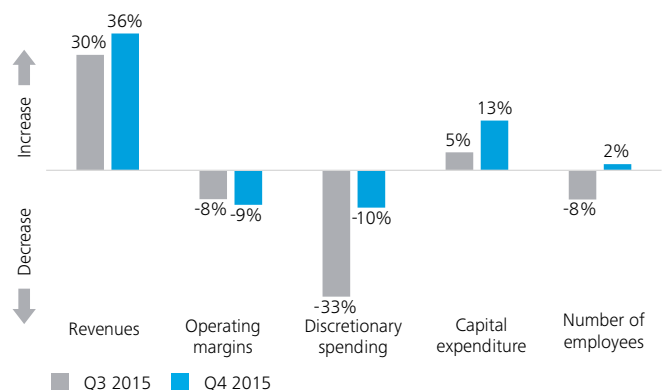
Looking forward to their company's financial prospects over the next 12 months, CFOs are more positive. Almost half (45%) rate their company's prospects as positive, with only one in five (20%) rating them as negative. This is a marked improvement on the Q3 results and is also reflected in the responses relating to specific indicators.

Chart 5. Companies' financial prospects
How do you rate your company's financial prospects over the next 12 months?



An increasing majority of CFOs (58%) expect revenues to increase over the next 12 months, while just 22% expect them to decrease, pushing the net balance up from 30% in Q3 to 36% in Q4. Expectations for operating margins are broadly unchanged from Q3 at a net balance of -9%. There has, however, been a major shift in the responses relating to discretionary spending, which is traditionally an early indicator of business performance. Here, CFOs are planning to manage spending much less restrictively than in Q3, and planned capital expenditure is also up.

Chart 6. Indicators
Net balance of CFOs who expect the following indicators to increase/decrease for their company over the next 12 months



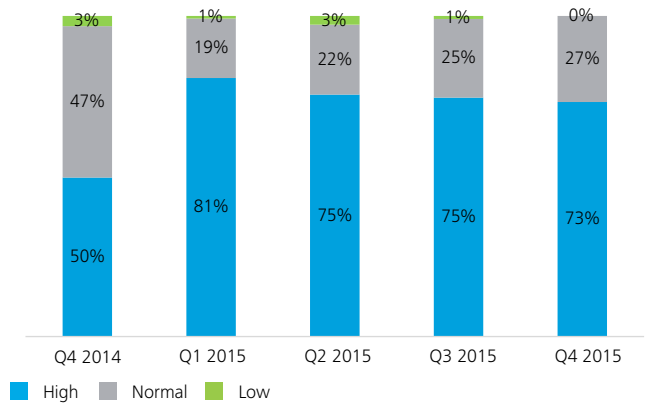
Swiss CFOs' responses here may indicate a willingness to achieve growth targets through greater investment and higher spending. However, they also suggest that many sectors have already made substantial cuts, leaving little, if any, scope for further savings.

Limited risk appetite

Over the past four quarters, Swiss CFOs have rated the level of economic and financial uncertainty as high. In Q4 2015, 73% rate it as high, slightly down on Q3 (75%). No CFO rates the current level of uncertainty as low. This pattern of perceptions is having an impact on the way risk is managed.

Chart 7. Uncertainty

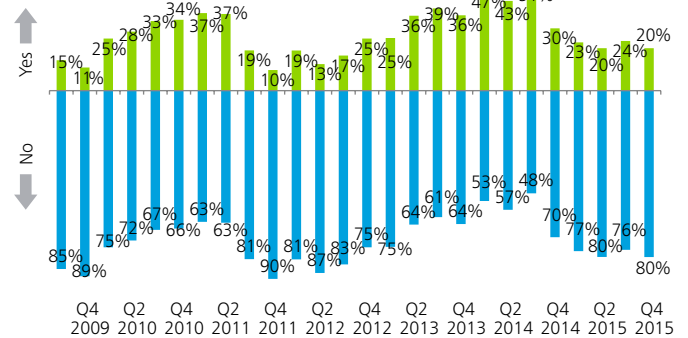
How do you rate the current level of uncertainty in the economic and financial environment?



Swiss CFOs' risk appetite has been falling markedly since the end of 2014 and has stabilised at a low level in Q4 2015. 80% of CFOs do not believe this is a good time to be taking greater risk onto their company's balance sheet, and only one in five has any appetite for risk. This caution is also reflected in the expectations for the EUR/CHF exchange rate that underpins corporate budgets for 2016, as the responses to a separate question reveal. These budgets show that average expectations are for a slightly stronger than expected Swiss Franc, with companies budgeting for a rate of EUR/CHF 1.07 as against the expected EUR/CHF 1.09.

Chart 8. Risk on balance sheets

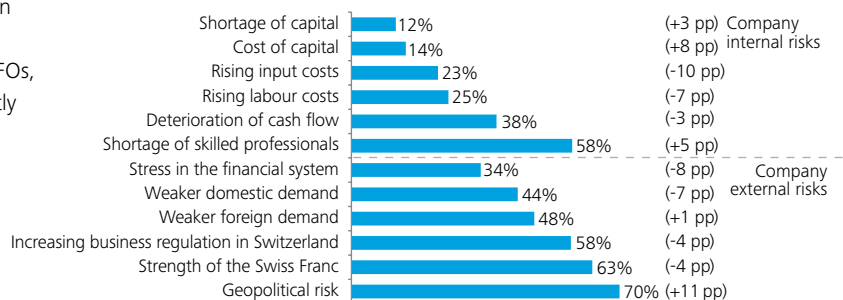
Is this a good time to be taking greater risk onto your balance sheet?



Geopolitical risk has risen to the top of the list of CFOs' perceived risks to their company: it is up 11 percentage points on Q3 2015, undoubtedly as a reaction to the terrorist attacks in Paris. Further major external risks cited by Swiss CFOs are the strength of the Swiss Franc (cited by 63%) and increasing business regulation within Switzerland (58%). The risk of weaker demand, both domestic and foreign, is also mentioned by almost half of CFOs, while a shortage of skilled professionals is the most frequently cited internal risk.

Chart 9. Risks

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



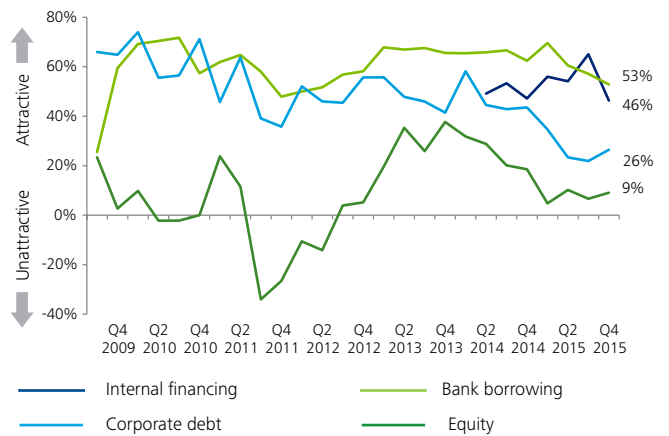
Parenthesis: Change to Q3 2015 in percentage points (PP)

An attractive financing environment

Swiss CFOs continue to rate the financing environment as attractive. As in previous quarters, bank borrowing and internal financing are their preferred forms of financing, with corporate debt and equity some way behind. A majority finds each of these forms of financing attractive, although the attractiveness of equity and, to a lesser extent, corporate debt has declined over the past two years. This is further evidence of CFOs' growing aversion to risk.

Chart 10. Corporate financing

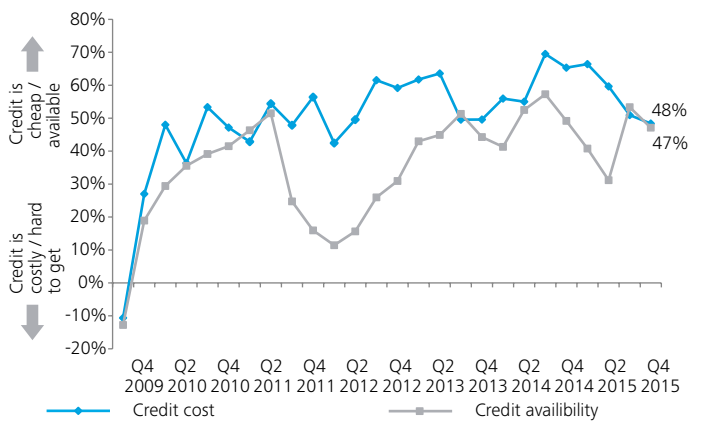
How do you rate the following forms of financing as possible sources of funding for Swiss companies? (net balance)



This trend is also evident in CFOs' detailed rating of the cost and availability of credit financing for companies. Around two-thirds of CFOs rate credit as both available and cheap, while less than one-fifth rate it as hard to get and costly, producing high net balances of almost 50% on both aspects.

Chart 11. Cost and availability of credit financing

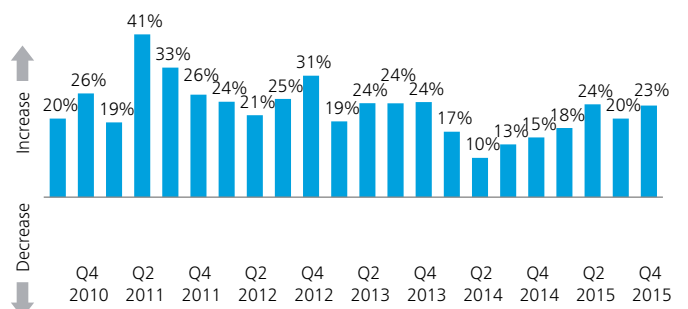
How do you rate the general availability and cost of new credit financing for companies? (net balance)



CFOs expect demand for new credit to be slightly higher over the next 12 months. A net balance of 23% expect their company's demand for credit to increase, maybe partly as a result of a slightly greater willingness to invest (see Chart 6) and advantageous financing conditions.

Chart 12. Future demand for credit

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



Special questions on how property costs are presented on company balance sheets

From 1 January 2019, property rental agreements running for several years must conform with IFRS 16 and be activated in accounting terms. 72% of companies have made little or no preparation for this change. Many do not expect it to have an impact on their company, possibly because of the long lead time before implementation, but also because of a lack of familiarity with the new IFRS rules, which are currently being agreed. Just under two-thirds of companies that believe the changes will have an impact on them have already made preparations. Companies with global operations will not only have to make the information of all rental agreements centrally available, but also introduce IT solutions for lease accounting.

Within the UN, the EU, and in Switzerland, there is currently discussion of possible regulatory changes that would result in higher taxation of companies' environmental balance sheets or the carbon footprint of their properties. Planning is currently focussing on a tax regime similar to that within the automotive industry on the grounds that around 40% of global CO2 emissions are caused by erecting, operating and converting buildings. Around two-thirds of CFOs questioned are unaware of these changes or have made no preparations for them. A few companies have already implemented environmental reporting for property, regardless of possible future regulation, so at least 11% of companies covered by the Survey are well prepared. In particular, they are making greater use of building certification schemes, such as Minergie or others.

Chart 13. IFRS changes in relation to rented property

To what extent has your company already made preparations for the impact the forthcoming IFRS changes regarding rented property will have on your balance sheet?

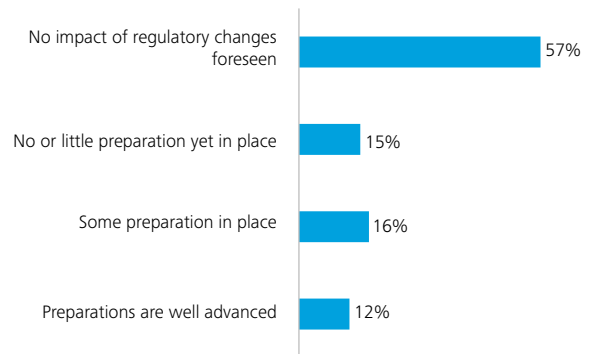
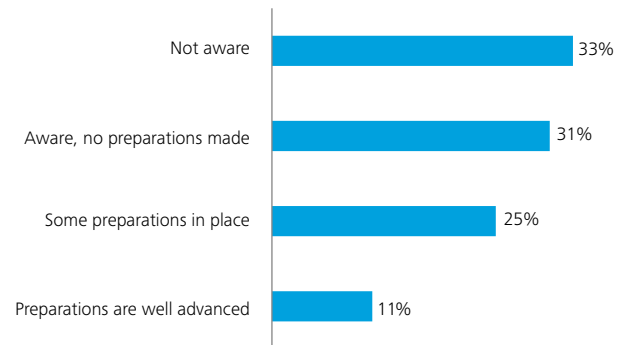


Chart 14. Potential changes in the way the environmental balances of buildings are treated on balance sheets

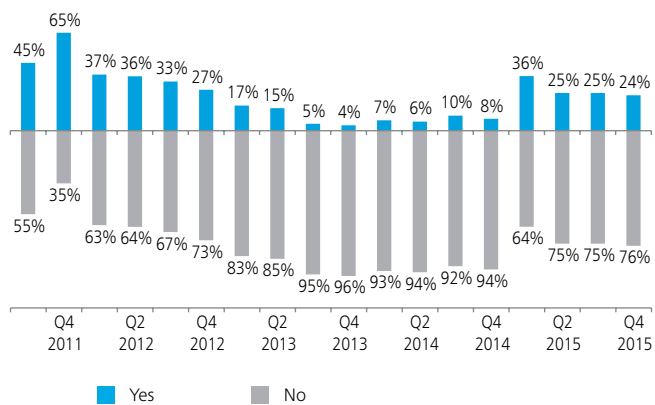
To what extent are you aware of, and prepared for, the possible future regulatory change of wider reporting of environmental balance sheets and/or the carbon footprint of your properties on your balance sheet?



Appendix 1: Additional charts

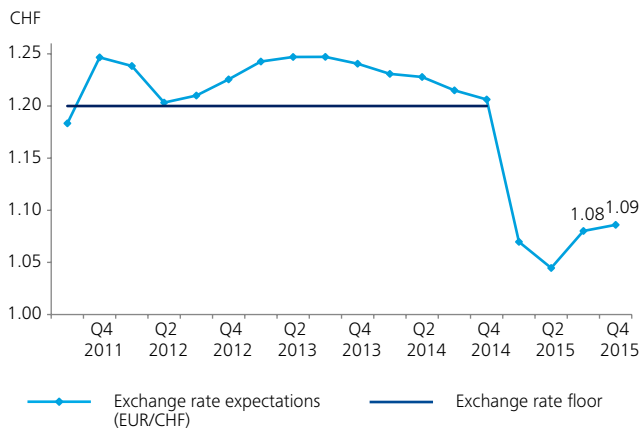
Recession

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



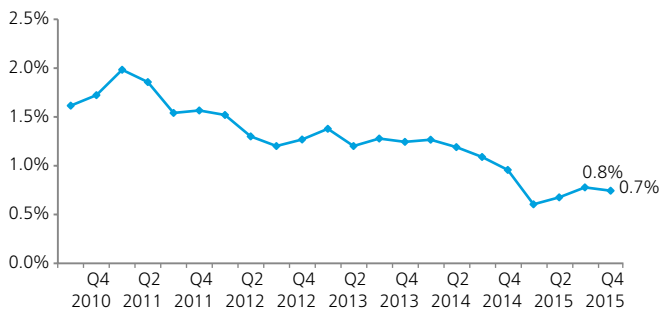
Exchange rate expectations

What exchange rate do you expect for the Swiss Franc against the euro over the next 12 months?



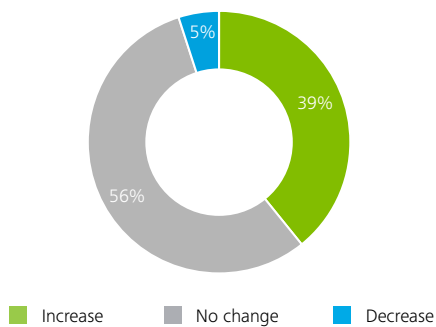
Inflation expectations

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



M&A activities

What change do you expect over the next 12 months in M&A activities in the markets in which your company operates?



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
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%
Neither positive nor negative	13%	45%	39%	44%	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%	36%	43%
Negative	83%	36%	28%	30%	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%	37%	33%
Net balance	-79%	-16%	5%	-4%	-4%	42%	51%	59%	79%	73%	73%	44%	29%	-50%	-24%	-11%	-10%
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%	21%
Unchanged	38%	52%	53%	46%	42%	52%	45%	50%	55%	55%	56%	55%	55%	29%	46%	51%	59%
Less optimistic	52%	21%	27%	28%	23%	16%	19%	13%	7%	8%	12%	18%	23%	65%	34%	26%	20%
Net balance	-42%	7%	-7%	-2%	11%	17%	16%	24%	30%	29%	21%	8%	-2%	-58%	-14%	-3%	1%
How do you think your company's demand for new credit is likely to change over the next 12 months?																	
Increase	36%	30%	30%	40%	38%	32%	37%	40%	36%	30%	31%	32%	28%	30%	35%	32%	33%
No change	54%	64%	60%	44%	55%	56%	50%	44%	52%	57%	48%	50%	59%	57%	53%	55%	57%
Decrease	10%	6%	10%	15%	7%	12%	13%	16%	12%	13%	21%	18%	13%	13%	12%	12%	10%
Net balance	26%	24%	21%	25%	31%	19%	24%	24%	24%	17%	10%	13%	15%	18%	24%	20%	23%
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%	16%
Neutral	27%	27%	26%	21%	31%	28%	25%	31%	26%	31%	28%	20%	25%	19%	28%	30%	20%
Cheap	65%	58%	62%	70%	64%	67%	69%	59%	62%	62%	63%	75%	70%	73%	66%	61%	64%
Net balance	56%	42%	50%	62%	59%	62%	64%	50%	50%	56%	55%	69%	65%	66%	60%	51%	48%
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%	60%
Neutral	41%	35%	39%	41%	32%	34%	36%	29%	33%	35%	31%	31%	36%	34%	36%	28%	26%
Hard to get	21%	27%	23%	16%	19%	11%	9%	10%	11%	12%	8%	6%	7%	13%	17%	10%	13%
Net balance	16%	11%	16%	26%	31%	43%	45%	51%	44%	41%	53%	57%	49%	41%	31%	53%	47%

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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

Notes

Notes

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