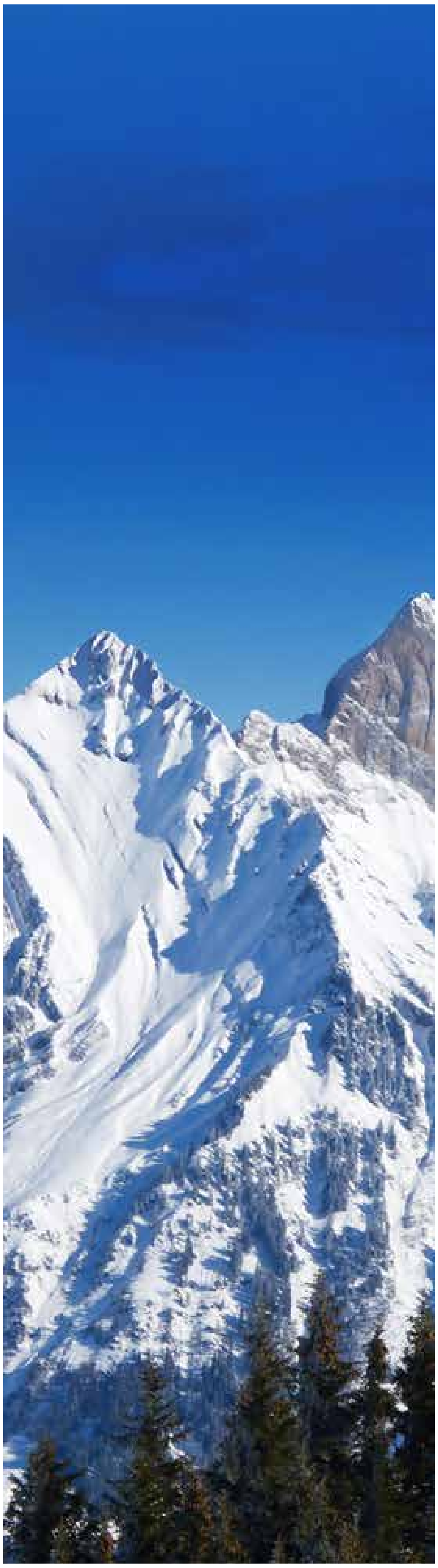
The Deloitte CFO Survey

A positive outlook for 2017

Winter 2016

Contents



This is the 30th 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 winter 2016 CFO Survey was conducted between 21 November and 16 December 2016. A total of 101 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

Despite a challenging external environment, the winter 2016 Survey shows that Swiss CFOs are more optimistic in their expectations both for the Swiss economy and for their own company. Companies are planning to increase investment and see opportunities for expansion and digitalisation in 2017.

Ongoing improvement in prospects for the Swiss economy and for companies

50%

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

Swiss CFOs' expectations for the economy have continued to improve this quarter: 50% rate the prospects for the country's economy as positive and only 7% as negative. The improvement in the outlook for companies is even more marked: 64% of CFOs rate their company's prospects as positive as against just 9% who rate them as negative.

Investment expectations higher – slight improvement in expectations for margins

50%

of CFOs expect their company to increase new investment over the next 12 months.

There has also been an improvement in detailed corporate indicators. One company in two expects to see an increase in new investments over the next 12 months. Expectations for operating margins have also improved, with a small majority of CFOs now expecting margins to increase. There has been a modest improvement in expectations for revenues.

Multiple risks

58%

of CFOs rate uncertainty in the economic and financial environment as high.

Uncertainty in the economic and financial environment has improved slightly but has remained high since Q1 2015, with CFOs perceiving a range of mostly external risks. The most commonly cited risk this quarter is geopolitical risk, which is still perceived as representing a greater risk than the strong Swiss Franc and declining domestic demand. The commercial environment is also causing concern: 27% of CFOs report a negative impact on their company from commercial measures taken by other countries.

Companies plan expansion and innovation despite a difficult environment

The most commonly cited opportunities for 2017 are expansion, innovation/new products, M&A and foreign demand.

Despite a difficult external environment, companies are actively planning to expand both geographically and into new markets. The introduction of new products, innovation and digitalisation are also frequently cited as opportunities for 2017.

Looking ahead to 2017

2016 saw a number of major events that are likely to have an ongoing impact in 2017, with further major political decision-making lying ahead. Alongside Europe's 'election super-year', which will see elections being held in over half a dozen countries including France and Germany, there will (probably) be progress towards Brexit, and Donald Trump becomes US president on 20 January.

Against this backdrop, it is unsurprising that the challenge CFOs most commonly cite for 2017 is geopolitical risk. However, the strong Swiss Franc remains a perceived challenge, along with increasing business regulation and the skills shortage. Nevertheless, despite the range of risks they perceive, CFOs are more optimistic overall this quarter. Risks appear to be having a less direct impact on companies' prospects than in previous quarters.

At the same time, CFOs see a number of opportunities for their company in 2017, including plans to expand (particularly into foreign markets or through M&A transactions), innovation/new products, and digitalisation. Their confidence is underpinned by the quality of their workforce, their own competitive position and the strength of the 'Swiss made' brand.

Chart 1. The 12 greatest challenges and opportunities over the next 12 months
What do you see as the greatest internal and/or external risks and opportunities for your company over the next 12 months? Please list up to three risks and three opportunities.

Challenges		Opportunities
Geopolitical risks	↑	Expansion
Strong Swiss Franc	↓	Innovation/new products
Domestic demand	→	Foreign demand
Internal company problems	↑	M&A
Skills shortage	↑	Digitalisation
Regulation	↑	Costs and efficiency
Pressure on prices and margins	↑	Quality of staff
Cost of raw materials	↑	Domestic demand
Monetary policy/interest rates	↓	Monetary policy/interest rates
Foreign demand	↓	Partnerships
Barriers to trade	↓	Cost of raw materials
Pressure from competitors	↓	Stronger competitive position

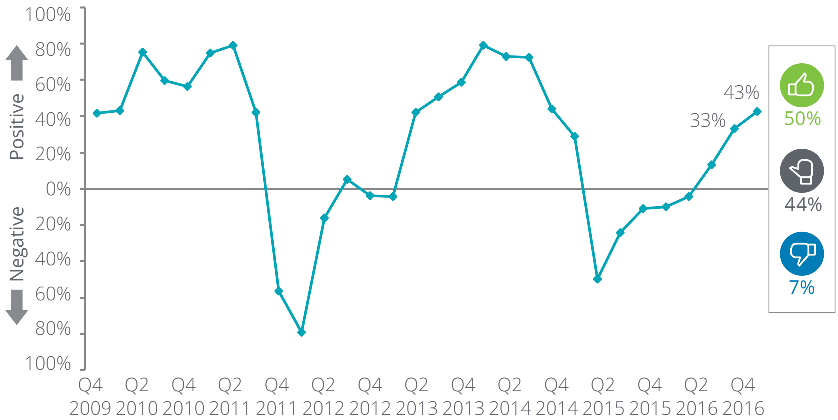
The arrows indicate the change in perception of individual challenges compared with the preceding quarter.
(The Q3 Survey did not ask about opportunities.)

Brighter prospects for the economy and for companies

For the seventh successive quarter, Swiss CFOs' rating of the country's economic prospects has improved. 50% of CFOs rate the outlook as positive, with just 7% rating it as negative. Official economic forecasts also assume that the Swiss economy will continue to recover. Despite a slight setback in Q3 2016, when growth was 0%, the State Secretariat for Economic Affairs (SECO) is forecasting growth of 1.5% for 2016 and of 1.8% for 2017.

Chart 2. Economic outlook

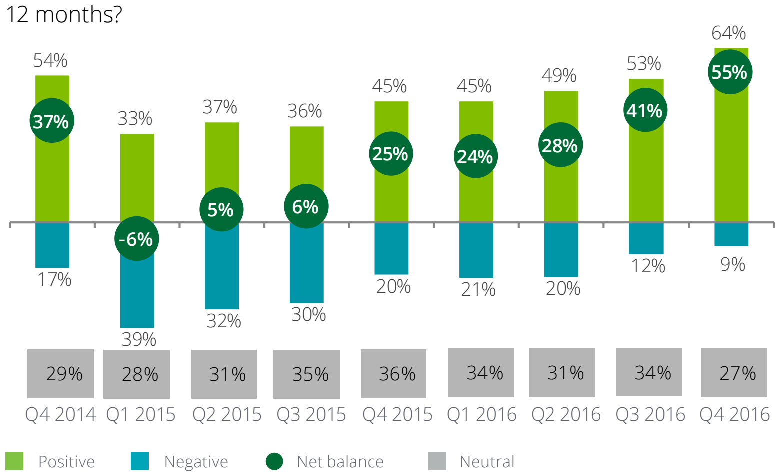
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



These positive expectations for the Swiss economy are reflected in CFOs' assessment of their own company's financial prospects. 64% rate them as positive and 9% as negative, reflecting a consistent improvement from the low recorded in Q1 2015.

Chart 3. Financial outlook for the next 12 months

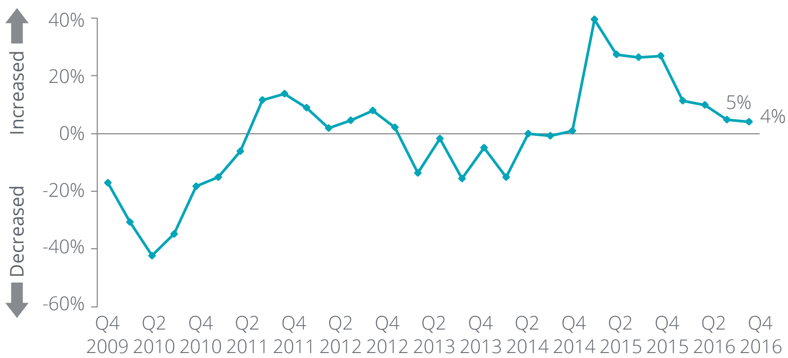
How do you rate your company's financial prospects over the next 12 months?



Since the shock waves caused by removal of the exchange rate floor in early 2015, fewer and fewer CFOs have been reporting a willingness to take further financial risk onto their balance sheet. Over the past two quarters, only a very small majority of companies have reported increased levels of risk, with 24% of CFOs reporting an increase in risk this quarter and 20% a decrease (net balance: 4%); 56% say that the level of risk remains unchanged.

Chart 4. Risk on balance sheets

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

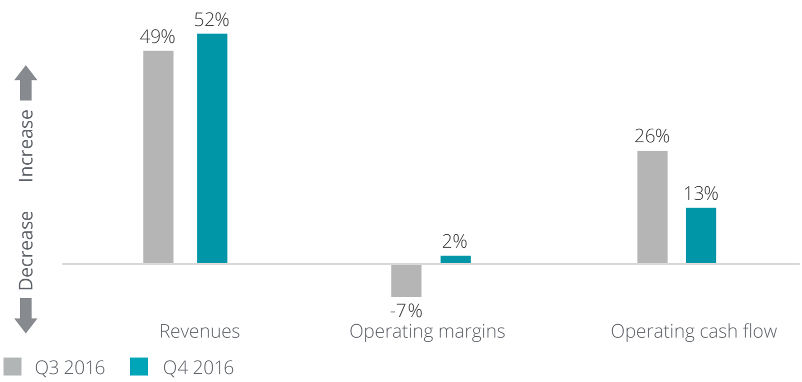


Improvement in investment expectations

Detailed corporate indicators also point to continuing recovery. The net balance of expectations for revenues over the next 12 months has improved slightly, while expectations for operating cash flow are down. Expectations for operating margins have improved noticeable: the net balance is positive, with slightly more companies expecting margins to increase than to decrease (33% as against 31%).

Chart 5. Corporate indicators I

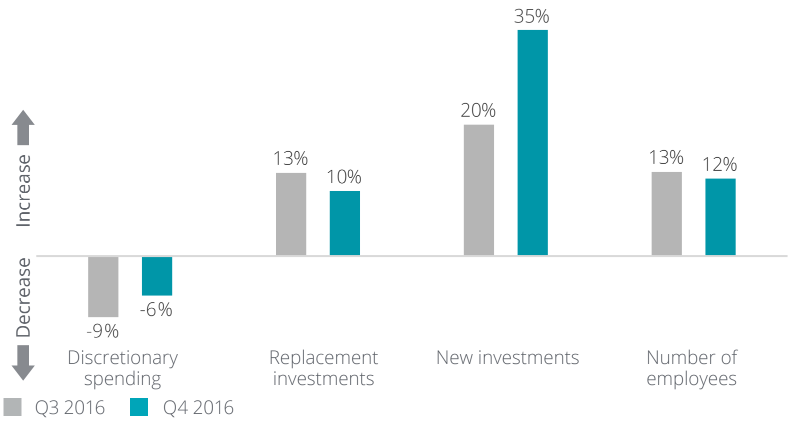
Net balance of CFOs who expect the following indicators to increase/decrease for their company over the next 12 months



Expectations for new investments are also markedly more positive. Half of all companies expect new investments to increase over the next 12 months. Expectations for both replacement investments and number of employees are slightly down on Q3, but the net balance nevertheless remains positive, with a small majority expecting these indicators to increase. There is a modest negative net balance in expectations for discretionary spending.

Chart 6. Corporate indicators II

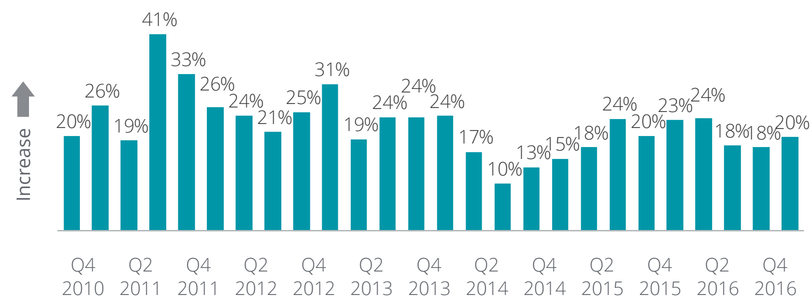
Net balance of CFOs who expect the following indicators to increase/decrease for their company over the next 12 months



The expected future demand for credit is higher than in Q3 2016, and companies seem to be relying on external financing for their investment projects. The financing environment continues to be positive (see Chart in Appendix 1), with CFOs this quarter rating bank borrowing as the most attractive source of financing ahead of the other three sources (internal financing, corporate debt and equity).

Chart 7. Future demand for credit

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

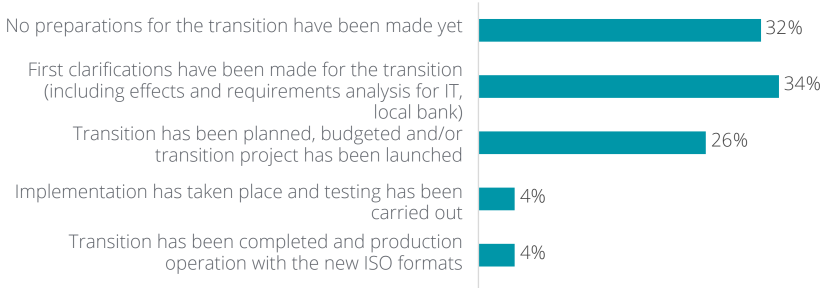


Harmonisation of payment transactions: Introducing ISO 20022

Switzerland will shortly be implementing the international payment transactions standard, ISO 20022. This standard is used globally (in particular across Europe) and represents an opportunity to modernise, standardise and harmonise Swiss payment transactions. ISO 20022 will be implemented between 2018 and 2020, depending on the payment instrument. After these dates, companies will no longer be able to use existing standards and will have to make the transition to the new arrangements. About two-thirds of CFOs report that their company has already taken some steps towards transition, but almost a third of companies have not yet made any preparations.

Chart 8. Level of preparedness

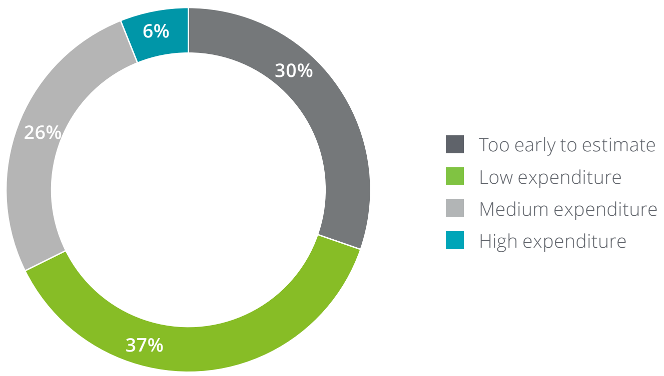
The international payment transactions standard, ISO 20022, is being introduced in Switzerland. What steps has your company taken towards implementing it?



The largest group of CFOs – 37% – report that they expect the transition to the new standard to involve only low expenditure. Around a quarter expect medium expenditure, with just 6% expecting high expenditure. The remaining 30% report that it is too early to estimate the cost of the transition; this is particularly the case for companies that have not yet made any preparations.

Chart 9. Expected transition costs

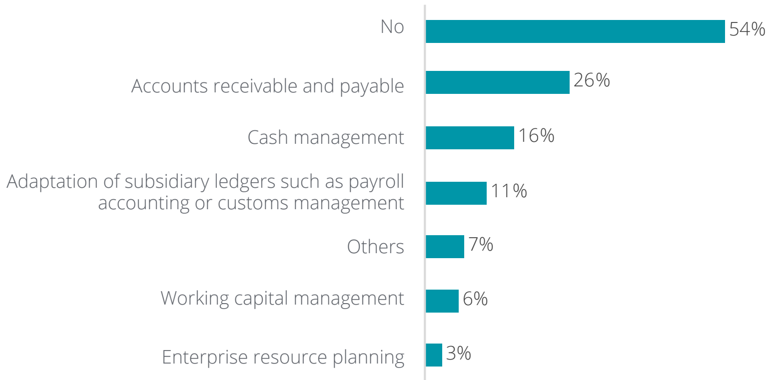
How high do you expect expenditure on the transition to be?



Introduction of the new standard gives companies an opportunity to make major changes towards optimising their processes and solutions. However, just over half of all CFOs report that their company will not be making such changes. 26% plan to optimise their systems for handling accounts receivable and payable, while 16% say they will be optimising their cash management.

Chart 10. Further changes

Are you planning to use the transition to ISO 20022 to further optimise related processes/solutions? If so, which processes or solutions? (multiple answers possible)

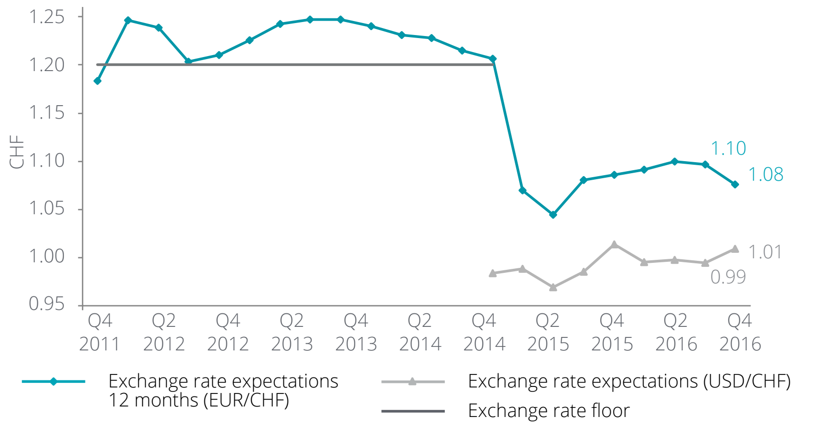


A challenging commercial environment

Over recent years, the strong Swiss Franc has been one of the most dominant factors in the commercial environment for Swiss companies. Two years on from the removal of the exchange rate floor, the CHF/EUR exchange rate is still seen as one of the major challenges facing businesses (see Chart 1), although on average, companies are now better geared to managing the strong currency. On average, CFOs expect the exchange rate to remain virtually unchanged over the next 12 months. While the strength of the Swiss Franc remains a challenge, therefore, CFOs' view is that this challenge is not likely to intensify.

Chart 11. Exchange rate expectations

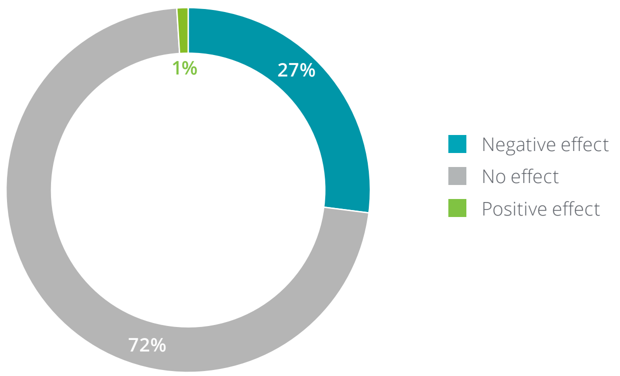
What exchange rate do you expect for the Swiss Franc against the euro and the US dollar in 12 months' time?



Commercial reforms and protectionism in other countries also represent a challenge. Around one-quarter of CFOs believe such measures are having a negative impact on their company, citing a range of countries. In response to a separate question, CFOs most frequently mentioned the US, Russia and China, although measures taken by the EU, India and Turkey also featured prominently in their responses.

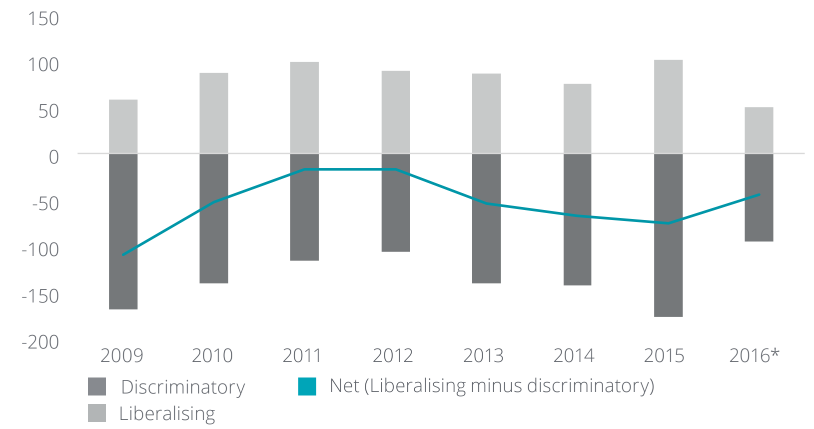
Chart 12. Impact of protectionism

To what extent have protectionism and commercial reforms in other countries had an impact on the financial success of your company?



Independent observers of the commercial environment also note an increase in protectionism over the last few years. For example, since the Global Trade Alert initiative was launched in 2009, each year there has been an increase in discriminatory measures likely to impact Switzerland and fewer liberalising measures. The number of discriminatory measures has risen further in recent years (figures for 2016 are still provisional).

Chart 13. Number of trade measures by foreign countries with an impact on Switzerland

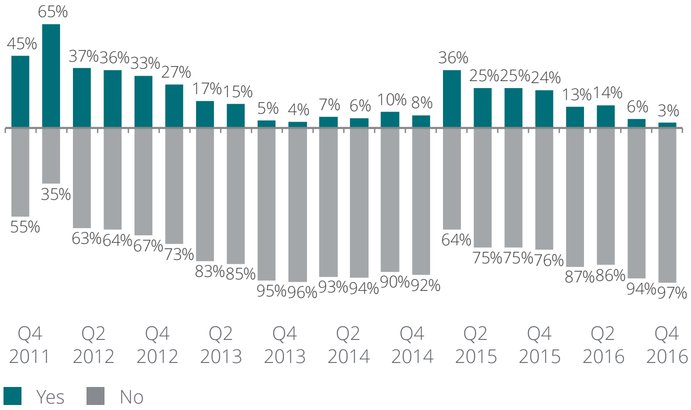


* For 2016, provisional figures up to 30 September.
Source: Global Trade Alert

Appendix 1: Additional charts

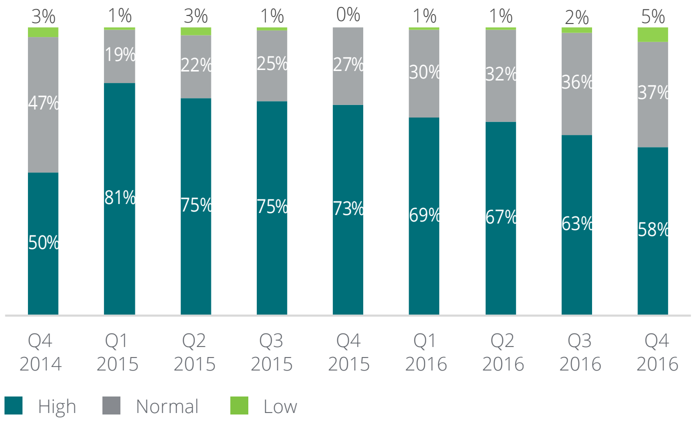
Recession expectations

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



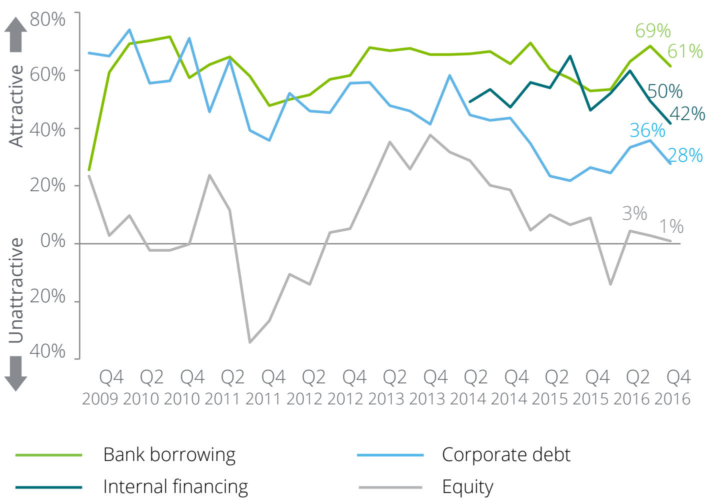
Uncertainty

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



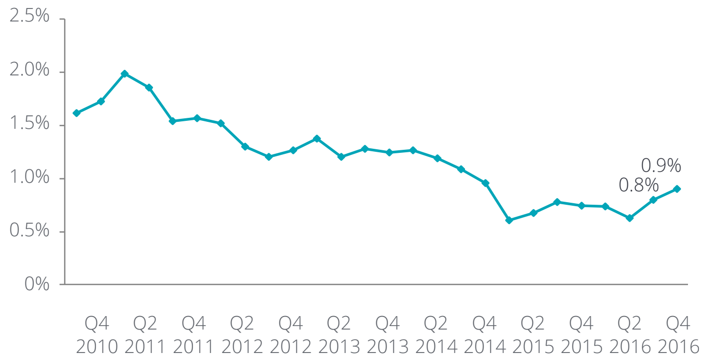
Financing environment

How do you currently rate the following sources of funding for Swiss corporates?



Inflation expectations

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



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 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	Q4 2016
How do you judge the economic outlook for Switzerland over the next 12 months?																	
Positive	28%	53%	56%	63%	80%	76%	75%	53%	41%	10%	16%	26%	24%	24%	31%	45%	50%
Neither positive nor negative	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%	36%	43%	47%	50%	43%	44%
Negative	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%	37%	33%	28%	18%	12%	7%
Net balance	-4%	42%	51%	59%	79%	73%	73%	44%	29%	-50%	-24%	-11%	-10%	-4%	13%	33%	43%
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%	66%
No change												19%	20%	18%	17%	20%	20%
Decrease												25%	22%	18%	23%	16%	14%
Net balance												30%	36%	46%	36%	49%	52%
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%	33%
No change												28%	39%	31%	36%	44%	37%
Decrease												40%	35%	41%	38%	31%	31%
Net balance												-8%	-9%	-14%	-12%	-7%	2%
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%	40%
No change												30%	34%	36%	30%	39%	34%
Decrease												33%	26%	25%	25%	18%	27%
Net balance												4%	14%	14%	19%	26%	13%
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%	18%
No change												42%	46%	59%	50%	67%	58%
Decrease												45%	32%	24%	33%	21%	24%
Net balance												-33%	-10%	-8%	-17%	-9%	-6%

Appendix 2: Data archive

	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	Q4 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%	22%
No change															66%	69%	66%
Decrease															19%	9%	12%
Net balance															-4%	13%	10%
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%	50%
No change															31%	41%	34%
Decrease															28%	19%	16%
Net balance															13%	20%	35%
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%	31%
No change												39%	37%	47%	42%	37%	50%
Decrease												34%	31%	21%	29%	-25%	19%
Net balance												-8%	2%	11%	1%	13%	12%
How do you think your company's demand for new credit is likely to change over the next 12 months?																	
Increase	38%	32%	37%	40%	36%	30%	31%	32%	28%	30%	35%	32%	33%	34%	27%	31%	32%
No change	55%	56%	50%	44%	52%	57%	48%	50%	59%	57%	53%	55%	57%	55%	64%	56%	56%
Decrease	7%	12%	13%	16%	12%	13%	21%	18%	13%	13%	12%	12%	10%	11%	9%	13%	12%
Net balance	31%	19%	24%	24%	24%	17%	10%	13%	15%	18%	24%	20%	23%	24%	18%	18%	20%
How has the level of financial risk on your balance sheet changed over the last 12 months?																	
Increase	26%	26%	28%	21%	28%	23%	29%	28%	28%	52%	45%	43%	46%	34%	34%	28%	24%
No change	50%	34%	42%	42%	38%	40%	42%	42%	45%	36%	38%	40%	34%	43%	42%	50%	56%
Decrease	24%	40%	30%	37%	33%	38%	29%	29%	27%	12%	17%	17%	20%	23%	24%	23%	20%
Net balance	2%	-14%	-2%	-16%	-5%	-15%	0%	-1%	1%	40%	27%	26%	27%	11%	10%	5%	4%

Notes

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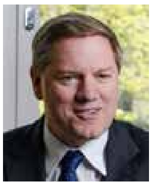

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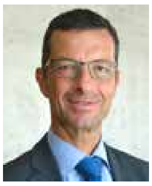

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Participating in our Survey and accessing previous surveys
If you would like to take part in our Survey or would like to receive further copies of this report, please contact us at **cfosurvey@deloitte.ch**

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