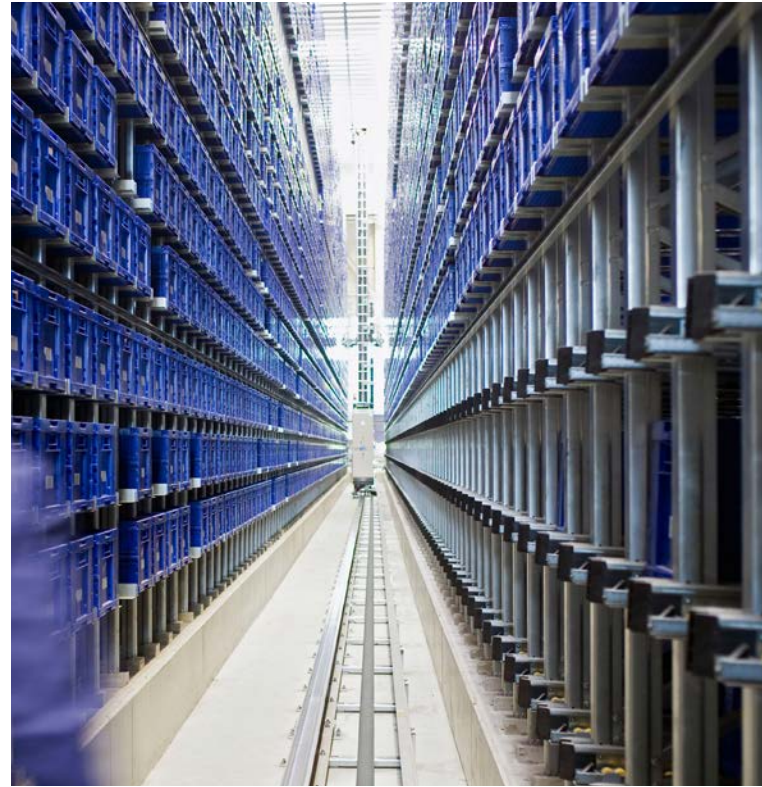


Manufacturing Trends Quarterly Q1 2016



Business risks

The strength of the Swiss Franc, weaker domestic demand and geopolitical risks are seen as the biggest threats, followed by increasing regulation in Switzerland.

Growth prospects

Manufacturing sector CFOs expect an improvement in revenue over the next 12 months, but a greater deterioration in operating margins.

1 Deloitte CFO outlook

Manufacturing sector CFOs' expectations for economic growth in Switzerland have improved and are at the same level as CFOs in other sectors; however, they remain subdued.

3 Financial prospects

CFOs in the manufacturing sector are almost as optimistic about the prospects for their company as CFOs in other sectors.

5 Strategic priorities

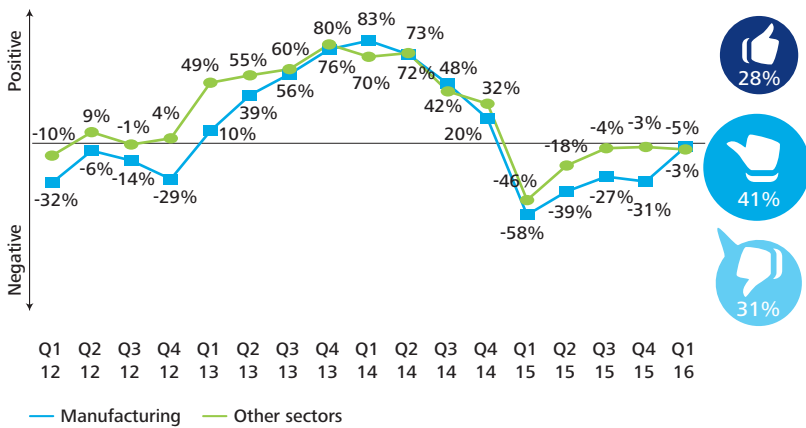
Cost control is the top priority for manufacturing sector CFOs, followed by organic growth, introducing new products/services, cost cutting and bigger investments in R&D.

1. Deloitte CFO outlook

Manufacturing sector CFOs' expectations for economic growth in Switzerland have improved and are at the same level as CFOs in other sectors; however, they remain subdued.

Economic outlook (net balance) (Q1 2012 – Q1 2016)

Question: How do you judge the economic outlook for Switzerland over the next 12 months?



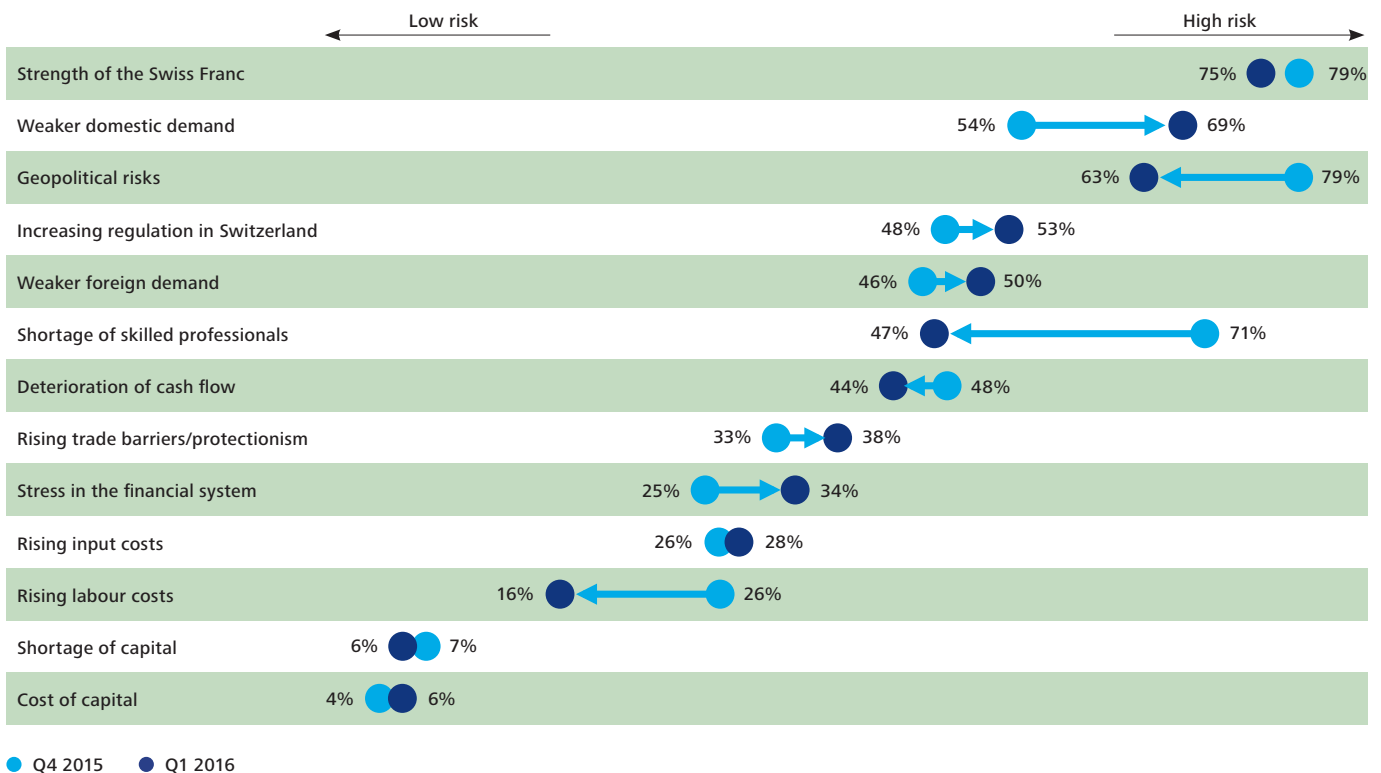
- The views of Swiss CFOs about the **economic outlook** remain subdued in Q1 2016.
- The confidence of manufacturing sector CFOs remains negative with the net balance at -3%, but has improved compared to -31% in the previous quarter. The net balance of other sectors stabilised at -5%.
- 28% of manufacturing sector CFOs are now optimistic (previously 14%), but slightly more (31%) remain pessimistic (previously 45%) with the majority being neutral.

2. Business risks

The strength of the Swiss Franc, weaker domestic demand and geopolitical risks are seen as the biggest threats, followed by increasing regulation in Switzerland.

Risk factors for the next 12 months (Q4 2015 vs Q1 2016)

Question: Which of the following factors are likely to pose a significant risk to your business over the next 12 months?



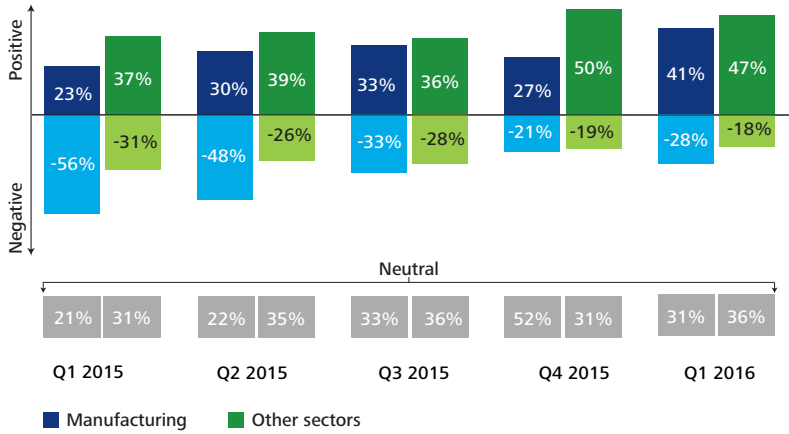
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents. The figures for business risks are for the manufacturing sector only. The percentages indicate the number of responses that rate the respective risk as high.
Sources: Deloitte CFO Surveys.

3. Financial prospects

CFOs in the manufacturing sector are almost as optimistic about the prospects for their company as CFOs in other sectors.

Companies' financial prospects (Q1 2015 – Q1 2016)

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



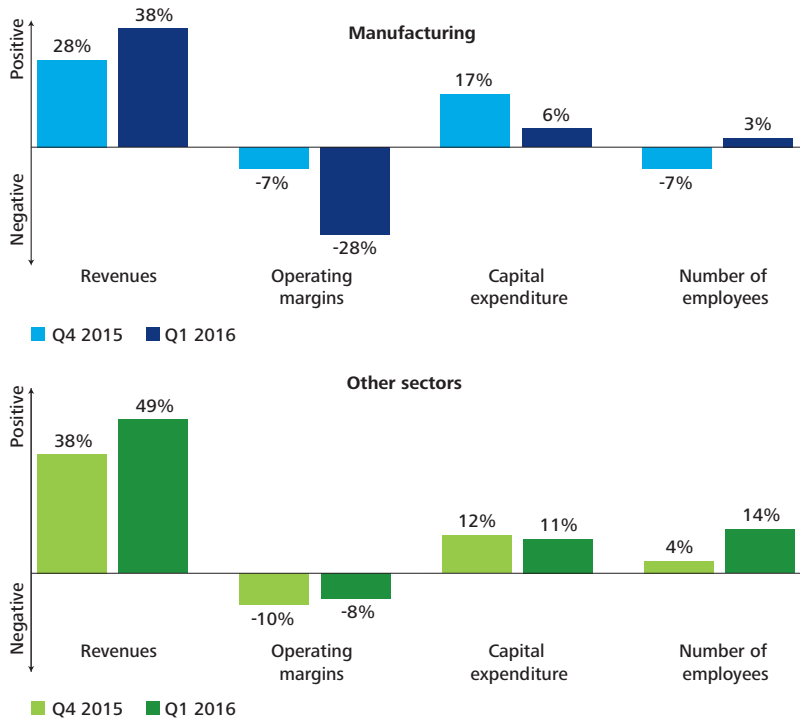
- CFOs in the manufacturing sector judge their company's **financial prospects** over the next 12 months more positive in Q1 2016 than in every quarter in 2015.
- Most strikingly, 41% of manufacturing CFOs rate their company's prospects as positive (previously 27%), with 28% rating them as negative (previously 21%). The number of manufacturing CFOs that judge the financial outlook as neither positive nor negative decreased from 52% to 31%.
- For CFOs in other sectors the picture remains largely unchanged, with 47% currently being optimistic (previously 50%) and 18% pessimistic (previously 19%).

4. Growth prospects

Manufacturing sector CFOs expect an improvement in revenue over the next 12 months, but a greater deterioration in operating margins.

Key metrics (net balance) (Q4 2015 vs. Q1 2016)

Question: In your view, how are the following key metrics for Swiss corporates likely to change over the next 12 months?



- Swiss CFOs have more positive **revenue** expectations in Q1 2016.
- Revenue expectations for manufacturing sector CFOs have improved (net balance at 38%), compared to the previous quarter (28%). Revenue expectations for other sectors have increased even more (from 38% to 49%).
- However, expectations for **operating margins** among manufacturing sector CFOs remain even lower (-28%), compared to the previous quarter (-7%). Margin expectations for other sectors also remain low (-8%).
- CFOs in other sectors now expect higher **capital expenditure** than manufacturing sector CFOs. Capital expenditure expectations of manufacturing CFOs have dropped from 17% to 6%.
- The **numbers of employees** have improved for all sectors compared to the previous quarter.



Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Sources: Deloitte CFO Surveys.

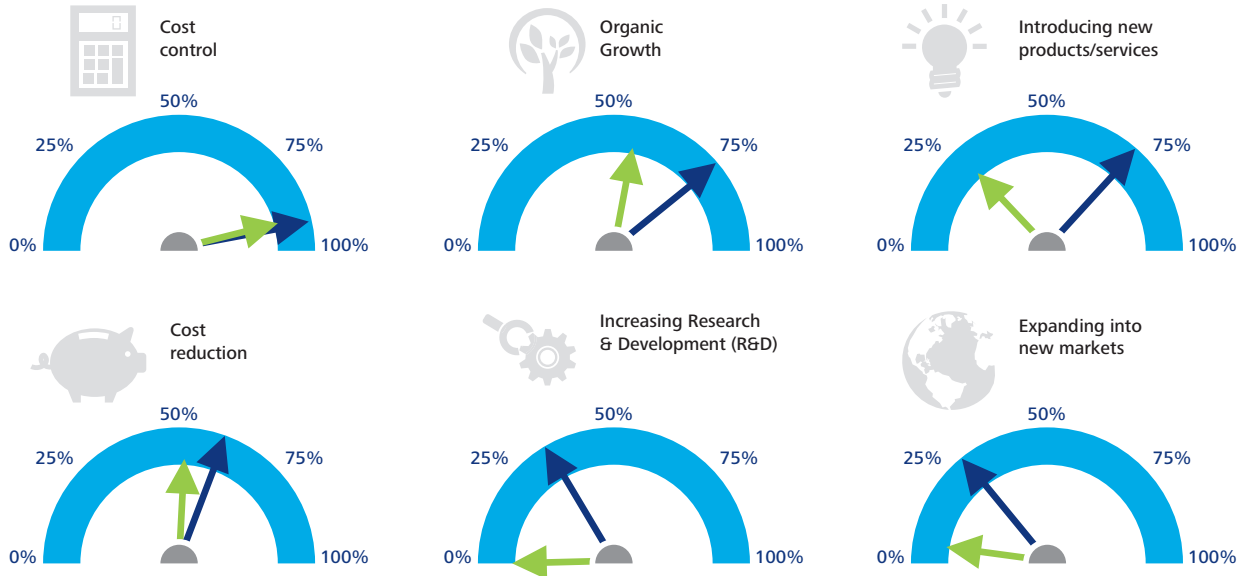
5. Strategic priorities

Cost control is the top priority for manufacturing sector CFOs, followed by organic growth, introducing new products/services, cost cutting and bigger investments in R&D.

Strategic priorities (net balance) (Q1 2016)

Question: Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?

 Manufacturing
 Other sectors



Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Sources: Deloitte CFO Surveys.

Interview with Stephan Keller, Management Board, V-ZUG AG

Deloitte: Revenue expectations are improving; however, operating margins are continuing to deteriorate. After years of cost reduction projects, what potential do you see for further operational improvement in the Swiss manufacturing industry?

Stephan Keller: Ongoing cost reduction in pursuit of operational excellence continues to be a very important part of our focus. Efficiency gains are still, and always will be, possible. However, the effectiveness of these initiatives may be delayed due to implementation time frames and investment ability. This was one of the main challenges resulting from the Swiss franc shock one year ago. Industry 4.0 offers additional efficiency opportunities for the coming years. New business models, which combine physical products and holistic services and benefits for end users, will become more important. In addition, efficiency gains in the overall supply chain, including both suppliers and sales channels, have not yet been optimised. Data gathered as a result of improved technology is still not being shared in the most mutually beneficial way and there are too many translational steps involved – for example in the planning, ordering and production processes.

Deloitte: What do you see as the main strategic priorities in the current economic environment for your business over the next 12 months?

Stephan Keller: After an immediate reaction to the Swiss franc shock (i.e. increasing working hours), the measures taken during this period are starting to be effective, allowing us to return to normal working hours. Over the next 12 months we will continue to stabilise this situation and roll out additional short-term actions. However, the main focus is on more sustainable change. This will include investigating more disruptive approaches such as greater digitalisation.

Deloitte: Innovation has been a strong focus and competitive advantage for the Swiss manufacturing industry for many years. In the age of industry 4.0 and the digital revolution how can the Swiss manufacturing industry keep its advantage?

Stephan Keller: Digitalisation is not an innovation per se. It can drive innovation if it is well applied either to an existing business idea or to a radically new business context. The key to success is to be clear about the benefits. Many early solutions were characterised by a strong push approach without really focusing on tangible benefits. The advantages of 4.0 will become clearer by improving processes and making the life of the users easier, all within a context of greater operational efficiency.

Deloitte: What do you see as the biggest growth opportunities for the Swiss manufacturing industry in 2016?

Stephan Keller: The biggest growth opportunity will be to extend the physical product to an integrated product which includes a service, variable and shapeable user experience. This should also allow for customisation and connected solutions with products of other manufacturers. Our highly fragmented industry in Switzerland will benefit from developing a more open way of thinking and focusing on connected product solutions across company borders.

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Profile:

Stephan Keller has been Director of the Development Division at V-ZUG AG since 2015 and Director of Production at V-ZUG AG from 2013 to 2014. Previously he was department head R&D, Scintilla AG Solothurn; a member of the Management Board, Bosch Power Tools Co. Ltd. (China, India, Malaysia); VP Central Research, Robert Bosch GmbH; and CEO sia Abrasives (Robert Bosch GmbH).

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