

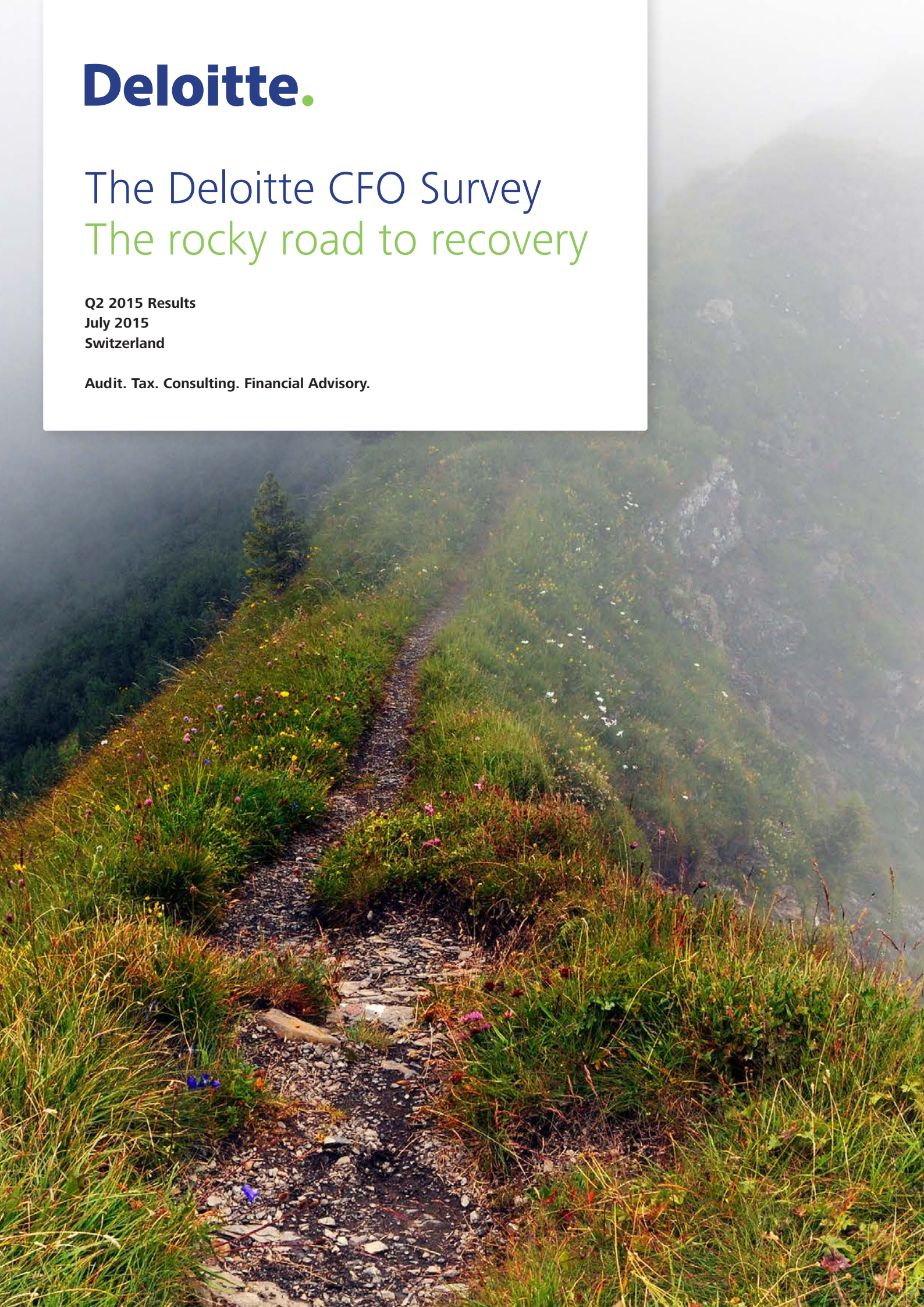


The Deloitte CFO Survey

The rocky road to recovery

Q2 2015 Results
July 2015
Switzerland

Audit. Tax. Consulting. Financial Advisory.



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This is the 24th 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 Q2 2015 Survey was conducted between 26 May and 22 June 2015. A total of 111 CFOs participated, representing listed and 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 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.

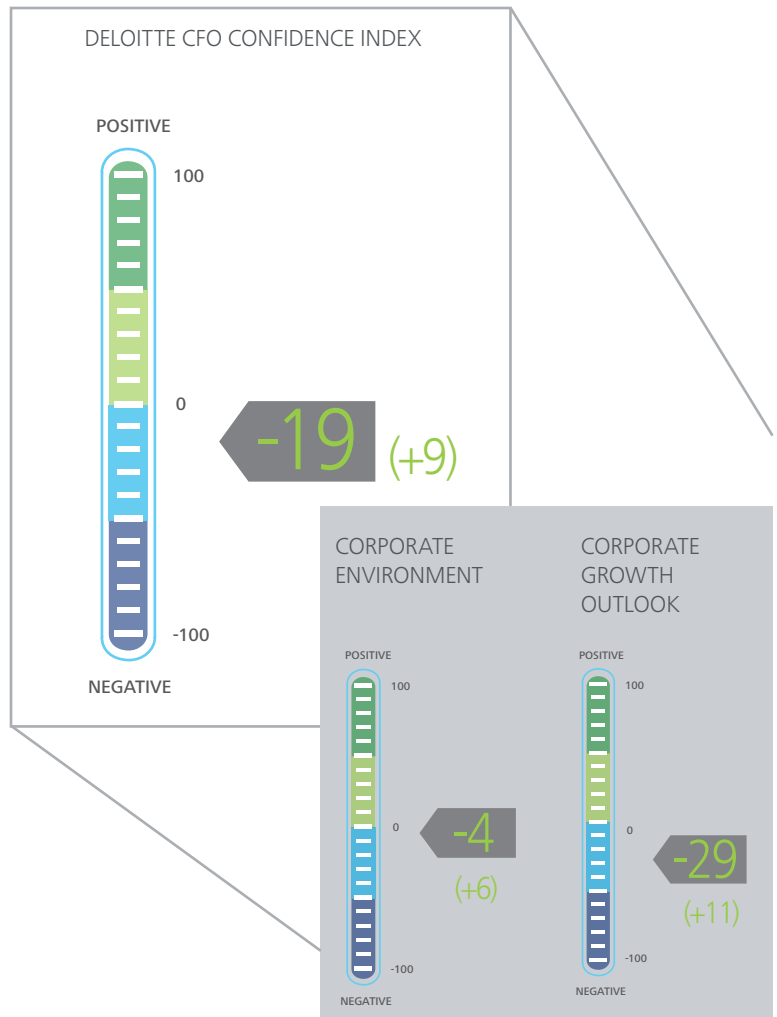
Because of rounding, percentages may not add up to 100. To improve readability, only questions relevant to the current financial and economic situation have been included in the published Survey. If you would like to receive information about unreported questions, please contact us.

Deloitte CFO Confidence Index

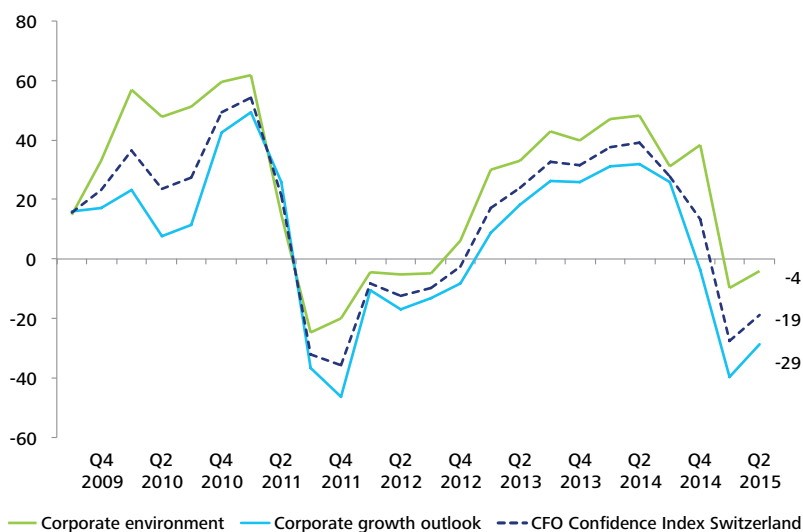
The mood among Swiss CFOs remains fairly gloomy. While there are some signs of improvement in individual survey indicators, this only partially offsets the substantial decline in confidence seen in Q1. Swiss businesses are still adapting to the fallout from the removal of the exchange rate floor in January. And uncertainty – particularly monetary uncertainty – is the major factor currently affecting CFOs' thinking and strategic outlook.

There is still relatively little impetus for growth from abroad. At the beginning of the year, the US was still seen as the major engine of economic growth, but doubt is now growing about the sustainability of American growth. Meanwhile, prospects for growth have deteriorated in all key emerging economies except India. The EU is the only major economic area where prospects for growth are improving. However, this is from a low base and prospects could easily deteriorate as the Greek crisis shows.

This ongoing pessimism is also reflected in the CFO Confidence Index. Following major drops of 17 percentage points and 39 percentage points in Q4 2014 and Q1 2015 respectively, the Index has picked up by 9 points this quarter. However, at -19, it is still negative.



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 (weighted at 40%) and the Corporate Growth sub-index (weighted at 60%).

The Corporate Environment sub-index reflects CFOs' views 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, revenue growth, investment, new hirings, risk appetite and M&A activities.

Key findings of the CFO Survey



41%

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

Economic prospects improve slightly

After a major drop in confidence in Q1, CFOs see somewhat more scope for optimism about the Swiss economy this quarter. While a majority are still pessimistic – 41%, as against 16% who are optimistic – this is about 20 percentage points down on the Q1 2015 figure. Around a quarter of CFOs expect Switzerland to face a recession over the next two years, compared with the Q1 figure of 36%.



73%

expect operating margins to decline over the next 12 months.

Pressure on margins and a brake on costs

Corporate indicators tell a similar story, although to a different extent. Expectations for revenues and operating margins are still negative, though the former have recovered noticeably since Q1. However, pressure on operating margins remains high, with 73% of CFOs expecting margins to fall. Companies are, therefore, being cautious in relation to expenditure, with a majority of CFOs now expecting cuts in discretionary spending, planned capital expenditure and the number of employees in their company.

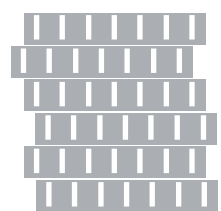


70%

see the strength of the Swiss Franc as a major risk for their company.

Perceptions of uncertainty and risk improve slightly

CFOs are less pessimistic than in Q1 about virtually all the corporate risks explored in the Survey but still rate these risks as extremely high in some cases. The strength of the Swiss Franc remains the highest risk, cited by 70% of CFOs. As in Q1, this is followed by geopolitical risk and increasing regulation within Switzerland.



82%

plan measures to cut personnel costs in response to the strength of the Swiss Franc.

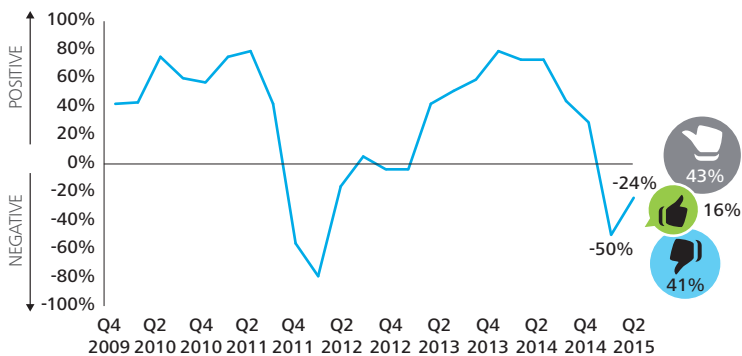
Planned measures to cut personnel costs

Roughly four in five companies (82%) are planning to take action in the area of personnel in response to the higher costs resulting from the strength of the Swiss Franc. 61% plan to freeze recruitment, while 57% intend to freeze salaries. Almost 50% also report that they are considering reducing the size of their company's workforce.

Gloomy economic and business prospects

Following the marked decline in their expectations for the economy in Q1, Swiss CFOs are a little less pessimistic this quarter. Although a majority still rate the country's economic prospects over the next 12 months as negative, 41% are now pessimistic compared with 60% in Q1. 16% rate Switzerland's economic prospects as positive, up from 10% in Q1, and the net balance is up 26 percentage points at -24%.

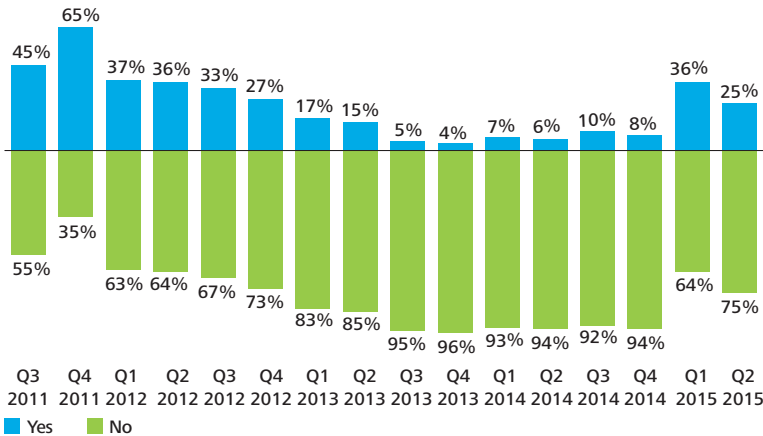
CHART 1. NEGATIVE EXPECTATIONS FOR THE ECONOMY
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



Because of rounding, percentages do not add up to 100.

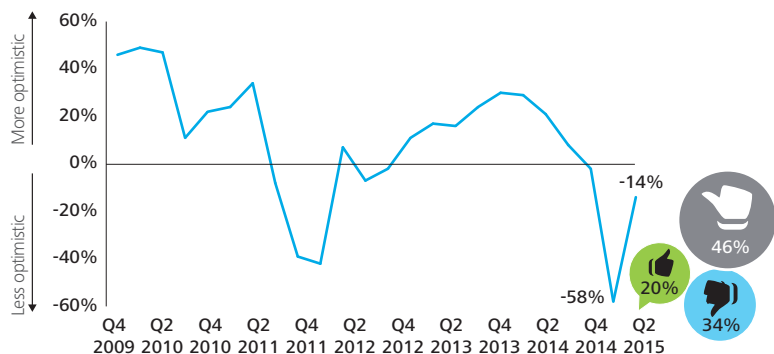
The slight improvement in economic prospects has also eased fears of a recession: only one in four CFOs (25%) now expect Switzerland to face a recession over the next two years. This improvement is in line with current economic forecasts, which also assume that Switzerland is not facing a deep recession. Given negative growth in Q1 2015 (-0.2%), however, a technical recession cannot be ruled out.

CHART 2. FEARS OF A RECESSION DECREASE
Percentage of CFOs who expect/do not expect Switzerland to face a recession over the next two years



Companies' financial prospects have picked up, halting the substantial downward trend evident over the preceding four quarters. However, more CFOs are still reporting a trend of deterioration rather than improvement in their companies' financial prospects since Q1 2015 (34% reporting deterioration compared with just 20% reporting improvement). The net balance has however recovered, rising from -58% to -14%.

CHART 3. COMPANIES' FINANCIAL PROSPECTS QUARTER ON QUARTER
Net balance showing how CFOs view their company's financial prospects now compared with three months ago

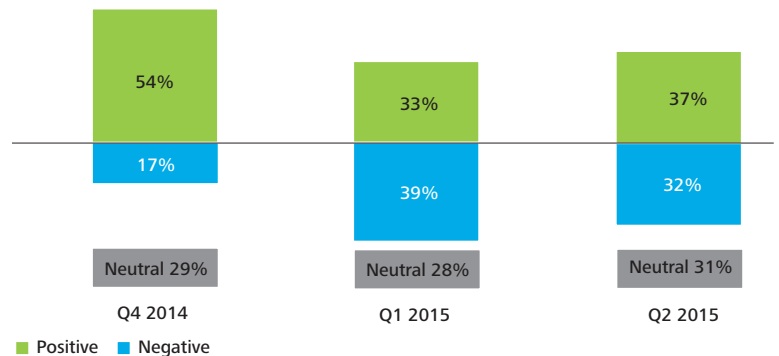


Corporate indicators at a low level

In response to a question about their company's business prospects over the next 12 months, CFOs were slightly more optimistic this quarter (net balance +5%) following the substantial deterioration in Q1 2015, when the net balance fell from 37% to -6%. CFOs' perceptions of their company's financial prospects have become more evenly distributed, with around one-third of CFOs rating them as positive, as negative and as neutral.

CHART 4. BUSINESS OUTLOOK: FINANCIAL PROSPECTS

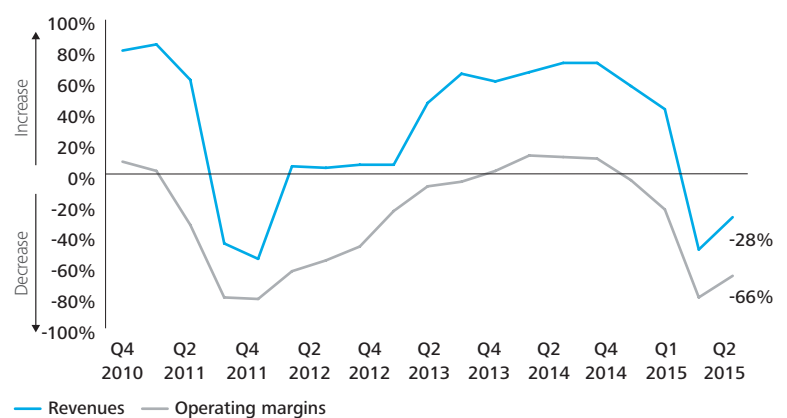
Net balance of CFOs rating their company's financial prospects over the next 12 months as positive/negative



Expectations for revenues and operating margins remain negative overall, at -28% for revenues and -66% for operating margins. Following the marked deterioration in these figures in Q1 2015, more CFOs are optimistic this quarter, but a majority continue to expect revenues to fall over the next 12 months. Meanwhile, pressure on operating margins remains high.

CHART 5. BUSINESS OUTLOOK: REVENUES AND MARGINS

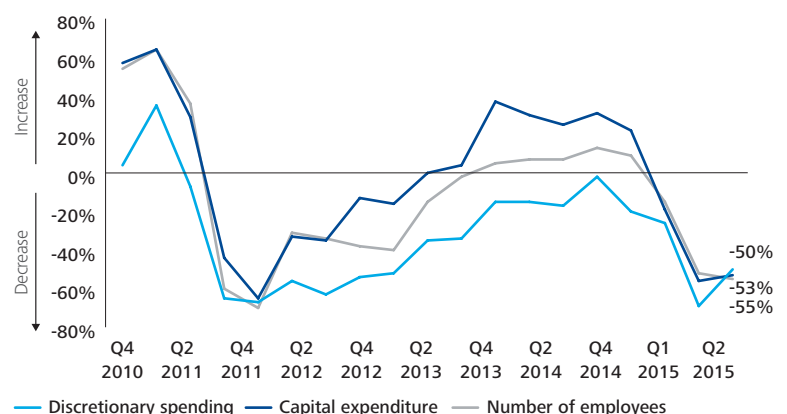
Net balance of CFOs who expect revenues and operating margins to increase/decrease over the next 12 months



A similar picture emerges in relation to planned capital expenditure, number of employees and discretionary spending. Most CFOs are still seeking to keep costs in check, and while the pressure on costs has eased slightly this quarter compared with Q1 2015, the improvement is only modest.

CHART 6. BUSINESS OUTLOOK: EXPENDITURE

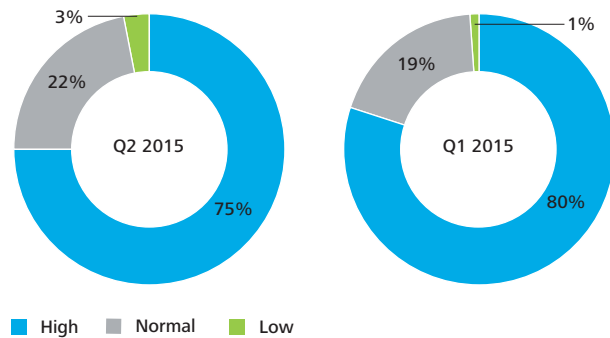
Net balance of CFOs who expect discretionary spending, capital expenditure and number of employees to increase/decrease over the next 12 months



Slight improvement in uncertainty and risk

CHART 7. UNCERTAINTY REMAINS HIGH

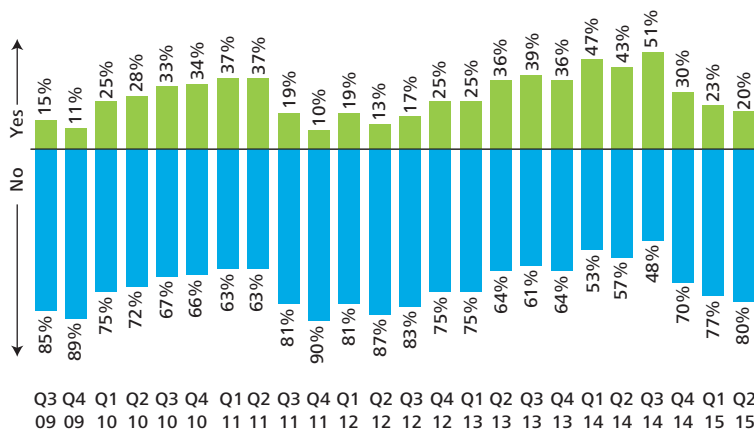
How do you rate the current level of uncertainty in the economic and financial environment?



CFOs continue to rate economic and financial uncertainty as very high this quarter. 75% of CFOs say levels of uncertainty are high and 22% that they are normal, only slightly changed from Q1 2015.

CHART 8. APPETITE FOR RISK REMAINS LOW

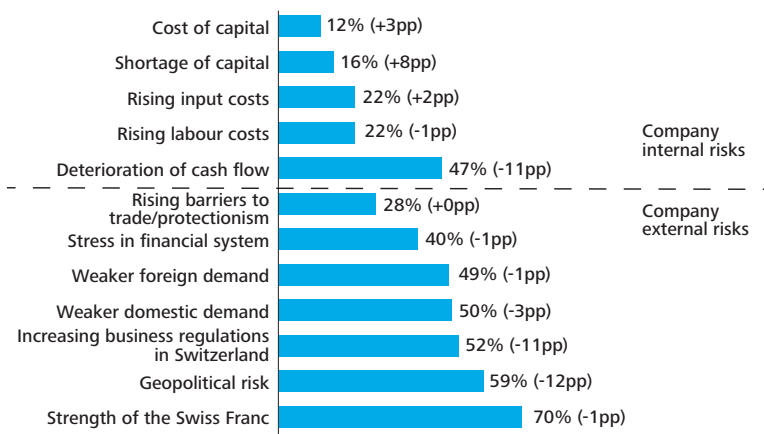
Is this a good time to be taking greater risk onto your balance sheet?



CFOs' appetite for risk increased substantially between the end of 2011 and Q3 2014 but fell again from the end of 2014. In the current quarter, CFOs' appetite for risk remains largely unchanged from Q1 2015. One in five CFOs believes this is a good time to be taking greater risk onto their balance sheet.

CHART 9. EXTERNAL RISKS DOMINATE

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



Among major external risks, the strength of the Swiss Franc tops the list, according to 70% of CFOs followed by geopolitical risk (59%), increasing business regulation in Switzerland (52%) weaker domestic demand (50%) and weaker foreign demand (49%). With the exception of deterioration of cash flow (47%), however, internal risks do not feature prominently in CFOs perceptions of risk this quarter.

Parenthesis: Change to Q1 2015 in percentage points (PP)

Measures to counter the strength of the Swiss Franc

CFOs’ expectations for the EUR/CHF exchange rate have mirrored trends in the movement of the Swiss Franc over recent months and reflect an assumption that the Swiss Franc will continue to increase in value over the next 12 months. The average expected EUR/CHF exchange rate in 12 months’ time is now 1.04, compared with 1.07 in Q1 2015.

CFOs expect a slightly higher EUR/CHF exchange rate in 36 months’ time. At EUR/CHF 1.07, their average expectation is, therefore, that the value of the Franc will weaken, but only slightly over the next three years. However, the spread of values reported in the Survey is very broad, ranging from well below parity to EUR/CHF 1.25.

Rates for the Swiss Franc against the US dollar reflect a similar picture: here, too, CFOs are expecting the value of the Swiss Franc to stay strong but to weaken slightly over the next 36 months.

Against the backdrop of exchange rate trends and CFOs’ expectations that the Swiss Franc will remain strong, measures to protect competitiveness remain a key factor. In terms of measures to cut personnel costs, 61% of CFOs are planning a recruitment freeze, with nearly as many - 57% - planning a salary freeze. Almost 50% are also planning to reduce the number of employees in their company. However, considerably fewer intend to reduce fringe benefits (17%). Just 18% currently have no plans to reduce personnel costs.

CHART 10. EXCHANGE RATE EXPECTATIONS EUR/CHF OVER TIME

What exchange rate do you expect for the Swiss Franc against the euro in 12 months’ time

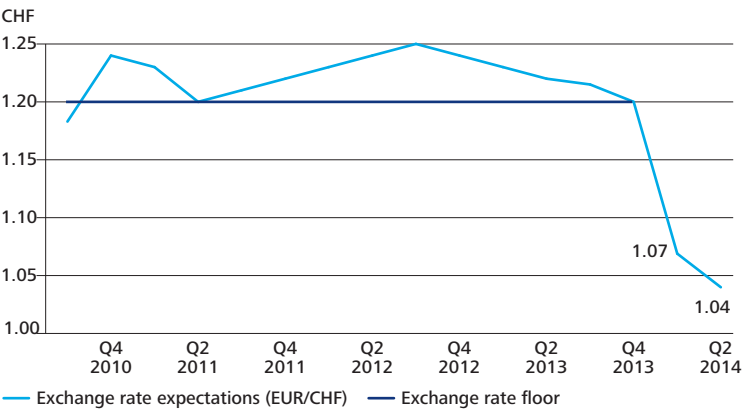


CHART 11. EXCHANGE RATE EXPECTATIONS EUR/CHF AND USD/CHF IN 12 MONTHS’ TIME AND IN 36 MONTHS’ TIME

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

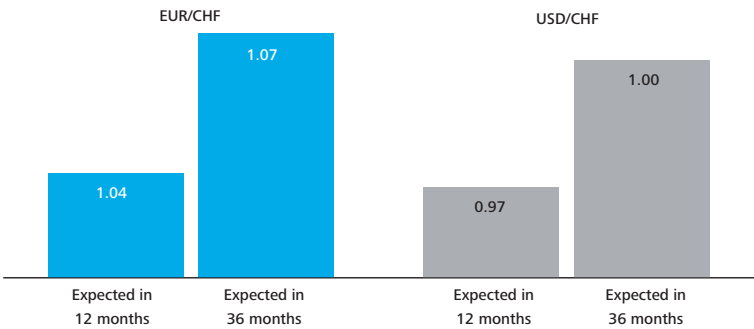
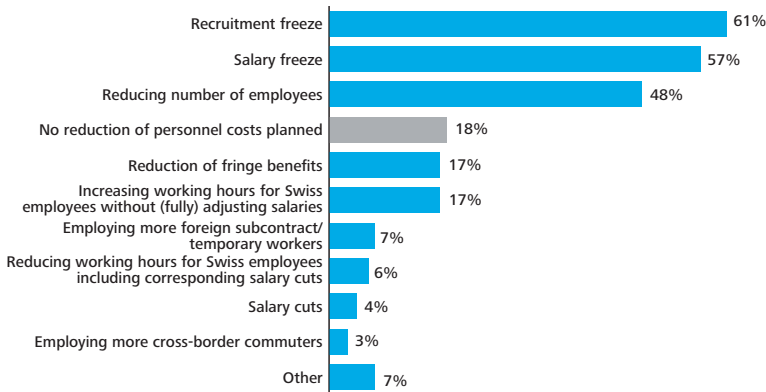


CHART 12. MEASURES TO CUT PERSONNEL COSTS

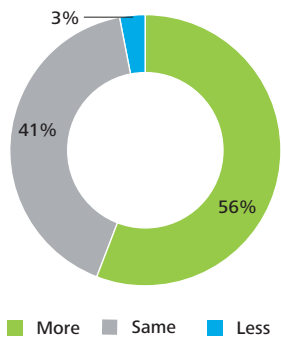
If you are planning measures to cut personnel costs over the next 12 months in response to the increase in value of the Swiss Franc, which of the following measures are you planning? (Multiple answers possible)



Challenges and future prospects for innovation in Switzerland

CHART 13. FUTURE EXPENDITURE ON INNOVATION

Compared with the last three years, how much will your company be investing in innovation in the next three years?



Our special questions this quarter explored the issue of innovation. As well as measures to cut costs (including personnel costs), companies can use innovation to improve their competitiveness. It is not surprising, therefore, that although facing cost and margin pressures, 56% of CFOs are planning to increase spending on innovation over the next three years and that only 3% plan to cut it. A majority (58%) believe that Switzerland will still be one of the world's three most innovative countries in ten years' time (according to responses to an additional question not shown in this survey).

CHART 14. CHALLENGES IN THE AREA OF INNOVATION

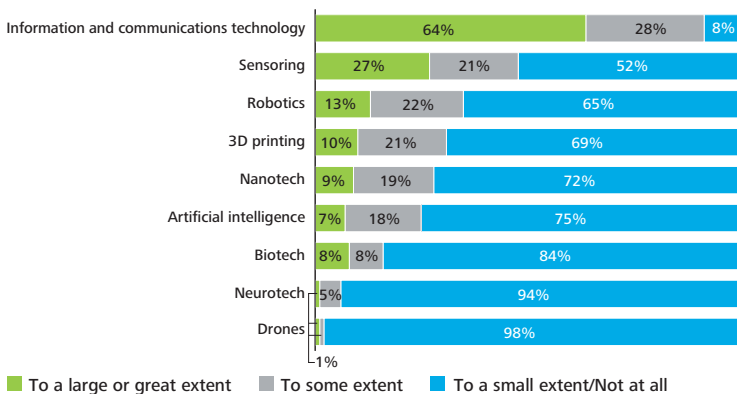
What do you see as the greatest challenges in the area of innovation over the next few years?



Companies perceive a wide range of challenges in driving growth through innovation projects. Among the most frequently cited are the availability of appropriately skilled staff, change management, identifying innovation that creates meaningful business opportunities, and cost and competitive pressures. Only a relatively small number of CFOs believe that disruptive innovation and the accelerating pace of technological change will be positive overall for their company (net balance 19%, based on responses to an additional question not shown in this survey).

CHART 15. PLANNED USE OF INNOVATIVE TECHNOLOGIES OVER THE NEXT FIVE YEARS

To what extent are you planning to introduce the following innovative technologies in your company over the next five years?



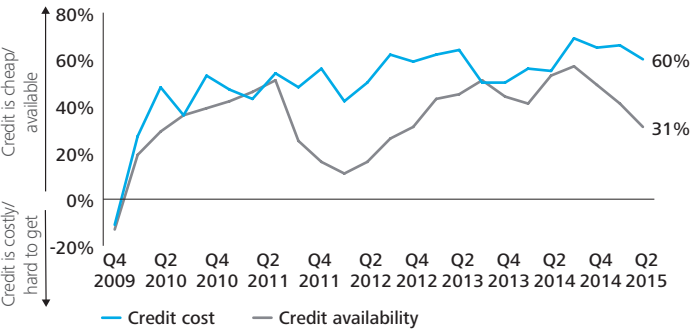
Innovative information and communications technologies are by far seen as the most likely to be introduced over the next five years. A comparatively high number of companies plan to make use of sensing, robotics or 3D printing, depending on the sector in which they operate. In contrast, only few are yet planning to introduce some of the latest technologies, such as drones or neurotechnology applications.

Appendix 1: Additional charts

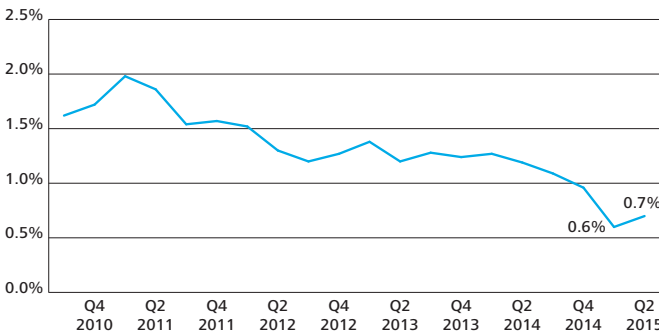
ATTRACTIVENESS OF THE FINANCING ENVIRONMENT
How do you rate the following forms of financing as possible sources of funding for Swiss companies? (Net balance)



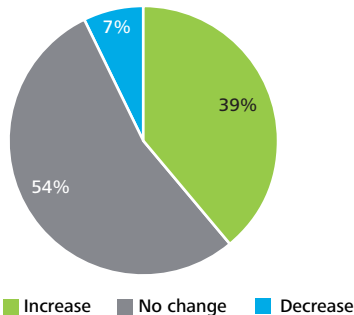
COST AND AVAILABILITY OF CREDIT FINANCING
Net balance of CFOs who rate credit as costly/cheap and hard to get/available



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



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
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%
Neither positive nor negative	13%	45%	39%	44%	41%	35%	39%	32%	18%	22%	23%	38%	47%	30%	43%
Negative	83%	36%	28%	30%	32%	11%	5%	4%	2%	3%	3%	9%	12%	60%	41%
Net balance	-79%	-16%	5%	-4%	-4%	42%	51%	59%	79%	73%	73%	44%	29%	-50%	-24%
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%
Unchanged	38%	52%	53%	46%	42%	52%	45%	50%	55%	55%	56%	55%	55%	29%	46%
Less optimistic	52%	21%	27%	28%	23%	16%	19%	13%	7%	8%	12%	18%	23%	65%	34%
Net balance	-42%	7%	-7%	-2%	11%	17%	16%	24%	30%	29%	21%	8%	-2%	-58%	-14%
In your view how are revenues of Swiss corporates likely to change over the next 12 months?															
Increase	14%	38%	39%	40%	34%	57%	75%	73%	74%	80%	81%	68%	54%	17%	25%
No change	16%	29%	27%	27%	38%	31%	15%	15%	18%	13%	10%	21%	34%	18%	23%
Decrease	69%	33%	34%	34%	28%	11%	10%	13%	8%	7%	9%	11%	12%	65%	53%
Net balance	-55%	5%	4%	6%	6%	46%	65%	60%	66%	72%	72%	57%	42%	-48%	-28%
In your view how are operating margins of Swiss corporates likely to change over the next 12 months?															
Increase	5%	7%	6%	13%	26%	23%	30%	32%	35%	35%	41%	29%	20%	3%	6%
No change	8%	24%	31%	27%	24%	46%	35%	38%	42%	41%	29%	38%	37%	14%	21%
Decrease	87%	70%	63%	60%	50%	31%	35%	30%	23%	24%	30%	33%	43%	83%	73%
Net balance	-81%	-63%	-56%	-47%	-24%	-8%	-5%	2%	12%	11%	10%	-4%	-23%	-80%	-66%
In your view how is capital expenditure of Swiss corporates likely to change over the next 12 months?															
Increase	10%	18%	14%	29%	26%	27%	31%	48%	44%	39%	43%	38%	19%	12%	9%
No change	15%	31%	37%	29%	32%	45%	42%	40%	41%	47%	46%	47%	42%	20%	32%
Decrease	75%	51%	49%	42%	42%	27%	27%	12%	15%	14%	11%	15%	38%	68%	59%
Net balance	-65%	-33%	-35%	-13%	-16%	0%	4%	37%	30%	25%	31%	22%	-19%	-56%	-50%
In your view how is the number of employees of Swiss corporates likely to change over the next 12 months?															
Increase	8%	10%	12%	15%	15%	16%	22%	22%	31%	29%	32%	26%	18%	7%	9%
No change	14%	50%	42%	33%	31%	54%	55%	61%	44%	50%	50%	56%	48%	34%	29%
Decrease	78%	40%	46%	52%	54%	31%	23%	17%	25%	21%	18%	18%	34%	59%	62%
Net balance	-70%	-31%	-34%	-38%	-40%	-15%	-2%	5%	7%	7%	13%	9%	-15%	-52%	-53%
In your view how is discretionary spending of Swiss corporates likely to change over the next 12 months?															
Increase	5%	10%	2%	9%	10%	8%	7%	16%	17%	19%	24%	17%	12%	6%	8%
No change	22%	25%	33%	28%	27%	49%	52%	52%	50%	46%	50%	46%	50%	20%	28%
Decrease	73%	66%	65%	63%	63%	43%	41%	31%	32%	35%	26%	37%	38%	74%	64%
Net balance	-67%	-56%	-63%	-54%	-52%	-35%	-34%	-15%	-15%	-17%	-2%	-20%	-26%	-69%	-55%

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We would like to thank all 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 cfosurvey@deloitte.ch

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

Notes

Notes

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