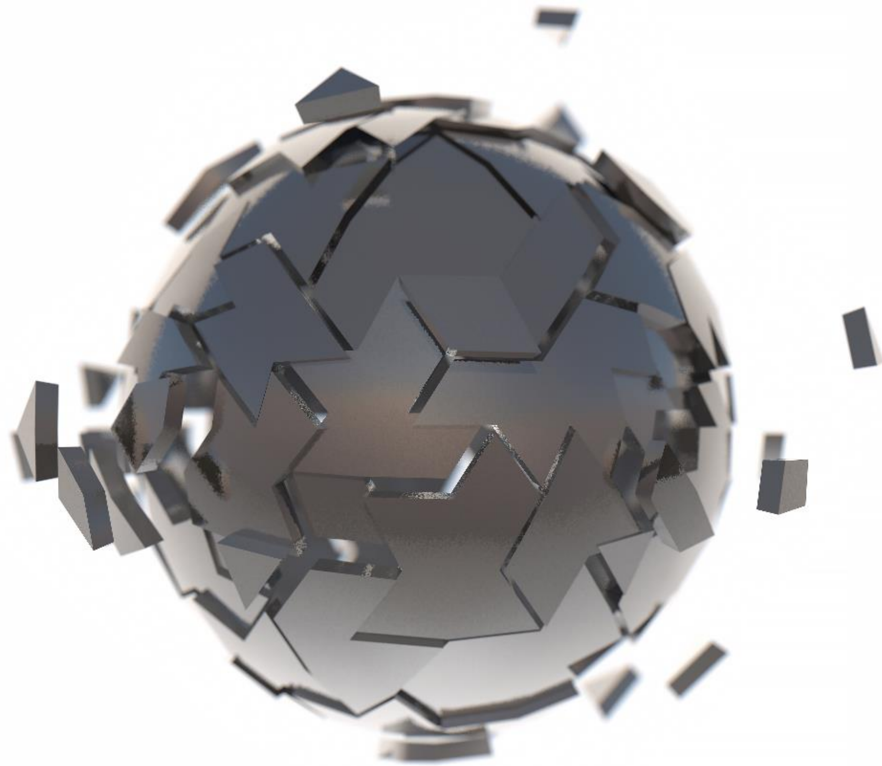


The Deloitte CFO Survey

Addressing the crisis successfully

1st half of 2020 | Results of the Swiss survey

MAKING AN IMPACT THAT MATTERS since 1845

Table

About the Deloitte CFO Survey
The 38th CFO survey in Switzerland was conducted between 2 and 30 March under exceptional circumstances. The survey period is divided into the periods before and after the Federal Council's far-reaching measures of 13 March, which included school closures and wider restrictions on meetings and travel, with corresponding effects on economic activity. The answers received in each of the two periods are sometimes very different.

Despite the exceptional situation 90 CFOs participated, from all major industries and from listed and unlisted companies ,and we would like to thank all participants. In order to make this publication as timely possible, we did not take into account the results of the European CFO survey this time. These can be found at: www.deloitte.com/europeancfosurvey.

Notes on methodology
Some of the survey charts represent the results as an index value (net balance). This is the difference between the percentages of positive and negative responses, with answers ‘in the middle‘ treated as neutral.

Due to rounding, the sum of the answers may not always be 100. In order to make this document more readable, only the questions that are relevant to the current financial and economic situation are shown. If you would like information about other survey questions, we look forward to hearing from you.

1. Key findings of the Swiss survey

CFOs' expectations about the economic situation are plummeting. Only 11% expect an improvement within 12 months, and 64% expect a deterioration. Expectations of a recession over the next two years are soaring, for Switzerland as well as the US, the Eurozone and the UK.

The past few months have been challenging, and the challenges will continue in the coming months. Record lows are recorded in the survey for all key company metrics. CFOs are slightly less pessimistic about the next 12 months than they were three months previously: 29% expect an improvement in their company's outlook and 43% expect a deterioration.

COVID-19 dominates the risk outlook. Other perceived risks, such as weak demand and supply chain problems, are also likely to be affected by COVID-19.

CFOs are addressing the crisis. 91% of companies are taking measures to mitigate the effects of recession, mostly through cost savings and revenue generation.

CHF

Since 2018 Swiss companies have become more resilient to an appreciation of the Swiss franc – a welcome development, as the Swiss franc has appreciated over this time. On average, companies can tolerate a rate of up to EUR/CHF 1.03, compared to EUR 1.05/CHF two years ago. But the current rate is already at or above the pain point for 17% of companies.

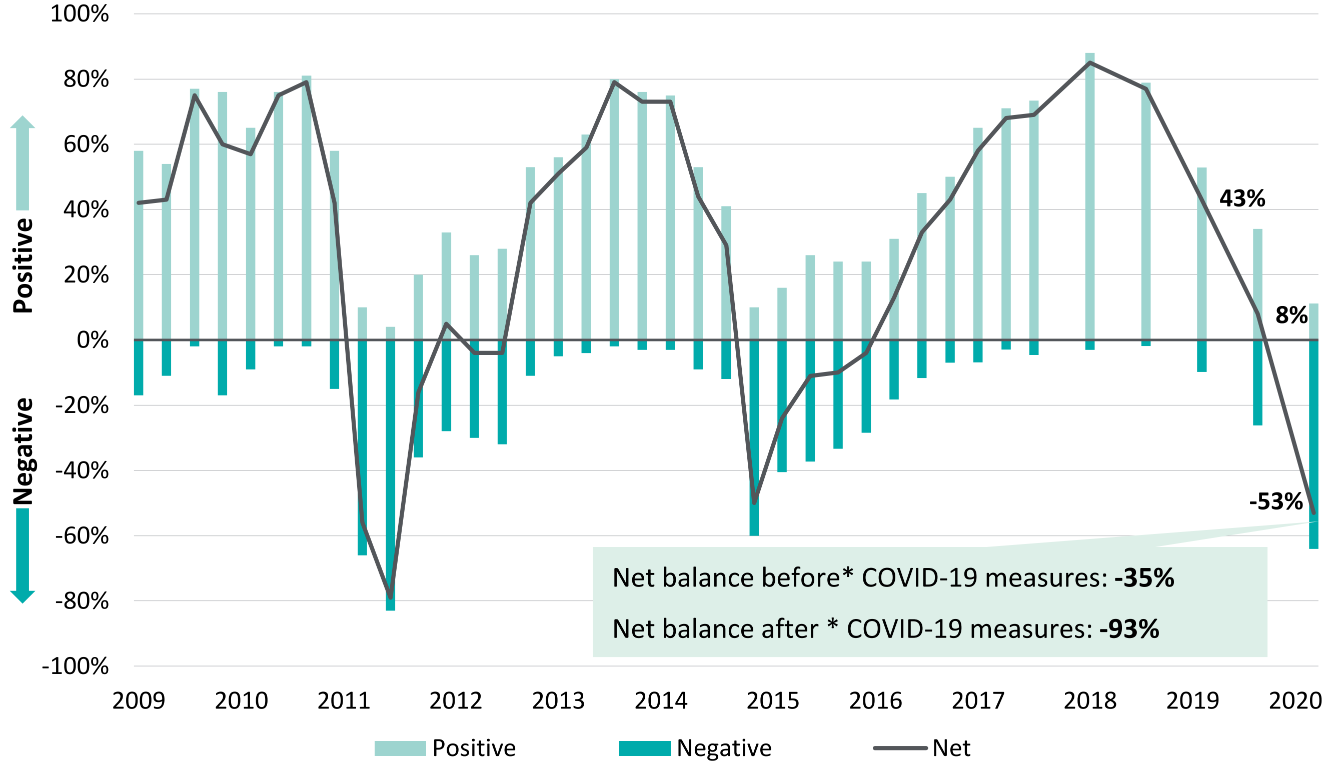
2. Economic expectations collapse

CFOs' expectations about the economic situation collapse: expectations of recession soar

Expectations of CFOs about the economic situation are as negative as they were during the Swiss franc currency shock in 2015. Taking into consideration only the answers received after the Federal Council's far-reaching measures of 13 March 2020 to curb COVID-19, a new record low has been reached, with a negative net balance of -93%. At the same time, expectations of a recession are soaring. Nearly all CFOs answering after 13 March expect a recession over the next two years, for Switzerland as well as for the Eurozone, the US and the UK. In the past, CFOs' views have varied widely about the risk of recession from developments such as Brexit or a euro crisis. But COVID-19 affects everyone negatively. However, Switzerland is likely to be better prepared than other countries because of tried-and-tested measures such as short-time working, while benefiting from healthy financial reserves.

Figure 1. Economic expectations for Switzerland

Percentage of CFOs who view the economic outlook for Switzerland in a positive/negative way over the next 12 months



*Before and After refer to 13 March 2020, when the Federal Council introduced restrictive measures in Switzerland.

3. Company outlook at record low

The survey shows record lowsfor financial prospects and also for expectations about revenues, margins, investment, employment and discretionary spending. On average, service businesses are affected more than manufacturing.

The past few months have been challenging, and this will continue. This is the finding from the answers by CFOs to two questions on the financial outlook of their company, one comparing expectations now to three months ago (Figure 3), and the other on the outlook for the next 12 months (Figure 4). The comparison between now and three months ago shows a negative balance of -58%, matching the size of the negative balance recorded in 2015 with the Swiss franc currency shock. The number of pessimists, 67%, is an all-time record for the survey, although the number of optimists is slightly higher than in 2015 (9% compared to 6%). On average, service businesses are the most affected: their net balance is -65%, lower than the overall average of -58%.

CFOs are slightly more optimistic for the future than for the development over the last three months: 29% expect an improvement in the next 12 months. But pessimism about the next 12 months continues to predominate – the crisis is unlikely to be over soon. Over the whole survey period 43% expect a deterioration, with 52% of the responses after the restrictive measures were announced.

Switzerland is not alone. Expectations of CFOs in Germany are similar (Figure 2): 74% are less optimistic about the business outlook compared to three months ago , and only 6% are more optimistic. Two-thirds expect economic output to slump throughout the rest of the year, followed by a recovery from 2021. The results of the CFO survey in Germany can be found here.

Figure 2. The financial outlook for companies in Germany and Switzerland

The percentages show how CFOs view their company's financial prospects today compared to 3 months ago: results for Germany and Switzerland

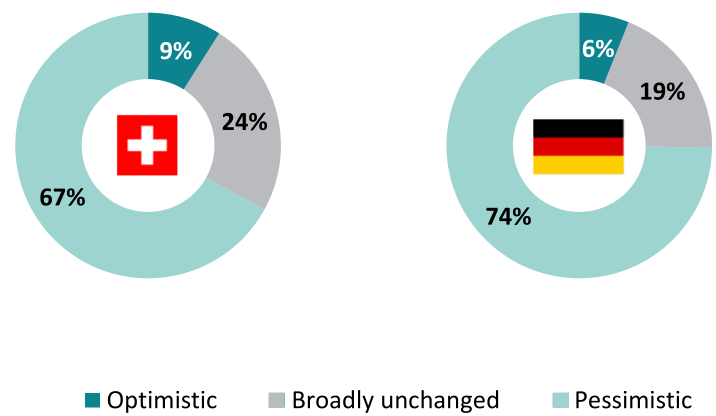
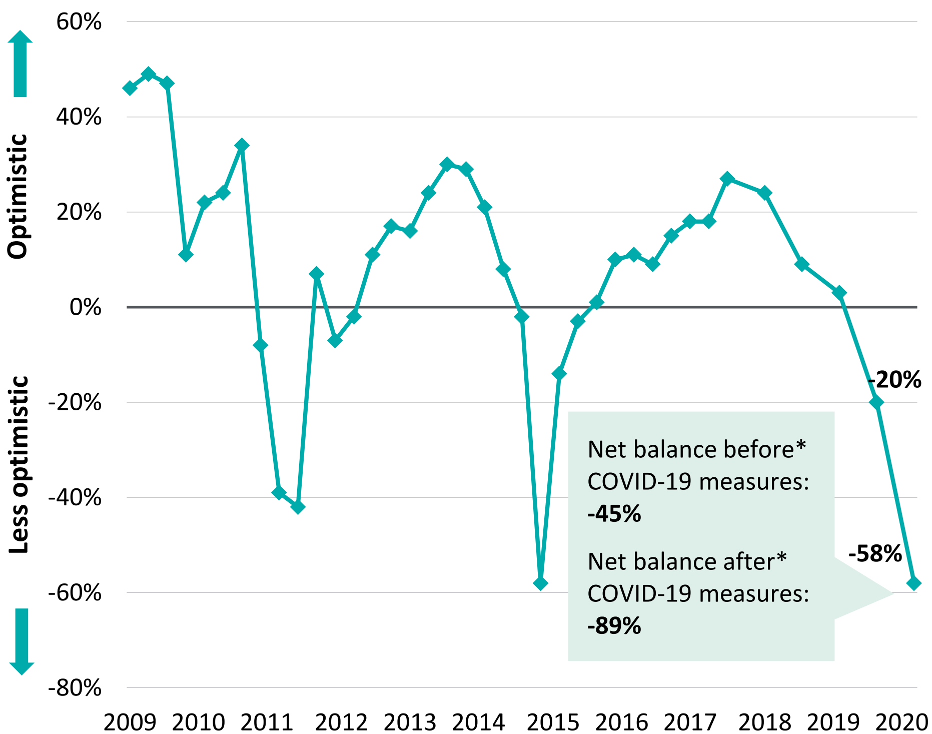


Figure 3. Financial business outlook today relative to 3 months ago

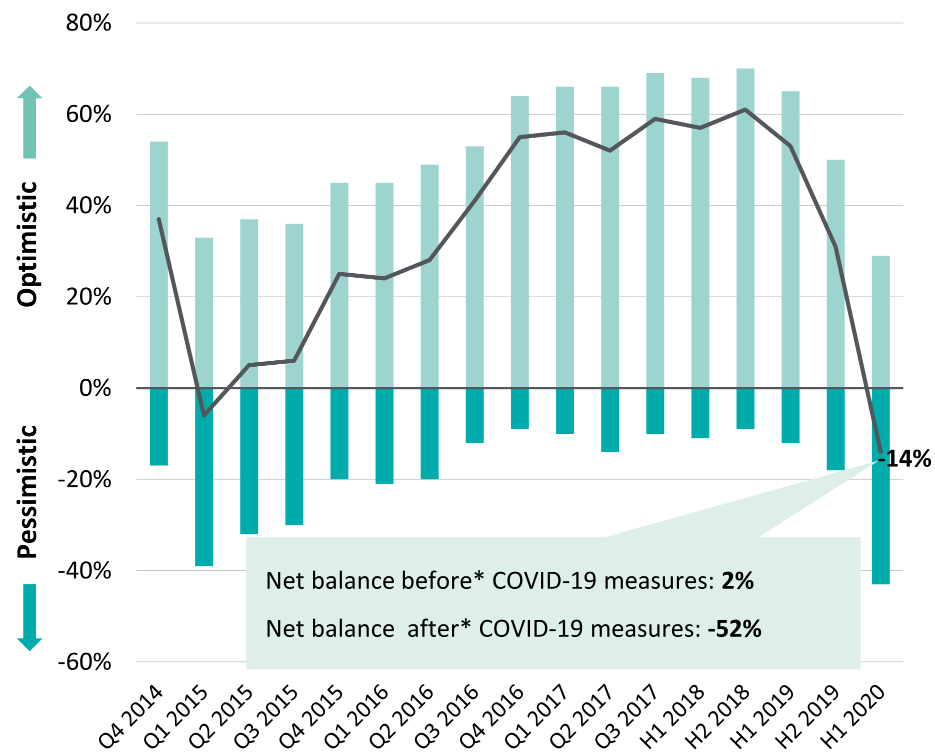
Net balance showing how CFOs view their company's financial prospects today compared to 3 months ago



*Before and After refer to 13 March 2020, when the Federal Council introduced restrictive measures in Switzerland.

Figure 4. Financial business outlook for the next 12 months

Net balance showing how CFOs see their company's financial prospects for the next 12 months



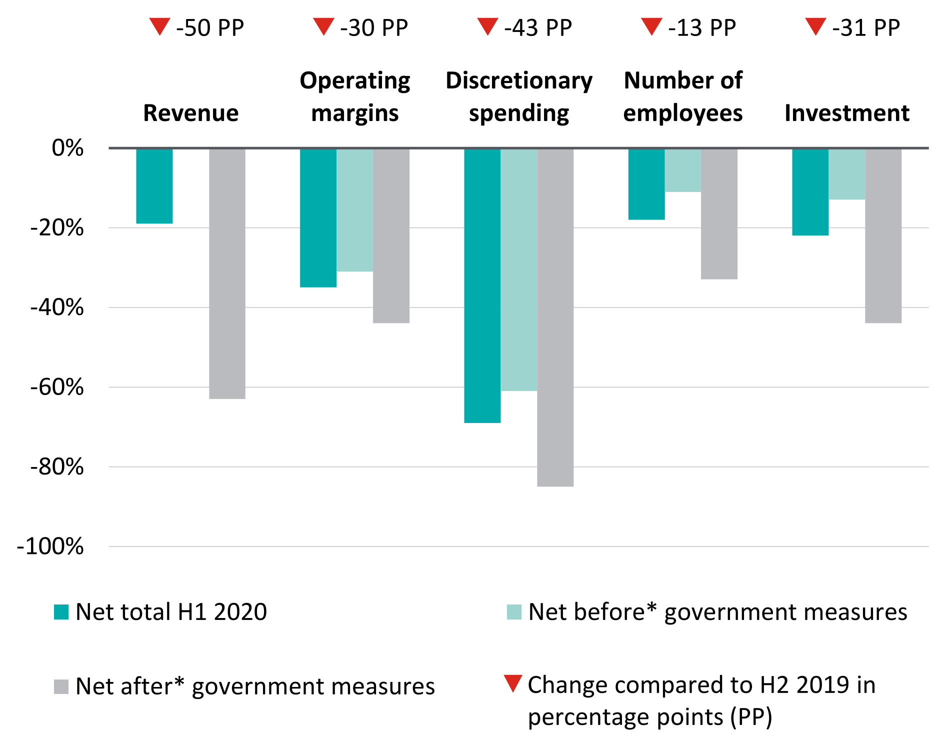
*Before and After refer to 13 March 2020 , when the Federal Council introduced restrictive measures in Switzerland.

All the company key metrics show a fall in the double-digit range. Expectations for employee numbers in 12 months are not as bad as for the other metrics. Although it is down by 13 percentage points compared to the autumn 2019 survey, this decline is much smaller than for the other key metrics. Following the announcement of the far-reaching measures in March, the net balance was -33%, but this was substantiallybetter than for the other metrics. This indicates the positive effect of the Swiss crisis measure for short-time working, which will enable companies to retain valuable employees even during the crisis. Expectations about revenue and investment were both relatively good before the restrictive measures were announced, but then fell sharply. Discretionary spending had already fallen in the autumn 2019 survey, with companies becoming more cost-conscious. Following the restrictive measures, the vast majority of CFOs say they will reduce discretionary spending. This is due partly to strong cost pressures and partly to other consequences of the crisis – for example, cross-border travel and customer events are not possible at the moment.

Service companies show a bigger decline than manufacturing businesses in expectations about revenue and margins, but are more cautious about staff reductions or investment declines.

Figure 5. Company key metrics

Net balances of CFOs expecting these metrics for their business to rise/fall over the next 12 months



*Before and After refer to 13 March 2020, when the Federal Council introduced restrictive measures in Switzerland.

4. Extraordinarily high level of uncertainty

Uncertainty is greater than during the Swiss franc currency shock in 2015. COVID-19 is the dominant risk. However, the pain threshold for an appreciation of the Swiss franc is now lower than before, as companies are better prepared for a strong Swiss franc.

Almost all CFOs consider the economic and financial uncertainty to be high. Uncertainty had already been rising in the 2019 surveys, following a gradual decline from the previous peak during the Swiss franc currency shock in 2015.

Figure. 6. Uncertainty from the point of view of Swiss CFOs

Assessing uncertainty in the economic and financial environment

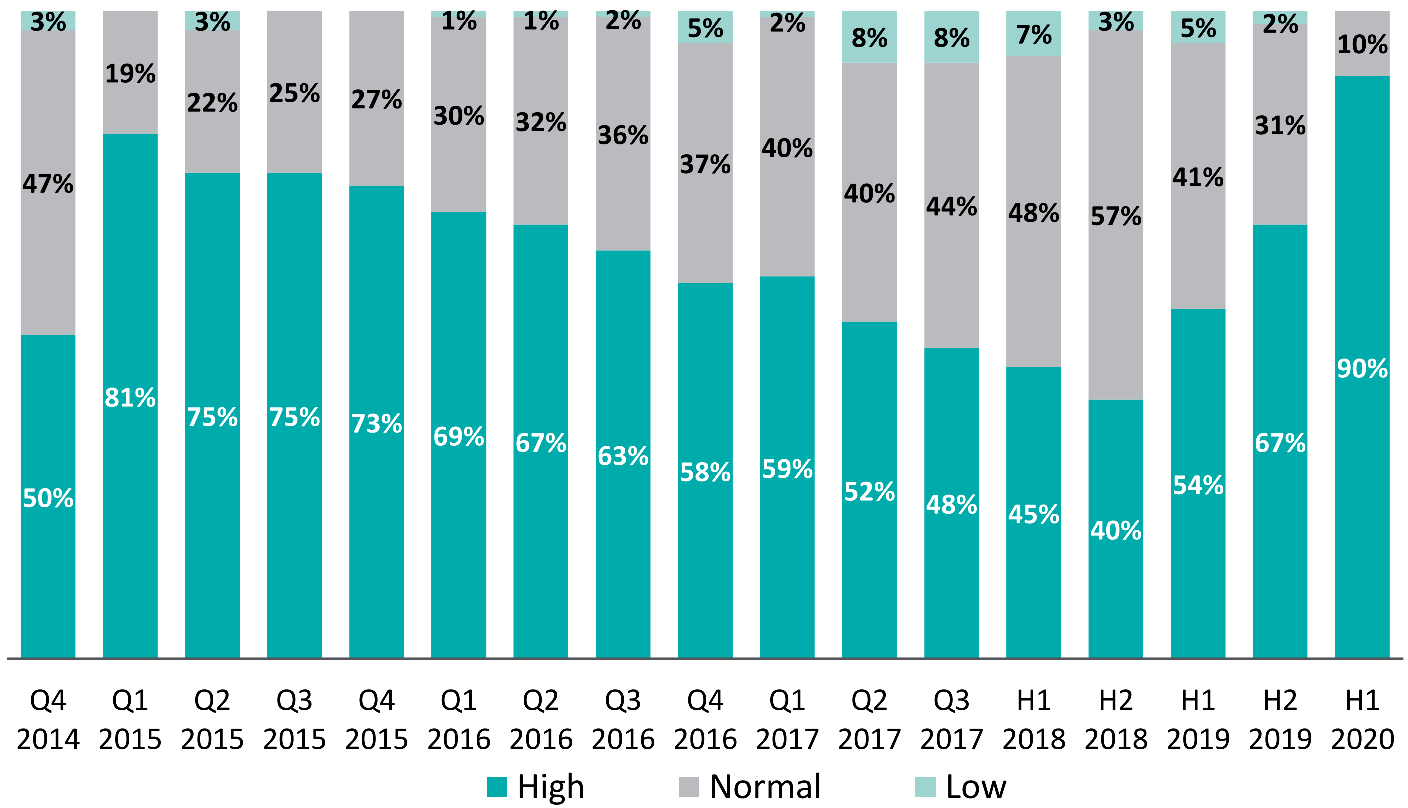
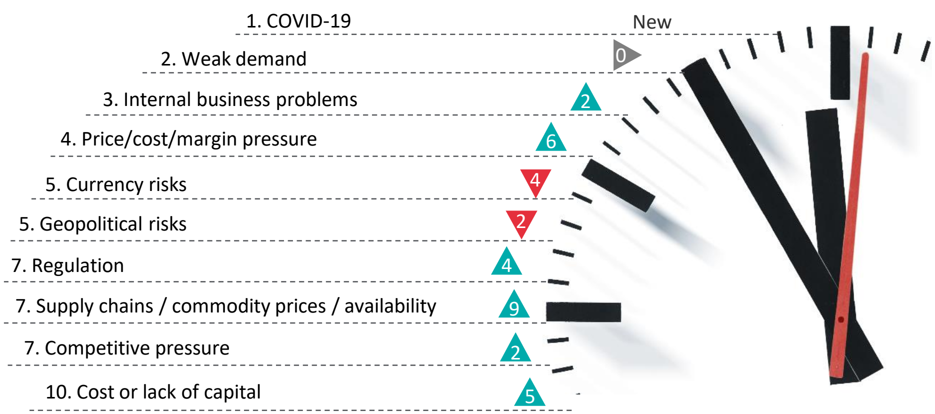


Figure 7. Risks for companies from the point of view of Swiss CFOs

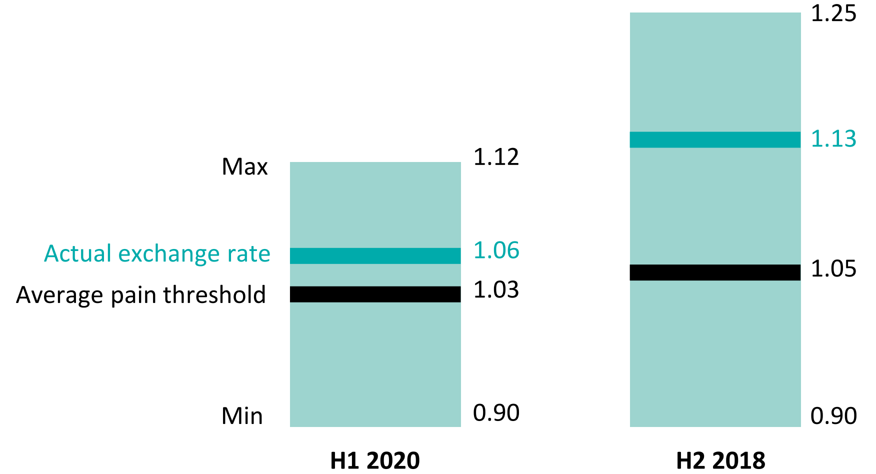
The ten biggest perceived risks to companies over the next 12 months. Triangles show the direction of change from the autumn 2019 survey, and the numbers in the triangles show the change in ranking.



The extent to which COVID-19 dominates perceived risks is remarkable, bigger than any perceived risk in the past. The second-rank risk, weakness in demand, as well as risks to supply chains and capital shortages are also likely to be linked to the crisis-related economic slowdown. The previous top-ranked risks such as geopolitical risks and currency risks are no longer as prominent.

Figure 8. Pain threshold for a stronger Swiss franc

Minimum, maximum and average of the answers to the question: "Where is the pain threshold for your company for the euro-Swiss franc exchange rate (in EUR/CHF)?". Comparison of 2018 and 2020 results



The average pain threshold for a stronger Swiss franc is lower than in 2018 – companies can manage better than before with a strong franc. However the gap between the actual exchange rate and the pain threshold has narrowed. Although companies have become more resilient since 2018, the Swiss franc has appreciated. As many as 17% of CFOs in the survey say they have already reached or exceeded the pain threshold at the current exchange rate, compared to 16% in 2018.

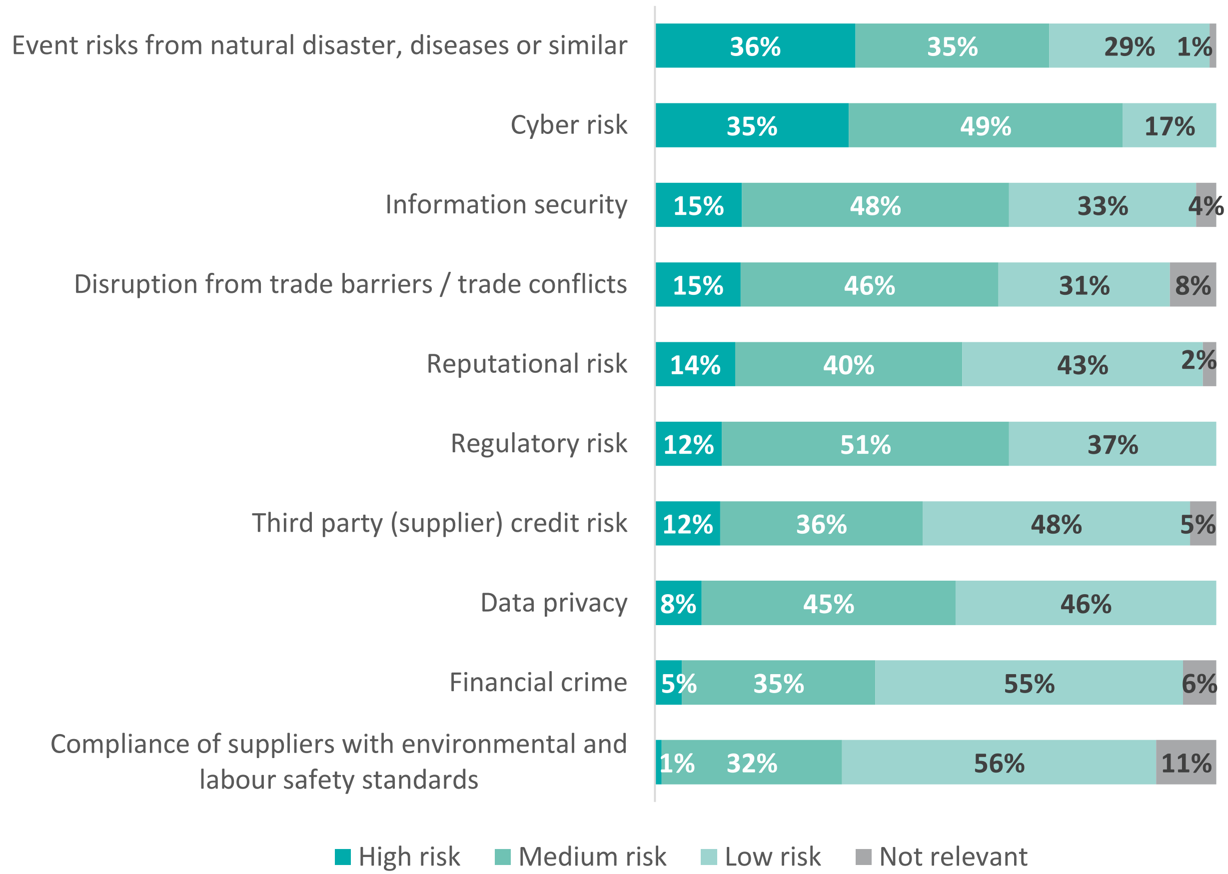
5. Addressing the crisis successfully

Event risks are currently seen as the greatest risk to business continuity. CFOs are actively addressing the current crisis.

Event risks (such as pandemic risk) are seen as a high risk to business continuity by the biggest number of CFOs.
Cyber security risks follow closely behind: these are structural risks, which means that they have existed for a long time and are independent of the COVID crisis. On the other hand, they have been accentuated by the crisis. As a consequence of the far-reaching measures to digitize business activities, like home office working, digital customer communications and online shopping , the risks from cyber attacks are now higher. Similarly third-party risks such as supply risks are likely to be greater now than before.
The crisis is having an impact on demand, business activities and supply chains, and this can lead to liquidity or refinancing difficulties (see for example Deloitte (2020), Managing business continuity and finance during COVID-19).

Figure 9. Risks to business continuity

How do you assess the following risks to your business continuity?

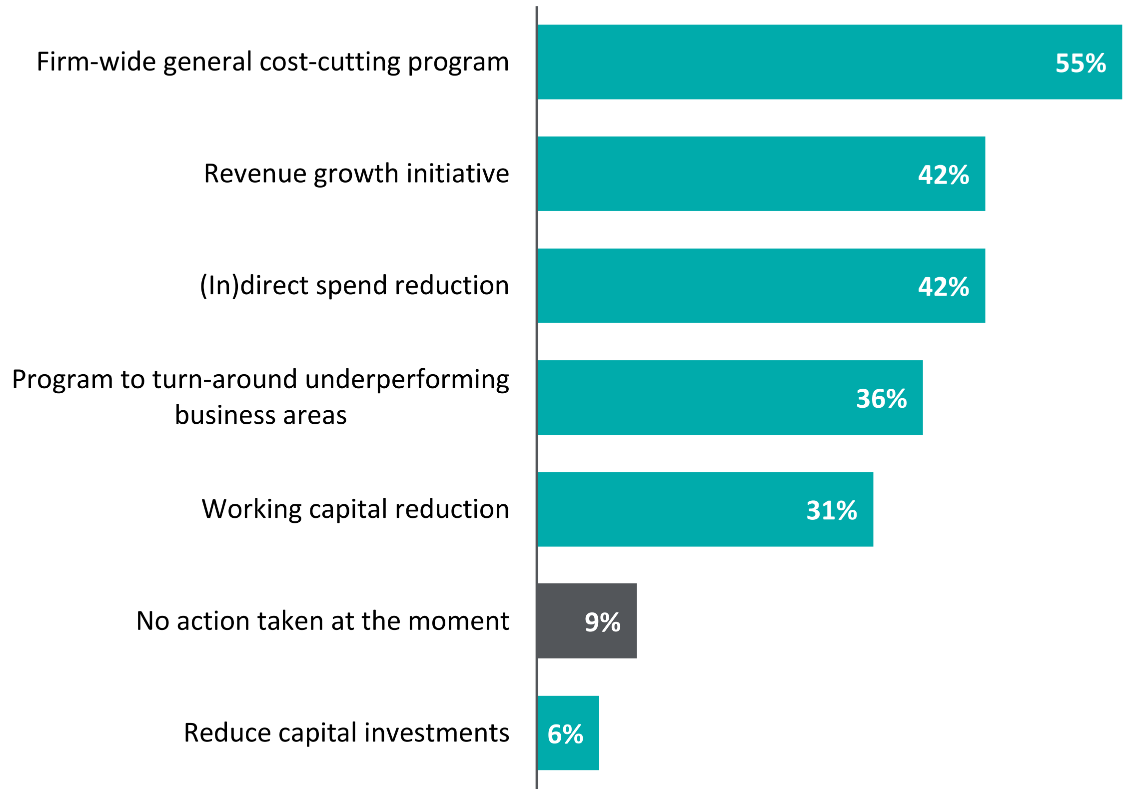


The vast majority of CFOs say they have enacted measures to address weak economic growth (91%, with 9% having no measure in place, see Figure 10) and the strong Swiss franc (84%, see Figure 11).

The most frequently-mentioned measures against the impact of a recession are cost reduction and revenue initiatives (Figure 10). Revenues of many companies are at risk in the crisis, as shown in Figure 5, and the crisis requires a quick response to cutting the large cost base that remains. Organizations can identify areas for immediate cost-cutting, as well as reducing back office activities and deferring longer-term plans.

Figure 10. Measures to counteract the impact of a recession

What measures does your company take to cushion the effects of a possible slowdown in economic growth, if any? (Multiple answers possible)

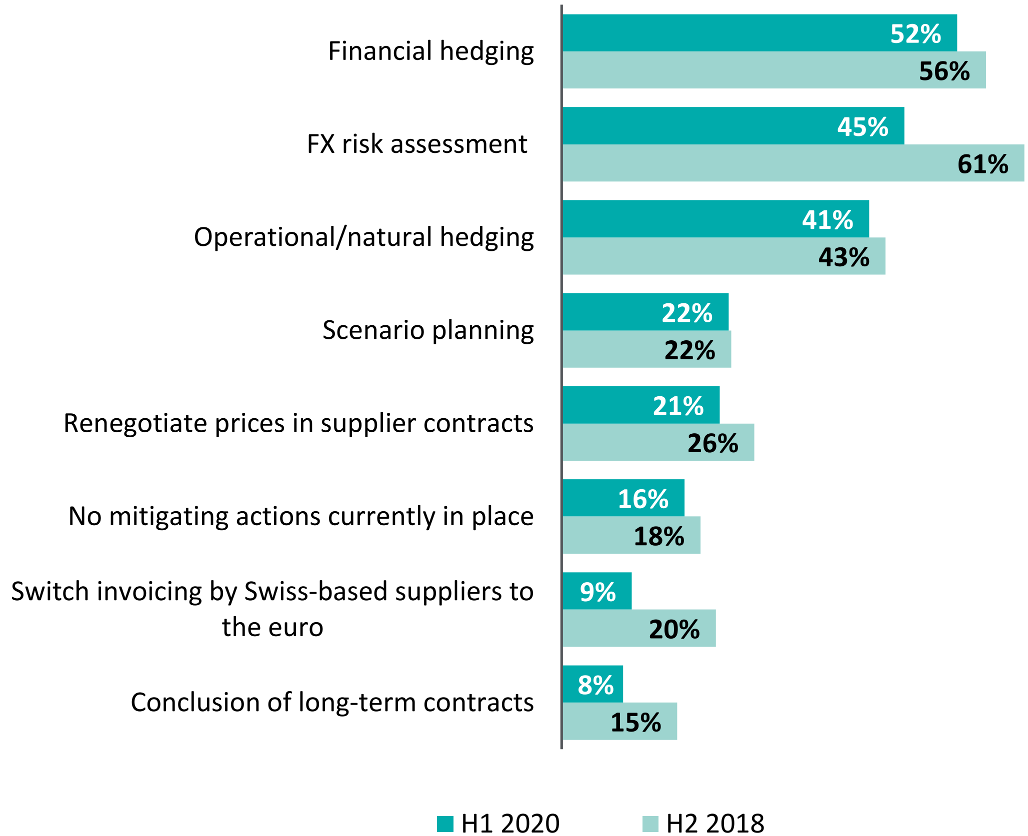


Companies can also undertake measures to support key revenue drivers. At the same time, they should prepare for the end of the crisis, in order to be ready to benefit from any strong acceleration in economic growth (see for example Deloitte (2020), Right-sizing your cost base for COVID-19).

The most frequently mentioned measures in response to the strong Swiss franc are financial hedging and FX risk assessment. As Figure 8 shows, Swiss companies on average have become more resilient compared to 2018. This is also reflected in answers to another question: 38% of respondents stated that the Swiss franc has either no effect or a positive impact on their company.

Figure 11. Measures in response to a strong Swiss franc

What measures does your company take to limit exchange rate risks? (Multiple answers possible)



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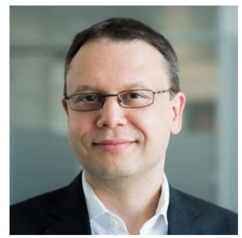

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Participation in our survey and previous results

If you would like to participate in our survey or receive copies of this report, please contact us at cfosurvey@deloitte.ch.

All results since the 3rd quarter of 2009 can also be found on our Website at www.deloitte.com/ch/cfosurvey.