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The Deloitte CFO Survey
Outlook 2011: Optimism in the air

2010 Q4 results
January 2011
Switzerland

Audit. Tax. Consulting. Corporate Finance.

Contents

This is the sixth Quarterly Survey of Chief Financial Officers and Group Finance Directors of major companies based in Switzerland. The survey gauges attitudes towards valuations, risk, and financing and is designed to identify trends and turning points in the Swiss corporate sector. The Q4 2010 CFO Survey was conducted from 22 November – 17 December 2010. A total of 57 corporate CFOs participated, around 30% of whom represented listed companies, while the remaining 70% are CFOs of large private companies. The participants represent a variety of industries including manufacturing, energy and utilities, banking, insurance, life sciences, healthcare, chemicals, retail and consumer business.

A note on methodology

Some of the charts in the survey show the results in the form of a net balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive, minus the percentage saying that bank credit is unattractive. This is a standard method of presenting survey data.

The Deloitte CFO Survey
Outlook 2011: Optimism in the air

Key points from the Q4 2010 Survey

- A large majority of CFOs – 76% of those we surveyed – have a positive outlook for the Swiss economy over the next 12 months.
- CFOs are upbeat on revenues and see growth through investment as their biggest opportunity in 2011.
- Corporate demand for credit is growing. A net balance of 26% of CFOs expect to access more credit this year. Compared to other regions and countries, only Asian Pacific CFOs expect higher debt levels on their balance sheets.
- CFOs report that credit conditions are still very attractive. Credit availability has further improved and a large majority view it as a cheap option.
- Hiring is back on the agenda. 40% plan to increase number of employees in 2011, while only 6% plan to reduce headcount.
- The biggest challenges for CFOs in 2011 are exchange rate risk, a strong Swiss Franc and the continuing insecurity surrounding European economies.

What a difference a year makes. Last year internal challenges such as cost control and strengthening cash flows were very much on CFOs' minds. As the year 2010 progressed, these worries receded and are now being replaced by concerns about external macroeconomic threats. On top of these is the European debt crisis and its impact on exchange rates.

Optimistic economic outlook and stable financial prospects

Despite the uncertain international economic climate, CFOs enter 2011 in an optimistic mood and expect a good start for both their companies and for Switzerland. While the overall level of optimism has not quite yet reached the one at the beginning of last year, it has increased from the levels seen in mid 2010. A net balance of 75% of the CFOs surveyed judge the economic outlook for Switzerland as positive, and a net balance of 24% see the financial progress for their companies also as positive.

At the moment it looks like the Swiss economy is robust enough to withstand the turbulent international climate. This is also reflected by the opportunities CFOs expect for 2011.

These include growth in general and through M&A, as well as opportunities with both old trading partners (such as Germany) and newer ones (emerging markets).

On balance, 80% of CFOs expect revenues to increase over the next 12 months, in contrast to only 8% that expect profit margins to increase. Recruitment and capital expenditure are expected to rise. This is consistent with a deepening recovery. In 2010, the year after the crisis, it was more about cost reduction and securing liquidity. With these tasks largely accomplished by companies in Switzerland and the economic outlook still good, investment now takes centre stage.

Credit conditions remain attractive

The favourable credit conditions should facilitate increased investment. A net balance of 42% of CFOs view credit as available. Only 15% of CFOs state that credit is hard to get. Furthermore, the cost of new credit is rated as low. Debt raising is seen as the most attractive form of external finance, followed by bank borrowing. Equity is still seen as least attractive. A net balance of 26% expect their companies' demand for credit to increase over the next 12 months.

The same number expect the total debt on their balance sheets to increase over the next three years. Compared to other regions and countries, only Asian Pacific CFOs are more optimistic. Regarding debt service, a net balance of 47% of Swiss CFOs expect that their ability to service debt will increase over the same period.

Hiring is back on the agenda

Given the optimistic economic outlook and supportive credit conditions it is not surprising that hiring is back on the agenda. 40% of CFOs expect an increase this year, while only 6% think there will be a reduction in Swiss-based employees. Hiring from abroad will remain a central feature of the Swiss job market, with 19% of CFOs expecting an increase over the next 12 months. At the same time the vast majority expect salaries to increase, albeit only moderately.

The evidence from this quarter's CFO Survey is that the corporate sector has regained strength and is planning for growth in 2011.

Challenges and opportunities for 2011

As always in our year-end survey we show the corporate sector view of the next year. We asked the participating CFOs what the biggest challenges and opportunities are for their business in 2011 and compared them to the answers we received the year before.

CFOs' concerns have changed significantly in the last year. In December 2009, when we last asked this question, the answers were dominated by operational and industry-related worries. Debt refinancing, cost control and strengthening cash flows were some of the most frequently mentioned causes for anxiety.

A year later the picture has changed. Now uncertainty about the global economic situation and macroeconomic concerns such as the European debt crisis dominate the responses. As the selection of individual quotes opposite shows, CFOs are more concerned about macroeconomic risks than a year ago. Exchange rate risk and the strong Swiss Franc were already mentioned as major challenges and risks in our last report and continue to worry CFOs as we move into 2011. The liquidity and funding crisis, which affected the Swiss corporate sector a year ago, has eased.

It seems as if recruiting is back on the agenda.
As confirmed by other questions, CFOs plan to increase hiring activities in 2011. Finding adequate, skilled staff in an increasingly tight labour market is expected to be a major challenge.

What are the biggest individual challenges facing your business in 2011?

"Exchange rate risk"

"Strong Swiss Franc"

"Insecurity about European economies"

"Recruiting"

"Increase of supply costs in Asia"

Sample responses from Q4 2010 CFO Survey

Challenges from Q4 2009 Survey that are not at the top of the agenda anymore

"Debt financing"

"Control costs"

"Secure liquidity"

"Strengthen cash flow"

Sample responses from Q4 2009 CFO Survey

In terms of opportunities, CFOs believe 2011 offers the prospect for growth, expansion into new, emerging markets or increasing M&A activities. The optimism about growth is underlined by results on a separate question: 80% of all participants expect an increase in their revenues over the next 12 months.
Some CFOs also highlighted the opportunities arising from the fast economic recovery of Germany, still the most important trading partner of Switzerland.

What do you see as your biggest opportunities in 2011?

"Growth"

"M&A"

"Cheap/favourable investment opportunities"

"Emerging markets"

"Strong demand from Germany"

"New products"

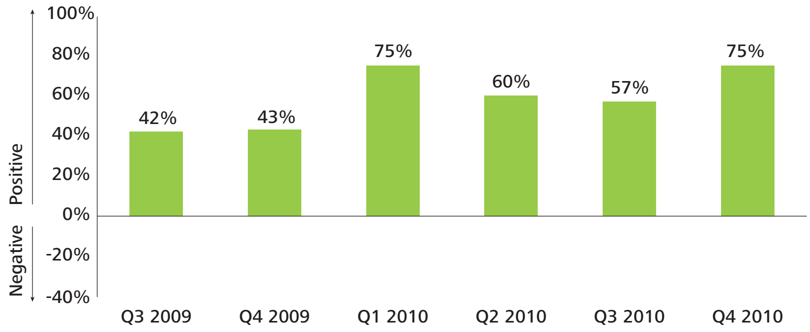
Sample responses from Q4 2010 CFO Survey

Optimistic economic outlook for Switzerland

The strong optimism projected by CFOs about the economic prospects for Switzerland at the beginning of last year has returned. Over the last three months the optimism has risen and reached a net balance of 75%. Only one of the surveyed CFOs consider the economic outlook over the next 12 months to be negative.

Chart 1. Economic outlook

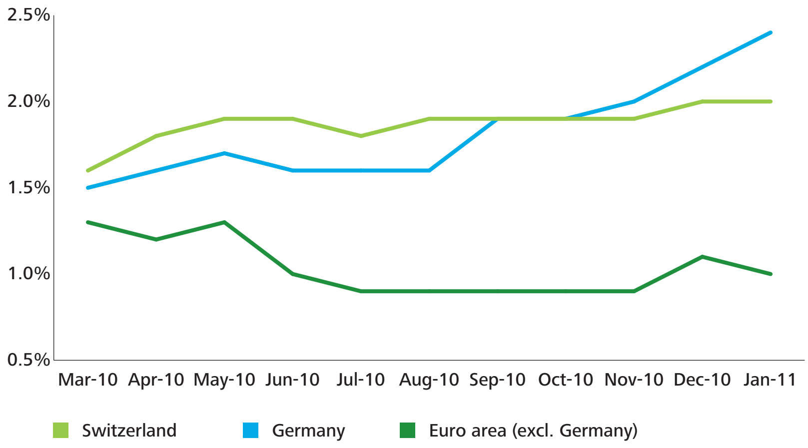
Net % of CFOs who judge the economic outlook for Switzerland over the next 12 months as positive



The broad and growing optimism fits with the improvement in Swiss GDP growth forecasts for 2011 in recent months. Chart 2 shows that the gap between Switzerland and the Euro area (without Germany) has risen since the beginning of the year. However, the forecast figures for Swiss growth are in line with the strengthened German figures.

Chart 2. GDP consensus 2011 growth forecast

Consensus 2011 growth forecasts in % for the Swiss, German and Euro area economies (without Germany)



Source: The Economist

An interesting result shows the analysis of the GDP growth of certain industries over recent years.

As illustrated in Chart 3, important sectors of the Swiss economy were hit hard by the recent economic crisis of 2008-09, but at different times. While the banking industry had already declined in the first quarter of 2008, manufacturing was still growing for a further two quarters. The Swiss domestic sector helped, too. Even while internationally exposed sectors such as banking and manufacturing contracted, domestically focused sectors such as construction and retailing were more resilient, stabilising the economy as a whole.

Chart 3. GDP growth per sector

Quarterly GDP growth for selected industries and the total Swiss economy

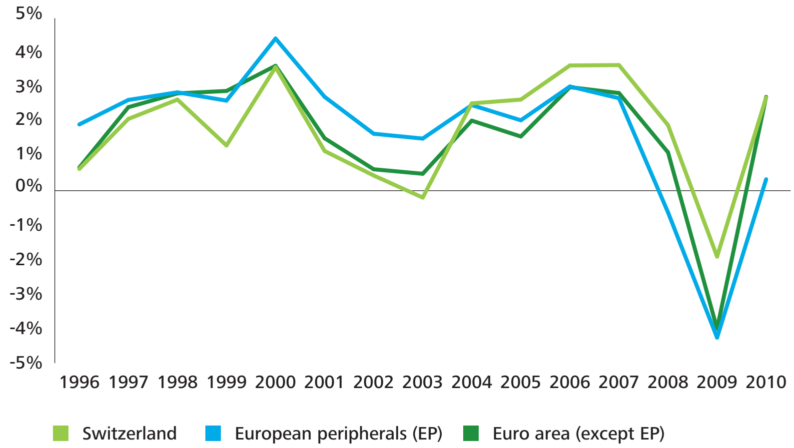
Source: Seco

Financial prospects stay stable

Chart 4 demonstrates the relatively positive economic development of Switzerland during the last few years compared to other European economies. Since 2004 the Swiss GDP growth rate exceeded the average growth figures from the current Euro area countries.

Chart 4. GDP growth comparison

Annual GDP growth rates



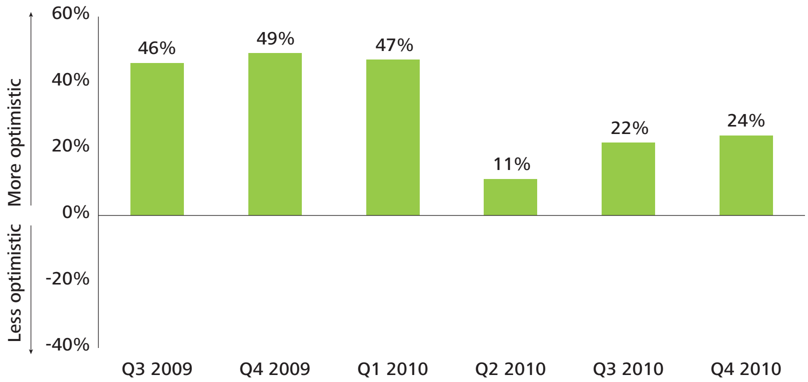
Source: World Bank, International Monetary Fund (IMF), Seco; Estimate figures for 2010
EP includes Spain, Italy, Greece, Portugal, Ireland

The rebound in financial optimism after the steep decline in Q2 continues. The balance of respondents reporting greater optimism about the financial prospects of their own company has increased slightly from 22% to 24%. But we are still a long way away from the level of optimism which was seen at the beginning of 2010. The mood of CFOs continues to be cautious given their existing concerns about renewed global economic weakness.

It does not look as if the recent intensification of the debt crisis in Europe and the solvency problems in Ireland have had the same sobering effect on the mood of CFOs as the Greek crisis in Q2 which reduced optimism from 47% to 11%.

Chart 5. Financial prospects

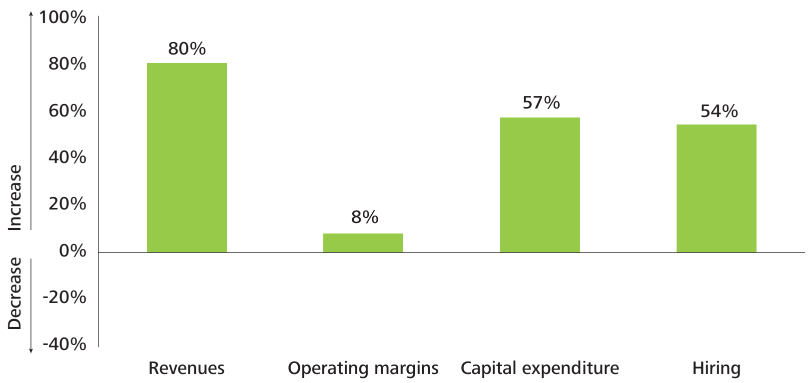
Net % showing how CFOs feel about the financial prospects of their company compared to three months ago



A more optimistic sentiment is reflected in our outlook question. On balance, 80% of CFOs expect revenues to rise over the next 12 months. However, CFOs are much less optimistic regarding profit margins. This may reflect the fact that the next stage of economic recovery will entail higher investments and recruiting activities. A majority of the CFOs surveyed think Swiss corporates will increase capital expenditure and hiring over the next 12 months.

Chart 6. Outlook

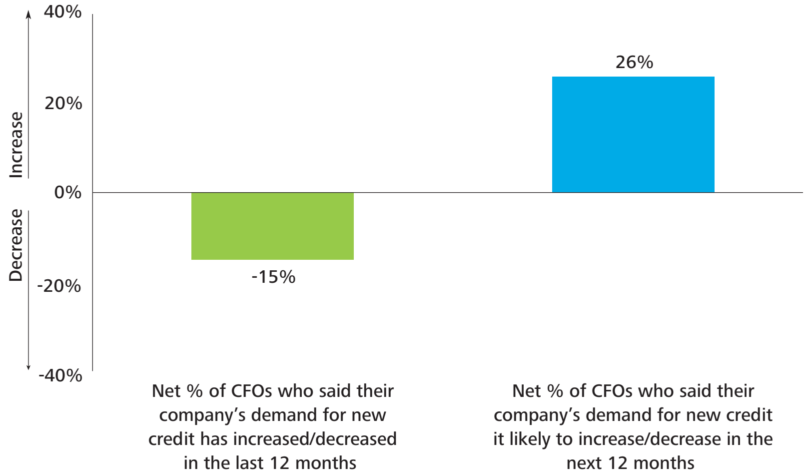
Net % of CFOs who expect revenues, operating margins, capex and hiring by Swiss-based companies to increase over the next 12 months



Credit conditions remain attractive

On balance CFOs say that their demand for credit has fallen in the last 12 months. But looking ahead, CFOs are more optimistic. A net 26% of CFOs say they expect to access more credit over the next year. This demonstrates a shift in attitudes to debt and investment.

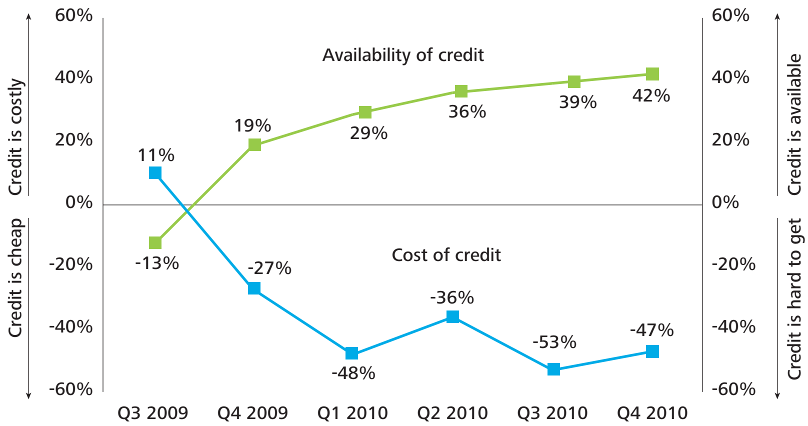
Chart 7. Corporate demand for credit



Credit conditions are still perceived as very attractive by CFOs. In the fourth quarter, credit availability improved again and reached its highest level since the survey started in 2009. A net balance of 42% assess credit as available. Only 15% of CFOs taking part in the survey reported that credit is hard to get. Furthermore, the cost of new credit is considered as low.

Chart 8. Cost and availability of credit

Net % of CFOs who think credit is costly/cheap, available/hard to get

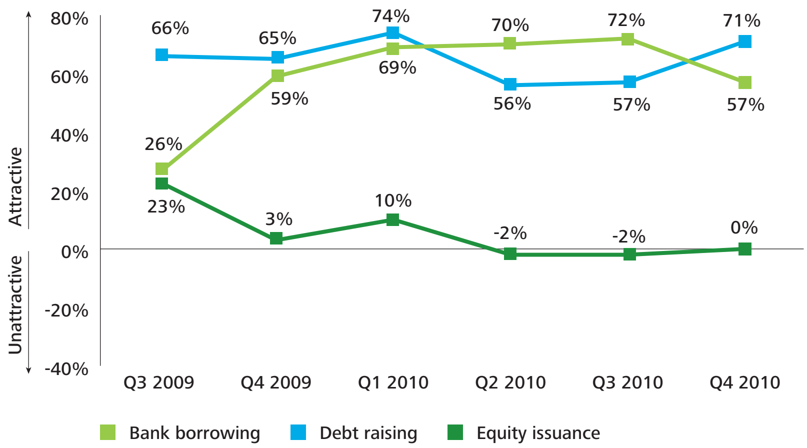


Debt raising has regained popularity and replaced bank borrowing as the most attractive form of external finance. A large majority of CFOs rate both sources of funding as attractive.

Equity remains the least popular form of finance for corporates but has become marginally more attractive during the last three months.

Chart 9. Favoured sources of corporate funding

Net % of CFOs reporting the following sources of funding attractive/unattractive



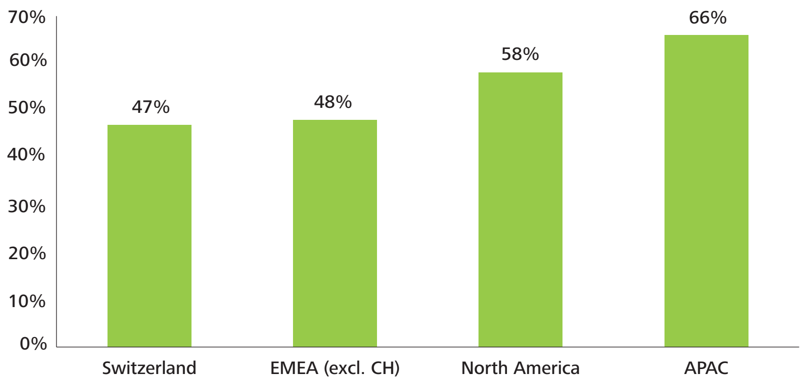
International comparison

This section compares the results of the Swiss survey with those from other Deloitte CFO surveys from around the world.

Given the widespread concerns about a looming wall of both public and private debt, participants in Deloitte CFO surveys are remarkably sanguine. CFOs from all regions expect their company's ability to service existing debt to improve over the next three years. Optimism is especially pronounced in the booming Asia Pacific region, but is also evident in North America. Switzerland scores below North America, but is almost level with that of the Europe, Middle East and Africa (EMEA) region.

Chart 10. Capacity to service debt

Net % of CFOs who expect their ability to service debt over the next three years to increase

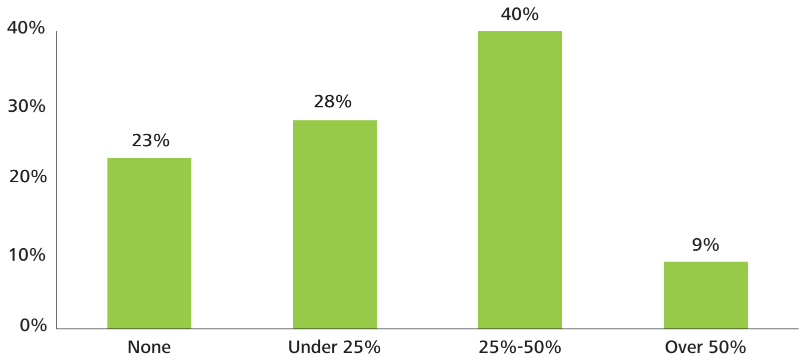


Note: EMEA includes Finland, Ireland, Spain, Sweden, Netherlands, UK, Middle East; APAC includes Australia, Japan, South Korea; North America includes US, Canada, Mexico
Source: Deloitte CFO surveys

The refinancing need of Swiss companies over the next three years is reported to be moderate. Only 9% of Swiss CFOs state that their company needs to refinance more than 50% of debt during this period, while 23% see no need to refinance.

Chart 11. Refinancing needs of Swiss companies

Proportion of long-term debt Swiss CFOs expect to refinance over the next three years

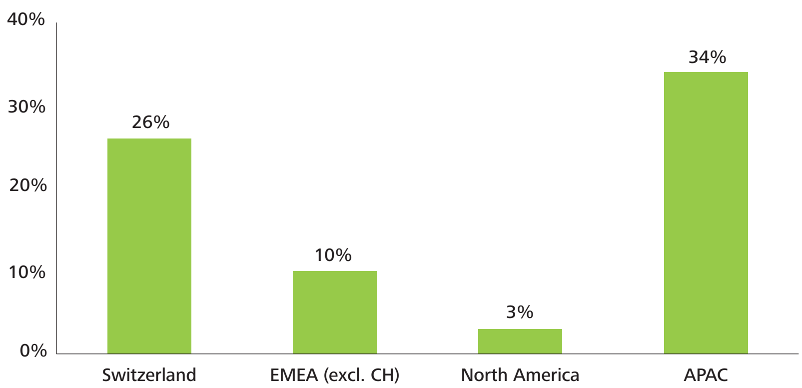


Source: Deloitte CFO surveys

An improving capability to carry existing debt, moderate refinancing needs and supportive credit conditions point to the possibility of higher debt levels. As Chart 12 shows, this is clearly expected in Switzerland over the next three years. In an international comparison, the Asia Pacific region is once again the most optimistic, but Switzerland comes second, well above EMEA and North America. This is again indicative of the Swiss economy's relative strength. The need to de-leverage is seen to be greatest in North America, even though a small net balance of CFOs expect an increase in debt levels.

Chart 12. Debt levels

Net % of CFOs who expect the total debt on their balance sheets to increase over the next three years



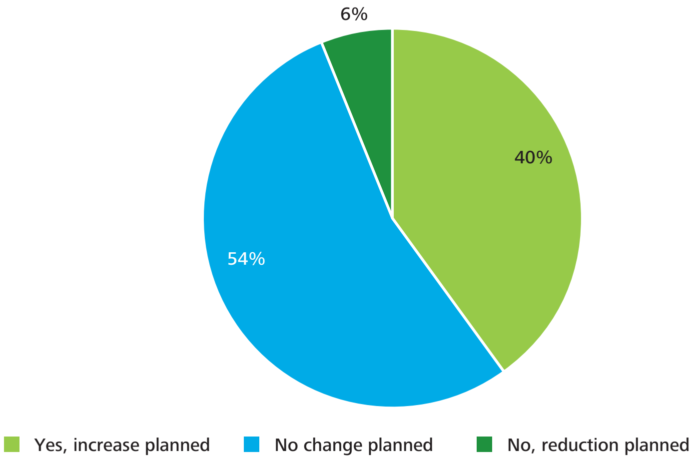
Note: EMEA includes Finland, Ireland, Spain, Sweden, Netherlands, UK, Middle East; APAC includes Australia, Japan, South Korea; North America includes US, Canada, Mexico
Source: Deloitte CFO surveys

Hiring is back on the agenda

Hiring has picked up over the last year, a trend that might well continue in 2011. 40% of survey participants expect to increase recruitment over the next 12 months and only 6% expect a decrease. Continued hiring might at some point result in an increasingly tight labour market, especially for highly specialised staff. Indicative of this is a continuing trend towards recruiting more staff from abroad. In a separate question 19% of CFOs we surveyed expect recruitment from abroad to be even higher over the next 12 months. Broad labour market integration with the European Union has eased administrative burdens of foreign recruitment, encouraging this trend.

Chart 13. Hiring

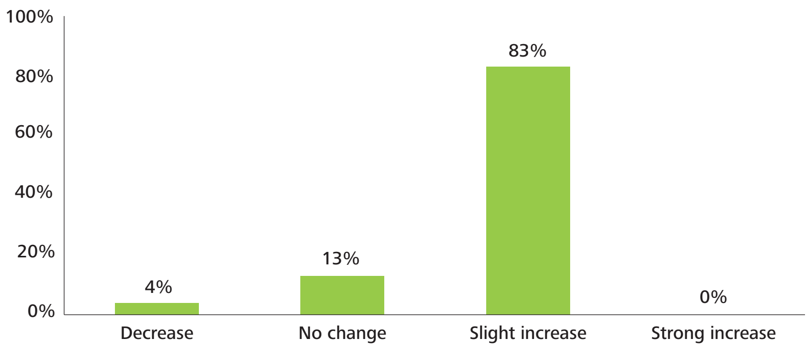
Are you considering an increase in the number of Swiss-based employees over the next 12 months?



The outlook is not only positive for recruitment, but also for salary growth which should, however, remain moderate. The vast majority of survey participants expect salary levels to increase slightly this year. While finding qualified staff was highlighted by CFOs as a major challenge for 2011 (see page 2), labour costs were not, which also points towards moderate salary growth in 2011.

Chart 14. Moderate salary growth

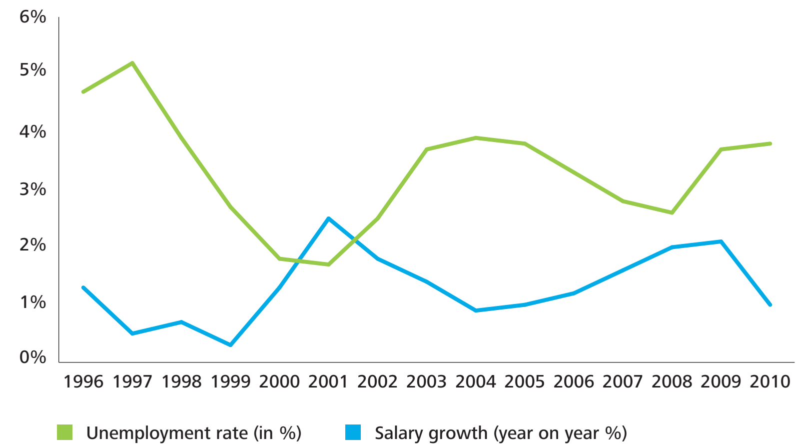
Changes CFOs expect to see in salary levels (without bonus) over the next 12 months



The Swiss labour market proved relatively resilient during the recent economic crisis. After rising to just over 4%, the unemployment rate began declining in 2010, while salary growth has been subdued. Based on CFO responses, 2011 might well be another year of (moderately) rising salaries and falling unemployment. The domestic sector – which helped to stabilise the Swiss economy during the crisis – looks set to support GDP growth this year as well, while the open labour market should partially alleviate staff shortages.

Chart 15. Relatively resilient labour market

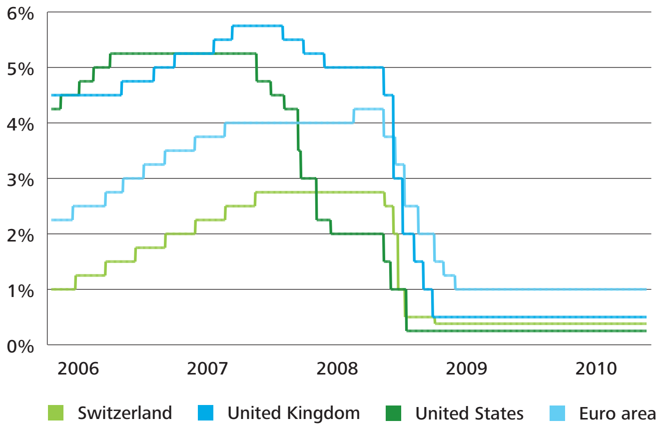
Unemployment rate and salary growth rate



Source: Swiss Federal Statistical Office

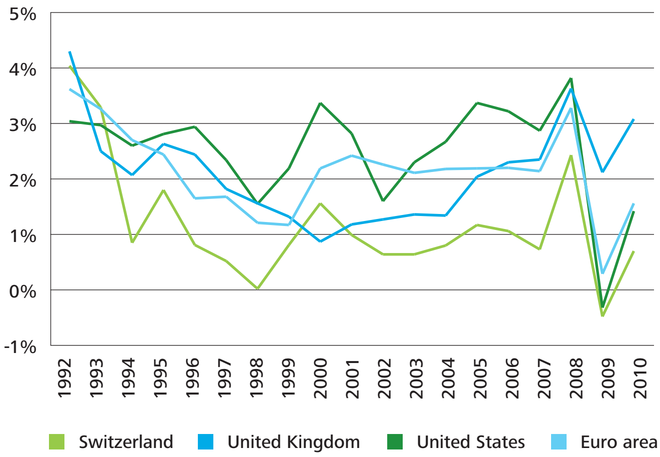
Appendix: Economic context

Chart 16. Official interest rates in %



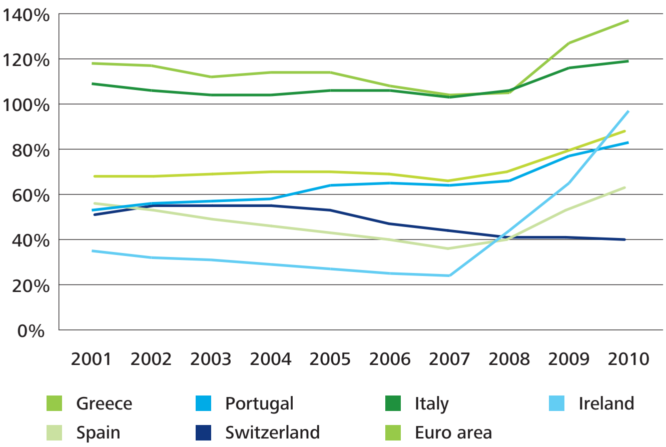
Note: Data for Switzerland are average of LIBOR target range
Source: Swiss National Bank, British Bankers' Association

Chart 17. Inflation rates



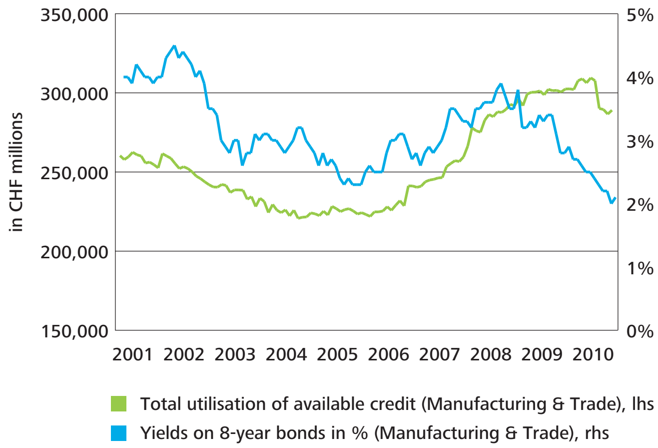
Source: IMF, estimate figures for 2010

Chart 18. Public debt (% of GDP)



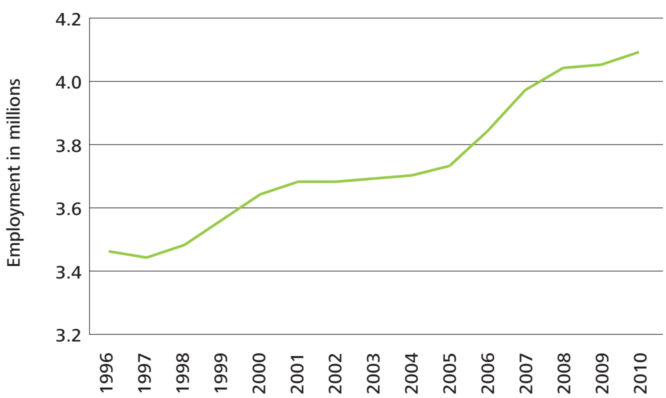
Source: EIU, Eurostat, European Commission, estimate figures for 2010

Chart 19. Cost and availability of credit



Source: Swiss National Bank

Chart 20. Employment in Switzerland



Source: Swiss Federal Statistical Office; year end figures; Q3 for 2010

Chart 21. Employment growth (year on year in %)

Source: Swiss Federal Statistical Office; year end figures; Q3 for 2010

Background

This is the sixth quarterly Deloitte Survey of Chief Financial Officers and Group Finance Directors of companies based in Switzerland. The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing.

Deloitte in the United Kingdom developed and ran the first CFO Survey in 2007. It has become a benchmark for gauging the attitudes of the UK corporate sector and has frequently been quoted in the media. Deloitte CFO Surveys are also produced in several other countries.

To improve readability, not all survey questions will be reported in each quarterly survey. Relevant survey questions are selected in response to the current financial and economic situation. If you would like to receive information about non-reported questions please contact us.

Acknowledgement

We would like to thank all participating CFOs for their support in completing our survey. We hope the report makes an interesting read.

Participating in our survey

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 earlier CFO Surveys see **www.deloitte.com/ch/cfosurvey**

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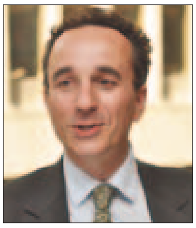

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Data archive

To aid interpretation of the results, this table contains a full breakdown of responses to the questions covered in the report. Due to rounding answers may not add up to 100.

	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
How do you judge the economic outlook for Switzerland over the next 12 months?						
Positive	58%	54%	77%	76%	65%	76%
Neither positive nor negative	25%	34%	21%	7%	26%	22%
Negative	17%	11%	2%	17%	9%	2%
Net Balance	42%	43%	75%	60%	57%	75%
Compared to 3 months ago how do you feel about the financial prospects for your company?						
More optimistic	56%	57%	55%	30%	39%	33%
Unchanged	33%	35%	37%	50%	43%	58%
Less optimistic	10%	8%	8%	20%	17%	9%
Net Balance	46%	49%	47%	11%	22%	24%
How would you rate the overall cost of new credit for corporates?						
Costly	34%	24%	12%	18%	9%	13%
Neutral	43%	24%	28%	27%	29%	26%
Cheap	23%	51%	60%	55%	62%	60%
Net Balance	11%	-27%	-48%	-36%	-53%	-47%
How would you rate the overall availability of new credit for corporates?						
Available	32%	46%	49%	56%	57%	57%
Neutral	23%	27%	31%	24%	26%	28%
Hard to get	45%	27%	20%	20%	17%	15%
Net Balance	-13%	19%	29%	36%	39%	42%
Bank borrowing, as a source of external funding, is						
Attractive	45%	70%	77%	77%	78%	67%
Neither attractive nor unattractive	36%	19%	15%	16%	15%	24%
Unattractive	19%	11%	8%	7%	7%	9%
Net Balance	26%	59%	69%	70%	72%	57%
Corporate debt raising, as a source of external funding, is						
Attractive	72%	73%	80%	67%	63%	79%
Neither attractive nor unattractive	21%	19%	14%	22%	30%	13%
Unattractive	6%	8%	6%	11%	7%	8%
Net Balance	66%	65%	74%	56%	57%	71%
Equity raising, as a source of external funding, is						
Attractive	45%	35%	37%	31%	33%	40%
Neither attractive nor unattractive	34%	32%	35%	36%	33%	21%
Unattractive	21%	32%	27%	33%	35%	40%
Net Balance	23%	3%	10%	-2%	-2%	0%

Notes

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