

The Eurozone crisis –
Are you prepared for the future?
A handbook for managing your
portfolio of actions



Introduction

The Eurozone crisis and the debate on its implications have continued to play a dominant role in the political arena and have been subject of many board deliberations. In a recent Deloitte CFO Survey the European sovereign debt crisis was highlighted as the CFO community's greatest concern for 2012. The crisis is affecting business confidence with the majority of CFOs expecting a recession, albeit a mild one, in the next 12 months in Switzerland.

The implementation of an exchange rate floor for the Swiss Franc against the Euro currently provides a level of comfort. But this only masks uncertainties around the outcome of the Euro crisis regarding individual member countries, inflation levels as well as exchange rates to key currencies and anemic growth in the region. What seems certain is that profound market changes will occur, requiring business leaders to consider different scenarios in their decision-making and maintain flexibility.

At the outset, the Euro crisis led to challenges mainly in the area of hedging and cash management. Meanwhile, the focus has shifted to counteracting margin pressure arising from a downturn in demand and an unfavourable FX impact on top line and costs. The Euro crisis has accentuated the need for structural change in many business models. Adapting those will be the foundation for sustainable growth. Not surprisingly, CFOs surveyed by Deloitte name reducing costs and increasing cash as priorities for 2012. Despite the negative sentiment, strategies for organic growth are also considered important. Further opportunities arise from growth in emerging markets and attractively priced M&A targets in the Eurozone.

This short handbook takes no view on the prospects for Euro area reform, or the likelihood of a breakup. The focus of the booklet is on the practical issues organisations need to consider to face continued uncertainty. Should you wish to discuss your situation in detail, we would welcome the opportunity to have discussions with you around this topic and share our thoughts with you how your business could respond to the Euro crisis.

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Challenges ahead

The challenges arising from the Euro crisis have many facets. Companies should act promptly to understand the challenges which are the most relevant to their business. What are the right questions to ask?



What is at risk and what are potential actions?

Enhance cash position

What's at risk?	Potential actions
<ul style="list-style-type: none"> • Value and accessibility of Euro held in cash or in deposits • Stability of banking systems (and bank accounts) • Hedging protection of certain Euro positions as some positions potentially convert to a new currency 	<ul style="list-style-type: none"> • Repatriate surplus cash from Eurozone countries or relocate to stronger Eurozone countries • Consider establishing bank accounts outside the Eurozone for entities in countries most at risk of secession • Put in place a country specific hedging approach • Envisage setting up a or refining your cross border cash pooling and treasury function • Consider running a working capital optimisation programme to increase head room

Finance the business

What's at risk?	Potential actions
<ul style="list-style-type: none"> • Covenant compliance due to FX impact or weak results of foreign subsidiaries • Availability of trade finance, bank credit at Euro banks ahead of Basel III and as a result of the Euro crisis • Debt service capability 	<ul style="list-style-type: none"> • Engage proactively with your financial stakeholders • Match currencies of assets with liabilities to achieve natural hedges where possible • Introduce a policy to cap credit risk by jurisdiction and consider using credit insurance or credit default swaps to protect position • Diversify your sources of funding across regions and institutions • Have a contingency plan (Plan B) for different scenarios that can be readily executed

Improve operating performance

What's at risk?	Potential actions
<ul style="list-style-type: none"> • Customer base in specific markets • Short-term profitability • Cost to serve • Mid-term liquidity • Long-term competitiveness • Ability to finance innovation and CapEx 	<ul style="list-style-type: none"> • Evaluate temporary increase of working hours or linking of bonuses to currency fluctuations • Differentiate pricing structure, manage margins and working capital • Consider product and customer rationalisation • Bundling of higher margin services with industrial products • Assess client oriented innovation

Streamline supply chain

What's at risk?	Potential actions
<ul style="list-style-type: none"> • Sustainability of supply chain and quality if critical partners break down or capital controls are imposed • Enforceability of contracts 	<ul style="list-style-type: none"> • Request financial reporting by critical suppliers • Change to dual sourcing for critical procurement items • Consider supporting challenged suppliers through Supply Chain Finance programs • Consider shifting to make to order • Consider moving production to already existing plants abroad or outsource • Gear management of product life-cycles to currency exposure

Realign strategy

What's at risk?	Potential actions
<ul style="list-style-type: none"> • Competitiveness of market offering • Current business operating model in need for adaptation • Long term growth of business 	<ul style="list-style-type: none"> • Identify business partners for the coming years and formalise relationship • Amend business operating model to changing environment • Find potential new sources of revenues in related business segments and innovation around the same raw materials and manufacturing processes • Realign business portfolio – buy / sell businesses or parts of it – potentially benefit from strong Swiss Franc

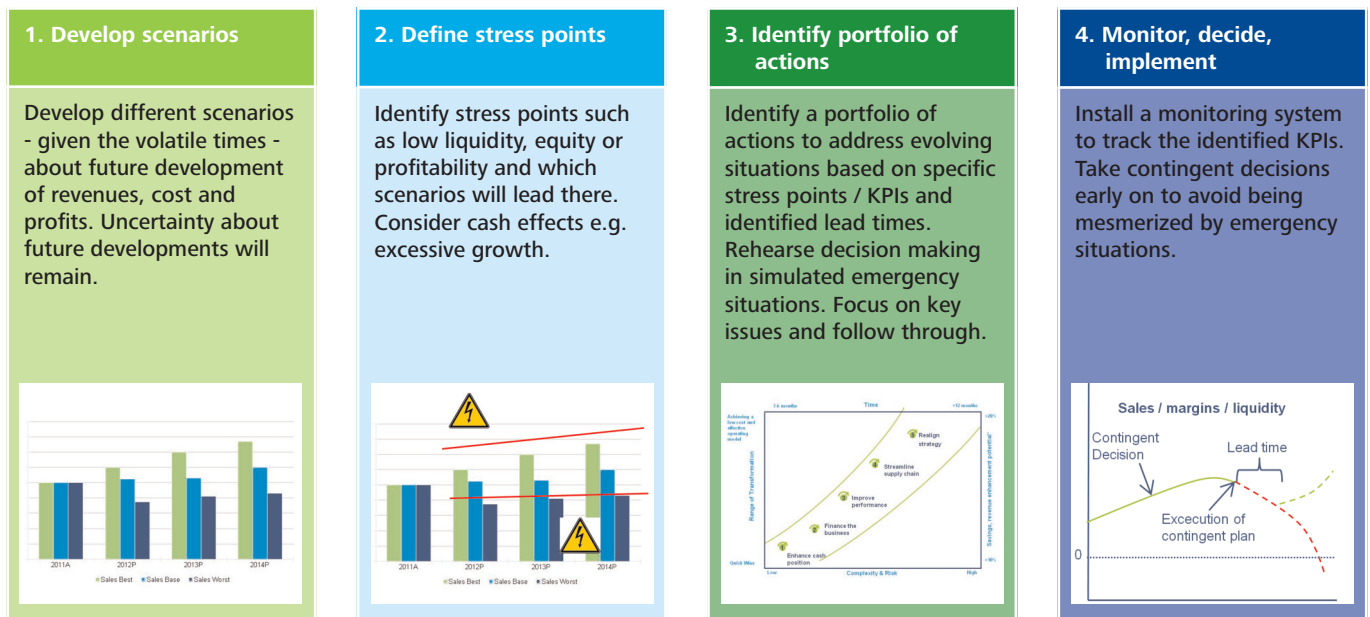
Meet stakeholder expectations

What's at risk?	Potential actions
<p>From the point of view of ...</p> <ul style="list-style-type: none"> • Customers: innovation, quality, competitive pricing, service level, brand • Employees: safe and rewarding jobs • Suppliers: punctual payments, predictable partnerships • Shareholders: dividend and capital gain • Banks: debt service capability • Regulators and local authorities 	<ul style="list-style-type: none"> • Explicitly consider effects of your actions on the different stakeholders in different scenarios and develop strategy to mitigate risk • Communicate in a coordinated and proactive manner • Refine communication strategy and communication plans to deal with eventualities • Invest further in building relationships to key stakeholders • Design plan and implement plan for each stakeholder group and make it a top management responsibility

An overview of the Deloitte Switzerland approach

Our integrated approach combines deep technical knowledge with industry insight. Coupled with an international outreach we can draw on profound business relationships to maximise value for your organisation.

We assist clients in developing different scenarios, taking into account demand fluctuations, raw material and currency movements as well as macroeconomic changes and assess their impact on key financials. Our hypothesis driven and structured gateway approach helps to evaluate your exposure to different scenarios, identify opportunities and quantify associated benefits with manageable effort. Based on this, we help identify stress points for your business that would trigger contingent actions. Together with key employees from your organisation, we develop a specific portfolio of actions comprising quick wins, longer term as well as contingent measures on site. Further, we can help install a monitoring system to track the identified Key Performance Indicators (KPI). We often work on client sites to assist with the implementation so that the benefits are realised effectively and in an expeditious way.



A prediction of what will happen and when will become ever more difficult. Every management team therefore should clearly understand early on whether a pre-defined emergency situation is approaching and what prepared measures are available to avoid these situations.

Our proven client track record: An insightful example

Situation

Deloitte advised the Swiss-based management of a leading industrial group on identifying and implementing working capital and operational performance improvements. The project also included a review of the business operating model ahead of a potential merger with a second portfolio company. With the largest production operations located in the Eurozone the company generated turnover in excess of €1.2bn. Shareholders were looking for industry insights and advice in dealing with multiple stakeholders in Switzerland and the Eurozone.

Approach

Hypothesis-based analysis of accounts receivables, payables, inventory, cost structure and business model

- Review of major businesses using qualitative and quantitative techniques
- Developed action plans to secure quick wins and install platform for sustainable performance improvement
- Migrated leading practices across the business using a combination of workshops and conferences
- Introduced an entrepreneurial mindset across the organisation to support business transformation

Results

- Reduced overall net working capital by 34% and took out more than 10% out of existing cost structure
- Redefined business operating model in light of new principal structure and optimised tax structure
- Prepared business for upcoming transatlantic merger with competitor to further exploit synergies and create shareholder value
- Transferred ownership and capability to the client in order to ensure sustainability

Why should you work with us?

The Deloitte Switzerland experts are here to help you and your organisation cope with the challenges in the Eurozone. Here are some of the reasons to choose us as your Eurozone advisor:

- Our dedicated Deloitte Switzerland Eurozone experts have substantial project experience in:
 - Strategic scenario planning, option analyses, risk-adjusted forecasting, planning and simulation
 - Cash, treasury and working capital management
 - Debt advisory and capital raising
 - Sourcing, product life cycles, supply chain and innovation
 - Reduction in cost to serve and specific overhead cost reduction programs
 - Strategic realignment
 - Joint ventures, strategic alliances, mergers & acquisitions
- Deloitte is ranked as the leading provider of pricing and profitability management solutions
- Proven implementation capability when and where you need it most
- We have a strong track record with Swiss and international / listed and privately held clients
- We have worked with many stakeholder groups throughout the life cycle of projects, Swiss based and across Europe in particular
- A global network to help you where you are

Talk to us about the challenges you face.

Your Eurozone advisors



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Jan leads the Restructuring group in Switzerland and has led international restructuring and corporate finance assignments throughout Europe, US and Asia, primarily for SMI and DAX clients for the last 14 years.

He advises corporates as well as private equity groups and family owned industrial groups in the context of optimising their portfolio companies. He focuses on assessing strategic options and contingency planning in the context of business reviews as well as cash and working capital optimisations. He has expert knowledge and a track record in preparing businesses for sale.



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Markus is a Partner at Deloitte Consulting (Strategy & Operations) with 17 years of experience in Restructuring and Consulting.

Markus has led mandates ranging from multi-week projects with a small team for SMEs to multi-year projects with a team of up to 40 consultants for global multinationals. His project experience comprises restructuring, cost reduction, supply chain management and corporate strategy.



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Reto is a corporate international tax partner and the Tax Practice Leader of Deloitte in Switzerland.

He has significant experience in the area of cross-border structuring (including establishing tax efficient IP- and financing structures) and business reorganisations including large supply chain transformation projects. Reto has advised many Swiss based industry groups as well as numerous foreign multinationals. Moreover, due to his long-time engagement in the field of M&A Reto also advised various private equity houses.



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Stephen is a Senior Manager in the Audit Advisory Team at Deloitte in Switzerland and specialised in Finance, Treasury & Financial Risk Management.

He has over 16 years of professional experience with an extensive operational background in investment banking and the manufacturing industry before he joined Deloitte in 2009. He has managed global Treasury Transformation Projects, cost reduction programs, cash and working capital initiatives, process and system harmonisation as well as financial supply chain and risk management re-designs for major multinational corporations and financial industries.

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