Opportunities and Challenges in the Low Interest Rate Environment

Still in Peak Condition at 170
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Owing to the strong Swiss franc, many Swiss SMEs with a high proportion of export business have been seriously challenged in recent years, or their very existence has been under threat. Fortunately, however, it was precisely these companies that demonstrated the strengths of Swiss entrepreneurship. The SMEs faced up to the challenges, and, thanks to their adaptability, staying power, and, above all, innovation, many succeeded not only in overcoming the crisis, but emerging from it strengthened.

As the bank for entrepreneurs, Credit Suisse regards it as its task to be an equal partner, in particular in challenging times. IBSA, the Ticino-based pharmaceutical company presented in this edition, experienced Credit Suisse in this way when it was hit by the strong franc. The company acted quickly, firmed up its structures, and brought out new, innovative products – which was always done in agreement with Credit Suisse, whose trust it never lost during this difficult period. Innovation is also one of the keys to success for Fischer Reinach, the family firm presented here; another is investing countercyclically, because the currently low interest rates are ideal for this. That this attitude is now widespread among Swiss businesses is confirmed by our corporate client advisor Peter Zimmerli in an interview: sorting, rearranging, rethinking structures – these are all excellent activities for the New Year, for which I wish you every success. But first of all, happy reading – and we would be delighted to receive your feedback because we value your opinion.

Urs P. Gauch
Head of SME Business Switzerland
“Our clear focus is on the eurozone.”

Are an economic crisis and a low interest rate environment a good financial fitness program for a 170-plus year-old family firm? Peter Fischer, co-owner and chief executive officer of the Fischer Reinach group, and Hans Burri, his Credit Suisse client advisor, discuss the company’s ample staying power and the fact that it is now more agile than ever.

— Regula Brechbühl
Regula Brechbühl (RB): Mr. Fischer, you’re the sixth generation to be running the firm. How did the company fare in 2014?

Peter Fischer (PF): Things are going well for us at the moment. Although the business faces constantly changing demands in terms of trends and technologies, it has successfully established itself on the global market in recent decades. Today the group consists of companies in Switzerland and abroad. Fischer Reinach AG manufactures its products in Switzerland, and exports 90 percent of them. The fact that we’ve been able to raise sales for the fifth year in succession, and also that 2014 was comfortably the most profitable year in our history, is all the more pleasing. It tells me we’re holding our ground very well against our international rivals.

RB: Mr. Burri, as a Credit Suisse client advisor, you’ve worked alongside Fischer for a number of years. What’s your view?

Hans Burri (HB): I would reiterate what Peter said. I see a broad-based enterprise that’s diversified in terms of its clients and business areas. The company has a strong international network of businesses, which has now been complemented by new markets. That’s in addition to a high degree of automation, making it possible to produce in Switzerland at low cost. I also see a great deal of innovation and client proximity.

RB: What distinguishes Fischer from its competitors?

PF: In our opinion it’s due to our efficiency, quality, and service offering. We don’t do anything that others couldn’t do. However, we deploy our staff very efficiently, focusing on a high level of commitment and personal initiative, produce at full speed, invest constantly in our employees and state-of-the-art technology, and we’re also a dependable partner to our global client base at all times. Furthermore, we maintain high standards of discipline, and expect the same from our staff. On top of that, Switzerland’s attractiveness as a business location as well as its liberal attitude to politics and business help contribute to its success.

HB: The company has been run as a family business for six generations now. This shows that its capital was repeatedly reinvested over the decades, and that no-one enriched themselves in the process. Even in the difficult period of recent years, the company responded appropriately – for example, by investing countercyclically.

PF: This long-term horizon is certainly one of our core strengths – we can also survive a lean period if necessary.

RB: As far as the current, difficult times are concerned, what phase do you regard as the most challenging to date since joining the company?

PF: The summer of 2011, when we watched the euro exchange rate fall hour by hour to below one Swiss franc, was very difficult for us. We were shocked; a world was collapsing. Luckily we had already introduced extensive measures in 2010; consequently, the speed of the crisis and the fact that business ground to a halt didn’t catch us totally off guard.

HB: As an export-dependent firm, Fischer has coped very well. To use an analogy, the crisis required a lot of firms to go on a fitness program in order to run the marathon even faster. But as a result, many companies have emerged stronger and in a better position than they were before.

RB: What measures did you and your management take in response to the difficult situation?

PF: We began redefining the Fischer Reinach group’s strategy back in 2010, the aim being to sharpen our focus on our existing operation. From that point on, we therefore concentrated all our energy on sectors that were already well catered to and on existing technologies, and boosted our sales effort. What’s more, we reaffirmed our clear commitment to the site here in Reinach and invested a lot in production and infrastructure. That said, the unpredictable nature and pace of the crisis forced us into rapid decision-making and far-reaching measures. Thus practically all our current suppliers come from the eurozone. Yet all the measures we took paid off after one or two years.

HB: As you can see, the currency situation also presents opportunities. For example, if you’re looking to invest or make acquisitions in the eurozone you can take advantage of the Swiss franc’s purchasing strength. Due to currency effects, the cost of buying an investment in the eurozone has fallen by nearly 30 percent.

RB: How was Fischer Reinach ultimately able to decouple itself from the strong Swiss franc?

PF: We put our clear focus on the eurozone by purchasing services and raw materials there, but also by making investments in euros. In concrete terms, it means for example that salaries are the only thing we pay out in Swiss francs, and also that we took a stake in two companies in Germany.
RB: Your company has therefore established a strong pillar in the eurozone. How was the bank able to help in that process?
HB: We supported Fischer Reinach’s strategic plans and assisted them in the best way we could with our expertise and network. For example, we were able to take care of their currency hedging, implement ideas for interest rate optimization, provide international guarantees, as well as organize an exchange of views with the Credit Suisse M&A team.

RB: So, the bank acts as a sort of sparring partner?
HB: Yes, we primarily help the client in terms of planning. We highlight opportunities, for example with regard to currency hedging and higher returns on surplus liquidity. As an integrated bank, we seek client assets and are able to deploy them effectively within the bank including in more capital-intensive divisions. That means we’re also able to offer companies attractive interest rates. Through our network and partners, however, we also help to capture new markets.

RB: How do you both view the direction the company has taken?
PF: Come back and ask me in 10 years’ time (laughs)! I truly believe that we’ve put in place the right steps for a prosperous future and for securing the site.

HB: Many companies have questioned their partnerships – their suppliers, for example – fundamentally revised their strategy, and thus embarked on a new direction. Your firm too managed to reposition itself in the marketplace through its acquisition abroad. So, if you stay fit, you can achieve so much more.

PF: Companies do need to get out of their comfort zone – you’re right!

RB: Does the low interest rate environment therefore offer opportunities for your company too?
PF: Now is a good time to be making bigger investments. Construction activity is very robust at the moment, both worldwide and in Switzerland, and this is fortunately resulting in a rise in demand for our company.

RB: Your major investment was, of course, a stake in a German firm.
PF: Yes, as an entrepreneur you’ve got to think long-term. That’s why we took a stake in two German firms in April 2014. We wanted to strengthen our position in the eurozone, and as a group. Both firms are also flourishing family businesses, and complement ours in terms of technology. We even have the same customers in some cases, and are now able to provide them with a more wide-ranging service.

RB: Where do you go for advice in difficult times?
PF: First, we’ve got a board of directors with experienced members who are adept at dealing with a crisis. There’s a very valuable exchange of views between them and us younger ones. Many boards have too many family members, and constructive or critical dialogue is limited. Second, I also get invaluable input thanks to opportunities such as the Credit Suisse Entrepreneur Trip, where I meet owners of similar firms, among others. It’s the forum for an open exchange of views.

HB: Fischer Reinach’s board of directors is actually very diversified, and has opened itself up to lateral thinkers and sector specialists.

RB: What insights did you take away with you from the 2014 Entrepreneur Trip?
“It’s a fact that a great deal of added value was shifted abroad due to the currency crisis.” Peter Fischer (right) talks with Hans Burri about dealing with challenging times.

PF: That we all face similar challenges. Our discussions resulted in a great deal of entrepreneurial input, which I’m able to adapt to our own needs and am now implementing. Thanks to Credit Suisse, the trip gave me a deep insight into Asia’s culture and markets in a very short space of time. There’s a lot of respect for the Asian economy – and rightly so. Its young, highly educated people are hungry and ambitious. The bank’s inspirational local team is doing an excellent job, and bringing together a large number of interesting contacts.

HB: The Entrepreneur Trip is a great opportunity for clients to engage in an open exchange of views. We as a bank, together with partners such as the Swiss Venture Club (SVC), aim to strengthen the network for entrepreneurs and bring them together on a regional and cross-regional basis.

PF: That’s also the main reason why we’re happy to work with Credit Suisse: It has extensive networks that are in the process of being joined up. And that’s essential to my business.

RB: As far as you are concerned, Mr. Fischer, it’s essential for a bank to think like an entrepreneur as far as possible. Do you believe your expectations are being met?

PF: People like Hans can very easily imagine themselves in an entrepreneur’s shoes. For us it’s the primary contact that is key, and at this level I believe the role is being performed very well. Sometimes I almost get the feeling that Credit Suisse is making notes on each client (laughs). Everyone’s always very well informed about me as a client.

HB: We do indeed exchange views within the bank on a cross-divisional basis, with a view to being able to serve the client as comprehensively as possible.

RB: Yet the business relationship isn’t that old, is it?

PF: I can confirm that. The business relationship with Credit Suisse arose through an encounter with Hans at the Export Forum of Switzerland Global Enterprise, and is still a young one. However, I’m very encouraged by the way it has developed – in particular that our needs have been identified and addressed. For us, a bank is primarily a supplier that tenders its services to us on the basis of price. That’s why that particular topic is sometimes the
subject of tough negotiation and serious discussion.

HB: We can negotiate with one another on various points. We always view a client relationship in the round, and as the bank for entrepreneurs we have no desire to define ourselves on the basis of price. Such a process requires long-term thinking, including from the bank.

RB: Looking back, what decision do you consider to be one of the best and most important you’ve taken so far?

PF: Without doubt the investment in Germany. We made a fair-sized acquisition for the first time. For that reason it also constitutes a milestone in the firm’s history.

Fischer Reinach AG, Reinach (CH)

Fischer Reinach AG, which is in its sixth generation of family ownership, was established in 1842 as an industrial production site for safety pins and hair pins. These days the company processes all types of steel, and light and non-ferrous metals. As a development and supply partner with its own toolmaking facility, the Swiss company supplies customized parts to customers around the world in the fittings, electrical engineering, automotive, and construction supply industries. Its "Armorings for the Construction Supplier Sector" division was divested to the newly established subsidiary Fischer Rista AG (CH) in 1999. Fischer Reinach AG also has a stake in ZETKA Stanz- und Biegetechnik AG & Co. KG (D), creative automation GmbH & Co. KG (D) (manufacturer of special stamping machinery), and Mitex Miederband GmbH (A), which also operates worldwide as Europe’s largest manufacturer of lingerie fasteners. The group employs a total of more than 400 people.

fischer-reinach.ch
SVC Ltd. Activity Report

Switzerland boasts a wealth of innovative SMEs with products and services promising future success. That is why, since its foundation four years ago, SVC – Ltd. for Risk Capital for SMEs has invested 71 million Swiss francs in 33 innovative Swiss SMEs. The financing is provided in the form of equity capital or unsecured, subordinated loans with profit-sharing. In this way, the growth strategies of these companies have been supported and numerous new jobs in Switzerland created or preserved. The portfolio of the company, which is a subsidiary of Credit Suisse, reflects the full range of Swiss companies. The current Activity Report 2014 gives an insight into the successful business activities of SVC Ltd. and presents some of these companies – you can read about them yourself.

From the end of January, you will be able to find more information on SVC Ltd. and a download option for the Activity Report 2014 here:

www.svc-riskcapital.ch

Retail Outlook 2015

Retail Outlook is the annual study by Credit Suisse’s Economic Research team on Swiss retailing. It includes a review of the latest economic developments in the sector and provides a view of the future based on a survey of retailers. The study also deals with selected current challenges facing the retail sector. This year’s main topic will be the development of e-commerce: What impact does online business have on the structure of the retail sector and how far will it grow by 2020? In addition, the study discusses success factors in the implementation of a cross-channel strategy. Retail Outlook is published every January in German, French, and Italian.

The publication can be downloaded here:

credit-suisse.com/entrepreneur

Migration of Payment Transactions in Switzerland

Following the mandatory introduction of SEPA in Europe, ISO 20022 is also gaining considerable significance at an international level. The Swiss financial center has therefore decided that it, too, will harmonize payment transaction processes and switch to ISO 20022. The focus here is on three major goals:

• Reducing the number of different processes
• Using a uniform technological standard
• Ensuring harmonization with European rules

What does it mean for you, as a Credit Suisse client? To ensure your transition to the new standard is as smooth as possible, Credit Suisse will be retaining its current payment transaction methods and systems until at least 2018. The formats that are used in Switzerland today, for example for DTA or DD, can continue to be used during this transitional period. We will be pleased to assist you with the changeover of your payment transaction products to ISO 20022.

Detailed background information on this topic can be found here:

credit-suisse.com/entrepreneur

The most up-to-date information and a news ticker can be found here:

credit-suisse.com/zvmigration
Outlook for 2015: Faster Growth in Exports, and Low Interest Rates

Will interest rates remain low? Will the Swiss economy no longer catch a cold when Europe sneezes? An outlook shows what economic developments can be expected, and the impact they could have on companies.

— Maxime Botteron, Swiss Macro Research, Credit Suisse

The Swiss economy has so far shown itself to be virtually immune to the various crises in the eurozone. The country’s real gross domestic product (GDP) grew by an average of 1.9 percent per year between 2010 and 2013. This is three times faster than the figure for GDP in the eurozone, which actually shrank in 2012 and 2013. Does that mean the Swiss economy no longer catches a cold when Europe sneezes? The Swiss economy’s remarkably robust growth record can be explained by the fact that the country’s GDP has been driven by a “super-cycle.” This consists of interacting factors and various feedback effects between immigration, the real estate boom, and low interest rates, as well as solid growth in lending and employment. Household spending and construction investment are the main beneficiaries of this super-cycle. So far, the resulting stronger domestic demand has more than compensated for weak exports.

General Weakness and Uncertainty

This super-cycle is now coming to an end as the underlying drivers lose momentum. The real estate market is cooling, prices have already begun to soften, and we believe the downturn will continue. The tighter mortgage lending rules introduced by the banks are dampening demand for residential real estate, which is in turn impacting on the construction industry as well as consumption of related services such as real estate brokerage. Immigration is also unlikely to remain at its current level in future. Following the recent slowdown in economic growth and the sharp rise in employment in recent years, the former is likely to grow more slowly in 2015; we therefore expect a reduction in demand for (foreign) workers. If fewer new consumers come to Switzerland, private consumption will grow at a slower rate. Capital spending on machinery and equipment is also unlikely to provide much of a fillip to growth. Uncertainty – which is toxic for investment – remains high, and this is true not only at an international level (Ukraine, etc.) but also with regard to future relations between Switzerland and the EU. Implementation of the initiative on mass immigration constitutes a further problem.

Interest Rates to Remain Very Low

Although we consequently expect fewer growth drivers domestically in 2015, the growth in exports is likely to accelerate. Demand from the US is likely to gather pace gradually, while even the limited brightening of the European economic climate – not least thanks to the expansionary monetary policy on the part of the European Central Bank (ECB) – is likely to result in a palpable increase in demand for goods produced by Swiss industry given the EU’s major importance to Swiss exporters. Because consumer prices in Switzerland are likely to rise only marginally for the foreseeable future and the risk of deflation has declined significantly, the Swiss National Bank (SNB) is not under pressure to change its monetary policy. Thus the SNB will be able to maintain its currency floor against the euro, in turn requiring the retention of the zero interest rate policy. Long-term interest rates are also likely to be shaped by the ECB’s expansionary direction. The fact is that as long as the SNB bases its monetary policy on the exchange rate, Switzerland will essentially be “importing” the ECB’s interest rate policy. In our view, this points to a continuation of
Real GDP in the eurozone grew by an average of only 0.6% per year between 2010 and 2013, in part due to the oppressive debt burden.

Driven by a super-cycle, Swiss gross domestic product (GDP) grew by 1.9% between 2010 and 2013 – three times faster than that of the eurozone.

Source: Eurostat, BFCO, Credit Suisse
very low interest rates by historical standards – and indeed until at least the end of 2015. But low interest rates in themselves are no guarantee of buoyant investment activity. SMEs in particular have benefited from Switzerland’s favorable interest rates for several years – not just in historical terms but also by international standards. Investment is nevertheless stagnating in Switzerland, with the exception of the construction sector. This trend is reflected in low and in some cases even negative growth rates for this credit category. While mortgage lending to SMEs has grown continuously in recent years, working capital loans have tended to fall. Even though a gradual recovery can be seen in international demand, and therefore exports, capacity utilization in industry is not at a level that makes new investment necessary. The majority of firms would currently be able to increase production without making major investments. As in recent years, demand for working capital loans is therefore likely to remain modest despite low interest rates. At the same time, the modest cooling on the real estate market is indicative of a slowdown in the growth in mortgages. Unless there is a surprisingly strong recovery in the eurozone, then despite low interest rates, we are unlikely to see a noticeable acceleration in the demand for credit on the part of SMEs in 2015.

Credit Suisse Economic Research

Credit Suisse Research is one the leading providers of economic analysis on Switzerland. Its findings are incorporated into studies on the economy, individual sectors, and regions, as well as the real estate market. Credit Suisse therefore makes an active contribution to the discussion on solutions to economic challenges, and provides its clients with in-depth information.

credit-suisse.com/research
The Winners Meet

Networking involves making and nurturing a series of relationships, from which all the participants benefit. SVC prizewinners are offered an exclusive opportunity for this at the annual meeting of prizewinners. — Maria Ryser

Arisdorf, Canton of Basel-Land. List AG, winner of the 2013 SVC Prize for Northern Switzerland, is the host of the prizewinner meeting held in the region the year after the prize is awarded. In contrast to the awards ceremony itself, which is a large-scale event, prizewinner meetings are restricted to an exclusive gathering of 30 to 40 invited guests, consisting of prizewinners, sponsors, and members of the jury. The intimate atmosphere is important: “It’s not hard to strike up a conversation. The event is more personal, and people find it easy to make contact,” explains Bernhard B. Fischer, Credit Suisse Head of Corporate Clients, Region Northern Switzerland, who welcomes the guests to the evening at the headquarters of List AG. The procedure is always the same: First there is a presentation about the company, then a tour of the facilities, and finally a drinks reception.

Encouraging Other Entrepreneurs
The satisfaction felt by Klaus List and his team about winning the SVC prize is still apparent a year later: “The prize brought us a lot of attention, particularly in this region. And it intensified the interest of highly qualified engineers in working for us.” The dedicated entrepreneur has established List AG as market leader in dry processing, a chemical processing technology. In contrast to traditional methods, the technology patented by List AG can process highly viscous and sticky materials practically without the use of solvents. This process is used, for example, in manufacturing baby pacifiers, diapers, or auto tires. During the tour of the plant, everyone is amazed at the complexity and efficiency of the machinery. “A tour of a plant like this is always a learning experience,” says Sabine Herren, Head of SVC, in conversation with the other guests at the drinks reception. And what does Klaus List think of the get-together? “It’s really important to exchange know-how and ideas with like-minded people. I think it’s absolutely vital to encourage other entrepreneurs and those who are thinking about making a move in that direction to go ahead and take the risk,” he maintains, and continues the lively discussion.
The era of low interest rates that began some years ago is exceptional even from the perspective of a long-standing client advisor. Peter Zimmerli discusses changing priorities, as well as opportunities and risks for businesses. — Mariska Beirne

Interview with Peter Zimmerli
Corporate client advisor, with Credit Suisse since 1993

The low interest rate environment that we have been experiencing for the past six years or so is challenging for you as a client advisor. What developments and requirements do you see?
Clients are very aware of the market environment – that’s one thing you notice. The banks are making greater efforts in relation to their clients, while products are becoming more innovative. Here in the Zug market area, I often find clients very demanding – in part because very large sums of money are involved. We are increasingly feeling the pressure from foreign banks.

Have the focal points of your advisory service changed due to the current environment?
Yes, merger and acquisition transactions as well as succession arrangements are now much more center-stage. Given the low interest rates, now is an exceptionally good time to borrow; that’s why succession and takeovers suddenly present attractive opportunities. With our comprehensive offer of services and financial products, we have something to offer – we are a genuine bank for entrepreneurs.

The current interest rate environment is very attractive for investment in Switzerland and abroad. What do you advise your clients in this regard?
To say I provide investment advice directly would be overstating it; however, investment requirements are always an important point of conversation in our client consultations, which take place at least once a year. Providing an advisory service is about illustrating the various opportunities available in the finance area. The decision is that of the client alone, however.

Are there any notable examples from your area?
Here in Zug there are obviously a lot of headquarters with foreign subsidiaries. In some cases, production has been shifted to the Asia region. Only recently I had a client who wanted to buy a majority stake in a foreign financial partner.

What form of support will you give this client?
It begins with a client’s aspirations, concept, and business plan. The support we provide is primarily of a financial nature – we come up with the required financial package – but with our various specialists we also support the client through what can sometimes be protracted takeover negotiations.

When interest rates are low, of course, there is a risk of them suddenly rising again, thereby presenting a major risk for clients. How do you protect clients against such a scenario?
Many clients are indeed succumbing to the attractions of short-term interest rates right now, and that way benefiting to an extreme degree from the low interest rate environment. In this situation I advise clients to hedge using an interest rate swap. This effectively gives you a long-term product that is comparable to a fixed-rate mortgage, though with two crucial advantages: greater flexibility, and slightly lower costs compared with traditional refinancing.

Low interest rates aren’t very attractive when a client wishes to invest money. What investments can you recommend in this low interest rate environment?
At the moment, we’re making great use of Cash Deposit and Cash Invest accounts. These investment opportunities offer a really attractive interest rate compared with the current account. The only restriction is the 31-day notice period. These products are accordingly popular with our clients.

How do you go about identifying the right investment strategy for each individual client?
You’ve got to be very familiar with the client and their needs, and to be involved as a financial partner. The Cash Deposit account I mentioned is still a fairly short-term instrument at 31 days. What’s important in the investment process is to gather and retain information about the client’s existing knowledge and experience. In the case of longer-term investments I discuss the investment process with the client, starting with a needs analysis, a financial concept, the creation of the client profile, and formulation of the investment strategy, through to final implementation.

Credit Suisse operates a One Bank strategy, where the bank provides its clients with comprehensive advice on a wide variety of themes and with the help of experts. Is this network of experts within the bank also an advantage in the low interest rate environment?
Yes, to give you a specific, recent example, we provided a whole series of specialists to support an entrepreneur making a major investment. We had a legal expert for the contracts, a structured finance specialist, someone from credit management, and a private banking specialist to support the owner. A tax advisor, an inheritance specialist, and an aviation finance expert were also involved. Credit Suisse was able to offer the entire range of banking services on a one-stop basis: One Bank strategy in action!

Would you like a personal consultation?
Contact your personal advisor, or call us for a non-binding consultation at: 0800 88 88 71

LOW INTEREST RATE ENVIRONMENT — ADVICE

GLOSSARY

Interest Rate Swap
An interest rate swap is an interest rate derivative in which both parties agree to make interest payments at fixed dates in the future. One party normally pays the other a fixed interest rate, while the other party makes interest payments in line with future interest rate movements. With an interest rate swap, the fixed interest period can be changed while keeping the basic position. Example: A bond holder fears a rise in interest rates and accordingly a fall in bond prices. Concluding a payer swap allows the interest rate risk to be hedged without having to sell the bond. Through the bond, the owner receives a fixed interest rate, which is then paid to the bank, which pays the owner the variable interest rate in return. The fixed interest payments thus offset each other and if interest rates are actually rising, the investor receives higher interest payments at every fixing. However, the investor pays more interest if these expectations are not borne out.

Cash Deposit / Cash Invest
With Cash Invest and Cash Deposit accounts, liquidity not required in the short term can be invested safely. Both accounts offer free account management and a higher, staggered interest rate versus the current account. The notice period for withdrawals is 31 days, although with the Cash Invest account, 250,000 Swiss francs can be withdrawn each year with no notice period. Accounts can be managed in Swiss francs, euros, and US dollars.
IBSA: a Fruitful Company

Five years ago, IBSA, the biggest pharmaceutical company in Ticino, ran into difficulties for a short time owing to the strength of the Swiss franc, but got back on course thanks to its great innovativeness. Since then, the company has continued to rise on the list of the Swiss pharmaceutical companies with the highest turnover and, in terms of fertility medication, occupies fourth place worldwide. — Mariska Beirne

Early morning in a small village on the east coast of China: As always at this time, a middle-aged woman hands over a full container to a courier engaged by IBSA and is given an empty one in exchange. The two bid each other a friendly good-day. The same procedure is repeated every day at the front doors of many Chinese houses.

A Very Special Raw Material
What is the reason for daily collections like this? The containers hold the urine of post-menopausal women. A hundred thousand liters of this valuable raw material are collected every day in the densely populated villages on the east coast of China and driven to two IBSA production plants. This has to be done quickly because the urine becomes unusable once it is a day old. IBSA’s CFO, Antonio Melli, explains the background: “These women’s urine contains hormones that are used in medically assisted reproduction.” Every day in the two Chinese plants, one kilo of the raw ingredient is extracted daily from the 100,000 liters through ultrafiltration. The next step is purification at the laboratories in Lugano, and what remains at the end is the active ingredient that is packed into vials to be used as a drug. IBSA has been present in China since 1998. But while it is almost commonplace to run a factory in China these days, 16 years ago considerable pioneering spirit was needed to expand to that country.

An Idea in His Luggage
There has so far been absolutely no shortage of pioneering spirit in the small Ticino pharmaceutical business, as its history shows. Founded in Lugano in 1945, and for decades a small business, IBSA was bought by the current CEO Arturo Licenziati in 1985. “We started in those days with 40 employees and found ourselves ranked 160th among Swiss pharmaceutical companies in terms of turnover,” Melli explains. “Nowadays, almost 30 years later, we’re in 24th place and have 1,800 employees in 20 countries, mostly in Switzerland, Italy, France, and China,” the CFO adds with a certain pride. The fertility drug already mentioned is not the only medical field in which IBSA operates. Other important areas include rheumatology, dermatology, and endocrinology, as well as drugs for reducing pain and inflammation. IBSA’s most famous product is the Flector plaster. “Perhaps you have had occasion to stick the plaster on a painful tennis elbow,” Melli says as he spreads a whole range of products with the same active ingredient out in front of him. This is because, depending on the pain, it may be better to use gel applied to the skin, swallow a capsule or inject an ampoule. The company’s own research department not only investigates new products, but also innovative applications of a drug in order to exploit its effect even more efficiently. However, the idea of the popular Flector plaster did not come from that department, says Melli: “It was our CEO Arturo Licenziati himself who had the idea of the plaster on a business trip to Japan, when he happened to see something similar there.”

Emerging Stronger from the Crisis
IBSA’s progress wasn’t always so smooth. In 2009/10, the euro crisis hit the company hard. “The Swiss National Bank’s decision to set the exchange rate at 1.20 played a crucial part in the company beginning to grow again quickly,” Melli recalls. But other measures needed to be taken quickly in different aspects. Firstly, the management decided to bypass the exchange rate problem as far as possible by increasing production in
CFO Antonio Melli, here standing in front of a tablet packing machine, has been working for IBSA since 1986.
especially Credit Suisse, really proved to be true, fair partners during this difficult period,” Melli says, adding: “No mention was ever made of reducing our loans. On the contrary: Credit Suisse’s attitude demonstrated its confidence our measures would enable us to withstand the crisis.”

The Ideal Moment to Invest

Since then, IBSA has been rigorously continuing its strategy, i.e. ongoing investment in production, innovation, and employees. The company has invested a total of 400 million Swiss francs in this way since 1985. Just recently, the company built and took over new production facilities in Italy and Ticino respectively, for 50 million Swiss francs. “It was the ideal moment given the current low interest rates,” Melli says. IBSA has no plans to build in Ticino in the near future. But they are considering constructing two further production facilities in rural parts of China owing to the changing demographic conditions. The heavily populated villages on the coast are becoming increasingly urbanized which means that the village structures that worked in IBSA’s favor are disappearing. Incomes are also increasing and the women’s readiness to donate their urine is declining. Many western couples who fulfill their wish to have children thanks to IBSA’s drug probably have no idea what complex stories lie behind the unremarkable fertility ampoules.

In the IBSA chemical laboratory, every raw material is checked, along with bottles, packets, and other materials that come into contact with the products during manufacture.

the eurozone. “We had already had a production facility in Italy since 1996, a second one followed in 2001, and a third in 2010, in the middle of the currency crisis,” Melli explained. “That was a coincidence because we had made the decision a long time before that when we had a chance to take over a company near Milan with production technologies we had been looking for.” And yet this new location in the eurozone came at just the right moment. Other measures included improved cost control and rationalized production processes. Without having to dismiss a single employee, the company was back on track again after a year. “The banks,
The Swiss Venture Club (SVC) is an independent, non-profit-oriented association formed by and for entrepreneurs for the purpose of supporting SMEs and creating and preserving jobs in Switzerland. Along with a valuable network of relationships, SVC offers services and events that are especially tailored to SMEs.

www.swiss-venture-club.ch

SVC – Ltd. for Risk Capital for SMEs provides Swiss SMEs and start-up businesses with venture capital of up to 100 million Swiss francs. Innovative companies at different stages of their development are supplied with venture capital in the form of additional equity capital or as profit-sharing loans. The focus is on strengthening Switzerland’s employment base and creating and preserving jobs. SVC – Ltd. for Risk Capital for SMEs is active throughout Switzerland.

www.svc-riskcapital.ch

On behalf of the federal government, Switzerland Global Enterprise (S-GE) promotes exports, imports, and investments with a global network of experts in order to strengthen Switzerland as a business location. S-GE supports businesses with advice and by providing contacts in order to develop new potential for their international business.

www.s-ge.com

The Swiss Federation of Small and Medium Enterprises (SGV) represents the interests of SMEs in Switzerland. Members of the SGV include the cantonal trade, professional, and industry associations, and organizations promoting SMEs, in whose interests the SGV pursues optimum economic and political framework conditions.

www.sgv-usam.ch

The CFB-HSG is a national and international competency center focusing on research, teaching, and continuing education in the context of family firms. One of its research aims is to generate new scholarly insights in connection with family firms.

www.cfb.unisg.ch

The association swiss export works on imparting up-to-date, practice-focused knowledge and the effective networking of member companies. Improving competitiveness and the framework conditions for companies working internationally is at the heart of our work.

www.swiss-export.com

SwissCham is the umbrella organization for international chambers of commerce in Switzerland and it makes an important contribution to promoting relationships abroad within the private sector. Through its extensive network of international chambers of commerce, the organization supports Swiss exports and activities abroad.

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