



Deloitte study 2023:
M&A activity of Swiss SMEs
First half of 2023

M&A activity in H1 2023

Swiss SMEs acting as buyers rather than as sellers

We are pleased to present the biannual edition of our study covering the M&A activity of small and medium-sized enterprises (SMEs) in Switzerland during the first half of 2023 (“H1 2023”).

In our full-year edition published in February 2023 we adopted a cautious outlook on M&A activity. We expected “M&A activity among Swiss SMEs to further slow down in the first half of 2023 and pick up again in the second half of 2023 at the earliest. We expect an ongoing trend of high M&A activity in IT services as well as in business and engineering services.” Thus far, our outlook has proven accurate, both in terms of M&A activity levels and the

industries involved. During H1 2023 there was a decrease in deal volumes of 18% compared to H1 2022, with Swiss SMEs acting as either buyers or targets in a total of **109 transactions**.

Although overall **M&A activity has declined slightly compared to the previous six months**, there has been a notable shift in the acquisition structure. While cross-border transactions were primarily driven by inbound investments in previous years, there has been a trend reversal towards more outbound transactions since mid-2022. Notably, the number of **inbound transactions more than halved** (-54% compared to H1 2022), while **outbound transactions reached record**

levels (+18% compared to H1 2022) in H1 2023. Indeed, the number of transactions involving Swiss targets (62 domestic and inbound transactions) represents one of the lowest since the inception of our study in 2013. Currently, **foreign investors are showing less appetite for Swiss targets and Swiss entrepreneurs and owners are hesitant in selling their companies**. However, Swiss SMEs are compensating for this by **increasing their buying activity abroad**. The primary factors contributing to a lower number of inbound and a higher number of outbound transactions are the strength of the Swiss franc and a relatively higher resilience of the Swiss economy.

Key findings



-18% in deal volume

109 transactions involved Swiss SMEs in H1 2023 compared to 133 in H1 2022. This decrease reflects the changed economic environment.



Sharp decrease in inbound transactions

Inbound transactions, historically fluctuating between 35% and 45% of total transactions, have reached a record low of 25%. Compared to the peak in H1 2022, the number of inbound transactions has more than halved (-54.2%).



Record-level of outbound transactions

The strength of the Swiss franc had a significant impact on the volume of outbound transactions (+18% vs. H1 2022). Since we began our study in 2013, the number of outbound transactions (47 deals) has never been as high.



8.6x EV/EBITDA

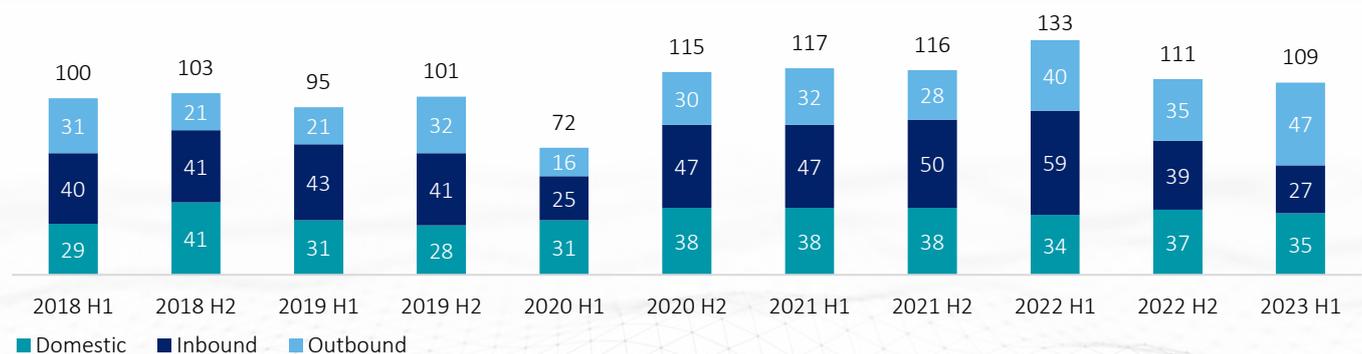
The Deloitte Small & Mid Cap index has experienced a decline and reached a multiple of 8.6x EV/EBITDA in Q2 2023 following its peak in Q1 2022 (10.2x EV/EBITDA).



IT services leads transactions in Switzerland

Swiss SMEs in the IT services sector took the first place (26% vs. 21% in 2022), thus relegating the Industrials sector to fourth place (13% vs 22% in 2022). LSHC ranks on the 2nd place (19%, vs. 14% in 2022).

Evolution of M&A transactions involving Swiss SMEs since 2018 (half-year analysis)



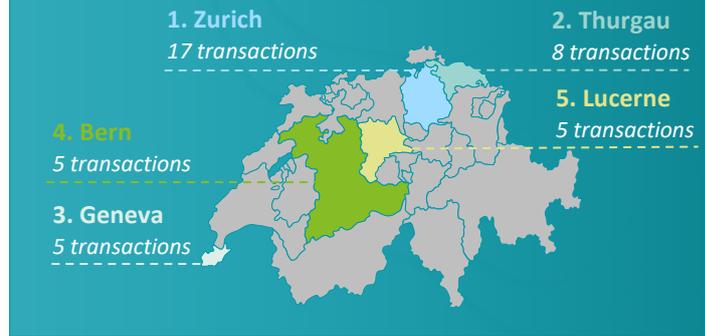
While Swiss SMEs abroad are focusing on the Industrials, foreign investors are mainly interested in the Swiss IT services

Transactions in Switzerland (Domestic and Inbound)

During the first half of 2023 purchasers of Swiss SMEs were predominantly European (67%) or U.S. (26%) entities, for a total of 62 transactions. Notably, companies from the United States and Germany emerged as the leading investors in Switzerland, each accounting for seven deals, or 26% of all inbound transactions.

Among the various sectors, Swiss SMEs operating in IT services and Life Sciences & Healthcare (LSHC) experienced the highest demand, securing the top positions in the ranking. Business services companies followed closely behind. Conversely, the Industrials sector, which held the top position in the previous year, has now fallen to fourth place.

Top 5 locations of Swiss targets



By sector (Total: 62 transactions)



International activity of Swiss SMEs (Outbound)

In terms of outbound acquisitions by Swiss SMEs, Europe has remained the main targeted region, accounting for 83% of such transactions. The remaining acquisitions predominantly involved U.S. companies. Notably, neighbouring countries accounted for 62% of the acquisitions by Swiss SMEs, with Germany serving as the primary destination, attracting 36% of these acquisitions.

For Swiss SMEs, the Industrials sector remains the most sought-after for acquisitions. Additionally, the LSHC and Business services sectors continue to be highly desirable target industries.

By sector (Total: 47 transactions)



Inbound transactions – Top three buyer countries

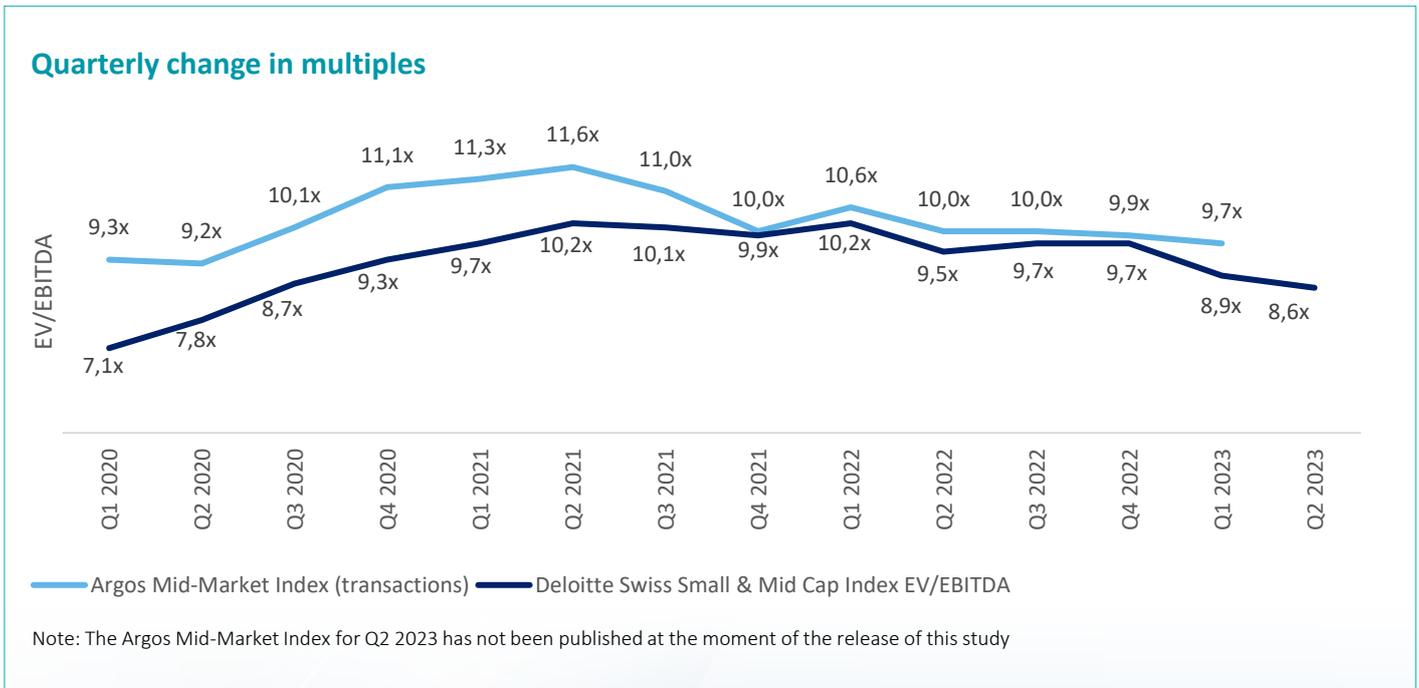


Outbound transactions – Top three target countries



* The sector "Business and Engineering services", as shown in previous years was divided in this study into "Business services" and "Construction and engineering services" to reflect the greater importance of these. If the "Business services" and "Construction and engineering services" were still presented together, they would account for 27% of transactions in Switzerland (1st rank) and 24% of outbound transactions (2nd rank).

Deloitte Small & Mid Cap index fell to 8.6x EV/EBITDA in Q2 2023



During the first quarter of 2023 the Deloitte Small & Mid Cap index experienced a decline to 8.9x, reflecting investors' cautious stance in response to uncertain and volatile market conditions. This downward trend continued in Q2, with multiples further decreasing to 8.6x.

Similarly, the Europe-wide acquisition multiple for unlisted companies, as indicated by the Argos Mid-Market index, has witnessed a decline since Q4 2022, reaching 9.7x EV/EBITDA in Q1 2023. This figure represents the lowest recorded level since Q4 2021, at the height of the Covid crisis. Despite the tense economic and geopolitical landscape and rising interest rates, thanks to the resilience of the Swiss economy, transaction prices declined less than one could have expected, with median prices remaining above the five-year historical average.

Outlook for H2 2023

The first half of 2023 presented numerous challenges for dealmakers, including rising interest rates aimed at curbing high inflation, labour shortages, the ongoing Ukraine War, the strength of the Swiss franc, and turbulence in the financial sector, notably highlighted by the demise of Credit Suisse in Switzerland and the failure of Silicon Valley Bank, Signature Bank and others in the U.S. Although deal volumes remained above pre-Covid levels, there was a decline in transactions within the Swiss market, with, in particular, fewer foreign investors participating in inbound transactions.

We expect limited changes in the Swiss M&A market during the second half of the year. Sellers are exercising caution and foreign investors are showing less inclination to pursue Swiss companies. However, we expect Swiss companies to remain very active. The strong Swiss franc makes foreign targets appealing for Swiss investors whereas Swiss companies become costlier for foreign investors. This, combined with potential further increases in interest rates, is likely to lead to a further contraction of multiples paid for Swiss companies in the coming months.

Nonetheless, we maintain a cautiously optimistic outlook, expecting macroeconomic conditions to improve towards the end of the year or early next year. This is also confirmed in our [Deloitte CFO survey](#) conducted in the first half-year of 2023. 59% of CFOs rated the economic outlook for Switzerland and its main trading partners as positive and only 8% as negative. This improvement should pave the way for an increase in M&A opportunities within the Swiss market.

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