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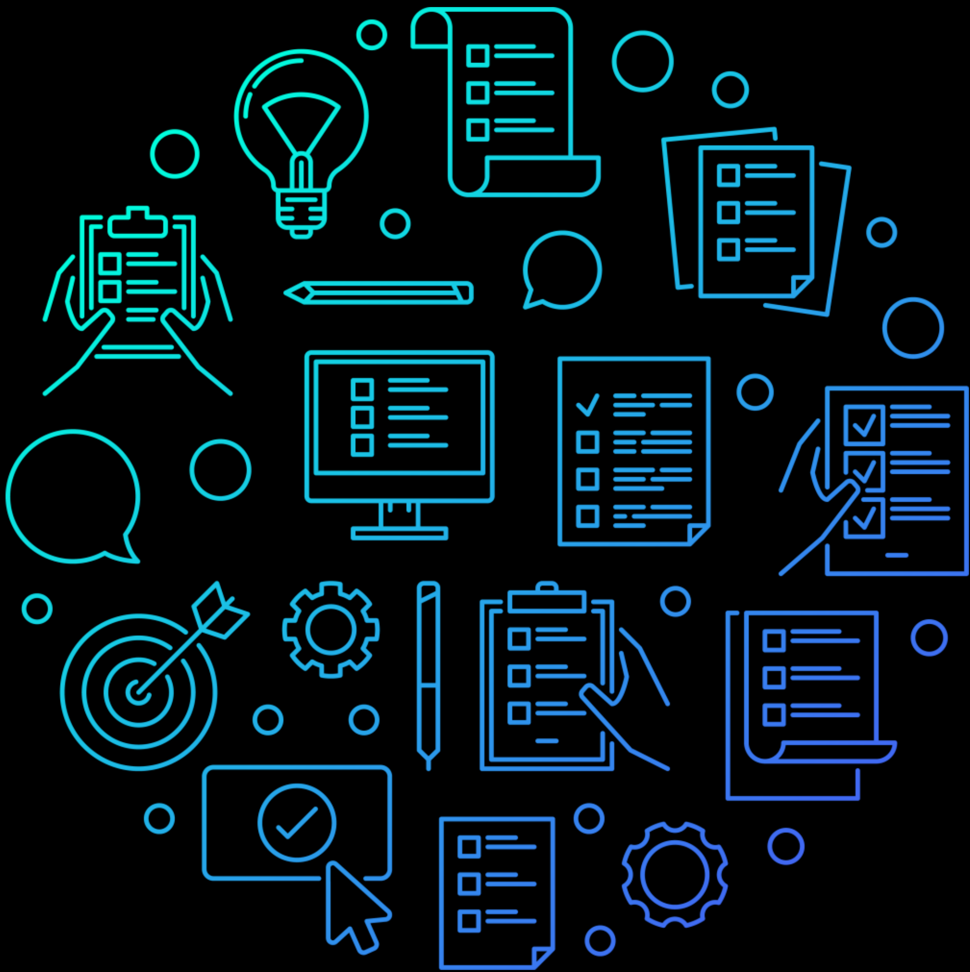


Deloitte 2020 survey on M&A activity in the Swiss SME sector

H1 2020

July 2020

Note: This document is an update of the Deloitte 2020 study on the M&A activity of Swiss SMEs published in April 2020. Please refer to this study for more information about the methodology.

Significant reduction of M&A activity of Swiss SMEs in the first half of 2020 in an environment shaken by COVID-19

-24%

72 TRANSACTIONS INVOLVED SWISS SMEs IN H1 2020 VERSUS 95 IN H1 2019

57%

CROSS-BORDER ACTIVITY REACHES A HISTORICAL FLOOR, DRIVEN BY THE FALL IN INBOUND TRANSACTIONS

-42%

SIGNIFICANT REDUCTION OF INBOUND TRANSACTIONS IN H1 2020 (25 TRANSACTIONS) VS 43 IN H1 2019

-24%

NOTABLE REDUCTION IN OUTBOUND TRANSACTIONS IN H1 2020 WHILE DOMESTIC TRANSACTIONS REMAIN STABLE

Within the turmoil of the COVID-19 crisis, the M&A activity of SMEs in Switzerland has seen a historic drop in the number of transactions conducted in the first half of 2020 (“H1 2020”) by or targeting Swiss SMEs (72 transactions compared to 95 in H1 2019, a decrease of -24%).

This volume of transactions reflects the uncertainties generated by COVID-19 regarding the overall economic outlook, and this is particularly reflected by a -42% reduction in Inbound transactions and a -24% reduction in Outbound transactions. The amount of cross-border transactions (57%) thus reached its lowest level since the first edition of this study in 2013. Swiss companies have been less reluctant to conclude transactions, with a stable volume of Domestic transactions and Outbound transactions that have been impacted less severely than Inbound transactions, although still down sharply.

Comparison by transaction type

Transactions	Buyers	Targets	H1 2019	H1 2020	Change
Domestic	Swiss companies of all sizes	Swiss SMEs	31	31	0.0%
Inbound	International companies of all sizes	Swiss SMEs	43	25	-41.9%
Outbound	Swiss SMEs	International SMEs	21	16	-23.8%
Total			**95**	**72**	**-24.2%**

These figures are corroborated at the global level with a transaction volume down -32% in H1 2020 (6,943 transactions, amounting to the lowest level since H1 2013) and -53% in value ($ 901.7 bn, the lowest since H1 2010). The drop is particularly notable in Q2 2020, when the scale of the pandemic became clear across the world, with volume down by -49% (2,934 transactions, the lowest since Q3 2009) and value down by -69% ($309.2 bn, the lowest since 2006).[1]

While 2019 already saw the reversal of a long-term cyclical uptrend in M&A activity in Switzerland and globally - despite sustained activity and multiples at their peak - COVID-19 precipitated the fall of the M&A market. Many transactions have been reconsidered or temporarily suspended in an environment where visibility into the future performance of companies and their financing is limited in many sectors.

A trend towards local in times of crisis

The stability of Domestic transactions in H1 2020, coupled with the drop in Inbound/Outbound transactions, demonstrates that in times of crisis, the trend is towards regional acquisitions and that Swiss companies prefer a familiar economic, regulatory and political environment.

Although many current Domestic transactions were finalised in H1 2020 within a climate of crisis, this dynamic remains sensitive. As the latest Deloitte CFO Survey indicates[2], the majority of CFOs in Switzerland expect a recession with a U-shaped rather than a V-shaped curve. CFOs see risks following the epidemic: the most likely scenario is a rise in protectionism and a trend towards glocalisation (a combination of globalisation and localisation).

Many financial managers also expect a second wave of the epidemic. The outlook for businesses is somewhat improving from the spring survey, but remains very negative. The majority of CFOs believe that sales will not return to pre-crisis levels before the first quarter of 2021 (“Q1 2021”). Relatively few companies will meet the 2020 revenue and margin targets set beforehand. A possible second wave of the epidemic with new restrictions would create major difficulties for most companies. Measures affecting costs are paramount to successfully overcome the crisis.

[1] White & Case M&A explorer (Mergermarket)

[2] Deloitte CFO Survey – Switzerland, between recession and recovery, Deloitte, June 2020

Swiss SMEs favour acquisitions in Europe and Germany remains the preferred destination

Western Europe is emerging as the primary acquisition region for Swiss SMEs with 94% of transactions. Neighbouring countries account for 69% of the acquisitions and Germany remains the preferred destination for Swiss SMEs with 44% of transactions conducted.

The number of acquisitions made in Europe, and in particular with neighbouring countries, shows that geographic and linguistic proximity facilitates investment opportunities, although down in H1 2020.

The less marked decline in Outbound operations relative to Inbound still sends a positive message to the Swiss economy: as the recession could be less severe in Switzerland than in the rest of the world, the best prepared Swiss companies could take advantage of acquisition opportunities across the globe this year.

Top 3 favoured sectors (Outbound)

Business services
25%

Industrial
19%

Technology, Media & Telecommunications (TMT)
19%

Outbound transactions

- Germany
- France
- United Kingdom
- Rest of Europe
- North America

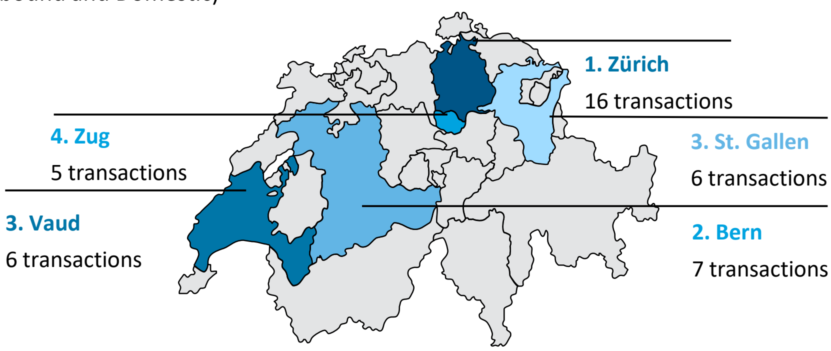
Swiss SMEs active in the industrial sector: preferred targets of European partners

The poor economic outlook created by COVID-19 coupled with a strong Swiss franc has halted acquisition ambitions in Switzerland. There is no doubt that Swiss SMEs still remain prime targets for investors and that renewed interest is only a matter of time: H1 2020 confirms once again that industry is a key sector of the Swiss economy and that Swiss expertise is sought after by both foreign and Swiss companies.

The main buyers of Swiss SMEs in H1 2020 are European partners (72%) with the remainder being primarily North American companies. Countries bordering Switzerland represent 56% of the buyers while Germany remains the leading investor in Switzerland, followed by the United States. Commercial ties with Germany and the United States appear to be strong over time and survive times of crisis.

These acquisitions were made primarily in the German-speaking part of Switzerland (82%), the canton of Zürich remaining the region with the most dynamic M&A activity (16 transactions).

Top 5 cantons by number of transactions
(Inbound and Domestic)



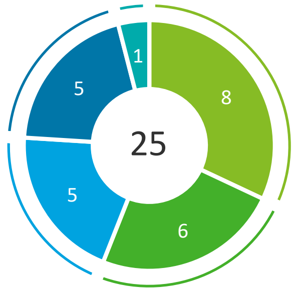
Top 3 favoured sectors in Switzerland

Industrial
29%

Consumer goods
18%

Business services
16%

Inbound transactions



- Germany
- North America
- Italy
- Rest of Europe
- Rest of the world

Transactions in Switzerland (56)

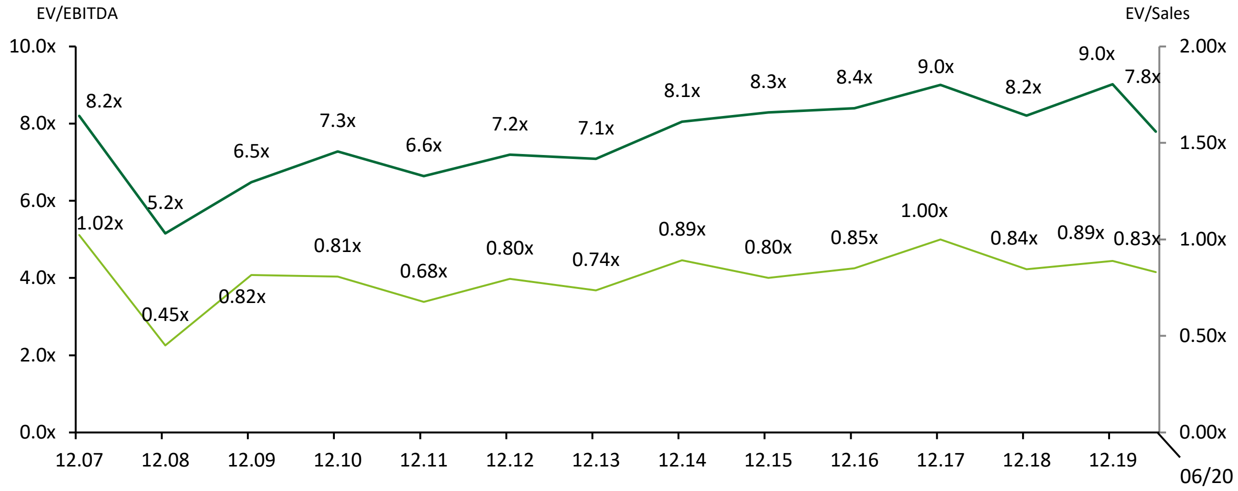
82%
GERMAN-SPEAKING SWITZERLAND

14%
FRENCH-SPEAKING SWITZERLAND

4%
ITALIAN-SPEAKING SWITZERLAND

Correction of the Deloitte Small & Mid Cap index in a context of significant volatility

Deloitte Small & Mid Cap Index (2007 – 2020)[1]



[1] Index value calculated as of 30 June 2020. Retained Sales/EBITDA corresponds to fiscal period 2019. Source: Capital IQ

Multiples of listed companies

After a record EV / EBITDA multiple (9.0x) observed in 2019, the Deloitte Small & Mid Cap index recorded a correction of -13% as at 30 June 2020 (7.8x), in a context of high stock market volatility caused by COVID-19 in the first half of 2020. This still represents an increase compared to the multiple recorded in the first quarter of 2020 (7.1x), which can be explained by the sharp drop in stock prices in February and March.

While the SMI recorded a drop of more than 20% at the worst of the crisis compared to its value at 31 December 2019, the value observed in June 2020 which came close to year-end 2019 level indicates that the market for small and mid caps seems more impacted than large caps.

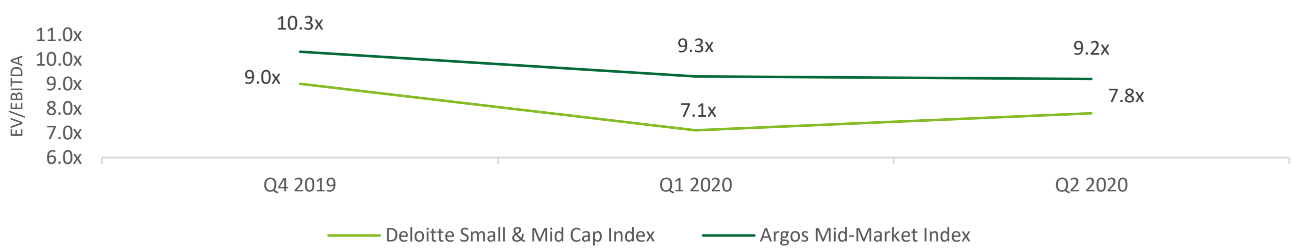
Transactions multiples

The acquisition multiple of unlisted companies (EV / EBITDA) observed at European level in the first half of 2020 (trailing 6 months) fell to 9.2x while it stood at 10.3x in the fourth quarter of 2019. The fall in multiples observed in the 1st quarter of 2020 (9.3x) was therefore not amplified over the period. This apparent stability over the first half of 2020 masks a growing polarization of operations between sectors spared by the crisis and others, more affected, which have been the subject of opportunistic acquisitions at lower valuations.[2]

While the EBITDA multiples paid by strategic acquirers have been higher than private equity for several years, we are seeing convergence in the first half of 2020: 9.3x for private equity and 8.9x for strategic acquirers. Although both down compared to the second half of 2019, this convergence suggests that funds with a still very high level of dry powder continued to invest in resilient sectors, at more stable valuations, while Strategic buyers made more opportunistic acquisitions, at lower valuations.[2]

The stock market turmoil, reduced performance of companies expected in 2020 and uncertainty related to the timing, extent and speed of the post-crisis recovery from COVID-19 could further reduce company valuations and transaction multiples in H2 2020.

Quarterly development of multiples



[2] Argos Mid-Market Index, Argos Wityu, July 2020

Outlook for H2 2020: pause in transactions, lower valuations and less-accommodating financing

M&A activity in H1 2020 registered a historic fall amid the turmoil of the COVID-19 crisis, and the poor economic outlook has halted many ongoing transactions. During this pause, we believe we will see a divergence between the valuation expectations of the sellers and the prices that buyers are willing to pay, reducing the likelihood of closing a transaction while the visibility of future performance remains unclear in many areas.

Banks could be much less accommodating in financing transactions and their balance sheets suffer significantly, facing a higher risk of debtor defaults in addition to the COVID-19 credit program launched by the Swiss Confederation. Mergers and acquisitions will then depend on the appetite of financial institutions to finance transactions in a more than uncertain environment. The ratio of debt to EBITDA in leveraged buyout operations should come back to a lower level. Despite a historically high level of "dry powder" (significant funds available), the M&A activity of private equity funds could indeed be hampered by a lack of acquisition debt available on the market and the potential performance problems in their portfolio companies needing to be addressed. Thus, investment funds could be forced to use more equity to finance their acquisitions. The lack of visibility should also reduce the desire for acquisitions as well as purchase prices.

The sectors of durable consumer goods, economic-sensitive industries, tourism, hotels and restaurants, and transport are hard hit by the crisis. The competitive environment in certain sectors under pressure could be reshaped and a consolidation is foreseeable. It is a safe bet that companies that are still well capitalised or private equity funds with strong liquidity could take advantage of falling valuations to complete transactions.

The companies that emerge stronger from the crisis will undoubtedly be those with a healthy balance sheet before the crisis (liquidity and little debt), and which will have benefited from their market position thanks to technology or digitisation, such as e-commerce or digital banks. The most digitised companies or the ones with an operational online platform prior to the crisis appear to be the big winners, consolidating their position and forcing others to adapt.

Although Swiss SMEs still represent key strategic assets both nationally and internationally, the medium-term trend will be towards regional transactions, while Inbound and Outbound activities should remain volatile with geopolitical risks remaining latent.

We therefore expect a drop in the volume of transactions in H2 2020. Although many transactions were put on hold in H1, their resumption in H2 and the initiation of new sales processes remain subject to clearly present recession risks.

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