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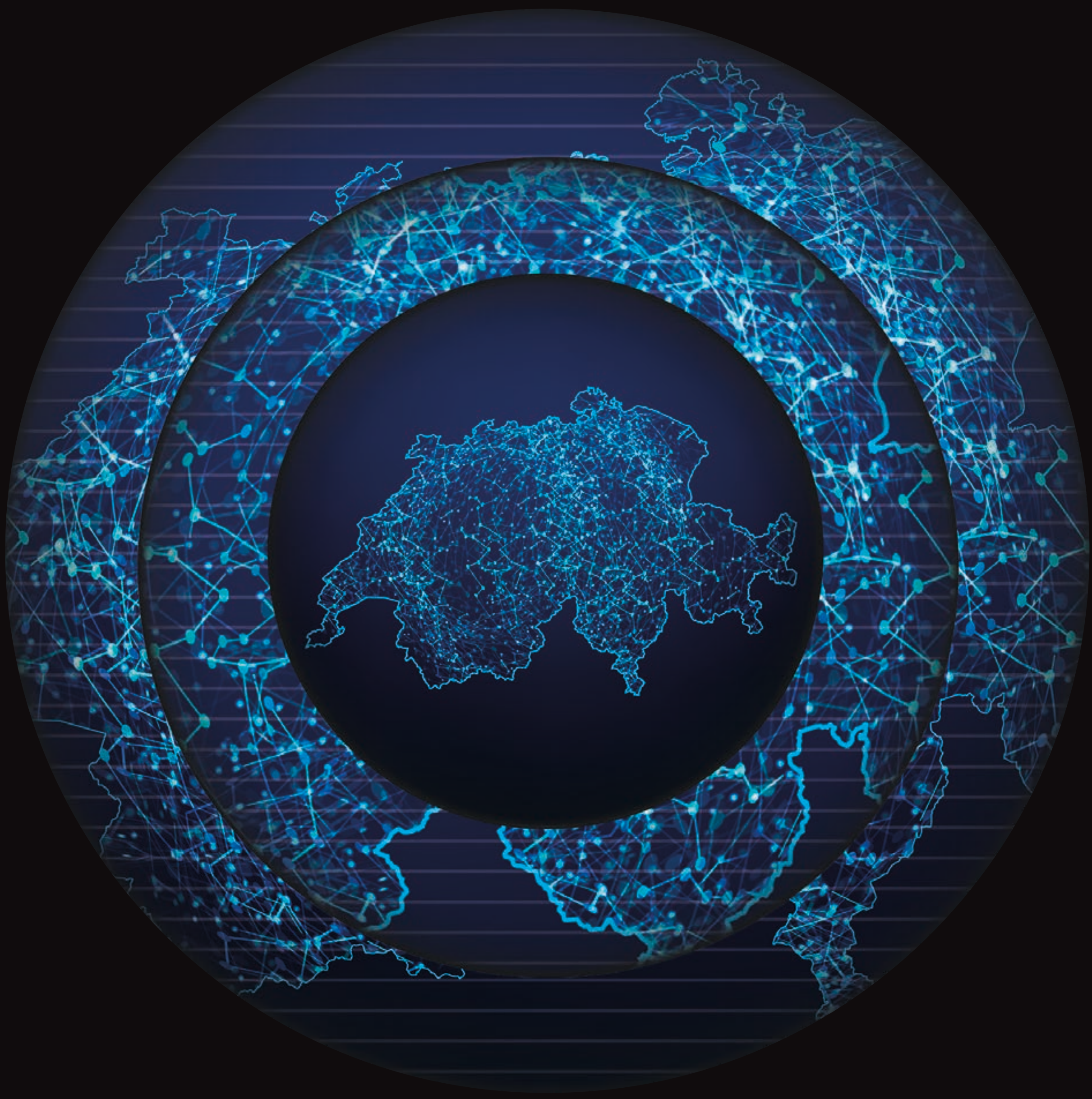


Deloitte study 2021: M&A activity of Swiss SMEs

From fall to rebound

February 2021

Summary

About the report
This is the 14th edition of the Deloitte study on the M&A activity of SMEs in Switzerland. It identifies transactions involving Swiss SMEs on the basis of various sources of information: the Deloitte database, Mergermarket, the Swiss business press, etc.

For more information on this study, please refer to the following section: **Terminology & Methodology** (page 18).

Introduction

We are pleased to present our 14th study covering the M&A activity of small and medium-sized enterprises (SMEs) in Switzerland. It lists the transactions conducted in 2020 by Swiss SMEs.

The global M&A market in 2020 was a year generally characterised by a sharp dichotomy due to COVID-19. The first half was severely impacted by the arrival and rapid spread of the virus internationally and marked by the uncertainties that this created. From the start of the third quarter, the confidence level recovered and companies became more pragmatic in initiating mergers and acquisitions, or resuming transactions interrupted earlier in the year.

As a result, the global M&A market quickly rebounded at the end of the year to reach $3.6 trillion in 2020 - a moderate decrease of -5% compared to 2019 (-3.8% in volume). The same scenario has unfolded on the Swiss market, with a moderate contraction in the number of transactions (187, or -4.6% compared to 2019) conducted by or targeting Swiss SMEs.

In July 2020, at the time of publication of our study analysing the first half, the finding was clear: a historic fall in the M&A activity of Swiss SMEs amid the turmoil of the COVID-19 crisis (-24.2% in volume). An entirely different story unfolded in the second half, with a less marked slowdown in the third quarter and a noticeable catch-up effect in the fourth due to the creation of a backlog of transactions that had the effect of limiting the decline in activity over the year.

This finding is corroborated by Deloitte's latest CFO Survey published in autumn 2020, in which more than one third of the companies surveyed (36%) anticipate mergers and acquisitions (purchase or sale) in the next 12 months. CFOs are particularly confident about the factors that they have under their own control that may influence M&A decisions: the strength of their balance sheets, their internal capacities to execute transactions and their access to credit on favourable terms (see page 15).

The COVID-19 pandemic has triggered structural and systemic changes globally, and the economic recovery will be very different across sectors and regions. Many industries will have to reinvent themselves to survive, and engage in mergers and acquisitions to accelerate their transformation. Current trends such as the digitalisation of companies, the shortening of supply chains and the strengthening of remote working were accelerated by the pandemic. Companies are thus implementing M&A strategies to speed up their recovery and to protect and reposition themselves in their markets.

Against this backdrop, reasonable 2020 figures - placed in the context of a pandemic - send encouraging signals for the economic outlook and current strength of the M&A market. The recovery is expected to pick up pace in 2021, and we predict very vibrant M&A activity, driven by both winners and losers of the pandemic and the backlog of accumulated transactions. Despite ongoing vaccination campaigns around the world, the resumption of M&A activity could nevertheless be impacted by the new wave of lockdowns that has marked the start of 2021 and have created new uncertainties. Likewise, if vaccinations were to be delayed or if they failed to achieve the desired results, then this expected wave of M&A activity might not occur.

We would like to thank the following people who agreed to contribute and be cited in this study:

- François Reyl, CEO, REYL & Cie
- Jean-Romain Falconnet, Director M&A, Galderma
- Guy Semmens, Managing Director, Gyrus Capital

We hope you enjoy reading this report.

Jean-François Lagassé
Partner, Deloitte Financial Advisory

Stephan Brücher
Partner, Deloitte Financial Advisory

Key points of the study

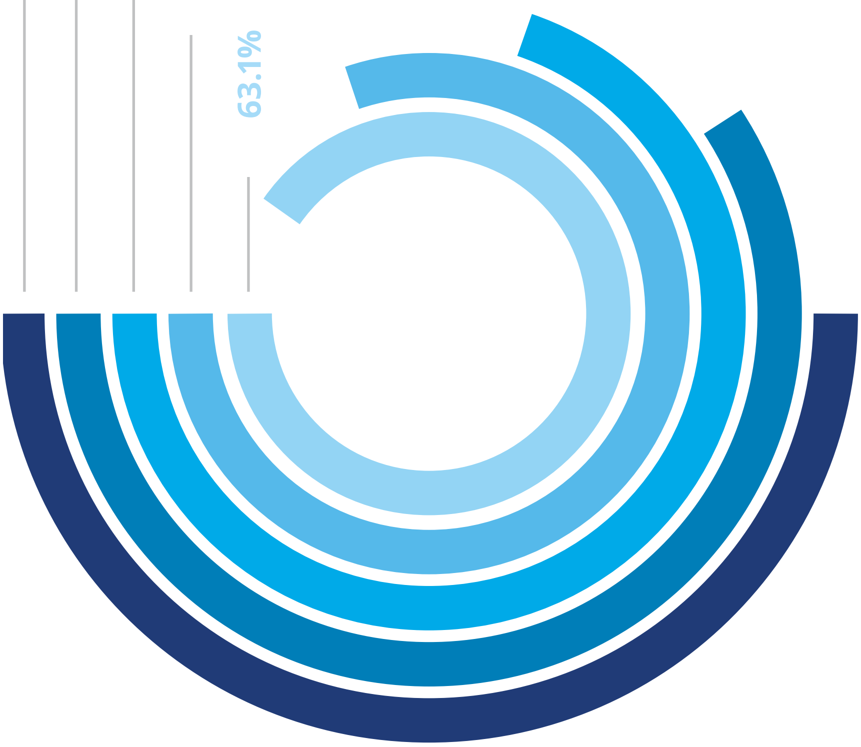
Moderate decline in M&A activity thanks to an exceptional fourth quarter
The total volume of transactions (187) in 2020 was down slightly compared to 2019 (-4.6%), despite a cumulative decrease of -20.5% over the first three quarters.

Trend towards domestic transactions
Domestic transactions recorded a jump of 16.9% compared to 2019.

Private equity: record involvement in 2020
M&A activity (sales and purchases) involving a private equity fund reached a record level in 2020, both in absolute (83 transactions) and relative (44% of transactions) terms.

Dramatic recovery of activity in the fourth quarter
The fourth quarter accounted for more than one third of transactions in 2020 and represents growth of 57.5% compared to the same quarter of the previous year.

Sharp drop in cross-border activity
63.1% of transactions involve a partner abroad, compared to 69.9% in 2019. This constitutes a drop of -14.3% and -13.2% in Inbound and Outbound transactions, respectively.



From fall to rebound

Extraordinary rebound in M&A activity in the fourth quarter of 2020 in an environment shaken by COVID-19

After a sharp decline in the M&A activity of Swiss SMEs over the first 9 months of 2020, M&A transactions returned in force in the fourth quarter and Switzerland recorded only a moderate decline in its volume of M&A activity (-4.6%)

Global market[1]
Overall, the total transaction value in 2020 is down -5% from 2019 (-3.8% in volume), but this is a dramatic recovery from the first half of the year when the spread of COVID-19 slammed the brakes on the global M&A market.

A wave of large transactions in the final weeks led to global mergers and acquisitions amounting to $3.6 trillion in 2020 which represents an extraordinary rebound in M&A activity in the second half of the year.

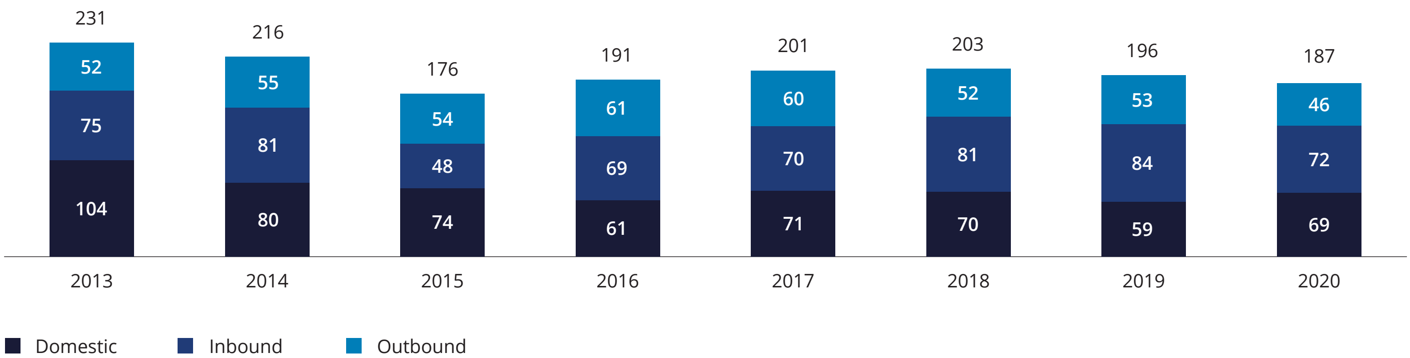
Companies have closed more than $2.3 trillion in deals since the start of July, an 88% increase from the first half of the year and more than two-thirds of the total value of deals for the year. Activity in each of the third and fourth quarters of this year topped $1.0 trillion, marking only the second time since 2008 that transactions have exceeded that level in consecutive quarters. The fourth quarter alone accounted for over one third of the volume and value of the transactions for the year.

The Swiss SME M&A market
At the level of Swiss SMEs, M&A activity is down slightly in 2020 (187 transactions, equating to a contraction of -4.6% compared to 2019). Despite three consecutive quarters that were down compared to 2019 (a cumulative decrease of -20.5%), an exceptional reversal took hold in the fourth quarter, counterbalancing the major hit taken in the first half, similar to the situation with global market.

Accounting for more than one third of transactions in 2020 and exhibiting growth of 57.5% compared to the same quarter last year, the fourth quarter represented an unprecedented rebound in an environment marked by COVID-19.

The measured drop in M&A activity was driven by a clear decrease in cross-border transactions (63.1% compared to 69.9% in 2019), resulting in a contraction of -14.3% and -13.2% in Inbound and Outbound transactions, respectively. By contrast, 2020 was characterised by a trend in Domestic transactions, with an increase of 16.9% compared to 2019, offsetting the reluctance for cross-border transactions.

Evolution of the number of transactions since 2013



[1] Sources: Reuters, Financial Times, Refinitiv (January 2021)

Slowdown of losses in the third quarter and a noticeable catch-up in the fourth quarter

The second quarter was largely impacted by threats related to the COVID-19 pandemic, with a marked interruption in transactions, before giving way to a boost in confidence starting in the third quarter. The clear upturn in activity at the end of the year tempered the drop in the number of transactions.

Quarterly analysis by type of transaction

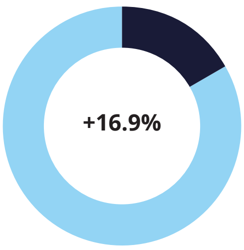
Transactions	Q1	Q2	Q3	Q4	2019
Domestic	12	19	18	10	59
Inbound	21	22	23	18	84
Outbound	5	16	20	12	53
Total	38	57	61	40	196

Transactions	Q1	Q2	Q3	Q4	2020
Domestic	14	17	20	18	69
Inbound	11	14	19	28	72
Outbound	9	7	13	17	46
Total	34	38	52	63	187

Variations

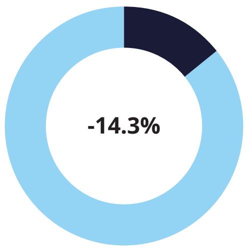
Transactions	Q1	Q2	Q3	Q4	2020/2019
Domestic	16.7%	-10.5%	11.1%	80.0%	16.9%
Inbound	-47.6%	-36.4%	-17.4%	55.6%	-14.3%
Outbound	80.0%	-56.3%	-35.0%	41.7%	-13.2%
Total	-10.5%	-33.3%	-14.8%	57.5%	-4.6%

Domestic



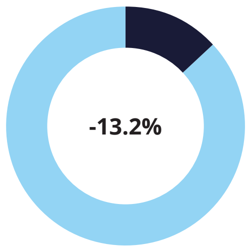
69 transactions

Inbound



72 transactions

Outbound



46 transactions

A domestic market not sensitive to COVID-19

- The clear increase in Domestic transactions, coupled with the drop in Outbound transactions, shows that in times of crisis the trend is towards local acquisitions.
- Swiss companies prefer a familiar economic, regulatory and political environment.
- In the current context, supply difficulties linked to lockdowns have prompted companies to shorten their supply chains.

Foreign investors reluctant to make acquisitions in Switzerland

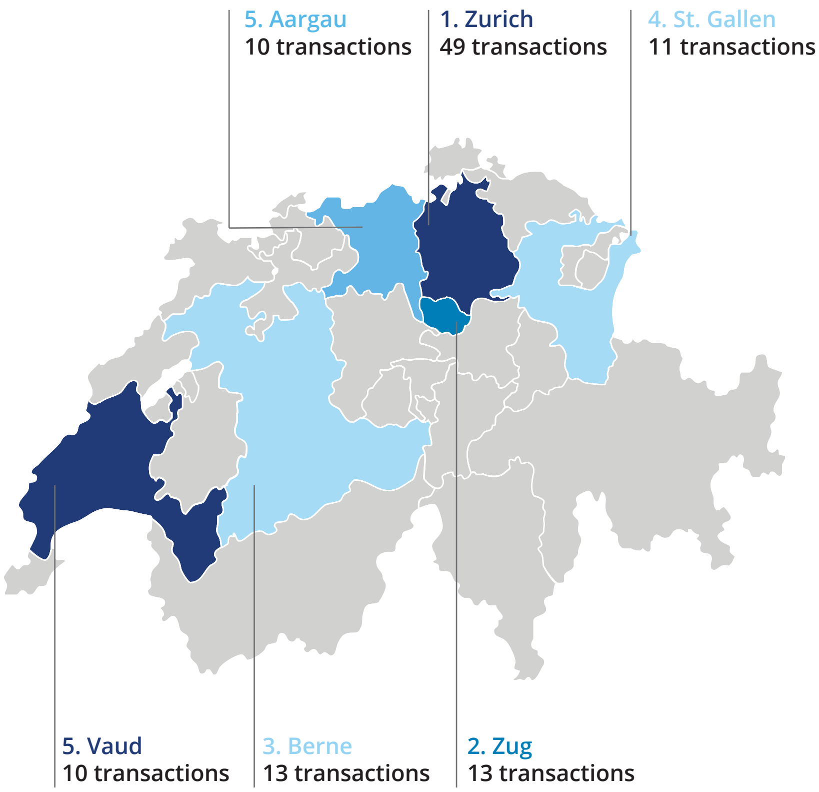
- The drop in Outbound transactions reflects the uncertainties triggered by the COVID-19 pandemic regarding the overall economic outlook.
- This rare lack of interest should, however, be placed into the context of the number of Inbound transactions concluded in 2019, which reached a record level since the first publication of this study in 2013.

Lack of interest from Swiss SMEs for Outbound transactions in the second and third quarters

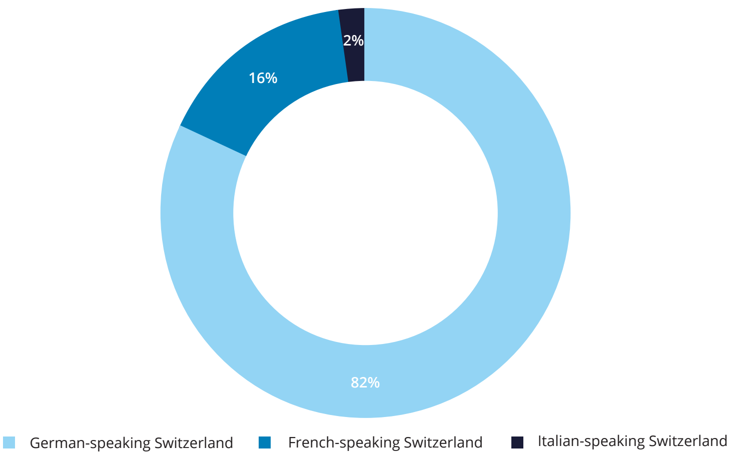
- Swiss SMEs have turned their backs on international opportunities, even though 2019 was already a year of very low Outbound activity.
- This observation was clear in the second and third quarters of 2020, before a sharp rise in interest at the end of the year. However, Outbound transactions are at the lowest level since the first edition of this study.

Transactions in Switzerland

Acquisitions of Swiss SMEs: a stability masked by the interest of Swiss buyers and the caution of foreign investors



Transactions in Switzerland (141)



Privileged sectors

- **Industry** 20%
- **Business services** 19%
- **Technologies, Media & Telecommunications (TMT)** 18%
- **Consumer goods** 16%
- **Financial services** 13%
- **Healthcare** 9%
- **Consumer services** 4%
- **Other** 1%

Transactions in Switzerland: contrasting stability

In terms of Domestic transactions, 2020 recorded a clear increase in transactions (69 transactions, +17%). These figures are corroborated by Deloitte's latest CFO Survey published in autumn 2020, in which more than one third of the companies surveyed (36%) anticipate M&A transactions (purchase or sale) in the next 12 months[1].

The increase in Domestic transactions, coupled with the drop in Inbound (-14%) and Outbound (-13%) transactions, shows that in times of crisis the trend is towards local acquisitions, and that Swiss companies favour a familiar economic, regulatory and political environment. In the current context, supply difficulties related to lockdowns have also prompted companies to shorten their supply chains. There is no doubt that Swiss SMEs are still prime targets and that the interest of foreign investors will return in an environment of better health and economic stability.

However, this dynamic remains sensitive. As the CFO Survey noted, CFOs in Switzerland expect a recovery, albeit a slow one. Despite the overall uptrend in results compared to the collapse that was seen in the spring, the majority of figures are still negative. Thus, 42% of CFOs perceive the Swiss economic outlook as negative for the next 12 months, compared with 28% who perceive it as positive and 30% who have neutral expectations (see page 14).

M&A strategy of Swiss CFOs

Faced with the structural and systemic changes triggered by the pandemic, many sectors must reinvent themselves and conduct mergers and acquisitions to accelerate their transformation. As the latest M&A CFO Survey from Deloitte notes, companies are using a combination of offensive and defensive M&A strategies to accelerate their recovery, protect themselves and reposition themselves in their markets[2].

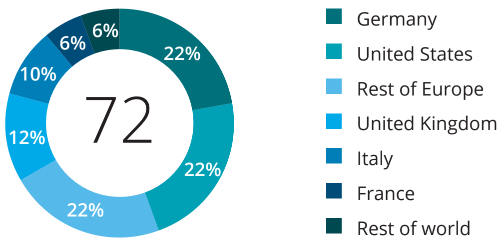
In 2020, the number of Swiss SMEs that were acquired (Domestic and Inbound included) remained stable (141 transactions compared to 143 in 2019). On the other hand, we are witnessing a breakthrough in Domestic transactions (+17%) to the detriment of Inbound transactions (-14%) in a climate of uncertainty where buyers prefer a familiar economic environment and are seeking to shorten their supply chain. Companies active in the industrial, business services and TMT sectors are the most coveted, and this reflects the even greater role that technology and digitalisation will play in the post-crisis world.

Acquisitions to accelerate the digital transformation and fill in gaps in portfolios have emerged as a priority for companies. "The COVID-19 pandemic highlighted the value and importance of a balanced portfolio for companies," says Guy Semmens of Gyrus Capital. "This is a reminder of the importance of asset management in managing business risk, which is expected to have a significant influence on M&A activity in 2021."

The confidence of CFOs in the strength of their balance sheets is emphasised by the fact that most of them develop offensive rather than defensive M&A strategies, and focus on acquisitions rather than divestments.

Primary buyers of Swiss SMEs

72% of buyers of Swiss SMEs are European partners and 42% come from neighbouring countries



#1 **M&A strategy of Swiss CFOs**

Offensive
Acquisitions to accelerate their digital transformation

Defensive
Acquisition of assets to fill in gaps in their portfolio

1 Deloitte CFO Survey, autumn 2020
2 COVID-19: The impact on M&A activity in Switzerland, December 2020

Case Study: REYL & Cie and Intesa Saopaolo

Intesa Sanpaolo Private Banking has acquired a majority stake in the equity of REYL and will move all of its international private banking operations to the Geneva bank

What were the challenges of the transaction?
REYL & Cie SA is an independent private bank based in Geneva owned by the founding family and its executive management. The bank has assets representing more than CHF 15 billion under management and 220 employees. REYL operates at 8 sites using a 360° business model focused on offering innovative and transversal solutions in its 5 business lines.

After several years of continuous growth, REYL considered opening its equity to a strategic partner who could further support the development of the bank and help it reach the next level, notably by way of a larger balance sheet.

The transaction was inherently complex:

- REYL shareholders wanted to retain a significant minority stake in the bank after the transaction and also stay heavily involved in the strategy and future management of the entity;
- Certain recently launched initiatives that are jointly owned by REYL, in particular, Alpian, the Swiss online bank dedicated to wealthy clients, and Asteria, the asset manager specialising in social impact investing, were to form part of the transaction;
- REYL shareholders wanted to implement a fast, targeted and structured transaction process with a very limited number of relevant partners in order to maximise confidentiality.

To what extent was Deloitte involved in the success of the transaction?
Deloitte successfully supported REYL in the sale of a 69% stake to Intesa Sanpaolo (ISP) and in the proposed merger of REYL with ISP's international private bank.

Deloitte's assistance included:

- Identification and approach of pre-selected strategic partners for REYL, definition of expectations in terms of value, and evaluation of the most relevant options and transaction structures;
- Management and execution of the entire transaction process on behalf of the company and its shareholders;
- Complete support for the acquisition of the entity to be provided by ISP, including evaluation and structuring of the transaction as well as the due diligence of the ISP international private banking unit to be provided to REYL;
- Joint creation between REYL and ISP of a five-year strategic plan defining the governance, strategy and future synergies of the combined entity resulting from the merger of REYL and Intesa Sanpaolo Private Bank (Suisse) Morval (ISPBM), as well as integration planning.

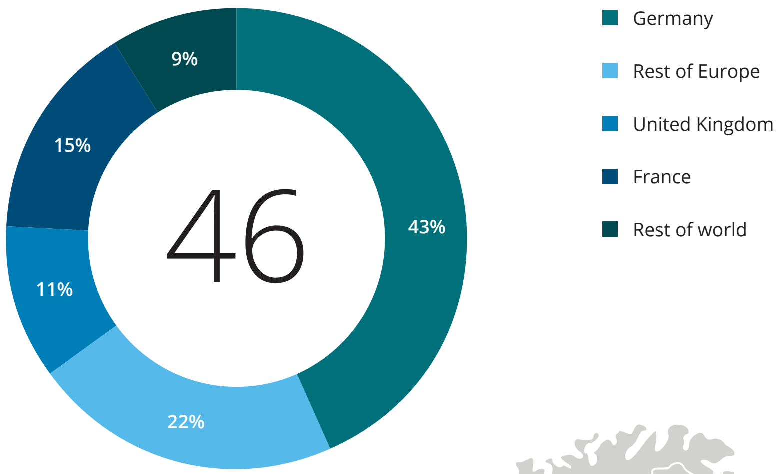
"This partnership marks a new chapter in REYL's corporate history. Fideuram ISP-PB is the ideal partner for REYL to build a leading new international private banking player. Fideuram – ISP PB is not only a strong strategic fit, but also a partner with an acute understanding of the entrepreneurial world and highly compatible values. The combination of nimbleness and scale driven entrepreneurial vision creates the perfect conditions to achieve success especially in the current environment. Deloitte's support and advice throughout the process was precise and very much valued."
François REYL – CEO, REYL & Cie

At the end of this transaction, which is subject to the usual regulatory authorisations and should be finalised during the first half of 2021, ISPBM will be absorbed by REYL, thus creating a large-scale international private bank established in Geneva and boasting nearly 400 employees, over CHF 18 billion in assets under management and shareholder equity of around CHF 250 million. Beyond Switzerland, the bank will also be present in the EU, Latin America, the Middle East and Asia.

Outbound transactions

Swiss SMEs temper their acquisitions abroad

Locations of companies acquired by Swiss SMEs



Swiss SMEs conducted 46 acquisitions abroad in 2020, compared to 53 in 2019 (-13%), the lowest level since the first edition of this study.

"The COVID-19 pandemic has not had a significant impact on the way cross-border transactions are conducted since the processes are virtual and the use of technology has already become the norm in mergers and acquisitions over the last decade".
Jean-Romain Falconnet, Director M&A, Galderma

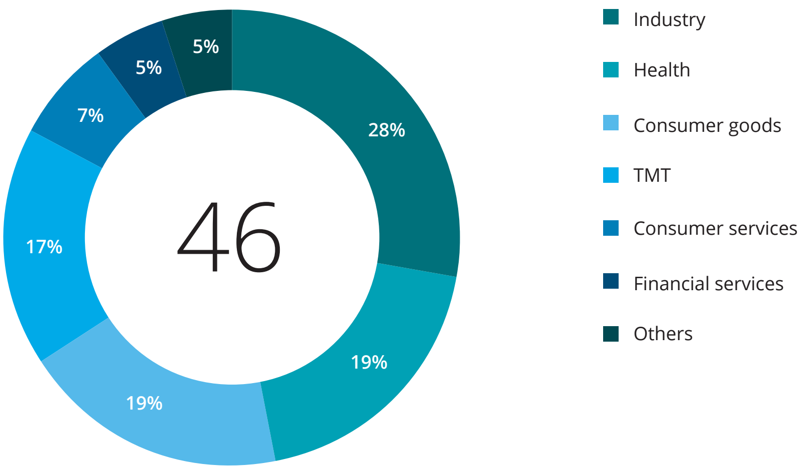
The decline in Outbound transactions to the same extent as Inbound transactions confirms the general reluctance noted this year to engage in cross-border transactions and also reflects the economic uncertainties caused by COVID-19.

Transactions were thus complicated by a lack of visibility as regards the future performance of companies, while contact was rendered more difficult by measures intended to protect the population. While the sales process is generally conducted virtually, Guy Semmens notes that "the restrictions linked to COVID-19 complicate interactions between people, which remain an essential element not only in sourcing, executing and negotiating transactions, but also in creating trust between the buyer and the management of the target."

Western Europe nevertheless remains the primary region for acquisitions of Swiss SMEs, with 91% of transactions. Neighbouring countries account for 65% of the acquisitions, and Germany remains the preferred destination for Swiss SMEs, attracting 43% of transactions.

The number of acquisitions completed in Europe, and in particular with neighbouring countries, shows that geographic and linguistic proximity promotes investment opportunities, although at half-mast in 2020.

Sectors of the acquired companies



Like with acquisitions within Switzerland, the foreign companies most coveted by Swiss buyers are in industry, demonstrating the importance of this sector to the Swiss economy.

Swiss SMEs prefer acquisitions in Europe, and Germany remains the preferred destination for Swiss SMEs, attracting 43% of transactions

Private equity: record involvement in 2020

In 2020, 26 Swiss SMEs were the target of a majority acquisition by private equity funds (Swiss and foreign), a volume and proportion that changed little from 2019 (24 transactions). On the other hand, we are witnessing an increase in acquisitions of foreign SMEs by Swiss funds in 2020 (25 transactions compared to 18 in 2019), while 54% of Outbound transactions are made by investment funds, with this proportion rising to 18% for transactions in Switzerland (acquisitions by Swiss and foreign funds). Of the total transactions recorded this year, 27% of buyers are investment funds, up from 21% in 2019.

M&A activity (sales and purchases) involving a private equity fund reached a record level in 2020, both in absolute (83 transactions) and relative (44% of transactions compared to 34% in 2019) terms. We are also seeing a greater proportion of purchases than divestments involving investment funds. This activity is driven by a high level of dry powder, valuation multiples advantageous to buyers, low interest rates and attractive financing conditions. This trend is expected to continue in 2021, and the deployment of more capital is expected to result in an increase in M&A activity. This trend is also confirmed globally, with the value invested by PE funds ($559 billion, +20% compared to 2019) at the highest level since 2007[1].

M&A activity (sales and purchases) involving a private equity fund reached a record level in 2020, both in absolute (83 transactions) and relative (44% of transactions) terms.

Investment funds thus remain an essential driver of the M&A activity of Swiss SMEs in an increasingly competitive market characterised by a high level of dry powder (cash) for an ever smaller number of quality or niches targets. The search for profits in an environment of negative interest rates also provides a major boost to the activity of investment funds.

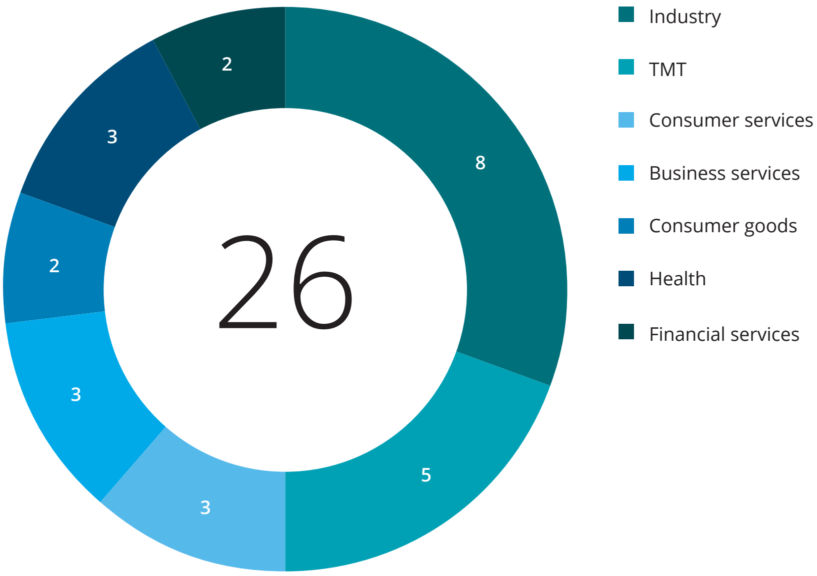
Investments primarily concerned companies in the industrial sector, followed by the TMT and services sector. Guy Semmens comments on the trend of companies meeting ESG (environmental, social and corporate governance) criteria in a post-crisis world that could be materially different than before COVID-19, with more pronounced interaction between sustainability and economic performance: "Companies with environmental, social and governance criteria are at the top of the wish list of investment funds and strategic buyers. Investment funds like their sustainable character, while strategic buyers seem to appreciate their positive reputational value. COVID-19 has accelerated this trend." This is confirmed by the recent vote in November 2020 "for responsible companies" accepted by the Swiss people but buried by the cantons, and proves that this idea is gaining ground. The popular initiative required companies based in Switzerland to ensure respect for human rights and internationally recognised environmental standards. These companies should have performed these checks not only for their business activities in Switzerland, but also for those activities abroad.

"With record levels of liquidity in the markets and low interest rates, bank financing for quality assets and businesses appears to be widely available. Banks are increasingly flexible about terms and covenants, as the underlying value of the assets increases. This should continue to fuel M&A activity in 2021."
Guy Semmens,
Managing Director, Gyrus Capital

1 Sources: Financial Times, Refinitiv (January 2021)

Private equity: record involvement in 2020

Sectors of acquired Swiss companies



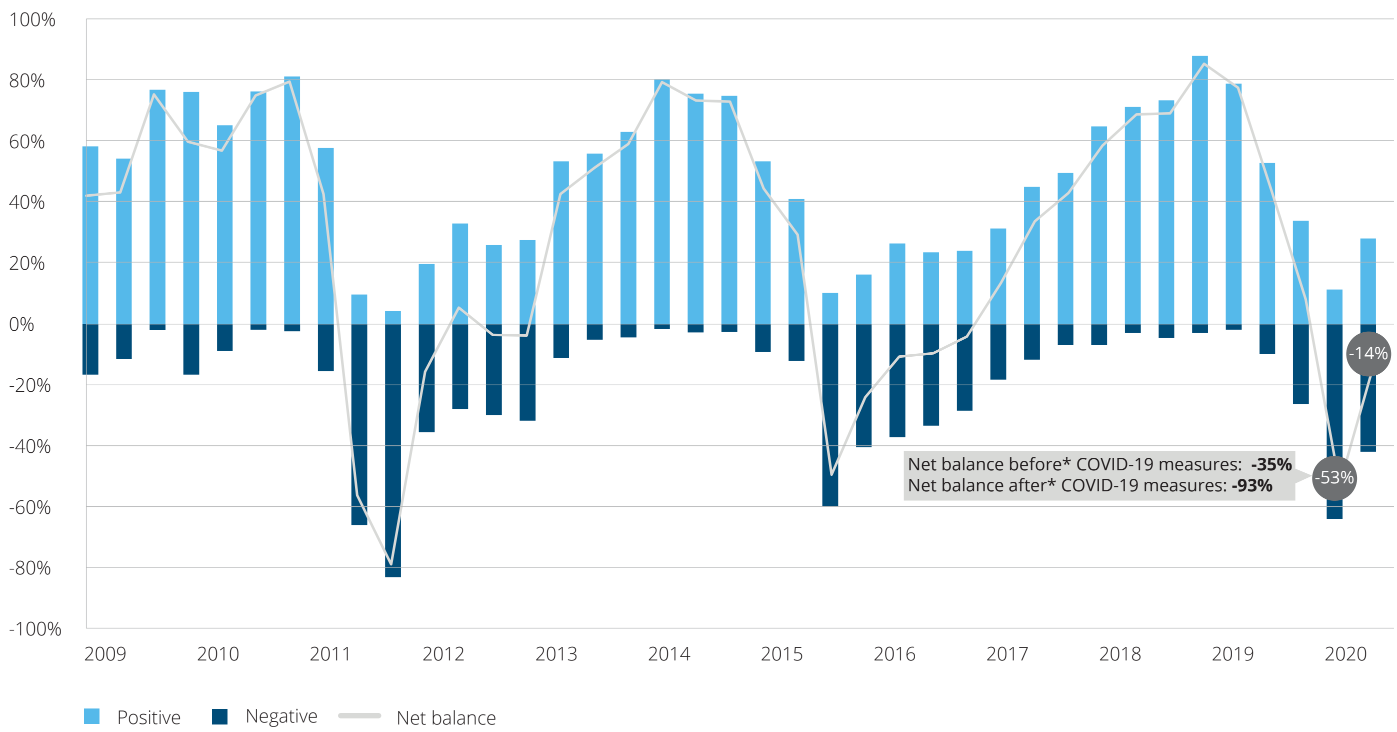
44%
44% of transactions (sales and purchases) involved a private equity fund in 2020 (compared to 34% in 2019)

27%
Of the total transactions identified this year, 27% of the buyers are investment funds

54%
The proportion of PE funds compared to strategic buyers represents 54% of Outbound transactions, while this share amounts to 18% for transactions in Switzerland

Economic environment
A long way out of the crisis

CFO Confidence Index[1]



*Before and after refer to 13 March 2020, the date on which the Federal Council introduced the restrictive measures in Switzerland.

A recovery in Switzerland, but a slow one

A recovery, but a slow one: This is the primary observation drawn from the results of the CFO Survey of Deloitte. Despite the overall uptrend in results compared to the collapse that was seen in the spring, the majority of figures are still negative. Thus, 42% of Swiss CFOs judge the Swiss economic outlook as negative for the next 12 months, compared with 28% who perceive it as positive and 30% who have neutral expectations.

Compared to the previous quarter, the majority (51%) predict an improvement in the financial outlook for companies, versus just 9% in the spring. However, only 39% are optimistic for the next 12 months, compared to 29% who have a pessimistic view.

Most of the company's key figures are improving, with revenue forecasts at an all-time high. Yet the majority of companies expect to have reached pre-crisis revenue levels only by Q3 2021.

As in the first half of the year, the pandemic and the fragility of demand are seen as the greatest risks to companies. Potential cyber attacks are increasingly considered as a risk. For the first time, CFOs view possible borrower or payment defaults as a tangible risk.

The majority of companies have introduced new cost measures and their implementation is already well advanced. The most frequently implemented measures so far have been the reduction of discretionary spending and the elimination of overtime or leave balances, as well as short-time working. Today, the biggest question marks hang over the level of office space, inventory and manpower that will be required in future.

1 Deloitte CFO Survey, autumn 2020

M&A transactions in perspective

Transactions in sight for this year
More than one third of the companies surveyed (36%) anticipate M&A transactions (purchase or sale) in the next 12 months.

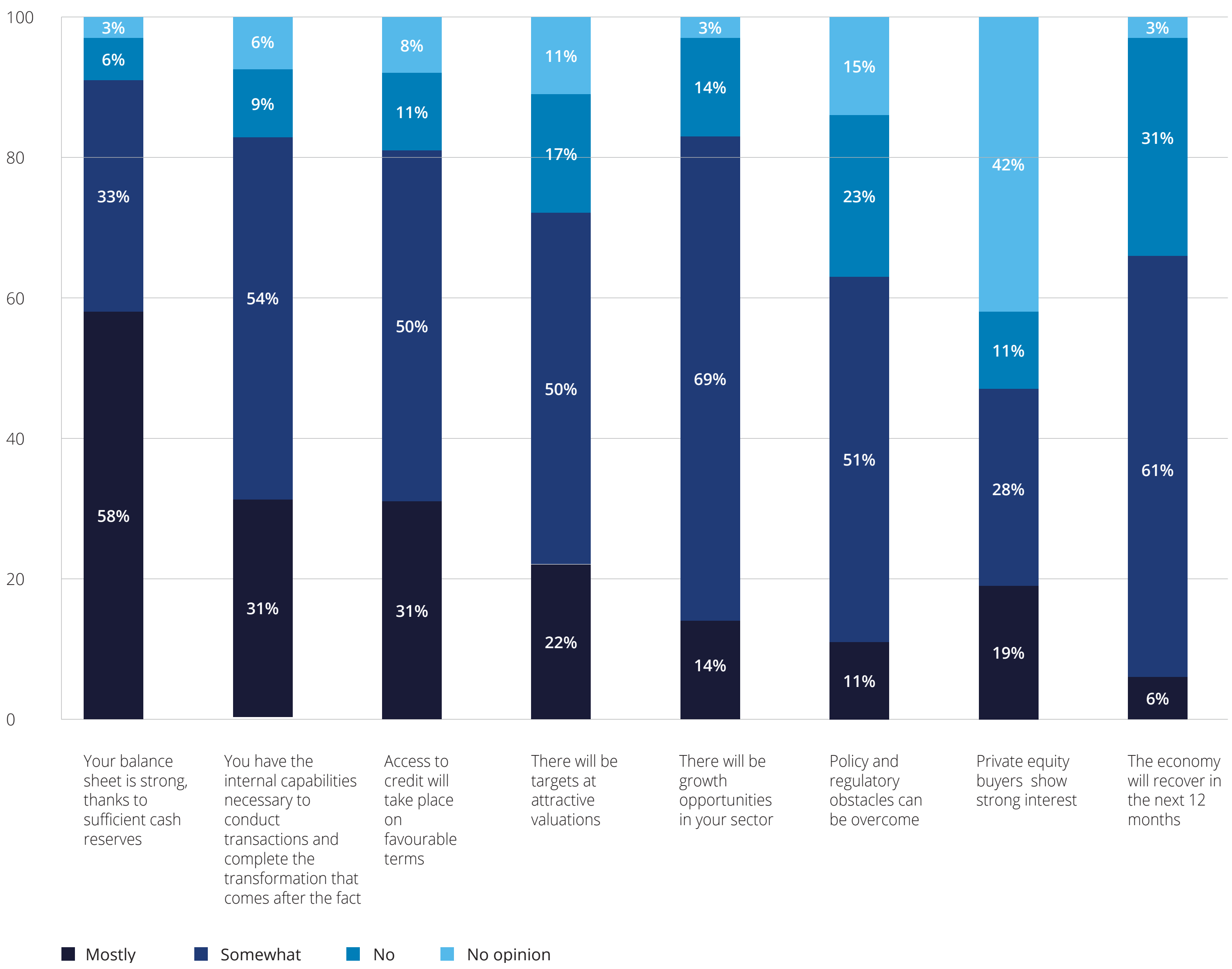
CFOs are particularly confident about the factors impacting M&A transactions that they have under their own control.

Thus, 58% of them are confident in the strength of their company's balance sheet, with sufficient cash reserves to finance transactions.

Credit conditions are also considered attractive by CFOs: 31% are very confident of favourable credit conditions and 50% are confident.

31% also indicate that they have the internal capabilities to conduct transactions and complete the transformation that is needed thereafter.

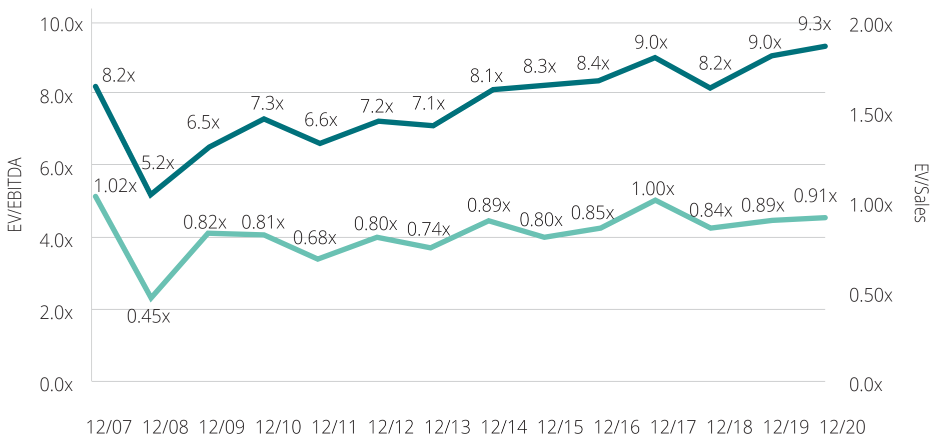
Confidence level of CFOs with regard to the factors likely to influence their M&A decisions[1]



1 Deloitte M&A CFO Survey, December 2020

After falling in Q1 2020, valuation multiples are rising again against the backdrop of a buoyant market.

Evolution of the Deloitte Small & Mid Cap index (2007–2020)[1]



Quarterly evolution of the multiples

Multiples of listed companies

After a record EV/EBITDA multiple was observed in 2019 (9.0x), the Deloitte Small & Mid Cap index recorded a correction at T1 2020 (7.1x), within the context of the high level of stock market volatility generated by the threat of a pandemic.

Following the rebound in Q2 2020, the index continued its upward trajectory until Q4 2020 in the wake of the stock market recovery from Q2, followed by a steady rise.

As the index is based on the results of companies over the last 12 months available, the rebound in the index from Q2 2020 is explained by a buoyant equity market coupled with a high level of debt, while EBITDA levels have fallen in the wake of the crisis. The combination of the two factors results in a naturally higher EV/EBITDA ratio as we move forward in the year. This observation is also noted in the Infront - Small Cap Eurozone valuation index.

Within this context, the EV/EBITDA index at 31 December 2020 sets a record with 9.3x. The year 2020 thus ends on a positive note,but this apparent upturn in markets and valuation levels masks a dual reality, where, on one hand, there are sectors hard hit by health restrictions such as tourism and hotels, and, on the other, there are sectors benefiting from the pandemic, such as technology and health.

The true impact of the pandemic on valuations will depend on the duration of the health crisis and the provision of government aid to companies, and the positive influence this has on the financial performance of such companies. 2021 could provide more clarity on valuation multiples if the markets and financial results normalise.

Transaction multiples

After the decline seen in 2020, the multiple of acquisitions of unlisted companies (EV/EBITDA) that were observed at the European level in Q3 2020 (6-month rolling) rose to 10.1x, almost hitting its pre-COVID-19 crisis level (10.3x).[2]

The prices paid by strategic buyers are up to 10.5x EBITDA, while the multiples paid by investment funds remain stable at 9.2x.[2]

The return of the index to a high level can be explained by a rebound in economic growth and also by the large proportion of transactions in sectors left unscathed by the crisis. Thus, 50% of referenced transactions are in the health and technology sectors. In fact, it appears that a selective market has prevailed, which is focused on quality acquisitions with stable cash flows and resilient business models.

1 Capital IQ
2 Argos Mid-Market Index, Argos Wityu, November 2020

2021 Outlook

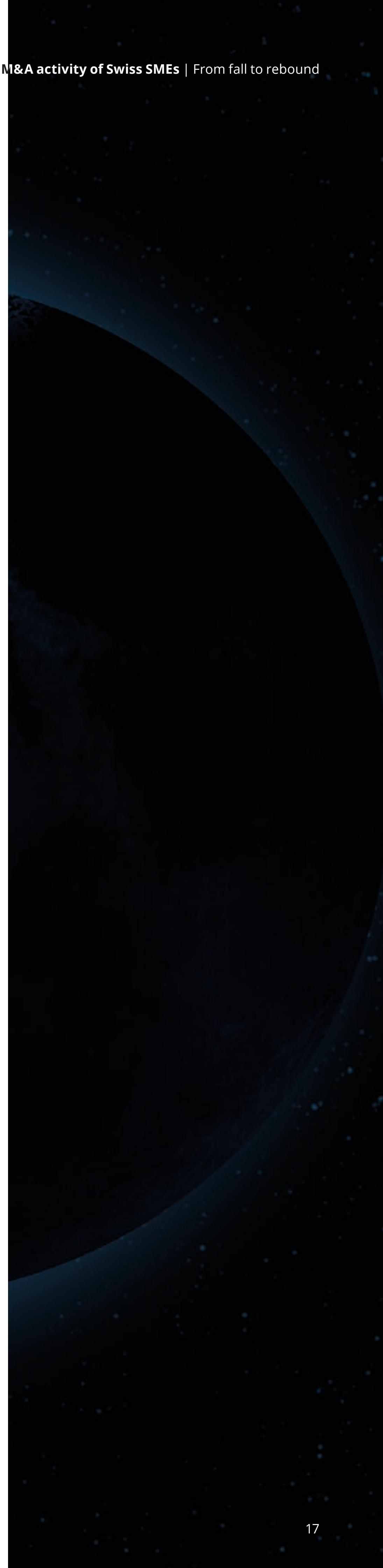
M&A activity in 2020: from fall to rebound. The quarterly analysis says a lot about how far we have come in the midst of the pandemic. This activity, saved by a frenzied year-end, confirms that new mergers and acquisitions opportunities are emerging for companies and investment funds in 2021.

Today's environment is disrupting how businesses are run and supplied, how employees work and how people consume. These trends existed before COVID-19, but have been greatly accelerated this year in response to the fight against the pandemic. COVID-19 has stepped up the already existing trend towards digitalisation at companies, which have had to quickly strengthen their skills to locate their consumers or simply to keep them. In order to shorten the value chain, companies have also begun conducting more local transactions in order to secure their supply. The COVID-19 pandemic likewise reiterated the importance of a diversified portfolio of assets for companies and investment funds. This highlights the value of resilient cash flows and the significance of effective business portfolio management to manage business risk.

This context will likely fuel M&A activity in 2021, with restructuring programs and portfolio reviews operated by both the winners and losers of the pandemic. The recovery that began in the fourth quarter of 2020 is expected to gain momentum, and the hardest-hit companies may consider more divestments. The outlook is brightening, with high levels of liquidity, persistently low interest rates and an unprecedented amount of cash for investors. Bank financing is also accommodating buyouts of quality companies, and the accumulation of uncompleted transactions in 2020 should act as a stimulus in 2021. These reasons for optimism are still mitigated by the renewed lockdowns currently taking place in several countries and the delays in vaccination campaigns.

We expect some sectors to benefit from the pandemic, with accelerating transactions in the financial services, technology, healthcare and industrial sectors. Valuations are likely to remain high for quality assets, with intensifying competition. The way in which transactions are conducted is also changing, with more selective transactions, rapid decision-making and sellers valuing the certainty and conditions to complete a transaction rather than maximising the price. Similarly, companies and sectors affected by the pandemic and undergoing restructuring could sell for lower prices. Investors could thus benefit from the COVID-19 crisis.

Confidence in financial projections and growth prospects are the highest priority for buyers now more than ever given the uncertain environment. Therefore, earnouts could have a heightened importance and their periods may be extended. Working capital will also be under close scrutiny, with the upheaval in payment cycles and inventory management in the current environment.



Terminology and methodology

In this study, the transactions analysed are segmented using the following terminology:

Transactions		Purchasers	Targets
Domestic	Covers all acquisitions of SMEs in Switzerland	Swiss of all sizes	Swiss SMEs
Inbound	Covers all acquisitions of SMEs in Switzerland	International of all sizes	Swiss SMEs
Outbound	Illustrates the appetite of Swiss SMEs for international acquisitions	Swiss SMEs	International SMEs

Scope of the study

- The study exclusively concerns Swiss small and medium-sized enterprises (SMEs).
- The transactions have been analysed over a period from 01/01/2020 to 31/12/2020.
- To fit within the SME segment according to Deloitte, a company must meet 3 criteria: a turnover greater than CHF 10m, less than 250 employees and capitalisation (transaction value) between CHF 5m and CHF 500m.
- The geographic location and industry are determined by the location and dominant industry of the target company (unless otherwise stated).

Sources and databases used in the study

- The Mergermarket database reprocessed by Deloitte.
- Proprietary Deloitte databases (Deloitte M&A Databases).
- Swiss economic press.
- Capital IQ[1] and SIX Swiss Exchange.

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Transactions used for the study

- If the financial information is public: majority transactions with a transaction price between CHF 5m and CHF 500m and for which the turnover is greater than CHF 10m.

- If the financial information is not public: majority transactions for which the value of the target company has an estimated value between CHF 5m and CHF 500m, and whose turnover is estimated to be greater than CHF 10m.

- Transactions not used: Joint ventures for which the only contributed asset is cash; real estate properties and transactions limited to land, buildings, portfolios or sale and lease-backs; equity carve-outs; acquisitions of options or warrants; acquisitions of trademarks, rights and/or licenses; acquisitions of individual assets and/or portfolios of assets; on-sales/subsequent sales / back-to-back transactions which are inter-conditional; share buybacks; equity investments, where the interests of shareholders remain the same and internal restructurings where the change of control does not satisfy the inclusion criteria.

Deloitte Mid & Small Caps index

- Index developed by Deloitte (67 Mid & Small Capitalisation companies listed on the Swiss Exchange SIX and part of the SPI19 index as of 31/12/2020) measuring the evolution of valuations of SMEs listed in Switzerland.

- Measures the multiples of enterprise value over sales (EV/Sales) and against its gross operating surplus (EV/EBITDA).

- Excluded from the index are financial companies, biotechnology companies and companies with only financial holdings.

- The EV/Sales and EV/EBITDA multiples are based on the results of the companies over the last available 12 months (source: Capital IQ).

Transactions conducted by Private Equity actors

The category of so-called Private Equity transactions refers to all majority transactions conducted by investment funds resulting in a change of control of the target company.

Additional remarks

- Due to more flexible legislation than in other Western countries, unlisted Swiss companies disclose little information about their financial statements.

- The M&A market in the Swiss SME sector stands out in comparision to other European markets by the low amount of information available regarding transactions: the size of acquisition, sales multiples or company EBITDA target, etc.

- Statistically, for 70% of transactions over the period studied, data on the price or transaction multiples are not available, illustrating the lack of public information in this sector.

- In addition, the Swiss Mid & Small Capitalisation sector receives little coverage from financial analysts.

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Business modeling	**Integration and separation**	**Restructuring services**
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