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Deloitte study 2023:
M&A activity of Swiss SMEs

Record-breaking levels in uncertain times

February 2023

Contents

About the report
This is the 18th edition of the Deloitte study on the M&A activity of SMEs in Switzerland. It identifies transactions involving Swiss SMEs based on various sources of information.

For more information on the methodology of this study, please refer to page 19.

Introduction

We are pleased to present the 18th and latest edition of our study of M&A activity (sales and acquisitions) by small and medium-sized enterprises (SMEs) in Switzerland. This edition reviews activity in 2022.

Following restricted M&A activity in 2020 due to COVID-19, activity in 2021 in both the global and Swiss M&A markets experienced a sharp rebound and reached a new record. This **record** was then **exceeded** in **2022**, when Swiss SMEs acted either as buyer or as target in **244 transactions**, almost 5% more than in 2021. This increase was due largely to a 25% rise in the number of **outbound transactions**. Together with a reduction in the number of domestic M&A, this resulted in **cross-border deals** accounting for **over 70%** of all Swiss SME transactions for the first time since we started the study in 2013. Another feature of 2022 is a bonanza of M&A deals in **IT services** (48 transactions, or 20% of the total): more details about this are given in our industry focus chapter.

2022 was marked by **macroeconomic** and **geopolitical uncertainty**. Dealmakers faced headwinds from several directions: soaring inflation and interest rates, the Russian invasion of Ukraine, supply chain problems and a downturn in the stock market. M&A activity was at record levels in H1 2022, but the market became much more **cautious in the second half of the year**. The combination of a gloomier economic outlook and expectations for higher inflation led to concerns about the risk of possible stagflation.

This uncertainty in the market is also reflected in the latest Deloitte CFO Survey, published in the autumn of 2022[1]. **37% of Swiss CFOs rated the economic outlook for Switzerland over the next 12 months as negative** across almost all sectors, with a risk of deterioration in the corporate outlook and economic indicators. Inflation, supply chain problems, raw material and energy prices were the most frequently cited concerns, with less fear about geopolitical risks compared to the previous Deloitte CFO Survey in Q2 2022.

We expect M&A activity among Swiss SMEs to slow down further in the first half of 2023 and not pick up again until the second half of 2023 at the earliest. Changes in M&A activity are likely to follow the economic cycle. We expect an ongoing trend of high levels of M&A activity in IT services and in business and engineering services. With a growing number of investors seeing ESG as a fundamental driver of financial success, we also expect a high level of M&A activity in ESG-related sectors.

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

- Olga Darazs, President of the Board of Directors, CSD Holding S.A.
- Fabrice Bober, Executive Director Investments, and Maxime Laisné, Executive Director Finance & Administration, Helarb Management S.A.

We hope you enjoy reading this report.

Stephan Brücher	**Jean-François Lagassé**
Partner, Financial Advisory, Deloitte	Partner, Financial Advisory, Deloitte

1 The Deloitte CFO Survey Switzerland, November 2022

Key points

+4.7% in total transactions

There were 244 transactions involving Swiss SMEs in 2022 compared to 233 in 2021 (an increase of +4.7%)—a new record number of transactions since this study began in 2013.

Increase in outbound transactions has driven M&A activity

The strength of the Swiss franc and high inflation rates abroad had a significant impact on the volume of cross-border transactions. While inbound transactions (98 transactions) remained at about the same level as in the previous year (+1.0%), the strong Swiss franc favoured outbound transactions (which increased by +25%). There was a fall in the number of domestic transactions (-6.6%).

All-time record of cross-border transactions

70.9% of transactions were cross-border, compared to 67.4% in 2021. In our first study in 2013, this figure was 55% and it has risen steadily since then. As such, it has been an important driver of M&A growth.

9.7x EV/ EBITDA

After continually rising since 2018, the Deloitte Small & Mid Cap index stalled and fell slightly in 2022, to an Enterprise value/ Earnings before interest, taxation, depreciation and amortisation (EV/EBITDA) multiple of 9.7x (compared to 9.9x in 2021).

Strong private equity activity continues

M&A activity involving a private equity (PE) fund remained high with 94 transactions closed in 2022, nearly 40% of the total number of deals involving Swiss SMEs. 44 Swiss SMEs were targeted by PE funds (Swiss and foreign), up by 25.7% from 2021 (35 transactions).

In line with 2021, but cautious for 2023

Uncertain economic situation causing decline in M&A activity in the second half of 2022

Global M&A market[1]
Following an outstanding year 2021 in terms of both transaction volume and value, 2022 was more restrained, and M&A appetite faded due to the global economic environment, including inflation and rising interest rates.

Globally, H1 2022 was a continuation of 2021 with 29,470 deals for a combined value of $2.1 trillion. However, H2 2022 saw a sharp fall in the number of deals compared to H2 2021 (25,444 vs 35,958 deals). For 2022 as a whole there was a total of 54,914 transactions for a combined value of $3.4 trillion, compared to $5 trillion in aggregated deal value in 2021. US deals accounted for 43% of the global value ($1.5 trillion) and deals in Europe for 22% ($813 billion). Deals in the technology and industrials sectors together made up 38% of the total transaction value. The level of involvement by private equity (PE), at more than 30% of total deal value, exceeded all previous years except for 2021.

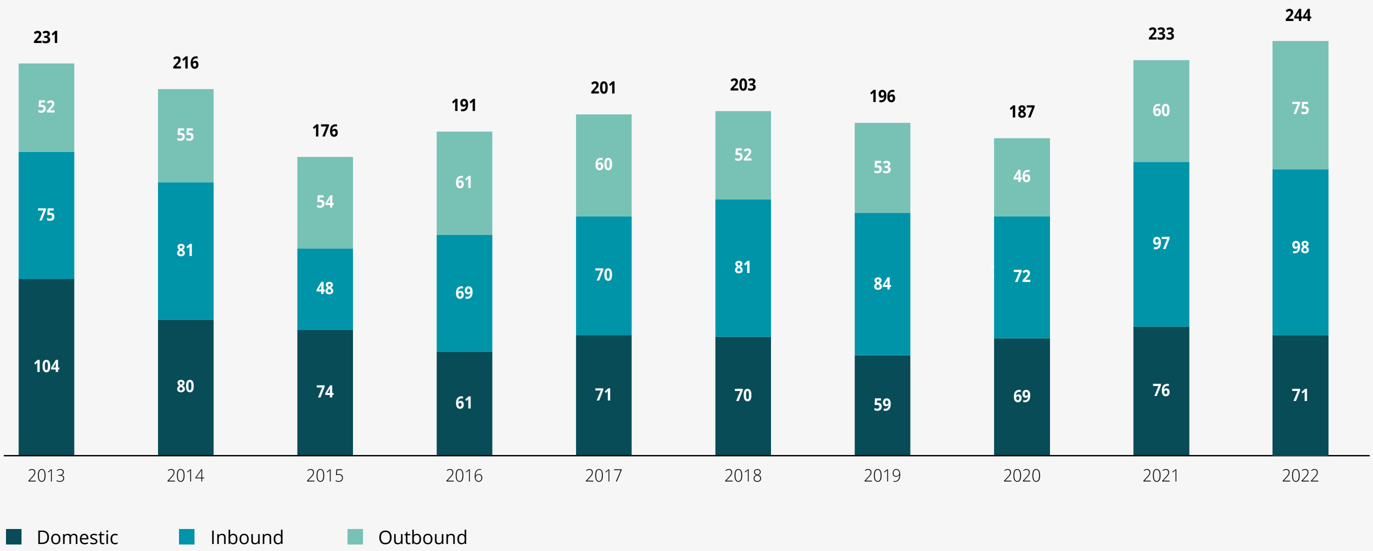
Swiss SMEs M&A market
Over the entire year 2022, there was a total of 244 transactions in Switzerland, which was slightly above (+4.7%) the 2021 level of 233 transactions. This was due in particular to a record number of cross-border activities, which made up 70.6% of total deals.

Of these 173 international deals, 75 were outbound transactions (25% more than in 2021), driven by a strong Swiss franc and rising inflation abroad. At the same time, there was a further decline in the number of domestic transactions: only 71 transactions were concluded between a Swiss buyer and a Swiss seller in 2022 (6.7% less than in 2021).

There was a high level of M&A activity involving Swiss SMEs in the first half of 2022, with 133 deals in H1 2022 compared to 117 in H1 2021, despite the geopolitical tensions. However, activity slowed down in H2 2022 due to growing concern about inflation and recession fears with 111 deals compared to 116 in H2 2021. This means that only 45% of all transactions in 2022 were announced in the second half of the year. This percentage is the lowest since we started this study in 2013.

In terms of industries, there was a high number of M&A deals involving TMT (technology, media and telecommunications) companies during the year (62 transactions), which represents 25% of the total number of deals involving Swiss SMEs. Among these 62 transactions, 48 were in IT services.

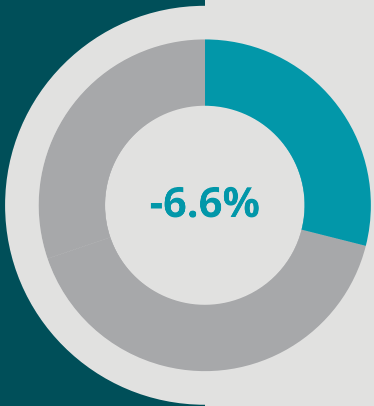
M&A transactions involving Swiss SMEs since 2013



[1] Sources: Reuters, Refinitiv

Domestic

71 transactions



Risk aversion leading to a fall in numbers

- Slight decrease in the number of domestic transactions in 2022 due to unfavourable economy
- Swiss corporate outlook deteriorated. Risk environment dominated by inflation and shortages

Inbound

98 transactions

Stable deal flow

- Inbound transactions in 2022 remained at the same level as in 2021
- There was a big increase in H1 2022 in inbound deals compared to H1 2021, offsetting the fall in H2 2022

Outbound

75 transactions

One's loss is another's gain

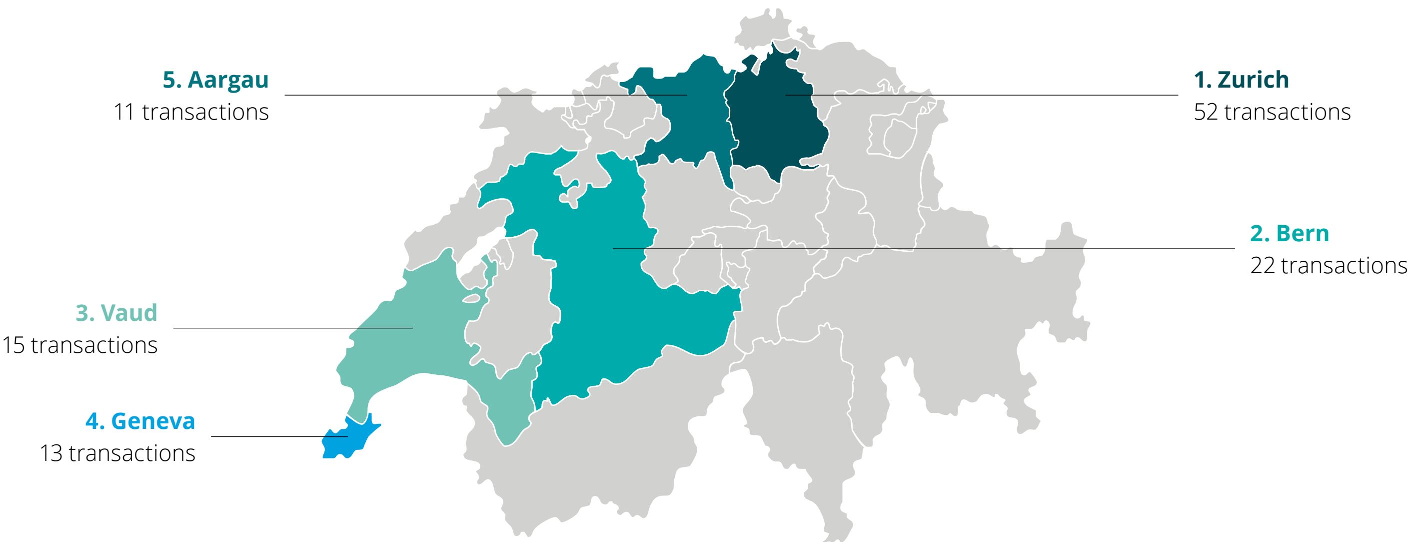
- Swiss buyers took advantage of the unfavourable inflation and exchange rates in other countries to make new acquisitions abroad
- Outbound transactions reached a record level since the first publication of this study in 2013

Transactions in Switzerland

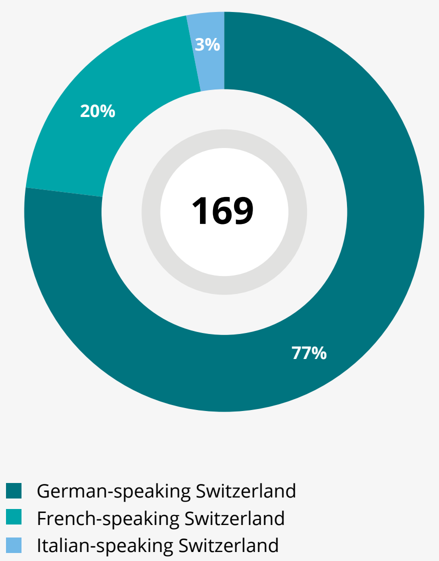
(Domestic and inbound transactions, excluding outbound deals)

Despite the economic slowdown, Swiss SMEs were still attractive to investors. Compared to 2021, deal volume in Switzerland (169 acquisitions) fell by 2%

Top 5 cantons



Transactions in Switzerland



By sector

- **22%** Industry
- **21%** IT Services
- **17%** Business and engineering services
- **14%** Healthcare
- **11%** Financial services
- **7%** Consumer services
- **5%** Technology, Media & Telecommunications (TMT)
- **3%** Consumer goods

Swiss SME transactions in 2022

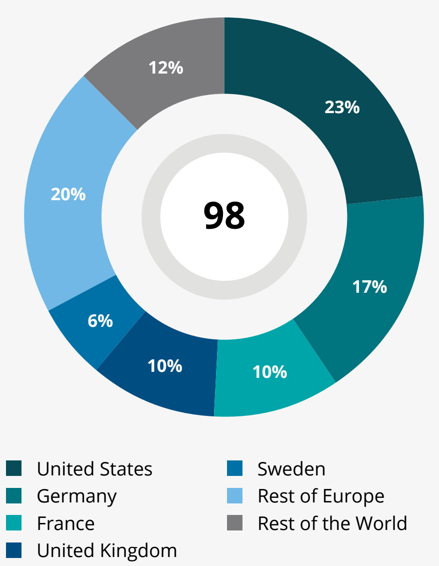
After a substantial increase in 2021, the number of Swiss SMEs acquired in both domestic and inbound transactions was down to 169 in 2022 (-2%). The number of inbound transactions held quite steady, following a 35% increase in 2021. International buyers felt confident at the beginning of the year but became more cautious due to changes in the macroeconomic environment. In H2 2022, the number of inbound transactions fell by 22% compared to H2 2021. This decline was also visible to some extent in domestic transactions, which fell by 3% during the same period.

The acquisitions were made primarily in the German-speaking part of Switzerland (77%), with the canton of Zurich being the most active (52 transactions or 31% of the total), especially in IT services (12 transactions) and business and engineering services (11 transactions).

Switzerland: The increase in M&A involving IT services

Compared to last year's report, our analysis of the TMT sector has been revised, by breaking out the IT services companies as a separate category. As a result, the biggest number of M&A deals was in Industry (22% of Swiss targets) followed by IT services (21%). Business and engineering services companies were also attractive targets (17%) and remain coveted companies in Switzerland.

Primary buyers of Swiss SMEs



65% of buyers of Swiss SMEs were European, with the remainder being primarily from the USA (23%)

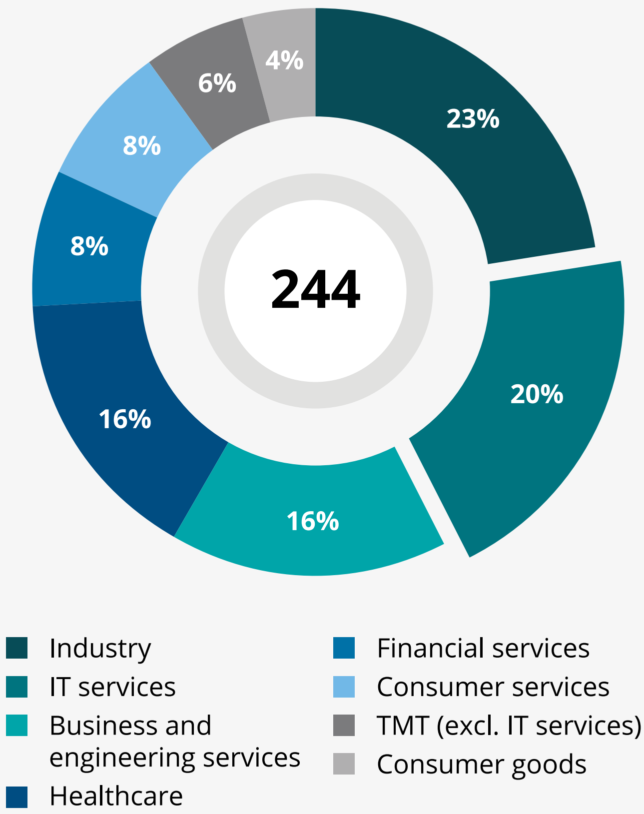
Industry focus: IT services

Exceptional M&A year for IT services

M&A activity in the Swiss TMT industry (including IT services) reached a record high in 2022, with 62 disclosed transactions, representing 26% of all transactions involving Swiss SMEs.

48 of the transactions were in the IT services sector specifically (domestic, inbound and outbound), representing 20% of all transactions.

IT services transactions

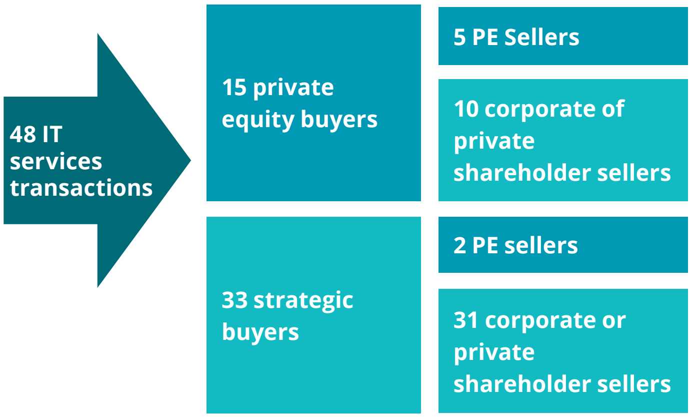


Continuing interest in the sector has been driven by several factors. For many investors the scalability, high growth rates and business models, which are increasingly based on recurring revenues (e.g., SaaS), make this a very attractive market.

In addition, the pandemic helped to accelerate the digital transformation and created conditions that will continue to encourage innovation and technological adoption. The rapid pace of change has fuelled growth in many IT services companies in all sub-sectors – including cloud solutions, cybersecurity, and SaaS.

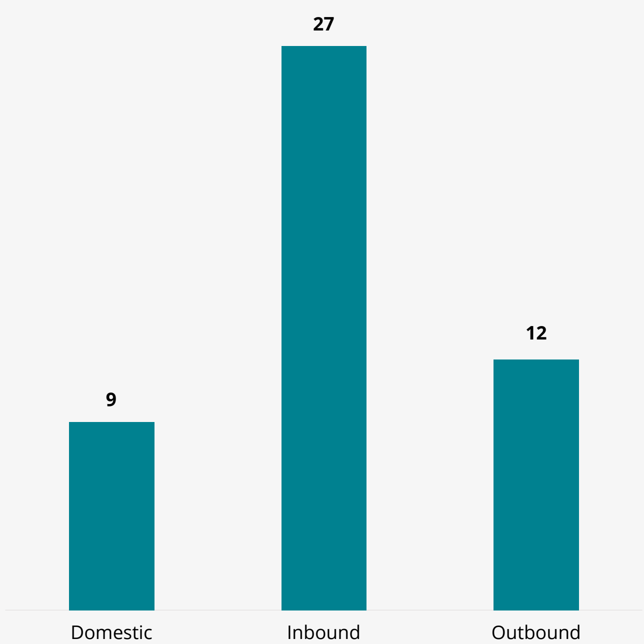
Strong private equity interest

The market dynamics of the IT industry put it high on the target list for specialised and generalist PE companies.



31% of transactions involving IT services companies were acquisitions by private equity, whereas less than 10% were in the secondary market (PE to PE deals).

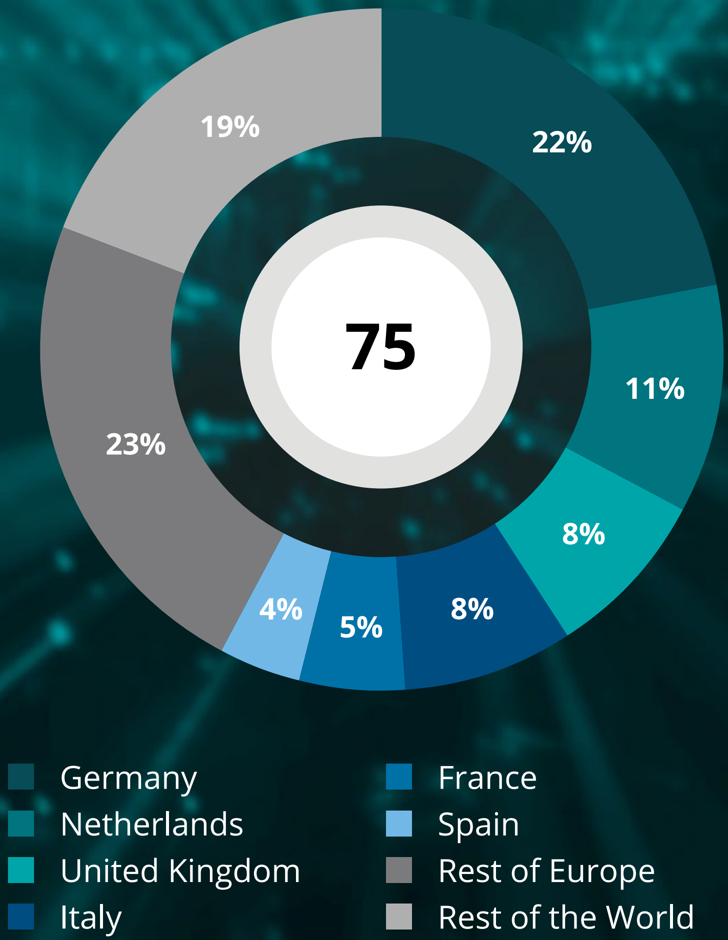
IT services transaction types

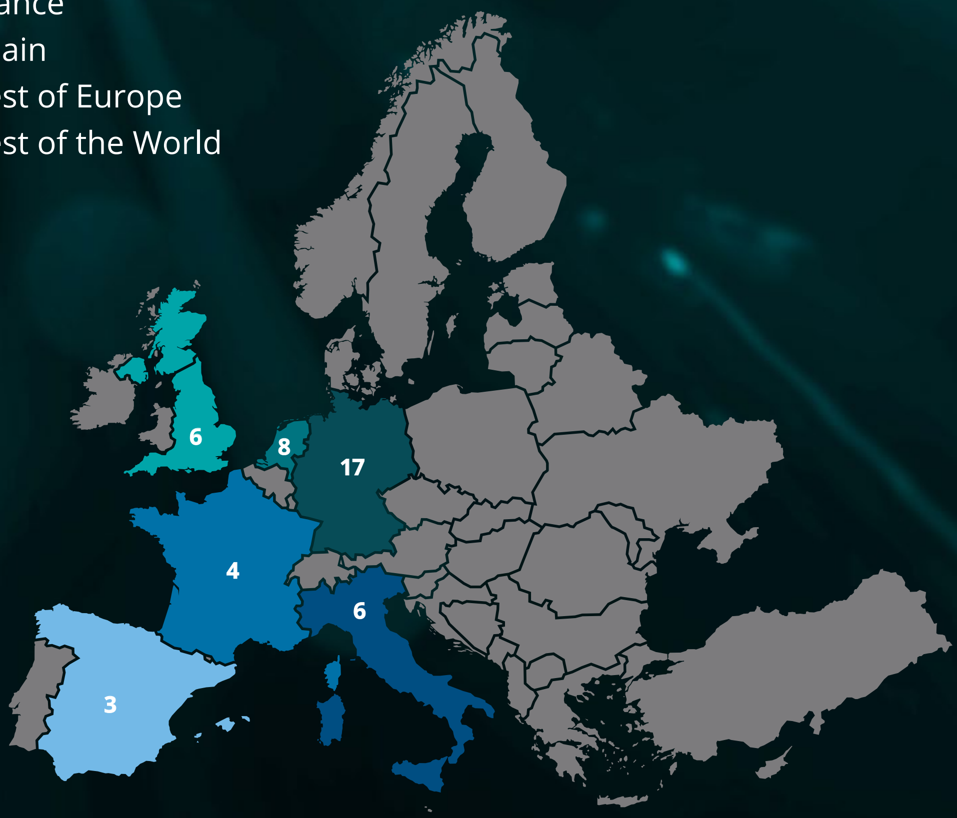


75% of IT services transactions involved Swiss targets (domestic or inbound deals), and only 25% of all transactions were outbound deals. Despite the strong Swiss franc, Switzerland continues to attract strong interest from international and domestic acquirers.

Outbound transactions

2021 high levels well exceeded in 2022 (+25%)





Outbound activity: Swiss SMEs have proven to be responsive to international opportunities

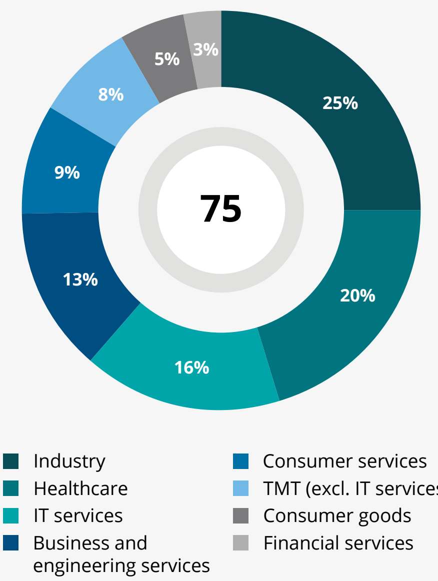
Outbound activity had already reached a record level in 2021 (+30% compared to the previous year). This was further exceeded in 2022, with a total of 75 acquisitions abroad compared to 60 in 2021 (+25%).

This increase in outbound transactions was due in part to the continuing recovery from the COVID-19 crisis. In addition, comparatively low inflation in Switzerland and a strong Swiss franc created attractive financing conditions for Swiss borrowers seeking international expansion.

Most acquisitions by Swiss SMEs (81%) were in Europe, with Germany (23%) the preferred destination. We see clear evidence of the influence of language in cross-border deals, i.e., all acquisitions made in Germany, with one exception, were by companies domiciled in a German-speaking canton. A similar pattern can be seen in the French-speaking cantons.

After dropping to fifth position in 2021, the Industry sector was again the most coveted outbound target sector in 2022.

Sectors of the acquired companies



Case study: CSD Engineers and Initiative & Finance

Established in 1970, CSD Engineers is a pioneer in environmental engineering in Switzerland. From its headquarters in the canton of Fribourg, the group operates some 30 offices throughout Switzerland and in Germany, Italy, Belgium, Lithuania, and Luxembourg. CSD, which employs 900 staff, has successfully positioned itself as a key player in several sectors: construction, mobility, the circular economy, energy infrastructure, water and waste management, and decontamination. In December 2022, a majority stake of the group was acquired by Initiative & Finance, a French financial investor specialising in sustainability. Deloitte Corporate Finance acted as financial advisor to CSD Engineers.

What prompted CSD's shareholders to consider selling the group?

Several members of the Management Board and major shareholders of the group had begun to contemplate retiring at some point over the next five years. Given the size of the company and the amounts that would therefore be involved in a share transfer, the next generation of engineers and the people following in the Management Board's footsteps wouldn't have been able to pick up the reins. So, a sale to a major investor was an essential step. At the same time, the growth that the group is planning between now and 2025 will be underpinned by a robust acquisition strategy in which the role and support of a financial investor may prove key.

Does being bought by a financial investor mean a loss of identity and independence for CSD?

No, quite the opposite, in fact. Had it been sold to a strategic buyer, CSD would have had no choice but to be absorbed by a large group and to sacrifice its identity and employee shareholdership. In contrast, the sale to I&F lets the group retain control of its strategic direction while also benefitting from valuable support, particularly with regard to the M&A strategy. Selling to a financial investor also means that we're keeping all our options open for now and allowing the next generation of engineers to decide on the next investor five to seven years down the line, when the group gets sold on.

What were the main challenges throughout the sale process?

First of all, our shareholder structure made it challenging to get all of our partners on board. After that, it was the issue of bank finance that kept us waiting with bated breath. With interest rates rising and the economy slowing, a deal like a leveraged buy-out, or LBO, clearly requires much more attention from everyone involved. And, finally, understanding all the tax and legal issues connected with the group's sale and with the structure of the entity actually making the acquisition was a challenge in itself. The international nature of the deal and how ownership was being split up created a degree of complexity that no-one had envisaged.

What's your feeling about the M&A market at the moment, and what are your predictions for the coming year in a fraught economic environment?

We've been seeing a trend towards consolidation on the engineering market for some years now. That said, only 20% of European firms employ more than five people. So, we're expecting this consolidation to continue, particularly in the context of succession planning, where an internal sale is often hard to achieve. As far as my predictions for 2023 go, it's safe to say that the current economic climate is not all that promising. However, CSD has a healthy order book, and we're not expecting business to drop off at all this year. Our challenge on the market will be more to find the resources we need to work off our backlog. Even though this issue won't be resolved imminently, we're still fairly upbeat about the future.

Will acquisitions remain on your agenda between now and 2028?

We're in a market where recruiting new talent is becoming more and more complicated, which means that purely organic growth isn't a given. So, it's vital to have a growth strategy that's focused on buying up smaller firms. We'll be choosing these targets in line with our expansion strategy, which covers both our geographical reach and our sectors or specialisations. In terms of expanding geographically, we'll start by targeting companies in Germany, Italy and Flemish-speaking Belgium. As regards our specialisations, we want to hone our skills in energy, maintenance and building technology.

Olga Darazs
President of CSD Engineers, discusses the group's mergers and acquisitions (M&A) strategy and its recent sale to Initiative & Finance

Private equity

M&A activity involving private equity remained the same in 2022 as 2021, with 94 transactions amounting to 39% of all deals

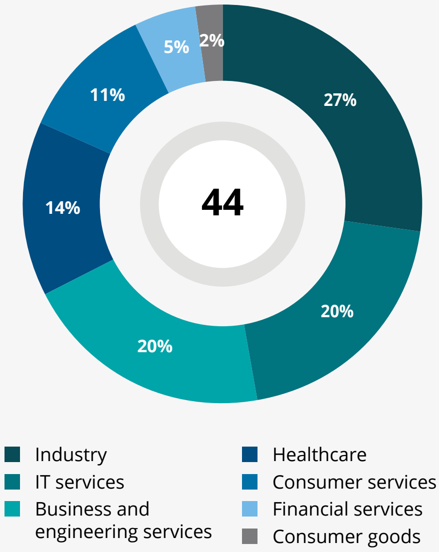
In 2022, PE firms were involved in 94 deals. They were on the buy-side for 76 of them. In these 76 transactions, 67 SMEs were bought directly by a private equity investor and 9 transactions were indirect (so called add-ons). In the other 18 deals PE firms sold SMEs to strategic buyers.

Due to the short-term volatility in financial conditions, PE investors are likely to reduce their buying activity in the early part of 2023 and wait for valuations to adjust to the new market conditions. However, once inflation and interest rates have peaked, activity should return to historical norms.

In 2022, 44 Swiss SMEs were the target of a majority acquisition by PE funds (Swiss and foreign)—a record number and 26% more than in 2021 (35 transactions). Acquisitions of foreign SMEs by Swiss PE funds in 2022 were slightly less than in 2021 (23 transactions in 2022 compared to 26 in 2021).

Of the 44 acquisitions of Swiss SMEs by PE funds, 23 were made by Swiss PEs, an all-time high percentage of domestic transactions (32%), and 21 were conducted from abroad – mostly Europe. As in 2021, the most sought-after sector was Industry (27% of deals) due to the existence of niche companies highly prized by financial investors.

Sectors of the acquired Swiss companies



94

Same number of deals involving PE as in 2021

44

Swiss SMEs were acquired by a PE fund, up 26% from previous year

23

Swiss SMEs were taken over by a Swiss fund, an all-time high 32% of domestic transactions

Case study 2: Helarb Management S.A.

Helarb Management S.A. is a Lausanne-based multi-family office founded in 1982 that provides financial services to the Helarb Group, particularly with regard to acquisitions and structuring leveraged buy-outs (LBOs). The group's strategy is built around investing in small and medium-sized enterprises (SMEs), which make up some 90% of the Swiss market and are valued at between 10 and 30 million Swiss francs. Helarb has always looked to invest in industrial companies in good financial health, with potential for growth and with a robust management setup, in order to support them in their strategic development. The group systematically takes a majority stake in the businesses in its portfolio, allowing it to have a hand in their strategies more easily. The company set up Plateforme Horlogère Helarb, an investment vehicle focused on watchmaking.

Could you tell us about Plateforme Horlogère Helarb? How did it come about, and what was its aim?

Fabrice Bober, Executive Director Investments, Helarb Management S.A.: After we bought the dial manufacturer Fehr et Cie in 1993, we had the idea of setting up a platform dedicated to watchmaking. At the start, we wanted to establish a holding company, Plateforme Horlogère, to bring together all the companies we'd be acquiring. We'd identified several attractive-looking subcontractors in the watchmaking industry. The first, Monyco, which we bought in 2013, is the market leader in applying luminous materials to watch dials and hands. The second, Li Calzi Technofrap, the independent market leader in dial stamping, was acquired in the same year. In 2014, we bought Décotech, one of the market leaders in decorating movement components. Our most recent acquisition, in 2017, was that of Le Temps Manufactures, which makes intricate components and movements for high-end watches.

Initially, we'd planned to sell the holding company once it reached a certain size. But then we realised that each individual business had its own dynamic in terms of its growth, the cash flow it generated and its investment requirements. So we decided to handle each of them separately, which led us to attract strategic players interested in one business in particular. By 2022, several companies were mature enough to permit a change in their shareholder structure. Deloitte has supported us with two sales so far. The first, Monyco, had doubled both its headcount and its sales figures. Having achieved what we wanted to with it, we

thought it time for us to pass the baton, so the company was sold to Mirabaud Patrimoine Vivant in May 2022.

The second, Le Temps Manufactures, had also enjoyed strong growth thanks to our investments and had reached a significant size. In October 2022, therefore, the time had come for us to take our leave by way of a sale to the Swiss family office Keystone Management LTD.

We've also carried out two more sales outside of our partnership with Deloitte. For the first, Fehr et Cie, we were contacted directly by a leading dial manufacturer, Montremo, which needed more production capacity. Its merger with Fehr et Cie seemed an obvious move to us from a strategic perspective. The second, Décotech, was sold on to a successful entrepreneur who had a clear vision for the company and wanted to take it into the luxury watchmaking segment. The terms offered were acceptable, so we completed our exit in December 2022.

These days, we've still got Li Calzi Technofrap in our portfolio, which is doing very well. We've got a few more projects up our sleeves for structuring it, and we think we'll be able to help further its development.

What do you think were the key factors that led you to invest in these companies, and what did you bring to them?

Maxime Laisné, Executive Director Finance & Administration, Helarb Management S.A.: To be considered for investment, a company must always offer the same four things: unique expertise, a strong management setup, a niche market and a competitive advantage. When Fehr et Cie was acquired in 1993, our predecessors wanted to invest in a sector that had a good reputation then and still does today. The watchmaking industry enjoys high levels of profitability and is a rewarding business to be in. We wanted to help the company with all the administrative aspects of its follow-up work but also with its manufacturing. To take the company further, we constructed a building in 2014 that would house all its operations under one roof, thus allowing production flows to be optimised. Our aim is always to give the management team maximum support with their strategic issues. And our motives were similar for the other businesses.
We are particularly pleased with Monyco, where we helped the manager who'd been identified to take over to invest alongside us. This partnership brought him on board as a shareholder and put us all on the same page as far as the company's development was concerned.

In your role as majority shareholder, you agree a strategy with the management and then leave the actual day-to-day operations to them. Aren't you ever tempted to take over management of these companies yourselves?

Fabrice Bober: Our philosophy is that we're investing in a business, yes, but also – and most importantly – in its men and women. Before we make an investment, we always spend time analysing the management, their skills and their vision.

Maxime Laisné: So, when you're working with an SME, the CEO is the key person. You'll encounter them everywhere, from talking to clients to the factory floor. We rely on a great deal of trust. Also, being a small team, we can't be in charge of every single management decision that happens in a company. But we follow its key developments and come up with a strategy that is reviewed annually, with regular meetings to take stock of the progress made on that strategy. Depending on what's going on in the wider economy, we'll take a look at the main thrusts of the strategy and refine them.

You mentioned some rosy prospects for 2023. Would you care to elaborate?

Fabrice Bober: We're still upbeat as far as the watchmaking industry goes. Business in the sector has been driven by the European Union and the United States in recent months. In 2023, the reopening of the Chinese market will offset a potential drop in US consumption. Everyone is expecting a good year for watchmaking at the moment, and we're continuing to keep an eye on the industry. Should the opportunity arise, we'd also like to find another sector, invest in a company in it and build on that.

In general, the European economy seems to be faring better than people feared just before the start of winter. Whereas "recession" was once the word on everyone's lips, it's now being spoken about less and less.

Maxime Laisné: The environment looks propitious and, following a 2022 full of exits, we're getting in a position to buy and are on the lookout for some attractive opportunities.

Fabrice Bober
Executive Director Investments, joined Helarb Management S.A. in 2010.

Maxime Laisné
Executive Director Finance & Administration, joined Helarb in 2013.

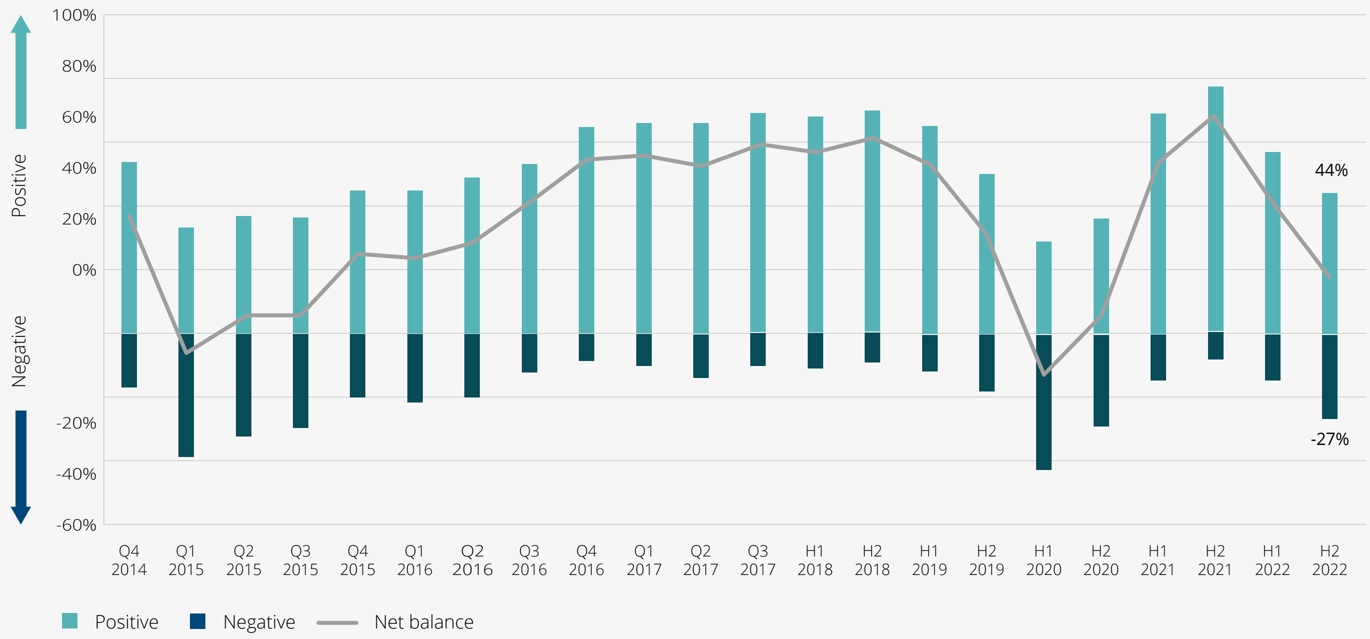
They have accepted to explain their investment strategy and give us their 2023 forecasts.

Economic environment in Switzerland

High uncertainty regarding the future economy

Economic outlook for Switzerland—CFO confidence index[1]

Net balance of CFOs rating their company's financial prospects over the next 12 months as positive/negative



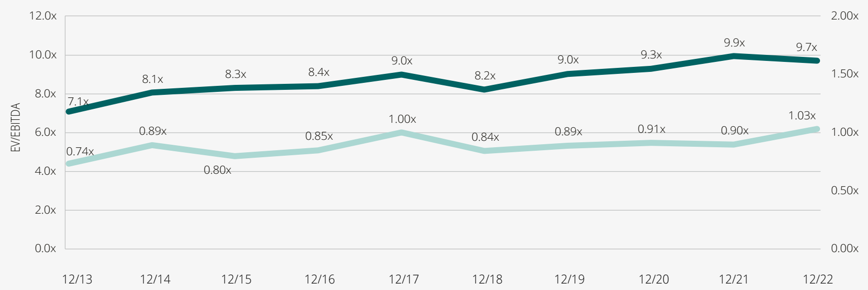
Switzerland prepares for gloomier days

According to the most recent Deloitte CFO Survey, the Swiss economic outlook deteriorated significantly in 2022. The survey respondents expected improvements over the next 12 months in their key performance indicators for the number of employees, revenues, and investments. While geopolitical risks were a concern in H1 2022, the year ended with a focus on inflation, supply chain, and rising prices for raw materials and energy. Only 33% of CFOs in Switzerland considered the economic outlook to be positive over the next 12 months, compared to 83% in the previous year's survey in November 2021.

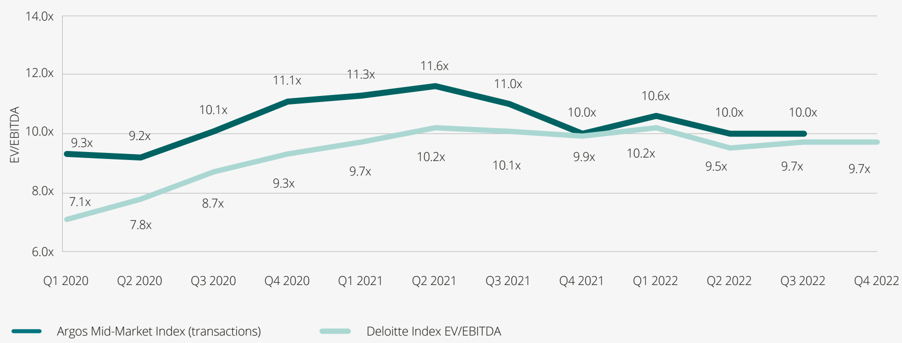
Deloitte Swiss Small & Mid Cap index

After falling slightly in Q2 2022, the Deloitte Swiss Small & Mid Cap index rebounded between Q3 and Q4 2022

Development of the Deloitte Small & Mid Cap index (2013–2022)[1]



Quarterly change in multiples



The Deloitte Swiss Small & Mid Cap index is based on a sample of 67 Swiss listed companies (so-called trading multiples), while the Argos Mid-Market index measures Eurozone private mid-market company valuations based on *transactions* (so-called transaction multiples).

Both indices are expressed as an average EV/EBITDA ratio, EBITDA reflecting the profitability of companies.

Note: *These indices represent averages. The multiples for individual companies can vary greatly depending on the sector and the position of a company in it. The Deloitte Swiss Small & Mid Cap index, for example, shows an average in Q4 2022 of 9.7x EV/EBITDA, with a first quartile at 4.5x and a third quartile at 18.0x.*

Trading multiples

After increasing continually since mid-2020, the Deloitte Small & Mid Cap Index stalled in mid-2021 and has fallen slightly since then. However, with an EV/EBITDA multiple of 9.7x, it has stabilised at a high level.

The favourable M&A conditions caused by the bullish stock markets, economic growth, and liquidity injections due to COVID-19 have led to a rising index since mid-2020. Accommodative monetary policies also fuelled this rise. The deteriorating macroeconomic environment, supply chain risks and later the war in Ukraine led to a fall in the index from mid-2021. Nevertheless, the index stabilised at a high level in Q3 and Q4 2022 and does not seem to fully reflect the macroeconomic and geopolitical risks. According to the IMF, several European countries are on the brink of recession. A fall in inflation remains elusive and geopolitical risks persist.

Transaction multiples[2]

The Europe-wide acquisition multiple for unlisted SMEs (Argos Mid-Market index) fell to 10.0x EBITDA in Q3 2022 (down from the all-time high of 11.6x in 2021) and is at the average level for the past five years. This fall reflects lower prices paid by investment funds, at 10.7x EBITDA, after a record high reached in the second quarter of 2021 (12.9x). It also brought prices closer to the 9.9x EBITDA paid by industry players.

The proportion of transactions at multiples exceeding 15.0x EBITDA fell from the first quarter of 2022 to its pre-Covid level in 2019 of 12% of analysed transactions. The proportion of transactions at multiples below 7.0x EBITDA represented 16% of the sample, in line with the average for the past five years.

Like the Deloitte Swiss Small & Mid Cap index, the Argos Mid-market index fell only slightly, despite the weak market conditions. However, this may not fully reflect the current situation, given the Argos Mid-Market index is based on past transactions.

[1] Capital IQ
[2] Argos Mid-Market index, Argos Wityu

2023 Outlook

2021 took M&A activity to new heights, but the record was broken again in 2022, even though macroeconomic conditions have deteriorated. This led to a slow-down in M&A activity in the second half of 2022. Nevertheless, SME valuations remain high (EV/EBITDA of 9.7x) and have risen slightly since Q2 2022. Given the abundance of capital, continued favourable financing conditions, and continuing low interest rates in Switzerland, we expect valuations to remain somewhat high in 2023, if macroeconomic conditions do not deteriorate further. The IT services sector and the business and engineering Services sector led the way in 2022 and are sectors to watch in 2023 as they continue to ride the wave of new technology adoption.

Although low economic growth of 1.0% is expected for Switzerland in 2023[1], some forecasts predict that economies of industrialised countries will slip into a mild recession. Headwinds such as the threat from inflation and further interest rate hikes could derail transactions both from a seller's and a buyer's point of view. Higher interest rates reduce the appetite for M&A activity and are likely to affect valuations. Deal activity will be affected by the global repercussions of the war in Ukraine as well as by high inflation, although the impact of COVID-19 on global public health is lessening. Traction in the M&A market will also depend on interventions by governments and central banks to sustain the economy and capital markets, as well as on geopolitical risks in some other parts of the world, and by the desire of buyers to secure highly sought-after skills that they struggle to recruit in the labour market.

On a positive note, the economic prospects for the beginning of 2023 have improved over the overall sentiment prevailing since the end of 2022. Recent economic data for Europe is better than anticipated, with a lower price of energy and stronger consumer demand. This gives hope for a better-than-anticipated economic performance for the current year and improving economic data could have a favourable impact on the level of M&A activity over the next twelve months.

[1] Swiss State Secretariat for Economic Affairs (SECO)

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 01/01/2022 to 31/12/2022.
- 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

1 Important notice regarding information from capital IQ: this document may contain information obtained from third parties, including data from rating agencies such as standard & poor's. The reproduction and distribution of third party content in any form whatsoever is prohibited without the prior written consent of the third party concerned. Third party content providers do not guarantee the accuracy, completeness, up-to-date or availability of any information, including ratings, and are not responsible for any errors or omissions (negligence or otherwise), whatever the cause, or for the results obtained from the use of such content. Any third party content provider makes no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers are not liable for any direct, indirect, ancillary, exemplary, compensatory, punitive, special or consequential damages, expenses, legal costs or losses (including lost profit or revenue and expenses or losses of opportunity caused by negligence) in connection with the use of their content. Including ratings. Credit ratings are statements of opinion and are not facts or recommendations to buy, hold or sell securities. They do not discuss the suitability of the securities or the suitability of the securities for investment purposes and should not be used as investment advice.

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 (70 Mid & Small Capitalisation companies listed on the Swiss Exchange SIX and part of the SPI19 index as of 31/12/2022) 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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