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Manufacturing M&A
Predictions Switzerland
H1 2015

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Foreword

Welcome to the first edition of the **Deloitte Manufacturing M&A Predictions Switzerland** which focuses on key trends in manufacturing M&A.

In the first edition of our twice-yearly M&A predictions we look at five current trends that will have a significant impact on the future dealmaking environment in all subsectors of the Swiss manufacturing industry.

CEOs and CFOs of medium to large cap Swiss manufacturing companies made their predictions during March/April, following the Swiss National Bank's abolition of the exchange rate floor of the Swiss Franc to the Euro on 15 January 2015.

We would like to thank all participants who kindly took the time to share their thoughts and views of the current M&A outlook in the Swiss manufacturing industry. We hope that these predictions will give you valuable insights around the issues deal makers are facing in this sector.

Key highlights

Five key trends for manufacturing M&A activity in Switzerland

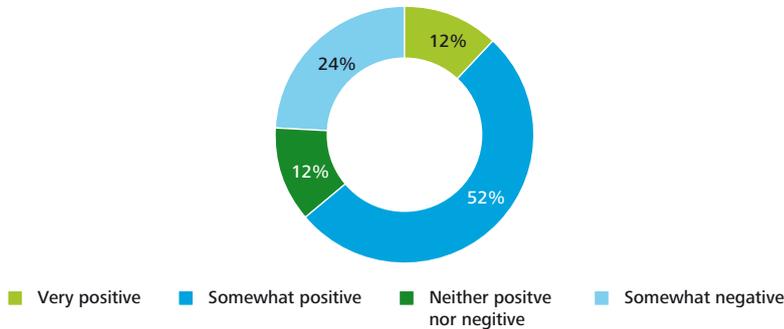
- 1. M&A environment:** The majority of respondents remains positive about financial prospects and plans to increase their M&A activity. Filling technology gaps is the key driver and price expectation gaps the main obstacle of M&A activity.
- 2. M&A and strong Swiss Franc:** The most active buyers and sellers in Switzerland are coming from North America and Germany. The abolition of the exchange rate floor is having no significant impact on M&A strategies.
- 3. M&A valuations:** Existing funds are the main source of deal finance and the availability of debt finance for deals remains high. Majority investments are seen as the preferred investment strategy.
- 4. M&A origination and execution:** Manufacturers remain acquisitive, with Germany, North America and China the key target regions.
- 5. M&A auctions:** The majority of manufacturers see M&A auctions as unattractive and do not participate in them.

M&A environment

The majority of respondents remain positive about financial prospects and plan to increase M&A activity. Filling technology gaps is the key driver while price expectations is the main obstacle.

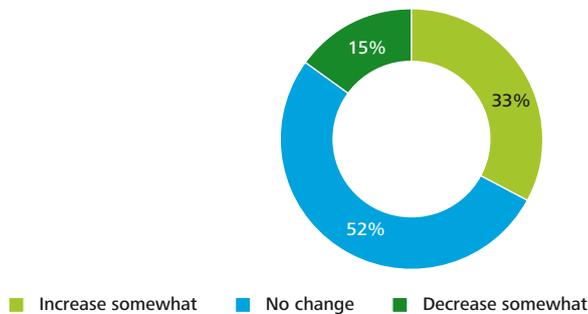
M&A environment

How do you feel about the general financial prospects for your company in the next 12 months?



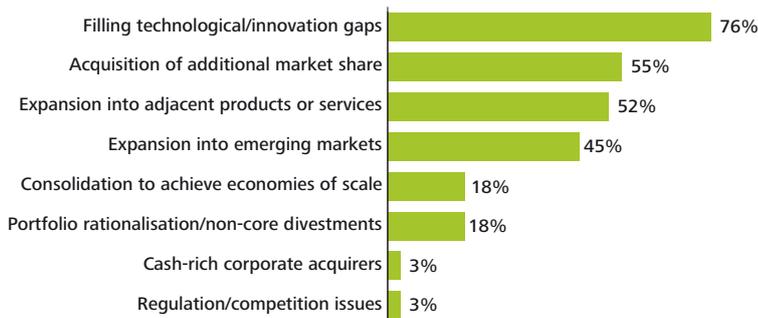
- One in two Swiss manufacturers (52%) feels **somewhat positive** about their financial prospects in the next 12 Months; 12% of respondents feel even very positive.
- Only a small minority (24%) feels somewhat negative, and no respondents feel very negative.

Over the next 12 months, how do you expect the level of M&A activity for your company will change?



- 52% of respondents think that their will be **no change** in their M&A activity, with another 33% expecting a **slight increase** over the next 12 months; only a small minority (15%) expect activity to decrease somewhat.
- Even though the general economic outlook has deteriorated in recent months, according to the latest Deloitte CFO survey, financial prospects and expected M&A activities of Swiss manufacturers remain upbeat.

What are the main drivers of M&A activity for your company in the next 12 months?



- 76% of respondents say that the **filling of technological and innovation gaps** will be the number one driver of their M&A activity in the coming year.
- Acquiring **additional market shares** (55%) and **expanding into adjacent product or service areas** (52%) are the next two important drivers.
- In addition, almost one in two respondents plans to use M&A to expand into emerging markets.

What are the main obstacles to M&A activity for your company in the next 12 months?



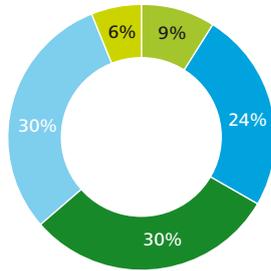
- The number one obstacle to M&A activity is the **price expectation gap** between buyers and sellers (mentioned by 61% of respondents).
- A **lack of available targets** (36%) and **economic uncertainty** (30%) are additional obstacles.
- Political risks were identified as an obstacle by every fifth respondent.

M&A and strong Swiss Franc

Most active buyers and sellers in Switzerland are coming from North America and Germany. The abolition of the exchange rate floor is having no impact on M&A strategies.

M&A and strong Swiss Franc

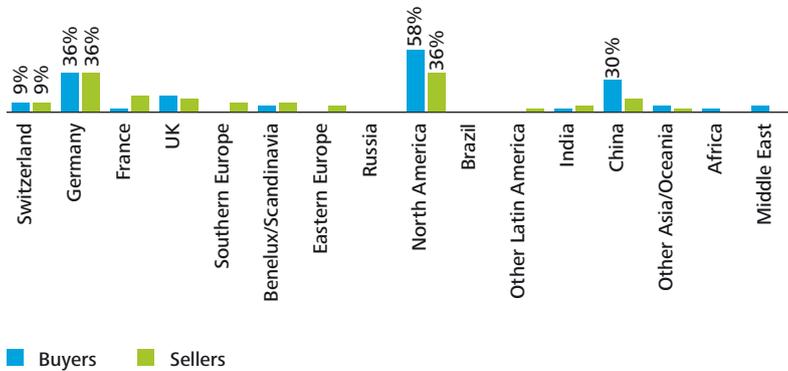
How attractive is Switzerland as a target country for M&A?



■ Very attractive
 ■ Somewhat attractive
 ■ Neither attractive nor unattractive
■ Somewhat negative
 ■ Very unattractive

- 30% of respondents consider Switzerland as **neither an attractive nor unattractive M&A target**.
- Another third of Swiss manufacturers judge Switzerland as somewhat attractive or very attractive, while roughly a third view Switzerland unfavourably.

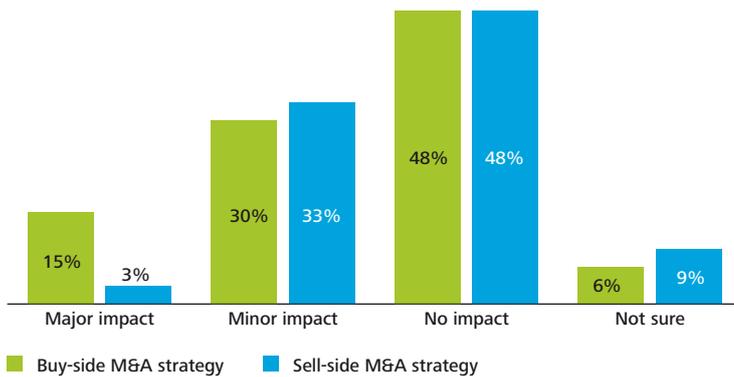
Where do you feel the most active buyers and sellers are based?



■ Buyers
 ■ Sellers

- Most active buyers in Switzerland are coming either from **North America (58%)**, **Germany (36%)** or **China (30%)**.
- Most active sellers are also coming from **North America** or **Germany** (each 36%).
- Swiss buyers and sellers (9% each) are not seen as the most active ones in the Swiss marketplace.

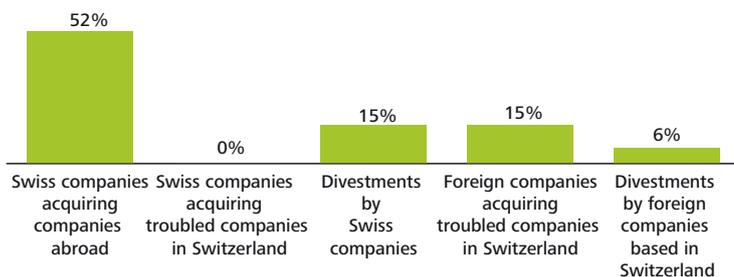
What impact will the abolition of the CHF floor of 1.20 against the Euro by the SNB have on your longer term M&A strategy?



■ Buy-side M&A strategy
 ■ Sell-side M&A strategy

- Almost one in two Swiss manufacturers think that the abolition of the exchange rate floor by the Swiss National Bank (SNB) on 15 January 2015 will have **no impact** on their buy-side or sell-side M&A strategy.
- A third of respondents think that the SNB's action might have a minor impact, while 15% think it will have a major impact, but only on their buy-side M&A strategy.

What do you think will be the main M&A opportunities in the coming 12 to 24 months arising from the abolition of the exchange rate floor?



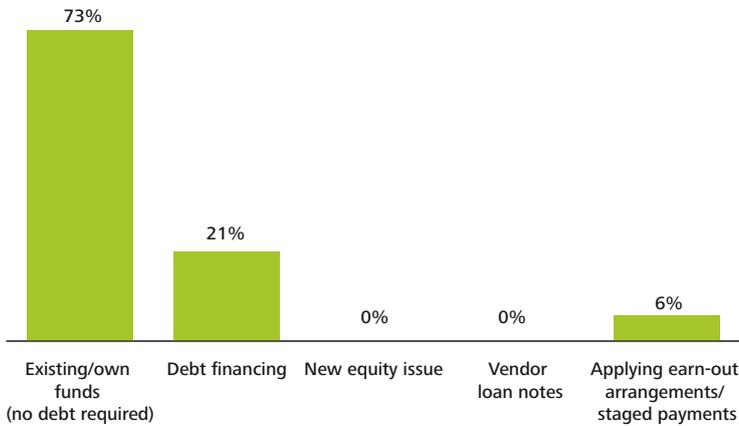
- The main opportunity arising from the abolition of the exchange rate floor would be **Swiss companies that acquire companies abroad** (52% of respondents).
- Other opportunities participants cited are foreign companies acquiring troubled companies in Switzerland and more investments by Swiss companies (each 15%).
- Non of the respondents think that Swiss companies will acquire troubled companies in Switzerland.

M&A valuations

Existing funds are the main source of deal finance and availability of debt finance for deals remains high. Majority investments are the preferred investment strategy.

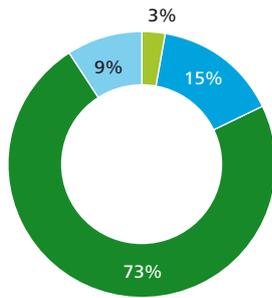
M&A valuations

What source of deal finance is your company most likely to use in the next 12 months?



- 73% of Swiss manufacturers identify **existing/own funds** as the main source of deal finance for their companies.
- Another 21% mention **debt financing** and only 6% are planning to apply earn-out arrangements/staged payments as a source of deal financing.

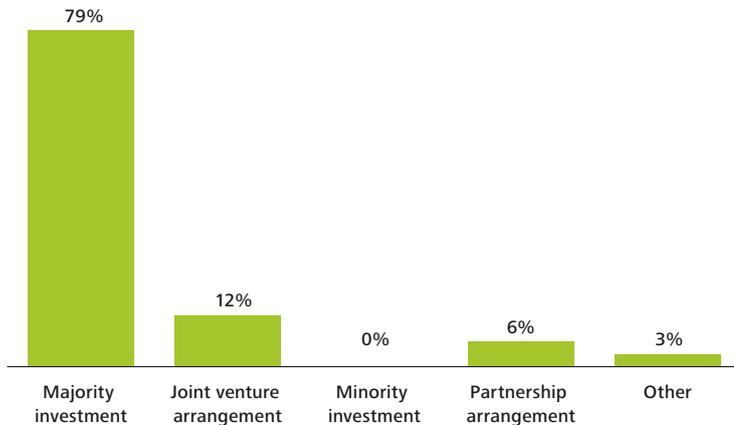
In the next 12 months, do you think that the availability of debt finance for deals for your company will...?



- Regarding the availability of debt finance for deals for their companies, the outlook for the next 12 months is very positive.
- 73% of respondents think that the **availability of debt finance for deals will not change**; with another 15% expecting it to increase somewhat, while 3% expect it to increase significantly.
- Only 9% think the availability of debt finance for deals will decrease.

■ Increase significantly ■ Increase somewhat ■ Not change ■ Decrease somewhat

In your view, what will be the preferred investment strategy for your company in the next 12 months?



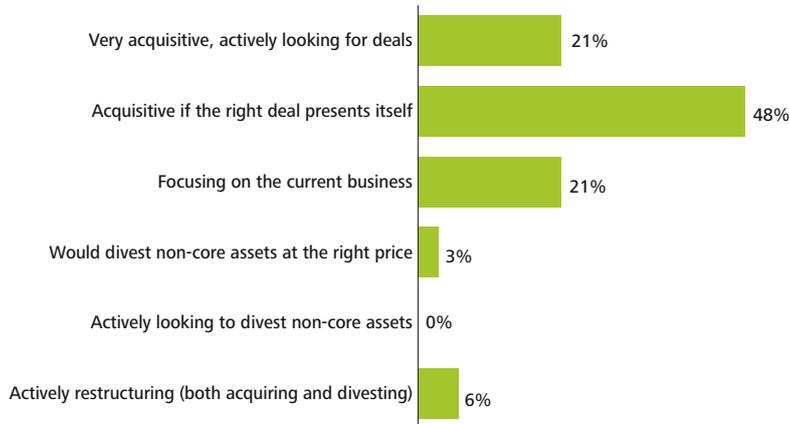
- A large majority of 79% of surveyed Swiss manufacturers name **majority investments** as their preferred investment strategy.
- **Joint venture** arrangements are only preferred by 12% of respondents and **partnership** arrangements by 6%.

M&A origination and execution

Manufacturers are acquisitive, with Germany, North America and China key target regions. Execution success factors are the quality of the internal M&A team and the target management team.

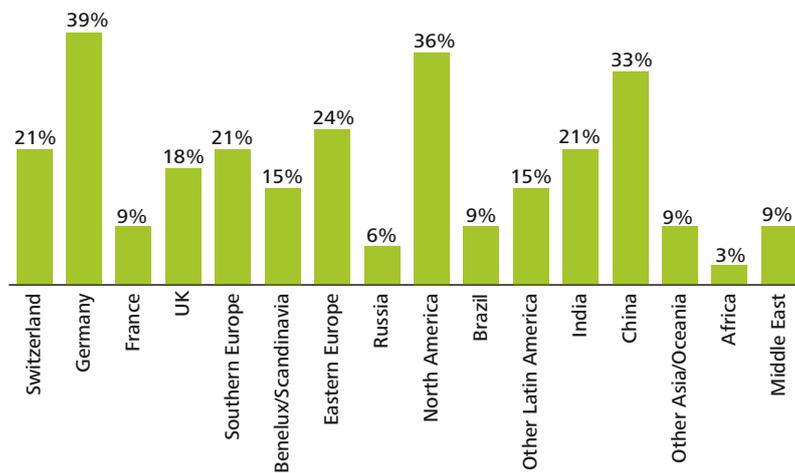
M&A origination and execution

Which of the following best describes your company's current M&A strategy?



- Almost one in two Swiss manufacturers (48%) has an M&A strategy that is **acquisitive** if the right deal presents itself; a further 21% are **very acquisitive** and actively looking for deals.
- Another 21% are rather **passive** and are focusing on the current business.
- Only a small minority of the surveyed Swiss manufacturers are currently divesting.

In which countries/regions are you looking to acquire?



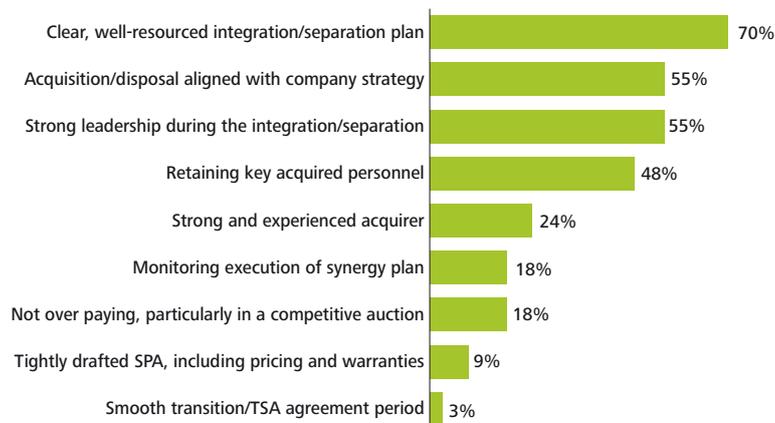
- **Germany** (39%), **North America** (36%) and **China** (33%) are the top three countries/regions in which Swiss manufacturers are looking to acquire.
- In addition, one in two Swiss manufacturers has acquisition plans in Eastern Europe (24%), Southern Europe, Switzerland and India (all 21%).

What are the most important success factors in executing a transaction?



- Swiss manufacturers identified the **quality of the internal M&A team** (73%) and the **quality of the target management team** (52%) as the top two execution success factors.
- Other key success factors mentioned include the **prior leadership experience** of transaction processes (33%), **extensive due diligence** (30%) and existence of **comprehensive vendor material** (27%).

What factors most underpin a successful transaction?



- When it comes to the transaction success factors, a clear, well-resourced **integration/separation** plan is seen as most important (70%), followed by acquisition/disposal **alignment with company strategy** and **strong leadership** during the integration/separation process (each 55%).
- **Retaining key personnel** of the acquired companies is seen as an additional transaction success factor by 48% of respondents.

What do you consider to be the top three challenges in conducting transactions?



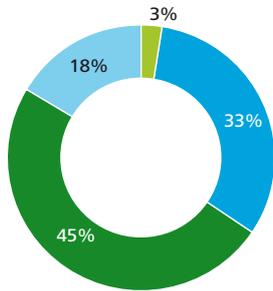
- The close monitoring of the integration, retaining key personnel and manage motivation and the **bringing together of different cultures** are seen as the top three challenges in conducting transactions.
- Other key challenges mentioned are the selection of the right target, managing price expectations, the realisation of proposed synergies and the timing of transactions.

M&A auctions

The majority of manufacturers see M&A auctions as unattractive and do not participate in them. More than three-quarters of respondents have been approached for selling/divestitures.

M&A auctions

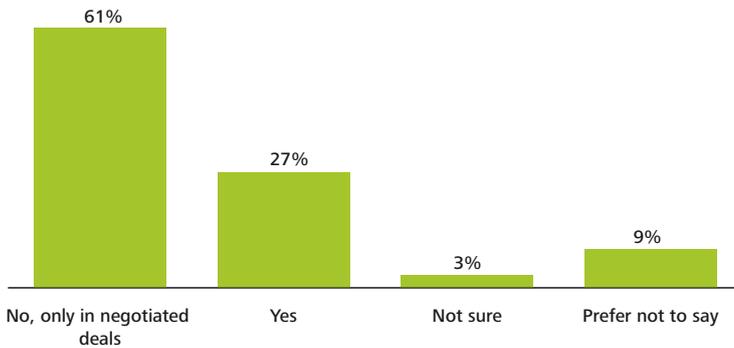
How attractive are M&A auctions?



■ Very attractive
 ■ Neither attractive nor unattractive
 ■ Somewhat unattractive
 ■ Very unattractive

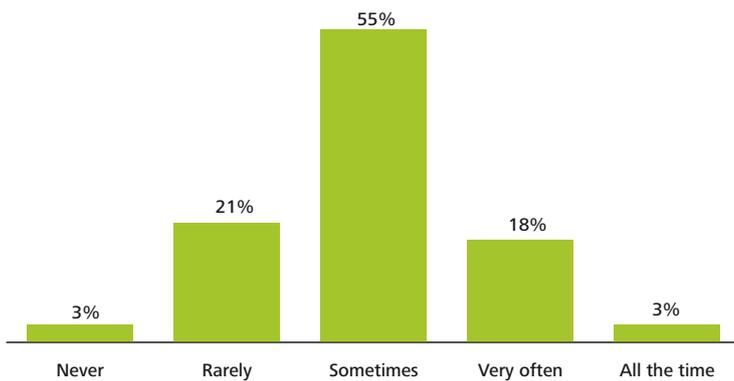
- One-third of Swiss manufacturers surveyed view M&A auctions as neither attractive nor unattractive.
- The majority of respondents (45%) consider M&A auctions as **somewhat unattractive** while 18% say they are **very unattractive**.

Has your company participated in M&A auctions in the past 12 months?



- The majority of Swiss manufacturers (61%) have **not participated** in M&A auctions in the last year, preferring negotiated deals.
- Only 27% of respondents participated in auctions.

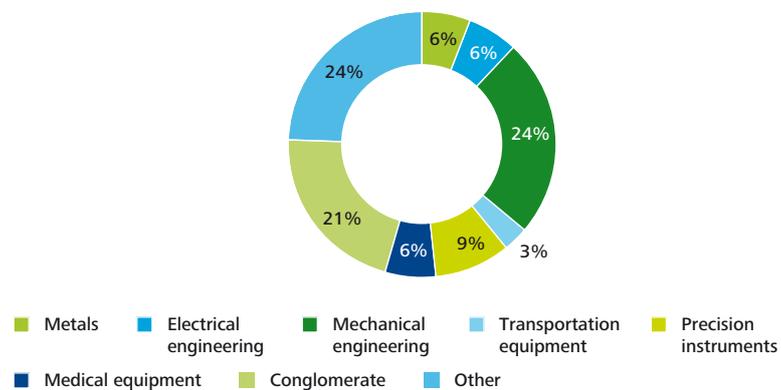
In the past 12 months, how often has your company been approached for selling/divestitures?



- 55% of Swiss manufacturers have sometimes been approached in the last year for selling/divestitures.
- The number of companies that have been approached very often or all the time equals almost the number of companies that have been approached rarely or never.

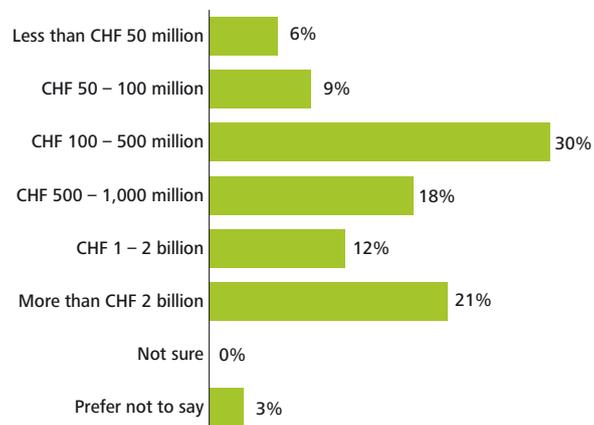
About the survey

Industry sector split



- The survey for the **Deloitte Manufacturing M&A Predictions Switzerland** was conducted between March-April 2015.
- It focuses on the Swiss manufacturing industry with companies from all industry sectors participating.
- The survey includes small and medium sized companies, large manufacturers and multinational groups.
- 82% of the Swiss manufacturers surveyed earn over two-thirds of their revenue outside Switzerland.

Turnover split



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Designed and produced by The Creative Studio at Deloitte, Zurich. 44815A