

# SWITZERLAND

*Manuel Werder, Till Spillmann, Thomas Brönnimann, Philippe Weber, Ulysses von Salis, Nicolas Birkhäuser, Elga Reana Tozzi<sup>1</sup>*

## I OVERVIEW OF M&A ACTIVITY

A thirst for innovation has continued to drive M&A in Switzerland, with a particular interest in pharma, medtech and biotech. According to *Mergermarket*, four of Switzerland's top 10 deals in 2017 targeted that sector. Other active sectors included industrials and chemicals, business services and technology. In total, *Mergermarket* counted 203 deals in 2017 (compared with 211 in 2016) with a total deal volume of €37.7 billion.

In Q1 of 2018, M&A activity continued at a similar pace in terms of the number of deals (42). As in previous years, the majority of deals and value came from foreign investors. According to *Mergermarket*, inbound activity in Q1 (€7.9 billion; 26 deals) accounted for 96 per cent and 62 per cent of the Swiss deal value and count, respectively.

These numbers show that relative to the size of its population, Switzerland plays a disproportionately important role in M&A in the DACH (Germany, Austria, Switzerland) region and offers interesting investment opportunities to foreign investors.

Some of the most notable deals in 2017 and Q1 2018 include:

- a* US\$30 billion public takeover of Swiss-listed biotech giant Actelion combined with the spin-off and listing of Idorsia (Actelion's portfolio of new drug candidates);
- b* discontinued merger between SIX<sup>2</sup>-listed Clariant and Huntsman (combined estimated enterprise value of US\$20 billion) announced in May 2017;
- c* 2.75 billion Swiss franc acquisition of SIX Payment Services by Paris-listed Worldline announced in May 2018;
- d* the 2.3 billion Swiss franc disposal of Landis+Gyr by Toshiba and Innovation Network Corporation of Japan by way of an initial public offering (IPO) (dual-track);
- e* first-of-its-kind acquisition of a portfolio of 2,239 Swiss telecom towers from Sunrise Communications by a consortium led by Spanish-listed Cellnex Telecom; and
- f* acquisition of Swiss-headquartered Symetis SA, a leading European developer of innovative heart valve replacement devices, by Boston Scientific Corporation, US.

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1 Manuel Werder, Till Spillmann, Thomas Brönnimann, Philippe Weber, Ulysses von Salis and Nicolas Birkhäuser are partners and Elga Reana Tozzi is a counsel at Niederer Kraft Frey Ltd.

2 Swiss Infrastructure and Exchange.

## II GENERAL INTRODUCTION TO THE LEGAL FRAMEWORK FOR M&A

M&A transactions are mainly governed by:

- a* the Swiss Code of Obligations, which provides the statutory framework for the acquisition and sale of companies (share deals) or of their assets and liabilities (asset deals);
- b* the Federal Act on Merger, Demerger, Transformation and Transfer of Assets, which regulates mergers, demergers, conversions and transfer of assets and liabilities; and
- c* the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act (FMIA)) and its implementing ordinances.

The FMIA applies to public cash and share exchange offers to holders of equity securities of companies whose equity securities are listed on a Swiss exchange (in the case of non-Swiss domiciled companies, the FMIA applies only to those companies with a primary, full or partial listing on a Swiss exchange). The rules and procedures applicable to public tender offers laid down in the FMIA and its implementing ordinances are designed to ensure fairness, equal treatment and transparency in voluntary and mandatory public tender offers. The obligation to launch a mandatory tender offer arises whenever a person or a group of persons acting in concert, directly or indirectly, acquires equity securities of a Swiss company listed in Switzerland, or a foreign company with a primary listing in Switzerland, and thereby exceeds the threshold of one-third of the voting rights (whether exercisable or not). In the case of a mandatory tender offer (including offers that would result in the triggering threshold being exceeded), the offer price per share may not be lower than the volume-weighted average stock price on the relevant Swiss exchange of 60 trading days prior to the formal announcement or the publication of the offer or the highest price paid by the bidder (or persons acting in concert with the bidder) for equity securities (including options) of the target during the preceding 12 months.

The articles of association of listed companies may provide for a higher threshold of up to 49 per cent of the voting rights (opting up) or may declare the mandatory tender offer obligations to be not applicable (opting out). The Takeover Board (TOB) and its supervisory authority, the Swiss Financial Market Supervisory Authority (FINMA), monitor public tender offers. The TOB can issue binding orders against parties, which can be appealed to the FINMA. The FINMA's decisions can be appealed to the Federal Administrative Court. The relevant decisions are published online.<sup>3</sup>

Various other rules may also be relevant for the acquisition and sale of corporate entities and of their assets and liabilities, including, among others:

- a* the listing rules of the respective stock exchange if the transaction results in the listing of new shares on a stock exchange;
- b* employment law (automatic transfer of employment relationships and information and consultation rights of employees);
- c* the Federal Act on the Acquisition of Real Estate by Persons Abroad, which contains regulations on the acquisition by foreign persons, or foreign-controlled companies, of residential property or land in Switzerland;

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3 At [www.takeover.ch](http://www.takeover.ch).

- d* the Federal Act on Cartels and other Restraints of Competition, which, in combination with the Ordinance of Merger Control, regulates merger control; and
- e* industry specific laws and regulations, such as financial services, telecommunications, insurance, and energy laws and regulations.

### **III DEVELOPMENTS IN CORPORATE AND TAKEOVER LAW AND THEIR IMPACT**

#### **i Private M&A**

Corporate law is currently under revision in several aspects and with multiple aims. On 23 November 2016, the Swiss Federal Council issued a report on its amendment proposal. First, the Ordinance against excessive remuneration in listed stock corporations, which entered into force on 1 January 2014 as transitional regulations, is to be adopted into federal law. Second, the rules on the incorporation of companies and the capital structure are to become more flexible. Third, the draft legislation contains a proposal for transparency rules for economically significant companies that are active in the extractive industries. Finally, guidelines on gender representation at board and senior executive level in major listed companies have been proposed.

The proposed new legal provisions that originate in the Ordinance against excessive remuneration in listed stock corporations foresee the following:

- a* sign-on bonuses that do not offset any demonstrable financial disadvantage are to be prohibited or limited;
- b* compensation for non-compete clauses that are not commercially justified are to be prohibited or limited;
- c* shareholders may vote in advance or *ex post* on the remuneration for top managers. If shareholders vote in advance on the variable remuneration for top managers, they must also be presented with the annual compensation report for a subsequent consultative vote;
- d* more effective ways shall be introduced for claiming the reimbursement of unlawful payments.

Furthermore, the Federal Council's report provides for increased flexibility and simplification in a number of areas. Share capital may henceforth be denominated in a foreign currency. The new law introduces the possibility for a shareholders' meeting to foresee a new capital band, which authorises the board of directors to freely increase (authorised capital increases) and reduce the share capital (authorised capital reductions) within the capital band without any need for further shareholder resolutions. In addition, the need for public certification by a notary for the incorporation of stock corporations, limited liability companies and cooperatives, and their dissolution and cancellation from the commercial register, will now be both possible and straightforward.

The Federal Council is further proposing reforms to other specific areas. For example, by revising the provisions on corporate restructuring, it aims to create incentives for companies to take the necessary action at an early stage and thus avoid insolvency. In addition, arbitral tribunals will be able to rule on disputes under company law in addition to the public courts, as is the case at present.

Furthermore, in an effort to make financial flows in the commodities sector more transparent, the Federal Council has proposed, in an electronic report, the imposition of a requirement on significant companies that are active in the extractive sector to disclose payments to state bodies in excess of 100,000 Swiss francs per financial year.

Finally, the Federal Council proposed the introduction of gender guidelines for the boards of directors and executive boards of major listed companies, namely that women should account for at least 30 per cent of a board of directors and at least 20 per cent of an executive board. The law provides for a 'comply-or-explain' approach, that is to say if these thresholds are not met, the stock corporation will be required to state the reasons, and the action that is being taken to improve the situation, in its remuneration report. The new law provides for transitory periods of five years for boards of directors and 10 years for executive boards.

The proposal has not yet been discussed in the Swiss Parliament. Only the legal commission of the national chamber has initiated discussions; it issued a report on 18 May 2018 and made a number of requests. It appears that the discussions may be extensive and time-consuming and that the deliberations will result in changes to the proposed Bill. It cannot therefore be anticipated when the new legislation will enter into force and in what exact form.

## **ii Public M&A**

No major amendments were made to takeover legislation in 2017. The only notable change relates to the Swiss Takeover Board's Circular No. 3 on the Review of Public Takeover Offers (TOB Circular No. 3), which was revised by the Swiss Takeover Board with effect from 1 January 2017. The revised TOB Circular No. 3 refers to the new Swiss auditing standard (PS 880) for the review of public takeover offers, which was adopted by the Certified Accountants and Tax Consultants and approved by the Federal Audit Supervision Authority on 28 November 2016. This auditing standard lays down the principles that review bodies must follow when reviewing public takeover offers and the form and content of the reports. While PS 880 is binding on government-supervised audit firms by operation of law, the Swiss Takeover Board, by adopting the revised TOB Circular No. 3, declared PS 880 to be binding on securities dealers acting as review bodies in the sense of Swiss takeover legislation as well.

Furthermore, the Swiss Takeover Board issued a number of decisions in connection with public takeover transactions. In its decision 670/01 dated 28 August 2017 in the matter of ImmoMentum Ltd, it further developed its practice on the best price rule in the context of investment and shareholder agreements. While it confirmed an earlier decision that typical arrangements in such agreements, such as provisions on transfers and provisions on minority protections, must not be considered as monetary benefits for the purpose of compliance with the best price rule, it further specified that this is not correct if the monetary benefits are of significant value.

## **IV FOREIGN INVOLVEMENT IN M&A TRANSACTIONS**

There are very few restrictions applying to M&A transactions involving Swiss target enterprises. Restrictions apply to specific sectors, such as banking, finance, insurance, transportation and energy. For the acquisition by a foreign investor of a bank or financial institution that is prudentially supervised, an approval from FINMA is required, whereas different tests apply to the acquisition of a controlling stake (i.e., when foreigners holding qualified participations directly or indirectly hold more than half the voting rights or exert a controlling influence in any other way) and the acquisition of a minority interest. The approval of an acquisition

of a controlling stake will depend, among other things, on the granting of reciprocal rights by the country in which the qualified participant is resident or domiciled. Furthermore, the Federal Law on the acquisition of real estate in Switzerland by non-residents (known as Lex Koller) restricts the direct or indirect acquisition of non-commercial real estate in Switzerland by foreigners. These rules may also apply to a target entity that has a commercial purpose and pursues commercial activities, if it owns residential real estate in its portfolio or if it has significant unused land reserve.

## **V SIGNIFICANT TRANSACTIONS, KEY TRENDS AND HOT INDUSTRIES**

One of the most innovative and notable M&A transactions in Switzerland in recent years has been completed in 2018: the takeover of Actelion Ltd, the Swiss-listed biotech company, by Johnson & Johnson. The purchase price of US\$30 billion in cash makes this the largest biotech transaction in Europe. Johnson & Johnson agreed on 26 January 2017 to launch a public cash offer for all shares in Actelion, which is listed on the SIX. As part of the agreed transaction, Actelion made a spin-off of its promising drug discovery operations and early-stage clinical development assets into a newly created Swiss biopharmaceutical company, Idorsia Ltd. Before closing, the shares in Idorsia were by way of an extraordinary dividend in kind distributed to Actelion's shareholders, and at closing the shares in Idorsia were listed on the SIX, thereby starting a biotech start-up with more than 600 employees, more than 1 billion Swiss francs in cash and an initial public offering at its first business day. This transaction structure allowed the shareholders of Actelion to keep the potential profits of the research that Actelion had been nurturing for decades with its outstanding research team and bridging the problem that it would have been very difficult to agree with Johnson & Johnson on a reasonable valuation of this high-risk early-stage research business. Also, it allowed a large number of the management team at Actelion, including chief executive officer Paul Clozel, to continue to work in an independent company with a very entrepreneurial spirit. Johnson & Johnson bolstered its product portfolio with Actelion's blockbuster drugs while also receiving an option on Idorsia's ACT-132577, a compound for resistant hypertension that is in development.

As part of the transaction, Actelion had to be split by spinning off its drug discovery operations and early-stage clinical development assets into a new entity. This complex undertaking had to be fully implemented within less than six months, including splitting the intellectual property portfolio and finding solutions for business functions that both business units had been sharing. As part of the transaction, Johnson & Johnson also acquired a significant shareholding in Idorsia, whereby a well-designed governance structure had to be developed to address concerns from the competent merger control authorities. Finally, Johnson & Johnson also provides a credit facility to Idorsia.

## **VI FINANCING OF M&A: MAIN SOURCES AND DEVELOPMENTS**

In general, low interest rates and high cash levels at companies and sponsors continued to underpin the strong M&A activity in 2017. Large Swiss leveraged acquisition finance transactions are usually arranged by international banks through the UK or US market and placed with banks and institutional investors using Luxembourg or Netherlands acquisition vehicle structures. In most cases, funding is made through both loans and bonds. The domestic acquisition finance market is mainly driven by the large Swiss banks and some smaller ones,

such as cantonal banks and other smaller financial institutions. Because of the particularities of Swiss tax laws, bonds issued by Swiss issuers are less attractive, in particular in the context of leveraged acquisition finance transactions. In addition, because of the negative interest rates, the trend of institutional investors (in particular, insurance companies and pension funds) and other non-bank lenders providing lending has also continued. Such investors are particularly interested in real estate, infrastructure and energy investments offering relatively secure long-term and resilient cash flow and return profiles.

## VII EMPLOYMENT LAW

No major amendments were made to Swiss employment law in 2017. In the context of M&A transactions, the relevant rules are those governing the transfer of employees in the event of a transfer of an enterprise by way of asset transfer, merger or demerger. These rules do not apply to share transfers. In the event of a transfer of an enterprise, the employment agreements with the employees transfer by operation of law unless an employee refuses the transfer, in which case the employment agreements will transfer to the acquiring party but be terminated within the statutory periods (i.e., one to three months, depending on the number of years the employee has been employed).

The employee representative body or, if there is none, the employees themselves, must be informed in due time prior to the anticipated transfer about the reasons for the transfer and the legal, economic and social consequences. If measures affecting employees are contemplated as an outcome of the transfer, the employee representative body or, if there is none, the employees themselves, must be consulted prior to any decision on these measures being made. This may conflict with stock exchange rules, which require that transactions are kept confidential until they are executed and that only a confined circle of persons are involved in the transaction process on a need-to-know basis.

## VIII TAX LAW

Under the Federal Direct Tax Act (FDTA),<sup>4</sup> capital gains arising from the sale of privately held shares of a Swiss tax resident person are tax free. However, the tax law states some exemptions whereby a capital gain would be subject to income tax and withholding tax in the following two basic cases:

- a An indirect partial liquidation,<sup>5</sup> (i.e., capital gains arising from the sale of at least 20 per cent of the capital of a company if the purchaser were a company or an individual person holding those shares as a business asset). It is a well-known practice that the seller asks for tax warranties and representations in the sale and purchase agreement, whereas the purchaser cannot merge the target with the acquisition company or declare a dividend from distributable non-business-related reserves (available at the date of the purchase) during a five-year blocking period.

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4 Article 1b, Paragraph 3 of the Federal Direct Tax Act (FDTA).

5 Article 20a, Paragraph 1(a) FDTA.

- b* A transposition,<sup>6</sup> that is to say a realisation of a nominal value gain if a shareholding of at least 5 per cent were contributed by an individual shareholder to a company in exchange for shares, with the result that the individual shareholder would own at least 50 per cent. This should not only be considered for family-owned businesses but also in the case of an IPO. In practice, shareholder agreements and the execution of call options could also trigger a transposition and requalify a nominal value gain into taxable income.

In recent years, the Swiss Federal Tax Administration (SFTA) has developed a new practice for cases of ‘substitutional liquidation’, that is to say when a non-Swiss holding company would sell its Swiss subsidiary to a company that is tax resident in a third country and the Swiss subsidiary would be merged with the non-Swiss tax resident acquisition company, which would result in the distributable reserves of the Swiss subsidiary being transferred to a non-Swiss tax resident company and, accordingly, no longer being subject to Swiss withholding tax. The SFTA could in such a case levy a withholding tax at a rate that is the difference between the residual tax rate applicable pursuant the applicable double tax treaty between the seller state and Switzerland and the applicable double tax treaty between the state of the acquisition company and Switzerland.

The SFTA could in some cases also refuse the refunding of withholding tax if it is deemed that there has been an ‘international transposition’, that is to say if surplus were to be returned to the shareholder through the repayment of loans or by distributing capital contribution reserves instead of a dividend distribution that would be subject to Swiss withholding tax.

Attention should also be given if a target company has an employee share option plan (ESOP) in place. The relevant practice is very strict in respect of the requalification of a capital gain into salary income. In particular, if an employee buys shares (cash settlement of the purchase, i.e., not when shares are issued as a bonus compensation) at a value that is calculated based on an agreed formula and those shares would be sold to a third party based on a different fair market value calculation, the surplus gain (i.e., the difference between the actual formula value and the effective fair market value) would be requalified as salary income and be subject to income tax, and to social security and eventually to pension funds (or even source taxes), which might be a liability of the company. It should be noted that these ESOP tax rules do not apply to founder shareholders or members of a board of directors who are not employees of the company.

Furthermore, the facts and circumstances of purchase price payments related to certain earn-out clauses need to be analysed carefully given that such payments could also be requalified as a salary income.

Switzerland still levies stamp duty of 1 per cent on the issue of shares, but restructuring exemptions are available. Based on a recent federal supreme court case, stamp duty would be due in the case of a quasi-merger if no new shares were issued (i.e., shares in one company would be contributed to another company). In practice, until now it has been possible to contribute to another company without issuing new shares (i.e., in cases of internal reorganisations) but going forward, it is mandatory to issue at least one share.

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<sup>6</sup> Article 20a, Paragraph 1(b) FDTA.

## IX COMPETITION LAW

Under the current merger control legislation, the following transactions are deemed to be a concentration of undertakings subject to merger control:

- a* a statutory merger of two or more previously independent undertakings;
- b* the acquisition of control over one or more previously independent undertakings or parts of undertakings through any transaction, in particular the acquisition of an equity interest or the conclusion of an agreement; and
- c* the acquisition of joint control over an undertaking (joint venture).

Control is assumed if an undertaking can exercise a decisive influence over the activities of the other undertaking by the acquisition of rights over shares or by any other means. The means of obtaining control may, in particular, involve the acquisition of the following:

- a* ownership rights or rights to use all or parts of the assets of an undertaking (if those assets constitute the whole or part of an undertaking, which is a business with a market presence to which a market turnover can be attributed); or
- b* rights or agreements that confer a decisive influence on the composition, deliberations or decisions of the organs of an undertaking.

Partial interests and minority shareholdings are only covered if they allow an undertaking to exercise a decisive influence over another undertaking (this can also be in combination with contractual agreements between the parties or factual circumstances). There is a risk that the acquisition of a minority interest may qualify as an anticompetitive agreement if the undertakings concerned agree to cooperate.

Planned concentrations of undertakings must be notified to the Competition Commission before their implementation if in the financial year preceding the concentration (cumulatively):

- a* the undertakings concerned together reported a worldwide turnover of at least 2 billion Swiss francs or a turnover in Switzerland of at least 500 million Swiss francs; and
- b* at least two of the undertakings concerned each reported a turnover in Switzerland of at least 100 million Swiss francs.

In the case of insurance companies, 'turnover' is replaced by annual 'gross insurance premium income', and in the case of banks and other financial intermediaries by 'gross income'.

The Secretariat decided that a joint venture is exempted from notification (even if the parent companies meet the thresholds) if the following two conditions are both met:

- a* the joint venture does not have activities in Switzerland or does not generate any revenues in Switzerland; and
- b* those activities or revenues are not planned in Switzerland and are not expected to take place in the future.

In addition to turnover, notification is mandatory if one of the undertakings concerned in proceedings under the Cartel Act in a final and non-appealable decision was held to be dominant in a market in Switzerland, and if the concentration concerns either that market or an adjacent market or a market upstream or downstream of that market.

There is no applicable triggering event or time limit. However, notification must be made before the concentration is implemented. For public bids for acquisitions of

undertakings, the notification must be made immediately after publication of the offer and before the acquisition is implemented. The Competition Commission should be contacted in advance so that it can coordinate the proceeding with the Swiss Takeover Board.

Under the current merger control legislation, the Competition Commission may prohibit a concentration or authorise it subject to conditions and obligations if the investigation indicates that the concentration both:

- a* creates or strengthens a dominant position liable to eliminate effective competition; and
- b* does not improve the conditions of competition in another market such that the harmful effects of the dominant position can be outweighed.

The following is currently being debated in Switzerland. The Federal Council commissioned the Department of Economic Affairs, Education and Research to draw up a consultation proposal for adapting the merger control test. It is proposed that the current market dominance test applicable in Switzerland (under Article 10 of the Cartel Act) should be replaced by the Significant Impediment of Effective Competition (SIEC) test. Arguments in favour of the proposed revision of the merger control legislation are, in particular, that the SIEC test is the current prevailing test in the European Union and that the Swiss market dominance test cannot prevent economically harmful mergers; however, this has not been assessed empirically, let alone established.

## **X OUTLOOK**

There continues to be strong interest in Swiss targets from foreign investors, in particular in the sectors already mentioned, namely industrials and chemicals, business services, technology, pharma, medtech and biotech. In addition, there continue to be movements in the Swiss financial services industry. As a result of the restrictions imposed by Chinese regulatory authorities on China outbound investments in December 2016, it is expected that transactions involving Chinese buyers will be at lower levels than in the preceding years. Also, the political instabilities in various parts of the worlds may at any time result in rapid changes to the investment environment.

[ Please note that biographies are compiled in Appendix 1 of the book and are listed in alphabetical order according to surname/family name. ]

### **NICOLAS BIRKHÄUSER**

*Niederer Kraft Frey Ltd*

Nicolas Birkhäuser specialises in merger control proceedings and cartel and abuse of dominance investigations, including multi-jurisdictional coordination, high-profile investigations and transactions, set-up of business (including cooperation, distribution, sourcing, research and development, dominance) and compliance. A particular focus of his practice lies on intellectual property-related aspects of competition law (including cooperation agreements, distribution systems and licensing).

### **THOMAS BRÖNNIMANN**

*Niederer Kraft Frey Ltd*

Thomas Brönnimann's practice focuses on capital markets and private and public M&A transactions, with a particular focus on listed entities and other large enterprises. His M&A practice includes private transactions for both strategic and financial buyers and sellers, and public tender offers. He represents clients before the Swiss Takeover Board.

### **TILL SPILLMANN**

*Niederer Kraft Frey Ltd*

Till Spillmann specialises in large and complex international and domestic private and public M&A, capital markets and corporate finance transactions. In addition, he advises on corporate governance and other corporate and commercial law matters.

### **ELGA REANA TOZZI**

*Niederer Kraft Frey Ltd*

Elga Reana Tozzi is a certified tax expert and specialises in large and complex cross-border M&A, initial public offerings, management buyouts and private equity transactions. She advises national, international and listed companies as well as substantial investors and shareholders.

### **ULYSSES VON SALIS**

*Niederer Kraft Frey Ltd*

Ulysses von Salis specialises in private equity, financing and M&A transactions, with a particular focus on large companies and financial institutions. He regularly advises investors, managers and target companies on private equity transactions.

**PHILIPPE WEBER**

*Niederer Kraft Frey Ltd*

Philippe Weber specialises in large cross-border M&A and financing transactions in various industries, including technology, luxury, industrial goods, travel and retail, life sciences and financial services. He regularly advises international companies and investors (including foreign sovereign wealth funds, state-owned enterprises, private equity) in important investments and other business transactions.

**MANUEL WERDER**

*Niederer Kraft Frey Ltd*

Manuel Werder's practice focuses on corporate law and domestic and cross-border M&A transactions (including corporate restructurings, private equity and venture capital transactions). His expertise also includes commercial, contract, securities and stock exchange law issues.

**NIEDERER KRAFT FREY LTD**

Bahnhofstrasse 53

8001 Zurich

Switzerland

Tel: +41 58 800 8000

Fax: +41 58 800 8080

manuel.werder@nkf.ch

till.spillmann@nkf.ch

thomas.m.broennimann@nkf.ch

philippe.a.weber@nkf.ch

ulysses.vonsalis@nkf.ch

nicolas.birkhaeuser@nkf.ch

elga.tozzi@nkf.ch

www.nkf.ch