

PRACTICE GUIDES

Swiss M&A

First Edition

Contributing Editors

Ueli Studer, Kelsang Tsün and Sophie Stählin



Swiss M&A

Practice Guide

Contributing Editors

Ueli Studer, Kelsang Tsün and Sophie Stählin

Reproduced with permission from Law Business Research Ltd

This article was first published in July 2020

For further information please contact editorial@gettingthedealthrough.com



Publisher

Edward Costelloe
edward.costelloe@lbresearch.com

Subscriptions

Claire Bagnall
claire.bagnall@lbresearch.com

Senior business development managers

Adam Sargent
adam.sargent@gettingthedealthrough.com

Dan Brennan
dan.brennan@gettingthedealthrough.com

Published by
Law Business Research Ltd
Meridian House, 34-35 Farringdon Street
London, EC4A 4HL, UK
Tel: +44 20 7234 0606
Fax: +44 20 7234 0808

© Law Business Research Ltd 2020

No photocopying without a CLA licence.

First published 2020
First edition

ISBN 978-1-83862-427-9

The information provided in this publication is general and may not apply in a specific situation. Legal advice should always be sought before taking any legal action based on the information provided. This information is not intended to create, nor does receipt of it constitute, a lawyer–client relationship. The publishers and authors accept no responsibility for any acts or omissions contained herein. The information provided was verified between April and June 2020. Be advised that this is a developing area.

Printed and distributed by
Encompass Print Solutions
Tel: 0844 2480 112

Acknowledgements

The publisher acknowledges and thanks the following for their assistance throughout the preparation of this book:

BAKER MCKENZIE

BÄR & KARRER AG

FMP FUHRER MARBACH & PARTNERS

HOMBURGER AG

KELLERHALS CARRARD BASEL KLG

NIEDERER KRAFT FREY LTD

QUADRA ATTORNEYS AT LAW LTD

UBS GROUP AG

VISCHER

WALDER WYSS LTD

Contents

Introduction.....	1
<i>Ueli Studer, Kelsang Tsün and Sophie Stählin</i>	
1 Structuring Cross-border Transactions.....	5
<i>Dieter Gericke and Marc Hanslin</i>	
2 Pricing.....	15
<i>Philippe Weber and Manuel Werder</i>	
3 Data Privacy and Cybersecurity.....	25
<i>David Vasella</i>	
4 Key Intellectual Property Issues in M&A Transactions.....	37
<i>Peter Widmer and Peter Bigler</i>	
5 Financial Market Regulation.....	48
<i>Stefan Kramer, Benedikt Maurenbrecher and Manuel Baschung</i>	
6 Merger Control.....	55
<i>Marcel Dietrich and Richard Stäuber</i>	
7 Private M&A.....	66
<i>Christoph Neeracher, Philippe Seiler and Raphael Annasohn</i>	
8 Public M&A.....	73
<i>Mariel Hoch and Florentin Weibel</i>	
9 Distressed M&A in Switzerland.....	82
<i>Emanuel Dettwiler and Lukas Bopp</i>	
10 Joint Ventures – Selected Aspects.....	92
<i>Pascal Richard and Petra Hanselmann</i>	
11 Acquisition Financing.....	102
<i>Philip Spoerlé and Markus Wolf</i>	

Contents

12	Labour and Employment.....	110
	<i>Manuel Werder and Valerie Meyer Bahar</i>	
13	Tax Considerations in M&A Transactions.....	119
	<i>Susanne Schreiber and Cyrill Diefenbacher</i>	
14	Dispute Resolution.....	131
	<i>Gérald Virieux and Mladen Stojiljković</i>	
	About the Authors.....	141
	Contact Details.....	151

12

Labour and Employment

Manuel Werder and Valerie Meyer Bahar¹

Transfer and dismissal of employees

Overview

In Swiss M&A transactions, there are two key issues with regard to labour and employment law:

- the transfer of the target's employees to the buyer, if the two companies are to be merged or otherwise combined; and
- the dismissal of the target's (or both the target's and the buyer's) employees, if the M&A transaction is to be combined with a restructuring of the workforce of the new company.

Transfer of employees

The applicable regime for the transfer of employees depends on whether the transaction is structured as a share deal or an asset deal.

Share deals

A mere change in the ownership of the shares in the target does not have an impact on the employment relationships with the target's employees. In share deals, the employment agreements between the target company and its employees are not affected by the transaction and remain in full force and effect.

Under Swiss law, it is generally possible to implement unilateral changes to the terms of the employment agreement to the detriment of the employees, provided certain requirements are met and the notice period is respected when making such changes.

Asset deals

General principle: transfer of all employees

In asset deals that qualify as a transfer of a business undertaking, all employees working for the transferred business and the employment agreements with such employees with all respective

¹ Manuel Werder and Valerie Meyer Bahar are partners with Niederer Kraft Frey Ltd.

rights and obligations are transferred to the buyer automatically as a matter of law, unless an employee rejects such transfer. If only a part of a business is transferred (eg, only the manufacturing department, but not the sales department), the same principle applies to all employees who by way of their function belong to the transferred part.

The same principle applies to transactions that are structured as mergers, demergers or transfers of assets in the form of a universal succession according to the Swiss Merger Act.

The seller and the buyer are jointly and severally liable for any claims of the employees that fell due prior to the transfer or that fall due until the date on which the employment relationship could be or is terminated as a result of the refusal of the transfer (see 'Refusal of transfer and termination'). While the seller and the buyer are free to agree on a different cost-bearing regime, this arrangement is only effective between them and does not affect their joint and several liability in relation to the employees.

Procedure: information and consultation obligations

Information obligation

If employees are transferred in an asset deal, merger or demerger, the employees' representatives or, if there is no employees' representation in place, the employees of all involved companies need to be informed about the reason for the transfer and the legal, economic and social consequences of the transfer for the employees.

In the case of a merger, the employees of both companies (ie, the transferring and the surviving company), must be informed.

Consultation obligation

Where measures affecting the employees are envisaged as a result of the transfer, the employees' representatives or, if there is no employees' representation in place, the employees themselves must be consulted in good time before the relevant decisions are taken.

Such measures may include dismissal, change of workplace or other work conditions. The requirement to consult in good time means that there must be sufficient time for a consultation (ie, for the employees to make proposals how such measures might be avoided or their impact mitigated), and for those suggestions to be taken into account by management.

As a rule of thumb, a period of two weeks is considered to be sufficient for the consultation, and there should be some additional days for the management to consider the suggestions, if any. Thus there should ideally be three to four weeks from the time when the employees are first informed to the time when the decision about the transaction is taken by the shareholders' meeting of the parties involved.

Sanction in case of violation of the information and consultation obligation

In the sphere of a mere transfer of employees, there are few sanctions in the case of a violation of the information and consultation obligations, in particular as it will generally not be possible for the employees to establish any claim for damages on such grounds.

However, in the case of mergers, demergers and transfers of assets governed by the Swiss Merger Act, if the information and consultation obligations have not been complied with, the employees' representative may request an injunction to prevent the respective transaction from being registered in the Swiss Registry of Commerce.

Refusal of transfer and termination

The general principle is that all employees and employment relationships are transferred, including employees who are unable to work (eg, because of illness). Any agreement between the seller and the buyer by which the circle of transferred employees is limited is invalid as a matter of law (no cherry-picking).

However, the employee may refuse to transfer to the new employer on the basis of the information received by way of the information obligation, or any of the involved companies may terminate the employment relationship:

- Refusal: if an employee refuses the transfer, the employment agreement of such employee is terminated pursuant to the statutory (not contractual) notice period.²
- Termination: the mandatory transfer of all employees in the case of an asset deal does not affect the target's or, after the transfer, the new employer's right to terminate the employment relationship with its employees in accordance with the terms of the employment agreement, in particular the contractual (or statutory) notice period (see also 'Dismissal of employees').

However, in view of the mandatory and automatic transfer of all employment relationships, employees who have refused the transfer, or employees whose employment relationship has been terminated by the target, will also transfer to the new entity if the applicable notice period has not yet expired at the time of the transfer, and the (new) employer is obliged to perform the employment contract until the date the employment contract effectively ends.

The parties to an M&A transaction often wish to avoid the transfer of employees who either refused to transfer, or whose employment relationship has been terminated. This can either be achieved by planning sufficient time from the initial information and consultation and the issue of notices until the transfer date, or by entering into mutual termination agreements with the employees, providing for an earlier termination date and compensating the employees accordingly.

Finally, while the terms of the employment relationship remain unchanged by the transfer, the buyer may seek to change such terms after the transfer. An exception to this rule applies with regard to collective bargaining agreements, which continue to remain in force for a year, unless they end earlier.

Dismissal of employees

Mass dismissals

The dismissal rights of the employer are not affected by an M&A transaction. As is the case outside of an M&A situation, if a significant number of employees are to be dismissed, the specific rules governing mass dismissals must be adhered to:

- mass dismissals are defined as notices of dismissal given by the employer to employees of a business within 30 days of each other for reasons not pertaining personally to the employees and that affect:

2 Seven days during the probation period, one month during the first year of service, two months in the second to ninth years of service and three months thereafter, all such notice periods to expire at the end of a calendar month.

- at least 10 employees in a business normally employing more than 20 and fewer than 100 employees;
- at least 10 per cent of the employees of a business normally employing at least 100 and fewer than 300 employees; or
- at least 30 employees in a business normally employing at least 300 employees.

The goal of the mass dismissal proceeding is primarily the protection of the labour market against a sudden rise of unemployment in a certain regional area and segment of the labour market. It is thus, as a matter of principle, permitted to stagger dismissals over a longer period in order not to reach the thresholds set out above in individual 30-day periods, which trigger the mass dismissal proceedings.

Once an employer intends to make mass dismissals, it has an information and consultation obligation: the employer must furnish the employees' representative or, where there is none, the employees themselves with all appropriate information and, in any event, with the reasons for the mass dismissals, the number of employees to whom notice may be given, the number of employees normally employed and the period during which the employer plans to issue the notices of termination.

The employees must then be consulted, namely, at least be given the opportunity to formulate proposals on how to avoid such dismissals or limit their number and how to mitigate their consequences. Such information must then be considered by the employer before deciding on whether to move ahead and issuing the notices of termination. In order to comply with the requirements, the employees should be given about two weeks to consult, and the employer then has to review their suggestions, if any, before deciding on the mass dismissal. A violation of such consultation obligation may render the notices of termination issued in the realm of the mass dismissal abusive, entitling the employee to a penalty payment equal to up to two monthly salaries.

The cantonal employment office has to be notified of any intended mass dismissal. Such notification must include the information given to the employees as well as the results of their consultation, and is a prerequisite for the subsequent dismissals to be valid.

The notices given in a mass dismissal are subject to the terms of the employment agreement and Swiss law, in particular with regard to the applicable notice period.

Social plan

A social plan is an agreement by which an employer and employees set out measures to avoid dismissals or to reduce their numbers and mitigate their effects.

The employer is obliged to enter into negotiations with the goal of establishing a social plan if it normally employs at least 250 employees and intends to make at least 30 employees redundant for reasons that have no connection with them personally within a 30-day period. Dismissals over a longer period that are based on the same operational or corporate decision are counted together.

If there is an obligation to negotiate, the employer must, if there is a collective bargaining agreement in place, negotiate with the employee associations that are party to such agreement. If there is no collective bargaining agreement, the negotiation will take place with the employees' representative or, if there is none, directly with the employees.

If no agreement can be found between the parties, an arbitral tribunal is appointed, which will issue the social plan in the form of a binding arbitral award.

HR due diligence

The following is a selection of HR legal topics that typically arise in Swiss M&A transactions and consequently form part of HR due diligence and contractual clauses in transaction agreements:

Management retention

In general

In a broad number of transactions, in particular in private equity and venture capital transactions, management retention is of utmost importance. The buyer often achieves this goal by payment of retention boni or the allocation of shares in the target or the buyer.

The granting of a participation typically results in a variety of corporate law issues relating to the allocated shares, such as transfer restrictions, call options, tag-along and drag-along rights, etc, which are typically addressed in a shareholders' agreement.

Non-compete obligations

The legal due diligence typically includes the verification whether the target company's key employees are bound by contractual non-competition and non-solicitation clauses, and whether the enforceability of such clauses has been strengthened by a contractual penalty.

Non-compete clauses may be found in employment agreements or shareholder agreements.

Non-compete obligations under Swiss law

During the term of the employment, the obligation not to compete with the employer is inherent in the employee's duty of loyalty, which as a matter of law forms part of any employment arrangement.

Employees working full-time for an employer are therefore in general restricted from accepting any employment function with any other employer and are in particular obliged to refrain from running a competing business for their own account or from working for or participating in such a business. Part-time employees may work for other employers if such activity does not create any damage to the employer, in particular if such employer is not a competitor to the existing employer or if the activity is not harmful in any way to the existing employer.

After the term of the employment, the employee has, as a matter of principle, no obligation not to compete with the employer. An obligation to refrain from engaging in any activity that competes with the employer for a certain period of time also after the end of the employment relationship must be explicitly agreed between the employer and the employee in writing, and is subject to a variety of legal restrictions.

Limitations of non-compete clauses

Swiss law sets strict prerequisites in order for contractual non-compete obligations entered into in the realm of an employment relationship to be valid, based on the principle that employees must be permitted to change their employer and to continue earning their living without a non-compete obligation excessively compromising their future economic activity. The enforcement of a non-compete obligation is thus often difficult. The following applies:

- first, the prohibition of competition is binding only where the employee has, in the course of the employment relationship, gained knowledge of the employer's clientele or manufacturing and trade secrets and where the use of such knowledge might cause the employer substantial harm; and

- second, the prohibition must be appropriately restricted with regard to time, place and scope. Typical post-contractual non-compete obligations are entered into for a period of 12 months (by law, the maximum length is three years), for the region or country where the employee was active, and limited to the activities or field of business of the employer in which the employee was involved.

Clauses providing for an excessive prohibition of competition may be restricted by a court at its discretion, taking into account all relevant circumstances.

While no compensation must be paid in order for the non-compete obligation to be valid, payment of such consideration will increase the likelihood that also a far-reaching non-compete obligation would be upheld by a court, as such compensation eases the financial impact the obligation not to compete has on the employee.

Consequences of breach

An employee who infringes the non-compete undertaking is liable to compensate the employer for any damage suffered as a result of such competing activity. The burden of proof that such damage indeed occurred is borne by the employer. In practice, it is often difficult – if not outright impossible – to establish the monetary damage suffered by the employer as well as a line of causation (adequate causation) between the competing activity and such damage.

Therefore, employment agreements often foresee that an infringement of the non-compete undertaking is sanctioned by the obligation of the employee to pay a contractual penalty. In order to allow for the maximum protection of the employer, such contractual penalty clause should provide:

- that actual damages are owed in addition to the contractual penalty;
- for the non-competition undertaking to remain in place even if the employee has paid the contractual penalty; and
- that the employer may, in addition to the agreed contractual penalty and any further damages, ask for specific performance and insist that the behaviour that constituted a breach of the employment contract be discontinued.

Extinguishment of non-compete clauses

If the employer terminates the employment agreement, a non-compete agreement in the contract of employment is extinguished. An exception applies – and the non-compete obligation remains in force – if the termination was based on a valid reason attributable to the employee. If the employee terminates the employment agreement, the non-compete obligation remains in force, unless his or her dismissal is for a valid reason that is attributable to the employer.

If the non-compete obligation is extinguished owing to termination by the employer, it is possible to agree on a new non-compete obligation (eg, in a termination agreement). However, at this time, the employee will normally only assume such an obligation if he or she is compensated for it.

Finally, non-compete undertakings are extinguished once the employer demonstrably no longer has a substantial interest in their continuation.

Transaction boni

In the course of an M&A transaction, transaction boni are often promised to the management of the target company or another group of involved employees as compensation for their extraordinary efforts in the context of the preparation and implementation of the transaction.

Such transaction boni are typically promised and paid by the target company. Depending on the transaction structure and the timing of the payment, this may result in the buyer economically bearing the payments. Furthermore, although the target company may be the formal employer, the extraordinary services are typically rendered for the ultimate benefit of the seller, who may be different from the employer. This raises complex intercompany dealing, accounting, tax and pensions issues.

M&A agreements therefore typically contain representations that the target company has not promised transaction boni to its employees or to third parties.

Contractual provisions

Notice periods

Contractual notice periods of more than three months or fixed-term contracts without the possibility of early termination may negatively affect the possibility of dismissing employees of the target company, and should thus be identified.

Severance payments and golden parachutes

Provisions on severance payments (such as golden parachutes) included in the employment contracts may render the dismissal of employees expensive and therefore negatively affect the target company's legal right to terminate employment agreements in accordance with the applicable notice periods. M&A agreements often contain representations that the employment agreements of the target company do not contain such provisions.

In listed companies, such severance payments or golden parachutes for management are prohibited as a matter of Swiss law, notwithstanding any contractual agreement to the contrary.

Bonus provisions

Bonus provisions typically form part of the HR due diligence in order to determine whether the target company's HR budget is aligned with its contractual legal obligations.

Swiss law differentiates between discretionary bonus payments that are paid at will by the employer, and bonus payments that form part of the compensation to which the employee is contractually entitled. Whether a bonus belongs in one or the other category depends on the contractual agreement between the parties, the communication and the handling of such payments in the past, and the amount of the bonus relative to the fixed salary.

Bonus provisions are often the source of disputes, in particular in dismissal situations, and therefore require proper analysis.

Intellectual property clauses

In the context of the acquisition of a target company whose business model heavily depends on intellectual property rights, it is important to verify whether the target company owns all intellectual property rights that it needs for the operation of its business and whether the target company may owe any compensation to any of its employees for inventions and designs

potentially produced outside the performance of their contractual obligations. The pertinent rules under Swiss law are the following:

- As a matter of law, inventions and designs produced by the employee alone or in collaboration with others in the course of his or her work for the employer and in performance of his or her contractual obligations belong to the employer, whether or not they are protected.
- By contrast, inventions and designs produced by the employee in the course of his or her work for the employer but not in performance of his or her contractual obligations belong to the employee. However, in the employment agreement the employer may reserve the right to acquire such inventions and designs against compensation. According to applicable law, the compensation must be appropriate with regard to all relevant circumstances and in particular the economic value of the invention or design, the degree to which the employer contributed, any reliance on other staff and on the employer's facilities, the expenses incurred by the employee and his or her position in the company.
- An employee who produces an invention or design outside the performance of his or her contractual obligations must notify the employer thereof in writing, and the employer must inform the employee within six months if it wishes to acquire the invention or design or release it to the employee.

Terms of employment

Time recording, overtime and excess hours

Swiss public law governs the working time of employees as well as the admissibility and compensation of overtime work, work at night, at weekends and on public holidays. These rules apply to all employees, with the exception of top management.

In order to ensure compliance with such laws, employers in Switzerland are obliged to account for the working hours of the employees. This requires the introduction of a time recording system and working time regulations, setting out the general obligations and principles concerning working time and the recording of working time and absences. The existence of the recording system and working time regulations typically forms part of the legal due diligence.

As a matter of principle, the performance of overtime and excess hours must be paid out with a 25 per cent wage supplement. However, the employer and the employee may agree in writing that the performance of overtime and up to 60 excess hours per year may be compensated by the monthly salary. Furthermore, the parties may agree that overtime work and excess hours be compensated by time off in lieu, or be paid out without a wage supplement. The compensation of overtime work and excess hours may have a significant impact on the payroll costs of the target.

Furthermore, accrued overtime and excess hours typically form part of the legal due diligence because of the respective accrued payment obligations of the target company.

Policies and regulations; collective bargaining agreements

In the context of due diligence, the existence of policies and regulations required by law and best practice rules is typically verified, for example, for the reimbursement of expenses (these regulations are also important from a tax perspective), data protection, use of electronic communication, confidentiality undertakings and prevention of insider trading, non-discrimination and prevention of sexual harassment, etc. The absence of such regulations may expose the target company to liability or sanctions.

Furthermore, a part of legal due diligence should review whether the target company's employees fall within the scope of a collective bargaining agreement, which may contain terms that apply in addition to the terms of the employment agreement, usually to the advantage of the employees.

Collective bargaining agreements, as well as social plans (eg, owing to past restructurings), may also contain commitments by the employer with regard to the employees or restrictions on the employer's contractual right to terminate employment relationships, and thus may have an impact on the profitability of the target company.

Health and safety laws

Swiss law requires the employer to safeguard the employee's personality rights, personal safety and health and integrity, and ensure that proper moral standards are maintained. The employer must take all measures that by experience are necessary, feasible using the latest technology and appropriate to the particular circumstances of the workplace, provided such measures may reasonably be expected in the light of each specific employment relationship and the nature of the work.

Depending on the industry in which the target company is active, the law, collective bargaining agreements or industry standards may require the employer to implement specific health and safety protections.

Freelancers and consultants

Under Swiss social security law, whether an individual or a company controlled by an individual legally qualifies as an external service provider or employee depends on the circumstances of the individual case and not the designation of the contractual relationship.

In particular, if an individual is subject to the directions of the principal and integrated in the organisation of the principal, he or she may qualify as an employee notwithstanding the fact that the underlying agreement is structured as consultancy, mandate or other agreement implying the independent provision of services.

Such requalification of freelancers or consultants exposes the target company to potential pension payment obligations as well as the general obligations of an employer (eg, with regard to holidays, continued salary payments in case of illness or accidents and dismissal) and thus may lead to significant payment obligations.

Appendix 1

About the Authors

Manuel Werder

Niederer Kraft Frey Ltd

Manuel Werder is a partner at Niederer Kraft Frey. His practice focuses on corporate law and M&A, including private equity and venture capital transactions, often with an Asian aspect. He has expertise in large, complex, cross-border acquisitions, mergers, divestitures and corporate restructurings. His M&A expertise crosses all industries, including financial, industrials and services.

Manuel advises Swiss and international financial institutions and corporations active in different industries in M&A, corporate, commercial, contract, securities and stock exchange law. His expertise also includes investment and shareholders' agreements, joint ventures, commercial contracts and employment law.

Valerie Meyer Bahar

Niederer Kraft Frey Ltd

Valerie Meyer Bahar is a partner at Niederer Kraft Frey. She advises and represents clients in commercial and corporate litigation, with a focus on shareholder and employment litigation; in international and national arbitration; and in all aspects of corporate employment law.

Valerie advises on all aspects of employment law, for example, on the drafting and implementation of employment agreements; staff and time regulations; compensation matters; dismissals; and the transfer of employees in M&A transactions and restructurings, including mass dismissals. She regularly handles employment litigation relating, inter alia, to wrongful termination and bonus claims.

Niederer Kraft Frey Ltd

Bahnhofstrasse 53

8001 Zurich

Switzerland

Tel: +41 58 800 8000

Fax: +41 58 800 8080

manuel.werder@nkf.ch

valerie.meyer@nkf.ch

www.nkf.ch

an LBR business