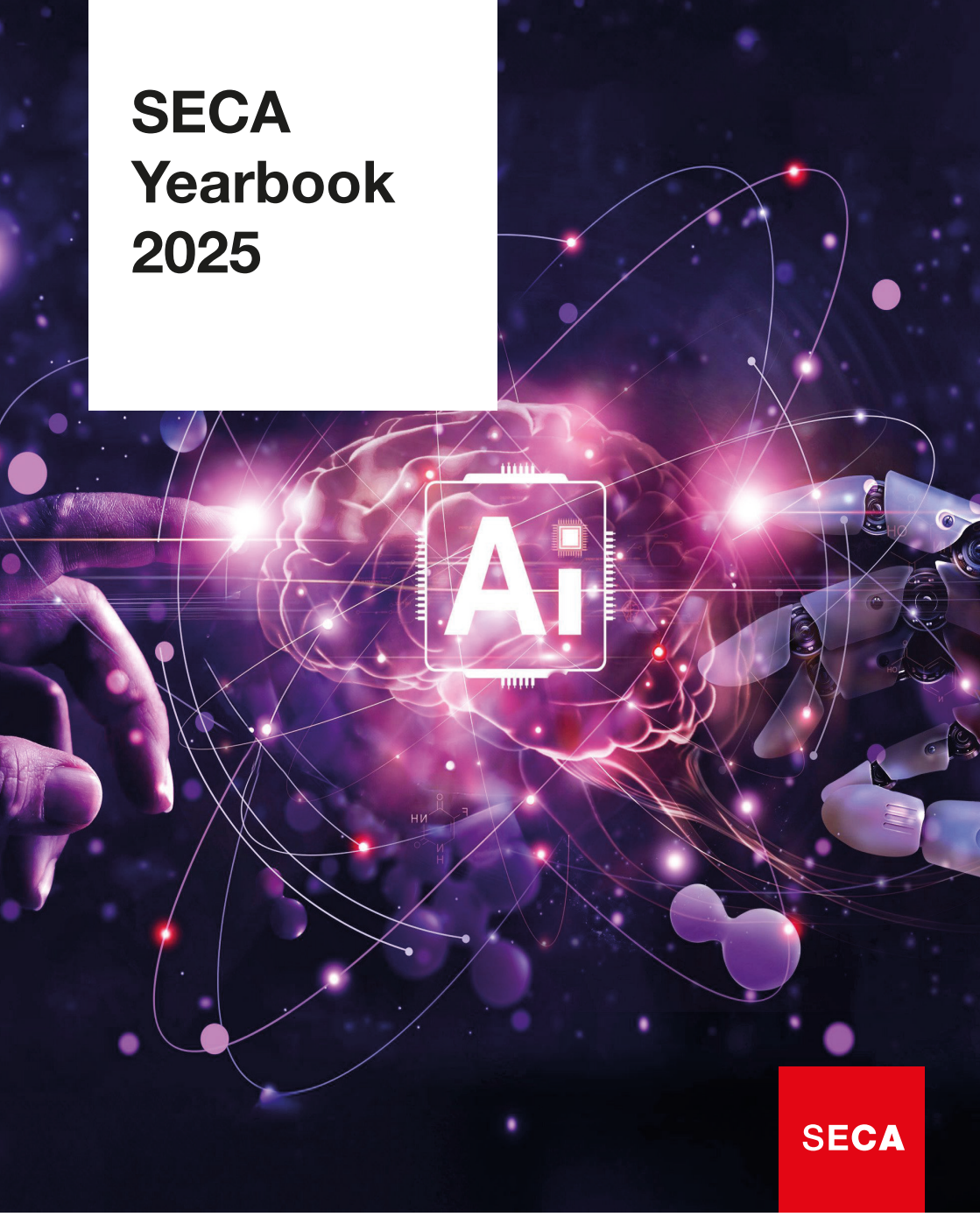
SECA Yearbook 2025



SECA

Swiss Private Equity & Corporate Finance Association
Schweizerische Vereinigung für Unternehmensfinanzierung
Association Suisse des Investisseurs en Capital et de Financement

Corporate Finance Chapter

The Corporate Finance Chapter facilitates continuous professional development through subject-specific events and workshops, case studies, and publications, fostering knowledge exchange within the corporate finance and M&A industry in Switzerland.

What is Corporate Finance?

Corporate finance refers to the strategic management of a corporation's financial resources. It involves sourcing and allocating funds, determining the optimal capital structure, and making decisions that enhance long-term value for shareholders. The primary goal is to maximize corporate value while balancing risk and return.

Corporate finance encompasses a variety of activities including:

- **Investment Decisions**: Establishes criteria for selecting value-adding projects focusing on maximizing returns while managing risks.
- **Capital Structure Optimization**: Deciding how to finance those investments through a combination of equity, debt, or hybrid instruments.
- **Working Capital Management**: Focuses on managing a company's short-term operational funds, including cash flow, inventory, and short-term borrowing and lending (such as the terms on credit extended to customers) to ensure sufficient liquidity for day-to-day operations.
- **Financial Planning**: Analyzing the company's financial situation and planning for future financial activities, including forecasting revenues, expenses and capital requirements for investments.
- **Risk Management**: Identification and mitigation of financial risks that could impact the company's performance.

The term corporate finance is often associated with investment banking advisory services:

- **Initial Public Offerings (IPOs)**: Listing companies on a recognized stock exchange.
- **Mergers & Acquisitions (M&A)**:
  - Mergers, demergers, and takeovers.
  - Sales and acquisitions of private companies.
  - Management buy-outs, buy-ins, and similar transactions.
- **Capital Raising**: Issuing equity, debt, hybrid instruments, and related securities for refinancing and restructuring.
- **Capital Repayments**: Share buybacks and distributions to shareholders.
- **Leveraged Finance**: A bank or debt fund, providing financing to support a management buyout or a leveraged buyout (with private equity or family office backing).

Switzerland has a well-developed advisory industry in corporate finance, with market participants including investment and universal banks capable of advising and/or financing larger

deals, investment banking boutiques specializing in small to mid-sized capital market transactions, but often without direct financing capabilities and advisory boutiques providing specialized transaction advisory services to mid-sized companies.

The Swiss corporate finance industry has structured itself clearly in recent years, with most key players being members of SECA and an active Corporate Finance Chapter focusing on relevant topics within the Corporate Finance and M&A market.

An editorial article on “Harnessing AI in Due Diligence - Transforming M&A Processes” and one article about “Financial Modelling” are included in the ‘**Industry Insight**’ section starting on **page 43**.

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Harnessing AI in Due Diligence: Transforming M&A Processes

Specialist article SECA Chapter Corporate Finance

In today's increasingly complex landscape, mergers and acquisitions (M&A) have evolved into multifaceted operations where every component must align with precision and speed, much like Swiss clockwork. Due diligence remains the cornerstone of successful M&A transactions, crucial for identifying potential risks, uncovering hidden liabilities, and ensuring regulatory compliance. However, traditional manual approaches are increasingly challenged by longer transaction times, rising costs, and a significant growth in document volume. Against this backdrop, artificial intelligence (AI) is emerging as a game changer, transforming due diligence by automating routine tasks and providing deeper, data-driven insights.

The Challenges of Traditional Manual Due Diligence

Historically, due diligence has been a labor-intensive, time-consuming process. M&A teams are required to manually sift through mountains of documents, ranging from financial reports and contracts to compliance records and operational metrics. This meticulous review often extends over multiple months. The prolonged process not only delays deal closures but also escalates costs significantly, with legal and advisory fees sometimes reaching up to 10% of the total deal value.

Document Overload and Increasing Complexity

A primary challenge is the dramatic increase in document volume. With a reported 20% rise in documents per transaction from 2023 to 2024 in Drooms data rooms, the sheer quantity of data has compounded the workload for M&A professionals. Critical details can easily be buried in a sea of information, especially when documents are stored across various formats and systems. This fragmentation makes it exceedingly difficult to consolidate and analyze data promptly, increasing the likelihood of overlooking key information that could significantly impact the deal's outcome.

Regulatory Pressures and Compliance Risks

The regulatory environment has grown more stringent over recent years, particularly in cross-border transactions where multiple jurisdictions are involved. M&A teams now face the dual challenge of complying with well-established regulations like GDPR and adapting to emerging frameworks such as the EU AI Act. Manual reviews are prone to error; even a small oversight in compliance can lead to hefty fines or legal complications. The risk of non-compliance is heightened by the inherent limitations of human processing, including susceptibility to fatigue and bias.

Extended Timelines and Escalating Costs

Beyond the operational challenges, the manual approach to due diligence prolongs transaction timelines. Extended review periods not only delay strategic decisions but also lead to increased advisory and legal fees. These delays may erode the competitive advantage of timely market entry or exit, underscoring the urgent need for more efficient and reliable methods.

The Role of AI in Transforming Due Diligence

With advancements in Large Language Models (LLMs) and other AI technologies, the due diligence process is undergoing a transformative shift. AI is now capable of automating repetitive tasks, significantly reducing review times, and enhancing the accuracy of data analysis. These improvements not only streamline the due diligence process but also mitigate the risks associated with manual reviews.

Automated Document Processing

One of the most impactful applications of AI is document processing. During the preparation phase, AI-powered tools can handle routine tasks like document categorization and naming. By doing so, these systems eliminate the need for manual sorting and significantly reduce the preparation phase. Furthermore, AI tools can perform workflows such as automated redaction of sensitive information within documents. A repetitive but essential task that traditionally required extensive manual labor by highly skilled professionals. By shifting the focus from administrative tasks to strategic decision-making, AI enables M&A teams to allocate their time and resources more effectively.

Consider a scenario where a data room is being prepared for a complex cross-border transaction. Manual sorting might take weeks, but with AI-driven automation, documents are organized and redacted in a fraction of the time. Additionally, automated translation capabilities ensure that documents in multiple languages are accurately rendered, eliminating language barriers that could delay the process.

Enhanced Risk Assessment

AI's capability to analyze large datasets in real-time is revolutionizing risk assessment in due diligence. Advanced algorithms can scan contracts and financial statements to detect risky clauses, flag discrepancies, and assess compliance by cross-referencing data from multiple sources. For example, AI can identify unfavorable termination clauses or inconsistent contract terms that might expose buyers to future liabilities. With legal and advisory fees historically consuming up to 10% of the deal value, reducing the manual review hours can lead to significant financial savings. These savings can then be reinvested in other strategic business areas, further enhancing the overall value derived from the transaction.

Furthermore, predictive analytics add a proactive layer to risk management. Machine learning models trained on extensive historical transaction data can forecast the likelihood of achieving key milestones or uncovering post-deal challenges. Such predictive insights allow M&A professionals to better balance risk and reward, ultimately contributing to more informed decision-making.

Workflow Efficiency With Information Retrieval

Beyond document processing and risk assessment, AI also streamlines overall workflow efficiency in M&A transactions. Semantic search capabilities enable users to interact with documents in natural language. Compared to incumbent syntactic search, this ensures that critical information is retrieved quickly from vast databases, reducing the chance that vital data is overlooked. This rapid access to relevant information means that decision-makers can respond more nimbly to evolving circumstances, a key advantage in today's fast-paced market.

Mitigating Risks with Integrated, Compliant AI Solutions

While the benefits of AI in due diligence are considerable, they come with critical risks, especially when public AI tools are used to process sensitive data. Public platforms often operate on third-party infrastructure, which raises concerns about data privacy, data leakage, and unauthorized access.

When sensitive transactional information is processed through public AI tools, there is an inherent risk that this data could be inadvertently used for training purposes or exposed via inference. For example, transmitting confidential documents to external servers increases the chance of unauthorized access, and if access rights are not rigorously enforced, confidential deal information might leak to unintended parties. The implications are severe: compromised competitive positioning, non-compliance with strict data protection laws like GDPR, and potential breaches of emerging regulations such as the EU AI Act.

In contrast, integrated AI solutions within secure data room environments can provide a robust alternative. These systems ensure that all data remains within a controlled ecosystem, with stringent access controls and encryption protocols in place. By keeping the processing internal, organizations can eliminate the risk of data leakage and unauthorized use of sensitive information. Furthermore, audit trails within these systems offer transparency and accountability, reinforcing regulatory compliance and enhancing overall trust among stakeholders.

Embracing a Balanced Approach to Digital Transformation

Despite the transformative potential of AI, it is essential to recognize that technology should complement, not replace, human expertise. While AI can efficiently handle data processing and initial analysis, the nuanced judgment of experienced M&A professionals remains indispensable. AI outputs, particularly those generated by LLMs, require careful review to avoid pitfalls such as hallucinations or misinterpretations.

The ideal approach is a balanced integration of AI-driven automation and human insight. In practice, this means that while AI expedites routine tasks and offers predictive insights, human experts must validate these findings and apply their contextual understanding to make strategic decisions. This collaborative model not only enhances the reliability of the due diligence process but also ensures that technology serves as a powerful tool in the hands of experienced professionals.

Conclusion

The integration of AI into the due diligence process marks a pivotal shift in the way M&A transactions are conducted. With traditional methods facing challenges such as extended timelines, increased document volumes, and heightened regulatory scrutiny, AI offers a compelling solution by automating routine tasks, enhancing risk assessment, and streamlining overall workflow efficiency. The quantifiable benefits, reduced transaction times, lower costs, and improved accuracy, demonstrate that AI is not merely a futuristic concept but a practical tool reshaping the M&A landscape today.

By embracing a balanced approach that leverages both cutting-edge AI technology and the invaluable expertise of seasoned professionals, organizations can navigate the complexities of modern M&A with greater precision and confidence. As digital transformation continues to accelerate, the future of due diligence will be defined by the seamless integration of technology and human insight, a transformation that promises to unlock new efficiencies and drive more successful outcomes in an increasingly competitive market.

Johannes Graf
Senior Product Manager AI, Drooms

We kindly invite you to the **SECA Event** «The Future of M&A and Corporate Finance - Exploring the Impact of automation and AI», which takes place in Zürich on **11. September 2025** where **Johannes Graf** will be one of the keynote speakers.

Financial modelling

Some key guidelines to robust financial models

Financial models are a key part in investment decisions. The value of each investment is determined by the present value of future cashflows (V = D/i). Consequently, each investment decision is based on a business plan. The business plan is either made explicitly for the respective investment decision (e.g. DCF) or implicitly by using some simplified formulas such as multiples. Mathematically, a multiple assumes that the cashflow measure used continues in perpetuity.

Excel spreadsheets are regularly used in this decision process. And those excel spreadsheets can become more and more complex as investment projects evolve.

Also, in daily business reporting and controlling, excel spreadsheets are still a common way of working, despite modern ERP systems.

Mistakes in such models could have adverse financial consequences. The following outlines some tips on how to create robust financial models.

Financial modelling tips	Explanations

Color coding	– There are only three types of data in a model:
	  – Constant
	  – Formula
	  – Link
	– A constant is a hard plug figure (e.g.10)
	– A link is a reference to another cell in the model, without further calculation (e.g. =A1)
	– A formula uses different cells to derive a result
	– Use colour coding to distinguish between those three types of data

Unit labelling	– Clearly label each code line, e.g. CHF, %, days, months
No formulas with embedded constants	– Never write formulas with an embedded constant – Better use links to the cells which include the constant
Use normal positive conventions	– Money flowing in is positive (e.g. revenues) – Money flowing out is negative (e.g. expenses)
No one sheet wonder	– Distinguish between inputs, calculations and outputs – The **input** sheet contains all hard plug figures – The **calculation** sheet contains all mathematical calculations to obtain the desired results

Financial modelling tips	Explanations
	– The calculation sheet focuses on transparency of formula – The calculation sheet can contain many lines and does not need to be presented to management – The **output** sheet shows the key results of the model, only using links to the calculation sheet, no formulas – Focus of the output sheet is on presentability and printability
Calculation logic from left to right and top to bottom	– A model should read like a book – Results used further in the model are calculated previously and not further down the model
Rule of thumb	– No formula is longer than your thumb – Divide complex formulas into smaller pieces to reduce complexity
Only one column counts	– A series line item should be constructed via consistent formulas across the row – The same formula should be used across all columns, e.g. there is the same formula in column D as there is in column Z
Calculate only once	– Do not calculate the same figure twice in the model
No daisy chains	– Do not create a link to another link – Always link to the ultimate source, which is either a hard plug or a formula
No hiding, avoid grouping	– Never hide a column or a line – Use grouping instead, but try to avoid it
Avoid the mouse	– Avoid working with the mouse – Prefer shortcuts using the keypad

The above are just some simple modelling tips which reduce the chance of creating false results. Those tips seem basic but applying them consistently has far reaching consequences on the design of a model.

We will be hosting a SECA breakfast event on financial modelling on Thursday, 5th June 2025 at ZKB, Bahnhofstrasse 9, Zürich and are looking forward to welcoming you there.

Daniel Rey
Chapter Corporate Finance