The background of the cover is a photograph of a modern architectural structure. It features a curved, arched metal frame with a mesh-like surface. Two people in business attire are walking on a platform within the structure. The sky is a pale, clear blue.

M E R G E R S & A C Q U I S I T I O N S

S w i s s C o m p a n i e s -
T h e i r M o t i v a t i o n s a n d A c t i v i t i e s

A study by KPMG Switzerland

These are your contacts

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Preface

The 90s have become the symbol of an unparalleled stock market boom coinciding with brisk company activities in the area of Mergers & Acquisitions (M&A). Year after year transaction volumes climbed to new record levels. In light of market deregulation companies tried to reposition themselves by buying and selling other companies, to expand their market share and to exploit emerging markets. Hence more than half of the Swiss companies covered by this study have carried out their own transactions over the past years.

Exposed to the forces of economic and stock market cycles

Meanwhile, financial market consolidation, economic slowdown and political uncertainties on a global scale have caused the M&A market to cool off. Headlines about large mergers and acquisitions have become scarce. To achieve their goals, companies currently focus on internal growth, process optimization and restructuring.

Thus the M&A market has proved to be cyclical and largely influenced by the overall economic situation. Today, obviously only a few companies are willing or able to harness low company values for their own expansion or to consolidate their business.

Continuous concentration process expected

However, the present study shows that companies in Switzerland expect the concentration process to continue. The 800 largest Swiss companies surveyed are bracing for mounting competition. In their wake many companies will have to face M&A transactions. Two out of three companies expect to be involved in a transaction in the years to come – either as a buying, a purchased or a merging company.

The present study provides a comprehensive overview of the M&A activities among 800 of Switzerland's largest companies. It follows a previous study that was conducted in the year 2000.

If you would like to learn more about the topic of M&A or the activities of KPMG Corporate Finance in this area, we'll be glad to give you more information.



Dr. Jürg Glesti



Dr. Barbara V. Stuber

Overview

Facts & Figures

- 54% of the companies have handled at least one transaction in the past three years.
- The average volume per transaction amounted to about CHF 78 million, with a clear majority on smaller and medium-size deals.

Corporate goals

- Internal growth, cost reduction and process optimization enjoy the highest priority among the measures taken by companies to reach their corporate goals.
- 16% of the companies consider M&A to be of critical importance in order to achieve their corporate goals.
- Additional purchase of market shares (61%) and sales growth (60%) are the motives for M&A transactions most often mentioned by company representatives.

Trends

- 64% of the companies expect a continuous concentration process in their industry as well as a decreasing number of companies.
- 48% of companies reckon with an increase in M&A activities.
- Intensified competition and general economic outlook are the deciding factors for M&A activities.
- 63% of company representatives expect their company to be involved in an M&A transaction within the next two years.

Advisory

- 89% of the company representatives have declared to rely on the support of advisors when dealing with transactions.
- 66% consult one of the world's leading auditing and consulting firms for planning and handling.
- 63% of companies rely on an external advisor when dealing with legal issues.
- In terms of external support companies particularly appreciate the expertise and experience, access to additional resources as well as objectivity and a second opinion.

Due Diligence

- During the auditing of a takeover candidate Financial Due Diligence (52% of mentions), Legal Due Diligence (77%) and Tax Due Diligence (71%) are most often applied.
- As stated by the majority of respondents, soft factors, such as human resources, cultural aspects and integration, are not sufficiently taken into consideration during Due Diligence audits.

Company valuation

- In terms of company valuation, the majority of companies, that is 69%, rely on the Discounted Cash Flow method.
- Pricing is not only influenced by earning power but by synergies (75% of mentions), taxation effects (61%), and integration costs (55%) as well.

Integration

- 16% of the companies are very satisfied with both course and result of the integration concerning the purchased company, 59% are quite satisfied, and 21% are rather unsatisfied.

- Besides numerous other factors the integration result primarily depends on early and comprehensive communication, consideration of soft factors, responsibility at senior-management level and on consistent integration strategy implementation.

Success and failure

- 67% of the companies measure the success of a transaction based on profitability change. 36% base their valuation on market share change.
- 69% of the companies declare to have cancelled at least one transaction at an advanced stage.
- The reasons most often cited for cancelling a transaction are differing views on pricing (44% of mentions), excessive risks (33%), or the result of Due Diligence (30%).

Key points of the study

KPMG regularly conducts studies on M&A activities around the world, as in the case of Switzerland. The current study follows a KPMG study dating from the year 2000, which focused on capital market issues.

Objective

On the one hand, the present study on corporate goals, trends, integration and other selected topic areas aims to provide the companies themselves as well as people interested in economic matters with sound first-hand information. But the study is also meant to identify success factors, obstacles and, last but not least, starting points for support.

Procedure

The poll included in the present study was carried out in the summer of 2002 by the market research firm DemoSCOPE on behalf of KPMG.

- Method: written poll
- Addressees: Switzerland's 768 largest companies
- Targeted individuals: CEOs or CFOs
- Return rate: 13.4% or 103 questionnaires

Company information

The returned questionnaires provide a representative view across the largest companies in Switzerland. The evaluation is based on the following structural company information:

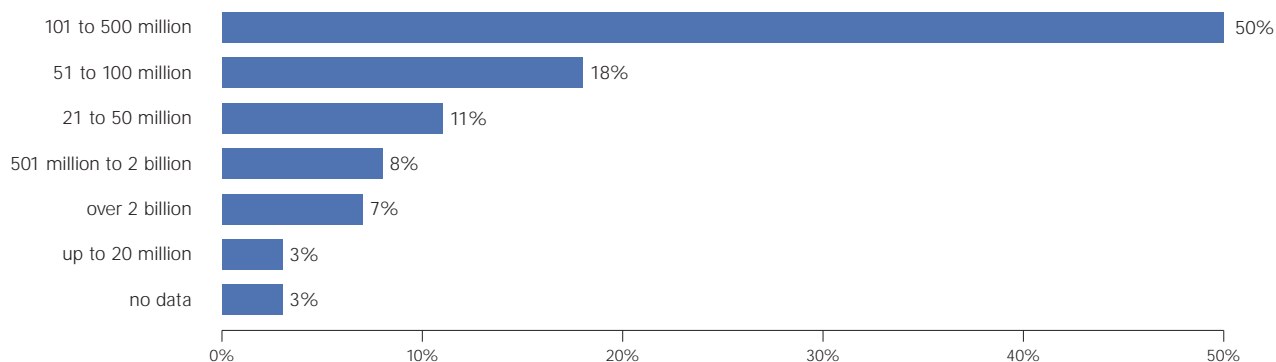
- 15% of the companies recorded in the answers turn over more than CHF 500 million in goods and services per year, 50% produce sales of between CHF 101 million and CHF 500 million and 32% of CHF 100 million or less.

- Of the companies surveyed a third are oriented either "nationally", "mainly nationally" or "both nationally and internationally". In the past, companies with an international orientation were generally more often involved in M&A transactions.

- 41% of the responding companies have 500 employees or more. They have been more active in terms of M&A transactions in the recent past than companies with fewer employees.

- 32% of the companies are publicly traded. They are also more often involved in transactions than companies that are not publicly traded.

Annual revenue in CHF



Facts & Figures

Swiss companies have vigorously engaged in M&A activities over the past three years. More than half of the companies surveyed were involved in at least one transaction. The majority of these transactions involved small or medium volumes.

Experience

More than half of the companies have gained their own experience with M&A transactions. When asked about M&A activities over the past three years, the company representatives answered as follows:

- 54% of CEOs and CFOs have stated that their company has at least handled one transaction.
- 46% have not had any corresponding experience over the past three years.

Volume

Over the period under survey the average volume per transaction amounted to about CHF 78 million. However, the median, dividing the number of transactions into equal parts, amounted to only CHF 13 million.

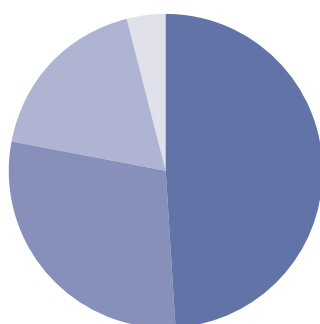
Therefore, M&A activities in Switzerland have been characterized by small and medium-sized transactions. Asked about the average volume per transaction, the CEOs and CFOs replied as follows:

- 38% of transactions show a volume of up to CHF 9 million,
- 25% of deals amount to between CHF 10 million and CHF 30 million, and
- 23% over CHF 30 million.

Numbers

Companies with sales of more than CHF 500 million as well as listed companies and international corporations have been more often involved in company mergers, sales and acquisitions (including company parts) than the other groups.

In how many transactions has your company been involved over the past three years?



- 49% 1 or 2 transactions
- 29% 3 to 5 transactions
- 18% at least 6 transactions
- 4% no data

Corporate goals

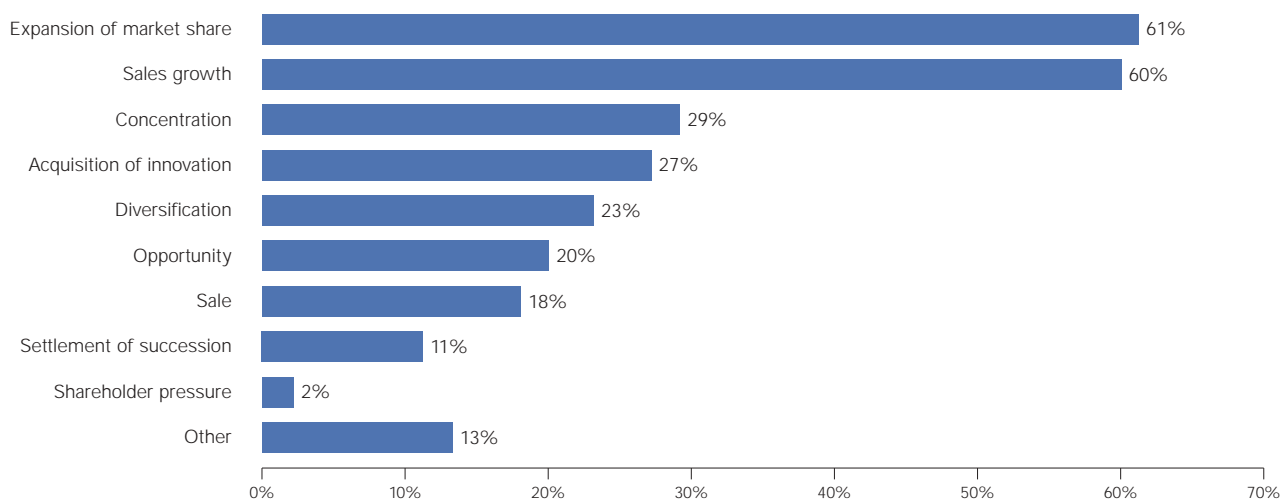
The companies expect competition to intensify. According to the company representatives, mergers and acquisitions can effectively strengthen a company's position, boosting sales and expanding market shares. However, they consider internal growth to be the most important factor to achieve this objective.

Motives

The question regarding the motives for past transactions resulted in a variety of answers. Expansion of market share and sales growth were the most frequent arguments.

Swiss companies often try to achieve their growth objectives abroad. 63% of the M&A transactions by Swiss companies have had an international focus.

What were the most important motives for the transactions?
(Multiple answers possible)



Corporate goals

For the responding companies M&A are closely linked to company goals. In hindsight, companies view the importance of M&A for achieving their goals as follows:

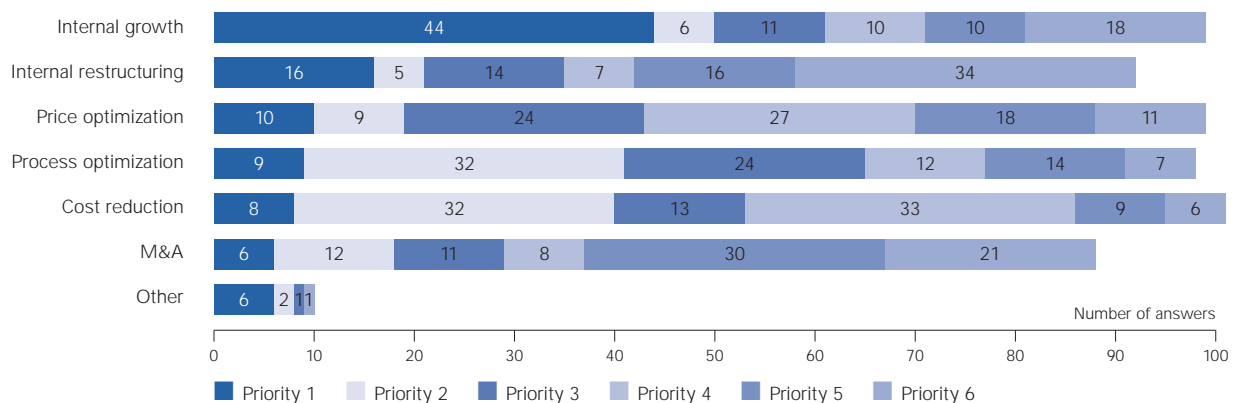
- 16% of the companies have stated that M&A transactions play an important role,
- 36% consider them to be fairly important, and
- 45% consider them rather unimportant.

70% of the listed companies consider the role of M&A to be important or fairly important, while this percentage is only 45% for companies that are not listed.

Alternatives

However, if these findings are compared with alternative strategic measures, a more differentiated picture emerges. Corporate goals are more often achieved through internal growth, cost reductions and process optimization than by M&A.

How important are the following measures for the achievement of your company's corporate goals?



Trends

The concentration process in various sectors of the economy continues. The company representatives polled consider it to be the driving force behind future M&A activities in their companies. Even companies that have not closed any corresponding deals in the recent past expect to be involved in future transactions.

Concentration process

The CEOs and CFOs of the companies surveyed expect an ongoing consolidation in their industries.

- 64% of the companies reckon with a decreasing number of companies in their industry,
- 26% forecast a stable number of competitors, and
- 9% predict an increase. Particularly medium-sized companies with sales between CHF 21 million and CHF 100 million and with

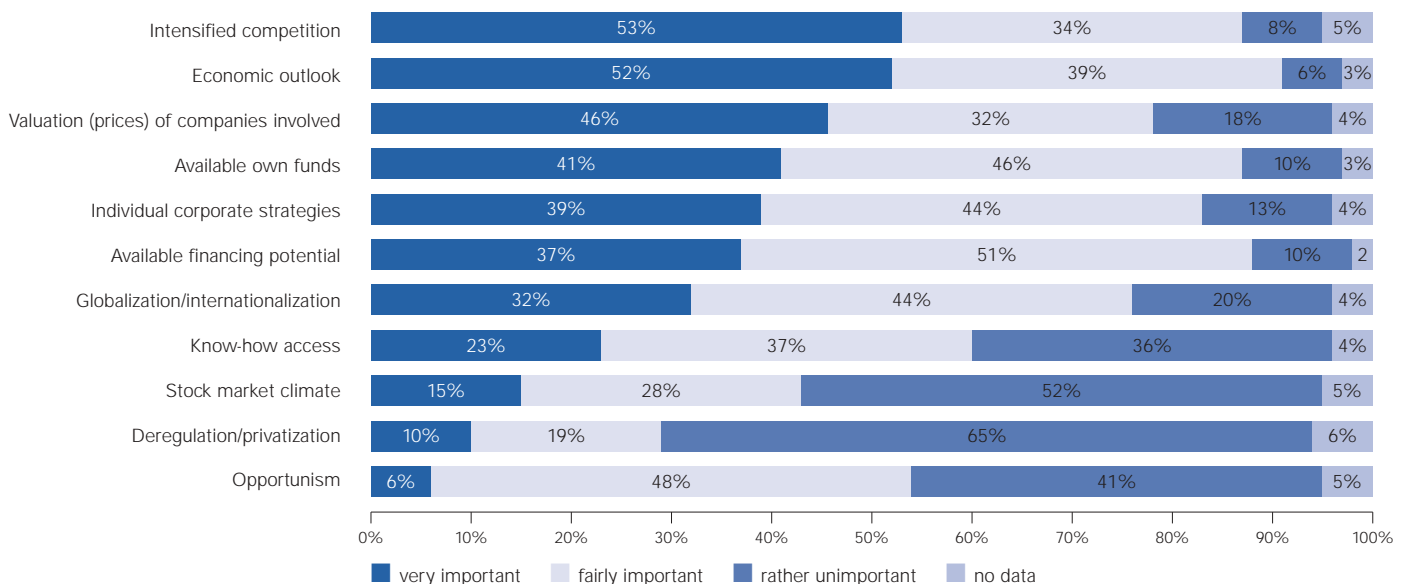
101 to 250 employees are bracing for increasingly dynamic forces.

Contributing factors

Stock market climate, deregulation and privatization are not the driving forces behind M&A activities. Intensified competition and overall economic outlook play a far more important role.

While the valuation or, in other words, the prices of the companies involved are often mentioned as con-

Which factors will influence the number of M&A activities in your industry in the next two years?
(Multiple answers possible)



tributing factors, a majority of respondents consider the stock market climate to be of little importance for M&A activities.

Brisk M&A activity

According to the expected consolidation, companies are preparing for brisk M&A activity. The company representatives expect the following development:

- 48% of companies forecast an increase in M&A activity,
- 42% expect the number to remain stable,
- 8% expect fewer M&A transactions in their industries.

Involvement

In view of the increasing M&A activity in their industries, the majority of responding companies expect to be involved in this concentration process in the next year or two.

- 63% of the company representatives expect their company to be involved in an M&A transaction.
- 34%, meanwhile, do not expect any transaction.

Companies with annual sales of more than CHF 101 million and with more than 500 employees as well as listed companies reckon with a higher probability than the other groups.

80% of the companies that have been involved in transactions over the past three years expect more to come in the near future. 70% of the listed companies expect to be involved in M&A transactions, compared to 47% among not listed companies.

Advisory

The most active companies in terms of sales rely on external advisors from at least one discipline for their M&A transactions. In most cases international audit and consulting firms are chosen. According to company representatives, the areas with the highest demand for support are technical know-how and personnel capacity.

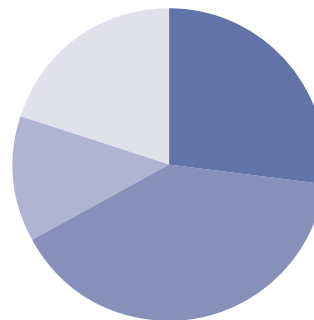
Internal know-how

Only a small minority of the companies surveyed maintain a specific M&A department. Just 15% of CEOs and CFOs declare to have their own specialists.

External specialists

Whether they employ their own M&A specialists or not, the majority of companies calls in external specialists to deal with transactions. 89% of the company representatives declare to have relied on the support of advisors.

How many employees work in your company's M&A office?



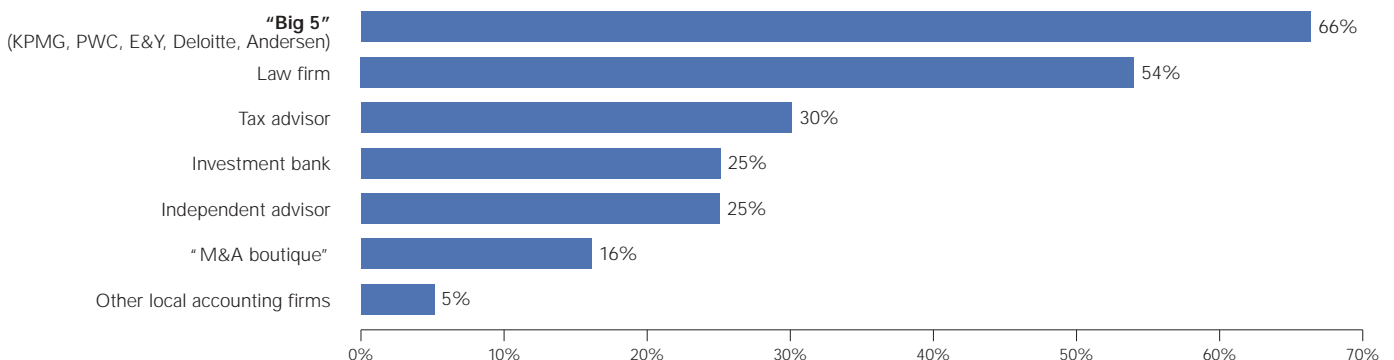
- 27% 1 to 2 individuals
- 40% 3 individuals
- 13% 4 to 5 individuals
- 20% project-based

Audit and consulting firms

Among the advisory service providers the group of leading global audit and consulting firms gets the most mandates, followed by law firms.

Which advisors have you worked with?

(Multiple answers possible)



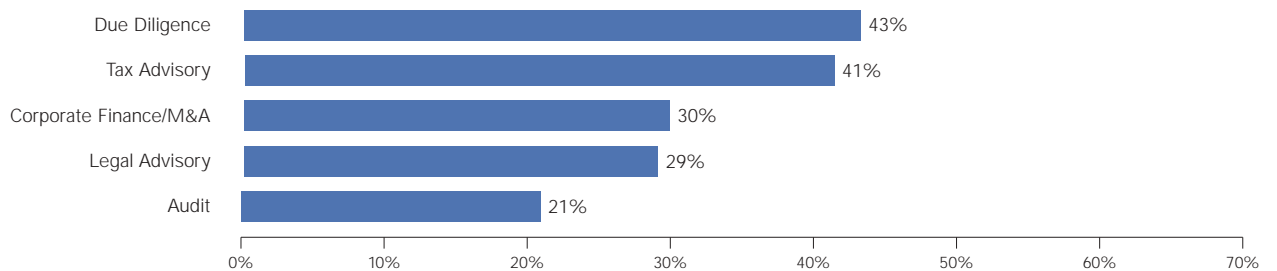
In addition, 80% of the representatives from companies without any M&A experience have indicated that they would consult one of the leading audit firms in the case of a transaction.

Wide range of services

Companies obviously appreciate the multidisciplinary range of services offered by the leading audit and consulting firms. In 75% of the cases that involved the services of an audit firm contracts were given to more than one department,

with a particularly high demand for Due Diligence and tax advisory services.

With which departments of leading global audit firms have you worked?
(Multiple answers possible)



External legal advisory

Although many companies have their internal legal department, they often seek the advice of an external law firm when dealing with the legal aspects of a transaction.

A confidential relationship between the company and its external legal advisor is the deciding factor for the selection of the latter.

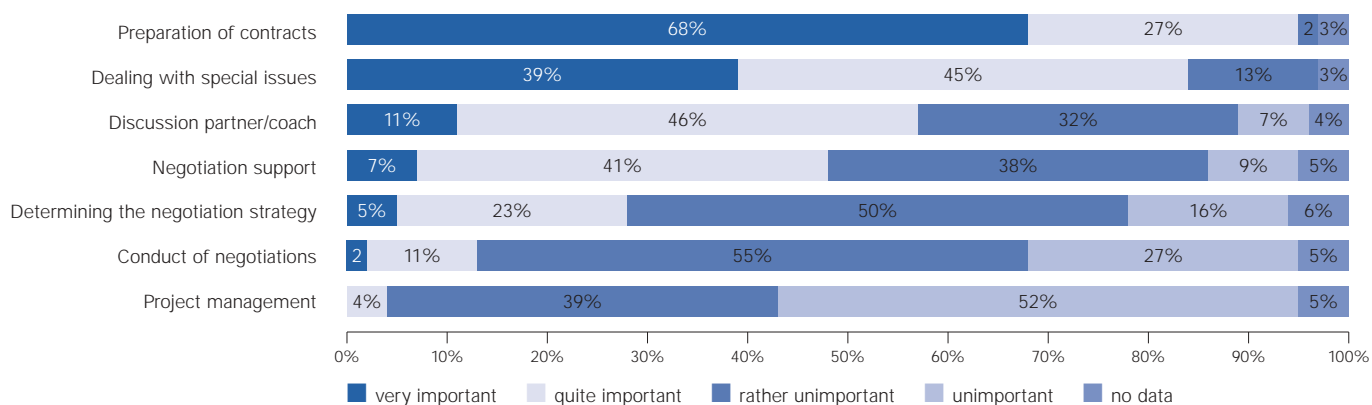
The majority of companies with or without M&A experience have mentioned personal relations as the most important criterion, followed by a wide range of services, internationality and size and availability of resources.

Comprehensive services play a more crucial role for companies without any M&A experience than for other companies.

Preparation of contracts

Even though the legal advisory provided by external experts mainly concerns the drawing-up of contracts, the support given is often of a more comprehensive nature.

How important do you deem the contribution by the law firm specialized in M&A to various areas?

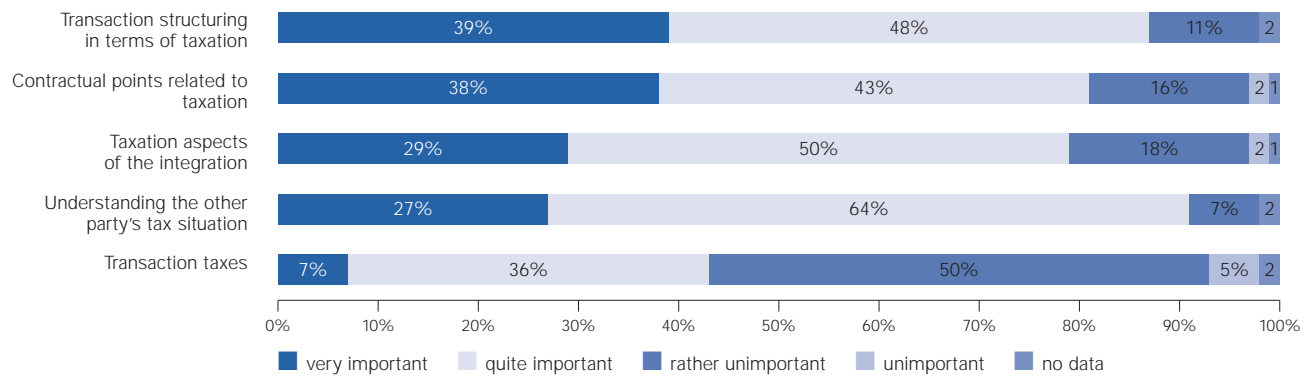


Taxes

The various taxation effects of any given M&A transaction generally receive much attention. In this case the focus is

not so much on the transaction taxes actually arising, but rather on transaction structuring and on optimizing the taxation effects upon integration.

How important are the following taxation aspects in connection with an M&A transaction?

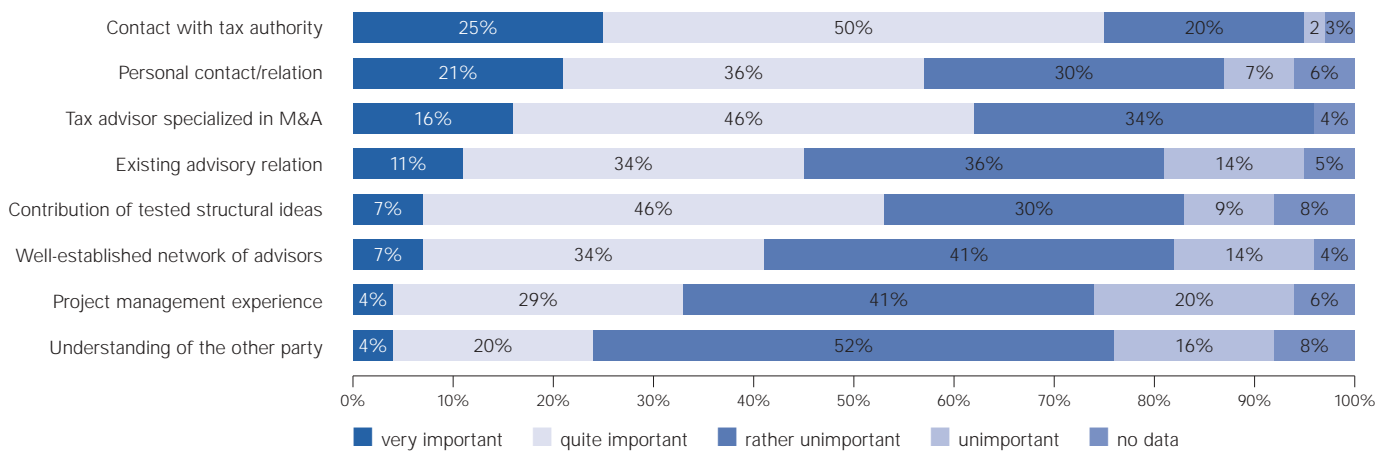


Tax advisory

Just as in the case of selecting an external legal advisor, companies rely on personal relations when contracting a tax expert –

such relations encompass both those with the company itself and those between the tax advisor and the tax authority.

How important are the following aspects for a tax advisor in connection with an M&A transaction?

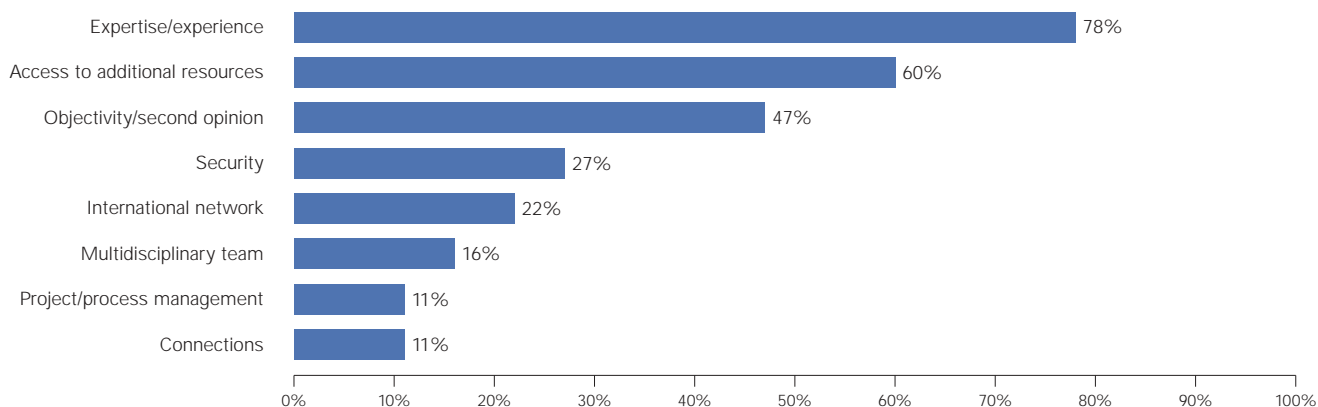


Benefit

Companies have various expectations with regard to the services of external advisors. According to the responding CEOs and CFOs, the benefit is mainly based on the provision of lacking know-how in special areas and on the bridging of resource-related bottlenecks. The latter should be seen primarily in light of the time-critical course of a transaction.

For companies without M&A experience aspects such as access to additional resources, objectivity or second opinion and project and process management know-how play a more important role than for those with M&A experience.

Where do you see the benefit of external advisors in connection with M&A transactions? (Multiple answers possible)



Due Diligence

Due Diligence serves to systematically identify the chances and risks of a transaction. The critical subareas are usually analyzed by both internal and external offices.

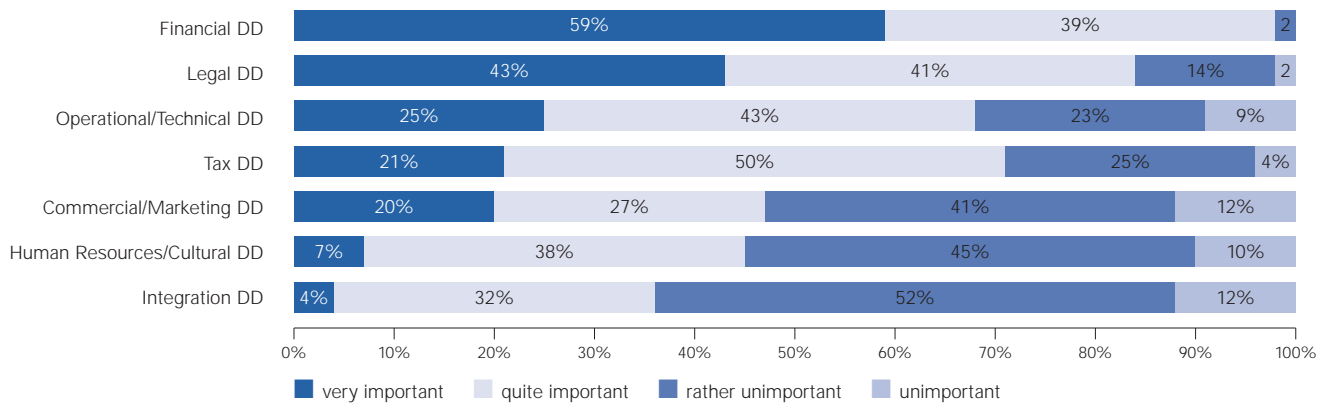
Range

In the context of Due Diligence companies review "hard factors" as well as "soft factors", with the former playing a more important role.

of their representatives consider Operational/Technical Due Diligence as particularly important, whereas Tax and Legal Due Diligence are often considered less important.

Companies without M&A experience generally rate Due Diligence higher than those with a corresponding background. The majority

How important are the various areas analyzed under Due Diligence?

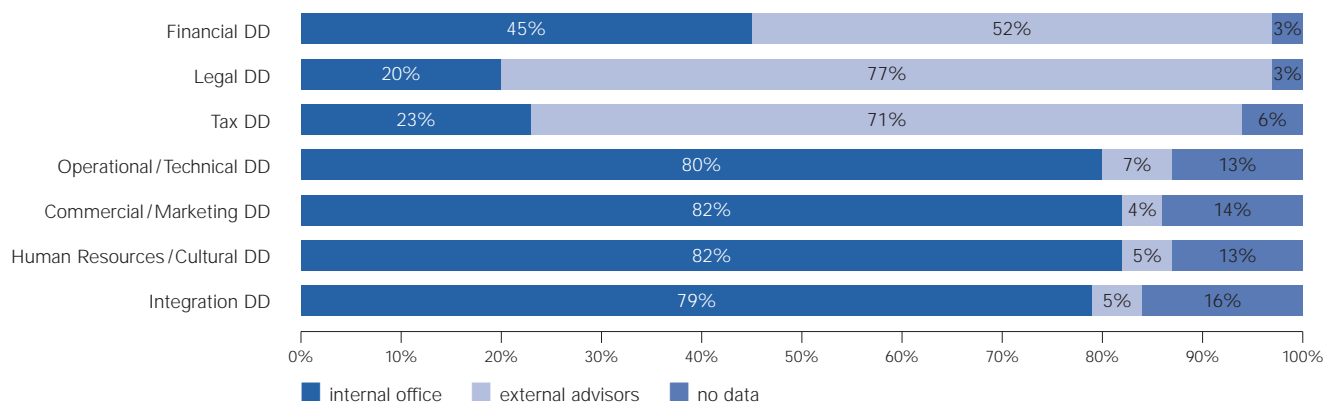


Outsourcing

To review the financial, legal and fiscal aspects of a transaction, external advisors are much more often called

in than for other areas of Due Diligence. The following diagram shows the importance of external advisors for each subarea:

Who was mainly involved in each area of Due Diligence during your M&A transactions?



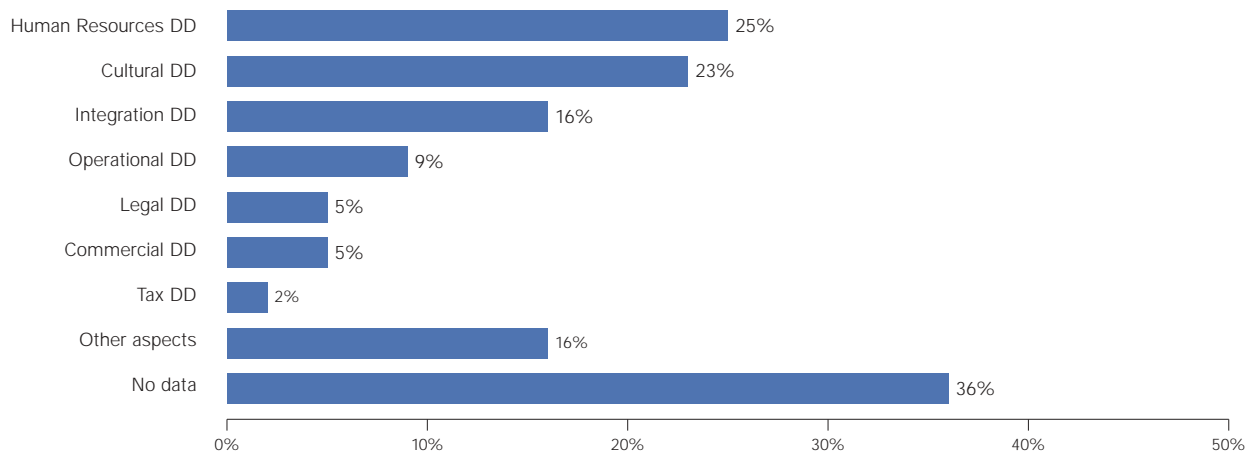
One-sided focus

80% of the review areas Operational/Technical, Commercial/Marketing, Human Resources/Cultural and Integration Due Diligence

are handled by internal offices. However, the companies with M&A experience consider precisely these areas as insufficiently covered.

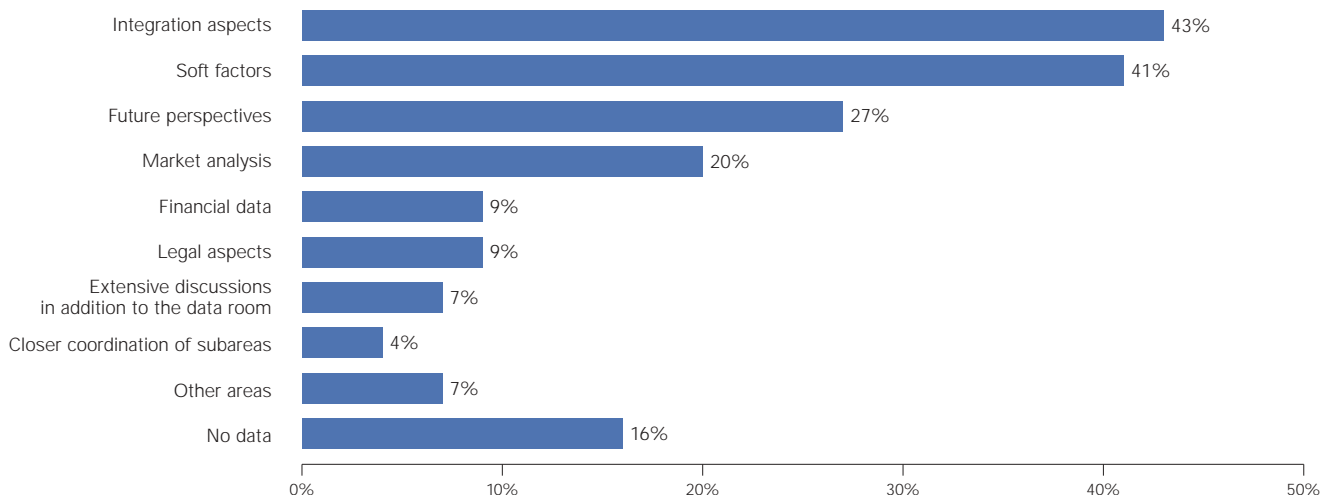
Which areas of Due Diligence are insufficiently covered?

(Multiple answers possible)



Where would you focus more in your next Due Diligence?

(Multiple answers possible)



Soft factors

The company representatives agree that among the numerous soft factors management team review, corporate culture and key individuals are of particular importance. Companies without M&A experience would review customer and supplier relations significantly more often than companies with a corresponding background. On the other hand, both groups consider communications culture, management style and corporate governance as secondary.

Objective

For companies with M&A experience the main objective of Due Diligence is to establish transparent decision-making principles. In most cases, however, other purposes are pursued as well.

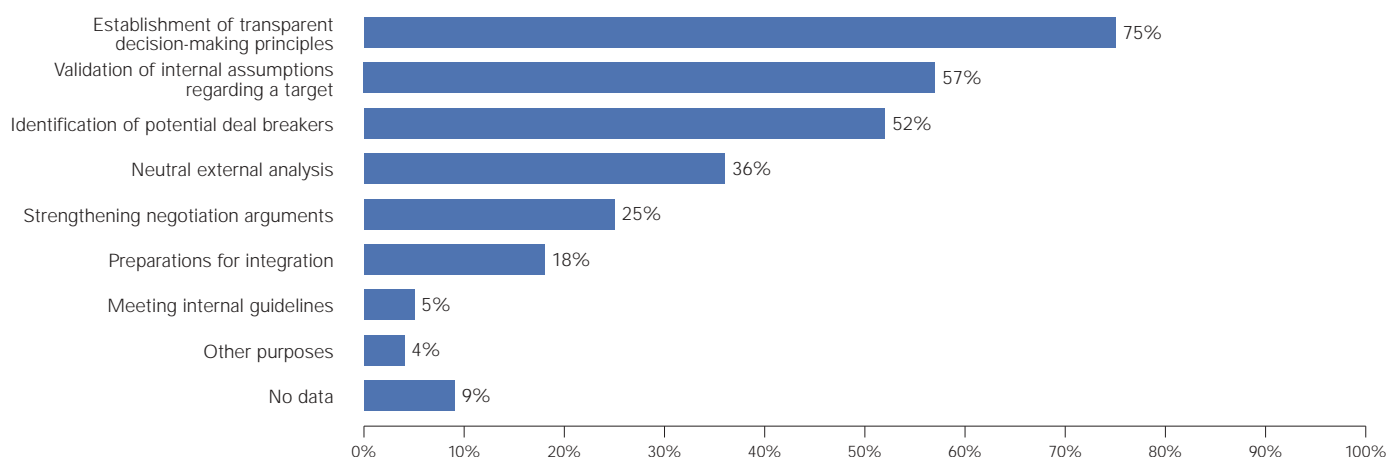
Benefit

In hindsight, four out of five companies believe that Due Diligence yields a large or reasonable benefit. When asked about this, the representatives of companies with M&A experience gave the following answers:

- very large benefit: 32%
- some benefit: 48%
- rather small benefit: 9%
- no benefit at all: 2%

For what purpose have you carried out a Due Diligence?

(Multiple answers possible)



Company valuation

In most cases companies are valued based on future cashflow. Also included in the transaction price are synergies, taxation effects and integration costs. Differing opinions about these parameters are the most common "deal breakers".

Method

As to the valuation of companies and parts thereof, the responding companies leave nothing to chance. According to the company representatives, the following methods were applied:

- Discounted Cash Flow: 69%
- Practitioner Method: 39%
- Multiples: 28%
- Comparable transactions: 20%
- Economic Value Added (EVA®): 19%

Other methods are rarely applied. More than half of the companies apply several methods. A combination of the Discounted Cash Flow and Practitioner Method is most common. The latter mainly serves to underscore the result. Asset value calculations, on the other hand, are almost entirely ignored.

Price and value

There is a reason why the Discounted Cash Flow method is so widespread. 50% of respondents believe that it results in a business value that is closest to the actual price paid. The other methods lag behind for accuracy.

Pricing aspects

The actual price paid does not solely depend on the object of negotiation but on the buying company as well. An overwhelming majority of company representatives have claimed to take into consideration at least one of the following aspects (multiple answers possible):

- Synergies: 75%
- Taxation effects: 61%
- Integration costs: 55%

Integration

The companies consider integration to be very important for the success of a transaction. A potential for improvement still exists in this area, the starting point of which would be Due Diligence of all aspects relevant for integration. Thus the conditions for a successful integration could be established at an early process stage.

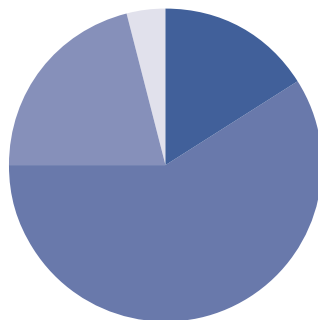
Satisfaction

The integration of a company or parts thereof ultimately demonstrates whether or not a transaction is successful. In this respect the transactions undertaken show a mixed picture. At least one fifth of the companies have indicated to be rather dissatisfied with the course of the integration.

Start

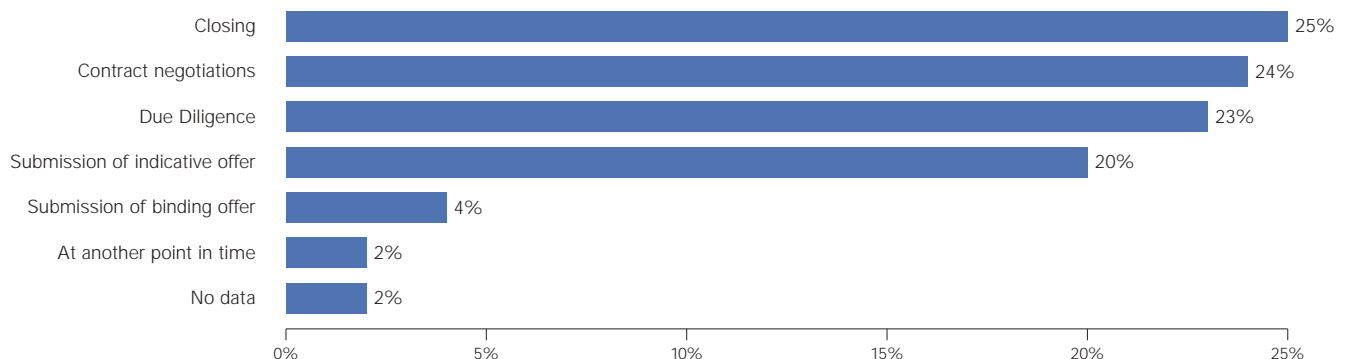
Two out of three companies begin to deal with the integration before signing the agreement. At the same time a majority of the companies surveyed believe that integration aspects are not sufficiently addressed in the Due Diligence and should be given more attention in the future.

How satisfied are you with the integration within the scope of your M&A transactions?



- 16% very satisfied
- 59% quite satisfied
- 21% rather dissatisfied
- 4% no data

At what stage did you begin to plan and prepare for the integration in your previous M&A transactions?



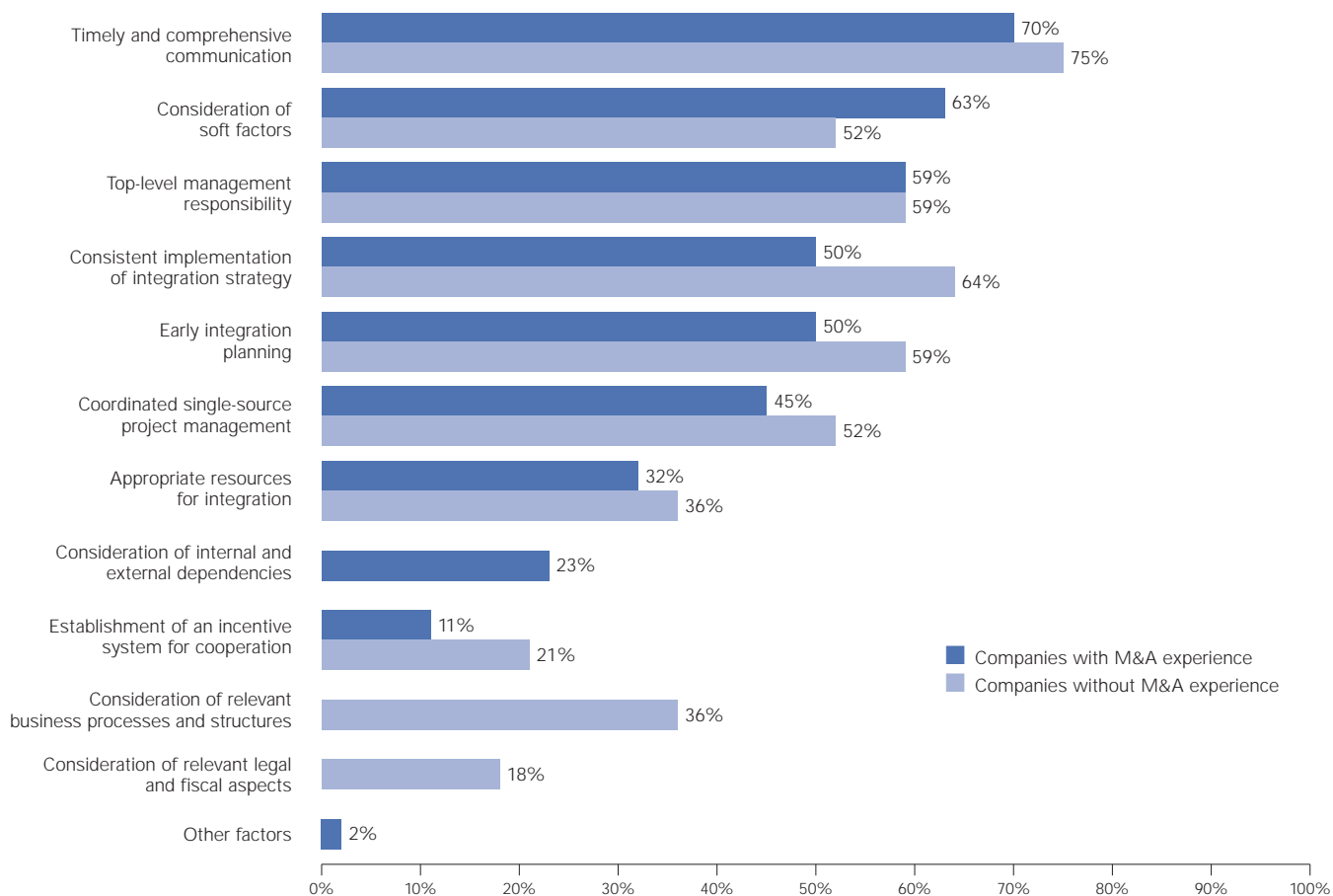
Success factors

From a company's point of view the success of a transaction depends on numerous factors, with their representatives mentioning soft as well as hard ones.

With respect to integration the company representatives believe that it is crucial to retain key employees, to carefully select the new management team and to establish a common corporate culture.

What are the crucial factors for a successful integration?

(Multiple answers possible)



Success and failure

The line between success and failure is often thin. The criteria that decide over one or the other vary from company to company. The fact remains, however, that a number of companies look back to cancelled transactions and that there are considerable stumbling blocks on the road to success.

Measurement of success

To the question of whether their company had previously defined any criteria for the measurement of success, the CEOs and CFOs have answered as follows:

- 64% have defined success criteria,
- 32% have done without.

At the same time the share of companies that eventually measure their success is considerably higher. To the question of whether they measured the success as part of their M&A transactions, the company representatives have answered:

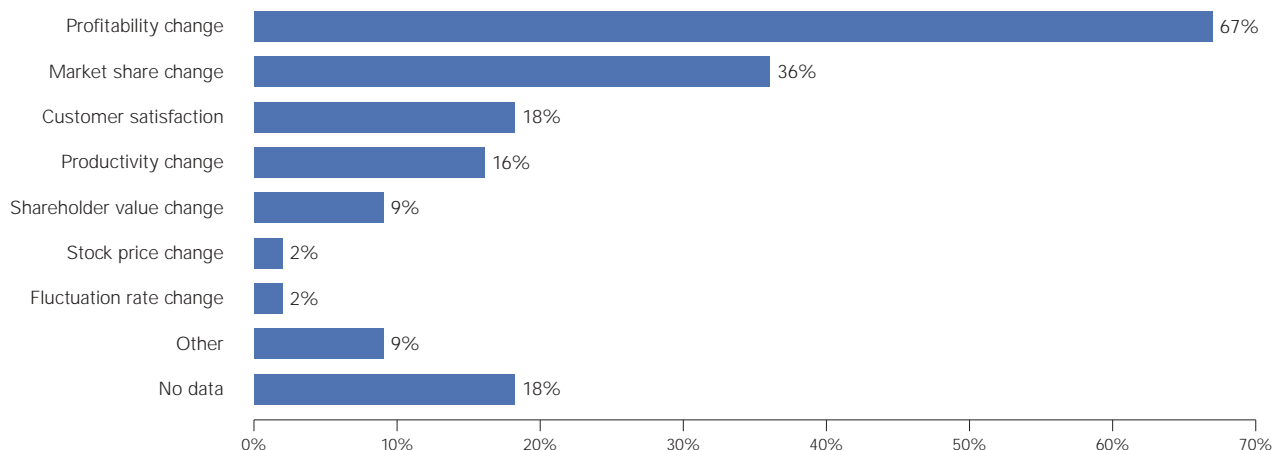
- 76% measure the transaction success,
- 20% do without.

Success criteria

A closer look at the criteria for assessing the success of a transaction reveals a clear tendency in favor of profitability, on which two thirds of the companies with transaction experience rely. Only an insignificant number of companies measure their success based on changes in stock price or shareholder value.

Which measurement criteria do you apply?

(Multiple answers possible)



Cancellation

Not nearly all of the initiated transactions are finalized. To the question of whether their companies have already cancelled a transaction at an advanced stage, the representatives of companies with M&A experiences have answered as follows:

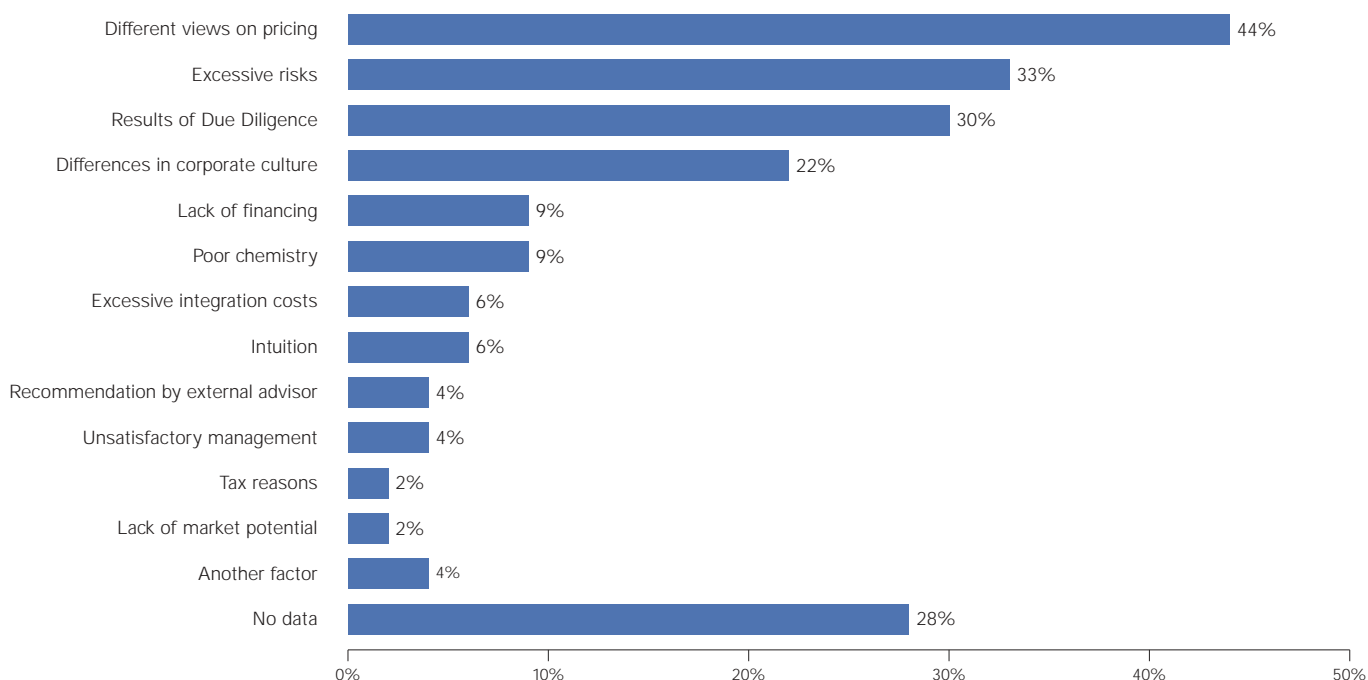
- 69% of the companies have already cancelled at least one transaction.
- 29% completed every transaction.

Critical factors

A closer look at the “deal breakers”, the factors responsible for a cancellation, shows that different views on pricing are the most important argument. Also, almost one in four companies argue that the transaction was cancelled because of differences in corporate culture.

According to the answers received, large companies are less likely than small ones to shy away from cancelling negotiations at an advanced stage.

Which factors were responsible for the cancellation of a transaction? (Multiple answers possible)



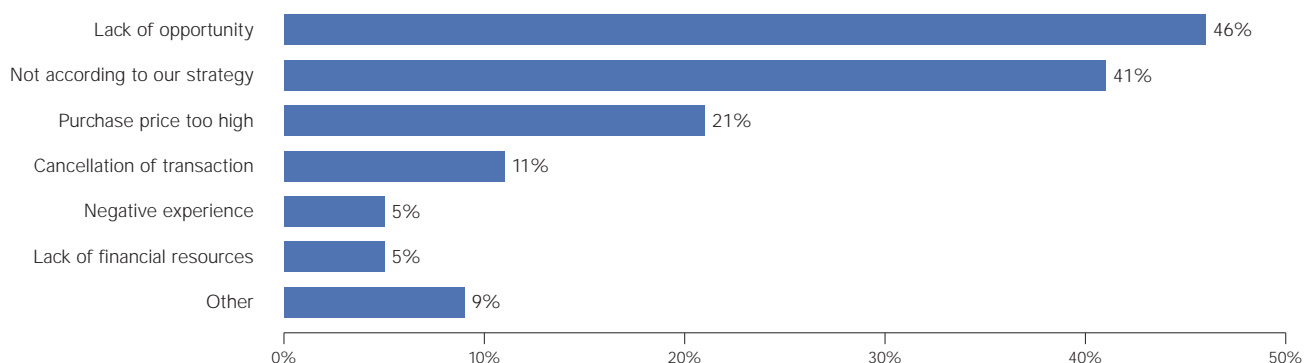
Obstacles

Companies that have not dealt with any transactions over the past three years explain this mainly with a lack of opportunity. Almost

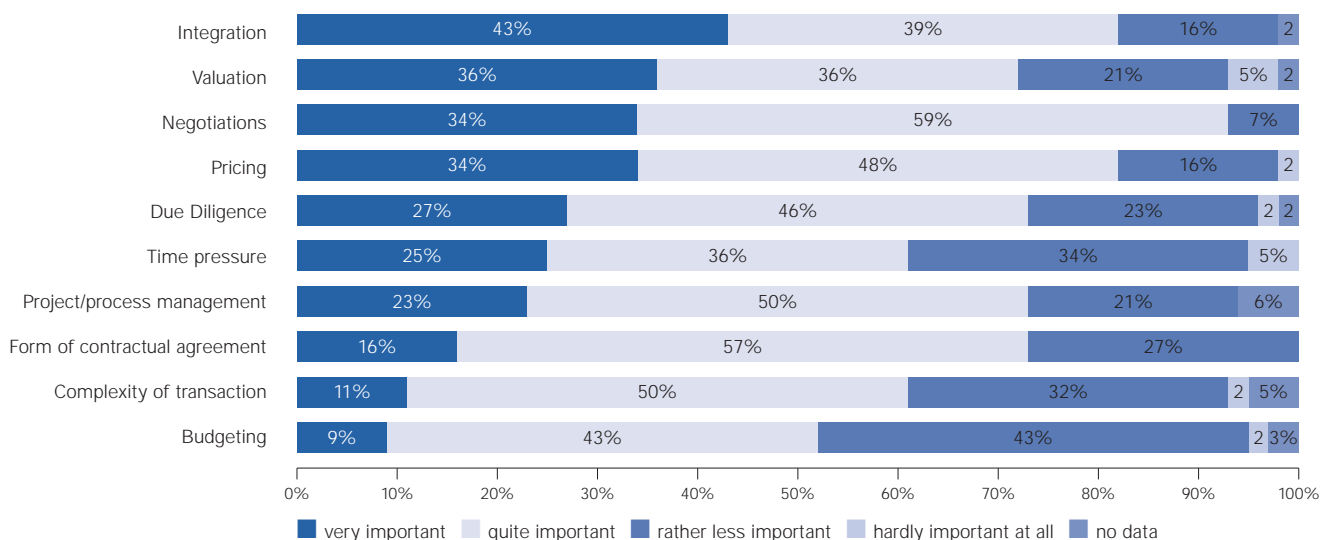
just as often they point out that M&A transactions are no longer in line with the corporate strategy. The group of companies without M&A experience is

confronted with numerous obstacles. Their representatives have mentioned integration, valuation or pricing and negotiation as obstacles on the way to M&A success.

What were the reasons that kept you from realizing a transaction over the past three years? (Multiple answers possible)



How would you assess the potential obstacles to a successfully completed M&A transaction?



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