



SWITZERLAND

■ Background

In 2004, the activities of the Swiss venture capital industry concentrated around a small number of well established funds. The number of private equity funds that can successfully raise money in the current environment is decreasing, as investors focus on funds that have well established industrial relationships and a successful track record. In 2004, funds raised fell significantly as none of the larger companies completed a new funding round. In 2004, the value of initial investments remained similar to 2003 levels.

Swiss venture capital firms continued investing in the biotechnology and medical/health related sectors. This field is one of Switzerland's growing strengths with rising levels of investment activity centered around the Geneva/Lausanne and Basel/Zurich regions. The main reason for development in these regions is the close proximity of the technical universities, research institutes and large multinational pharmaceutical and biotechnology companies. There are a number of venture capital firms with specialist biotechnology/life science funds that have established close links with the established pharmaceutical industry.

The level of follow-on investments increased significantly in 2004, an indication of the higher capital needs to support the development of companies in the biotechnology/life science fields.

■ Sources of Capital

Funds raised decreased significantly from €351 million in 2003 to €176 million in 2004 (a decline of 50%). The total funds raised is the lowest since 2000 (2002: €209 million, 2001: €667 million and 2000: €1 billion). Similarly to 2003, total funds raised were dominated by independent funds, representing 99% of total funds. Whilst in 2003 the principal sources of funds raised were pension funds, banks and fund of funds, in 2004 corporate investors have become more prominent, representing 66% of new funds raised.

The majority of the funds raised in 2004 (86%) came from other European countries, however in 2003, 72% of funds raised came from within Switzerland. The expected allocation of funds raised in 2004 is mainly to high-tech early stage companies, which represent 97% of total funds raised. This is converse to 2003, when buyouts dominated at 93% of total funds raised.

■ Investment Patterns

Amounts invested in Switzerland increased by 22% in the last year from €223 million in 2003 to €272 million in 2004. However, the actual number of investments decreased from 214 in 2003 to 137 in 2004. Consistent with 2003, there appears to be more or less an equal split between initial and follow-on investments, with the latter dominating a slightly larger share at 56%.

Independent investors were dominant in terms of total amount invested at 99%. Semi-captive investors have decreased their investments since 2003, when they represented 22% of the total amount invested; in 2004 they represented less than 1% of the total. Buyouts represented 55% of the total amount invested in 2004, with start-up and expansion companies both representing about 22%. These three stages of investment were also apparent in 2003; however, their proportions of the total amount invested were more or less equal.

Consistent with 2003, 90% of the total amount invested in 2004 did not include syndication. Some 80% of the total amount invested was made in Switzerland, which is a switch from last year, when 57% of the amount was invested in other European countries. In terms of industry sectors, chemicals and materials represented 25% of the total investment amount, followed by computer related industries (17%), other services (16%), transportation (15%) and communications (11%).

■ Legal and Fiscal Environment

No major progress occurred in 2004 in the legal and fiscal environment in Switzerland. A number of tax and legal proposals that would be beneficial to the venture capital industry are still being discussed at the federal parliament. The proposals include:

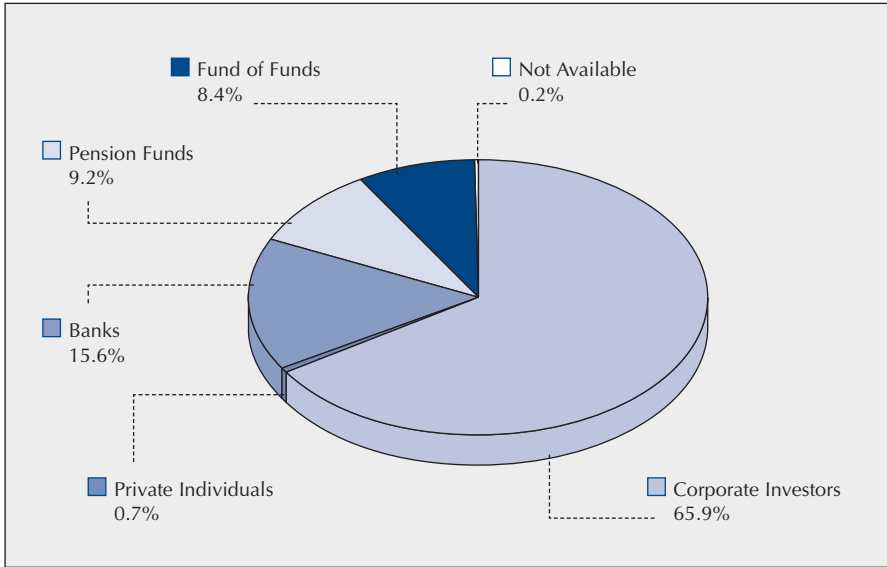
- Limited liability partnership. A new draft of a federal law on collective capital investments has been submitted to the federal parliament. The draft legislation foresees the introduction of an attractive environment for limited liability partnerships in Switzerland.
- On 23 June 2004, the Swiss Federal Council passed a dispatch on an amendment to the Code of Obligations and the federal law on the registration and oversight of auditors and a change in audit requirements of companies which will now be dependent on the company's relative size rather than their legal structure. The dispatch also contains a proposal to oblige larger companies to conduct a comprehensive risk assessment and have auditors verify that a functioning system of controls is in place.

- The Swiss Institute of Certified Accountants and Tax Consultants (Swiss Institute) approved the new Swiss Auditing Standards in June 2004. These standards are essentially based on the International Standards on Auditing (ISA) that became effective on 30 June 2003. For the time being, the new Swiss standards are only applicable to companies to which the legal criteria (i.e. companies with more than CHF 20 million of total balance sheet, CHF 40 million of revenues, with more than 200 employees or with publicly traded equity or bonds) apply or which have to comply with certain special regulations.
- Finally, a new proposal has been submitted for the taxation of employee stock options. The proposal mentions that the taxation of the options should be done at the exercise rather than the grant as it is taxed now. This proposal is in consultation.

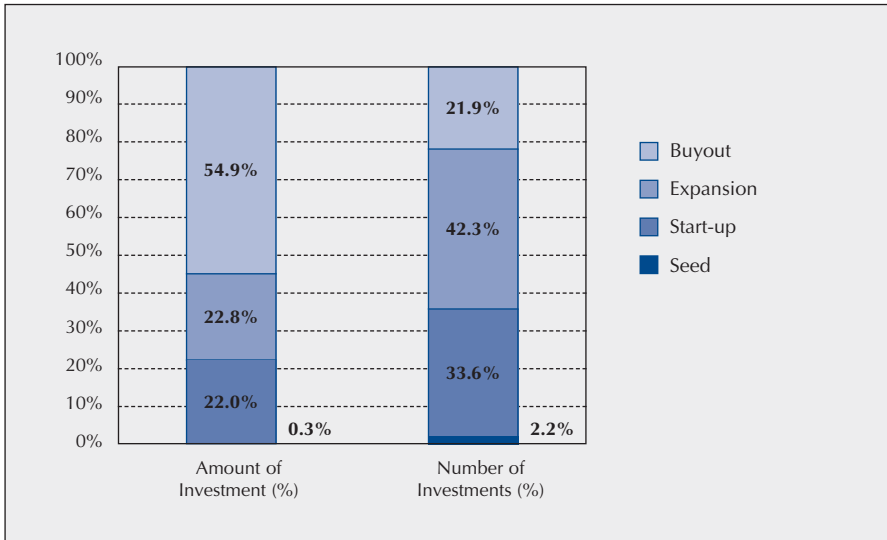
■ Exiting

The amount divested in Switzerland increased significantly in 2004 to €113 million, from €40 million in 2003. However, the actual number of divestments decreased from 36 in 2003 to 24 in 2004. The method of divestment was dominated by trade sale and write-off in 2004. This was similar in 2003; however, in 2003 divestment by public offering represented 23% of the total amount divested while in 2004 it only accounted for 3%.

■ Private equity raised by type of investor in 2004



■ Stage distribution of investments in 2004



■ Funds Raised

Amount (in € x 1,000)	2003		2004	
PRIVATE EQUITY RAISED BY SOURCE				
	Amount	%	Amount	%
Independent Funds Raised in Year	336,912	96.0	173,745	98.9
Amount Raised by Captives	3,731	1.0	1,949	1.1
Subtotal New Funds Raised	340,643	97.0	175,694	100.0
Realised Capital Gains	10,412	3.0	20	0.0
Total Funds Raised	351,055	100.0	175,714	100.0
PRIVATE EQUITY RAISED BY TYPE OF INVESTOR				
Corporate Investors	0	0.0	115,837	65.9
Private Individuals	963	0.3	1,171	0.7
Government Agencies	0	0.0	0	0.0
Banks	111,495	32.7	27,367	15.6
Pension Funds	114,796	33.7	16,212	9.2
Insurance Companies	0	0.0	0	0.0
Fund of Funds	101,658	29.8	14,775	8.4
Academic Institutions	0	0.0	0	0.0
Capital Markets	0	0.0	0	0.0
Not Available	11,731	3.4	332	0.2
Subtotal New Funds Raised	340,643	100.0	175,694	100.0
Realised Capital Gains	10,412	-	20	-
Total Funds Raised	351,055	-	175,714	-
GEOGRAPHICAL BREAKDOWN OF PRIVATE EQUITY RAISED				
Domestic	253,054	72.1	24,237	13.8
Other European Countries	0	0.0	151,477	86.2
Non-European Countries	98,001	27.9	0	0.0
Total Funds Raised	351,055	100.0	175,714	100.0
EXPECTED ALLOCATION OF FUNDS RAISED				
High-Tech Early-Stage	2,967	0.8	170,655	97.1
Non High-Tech Early-Stage	0	0.0	0	0.0
High-Tech Expansion/Development	16,882	4.8	4,952	2.8
Non High-Tech Expansion/Development	3,278	0.9	107	0.1
Venture Capital	23,127	6.6	175,714	100.0
Buyout	327,928	93.4	0	0.0
Other	0	0.0	0	0.0
Total Funds Raised	351,055	100.0	175,714	100.0

Investments

Amount (in € x 1,000)		2003				2004			
	Amount of Investment	% Investments	Number of Companies	% Investments	Amount of Investment	% Investments	Number of Companies	% Investments	Number of Companies
Initial Investment	119,641	53.6	35	16.4	34	19.0	43.9	27	17
Follow-on Investment	103,364	46.4	179	83.6	145	81.0	152,719	56.1	110
Total Investment in Year	223,005	100.0	214	100.0	179	100.0	272,442	100.0	137
DISTRIBUTION OF INVESTMENTS BY INVESTOR TYPE									
Independent	168,274	75.5	150	70.1	128	70.7	269,269	98.8	115
Captive	5,583	2.5	31	14.5	20	11.0	1,714	0.6	11
Semi-Captive	49,073	22.0	28	13.1	28	15.5	1,224	0.5	2
Public Sector	75	0.0	5	2.3	5	2.8	235	0.1	9
Total Investment	223,005	100.0	214	100.0	179	100.0	272,442	100.0	111
STAGE DISTRIBUTION OF INVESTMENTS IN YEAR									
Seed	5,918	2.7	20	9.3	20	10.9	768	0.3	3
Start-up	83,323	37.4	95	44.4	84	45.9	60,010	22.0	46
Expansion	59,254	26.6	75	35.0	68	37.2	62,113	22.8	58
Replacement Capital	0	0.0	0	0.0	0	0.0	0	0.0	0
Buyout	74,510	33.4	24	11.2	11	6.0	149,551	54.9	30
Small	28,445		23		10		69,654		28
Mid-market	46,065		1		1		79,897		2
Large	0		0		0		0		0
Mega	0		0		0		0		0
Total Investment	223,005	100.0	214	100.0	179	100.0	272,442	100.0	137
SYNDICATION OF INVESTMENTS IN YEAR									
No Syndication	190,510	85.4	198	92.5	165	92.2	244,885	89.9	123
National Syndication	13,319	6.0	8	3.7	7	3.9	20,015	7.3	7
Transnational Syndication	19,176	8.6	8	3.7	7	3.9	7,542	2.8	7
Total Investment	223,005	100.0	214	100.0	179	100.0	272,442	100.0	137

	2003				2004							
	Amount of Investment	% Investments	Number of Companies	%	Amount of Investment	% Investments	Number of Companies	%				
GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Domestic	64,027	28.7	115	53.7	84	46.9	218,979	80.4	90	65.7	64	57.7
Other European Countries	126,194	56.6	61	28.5	57	31.8	42,138	15.5	38	27.7	38	34.2
Non-European Countries	32,784	14.7	38	17.8	38	21.2	11,325	4.1	9	6.6	9	8.1
Total Investment	223,005	100.0	214	100.0	179	100.0	272,442	100.0	137	100.0	111	100.0
SECTORAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Communications	30,949	13.9	46	21.5	40	22.0	28,609	10.5	20	14.6	18	16.1
Computer Related	54,658	24.5	61	28.5	57	31.3	45,029	16.5	31	22.6	29	25.9
Other Electronics Related	0	0.0	0	0.0	0	0.0	3,200	1.2	3	2.2	2	1.8
Biotechnology	25,995	11.7	30	14.0	29	15.9	17,173	6.3	23	16.8	23	20.5
Medical/Health Related	26,738	12.0	26	12.1	23	12.6	24,418	9.0	28	20.4	25	22.3
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Consumer Related	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Industrial Products and Services	2,092	0.9	8	3.7	5	2.7	0	0.0	0	0.0	0	0.0
Chemicals and Materials	993	0.4	4	1.9	4	2.2	69,085	25.4	2	1.5	2	1.8
Industrial Automation	3,181	1.4	8	3.7	7	3.8	359	0.1	3	2.2	2	1.8
Other Manufacturing	234	0.1	6	2.8	5	2.7	39	0.0	4	2.9	4	3.6
Transportation	7,161	3.2	18	8.4	6	3.3	41,274	15.1	17	12.4	2	1.8
Financial Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other Services	3,655	1.6	4	1.9	4	2.2	43,256	15.9	6	4.4	5	4.5
Agriculture	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Construction	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other	67,349	30.2	3	1.4	2	1.1	0	0.0	0	0.0	0	0.0
Total Investment	223,005	100.0	214	100.0	179	100.0	272,442	100.0	137	100.0	111	100.0
Subtotal High-Tech	111,602	50.0	137	64.0	125	69.8	94,011	34.5	77	56.2	72	64.3

For "Total Investments" for the number of companies column see Methodology and Definitions under Investments and Divestments.

■ Divestments

Amount (in € x 1,000)	2003						2004					
	Amount of Divestment	%	Number of Divestments	%	Number of Companies	%	Amount of Divestment	%	Number of Divestments	%	Number of Companies	
Divestment by Trade Sale	6,599	16.3	7	19.4	5	14.7	52,321	46.4	8	33.3	6	27.3
Divestment by Public Offering	9,337	23.1	9	25.0	9	26.5	3,312	2.9	4	16.7	4	18.2
Divestment by Flotation (IPO)	0		1		1		500		1		1	
Sale of Quoted Equity	9,337		8		8		2,812		3		3	
Divestment by Write-Off	23,343	57.6	18	50.0	18	52.9	49,508	43.9	7	29.2	7	31.8
Repayment of Principal Loans	1,021	2.5	1	2.8	1	2.9	0	0.0	0	0.0	0	0.0
Sale to Another Venture Capitalist	197	0.5	1	2.8	1	2.9	0	0.0	0	0.0	0	0.0
Sale to Financial Institution	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Sale to Management (Buy-back)	0	0.0	0	0.0	0	0.0	7,609	6.7	5	20.8	5	22.7
Divestment by Other Means	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total Divestment in Year	40,497	100.0	36	100.0	34	100.0	112,750	100.0	24	100.0	22	100.0

For "Total Divestments" for the number of companies column see Methodology and Definitions under Investments and Divestments.

■ Portfolio at Cost

Amount (in € x 1,000)	2003			2004		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	1,710,722			1,893,230		
Total Investment in Year	223,005	214	179	272,442	137	111
Total Divestment in Year	(40,497)	36	34	(112,750)	24	22
Portfolio at Cost 31st Dec	1,893,230			2,052,922		

■ Geographical Flows of Private Equity

Amount (in € x 1,000)	2003	2004
FUNDS	Amount	Amount
Funds raised by local PE houses (1)	351,055	175,714
INVESTMENT		
Investment by local PE houses (2)	223,005	272,442
(-) Foreign investment by local PE houses	(158,978)	(53,463)
Local investment by foreign PE houses (3)	338,602	312,933
Total Investment in Country	402,629	531,912

Notes:

(1) Also includes funds raised by local offices of foreign groups that have a distinct local fundraising activity.

(2) Also includes domestic investments made by local offices of foreign groups.

(3) Investments made by foreign private equity (PE) houses with no local offices.

■ Macro Economic Indicators

All amounts in € billion	2003	2004
Number of Private Equity Executives	200	170
Private Equity Investment as % of GDP	0.080%	0.093%
GDP*	278.6	291.7
Private Consumption*	169.0	176.5
Public Consumption*	33.5	34.9
Consumer Prices (MAY 2000=100)*	102.6	103.4
Producer Prices (MAY 2003=100)*	100.0	101.2
Interest Rates (3-month)*	0.54%	0.18%
Interest Rates (10-year)*	2.28%	2.62%
Retail Sales (1949=100)*	846.7	865.4
Unemployment Rate*	3.7%	3.9%
Total value of completed M&A (€ million)	13,761	3,081
Number of completed M&A	196	162
Total value of IPOs (€ million)	-	360
Number of IPOs	-	4

Source: Thomson Financial

* National Source

Note:

Number and amount of M&A deals are split per country based on the location of the target

Number and amount of IPOs are split per country based on the location of the issuer