



## Switzerland

### Background

2005 not only confirmed the strong recovery of the Swiss venture capital industry over the last couple of years but it has also been a year of significant developments. Although the recovery continues to be primarily concentrated around the operations of a lesser number of well established funds, Switzerland has also seen the launch of some new corporate funds of a size that should support strong levels of investment activities over the next few years.

Because of the shift of funds towards larger industry players, funds raised annually by Swiss based funds are significantly impacted by the cyclical fundraising activities of a few larger enterprises. In 2005, a record amount of funds were raised due to a convergence of a few individually significant fundraisings by large existing venture capitalists, new venture capital enterprises and new corporate funds. The 2005 fundraising levels are therefore exceptional and unlikely to be sustainable, although it does demonstrate that a) fundraising has become easier for large funds with demonstrated track records and b) there is renewed interest in this investment class both by corporate and institutional investors.

2005 also saw a continuing trend in the recovery of investment levels since 2003, although the increase in investments made, continued to lag the growth of funds raised. This would support that the sustainable level of annual investment activity is being established at a higher level and may suggest the development of an increasing number of attractive early-stage investments opportunities in Switzerland. However, highly attractive investment opportunities remain a limiting factor on the ability of venture capitalists to invest funds raised locally.

Swiss venture capital firms continue to favor investments in biotechnology and medical/health-related sectors as well as computer sectors, namely semiconductor and micro-electronic applications. These two fields are generating the majority of Switzerland's attractive investment opportunities with rising levels of investment activity centered around the Geneva/Lausanne and Basel/Zurich regions. The main reason for developments in these regions are the close proximity of the technical universities, research institutes and large multinational pharmaceutical and biotechnology companies.

Early-stage investment activity grew strongly and is indicative of the higher level of funds being raised, dedicated to this class of investment as well as an increase in the attractiveness and market potential of early-stage investment opportunities.

Follow-on investments remained stable reflecting the ongoing capital needs to support the development of companies in the biotechnology/life-science fields, the commercialisation of promising computer related applications as well as the continued financing obligations for investments where exit scenarios have not yet been possible in a divestiture environment that did not improve in 2005 but is expected to be more active in 2006.

### Sources of Capital

Total funds raised soared from €175.7 million to €1.5 billion, representing an increase of eight and a half times the amount raised in 2004. The total funds raised were at the level of the 2000 boom year. The increase is due to a convergence of a few individually significant fundraisings by large existing venture capitalists, new venture capital enterprises and new corporate funds. However, it does also reflect on the excellent performances of certain large funds increasing their ability to raise additional funds and a renewed interest in the venture business in Switzerland, increasing the amount of funds available for this type of financing. Similar to the prior year, the Swiss market is dominated by independent funds, representing more than 95% of the total funds raised. Similar to prior years, the majority of the funds came from corporate investors representing 58% in 2005 compared to 66% in 2004.

The geographic allocation of the fundraising continued to reflect the international nature of the Swiss finance market, with more than 90% of funds raised coming from outside Europe. The expected allocation of funds raised in 2005 is mainly to high-tech early-stage companies, which demonstrates the will of the corporate investors to finance innovation.

### Investment Patterns

The investment activity is reflecting an increase in both the potential and the attractiveness of investment opportunities in Switzerland. Investments increased from €272.4 million to €362.6 million in 2005 representing a 33% increase after a 22% increase in 2004. The amount of follow-on investment remains the same between 2004 and 2005 at €152.8 million, but the amount of initial investment almost doubled since 2004 to €209.8 million, which reflects the dynamism of the market for companies with high potential in the development stage. This is confirmed with the distribution of the stage of funding, which reflects that 66% of total amount invested is allocated to companies in the expansion phase, compared to 2004 where investments were made mainly in buyouts.

Consistent with prior years, there was almost no syndication involved (88% of the total invested in 2005). Regarding the geographical distribution, Switzerland is now representing only 55% of the total amount invested compared to 80% in 2004. The rest of the investment is shared between European and non-European countries, which also reflects the increase of the exposure to the internationalisation of the venture capital industry. In terms of industry, the distribution is rather spread out through all the industries, reflecting also the vast range of focus of the general partners.

## Legal and Fiscal Environment

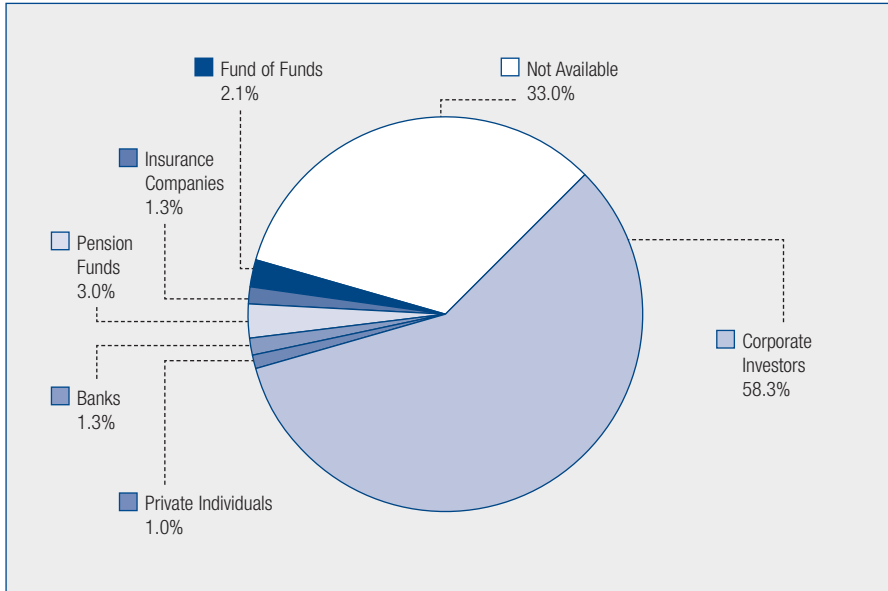
Although there are many new legal and fiscal initiatives that would be favourable for the industry ongoing at parliamentary level, the progress towards the enactment of such legislation was slow in 2005 for a variety of reasons. A summary of key initiatives are:

- Limited Liability Partnership (LLP): The draft legislation would permit the establishment of LLP's similar in form to Anglo Saxon law and allow transparent tax treatment thereby avoiding double taxation. The draft text was approved by the government in June 2005 and has been submitted to the federal parliamentary committees for their consideration.
- Taxation of Stock Options: Although a favourable legislation was passed by parliament allowing a tax exemption of up to 50% on the gains earned from exercise of stock options, the law was not enacted due to the risk of a referendum to counter the law. The government is currently researching the financial consequences of the legislation as a measure to remove potential concerns from the supporters of such a referendum.
- Several amendments to the Swiss Commercial Law or Code of Obligations (CO) that will be applicable from 2008:
  - Modification of the law regulating foundations;
  - New dispositions on the transparency for compensation to the board of directors and executive managers;
  - Modifications of the actual law on the Limited Liability Company (Sàrl in French or GmbH in German) requiring a statutory audit or statutory review depending on size;
  - Reduction in scope of statutory audit work for smaller entities (review scope);
  - New Swiss audit oversight law.

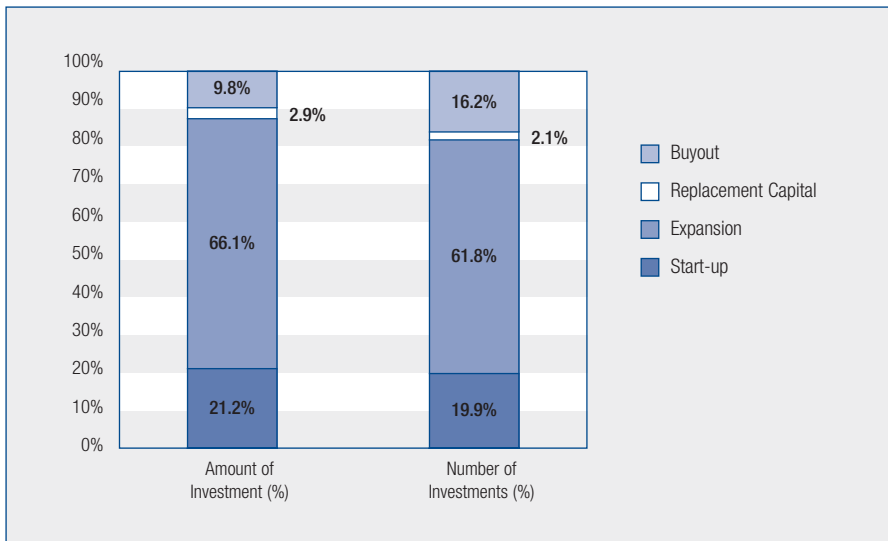
## Exiting

The amount divested in Switzerland increased significantly again in 2005 to €264.9 million from €112.8 million in 2004 and the number of divestments increased from 24 to 47. The method of divestment was dominated by repayment of principal loans (60% of the total amount divested), followed by trade sales (16%) and write-offs (15%).

Private Equity Raised by Type of Investor in 2005



Stage Distribution of Investments in 2005



## Funds Raised

Amount (in € x 1,000)	2004		2005	
<b>Private Equity Raised by Source</b>	Amount	%	Amount	%
Independent Funds Raised in Year	173,745	98.9	1,459,263	97.6
Amount Raised by Captives	1,949	1.1	16,531	1.1
<b>Subtotal New Funds Raised</b>	<b>175,694</b>	<b>100.0</b>	<b>1,475,794</b>	<b>98.7</b>
Realised Capital Gains	20	0.0	19,315	1.3
<b>Total Funds Raised</b>	<b>175,714</b>	<b>100.0</b>	<b>1,495,109</b>	<b>100.0</b>
<b>Private Equity Raised by Type of Investor</b>				
Corporate Investors	115,837	65.9	860,739	58.3
Private Individuals	1,171	0.7	15,058	1.0
Government Agencies	0	0.0	0	0.0
Banks	27,367	15.6	18,858	1.3
Pension Funds	16,212	9.2	44,291	3.0
Insurance Companies	0	0.0	18,858	1.3
Fund of Funds	14,775	8.4	31,032	2.1
Academic Institutions	0	0.0	0	0.0
Capital Markets	0	0.0	0	0.0
Not available	332	0.2	486,958	33.0
<b>Subtotal New Funds Raised</b>	<b>175,694</b>	<b>100.0</b>	<b>1,475,794</b>	<b>100.0</b>
Realised Capital Gains	20	-	19,315	-
<b>Total Funds Raised</b>	<b>175,714</b>	<b>-</b>	<b>1,495,109</b>	<b>-</b>
<b>Geographical Breakdown of Private Equity Raised</b>				
Domestic	24,237	13.8	20,856	1.4
Other European Countries	151,477	86.2	81,340	5.4
Non-European Countries	0	0.0	1,392,913	93.2
<b>Total Funds Raised</b>	<b>175,714</b>	<b>100.0</b>	<b>1,495,109</b>	<b>100.0</b>
<b>Expected Allocation of Funds Raised</b>				
High-Tech Early-Stage	170,655	97.1	1,303,437	87.2
Non High-Tech Early-Stage	0	0.0	0	0.0
High-Tech Expansion/Development	4,952	2.8	0	0.0
Non High-Tech Expansion/Development	107	0.1	0	0.0
<b>Venture Capital</b>	<b>175,714</b>	<b>100.0</b>	<b>1,303,437</b>	<b>87.2</b>
Buyout	0	0.0	191,671	12.8
Not available	0	0.0	1	0.0
<b>Total Funds Raised</b>	<b>175,714</b>	<b>100.0</b>	<b>1,495,109</b>	<b>100.0</b>

Investments

	2004				2005			
	Amount of Investments	%	Number of Investments	Number of Companies	Amount of Investments	%	Number of Investments	Number of Companies
Initial Investment	119,723	43.9	27	17	209,773	57.8	56	28
Follow-on Investment	152,719	56.1	110	94	152,849	42.2	135	116
<b>Total Investment in Year</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>111</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>144</b>
<b>Distribution of Investments by Investor Type</b>								
Independent	269,269	98.8	115	83.9	332,720	91.7	163	127
Capitive	1,714	0.6	11	8.0	16,531	4.6	21	15
Semi-Captive	1,224	0.5	2	1.5	13,371	3.7	7	7
Public Sector	235	0.1	9	6.6	0	0.0	0	0
<b>Total Investment</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>144</b>
<b>Stage Distribution of Investments in Year</b>								
Seed	768	0.3	3	2.2	0	0.0	0	0
Start-up	60,010	22.0	46	33.6	76,752	21.2	38	31
Expansion	62,113	22.8	58	42.3	239,650	66.1	118	61.8
Replacement Capital	0	0.0	0	0.0	10,602	2.9	4	2.1
Buyout	149,551	54.9	30	21.9	35,618	9.8	31	16.2
Small	69,654		28	10	35,618		31	19
Mid-market	79,897		2	2	0		0	0
Large	0		0	0	0		0	0
Mega	0		0	0	0		0	0
<b>Total Investment</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>144</b>
<b>Syndication of Investments in Year</b>								
No Syndication	244,885	89.9	123	89.8	317,516	87.6	176	92.1
National Syndication	20,015	7.3	7	5.1	42,837	11.8	13	6.8
Transnational Syndication	7,542	2.8	7	5.1	2,269	0.6	2	1.1
<b>Total Investment</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>144</b>

	2004				2005			
	Amount of Investments	%	Number of Investments	%	Amount of Investments	%	Number of Investments	%
<b>Geographical Distribution of Investments in Year</b>								
Domestic	218,979	80.4	90	65.7	201,031	55.4	105	55.0
Other European Countries	42,138	15.5	38	27.7	80,099	22.1	60	31.4
Non-European Countries	11,325	4.1	9	6.6	81,492	22.5	26	13.6
<b>Total Investment</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>100.0</b>
<b>Sectoral Distribution of Investments in Year</b>								
Communications	28,609	10.5	20	14.6	63,923	17.6	23	12.1
Computer Related	45,029	16.5	31	22.6	25,805	7.1	34	17.8
Other Electronics Related	3,200	1.2	3	2.2	21,689	6.0	9	4.7
Biotechnology	17,173	6.3	23	16.8	67,385	18.6	34	17.8
Medical/Health Related	24,418	9.0	28	20.4	57,722	15.9	38	19.9
Energy	0	0.0	0	0.0	0	0.0	1	0.5
Consumer Related	0	0.0	0	0.0	11,123	3.1	10	5.2
Industrial Products and Services	0	0.0	0	0.0	0	0.0	1	0.5
Chemicals and Materials	69,085	25.4	2	1.5	0	0.0	3	1.6
Industrial Automation	359	0.1	3	2.2	533	1.5	3	1.6
Other Manufacturing	39	0.0	4	2.9	9,836	2.7	3	1.6
Transportation	41,274	15.1	17	12.4	21,288	5.9	17	8.9
Financial Services	0	0.0	0	0.0	26,824	7.4	1	0.5
Other Services	43,256	15.9	6	4.4	12,511	3.5	3	1.6
Agriculture	0	0.0	0	0.0	0	0.0	0	0.0
Construction	0	0.0	0	0.0	0	0.0	1	0.5
Other	0	0.0	0	0.0	43,983	12.1	10	5.2
<b>Total Investment</b>	<b>272,442</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>362,622</b>	<b>100.0</b>	<b>191</b>	<b>100.0</b>
<b>Subtotal High-Tech</b>	<b>94,011</b>	<b>34.5</b>	<b>77</b>	<b>56.2</b>	<b>178,803</b>	<b>49.3</b>	<b>100</b>	<b>52.4</b>
								<b>80</b>
								<b>55.6</b>

## Divestments

Amount (in € x 1,000)	2004						2005					
	Amount of Divestments	%	Number of Divestments	%	Number of Companies	%	Amount of Divestments	%	Number of Divestments	%	Number of Companies	
Divestment by Trade Sale	52,321	46.4	8	33.3	6	27.3	42,016	15.9	19	40.5	16	42.1
Divestment by Public Offering	3,312	2.9	4	16.7	4	18.2	23,627	8.9	11	23.4	8	21.1
Divestment by Flotation (IPO)	500		1		1		3,281		2		2	
Sale of Quoted Equity	2,812		3		3		20,346		9		6	
Divestment by Write-Off	49,508	43.9	7	29.2	7	31.8	38,307	14.5	8	17.0	8	21.1
Repayment of Principal Loans	0	0.0	0	0.0	0	0.0	159,000	60.0	1	2.1	1	2.6
Sale to another Private Equity House	0	0.0	0	0.0	0	0.0	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)	7,609	6.7	5	20.8	5	22.7	508	0.2	1	2.1	1	2.6
Divestment by other Means	0	0.0	0	0.0	0	0.0	1,409	0.5	7	14.9	4	10.5
<b>Total Divestment in Year</b>	<b>112,750</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>264,867</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>	<b>38</b>	<b>100.0</b>

## Portfolio at Cost

Amount (in € x 1,000)	2004			2005		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	1,893,230			2,052,922		
Total Investment in Year	272,442	137	111	362,622	191	144
Total Divestment in Year	(112,750)	24	22	(264,867)	47	38
<b>Portfolio at Cost 31st Dec</b>	<b>2,052,922</b>			<b>2,150,677</b>		



## Geographical Flows of Private Equity

Amount (in € x 1,000)	2004	2005
<b>Funds</b>		
Funds raised by Local Private Equity Houses (1)	175,714	1,495,109
<b>Investment</b>		
Investment by Local Private Equity Houses (2)	272,442	362,622
(-) Foreign Investment by Local Private Equity Houses	(53,463)	(161,591)
Local Investment by Foreign Private Equity Houses (3)	312,933	696,270
<b>Total Investment in Country</b>	<b>531,912</b>	<b>897,301</b>

## 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

	2004	2005
Number of Private Equity Executives	170	227
Private Equity Investment as % of GDP	0.093%	0.123%
GDP (€ billions)*	292.7	294.6
Private Consumption*	176.9	179.4
Public Consumption*	34.7	35.0
Consumer Prices (DEC 2005=100)*	98.3	99.4
Producer Prices (MAY 2003=100)*	101.2	102.1
Interest Rates (3-month)*	0.16%	0.68%
Interest Rates (10-year)*	2.18%	2.03%
Retail Sales (1949=100)*	862.7	873.7
Unemployment Rate*	3.9%	3.8%
Total value of Completed M&A (€ million)	3,177	9,794
Number of Completed M&A	177	181
Total value of IPOs (€ million)	360	2,655
Number of IPOs	4	9

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