



■ Background

The amounts invested in Switzerland by private equity companies have shown reasonable growth over the last five years, but in absolute terms Switzerland has lagged behind other similar sized countries such as Finland and Israel.

Government-backed initiatives have been established with the aim of developing an entrepreneurial spirit and attracting greater venture capital funding into Switzerland. For example, firms coached under the CTI Start-Up programme administered by the Federal Office for Professional Education, are helping with the transformation of innovative ideas to business plans, and are estimated to have raised €90 million in 2003.

Switzerland continues to have lower inflation, interest, corporate and personal taxation rates than the European average. The latest OECD report (2002) shows the fiscal *quota* (tax revenue as a percentage of GDP) to be one of the lowest in Europe.

Although there are signs that a rebound in the level of private equity investments in Switzerland occurred towards the end of 2003, Swiss venture capitalist activities in 2003 were heavily impacted by the continued portfolio re-engineering. As a result, the reported new investment activity by the Swiss private equity industry in 2003 was much lower than in 2002. This suggests that the renewed investment activity in the latter part of the year was primarily from funds based outside Switzerland, rather than from domestic private equity sources. The majority of funds invested went to initial investments and to those in the start-up phase, suggesting that there is an undercurrent of optimism that the market will show further signs of recovery in 2004.

■ Sources of Capital

Total funds raised in 2003 amounted to €351 million, an increase of €142 million or by 68% compared to the €209 million achieved in 2002. The total is still significantly below the amounts raised in 2000 and 2001 (€1 billion and €700 million respectively). The principal source of additional funds was independent funds. The funds raised from realised capital gains remained fairly constant at around €10 million, while funds raised by captives reduced drastically from €33 million in 2002 to €4 million in 2003, which is comparable to the low 2001 value of €2 million.

In complete contrast to the prior year, the majority of fund raising (96% of the total) was from banks, pension funds and fund of funds with the latter two sources investing more in 2003 than in either 2002 or 2001. A significant proportion of funds raised in 2002 came from private individuals: €110 million or 55% of the total. This source of capital virtually disappeared in 2003, with only €1 million being raised. Corporate investors and insurance companies avoided investing in entities covered by the survey, reflecting the difficult economic environment in 2003.

Consistent with 2002, most funds raised came from within Switzerland. The shift in the expected allocation of the funds raised, from high-tech early-stage to high-tech expansion/development stage continued. The allocation to the high-tech expansion/development sector of €256 million (73% of the total) is more than that seen in 2002 and 2001 (€104 million and 50% of the total, €161 million and 24% of the total respectively). This may translate into funds competing to invest in the best companies in this field.

Switzerland has been the source of several interesting buyout opportunities in recent years, both from larger companies divesting and spinning-out non-core business and from the smaller mid-market companies. Hence, the lack of funds expected to be allocated to buyouts may be surprising.

■ Investment Patterns

For companies looking to raise capital with Swiss-based venture capitalists, 2003 was a difficult year. Only €223 million was invested, representing a decrease by 29% or €89 million, in comparison with 2002. The funds invested were fairly evenly split between initial investments and follow-on investments (54% and 46% respectively). Notwithstanding the fact that in 2002 there was a small number of very large initial investments, the average amount for an initial investment was comparable with the higher levels experienced in 2002. This contrasts with the average amount received for follow-on investments, which continued to decline.

Funds raised were again higher in value than funds invested, whereas the allocation of committed monies tended to favour expansion/development stage investments rather than start-ups.

In 2003, as in 2002 and 2001, the majority of the total amount invested continued to be made by independent private equity managers. There was a significant swing towards non-syndicated investments with only 15% being invested with any kind of syndication, compared to 97% in the prior year. The 2003 distribution between non-syndicated and national/transnational syndication reflects more closely what was experienced in 2000 and 2001. While most investments and companies invested in continued to be Swiss-based, in contrast to 2002 and 2001, more funds in monetary terms were invested in other European countries than in Switzerland.

Although Switzerland is renowned for its biotechnology and medical/health-related sectors, a decrease in money flowed to these areas in 2003 compared to 2002 (€26 million and €27 million respectively). There was renewed interest in the communications sector, which attracted similar amounts of investment (€31 million) to that achieved in 2001 and substantially more than was seen in 2002. The consumer-related and industrial products and services sectors fared particularly badly with only €2 million being raised between them, compared to €63 million in 2002.

■ Legal and Fiscal Environment

Progress occurred in 2003 with proposals to amend a variety of tax legislations and Swiss commercial laws being announced. Many of the initiatives are in areas that will improve both Swiss competitiveness and attractiveness as a base for venture capitalists. The proposals include:

- Nationality requirements for Swiss Board members. The law previously required that the majority of Board members have Swiss citizenship and be domiciled in Switzerland. This law was in conflict with the Bilateral Agreement between Switzerland and the EU, which entered into force on 1 June 2002. The Federal Office of the Commercial Register issued a ruling that would allow EU and EFTA citizens domiciled in Switzerland, to be treated like Swiss citizens. The old law wording has not been formally amended, but this will be performed with the upcoming revision of the law on limited liability companies, which is unlikely to occur before 2005.
- Limited liability partnership. A draft proposal of a new federal law on collective capital investments has been drafted by the Federal Councillor, which has introduced the idea of the limited liability partnership.
- Following the November 2002 decision of the administrative court of Zurich regarding cantonal taxes, the income derived from options with a vesting clause, is taxed only once the vesting period has expired. The Federal Council held a consultation process between April 2003 and June 2003 to discuss new legislation on the taxation of employee stock options. No new tax law is expected until 2005.

In addition, there have been changes to general corporate laws that may affect the private equity and venture capital industry. The Swiss Merger Act was made law on 2 October 2003, becoming effective on 1 July 2004. The law will significantly enhance the flexibility for business combinations and reorganisations (splitting, transfer of assets, conversion of legal form) by cutting down on legal procedural requirements and permitting a wider range of tax-neutral transactions. Of potential interest is the Swiss Federal Court March 2003 decision that an acquirer of a business from a bankrupt seller is not liable for outstanding salary payments as long as the seller is under formal bankruptcy proceedings when the business was sold.

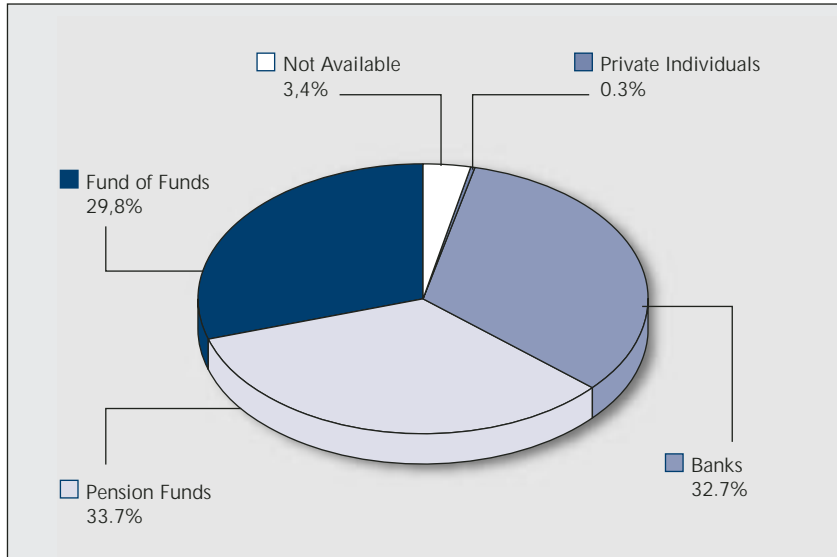
As of 1 January 2003 the Tax Harmonization Law has been implemented by all cantons. Although the formal aspects of the cantonal tax laws have been harmonised, there is still a variation in the applicable rate. For example, the effective income tax rate on corporate profits for cantonal and communal taxes is between 9.5% and 21.5% depending on the place of incorporation. The Federal income tax is 8.5%. Only cantons charge a tax on the company's capital, which ranges from 0.067% to 0.74%.

■ Exiting

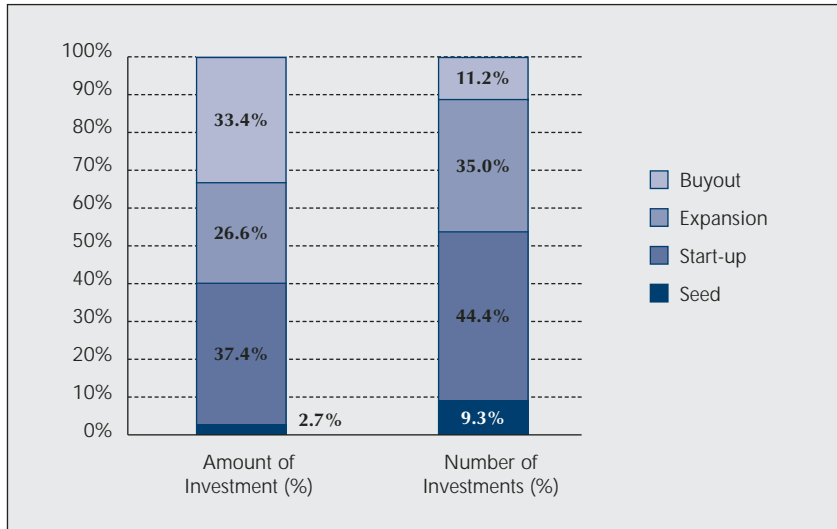
Total divestments at cost showed a significant reduction to €40 million, which is 58% lower than the €95 million recorded in 2002. The sale of quoted investments increased, reflecting the fact that most stock markets rebounded during 2003 to levels where investors were willing to exit. While the stock exchanges remained closed to any new flotation, secondary public offerings did account for 23% of the amount divested. Divestment by trade sale, representing €7 million or 16% of the total, was lower in monetary terms than reported in 2002, but the average exit value at cost per company of €1.2 million decreased from the previous year's average of €3.8 million.

Consistent with 2002, the most common method of divestment was write-off - €23 million in 2003 representing 58% of the total, compared to €81 million in 2002 representing 85%. Although in monetary amounts less was written-off in 2003, more than twice as many companies were involved (18 in 2003 compared to just seven in 2002).

PRIVATE EQUITY RAISED BY TYPE OF INVESTOR IN 2003



STAGE DISTRIBUTION OF INVESTMENTS IN 2003



■ Funds Raised

Funds (in € x 1,000)	2002		2003	
PRIVATE EQUITY RAISED BY SOURCE				
	Amount	%	Amount	%
Independent Funds Raised in Year	168,267	80.5	336,912	96.0
Amount Raised by Captives	33,086	15.8	3,731	1.1
Subtotal New Funds Raised	201,353	96.4	340,643	97.0
Realised Capital Gains	7,594	3.6	10,412	3.0
Total Funds Raised	208,947	100.0	351,055	100.0
PRIVATE EQUITY RAISED BY TYPE OF INVESTOR				
Corporate Investors	13,206	6.6	0	0.0
Private Individuals	110,655	55.0	963	0.3
Government Agencies	0	0.0	0	0.0
Banks	25,128	12.5	111,495	32.7
Pension Funds	20,946	10.4	114,796	33.7
Insurance Companies	31,419	15.6	0	0.0
Fund of Funds	0	0.0	101,658	29.8
Academic Institutions	0	0.0	0	0.0
Capital Markets	0	0.0	0	0.0
Not Available	0	0.0	11,731	3.4
Subtotal New Funds Raised	201,353	100.0	340,643	100.0
Realised Capital Gains	7,594	-	10,412	-
Total Funds Raised	208,947	-	351,055	-
GEOGRAPHICAL BREAKDOWN OF PRIVATE EQUITY RAISED				
Domestic	207,402	99.3	253,054	72.1
Other European Countries	1,545	0.7	0	0.0
Non-European Countries	0	0.0	98,001	27.9
Total Funds Raised	208,947	100.0	351,055	100.0
EXPECTED ALLOCATION OF FUNDS RAISED				
High-Tech Early-Stage	52,211	25.0	45,036	12.8
Non High-Tech Early-Stage	123	0.1	0	0.0
High-Tech Expansion/Development	104,114	49.8	256,262	73.0
Non High-Tech Expansion/Development	138	0.1	49,757	14.2
Venture Capital	156,586	74.9	351,055	100.0
Buyout	52,361	25.1	0	0.0
Other	0	0.0	0	0.0
Total Funds Raised	208,947	100.0	351,055	100.0

■ Investments

	2002				2003							
	Amount of Investment	%	Number of Investments	%	Number of Companies	%	Amount of Investment	%	Number of Investments	%	Number of Companies	
Initial Investment	225,778	72.3	36	35.0	34	39.1	119,641	53.6	35	16.4	34	19.0
Follow-on Investment	86,609	27.7	67	65.0	53	60.9	103,364	46.4	179	83.6	145	81.0
Total Investment in Year	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
DISTRIBUTION OF INVESTMENTS BY INVESTOR TYPE												
Independent	236,414	75.7	82	79.6	67	77.0	168,274	75.5	150	70.1	128	70.7
Captive	39,984	12.8	13	12.6	13	14.9	5,583	2.5	31	14.5	20	11.0
Semi-Captive	35,906	11.5	6	5.8	5	5.7	49,073	22.0	28	13.1	28	15.5
Public Sector	83	0.0	2	1.9	2	2.3	75	0.0	5	2.3	5	2.8
Total Investment	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
STAGE DISTRIBUTION OF INVESTMENTS IN YEAR												
Seed	84	0.0	2	1.6	2	1.9	5,918	2.7	20	9.3	20	10.9
Start-up	131,552	42.1	25	23.8	23	25.9	83,323	37.4	95	44.4	84	45.9
Expansion	142,980	45.8	65	63.5	53	61.1	59,254	26.6	75	35.0	68	37.2
Replacement Capital	878	0.3	3	3.2	3	3.7	0	0.0	0	0.0	0	0.0
Buyout	36,893	11.8	8	7.9	6	7.4	74,510	33.4	24	11.2	11	6.0
Total Investment	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
SYNDICATION OF INVESTMENTS IN YEAR												
No Syndication	1,479	0.5	21	20.4	17	19.5	190,510	85.4	198	92.5	165	92.2
National Syndication	287,480	92.0	51	49.5	44	50.6	13,319	6.0	8	3.7	7	3.9
Transnational Syndication	23,428	7.5	31	30.1	26	29.9	19,176	8.6	8	3.7	7	3.9
Total Investment	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Domestic	202,892	64.9	66	64.1	49	56.3	64,027	28.7	115	53.7	82	45.6
Other European Countries	38,750	12.4	14	14.1	15	17.2	126,194	56.6	61	28.5	57	31.7
Non-European Countries	70,744	22.6	23	21.9	23	26.4	32,784	14.7	38	17.8	41	22.8
Total Investment	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
SECTORAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Communications	12,400	4.0	17	16.5	15	17.2	30,949	13.9	46	21.5	39	21.4
Computer Related	41,276	13.2	31	30.1	20	23.0	54,658	24.5	61	28.5	57	31.3
Other Electronics Related	32,143	10.3	15	14.6	15	17.2	0	0.0	0	0.0	0	0.0
Biotechnology	71,446	22.9	19	18.4	19	21.8	25,995	11.7	30	14.0	29	15.9
Medical/Health Related	86,128	27.6	6	5.8	6	6.9	26,738	12.0	26	12.1	23	12.6
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Consumer Related	31,400	10.1	2	1.9	2	2.3	0	0.0	0	0.0	0	0.0
Industrial Products and Services	32,462	10.4	6	5.8	3	3.4	2,092	0.9	8	3.7	5	2.7
Chemicals and Materials	0	0.0	0	0.0	0	0.0	993	0.4	4	1.9	5	2.7
Industrial Automation	85	0.0	2	1.9	2	2.3	3,181	1.4	8	3.7	7	3.8
Other Manufacturing	1,414	0.5	3	2.9	3	3.4	234	0.1	6	2.8	5	2.7
Transportation	0	0.0	0	0.0	0	0.0	7,161	3.2	18	8.4	5	2.7
Financial Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other Services	3,632	1.2	2	1.9	2	2.3	3,655	1.6	4	1.9	5	2.7
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	0	0.0	0	0.0	0	0.0	67,349	30.2	3	1.4	2	1.1
Total Investment	312,387	100.0	103	100.0	87	100.0	223,005	100.0	214	100.0	179	100.0
Subtotal High-Tech	117,182	37.5	53	51.5	45	51.7	111,602	50.0	137	64.0	125	69.8

Note: for "Total Investment" see Methodology and Definitions under Investments and Divestments.

■ Divestments

	2002						2003					
	Amount of Divestment	%	Number of Divestments	%	Number of Companies	%	Amount of Divestment	%	Number of Divestments	%	Number of Companies	%
Divestment by Trade Sale	8,611	9.1	9	36.8	9	40.0	6,599	16.3	7	19.4	5	14.7
Divestment by Public Offering	2,072	2.2	3	10.5	3	13.3	9,337	23.1	9	25.0	9	26.5
Divestment by Flotation (IPO)	0		0		0		0		1		1	
Sale of Quoted Equity	2,072		3		3		9,337		8		8	
Divestment by Write-Off	80,770	85.2	9	36.8	7	33.3	23,343	57.6	18	50.0	18	52.9
Repayment of Principal Loans	1,246	1.3	3	10.5	1	6.7	1,021	2.5	1	2.8	1	2.9
Sale to Another												
Venture Capitalist	0	0.0	0	0.0	0	0.0	197	0.5	1	2.8	1	2.9
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	0	0.0	0	0.0	0	0.0
Divestment by Other Means	2,133	2.2	1	5.3	1	6.7	0	0.0	0	0.0	0	0.0
Total Divestment in Year	94,834	100.0	25	100.0	21	100.0	40,497	100.0	36	100.0	34	100.0

Note: for "Total Divestment in Year" see Methodology and Definitions under Investments and Divestments.

■ Portfolio at Cost

	2002			2003		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	1,493,168			1,710,722		
Total Investment in Year	312,387	103	87	223,005	214	179
Total Divestment in Year	(94,834)	25	21	(40,497)	36	34
Portfolio at Cost 31st Dec	1,710,722			1,893,230		

■ Geographical Flows of Private Equity

Amount (in € x 1,000)	2002	2003
FUNDS		
	Amount	Amount
Funds raised by local PE houses (1)	208,947	351,055
INVESTMENT		
Investment by local PE houses (2)	312,387	223,005
(-) Foreign investment by local PE houses	(109,495)	(158,978)
Local investment by foreign PE houses (3)	604,505	338,602
Total Investment in Country	807,397	402,629

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	2002	2003
Number of Private Equity Executives	168	200
Private Equity Investment as % of GDP	0.107%	0.079%
GDP	291.6	283.1
Private Consumption	177.7	174.4
Public Consumption	34.2	33.5
Consumer Prices (1995=100)	105.5	106.1
Producer Prices (1995=100)	96.3	96.3
Interest Rates (3-year)	1.13%	0.3%
Interest Rates (10-year)	3.2%	2.7%
Unemployment Rate	3.2%	4.1%

Source: OECD