



Switzerland

Background

2006 has confirmed the strong development of the Swiss private equity industry. The development was sustained by record amounts of funds raised for independent funds focused on later stage venture capital and buyout investments, mirroring the global movement of capital to these sectors. 79.6% of the funds raised originated from outside Switzerland and indicate that Switzerland is developing a stronger and more sustainable private equity industry by attracting foreign private equity funds/management to relocate to Switzerland and by developing a domestic private equity industry.

Domestic investments amounted to €538.3 million, or 64.3% of the total, suggesting that proximity may play a strong role in investment decisions.

Pending legislation should be enacted in the near future, which will reform the Limited Liability Partnership regulation from a legal and taxation standpoint. These new laws will hopefully boost the fund management industry in general, including attracting international private equity funds and managers from larger and more expensive European financial centers to Switzerland.

Sources of capital

Funds raised amounted to €1.6 billion, a 9.4% increase on 2005. The source of funds shifted significantly from previous years with government agencies accounting for 24.5%, followed by insurance companies and pension funds with 22.0% and 18.7% of the total, respectively. Previously, corporate investors accounted for the majority of funds, primarily due to large fundraising activities by a few large venture capital funds in 2004 and 2005.

The expected allocation of funds raised shifted to later stage venture capital and buyouts as opposed to 2005 when the majority of funds raised was allocated to high-tech early-stage in 2005.

Funds originating from Switzerland amounted to 20.4% of the total funds raised, representing a dramatic increase on previous years. Nearly all funds were raised by independent funds, captive funds only raised €8.9 million or 0.5% of the total.

Investment patterns

Investments amounted to €836.6 million, more than double the 2005 level, 64.3% of which were made in Switzerland. Consistent with previous years, most deals were not syndicated.

The average investment value amounted to €5.0 million, highlighting the absence of large buyout transactions by Swiss-based buyout firms. The ratio of initial investments to follow-on investments, in terms of the amount invested, remained stable at approximately 2:1.

Investments were predominantly buyouts (51.7%) and expansion deals (39.4%). In terms of industry breakdown, the amounts were primarily invested in medical/health related, manufacturing and consumer related industries.

Technology investments only accounted for 13.3% of the total amount invested, down from 2005. Seed investments have all but ceased and only 8.6% of the amount invested went to start-ups.

Legal and fiscal environment

Some significant legal and fiscal initiatives that will be favourable for the funds and fund management industry are ongoing at parliamentary level, but progress to enactment remains slow. At present, most Swiss-managed funds are raised in non-Swiss forms, structures that remain more flexible and tax efficient. Funds raised by Swiss legal entities currently operate as Swiss foundations, Swiss capital risk companies or holding company structures. This is mostly to allow access to specific local capital (pension funds or government agencies) and there is no particular legal or tax advantage compared to offshore funds.

A new Limited Liability Partnership legislation is nearing finalisation to enable LLPs to be established in Switzerland and to benefit from the advantages of more flexible capital structures and transparent tax treatments avoiding double taxation. On enactment, this should permit LLPs to set up in Switzerland and to be competitive with LLPs in other jurisdictions.

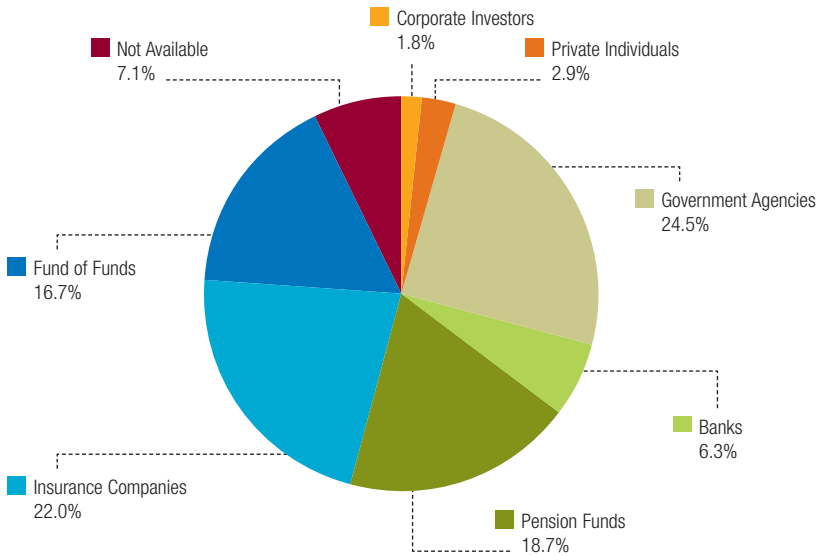
New legislation to clarify the current tax practice in the area of taxation of stock options and to allow a relatively favourable taxable status was passed by parliament allowing a tax exemption of up to 50 per cent on the gains earned from exercise of stock options. The law was not enacted due to a high risk of a referendum being launched to stop 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) will be applicable from 2008 onward, including modification of the law regulating foundations which may impact current private equity structures operating under foundation structures, modifications of the actual law on the Limited Liability Company (SA, Sàrl in French or AG, GmbH in German) now requiring either a statutory audit or statutory review (lesser scope) depending on the entities' economic size.

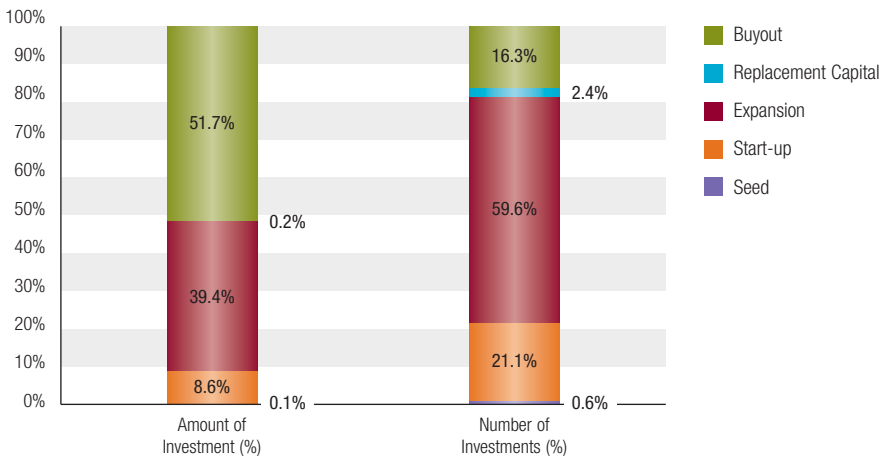
Exiting

Divestments decreased to €151.0 million in 2006 from €264.9 million in 2005. Divestments by trade sale (33.8%) accounted for the largest share of the divestments by amount, followed by repayment of principal loans (27.6%) and sale to a financial institution (17.7%), but this represented only one transaction. The largest number of divestments (12) was by public offering, accounting for 9.9% of the total value divested and for a considerable 37.5% of the total number of divestments.

Private equity raised by type of investor in 2006



Stage distribution of investments in 2006



Funds raised

Amount (in € x 1,000)	2005		2006	
	Amount	%	Amount	%
Private Equity Raised by Source				
Independent Funds Raised in Year	1,459,263	97.6	1,588,244	97.1
Amount Raised by Captives	16,531	1.1	8,850	0.5
Subtotal New Funds Raised	1,475,794	98.7	1,597,094	97.6
Realised Capital Gains	19,315	1.3	39,187	2.4
Total Funds Raised	1,495,109	100.0	1,636,281	100.0
Private Equity Raised by Type of Investor				
Corporate Investors	860,739	58.3	28,511	1.8
Private Individuals	15,058	1.0	46,267	2.9
Government Agencies	0	0.0	391,572	24.5
Banks	18,858	1.3	100,046	6.3
Pension Funds	44,291	3.0	299,372	18.7
Insurance Companies	18,858	1.3	351,792	22.0
Fund of Funds	31,032	2.1	266,977	16.7
Academic Institutions	0	0.0	0	0.0
Capital Markets	0	0.0	0	0.0
Not Available	486,958	33.0	112,557	7.1
Subtotal New Funds Raised	1,475,794	100.0	1,597,094	100.0
Realised Capital Gains	19,315	-	39,187	-
Total Funds Raised	1,495,109	-	1,636,281	-
Geographical Breakdown of Private Equity Raised				
Domestic	20,856	1.4	334,242	20.4
Other European Countries	81,340	5.4	882,641	54.0
Non-European Countries	1,392,913	93.2	419,398	25.6
Total Funds Raised	1,495,109	100.0	1,636,281	100.0
Expected Allocation of Funds Raised				
High-Tech Early-Stage	1,303,437	87.2	0	0.0
Non High-Tech Early-Stage	0	0.0	0	0.0
High-Tech Expansion/Development	0	0.0	157,368	9.6
Non High-Tech Expansion/Development	0	0.0	74,155	4.5
Venture Capital	1,303,437	87.2	231,523	14.1
Buyout	191,671	12.8	1,404,758	85.9
Not Available	1	0.0	0	0.0
Total Funds Raised	1,495,109	100.0	1,636,281	100.0

Investments

Amount (in € x 1,000)	2005			2006		
	Amount of Investments	%	Number of Investments	Amount of Investments	%	Number of Investments
Initial Investment	209,773	57.8	56	542,386	64.8	44
Follow-on Investment	152,849	42.2	135	294,237	35.2	122
Total Investment in Year	362,622	100.0	191	836,623	100.0	166
Distribution of Investments by Investor Type						
Independent	332,720	91.7	163	829,974	99.2	162
Captive	16,531	4.6	21	0	0.0	0
Semi-Captive	13,371	3.7	7	6,649	0.8	4
Public Sector	0	0.0	0	0	0.0	0
Total Investment	362,622	100.0	191	836,623	100.0	166
Stage Distribution of Investments in Year						
Seed	0	0.0	0	581	0.1	1
Start-up	76,752	21.2	38	71,821	8.6	35
Expansion	239,650	66.1	118	329,245	39.4	99
Replacement Capital	10,602	2.9	4	2,036	0.2	4
Buyout	35,618	9.8	31	432,940	51.7	27
Small	35,618		31	7,365		21
Mid-market	0		0	425,575		6
Large	0		0	0		0
Mega	0		0	0		0
Total Investment	362,622	100.0	191	836,623	100.0	166
Syndication of Investments in Year						
No Syndication	317,516	87.6	176	744,911	89.1	113
National Syndication	42,837	11.8	13	24,588	2.9	16
Transnational Syndication	2,269	0.6	2	67,124	8.0	37
Total Investment	362,622	100.0	191	836,623	100.0	166

Amount (in € x 1,000)	2005			2006								
	Amount of Investments	%	Number of Investments	Amount of Investments	%	Number of Investments						
Geographical Distribution of Investments in Year												
Domestic	201,031	55.4	105	55.0	62	43.0	538,262	64.3	83	50.0	67	51.6
Other European Countries	80,099	22.1	60	31.4	58	40.3	205,079	24.5	32	19.3	28	21.5
Non-European Countries	81,492	22.5	26	13.6	24	16.7	93,282	11.2	51	30.7	35	26.9
Total Investment	362,622	100.0	191	100.0	144	100.0	836,623	100.0	166	100.0	130	100.0
Sectoral Distribution of Investments in Year												
Communications	63,923	17.6	23	12.1	19	13.2	41,911	5.0	15	9.0	12	9.2
Computer Related	25,805	7.1	34	17.8	29	20.0	35,534	4.3	28	16.9	26	20.0
Other Electronics Related	21,689	6.0	9	4.7	8	5.6	1,545	0.2	6	3.6	4	3.1
Biotechnology	67,385	18.6	34	17.8	25	17.4	31,981	3.8	25	15.1	16	12.3
Medical/Health Related	57,722	15.9	38	19.9	29	20.0	197,683	23.6	40	24.2	31	23.9
Energy	0	0.0	1	0.5	1	0.7	0	0.0	0	0.0	0	0.0
Consumer Related	11,123	3.1	10	5.2	8	5.6	163,011	19.5	5	3.0	5	3.8
Industrial Products and Services	0	0.0	1	0.5	1	0.7	76,987	9.2	12	7.2	10	7.7
Chemicals and Materials	0	0.0	3	1.6	3	2.1	176	0.0	1	0.6	1	0.8
Industrial Automation	533	0.1	3	1.6	2	1.4	0	0.0	0	0.0	0	0.0
Other Manufacturing	9,836	2.7	3	1.6	3	2.1	187,045	22.4	5	3.0	5	3.8
Transportation	21,288	5.9	17	8.9	3	2.1	85,704	10.2	9	5.4	5	3.8
Financial Services	26,824	7.4	1	0.5	1	0.7	0	0.0	0	0.0	0	0.0
Other Services	12,511	3.5	3	1.6	3	2.1	5,482	0.7	11	6.6	8	6.2
Agriculture	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Construction	0	0.0	1	0.5	1	0.7	0	0.0	3	1.8	3	2.3
Other	43,983	12.1	10	5.2	8	5.6	9,564	1.1	6	3.6	4	3.1
Total Investment	362,622	100.0	191	100.0	144	100.0	836,623	100.0	166	100.0	130	100.0
Subtotal High-Tech	178,802	49.3	100	52.4	81	56.2	110,971	13.3	74	44.6	58	44.6

Divestments

Amount (in € x 1,000)	2005						2006					
	Amount of Divestments	%	Number of Divestments	%	Number of Companies	%	Amount of Divestments	%	Number of Divestments	%	Number of Companies	
Divestment by Trade Sale	42,016	15.9	19	40.5	16	42.1	50,998	33.8	9	28.1	7	25.0
Divestment by Public Offering	23,627	8.9	11	23.4	8	21.1	15,046	9.9	12	37.5	11	39.3
Divestment by Flotation (IPO)	3,281		2		2		6,694		5		5	
Sale of Quoted Equity	20,346		9		6		8,352		7		6	
Divestment by Write-Off	38,307	14.5	8	17.0	8	21.1	0	0.0	0	0.0	0	0.0
Repayment of Principal Loans	159,000	60.0	1	2.1	1	2.6	41,630	27.6	4	12.5	3	10.7
Sale to Another Private Equity House	0	0.0	0	0.0	0	0.0	14,932	9.9	1	3.1	1	3.6
Sale to Financial Institution	0	0.0	0	0.0	0	0.0	26,708	17.7	1	3.1	1	3.6
Sale to Management (Buy-back)	508	0.2	1	2.1	1	2.6	140	0.1	3	9.4	3	10.7
Divestment by Other Means	1,409	0.5	7	14.9	4	10.5	1,566	1.0	2	6.3	2	7.1
Total Divestment in Year	264,867	100.0	47	100.0	38	100.0	151,020	100.0	32	100.0	28	100.0

Portfolio at cost

Amount (in € x 1,000)	2005			2006		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	2,052,922			2,150,677		
Total Investment in Year	362,622	191	144	836,623	166	130
Total Divestment in Year	(264,867)	47	38	(151,020)	32	28
Portfolio at Cost 31st Dec	2,150,677			2,836,280		

Geographical flows of private equity

Amount (in € x 1,000)	2005	2006
Funds		
Funds raised by Local Private Equity Houses (1)	1,495,109	1,636,281
Investment		
Investment by Local Private Equity Houses (2)	362,622	836,623
(-) Foreign Investment by Local Private Equity Houses	(161,591)	(298,361)
Local Investment by Foreign Private Equity Houses (3)	696,270	316,554
Total Investment in Country	897,301	854,816

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

	2005	2006
Number of Private Equity Executives	227	245
Private Equity Investment as % of GDP	0.123%	0.276%
GDP (€ billion)*	294.6	303.0
Private Consumption (€ billion)*	179.4	181.4
Public Consumption (€ billion)*	35.0	33.5
Consumer Prices (DEC 2005=100)*	99.4	100.5
Producer Prices (MAY 2003=100)*	102.1	104.2
Interest Rates (3-month)*	0.68%	0.91%
Interest Rates (10-year)*	2.03%	1.89%
Retail Sales (1949=100)*	873.7	887.9
Unemployment Rate*	3.8%	3.3%
Total value of completed M&A (€ million)	13,712	13,640
Number of completed M&A	212	225
Total value of IPOs (€ million)	2,143	3,420
Number of IPOs	8	10

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