



## News Release

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### **Ernst & Young's "Mergers and Acquisitions Quarterly Switzerland" and "Capital Confidence Barometer"**

#### **Swiss M&A activity relatively stable in Q3 2011**

**In the third quarter of 2011, the Swiss M&A market remained stable in terms of the number of M&A transactions but showed a drop in disclosed deal volume compared to the previous quarter, indicating a decrease in average deal size.**

*ZURICH, 24 OCTOBER 2011* – Swiss M&A activity recorded a fairly stable third quarter in terms of the number of M&A transactions. With approximately 220 deals announced, the total number of transactions remained nearly unchanged compared to the previous two quarters of 2011. However, total disclosed deal volume decreased in Q3 compared to Q2 2011, but held fairly constant when compared to the same period of the prior year. Jürg Stucker, Head of Mergers & Acquisitions at Ernst & Young Switzerland, comments: "The accompanying drop in average deal volume can be largely attributed to the recent volatility in the stock market and increased economic uncertainty, resulting in a significantly higher number of small and medium-sized transactions."

The third quarter of 2011 was dominated by a substantial quarter-on-quarter increase in small transactions with a transaction volume of less than USD 50m, up from 41% to 57% of all M&A deals announced. Large-cap transactions above USD 250m, decreased from 32% to 21%, while mid-cap deals between USD 50m and USD 250m decreased from 27% to 23% of all announced transactions with disclosed deal value.

The acquisition of Aker Drilling, an offshore drilling contractor, for USD 3.4b by Transocean was the largest transaction announced in Q3 2011; it ranks third in the top five transactions so far for the calendar year 2011. In addition, Nestlé announced the acquisition of a 60% equity stake in the China-based sweets company Hsu Fu Chi for almost USD 1.8b in July 2011.

Media, technology and telecommunication was the most active industry in terms of the number of M&A transactions during the Q3 2011, accounting for 19% of all M&A deals. Together with industrial goods and services and financial services, these three sectors accounted for nearly half of all Swiss-based M&A transactions.

### **Outlook M&A activity in 2011/2012**

In September 2011, the Swiss State Secretariat for Economic Affairs (SECO) forecast GDP growth of 1.9% and 0.9%, respectively, for 2011 and 2012. This represents a decrease in both forecasts from their previous levels of 2.1% and 1.5%. The main reasons for revising the economic predictions downward included the continued strength of the Swiss franc and the ongoing European debt crisis. Based on less favorable market conditions, M&A activity is typically expected to decrease, as businesses focus on operational improvements and organic growth.

For Switzerland, the strong Swiss franc is expected to negatively impact the export and tourism industries in particular. Although many export-oriented Swiss companies were able to keep up volumes of exported goods and services, this was achieved to the detriment of sales numbers in domestic currency due to increasingly unfavorable exchange rate conversions into Swiss francs. As production costs of some exporters were mainly incurred in local currency, margins were put under pressure. Jürg Stucker explains: “Based on this ‘margin-squeeze,’ outbound deal flow might be boosted as exporters consider reducing production costs by acquiring operations abroad if funding can be secured.”

“Also, the recently established floor on the Swiss franc to euro exchange rate might stabilize inbound M&A activity in Switzerland due to the reduced risk of further euro depreciation when negotiating transactions denominated in Swiss francs. Nevertheless, recent exchange rate fluctuations and increased market volatility triggered some hesitation in pursuing larger M&A transactions,” Jürg Stucker adds.

**Private equity statistics: Germany, Switzerland and Austria**

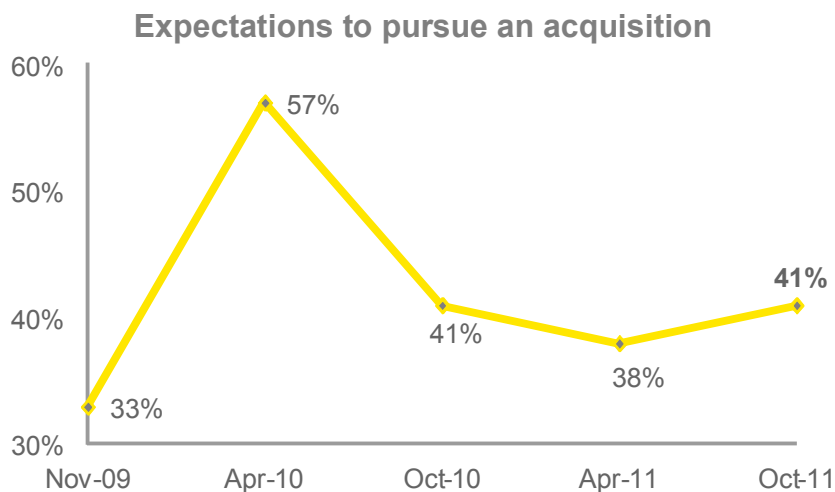
In Q3 2011, private equity (PE) in Germany, Switzerland and Austria showed signs of increased activity compared to the previous three-month period. The number of buy-outs and buy-ins rose by over 18%, while total volume grew by almost 25%. Swiss PE activity was in line with deal flow of previous quarters, with three transactions announced in Q3 2011.

**Capital Confidence Barometer**

Ernst & Young’s Capital Confidence Barometer is a regular survey of approximately 1,000 senior executives from large global players by Ernst & Young and the Economist Intelligence Unit to identify boardroom trends and practices in the way these companies manage their capital agendas.

The most recent global survey on capital confidence explained a new paradigm in M&A: the coexistence of corporate M&A activity and extreme market volatility. By October 2011, more than 40% of the executives questioned are expected to pursue transactions in the next twelve months, compared to 38% in April 2011. The reasoning behind a potential increase in M&A activity despite volatile market conditions is that leading companies have spent recent years focusing on reducing financial risk, improving operational health and learning to live with volatility. Consequently, companies might now also want to focus on growth through M&A rather than just survival in a volatile market.

**Do you expect your company to pursue acquisitions in the next 12 months?**



**Figure 1: Mergers & Acquisitions Outlook; Source: Ernst & Young**



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