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By Bernard Pellereau

Reasons for the Frequent Gaps between Realised Transaction Prices and General Market Valuations

Basically, a company valuation fulfils two needs: On the one hand it is an important component of a company's value management and on the other hand, the default instrument for establishing the price in acquisitions and sales.

Although company valuation has well-established methods (like e.g., assets value, earnings value, DCF or EVA value), there is no single, valid and objective means of valuating a company because it is ultimately estimated by people with different knowledge, experience, interests and needs.

Along with the company valuation methods mentioned above, market valuation (using "Market Multiples") is another well-established tool of a comprehensive valuation in today's business world. In this case, the market values of comparable companies are collected in relation to certain key data. Then these multiples are applied to the specific key data of the company being evaluated. The basic thought of market-oriented valuation is to partly replace the subjective assessment of the evaluator with the objectivity of the market.

Multiples can relate to two levels:

- Entity-level, which makes comparison possible independent of the financing structure. Here the "Enterprise Value" (cumulative value of equity and financial debts) is placed in relation to the units of the profit and loss statement (e.g., EV/turnover, EV/EBITDA, EV/EBIT);
- Equity-level. Here the value of the equity capital is placed in relation to the net profit (Price-Earnings-Ratio or P/E) or to the book value of the equity capital (Price-Book-Ratio or P/B).

The selection of suitable companies for this type of comparisons is a critical component of market valuation. In practice, the multiples used in calculation are primarily drawn from comparable companies in the same industry.

However it is important to also pay attention to the congruence of other value determining factors (e.g., size, profitability, growth, risk). Within a specific category, adjustments must often be made taking into account factors such as the form of the company, extraordinary events, differences between countries, the time horizon, etc.

In the comprehensive process of company valuation, market valuation is only one method of valuation among many others. It should not be used in isolation but as a complement and validation check of the DCF method.



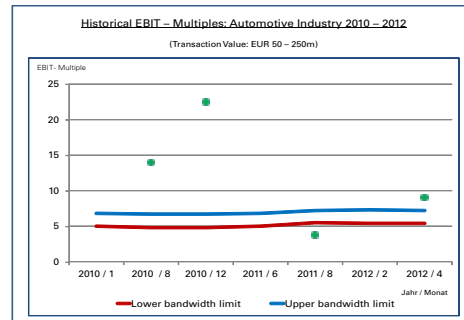
An absolutely correct and objective company valuation, however, does not exist; it ultimately results from supply and demand.

As can be seen from the following graphics in the case of Germany, effectively realised transaction values (green points – source: Merger Market) can lie considerably outside of the range of generally applicable Market Multiples for the corresponding industry (red and blue



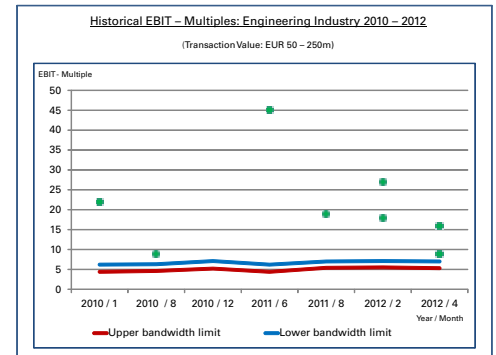
lines – Source: FINANCE Magazine). In the case of large differences, the composition of the peer group may have to be re-evaluated.

In any valuation, though, not just the financial aspects and valuation factors are decisive, but



other factors such as the current business situation, the strategic situation, market positioning, historical development, material investment need and the company's future potential play important roles. These factors are mostly difficult to quantify and will often be weighted differently by the interested parties. Our many years of experience have shown that the price of a company is also very dependent on the consultant's negotiating skills, the overall economic conditions, supply and demand in the

market segment and not least of all on the personal assessments of the transaction synergies, re-structuring potential and integration costs.



If the seller can create a dynamic competitive situation between various interested buyers through a professionally managed competitive process, he can select the best option and often obtain a price that is considerably higher than the "usual" Market Multiple. Business people must accept one thing: The company value represents an estimation of the total value of the company stated in numbers. The price is determined by the market. It ultimately results from supply and demand, from what the buyer is ready to pay at the time of the negotiations. Both values can greatly differ.

Kurmann Partners Autumn Event

Topic: **"Erfolgsfaktoren und Stolpersteine bei der Integration von Akquisitionen"** (Success Factors and Stumbling Blocks in post-merger integration). The event will take place on **October 31, 2012** beginning at 6:00 PM in the Convention Point of the SIX Swiss Exchange in Zürich and will be concluded by an aperitif. Please register yourself on our website, the number of participants is limited. The event will be held in German language: www.kurmannpartners.com/anmeldeformular_herbstanlass/

Completed projects

The Swiss company **Pro Concepta AG**, located in Zug, is a marketing and distribution company for Rx and OTC pharmaceutical products, mainly serving the Swiss market. Within the framework of the business strategy which aims at further increasing growth through company acquisitions we have researched the Swiss market systematically to find suitable targets. Subsequently, we initiated and led the acquisition of **Grogg Pharma AG**, located in Bern, a manufacturer of products with a unique selling position in treating lactose-intolerance.

IMAP concluded 38 transactions in the 2nd quarter of the current year. On the buyer's side, IMAP advised, among others, the Swedish **Gettinge Group** in its 100% acquisition of the Chinese company **Acare Medical Science Ltd.**, located in ZhuHai, a manufacturer of hospital beds and other hospital equipment. On the seller's side, IMAP advised, among others, the Dutch company **Hitt NV**, a listed manufacturer of software for the aviation and maritime industries in the sale to the Swedish company **SAAB AB** and the subsequent de-listing. IMAP also advised the Brazilian company **SOG Óleo e Gás S/A** in the negotiation of a joint venture with the Japanese company **Toyo Engineering Corporation (Mitsui)**.

Ongoing projects

Selected sales projects from our portfolio

GE-AT-CH	Developing and manufacturing company with leading, patented products in the field of food intolerances. Worldwide distributors.
GE-AT-CH	Developer and distributor of personal care and perfume products with good distribution at the relevant retailers.
GE-AT-CH	European market leading company offering a mobile device independent software for the optimization of business processes which can be integrated into all major ERP systems. EBITDA around CHF 1 million.
GE-AT-CH	Innovative company in the field of medical technology focusing on dental laser surgery and a new therapy concept for periodontitis.

Our customers are interested in acquisition possibilities in these areas

CH, GE	Manufacturers of machine tools and subsystems with leading technology.
GE, AT	Manufacturers of precision tools incl. hard metal processing for demanding markets such as machine building, automotive engineering, and medical technology.
CH, EU	Specialized component manufacturers with strong growth and high profitability in laboratory automation and sensor technology.
CH, EU, LATAM	Pharmaceutical products (Rx, OTC, Nutraceuticals) or manufacturers/distributors).
CH	We are looking for companies with sales of CHF 10 to several hundred million in various industries for management buy-ins.
CH, GE, AT, FR, BENELUX	High-margin convenience food company with a leading position in its segment.

What is your company worth?

As a simple, rough method for assessment of a company's value ("enterprise value," i.e., including financial debt), so-called market multiples can be used. For Swiss companies, lower taxes and cost of capital generally lead to higher multiples than abroad. At the same time, it should be noted that specific niches of the relatively broad industry categories listed below can differ substantially and that a professionally-led sales process can yield prices which significantly exceed these published market multiples.

Industry	Size Category							
	Turnover <€50m				Turnover €50m to 250m			
	EBIT-multiple		Turnover-multiple		EBIT-multiple		Turnover-multiple	
from	to	from	to	from	to	from	to	
Consulting Services	5,5	7,3	0,56	0,92	6,2	8,4	0,67	1,06
Software	6,1	8,1	0,69	1,01	7,0	8,7	0,79	1,16
Telecommunications	5,3	7,5	0,58	0,93	5,8	7,7	0,63	1,06
Media	5,7	7,5	0,62	1,05	6,4	8,0	0,73	1,16
Trade and E-Commerce	5,3	7,5	0,54	0,92	6,1	8,3	0,61	1,07
Transportation, Logistics and Tourism	5,1	7,1	0,48	0,90	5,7	7,6	0,58	0,99
Electrical Engineering and Electronics	5,0	6,7	0,57	0,91	5,4	7,4	0,63	1,00
Vehicle Construction and Accessories	5,0	6,9	0,44	0,73	5,4	7,2	0,45	0,77
Machine and Plant Construction	5,1	6,9	0,50	0,77	5,5	7,4	0,55	0,93
Chemical Industry and Cosmetics	5,9	8,0	0,56	0,86	6,6	8,7	0,65	0,96
Pharmaceuticals	6,3	8,5	0,74	1,26	6,7	9,1	0,82	1,51
Textile and Clothing	4,6	6,3	0,45	0,67	5,2	7,1	0,52	0,77
Food and Alcohol/Tobacco	5,0	6,8	0,46	0,83	5,6	7,7	0,55	0,89
Gas, Electricity, Water	5,5	7,7	0,54	0,86	6,0	8,1	0,67	1,00
Environmental Technology and Renewable Energy Sources	5,0	7,0	0,55	0,93	5,7	7,8	0,68	1,09
Construction and Craft	4,1	5,6	0,38	0,58	4,7	6,0	0,46	0,67

Source: FINANCE Magazine, July 2012. More on multiples at www.finance-magazin.de.



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About us

Kurmann Partners is an independent M&A and strategy consulting firm, specialized in medium-sized companies. We structure and direct the process for the sale of companies, develop and implement growth through acquisitions, and consult on value-enhancing strategies.

Since 1987, we have conducted more than 100 transactions, most of them across borders. As the exclusive Swiss member of IMAP, the largest organization of independent M&A companies worldwide and with over 400 consultants in 30 countries, we have local resources, contacts, and knowledge at our disposal worldwide. All of our partners have their own company experience and can, for this reason, also develop practical solutions even in complex and demanding situations, and implement them together with the customer.

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**We create
and realize value
for our clients.**

