T H E C O M M U N I C A T I O N S J O U R N A L

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SUCCESS FACTOR COMMUNICATION?

Following the fifth edition of a survey analysing IR Practices worldwide published by the Bank of New York Mellon in January 2009, only 39 % of respondents have a written crisis or transactional communication policy in place. In other words, at least 60 % of companies in Europe, Middle East, the Americas and Asia Pacific are not prepared for the occurrence of an unsolicited takeover bid. Some of these companies certainly have good reasons why they do not have such a policy. Other may not yet have started to think about catapulting themselves in a steep learning curve when this scenario suddenly appears.

Yet, roughly 70 % of takeovers add little value to the acquirer's performance. Part of the failure is due to poor or absent communication about the benefits of the change. It is the role of communications to untiringly point out that during significant changes the need and desire for information increases dramatically. Employees, financial analysts, the media as well as business partners ask for timely, thorough, consistent and comprehensible information. Moreover, communication specialists wag their finger to resisting organisations. If they are not ready to provide the information, rumours will fill the vacuum and, as a consequence, management's credibility, the company's reputation and quality of service could suffer irreparable damages.

We certainly all agree on the existing downside potential of inaccurate communication. But what this journal intends to discuss is the upside potential of "good" communication. In other words, this publication asks the question whether and to what extent state-of-the-art communication contributes to the success of a planned transaction? Furthermore, are there specific aspects to consider when being in the position of the bidder or the target?

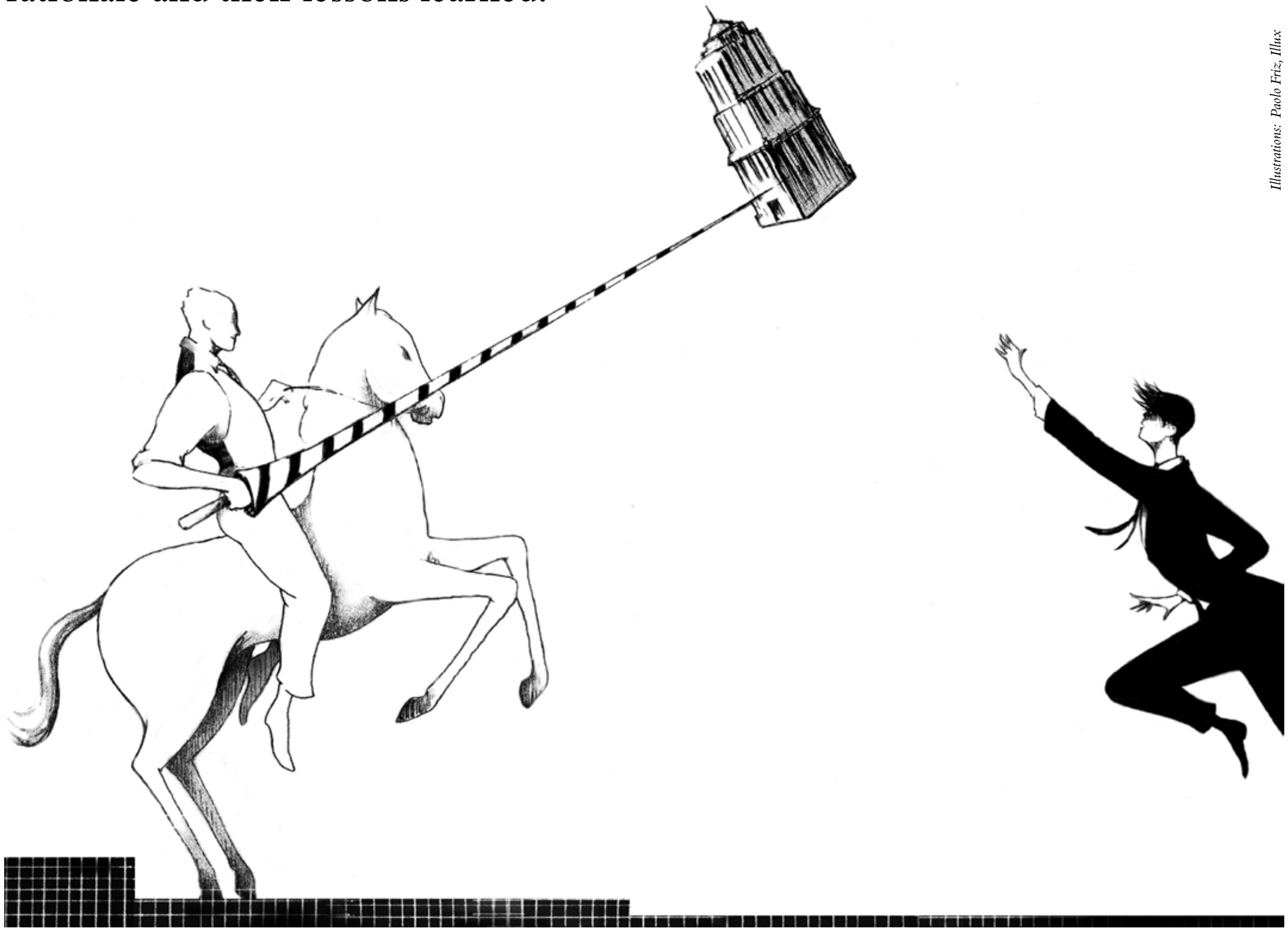
The opinion leaders represented in this journal approach the value of communication from different angles and present their view. In this 14th issue of "The Communications Journal", we identify new aspects on how to develop and shape an effective communication tool set that supports managements' goals.

Enjoy the reading!

Dr Michael Düringer, Partner
IRF Communications AG

Mergers and acquisitions

In November 2006, Glarner Kantonalbank (GLKB) submitted a tender offer for all Bank Linth shares. After reviewing the proposal, Bank Linth's Board declined the offer stating that valuation was too low and, more importantly, synergies were insufficient. At this point, Liechtensteinische Landesbank (LLB) was welcomed as a white knight and took over Bank Linth in March 2007. Josef Fehr, CEO of LLB, and Thomas Eichler, CEO of Bank Linth, walk us through the process, the merger rationale and their lessons learned.



Illustrations: Paolo Friz, Illux

LLB's long-standing contacts to Bank Linth's management allowed for the fast implementation of a solution taking the interest of all stakeholders into account.

Interview with Dr Josef Fehr,
Chief Executive Officer,
Liechtensteinische Landesbank AG, Vaduz

Can you explain LLB's business strategy and how Bank Linth fits into this framework?

Josef Fehr: Already back in 2005, we have defined a corporate strategy that aims to diversify our businesses across customer segments and territories. In this context, extending our footprint in the Swiss market has always been an overriding goal. As we are a market leader in a neighbouring country of Switzerland and have close economic ties, we have always been active in the Swiss market. Also, with LLB (Schweiz) AG we have our affiliate in Zurich since 1998 and Lugano since 2006.

However, with Bank Linth's 23 agencies we built a natural geographic extension of our own activities in the Principality of Liechtenstein. Together, LLB and Bank Linth now offer a leading full-service banking franchise in one of the most prosperous economic regions of Europe. Furthermore, we believe that the Bank Linth platform allows us to also accelerate the growth of our wealth management franchise. We now see promising signs as Bank Linth has full access to LLB's Private Banking and Wealth Management products and know-how. Opening an agency focused on Private Banking services in Meilen in 2008 is the direct consequence of this strategy.

How did you get in contact with Bank Linth?

We had been in touch with the Board and Management of Bank Linth already long before the actual merger in 2007. For a while already, LLB managed one of their most popular investment funds, the Regiofonds Zürichsee. Other forms of cooperation had always been a topic in informal meetings but were not concluded.

What changed in the contacts you had before to Bank Linth when GLKB entered the scene?

The unsolicited bid of GLKB to buy all Bank Linth shares obviously accelerated a process that was already under way. Given that we had long-established close contacts to the Board and Management, we were quickly able to discuss the situation and to find a solution that was clearly superior to the competing bid for all

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stakeholders; especially for customers, employees and shareholders.

With regards to M&A communication, what is special in the buyer position?

When announcing such a transaction you are always tempted to focus your message to the shareholders of the target company in order to assure that a majority of shareholders finally tender their shares. But, being a listed company ourselves, we were careful to shape our messages so that it made sense to our shareholders and employees as well. Judging by the market reaction on the day of the announcement, we were successful with our approach. On December 7, 2006, our share price increased by more than 6% and continued to outperform the market thereafter. We also received strong support from our employees and customers.

What were the main challenges in the communication process?

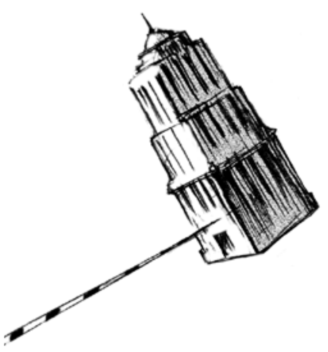
I believe that the Bank Linth transaction was very different in terms of communications from most M&A deals you can observe in the Swiss market. Bank Linth had – and still has – a very fragmented shareholder structure. There were no big or institutional shareholders we had to convince but a big number – some 12,000 – of retail shareholders, who were mostly customers of the bank enjoying special conditions for Bank Linth services. So in order to convince all these people we strongly relied on Bank Linth's staff to convince their customers of the advantage of the transaction. I believe that the information event of Bank Linth that was held before the offering period started and was attended by some 3,000 shareholders was crucial to our success. Furthermore, we launched an advertising campaign in the regional press and established a shareholder hotline that answered all critical questions with regard to the transaction.

GLKB applied a very aggressive communication approach and even suggested Bank Linth should not be sold to a foreigner. How did you deal with this situation?

Indeed, we felt that their communication approach was too aggressive and potentially even pushed some Bank Linth shareholders and customers away. We felt that a more calm and controlled communication would be more supportive of the cause. In an M&A transaction you always have to bear in mind that the actual closing of the deal is not the end point but rather the start of the cooperation between two companies.

What are your lessons learned from the Bank Linth transaction?

It is clear to us that in our business only a friendly offer can deliver added value to stakeholders. In a services business like ours where people are key, an unsolicited bid risks rapidly destroying value, which was created over many years. Close cooperation with Bank Linth was not only crucial in executing the deal but also – and most importantly – in the post-merger integration phase.



Interview with Thomas Eichler,
Chief Executive Officer,
Bank Linth LLB AG, Uznach

TRANSACTION AT A GLANCE

Summer 2006	*Glarner Kantonalbank indicates interest to merge with Bank Linth. Bank Linth refuses the approach in writing.*
Nov. 3, 2006	*Bernt Arpagaus, CEO of Glarner Kantonalbank, informs Heinz Knecht, Chairman of Bank Linth, in a voice mail that he will launch a takeover offer at CHF 330 in cash / CHF 130 PS of Glarner Kantonalbank.*
	Chairman Heinz Knecht responds the same day publicly describing the offer as "unfriendly and not attractive".
Nov. 5, 2006	*Chairman Bank Linth states that Bank Linth is not for sale at any price.*
Nov. 6, 2006	*Glarner Kantonalbank launches pre-announcement.*
Nov. 30, 2006	*Glarner Kantonalbank launches offer at CHF 480 per share (up from CHF 460).*
	Bank Linth rejects improved offer.
Dec. 1, 2006	*Bank Linth shares increase to CHF 520, triggering speculations on potential upcoming higher offers.*
Dec. 4, 2006	*CEO Glarner Kantonalbank expresses his assumption that a white knight must offer at least CHF 600/share.*
Dec. 7, 2006	*CEO Bank Linth confirms fighting the offer from GLKB whilst St. Galler Kantonalbank examines an offer.*
	Liechtensteinische Landesbank offers CHF 540 per share in cash.
	Bank Linth welcomes merger with Liechtensteinische Landesbank as making strategic sense and being customer friendly.
Dec. 8, 2006	*St. Galler Kantonalbank is no longer interested in a merger.*
Dec. 13, 2006	*CEO Glarner Kantonalbank does not believe shareholders will tender to a foreign institution, and is therefore not planning to increase the offer.*
Feb. 23, 2007	*Liechtensteinische Landesbank holds 74.3 % of shares after expiry of offer period.*

Were you prepared for a defence situation? What did you do to prepare for a defence situation?

Thomas Eichler: Bank Linth was indeed well prepared. As a regional or community bank we have always made a point of having very close ties to our shareholders, who typically are amongst our most loyal clients. It is worth pointing out that prior to the takeover battle, Bank Linth was owned by more than 12,000 shareholders, none of which held more than 2% of the company's shares. Furthermore, we established good relations with other stakeholders such as regional suppliers, public authorities and regulators. Finally and very importantly, we made sure to have a good working relationship with the printed press.

Several months prior to the launch of the hostile takeover bid by GLKB we noted inexplicable movements in our share price and picked up on some «wild» market rumours. We therefore contacted a communication consultant specialised in such matters to develop a contingency "battle plan". That plan was implemented within hours of the GLKB announcement.

What were the key criteria to select and approach white knights?

At the time Bank Linth was confronted with the hostile takeover bid by GLKB, we had already been in touch with LLB for some time regarding a possible future together. The hostile GLKB takeover bid therefore merely sped up a process that had been initiated earlier. The Board of Directors as well as the Executive Board argued at length whether the shareholders were better served with Bank Linth remaining independent or with Bank Linth becoming part of a stable, benevolent group. In the end, they concluded that Bank Linth would likely remain a target for takeover bids even if GLKB's bid could successfully be fought off. It was therefore better to seek stability and growth potential within the LLB group.

What reactions did you have from customers and shareholders when you supported the LLB bid?

There was unanimity amongst all stakeholders – even the media – that the GLKB bid was not attractive by any means. Quite a number of shareholders and customers expressed their regret that Bank Linth would no longer be an independent entity. But almost all of them clearly understood the arguments put forth by both the Bank Linth and the LLB boards:

a) The hostile takeover bid by GLKB had to be fought off;
b) Bank Linth would remain on the "bidding block" from now on;
c) LLB made an attractive offer both regarding the price as well as regarding the business plan.

Consequently, the shareholders followed the recommendation to offer the bulk of their shares to LLB, but hold on to 10 shares and thus to remain a shareholder of Bank Linth.

With regard to M&A communication, what is special when in the target position? What are your lessons learned from this transaction?

Especially when fending off a hostile takeover bid, the most difficult aspect is the lack of time. The bidder dictates the pace, the regulatory framework constrains many possibilities to react to the bid and consultants from all walks of life offer their assistance. That leaves very little time to do the actual work, which is enormous. Three aspects make life easier under these circumstances:

1. Tell the truth

If you start window dressing only once the hostile bid has been made, it's too late. You don't have time to rewrite your corporate history. So you better be credible, clear and consistent in your actions from day one.

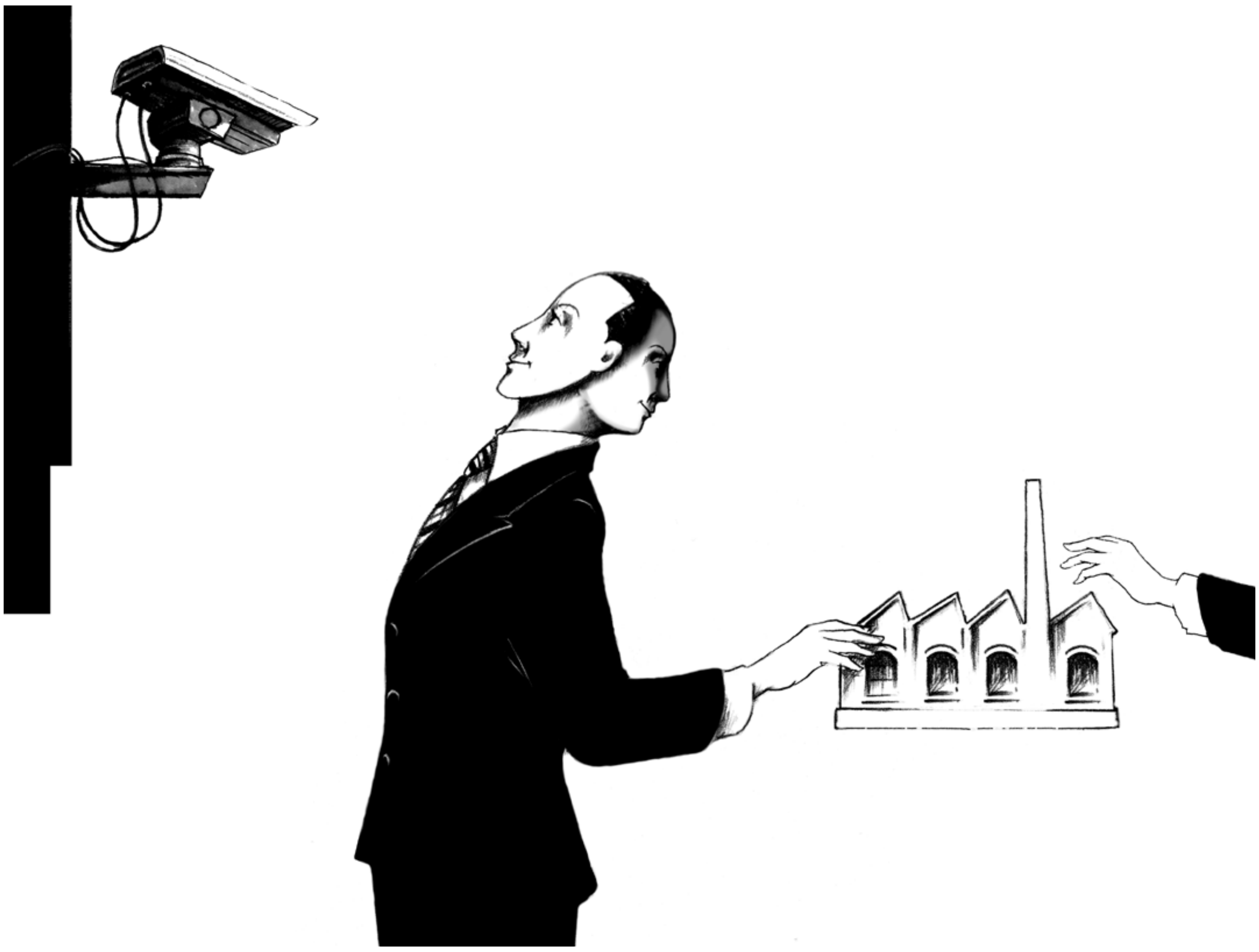
2. Know your audience

Knowing your stakeholders helps a great deal in understanding how they will react to new developments. You can tell them good news and bad in a factual matter and trust that they will understand the news the right way.

3. Rely on your experience and skills

Outsiders add a fresh perspective to things and serve as valuable sparring partners, helping you to work better. But they cannot make decisions in your place. You know the company, the stakeholders, the current mood, the quirks better than any outsider ever can. Therefore you call the shots. Your gut feeling is the key to success more often than not.

M & A communication starts on day one



The highest level of confidentiality is absolutely necessary in the early stage of every transaction.

Mergers and acquisitions are central elements of corporate strategy implementation. Yet, the transaction itself typically is a special situation for most companies and bears a number of risks. Targeted communication measures help to successfully execute an M & A transaction and lay the foundation for the post-merger integration process.

Prof Dr Günter Müller-Stewens, Director Institute of Management, University of St. Gallen, Editor of the "M&A Review"

In 2008, almost every day of the year a Swiss company was involved in an M & A deal. Growth fantasy is among the key value drivers of a company. Defining its growth strategy is at the heart of each corporate strategy. M & A are – besides internal growth and cooperations – a central mechanism to realise such a growth strategy. But M & A are not a goal in themselves. Transactions should always be used as a tool to implement a corporate strategy. Even opportunistic transactions should make sense in the broader context of the corporate strategy.

M & A are an activity full of risks. We all know that the majority of M & A transactions never deliver on promises. One of the challenges to make an M & A transaction successful is communications. M & A decisions and their acceptance are based on expectations, and expectations are shaped by communications.

M & A have to be "sold" to multiple target groups: People who have the idea for such a deal have to "sell" it to the company's senior management; if accepted, top management has to "sell" the deal proposal to the firm's board of directors; if accepted, the owners and management of the target company have to be convinced about the rationale of the deal; if they agree, employees of both firms have to be persuaded that they should invest their time and motivation in the execution of the post-merger integration. In a big and complex transaction many other stakeholders – like the public, politicians or NGOs – demonstrate their interests in the transaction. In an M & A deal there are twice as many parties involved as in normal corporate communication situations. This is because you have to deal with two sets of stakeholder groups – one on the buyer side, and another on the target side.

This complexity shows that communications are not an afterthought to be dealt with after closing the transaction. Communications have to be taken seriously from the early stages of the planning of a transaction. Early communication failures can often not be corrected later and their price can be significant: lost credibility, lawsuits, job resignations or missing support for the integration.

There are two typical communication dilemmas a company faces in an M & A situation:

1. Secrecy versus disclosure

On the one hand deals have to be developed under the pledge of secrecy. This secrecy is protected by "organisational firewalls" like code names, separate offices or tagged deal documents. This secrecy is absolutely necessary in the early stage of a transaction to prevent other companies from capturing the idea for their own purposes. A too early communication of a deal also creates unwanted rumours and volatility in the capital markets. On the other hand and apart from legal restraints, a company has to communicate a planned deal early enough, to give shareholders and other stakeholders a chance to take up their stance on the transaction plan. If the disclosure comes very late, the probability increases that information leaks appear and the deal makers lose control over the communication process.

2. Exclusivity versus involvement

On the one hand, because of secrecy, deals have to be prepared only by a very small group of corporate managers. On the other hand, corporate management often does not have the necessary knowledge of the business to take the right decisions. For example, synergy estimations are often wrong because of a lack of detailed technical facts; or there is resistance to realise these synergies because of a cultural clash between parties. But having the right experts in the team would not only help to avoid such problems, it would also help to get support for the deal and its integration. The broader the involvement before the closure of the transaction, the stronger the commitment. And in the integration phase, corporate management strongly hinges on the commitment of employees. But besides tactical considerations there are also legal restrictions on what can be communicated about a pending transaction.

Even in cases of a broad involvement, the disclosure of a transaction is usually a big surprise. Often the news is fearsome for employees e.g. because of hierarchical relationships, job security or career prospects. The challenge is now to communicate the deal to the people to get their buy in the integration phase. There are some rules to follow in such a situation.

- Take communications seriously. Tell employees why the company engages in the transaction and why now is the right moment. Focus communications on the creation of meaning for the transaction because people want to control their own fate in face of uncertainty. To avoid an information overload, do not get lost in explaining all details; focus on explaining the purpose and the key elements of the planned transaction.
- Do not allow rumours to spread. If possible correct emerging rumours based on official facts. Try to communicate proactively to avoid rumours.
- Address the concerns of employees through the use of many different and appropriate communication channels. Deal with the chances and risks members of staff see for themselves, for their direct work environment and for the company.
- Give the deal a face by showing the responsible persons and involve them in a constructive dialogue.
- Integration management needs strong leadership on all levels of the organisation. A constitutive component of a strong leadership is intense direct communication.
- Keep people continuously informed about the progress of the integration process. Show "early wins" to create trust in the rationale of the transaction.
- Communications are not only based on voice. Symbols, gestures or pictures also send a message to the public – intended or unintended.
- Be careful about not communicating, because it is also communication and will be interpreted.

Each transaction is unique. Using standard communication procedures does not account enough for the situation and the stakeholders involved. This means M & A communication must be tailored to the particular challenges of each case.

Defence against hostile takeovers

Unfriendly tender offers and stake buildings have become a common feature of the Swiss market in recent years. Defence preparations and defence tools are therefore an important topic for Swiss listed companies.

Hans-Jakob Diem,
Partner, Lenz & Staehelin, Zurich

Hostile tender offers and unfriendly stake buildings have become frequent in Switzerland in recent years. While such transactions may be in the interest of the target and its stakeholders in the specific case, experience shows that unfriendly offers are often submitted at a relatively low price, while unsolicited stake buildings may give the raider de facto control without an exit opportunity for the minority shareholders. Against this background, defence preparations and defence tools have become an important topics for Swiss public companies.

The readiness is all
Unsolicited offers and stake buildings often occur surprisingly, with little or no lead time. Preparation is therefore key. For the purpose of preparation, many Swiss companies have established Defence or M&A Manuals. These handbooks are prepared, and from time to time revised, by a committee of the board and the management with the assistance of outside advisers such as investment bankers, PR/IR advisers and specialised lawyers. The preparation and the resulting "education" process for directors and officers may take several weeks. The manuals often cover four principal areas, namely organisation and measures prior to a hostile situation, organisation and measures in case of a hostile situation, an enterprise valuation and an analysis of possible raiders, white knights and white squires.

The importance of PR and IR
PR and IR aspects are obviously important elements both in the preparatory and in the defence phase. In "times of peace", PR and IR efforts aim at creating a positive corporate image and goodwill and at building a solid shareholder base in order to ensure support in the event of an attack and, importantly, sustain a fairly valued share price. In the defence phase, PR and IR a decisive factors to regain the initiative as quickly as possible. Therefore, Defence Manuals often set out detailed procedures and draft press statements for the first 24 hours after an unfriendly situation has arisen.

Preparatory defence tools
There are a number of possible legal defence tools which may be considered in the preparatory phase. The preferred preparatory tool consists in share transfer restrictions (Vinkulierung). Typically, the articles of association provide for a percentage limitation, e.g. 3% or 5%. In many cases the transfer restriction is combined with a voting restriction (Stimmrechtsbeschränkung). The resulting difficulty or even impossibility to exercise control in the shareholders' meeting is an efficient tool to defend against activist shareholders, as the recent examples of Implenia and Sulzer show. However, these restrictions are not a foolproof defence against unsolicited takeovers. If a tender offer is perceived to be sufficiently attractive, the target board may decide to call a shareholders' meeting and the shareholders may be willing to abolish the restrictions. For that purpose, the offerer will typically include a condition precedent in its offer.

In order to strengthen their share transfer or voting right restrictions, some companies have introduced supermajorities in their articles of association which require qualified quora for the removal of the restrictions, for instance an approval by 25% of all issued shares. Supermajorities are an efficient tool to prevent unfriendly tender offers and stake buildings. However, they may also impede friendly transactions and should therefore be considered carefully.

A possibility to defend against a surprising change of control on the board level consists in the introduction of a staggered board, where the tenures of office of the board members expire in different years (e.g., one third each year). As a result, only a limited number of board members will be up for re-election each year. Approximately one fifth of all Swiss listed companies have opted out of the mandatory tender offer rules or adopted an opting-up (i.e., increased the threshold). If an opting-out or opting-up exists, a raider may exceed 33% of the votes of the target without being required to make an offer to the minority shareholders. A company with an opting-out or opting-up should consider opting into the rules by changing its articles accordingly.

There are a number of other defence measures which are frequently discussed during the preparations, such as the introduction of golden parachutes for members of management, of change of control clauses in important commercial contracts or of authorised share capital permitting the board to withdraw pre-emptive rights in case of a hostile tender offer. In order to be permissible, such measures must be in the company's interest and be supported by valid commercial or business reasons. If implemented with the mere aim of defence, such tools may be critical from a corporate law perspective.

Defence measures in an unfriendly situation
Once an unfriendly offer has formally been made, the ability of the target board to adopt typical defence measures, such as scorched earth, Pacman or crown jewel defences, is significantly constrained by the Swiss takeover rules which prohibit, for instance, the acquisition or disposal of assets in excess of 10% of total assets or contributing more than 10% to the profitability of the target, or the acquisition or disposal of treasury shares and the issuance of shares, conversion or option rights. Therefore, such measures are rarely implemented in Switzerland. The more relevant and often successful way to defend against a hostile bid or an unfriendly activist shareholder consists in the search for white knights and white squires. The target might also consider rejecting a raider's request for entry into the share ledger on the basis of the argument that the raider is not the beneficial owner of the shares or its registration as a shareholder with voting rights requires prior merger clearance by the competent antitrust authorities. Further, initiating legal proceedings has become a significant tool in recent situations. Such proceedings may, for instance, be based on alleged violations of disclosure duties. Under the new takeover rules which entered into force on January 1, 2009 and strengthened the procedural rights of target shareholders holding more than 2% of the voting rights, the target may also consider seeking support from qualifying shareholders as parties in the proceedings before the Takeover Board.

Manage the process

Mergers and acquisitions are central elements of corporate strategy implementation. Yet, the transaction itself typically is a special situation for most companies and bears a number of risks. Targeted communication measures help to successfully execute an M&A transaction and lay the foundation for the post-merger integration process.

Jan Gregor, Partner,
IRF Communications AG, Zurich

Strengthening the market position lies at the core of any corporate strategy. This may be achieved organically, through investments in innovation and distribution, but also externally through acquisitions. Consequently, the speedy realisation of growth strategies is a key motive for M&A. But, in the wake of demographic changes, the access to skilled personnel has recently become an additional driver for M&A.

Polished press releases and presentations will not save an ill-conceived transaction, but poor communication may jeopardise the value of a sensible one. Communications is central to the success of a transaction. But communication professionals should beware since shareholders of the target company will form their opinion based on pure economic terms, i.e. the price offered. Investors of the bidding firm, however, are more critical. For them, the strategic rationale of the transaction and the potential for added value need to be convincing. Management of the bidding firm has to balance the interest of its own shareholders for a value-adding transaction while convincing the shareholders of the target company of the attractiveness of their offer. By experience, the immediate share price reaction of both companies after the announcement provides a solid judgment of the transaction and is indicative for the long-term share price development.

Even in M&A situations communications are not a black box that cannot be controlled. Companies can prepare for such events. Communication measures and tools may be prepared well in advance in order to use them at the push of a button. Three success factors are identified:

1. Integrate communication in the planning and preparation phase
M&A transactions of listed companies are subject to a stringent regulatory regime. Thus from the start, the communication strategy should be coordinated with the legal strategy. What needs to be done is first an event-driven communication plan whose rhythm matches the regulatory regime. Secondly, the necessary communication tools such as press releases, presentations, etc. need to be

prepared. Finally, different scenarios should to be taken into account.

2. Communicate the full story and include unambiguous targets
Opinions are formed quickly; it is next to impossible to change opinion leaders' minds once they have taken a position. As a result, communication efforts on the announcement day need to deliver a credible, full story including unambiguous financial or operational targets in order to assure an immediate impact. Buzzwords such as “convergence”, “significant synergies”, “profitable growth”, or “creating shareholder value” without any supporting facts and timing must be avoided because such unsupported buzzwords transmit alert signals to investors. Eventually the bidding company hast to convincingly explain how expected synergies (revenue synergies or cost synergies) cover the takeover premium offered.

3. Avoid unnecessary uncertainties
Some uncertainty lies in the nature of each and every M&A transaction. But additional speculations and rumors that could complicate or even obstruct the post-merger integration process should be avoided with the announcement of the merger. Employees need to be informed carefully but openly about potential redundancies as a consequence of a merger. Major uncertainties may destroy value as demotivated employees may seek alternative career opportunities. Consequently, communication needs to aim at preserving all assets of the target company; including employees as well as customers and suppliers.

Be prepared!

Defence preparation is part of good corporate governance for every listed company whose shareholder structure allows for takeover approaches. The fact that defence scenarios are on the board's agenda is already a first achievement.

Martin Menzi, Senior Partner,
Swiss Capital Corporate Finance AG, Zurich

With financial markets worldwide in bad shape and valuations at levels not seen for many years, developing defence scenarios is a current topic for responsible board and management teams who want to be prepared once a battle breaks out. Including this item on the agenda triggers sensitisation with the topic whilst diminishing the surprise effect. In any case, board members start to think about the value of self-determination and preparedness.

Correspondingly, one of the first questions executives have to address is how to react in case of friendly or unfriendly approaches. The aim is not to prevent a takeover per se, as it is an eminent part of a market system. First, it is to protect shareholders from unfair or inadequate takeover offers and abusive tactics, which is a major responsibility of each company's board. Secondly, appropriate preparation increases the board of directors' control over an unsolicited approach by enhancing its negotiating leverage and flexibility. Thirdly, it protects the board of directors' ability to comply with its fiduciary responsibilities under the respective legislations.

Think first
Although the basic principles appear obvious, looking back on recent cases it seems that many defence communication teams were not aware of them. Yet, lack of awareness may not be the appropriate explanation. Most likely they were poorly prepared to the situation and acted in a rush, not determining and thinking about the goal of their actions.

Analysing and monitoring shareholder structure
It starts with profiling current and potential shareholders that may buy into the stock. Right from the beginning it is important to detect informal groups within the shareholder base. As a second step, also as meeting preparation, the team should learn about their shareholders' investment background in order to better understand their individual perspectives and expectations. Knowing the counterpart's situation helps a lot to build relationships and create loyalty.

Thereby, non-attributed shares need to be observed and monitored closely. Any developments could give further insight and reveal hidden block build-ups by an interested party. Recent examples, such as Saia Burgess, Implenia or Sulzer, showed strong movements in share ownership and volume before unsolicited attacks or full takeover bids were launched. Also, specific trading patterns in registered and non-attributed shares were recorded.

Existence of a value-based threat?
A potential undervaluation increases an organisation's attractiveness as an acquisition target. The question is whether the sum of the values of each individual business and development project equals the company's overall valuation, as determined by the market, i.e. the share price. A lower overall valuation would point to a value gap. Irrespective of whether this gap results from insufficient communications or a difference of opinion on further developments and the relevant cash flows, management will have to emphasise its arguments towards these stakeholders.

Emergency planning
Having to start from scratch distracts the team from focusing on the real important

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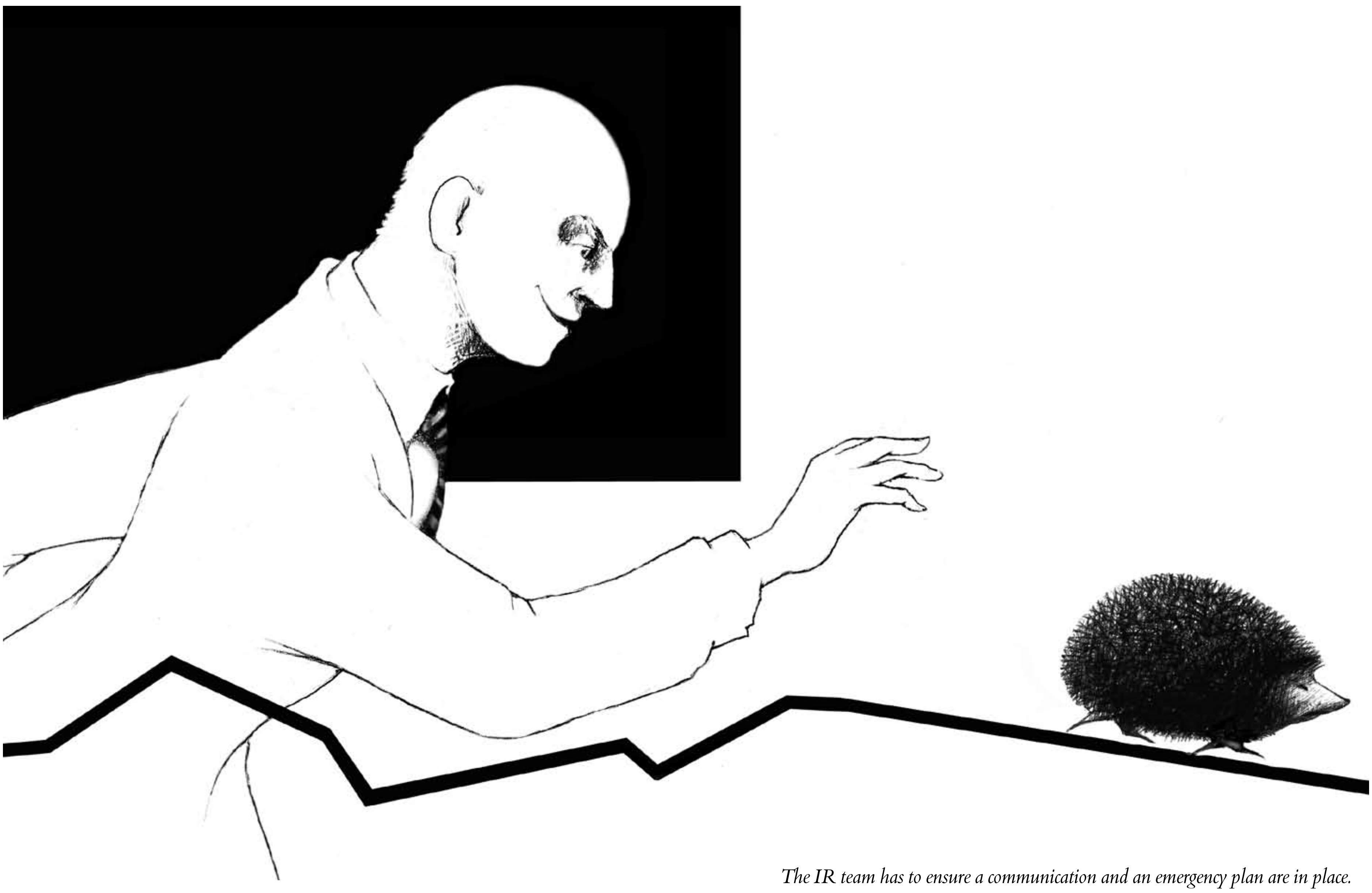

The IR team has to ensure a communication and an emergency plan are in place.

Difficult times create challenges

The environment for M&A transactions has changed significantly over the last years. Not only fewer deals get done, also some pre-financial crisis trends became even more relevant and now present additional communication challenges for deal makers.

Ivo Lingnau, Managing Director, Financial Dynamics, Frankfurt

First of all, the media landscape has significantly changed. As online media become more and more important, the traditional news cycle driven by evening TV news and newspapers delivered every morning looks pale in comparison. The focus of traditional print media moves to "online first" coverage increasing competition among media outlets to get the scoop and break stories first. A growing number of stories are based on anonymous sources and leaks. Additionally, even business media tend to concentrate on personalities. Especially in high-profile M&A situations does a combination of all these trends have an impact.

Looking at the way transactions are carried out, one can detect a return of unsolicited or hostile takeover bids. By definition this changes the communication dynamics considerably. In a friendly acquisition scenario, interests of key players – bidder, target and seller – tend to be aligned, as they want to present the rationale of the transaction in a format that convinces shareholders, business partners and employees. Such a scenario allows the coordination and the management of the takeover process with clear timing, a defined set of stakeholders and limited potential for disturbing actions. In a hostile scenario you face a public dispute of opposing interests. Whatever happens will have a high impact on the public perception and the reputation of the people involved – there will be winners and losers. Additionally, the ability to plan and manage process and timing will be limited and you can count on possible third-party intervention.

Preparation improves the communication output
Nowadays, likely targets are better off being prepared and doing their homework in terms of defence planning. This takes away two bidder advantages: the element of surprise and the target's loss of crucial momentum at the beginning of the process. Targets have thus a better chance of avoiding grave communication errors in their first reaction to a bid announcement.

On the other hand, this implies for the deal maker that he needs to put even more effort in the preparation of communication and messaging, anticipating the defence storyline and defining how to react to likely strike-backs: i.e. by creating a detailed messaging scenario of arguments and counterarguments.

Rumours become more frequent
In a time when leaks in the run-up to a deal announcement seem to become the norm rather than the exception, a leak can result in major communication challenges. It can induce the bidder's lost ability to define timing and agenda, thus launching the transaction before the time is right. Furthermore, it can cost the bidder's first mover advantage due to legal or financing restrictions forbidding the bidder any official communication. Therefore, a deal maker needs to evaluate approach tactics carefully and prepare leak statements that reflect possible scenarios.

Innovative transaction structures add complexity
More complex transaction structures increase the need for detailed communication and explanation. Clearly, some transactions are only possible because of innovative and complex financing and transaction structures. This might involve the use of derivatives for pre-bid stake building, earmarked divestments for financing or regulatory reasons, or dealing with the target's change of control clauses. The deal maker must be able to cope with detailed examination of the deal structure as well as to secure the support of his own shareholders and other crucial stakeholders.

Avoiding any intercultural missteps
Increasingly, transactions are cross-border deals adding an international dimension and posing specific communication requirements. First, there is the likely lack of profile and position of the bidder in the target company's home country as well as potential country-specific compliance issues. On a practical level, it adds coordination and resource requirements to manage communication in two or three languages and across time zones. The deal maker is forced to undertake rapid profiling and positioning efforts in the target market and avoid any potential intercultural missteps. In a hostile scenario, he will also need to deal with the target's mobilising activity in his home market.

Non-financial stakeholders articulate their interests
Currently, as a result of the financial crisis, the interaction and the influence of non-financial stakeholders increase. As national industrial policies with a particular focus on jobs and taxation gain importance, politicians, unions and interest groups will engage in the takeover process. Legal restrictions continue to limit direct influence, but indirect influence through positive or negative comments cannot be underestimated. Mobilising employees remains a key defence tactic in hostile takeovers. Hence, the deal maker must aim to secure political support including all stakeholders in a proactive communication approach and try to win over the target's business partners early.

Activists build on public pressure
Shareholders who want to capitalise on M&A situations potentially cause further communication needs for deal makers. On the one hand, the large number of event-driven investors is helpful, because when they oversee a large volume of shares, the likelihood of a successful deal increases. On the other hand, activist shareholders will do everything they can to force a higher offer or more favourable terms.

The threat or implementation of public pressure is the main instrument of influence for activists. Consequently, they will search for any legal and procedural attack points and therefore increase the pressure on communication management. The deal maker might face a blackmail attempt – i.e. threatening a minimum acceptance threshold or legal challenge. He therefore needs to keep track of shareholders who get involved to assess the risk and likely courses of action by investors.

Finally, the current financial markets environment creates a metachallenge that influences and summarises most of the points mentioned above. The main issue is the dramatically increased strategic and execution risk of the transaction which has a number of implications:

- The strategic rationale and story need to be very convincing to address concerns regarding the execution risks;
- The financing of a transaction will be permanently questioned until payment has been made;
- The communication with the bidder's own stakeholders becomes more important as they need to be reassured about the transaction's progress;
- Finally, the communication scenario planning must not only include reactions for interventions by any critic but also an exit strategy if the transaction cannot be closed successfully.

Continued from page 5

questions. As first preparation it is the IR team's major goal to ensure that the company's equity story is understood by investors as well as by the public. In addition, it has to ensure an emergency plan is in place. On day X, it is beneficial if the board already has draft documents available in its drawer. A dedicated communication team, including the assigned speaker of the board, is well advised to have a set of press releases and letters at hand, addressing the public, the bidder, the shareholders as well as the employees. Different releases should tackle the scenarios of a) substantial rumours, b) private (not publicly communicated) approach by the bidder and c) immediate response to the announcement of a full offer. A quick reaction enhances a professional impression which further contributes to a positive perception of the own views by opinion leaders and the public. On the other hand, it is pivotal that the company's initial bid response leaves full flexibility for later decisions and moves. In other words, do not use arguments that, in a later stage, limit the scope of actions available, e.g. "we will never let xy acquire our company".

Role of communications
When thinking about the impact of communications, it is worth taking a separated view for each PR and IR discipline. PR – as far as the outcome of the battle is concerned – has a limited impact, especially due to the fact that professional investors decide on economic terms offered, i.e. on the price. In contrary, PR has a substantial impact on the reputation of the board and of executives involved in the takeover battle. In addition, PR is essential for an efficient and smooth integration process following the acquisition. State-of-the-art internal communication is required to build the best teams from both competence centres whilst taking advantage of uncovered synergies. This change process bears a lot of chances if properly accompanied by open and transparent information. Otherwise, uncertainties will threaten the targeted rationale of the deal.

With regards to IR, the positive impact of these efforts is to provide management with flexibility: IR supports an efficient and open dialogue with key shareholders when required. Good relations to current and potential investors established on a regular basis allow the company to communicate its story and arguments 1:1. Moreover, this direct dialogue allows the management to feel direct sentiments of the investor base and to gauge defence tactics with them. But again, keep in mind that investors will weigh economic terms offered first and foremost. Therefore, the goal of effective communications is to set basic parameters and supporting conditions to maximise the valuation of a company – not more, not less. Communication efforts are decisive for an efficient opinion-making process and successful execution of the own strategies. They pave the way for full flexibility and fast implementation of decisions taken once required.

Recent transactions in Switzerland

The following portraits summarise recent major takeovers with the involvement of a Swiss company. They provide a comprehensive set of lessons learnt, i.e. regarding the buyer's motivation and tactics as well as the target's defence strategies.

Dr Michael Düringer, Partner, and
Andrea Ullmann, Consultant,
IRF Communications AG, Zurich

Ciba acquired by BASF, 2008

Until March 2009, Ciba was an independent Swiss speciality chemical company producing chemical additives for the plastics, paper and coatings industries. The company, active in more than 120 countries around the world, generated sales of CHF 5.9 billion and invested more than CHF 230 million in R&D in 2008.

On September 15, 2008, BASF made a friendly cash offer for Ciba for CHF 50 per share, offering a premium of 32% over the last price traded and valuing the company at CHF 6.1 billion.

Ciba had disappointed analysts and investors by repeatedly not reaching its targets. After reporting a loss for the second quarter of 2008, Ciba had announced it might sell certain business units in order to return to profitability.

After initial opposition by the activist shareholder Adriano Agosti and investor Bestinver, BASF secured the required two-thirds stake in Ciba's share capital.

Conclusion
Defining common interests and strategies with the board of the target company early on facilitates a smooth takeover and paves the way for an efficient integration process.

sia Abrasives acquired by Bosch, 2008

sia Abrasives develops, manufactures and markets complete abrasive systems for the surface treatment of every type of workpiece. The company employs approximately 1,250 persons worldwide and is represented with partners in over 80 countries. In 2007, sales amounted to CHF 298 million.

In April 2008, Giorgio Behr, a financial investor, acquired a 22% stake in sia Abrasives in consultation with the company's Board. At that point, Giorgio Behr signalled he did not wish to increase his holding, discouraging potential buyers. Roughly four months later, Behr Bircher Cellpack, Giorgio Behr's investment company, announced it held 38% of sia Abrasives. Since his stake exceeded 33%, Giorgio Behr was obliged by Swiss law to make a public tender offer to all shareholders, which he priced at CHF 385 for each remaining share (a 10% premium on the previous day's share price). The Board declined the offer stating that it wanted to evaluate more reasonable offers with regards to price and industry engagement. sia Abrasives convinced Bosch, the globally leading automotive supplier, to act as a white knight. The German company acquired Giorgio Behr's stake for CHF 154 million and made an offer of CHF 435 per share to the remaining shareholders.

Conclusion
Do not blindly trust majority shareholders even if they express good intentions. They may change their minds and catch you on the wrong foot. A defence strategy, i.e. an up-to-date valuation, and a clear idea regarding potential white knights are crucial.

Implenia opposed Laxey, 2007/08

Implenia is Switzerland's largest construction and building services provider. In 2008, the company generated sales of CHF 2.3 billion with a total workforce of almost 5,200 specialists.

Starting in the first quarter of 2007, the British hedge fund Laxey Partners built a stake in Implenia AG calling for a strategy change in the company. Implenia partly denied registering the corresponding voting rights, saying Laxey infringed the country's disclosure obligations. Implenia argued that the fast build-up of a stake of more than 22%, which was not traceable in stock market transactions, indicated arrangements with other market participants.

In November 2007, Laxey launched a takeover offer for Implenia at CHF 33.23 per share clearly below the previous day's closing price of CHF 36, valuing the Swiss construction group at around CHF 614 million. The bid was conditional on Implenia changing its statutes and removing the cap on Laxey's voting rights. At this point, Laxey already held 33.4% of the stocks, forcing it under Swiss law to launch a bid for the entire group.

In March 2008, Laxey reported it only had acquired 4.1% Implenia shares during the offer period. Furthermore, since Implenia's Board refused to fully register shares held by funds under Laxey's management, it decided to end the offer. Shortly thereafter, the Swiss Federal Banking Commission (SFBC) confirmed that Laxey had acquired its stake in Implenia by illegal means.

Conclusion
Clever legal strategies are crucial in defence situations. PR professionals may win over media and public opinion, but not necessarily on the company's investors.

Converium acquired by Scor, 2007

Converium was a Swiss reinsurance company, employing about 500 people in 15 offices around the globe. The company was organised in three business segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance.

On February 19, 2007, Scor, a French reinsurer, surprised with the announcement of its 32.9% stake in Converium and its tender offer of CHF 21.10 per share (comprising 0.5 new SCOR shares plus CHF 4.00 in cash). Martin Ebner and his investment company Patinex took an important hand in the deal making. After restructuring the company two years before, he sold his 20% stake in the company to Scor and facilitated the sale of additional shares.

Converium's Board unanimously rejected the offer stating that it was too low and that the merger bore significant operational risks. At the same time, Management initiated an important defence deployment and looked out for white knights.

After three months of acrimonious fight and after Management could secure significant golden parachutes, the Board of Converium surprisingly accepted an improved offer of CHF 23.20 per share (cash component increase to CHF 5.50) plus participation in the CHF 0.20 dividend for Scor shares.

Conclusion
Being prepared to vigorously oppose an initial bid can result in a better result for the shareholders.

Saurer acquired by OC Oerlikon, 2006

Previously, Saurer AG was an independent Swiss textiles machinery and car parts maker. Today, Oerlikon Saurer presents itself as a preferred partner for machines, software and complete solutions in various textile applications with a special focus on twisting and embroidery.

In March 2006, ahead of Saurer's Annual General Meeting of shareholders, the British hedge fund Laxey Partner, which owned a 20% stake in the company's share capital at that time, submitted a proposal for a capital reduction and suggested a payout of CHF 9.45 per share, well above the company's plans of CHF 1.80 for each share. In a separate press release, Laxey said that the proposed payout and capital reduction were a first step to address Saurer's "capital structure issue" indicating it would support further buyback programmes. Laxey also called for a strategic review at Saurer and proposed the election of its Chairman Preston Rabl to the Board.

In August, Laxey Partners further increased their stake in Saurer to over 25% shortly before surprisingly selling it to white knight OC Oerlikon, a Swiss technology conglomerate formerly known as Unaxis Holding AG and controlled by the Austrian investors Georg Stumpf and Ronny Pecik. With the stake of Laxey, for which it paid CHF 120 per share, OC Oerlikon held 50.2% of the voting rights through a combination of shares and options. This stake forced the company to launch a public offer to all shareholders for the remaining shares. After initially offering CHF 93.42, a discount of around 26% to the price paid to Laxey, the company raised its offer to CHF 110 per share aligning it to the traded share price.

Conclusion
Activist shareholders often set different priorities: Whilst Laxey favoured significant capital reductions resulting in immediate capital gains, Saurer Management intended to invest this money in buying rival companies, which should have helped it to resume top- and bottom-line growth. In the wake of the economic downturn things look different.

Leica Geosystems acquired by Hexagon, 2005

Leica Geosystems was best known for its broad array of products that capture spatial information accurately, model it quickly, analyse it easily, as well as visualise and present it efficiently. Based in Heerbrugg, Switzerland, Leica Geosystems was a global company supported by more than 3,500 employees in 28 countries and counting hundreds of partners located in more than 120 countries around the world.

Hexagon AB (publ.), a Swedish company active in engineering, metrology and polymers, launched on June 27, 2005 a public tender offer for all publicly held registered shares of Leica Geosystems Holdings Ltd. Its original bid was CHF 440 per Leica share, valuing the company at about CHF 1 billion. But Leica rejected the offer, arguing that it was priced too low.

Leica Geosystems' Board of Directors advised company shareholders to accept the friendly bid of white knight Danaher from the United States amounting to CHF 500 per share and entered a transaction agreement with this company. In August, Hexagon increased its offer to CHF 440 in cash plus five B shares of Hexagon, which increased the bid to CHF 594 giving Leica a valuation of nearly CHF 1.5 billion. Due to Hexagon's raised offer, the Board of Leica agreed with Danaher to end the transaction agreement with immediate effect.

Conclusion
Never say no! At the very end, investors will weigh economic terms offered with alternatives.

Unaxis controlled by Victory, 2005

Unaxis, today renamed Oerlikon Group, is one of the world's leading high-tech

industrial groups specialising in machine and plant engineering. The company offers pioneering solutions for the productions of thin-film silicon solar modules, textile production, thin-film coatings, and drive, precision and vacuum systems. With a workforce of almost 18,500 at 180 locations in 37 different countries, the company's sales reached CHF 4.8 billion in 2008.
In the first half of 2005, Victory Industriebeteiligung AG, Vienna, continuously built up a majority stake in voting rights of Unaxis through a combination of the registered shares and option rights. At the extraordinary General Meeting of Unaxis held on June 28, 2005 and requested by Victory, all existing members of the Board of Directors of Unaxis with the exception of Thomas P. Limberger resigned from office. Instead, Dr Mirko Kovats (as Chairman), Günther Robol, Christian Schmidt and Georg Stumpf were newly elected to the Board of Directors. Thomas P. Limberger took over the function of Unaxis CEO as of August 1, 2005. In addition, the proposal by Victory to reinstate the statutory exemption from the duty to make a full tender offer was approved. In a letter dated July 1, 2005, the Swiss Federal Banking Commission dismissed an obligation by Victory to make a public offer for the outstanding shares of Unaxis Holding Inc.

Conclusion
In order to ensure a fair market system, a clear and transparent regulation of the stake-building process is pivotal. In the meantime, the legislator has reacted and tightened the disclosure obligations.

Saia Burgess acquired by Johnson Electric, 2005

Saia-Burgess was the leading supplier of stepper motors, switches, actuators, and electronic controllers to customers within the automotive, industrial and infrastructure automation industry. With headquarters in Murten, Switzerland, and engineering and manufacturing locations in Europe, North America, Africa and Asia, the company employed over 3,700 people worldwide in 2004. Today, Saia Burgess is fully integrated in the Johnson Electric Group.
In July 2005, Saia Burgess was approached by the Japanese coil company Sumida, which offered CHF 950 per Saia Burgess share. Management rejected the offer stating that the price offered did not reflect the value of the company and questioning the synergies between them. Management also signalled that they would prefer a Swiss solution. Nevertheless, when in August 2005 Johnson Electric launched its cash tender offer to acquire all outstanding shares of Saia-Burgess, it was welcomed as a white knight. The offer price of CHF 1,060 per share valued the company at approximately CHF 695 million.

Conclusions
Firstly, once involved in an M&A battle, many primarily financially and not entrepreneurially oriented investors turn the company in the cue ball of the financial markets. Secondly, nationalistic arguments do not convince.

Forbo opposed CVC Capital Partners, 2004/05

Forbo is a leading producer of flooring systems, adhesives, as well as power transmission and conveyor belt solutions. The company employs some 6,500 people and has an international network of 44 sites with production and distribution as well as 51 pure sales organisations in a total of 35 countries worldwide. Today, Forbo Holding still operates independently and is listed on the SIX Swiss Exchange.

In November 2004, CVC Capital Partners repeatedly expressed its interest in Forbo, without actually making an official offer for the company. A first indicative offer stood at CHF 330 per share. Later it was raised to CHF 350–370 per share. Finally, the official offer, announced in early March 2005, amounted to CHF 260 per share valuing the company at around CHF 705 million. Already in February 2005, Swiss entrepreneur Michael Pieper, who built up a 25% stake in Forbo, requested the bidding process for control of the company be stopped. Subsequently, Forbo's Board of Directors, who stated that it prefers Forbo to remain an independent company, asked its shareholders to vote on the offer at the occasion of an extraordinary General Meeting. Shareholders followed Michael Pieper abolishing the voting rights restriction of 8% of the company's share capital. This action resulted in the withdrawal of CVC Capital Partner's offer.

Conclusion
Indicative offers can materially differ from official bids. Furthermore, large shareholders can help fighting off unwelcome takeover offers.

COMPANY PORTRAIT

irf communications — managing expectations

IRF Communications is a leading provider of communications services for economic and capital market issues. Its service range extends from strategic consulting to conceptual input all the way through to the implementation of individual communication measures. The company's main fields of expertise are:

- *Positioning of institutions and individuals*
- *Crisis communications*
- *Financial communications*
- *Media relations*
- *Analysis & insight*

IRF Communications offers customised communications solutions. Its team of specialists provides clients with professional expertise and contacts as well as support with public and investor relations. IRF Communications analyses situations as well as requirements and communicates its results openly and transparently. As of the company's credo, effective communications is based on leadership and commitment from the decision makers, transparency, systematic management of relevant relationships and contacts, continuity of policy/avoidance of one-off actions as well as coherent, one-voice communications.

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