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Trendsetter Barometer™

Alliances and acquisitions increasingly important for fast-growth companies, PricewaterhouseCoopers finds. Seen as critical for extending customer base and as springboard to new markets.*

PricewaterhouseCoopers' Trendsetter Barometer interviewed CEOs of 339 privately-held product and service companies identified in the media as the fastest growing U.S. businesses over the last five years. Surveyed companies range from approximately $5-150 million in revenue/sales.

NEW YORK, May 16, 2006: Fast-growth CEOs see alliances, acquisitions and licensing as increasingly critical to their company's success over the next three years—with M&A growing most in importance. But although acquisitions and the other growth strategies appear destined for more activity, they clearly aren't in the cards for everyone.

More see growth opportunities with others
Leaders of the nation's fastest-growing private companies see alliances, acquisitions and licensing as increasingly critical to achieving their business objectives over the next three years—with acquisitions showing greatest momentum:

Important for Helping Company Reach Its Business Objectives	Today	3 Years from Now	% Change
Alliances, including joint ventures and contractual partnerships	57%	66%	+16%
Acquisitions and mergers	37%	59%	+59%
Licensing or co-marketing agreements	31%	36%	+16%

"We continue to observe an attitude shift about options for growth in today's market," said Fentress Seagroves, transaction services leader in PricewaterhouseCoopers'

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news release

Private Company Services practice. “More CEOs expect their company to use non-organic expansion strategies, particularly acquisitions, in the near future.”

A successful track record

Over the past three years, 48 percent of “Trendsetter” companies were involved in an average of 4.9 alliances or joint ventures; 27 percent participated in an average of 2.4 acquisitions or mergers; and 25 percent were involved in an average of 5.7 licensing or co-marketing agreements.

Overall, 87 percent reported that their most-recent acquisition or merger achieved some success in meeting its objectives—including a solid majority (58 percent) who found it “highly successful.” Only seven percent deemed it “not successful,” and six percent did not answer.

Similarly, 90 percent said their most-recent alliance met with some success—including 47percent describing it as “highly successful.” Only six percent were termed “not successful.” Viewed separately, considerably fewer involved in licensing or co-marketing agreements described them as “highly successful” (36 percent):

	Most-Recent Experience			
	Some Success	Highly Successful	Not Successful	Not Reported
Acquisitions or Mergers	87%	58 %	7%	6%
Alliances or Joint Ventures	90%	47%	6%	7%
Licensing or Co-marketing Agreements	89%	36%	5%	7%

“When the leaders of these companies weigh the merits of a 'make or buy' growth strategy, increasingly they consider partnering or acquisition over gestation,” said Seagroves. “Many who have tried non-organic growth strategies are reporting some degree of success, and this may be attributed to increased attention to the broader transaction process, including due diligence and integration planning, going in. This way, both risks are better-understood, transition can be smoother and more effective, and a positive impact on the business may be more immediate.”

Acquisitions and mergers shine, but are not for everyone

The 27 percent of CEOs involved in acquisitions or mergers over the past three years attribute 20.9 percent of their total current business revenues to them. Over the next 12 months, this contribution is expected to increase, on average, to 25.0 percent of revenues, a gain of twenty percent.

However, a growing number, 36 percent, say they have serious plans to engage in business acquisitions or mergers over the next three years—bringing the net total to 45 percent that have recently completed or are planning one. By far, the number-one reason for their next transaction is to extend their customer base. Other reasons include entering new markets or businesses, consolidation/ economies of scale, and geographic expansion:

	Importance		
Reasons for Next Acquisition/ Merger	Any	Very	Somewhat
Extend customer base	90%	63%	27%
New markets or business entry	77%	37%	40%
Consolidation/ economies of scale	74%	37%	37%
Geographic expansion	62%	34%	28%
New/ more-robust distribution channels	54%	20%	34%
Diversify/ hedge against volatile markets	46%	16%	30%
Get superior/ more-appropriate management	45%	12%	33%
Alternative to internal R&D	36%	14%	22%
Gain strategic assets abroad	23%	7%	16%

But in contrast, nearly half—49 percent of “Trendsetter” CEOs—say their company will not be seeking an acquisition or merger over the next three years, mainly because they are satisfied with current internal growth (cited by 54 percent of this group). Other reasons include concern about change or “biting off more than they can chew” (28 percent); and lack of attractive candidates (24 percent).

“While there may be many solid reasons for non-organic growth, nearly half the surveyed CEOs took this business option off the table for the next three years, perhaps for a lack of comfort with acquisition as a strategic tool for expansion," noted Seagroves. "Some may be concerned that an acquisition could be too costly in today's price-competitive market, or that the process may be unwieldy, or they may be uncertain about how to effectively-integrate the two entities to achieve the synergies they seek."

More are involved in alliances than M&A, but fewer have future plans

Looking ahead over the next three years, 45 percent have serious plans for involvement in alliances or joint ventures—slightly fewer than the 48 percent involved in the past three.

The two leading reasons for their next important corporate alliance or joint venture are the same as for those planning M&A involvement: extending their customer base and entering new markets or businesses—followed by developing new/ more-robust distribution channels, and geographic expansion.

Reasons for Next Alliance or Joint Venture	Importance		
	Any	Very	Somewhat
Extend customer base	88%	61%	27%
New markets or business entry	83%	53%	30%
New/ more-robust distribution channels	66%	38%	28%
Geographic expansion	62%	35%	27%
Consolidating/ economies of scale	57%	23%	34%
Bridge to an acquisition	53%	14%	39%
Risk sharing	51%	22%	29%
Alternative to internal R&D	43%	11%	32%
Gain strategic assets abroad	23%	8%	15%

"It is noteworthy that the two leading reasons for making an acquisition are the same as for engaging in a strategic alliance," said Seagroves. "Many recognize that alliances and joint ventures may be well-suited to achieving strategic objectives in certain circumstances. Like acquisitions, alliances and joint ventures can be attractive growth options, given the synergies and opportunities they can produce. In the end, each option is an extension of overall corporate business strategy—a tactic used for achieving profitable growth. The CEOs we spoke with have clear growth goals in mind, and appear ready to use more than one approach for achieving them."

PricewaterhouseCoopers' Trendsetter Barometer is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

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Charts attached

If you have a question about this Trendsetter Barometer survey, please contact Pete Collins, survey director and publisher, at 646-471-4496 or e-mail to: pete.collins@us.pwc.com

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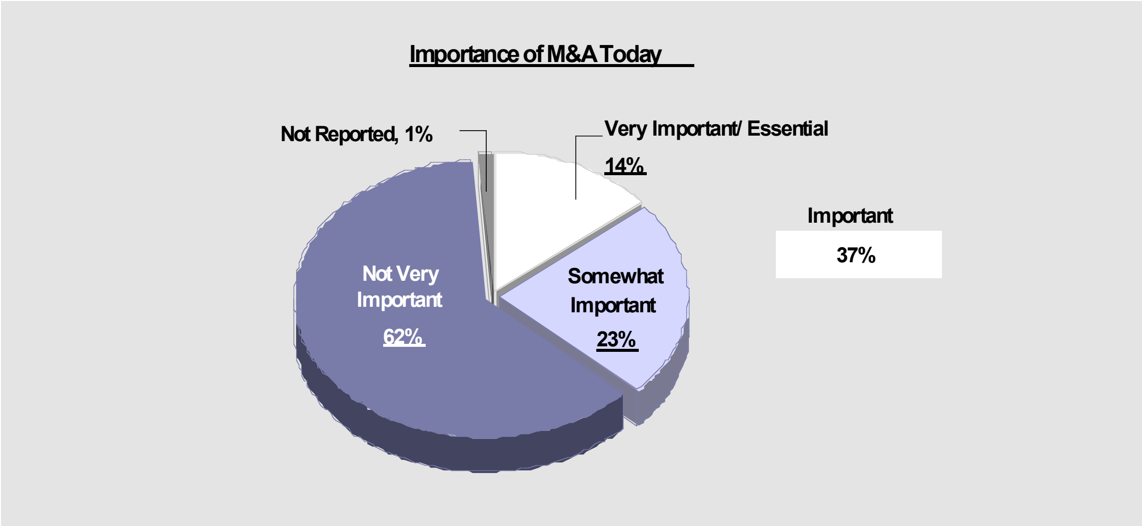

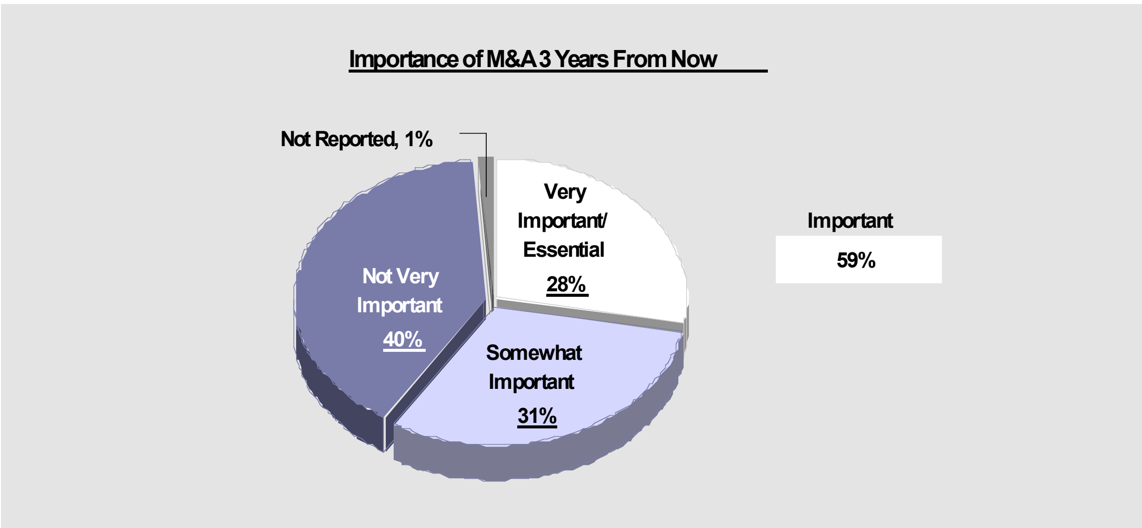

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