4 The companies and the background to the merger

Contents

Page

Introduction

4.1. This chapter deals with the businesses of the parties. It provides information about the history and financial performance of each party and a summary of the transaction being considered. It concludes with details of the events leading to the transaction and the rationale behind it.

Description of proposed transaction

4.2. Neopost proposes to purchase the worldwide operations of AMS, a business unit whose activities are carried on through 14 separate legal entities whose ultimate parent company is Ascom. AMS provides solutions for the treatment of incoming and outgoing mail in a business mainly through franking machines and related products and services. AMS is the third largest franking machine manufacturer worldwide. It provides these services on a global basis through 14 legal entities that are wholly or partially engaged in providing mailing solutions.

4.3. The proposed acquisition was publicly announced on 2 October 2001. Neopost said the acquisition represented a strategic step in its international expansion, reinforcing its position in key markets—the USA, Canada and the UK—and bringing direct distribution in Germany. It would add one-third to Neopost's revenues and increase its share of the world mailing systems market from 15 to 25 per cent. On the day of the announcement there was a 14.8 per cent one-day increase in Ascom's share price whereas there was a 4.9 per cent increase in Neopost's share price.

4.4. The purchase and sale agreement (PASA) was signed on 2 October 2001 for the sale of AMS to Neopost. Broadly it provides for a combination of assets and share purchases ascribing an enterprise value to AMS of €240 million (£149 million), which is subject to various minor price adjustments (see paragraph 4.95). The sale agreement is conditional upon clearance by relevant competition authorities. The proposed merger was referred by the Secretary of State to the CC on 10 January 2002, and we are required to report by 24 April 2002.

Other competition authorities

4.5. On 29 November 2001, following earlier informal contacts, Neopost and Ascom formally notified the US Federal Trade Commission (FTC) of the proposed acquisition of the AMS business. Under the Hart-Scott-Rodino Act, there was then a 30-day waiting period till 31 December 2001. The FTC cleared the transaction and granted early termination on 21 December 2001.

4.6. The FTC focused on the parties' claims that the merged company would be better able to compete against Pitney Bowes, the globally dominant firm in the supply of franking machines. The FTC favoured the view that the merged firm would reduce its costs, enhance its R&D efforts and expand the combined product range. In granting early termination, the FTC was cognizant of the urgency of closing the transaction to maximize the synergies from combining the parties' operations.

4.7. On 21 December 2001, Neopost sent a response to a 'Request for Information' to the Australian Competition and Consumer Commission (ACCC). The ACCC decided on 7 February 2002 not to intervene in this matter.

4.8. In reaching its decision, the ACCC defined four markets in Australia: *(a)* the distribution and sale of franking machines; *(b)* the distribution and sale of folding and inserting machines; *(c)* the distribution and sale of letter openers; and *(d)* the servicing of mailroom products. In relation to market *(a)* the ACCC concluded that the acquisition would not remove vigorous and effective competition; prices were unlikely to increase because demand for the product was diminishing and competition was strong; and customers had a reasonable degree of countervailing power. In relation to the other markets the ACCC also concluded that the barriers to entry did not appear to be high. Overall, the ACCC did not believe there would be a substantial lessening of competition.

Prior regulatory inquiries

4.9. Franking machines were the subject of the 1986 MMC report which investigated the supply, maintenance and repair of franking machines in the UK. As a result, Pitney Bowes and Neopost entered into undertakings with the OFT and the Post Office agreed to amend some of its arrangements relating to franking machines (see Appendix 3.3).

4.10. In 1993, the OFT investigated Neopost for alleged misrepresentations and business malpractice under the Consumer Credit Act of 1974, and undertakings were obtained. This is discussed further in paragraph 5.144.

4.11. The OFT recently dealt with two cases involving franking machines and mail-inserting machines. In June 2001, the OFT cleared the acquisition by Pitney Bowes of part of Bell & Howell, a supplier of mail-inserting machines. In September 2001, the OFT cleared the acquisition by Pitney Bowes of Secap, a supplier of franking machines, mail-inserting machines, letter-opening machines and letter-addressing machines. The increment in the UK market for franking machines in the Pitney Bowes/ Secap case was 2 per cent.

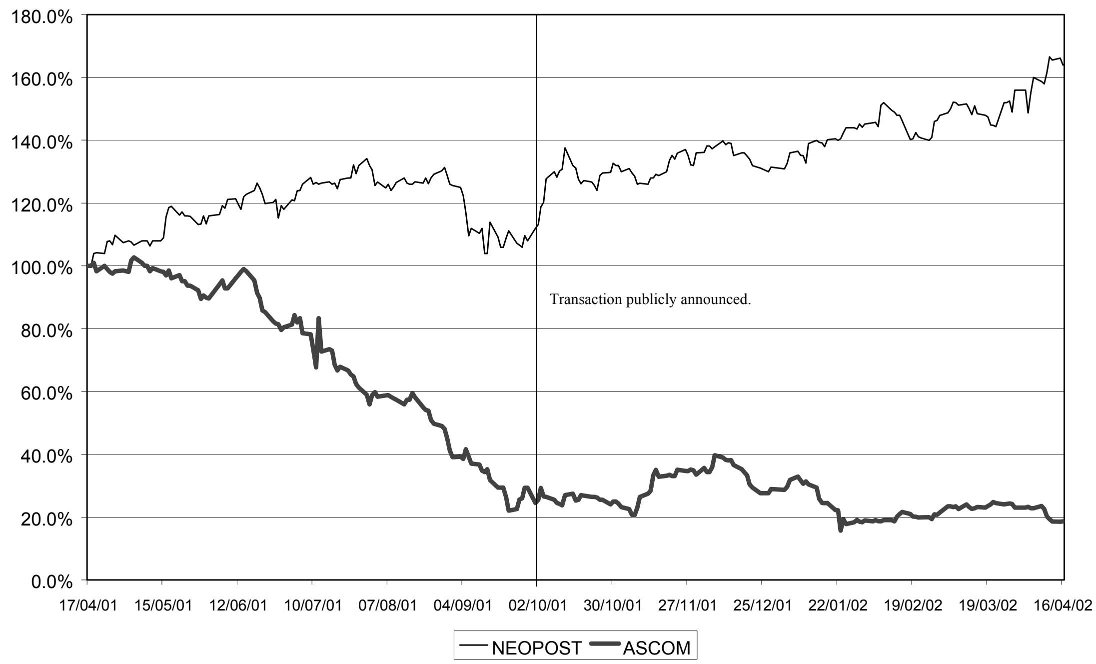
The companies

4.12. Both Neopost and Ascom are publicly quoted companies. In February 1999, Neopost entered the First Market within the Paris Stock Exchange, and was admitted to the SBF 120 Index in October of the same year. Ascom's shares trade in the main section of the SWX exchange in Switzerland.

4.13. Figure 4.1 shows the relative stock price performance for both companies for the 12 months to 15 April 2002. Ascom's stock price fell approximately 81 per cent while Neopost's rose over 64 per cent in the same period.

FIGURE 4.1

One year relative stock price performance



Source: IDC Remote Plus.

Neopost

History and operations

4.14. Neopost, the successor of a company founded in 1924, designs machines, obtains components from third parties and assembles them into franking machines and related products, which are sold in over 70 countries worldwide. It employs 3,700 people worldwide, of which 450 are in the UK. It accounts for around 15 per cent of franking machines installed worldwide. The group's business is recurrent in nature owing to the means by which its machines are financed: [✂] per cent of its revenues come from rental, leasing and maintenance contracts, some [✂] per cent of which are renewed annually. Neopost in its current form was founded in 1992 by financial investors (Fonds Partenaires and BC Partners) in two leveraged buyouts, using assets of Alcatel's mail management activities, initially grouped together in the 1970s.

Summary financial statistics

4.15. Neopost is incorporated in France and headquartered in Paris. The company has a year end of 31 January. For the year to 31 January 2002 it reported consolidated turnover of €575.0 million (£357.4 million[1]) and net income of €38.0 million (£23.6 million[1]). As at 31 January 2002 the company had shareholders' equity of €253.0 million (£154.4 million[2])and €294.0 million (£179.5 million[2]) in net debt. The stock market valuation of the company's equity on 15 April 2002 was €1,247.9 million (£762.9 million[3]).

Principal activities

4.16. Historically, Neopost has operated in three segments:

(a) mailing systems—mainly concerned with franking machines;

(b) document management—mainly the manufacture of folders and inserters; and

(c) logistics systems—the production of intelligent workstations and user-friendly software packages providing for e-handling of lading bills, parcel tracking and relationships with shippers and carriers.

Mailing systems is by the far the largest segment, representing approximately 68 per cent of consolidated turnover.

Principal locations

4.17. A description of the group's principal locations by country, together with site use and average number of employees, is set out in Appendix 4.1. Neopost's head office is located in Bagneux, France. Its main manufacturing operations are based in Le Lude, France (for franking machines), and Drachten, the Netherlands (for folders/inserters). R&D takes place at sites in France, the Netherlands, the USA and the UK. The UK sales and distribution operations are based in Romford. The UK is also responsible for the worldwide distribution to other Neopost subsidiaries of the IJ25 franking machine, which is manufactured in China by a subcontractor.

---

[1]Based on an average exchange rate for 2001 of €1.60905/£.
[2]Based on a year-end exchange rate on 31 December 2001 of €1.6383/£.
[3]Based on a closing exchange rate on 15 April 2002 of €1.63572/£.

Recent group acquisitions

4.18. Neopost has made a number of small acquisitions in the past three years, none with an acquisition price greater than €6.0 million. In the mailing systems sector, Neopost acquired the Dutch operations of Bell & Howell in January 2000 and Alcatel Belgique in January 2001. [

Details omitted. See note on page iv.

]

Neopost's activities in the UK

4.19. The group's UK activities are conducted through a holding company, Neopost (Holdings) Limited. Neopost imports franking machines and related products into the UK from production facilities in France, the Netherlands and China, but carries out maintenance and small-scale refurbishing in the UK. It distributes products and provides services through a direct sales and services network with [*Details omitted. See note on page iv.*] and 81 engineers in six branch offices. In Northern Ireland, it uses an exclusive distributor. Neopost has an R&D centre in the UK employing 40 engineers. It previously had a manufacturing facility at Romford, but this was closed in 1999. This site used to produce low- and medium-volume machines.

Financial performance

Neopost group

4.20. The consolidated group income statements for Neopost for the years ended 31 January 1997 to 2001 are provided in Appendix 4.2. Table 4.1 summarizes the profitability measures for the consolidated group for the years ended 31 January 1998 to 31 January 2002. (For the latest year only summary figures are currently available.)

TABLE 4.1 **Neopost SA: extracts from income statement and profitability measures**

					euro million	*£* million*
	Years ended 31 January					
	1998	*1999*	*2000*	*2001*	*2002*	*2002*
Revenue	365.4	398.5	437.8	514.4	575.0	357.4
% growth	11.7	9.1	9.9	17.5	11.8	
Operating profit (before goodwill amortization)	68.1	74.6	74.6	69.5	83.0	51.6
% growth	24.7	9.5	0.0	–6.8	19.4	
R&D expenditure	13.4	17.6	20.5	30.9	31.8	19.8
Net profit	4.5	25.2	30.8	36.0	38.0	23.6
Net profit excluding exceptional items	41.7	29.8	32.3	28.0	39.0	24.2
% margin	11.4	7.5	7.4	5.4	6.8	
% growth	220.8	–28.5	8.4	–13.3	39.3	
Average net assets	66.7	65.5	130.1	199.5	194.9	121.1
					per cent	
Key ratios						
R&D/revenue	3.7	4.4	4.7	6.0	5.5	
Return on sales†	18.6	18.7	17.0	13.5	14.4	
Return on average net assets‡	102.1	114.0	57.3	34.8	42.6	

Source: Neopost annual report and accounts for financial years 1997 to 2000 and press release on the financial year 2001 summary results.

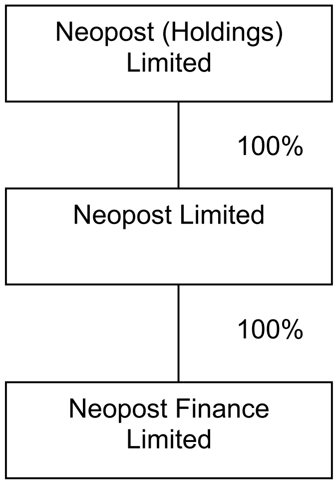
*Based on an average exchange rate for 2001 of €1.60905.
†Defined as operating profit before goodwill amortization divided by sales.
‡Defined as operating profit before goodwill amortization divided by average net assets.

4.21. Neopost's revenues have shown strong growth over the last five years with an annual compound growth rate of 12.0 per cent. Operating margins have declined from a peak of 18.7 per cent in the financial year 1998 to 14.4 per cent in the financial year 2001, partly reflecting the company's increased R&D expenditure over the same period.

4.22. The geographic segmentation of sales has remained largely unchanged for the financial years 1998 to 2000 in which the UK share of sales has remained constant at 12 per cent (2001 data is not available). North America represented 43 per cent and France 37 per cent in 2000.

Neopost UK operations

4.23. Neopost (Holdings) Limited is the UK holding company for the two operating companies: Neopost Limited and Neopost Finance Limited (Neopost Finance) (which provides leasing finance). A group structure diagram for the UK operations is given below.



4.24. Neopost (Holdings) Limited is not required to produce UK statutory consolidated financial statements as its French parent wholly owns it. It does produce at the UK level a very detailed monthly Management Information and Accounts (MIA) package, which has been provided to the CC for the financial years 1999 to 2001.

4.25. The MIA package analyses and tracks financial results by individual product. Results for individual products are then rolled up into the following business lines:

(a) mailing systems;

(b) document systems;

(c) logistics systems;

(d) 'simply postage'—not active; and

(e) other.

4.26. These business lines are then grouped by the following reporting divisions:

(a) Distribution: the main operating division, comprising the UK sales and distribution activities;

(b) Industrial: the import and onward export to other group companies (including UK Distribution) of the IJ25 machine manufactured in China; and

(c) Finance: the UK leasing operations.

4.27. Table 4.2 details Neopost Limited's revenue by type of product or service delivered for the financial years 1999 to 2001.

TABLE 4.2 **Neopost Limited: Distribution Division—sales revenue**

	Years ended 31 January					
	2000		*2001*		*2002*	
	£'000	*% of sales*	*£'000*	*% of sales*	*£'000*	*% of sales*
Mailing systems						
Equipment—outright						
Equipment—lease						
Service						
Supplies						
Rentals						
Credifon*						
Rate change†						
Meter migration‡						
Document systems						
Equipment						
Service						
Supplies						
Rentals						
First year maintenance						
Other						

Figures omitted. See note on page iv.

Source: Neopost Limited management information and accounts.

*Charges levied by Neopost to load additional credit onto meters to pay for future postage.

†Charges levied by Neopost to update franking machines or scales following a change in postal rates.

‡Charges levied by Neopost for modifying existing franking machines to meet new Royal Mail standards for meters: see paragraphs 3.34 to 3.36.

4.28. Table 4.2 shows that a greater proportion of revenue is derived from service and maintenance than from the sale of franking machines with around [✂] per cent of total revenue relating to the provision of service and maintenance. In the most recent year, letter opener sales amounted to £[✂] and sales of scales amounted to £[✂] and together account for less than [✂] per cent of total sales in all years. The majority of mailing systems equipment is sold via leasing which has risen from [✂] per cent of sales in the financial year 1999 to [✂] per cent in 2001.

4.29. As already explained, most products are centrally manufactured in France and then shipped to the distribution subsidiaries in each country for onward sale to customers. The transfer price charged to each subsidiary varies slightly. The average actual gross margin earned by the manufacturing operations in France in 2001 was [✂] per cent. This is very similar to the actual margin earned on sales to the Distribution division of Neopost Limited (Neopost Distribution) of [✂] per cent.

4.30. Neopost Distribution records a 'standard margin' for its onward sales to customers. For equipment costs this represents the realized selling price less the transfer price from France. Direct costs included in arriving at the standard margin for supplies represent the standard cost of the goods only. Direct costs included in arriving at the standard margin on service activities represent the standard cost of spare parts drawn from the central warehouse by service engineers. In addition, there is a [✂] per cent commission paid to Neopost Finance for collection of service revenue on 'All-in-one' maintenance contracts. This amounts to approximately £[✂] a month.

4.31. Table 4.3 provides an analysis of the standard margins and operating margins earned by product or activity for the financial years 1999 to 2001.

TABLE 4.3 **Neopost Limited: Distribution Division—standard and operating margins**

	Years ended 31 January					
	2000		*2001*		*2002*	
	£'000	*% margin*	*£'000*	*% margin*	*£'000*	*% margin*
Standard margin						
Mailing systems:						
Equipment—outright						
Equipment—lease						
Service						
Supplies						
Rentals						
Credifon						
Rate change						
Meter migration						
Document systems:						
Equipment						
Service						
Supplies						
Rentals						
First year maintenance						
Other						
Other cost of sales						
Variances						
Operating margin						
Mailing systems:						
Equipment—outright	*Figures omitted. See note on page iv.*					
Equipment—lease						
Service						
Supplies						
Rentals						
Credifon						
Rate change						
Meter migration						
Other						
Document systems:						
Equipment						
Service						
Logistics systems						
First year maintenance						
Other cost of sales						
Variances						
Administration expenses						
Site charges and depreciation						
Other expenses						

Source: Neopost Limited management information and accounts.

Note: N/M = not meaningful; N/A = not applicable.

4.32. The average standard margin earned by Neopost Distribution of approximately [✂] per cent, which has been consistent over the three financial years 1999 to 2001, is somewhat higher than the average of [✂] per cent for other Neopost European distribution companies, including those in France, Italy, Belgium and the Netherlands. The Industrial division of Neopost Limited (Neopost Industrial) also earns a standard margin on its worldwide sales of the IJ25 machine. In the financial year 2001, Neopost Industrial earned a standard margin (excluding sales to Neopost Distribution) of [✂] per cent on sales of £[✂] million.

4.33. Neopost Finance provides lessor financing for all leased sales by Neopost Limited. Lease terms vary from three to six years. Payment frequency is typically quarterly in advance with most payable by direct debit. Upon the initiation of a lease, Neopost Finance pays Neopost Limited the full sales value of the machine sold and then recognizes the corresponding long-term finance receivable. Table 4.4 provides extracts of the profit and loss account for the financial years 1999 to 2001. The APR yield implicit in the portfolio at 31 January 2002 was [✄] per cent, which is considerably higher than most consumer credit card rates. An analysis of the financing costs associated with leasing various sizes of machines over various lease terms is set out in Appendix 3.8.

TABLE 4.4 **Neopost Finance Limited**

	Years ended 31 January		
	2000	*2001*	*2002*
Turnover	5,575	5,264	✄
% growth	N/A	–5.6	
EBIT	3,936	3,670	
% margin	70.6	69.7	
Net income	1,996	1,633	
% margin	35.8	31.0	

Source: Neopost Finance Limited accounts.

Note: N/A = not applicable.

Financial position

Neopost group

4.34. The consolidated balance sheets for Neopost for the financial years 1996 to 2000 are provided at Appendix 4.3. Table 4.5 provides summarized consolidated balance sheets together with selected financial ratios for the financial years 1997 to 2001. (For the latest year only summary figures are currently available.)

TABLE 4.5 **Neopost SA: summarized consolidated balance sheet and financial ratios**

					euro million	*£* million*
	Years ended 31 January					
	1998	*1999*	*2000*	*2001*	*2002*	*2002*
Fixed assets	97.4	105.0	128.5	124.4	140.0	85.5
Current assets	247.7	245.5	255.7	314.5	320.0	195.3
Current liabilities	210.0	211.5	231.1	248.7	309.0	188.6
Total debt	437.8	413.8	355.8	377.7	406.0	247.8
Cash	65.9	82.0	68.0	78.7	112.0	68.4
Shareholders' equity	51.0	79.9	180.4	218.8	253.0	154.4
Earnings before interest and tax	66.4	71.0	70.9	65.3	83.0	50.7
Interest expense	22.8	30.8	23.9	25.6	24.6	15.0
Financial ratios						
Interest cover (times)†	2.91	2.31	2.97	2.55	3.37	
Quick ratio‡	1.04	1.03	0.97	1.12	0.96	
Current ratio§	1.18	1.16	1.11	1.26	1.04	
Gearing (%)¶	89.6	83.8	66.4	63.3	61.6	
Net debt/EBITDA (times)¤	3.67	3.04	2.54	2.60	2.28	

Source: Neopost SA annual report and accounts for financial years 1997 to 2000 and press release on the financial year 2001 summary results.

*Based on a year-end exchange rate on 31 December 2001 of €1.6383/£.
†Defined as earnings before interest and tax divided by interest expense.
‡Defined as current assets less inventory divided by current liabilities.
§Defined as current assets divided by current liabilities.
¶Defined as total debt/(total debt + shareholders' equity).
¤Defined as (total debt – cash)/earnings before interest, tax, depreciation and goodwill amortization (EBITDA).

4.35. Generally, all working capital and indebtedness measures have remained fairly stable over recent years. As at 31 January 2002 Neopost had a quick ratio of 0.96 and gearing of 61.6 per cent.

Indebtedness and debt capacity

4.36. Total net debt of Neopost as of 31 January 2002 was €294 million, which represents 2.3 times 2001 EBITDA. Subsequently, in order to finance the acquisition of AMS, Neopost has drawn down on Tranche A of the senior debt facility with Credit Agricole in the amount of €[✄] million. The first payment with respect to the acquisition of AMS was made on 28 February 2002 in the amount of €132.5 million for AMS's distribution operations in North America (see paragraph 4.93).

Research and development

4.37. Table 4.6 provides a breakdown of mailing systems R&D expenditure for financial years 1999 to 2001. R&D expenditure as a percentage of sales has remained virtually unchanged over this period and is less than half the rate of AMS (see paragraph 4.78). The majority of mailing systems R&D expenditure over the last three years has related to the development of ink-jet technology.

TABLE 4.6 **Neopost: mailing systems R&D expenditure**

	euro million			*£* million*
	Years ended 31 January			
	2000	*2001*	*2002*	*2002*
IJ65-85 development				
IJ25-35-45 development				
Existing product modification		✄		
New infrastructure				
Miscellaneous				
Total R&D cost†				
Mailing systems revenue†	(	‡		)
R&D/revenue (%)	(	✄	)	

Source: Neopost annual report and submissions.

*Based on an average exchange rate for 2001 of €1.60905/£.
†Excludes Neopost online revenue and related R&D expenditure.
‡The CC has advised that these figures are inaccurate. They have therefore been excised in accordance with section 83(3) of the Fair Trading Act 1973 (see note on page iv). They should correctly have read: for 2000: 293; and for 2001: 348. The figure for 2002 is not yet available.

Patent expenditures

4.38. Table 4.7 provides an analysis of patent expenditure for the three main legal entities involved in France, the UK and Belgium. These payments relate to maintenance fees for patents held by Neopost and payment of external patent attorney fees associated with technical matters and opinions on third party IPRs. We understand that the payments of licence fees on patents are sometimes recorded as exceptional items in the country concerned.

TABLE 4.7 **Neopost: patent expenditure**

euro million

	Years ended 31 January				
	1997	*1998*	*1999*	*2000*	*2001*
Neopost Industrie SA			*Figures omitted.*		
Neopost Limited			*See note on page iv.*		
Neopost Industrie BV					
Total					

Source: Neopost.

Ascom

Parent company

4.39. Ascom is the ultimate parent of the legal entities that make up AMS. Ascom was founded in Berne, Switzerland, in 1963 under the name Hasler Holding AG, and was renamed Ascom Holding AG in June 1987 following the merger of several large Swiss telecommunications companies, namely Hasler AG, Autelca AG, Zellweger AG, Autophon AG, Gfeller AG and the Radio Division of Brown Boveri AG. Hasler AG was established more than 140 years ago, and first manufactured franking machines in 1924.

4.40. Ascom and its group companies are internationally active in the high-technology sector with around 10,000 employees worldwide and revenues of approximately CHF 3.1 billion (£1.3 billion[1]). Ascom's principal activities worldwide include the building and operation of secure networks and the integration of voice and data into communications solutions. It also supplies transport revenue systems and power supply systems and products.

4.41. Ascom is incorporated in Switzerland and headquartered in Berne. For the year to 31 December 2001 it reported consolidated turnover of CHF 3,143 million (£1,293 million[1]) and a net loss of CHF 396.0 million (£162.9 million[1]). As at 31 December 2001 the Ascom group had shareholders' equity of CHF 514.0 million (£211.7 million[2]) and CHF 631.0 million (£259.9 million[2]) in net debt. The stock market valuation of the company's equity on 15 April 2002 was CHF 427.5 million (£178.5 million[3]).

4.42. Ascom's share price fell from CHF 102.0 per share on 17 April 2001 to CHF 19.0 on 15 April 2002, representing an 81 per cent decline as shown in Figure 4.1. Ascom has a heavy debt burden and is experiencing financial difficulties. Table 4.8 presents the Ascom group's consolidated results. It shows a drastic decline in operating performance as the company was adversely affected by the downturn in the telecommunications sector. Due to the company's deteriorating operating performance, in December 2001 Ascom obtained a bridging loan totalling CHF [✂] million (£[✂] million[2]) from a syndicate of banks in order to repay CHF 125 million in bonds and cover the short-term financial needs of its core businesses. This bridging loan was secured on the expected proceeds of the sale of AMS. [
Details omitted. See note on page iv.
]

4.43. In 2001, Ascom generated net cash flow from operating activities of only CHF 11 million (£4.5 million[1]). Additionally the company was highly geared in relation to its market capitalization. Consequently, it would be very difficult for the group to obtain additional borrowing. As such, the only short-term avenue the group had to raise funds was by making non-core disposals.

4.44. AMS is part of the Co-operation division within Ascom. All business units within this division had been identified as non-core and were earmarked for sale. During 2001, in pursuance of this

[1]Based on the average exchange rate for 2001 of CHF 2.43067/£.
[2]Based on the closing exchange rate on 31 December 2001 of CHF 2.4279/£.
[3]Based on the closing exchange rate on 15 April 2002 of CHF 2.39540/£.

divestment strategy, Ascom sold its Cash Handling unit (in March 2001) and its Terminals unit (in September 2001), and in March 2002 it sold its Carrier Access unit. The only other business unit now remaining within the division is Multimedia and Pay Systems.

4.45. On the basis of enterprise value, AMS represents a significant proportion of the Ascom group given Ascom's depressed stock market valuation. Based on an enterprise value of €240.0 million for AMS (see paragraph 4.95) and an enterprise value for Ascom of €722.3 million,[1] AMS represents 33.2 per cent of the group.

Ascom Mailing Systems

4.46. AMS is a business unit of Ascom with headquarters in Berne, Switzerland. In 2000,[2] AMS generated revenues of CHF 282 million (£110.3 million), of which 80 per cent was accounted for by its operations in the USA, the UK and Germany. The division employs approximately 1,000 people worldwide, of which 80 per cent are in the customer acquisition and care functions.

4.47. AMS manufactures franking machines and provides carrier-customer interface systems (ie solutions for the treatment of incoming and outgoing mail in a company), mainly through franking machines and related products and services.

4.48. AMS is involved in product design from the initial R&D stages through to the decision to manufacture a product. In 2000, AMS spent [✄] per cent of its revenue on R&D, falling to [✄] per cent in 2001 as the Ascom group began to encounter financial difficulties. R&D is carried on at sites in Switzerland and the USA.

4.49. AMS's franking machine product range is currently in the process of being revamped with the development of three models of digital machine: PostLink (low-volume machine), InteliPost (low-to-medium-volume) and PowerPost (high-volume). AMS had intended to introduce a further product to address the market segment between the InteliPost and the PowerPost, to be called the OmniPost, but has had to postpone this project due to financial constraints.

4.50. AMS also sells a range of peripheral products such as scales and feeder/sealers, and products sourced from other companies but sold under its own name, such as inserters and letter openers.

4.51. In addition, AMS performs a wide range of services, which account for nearly half of the combined revenue of its three major subsidiaries in the USA, the UK and Germany. These include a remote reset service (called TMS), after-sales services, rate changes, leasing and US rental income.

4.52. Ascom Autelca AG (Ascom Autelca), based in Berne, Switzerland, provides head office functions for AMS. The production of franking machines is undertaken in Switzerland by Ascom Autelca and in the USA by Ascom Hasler Mailing Systems Inc. Ascom Autelca sells mailing system products in Switzerland, and also sells to countries where AMS does not have a local presence.

4.53. Products are transferred from Ascom Autelca to subsidiaries at a transfer price to cover R&D costs, purchasing costs, product support, marketing and sales costs, other administrative costs and an element of profit. Transfer prices are set in the currency of the country of the acquiring company and are not changed to reflect exchange rate changes.

4.54. The other companies that make up AMS are all involved in the distribution of products purchased from Ascom Autelca or from third parties, and in the provision of related services. AMS comprises Ascom Autelca, Ascom Hasler Mailing Systems Inc, Ascom Hasler GmbH, three UK companies and nine other companies located in other countries. The various entities together with their function, sales in 2000 and number of employees as of May 2001 are set out in Appendix 4.4.

[1]Ascom's enterprise value is based on its market capitalization of CHF 427.5 million on 15 April 2002 plus its net debt of CHF 631 million as at 31 December 2001.
[2]AMS results for 2001 on a comparable basis to the carve-out accounts are not available.

4.55. Following a reorganization of the UK operations, the companies in the UK that are to be acquired include Ascom (UK) Holding Limited (a shell company) and its subsidiaries MSL and Ascom Leasing Limited (ASL). MSL employs approximately 140 people in six offices across the UK. ASL has two employees located in Croydon and mainly provides leasing facilities to MSL.

Mailing Systems Limited

4.56. Hasler (Great Britain) Limited was incorporated in 1969 to take over the UK distribution of the products manufactured by its Swiss parent company, Hasler AG. Distribution of the products in the UK had previously been carried out by independent distributors. After the 1987 merger (see paragraph 4.39), the company changed its name to Ascom Hasler Limited, and was subsequently renamed Ascom UK Limited on 1 April 2001. As a result of the recent internal reorganization for the purposes of the sale of AMS, the company has now changed its name to Mailing Systems Limited.

4.57. MSL's head office is in Croydon, with branch sales offices in London, Newbury, Birmingham, Manchester and Scotland. Its main distribution and repair centre is based in Croydon.

4.58. MSL is involved in the sale and servicing of mailroom equipment, together with the supply of associated consumables. MSL has an installed base of approximately 33,000 franking machines in the UK, of which approximately [✂] are in use. There are no R&D or manufacturing functions in the UK. MSL's main product portfolio consists of the following:

— franking machines;

— automatic feeding and sealing units;

— price computing postal scales;

— software accounting products;

— desktop folding and inserting machines;

— letter openers; and

— consumables.

4.59. MSL also offers a selection of maintenance contracts. Details of the types of maintenance and service contracts offered by MSL and of their respective costs are given in paragraphs 3.46 to 3.49 and Appendix 3.5.

4.60. The sales operation is established for direct selling to end-users across the UK with the exception of the Channel Islands, the Isle of Man and Northern Ireland where agents are used. The sales team comprises the Managing Director, Marketing Manager, Major Accounts Executive, six Area Managers and [✂] Sales Representatives. The salesforce is split into six teams, each reporting to an area manager, located in Birmingham, Croydon, Edinburgh, Islington, Manchester and Newbury. All teams receive basic salary plus incentive-based commission payments.

Carve-out process

4.61. As discussed in paragraph 4.54, AMS is a business unit that comprises the mailing systems operations of 14 separate legal entities worldwide. It was necessary to 'carve out' the mailing systems business from some legal entities that carried on other, unrelated businesses which were not part of the sale. Prior to the transaction the divisional results for AMS were captured using group reporting forms which were subject to various levels of independent scrutiny depending upon local country reporting and auditing requirements. The group reporting forms captured the divisional results for the mailing systems business, and were used as the starting point for the carve-out accounts for AMS.

4.62. PricewaterhouseCoopers (PwC) was responsible for compiling the carve-out accounts while Arthur Andersen (Andersen) performed the accounting due diligence. Andersen raised a number of points for adjustment relating to the UK, some of which were refuted by Ascom. In the end, some minor adjustments were made after agreement between the two parties.

Financial performance

Ascom group

4.63. The Ascom group consolidated income statements for the years ended 31 December 1996 to 2000 are provided at Appendix 4.5. Table 4.8 summarizes the profitability measures for the consolidated group for the years ended 31 December 1997 to 31 December 2001. (For the latest year only summary figures are currently available.)

TABLE 4.8 **Ascom Holding AG: extracts from income statement and profitability measures**

					CHF million	*£* million*
	Years ended 31 December					
	1997	*1998*	*1999*	*2000*	*2001*	*2001*
Revenue	2,948.0	2,739.0	3,062.3	3,143.4	3,143.0	1,293.2
% growth	0.2	–7.1	11.8	2.6	0.0	
Operating profit (before goodwill amortization)	112.5	102.0	135.3	79.9	–124.3	–51.1
% growth	19.6	–9.3	32.6	–40.9	N/M	
R&D expenditure	209.9	187.0	205.1	216.6	203.0	83.5
Net profit	125.0	64.5	89.8	67.2	–396.0	–162.9
Net profit excluding exceptional items	71.1†	64.5	89.8	67.2	–314.7‡	–129.5
% margin	2.4	2.4	2.9	2.1	–10.0	
% growth	427.2	–9.3	39.2	–25.2	N/M	
Average net assets	619.8	687.1	747.1	872.0	733.3	301.7
					per cent	
Financial ratios						
R&D/Revenue	7.1	6.8	6.7	6.9	6.5	
Return on sales§	3.8	3.7	4.4	2.5	N/M	
Return on average net assets¶	18.2	14.8	18.1	9.2	N/M	

Source: Ascom annual report and accounts for 1997 to 2000 and press release on the 2001 summary results.

*Based on the average exchange rate for 2001 of CHF 2.43067/£.

†Excludes a CHF 112.3 million profit on sale of Ascom Nexion.

‡Excludes ‘special items’ including restructuring costs of CHF 24.6 million, operational loss on Terminals of CHF 44.1 million, depreciation on Energy Systems stocks of CHF 30.0 million and adjustments on projects of CHF 17.4 million.

§Defined as operating profit before goodwill amortization divided by sales.

¶Defined as operating profit before goodwill amortization divided by average net assets.

Note: N/M = not meaningful.

4.64. The Ascom group’s results over the last five years have been very volatile with a severe decline in operating performance in 2000 and 2001. Ascom appears to have been hit hard by the difficult environment that faced telecommunications companies in 2000 and 2001. Revenue showed no growth in 2001, and operating profits plunged from a profit of CHF 79.9 million in 2000 to a loss of CHF 124.3 million. Contributing to this loss were a number of one-off ‘special items’, details of which are given in the third footnote of Table 4.8. As part of the Ascom group’s restructuring 1,100 job cuts were announced in June 2001 with the vast majority of these being made by 31 January 2002. Excluding these ‘special items’ operating results stood at a loss of CHF 8.2 million. The company focused on disposing of non-core businesses in 2001 to reduce its heavy debt burden. However, given the poor environment for mergers and acquisitions, the proceeds of these sales were below those originally expected. Net debt fell slightly to CHF 631 million from the peak of CHF 669 million six months earlier.

AMS

4.65. The carve-out income statements of AMS for the years ended 31 December 1998 to 2000 and for the nine-month period ended 30 September 2001 are provided at Appendix 4.6. The carve-out statements were used in producing the projections used to value AMS (see paragraph 4.99).

4.66. The percentages of AMS's sales in each of its major national markets for 2001 were as follows: UK 13.9 per cent, USA 58.0 per cent, Germany 9.8 per cent, Canada 4.1 per cent and the Rest of the World 14.2 per cent.

MSL

4.67. Table 4.9 provides an analysis of MSL's sales for the past three years. MSL's sales in the UK have been [*Details omitted. See note on page iv.*].

TABLE 4.9 **MSL sales in the UK by unit volume and value**

	Years ended 31 December								
	1999			*2000*			*2001*		
	Units	*Value £'000*	*%*	*Units*	*Value £'000*	*%*	*Units*	*Value £'000*	*%*
Equipment									
Franking machines	*Figures omitted. See note on page iv.*						*Figures omitted. See note on page iv.*		
Feeders									
Scales									
Inserters									
Letter openers									
Furniture									
Second-hand									
Other									
Maintenance									
Supplies									
TMS									
Total sales*		12,615	100.0		12,205	100.0			

Source: Ascom.

*Total sales for 2000 are £10,000 higher than Table 4.10 as the management accounts figures include a provision for a credit note.

4.68. Table 4.9 shows that nearly [✂] of MSL's total sales relate to the supply of maintenance and service contracts.

4.69. A summary of sales and gross and operating margins by business line for 1999 to 2001 is set out in Table 4.10. In contrast to Neopost Limited, MSL sells the majority of its equipment outright to customers rather than via lease. The proportion of outright sales has remained fairly constant over the last three years at around [✂] per cent. The relatively high level of outright sales reflects that historically a larger proportion of MSL's customers have purchased outright including public sector institutions which do not generally use leasing.

4.70. Gross margins represent the difference between *(a)* realized selling price and *(b)* the transfer price from Switzerland and the cost of purchasing products or spare parts from third parties. The overall margin earned by the manufacturing operations in Switzerland in 2001 was [✂] per cent, somewhat higher than the margin earned on sales to the UK of [✂] per cent.

4.71. Direct costs and marketing costs are not allocated to business lines in the management accounts. Therefore, we requested that MSL management allocate costs to arrive at an operating margin by activity for the purposes of this report. This analysis shows that MSL [✂] on equipment sales.

[*Details omitted. See note on page iv.*] The service and maintenance contracts have an operating margin of around [✄] per cent while supplies earn around [✄] per cent. [✄] operating margins at nearly [✄] per cent are earned on the remote recrediting of franking machines by TMS.

TABLE 4.10 **MSL: margin analysis**

	Years ended 31 December					
	1999		*2000*		*2001*	
	£'000	*% sales*	*£'000*	*% sales*	*£'000*	*% sales*
Sales						
Equipment—direct sales	*Figures omitted. See note on page iv.*					
Equipment—sales by lease						
Services						
Supplies						
TMS						
	£'000	*% margin*	*£'000*	*% margin*	*£'000*	*% margin*
Gross margin						
Equipment—direct sales	*Figures omitted. See note on page iv.*					
Equipment—sales by lease						
Services						
Supplies						
TMS						
Operating margin						
Equipment—direct sales						
Equipment—sales by lease						
Services						
Supplies						
TMS						

Source: MSL management accounts.

4.72. ASL provides lessor financing for all leased sales by MSL. The vast majority of leases are written over five or six years. Payment frequency is typically quarterly via direct debit. Upon the initiation of a lease, ASL pays MSL the full sales value of the machine sold and then recognizes the corresponding long-term finance receivable.

4.73. Table 4.11 shows the revenue and operating profit for ASL from 1999 to 2001. ASL's activities include leasing/renting company cars operated by Ascom UK Limited (Ascom's main operating subsidiary in the UK, which carries on non-mailing business) and MSL, as well as leasing/renting franking machines. The APR yield implicit in the standard lease contract varies from [✄] per cent over two years to [✄] per cent over six years. These rates are considerably higher than most consumer credit card rates. An analysis of the financing costs associated with leasing various sizes of machines over various lease terms is set out in Appendix 3.8.

TABLE 4.11 **Ascom Leasing Limited**

£'000

	Years ended 31 December		
	1999	*2000*	*2001*
Turnover	920	1,171	✄
% growth	N/A	27.3	
Operating profit	694	700	
% margin	75.4	59.8	
Net income	352	209	
% margin	38.3	17.8	

Source: ASL statutory accounts.

Note: N/A = not applicable.

Financial position

Ascom group

4.74. The Ascom group consolidated balance sheets for the years ended 31 December 1996 to 2000 are provided at Appendix 4.7. Table 4.12 provides summarized consolidated balance sheets together with some selected financial ratios for the years ended 31 December 1997 to 31 December 2001. (For the latest year only summary figures are currently available.)

TABLE 4.12 **Ascom Holding AG: summarized consolidated balance sheet and financial ratios**

					CHF million	*£* million*
	Years ended 31 December					
	1997	*1998*	*1999*	*2000*	*2001*	*2001*
Fixed assets	705.1	726.9	771.9	691.6	778.0	320.4
Current assets	1,617.8	1,490.1	1,647.5	1,780.1	1,704.0	701.8
Current liabilities	1,335.7	1,147.3	1,098.6	1,271.8	1,465.0	603.4
Total debt	615.8	604.7	676.1	622.2	782.0	322.1
Cash	265.4	167.3	158.4	158.7	151.0	62.2
Shareholders' equity	671.3	702.8	791.4	952.5	514.0	211.7
Earnings before interest and tax	193.0	107.0	126.7	75.1	–338.3	–139.3
Interest expense	40.8	34.0	33.8	31.8	46.0	18.9
Financial ratios						
Interest cover (times)†	4.73	3.15	3.75	2.36	N/M	
Quick ratio‡	0.80	0.81	0.98	0.85	0.97	
Current ratio§	1.21	1.30	1.50	1.40	1.16	
Gearing (%)¶	47.8	46.2	46.1	39.5	60.3	
Net debt/EBITDA (times)¤	1.40	1.96	1.98	2.18	5.54	

Source: Ascom annual report and accounts for 1997 to 2000 and press release on the 2001 summary results.

*Based on the closing exchange rate on 31 December 2001 of CHF 2.4279/£.
†Defined as earnings before interest and tax divided by interest expense.
‡Defined as current assets less inventory divided by current liabilities.
§Defined as current assets divided by current liabilities.
¶Defined as total debt / (total debt + shareholders' equity).
¤Defined as (total debt – cash) / earnings before interest, tax, depreciation and goodwill amortization (EBITDA).
Note: N/M = not meaningful.

4.75. The Ascom group's general liquidity position has significantly worsened in 2001: its current ratio has fallen from 1.4 to 1.16. Net debt increased significantly in 2001 to CHF 631.1 million having peaked at CHF 669.0 million in July 2001. Gearing has risen to 60.3 per cent in 2001 from 39.5 per cent in 2000, and net debt is now almost six times EBITDA.

AMS

4.76. The carve-out balance sheets of AMS for the 12 months ended 31 December 1998 to 2000 and for the nine-month period to 30 September 2001 are provided at Appendix 4.8.

4.77. The appendix shows that gearing as at 30 September 2001 was [✄] per cent. Ascom told us that debt included in the AMS balance sheet was an aggregation of the debt that existed in the legal entities being sold via a share purchase at the time the accounts were drawn up. This debt reflected the historic intra-group borrowings from other companies in the Ascom group. No additional debt was allocated as part of the sale process.

Research and development

4.78. Table 4.13 details the R&D expenditure by AMS by major project for 1998 to 2001. It shows that R&D expenditure as a percentage of sales grew from [✄] per cent in 1998 to [✄] per cent in 2000, but declined in 2001 to [✄] per cent of sales.

TABLE 4.13 **AMS: R&D expenditure**

				CHF '000	*£ '000*
		Years ended 31 December			
	1998	*1999*	*2000*	*2001*	*2001*
Tele-meter setting					
Plus					
DPFM					
Open systems					
IP management					
Miscellaneous		*Figures omitted. See note on page iv.*			
R&D at Shelton, USA					
Total R&D cost					
Revenue					
R&D/revenue (%)					

Source: Ascom.

4.79. A brief description of the projects set out in Table 4.13 is given below:

(a) *Tele-meter setting* refers to projects relating to AMS's system for the remote transfer of funds to franking machines. [*Details omitted. See note on page iv.*]

(b) *Plus* refers to a project to develop enhancements to the Plus meter, used with rotary printing franking machines.

(c) *DPFM* refers to a variety of projects relating to the development of digital printing franking machines—PowerPost, InteliPost and Postlink—and [*Details omitted. See note on page iv.*].

(d) *Open systems* refers to a project to develop PC-based applications [*Details omitted. See note on page iv.*].

(e) *IP management* refers to all projects and activities related to IPRs.

(f) *R&D at Shelton* refers to costs incurred by the R&D team of Ascom Hasler Mailing Systems Inc based in Shelton, USA, in relation to [*Details omitted. See note on page iv.*].

4.80. AMS entered into an R&D partnership with Secap (subsequently acquired by Pitney Bowes) in April 1997. Ascom told us that the R&D agreement was originally intended to create a range of digital franking machines. Eventually, due to fundamental disagreements about what the nature of the higher-volume machines should be, the agreement was amended to encompass only the development of the low- to mid-volume machines that are now known as the InteliPost. The main terms of the agreement were as follows:

Details omitted. See note on page iv.

4.81. Ascom told us that the project had been [✂] over budget in terms of time, project cost and product cost. The actual product cost was more than [✂] per cent higher than the original target. [

Details omitted. See note on page iv.

]

The merger

Events leading to the sale of AMS

4.82. Ascom began conducting a review of all its business units, including AMS, and of its future strategy in the spring of 1999, with the assistance of Arthur D Little. Following a reorganization of the senior management team at Ascom, including the appointment of a new Chairman in May 2000, Ascom undertook a further review of the future strategy of the group as a whole. The board of directors of Ascom accepted a new strategy proposal, which contemplated focusing on core businesses and divesting non-core businesses, including AMS, on 28 August 2000.

4.83. Following the decision to divest non-core businesses, Ascom decided to reduce funding to such businesses including AMS. Prior to and since that decision, AMS has struggled to adapt to an important shift to digital technology and the resulting need to change significantly the competence profile of its R&D team. That exercise took more time than anticipated and cost more money than budgeted for.

4.84. Given the limited resources available, and the unwillingness of Ascom to invest further in the business, AMS had to focus its R&D efforts on creating the infrastructure necessary to develop and bring to market a new generation of digital franking machines in an attempt to retain its existing customer base.

4.85. Due to a lack of resources, AMS's ambitions to widen the product range and/or the market segments addressed had to be postponed or abandoned. In particular, AMS had to limit its new product range to three models, none of which has yet been launched in the UK, and had to postpone plans to introduce a mid-range machine and to enter the parcel business.

4.86. In early September 2000, senior members of AMS's management team began exploratory talks with their counterparts at Francotyp and representatives from its parent company, [

Details omitted. See note on page iv.

].

4.87. Following this, Ascom decided to launch a private auction process in order to divest AMS. HSBC Investment Bank contacted potential bidders in July 2001. They were sent an information memorandum (dated 9 July 2001) and were offered access to a data room. In early August 2001, HSBC Investment Bank received indicative offers on behalf of Ascom. Apart from Neopost, three other parties were formally invited to make an offer to acquire AMS as part of the auction process. All, apart from Neopost, were financial bidders that intended, in conjunction with AMS's existing management team, to undertake a management buyout of AMS, using a mixture of private equity and debt finance. The financial bidders for AMS were: [✂] (which did not make an offer); [✂] (which made an offer in the form of an outline letter only); and [✂] (which made the highest indicative offer).

4.88. Apart from Neopost, other potential strategic buyers would include [✂] and [✂]. Ascom told us that in the summer of 2001 the Managing Director of [✂] made enquiries to AMS regarding its future having heard that Ascom intended to sell the AMS business. At that point AMS indicated that it hoped to complete a management buyout. In early September 2001, [✂] wrote to Ascom requesting information about the sale of AMS with a view to exploring the possibility of acquiring it. However, on 17 August 2001, Neopost had been granted a period of exclusivity. Additionally, Ascom considered that a merger of AMS with [✂] would not offer the synergies and other benefits offered by a merger with Neopost. Accordingly, in October 2001 Ascom communicated its decision to PFE that it did not want to provide it with further details.

4.89. Ascom told us that in the autumn of 2001 the Head of Financial Services of Ascom Management AG in Switzerland had discussions with [✂]. At that point [✂] expressed an interest in obtaining further information with a view to becoming involved in the auction process. However, based on indications of the likely price Ascom was hoping to achieve for AMS, [✂] ceased any further discussions.

4.90. Although [✂], one of the financial bidders, made the highest indicative offer of CHF [✂] million, it was not granted a period of exclusivity by Ascom. Ascom's reasons for this were based on a general assessment that a financial bidder was inferior to a strategic bidder. This assessment was due to following factors:

(a) [✂] bid relied to a large extent on debt financing from banks. Ascom felt that banks would have had concerns [*Details omitted. See note on page iv.*]. There were also concerns regarding the effect of Ascom's existing licensing arrangements with Pitney Bowes.

(b) Given the high proportion of debt finance, AMS would have had to bear high fixed-cost repayment obligations. AMS's management team was unwilling to bear, or to impose on AMS, repayment obligations at the levels contemplated.

(c) [✂] did not have a sufficiently in-depth understanding of the mailing industry and management felt that if [✂] were given exclusivity to carry out further due diligence, it would have been likely to reduce its indicative offer significantly.

(d) [✂], as with other financial bidders, did not offer the synergies offered by Neopost. As such, Ascom felt that AMS's future position in the market would be weakened.

4.91. Neopost submitted the next highest indicative offer at CHF 350 million. In negotiation with Ascom, Neopost agreed to raise its offer by about [✂] per cent. Based on this revised offer and Ascom's assessment of the likely success of completion, Neopost was granted a period of exclusivity on 17 August 2002 and granted access to a data room. This led to the signing of the PASA and the announcement on 2 October 2001 (see paragraphs 4.3 and 4.4).

4.92. Neopost told us that prior to being granted a period of exclusivity it discussed with AMS [

Details omitted. See note on page iv.

].

4.93. On 28 February 2002, Ascom completed the sale to Neopost of the distribution businesses of AMS in North America. The consideration paid for this part of the business amounted to €132 million (£80.5 million). Because regulatory clearance had been granted in the USA and was not required in Canada, the parties were permitted to proceed with this sale. The reason for this sale being made in advance of the rest of the transaction was to alleviate Ascom's pressing short-term cash needs as well as to begin realizing some of the expected synergies of the combined company. Neopost told us that the sale would not affect the AMS business in the UK or elsewhere in Europe: the parties would not transfer the AMS businesses outside North America, including their manufacturing and central R&D functions, until after the conclusion of our inquiry. The principal objectives of the overall transaction—achieving global R&D and distribution synergies, and competing more effectively against Pitney Bowes—could not be realized until the overall transaction was completed.

Purchase and sale agreement

4.94. The PASA provides for a combination of assets and share purchases broadly along geographic lines as follows:

Assets	*Shares*
Switzerland	USA
Austria	Germany
Belgium	UK
Italy	Netherlands
Spain	Australia
	Japan

4.95. The total base consideration payable under the PASA was €240 million (£149 million), which is adjusted as follows:

(a) adjustment for 'net asset value variation' and 'net financial indebtedness variation' between 31 December 2000 and 30 September 2001, and 'working capital variation' and 'net financial indebtedness variation' between 30 September 2001 and closing; and

(b) maximum adjustment of CHF [✄] million (£[✄] million) for the carve-out of Better Packages (USA) Ltd.

4.96. The parties have subsequently agreed a revised base consideration of €[✄] million (£[✄] million[1]). This figure represents the impact of the 'net asset value variation' adjustment described in *(a)* as well as negotiations that took place between the parties. Ascom also accepted US pension liabilities of approximately $[✄] million.

Shared service agreements

4.97. Within certain countries, the relevant Ascom local subsidiary will supply a range of services to the Neopost transferee entity during a temporary period under the terms of certain shared service agreements. Neopost told us that it expected these agreements to last for approximately [✄] months. These agreements relate to operations in Switzerland, Belgium, Austria, Italy and the UK, and provide for the supply of various services including all or part of:

(a) the leasing of premises and premises maintenance management (electricity, water etc);

(b) accounting management;

(c) information systems, leasing and management;

(d) storage space and management; and

(e) payroll management.

Distribution agreements

4.98. [

Details omitted. See note on page iv.

]

[1]Based on an average exchange rate for 2001 of €1.60905/£.

Justification for the price paid

4.99. Schroder Salomon Smith Barney (SSSB) performed the initial valuation of the AMS business for Neopost for the purposes of the indicative bid as described in paragraph 4.91. SSSB reviewed the financial projections presented in the information memorandum, the carve-out accounts and the individual country business plans. It adopted a country-by-country approach in building its financial projections, focusing the analysis on the four largest countries by revenue (the USA, Germany, the UK and Switzerland) and consolidating all other countries as a residual category.

4.100. SSSB's projections of the AMS business differed substantially from Ascom's projections of the AMS business as presented in the information memorandum compiled by HSBC Investment Bank. SSSB modified operating assumptions, generally applying more conservative assumptions to individual country business plans. Additionally, SSSB adjusted single country business plans for a number of known factors. These included the elimination of the Better Packaging division contribution in the USA and the UK and the elimination of the revenue contribution in 2001 of Secap. By 2004, the difference in revenues was substantial at CHF [✂] million. Appendix 4.9 sets out the AMS projections as compiled by SSSB.

4.101. There was little in the way of comparable companies and transactions to act as a reference point for this acquisition. The only publicly quoted companies in the mailing equipment industry other than Ascom are Neopost and Pitney Bowes. Similarly, the only other recent comparable transaction is Pitney Bowes' acquisition of Secap in France. Table 4.14 provides a summary of the enterprise value (EV) multiples of the comparable companies and transactions.

TABLE 4.14 **Comparable companies and transactions**

	EV/revenue		*EV/EBITDA*	
	2000	*2001*	*2000*	*2001*
Pitney Bowes	*Figures omitted. See note on page iv.*			
Neopost				
Secap				

Source: SSSB valuation analysis.

Note: N/M = not meaningful.

4.102. The discounted cash-flow model was the primary methodology used to value the AMS business. Based on SSSB's projections of the AMS business (as set out in Appendix 4.9), a mid-range weighted average cost of capital of [✂] per cent and a terminal EBITDA multiple of [✂] times, an enterprise value of around CHF [✂] million or €[✂] million emerged.

4.103. The acquisition price initially agreed upon for the AMS business was €240.0 million. Neopost told us that this represented approximately a [✂] per cent increase from its initial offer. An enterprise value of €240 million represents 1.4 times AMS 2000 revenues and 6.8 times 2000 EBITDA, and 1.2 times AMS 2001 revenue and 5.5 times 2001 EBITDA.

Synergies

4.104. Neopost has identified synergies that it estimates will lead to annual cost savings and revenue enhancement of €[✂] million by 2004 as follows:

Reduction in R&D expenditure	✂
Economies from increased manufacturing volumes	
Single management and back office structure in all countries	
Reduction in AMS total selling, general and admin expense	
Additional leasing	
Total	

4.105. Synergies are expected to be realized in the following years: €[✂] million in 2002, €[✂] million in 2003 and €[✂] million from 2004 onwards.

Funding of the acquisition

4.106. [

Details omitted. See note on page iv.

]

Effect of the merger

4.107. The pro-forma merged income statements for 2001 to 2004 are provided at Appendix 4.10.