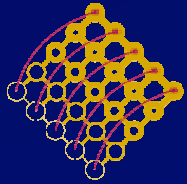


# Creating Enterprise Value through Equity Alliances

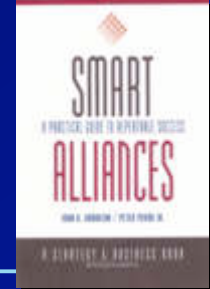
**ASAP Summit  
Seattle, Washington**

**John Harbison  
Smart Alliance Partners**

**October 29, 2003**



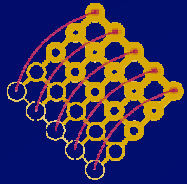
## Copy of this Presentation Available at SmartAlliancePartners.com



- Viewpoints
- Articles
- Links
- Charts
- Best Selling Alliance Books
- Forum
- Etc.



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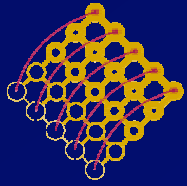


# Agenda

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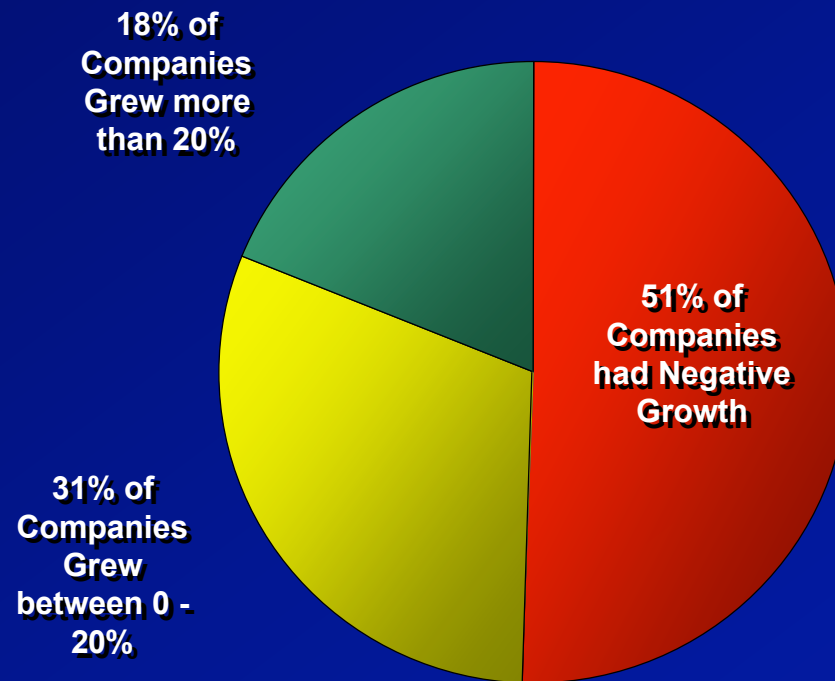
- Alliances as Growth AND Profitability Engine
- Emerging Role of Equity Alliances
- Equity Alliances vs Acquisitions
- Conclusions





# Over 50% of Fortune 500 Companies Are Shrinking, not Growing

## REVENUE GROWTH OF FORTUNE 500 2000-2002

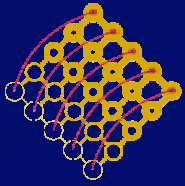


**Source: Smart Alliance Partners**



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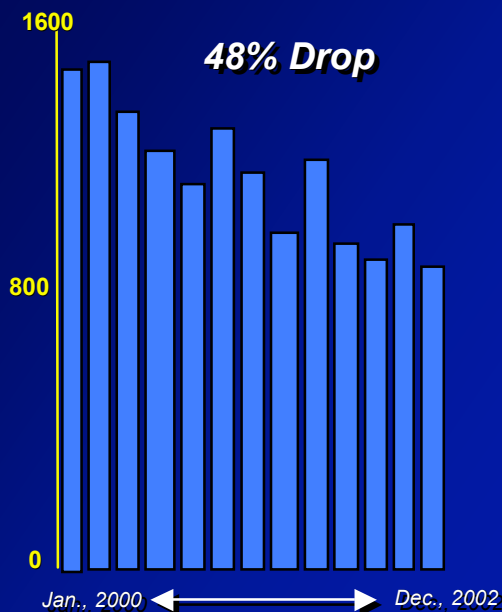




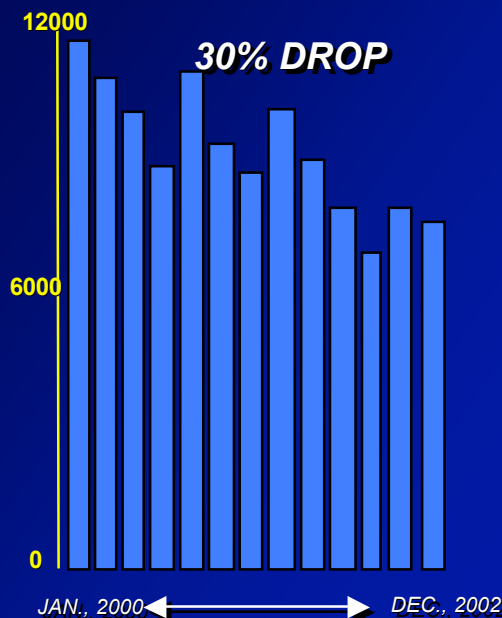
# Investors Recognize this Growth Problem

## STOCK MARKET PERFORMANCE

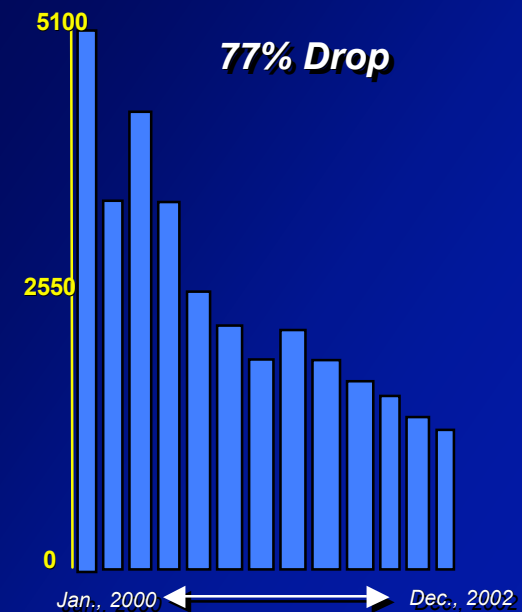
**S&P Collapse**  
(2000-2002)



**DJ COLLAPSE**  
(2000-2002)



**NASDAQ Collapse**  
(2000-2002)



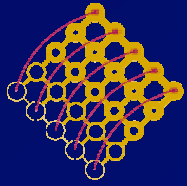
**OVER \$7 TRILLION\* DOLLARS OF SHAREHOLDER WEALTH  
HAS EVAPORATED BETWEEN 2000-2002**

\*: Fortune March 31, 2003

Source: Smart Alliance Partners



© 2003 Smart Alliance Partners



# High Growth Companies are More Alliance-Intensive

## GROWTH TRAJECTORY

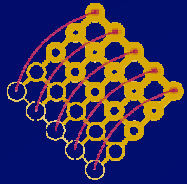


\* Avg. alliances per Fortune 500 co. (Sample over 4,000 non E-Commerce alliances (1995-2002))

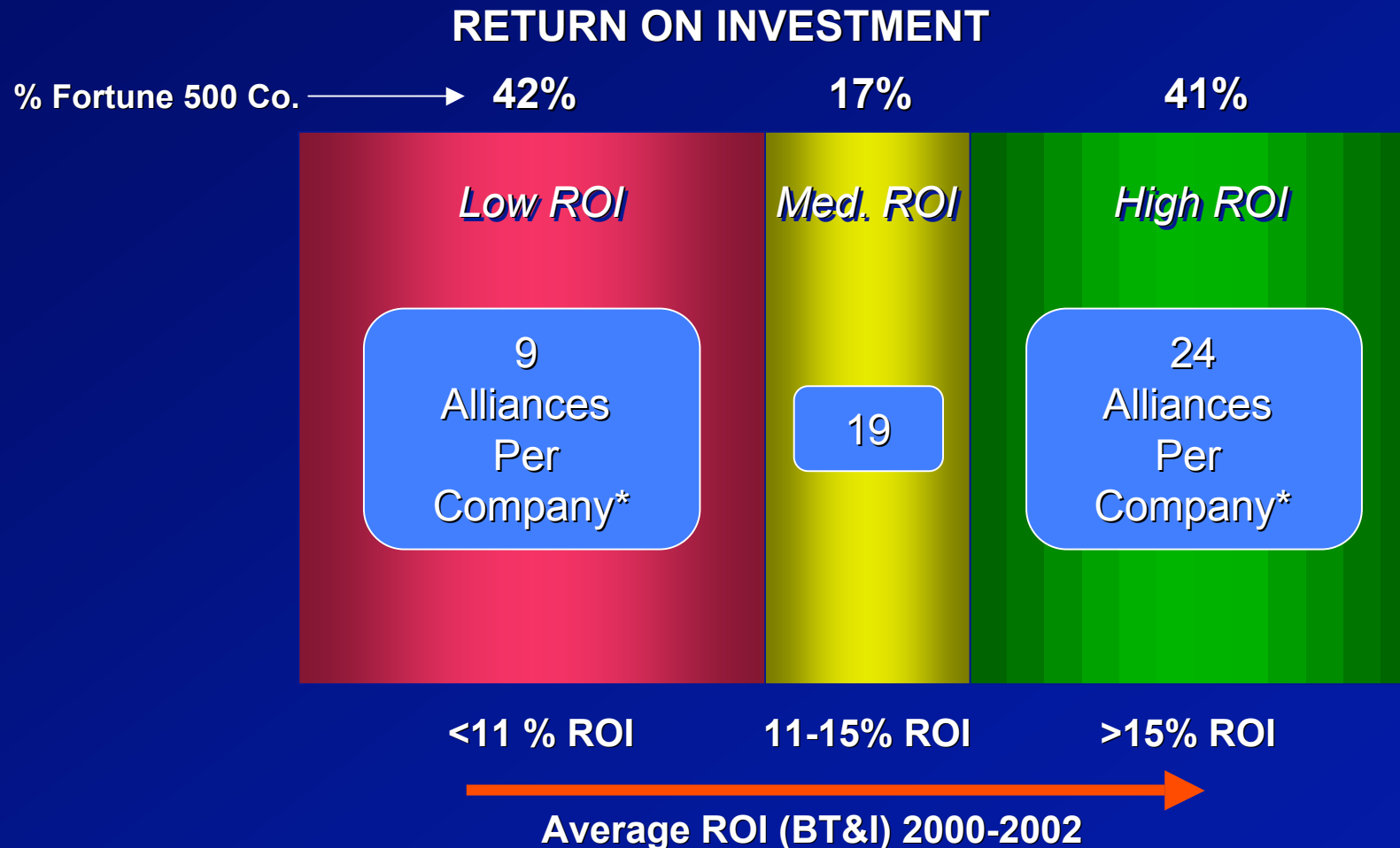
Source: Smart Alliance Partners



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# Also High ROI Companies are More Alliance-Intensive

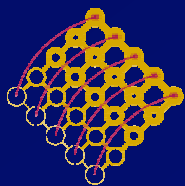


\* Avg. alliances per Fortune 500 co. (Sample over 4,000 non E-Commerce alliances (1995-2002))

Source: Smart Alliance Partners

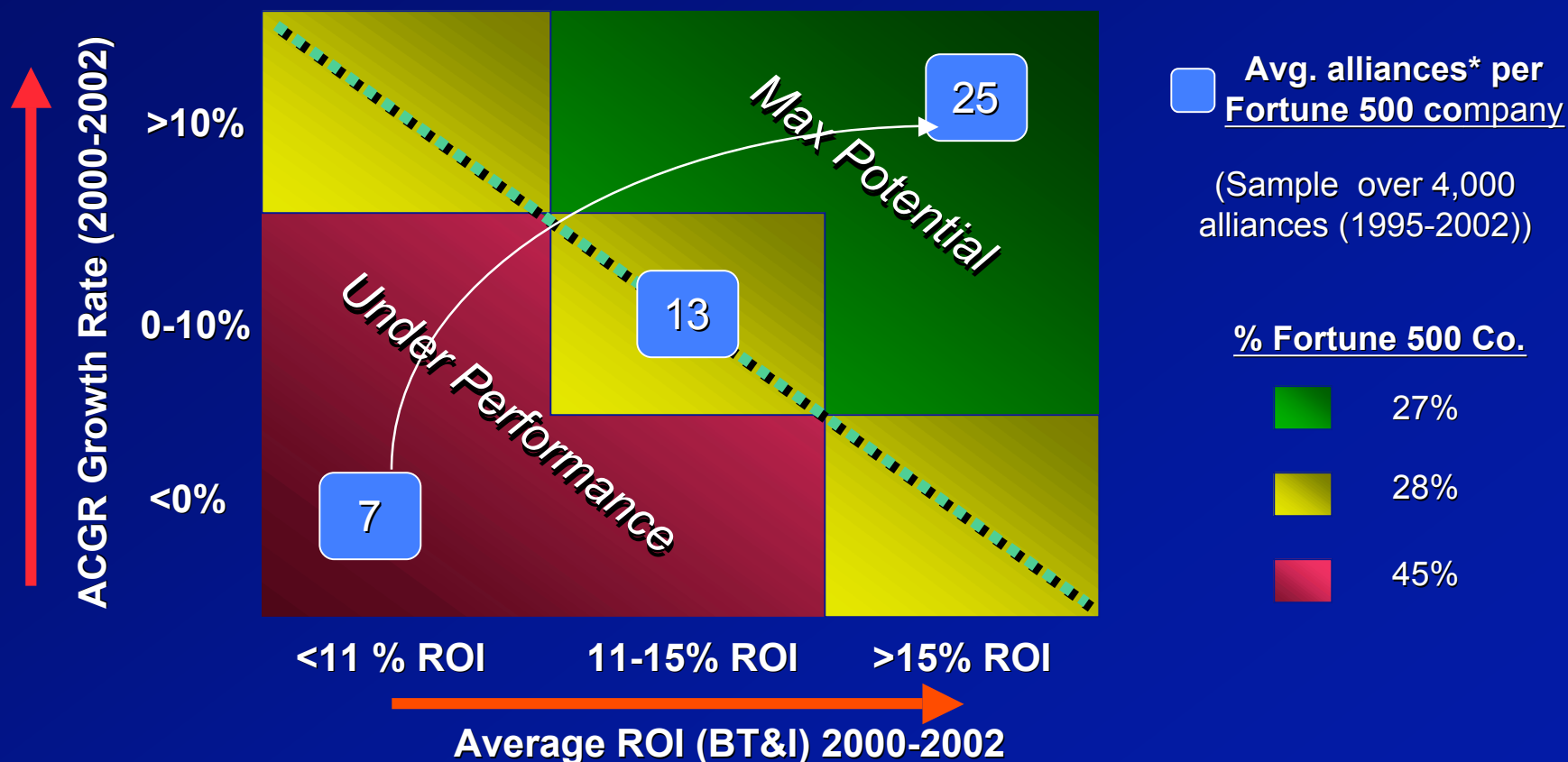


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# Alliances Yield Superior Growth & Profitability Without Tradeoffs

## GROWTH TRAJECTORY VS. ROI ATTRACTIVENESS

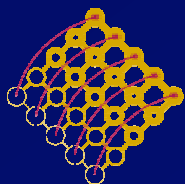


\* Avg. alliances per Fortune 500 co. (Sample over 4,000 non E-Commerce alliances (1995-2002))

Source: Smart Alliance Partners



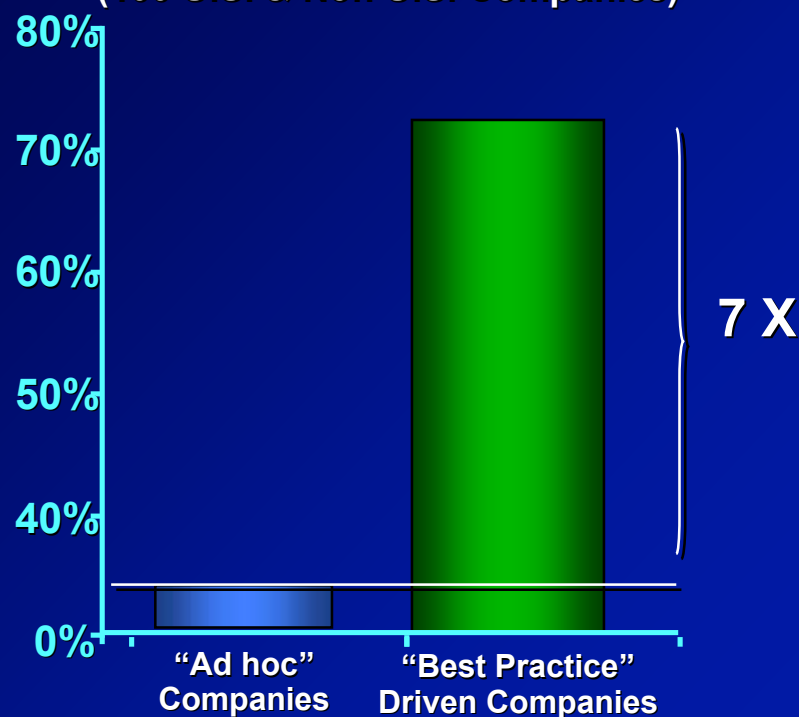
© 2003 Smart Alliance Partners



# “Best Practice” Driven Alliance Companies Outperform

## ALLIANCE SUCCESS RATES

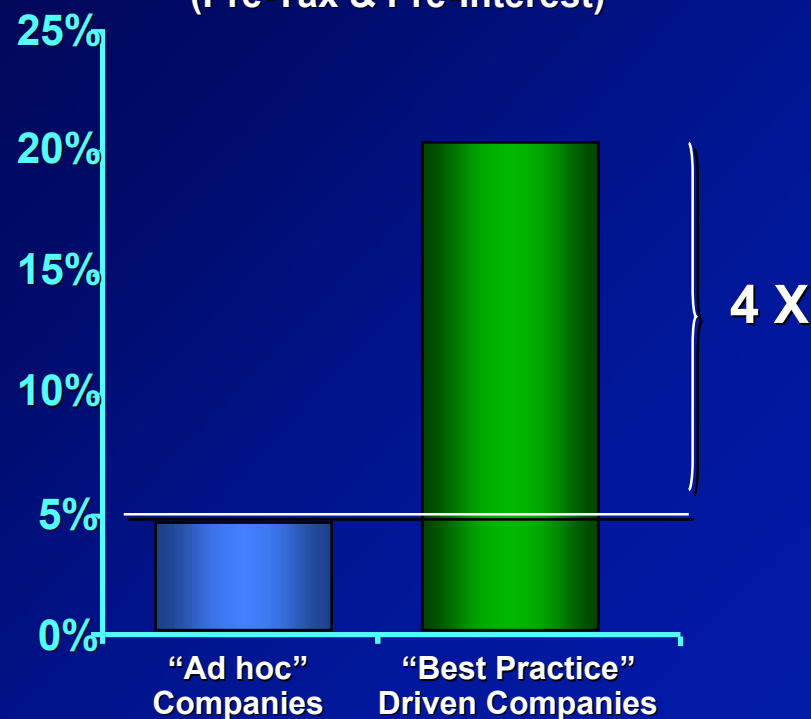
(100 U.S. & Non U.S. Companies)



Source: Booz•Allen & Hamilton/Smart Alliance Partners

## AVERAGE ALLIANCE ROI

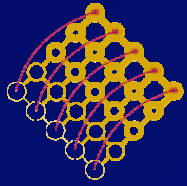
(Pre-Tax & Pre-Interest)



Source: BA&H/Smart Alliance Partners  
1998 to 2000 survey of 2500 alliances

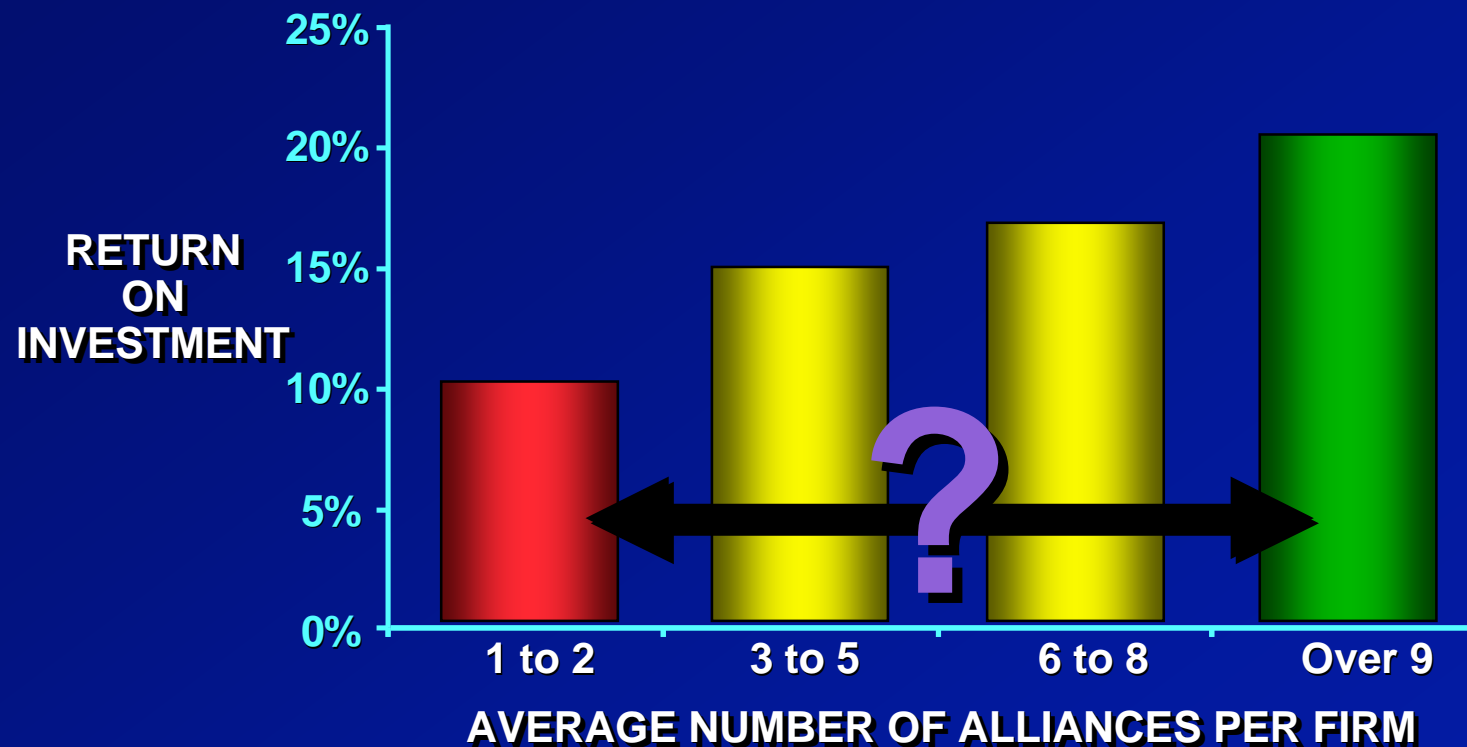


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# What Causes Experienced Firms to Capture More Profits in Alliances?

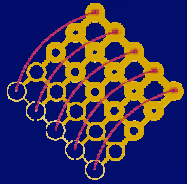
## ROI VERSUS ALLIANCE EXPERIENCE



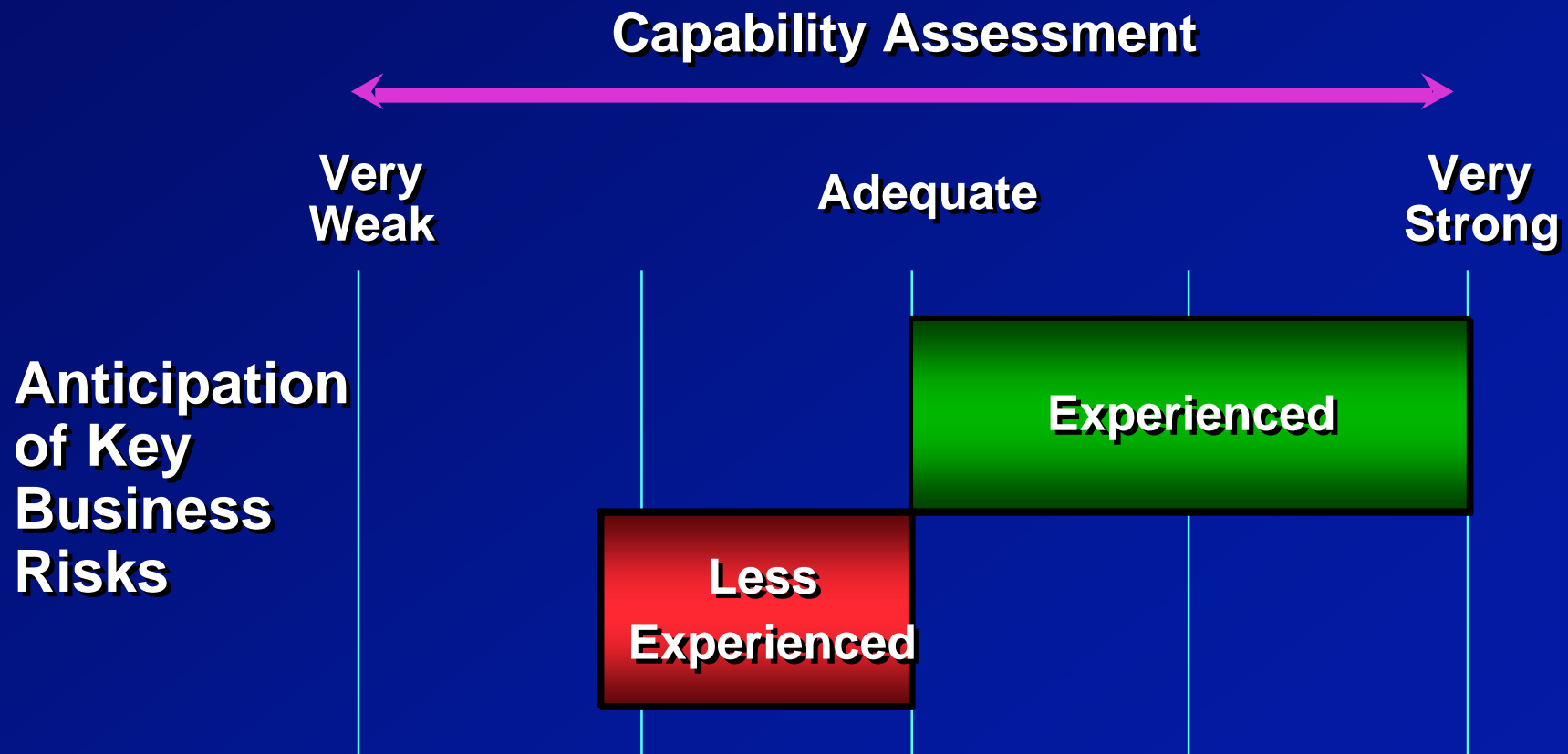
Source: 1989 to 1993 BA&H survey of 2500 alliances





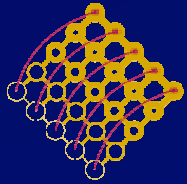


# Best Practices: Key Success Factors

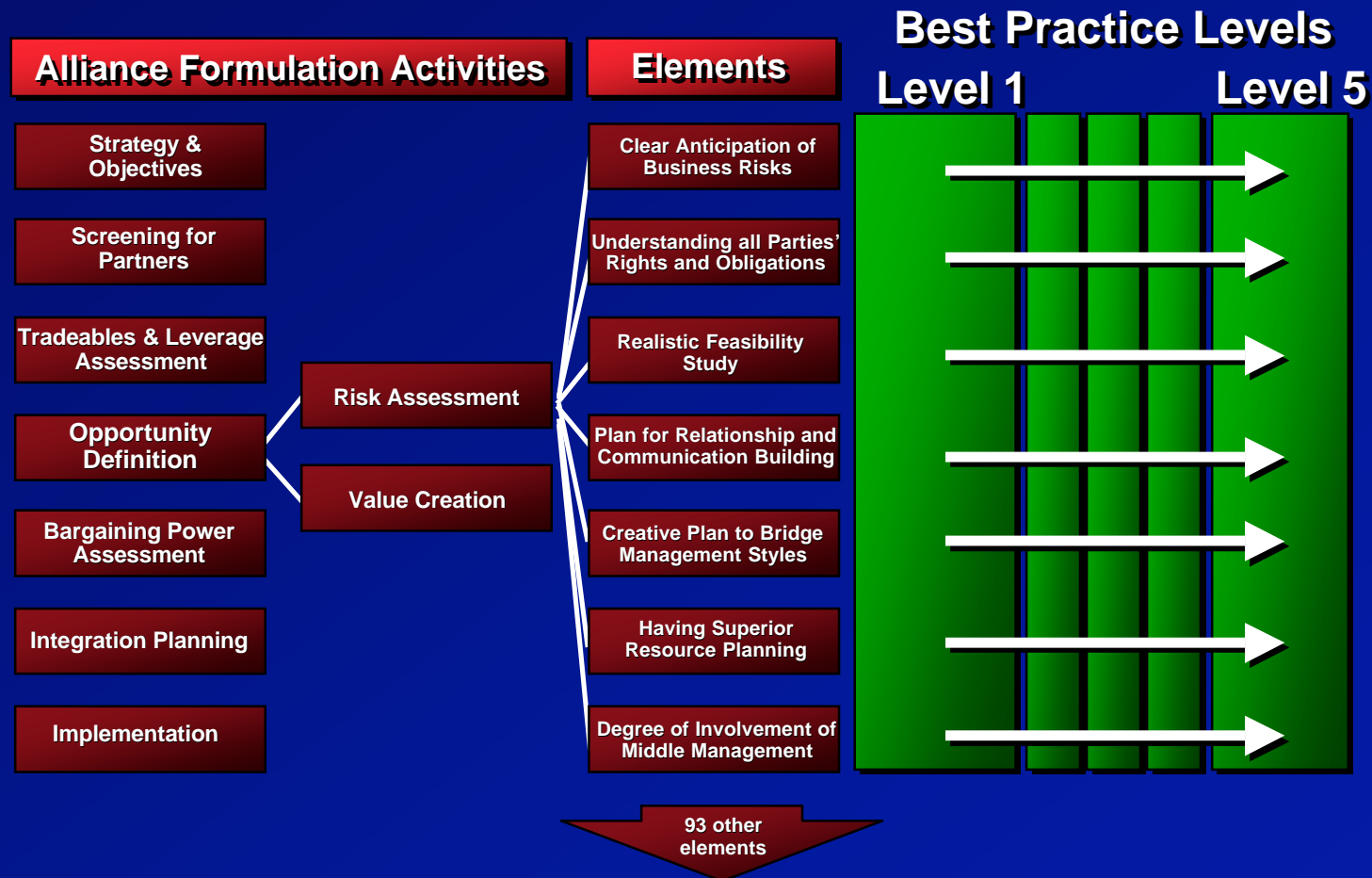


*Source: 1989 to 1993 BA&H survey of 2500 alliances*



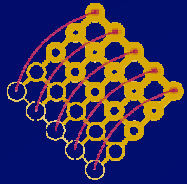


# 100 Best Practice Diagnostic Elements



Source: BA&H





## Next

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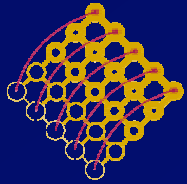
- Alliances as Growth AND Profitability Engine

- Emerging Role of Equity Alliances

- Equity Alliances vs Acquisitions

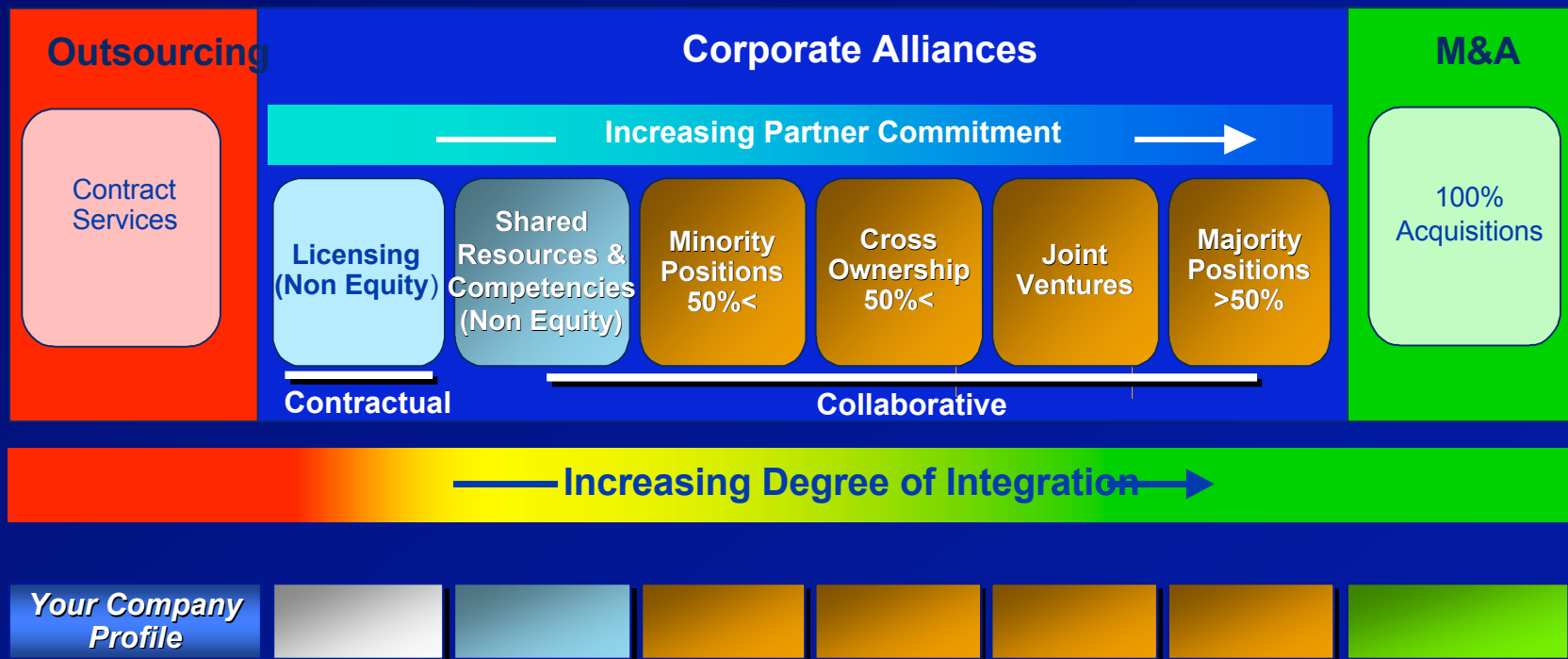
- Conclusions





# Equity Alliances Variations

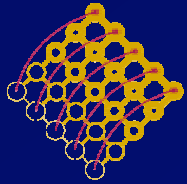
## CONTINUUM OF TRANSACTION TYPES



Source: Smart Alliance Partners

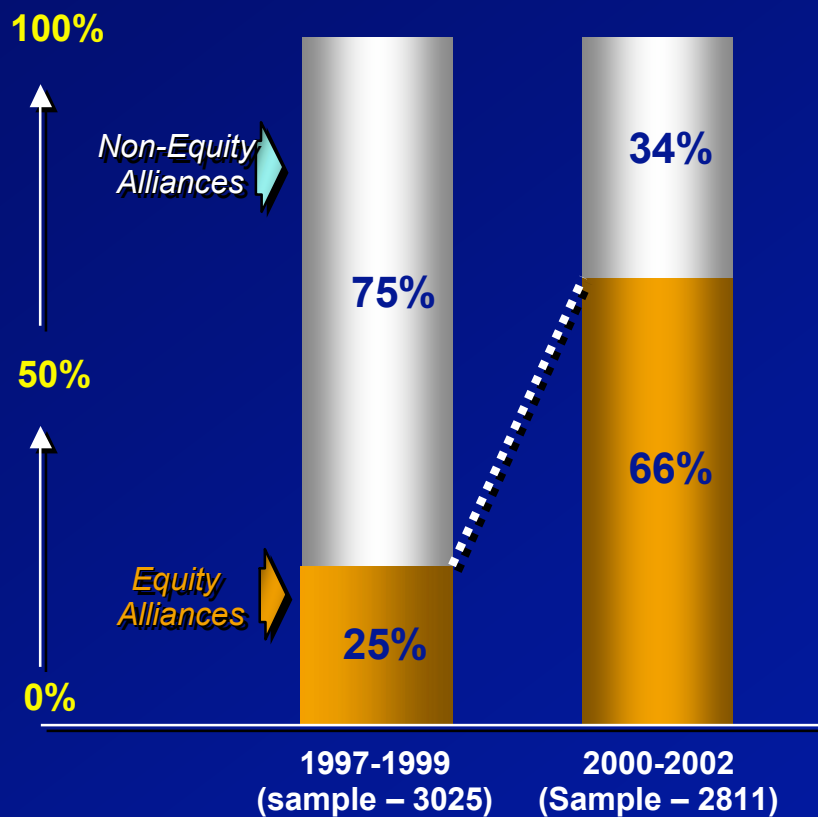


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# Equity Alliances Are Taking Center Stage

## MIX OF EQUITY VS. NON-EQUITY PUBLICLY ANNOUNCED ALLIANCES



### Sample - Companies

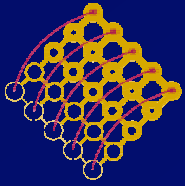
	No.	% Equity
• AT&T	124	41%
• Boeing	22	50%
• British Telecom	77	74%
• Daimler	131	66%
• DuPont	31	81%
• Exxon Mobil	80	89%
• Ford/Volvo	74	77%
• France Telecom	97	69%
• General Electric	721	69%
• Hitachi	47	74%
• HP/Compaq	104	52%
• Intel	61	44%
• Microsoft	170	43%
• Philips	46	65%
• Royal Dutch Shell	53	83%
• Siemens	48	54%
• Sony	59	53%
• Toshiba	53	60%

\* (Publicly Announced non-Internet Alliances) 1995-2002

Source: HLHZ, Smart Alliance Partners

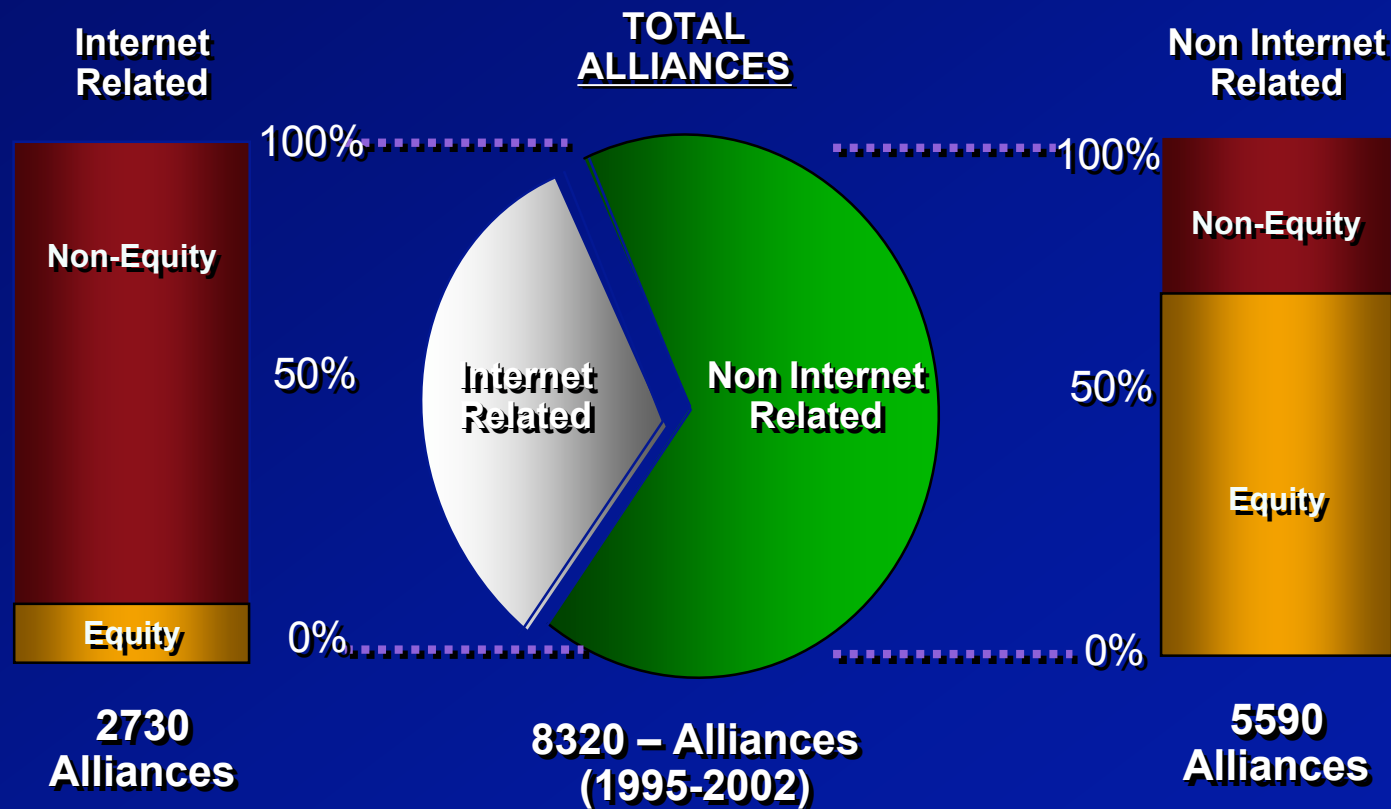


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# Most Publicly Announced Equity Alliances are Non Internet Related

## MIX OF EQUITY VS. NON-EQUITY ALLIANCES

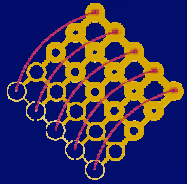


Source: HLHZ, Smart Alliance Partners



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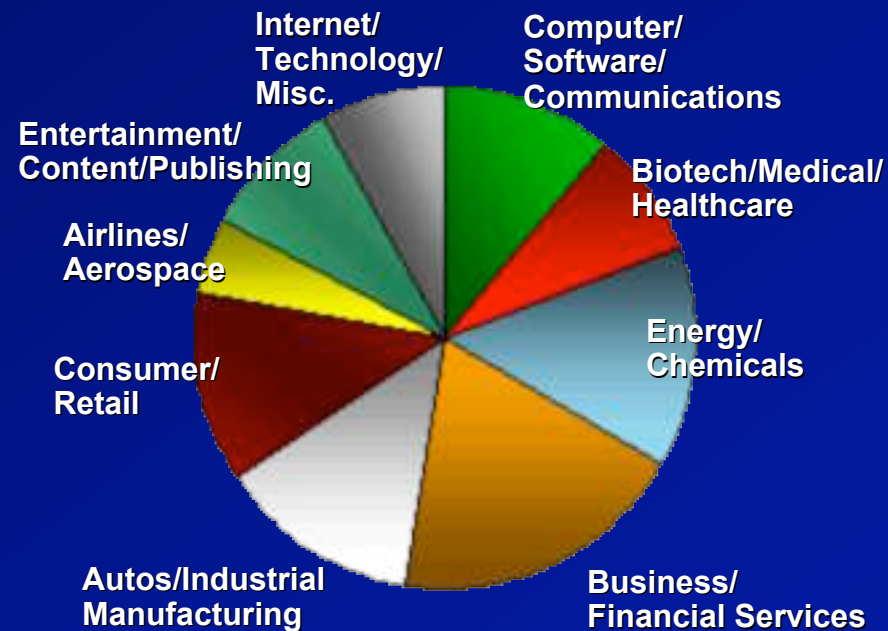


# Equity Alliances Are Impacting All Industries

## GLOBAL EQUITY ALLIANCE MIX BY INDUSTRY

2000-2002

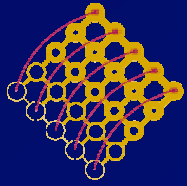
1690 Alliances



**Source: Sample of publicly announced equity alliances, HLHZ, Smart Alliance Partners**

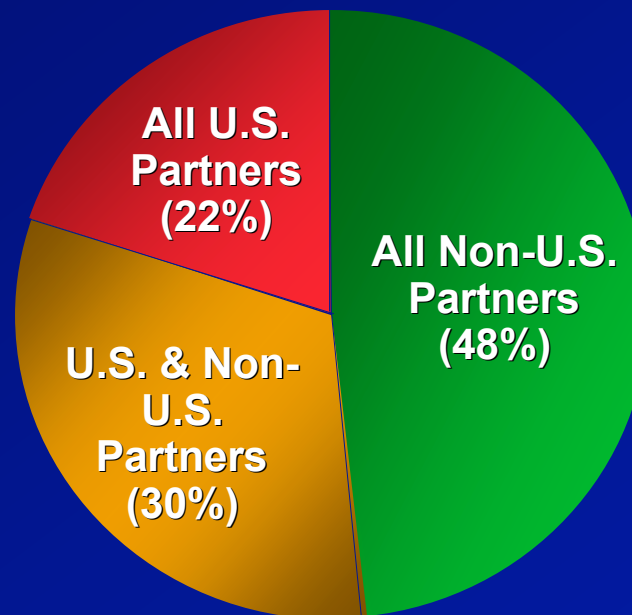


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# Foreign Companies Participate in Nearly 80% of all Equity Alliances

## EQUITY PARTNER MIX BY COUNTRY

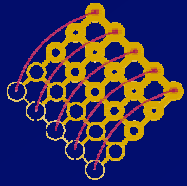


*Sample: 3900 publicly announced equity alliances  
(1995-2002)*

**Source: HLHZ, Smart Alliance Partners**

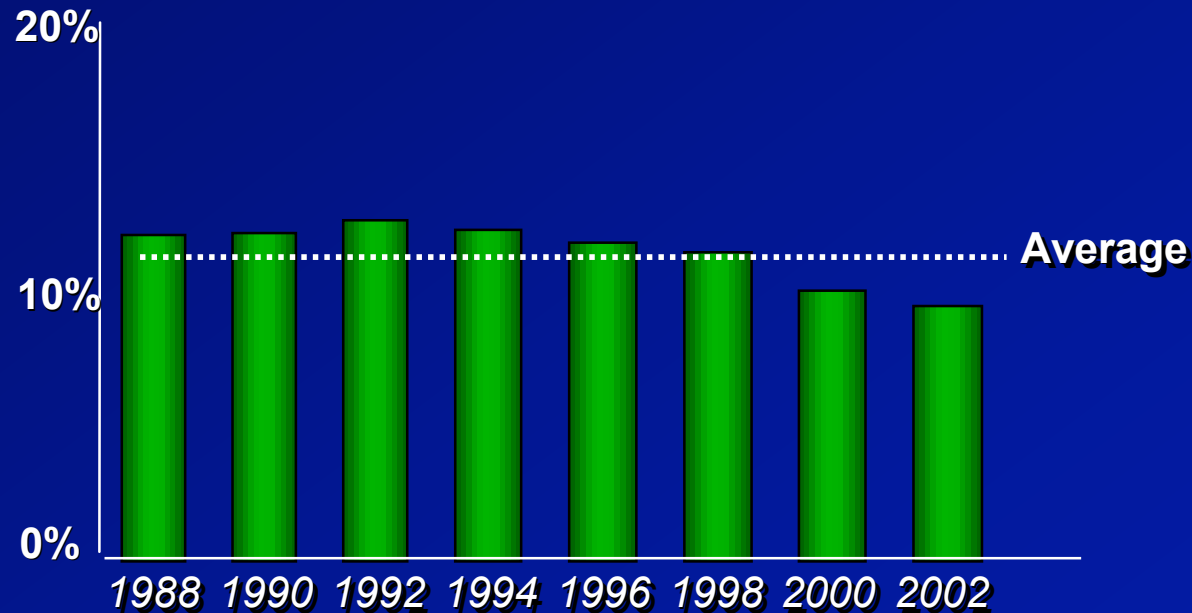


© 2003 Smart Alliance Partners



# Japanese Have Used Cross-Corporate Alliances for Decades

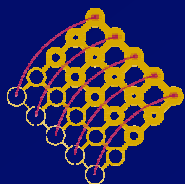
**CROSS-SHARE HOLDINGS AS % OF ALL JAPANESE LISTED SHARES  
(1998-2002)**



**Source: NLI Research Institute, HLHZ, Smart Alliance Partners**

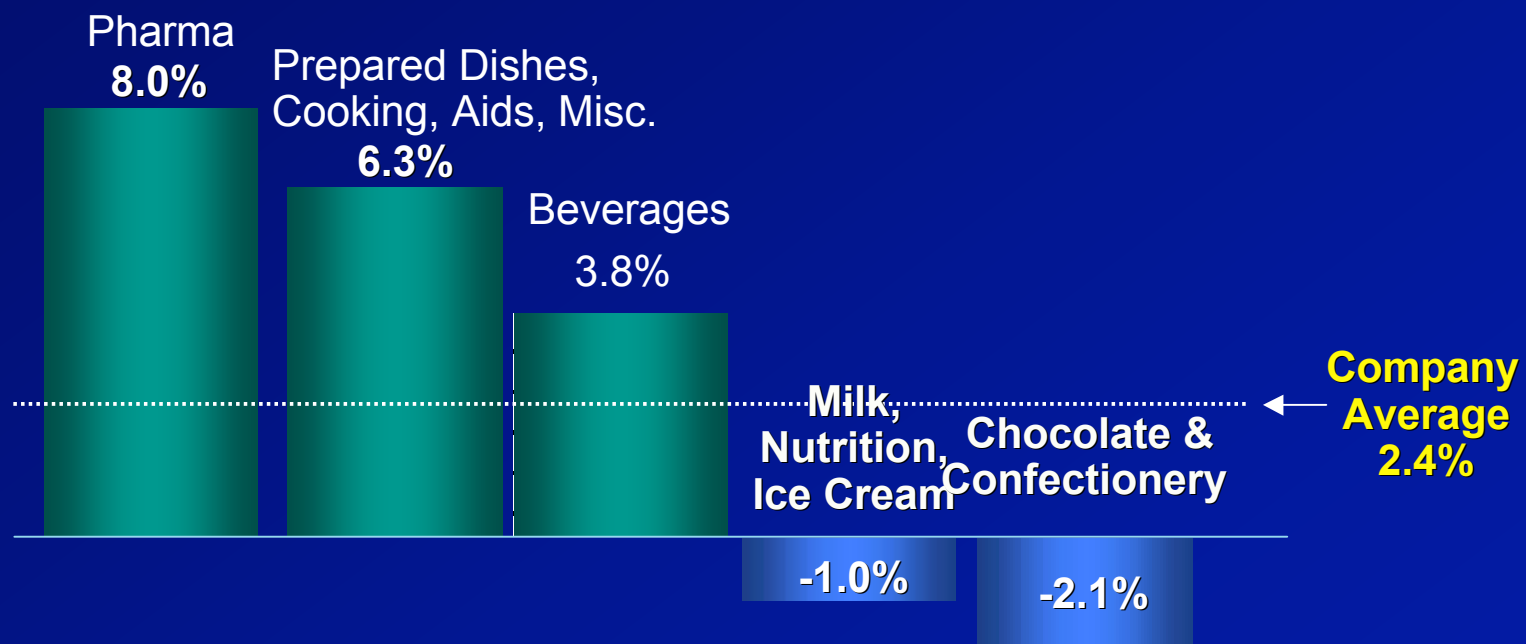


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# Nestlé's Ice Cream & Confectionary Business--Drag on Growth

## NESTLÉ DIVISIONAL SALES GROWTH (1997-1998)



Sales 98

\$3B

\$13B

\$14B

\$13B

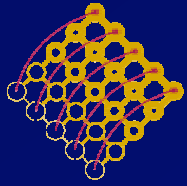
\$7B

\$50B

Source: Company Reports 1998

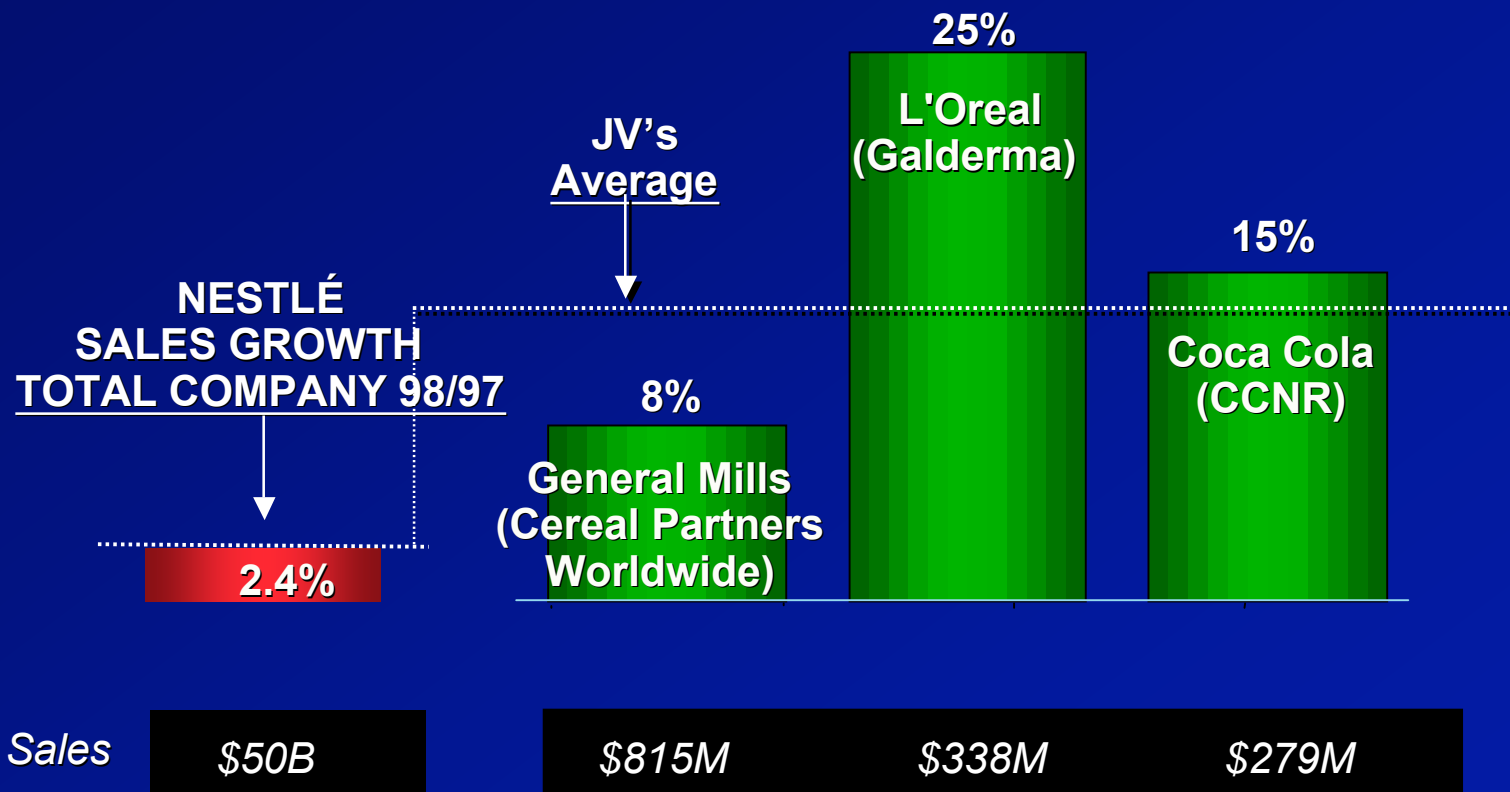


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# Corporate Alliances Fueling Growth in Other Businesses for Nestlé

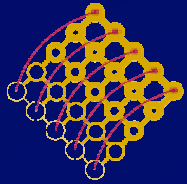
## NESTLÉ'S JOINT VENTURES SALES GROWTH (1997-1998)



Source: Company Reports and Press Clippings, Smart Alliance Partners



© 2003 Smart Alliance Partners



# Nestle & Creates ICP JV (50/50) with Haagen-Daaz to Rejuvenate Business

## NESTLÉ USA

### Strengths

- Frozen desserts & products
- Non-grocery store distribution channels
- Superior U.S. manufacturing
- Confectionery products
- Primary customers kids

## ICE CREAM PARTNERS USA

### Alliance Benefits

- New distribution channels
- Broad platform for introduction of new frozen confections
- All products, brands, formulas, recipes for US sales only
- Economies of scale Nestlé's three US plants & HD's distribution assets
- Joint product development

## HAAGEN-DAZS (Sub-Pillsbury)

### Strengths

- Prestigious brand
- Direct store delivery system
- Understanding of US market
- Superior marketing & product development
- Primary customer adult

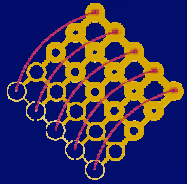
**Nestles Buys Ice Cream Partners  
(\$650 Million)**

**Source: Smart Alliance Partners**



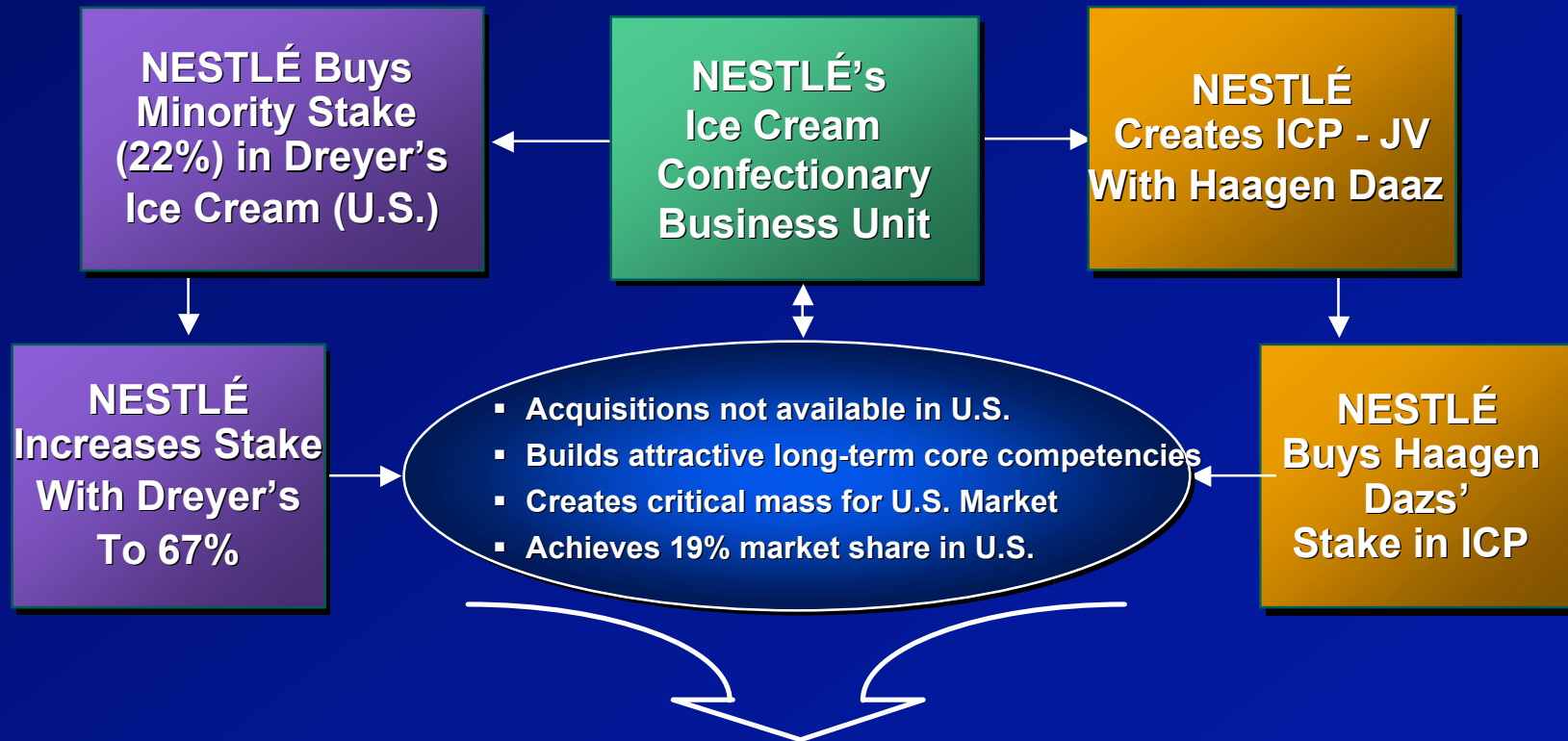
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# Alliances Extended to Dreyers-- Making Nestle New Market Leader

## STRATEGIC ROADMAP

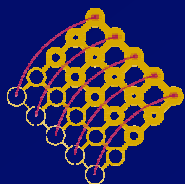


Unilever with Ben & Jerry's had dominant Market Share with 18% of U.S. Ice Cream Market – NESTLE & Unilever also hold 98% of Premium segment

**Source: Smart Alliance Partners**



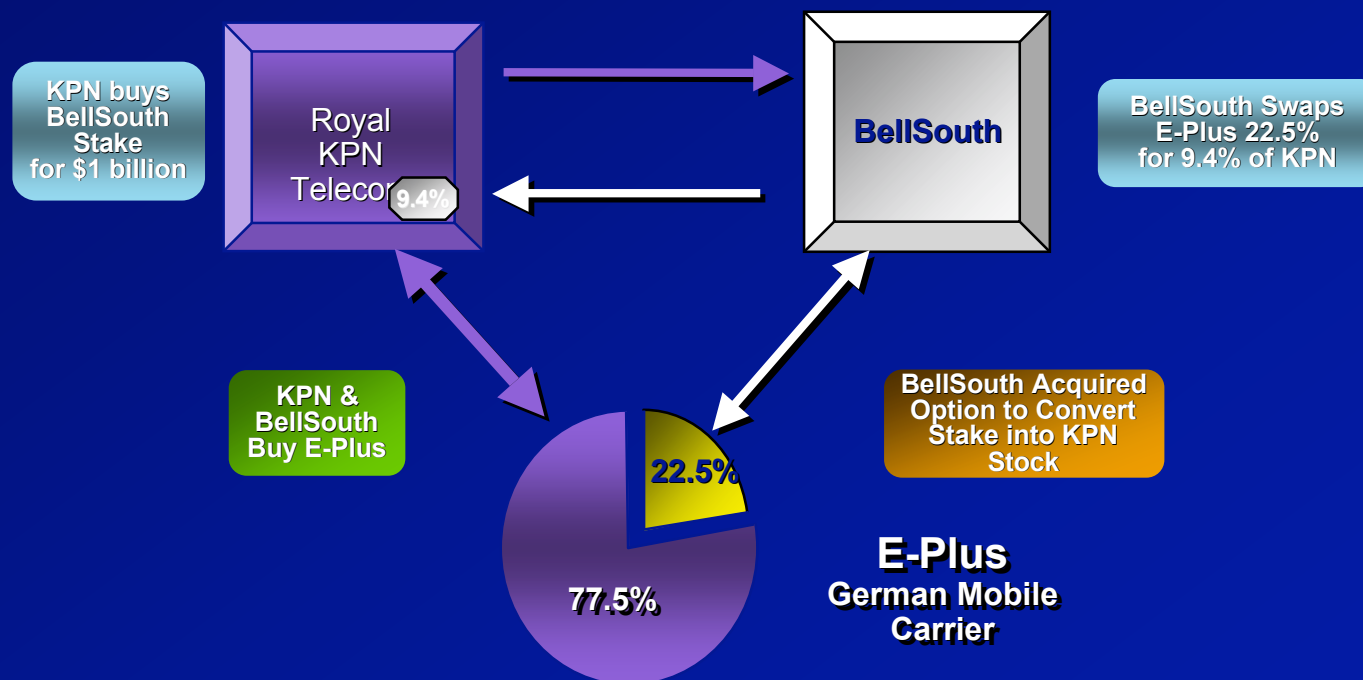
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# BellSouth: JV to Enter German Wireless Market & Generate Record Gain

American  
Example

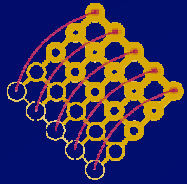
**\$850 MILLION GAIN FOR BELL SOUTH**



Source: Smart Alliance Partners



© 2003 Smart Alliance Partners

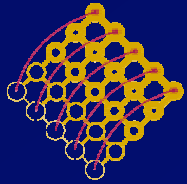


## Next

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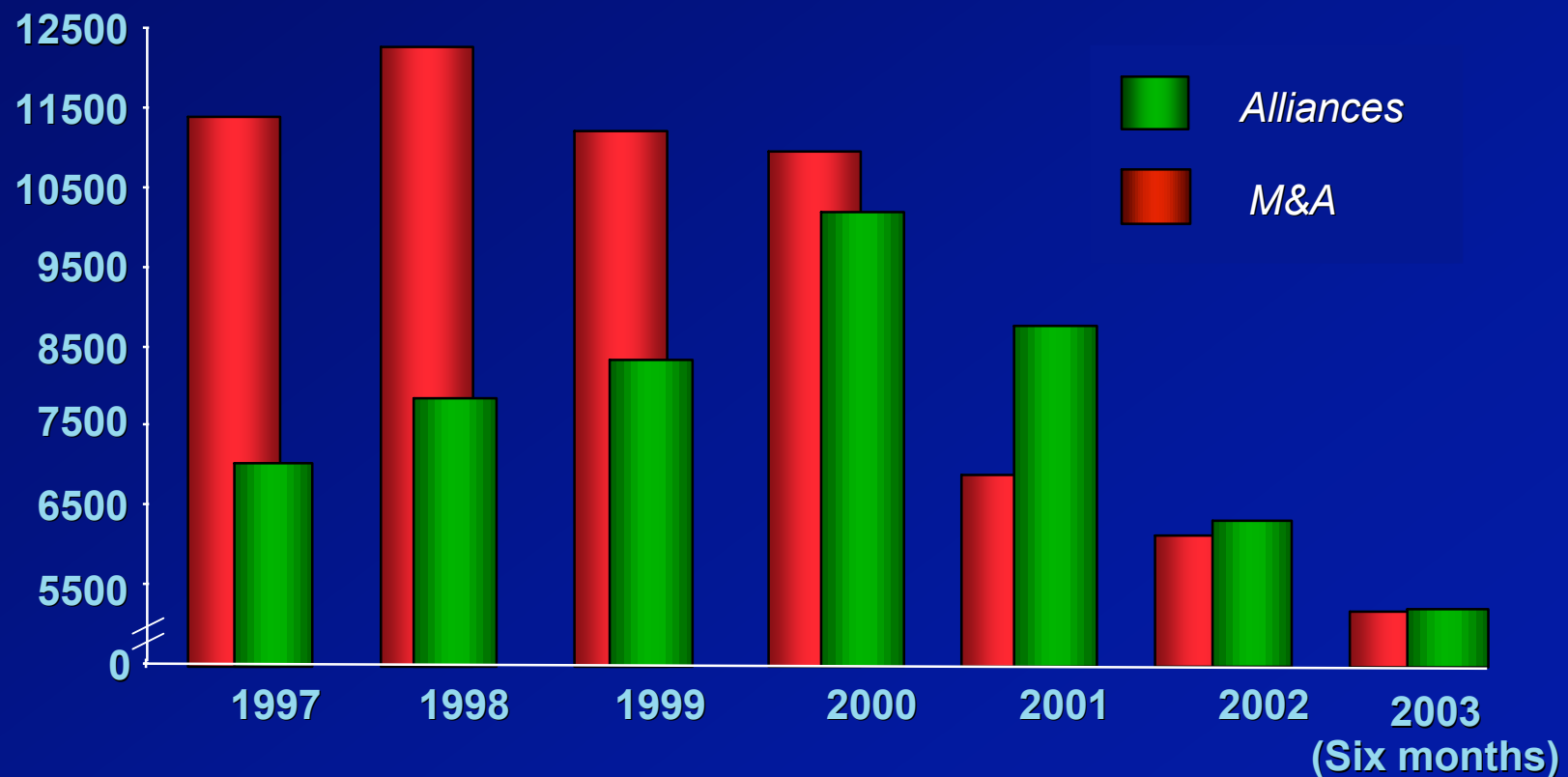
- Alliances as Growth AND Profitability Engine
- Emerging Role of Equity Alliances
- Equity Alliances vs Acquisitions
- Conclusions





# As Less Risky Corporate Growth Vehicle, Alliances Now Outnumber Acquisitions

U.S. ALLIANCES\* VS. M&A

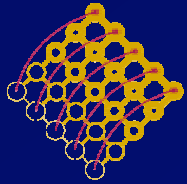


*\*publicly announced*

Source: Thompson Financial, Forbes, Smart Alliance Partners



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# Acquisitions Too Often Fail to Accelerate Growth or Increase Shareholder Value

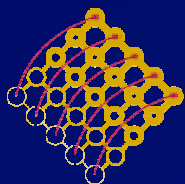
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- In 1998, Barron's noted - "acquisition research studies indicate that between 60% and 80% are financial failures."
- In 2001, KPMG reported, from a study of 118 M&As, 70% did not create shareholder value for the combined companies. KPMG also found no correlation between success and experience.
- In 2001, McKinsey published results from a study of 160 M&As that revealed 88% did not accelerate their growth appreciably and 60% failed to earn returns greater than the annual cost of capital required to do the deal.
- In 2002, a *Business Week* analysis of 302 major M&As revealed that 61% of the merged companies destroyed shareholder wealth.

**Source: Smart Alliance Partners**



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# Investor Reaction to Acquisitions Has Been Unfavorable

2000-2002

ACQUIREE	ACQUIRER	Deal Size (\$ bils U.S.)	Share Holder Wealth Loss* (\$ bils U.S.)
<ul style="list-style-type: none"> <li>➤ American General</li> <li>➤ Time Warner</li> <li>➤ Immunex</li> <li>➤ Assoc. First Capital</li> <li>➤ AT&amp;T Broadband</li> <li>➤ Wachovia</li> <li>➤ Pillsbury</li> <li>➤ Compaq</li> <li>➤ SDL</li> <li>➤ ALZA</li> <li>➤ Ralston Purina</li> <li>➤ Pharmacia</li> <li>➤ Seagate Technology</li> <li>➤ Network Solutions</li> <li>➤ Infinity Broadcasting</li> </ul>	<ul style="list-style-type: none"> <li>▪ AIG</li> <li>▪ America Online</li> <li>▪ Amgen</li> <li>▪ Citigroup</li> <li>▪ Comcast</li> <li>▪ First Union Corp</li> <li>▪ General Mills</li> <li>▪ Hewlett-Packard</li> <li>▪ JDS Uniphase</li> <li>▪ J&amp;J</li> <li>▪ Nestle</li> <li>▪ Pfizer</li> <li>▪ Veritas Software</li> <li>▪ VerSign</li> <li>▪ Viacom</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$23</li> <li>▪ \$166</li> <li>▪ \$17</li> <li>▪ \$31</li> <li>▪ \$72</li> <li>▪ \$13</li> <li>▪ \$11</li> <li>▪ \$25</li> <li>▪ \$41</li> <li>▪ \$11</li> <li>▪ \$10</li> <li>▪ \$60</li> <li>▪ \$19</li> <li>▪ \$21</li> <li>▪ \$14</li> </ul>	<ul style="list-style-type: none"> <li>▪ (\$12)</li> <li>▪ (\$22)</li> <li>▪ (\$11)</li> <li>▪ (\$10)</li> <li>▪ (\$5)</li> <li>▪ (\$1)</li> <li>▪ (\$1)</li> <li>▪ (\$4)</li> <li>▪ (\$14)</li> <li>▪ (\$6)</li> <li>▪ (\$1)</li> <li>▪ (\$53)</li> <li>▪ (\$18)</li> <li>▪ (\$4)</li> <li>▪ (\$7)</li> </ul>

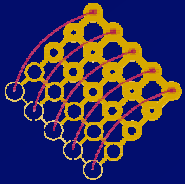
\* acquirer over 14 day period – One week before acquisition announcement to one week after announcement)

Source: Smart Alliance Partners



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# Vivendi Acquisition Spree Did Not Increase Shareholder Wealth

## Vivendi Completed Acquisitions

**1999**  
**\$7 Bil**

- Sani-Gestion Inc
- United States Filter Corp
- Superior Services Inc
- Elektrim Telekomunikacja Sp
- Hyundai Petrochemical-Waste

**2000**  
**\$55 Bil**

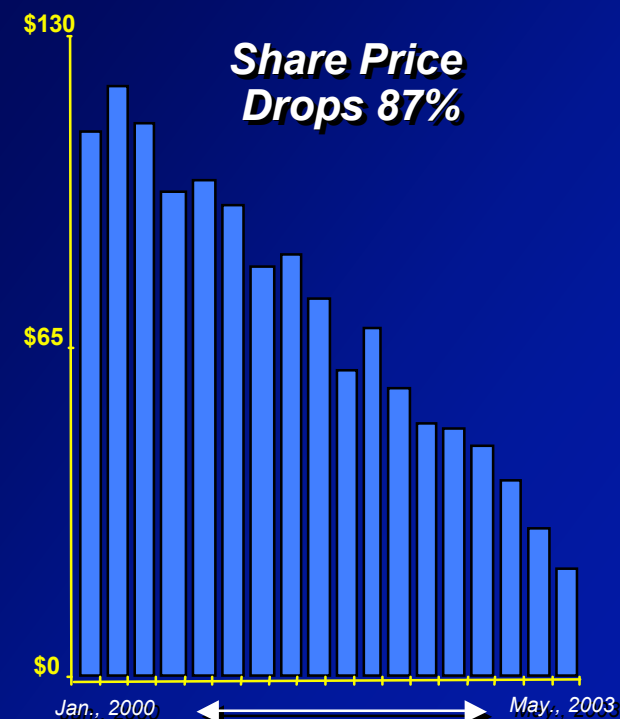
- Ifrance
- Canal Plus SA
- Seagram Co Ltd
- Prazske Vodovody A Kanalizace
- Maroc Telecom
- USA Networks Inc-Ent Asts

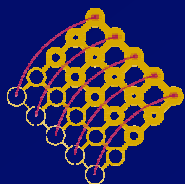
**2001**  
**\$16 Bil**

- Hyundai Electn Inds Ltd-Waste
- Houghton Mifflin Co
- Elektrim Telekomunikacja Sp
- Depurazioni Industriali

*Source: Public Sources, Smart Alliance Partners*

## Vivendi Share Price Collapses (2000-2003)





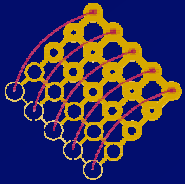
# Investors are Taking Note of M&A Failures and Major Write-Downs

<u>Merger or Acquisition(s)</u>	<u>Write Downs Billions (U.S.)</u>
• AOL/Time Warner	( \$99.5)
• Dow Jones/Telerate	(\$1.0)
• Eli Lilly/PCS Health Systems	(\$2.4)
• JDS Uniphase (Various M&A)	(\$56.1)
• Lucent (Various M&A)	(\$16.2)
• NTL (Various M&A)	(\$14.2)
• Quaker Oats/Snapple	(\$1.4)
• Sony/Columbia Pictures	(\$2.7)
• WorldCom (Various M&A)	(\$45.0)

**Source: Smart Alliance Partners**



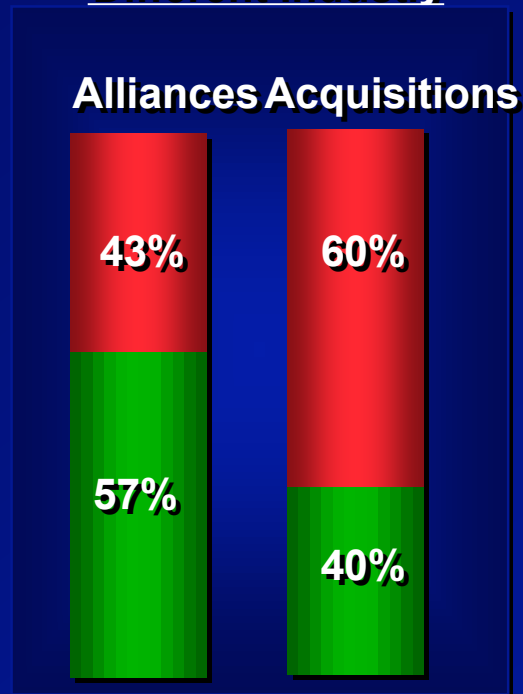




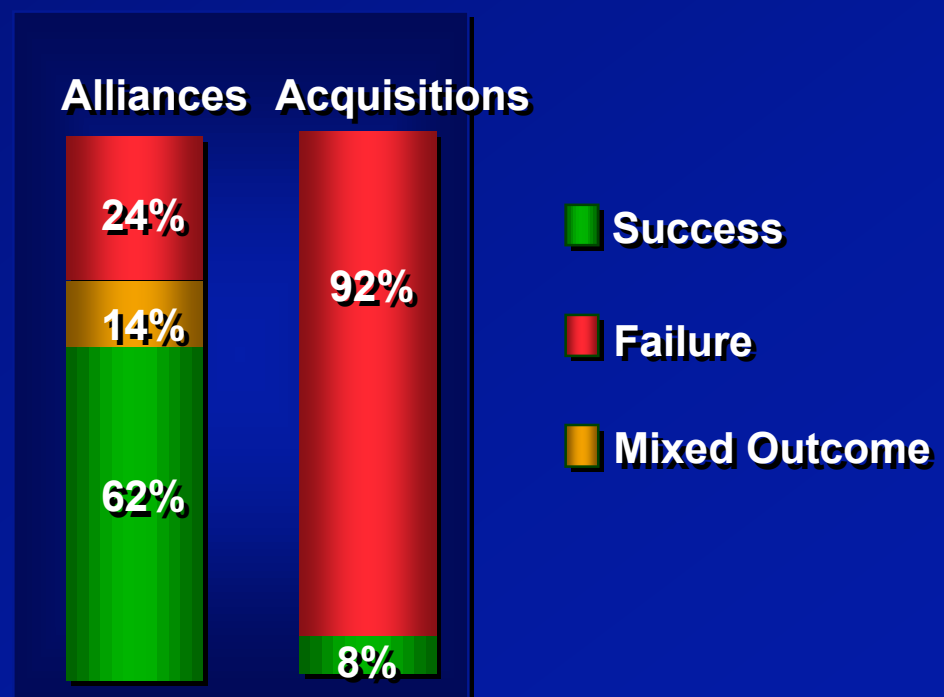
# Alliances are Better to Launch New Businesses and Enter New Markets

## COMPARATIVE SUCCESS RATES

### Launch New Business in Different Industry



### Expand Into New Geographic Markets

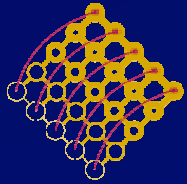


Note: U.S. and European companies. Based on -5/+5 day announcement effects (market reaction/short-term measure)

Source: McKinsey

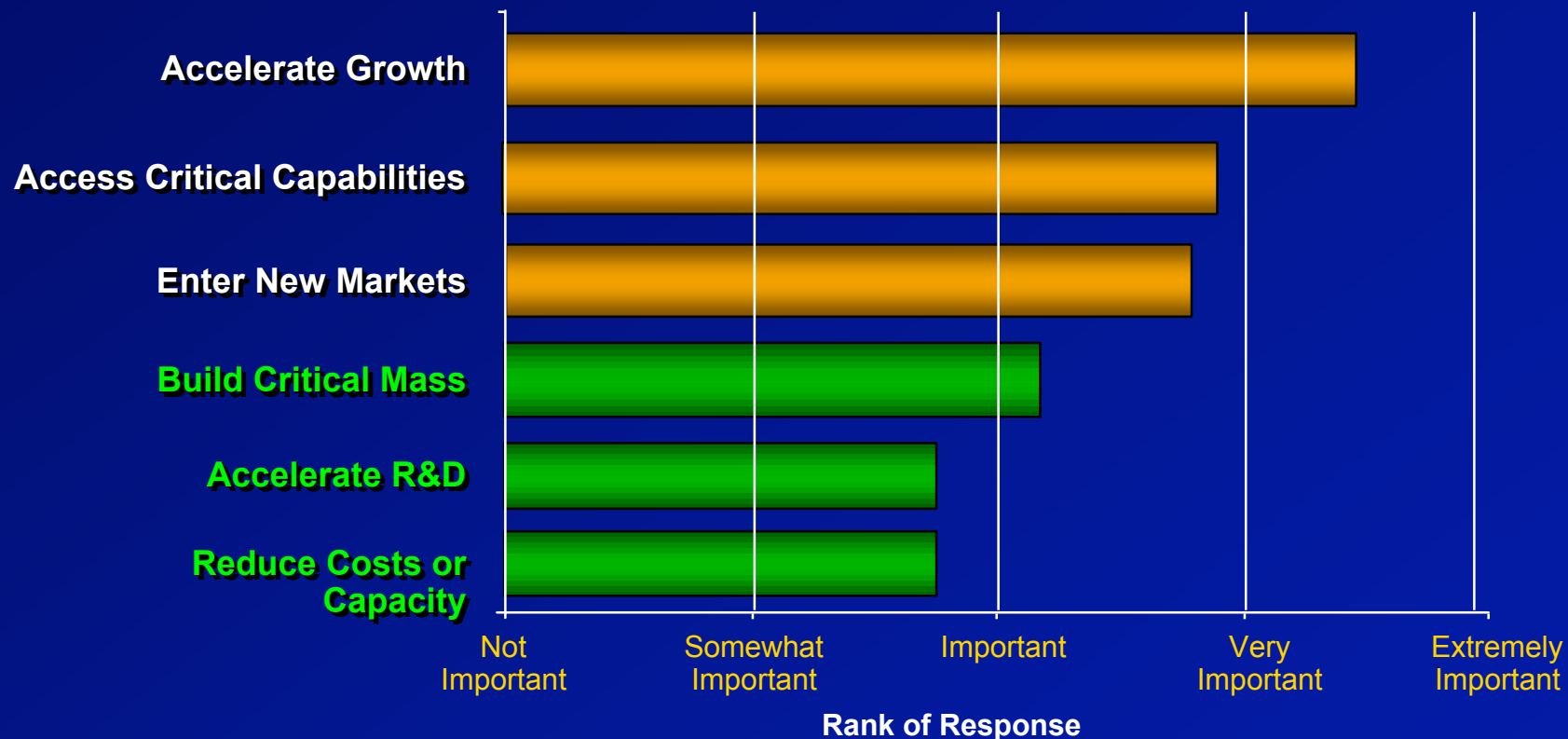


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# Factors Driving Alliances: Growth is Number One Reason Behind Alliances

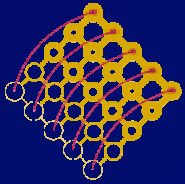
## KEY REASONS FOR ALLIANCES



Source: BA&H; Smart Alliance Partners – survey top 2,500 global companies & ACG membership U.S. & Europe



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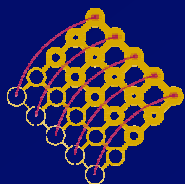


# Alliance Announcements Move the Market

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- In 2000, Harvard/Yale published results from a study of 1000 alliances that showed positive share price movement for both parties on the day of the announcement.
- In 2000, Booz Allen published results from a study of 2500 alliances that revealed they are yielding, on average, 50% higher ROI's for the these companies as compared to their core businesses.
- A 2000 Study By Ernst & Young & Wharton of S&P 500 revealed alliances are one of the top five critical factors driving market value in all industries.
- A 2001 Michigan/Wharton/Brigham Young study of top 500 global companies found that the Top 500 global firms are averaging 60 major strategic alliances per firm and received a positive share price increase on the day of the announcement .





# AOL Stock Rises on Alliance News, but Falls on Merger News

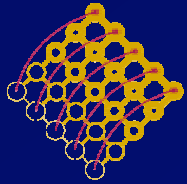
## AMERICA ON LINE STOCK PRICE DEC 98 TO MAR 03



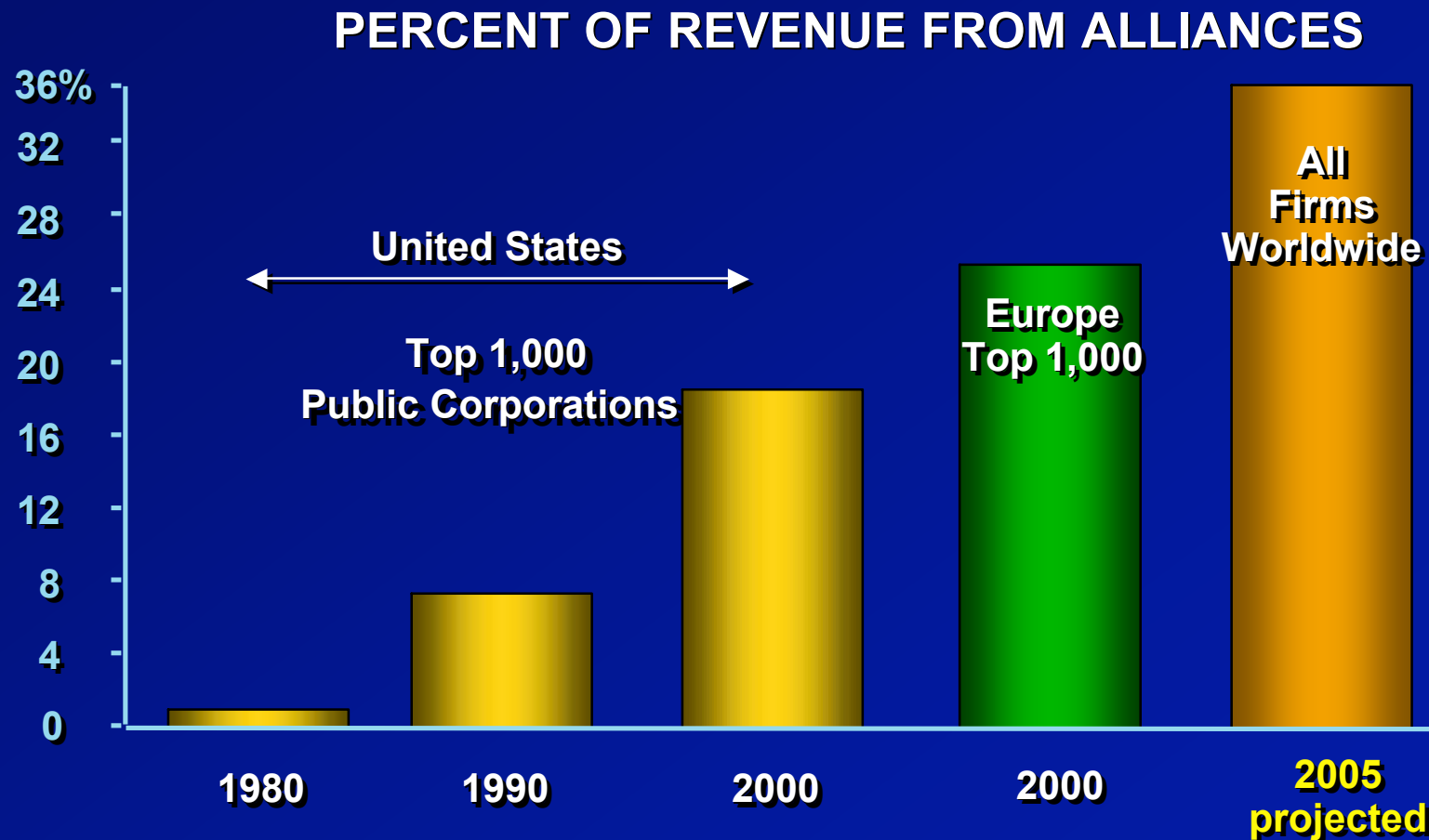
Source: Public Documents/Smart Alliance Partners



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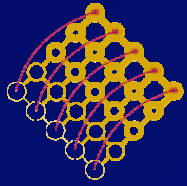
# Alliances Contributing a Growing Share of Revenue



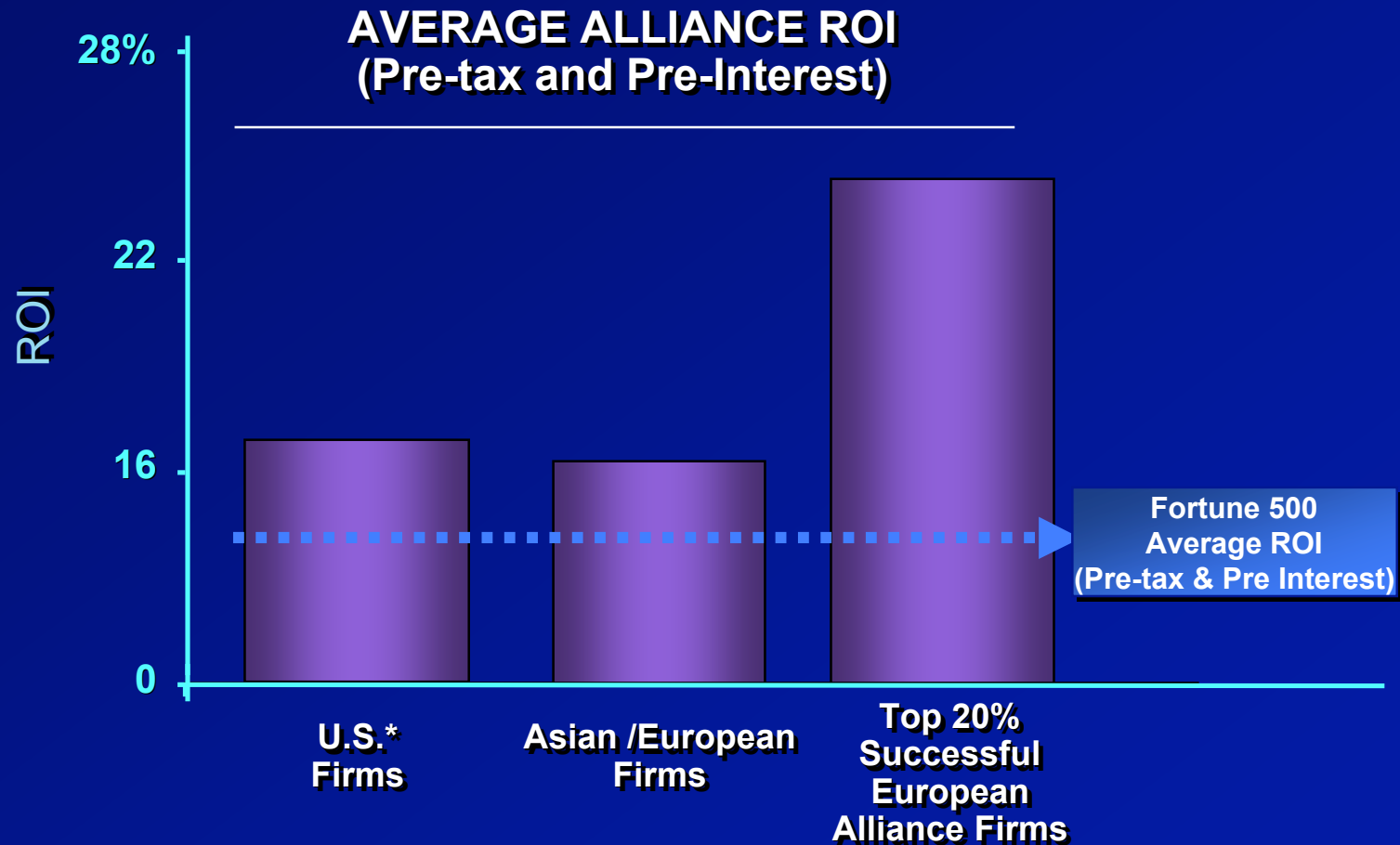
Source: Columbia University/European Trade Commission/Smart Alliance Partners



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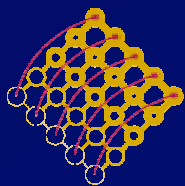
# Alliance ROI Higher Than ROI from their Core Businesses



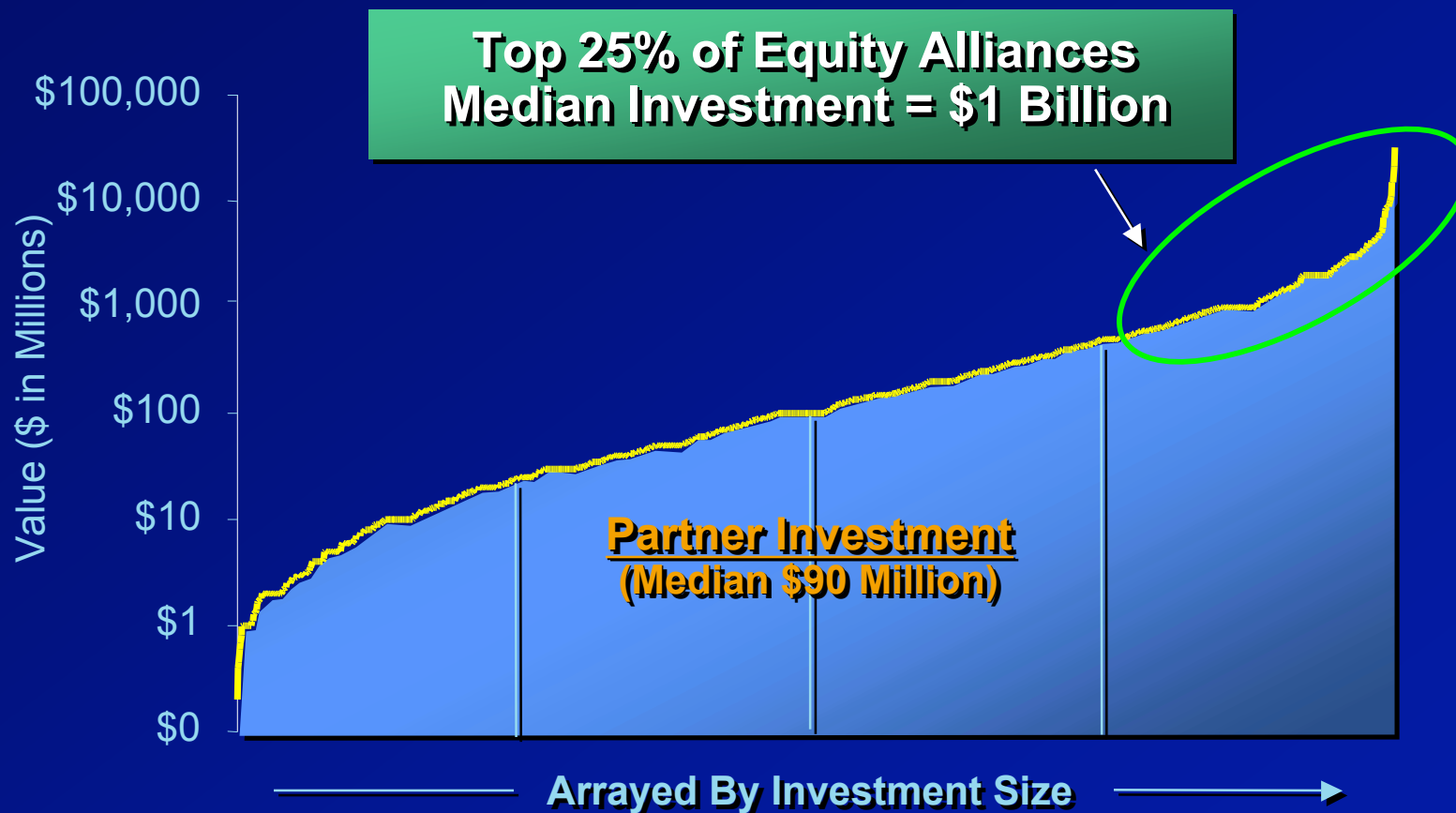
Source: Surveys (2000) – top 1000 U.S. and Non U.S. firms & Association for Corporate Growth in U.S. & Europe/Smart Alliance Partners



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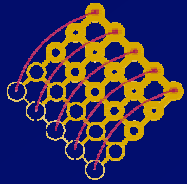
## In Past 10 Years, Median Partner Equity Investment Risen from \$28MM to \$90MM



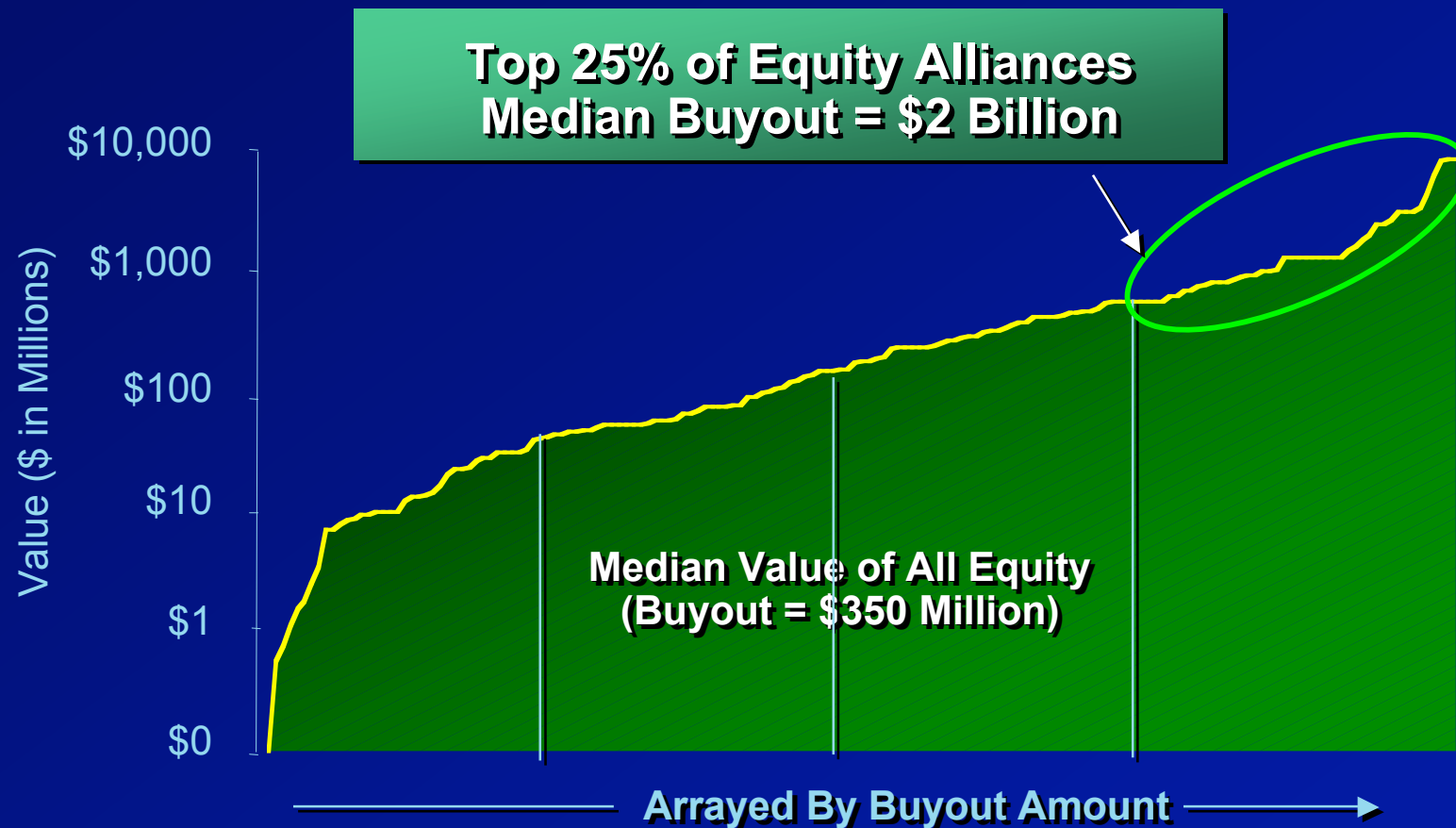
*\* Source: HLHZ Study of 1270 publicly announced equity alliances (1995-2002), Smart Alliance Partners*



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# Median Partner Buyout in an Equity Alliance is \$350 Million U.S.

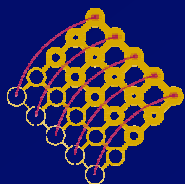


*\* Source: HLHZ Study of 1270 publicly announced equity alliances (1995-2002), Smart Alliance Partners*



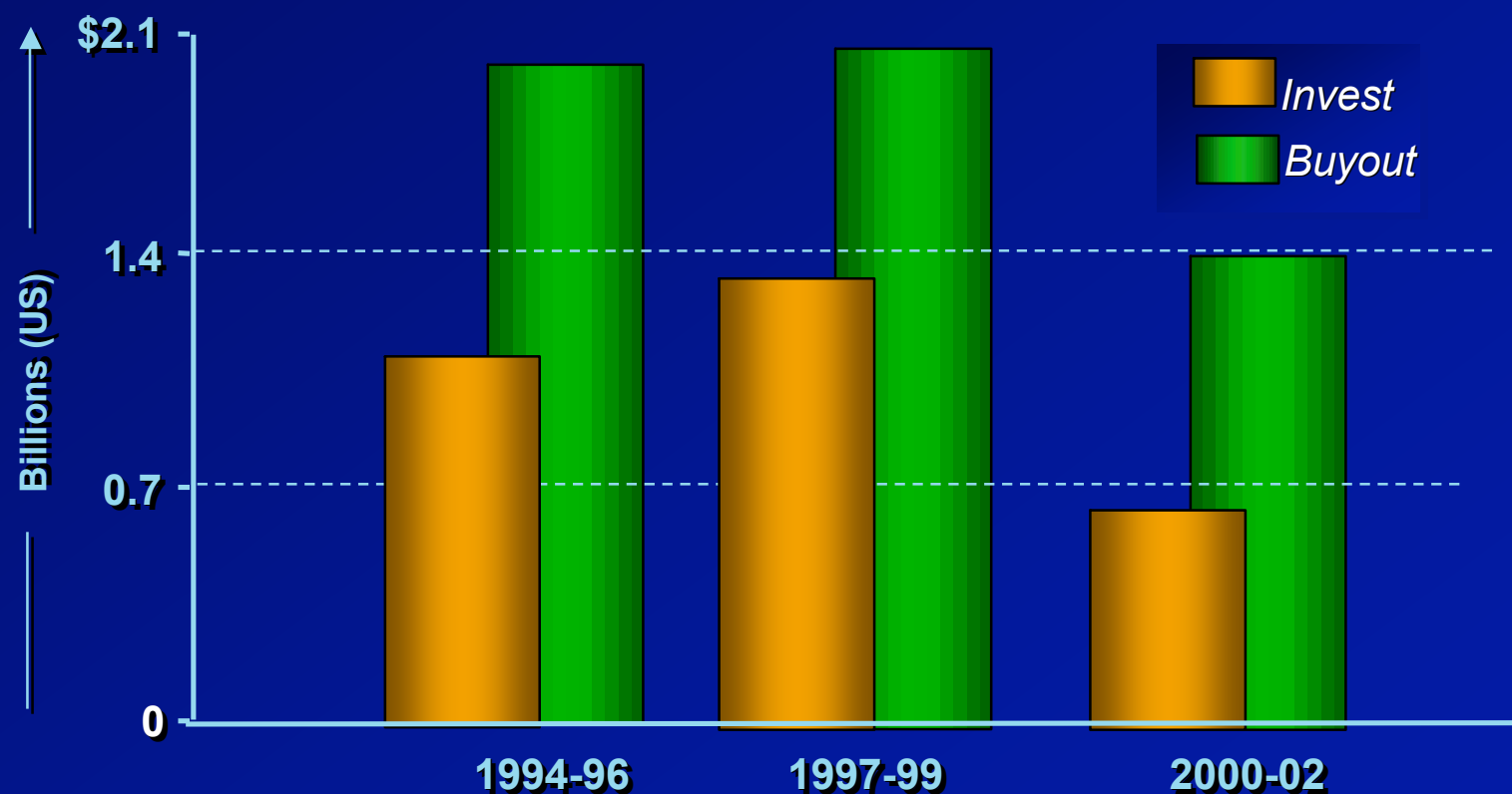
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# Market Collapse Depressed Equity Alliance Investment, but Returns Increasing

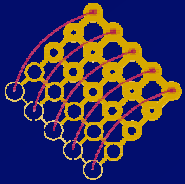
## MEDIAN ESTIMATED INVESTMENT & BUYOUT FROM TOP 25% EQUITY ALLIANCES (2000-2002)



\* Source: HLHZ, Smart Alliance Partners

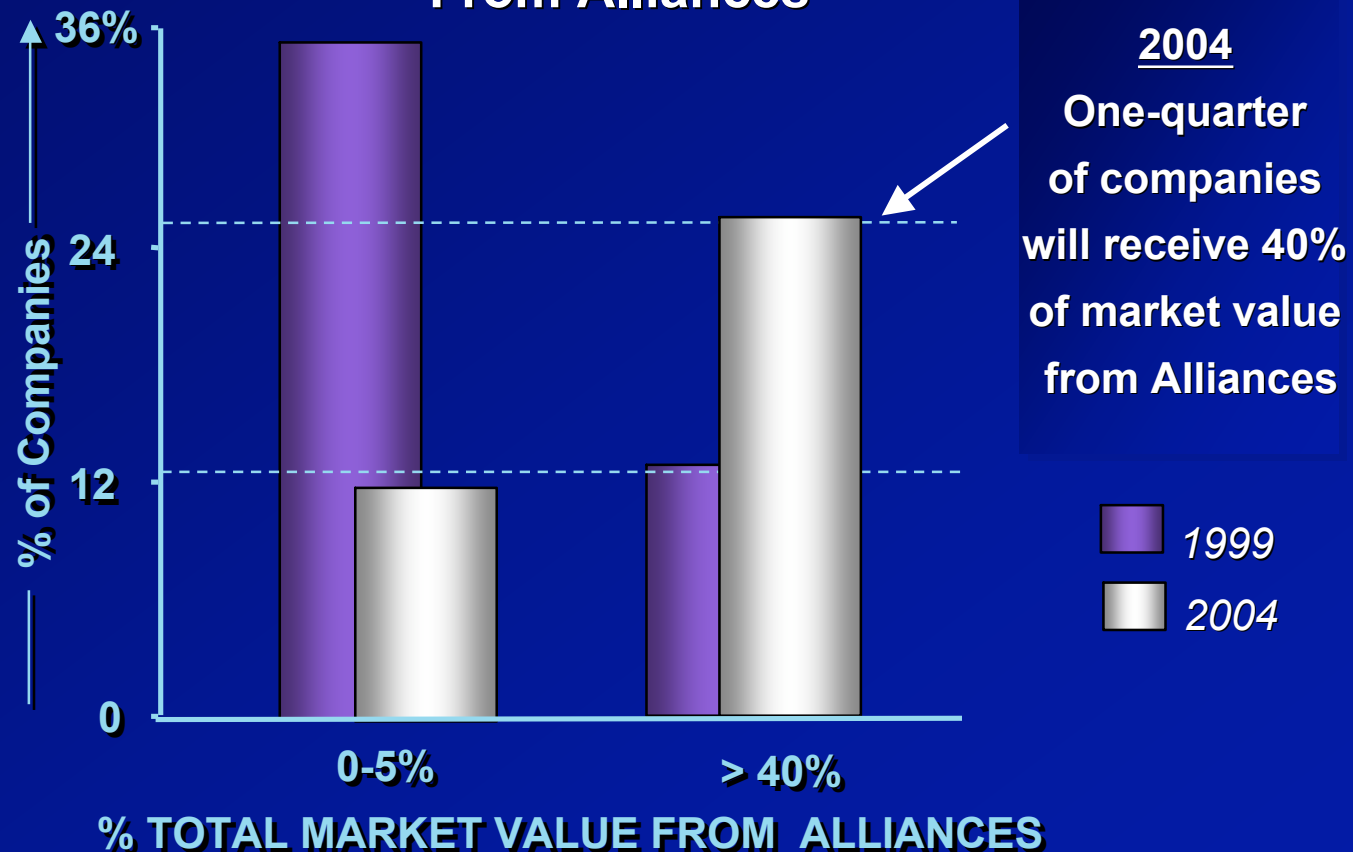


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# Alliances Are Contributing a Growing Share of Market Capitalization

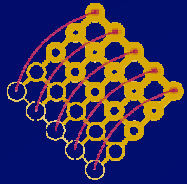
(%) Median Estimated Market Value  
From Alliances



Source: Accenture



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## **In Summary**

- **Equity Alliances achieve high ROIs & Accelerate Growth**
- **“Best Practice” firms attain higher ROI’s & success rates**
- **Corporate Alliances increase shareholder wealth**

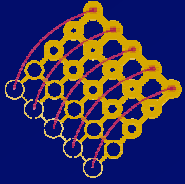


**SIMPLY**



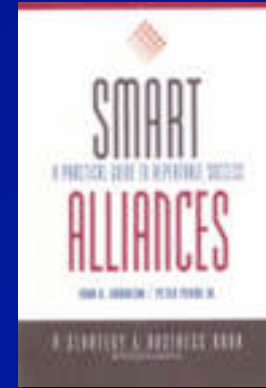
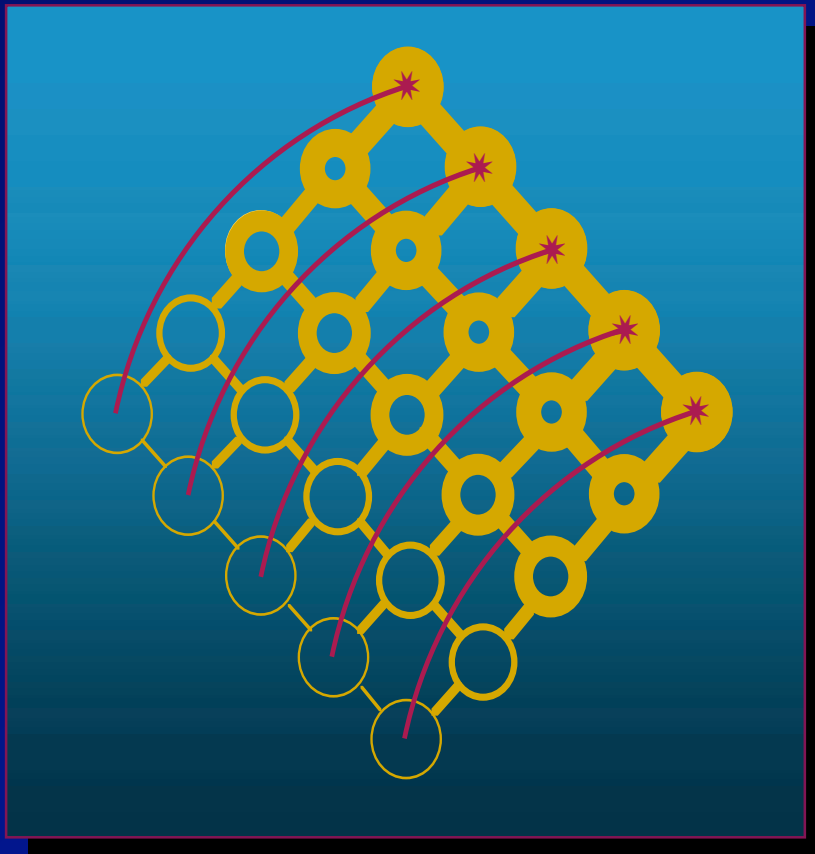
- **Corporate Alliances are a less costly, less risky and more prudent way to acquire capital and competencies than outright acquisitions**
- **A successful alliance can lead to an acquisition/merger, but chances for a good marriage are enhanced by a period of living together**
- **A New Growth & Organizational Model is emerging**





# Thank You

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