

Global Investment Strategy

The New European Consumer

Changing Attitudes

Drive European Consumer Behavior

- As “Europe United” becomes, increasingly, a reality, European attitudes are changing. Europeans are less dependent on the state, more entrepreneurial and more financially sophisticated.
- “*Urban provincials*”—Europeans yearn for a simpler, almost village-paced life, even as they become part of a larger, more anonymous and more hectic community.
 - “*Slow cities*” and “*empty cities*”—“Urban provincials” look to escape the pressures of fast-paced cities.
 - “*Glocalization*”—Europeans perceive that local manufacturers produce better products, a positive for companies offering *global* brands with a *local* “flavor.”
- “*Entrepreneurs*”—Concomitant with the decline of “Eurocrats” has been the rise of “Entrepreneurs.” Attitudes toward careers and entrepreneurialism have changed markedly, reflecting greater self-reliance.
- *Affluently frugal*—Increasingly affluent, Europeans are practical, prudent and unpretentious.
 - *More money, less ostentation.* The ostentation that has accompanied rising incomes in other regions of the world is not endemic to Europe. Middle-market companies seem best positioned to benefit from increased affluence.
 - *More money, more risk.* Concomitant with their rising wealth and increasing sense of entrepreneurialism, Europeans are displaying increasing financial sophistication.
- Among stocks currently rated Strong Buy or Buy by UBS Warburg, beneficiaries of these trends include:
 - *Urban provincials. Slow cities/empty cities:* Accor, Acesa, Autostrade, Brisa and First Choice Holidays. *Glocalization:* Unilever.
 - *Entrepreneurs:* Banco Popular, Deutsche Borse, Euronext, RBS Group and Unicredito Italiano.
 - *Affluently frugal. More money, less ostentation:* Carrefour, Debenhams, Galeries Lafayette and Sainsbury. *More money, more risk:* BBVA, BNP Paribas and Societe Generale.

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Companies mentioned and disclosures p. 3

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Bullish on Europe

UBS Warburg economists and strategists are bullish on Europe's long-term outlook

UBS Warburg is bullish on the long-term outlook for Europe:

- v The European Economic Research team argues that, “contrary to popular belief, euro area demographic trends will have a positive, not negative, influence on the macroeconomic environment over the next 20 years” (see “Euro area demographics—Delivering a ‘win-win’ economy,” March 11, 2002). First, they see demographic trends delivering a sustained rise in trend real GDP growth rates. Second, in a break from the past, higher growth will be accompanied by lower, rather than higher, inflation.
- v In a subsequent report, the European Strategy Research team pointed out that, “typically, strong growth combined with low inflation has resulted in buoyant profits and rising ROEs for the corporate sector. Previous such periods saw valuations rise sharply, whether measured by PEs or Price/Book” (see “European Equity Briefing: Valuation boost from ‘Win-Win’ demographics,” March 13, 2002).
- v The Global Investment Strategy group noted that, in the steady move toward “Europe United,” the introduction of the euro is “the most dramatic step in a process of European integration that is having important effects on how business is conducted on the continent” (see “Mark, Franc & Co.’s Last 100 Days,” November 23, 2001). Specifically, the cross-border visibility on prices and wages that the single currency brought is increasing the efficiency of financial, labor and commercial markets.
- v And based on the research presented in this report, the Global Investment Strategy group believes that Europeans are becoming less dependent on the state, more entrepreneurial and more financially sophisticated.

The New European Consumer

As part of this most recent research, UBS Warburg utilized the expertise of Yankelovich, which has been compiling comprehensive polls about consumers' preferences, habits and lifestyles for the past 30 years. Yankelovich's European data are collected under the supervision of NFO Trendbox, a subsidiary of The Interpublic Group and one of the most respected names in consumer research. The most recent data reflect a 2001 survey of 8,000 Europeans in 13 countries; major findings are discussed throughout this report.

In summary, Europeans today are:

- v “*Urban provincials*”—Europeans yearn for a simpler, almost village-paced life, even as they become part of a larger, more anonymous, and more hectic community. One way to experience a simpler, slower-paced lifestyle is to go on holiday.
- v “*Entrepreneurs*”—Concomitant with the decline of “Eurocrats” has been the rise of “Entrepreneurs.” Europeans' attitudes to careers and entrepreneurialism have changed markedly. In particular, less trust in institutions is being reflected in greater self-reliance.
- v *Affluently frugal*—Increasingly affluent, but decidedly unostentatious, Europeans are practical, prudent and unpretentious. And, concomitant with their rising wealth, Europeans are displaying increasing financial sophistication.

Most recent data reflect a 2001 survey of 8,000 Europeans in 13 countries

Table 1: Selected Beneficiaries of “The New European Consumer”

Company	Symbol	7/19 Price	UBSW Rating	Theme
Accor [1,10]	ACCP.PA	€33.55	Buy	Urban Provincials—Slow Cities / Empty Cities
Acesa	ACE.MC	€11.3	Buy	Urban Provincials—Slow Cities / Empty Cities
Adecco [10]	ADEZn.V	CHF75.7	Hold	Entrepreneurs
Autostrade [10,11,12]	ACMI.MI	€8.1	Buy	Urban Provincials—Slow Cities / Empty Cities
Banco Popular	POP.MC	€39.69	Buy	Entrepreneurs
Barclays [10]	BARC.L	469.0p	Hold	Entrepreneurs: Affluently Frugal—More money, more risk
BBVA [3a,10]	BBVA.MC	€9.85	Buy	Affluently Frugal—More money, more risk
BNP Paribas [1,10,12]	BNPP.PA	€43.68	Buy	Affluently Frugal—More money, more risk
Brisa SA [10]	BRIS.IN	€5.4	Buy	Urban Provincials—Slow Cities / Empty Cities
Carphone Warehouse	CPW.L	77.0p	Hold	Entrepreneurs
Carrefour [1,10]	CARR.PA	€42.87	Buy	Affluently Frugal—More money, less ostentation
Credit Lyonnais	CRLP.PA	€40.95	Hold	Entrepreneurs: Affluently Frugal—More money, more risk
CS Group [3b,10]	CSGZn.V	CHF36.0	Not Rated	Affluently Frugal—More money, more risk
Debenhams	DEB.L	337.5p	Buy	Affluently Frugal—More money, less ostentation
Deutsche Borse	DB1Gn.D	€39.40	Buy	Entrepreneurs
Dixons [1]	DXNS.L	160.5p	Hold	Entrepreneurs
Euronext [10]	ENXT.PA	€20.30	Buy	Entrepreneurs
First Choice Holidays [10]	FCD.L	109.0p	Strong Buy	Urban Provincials—Slow Cities / Empty Cities
Galleries Lafayette	GALP.PA	€130.60	Buy	Affluently Frugal—More money, less ostentation
Hays [10]	HAS.L	131.0p	Hold	Entrepreneurs
HBOS [9]	HBOS.L	606.5p	Hold	Affluently Frugal—More money, more risk
Kingfisher [8,10,12,13]	KGf.L	200.0p	**	Entrepreneurs
Lloyds TSB	LLOY.L	592.5p	Hold	Affluently Frugal—More money, more risk
Michael Page	MPI.L	143.0p	Hold	Entrepreneurs
Nestle [1,10]	NESZn.V	CHF306.5	Hold	Urban Provincials—Glocalization
RBS Group [1]	RBOS.L	1,564.0p	Buy	Entrepreneurs: Affluently Frugal—More money, more risk
Sainsbury [1,3b,10,12]	SBRY.L	320.0p	Buy	Affluently Frugal—More money, less ostentation
San Paolo IMI [11]	SPI.MI	€8.01	Hold	Affluently Frugal—More money, more risk
Societe Generale [1]	SOGN.PA	€51.00	Buy	Affluently Frugal—More money, more risk
Sol Melia	SOL.MC	€6.41	Hold	Urban Provincials—Slow Cities / Empty Cities
Tesco [1,10]	TSCO.L	216.5p	Hold	Urban Provincials—Glocalization
TUI AG	TUIG.F	€21.30	Hold	Urban Provincials—Slow Cities / Empty Cities
UniCredito Italiano [10,11]	CRDI.MI	€3.94	Buy	Entrepreneurs
Unilever [2,10]	ULVR.L	522.5p	Buy	Urban Provincials—Glocalization
Vedior N.V.	VDOR.AS	€11.20	Hold	Entrepreneurs

Source: UBS Warburg LLC

A Bullish Demographic Outlook

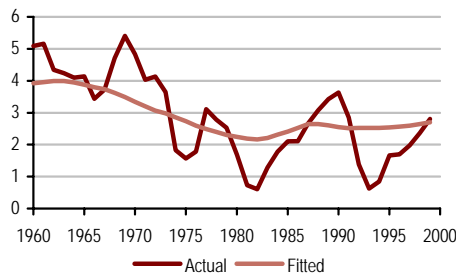
Much analysis of European demographics focuses on the supposed negative consequences of an aging population in Europe. With birth rates slowing, the argument goes, economic growth will slow, labor shortages will rise, and wage costs will increase. In addition, with a smaller population of working age supporting a larger older population, the dependency ratio will rise sharply, resulting in a “pensions time bomb” for Europe.

Changes in the age structure of the population matter most

The aforementioned March 11 report from the UBS Warburg European Economic Research team suggests that this demographics-based pessimism is misplaced, because it naively overlooks a key factor. Specifically, it is not just the *overall* rate of population growth that determines the sustainable rate of economic activity. Rather, it is *changes in the age structure of the population* that matter most.

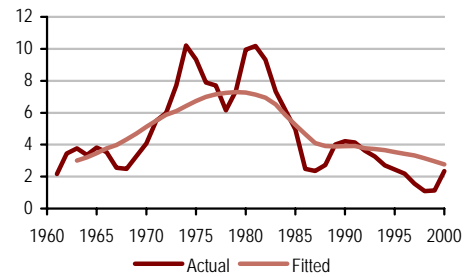
In an econometric study, the European Economic Research team showed that, over the past 40 years, demographics have a statistically significant role in explaining the broad trends in euro area growth (Chart 1) and inflation (Chart 2).

Chart 1: Real GDP per Capita Growth
Yr /Yr % —3-year centered moving average



Source: UBS Warburg LLC

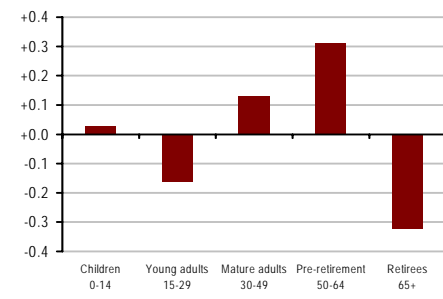
Chart 2: CPI Inflation
Year-over-year percentage change



Source: UBS Warburg LLC

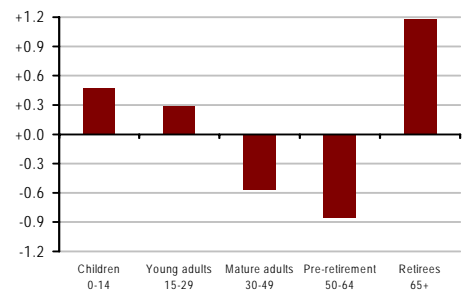
The team then used the different age cohorts as the explanatory variables in determining both European GDP growth and inflation since the 1960s. The results show that it is important to consider the total age structure when considering the rate of GDP growth (Chart 3) and the rate of inflation (Chart 4).

Chart 3: GDP/Capita Growth
Regression coefficient of age structure independent variables



Source: UBS Warburg LLC

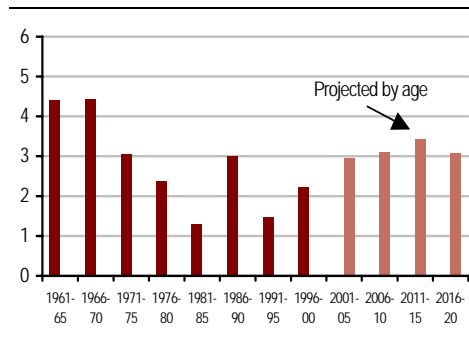
Chart 4: CPI Inflation
Regression coefficient of age structure independent variables



Source: UBS Warburg LLC

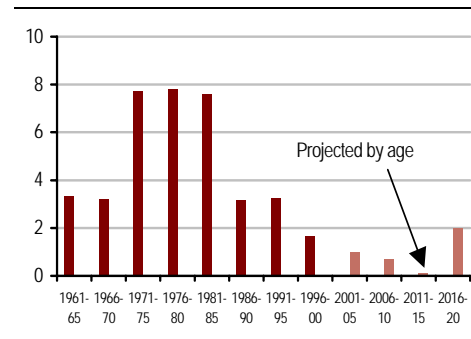
By using U.N. population forecasts for the coming 20 years, the projections for growth and inflation in Europe can be calculated based on the historical econometric relationships. The results show that, based on the demographic outlook, the trend rate of European GDP growth is likely to rise from close to 2¼% currently to 3-3½% over the coming 20 years (Chart 5). In addition, there is likely to be a decline in trend inflation to just around 1% (Chart 6).

Chart 5: Real GDP Growth Projections
Year-over-year percentage change



Source: UBS Warburg LLC

Chart 6: Inflation Projections
Year-over-year percentage change

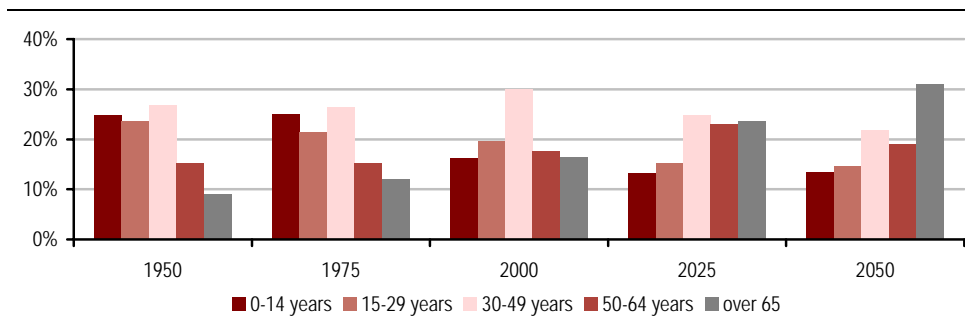


Source: UBS Warburg LLC

Euro boomers' productivity and incomes will be greatest in the next 15-35 years

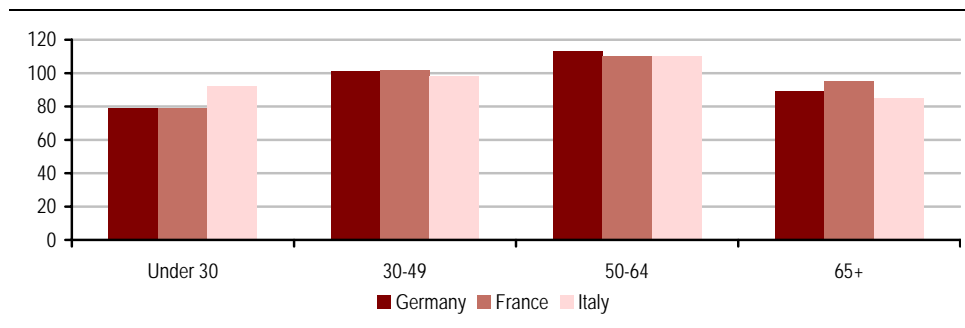
The key reason for this favorable outlook is that “euro boomers” (the 30-49 year olds) now account for 30% of the European population, and have another 15-35 years until traditional retirement age (Chart 7). *It is during this period of their lives when workers' productivity and incomes are greatest* (Chart 8).

Chart 7: Age Structure of the Euro Area Population
Percent of Total



Source: United Nations and UBS Warburg LLC

Chart 8: Relative Disposable Income by Age of Head of Household
Average = 100



Source: IFO Institute

A Broad Overview of “The New European Consumer”

What this report attempts to do is understand the behavior of “The New European Consumer” in the context of these favorable demographic and economic trends. While we identify several key trends that will likely affect the behavior of European consumers *as a whole*, we acknowledge that there will be differences in the degree to which the trends are significant within each European country.

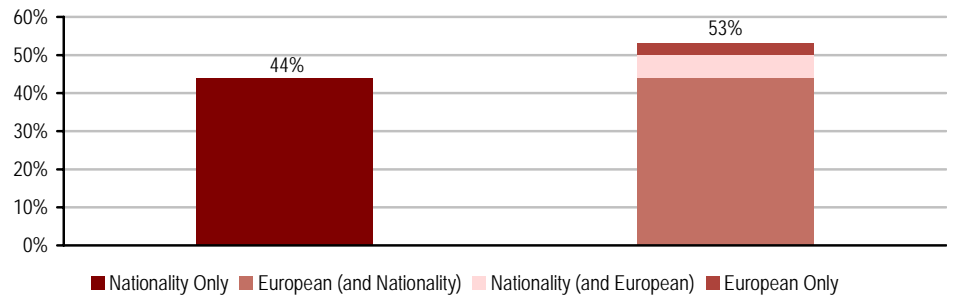
There have, however, *long* been differences in terms of consumption patterns and lifestyles in Europe. Compare, for example, northern and southern Italy, northern and southern Germany, Paris and Marseilles, London and Edinburgh. It’s also the case that consumption patterns and lifestyles are different in various parts of the U.S. (Manhattan versus St. Louis, Los Angeles versus Detroit, Dallas versus Boston), *yet that has not precluded several powerful themes from affecting the behavior of U.S. consumers as a whole in recent years*. We discussed some of those themes—e.g., “quality versus quantity,” “intangibles versus tangibles,” “time versus money”—most recently in our April 1, 2001, report “The All American Shopping List.”

European . . .

A growing number of “Europeans”

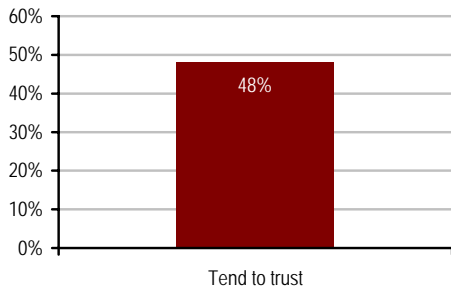
Former U.S. Secretary of State Henry Kissinger once asked, “When I need to get in touch with Europe, who do I call?” The recent evidence suggests that there are growing numbers of “Europeans” for Mr. Kissinger to call. Although 44% of residents in E.U. countries identify themselves *only* by their nationality, 53% identify themselves as “European” *in some way* (Chart 9). Similarly, while 48% trust their national government (Chart 10), fully 53% trust the European Union (Chart 11). This sense of a shared European identity seems likely to spread—77% of E.U. residents say that they desire the E.U. to play “the same” or “a more important” role in their daily lives in the next five years (Chart 12).

Chart 9: Percentage of E.U. Residents With National or European Identity



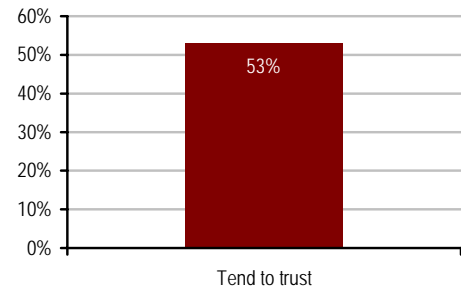
Source: European Commission

Chart 10: Trust in the National Government



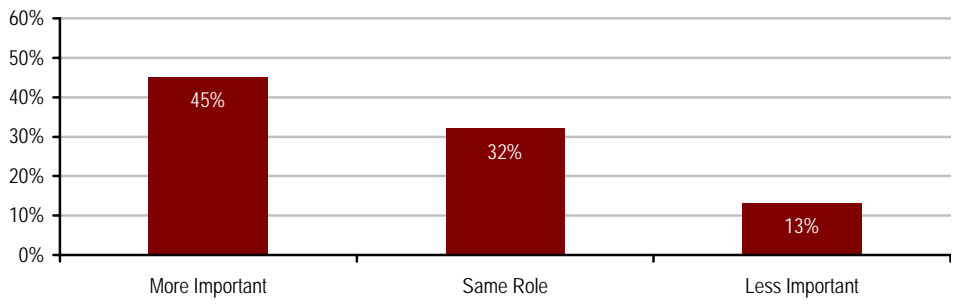
Source: European Commission

Chart 11: Trust in the European Union



Source: European Commission

Chart 12: Desired Role of the E.U. in People’s Daily Life in Five Years

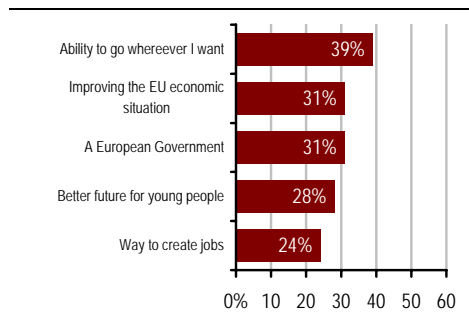


Source: European Commission

A key factor promulgating a “European” identity has been greater cross-border mobility

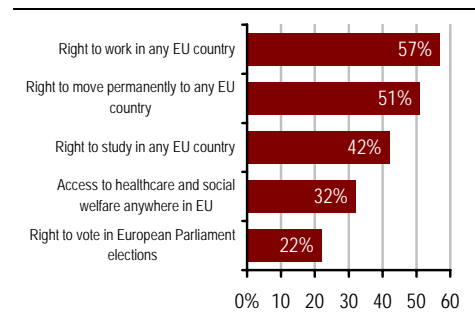
Unquestionably, a key factor promulgating a “European” identity has been greater cross-border mobility. In a survey of young Europeans about “what the European Union means” to them, the top factor, by far, was the “ability to go wherever I want” (Chart 13). A related survey of young Europeans that asked “what being a citizen of Europe” means, found that the top two factors were the “right to work in any country” and the “right to move permanently to any E.U. country” (Chart 14).

Chart 13: What the E.U. Means
Respondents aged 15 to 24



Source: European Commission

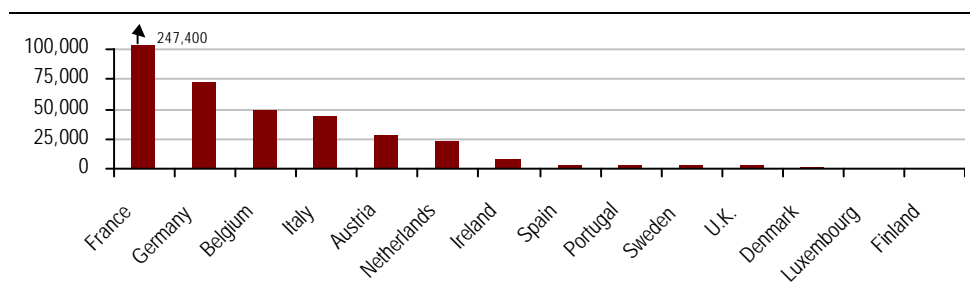
Chart 14: “Being a citizen of Europe” means
Respondents aged 15 to 24



Source: European Commission

Not surprisingly, labor mobility has grown rapidly, so that, today, there are more than 500,000 European cross-border commuters (Chart 15).

Chart 15: Cross-Border Commuting in Western Europe
Number of annual commuters



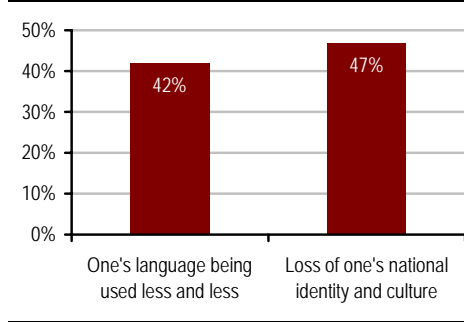
Source: European Commission

. . .and French, Italian, German . . .

Europe is *not* becoming one large homogenous state

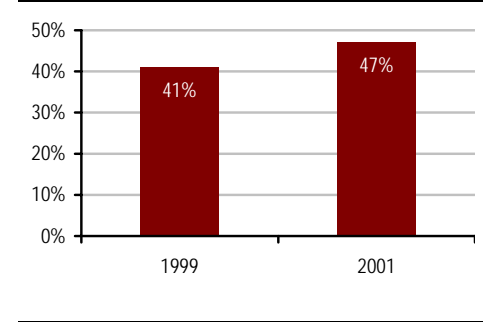
All of the above is *not* to suggest, however, that Europe is rapidly becoming one large homogenous state. To the contrary, key fears among E.U. citizens include “the loss of one’s country’s national identity and culture” as well as the fear of “one’s language being used less and less” (Chart 16). Reflecting these concerns, 47% of Europeans worry that “in the future, English will become the official language in all developed countries” (Chart 17).

Chart 16: Fears Among European Union Citizens



Source: European Commission

Chart 17: "English will become the official language in all developed countries"

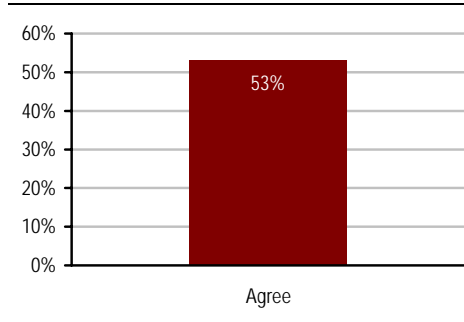


Source: NFO Trendbox B.V./Yankelovich

Local, less well-known manufacturers are perceived to produce better products

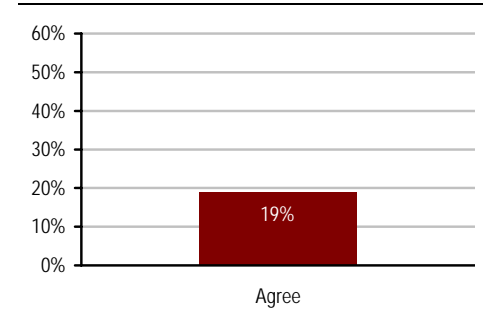
The desire to maintain a national identity also appears in product choice: 53% of Europeans say that, "I prefer products made in my own country to foreign products" (Chart 18). In addition, just 19% of Europeans agree with the statement that, "well-known manufacturers produce better products than less-known ones" (Chart 19)—fully 48% of Europeans *disagree* with that statement, implying that local, less well-known manufacturers are perceived to produce better products.

Chart 18: "I prefer products made in my own country to foreign products"



Source: NFO Trendbox B.V./Yankelovich

Chart 19: "Well-known manufacturers produce better products than less-known"



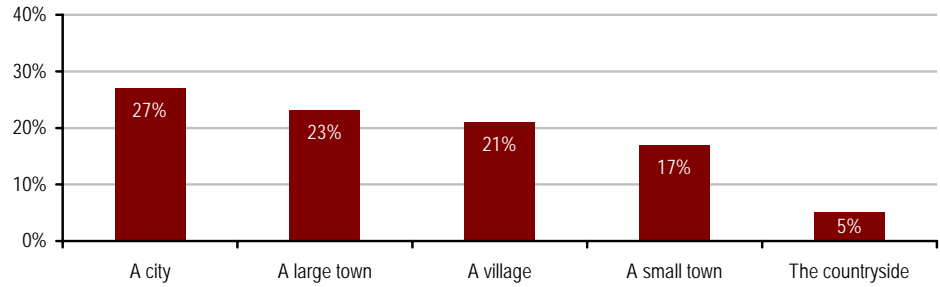
Source: NFO Trendbox B.V./Yankelovich

"Urban provincials"—Europeans who yearn for a simpler, almost village-paced life

The Paradoxical Rise of "Urban Provincials"

On top of this incongruity—whereby a large number of people consider themselves both European *and* a particular nationality—consider another paradox. Although United Nations data reveal that 73% of Europeans live in an urban area, *fully 43% of Europeans describe themselves as living in a rural setting*, i.e., "the countryside," "a village," or "a small town" (Chart 20). It is these provincial and rural attachments that likely explain the rise of "*urban provincials*"—Europeans who yearn for a simpler, almost village-paced life, even as they become part of a larger, more anonymous and more hectic community.

Chart 20: "Where Do You Live?"



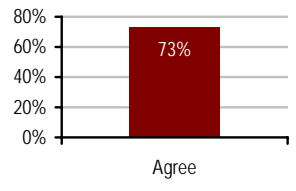
Source: NFO Trendbox B.V./Yankelovich

"Urban provincial" sentiment manifests itself in a number of paradoxes

"Urban provincial" sentiment manifests itself in three ways although, here too, there are a number of paradoxes:

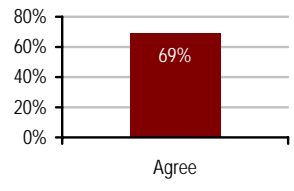
- v **Nature and the environment.** With 73% of Europeans worrying "about the danger that mankind is causing to nature" (Chart 21) and 69% wanting to "live in harmony with nature" (Chart 22), it's not surprising that 54% of Europeans say, "I'm prepared to spend more money on environmentally friendly products" (Chart 23).

Chart 21: "I worry about the danger that mankind is causing to nature"



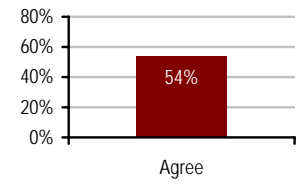
Source: NFO Trendbox B.V./Yankelovich

Chart 22: "I would like to live in harmony with nature"



Source: NFO Trendbox B.V./Yankelovich

Chart 23: "Willing to spend more on environmentally friendly products"

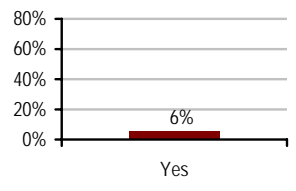


Source: NFO Trendbox B.V./Yankelovich

However:

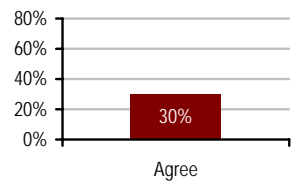
- Just 6% would "be prepared to change energy supplier for environmentally friendly energy" (Chart 24).
- Only 30% of consumers "often buy organic products" (Chart 25).
- 54% say that, "although I know it's bad for the environment, I don't find it easy to leave the car at home" (Chart 26).

Chart 24: "Change supplier for environmentally friendly energy?"



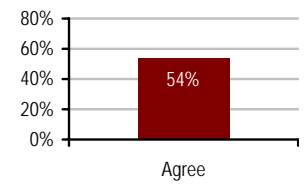
Source: NFO Trendbox B.V./Yankelovich

Chart 25: "I often buy organic (pesticide-free) products"



Source: NFO Trendbox B.V./Yankelovich

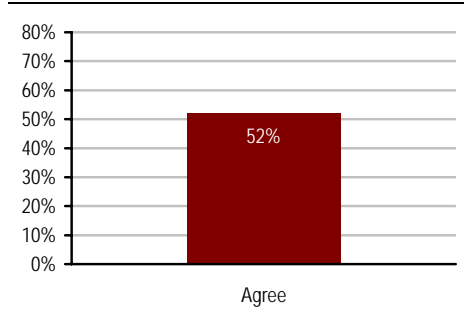
Chart 26: "Although it's bad, I don't find it easy to leave the car at home"



Source: NFO Trendbox B.V./Yankelovich

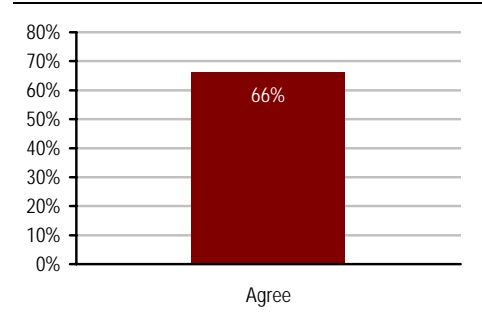
- Time management.** 52% of Europeans think that, “managing time is one of my biggest challenges” (Chart 27) and 66% “try to fit as much into my day as possible” (Chart 28).

Chart 27: “Managing time is one of my biggest challenges”



Source: NFO Trendbox B.V./Yankelovich

Chart 28: “I try to fit as much into my day as possible”

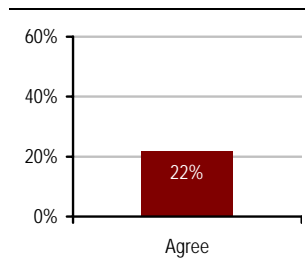


Source: NFO Trendbox B.V./Yankelovich

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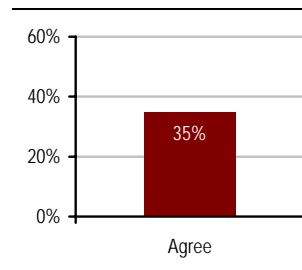
- Only 22% have “deliberately decreased working hours to have more spare time” (Chart 29).
- Just 35% would sacrifice income in order to have more free time (Chart 30).
- Almost two in five (38%) do *not* agree with the statement “I always look forward to the weekend,” implying that they feel they have enough time during the week for non-work-related activities (Chart 31).

Chart 29: “Deliberately decreased working hours to have more free time”



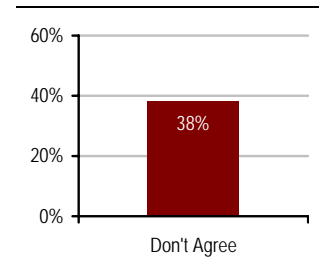
Source: NFO Trendbox B.V./Yankelovich

Chart 30: “Happily choose more free time with a somewhat smaller income”



Source: NFO Trendbox B.V./Yankelovich

Chart 31: “I always look forward to the weekend”

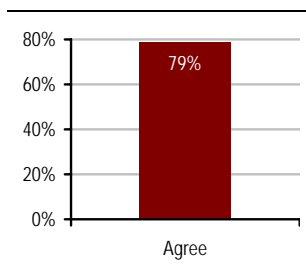


Source: NFO Trendbox B.V./Yankelovich

Conflicting desires to be environmentally friendly and maximize time use

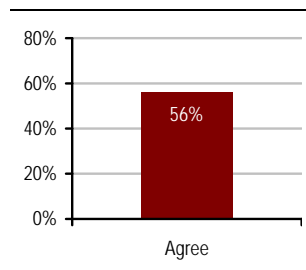
- Product choice.** The conflicting desires to be environmentally friendly *and* maximize time use reveal themselves in Europeans’ attitudes to a variety of products, especially food. On the one hand, 79% of Europeans say that “when preparing a meal, I use fresh products as often as possible” (Chart 32). 56% prefer to buy meat from the butcher rather than pre-packed meat (Chart 33). And 45% prefer to “buy food with as little packaging as possible” (Chart 34).

Chart 32: “When preparing a meal, I use fresh products as often as possible”



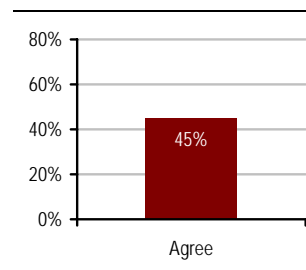
Source: NFO Trendbox
B.V./Yankelovich

Chart 33: “I prefer to buy meat from the butcher rather than pre-packed meat”



Source: NFO Trendbox
B.V./Yankelovich

Chart 34: “I prefer to buy food with as little packaging as possible”

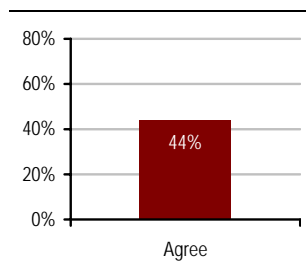


Source: NFO Trendbox
B.V./Yankelovich

On the other hand:

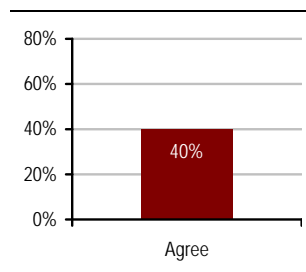
- 44% think that, “convenience is the most important thing for me when it comes to preparing a hot meal” (Chart 35).
- 40% would like to “spend as little time as possible in the preparation of the daily main meal” (Chart 36).
- One in three (37%) say that, “it is usual, every now and then, to put a complete takeaway meal on the table” (Chart 37).

Chart 35: “Convenience is most important when preparing a hot meal”



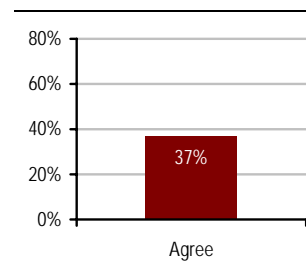
Source: NFO Trendbox
B.V./Yankelovich

Chart 36: “Like to spend as little time as possible preparing daily main meal”



Source: NFO Trendbox
B.V./Yankelovich

Chart 37: “Occasionally put a complete takeaway meal on the table”



Source: NFO Trendbox
B.V./Yankelovich

“Slow Cities” . . .

The “slow cities” movement is a backlash against the lifestyle exemplified by fast food

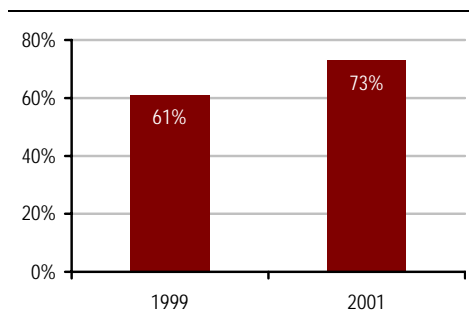
Quite evidently, “urban provincials” are deeply conflicted by their yearning for a simpler, slower-paced lifestyle, even as they become part of a bigger, more complex community. One manifestation of this conflict is the emergence of the (oxymoronic) “slow cities” movement, which is a backlash against the lifestyle exemplified by fast food. According to the *Slow Food International Manifesto*, “we are enslaved by speed and have all succumbed to the same insidious virus: Fast Life, which disrupts our habits, pervades the privacy of our homes and forces us to eat Fast Foods.” The movement, therefore, advocates “suitable doses of guaranteed sensual pleasure and slow, long-lasting enjoyment.”

One way to experience a simpler, slower-paced lifestyle is to go on holiday

. . . and “Empty Cities”

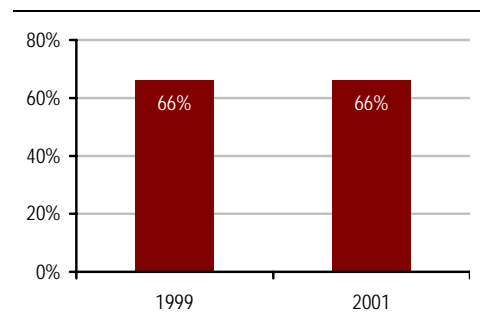
Of course, one way to experience a simpler, slower-paced lifestyle is to go on holiday. In that regard, the percentage of Europeans listing “travelling” as a hobby or interest rose from 61% in 1999 to 73% in 2001 (Chart 38), with 66% of Europeans saying that, “when I go on holiday, I usually go abroad” (Chart 39).

Chart 38: Europeans listing “travelling” as a hobby



Source: NFO Trendbox B.V./Yankelovich

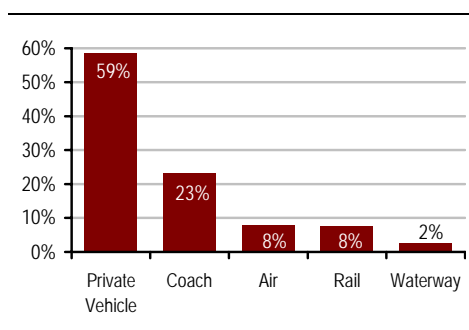
Chart 39: “When I go on holiday, I usually go abroad”



Source: NFO Trendbox B.V./Yankelovich

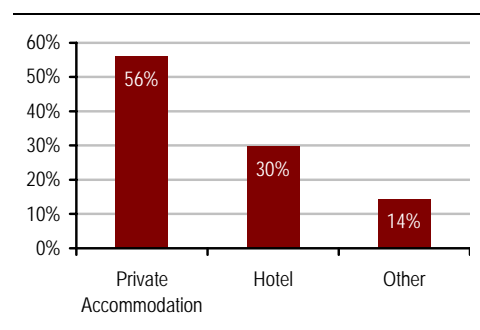
In terms of getting to a vacation destination, Europeans tend to drive (Chart 40) rather than fly. Once they reach that destination, Europeans also tend to stay a relatively long time (with many countries virtually shutting down for the month of August). Private accommodation tends to be preferred, with hotels and similar establishments the second choice (Chart 41).

Chart 40: Breakdown of Trips by Mode of Transportation



Source: European Commission and UBS Warburg LLC

Chart 41: Breakdown of Trips by Type of Accommodation



Source: European Commission and UBS Warburg LLC

Given the propensity of Europeans to drive to their holiday locations, that should result in continued strong demand for the privatized road concessions in Europe, notably **Acesa** in Spain, **Autostrade** in Italy and **Brisa** in Portugal. This trend is also positive for **Accor**, which has almost one-third of its 3,600 hotels in the roadside motel format of the Ibis chain and Formule 1.

Tour operators will likely continue to take a large portion of the European holiday business. **TUI** (formerly Preussag) remains the market leader, especially in Germany. **First Choice Holidays** is a tour operator with a specialization in watersports holidays through its Sunsail business. In terms of holiday accommodation, **Sol Melia** is by far the largest resort hotel operator in Europe, with a dominance in key resorts in Spain.

“Glocalization”—companies offering global brands with a local “flavor”

“Glocalization”

As noted, “urban provincials” have strong regional and rural attachments. In addition, as Chart 18 illustrated, about half of Europeans say that, “I prefer products made in my own country to foreign products,” while Chart 19 revealed that half of Europeans perceive that local, less well-known manufacturers produce better products. These trends are supportive of “glocalization”—i.e., companies offering global brands with a local “flavor.”

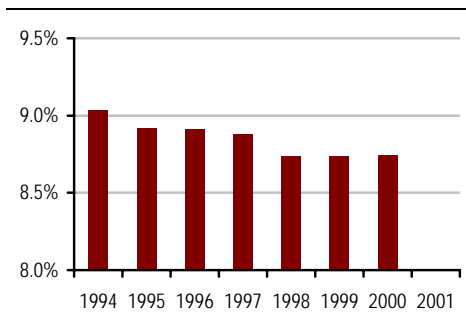
- ▼ **Nestle** is one of the leading practitioners of “glocalization.” Its Nescafe instant coffee is produced in 200 different blends globally.
- ▼ **Tesco’s** businesses outside the U.K. use the Tesco brand, but seek to create a local identity. Tesco typically buys an entry vehicle overseas to get access to local management with a feel for local tastes. The overseas stores then sell specific products that cater to local tastes, with those products being purchased locally. So, for example, Tesco sells live carp in its stores in Poland and the Czech Republic.
- ▼ **Unilever’s** Knorr brand flavors its soups based on local preferences—potato flavored in Poland, paprika flavored in Hungary.

“Europreneurs”

Decline of “Eurocrats” employed by state sector; rise of “Europreneurs” in private sector

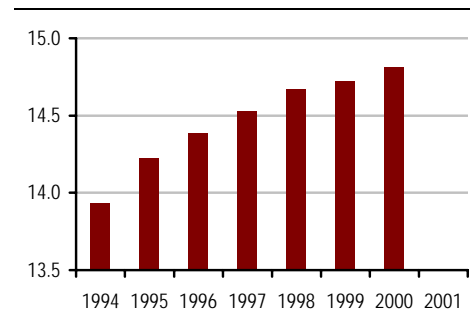
Europeans’ attitudes to careers and entrepreneurialism are changing markedly. These attitudinal changes have coincided with the decline of “Eurocrats” employed by the state sector (Chart 42), and the rise of “Europreneurs” in the private sector, a large number of whom are self-employed (Chart 43).

Chart 42: Public Administration Employees as a Percentage of Total
Five largest European economies



Source: OECD

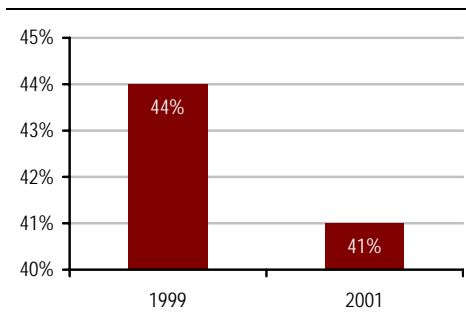
Chart 43: Self-employed (in millions)
Five largest European economies; non-agricultural activities



Source: OECD

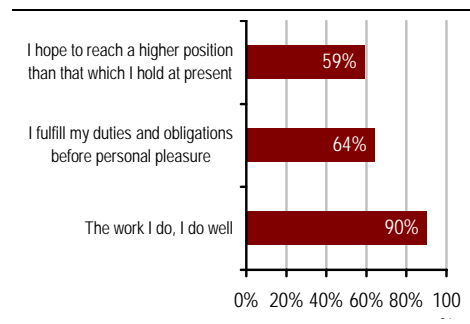
Quite simply, *work is being viewed less as a way to just earn money* (Chart 44). Rather, work is considered a “lifestyle choice,” involving a trade-off between personal pleasure on the one hand and career advancement and job satisfaction on the other (Chart 45).

Chart 44: “You only work for money”
Percentage that agree



Source: NFO Trendbox B.V./Yankelovich

Chart 45: Attitudes to Work
Percentage that agree in 2001

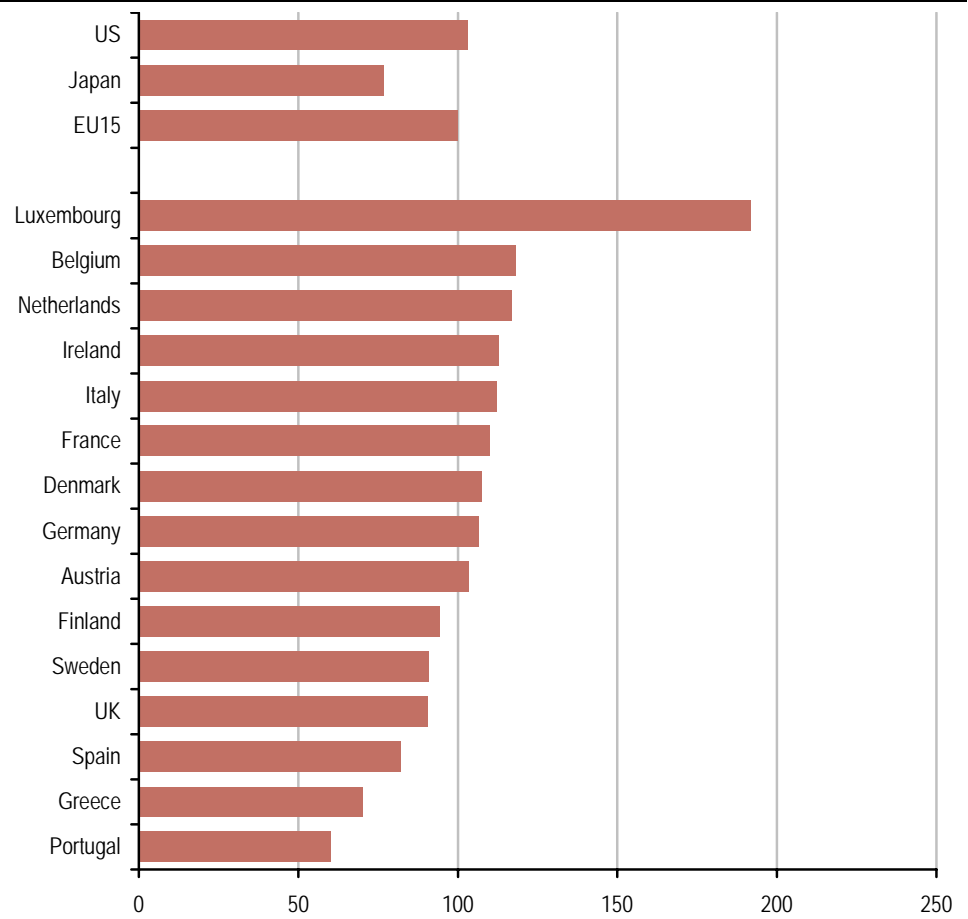


Source: NFO Trendbox B.V./Yankelovich

Labor productivity in many European countries exceeds that in the U.S. and Japan

Importantly, labor productivity—as measured in *GDP per hour worked*—in many European countries today exceeds that in the U.S. and Japan (Chart 46).

Chart 46: Labor Productivity per Hour Worked
Indices based on EU15 = 100; 2001 data



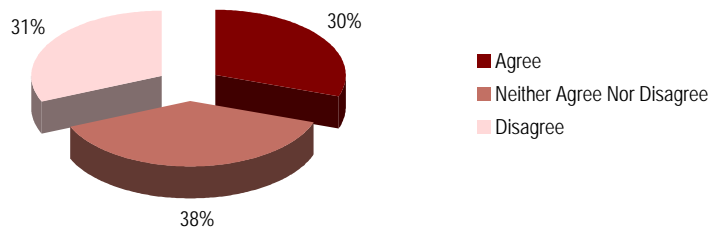
Source: Eurostat

Less Trust, More Self-Reliance

Little trust in national governments

Concomitant with the declining role of the state as a major employer, there has been a shift in perceptions about self-reliance. Indeed, only 30% say “I believe my government is acting in the country’s best interests” (Chart 47).

Chart 47: “I believe my government is acting in the country’s best interests”

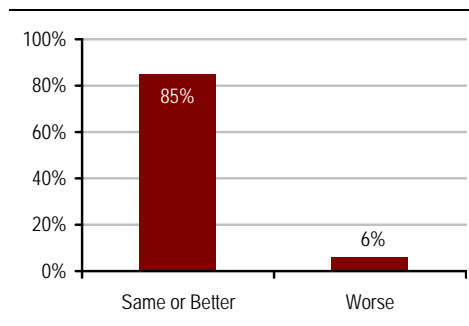


Source: NFO Trendbox B.V./Yankelovich

And not only do a large number doubt that the government is acting in *the country’s* best interests, they also doubt that the government is acting in the best interests of *individual Europeans*.

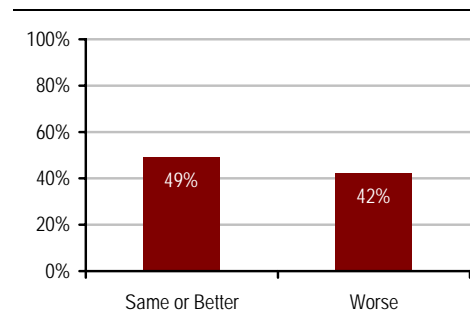
- v 85% think their employment situation will be “the same” or “better” in 2002 (Chart 48), *but* only 49% think that overall employment will be “the same” or “better,” and 42% think it will be “worse” (Chart 49).

Chart 48: Your Job in 2002



Source: European Commission

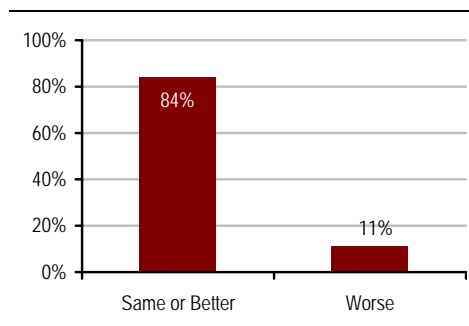
Chart 49: Employment in 2002



Source: European Commission

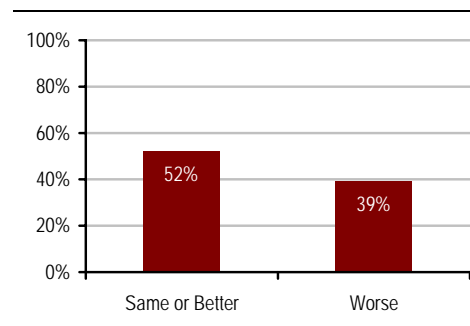
- v 84% think that their personal finances will be “the same” or “better” in 2002 (Chart 50), *but* only 52% think the economy will be “the same” or “better,” and 39% think it will be “worse” (Chart 51).

Chart 50: Your Finances in 2002



Source: European Commission

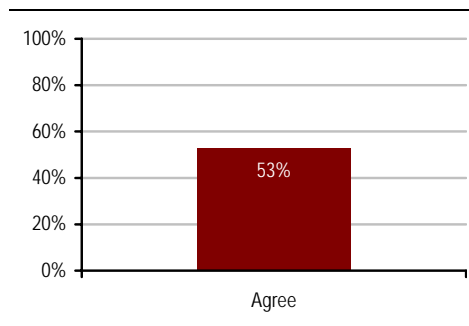
Chart 51: Economy in 2002



Source: European Commission

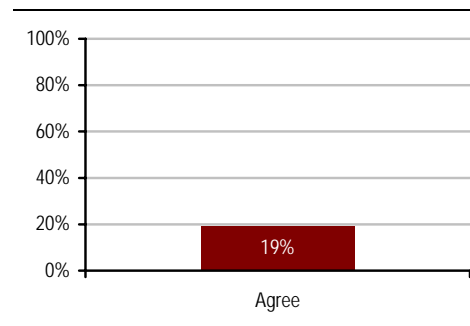
- v 53% think that “in a few years’ time, I will be financially better off than I am now” (Chart 52) *but* only 19% say that “in a year’s time, the economic situation in my country will be better than it is at the moment” (Chart 53).

Chart 52: “In a few years’ time I will be financially better off than I am now”



Source: NFO Trendbox B.V./Yankelovich

Chart 53: “In a year’s time, the economic situation in my country will be better”

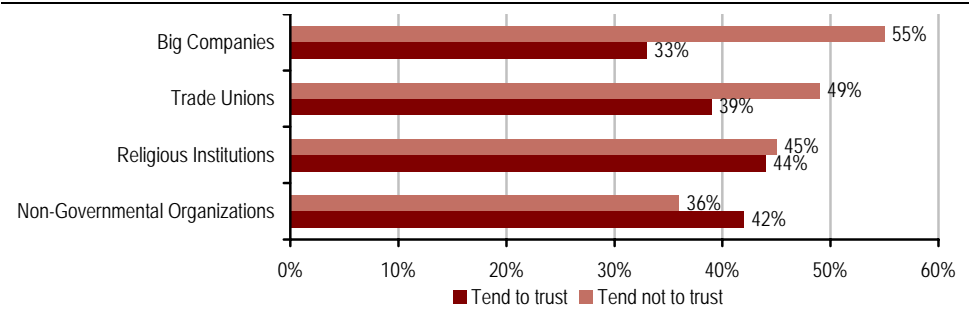


Source: NFO Trendbox B.V./Yankelovich

Declining trust in institutions and a rising spirit of entrepreneurialism

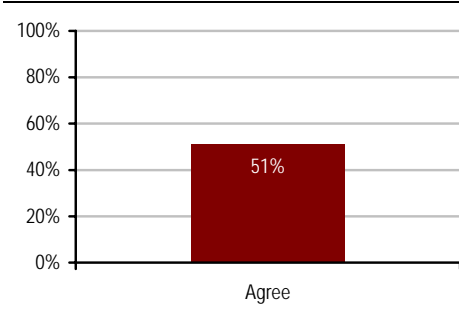
Not only is trust in government low, so, too, is trust in corporations and trade unions (Chart 54). The outcome of this declining trust in institutions is a rising spirit of entrepreneurialism. Indeed, today 51% of Europeans would rather “be self-employed” (Chart 55), and 88% would approve if their son wanted to start his own business (Chart 56).

Chart 54: Trust in Institutions



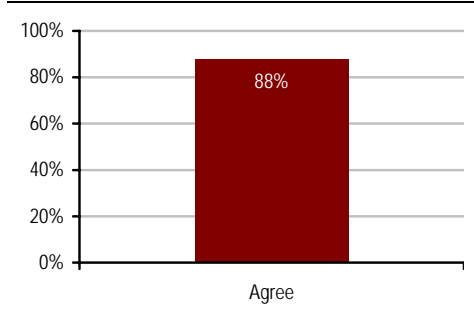
Source: European Commission

Chart 55: “If given a choice, I would rather be self-employed”



Source: European Commission

Chart 56: “Would approve if son wanted to start his own business”

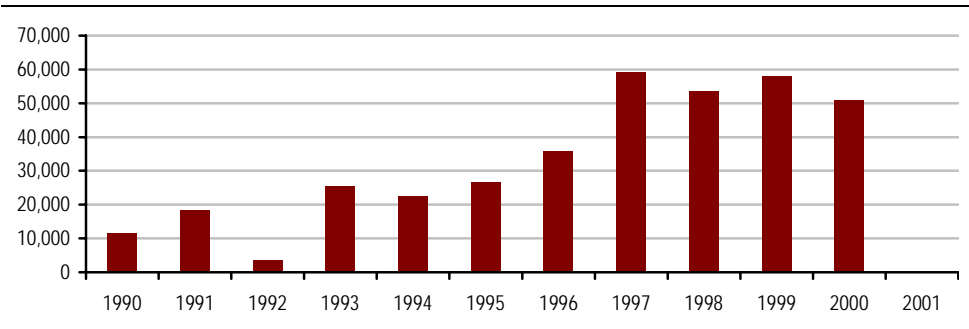


Source: European Commission

Several other factors are also helping fuel a growing entrepreneurial spirit:

- ▼ *“Forced outsourcing”*—Concomitant with the declining role of governments in the economy during the 1990s (as illustrated by the spate of privatizations—Chart 57), there has been a “forced outsourcing” of many government functions, such as pension planning, onto the shoulders of individual Europeans. Thus, governments have, in some ways, forced individual Europeans to become more entrepreneurial.

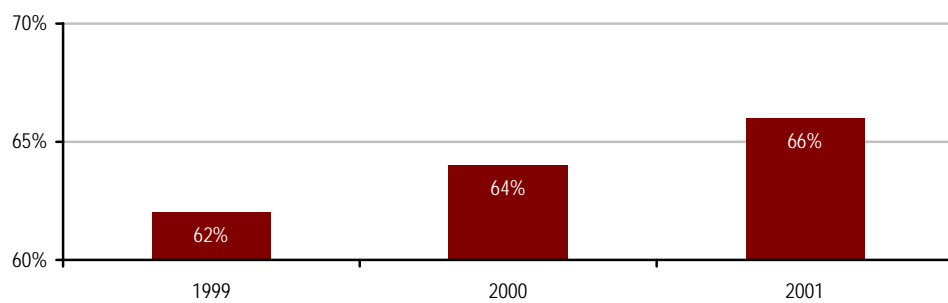
Chart 57: Gross EU15 Privatization Proceeds (millions of euros)



Source: OECD

- Rising optimism**—As Chart 58 illustrates, the percentage of Europeans that think “the future always offers more and new possibilities” has grown steadily in each of the past two years.

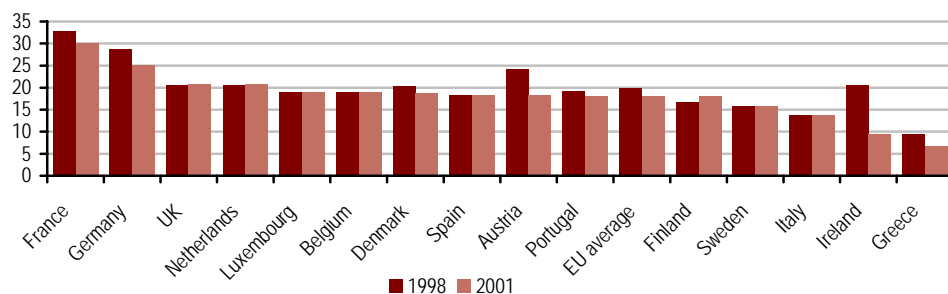
Chart 58: “The future always offers more and new possibilities”
Percentage that agree



Source: NFO Trendbox B.V./Yankelovich

- Tax reform**—Tax rates have come down across Europe in recent years (Chart 59), although there is still a lot more to be done in the area of tax reform, particularly in relatively high-tax countries, such as France and Germany.

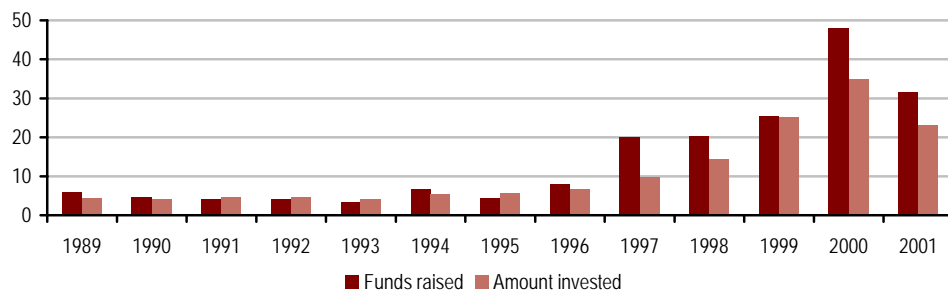
Chart 59: EU15 Effective Marginal Tax Rates
1998-2001



Source: Baker & McKenzie and UBS Warburg LLC

- Easier financing**—European companies had been primarily dependent on bank financing, but growing capital markets have provided another source of funding in recent years. In addition, private equity (or venture capital) has been playing a greater role in funding start-ups (Chart 60).

Chart 60: Private Equity Funds Raised and Invested (*billions of euros*)



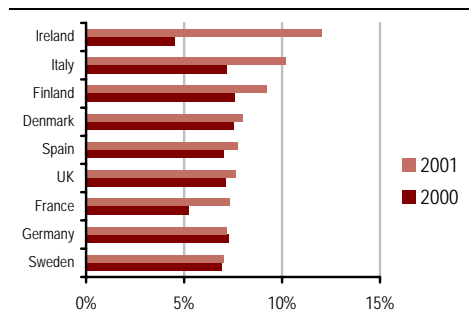
Source: European Venture Capital Association

European entrepreneurial activity levels have been rising (Chart 61) and, although they remain below those of the U.S., they are now close to levels in Asia (Chart 62).

European entrepreneurial activity levels have been rising, and are now close to levels in Asia

Chart 61: Total Entrepreneurial Activity by Global Region: 2000 and 2001

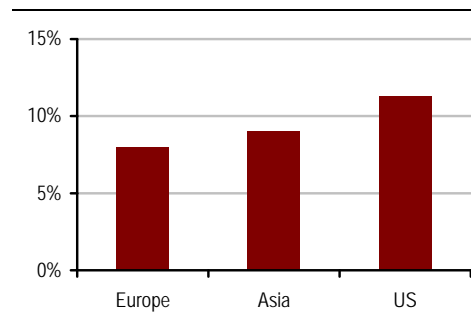
Persons per 100 adults, 18 years and older, involved in entrepreneurial activity



Source: 2001 Global Entrepreneurship Monitor

Chart 62: Total Entrepreneurial Activity by Global Region: 2001

Persons per 100 adults, 18 years and older, involved in entrepreneurial activity



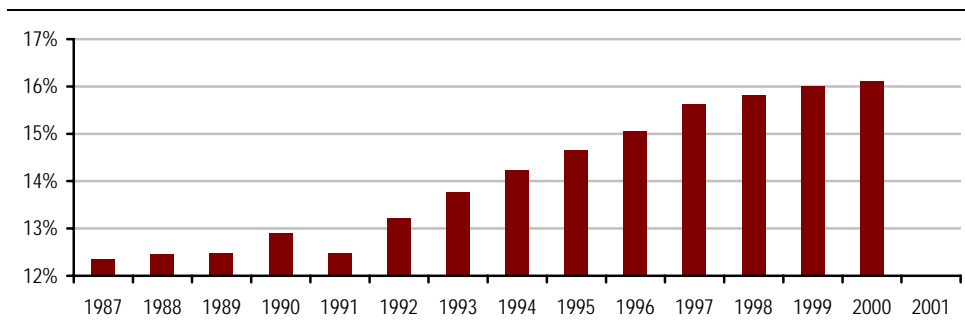
Source: 2001 Global Entrepreneurship Monitor

A heightened level of entrepreneurial activity is positive for a wide range of firms:

- Banks and securities firms.** As noted, growing capital markets have provided a key source of funding for “Europreneurs” in recent years. Beneficiaries of the growth in European capital markets include **Barclays** and **RBS Group** in the U.K. Elsewhere in Europe, **Credit Lyonnais** has focused on this market segment, as have **Banco Popular** in Spain and **UniCredito Italiano** in Italy. European bourses, such as **Deutsche Borse** and **Euronext**, are also beneficiaries of the push toward increased equity financing.
- Staffing agencies and recruiters.** Reflecting Europeans’ changing attitudes to work, entrepreneurialism and time management, there has been rapid growth in part-time employment, with the share of part-time or temporary workers climbing steadily (Chart 63). We believe these trends are positive for temporary staffing agencies and recruiters. **Adecco** is the global leader in personnel services with 5,000 offices in 58 countries, and **Vedior N.V.** is an international staffing services company, which operates across Europe. Specialist staffing companies involved with more highly skilled personnel (both temporary and permanent) include **Hays**, a U.K. conglomerate whose largest division specializes in white collar professional recruitment, and **Michael Page**, an international recruitment consultancy, with significant operations in Europe.

Chart 63: Part-Time Employment as Percentage of Employment

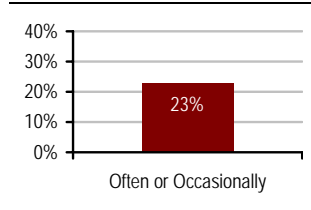
Five largest European economies



Source: OECD

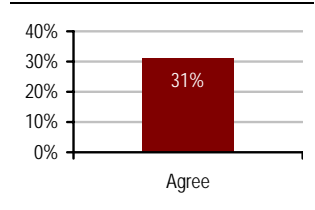
v **Home office suppliers.** Today, almost one in four working Europeans (23%) say that they work from home either “often” or “occasionally” (Chart 64). Not surprisingly, almost one in three Europeans (31%) say that “I can’t imagine life without computers” (Chart 65), while about one in four (23%) say “I love to buy new gadgets and technology” (Chart 66). We believe these trends are favorable for **Carphone Warehouse, Dixons** and **Kingfisher** (which owns the largest retailer of electrical products in France).

Chart 64: “Do you work from home?”



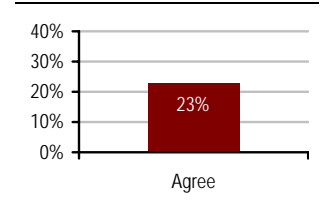
Source: NFO Trendbox
B.V./Yankelovich

Chart 65: “I can’t imagine life without computers”



Source: NFO Trendbox
B.V./Yankelovich

Chart 66: “I love to buy new gadgets and technology”



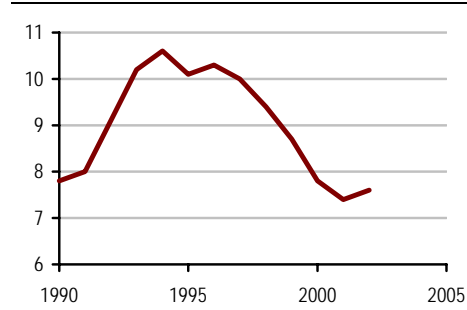
Source: NFO Trendbox
B.V./Yankelovich

Affluently Frugal: More Money, Less Ostentation

Incomes have been growing and wealth levels increasing

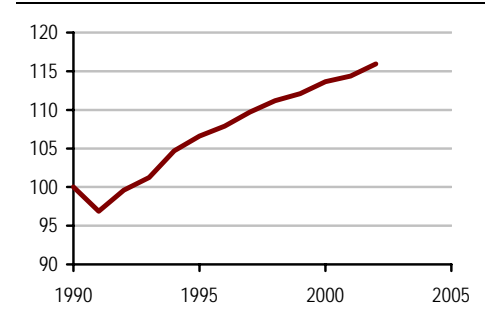
As we noted above, work is being viewed less as a way to just earn money. Nevertheless, with unemployment falling (Chart 67) and productivity rising (Chart 68), incomes have been growing (Chart 69) and wealth levels increasing (Chart 70).

Chart 67: EU15 Unemployment
Percent



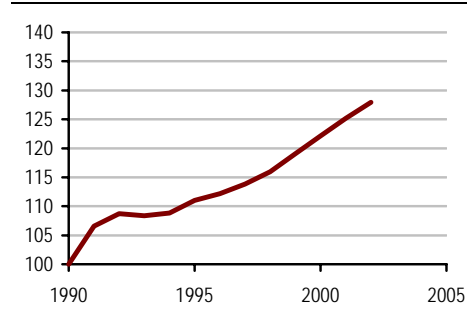
Source: OECD

Chart 68: EU15 Productivity Index
Index: 1990 = 100



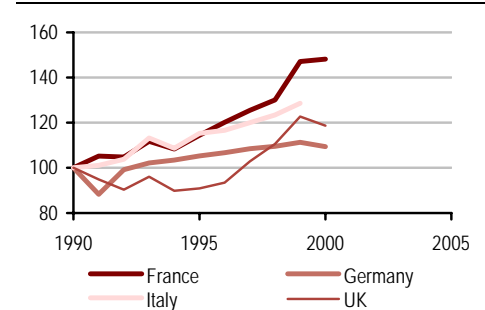
Source: OECD and UBS Warburg LLC

Chart 69: EU15 Real Disposable Income
Index: 1990 = 100



Source: OECD and UBS Warburg LLC

Chart 70: Household Net Wealth
Index: 1990 = 100

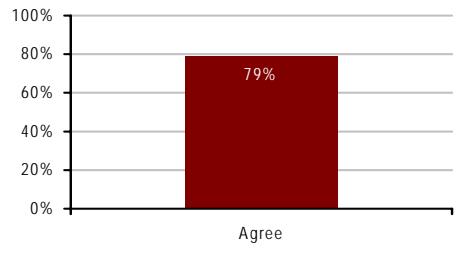


Source: OECD

The ostentation that has accompanied rising incomes in other regions of the world is not endemic to Europe

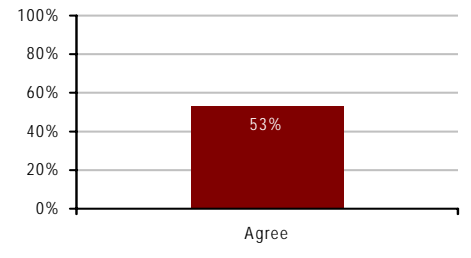
However, the ostentation that has accompanied rising incomes in other regions of the world is not endemic to Europe. To the contrary, 79% of Europeans say that “society these days is too focused on material things” (Chart 71), while 53% say that “mental growth is more important to me than material growth” (Chart 72).

Chart 71: “Society these days is too focused on material things”



Source: NFO Trendbox B.V./Yankelovich

Chart 72: “Mental growth is more important to me than material growth”



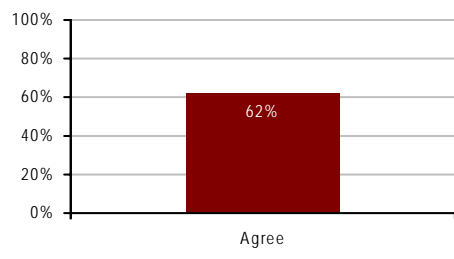
Source: NFO Trendbox B.V./Yankelovich

Europeans are practical, prudent and unpretentious

Increasingly affluent, but decidedly unostentatious, European consumers display three characteristics. Europeans are:

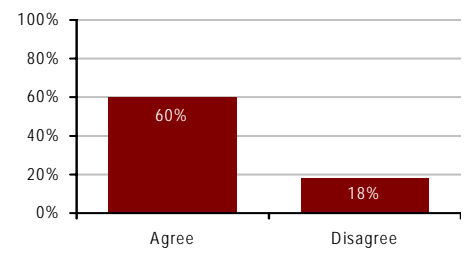
- ✓ *Practical.* 62% “only replace things when they are broken” (Chart 73).
- ✓ *Prudent.* 60% say that “I am someone who, above all, looks at the price when buying things” (Chart 74).
- ✓ *Unpretentious.* Only 24% buy products that they see “advertised a lot” (Chart 75). Just 19% “spend quite a lot of money on clothes for myself” (Chart 76). And despite the fact that, as noted above, 53% think that “in a few years’ time, I will be financially better off than I am now” (Chart 52), only 36% say that “within the next 10 years, I plan to buy or build a house or an apartment” (Chart 77).

Chart 73: “Only replace it when it’s broken”



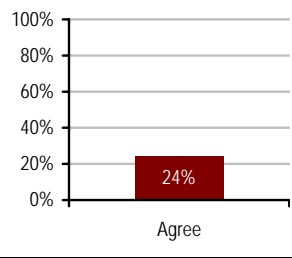
Source: NFO Trendbox B.V./Yankelovich

Chart 74: “I look at the price when buying”



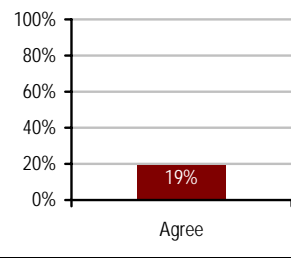
Source: NFO Trendbox B.V./Yankelovich

Chart 75: “Would rather buy products advertised a lot”



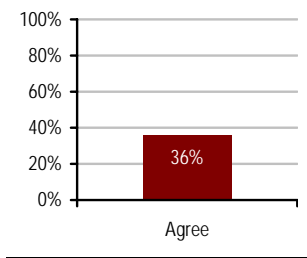
Source: NFO Trendbox B.V./Yankelovich

Chart 76: “Spend quite a lot of money on clothes”



Source: NFO Trendbox B.V./Yankelovich

Chart 77: “Buy/build house/apartment in next 10 years”

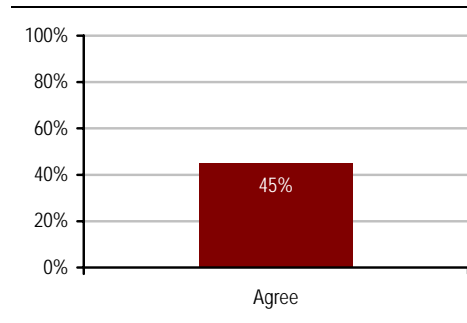


Source: NFO Trendbox B.V./Yankelovich

Middle-market companies seem well positioned, especially department stores and supermarkets

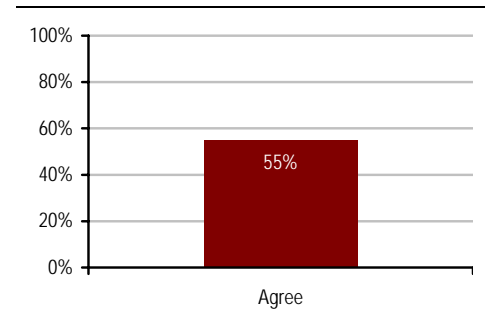
Given these trends, middle-market companies seem well positioned, especially department stores and supermarkets. Likely reflecting the fact that Europeans feel pressed for time (Chart 27) and appreciate convenience when it comes to food preparation (Chart 35), close to one in two Europeans say they like shopping in department stores (Chart 78) and supermarkets (Chart 79). Not surprisingly then, a 2002 Cap Gemini Ernst & Young survey of European consumers found that 20%-plus of consumers in one or more country said that their “favorite store” was **Carrefour, Debenhams, Galeries Lafayette, Sainsbury or Tesco.**

Chart 78: “I like shopping in department stores”



Source: NFO Trendbox B.V./Yankelovich

Chart 79: “I like shopping in supermarkets”



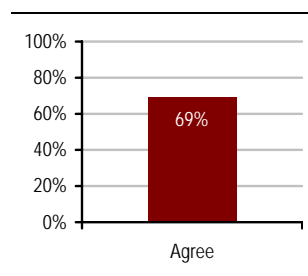
Source: NFO Trendbox B.V./Yankelovich

Europeans are focusing on savings and investments

More Money, More Risk

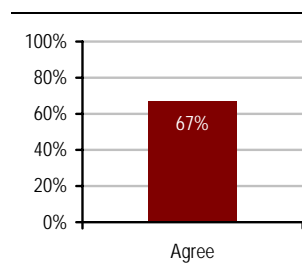
Concomitant with their rising wealth, Europeans are focusing on savings and investments. 69% agree that “it’s very important to save a fixed amount each month” (Chart 80). 67% say that “these days you have to deny yourself something now and then, because you have to think of a financially secure future” (Chart 81). And 54% are “interested” in financial investment opportunities (Chart 82).

Chart 80: “It’s very important to save a fixed amount each month”



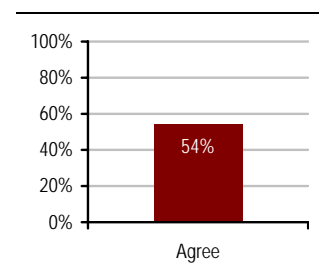
Source: NFO Trendbox B.V./Yankelovich

Chart 81: “You have to deny yourself something to have a financially secure future”



Source: NFO Trendbox B.V./Yankelovich

Chart 82: “Interested in financial investment opportunities”



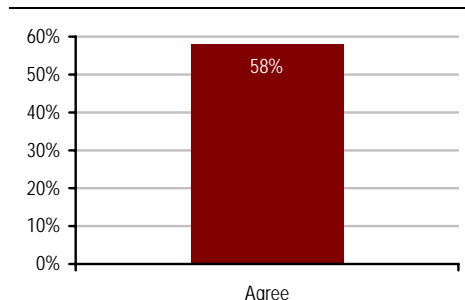
Source: NFO Trendbox B.V./Yankelovich

Reflecting a greater sense of entrepreneurialism, Europeans are also displaying an increased appetite for risk.

Europeans are displaying an increased appetite for risk

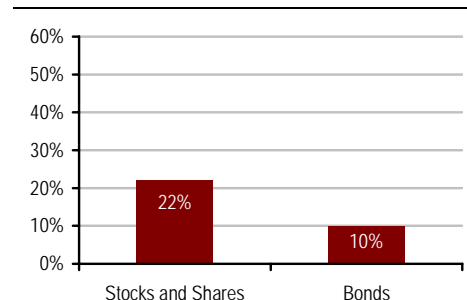
- v 58% say that “if you want to increase your wealth, then you have to take certain risks” (Chart 83).
- v In 2001, twice as many Europeans say they owned stocks and shares as say they owned bonds (22% versus 10%—Chart 84).

Chart 83: “If you want to increase your wealth, then you have to take certain risks”



Source: NFO Trendbox B.V./Yankelovich

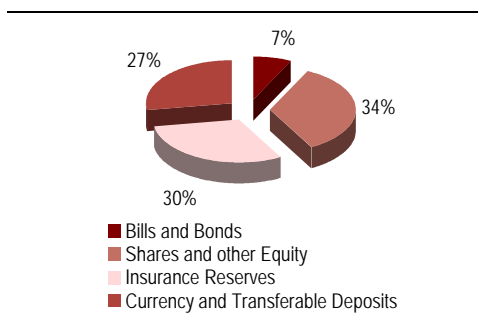
Chart 84: Ownership of Stocks and Bonds
“Which of the following products and services do you currently use?” (2001)



Source: NFO Trendbox B.V./Yankelovich

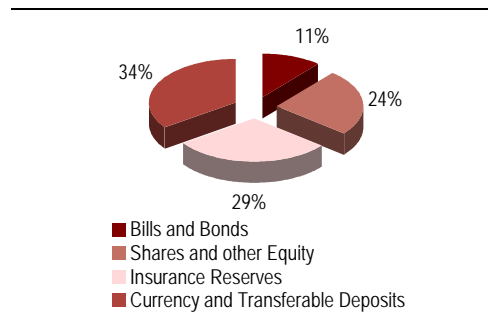
- v Not surprisingly, in 2000 “shares and other equity” composed the largest portion of households’ financial assets (Chart 85), a marked change from 1996 when deposits were the most important financial instrument (Chart 86).

Chart 85: Household Financial Assets—2000



Source: European Commission

Chart 86: Household Financial Assets—1996



Source: European Commission

At present, national borders still define many of the beneficiaries of Europe’s increased affluence. For example:

- v In the U.K., there is clear market segmentation. The growth in demand in *private banking services* is being targeted by **RBS Group**, which is aiming to capture *high net worth* individuals via two private banks under the RBOS umbrella: Coutts and Adam & Co. The growth of the *mass affluent market* (i.e., middle income/wealth) is the focus of **Lloyds TSB** and **Barclays**. Following its acquisition of Clerical Medical, **HBOS** (formed by the merger of Halifax and Bank of Scotland) is targeting the *retail wealth market* (i.e., lower income employees, who are being encouraged to invest for retirement).
- v In Italy, **San Paolo–IMI** is well positioned to benefit from increased affluence.
- v In France, it is banks, notably **BNP Paribas**, **Credit Lyonnais** and **Societe Generale**, which are trying to exploit these growth opportunities.
- v In Spain, **BBVA** is benefiting from increased demand for financial services.
- v Switzerland’s **CS Group** is one of the beneficiaries of the increased demand for wealth management services across Europe.

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Rating	Definition	% of companies under coverage with this rating	% for which IB services have been provided
Strong Buy	Greater than 20% excess return potential; high degree of confidence	11.46%	28.36%
Buy	Positive excess return potential	38.35%	16.32%
Hold	Low excess return potential; low degree of confidence	44.24%	11.99%
Reduce	Negative excess return potential	4.52%	5.30%
Sell	Greater than 20% negative excess return potential; high degree of confidence	1.44%	4.76%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12-month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.

*Investment banking services include, but are not restricted to, acting as manager/co-manager in the underwriting or placement of securities (within the past three years), acting as financial advisor, and/or providing corporate finance or capital-markets-related services to a company or one of its affiliates or subsidiaries (within the past 12 months).

Source: UBS AG, its subsidiaries and affiliates; as of 22 April 2002.

Companies Mentioned

* As of Friday, July 19, 2002. Source: UBS Warburg

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