

STATISTICS ON PERFORMANCE¹

Introduction

Since 1996, KPMG Corporate Finance, in co-operation with AIFI, is carrying out, on a yearly basis, the analysis on the performance of the Italian private equity and venture capital industry.

The present survey includes a significant sample of the most important Italian private equity and venture capital houses and has been carried out in order to assess the performance of the industry.

Until 2003, the analysis has always been conducted on a Pooled Gross IRR on Realised Investment² level only. Since the 2004 edition, in order to give a more comprehensive representation of the performance of the Italian market and to align the performance measurement to the European and international standards, Pooled Gross IRR on All Investments³ analysis has been introduced.

Gross IRR on Realised Investments offers a “realistic” description of the market as it considers divestments transaction only, but it just expresses the performance of the realised segment of the private equity industry, with no reference to the implicit performances of the investments still in the portfolios.

On the other hand, the second level of IRR, the Gross IRR on All Investments, offers a wider perspective of the market performance, even if it might underestimate the overall performance of the market, being stakes in portfolio often prudentially valued at cost by investors.

In the following pages, the analyses carried out to illustrate dynamics and trends of the industry’s performances consider:

- one-year Pooled Gross IRR on Realised Investments from inception (divestments registered in 2006);
- historical Pooled Gross IRR on Realised Investments since inception (transactions with investments and divestments registered between 1986 and 2006);

¹ The analysis has been realized in co-operation with KPMG Corporate Finance.

² According to the EVCA criteria this level of performance takes into account of investments (cash outflows) and divestments (cash inflows) in which the private equity and venture capital houses have sold at least a 30% of the initial investment in equity. In case of partial divestments only the related part of total cash out has been considered.

³ The second level of IRR considers both realised and in portfolio investments, no matter if the disinvestment has been partial.

- ten, five and three-years horizon Pooled Gross IRR on All Investments (transactions registered in the specific horizon plus participations still in portfolio at the end of the period – period considered: 1997-2006, 2002-2006, 2004-2006).

Performances have been measured in terms of pooled IRR, considering all the cash flows on which data are available, aggregated as if resulted from the transactions carried out by a single fund (of which the performances are measured).

Pooled Gross IRR on Realised Investments during 2006

According to the past editions of the survey, first of all, are presented the analyses on 2006 Gross IRR from inception on realised transactions.

Table 1 – IRR from inception analysis: main sample features

	2006	2005	2004	2003	2002	2001
N. of companies included in the research panel	62	51	39	41	59	62
N. of companies presenting realised investments	30	23	21	18	20	22
N. of realised investments from inception	88	71	69	96	62	69
Average investment dimension (Euro Mln)	10.9	7.2	6.2	4.5	5.1	5.1
Total Cash Out (Euro Mln)	966	512	429	432	314	350
Total Cash In (Euro Mln)	1,956	995	883	672	641	679

Source: KPMG Corporate Finance

As shown in table 1, the sample panel showed an extraordinary increase in comparison with the past three years, taking back the number of companies included in the research panel to the levels of 2001 and 2002.

The number of companies presenting realised investments moved from 23 to 30, confirming the positive trend of the previous years and achieving a level never reached since the yearly survey started.

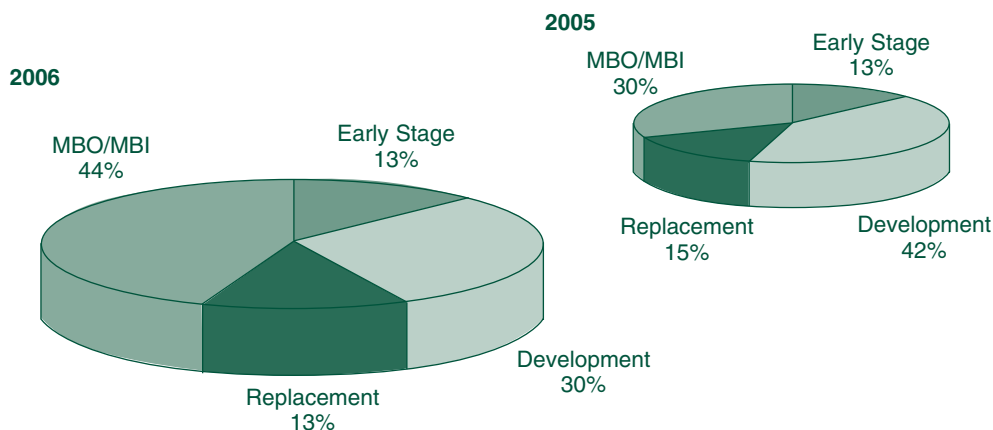
Average investment dimension significantly increased by more than 50% (from 7.2 Euro Mln in 2005 to 10.9 in 2006), in conjunction with a growth in the number of realised investments (88 divestments in 2006, the highest number in the last six years, with the only exception of the 2003 edition) and a strong increase in the total value of Cash Out (966 Euro Mln, almost doubling 2005 figure).

Total Cash In increased by +97%, confirming an average implicit (and theoretical) exit multiple around 2x (i.e. 2.02x), substantially aligned to the previous year (i.e. 1.94x).

MBO/MBI transactions in 2006 panel have been the preferred financing stage by the investors, showing an increase (by number) from 30% to 44% of the overall transactions.

The development transactions on the contrary decreased to 30% (from 42% of the previous year), while early stage and replacement transactions incidence on the panel remained substantially stable.

Chart 1 – IRR from inception analysis: transactions breakdown by financing stage (by number)

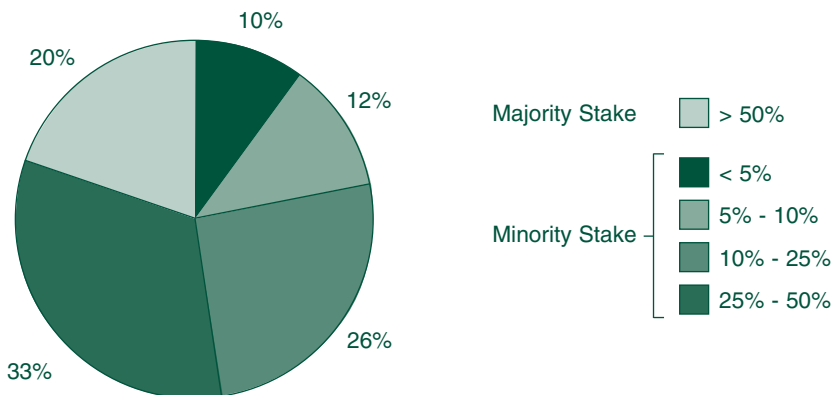


Source: KPMG Corporate Finance

Chart 2 shows the transactions breakdown by acquired stakes: the majority of them, as the previous year, have been related to minority stakes, however the majority stake transactions incidence doubled in 2006 (respectively 20% in 2006 and 9% in 2005). The most common transaction (33% of the overall panel) is associated to a 25% to 50% acquired stake, confirming the 2005 outcomes.

In this regard, it is worth to note that all investments have been analysed on a stand-alone basis, without taking into account possible pool agreements, among some of the private equity and venture capital houses, which might have jointly acquired majority stakes.

Chart 2 – IRR from inception analysis: transactions breakdown by acquired stakes (by number)



Source: KPMG Corporate Finance

2006 pool breakdown analysis (see table 7) shows that transactions have been equally distributed among investments “Within a Pool” and “Out of Pool”, confirming previous years outcomes.

Considering the breakdown by sales’ dimension, transactions focused on middle-large size companies (with a turnover between 50 and 250 Euro Mln) presented a sharp increase, representing in 2006 almost half of the sample. It has to be noted a decrease, in comparison to 2005, in the number of transactions related to companies with a turnover higher than 250 Euro Mln (7% of the sample in 2006 vs 16% in 2005).

Summarizing, most of the divestments monitored in 2006 have been related to transactions of the minority stake, invested in small-middle size companies, during their development stage or within MBO/MBI operations.

In terms of average holding period (between the first investment and divestment), in 2006, the number of transactions realised within five years decreased from 77% in 2005 to 65% in 2006. The majority of divestments included in the panel are related to investments performed during/around 2001.

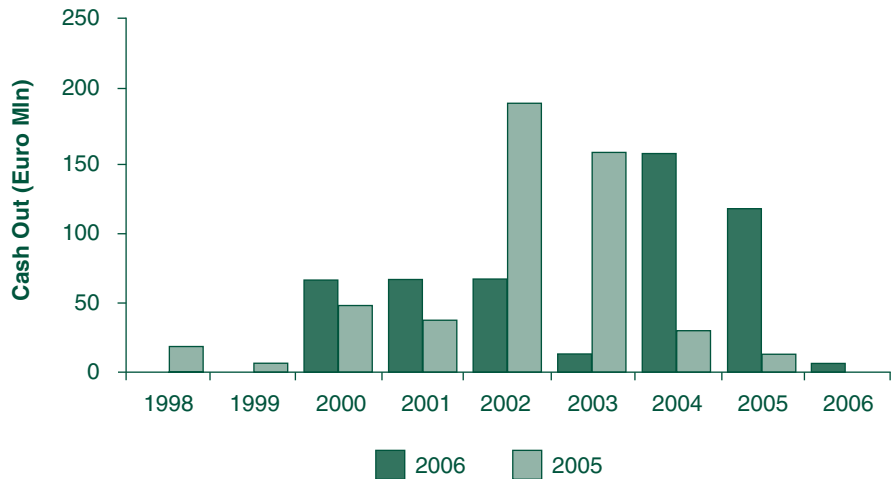
According to the international standard criteria related to the first level of IRR, the Italian private equity and venture capital houses’ performances in 2006 are presented, in Table 2, as pooled internal rate of return from inception.

Chart 3 – IRR from inception analysis: transactions breakdown by target sales dimension (by number)



Source: KPMG Corporate Finance

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2006 vs. 2005)



Source: KPMG Corporate Finance

Table 2 – IRR from inception by year in 2001, 2002, 2003, 2004, 2005 and 2006

	2006	2005	2004	2003	2002	2001
N. of realised investments from inception	88	71	69	96	62	69
Yearly Pooled IRR	28.5%	25.1%	24.7%	17.8%	34.9%	34.2%

Source: KPMG Corporate Finance

The Yearly Pooled Gross IRR on realised investments from inception in 2006 has been equal to 28.5%, registering a material increase from 2005 and confirming the positive trend showed since 2003.

The Upper Quarter per performances registered an IRR equal to 115%, drastically changing the decreasing trend which affected the outcomes since 2001 and showing a significant over-performance in comparison to the average panel performances.

The Upper Quarter per dimension registered an IRR of 24%.

Table 3 – IRR from inception by year: Upper Quarters

	2006	2005	2004	2003	2002	2001
Yearly Pooled IRR	28.5%	25.1%	24.7%	17.8%	34.9%	34.2%
Upper Quarter (per performances)	115%	55%	59%	79%	108%	168%
Upper Quarter (per investments dimension)	24%	28%	27%	17%	43%	9%

Source: KPMG Corporate Finance

Table 4 – IRR from inception distribution by IRR categories

	2006		2005	
	Number	Incidence (%)	Number	Incidence (%)
Write Off/Negative	13	14.8%	7	9.9%
0% - 10%	34	38.6%	38	53.5%
10% - 20%	9	10.2%	6	8.5%
20% - 30%	8	9.1%	9	12.7%
30% - 40%	4	4.5%	2	2.8%
40% - 50%	4	4.5%	1	1.4%
50% - 100%	7	8.0%	6	8.5%
100% - 500%	7	8.0%	2	2.8%
> 500%	2	2.3%	–	–

Source: KPMG Corporate Finance

As occurred last year, analyses confirm a trend towards a more mature market. In fact, considering relative incidence (by number) of the different ranges of performance, table 4 shows that 2006 realised transactions had an equally distributed spectrum of performances. Comparing 2005 outcomes (which already started to show this trend toward a more mature market) with 2006 ones, it is worth to note that:

- divestments with negative performance and write off increased from 9.9% to 14.8%;
- divestments with low performance (with a Pooled IRR between 0% and 10%) decreased from 53.5% to 38.6%;
- divestments with performances between 10% and 50% Pooled IRR increased from 25.4% to 28.3% (with a more balanced distribution within the range);
- divestments with outstanding performances (above 50% Pooled IRR) significantly increased from 11.3% to 18.3% (with a more balanced distribution and registering also two divestments with performance above 500%).

Table 5 – IRR from inception distribution by financing stage

	<u>Early Stage</u>		<u>Development</u>		<u>MBO/MBI</u>		<u>Replacement</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Transaction Number	8	6	18	19	27	14	8	7
Yearly Pooled IRR	13.8%	-1.8%	17.4%	13.9%	44.9%	37.3%	20.6%	15.2%

Source: KPMG Corporate Finance

IRR analyses by financing stage confirm the MBO/MBI transactions as the most profitable, with higher performance in comparison to 2005 (44.9% in 2006 vs. 37.3% in 2005).

Generally speaking, analysing performances by financing stage, all 2006 outcomes show higher Pooled IRR in comparison to 2005. It is worth to note that the most significant increase has been registered by early stage transactions, notwithstanding it has to be noted that, considering historical trends, Early Stage transactions confirm to be the most volatile⁴ investment in term of returns.

⁴ Please note that 2004, 2003 and 2002 IRR from inception related to Early Stage investments were equal respectively to 30,5% , -10,6% and 191,5%.

Tables 6, 7 and 8 show some further analyses of the 2006 Italian private equity performance from inception⁵.

Table 6 – IRR from inception distribution by way out

	Trade Sale		IPO/Sales post IPO	
	2006	2005	2006	2005
N. of Transaction	84	61	3	7
Yearly Pooled IRR	30.1%	12.8%	19.5%	45.0%

Source: KPMG Corporate Finance

Table 7 – IRR from inception distribution by transactions managed within pool and transactions not realised in pool

	Within Pool		Out of Pool	
	2006	2005	2006	2005
N. of Transaction	31	22	30	20
Incidence	50.8%	52%	49.2%	48%
Yearly Pooled IRR	23.9%	16.2%	36.3%	43.1%

	Pool < 50		Pool > 50	
	2006	2005	2005	2005
N. of Transaction	9	10	22	12
Incidence within Pool	14.7%	45%	36.1%	55%
Yearly Pooled IRR	15.2%	24.6%	26.6%	12.7%

Source: KPMG Corporate Finance

Table 8 – 2006 IRR from inception distribution by time gap between first investment and divestment

	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	20	13	11	13	26	5
Incidence	23%	15%	13%	15%	30%	6%
Yearly Pooled IRR	88.5%	24.2%	25.6%	24.4%	6.5%	33.4%

Source: KPMG Corporate Finance

⁵ Please note that in Tables 6, 7 and 8, total transactions considered can be less than 88 due to a lack of specific information/details related to certain transactions: accordingly, the related incidence is calculated, case by case, on the number of transactions effectively analysed.

Historical Pooled Gross IRR on Realised Investments since inception (1986-2006)

In order to analyse the whole panel of transactions realised since inception (from 1986), the analysis on historical Yearly Pooled Gross IRR on realised investments is presented in the followings.

The historical performance is substantially stable (registering a 30.0% Pooled IRR), showing a slight decrease in comparison to 2005 mainly due to the incidence of 2006 realised investments on the overall values. Confirming the trend observed in the from inception level of analysis, the average investment dimension increased up to 4.9 Euro Mln.

Table 9 – Historical IRR since inception analysis

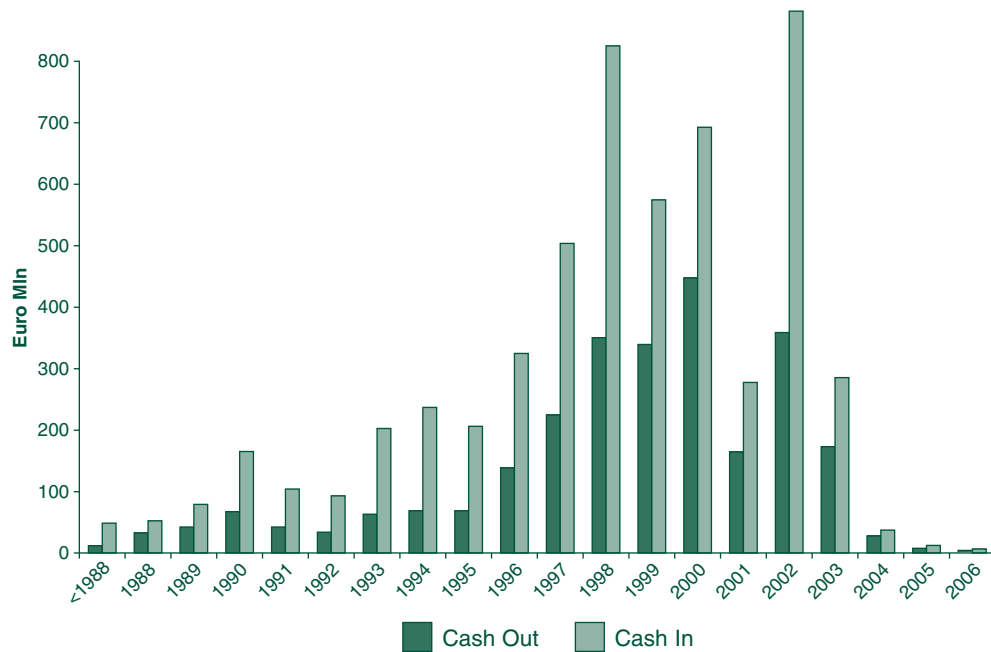
	1986-2006	1986-2005
Number of companies presenting realised investments	62	53
Number of realised investments since inception	765	679
Average investment dimension (Euro Mln)	4.9	4.1
Total Cash Out (Euro Mln)	3,810	2,789
Total Cash In (Euro Mln)	7,683	5,734
Yearly Pooled IRR	30.0%	30.3%

Source: KPMG Corporate Finance

The historical sample analysis shows that the majority of realised investments have been concluded within 4 years (around 66% of the sample both in 2006 and in 2005). The majority of the deals were focused on small and middle size companies (approximately 80% of the sample is related to transactions on targets with turnover up to 125 Euro Mln), related to development stage or MBO/MBI transactions and well distributed within or without Pool transactions.

In order to give a complete overview, the following tables report some analyses related to the historical performance since inception of all the transactions monitored in relation to the 1986-2006 period.

Chart 5 – Historical IRR since inception analysis: annual Cash In / Cash Out related to realised investments



Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception: Upper Quarters

	1986-2006
Yearly Pooled IRR	30.0%
Upper Quarter (per performances)	90.4%
Upper Quarter (per investment dimension)	27.3%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by financing stage

	1986-2006			
	Early Stage	Development	MBO/MBI	Replacement
Transaction Number	76	275	208	91
Yearly Pooled IRR	24.9%	19.1%	47.2%	31.1%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by IRR categories

	1986-2006	
	Number	Incidence (%)
Write Off/Negative	123	16.1%
0% - 10%	218	28.5%
10% - 20%	106	13.8%
20% - 30%	67	8.7%
30% - 40%	43	5.6%
40% - 50%	42	5.5%
50% - 100%	84	11.0%
100% - 500%	63	8.2%
> 500%	20	2.6%

Source: KPMG Corporate Finance

Table 13 – Historical IRR since inception distribution by acquired stakes

	1986-2006				
	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of Transaction	90	111	213	192	65
Incidence	13%	17%	32%	29%	10%
Yearly Pooled IRR	15.7%	29.3%	20.4%	30.1%	43.0%

Source: KPMG Corporate Finance

Table 14 – Historical IRR since inception distribution by time gap between first investment and divestment

	1986-2006					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	214	164	114	74	134	65
Incidence	28%	21%	15%	10%	18%	8%
Yearly Pooled IRR	78.6%	53.3%	50.5%	17.5%	14.3%	10.4%

Source: KPMG Corporate Finance

Pooled Gross IRR on All Investments by horizon

The analyses on the Pooled Gross IRR on All Investments (by horizon)⁶ have been performed, above all, in order to have more comparable data with respect to other European markets.

Table 15 – Horizon Pooled Gross IRR on All Investments analysis to 31 December 2006

	3 YR	5 YR	10 YR
Number of companies presenting investments	50	56	73
Number of transactions	250	409	828
<i>Of which: - realised investments*</i>	40	130	501
<i>- still in portfolio participations</i>	210	279	327
Average investment dimension (Euro Mln)	21.7	18.3	12.0
Total Cash Out (Euro Mln)	5,443	7,500	9,986
Total Cash In (Euro Mln)	6,558	10,113	13,931
Yearly Pooled IRR	23.6%	22.5%	22.0%

Source: KPMG Corporate Finance

* It is important to notice that partially divested participations have been considered (by number) only in the "Still in portfolio" panel, while realised investments includes only completely divested participation.

Within Yearly Pooled IRR on All Investments by horizon analysis, two main aspects have to be considered:

- the "rolling mechanisms" applied in the time horizons' analyses;
- the investments still in portfolio, quite often prudentially valued at cost.

Taking into account, as a general reference, a ten years horizon results, the Yearly Pooled IRR on All Investment shows a moderate increase (i.e. 22.0% in 2006 vs. 21.1% in 2005), basically due to specific dynamics:

⁶ No analytical exercise has been performed in order to estimate the Net IRR. However, in order to provide broad indications that may be useful to estimate the Net IRR, empirical analyses, based on assumptions related to common market practice, would seem to show that, generally speaking, Net IRR (excluding all taxation effects and transaction fees incurred by the investors in disposing of any distributed securities) would fell in the range of 50% - 65% of Gross IRR on All Investments.

- the insertion of 88 realized transaction counting for 966 Euro Mln (cash Out Value), which realised an IRR equal to 28,5%;
- the exclusion of 52 realised deals (invested in 1996) counting for 350 Euro Mln (Cash Out value), which realised an IRR equal to 38%;
- the valuation at book value of the majority of the investments still in portfolios (178 on 327 participations in 2006 vs 163 on 262 in 2005).

Table 16 – 10YR horizon IRR analysis: investments still in portfolio breakdown (by number and Cash Out)

	By number		By Cash Out	
	2006	2005	2006	2005
Book value deals	54.4%	62.2%	70.0%	65.3%
Re-valued deals	30.0%	21.8%	20.7%	27.2%
Depreciated deals	15.6%	16.0%	9.3%	7.6%
Investments still in portfolio (N. and Euro Mln)	327	262	6,953	3,465

Source: KPMG Corporate Finance

Although investments still in portfolio are mostly registered at book value, it is worth noting a positive trend towards a market value assessment approach more focused on re-valuations.

Investments still in portfolios, on a ten year panel, registered a material increase with a Pooled IRR equal to 6.1% (compared respectively to 0.8%, -2.7% and -1.2% in 2005, 2004 and 2003).

Differently from 2005 outcomes, 2006 analyses show a similar performance in terms of Pooled IRR in all the three horizons considered (i.e. 2006: 3YR 23.6%, 5YR 22.5%, 10YR 22.0% vs 2005: 3YR 6.6%, 5YR 11.7%, 10YR 21.1%), highlighting a significant relative increase in performance in the 5 years and 3 years horizons.

2006 analyses in all the three considered horizons, confirm a general increase of the performance for all the financing stage. MBO/MBI transactions confirm to be the most profitable, followed by Development and Replacement ones, while Early Stage have been characterised over the years by a volatile trend (table 17).

The results of proposed analyses, consistently with the past survey's edition, are illustrated in the following tables (18, 19).

Table 17 – Horizon IRR distribution by financing stage

	Early Stage	Development	MBO/MBI	Replacement
N. of Transaction	25	71	107	25
IRR 3 YR	-0.01%	31.5%	43.9%	7.9%
N. of Transaction	32	118	172	42
IRR 5 YR	-0.1%	23.5%	28.7%	7.0%
N. of Transaction	90	261	256	90
IRR 10 YR	1.2%	19.7%	39.7%	18.2%

Source: KPMG Corporate Finance

Table 18 – Horizon IRR distribution by target sales dimension (Euro Mln)

	<10	10-25	25-50	50-125	125-250	>250
N. of Transaction	52	43	50	36	23	27
IRR 3 YR	0.002%	9.6%	28.0%	28.0%	37.6%	59.0%
N. of Transaction	84	69	73	64	46	48
IRR 5 YR	-0.1%	2.9%	25.0%	24.0%	31.6%	29.7%
N. of Transaction	192	117	122	162	93	100
IRR 10 YR	175.1%	7.6%	21.6%	26.3%	20.6%	25.4%

Source: KPMG Corporate Finance

Table 19 – Horizon IRR: Upper Quarters

	3 YR	5 YR	10 YR
Yearly Pooled IRR	23.6%	22.5%	22.0%
Upper Quarter (per performances)	77.5%	52.3%	101.0%
Upper Quarter (per investment dimension)	24.5%	22.7%	15.2%

Source: KPMG Corporate Finance