

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.

This survey, which involves a significant sample of the most important Italian private equity and venture capital houses, has been basically performed in order to assess the overall performance of the industry.

Until 2003, the analysis has been solely carried out on a Pooled Gross IRR on Realised Investment² level. Since the 2004 edition, in order to provide a more in-depth representation of the performance within the Italian market and to align the performance measurement to the European and international standards, Pooled Gross IRR on All Investments³ analysis has been also introduced.

Gross IRR on Realised Investments, which considers only divestments, provides a "realistic" overview of the market, representing the overall performance related to the realised operations; on the other hand, it does not provide any evidence of the implicit performance referred to the investments still in the portfolio.

Similarly, the second level of IRR, Gross IRR on All Investments, provides a wider insight of the market trend, even though it might underestimate the overall performance, due to the common practice of a number of private equity houses to prudentially evaluate their portfolios at cost.

Therefore, the analyses described in the followings consider:

- one-year Pooled Gross IRR on Realised Investments from inception (divestments recorded in 2007);
- historical Pooled Gross IRR on Realised Investments since inception (transactions with both investments and divestments occurred in the period comprised between 1986 and 2007);

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

² According to the EVCA principles, this indicator 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 (investments made in the period 1998-2007, 2003-2007 and 2005-2007 respectively, no matter if, at the end of the period considered, the stake is still in portfolio or it has been – partially or totally - divested).

Performances have been measured in terms of pooled IRR, considering all the cash flows disclosed by the private equity houses; such cash flows have been subsequently aggregated as if they resulted from the transactions carried out by a single fund (whose performances have been measured).

Pooled Gross IRR on Realised Investments during 2007

Similarly to the previous editions of the survey, the first focus of the analyses is on 2007 Gross IRR on Realised Investments from inception.

Table 1 – IRR from inception analysis: main sample features

	2007	2006	2005	2004	2003
N. of PE & VC houses included in the research panel	66	62	51	39	41
N. of PE & VC houses presenting realised investments	33	30	23	21	18
N. of realised investments from inception	99	88	71	69	96
Average investment size (Euro Mln)	16.4	10.9	7.2	6.2	4.5
Total Cash Out (Euro Mln)	1,627	966	512	429	432
Total Cash In (Euro Mln)	4,105	1,956	995	883	672

Source: KPMG Corporate Finance

As shown in Table 1, the number of private equity houses participating to the panel increased from 41 in 2003 to 66 in 2007 (the highest number since the beginning of the survey in 1996), with a trend which confirms the wide market coverage reached in the last years by the survey.

Within the sample, the number of private equity houses showing realised investments increased from 30 in 2006 to 33 in 2007, confirming the overall growth trend of the last years.

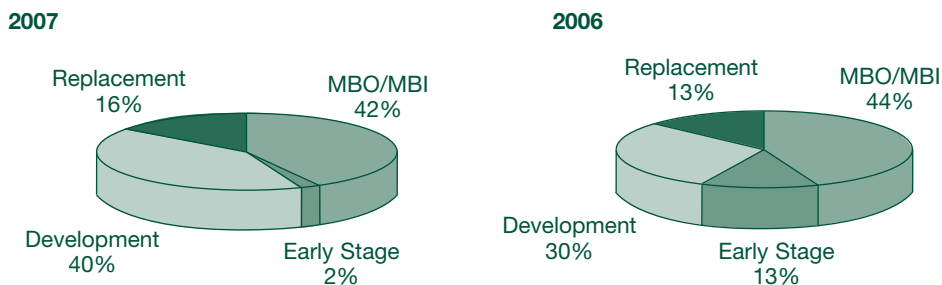
Total Cash Out rose by approximately 68%, compared to 2006, as a consequence of the significant increase in the average investment size (from 10.9 Euro mln in 2006 to 16.4 Euro mln in 2007), combined with an increase in the number of the divestments recorded (99 in 2007 vs. 88 in 2006).

Total Cash In has more than doubled, showing an average implicit (and theoretical) exit multiple of around 2.5x (i.e. 2.52x), significantly higher than the previous year (i.e. 2.02x).

In 2007, private equity houses confirmed, at exit level, their preference for MBO/MBI, closely followed by Development transactions, which showed a significant increase (by number) from 30% in 2006 up to 40% in 2007.

On the other hand, the Early stage divestments fell to 2% (from 13% of the previous year); Replacement transactions' incidence on the panel remained substantially stable.

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



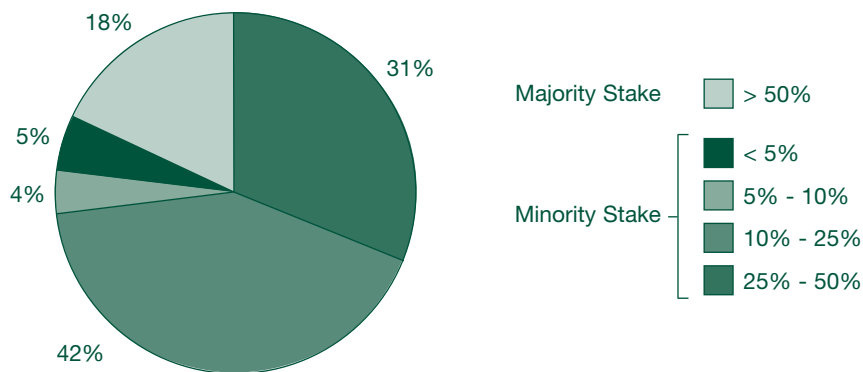
Source: KPMG Corporate Finance

The breakdown by acquired stake, as illustrated in Chart 2, shows the significant incidence of transactions regarding minority stakes, with a particular focus on the range comprised between 10% and 50% (totally accounting for around 73%). At the same time, the incidence of transactions involving a majority stake recorded a slight decrease, from around 20% in 2006 to approximately 18% in 2007.

In this regard, it should be pointed out that all investments have been analysed on a stand-alone basis, without considering any possible pool agreement among private equity houses, which might have jointly acquired majority stakes.

It is worth to note that the pool breakdown analysis (see Table 7) shows a light preference, in terms of incidence by number, for investments realised Out of Pool (53.0% in 2007).

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



Source: KPMG Corporate Finance

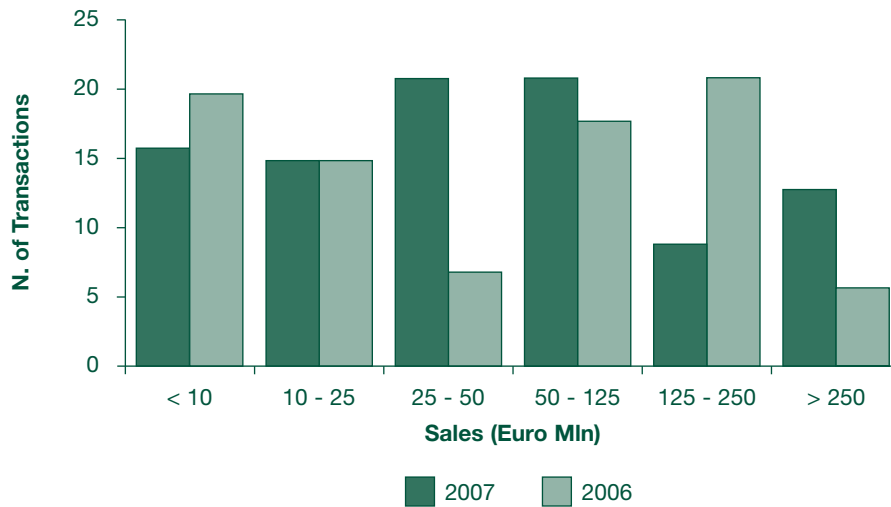
The breakdown by target sales size shows that, in 2007, about 44% of the total divestments involved companies with a turnover comprised between 25 and 125 Euro mln, while the incidence of transactions regarding small companies (with a turnover lower than 25 Euro mln) slightly decreased (from 40% in 2006 to around 33% in 2007). At the same time, compared to 2006, the number of divestments related to large companies (with a turnover higher than 250 Euro mln) doubled (14% in 2007 vs. 7% in 2006).

To sum up, the majority of the divestments monitored in 2007 involved the acquisition of minority stakes in small-middle size companies (with turnover between 25-125 Euro mln), during their Development stage or within MBO/MBI operations.

In terms of average holding period (i.e. time gap between the first investment and divestment), in 2007, the number of transactions realised within five years remained substantially stable at around 68%, as indicated in Table 8.

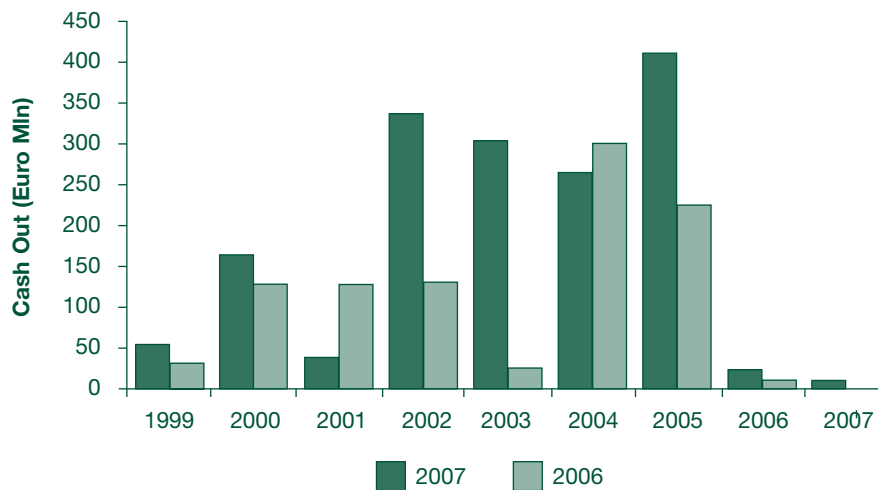
According to the international standard criteria related to the first level of IRR, the Italian private equity and venture capital houses performances in 2007 are shown, in Table 2, as pooled internal rate of return from inception.

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



Source: KPMG Corporate Finance

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2007 vs. 2006)



Source: KPMG Corporate Finance

Table 2 – IRR from inception by year in 2003, 2004, 2005, 2006 and 2007

	2007	2006	2005	2004	2003
N. of realised investments from inception	99	88	71	69	96
Yearly Pooled IRR	29.2%	28.5%	25.1%	24.7%	17.8%

Source: KPMG Corporate Finance

The Yearly Pooled Gross IRR on Realised Investments from inception in 2007 has been equal to 29.2%, with a slight increase compared to the previous year, confirming the overall steady growth trend in place since 2003 (CAGR 2003-2006 of around 13%).

The Upper Quarter per performance recorded an IRR equal to 81%, showing a decrease in comparison with the previous year, but basically aligned to the last years average; the Upper quarter per investment size showed a slight increase, from 24% in 2006 to 31% in 2007, substantially consistent with the all sample performance.

Table 3 – IRR from inception by year: Upper quarter

	2007	2006	2005	2004	2003
Yearly Pooled IRR	29.2%	28.5%	25.1%	24.7%	17.8%
Upper Quarter (per performance)	81%	115%	55%	59%	79%
Upper Quarter (per investments size)	31%	24%	28%	27%	17%

Source: KPMG Corporate Finance

Table 4 – IRR from inception distribution by IRR class

	2007		2006	
	Number	Incidence (%)	Number	Incidence (%)
Write Off/Negative	20	20.2%	13	14.8%
0% - 10%	25	25.3%	34	38.6%
10% - 20%	15	15.2%	9	10.2%
20% - 30%	7	7.1%	8	9.1%
30% - 40%	5	5.1%	4	4.5%
40% - 50%	9	9.1%	4	4.5%
50% - 100%	14	14.1%	7	8.0%
100% - 500%	4	4.0%	7	8.0%
> 500%	-	-	2	2.3%

Source: KPMG Corporate Finance

The analyses confirm the trend towards a more mature market, as already observed in the last years. Specifically, in terms of distribution by IRR class, Table 4 shows that 2007 realised investments, similarly to the previous year, recorded a well-distributed spectrum of performances. In comparison with 2006 figures, it is worth to note that:

- divestments with negative performance and write off increased from 14.8% to 20.2%;
- divestments with low performance (with a Pooled IRR between 0% and 10%) decreased from 38.6% to 25.3%;
- divestments with performances between 10% and 50% Pooled IRR increased from 28.3% to 36.5%;
- divestments with outstanding performances (above 50% Pooled IRR) remained substantially stable at 18.1% (without any transaction recording performance above 500%).

Table 5 – IRR from inception distribution by financing stage⁴

	Early Stage		Development		MBO/MBI		Replacement	
	2007	2006	2007	2006	2007	2006	2007	2006
N. of Transaction	2	8	34	18	36	27	14	8
Yearly Pooled IRR	89.1%	13.8%	21.3%	17.4%	36.1%	44.9%	14.6%	20.6%

Source: KPMG Corporate Finance

IRR analyses by financing stage highlight the role of top performers of Early stage transactions, with a sharp increase compared to 2006 (89.1% in 2007 vs. 13.8% in 2006), even though it should be pointed out that, also considering the historical trend⁵, Early stage transactions are typically affected by high volatility in term of returns.

MBO/MBI transactions confirm high performance, despite a material decrease compared to 2006 (36.1% in 2007 vs. 44.9% in 2006).

Development transactions show a slight increase in performance

⁴ Please note that in Tables 5, 6, 7 and 8, total transactions considered can be less than 99 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.

⁵ Please note that 2005, 2004, 2003 and 2002 IRR from inception referred to Early Stage investments were equal respectively to -1.8%, 30,5%, -10,6% and 191,5%.

(from 17.4% in 2006 to 21.3% in 2007), while Replacement transaction return decreased (from 20.6% in 2006 to 14.6% in 2007).

IPO (and sales post IPO) recorded in 2007 an IRR above 80% (i.e. 80.3%), showing a sharp increase in comparison with 2006, while divestments through trade sale recorded a 21.7% IRR, slightly lower than the previous year figure.

Table 6 – IRR from inception distribution by way out

	Trade Sale		IPO/Sales post IPO	
	2007	2006	2007	2006
N. of Transaction	81	84	8	3
Yearly Pooled IRR	21.7%	30.1%	80.3%	19.5%

Source: KPMG Corporate Finance

Tables 7 and 8 show some further analyses of the 2007 Italian private equity performance from inception.

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

	Within Pool		Out of Pool	
	2007	2006	2007	2006
N. of Transaction	39	31	44	30
Incidence	47.0%	50.8%	53.0%	49.2%
Yearly Pooled IRR	19.8%	23.9%	34.8%	36.3%

	Pool < 50		Pool > 50	
	2007	2006	2007	2006
N. of Transaction	16	9	23	22
Incidence within Pool	19.3%	14.7%	27.7%	36.1%
Yearly Pooled IRR	18.6%	15.2%	21.5%	26.6%

Source: KPMG Corporate Finance

Table 8 – 2007 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	11	23	14	19	20	12
Incidence	11.1%	23.2%	14.1%	19.2%	20.2%	12.1%
Yearly Pooled IRR	107.5%	62.2%	33.7%	20.4%	22.8%	4.6%

Source: KPMG Corporate Finance

Historical Pooled Gross IRR on Realised Investments since inception (1986-2007)

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 (recording a 29.6% Pooled IRR), showing a slight decrease in comparison to 2006, as a result of the incidence of 2007 realised investments on the overall figures. The average investment size increased up to 6.2 Euro mln, reflecting the growth trend observed in the from inception analysis.

Table 9 – Historical IRR since inception analysis

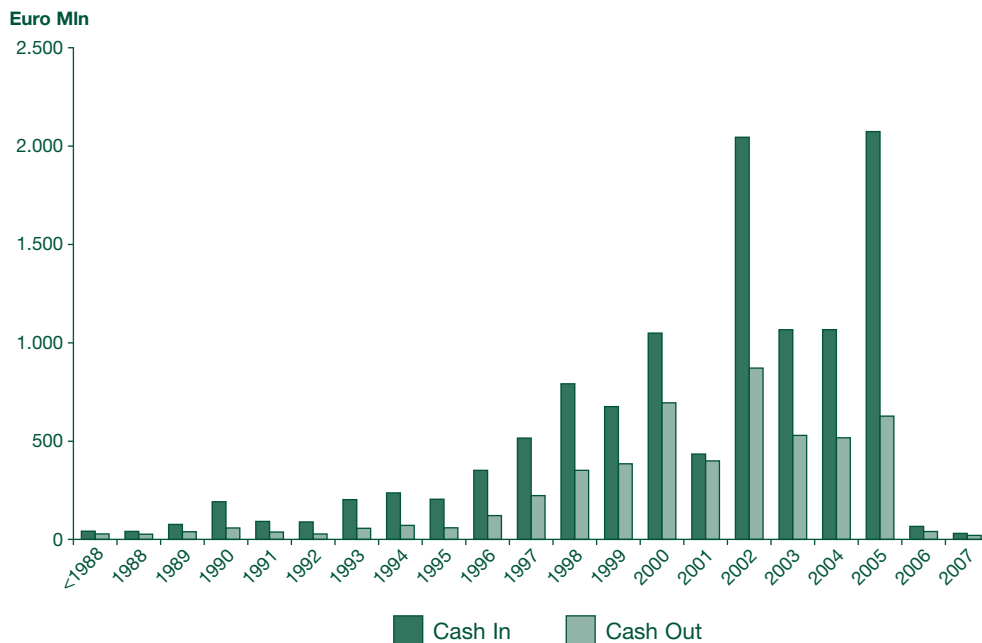
	1986-2007	1986-2006
N. of PE & VC houses presenting realised investments	66	62
N. of realised investments since inception	849	765
Average investment dimension (Euro Mln)	6.2	4.9
Total Cash Out (Euro Mln)	5,298	3,810
Total Cash In (Euro Mln)	11,428	7,683
Yearly Pooled IRR	29.6%	30.0%

Source: KPMG Corporate Finance

The historical sample analysis shows that the majority of realised investments have been concluded within 4 years (around 62%). The majority of the deals were focused on small and middle size companies (almost 80% of the total transactions involve targets with turnover up to 125 Euro mln), in the Development stage or within MBO/MBI operations.

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 1986-2007 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 Quarter

	1986-2007
Yearly Pooled IRR	29.6%
Upper Quarter (per performance)	90.0%
Upper Quarter (per investment size)	28.5%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by financing stage

	1986-2007			
	Early Stage	Development	MBO/MBI	Replacement
N. of Transactions	69	310	238	104
Yearly Pooled IRR	32.7%	16.9%	47.3%	29.5%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by IRR categories

	1986-2007	
	Number	Incidence (%)
Write Off/Negative	136	16.0%
0% - 10%	240	28.3%
10% - 20%	119	14.0%
20% - 30%	73	8.6%
30% - 40%	48	5.7%
40% - 50%	52	6.1%
50% - 100%	97	11.4%
100% - 500%	66	7.8%
> 500%	18	2.1%

Source: KPMG Corporate Finance

Table 13 – Historical IRR since inception distribution by acquired stakes

	1986-2007				
	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of Transaction	90	112	247	223	80
Incidence	12%	15%	33%	30%	11%
Yearly Pooled IRR	16.8%	23.3%	19.3%	30.8%	43.2%

Source: KPMG Corporate Finance

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

	1986-2007					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	209	184	128	98	151	79
Incidence	25%	22%	15%	12%	18%	9%
Yearly Pooled IRR	82.0%	54.5%	51.5%	16.7%	15.4%	7.9%

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 mainly in order to provide a comparison between the Italian and other European markets.

Table 15 – Horizon Pooled Gross IRR on All Investments analysis to 31 December 2007

	3 YR	5 YR	10 YR
N. of PE & VC houses presenting investments	58	61	78
N. of Transactions	291	440	887
<i>of which: - realised investments*</i>	40	134	532
<i>- still in portfolio participations</i>	251	306	355
Average investment dimension (Euro Mln)	17.9	15.8	11.4
Total Cash Out (Euro Mln)	5,199	6,930	10,124
Total Cash In (Euro Mln)	6,789	9,816	15,468
Yearly Pooled IRR	29.9%	25.2%	22.7%

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 participations.

As far as the Yearly Pooled IRR on All Investments by horizon analysis is concerned, two main issues should be pointed out:

- the "average rolling" method applied to the specific period considered;
- the common practice of a number of private equity houses to evaluate the investments still in portfolio at cost.

With a specific focus on the 10YR horizon (the most statistically significant), Yearly Pooled IRR on All Investment recorded a slight increase (i.e. 22.7% in 2007 vs. 22.0% in 2006), as a consequence of the following main issues:

⁶ No analytical exercise has been performed in order to estimate the Net IRR. However, in order to provide rough 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.

- 99 realised transactions, totally accounting for around 1,627 Euro mln in terms of Total Cash Out, have been included in 2007, whose IRR is about 29.2%;
- 53 realised transactions (invested in 1997), totally accounting for 231 Euro mln in terms of Total Cash Out, have been no more considered, whose IRR was around 46.3%;
- the majority of the investments still in portfolio have been evaluated at cost (200 out of 355 participations in 2007 vs. 178 out of 327 participations in 2006).

The performances referred to 3YR and 5YR horizons recorded a significant increase (i.e. 3YR 29.9%, 5YR 25.2% in 2007 vs. 3YR 23.6%, 5YR 22.5% in 2006), due to both the "rolling" method (i.e. in 2007, the transactions referred to 2004 and 2002 have been no more considered within the 3YR and 5YR analyses respectively) and the 2007 positive performances.

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

	By number		By Cash Out	
	2007	2006	2007	2006
Book value deals	56.3%	54.4%	53.3%	70.0%
Re-valued deals	27.3%	30.0%	30.0%	20.7%
Depreciated deals	16.3%	15.6%	16.8%	9.3%
Investments still in portfolio (N. and Euro Mln)	355	327	5,602	6,953

Source: KPMG Corporate Finance

Figures confirm the above-mentioned private equity houses' common practice of prudentially evaluating investments still in portfolio at their book value.

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 1.5% (compared to 6.1%, 0.8% and -2.7% in 2006, 2005 and 2004 respectively).

Table 17 – Horizon IRR distribution by financing stage

	Early Stage	Development	MBO/MBI	Replacement
N. of Transactions	38	70	135	26
IRR 3YR	0.4%	3.4%	37.9%	7.1%
N. of Transactions	48	108	190	48
IRR 5YR	4.6%	26.5%	26.7%	16.8%
N. of Transactions	98	263	300	99
IRR 10YR	12.9%	11.3%	34.7%	16.7%

Source: KPMG Corporate Finance

As a whole, 2007 horizon IRR distribution by financing stage highlights the general increase of Early stage transactions (in the 10YR horizon, from 1.2% in 2006 to 12.9% in 2007); furthermore, the analyses confirm also the role of MBO/MBI operations as top performers, even though a decrease compared to 2006 is observed (in the 10YR horizon, from 39.7% in 2006 to 34.7% in 2007).

Further analyses, consistently with the past survey's edition, are illustrated in the following tables.

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

	<10	10-25	25-50	50-125	125-250	>250
N. of Transactions	69	55	47	42	24	33
IRR 3 YR	8.8%	8.2%	-2.4%	24.3%	7.2%	54.5%
N. of Transactions	97	73	75	67	45	56
IRR 5 YR	9.0%	14.2%	4.6%	23.0%	20.5%	36.6%
N. of Transactions	210	137	136	163	97	104
IRR 10 YR	0.8%	4.1%	9.6%	23.3%	21.3%	32.5%

Source: KPMG Corporate Finance

Table 19 – Horizon IRR: Upper quarter

	3 YR	5 YR	10 YR
Yearly Pooled IRR	29.9%	25.2%	22.7%
Upper Quarter (per performance)	95.7%	54.0%	83.8%
Upper Quarter (per investment size)	34.3%	27.3%	20.6%

Source: KPMG Corporate Finance