THE VENTURE-BACKED IPO MARKET [1]

During the 12 month period ended February 28, 2009, Ernst & Young Financial-Business Advisors ('Ernst & Young') has continued monitoring the share prices of Venture-Backed companies listed on the Italian market through an analysis of the Ernst & Young Venture-Backed Index ('EYVBI').

The financial markets slowdown that first emerged in the United States in August 2007 turned into a global crisis in the fall of 2008. Notwithstanding the immediate political reactions and governmental efforts to avoid this having an impact on the real economy, world growth is expected to decrease from 3.7% in 2007 to 2.5% in 2008.

Almost no countries – whether developing or high-income – have been able to escape the effect of the global slowdown. The growth in OECD[2] countries is expected to halve, dropping from 2.4% in 2007 to 1.2% in 2008. The United States will likely register the weakest GDP growth since 2001, with an expected reduction from 2.0% in 2007 to 1.1% in 2008.

European growth is expected to record an even worse performance, falling from 2.6% in 2007 to 0.5% in 2008. In the midst of the financial turmoil, the Japanese results are the slowest among the OECD countries, with an expected decrease in real GDP of 0.7% in 2008.

In the United States, the slump in GDP growth started in the third quarter of 2008 (–0.5%), although it benefitted in the second quarter from the implementation of tax incentives and looser monetary policies. The preliminary estimate of the fourth quarter GDP growth came in at –6.2%, down from the initial estimate of –3.8%. If confirmed, it would be the deepest slide since the first quarter of 1982. The US growth is projected to remain weak in 2009 (–0.5%), due to a further decline in investment and in consumer spending.

Conditions in the Euro zone have been rapidly deteriorating since the second and third quarters of 2008, when GDP growth registered respectively –0.7% and –0.8%. The Euro zone GDP plunged by 1.5% in the fourth quarter of 2008, the sharpest slowdown since 1999[3], due to a col-

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1 Ernst & Young Financial-Business Advisors.

2 Organization for Economic Co-operation and Development. The 30 member countries of the OECD are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

3 Eurostat.

lapse in exports and a fall in private demand and investments. In 2008, the Euro zone is expected to grow by only 0.7%. According to projections, the area will register modest declines in the coming quarters, before recovering in the latter part of 2009.

The Italian GDP growth rate, estimated to be −1.0% in 2008 for the full year according to the ISTAT[4], has dropped beyond expectations (the previous forecasts by governmental institutions were −0.6%). The Italian economy fell into recession in the third quarter, recording −0.5% in respect of the previous quarter. According to the ISTAT preliminary data, in the fourth quarter, the Italian GDP is going to reduce by 2.9% as compared to the same period of 2007 and by 1.9% quarter-on-quarter. The Italian economic environment is negatively affected by its high deficit which limits the effectiveness of governmental manoeuvres; as a consequence, GDP projections show an expected reduction in 2009 close to −2.0%.

Germany will show a positive growth in 2008 (+1.3%). According to the Ifo[5], the economic crisis is expected to hit Germany in 2009 – mainly due to a reduction in exports – resulting in a prospective decrease equal to −2.2%. France has just closed 2008 with its worst quarter since 1973 (−1.2%), with an annual GDP growth of 0.7% (2.1% in 2007). Projections for 2009 expect a negative growth of −0.9%.

UK GDP is expected to decline in 2008, registering a growth of 0.7% (compared with 3.0% in 2007).

GDP growth in developing-countries is expected to decline to 6.3% in 2008, more than 1.5% below the figure recorded in 2007 (7.9%). Projections estimate a further reduction in 2009, due to the effects of the economic crisis on exports as the demand from high-income economies decreases. Large economies such as India, China and Russia still show a positive trend: China is expected to grow by 9.4% in 2008, while the Indian GDP will likely increase by 6.3% in the same period.

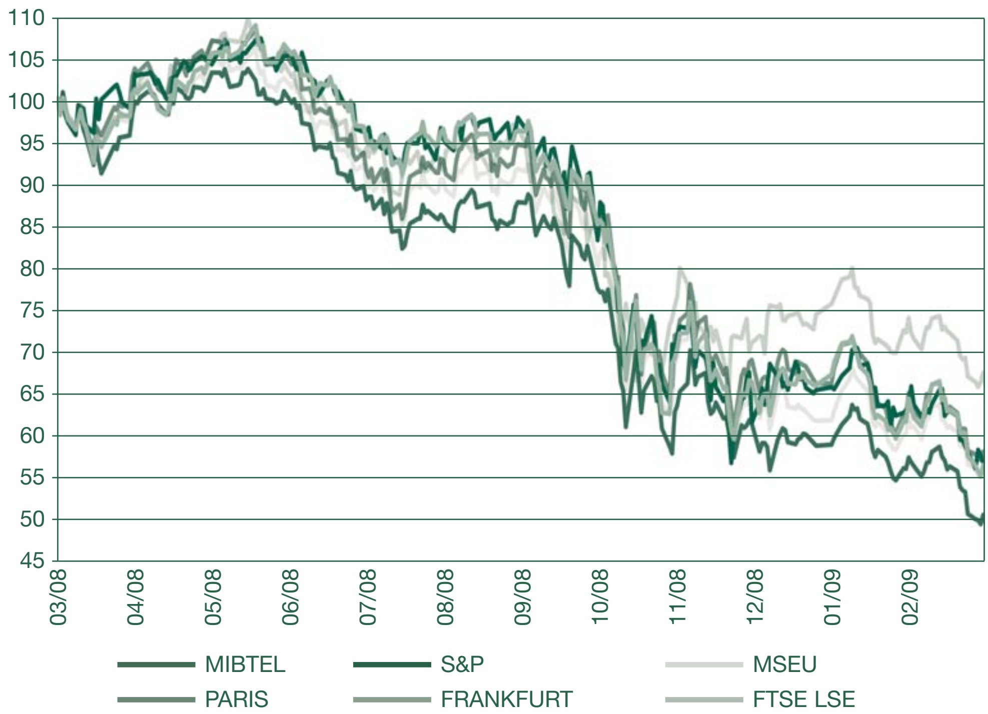
In this context, the overall stock market performance was extremely negative in Europe during the year ended February 28, 2009. Such performance was driven primarily by the financial turmoil started off by the subprime mortgage crisis. The British stock exchange, which perfor-

[4] National Statistics Institute.
[5] German Institute for Economic Research.

med better than all the other major European indices, showed a 34.2% decrease, while the Italian (MIBTEL), German (CDAX) and French (CAC40) stock exchanges registered decreases of –50.7%, –45.0% and –43.0%, respectively. The US stock market fell in line with the European index, showing a decrease of the S&P equal to –44.8%.

The chart 1 shows the performance of the MIBTEL index compared with the other major international stock exchange indices.

Chart 1 – Performance of the major international stock markets



Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

The Italian market capitalisation decreased at December 2008 to Euro 375 billion for the domestic listed companies (–48.9% YoY), representing 23.6% of Italian GDP, compared to 48.0% in the previous year. Breaking down the figure, capitalisation totalled Euro 342 billion for Blue-chip companies (Euro 675 billion at year-end 2007), Euro 12 billion for companies in the Star segment (Euro 22 billion), Euro 14 billion for those in the Standard segment (Euro 25 billion), and for companies in the Expandi Market, capitalisation declined to Euro 7 billion (Euro 11 billion).

As of February 2009, the Italian stock market was again seventh in Europe in terms of market capitalization, slightly below OMX[6] and ninth in terms of number of listed companies, totalling 336 companies (of which 74 belong to the MTA/MTAX Blue-chip segment, 74 to the Star segment, 104 to the Standard segment, 5 to Investment Companies segment, 36 to the MTA International segment, 38 to the Expandi Market and 5 to the MAC segment).

The main index of the Italian market, S&P/MIB, recording a –53.9% plunge for the 12 month period ended February 28, 2009, gives evidence of the negative performance of the Italian market. The ALL STAR index and MEX (the index of the companies included in the Expandi market) also recorded decreases of –39.0% and –43.2%, respectively.

IPO activity

The year ended February 28, 2009, after the record registered in the previous year, showed very limited Initial Public Offerings ('IPOs') activity with only five new listings, one in the Mercato Telematico Azionario ("MTA/MTAX") and four on the Mercato Expandi (against a total of 29 IPOs during the previous 12 months).

During the period under review, two out of five of the new listings were represented by Venture-Backed companies. The distribution of the new listings by industry is the following: renewable energies (Ternienergia), food and beverage (Enervit), software (Best Union Company), industrial products (Rosss) and biotechnologies (Molmed).

The table 1 summarises the new listings during the past 12 months.

Among the new MTA/MTAX and Expandi listings, positive performance (i.e. price at February 28, 2009 above IPO's price) was recorded only by Ternienergia (21.5%).

[6] Stock exchanges of Copenhagen, Stockholm, Helsinki, Riga, Tallin and Vilnius.

Table 1 – IPOs on MTA/MTAX/EXPANDI (March 2008 – February 2009)

Company name	Listing Date	IPO price (Euro)	Current Market cap. (Euro Mln)	Venture-Backed
MOLMED	05/03/2008	2.15	98	Yes
ROSSS	09/04/2008	2.10	5	No
BEST UNION COMPANY	20/05/2008	3.40	16	No
ENERVIT	24/07/2008	2.00	22	Yes
TERNIENERGIA	25/07/2008	1.30	39	No

Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

Performance of venture-backed shares (EYVBI)

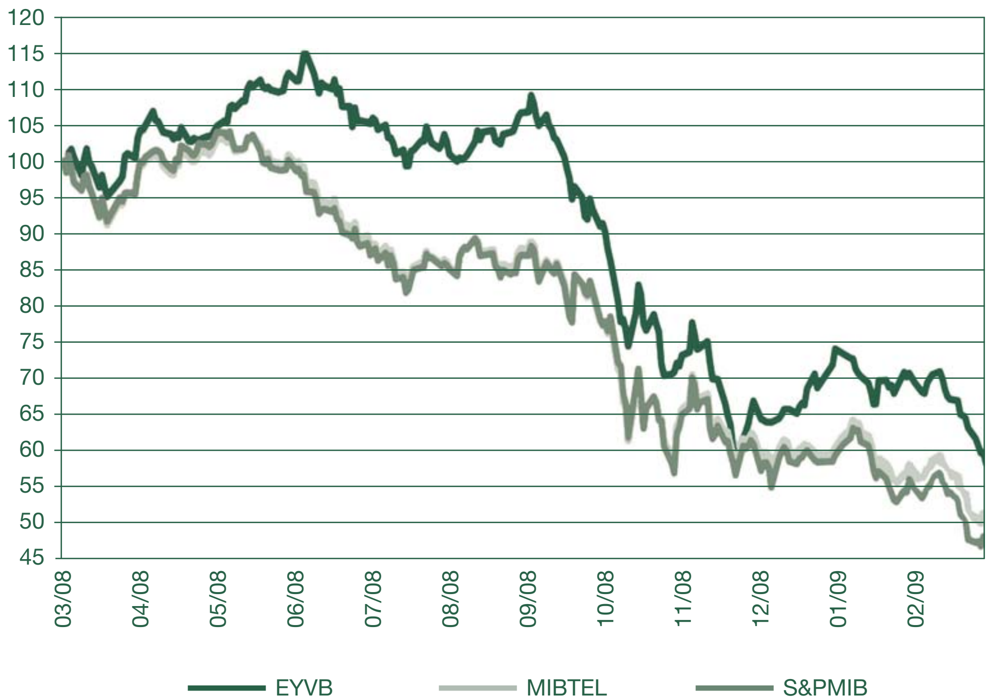
The Ernst & Young Venture-Backed Index, created in November 1999, monitors Venture-Backed companies with shares listed on the MTA. The basket of companies included in the index is revised twice a year on May 1, and November 1, and includes Venture-Backed companies which have been listed for more than three months and less than three years. Companies in the first three months after listing are not included to avoid the effect of 'underpricing' an IPO, whilst those listed for over three years are no longer considered to be influenced by their Venture-Capital investors.

Taking into consideration the increasing number of small and mid cap companies which have demonstrated interest in entering the Expandi market, as of November 1, 2006, the Ernst & Young Venture-Backed Index comprises the Venture Backed IPOs of this market as well.

The chart 2 summarises the performance of the EYVBI from March 1, 2008 through February 28, 2009.

The chart shows that the EYVBI generally followed the market trend, though performing better than the latter especially in the first half of the year (with a peak in June). Over the period, the EYVBI value decreased 42.4% as compared with the negative performance of MIBTEL, –50.7%, and S&P/MIB, –53.9%. During the 12 months analysed, the company that registered the best performance was Diasorin (+32%).

Chart 2 – EYVBI – MIBTEL – S&P MIB (March 2008 – February 2009)



Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

The table 2 lists the companies included in the EYVBI basket from November 1, 2008 to February 28, 2009 showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

Panaria, IGD and Marr were removed from the basket index, while Guala Closures and Marazzi were delisted. Piquadro, Bouty Healthcare, Molmed and Enervit were instead added to the basket.

As of February 28, 2009, the combined market capitalisation of the companies included in the EYVBI was Euro 3.444 million, representing some 1.1% of the total market capitalisation of the domestic listed companies. Therefore, the weight of the companies included in the EYVBI decreased 0.1% from February 29, 2008.

Table 2 – EYVBI basket (November 2008 – February 2009)

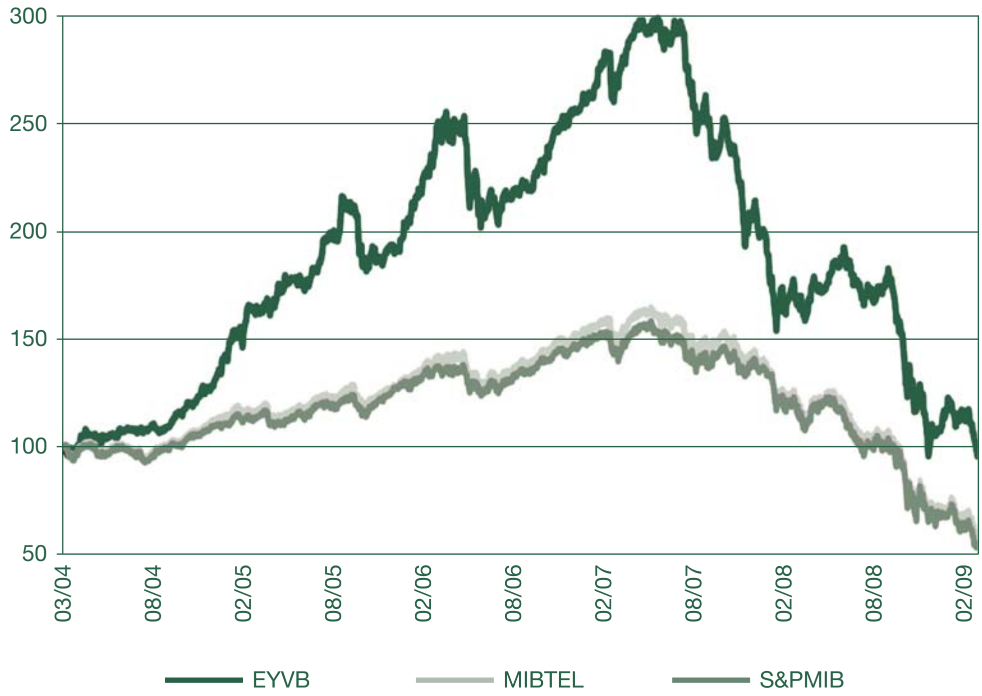
Company name	IPO date	Current Market cap. (Euro Mln)	Change over 4 months	Industry Sector
EUROTECH	30/11/2005	57	–49%	Technology
SAFILO GROUP	09/12/2005	132	–40%	Eyewear
EUROFLY	21/12/2005	23	–86%	Airlines
EEMS ITALIA	27/04/2006	24	–58%	Semiconductors
ANTICHI PELLETTIERI	07/06/2006	82	–55%	Apparel
BOLZONI	08/06/2006	34	–31%	Industrial
ARKIMEDICA	01/08/2006	88	–15%	Healthcare
ELICA	10/11/2006	41	–44%	Appliances
POLTRONA FRAU	15/11/2006	73	–43%	Design furniture
COBRA	12/12/2006	22	–50%	Electronic controls
IW BANK	23/05/2007	156	–5%	Banking
MUTUI ONLINE	06/06/2007	128	6%	Mortgages
PRYSMIAN	03/05/2007	1178	–31%	Cables & Systems
RDB	19/06/2007	92	–8%	Construction
SCREEN SERVICE	11/06/2007	57	–14%	Broadcasting
PRAMAC	03/07/2007	38	–33%	Generators
DIASORIN	19/07/2007	930	18%	Diagnostics
SAT	26/07/2007	76	–3%	Airports
RCF GROUP	27/07/2007	32	–17%	Audio equipment
PIQUADRO	25/10/2007	35	–39%	Leather
BOUTY HEALTHCARE	09/10/2007	28	25%	Healthcare
MOLMED	05/03/2008	98	–11%	Biotechnology
ENERVIT	24/07/2008	22	–19%	Beverage

Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

With the aim of mitigating the effects of the market fall which occurred in the year ended February 28, 2009, a wider timeframe was also considered in the analysis. The following chart shows the performance of the EYVBI from March 1, 2004 The chart above confirms that the EYVBI clearly out-performed the market trend in the previous 5 years, showing a –4.3% decrease, compared to –40.2% for MIBTEL and –45.8% for S&P/MIB.

The chart 3 confirms that the EYVBI clearly out-performed the market trend in the previous 5 years, showing a –4.3% decrease, compared to –40.2% for MIBTEL and –45.8% for S&P/MIB.

Chart 3 – EYVBI – MIBTEL – S&P MIB (March 2004 – February 2009)



Source: Ernst & Young Financial-Business Advisors calculation on information provider's data