

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 evaluate their portfolios at cost.

Therefore, the analyses described in the followings consider:

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 divestment has been partial.

- one-year Pooled Gross IRR on Realised Investments from inception (divestments recorded in 2008);
- historical Pooled Gross IRR on Realised Investments since inception (transactions with both investments and divestments occurred in the period comprised between 1986 and 2008);
- ten, five and three-years horizon Pooled Gross IRR on All Investments (investments made in the period 1999-2008, 2004-2008 and 2006-2008 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 2008

Similarly to the previous editions of the survey, the first focus of the analyses is on 2008 Gross IRR on Realised Investments from inception.

Table 1 – IRR from inception analysis: main sample features

	2008	2007	2006	2005	2004	2003
N. of PE & VC houses included in the research panel	71	66	62	51	39	41
N. of PE & VC houses presenting realised investments	38	33	30	23	21	18
N. of realised investments from inception	78	99	88	71	69	96
Average investment size (Euro Mln)	16.5	16.4	10.9	7.2	6.2	4.5
Total Cash Out (Euro Mln)	1,289	1,627	966	512	429	432
Total Cash In (Euro Mln)	2,193	4,105	1,956	995	883	672

Source: KPMG Corporate Finance

As shown in Table 1, the number of private equity houses joining the survey gradually increased from 41 in 2003 to 71 in 2008 (the highest

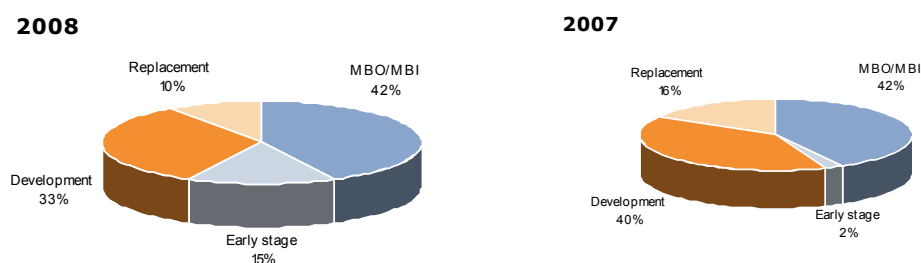
coverage since the beginning of the survey in 1996), with a trend which confirms the wide market coverage reached in the last years by the survey.

Within the sample, the number of private equity houses showing realised investments increased from 33 in 2007 to 38 in 2008, confirming the trend of the last years.

Market conditions affected the exits. The number of divestments recorded (78 in 2008 vs. 99 in 2007) and the related total Cash Out fell by approximately 20% compared to 2007, while the average investment size remained substantially stable (16.5 Euro mln in 2008 vs. 16.4 Euro mln in 2007). Total Cash In slumped by 47%, showing an average implicit (and theoretical) exit multiple of around 1.7x, significantly lower than the previous year (i.e. 2.5x).

In 2008, private equity houses confirmed, at exit level, their preference for MBO/MBI, followed by Development transactions (which showed a decrease, by number, from 40% in 2007 to 33% in 2008). Early stage divestments rose to 15% (from 2% of the previous year), while Replacement transactions' incidence decreased to 10% (vs. 16% in 2007).

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



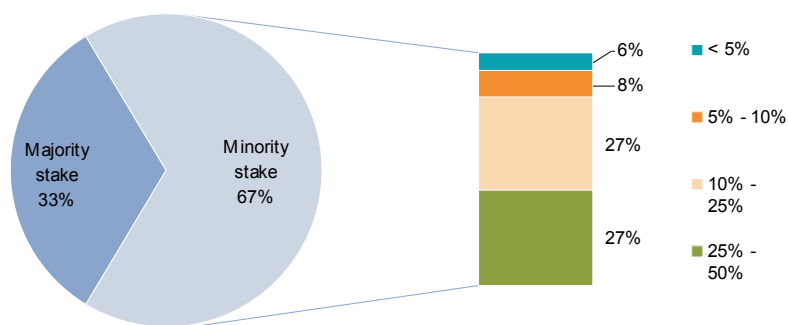
Source: KPMG Corporate Finance

The breakdown by acquired stake, as illustrated in Chart 2, confirms the significant incidence of transactions regarding minority stakes, with a particular focus on the range comprised between 10% and 50% (totally accounting for around 54%). At the same time, the incidence of transactions involving a majority stake recorded a material increase, from

around 18% in 2007 to approximately 33% in 2008.

In this context, 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.

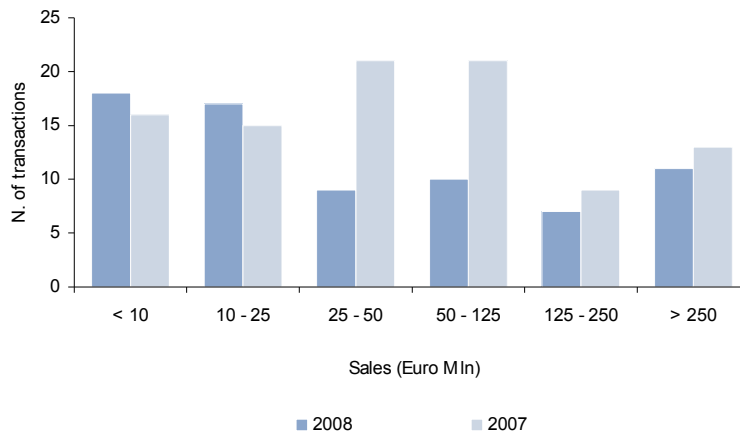
Chart 2 - IRR from inception analysis: transactions breakdown by acquired stake (incidence by number)



Source: KPMG Corporate Finance

The breakdown by target sales size shows that, in 2008, approximately half of the divestments concerned companies with a turnover lower than 25 Euro mln (vs. 33% in 2007). The incidence of transactions involving companies with a turnover between 25 and 125 Euro mln significantly decreased from 44% in 2007 to 26% in 2008, while, compared to the previous year, the number of divestments related to large companies (with a turnover higher than 125 Euro mln) stood at 25% in 2008 (vs. 23% in 2007).

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

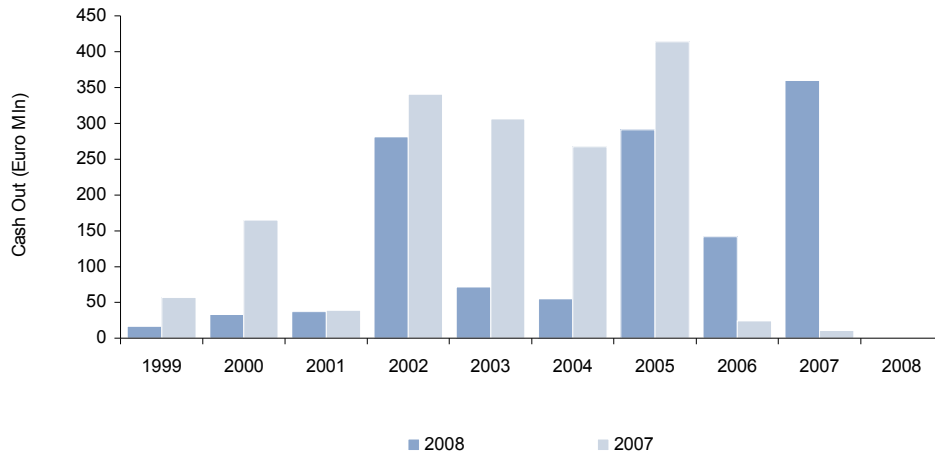


Source: KPMG Corporate Finance

To sum up, the majority of the divestments monitored in 2008 concerned minority stakes in small size companies (with a turnover lower than 25 Euro mln), acquired within MBO/MBI transactions or during their Development stage.

In terms of average holding period (i.e. time gap between the first investment and divestment), in 2008, the number of transactions monitored which have been realised within a five years timeframe increased (from 68% in 2007 to 77% in 2008), as indicated in Table 7.

Chart 4 - IRR from inception analysis: annual Cash Out related to realised investments (2008 vs. 2007)



Source: KPMG Corporate Finance

According to the international standard criteria related to the first level of IRR, the Italian private equity and venture capital houses performances in 2008 are shown, in Table 2, as pooled internal rate of return from inception.

Table 2 – IRR from inception by year in 2003, 2004, 2005, 2006 2007 and 2008

	2008	2007	2006	2005	2004	2003
N. of realised investments from inception	78	99	88	71	69	96
Yearly Pooled IRR	18.9%	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 2008 has been equal to 18.9%, with a sensitive decrease compared to the previous year.

It is worth to note that 2008 performance has been partially affected by few relevant write off, while, on the other hand, 2007 IRR was influenced by

few big over performing transactions.

Following the decrease in Yearly Pool Gross IRR, the Upper quarter per performance recorded an IRR equal to 51% (vs. 81% in 2007), while the Upper quarter per investment size fell to 18% in 2008 (vs. 31% in 2007).

Table 3 – IRR from inception by year: Upper Quarter

	2008	2007	2006	2005	2004	2003
Yearly Pooled IRR	18.9%	29.2%	28.5%	25.1%	24.7%	17.8%
Upper Quarter (per performance)	51%	81%	115%	55%	59%	79%
Upper Quarter (per investment size)	18%	31%	24%	28%	27%	17%

Source: KPMG Corporate Finance

Table 4 – IRR from inception distribution by IRR class

	2008			2007		
	Number	Incidence (%)	Incidence by Cash Out (%)	Number	Incidence (%)	Incidence by Cash out (%)
Write Off/Negative	21	26.9%	34.1%	20	20.2%	8.5%
0% - 10%	16	20.5%	7.0%	25	25.3%	4.4%
10% - 20%	8	10.3%	2.9%	15	15.2%	23.1%
20% - 30%	7	9.0%	29.6%	7	7.1%	19.2%
30% - 40%	9	11.5%	14.6%	5	5.1%	6.6%
40% - 50%	5	6.4%	2.6%	9	9.1%	6.0%
50% - 100%	7	9.0%	8.3%	14	14.1%	14.5%
100% - 500%	5	6.4%	0.9%	4	4.0%	17.7%

Source: KPMG Corporate Finance

Table 4 shows that 2008 realised investments, compared to the previous year, recorded a different distribution of performances. In comparison with 2007 figures, it is worth to note that:

- divestments with negative performance and write off increased both by number (from 20.2% to 26.9%) and, more remarkably, by incidence on total cash out (from 8.5% to 34.1%);
- divestments with low performance (with a Pooled IRR between 0% and 10%) decreased by number (from 25.3% to 20.5%) but increased in terms of cash out (from 4.4% in 2007 to 7.0% in 2008);
- divestments with performances between 10% and 50% Pooled IRR slightly increased (from 36.5% to 37.2%) by number but decreased in terms of cash out (from 54.9% in 2007 to 49.7% in 2008);
- divestments with outstanding performances (above 50% Pooled IRR) decreased by number (from 18.1% to 15.4%), with a significant decrease in terms of cash out (from 32.2% in 2007 to 9.2% in 2008); similarly to 2007, no transaction recorded performance above 500%.

Table 5 – IRR from inception distribution by financing stage⁴

	Early Stage		Development		MBO/MBI		Replacement	
	2008	2007	2008	2007	2008	2007	2008	2007
N. of transactions	11	2	24	34	31	36	7	14
Yearly Pooled IRR	-2.7%	89.1%	9.6%	21.3%	21.2%	36.1%	20.8%	14.6%

Source: KPMG Corporate Finance

IRR analyses by financing stage highlight the role of top performers of MBO/MBI transactions, despite a significant decrease compared to 2007 (21.2% in 2008 vs. 36.1% in 2007), closely followed by Replacement transactions which show a substantial increase compared to 2007 (20.8% in 2008 vs. 14.6% in 2007).

Development transactions show a sharp decrease in performance (from 21.3% in 2007 to 9.6% in 2008), as well as Early Stage transactions (from

⁴ Please note that in Tables 5, 6, 7 and 8, total transactions considered can be less than 78 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.

89.1% in 2007 to -2.7% in 2008). It is important to note that, also considering the historical trend, Early stage transaction are typically affected by high volatility in term of returns⁵.

The few IPO (and sales post IPO) recorded in 2008 an IRR of around 114% (vs. 80.3% in 2007), while trade sale recorded a 27.1% IRR, substantially aligned to the previous year figure. It is worth to note that these data do not include, of course, write offs.

Table 6 – IRR from inception distribution by way out

	Trade Sale		IPO/Sales post IPO	
	2008	2007	2008	2007
N. of transactions	62	81	2	8
Yearly Pooled IRR	27.1%	21.7%	113.5%	80.3%

Source: KPMG Corporate Finance

Table 7 shows some further analyses of the 2008 Italian private equity performance from inception.

Table 7 – 2008 IRR from inception distribution by time gap between first investment and divestment

	< 2	2-3	3-4	4-5	5-7	> 7
N. of transactions	8	28	12	12	9	9
Incidence	10.3%	35.9%	15.4%	15.4%	11.5%	11.5%
Yearly Pooled IRR	Neg. ⁶	35.9%	27.3%	31.5%	27.4%	0.0%

Source: KPMG Corporate Finance

⁵ Please note that 2006, 2005, 2004 and 2003 IRR from inception referred to Early Stage investments were equal respectively to 13.8%, -1.8%, 30.5% and -10.6%.

⁶ Due to the relevance of the write off of few recent investments, it is not possible to accurately calculate the figure.

Historical Pooled Gross IRR on Realised Investments since inception (1986-2008)

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.

Reflecting the trends observed in the from inception analysis, the historical performance recorded a 29.2% Pooled IRR, slightly lower than 2007 figure, while the average investment size shows an increase from 6.2 to 6.9 Euro mln.

Table 8 – Historical IRR since inception analysis

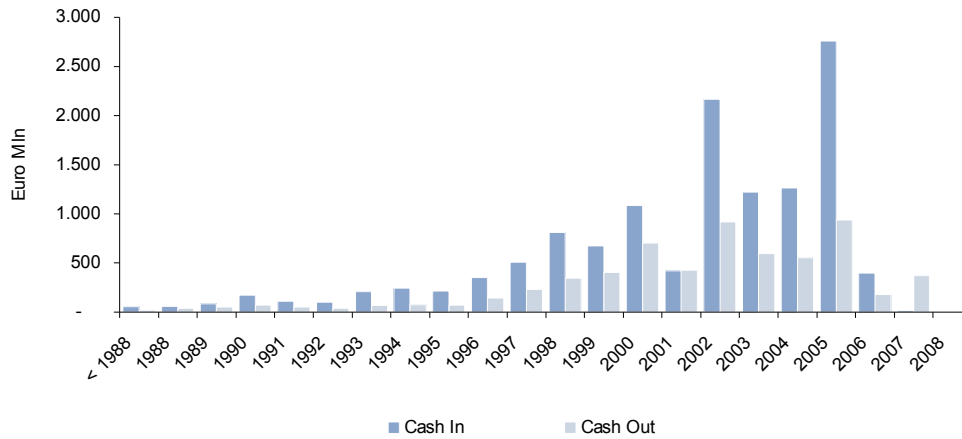
	1986–2008	1986–2007
N. of PE & VC houses presenting realised investments	69	66
N. of realised investments since inception	917	849
Average investment size (Euro Mln)	6.9	6.2
Total Cash Out (Euro Mln)	6,294	5,298
Total Cash In (Euro Mln)	12,925	11,428
Yearly Pooled IRR	29.2%	29.6%

Source: KPMG Corporate Finance

The historical sample analysis shows that the majority of realised investments has been concluded within 4 years (around 62%). More than half of the deals was focused on small and middle size companies (almost 53% of the total transactions involve targets with turnover between 10 and 125 Euro mln), during their 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 the 1986-2008 period.

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



Source: KPMG Corporate Finance

Table 9 – Historical IRR since inception: Upper Quarter

	1986-2008
Yearly Pooled IRR	29.2%
Upper Quarter (per performance)	89.9%
Upper Quarter (per investment size)	27.0%

Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception distribution by financing stage

	1986-2008			
	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	80	331	264	111
Yearly Pooled IRR	29.6%	16.7%	46.7%	29.2%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by IRR categories

	1986-2008		
	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	152	16.6%	18.1%
0% - 10%	256	27.9%	18.6%
10% - 20%	126	13.7%	12.1%
20% - 30%	79	8.7%	12.6%
30% - 40%	57	6.2%	8.1%
40% - 50%	57	6.2%	5.3%
50% - 100%	103	11.2%	15.2%
100% - 500%	69	7.5%	8.7%
> 500%	18	2.0%	1.3%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by acquired stakes

	1986-2008				
	< 5%	5%-10%	10%-25%	25%-50%	> 50%
N. of transactions	93	117	258	229	96
Incidence	12%	15%	32%	29%	12%
Yearly Pooled IRR	16.4%	23.3%	18.2%	31.0%	41.7%

Source: KPMG Corporate Finance

Table 13 – Historical IRR since inception distribution by time gap between first investment and divestment

	1986-2008					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of transactions	217	211	137	108	158	86
Incidence	24%	23%	15%	12%	17%	9%
Yearly Pooled IRR	82.0%	54.1%	51.5%	18.5%	16.1%	6.8%

Source: KPMG Corporate Finance

Pooled Gross IRR on All Investments by horizon

The analyses on the Pooled Gross IRR on All Investments (by horizon)⁷ have been performed mainly in order to provide a comparison between the Italian and other European markets.

Table 14 – Horizon Pooled Gross IRR on All Investments analysis to 31 December 2008

	3 YR	5 YR	10 YR
N. of PE & VC houses presenting investments	59	65	82
N. of transactions	299	452	897
<i>of which: - realised investments⁸</i>	35	131	533
<i>- still in portfolio participations</i>	264	321	364
Average investment size (Euro Mln)	17.8	16.7	12.5
Total Cash Out (Euro Mln)	5,307	7,566	11,228
Total Cash In (Euro Mln)	5,628	10,500	16,521
Yearly Pooled IRR	5.1%	28.8%	19.6%

Source: KPMG Corporate Finance

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 moderate decrease (i.e. 19.6% in 2008 vs. 22.7% in 2007), as a consequence of the following main

⁷ 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.

⁸ 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.

issues:

- 78 realised transactions, totally accounting for around 1,289 Euro mln in terms of Total Cash Out, have been included in 2008, whose IRR is about 18.9%;
- 73 realised transactions (invested in 1998), totally accounting for 354 Euro mln in terms of Total Cash Out, have been no more considered, whose IRR was around 54.2%;
- the majority of the investments still in portfolio have been evaluated at cost (197 out of 364 in 2008 vs. 200 out of 355 in 2007).

The performance referred to 3YR horizon recorded a sharp decrease from 29.9% in 2007 to 5.1% in 2008, while 5YR horizon rose from 25.2% in 2007 to 28.8% in 2008, due both to the "rolling" method (i.e. in 2008, the transactions referred to 2005 and 2003 have been no more considered within the 3YR and 5YR analyses respectively) and 2008 performance. More specifically, the material decrease of 3YR horizon performance compared to the previous year is due both to the exclusion of some over performing investments referred to 2005 and to the write off of few recent transactions occurred in 2008.

Table 15 – 10YR horizon IRR analysis: investments still in portfolio breakdown (by number and Cash Out)

	By number		By Cash Out	
	2008	2007	2008	2007
Book value deals	54.1%	56.3%	57.0%	53.3%
Re-valued deals	27.5%	27.3%	15.8%	30.0%
Depreciated deals	18.4%	16.3%	27.2%	16.8%
Investments still in portfolio (N. and Euro Mln)	364	355	5,805	5,602

Source: KPMG Corporate Finance

Figures confirm the above-mentioned private equity houses' common practice of evaluating investments still in portfolio at their book value; in addition, a material increase of depreciated deals has been recorded (especially in terms of cash out: 27.2% in 2008 compared to 16.8% in 2007).

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 9.2% (compared to 1.5%, 6.1%, 0.8% and -2.7% in 2007, 2006, 2005 and 2004 respectively).

Table 16 – Horizon IRR distribution by financing stage

	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	47	97	107	22
IRR 3YR	4.6%	83.1%	-1.6%	4.5%
N. of transactions	64	143	168	36
IRR 5YR	3.0%	54.3%	22.7%	12.5%
N. of transactions	115	286	285	87
IRR 10YR	14.0%	19.3%	22.7%	12.3%

As a whole, 2008 horizon IRR distribution by financing stage highlights the increase of performance of Early stage and Development transactions (in the 10YR horizon: from 12.9% in 2007 to 14.0% in 2008 concerning the Early stage and from 11.3% in 2007 to 19.3% in 2008 regarding Development transactions) and a decrease of IRR of Replacement investments (in the 10YR horizon: from 16.7% in 2007 to 12.3% in 2008). The analyses confirm also the role of MBO/MBI investments as top performers, despite a significant decrease compared to 2007 (in the 10YR horizon: from 34.7% in 2007 to 22.7% in 2008).

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

Table 17 – Horizon IRR distribution by target sales dimension (Euro Mln)

	<10	10-25	25-50	50-125	125-250	>250
N. of transactions	86	52	51	42	18	33
IRR 3 YR	-0.9%	192.2%	8.7%	19.1%	-2.2%	-3.7%
N. of transactions	124	80	74	64	35	53
IRR 5 YR	-1.7%	86.0%	31.5%	23.0%	23.9%	19.6%
N. of transactions	244	140	131	149	91	102
IRR 10 YR	-0.2%	34.8%	19.5%	14.1%	21.6%	21.0%

Source: KPMG Corporate Finance

Table 18 – Horizon IRR: Upper Quarter

	3 YR	5 YR	10 YR
Yearly Pooled IRR	5.1%	28.8%	19.6%
Upper Quarter (per performance)	36.7%	72.6%	57.3%
Upper Quarter (per investment size)	-1.5%	21.8%	16.8%

Source: KPMG Corporate Finance