Statistics on Performance [1]

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 carried out solely considering a Gross Pooled IRR on Realised Investment[2]. Since the 2004 edition, in order to provide a more in-depth representation of the performance of the Italian market and to align the performance measurement to the European and International standards, Gross Pooled IRR on All Investments[3] has been also introduced.

Gross Pooled 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 portfolio.

Similarly, Gross Pooled IRR on All Investments provides a wider insight of the market trend, even though it might be affected by the common practice of a number of private equity houses to evaluate most of their portfolios at cost.

Therefore, the analyses described in the followings consider:

- one-year Gross Pooled IRR on Realised Investments from inception (divestments recorded in 2009);
- historical Gross Pooled IRR on Realised Investments since inception (transactions with both investments and divestments occurred in the period comprised between 1986 and 2009);

[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 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] This second level of IRR considers both realised and in portfolio investments, no matter if the divestment has been partial.

– ten, five and three-years horizon Gross Pooled IRR on All Investments (investments made in the period 2000-2009, 2005-2009 and 2007-2009 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 an unique fund (whose performances have been measured).

It should be pointed out that the following analyses consider solely the transactions for which all the details required for estimating the performance have been made available; consequently, transactions with just partial data available have not been considered, due to the impossibility to estimate their IRR.

2009 Gross Pooled IRR on Realised Investments

Similarly to the previous editions of the survey, the initial focus of the analyses is on 2009 Gross Pooled IRR on Realised Investments from inception.

Table 1 – IRR from inception analysis: main sample features

	2009	2008	2007	2006	2005
N. of PE & VC houses included in the research panel	75	71	66	62	51
N. of PE & VC houses showing realised investments	23	38	33	30	23
N. of realised investments from inception	42	78	99	88	71
Average investment size (Euro mln)	19.9	16,.5	16.4	10.9	7.2
Total Cash Out (Euro mln)	836	1,289	1,627	966	512
Total Cash In (Euro mln)	361	2,193	4,105	1,956	995

Source: KPMG Corporate Finance

As shown in Table 1, the number of private equity houses involved in the survey gradually increased from 51 in 2005 to 75 in 2009 (the highest coverage since the beginning of the survey), with a trend which confirms the wide market coverage reached by the survey in the latest years.

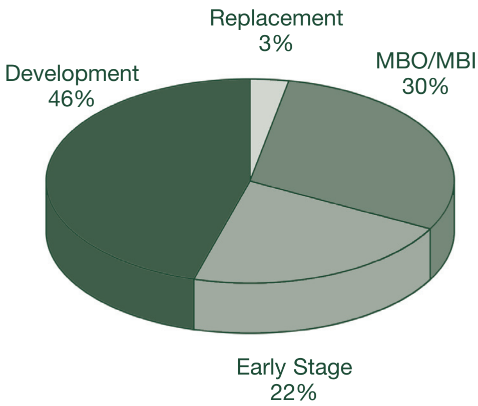
Within the sample, the number of private equity houses showing realised investments decreased from 38 in 2008 to 23 in 2009, showing a downturn compared to previous years.

The global crisis significantly affected the market in terms of both volumes and performances. The number of divestments included within the sample and the related Total Cash Out fell respectively by 46% (42 in 2009 vs 78 in 2008) and 35% (836 Euro mln in 2009 vs 1,289 Euro mln in 2008); similarly to previous years trend, the average investment size increased from 16.5 Euro mln in 2008 to 19.9 Euro mln in 2009. Total Cash In dropped to 361 Euro mln in 2009 (from 2,193 Euro mln in 2008), showing an implicit (and theoretical) cash exit multiple equal to 0.4x (significantly lower than 1.7x of 2008).

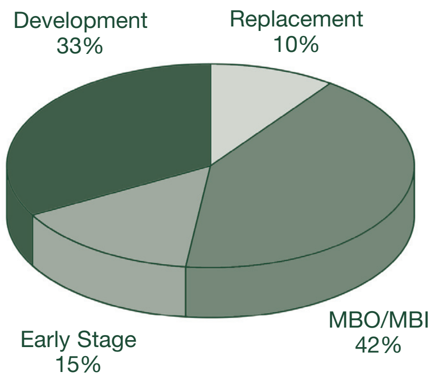
In 2009, private equity houses showed, at exit level, a preference for Development transactions, whose incidence by number increased to 46% from 33% in 2008 (see Chart 1); similarly, Early Stage divestments increased to 22% in 2009 from 15% in 2008. On the other hand, MBO/MBI recorded a clear decrease from 42% in 2008 to 30% in 2009, as well Replacement transactions fell to 3% in 2009 (vs 10% in 2008).

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

2009



2008

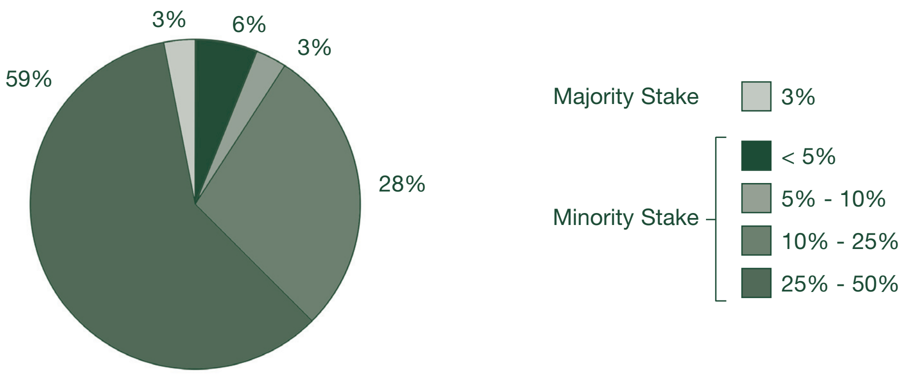


Source: KPMG Corporate Finance

The sample breakdown by acquired stake, as illustrated in Chart 2, confirms the significant prevalence of transactions involving minority stakes, with a particular focus on the range comprised between 25% and 50% (totally accounting for around 59%). At the same time, the incidence of transactions involving a majority stake dropped to 3% in 2009 from around 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: sample breakdown by acquired stake (incidence by number)

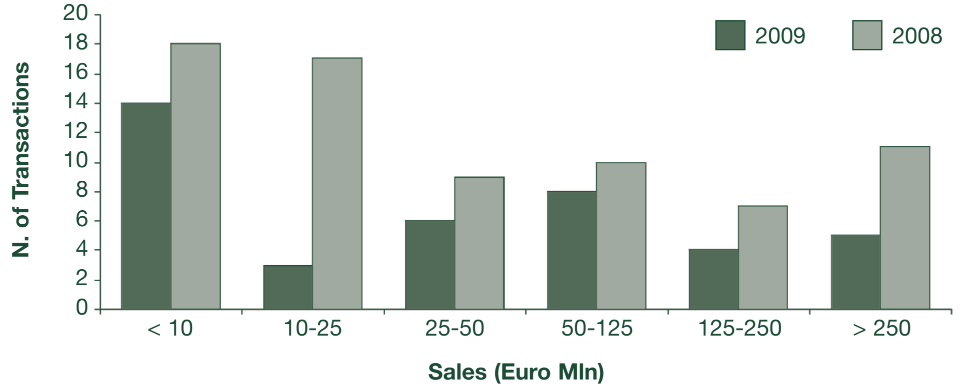


Source: KPMG Corporate Finance

The sample breakdown by target sales size (see Chart 3) confirms that almost half of the divestments (43% in 2009 vs 49% in 2008) involved companies with a turnover lower than 25 Euro mln. The incidence of transactions involving companies with a turnover between 25 and 125 Euro mln slightly increased from 26% in 2008 to 35% in 2009, whereas the incidence of divestments involving large companies (with a turnover higher than 125 Euro mln) stood at 23% in 2009 (vs 25% in 2008).

In terms of average holding period (time gap between the first investment and the divestment), the number of transactions realised within five years decreased to 60% in 2009 from 77% in 2008, as illustrated in Table 7.

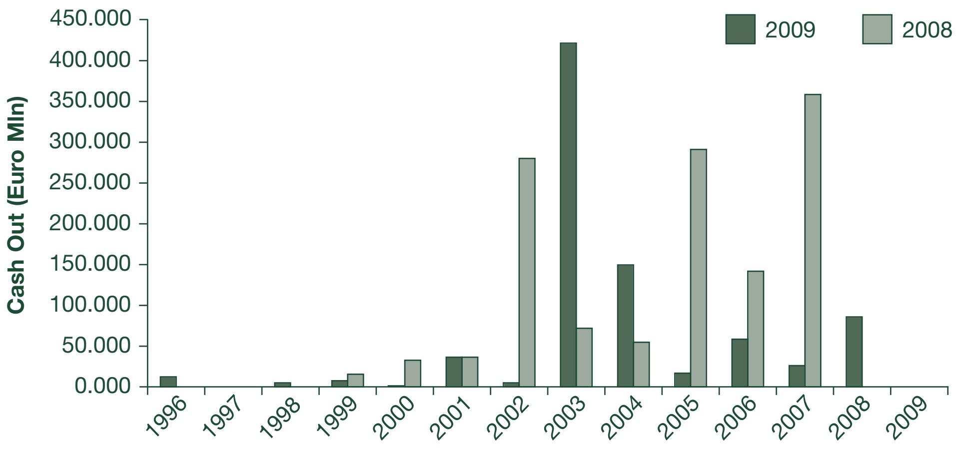
Chart 3 – IRR from inception analysis: transactions breakdown by target sales size (by number)



Source: KPMG Corporate Finance

To sum up, the majority of the divestments monitored in 2009 concerned minority stakes in small-medium size companies (with a turnover lower than 50 Euro mln), acquired during their Development stage or through MBO/MBI transactions, with an holding period up to five years.

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2009 vs 2008)



Source: KPMG Corporate Finance

According to the international standard criteria related to the first level of IRR, the 2009 Italian private equity and venture capital performance is represented in terms of pooled internal rate of return from inception (see Table 2).

TABLE 2 – IRR from inception by year in 2005-2009

	2009	2008	2007	2006	2005
N. of realised investments from inception	42	78	99	88	71
Yearly Pooled IRR	-16.6%	18.9%	29.2%	28.5%	25.1%

Source: KPMG Corporate Finance

Gross Pooled IRR on Realised Investments from inception in 2009 plunged to -16.6%, showing for the first time an overall negative performance since the beginning of the survey.

It is worth to note that 2009 performance has been significantly affected by a number of relevant write off[4]. More specifically, the overall number of write off increased to 17 in 2009 from 14 in 2008: the incidence by number more than doubled (40% in 2009 vs 18% in 2008), whereas the incidence by Cash Out[5] rose to 84% in 2009 (vs 33% in 2008).

Consistently with the decrease of the overall IRR, the Upper Quarter per performance recorded in 2009 an IRR equal to 34% (vs 51% in 2008), while the Upper Quarter per investment size fell to -20% in 2009 (vs 18% in 2008).

TABLE 3 – IRR from inception by year: Upper Quarter

	2009	2008	2007	2006	2005
Yearly Pooled IRR	-16.6%	18.9%	29.2%	28.5%	25.1%
Upper Quarter (per performance)	34%	51%	81%	115%	55%
Upper Quarter (per investment size)	-20%	18%	31%	24%	28%

Source: KPMG Corporate Finance

[4] The figure includes both total and partial write off; partial write off are considered within the Gross Pooled IRR on Realised Investments only if the write off is equal or higher than 80% of the investment.

[5] Potential differences in the total amount of Cash Out related to write off between this analysis and other surveys carried out by AIFI are essentially due to the different period (i.e. 2008 vs. 2009) which some (relevant) write off have been attributed to.

TABLE 4 – IRR from inception distribution by IRR class

	2009			2008		
	Number	Incidence (%)	Incidence by Cash Out (%)	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	24	57.1%	86.6%	21	26.9%	34.1%
0% - 10%	7	16.7%	2.2%	16	20.5%	7.0%
10% - 20%	5	11.9%	3.8%	8	10.3%	2.9%
20% - 30%	3	7.1%	2.0%	7	9.0%	29.6%
30% - 40%	1	2.4%	0.3%	9	11.5%	14.6%
40% - 50%	1	2.4%	4.6%	5	6.4%	2.6%
50% - 100%	-	-	-	7	9.0%	8.3%
100% - 500%	1	2.4%	0.4%	5	6.4%	0.9%

Source: KPMG Corporate Finance

Performance distribution by IRR class (see Table 4) highlights the overall worsening of performance in 2009; in particular, it is worth to note that:

- divestments with negative performance and write off remarkably increased both by number (57.1% in 2009 vs 26.9% in 2008) and (even more significantly) by Cash Out (86.6% in 2009 vs 34.1% in 2008);
- divestments with low performance (Gross Pooled IRR between 0% and 10%) slightly decreased by number (16.7% in 2009 vs 20.5% in 2008) and by Cash Out (2.2% in 2009 vs 7.0% in 2008);
- divestments with Gross Pooled IRR ranging between 10% and 50% sharply decreased by number (23.8% in 2009 vs 37.2% in 2008) and by Cash Out (10.8% in 2009 vs 49.7% in 2008);
- divestments with outstanding performances (Gross Pooled IRR higher than 50%) dropped by number (2.4% in 2009 vs 15.4% in 2008) and, more remarkably, by Cash Out (0.4% in 2009 vs 9.2% in 2008); similarly to 2007 and 2008, no transaction recorded performance above 500%.

IRR analysis by financing stage, as illustrated in Table 5, highlights the worsening of MBO/MBI performance (historically the top performer transactions), which fell to -33.1% in 2009 (vs 21.2% in 2008), due to the impact of write off.

Table 5 – IRR from inception distribution by financing stage[6]

	Early Stage		Development		MBO/MBI		Replacement	
	2009	2008	2009	2008	2009	2008	2009	2008
N. of transactions	8	11	17	24	11	31	1	7
Yearly Pooled IRR	34.8%	-2.7%	13.6%	9.6%	-33.1%	21.2%	Neg.	20.8%

Source: KPMG Corporate Finance

Performance of Development transactions slightly increased (13.6% in 2009 vs 9.6% in 2008), whereas Early Stage rose to 34.8% in 2009 from -2.7% in 2008; it should be pointed out that, also considering the historical trend, Early stage transactions are typically affected by high volatility in terms of returns[7]. In 2009 it has been recorded a sole Replacement transaction, consisting in a write off.

Trade sales (which do not include Write off) recorded an IRR equal to 19.9% (see Table 6), with a material decrease compared to the previous year (27.1% in 2008).

Table 6 – IRR from inception for trade sale (excluding write off)

	Trade Sale	
	2009	2008
N. of transactions	21	62
Yearly Pooled IRR	19.9%	27.1%

Source: KPMG Corporate Finance

Table 7 provides a further analysis on the 2009 performance from inception.

[6] Please note that in Table 5 total transactions considered are less than 42 in 2009 (and less than 78 in 2008) 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.

[7] Please note that 2007, 2006, 2005, 2004 and 2003 IRR from inception referred to Early Stage investments were equal respectively to 89.1%, 13.8%, -1.8%, 30.5% and -10.6%.

Table 7 – 2009 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	7	7	7	4	6	11
Incidence	16.7%	16.7%	16.7%	9.5%	14.3%	26.2%
Yearly Pooled IRR	-86.4%	-65.4%	34.7%	-22.1%	-40.9%	7.5%

Source: KPMG Corporate Finance

Historical Gross Pooled IRR on Realised Investments since inception (1986-2009)

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

Consistently with the trend observed in the from inception analysis, the historical performance recorded a 27.6% Pooled IRR in 1986-2009, slightly lower than 29.2% in 1986-2008; the average investment size increased to 7.5 Euro mln (see Table 8).

Table 8 – Historical IRR since inception analysis

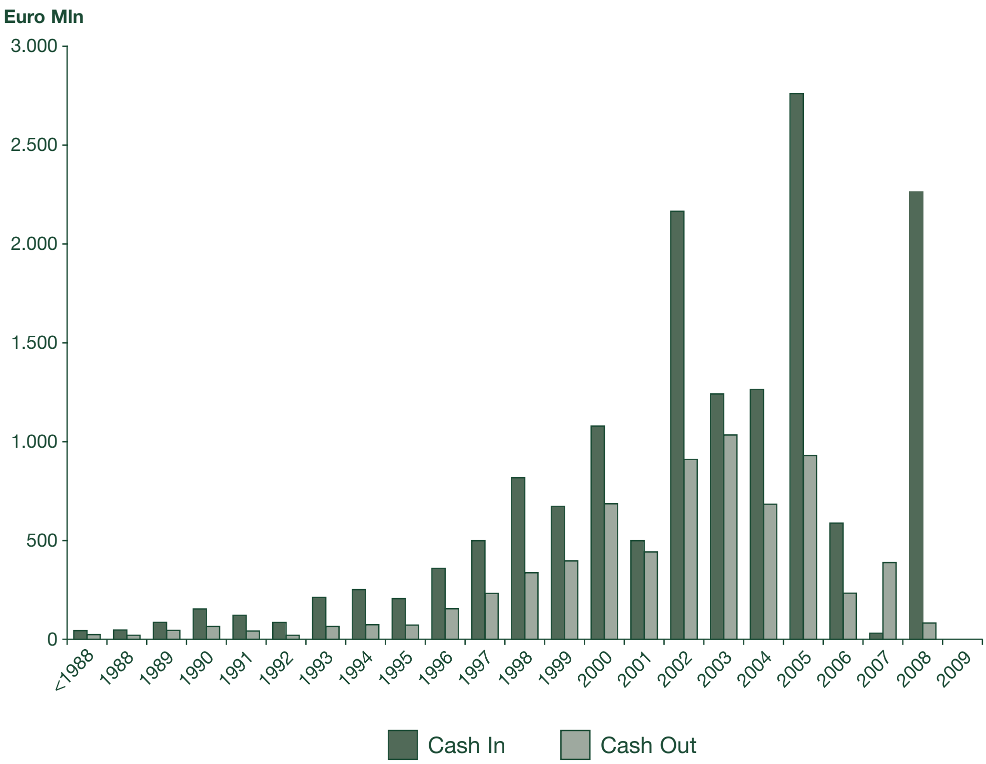
	1986-2009	1986-2008
N. of PE & VC houses presenting realised investments	80	69
N. of realised investments since inception	953	917
Average investment size (Euro mln)	7.5	6.9
Total Cash Out (Euro mln)	7,138	6,294
Total Cash In (Euro mln)	13,267	12,925
Yearly Pooled IRR	**27.6%**	**29.2%**

Source: KPMG Corporate Finance

The historical sample analyses show that the majority (around 61%) of realised investments has been concluded within 4 years (see Table 13). More than 85% of total transactions involved minority stakes (see Table 12), whereas around 75% of total deals focused on Development operations and MBO/MBI; MBO/MBI represent the top performer, showing an average IRR near to 45% (see Table 10).

In order to give a complete overview, the following tables illustrate some analyses related to the historical performances since inception of all transactions monitored in the 1986-2009 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

	1986-2009
Yearly Pooled IRR	27.6%
Upper Quarter (per performance)	89.7%
Upper Quarter (per investment size)	23.5%

Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception distribution by financing stage[8]

	1986-2009			
	Early Stage	**Development**	**MBO/MBI**	**Replacement**
N. of transactions	87	346	272	112
Yearly Pooled IRR	29.0%	16.5%	44.8%	29.2%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by IRR categories

	1986-2009		
	Number	**Incidence (%)**	**Incidence by Cash Out (%)**
Write Off/Negative	173	18.2%	26.0%
0% - 10%	261	27.4%	16.6%
10% - 20%	132	13.9%	11.7%
20% - 30%	83	8.7%	11.4%
30% - 40%	58	6.1%	7.2%
40% - 50%	58	6.1%	5.2%
50% - 100%	101	10.6%	13.1%
100% - 500%	69	7.2%	7.7%
> 500%	18	1.9%	1.2%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by acquired stakes

	1986-2009				
	<5%	**5%-10%**	**10%-25%**	**25%-50%**	**>50%**
N. of transactions	95	117	265	245	97
Incidence	12%	14%	32%	30%	12%
Yearly Pooled IRR	16.0%	23.4%	18.4%	30.0%	41.7%

Source: KPMG Corporate Finance

[8] Please note that in Tables 10 and 12 total transactions considered are less than 953 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.

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

	1986-2009					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of transactions	222	217	143	111	163	97
Incidence	23%	23%	15%	12%	17%	10%
Yearly Pooled IRR	82.0%	54.0%	51.5%	17.8%	7.1%	6.9%

Source: KPMG Corporate Finance

Gross Pooled IRR on All Investments by horizon

The analyses on the Gross Pooled IRR on All Investments (by horizon)[9] have been performed mainly in order to provide a comparison between the Italian and other European markets.

Table 14 – Gross Pooled IRR on All Investments (by horizon) analysis to 31 December 2009[10]

	3 YR	5 YR	10 YR
N. of PE & VC houses presenting investments	59	74	92
N. of Transactions	260	459	865
of which: - realised investments	*23*	*121*	*486*
- still in portfolio participations	*237*	*338*	*379*
Average investment size (Euro Mln)	17.5	16.8	14.0
Total Cash Out (Euro Mln)	4,557	7,712	12,094
Total Cash In (Euro Mln)	3,524	9,160	15,993
Yearly Pooled IRR	**-1.4%**	**11.4%**	**13.4%**

Source: KPMG Corporate Finance

[9] 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 fall in the range of 50% - 65% of Gross Pooled IRR on All Investments.

[10] It is worth to note that partially divested participations have been considered in the "still in portfolio" cluster, whereas "realised investments" include completely divested participations and total/partial write off.

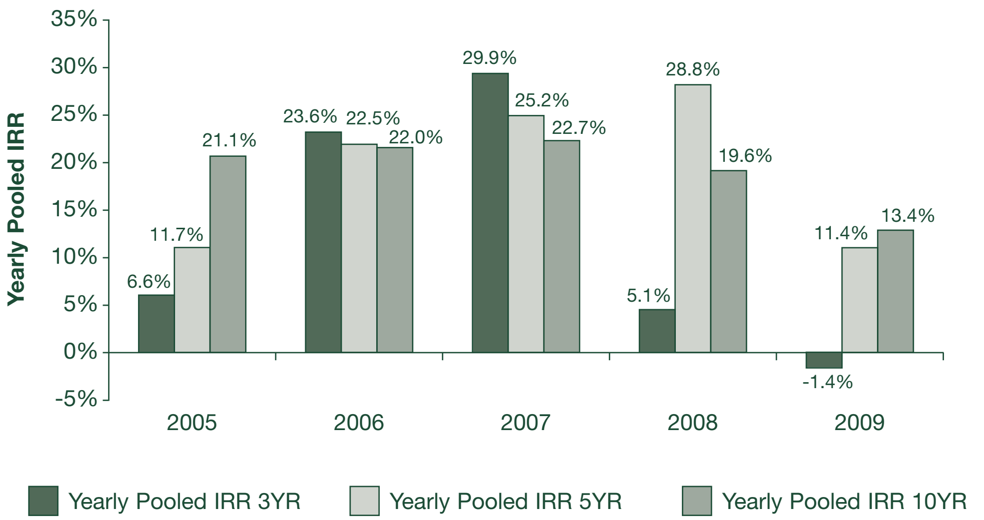
As far as the Gross Pooled IRR on All Investments (by horizon) analysis is concerned, two main issues should be pointed out:

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

With a specific focus on the 10YR horizon (the most statistically significant), Gross Pooled IRR on All Investments (by horizon) recorded a significant decrease (13.4% in 2009 vs 19.6% in 2008), as a consequence of the following main issues:

- 42 realised transactions, totally accounting for around 836 Euro mln in terms of Total Cash Out, have been included in 2009, whose IRR is about -16.6%;
- 96 realised transactions (invested in 1999), totally accounting for 409 Euro mln in terms of Total Cash Out, have been no more considered (whose IRR was around 23.0%);
- the majority of the investments still in portfolio have been evaluated at cost (around 51% by number in 2009).

Chart 6 – 2005-2009 Gross Pooled IRR on All Investments (by horizon)



Source: KPMG Corporate Finance

The performance referred to 3YR horizon (see Chart 6) recorded a sharp decrease from 5.1% in 2008 to -1.4% in 2009; similarly, 5YR horizon fell from 28.8% in 2008 to 11.4% in 2009, due to the "rolling" method (in 2009, the transactions referred to 2006 and 2004 have been no more considered within the 3YR and 5YR analyses respectively) and (mostly) to 2009 negative performance.

Table 15 – 10YR by horizon IRR analysis: investments still in portfolio breakdown (by number and Cash Out)[11]

	By number		By Cash Out	
	2009	**2008**	**2009**	**2008**
Book value deals	50.9%	54.1%	40.8%	57.0%
Re-valued deals	26.6%	27.5%	34.7%	15.8%
Depreciated deals	22.4%	18.4%	24.5%	27.2%
Investments still in portfolio (N. and Euro mln)	379	364	5,095	5,805

Source: KPMG Corporate Finance

Figures in Table 15 confirm the above-mentioned private equity houses' common practice of evaluating investments still in portfolio at their book value, even though with a decreasing trend compared to previous years incidence.

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 2.2% (compared to 9.2%, 1.5%, 6.1%, 0.8% and -2.7% in 2008, 2007, 2006, 2005 and 2004 respectively).

As a whole, 2009 horizon IRR distribution by financing stage highlights, with particular focus on 10YR horizon, the material decrease of Early Stage (from 14.0% in 2008 to 1.6% in 2009) and Development transactions (from 19.3% in 2008 to 11.5% in 2009); contrarily, Replacement transactions recorded a slight increase (from 12.3% in 2008 to 15.1% in 2009). MBO/MBI recorded a material decrease, dropping to 15.3% in 2009 from 22.7% in 2008.

Further analyses, consistently with the past editions, are provided in the followings.

[11] Depreciated deals do not include total write off and partial write off over 80%. If such write off were included in the panel, the incidence of depreciated deals, in 10YR 2009, would be around 36% (vs 40% in 10YR 2008) by number and around 49% (vs 52% in 10YR 2008) by Cash Out.

Table 16 – By horizon IRR distribution by financing stage[12]

	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	51	92	88	13
IRR 3 YR	-1.2%	-3.1%	-2.3%	6.6%
N. of transactions	74	155	167	31
IRR 5 YR	-1.0%	5.7%	14.7%	7.2%
N. of transactions	123	285	273	73
IRR 10 YR	1.6%	11.5%	15.3%	15.1%

Source: KPMG Corporate Finance

Table 17 – By horizon IRR: Upper Quarter

	<3 YR	5 YR	10 YR
Yearly Pooled IRR	-1.4%	11.4%	13.4%
Upper Quarter (per performance)	4.8%	59.8%	46.7%
Upper Quarter (per investment size)	-1.9%	11.4%	12.7%

Source: KPMG Corporate Finance

Table 18 – By horizon IRR distribution by target sales dimension (Euro mln)

	<10	10-25	25-50	50-125	125-250	>250
N. of transactions	89	52	41	38	14	23
IRR 3 YR	-2.9%	-11.1%	0.7%	0.6%	-5.0%	-3.3%
N. of transactions	138	84	73	63	34	48
IRR 5 YR	-1.8%	3.7%	6.9%	17.1%	1.6%	13.2%
N. of transactions	252	137	125	129	82	103
IRR 10 YR	-0.3%	6.0%	17.3%	13.9%	23.4%	12.1%

Source: KPMG Corporate Finance

[12] Please note that in Tables 16 and 18 total transactions considered are less than 260 (3YR), 459 (5YR) and 863 (10YR) 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.