Statistics on Performance[1]

INTRODUCTION

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

This survey, based on a significant sample of the Italian private equity and venture capital houses, is basically performed to assess the overall performance of the domestic market.

Since 2004 edition, in order to provide an in-depth representation of the Italian market performance and align the performance measurement to European and international standards, the analysis has been carried out considering (i) gross pooled IRR on realised investments[2], as well as (ii) gross pooled IRR on all investments[3].

Gross pooled IRR on realised investments provides a "realistic" overview of the market, representing the overall performance of the realised divestments, but it does not consider the implicit performance referred to the investments still in portfolio.

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 valuating most of the assets still in portfolio at cost.

Therefore, the analyses described in the followings consider:

- one-year gross pooled IRR on realised investments from inception (divestments made in 2014);
- ten, five, three and one-year horizon gross pooled IRR on all investments (investments respectively made in the period 2005-2014, 2010-2014, 2012-2014 and in 2014, no matter if, at the end of the period considered, the asset is still in portfolio or it was – partially or totally – divested).

Performance are measured in terms of pooled IRR, considering all the cash flows disclosed by the private equity houses, aggregated as if they resulted from the transactions carried out by a single fund.

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1 The analysis is realised in co-operation with KPMG Corporate Finance.
2 According to the EVCA principles, this performance indicator takes into account investments (cash outflows) and divestments (cash inflows) in which the private equity and venture capital houses disposed at least a 30% stake of the initial investment in equity. In case of partial divestments, only the related part of total cash out was considered.
3 This second level of IRR considers both realised and still in portfolio investments, no matter if the divestment was partial.

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

2014 GROSS POOLED IRR ON REALISED INVESTMENTS

Similarly to previous editions of the survey, the initial focus of the analyses is on 2014 gross pooled IRR on realised investments from inception.

This indicator measures the performance of divestments recorded in 2014, regardless of when the initial investment was made.

Table 1 – IRR from inception analysis: main sample

	2014	2013	2012	2011	2010
N. of PE & VC houses included in the research panel	91	95	95	92	84
N. of PE & VC houses showing realised investments	41	55	36	47	26
N. of realised investments from inception	95	102	82	85	52
Average investment size (Euro Mln)	17.7	20.7	10.5	21.0	12.1
Total cash out (Euro Mln)	**1,681**	**2,115**	**840**	**1,784**	**628**
Total cash in (Euro Mln)	**3,489**	**4,809**	**1,112**	**2,939**	**466**

Source: KPMG Corporate Finance.

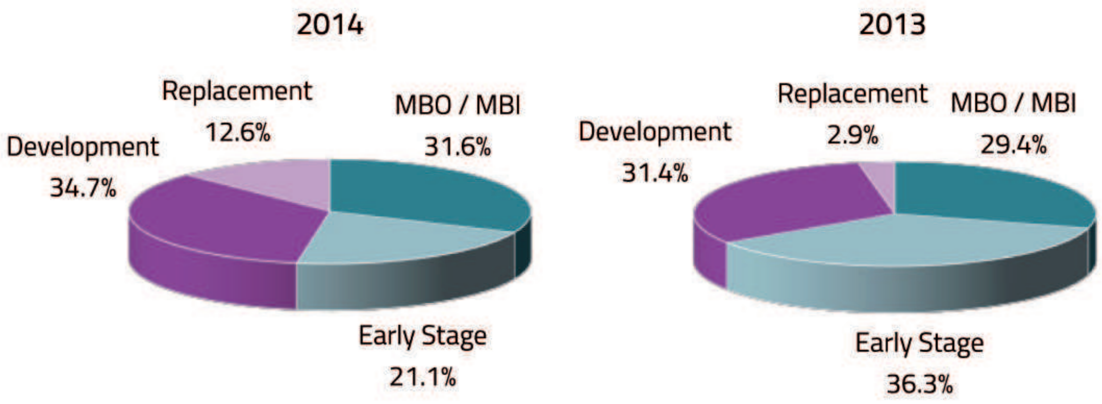
Table 1 shows how, overall, the sample remained stable over the last years, including 91 private equity houses in 2014. The high number of participants is a clear evidence of the persistent interest of the private equity houses toward the survey and, moreover, attests the reliability and significance of the analyses over the years.

The number of private equity houses showing realised investments (i.e. divestments made in 2014) decreased from 55 in 2013 to 41 in 2014.

In terms of investment activity, the number of divestments recorded within the sample slightly decreased with respect to the previous year (95 in 2014 vs 102 in 2013). 2014 total cash out amounted to Euro 1,681 Mln (vs Euro 2,115 Mln in 2013), and total cash in amounted to Euro 3,489 Mln in 2014 (vs Euro 4,809 Mln in 2013). It should be noted that, in 2013, approximately Euro 1,900 million of total cash in was related to a single mega deal. The average investment size decreased from Euro 20.7 Mln in 2013 to Euro 17.7 Mln in 2014. 2014 implicit (and theoretical) cash exit multiple stands at 2.1x (vs 2.3x in 2013).

In line with 2013, MBO/MBIs were a recurring choice for private equity houses at exit level (see Chart 1). Indeed, they represented (by number) more than 31% of total divestments (vs 29.4% in 2013). Replacement transactions (transactions aiming at substituting minority shareholders) represented the most relevant increase, passing from to 2.9% in 2013 to 12.6% in 2014. The incidence of the transactions related to companies in their development stage slightly increased (34.7% in 2014 vs 31.4% in 2013). On the other hand, investments made during the early life of a company (i.e. early stage) showed a significant decrease (from 36.3% in 2013 to 21.1% in 2014).

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

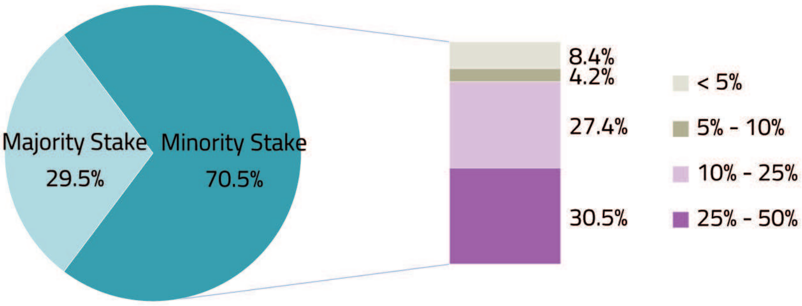


Source: KPMG Corporate Finance.

The sample breakdown by acquired stake, as showed in Chart 2, confirmed the significant prevalence of transactions involving minority stakes, which represented 70.5% of the sample. A particular focus could be put on two ranges between 10% and 50% (27.4% the range comprised between 10%-25% and 30.5% the range between 25%-50%) collecting 82.1% of minority stake's transactions.

In this context, it should be pointed out that all investments were analysed on a stand-alone basis; any possible pool agreement among private equity houses, which might have jointly acquired majority stakes, was not taken into account.

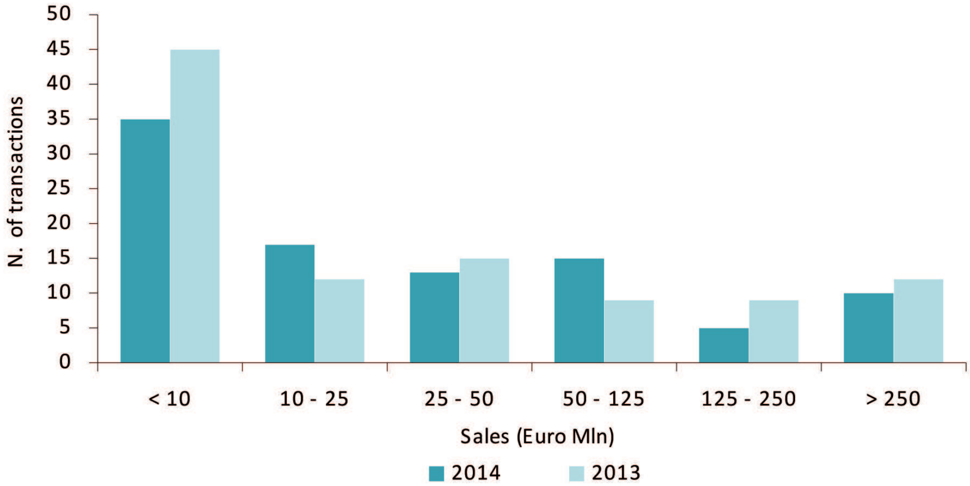
Chart 2 – IRR from inception analysis: sample breakdown by acquired stake (incidence by number)



Source: KPMG Corporate Finance.

Considering the target sales' size (see Chart 3), about 70% of the total divestments in 2014 (68.4%) involved small-medium companies (with turnover lower than Euro 50 Mln), showing an alignment in terms of incidence with respect to 2013 (71.0%). The incidence of transactions involving medium companies (with turnover ranging between Euro 50 Mln and Euro 250 Mln) increased to 21.1% in 2014 (vs 17.6% in 2013), whereas divestments related to large companies (with turnover higher than Euro 250 Mln) slightly decreased from 11.8% in 2013 to 10.5% in 2014.

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



Source: KPMG Corporate Finance.

To sum up, most of divestments observed in 2014 involved minority stakes in small-medium companies (with turnover lower than Euro 50 Mln), acquired both during their development stage or through MBO/MBI transactions.

According to the international standard criteria related to the so called "first level" of IRR, 2014 Italian private equity and venture capital performance is firstly represented in terms of pooled internal rate of return from inception (see Table 2).

Table 2 – IRR from inception by year in 2010-2014

	2014	2013	2012	2011	2010
N. of realised investments from inception	95	102	82	85	52
Yearly pooled IRR	**19.7%**	**18.2%**	**6.2%**	**12.6%**	**–11.4%**

Source: KPMG Corporate Finance.

The Italian private equity and venture capital industry confirmed positive results in terms of investment activity and returns. In 2014, the performance confirmed the positive trend started in 2013; the 95 divestments of the year recorded a yearly pooled IRR of 19.7% (vs 18.2% in 2013).

2014 performance figures, with respect to the previous year, were favoured by the positive impact of some specific transactions. In addition, the write offs' incidence decreased both by number (25.3% in 2014 vs 38.2% in 2013) and by cash out (10.9% in 2014 vs 19.8% in 2013).

Table 3 – IRR from inception by year: upper quarter

	2014	2013	2012	2011	2010
Yearly pooled IRR	19.7%	18.2%	6.2%	12.6%	–11.4%
Upper quarter (per performance)	53.5%	27.3%	20.1%	24.2%	43.1%
Upper quarter (per investment size)	22.5%	19.1%	8.1%	14.3%	–19.1%

Source: KPMG Corporate Finance.

In 2014, the upper quarter confirmed the general performance improvement. In particular, upper quartile returns by performance (i.e. the cluster which includes the 25% of transactions with the highest returns) increased from 27.3% in 2013 to 53.5% in 2014. The top quartile performance by investment size (i.e. the cluster which includes the 25% of transactions with the greatest amount invested) increased to 22.5% in 2014 (vs 19.1% in 2013).

Table 4 – IRR from inception distribution by IRR class

	2014			2013		
	Number	Incidence by number (%)	Incidence by cash out (%)	Number	Incidence by number (%)	Incidence by cash out (%)
Write off/Negative	38	40.0	19.0	50	49.0	25.6
0% - 10%	23	24.2	12.6	21	20.6	17.0
10% - 20%	11	11.6	5.8	9	8.8	3.3
20% - 30%	4	4.2	1.1	10	9.8	38.5
30% - 40%	6	6.3	24.8	2	2.0	3.0
40% - 50%	1	1.1	0.4	3	2.9	0.7
50% - 100%	6	6.3	26.0	4	3.9	7.3
100% - 500%	6	6.3	10.3	3	2.9	4.6

Source: KPMG Corporate Finance.

Performance distribution by IRR class (see Table 4) highlighted in details how performance in 2014 were generally characterised by positive returns with respect to the previous year:

– the incidence of divestments with negative performance and write off decreased by number (40.0% in 2014 vs 49.0% in 2013) and by cash out (19.0% in 2014 vs 25.6% in 2013);
– divestments with low performance (gross pooled IRR ranging between 0% and 10%) slightly increased by number (24.2% in 2014 vs 20.6% in 2013), while they decreased by cash out (12.6% in 2014 vs 17.0% in 2013);
– divestments with performance ranging between 20% and 30% recorded a drop both by number (4.2% in 2014 vs 9.8% in 2013) and especially by cash out (1.1% in 2014 vs 38.5% in 2013);
– divestments showing high returns (gross pooled IRR higher than 30%) increased by number (20.1% in 2014 vs 11.8% in 2013) and significantly by cash out (61.5% in 2014 vs 15.6% in 2013). In particular, there were six transactions with IRR higher than 100% (vs 3 in 2013).

Table 5 – IRR from inception distribution by financing stage

	Early stage		Development		MBO/MBI		Replacement	
	2014	2013	2014	2013	2014	2013	2014	2013
N. of transactions	20	37	33	32	30	30	12	3
Yearly pooled IRR	–0.8%	–1.6%	2.6%	18.4%	22.0%	18.9%	26.5%	20.0%

Source: KPMG Corporate Finance.

IRR analysis by financing stage, as represented in Table 5, highlighted that operators' interest in MBO/MBI transactions remains constant. In fact, MBO/MBI deals represent 22.0% of total divestments (vs 18.9% in 2013). Replacement transactions confirmed last year shift, passing from negative returns in 2012 (i.e. -11.1%) to positive returns both in 2013 and in 2014 (i.e. 20.0% in 2013 and 26.5% in 2014 respectively). The incidence of development transactions significantly diminished (i.e. 2.6% in 2014 vs 18.4% in 2013). Early stage transactions, which have always represented a limited sample with low investment volumes, showed negative returns (i.e. -0.8% in 2014 vs -1.6% in 2013). It is important to note that early stage transaction returns are historically affected by high volatility[4].

The number of trade sales remained stable at 63 transactions, however IRR decreased from 20.8% in 2013 to 15.6% in 2014 (see Table 6). It is worth noting that write offs are not included in trade sale's cluster.

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

	Trade Sale	
	2014	**2013**
N. of transactions	63	63
Yearly pooled IRR	15.6%	20.8%

Source: KPMG Corporate Finance.

Table 7 provides the analysis of the 2014 performance from inception by time gap (between first investment and divestment).

Table 7 – 2013 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	14	16	8	10	24	23
Incidence	14.7%	16.8%	8.4%	10.5%	25.3%	24.2%
Yearly pooled IRR	63.6%	57.9%	15.2%	32.2%	29.7%	0.2%

Source: KPMG Corporate Finance.

[4] Please note that IRR from inception referred to early stage investments were significantly negative in 2010, 34.8% in 2009, −2.7% in 2008, 89.1% in 2007, 13.8% in 2006, −1.8% in 2005, 30.5% in 2004 and −10.6% in 2003.

Differently from last years, the percentage of transactions realised within five years (in terms of average holding period) decreased from 65%-67% to 50.5%.

GROSS POOLED IRR ON ALL INVESTMENTS BY HORIZON

The analyses on the gross pooled IRR on all investments (by horizon)[5] were mainly performed to provide a comparison between the Italian market and the European one. Accordingly to some international benchmark, a new layer of analysis (1YR horizon, i.e. sample including all investments made in 2014) was introduced in the previous editions.

It is worth noting that, generally speaking, the gross pooled IRR on all investments (by horizon) analysis is affected by two main issues:

– the application of an "average rolling" method to the specific period considered (i.e. relevant to properly compare year by year analyses);
– the common practice of a number of private equity houses to valuate most of the investments still in portfolio at cost.

Table 8 – Gross pooled IRR on all investments (by horizon) analysis to 31 December 2014

	1YR	3YR	5YR	10YR
N. of PE & VC houses presenting investments	40	71	97	125
N. of transactions	91	352	595	1,147
of which: - *realised investments*	*0*	*43*	*117*	*460*
- still in portfolio	*91*	*309*	*478*	*687*
Average investment size (Euro Mln)	12.4	14.2	14.8	17.7
Total cash out (Euro Mln)	1,125	4,997	8,810	20,269
Total cash in (Euro Mln)	1,127	5,591	10,623	27,630
Yearly pooled IRR	**0.3%**	**8.9%**	**9.3%**	**10.0%**

Source: KPMG Corporate Finance.

[5] 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 between 50% and 65% of gross pooled IRR on all investments.

Focusing on the 10YR horizon (the most statistically significant) analysis, gross pooled IRR on all investments (by horizon) slightly decreased to 10.0% in 2014 (vs 11.1% in 2013), as a consequence of the following main issues:

- 95 realised transactions, totally accounting for Euro 1,681 Mln in terms of total cash out, were included in 2014, whose IRR was equal to 19.7%;
- the incidence of book value deals increased by number (58.8% in 2014 vs 56.4% in 2013) and especially by cash out (34.8% in 2014 vs 27.9% in 2013);
- the revalued deals show a decrease both by number (i.e. 24.9% in 2014 vs 26.6% in 2013) and by cash out (i.e. 45.0% in 2014 vs 51.4% in 2013);
- the incidence by cash out of depreciated deals among the investments still in portfolio remained stable (20.1% in 2014 vs 20.7% in 2013).

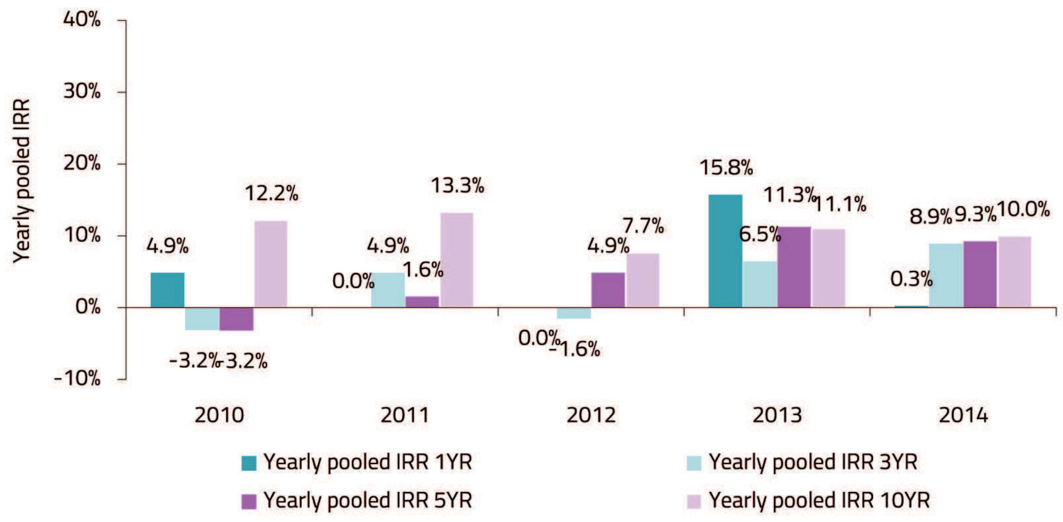
Table 9 – 10YR by horizon IRR analysis: investments still in portfolio breakdown (by number and cash out)*

	By number		By cash out	
	2014	**2013**	**2014**	**2013**
Book value deals	58.8%	56.4%	34.8%	27.9%
Re-valued deals	24.9%	26.6%	45.0%	51.4%
Depreciated deals	16.3%	17.0%	20.1%	20.7%
Investments still in portfolio (N. and Euro Mln)	687	677	10,013	10,728

* Depreciated deals do not include total write off and partial write off over 80%.
Source: KPMG Corporate Finance.

The performance referring to the 3YR horizon highlighted a significant improvement (i.e. 6.5% in 2013 to 8.9% in 2014), while the 5YR horizon experienced an opposite trend (i.e. 11.3% in 2013 to 9.3% in 2014).

Chart 4 – 2010-2014 gross pooled IRR on all investments (by horizon)



Source: KPMG Corporate Finance.