Statistics on Performance [1]

Introduction

Since 1996, KPMG Corporate Finance, in co-operation with AIFI, is carrying out, on an annual basis, the analysis of the performances of the Italian Private Equity and Venture Capital industry.

This survey, which involves a significant sample of the main Italian Private Equity and Venture Capital houses, has been basically performed in order to assess the overall performance of the domestic market.

Since the 2004 edition, in order to provide an in-depth representation of the performance of the Italian market and to align the performance measurement to the 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 related to 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 a number of Private Equity houses to valuate most of their assets 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 2011);
- historical Gross Pooled IRR on Realised Investments since inception (transactions with both investments and divestments occurred in the period comprised between 1986 – first year historically monitored by the survey – and 2011);
- ten, five, three and one-year horizon Gross Pooled IRR on All Investments (investments respectively made in the period 2002-2011,

[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 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 has been considered.

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

2007-2011, 2009-2011 and in 2011, no matter if, at the end of the period considered, the asset 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, 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.

2011 Gross Pooled IRR on Realised Investments

Similarly to the previous editions of the survey, the initial focus of the analyses is on 2011 Gross Pooled IRR on Realised Investments from inception: this indicator measures the performance of the divestments recorded in 2011 (no matter when the initial investment was made).

Table 1 – IRR from inception analysis: main sample features

	2011	2010	2009	2008	2007
N. of PE & VC houses included in the research panel	92	84	75	71	66
N. of PE & VC houses showing realised investments	47	26	23	38	33
N. of realised investments from inception	85	52	42	78	99
Average investment size (Euro mln)	21.0	12.1	19.9	16.5	16.4
Total Cash Out (Euro mln)	1,784	628	836	1,289	1,627
Total Cash In (Euro mln)	2,939	466	361	2,193	4,105

Source: KPMG Corporate Finance

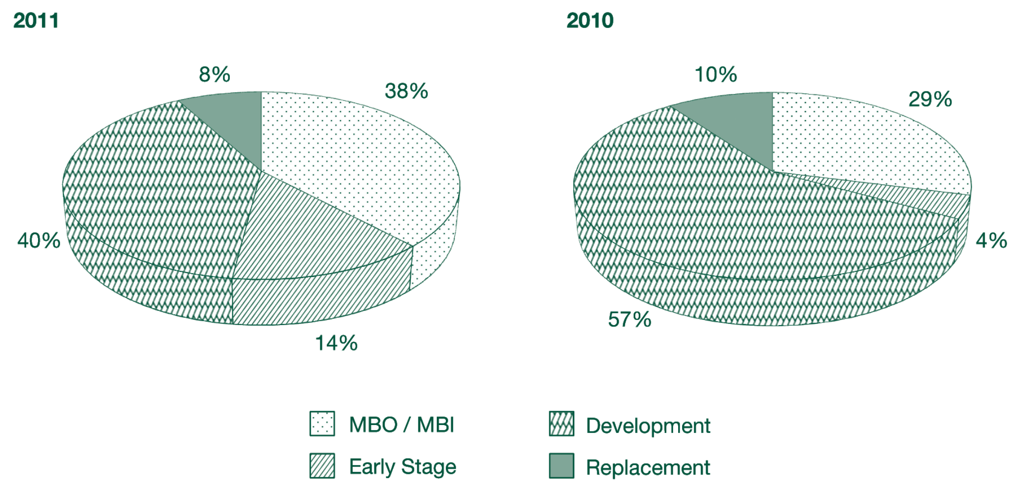
As reported in Table 1, the from inception analysis recorded a further enlargement of the sample, totalling 92 Private Equity houses in 2011. The increasing number of the participants over the years confirms both the growing interest of the Private Equity houses toward the survey, as well as the significant reliability of the analyses.

Within the sample, the number of Private Equity houses showing realised investments (i.e. divestments made in 2011) passed from 26 in 2010 to 47 in 2011.

In 2011 the Italian market showed a remarkable increase of the investment activity, this confirming a trend inversion after the negative contingency characterizing the previous two years. More specifically, the number of divestments recorded within the sample increased by 63% (85 in 2011 vs 52 in 2010). Similarly, the related Total Cash Out almost tripled (from Euro 628 mln in 2010 to Euro 1,784 mln in 2011), whereas Total Cash In increased even more (from Euro 466 mln in 2010 to Euro 2,939 mln in 2011). The implicit (and theoretical) cash exit multiple comes back to be above 1x in 2011, rising to around 1.65x (vs 0.74x in 2010 and 0.43x in 2009). The average investment size passed from Euro 12.1 mln in 2010 to Euro 21.0 mln in 2011.

In 2011, Private Equity houses showed, at exit level (see Chart 1), a material preference for Development and MBO/MBI transactions, whose incidence by number has been respectively 40% (vs 57% in 2010) and 38% (vs 29% in 2010). Early Stage increased to 14% in 2011 (from 4% in 2010), while Replacement transactions stood at 8% (vs 10% in 2010).

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

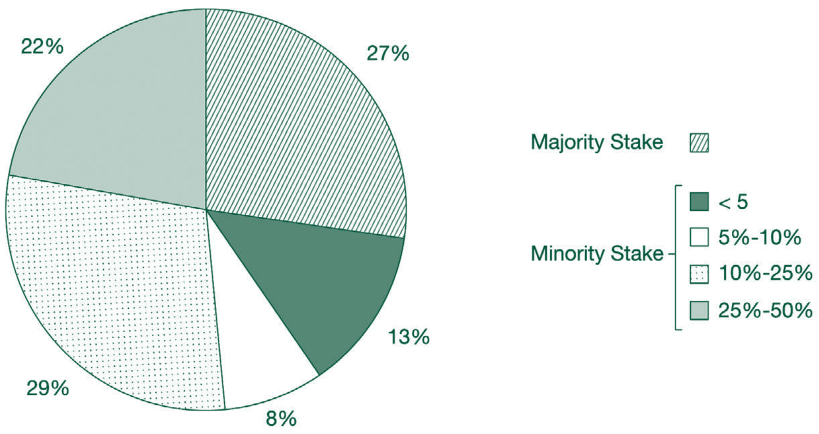


Source: KPMG Corporate Finance

The sample breakdown by acquired stake, as illustrated in Chart 2, confirms the significant prevalence of transactions involving minority stakes, with a certain focus on the range comprised between 10% and 25% (totally accounting for around 30%). Compared to previous years, the incidence of transactions involving majority stakes continues to increase (27% in 2011 vs 20% in 2010 vs 3% in 2009).

In this context, it should be pointed out that all the 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.

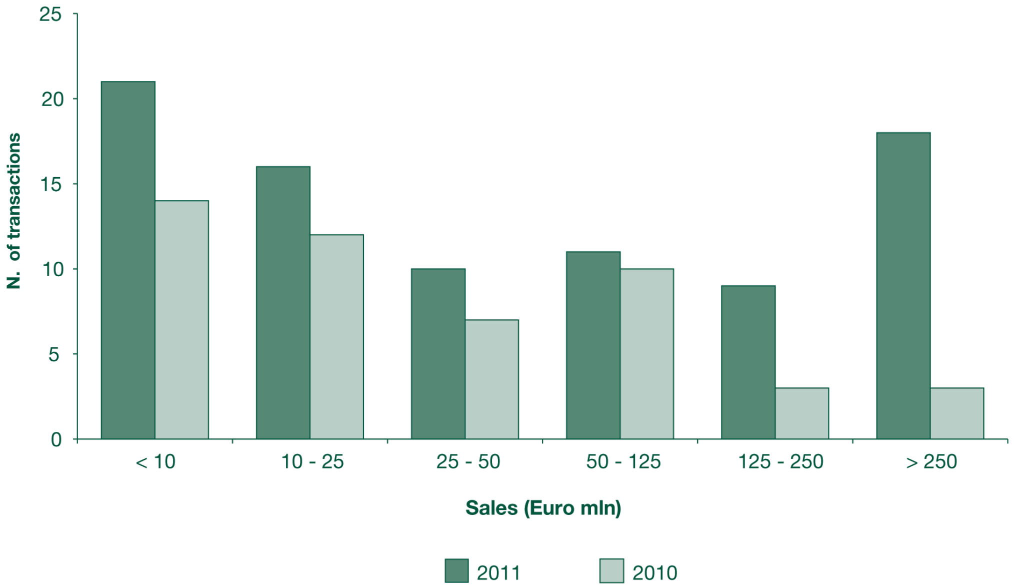
Chart 2 – IRR from inception analysis: sample breakdown by acquired stake (incidence by number)



Source: KPMG Corporate Finance

The sample breakdown by target sales size (see Chart 3) shows that more than half of the total divestments (55%) involved small-medium companies (with a turnover lower than Euro 50 mln). The incidence of transactions involving medium companies (with a turnover between Euro 50 mln and Euro 250 mln) slightly decreased (24% in 2011 vs 27% in 2010), whereas the divestments related to large companies (with a turnover higher than Euro 250 mln) sharply increased (21% in 2011 vs 6% in 2010).

Chart 3 – IRR from inception analysis: sample breakdown by target sales size (by number)[4]



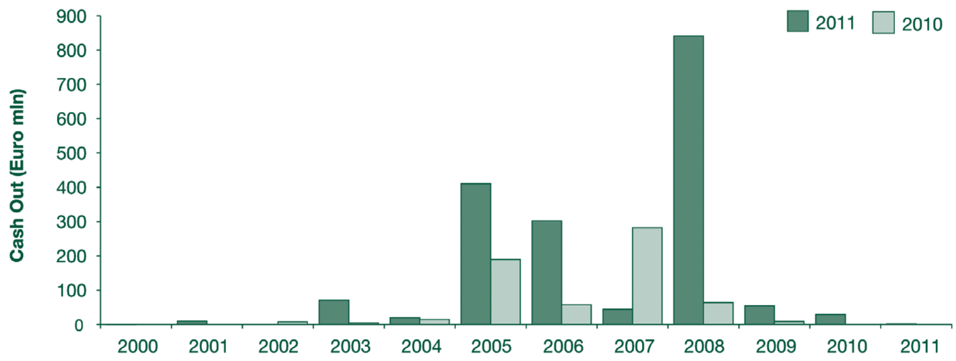
Source: KPMG Corporate Finance

As shown in Table 7, in terms of average holding period (time gap between first investment and divestment), the number of transactions realised within five years decreased from 65% in 2010 to 59% in 2011.

To sum up, the majority of the divestments monitored in 2011 involved minority stakes in small-medium companies (with a turnover lower than Euro 50 mln) and in large companies (with a turnover higher than Euro 250 mln), acquired during their Development stage or through MBO/MBI transactions, with an holding period within five years.

[4] Please note that in Chart 3 and Table 5 the transactions considered are less than 52 in 2010 (i.e. the total number of divestments monitored) 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 (i.e. the transactions for which the information/details were available).

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2011 vs 2010)



Source: KPMG Corporate Finance

According to the international standard criteria related to the so called "first level" of IRR, the 2011 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 2007-2011

	2011	2010	2009	2008	2007
N. of realised investments from inception	85	52	42	78	99
Yearly Pooled IRR	12.6%	–11.4%	–16.6%	18.9%	29.2%

Source: KPMG Corporate Finance

Gross Pooled IRR on Realised Investments from inception showed a significant upturn in 2011, coming back to a positive performance of 12.6% (vs –11.4% in 2010 and –16.6% in 2009).

2011 performance reflects the overall positive returns of the divestments made in the year, thanks also to few overperforming transactions involving large companies; the incidence of write off[5] continues to be relevant in

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

terms of number, but shows a significant decrease in terms of Cash Out. Specifically, the incidence by number remained substantially stable at 34% (vs 31% in 2010), whereas the incidence by Cash Out sharply decreased to 15% (vs 58% in 2010).

In 2011 the Upper Quarter per performance recorded an IRR equal to 24% (vs 43% in 2010), while the Upper Quarter per investment size increased to 14% in 2011 (vs –19% in 2010).

Table 3 – IRR from inception by year: Upper Quarter

	2011	2010	2009	2008	2007
Yearly Pooled IRR	12.6%	–11.4%	–16.6%	18.9%	29.2%
Upper Quarter (per performance)	24%	43%	34%	51%	81%
Upper Quarter (per investment size)	14%	–19%	–20%	18%	31%

Source: KPMG Corporate Finance

Table 4 – IRR from inception distribution by IRR class

	2011			2010		
	Number	Incidence (%)	Incidence by Cash Out (%)	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	41	48.2%	25.1%	24	46.2%	80.3%
0% - 10%	17	20.0%	7.6%	8	15.4%	2.3%
10% - 20%	14	16.5%	55.8%	7	13.5%	8.2%
20% - 30%	2	2.4%	1.1%	3	5.8%	2.1%
30% - 40%	3	3.5%	1.6%	4	7.7%	3.9%
40% - 50%	1	1.2%	1.4%	2	3.8%	0.4%
50% - 100%	4	4.7%	6.1%	4	7.7%	2.9%
100% - 500%	2	2.4%	1.3%	-	-	-
> 500%	1	1.2%	0.0%	-	-	-

Source: KPMG Corporate Finance

Performance distribution by IRR class (see Table 4) highlights the overall improvement of performance in 2011; in particular:

– divestments with negative performance and write offs, although stable by number (48.2% in 2011 vs 46.2% in 2010), strongly decreased by Cash Out (25.1% in 2011 vs 80.3% in 2010);

- divestments with low and medium performance (Gross Pooled IRR between 0% and 20%) increased both by number (36.5% in 2011 vs 28.9% in 2010) and (especially) by Cash Out (63.4% in 2011 vs 10.5% in 2010);
- divestments with Gross Pooled IRR ranging between 20% and 50% decreased both by number (7.1% in 2011 vs 17.3% in 2010) and by Cash Out (4.1% in 2011 vs 6.4% in 2010);
- divestments with outstanding performances (Gross Pooled IRR higher than 50%) remained stable by number (8.2% in 2011 vs 7.7% in 2010) but rose by Cash Out (7.4% in 2011 vs 2.9% in 2010), with three transactions, in 2011, that recorded a performance over 100% (vs none in 2010).

Table 5 – IRR from inception distribution by financing stage

	Early Stage		Development		MBO/MBI		Replacement	
	2011	2010	2011	2010	2011	2010	2011	2010
N. of transactions	12	2	34	29	32	15	7	5
Yearly Pooled IRR	–82.5%	Neg.	–0.3%	5.5%	15.3%	–27.8%	11.7%	23.0%

Source: KPMG Corporate Finance

IRR analysis by financing stage, as illustrated in Table 5, shows a significant upturn of the MBO/MBI performance (15.3% in 2011 vs –27.8% in 2010); it is worth to note that the MBO/MBI represent, in terms of Cash Out, the majority of the monitored transactions (50% in 2011 and 66% in 2010).

The performance of Development transactions decreased from 5.5% in 2010 to –0.3% in 2011; similarly, Replacement transactions performance declined from 23.0% in 2010 to 11.7% in 2011.

Early Stage performance remained deeply negative; in this context, it should be pointed out that, also considering the historical trend, the Early Stage transactions are typically affected by high volatility in terms of returns[6].

[6] Please note that 2009, 2008, 2007, 2006, 2005, 2004 and 2003 IRR from inception referred to Early Stage investments were equal respectively to 34.8%, –2.7%, 89.1%, 13.8%, –1.8%, 30.5% and –10.6%.

Trade sales doubled from 28 in 2010 to 56 in 2011 and recorded an IRR equal to 16.5% (see Table 6), slightly lower than the previous year (21.3% in 2010). It is worth to note that trade sale do not include write off, which significantly affected 2010 performance.

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

	Trade Sale	
	2011	**2010**
N. of transactions	56	28
Yearly Pooled IRR	16.5%	21.3%

Source: KPMG Corporate Finance

Table 7 provides the analysis of the 2011 performance from inception by time gap (between first investment and divestment).

Table 7 – 2011 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	10	10	15	15	21	14
Incidence	11.8%	11.8%	17.6%	17.6%	24.7%	16.5%
Yearly Pooled IRR	–33.3%	21.4%	27.5%	28.5%	4.8%	5.6%

Source: KPMG Corporate Finance

Historical Gross Pooled IRR on Realised Investments since inception (1986-2011)

In order to analyse the whole panel of transactions realised since inception (more than 1,000 divestments from 1986), the analysis on historical Gross Pooled IRR on Realised Investments is provided in the followings.

As reported in Table 8, the historical performance recorded a 26.3% Pooled IRR in 1986-2011, slightly lower than 27.2% in 1986-2010 (as a consequence of 2011 performance that, although positive, is lower than the average performance of the period 1986-2010). The average investment size increased to Euro 8.7 mln (vs Euro 7.7 mln in 1986-2010), due to the higher average investment size recorded in 2011 (Euro 21.0 mln).

Table 8 - Historical IRR since inception analysis

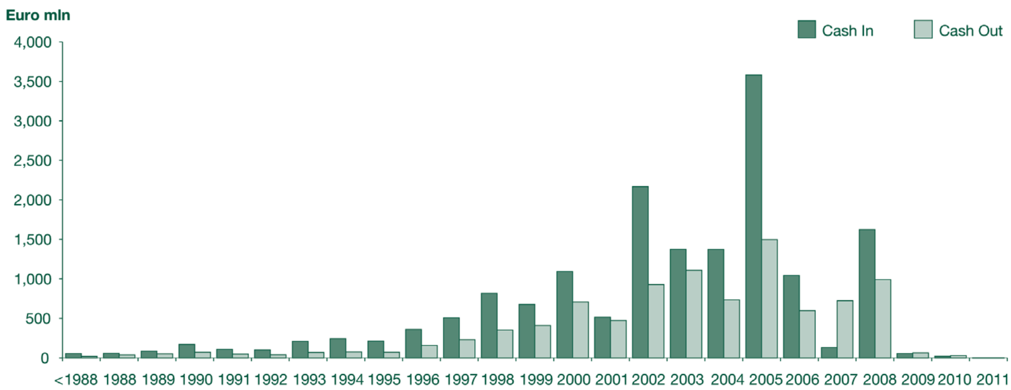
	1986-2011	1986-2010
N. of PE & VC houses presenting realised investments	101	85
N. of realised investments since inception	1,087	1,002
Average investment size (Euro mln)	8.7	7.7
Total Cash Out (Euro mln)	9,491	7,707
Total Cash In (Euro mln)	16,597	13,659
Yearly Pooled IRR	**26.3%**	**27.2%**

Source: KPMG Corporate Finance

The historical sample analyses show that more than three-quarter of total transactions focused on Development operations and MBO/MBI (jointly representing over 75%). MBO/MBI represent the top performer, showing an average IRR of over 43% (see Table 10). Over 85% of total transactions involved minority stakes (see Table 12), while the majority (about 60%) of the realised investments has been divested within 4 years (see Table 13).

In order to give a complete overview, the following tables illustrate some analyses related to the historical performances since inception of all the transactions monitored in the 1986-2011 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

	1986-2011
Yearly Pooled IRR	26.3%
Upper Quarter (per performance)	83.9%
Upper Quarter (per investment size)	20.0%

Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception distribution by financing stage[7]

	1986-2011			
	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	99	407	318	125
Yearly Pooled IRR	28.2%	15.7%	43.4%	27.3%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by IRR categories

	1986-2011		
	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	238	21.9%	29.6%
0% - 10%	284	26.1%	14.1%
10% - 20%	152	14.0%	19.2%
20% - 30%	88	8.1%	8.9%
30% - 40%	65	6.0%	6.0%
40% - 50%	61	5.6%	4.2%
50% - 100%	109	10.0%	11.2%
100% - 500%	71	6.5%	6.1%
> 500%	19	1.7%	0.9%

Source: KPMG Corporate Finance

[7] Please note that in Tables 10 and 12 total transactions considered are less than 1,087 (i.e. the total number of transactions monitored) 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 (i.e. the transactions for which the information/details were available).

Table 12 – Historical IRR since inception distribution by acquired stakes

	1986-2011				
	< 5%	5%-10%	10%-25%	25%-50%	> 50%
N. of transactions	108	127	296	285	133
Incidence	11%	13%	31%	30%	14%
Yearly Pooled IRR	14.9%	23.0%	17.0%	29.2%	38.9%

Source: KPMG Corporate Finance

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

	1986-2011					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of transactions	237	237	167	133	199	114
Incidence	22%	22%	15%	12%	18%	10%
Yearly Pooled IRR	82.0%	53.4%	51.4%	18.2%	6.7%	6.6%

Source: KPMG Corporate Finance

Gross Pooled IRR on All Investments by horizon

The analyses on the Gross Pooled IRR on All Investments (by horizon)[8] have been performed mainly in order to provide a comparison between the Italian market and the European ones. Accordingly to some international benchmark, from 2010 it has been also introduced the analysis related to the 1YR horizon (i.e. sample including all investments made in 2011).

It is worth to remind 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);

[8] 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.

– the common practice of a number of Private Equity houses to valuate most of the investments still in portfolio at cost.

Table 14 – Gross Pooled IRR on All Investments (by horizon) analysis to 31 December 2011

	1 YR	3 YR	5 YR	10 YR
N. of PE & VC Houses presenting investments	50	73	89	106
N. of transactions	122	288	513	969
of which: - realised investments	*2*	*24*	*83*	*430*
- still in portfolio	*120*	*264*	*430*	*539*
Average investment size (Euro mln)	19.4	13.8	17.9	16.5
Total Cash Out (Euro mln)	2,361	3,972	9,178	16,001
Total Cash In (Euro mln)	2,361	4,143	9,523	21,381
Yearly Pooled IRR	**0.0%**	**4.9%**	**1.6%**	**13.3%**

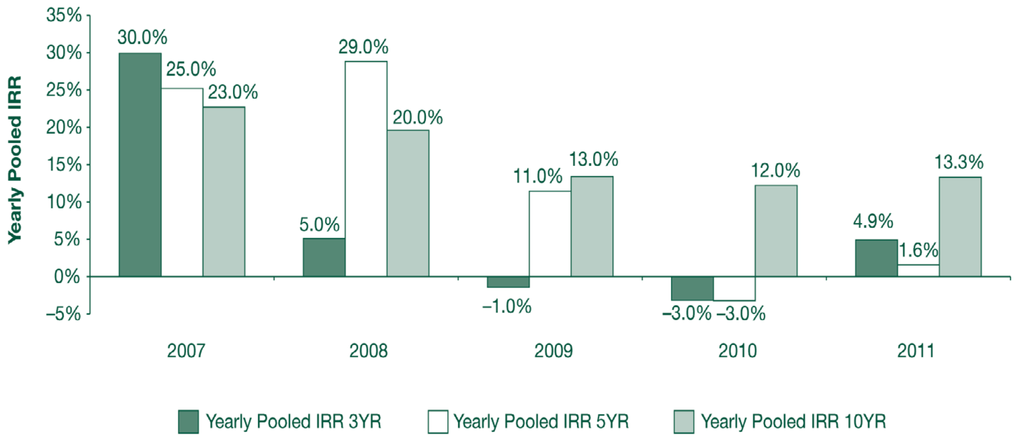
Source: KPMG Corporate Finance

With a specific focus on the 10YR horizon (the most statistically significant) analysis, Gross Pooled IRR on All Investments (by horizon) recorded a moderate increase (13.3% in 2011 vs 12.2% in 2010), as a consequence of the following main issues:

– 85 realised transactions, totally accounting for around Euro 1,784 mln in terms of Total Cash Out, have been included in 2011, whose IRR is equal to 12.6%;
– 79 realised transactions (invested in 2001), totally accounting for Euro 473 mln in terms of Total Cash Out, have been no more considered (whose IRR was around 2.1%);
– more than half of the investments still in portfolio have been valuated at cost (around 54% by number in 2011).

Similarly, the performances referred to the 3YR and 5YR horizons significantly improved in 2011. More specifically, as shown in Chart 6, the performance related to 3YR horizon increased from –3.2% in 2010 to 4.9% in 2011, as well as the 5YR horizon from –3.2% in 2010 to 1.6% in 2011. Such effects are essentially due to the fact that, in 2011 the incidence (by Cash Out) of depreciated deals decreased both in 3YR and 5YR horizons. More specifically, in 2011 the incidence (by Cash Out) of depreciated deals in the 3YR horizon is 3% (vs 2010 3YR horizon equal to 20%), whereas in the 5YR horizon is 15% (vs 2010 5YR horizon equal to 28%).

Chart 6 – 2007-2011 Gross Pooled IRR on All Investments (by horizon)[9]



Source: KPMG Corporate Finance

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

	By number		By Cash Out	
	2011	**2010**	**2011**	**2010**
Book value deals	53.6%	47.6%	41.3%	35.4%
Re-valued deals	26.3%	28.7%	42.1%	37.8%
Depreciated deals	20.0%	23.7%	16.5%	26.8%
Investments still in portfolio (N. and Euro mln)	539	456	8,976	6,396

Source: KPMG Corporate Finance

Figures in Table 15 confirm the above-mentioned Private Equity houses' common practice of valuating investments still in portfolio at their book value.

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 2.3% (compared to 3.2%, 2.2%, 9.2%, 1.5% and 6.1% in 2010, 2009, 2008, 2007 and 2006 respectively).

[9] Yearly Pooled IRR 1YR has not been represented in the Chart as it has been introduced just since two years.

[10] Depreciated deals do not include total write off and partial write off over 80%.

Table 16 – By horizon IRR distribution by financing stage[11]

	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	35	52	33	2
IRR 1 YR	0.7%	–0.3%	0.0%	0.1%
N. of transactions	90	113	69	16
IRR 3 YR	–5.7%	0.6%	7.6%	–2.3%
N. of transactions	128	186	159	28
IRR 5 YR	–0.3%	–2.9%	1.8%	10.5%
N. of transactions	166	330	337	75
IRR 10 YR	–0.3%	10.8%	15.1%	12.0%

Source: KPMG Corporate Finance

As a whole, 2011 Gross Pooled IRR on All Investments distribution by financing stage highlights, with particular focus on the 10YR horizon, that MBO/MBI recorded a slight increase (from 14.1% in 2010 to 15.1% in 2011), while Development transactions stood at around 11%. Early Stage performance materially decreased (from 6.0% in 2010 to –0.3% in 2011), whereas Replacement transactions increased from 7.7% in 2010 to 12.0% in 2011.

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

Table 17 – By horizon IRR: Upper Quarter

	1 YR	3 YR	5 YR	10 YR
Yearly Pooled IRR	0.0%	4.9%	1.6%	13.3%
Upper Quarter (per performance)	0.2%	13.7%	14.4%	43.6%
Upper Quarter (per investment size)	0.0%	5.6%	2.0%	12.8%

Source: KPMG Corporate Finance

[11] Please note that total transactions considered are less than 513 and 969 (i.e. the total number of transactions respectively monitored in 5YR and 10YR horizons) 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 (i.e. the transactions for which the information/details were available).

Table 18 – By horizon IRR distribution by target sales dimension (Euro mln)[12]

	< 10	10-25	25-50	50-125	125-250	> 250
N. of transactions	57	12	20	23	4	6
IRR 1 YR	1.0%	1.7%	0.1%	0.1%	–1.9%	0.0%
N. of transactions	121	36	42	37	13	12
IRR 3 YR	–2.9%	2.9%	4.5%	0.2%	0.7%	10.5%
N. of transactions	181	79	78	73	29	38
IRR 5 YR	–0.3%	–1.5%	–1.6%	2.1%	6.9%	1.7%
N. of transactions	288	150	154	137	79	98
IRR 10 YR	0.0%	5.3%	20.4%	17.7%	22.7%	11.5%

Source: KPMG Corporate Finance

[12] Please note that total transactions considered are less than 288, 513 and 969 (i.e. the total number of transactions respectively monitored in 3YR, 5YR and 10YR horizons) 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 (i.e. the transactions for which the information/details were available).