

STATISTICS ON PERFORMANCE¹

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 Investments², as well as (ii) Gross Pooled IRR on All Investments³.

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 value 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 2012);
- 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 2012);
- ten, five, three and one-year horizon Gross Pooled IRR on All

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.

Investments (investments respectively made in the period 2003-2012, 2008-2012, 2010-2012 and in 2012, 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 properly estimate their IRR.

2012 Gross Pooled IRR on Realised Investments

Similarly to the previous editions of the survey, the initial focus of the analyses is on 2012 Gross Pooled IRR on Realised Investments from inception: this indicator measures the performance of the divestments recorded in 2012 (regardless of when the initial investment was made).

Table 1 – IRR from inception analysis: main sample

	2012	2011	2010	2009	2008
N. of PE & VC houses included in the research panel	95	92	84	75	71
N. of PE & VC houses showing realised investments	36	47	26	23	38
N. of realised investments from inception	82	85	52	42	78
Average investment size (Euro mln)	10.2	21.0	12.1	19.9	16.5
Total Cash Out (Euro mln)	840	1,784	628	836	1,289
Total Cash In (Euro mln)	1,112	2,939	466	361	2,193

Source: KPMG Corporate Finance

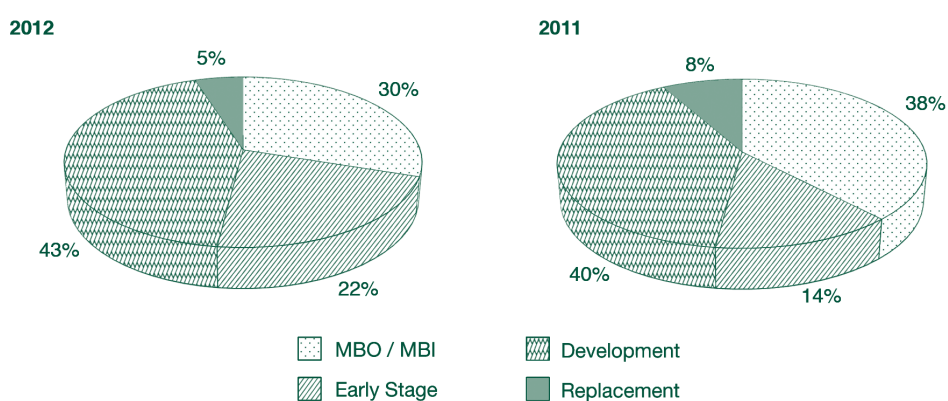
Table 1 shows how the sample has enlarged over the years, totalling 95 Private Equity houses in 2012. The increasing number of the participants is a clear evidence of the growing interest of the Private Equity houses toward the survey and, moreover, attests the strengthening reliability and significance of the analyses over the years.

Despite the number of participants included in the research panel increased, the number of Private Equity houses showing realised investments (i.e. divestments made in 2012) decreased from 47 in 2011 to 36 in 2012.

In terms of investment activity, the number of divestments recorded within the sample in 2012 remains in line with the previous year (82 in 2012 vs 85 in 2011), whereas the related investment volumes (cash inflows and outflows), as well as the average investment size, showed a decrease. More specifically, Total Cash Out approximately halved (from Euro 1,784 mln in 2011 to Euro 840 mln in 2012), while Total Cash In decreased even more (from Euro 2,939 mln in 2011 to Euro 1,112 mln in 2012). The average investment size dropped to Euro 10.2 mln in 2012 from Euro 21.0 mln in 2011. The implicit (and theoretical) cash exit multiple of 2012 stands at 1.3x (vs 1.6x in 2011).

In line with 2011, Private Equity houses showed in 2012, at exit level (see Chart 1), a clear preference for Development and MBO/MBI transactions, which jointly represent (by number) about three-quarters of total divestments, respectively 43% (vs 40% in 2011) and 30% (vs 38% in 2011). It is also worth to highlight that Early Stage increased to 22% in 2012 (from 14% in 2011), while Replacement transactions slightly decreased to 5% in 2012 (vs 8% in 2011).

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

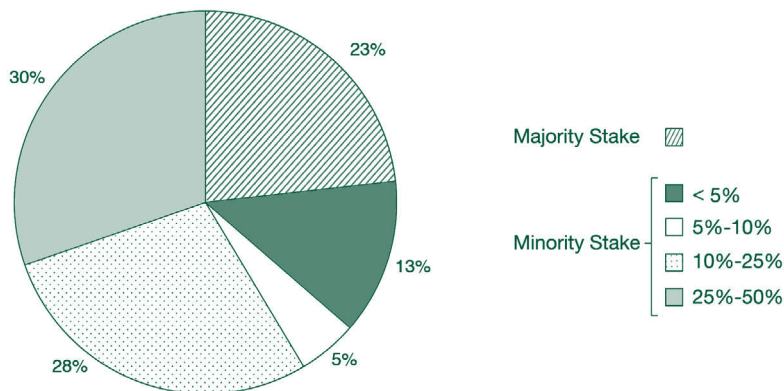


Source: KPMG Corporate Finance

The sample breakdown by acquired stake, as illustrated in Chart 2, confirms the significant prevalence of transactions involving minority stakes (which represent 77% of the sample vs 73% in 2011), with a particular focus on the two ranges between 10% and 50% which are equally distributed (28% the range comprised between 10%-25% and 30% the range between 25%-50%).

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

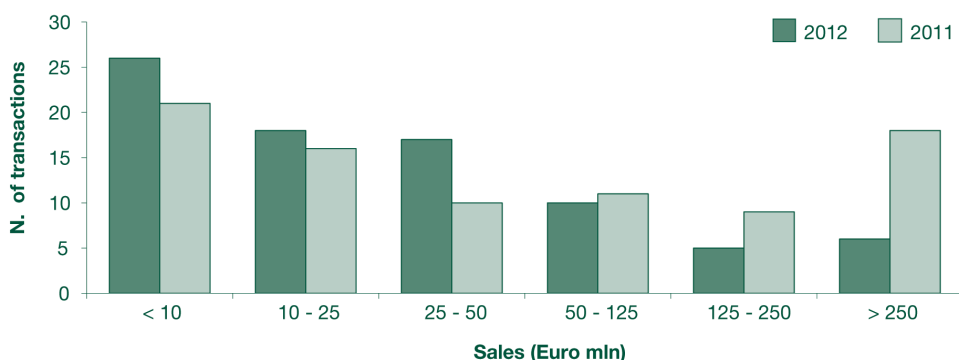
Chart 2 – IRR from inception analysis: sample breakdown by acquired stake (incidence by number)



Source: KPMG Corporate Finance

Considering target sales size (see Chart 3) about three-quarters of the total divestments in 2012 (74%) involved small-medium companies (with a turnover lower than Euro 50 mln), showing a sensible increase of the incidence with respect to 2011 (55%). The incidence of transactions involving medium companies (with a turnover between Euro 50 mln and Euro 250 mln) slightly decreased to 18% in 2012 (vs 24% in 2011), whereas divestments related to large companies (with a turnover higher than Euro 250 mln) dropped to 7% in 2012 (vs 21% in 2011).

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

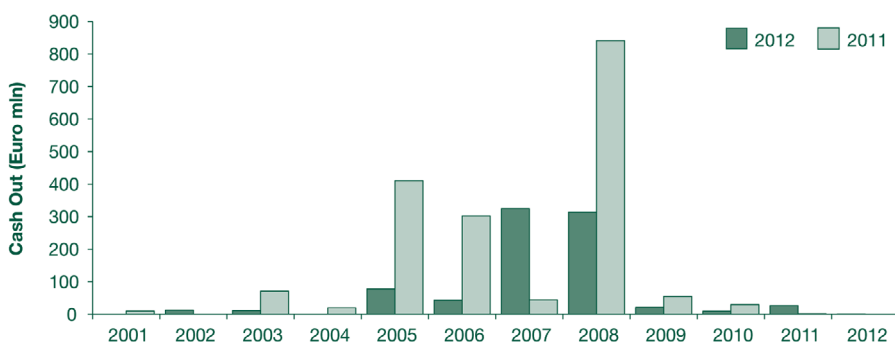


Source: KPMG Corporate Finance

As illustrated in Table 7, in terms of average holding period (time gap between first investment and divestment), the percentage of transactions realised within five years remains stable at around 65%.

To sum up, most of the divestments observed in 2012 involved minority stakes in small-medium companies (with a turnover lower than Euro 50 mln), acquired during their Development stage or through MBO/MBI transactions, with an holding period within five years.

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2012 vs 2011)



Source: KPMG Corporate Finance

According to the international standard criteria related to the so called “first level” of IRR, the 2012 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 2008-2012

	2012	2011	2010	2009	2008
N. of realised investments from inception	82	85	52	42	78
Yearly Pooled IRR	6.2%	12.6%	-11.4%	-16.6%	18.9%

Source: KPMG Corporate Finance

In 2012 performances confirmed the positive trend started in 2011, but at a lower level: the 82 divestments of the year, in fact, recorded an Yearly Pooled IRR of 6.2% (vs 12.6% in 2011).

Performance figures in 2012, with respect to the previous year, are penalised by a higher incidence of write off both in terms of number and Cash Out. In particular, during 2012, the incidence of write off⁴ by number increased to 41% (vs 34% in 2011), whereas the incidence by Cash Out more than doubled (37% in 2012 vs 15% in 2011).

In 2012 the Upper Quarter per performance recorded an IRR equal to 20% (vs 24% in 2011), while the Upper Quarter per investment size decreased to 8% in 2012 (vs 14% in 2011).

Table 3 – IRR from inception by year: Upper Quarter

	2012	2011	2010	2009	2008
Yearly Pooled IRR	6.2%	12.6%	-11.4%	-16.6%	18.9%
Upper Quarter (per performance)	20%	24%	43%	34%	51%
Upper Quarter (per investment size)	8%	14%	-19%	-20%	18%

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.

Table 4 – IRR from inception distribution by IRR class

	2012			2011		
	Number	Incidence (%)	Incidence by Cash Out (%)	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	45	54.9%	43.8%	41	48.2%	25.1%
0% - 10%	18	22.0%	6.2%	17	20.0%	7.6%
10% - 20%	9	11.0%	42.2%	14	16.5%	55.8%
20% - 30%	5	6.1%	0.7%	2	2.4%	1.1%
30% - 40%	1	1.2%	0.2%	3	3.5%	1.6%
40% - 50%	1	1.2%	4.7%	1	1.2%	1.4%
50% - 100%	2	2.4%	2.0%	4	4.7%	6.1%
100% - 500%	1	1.2%	0.2%	2	2.4%	1.3%
> 500%	-	-	-	1	1.2%	0.0%

Source: KPMG Corporate Finance

Performance distribution by IRR class (see Table 4) highlights in details how performances in 2012 have been generally affected by lower returns; in particular:

- the incidence of divestments with negative performance and write off, increased not only by number (45 on 82 realised investments in 2012 vs 41 on 85 realised investments in 2011) but especially by Cash Out (43.8% in 2012 vs 25.1% in 2011);
- divestments with low performance (Gross Pooled IRR between 0% and 10%) slightly increased by number (22.0% in 2012 vs 20.0% in 2011) and slightly decreased by Cash Out (6.2% in 2012 vs 7.6% in 2011);
- divestments with medium performance (Gross Pooled IRR between 10% and 20%) decreased by number (11.0% in 2012 vs 16.5% in 2011) and by Cash Out (42.2% in 2012 vs 55.8% in 2011);
- divestments with performance ranging between 20% and 50% slightly increased their weight both by number (8.5% in 2012 vs 7.1% in 2011) and by Cash Out (5.6% in 2012 vs 4.1% in 2011);
- divestments with outstanding performances (Gross Pooled IRR higher than 50%) recorded a decrease by number (3.7% in 2012 vs 8.2% in 2011) and a stronger decrease by Cash Out (2.2% in 2012 vs 7.4% in 2011), with only one transaction, in 2012, that recorded a performance over 100% (vs 3 in 2011).

Table 5 – IRR from inception distribution by financing stage

	Early Stage		Development		MBO/MBI		Replacement	
	2012	2011	2012	2011	2012	2011	2012	2011
N. of transactions	18	12	35	34	25	32	4	7
Yearly Pooled IRR	-21.6%	-82.5%	0.8%	-0.3%	8.2%	15.3%	-11.1%	11.7%

Source: KPMG Corporate Finance

IRR analysis by financing stage, as represented in Table 5, confirms the positive, although decreasing, performances of MBO/MBI transactions (from 15.3% in 2011 to 8.2% in 2012). It is worth to note that in terms of investment volumes (Total Cash Out) MBO/MBI transactions totally account for 80%.

The performance of Development transactions recorded a moderate increase (from -0.3% in 2011 to 0.8% in 2012), while Replacement transactions recorded a downturn passing to negative returns (from 11.7% in 2011 to -11.1% in 2012). Early Stage performance remained negative (from -82.5% in 2011 to -21.6% in 2012); however, it is important to remark that, considering the historical trend, Early Stage transactions are typically affected by high volatility in terms of returns⁵.

The number of trade sales decreased by 14%, from 56 in 2011 to 48 in 2012, and recorded an IRR equal to 15.9% (see Table 6), in line with the previous year (16.5% in 2011). It is worth to note that write off, which affected 2012 performance, are not included in trade sale.

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

	Trade Sale	
	2012	2011
N. of transactions	48	56
Yearly Pooled IRR	15.9%	16.5%

Source: KPMG Corporate Finance

⁵ 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.

Table 7 provides the analysis of the 2012 performance from inception by time gap (between first investment and divestment).

Table 7 – 2012 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	4	14	21	21	8
Incidence	17.1%	4.9%	17.1%	25.6%	25.6%	9.8%
Yearly Pooled IRR	-12.7%	-54.3%	41.6%	-30.9%	13.7%	-15.6%

Source: KPMG Corporate Finance

Historical Gross Pooled IRR on Realised Investments since inception (1986-2012)

In order to analyse the whole panel of transactions realised since inception (more than 1,100 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 25.8% Pooled IRR in 1986-2012, in line with the 26.3% recorded in the 1986-2011 horizon. The average investment size slightly increased to Euro 8.8 mln (vs Euro 8.7 mln in 1986-2011), due to the above-average investment size recorded in 2012 (Euro 10.2 mln).

Table 8 – Historical IRR since inception analysis

	1986-2012	1986-2011
N. of PE & VC houses presenting realised investments	108	101
N. of realised investments since inception	1,169	1,087
Average investment size (Euro mln)	8.8	8.7
Total Cash Out (Euro mln)	10,331	9,491
Total Cash In (Euro mln)	17,710	16,597
Yearly Pooled IRR	25.8%	26.3%

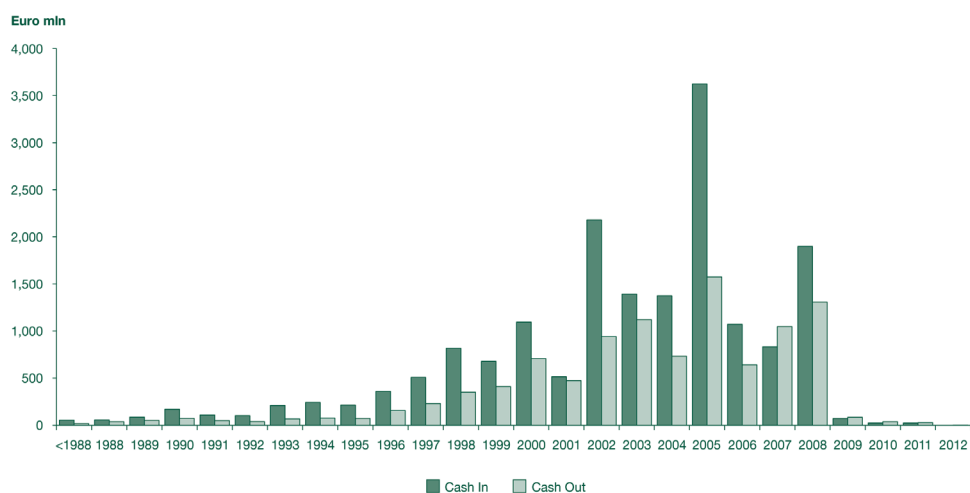
Source: KPMG Corporate Finance

The historical sample analyses show that more than three-quarters of total transactions focused on Development operations and MBO/MBI

(jointly representing over 76%). The top performance is recorded by MBO/MBI operations, showing an average IRR of 42.9% (see Table 10). About 85% of total transactions involved minority stakes (see Table 12), while 58% of the realised investments has been divested within 4 years (see Table 13).

A complete overview is provided in the following tables, illustrating some analyses related to the historical performances since inception of all the transactions monitored in the 1986-2012 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

	1986-2012
Yearly Pooled IRR	25.8%
Upper Quarter (per performance)	82.1%
Upper Quarter (per investment size)	19.3%

Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception distribution by financing stage⁶

	1986-2012			
	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	115	439	341	129
Yearly Pooled IRR	27.1%	15.4%	42.9%	27.1%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by IRR categories

	1986-2012		
	Number	Incidence by number (%)	Incidence by Cash Out (%)
Write Off/Negative	283	24.2%	30.7%
0% - 10%	302	25.8%	13.5%
10% - 20%	161	13.8%	21.1%
20% - 30%	93	8.0%	8.2%
30% - 40%	66	5.6%	5.5%
40% - 50%	62	5.3%	4.2%
50% - 100%	111	9.5%	10.4%
100% - 500%	72	6.2%	5.6%
> 500%	19	1.6%	0.8%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by acquired stakes

	1986-2012				
	< 5%	5%-10%	10%-25%	25%-50%	> 50%
N. of transactions	116	130	319	309	150
Incidence	11%	13%	31%	30%	15%
Yearly Pooled IRR	14.1%	23.1%	16.7%	28.2%	37.8%

Source: KPMG Corporate Finance

⁶ Please note that in Tables 10 and 12 total transactions considered are less than 1,169 (i.e. the total number of transactions monitored since inception) 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 13 – Historical IRR since inception distribution by time gap between first investment and divestment

	1986-2012					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of transactions	251	241	181	154	220	122
Incidence	21%	21%	15%	13%	19%	10%
Yearly Pooled IRR	82.0%	53.4%	51.4%	15.4%	8.0%	5.3%

Source: KPMG Corporate Finance

Gross Pooled IRR on All Investments by horizon

The analyses on the Gross Pooled IRR on All Investments (by horizon)⁷ have been performed mainly in order to provide a comparison between the Italian market and the European ones. Accordingly to some international benchmark, a new layer of analysis has been introduced in the previous editions related to the 1YR horizon (i.e. sample including all investments made in 2012).

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);
- the common practice of a number of Private Equity houses to value most of the investments still in portfolio at cost.

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 fall in the range between 50% and 65% of Gross Pooled IRR on All Investments.

Table 14 – Gross Pooled IRR on All Investments (by horizon) analysis to 31 December 2012

	1 YR	3 YR	5 YR	10 YR
N. of PE & VC Houses presenting investments	45	82	95	115
N. of transactions	138	361	583	1,041
<i>of which: - realised investments</i>	2	28	105	423
<i>- still in portfolio</i>	136	333	478	618
Average investment size (Euro mln)	9.5	13.3	14.6	16.4
Total Cash Out (Euro mln)	1,315	4,815	8,484	17,042
Total Cash In (Euro mln)	1,315	4,734	9,335	20,502
Yearly Pooled IRR	0.0%	-1.6%	4.9%	7.7%

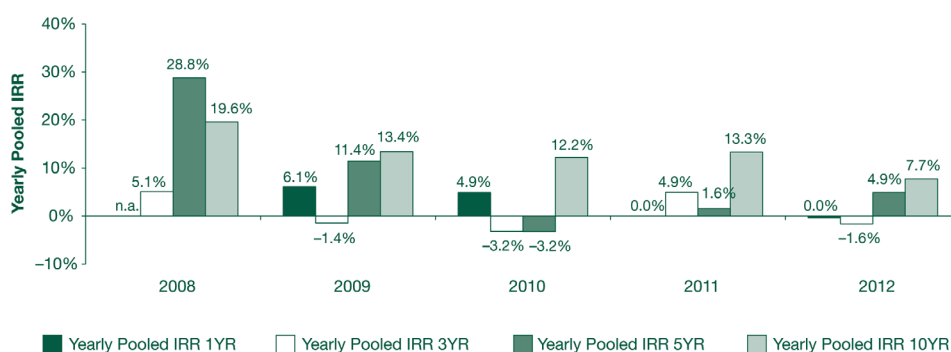
Source: KPMG Corporate Finance

Focusing on the 10YR horizon (the most statistically significant) analysis, Gross Pooled IRR on All Investments (by horizon) recorded a decrease (7.7% in 2012 vs 13.3% in 2011), as a consequence of the following main issues:

- 82 realised transactions, totally accounting for around Euro 840 mln in terms of Total Cash Out, have been included in 2012, whose IRR is equal to 6.2%;
- 82 realised transactions (invested in 2002), totally accounting for Euro 942 mln in terms of Total Cash Out (whose IRR was around 31.7%), have not been considered anymore due to the exclusion from the 10YR horizon timeframe of 2012 (2003-2012);
- the incidence by Cash Out of depreciated deals among the investments still in portfolio increased from 16.5% in 2011 to 23.5% in 2012.

Similarly the performances referred to the 3YR horizon follow the same trend of the 10YR horizon (decreasing from 4.9% in 2011 to -1.6% in 2012), whereas, on the other hand, the 5YR horizon improved (from 1.6% in 2011 to 4.9% in 2012).

Chart 6 – 2008-2012 Gross Pooled IRR on All Investments (by horizon)⁸



Source: KPMG Corporate Finance

Table 15 – 10YR by horizon IRR analysis: investments still in portfolio breakdown (by number and Cash Out)⁹

	By number		By Cash Out	
	2012	2011	2012	2011
Book value deals	58.3%	53.6%	46.8%	41.3%
Re-valued deals	25.7%	26.3%	29.7%	42.1%
Depreciated deals	16.0%	20.0%	23.5%	16.5%
Investments still in portfolio (N. and Euro mln)	618	539	9,325	8,976

Source: KPMG Corporate Finance

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

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 1.5% (compared to 2.3%, 3.2%, 2.2%, 9.2% and 1.5% in 2011, 2010, 2009, 2008 and 2007 respectively).

⁸ Yearly Pooled IRR 1YR has not been represented for the year 2008 as it has been measured starting from 2009.

⁹ Depreciated deals do not include total write off and partial write off over 80%.

Table 16 – By horizon IRR distribution by financing stage¹⁰

	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	52	59	24	3
IRR 1 YR	-0.9%	-0.1%	0.0%	11.0%
N. of transactions	131	137	80	13
IRR 3 YR	1.6%	2.7%	-2.9%	0.4%
N. of transactions	174	226	153	28
IRR 5 YR	-0.8%	0.2%	6.8%	10.0%
N. of transactions	226	365	333	72
IRR 10 YR	-0.2%	9.9%	7.6%	12.5%

Source: KPMG Corporate Finance

As a whole, 2012 Gross Pooled IRR on All Investments distribution by financing stage highlights, with particular focus on the 10YR horizon, that MBO/MBI recorded a relevant decrease (from 15.1% in 2011 to 7.6% in 2012) and Development transactions slightly reduced their performance (from 10.8% in 2011 to 9.9% in 2012). Early Stage performance remained basically unchanged, while Replacement slightly increased (from 12.0% in 2011 to 12.5% in 2012).

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

Table 17 – By horizon IRR: Upper Quarter

	1 YR	3 YR	5 YR	10 YR
Yearly Pooled IRR	0.0%	-1.6%	4.9%	7.7%
Upper Quarter (per performance)	0.7%	15.0%	15.2%	41.9%
Upper Quarter (per investment size)	0.1%	-2.1%	5.9%	7.0%

Source: KPMG Corporate Finance

¹⁰ Please note that total transactions considered are less than 583 and 1,041 (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)¹¹

	< 10	10-25	25-50	50-125	125-250	> 250
N. of transactions	79	13	25	10	10	1
IRR 1 YR	-1.1%	0.0%	0.0%	0.0%	0.3%	0.0%
N. of transactions	170	44	53	43	17	11
IRR 3 YR	-0.5%	5.5%	3.1%	8.1%	-1.6%	-7.2%
N. of transactions	240	87	87	72	35	32
IRR 5 YR	-0.3%	12.2%	4.2%	3.8%	11.3%	4.9%
N. of transactions	352	158	161	139	80	94
IRR 10 YR	-0.2%	11.3%	17.2%	11.5%	13.3%	4.5%

Source: KPMG Corporate Finance

¹¹ Please note that total transactions considered are less than 361, 583 and 1,041 (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).