

STATISTICS ON PERFORMANCE ¹

Introduction

Since 1996, KPMG Corporate Finance, in co-operation with AIFI, is carrying out, on an annual basis, the analysis on 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 2010);
- 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 2010);
- ten, five, three and one-year horizon Gross Pooled IRR on All Investments (investments respectively made in the period 2001-2010, 2006-2010,

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.

2008-2010 and in 2010, 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, 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.

2010 Gross Pooled IRR on Realised Investments

Similarly to the previous editions of the survey, the initial focus of the analyses is on 2010 Gross Pooled IRR on Realised Investments from inception.

Table 1 – IRR from inception analysis: main sample features

	2010	2009	2008	2007	2006
N. of PE & VC houses included in the research panel	84	75	71	66	62
N. of PE & VC houses showing realised investments	26	23	38	33	30
N. of realised investments from inception	52	42	78	99	88
Average investment size (Euro Mln)	12.1	19.9	16.5	16.4	10.9
Total Cash Out (Euro Mln)	628	836	1,289	1,627	966
Total Cash In (Euro Mln)	466	361	2,193	4,105	1,956

Source: KPMG Corporate Finance

As reported in Table 1, the sample considered in the analysis shows a further enlargement, having reached 84 Private Equity houses in 2010, the highest number since the beginning of the survey, this reflecting the growing interest of the Private Equity houses toward the monitoring of performances, as well as the good reliability of the survey.

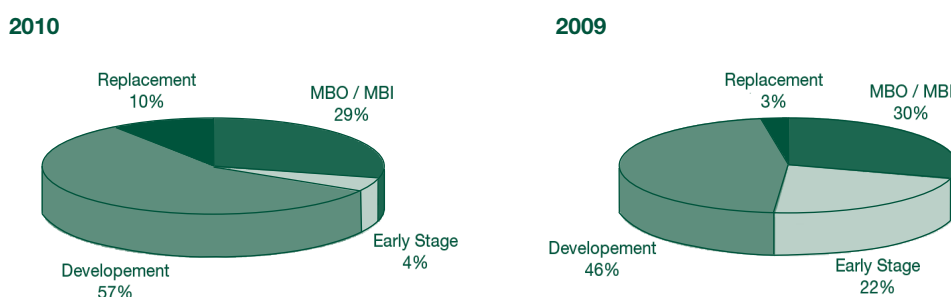
Within the sample, the number of Private Equity houses showing realised investments increased from 23 in 2009 to 26 in 2010.

In 2010 the Italian market would seem to show moderate signs of

recovery after the deep downturn caused by the 2009 global crisis. The number of divestments recorded within the sample increased by 24% (52 in 2010 vs 42 in 2009). At the same time the related Total Cash Out fell by 25% (628 Euro Mln in 2010 vs 836 Euro Mln in 2009), whereas Total Cash In increased by 29% (466 Euro Mln in 2010 vs 361 Euro Mln in 2009), showing an implicit (and theoretical) cash exit multiple equal to 0.74x (significantly higher than 0.43x in 2009). The average investment size dropped to 12.1 Euro Mln from 19.9 Euro Mln in 2009.

In 2010, Private Equity houses showed, at exit level (see Chart 1), a material preference for Development transactions, whose incidence by number increased to 57% from 46% in 2009. MBO/MBI stood at around 30%, Replacement divestments recovered to 10% in 2010 from 3% in 2009, while Early Stage fell from 22% in 2009 to 4% in 2010.

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



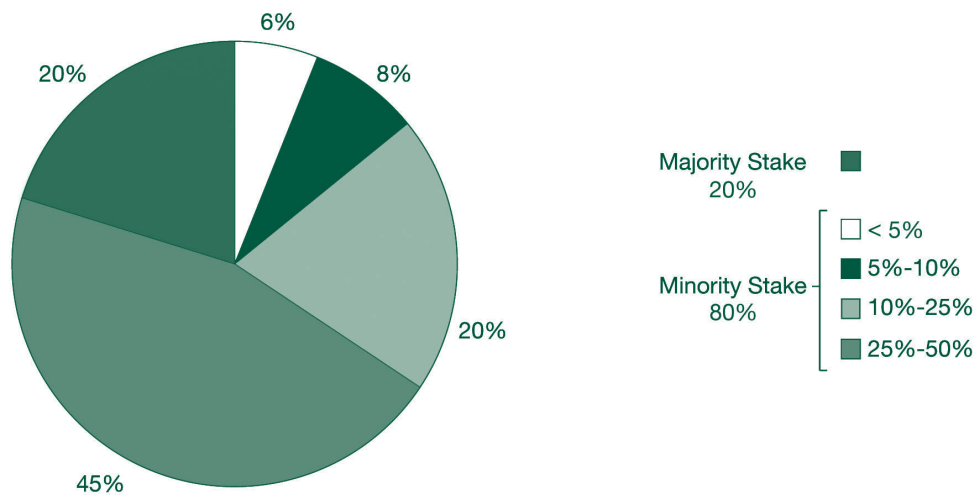
Source: KPMG Corporate Finance

The sample breakdown by acquired stake, as illustrated in Chart 2, confirms the significant prevalence of transactions involving minority stakes, with a particular focus on the range comprised between 25% and 50% (totally accounting for around 45%). Compared to the previous year, however, the incidence of transactions involving majority stake significantly increased (from 3% in 2009 to 20% in 2010).

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)



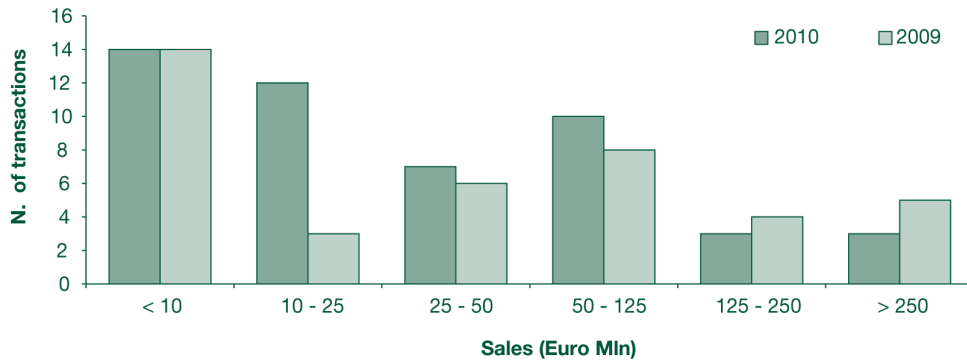
Source: KPMG Corporate Finance

The sample breakdown by target sales size (see Chart 3) shows that more than half of total divestments involved companies with a turnover lower than 25 Euro Mln (53% in 2010 vs 43% in 2009). In 2010 the incidence of transactions involving companies with a turnover between 25 and 125 Euro Mln stood at 35% (the same percentage of 2009), whereas the incidence of divestments involving larger companies (with a turnover above 125 Euro Mln) decreased to 12% (vs 23% in 2009).

In terms of average holding period (time gap between the first investment and the divestment), as shown in Table 7, the number of transactions realised within five years slightly increased (from 60% in 2009 to 65% in 2010).

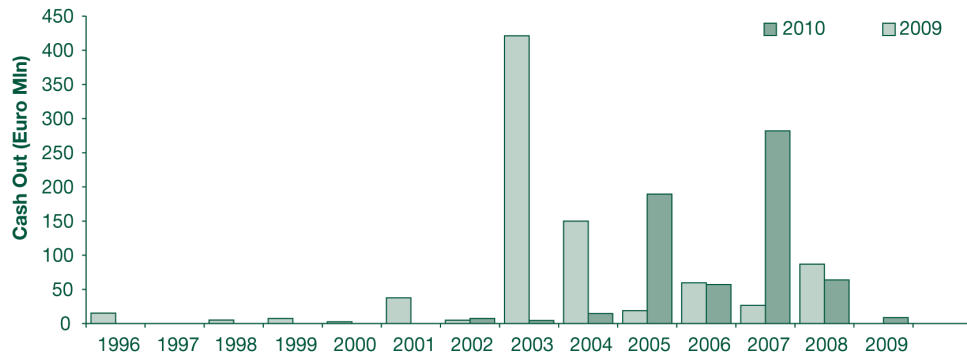
To sum up, the majority of the divestments monitored in 2010 involved minority stakes in small-medium size companies (with a turnover lower than 25 Euro Mln), acquired during their Development stage or through MBO/MBI transactions, with an holding period below five years.

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



Source: KPMG Corporate Finance

Chart 4 – IRR from inception analysis: annual Cash Out related to realised investments (2010 vs 2009)



Source: KPMG Corporate Finance

⁴ Please note that in Chart 3 and Table 5 total transactions considered are less than 52 in 2010 (and less than 42 in 2009) 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.

According to the international standard criteria related to the so called “first level” of IRR, the 2010 Italian Private Equity and Venture Capital performance is first of all represented in terms of pooled internal rate of return from inception (see Table 2).

Table 2 – IRR from inception by year in 2006-2010

	2010	2009	2008	2007	2006
N. of realised investments from inception	52	42	78	99	88
Yearly Pooled IRR	-11.4%	-16.6%	18.9%	29.2%	28.5%

Source: KPMG Corporate Finance

Gross Pooled IRR on Realised Investments from inception in 2010 remained negative at -11.4%, despite a partial recovery compared to 2009 (-16.6%).

It is worth to note that 2010 performance has been significantly affected by a (small) number of relevant write off⁵ (even though, overall, the write off had a lower impact compared to 2009). More specifically, while the number of write off decreased to 16 in 2010 from 17 in 2009, the incidence by number and by Cash Out in 2010 decreased to 31% (vs 40% in 2009) and 58% (vs 84% in 2009) respectively.

Consistently with the slight recovery of the overall IRR, in 2010 the Upper Quarter per performance recorded an IRR equal to 43% (vs 34% in 2009), while the Upper Quarter per investment size stood at -19% in 2010 (vs -20% in 2009).

Table 3 – IRR from inception by year: Upper Quarter

	2010	2009	2008	2007	2006
Yearly Pooled IRR	-11.4%	-16.6%	18.9%	29.2%	28.5%
Upper Quarter (per performance)	43%	34%	51%	81%	115%
Upper Quarter (per investment size)	-19%	-20%	18%	31%	24%

Source: KPMG Corporate Finance

⁵ 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

	2010			2009		
	Number	Incidence (%)	Incidence by Cash Out (%)	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	24	46.2%	80.3%	24	57.1%	86.6%
0% - 10%	8	15.4%	2.3%	7	16.7%	2.2%
10% - 20%	7	13.5%	8.2%	5	11.9%	3.8%
20% - 30%	3	5.8%	2.1%	3	7.1%	2.0%
30% - 40%	4	7.7%	3.9%	1	2.4%	0.3%
40% - 50%	2	3.8%	0.4%	1	2.4%	4.6%
50% - 100%	4	7.7%	2.9%	-	-	-
100% - 500%	-	-	-	1	2.4%	0.4%

Source: KPMG Corporate Finance

Performance distribution by IRR class (see Table 4) highlights the overall improvement of performance in 2010. In particular:

- divestments with negative performance and write off decreased both by number (46.2% in 2010 vs 57.1% in 2009) and by Cash Out (80.3% in 2010 vs 86.6% in 2009);
- divestments with low performance (Gross Pooled IRR between 0% and 10%) remained substantially stable both by number (15.4% in 2010 vs 16.7% in 2009) and by Cash Out (2.3% in 2010 vs 2.2% in 2009);
- divestments with Gross Pooled IRR ranging between 10% and 50% increased by number (30.8% in 2010 vs 23.8% in 2009) and by Cash Out (14.5% in 2010 vs 10.8% in 2009);
- divestments with outstanding performances (Gross Pooled IRR higher than 50%) rose by number (7.7% in 2010 vs 2.4% in 2009) and by Cash Out (2.9% in 2010 vs 0.4% in 2009), even if, in 2010, no transaction recorded performance over 100% (vs 1 in 2009).

IRR analysis by financing stage, as illustrated in Table 5, confirms the negative performance of MBO/MBI (-27.8% in 2010 vs -33.1% in 2009), while performance of Development transactions decreased from 13.6% in 2009 to 5.5% in 2010.

Replacement recorded a material improvement to 23.0% (from negative performance in 2009). Early Stage performance (negative in 2010 vs 34.8% in 2009) is less indicative as it is represented just by two

Table 5 – IRR from inception distribution by financing stage

	Early Stage		Development		MBO/MBI		Replacement	
	2010	2009	2010	2009	2010	2009	2010	2009
N. of transactions	2	8	29	17	15	11	5	1
Yearly Pooled IRR	Neg.	34.8%	5.5%	13.6%	-27.8%	-33.1%	23.0%	Neg.

Source: KPMG Corporate Finance

write off; moreover it should be pointed out that, also considering the historical trend, Early Stage transactions are typically affected by high volatility in terms of returns⁶.

Trade sales (which do not include write off), which increased from 21 in 2009 to 28 in 2010, recorded an IRR equal to 21.3% (see Table 6), with a slight improvement compared to the previous year (19.9% in 2009).

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

	Trade Sale	
	2010	2009
N. of transactions	28	21
Yearly Pooled IRR	21.3%	19.9%

Source: KPMG Corporate Finance

Table 7 provides the analysis on the 2010 performance from inception by time gap (between first investment and divestment).

Table 7 – 2010 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	10	10	7	15	3
Incidence	13.5%	19.2%	19.2%	13.5%	28.8%	5.8%
Yearly Pooled IRR	-28.0%	-48.0%	-8.9%	12.0%	15.3%	-28.7%

Source: KPMG Corporate Finance

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

Historical Gross Pooled IRR on Realised Investments since inception (1986-2010)

In order to analyse the whole panel of transactions realised since inception (above 1,000 divestments 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 27.2% Pooled IRR in 1986-2010, slightly lower than 27.6% in 1986-2009 (as a consequence of 2010 negative performance); the average investment size increased to 7.7 Euro Mln (see Table 8).

Table 8 - Historical IRR since inception analysis

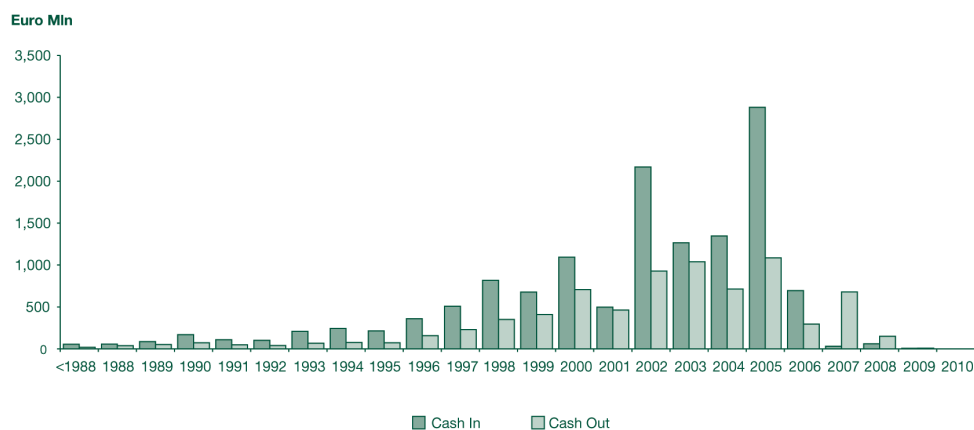
	1986-2010	1986-2009
N. of PE & VC houses presenting realised investments	85	80
N. of realised investments since inception	1,002	953
Average investment size (Euro Mln)	7.7	7.5
Total Cash Out (Euro Mln)	7,707	7,138
Total Cash In (Euro Mln)	13,659	13,267
Yearly Pooled IRR	27.2%	27.6%

Source: KPMG Corporate Finance

The historical sample analyses show that the majority (over 60%) 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 more than 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 1986-2010 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

	1986-2010
Yearly Pooled IRR	27.2%
Upper Quarter (per performance)	84.7%
Upper Quarter (per investment size)	22.5%

Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception distribution by financing stage⁷

	1986-2010			
	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	89	375	287	116
Yearly Pooled IRR	28.9%	16.4%	44.4%	29.2%

Source: KPMG Corporate Finance

⁷ Please note that in Tables 10 and 12 total transactions considered are less than 1,002 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 11 – Historical IRR since inception distribution by IRR categories

	1986-2010		
	Number	Incidence (%)	Incidence by Cash Out (%)
Write Off/Negative	197	19.7%	30.6%
0%-10%	267	26.6%	15.6%
10%-20%	138	13.8%	10.7%
20%-30%	86	8.6%	10.7%
30%-40%	62	6.2%	7.0%
40%-50%	60	6.0%	4.8%
50%-100%	105	10.5%	12.4%
100%-500%	69	6.9%	7.2%
>500%	18	1.8%	1.1%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by acquired stakes

	1986-2010				
	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of transactions	97	120	275	266	107
Incidence	11%	14%	32%	31%	12%
Yearly Pooled IRR	15.3%	23.4%	18.3%	29.7%	40.9%

Source: KPMG Corporate Finance

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

	1986-2010					
	<2	2-3	3-4	4-5	5-7	>7
N. of transactions	227	227	152	118	178	100
Incidence	23%	23%	15%	12%	18%	10%
Yearly Pooled IRR	82.0%	53.7%	51.5%	17.5%	7.6%	6.8%

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 other European ones. Accordingly to some international benchmark, from this year it has been also introduced the analysis related to the 1YR horizon (i.e. sample including all investments made in 2010).

Table 14 – Gross Pooled IRR on All Investments (by horizon) analysis to 31 December 2010⁹

	1 YR	3 YR	5 YR	10 YR
N. of PE & VC Houses presenting investments	42	70	84	101
N. of transactions	77	280	477	889
<i>of which: - realised investments</i>	0	23	92	433
<i>- still in portfolio</i>	77	257	385	456
Average investment size (Euro Mln)	8.2	13.0	16.2	14.9
Total Cash Out (Euro Mln)	629	3,650	7,709	13,218
Total Cash In (Euro Mln)	644	3,462	7,164	17,174
Yearly Pooled IRR	4.9%	-3.2%	-3.2%	12.2%

Source: KPMG Corporate Finance

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.

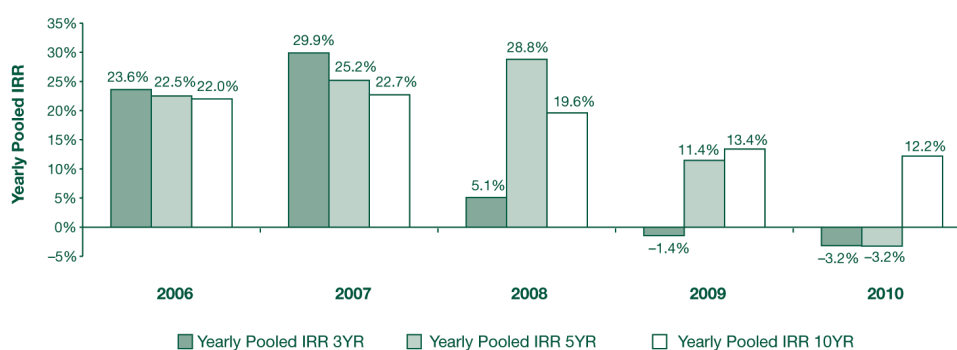
⁸ No analytical exercise has been performed in order to estimate the Net IRR. However, in order to provide rough indications that may be useful to estimate the Net IRR, empirical analyses, based on assumptions related to common market practice, would seem to show that, generally speaking, Net IRR (excluding 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.

⁹ 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.

With a specific focus on the 10YR horizon (the most statistically significant) analysis, Gross Pooled IRR on All Investments (by horizon) recorded a moderate decrease (12.2% in 2010 vs 13.4% in 2009), as a consequence of the following main issues:

- 52 realised transactions, totally accounting for around 628 Euro Mln in terms of Total Cash Out, have been included in 2010, whose IRR is negative (similarly to 2009);
- 97 realised transactions (invested in 2000), totally accounting for 707 Euro Mln in terms of Total Cash Out, have been no more considered (whose IRR was around 12.6%);
- the majority of the investments still in portfolio have been evaluated at cost (around 48% by number in 2010).

Chart 6 – 2006-2010 Gross Pooled IRR on All Investments (by horizon)¹⁰



Source: KPMG Corporate Finance

The performances referred to 3YR and 5YR horizon have been highly affected by the negative returns of the last two year. Specifically, as shown in Chart 6, the performance related to 3YR horizon had furtherly worsened from -1.4% in 2009 to -3.2% in 2010, as well as the 5YR horizon performance fell from 11.4% to -3.2%. Such effects are essentially due to

¹⁰ Yearly Pooled IRR 1YR has not been represented in the Chart as it has been introduced just this year.

the “rolling” method: in 2010, the transactions referred to 2007 and 2005 (whose IRR was materially positive) have been no more considered within the 3YR and 5YR analyses respectively, while 2010 transactions with poor IRR have been included.

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

	By number		By Cash Out	
	2010	2009	2010	2009
Book value deals	47.6%	50.9%	35.4%	40.8%
Re-valued deals	28.7%	26.6%	37.8%	34.7%
Depreciated deals	23.7%	22.4%	26.8%	24.5%
Investments still in portfolio (N. and Euro Mln)	456	379	6,396	5,095

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 (in terms of incidence) compared to previous years.

Table 16 – By horizon IRR distribution by financing stage¹²

	Early Stage	Development	MBO/MBI	Replacement
N. of transactions	28	23	19	7
IRR 1 YR	53.8%	0.4%	0.0%	0.0%
N. of transactions	67	106	83	21
IRR 3 YR	-0.1%	-3.5%	-4.5%	2.1%
N. of transactions	93	164	160	36
IRR 5 YR	1.1%	3.2%	-0.5%	2.9%
N. of transactions	138	294	295	76
IRR 10 YR	6.0%	11.1%	14.1%	7.7%

Source: KPMG Corporate Finance

¹¹ Depreciated deals do not include total write off and partial write off over 80%.

¹² Please note that in Tables 16 and 18 total transactions considered are less than 77 (1YR), 280 (3YR), 477 (5YR) and 889 (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.

Investments still in portfolio, in the 10YR horizon, recorded an IRR equal to 3.2% (compared to 2.2%, 9.2%, 1.5%, 6.1% and 0.8% in 2009, 2008, 2007, 2006 and 2005 respectively).

As a whole, 2010 horizon IRR distribution by financing stage highlights, with particular focus on 10YR horizon, that MBO/MBI recorded a slight decrease (from 15.3% in 2009 to 14.1% in 2010), while the Development IRR stood at around 11%. The Early Stage performance materially increased (from 1.6% in 2009 to 6.0% in 2010); contrarily, Replacement transactions IRR decreased from 15.1% in 2009 to 7.7% in 2010.

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	4.9%	-3.2%	-3.2%	12.2%
Upper Quarter (per performance)	20.6%	4.7%	19.6%	46.7%
Upper Quarter (per investment size)	0.2%	-3.5%	-0.4%	11.3%

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	18	9	11	8	1	3
IRR 1 YR	0.0%	0.0%	32.3%	0.0%	0.0%	0.0%
N. of transactions	82	47	43	37	15	21
IRR 3 YR	-0.7%	-6.2%	4.0%	-2.6%	-5.8%	-3.0%
N. of transactions	136	77	79	61	29	43
IRR 5 YR	-1.9%	-3.1%	6.7%	15.3%	0.7%	-1.6%
N. of transactions	246	145	137	122	72	97
IRR 10 YR	-0.9%	4.4%	18.9%	15.8%	26.9%	9.5%

Source: KPMG Corporate Finance