

Statistics on Performance¹

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.

The present survey includes a significant sample of the most important Italian private equity and venture capital houses and has been carried out in order to assess the performance of the industry.

Until 2003, the analysis has always been conducted on a Pooled Gross IRR on Realised Investment² level only. Since the 2004, in order to give a more comprehensive representation of the performance of the Italian market and to align the performance measurement to the European and international standards, Pooled Gross IRR on All Investments³ analysis has been introduced.

Gross IRR on Realised Investments offers a “realistic” description of the market as it considers divestments transaction only, but it just expresses the performance of the realised segment of the private equity industry, with no reference to the implicit performances of the investments still in the portfolios.

On the other hand, the second level of IRR, the Gross IRR on All Investments, offers a wider perspective of the market performance, even if it might underestimate the overall performance of the market, being stakes in portfolio often prudentially valued at cost by investors.

In the following pages, the analyses carried out to illustrate dynamics and

¹ The analysis has been realized in co-operation with KPMG Corporate Finance.

² According to the EVCA criteria this level of performance takes into account of 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 The second level of IRR considers both realised and in portfolio investments, no matter if the disinvestment has been partial.

trends of the industry's performances are reported, here consider:

- one-year Pooled Gross IRR on Realised Investments from inception (transaction registered in 2005);
- historical Pooled Gross IRR on Realised Investments since inception (1986-2005);
- ten, five and three-years horizon Pooled Gross IRR on All Investments (1996-2005, 2001-2005, 2003-2005).

Performances have been measured in terms of pooled IRR, considering all the cash flows on which data is available, aggregated as if resulted from the transactions carried out by a single fund.

Pooled Gross IRR on Realised Investments during 2005

According to the past editions of the survey, first of all the 2005 Gross IRR from inception on realised transactions are presented.

Table 1 – IRR from inception analysis: main sample features

	2005	2004	2003	2002	2001
N° of companies included in the research panel	51	39	41	59	62
N° of companies presenting realised investments	23	21	18	20	22
N° of realised investments from inception	71	69	96	62	69
Average investment dimension (Euro Mln)	7.2	6.2	4.5	5.1	5.1
Total Cash Out (Euro Mln)	512	429	432	314	350
Total Cash In (Euro Mln)	995	883	672	641	679

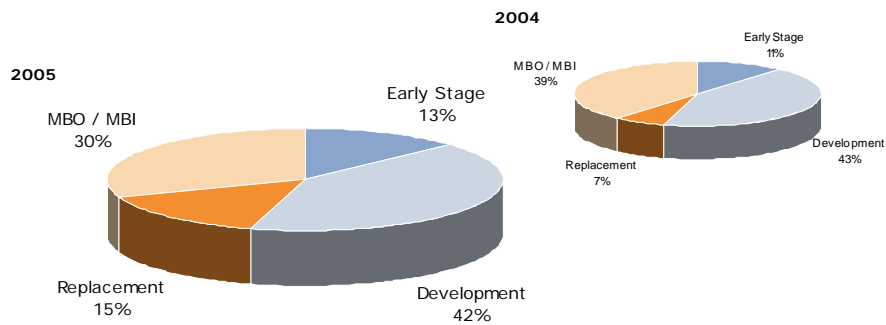
Source: KPMG Corporate Finance

As shown in Table 1, the sample panel significantly increased in comparison to the previous two years, while the number of companies presenting realised investments only moved from 21 in 2004 to 23 in 2005. Confirming the 2004 trend, the average investment dimension increased by +16% due to the increased Total Cash Out value, in conjunction with a stable number of realised investments from inception. Total Cash In increased by +13%, confirming an average implicit (and theoretical) exit multiple around 2x (i.e. 1.94x), substantially aligned to the previous year (i.e. 2.06x).

Following 2004 analysis, 2005 confirmed a consolidation trend of the

market around Development transactions. MBO/MBI transactions, still remaining the second financing stage preferred by the investors, showed a decrease to 30%, while Early Stage transactions slightly increased up to 13%. The replacement transactions included within the sample have grown from 7% in 2004 to 15% in 2005.

Chart 1 - IRR from inception analysis: transactions breakdown by financing stage (by number)

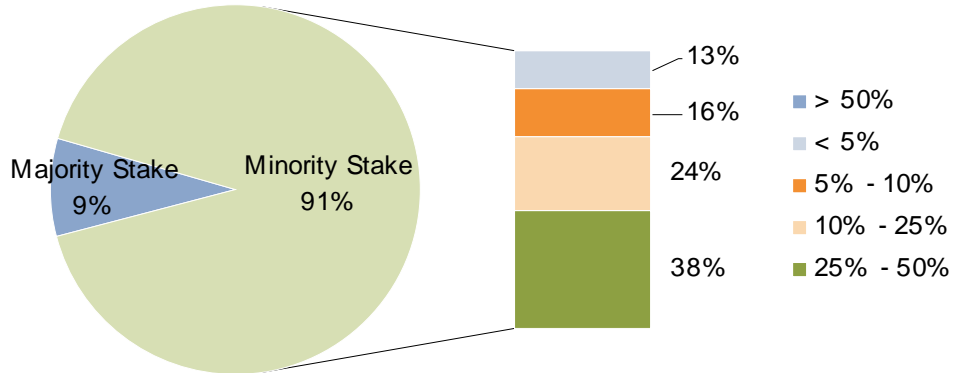


Source: KPMG Corporate Finance

Chart 2 shows the transactions breakdown by acquired stakes: the majority of them have been related to minority stakes, as the previous year (respectively 91% and 89% in 2005 and 2004). The most common transaction (38% of the overall panel) is associated to a 25% to 50% acquired stake.

In this regard, all investments have been analysed on a stand-alone basis, without taking into account possible pool agreements, among some of the private equity and venture capital houses, which might have acquired, jointly, majority stakes.

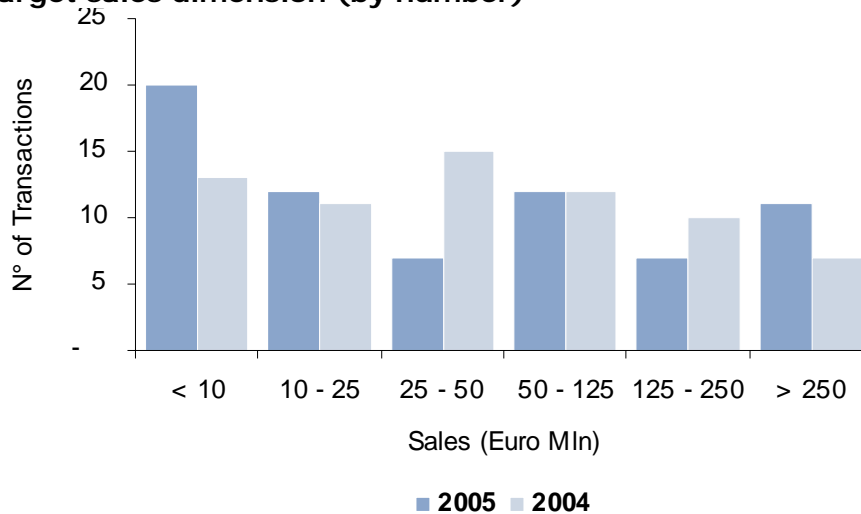
Chart 2 - IRR from inception analysis: transactions breakdown by acquired stakes (by number)



Source: KPMG Corporate Finance

Considering the breakdown by sales' dimension, transactions focused on small companies presented a sharp increase, representing in 2005 almost 30% of the sample. It has to be noted a decrease, in comparison to 2004, in the number of transactions related to companies with a turnover between 25 and 50 Euro Mln (10% of the sample in 2005 vs. 22% in 2004).

Chart 3 - IRR from inception analysis: transactions breakdown by target sales dimension (by number)



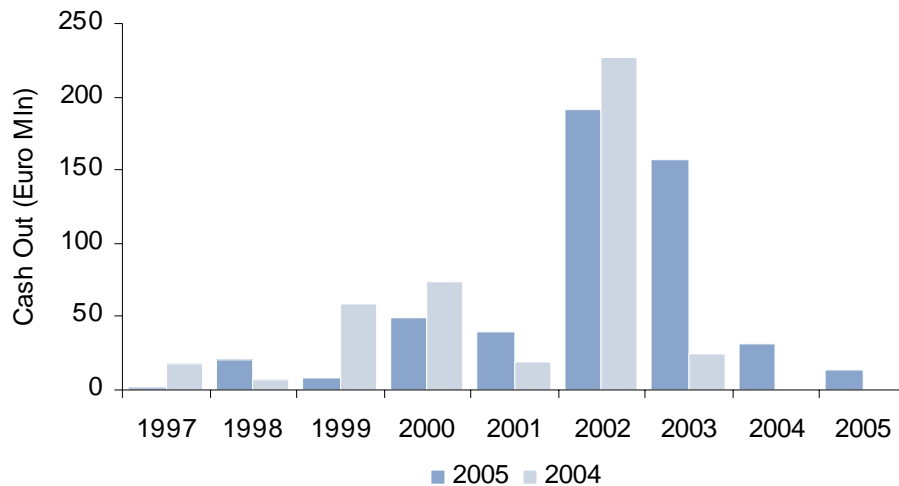
Source: KPMG Corporate Finance

2005 pool breakdown analysis shows that the majority of transactions (52%) have been managed within a pool, reversing the trend, in terms of relative incidence, observed in the previous years (respectively 49%, 57% and 61% in 2004, 2003 and 2002).

Summarizing, most of the divestments realised in 2005, have been related to transactions of the minority stake invested in small-middle size companies, during their development stage or within MBO/MBI operations.

In terms of average holding period between the first investment and divestment, in 2005, transactions realised within five years increased from 68% in 2004 to 77% of the overall amount. Furthermore, the majority of divestments included in the panel are related to investments performed in 2003.

Chart 4 - IRR from inception analysis: annual Cash Out related to realised investments (2005 vs. 2004)



Source: KPMG Corporate Finance

According to the international standard criteria related to the first level of IRR, the Italian private equity and venture capital houses' performances in 2005 are presented, in Table 2, as pooled internal rate of return from inception.

Table 2 – IRR from inception by year in 2001, 2002, 2003, 2004 and 2005

	2005	2004	2003	2002	2001
Number of realised investments from inception	71	69	96	62	69
Yearly Pooled IRR	25.1%	24.7%	17.8%	34.9%	34.2%

Source: KPMG Corporate Finance

The Yearly Pooled Gross IRR on realised investments from inception in 2005 has been equal to 25.1%, showing a slight increase from 2004 and a kind of consolidation trend around 25%.

The Upper Quarter per performances registered an IRR equals to 55%, confirming the decreasing trend and showing a substantial distribution alignment of realised deals to average returns. The Upper Quarter per dimension registered an IRR of 28%.

Table 3 – IRR from inception by year: Upper Quarters

	2005	2004	2003	2002	2001
Yearly Pooled IRR	25.1%	24.7%	17.8%	34.9%	34.2%
Upper Quarter (per performances)	55%	59%	79%	108%	168%
Upper Quarter (per investments dimension)	28%	27%	17%	43%	9%

Source: KPMG Corporate Finance

Table 4 – IRR from inception distribution by IRR categories

	2005		2004	
	Number	Incidence (%)	Number	Incidence (%)
Write Off/Negative	7	9.9%	15	21.7%
0% - 10%	38	53.5%	22	31.9%
10% - 20%	6	8.5%	9	13.0%
20% - 30%	9	12.7%	7	10.1%
30% - 40%	2	2.8%	3	4.3%
40% - 50%	1	1.4%	2	2.9%
50% - 100%	6	8.5%	5	7.2%
100% - 500%	2	2.8%	4	5.8%
> 500%	-	-	2	2.9%

Source: KPMG Corporate Finance

A number of elements seem to confirm a trend towards a more mature market.

Transactions written off or divested under the book value steadily decreased in terms of absolute numbers (25 transactions observed in 2003, 15 in 2004 and 7 in 2005) as well as in terms of Cash Out incidence (22% in 2003, 17% in 2004 and 7% in 2005), while transactions which registered IRR performances between 0% and 10% increased both in terms of absolute number (22 transactions in 2004 vs. 38 in 2005) as well as in terms of Cash In (9% of total Cash In in 2004 vs. 19% in 2005).

Transactions which registered significantly higher performances (i.e. IRRs above 100%) decreased both in terms of absolute number as shown in table 4, as well as in terms of Cash In (19% of total Cash In in 2004 vs. 4% in 2005).

Most transactions are included on a IRR performance range between 0% and 30% (22% of total Cash In in 2004 vs. 43% in 2005) and between 50% and 100% (42% of total Cash In in 2004 vs. 49% in 2005).

Table 5 – IRR from inception distribution by way out

	Trade Sale		IPO/Sales post IPO	
	2005	2004	2005	2004
N. of Transaction	61	51	7	10
Yearly Pooled IRR	12.8%	24.3%	45.0%	50.5%

Source: KPMG Corporate Finance

The number of divestments realised through trade sales⁴ increased in comparison to 2004, but registered lower performances. Deals through IPO, decreased in term of number but remained stable in terms of incidence of Cash Out (i.e. 34% in 2004 vs. 35% in 2005), showing a performances decrease to 45%.

Table 6 – IRR from inception distribution by financing stage

	Early Stage		Development		MBO/MBI		Replacement	
	2005	2004	2005	2004	2005	2004	2005	2004
Transaction Number	6	5	19	19	14	17	7	3
Yearly Pooled IRR	-1.8%	30.5%	13.9%	-6.7%	37.3%	49.3%	15.2%	15.3%

Source: KPMG Corporate Finance

IRR analyses by financing stage confirm the MBO/MBI transactions as the most profitable, even if with lower performances in comparison to 2004.

⁴ Way outs trough trade sales may include secondary buy-outs.

The 2005 data shows, as well, an increase in the performances of Development investments. Considering historical trends, Early Stage transactions confirm to be the most volatile⁵ investment in term of returns. Replacement transactions confirm 2004 performances around 15%.

Tables 7 and 8 show some further analyses of the 2005 Italian private equity performance from inception⁶.

Table 7 – IRR from inception distribution by transactions managed within pool and transactions not realised in pool

	Within Pool		Out of Pool	
	2005	2004	2005	2004
N. of Transaction	22	22	20	23
Incidence	52%	49%	48%	51%
Yearly Pooled IRR	16.2%	12.2%	43.1%	40.5%

	Pool < 50		Pool > 50	
	2005	2004	2005	2004
N. of Transaction	10	4	12	18
Incidence within Pool	45%	18%	55%	82%
Yearly Pooled IRR	24.6%	34.0%	12.7%	10.4%

Source: KPMG Corporate Finance

Table 8 – 2005 IRR from inception distribution by time gap between first investment and divestment

	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	17	16	10	8	15	5
Incidence	24%	23%	14%	11%	21%	7%
Yearly Pooled IRR	37.5%	27.5%	43.8%	3.4%	10.4%	5.5%

Source: KPMG Corporate Finance

⁵ Please note that 2003 and 2002 IRR from inception, related to Early Stage investments, were equal respectively to -10.6% and 191.5%.

⁶ Please note that in Tables 7 and 8, total transactions considered can be less than 71 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.

Historical Pooled Gross IRR on Realised Investments since inception (1986-2005)

In order to analyse the whole panel of transactions realised since inception (from 1986), the analysis on historical Yearly Pooled Gross IRR on realised investments is presented.

The historical performance showed a slight decrease, realising an IRR of 30.3%; this was mainly due to the incidence of 2005 realised investments on the overall values. Confirming the trend observed in the from inception level of analysis, the average investments dimension slightly increased up to 4.1 Euro Mln.

Table 9 – Historical IRR since inception analysis

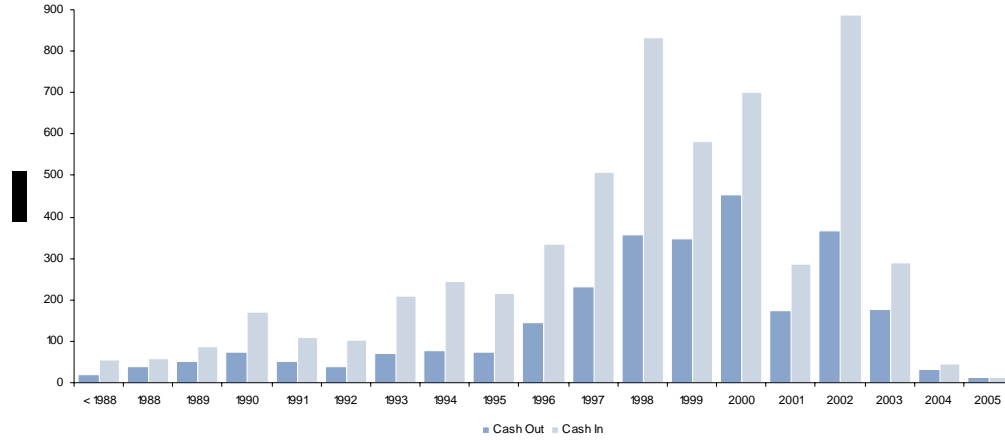
	1986–2005	1986–2004
Number of companies presenting realised investments	53	43
Number of realised investments since inception	679	612
Average investment dimension (Euro Mln)	4.1	4.0
Total Cash Out (Euro Mln)	2,789	2,418
Total Cash In (Euro Mln)	5,734	5,149
Yearly Pooled IRR	30.3%	30.6%

Source: KPMG Corporate Finance

The historical sample analysis shows that the majority of realised investments have been concluded within 4 years (66% of the sample). The majority of the deals were focused on middle-size companies (approximately 60% of the sample), related to Development stage or MBO/MBI transactions and well distributed within or without Pool transactions.

In order to give a complete overview, the following tables report some analyses related to the historical performance since inception of all the transactions monitored in relation to the 1986-2005 period.

Chart 5 – Historical IRR since inception analysis: annual Cash In / Cash Out related to realised investments



Source: KPMG Corporate Finance

Table 10 – Historical IRR since inception: Upper Quarters

	1986-2005
Yearly Pooled IRR	30.3%
Upper Quarter (per performances)	108%
Upper Quarter (per investment dimension)	30%

Source: KPMG Corporate Finance

Table 11 – Historical IRR since inception distribution by financing stage

	1986-2005			
	Early Stage	Development	MBO/MBI	Replacement
Transaction Number	68	258	181	83
Yearly Pooled IRR	29.0%	19.9%	47.5%	31.4%

Source: KPMG Corporate Finance

Table 12 – Historical IRR since inception distribution by IRR categories

	1986-2005	
	Number	Incidence (%)
Write Off/Negative	108	15.9%
0% - 10%	183	27.0%
10% - 20%	99	14.6%
20% - 30%	60	8.8%
30% - 40%	39	5.7%
40% - 50%	37	5.4%
50% - 100%	80	11.8%
100% - 500%	55	8.1%
> 500%	18	2.7%

Source: KPMG Corporate Finance

Table 13 – Historical IRR since inception distribution by acquired stakes

	1986-2005				
	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of Transaction	82	102	192	162	49
Incidence	14%	18%	33%	28%	8%
Yearly Pooled IRR	14.3%	28.3%	21.4%	31.4%	43.7%

Source: KPMG Corporate Finance

Table 14 – Historical IRR since inception distribution by time gap between first investment and divestment

	1986-2005					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	197	151	103	61	108	59
Incidence	29%	22%	15%	9%	16%	9%
Yearly Pooled IRR	78.6%	53.3%	50.6%	14.1%	17.5%	8.6%

Source: KPMG Corporate Finance

Pooled Gross IRR on All Investments by horizon

The analyses on the Pooled Gross IRR on All Investments (by horizon)⁷ have been performed, above all, in order to have more comparable data with respect to other European markets.

Table 15 – Horizon Pooled Gross IRR on All Investments analysis to 31 December 2005

	3 YR	5 YR	10 YR
Number of companies presenting investments	42	48	63
Number of transactions	204	362	737
Average investment dimension (Euro Mln)	13.1	11.5	8.3
Total Cash Out (Euro Mln)	2,672	4,150	6,150
Total Cash In (Euro Mln)	2,886	5,043	8,474
Yearly Pooled IRR	6.6%	11.7%	21.1%

Source: KPMG Corporate Finance

Within Yearly Pooled IRR on All Investments by horizon analysis, two main aspects have to be considered:

- the “rolling mechanisms” applied in the time horizons’ analyses;
- the investments still in portfolio, quite often prudentially valued at cost.

Taking into account as a general reference a ten years horizon results, the Yearly Pooled IRR on All Investment shows a slight decrease (i.e. 21.1% in 2005 vs. 22.3% in 2004) due to the above mentioned dynamics, in particular:

- the insertion of 71 realised transactions counting for 512 Euro Mln (Cash Out value), which realised an IRR equal to 25.1%;
- the exclusion of 32 realised deals (invested in 1995) counting for 74 Euro Mln (Cash Out value), which realised an IRR equal to 50.8%.

⁷ No analytical exercise has been performed in order to estimate the Net IRR. However, in order to provide broad 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 IRR on All Investments.

- the valuation at book value of the majority of the investments still in portfolios (as described in the following table).

Table 16 – 10YR horizon IRR analysis: investments still in portfolio breakdown (by number and Cash Out)

	By number		By Cash Out	
	2005	2004	2005	2004
<i>Book value deals</i>	62.2%	70.1%	65.3%	77.8%
<i>Re-valued deals</i>	21.8%	2.3%	27.2%	0.4%
<i>Depreciated deals</i>	16.0%	27.6%	7.6%	21.8%
Investments still in portfolio (N° and Euro Mln)	262	214	3,465	3,182

Source: KPMG Corporate Finance

Although investments still in portfolio are mostly registered at book value, it is worth noting a positive trend towards a market value assessment approach more focused on re-valuations and depreciations.

Investments still in portfolios, on a ten year panel, registered an IRR equal to 0.8% (compared respectively to -2.7% and -1.2% in 2004 and 2003).

Table 17 – Horizon IRR distribution by financing stage

	Early Stage	Development	MBO/MBI	Replacement
N. of Transaction	13	58	97	21
IRR 3 YR	-4.6%	16.1%	2.6%	7.3%
N. of Transaction	37	111	139	31
IRR 5 YR	5.8%	7.9%	14.6%	5.4%
N. of Transaction	76	254	231	79
IRR 10 YR	9.3%	17.3%	37.5%	17.2%

Source: KPMG Corporate Finance

As far as result from Pooled Gross IRR on All Investments by horizon analysis, deals are generally focused on Development stage and/or are related to MBO/MBI transactions (representing together the 82%, 79% and 76% of the sample respectively in 3YR, 5YR and 10YR analyses). The panel shows the same trend of the previous year between transaction managed within a pool (41% in 3YR sample, 43% in 5YR sample and 50% in 10YR sample vs. respectively 51%, 52% and 55% in 2004) and out of a pool.

The results of proposed analyses, consistently with the past survey's edition, are illustrated in the following tables.

Table 18 – Horizon IRR distribution by target sales dimension (Euro Mln)

	<10	10-25	25-50	50-125	125-250	>250
N. of Transaction	43	31	43	29	21	30
IRR 3 YR	1.3%	0.7%	0.6%	15.5%	15.4%	3.9%
N. of Transaction	89	55	65	55	38	47
IRR 5 YR	1.8%	-2.0%	7.0%	10.5%	30.5%	7.0%
N. of Transaction	167	103	121	147	84	89
IRR 10 YR	80.5%	2.1%	22.3%	32.3%	22.0%	11.5%

Source: KPMG Corporate Finance

Table 19 – Horizon IRR: Upper Quarters

	3 YR	5 YR	10 YR
Yearly Pooled IRR	6.6%	11.7%	21.1%
Upper Quarter (per performances)	28.1%	48.5%	86.7%
Upper Quarter (per investment dimension)	6.2%	12.6%	11.3%

Source: KPMG Corporate Finance