

## STATISTICS ON PERFORMANCE<sup>6</sup>

### INTRODUCTION

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

Historically, the analysis has been always conducted on a Pooled Gross IRR on Realised Investment<sup>7</sup> level.

Since this edition, in order to better represent the performance of the Italian market and align the performance measurement index to the European and international standards principles, the analysis of the Gross IRR on All Investments<sup>8</sup> 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.

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

Therefore, in the following stages are reported the outputs of the analysis of the market performance carried out considering:

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<sup>6</sup> The analysis has been realised in co-operation with KPMG Corporate Finance.

<sup>7</sup> According to the EVCA criteria this level of performance takes account of investments (cash outflows) and divestments (cash inflows) in which the private equity and venture capital companies have sold at least the 30% of the initial investment in equity. In case of partial divestments only the related part of total cash out have been considered.

<sup>8</sup> The second level of IRR considers both realised and in portfolio investments, no matter if the divestment has been partial.

- one-year Pooled Gross IRR on Realised Investments from inception (transaction registered in 2003);
- historical Pooled Gross IRR on Realised Investments since inception (1986-2003);
- ten, five and three-years horizon Pooled Gross IRR on All Investments (1994-2003, 1999-2003, 2001-2003).

Pooled IRR has been calculated considering all the cash flows on which data are available aggregated as if they resulted from the transactions carried out by a single fund.

#### **POOLED GROSS IRR ON REALISED INVESTMENTS DURING 2003**

In order to represent comparable analysis to the previous edition of the survey, it is now presented the 2003 Gross IRR from inception on realised transactions.

**Table 1 – IRR from inception analysis: Main Sample Features**

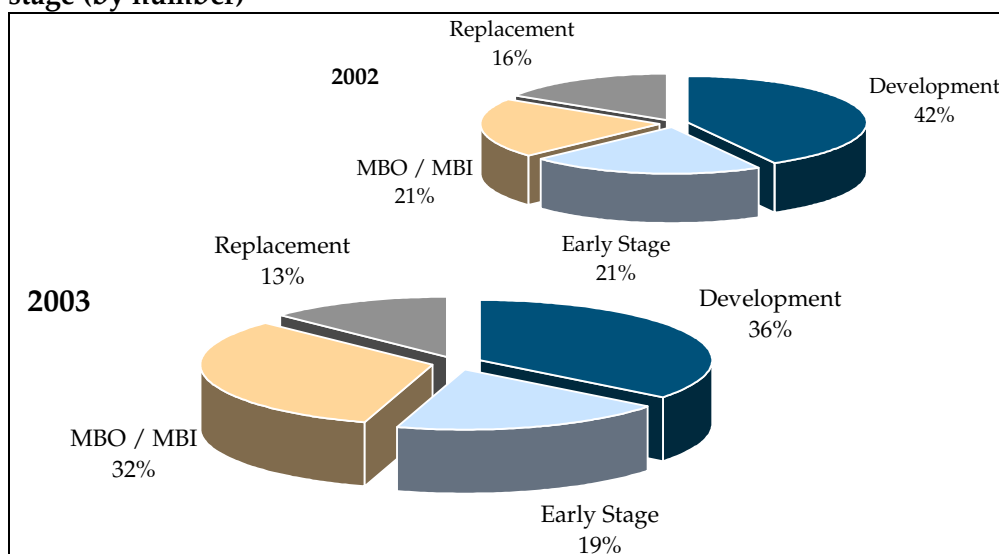
	2003	2002	2001	2000	1999
N° of companies included in the research panel	41	59	62	56	35
N° of companies presenting realised investments	18	20	22	22	18
N° of realised investments from inception	96	62	69	80	58
Average investment dimension (Euro Mln)	4.5	5.1	5.1	2.8	3.3
Total Cash Out (Euro Mln)	432	314	350	225	191
Total Cash In (Euro Mln)	672	641	679	713	636

*Source: KPMG Corporate Finance*

As shown in Table 1, the sample panel slightly decreased in comparison to the other years though the number of companies, presenting realised investments, remained substantially stable. Moreover it is important to notice the sharp growth during 2003 in the number of realised investments increasing of about 55%. The average investment dimension decreased to 4.5 Euro Mln with an overall Cash Out that, for the first time, exceeded 400 Euro Mln. The sample

contains 96 realized transactions that can be analysed on the basis of different breakdowns.

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



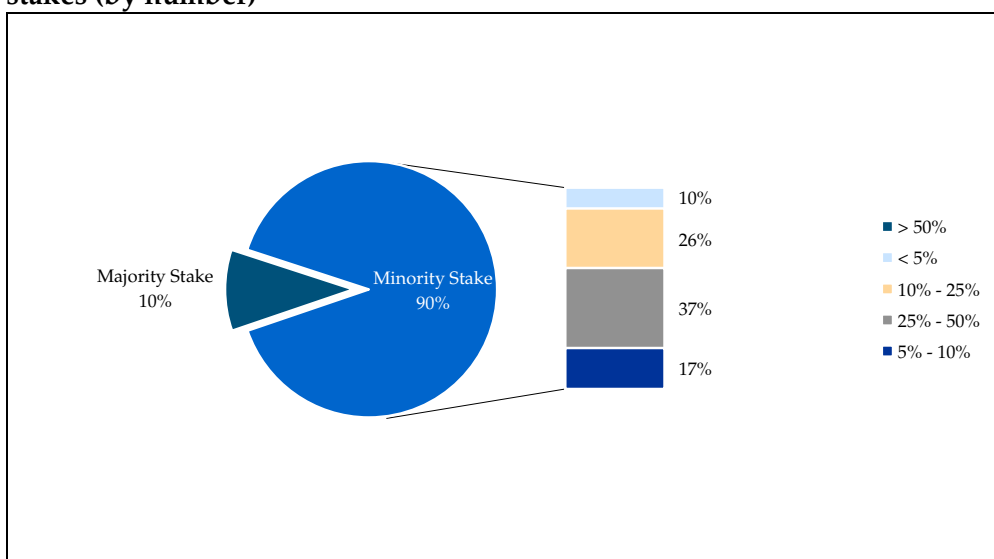
Source: KPMG Corporate Finance

2002 has been characterised by a relevant presence of divestments in Development stage; instead, 2003 showed a relevant increase in MBO/MBI deals and a partial decrease of Development transactions; Early stage and Replacement investments had a slightly reduction.

Chart 2 shows the transactions breakdown by acquired stakes: the majority of them has been related to minority stakes, as the previous year, even if it has been noticed a slight increase (+5%) of the companies acquired with a majority stake. Finally, as in 2002, the most common transaction is associated to an acquired stake between 25% and 50%. It has to be noted that 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)**

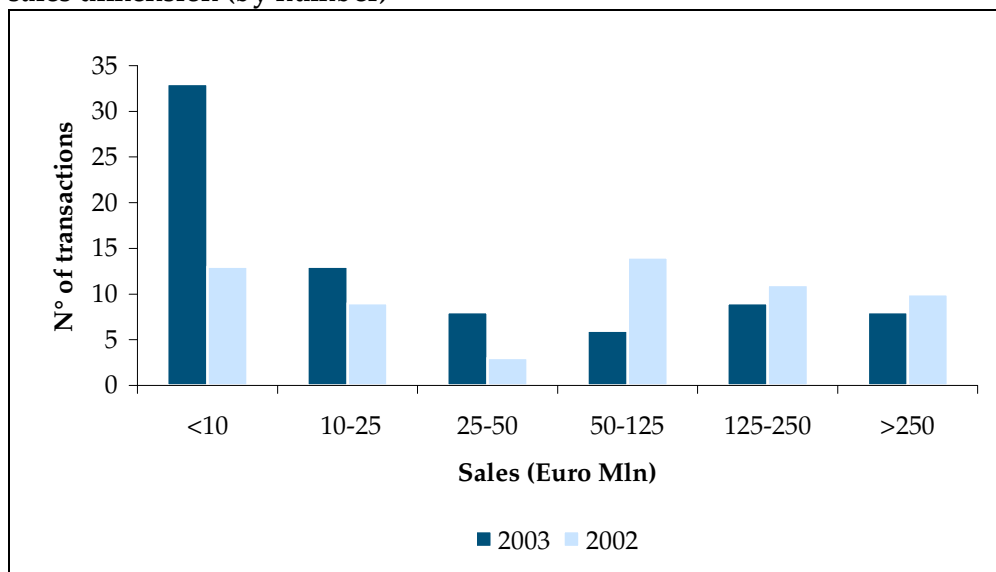


Source: KPMG Corporate Finance

Considering the breakdown by target sales dimension year 2003 presented a sharp increase in transactions focused on small companies, representing almost half of the sample. Most of the realised transactions have been related to target companies with no more than 50 Euro Mln of turnover (70% of the total sample).

In comparison to the past year, transactions managed not in pool increased up to 43% (+4,5%), even if pool investments still remain the majority (57%).

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



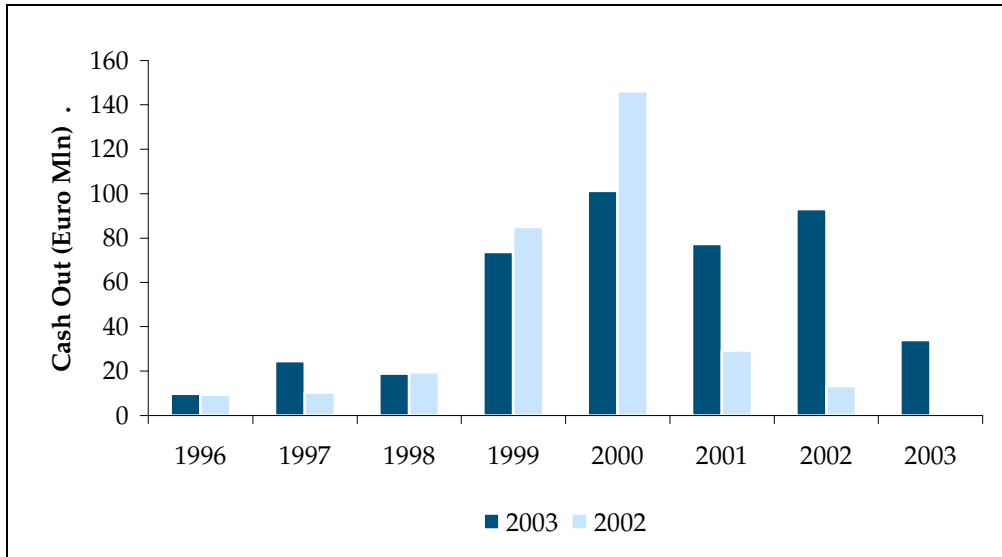
Source: KPMG Corporate Finance

Furthermore, it seems that the average holding period between first investment and divestment remained substantially stable: most of the realised transactions (86%) had a time frame of less than 4-5 years.

In general, most of the divestments analysed have been related to transactions, mainly managed within pool, focused on small - middle companies during their development stage or subject to MBO/MBI operations, with an average duration lower than 5 years.

Total activity sharply increased as total cash-out value shows (+38%), while the average investment decreased down to 4.5 Euro Mln.

**Chart 4 - IRR from inception analysis: Annual Cash Out related to realised investments (2003 vs. 2002)**



Source: KPMG Corporate Finance

According to the above mentioned criteria related to the first level of IRR, it's now presented the Italian private equity and venture capital companies performances in 2003 as pooled internal rate of return from inception (as shown in Table 2).

**Table 2 – IRR from inception by year in 1999, 2000, 2001, 2002 and 2003**

	2003	2002	2001	2000	1999
Number of realised investments from inception	96	62	69	80	58
Yearly Pooled IRR	17.8%	34.9%	34.2%	47.1%	36.2%

Source: KPMG Corporate Finance

The Yearly Pooled Gross IRR on realised investments from inception by year in 2003 has been equal to 17.8%, showing a substantial decrease after two year of stability.

In comparison to the past editions, as showed in Table 3, the Upper Quarter per performances analysis registered values fell down to 79%, confirming the overall IRR results of 2003; the Upper Quarter per dimension realised an IRR 17.4%.

**Table 3 – IRR from inception by year: Upper Quarters**

	2003	2002	2001	2000	1999
Yearly Pooled IRR	17.8%	34.9%	34.2%	47.1%	36.2%
Upper Quarter (per performances)	79%	108%	168%	201%	219%
Upper Quarter (per investments dimension)	17.4%	42.6%	8.8%	53.9%	35.2%

Source: KPMG Corporate Finance

**Table 4 – IRR from inception distribution by IRR categories**

	2003		2002	
	Number	Incidence (%)	Number	Incidence (%)
Negative/Write Off	25	26.0%	12	19.4%
0% - 10%	34	35.4%	16	25.8%
10% - 20%	6	6.3%	11	17.7%
20% - 30%	6	6.3%	6	9.7%
30% - 40%	4	4.2%	6	9.7%
40% - 50%	4	4.2%	-	0.0%
50% - 100%	8	8.3%	4	6.5%
100% - 500%	7	7.3%	5	8.1%
> 500%	2	2.1%	2	3.2%

Source: KPMG Corporate Finance

As shown in Table 4, the 22% of the sample realised returns higher than 40% (18% in 2002) though the most common range of return (61% of the sample) is lower than 10% or registered negative performances (against the 45% of the previous year sample). Consequently, the medium performance range (IRR between 10% and 40%) decreased from 37% of 2002 to 17% of 2003.

IPOs and Sales post IPO transactions showed also in 2003 analysis high level of IRR as of 2002 but they represented just the 5% of the sample (13% in 2002); the

trade sale exit suffered of an 11% decrease against the previous year but represented most of the 80% of the sample.

Tables presented below show some further analyses of Italian private equity's 2003 performance from inception<sup>9</sup>.

**Table 5 – IRR from inception distribution by way out**

	Trade Sale		IPO/Sales post IPO		Other	
	2003	2002	2003	2002	2003	2002
N. of Transaction	77	34	5	5	2	34
Yearly Pooled IRR	21.3%	32.2%	113.2%	124.6%	45.28%	13.2%

Source: KPMG Corporate Finance

**Table 6 – IRR from inception distribution by financing stage**

	Early Stage		Development		MBO/MBI		Replacement	
	2003	2002	2003	2002	2003	2002	2003	2002
Transaction Number	12	13	22	25	20	13	8	10
Yearly Pooled IRR	-10.6%	191.5%	8.4%	22.8%	34.6%	27.1%	-3.8%	38.0%

Source: KPMG Corporate Finance

**Table 7 – IRR from inception distribution by acquired stakes**

	<5%		5%-10%		10%-25%		25%-50%		>50%	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
N. of Transaction	9	13	15	11	23	18	31	17	9	3
Incidence	10%	21%	17%	18%	26%	29%	36%	27%	10%	5%
Yearly Pooled IRR	23.2%	13.1%	5.4%	13.2%	24.6%	41.1%	3.2%	50.9%	26.6%	38.6%

Source: KPMG Corporate Finance

<sup>9</sup> Please note that, in the following tables, the total transactions considered can be less than 96, due to a lack of specific information/details related to certain transactions: accordingly, the perpetual incidence is calculated, case by case, on the number of transactions effectively analysed.



**Table 8 – IRR from inception distribution by transactions managed within pool and transactions not realised in pool**

	Within Pool		Out of Pool	
	2003	2002	2003	2002
N. of Transaction	30	32	23	20
Incidence	57%	61%	43%	39%
Yearly Pooled IRR	28.3%	27.1%	13.0%	54.3%

	Pool < 50		Pool > 50	
	2003	2002	2003	2002
N. of Transaction	13	19	17	13
Incidence within Pool	43%	59%	57%	41%
Yearly Pooled IRR	4.4%	13.1%	54.8%	53.4%

Source: KPMG Corporate Finance

**Table 9 – 2003 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	24	23	22	13	9	5
Incidence	25%	24%	23%	13%	9%	5%
Yearly Pooled IRR	106.7%	29.0%	11.8%	4.5%	-2.2%	0.1%

Source: KPMG Corporate Finance

#### **HISTORICAL POOLED GROSS IRR ON REALISED INVESTMENTS SINCE INCEPTION (1986-2003)**

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

The historical performance showed a slight decrease, realising an IRR of 30.9%. The average investments dimension grew up to 3.7 Euro Mln.

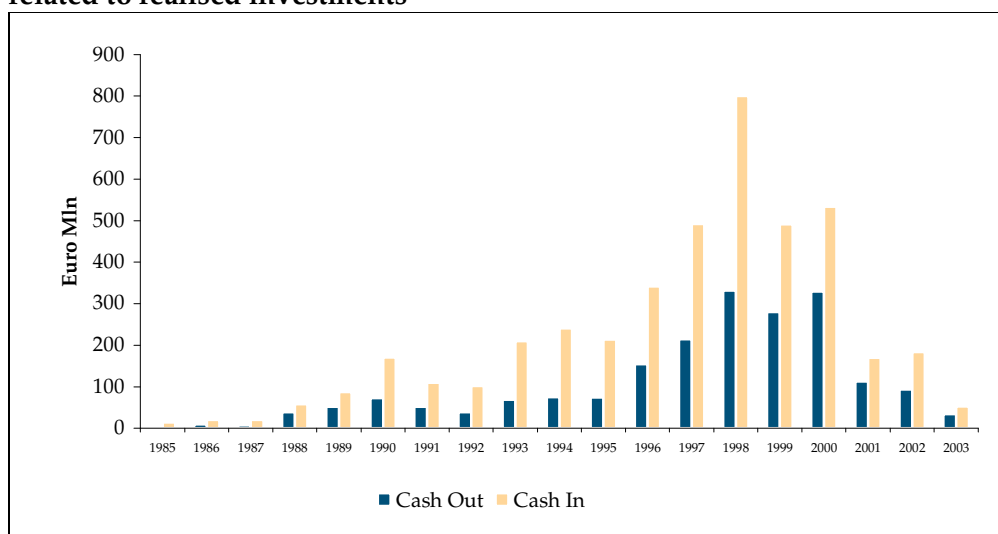
**Table 10 – Historical IRR since inception analysis**

	1986 – 2003	1986 - 2002
Number of companies presenting realised investments	43	37
Number of realised investments from inception	548	450
Average investment dimension (Euro Mln)	3.7	3.5
Total Cash Out (Euro Mln)	2,041	1,596
Total Cash In (Euro Mln)	4,310	3,642
<b>Yearly Pooled IRR</b>	<b>30.9%</b>	<b>31.5%</b>

Source: KPMG Corporate Finance

The analysis shows most of the transactions have been concluded in a time frame lower than 4 years (69% of the sample) focused on Development stage or MBO/MBI deals, most of them related to companies with no more than 100 Euro Mln turnover, well-distributed within or without Pool transactions.

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



Source: KPMG Corporate Finance

In relation to realised transactions historically analysed, the amount of Cash Out invested trend continued to increase till 2000 and it drastically reduced during the past three years reaching a total amount of 2,041 Euro Mln. The same trend characterised the Cash In amount reduced to an overall of 4,310 Euro Mln during 2003 after the strong growth at the end of the 90s.

In order to give a more complete general overview, the tables in the following report some analyses related to the historical performance since inception of all the transactions monitored in relation to the 1986-2003 period.

**Table 11 – Historical IRR since inception: Upper Quarters**

	1986-2003
Yearly Pooled IRR	30.9%
Upper Quarter (per performances)	147.1%
Upper Quarter (per investment dimension)	30.0%

Source: KPMG Corporate Finance

**Table 12 - Historical IRR since inception distribution by IRR categories**

	1986-2003	
	Number	Incidence (%)
Write Off	49	8.9%
Negative	39	7.1%
0% - 10%	124	22.6%
10% - 20%	85	15.5%
20% - 30%	43	7.8%
30% - 40%	35	6.4%
40% - 50%	36	6.6%
50% - 100%	70	12.8%
100% - 500%	50	9.1%
> 500%	17	3.1%

Source: KPMG Corporate Finance

**Table 13 - Historical IRR since inception distribution by financing stage**

	1986-2003			
	Early Stage	Development	MBO/MBI	Replacement
Transaction Number	58	213	154	74
Yearly Pooled IRR	30.3%	20.9%	47.5%	32.1%

Source: KPMG Corporate Finance

**Table 14 - Historical IRR since inception distribution by acquired stakes**

	1986-2003				
	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of Transaction	64	79	153	122	39
Incidence	14%	17%	33%	27%	9%
Yearly Pooled IRR	14.5%	30.19%	21.55%	33.6%	43.3%

Source: KPMG Corporate Finance

**Table 15 - Historical IRR since inception distribution by time gap between first investment and divestment**

	1986-2003					
	< 2	2-3	3-4	4-5	5-7	> 7
N. of Transaction	166	127	86	42	77	50
Incidence	30%	23%	16%	8%	14%	9%
Yearly Pooled IRR	78.6%	53.7%	50.7%	21.8%	18.4%	9.2%

Source: KPMG Corporate Finance

#### **POOLED GROSS IRR ON ALL INVESTMENTS BY HORIZON**

As anticipated, in order to increase the comparability of Italian private equity performances survey with European ones, it has been decided since this year to analyse also the Pooled Gross IRR on All Investments (by horizon)<sup>10</sup>.

<sup>10</sup> No analytical exercise has been performed in order to estimate the Net IRR. However, in order to provide broad indications 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 taxes effects and transaction fees incurred by the investors in disposing of any distributed securities) would fell in the range of 50% - 65% of Gross IRR on All Investments.

**Table 16 – Horizon Pooled Gross IRR on All Investments analysis to 31 December 2003**

	10 YR	5 YR	3 YR
Number of companies included in the research panel	51	43	37
Number of transactions	624	389	207
Average investment dimension (Euro Mln)	7.3	9.3	11.8
Total Cash Out (Euro Mln)	4,548	3,618	2,436
Total Cash In (Euro Mln)	6,347	4,244	2,571
<b>Yearly Pooled IRR</b>	<b>28.5%</b>	<b>11.5%</b>	<b>5.2%</b>

Source: KPMG Corporate Finance

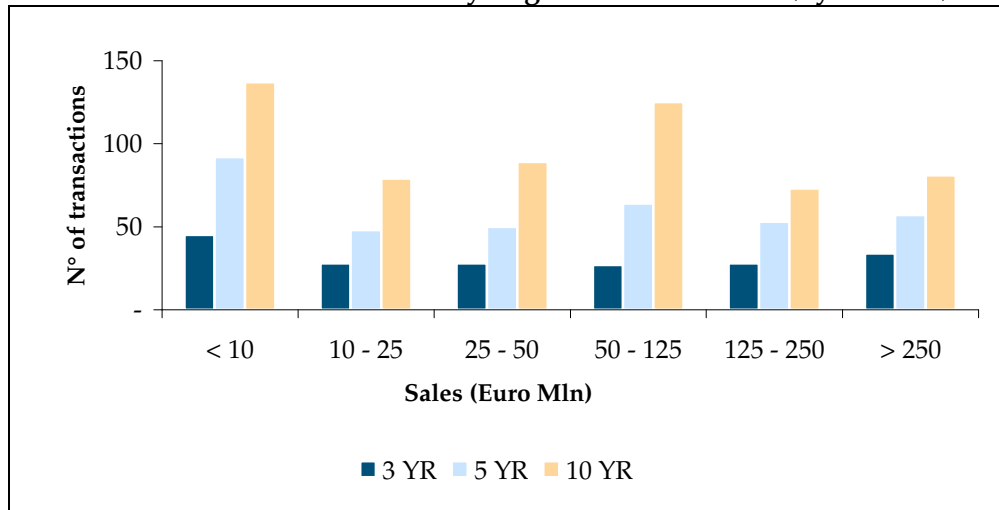
**Table 17 – Horizon IRR distribution by financing stage**

	Early Stage	Development	MBO/MBI	Replacement
N. of Transaction	25	70	67	20
IRR 3 YR	-11.1%	1.4%	10.0%	0.0%
N. of Transaction	49	131	110	46
IRR 5 YR	2.7%	20.1%	15.3%	9.3%
N. of Transaction	65	242	171	73
IRR 10 YR	9.6%	24.8%	79.9%	23.1%

Source: KPMG Corporate Finance

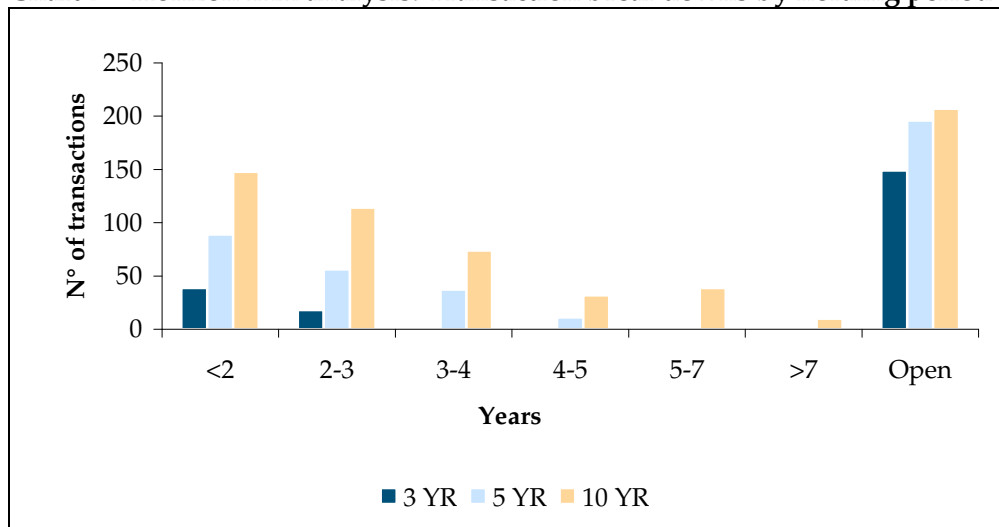
The majority of the transaction in the samples has been managed within pool (53% in 3 YR sample, 57% in 5 YR sample, 54% in 10 YR sample) showing a prevalent focus on Development stage. The distribution of Early Stage and Replacement investments remained substantially stable over the three horizon samples; Development sharply decreased from ten to three years analysis, while MBO/MBI transactions incidence varied from 31% in ten years to 37% in three years horizon.

**Chart 6 – Transaction breakdown by target sales dimension (by number)**



Source: KPMG Corporate Finance

**Chart 7 – Horizon IRR analysis: Transaction breakdowns by holding period**



Source: KPMG Corporate Finance

As shown in Chart 7, there was a relevant number of open investments, confirming the transactions' average duration below a period of 4 years.

The results of the proposed analysis 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	45	28	28	27	28	34
IRR 3 YR	-14.7%	9.2%	2.6%	-1.2%	3.8%	15.7%
N. of Transaction	92	48	50	64	53	57
IRR 5 YR	1,059.4%	6.0%	7.1%	10.1%	9.3%	10.5%
N. of Transaction	73	40	0	584	624	89
IRR 10 YR	21.3%	7.0%	0.0%	32.9%	0.0%	30.1%

Source: KPMG Corporate Finance

**Table 19 - Horizon IRR distribution by acquired stakes**

	<5%	5%-10%	10%-25%	25%-50%	>50%
N. of Transaction	25	31	44	49	42
IRR 3 YR	-8.3%	-1.02%	23.23%	4.9%	3.3%
N. of Transaction	57	64	94	88	57
IRR 5 YR	5.5%	57.81%	20.47%	9.8%	5.0%
N. of Transaction	86	104	172	142	74
IRR 10 YR	15.1%	27.52%	25.86%	39.5%	41.8%

Source: KPMG Corporate Finance

**Table 20 – Horizon IRR: Upper Quarters**

	3 YR	5 YR	10 YR
Yearly Pooled IRR	5.2%	11.5%	28.5%
Upper Quarter (per performances)	35.0%	97.4%	103.7%
Upper Quarter (per investment dimension)	6.2%	6.9%	8.7%

Source: KPMG Corporate Finance

**Table 21 – Horizon 3 YR IRR distribution by transactions managed within pool and transactions not realised in pool**

	<b>Within Pool</b>	<b>Out of Pool</b>
N. of Transaction	92	83
Incidence	53%	47%
Yearly Pooled IRR	7.0%	3.9%

	<b>Pool &lt; 50</b>	<b>Pool &gt; 50</b>
N. of Transaction	28	64
Incidence within Pool	30%	70%
Yearly Pooled IRR	1.7%	9.6%

*Source: KPMG Corporate Finance*

**Table 22 – Horizon 5 YR IRR distribution by transactions managed within pool and transactions not realised in pool**

	<b>Within Pool</b>	<b>Out of Pool</b>
N. of Transaction	181	137
Incidence	57%	43%
Yearly Pooled IRR	10.2%	24.4%

	<b>Pool &lt; 50</b>	<b>Pool &gt; 50</b>
N. of Transaction	71	110
Incidence within Pool	39%	61%
Yearly Pooled IRR	0.5%	19.9%

*Source: KPMG Corporate Finance*



**Table 23 – Horizon 10 YR IRR distribution by transactions managed within pool and transactions not realised in pool**

	<b>Within Pool</b>	<b>Out of Pool</b>
N. of Transaction	256	214
Incidence	54%	46%
Yearly Pooled IRR	20.1%	35.3%

	<b>Pool &lt; 50</b>	<b>Pool &gt; 50</b>
N. of Transaction	100	156
Incidence within Pool	39%	61%
Yearly Pooled IRR	3.2%	37.9%

*Source: KPMG Corporate Finance*