



*cutting through complexity*

# The performance of the Italian Private Equity and Venture Capital market

Investing in Italian Private Equity:  
Outlook and opportunities

London, 28 May 2013

*in co-operation with* **AIFI**

# Introduction

- Since 1996, **KPMG Corporate Finance**, together with **AIFI**, carries out, on an annual basis, the **analysis of the performances of the Italian Private Equity and Venture Capital industry**
- Performances are measured in terms of **Gross Pooled IRR**, calculated using monthly flows, analysed **considering** both: (i) **realised investments** (i.e. divestments) and (ii) **investments still in portfolio**

## Three “levels” of Gross Pooled IRR

*“From Inception”*  
**Gross Pooled IRR**

Performances of divestments realised during the year, regardless of when the initial investment was made

*“Since Inception”*  
**Gross Pooled IRR**

Historical performances related to all divestments made since 1986

*“By Horizon”*  
**Gross Pooled IRR**

Performances of the investments made in a 10 year horizon period, regardless of whether they have been subsequently divested or kept in portfolio

- During the years the number of **Private Equity Houses observed** has **continuously increased**, reaching **95** Private Equity Houses in 2012 (vs 56 in 2000). This evidence reflects the **increasing sensibility** of **Private Equity Houses** towards the monitoring of performances and the increasing market coverage of the survey over the years

# From Inception Gross Pooled IRR

*Performances of divestments realised  
during the year, regardless of when the  
initial investment was made*

## From Inception Gross Pooled IRR

- The analysis shows the **performances only** of **divestments realised during the analysed year**, regardless of when the initial investment was made

	1996	1997	1998	1999	2000	2001	2002	2003	2004
No. of realised investments From Inception	32	36	51	58	78	69	62	96	69
Total Cash Out (Euro mln)	64	100	164	191	225	350	314	432	429
Total Cash In (Euro mln)	155	264	357	636	713	679	641	672	883
Yearly Pooled IRR	18.4%	27.1%	30.1%	36.2%	47.1%	34.2%	34.9%	17.8%	24.7%

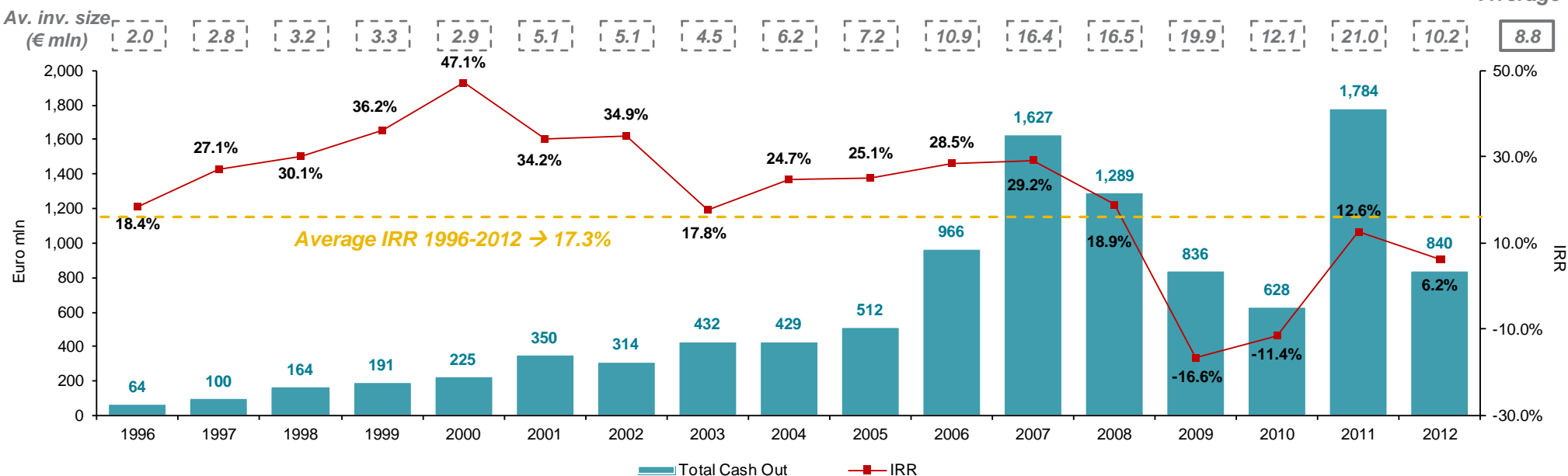
	2005	2006	2007	2008	2009	2010	2011	2012
No. of realised investments From Inception	71	88	99	78	42	52	85	82
Total Cash Out (Euro mln)	512	966	1,627	1,289	836	628	1,784	840
Total Cash In (Euro mln)	995	1,956	4,105	2,193	361	466	2,939	1,112
Yearly Pooled IRR	25.1%	28.5%	29.2%	18.9%	(16.6%)	(11.4%)	12.6%	6.2%

- Since 1996 (17 years) **more than 1,100 realised investments** have been observed; between 1996 and 2012 the **divestments** monitored **increased 2.6 times** (from 32 in 1996 to 82 in 2012)
- Given the wider coverage of the analysis during the years, **investment volumes** recorded **material growth rates**: (i) **Total Cash Out** recorded a **CAGR 1996-2012** of about **17%** and (ii) **Total Cash In** recorded a **CAGR 1996-2012** of about **13%**
- The **weighted average** (in terms of Cash Out) **Yearly Pooled IRR 1996-2012** stands at around **17.3%**
- The **average investment size 1996-2012** is about **Euro 9 mln**

Note: Total Cash Out represents the total amount invested in a company (e.g. initial investment, capital increase), whereas Total Cash In represents the proceeds gained from the investments (e.g. dividends, disposal)

# From Inception Gross Pooled IRR

## Total Cash Out, Gross Pooled IRR and average investment size

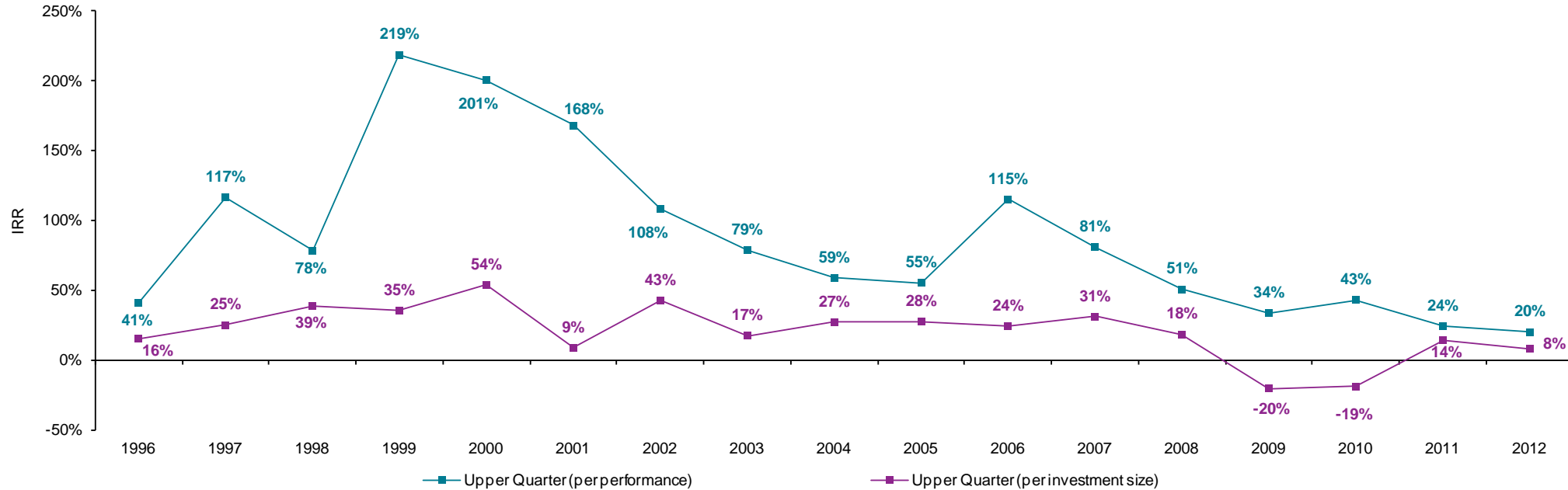


A “year by year” analysis shows **three different historical stages**:

- the first stage, between **1996 and 2000**, assisted by a **favourable economic climate**, has been characterised by a **strong growth** in the **number of investments**, as well as **higher levels of IRR**
- the second stage (**2001-2008**), characterised by a **complex macro economic scenario**, saw a **slowdown of IRR** together with an **increasing amount** of investment volumes (Cash Out)
- the third stage (**2009-2012**), started with the **sub-prime crisis** and subsequently with the credit-crunch, experienced at first a **strong downturn** of both **performances** and **investment volumes**, followed by a **gradual recovery**

# From Inception Gross Pooled IRR

## Performance analysis by Upper Quarters (Top 25% by performance and investment size)



- The **Upper Quarter in terms of performance**, characterized by a **widely fluctuating trend**, experiences **top levels** of IRR in the period **1999-2001** (more than 150%)
- The **comparison** between the **Upper Quarter in terms of performance** and the **Upper Quarter in terms of investment size** shows an increasing **alignment** of the **returns** over the years, thus **indicating** the **market's greater maturity**, as a steadily growing number of transactions records average market performances

# From Inception Gross Pooled IRR

## Analysis by financing stage

### Breakdown by financing stage (incidence by number)

	Incidence by number							
	2005	2006	2007	2008	2009	2010	2011	2012
Early Stage	13%	13%	2%	15%	22%	4%	14%	22%
Development	41%	30%	40%	33%	46%	57%	40%	43%
MBO/MBI	30%	44%	42%	42%	30%	29%	38%	30%
Replacement	15%	13%	16%	10%	3%	10%	8%	5%

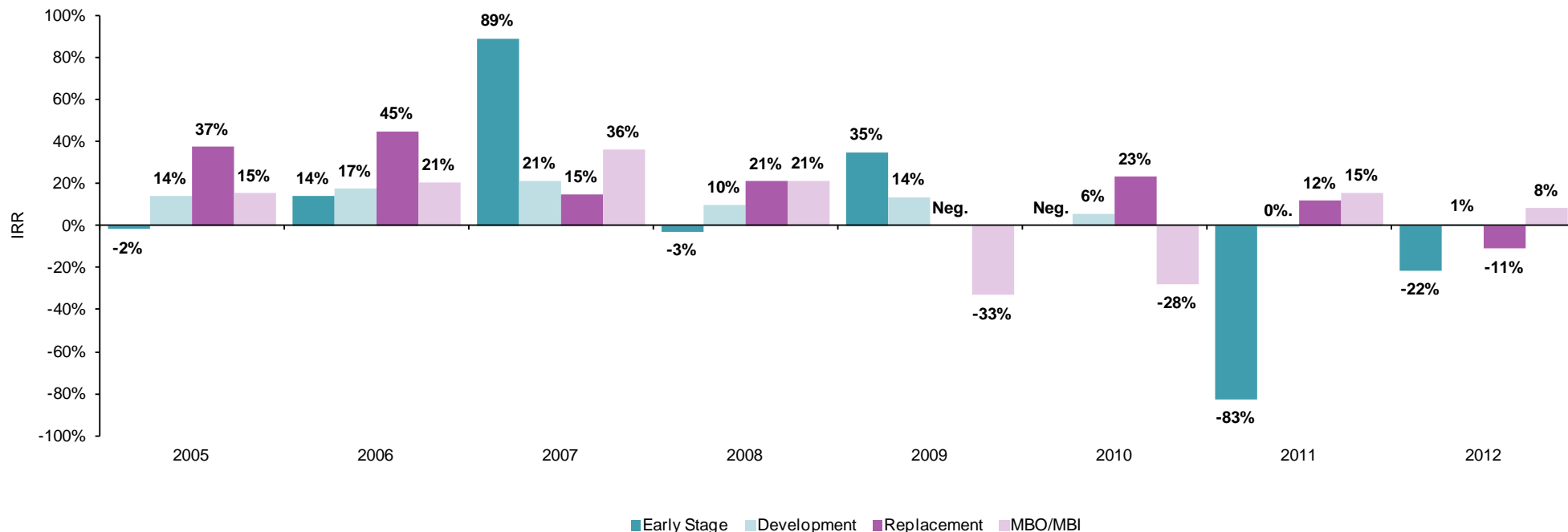
### Breakdown by financing stage (incidence by Cash Out)

	Incidence by Cash Out							
	2005	2006	2007	2008	2009	2010	2011	2012
Early Stage	4%	10%	0%	3%	3%	0%	1%	5%
Development	32%	41%	24%	8%	17%	12%	12%	14%
MBO/MBI	48%	30%	61%	85%	80%	66%	50%	80%
Replacement	16%	19%	15%	4%	0%	21%	36%	2%

- On average, more than **three-quarters** of realised **investments**, in the period 2005-2012, involved **Development** and **MBO/MBI** investments
- **MBO/MBI** investments represent, on average, more than **60%** of **total investment volumes** (Cash Out), whereas **Early Stage** only **3%**

# From Inception Gross Pooled IRR

## Analysis by financing stage – Yearly Pooled IRR



- In the **period** comprised between **2005-2008**, **performance** figures were, across the various clusters, **generally positive**
- Following the **sub-prime crisis**, performance figures in **2009-2010**, with particular reference on **MBO/MBI transactions** (i.e. the most representative by investment volumes), **dropped to negative values**, thus affecting the general performance of the Italian market
- Although returns are not all positive, **from 2011** onwards a **recovery** is **gradually taking place**



# Since Inception Gross Pooled IRR

*Historical performances related to all  
divestments made since 1986 (27 years)*

## Since Inception Gross Pooled IRR

- The **analysis** takes into account the **whole panel** of investments realised since inception (i.e. 1986-2012 period), therefore **not considering** any implicit performance on the investments that are still in PE's portfolios

Since Inception analysis	
	1986 - 2012
No. of realised investments	1,169
Average investment size (Euro mln)	8.8
Total Cash Out (Euro mln)	10,331
Total Cash In (Euro mln)	17,710
Average cash multiple	1.7x

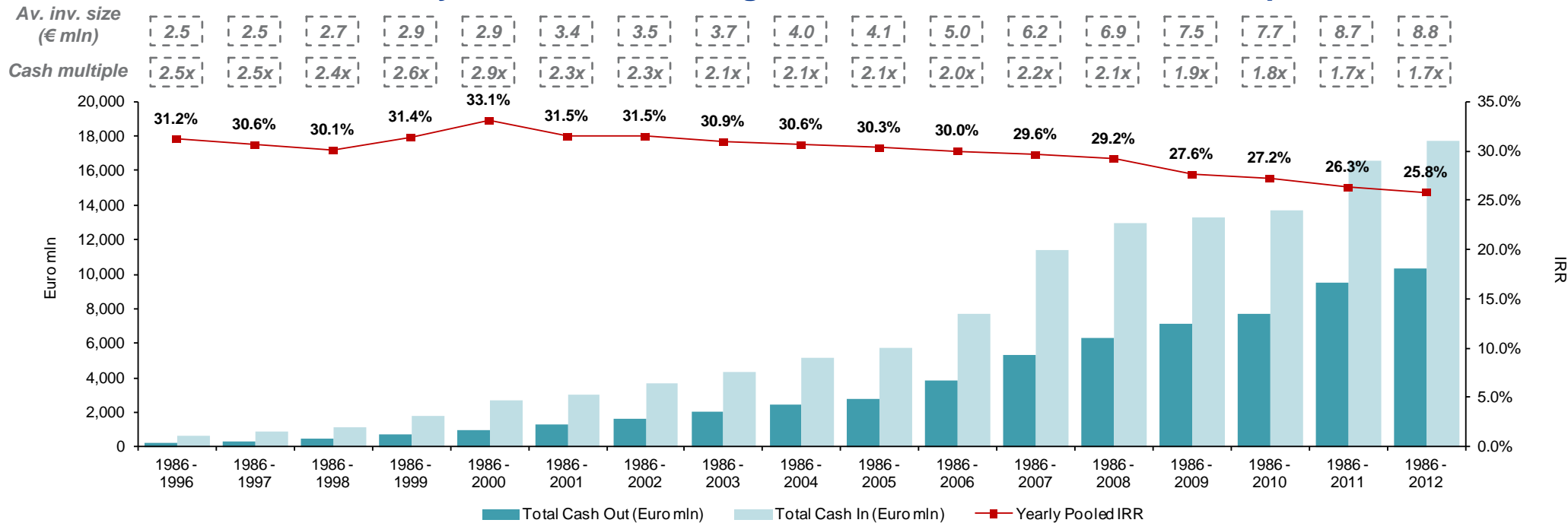
  

<b>Yearly Pooled IRR</b>	<b>25.8%</b>
Upper Quarter (per performance)	82.1%
Upper Quarter (per investment size)	19.3%

- **More than 1,150 realised investments** have been observed between 1986 and 2012
- **Yearly Pooled IRR** stands around **26%**, the **Upper Quarter per performance** reaches more than **80%**, whereas the **Upper Quarter per investment size** is around **20%**
- The **average size** of the monitored investments is around **Euro 9 mln**
- The **average cash multiple** stands at **1.7x**

# Since Inception Gross Pooled IRR

## Investment volumes, Yearly Pooled IRR, average investment size and cash multiple



- Between 1986 and 2012, total investment volumes have reached more than **Euro 10 billion of Total Cash Out** and about **Euro 18 billion of Total Cash In**
- The comparison between the period 1986-1996 and 1986-2012 highlights (i) a **gradual increase** of the **average investment size** (from Euro 2.5 mln to **Euro 8.8 mln**), (ii) countered by a **gradual decrease** of the **average cash multiple** (from 2.5x to **1.7x**)
- **Yearly Pooled IRR** settles around **26%** in the period 1986-2012

# Since Inception Gross Pooled IRR

## Analysis by financing stage

### Historical IRR since inception distribution by financing stage<sup>(1)</sup>

	1986 - 2012				
	No. of transactions	Incidence by number	Yearly Pooled IRR	Cash In (Euro mln)	Cash Out (Euro mln)
Early Stage	115	11.2%	27.1%	387	312
Development	439	76% 42.9%	15.4%	82% 3,488	79% 2,295
MBO/MBI	341	33.3%	42.9%	10,742	5,624
Replacement	129	12.6%	27.1%	2,691	1,733

- In line with the From Inception analysis, the breakdown by **financing stage shows** that in the period 1986-2012:
  - **more than three-quarters** (around **76%**) of **total monitored transactions** are related to **Development** (i.e. **43%**) and **MBO/MBI investments** (i.e. **33%**)
  - around **80%** of total **investment volumes** (both Cash In and Cash Out) is related to **Development** and **MBO/MBI transactions**
- Focusing on **performances**, the analysis highlights how **MBO/MBI transactions** are the '**top performers**' within the market (i.e. **Yearly Pooled IRR** standing at around **43%**)

<sup>(1)</sup> Please note that total transaction considered are less than 1,169 (i.e. the total number of transactions monitored in the 1986-2012 period) due to a lack of specific details related to certain transactions. Accordingly, the related incidence is calculated only on transactions for which the information/details is available

# Since Inception Gross Pooled IRR

## Analysis by time gap between first investment and divestment

Historical IRR since inception distribution by time gap between first investment and divestment				
1986 - 2012				
Time gap	No. of transactions	Yearly Pooled IRR	Cash In (Euro mln)	Cash Out (Euro mln)
< 2	251	82.0%	3,873	2,063
2 - 3	241	53.4%	4,167	2,387
3 - 4	181	51.4%	2,950	1,155
4 - 5	154	15.4%	2,083	1,314
5 - 7	220	8.0%	3,774	2,766
> 7	122	5.3%	862	646

- About **60%** of the **transactions** have been **divested within 4 years** from the initial investment
- There is an **inverse correlation** between the **holding period** and **Yearly Pooled IRR**

## Analysis by acquired stake

Historical IRR since inception distribution by acquired stake				
1986 - 2012				
Acquired stake	No. of transactions	Yearly Pooled IRR	Cash In (Euro mln)	Cash Out (Euro mln)
< 5%	116	14.1%	639	479
5% - 10%	130	23.1%	1,069	559
10% - 25%	319	16.7%	3,710	2,342
25% - 50%	309	28.2%	2,848	1,782
> 50%	150	37.8%	8,049	3,887

- **Investments** involving **majority stakes** show **higher returns** compared to investments targeting minority stakes (37.8% vs 21.1%)

# By Horizon Gross Pooled IRR

*Performances of the investments made in  
a 10 year horizon period, regardless of  
whether they have been subsequently  
divested or kept in portfolio*

## By Horizon Gross Pooled IRR

- The **By Horizon analysis** (also known as “Gross Pooled IRR on All Investments”), with particular focus on the long term horizon (i.e. 10 years), **examines all the investments made** in the reference timeframe (thus during the **last decade**), regardless of whether they have been (partially or totally) divested or are still in portfolio
- This analysis is affected by two main issues:
  - the application of an “**average rolling**” method to the specific period considered
  - the **common practice** of a number of **Private Equity houses** to **value** most of the **investments still in portfolio at cost**

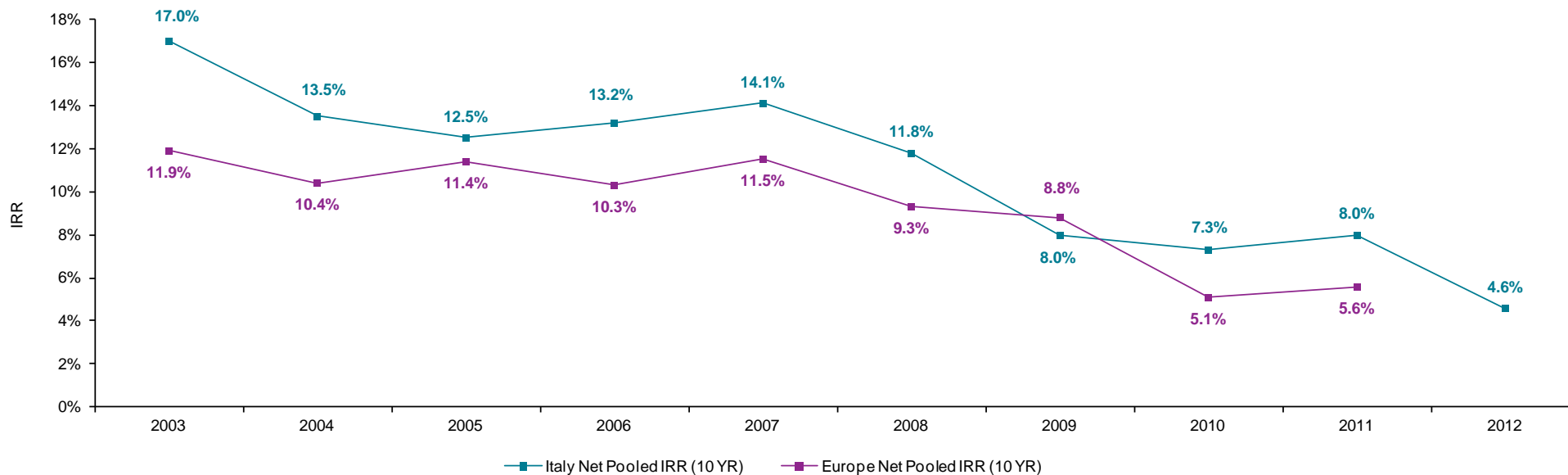
10 YR By Horizon	1994-2003	1995-2004	1996-2005	1997-2006	1998-2007	1999-2008	2000-2009	2001-2010	2002-2011	2003-2012
No. of investments	624	632	737	828	887	897	865	889	969	1,041
Total Cash Out (Euro mln)	4,548	5,067	6,150	9,986	10,124	11,228	12,094	13,218	16,001	17,042
Total Cash In (Euro mln)	6,347	7,001	8,474	13,931	15,468	16,521	15,993	17,174	21,381	20,502
Yearly Pooled IRR	28.5%	22.3%	21.1%	22.0%	22.7%	19.6%	13.4%	12.2%	13.3%	7.7%

- In the last decade (**2003-2012**) the **10YR By Horizon sample** contains **more than 1,000 investments**, totalling about **Euro 17 billion of Cash Out** and **Euro 20.5 billion of Cash In**

# By Horizon Gross Pooled IRR

- This analysis allows a comparison with European data provided by EVCA

## Net Pooled IRR: a comparison with the European Benchmark



- An empirical analysis estimates that **Italian Net Pooled IRR** would seem to fall in a range comprised within **50%-65%** of the **related gross figure**
- The **comparison with the European market** highlights that the domestic market is substantially **over-performing** during the period analysed (except in 2009)

Notes: 2012 performance figures related to the European market are not yet available

Source: EVCA – In 2011 the panel considers the following 28 countries: Austria, Belgium, Channel Islands, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovenia, Spain, Sweden, Switzerland, Turkey and United Kingdom.





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