The Venture-Backed IPO Market [1]

During the 12 month period ended February 28, 2013, Ernst & Young Financial-Business Advisors ('Ernst & Young') continued monitoring the share prices of Venture-Backed companies listed on the Italian market through an analysis of the Ernst & Young Venture-Backed Index ('EYVBI').

In 2012, according to preliminary data provided by the International Monetary Fund ('IMF')[2], world output registered a slowdown of 0.7% compared to 2011, falling to 3.2%. GDP growth was still driven by the good performance of developing countries (+5.1%), while advanced economies continued to slow their growth rates (+1.3%) due to the protracted weak economic conditions.

Although global financial conditions have improved in the last two quarters of 2012, growth has been slower than expected, mainly due to softer recovery of the Euro area periphery, while developing countries still struggled with weaker external demand and domestic bottlenecks.

Projections for 2013 are cautious with world output expected to increase by 0.3% to 3.5% due to the rebound of emerging markets; growth in advanced economies is not forecast to be significant, mainly due to risks of prolonged stagnation of the Euro area.

In this context, the United States registered a GDP growth of 2.3% in 2012, which represents an increase of 0.5% compared to the previous year.

In particular, a supportive financial market environment and the turnaround in the housing market have helped to improve household spending power, thus boosting consumption in the second half of the year.

Despite the above, activity in 2013 is expected to slow from the pace reached in the second half of 2012, as risks of excessive near-term tax consolidation remain. This is forecast to result in a GDP growth rate of 2%.

Although policy actions have lowered further crisis risks in the Euro area, the market remains weak and, on an aggregate level, in 2012 GDP decreased by −0.6% in the Euro area and by −0.3% in the EU27, compared with +1.4% and +1.5% respectively, in 2011.

European countries showed marked discrepancies in GDP growth in 2012. While Germany, Austria and Nordic countries such as Norway and Sweden

1 Ernst & Young Financial-Business Advisors.
2 *Source*: World Economic Outlook, January 2013.

were less impacted by the protracted recessionary wave (+0.7%, +0.7%, +3.2%, and +1.0%[3] respectively), other economies struggled to recover or worsened their performances.

This cluster includes the UK (+0.0% in 2012 vs. +0.9% in 2011), Spain (–1.4% vs. +0.4%) Portugal (–3.2% vs. –1.6%), Italy (–2.2% vs. +0.4%) and Greece (–6.4% vs. –7.1%).

According to the estimates of the IMF, activity in the Euro area is expected to continue contracting in 2013 (–0.2%). This reflects delays in the transmission of lower sovereign spreads and improved bank liquidity to private sector borrowings conditions and continued high uncertainty about the ultimate resolution of the crisis, despite recent progress.

Both Italy's and Spain's GDP are forecast to shrink by 1.0% and by 1.5%, respectively, while German and French domestic production is expected to remain substantially stable at 0.6% and 0.3%, compared to +0.9% and +0.2% in 2012.

As for developing countries, in 2011 the GDP rose by 5.1% (vs. +6.3% in 2011) and was mainly driven by the performance of China (+7.8%) and ASEAN countries (+5.7%). The recovery of external demand and the supportive policies already put in place in 2012 are expected to drive growth to 5.5% in 2013.

As for other regions, activity in Sub-Saharan Africa is expected to remain robust and Indian output is forecast to rebound at 5.9%, while in the Middle East and North Africa region, projections are declining due to difficult internal and external conditions.

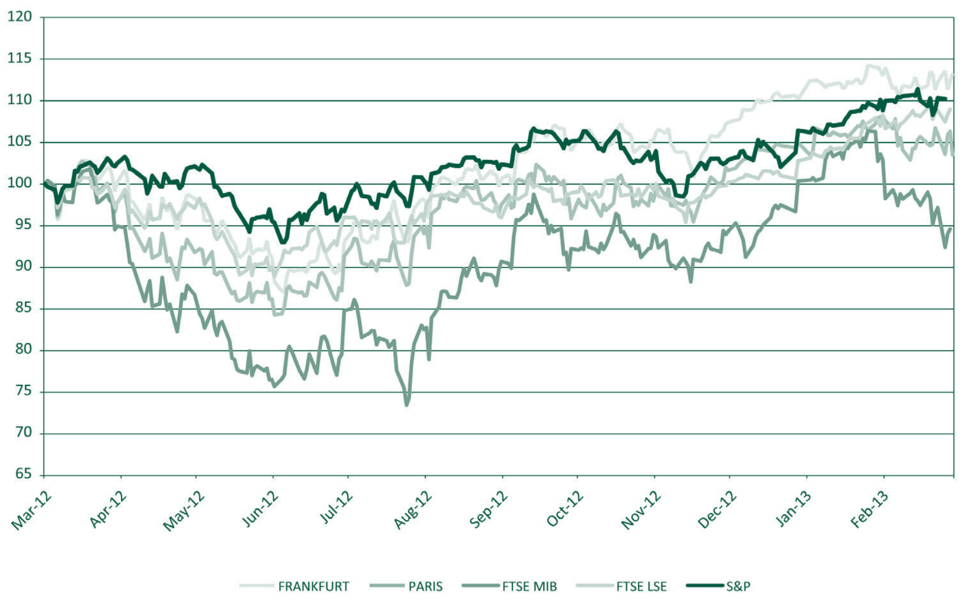
During the year ended February 28, 2013, the overall stock market performance in Europe showed a sign of recovery, mainly in stronger economies. The German stock exchange (CDAX) performed better than other major European indices, showing an increase of 13.3% in the period. The English (FTSE LSE) and French (CAC40) stock exchanges registered a rise of 9.0% and 6.4% compared to the previous year, while the Italian FTSE-MIB still showed a negative performance, losing 5.4% of its value compared to February 2012. In contrast with the previous year, the US stock exchange did not outperform European ones, with the S&P increasing by 10.2%.

The chart below shows the performance of the FTSE-MIB index (that

[3] *Source*: Eurostat.

represents 83.6% of the total Italian market capitalisation) compared with the other major international stock exchange indices.

Chart 1 – Performance of the major international stock markets



In February 2013, the Italian market capitalisation of listed companies fell to 359 Euro Bln (–5.0% compared to February 2012), representing 22% of Italian GDP as compared to 23% in February 2012.

To elaborate on this, companies listed on the MTA (excluding the STAR segment) accounted for 95.7% of the total market capitalization, reaching 344 Euro Bln. The remainder is 14 Euro Bln for the companies listed on the STAR segment, 0.6 Euro Bln for those listed on the AIM-MAC, 0.4 Euro Bln for Investment companies and SPACs.

As of February 2013, 323 domestic and foreign companies were listed on the Italian stock exchange, compared to 327 in the previous year.

Out of the total, 253 companies belong to the MTA, 36 to the MTA International segment, 28 to the AIM-MAC and 6 to the Investment companies segment.

IPO activity

During the year ended February 28, 2013, the IPO activity remained weak with seven new listings: one on the MTA, four on the AIM and two on the MAC[4]; this performance compares with eight new listings in the previous year. As a consequence of the limited attractiveness of the market, during the period under review only one IPO, Primi sui Motori, was sponsored by a Private Equity fund. The breakdown of the new listings by industry is the following: IT services (Softec, Primi sui Motori, Mc-link), luxury goods (Brunello Cucinelli), financial services (Compagnia della Ruota), energy (Frendy Energy) and real estate (ARC Real Estate).

The table below summarises the new listings in the past 12 months.

Table 1 – IPOs on the Italian stock exchange (March 2012 – February 2013)

Company name	Market segment	Listing Date	IPO price (Euro)	Current Market cap. (Euro Mln)[5]	Venture-Backed
Softec	MAC	05/03/2012	16.0	9.4	No
Arc Real Estate[6]	MAC	05/03/2012	9.0	n.a.	No
Brunello Cucinelli	MTA	27/04/2012	7.75	1,060	No
Frendy Energy	AIM	22/06/2012	1.05	53.3	No
Primi sui Motori	AIM	26/07/2012	22.0	25.1	Yes
Compagnia della Ruota	AIM	30/07/2012	1.0	5.7	No
Mc-link	AIM	22/02/2013	7.65	25.8	No

Among new listings, positive performance (i.e. price at February 28, 2013 higher than IPO's price) was only recorded by Primi sui Motori (+14.4%) and Compagnia della Ruota (+20.4%).

During the period under analysis, 11 de-listings were recorded. Of this total, 5 de-listings occurred subsequent to takeovers (i.e. Apulia Prontoprestito, Benetton Group SpA, Buongiorno SpA, Greenvision Ambiente SpA and Marcolin SpA). Almost all de-listings (10 out of 11) were recorded on MTA,

4 As of January 2013, MAC merged into AIM Italia.
5 Market Cap. as of 28 February 2013.
6 Suspended as of January, 2nd 2013.

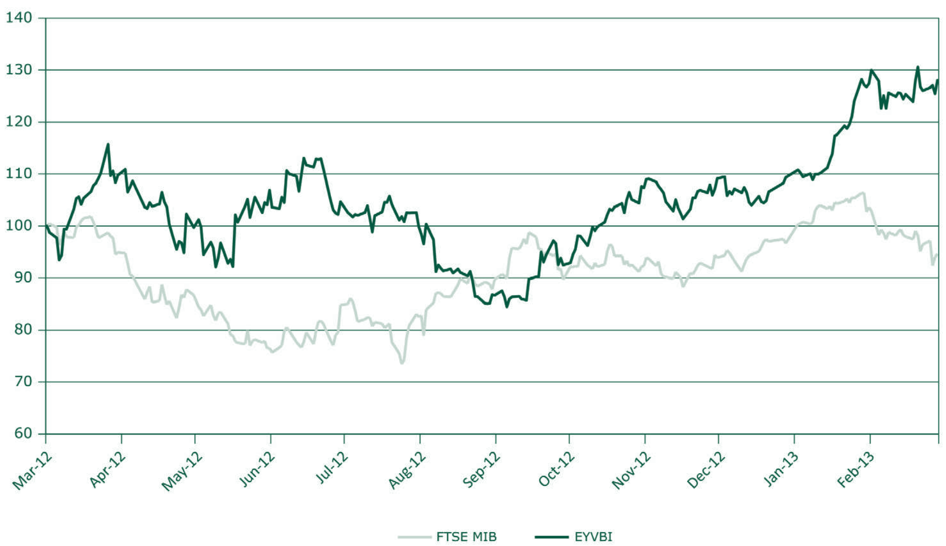
evidence of a reduced interest by large companies in the domestic stock exchange, due to the volatility of the markets and the political instability that Italy has been facing since the third quarter of 2011.

Performance of venture-backed shares (EYVBI)

The Ernst & Young Venture-Backed Index, created in November 1999, monitors Venture-Backed companies with shares listed on the MTA. The basket of companies included in the index is revised twice a year on May 1, and November 1, and includes Venture-Backed companies which have been listed for more than three months and less than three years. Companies in the first three months after listing are not included to avoid the effect of 'underpricing' an IPO, whilst those listed for over three years are no longer considered to be influenced by their Venture-Capital investors.

The following chart summarises the performance of the EYVBI from March 1, 2012 through to February 28, 2013.

Chart 2 – EYVBI – FTSE MIB (March 2012 – February 2013)



The chart shows that the EYVBI generally performed better than the market across the whole year. Over the analyzed period, the EYVB index increased by 28.0%, compared to the negative performance of –5.4% registered by FTSE-MIB; the company that recorded the best performance was Yoox (+32.3%), the largest company in terms of market capitalization within the index.

The following table lists the companies included in the EYVBI basket from November 1, 2012 to February 28, 2013 showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

Table 2 – EYVBI basket (November 2012 – February 2013)

Company name	IPO date	Current Market cap. (Euro Mln)	Change over 4 months	Industry Sector
Yoox	03/12/2009	810	+19.6%	E-commerce
TBS Group	23/12/2009	36	–1.9%	Healthcare services
Vita Società Editoriale	22/10/2010	2	–14.0%	Media
Primi sui Motori	26/07/2012	25	–8.9%	IT services

As of November 1 2012, Primi sui Motori was added to the EYVBI index, while no companies were removed from the basket.

As of February 28, 2013, the combined market capitalisation of the companies included in the EYVBI was 873 Euro Mln, representing some 0.25% of the total market capitalisation of the domestic listed companies.

Given the limited number of companies included in the index from November 1, 2012 to February 28, 2013, a wider timeframe was also considered with the view to increase the significance of the analysis. The following chart shows the performance of the EYVBI from March 1, 2008 to February 28, 2013.

The chart shows that the EYVBI initially followed the market trend, outperforming the FTSE MIB index commencing June 2009, with an overall performance in the last 5 years equal to +56.8% (in comparison with –52% of FTSE MIB).

Chart 3 – EYVBI – FTSE MIB (March 2008 – February 2013)