The Venture-Backed IPO Market [1]

During the 12 month period ended February 29, 2012, 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 2011, according to preliminary data provided by the International Monetary Fund ('IMF')[2], world output registered a slowdown of 1.4% compared to 2010, falling to 3.8%. GDP growth was driven by the good performance of developing countries (+6.2%), while advanced economies were heavily impacted by the global crisis and halved their growth rates to +1.6%.

In many high-income countries, the recovery has been weighed down by heavy restructuring processes, while developing countries suffered from the weakening of internal demand and the unfavorable external environment.

The crisis of the Euro area, the slow recovery of other developed economies and the expected slowdown of the growth rates in developing countries will also greatly impact the global output in 2012, which is forecast to decrease by 0.5% to 3.3%.

In this context, the United States registered a GDP increase of 1.8% in 2011, which represents a decline of 1.2% compared to the previous year.

In particular, after a weak performance during the first half of the year, a come back occurred during the third (+1.8%) and fourth quarters (+3.0%) thanks to positive contributions from personal consumption expenditures, exports, non-residential fixed investments and federal government spending.

Despite the above, activity in 2012 is expected to slow from the pace reached during the second half of 2011, as higher risk aversion tightens financial conditions and fiscal policy turns more contractionary. This is forecast to result in a GDP growth rate of 1.8%.

European countries showed marked discrepancies in GDP growth in 2011. While Germany, Austria, France and Nordic countries such as Finland and Sweden consolidated the positive trend of 2010 (+3.0%, +3.1%, +1.6%, +2.9% and +3.9% respectively), other economies struggled to recover or worsened their performances.

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1 Ernst & Young Financial-Business Advisors.
2 Source: World Economic Outlook, January 2012.

This cluster includes the UK (+0.8% in 2011 vs. +2.1% in 2010), Spain (+0.7% vs. −0.1%), Portugal (−1.5% vs. +1.4%), Italy (+0.2% vs. 1.5%) and Greece (−6.8% vs. −3.5%).

On an aggregate level, GDP increased by 1.4% in the Euro area and by 1.5% in the EU27, compared with +1.9% and +2.0% respectively in 2010. After a slight recovery during the first three quarters of the year (respectively +2.4%, +1.6% and +1.3% vs. 2010), the Euro area and the EU27 registered a downturn in the fourth quarter (−0.3% vs. the previous quarter).

In line with the slump at the end of last year, the outlook for 2012 remains negative. European countries are expected to enter a mild recession (−0.5%) as a result of the rise of sovereign yields, the effects of bank deleveraging on the real economy and the impact of additional fiscal consolidation.

According to the estimates of the IMF, the adverse spillovers of these recent economic measures will impact the majority of European economies. Both Italy's and Spain's GDP are forecast to shrink by 2.2% and by 1.7% respectively, while German and French production is expected to grow by 0.3% and 0.2%, compared to +3.0% and +1.6% in 2011.

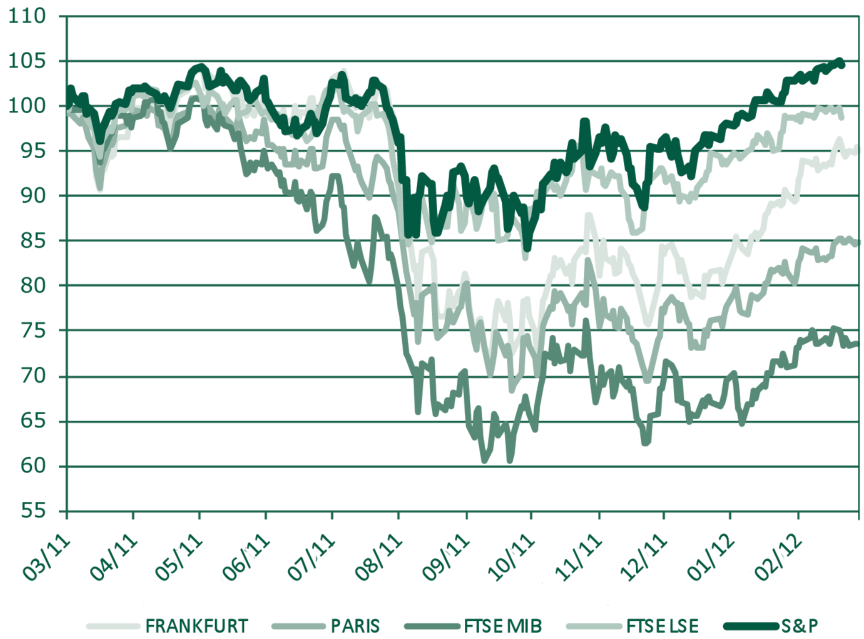
As for developing countries, in 2011 the GDP rose by 6.2% (vs. +7.3% in 2010) and was mainly driven by the performance of China (+9.2%) and India (+7.4%). However, the deterioration of the external environments and the slowdown in domestic demand are expected to further reduce the growth rate in 2012 to 5.4%.

As for other regions, the effects of the crisis are forecast to be relatively mild, particularly for African and Asian developing economies.

During the year ended February 29, 2012, the overall stock market performance in Europe was greatly impacted by the financial and political crisis that invested the area. The British stock exchange (FTSE-LSE) performed better than other major European indices, showing a decrease of 1.2% in the period. The German (CDAX) and French (CAC40) stock exchanges registered losses for 4.9% and 15.1% compared to the previous year, while the Italian FTSE-MIB showed the worst performance, losing 26.4% of its value compared to February 2011. Contrasting this, the recovery was faster for the US stock exchange, where the S&P rose by 4.5%, hence largely outperforming the European markets.

The chart below shows the performance of the FTSE-MIB index (that represents 83% 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 2012, the Italian market capitalisation of listed companies fell to Euro 378 billion (–18.8% compared to February 2011), representing 23% of Italian GDP as compared to 29% in February 2011.

To elaborate on this, companies listed on the MTA (excluding the STAR segment) accounted for over 96% of the total market capitalization, reaching 364 billion. The remaining gap is filled for 13.4 billion by the companies listed on the STAR segment, for 0.4 billion by those listed on the AIM, for 0.3 billion by Investment companies and SPACs and for 0.3 billion by companies floating on the MAC.

As of February 2012, 327 domestic and foreign companies were listed on the Italian stock exchange, compared to 334 in the previous year.

Out of the total, 261 companies belong to the MTA, 36 to the MTA International segment, 14 to the AIM, 10 to the MAC and 6 to the Investment companies segment.

IPO activity

During the year ended February 29, 2012, the IPO activity remained weak with eight new listings: two on the MTA, three on the AIM and three on the MAC; this performance compares with ten new listings in the previous year.

As a consequence of the limited attractiveness of the markets, during the period under review no IPO was sponsored by a Private Equity or Venture Capital fund. The breakdown of the new listings by industry is the following: luxury goods (Ferragamo), consumer electronics (Delclima), business and financial services (Made in Italy1, Ambromobiliare, Valore Italia HP, Soft Strategy), energy (TerniGreen) and real estate (Imvest).

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

Table 1 – IPOs on the Italian stock exchange (March 2011 – February 2012)

Company name	Market segment	Listing Date	IPO price (Euro)	Current Market cap. (Euro Mln)	Venture-Backed
Imvest	MAC	31/03/2011	1.1	12	No
Valore Italia HP	MAC	27/04/2011	0.5	25	No
Made in Italy 1	AIM	27/06/2011	9.8	48	No
Salvatore Ferragamo	MTA	29/06/2011	9.0	2,359	No
Soft Strategy	MAC	09/08/2011	5.2	7	No
TerniGreen	AIM	10/11/2011	1.1	24	No
Ambromobiliare	AIM	23/12/2011	6.6	27	No
Delclima	MTA	02/01/2012	1.0	90	No

Among new listings, positive performance (i.e. price at February 29, 2012 higher than IPO's price) was only recorded by Ferragamo (+55.6%), Ambromobiliare (+85.5%) and Soft Strategy (12.4%).

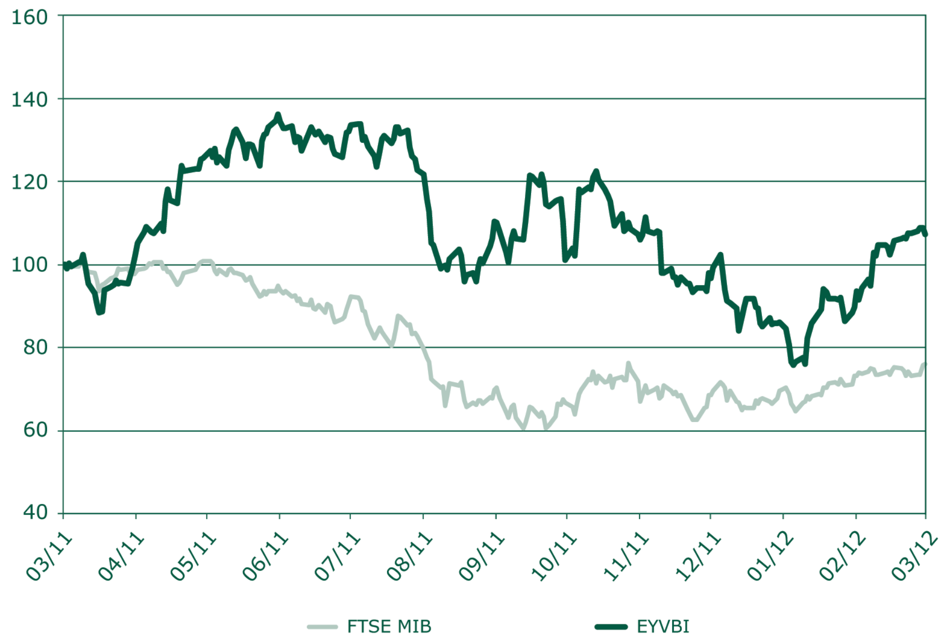
During the period under analysis, 15 de-listings were recorded. Of this total, 6 de-listings occurred subsequent to takeovers (i.e. Toscana Finanza, Gewiss, Socotherm, Gruppo Coin, Bulgari and A.S. Roma Spa) and 14 were recorded on MTA, evidence of a lesser interest by large companies in the domestic stock exchange, due to the volatity of the markets and the political instability that Italy entered into in 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, 2011 through to February 29, 2012.

Chart 2 – EYVBI – FTSE-MIB (March 2011 – February 2012)



The chart shows that the EYVBI generally performed better than the market across the whole year. Over the period, the EYVB index increased by 8.9%, compared to the negative performance of −26.4% registered by FTSE-MIB. During the period, the company that recorded the best performance was Yoox (+10.0%).

The following table lists the companies included in the EYVBI basket from November 1, 2011 to February 29, 2012, showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

Table 2 – EYVBI basket (November 2011 – February 2012)

Company name	IPO date	Current Market cap. (Euro Mln)	Change over 4 months	Industry Sector
Yoox	03/12/2009	588	+5.0%	E-commerce
TBS Group	23/12/2009	42	–8.5%	Healthcare services
Vita Società Editoriale	22/10/2010	3	–26.9%	Media

Starting from May 1 and November 1 2011 respectively, Molmed and Enervit were removed from the basket index, while Vita Società Editoriale was added from May 2011.

As of February 29, 2012, the combined market capitalisation of the companies included in the EYVBI was Euro 633 million, representing some 0.2% of the total market capitalisation of the domestic listed companies.

Given the limited number of companies included in the index from November 1, 2011 to February 29, 2012, 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, 2007 to February 29, 2012.

The chart shows that the EYVBI generally followed the market trend, outperforming the FTSE MIB index commencing June 2009, with an overall performance in the last 5 years equal to −21.7% (compared to −58.6% of FTSE MIB).

Chart 3 – EYVBI – FTSE MIB (March 2007 – February 2012)