

THE VENTURE-BACKED IPO MARKET¹

During the 12 month period ended February 28, 2010, 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').

The worst phase of the financial crisis has passed and a global economic recovery is expected in 2010. Nevertheless, the pace of the recovery remains subject to uncertainty and will vary from region to region. In 2009, according to preliminary data, world output fell by 2.2% whereas in 2008 it grew by 1.7%.

Very few countries – whether developing or high-income – have been able to escape the effect of the crisis. The growth in OECD² countries is forecast to have dropped significantly from 0.3% in 2008 to -3.3% in 2009. The United States are expected to register a slump, with a reduction in GDP from 0.4% in 2008 to -2.4% in 2009.

Euro area countries are expected to record an even worse performance, falling from 0.6% in 2008 to -3.9% in 2009. In the midst of the economic turmoil, Finnish results are the lowest among the most developed OECD countries, with an expected decrease in GDP of -7.8% in 2009.

Despite the global recession, world production and trade bounced back in the second half of 2009, thanks to renewed confidence in the real economy and to strong governmental support.

In the United States, GDP has started growing again from the third quarter of 2009 (+2.2%), following the negative trend recorded in the previous four quarters. The preliminary estimate for the fourth quarter is +5.9%, primarily reflecting positive contributions from private inventory investments, exports, personal consumption expenditures and non-residential fixed investments.

¹ Ernst & Young Financial-Business Advisors

² Organization for Economic Co-operation and Development. The 30 member countries of the OECD are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

US GDP is forecast to increase in 2010, at either 2.5% according to the World Bank or 2.7% as predicted by the International Monetary Fund.

Conditions in the Eurozone have been recovering since the third quarter of 2009 – in which a 0.4% growth in GDP (quarter-on-quarter) was registered – following five quarters of contraction. In the fourth quarter, GDP growth was limited to a modest 0.1%, highlighting the struggle to exit the crisis. Despite the recovery in the second half of 2009, Eurozone GDP growth is expected to reduce by 4.0% over the year as a whole. Latest projections foresee that Eurozone GDP growth will be limited to 0.9% in 2010. With the exception of Spain, a modest expansion for all the major Eurozone economies is predicted in 2010.

In 2009, Italian GDP for the full year is estimated to fall by 5.0% according to ISTAT. Italy's economy dropped by 0.3% in the fourth quarter of 2009, representing a reduction of 3.0% compared with the same quarter in 2008. In 2010, the Italian economy is predicted to grow at a slow pace, with a GDP growth around 1.0%.

Germany is expected to show a significant negative growth in 2009 (-4.9%), the worst result since the Second World War. According to the IFW³, Germany is expected to grow no more than 1.2% this year, while a full recovery will come in 2011.

France closed 2009 with an expected growth of 0.6% in the fourth quarter, limiting the GDP fall to -2.3% for the whole year (+0.4% in 2008). Projections for 2010 forecast a growth of 1.4%.

In UK, GDP increased by 0.3% in the fourth quarter of 2009 and is expected to register a negative growth of -5.0% for the whole year (0.5% in 2008).

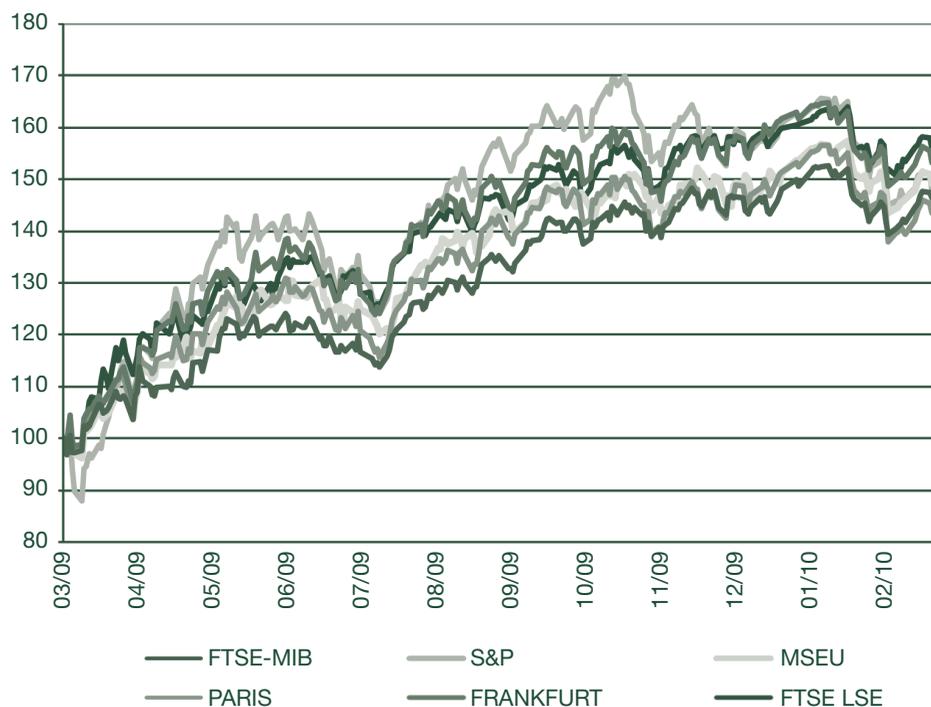
GDP growth in developing-countries is expected to decline to 2.1% in 2009, significantly lower than the figure recorded in 2008 (6.1%). Projections estimate a higher growth in 2010, thanks to a robust internal demand. Large Asian economies such as India and China still show a positive trend: China is expected to grow by 8.7% in 2009, while the Indian GDP will likely increase by 5.6% in the same period. Among emerging economies, Russia has been hit most by the downturn, with an expected fall in GDP of 9.0% in 2009.

³ German Institute for Economic Research.

During the year ended February 28, 2010, the overall stock market performance was extremely positive in Europe. The German (CDAX) stock exchange, which performed better than all the other major European indices, showed a 52.9% increase, while the Italian (FTSE-MIB), British (FTSE-LSE) and French (CAC40) stock exchanges registered increases of 46.7%, 47.7% and 43.7% respectively. The US stock exchange outperformed the European market, showing an increase of the S&P equal to 57.6%.

The chart below shows the performance of the FTSE-MIB index compared with the other major international stock exchange indices.

Chart 1 – Performance of the major international stock markets



Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

In December 2009, the Italian market capitalisation of domestic listed companies increased to Euro 457 billion, representing 30.3% of Italian GDP as compared to 23.6% in the previous year. The breakdown of this

figure is Euro 422 billion for Blue-chip companies (Euro 342 billion at year-end 2008), Euro 16 billion for the Star segment (Euro 12 billion), Euro 18 billion for the Standard segment (Euro 14 billion), and Euro 0.5 billion for companies listed in the AIM, the new market dedicated to small and medium-sized Italian enterprises with strong growth potential.

As of February 2010, the Italian stock market was again seventh in Europe in terms of market capitalization – slightly below OMX⁴ – and ninth in terms of number of listed companies, totalling 332 companies (of which 73 belong to the MTA/MTAX Blue-chip segment, 73 to the Star segment, 134 to the Standard segment, 5 to Investment Companies segment, 36 to the MTA International segment, 5 to the AIM and 6 to the MAC segment).

All this data provides evidence of the positive performance of the Italian stock exchange in the period under review.

IPO activity

The year ended February 28, 2010, showed a modest Initial Public Offerings ('IPOs') activity with only five new listings, one in the Star Segment and four on the AIM.

During the period under review, two out of the total new listings were represented by Venture-Backed companies. The distribution of the new listings by industry is the following: real estate (House building), healthcare (TBS Group), IT services (Yoox), investment company (IKF holding) and financial services (Neurosoft).

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

Table 1 – IPOs on MTA/MTAX/EXPANDI (March 2009 – February 2010)

Company name	Listing Date	IPO price (Euro)	Current Market cap. (Euro Mln)	Venture-Backed
NEUROSOFT	08/05/2009	7.6	51	No
IKF	08/05/2009	1.0	8	No
YOOX	03/12/2009	4.3	267	Yes
TBS GROUP	23/12/2009	2.5	83	Yes
HOUSE BUILDING	29/12/2009	1.8	131	No

Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

⁴ Stock exchanges of Copenhagen, Stockholm, Helsinki, Riga, Tallin and Vilnius.

Among new listings, positive performance (i.e. price at February 28, 2010 above IPO's price) was recorded only by House Building (52.0%) and Yoox (21.9%).

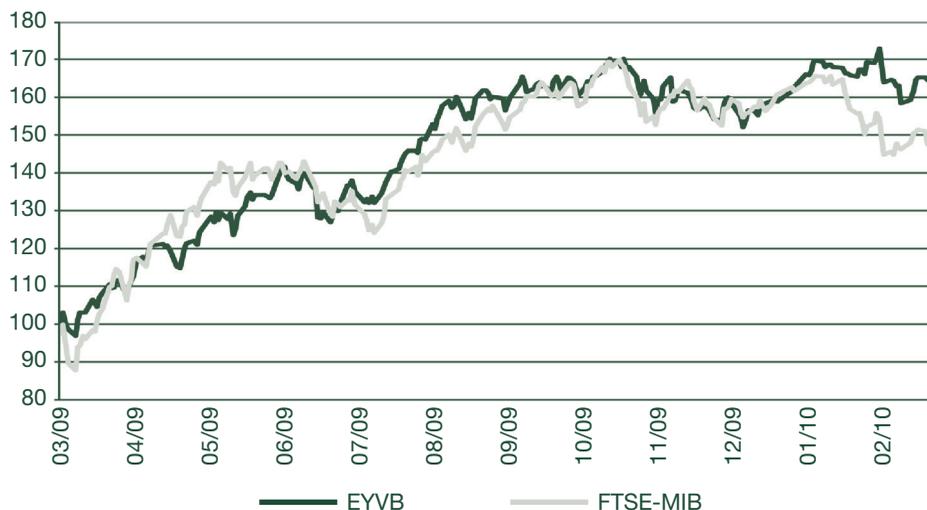
On the other hand, during this period, 8 delistings were recorded (i.e. Bouty Healthcare, Permasteelisa, Mirato, Realty Vailog, Ipi, Rgi, Fmr Art'E, Ergo Previdenza) and 16 takeovers (OPA) were proposed.

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, 2009 through February 28, 2010.

Chart 2 – EYVBI – FTSE-MIB (March 2009 – February 2010)



Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

The chart shows that the EYVBI generally followed the market trend, though performing better than the latter especially in the last quarter. Over the period the EYVB index increased by 63.8%, compared to the performance of 46.7% registered by FTSE-MIB. During the period, the company that recorded the best performance was Elica (+186%).

The following table lists the companies included in the EYVBI basket from November 1, 2009 to February 28, 2010 showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

Table 2 – EYVBI basket (November 2009 – February 2010)

Company name	IPO date	Current Market cap. (Euro Mln)	Change over 4 months	Industry Sector
ELICA	10/11/2006	116	-4.2%	Appliances
POLTRONA FRAU	15/11/2006	101	-18.3%	Design furniture
COBRA	12/12/2006	37	-16.6%	Electronic controls
IW BANK	23/05/2007	141	-6.7%	Banking
MUTUI ONLINE	06/06/2007	225	4.3%	Mortgages
PRYSMIAN	03/05/2007	2,293	5.5%	Cables & Systems
RDB	19/06/2007	94	-13.1%	Construction
SCREEN SERVICE	11/06/2007	93	1.2%	Broadcasting
PRAMAC	03/07/2007	55	60.1%	Generators
DIASORIN	19/07/2007	1,352	-1.3%	Diagnostics
SAT	26/07/2007	29	-13.5%	Airports
RCF GROUP	27/07/2007	96	-5.3%	Audio equipment
PIQUADRO	25/10/2007	55	-5.6%	Leather
MOLMED	05/03/2008	24	-3.5%	Biotechnology
ENERVIT	24/07/2008	116	-4.2%	Beverage

Source: Ernst & Young Financial-Business Advisors calculation on information provider's data

Eurotech, Safilo Group, Eurofly, Marazzi Group, EEMS, Antichi Pellettieri, Bolzoni and Arkimedica were removed from the basket index, while Bouty Healthcare was delisted. No new companies were added to the basket.

As of February 28, 2010, the combined market capitalisation of the companies included in the EYVBI was Euro 4,889 million, representing some 1.2% of the total market capitalisation of the domestic listed companies. Therefore, the weight of the companies included in the EYVBI increased by 0.1% from February 28, 2009.