

## THE VENTURE-BACKED IPO MARKET<sup>1</sup>

During the 12 month period ended February 28, 2007 Ernst & Young Financial-Business Advisors ('Ernst & Young') has 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').

Despite oil prices that topped USD 75 a barrel during the course of the year, world gross domestic product (GDP) growth is estimated in 2006 to be 3.9%. Most of the acceleration in global growth was concentrated in the first half of the year: world industrial production grew 6.7% in the first six months of 2006, compared with 4.3% in 2005.

To a significant degree, this global performance reflects the very rapid expansion in developing economies, which grew by 7.0% – more than twice as fast as high-income countries. Very strong growth (10.7%) in China played a significant role in the recent strength of developing countries; also India's GDP shows a considerable growth of 8.7% in 2006.

In the United States, the acceleration in industrial output was mirrored by GDP, which in 2006 began expanding by a solid 5.6%. However, responding to higher short-term interest rates, residential investment spending has fallen sharply and a cooling housing market has moderated consumer demand. As a result, the GDP for the year as a whole is expected to increase 3.2%.

The Euro-zone, following several years of weakness, shows better figures during 2006 as the GDP is estimated to grow 2.7%, whilst it was only 1.3% in 2005. The Italian growth for the full year is estimated at 1.9%, above the forecasts of market experts and government institutions. It represents by far the strongest growth rate for the Italian economy since the year 2000, when real GDP expanded by 3.8%. In terms of single European countries, Euro-zone growth was lifted by a 2.7% surge in German GDP; also Spain and France confirmed strong increases, while, outside the Euro-zone, UK's GDP grew 2.7% this year.

In this context, during the year ended February 28, 2007, the overall stock market performance was positive in Europe, though lower if compared to the previous 12 months. Such performance was driven primarily by the German stock market which performed better than all

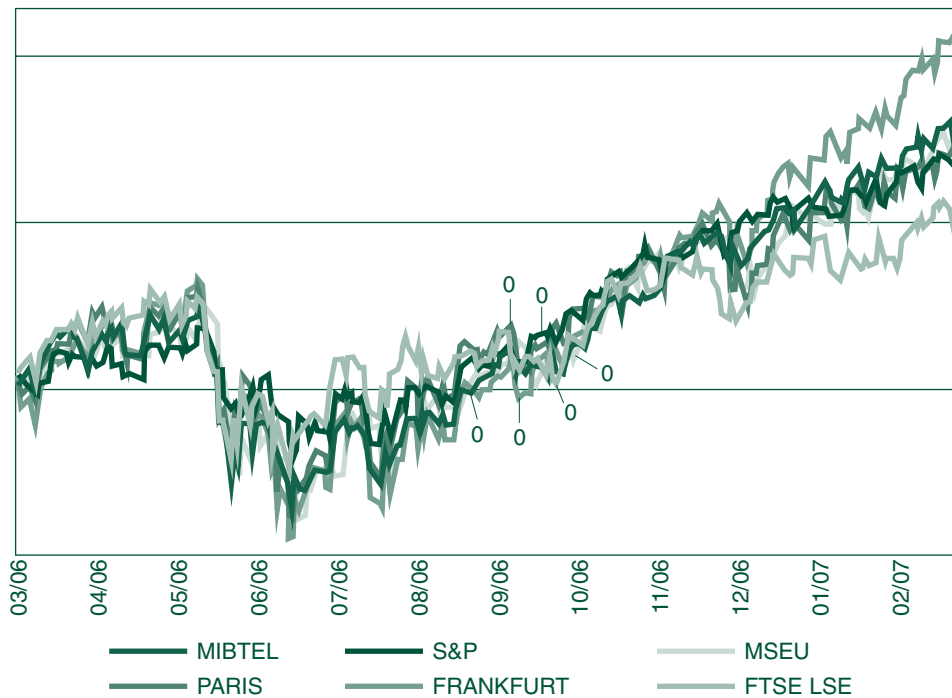
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<sup>1</sup> The analysis has been produced by Ernst & Young Financial-Business Advisors.

the other major European indices, showing a 16% increase. Good returns were realised also by the Italian, French and British stock exchanges with growth of 10%, 9% and 6%, respectively. Outside Europe, the US stock market performed positively as well, with the Dow Jones and NASDAQ growing by 11% and 4%, respectively.

The chart below shows the performance of the MIBTEL index compared to the other major international stock exchange indices.

**Chart 1 – Performance of the major international stock markets**



Source: Bloomberg

Achieving the fourth consecutive year of growth, the Italian market capitalisation, sustained by the positive trends in share prices and by the initial public offerings, rose at December 2006 to 776 Euro Bln for the national listed companies (+15% YOY), representing 52.7% of Italian GDP, compared to 49.4% in the previous year. Breaking down the figure, capitalisation totalled 710 Euro Bln for Blue-chip companies (626 Euro

Bln at year-end 2005), 24 Euro Bln for companies in the Star segment (18 Euro Bln), and 32 Euro Bln for those in the Standard segment (25 Euro Bln), whilst for companies in the Expandi Market, capitalisation stood at 10 Euro Bln (7 Euro Bln). The Star and Expandi markets were the two sub-markets that realised the strongest pace of growth.

As of January 2007, the Italian stock market was seventh in Europe in terms of market capitalisation<sup>2</sup>, slightly below OMX (which includes the stock exchanges of Copenhagen, Stockholm, Helsinki, Riga, Tallinn and Vilnius) and seventh in terms of number of listed companies, totalling 311 companies (of which 84 belong to the MTA/MTAX Blue-chip segment, 76 to the Star segment, 103 to the Standard segment, 1 to Investment Companies segment, 21 to the MTA International segment, and 26 to the Expandi Market).

The main index of the Italian market, S&P/MIB, recording a 9% growth for the 12 month period ended February 28, 2007, proves the good performance of the Italian market, as well as the two new indices of Borsa Italiana, the TechSTAR and the ALL STAR, which recorded a 6% and 11% increase respectively. Excellent performance (18% growth) was recorded by MEX, the index created to monitor the companies included in the Expandi market.

### **IPO activity**

The year ended February 28, 2007, buoyed by the positive trends in share prices and the support granted by Private Equity funds, showed the highest number of Initial Public Offerings ('IPOs') in the domestic market since 2000, with 20 new listings, 13 on the Mercato Telematico Azionario ("MTA/MTAX") and 7 listings on the Mercato Expandi, against a total of 16 IPO's during the previous 12 months. The total turnover of the IPOs in 2006 (4.8 Euro Bln) was the highest since 2000.

During the period under review, 7 out of 20 of the new listings were represented by Venture-Backed companies. The favourable moment of IPOs is shown by the various sectors in which the companies listed in the last 12 months operate: customer services (Omnia Network), industrial products (Cogeme Set, Bolzoni), utilities (Ascopiave, Gas

<sup>2</sup> European Securities Exchange Statistics – January 2007.

Plus, Saras), financial services (Banca Generali), electronic controls (Cobra), design furniture (Poltrona Frau), appliances (Elica), chemicals and pharmaceuticals (Polynt, Pierrel), software (Noemalife), healthcare (Arkimedica), food (Valsoia), two-wheel vehicles manufacturers (Piaggio & C.), apparels (Antichi Pellettieri), home automation (Nice), semiconductors (EEMS Italia), railway and underground transportation (Ansaldo STS).

The table below summarises the new MTA listings during the past 12 months.

**Table 1 – IPOs on MTA/MTAX/EXPANDI (March 2006 – February 2007)**

Company name	Listing date	IPO price (Euro)	Current Market cap. (Euro Mln)	Venture-Backed
OMNIA NETWORK	28/02/2007	5.00	123	No
COGEME SET	15/12/2006	3.65	89	No
ASCOPIAVE	12/12/2006	1.80	470	No
COBRA	12/12/2006	6.90	174	Yes
GAS PLUS	06/12/2006	8.50	373	No
BANCA GENERALI	15/11/2006	8.00	1,130	No
POLTRONA FRAU	15/11/2006	2.10	380	Yes
ELICA	10/11/2006	5.00	351	Yes
POLYNT	30/10/2006	1.80	237	No
ARKIMEDICA	01/08/2006	1.20	128	Yes
VALSOIA	14/07/2006	4.40	62	No
PIAGGIO & C.	11/07/2006	2.30	1,377	No
BOLZONI	08/06/2006	3.20	120	Yes
ANTICHI PELLETTIERI	07/06/2006	7.77	445	Yes
PIERREL	23/05/2006	6.00	85	No
NICE	19/05/2006	5.70	724	No
SARAS	18/05/2006	6.00	3,961	No
NOEMALIFE	10/05/2006	9.00	38	No
EEMS ITALIA	27/04/2006	8.20	237	Yes
ANSALDO STS	29/03/2006	7.80	923	No

Source: Ernst & Young Financial-Business Advisors, Bloomberg

Among the new MTA/MTAX and Expandi listings, the best performances (i.e. growth on IPO's price above 25%) were recorded by Bolzoni, Piaggio & C., Valsoia, Polynt, Poltrona Frau and Cogeme Set.

It is reasonable to expect that the growing number of Italian Private Equity funds investing in Europe and Italy and the good market performance will continue to facilitate the listing of new enterprises on the official markets, leading to a further increase in the number of IPOs in 2007.

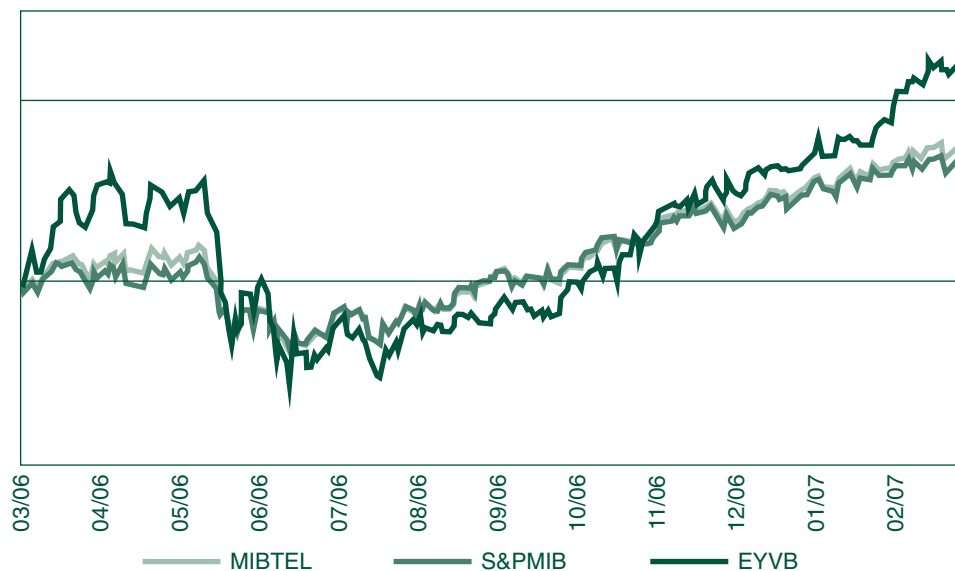
## Performance of venture-backed shares (EYVBI)

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 indices 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.

Taking into consideration the increasing number of small and mid cap companies which have demonstrated interest in entering the Expandi market, starting from November 1, 2006, the Ernst & Young Venture-Backed Index comprises the Venture Backed IPOs of this new market as well.

The following chart summarises the performance of the EYVBI from March 1, 2006 through February 28, 2007.

**Chart 2 – EYVBI – MIBTEL – S&P MIB (March 2006 – February 2007)**



Source: Ernst & Young Financial-Business Advisors, Bloomberg

The chart shows that the EYVBI generally followed the market trend, performing better than the latter in the period March 2006 – June 2006 and

November 2006 – February 2007, while remaining slightly below the performance of the whole Italian stock exchange from July 2006 to October 2006. Over the period, the EYVBI value increased 17% as compared to 10% for MIBTEL and 9% for S&P/MIB. During the last four months, such positive performance was primarily driven by IGD, DMT, and Azimut which registered increases of 27%, 24% and 14% respectively; the three shares together represent almost 40% of the index. Moreover, IGD and DMT recorded an annual growth rate of 63% and 81% respectively.

The following table lists the companies included in the EYVBI basket from November 1, 2006 to February 28, 2007 showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

**Table 2 – EYVBI basket (November 2006 – February 2007)**

Company name	IPO date	Current Market cap. (Euro Mln)	Change over 4 months	Industry Sector
ISAGRO	05/11/2003	122	2%	Agrochemicals
TREVISAN	05/11/2003	119	36%	Industrial
AZIMUT HOLDING	22/06/2004	1,487	14%	Financial
DMT	07/07/2004	740	24%	Communications
PANARIA	19/11/2004	303	3%	Ceramics
IGD	11/02/2005	1,054	27%	Services
MARR	21/06/2005	495	15%	Food Distribution
GUALA CLOSURES	22/11/2005	334	0%	Closures
EUROTECH	30/11/2005	274	-14%	Technology
SAFILO GROUP	09/12/2005	1,246	6%	Eyewear
EUROFLY	21/12/2005	51	52%	Airlines
MARAZZI GROUP	15/02/2006	988	3%	Ceramics
EEMS ITALIA	27/04/2006	237	-12%	Semiconductors
ANTICHI PELLETTIERI	07/06/2006	445	6%	Apparel
BOLZONI	08/06/2006	120	32%	Industrial
ARKIMEDICA	01/08/2006	128	0%	Healthcare

Source: Ernst & Young Financial-Business Advisors, Bloomberg

Effective May 1, 2007 Isagro and Trevisan will be removed while Elica, Poltrona Frau and Cobra will be added to the basket index.

As of February 28, 2007, the combined market capitalisation of the companies included in the EYVBI was 8,143 Euro Mln, representing some 1.1% of the total market capitalisation of the domestic listed companies. Therefore, the weight of the companies included in the EYVBI increased 0.7% from February, 28, 2006.