Statistics on Performance[1]

INTRODUCTION

Since 1996, KPMG Corporate Finance, in co-operation with AIFI, is carrying out, on an annual basis, the Italian private equity and venture capital industry performance analysis.

This survey, based on a significant sample of the Italian private equity and venture capital houses, is basically performed to assess the overall performance of the domestic market.

Since 2004 edition, in order to provide an in-depth representation of the Italian market performance and align the performance measurement to European and international standards, the analysis has been carried out considering (i) gross pooled IRR on realised investments[2], as well as (ii) gross pooled IRR on all investments[3].

Gross pooled IRR on realised investments provides a "realistic" overview of the market, representing the overall performance of the realised divestments, but it does not consider the implicit performance referred to the investments still in portfolio.

Gross pooled IRR on all investments provides a wider insight of the market trend, even though it might be affected by the common practice of valuating most of the assets still in portfolio at cost.

Therefore, the analyses described in the followings consider:

- one-year gross pooled IRR on realised investments from inception (divestments made in 2015);
- ten, five, three and one-year horizon gross pooled IRR on all investments (investments respectively made in the period 2006-2015, 2011-2015, 2013-2015 and in 2015, no matter if, at the end of the period considered, the asset is still in portfolio or it was – partially or totally – divested).

Performance are measured in terms of pooled IRR, considering all the cash flows disclosed by the private equity houses, aggregated as if they resulted from the transactions carried out by a single fund.

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1 The analysis is realized in co-operation with KPMG Corporate Finance.

2 According to the Invest Europe (formerly known as EVCA) principles, this performance indicator takes into account investments (cash outflows) and divestments (cash inflows) in which the private equity and venture capital houses disposed at least a 30% stake of the initial investment in equity. In case of partial divestments, only the related part of total cash out was considered.

3 This second level of IRR considers both realised and still in portfolio investments, no matter if the divestment was partial.

It should be pointed out that the following analyses consider solely transactions for which all the details required for estimating the performance were made available; consequently, transactions with just partial data available were not considered, due to the impossibility to properly estimate their IRR.

2015 GROSS POOLED IRR ON REALISED INVESTMENTS

Similarly to previous editions of the survey, the initial focus of the analyses is on 2015 gross pooled IRR on realised investments from inception.

This indicator measures the performance of divestments recorded in 2015, regardless of when the initial investment was made.

Table 1 – IRR from inception analysis: main sample

	2015	2014	2013	2012	2011
N. of PE & VC houses included in the research panel	80	91	95	95	92
N. of PE & VC houses showing realised investments	43	41	55	36	47
N. of realised investments from inception	74	95	102	82	85
Average investment size (Euro Mln)	18.7	17.7	20.7	10.5	21.0
Total cash out (Euro Mln)	**1,382**	**1,681**	**2,115**	**840**	**1,784**
Total cash in (Euro Mln)	**3,333**	**3,489**	**4,809**	**1,112**	**2,939**

Source: KPMG Corporate Finance.

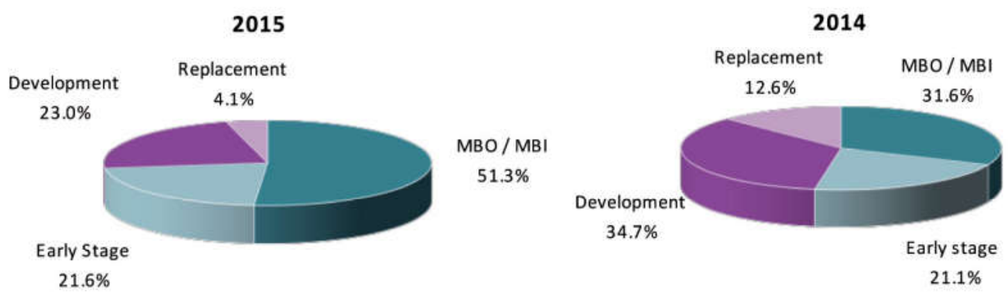
Table 1 shows how the sample in 2015 decreased to 80 private equity houses (in 2014 the sample included 91 private equity houses), mainly due to the closure of some Italian private equity offices and to some internal reorganizations.

The number of private equity houses showing realized investments (i.e. divestments made in 2015) increased to 43 in 2015 from 41 in 2014.

In terms of investment activity, despite the reduction of the number of divestments with respect to the previous year (74 in 2015 vs 95 in 2014), 2015 total cash out amounted to Euro 1,382 Mln (vs Euro 1,681 Mln in 2014), and total cash in amounted to Euro 3,333 Mln in 2015 (vs Euro 3,489 Mln in 2014).

In line with 2014, MBO/MBIs were a recurring choice for private equity houses at exit level (see Chart 1). Indeed, they represented (by number) more than 50% of total divestments (vs 31% in 2014). Investments made during the early life of a company (i.e. early stage) assessed at the same level (21.1% in 2014 and 21.6% in 2015). The incidence of the transactions related to companies in their development stage also decreased (23.0% in 2015 vs 34.7% in 2014). Replacement transactions (transactions aiming at substituting minority shareholders) had an important decrease, passing from to 12.6% in 2014 to 4.1% in 2015.

Chart 1 – IRR from inception analysis: sample breakdown by financing stage (incidence by number)

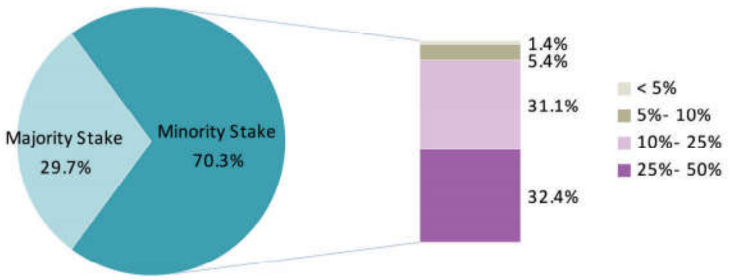


Source: KPMG Corporate Finance.

The sample breakdown by acquired stake, as showed in Chart 2, confirmed the significant prevalence of transactions involving minority stakes, which represented 70.3% of the sample. A particular focus could be put on two ranges between 10% and 50% (31.1% the range comprised between 10%-25% and 32.4% the range between 25%-50%) collecting 90.4% of minority stake's transactions.

In this context, it should be pointed out that all investments were analysed on a stand-alone basis; any possible pool agreement among private equity houses, which might have jointly acquired majority stakes, was not taken into account.

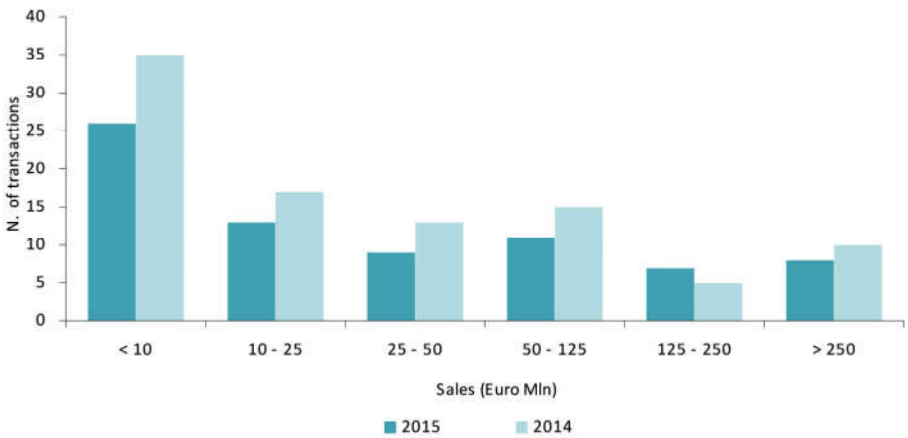
Chart 2 – IRR from inception analysis: sample breakdown by acquired stake (incidence by number)



Source: KPMG Corporate Finance.

Considering the target sales' size (see Chart 3), about 65% of the total divestments in 2015 (64.9%) involved small-medium companies (with turnover lower than Euro 50 Mln), showing a decrease of incidence with respect to 2014 (68.4%). The incidence of transactions involving medium companies (with turnover ranging between Euro 50 Mln and Euro 250 Mln) increased to 24.3% in 2015 (vs 21.1% in 2014), whereas divestments related to large companies (with turnover higher than Euro 250 Mln) remained stable at about 11% (10.5% during 2014 vs 10.8% during 2015).

Chart 3 – IRR from inception analysis: sample breakdown by target sales size (by number)



Source: KPMG Corporate Finance.

To sum up, most of divestments observed in 2015 involved minority stakes in small-medium companies (with turnover lower than Euro 50 Mln), acquired mostly through MBO/MBI transactions.

According to the international standard criteria related to the so called "first level" of IRR, 2015 Italian private equity and venture capital performance is firstly represented in terms of pooled internal rate of return from inception (see Table 2).

Table 2 – IRR from inception by year in 2011-2015

	2015	2014	2013	2012	2011
N. of realised investments from inception	74	95	102	82	85
Yearly pooled IRR	**17.8%**	**19.7%**	**18.2%**	**6.2%**	**12.6%**

Source: KPMG Corporate Finance.

The Italian private equity and venture capital industry confirmed positive results in terms of investment activity and returns. In 2015 the performance is still positive although a slight decrease compared to the last two years. The 74 divestments of the year recorded a yearly pooled IRR of 17.8% (vs 19.7% in 2014).

2015 performance figures, in line with the previous year, are favoured by the positive impact of some specific transactions. Another relevant fact is that the write offs' incidence decreased both by number (24.3% in 2015 vs 40.0% in 2014) and by cash out (15.7% in 2015 vs 19.0% in 2014).

Table 3 – IRR from inception by year: upper quarter

	2015	2014	2013	2012	2011
Yearly pooled IRR	17.8%	19.7%	18.2%	6.2%	12.6%
Upper quarter (per performance)	61.2%	53.5%	27.3%	20.1%	24.2%
Upper quarter (per investment size)	17.4%	22.5%	19.1%	8.1%	14.3%

Source: KPMG Corporate Finance.

In 2015 the upper quartile returns by performance (i.e. the cluster which includes the 25% of transactions with the highest returns) increased from 53.5% in 2014 to 61.2% in 2015. But, on the other hand, the top quartile performance by investment size (i.e. the cluster which includes the 25% of transactions with the greatest amount invested) decreased to 17.4% in 2015 (vs 22.5% in 2014).

Table 4 – IRR from inception distribution by IRR class

	2015			2014		
	Number	Incidence by number (%)	Incidence by cash out (%)	Number	Incidence by number (%)	Incidence by cash out (%)
Write off/Negative	18	24.3	15.7	38	40.0	19.0
0% - 10%	18	24.3	7.5	23	24.2	12.6
10% - 20%	11	14.9	20.8	11	11.6	5.8
20% - 30%	7	9.5	15.1	4	4.2	1.1
30% - 40%	11	14.9	4.5	6	6.3	24.8
40% - 50%	0	0.0	0.0	1	1.1	0.4
50% - 100%	7	9.5	33.8	6	6.3	26.0
100% - 500%	2	2.7	2.7	6	6.3	10.3

Source: KPMG Corporate Finance.

Performance distribution by IRR class (see Table 4) highlighted in details how performance in 2015 were generally characterized by positive returns with respect to the previous year:

– the incidence of divestments with negative performance and write off decreased by number (24.3% in 2015 vs 40.0% in 2014) and by cash out (15.7% in 2015 vs 19.0% in 2014);
– divestments with low performance (gross pooled IRR ranging between 0% and 10%) remained stable by number (24.3% in 2015 vs 24.2% in 2014), while they decreased by cash out (7.5% in 2015 vs 12.6% in 2014);
– divestments with performance ranging between 20% and 30% recorded a growth both by number (9.5% in 2015 vs 4.2% in 2014) and by cash out (15.1% in 2015 vs 1.1% in 2014);
– divestments showing high returns (gross pooled IRR higher than 30%) increased by number (27.0% in 2015 vs 20.1% in 2014) but decreased by cash out (40.9% in 2015 vs 61.5% in 2014). In particular, there were two transactions with IRR higher than 100% (vs 6 in 2014).

Table 5 – IRR from inception distribution by financing stage

	Early stage		Development		MBO/MBI		Replacement	
	2015	2014	2015	2014	2015	2014	2015	2014
N. of transactions	16	20	17	33	38	30	3	12
Yearly pooled IRR	–17.6%	–0.8%	10.3%	2.6%	18.0%	22.0%	51.7%	26.5%

Source: KPMG Corporate Finance.

IRR analysis by financing stage, as represented in Table 5, highlighted that operators' interest in MBO/MBI transactions remains constant. In fact, MBO/MBI deals represent 18.0% of total divestments (vs 22.0% in 2014). Replacement transactions confirmed the positive trend, passing from 20.0% in 2013 to 26.5% in 2014 and to 51.7% in 2015. Must be noted that this segment has seen the closing of just 3 big transactions. The incidence of Development transactions significantly increased (i.e. 10.3% in 2015 vs 2.6% in 2014 vs). Early stage transactions, which have always represented a limited sample with low investment volumes, showed a sharp drop in returns (i.e. –17.6% in 2015 vs –0.8% in 2014). It is important to note that early stage transaction returns are historically affected by high volatility[4].

The number of trade sale slightly fell at 58 transactions, even if the IRR increased from 15.6% in 2014 to 20.3% in 2015 (see Table 6). It is worth noting that write offs are not included in trade sale's cluster.

Table 6 – IRR from inception for trade sale (excluding write off)

	Trade Sale	
	2015	**2014**
N. of transactions	58	63
Yearly pooled IRR	20.3%	15.6%

Source: KPMG Corporate Finance.

Table 7 provides the analysis of the 2015 performance from inception by time gap (between first investment and divestment).

Table 7 – 2015 IRR from inception distribution by time gap between first investment and divestment

	<2	**2-3**	**3-4**	**4-5**	**5-7**	**>7**
N. of transactions	5	10	18	13	10	18
Incidence	6.8%	13.5%	24.3%	17.6%	13.5%	24.3%
Yearly pooled IRR	52.3%	55.8%	35.2%	20.4%	9.2%	8.8%

Source: KPMG Corporate Finance.

[4] Please note that IRR from inception referred to early stage investments were significantly negative in 2010, 34.8% in 2009, –2.7% in 2008, 89.1% in 2007, 13.8% in 2006, –1.8% in 2005, 30.5% in 2004 and –10.6% in 2003.

In contrast with the last year, the percentage of transactions realised within five years (in terms of average holding period) increased from 50.5% to 62.2%.

GROSS POOLED IRR ON ALL INVESTMENTS BY HORIZON

The analyses on the gross pooled IRR on all investments (by horizon)[5] were mainly performed to provide a comparison between the Italian market and the European one. Accordingly to some international benchmarks, a new layer of analysis (1YR horizon, i.e. sample including all investments made in 2015) was introduced in the previous editions.

It is worth noting that, generally speaking, the gross pooled IRR on all investments (by horizon) analysis is affected by two main issues:

- the application of an "average rolling" method to the specific period considered (i.e. relevant to properly compare year by year analyses);
- the common practice of a number of private equity houses to valuate most of the investments still in portfolio at cost.

Table 8 – Gross pooled IRR on all investments (by horizon) analysis to 31 December 2015

	1YR	3YR	5YR	10YR
N. of PE & VC houses presenting investments	35	68	93	128
N. of transactions	80	293	574	1,125
of which: - *realised investments*	*0*	*23*	*117*	*440*
- still in portfolio	*80*	*270*	*457*	*685*
Average investment size (Euro Mln)	20.6	18.1	16.7	17.8
Total cash out (Euro Mln)	1,651	5,293	9,578	20,081
Total cash in (Euro Mln)	1,649	6,790	12,194	27,554
Yearly pooled IRR	**–0.2%**	**23.9%**	**12.2%**	**8.8%**

Source: KPMG Corporate Finance.

[5] No analytical exercise has been performed in order to estimate the net IRR. However, in order to provide rough indications that may be useful to estimate the net IRR, empirical analyses, based on assumptions related to common market practice, would seem to show that, generally speaking, net IRR (excluding all taxation effects and transaction fees incurred by the investors in disposing of any distributed securities) would fall in the range between 50% and 65% of gross pooled IRR on all investments.

Focusing on the 10YR horizon (the most statistically significant) analysis, gross pooled IRR on all investments (by horizon) slightly decreased to 8.8% in 2015 (vs 10.0% in 2014), as a consequence of the following main issues:

- 74 realised transactions, totally accounting for Euro 1,382 Mln in terms of total cash out, were included in 2015, whose IRR was equal to 17.8%;
- the incidence of book value deals decreased by number (51.8% in 2015 vs 58.8% in 2014) and also by cash out (30.7% in 2015 vs 34.8% in 2014);
- The revalued deals show an increase by number (i.e. 28.6% in 2015 vs 24.9% in 2014) and a slight drop by cash out (i.e. 42.8% in 2015 vs 45.0% in 2014);
- the incidence by cash out of depreciated deals among the investments still in portfolio rose (26.6% vs 20.1% in 2014);

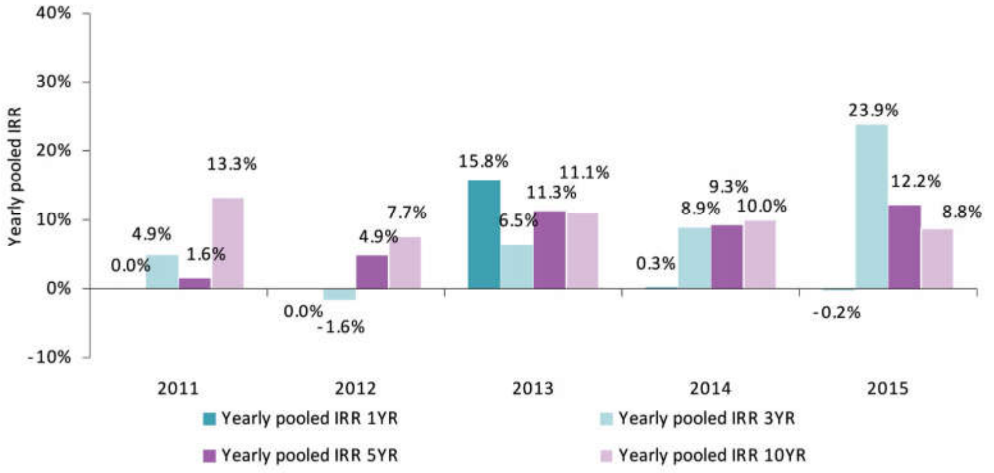
Table 9 – 10YR by horizon IRR analysis: investments still in portfolio breakdown (by number and cash out)*

	By number		By cash out	
	2015	2014	2015	2014
Book value deals	51.8%	58.8%	30.7%	34.8%
Re-valued deals	28.6%	24.9%	42.8%	45.0%
Depreciated deals	19.6%	16.3%	26.6%	20.1%
Investments still in portfolio (N. and Euro Mln)	685	687	10,339	10,013

* Depreciated deals do not include total write off and partial write off over 80%.
Source: KPMG Corporate Finance.

The performance referring to the 3YR horizon highlighted a significant improvement (i.e. 8.9% in 2014 to 23.9% in 2015), while the 5YR horizon experienced a more contained growth (i.e. 9.3% in 2014 to 12.2% in 2015)

Chart 4 – 2011-2015 gross pooled IRR on all investments (by horizon)



Source: KPMG Corporate Finance.