

PAN-EUROPEAN PRIVATE EQUITY PERFORMANCE IN 1999 – FINAL RESULTS

The results of the 2000 International Investment Benchmarks Report show that private equity investment performance in Europe continues to improve, with an outstanding 34% top-quarter pooled IRR since inception to 31 December 1999—up from 24.4% the previous year. This independent study about to be published by Venture Economics and Bannock Consulting, with the full co-operation of EVCA, was first carried out in 1996. Since then, EVCA has endeavored to broaden its scope and improve its methodology, thus ensuring that it provides the latest and most representative pan-European performance measurement information. The report has established benchmarking measures for European private equity that are directly comparable with those in the US. It also allows private equity players to compare themselves with overall performance, and provides investors with sound data to measure one pan-European asset class against another.

OVERALL RETURN SINCE INCEPTION AT 14.5%

The report reveals continued upward performance, making it clear that European private equity funds continue to justify the high levels of investment made over the last ten years. The study shows a pooled IRR for all private equity investment of 14.5% since inception, up from 11.9% last year. The sample data used in the study included €68bn of committed capital in 497 funds (of which 423 are mature) through December 1999.

Buyout funds recorded the highest annualised IRR since inception at 19.6%, followed by generalist funds at 12.4% and venture capital (all stages combined) also at 12.4%. One-, three-, and five-year returns all exceeded the ten-year 15% benchmark, at 43.8%, 27.2% and 23.6%, respectively. This indicates that recent performance has had an important impact on boosting longer-term returns. Ten-year figures are closer to the figures for the return since inception. The healthy intermediate upward trend indicates that long-run returns are likely to be pulled up in future.

EUROPE PRIVATE EQUITY *update*

- ❖ **34% IRR for Top-Quarter European Private Equity**
- ❖ **Strong Performance Across All Investment Stages**
- ❖ **Record 5 Year Rolling IRR**
- ❖ **Comparison with Other Asset Classes**

Europe Private Equity Update is a publication of the European Private Equity and Venture Capital Association, which represents the interests of the European private equity sector within Europe and around the world. The Update appears three times a year and contains features on the opportunities in the sector in Europe, case studies of successful investments and IPOs, and other information that is of interest to investors and venture capitalists alike. This edition reports the results of the latest pan-European venture capital and private equity performance survey.



OUTSTANDING TOP QUARTER PERFORMANCE

Top quarter return results are very strong for all stages (i.e., venture, buyout and generalist, including fixed-life and ever-green funds) and over all periods of time, with a 33.9% pooled IRR since inception, 47.4% five-year IRR and 30.3% ten-year IRR, respectively. This compares with a 24.4% pooled IRR since inception to end 1998.

The corresponding results for the upper half show that high performance is not confined to the top quarter. The upper half return since inception for all private equity is 18.7%, compared with 15.7% to end 1998.

Top quarter venture and buyout funds show outstanding net returns to investors at 35.5% and 43.9%, respectively. This contrasts with the corresponding 1998 figures of 19.9% and 36.6%, respectively.

FINAL EUROPEAN PRIVATE EQUITY BENCHMARKS 1999 - MATURE FUNDS FORMED 1980-1997

Cumulative annualized IRR since inception to 31 December 1999

Stage	No funds.	Pooled	Upper Quartile	Median	DPI	RVPI	TVPI
Early Stage	62	10.8	21.6	9.2	0.90	0.60	1.50
Development	74	10.2	13.7	5.7	1.00	0.52	1.53
Balanced	65	13.6	19.0	8.7	1.02	0.95	1.97
All Venture	201	12.4	17.6	7.4	0.99	0.77	1.76
Buyouts	131	19.6	23.9	12.6	0.88	0.81	1.69
Generalist	91	12.4	14.3	6.0	0.89	0.71	1.60
All Private Equity	423	14.5	19.4	8.8	0.91	0.76	1.67

Horizon IRR to 31 December 1999

Stage	No.	1 YR	3 YR	5 YR	10 YR
Early Stage	62	20.1	17.6	16.6	11.8
Development	74	26.2	15.5	15.3	11.9
Balanced	65	48.6	38.8	29.9	16.0
All Venture	201	38.8	29.6	24.1	14.4
Buyouts	131	57.1	32.0	26.0	18.2
Generalist	91	31.7	20.4	20.7	13.0
All Private Equity	423	43.8	27.2	23.6	15.0

Annualized IRR since inception to 31 December 1999 - TOP QUARTER

Stage	No.	Pooled	Median	DPI	RVPI	TVPI
Early Stage	14	42.9	40.5	0.71	1.34	2.05
Development	19	17.3	18.2	1.20	0.68	1.88
Balanced	16	42.3	34.5	1.46	1.54	3.00
All Venture	49	35.5	29.0	1.25	1.36	2.62
Buyouts	33	43.9	40.2	1.33	1.23	2.55
Generalist	23	22.6	22.1	0.96	0.98	1.94
All Private Equity	105	33.9	30.5	1.30	1.14	2.44

Horizon IRR to 31 December 1999 TOP QUARTER

Stage	No.	1 YR	3 YR	5 YR	10 YR
Early Stage	14	69.4	43.7	65.4	43.7
Development	19	27.0	26.3	27.4	21.0
Balanced	16	126.0	81.5	60.3	42.9
All Venture	49	97.0	57.9	50.2	37.0
Buyouts	33	145.7	66.1	56.7	31.9
Generalist	23	32.3	33.3	30.7	22.0
All Private Equity	105	104.8	57.3	47.4	30.3

Annualized IRR since inception to 31 December 1999 - UPPER HALF

Stage	No.	Pooled	Median	DPI	RVPI	TVPI
Early Stage	31	19.2	21.6	1.16	0.62	1.79
Development	37	14.8	13.7	1.21	0.59	1.81
Balanced	33	21.1	19.0	1.20	1.15	2.36
All Venture	100	18.1	17.6	1.21	0.88	2.10
Buyouts	65	30.5	24.2	1.28	0.96	2.24
Generalist	45	13.8	14.6	0.92	0.73	1.65
All Private Equity	211	18.7	19.7	1.07	0.82	1.89

Horizon IRR to 31 December 1999 UPPER HALF

Stage	No.	1 YR	3 YR	5 YR	10 YR
Early Stage	31	31.4	26.8	23.7	18.5
Development	37	36.0	25.5	21.5	18.2
Balanced	33	59.8	50.0	38.0	23.1
All Venture	100	50.9	40.1	31.2	20.5
Buyouts	65	111.2	54.7	45.6	27.5
Generalist	45	33.3	22.3	22.5	14.0
All Private Equity	211	56.5	35.0	29.2	18.6

Annualized IRR since inception to 31 December 1999 - FUND SIZE

Stage	No.	Pooled	Upper Quartile	Median	Lower Quartile	DPI	RVPI	TVPI
0-25 Ecu Million	176	8.5	13.7	5.8	-0.3	0.98	0.68	1.66
25-50 Ecu Million	93	8.3	16.3	7.8	-1.4	0.99	0.55	1.54
50+ Ecu Million	154	16.5	25.8	15.1	5.0	0.90	0.79	1.68

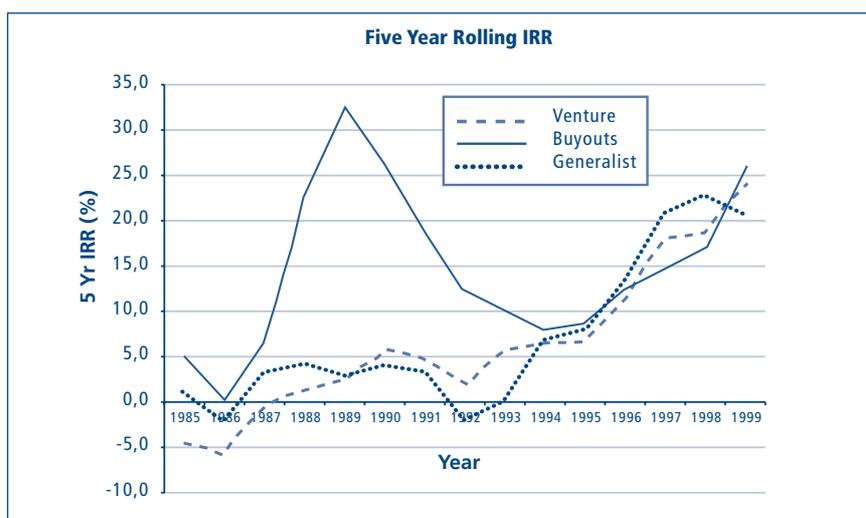
RECORD 5 YEAR ROLLING IRR WITH CONVERGING INVESTMENT STAGES

Previous surveys have indicated that buyout funds traditionally outperform funds focused on other stages. However, the pooled results for the last few years show that all mature funds on a rolling five-year basis confirm increasing rates of return for all stages of investment with IRRs of 24.1% for venture, 26.0% for buyouts and 20.7% for generalist. In this strong high-growth environment of recent years with respect to both funds raised and invested, the European private equity market has proven its capacity to sustain and increase returns for investors.

PRIVATE EQUITY AND COMPARATORS

The comparison of returns from private equity with those of other asset classes is made by calculating equivalent IRR returns. This is done by assuming that the same pattern of cash flows over time as in the private equity data set is invested in, and divested from, a representative total-return index for the asset class in question.

The analysis has been applied to both cumulative returns since inception and to investment horizon returns.



	1 Year	3 Year	5 Year	10 Year
Early Stage	17.6	19.9	19.6	15.0
Morgan Stanley European Equity	28.8	29.8	24.9	16.9
HSBC Small European Company	81.4	33.2	24.6	15.4
JP Morgan Euro Bond	-1.9	7.1	10.2	7.9
Development	46.5	16.5	15.4	10.2
Morgan Stanley European Equity	29.4	30.3	25.3	15.7
HSBC Small European Company	84.1	35.0	25.8	13.7
JP Morgan Euro Bond	-1.9	7.1	10.1	7.5
Balanced Venture	65.5	53.7	38.5	21.3
Morgan Stanley European Equity	29.0	30.5	25.2	15.4
HSBC Small European Company	83.0	35.6	25.7	13.4
JP Morgan Euro Bond	-2.2	6.7	10.0	7.4
All Venture	50.9	36.8	28.6	17.2
Morgan Stanley European Equity	29.1	30.3	25.2	15.7
HSBC Small European Company	83.0	34.9	25.5	13.9
JP Morgan Euro Bond	-2.0	6.9	10.1	7.5
Buyouts	65.0	31.4	25.2	17.5
Morgan Stanley European Equity	28.7	27.9	24.3	18.1
HSBC Small European Company	83.6	33.7	26.4	18.4
JP Morgan Euro Bond	-3.0	4.7	7.3	6.3
Generalist	12.1	6.0	14.6	9.5
Morgan Stanley European Equity	29.6	29.8	24.8	16.7
HSBC Small European Company	85.5	36.6	26.4	15.7
JP Morgan Euro Bond	-2.0	5.9	9.3	7.2
All Private Equity	54.3	29.5	24.9	16.3
Morgan Stanley European Equity	29.0	28.9	24.7	17.0
HSBC Small European Company	83.8	34.5	26.1	16.4
JP Morgan Euro Bond	-2.6	5.4	8.4	6.9

Explanatory notes for tables

IRR: Internal Rate of Return. Measures interim cash-on-cash return earned by funders from the fund's activity from inception to a stated date or for a given horizon period to a stated date.

The IRR is calculated as an annualised effective compounded rate of return using monthly cash flows and quarterly valuations.

Median IRR: the value halfway between the highest and lowest individual fund IRRs in a data set.

Pooled IRR: the IRR obtained by taking cash flows from inception and residual valuations for each fund and aggregating them into a pool as if they were a single fund.

Top quarter: the pooled IRR for those funds in the top quartile of performance as measured by the table ranking individual fund IRRs.

Quartile: Points which lie a quarter away from the bottom (lower quartile) or top (upper quartile) of the table ranking the individual fund IRRs.

DPI: Distribution to Paid-In, measure of the cumulative investment returned relative to invested capital.

RVPI: Residual Value to Paid-In, measure of how much of the investors' capital is still tied up in the equity of the fund.

TVPI: Total Value to Paid-In, total of DPI and RVPI.

Mature funds: Funds started before January 1998.

SCOPE AND METHODOLOGY

The 2000 Investments Benchmarks Report is the latest and most representative to date in the series of independent commercial studies undertaken by Bannock Consulting and Venture Economics with full co-operation from EVCA. It contains detailed statistical measures including distribution and valuation ratios from data on some 497 funds, representing €68bn of committed capital, formed between 1980 and 1999. The aim is to broaden the scope and improve the methodology of the study each year. As a result of last year's endeavors, this year's sample data was broader in scope than the 1998 sample, which included Ecu 39.2bn of committed capital in 375 funds.

In light of the changes in fund life cycles over the past few years, the standard for the maturity of the funds was changed this year to two years across all stages, bringing Europe into line with the US. The former measure of maturity was four years for venture funds and two years for buyout funds.

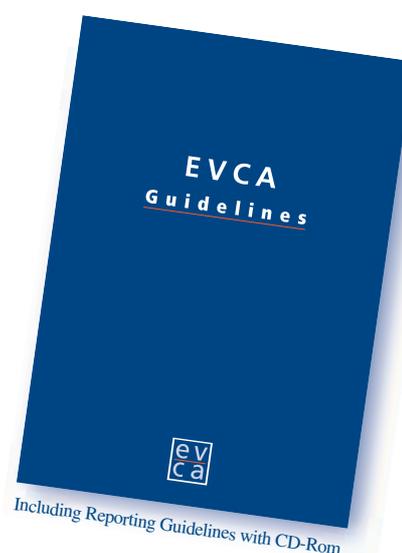
The survey's coverage will continue to improve as it is seen to be in the interest of all participants in the industry that benchmarks are as reliable as possible.

ORDERING THE FULL REPORT

The "2000 Investment Benchmarks Report: Private Equity" can be ordered from Venture Economics, at the price of \$995. All EVCA Members are entitled to a discount of 15% (\$845). Contact Toby Walters at phone number 1 973 353 7178 or by e-mail tobin.walters@tfn.com

EVCA INVESTORS CONFERENCE GENEVA

The preliminary performance results of the Investment Benchmarks study were presented at the EVCA Investors Conference in Geneva in March 2000. Over 400 participants from 26 different countries attended the conference, organised by EVCA specifically with the interests of the investor community in mind. Also presented and introduced at this event were the EVCA Reporting Guidelines, created to assist in the evaluation of fund performance. Both the Reporting Guidelines, including a CD-Rom with template, and the Proceedings of the Conference can be ordered from the EVCA Secretariat, Minervastraat 6, 1930 Zaventem, Belgium - Tel 32 2 715 00 20 - Fax 32 2 725 07 04 - E-mail: evca@evca.com.



MARK YOUR AGENDA:

The EVCA INVESTORS CONFERENCE 2001 will take place in Geneva, 21-22 March!



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The European Private Equity and Venture Capital Association, more commonly known as EVCA, exists to represent the European private equity sector. With over 650 members throughout Europe, EVCA's many roles include providing information services for members, creating networking opportunities, acting as a lobbying and campaigning organisation and working to promote the asset class both within Europe and throughout the world. EVCA's activities cover the whole range of private equity, from early-stage seed capital to development capital, and buyouts and buyins to the flotation of venture-backed companies. While the information in this publication is believed to be correct, EVCA cannot accept any responsibility for any loss, damage or other liability incurred by users or any other persons arising from its contents.