



2003 performance figures reveal a year of few exits but returning confidence

Thomson Venture Economics Investment Benchmarks Study in co-operation with EVCA

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The European private equity and venture capital industry's preliminary performance figures for 2003 saw a slight decrease on 2002 with annualised net pooled internal rate of return (IRR) of 9.7% across Europe, as compared with 10.8% in 2002. The preliminary long term IRR figures, compiled by EVCA and Thomson Venture Economics and announced at EVCA's annual International Investors Conference in Geneva today, are measured for the 24 years since 1980.

2003 saw a fall in write offs, as compared to 2002 while fund managers in 2003 continued to write down their under performing investments, in line with EVCA guidelines. But they continued to support through follow-on investments their most promising portfolio companies.

During the first half of the year, there were few exits with the public markets all but closed, and M&A activity was sparse. Confidence returned as the second half of 2003 and 2004 have already seen some notable private equity and venture capital exits.

The 5 and 10 year investment horizon returns (see Investment Benchmarks tables 1 and 2) across all stages of investment currently stand at 7.2% and 11.7% respectively. The 5 and 10 year horizon returns for venture capital stand at 2.5% and 8.3%. Buyouts, still the strongest area for returns in this cycle, indicate 5 year horizon returns of 9.3% and 10 year returns of 12.5%.

Short term returns continue to be negative with a 1 year horizon return at -11.6% for all venture capital and at -4.1% for the whole industry. Compared to short-term returns in 2002 (i.e. -30.7% for venture capital and -9.2% for all private equity), these 2003 figures suggest that the downward trend is levelling out. Alongside the economic recovery appearing in the second half of 2003, this gives cause for optimism going forward.

Table 1 – Returns are net to investors after fees and carried interest

Preliminary Investment Benchmarks - Private Equity Performance				
Investment Horizon Returns 31 Dec 2003 (%)				
Stage	1 year	3 year	5 year	10 yr
Early stage	-13.4	-11	-1.7	1.5
Development	-6	-5	4.6	10.7
Balanced	-12.9	-10.7	4.5	11.7
All venture	-11.6	-9.2	2.5	8.3
Buyouts	-1.8	0.5	9.3	12.5
Generalist	2.4	-10.7	8	14.7
All private equity	-4.1	-4.1	7.2	11.7
Source: Thomson Venture Economics and EVCA				

Table 2 – Returns are net to investors after fees and carried interest

Preliminary Investment Benchmarks: Private Equity Performance				
Since inception (1980) - returns to 31 Dec 2003				
Stage	Pooled (%)	Upper quartile (%)	DPI	RVPI
Early stage	2.0	5.3	0.43	0.63
Development	9.0	8.5	0.80	0.69
Balanced	8.4	11.2	0.70	0.57
All venture	7.1	7.4	0.64	0.62
Buyouts	12.1	16.5	0.66	0.67
Generalist	9.2	7.2	0.98	0.37
All private equity	9.7	10.9	0.72	0.6
Source: Thomson Venture Economics and EVCA				

When looking at long term results for the private equity industry, it is important to note that investors will choose different investment categories for different reasons. Depending on their appetite for risk and length of investment investors can choose anything from funds focused on early stage start up companies to funds that focus on buyouts of mature companies. Historically, the large amounts of money in Europe have gone in to big buyout investments, with venture investing gaining ground during the late 1990s. While the absolute IRR measure presented in table 1 indicates the overall return, it is important to separate the realised portion (DPI) of that return from the unrealised return (RVPI). As of the end of 2003, for every euro invested in private equity since inception, investors can expect 1.32 euro in return. From this expected amount, already 0.72 euro has been distributed to investors, while 0.60 euro is still invested.

Commenting on the 2003 performance figures Jean-Bernard Schmidt, EVCA Chairman 2003-2004 and Chairman and Managing Partner, Sofinnova Partners, said: "Despite 2003 having been a difficult year in which to achieve good returns for our investors, during the last quarter the industry began to look ahead to 2004. Fund managers supported portfolio companies through the end of the economic downturn but nevertheless had to write down part of their portfolios, in accordance with our industry guidelines, which inevitably is reflected in the year's figures. Overall, the improving environment gives us optimism for better returns in 2004."

According to Jesse Reyes, Vice President of Global Research for Thomson Venture Economics: "Although short term results provide some information as to whether performance is improving, private equity must ultimately be measured in the long run. Funds are trying to get into a healthier position by writing down weaker investments in preparation for what appears to be a resurgence in confidence and in fund raising in the near term." Reyes adds, "Investment performance results are of primary importance to private equity investors who want to make sure that they invest in the best funds in the industry since the investments have fixed lives of 10 years. The downturn in the industry over the last few years hasn't affected the appetite for investors interest in private equity, with some investors increasing their investment allocations to private equity both in the US and in Europe".

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Notes for editors:

1. **The European Private Equity and Venture Capital Association (EVCA)** established in 1983 and based in Brussels, promotes, facilitates and represents the needs and interests of the private equity and venture capital industry in Europe. EVCA has over 950 members in 36 countries, including the leading fund managers in the European private equity and venture capital industry. In 2002, the private equity industry raised €27,5 billion from institutional investors and invested €27,6 billion in Europe's growth companies.
2. **Thomson Venture Economics**, a Thomson Financial company, is the foremost information provider for private equity professionals worldwide. Thomson Venture Economics offers an unparalleled range of products from directories to conferences, journals, newsletters, research reports, and the VentureXpert (tm) database. For over 35 years, Thomson Venture Economics has been tracking the venture capital and buyouts industry. Since 1961, it has been a recognized source for comprehensive analysis of investment activity and performance of the private equity industry. Thomson Venture Economics maintains long-standing relationships within the private equity investment community, in-depth industry knowledge and proprietary research techniques. Private equity managers and institutional investors alike consider Thomson Venture Economics information to be the industry standard. For further information about Thomson Venture Economics, visit www.ventureeconomics.com.

Terminology

Venture Capital	Refers to Early-Stage (=seed and start-up) and Expansion finance
Private Equity	Provides equity capital to enterprises not quoted on a stock market and refers to all stages of industry, i.e. Venture Capital and Buyouts.
IRR Internal Rate of Return	The IRR is the interim net return earned by investors (Limited Partners), from the fund from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return using monthly cash flows to and from investors, together with the Residual Value as a terminal cash flow to investors. The IRR is therefore net, i.e. after deduction of all fees and carried interest. In cases of captive or semi-captive investment vehicles without fees or carried interest, the IRR is adjusted to created a synthetic net return using assumed fees and carried interest.
Pooled IRR	The IRR obtained by taking cash flows from inception together with the Residual Value for each fund and aggregating them into a pool as if they were a single fund. This is superior to either the average, which can be skewed by large returns on relatively small investments, or the capital weighted IRR which weights each IRR by capital committed. This latter measure would be accurate only if all investments were made at once at the beginning of the funds life.
Horizon IRR	The Horizon IRR allows for an indication of performance trends in the industry. It uses the fund's net asset value at the beginning of the period as an initial cash outflow and the Residual Value at the end of the period as the terminal cash flow. The IRR is calculated using those values plus any cash actually received into or paid by the fund from or to investors in the defined time period (i.e. horizon).
5 year Rolling IRR	The 5 year Rolling IRR shows the development of the five year Horizon IRR, measured at the end of each year.
DPI - Distribution to Paid-In	The DPI measures the cumulative distributions returned to investors (Limited Partners) as a proportion of the cumulative paid-in capital. DPI is net of fees and carried interest. This is also often called the "cash-on-cash return". This is a relative measure of the fund's "realized" return on investment.
RVPI - Residual Value to Paid-In	The RVPI measures the value of the investors' (Limited Partner's) interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund's "unrealized" return on investment.
Residual Value	The estimated value of the assets of the fund, net of fees and carried interest.
TVPI - Total Value to Paid-In	TVPI is the sum of the DPI and the RVPI. TVPI is net of fees and carried interest and is also known as the 'multiple'.
Mature funds	Funds that have been in existence for over two years.

Early Stage Fund	Venture capital funds focused on investing in companies in the early part of their lives.
Development Fund	Venture capital funds focused on investing in later stage companies in need of expansion capital.
Balanced Fund	Venture capital funds focused on both early stage and development with no particular concentration on either.
Buyout Fund	Funds whose strategy is to acquire other businesses; this may also include mezzanine debt funds which provide (generally subordinated) debt to facilitate financing buyouts, frequently alongside a right to some of the equity upside.
Generalist Fund	Funds with either a stated focus of investing in all stages of private equity investment, or funds with a broad area of investment activity.

