

Press Release

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CREATING LASTING VALUE



THOMSON REUTERS

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Private equity and venture capital performance remains stable during downturn

Brussels, Thursday, 21 June 2012: the European Private Equity and Venture Capital Association (EVCA) and Thomson Reuters today release the '[Performance Report 2011](#)', which demonstrates that European private equity and venture capital fund returns to investors have remained stable through difficult economic times.

The [EVCA 2011 Performance Report](#) shows that:

- The **net-pooled IRR*** of the 1,431 funds included in the study was **8.95%**.
- Return for buyout funds slightly reduced to 11.4% (12.7% in 2010), while returns for venture funds increased to 1.5% (0.5% in 2010).
- Buyout and venture funds in the **top quartile remained stable at a net pooled IRR of 22.54%** (22.81% in 2010). Buyout funds in the top quartile recorded 30.09% (32.2% in 2010) whereas venture in the top quartile remained constant at 13.2%.
- The challenging economic conditions are reflected in negative performance of public market comparators such as Morgan Stanley Euro Equity (MSCI) with -9.72%*** (-3.55% in 2010) and HSBC Small Company Equity with -6.20%*** (3.47% in 2010).

Vincenzo Morelli, Chairman of the EVCA, commented: "Private equity continues to generate solid returns for investors even during the worst economic downturn in living memory. This stability is core to the asset class' appeal to pension funds, insurance companies and other investors with long-term liabilities."

"While the overall return from venture capital remains low, it is encouraging to see it is on the rise. With European clusters of innovation now firmly established across the continent, now may well be the time for investors to catch this rising tide".

Leon Saunders Calvert, Global Head of Deals and Private Equity at Thomson Reuters, said: "Our statistics demonstrate that as a long term investment option, private equity remains a highly compelling asset class capable of delivering superior returns. European private equity practitioners continue to demonstrate that they can adapt the business model to the challenges presented by the subprime mortgage and sovereign debt crises and the subsequent regulatory



impudence. As an agent for economic stimulation and growth, private equity has an important role to play in support of economic recovery in the Eurozone and the wider region.”

Key findings

- **Overall Results:** From inception to 31 December 2011, the net-pooled IRR for the 1,431 independent private equity funds covered (including buyout and venture) was 8.95%. Return for buyout funds reduced to 11.42% (12.7% in 2010) while return for venture funds increased to 1.51% (0.5% in 2010).
- **Top Quartile:** Private equity funds in the top quartile remained stable at a net pooled IRR of 22.54% (22.81% in 2010). Buyout funds in the top quartile recorded 30.09% (32.2% in 2010) whereas venture in the top quartile remained constant at 13.2%.
- **Top Half:** Private equity funds in the top half showed a net pooled IRR of 13.95% (14.36% in 2010). Buyout funds in the top half recorded 19.23% (20.2% in 2010) whereas venture in the top half had 8.04% (8.3% in 2010).
- **Fund size:** By fund size, the best-performing funds in the buyout sample were in the €250m to €500m range - recording 20.0% net return since inception as well as in the short-term with a 1-year horizon IRR**. Only buyout funds between €500m to €1bn were fairly consistent in the short (1-year 7.26%), medium (5-year 7.30%) and long-term (10-year 7.09%). On the venture side funds of more than €250m had the best result in the long-run (10-year IRR). Funds between €100m to €250m dominated the short-run (1-year horizon IRR of 6.78%).
- **Vintage year:** In terms of vintage-year groupings, the highest returns were registered by the vintage 1990-1994 (15.6% IRR) and 2000-2004 (12.58% IRR). Therefore, this finding suggests that testing economic conditions generate superior performance. Specifically, 2000-2004 vintage buyout funds registered the best returns, with an IRR of 18.28%. The best-performing venture funds were 1990-1994 vintage, which reached a pooled net IRR of 13.11%. The best vintage year with regards to returns was 1995 at 42.72% while the highest TVPI multiple was recorded in 1994 at 2.91. In the last 10 years of private equity activity the 2009 vintage produced the best returns at 29.92%, while 2001 had the best TVPI at 1.66.
- **Performance by geography:** The 2011 performance ranking by stages and geographical location on a 5-year horizon was as follows: US buyouts (5.50%), US venture (3.54%), European buyouts (2.41%) and European venture (-0.14%). The US performed better than Europe over the short term of a 1-year horizon (12.80% for the US and 4.75% for Europe). The financial crisis was reflected more strongly in the 3-year horizon IRRs for Europe,



however, while in the long term the European private equity market rendered better returns (5.62% for all private equity in Europe versus 3.54% in the US for 10-year horizon IRRs).

- **Currency influence:** Currency denomination of the underlying funds in a portfolio appears to have a significant impact on private equity returns. For all private equity, from 1 to 3-year horizon IRR, performance based on the EUR denomination outperformed the results in USD or in GBP. This finding was reversed when considering the 10-year horizon IRR into account.
- **Public Market Indicators:** The challenging economic conditions are reflected in negative performance of public market comparators such as Morgan Stanley Euro Equity (MSCI) with -9.72% (-3.55% in 2010) and HSBC Small Company Equity with -6.20% (3.47% in 2010). In spite of these challenging conditions Private Equity performance remained positive with a 5-year rolling IRR 1.55% (5.45% in 2010). JP Morgan Eurobonds (EMBI+) capturing emerging markets showed positive performance of 9.91% (7.22% in 2010).

***Net Pooled IRR**

This is an IRR obtained by taking cash flows since inception together with the residual value for all funds 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 the capital committed. This latter measure would be accurate only if all investments were made at once at the beginning of the funds' life. A net pooled IRR does not take fees into account.

****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). A 5-year horizon looks back from the end of 2010 over five years to the end of 2004 and so on.

*****Rolling IRR**

The 5-year rolling IRR shows the development of the 5-year-horizon IRR, measured at the end of each year. One-, 3- and 10-year rolling IRRs are produced in the same way.

Note:

Private equity performance statistics need to be interpreted in the context of professional investments. Beyond this data is a complex investment process that needs to be factored in to evaluate the actual performance of the asset class.

Disclaimer

The information presented in this report has been gathered directly from private equity funds active in Europe by Thomson Reuters on behalf of the EVCA. Both companies have taken steps to ensure that the data has been obtained from reliable sources; however, neither firm can guarantee the data's ultimate validity. Every effort has been made to collect data that is as accurate as possible, but no independent auditing or review of this data has been performed. The EVCA and Thomson Reuters do not accept responsibility for any decision made or action taken based on this report or the data provided herein

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European Private Equity & Venture Capital Association

EVCA is the voice of European private equity and venture capital.

We promote and protect the interests of our more than 1,300 members, to ensure they can conduct their business effectively. EVCA engages policymakers and promotes the industry among key stakeholders, including institutional investors, entrepreneurs and employee representatives. EVCA develops professional standards, research reports and holds professional training and networking events. EVCA covers the whole range of private equity, from early-stage venture capital to the largest buyouts.

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Building on the well-established position and research practices of Thomson Venture Economics, Thomson Reuters has provided private equity information for over 30 years. Today, our private equity performance benchmarks are considered the industry standard for unbiased third-party benchmarking. Thomson Reuters produces comprehensive benchmarks covering over 4,000 funds, available over the [ThomsonONE.com](https://www.thomsonone.com) platform.

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