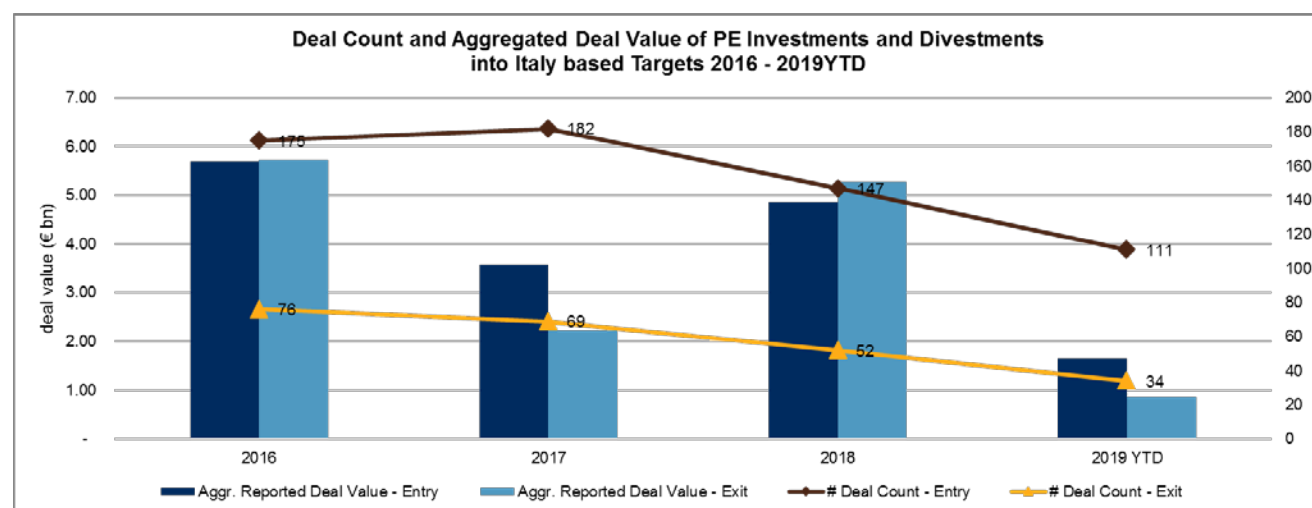


Essential tools for strategic decision

Lower Mid-market Deals Dominate Italy's PE Activity

In March 2019, Cassa depositi e prestiti S.p.A (CDP Group),¹ Italy's state-owned development finance institution, announced plans to deploy €83bn of capital to the Corporate sector in the next three years. In 2018, the institution supported enterprises through loans, investments and guarantees worth €30.2 billion and, through its activity, attracted €27 billion of additional resources from private investors and other institutions.²



Data as of 30/09/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

The announcement provides some reassurance to the private sector at a time when economists are predicting the country will fall into a “perma-recession” in the short-to medium-term.³

The country's Real Gross Domestic Product (GDP) grew by only 0.73% in 2018 and fell by 0.06% in Q1 2019 and 0.05% in Q2 but recovered by 0.2% in Q3. On the other hand,

¹ Cassa depositi e prestiti S.p.A. (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/company/tearsheet.aspx?companyId=20459667>

² Cassa depositi e prestiti S.p.A Draft Financial Statement (As of 18/10/2019) Retrieved from https://www.cdp.it/sitointernet/page/en/cdp_net_income_2018_up_to_25_billion_cdp_group_36_billion_euro_of_new_lending_and_63_billion_euro_of_activated_investments_to_support_enterprises_infrastructures_and_local_areas?contentId=CSA21024

³ “Italy's 'perma-recession' could trigger a €2 trillion financial crisis that threatens the eurozone itself.” Business Insider (As of 18/10/2019) Retrieved from <https://www.businessinsider.com/italy-perma-recession-systemic-crisis-threatens-eurozone-2019-4>
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Public Debt/GDP increased by 0.97% to 132.18% in 2018 and is projected to rise to 132.40% in 2019, to make it the second highest in the Eurozone after Greece.⁴ In such uncertain times, sustaining a healthy inflow of new money from local and foreign investors to the private sector could prove pivotal for the fourth largest economy in the Eurozone.

Over the study period (January 1, 2016 - September 30, 2019), Italian companies collectively attracted €15.8bn of global GPs' capital across 615 entry deals.⁵ This puts Italy in fifth place in Europe, just behind Spain, who attracted approximately €17.5bn across 694 deals from 2014 till Q2 2019.

Characteristically, the majority of PE deals in Italy during our study period fell into the lower mid-market range of <€50m (262 out of 615 total deals). Notably, the average deal size in this range increased from €4.9m in 2017 to €7.2m in 2018 and to €8.4m in 2019YTD.

Overall, there were only three reported mega deals north of €1bn across the study period, one in each year. In 2016, InvestIndustrial acquired Artsan S.p.A for a reported €1.2bn.⁶ In 2017, Allianz Capital Partners, DIF and Silk Road Fund acquired Autostrade per l'Italia SpA for a reported €1.5bn⁷ and, in 2018, a consortium led by CVC Capital Partners acquired Fime - Finanziaria Industriale Mobiliare ed Immobiliare S.P.A., a pharmaceutical holding company, in a deal worth €3bn.⁸ Removing the mega-deals from the equation, however, puts a different light on the PE entry activity into Italy's market. The data reveals a steadily declining aggregate deal value over the observed period and a sharp fall in average reported deal sizes across all deals, from €46.4m in 2016 to just €28.1m in 2018 and rising again to €37.3m in 2019YTD. The latter is due to another concluded high value deal of €1bn paid by The Carlyle Group L.P. (NasdaqGS:CG) for Forgit Italy S.p.A. (Diversified Metals and Mining) from the Spezzapria family and Fondo Italiano d'Investimento.⁹ The deal marked Carlyl's biggest reported entry deal in Italy since the acquisition of Avio SpA in 2003 for €1.5bn (sold three years later for €2.4bn) and would represent a good return for the earlier mentioned CDP Group, who is a Limited Partner of Fondo Italiano d'Investimento. It appears that the U.S. PE giant is betting big on Italy, with the additional acquisition of Golden Goose Srl,¹⁰ Irca S.p.A. and the creation of an interior design group in partnership with Investindustria, all of which took place in the past two and a half years. The timing could just be right as the country's family-owned

⁴ Macroeconomics data (As of 18/10/2019) S&P Global Market Intelligence. Retrieved from <https://platform.marketintelligence.spglobal.com/web/client?auth=inherit#country/economicDemographic?keycountry=IT>; Eurostat (As of 2/7/2019). Retrieved from <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1>

⁵ Real Estate and Infrastructure asset deals were excluded from the screening.

⁶ Artsan S.p.A (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=330870037&companyId=8141861>

⁷ Autostrade per l'Italia SpA (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=429050934&companyId=10405454>

⁸ Fime - Finanziaria Industriale Mobiliare ed Immobiliare S.P.A. (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=572482617&companyId=12917162>

⁹ Forgit Italy S.p.A. (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=616267921&companyId=5722303>

¹⁰ Golden Goose Srl (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=418984831&companyId=268829476>

businesses look to cash in on today's high valuations — and on the back of the struggling national economy.¹¹

Table 1: Entry Deal Count and Value by Size

	2016	2017	2018	2019 YTD	Grand Total
Lower Mid-Market	Entry deal with values between €0 to €50m				
Deal Count	83	82	55	42	262
Aggr. Deal Value	€ 412.7	€ 398.4	€ 397.9	€ 351.9	€ 1,560.9
Middle Mid-Market	Entry deal with values between €50 - €500m				
Deal Count	11	8	10	2	31
Aggr. Deal Value	€ 2,033.6	€ 1,161.6	€ 1,430.7	€ 296.4	€ 4,922.3
Upper Mid-Market	Entry deal with values between €500m - €1bn				
Deal Count	3	1	-	1	5
Aggr. Deal Value	€ 2,056.6	€ 520.0	-	€ 1000.0	€ 3,576.6
Mega Deal	Entry deal with values greater than €1bn				
Deal Count	1	1	1	-	3
Aggr. Deal Value	€ 1,200.0	€ 1,500.0	€ 3,030.0	-	€ 5,730.0
Not Disclosed	Deal value not reported				
Deal Count	77	90	81	66	314
Aggr. Deal Value	n/a	n/a	n/a	n/a	n/a
Total Count	175	182	147	111	615
Total Deal Value	€ 5,702.9	€ 3,580.0	€ 4,858.6	€ 1648.3	€ 15,789.8

Data as of 30/09/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

Industrials Sector Dominates Italy's PE Exit Activity

Across the study period, the Industrials sector leads the way in terms of exit value and number of deals accrued, followed by Consumer Discretionary and Materials. Every third PE exit deal in 2018 and every second deal in the three quarters of 2019 can be pinned to the Industrials sector. In particular, the Industrial Machinery sub-sector has been dominated constant in both deal count and value over the past seven quarters, with 16 exit deals worth €1.09bn out of a total 33 deals (\$1.6bn) within the Industrials sector as a whole.¹²

Table 2: Italy's Industrial Machinery PE Backed and Independent Private Companies

	Count of Total Revenue 2017 (€m)						Grand Total
	Undisclosed	< €50m	€50-150m	€150-300m	€300-500m	> €500m	
Independent Corporation	1109	1563	74	11	2	2	2761
Sponsor Backed	57	57	20	1	2		137
Grand Total	1166	1620	94	12	4	2	2898

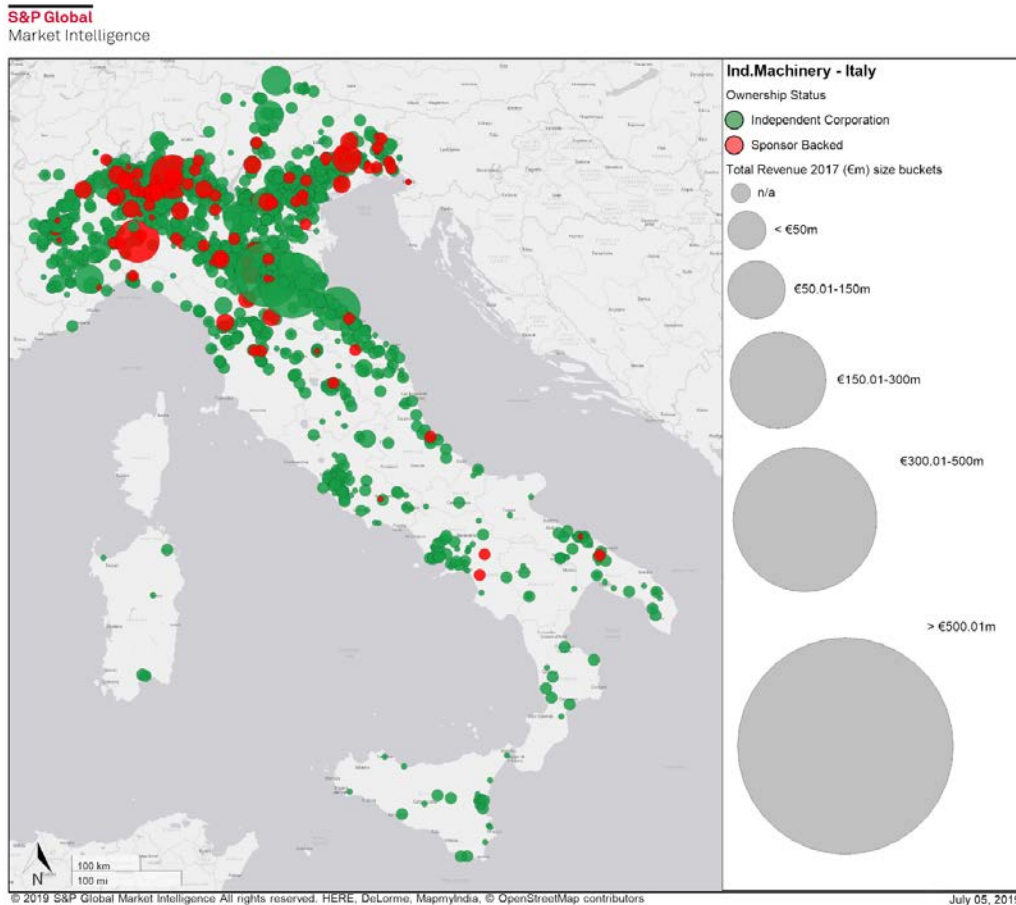
Data as of 30/09/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

¹¹ "Carlyle Foresees Record Year for Deals in Italy." (As of 18/10/2019) Business Insider. Retrieved from <https://www.businessinsider.com/italy-perma-recession-systemic-crisis-threatens-eurozone-2019-4>

¹² Not considering Nuovo Trasporto Viaggiatori S.p.A. mega-deal in the Railroad sub-sector. Global Infrastructure Partners acquired the company for a reported €2.65bn. 12 out of 33 deals had a deal value reported. (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=551897601&companyId=46894753>

A geospatial analysis (Figure 1) of Italy's Industrial Machinery sub-sector reveals that there are 137 sponsor-backed (red bubble) and 2761 independent corporations (green bubble) active in the market at the present time. Breaking it down further by revenue buckets for FY 2017, the majority of PE-backed firms (57) reported a revenue below €50m, while only two PE-backed firms operate in the €300-500m bucket, and none above that. One of the larger PE-backed firms is Valvitalia,¹³ where CDP Equity (previously Fondo Strategico Italiano), the investment arm of CDP Group, owns a 49.5% stake in the firm. The other firm of note is Evoca S.p.A, acquired in early 2016 by the U.S.-based Lone Star Funds from Equistone Partners Europe and Investcorp Bank B.S.C. (BAX:INVCORP).¹⁴

Figure 1: Italy's Industrial Machinery Landscape



Data as of 30/09/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

With only one quarter to go in 2019, it appears that the PE entry and exit deal activity in Italy will be weakening further from its highs in 2017. Nevertheless, Italy's PE market has proven to be very resilient despite the uncertainties around the country's economic outlook as well as general macro- and geopolitical risk across Europe. The substantial "dry powder" accumulated by major global PE players will need to be put to work and it will be hard to ignore Italian assets with competition for assets romping up across Europe. Furthermore, regional and specialised PE and governmental

¹³ Valvitalia SpA (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/company.aspx?leftlink=true&companyId=13449255>

¹⁴ Evoca S.p.A. (As of 18/10/2019) S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=326305047&companyId=3609112>

institutions are also keeping their eyes on the ball when it comes to spotting selective investment opportunities and supporting local private corporations with fresh capital.

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