



ITALY

Italy



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Senior reporter

Value drops despite buoyant dealflow

A stagnant economy has left Italy struggling to reduce its national debt, but these worries did not deter small-cap investors or the fundraising market. Alessia Argentieri reports

The Italian political landscape was dominated by conflicts and uncertainty in 2019, which affected the country's macroeconomic

indicators and the private equity industry, resulting in a drop in deal value despite strong dealflow.

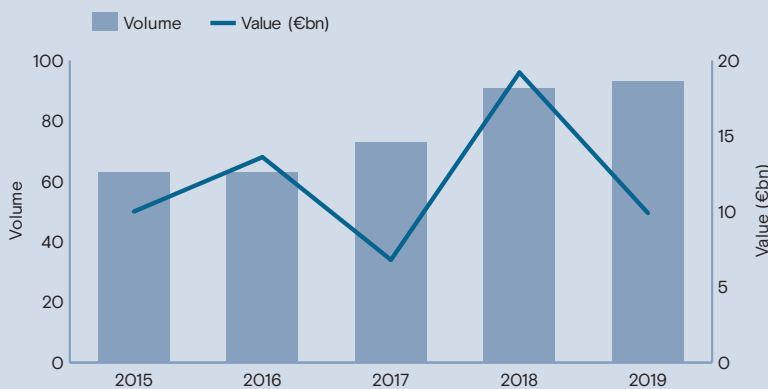
At the beginning of August, Matteo Salvini, leader of the far right party League and at the time also deputy prime minister and interior minister, withdrew his party from the coalition with the anti-establishment Five Star Movement (M5S) and issued a no-confidence motion in Giuseppe Conte's government in order to force a snap election while his party was well ahead in the opinion polls.

Instead, a new coalition government led by Conte was formed in September with an alliance between M5S and the centre-left Democratic Party (PD). The new government embraced an EU-friendly approach and less rigid immigration policies, while promising to stimulate economic growth without endangering public finances.

Despite this outcome, the country's economy has been stagnating and GDP growth slowed down in 2019 to 0.1%, according to the most recent European Commission forecast. Annual growth is expected to slightly pick up in 2020 to 0.4% and increase to 0.7% in 2021.

Government debt was 136.2% of GDP at the end of 2019 and is forecast to increase to 136.8% in 2020 and 137.4% in 2021. However,

Private-equity-backed buyouts



	2015	2016	2017	2018	2019
Volume	63	63	73	91	93
Value (€bn)	10.0	13.6	6.8	19.2	9.9
Average value (€m)	159	216	93	211	106
% of European volume	7.8%	7.1%	7.0%	8.4%	8.3%
% of European value	7.4%	10.6%	4.4%	9.1%	4.9%

Source: Unquote Data

the unemployment rate edged down to 9.7% in December and the youth unemployment rate stabilised at 31.5%.

Shrinking deal size

Political uncertainty and worrying macroeconomic indicators affected private equity activity in the country, which saw a significant decrease in deal value, plunging to €9.9bn from the €19.2bn recorded in 2018, a 48% reduction. However, deal volume was buoyant and reached a record number of 93 buyouts, according to *Unquote Data*.

The contraction in aggregate value is attributable to the decrease in mega-deals (buyouts worth €1bn or more). There were only two in 2019 - the acquisition of machinery producer Forgital and the purchase of pharma company Doc Generici - for a total of around €2.1bn. By comparison, in 2018 the country recorded four mega-deals worth a total EV of €10.1bn.

Overall, in 2019 the average deal size decreased from €211m to €106m. However, the mid-market performed well across all segments and reached the same high levels of the year before. There were 25 buyouts in the €25-50m bracket, compared with 22 in 2018, and 42 in the €50-250m range, up slightly from 40 in the previous year, according to *Unquote Data*.

“This reduction in average deal size is a consequence of the contraction in large deals triggered by a more conservative approach adopted by both corporate and financial sponsors in their investment strategies,” says DC Advisory Italy CEO Alberto Vigo. “However, most Italian



“Most Italian companies are small and mid-sized family-run businesses with high growth potential and remain on the radar”

Alberto Vigo, DC Advisory



companies are small and mid-sized family-run businesses with high growth potential and remain on the radar of international investors.”

The consumer sector recorded a very strong year and maintained the positive run shown in the last decade, posting an increase on its 2018 figure. There were 48 deals inked across the sector, with a predominance of the personal goods and food and beverage segments.

It was also a busy year for the country on the sell side, which saw an increase in the number of exits to 69 from 65 in 2018. One of the highest exit valuations was recorded in the IPO of private-



equity-backed Nexi, a company specialising in payment technology, which floated on the Italian stock exchange following a €2.3bn private placement. The initial listing gave Nexi a market cap of €5.7bn and an enterprise value, including debt, of approximately €7.3bn, which equates to 17.2x the company's 2018 EBITDA.

Prior to the listing, Nexi was 93% owned by Mercury UK Holdco, which is controlled by private equity firms Bain Capital, Advent International and Clessidra Capital, while the remaining stake was held by a pool of banks, including Banco BPM, Credito Valtellinese and Banca Popolare di Sondrio.

Exploring new strategies

A rising number of Italian GPs pursued a multi-asset diversification strategy by enlarging and differentiating their fund offerings with the launch

of vehicles dedicated to private debt, special situations, credit recovery and non-performing loans. "A strategy focused on multi-asset diversification can be extremely successful, allowing GPs to allocate their resources across a wide array of segments, insulate their portfolios and satisfy the different investment appetites of their LPs," says Green Arrow Capital CEO Eugenio De Blasio. "This can be enticing for certain categories of institutional investors, such as pension funds, given their obligation to pay regular distributions to their subscribers. In addition, with this approach a GP can diversify its exposure between more cyclical asset classes – which can be affected by the economic climate, such as private equity – and more anti-cyclical and resilient segments."

The country also recorded a shift towards non-cyclical sectors able to offer consolidation opportunities – such as education and healthcare – which can prosper even if the economic and political climate deteriorates.

Furthermore, large buy-and-build platforms have become a common feature of Italy's private equity landscape. This aggregation strategy

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Eugenio De Blasio, Green Arrow Capital



has been particularly effective in the local fragmented market at a time when multiples are exceptionally high.

Food for thought

Ambienta's Aromata acquired Italian food specialist IPAM and French natural ingredients producer Nactis, with the aim of creating a platform focused on natural flavours and aromatic raw materials for the food industry. Meanwhile, Mandarin Capital bought Neronobile and bolted on Daroma to create an aggregation hub across the Italian coffee production sector.

"The Italian fragmented market offers a rich arsenal of great assets for building aggregation platforms via multiple add-on acquisitions," says



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Lorenzo Stanca, Mandarin Capital Partners

Mandarin Capital Partners managing partner Lorenzo Stanca. "With our Coffee Holding, for example, we plan to cover the entire coffee production supply chain, become a leader in the segment across Italy and penetrate other markets. Furthermore, in this environment of high valuations, building strong consolidation hubs can represent an excellent alternative approach able to generate high returns."

Looking at the coming months, it is very likely that both the diversification and the consolidation trends will further strengthen and become even more widespread across the country, while buyout and fundraising activity are expected to continue at a fast pace.

"The industry is rich in dry powder, the cost of debt remains low and the Italian market provides interesting investment opportunities at attractive multiple valuations," says Vigo. "There is a wide

array of high-quality, mid-sized companies with room for operational improvements and a need for fresh capital, which are likely to attract the interest of local and international funds in the coming months."

Fundraising record

Italy recorded exceptionally good fundraising activity in 2019. Buyout and generalist funds raised €6.8bn across 10 final closes, a noticeable increase compared with the €1.7bn raised in 2018, according to *Unquote Data*.

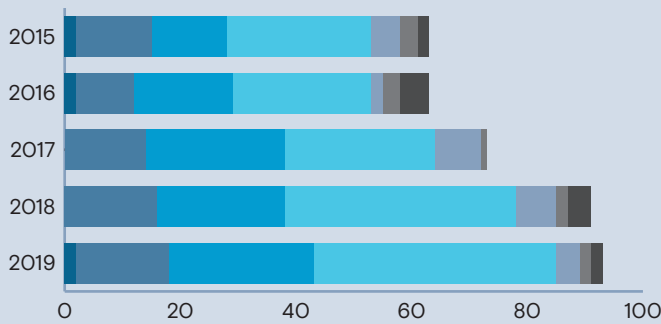
Among the largest final closes recorded last year was Investindustrial VII, which held a final close on €3.75bn, surpassing its initial target of €3bn. The fund was oversubscribed on the back of significant interest from existing investors who re-upped from Investindustrial VI – primarily pension funds and insurance companies from Europe as well as sovereign wealth funds, funds-of-funds, endowments and family offices from the US and Asia.

Other large closes recorded in 2019 included: FSI Mid-Market Growth Equity Fund, which hit its hard-cap of €1.4bn in February 2019; Wisequity V, which held a first and final close on its hard-cap of €260m in July 2019; Progressio Investimenti III, which also closed in July 2019 raising €250m; and Xenon Private Equity VII, which held a final close on €300m in November 2019.

Furthermore, several funds held their first closes over the year and are now wrapping up their fundraising, including Aksia Capital V and Mandarin Capital Partners III.

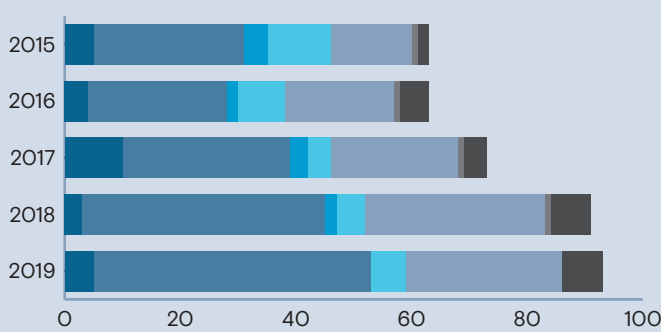
"The fundraising environment in the country has been very positive and dynamic," says Mandarin's Stanca. "An increasing number of Italian and international LPs are looking at the Italian market with strong interest. Despite its political ups and downs, Italy has proven an attractive and stable space for finding high-quality assets and putting to work the industry's increasing dry powder without sacrificing returns." ■

Italy buyouts by size range (volume)



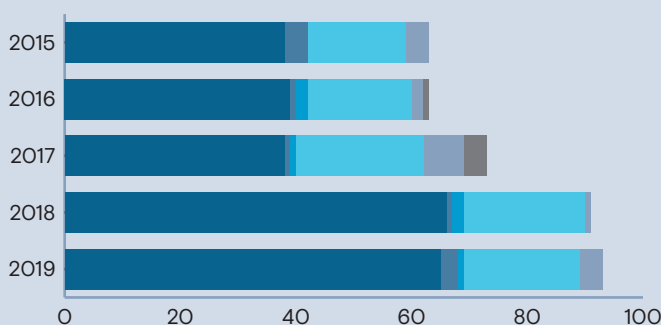
	2015	2016	2017	2018	2019
<€5m	2	2	0	0	2
€5-25m	13	10	14	16	16
€25-50m	13	17	24	22	25
€50-250m	25	24	26	40	42
€250-500m	5	2	8	7	4
€500-1bn	3	3	1	2	2
≥€1bn	2	5	0	4	2

Italy buyouts by super-sector (volume)



	2015	2016	2017	2018	2019
Business services	5	4	10	3	5
Consumer	26	24	29	42	48
Financials	4	2	3	2	0
Healthcare	11	8	4	5	6
Industrials	14	19	22	31	27
Media	1	1	1	1	0
Technology	2	5	4	7	7

Italy buyouts by vendor type (volume)



	2015	2016	2017	2018	2019
Family/Private	38	39	38	66	65
Foreign parent	4	1	1	1	3
Going private	0	2	1	2	1
Institutional investor	17	18	22	21	20
Local parent	4	2	7	1	4
Other	0	1	4	0	0

Source: Unquote Data

Italy exits 2019

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
ICBPI	Flotation	7,300	Bain Capital, Advent International, Clessidra Capital
Doc Generici	Secondary buyout	1,100 (est)	CVC Capital Partners
Moncler	Other	445	Eurazeo
Sorgenia France/Renvico	Trade sale	400 (est)	Kohlberg Kravis Roberts & Co
ATOP S.p.A.	Trade sale	380	Charme
Nuova Castelli	Trade sale	300 (est)	Charterhouse Capital Partners
Marelli Motori	Trade sale	260 (est)	Carlyle Group
Celli	Secondary buyout	250 (est)	Consilium
Gamenet	Secondary purchase	183	Trilantic Capital Partners
Farnese Vini	Secondary buyout	175 (est)	NB Private Equity Partners

93 Buyouts

Market edges ever closer to 100 mark

Smaller deals

Average deal value falls by half to €106m

48 consumer

Buyouts buck European slump

Italy funds 2019

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Investindustrial VII	Investindustrial	3,000	3,750
FSI Mid-Market Growth Equity Fund	FSI	1,200	1,400
Fideuram Alternative Investments - Mercati Privati Globali	Fideuram Investimenti	n/d	530
Xenon Private Equity VII	Xenon Private Equity	300	300
Wisequity V	Wise	260	260
Progressio Investimenti III	Progressio	225	250
Gradiente II	Gradiente	120	135
Arcadia Small Cap II	Arcadia	100	80
DeA Endowment Fund	DeA Capital	n/d	75
Fondo Agroalimentare Italiano	Unigrains	50	55

Italy deals 2019

Deal name	Business description	Deal value (€m)	Sector
Doc Generici	Producer and distributor of generic pharmaceutical products	1,100 (est)	Healthcare
Forgital Group	Manufacturer of industrial components	1,000	Industrials
Multiversity	Owner of online universities	n/d (500-1,000)	Consumer
Industria Chimica Emiliana	Producer of cholic acid	600 (est)	Industrials
Rino Mastrotto	Producer of leather	300 (est)	Consumer
Italcanditi	Producer of candied fruit and marron glacés	280 (est)	Consumer
Laminam	Manufacturer of ceramic products from furnishings	260 (est)	Industrials
Celli	Designer and manufacturer of beverage dispensing equipment	250 (est)	Industrials
Persidera	Operator of digital television signal transmission networks	240	Technology
Gruppo Menghi	Manufacturer of shoes and accessories	n/d (50-250)	Consumer
Phoenix International	Manufacturer of dies for aluminium extrusion	n/d (50-250)	Industrials
Manifattura Valcison	Manufacturer of sports clothing	200 (est)	Consumer
Antas	Integrated energy management service	180 (est)	Business services
Farnese Vini	Producer and retailer of wines	175 (est)	Consumer
Cebat	Provider of high voltage underground cables	n/d (50-250)	Business services
AMF	Manufacture of snap buttons and personalised accessories	150 (est)	Consumer
De Wave	Provider of boat-fitting services for boats	n/d (50-250)	Industrials
Enoplastic	Manufacturer of plastic caps for wine bottles	n/d (50-250)	Industrials
Dolciaria Acquaviva	Manufacturer of frozen baked goods	n/d (50-250)	Consumer
Vetriere Riunite	Producer of glass	110	Industrials