Gatti Pavesi Bianchi

Weathering the storm

Italian M&A in 2017–H1 2018

Mergermarket

An Acuris company

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H1 2018

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286 deals
Volume on track to match 2017 level

€23.8b
Value on track to match 2017 levels

8
out of top 10 deals in Italy in H1 2018 include an overseas bidder

H1 2018

Sector watch

- Largest sectors by volume 2016–17
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Largest sectors by volume 2016–17

31%	Industrials and Chemicals
17%	Consumer
10%	Energy, Mining and Utilities

Largest sectors by value 2016–17

31%	Consumer
27%	Financial Services
11%	Industrials and Chemicals

The Italian M&A market in focus

Despite a somewhat stormy political and economic climate, the Italian M&A market has shone through the dark clouds

Despite a period of political upheaval and economic volatility, Italian M&A activity has performed strongly over the last 18 months. Deal volume in 2017 climbed 8% on 2016 figures to reach a record high of 586 deals. Total deal value last year was the second-largest ever at more than €60 billion, a fifth higher than the €50 billion secured in 2016 and not far off the record of €65 billion posted in 2015.

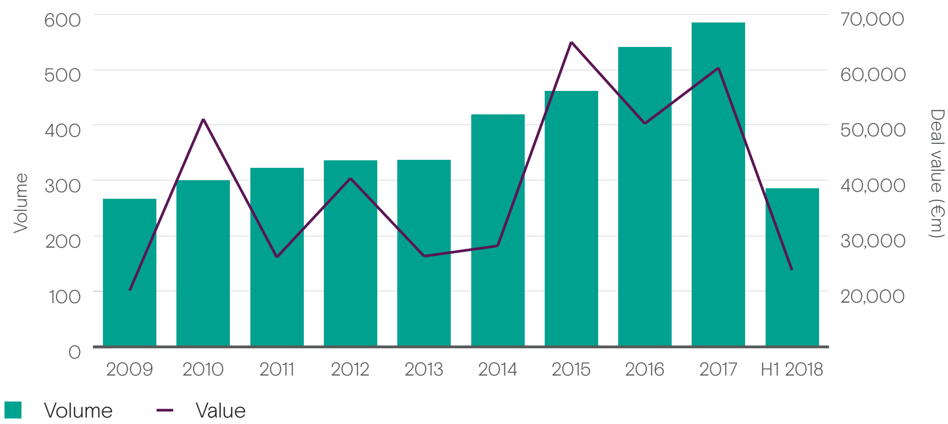
Even though Italy has had to endure a period of protracted uncertainty following elections in March 2018, which failed to deliver an outright majority and led to drawn-out coalition-government negotiations that only concluded at the end of May, deal activity has continued apace this year, with 286 deals worth €23.8 billion announced in H1 2018. This puts the Italian deal market on track to match the M&A figures seen in 2016 and 2017.

As the country's economy has stabilised somewhat following the credit crunch (Italy suffered negative growth in three of the five years between 2009 and 2013, according to the OECD), M&A in Italy has thrived. The number of Italian deals has grown consecutively for nine years and more than €50 billion has been invested in Italian targets in each of the last three years.

INTERNATIONAL RELATIONS

A key driver supporting deal activity has been strong interest in Italian companies from foreign buyers. Eight of the ten largest deals in Italy in H1 2018 involved an overseas bidder and, in 2017, three of the ten biggest transactions were led by acquirers from abroad.

ITALIAN M&A, 2009-H1 2018



Foreign buyers have been attracted to the proven capability of Italian companies to build world-class products and brands. The Made in Italy trademark, which has been in use since 1980, is tightly regulated by legislation and has become synonymous with quality workmanship and design around the globe. According to the Italian Trade Agency (ITA), this reputation for quality has helped Italy deliver a manufacturing trade surplus of close to €100 billion, making it the fifth-largest exporter of goods in the G20 and the second-largest exporter of goods in Europe.

Italian business leaders, particularly in the food, consumer, manufacturing and industrials sectors, have proven adept at building global distribution chains and exporting worldwide. They have also demonstrated their willingness to leverage M&A as a tool to open up new markets around the world, paving the way for foreign dealmakers to invest.

286

The number of deals in Italy in the first half of 2018

€23.8

The value of Italian M&A deals in the first half of 2018

The sale of a 75% stake in Italian ecommerce platform YOOX Net-A-Porter (YNAP) to Switzerland's Richemont in May 2018, for example, was part of YNAP chief executive Federico Marchetti's strategy to supercharge growth through expansion into new markets such as China. The €2.64 billion sale to the Swiss luxury group, with its vast business networks and resources, was seen by Marchetti as crucial for executing YNAP's plans.

Meanwhile, the largest Italian deal in 2017 – the €23.9 billion mega-merger between French spectacle lens manufacturer Essilor and Italy's Luxottica, the consumer eyewear and frame-maker group – was inspired by similar ambitions. It has been a long-term aim of Luxottica founder

Leonardo Del Vecchio to build an international eyewear business combining his frame company with a lens manufacturer of similar scale. The deal with Essilor, which was cleared by EU competition regulators in March 2018, will create a world eyewear giant selling close to a billion frames and lenses around the world every year.

GENERATION GAME

The Luxottica deal also serves as an example of another major trend driving M&A in Italy: the facilitation of succession at some of the country's great owner-managed businesses and corporate family dynasties.

For Del Vecchio, an octogenarian who started Luxottica from scratch in the 1960s at the age of 25, the deal with Essilor not only created growth opportunities for his business, but also secured its long-term future.

This was also the case in the largest Italian deal of H1 2018 – the €6.3 billion acquisition of speciality pharmaceuticals business Recordati by a private equity consortium led by UK-based CVC Capital Partners. The family company, founded in 1926, reached an inflexion point in 2016, when chief executive Giovanni Recordati passed away after leading the business with great success since the early 1990s. A group of key family shareholders opted for a sale as the best way to take the business forward.

There is a strong pipeline of similar succession deals yet to come to market. According to the Italian Association of Family Businesses, two-thirds of Italy's 784,000 family businesses are still fully run by family members. An EU-funded study by consultancy TUCEP, meanwhile, shows that the population of family business managers is ageing. The average age of Italian business leaders is 57.5 years and the average age of executives serving on boards is 58.1 years.

Italy has also moved to encourage investment in the country by taxing private equity carried-interest incentives at the lower capital gains tax rate rather than the personal income tax rate; introducing tax breaks for research and development and IP income; and announcing tax reliefs to bring wealthy individuals back into the country.

NAVIGATING ROUGH SEAS

For all its advantages, however, the Italian market is not always the easiest to transact in. Although deal activity has proven resilient, the political stasis following the March 2018 elections has brought unwanted volatility to Italian capital markets. In particular, concerns have been raised regarding the stability and policy direction of the populist coalition government formed by the anti-establishment 5 Star Movement and the far-right Lega Nord.

A few days before the coalition government finally reached an agreement, the bid/ask spread on two-year Italian government bonds ballooned three-fold from its normal levels. The FTSE MIB, the benchmark stock market index for the Borsa Italiana, shed more than 12% in the last two weeks of May and has yet to fully recover.

Italian companies have become accustomed to navigating political upheaval – after all, the country has had more than 65 governments since 1946. The UK, by contrast, has only had less than half that number over the same time period. Nevertheless, recent uncertainty has put dealmakers on edge. For instance, CVC's bid for Recordati was reportedly put on hold at the time of the elections before the buyout firm and its partners eventually went ahead with the deal.

Although the coalition agreement has brought a degree of stability, the government's radical plans to turn a blind eye to EU spending rules and implement a programme of tax cuts and higher public spending has caused alarm, especially as Italy's public debt sits at 132% of GDP, the second-highest in the eurozone after Greece. The country's banking sector is also weak and going through a period of transition. In 2017, the state had to bail out the country's oldest bank, Monte dei Paschi, and make investors whole after winding up regional banks Popolare di Vicenza and Veneto Banca. The total bill for Italian taxpayers for these actions came in at more than €20 billion. Italy is also having to digest a backlog of non-performing loans (NPLs). Although progress has been made by banks selling off NPL portfolios, the volume of NPLs' net of provisions still amounts to close to €140 billion.

For all these risks, assets in Italy are still fetching full multiples. According to investment bank Baird, domestic M&A deals are being done at an average multiple of 8.7x Ebitda, with inbound M&A transactions averaging 10.2x Ebitda. In other words, competition for companies is pushing up prices despite the risks facing the Italian economy.

Sector watch

Traditional powerhouse sectors are driving the Italian M&A market

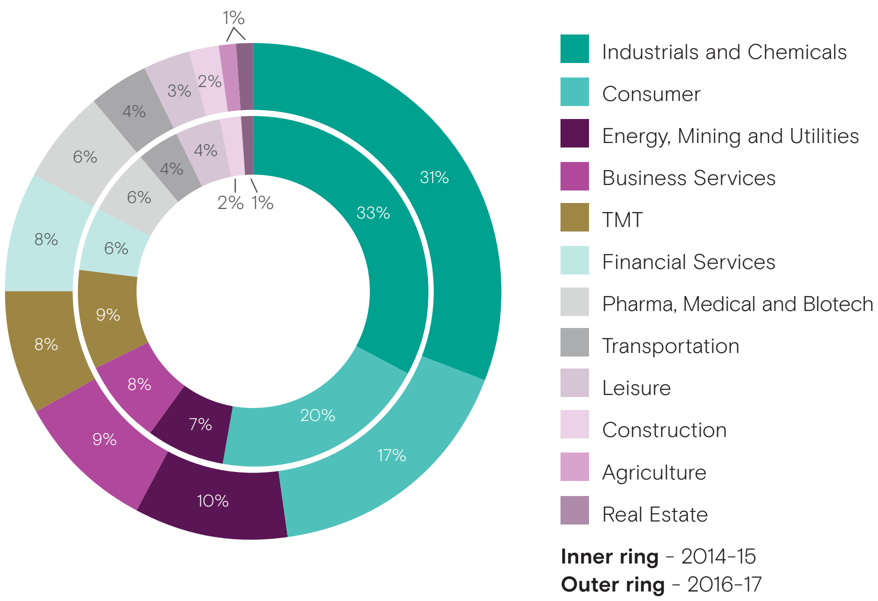
The sectors in which Italy has always been strong historically – industrials and consumer – have accounted for the largest share of deal volume over the last four years.

Industrials and chemicals delivered 33% of deals in 2014/2015 and 31% in 2016/2017, with consumer's share of transactions coming in at 20% for 2014/2015 and 17% for 2016/2017. After these two dominant sectors, deal volumes have been spread relatively evenly across the TMT, business services, energy and financial services industries, demonstrating the diversity of Italy's economy.

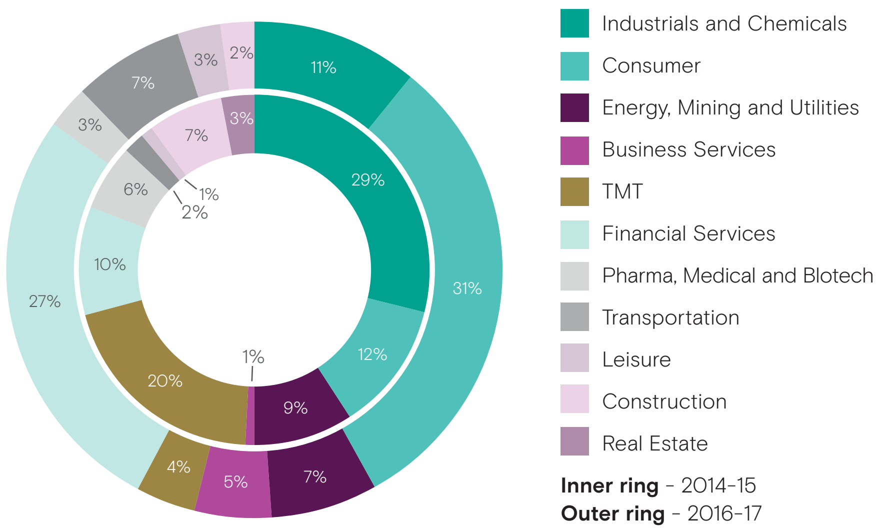
When it comes to deal value, however, the picture shifts materially. The consumer and financial services sectors made up a much larger proportion of M&A in terms of deal value, accounting for 31% and 27% respectively in the previous two years compared with just 12% and 10% in 2014/2015. In 2014/2015, industrials and chemicals (29%) and TMT (20%) had been the most dominant sectors with respect to total M&A deal value, but these made up just 11% and 4% of total deal value over the last two years combined.

The figures for 2016/2017, however, have been skewed by the mammoth €23.9 billion merger between consumer eyewear giant Luxottica and French counterpart Essilor, as well as a series of restructuring deals in the financial services sector, including two rescue deals involving Italy's oldest bank Monte dei Paschi, worth €4.4 billion and €3.8 billion respectively.

M&A DEAL VOLUME, SPLIT BY SECTOR, 2014-2017



M&A DEAL VALUE, SPLIT BY SECTOR, 2014-2017



TOP M&A DEALS IN H1 2018

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value EUR(m)
29/06/2018	Recordati SpA	Medical: Pharmaceuticals	CVC Capital Partners Limited; Public Sector Pension Investment Board; StepStone Group LLC	United Kingdom	6,340
22/01/2018	YOOX Net-A-Porter Group (YNAP) (75.03% Stake)	Internet/ecommerce	Compagnie Financiere Richemont SA	Switzerland	2,646
11/02/2018	Nuovo Trasporto Viaggiatori SpA	Transportation	Global Infrastructure Partners	USA	2,383
17/04/2018	Intesa Sanpaolo S.p.A. (NPL recovery operations); Intrum Justitia AB (Italian operations)	Financial Services	Intrum Justitia AB/Intesa Sanpaolo S.p.A. JV	Italy	1,764
16/04/2018	Guala Closures SpA (81.22% Stake)	Manufacturing (other)	Peninsula Capital S.a.R.L.; Space4 S.r.l.	Italy	925
12/04/2018	SNAITECH S.p.a.	Leisure	Playtech plc	Isle of Man	841
24/05/2018	Beni Stabili SpA (43.26% Stake)	Real Estate	Fonciere des Regions SA	France	754
28/06/2018	Italmatch Chemicals S.p.A.	Chemicals and materials	Bain Capital LLC	USA	700
19/02/2018	Faster S.p.A.	Industrial products and services	Sun Hydraulics Corporation	USA	430
23/05/2018	Facile.it S.p.A.	Internet/ecommerce	EQT Partners AB	Sweden	400

The largest deals in H1 2018 indicate that interest in the traditional Italian strongholds of manufacturing, chemicals and industrials remains robust.

Peninsula Capital and listed special purpose acquisition vehicle Space4 teamed up to buy Italian bottle-sealing manufacturer Guala Closures, which sells into more than 100 countries and has revenues of €535 million, from Neuberger Berman and aPriori Capital in a €925 million deal. In the chemicals sector, Bain Capital beat rivals KKR and Cinven to acquire Ardian-owned Italmach for €700 million in a secondary buyout. Private equity investors were drawn to the company as it had expanded internationally through a well-executed buy-and-build programme, doubling sales during the last four years. In another high-profile Italian industrial deal involving a private equity firm, US strategic buyer Sun Hydraulics acquired Faster, a manufacturer of quick-release hydraulic couplings, from buyout house Capvis for €430 million.

In each of these deals, the market-leading technology, high-end engineering skills and global track record of the companies proved highly attractive to buyers.

Notable deals in other sectors in H1 2018 included the sale of pharma company Recordati to a CVC-led buyout consortium for €6.3 billion.

TOP M&A DEALS OF 2017

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value EUR(m)
16/01/2017	Luxottica Group S.p.A.	Consumer: Retail	Essilor International SA	France	23,965
29/07/2017	Banca Monte dei Paschi di Siena SpA (45.35% Stake)	Financial Services	Banca Monte dei Paschi di Siena S.p.A. (Bondholders)	Italy	4,473
29/07/2017	Banca Monte dei Paschi di Siena SpA (52.08% Stake)	Financial Services	Ministero dell'Economia e delle Finanze	Italy	3,854
16/06/2017	ILVA S.p.A	Industrial products and services	ArcelorMittal SA; Intesa Sanpaolo S.p.A.; Marcegaglia SpA	Luxembourg	1,800
05/05/2017	Autostrade per l'Italia S.p.A (11.94% Stake)	Transportation	"Allianz Capital Partners GmbH; DIF; EDF Invest; Silk Road Fund Co. Ltd.	Germany	1,767
02/04/2017	Save S.p.A.	Transportation	Finint Corporate Advisors; DWS Group GmbH & Co. KGaA; InfraVia Capital Partners	Italy	1,387
09/11/2017	Aletti Gestielle SGR S.p.A.	Financial Services	Anima Holding SpA	Italy	950
03/11/2017	Popolare Vita SpA (65% Stake); Avipop Assicurazioni SpA (65% Stake)	Financial Services	Societa Cattolica di Assicurazione	Italy	853
13/10/2017	Nedgia S.p.A.; Gas Natural Italia S.p.A.	Utilities (other)	2i Rete Gas SpA	Italy	727
30/06/2017	Unisalute S.p.A. (98.53% Stake)	Financial Services	UnipolSai Assicurazioni S.p.A.	Italy	715

Domestic and inbound activity

Although foreign investment has been a key theme in Italian M&A during the last 18 months, the high volume of domestic deals has ensured that local transactions still sit at the core of Italian dealmaking

Domestic deals made up 54% of total deal volume in 2017 and 59% of total deal volume in the first half of 2018. The high number of mid-market Italian companies with proven business acumen provides fertile ground for local deals. Baird data shows that, while domestic deals close at an average multiple of 8.7x earnings, Italian buyers investing in outbound transactions pay an average of 9.5x earnings for targets outside the country. Given that family-owned small and medium-sized enterprises (SMEs) in Italy have a track record for growing exports, it makes sense for domestic dealmakers to invest locally and expand acquired companies overseas rather than pay higher prices for assets in other countries.

But ticket sizes for domestic deals are smaller and there can be no denying the important role that outbound M&A has come to play in Italian dealmaking, especially at the higher end of the market. The US has been one of the most active investors in Italy, with 70 deals in 2017, followed by the UK, with 63 deals, and France, with 60. Germany, China, Switzerland and Spain, meanwhile, all recorded inbound Italian deals in the double digits.

Baird believes that, like Germany's famed Mittelstand businesses, Italian companies stand out for their world-class technology and strong global positions in niche markets. For most foreign strategic buyers, these deal targets offer skills and know-how that are hard to find. The fact that many of these companies have already built up substantial export revenues makes them even more attractive, as they give foreign buyers exposure to international markets in addition to Italy itself. The successful buy-and-builds delivered by companies like Recordati and Italmach also mean that foreign buyers see potential to use domestic local champions as platforms to build global multinationals.

BIDDERS BY VOLUME

Country	Volume	Deal value EUR (million)
Italy	485	27,841
USA	70	7,709
United Kingdom	63	10,300
France	60	26,147
Germany	41	1,960
China	20	1,267
Luxembourg	17	2,030
Switzerland	17	2,701
Spain	14	213
Netherlands	9	339

M&A outlook

The future looks bright for Italian M&A, particularly in the consumer sector

Across all sectors, Italy should continue to offer rich pickings for M&A investors. Italian companies deliver products and services of the highest quality. They have grown their businesses internationally, developed long-standing customer relationships and built up strong positions in niche markets.

International investors, spurred by favourable tax reform in Italy, will continue to show strong interest in companies with these attributes, and as a generation of owner-managers and family management teams approach retirement, M&A will be one of the few ways available to them for managing succession.

Finally, although valuations for Italian companies are climbing and regularly hitting double-digit Ebitda multiples, Italy still offers good value and better deal success rates relative to other, more crowded, European markets.

But the risks facing Italy are not to be underestimated. A populist coalition government cobbled together after three months of haggling plans to slash taxes and increase spending at a time when Italian GDP growth is forecast to nudge lower in 2018 and 2019 and government debt is sitting at more than 130% of output. The banking sector is still vulnerable as regulators work with banks to clean up balance sheets and consolidate fractured and weak institutions.

Italian M&A activity, however, has faced similar headwinds in recent years and has proven its resilience, with deal volumes and values consistently hitting record or near-record highs. For dealmakers who have the stomach to ride out political and macro-economic uncertainty, there are plenty of rewarding deals to be done.

ITALIAN M&A HEAT MAP

Sector	Number of 'for sale' stories
Consumer	75
Industrials and Chemicals	49
TMT	25
Business Services	17
Financial Services	17
Energy, Mining and Utilities	12
Leisure	10
Pharma, Medical and Biotech	9
Construction	8
Transportation	8
Real Estate	2
Agriculture	1
Grand Total	**233**

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