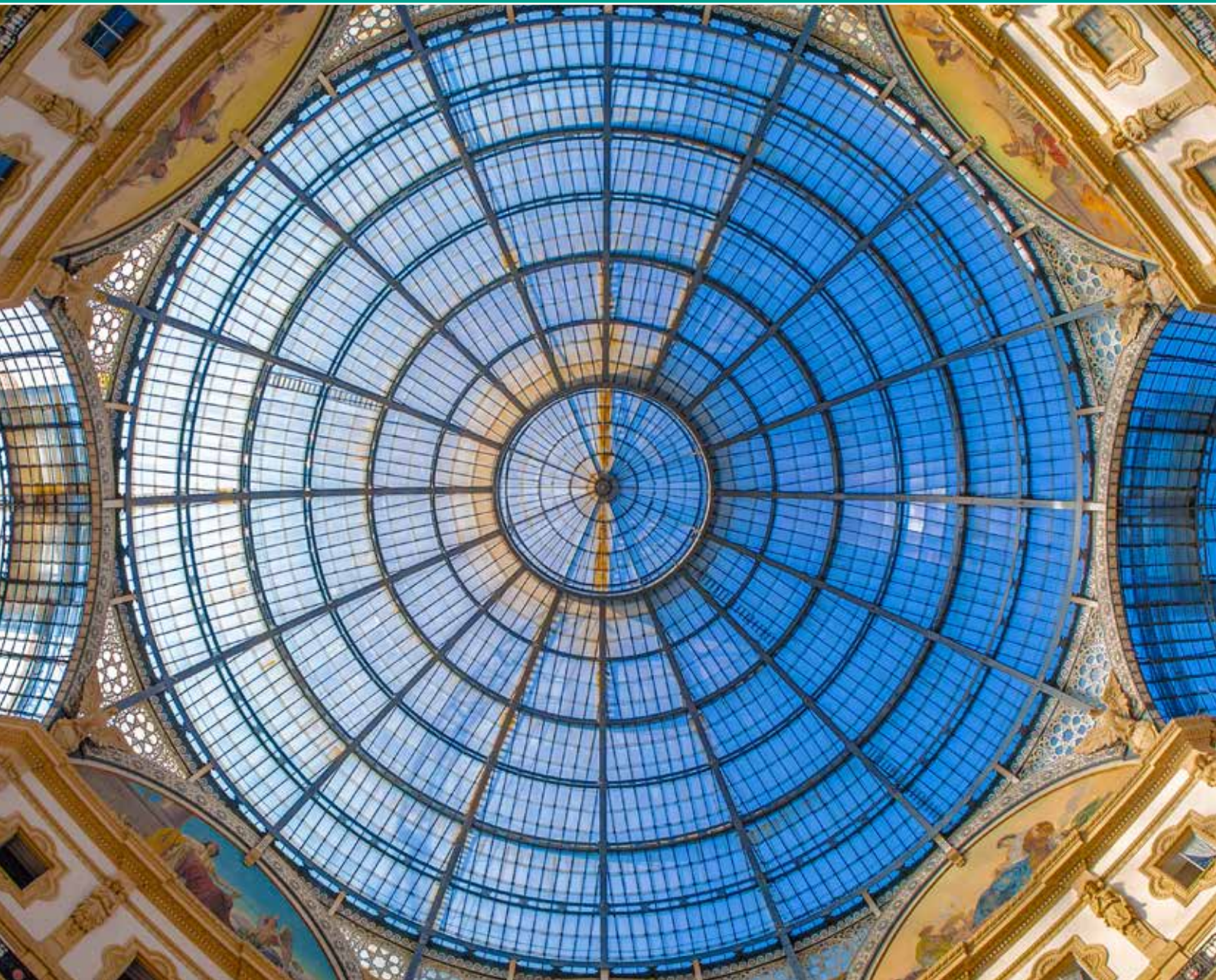


# Style and substance

The growth of private equity in Italy



---

# Contents

Private equity in focus	4
Sector watch	7
Private equity goes shopping	9
Conclusion: Private equity playing a greater role in Italy	11

# Contacts



Andrea Giardino  
[andrea.giardino@gpblex.it](mailto:andrea.giardino@gpblex.it)



Gianni Martoglia  
[gianni.martoglia@gpblex.it](mailto:gianni.martoglia@gpblex.it)



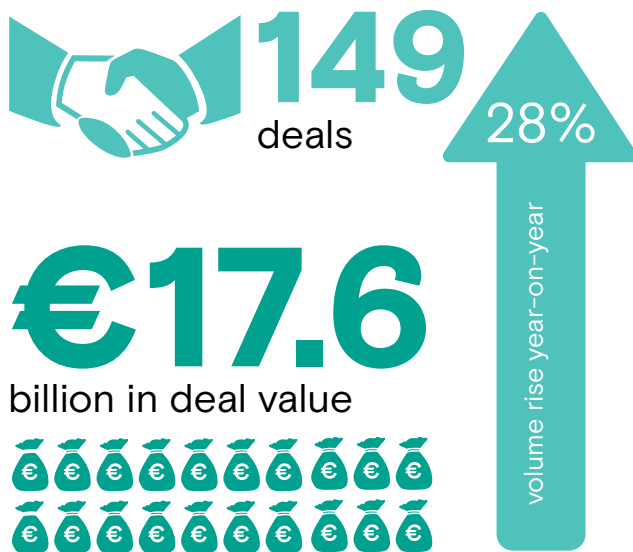
Stefano Valerio  
[stefano.valerio@gpblex.it](mailto:stefano.valerio@gpblex.it)



# Record-breaking year for Italian private equity in numbers

## HITTING NEW HEIGHTS

2018 was a record year for Italian private equity



## BIG DEALS AND BIG NAMES

Megadeals move the market in Italy

**4** The number of deals over **€1 billion** between 2018 and Q1 2019

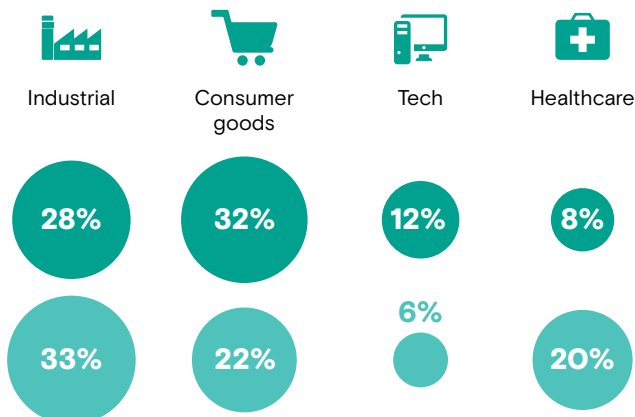
**10.2x** The average multiple for Italian companies from inbound buyers

**€3 billion** The largest deal in 2018 – CVC Capital buys medical firm Recordati

## SECTORS ON THE RISE

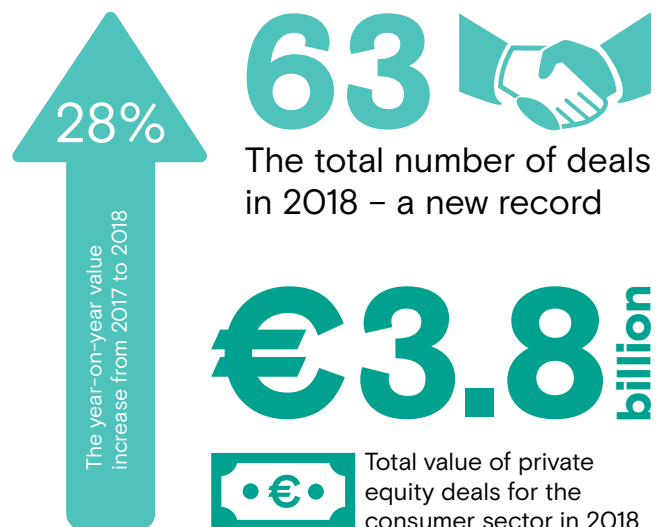
Four sectors dominate in terms of market share from private equity buyouts

- Largest sectors by volume 2017-18
- Largest sectors by value 2017-18



## CONSUMER SECTOR IN FOCUS

The consumer goods and services sectors have served up a record-breaking year



# Private equity in focus

In the third edition of Gatti Pavesi Bianchi's new series on the M&A and private equity markets, we explore why the Italian private equity market is hitting new heights

The Italian private equity market delivered its best performance ever in 2018, setting new records for deal volume and value. According to data from research firm Unquote, total Italian deal value and volume for the year came in at all-time highs of €17.6 billion and 149 deals.

While total private equity deal volume for European targets dropped by 3% in 2018 compared with 2017, Italian activity went against the grain as volume increased by 28% year on year. In terms of deal value, annual Italian private equity deal growth has outperformed Europe for seven of the past nine years.

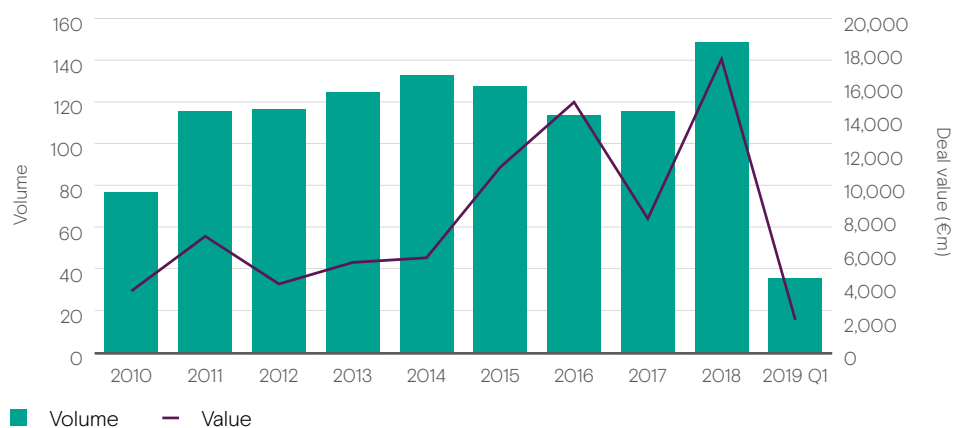
Record deal value has been sustained by a number of €1 billion-plus megadeals. There were four Italian deals worth more than €1 billion between 2018 and Q1 2019, with the largest, CVC Capital Partners' €3.03 billion take-private of pharmaceuticals company Recordati, accounting for three quarters of total healthcare deal value of €4.1 billion.

The country's traditionally strong consumer goods and services sectors was once again a key source of deal activity, with three of the 10 largest Italian deals between 2018 and Q1 2019. For more on the consumer sector, see *Private equity goes shopping*, page 9.

## PE LEAPS ECONOMIC HEADWINDS

The strong performance of Italy's buyout market over the last 15 months has come despite political uncertainty and economic headwinds. The Bank of Italy cut its economic growth forecasts for 2019

ITALIAN PRIVATE EQUITY DEAL ACTIVITY 2010-Q1 2019



**149**

The total number of private equity deals in 2018

**€17.6B**

The value total for private equity-backed deals in 2018

from 1% to 0.3% in May, citing trade tensions and a weaker outlook for investment. The downward revision followed two consecutive quarters of shrinking GDP at the end of 2018.

The weak close to 2018 followed a year of political uncertainty. After elections in March last year, it took three months before the 5 Star Movement and Lega finally formed a coalition government. The coalition has announced an expansive budget, despite Italy's public debt pile sitting at 130% of GDP, which has led to an impasse with the EU and some concern among investors.

This has sparked a sharp rise in Italy's borrowing costs, with the yields on 10-year Italian bonds widening from 2.6% in the last trading session before the coalition formed, to 3.6% four months after it came into power. The yields on 10-year German bonds, by way of contrast, are less than

1%. Italian yields have subsequently moved back down below 3%, but the bond pricing volatility has adversely affected Italy's banks, who own 10% of Italian bonds. Fears that the government may be unable to meet its financial obligations has seen Italy's banking sector shed around 30% of its value in 2018.

Rather than deter private equity's appetite, however, Italy's macroeconomic issues have in fact played into the asset class's favour. The pressure on bank balance sheets has meant Italian businesses have had to look elsewhere for financing partners, sending more deals private equity's way.

## NOTHING SUCCEEDS LIKE SUCCESSION

An even bigger deal driver has been business succession, as generation of the country's great entrepreneurial families, who built up their companies into business

## ITALY VS EUROPE - PE DEAL VOLUME YEAR-ON-YEAR CHANGE (%)



dynasties post-war, approach retirement. According to Milan's Bocconi University, a quarter of first-generation Italian businesses have an owner-manager older than 70 years of age. Half of these firms are led by people older than 60.

The demographic shift within Italy's family businesses has left them not only in need of new leadership, but also investors that can help them protect their legacies and navigate globalisation and digitalisation. Family heads have also sought to diversify their holdings outside of Italy as a hedge in a time of more populist and less business-friendly rhetoric in the country's politics.

They have noted the high multiples on offer for their holdings too. According to investment bank Baird, Italian companies are fetching an average multiple of 10.2x from inbound buyers. The high prices assets are changing hands for have

helped convince ageing owner-managers that this is a good time to finally exit and crystallise value.

Private equity firms have proven to be ideal partners to meet these requirements. With respect to facilitating succession, buyout firms have shown themselves to be sensitive to the needs of the exiting families and willing to structure deals flexibly so that families can retain stakes in their companies post-deal and continue to play a role in operations.

KKR-backed Calsonic-Kansei, for example, agreed to pay around €6 billion to buy electronic auto-parts manufacturer Magneti Marelli from Fiat Chrysler Automobiles following the passing of CEO Sergio Marchionne. Rosita Missoni, meanwhile, sold a 41% stake in her family's fashion business to Italian buyout house Fondo Strategico Italiano (FSI) at the age of 87.

**€3.03B**

Value of CVC Capital Partners' take-private of pharmaceuticals company Recordati

**10.2x**

The average multiple for Italian companies from inbound buyers, according to investment bank Baird

The fact that FSI was happy to take a minority stake in Missoni shows that firms will structure to meet the needs of vendors. Investindustrial did the same in its purchase of family-owned food ingredients group Italcanditi, where the founding Goffi family retained a 30% stake in the business, as did White Bridge Investments in its acquisition of hazelnut spread business Nutkao, where founder Giuseppe Braida and his children retained a 20% stake.

Meanwhile, in 2018, a CVC-led consortium put together a unique deal for the Recordati family after the passing of chief executive Giovanni Recordati. CVC took a controlling stake in the listed pharma company, but was happy for the group to remain listed. CVC paid €3.03 billion to buy the Recordati family's holding company FIMEI, which owned 51.8% of the pharma group, with chief executive Andrea Recordati investing alongside the consortium. This avoided a protracted take-private of the business and meant the family could stay on board.

The flexibility allowed by the private equity investors in this case stands in contrast to a deal of similar scale, the €50 billion merger between Italian eyewear group Luxottica, headed by octogenarian Leonardo Del Vecchio, and listed French lens maker Essilor. The deal facilitated succession and moved Luxottica into France, but has been plagued by a dispute between Del Vecchio and executive vice chairman Hubert Sagnières over governance and leadership roles.

### FAMILY FRIENDLY

In addition to understanding the nuances of partnering with family-owned and owner-managed companies, buyout houses have

## TOP PE DEALS IN 2018 – Q1 2019

Announced date	Target company	Target Dominant Sector	Bidder company	Deal value EUR(m)
Jul-2018	Recordati	Health Care	CVC Capital Partners	3.03
Feb-2018	Italo	Industrials	Global Infrastructure Partners	1980
Jul-2018	RTR	Utilities	Fondi Italiani per le Infrastrutture (F2i)	1300
Jul-2018	Gruppo Megadyne	Industrials	Partners Group	970-1030 (estimated)
Jun-2018	Italmatch Chemicals	Basic Materials	Bain Capital	680-720 (estimated)
Jan-2018	Fedrigoni	Basic Materials	Bain Capital	650
May-2018	Alpitour	Consumer Services	Tamburi Investment Partners	470
Jan-2019	Italcanditi	Consumer Goods	Investindustrial	270-290 (estimated)
Jun-2018	Forno d'Asolo	Consumer Goods	BC Partners	265-285 (estimated)
Feb-2019	Celli	Industrials	Ardian	240-260 (estimated)

backed up their offers to exiting families by paying good prices. Recordati, for example, fetched a multiple of 13x earnings, representing the highest multiple paid for a European specialty pharma company at the time.

Private equity firms provide support on globalisation and digitalisation too. Investindustrial, for example, has built up a dedicated digitalisation team in New York to support its portfolio in this respect.

The complex needs of vendors in Italy have seen global, pan-European and pan-regional buyout firms with deep pockets account for most of the headline deals in the

country. Between 2018 and Q1 2019, international firms led all but two of the largest deals.

With domestic corporates dealing with their own exposure to the country, firms have encountered less competition than in other European regions. Firms are also better equipped to deal with owner-managed companies than corporates, although Clessidra's investment in fashion group Roberto Cavalli, which is trying to broker a deal with creditors after suffering losses, shows that dealmaking in Italy is not all plain sailing.

Overall, however, private equity firms see the Italian market as holding

great value, despite the risks and macroeconomic issues the country is experiencing. After a strong year in 2018, private equity activity shows no sign of slowing.

# Sector watch

Industrials and consumer goods once again dominate in terms of volume, but megadeals in the health sector see it rank as the third largest by deal value

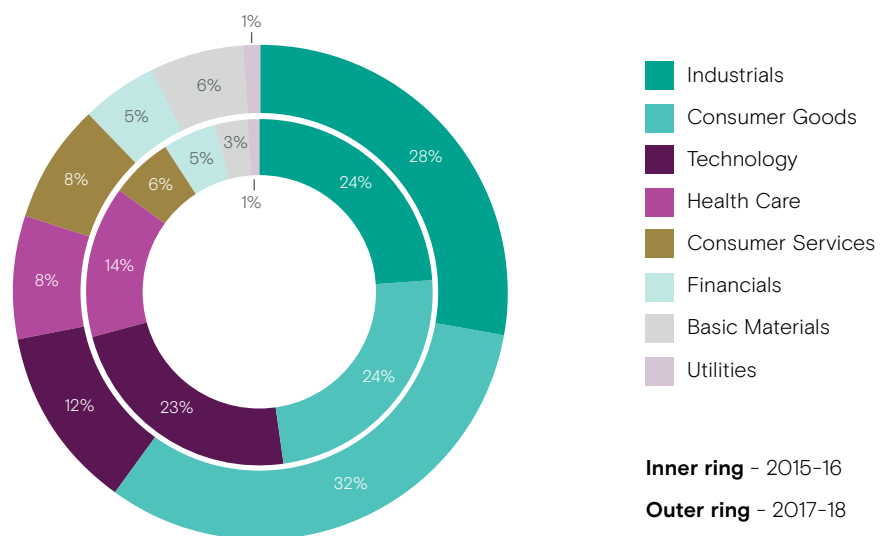
Italy has always boasted strong industrials and consumer goods sectors (see *Private equity goes shopping*, page 9), and these two spaces continue to account for the lion's share of private equity deal activity. Each represented well over a quarter of all deals between 2017 and 2018.

In terms of deal value, industrials was the largest sector, accounting for a third of overall deal value between 2017 and 2018. Italian industrials companies are known for manufacturing high quality goods in niche areas and have successfully developed export markets for their products on the back of this. According to trade body Federmeccanica, 70% of Italian-manufactured machinery is sold abroad.

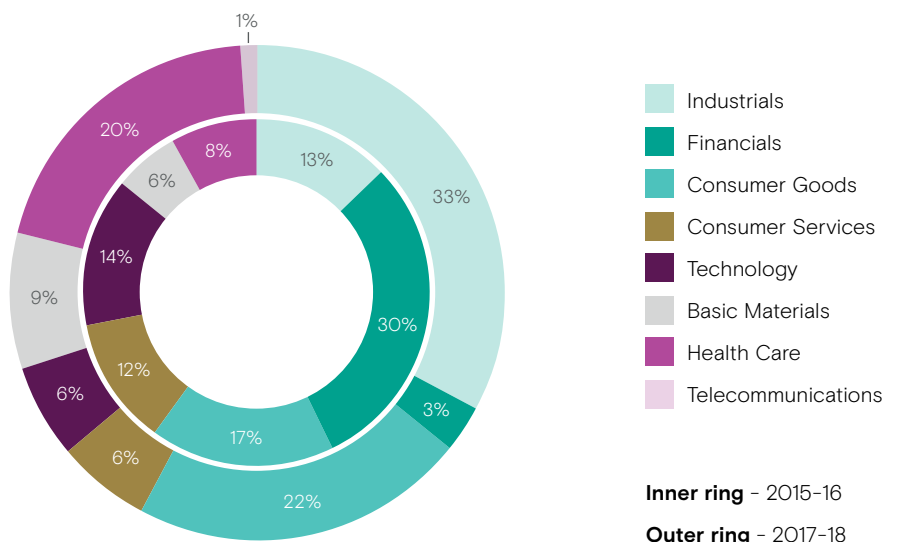
Turin-based Megadyne, a maker of transmission belts used in conveying and power transmission systems, for example, has sales of around €320 million and 30,000 customers served from more than 30 distribution centres and 15 manufacturing plants based around the world. Partners Group is believed to have paid Astorg up to €1 billion in a secondary buyout for the company.

Bain Capital, meanwhile, acquired chemicals business Italmatch from Ardian in a deal estimated to be worth between €680 million and €720 million. During Ardian's four-year hold, Italmatch undertook a number of bolt-on acquisitions and more than doubled sales. Since Bain's investment, Italmatch has made two bolt-ons, broadened its

PRIVATE EQUITY DEAL VOLUME, SPLIT BY SECTOR



PRIVATE EQUITY DEAL VALUE, SPLIT BY SECTOR



product range to include personal care products and is set to open an office in Asia. Italmatch shows how private equity firms can help industrials companies that are already of scale and cash-generative to find further growth through international expansion and the introduction of new products.

### HEALTHY RETURNS

After consumer goods and industrials, healthcare was the third largest sector by value, accounting for 20% of overall deal value, notably higher than the 8% recorded over 2015 and 2016.

The large jump in healthcare deal flow is predominantly due to a CVC-led consortium acquiring pharma group Recordati in a deal that valued the business at €5.86 billion. Milan-based Recordati was one of the most sought-after pharma companies in Europe, and much like its Italian industrial peers, had grown internationally from its Italian base. The company posted consolidated revenues of €1.2 billion in the financial year leading up to the deal and has operations across Europe, Turkey, the Americas, North Africa and Russia. Having built its base in the primary care market, CVC saw an opportunity to support the company's fast-growing rare diseases business, as well as any consolidation opportunities.

### PE TARGET TECH

Italy's often underrated technology sector is another area outside the core consumer and industrials sectors that has performed strongly for dealmakers over the last 12 to 24 months. Technology was the third best performing sector in terms of volume in both 2015/16 and 2017/18. Italian tech companies have delivered good exits for private



equity and new tech businesses in the country have attracted investor interest.

In May last year, Oakley Capital made a 3.8x money return and 51% IRR from its sale of a majority stake in Facile.it, Italy's largest insurance broker and price comparison website, to EQT Partners. Facile has around 20 million users and nearly trebled Ebitda during Oakley's hold. A few months after the Facile deal one of its co-founders, Alberto Genovese, received a €100 million investment from Blackstone and Goldman Sachs for his new venture Prima Assicurazioni. The digital auto insurer was launched in 2015 and already has 250,000 clients. The funding will support investment in recruitment, marketing, sales and R&D.

Earlier this year digital payments company Nexi, backed by a consortium of private equity firms, including Clessidra, Bain Capital and Advent International when it was still known as ICBPI, raised €2 billion

from an IPO that valued the business at €7.3 billion including debt. The consortium backed the business in the summer of 2015 in a €2.15 billion transaction and changed its name in 2017 when the electronic payments division and depositary business were separated into independent entities.

The emergence of more high-profile tech deals shows that Italy is making progress in developing its digital economy after a slow start. In 2016, it was estimated that only one in 10 companies sold online and only 25% used the internet for purchasing.

Deals such as Nexi and Facile.it, however, show that the country has the talent and skills to drive more tech deals in the future.



# Private equity goes shopping

Private equity has been lured by the style and substance of Italy's consumer sector – both for goods and services

Italian consumer goods and services have long-held a reputation for craftsmanship and style. The “Made in Italy” brand is seen as a stamp of quality and Italian fashion, food, vehicles and luxury goods are desired the world over.

Private equity has been an active investor in the Italian consumer goods and services sector as a result. Last year was a record 12 months for Italy's consumer goods and services sectors in terms of total deal volume, with numbers propped up by an upturn in private equity M&A activity for food and beverages targets, as well as personal and household goods targets. Total value of Italian private equity deals for consumer goods and services targets hit €3.8 billion in 2018, a 28% increase on 2017's total.

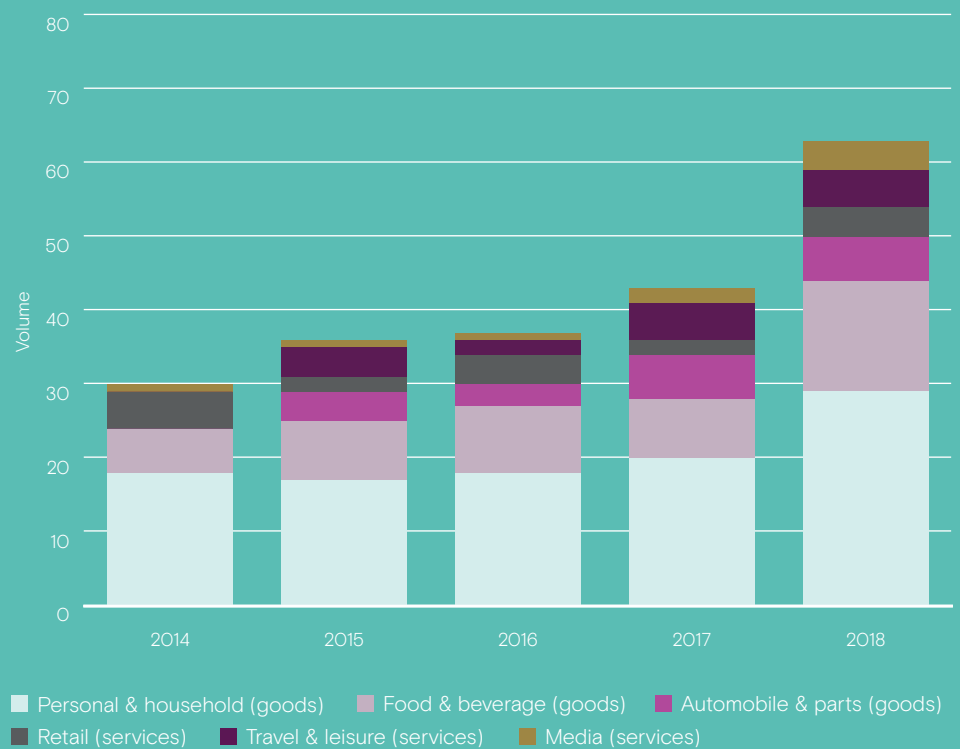
## DELIVERING THE GOODS

The country's consumer goods sector (which includes automobiles and parts, food and beverage, and personal and household) had a particularly impressive year, scoring its highest ever total annual private equity M&A volume and value numbers, with 50 deals at a total value of €3.03 billion.

The sector has delivered strong returns for private equity investors, who have been attracted to the iconic Italian consumer brands, which have high margins and expanding international sales.

Blackstone, for example, acquired a minority stake in Versace for €150 million in 2014 when it was loss-

ITALIAN PRIVATE EQUITY DEAL VOLUME 2014-2018, CONSUMER GOODS AND SERVICES

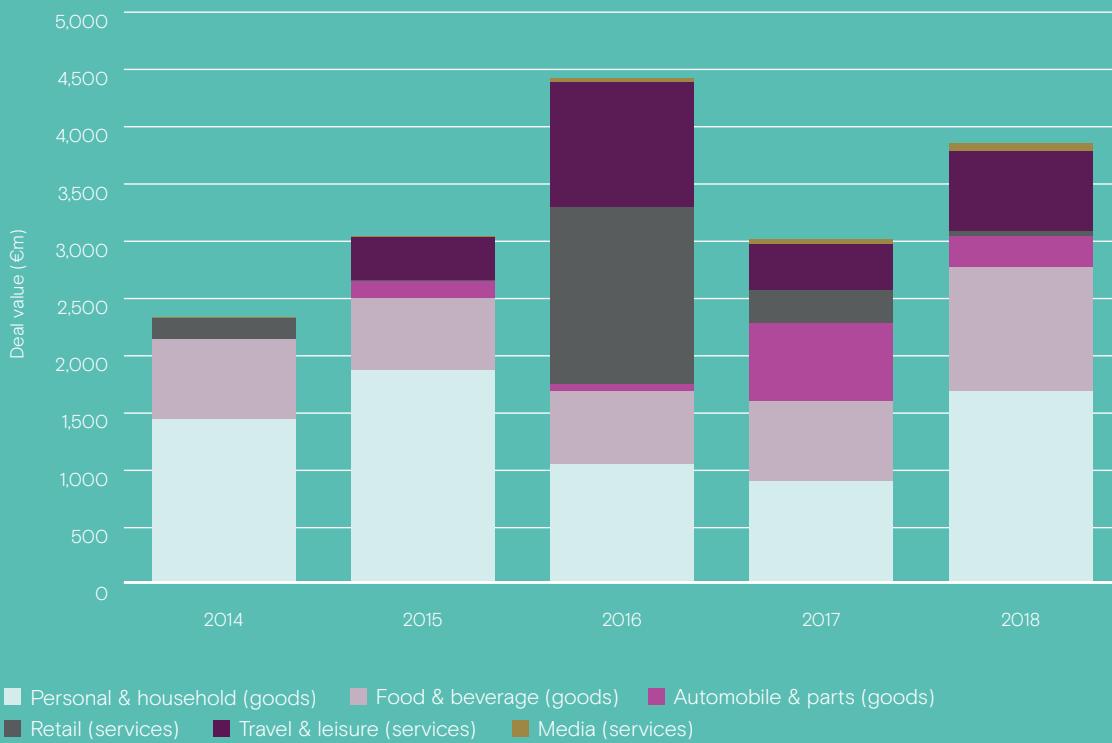


making. In 2018, the firm exited its stake when Versace was sold to US fashion house Michael Kors in a US\$2.1 billion deal. Versace has revenues of €680 million and sells its luxury goods through a global network of 200 stores, but still has scope for further expansion through online sales and in accessories and footwear. The strategic importance of Italian fashion brands is further underscored by the fact that acquiring Versace has helped

Michael Kors to diversify its portfolio and compete with French luxury retailers LVMH and Kering and Swiss luxury goods player Richemont.

Italy's food and beverage sector has proven equally desirable for buyout houses. Private equity deals totalled €1.1 billion in 2018 to hit a 16-year high for the sector in terms of value. The two largest food and beverage deals of the year – UK-based BC Partners' €275 million acquisition of frozen baked goods

## ITALIAN PRIVATE EQUITY DEAL VALUE 2014-2018, CONSUMER GOODS AND SERVICES



manufacturer Forno d'Asolo and the €160 million sale of an 80% stake in hazelnut spread group Nutkao to White Bridge – were both private equity deals.

According to FutureBrand, Italy ranks second only to France in how its food and drink is regarded worldwide, and private equity has stepped in to consolidate the country's high-quality but small and family-owned food and drinks companies and help them grow overseas.

IDeA Capital is currently investing its Taste of Italy fund, which recently acquired Alice Pizza from the Giovannini family, to do just that. Europe Capital Partners has observed a similar opportunity in the food space, backing Rispo Frozen Food and Gela Surgelati and pasta companies Dali and Industria Alimentare Ferraro in a series of food deals last year. Ardian's acquisition of ice cream business Irca from the

Nobili family is another example of pan-European players seeing value Italy's food industry.

Firms investing in the sector have observed the success of their peers who have gone before them. Just two years after acquiring balsamic vinegar producer Acetum, for example, Clessidra secured an exit to UK trade buyer Associated British Food. The IDeA food fund, meanwhile, has banked the exit of casual eating chain La Piodineria to global buyout house Permira.

### ROOM FOR GROWTH

Private equity appetite for Italian goods and services companies is set to remain strong after a record 2018. The sector boasts a large number of family-owned SMEs producing high quality products with strong export potential.

For buyout investors, there is scope to consolidate sub-sectors within

consumer goods, help already international brands boost their ecommerce capabilities and grow new product lines. The opportunity for value creation in Italian consumer goods and services is vast.

# Conclusion: Private equity playing a greater role in Italy

Although Italy is dealing with slow economic growth and a vulnerable banking system, private equity deal activity has continued unaffected and is on track for another excellent year after a recording-breaking 2018

Despite the risks facing buyout investors, firms have continued to find a rich pipeline of Italian companies seeking investment partners. The pressure on Italy's banks and its economy have in fact played in private equity's favour. Domestic lenders have had to curtail lending in order to manage risk and rebuild balance sheets, opening up opportunity for private equity to step in as capital provider for Italian companies in the absence of the banks. Fearing a potential M&A slowdown, vendors have been open to selling, providing a further spur to activity.

## FAMILY FORTUNES

However, perhaps the most important driver of private equity dealflow has been succession issues across the family-managed Italian businesses founded after the war, which have been built up into multi-billion Euro dynasties by their family founders. As these families go through a generational shift, their businesses have turned to private equity firms to facilitate succession, provide liquidity and help companies adapt to technology and globalisation. Unlike strategic buyers, who want to assimilate these family businesses into their corporate structures, buyout houses allow these companies to remain independent and for the respective families to retain stakes and involvement in the businesses post-deal.

Family businesses have also been unnerved by the recent populist mood in Italian politics, which, coupled with the high multiples on offer for companies in a bull M&A market, has prompted many to turn to private equity buyers to diversify their exposure beyond Italy and lock in some value.

## HIGH QUALITY DEALS

As has always been the case the consumer and industrials sectors, where many of Italy's best-known and most successful companies operate, have accounted for the bulk of private equity investment, with domestic and international private equity firms attracted to the strong brands, craftsmanship and scope for international expansion these businesses present. Italy's economy,

however, is a diverse one and the healthcare and technology sectors have also performed strongly and contributed to overall deal volume and value.

Although Italy's economy and political situation can seem riskier for investors than other European countries, the outlook for private dealmaking is positive.

## LONG ROAD AHEAD

Demographic shift in business ownership in Italy has a long way still to run, with succession a pressing issue for hundreds of Italian companies. Private equity firms, with large dry powder piles at their disposal, meanwhile, are hungry for deal opportunities and eager to facilitate succession with flexible deal structures.

Firms that can build relationships with exiting families and are willing to ride out economic and political uncertainty will find a large pool of high-quality Italian companies to partner with. Investing in Italy comes with its risks, but the rewards on offer are great.

## MILAN

Piazza Borromeo, 8  
20123 Milano (MI)  
Ph. +39 02 859751  
Fax +39 02 809447

## ROME

Piazza dei Caprettari, 70  
00186 Roma (RM)  
Ph. +39 06 68134961  
Fax +39 06 68134701

[www.gpblex.it](http://www.gpblex.it)

---

© Unquote/Acuris Studios

10 Queen Street Place  
London  
EC4R 1BE  
United Kingdom

For further information, please contact

**Thomas MacKinnon**

Business Development Manager  
Tel: +44 (0) 20 3741 1389  
Email: [thomas.mackinnon@acuris.com](mailto:thomas.mackinnon@acuris.com)

This publication contains general information and is not intended to be comprehensive nor to provide financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any investment or other decision or action that may affect you or your business. Before taking any such decision, you should consult a suitably qualified professional adviser. While reasonable effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed and none of Mergermarket, Gatti Pavesi Bianchi nor any of their subsidiaries or any affiliates thereof or other related entity shall have any liability to any person or entity which relies on the information contained in this publication, including incidental or consequential damages arising from errors or omissions. Any such reliance is solely at the user's risk. The editorial content contained within this publication has been created by Acuris Studios staff in collaboration with Gatti Pavesi Bianchi.

 **Unquote**  
An Acuris company

 **Acuris Studios**