GattiPavesiBianchiLudovici

Value over volume

Italian M&A and PE activity in 2020

Mergermarket
An Acuris company

Unquote
An Acuris company

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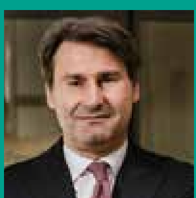

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The law firm Gatti Pavesi Bianchi (GPB) and the tax firm Ludovici Piccone & Partners (L&P) are joining forces to create Gatti Pavesi Bianchi Ludovici (GPBL). As of 1 January 2021, the new firm - which will count on 140 professionals, of which 20 are equity partners – will operate in GPB's current offices in Milan and Rome and will have its own presence abroad in London and Luxembourg.

The new firm will be able to advise and assist its national and international clients with its high-level expertise in all areas of civil, commercial and corporate law, in national and international taxation, in transfer pricing as well as in the field of trusts, estate and wealth planning, offering cutting-edge, innovative and sophisticated solutions both in corporate and structured finance transactions and in complex litigation matters.

M&A value rises YoY, while volume drops

Total value increases

Italian M&A value in Q1-Q3 of 2020 rose on the same period the year before, even as volume dropped

318 DEALS

32% drop

€29.1 BILLION

11% rise

in deal value

PE value skyrockets

Private equity deal activity was dominated by large deals, as value jumped even as volume fell

88 DEALS

25% drop

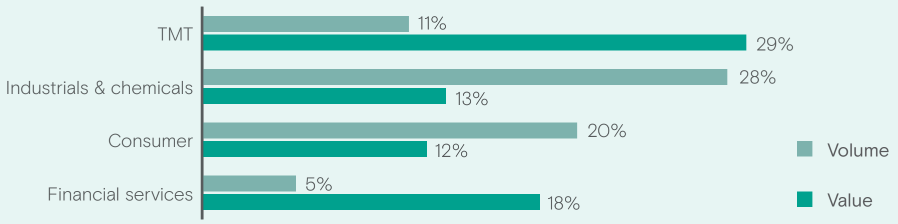
€15.6 BILLION

in deal value

141% rise

Sector focus

Four sectors dominated dealmaking between the start of 2019 and the end of Q3 2020



Big deals

Italian M&A in 2020 has been dominated by activity at the top end of the market

€7.7 BILLION

buyout of Fibercop, the largest deal of the year

7 number of 1 BILLION+ deals in Q1-Q3 2020

Foreword

The outlook in Italy is brighter than it was six months ago and deal figures in the country are giving some cause for optimism. But significant risks to market confidence remain. As the first country in Europe to be hit by the coronavirus outbreak, it was also one of the first to come out the other side of the initial wave of the pandemic.

Difficult lessons were learned during the second quarter of 2020 and while neighbouring countries like France, Spain and the UK have been overcome by a second surge of infections in the fourth quarter of 2020, by comparison Italy has been managing the crisis exceptionally well. Clear government guidelines, strict enforcement and a compliant public have meant that by the end of October, Italy had recorded around half the number of Covid-19 cases as France, the worst affected country in Europe.

Economic challenges persist. Even before the global health crisis, Italy was facing weak growth, with GDP virtually flatlining at 0.3% in 2019. The Bank of Italy has estimated a 9.5% economic contraction for 2020, compared with the 4.4% negative global growth forecast of the International Monetary Fund.

However, the government approved a new stimulus package in its 2021 budget to try and deliver an economic rebound from the recession. Expansionary measures will total more than €39bn, including around €15bn in grants from the European Union's Recovery Fund.

A measured approach to managing the health crisis has also been adopted, curbs on social activity being balanced with protecting the economy from further damage after a better than expected third quarter, which experienced growth of 0.1%. While current circumstances make economic forecasting challenging, the central bank is predicting positive growth of 4.8% in 2021.

Against this relatively optimistic – albeit fragile – backdrop, M&A has shown considerable resilience in 2020. Deal volume fell by 32% in the first nine months of the year compared to the same period the year before, a similar rate of decline as the UK and EU. But in value terms, activity actually rose 11%, defying massive economic disruption. This 'low number, high value' trend was even more acute in the private equity (PE) market which saw PE deal volume drop by 25% but total value skyrocket by 141%. Of course, the pandemic remains a primary concern and is likely to drag on M&A activity once again in the fourth quarter.

In this report, we will review the deal landscape of 2020, what has been spurring activity, and what recent market and economic developments suggest can be expected from what remains an unpredictable 2021.

The Italian M&A market in focus

Domestic Italian and wider European deal markets have shown remarkable resilience in the face of the economic pain inflicted by the coronavirus pandemic. Total deal value in the first three quarters of the year came to €29.1bn, an 11% increase on the same period the year before.

This rise in value stands in contrast to M&A activity in the wider EU – EU countries plus the UK saw total value of €383.3bn in the first three quarters of 2020, an 11% decrease compared to the same period in 2019. The year-on-year rise in Italian M&A in 2020 can be attributed in part to a relative lack of large transactions in 2019 – although volume that year held at a near-record 642 transactions, deal value plunged by 34% to €36.8bn, the weakest total since 2014.

M&A volume in Italy fared less well in 2020, falling by 32% to 318 in the first three quarters of 2020, compared to the same period in 2019 – a slightly steeper fall than in the EU and UK combined which saw the number of deals slipping 29% to 3,816 transactions in Q1-Q3, demonstrating somewhat weakened market confidence even as larger deals went ahead.

ITALIAN M&A BY QUARTER, 2017-2020 Q1-Q3

Among the largest deals that went ahead despite Covid-19 headwinds was Intesa Sanpaolo's €5.5bn acquisition of UBI Banca, which has created the eurozone's seventh-largest banking group by total assets.

Other major deals this year included the €7.7bn acquisition of telecoms firm Fibercop by a consortium led by PE house Kohlberg Kravis Roberts and Telecom Italia.

PE firms generally have remained more active than strategic investors (see page 12). Of the top ten largest transactions of 2020 – valued at a combined €26bn – PE buyouts claimed €12.1bn, or 47%, of their aggregate value.

EU M&A (INCLUDING UK) BY QUARTER, 2017-2020 Q1-Q3

TOP M&A DEALS IN 2020 Q1-Q3

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value €(m)
31/08/2020	Fibercop	Telecommunications: Carriers	Kohlberg Kravis Roberts & Co. L.P.; Telecom Italia S.p.A.; Fastweb S.p.A	USA	7,700
17/02/2020	UBI Banca S.p.A (99.92% Stake)	Financial services	Intesa Sanpaolo S.p.A.	Italy	5,482
21/03/2020	Esselunga SpA (30% Stake)	Consumer: Retail	Marina Caprotti (Private Investor); Giuliana Albera (Private Investor)	Italy	1,830
05/02/2020	Engineering Ingegneria Informatica SpA	Computer services	Bain Capital, LP.; NB Renaissance Partners	USA	1,600
28/07/2020	IMA S.p.A. (48.4% Stake)	Industrial automation	BC partners - SOFIMA Consortium	United Kingdom	1,422
24/06/2020	Infrastrutture Wireless Italiane S.p.A. (14.8% Stake)	Telecommunications: Hardware	A consortium led by Ardian	France	1,346
17/02/2020	Intesa Sanpaolo S.p.A. (532 branches)	Financial services	BPER Banca S.p.A.	Italy	1,015
06/08/2020	A.S. Roma SpA	Leisure	The Friedkin Group	USA	591
06/01/2020	The Dedica Anthology	Leisure	Covivio S.A	France	573
30/04/2020	Ansaldo Energia S.p.A. (71.43% Stake)	Industrial products and services	CDP Equity S.p.A.	Italy	450

Sector watch:
Industrials and TMT dominate

The unique set of externalities caused by the pandemic has had an obvious impact on the sector composition of M&A activity, but some long-term trends have remained in play. The industrials & chemicals sector continued to dominate in 2019-2020, taking a 28% share of deals, a minimal fall on the 32% delivered between 2017 and 2018.

An overarching theme of recent years has been the pressure these companies' margins have come under due to the maturity of the industry and the struggle to remain innovative. Another factor is that poor stock market performance for long-established and diversified conglomerates is forcing them to hone their strategies as investors favour greater strategic focus. This has prompted corporates to divest non-core businesses to competitors and private equity and acquire businesses that align with their forward-looking strategy, as they attempt to deliver cost efficiencies and inorganic growth amid stalling revenues and thin margins.

A further driver making the industrials & chemicals sector a stalwart for M&A is the number of businesses in the sector in Italy. Indeed, the country's industrial northern region, dominated by private companies, accounts for the vast majority of the country's foremost exports of machinery, manufactured goods, plastics, iron ore and steel.

In the consumer space, deal activity ticked up as a share of the total, from 17% in 2017-18 to 20% in 2019-20. However, in value terms these deals contributed just 12% of total value, far short of the 27% it made up in the two years prior. Lockdown measures and the pullback in consumer spending on non-discretionary goods, compounded by the closure of physical retail stores, has meant that the consumer sector has been one of the most challenged industries in 2020. The clear exception here has been businesses selling essential goods like groceries, and e-commerce companies with digital delivery models.

28%

Share of Italian deal volume for the industrials & chemicals sector in 2019-2020

THE TECH ADVANTAGE

This 'digital edge' or technology advantage is what has helped to propel TMT deals not only in Italy but across Europe and further afield, as digital connectivity, media and telecoms helped to keep economies turning over in 2020. The facilitative effect of B2B companies like Microsoft, Zoom and Adobe plus entertainment services like Netflix and Spotify among countless others rapidly lifted US stock markets out of their early 2020 slump. Naturally, the attraction of companies that were not only immune to the pandemic but actually benefited from it made them prime targets for investors.

ITALY M&A TRENDS – TMT SECTOR 2017-2020 Q1-Q3

Total deal volume for the TMT sector in Italy in the first three quarters dropped by 9%, compared to the same period in 2019, to 43 transactions, but value rose substantially: there were €9.7bn worth of deals between Q1 and Q3, 32% more than in the same period in 2019. Illustrating the compelling investment case for connectivity. The top TMT deal was also Italy's largest deal overall: Fibercop.

As part of the deal, KKR paid €1.8bn for a 37.5% stake, leaving Telecom Italia, the country's former phone monopoly, and Fastweb with respective stakes of 58% and 4.5% each. Stage two of the transaction will see Fibercop merge with Open Fiber, creating a new nationwide broadband wholesaler known as AccessCo.

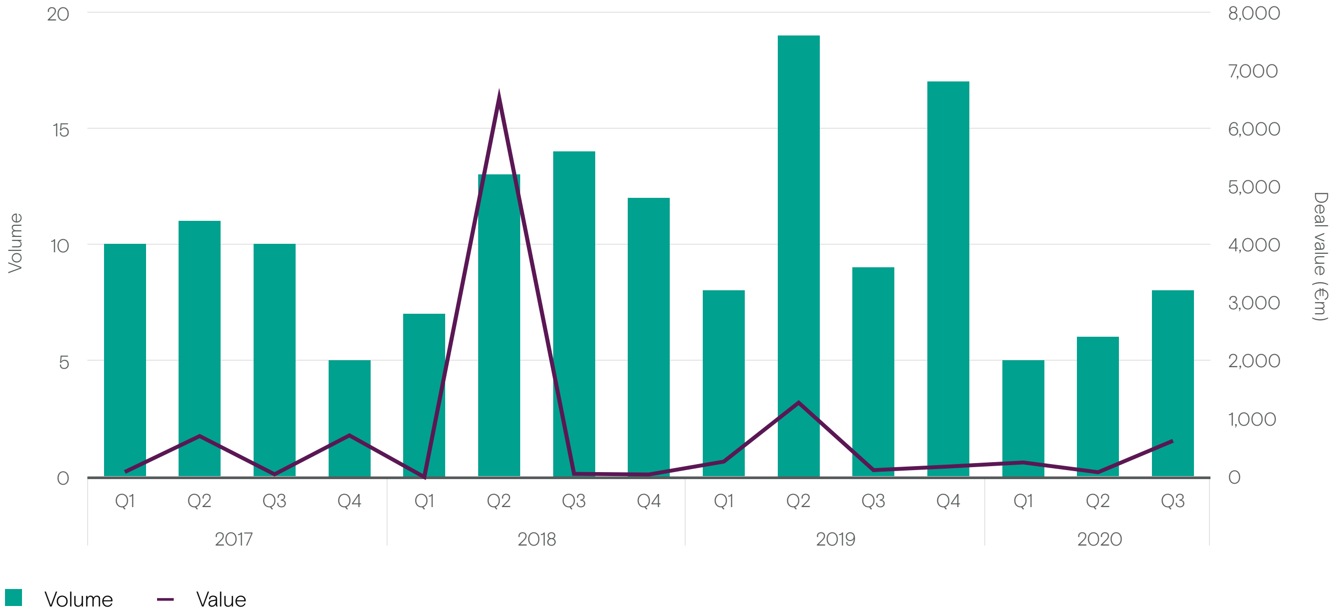
The TMT M&A market's outperformance was even more obvious in the wider European market. There were 815 transactions in the sector in the EU plus the UK, worth a total of €88.7bn. This represents a 15% drop in volume, but a 41% rise in deal value compared with the previous year. Much of this rise was thanks to the acquisition of SVF Holdco (a holding company for semiconductor firm ARM) by NVIDIA Corporation for a value of €32.5bn. This deal alone accounts for nearly a third of total value between the first and third quarters.

HEALTH MEANS WEALTH

The Italian M&A market recorded 19 deals in the pharma, medical and biotech (PMB) sector in the first three quarters of 2020, a 47% decline when compared with 2019. Similarly, total deal value saw a 42% drop down to €998m over the same period. The downturn in PMB deals was not exclusive to Italy, however. EU and UK-wide dealmaking value in the sector fell even more precipitously, down by 76% to €22.4bn.

The largest pharma deal involving an Italian company was an outbound one – Menarini, the largest pharma company in Italy, acquired US-based

ITALY M&A TRENDS – PHARMA, MEDICAL AND BIOTECH SECTOR 2017-2020 Q1-Q3



Stemline, a developer of novel oncology treatments, for €585.4m.

The decrease in deal activity may come as a surprise. As non-cyclical sectors, healthcare and pharmaceuticals typically outperform when economic activity weakens and the significant demand for healthcare and medicine in the current crisis may make the absence of these transactions seem somewhat surprising.

However, the ongoing pandemic has proven highly unpredictable, which can make it difficult to accurately assess where strategic value lies. This applies both to existing therapies and those in development. One of the largest European deals announced in the sector in 2020, Thermo Fisher's €10.8bn bid for Qiagen, announced in March, was rejected by shareholders on the basis that the Dutch medical equipment-maker was now worth more, thanks to demand for its Covid tests. Moreover, Big Pharma is racing to develop vaccines against the coronavirus at record speeds, making large-scale transformational M&A a less pressing priority.

However, smaller deals are still going ahead, and PE continues to spot opportunity in the sector. For instance, in July, CVC Capital Partners acquired Genetic for €280m via its CVC Strategic Opportunities II, a specialist fund that is structured to make long-term investments beyond the typical PE investment horizon. Genetic is a contract development and manufacturing organisation, or CDMO, that serves other companies in the pharmaceutical industry on a contract basis to provide services including drug development and manufacturing. As is typical of the Italian market, the PE fund acquired its stake from the founding Pavese family. Although a modestly sized acquisition, the long-term nature of CVC's acquiring fund means that the asset is likely to be considerably larger when the firm eventually decides to exit.

Cross-border activity: Inbound M&A rises

After a sluggish year for inbound cross-border activity in the previous year, 2020 has experienced a rebound. The total value of inbound deals in the first three quarters came to €16bn, a 73% rise on the same period in 2019. Much of this rise can be attributed to the largest deal of the year, the €7.7 bn Fibercop transaction. By volume, inbound activity dropped 38% year on year to 119 transactions.

Outbound deal activity also dropped. Value fell steeply, by 64%, to just €3.1bn in the Q1-Q3 period, an indication that Italian firms avoided larger deals and focused instead on weathering the pandemic rather than seeking out foreign deal opportunities. Volume, however, held much more steadily, registering a less stark fall of 23% year on year to 79 transactions. The largest outbound deal was the acquisition of US-based Stemline Therapeutics, a developer of oncology therapeutics, by Menarini for €585.4m.

Of Italy's ten biggest M&A deals in 2020, four featured international PE funds. These included KKR backing Fibercop, Bain Capital and NB Renaissance Partners' €1.4bn buyout of computer services company Engineering Ingegneria Informatica, the acquisition of a 48% stake in industrial automation group IMA by a consortium which included the UK's BC Partners, and the purchase of a 15% interest in Infrastrutture Wireless Italiane, a telecoms hardware company, by a consortium led by French PE firm Ardian.

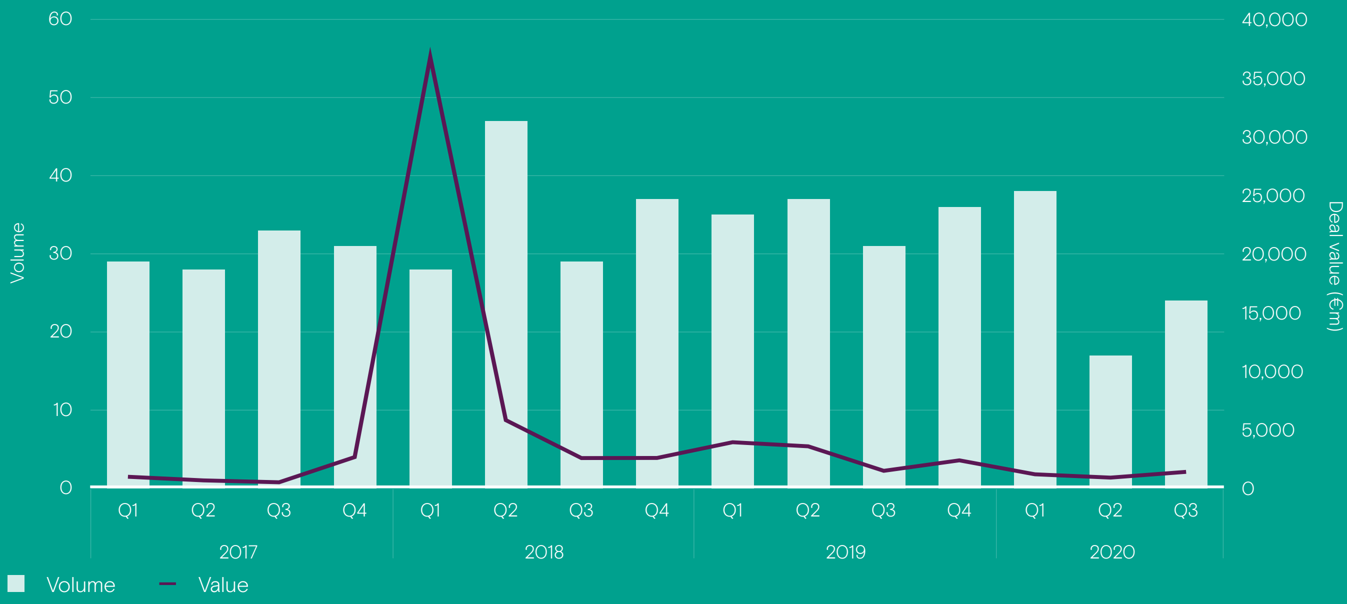
€16 BILLION

Total value of inbound deals in the first nine months of 2020

Overseas financial sponsors had already been highly active putting their record sums of dry powder to work in the Italian market in recent years. But as highly opportunistic acquirers, PE funds tend to capitalise on market dislocations. They are mandated to invest through both good times and bad, and have historically delivered their strongest returns during times of market and economic crises.

CROSS-BORDER ACTIVITY – ITALY AS TARGET 2017-2020 Q1-Q3

CROSS-BORDER ACTIVITY – ITALY AS BIDDER 2017-2020 Q1-Q3



Seizing opportunity: Private equity in focus

The most obvious effect of the pandemic on dealmaking in 2020 is the pullback in volume and the resilience of larger acquisitions. This trend that has been playing out in the M&A market as a whole is even more evident among PE buyouts.

There were 88 PE deals in total in Q1-Q3 2020, a 25% decrease on the same period the previous year. Annual total deal value, meanwhile, more than doubled over this time, rising by a massive 141% to €15.6bn. This was in fact higher than total value in all of 2019, which came to €11.8bn.

The level of deal activity was impressive not only compared to 2019 – one of the quietest for PE activity in recent years. The first three months of 2020 have superseded the annual totals for each of the last five years with the exception of 2018 (€22.5bn). As mentioned, four of the ten largest M&A transactions in Italy in the first three quarters of 2020 have involved a financial sponsor, Fibercop topping the table. This deal helped to ensure that TMT made a massive leap from 4% to 43% of Italy's total PE deal value in 2019/20, making it the dominant sector. This was followed by industrials and chemicals with a 17% share of buyout value.

The industrials (31%) and consumer goods (26%) sectors together made up more than half of Italy's total PE deal count in 2019-2020, which speaks to Italy's renowned manufacturing prowess in the country's northern industrial heartland.

€15.6 BILLION

Total Italian PE deal value in Q1-Q3 2020

ITALIAN PRIVATE EQUITY DEAL ACTIVITY BY QUARTER, 2017-2020 Q1-Q3

PE funds have a wall of capital to spend. The total allocated for buyouts specifically is estimated by Preqin to be in the region of $1.5 trillion, a figure that has remained stubbornly high in recent years, while uninvested capital in the wider private capital market is valued at closer to $3.5 trillion.

Investors have relied on PE to deliver the returns that have been wanting in the other segments of their portfolios, fixed income in particular lagging historic performance. This need to bump up returns has helped institutional PE managers to raise successive funds with ease and equipped them with the necessary means to make acquisitions and spur M&A activity.

A case in point, in the last 18 months alone, KKR has raised a €5.8bn European buyout fund, closed in November 2019, and in 2020 a $1.3bn global impact fund, a $2.2bn tech fund and $4bn for credit opportunities created by market dislocations in 2020. London's BC Partners, which was responsible for Italy's third-largest deal, IMA, held a first close for its BC European Capital XI fund on €4bn in September 2020.

CVC, responsible for the buyout of Genetic, Italy's seventh-largest year,

TOP PRIVATE EQUITY DEALS IN 2020 Q1-Q3

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value €(m)
31/08/2020	Fibercop	Telecommunications: Carriers	Kohlberg Kravis Roberts & Co. L.P.; Telecom Italia S.p.A.; Fastweb S.p.A	USA	7,700
05/02/2020	Engineering Ingegneria Informatica SpA	Computer services	Bain Capital, LP.; NB Renaissance Partners	USA	1,600
28/07/2020	IMA S.p.A. (48.4% Stake)	Industrial automation	BC partners - SOFIMA Consortium	United Kingdom	1,422
24/06/2020	Infrastrutture Wireless Italiane S.p.A. (14.8% Stake)	Telecommunications: Hardware	A consortium led by Ardian	France	1,346
01/05/2020	Permasteelisa S.p.A.	Construction	Atlas Holdings LLC	USA	440
13/08/2020	Casa Vinicola Botter Carlo & C. S.p.A	Consumer: Other	Clessidra SGR S.p.A.	Italy	300
17/07/2020	Genetic SpA	Medical: Pharmaceuticals	CVC Capital Partners Limited	United Kingdom	280
24/06/2020	Infrastrutture Wireless Italiane S.p.A. (3% Stake)	Telecommunications: Hardware	Azimut Holding SpA; Canson Capital Partners	United Kingdom	273
28/01/2020	Pasticceria Bindi S.p.A.	Consumer: Foods	BC Partners Limited	United Kingdom	200
07/09/2020	Medipass S.r.l	Medical	DWS Alternatives Global Limited	United Kingdom	169

is understood by Acuris publication Unquote to have raised a massive €21.3bn for the final close of its eighth buyout fund, making it one of the largest PE vehicles in history.

Within Italy, NB Renaissance, which acquired Engineering Ingegneria Informatica alongside Bain Capital in the second-largest PE buyout of the year so far, has raised at least €850m for its third fund, according to Unquote.

€7.7 Billion

KKR's investment in Fibercorp was Italy's largest deal of the year

Other Italian firms raising new funds include Investindustrial, which launched a €600m fund with backing from China Investment Corporation and Italian bank Unicredit that will invest in mid-market Italian companies looking to expand in China. The vehicle is called the China-Italy Industrial Cooperation Fund and, once raised, will invest alongside the GP's flagship buyout fund, Investindustrial VII, which closed on €3.75bn in November 2019.

Armonia intends to open a new €500m fund in the first quarter of 2021, while Antares has launched a restructuring fund with a €300m target to support the recovery of Italian fashion firms hit by coronavirus. With these fundraisings in mind, there certainly should be no shortage of PE capital seeking deals in the Italian market. As we look ahead to 2021, buyout funds should continue to buttress M&A activity.

Going private

The last few years have seen European public to private (P2P) acquisitions steadily rise, with activity reaching a high of 26 transactions worth €33.3bn in 2019.

One reason for this trend is the influx of capital into PE over recent years. Facing weak yields ever since interest rates were brought to near zero following the global financial crisis, investors have been forced further up the risk-return spectrum. This in turn has meant more capital chasing a finite pool of deals, pushing up valuation multiples. Over time, this has meant the number of publicly traded companies that can be acquired for less than equivalent private companies has risen, even with take-private premiums factored in.

With stock markets momentarily collapsing in the second quarter, it might be expected that PE funds would find ample P2P opportunities. But this activity fell to 12 deals worth €11.1bn in the first nine months of the year – a 29% drop in volume and a 60% fall in value compared with the same period in 2019.

The reason for this is likely the exceptional nature of the bear market and its rapid and impressive recovery. No investors have seen a global pandemic of this magnitude. A bifurcation in the market quickly unfolded, with technology stocks soaring to eye-watering highs and cyclical stocks such as industrials and financial services slumping. This has left limited opportunity for PE funds as tech favourites have become prohibitively expensive and cyclical sectors have been blighted by the unpredictability of the coronavirus pandemic and how long it will last.

In Italy, there were just two P2Ps with a combined value of €1.5bn, mainly accounted for by BC Partners' acquisition of IMA – a maker of automated machinery used in manufacturing – for a value of €1.4bn. Although modest relative to the wider European take-private, this figure is in fact higher than the annual total for each of the past five years.

€33.3
BILLION
Total value of the 26 European P2P deals in 2019

Indeed, PE funds delisting companies in Italy have historically been rare. But with stock prices still depressed and so much dry powder in the PE market, take-privates are bound to look more attractive in the country in the coming months.

Conclusion: 2021 and beyond

After a challenging second quarter, M&A figures in Italy and the wider European market in Q3 have been promising. However, mounting rates of infections across the region and a second wave of lockdown measures in the fourth quarter suggest more disruption. The primary concern for businesses (and their shareholders) is to ensure they can weather the second surge of coronavirus cases and what the longer-term road map out of the pandemic looks like. Until there is more clarity on this, investors will be highly selective in their acquisitions.

Italy's fiscal response to the crisis will deliver much-needed stimulus for an economy that was already weak going into the pandemic. EU support has helped to deliver this fiscal aid to businesses and the government's recognition of the need to balance the health of the population and the economy is a strong positive. The long-term sustainability of Italy's level of public debt, which currently sits at around 160% of GDP and is second only to Greece in Europe, remains a concern. Governments will have no choice but to turn off the stimulus taps at some point.

But these contextual issues are less of a factor for acquirers in M&A situations, who target specific companies with unique balance sheets and strategies. In fact, a weaker and more challenging macroeconomic backdrop can make highly investable companies easier to identify if they achieve growth in spite of economic headwinds and market uncertainty.

This outperformance trend has been playing out in the TMT sector in particular and we expect to see technology-enabled assets continue to achieve growth in 2021, which will naturally keep these companies in high demand. Buyers will be paying close attention to the earnings multiples of such companies and will need to ensure that their investment theses for highly coveted companies are rock solid to justify high entry prices.

The value of consumer deals has fallen and we anticipate a rebound in investment in the space towards the second half of 2021, provided the pandemic has become better managed. An improvement in the global economy should deliver higher demand for Italian consumer exports and our market intelligence shows a high number of deals in the making.

Over the past six months, Mergermarket published a total of 243 stories about 'companies for sale' in Italy, giving an idea of the number of upcoming sale processes. The consumer sector saw the most such stories, with 87 published – more than double the next most popular sector, TMT.

87

The number of consumer sector 'companies for sale' stories published in the past six months

Word of PMB deals in the pipeline has been limited (ten stories); however there is reason to expect a greater showing of these transactions going forward, as PE funds seek out assets with a diverse client base (e.g. CVC with Genetic) and large corporates pick off modest-sized competitors with compelling drug patents (e.g. Menarini with Stemline Therapeutics) that can fuel their next growth phase.

Finally, China's swift and rigorous handling of the pandemic, and the fact that it is the first major economy in the world to return to positive growth, signals hope for Italy. As the first European country to be significantly impacted by Covid-19 and with one of the most effective government responses, Italy's prospects are brighter than most.

Consumer	87
TMT	36
Industrials & chemicals	36
Business services	18
Energy, mining & utilities	18
Financial services	17
Pharma, medical & biotech	10
Leisure	8
Construction	7
Transportation	4
Real estate	2

NB: Data above is based on Mergermarket data for 'company for sale' stories published between 19/04/2020 to 20/10/2020

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