

Unveiling value

Italian M&A and PE activity in 2023



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Gatti Pavesi Bianchi Ludovici is an independent full-service law firm. We offer clients a one-stop shop in a single, central point of contact representing a benchmark in carrying out and seeing through complex corporate and structured finance transactions in Italy.

We have offices in Milan, Rome and London. We offer unparalleled multi-jurisdictional transactional, regulatory and advisory practices and have extensive experience in delivering high-level assistance in all areas of civil, commercial and corporate law, as well as in international and domestic tax advice, offering cutting-edge and sophisticated solutions.

Italian M&A market defies slow economy

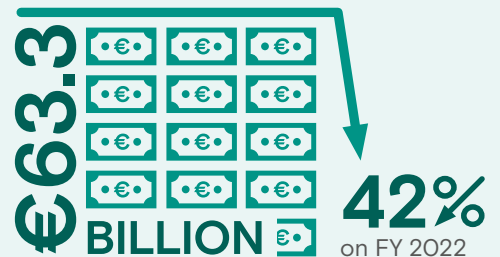
Market on the mend

Overall, 1,181 deals were announced in Italy in 2023, worth a combined €63.3bn and representing year-on-year declines of 10% and 42%, respectively. While these figures are still soft, they do at least signal an improvement from H1 2023, when aggregate value was down 80% on the same period in 2022.

1,181
DEALS



10%
year-on-year



In the lap of luxury

Despite recording a year-on-year decline of 11% in deal volume terms, aggregate deal value in Italy's consumer sector rose by 43%, to €5.2bn, in 2023, thanks in large part to a pair of luxury-related plays for Valentino and Gruppo Florence.

13,157
DEALS



11%
year-on-year



43%

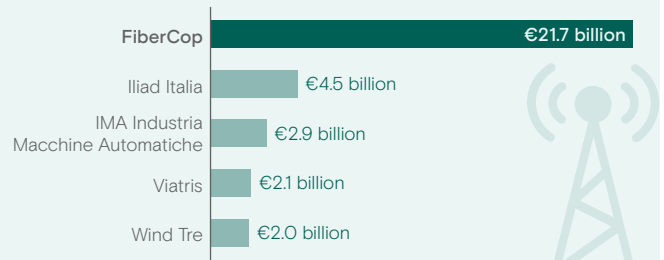
rise in deal value to €5.2bn in Italy's consumer sector

Telecoms generate giant deal

The biggest M&A deal announced in Italy in 2023 was US alternative investment behemoth KKR's acquisition of FiberCop, comprising the fixed network assets of Telecom Italia, for €21.7bn.

Largest deals

in Italy 2023



Mighty cross-border appetite

Each of the 10 largest transactions announced in 2023 targeting Italian assets involved inbound M&A bidders, including two led by US dealmakers, two involving bidders from the UK and two involving France-based acquirers.

€24,625m



€5,737m



€23,753m



Foreword

Six months ago, when we last published this report, inflation was running hot and M&A value was scraping lows not seen for some time. As 2023 draws to a close, a number of indicators are now telling an altogether different story.

By October, Italy's Consumer Price Index (CPI) had fallen steeply to 1.8% year-on-year, from 10.7% in January. Inflation for the year will, of course, be higher than this recent mark, but it could not be clearer that pricing growth has declined sharply since late last year. Economic growth is also waning and CPI is not the full picture. A notable aspect of Italy's economic structure is the prevalence of floating-rate mortgages, more so than in countries like Germany and France. This has led to a significant increase in household interest spending in Italy, a trend that is expected to continue, influencing consumer spending and investment decisions.

Still, with the euro area's annual inflation rate falling to a more than two-year low of 2.9% in October, the European Central Bank (ECB) has now paused its hiking cycle and is taking a wait-and-see approach. This will offer some relief for Italian consumers and the government, Italy being among the most fiscally constrained countries in Europe.

One of the most encouraging recent trends is the resilience and adaptability of the Italian M&A market over the past few months. There has been a discernible upward trend in deal value in H2, indicating a potential bottoming out of the market and a steep recovery.

This resurgence has been fuelled, in large part, by strong interest from financial sponsors in the telecommunications sector, reflecting Italy's efforts to bridge its digital divide. The country is committed to enhancing its digital infrastructure, an essential step towards aligning with Europe's broader digital transformation.



Sectors in which Italy excels, such as luxury consumer brands, are also contributing their fair share to this recent momentum in deal value. The allure of Italian craftsmanship and the global appeal of its high-end products continue to drive strategic M&A activities, highlighting the enduring strength of the 'Made in Italy' brand. International investors have also been rekindling their love of the country in recent months. Foreign buyers were behind all of the very largest deals in the second half of the year, which is testament to Italy's industrial prowess.

It is not only corporates with big balance sheets and private equity (PE) mega funds that have been pouring capital into deals. Deal volume has proven remarkably consistent throughout 2023, persisting well above pre-COVID levels and even exceeding the flush of activity that ensued in 2021.

While the Italian economy is far from roaring, 'cautious optimism' is a well-worn, but apt, platitude here. There are plenty of reasons to be bullish that Italy's dynamic M&A market will continue to shrug off today's lacklustre macroeconomic conditions, just as it has done so far.

The Italian M&A market in focus

The Italian economy, like that of much of Western Europe, is expanding at a slow pace. The International Monetary Fund projects that Italy's economy will expand by 0.7% in 2023 and at the same rate in 2024. This a downshift from last year and is mirrored in the country's M&A market.

Deal volume fell by 10% year-on-year in 2023, to 1,181 transactions, but it's important not to fall victim to recency bias. This is still high by historic standards, being well above pre-pandemic levels and even topping 2021, signalling that investor confidence is running relatively high.

€63.3
BILLION

The total value of Italian M&A deals in 2023

This year's deal value of €63.3bn marked a significant 42% decline from 2022's €108.3bn. However, once again, this is not the fairest comparison, since 2022's figures were inflated by the €42.7bn acquisition of Atlantia by Blackstone and Edizione in Italy's largest ever take-private. Excluding this outlier, 2023's performance is far more favourable, with a much less dramatic contraction.

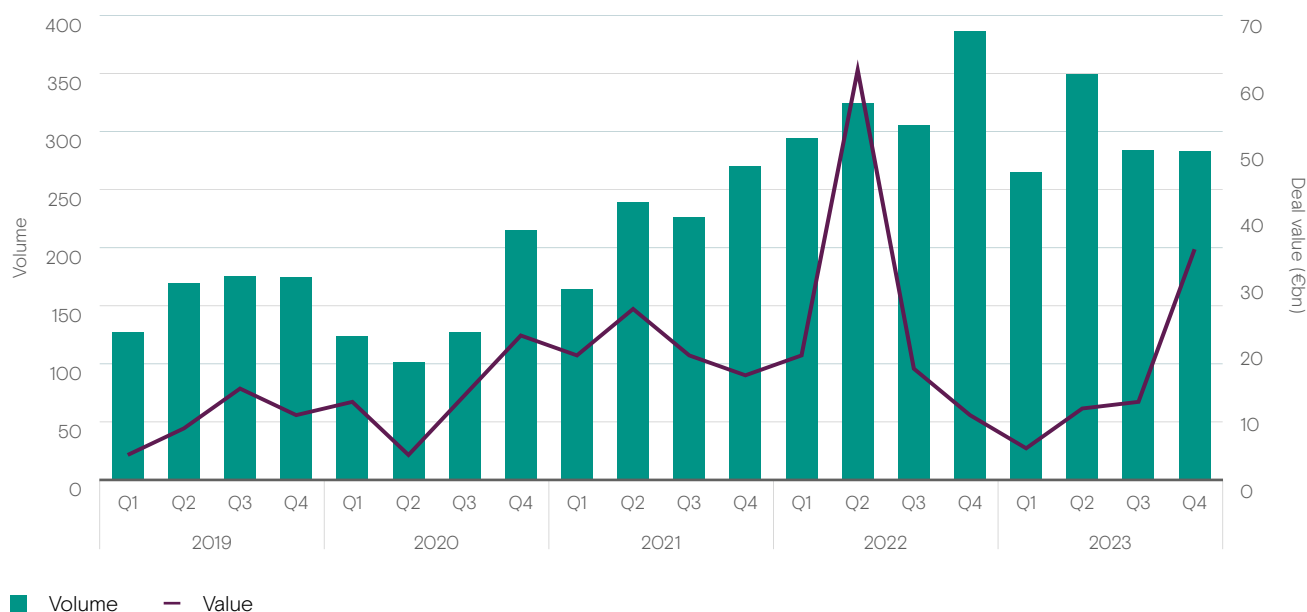
The year-on-year decline mirrors the broader European trend, with the continent witnessing similar declines in both deal volume and value. Europe, including the UK,

experienced a 11% drop in deal volume and a 28% decrease in deal value in 2023, to 13,157 deals worth €641.2bn in aggregate.

NETWORK EFFECTS

The most prominent deal, by a wide margin, was the €21.7bn acquisition of FiberCop by US private capital firm KKR in early November, a landmark move in the telecoms sector, highlighting the need for digital transformation in Italy. The sale by Telecom Italia, which included an earn-out provision of around €2bn, was made to upgrade the outdated fixed network. Major shareholder Vivendi

ITALIAN M&A BY YEAR, 2019-2023 YTD



EU PLUS UK M&A BY YEAR, 2019–2023 YTD



has said it will do everything in its power to block the deal. It has been seeking a higher offer and questioned the sustainability of FiberCop as a standalone business. Studio Gatti Pavesi Bianchi Ludovici advised Telecom Italia on the sale of FiberCop to KKR.

The second largest deal also originated in the TMT sector. In late December 2023, Iliad, the Paris-headquartered company controlled by French billionaire Xavier Niel, proposed a merger to UK-based Vodafone of their Italian telecoms units. The deal is in the early stages of discussion, though Vodafone has said that it “is supportive of in-market consolidation in countries where it is not achieving appropriate returns on invested capital”. According to Mergermarket reports, the proposal gives Vodafone Italia an enterprise of around €10.5bn. It follows a previous bid that Iliad made in February 2022 in which the company offered more than €11bn for Vodafone Italia, which

Vodafone rejected on the grounds that it was “not in the best interests of shareholders”.

Another sizeable transaction was the acquisition of a 45% stake in IMA Group by BDT & MSD Partners, valued at €2.9bn. IMA, a Bologna-based company specialising in automatic packaging machines, is illustrative of PE’s keen interest in Italy’s swathe of innovative, family-run manufacturing businesses. Led by the Vacchi family since its founding in 1961, IMA was delisted from the Borsa Italiana during the height of the COVID pandemic, with the backing of UK PE shop, BC Partners. At the time of BC’s investment, the company’s entire equity was valued at €2.9bn.

Foreign investment was one of the defining themes of Italian M&A in 2023, with each of the country’s 10 largest deals in the year involving an international bidder, predominantly from within Europe.

Although not captured in standard sector data, a deal that deserves an honourable mention is the takeover of the MilanoSesto urban renewal project in Milan by Coima, the Italian housing developer, and Redo, the affordable housing group, from real estate investor Hines and credit manager Prelios. MilanoSesto covers 1.5 million square metres, making it the biggest project of its kind in the country and one of the largest in Europe. The development ultimately stalled, and Coima and Redo negotiated a €900m debt-to-equity conversion with the project’s lenders, including Intesa Sanpaolo. Studio Gatti Pavesi Bianchi Ludovici supported Redo, one of the new sponsors.

TOP 10 DEALS IN 2023

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value €(m)
05/11/2023	FiberCop S.p.A. (100% Stake)	TMT	KKR & Co Inc; Abu Dhabi Investment Authority	USA	21,700
18/12/2023	Iliad Italia S.p.A. (100% Stake)	TMT	Vodafone Group Plc; Vodafone Italy S.p.A.	United Kingdom	4,450
31/07/2023	IMA Industria Macchine Automatiche S.p.A. (45% Stake)	Industrials & chemicals	BDT & MSD Partners LLC	USA	2,925
01/10/2023	Viartis Inc (Majority of the OTC business) (100% Stake)	Pharma, medical & biotech	Cooper Consumer Health SAS	France	2,053
12/05/2023	Wind Tre S.p.A. (Network Infrastructure Assets) (60% Stake)	TMT	EQT AB	Sweden	2,040
09/01/2023	ISAB S.r.l. (100% Stake)	Industrials & chemicals	Trafigura Beheer BV; G.O.I. Energy Ltd	Cyprus	1,869
27/07/2023	Valentino Fashion Group S.p.A. (30% Stake)	Consumer	Kering SA	France	1,700
02/10/2023	Italo-Nuovo Trasporto Viaggiatori S.p.A. (50% Stake)	Transportation	(MSC) Mediterranean Shipping Company SA	Switzerland	1,633
11/08/2023	Prelios S.p.A. (100% Stake)	Financial services	ION Investment Group Ltd; X3	Ireland (Republic)	1,350
25/05/2023	Gruppo Florence S.p.A. (100% Stake)	Consumer	Permira Ltd; VAM Investments Group S.p.A.	United Kingdom	1,287



Sector watch:

Industrials & chemicals, EMI and financial services

In the 2022-2023 period, Italian M&A was spurred by two sectors: industrials & chemicals (I&C) and energy, mining & infrastructure (EMI), with infrastructure comprising construction and transportation. Transactions in I&C accounted for a notable 26% of total volume over this time, while EMI M&As were responsible for 35% of aggregate value.

The large number of I&C deals is a reflection of the sector's diverse and numerous businesses. According to ISTAT data, the industrials sector constitutes around 16.6%

of Italian GDP and more than one in 10 of the country's 4.3 million companies are categorised under manufacturing. Machinery, textiles and industrial design are all major contributors to economic activity and to the country's exports.

The EMI sector's dominance in value terms in 2022-2023 was largely influenced by a single massive transaction: the take-private in 2022 of Atlantia, a motorway and airport infrastructure group. This transaction, valued at €42.7bn according to Mergermarket reports and on which

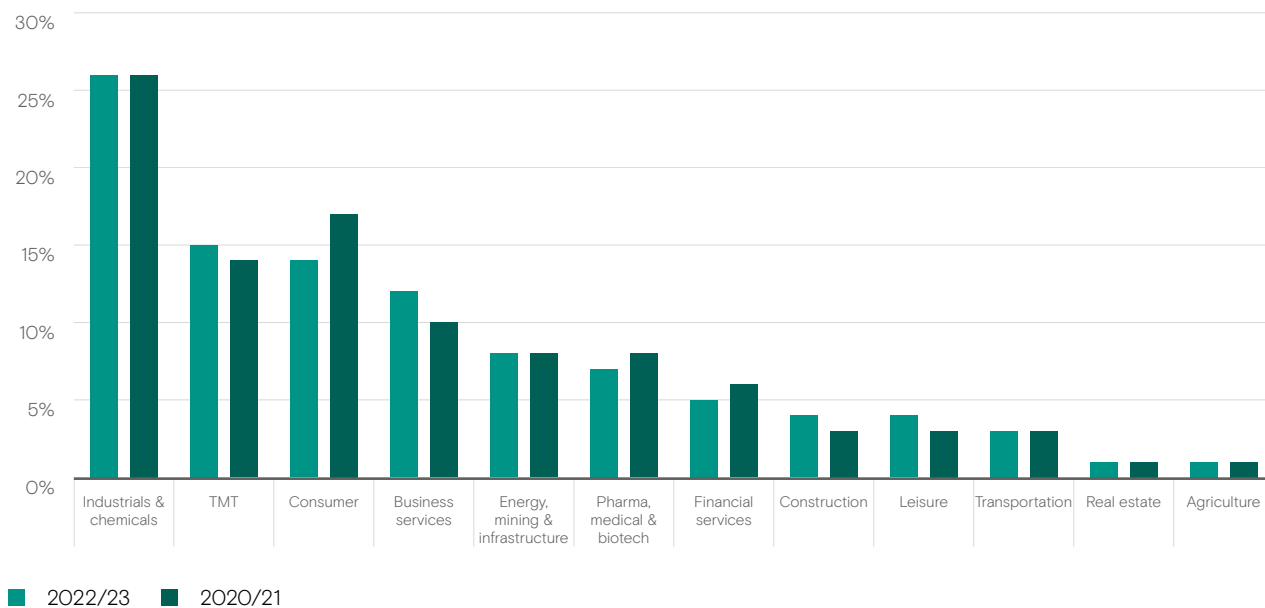
35%

EMI's portion of aggregate Italian deal value in 2022-2023

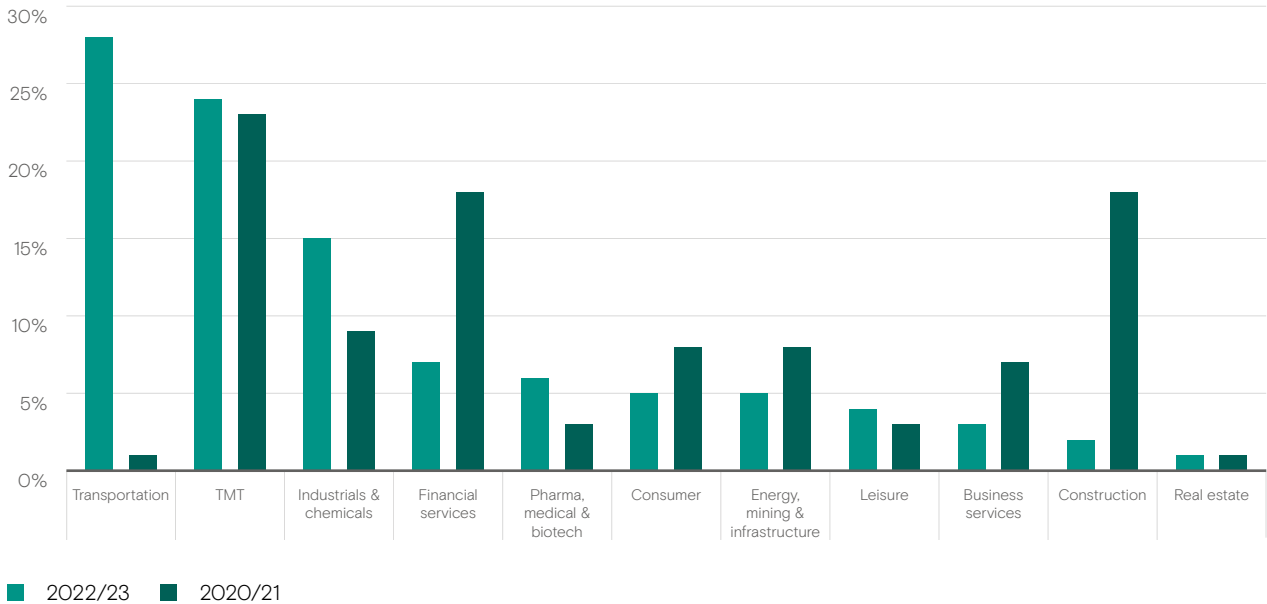
Studio Gatti Pavesi Bianchi Ludovici advised, was orchestrated by the US private investment fund Blackstone and Edizione, the holding company of the Benetton family.

Completed in December 2022, the size of the deal was such that it not only dominated the sector's value, but also placed it among the biggest M&As globally in the period, following Microsoft's \$69bn acquisition of Activision Blizzard, the gaming company, and chipmaker Broadcom's \$61bn takeover of software firm VMware.

M&A DEAL VOLUME, SPLIT BY SECTOR, 2020-2023 YTD



M&A DEAL VALUE, SPLIT BY SECTOR, 2020-2023 YTD

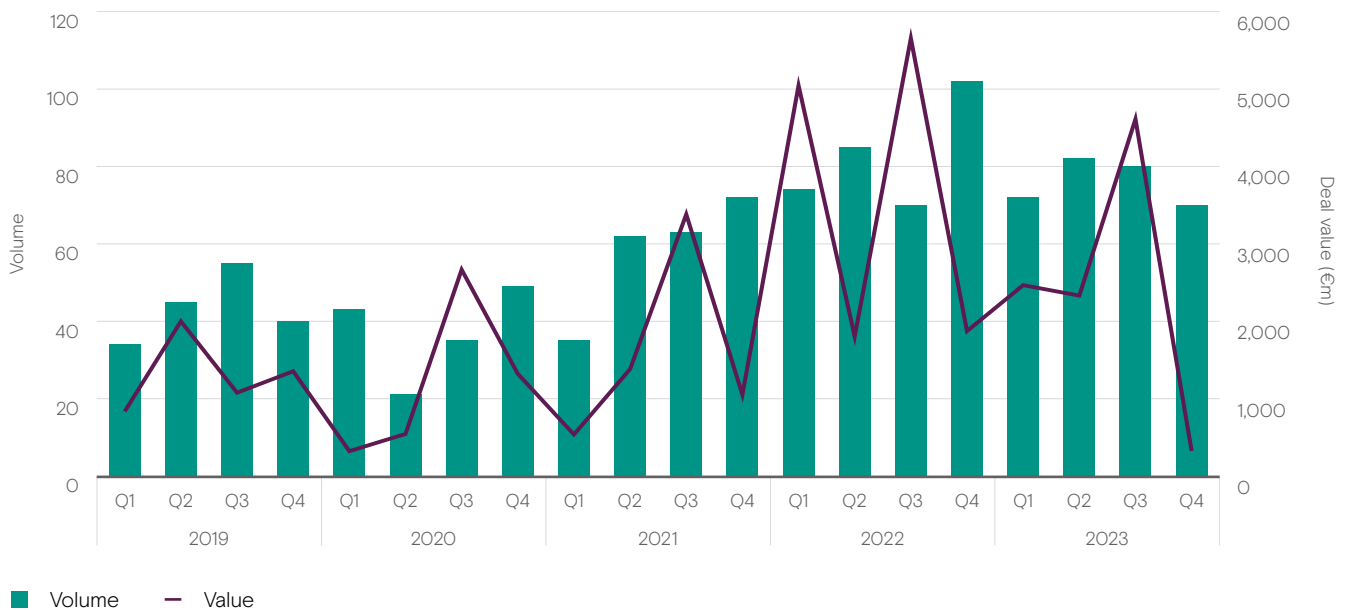


Infrastructure has proven to be a highly popular strategy among investors over the past two years, given its inflation-hedging characteristics and low correlation with economic growth.

INDUSTRIALS & CHEMICALS
Despite leading the sector rankings, I&C deal volume posted a decline of 8% compared with full-year 2022, from 331 to 304 transactions. Furthermore, total I&C deal value fell by 32% to €9.8bn year-on-year.

More than half of this value came from two major transactions. The largest was the aforementioned €2.9bn purchase of a stake in IMA Group by BDT & MSD Partners, the US merchant bank. Another notable deal involved Russia's second largest

ITALY M&A TRENDS - INDUSTRIAL & CHEMICALS SECTOR, 2019-2023 YTD



oil producer, Lukoil, divesting its ISAB oil refinery in Sicily to Cypriot PE firm G.O.I. Energy and commodity trading multinational Trafigura for nearly €1.9bn. The ISAB plant, which processes 320,000 barrels per day, accounts for a fifth of Italy's refining capacity. While Lukoil was not directly targeted by Western sanctions on Russia in connection with its invasion of Ukraine, the ISAB refinery was affected by an embargo on Moscow's crude oil, causing banks to avoid financing Russian-owned assets.

Cross-border transactions played a prominent role in the I&C sector, with seven of the eight largest deals involving foreign bidders. US investors were particularly active, engaging in four of the seven largest transactions. This reflects sustained international interest in Italian industrial assets, particularly among corporate investors. Despite a general slowdown, the sector is of high strategic importance for American

firms, which are turning away from merger opportunities in China because of geopolitical frictions between Beijing and the West.

The slowdown in I&C sector M&A was by no means exclusive to Italy. For context, across Europe, including the UK, the aggregate value of these deals in 2023 reached €86.1bn, a 30% decline from 2022, while volume was down 6%, to 2,076 transactions.

ENERGY, MINING & INFRASTRUCTURE

The EMI sector has put on an impressive display this year, despite the absence of major acquisitions. Deal volume came to 183 transactions, only 5% short of 2022's total. This makes it the strongest-performing sector of those highlighted in this report on a year-on-year basis.

The same cannot be said for aggregate value, which slumped by a full 89% to €5.4bn over the same period. This is the inevitable

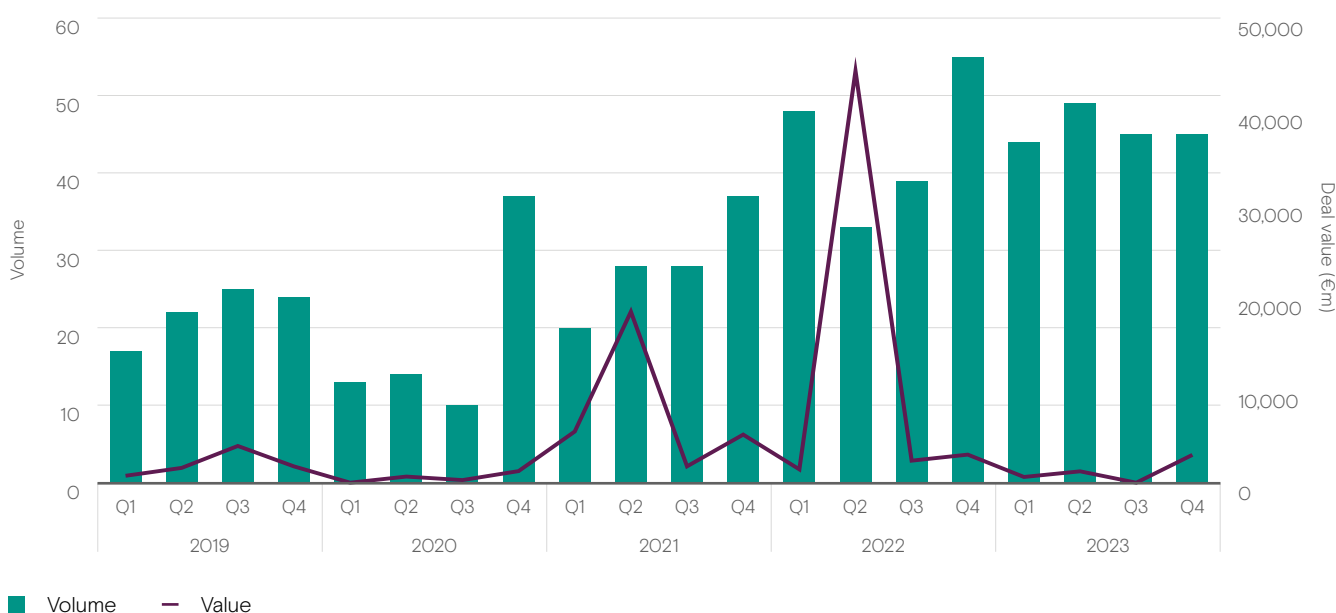
consequence of last year's outsized acquisition of Atlantia by Blackstone and Edizione. It's likely we will be hearing more about this operator, which rebranded as Mundys earlier this year and has ambitions of becoming the biggest infrastructure player in the world.

The largest EMI deal this year, another transportation play, was a big step down in size. Valued at €1.6bn, Mediterranean Shipping Company (MSC) purchased a 50% stake in Italo (Nuovo Trasporto Viaggiatori) in October. This private high-speed train operator connects Milan, Bologna, Florence, Rome and Naples, offering an alternative to the state-owned railway company Trenitalia. This was the only EMI deal to make it into Italy's top 10 M&As this year.

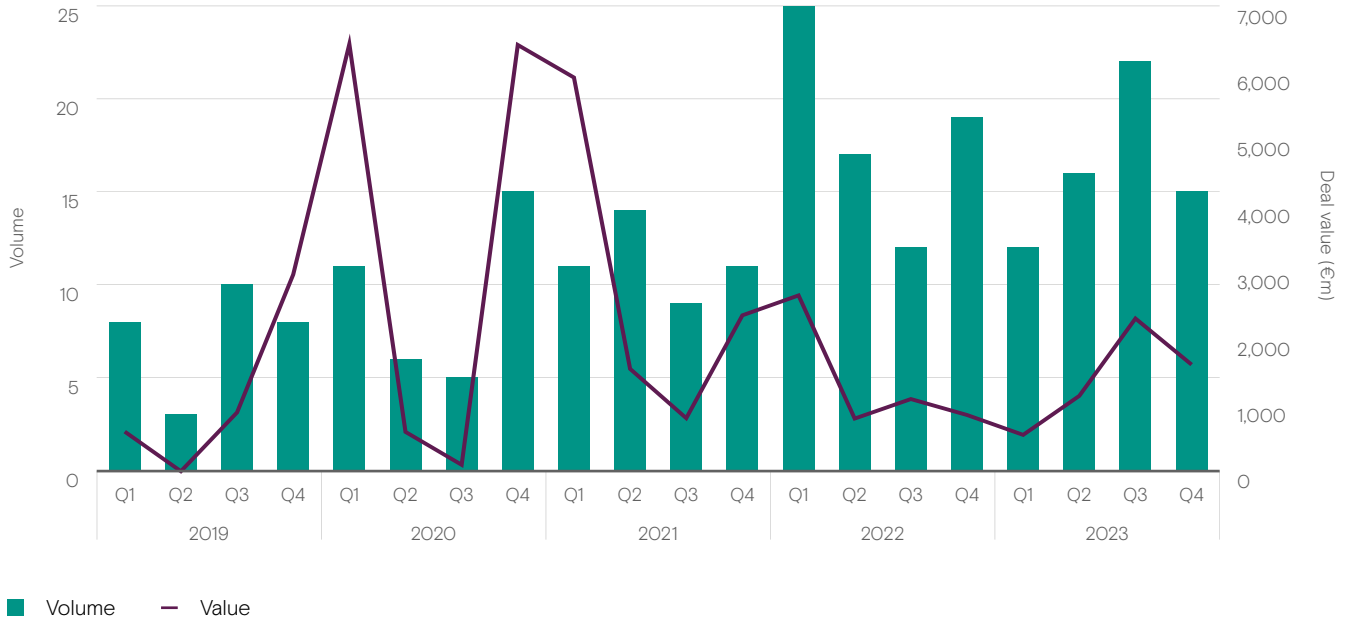
FINANCIAL SERVICES

The financial services sector experienced an expected decline in M&A deal volume this year, falling by 11% year-on-year to 65 transactions.

ITALY M&A TRENDS - ENERGY, MINING & INFRASTRUCTURE SECTOR, 2019-2023 YTD



ITALY M&A TRENDS – FINANCIAL SERVICES SECTOR, 2019–2023 YTD



However, aggregate deal value did see a small rise compared to the previous year, totalling €5.6bn, a 4% increase.

The Italian banking sector has until recently been encumbered by a high level of non-performing loans (NPLs), which are a significant drag on profitability. Lenders can resolve this by merging with banks that have lower NPL ratios, or offloading soured loans in bulk to specialist investors. Regulatory mandates required banks to dispose of approximately €300bn of NPLs and this process has played into the hands of Prelios, which was sold by US hedge fund Davidson Kempner Capital Management to fintech firm ION Group for €1.35bn in August in the largest financial services deal of the year. At the time of writing, the transaction remains subject to regulatory and government approval in Italy.

There besides, Italy's financial services industry is undergoing a digital transformation – banks' need to invest heavily in technology in order to compete being a key catalyst for M&A. A collaboration between Italy's third largest bank, Banco BPM, Gruppo BCC Iccrea, and PE firm FSI scored the sector's third-biggest deal, valued at €600m. The joint venture saw the transfer of Banco BPM's payment operations to Pay Holding, a new company that now controls BCC Iccrea and FSI's BCC Pay business. Pay Holding, which will rebrand, holds a 10% market share, making it the country's second largest payments provider. Indicative of the ongoing restructuring and strategic repositioning that's underway in the banking space, no fewer than six of the 10 largest financial services M&As this year have featured an Italian buyer.

Banco BPM was also notably active in several other transactions in 2023 on which Studio Gatti Pavesi Bianchi Ludovici advised. These included the bank's exercise of a call option to purchase 65% of share capital in insurance companies Vera Vita and Vera Assicurazioni from Cattolica Assicurazioni, part of the Generali group, for €392m. This was followed later in 2023 by the completion of a deal first announced in late 2022, namely Banco BPM's €260m sale of a 65% stake in Vera Assicurazioni, its subsidiary Vera Protezione and Banco BPM Assicurazioni to French financial services group Crédit Agricole. The transaction also comprises a partnership with Crédit Agricole for the launch of a 20-year distribution agreement for products and services in non-life, personal protection and creditor insurance through the network of around 1,500 branches that Banco BPM operates in Italy.

TMT: Open lines of communication

A surge in mobile-data traffic, the roll-out of 5G towers and the connection of new technologies, including the internet of things (IoT), are increasing demand for reliable digital infrastructure in Italy. Financial sponsors have been paying close attention to these capital expenditure demands and investing accordingly. This was the rationale behind KKR's €21.7bn FiberCop acquisition, which brought total deal value in the telecommunications, media and technology (TMT) sector to €30.7bn in 2023, around triple the roughly €10bn of such M&As recorded in 2022. TMT-related volume, meanwhile, regressed by 25% to 159 transactions.

KKR was not the only financial sponsor to make an investment in the country's telecoms sector as part of these expansion efforts. Sweden's EQT Partners bought a 60% stake in a newly created company that will own and operate the mobile and fixed network of telecoms group Wind Tre. The €2bn carve-out means Hong Kong conglomerate CK Hutchison will retain a 40% interest and recoup some of its network investment costs as it moves to a more asset-light model, while providing ample funds for the asset's operating-expense and capital expenditure needs. It is expected that the new company will benefit from being able to serve wholesale and B2B markets better, but labour unions who want the company to remain part of Wind Tre have opposed the deal.

Including FiberCop, Wind Tre and the previously mentioned Anglo-French-led transaction that would see the Italian telecoms units of Vodafone and Iliad merge, each of the six largest TMT deals of the year were cross-border in nature, of which four were sponsored by PE funds.

In May, Silver Lake, the US PE firm that specialises in software, acquired a €600m minority stake in TeamSystem from Hellman & Friedman, the PE firm that has stayed on as the business software provider's main shareholder. TeamSystem's platform spans core business applications, financial technology and AI tools, helping companies to streamline their operations. Since Hellman & Friedman's investment in 2016, the company has grown its customer base ninefold, from 200,000 to 1.8 million.

Apax Partners paid €234m for Finwave, the fintech and credit-management software division of Lutech. This opens up Finwave's growth potential as an independent business while Lutech homes in on its core IT integration and digital-transformation services across domains including digital customer engagement, next-generation IT infrastructure, cloud computing, cybersecurity, IoT and big data.

The seventh, eighth and ninth largest TMT deals announced in Italy in 2023 featured bidders and investors based in the country. The biggest of these was the €125m management buyout of digital marketing company Digital360, supported by a €62m hybrid capital investment from PE fund manager Three Hills Capital Partners.

ITALY M&A TRENDS – TMT SECTOR, 2019–2023 YTD



Private equity activity in focus

ITALIAN PE ACTIVITY IN FOCUS

PE activity closely tracked the downshift in M&A. The €38bn worth of buyouts equates to a 47% retreat on 2022's €72.1bn, reflecting the difficulty large sponsors have faced in securing debt for big-ticket transactions. The high cost of financing means PE funds had to reduce their bids in order to meet the return thresholds in their models, leaving many deals with price-expectation gaps. This effect also required PE funds to make bigger equity contributions and therefore downsize their transaction sizes. This is why deal volume, which was down by 13% to 218 transactions, has held up more robustly than aggregate value.

BIGGEST TICKETS

FiberCop, like Atlantia last year, made an outsized contribution to that value.

The single deal represented no less than 57% of Italy's PE market in 2023, while the top 10 deals of the year made up 86% of all sponsor-related investment. Moving down the deal table, past the acquisitions by BDT & MSD of IMA Group for €2.9bn and EQT of Wind Tre's mobile and fixed telecoms network for €2bn, investment firm Permira took the fourth spot with a €1.3bn investment in Gruppo Florence, the largest producer of clothing, accessories, shoes and leather goods for high-end brands in Italy.

The Milan-based company, set up in 2020 by VAM Investments, the PE firm chaired by former Bulgari chief executive Francesco Trapani, has succeeded by consolidating the highly fragmented luxury-goods supply chain.

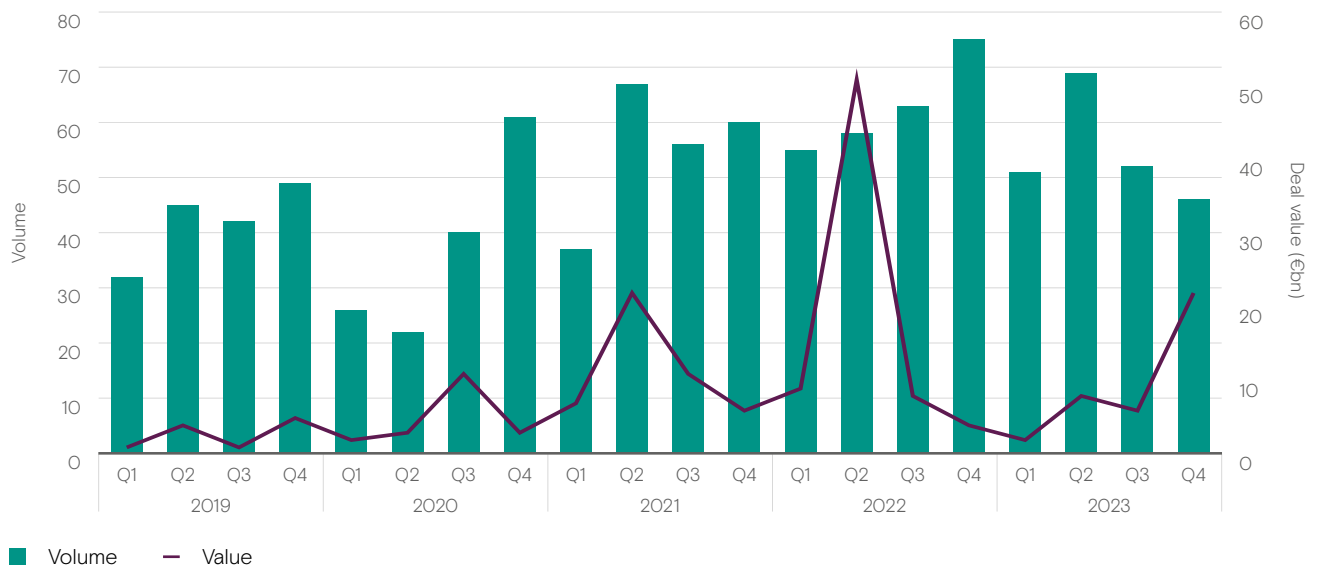
€38
BILLION

The total value of buyouts in 2023 – a 47% retreat on 2022's €72.1 billion

The group consists of 26 companies that feed into this value chain, serving more than 70 international brands. It continues to be acquisitive, having bought handbag maker Effebi, leather-goods manufacturer ALBA and embroidery specialist ABC Ricami in June. The fact that LVMH, the French luxury-goods business, was Europe's highest-value company before it was overtaken by Novo Nordisk in September, owing to the success of the Danish pharmaceutical company's blockbuster obesity drug, is testament to the enduring consumer demand for aspirational brands.

The fifth largest PE deal overall was Bain Capital's acquisition of Fabbrica Italiana Sintetici, a developer and manufacturer of pharmaceutical ingredients, for €1bn. The industrial

ITALIAN PRIVATE EQUITY DEAL ACTIVITY BY YEAR, 2019-2023 YTD



TOP 10 PRIVATE EQUITY BUYOUTS IN 2023 YTD

Announced date	Target company	Sector	Bidder company	Bidder dominant country	Deal value €(m)
05/11/2023	FiberCop S.p.A. (100% Stake)	TMT	KKR & Co Inc; Abu Dhabi Investment Authority	USA	21,700
31/07/2023	IMA Industria Macchine Automatiche S.p.A. (45% Stake)	Industrials & chemicals	BDT & MSD Partners LLC	USA	2,925
12/05/2023	Wind Tre S.p.A. (Network Infrastructure Assets) (60% Stake)	TMT	EQT AB	Sweden	2,040
25/05/2023	Gruppo Florence S.p.A. (100% Stake)	Consumer	Permira Ltd; VAM Investments Group S.p.A.	United Kingdom	1,287
08/07/2023	Fabbrica Italiana Sintetici S.p.A. (100% Stake)	Industrials & chemicals	Bain Capital LP	USA	1,000
26/06/2023	ARAG S.r.l. (100% Stake)	Industrials & chemicals	Nordson Corp	USA	960
05/05/2023	U-Power Group S.p.A. (100% Stake)	Consumer	Style Capital SGR S.p.A.; NB Renaissance Partners Holdings Sarl; Franco Uzzeni (Private Individual)	Italy	800
25/09/2023	Limacorporate S.p.A. (100% Stake)	Pharma, medical & biotech	Enovis Corp	USA	800
19/05/2023	Teamsystem S.p.A.	TMT	Silver Lake Group LLC	USA	600
30/06/2023	Eurovita S.p.A. (Life Insurance Policies) (100% Stake)	Financial services	Assicurazioni Generali S.p.A.; Allianz SE; Poste Italiane S.p.A.; Intesa Sanpaolo S.p.A.; UnipolSai Assicurazioni S.p.A.	Italy	500

target was founded in 1957 and run by the Ferrari family ever since, establishing itself as a world-class, differentiated manufacturer with deep technical expertise.

SECTOR COMPOSITION

As in the M&A market at large, the I&C sector was once again the biggest contributor to PE deal volume in the 2022-2023 period, with a 30% share. This was slightly up on the 28% claim on all transactions in 2020-2021. The TMT sector followed with 17% of all PE volume, a small uptick from 14% in 2020-2021. However, the consumer sector underwent a considerable decline, contributing 16% in 2022-2023, down from a substantial 25% share of market volume in

the previous period. Measured by value, 2022-2023 was all about the transportation and TMT sectors, which accounted for 39% and 29% of PE market activity, up from zero and 28% in 2020-2021, as Atlantia and FiberCop had outsized impacts.

SEEKING VALUE

Outside Italy's vast pool of private enterprises, there is huge opportunity in the country's public equity market. It's no secret that while large-cap stocks in various geographies have displayed a strong recovery, smaller caps have lagged behind for some time. Nowhere is this truer than in Italy. The Italia Star index, which tracks companies with a market cap of up to €1bn, languished over the first three quarters of 2023, due to concerns

about the country's weak economy and high public debt. The number of outstanding units in BlackRock's iShares MSCI Italy ETF more than halved in the two years since October 2021, from 18.9 million to 8.6 million, as investors redeemed their positions en masse, while the MSCI Europe ETF's number of units fell by less than 10% over the same time frame.

Italy is one of the most undervalued markets for PE investors in Europe and possesses some of the highest-quality businesses in the world. Astute sponsors recognise this and will continue to opportunistically monitor the stock exchange for mid-market deal flow.

Outlook

The past year has presented its fair share of challenges. On a macro level, there is no getting away from the fact that Italy is carrying too much public debt and its economy lacks significant growth. High interest rates, weaker trade and fiscal constraints are handicapping GDP. The myopic view is that M&A activity is also down, which is hardly cause for celebration.

However, a recent decline in the inflation rate and the ECB's pause in its hiking cycle have provided relief for consumers and the government, offering a more upbeat outlook. It's also worth noting the overlooked fact that, while public debt is high, private-sector debt relative to GDP in Italy is relatively low compared with the average across the Organisation for Economic Co-operation and Development countries.

From a historic perspective, the M&A deal market is showing relative strength at a time of the highest financing costs in decades. Volume is staying above pre-pandemic levels and even with a marked shift towards the lower end of the market on the whole, transaction value has been trending upwards in each successive quarter since a three-year low in Q1. Huge financial sponsor-backed deals are also successfully being made on an intermittent basis.

As Europe's second-biggest industrial nation after Germany, Italy's I&C sector should deliver

continued activity in 2024. According to Mergermarket's forward-looking heat chart, which tracks 'companies for sale' stories on its intelligence tool, 62 stories relating to industrial assets coming to market were published in the second half of 2023. The consumer sector, which plays to Italy's unmatched aspirational-brand strength, is also lining up nicely. There were 57 Mergermarket deal reports concerning consumer targets over this period.

Although TMT has been one of the most productive sectors in terms of total deal volume in 2023, this may not hold true for the opening months of 2024. Only 17 stories relating to Italian TMT assets were published in the second half of the year, ahead of only transportation (14), construction (8), pharma (7) and agriculture (3).

VALUE CREATORS

Foreign financial sponsors have propped up Italy's M&A market of late. No less than 60% of all deal value in 2023 was attributable to PE, and the largest of these deals were the work of overseas funds. The playbook for value creation has quickly changed for these investors, shifting away from financial leverage and multiple expansion to operational initiatives to grow revenues and earnings margins.

This hands-on ownership approach is well-suited to Italy. There is a broad swathe of technically specialised

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The number of I&C sector 'company for sale' stories published in H2 2023

top-tier companies with deep defensive moats that would benefit from engaged shareholders who can streamline operations and invest in international growth. Given the country's headline macro challenges, these companies are also attractively valued and, by European standards, undercapitalised. This makes PE a perfect partner for what are otherwise highly competitive businesses. This country is therefore sure to remain at the top of international PE firms' target lists.

Industrials & chemicals	62
Consumer	57
Business services	25
Energy, mining & utilities	18
Leisure	17
TMT	17
Financial services	17
Transportation	14
Construction	8
Pharma, medical & biotech	7
Agriculture	3

NB: Data above is based on Mergermarket data for "company for sale" stories published between 01/07/2023 and 31/12/2023.

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