



ITALY

Italy



Alessia Argentieri
Reporter

Market shrugs off political drama

Successful fundraising, international interest and an abundance of exit options lifted dealflow to new highs in Italy, despite ongoing political dramas and an economic slowdown. Alessia Argentieri reports

Despite uncertainty and conflicts dominating Italy's political landscape and a worsening macroeconomic outlook, 2018 was one of

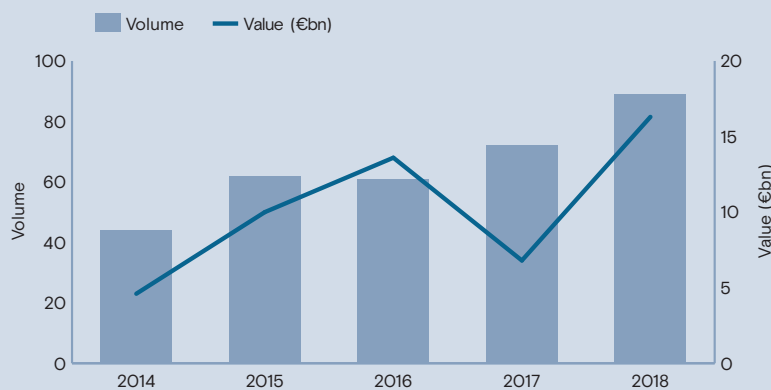
its most buoyant years for private equity activity. The country recorded a significant increase in both deal volume and value, in addition to a rise in the number of mega-buyouts.

A general election held in March led to the formation of a new government – a daunting alliance of populist party Five Star Movement and its right-wing counterpart League. A new political earthquake shook the country in the second half of the year after the European Commission rejected the Italian government's draft budget for 2019 and Italy subsequently defied for weeks the EU's request to present a revised draft. Following intensive negotiations with the EU, Italy eventually agreed in December to lower its deficit to 2.04% of GDP and thus avoided disciplinary measures.

The country's politics continued to be dominated by severe conflicts on economic reforms and migration policy, while a new wave of nationalistic sentiment has spread, fuelled primarily by League's zero-tolerance approach toward migrants.

The country's economy slowed in 2018. GDP growth decreased to 1.0% and the European Commission is forecasting slower growth of 0.2% this year – considerably less than anticipated in its previous forecast.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	44	62	61	72	89
Value (€bn)	4.6	10.0	13.6	6.8	16.3
Average value (€m)	104	161	223	94	183
% of European volume	6.1%	7.9%	7.0%	6.9%	8.8%
% of European value	4.5%	7.4%	10.6%	4.4%	9.1%

Source: Unquote Data

In the meantime, the unemployment rate edged down to 10.3% in December, and the youth unemployment rate stabilised at 31.9%. These still represent the third highest values in the EU, following Greece and Spain, despite marking a significant decrease from the peak of 13.1% and 43.3% recorded in 2014.

The country's 10-year government bond yield reached a high of 3.44% in May, shortly after the formation of the new populist government, and since then continued to show intense volatility, while the spread over German bonds almost tripled, surpassing 300 basis points. Government debt was 133% of GDP at the end of the third quarter of 2018, up from 131.8% at the end of 2017.

Buoyant dealflow

Nevertheless, political uncertainty and worrying macroeconomic indicators did not affect private equity activity in the country, which saw its highest levels on record in terms of aggregate volume and value of deals. Italy recorded 89 buyouts worth a total of €16.3bn in 2018, more than double the €6.8bn invested across 72 buyouts in 2017.

"The Italian private equity market experienced very intense activity last year, following a noticeable increase in the amount of capital raised in 2017," says **Ciro Mongillo**, founder and CEO of EOS Investment Management. "The dealflow was particularly abundant in the mid-market segment, where we saw very solid and profitable assets be sold at lower valuations than in the rest of Europe. Furthermore, the Italian private equity landscape seems to be in a very healthy condition and is proving particularly attractive for new and more traditional players, both domestic and international.



"Italian private equity is proving particularly attractive for new and more traditional players, both domestic and international"

Ciro Mongillo, EOS Investment Management



This is a positive rising trend that we expect will continue this year and will pick up steam in the coming months".

Strong activity in the mid-market was the main driver of the increase in overall deal volume. The €5-50m buyout range registered 37 deals, the same figure recorded in 2017, while the €50-250m segment posted 40 buyouts, rising from 26.

The consumer sector had a very strong 2018, maintaining the positive run shown in the last few years and posting a noticeable increase on its 2017 figure. There were 42 buyouts inked in the sector last year, with a predominance of the



personal and household goods sector, as well as the food and beverage industries.

The sector saw, among others: the deal for Forno d'Asolo, an Italian producer of frozen bakery goods, bought by BC Partners from 21 Partners and several co-investors in a €275m SBO; Ambienta's acquisition of natural flavours manufacturer Aromata, valued at around €60m; and the buyout of frozen seafood specialist Panapesca, acquired by Xenon in a deal that gave the company an EV of €90m.

Large-cap aspiration

The country saw a sharp increase in larger deals in 2018, recording six buyouts with an enterprise

value of more than €500m, four of which were above €1bn. By comparison, only one deal in excess of €500m was recorded in the whole of the previous year, worth around €520m.

One of the largest buyouts recorded in 2018 in Italy was the acquisition of a majority stake in pharmaceutical company Recordati by a consortium led by CVC Capital Partners. The GP and its partners bought Fimef, the Recordati family's holding company that owns a 51.8% stake in the business, for €3.03bn. The price implies a total equity value for the pharmaceutical company of €5.86bn – equivalent to €28 per share and 12.9x its 2017 EBITDA.

In that same month, Italy recorded two very large SBOs: the acquisition of solar energy platform RTR, sold by Terra Firma to Italian GP F2i for €1.3bn; and the deal for power transmission belts manufacturer Megadyne. The latter was acquired from Astorg and Neuberger Berman by Partners Group in a deal that valued the business at around €1bn or 17x its €59m EBITDA.

According to *Unquote Data*, 83% of the buyouts with a value above €500m were inked by international GPs. Despite this being a sign of increasing attractiveness of the local market to foreign funds, it also shows how many local GPs are still confined to the small-cap space due to their inability to reach a broader and more diversified audience of international LPs and kick their fundraising into a higher gear.

Some local GPs are eyeing the trend and trying to raise sizeable funds able to compete with their

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Eugenio De Blasio, Green Arrow Capital



foreign counterparts in the large-cap segment. Eugenio De Blasio, CEO of Green Arrow Capital, says: “Despite the Italian economic fabric being made of small and medium-sized companies, the increase in larger deals is an upcoming trend able to open up a new window of opportunities. To benefit from this, Italian funds need to pursue a cross-border and pan-European strategy, and diversify not only in terms of sectors but also geography and size.”

Exit flurry

The year was also a very busy one for the country on the exit side, counting 65 disposals of PE-backed investments. There were 22 secondary buyouts in 2018, the same figure reported in 2017,



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Michele Semenzato, Wise

while the most common exit route for private equity funds was the trade sale, which accounted for 26 deals.

The highest exit valuation was recorded in the sale of luxury fashion brand Versace, which saw Blackstone sell its minority stake to Michael Kors in a deal that valued the company at €1.83bn, equal to 41x its 2017 EBITDA of €44.6m.

Another successful trade sale was accomplished earlier in the year by Italian GPs Investindustrial, Palladio Partners and Orlando Italia, which sold their stakes in Milan-listed company Snaitech to UK-based gaming business Playtech for €846m.

According to Michele Semenzato, a partner at Wise: “The preference for a trade sale is related to the very strong M&A activity and consolidation that we have seen in recent years, which has resulted in increased competition from

industrial players. In addition, while private equity funds are constantly looking for new investment opportunities, industrial players are more affected by the fluctuations of the economic cycle and tend to increase their presence in the investment arena when the trend is remarkably positive.”

Fundraising frenzy

Italy experienced record fundraising activity in 2018. Buyout and generalist funds raised €1.5bn, a noticeable increase compared with the €1.2bn raised in 2017.

Among the largest final closes recorded last year was Ambienta’s; the GP held a first and final close for its third fund, exceeding its original €500m target and hitting its €635m hard-cap. The vehicle, which is almost double the size of its predecessor, was considerably oversubscribed and closed after less than three months of fundraising.

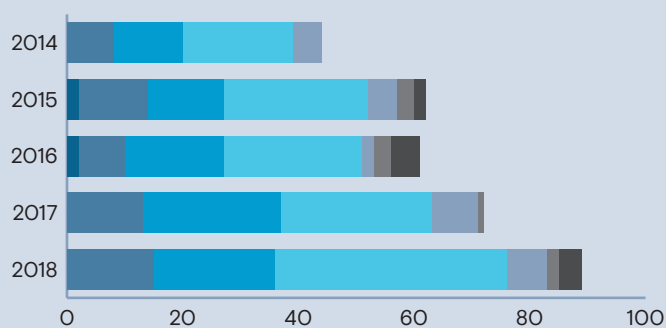
Meanwhile, Investindustrial closed its lower-mid-market fund, Investindustrial Growth, on its €375m hard-cap after three months on the road. The vehicle will focus on smaller-scale deals, complementing the GP’s array of larger funds.

Green Arrow Private Equity 3 closed on €230.6m, while Alto Partners held a final close for its fourth fund, hitting its €210m hard-cap. The latter vehicle targets assets in the lower-mid-market that generate revenues within the €20-80m bracket, and deploys equity tickets of between €15-25m.

In addition, 10 funds held a first or interim close in 2018 and several GPs are planning to wrap up their fundraising in the first half of 2019.

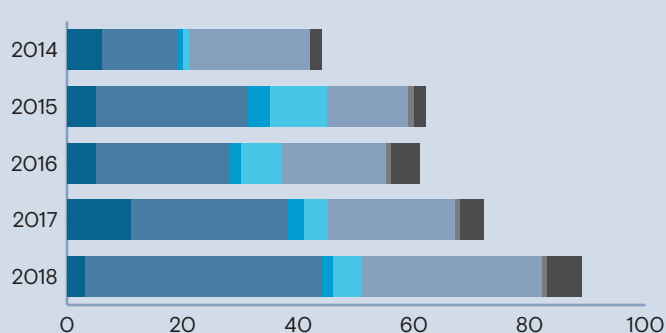
“We expect a noticeable increase in commitments from institutional investors in 2019,” says EOS Investment Management’s Mongillo. “Following the high volatility of the stock market, which is more susceptible to macroeconomic indicators and political turmoil than alternative assets, investors are finding private equity and real assets more attractive, and might start to identify them as a safe haven, especially with Brexit and increased geopolitical uncertainty on the horizon.” ■

Italy buyouts by size range (volume)



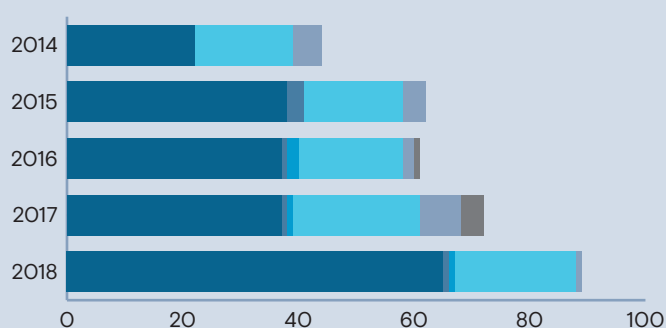
	2014	2015	2016	2017	2018
<€5m	0	2	2	0	0
€5-25m	8	12	8	13	15
€25-50m	12	13	17	24	21
€50-250m	19	25	24	26	40
€250-500m	5	5	2	8	7
€500-1bn	0	3	3	1	2
≥€1bn	0	2	5	0	4

Italy buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	6	5	5	11	3
Consumer	13	26	23	27	41
Financials	1	4	2	3	2
Healthcare	1	10	7	4	5
Industrials	21	14	18	22	31
Media	0	1	1	1	1
Technology	2	2	5	4	6

Italy buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	22	38	37	37	65
Foreign parent	0	3	1	1	1
Going private	0	0	2	1	1
Institutional investor	17	17	18	22	21
Local parent	5	4	2	7	1
Other	0	0	1	4	0

Source: Unquote Data

Italy exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Versace Group	Trade sale	1,830	Blackstone
Rete Rinnovabile	Secondary buyout	1,300	Terra Firma Capital Partners
SNAI / Snaitech / Cogetech	Trade sale	846	Palladio Finanziaria, Investindustrial
Italmatch Chemicals	Secondary buyout	700 (est)	Ardian
Gruppo Coin	Trade sale	700 (est)	BC Partners
Guala Closures	Other	600	APriori Capital Partners, Neuberger Berman
Alpitour	Secondary buyout	470	J Hirsch & Co. Deutschland, Wise SGR
Faster	Trade sale	429 (est)	Capvis Equity Partners
Gimatic	Trade sale	370	Xenon Private Equity, Agic Capital

89 buyouts

Highest number on record

€16.3bn in deals

Largest value on record

Six €500m+ deals

Up from one in 2017

Italy funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Ambienta III	Ambienta	500	635
Investindustrial Growth Fund	Investindustrial	375	375
Green Arrow Private Equity Fund 3	Green Arrow Capital	300	231
Alto Capital IV	Alto Partners	150	210

Italy deals 2018

Deal name	Business description	Deal value (€m)	Sector
Recordati	Engaged in research, development, manufacturing and marketing of pharmaceuticals	3,030	Healthcare
Italo	Operator of high-speed trains	1,980	Industrials
RTR	Generator of alternative electric energy	1,300	Industrials
Gruppo Megadyne	Producer of polyurethane and rubber belts, pulleys and other complementary products	1,000 (est)	Industrials
Italmatch Chemicals	Manufacturer of speciality chemical additives	700 (est)	Industrials
Fedrigoni	Producer of speciality papers and self-adhesive labels	650	Industrials
B&B Italia, Flos, Louis Poulsen	An interior design group	n/d (250-500)	Consumer
Alpitour	Provider of travel and tourism services	470	Consumer
Neopharmed Gentili	Producer and distributor of drugs	n/d (250-500)	Healthcare
Esaote	Manufacturer of medical diagnostic systems	n/d (250-500)	Healthcare
Eolo	Provider of wireless broadband to businesses and individuals	n/d (250-500)	Technology
Forno d'Asolo	Producer of frozen bakery products	275 (est)	Consumer
AEB Group	Producer of biochemical additives for winemakers and beer brewers	n/d (250-500)	Consumer
Facile.it	Operator of an online price comparison platform	n/d (50-250)	Technology
OCS	Developer of financial software	210 (est)	Technology
Business Integration Partners	Provider of consulting services	200	Business services
Fiocchi Munizioni	Manufacturer of ammunition	n/d (50-250)	Industrials
Calligaris	Designer and manufacturer of furniture	n/d (50-250)	Consumer
RGI	Developer of software for insurance companies	n/d (50-250)	Technology
Uteco	Manufacturer of printing machines	n/d (50-250)	Industrials