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italy survey



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Rome:

via di Ripetta, 142 - 00186
Tel: +39 06 68 63 61
Fax: +39 06 68 63 63 63
E-mail: studiodelfino@willkie.com

Milan:

via Michele Barozzi, 2 - 20122
Tel: +39 02 76 36 31
Fax: +39 02 76 36 36 36
E-mail: studiodelfino@willkie.com

Italy is different

WHILE THE doom and gloom settles in the rest of Europe, Italian private equity professionals advertise a cautious optimism despite decreasing activity in the country.

The first 10 months of 2012 have revealed an abysmal drop-off in terms of private equity deal values, which plummeted more than 70% to €1.7bn, according to *unquote* data. Mercifully, the number of deals remained fairly static, suggesting it is a lack of mega-deals – lumpy in nature – which has driven the fall, and that deals are still getting done further down the value spectrum.

While the figures only tell half the story (the negative half), responses from the Studio Legale Delfino e Associati Willkie Farr & Gallagher survey, powered by *unquote*, demonstrate the positive attitude displayed by local professionals. Investors are paying close attention to their portfolio companies' performance and while they are rightfully concerned about LPs, an impressive 96% of the professionals surveyed are hoping to raise another fund in the near future.

The launch of various government-backed initiatives might well be a new competitor for most Italian private equity firms, but it also reflects the willingness of the Italian government to develop the private equity industry over the coming years and, perhaps more important, it is evidence of both a change of attitude towards the private equity industry and an appreciation for the positive effect that private equity may play in the development of Italian business. An attitude that may well buttress the country's optimism. ■



**Maurizio Delfino,
Partner,
Studio Legale Delfino e Associati
Willkie Farr & Gallagher LLP**

About Delfino e Associati

Studio Legale Delfino e Associati, Willkie Farr & Gallagher LLP (the "Firm") is an Italian law firm with offices in Milan and Rome, focusing on M&A, private equity and capital markets. Willkie Farr & Gallagher LLP is a leading New York law firm with offices located in New York, Washington (DC), Paris, Brussels, London and Frankfurt. They have provided legal assistance on the occasion of some of the largest transactions which took place in Italy (and in Europe) in recent years and assist both Italian and international clients in a variety of fields including corporate reorganisation and restructuring, securities regulation and financial law, litigation and arbitration, antitrust, energy and tax.

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Production Editor
Marketing
Publishing Director

Sponsorship Manager
steinar.liverud@incisivemedia.com

Tim Kimber
Stephen Burridge
Catherine Lewis

Steinar Liverud
+44 (0)20 7316 9607

Sales Director
ben.cronin@incisivemedia.com

Subscriptions
mason.maini@incisivemedia.com

Ben Cronin
+44 (0)20 7316 9751

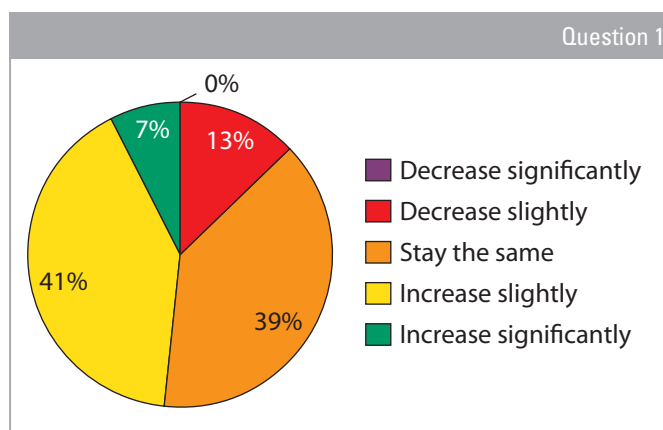
Mason Maini
+44 (0)20 7316 9944



Survey results

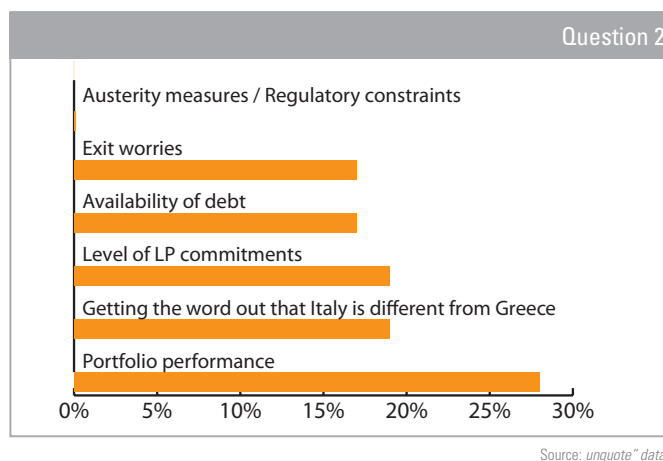
What do you expect to happen to the level of private equity?

The Italian Private equity market inspires confidence to investors. This maybe a symptom, perhaps, that, after almost five years of crisis, buyer and sellers' expectations about price are getting closer to alignment. 87% of respondents believe the activity will either remain the same or grow; a stunning contrast to what respondents mentioned in the 2011 version of the survey. Asked whether they were seeing the economy recovering in 2012, 74% of respondents believed at the time this would not be the case. Another 13% of last year survey's respondents were even expecting a double dip.



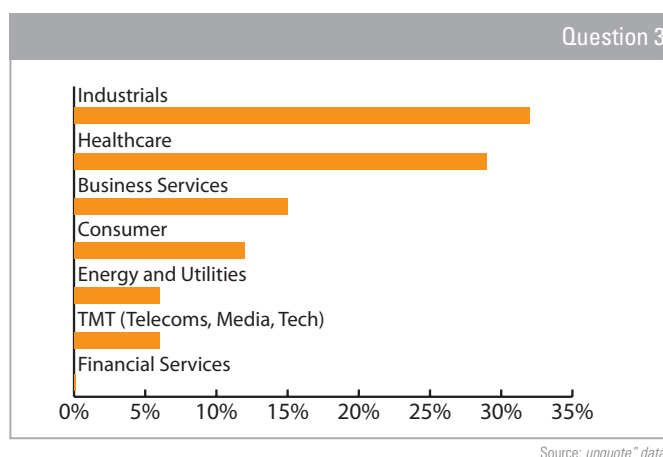
What is the most significant issue currently facing Italian PE funds?

At a time of economic uncertainty, Italian private equity professionals are focusing their attention on portfolio performance. Or at least that's the main topic that occupies their thoughts. Indeed, 28% of respondents believe this is the most significant issue right now; a shift from the availability of debt which was their key concern six months ago. Of course, at a time of economic uncertainty, exit worries, LP commitments and availability of debt are other areas of concern, though less so than portfolio performance. Last but certainly not least, nearly a fifth of the Italian PE community believes it is important to get the word out that "Italy is not Greece": the discussion also made clear that PE operators perceive that the country's potential and economic strength are widely underestimated abroad.



Which sector in Italy do you think will be most appealing to invest in over the next 12 months?

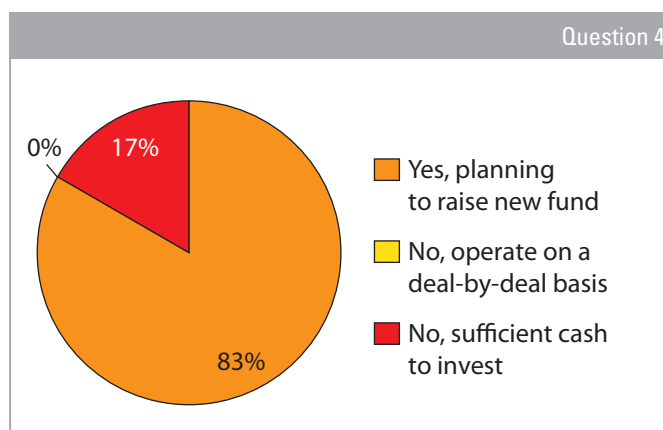
When asked which sector is likely to be the most appealing to invest in over the next 12 months, professionals indirectly state that the economy will still struggle to re-establish itself. Only 12% of respondents see the consumer sector as an attractive source of investments which is the result of the impact of recession in the local market. On the other hand, the industrial and healthcare sectors seem to maintain a pivotal role in Italian private equity investments. Given that Italy is an export-led economy and the opportunities for export in the industrial sector, the sector's pole position is unsurprising.



Survey results

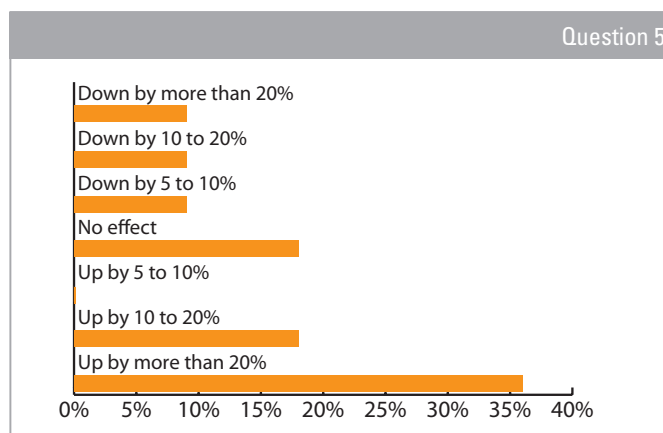
Are you planning to raise another fund in the next 12 months?

Four out of five Italian GPs (83%) plan to raise another fund in the next 12 months, with none planning to pursue a deal-by-deal structure. The figure reflects a mixture of optimism – which defies European gloom – as well as concern, as many running out of time on investment periods are forced into a highly competitive fundraising market where only the best GPs will succeed.



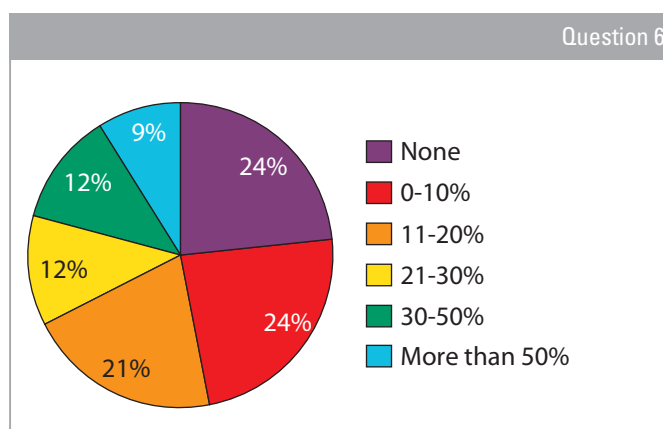
How is the economic outlook affecting your portfolio companies' performance?

Against all odds, more than half of respondents (54%) mentioned the economic outlook is enhancing their portfolio companies' businesses, with more than a third (36%) suggesting that performance is up by more than 20%. The results are far more encouraging than the pre-summer poll. Nearly a fifth (18%) see no effect on the performance, with the same percentage feeling the pinch from the difficult economic backdrop. This may be testament to the ability of private equity professionals to create value across all cycles and perhaps even more important, of the resilience of Italian SMEs, which during the recession years have considerably increased their exports and showed great flexibility.



What proportion of your portfolio companies do you expect to make management changes in the next 12 months?

A third (32.4%) of Italian private equity professionals expect to make dramatic changes to the management of their portfolio companies in the next 12 months. A quarter of respondents plan no changes. Management changes reflect the shareholders' reaction to the changed economic climate as well as unsatisfactory performance. They take time to make an impact. It would be interesting to also know which of those who plan no management changes in 2012 have in fact already made them and the length of the investment period of those who plan the changes

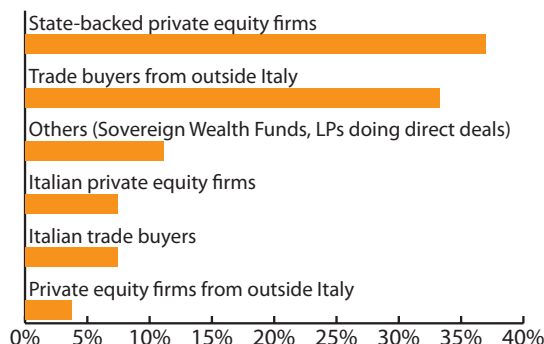


Survey results

From which of the following do you expect to see increased competition in Italy over the next 12 months?

Italian state-backed funds are expected to represent a competitive threat to other GPs, according to 37% of survey respondents. It should be noted though that in principle, such funds are more a threat to those GPs seeking to acquire minority – not majority – stakes. These are mostly Italian. Foreign trade buyers, cited by a third of PE professionals participating in the survey, are also likely to be a direct threat for local PE firms. Foreign trade buyers probably are the real competitive threat. Curiously, just over 11% expect other institutional PE firms to pose a threat, 7% from domestic houses and 4% from abroad/global GPs.

Question 7

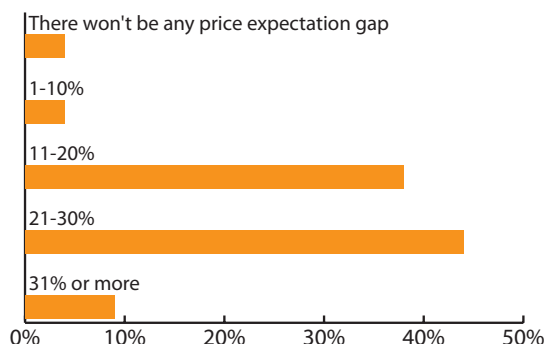


Source: unquote™ data

Do you expect there to be a price expectation gap between buyers and sellers in Italy over the next 12 months? If yes, how big will the difference be?

The pricing gap persists between buyers and sellers, with nearly half (44%) believing it stands at 21-30%. A staggering 82% feel it remains above 10%, a blow given industry sentiment suggested the gap was narrowing. It may be that private equity professionals have come to realise that a new paradigm necessitates tweaked multiples; perhaps vendors are proving slower to realise that times have changed or, in the case of family owned SMEs, they are simply refusing to sell (especially if the company is doing well).

Question 8

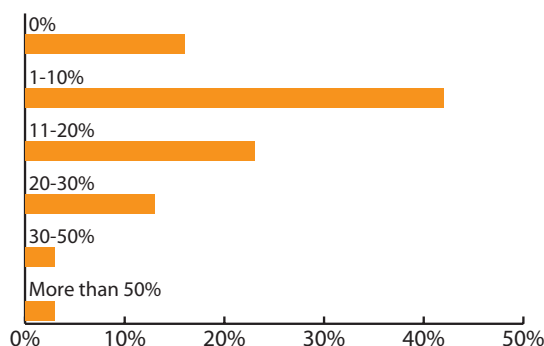


Source: unquote™ data

What percentage of your portfolio companies do you expect to exit over the next 12 months?

Under a fifth of respondents have no exit plans over the next 12 months, with 44% intending to exit at least a fifth of their portfolio in that time. Around 6% are aiming to exit more than 30% of their portfolio. The figures are higher than the survey results last year, which is good news for the industry, particularly given that 83% of GPs plan to begin fundraising next year. Median hold periods have increased from around four years to five or six years now, but hopefully the additional stewardship will prove lucrative when deals are closed.

Question 9

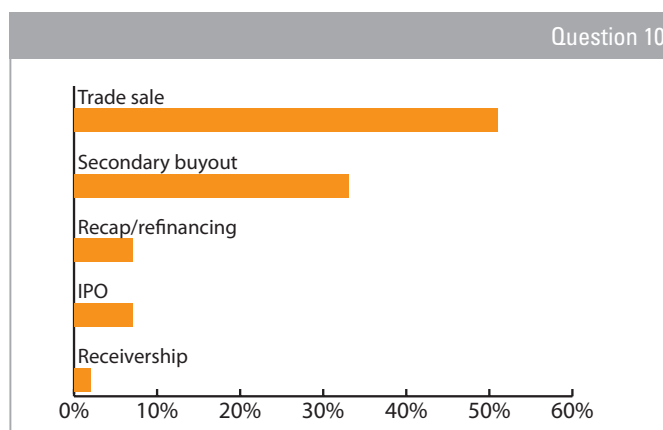


Source: unquote™ data

Survey results

Which of the following types of exits do you expect to complete over the next 12 months?

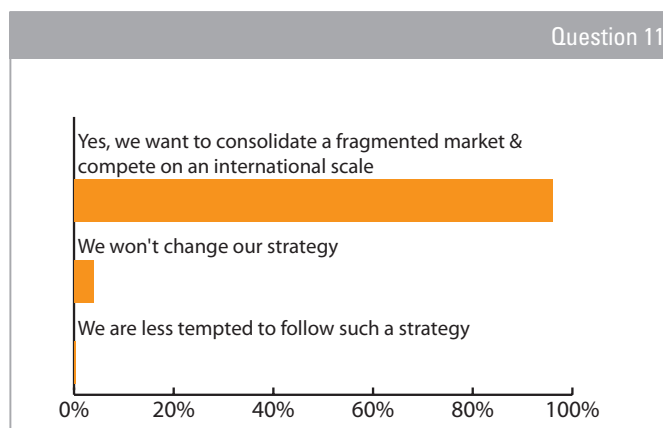
Asked which channel would represent the best exit in 2012 and early 2013, 73% of respondents of last year's survey mentioned trade sales. This year, however, that rate shrank to 51% for trade sales and rose from 27% to 33% for secondary buyouts. IPOs registered weakly, at just 7% of expected exits. It may be that the high number of pulled listings in 2012 and 2011 have made other exit routes more attractive to vendors.



Source: unquote™ data

Given the predominance of nationally-focused SMEs in Italy, are you tempted to pursue a buy-and-build strategy?

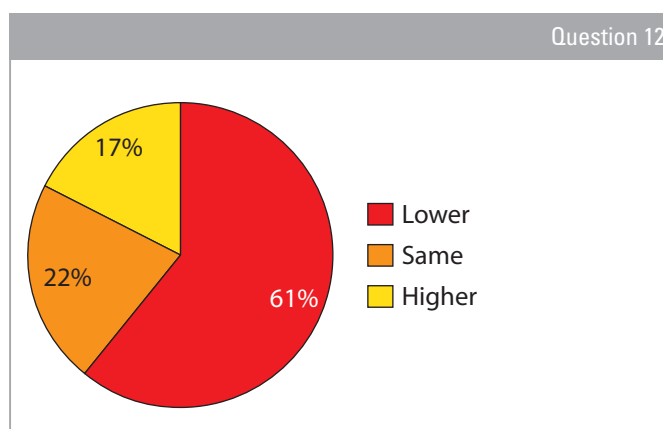
Nearly all Italian PE professionals (96%) believe a buy-and-build strategy is key to competing effectively on an international scale. In Italy there is general consensus that private equity may greatly help promote consolidation in certain industries. The caveat here is that implementing this strategy implies negotiating deals with the families owning SMEs, a naturally more complex exercise than acquiring one or more divisions of multinational companies and combining them together. The respondents' answer shows that this strategy maybe difficult to execute, but it certainly is a worthy venture that should reap dividends if done properly.



Source: unquote™ data

How would you compare the valuation of Italian companies to equivalent companies in other countries?

Comfortably more than half of respondents (61%) believe Italian companies are under-valued vis-à-vis their European counterparts. This "discount" for Italian business is inconsistent with the country's export-orientated nature, suggesting the country is an attractive market from an entry pricing standpoint. Naturally, there are exceptions, and very high quality businesses that go to competitive auctions often end up going for valuations on a par with those in other European countries.

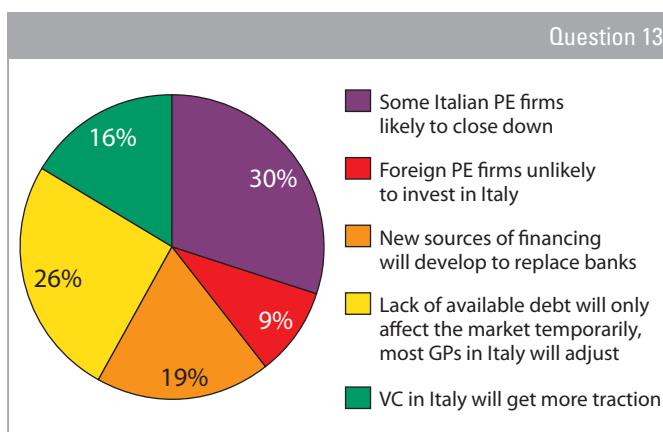


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Survey results

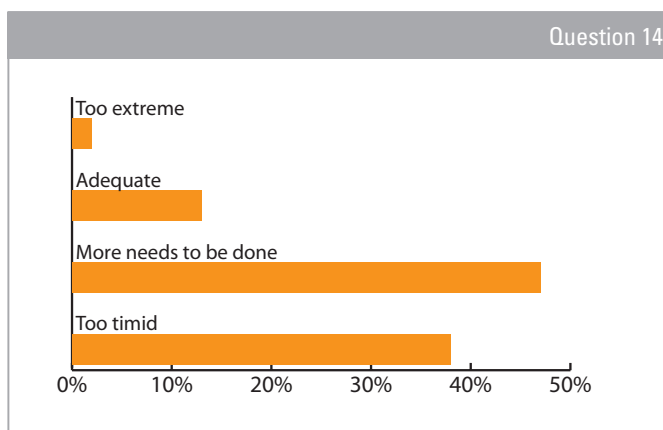
What is the most likely consequence of Italy's lack of available debt to fund leveraged buyouts?

The lack of debt to fund LBO may result in the disappearance of a number of private equity firms, according to 30% of respondents. This process has in fact already started. Yet 26% believe the lack of debt will only affect the market temporarily and that most players will adjust accordingly. While about 1 in 10 respondents argue that foreign investors may dismiss Italian investments, others believe the lack of debt has the power to spawn new sources of financing and benefit early-stage and growth-capital investments in the country. Also, the availability of new sources of financings (for example, bonds issued by SMEs which a new law has made easier) may help bridge the gap.



What do you think of the Italian government's effort to promote economic development?

A full 85% of the survey respondents feel Mario Monti's Italian government should do more and be more brave in order to improve the economy. While the government's policies have so far been understood and accepted by the general Italian population, a push for more radical measures seems in line with the desires of the respondents to the survey. Only around 13% of respondents feel the measures taken by the governments are adequate.



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