

Performance of PE backed companies vs the Italian market KPIs

Survey results: revenues, EBITDA and employment performance

The sample analysed in 2022 and the trend of the last years

The ESG (Environmental, Social and Governance) focus

Methodology and Glossary

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The economic impact of Private Equity and Venture Capital in Italy



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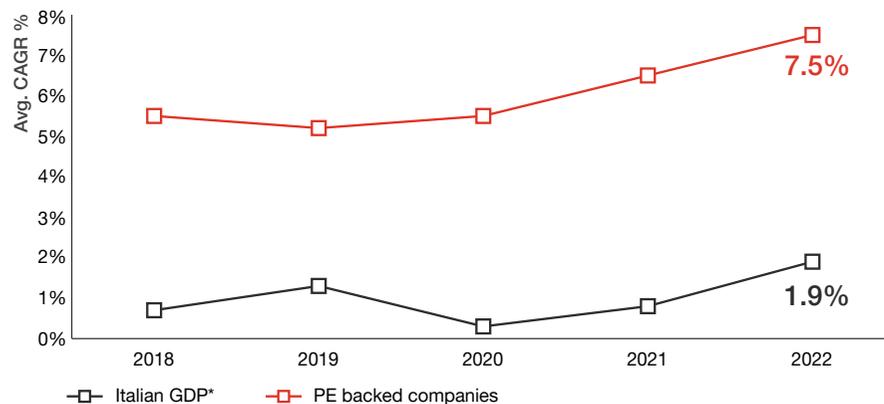
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Performance of PE backed companies vs the Italian market KPIs



Our survey, based on 2022 financial results of Private Equity backed companies since the last Financial Statutory Statements available, shows a strong increase in both revenues and employment growth rate, reaching the highest amount ever recorded over the last five years, confirming that Private Equity players are deeply focused on improving revenues through workforce development in their portfolio companies.

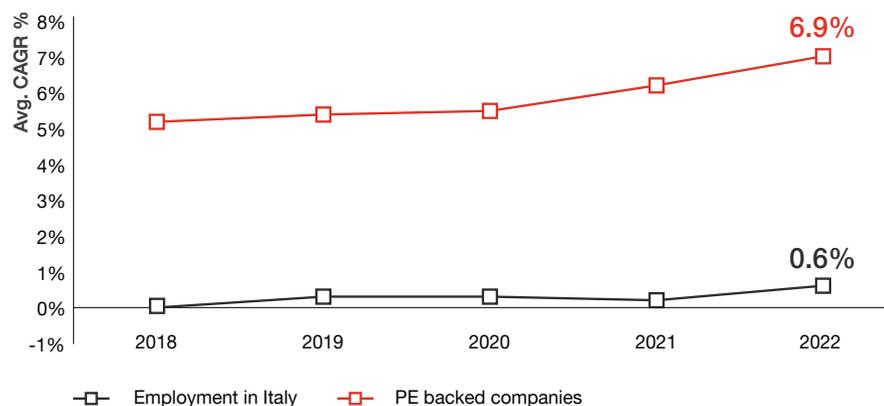
Trend of PE backed companies revenues vs Italian GDP



Source: ISTAT, AIFI and PwC analysis – (*) GDP CAGR % referred to the period 2012-2022.

In 2022, Private Equity and Venture Capital backed companies continue to show a strong rebound after Covid-19 pandemic diffusion in 2020, achieving the highest revenues growth in terms of average CAGR (7.5%) over the last five years, +5.6% if compared to the Italian GDP.

Trend of PE backed companies employment growth rate vs Italian rate



Source: ISTAT, AIFI and PwC analysis

PE backed companies reached 6.9% in terms of employment growth rate, confirming the positive trend of the last five years and showing a higher rate compared to the national employment growth rate, with a gap of +6.3 ppts in 2022.

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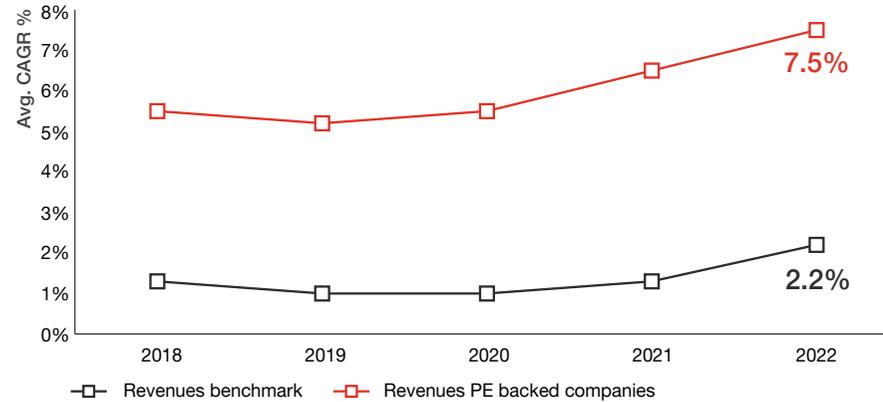
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Survey results: revenues, EBITDA and employment performance



Both the Private Equity backed companies and the benchmark achieved a solid performance in terms of revenues in 2022, with a consistent positive gap at c. +5 ppts between Private Equity and the benchmark.

Trend of PE backed companies revenues vs benchmark

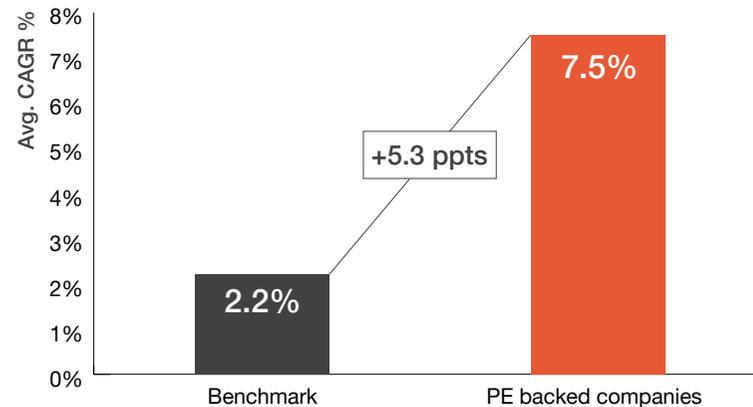


Source: AIFI and PwC analysis

Based on 2022 results, the revenues growth rate of PE backed companies reached an average CAGR of 7.5% (+1% vs 2021), confirming a strong rebound after Covid-19 pandemic diffusion in 2020.

The benchmark also shows a positive trend compared to previous years, reaching its highest level in 2022 (2.2% average CAGR) over the last five years.

Revenues growth 2012-2022



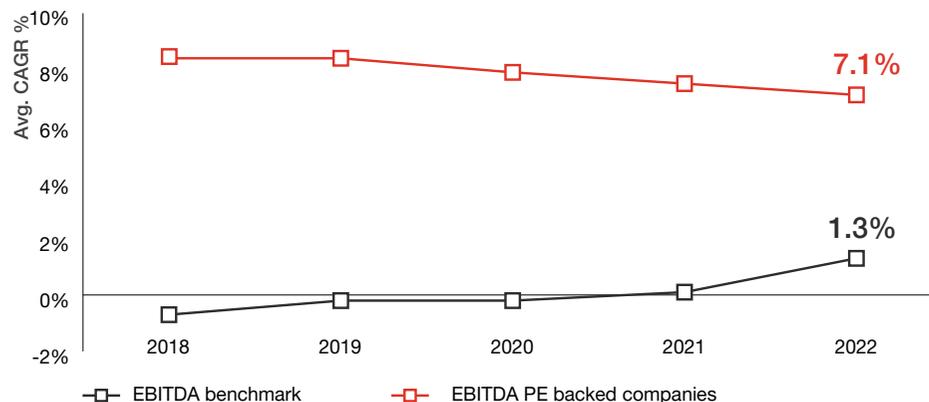
Source: AIFI and PwC analysis

The performance gap between PE backed companies and the benchmark remained stable at c. +5% in 2022 (from +5.2 ppts in 2021 to +5.3 ppts in 2022).

Note: the benchmark is composed by medium and large sized Italian private companies, extrapolated from the information included in "Dati Cumulativi di 2,150 società italiane", a survey compiled by Mediobanca's Research Department. Please refer to the Methodology section for further details on the benchmark.

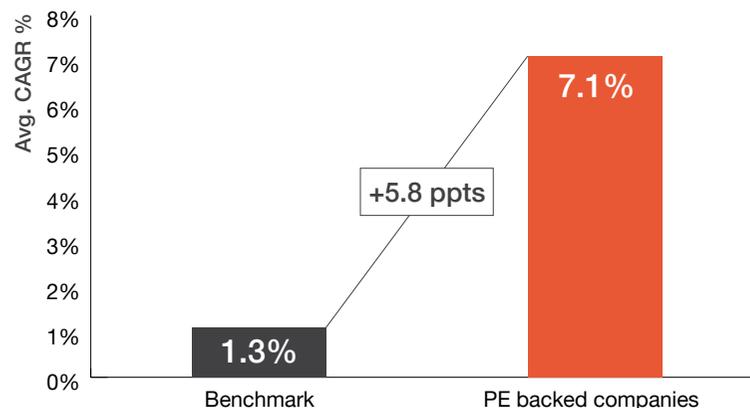
Private Equity backed companies profitability rate amounted to 7.1% in 2022 (-0.3% vs 2021), still confirming a higher growth rate compared to the benchmark.

Trend of PE backed companies EBITDA vs benchmark



Source: AIFI and PwC analysis

EBITDA growth 2012-2022



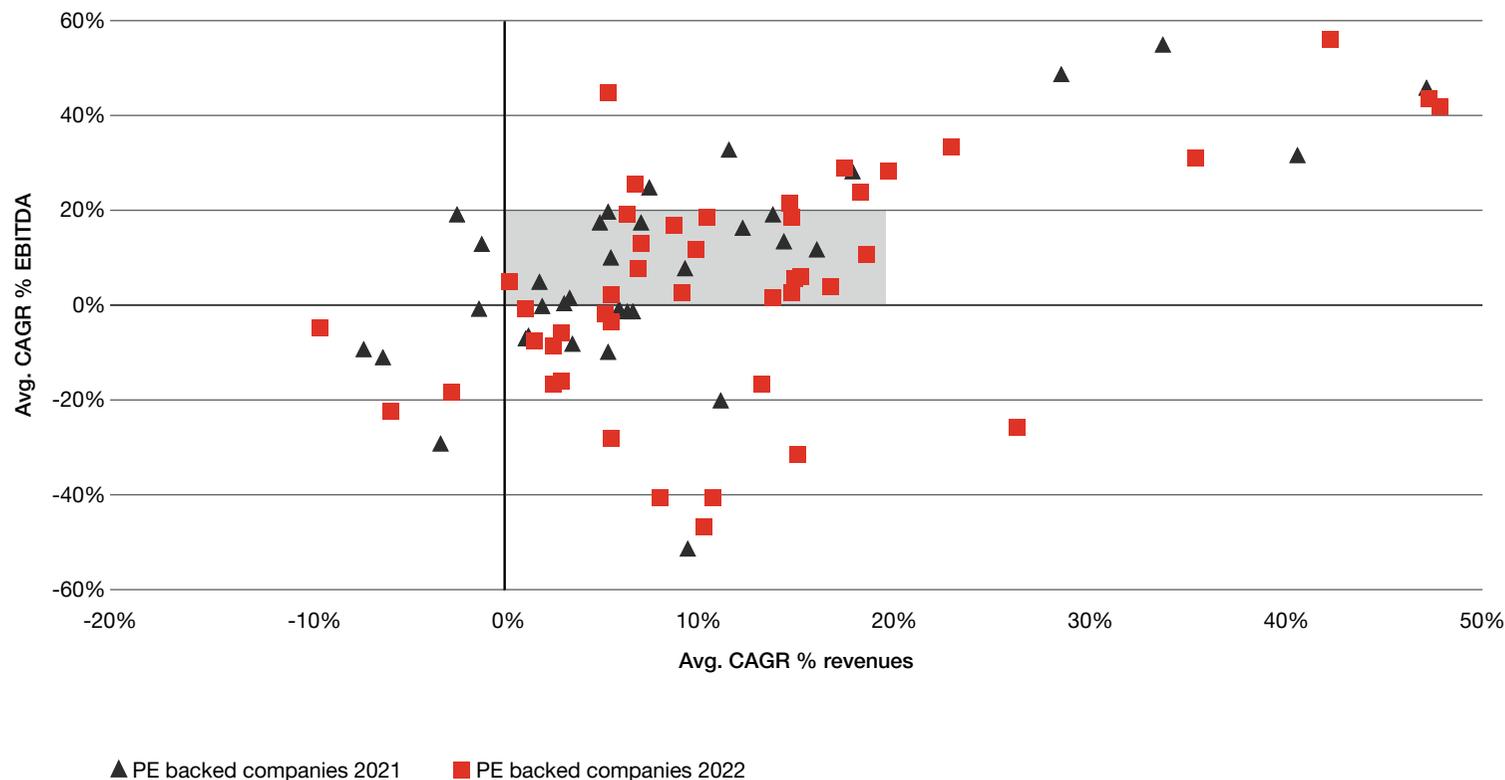
Source: AIFI and PwC analysis

The profitability of Private Equity and Venture Capital backed companies experienced a slight contraction in 2022 (7.1% average CAGR vs 7.4% in 2021), if compared to previous years. This decline in profitability can primarily be attributed to the increasing prices of raw materials and utilities that occurred in 2022, linked with the global inflationary scenario.

However, the PE profitability rate remains higher than the benchmark for similar private companies, with a positive gap of +5.8 ppts in 2022. To be noted that the profitability ratio of the companies included within the benchmark (1.3% average CAGR in 2022), particularly higher if compared to previous years, has benefitted from a positive impact of chg. in inventory (inflationary increase of raw material prices), while PE backed companies included in 2022 survey have been less impacted by the positive effect of chg. in inventory since depending on sectors of companies analysed within our sample.

Overall, the 2022 survey confirms the trend observed in 2021, showing a significant increase in revenues and profitability ratios of the PE backed companies analysed, with a deep concentration of companies with an average CAGR comprised between 0-20% in both revenues and EBITDA (mainly located on the right-hand side of the graph). To be noted that only 3 companies exhibited a negative growth level in both revenues and EBITDA in 2022 (vs 4 in 2021).

PE backed companies revenues - EBITDA growth 2021-2022



Source: AIFI and PwC analysis

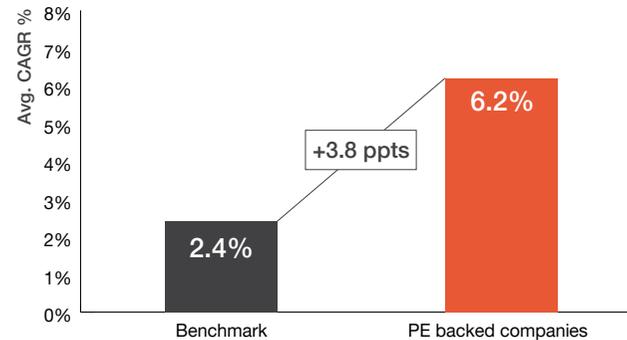
Over the 2012-2022 period revenues and EBITDA of Private Equity backed companies continue to outpace the benchmark in terms of average CAGR %.

The revenues gap compared to the benchmark for Buy-out companies amounts to +3.8 ppts in 2022 (+3.6 ppts in 2021), while EBITDA gap stood at +3.2 ppts (+4.1 ppts in 2021).

Venture capital backed companies still exhibit a significant gap compared to the benchmark in terms of revenues (+8.1 ppts vs +6.6 ppts in the previous year), while the average EBITDA CAGR % decreases compared to 2021 (+10.7 ppts vs +12.3 ppts).

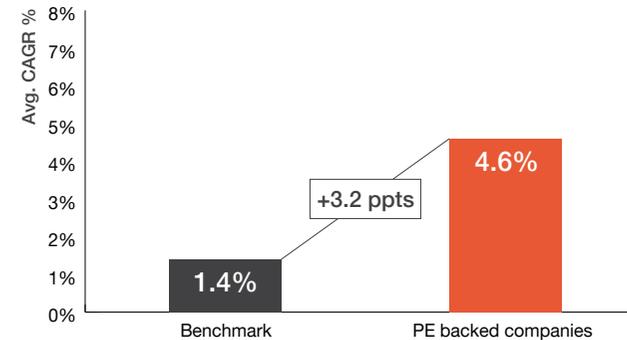
Buy-out

Buy-out - Revenues growth 2012-2022



Source: AIFI and PwC analysis

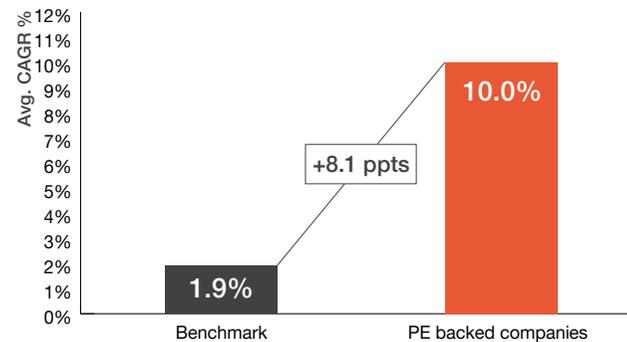
Buy-out - EBITDA growth 2012-2022



Source: AIFI and PwC analysis

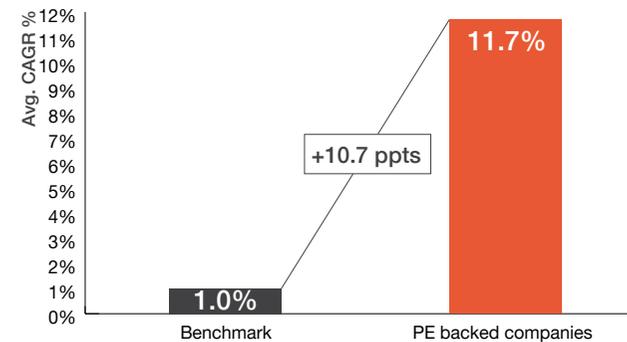
Venture Capital

Venture Capital - Revenues growth 2012-2022



Source: AIFI and PwC analysis

Venture capital - EBITDA growth 2012-2022

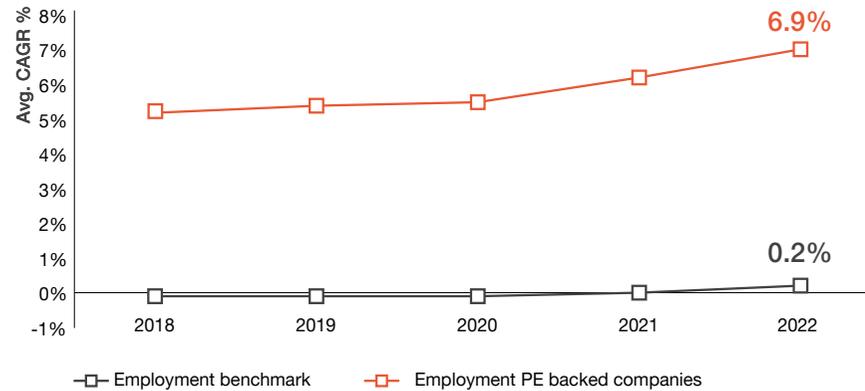


Source: AIFI and PwC analysis

(*) The benchmark used is weighted over the same period of possession of the companies included in the analysed sample, and therefore can vary between Buy-out and Venture Capital.

The employment growth rate of PE backed companies reaches the highest amount in 2022 in terms of average CAGR %, confirming the positive trend observed over the last five years, highlighting the deep focus of Private Equity players on enhancing the workforce of their portfolio companies.

Trend of PE backed companies employment growth rate vs benchmark

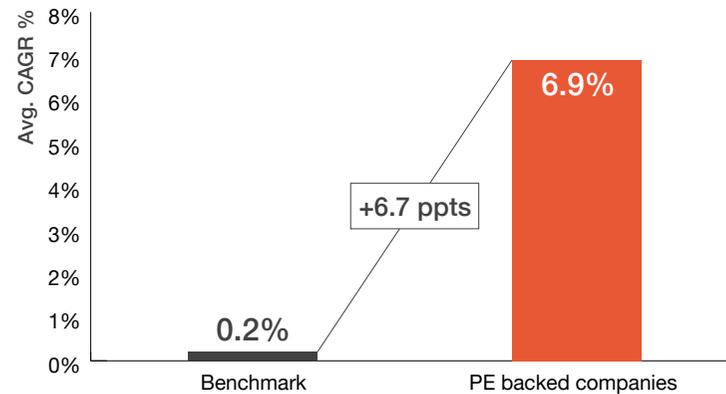


Source: AIFI and PwC analysis

The employment growth rate of PE backed companies reaches the highest amount (6.9% average CAGR in 2022 or +0.9% vs 2021) over the last five years, strictly related to the strong revenues growth occurred in 2022 results.

The gap between the employment growth rate of PE backed companies and the benchmark increases to +6.7 ppts in 2022 (vs +6 ppts in 2021), reaching the highest differential ever recorded over the last five years.

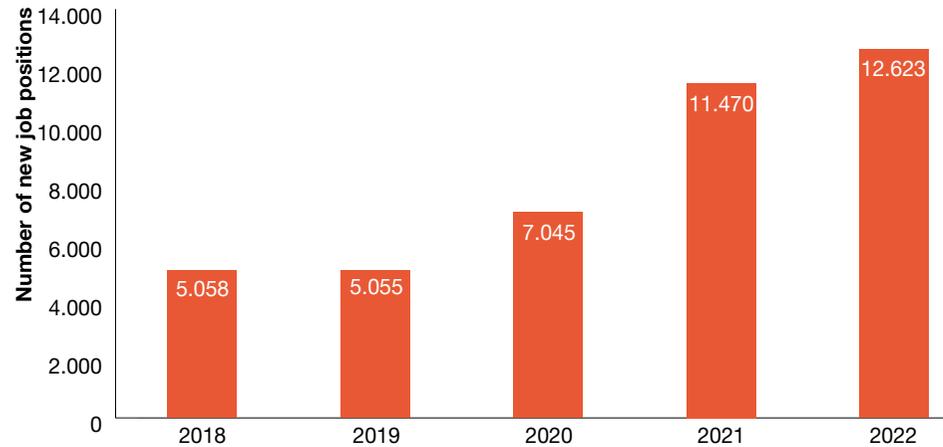
Employment growth 2012-2022



Source: AIFI and PwC analysis

Private Equity has created c. 41k new job positions over the last five years samples analysed, with particularly high amounts over the last two years, and also the managerial index continues to show increasing average CAGR % (10.7% in 2022 vs 5.3% in 2021).

Trend of PE backed companies new job positions



Source: AIFI and PwC analysis

The workforce trend of Private Equity backed companies

Private Equity backed companies analysed over the last five years has created c. 41k new job positions, resulting from both organic and inorganic growth, mainly related to a strong increase occurred over the last two years (c. 11k in 2021 and c. €13k in 2022) if compared to 2018-2020 period. This confirms the focus of Private Equity players on increasing the workforce of their portfolio companies.

The managerial index

Private Equity investments have also determined a positive impact on portfolio companies' management team, which increased at a positive CAGR % during the holding period (the number of directors grew by 10.7% in 2022 sample analysis vs 5.3% in 2021).

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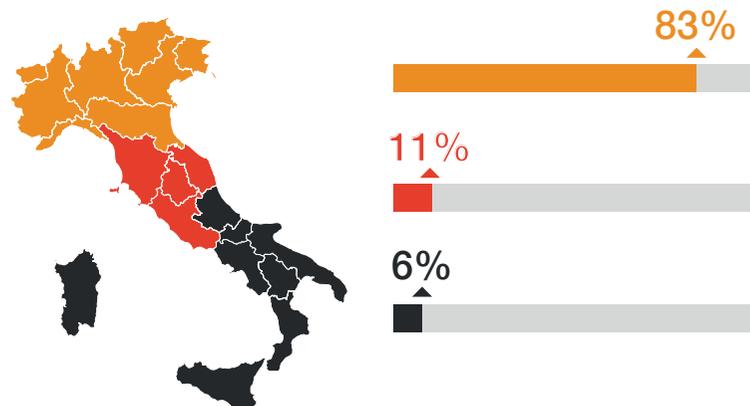
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Regional and industry distribution.

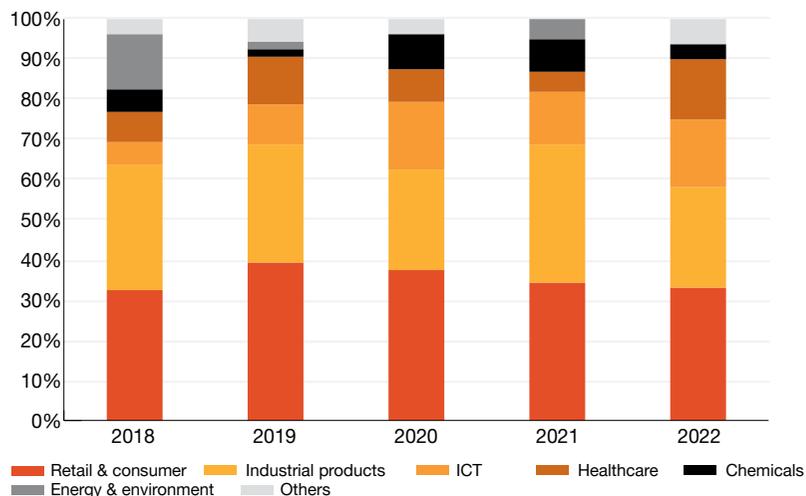
Regional distribution



Source: AIFI and PwC analysis

The sample of divested companies analysed over the 2018-2022 period (213) confirmed a strong concentration of Private Equity transactions in the northern Italy (83% of total), mainly Lombardy, which is confirmed at 1# rank for number of transactions (50% of total) even in 2022.

Industry distribution



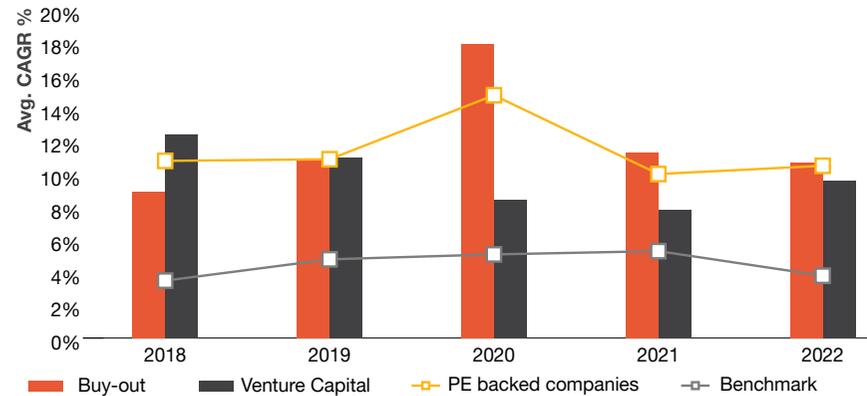
Source: AIFI and PwC analysis

Retail & consumer and industrial products are confirmed as the leader industries in Private Equity transactions with an average percentage of 35% and 29% over the last five years.

Among the other industries, ICT (Information & Communication Technology) confirmed at 3# rank with an average of 12% of PE portfolio companies, followed by healthcare (10%), chemicals (5%) and energy & environment (5%).

The Capex index and the leverage ratio.

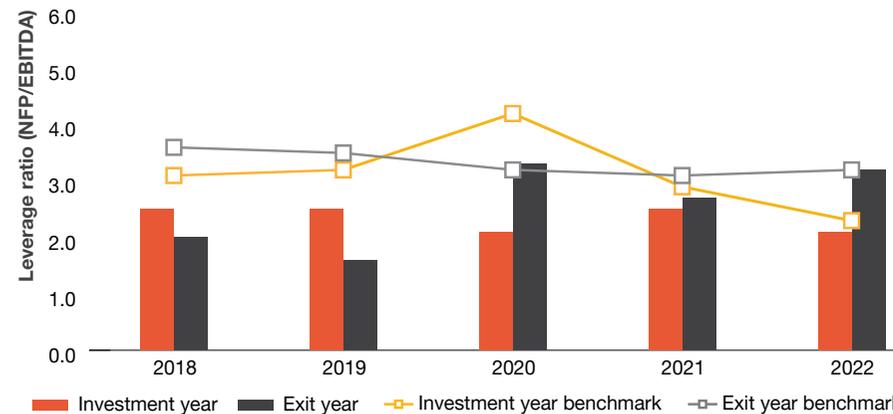
Trend of PE backed companies Capex index vs benchmark



Over the 2018-2022 period the Capex index* of PE backed companies has always shown higher amounts than the benchmark.

Source: AIFI and PwC analysis

Trend of PE backed companies leverage ratio vs benchmark



The 2018-2019 period was characterized by a lower leverage ratio (Net Financial Position/EBITDA) at the time of divestment, if compared to the investment year. However, starting from 2020, as consequence of the Covid-19 outbreak and the debt market scenario, the trend has been reversed, with exit leverage ratio higher than the leverage ratio at the time of investment (respectively 3.2 and 2.1 in 2022).

Source: AIFI and PwC analysis

(*) The Capex index was calculated as the average CAGR % of tangible assets (historical cost, where disclosed in the Statutory Financial Statements) from the year of investment to the exit year.

A focus on Secondary Buy-out divestment method.

The main divestment method over the last five years has been sales to other Private Equity or Venture Capital houses (38%), followed by trade sales (32%), buy-back of the shares by the original owners (12%), IPO/post IPO operations (7%), sales to financial institutions/private individuals (5%) and write-off (2%).

Out of 38% Secondary Buy-out, our survey has performed a specific focus on the companies acquired in a Secondary Buy-out

and sold to another Private Equity (Tertiary Buy-out) during the last five years (33 out of 213 divestments). The analysis shows that the companies performance, measured in terms of revenues, EBITDA and employees average CAGR %, continues to show a positive trend even under the management of other Private Equity funds. Over the 2018-2022 period Tertiary Buy-out revenues, EBITDA and workforce have respectively grown by 9.3%, 3.4% and 7.4%.



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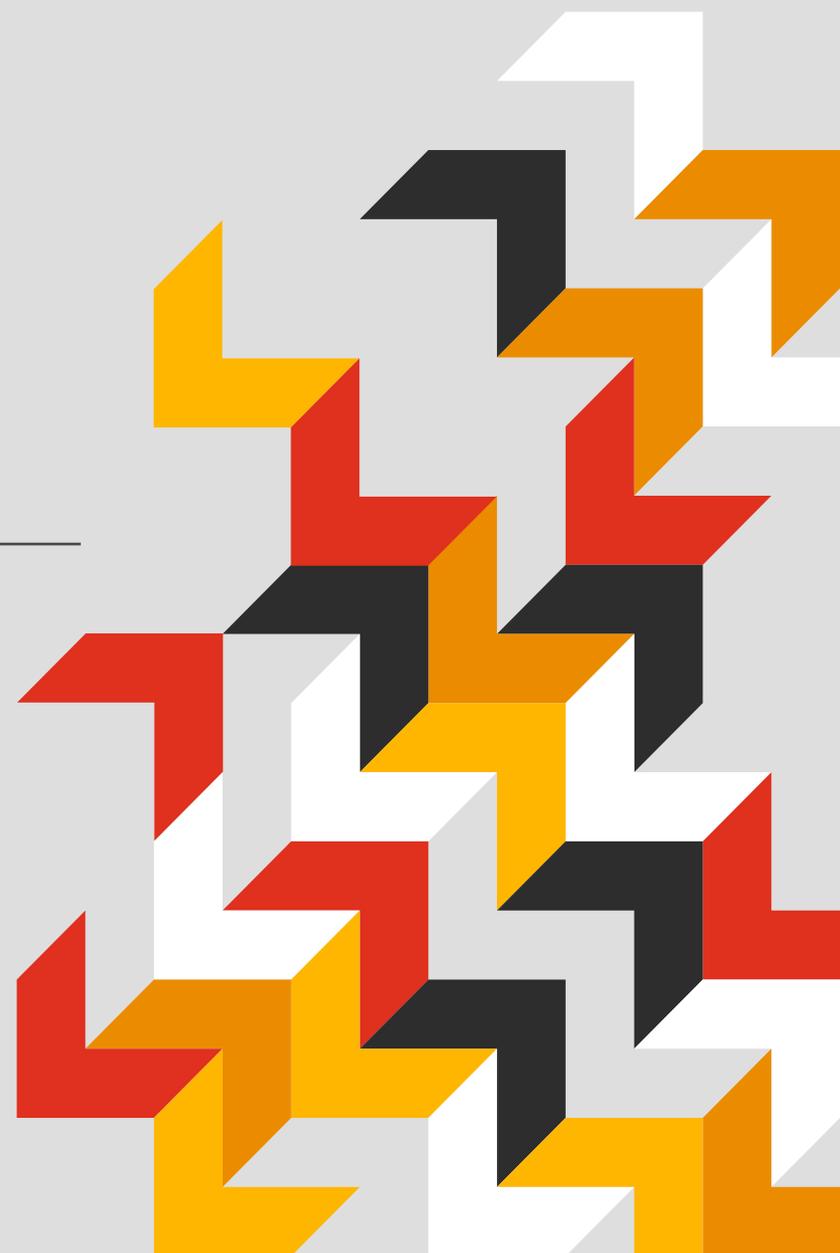
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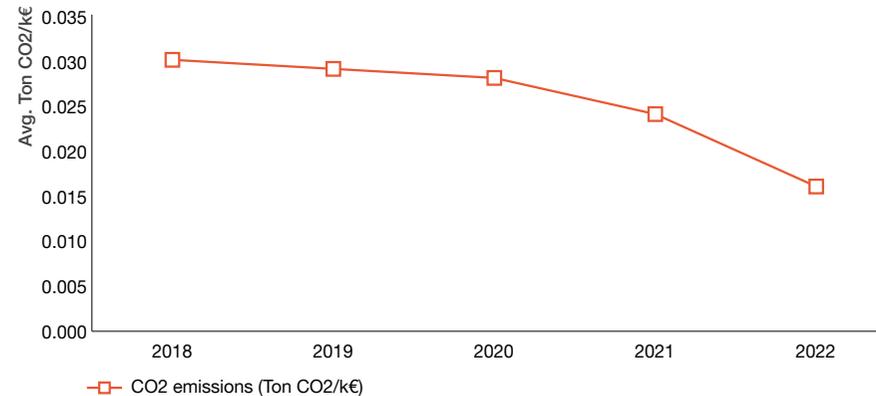
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The ESG (Environmental, Social and Governance) focus



ESG is confirmed to be a key topic for Private Equity, as shown by the fact that 33% of companies analysed have started publishing Sustainability Reports after the PE investment. The analysis of these reports has underlined two common key elements: (i) CO2 emissions ratio decreased by 47% and (ii) gender balance ratio improved by 4% during the last five years, corroborating that PE funds are increasingly enhancing ESG metrics of their portfolio companies.

Trend of CO2 emissions ratio

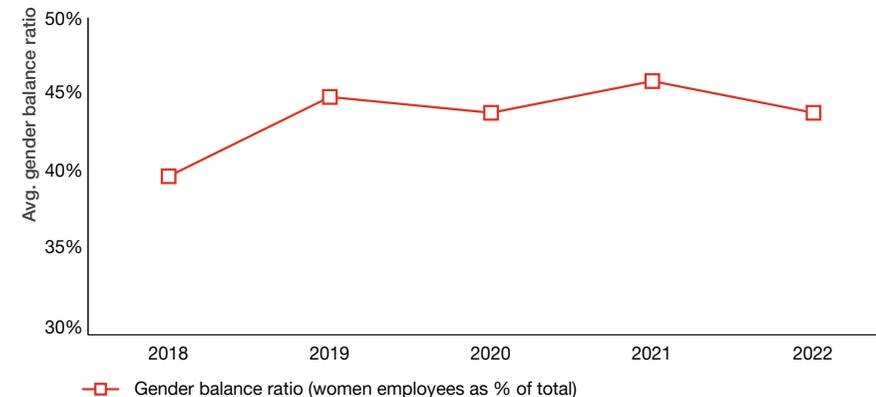


Source: AIFI and PwC analysis

Environmental aspects

CO2 emissions ratio of PE backed companies sample analysed (measured as tons of CO2 produced divided by revenues) decreased by 47% during the holding period of Private Equity.

Trend of gender balance ratio



Source: AIFI and PwC analysis

Social aspects

The gender balance ratio of the sample analysed (measured as number of women employees on total employees) improved during the last five years, moving from c. 40% to c. 44% (c. +4%).

Note: CO2 emissions ratio and gender balance ratio evolution by year are based exclusively on PE backed companies divested in 2022. To be noted that 2018-2021 amounts indicated in our last year survey show different values since the sample was based on companies divested in 2021, not included within our 2022 survey.

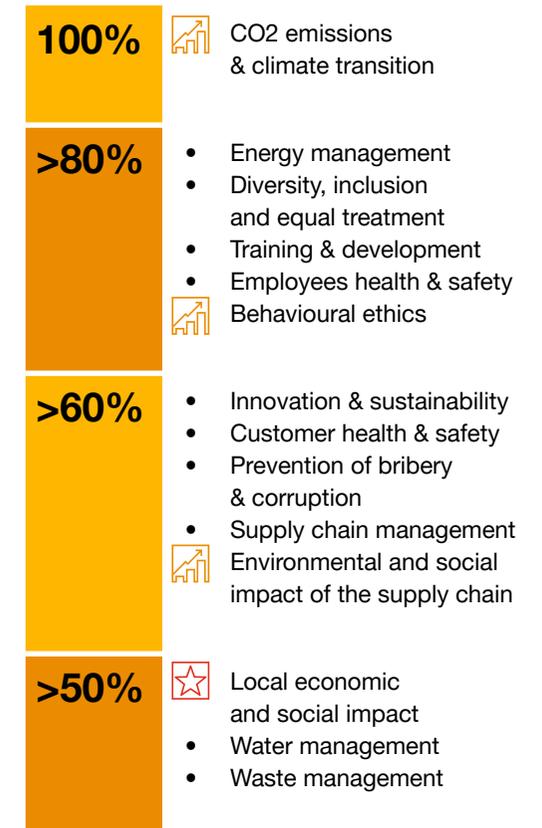
The most relevant ESG topics for the business and its stakeholders are: (i) environment, (ii) human resources, (iii) business ethics, (iv) supply chain and (v) societal relations. All companies identify CO2 emissions & climate transition as a relevant topic, while behavioural ethics, ESG impact along the supply chain and local economic and social impact show an increasing relevance if compared to our last year survey.

i) Environment	<ul style="list-style-type: none"> • CO2 emissions & climate transition • Energy management • Water management • Waste management
ii) Human resources	<ul style="list-style-type: none"> • Diversity, inclusion and equal treatment • Employees health & safety • Training & development
iii) Business ethics	<ul style="list-style-type: none"> • Behavioural ethics • Prevention of bribery & corruption
iv) Supply chain	<ul style="list-style-type: none"> • Innovation & sustainability • Environmental and social impact of the supply chain • Supply chain management • Customer health & safety
v) Societal relations	<ul style="list-style-type: none"> • Local economic and social impact

Legend: changes respect to “The economic impact of Private Equity and Venture Capital in Italy” published in 2023.

-  Increased presence in ESG priority topics
-  New entry in ESG priority topics

ESG priority topics in the Sustainability Reports of PE backed companies



Further considerations will be included in our yearly “Global Private Equity Responsible Investment Survey” which will be released at the end of May 2024.

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This study is designed to investigate the performance of the target companies during the holding period (2012-2022) with a breakdown between Buy-out and Venture Capital.

Sample and holding period

This study has been prepared on a sample basis of 493 divestments (177 Venture Capital and 316 Buy-out related) undertaken in Italy by Private Equity investors in the period 2012-2022.

The sample is representative of divestments over the 2012-2022 period. Further information on how the sample has been extracted is presented on the following page.

Holding period: from the years subsequent to the acquisition to the years of divestment (2012-2022). In the last years, the average holding period has been equal to approximately 6 years.

Performance indicators

The economic impact of PE players on target companies was measured through a set of indicators based on Consolidated Financial Data, or on Parent (Operating) Company Financial Statements, where such Consolidated Financial Statements were not available. Measured indicators are as follows:

- **Revenues:** amount included in the caption A1 “Ricavi delle vendite e delle prestazioni” of the Statutory Financial Statements (for banks and financial institutions, revenues have been calculated as the sum of interest, commissions and other profits from financial operations).
- **EBITDA** (Earnings before Interest, Taxes, Depreciation and Amortization) consists of the net earnings calculated before, and without giving effect to (i) interest expenses/income; (ii) income taxes; (iii) depreciation and amortization of balance sheet assets; and (iv) exceptional and non-recurring/operating items.
- **Employees:** headcount consists of the average number of employees per year or the actual headcount at the end of each year where the average information was not available.

Growth rate (CAGR)

CAGR presented in this study for each of the performance indicators (revenues, EBITDA, employment growth rate) is the average CAGR of each company included in the sample.

ESG indicators

The ESG impact of PE players on target companies was measured through a set of indicators based on Sustainability Reports in the year of investment (if not available, close to the year of investment) and in the year of divestment. Measured indicators are as follows:

- **CO2 emissions ratio:** calculated as the GHG emissions intensity (i.e. CO2 equivalent emissions yearly produced) divided by the revenues.
- **Gender balance ratio:** calculated as the women employees divided by the total employees.

The sample

This study is designed to investigate the performance of the target companies over the holding period. It should be highlighted that in certain cases a shift in the holding period was required in order to make certain figures comparable over the period itself.

The sample was created based on total divestments occurred over the 2012-2022 period, excluding the targets: (i) whose name was undisclosed or not identifiable; (ii) represented by non-operating holding companies, small co-operative and state companies; (iii) whose most current financial data were not available; (iv) not representing a true divestment but a mere transfer of shares between shareholders belonging to the same syndicate.

Due to the lack of specific information, it has not been possible to analyse separately the organic vs. the inorganic growth (i.e. impact of add-on). However, it should be noted that the sample analysed is fully comparable with the selected benchmark, which also includes the impact of acquisitions.

The benchmark

To measure if the sample performed under or over the market, the results of the research have been compared to the performance of medium and large sized Italian private companies. As previously mentioned, the selected benchmark for comparison was extrapolated from the information included in “Dati Cumulativi di 2,150 società italiane”, a survey compiled by Mediobanca’s Research Department, from which we have extracted information related to private entities only. It should be noted that for comparability reasons the benchmark information was weighted to consider the same holding period of the companies included in the sample analysed.

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Term	Definition
Backed Companies	Companies included in a Private Equity portfolio of investment.
Buy-out (BO)	Buying a company using one' own or borrowed money to pay most of the purchase price. The debt is secured against the assets of the company being acquired. The interest will be paid out of the company's future cash flow.
CAGR	Compounded Annual Growth Rate. The year-over-year growth rate of an investment over a specified period of time. The CAGR is a mathematical formula that provides a "smoothed" rate of return. It is really a pro forma number that provides (i) what an investment yields on an annually compounded basis and (ii) an indication to investors what they really have at the end of the investment period. The compounded annual growth rate is calculated by taking the "nth" root of the total percentage growth rate, where "n" is the number of years in the period being considered.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization.
Gross Domestic Product (GDP)	Gross Domestic Product is a measure of economic activity in a country. It is calculated as the sum of the total value of a country's annual output of goods and services: $GDP = \text{private consumption} + \text{investments} + \text{public spending} + \text{the change in inventories} + (\text{exports} - \text{imports})$. It is usually valued at market price and by subtracting indirect tax and adding any government subsidy, however, GDP can be calculated at factor costs. This measure more accurately reveals the income paid to factors of production. In our analysis we have utilized the real GDP which takes into account the effects of inflation.
Inflation	Raising prices across the board. Inflation erodes the purchasing power of a unit of currency. Inflation usually refers to consumer prices, but it can also be applied to other prices (wholesale goods, wages, assets, etc.). It is usually expressed as an annual percentage rate of change on an index number.
Private Equity (PE)	When a firm's shares are held privately and are not traded in the public markets. Private Equity includes shares in both mature private companies and, as Venture Capital, in newly started businesses. As it is less liquid than publicly traded equity, investors in Private Equity expect on average to earn a higher equity risk premium from it.
Venture Capital (VC)	Private Equity to help new companies to grow. A valuable alternative source of financing for entrepreneurs. For the purpose of this survey, start-up and development financing have been considered as Venture Capital activities.

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