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The economic impact of Private Equity and Venture Capital in Italy

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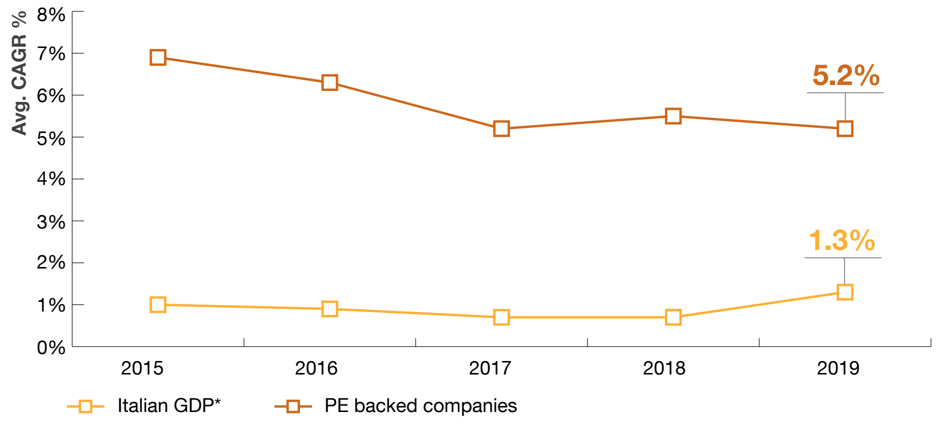
Private Equity backed companies vs the Italian market

Over the last three years Private Equity owned companies show a stable trend in terms of average CAGR % of revenues and an increasing trend in terms of employment growth rate, maintaining a higher performance compared with the Italian market

Trend of PE backed companies revenues vs Italian GDP

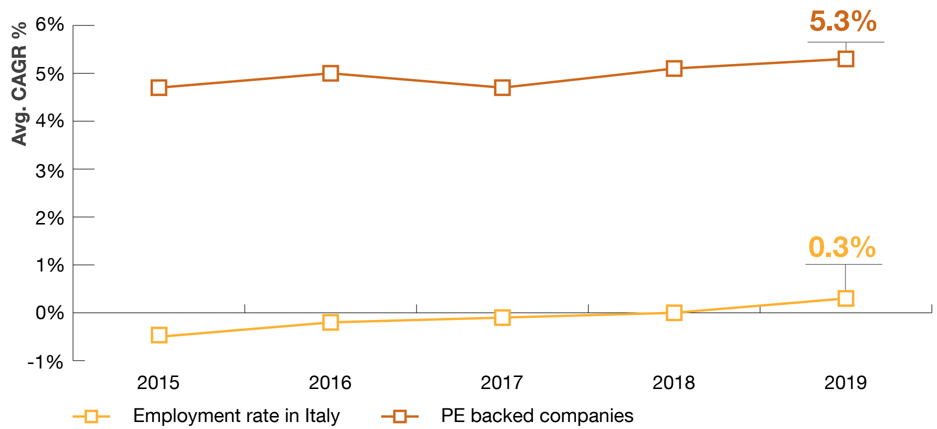


Source: ISTAT, AIFI and PwC analysis - (*) GDP CAGR % referred to the period 2009-2019

After a progressively reduction among the period 2015-2017, the revenues growth of Private Equity companies stabilizes around 5.2-5.5% over the last three periods, remaining higher compared to the national GDP.

In 2019, the Italian GDP shows a slight increase compared with the previous years, reaching 1.3% (+0.6% vs 2017-2018), which however remains c. 4 ppt lower compared to the revenues performance of the PE portfolio companies.

Trend of PE backed companies employment growth rate vs employment growth rate in Italy



Source: ISTAT, AIFI and PwC analysis

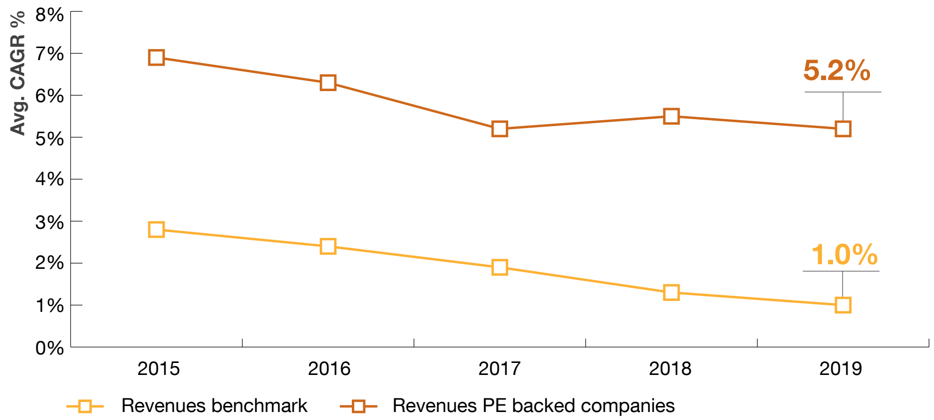
During the last five years the employment growth rate in Italy shows an increasing trend, reaching for the first time in 2019 a positive growth rate (0.3%).

Employment growth rate in Private Equity backed companies confirmed the positive trend over the last 5 years with a higher rate compared to the national one, constantly at c. +5%.

Survey results: revenues and EBITDA performance

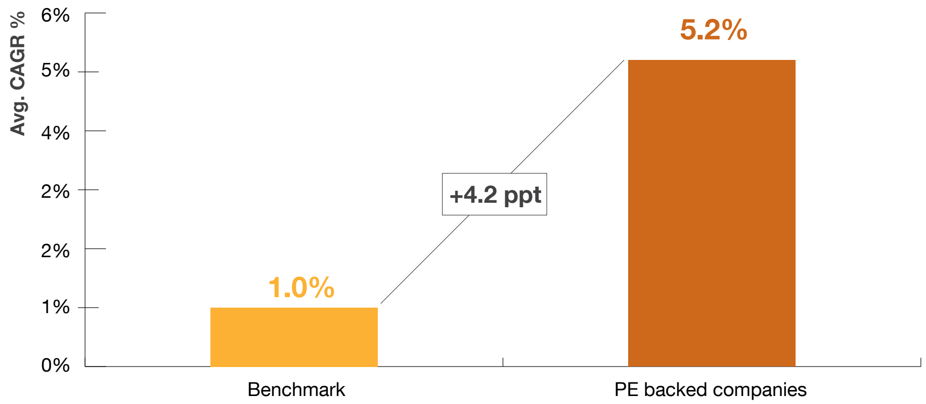
In 2019 the revenues growth rate of companies backed by Private Equity confirmed the positive trend of the past 2 years, keeping the gap with the benchmark of other Italian private companies of similar size at c. +4%

Trend of PE backed companies revenues vs benchmark



Source: AIFI and PwC analysis

Revenues growth 2009 - 2019



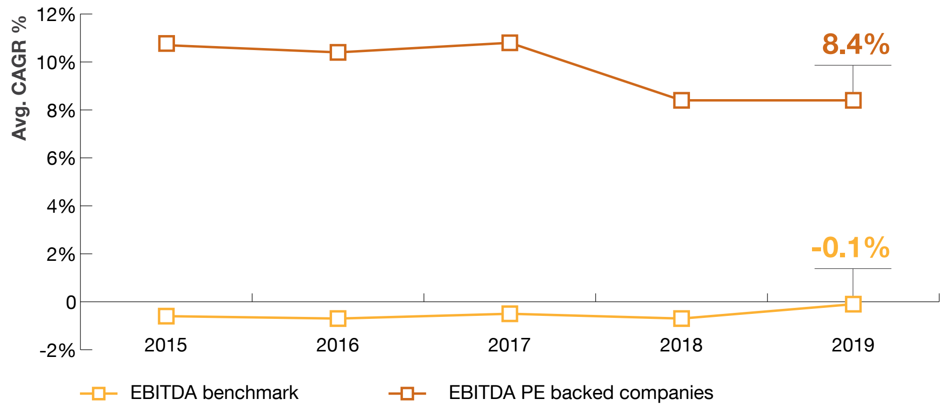
Source: AIFI and PwC analysis

After the decreasing trend over 2015-2017 period, the revenues average CAGR % of PE backed companies stabilized around 5% in the last 2 years, highlighting a positive path if compared to the benchmark of private Italian companies of similar size, which keeps a decreasing trend over the last 5 years. Please refer to the Methodology section for further details on the benchmark.

Over the last 2 years the gap between the revenues average CAGR % of Private Equity portfolio companies and the benchmark slightly increases, reaching c. +4% in 2018-2019.

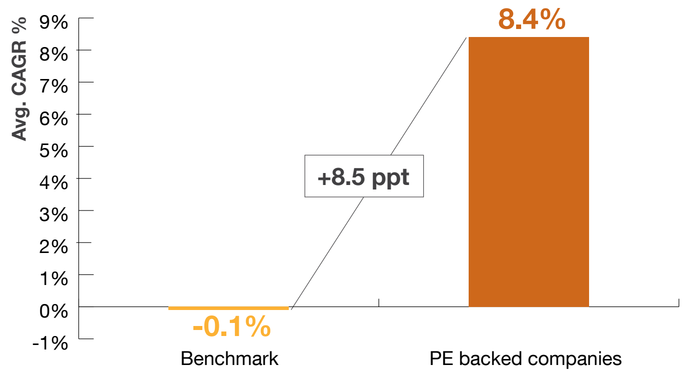
Private Equity backed companies profitability stabilizes at 8.4% over the last two years, confirming a higher growth rate compared to the benchmark

Trend of PE backed companies EBITDA vs benchmark



Source: AIFI and PwC analysis

EBITDA growth 2009 - 2019



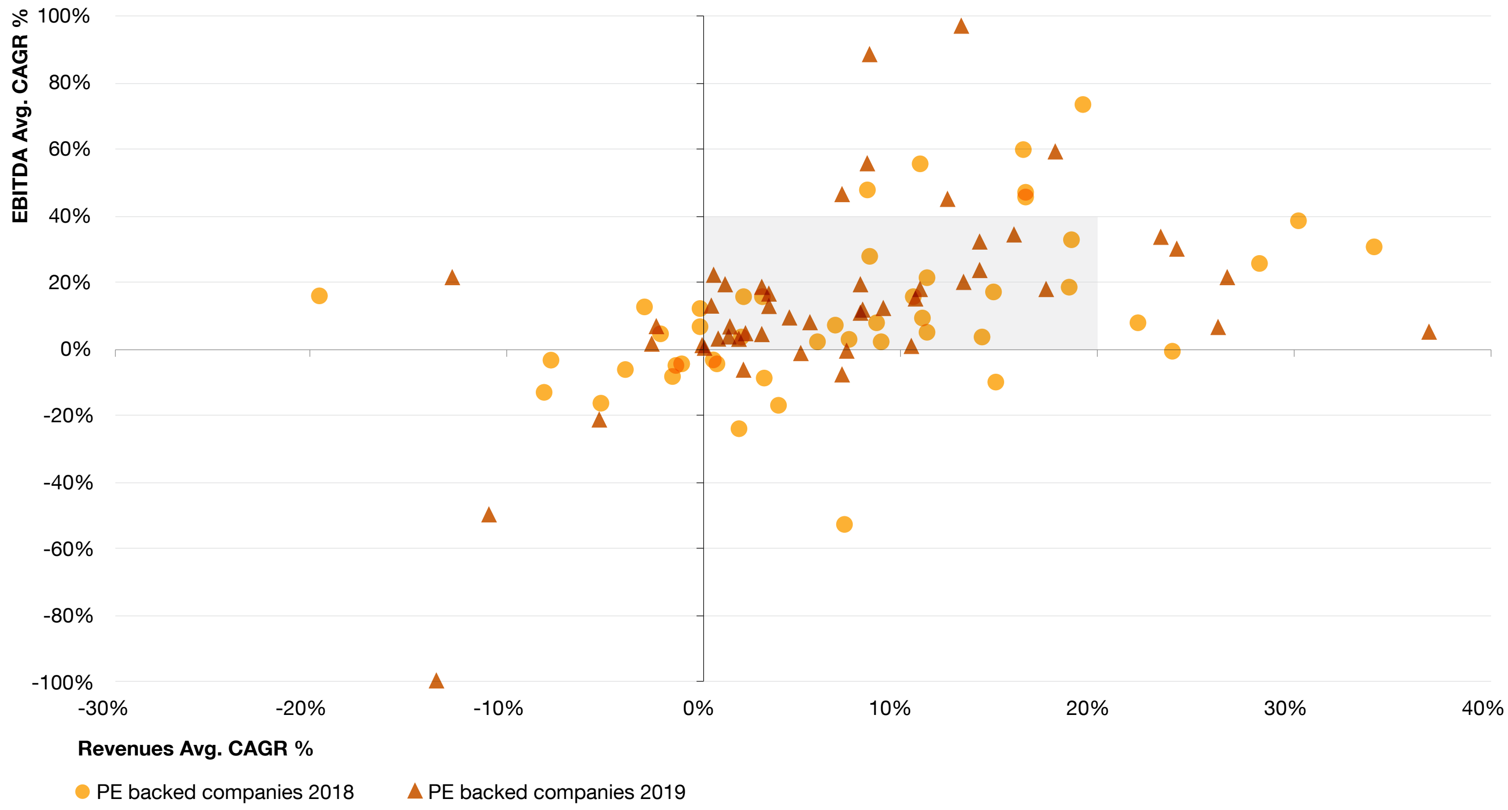
Source: AIFI and PwC analysis

The EBITDA average CAGR % of companies backed by Private Equity is stable at 8.4% in 2019, same level shown in 2018, and steadily higher compared to the benchmark.

A specific focus on EBITDA margin % in the sample of 2019 PE backed companies analyzed shows an increase between the EBITDA % on sales in the year of the investment (average of 11.9%) and in the exit year (average of 14.2%), while EBITDA margin % on sales of the benchmark remains almost stable over the same period.

The sample of Private Equity portfolio companies is in line with the previous years analysis, highlighting a deep concentration of companies with a positive average growth rate comprised between 0-20%, both in terms of revenues and EBITDA. To be noticed that only 10 companies out of 103 analysed in 2018-2019 shows negative growth level in both revenues and EBITDA variables (only 3 in 2019 sample, 7 in 2018 and 16 in 2017)

2018 - 2019 PE backed companies Revenues - EBITDA growth

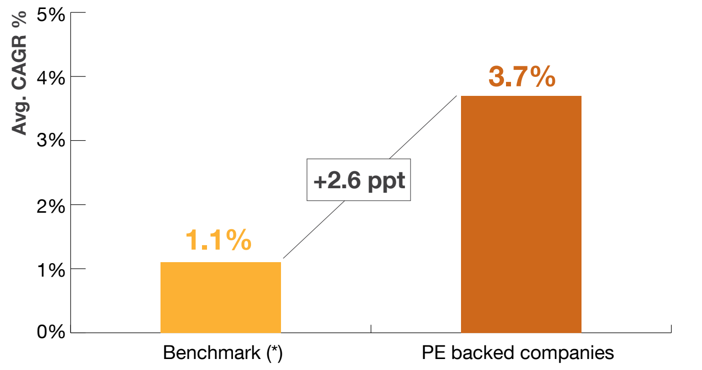


Source: AIFI and PwC analysis

Over the period 2009-2019 revenues and EBITDA of PE backed companies continues to evidence a higher CAGR % compared to the benchmark. Buy-out companies shows a revenues gap with the benchmark of +2.6 ppt, higher than the previous decade 2008-2018 amount (+2.1 ppt), meanwhile EBITDA gap slightly decreased (+3.7 ppt vs +4.1 ppt in 2008-2018).
Venture Capital backed companies highlight a stable gap with the benchmark compared with the previous year for both revenues (+6.5 ppt vs +6.8 ppt in 2008-2018) and EBITDA (+15.8 ppt vs +15.6 ppt)

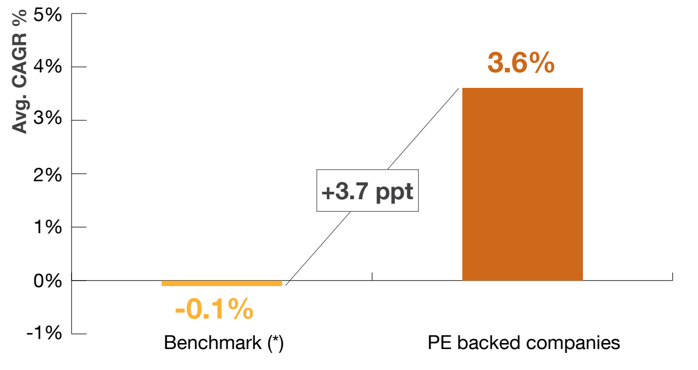
Buy-out

Buy-out - Revenues growth 2009 - 2019



Source: AIFI and PwC analysis

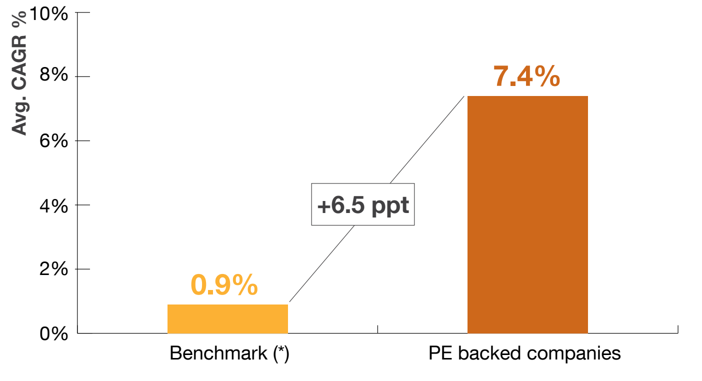
Buy-out - EBITDA growth 2009 - 2019



Source: AIFI and PwC analysis

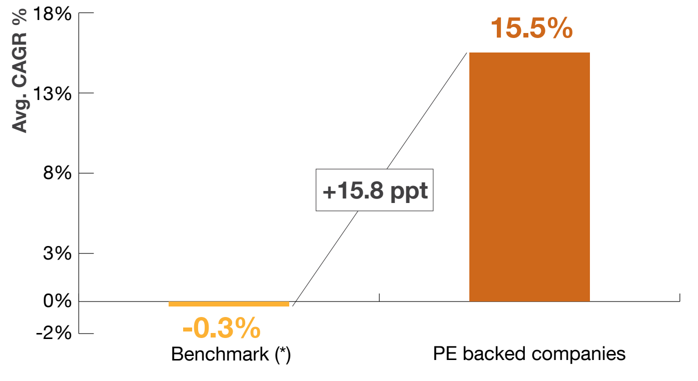
Venture Capital

Venture Capital - Revenues growth 2009 - 2019



Source: AIFI and PwC analysis

Venture capital - EBITDA growth 2009 - 2019

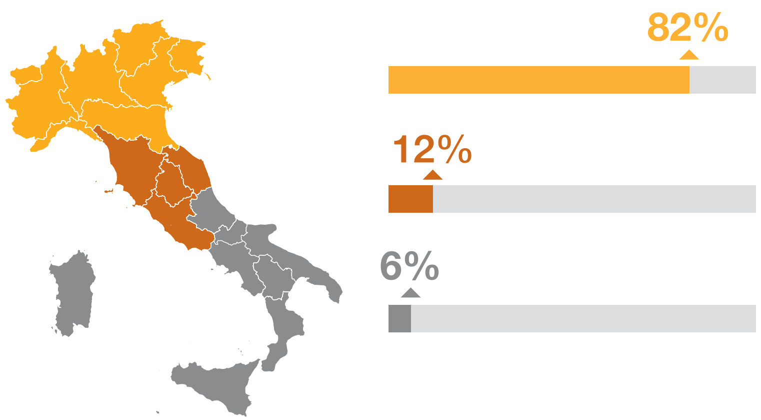


Source: AIFI and PwC analysis

(*) 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

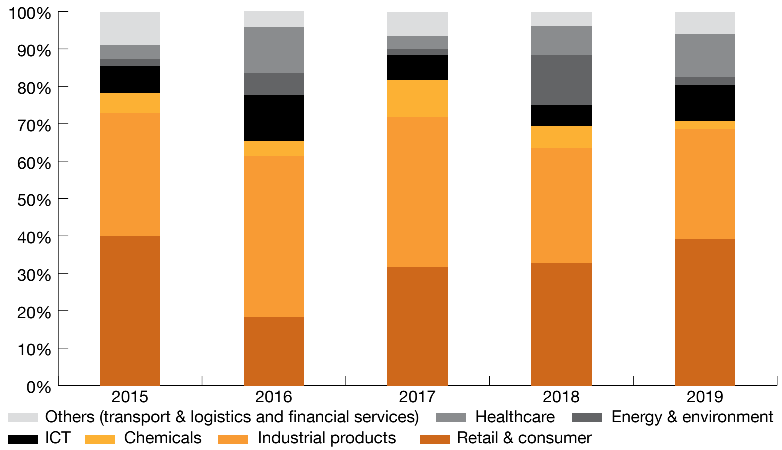
The sample analysed in 2019 and the trend of the last 5 years

Regional and industry distribution



Source: AIFI and PwC analysis

Industry distribution



Source: AIFI and PwC analysis

Regional distribution

The sample analysed over the last 5 years (267 companies) confirmed the deep concentration of M&A transactions in the northern Italy, mainly driven in 2019 by three regions: Lombardy, confirmed at 1#rank for number of transactions (25%), Emilia – Romagna (22%) and Veneto (20%).

To be noticed that during the 2015-2018 period Lombardy was the leading region in terms of number of transaction (c. 35-40%), while in 2019 a significant number of deals concentrated in Emilia Romagna and Veneto too.

Industry distribution

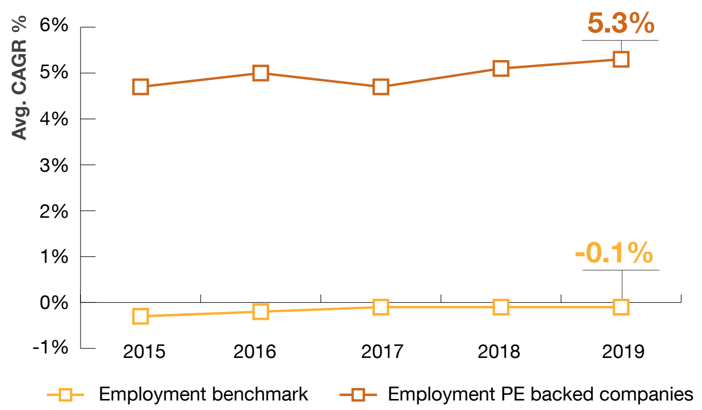
Industrial products and retail & consumer confirmed as the leading industries in M&A transactions analysis over the last 5 years, respectively accounting for 35% and 33%.

Among the other industries, ICT (Information & Communication Technology) confirmed an average of 8% of PE portfolio companies, followed by healthcare (7%), chemicals (6%) and energy & environment (5%).

Food (within industrial products and retail & consumer) and fashion (retail & consumer) are the sub-sectors increasing the most during the period under analysis, with food sub-sector moving from c.7% of transactions in 2015 to c.10% in 2019 and fashion moving from c.4% to c.12%.

The employment growth rate trend

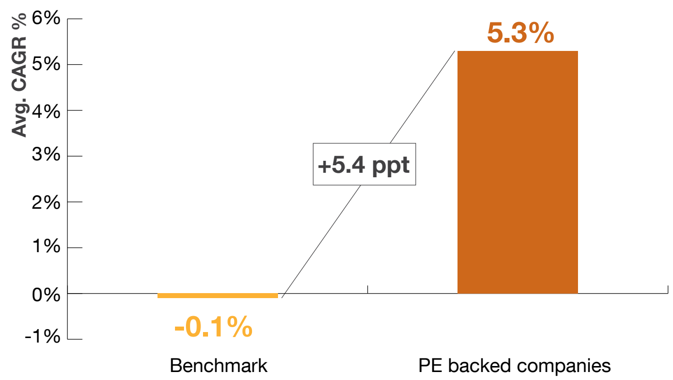
Trend of PE backed companies employment growht rate vs benchmark



Source: AIFI and PwC analysis

The employment growth rate of Private Equity and Venture Capital backed companies continues to grow in 2009-2019 decade, reaching 5.3% (5.1% in 2008-2018). Over the last 5 years, PE backed companies employment index has been steadily higher compared to the benchmark, constantly c. +5%. The benchmark in 2019 confirmed the same amount shown in 2018 (-0.1%), lower than the Italian employment growth rate (0.3%).

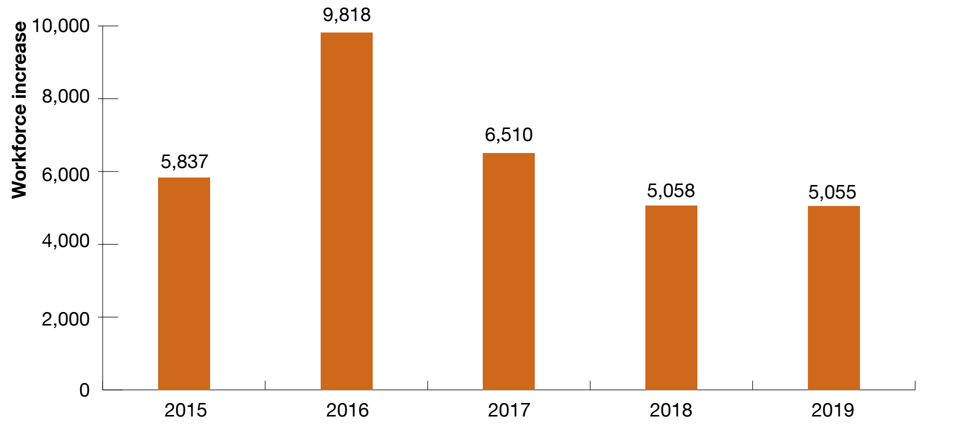
Employment growth 2009 - 2019



Source: AIFI and PwC analysis

The workforce trend in Private Equity backed companies and the managerial index

PE backed companies new job position



Source: AIFI and PwC analysis

The workforce trend in Private Equity backed companies

The sample of PE backed companies studied during the last 5 years (267) moved from an aggregate workforce of c. 135k in the year of investment to c. 167k in the year of the exit (CAGR 5.5%), confirming the amount and CAGR % shown in the sample of the last year.

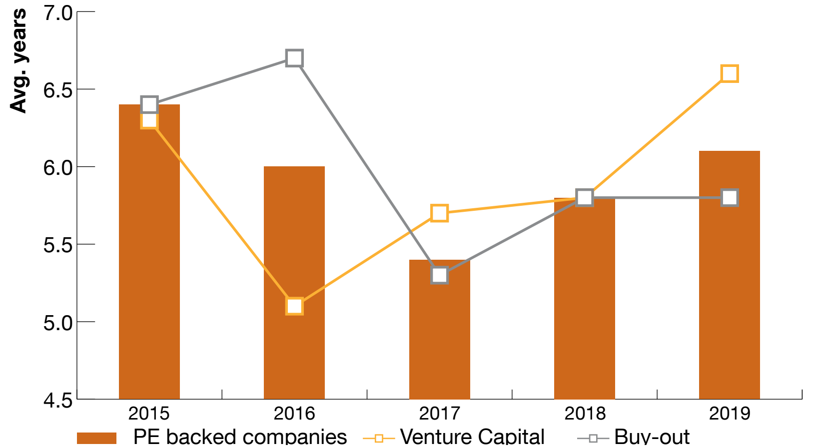
PE backed companies overall generated c. 32k new job position during the holding period. As shown in the chart, excluding the peak of 2016 (generating c. 10k new job position), PE backed companies constantly create c. 5-6k new job position each year.

The managerial index

The Private Equity investment are particularly focused in increasing both the workforce, as shown in the trend above, and the management team of their portfolio companies. Indeed, during the last five years the number of directors has always increased at a positive CAGR % during the holding period. In 2019 sample analysis the number of directors grew by 7.5% (vs 6.4% in the previous year).

The holding period and the Capex

PE Holding period

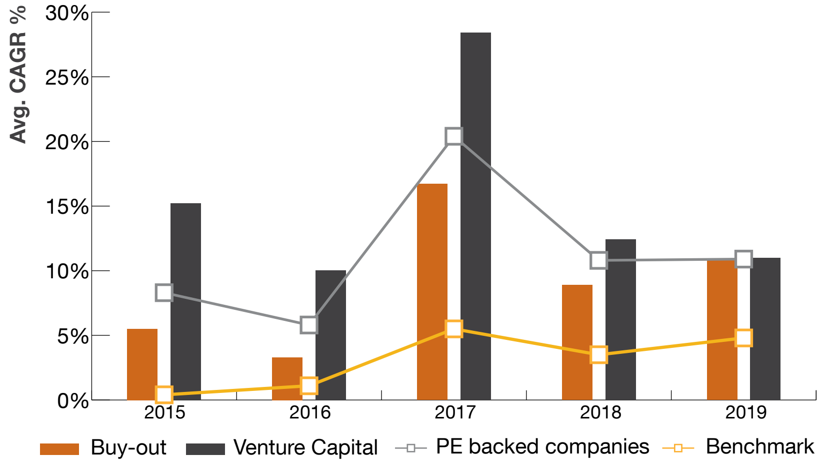


Source: AIFI and PwC analysis

During the last 10 years the average holding period of PE backed companies increased by +1.3 years, moving from an average of 4.8 in 2009 to 6.1 2019. During the last 5 years the holding period has been almost stable around 6 years.

As evident from the graph, Venture Capital shows higher average holding period than Buy-out during the last 3 years, reaching a maximum level in 2019 sample, 6.6% vs 5.8% in the previous year. Buy-out average holding period has been stable during the last two periods at 5.8%.

Trend of PE backed companies Capex vs benchmark



Source: AIFI and PwC analysis

During the last 5 years, the Capex index* of PE backed companies has always been higher than the values of the benchmark.

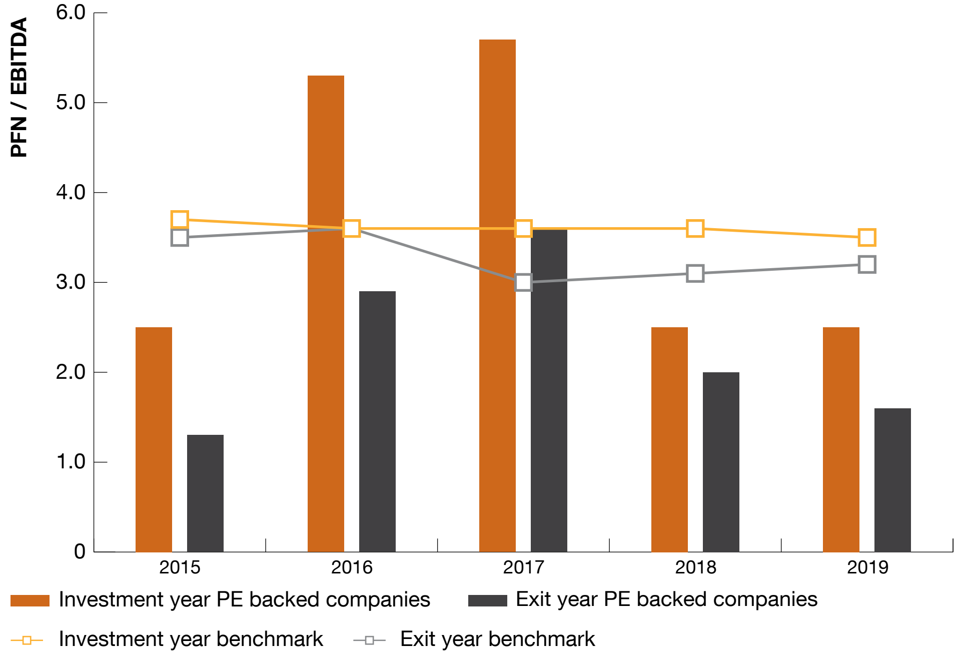
The sample analysed in 2019 recorded a Capex average CAGR % in line with the previous year (10.9% vs 10.8% in 2018), +6.1% higher than the benchmark.

Venture Capital companies has always shown higher Capex compared to the Buy-out companies, although this gap has been reduced in 2019 (11.0% Venture Capital vs 10.8% Buy-out).

(*) The Capex index was calculated as the average CAGR % of tangible assets (historical cost) from the year of investment to the year of the exit.

The leverage ratio

FY15-19 PE backed companies vs benchmark PFN/EBITDA



Source: AIFI and PwC analysis

During the last years analysis, the comparison between investment year and exit year leverage ratio (measured as Net Financial Position/EBITDA) has always shown a gradual decrease of Financial Debts in PE backed companies.

As evident from the graph, during the last 5 years the leverage ratio of PE companies decreased comparing the date of the investment (avg. 3.7) to the date of the exit (2.3). On the opposite, the average leverage ratio of the benchmark has been almost stable between the investment year (3.6) and the exit year (3.3).

A focus on Secondary Buy-out divestment method

Among the last 5 years analysed companies, the main divestment method is trade sales (c. 70%), followed by buy-back of the shares by the original owners (12%), IPO/post IPO operations (6%) and sales to financial institutions/private individuals (5%).

Trade sales divestments are mainly composed by sales to corporate (34%) and by sales to other Private Equity or Venture Capital houses (Secondary Buy-out) (36%).

Out of 36% secondary investment, a specific focus has been performed on companies sold by PE houses to another Private Equity, so called Tertiary Buy-outs, (34 out of 267 divestments over the last 5 years). The analysis shows that the companies performance, measured in terms of revenues, EBITDA and employees CAGR %, continues to show positive trend even under the management of other Private Equity funds.

Over the 2015-2019 period Tertiary Buy-out revenues, EBITDA and workforce respectively grew by 5.8%, 6.1% and 5.6%.

Methodology

This study is designed to investigate the performance of the Target companies during the holding period (2009-2019) with a breakdown between Buy-out and Venture Capital.

Sample and holding period

This study has been prepared on a sample basis of 485 divestments (198 Venture Capital and 287 Buy-out related) undertaken in Italy by Private Equity investors in the period 2009-2019.

The sample is representative of divestments over the 2009-2019 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 (2009-2019). In the last years, the average holding period has extended to approximately 5/6 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, Tax, 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 (revenue, EBITDA, employment growth rate) is the average CAGR of each company included in the sample.

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 2009-2019 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 2,120 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.

Term	Definition
Backed Companies	Companies included in a Private Equity portfolio of investment.
Buy-out (BO)	Buying a company using own financial resources 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, Income 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 = private consumption + investments + public spending + the change in inventories + (exports - 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. The latter measure is more accurate and 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, and so on). 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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