The economic impact of Private Equity and Venture Capital in Italy

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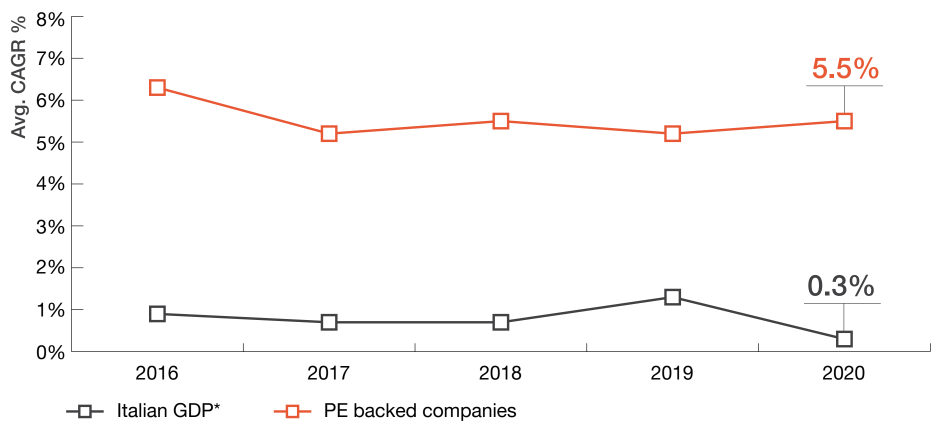
Performance of PE backed companies vs the Italian market KPIs

Despite the COVID-19 pandemic diffusion occurred in 2020, Private Equity owned companies show an increasing trend both in terms of revenues average CAGR % and of employment growth rate, confirming a positive gap with the Italian market KPIs.

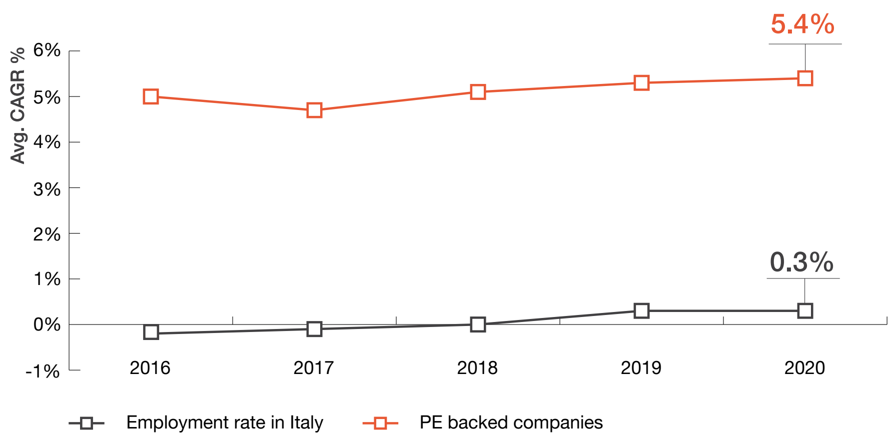
Trend of PE backed companies revenues vs Italian GDP



Source: ISTAT, AIFI and PwC analysis
(*) GDP CAGR % referred to the period 2010-2020

PE backed companies did not suffer the COVID-19 pandemic diffusion, showing a revenues average CAGR % of 5.5% in 2020, slightly increasing if compared with the last year (5.2%). Private Equity companies showed a strong performance also if compared with the Italian GDP, decreasing from 1.3% in 2019 to 0.3% in 2020.

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



Source: ISTAT, AIFI and PwC analysis

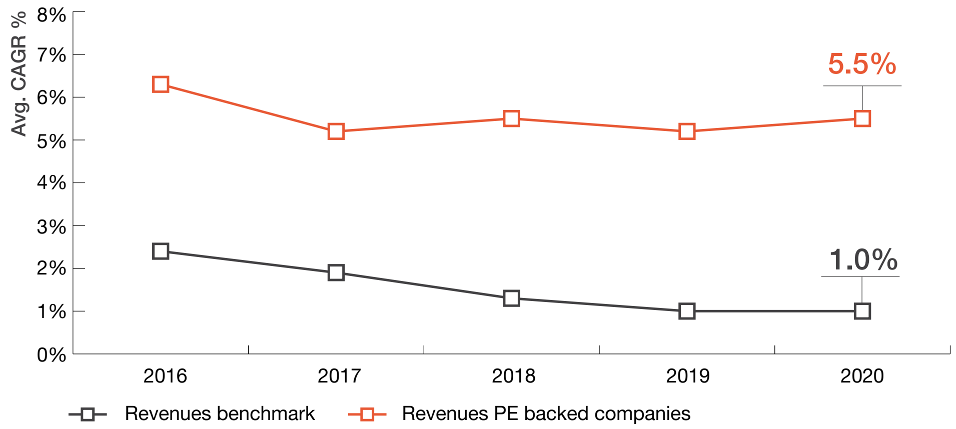
In line with previous years, Private Equity and Venture Capital backed companies confirmed a higher employment growth rate compared with the national rate, constantly c. +5%.

After a positive trend period between 2016-2019, where the employment growth rate in Italy became positive for the first time in 2019, it stabilizes around 0.3% in 2020 (same level of 2019).

Survey results: revenues and EBITDA performance

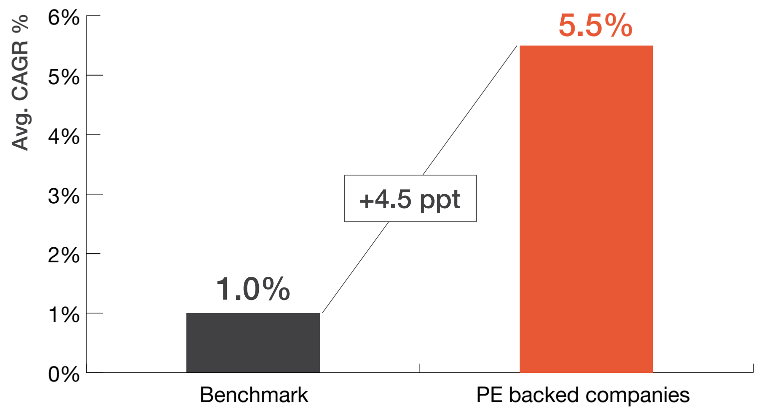
In the last period analysed, companies backed by Private Equity achieved a revenues average CAGR % of 5.5%, slightly higher if compared with 2019 (5.2%, +0.3 ppt), confirming the positive gap with the benchmark of other Italian private companies (stable at 1.0% in 2019-2020).

Trend of PE backed companies revenues vs benchmark



Source: AIFI and PwC analysis

Revenues growth 2010 - 2020



Source: AIFI and PwC analysis

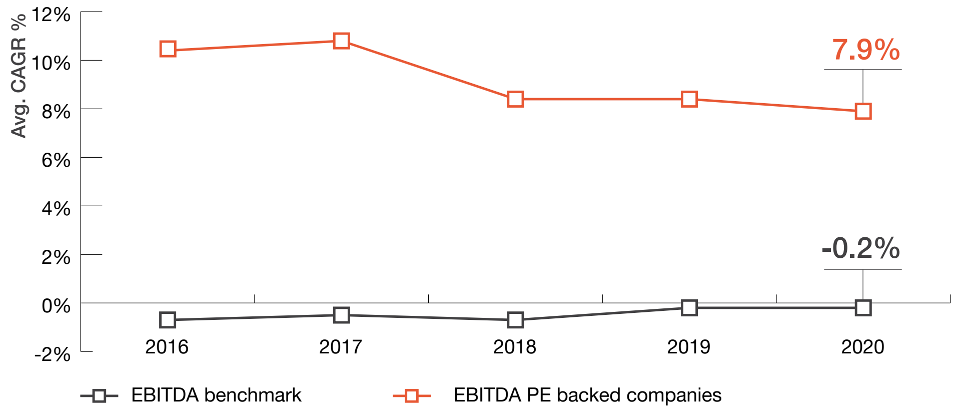
In 2020 the revenues average CAGR % of PE backed companies increases slightly to 5.5% (+0.3% compared with 2019), returning to the same level of 2018 and recovering the little decrease achieved during the last year.

On the other side, the trend of the benchmark of private Italian companies of similar size stabilises around 1.0%, after the decreasing trend over the last years (from 2.4% in 2016 to 1.0% in 2019). Please refer to the Methodology section for further details on the benchmark.

The gap between the revenues average CAGR % of the Private Equity portfolio and the private companies Italian benchmark increases slightly during 2020 (+4.5% vs +4.2% in 2019).

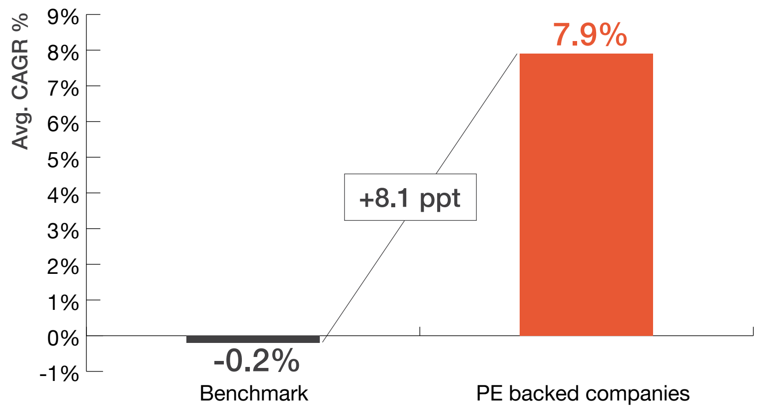
Private Equity backed companies profitability decreases to 7.9% in 2020 due to the COVID-19, but still confirming a higher growth rate compared with the benchmark.

Trend of PE backed companies EBITDA vs benchmark



Source: AIFI and PwC analysis

EBITDA growth 2010 - 2020



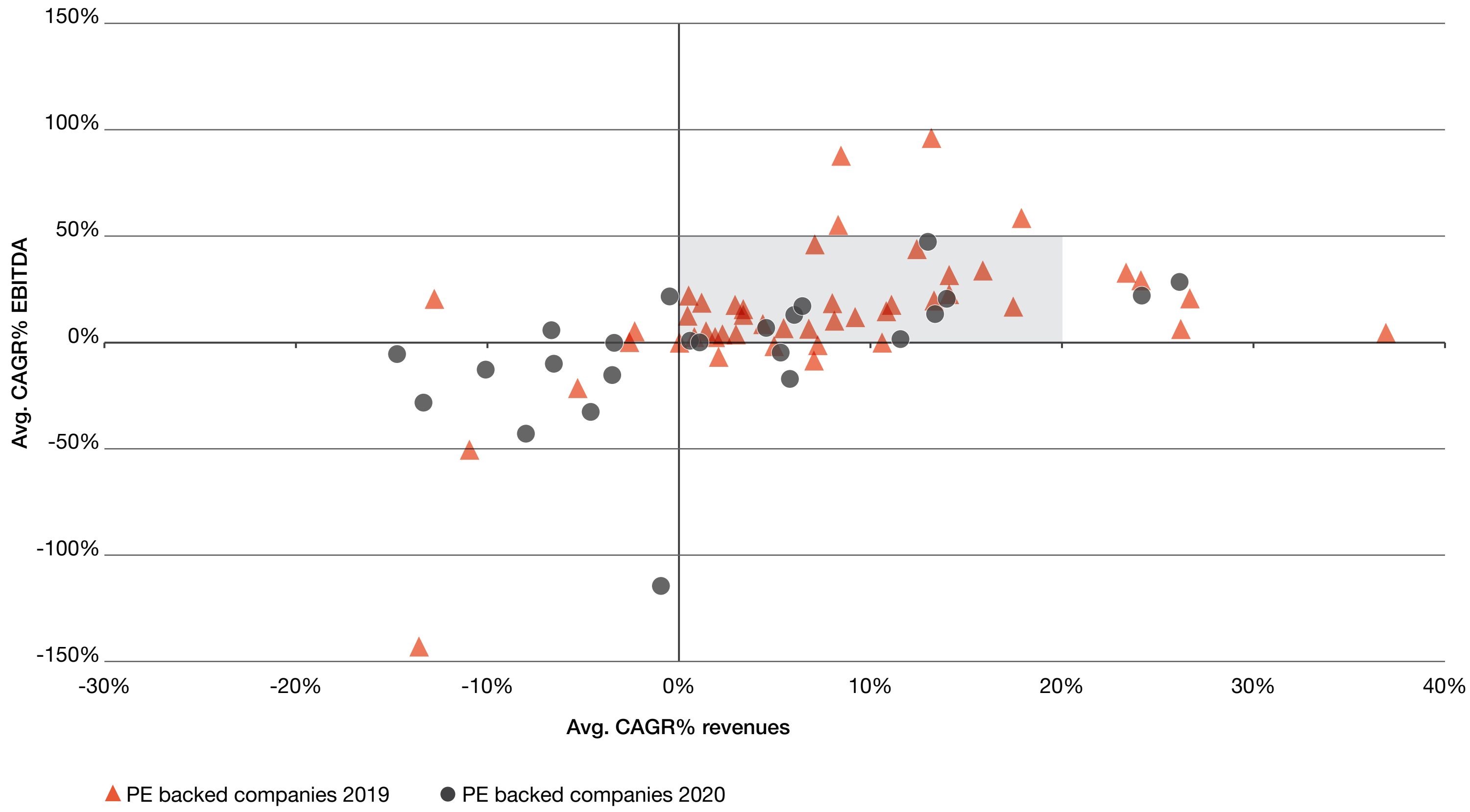
Source: AIFI and PwC analysis

In 2020 the economy has been influenced by the COVID-19 pandemic, affecting businesses and industries all over the world. The EBITDA average CAGR % of companies backed by Private Equity shows a negative trend, decreasing to 7.9% (-0.5% vs 2019). It has to be noted that even if 7.9% is the minimum recorded level over the last years, it is still higher compared with the benchmark (stable at -0.2% over the last two periods).

After a period where the gap between the EBITDA growth rate of PE portfolio companies and the benchmark was stable at c. +10%, it decreased twice over the last years: initially around c. +9% during 2018 and again in 2020 to around c. +8%.

Although the majority of PE backed companies shows a positive growth rate in terms of revenues and EBITDA, we noticed that due to the COVID-19 impact, the number of companies with a negative performance has increased compared with the previous year (moving from 3 in the 2019 sample to 8 in 2020).

2019 - 2020 PE backed companies revenues - EBITDA growth

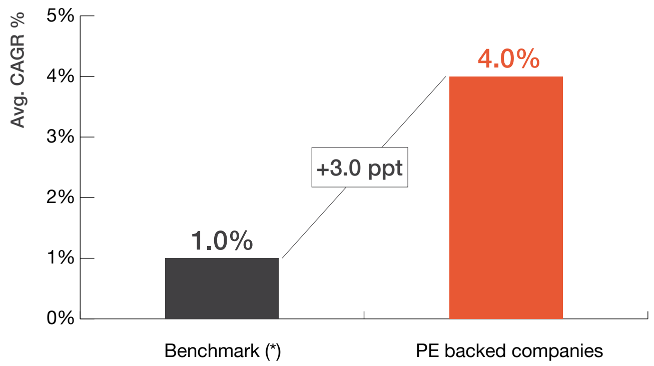


Source: AIFI and PwC analysis

Over the period 2010-2020 revenues and EBITDA of PE backed companies continue to perform at a higher CAGR % compared with the benchmark. Buy-out companies show a revenues gap with the benchmark of +3.0 ppt (vs +2.6 ppt registered in 2009-2019), meanwhile, the EBITDA gap is in line (+3.9 ppt in 2010-2020 vs +3.7 ppt in the previous decade). The revenues gap with the benchmark of Venture Capital backed companies is also in line with the previous year (+6.8 ppt vs +6.5 ppt in 2009-2019), meanwhile the EBITDA CAGR % decreases (+14.3 ppt vs +15.8 ppt).

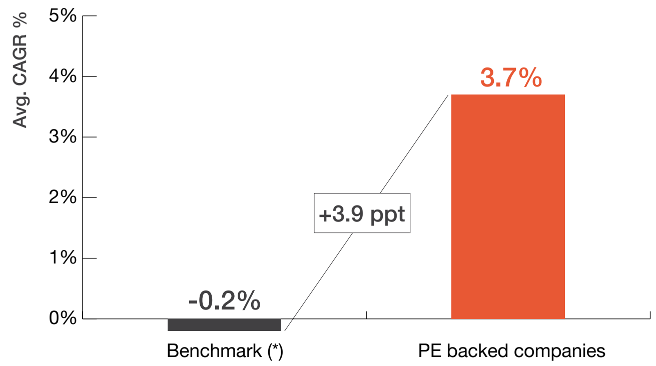
Buy-out

Buy-out - Revenues growth 2010 - 2020



Source: AIFI and PwC analysis

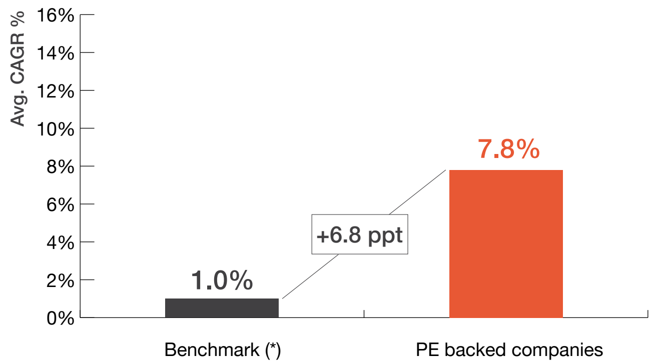
Buy-out - EBITDA growth 2010 - 2020



Source: AIFI and PwC analysis

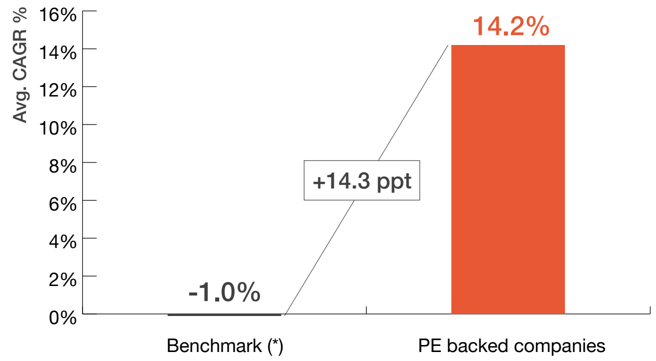
Venture Capital

Venture Capital - Revenues growth 2010 - 2020



Source: AIFI and PwC analysis

Venture capital - EBITDA growth 2010 - 2020

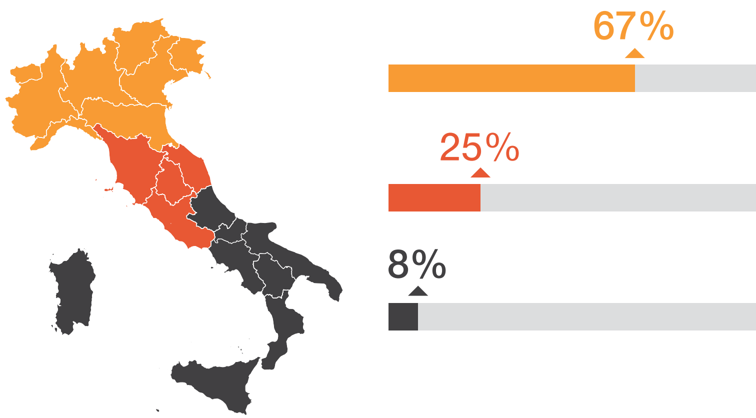


Source: AIFI and PwC analysis

(*) 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 2020 and the trend of the last 5 years

Regional and industry distribution.



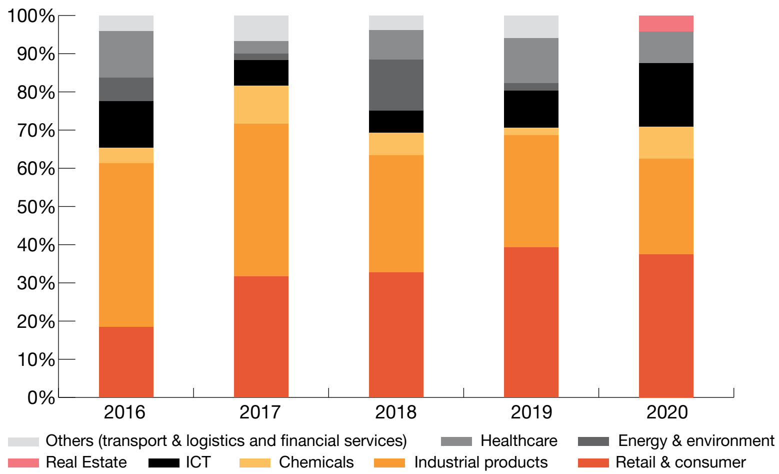
Source: AIFI and PwC analysis

Regional distribution

The sample analysed (236 companies for the 2016-2020 period) confirmed a deep concentration of M&A transactions in the northern Italy, mainly driven by Lombardy, which can be confirmed at #1 rank for a number of transactions (46%) even for 2020.

The percentage of the other areas of Italy (central and south) increased if compared with 2019. This should be read in conjunction with the fact that PE funds made fewer divestments during 2020 due to COVID-19 pandemic diffusion, therefore some indexes may be impacted by the lower amount of companies divested.

Industry distribution



Source: AIFI and PwC analysis

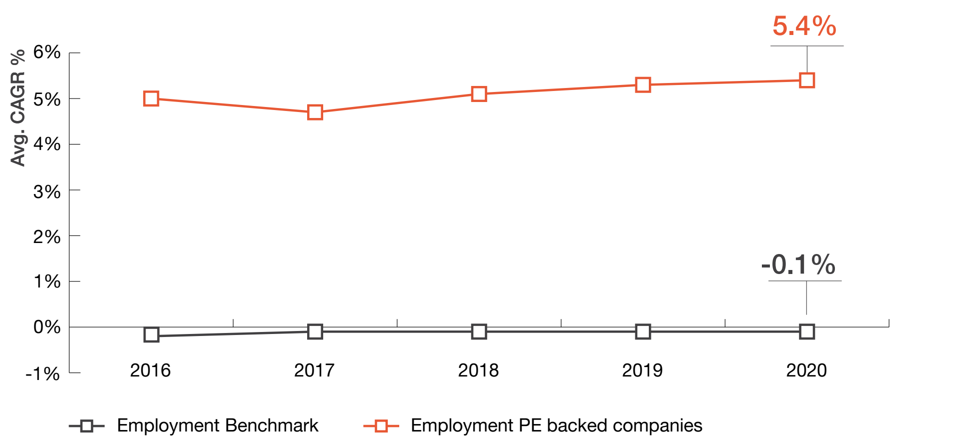
Industry distribution

Industrial products and retail & consumer resulted to be the leading industries in the M&A transactions analysed, with a percentage of 35% and 31% respectively, confirming the trend of the last years.

Among the other industries, ICT (Information & Communication Technology) have attracted an average of 9% of the investments over the last 5 years, followed by healthcare (8%), chemicals (6%) and energy & environment (5%).

The employment growth rate trend.

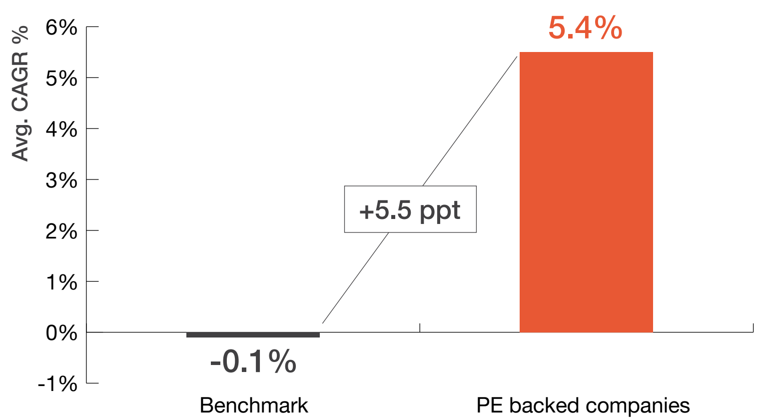
Trend of PE backed companies employment growht rate vs benchmark



Source: AIFI and PwC analysis

Despite the COVID-19 pandemic influence, the employment growth rate of Private Equity and Venture Capital backed companies shows a similar amount if compared with the previous year (5.4% in 2020 vs 5.3% in 2019). Over the last 5 years, PE backed companies' employment index has been steadily higher when compared with the benchmark, constantly +5%.

Employment growth 2010 - 2020

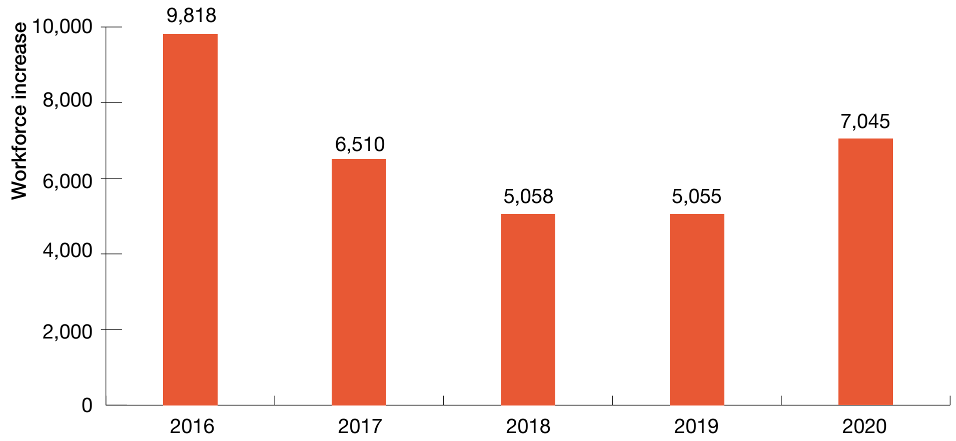


Source: AIFI and PwC analysis

The chart illustrates the gap between the growth rate of employment of PE and VC backed companies and the benchmark in the 2010-2020 decade. This gap is in line compared to 2019 (+5.5 ppt vs +5.4 ppt).

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 (236) moved from an aggregate workforce of c. 122k in the year of the investment to c. 155k in the year of the exit.

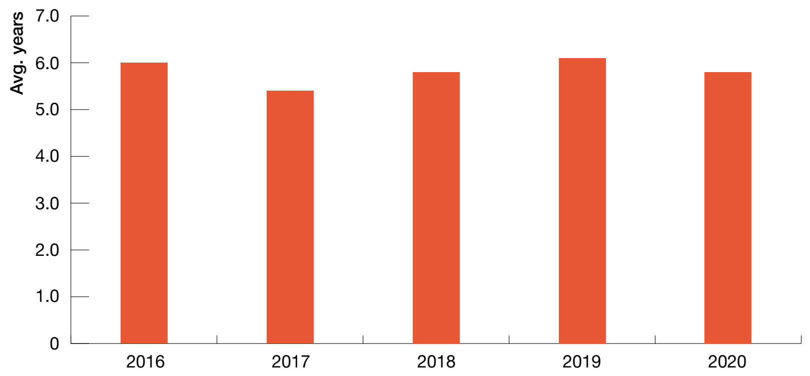
After a declining trend and despite COVID-19 influence, it has to be noted that PE backed companies in exam generated more job positions (c. 7k) then in the last three years as highlighted in the chart. PE backed companies overall generated c. 33k new job positions during the holding period.

The managerial index

The Private Equity investments have managed to increase both the workforce, as shown in the trend above, and the management team of their portfolio companies. During the last five years, the number of directors has increased at a positive CAGR % during the holding period. In the 2020 sample, the number of directors grew by 5.4% (7.5% in the previous year).

The holding period and the Capex.

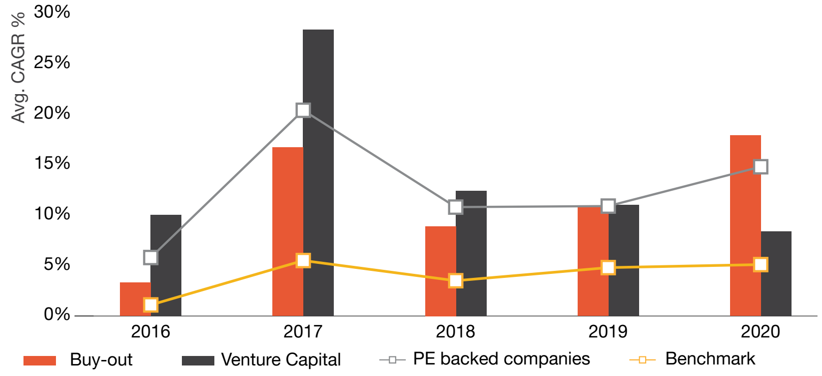
PE holding period



Source: AIFI and PwC analysis

During the last 10 years the average holding period of PE backed companies has been stable at around c. 6 years, moving from an average of 5.7 in 2010 to 5.8 in 2020.

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 benchmark.

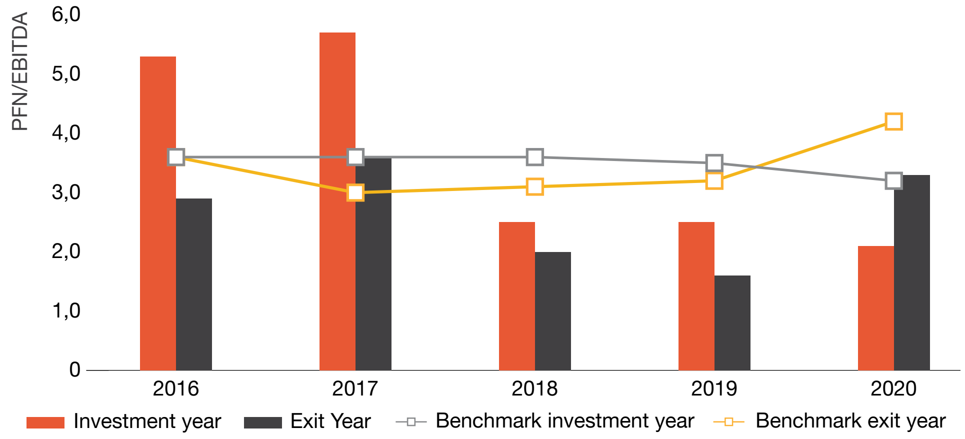
In 2020 the sample analysed highlights a Capex average CAGR % higher than the previous year one (14.8% vs 10.9% in 2019) and +9.6% higher if compared with the benchmark.

It has to be noted that Venture Capital companies usually had higher Capex than Buy-out companies until 2019, but during the last year BO's Capex is higher (17.9% Buy-out vs 8.4% Venture capital), probably impacted by the lower number of divestments analysed in the sample in 2020 due to COVID-19 diffusion, which may have impacted the index.

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

The leverage ratio.

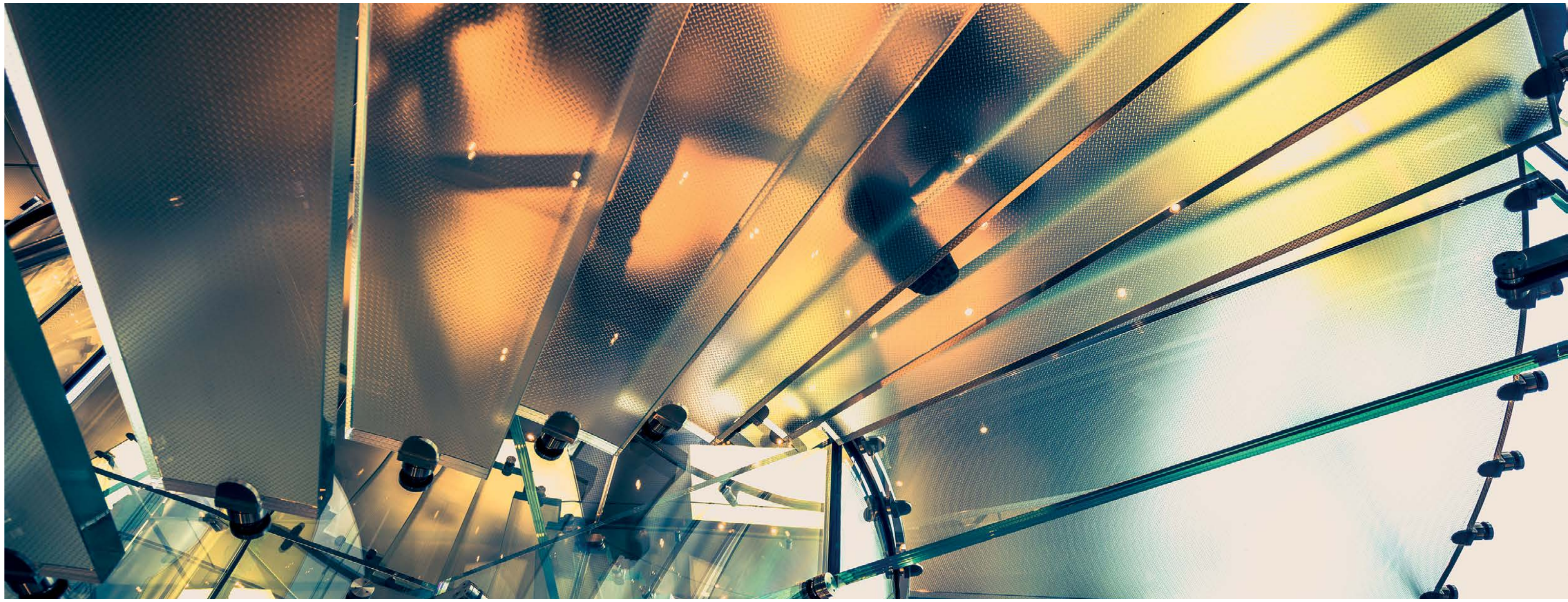
FY16-20 PE backed companies vs benchmark PFN/EBITDA



Source: AIFI and PwC analysis

After a period where the comparison between investment year and exit year leverage ratio (measured as Net Financial Position/EBITDA) shows an overall and gradual decrease of Financial Debts in PE backed companies, the 2020 leverage ratio shows an exit year leverage ratio higher than the investing year (respectively 3.3 vs 2.1) mainly due to the COVID-19 pandemic influence which worsened firms' debt ratio.

Also, the benchmark leverage ratio shows a higher exit year leverage ratio when compared with the investment year for the first time over the last five years.



A focus on Secondary Buy-out divestment method.

In the sample analysed over the last 5 years, the main divestment method is trade sales (c. 67%), followed by buy-back of the shares by the original owners (14%), IPO/post IPO operations (7%), sales to financial institutions/private individuals (5%) and write-off (3%).

The divestment method of trade sales shown before (67%) is composed of sales to corporate (33%), while the remaining 34% is represented by sales to other Private Equity or Venture Capital houses (Secondary Buy-out).

Out of 34% of secondary investments, specific focus has been performed on the companies acquired in a Secondary Buy-out, that gets sold to another Private Equity (Tertiary Buy-out) during the last 5 years (33 out of 236 divestments). The analysis shows that the companies' performance, measured in terms of revenues, EBITDA and employees CAGR %, continues to show a positive trend even under the management of other Private Equity funds. Over the 2016-2020 period, Tertiary Buy-out revenues, EBITDA and workforce has respectively grown by 6.3%, 7.4% and 7.4%.

Methodology

This study is designed to investigate the performance of the Target companies during the holding period (2010-2020) 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 (195 Venture Capital and 290 Buy-out related) undertaken in Italy by Private Equity investors in the period 2010-2020.

The sample is representative of divestments over the 2010-2020 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 (2010-2020). In the last years, the average holding period has extended 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, 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 (revenues, 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 2010-2020 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; (ii) 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 with 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 2,140 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 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, 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. 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, 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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