AIFI
Italian Private Equity, Venture Capital and Private Debt Association

MCP.
Mindful Capital Partners

VALUING HUMAN CAPITAL

The private capital impact

June 2023

PROMOTERS OF THE RESEARCH

Mindful Capital Partners

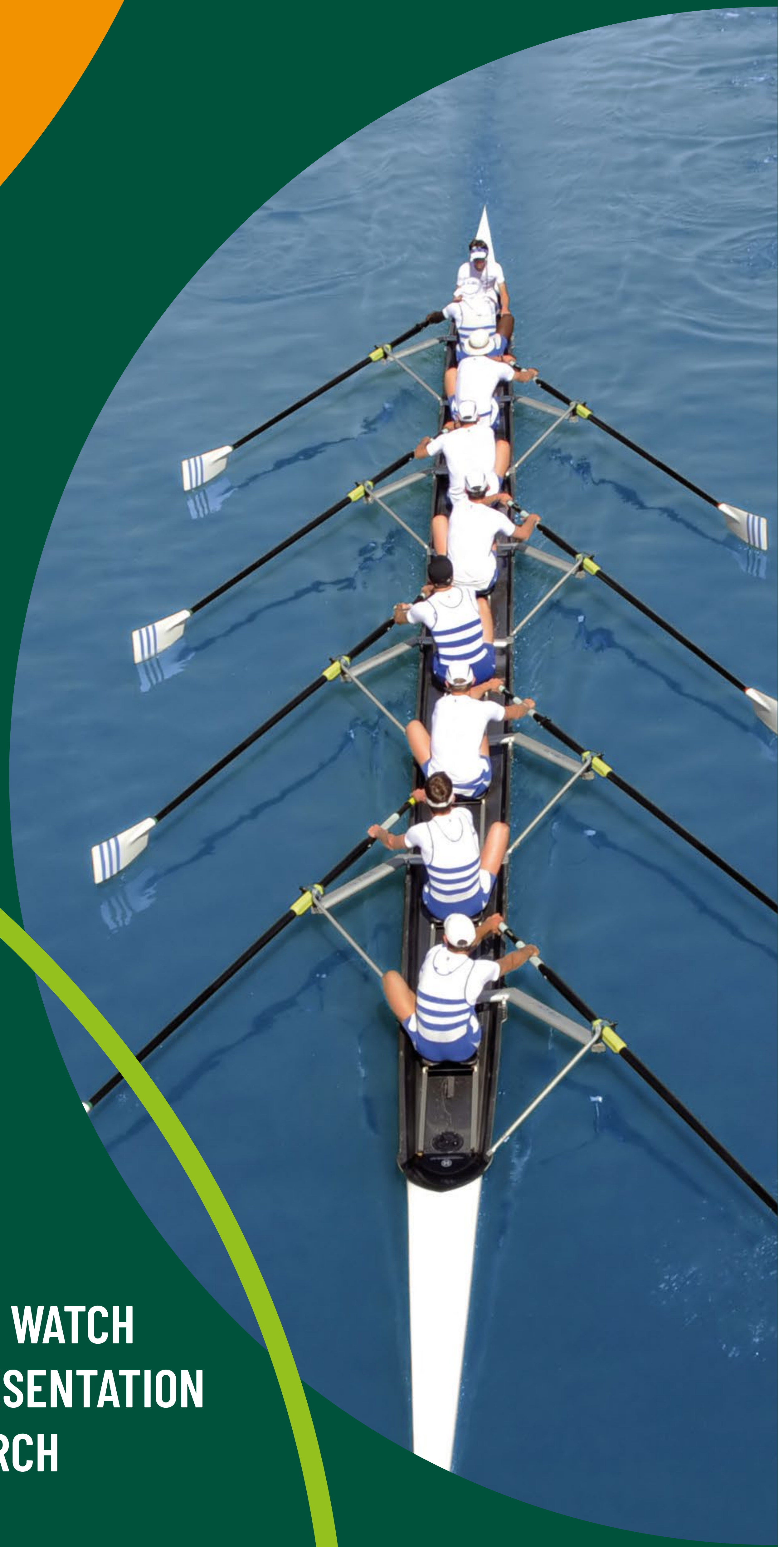
Mindful Capital Partners, active since 2007, is a group of professionals that manages a cross-border platform of private equity funds, with an investment strategy aimed at small to medium-sized companies, based in Italy or in the DACH region (Germany, Austria, Switzerland), for which international expansion represents a significant development opportunity. Since its foundation MCP has raised three funds, totalling more than EUR 750 million, completing 26 investments, of which 18 have already been sold. The raising of the fourth fund has recently been started.

www.mcpinvest.com

Italian Private Equity, Venture Capital and Private Debt Association

AIFI is the Italian Association of Private Equity, Venture Capital and Private Debt founded in 1986 to develop, coordinate and represent, at institutional level, the players active on the Italian market. AIFI associate members are funds and specialised companies that invest mainly in unlisted companies, through the management and divestment of participations, and offer debt instruments that are flexible and adaptable to the needs of companies.

www.aifi.it



CLICK HERE TO WATCH THE VIDEO PRESENTATION OF THE RESEARCH

INTRODUCTION

Investing does not only mean 'putting money in'. Although the ultimate goal of our activities is the remuneration of shareholders, the work to be done necessarily requires certain ingredients, such as the inclusion of new skills and the enhancement of existing ones in the company, the construction of growth paths and the realisation of each individual's aspirations. All this must be in harmony with the need to make choices, even difficult ones, that secure not only the business of the company but also and above all, the people who work there. Whoever thinks private equity aims to acquire a company to push an ambitious business plan and realise significant returns on investment knows only part of the story and is guilty of naivety and superficiality.

Private equity is much more than that and affects not only the economic activity of the company but also the local context in which it operates.

But how to explain what is behind the activity of a fund?

The idea is to research the valorization of human capital.

This research, which is the result of collaboration with the AIFI Researches Office, allows me to make some reflections and show with numbers what private equity can do, not only in favour of companies but also in support of the people who work there every day and the society in which they operate.

One cannot think of striving for business growth without considering that the people employed have needs and aspirations and that there must be inclusion, equal opportunities, new perspectives, growth, welfare systems, managerialisation and training.

These factors are decisive, especially when united by a common growth goal. Like in a rowing team, the goal cannot be reached if all the team members are not rowing together in the same direction. The following pages of this study aim to show just that: how it is more constructive and successful to invest not only by putting money in but also with skills and incentives.

This affects not only the company but also the world around us: we are all active participants and have responsibilities towards the company and society, and until the issue of inequality, different opportunities, and offers of growth is addressed and resolved, there can be no change. Equality, however, does not mean identity but equality in diversity. Women and men are different, and only by understanding this can efficiency be achieved. The harmony of diversity is the real value to be cultivated in the company because only in a context in which one's talents are fully recognised and different skills are valued that companies can grow.

That requires caring about people. What you will read in the following pages is the result of the answers that many funds surveyed gave to questions on corporate welfare, benefits and growth paths.

I hope that this research will raise awareness of taking action and exploiting opportunities to continue to do our job more consciously, also for the great responsibilities we have towards our shareholders, the people who work with us and for us, and the society in which we are committed to and which will reap the benefits of our day-to-day activities.

The Italian private equity industry is still small compared to other countries such as France and Spain, both in absolute terms and even more when compared to the GDP.

The figures on the following pages show how this sector can do the country well: if we succeed in developing the private equity sector to a size in line with similar countries, the impact described in this report could be very significant.

How can this be achieved? Both in Paris and Madrid, the policymakers have played a key role through the intervention of public funds of funds, which continuously allow funds to count on institutional funding, which facilitates private funding and enables long-term planning of investment activities, and through the definition of a legal and regulatory framework to favour investment in private capital, which today is instead penalised or hindered (as, for example, in the case of insurance companies and pension funds).

Lorenzo Stanca
Managing Partner Mindful Capital Partners

THE PRIVATE CAPITAL IMPACT

PRIVATE EQUITY

2,000
COMPANIES

550k
EMPLOYEES

200 €/BN
TURNOVER

PRIVATE DEBT

600
COMPANIES

230k
EMPLOYEES

50 €/BN
TURNOVER

Note: private equity data refers to portfolio companies as at 31.12.2022, whereas private debt refers to companies invested in from inception to 31.12.2022

PART ONE

The valorization of portfolio companies

PART TWO

Divested companies results

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PART ONE

The valorization of portfolio companies

RESEARCH OBJECTIVE

To investigate the impact of private equity on portfolio companies' human resources and identify the main initiatives in this subject.

METHODOLOGY

Questionnaires filled-in by AIFI's associate members regarding **portfolio companies at the end of 2022**. There were considered private equity and venture capital deals including follow-ons by other GPs.

ANALYSED SAMPLE

170

COMPANIES

MORE THAN 60,000

EMPLOYEES
TO DATE

71% PMI

COMPANIES WITH LESS THAN
250 EMPLOYEES

35 | FIRMS

22 DOMESTIC FIRMS

144
INVESTMENTS

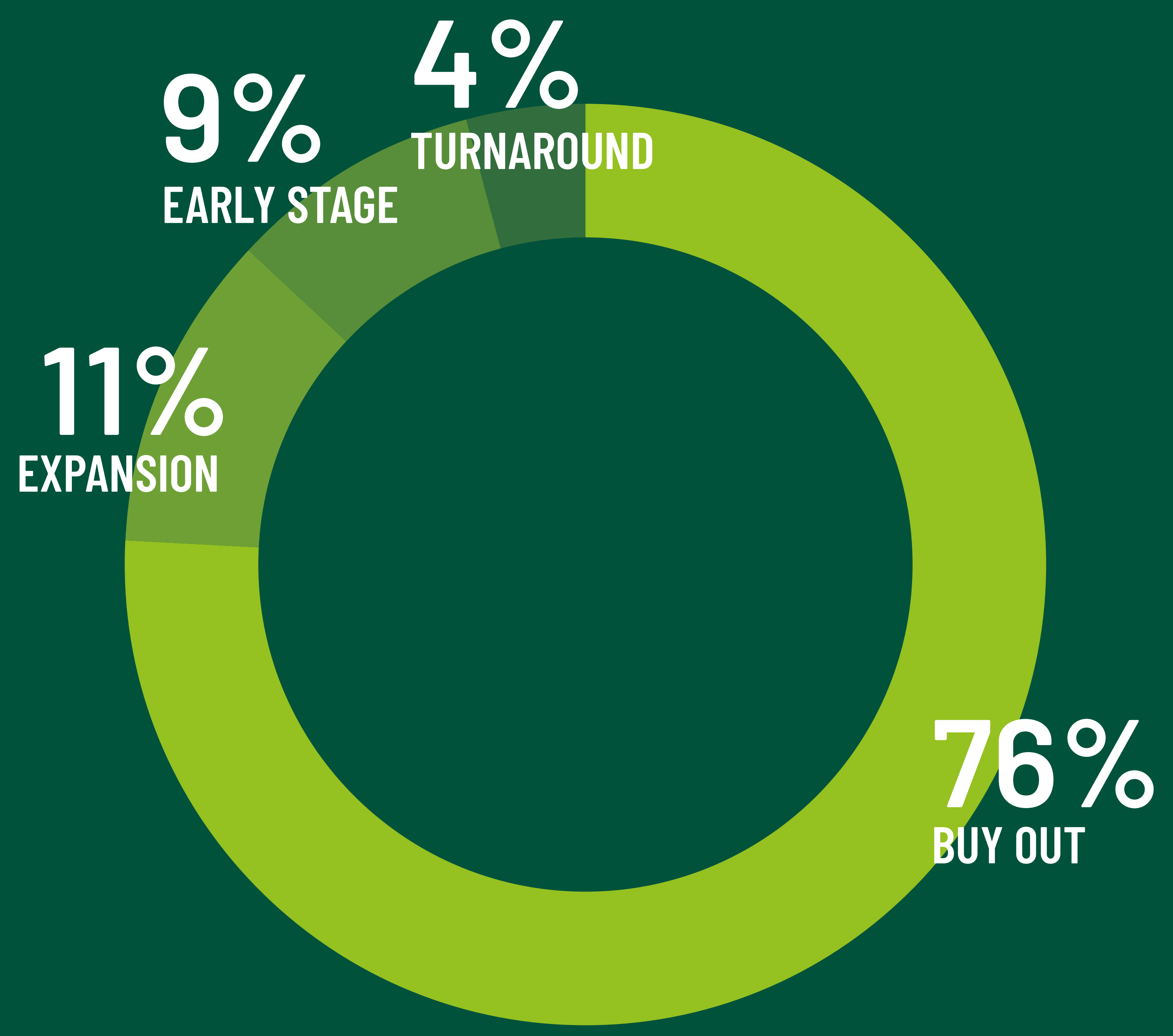
13 INTERNATIONAL FIRMS

26
INVESTMENTS

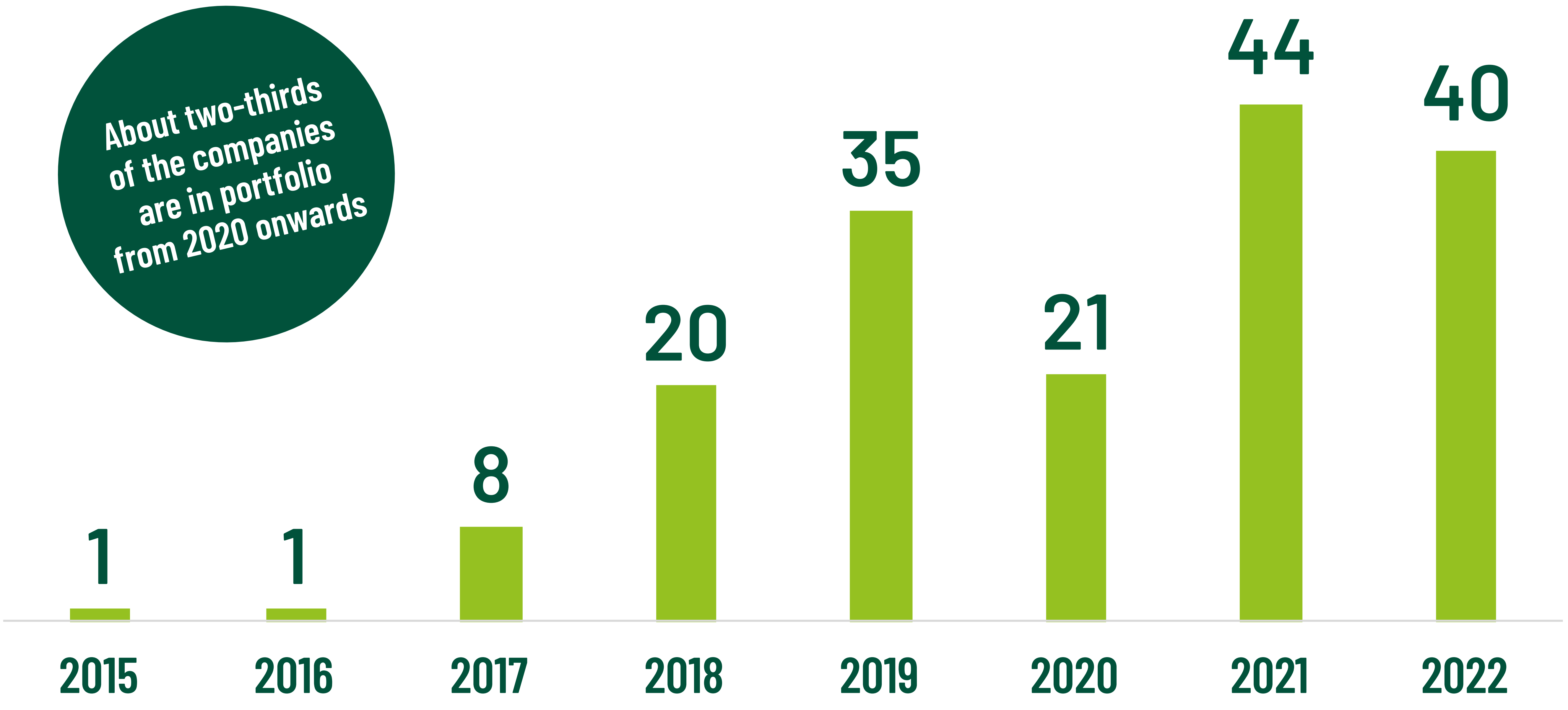
Note: for some of the following elaborations, a sample of companies is used for which the data is available. Temporary workers and administrators were not considered for the employee analysis

SAMPLE FEATURES

DISTRIBUTION BY INVESTMENT STAGE



DISTRIBUTION BY INVESTMENT YEAR

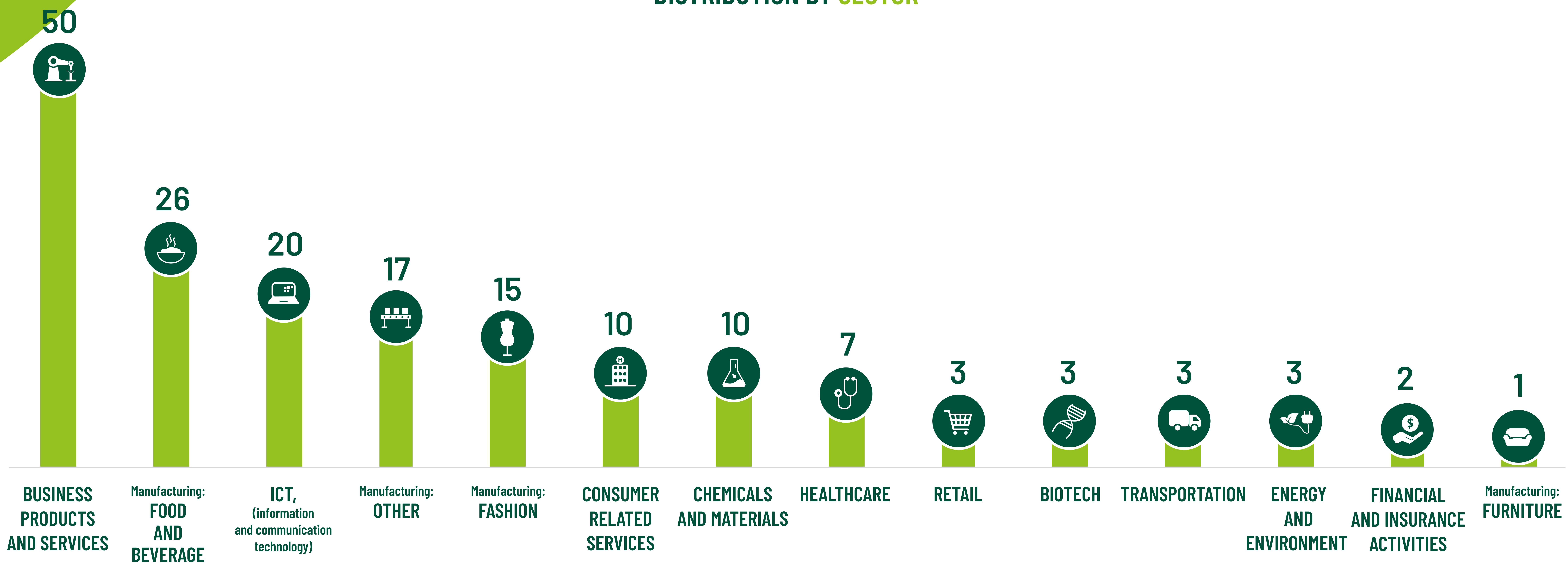


78%

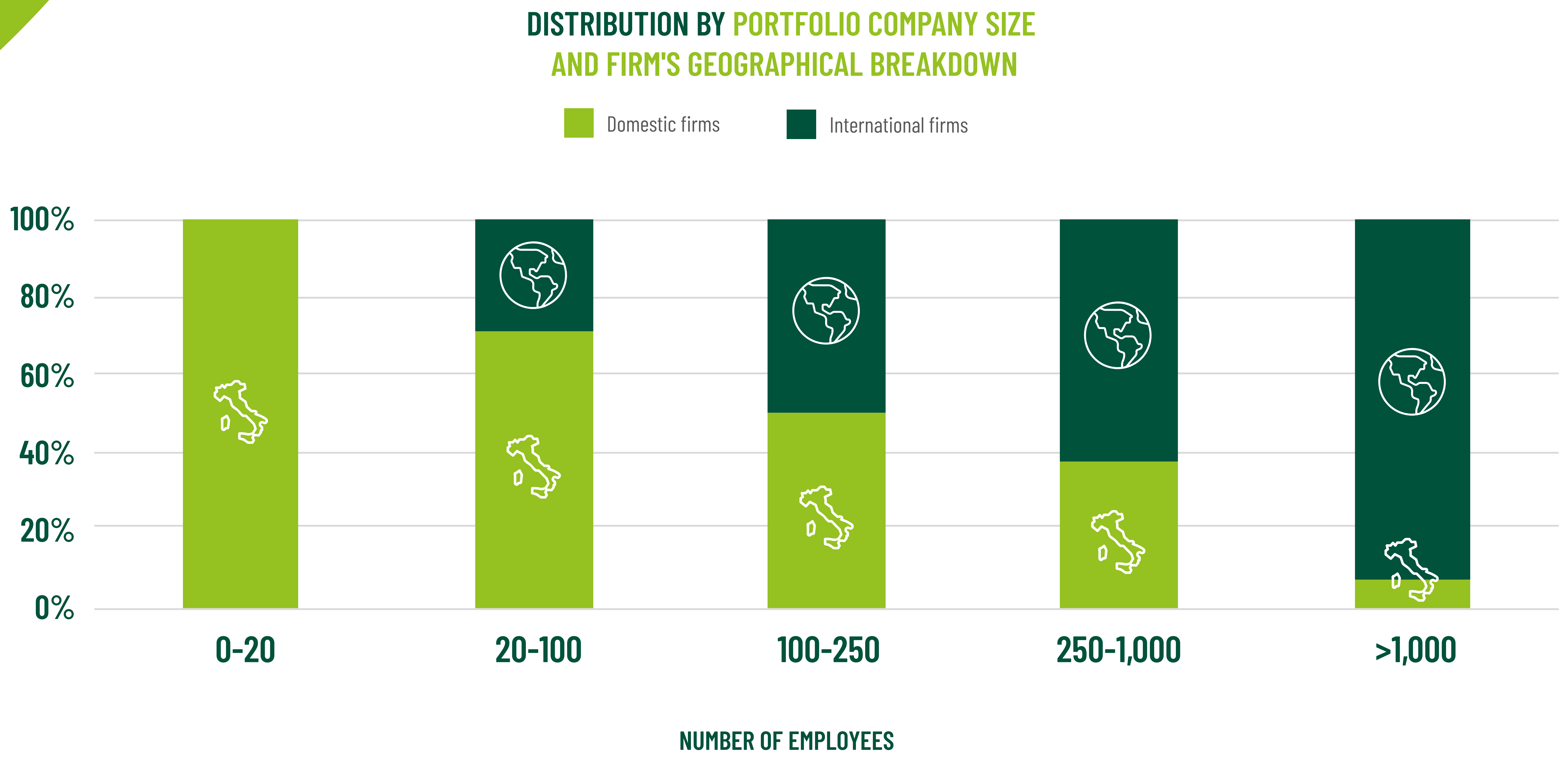
OF THE DEALS INVOLVE COMPANIES THAT HAD NOT PREVIOUSLY RECEIVED CAPITAL FROM PRIVATE EQUITY (INITIAL)

SAMPLE FEATURES

DISTRIBUTION BY SECTOR



SAMPLE FEATURES



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EMPLOYEE GROWTH COMPARED TO THE YEAR OF THE INVESTMENT

TOTAL SAMPLE

ENTRY 49,345

CURRENT 53,483

+8%

FOCUS ON SMEs

ENTRY 8,380

CURRENT 11,212

+34%

Note: companies with fewer than 250 employees are considered SMEs

Note: the analysis is based on a sample of 159 companies for which complete data on the number of employees at entry and to date are available, including gender division

EMPLOYEE GROWTH COMPARED TO THE YEAR OF THE INVESTMENT

TOTAL SAMPLE

MEN

ENTRY 33,168

CURRENT 35,449

+7%

WOMEN

ENTRY 16,177

CURRENT 18,034

+11%

FOCUS ON SMEs

MEN

ENTRY 5,362

CURRENT 7,014

+31%

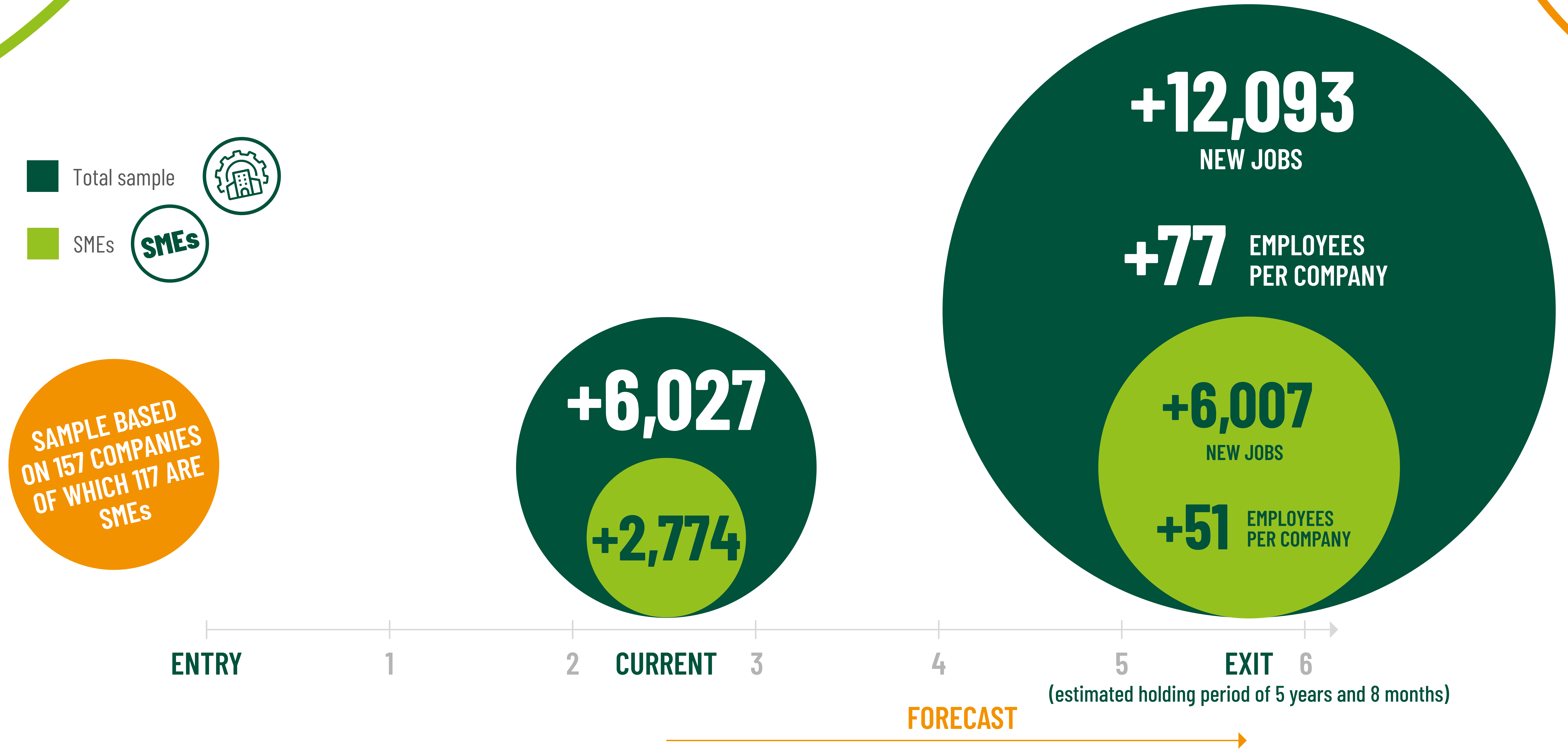
WOMEN

ENTRY 3,018

CURRENT 4,198

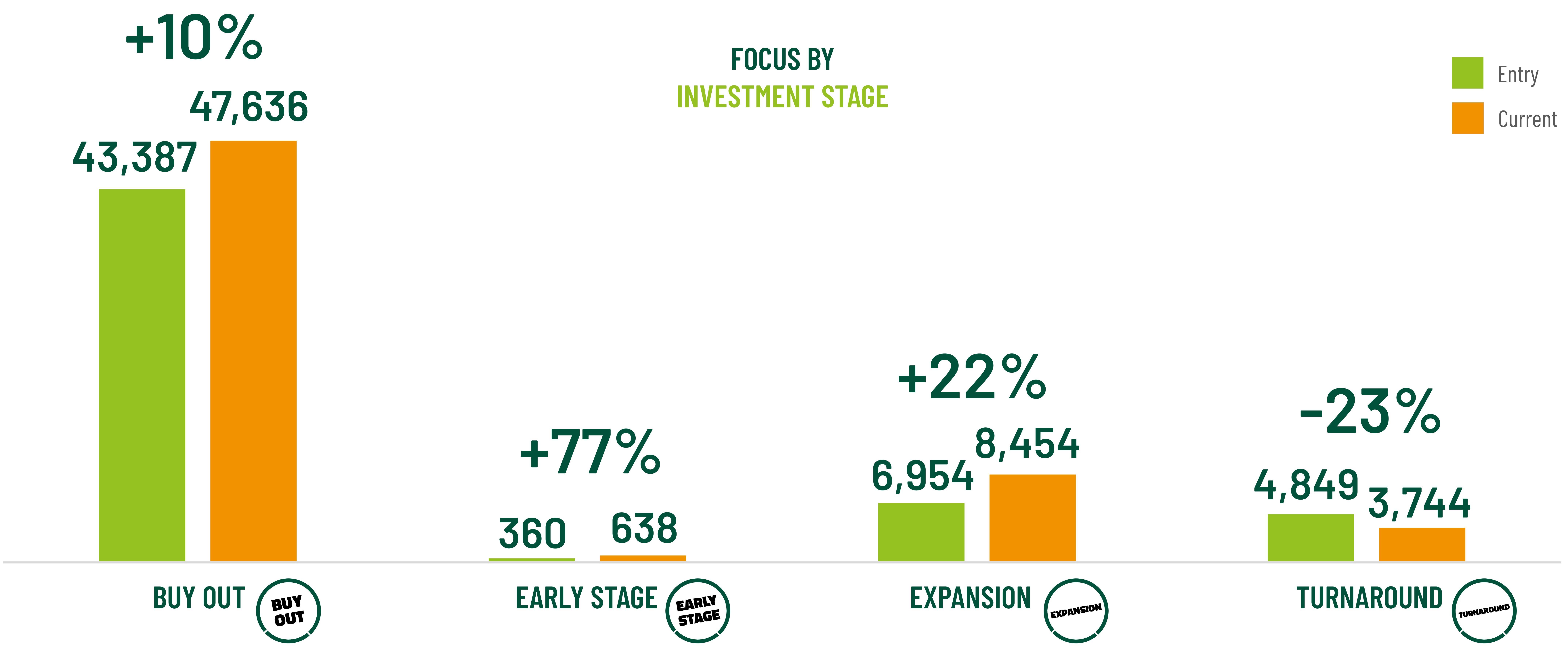
+39%

NEW JOBS CREATION



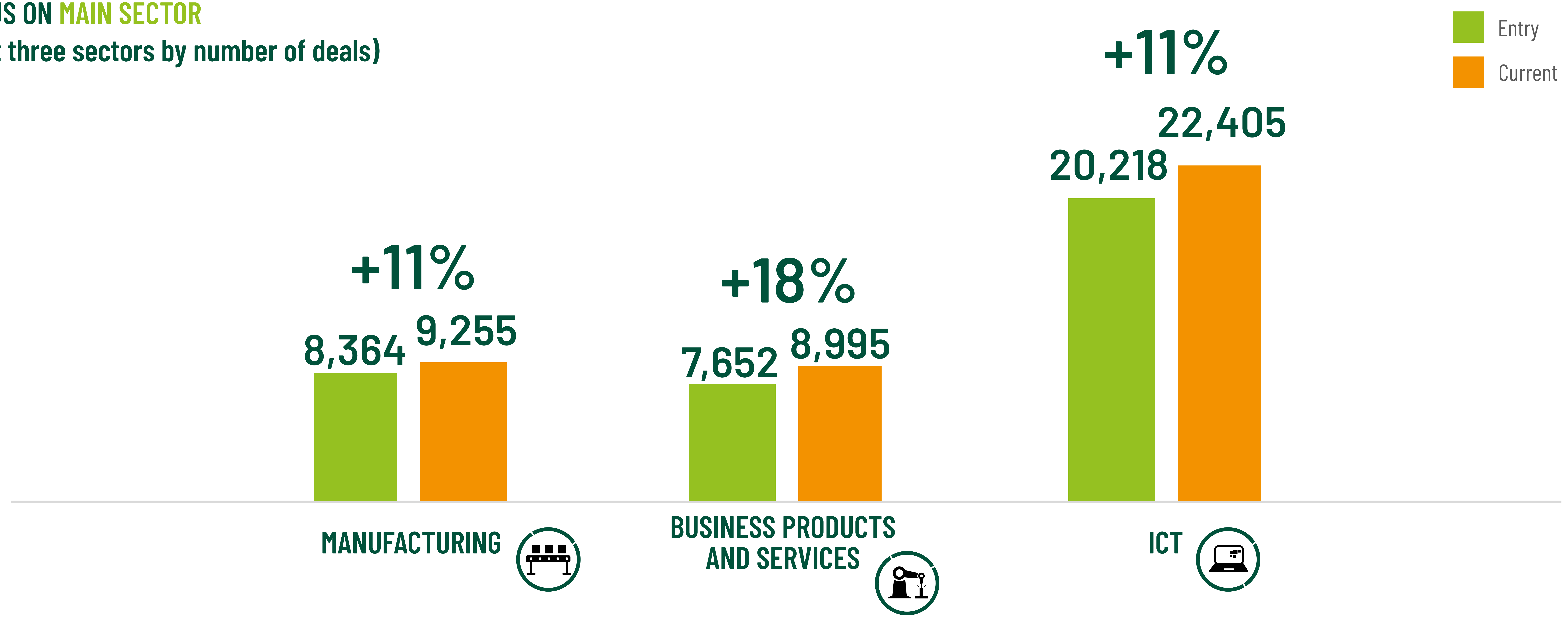
Note: excluding turnaround investments. As of today, the average holding period is just under 3 years

EMPLOYEE GROWTH COMPARED TO THE YEAR OF THE INVESTMENT



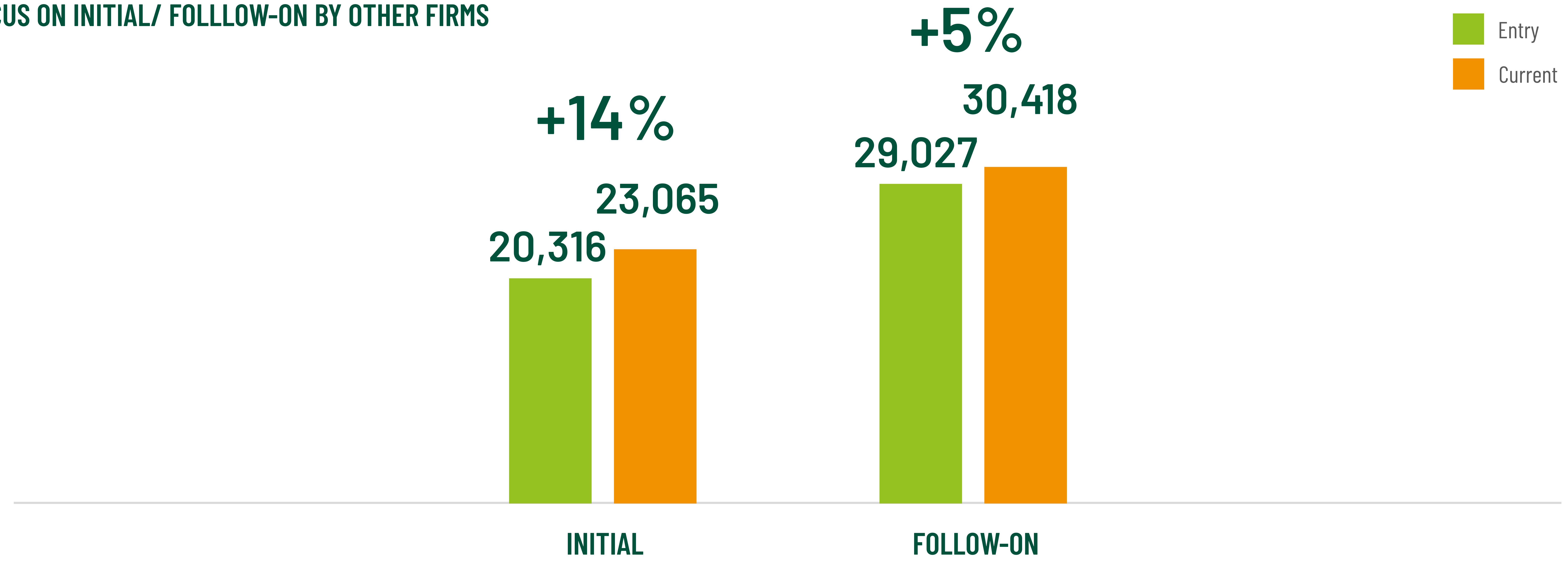
EMPLOYEE GROWTH COMPARED TO THE YEAR OF THE INVESTMENT

FOCUS ON MAIN SECTOR
(first three sectors by number of deals)



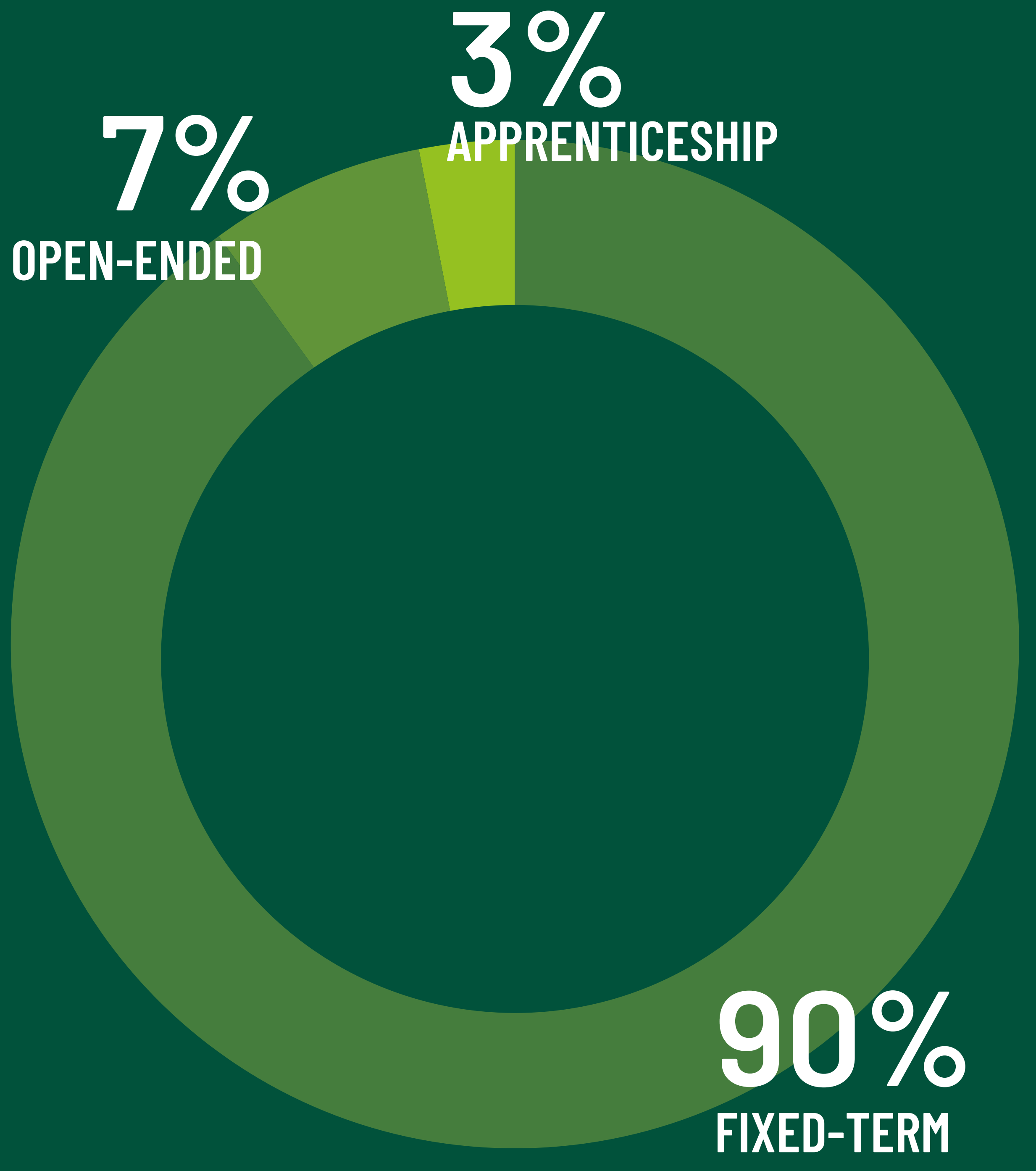
EMPLOYEE GROWTH COMPARED TO THE YEAR OF THE INVESTMENT

FOCUS ON INITIAL/ FOLLLOW-ON BY OTHER FIRMS

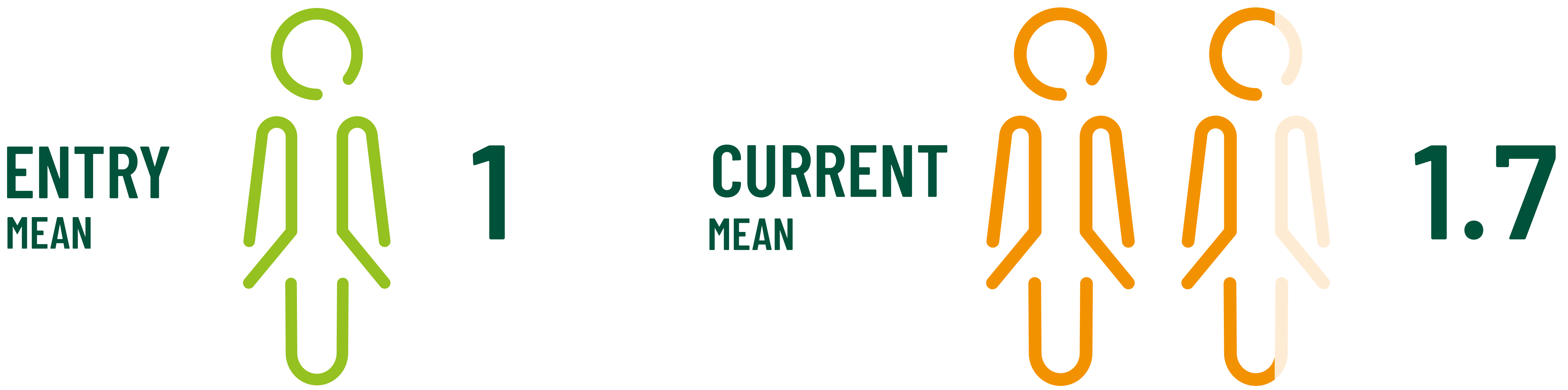


EMPLOYMENT CONTRACTS

DISTRIBUTION BY TYPE OF CONTRACTS TODAY



WOMEN EXECUTIVES

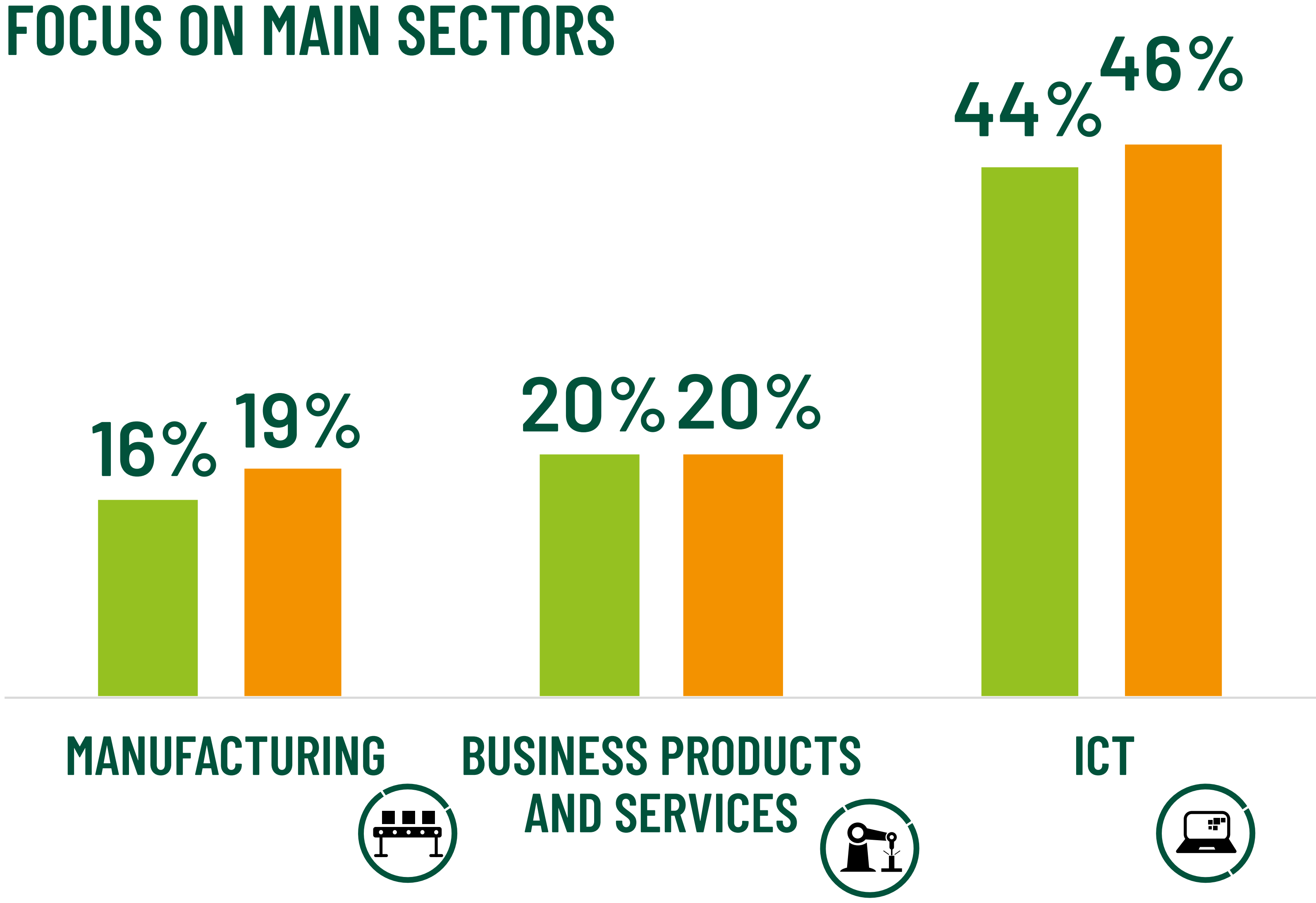


GRADUATE EMPLOYEES

TOTAL SAMPLE

Weight of graduates on total employees

FOCUS ON MAIN SECTORS



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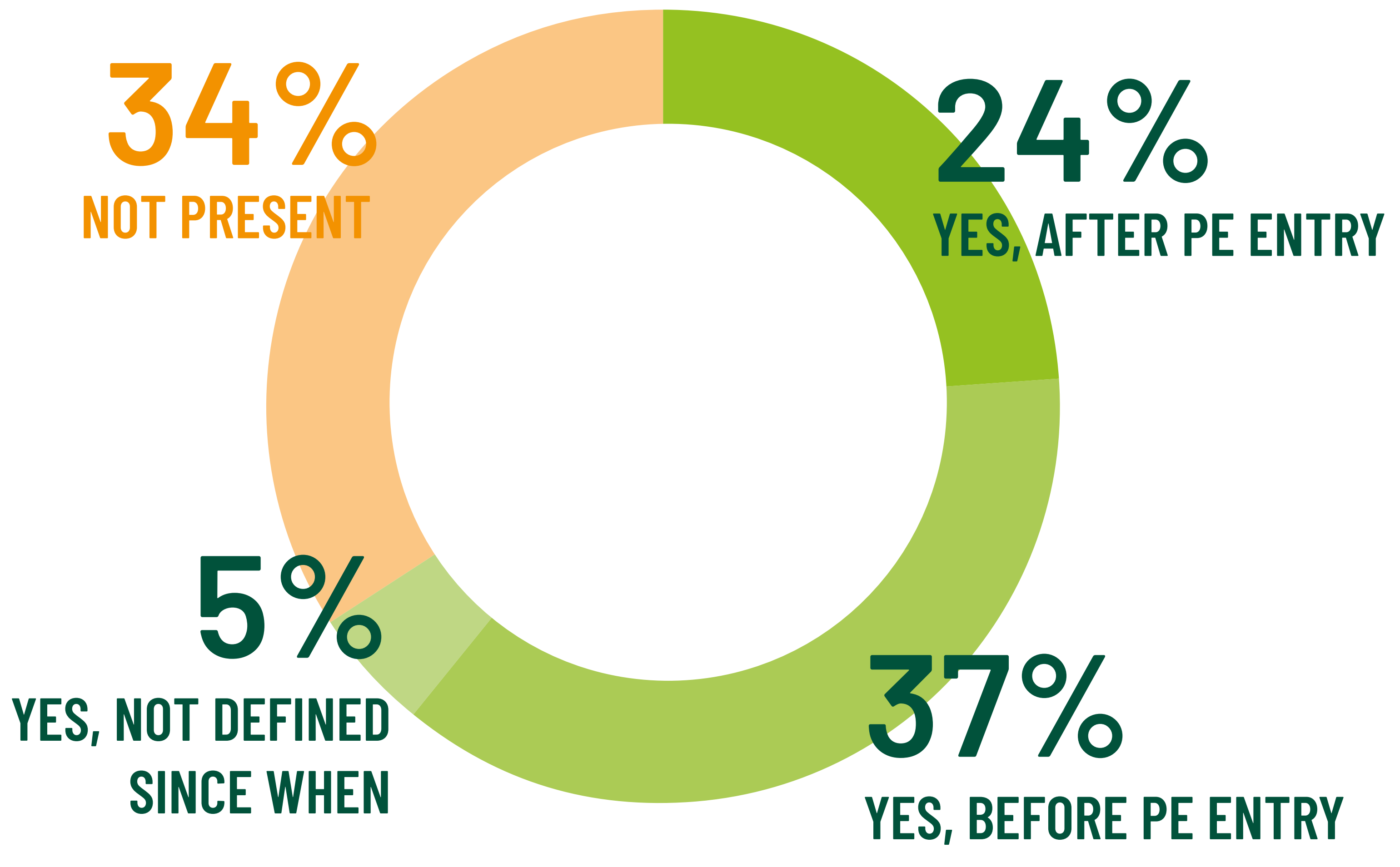
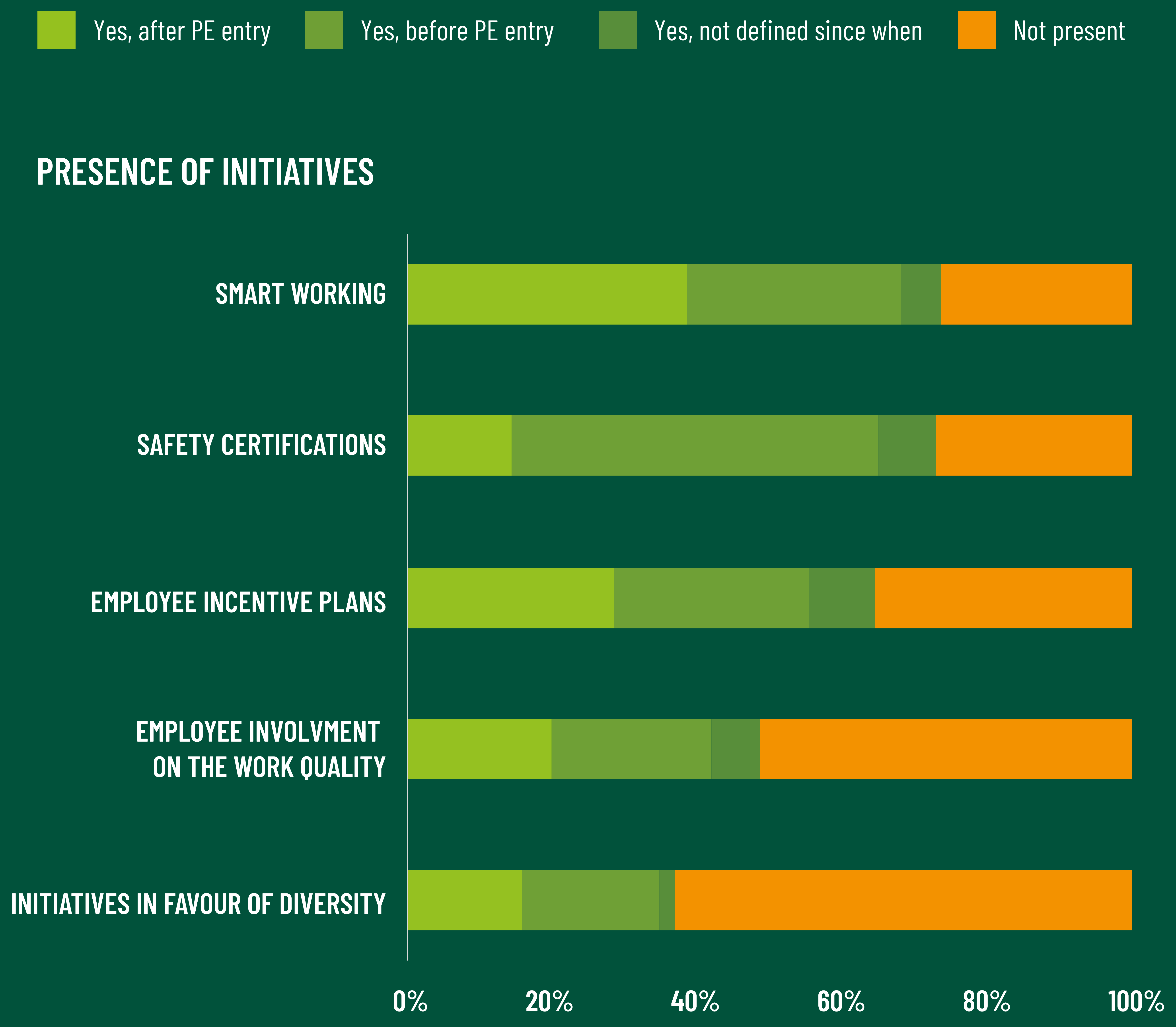
INITIATIVES IN FAVOUR OF EMPLOYEES

PRESENCE OF WELFARE PLANS



MAIN WELFARE MEASURES INTRODUCED AFTER PE ENTRY

1. FRINGE BENEFIT
2. HEALTHCARE ASSISTANCE
3. MEASURES FOR THE FAMILY



TRAINING COURSES

IN **62%**

OF THE COMPANIES HAVE BEEN ACTIVATED NON-MANDATORY TRAINING COURSES

58%

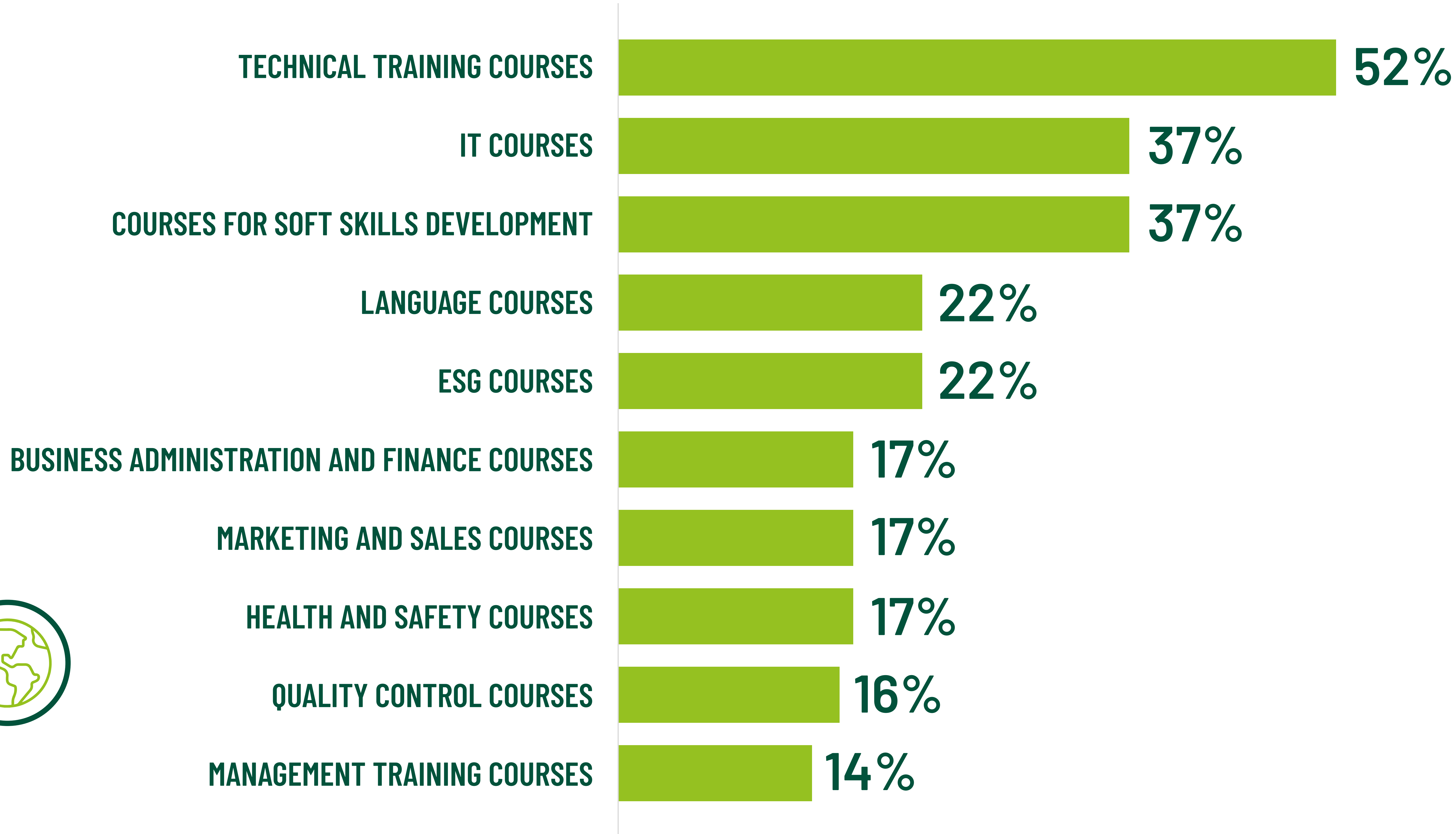
DOMESTIC FIRMS

81%

INTERNATIONAL FIRMS

MAIN TYPE OF TRAINING COURSES IMPLEMENTED

% number of companies that have implemented training courses



BOARD OF DIRECTORS (BoD)

NUMBER OF BoD MEMBERS

MEAN

ENTRY 4.5

CURRENT 5.9

The % of companies without women in the Board of Directors reduces from 62 to 57

OF WHICH WOMEN

MEAN

ENTRY 0.6

CURRENT 0.7

OF WHICH INDIPENDENT

MEAN

ENTRY 0.6

CURRENT 0.9

THE CURRENT BoD INCLUDES:

1.2 MEMBERS SELECTED BY PE FIRMS OUTSIDE THE TEAM

(of which 0.8 with prevalent experience in the target business sector)

2 MEMBERS SELECTED BY PE FIRMS INSIDE THE TEAM

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BOARD OF DIRECTORS (BoD)

DOMESTIC FIRMS

THE CURRENT BoD INCLUDES:

1.1 MEMBERS SELECTED BY PE FIRMS OUTSIDE THE TEAM
(of which 0.7 with prevalent experience in the target business sector)

1.9 MEMBERS SELECTED BY PE FIRMS INSIDE THE TEAM

INTERNATIONAL FIRMS

THE CURRENT BoD INCLUDES:

1.8 MEMBERS SELECTED BY PE FIRMS OUTSIDE THE TEAM
(of which 1.5 with prevalent experience in the target business sector)

2.7 MEMBERS SELECTED BY PE FIRMS INSIDE THE TEAM

COMMITTEES

IN 34%

OF COMPANIES HAVE BEEN INTRODUCED COMMITTEES TO SUPPORT THE BoD

32%

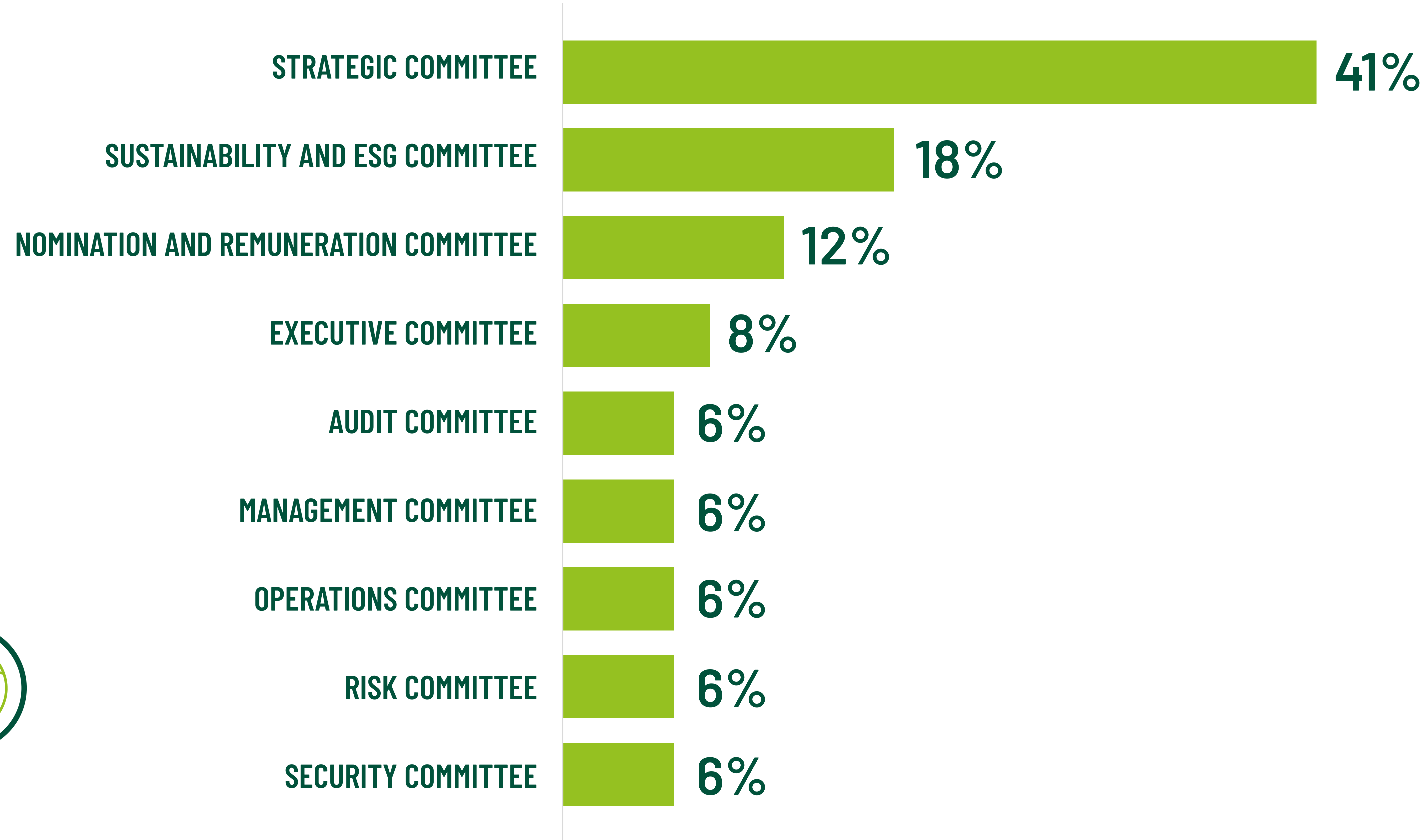
DOMESTIC FIRMS

48%

INTERNATIONAL FIRMS

MAIN TYPE OF COMMITTEES INTRODUCED

% number of companies that have introduced committees



RECRUITMENT OF NEW MANAGERS

TOTAL

% COMPANIES 72%

No. MANAGERS 3.6

DOMESTIC FIRMS

% COMPANIES 71%

No. MANAGERS 3.3

INTERNATIONAL FIRMS

% COMPANIES 83%

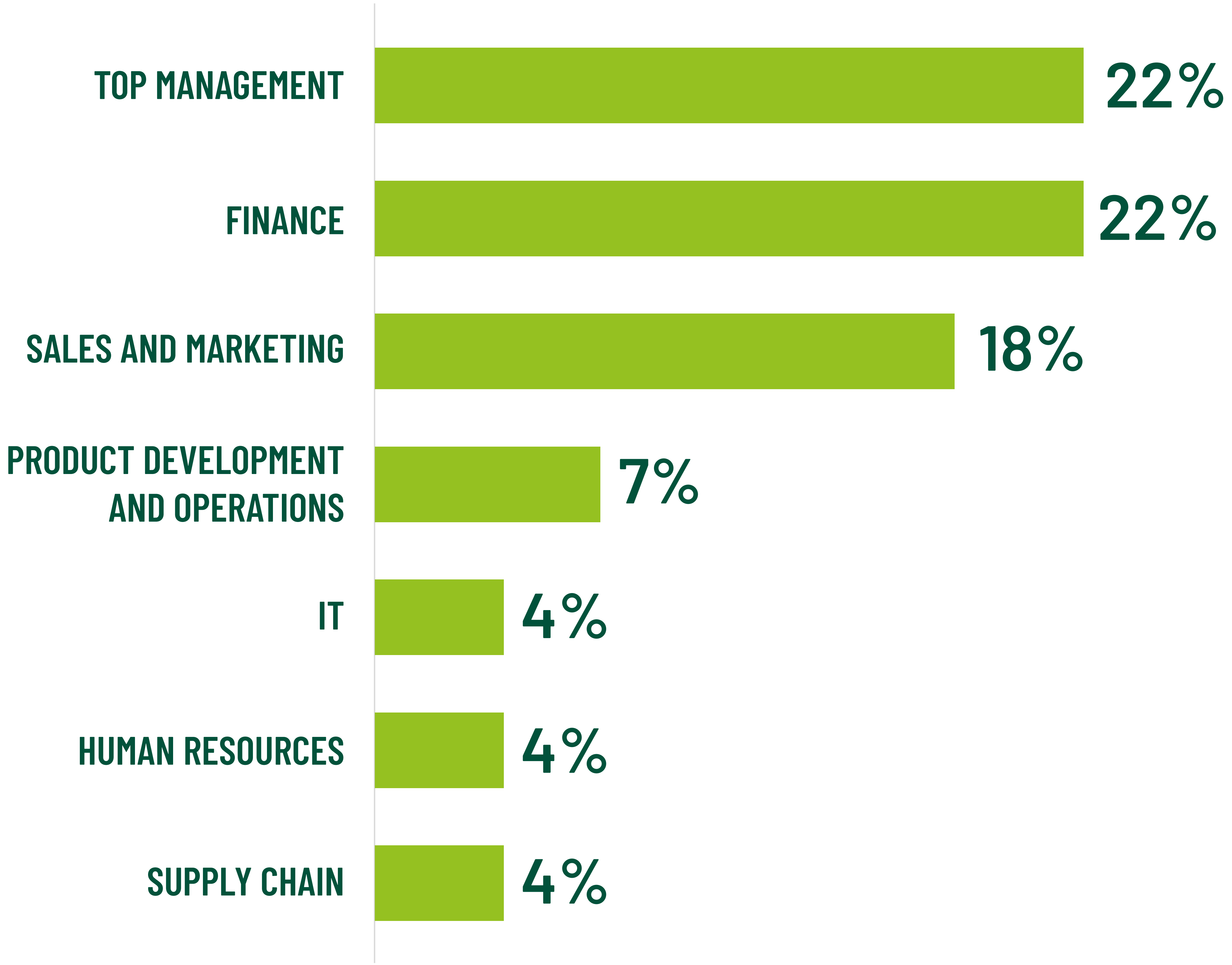
No. MANAGERS 5.1

% companies where new managers were placed — Average number of new managers

Note: number of managers refers to companies in which new managers have been introduced

MAIN AREAS FOR NEW MANAGERS

% of total number of new managers



1 out of 2 companies appointed a new CEO and/or COO

1 out of 2 companies appointed a new CFO

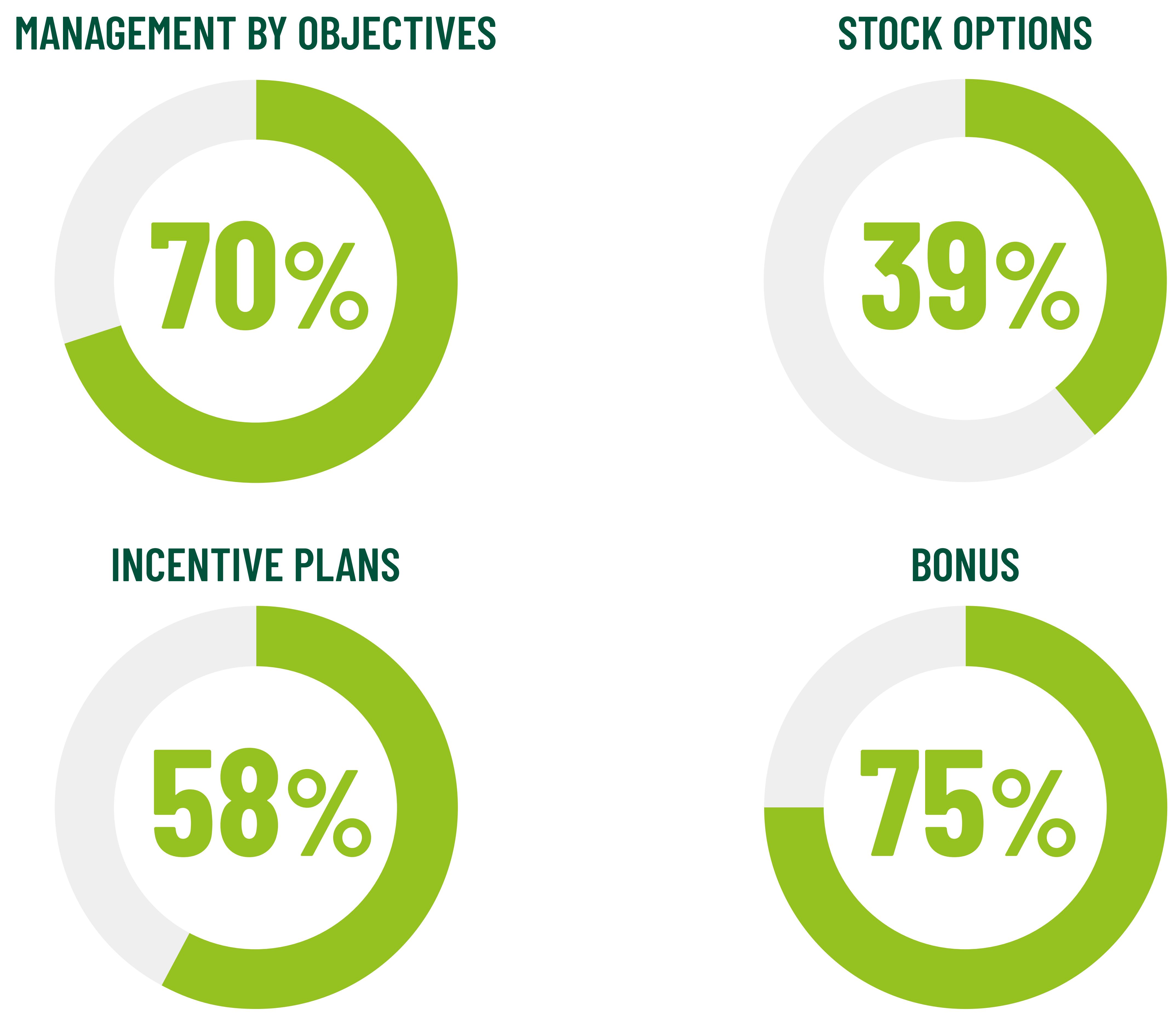
INCENTIVES FOR MANAGERS

IN **84%**

OF THE COMPANIES, INCENTIVE PLANS FOR MANAGERS HAVE BEEN IMPLEMENTED

MAIN INCENTIVE PLANS

% of companies in which they have been implemented



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PART TWO | Divested companies results

RESEARCH OBJECTIVE

To investigate the development of some variables related to human capital in divested companies by private equity, comparing them at the time of entry and exit.

METHODOLOGY

Analysis of private equity **divestments** (venture capital excluded) made **between 2013-2021**. The data source is the AIDA-BvD database. The research includes only companies for which data were available at entry and exit.

ANALYSED SAMPLE

420

COMPANIES

137 | FIRM

73 DOMESTIC FIRMS

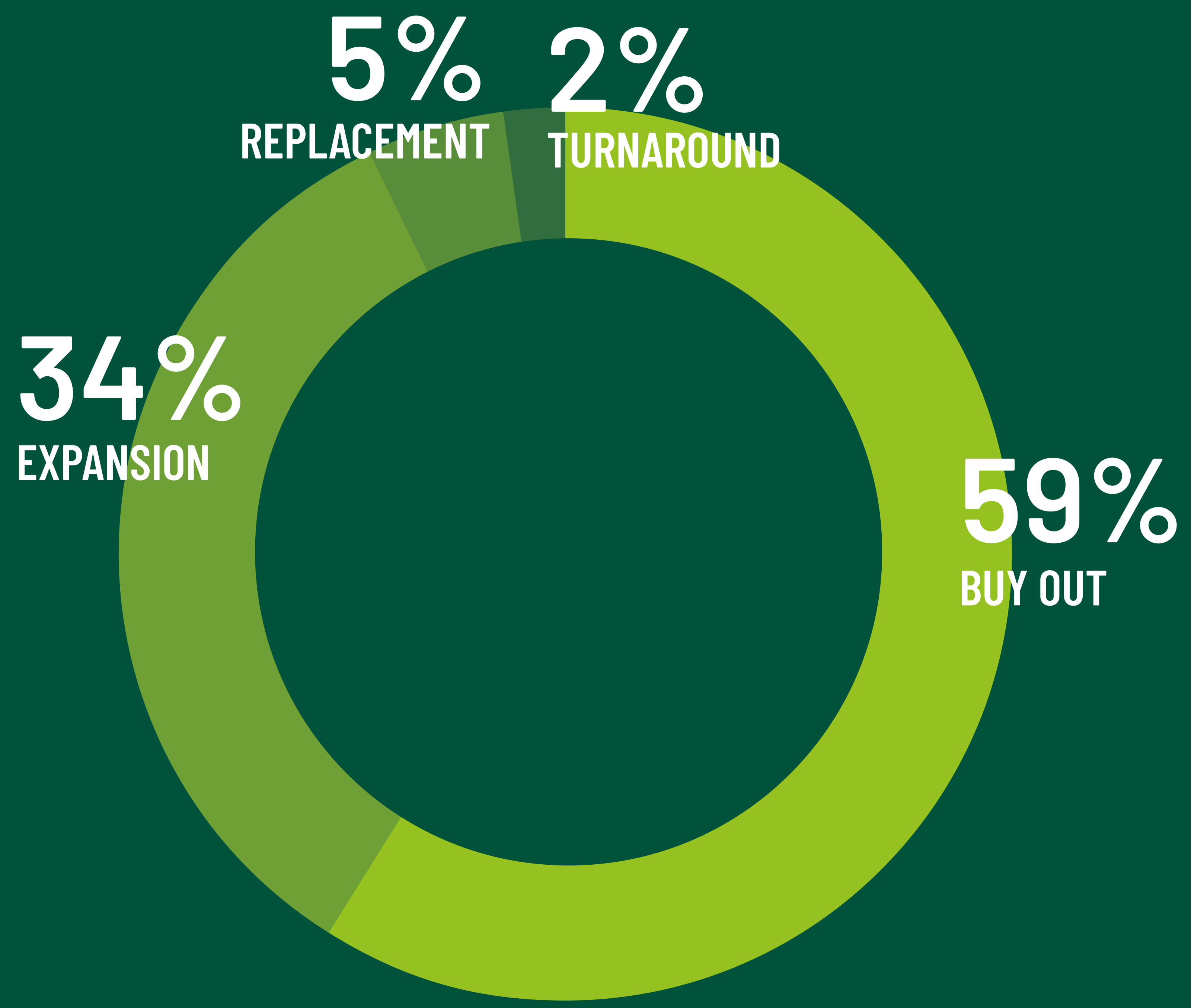
298 DIVESTMENTS

64 INTERNATIONAL FIRMS

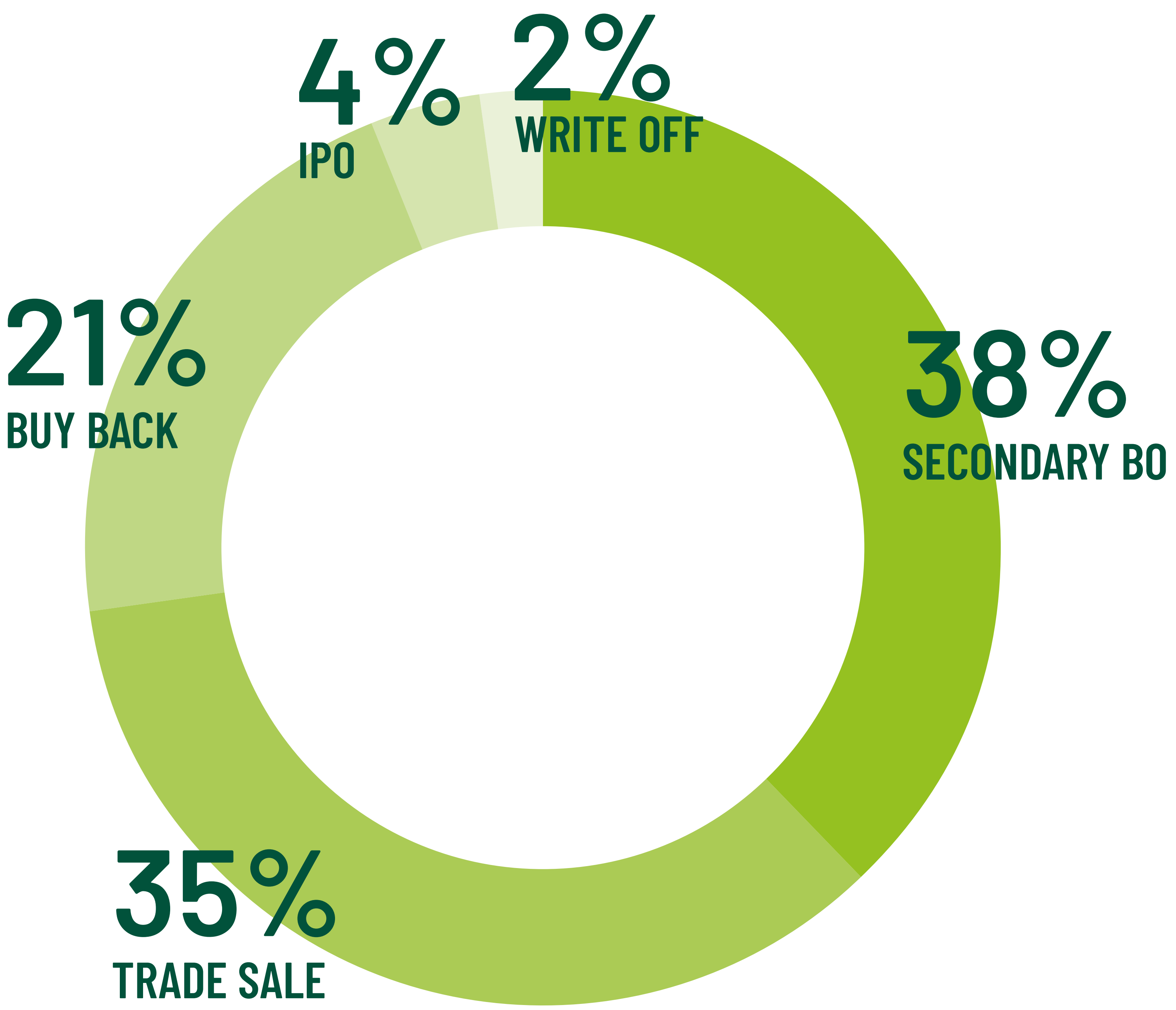
122 DIVESTMENTS

SAMPLE FEATURES

DISTRIBUTION BY INVESTMENT STAGE



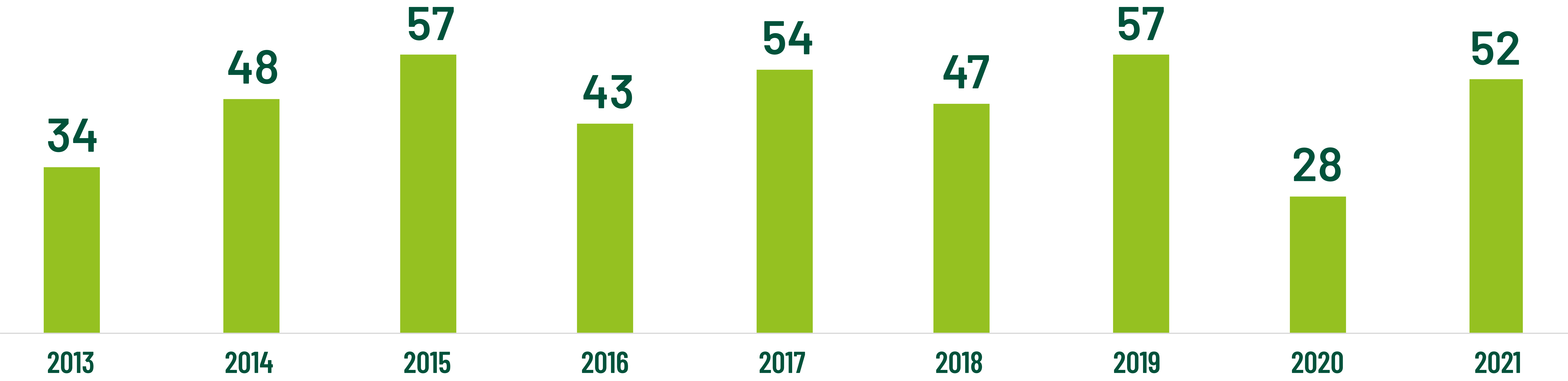
DISTRIBUTION BY EXIT TYPE



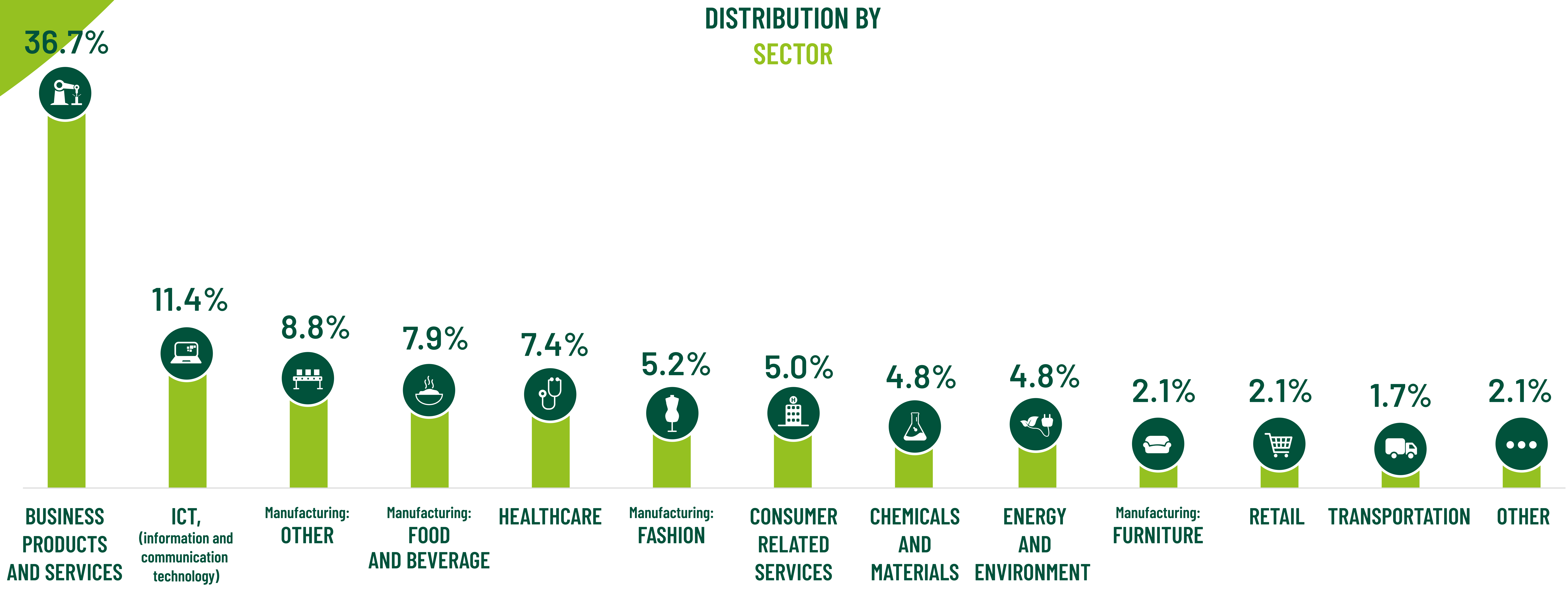
SAMPLE FEATURES

DISTRIBUTION BY DIVESTMENT YEAR

Holding period average: 5 YEARS AND 8 MONTHS



SAMPLE FEATURES



TREND OF THE NUMBER OF EMPLOYEES

+41%

TREND OF THE NUMBER OF EMPLOYEES

No.

FOCUS ON INVESTMENT STAGE

BUY OUT

MEDIAN	
ENTRY	117
EXIT	156

+33%

EXPANSION

MEDIAN	
ENTRY	103
EXIT	150

+46%

FOCUS ON MAIN SECTORS

first two sectors by number of deals

BUSINESS PRODUCTS AND SERVICES

MEDIAN	
ENTRY	131
EXIT	150

+14%

ICT

MEDIAN	
ENTRY	125
EXIT	210

+68%

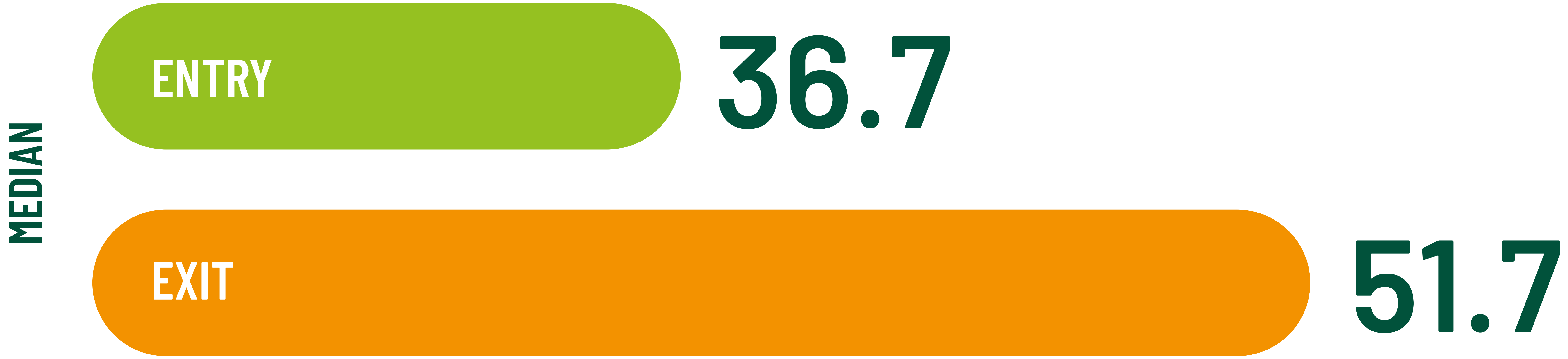
LABOUR COST PER EMPLOYEE

(thousands of Euro)

+12%

PRODUCTION VALUE

(million of Euros)



+41%

PRODUCTION VALUE PER EMPLOYEE

(thousands of Euro)

VALUE ADDED PER EMPLOYEE

(thousands of Euro)

+3%

MAIN RESULTS OF ANALYSES

THE VALORIZATION OF PORTFOLIO COMPANIES

- From the entry of private equity firms until today, within a holding period of just under **3 years**, the total number of employees grows by **8**%, **34**% if only SMEs are considered
- The number of men and women grows respectively by **7**% and **11**%. In SMEs, men grow by **31**% and women by **39**%.
- In early stage operations, employee growth is **77**%, in expansion ones, it is **22**%
- Considering an average holding period of 5 years and 8 months, it is assumed that a total of over **12,000** jobs will be created, **77** per company (**6,000** in SMEs, **51** per company)
- The number of female executives rises from **1** at entry to **1.7** today
- In **66**% of the companies there are employee welfare plans, with particular reference to fringe benefits, healthcare assistance, and measures for households
- In **62**% of the companies, non-compulsory training courses has been implemented: in most cases, these were technical, IT and soft skills training courses
- The average number of board members rises from **4.5** at entry to **5.9** today, of which **3.2** are selected by private equity. The % of companies without women on the board goes from **62** to **57**
- In **34**% of the companies, committees were introduced to support the Board of Directors, especially sustainability and ESG committees
- On average, **3.6** new managers were brought in for each company: in one out of two, a new CFO was brought in and a new CEO/COO
- In **84**% of the companies, management incentive plans were introduced

DIVESTED COMPANIES RESULTS

From entry to exit:

- The number of employees per company (median) increases by **41**% (**33**% when considering buy outs, **46**% in the case of expansion)
- Labour costs per employee increases by **12**%
- Production value per employee increases by **6**%
- Value added per employee increases by **3**%

CONCLUSIONS

Alternative finance and the real economy are two motors of the country's growth. The fuel for both is a fundamental component, the so-called human being. Without people, there is no business, no development, no innovation. Private equity does this: not only supports portfolio companies by providing financial capital but also human capital by supporting men and women involved in projects, including their well-being and impacting positively on the territory. AIFI, the association representing private capital firms, works alongside them to build and make known at all levels, from the institutional to the professional, the role and the help that can be derived from them.

I have been the President of the Association for over ten years and have seen the transformations related to the perception of private capital firms in the investment business. Of course, it is not easy to think of opening up capital to an outside investor driven by medium-term logic and ambitious goals. The fear is to be excluded, judged on the work done and sidelined for the work to come. That is legitimate and understandable, but it is also true that for over thirty years in Italy, private capital has played a role in the growth and internationalisation of Italian excellence. Just think about how relevant these firms have been in fashion, food, precision mechanics, chemistry, and digitalisation.

And that's not all: if private capital were a purely financial investor, perhaps its role would not be so fundamental. It becomes so because, in addition to providing capital, it engages in a path of growth and enhancement of people, of the many women and men engaged every day in producing, patenting, building, marketing and selling. The human factor is crucial to the growth and success of a company, and it is not obvious to understand this.

For this reason, the results of the research you are reading are relevant: they show how private capital makes employment grow, trains it, gives it incentives that improve productivity and quality of work-life balance, stimulating growth paths suited to one's abilities because it is right that each person follows its path defined together with the company and is then evaluated and rewarded on this.

Another strategic theme for corporate growth is the valorization of gender. Women and men are different, and this is what supports business development. A company that does not create value from the characteristics of each individual and therefore does not understand how fundamental these are to having harmony and a positive push towards growth is destined not to excel.

I hope that in the years to come, the good results obtained from this research will become even more significant, a sign that investors and entrepreneurs are working together in the same direction for sustainable, long-term value creation.

Innocenzo Cipolletta
AIFI Chairman

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