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Analysis over inbound cross border M&A over Italian firms with a turnover between €50mln and €500mln

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A Piero, Mirra e la casetta in Canada

Abstract

English

In Italy, over the last years, cross-border mergers and acquisitions have been considered more as a viable solution to reach the companies' long-term goals and not just as a threat to their businesses. Furthermore, other favourable conditions gave momentum to this form of internationalization, among which the technological progress, the globalization, the abundant liquidity among others. Considering the increasing spread around the world, many scholars provided different interesting studies on the nature, direction and determinants of this phenomenon. However, inbound cross-border M&As on Italy have not been largely investigated by researchers, which have mainly focused on US or Asian based transactions.

In the present paper, I analyse the entrance of a foreign investor on the target Italian companies looking for eventual pattern or behaviour of the foreign investors. It is based on a sample of 254 cross border acquisitions performed between the first of January 2013 and the 31 of December 2016 on Italian companies with annual turnover 50 - 500 million euros.

The evidence proved the increase of inbound cross-border M&A also for SME, which is an odd phenomenon for a country like Italy. Given that Italian business, in general, are adverse to involvement of external investors, the greater openness to other investors could be a key to convince other investors in entering into business with other firms. Observing where the deal took place, it is a further remark on how much our countries proceeding at different pace. Meanwhile northern regions proceed at full pace, southern regions seems to not be a favourable place where companies can grow and attract foreign investors. Lastly, firms with a turnover between €50mln and €500mln appears to have different multiples than the average multiples registered by all the Italian firms in the market.

Italiano

Anche in Italia negli ultimi anni le fusioni e le acquisizioni cross-border sono diventate sempre più frequenti ed hanno cominciato a rappresentare un'alternativa alle aziende desiderose di crescere ed espandersi. Queste forme di internazionalizzazione sono state incentivate anche da circostanze particolarmente favorevoli, tra cui lo sviluppo tecnologico, la globalizzazione e l'abbondante liquidità fornita dalle banche centrali. Date le caratteristiche di questo fenomeno, le fusioni e acquisizioni cross-border sono state largamente studiate dagli esperti, concentrati solamente su transazioni aventi come soggetti aziende statunitensi o asiatiche. Visto che alcuni, tra cui l'Italia, non sono ancora state propriamente investigatela tesi si propone di analizzare gli ingressi di un soci straniero in aziende italiane. Lo studio è stato svolto prendendo un campione di 254 acquisizioni cross-border effettuate tra il 1 ° gennaio 2013 e il 31 dicembre 2016 su società italiane con fatturato compreso tra i 50-500

milioni di euro. Lo studio ha evidenziato come l'italia proceda ancora a due velocità, e la crescent aperture delle aziende a soggetti esteri.

Introduction

Definition and History

Mergers and acquisitions (M&As), defined as the purchase of entire companies or their specific assets by another company (Morresi, Ottorino, 2014), are a vital part of any healthy economy and importantly, the primary way that companies can provide returns to owners and investors. This fact, combined with the potential for large returns, make acquisition a highly attractive way for entrepreneurs and owners to capitalize on the value created in a company.

By analysing the number and the value of the M&A transactions occurred throughout the years, it has been possible to describe their patterns and to introduce the term *Merger wave* (Gaughan, 2012) to describe M&A deals clustered during specific time periods and within specific industries. Each wave has been originated by technological, economic or regulatory shocks which led to a change in the market structure thus creating room for improving the value of existing asset.

The first merger wave (1895 - 1904), defined as *merger for monopoly*, due to horizontal mergers which promoted concentration within many industries. The wave affected mining and manufacturing industries and was characterized by the creation of a few large monopolies and some of today's industrial giants such as US Steel, DuPont, Standard Oil, General Electric, Eastman Kodak, and RJ Reynolds Tobacco Company. This wave, which mostly took place in the US, was fuelled by the introduction federal antitrust laws such as Sherman Act in 1890 and major changes in economic infrastructure and production technologies. These changes transformed regional firms into national firms and enabled them to achieve economies of scale.

The second merger wave (1922 - 1929) driven by an upturn in business due to the post–World War I economic boom which provided better and cheaper access to the capital required to fund investments. However, the second one was called *merging for oligopoly* as the huge number of horizontal mergers that characterized the first wave was replaced by a larger incidence of vertical mergers. This wave is characterized by the strengthening of oligopoly (Stigler, 1950) and by the creation of the first holding companies such as General Motors and IBM. Moreover, this wave was the first large-scale attempt to form conglomerates. The second merger wave ended with the stock market crash of 1929 and the following drop in business and investment confidence, which was one of the factors that played a main role in the development of the Great Depression.

The economic boom occurred in the '60 and the Celler-Kefauver Act of 1950 triggered the third merging wave (1965 - 1969) characterized by transactions to form conglomerate (Scherer, 1986). Companies established in this period held a portfolio of firms operating in highly diversified industries without the prevalence of one business. While the previous waves were characterized by larger firms that acquired their smaller counterparts, in this wave most acquisitions were initiated by small and medium-sized firms that decided to diversify outside their traditional areas of interest. Conglomerate merger was supposed to be a strategy to protect firms from sales and profit instability, adverse growth developments and competitive shifts, technological obsolescence, and increased uncertainties associated with their industries. The hostile public policy environment along with the stock market collapse in 1969 declared the end of the wave.

The fourth merger wave (1981 - 1989) was characterized by firms that were trying to focus on their core capabilities and by hostile takeovers. Many of the conglomerates assembled in the 1960s and 1970s experienced poor performance and in the following years, leading to a dissemblance (Gaughan, 2007). The acquisitions were mainly performed by financial and corporate buyers that acquired segments of diversified firms and companies whose parts as separate entities were worth more than the whole. After the acquisition, the parts would be sold and the incomes of these sales would be used to slash the debt incurred to finance the deal. The concept of buying a public company and making it private, with substantial use of debt, while providing managers with large equity interest for strong incentives, improving operations, reducing debt, and when listing the firm again within a three- to five-year holding period to repay the investment, was called leveraged buyout (LBO), a technique very popular during the fourth wave.

Deregulation in industries such as financial services, telecommunications, energy, airlines, and trucking, technological changes occurred (i.e. Internet), globalization and markets integration spurred the fifth merger wave (1992 - 2000). This wave differs from the previous one on several important aspects like equity financing as predominant form to get fund and stock was extensively used as a method of payment. Furthermore, most deals were friendly. But the most important aspect is that firm started to become more global firms by acquiring foreign companies in order to reach new market in both wealthy and fast-growing countries, acquire superior technology or cut costs by outsourcing. The number and value of deals outside the United States and cross-border deals dramatically increased thanks to international competition prompted by globalization and technological innovations and by the development of European Union which led to a consolidation in the European market.

The last wave (2003 - 2007), emerged three years later the dot.com bubble burst, propagated by the availability of abundant liquidity, low interest rate and low risk perception of the market. The sixth wave came to an end as a result of a series of unfavourable events such as the increase of interest that made credit conditions tighter and debt loads generated in previous years more difficult to manage and the collapse of the subprime mortgage market.

Since the fifth wave, *cross-border* M&A have grown up significantly reaching the *domestic* M&A. Between 1998 and 2000 the total amount of M&A successfully finalised at global level was four trillion dollars, of which 40% were cross-border deals due to market globalisation (Hitt, 2001). During the last wave, cross-border deals further increased in response to a greater integration among markets, the presence of counterparties from emerging market, absent up to that time, such as PECO (*Pays d'Europe Centrale et Orientale*) and China and the increasing role of institutional investors (Caiazza, 2011).

Cross-border vs Domestic

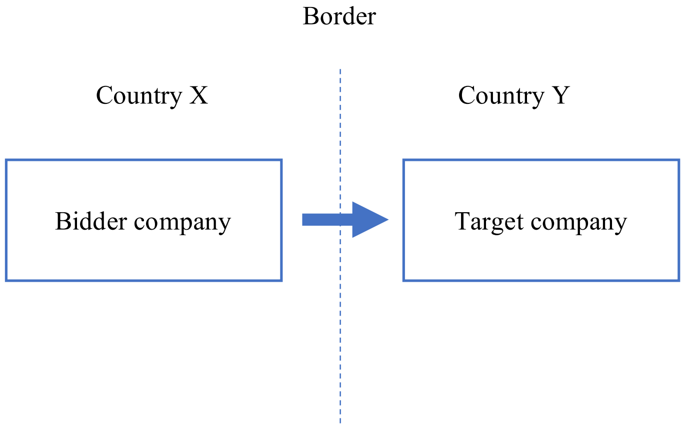
The main difference of *cross-border*, compared to *domestic* M&A, is that assets involved in the transaction come from different countries which are then combined into a new legal entity. Cross-border deal represents a Foreign Direct Investment, defined by the UNCTAD as an investment made to acquire long lasting interest in enterprises operating outside of the economy of the investor to gain an effective control over the company. The acquisition of a foreign pre-existing company allows to seize knowledge, resources, technologies and human capital, and to exploit local connections and market. A cross-border M&A can be considered as FDI *brownfield* (i.e. when a company purchases or existing production facilities to launch a new production activity) when the acquirer purchases more than 10% of the stakes of the target asset (Caiazza, 2011).

The target asset can be defined according to the shares purchased:

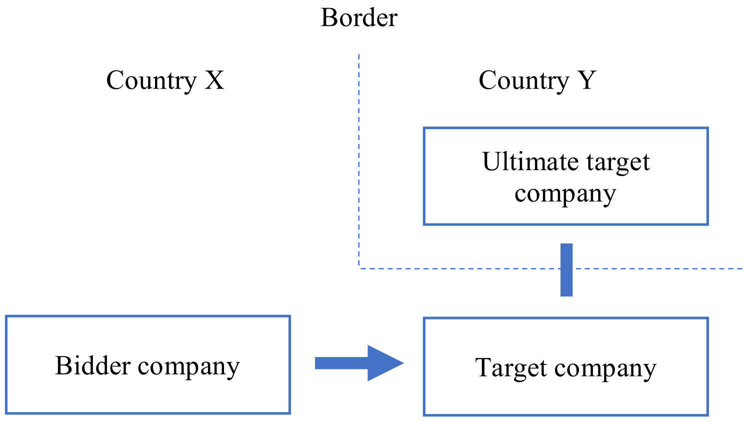
- *Subsidiary company*: when the foreign investor holds, directly or indirectly, the majority (absolute or relative) of the share capital of target firm and its financial statements being consolidated into the parent's books;
- *Associate company*: when the foreign investor possesses a stake between 10% and 50% of the target asset but without consolidation of its financial statement;
- *Branch:* it is the establishment of the owner in a foreign location other than its headquarters.

Cross-border M&A may occur under different characteristics and have different arrangements, so it is very difficult to list all the possible alternatives. Below is a list of the possible forms in which a cross-border deal might take place, described on the 2008 World Investment Report:

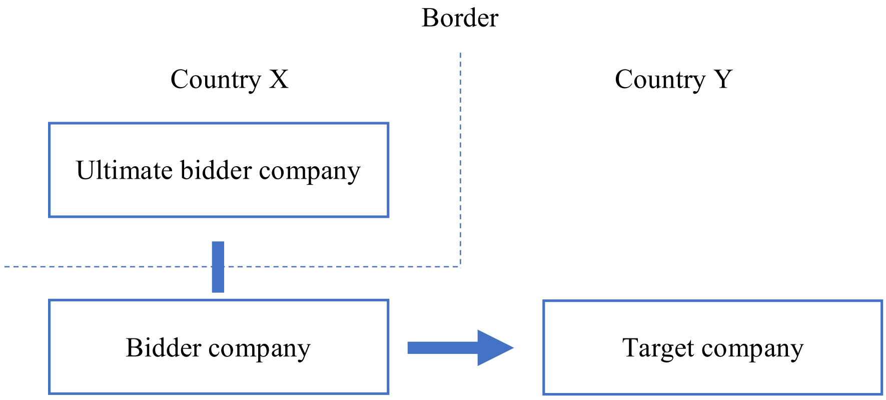
1. A domestic company in country X acquires (or merges with) a domestic company in country Y;



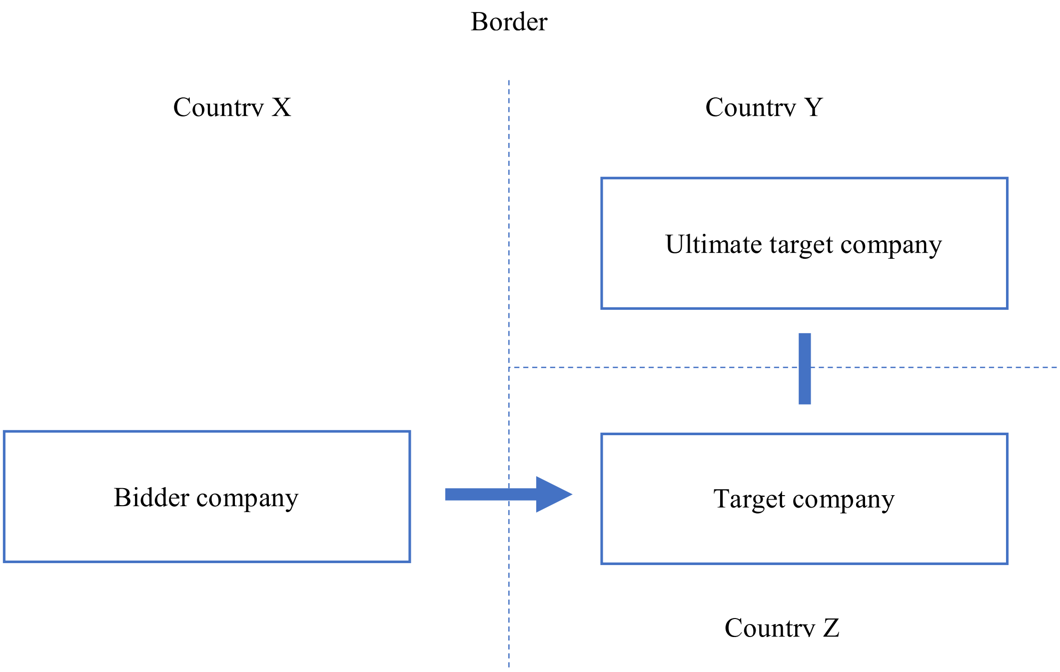
2. A domestic company in country X acquires (or merges with) a foreign company in country X;



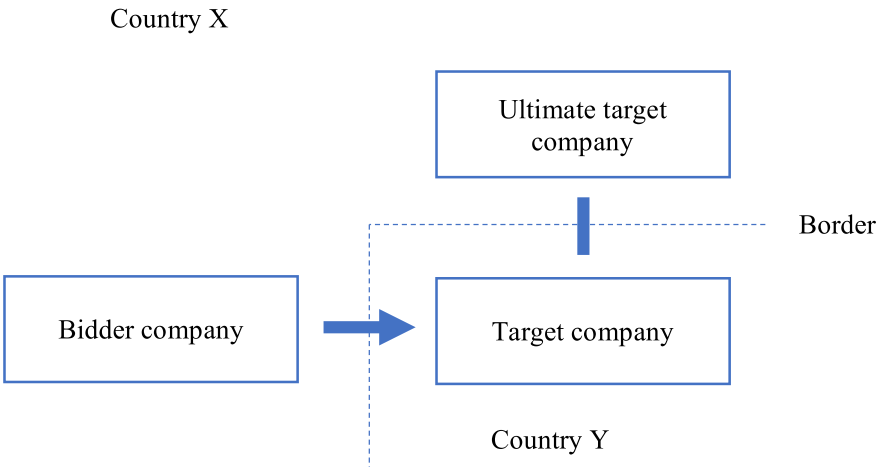
3. A foreign company in country X, whose parent company is in country Y, acquires (or merges with) a domestic company in country X;



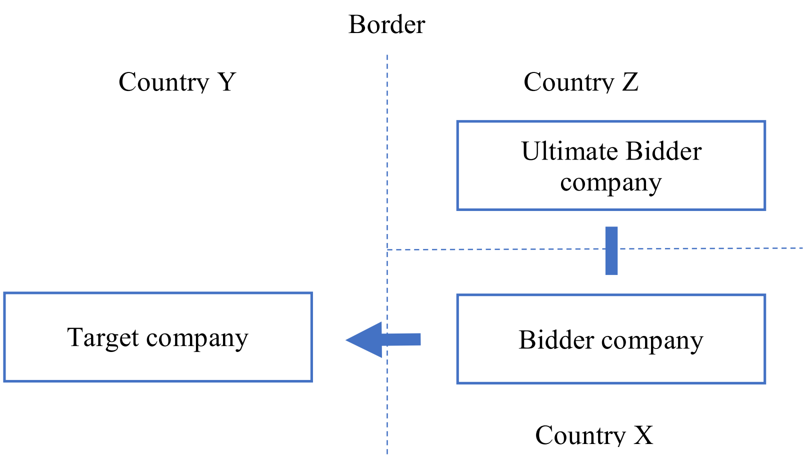
4. A domestic company in country X acquires (or merges with) a foreign company in country Y, whose parent company is based in country Z;



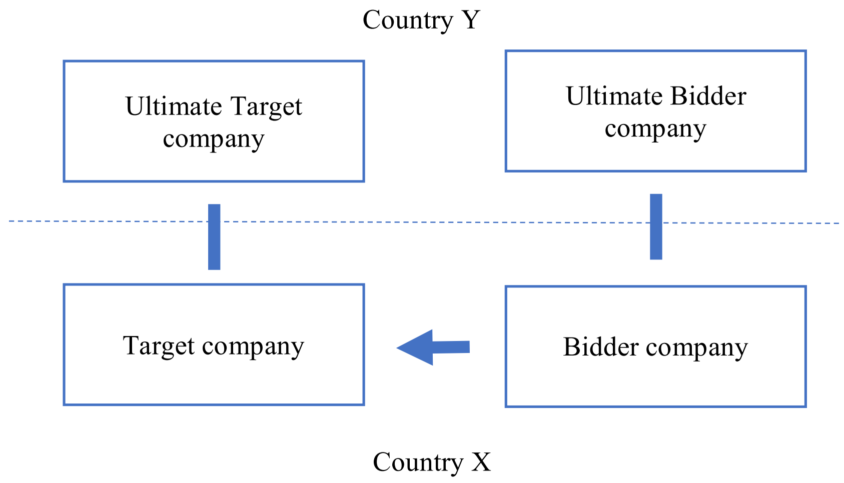
5. A domestic company in country X acquires (or merges with) a foreign company in country Y, whose parent company is based in country X;



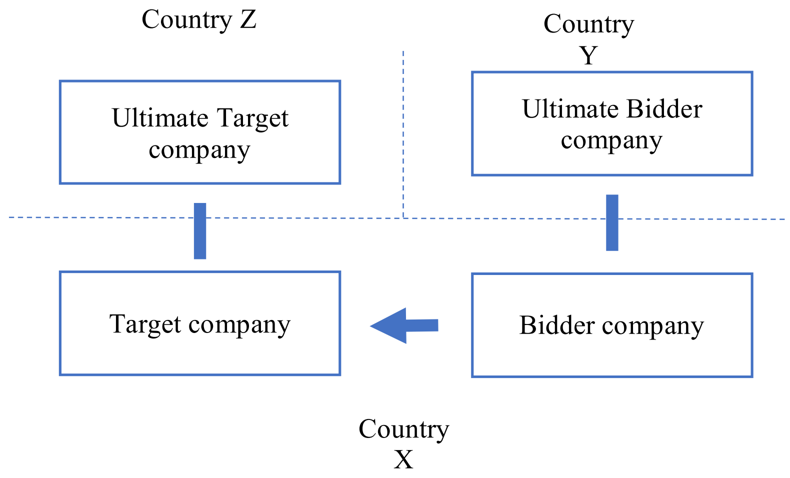
6. A foreign company in country X, whose parent company is based on country Z, acquires (or merges with) a domestic company in country Y;



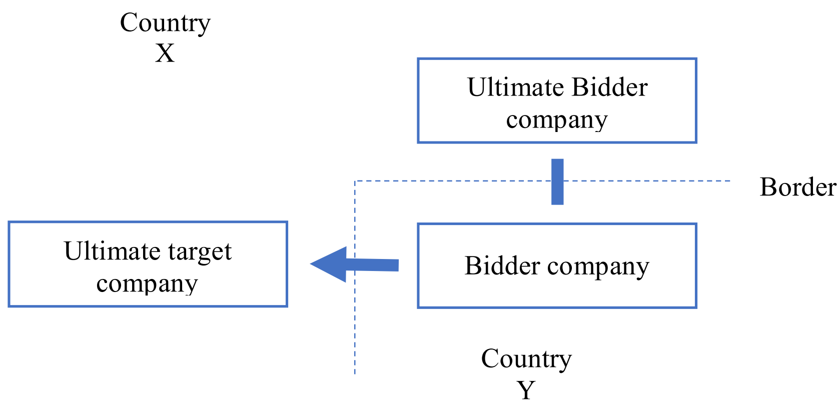
7. A foreign company in country X acquires (or merges with) a foreign company in country X, whose parent company are both based in country Y;



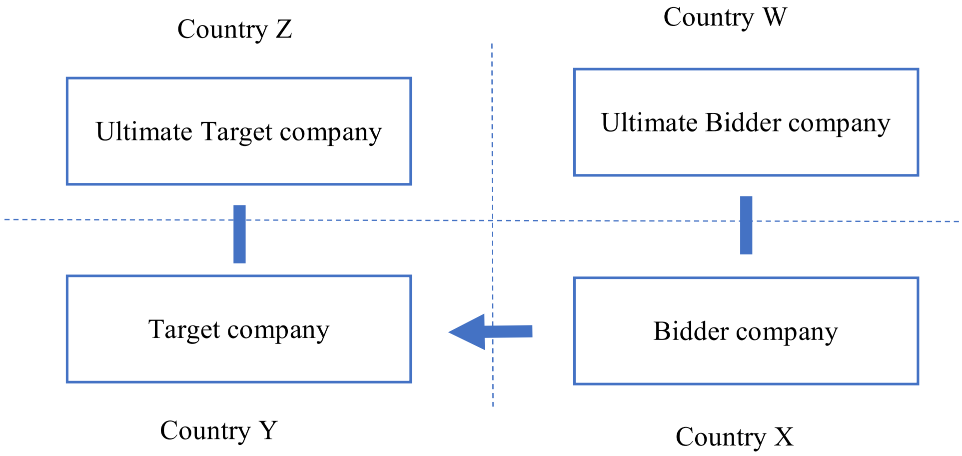
8. A foreign company in country X, whose parent company is based on country Y, acquires (or merges with) a foreign company in country X, whose parent company is based on country Z;



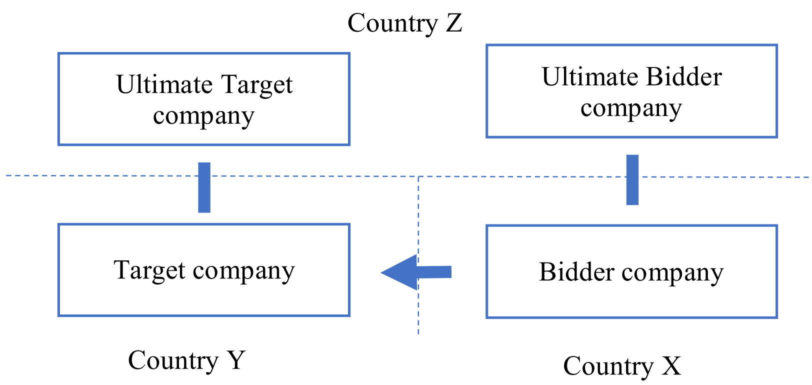
9. A foreign company in country X acquires (or merges with) a domestic company in country Y;



10. A foreign company in country X acquires (or merges with) a foreign company in country Y;



11. A foreign company in country X acquires (or merges with) a domestic company in country Y.



Determinants of cross-country M&A

The process of internationalization is typically influenced by factors concerning a firm's external and internal environment. Theoretical approaches to explain this phenomenon have recently appeared given that the decision of firms to internationalize and to step outside their reference market is a newly observed event. The first scholar that attempted to explain the internationalization process of the firm was Hymer which developed a fully coherent theory of FDIs and on Multinational Corporations in 1976. Hymer's conclusion is that foreign direct investment can only succeed as long as there are market imperfections which companies could exploit and reduce their competition by implementing foreign direct investment. In this way, companies can reduce the conflicts in the market and benefit from their specific advantages. Multinational companies established foreign direct investment motivated by the goal of keeping control over the production. This control allows either to further acquire market power and thus dominate local competition, or appropriate rents derived from advantages like skilled labour, cheap raw materials, access to capital markets or technology. Despite foreign firms have higher costs and risks than local competitor due to entry barriers created by government policies, regulation or other structural aspects and due to the difficulties of working in a foreign environment, companies decide to internationalize motivated by the opportunities to exploit those imperfections and gain ownership control. In 1966 Richard Vernon provided another contribution by showing how foreign direct investment done by US firms was a response to either a lag between innovation and standardisation or to an increasing consumer preference for new standardised product (Buckley, 1999). Vernon's analysis nonetheless held true, in particular his identification of three imperatives for success in international business: innovation, responsiveness to varying local markets, and cost. However, Vernon's theory received criticism as it establishes a hierarchy of countries, from the most to the least innovative ones, but innovations origin in many countries. Kindleberger (1970) traced back the advantaged of multinational companies to imperfect competition on the markets and to technological gaps among different countries.

In 1976, Buckley and Casson focused on *firm and location specific* factor to explain firms' choice to undergo a cross-border transactions and integrated them with market imperfections theories. According to the researchers, the main firm specific factors are organizational structure, human capital, technological skills and the capability to achieve economies of scale, while location specific factors include political, economic and fiscal situation, psychic and geographical distance of countries involved. A firm decides to realize a foreign investment when the total cost of firm and location specific aspects is lower than the additional costs caused by market imperfections.

Taking stock of previous models, John Dunning developed a comprehensive framework that explains why firms undertake FDIs and why firms invest in specific countries, known as *OLI paradigm*. This frameworks states that firm undertakes in specific countries due to three main set of advantages:

- **Ownership advantages**, specific to a particular firm and enable it to exploit investment opportunities wherever they arise (e.g. skills, knowledge or technology). The greater the competitive advantages brought by the investing firm, the higher the chance;
- **Location advantages**, refer to aspects that make a country appealing for investors such as infrastructures, cost of input, regulations etc.;
- **Internationalization advantages**, benefits that a firm derives from producing internally rather than resorting to market transactions. The greater the benefits of internalizing cross-border product, the more a firm will prefer to engage in foreign production itself.

It should be mentioned that location advantages play a key role in firms' internationalization process. if they are unavailable, a company might decide to establish other forms of relationship than acquisitions such as export or other intermediate forms (i.e. alliance or licencing). This framework has been frequently updated and expanded by the author during the years to include specific advantages previously not considered.

According to *Resource based* theory, firms need to detect assets which are valuable, rare, imperfectly imitable and non-substitutable to create a competitive advantage over competitors. To keep it sustainable and long lasting, companies have to further develop and combine those assets or to look for new ones. M&A activities allow firms to gain ownership over unique resources along the supply chain in order to gain advantages through the exploitation of synergies or to reduce their costs. An acquisition of a company, owner of a rare resource such as a particular knowledge or a licence, is a more efficient and faster process than develop it internally. Considering markets' global nature which boosted the already high competition level, firms have to restore to foreign companies in order to establish an enduring competitive advantage. Furthermore, the pace of technological and social change forces the management to access to those resources in the fastest way possible. Cross-border transactions provide the opportunity to internalize resources from all over the world otherwise difficult to obtain or to develop internally (Hitt, 2001). Companies from emerging market engages into negotiation with companies from developed economies aiming at obtaining resources which would boost their competitive position on a global level.

The higher variability and volatility on the markets put a severe pressure on companies which are required to undertake constant changes in order to maintain the competitive advantage. Considering this, cross-borders mergers and acquisitions not only could represent a method to cut transnational costs between firms, but also they might be a valid alternative to tackle the external changes and to gain a competitive advantage. Indeed, the combination of firms from different countries and sectors could give birth to new products and services which might redefine the shape of the markets. Firms' internationalization often represents an answer to those external forces through the exploitation of their advantages on new markets or through the research of a valuable resources on foreign countries. Cross-borders combinations allow to both cope with current markets' challenges and to acquire rapidly skills and knowledge which are necessary to create a significant edge and to operate on foreign markets.

Current state of cross-borders M&A

Nowadays the current market scenarios differ to a considerable extent to past ones, as emerging countries had grown enormously reaching US, Europe and Japan. For instance, China, India, Poland, Mexico and other developing nations contribute to 49% of the current worldwide GDP (Caiazza, 2011) while 20 years ago their outputs were almost null.

Such changes established a new equilibrium in which there are more than one centre of power, each having its own political and economic influence. In this *Multipolar world*, considering the amount of trades and investments, the sphere of influence is slowly drifting toward the Asians and other emerging economies, rich in natural and financial resources.

The causes of this new arrangement are the progress of new economic areas, the policies of openness adopted by more and more countries (e.g. institution of NAFTA and ASEAN), the rising role of information and communication technologies and the global presence of multinational companies which helped the integration of the markets. The direction and the intensity of foreign investment has also been influenced by the more proactive role of private equities and institutional investors and by the need of firms to improve their competences in order to keep up with the competitions.
In 2015, global foreign direct investment flows increased by 38% than previous year and reached $1,762 billion which is the highest level since the global economic and financial crisis of 2008.
In 2016 there has been a loss in economic growth, reflecting the fragility of the global economy, the persistent weakness of aggregate demand, slow-moving growth in some commodity exporting countries, a drop in MNC profits in 2015 to the lowest level since the global economic and financial crisis of 2008–2009. Furthermore, diffused geopolitical risks and regional tensions further amplified the downturn. However, the projections for future years are cautiously optimistic due to higher economic growth expectations across major regions, a resumption of growth in trade and a recovery in corporate profits. FDI flows are projected to resume growth in 2017 and to surpass $1.8 trillion in 2018.
The key driver of the rebound of 2015 is the surge in cross-border mergers and acquisitions (M&As) to $721 billion, from $432 billion in 2014. Over the medium term, FDI flows are projected to resume growth in 2017 and to surpass $1.8 trillion in 2018.
Flows to developed economies nearly doubled (up 84 per cent) to $962 billion, up from $522 billion in 2014, with a consistent growth in inflows reported in Europe. The share of developed economies in world FDI inflows therefore leapt from 41 per cent in 2014 to 55 per cent in 2015, reversing a five-year trend during which developing and transition regions had become the main recipients of global FDI. Much of this shift to developed economies was due to cross-border M&A activity, which recorded a 67 per cent increase in value to $721 billion – the highest level since 2007. Activity was particularly pronounced in the United States where net sales rose from $17 billion in 2014 to $299 billion. Deal making in Europe also rose significantly (up 36 per cent).
In 2016, the number of transaction finalized worldwide reached the remarkable amount of 35.012, which is 11% more than previous year, totalling to $3.265bln (+3% than 2015). Those values represent the best results achieved since the 2008 crisis. The main contribution comes from the increasing number of megadeals (i.e. worth more than $10bln) finalized during 2016, as the 38 transactions were worth around $1000bln, almost 30% of the whole market.
The performance achieved on M&A markets are manly linked to the growth of cross-border M&As activity which improved by 6% on volume and by 19% on values traded. Europe remains one of the

main contributor as it recorded almost $900bln transacted (+15% than 2015) and 6.200 operations (+8%), thanks to the development of valued registered in UK (+92%) whose market reached almost $400 bln.

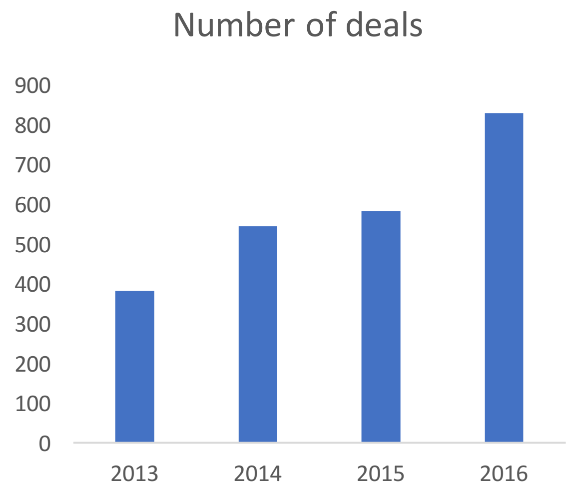
Following years of decline, FDI outflows from developed economies increased by 33% to $1.1 trillion where developed countries accounted for 72 per cent of global FDI outflows in 2015, up from 61 per cent in 2014. Notwithstanding the increase, the level of outward FDI from developed economies remained 40 per cent short of its 2007 peak. Europe became the world's largest investing region in 2015, with FDI outflows of $576 billion. The United States remains the largest investor in the world, followed by Japan. By contrast, FDI outflows declined in most developing and transition regions mostly due to declining commodity prices and depreciating national currencies, and other geopolitical risks. However, China was a notable exception as its outward FDI remained high, rising from $123 billion to $128 billion, thus holding the role of the third largest investor in the world.

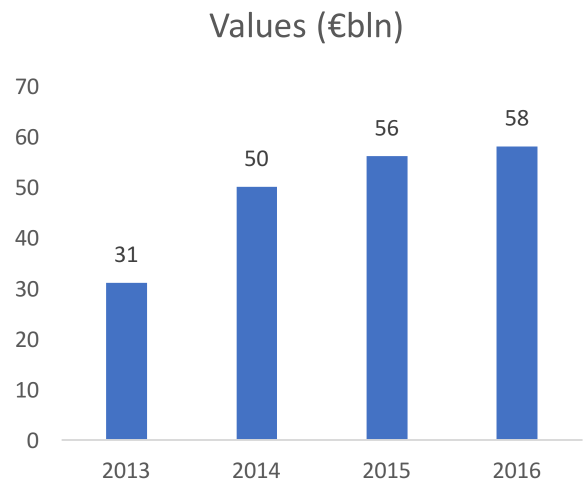
Italian M&A market

Growth process through mergers and acquisitions took place later on the Italian market than in other advanced economies, as Italian enterprises are more prone to internal growth for the lower perceived riskiness.

Following the boom happened on late '90, M&As experienced a fluctuated course due to the loss of competitiveness of the Italian economic system and to the loss of confidence of investors and companies. Furthermore, the Italian market was severely affected by important geopolitical events such as 9/11, new-economy bubble and the appearance of new developing economies on the market. In 2000, Italy was one of the main area of interest and attracted numerous investors thus achieving almost €120 bln. In the following years, Italian M&A market dramatically shrunk both in value and in number and reached $29b in 2004.

Despite the various destabilizing factors occurred worldwide, such as Brexit referendum and the surprising result of US elections, the Italian M&A strengthened its position in 2016 and increased the number of deals concluded.

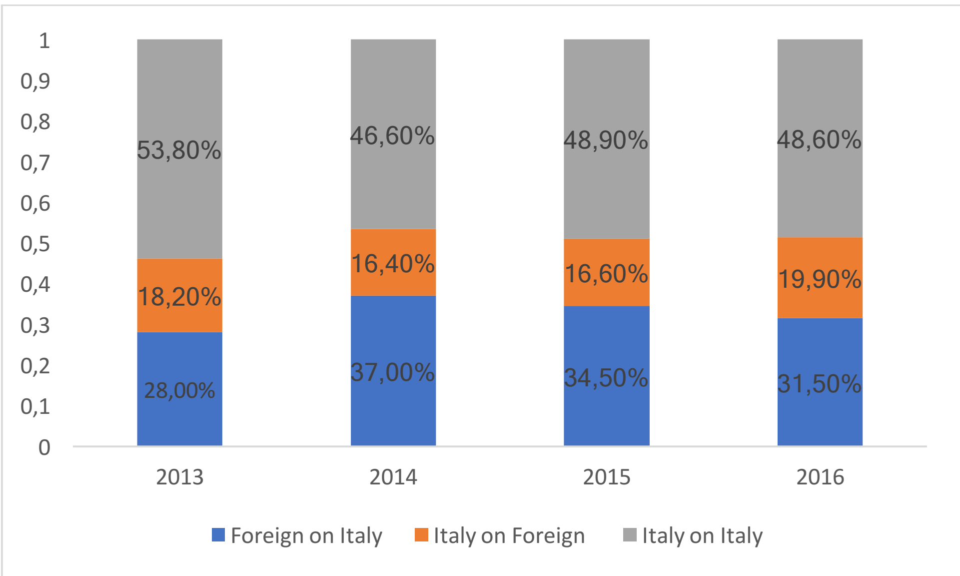




The partial recovery of banking sector, the internationalization of Italian SME major trends which characterized, the dynamism of private equity funds which are attracted by Italian assets were the main trends that characterized the Italian M&A market.

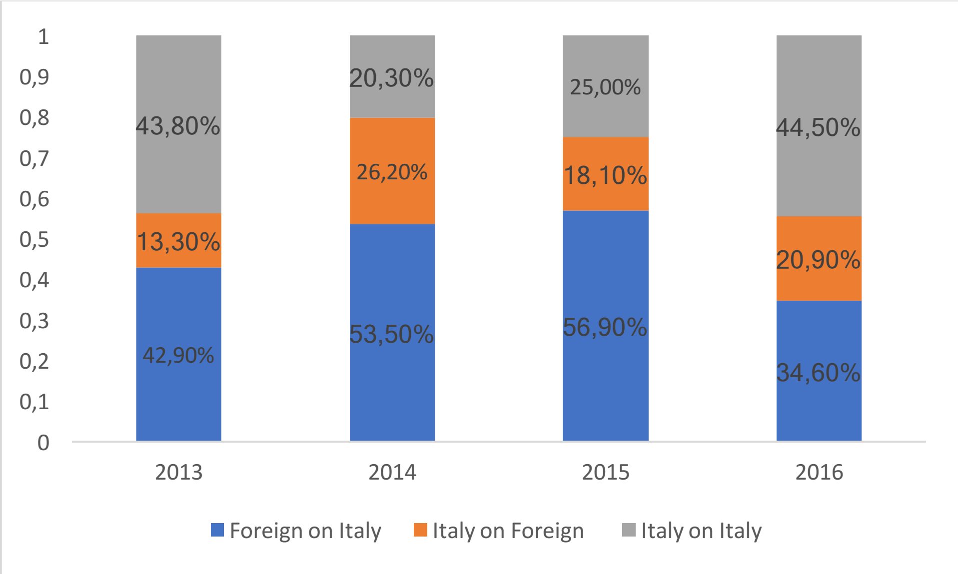
Considering the value traded in 2016, the deal worth more than $1bln decreased by 24% compared to previous year. Those results are against the trend of the other groups which increased both in volume and in values. It should be highlighted the growth of deals between $100mln and $1000mln, which increased their contribution on the market (from 35% to 45% on value in 2016).

By observing the evolution of the market, it is possible to highlight relevant aspects:



The domestic deals account for 49% on the overall market and have increased by 41% compared to 2015 (403 deals finalized which is second only to the landmark achievement of 463 reached on 2000). Both outbound and inbound deals increased in 2016, the former increased by 70% and amounted for 165 transactions, while the latter increased by 30% but their overall impact on the market decreased by 3%.

By observing the value, domestic and inbound deals values are consistent with the ones observed on the previous graph as performed better than previous year. On the contrary, inbound deals value went from $32b of 2015 to $20b of previous year which is a reduction of almost 40% YoY.



Cross-border inbound deals in Italy over 2013 – 2016

General overview

Over the last years, the Italian economy went through a sharper recession than in the past, due to adverse and unexpected shock which might have weakened its reaction capabilities. The recovery, which started in 2014, is volatile and struggles to consolidate.

In 2016, Italian GDP increased by 1,5% which is manly pulled by the national consumptions (+1,2%) and gross fixed capital formation (+2,9%). The forecasts presented by institutions and independent research centres provide a positive outlook and report a consolidation of growth.

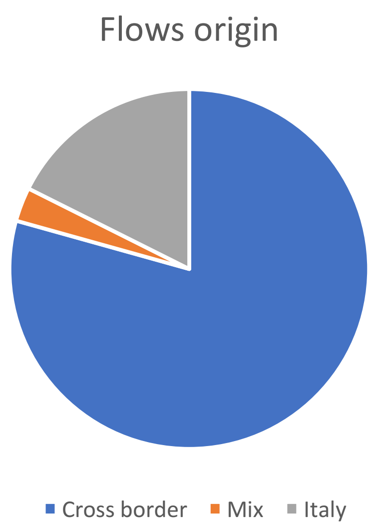
Qualitative indicators confirm that situation is improving and confidence is growing among people. For instance, confidence indicator has been increased up to values experienced only in the years before the 2007 crisis (Istat 2017).

The prolonged economic crisis caused a downsizing in the economic conditions, such as reduction in the number of enterprises, employees and on the overall value added and a decline in domestic demand, thus firms had to expand onto foreign markets in order to survive. Besides export, Italian companies undertook alternative paths to further increase their presence on international markets and to reduce the dependence on local demand. The use of alternative forms of internationalisation, such as cross-border M&As or Joint Ventures, largely goes together with employment creations and higher value added (Istat 2017).

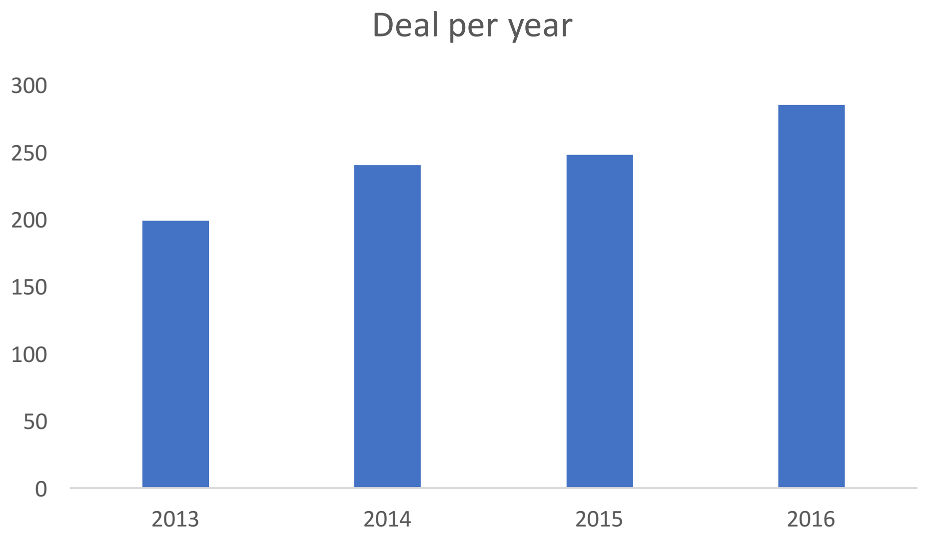
Given that Italian SMEs have always been reluctant to involve external investors on joining their businesses, it is significant to examine this phenomenon. Through the analysis of mergers and acquisitions finalized by foreign investors occurred over the recent years, the goal is to understand patterns and trends of this increasing activism of Italian firms.

The sample has been extrapolated from the Merger Market database, focusing on cross border and transatlantic deals involving Italian firms with a turnover between €50 and €500 mln. The comprising list is made of 972 transactions completed between 2013 and 2016, of which 280 belong to the revenue criterion established. The list is made of bidder and seller from EU, UK, Asian and American countries. It should be noticed that the database includes not only successful transactions but also withdrawn and elapsed bids. Furthermore, AIDA's database provided information and verification on the main income statement items of the firms considered.

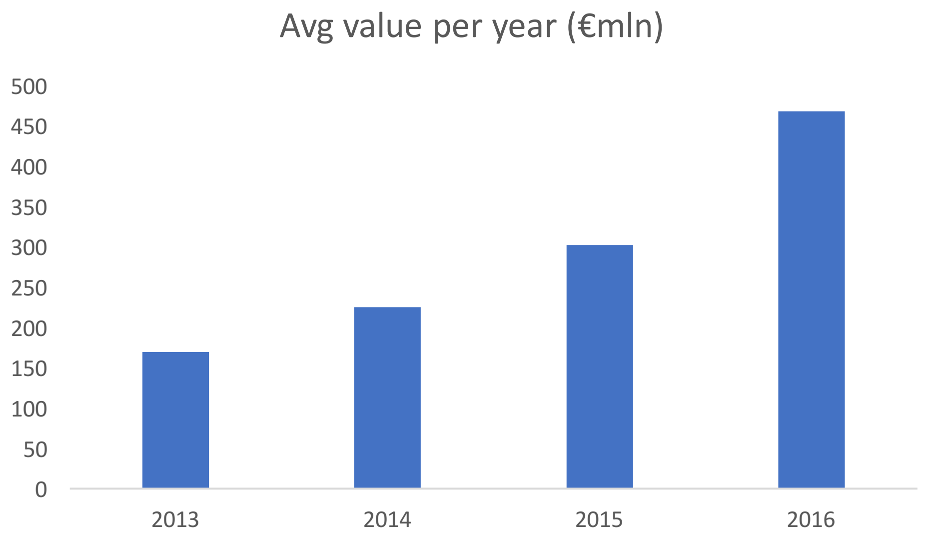
Overall Italian M&A inbound market:



The majority of flows is originated from abroad, totalling almost 80%. Among these, there are 3 Joint ventures established in Italy during the period considered. The source of remaining transactions is Italian although in 45 of these the bidder is either a subsidiary of an abroad company or has foreign ownership.



The number of deal settled has surged by 43% throughout the period considered, proving that Italian market has performed brilliantly. Despite the slower recovery from the crisis than other neighbouring countries, foreign investors demonstrated an increasing interest on the Italian assets.



United States, France, UK are the countries which invested the more on Italian assets. The ranking of cross-border inbound investments is leads by the US, which kept holding the leadership and further increased the deals concluded over the period considered. It is noticeable the boost of Chinese investment, which experienced an important growth in 2015 thanks also to values exchanged.

The positive trend is also visible on the average value invested on Italian assets. Despite not all the values are available, it is noticeable the boost experienced between 2013 and 2016 (almost +175%). The main drivers behind this growth are the enormous funds arrived from China (e.g. acquisition of Pirelli &C Spa by China National Chemical Corporation for almost €7bln).

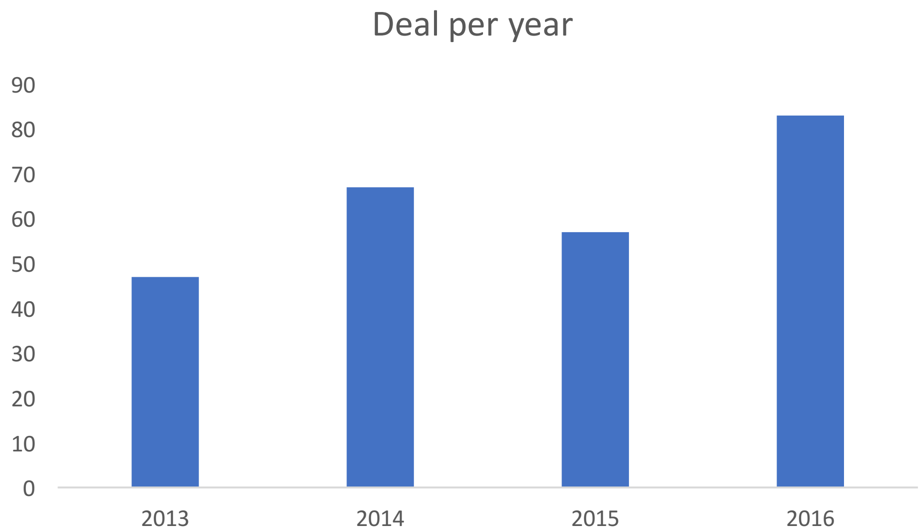
Analysis on the outlined sample

The main focus of this analysis is the analysis of deals involving firms with a turnover in the range of €50mln and €500mln. The sample is made of 280 deals across the four years considered.

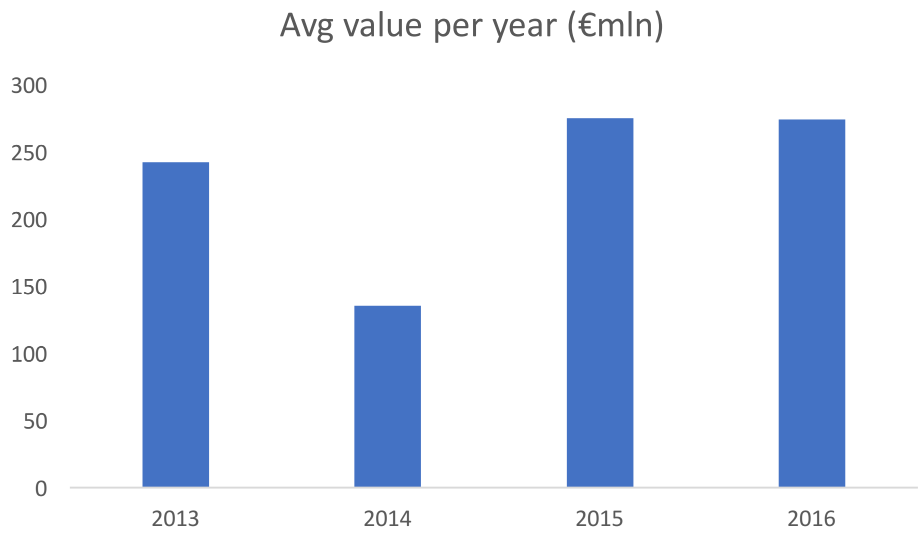
For the sake of simplicity, the deals involving firms where no financial data were available or where a foreign firm is involved as target, will not be considered. Thus, the number of deals considered decreases up to 254 scattered between 2013 and 2016.

The evidence reported in the sample shows that majority of these cross-border M&As, regardless of any other factor that may affect the results, seem to have a positive impact on the targeted firms. Only in few cases there is value destruction or neutral impact on their wealth.

By looking at numbers of deal per year, the trend follows a similar path outlined for the complete sample except for a slight fall in 2015. This is interesting, as in the same year the Italian M&A market generated high values, second only to those posted in 2007.



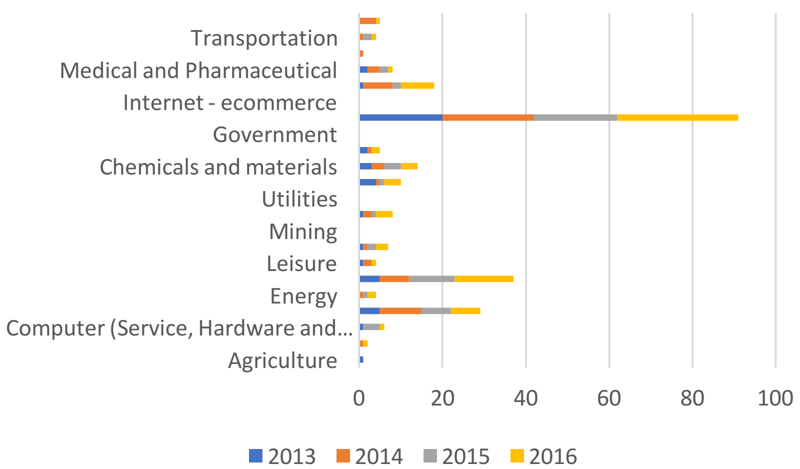
The analysis of the average value per deals for year seems to confirm the trend inferred from the overall sample and that 2015 was a pivotal year for the Italian market (indeed the value reported is the highest of all). The result obtained in 2014 appears to be in defiance with the ones extrapolated from the complete sample. But this is mainly due to the transaction considered in that year are made of deals which do not involve the acquisition of the total ownership of the firms.



The majority of transactions occurred in 2014 are related to the acquisition of a portion of stake of target firms. As an example, Blackstone acquired the 20% of Versace Group for a consideration equals to €210mln. In 2014, investor confidence has picked up in Italy despite credit crunch and the continuing macroeconomic challenges which led to the return of large international investors which had hesitated to invest in previous years but their interest focused only on large Italian companies.

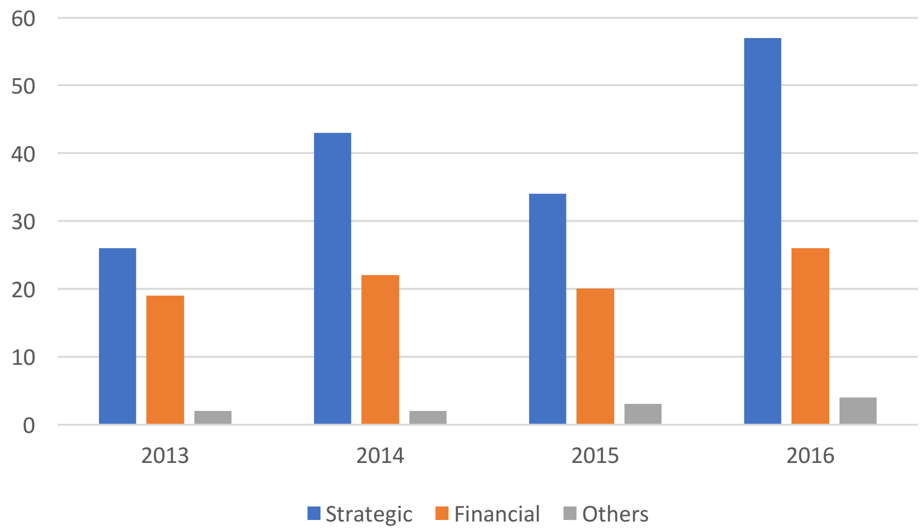
Bidder

Bidder's sector analysis illustrates the noticeable presence of firms operating in Financial Sectors industry as main investor on Italian firms across the years. Its contribute kept growing throughout the years as their presence increased by almost 40%. This growth can be explained by the condition observed over the last years such as an exceptional amount of liquidity, improvement of economic situation and the increasing appealing Italian firms which come out of the crisis stronger than before. Furthermore, this growth can be explained as also small and medium sized firms are changing their opinion private equity funds. This alternative has been embraced only in recent years, as a way to survive or to support their expansionary plans.

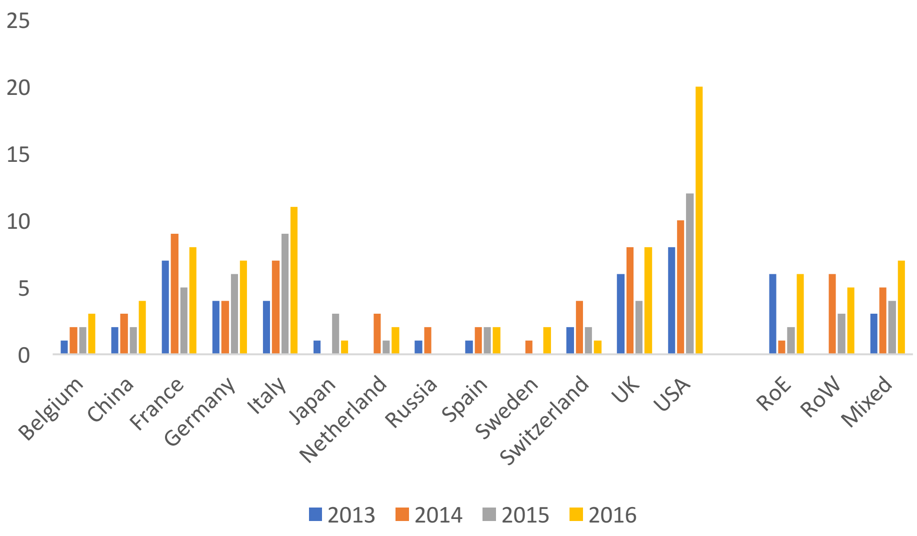


Industrial sector has also boosted their presence, moving into second place after Financial Services' sector. Mammoth Industrial companies entered in the Italian market through acquisition such as Mitsubishi and Manitex in 2013, or Dover Corp in 2016, as a demonstration of the considerable interest that Italian industrial asset holds for foreign investors.

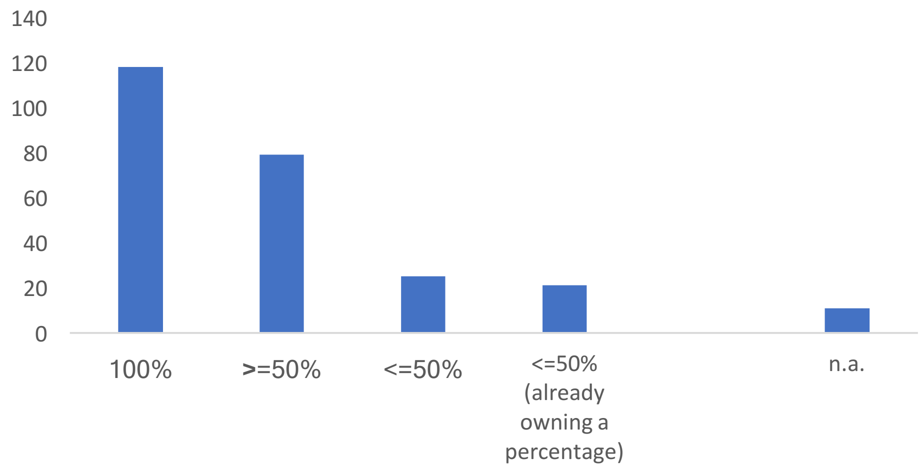
The impact of cross-border M&A on Italian market has grown over the year, as a result of the more stable economic condition and the improvement of investors' trust condition on the country. Said so, despite the past up and down of the economic condition seen in the past, USA has always been the top foreign investor and increased its presence up to 20 acquisition on 2016 (covering almost 22% of the market). France, our closest neighbourhood, Germany and UK remains the major European contributor. It is noticeable the growing involvement of Asian countries, such as Japan and China.



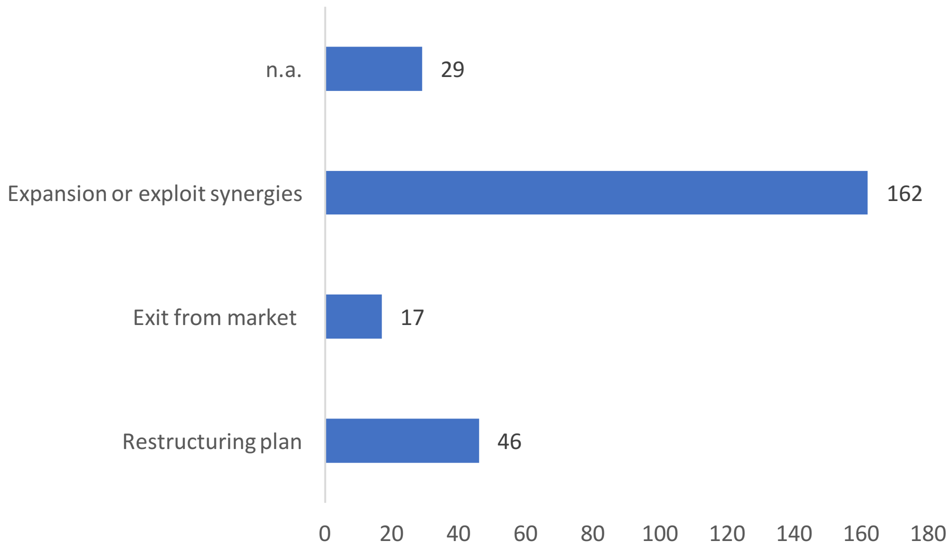
Through the observation of the chart related to the typology of buyers of Italian assets, it is somehow noticeable that the majority is made of strategic bidders. Despite the increasing presence of private equity funds and sovereign wealth funds on the Italian market, firms and investors come in Italy as they see it as a market where to expand their influence or where to look for technologies and resources capable to enrich their product portfolio or their supply chain. The small fraction of acquires in the chart is made of mixed buyers, individual and an acquisition where a management vehicle was involved.



As a confirm of the previous chart, the analysis of the stake purchased by foreign investors illustrate that in most cases the buyers look for the complete ownership of the firm, or at least a share which guarantees to be the major shareholder.

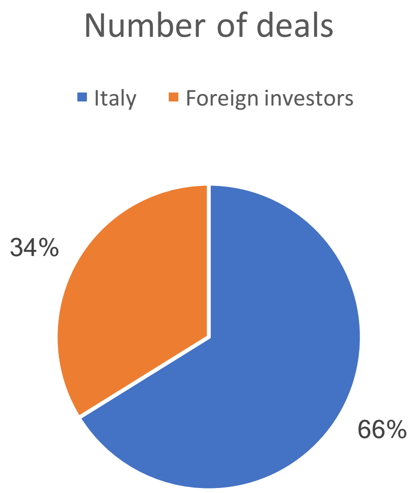


Indeed, only the majority of the shares would guarantee to an investors to implement at full throttle the strategic plans or to fully exploit the resources of the firm. The assessment of the main reason which guided an investor through the observation of company and press' releases has highlighted the fact that expansion and exploitation of synergies was the main reason, involving almost 60% of the transaction occurred.



Seller

Notwithstanding the small fraction of firms which exited the Italian market on purpose, it is worth to explore the portion of companies and individual which sold their assets to foreign investors.

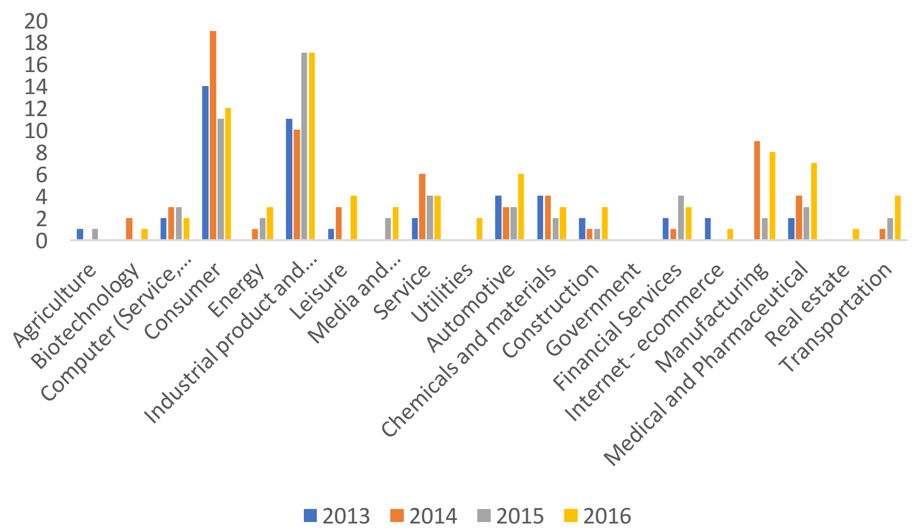


Over the 254 deals included, in 198 of them the seller differs from target company. Among them, 54 transaction involves individual or families which decided to embrace the entrance of foreign investors, and the 35% of them took place in 2016. Even though the values are still low, it could be interpreted as a good sign also for other foreign investors which might decide to invest in Italy in future years. The aforementioned struggle of Italian family-owned business to foreign investors might be a behaviour from the past, as the recent economic downturn led these firms to undertake a form of internationalization.

Once again, Private Equities play a key role also as seller. Over the sales, they impact for the 35% of the deal, moving a total consideration of €11bln over the years.

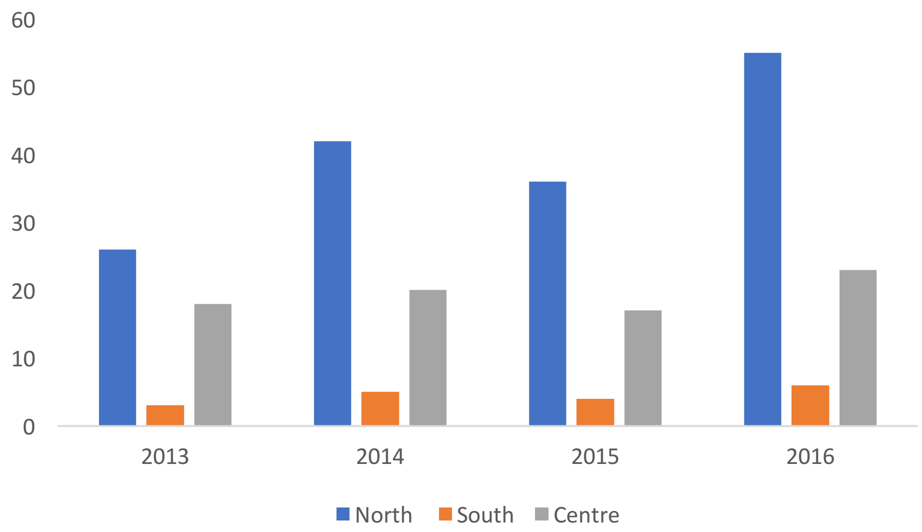
Target

The analysis of target macro sectors provides a big picture on how the contribution changed over the years.

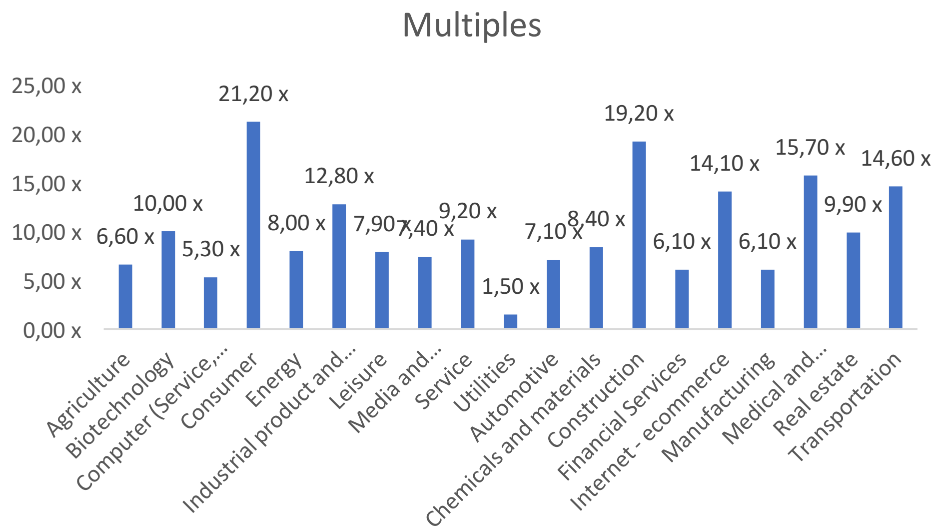


Industrial product and services firms are the most appealing one on the market, as they have been involved in 55 deals and contributed with an amount of ca. €6bln. The deals increased by almost 50% over the time period, while the value invested increased by 240, passing from €530mln to €1802mln. Consumer goods appears to have lost the momentum, since the number of deal has not increased and reached 12 in 2016, while in 2013 was at top of the ranking. The economic contribution followed a similar path, since it decreased by 13% in 2016. Despite this, it remains the second contributor of the market.

The majority of the other sectors gained ground, exploiting the boost in attractiveness of the Italian market for foreign investors. The medical sector, which had no contribution on 2013, is one of the most interesting one. It should be mentioned that this number are due to DOC Generici and NGC Medical, which have been traded more than once over the time considered but for an higher consideration. For istance, DOC Generici has been acquired by Charterhouse in 2013 for a consideration equals to €340mln and it has been sold in 2016 to CVC Capital Partners for €650mln.
It is interesting to notice where the target company is located, to assess which are the most dynamic regions in Italy. Assuming to divide the country on three macro regions (North, South and Centre), it is possible to observe the frequency on which the region is involved into a deal.
It is no surprise to see that northern regions are the most dynamic, and contributed to more than 50% on each year, both on number and on values. Lombardy, and especially Milan province, leads the dynamism of the northern regions, followed by Emilia Romagna and Veneto.
A very minimal impact from southern region, which seems to have little attractions to foreign investors. It appears that it is necessary some serious intervention in order to give credibility to those regions, which have an enormous but untapped potential.



Despite the scarce availability of data, it is noteworthy to observe the multiples posted for the transaction. Since P/E was provided on a very limited basis, the focus will be exclusively be on EBITDA multiple.



A very interesting result is provided by the leisure sector, which usually posts much higher EV/EBITDA on average. The low value can be due to the transaction involving NH Hotel and The Space Cinema, which both are classified as firms operating in the leisure sector, have very low multiples.

On the contrary, Medical and Transportation overall post higher multiples than the average registered. For what concerns transportation sector, it has been dragged by the deals of Grandi Stazioni and of SAVE spa, which contributed with 15,4x and 16,0x multiples each. Instead the medical sector has a very high average multiple due to Bellco Spa, which was acquired for an EV 41 times the EBITDA and NGC Medical with a multiple equals to 31x.

To conclude, here below is a list of the most valuable deals occurred.

Financial Services is again in command, with two main deals on the first three and with a total overall contribution which cover the contribution brought by any other sector. On second place, there is the Loro Piana sales by the Loro Piana Family to the LVMH corporations. Among the other deals, the most interesting one is Moleskine's deal, as this company has been purchased by D'ieteren which is a group usually active on the automotive sector.

Target	Deal value	Bidder	Seller	Share	EBITDA multiple
GE Capital Interbanca SpA	2555	Banca Ifis SpA	General Electric Company	100%	n.a.
Loro Piana S.p.a.	2200	LVMH Moet Hennessy Louis - Vuitton SE	Loro Piana Family	80%	27,89 x
Istituto Centrale delle Banche Popolari Italiane SpA	2150	Mercury Italy S.r.l.	Banca Popolare di Milano Scarl; Banco Popolare Societa Cooperativa; BPER Banca; Banca Popolare di Vicenza SpA; Banca Sella Holding S.p.A.; Credito Valtellinese S.c.; Veneto Banca S.p.A.; Gruppo Banca Popolare di Cividale S.c.p.A.; Banca Carige S.p.A.; UBI Banca Scpa; ICCREA Holding SpA	89%	n.a.
TeamSystem S.p.A.	1181	Hellman & Friedman LLC	HgCapital; Bain Capital LLC; Intermediate Capital Group Plc	100%	n.a.
Cerved Group S.p.A.	1130	CVC Capital Partners Limited	Bain Capital LLC; Clessidra SGR S.p.A.	100%	7,79 x
Grandi Stazioni Retail	953	Antin Infrastructure Partners S.A.S; ICAMAP; BG Asset Management	Ferrovie dello Stato Italiane SpA; Eurostazioni S.p.A.	100%	16,32 x
Sigma-Tau Finanziaria S.p.A (Oncaspar product portfolio)	806	Baxter International, Inc.	Sigma-Tau Finanziaria S.p.A	n.a.	n.a.
Panini S.P.A.	755	Dolly Srl	Fineldo SpA; Hugo Aldo Sallustro (Private investor)	100%	24,95 x
Galata	693	Cellnex Telecom, SA	Wind Telecomunicazioni S.p.A.	90%	
MELCO Hydronics & IT Cooling S.p.A	657	Mitsubishi Electric Corporation	De Longhi Industrial S.A.	75%	14,28 x
N&W Global Vending s.p.a.	650	Lone Star Funds	Investcorp; Equistone Partners Europe Limited	100%	11,45 x
DOC Generici s.r.l.	650	CVC Capital Partners Limited	Charterhouse Capital Partners LLP	100%	10,66 x
Petrolvalves S.r.L.	600	TBG Holdings NV	Sator SpA; Candiani Family	60%	n.a.
Moleskine SpA	516	D'Ieteren SA	Index Ventures; Syntegra Capital Limited	41%	12,74 x

Conclusion

This analysis over the deal occurred in the time period 2013-2016 provided different significant insight.

First of all, the increase of inbound cross-border M&A is an odd phenomenon for a country like Italy. Given that Italian business, in general, are adverse to involvement of external investors, the greater openness to other investors could be a key to convince other investors in entering into business with other firms. Observing where the deal took place, it is a further remark on how much our countries proceeding at different pace. Meanwhile northern regions proceed at full pace, southern regions seems to not be a favourable place where companies can grow and attract foreign investors. Lastly, firms with a turnover between €50mln and €500mln appears to have different multiples than the average multiples registered by all the Italian firms in the market.

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