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The economic impact of Private Equity and Venture Capital in Italy

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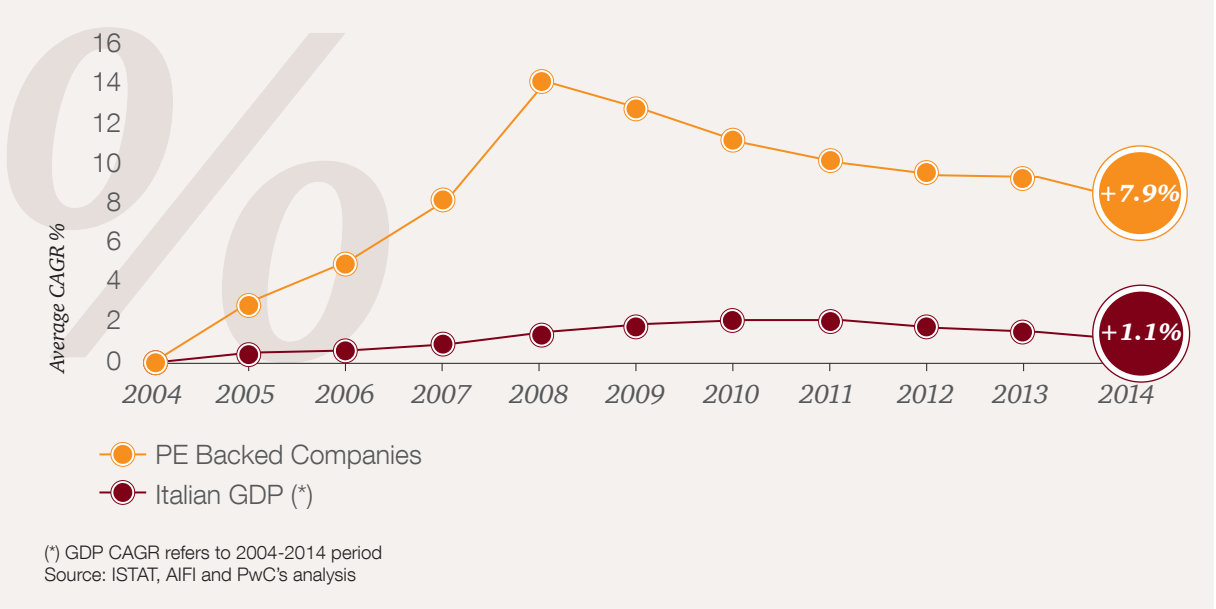
Survey Results

Companies backed by Private Equity confirmed their positive growth trend, with higher performances compared to the national GDP and other similar Italian companies.

Despite a slight decrease compared to 2013, the revenue growth of Private Equity and Venture Capital backed companies (+7.9%) is still higher than the Italian GDP growth rate (+1.1%).

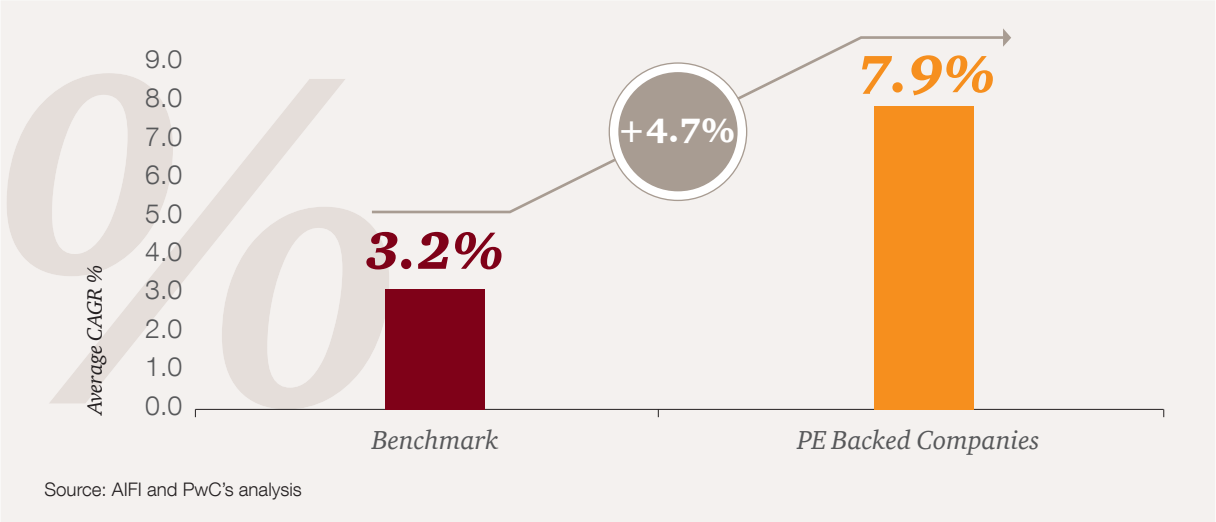
Italian GDP trend vs Private Equity backed companies growth



(*) GDP CAGR refers to 2004-2014 period
Source: ISTAT, AIFI and PwC's analysis

Furthermore, the growth rate of companies backed by Private Equity and Venture Capital is higher than the benchmark (+4.7%).

Revenue growth 2004-2014

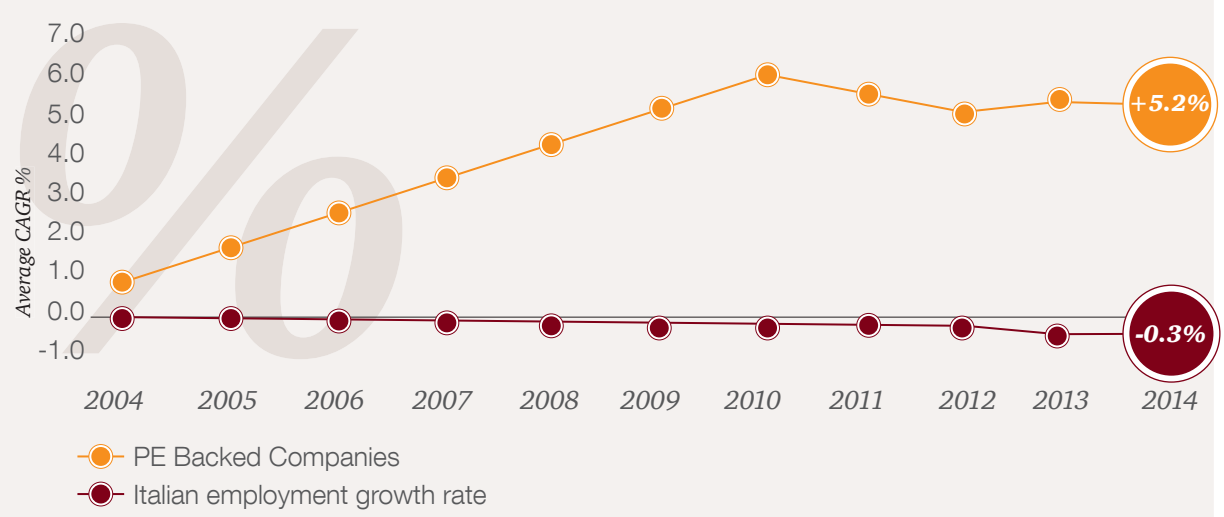


Source: AIFI and PwC's analysis

The employment growth rate of Private Equity backed companies shows a positive trend (+5.2%), opposite to the Italian employment rate over the same period (-0.3%).

The employment growth rate for Private Equity and Venture Capital backed companies during the decade 2004-2014 (+5.2%) remains in line with the previous year and it is still significantly higher compared to the Italian employment rate trend.

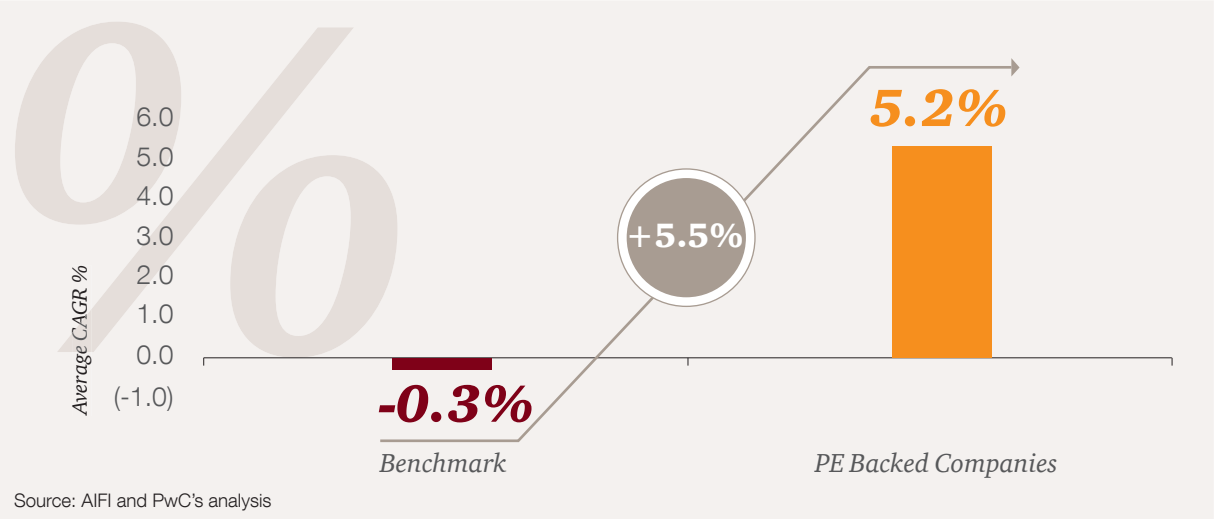
Italian employment growth trend vs headcount growth in PE



Source: AIFI and PwC's analysis

The employment growth rate of Private Equity and Venture Capital backed companies (+5.2%) is significantly higher than the benchmark (-0.3%), which is in line with the Italian growth rate.

Employment growth 2004-2014

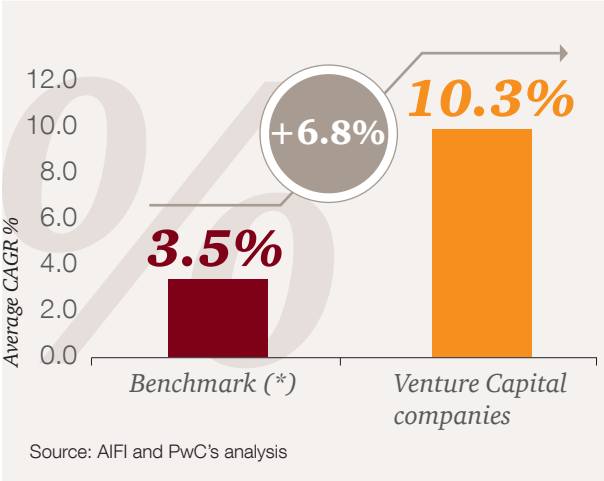


Source: AIFI and PwC's analysis

Over the 2004-2014 period revenues and profitability (EBITDA) of Private Equity backed companies grew at a higher CAGR compared to the benchmark. The Venture Capital backed companies present a higher revenue growth than the benchmark (+6.8%) and an aligned EBITDA, while the Buy-out companies show a higher profitability (+6.7%) compared to similar Italian companies.

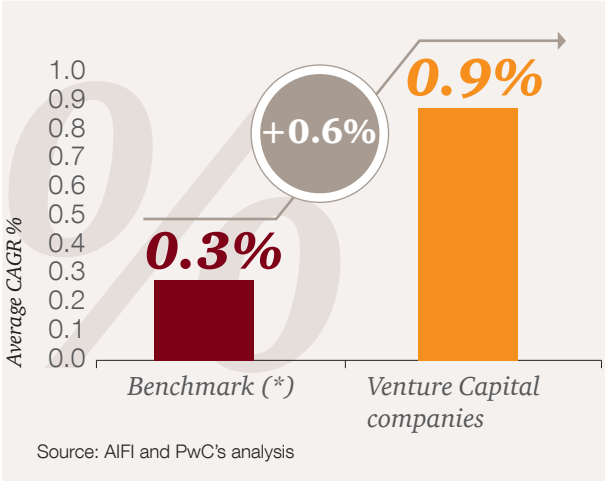
Venture Capital

Comparative annual revenue growth 2004-2014



Source: AIFI and PwC's analysis

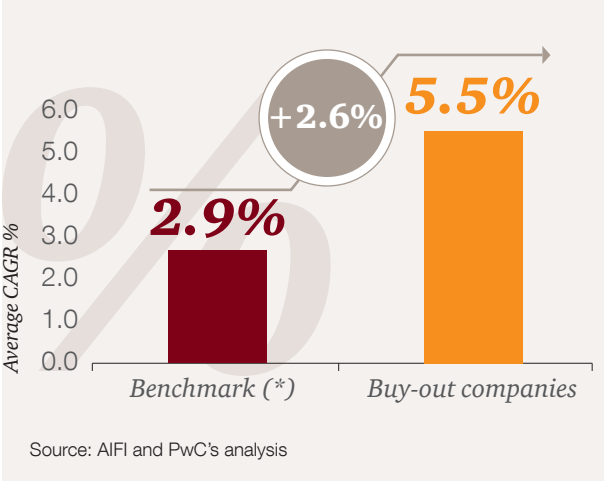
Comparative annual EBITDA growth 2004-2014



Source: AIFI and PwC's analysis

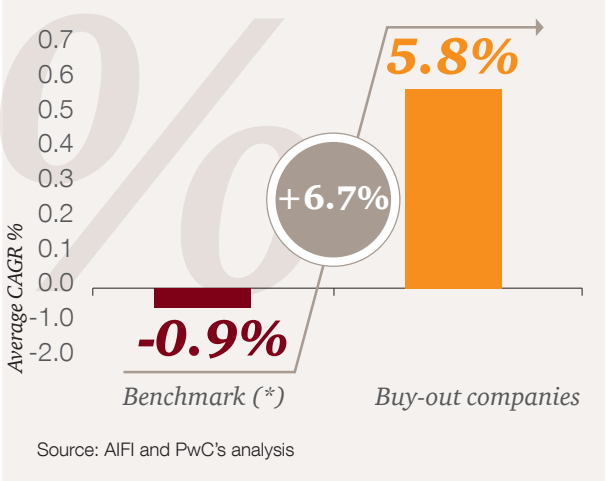
Buy-out

Comparative annual revenue growth 2004-2014



Source: AIFI and PwC's analysis

Comparative annual EBITDA growth 2004-2014



Source: AIFI and PwC's analysis

(*) The selected benchmark is based on the same holding period of the companies included in the sample, therefore it may vary between Buy-out and Venture Capital.

Overview on 2014 sample

Geographical distribution

35 disposals (equal to 67%), out of 52 divestments analysed in 2014, are related to companies located in the Northern regions of Italy and are mainly concentrated in Lombardy (35%).

Level of managerial quality

The sample analysed shows an employment growth rate of c. +4.4% (calculated as average CAGR % from the year of the investment to the exit year), with a slight decrease compared to the 2013 sample. The growth of the managerial component is in line with the previous year (circa +14%) and continues to confirm the "Private Equity" behaviour of expanding the management team in their portfolio companies.

The capex (*)

Compared to the benchmark, the sample of companies analysed shows a growth in tangible assets investments of circa 11% (vs circa 3% of the benchmark).
Both Venture Capital and Buy-out companies show a very similar level of investments.

The leverage

The average ratio Net Financial Debt /EBITDA improved, passing from 5.5 to 2.6 in the year of the exit, revealing a good cash generation in the holding period. It is worth noting that the average ratio Net Financial Debt/EBITDA of the sample in the exit year is also lower than the one calculated on the benchmark (3.8).

(*) The growth of tangible assets capex has been calculated as average CAGR % from the year of the investment to the exit year.

Methodology and Glossary

Methodology

This study is designed to investigate the performance of the target companies during the holding period (2004-2014) with a focus on the Buy-out and Venture Capital (start-up and development).

Sample and holding period

This study has been prepared on a sample basis of 477 divestments (246 Venture Capital and 231 Buy-out related) undertaken in Italy by Private Equity investors in the period 2004-2014. The sample is representative of divestments over the 2004-2014 period. Further information on how the sample has been extracted is presented in the following page.
Holding period: from the year subsequent to the acquisition to the year of divestment (2004-2014). In the last years, the average holding period has extended to approximately 5/6 years.

Performance indicators

The economic impact of PE and VC players on target companies was measured by 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 amortisation):* consists of the net earnings calculated before, and without giving effect to (i) interest expenses/income; (ii) income taxes; (iii) depreciation and amortisation 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.

Methodology (2 of 2)

The sample

This study is designed to investigate the performance of the target companies over the holding period. Note that in some cases a shift in the holding period was required in order to make figures comparable over the period itself.

The sample is based on total divestments occurred over the 2004-2014 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 disinvestment 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, 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 companies. As previously mentioned, the selected benchmark for comparison was extrapolated from the information included in "Dati Cumulativi di 2.055 società italiane", a survey compiled by Mediobanca's Research Department. Note that for comparability: (i) Government owned companies were excluded from the benchmark and (ii) benchmark information was weighed to consider the same holding period of the companies included in the sample analysed.

Glossary

Term	Definition
Backed Companies	Companies included in a Private Equity portfolio of investments.
Buy-out (BO)	Buying a company using one's 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 Amortisation.
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 utilised 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 activity.

Contacts

Francesco Giordano
Partner Transaction services
+39 02 7785604
francesco.giordano@it.pwc.com

Daniela Mentesana
Senior Manager Transaction services
+39 02 7785182
daniela.mentesana@it.pwc.com