The economic impact of Private Equity and Venture Capital in Italy
Survey Results
In 2017 companies backed by Private Equity confirmed their positive growth trend, with higher performances compared to the national GDP and other similar Italian companies.

**Italian GDP vs PE backed companies**

Despite a slight decrease compared to 2016, the compound annual revenue growth rate over the last 10 years of Private Equity and Venture Capital backed companies (+5.2%) is still higher than the Italian GDP growth rate (+0.7%).

(*) GDP CAGR referred to the period 2007-2017
Source: ISTA, AIFI and PwC analysis

**Revenues growth 2007 - 2017**

Furthermore, the revenues growth rate of companies backed by Private Equity and Venture Capital is higher than the benchmark (+3.3%).

Source: AIFI and PwC analysis
The employment growth rate of Private Equity backed companies shows a positive trend (+4.7%), opposite to the Italian employment rate over the same period (-0.1%)

Despite over the past 10 years the employment rate growth trend in Italy remained stable at values close to zero (-0.1% over the decade 2007 - 2017), Private Equity and Venture Capital backed companies have always kept a positive trend of the employment rate (+4.7% over the same period).

The employment growth rate of Private Equity backed companies (+4.7%) is significantly higher than the benchmark (-0.1%), which is in line with the Italian growth rate.

In the past 5 years the sample of companies analysed (248) generated c. 29.000 new job positions.

Source: AIFI and PwC analysis
Over the 2007-2017 decade 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 level of revenues growth (+5.1%) and EBITDA (+6.1%) than the benchmark, while the Buy-out companies show a higher profitability (+7%) compared to similar Italian companies.

Venture Capital
Revenues yearly growth 2007 - 2017

<table>
<thead>
<tr>
<th></th>
<th>Average CAGR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
<td>2.0%</td>
</tr>
<tr>
<td>PE backed companies</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

EBITDA yearly growth 2007 - 2017

<table>
<thead>
<tr>
<th></th>
<th>Average CAGR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
<td>-0.5%</td>
</tr>
<tr>
<td>PE backed companies</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Buy-out
Revenues yearly growth 2007 - 2017

<table>
<thead>
<tr>
<th></th>
<th>Average CAGR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
<td>1.7%</td>
</tr>
<tr>
<td>PE backed companies</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

EBITDA yearly growth 2007 - 2017

<table>
<thead>
<tr>
<th></th>
<th>Average CAGR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
<td>0.6%</td>
</tr>
<tr>
<td>PE backed companies</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Source: AIFI and PwC analysis
* The benchmark used is weighted over the same period of possession of the companies included in the analyzed sample, and therefore can vary between Buy-out and Venture Capital.
Overview on 2017 sample

Geographical distribution

The sample analysed in the last 3 years (162 companies) shows a concentration of Private Equity transactions in Northern Italy (c. 80%), mainly focused in Lombardy (46% of total disinvestments).

Capital expenditures (*)

The sample analysed recorded an increase of capex, in the holding period, higher than the benchmark (c. +15ppts). Venture Capital backed companies confirmed an higher level of investment compared to buy-out companies.

Level of managerial quality

The sample analysed shows an increase of employment workforce by 6.2% compared to a +0.5% of the benchmark. Private Equity backed companies still confirm a growth in the employment of the only managerial component of c. 10% in the last 5 years. In the 2017 sample the growth of this component is equal to c. 3%.

The leverage

The average ratio Net Financial Debt /EBITDA improved, passing from 5.8 to 3.6 in the year of the exit, revealing a good cash generation in the holding period.

The analysed sample showed also a better NFP/EBITDA ratio compared to the benchmark (3.0 in the exit year).

(*) The increase of investments in tangible assets was calculated as the average CAGR% from the year of investment to the year of exit.
**Profitability by employee**

Productivity growth in relation to human resources is one of the parameters subject to our analysis. The ratio is measured as EBITDA/employee in the holding period and it is compared to the benchmark. The analysis on the 2017 sample shows that the index is broadly in line with benchmark (c. 4% CAGR).

However, considering that the employment workforce growth recorded in the Private Equity backed companies is significantly higher than benchmark, this ratio highlights that these companies increase job positions without affecting companies profitability.

---

**Performance of “Secondary buy-outs”**

Over the last 4 years, more than 30% of the analysed disinvestments related to sales to other Private Equity or Venture Capital houses (Secondary Buy-Out).

The analysis of the performance of the secondary investments showed that revenues, EBITDA and employees CAGR continues to grow (revenues +6.8%, EBITDA +2.6% and workforce +8.6%) even during the further management of other Private Equity funds.

In addition, it is worth noting that a portion of the secondary buy-outs are currently starting a third PE round (Tertiary buy-out). We will see in the next few years if the growing trend will be still confirmed.
Methodology

This study is designed to investigate the performance of the Target companies during the holding period (2007-2017) with a focus on the Buy-out and Venture Capital.

**Sample and holding period**

This study has been prepared on a sample basis of 500 divestments (216 Venture Capital and 284 Buy-out related) undertaken in Italy by Private Equity investors in the period 2007-2017. The sample is representative of divestments over the 2007-2017 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 (2007-2017). In the last years, the average holding period has extended to approximately 5/6 years.

**Performance indicators**

The economic impact of PE players on Target companies was measured through a set of indicators based on Consolidated Financial Data, or on Parent (Operating) Company Financial Statements, where such consolidated financial statements were not available. Measured indicators are as follows:

- Revenues: amount included in the caption A1 “Ricavi delle vendite e delle prestazioni” of the Statutory Financial Statements (for banks and financial institutions, revenues have been calculated as the sum of interest, commissions and other profits from financial operations);

- EBITDA (Earnings before interest, tax depreciation and 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.
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 2007-2017 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, it should be noted that the sample analysed is fully comparable with the selected benchmark, which also includes the impact of acquisitions.

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 2,075 società italiane”, a survey compiled by Mediobanca’s Research Department. It should be noted 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

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backed Companies</td>
<td>Companies included in a Private Equity portfolio of investment.</td>
</tr>
<tr>
<td>Buy-out (BO)</td>
<td>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.</td>
</tr>
<tr>
<td>CAGR</td>
<td>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.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before Interest, Income taxes, Depreciation and Amortisation.</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>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.</td>
</tr>
<tr>
<td>Inflation</td>
<td>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.</td>
</tr>
<tr>
<td>Private Equity (PE)</td>
<td>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.</td>
</tr>
<tr>
<td>Venture Capital (VC)</td>
<td>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.</td>
</tr>
</tbody>
</table>
Contacts

Francesco Giordano
Partner | Transaction Services
+39 02 7785604
francesco.giordano@pwc.com

Daniela Mentesana
Director | Transaction Services
+39 02 7785182
daniela.mentesana@pwc.com