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The economic impact of Private Equity and Venture Capital in Italy

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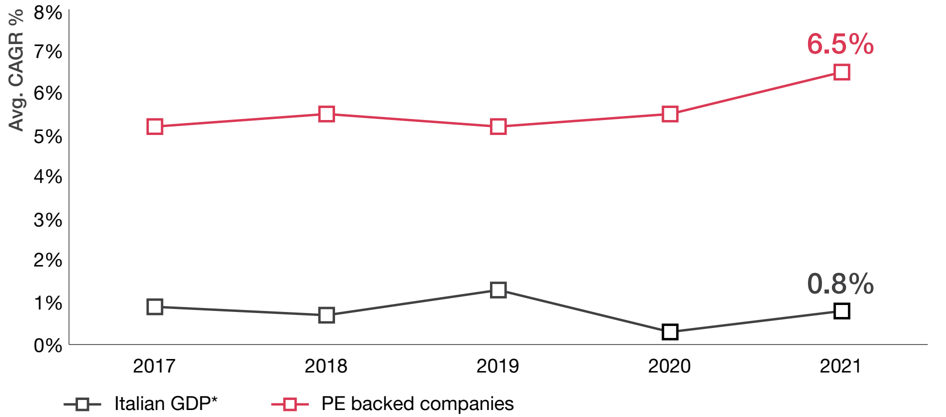
Performance of PE backed companies vs the Italian market KPIs

Our latest survey based on 2021 financial results of PE backed companies, shows a strong increase both in terms of revenues and employment growth, compared with Italian GDP and employment rate.

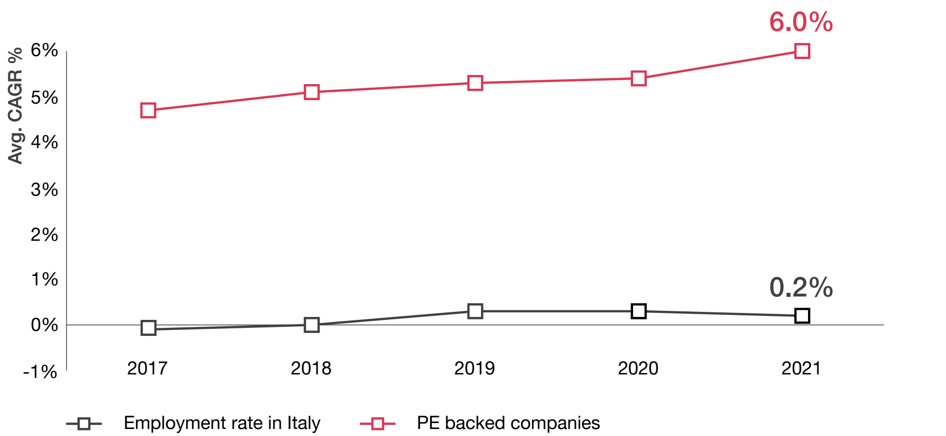
Trend of PE backed companies revenues vs Italian GDP



Source: ISTAT, AIFI and PwC analysis – (*) GDP CAGR % referred to the period 2011-2021

Our survey, based on 2021 financial results of Private Equity backed companies (since last Financial Statutory Statements available), confirmed that PE backed companies have been able to show a strong performance growth in terms of revenues (6.5% CAGR). Consequently, the gap between revenues average CAGR % of PE portfolio companies and Italian GDP became deeper in 2021 (+5.7%) if compared with previous years.

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



Source: ISTAT, AIFI and PwC analysis

Private Equity and Venture Capital backed companies confirmed the increasing trend in terms of employment growth rate, showing a higher rate if compared with the national one, +5.8 ppt in 2021.

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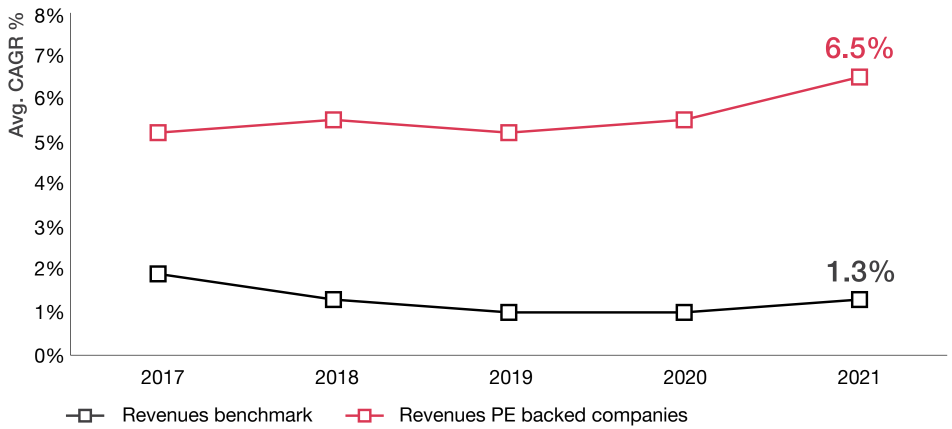
Survey results: revenues, EBITDA and employment performance

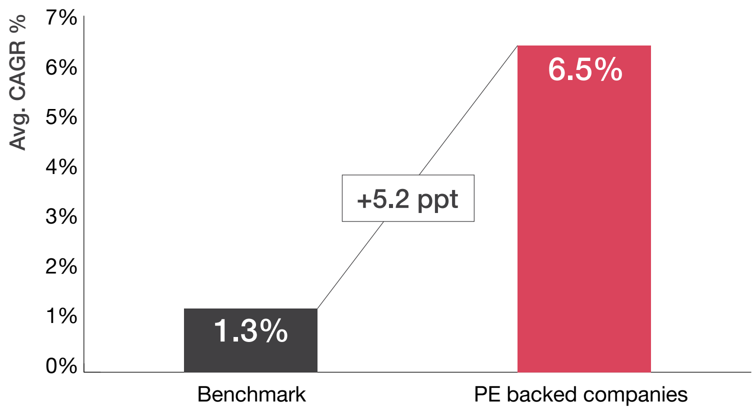
Companies backed by Private Equity achieved a solid growth in terms of revenues, reaching 6.5% CAGR in 2021, showing an increasing gap vs the benchmark.

Trend of PE backed companies revenues vs benchmark



Source: AIFI and PwC analysis

Revenues growth 2011-2021



Source: AIFI and PwC analysis

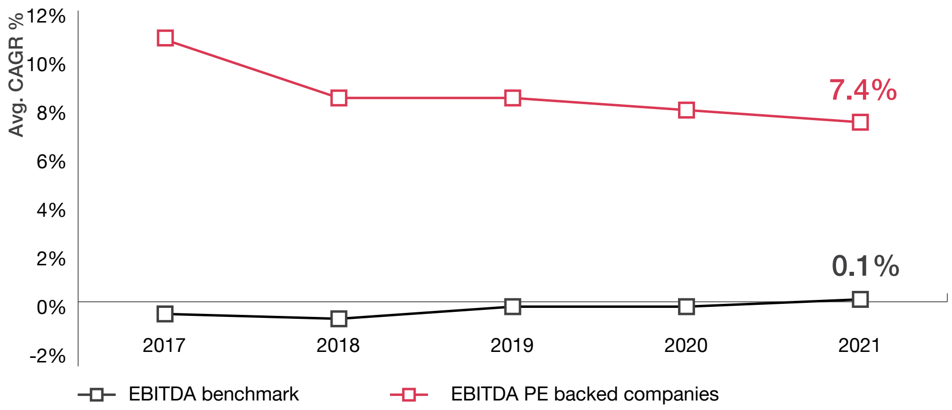
Financial 2021 results confirmed a strong recovery after COVID-19 pandemic diffusion, with a CAGR of 6.5% (+1% vs 2020).

Consequently, the gap between the performance of PE backed companies and the benchmark increased, moving from +4.5 ppt in 2020 to +5.2 ppt in 2021.

Note: the benchmark is composed by medium and large sized Italian private companies, extrapolated from the information included in “Dati Cumulativi di 2,145 società italiane”, a survey compiled by Mediobanca’s Research Department. Please refer to the Methodology section for further details of the benchmark.

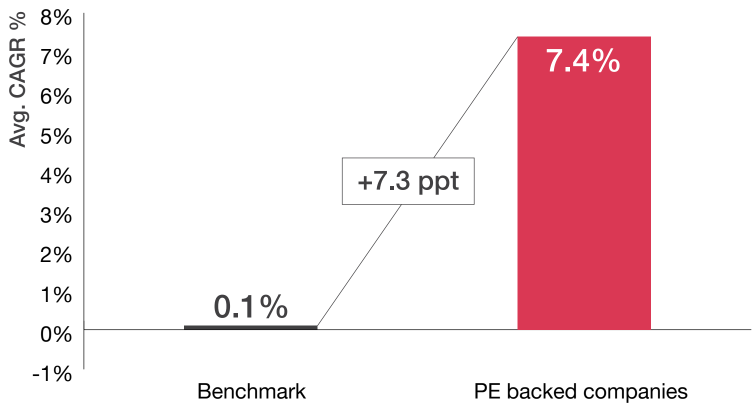
The latest trends showed that Private Equity players are deeply focused on improving their portfolio companies profitability, amounting to 7.4% CAGR in 2021 (-0.5% vs 2020), confirming a positive gap with the benchmark.

Trend of PE backed companies EBITDA vs benchmark



Source: AIFI and PwC analysis

EBITDA growth 2011-2021

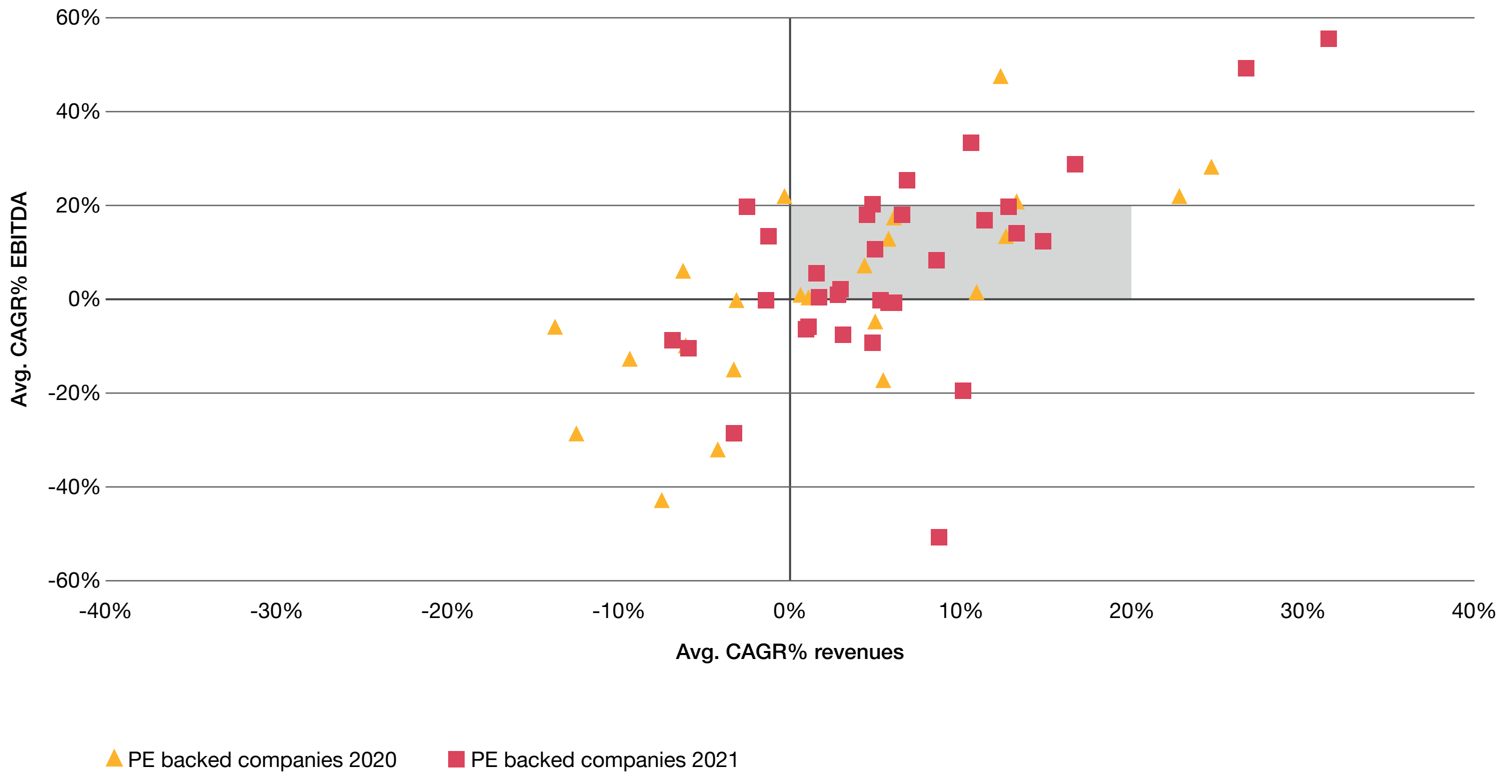


Source: AIFI and PwC analysis

PE backed companies profitability growth amounted to 7.4% CAGR in 2021, higher than the revenues performance (6.5% CAGR) analysed in previous pages, confirming that PE players are deeply focused on profitability improvements of their portfolio companies.

Overall, financial 2021 results show a positive performance of PE backed companies, highlighting a deep concentration of companies with a positive avg. CAGR comprised between 0-20% both in terms of revenues and EBITDA. To be noticed that only 4 companies analysed in 2021 show a negative growth level in both revenues and EBITDA variables (vs 9 in 2020).

2020-2021 PE backed companies revenues - EBITDA growth

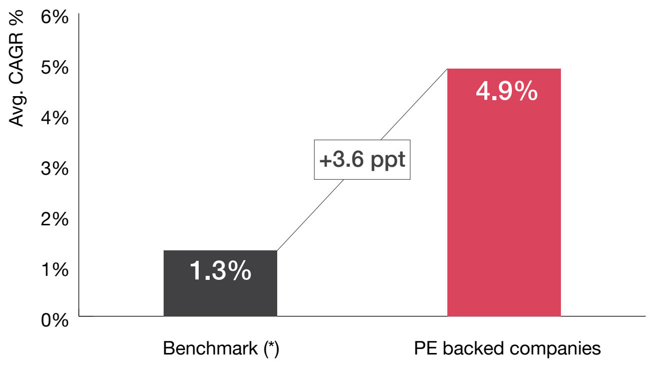


Source: AIFI and PwC analysis

Over the period 2011-2021 revenues and EBITDA of PE backed companies continue to perform at a higher CAGR % if compared with the benchmark. Buy-out companies show a revenues gap vs the benchmark of +3.6 ppt in 2021 (+3.0 ppt in 2020), while EBITDA gap amounts to +4.1 ppt (+3.9 ppt in 2020). Venture Capital backed companies highlight a slightly lower revenues gap vs the benchmark (+6.6 ppt vs +6.8 ppt in the previous year), and similarly, average EBITDA CAGR % decreases if compared with 2020 level (+12.3 ppt vs +14.3 ppt).

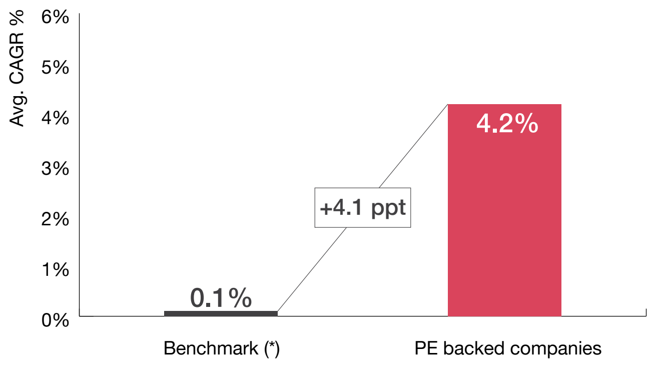
Buy-out

Buy-out - Revenues growth 2011-2021



Source: AIFI and PwC analysis

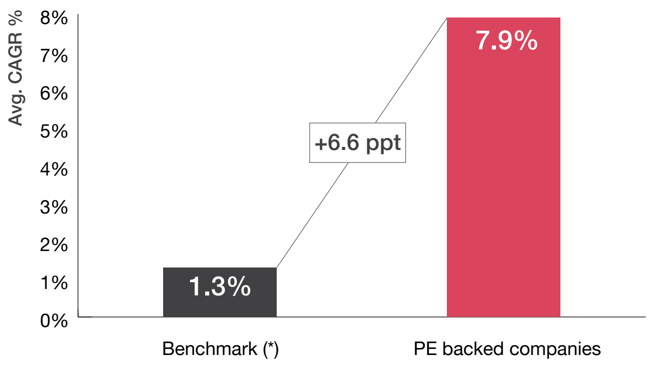
Buy-out - EBITDA growth 2011-2021



Source: AIFI and PwC analysis

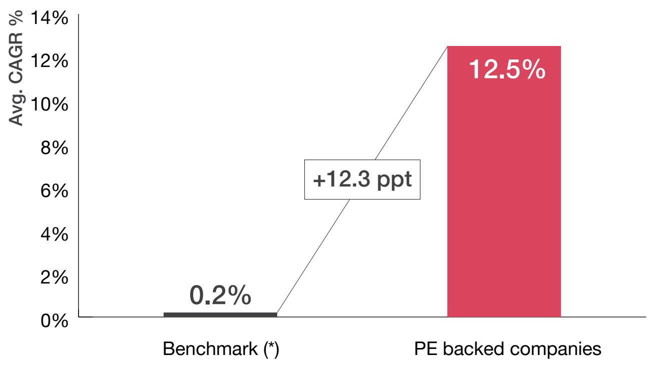
Venture Capital

Venture Capital - Revenues growth 2011-2021



Source: AIFI and PwC analysis

Venture capital - EBITDA growth 2011-2021

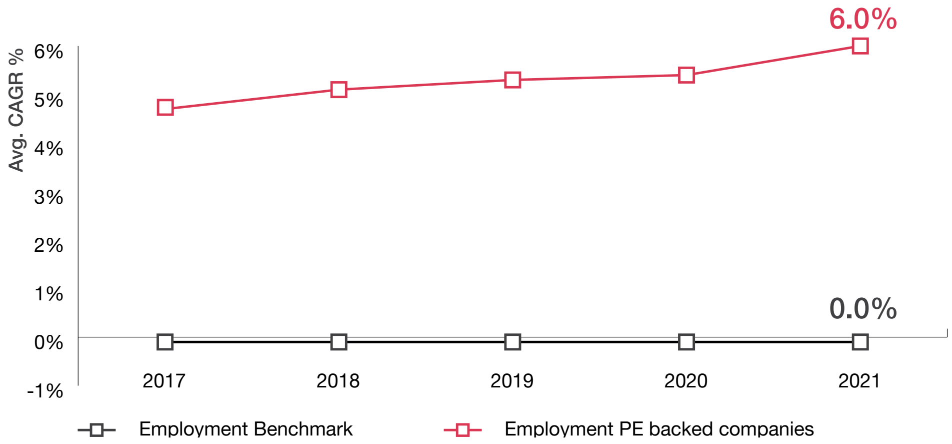


Source: AIFI and PwC analysis

(*) The benchmark used is weighted over the same period of possession of the companies included in the analysed sample, and therefore can vary between Buy-out and Venture Capital

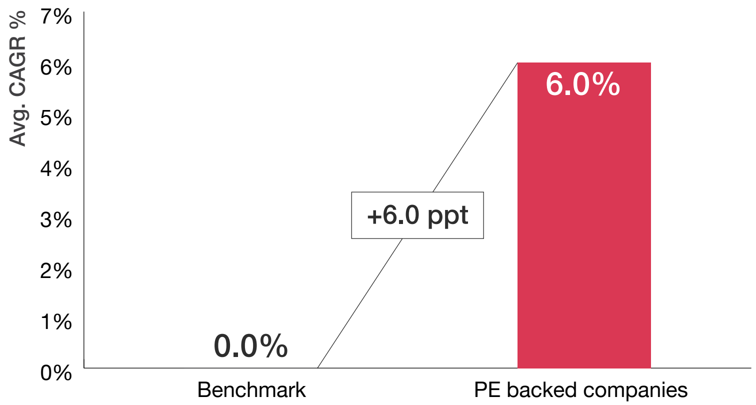
The employment growth rate trend.

Trend of PE backed companies employment growht rate vs benchmark



Source: AIFI and PwC analysis

Employment growth 2011-2021



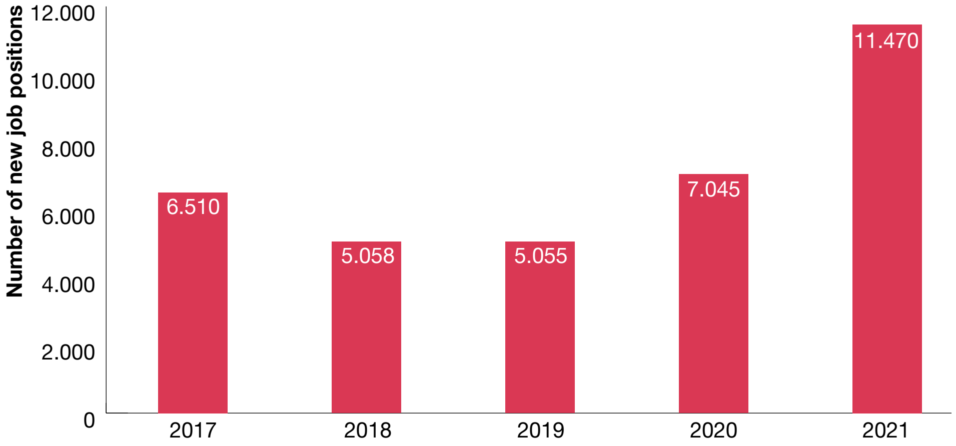
Source: AIFI and PwC analysis

The employment growth rate increased to 6% in 2021 (+0.7% vs 2020), also as a consequence of the relevant revenues growth highlighted in previous pages.

The gap between the employment growth rate of PE backed companies and the benchmark increases to +6 ppt in 2021 (vs +5.5 ppt in 2020), reaching the highest differential recorded over the last five years.

The workforce trend of Private Equity backed companies and the managerial index.

PE backed companies new job positions



Source: AIFI and PwC analysis

The workforce trend of Private Equity backed companies
Over the period 2017-2021 Private Equity backed companies have shown a positive workforce trend, with c. 35k new job positions created overall, resulting from both organic and inorganic growth.
The sample analysed in 2021 contributes with c. 11k of new job positions created amongst PE backed companies, strictly connected with the significant revenues growth.

The managerial index
Private Equity investments also led to an improvement of portfolio companies' management team, with the number of directors increasing at a positive CAGR of 5.3% in 2021 sample analysis.

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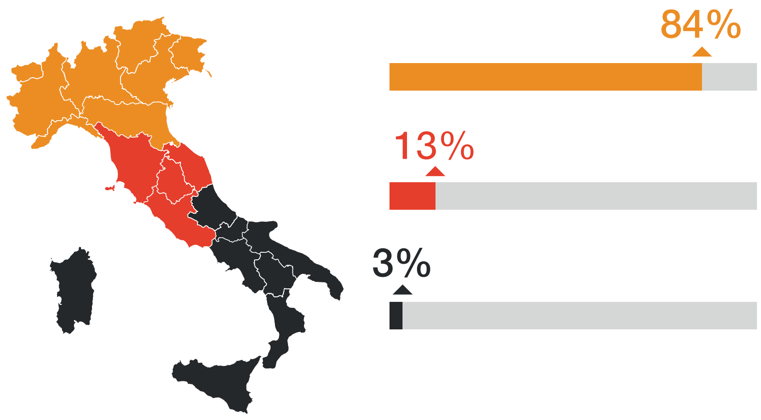
The sample analysed in 2021 and the trend of the last years

Regional and industry distribution.

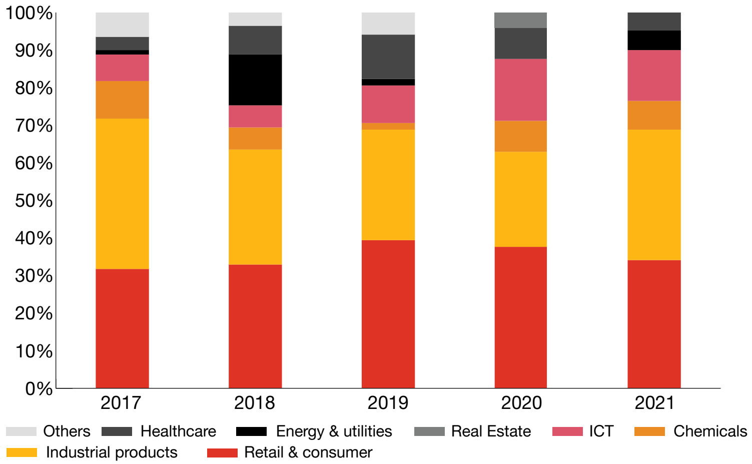


Source: AIFI and PwC analysis

Regional distribution

The sample of divested companies analysed (225 for 2017-2021 period) confirmed a deep concentration of PE transactions in the northern Italy, mainly Lombardy, which remains the first region in terms of number of transactions (37%).

Industry distribution



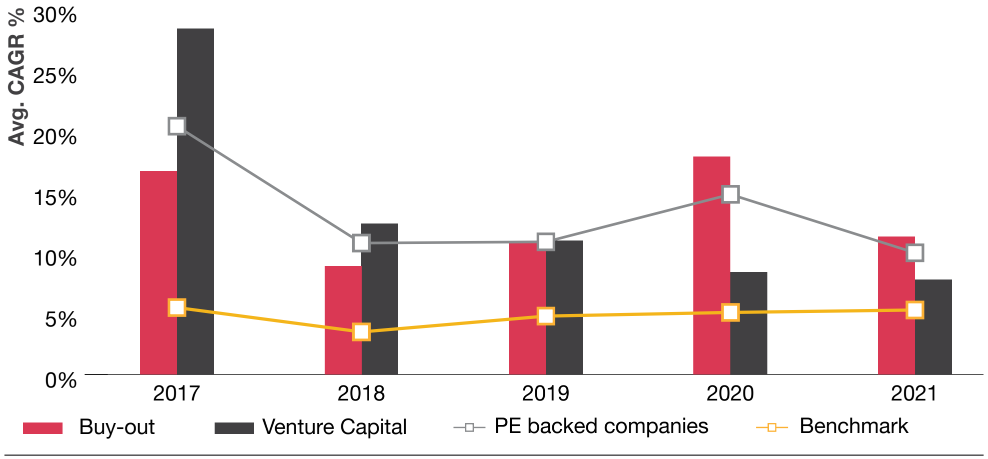
Source: AIFI and PwC analysis

Industry distribution

Retail & consumer and industrial products resulted to be the most relevant industries in PE transactions, with a coverage of 35% and 33% respectively in the PE portfolio. Among the other industries ICT (Information & Communication Technology) amounts to c. 9%, followed by healthcare (7%), chemicals (7%) and energy & utilities (5%).

The Capex index and the leverage ratio.

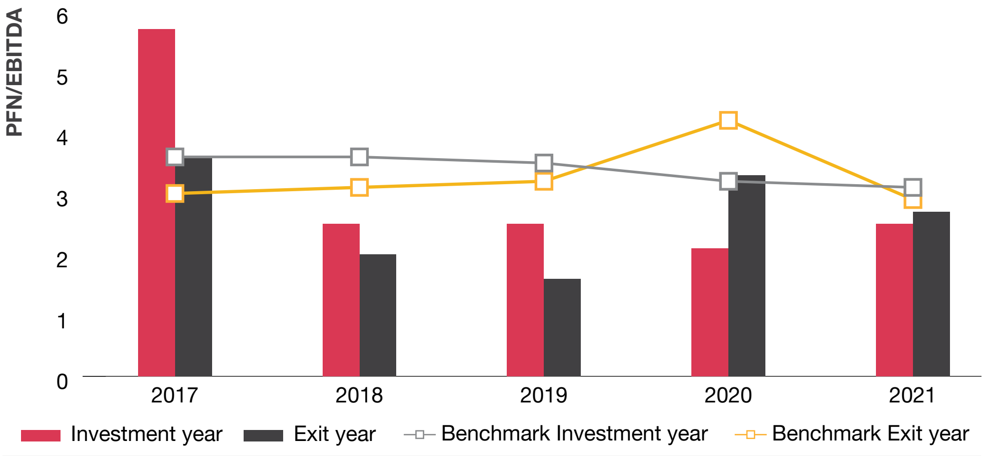
Trend of PE backed companies Capex vs benchmark



Source: AIFI and PwC analysis

Over the period 2017-2021 Capex index* of PE backed companies has always been higher than the benchmark.

Trend of PE backed companies vs benchmark PFN/EBITDA



Source: AIFI and PwC analysis

COVID-19 outbreak has deeply reversed the trend of the last years (characterized by a lower leverage ratio at the time of the divestment). In fact, 2020 and 2021 show an exit leverage ratio higher than the leverage ratio at the time of the investment (respectively 2.7 vs 2.5 in 2021). This could be also linked to an increasing trend of buy and build strategies amongst PE backed companies.

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

A focus on Secondary Buy-out divestment method.

Among the last 5 years analysed companies, the main divestment method was sales to other Private Equity of Venture Capital houses (Secondary Buy-out), which amounted to 34%, followed by trade sales (30%), buy-back of the shares by the original owners (15%), IPO/post IPO operations (8%), sales to financial institutions/private individuals (5%) and write-off (3%).

Out of 34% secondary investments, we performed a specific focus on the companies acquired in a Secondary Buy-out and sold to another Private Equity (Tertiary Buy-out) during the last 5 years (28 out of 225 divestments). The analysis shows that the companies performance, measured in terms of revenues, EBITDA and employees CAGR %, continues to show a positive trend even under the management of other Private Equity funds. Over the 2017-2021 period Tertiary Buy-out revenues, EBITDA and workforce have respectively grown by 7.6%, 4.9% and 9.1%.

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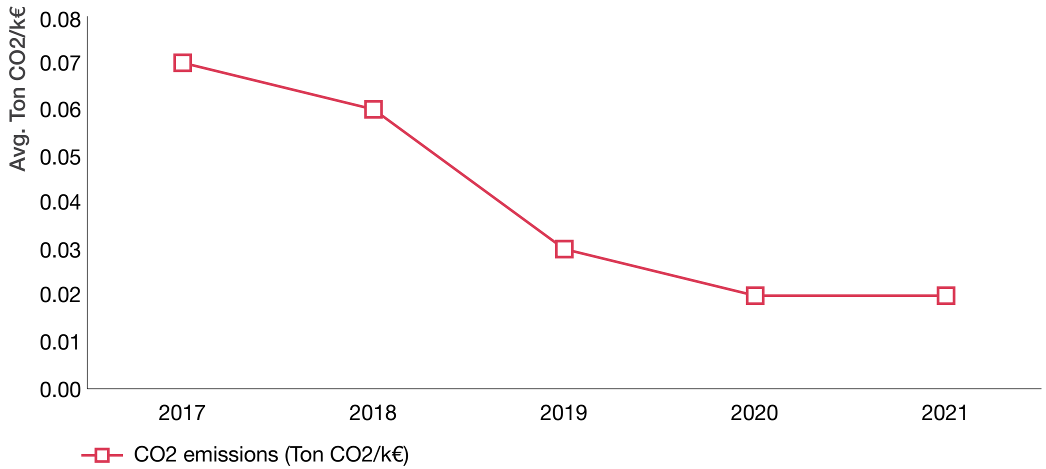
The ESG (Environmental, Social and Governance) focus

ESG is a key topic for Private Equity, confirmed by the fact that c. 25% of companies analysed has started publishing a Sustainability Report after the PE investment. From the analysis of these reports, a number of common key elements has emerged: (i) CO2 emissions ratio decreased by 65% and (ii) gender balance ratio improved by 9% during the last five years, corroborating that PE funds consider the ESG metrics as crucial factors for their portfolio growth.

Trend of CO2 emissions ratio

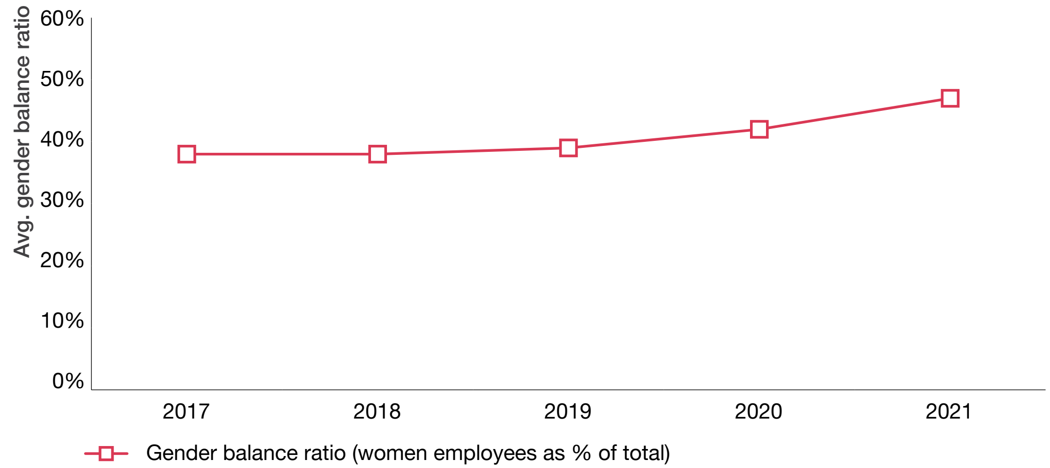


Source: ISTAT, AIFI and PwC analysis

Environmental aspects

CO_2 emissions ratio of PE backed companies sample analysed (measured as tons of CO_2 produced divided by revenues), decreased by 65% during the 5 years under analysis.

Trend of gender balance ratio



Source: ISTAT, AIFI and PwC analysis

Social aspects

The gender balance ratio of the sample analysed (measured as number of women employees on total employees) improved from c. 38% to c. 47% (c. +9%) during the last 5 years.

The main ESG topics considered to be the most critical to improve for the business and its stakeholders are (i) business ethics, (ii) environment, (iii) supply chain and (iv) human resources and social matters.

i) Business ethics	• Personal data protection • Behavioural ethics
ii) Environment	• CO_2 emissions & climate transition • Energy management • Water management • Waste management
iii) Supply chain	• Customer health & safety • Innovation & sustainability • Supply chain management • Environmental and social impact of the supply chain
iv) Human resources and social matters	• Diversity, inclusion and equal treatment • Employees health & safety • Training & development • Work-life balance

Further considerations will be included in our yearly "Global Private Equity Responsible Investment Survey" which will be released at the end of May 2023.

ESG priority topics in the Sustainability Reports of PE backed companies

>80%	• Diversity, inclusion and equal treatment • Training & development • Employees health & safety • Innovation & sustainability • Energy management
>65%	• Customer health & safety • CO_2 emissions & climate transition • Supply chain management • Water management
>50%	• Personal data protection • Behavioural ethics • Work-life balance • Environmental and social impact of the supply chain • Waste management

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Methodology and glossary

This study is designed to investigate the performance of the target companies during the holding period (2011-2021) with a breakdown between Buy-out and Venture Capital.

Sample and holding period

This study has been prepared on a sample basis of 488 divestments (191 Venture Capital and 297 Buy-out related) undertaken in Italy by Private Equity investors in the period 2011-2021.
The sample is representative of divestments over the 2011-2021 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 (2011-2021). In the last years, the average holding period has been equal to approximately 5 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 A “Valore della produzione” 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, Taxes, Depreciation and Amortization) consists of the net earnings calculated before, and without giving effect to (i) interest expenses/income; (ii) income taxes; (iii) depreciation and amortization of balance sheet assets; and (iv) exceptional and non-recurring/operating items.
- **Employees:** headcount consists of the average number of employees per year or the actual headcount at the end of each year where the average information was not available.

Growth rate (CAGR)

CAGR presented in this study for each of the performance indicators (revenues, EBITDA, employment growth rate) is the average CAGR of each company included in the sample.

ESG indicators

The ESG impact of PE players on target companies was measured through a set of indicators based on Sustainability Reports in the year of investment (if not available, close to the year of investment) and in the year of divestment. Measured indicators are as follows:

- **CO2 emissions ratio:** calculated as the GHG emissions intensity (i.e. CO2 equivalent emissions yearly produced) divided by the revenues.
- **Gender balance ratio:** calculated as the women employees divided by the total employees.

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 2011-2021 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; (iii) whose most current financial data were not available; (iv) not representing a true divestment but a mere transfer of shares between shareholders belonging to the same syndicate.
Due to the lack of specific information, it has not been possible to analyse separately the Organic vs. the Inorganic growth (i.e. impact of add-on). However, it should be noted that the sample analysed is fully comparable with the selected benchmark, which also includes the impact of acquisitions.

The benchmark

To measure if the sample performed under or over the market, the results of the research have been compared to the performance of medium and large sized Italian private companies. As previously mentioned, the selected benchmark for comparison was extrapolated from the information included in “Dati Cumulativi di 2,145 società italiane”, a survey compiled by Mediobanca’s Research Department, from which we have extracted information related to private entities only. It should be noted that for comparability reasons the benchmark information was weighted to consider the same holding period of the companies included in the sample analysed.

Term	Definition
Backed Companies	Companies included in a Private Equity portfolio of investment.
Buy-out (BO)	Buying a company using one' own or borrowed money to pay most of the purchase price. The debt is secured against the assets of the company being acquired. The interest will be paid out of the company's future cash flow.
CAGR	Compounded Annual Growth Rate. The year-over-year growth rate of an investment over a specified period of time. The CAGR is a mathematical formula that provides a "smoothed" rate of return. It is really a pro forma number that provides (i) what an investment yields on an annually compounded basis and (ii) an indication to investors what they really have at the end of the investment period. The compounded annual growth rate is calculated by taking the "nth" root of the total percentage growth rate, where "n" is the number of years in the period being considered.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization.
Gross Domestic Product (GDP)	Gross domestic product is a measure of economic activity in a country. It is calculated as the sum of the total value of a country's annual output of goods and services GDP = private consumption + investments + public spending + the change in inventories + (exports - imports). It is usually valued at market price and by subtracting indirect tax and adding any government subsidy, however, GDP can be calculated at factor costs. This measure more accurately reveals the income paid to factors of production. In our analysis we have utilized the real GDP which takes into account the effects of inflation.
Inflation	Raising prices across the board. Inflation erodes the purchasing power of a unit of currency. Inflation usually refers to consumer prices, but it can also be applied to other prices (wholesale goods, wages, assets, etc.). It is usually expressed as an annual percentage rate of change on an index number.
Private Equity (PE)	When a firm's shares are held privately and are not traded in the public markets. Private Equity includes shares in both mature private companies and, as Venture Capital, in newly started businesses. As it is less liquid than publicly traded equity, investors in Private Equity expect on average to earn a higher equity risk premium from it.
Venture Capital (VC)	Private Equity to help new companies to grow. A valuable alternative source of financing for entrepreneurs. For the purpose of this survey, start-up and development financing have been considered as Venture Capital activities.

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