

Italy's M&A Boutiques: A barometer of the country's wider economic climate

The prominence of private equity continues to increase in Italy, with several successful fundraisings over the last six months, the most significant of which were the €1bn first-time fund for Clessidra, which recently held a first close at €560m, and BS Private Equity's IPEF IV, which closed at over €500m. Italy's private equity and M&A market is now at something of a crossroads. The experiences of the Italian M&A boutiques can be taken as an accurate barometer of the wider economic climate, as the business community takes stock after the recent spate of corporate scandals to hit the country.

Conservative estimates suggest that there are somewhere in the region of 15-20 UK-style M&A boutiques in Italy, with a high concentration in Northern Italian industrial regions of Lombardy, Piedmont, Tri-Veneto and Emilia Romagna, although if 'commercialisti' (chartered accountants) are taken into account, this figure could be far higher. Fewer than ten of these firms are active players, with some of the most significant being Livolsi & Partners, Vitale & Associati, Tamburi & Associati, Newport Partners, Stempel & Partners, K Finance srl, Fineurop Soditic, Aurea Corporate Finance and Pandion Partners. Whilst a few firms, such as the fashion specialist Pambianco, have a specific sector focus, most firms are generalist in nature. Private equity is starting to make up a much more significant component of the work of many M&A boutiques, playing an important role in both the buy- and sell-side of different deals. In addition, the presence of foreign funds, such as Henderson Private Capital in the Natexis CAPE fund, confirms investors' interest in smaller deals, with expected stronger growth prospects.



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In terms of competition between individual boutiques, this is usually for relationships rather than for dealflow itself. Joe Capra of the Milan-based firm Newport Partners, which concentrates on cross-border transactions between Anglo-Saxon countries and Italy, says that his firm does not encounter significant competition as 'we try to carve out specific opportunities by presenting ideas that others are not aware of - for example, through our cross-border network. Due to our target transaction size (€10m-100m revenue), we operate below the radar screens of the large investment

banks and are rarely competing head-to-head with other corporate finance firms for a transaction'.

Different boutiques also have different strategic approaches. Whilst some firms market themselves to private equity firms, others market ideas for potential portfolio exits as well as for potential investments. Newport Partners has been approached by a number of private equity firms that have asked the firm to scout for potential investment opportunities in Italy. They have also acted as consultants on Italian fundraising opportunities for foreign private equity funds. Filippo Guicciardi of K Finance comments: 'At the beginning we mainly marketed ourselves to private equity firms. Now, due to the good job done, it is vice versa.'

Capra confirms that his firm has also seen stronger interest in the small- to medium-sized enterprise segment of the market: 'This is due not only to entrepreneurs opening up such an option, but also to the fact that most of the growth opportunities today come from smaller companies rather than large, established businesses. A good example of this shift in investors' appetite is the successful fundraising by Natexis CAPE, which focuses on smaller businesses and which completed a first closing at €87m for its new fund.'

In addition, the business of providing M&A advisory services for smaller companies is now becoming a recognised profession in Italy. According to David Stempel of Stempel & Partners, a newly-established firm which brings together an established network of relationships in Italy and abroad: 'Italian family-owned SMEs have traditionally relied upon the trusted 'commercialista' (chartered accountant). This was the individual who had provided commercial, tax and accounting advice both personal and business over many years - a trusted advisor who knew both the good and the bad.'



'The 'commercialista' is a trusted adviser who knows both the good and the bad, - David Stempel, Stempel & Partners

Furthermore, says Strempele, as the World War II generation reaches its seventies, there is an ever-increasing demand to find solutions for family succession issues. The rising volume of small- to medium-sized companies seeking these solutions, combined with increasingly competitive pressures in most industries (particularly clothing), has created the opportunity for a more dedicated and specialised approach. The increase in M&A boutiques in Italy is, at least in part, a reflection of this trend. Nevertheless, for those M&A boutiques that seek to marginalise the 'commercialist' instead of trying to find a collaborative approach, the inherent danger is that they themselves run the risk of being marginalised or having their potential deal blocked and/or impeded by the 'commercialist'.

Filippo Guicciardi, vice-president of K Finance srl (formerly Translink Corporate Finance), believes that it is fairly difficult to discern a salient trend in the Italian private equity and M&A markets over 2003: 'Whilst there has been a good number of mega-deals, on the other side the mid-market has still been difficult.'



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Roberto Ricci of Newport Partners attributes the increase in his firm's dealflow to 'a greater willingness on the part of entrepreneurs to begin looking at their future plans'. He goes on to highlight the trends which characterised the early part of 2003: 'We noticed that the Iraq War and the contraction of investments by companies had dampened enthusiasm for taking risks, such as those involved in M&A activity. Buyers did not want to acquire, as they did not have a clear view of the future, and potential vendors did not want to sell at what they regarded as a low point in the valuation cycle.'

In common with the Spanish market, the Italian corporate finance market is distinguished from the broader market by virtue of its high number of family-run businesses - in fact, it has the highest concentration of such companies within Europe. Joe Capra points out that the few firms that are on sale are usually in a distressed situation or do not have a generational transfer that would allow for family continuity within the business. Unlike Anglo-Saxon countries, where a family-run business may always be on sale at the 'right' price, many Italian family-run businesses would rarely consider unsolicited offers. 'With corporate assets, once a decision has been made to sell, it can be fast-tracked, whereas with a

family business (except if there are intra-generational issues) the decision to sell, or even to entertain the idea of the entry of a private equity fund, is something that may take time and there may always be last minute changes on whether it is a suitable move, as a family-owned business sees the business as a ramification of the family itself.'

According to David Strempele, corporates are more likely to be advised by M&A specialists than family-owned companies: 'Family assets by their nature have components that often make no financial sense, e.g. areas of business that would not exist if they were not the pet project of one or more family members. Accordingly, when family assets want to come on the market the most value-enhancing proposition is to deal with the parts that do not make economic sense before actually approaching the market with the opportunity.'



'You need to be more a psychologist than a banker' - Filippo Guicciardi, K Finance srl

Filippo Guicciardi highlights the differences between selling a corporate and a family asset: 'They are really two different jobs. If you assist a family you need to be more a psychologist than a banker. You need to bear in mind that you are in discussions with people who are selling their life business and who are managing the only transaction in their life. Negotiating with corporations is totally different, as you have to speak with people more used to this kind of event and who are far less involved on the 'feelings' side.'

Italy still has some way to go in reaching the levels of transparency and ethics taken for granted in countries such as the United States and the United Kingdom. David Strempele states that: 'Witnessing the corporate scandals that are playing out on both sides of the Atlantic, no country can cast the first stone on this issue. Italy, however, has further to go than most others. Avoiding taxes was - and most likely still is - done almost as a sport and with pride. Nevertheless, because of Italy's frequent tax amnesties, the issue can largely be put aside in terms of impact on M&A transactions. It also does not help that banks lending to small companies (usually on receivable balances) often do not require audited financials (e.g. if the company falls below the statutory threshold for audited accounts).'

Inevitably, the level of large corporate divestments has been

boosted by the recent scandals involving Fiat, Parmalat and Cirio. In general, however, divestments peaked around two years ago, when large groups such as Telecom Italia and Fiat over-gearred and went on a spending spree.

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In terms of the types of transaction that are happening, the auction is not yet that common a process in Italy, usually occurring on larger transactions. However, its importance looks set to increase as the number of M&A specialists rises, and diverts dealflow away from the 'commercialisti'. Newport Partners has not seen an increase in the number of public-to-private deals in Italy, commenting that: 'With private deals we are seeing both buyers and vendors requesting earnouts. The buyers want them so that that price is related to results (and hence minimises the risk of overpaying for an acquisition), whereas many vendors are bullish on future prospects (or want to share in potential turnarounds of recent restructurings) and hence want this

reflected in the price.' In contrast, K Finance has found the public-to-private is fairly common due to the bad performance of the Stock Exchange, and is currently studying an opportunity in this area. According to Filippo Guicciardi, 'Vendor earnouts are typically claimed by foreign buyers, but Italian entrepreneurs do not like it because they think that after having sold their company, they are no longer able to manage it as they did in the past, due to the bureaucracy of large multinational companies.'

With regard to the prospects for the IPO market in 2004, there is a general feeling that the Parmalat and Cirio affairs have effectively put a dampener on the stock market. Furthermore, these corporate scandals have damaged the start-up environment, which in turn feeds part of the IPO pipeline. However, many small companies are examining the possibility of floating on Expandi, which is modelled on the London Stock Exchange's AIM.

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