



# WHY NOT ITALY?

*Research coordinated by Prof. Stefano Caselli, Bocconi University, Milan*

*Milan, April 2<sup>nd</sup> 2015*

# Why not Italy?

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- ▶ Why not Italy? is a platform to attract talented human capital and people willing to invest in Italy.
- ▶ Why not Italy? is a **Think Tank** that, as an independent and self managing initiative, aspire to promote, demonstrate and illustrate **the best side of the Italian system** as a whole at international level.
- ▶ The aim starts from a relevant group of top class University Professors, Business Advisors, Private Equity General Partners and Institutional Bodies Representatives with a successful international high-level track record, willing to highlight to the international community the **positive figures of the Italian entrepreneurial system** – in several cases completely unknown.
- ▶ Why not Italy? set out from a clear financial view of the issue of Italian competitiveness but, defending the role of Italy as a target for the inflow of capital by leveraging the credibility and know-how of its members as weighty “testimonials” and international capital markets business operators, Why not Italy? assumes the positive **role of a civil service to the Country and to the International Investors Community**. The group is based on simple and effective rules which include adhesion to the group restricted to key-players admitted only via unanimous approval without chances to delegate the participation.

# Why not Italy?

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- ▶ **The members of the Why Not Italy? Group are:**
- ▶ *Stefano Caselli* (Vice Rector for International Affairs at Bocconi University; Full Professor of Banking and Finance at Department of Finance of Bocconi University);
- ▶ *Guido Corbetta* (Professor of Corporate Strategy, Università Bocconi),
- ▶ *Mario De Benedetti* (CEO and Founding Partner of Hirsh Group),
- ▶ *Edoardo Lanzavecchia* (CEO and Founding Partner of Alpha),
- ▶ *Raffaele Legnani* (Managing Director, H.I.G. European Capital Partners),
- ▶ *Andrea Montanino* (Director, Global Business and Economics Program, Atlantic Council),
- ▶ *Eugenio Morpurgo* (CEO, Fineurop),
- ▶ *Luca Peyrano* (Head of Continental Europe, Primary Markets, Borsa Italiana - London Stock Exchange Group),
- ▶ *Dante Roscini* (L.E. Simmons Professor of Business, Government and the International Economy at the Harvard Business School)
- ▶ *Fabio Sattin* (Chairman and Founding Partner of Private Equity Partners),
- ▶ *Claudio Sposito* (Chairman and Founding Partner of Clessidra),
- ▶ *Nino Tronchetti Provera* (CEO e Founding Partner of Ambienta).
  
- ▶ Chairman: Fabio L. Sattin.
  
- ▶ Chairman of the Scientific Committee: Prof. Stefano Caselli

# Agenda

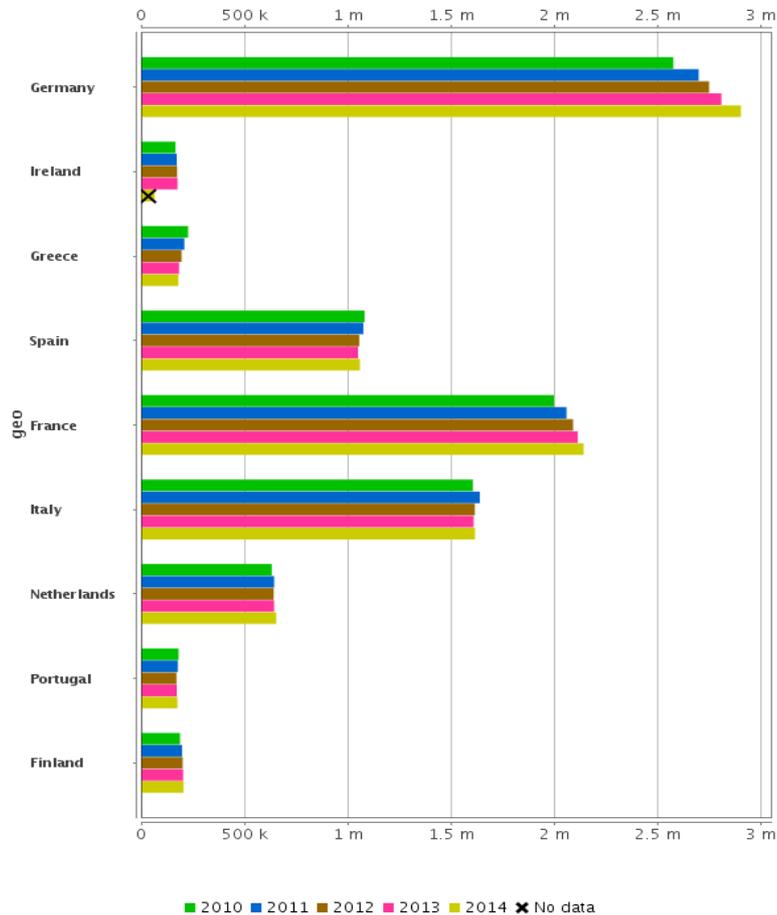
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1. The third largest economy in Europe after Germany and France
2. Wealthy families committed to sustain the real economy
3. A solid banking system
4. A country of excellence in different niches
5. An unexploited value from its cultural and environmental heritage
6. Development of Southern Italy, a logistic platform for future developments
7. A developed private equity system
8. A developed Stock Exchange
9. Attracting and appealing people from all the world: where there is need to invest?

1. The third largest economy in Europe after Germany and France

# GDP and firms in Italy

Gross domestic product at market prices  
At current prices  
Current prices, million euro



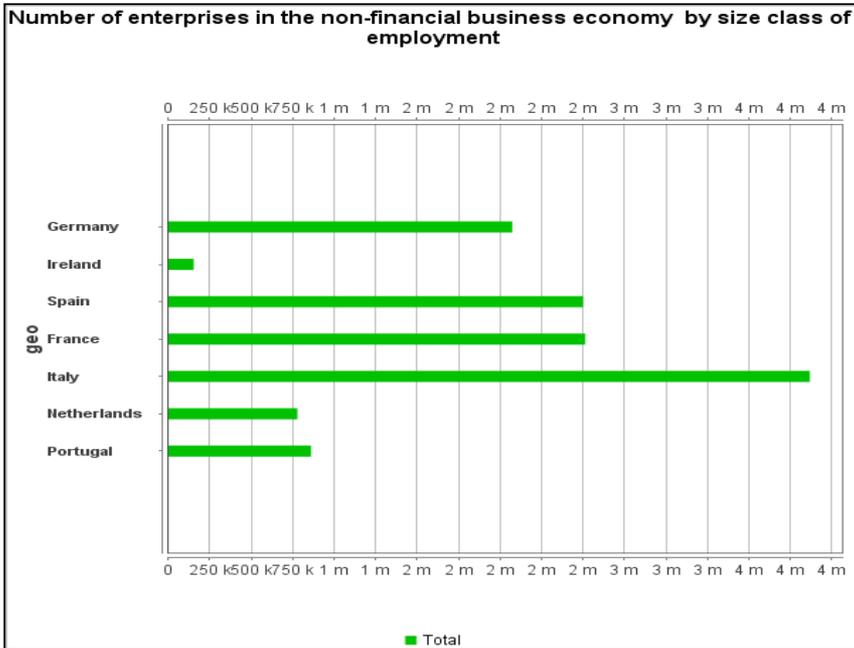
Source: Eurostat

- ▶ Italy is the third largest economy in the European Union
- ▶ Basically, Italy is an export country even though import is important because of the lack of oil, gas, and raw materials
- ▶ The Italian Government is developing a policy based on fiscal consolidation, growth and social fairness
- ▶ Apart from high public debt, in Italy there are no major macroeconomic imbalances: no major bubbles in the housing market, low household debt, fundamentally sound banking system, no major external imbalances

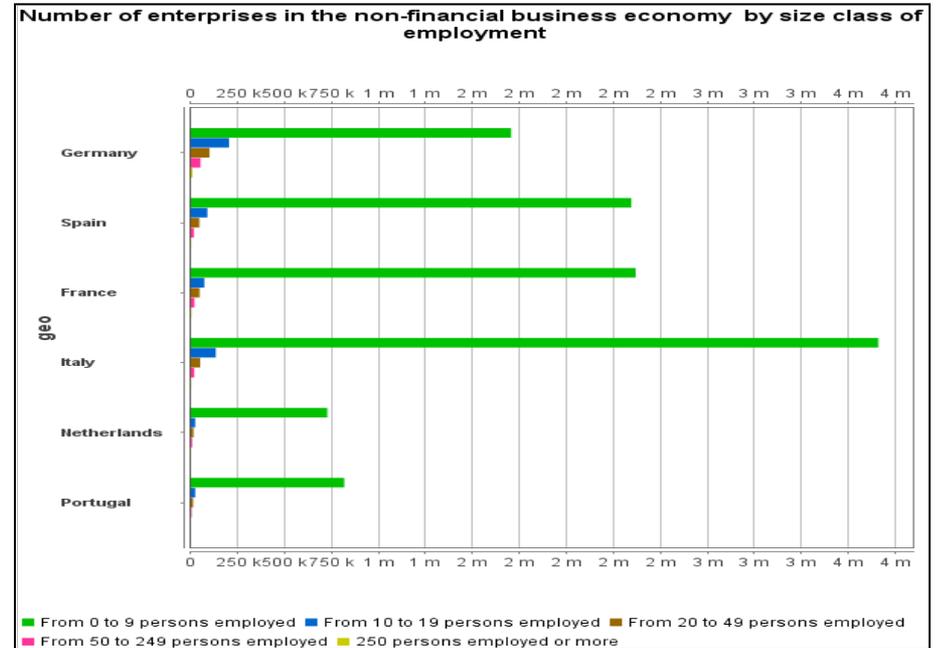
Italian GDP composition (mkt prices)	2010	2011	2012	2013	2014
Final consumption expenditure of households	971.333,0	999.771,6	986.419,0	968.982,4	974.191,1
Final consumption expenditure of general government	327.648,0	320.918,0	315.878,0	315.723,0	314.496,0
Gross capital formation	329.530,4	335.061,9	288.027,5	278.523,2	267.091,7
Exports of goods and services	404.148,5	442.218,9	461.172,0	463.768,6	474.648,3
Imports of goods and services	435.744,3	467.931,9	445.023,8	426.431,9	423.301,8
<b>Gross domestic product at market prices</b>	<b>1.605.694,4</b>	<b>1.638.857,3</b>	<b>1.615.131,2</b>	<b>1.609.462,2</b>	<b>1.616.047,5</b>

Source: Eurostat

# GDP and firms in Italy



Source: Eurostat



Source: Eurostat

- ▶ Italy counts the largest number of companies among European countries
- ▶ Even though MSMEs are very important in all European countries, Italy has based its development on micro companies: in fact, in every sector the large majority of companies has less than 10 employees
- ▶ More over, many Italian companies are:
  - ▶ Personally owned limited and unlimited liability partnerships. Included are also other level forms such as co-operatives, associations, etc.
  - ▶ Private or publicly quoted joint stock companies with limited liability for those owning shares

# GDP and firms in Italy

- ▶ According to the World Bank data, Italy has always been among the ten most important developed countries in the world
- ▶ The ranking is the same for both boom and crisis periods: it means that the Italian economy is strongly connected to the rest of the world
  - ▶ It must be underlined that Italy can't exploit any country advantage like raw materials, low labor costs, energy, oil, etc.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
United States	1	1	1	1	1	1	1	1	1	1	1	1	1	1
China	6	6	5	6	6	5	4	3	3	3	2	2	2	2
Japan	2	2	2	2	2	2	2	2	2	2	3	3	3	3
Germany	3	3	3	3	3	3	3	4	4	4	4	4	4	4
France	5	5	6	5	5	6	6	6	5	5	5	5	5	5
United Kingdom	4	4	4	4	4	4	5	5	6	6	6	6	6	6
Brazil	10	11	13	13	13	10	10	10	9	8	7	7	7	7
Italy	7	7	7	7	7	7	7	7	7	7	8	8	9	8
Russian Federation	17	16	16	16	16	14	11	11	8	12	11	9	8	9
India	13	13	12	12	12	13	14	12	12	10	9	10	10	10
Canada	8	9	9	9	9	8	8	9	11	11	10	11	11	11
Australia	14	15	15	15	14	15	15	15	14	13	13	13	12	12
Spain	11	10	10	8	8	9	9	8	10	9	12	12	13	13
Korea, Rep.	12	12	11	11	11	12	13	13	15	15	15	15	15	14
Mexico	9	8	8	10	10	11	12	14	13	14	14	14	14	15
Indonesia	20	20	19	19	20	20	20	19	20	18	18	16	16	16
Netherlands	15	14	14	14	15	16	16	16	16	16	16	17	18	17
Turkey	16	18	18	18	17	17	17	17	17	17	17	18	17	18
Saudi Arabia	19	19	20	20	19	19	19	20	19	20	20	19	19	19
Switzerland	18	17	17	17	18	18	18	18	18	19	19	20	20	20

Source: World Bank

# GDP among Italian Regions

GDP among Italian Regions	2010	2011	2012
Lombardia	328.473,73	334.463,67	331.405,09
Lazio	168.318,82	170.985,11	169.483,00
Veneto	144.322,71	148.440,99	146.605,09
Emilia-Romagna	137.667,17	142.408,22	140.913,76
Piemonte	123.864,73	126.606,40	124.926,29
Toscana	104.025,73	106.234,54	105.895,25
Campania	95.967,81	96.026,12	95.487,96
Sicilia	85.090,96	84.993,70	84.888,37
Puglia	70.242,26	71.210,66	70.313,66
Liguria	43.557,66	44.467,83	44.064,49
Marche	40.504,28	40.952,34	40.191,61
Friuli-Venezia Giulia	35.644,26	36.293,89	35.995,94
Trentino Alto Adige	34.313,07	35.153,01	35.404,95
Calabria	33.329,03	33.414,46	33.281,74
Sardegna	32.766,05	33.129,86	33.025,14
Abruzzo	28.999,22	30.090,46	30.048,12
Umbria	21.402,84	21.569,89	21.222,06
Basilicata	10.370,68	10.627,79	10.516,05
Molise	6.400,31	6.370,24	6.384,89
Valle d'Aosta	4.423,69	4.490,40	4.442,50
<b>Total</b>	<b>1.549.685,01</b>	<b>1.577.929,58</b>	<b>1.564.495,97</b>

- ▶ Wealth and number of companies are not equally distributed across the country. On average, Northern Regions are richer and more developed
  - ▶ In particular, these Regions produce more than the half of the whole Italian Added Value
- ▶ Basically, the Italian economy is based on services. Anyway, the manufacturing sector is particularly developed in the North of the country
- ▶ Italian Regions are very different not only with reference to economic results, but also with regards the ability to export or to create innovation

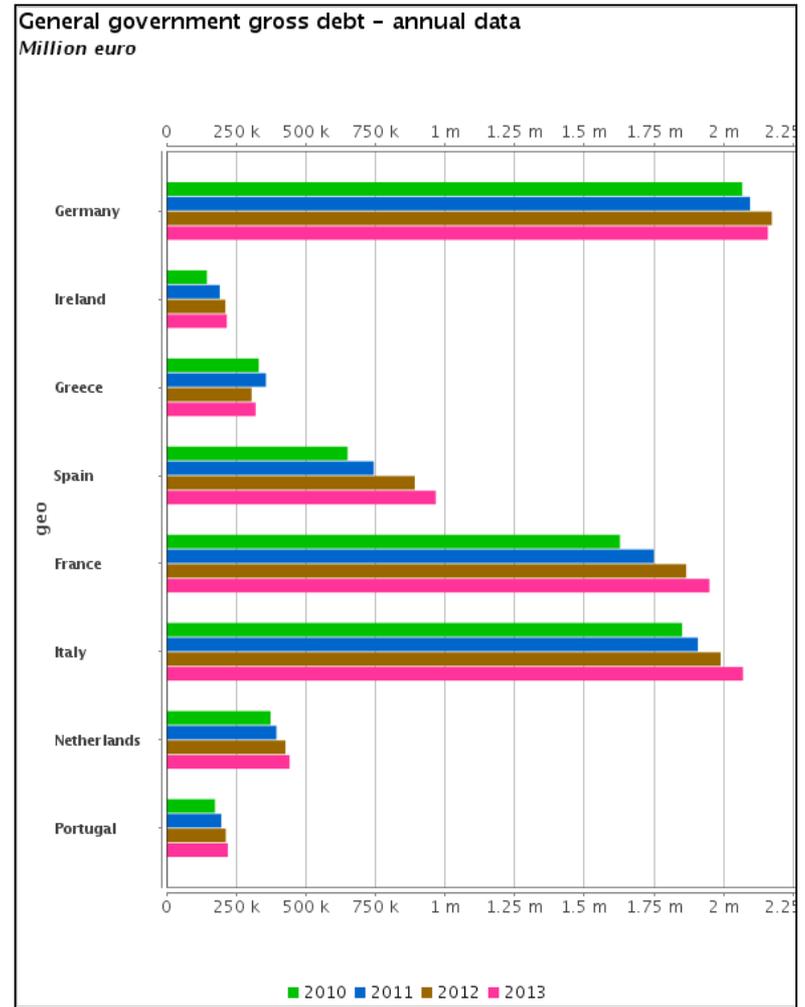
Source: Istat

# The Italian Government finance

- ▶ The Government finance situation is not as bad as it sounds, even though Italy has never been a low debt country. In fact, gross Government debt (and expenses for interests) is high
- ▶ At the same time, data on primary balance (and net borrowing) is much better than the ones of the other important European countries

General Government underlying primary balances - as % of potential GDP	2010	2011	2012	2013	2014E	2015F	2016F
France	-3,7	-2,5	-2,1	-1,3	-1,5	-1,1	-0,9
Germany	-0,1	0,9	1,6	1,6	1,5	1,1	1,0
Greece	-6,0	-0,7	2,9	6,7	7,6	7,7	7,8
Ireland	-5,0	-3,7	-2,0	0,0	1,1	1,0	0,9
Italy	1,0	1,2	3,8	4,1	4,4	4,4	4,9
Netherlands	-3,4	-3,4	-2,5	-0,4	0,1	0,1	-0,1
Portugal	-5,7	-2,2	-0,2	2,0	2,7	3,3	3,3
Spain	-6,3	-5,4	-2,2	-0,8	0,1	0,6	1,3
Euro area	-2,1	-1,1	0,2	0,9	1,1	1,1	1,3
Total OECD	-4,8	-3,7	-2,8	-1,7	-1,2	-1,0	-0,7

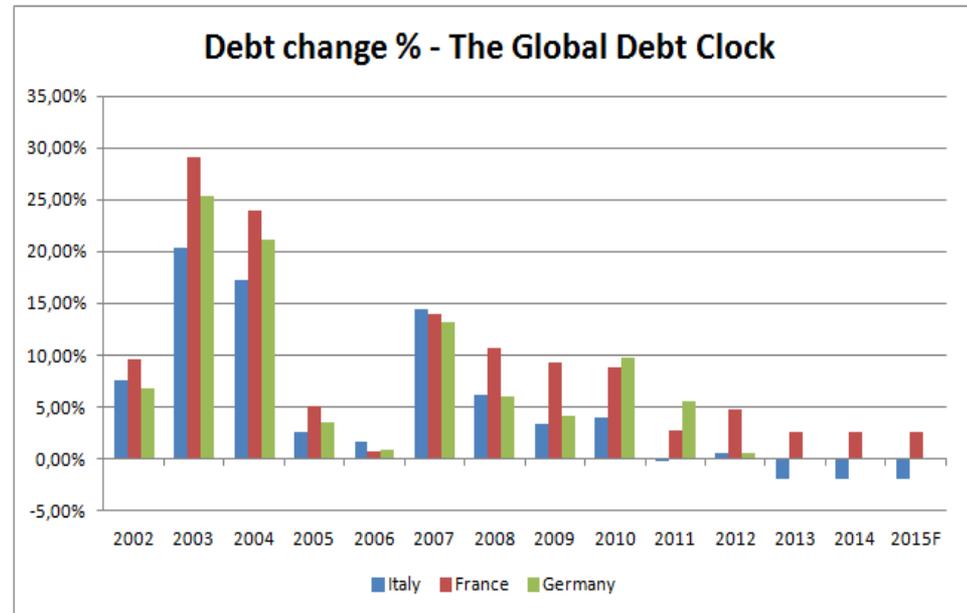
Source: OECD



Source: Eurostat

# The Italian Government finance

- ▶ The Italian Government, rather than to adopt countercyclical policies, in recent years has preferred to strengthen the budgetary austerity. For this reason, Italy's fiscal stance is strong
- ▶ In particular, one of the main objectives of the economic policy since 2009 has been the reduction of the amount of the whole Government debt
  - ▶ The reduction is expected also in 2015



Source: The Economist – The Global Debt Clock

# The Italian Government finance

- ▶ The EU Sustainability Ranking (by Stiftung Marktwirtschaft) shows that Italy has the strongest position in the European region if the Government finance analysis took into consideration not only the existing debt, but also the implied debt for the future and the demographic trend
  - ▶ The implied debt considers the Government spending related to pensions, welfare, assistance to people
- ▶ This evidence demonstrates that the level of explicit public debt does not predict the level of implicit public debt
- ▶ Debt of Italian families and companies is not as high as the Government's one
- ▶ Also the financial position with the Rest of World is not as bad as it sounds

**EU Sustainability Ranking\* 2014 (Base Year 2013)**

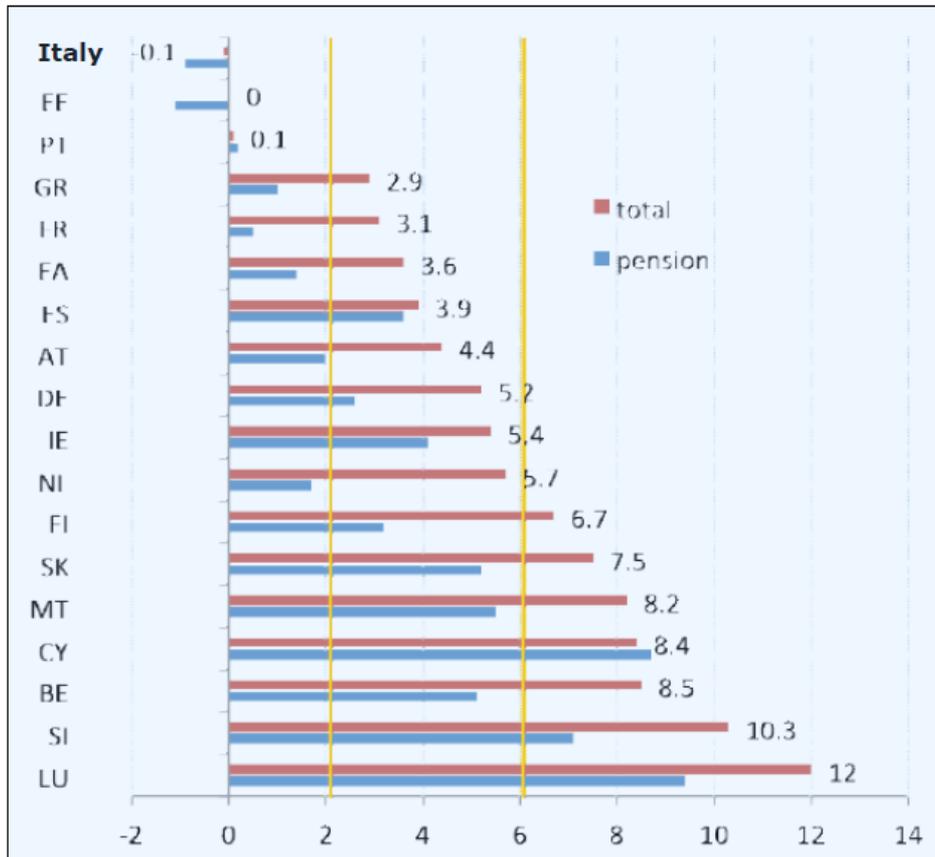
	<i>in % of GDP</i>	Explicit Debt	+ Implicit Debt	= Sustainability Gap
1	Latvia	38	17	55
2	Italy	128	-23	105
3	Estonia	10	115	125
4	Portugal	128	3	131
5	Germany	77	81	157
6	Hungary	77	95	173
7	Poland	56	150	206
8	Lithuania	39	212	251
9	Austria	81	173	254
10	Denmark	45	255	300
11	Romania	38	265	303
12	Bulgaria	18	305	323
13	Czech Republic	46	306	352
14	Malta	70	282	352
15	Sweden	39	327	365
16	Slovak Republic	55	411	465
17	France	92	388	480
18	Netherlands	69	432	501
19	Finland	56	456	512
20	Greece	175	356	531
21	Slovenia	70	507	577
22	United Kingdom	87	509	596
23	Spain	92	526	618
24	Belgium	105	574	678
25	Cyprus	102	592	694
26	Ireland	123	752	875
27	Luxembourg	24	1020	1043
ø	EU27	87	254	341

Source: Stiftung Marktwirtschaft

# The Italian Government finance

## LONG RUN PROJECTIONS OF AGE-RELATED SPENDING

Projected 2010 to 2060 changes in age-related expenditure (as a % of GDP)



Projected total changes 2010-2060 (pensions, health care, education, unemployment):

**Under 0%**  
ITALY

**Small < 2%**  
PT

**2 < Medium < 6%**  
GR, FR, ES,  
AT, DE, IE, NL

**Large > 6%**  
FI, SK, MT, CY,  
BE, SI, LU

Source: Fiscal Sustainability Report 2012



# The Italian Government finance

- ▶ The Italian Government started a survey to calculate a market value for all its assets, but results aren't available yet because of a number of difficulties to identify the actual role of central and local public entities in such deals
  - ▶ The new deadline is scheduled for July 2015
  
- ▶ The available data (referring to a previous survey), basically, show that State liabilities exceed assets, but the difference is far less than the value of Government debt
  - ▶ In a theoretical point of view, the loss given default for funders of Italy would be very low (about 3% of the exposure)

Assets (mil. €)	2004 Market value	Liabilities (mil. €)	2010 Market value
Cash and cash equivalent	276,00	Net State debt	1.732,00
Loans and receivables	356,00	Debt of local entities	111,00
Intangibles	78,00	Debt of security institutions	37,00
Participation	132,00		
Real estate assets (valuation at 2010)	309,00		
Infrastructures	386,00		
Natural sources	176,00		
Cultural heritage assets	37,00		
Other properties	70,00		
<b>TOTAL</b>	<b>1.820,00</b>	<b>TOTAL</b>	<b>1.880,00</b>
<b>SURPLUS (+) /</b>			
<b>DEFICIT (-)</b>			
(mil. €)		<b>-60,00</b>	

Source: Ministry of Economy and Finance

# The Italian Government finance

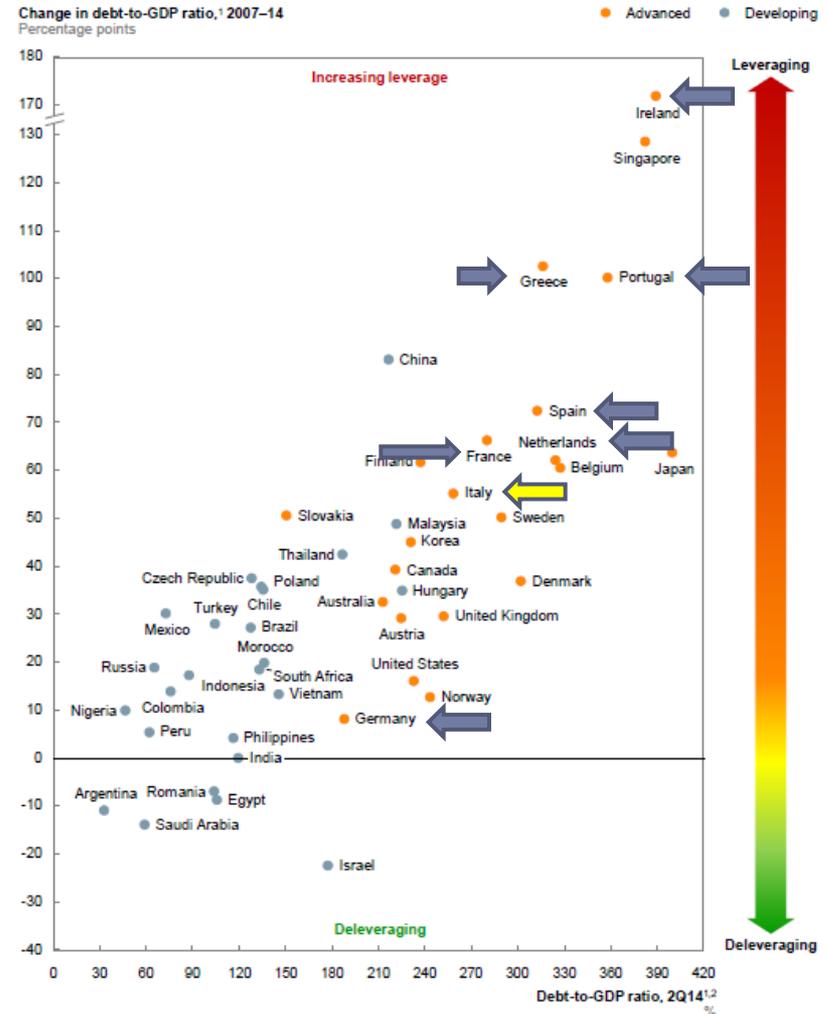
- ▶ The Italian Central Government still owns significant holdings, or the entire ownership, in many big companies. The figure shows the direct participations owned by the Ministry of Economy and Finance



Source: Ministry of Economy and Finance

# The Italian financial situation

- ▶ Italy is not a risky country in a financial point of view
- ▶ The overall leverage is moderate and lower than the one of other European countries
  - ▶ The Italian situation is characterized by the high ratio of Government debt to GDP
- ▶ In Italy, the need for deleveraging is not compelling, and the drag on economic growth is likely to be modest



Source: McKinsey Global Institute

# The Italian financial situation

Gross External Debt Position										
2014Q3 - Million USD	ITALY	GERMANY	FRANCE	SPAIN	IRELAND	GREECE	PORTUGAL	UK (2013Q4)	USA (2013Q3)	JAPAN
General Government	1,021,478	1,721,211	1,656,900	583,522	167,801	343,754	214,974	715,261	5,681,231	925,711
<i>Short-term</i>	100,409	122,337	242,042	61,501	5,688	6,636	4,195	25,993	645,767	448,816
<i>Long-term</i>	921,069	1,598,874	1,414,858	522,021	162,113	337,117	210,779	689,268	5,035,464	476,895
Other Sectors (non financial)	411,162	680,038	945,824	420,149	1,131,991	26,142	64,11	2,699,196	5,559,625	710,332
Gross External Debt Position	2,501,844	5,314,297	5,498,719	2,144,709	2,101,682	520,14	515,217	9,409,445	16,022,800	2,976,191

Source: World Bank

- ▶ The Italian external debt is much lower than the one of other developed countries
- ▶ The Italian level of aggregate debt is aligned to the French one and, by the way, it is far from the one of Ireland, Portugal or Greece

2013 (% of GDP)	Private debt (consolidated)	General Government gross debt	Total debt
Ireland	270,3	123,3	393,6
Portugal	202,8	128,0	330,8
Greece	135,6	174,9	310,5
Spain	172,2	92,1	264,3
Italy	119,5	127,9	247,4
France	137,3	92,2	229,5
Germany	103,5	76,9	180,4

Source: Eurostat

# The Italian financial situation

Gold (Tonnes)*	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014
China	1.054,09	1.054,09	1.054,09	1.054,09	1.054,09
ECB	501,45	502,10	502,07	502,07	503,19
France	2.435,41	2.435,41	2.435,38	2.435,38	2.435,38
Germany	3.400,95	3.396,29	3.391,34	3.387,14	3.384,19
Greece	111,60	111,63	111,88	112,16	112,44
<b>Italy</b>	<b>2.451,84</b>	<b>2.451,84</b>	<b>2.451,84</b>	<b>2.451,84</b>	<b>2.451,84</b>
Japan	765,22	765,22	765,22	765,22	765,22
Portugal	382,51	382,48	382,48	382,48	382,51
Russia	788,62	882,96	957,76	1.035,21	1.208,19
Spain	281,61	281,61	281,61	281,61	281,58
Switzerland	1.040,08	1.040,07	1.040,07	1.040,06	1.039,99
United Kingdom	310,25	310,25	310,25	310,25	310,25
United States	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46

Source: World Gold Council

- ▶ According to the data of World Gold Council, Italy has about 2.500 tonnes of gold reserves and it has always been one of the country with the highest level of such type of reserves

FX Reserves (US\$ Millions)	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014
China	2.866.079,26	3.202.788,53	3.331.120,02	3.839.547,77	3.859.168,02
Japan	1.061.489,86	1.258.172,44	1.227.147,07	1.237.217,78	1.231.009,87
Switzerland	223.480,61	279.390,30	475.659,22	495.957,98	505.462,66
United States	121.391,59	136.912,46	139.133,88	133.533,51	119.048,75
United Kingdom	68.344,79	79.272,31	88.596,00	92.403,78	95.697,78
Germany	62.294,87	66.928,15	67.422,25	67.365,13	62.266,01
France	55.799,97	48.611,52	54.230,62	50.848,77	49.547,37
<b>Italy</b>	<b>47.684,11</b>	<b>49.185,20</b>	<b>50.498,86</b>	<b>50.774,98</b>	<b>47.688,77</b>
Spain	19.146,42	32.843,18	35.522,62	35.429,93	39.493,95
Netherlands	18.471,15	20.264,15	22.050,30	22.591,41	19.307,08
Portugal	3.651,91	1.974,60	2.196,02	2.777,52	4.869,35
Greece	1.309,47	1.248,66	1.269,62	1.419,65	1.876,60

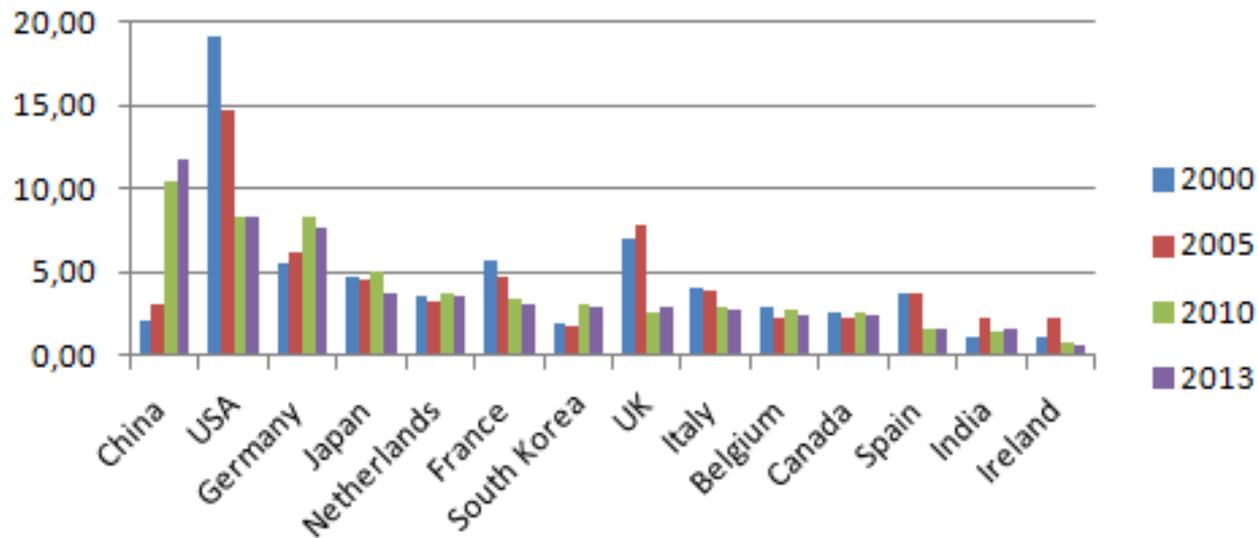
Source: World Gold Council

- ▶ Italy may also count on a large amount of reserves of foreign currencies
  - ▶ It must be remembered that Italy, owing to the lack of raw materials, has to face more difficulties to accumulate foreign currencies



# The Italian export

## Export market share of some countries



- Among main difficulties associated to the Italian export performance:
- Limited average size of firms
- High cost of credit
- Limited access to export credit
- Limited promotion activities compared to peers

Source: WTO

- ▶ The recent economic and financial turmoil has hit the Italian export companies, but at the same time, also other developed countries have suffered the competition on international markets
- ▶ In fact, Italian, but also French, German, American and Japanese exports are affected by the Chinese development.

# The Italian export

	MERCHANDISE - Share in world total exports	Ranking	COMMERCIAL SERVICES - Share in world total exports	Ranking
China	11,74%	1	4,41%	5
USA	8,39%	2	14,25%	1
Germany	7,72%	3	6,16%	3
France	3,08%	6	5,09%	4
Japan	3,80%	4	3,13%	8
<b>Italy</b>	<b>2,75%</b>	<b>11</b>	<b>2,37%</b>	<b>14</b>
UK	2,88%	8	6,30%	2
Spain	1,68%	18	3,13%	9
Ireland	0,61%	36	2,70%	11
Portugal	0,33%	54	0,58%	35

Source: WTO data

- ▶ Basically, the Italian export is centered on merchandise, while services are not exploited enough (i.e., logistics)
- ▶ *Made in Italy* is not just fashion, food & beverage, luxury goods, but much other...

The most important products exported by Italy	2009	2010	2011	2012	2013	2014
Machineries for general and special uses	16,30%	15,50%	15,60%	15,40%	15,80%	16,20%
Pharmaceutical preparations	3,60%	3,60%	3,60%	3,90%	4,50%	4,70%
Clothing	3,90%	3,60%	3,60%	3,60%	3,80%	3,80%
Vehicles	3,40%	3,50%	3,40%	3,40%	3,60%	3,80%
Oil refining products	3,20%	4,30%	4,40%	3,20%	4,20%	3,50%
Basic chemicals, fertilizers, and plastics or synthetic rubber products as intermediate goods	3,10%	3,60%	3,60%	3,50%	3,40%	3,30%
Parts and accessories for motor vehicles and engines	2,70%	3,10%	3,10%	2,90%	3,10%	2,90%
Plastics	2,70%	2,70%	2,60%	2,50%	2,60%	2,60%
Base metals, precious metals and other	2,10%	2,50%	3,40%	3,70%	2,80%	2,50%
Other metal products	2,50%	2,40%	2,50%	2,40%	2,40%	2,40%
Footwear	2,10%	2,10%	2,10%	2,00%	2,20%	2,20%

Source: Ministry of Economic Development

# The Italian export

Destination of Italian export	2009	2010	2011	2012	2013	2014
Germany	12,70%	13,00%	13,10%	12,50%	12,40%	12,60%
France	11,60%	11,60%	11,60%	11,10%	10,80%	10,60%
USA	5,90%	6,00%	6,10%	6,80%	6,90%	7,50%
UK	5,10%	5,20%	4,70%	4,90%	5,00%	5,30%
Swiss	4,60%	4,70%	5,50%	5,90%	5,20%	4,80%
Spain	5,70%	5,80%	5,30%	4,70%	4,40%	4,50%
China	2,30%	2,60%	2,60%	2,30%	2,50%	2,60%
Turkey	1,90%	2,40%	2,70%	2,70%	2,60%	2,50%

Source: Ministry of Economic Development

- ▶ The Italian export is suffering because it is strictly related to the evolution of the European partners
- ▶ The flight to quality must be “a must” for the Italian entrepreneurs
- ▶ Compared to other developed countries, the higher number of SMEs and the greater product diversification allow Italy the ability to intercept and capture the new chances on the international markets, including temporary niche opportunities
  - ▶ On the other side, this very high flexibility can create some problems to build and give continuity to trade relations

- 
2. Wealthy families committed to sustain the real economy

# The wealth of Italian families

- ▶ At the end of 2013, the net wealth of Italian households, that is the sum of real assets (houses, land, etc.) and financial assets (deposits, bonds, stocks, etc..), net of financial liabilities (mortgages, personal loans, etc.), was equal to about 8,7 bill. Euro
  - ▶ In particular, about 5 bill. Euro refer to real estate
- ▶ On average, every family has a wealth of about 350 thousands Euro, where the largest part is related to the ownership of the house
- ▶ Data confirm that Italians have a greater propensity for real estate investments

<b>Net household Wealth (bil. €)</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Real Asset	2.673,00	3.239,00	4.841,00	6.180,00	5.978,00	5.767,00
<i>of which: Real Estate</i>	<i>2.181,00</i>	<i>2.660,00</i>	<i>4.099,00</i>	<i>5.308,00</i>	<i>5.119,00</i>	<i>4.908,00</i>
Financial Assets	1.767,00	3.004,00	3.668,00	3.539,00	3.769,00	3.848,00
<b>Net Wealth</b>	<b>4.183,00</b>	<b>5.821,00</b>	<b>7.848,00</b>	<b>8.819,00</b>	<b>8.851,00</b>	<b>8.728,00</b>

<b>Data in €</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Wealth per person	73.596,00	102.186,00	134.184,00	146.170,00	145.725,00	143.601,00
Wealth per family	213.908,00	279.485,00	344.312,00	362.784,00	361.985,00	355.876,00

Net Wealth / Disposable income	5,80	6,90	7,70	7,90	8,00	7,90
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Source: Bank of Italy



# The wealth of Italian families

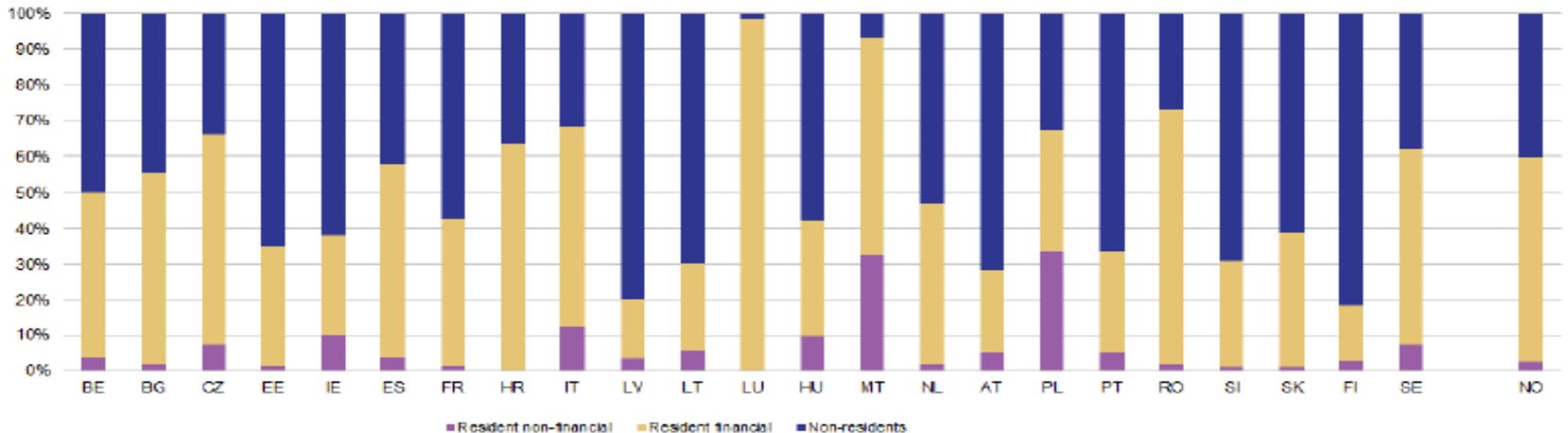
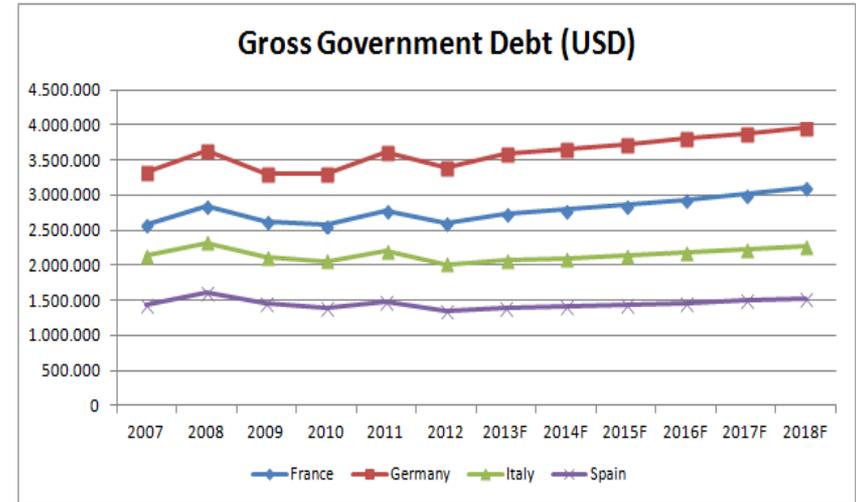
Number of time of the disposable income	Financial assets			Financial Debts		
	2009	2010	2011	2009	2010	2011
USA	4,27	4,48	4,38	1,30	1,23	1,16
Canada	3,77	3,77	3,78	1,56	1,59	1,63
Japan	5,25	5,27	5,27	1,27	1,27	1,26
Germany	2,92	2,95	2,89	1,00	0,97	0,95
France	3,05	3,17	3,11	0,97	1,02	1,03
UK	4,57	4,65	4,50	1,73	1,66	1,60
Italy	3,46	3,44	3,22	0,80	0,82	0,82

Source: Bank of Italy

- ▶ In a strictly financial point of view, Italian people are “rich” as they hold significant financial assets compared to disposable incomes
- ▶ At the same time, Italian people don’t use financial debts as source
  - ▶ According to data, the most relevant kind of debt is “mortgage”

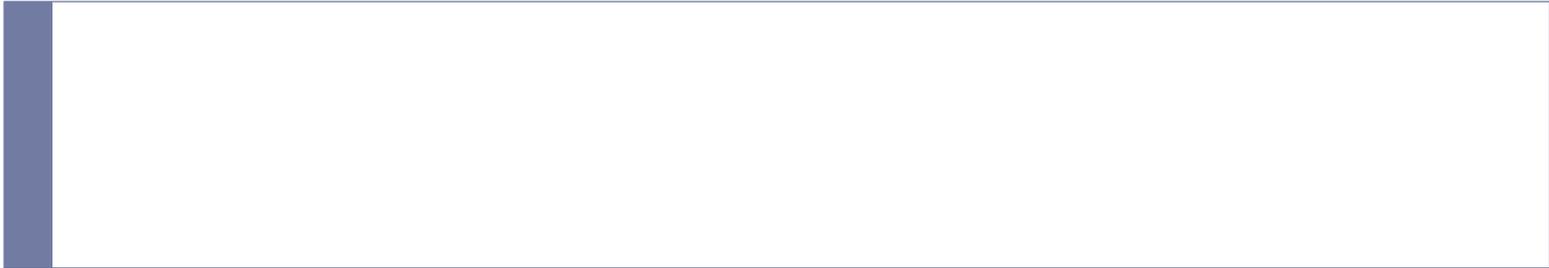
# The wealth of Italian families

- ▶ Italy has a very high Government debt, but, anyway, it is lower than the German one (and the most recent forecasts by IMF until 2017 show that it will continue to be lower)
- ▶ As for the majority of the developed and financially open countries, the non-residents are important Government debt holders
- ▶ In Italy, contrary to many other countries, families own directly a significant quota of the Government debt



Source: IMF

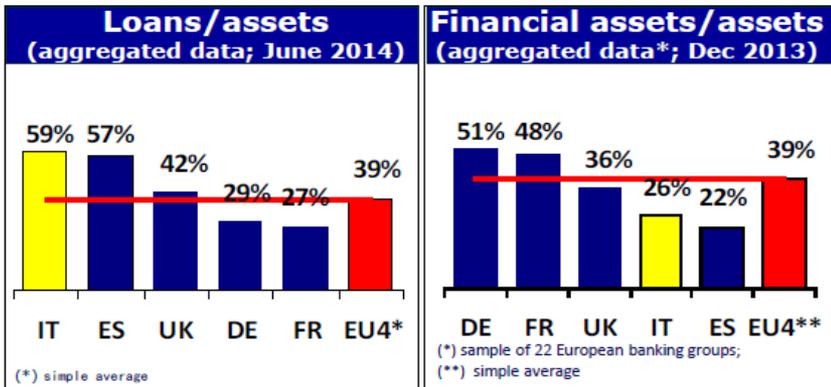
Source: Eurostat



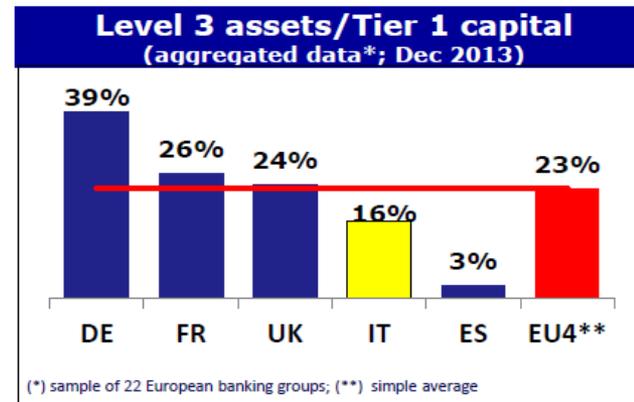
3. A solid banking system

# A solid banking system

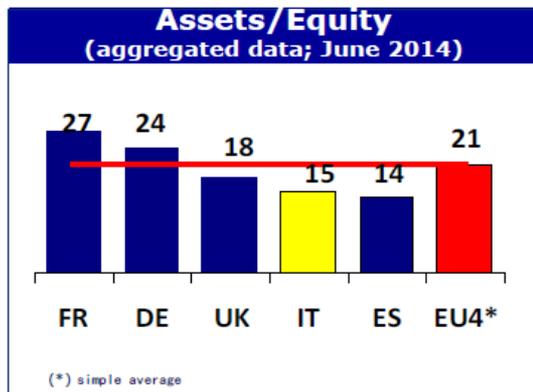
## 1. Business mix: loans to private customers



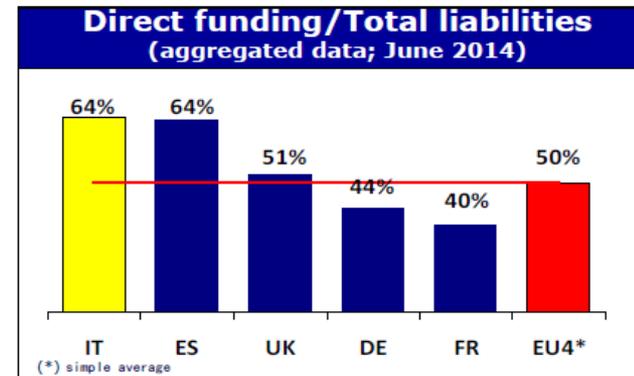
## 2. Low level of financial/illiquid assets



## 3. Low level of financial leverage



## 4. High percentage of retail funding



Source: Italian Banking Association

# A solid banking system

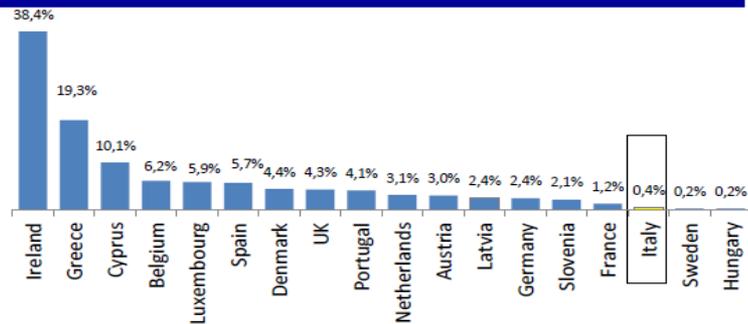
## 5. Low banking exposure to GIPS countries

Banks' foreign exposure (June 2014; bln \$)						
	Total foreign claims	European Banks	France	Germany	Italy	UK
All countries	26.399	16.959	3.166	2.579	859	3.834
Greece	54	35	2	14	1	13
Ireland	398	292	42	42	9	131
Portugal	143	136	15	23	3	15
Spain	553	468	135	123	20	71
<b>Total 4 countries</b>	<b>1.149</b>	<b>931</b>	<b>194</b>	<b>202</b>	<b>34</b>	<b>229</b>

Source: Italian Banking Association

## 6. Absence of State aids

(Recapitalisation measures to support banks as a % of GDP; 2008-2012)



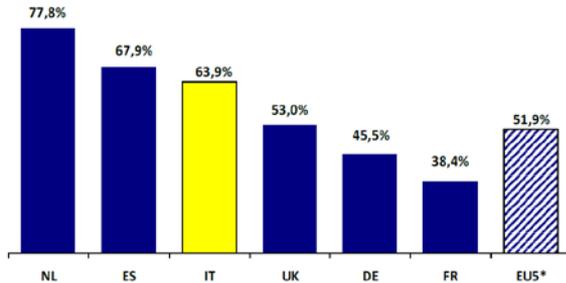
(\*For Italy are included also «Monti Bonds»  
Source: Abi on European Commission «State Aid scoreboard 2013 – Aid in the context of the financial and economic crisis

Source: Italian Banking Association

- ▶ Compared to the most important European markets, the Italian market system is characterized by some strengths:
  - ▶ The high level of loans to companies and families
  - ▶ The low level of financial assets in the portfolio
  - ▶ The lower leverage
  - ▶ The greater funding stability (thanks to the high % of direct funding)
  
- ▶ Unlike several other European banking systems, the Italian banking sector will have a relatively small capital and business model impact from the new regulations
  
- ▶ It must be also underlined that, contrary to what happened in other European countries, Italian banks haven't had needed State aids to overcome the recent financial crisis
  
- ▶ Italian banks are more “traditional”, that is more involved in financial intermediation (direct funding and loans) rather than in financial investments

# A solid banking system

**Direct Funding\*/Total Liabilities  
(largest 25 EU banking groups; aggregated data; Dec 2013)**



(\*) deposits, interbank deposits excluded, and bonds (\*\* weighted average between NL, DE, ED, FR, UK

Source: Italian Banking Association

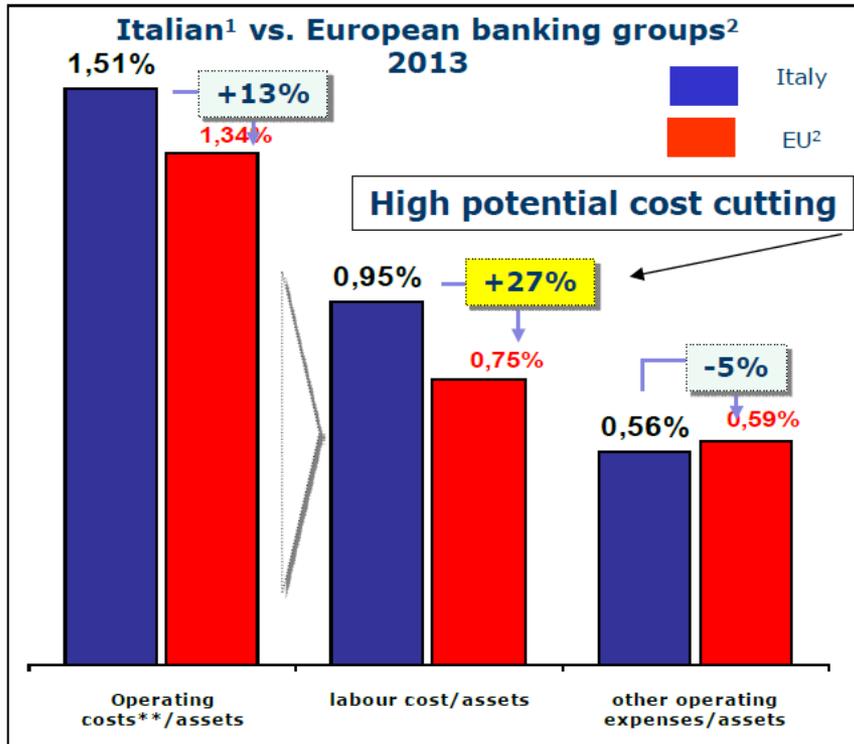
	2013	2014	2015	2016
<b>ASSETS</b>				
Cash	13.023	11.402	11.402	11.548
Loans to residents	2.288.657	2.261.631	2.258.612	2.293.681
Loans to FMI	357.935	338.682	324.670	326.504
Loans to other sectors	1.930.722	1.922.949	1.933.942	1.967.178
Securities issued by residents	893.346	907.771	895.804	864.021
Stocks and shares (Italy)	132.718	128.610	135.387	141.306
Foreign assets <sup>(2)</sup>	302.756	290.545	298.937	312.245
Total assets	4.038.222	4.017.155	4.042.734	4.064.494
<b>LIABILITIES</b>				
Deposits from FMI	583.189	566.106	561.988	582.903
Funding from residents	2.034.676	2.013.907	2.019.454	2.037.987
-Deposits from other sectors	1.521.120	1.545.226	1.567.410	1.598.017
-- of which: c/c and other deposits in euro	1.355.732	1.387.376	1.413.750	1.448.008
-- of which: repo in euro	130.020	121.755	118.372	113.123
-Debt securities from other sectors	513.556	468.681	452.044	439.970
Debt securities from IFM	352.406	299.193	288.624	258.055
Foreign liabilities <sup>(3)</sup>	332.203	318.704	318.837	324.206
Capital and reserves	390.632	414.906	421.304	429.209
Other liabilities	345.116	404.340	432.528	432.135
Total liabilities	4.038.222	4.017.155	4.042.734	4.064.494

The aggregate includes Cassa Depositi e Prestiti  
(2) Includes loans, securities, shares and foreign investments.  
(3) Includes non-resident deposits and bonds in a foreign currency.

Source: Bank of Italy

- ▶ The most of assets of Italian banks are loans to customers
  - ▶ This policy, in addition to the low leverage, has consequences on ROE and ROA: Italian banks perform less than the average
- ▶ Throughout the crisis, banks' funding difficulties were mitigated by these specific features of Italian banks, namely the composition of external debt, which relies mainly on deposits and bonds offered to domestic retail investors
- ▶ Economic recovery remains a key factor in the profitability of Italian banks
  - ▶ The economic performance is constrained by the slow recovery of the economy: loans' growth is slowing while net spreads are under pressure because of low policy interest rates and the cost of funding level, which, although slowly decreasing, still remains dependent on high sovereign spreads

# A solid banking system



Source: Italian Banking Association

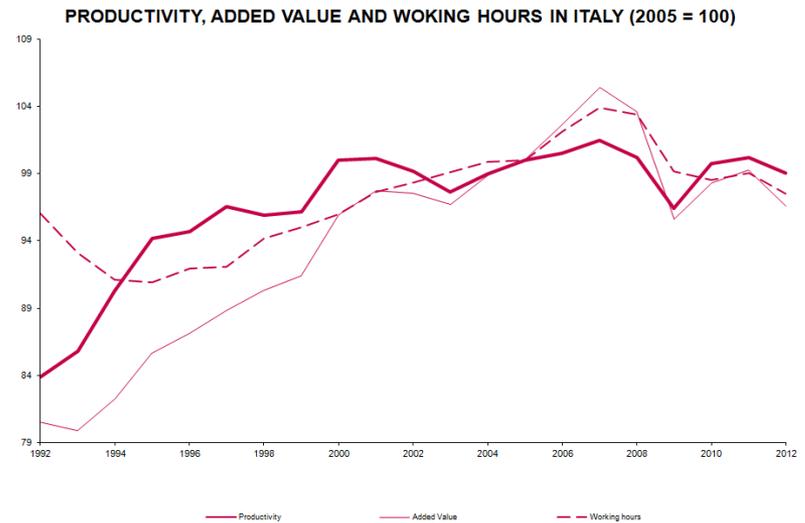
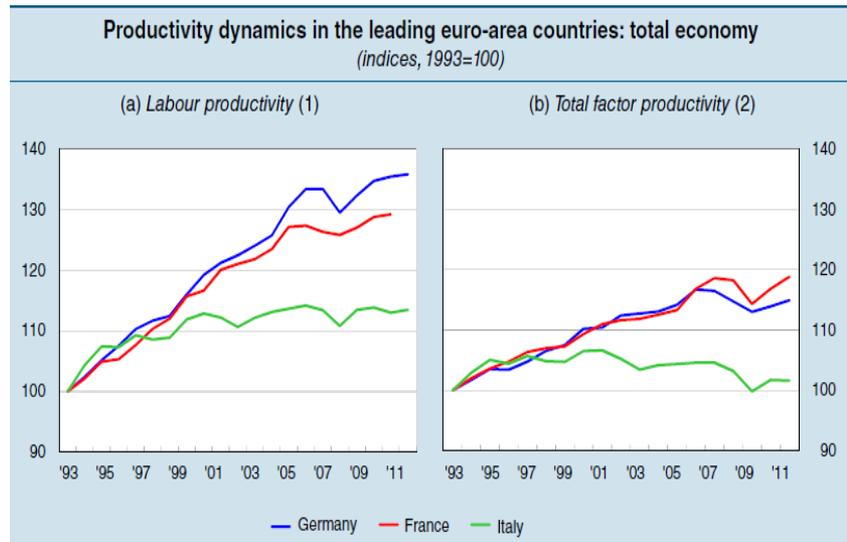
- ▶ **However, a substantial improvement of the return on equity will be the major challenge for Italian banks**
- ▶ Profitability can be restored by leveraging on cost containment, through various strategies including the reorganization of distribution models (the gap between Italian and EU banking groups in terms of "operating costs on total assets" is still high, as well as the number of branches)
- ▶ An important revenue contribution can come from the exploitation of the substantial and still untapped growth potential in many financial products and services (i.e., current accounts, credit cards, asset management, life & non-life insurance products, pension funds, mortgages)



#### 4. A country of excellence in different niches

# The Italian industrial system

- ▶ Since 2008 and especially since the second half of 2011 the recession that has hit the Italian economy has been accompanied by a sharp fall in investment and employment
- ▶ Starting in 2011 extensive reforms have been initiated with the aim of creating conditions more conducive to growth



- ▶ The manufacturing and construction sectors are the most affected by this economic turmoil
- ▶ The actual problem of the domestic industrial system relates to the low productivity or to the low added value

# The Italian industrial system

Italian and French delay in economic recovery compared to Germany (mid-2009 to 2011)		
	ITALY	FRANCE
Whole delay (%)	20,3	16,1
Sectors:		
- <i>Trasport</i>	6,8	5,2
- <i>Electronic machinery</i>	5,4	4,8
- <i>Metal products</i>	2,4	2,6
- <i>Chemistry</i>	1,4	<i>n.a.</i>
- <i>Mechanicals</i>	<i>n.a.</i>	2,8

Source: Bank of Italy

- ▶ In France, the intensity of the industrial recovery between mid-2009 and 2011 was similar to the Italian one while in Germany the expansion after the recession was much more robust, with a broad recovery in production levels of 2008 in almost all industry sectors, the decline in the second half of 2011 was generally modest
- ▶ The main contribution to the advantage of cumulative growth in Germany compared to Italy and France is due to the sectors of transport and electrical machinery. So, in Italy, a lot of investment opportunities in this 2 sectors may be found

# The Italian industrial system

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- ▶ Micro and small firms play a very relevant role in the Italian economy
- ▶ In Italy there is also a sort of “specialization”, that led companies to create and develop around the world the concept of *Made in Italy*
  - ▶ *Made in Italy* is particularly strong in such sectors, like mechanical, food&beverage, fashion
- ▶ Traditionally, Italy has few policy initiatives designed to attract inward foreign direct investments or foreign investors to the country
  - ▶ Foreign owned firms in Italy are concentrated in sectors with significant scale economies
- ▶ In Italy, as in the whole European Union, State aid policies are limited. Anyway, there is a series of financial and non financial measures to stimulate companies to innovate and internationalize the business
  - ▶ Contrary to Germany, Spain, or France, Italy didn't experience such aid schemes for companies during the recent crisis

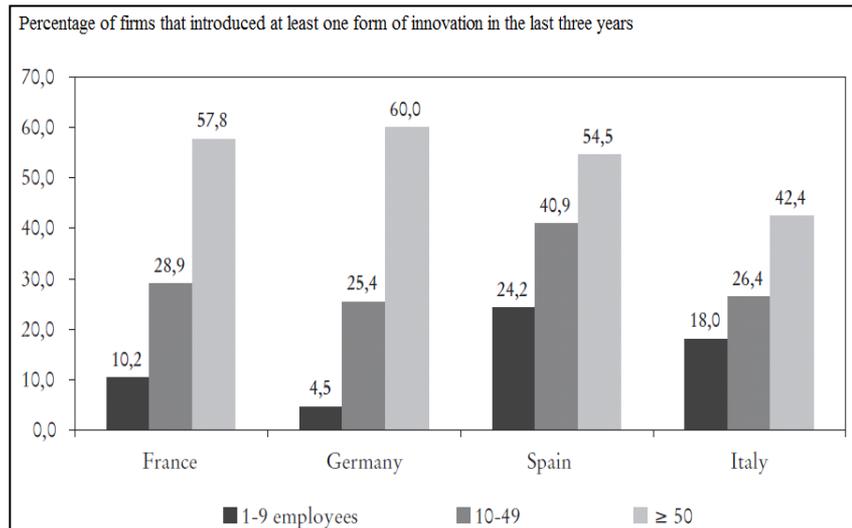
# The MSMEs' behavior in Italy

SMEs contribution to:		1-9	10-49	50-249	> 250	Total
<b>Number of companies</b>						
	EU 27	91,90%	6,80%	1,10%	0,20%	100,00%
	Italy	94,40%	5,00%	0,50%	0,10%	100,00%
	Germany	83,00%	14,10%	2,40%	0,50%	100,00%
	France	93,00%	5,90%	0,90%	0,20%	100,00%
	UK	87,90%	10,10%	1,60%	0,40%	100,00%
<b>Added value</b>						
	EU 27	21,20%	18,70%	18,10%	42,00%	100,00%
	Italy	31,50%	23,90%	15,90%	28,70%	100,00%
	Germany	15,40%	16,90%	19,10%	48,60%	100,00%
	France	22,00%	18,80%	15,20%	44,00%	100,00%
	UK	18,40%	15,70%	16,90%	49,00%	100,00%
<b>Productivity (000€ per employee)</b>						
	EU 27	€ 33,20	€ 41,80	€ 49,00	€ 58,80	€ 44,40
	Italy	€ 29,20	€ 46,70	€ 55,40	€ 65,70	€ 43,20
	Germany	€ 44,60	€ 43,20	€ 53,90	€ 62,30	€ 55,20
	France	€ 50,30	€ 51,50	€ 53,40	€ 62,00	€ 55,70
	UK	€ 54,20	€ 57,30	€ 70,50	€ 67,60	€ 63,40

Source: Ministry of Economic Development



Source: Lazio Region and Sviluppo Lazio



Source: Lazio Region and Sviluppo Lazio

## ▶ Italy is the country of **micro and small multinational companies (MSMEs)**

- ▶ In fact, these firms make their business international more than the ones belonging to other countries
- ▶ On average, direct forms of export are well developed, while advanced forms (i.e., partnerships, joint ventures) are not typical for Italian companies
- ▶ Italian micro companies also innovative, but innovation is NOT strictly related to R&D investments
  - ▶ Italian companies, on average, show a lower degree of R&D than firms of other European countries

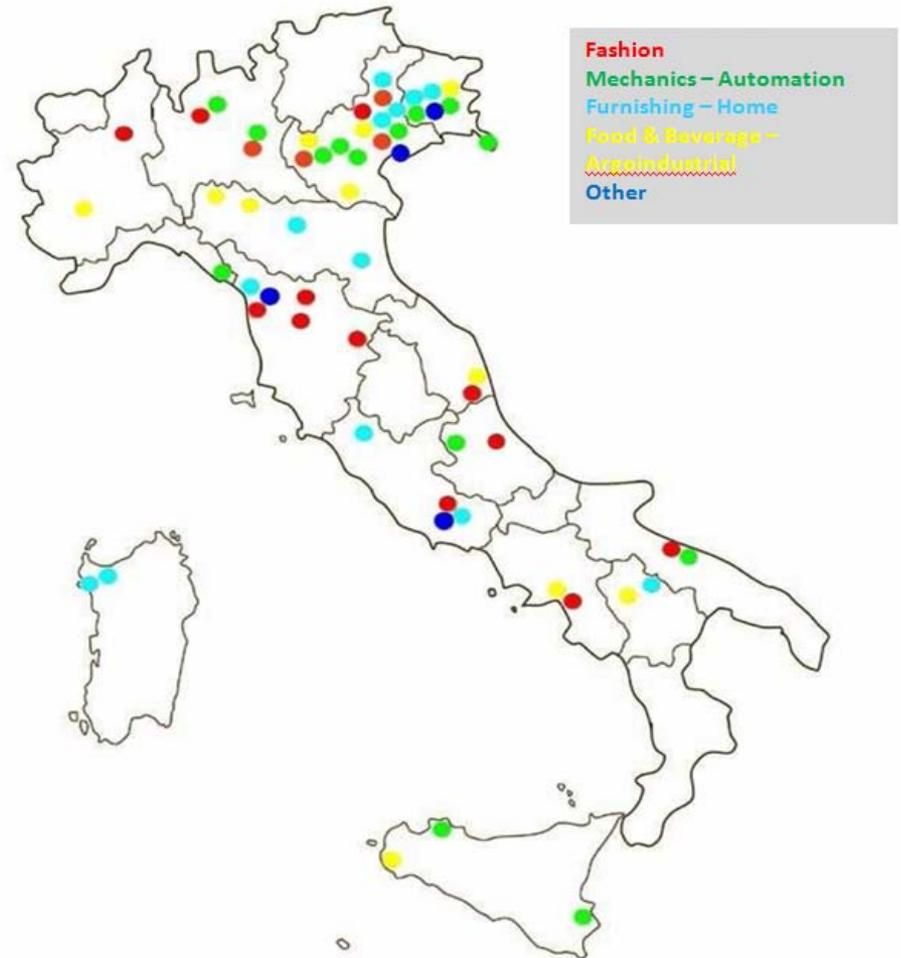
## The Italian way to exploit market niches and develop: industrial districts, technology centers and network agreements

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- ▶ **The growth of Italian firms is strictly related to the improvement of the “districts”**
  - ▶ Districts can be defined as limited territorial areas characterized by a strong concentration of MSMEs, specialized in a product, in a sector, or in a phase of production
- ▶ **The most important characteristics of districts are:**
  - ▶ A specific product or a precise production line
  - ▶ A network of relations between enterprises, local institutions, banks, universities, etc.
  - ▶ High competition and high cooperation
  - ▶ Higher level of flexibility
  - ▶ Ability to give an answer to unexpected changes
  - ▶ A high export propensity
- ▶ **Many of the Italian “excellences” are based or come from districts or technology centers**

# The Italian way to exploit market niches and develop: industrial districts, technology centers and network agreements

- ▶ In Italy there are at least 100 industrial districts
  - ▶ The most important ones are shown in the map
- ▶ According to the 2013 Yearly Report, Italian districts count:
  - ▶ About 170.000 firms
  - ▶ About 1,4 mil. Workers
  - ▶ About 75 bill. € of added value
  - ▶ About 98 bill. € of export
- ▶ Districts represent about 1/3 of the whole manufacturing system
- ▶ The size of companies belonging to a district is bigger than the average
  - ▶ I.e., in North-East regions, companies with a turnover of at least 50 mil. € are more than double the ones with a turnover lower than 10 mil. €

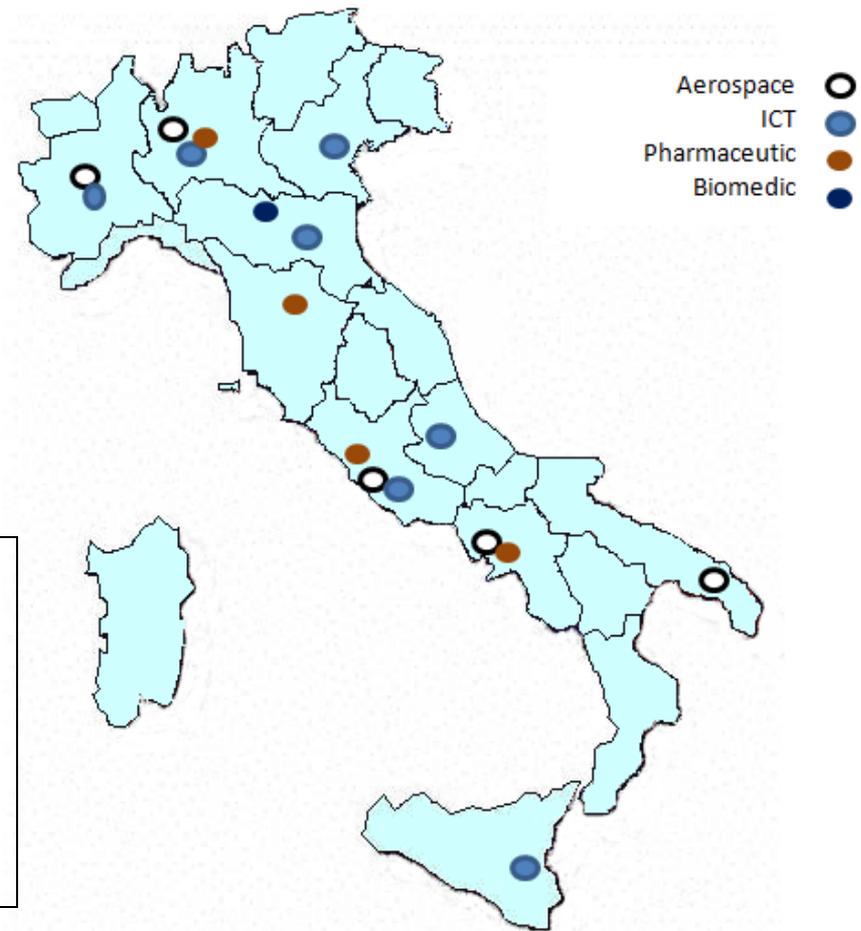


Source: The National Observatory of Italian Districts

# The Italian way to exploit market niches and develop: industrial districts, technological poles and network agreements

- ▶ In Italy there are 27 districts specialized in technology and applied research or high-tech sectors
- ▶ At least 18 of them affect in a significant way the economy of the area where they are based in
- ▶ It may be affirmed that companies belonging to technology centers get better performance

- ▶ APSTI, that is Italian Association of Scientific & Technological Parks, affirms that at the end of 2012, the most interesting features are:
  - ▶ About 800 companies
  - ▶ About 11 thousands workers
  - ▶ About 1 bill. turnover



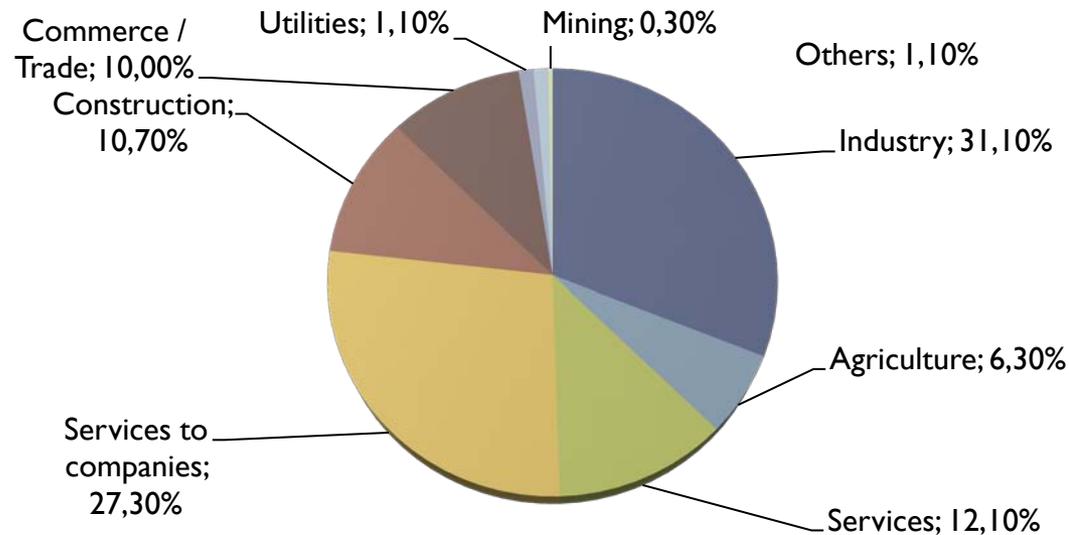
Source: APSTI

## The Italian way to exploit market niches and develop: industrial districts, technological poles and network agreements

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- ▶ In order to increase competitiveness and promote M&A project among SMEs, in 2009 the Italian Government created the Network Agreements (Contratti di Rete)
  - ▶ This new tool allows companies the chance to give life to joint actions without creating a new legal entities or a new business activities
- ▶ **In the next future, perhaps, many MSMEs won't be really micro or small...**
  - ▶ Following the Italian example, also the European Union is modifying the SBA (Small Business Act) in order to realize an European measure to create network agreements among MSMEs
- ▶ At the end of February 2015, Italian companies underwrote more than 2.000 network agreements
- ▶ The main objectives of these agreements are:
  - ▶ Improvement of the quality of products (also certification)
  - ▶ Technological innovation
  - ▶ Improvement of marketing policies and market penetration
  - ▶ Environmental protection

# The Italian way to exploit market niches and develop: industrial districts, technological poles and network agreements



N° of subjects involved in a network agreement	N° of network agreement (Dec. 2014)
2	251
3	535
from 4 to 9	888
from 10 to 50	208
more than 50	2
<b>Total</b>	<b>1884</b>

Source: Infocamere

- ▶ The Contratti di Rete are developing in all Italian Regions and, in particular, the adoption seems to be correlated to the presence of industrial districts
- ▶ Italian companies sign these agreements for a wide range of objectives
  - ▶ Anyway, the 2 most important reasons are linked to production and sale of products
- ▶ The number of companies involved in a “Contratto di Rete” varies from 2 to 10 in 90% of cases

# Export and market/sector niches

- ▶ The Italian ability to find and develop in market niches at a global level is confirmed by export data
- ▶ In about 15% of products in which the international trade is divided, Italian companies are ranked between the first and the third position
  - ▶ The whole export of market niches is over than 250 bill. USD

Ranking of Italian Export	Number of products (compared to a number of 5517 products in which the international trade is divided)
1°	235
2°	377
3°	323

Source: Fondazione Edison

# The well-known Italian brands

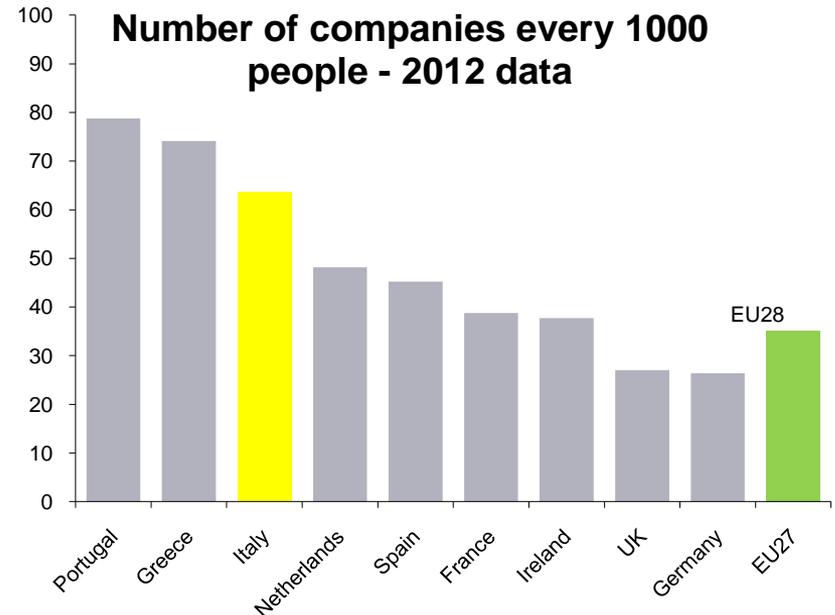
- ▶ According to the most important international rankings, there are only 3 Italian brands that may be ranked among the 100 world more valuable brands: Armani, Ferrari and Gucci
- ▶ **So, there are a number of brands that may increase their value and become more international than they actually are**
  - ▶ In the last years many brands originated in Italy have been object of international deals, such as M&A
- ▶ Here next, there are the logos of the 100 most important Italian brands, according to international rankings



Source: MPP Consulting

# The Italian entrepreneurship

- ▶ Italy has always counted a large number of entrepreneurs
  - ▶ People have skills and knowledge that enable them to become entrepreneurs
  - ▶ People have a positive attitude towards innovation, from both industry and consumers
  - ▶ In Italy there is high sophistication of economic activities
- ▶ New entrepreneurs claim the lack of some factors:
  - ▶ Financial support
  - ▶ Inadequate physical infrastructure, as well as little attention by government policy and a lack of effective government programs
- ▶ Anyway, becoming an entrepreneur in Italy is a desirable career choice
  - ▶ On average, there are 65 firms every 1000 inhabitants
  - ▶ People self-employed are about 1/3 of all Italian workers

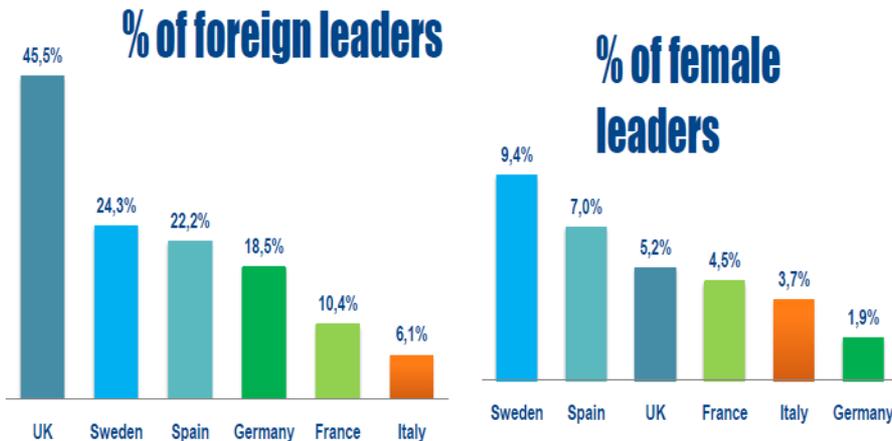


Source: Istat

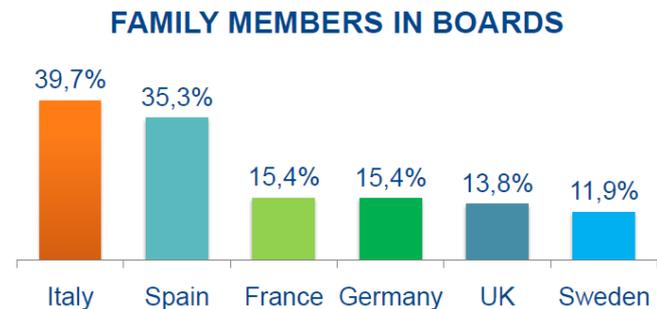
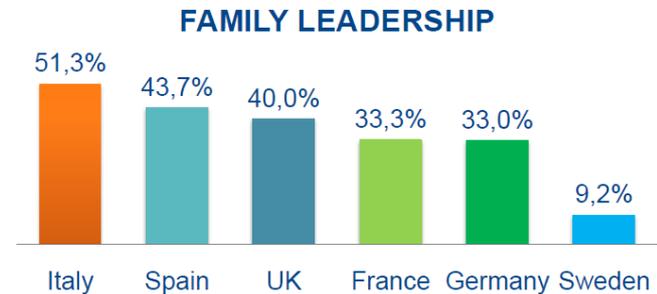
# The Italian family business system

- ▶ As in Europe, families own the vast majority of the companies operating in the country. According to this characteristic, Italy is very similar to the other European countries
- ▶ But there are also a number of differences, in particular related to the governance...

% of Family Businesses among European countries	
Italy	40,70%
Germany	36,70%
France	36,00%
Spain	35,60%
UK	15,10%
Sweden	32,90%



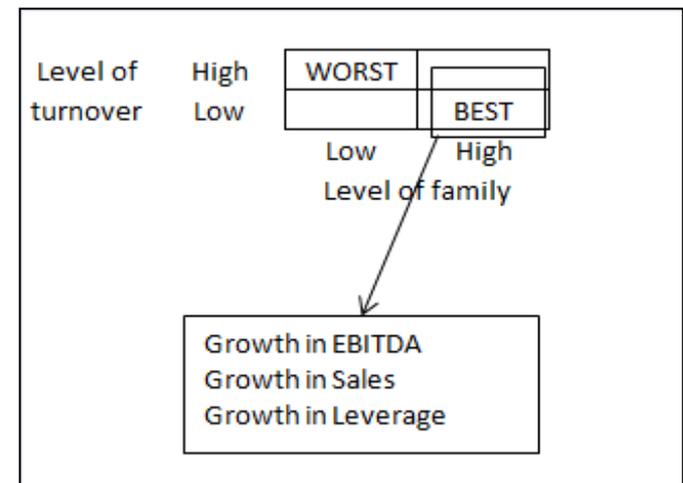
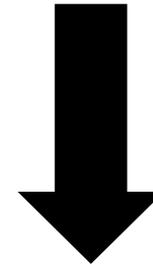
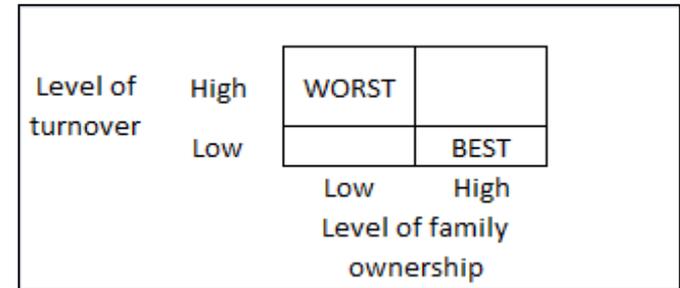
Source: AUB Observatory Report



Source: AUB Observatory Report

# The performance of excellent Italian family firms

- ▶ Profitability varies a lot among companies belonging to the family business system
- ▶ In Italy, family firms able to perform better are characterized by:
  - ▶ Low turnover (but exceeding 50 Mil. €)
  - ▶ Ownership concentrated in the hands of the family
- ▶ It must be remembered that **Italian entrepreneurs are often self-made men**. So:
  - ▶ They suffer multifaceted organizational structures
  - ▶ They show a decreasing ability to manage companies when they are large, structured, and more articulated
  - ▶ They are used to exploit leverage and manage companies with high net financial position



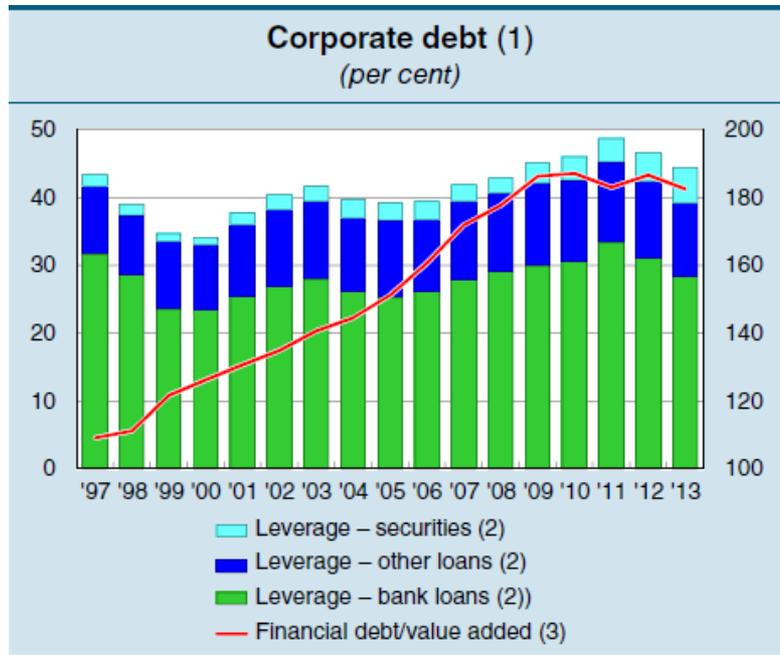
# The great opportunity: the succession

- ▶ Italian entrepreneurs are well aware of the fact that a strong growth needs a change of governance and ownership structure
- ▶ Despite this thought, the Italian entrepreneurs are quite old
- ▶ In 2015, 20% of Italian family firms have a leader over 70
  - ▶ Empirical evidence show that older leaders tend to lead to low investment rates and low performance

Leader's age	Δ ROI	Δ ROE	Δ growth
Under 40	+0,01	+3,7***	+4,7***
Between 40 and 50	+0,03	+0,8*	+1,5***
Between 50 and 60	+0,2	-0,1	-0,1
Between 60 and 70	+0,2*	-0,7*	-1,2**
Over 70	-0,6***	-1,8***	-2,1***

Source: AUB Observatory Report

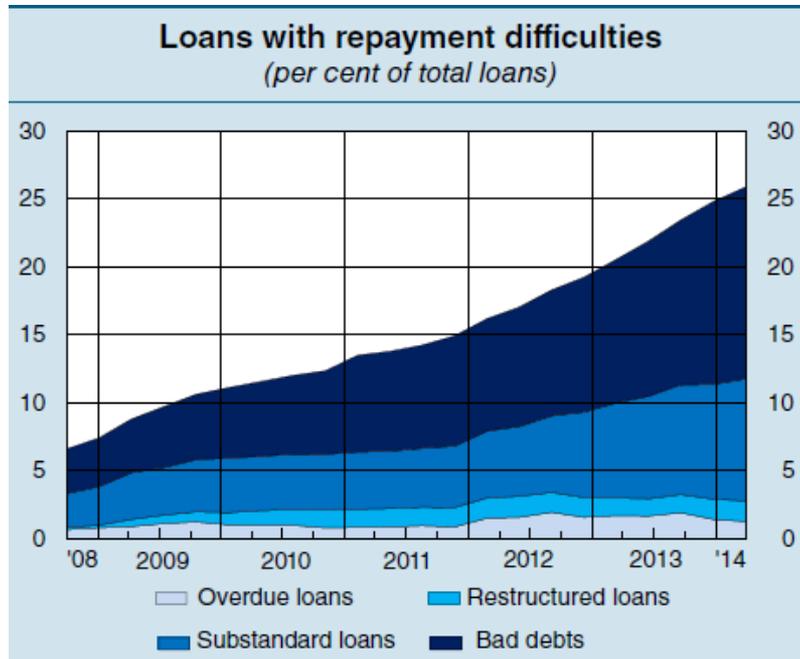
# The great opportunity: the undercapitalization of Italian MSMEs



Source: Bank of Italy

- ▶ In 2013 firms' financial debt decreased by €39 billion and fell from 187% to 182% in relation to value added
- ▶ Leverage declined from 46.7% to 44.4%; this was still more than 5% above the Euro-area average and the gap increased slightly from the previous year
- ▶ In the period 2005-10 the average leverage of Italian companies was systematically higher than in the other countries

# The great opportunity: the undercapitalization of Italian MSMEs



Source: Bank of Italy

- ▶ Bank loan repayment difficulties continued to be acute
- ▶ In March 2014 non-performing loans amounted to €239 billion, 25.9% of the total
- ▶ The share of overdue loans, the least problematic of these items, declined
- ▶ Modest signs of improvement are found in business-to-business transactions among firms. According to the Survey of Industrial and Service Firms, for domestic sales the percentage of claims settled after the agreed due date fell by 2% in 2013 to 31%
- ▶ The average length of delay remained stable at 44 days, while that of payment deferrals, which takes account of both contractual due dates and delays, decreased from 92 to 84 days

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5. An unexploited value from its cultural and environmental heritage

# A system yet to be exploited

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- ▶ Italy has the widest cultural heritage worldwide with:
  - ▶ About 3500 museums
  - ▶ 50 UNESCO – World Heritage
- ▶ Despite this absolute primacy in the world, the economic return on cultural assets is very low
  - ▶ I.e., the United States shows that, with half of the UNESCO sites than Italy, have a commercial return of 16 times the Italian one
  - ▶ At the same time, the return of cultural assets in France and the UK is between 4 and 7 times the Italian one
- ▶ **Given the richness of Italian culture, it emerges an enormous untapped potential for growth**

# A system yet to be exploited

- ▶ The enormous value of the Italian cultural assets (monuments and territories) is confirmed by a study of the Chamber of Commerce of Monza and Brianza
- ▶ Basing on 10 parameters related to the attractiveness, the number of visitors, the value of merchandising, the number of people employed, some of the most important Italian museum, cultural sites and territories have been tested
- ▶ Results are summarized in the next table: only the Coliseum's brand may be evaluated about 5% of the whole public debt

Monument	Brand Value (€ bil.)
Coliseum	91
Vatican museums	90
Milan Cathedral	82
Trevi Fountain	78
Excavations of Pompeii	20
Basilica of St. Mark	16
Uffizi Gallery	12
<b>Total</b>	<b>389</b>

Source: Chamber of Commerce of Monza and Brianza

Territory	Brand Value (€ bil.)
Chianti hills	4,0
Amalfi Coast	3,5
Riviera Romagnola	2,3
Madonie	2,1
Versilia	2,0
Costa Smeralda	1,5
Salento	1,4
Dolomites	1,2
Brianza	1,0
5 Terre	0,7
Aspromonte	0,5
Monferrato	0,5
<b>Total</b>	<b>20,7</b>

Source: Chamber of Commerce of Monza and Brianza

6. Development of Southern Italy, a logistic platform for future developments

# Logistic in Italy

- ▶ Logistic represents the 7% of the Italian GDP
- ▶ Italy is ranked 20 in the world according to the LPI (Logistic Performance Index)
  - ▶ Compared to Germany (rank n. 1), France (rank n. 13) and Spain (rank n. 18), many differences emerge
- ▶ Italy suffers in customs (efficiency of the clearance process) and international shipments (ease of arranging competitively priced international shipments)

Country	Overall ranking	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking and tracing	Timeliness
Germany	1	4,12	4,10	4,32	3,74	4,12	4,17	4,36
Netherlands	2	4,05	3,96	4,23	3,64	4,13	4,07	4,34
Belgium	3	4,04	3,80	4,10	3,80	4,11	4,11	4,39
Ireland	11	3,87	3,80	3,84	3,44	3,94	4,13	4,13
France	13	3,85	3,65	3,98	3,68	3,75	3,89	4,17
Spain	18	3,72	3,63	3,77	3,51	3,83	3,54	4,07
Italy	20	3,69	3,36	3,78	3,54	3,62	3,84	4,05
Portugal	26	3,56	3,26	3,37	3,43	3,71	3,71	3,87
Greece	44	3,20	3,36	3,17	2,97	3,23	3,03	3,50

Source: World Bank

# The Italian logistic system

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- ▶ The location of Italy represents a great advantage as it allows connections towards Asia and the Middle East, Africa and Europe. In fact, Italy is located at the heart of these three key markets, with around 800 mil. consumers
- ▶ National logistics equipment is based on a wide set of infrastructures and logistics
  - ▶ More than 6.500 km of present highways (with a huge plan of expansion already approved);
  - ▶ Around 21.500 km of national roads
  - ▶ 24.216 km of rail network (some of them High Speed)
  - ▶ 3 HUB ports (Cagliari, Gioia Tauro and Taranto)
  - ▶ 21 first level commercial ports
  - ▶ 2 intercontinental HUB airports (Rome and Milan)
  - ▶ 25 freight villages

# The role of the South of Italy

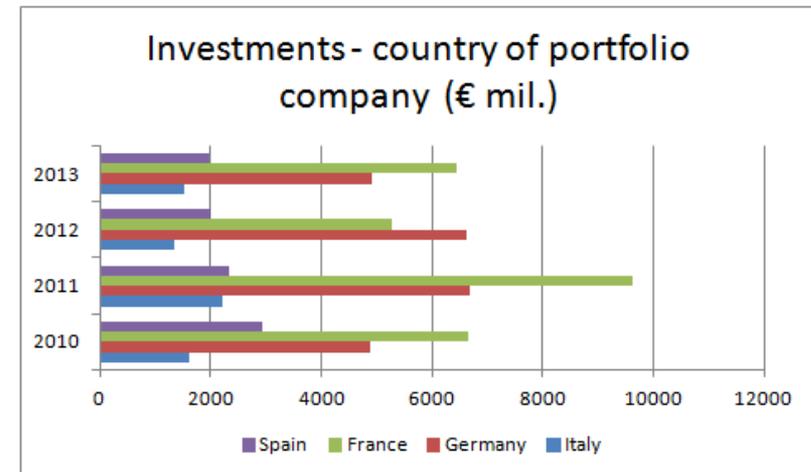
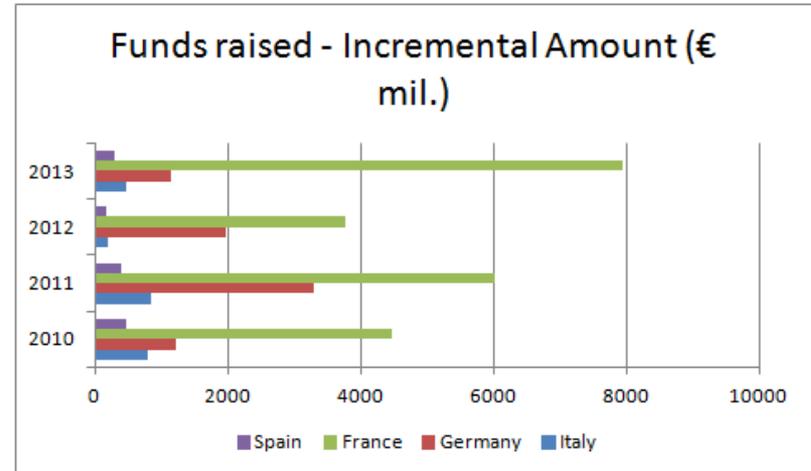
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- ▶ Logistic in North of Italy is much more developed and integrated than in the South
  - ▶ This situation is also due to the fact that the North of the country is nearer to the European big markets, such as Germany and France
  - ▶ For the same reason, manufacturing and economy in general found more easy to growth in the North of the country
- ▶ Anyway, the South of Italy has a great potential because of:
  - ▶ The position in the middle of the Mediterranean Sea
  - ▶ The expected rise of trades among Europe and North Africa
  - ▶ The realization of European corridor
- ▶ **For the South of Italy, logistic may represent and become as important as oil extraction in the Gulf's countries**

7. A developed private equity system

# The Italian private equity industry

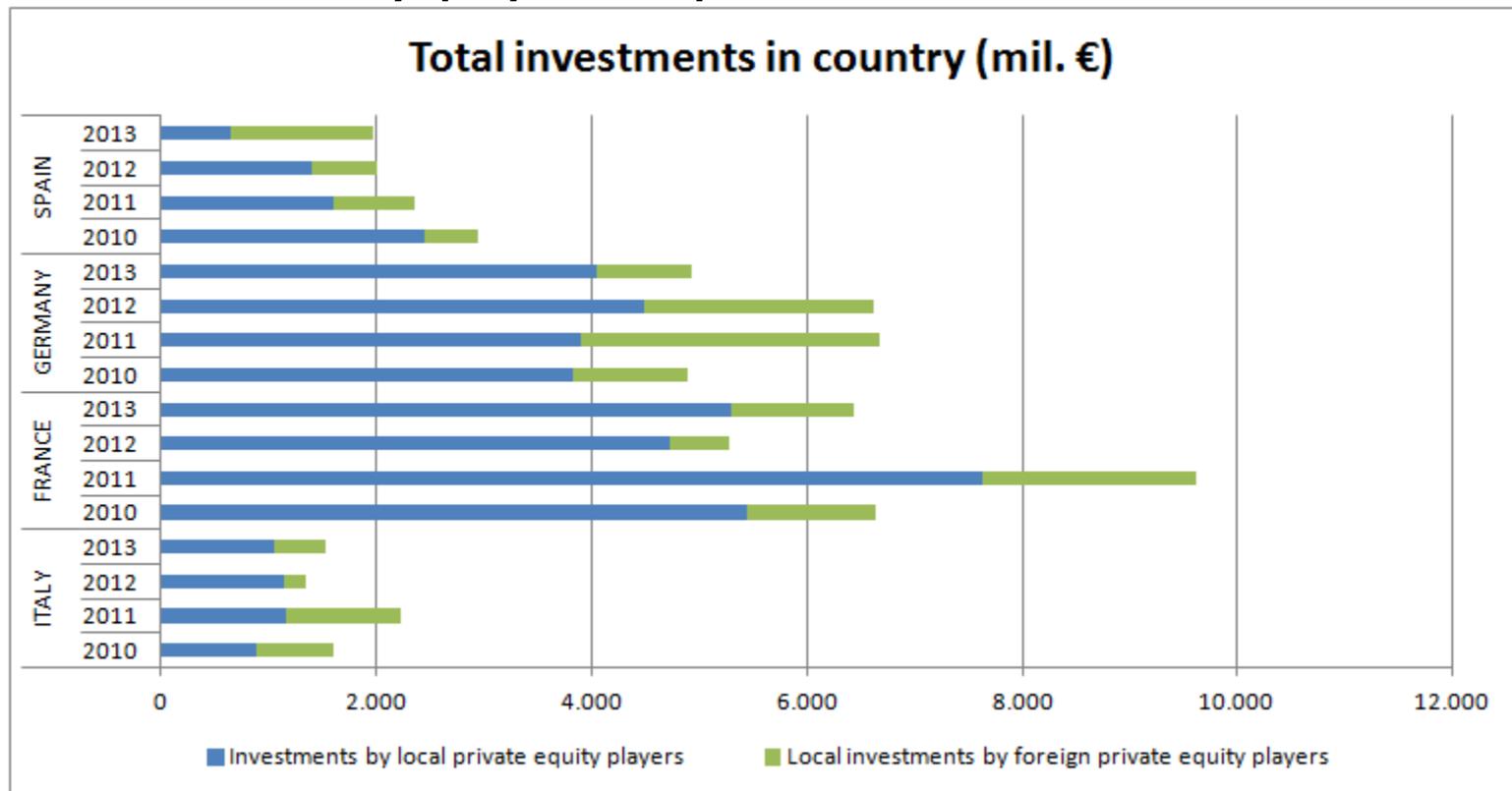
- ▶ Despite prejudices and difficulties related to the legal legacy, private equity is developed in Italy
- ▶ Anyway, the size of the domestic industry (amount raised and investments) is lower than in other European countries
- ▶ The Italian industry trend seems to be related to the macroeconomic environment rather than to the investment opportunities



Source: EVCA

# The Italian private equity industry

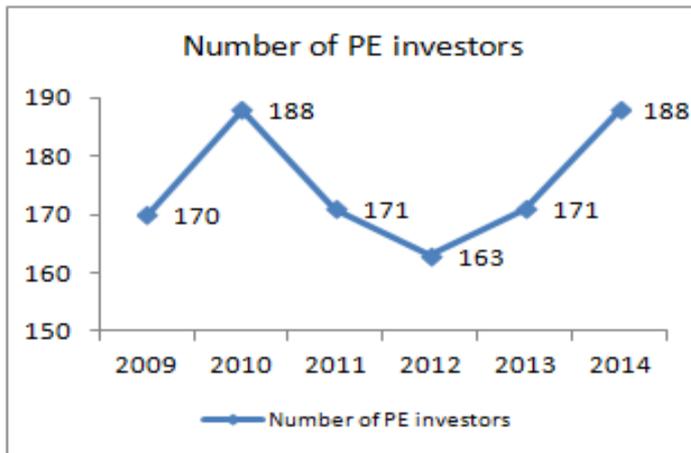
- ▶ Italy is a very open market and data confirm that international investors already play an important role in domestic deals



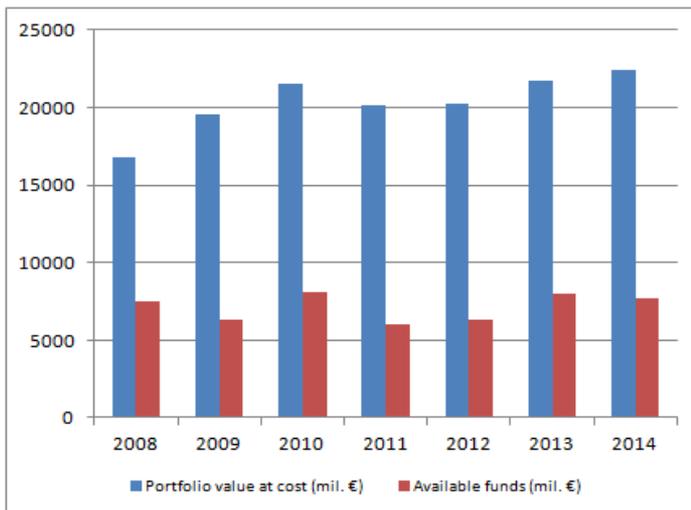
Source: EVCA



# The Italian private equity industry



Source: AIFI

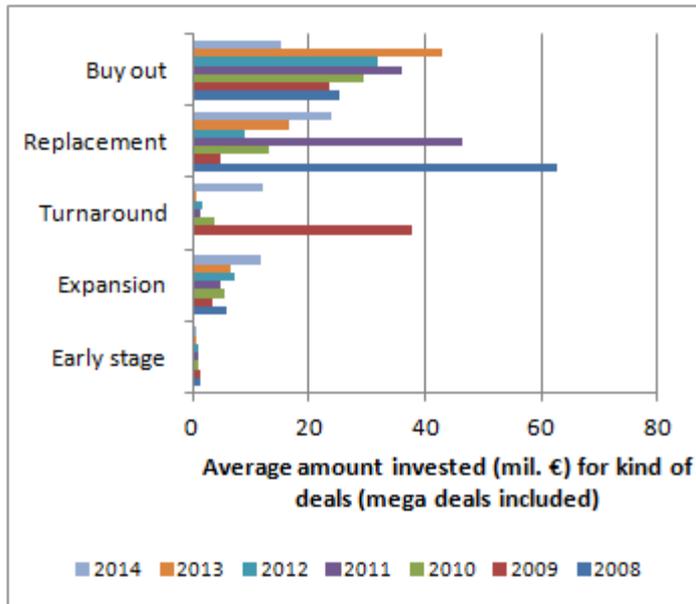


Source: AIFI

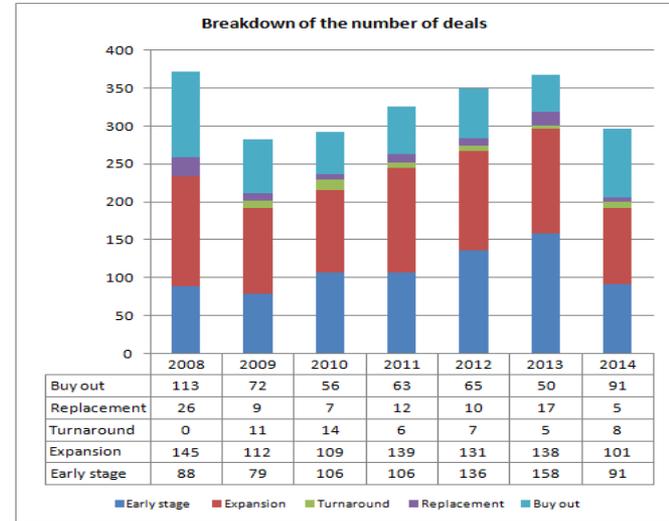
- ▶ The number of Italian private equity operators increased over time
  - ▶ Since 2011, AIFI (the Italian association of private equity operators) has decided to take into consideration only the association's members and operators that have been present in Italy in the previous 3 years
- ▶ In particular, in Italy there are different kinds of operators:
  - ▶ Private equity firms (or managers of domestic funds)
  - ▶ Early stage funds
  - ▶ Banks
  - ▶ State or public entities
  - ▶ Pan-European funds
- ▶ Despite the crisis, during recent years, the private equity activity has developed as showed by the trend of portfolio value and available funds

# The Italian private equity industry

- ▶ As the size of the whole private equity market is not big, there are two consequences:
  - ▶ The number and the kind of deals depend on the macroeconomic trend
  - ▶ Mega deals affect in a significant way the average amount invested
- ▶ Even though early stage investments are not much used, their trend is not as affected as other kinds of investment

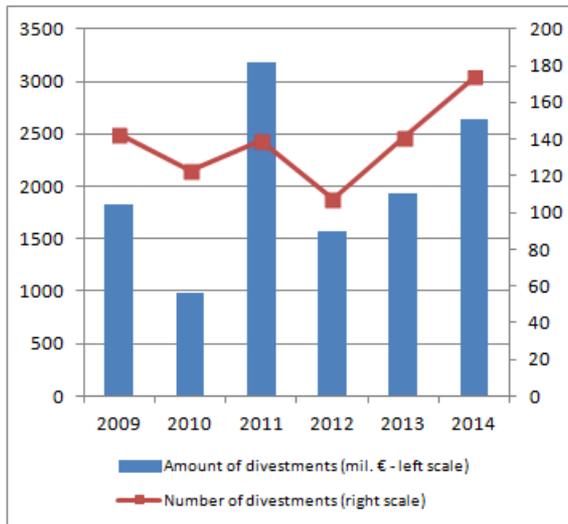


Source: AIFI

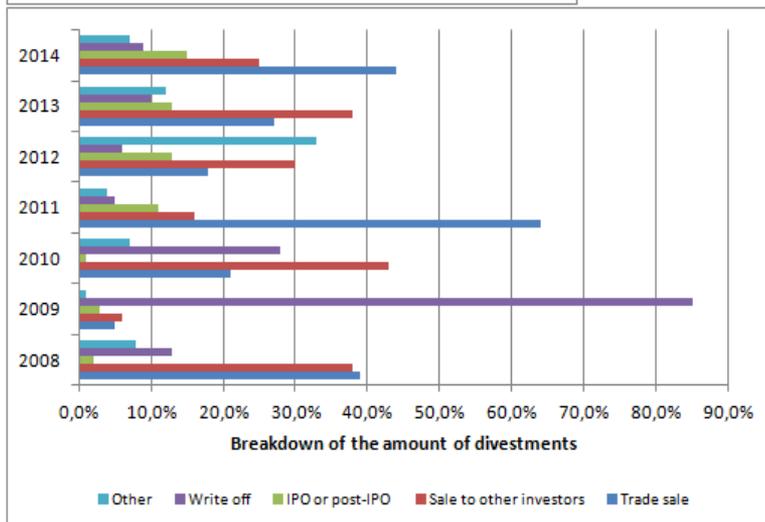


Source: AIFI

# The Italian private equity industry



Source: AIFI



Source: AIFI

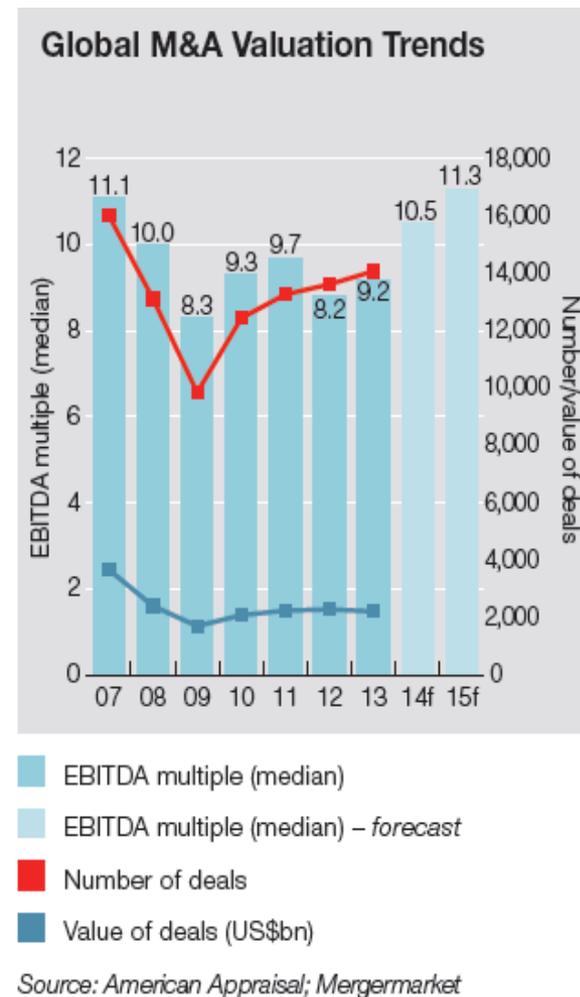
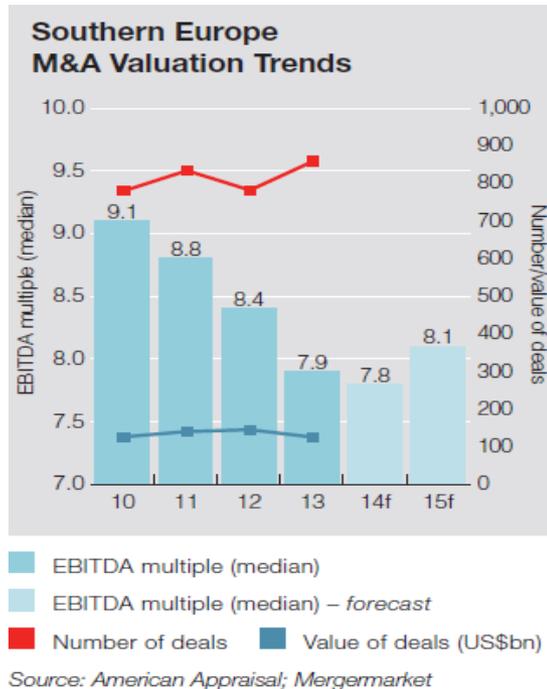
- ▶ Number and amount of divestments are affected by the macroeconomic environment
- ▶ Italian market is cool also because the large use of the sale to other investors as exit strategy
- ▶ In order to increase the use of IPO as exit strategy, the domestic stock exchange (that belongs to the London Stock Exchange) has launched the Italian AIM

# The favorable multiples of the Italian market and other opportunities

PE + STRATEGIC BUYERS	EV/SALES	EV/EBITDA
MEDIA 2002	1,2X	7,8X
MEDIA 2003	1,1X	6,8X
MEDIA 2004	1,0X	6,8X
MEDIA 2005	1,2X	7,6X
MEDIA 2006	1,6X	7,7X
MEDIA 2007	1,4X	8,2X
MEDIA 2008	1,3X	7,6X
MEDIA 2009	1,2X	7,3X
MEDIA 2010	1,4X	7,0X
MEDIA 2011	1,6X	7,6X
MEDIA 2012	1,2X	7,3X
MEDIA 2013	1,5X	8,4X

Source: AIFI

- ▶ Multiples used in private equity transactions depend on a lot of variables. Anyway, in Italy multiples are lower than in Europe or in USA
  - ▶ Turnaround is still a niche of the whole industry, but there are many companies, especially SMEs, that are living a phase of “financial stress” and may be eligible for transactions



# The Italian way of private equity

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- ▶ Compared to other countries (in particular, Aglo-Saxon countries), private equity has developed and is still developing differently in Italy
  - ▶ Buy out deals are usually focused on: unlisted companies, family businesses, high leveraged firms
  - ▶ Personal and informal relationships are vitals for a successful deal
  - ▶ In expansion deals, private equity operator are use to buy a minority stake
  - ▶ Thee process adopted by companies to select the private equity operator is aimed to find a “partner” rather than to find the best and highest valuation of the company
- ▶ **International operators, in order to be able to compete in the Italian market, must develop local distinctive skills and expertise: they must play as they were Italian...**

# A developed legal framework

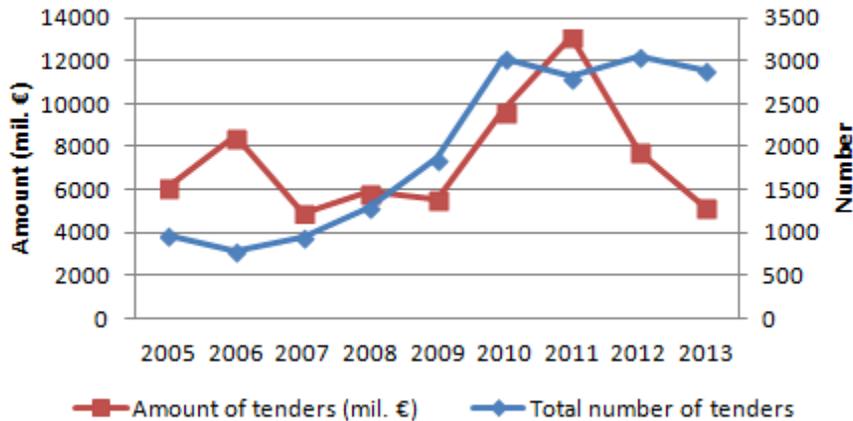
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- ▶ Some EVCA (European Venture Capital Association) empirical evidence related to the tax and legal framework of private equity among European countries, highlight national practices and the most useful structures for foreign investors
- ▶ The Italian situation is hard to understand for foreign investors, because of it shows, at the same time, high grades for the legal context, but low marks for the country taxation
- ▶ In particular, in Italy there is a dedicated domestic fund structure for private equity and venture capital investments, called SGR and closed end funds
- ▶ The Italian situation is also characterized by:
  - ▶ The ability for non domestic limited partner to avoid having a permanent establishment in the country
  - ▶ The fund management companies liability for VAT on management fees (and ability to recuperate it)
  - ▶ The freedom from undue restrictions on investments
- ▶ The lower marks are due to the scarce presence of fiscal incentives to encourage investments both for private equity operators and companies
  - ▶ For this reason, the Italian final score is lower than the European average

# The development of PPP in Italy

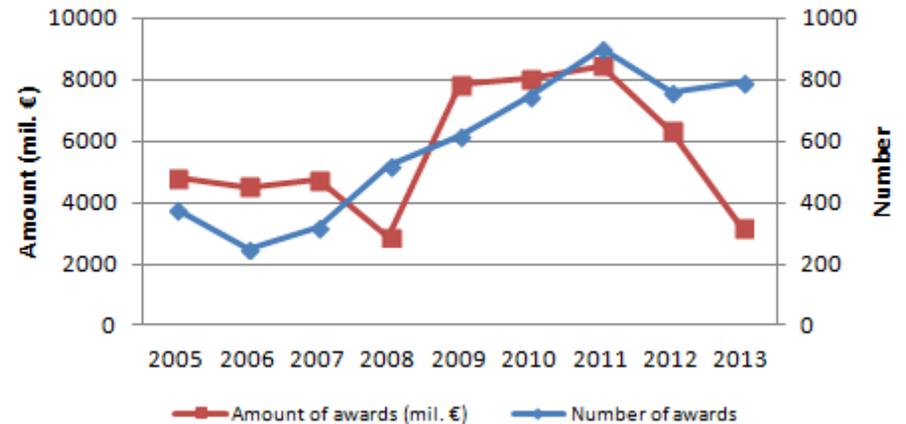
- ▶ Italy can be considered one of the most experienced market for PPP projects development in Europe
  - ▶ Government budget restrictions and the lack of foreign big investors have forced public entities, private companies and banks to get together and find innovative solutions
- ▶ In the period 2005-2013 more than 17000 call for tenders have been issued, for a total of over 65 billions €. According to awards, in the same period, more than 5000 deals have been recorded for a value of about 50 billions €
  - ▶ The Italian market is so big that a large part of the calls for tender don't lead to a final agreement, and the economic and financial turmoil don't make things easier

## PPP TENDERS



Source: Unioncamere

## PPP AWARDS



Source: Unioncamere

# The development of PPP in Italy

- ▶ Municipalities are the more active subjects in PPP deals, but the average amount is the lowest among issuers
- ▶ According to the sector breakdown, transportation and utilities (water, gas, energy and telecommunications) are the most important ones in terms of amount

Kind of issuer (PPP only)	Number of calls for tender 2012	Average amount of calls for tender 2012 (mil. €)
Municipalities	2.688	1,40
Other local entities	292	20,50
Special agencies	69	41,10
Public health	72	9,10
Other	83	64,80
<b>Total</b>	<b>3.204</b>	

Source: National Observatory on Project Finance

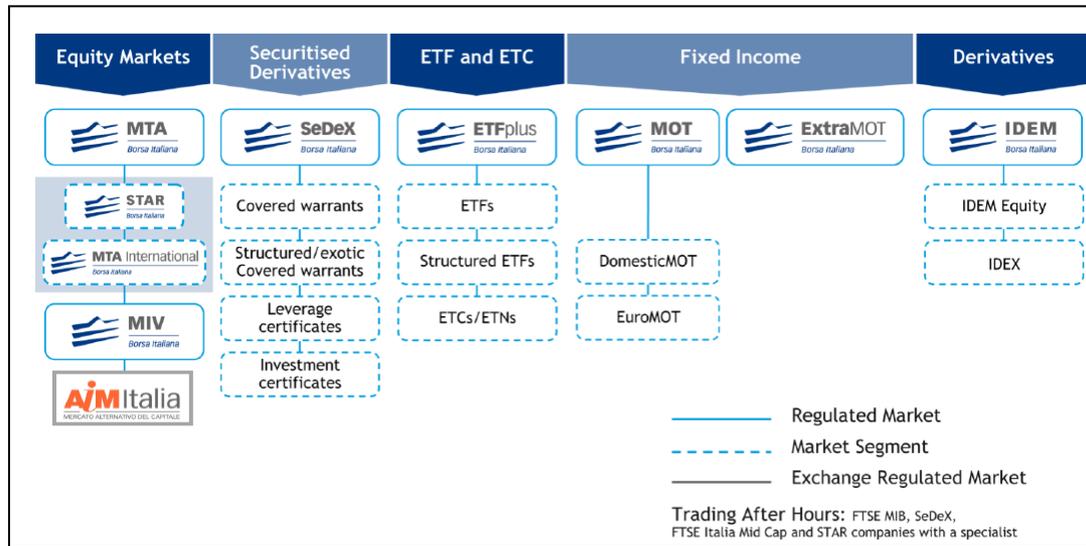
	Number of call for tenders 2002-2012	Value of call for tenders 2002-2012 (mil. €)
Water, gas, energy, telecommunications	3.303	17.125
Marinas	282	1.336
Street furniture and public green	3.151	849
Cultural heritage	68	81
Multipurpose centers	88	264
Cemetaries	757	1.714
Trade and crafts	1.684	962
Business centers	31	754
Urban sanitation	129	2.591
Sports	3.175	1.840
Parking	999	2.384
Rehabilitation of urban assets	374	1.872
Health sector	460	6.208
School sector and social sector	492	1.230
Leisure	485	411
Transportation	195	30.188
Tourism	705	211
Other	397	987
<b>Total</b>	<b>16.775</b>	<b>71.007</b>

Source: National Observatory on Project Finance



## 8. A developed Stock Exchange

# A developed Stock Exchange



Source: Borsa Italiana

- ▶ Borsa Italiana is the Italian Stock Exchange
- ▶ It is part of the London Stock Exchange (LSE) and contributes to make it the Europe's leading exchange group in cash equities, fixed income and post trade services
- ▶ Borsa Italiana has a wide and developed offer system for companies and issuers of securities

# Why invest in the Italian markets

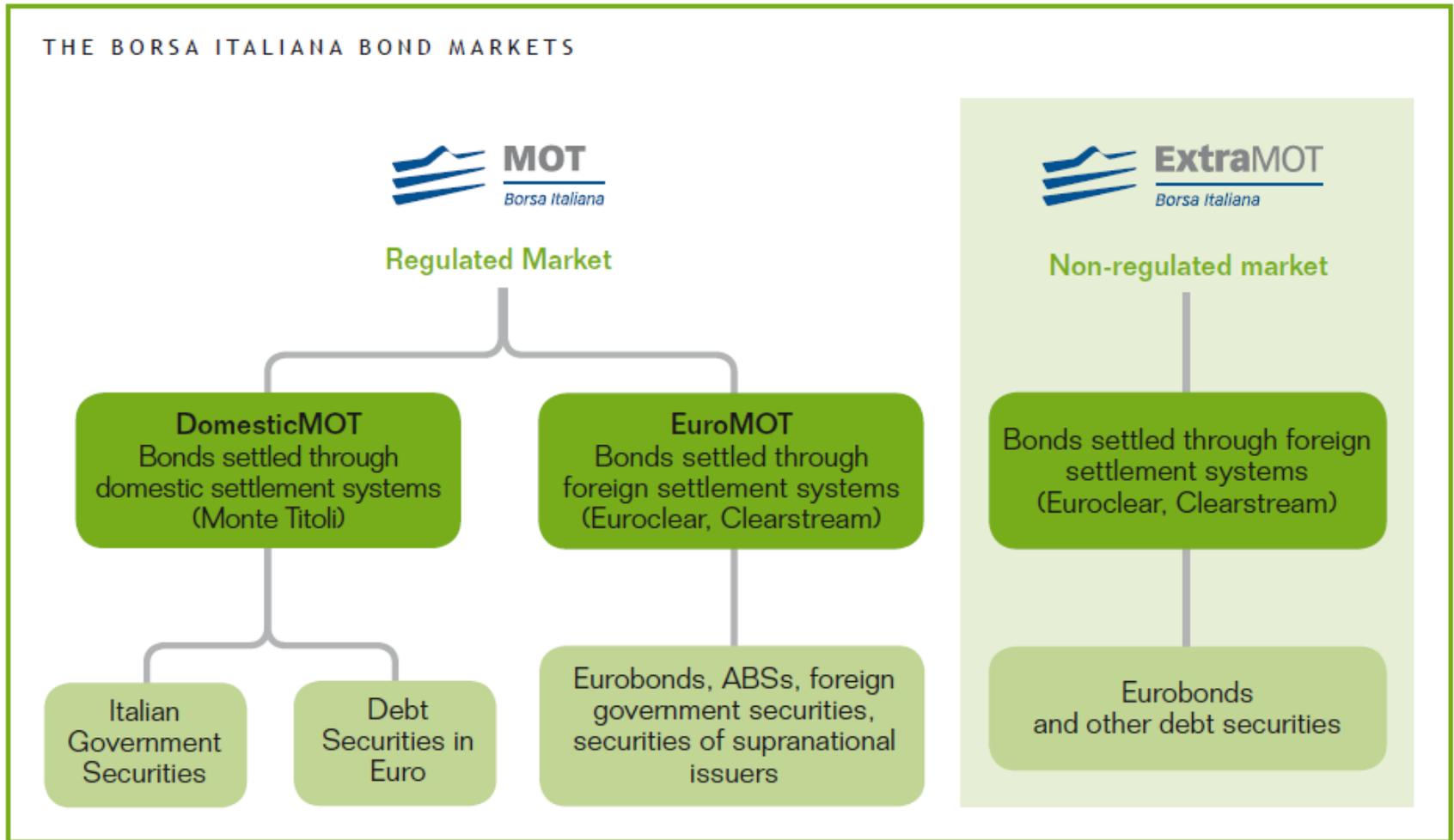
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- ▶ Basically, the Italian markets may offer:
  - ▶ International members and global investor base
    - ▶ Strong depth in international investors, with a significant part coming from outside Europe
  - ▶ The most liquid market in Europe
    - ▶ High liquidity, also sustained by an active retail investor base, representing over 30% of the total turnover
  - ▶ Top-ranked market in dividend yield
    - ▶ The comparison of dividend yields in the past five years shows the highest value for the Italian market
  - ▶ The fastest trading platform
    - ▶ The trading platform is a highly scalable, multi-asset class and ultra low-latency trading platform
  - ▶ Efficient and low-cost trading and post-trading services
    - ▶ The fee structure is customized and there are incentives for new members and for trading members of both LSE and Borsa Italiana
    - ▶ Advanced post-trading services with CC&G (central counter party) and Monte Titoli (central securities depository)

# The Italian equity markets

Market	Instruments traded	Characteristics of shares listed	Mandatory specialist
MTA	Shares, convertible bonds, pre-emptive rights and warrants	<ul style="list-style-type: none"> <li>— Market cap. of at least €40m</li> <li>— Free float of at least 25%</li> </ul>	
STAR	Shares, convertible bonds, pre-emptive rights and warrants	<ul style="list-style-type: none"> <li>— Market cap. of more than €40m and less than €1bn at IPO</li> <li>— Free float of at least 35% at IPO and 20% ongoing</li> </ul>	×
MTA International	Shares	<ul style="list-style-type: none"> <li>— Shares that have been listed on another European regulated market for at least 18 months are eligible for admission without the requirement to publish a prospectus</li> </ul>	
MIV	Shares, convertible bonds, pre-emptive rights and warrants issued by Investment Companies, Real Estate Investment Companies (REIC) and Special Investment Vehicles (SIVs) and units of closed-end funds. Combinations of financial instruments issued by SIVs are also traded	<ul style="list-style-type: none"> <li>— Market cap. of at least €40m (€25mm for closed-end funds which invest in securities)</li> <li>— Free float of at least 25% for Investment Companies</li> <li>— Free float of at least 35% for REIC and SIVs</li> </ul>	Only required for closed end funds
AIM Italia	Shares, convertible bonds, pre-emptive rights and warrants	<ul style="list-style-type: none"> <li>— No minimum market cap. requested</li> <li>— Free float of at least 10%</li> </ul>	×
TAH	Shares admitted to trading on European regulated markets, freely transferable and suitable for settlement		

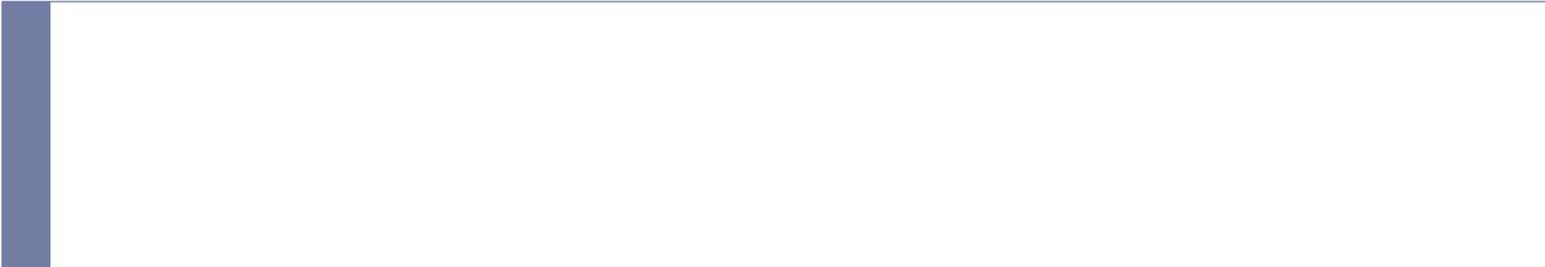
# The Italian bond markets



# The Italian derivatives market

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- ▶ IDEM is the derivatives market of Borsa Italiana. It is cleared by Cassa di Compensazione e Garanzia (CC&G), also part of the London Stock Exchange Group
- ▶ IDEM is among the top European derivatives exchanges, trading around 150,000 contracts daily with a value equivalent to €3bn. € of value traded. It is based on one of the most liquid equity markets in Europe, with €350bn of market capitalization and 150% turnover velocity
- ▶ The IDEM market includes two segments:
  - ▶ IDEM Equity, where index and single name futures and options are listed
  - ▶ IDEX, offering trading on Italian power futures
- ▶ More than 80 members are directly connected to the market from Italy, United Kingdom, France, The Netherlands, Germany, Luxembourg, Ireland, Belgium, Czech Republic and Spain
- ▶ More than 20 market making firms displaying bids and offers on a continuous basis or responding to requests for quotes are active on the IDEM market

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9. Attracting and appealing people from all the world: where there is need to invest?

# Many targets to invest

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- ▶ Italy is an appealing playground from abroad, because of many targets to invest
- ▶ There are a lot of chances in these areas of business:
  - ▶ Infrastructure
  - ▶ Public-private ventures
  - ▶ Services
  - ▶ Financial institutions
  - ▶ Healthcare and education
  - ▶ Tourism and leisure
  - ▶ Environmental sector
  - ▶ A new season of privatizations

# A target: INFRASTRUCTURE

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- ▶ Italy has a well developed infrastructure system, but it needs to be improved and modernized. In particular, Italy is perfectly connected to TEN-T (Trans-European Network for Transport)
  - ▶ 6 of the 30 most important traffic axes involve Italy directly: corridor Lisbon-Kiev, corridor Berlin-Palermo, Two seas corridor Genoa-Rotterdam, corridor Bari-Brindisi-Black Sea, motorway of the sea of the western Mediterranean system, motorway of the sea of the eastern Mediterranean system
- ▶ In more depth, there are some projects (some of them already approved by the Government and/or funded) that may be interesting opportunities for foreign investors:
  - ▶ Highway improvement projects
  - ▶ High speed railways
  - ▶ Retractable underwater barriers to help protect Venice from flooding (so called Mose)
  - ▶ Intermodal and terminal container management, realization of warehouses in freight villages and intermodal centers, creation of European distribution centers in logistic areas, logistic real estate, etc.

# A target: PUBLIC-PRIVATE VENTURES

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- ▶ The Italian Government is basically opened to foreign investors and to sovereign funds to invest in shares of Italian public-private partnerships and companies
  - ▶ Moreover, the Italian high debt-to-GDP ratio is constraining the Government's desire to stimulate investments directly
- ▶ In Italy there are some laws enforcing public entities to reduce their participation to companies
  - ▶ So, in the next futures, the so called “municipalizzate” should open great opportunities for foreign investors
- ▶ Sectors where opportunities might realize are:
  - ▶ Energy, water, gas distribution systems
  - ▶ Waste disposal and recycling
  - ▶ Remote heating
  - ▶ Local public transport
  - ▶ Sewage management

# A target: SERVICES

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- ▶ As in almost all developed countries, services represent the largest sector of the economy, both in number of employees and added value
  - ▶ In addition to tourism, financial services, health, environment that will be analyzed individually in the next slides, there are a lot of opportunities to invest
- ▶ According to the recent analyses, trade and services to individuals and companies (service industry) represent the most interesting areas of development. So, chances for foreign investors may be found in:
  - ▶ Facility management
  - ▶ Wholesale, cash&carry, retail distribution and trade
  - ▶ Social and personal services
  - ▶ R&D development
- ▶ The current Government is implementing a process of liberalization of business activities and reduction of bureaucracy, which lead to simplify the “doing business” in the country

# A target: FINANCIAL INSTITUTIONS

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- ▶ The Italian Government is basically opened to foreign investors and to sovereign funds to invest in shares of Italian banks
  - ▶ As in all European Union, there are laws enforcing banks to increase their capitalization and adopt adequate policies of risk management
- ▶ In Italy, the Government, contrary to Germany, France or Spain, wasn't asked and forced to support the financial institutions during recent financial crisis (Italian banks have always been solid and have always showed strong fundamentals)
  - ▶ On average, Italian operators play the most part of their businesses locally so they have the potential to increase their presence abroad
  - ▶ Some of the most important banks are owned by foundations or charity institutions that in the next future shouldn't be able to fund the growth of their owned financial institutions

# A target: HEALTH-CARE AND EDUCATION

---

- ▶ In Italy, almost the whole sectors of healthcare and education are managed by the State
- ▶ **EDUCATION**
  - ▶ The labor market doesn't feature substantial gains, neither in higher employment opportunities or education wage premium for graduated people
  - ▶ For-profit and non-profit educational institutions are not well developed, especially in higher education
  - ▶ The existing Government is proving for laws aimed to eliminate the legal value of the degree
- ▶ **Opportunity for investors:**
  - ▶ Realization of for-profit colleges and universities
  - ▶ Development of a system of training courses for adults
  - ▶ Enlargement of continuous learning initiatives

# A target: HEALTH-CARE AND EDUCATION

---

- ▶ In Italy, almost the whole sectors of healthcare and education are managed by the State
- ▶ **HEALTHCARE**
  - ▶ There are a examples of private management of healthcare structures, like hospitals, clinics, health centers, treatment centers, elderly residences, hospices, that sign agreement with the public entities
  - ▶ On average, public structures are less efficient and less effective
  - ▶ The trend for the future is already quite clear:
    - ▶ Owing to demographic matters health and long term care expenditure will rise
    - ▶ The State will focus its activity on monitoring and management of the whole health system
    - ▶ The private sector will specialize in some areas (i.e., surgery, rehabilitation, home therapy, etc.) and will be more and more fundamental for the health service supply
  - ▶ **The whole healthcare sector represents a great opportunity of investment in Italy**

# A target: TOURISM AND LEISURE

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- ▶ The Italian tourism industry is an important economic activity and represents one of the most important sector for the development of the country. Moreover, according to WTTC - World Travel and Tourism Council, Italy is still one of the eminent destination for leisure or business travels
- ▶ What Italy is:
  - ▶ 1st place among EU countries for accommodation capacity
  - ▶ 3rd place among EU countries for arrivals
  - ▶ 4th place in world country rankings for currency earnings
  - ▶ 5th place in world rankings for arrival
- ▶ Italy has the widest and the most various artistic and cultural heritage, natural beauty and variety of products in the world
- ▶ Moreover, these aspect are common features to all regions and are the strengths of the Italian tourism system
- ▶ The great potential in terms of tourist flows and investment opportunities is so high that it is difficult to quantify. So, opportunities for foreign investors are:
  - ▶ Not only in the well known businesses (i.e., hotel management or accommodation facilities) in the well known cities (i.e., Rome, Venice, Florence)...
  - ▶ ...but also new kind of tourism (i.e., agri-tourism and eco-tourism) in other areas (i.e., Cinque Terre, Umbria, etc.)

# A target: ENVIRONMENTAL SECTOR

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- ▶ One of the weaknesses of Italy is certainly the lack of raw materials and, in particular, of sources to generate electric energy
  - ▶ A recent referendum, once again, stopped the development of nuclear power plants in all the country, generating a greater dependence on foreign countries
- ▶ Italy is being experiencing a boom in “clean energy” investments
  - ▶ Even though the whole sector seems to be very depending on public policies, the existing trend shows that Italian private people and firms continue to invest in renewable energies
  - ▶ In Italy, the most developed segments are: wind, solar, biomass
- ▶ Foreign investors may find great opportunities in such market segments:
  - ▶ Agro-energy
  - ▶ Water treatment and filtration
  - ▶ Recycling – Energy efficiency
  - ▶ Waste
  - ▶ Pollution control
  - ▶ Biomass – Building

# A target: A NEW SEASON OF PRIVATIZATIONS

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- ▶ The Italian Government is committed to reduce the public debt. This will mean to start a new season of privatization involving both central and local entities (like Regions, provinces and municipalities)
- ▶ The Italian Central Government still owns significant holdings, or the entire ownership, in many big companies. At the same time, local entities own a great number of companies, most of them in the service sector: power, airports and intermodal hubs, water, utilities, etc.
  - ▶ Last year, the Government has provided for incentives to induce municipalities to privatize companies
- ▶ A very conservative estimation of potential revenue of privatization of municipally-owned companies and largest companies (many of them are already listed) is about 200 bill. €
  - ▶ This privatization will lead Italy to save about 6 bill. € of interest expenses