



WHY NOT ITALY?

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

Executive summary

Milan, April 2nd 2015

Why not Italy?

- ▶ 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?

- ▶ **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

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 in Italy

- ▶ According to the World Bank data, Italy has always been among the ten most important developed countries in the world. Italy is the third largest economy in the European Union just after Germany and France
- ▶ 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

The Italian financial situation

- ▶ Italy is not a risky country in a financial point of view
 - ▶ 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
- ▶ The overall leverage is moderate and lower than the one of other European countries
 - ▶ The Italian external debt is much lower than the one of other developed countries
 - ▶ The Italian aggregate debt is aligned to the French one and is lower than the level of UK or Spain
- ▶ In Italy, the need for deleveraging is not compelling, and the drag on economic growth is likely to be modest

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

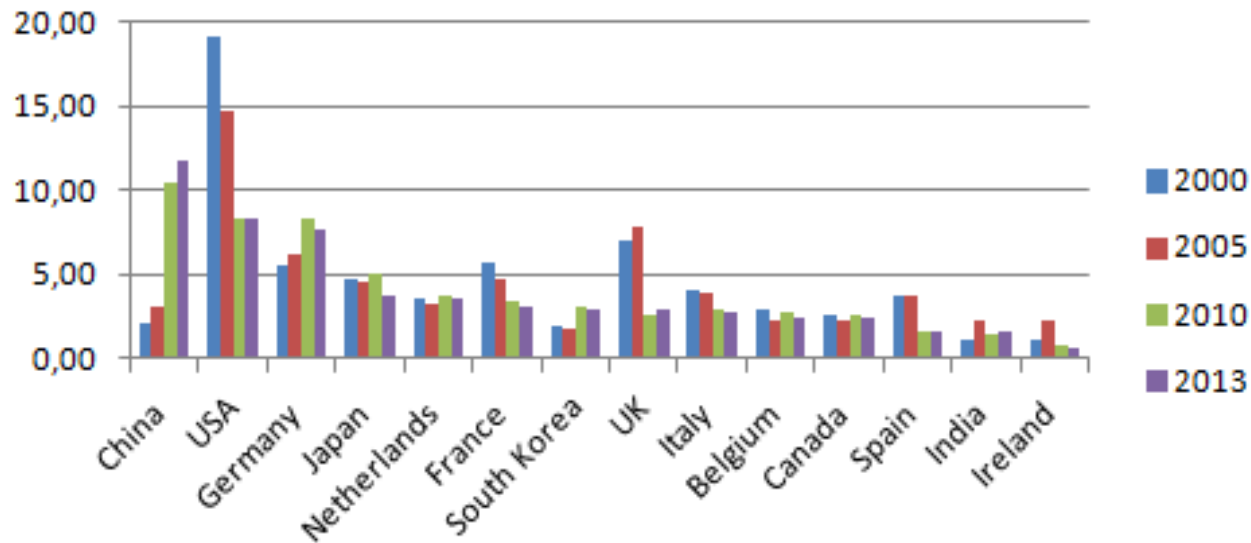
EU Sustainability Ranking* 2014 (Base Year 2013)

<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
EU27		87	254	341

Source: Stiftung Marktwirtschaft

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.

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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 bil. Euro
 - ▶ In particular, more than 5 bil. Euro refer to houses and “buildings” used by families
- ▶ On average, every family has a wealth of about 350 thousands Euro, where the largest part is related to the ownership of the house
- ▶ 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



3. A solid banking system

A solid banking system

- ▶ 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)
- ▶ 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
 - ▶ The Italian banking system has develop following this inspiration: lesser risks, lesser returns, lesser losses, greater stability



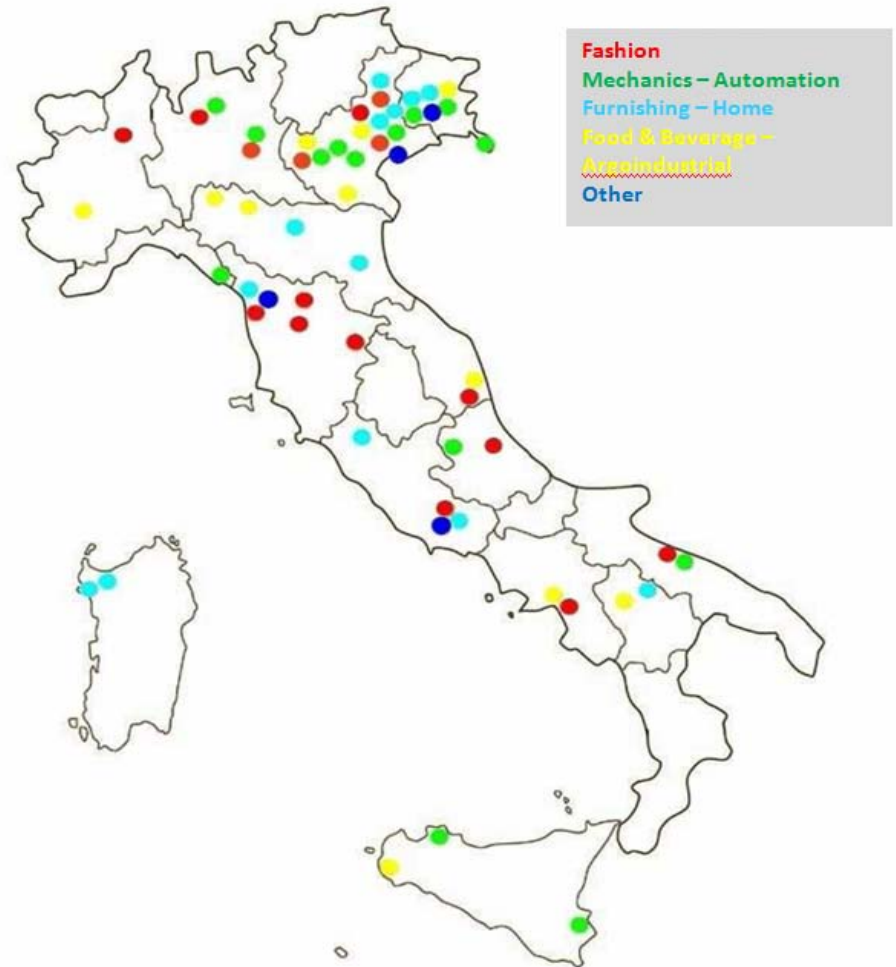
4. A country of excellence in different niches

The Italian industrial system

- ▶ 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 Italian way to exploit market niches and develop: industrial districts

- ▶ 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. €

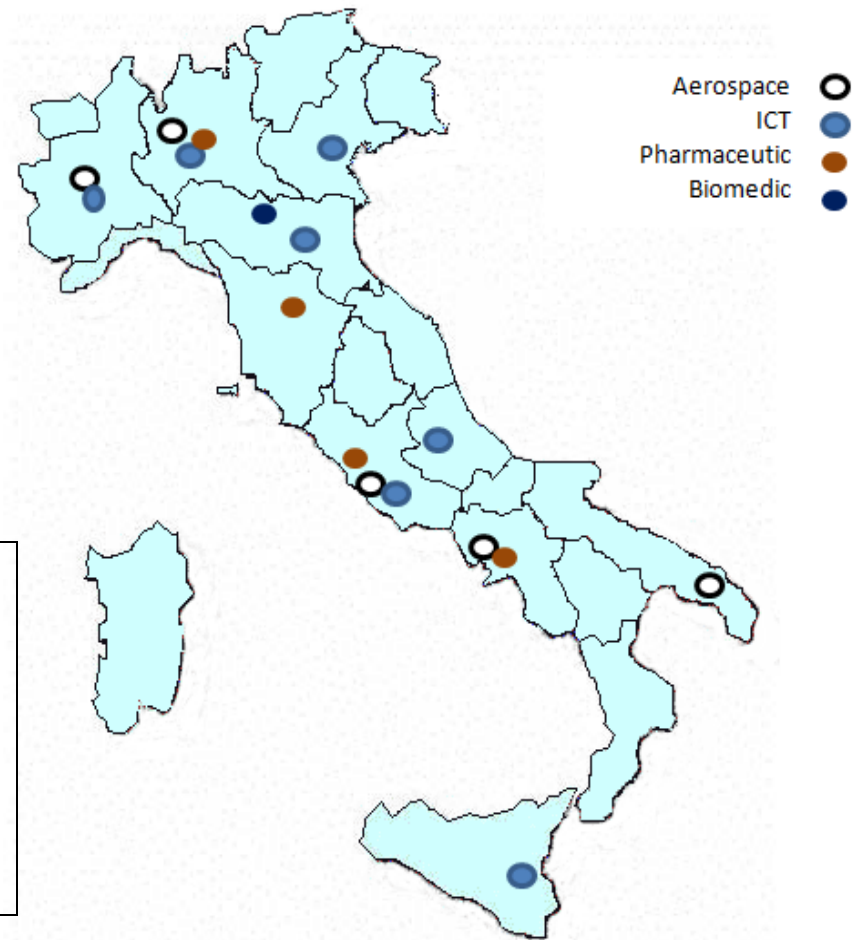


Source: The National Observatory of Italian Districts

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

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

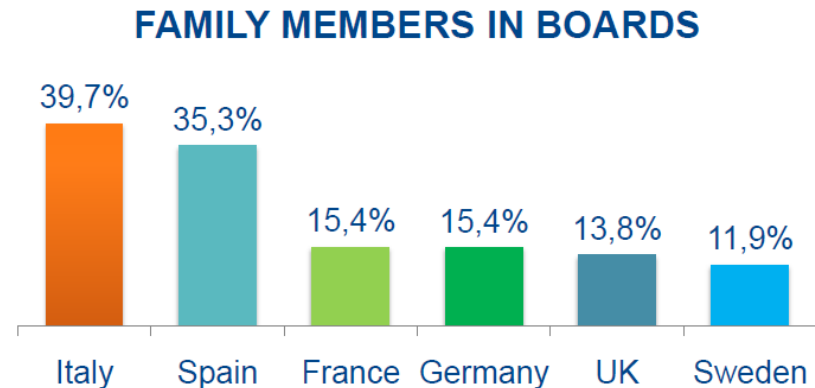
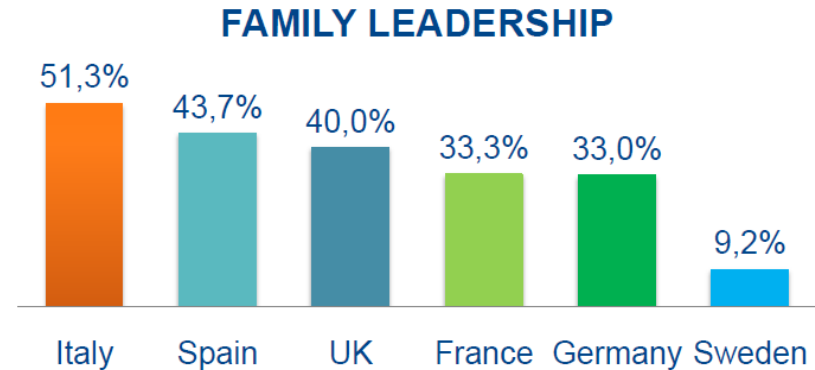
Ranking of Italian Export	Number of products (compared to a number of 5517 products in which the international trade is divided)
1°	235
2°	377
3°	323

Source: Fondazione Edison

The 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...

- ▶ 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



Source: AUB Observatory Report

The great opportunities

- ▶ Italian companies are facing some problems:
 - ▶ The succession
 - ▶ Italian entrepreneurs are well aware of the fact that a strong growth needs a change of governance and ownership structure
 - ▶ In 2015, 20% of Italian family firms have a leader over 70
 - ▶ The undercapitalization
 - ▶ Leverage is 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

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5. An unexploited value from its cultural and environmental heritage

A system yet to be exploited

- ▶ 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
Total	389

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
Total	20,7

Source: Chamber of Commerce of Monza and Brianza

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

The Italian logistic system

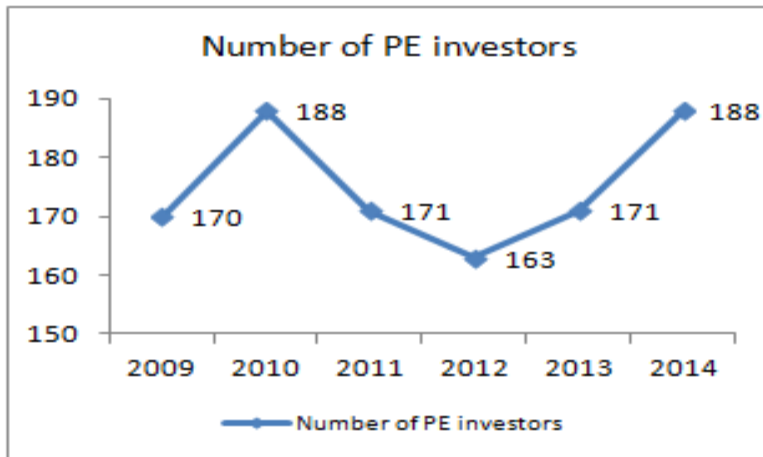
- ▶ The location of Italy represents a great advantage as it allows connections towards Asia and the Middle East, Africa and Europe. In fact, Italy is located at the heart of these three key markets, with around 800 mil. consumers
- ▶ National logistics equipment is based on a wide set of infrastructures 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
- ▶ **Anyway, Italy suffers the high degree of fragmentation of infrastructures and the low degree of intermodal integration**

The role of the South of Italy

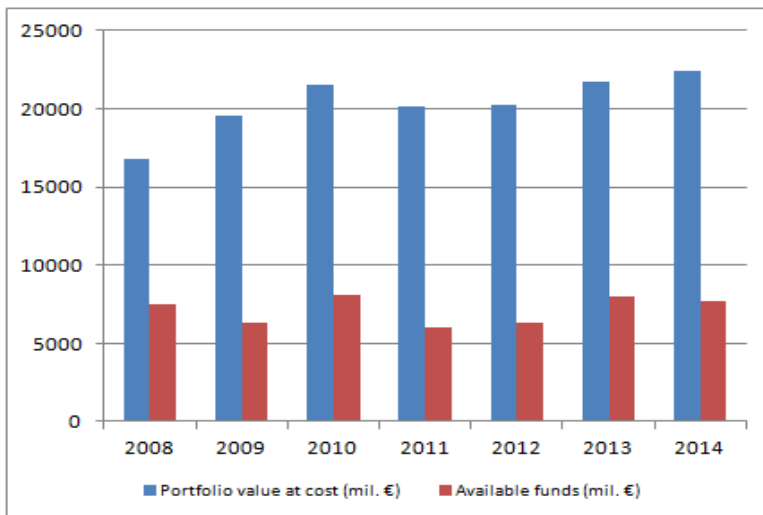
- ▶ Logistic in North of Italy is much more developed and integrated than in the South
 - ▶ This situation is also due to the fact that the North of the country is nearer to the European big markets, such as Germany and France
 - ▶ For the same reason, manufacturing and economy in general found more 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



Source: AIFI



Source: AIFI

- ▶ Despite prejudices and difficulties related to the legal legacy, private equity is developed in Italy
 - ▶ The size of the domestic industry (amount raised and investments) is lower than in other European countries
- ▶ 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
- ▶ Italy is a very open market and data confirm that international investors already play an important role in domestic deals (about 50%)

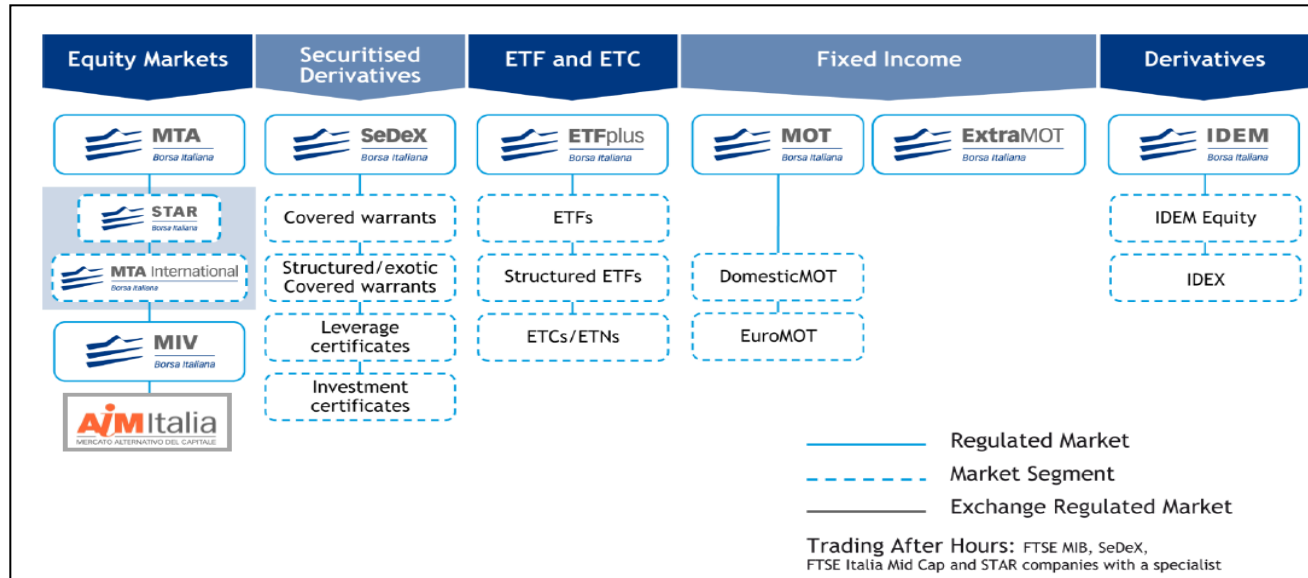
The Italian way of private equity

- ▶ 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...**



8. A developed Stock Exchange

The key figures of Borsa Italiana



- ▶ Basically, the Italian markets may offer:
 - ▶ International members and global investor base
 - ▶ The most liquid market in Europe
 - ▶ Top-ranked market in dividend yield
 - ▶ The fastest trading platform
 - ▶ Efficient and low-cost trading and post-trading services

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

Italy is an appealing playground from abroad, because of many targets to invest

▶ INFRASTRUCTURE

- ▶ Italy has a well developed infrastructure system, but it needs to be improved and modernized
- ▶ 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.

▶ PUBLIC PRIVATE VENTURES

- ▶ 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
- ▶ Sectors where opportunities might realize are:
 - ▶ Energy, water, gas distribution systems
 - ▶ Waste disposal and recycling
 - ▶ Remote heating
 - ▶ Local public transport
 - ▶ Sewage management

Italy is an appealing playground from abroad, because of many targets to invest

▶ SERVICES

- ▶ 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

▶ FINANCIAL INSTITUTIONS

- ▶ The Italian Government is basically opened to foreign investors and to sovereign funds to invest in shares of Italian banks
- ▶ 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

Italy is an appealing playground from abroad, because of many targets to invest

▶ HEALTH-CARE AND EDUCATION

- ▶ In Italy, almost the whole sectors of healthcare and education are managed by the State
- ▶ EDUCATION – Opportunities for investors:
 - ▶ Realization of for-profit colleges and universities
 - ▶ Development of a system of training courses for adults
 - ▶ Enlargement of continuous learning initiatives
- ▶ HEALTH-CARE – Opportunities for investors:
 - ▶ The whole healthcare sector represents a great opportunity of investment in Italy

▶ TOURISM AND LEISURE

- ▶ Italy is 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
- ▶ The great potential in terms of tourist flows and investment opportunities is so high that it is difficult to quantify

Italy is an appealing playground from abroad, because of many targets to invest

▶ ENVIRONMENTAL SECTOR

- ▶ One of the weaknesses of Italy is certainly the lack of raw materials and, in particular, of sources to generate electric energy
- ▶ 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
- ▶ Foreign investors may find great opportunities in such market segments:
 - ▶ Agro-energy
 - ▶ Water treatment and filtration
 - ▶ Recycling – Energy efficiency
 - ▶ Waste
 - ▶ Pollution control
 - ▶ Biomass – Building

▶ PRIVATIZATION

- ▶ 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
- ▶ The Italian Central Government still owns significant holdings, or the entire ownership, in many big companies
- ▶ Local entities own a great number of companies, most of them in the service sector: power, airports and intermodal hubs, water, utilities, etc.
- ▶ 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. €