



Università  
Ca'Foscari  
Venezia

MASTER'S DEGREE

IN AMMINISTRAZIONE, FINANZA E CONTROLLO

FINAL THESIS

**The Private Equity: a cross-country comparison between  
Veneto and Grand Est**

SUPERVISOR

Ch. Prof. Ugo Rigoni

ASSISTANT SUPERVISOR

Ch. Prof. Andrea Veller

GRADUAND

Giacomo Gualtieri

871727

ACADEMIC YEAR 2018 / 2019

*“Growth is never by mere chance; it is the result of forces working together “*

*James Cash “J.C.” Penny Jr. (September 16, 1875 – February 12, 1971)  
American businessman and entrepreneur*

## **Methodology Note**

*Macro-data regarding Italy and France, as well as informations about Grand Est market are available from national reports drawn by public sectorial associations such as AIFI and FranceInvest. The analysis represented in the following dissertation, as well as informations and data used for calculating the Private Equity market performances in Veneto, have been provided on a confidential basis.*

*The data regarding the single operators, utilised to fill out certain tables and compare the two regions, have been provided through confidential interviews. The data regarding the regional funds has been integrated with informations sourced from public reports. The informations here explained refer to aggregated data and/or analysed in macro-categories. Given the thesis practical and current approach, many informations are drawn from newspapers and press releases rather than scientific papers.*

*It should be said that the following analysis consider only those operations where data were available in their complete form. Consequently, any operation where only partial and/or incomplete data were made available have been excluded from the analysis especially if regarding the closed deals.*

*The overall approach to the research combines quantitative methods used to measure the market performances in general identifying the macro-patterns, and qualitative methods, developed through structured interviews to the main operators in the market in order to gain in-depth insights into the specificities surrounding this complex business. Five Private Equity funds were interviewed for the Veneto region: 21 Invest, Alcedo S.g.r., FVS S.g.r., Veneto Sviluppo S.p.A. and Gradiente S.g.r.. The interviews conducted in Grand Est were five as well with one development agency, Adira, and four Private Equity organisations: BPI France, Alsace Business Angels, Capital Grand Est and Siparex. Interviews were conducted mainly on the phone, and occasionally at the firm's headquarter. They were all 40 minutes long, on average, and the answers were recorded for every interview in order to guarantee the highest faithfulness possible.*

*Interviews to Grand Est operators have all been conducted in the second half of March 2019, while the interviews for Venetian Private Equities have been conducted in the second half of July 2019.*

*Interviews were held in French and Italian languages which has represented a further advantage in favour of answers completeness and translation faithfulness. Combining the identical structured interviews produced results that can be generalised even beyond the sample group and they provide a general understanding of participants' perceptions, motivations and principles.*

*The aim addressed by the paper is rather practical but, as introduction, the market needed to be framed given its peculiarities. This fact explains the mixed approach adopted; through the quantitative experimental research described in the first chapters and at the beginning of chapters 3 and 4, we aim to produce generalisable knowledge about the national markets. It is convenient to rely on these studies given the vast representative sample supporting the data.*

*With the qualitative regional case study we aim at producing contextual real-world knowledge about the procedures, social structures and shared purposes of Private Equity firms in Veneto and Grand Est. The final goal is to compare these studies and realise what the main differences are.*

## **Table of Contents**

<i>List of Graphs</i>	5
<i>List of Tables</i>	7
<i>List of Abbreviations</i>	9
<i>Abstract</i>	13
<i>Introduction</i>	14
<i>Chapter 1: The SMEs condition after the financial crisis</i>	17
<i>Chapter 2: The literature review: what a Private Equity is</i>	27
<i>2.1 Definition and History</i>	27
<i>2.2 The Funds Organisation</i>	30
<i>2.3 The Fund's Managers and the Value Creation Process</i>	33
<i>2.4 Fees and Profits</i>	35
<i>2.5 Transparency Concerns</i>	37
<i>2.6 Types of Private Equity</i>	39
<i>2.7 Investment Process</i>	45
<i>2.8 Conclusion</i>	46
<i>Chapter 3: The Private Equity in Italy and the Veneto Region</i>	48
<i>3.1 The Private Equity Industry in Italy</i>	48
<i>3.2 Value Creation Analysis</i>	74
<i>3.3 A general overview of the Veneto region</i>	83
<i>3.4 The private equity industry in Veneto region</i>	86
<i>3.5 Conclusion</i>	94
<i>Chapter 4: The Private Equity in France and the Grand Est Region</i>	96
<i>4.1 The Private Equity Industry in France</i>	96
<i>4.2 Value Creation Analysis</i>	103
<i>4.3 A general overview of the Grand Est region and Alsace</i>	106
<i>4.4 The private equity industry in Grand Est region</i>	109
<i>4.5 Conclusion</i>	123

<i>Chapter 5: The comparison between the two regions</i>	125
<i>Conclusions</i>	138
<i>Appendixes</i>	143
1. <i>The Interviews' Questions</i>	143
2. <i>The Interviews realised in Grand Est</i>	145
3. <i>The Interviews realised in Veneto</i>	178
<i>Reference List</i>	215
<i>Acknowledgements</i>	223

## List of Graphs:

1	<i>ESAF Index for Italy and France</i>	21
2	<i>Percentage of European SMEs reporting these financing instruments to be relevant in 2017</i>	21
3	<i>Private Equity deals (€) according to European macro-regions, *as of June 30<sup>th</sup>, 2018</i>	23
4	<i>France and Benelux Private Equity deal activity, *as of June 30<sup>th</sup>, 2018</i>	24
5	<i>European Private Equity Exit Activity, *as of June 30<sup>th</sup>, 2018</i>	25
6	<i>European Private Equity Exits (€) by type, *as of June 30<sup>th</sup>, 2018</i>	26
7	<i>Purchase Price/EBITDA according to Private Equity deals in 2017</i>	29
8	<i>Private Equity core activity explained</i>	30
9	<i>J curve obtained by Private Equity returns</i>	37
10	<i>Italian PEs Deal Activity 2009 - *Q1 2018</i>	49
11	<i>PEs portfolio composition in 2018, according to firms' origin and ownership</i>	50
12	<i>Italian PEs deal activity split by deal size (€M) 2009 - *Q1 2018</i>	54
13	<i>Number of PE organisations divided by performed activity, 2017 - 2018 comparison</i>	55
14	<i>Funds raised evolution 2014 - 2018 from private and public investors indistinctly</i>	55
15	<i>Capital raised on the market (M€) according to the investor's nature</i>	56
16	<i>Geographical evolution of capital raised for private investors</i>	57
17	<i>Funds raised evolution on the market for private investors' category and origin</i>	58
18	<i>Funds raised according to PE business sector</i>	59
19	<i>Number of operations, supported companies and amount invested (M€) evolution in Italy</i>	60
20	<i>2014 - 2018 Initial and subsequent PEs investments</i>	60
21	<i>Number of operations and amounts invested according to PE business sector</i>	61
22	<i>Number of PEs' investments according to business sectors</i>	61
23	<i>Invested amounts and number of operations according to PE's ownership</i>	62
24	<i>Deals' count divided in two dimensional categories: small-medium and large-mega</i>	64
25	<i>Operations' and supported companies' number and amounts invested, according to PE business sector</i>	66
26	<i>Number of operations and amounts invested according to the Italian macro-regions</i>	66
27	<i>Regional distribution of realised investments in 2018</i>	67
28	<i>Investments sectorial distribution in 2018</i>	68
29	<i>Sectorial distribution of Investments' value in 2017</i>	69
30	<i>Exits' number, companies cashed out and amounts earned, historical data</i>	70

31	<i>Exits amount (left) and number (right) evolution in 2017 - 2018 comparison</i>	71
32	<i>Exit number distribution according to PE's business sector</i>	71
33	<i>Active operators in Italy according to the different activities</i>	72
34	<i>Debt instruments utilised distribution</i>	73
35	<i>Number of investments (left) and amounts (right) according to firm's goals</i>	73
36	<i>PE's market performances in terms of Cash Out and IRR</i>	74
37	<i>Revenues growth of PE supported firms from 2007 till 2017</i>	75
38	<i>CAGR comparison between Italian GDP and PE backed companies</i>	76
39	<i>Employment rate evolution in Italy vs employment rate evolution among PE Backed firms</i>	76
40	<i>Revenues (left) and EBITDA (right) yearly growth 2007-2017 for first stage financing</i>	77
41	<i>Companies' value (M€) held inside PE's portfolios at year-end 2018</i>	78
42	<i>Italy political map with specific focus on Veneto</i>	84
43	<i>Number of supported firms in Veneto</i>	87
44	<i>Amounts (M€) invested in Veneto</i>	87
45	<i>Number of Investments per PE business sector in Veneto</i>	88
46	<i>Number of investments per industry in Veneto</i>	89
47	<i>Raised funds by PEs in France</i>	96
48	<i>Number of companies receiving PE investments, *Q1 2018</i>	100
49	<i>PE's portfolio according to PE business sector</i>	101
50	<i>Turnover/GDP growth from 2016 to 2017. Participated SME's sample including 3.317 companies</i>	102
51	<i>Value creation process for PE's activity</i>	103
52	<i>Determinants of value creation process for small and large firms divided per revenues class</i>	104
53	<i>Determinants of "effet-résultat" represented by EBITDA total growth</i>	104
54	<i>France political map without overseas territories: Réunion, Mayotte, Guadeloupe, Martinique, Guyane</i>	107
55	<i>Secondary Sector turnover per main industries</i>	108
56	<i>PEs investments per company's dimension class in 2018</i>	111
57	<i>PEs' portfolio percentages per industries</i>	112
58	<i>Number of companies supported by PE and total amounts invested</i>	113
59	<i>Number of companies supported by PE per main PE business sectors</i>	114
60	<i>Capital Grand Est investment vehicles</i>	117
61	<i>Turnover Growth and Employment Growth for PE backed companies</i>	118

## List of Tables:

1	<i>Number of Enterprises, Turnover and People Employed by European SMEs</i>	18
2	<i>Funding Needs according to every Stage in the Company's Lifecycle</i>	41
3	<i>Private Equity Investment Process</i>	46
4	<i>Top three Italian regions for number of operations and amounts invested</i>	67
5	<i>Total number of deals by Italian region from 2000 till 2018</i>	68
6	<i>IRR performances and transaction number according to operator's origin</i>	79
7	<i>Transaction's number according to IRR class</i>	80
8	<i>Deals' number and IRR per PE business sector</i>	81
9	<i>IRR performance 'By Horizon' for companies in PE's portfolios</i>	81
10	<i>IRR 'From Inception' per industry in 2017</i>	82
11	<i>IRR 'From Inception' distribution per stake held in 2017</i>	83
12	<i>Specifics about PE deals in 2018 in Veneto</i>	91
13	<i>Main aspects that Venetian PEs look at when investing</i>	92
14	<i>Venetian PEs biggest challenges when investing</i>	93
15	<i>1<sup>st</sup> semester 2017-2018 comparison of capital raised and number of vehicles per PE dimension</i>	98
16	<i>Amount invested by investors' category and origin for first semester 2018</i>	99
17	<i>1<sup>st</sup> semester 2017-2018 comparison of capital invested and number of supported companies divided by PE's business segment</i>	101
18	<i>Average companies' evolution between Entry - Exit period per cash-out year</i>	105
19	<i>Business creation, raw data</i>	109
20	<i>Business bankruptcy, raw data</i>	110
21	<i>Companies categories per dimensional class</i>	111
22	<i>General rules and tax treatment for every PE fund category</i>	116
23	<i>Amounts invested and number of supported companies per industry</i>	119
24	<i>SME's requirements in order to be eligible for PE support</i>	120
25	<i>PE's biggest challenges when investing in SME in Grand Est</i>	121
26	<i>Italy and France's capital raised by PE firms according to investors' typology and origin</i>	126
27	<i>Comparison between Italy and France of amounts invested and operations' count per PE sector, rearranged clusters to fit the classification</i>	128
28	<i>Investments count per PE's industry, historical trend 2011 - 2018 comparison of Italy and France</i>	129

29	<i>Deal count according to the market industries</i>	129
30	<i>Differences from a PE operating in Veneto and a PE operating in Grand Est</i>	136

## **Abbreviations**

<i>AFIC</i>	<i>Association Française des Investisseurs pour la Croissance</i>
<i>AIDAF</i>	<i>Associazione Italiana delle Aziende Familiari</i>
<i>AIFI</i>	<i>Associazione Italiana del Private Equity e Venture Capital</i>
<i>AIPB</i>	<i>Associazione Italiana del Private Banking</i>
<i>AMF</i>	<i>Autorité des marchés financiers</i>
<i>AUM</i>	<i>Assets Under Management</i>
<i>BNP Paribas</i>	<i>Banque Nationale de Paris Paribas</i>
<i>BPI France</i>	<i>Banque Populaire d'Investissement France</i>
<i>CAGR</i>	<i>Compound Annual Growth Rate</i>
<i>CapEx</i>	<i>Capital Expenditures</i>
<i>CDP</i>	<i>Cassa Depositi e Prestiti</i>
<i>CEO</i>	<i>Chief Executive Officer</i>
<i>CFO</i>	<i>Chief Financial Officer</i>
<i>CM-CIC</i>	<i>Crédit Mutuel - Crédit Industriel Commercial</i>
<i>DD</i>	<i>Due Diligence</i>
<i>EBITDA</i>	<i>Earnings Before Interests, Taxes, Depreciation and Amortisation</i>
<i>ECB</i>	<i>European Central Bank</i>
<i>EDF</i>	<i>Électricité de France</i>
<i>EIF</i>	<i>European Investment Fund</i>
<i>EPO</i>	<i>European Patent Office</i>
<i>ESAF</i>	<i>EIF SME Access to Finance</i>
<i>ETF</i>	<i>Exchange Traded Fund</i>

<i>ETI</i>	<i>Entreprise de Taille Intermédiaire</i>
<i>EU</i>	<i>European Union</i>
<i>EV</i>	<i>Entreprise Value</i>
<i>FCF</i>	<i>Free Cash Flow</i>
<i>FCPI</i>	<i>Fond Commun de Placement dans l'Innovation</i>
<i>FCPR</i>	<i>Fond de Capital Risque</i>
<i>FIP</i>	<i>Fond d'Investissement de Proximité</i>
<i>FPCI</i>	<i>Fond Professionnel de Capital d'Investissement</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>GE</i>	<i>Grande Entreprise</i>
<i>GP</i>	<i>General Partners</i>
<i>HNWI</i>	<i>High Net Worth Individuals</i>
<i>ICT</i>	<i>Information Communication and Technology</i>
<i>ILP</i>	<i>Institut Lorraine de Participation</i>
<i>INAIL</i>	<i>Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro</i>
<i>INSEE</i>	<i>Institut National de la Statistique et des Études Économiques</i>
<i>IPO</i>	<i>Initial Public Offering</i>
<i>IRPAC</i>	<i>Institut Régional de Participations Ardenne-Champagne</i>
<i>IRR</i>	<i>Internal Rate of Return</i>
<i>ISTAT</i>	<i>Istituto Nazionale di Statistica</i>
<i>IT</i>	<i>Information Technology</i>
<i>KPMG</i>	<i>Klynveld Peat Marwick Goerdeler</i>
<i>LLP</i>	<i>Limited Liability Partnership</i>

<i>LBO</i>	<i>Leverage Buyout</i>
<i>LOI</i>	<i>Letter of Intent</i>
<i>LP</i>	<i>Limited Partners</i>
<i>M&amp;A</i>	<i>Merger &amp; Acquisition</i>
<i>MBO</i>	<i>Management Buyout</i>
<i>MiFID</i>	<i>Markets in Financial Instruments Directive</i>
<i>Nasdaq</i>	<i>National Association of Securities Dealers Automated Quotations</i>
<i>NAV</i>	<i>Net Asset Value</i>
<i>NPL</i>	<i>Non-Performing Loans</i>
<i>NPV</i>	<i>Net Present Value</i>
<i>NYSE</i>	<i>New York Stock Exchange</i>
<i>OECD</i>	<i>Organisation for Economic Cooperation and Development</i>
<i>OICR</i>	<i>Organizzazione di Investimento Collettivo del Risparmio</i>
<i>OPCVM</i>	<i>Organisme de Placement Collectif en Valeurs Mobilières</i>
<i>PAI Partners</i>	<i>Paribas Affaires Industrielles Partners</i>
<i>PE</i>	<i>Private Equity</i>
<i>PEM</i>	<i>Private Equity Monitor</i>
<i>PIR</i>	<i>Piano Individuale di Risparmio</i>
<i>PIPE</i>	<i>Private Investment Public Equity</i>
<i>PME</i>	<i>Petite et Moyenne Entreprise</i>
<i>PwC</i>	<i>PricewaterhouseCoopers</i>
<i>R&amp;D</i>	<i>Research &amp; Development</i>
<i>RJR Nabisco</i>	<i>Richard Joshua Reynolds Nabisco</i>

<i>ROIC</i>	<i>Return on Invested Capital</i>
<i>SA</i>	<i>Société Anonyme</i>
<i>SAS</i>	<i>Société per Actions Simplifiée</i>
<i>SBO</i>	<i>Secondary Buyout</i>
<i>SCR</i>	<i>Société à Capital Risque</i>
<i>SCSA</i>	<i>Société en Commandite Simple par Actions</i>
<i>S.g.r.</i>	<i>Società di Gestione del Risparmio</i>
<i>SICAF</i>	<i>Società di Investimento a Capitale Fisso</i>
<i>SICAV</i>	<i>Società di Investimento a Capitale Variabile</i>
<i>SLP</i>	<i>Société en Libre Partenariat</i>
<i>SME</i>	<i>Small and Medium Enterprises</i>
<i>S.p.A.</i>	<i>Società Per Azioni</i>
<i>SPAC</i>	<i>Special Purpose Acquisition Company</i>
<i>TEPA</i>	<i>Loi Travail, Emploi et Pouvoir d'Achat</i>
<i>THCP</i>	<i>Three Hills Capital Partners</i>
<i>TPE</i>	<i>Très Petite Entreprise</i>
<i>VC</i>	<i>Venture Capital</i>

## ***Abstract***

This dissertation intends to investigate the Private Equity industry by comparing two different regions: Veneto, Italy and Grand Est, France. The purpose is to analyse the strategies investors adopt when selecting target firms. The choice of the regions is based on the cities that welcomed my two M.Sc.'s years, the first one in Venice and the second one in Strasbourg.

The project aims at attempting to give another explanation of the reasons why the Private Equity industry in Italy struggles to succeed. For this purpose Grand Est turned out to be an important term of comparison, as it presents an economic fabric very similar to Veneto. This rises the question about why in the Eurozone, small and medium French companies are the best in attracting investments from foreign operators while Italians are among the worst.

Starting with a short analysis of the Small and Medium Enterprises, the paper will summarise all the concepts developed regarding the Private Equity sector in the literature. Moreover, using a practical approach, the study analysed the Private Equity operations in the two aforementioned areas. Through surveys and interviews to the main players in the market, the project tries to identify a dummy company profile that has more chances of obtaining the financial and non-financial Private Equity support.

This thesis is intended to overcome the round-block marked by the literature as regards the age-old reasons for Private Equity activity constraint: the undercapitalisation of Italian firms. In order to accomplish this goal, the paper offers a new approach regarding the future of Italian SMEs.

The findings of the project are surprising. The cross-regional analysis reveals that the territories under observation are experiencing two opposite Private Equity market trends. In Veneto, many companies and market experts are familiarising with this form of investment while Grand Est shows a slight market decrease. The investment process, strictly supervised by the law, is similar in both regions, such as the improvements obtained in the target firms after the supporting period. The real difference is given by their organisation. In Grand Est they act as a unified network, while in Italy they operate separated, burdened by high competition.

Private Equity is a very flexible organisation, because of its ability to adapt to every country's rules and industrial framework. This explains why instead of focusing on the corporate side, more importance is given to funds operations.

This paper aims at providing a practical explanation of the Private Equity market in Veneto and Grand Est, distancing itself from those rhetorical talks where the possibility of finding solutions are too often bogged down. An answer to the question regarding development issues for Italian Private Equity funds is provided, and the paper covers the processes behind their investments. Further studies are needed to establish guidelines and solutions to emerge from this deadlock.

***Keywords:*** Private Equity, France, Italy, First Stage Financing, Equity Financing, Small and Medium Enterprises, Grand Est, Veneto, Venture Capital, Leverage Buyout.

## *Introduction*

“It's clear to me when you do private equity well, you're making companies more efficient and helping them grow and become more profitable. That success means our investors benefit, which contributes to the economic wealth of society”<sup>1</sup>.

Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University (Kerschner Family Chair in Finance Education), where he teaches corporate finance and equity valuation, has written several books on growth for companies. He stated that “every company, just like human beings, is born, grows, matures, and like every human being it declines”. This is known as corporate lifecycle and trying to fight it is the most dangerous thing a business can do. The focus of a company needs to change as it moves through the lifecycle: from start up to growth, from mature to declining company.

Today the corporate lifecycle of a firm has become even more compressed. In fact, firms are born and die very fast without experiencing the mature phase. In a short time they reach what took decades for old companies to do, and after staying on top for some time, they soon decline. This represents the real challenge that Private Equity firms have to face today.

There is an entire ecosystem that feeds those companies: consultants, bankers, public institutions, insurance companies etc.. An important actor in this ecosystem is Private Equity. A Private Equity is an organisation that, as David Rubenstein said, helps companies to grow. According to his words, the success of a Private Equity implies the success for the whole society. This is where many misconceptions lie, in fact, people have labelled Private Equities as greedy managers who realise hostile takeovers, fire thousands of employees, cut costs, make quick profits and leave the company worse off than before.

This paper tries to change this perspective revealing how David Rubenstein's quote is actually true. In fact, these organisations support firms all along their lifecycle, from being a start-up, to a firm in need of funds to expand, and even during declining periods, where turnaround operations have to be performed.

Companies are born, they mature and they decline, it is the nature of the process. Some businesses are easy to enter and scale-up in. They do not require a huge amount of infrastructure investments or decades of building up. How quickly a firm goes from being a start-up to a mature company is determined by the ease of scaling up, the entry barriers and how little capital you need to grow. Interestingly enough, what causes a company to decline are exactly those same factors.

Private equity organisations play a crucial role in supporting firms with all these determinants. First of all, they provide the capital to launch a firm's ventures and start commercialising the product. Other Private Equity firms enhance a company expansion and internationalisation. These organisations support firms also by giving advice. Becoming a shareholder, rather than a lender, they are able to sit at the table where decisions are taken, and make their own contribution. Some

---

<sup>1</sup> David Rubenstein, (born August 11, 1949) is an American financier and philanthropist. He is a Co-Founder and Co-Executive Chairman of The Carlyle Group, a global private equity investment company based in Washington, D.C.

Private Equity funds are instead focusing time and resources on companies that are experiencing a period of negative performances. Turnarounds are important because they mark an upward shift or improvement.

The companies condition and their actual state of health are described in chapter 1. The most pressing issues, the ease to access credit, the most utilised financing options and how the Private Equity in Europe is supporting these corporates represent the milestone upon which the whole paper is based. This chapter paves the way for understanding why the Private Equity is needed and what advantages it offers.

In chapter 2 the Private Equity business is described. Understanding what such an organisation can offer, having just analysed the companies financial needs in the previous chapter, is definitely interesting.

A short synthesis about what the literature states on Private Equity history, definition, structure, management, typology and strategy is discussed. This is the only theoretical part of the thesis which, in the other sections, has a strong experimental imprinting. However, this chapter lays the groundwork for the following discussions.

This research is not a theoretical description of the Private Equity activity, because there is already a great deal of scientific knowledge on this topic. The core of this paper is described in the following three chapters and the final conclusions. In the academia it is possible to find several studies regarding Private Equities in general and the single country market trends and history. However, there is an evident gap when looking for similar studies conducted on a single regional basis, especially for Italy. The following two chapters aim at filling this gap, drawing the Private Equity market picture for Veneto (Italy) and Grand Est (France).

It is of the utmost importance the this gap be filled because, in Europe, the Private Equity has to be able to adapt to the single country, and more specifically to the single region in which it operates. This financial organisation has been imported from the US, therefore, the initial idea built upon its activity was based on the characteristics they have overseas. Large organisations, often listed on the stock exchange, managing billions of dollars used to buy large firms and sometimes conglomerates. Nonetheless, In Europe, the industrial framework is completely different from US and Private equity has to adapt to these changes.

With chapter 3 the first term of comparison is introduced: Veneto. In this chapter the qualitative approach utilised can be perceived. Firstly, the Italian private equity market is described using different public information provided by national organisations as AIFI and PEM. Once the general market trends and the value creation process are clear, what follows is an in-depth presentation of the Veneto region.

Thanks to a series of interviews and surveys conducted, the reasons emerged as to why some companies are backed by these investors and why others, showing similar parameters and characteristics, are not. In other words, the purpose is to understand what drives Private Equity decisions, what the main aspects they look for in a company are and what issues may put the whole operation at risk.

The discussions are based on the results of these interviews. Rather than adopting a specific point of view, the focus is on the overall typology of companies acquired by these funds and their characteristics by trying to establish a company's general profile.

A very similar debate is described in chapter 4 where the focus shifts to the French region: Grand Est. The chapter is structured exactly as the previous one and in this case the goal is to understand which French companies are targeted by Private Equities and which characteristics they must show to be eligible. This part of the thesis is strongly based on figures and data collected directly from internees and enquiries made to the most important players in the market in the French region.

Describing these two regions lead to chapter 5 where a comparison of the two scenarios is proposed. Its purpose is to clarify the main differences in terms of Private Equity activity and a company's characteristics. With chapter 5 and the conclusions, a further step towards a better understanding is made. Comparing two regions from two different countries in Europe has never been made before, and the value it preserves is extremely relevant.

The study was conducted in order to understand the reasons, the logic and strategy behind Private Equity operations by trying to reveal why some companies are able to pass the several Private Equity analysis and why others are not. The aim is a clear and objective explanation of this specific financial actor, and the approach adopted is developed through a practical comparison between two different regions. These two regions have very different Private Equity markets even if the economic framework is rather similar. In both regions small size companies represent the majority, the craftsmanship and innovations are brilliant, and there is plenty of small good businesses with shiny forecasts. However, on the French side, the Private Equity sector is well developed with many companies backed by capital from foreign investors while on the Italian side companies are less keen to open their ownership to highly skilled investors even if they need these investments the most.

Hundreds of surveys have been conducted on the longstanding problem of undercapitalisation of Italian companies and their manic affection for bank financing. Many other papers have been written on Private Equity, trying to analyse its development over the years.

However, such a specific research has never been performed, comparing two single regions in different countries, one where the Private Equity is among the most developed in Europe and the other, where it is still at an embryonic phase.

Even if Italy shows all the necessary conditions for Private Equity expansion, it has not happened yet, or at least, is nowhere near the other developed countries in the Eurozone. The explanations provided for this failure are all based on general clichés, more linked to theories rather than actual facts. With this paper we try to overcome the redundant “the financial market is not developed enough” or “Italian firms are mainly family businesses led by entrepreneurs who see their company as their own son”.

This research starts from the fact that Italy's weak economical situation is well known and not underestimated. Given this condition, the question as to whether there is a future for private equity industry arises or will it remain at underdeveloped levels?

## ***Chapter 1: The SMEs condition after the financial crisis***

The background of this thesis briefly analysis the overall situation of SMEs<sup>2</sup> generally on a European level and specifically placing particular attention on Italy and France. This initial survey is the base of the dissertation as the kind of investors we are going to study focuses exactly on SMEs.

The literature has made it plain and clear that a company whose goals are to grow and expand, should finance its operations mainly with equity and there are several reasons behind this choice that will be discussed in the following chapters. Many studies conducted during the last decade, underline the relevance of equity investment into small and promising companies in terms of innovation<sup>3</sup>, productivity and general macro economic competitiveness other than pure financial reasons. A particular category of institutional investors is dedicated to these types of company and select non-listed businesses with buoyant growth perspectives, mainly of small dimensions, supporting their projects and investments in many ways including a massive financial aid. These types of investor will be object of our analysis and will be introduced later.

Undoubtedly, these classes of company has been drastically struck by the crisis facing a double shock affecting their cash flows: a fall in demand and the tightening of credit conditions. However SMEs have also been able to bounce back showing great opportunities. These performance fluctuations are typical of small firms that are highly risky and volatile. SMEs have benefited from the ECB<sup>4</sup> expansive monetary policy more than anyone else; in fact the turnover in 2017 had an increase of 5.3%, more than double compared to the previous years.<sup>5</sup> All these factors make SMEs an attractive object of investments. There is a strong correlation between the dimension of a company and its internationalisation so that supporting the growth in terms of size of a company could help a faster placement on the international marketplace.

Examining the overall European picture, in the following table we can see the number of SMEs for each country in the Eurozone. SMEs are often more financially constrained than large firms,<sup>6</sup> even though they are generally regarded to be important contributors to economic growth. They account for approximately 99.8% of all enterprises in the non-financial business sector and create 67% of total employment in the EU.<sup>7</sup> Together, SMEs produce more than half of the added value in the EU.<sup>8</sup>

---

<sup>2</sup> See List of Abbreviations.

<sup>3</sup> Thomas Zellweger. *Time Horizon, Costs of Equity Capital and Generic Investment Strategies of Firms*, Family Business Review, vol. XX, no. 1, March 2007.

<sup>4</sup> See List of Abbreviations.

<sup>5</sup> Thorsten Beck and Asli Demircuc-Kunt. *Small and medium-size enterprises: Access to finance as a growth constraint*, Journal of Banking & Finance, 2006.

<sup>6</sup> Ibidem.

<sup>7</sup> See List of Abbreviations.

<sup>8</sup> Kraemer-Eis et al. *SME securitisation in Europe*, European Investment Fund (EIF), 2017.

	Enterprises		Turnover (million €)		Persons Employed	
	Total	< 250 persons employed %	Total	< 250 persons employed %	Total	< 250 persons employed %
EU-28	23.500.341	99,8	27.309.775	55,8	137.444.935	66,3
Belgium	602.153	99,9	989.197	65	2.769.085	69,3
Bulgaria	326.219	99,8	121.308	69,9	1.911.916	74,8
Czech Republic	1.001.048	99,8	444.231	56,9	3.591.896	67,6
Denmark	210.726	99,7	479.464	59,3	1.666.048	64,3
Germany	2.408.352	99,5	6.061.400	47,5	28.258.410	62,9
Estonia	68.124	99,7	50.820	77,5	414.763	78,2
Ireland	243.433	-	595.095	-	1.308.019	-
Greece	789.975	-	236.153	-	2.162.572	-
Spain	2.465.540	99,9	1.789.292	62,2	11.109.702	72,8
France	2.908.814	99,9	3.624.869	55,3	14.645.799	61,4
Croatia	146.637	99,7	77.670	60,9	989.598	69,5
Italy	3.683.127	99,9	2.887.615	68,8	14.225.278	78,7
Cyprus	48.329	99,9	25.573	79,9	215.716	83,9
Latvia	109.642	99,8	51.304	77,8	633.450	79,4
Lithuania	186.468	99,8	73.997	68,5	934.440	75,9
Luxembourg	31.926	99,5	151.365	70	255.869	68,3
Hungary	536.610	99,8	277.690	57,1	2.596.236	69,8
Malta	26.059	99,8	18.665	85,1	134.212	79,7
Netherlands	1.092.243	99,9	1.412.433	61,8	5.461.082	65,7
Austria	322.325	99,7	653.111	-	2.742.655	-
Poland	1.606.559	99,8	921.350	56	8.652.063	68,3
Portugal	807.183	99,9	314.227	-	3.007.264	-
Romania	458.122	99,6	263.366	59,1	3.898.199	65,5
Slovenia	134.727	99,8	83.628	68,3	591.340	73,7
Slovakia	429.524	99,9	180.476	56,7	1.502.912	71,8
Finland	229.096	99,7	365.782	56,1	1.454.614	65,6
Sweden	686.433	99,9	811.397	-	3.102.080	-
United Kingdom	19.400.947	99,7	4.348.297	47	19.209.717	53,5
Norway	293.403	99,8	546.504	-	1.610.874	68
Switzerland	142.775	99,2	1.929.684	-	2.732.720	67,1

Table 1: Number of Enterprises, Turnover and People Employed by European SMEs (Source: Eurostat).

Diving into the Italian economic framework it is clear that small and medium enterprises dominate with turnovers often far below the € 50 million threshold; however this greatly contributes to the Italian GDP.<sup>9</sup> Specifically the 148 thousand Italian SME have produced an overall € 886 billion turnover and an added value of 212 billion (12,6% of the Italian GDP).<sup>10</sup> Curiously, an Italian SME, which survived the tremendous financial crisis of 2008, is today showing a substantial growth potential not fully exploited.<sup>11</sup> Therefore, it could largely benefit from a capital injection from those institutional investors aforementioned.

A particular singularity for the Italian economic fabric is that it is highly composed of micro-companies (not even small) which employ less than 10 persons (94% of the total companies are micro).<sup>12</sup> These companies are much less attractive for investors not only because of the lack of financial resources and internationalisation but also for the need of experience, network and management skills. In order to allow these small companies to open up to international markets, the presence of institutionalised investors for the contribution of both financial and non-financial aid could be extremely significant.

Without considering the United Kingdom for obvious political reasons, Italy has the highest amount of companies with less than 250 employees amounting to 99.9% of the total. France instead, comes in second place with less companies but more profitable (higher total revenue produced by SMEs) also due to a more developed financial market.

As in the case of other European countries,<sup>13</sup> SMEs in France are the main source of employment (60% of jobs) and contribute to 55% of added value. They constitute an unbalanced set of three categories: micro-enterprises (0–9 employees) accounting for 94.25% of all SMEs, whereas small enterprises (10–49 employees) and medium sized enterprises (50– 249 employees) account for 4.80% and only 0.79% respectively. In total, the SMEs in France are 99,8% of all firms (more than 3,1 million) of companies registered by the National institute of statistics (INSEE)<sup>14,15</sup> It is clear now that Italian and French economic fabric composition is very similar in terms of companies size and relevance. However there are many points of divergence.

The most pressing problems reported by French SMEs remain the lack of demand and the drop in profits. Indeed, SMEs, as well as French firms in general, experienced a pronounced decline of their profit margins since 2007, reaching the lowest level in thirty years at the end of 2015. Apparently, investment slowdown has not been amplified by financial constraints. Access to credit, at least investment credit, has remained quite easy for French SMEs over the past years, offsetting in part the downward impact of falling profitability. This is one of the first differences between Italy and France because as regards Italy, the access to credit has been a real problem for Italian companies. This dissertation will try to analyse what factors have led to this gap focusing on two specific regions, the Veneto area in Italy and the Grand Est area in France.

---

<sup>9</sup> See List of Abbreviations.

<sup>10</sup> Antonio Angelino et. al. *Report Cerved PMI 2018I, Cerved, October 12, 2018.*

<sup>11</sup> Bentivogli C. *Il Private Equity in Italia*, Banca d'Italia, N. 41, 2009.

<sup>12</sup> Stephanie A. Fernhaber and Patricia P. McDougall-Covin. *Venture Capitalists as Catalysts to New Venture Internationalisation*, Entrepreneurship Theory and Practice (ETP), 2008.

<sup>13</sup> Nikolaos Daskalakis and Maria Psillaki. *Do country or firm factors explain capital structure? Evidence from SMEs in France and Greece*, Vol. 18, N. 2, 2007.

<sup>14</sup> See List of Abbreviations.

<sup>15</sup> Nadine Levratto. *Medium-sized enterprises in France*, EconomiX, 2011.

According to Banque de France, French SMEs have substantially reduced their investment expenditures in the last years. This shrinking trend took place in all sectors and do not show a reversal point over the last recent quarters.<sup>16</sup> This global investment expenditure decrease came with a slowdown in investment diffusion. In the light of persistently weak demand conditions, SMEs tend to reduce or postpone their investment decisions. This trend does not appear to be aggravated by financial problems indeed the outstanding amount of credit remained rather dynamic. In fact, the weakest point reported by French SMEs remains the lack of demand leading to less sales and poor profitability.<sup>17</sup>

The financial structure of French SMEs remains sound, as they are very effective in attracting investments from foreign investors.

Over the period 2001 - 2006 the European market of capital investment doubled in size while the French market became four times bigger, keeping the first place for number of companies receiving investments in Europe (even before Germany) and it placed second (after UK) for amount invested.<sup>18</sup>

French companies do not seem affected by this issue; however, Italian ones, are undergoing a real financial constraint. Banks play a central role in the Italian system compared to the market, consequently very few companies decide to open up their family run businesses to a new capital infusion. Broadly speaking, the financial constraints facing SMEs are typically attributed to market and institutional failures. For example, small firms may be unable to put forward high quality collateral and they may have fewer administrative resources to provide adequate reporting and transparency on their credit-worthiness. This fact increases their transparency risk, accentuated by the lack of brand equity that larger firms enjoy amongst creditors. All of these factors contribute to the problem of asymmetric information between SMEs and their backers, which in turn leads to credit rationing and sub-optimal lending to viable SMEs.<sup>19</sup> A reason behind it could be the lack of an international dimension which is an endemic problem afflicting every small company, far too much preoccupied with domestic competition without having a broader view of the global situation.

In order to have a quantitative and comparable measure of the ease for these small and medium sized companies to access international financing courses we can look at the EIF<sup>20</sup> SME Access to Finance (ESAF)<sup>21</sup> Index. This newly developed index aims at monitoring developments in SMEs' access to financial resources in the EU.

In the following diagram we can observe 5 different measures together with ESAF index. Three main categories of sub-indicators are included in the analysis: Loans, Equity, and Credit and Leasing. In addition to the financial subindices, we can also observe a subindex capturing SMEs' institutional and macroeconomic environment.<sup>22</sup> Institutional factors like the quality of a country's legal system and the strength of its information systems are indeed frequently cited as

---

<sup>16</sup> Jennifer Abel-Koch et al. *SME Investment and Innovation*, BPI France, CDP Italy, ICO Spain, KfW Germany, 2015.

<sup>17</sup> Nicolas Dufourcq. *Rapport annuel sur l'évolution des PME*, Observatoire des PME 2017, Bpifrance, 2017.

<sup>18</sup> Ibidem.

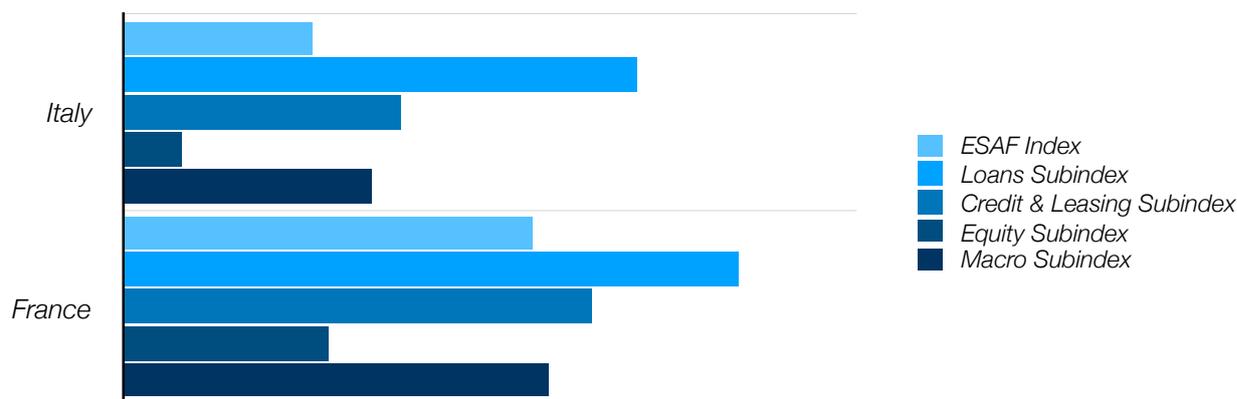
<sup>19</sup> Öztürk Mrkaic. *Access to Finance by SMEs in the Euro Area: What Helps or Hampers?*, IMF Working Paper, European Department, 2014.

<sup>20</sup> See List of Abbreviations.

<sup>21</sup> See List of Abbreviations.

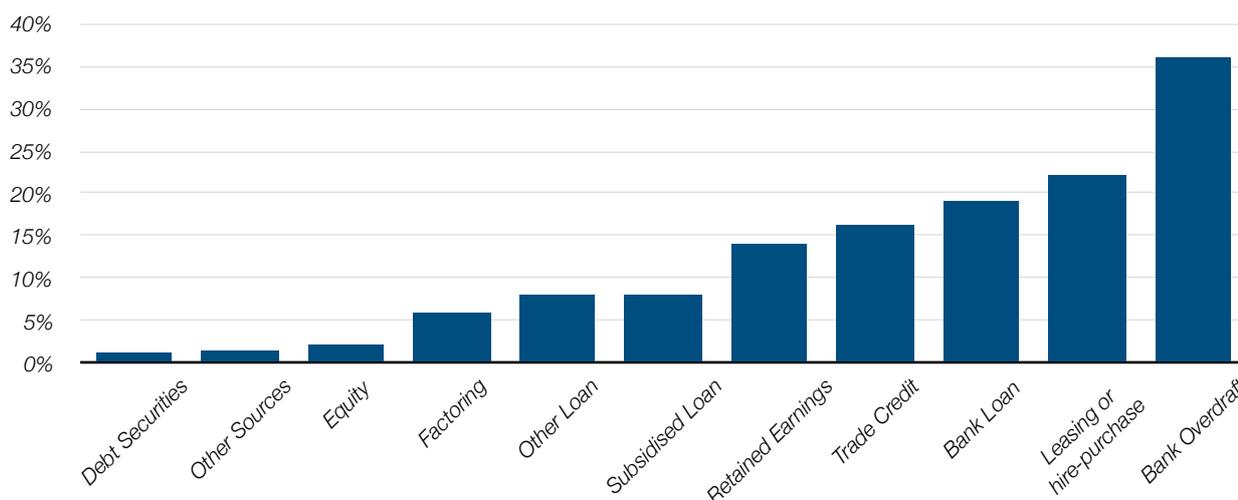
<sup>22</sup> Luc Laeven and Christopher Woodruff. *The Quality of the legal system, firm ownership, and firm size*. The Review of Economics and Statistics (RES), Vol. 89, N. 4, 2007.

determinants of access to finance.<sup>23</sup> All variables related to institutional and macro-economic factors are aggregated into a fourth subindex labelled Macro Factors.<sup>24</sup>



Graph 1: ESAF Index for Italy and France (Source: EIF).

In order to underline also how SMEs businesses prefer access to debt rather than equity we propose the following graph:



Graph 2: Percentage of European SMEs reporting these financing instruments to be relevant in 2017 (Source: Eurostat).

The diagram shows that the most used financing institution for SMEs is not the market but the bank. Italian companies, in particular, have a strong debt culture that has led to a condition of undercapitalisation. In Italy, organisations like Venture Capitalists arrived much later than in other European countries. This explains why the only source of funding has been represented by banks which generates a financial burden and high borrowing costs. This situation in many cases has escalated in banks' pooling; this meant asking several banks for small loans which saw the credit risk spread over different insetting and made light of the due diligence procedure.

<sup>23</sup> Thorsten Beck and Asli Demircug-Kunt, et al. *Finance, firm size, and growth*, World Bank Policy Research Working Paper, N. 3485, 2006.

<sup>24</sup> Salome Gvetadze et al. *EIF SME Access to Finance Index*, European Investment Fund Research & Market Analysis, Working Paper 2018/47.

This situation is a great obstacle to development because in a competitive environment, in order to seize external or internal growth opportunities, a company needs a large wallet.

A study conducted by the ECB shows that among the biggest priorities for SMEs in Europe. The necessity of highly skilled workforce placed first. It has become the dominant concern (24%) for the euro area. In second place the difficulty of attracting new customers overtime (23%) represents a great concerns for small firms. Access to financing was considered the least important concern (8%). Italy at 10% however, represented the second largest percentage of SMEs to report access to financing as their dominant issue,<sup>25</sup> unlike French SMEs' biggest priority which is attracting new customers and increasing sales (in second place in Europe).

SMEs in EU continued to show improvements in their overall financial situation during the reference period, albeit at a slower pace. The overall external financing gap was negative meaning that the increase in the external financing need was smaller than its access improvement. In other words, SMEs need less financial support from experienced investors because they cannot find these equity providers easily, and if they do not know who they are, obviously they do not need them. Italy was also the European country where the highest amount of SMEs found enormous difficulties in getting bank loans which means basically a well-established trend of loan application rejections coming in two different ways: applications for which only a limited amount was granted, and applications which resulted in an offer that was rejected by the SMEs due to massive borrowing costs considered too high. Among the financial obstacles we also find those SMEs which did not apply for a loan because of fear of rejection which gives an idea of the difficulties that these companies encountered when looking for financing options.

This contrasts with the overall more favourable conditions of accessing loans mainly due to the ECB moves in response to the financial crisis where interest rates were kept at the lowest level in history for a very long time.

It is also interesting to observe the leverage of SME in Europe which is a relevant additional factor to better understand the SMEs situation. Across countries, euro area enterprises continued to deleverage but at a lower pace compared to previous years. Among the large countries, on balance, -9% of SMEs in Germany (from -13%), -9% in Spain (from -12%) -8% in France (from -6%) reported a reduction in the debt-to-asset ratio, while Italian SMEs reported an increase in leverage (1%, from -3%)<sup>26</sup> demonstrating once again their attachment to debt financing.

Finally, after the lack of internationalisation and capitalisation problems an additional concern is the innovation content inside these companies. According to a survey conducted by the European Commission, Italy is considered a "moderate innovator" country like Spain and Portugal while France is considered a "strong innovator" country like Germany and Belgium.<sup>27</sup>

A reason behind these results concerns the size of these kinds of company. Many studies show how the R&D<sup>28</sup> expenses increase as companies expand.<sup>29</sup> The same relationship is found with the number of companies that signed agreements to develop a joint R&D with other companies or

---

<sup>25</sup> European Central Bank. *Survey on the access to finance of enterprises in the euro area*, June 2018.

<sup>26</sup> Ibidem.

<sup>27</sup> European Commission. *European Innovation Scoreboard*, 2018.

<sup>28</sup> See List of Abbreviations.

<sup>29</sup> Daniel Shefer and Amnon Frenkel. *R&D, firm size and innovation: an empirical analysis*, Technovation, Volume 25, Issue 1, January 2005, Pages 25-32.

with universities. Even the EPO<sup>30</sup> clearly states that the probability of patenting an innovation is positively correlated with the company's size.<sup>31</sup> Furthermore, as previously mentioned, the lack of exports acts as a barrier to R&D investments. The higher fixed expenditures in research cannot be spread over corresponding higher sales generated by eventual exporting opportunities leading to the so called miss of fixed-costs-absorption.

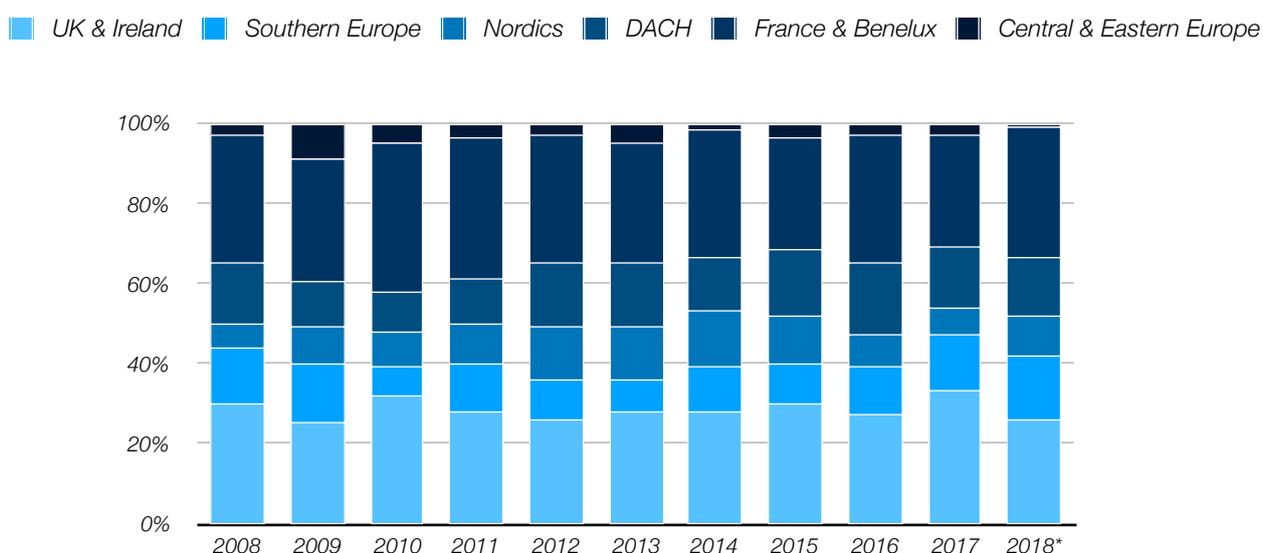
However, since we know that there is no big difference between French and Italian SMEs' dimension, there have to be some other features explaining this innovation gap. As already introduced, one of them is a matter of internationalisation, with small French companies more oriented to foreign markets than Italian ones. Another reason lies in the financial structure.

Having explained the European SMEs situation, it is important to introduce an institution whose skills and features could solve many of the issues previously outlined: Private Equity. These organisms, thanks to their deep pockets and valuable competences, can have a crucial role in sustaining the growth of small Italian and French companies of small size enhancing the expansion on international markets.

A considerable study conducted by PwC<sup>32</sup> shows how in the past years Private Equity backed companies confirmed higher performances compared to the national GDP and to other comparable Italian companies of similar size.<sup>33</sup>

Even though there are all the necessary conditions for a great development of the Private Equity industry, it is a sector still undervalued in Italy but over the past years it has greatly developed in France.

This graph shows Private Equity investments according to European macro-regions, where the gap between Italy and France is significant. The difference between Southern Europe composed by Italy, Spain, Greece and Portugal, and the region composed by France, Belgium, Netherlands and Luxembourg is quite large.



Graph 3: Private Equity deals (€) according to European macro-regions, \*as of June 30<sup>th</sup>, 2018 (Source: PwC).

<sup>30</sup> See List of Abbreviations.

<sup>31</sup> European Patent Office. *European Patents and the grant procedure*, 2017.

<sup>32</sup> See List of Abbreviations.

<sup>33</sup> Francesco Giordano and Daniela Mentessana. *The economic impact of Private Equity and Venture Capital in Italy*, PricewaterhouseCoopers, 2018.

France, Belgium, the Netherlands and Luxembourg are experiencing strong activity so far. While the number of deals has plunged, following the global trend, the size of those transactions is much larger than average. Private equity investors completed deals worth more than € 2,5 billion in the region at the beginning of 2018, including Refresco Group's € 3,3 billion takeover by PAI Partners<sup>34</sup> and British Columbia Investment Management.



Graph 4: France and Benelux Private Equity deal activity, \*as of June 30<sup>th</sup>, 2018 (Source: PwC).

PAI Partners strongly influenced the graph; it is one of the oldest and most experienced Private Equity based in France that drove the data represented in the graphs above. Indeed France and the Benelux nations have also experienced an increase in fundraising, with PAI Partners raising the region's first vehicle with more than € 5 billion in commitments.

PAI in 1872 was originally the principal investment arm of Paribas (a pan-European merchant bank, today part of BNP Paribas)<sup>35,36</sup>

The fund is today focused on acquiring majority stakes in medium to large European companies who are leading brands in their market. PAI is particularly dedicated to transactions in excess of € 300 million with equity investments of between € 100 and € 400 million translating into controlling shareholdings.<sup>37</sup>

However, besides PAI Partners, the biggest investment companies in France including Ardian, Astorg, Five Arrows de Rothschild, Chequers Capital, Apax France, 21 Partners, etc. have all invested more than 75% of the funds collected since 2010.<sup>38</sup> The investments realised by Private

<sup>34</sup> See List of Abbreviations.

<sup>35</sup> See List of Abbreviations.

<sup>36</sup> PAI Partners, <https://www.paipartners.com>.

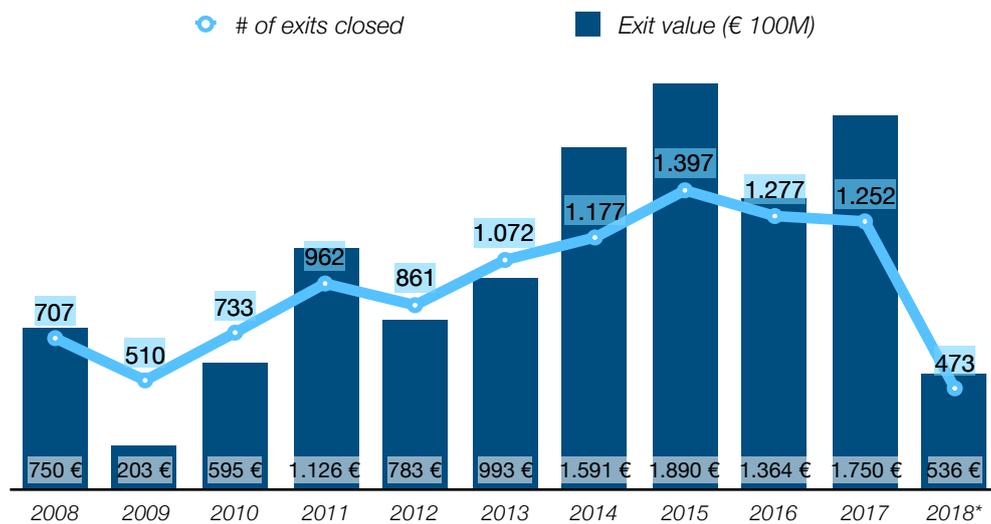
<sup>37</sup> Ibidem.

<sup>38</sup> Hugh MacArthur et. al. *Global Private Equity Report 2018*, Bain & Company, 2018.

Equity funds in France grew by 85% compared to last year (2016) reaching a peak of € 85 billion, the highest level since 2007. This performance is explained by 3 large deals concerning French companies: the investment into GE Money Bank France by Cerberus Capital for almost € 4B (one of the 10 biggest world deal), the capital injection for € 2,41B into Safran Identity & Security by Advent et Oberthur and the one into Foncia from the Swiss Fund Partners Group for € 1,8M. None of these funds is French but the companies they selected are from France.

If on the deal side there is an increasing trend, on the exits side there is a decreasing evolution. This is mainly due to weak conditions of realising an IPO<sup>39</sup> during the last years, Private Equity funds could not get out of their investments that easily (- 24% in the sales of PE's shares following the global trend).

Moving back to the European context, another parameter to evaluate the Private Equity industry level of activity is the exits' number and size. In 2018 Private Equity exits in Europe remained overall lukewarm, the results however could be in line to pick up in the next few years also due to an uptick in Private Equity investments between 2014 and 2017.



Graph 5: European Private Equity Exit Activity, \*as of June 30<sup>th</sup>, 2018 (Source: PwC).

An increasing number of European exits came in the form of secondary buyouts, which are also becoming larger. Between January and June 2018, private equity firms executed 12 exits via SBOs<sup>40</sup> worth over € 1 billion, while 2017 recorded 17 such deals for the whole year.

<sup>39</sup> See List of Abbreviations.

<sup>40</sup> See List of Abbreviations.



Graph 6: European Private Equity Exits (€) by type, \*as of June 30<sup>th</sup>, 2018 (Source: PwC).

The exit strategies together with all the theory developed during these years about Private Equity will be deeply discussed in Chapter 2.

## Chapter 2: What is a Private Equity

### 2.1 DEFINITION AND HISTORY

The history of Private Equity and asset class evolution has developed through a series of boom and bust cycles since the middle of the 20<sup>th</sup> century. Within the broader Private Equity industry, two distinct sub-industries, Leveraged Buy Out and Venture Capital, experienced growth along parallel, yet interrelated tracks. Since the origins of contemporary Private Equity industry in 1946, there have been four major epochs marked by three boom and bust cycles.<sup>41</sup> The early history of Private Equity from 1946 through 1981 was characterised by relatively small volumes of investments, rudimentary firm organisation and limited awareness of and familiarity with the Private Equity industry.

It was in 1960s that the common form of private equity fund, still in use nowadays, emerged. Private Equity firms organised limited partnerships to hold investments in which the investment professionals served as general partners<sup>42</sup> and investors who put up the capital were known as passive limited partners.<sup>43 44</sup> The compensation structure, widely applied these days, also emerged with limited partners paying an annual management fee of 1 to 2% and a carried interest typically representing up to 20% of profits of the partnership that will be dealt with in depth later on.

Between 1982 to 1993, the first boom and bust period was marked by the enormous rise in LBO<sup>45</sup> activities funded by junk bonds before the market collapsed in the early 1990s.

The decade of the 1980s is perhaps more closely associated with LBO than any decade before or since. The general public became aware of the power of private equity to influence traditional corporations for the first time. During the same period corporate raiders and hostile takeovers entered the public consciousness. The decade would also see one of the largest booms in Private Equity culminating in 1989 LBO of RJR Nabisco,<sup>46</sup> which would reign as the largest LBO transaction for the next 17 years.<sup>47</sup>

In those years, the private equity industry would boost annual shareholder contributions of approximately \$2.4 billion and by the end of the decade, during 1989,, that figure spiked at \$ 21.9 billion reflecting the dramatic growth experienced.

The second boom and bust cycle from 1992 through 2002 emerged out of the ashes of the savings and loan crisis, the inside trading scandals, the real estate market collapse and the recession of the early 1990s due to stringent economic policies decided by the central banks. During this period more and more institutionalised private equity firms emerged, ultimately culminating in the massive .com bubble in 1999 and 2000.

---

<sup>41</sup> Harry Cendrowski and James P. Martin et.al. *Private Equity: history, governance and operations*, Wiley Finance, 2011.

<sup>42</sup> See List of Abbreviations.

<sup>43</sup> See List of Abbreviations.

<sup>44</sup> Josh Lerner and Jason Mao et al. *Investing Outside the Box: Evidence from Alternative Vehicles in Private Capital*, Business Research Harvard BS, 2018.

<sup>45</sup> See List of Abbreviations.

<sup>46</sup> See List of Abbreviations.

<sup>47</sup> Allen Michel and Israel Shaked. *RJR Nabisco: A Case Study of a Complex Leveraged Buyout*, Financial Analysis Journal, Vol. 47, 2018.

With the second private equity boom in the mid-1990s and the liberalisation in the European regulation field for institutional investors, a new issue spread: the emergence of amateur Private Equity market.

The public success of the industry gave rise to a major proliferation of Private Equity investments. By the beginning of 1990s the number of firms increased tremendously but the capital managed by these firms did not increase as much. The industry's growth was slowed by dramatically declining profits, and for the first time in their history, many Private Equity businesses began posting losses.. Increasing competition, market cooling for IPO were the main factors affecting the market. Later, the IPO business collapsed with the stock market crash in 1987 and foreign corporations flooded early stage companies with capital pulling the trigger on the bust cycle. By the end of 1980s the excesses of the buyout market was beginning to slow down with the bankruptcy of several large operations. Additionally, in response to the overwhelming threat of unwelcome LBOs, certain companies adopted a number of techniques such as poison pill or white knight, to protect them against hostile takeovers by effectively self-destructing the company if it were to be taken over.<sup>48</sup>

The Nasdaq<sup>49</sup> crash and technology slump that started in march 2000 shook virtually the entire Private Equity industry as valuations for early stage innovative tech companies collapsed. This was the sector where Private Equities were heavily betting, as a consequence, the following couple of years many funds were underwater. As 2003 began the Private Equity sector was reeling from major losses in telecommunications and technology companies and had been severely constrained by tight credit markets.

The third boom and bust cycle from 2003 to 2007 came in the waked collapse of the .com bubble. As 2003 got underway, private equity began a five year resurgence that would ultimately result in the completion of 13 of the 15 largest Leveraged Buyout transactions in history, unprecedented level of investment activities and investor commitments and a major expansion and maturation of the leading Private Equity firms. LBO indeed, reached an unprecedented size level and the institutionalisation and internal organisation of private equity firms is exemplified by the Blackstone Group's 2007 IPO.<sup>50</sup> The group, through a \$ 4 billion IPO, became one of the first major private equity firms to list shares of its management company on the public stock market making the investment accessible to all.

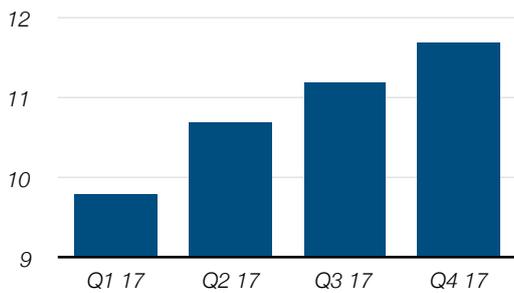
In its early modern years across roughly the year 2000 the history of Private Equity is best described through a narrative of development in the US while Europe consistently lagged behind the North American market. The European Private Equity market will have to wait one more decade before having a story worth describing, until now, it is no match for the US market. Over the past few years, Private Equity and other alternative investment vehicles have done such a great job fund-raising over the last years that they are now having difficulties spending the money raised. In fact, globally, these funds have \$ 1.7 trillion in Dry Powder which refers to cash on hand available for future investments. With so much capital competing for deals the multiples for those deals skyrocketed as we can see from the following graph. The companies financials remained steady but their valuations spiked inflating the whole market.

---

<sup>48</sup> Geoffrey Wood and Mike Wright. *Private equity: A review and synthesis*, International Journal of Management Reviews, 2009.

<sup>49</sup> See List of Abbreviations.

<sup>50</sup> David Carey and John E. Morris. *King of Capital*, Crown Business, 2012.



Graph 7: Purchase Price/EBITDA according to Private Equity deals in 2017 (Source: PwC).

At the end of 2018 the average deal had a EV/EBITDA<sup>51</sup> multiple of 11.7 times. It means paying over 11 dollars in equity for 1 dollar in EBITDA.<sup>52</sup> With these huge multiples Private Equity firms will find it very difficult to match the returns of the past given the increased investment costs. That being said, looking at the volatility in the market and the lower expected future return many argue that Private Equity is still a good investment.

Since those years, the private equity market has increased enormously but today it is still a very wide topic that could mislead even the experts in the business.<sup>53</sup> Indeed, the meanings and caveats behind these two words are many and often unclear if we limit ourselves at giving them just a superficial glance. To make it clear, we now aim to discuss what a Private Equity is and what it does.

Private equity typically refers to investment funds organised as limited partnerships that are generally not publicly traded and whose investors are typically large institutional investors, university endowments, or wealthy individuals. Pools of funds that are known for their extensive use of debt financing are sometimes created by private equity firms in order to privatise extra-large companies. Indeed, the fund's goal is to purchase companies, restructure them and attempt to resell them at a higher value.<sup>54</sup> As mentioned, debt financing reduces corporate taxation burdens and is one of the principal ways in which private equity firms make business more profitable for investors. Because innovations tend to be produced by outsiders and founders in startups, rather than established organisations, private equity tends to prefer to target these young and innovative companies to create value by overcoming agency costs and better aligning the incentives of corporate managers with those of their shareholders. However, the support of a newly developed firm requires a lot of efforts, which explain why, especially in Europe, many funds focus on the Expansion financing.

With the term Private Equity we also mean all the capital not listed in the public exchange, which is indeed private. Broadly speaking, we mean funds and investors that directly invest in private companies, or that engage in buyouts, resulting in the delisting of public equity. With this definition we describe as Private Equity all those funds, money and investments that are not listed, but are private (opposite of public) without focusing on a specific structure or organisation behind these amounts of money.

This dissertation, however, will focus on the first definition given, analysing how a Private Equity fund is created, structured and managed. In this sense when we refer of Private Equity we refer to a fund which typically has its headquarters based in countries like Ireland or Luxembourg in order

<sup>51</sup> See List of Abbreviations.

<sup>52</sup> Bain & Company's, 2019.

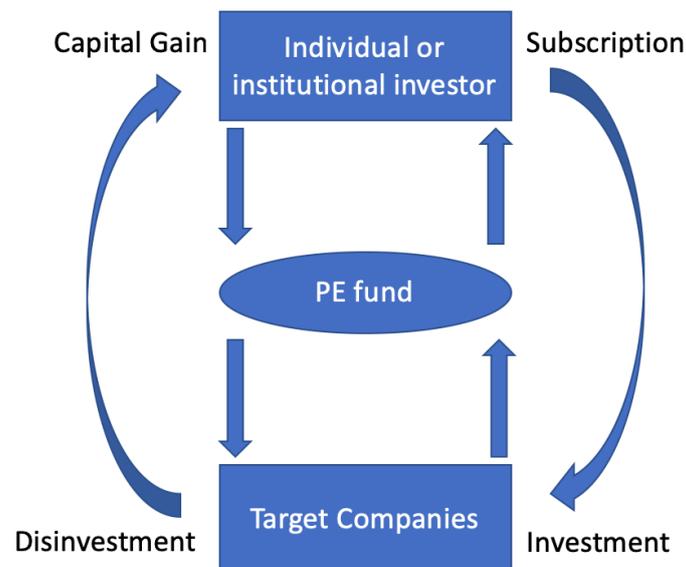
<sup>53</sup> James M. Gatauwa and Anthony S. Mwithiga. *Private Equity and Economic Growth: a critical review of the literature*, European Centre for Research Training and Development UK, Vol. 2, N. 3, 2014.

<sup>54</sup> Paul Gompers, Steven N.Kaplan, et. al. *What do private equity firms say they do?*, Journal of Financial Economics, Vol. 121, N. 3, 2016.

to benefit from tax reductions. Private Equity works as an asset management company in charge of controlling the money investors decided to infuse. The nearest Italian equivalent could be an S.g.r.,<sup>55</sup> a Management Company with the characteristics of a mutual fund. Private Equity, shortened PE from now on, is a complex and sophisticated organisation that we will try to analyse in the following paragraphs of this chapter.

## 2.2 THE FUNDS ORGANISATION

What follows is a simple diagram illustrating the organisation of the PE activity:



Graph 8: Private Equity core activity explained.

It should be emphasised that PE funds are not mutual funds (as for S.g.r.) but closed-end funds. Generally anyone can invest in a mutual fund, both institutional and retail investors. However, the capital for private equity is provided only by institutional and accredited investors who can dedicate substantial amounts of money for extended periods of time.

As with all closed funds, investments can be binding for a long time. When a closed end fund starts its activity, the company raises a set amount of money, and issues a specific number of shares.<sup>56</sup> For the closed-end funds the assets purchased by the managers have a common feature: they all present a long term profitability. They are illiquid securities explained by the fact that the amount collected by the investors can be utilised to support new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet of the company acquired.<sup>57</sup> In most cases, considerably long holding periods are often required for private equity investments in order to ensure growth for a young company, turnaround for distressed firms or to enable liquidity events such as an IPO or a sale to a public company. This is one of the reasons

<sup>55</sup> See List of Abbreviations.

<sup>56</sup> Elroy Dimson and Carolina Minio-Kozerski. *Closed-End Funds: A Survey*, Wiley Online library, 2002.

<sup>57</sup> Gareth Henry. *Private Equity: Boosting Portfolio Returns*, Data driven investor, 2018.

why retail investors cannot purchase a private equity's quote, because the investment maturity is very far away in time therefore riskier than the average.

Moreover, PEs invest mainly in non-listed companies, thus, because of the scarcity of information available about those kinds of institutions, there is a high risk of investment which again requires a certain level of literate contrarians in order to fully understand it. That is why only institutional investors have the possibility to invest in PE funds, because they perform a long lasting and capital consuming activity. Therefore, the amount of money utilised by PE to develop their activities usually comes from pension funds, endowments, foundations, insurance companies and loans from commercial banks, in addition, we also have individuals like selected high net worth persons and family offices. All these institutions become the private equity firm's partners limitedly responsible for the means employed.

Saying that PE funds are not listed means that their quotes cannot be observed, unlike stocks, traded in the open stock market because when an investor redeems participation, that quote is bought back by the fund itself which becomes the only interlocutor with the partners.

This is a crucial difference between a mutual fund and a PE fund. Investors purchase mutual fund's (open) shares directly from the market and sell them back once they want to cash out of the investments. On the contrary, for closed-end funds it is only possible to buy the shares from the fund itself at a pre-determined price. Positions can be liquidated only by selling back to the fund or to a broker acting for it,<sup>58</sup> at a price that is determined by the fund's per-share net asset value (NAV)<sup>59</sup> plus any shareholder fees that the fund imposes at purchase, such as deferred sales loads or redemption fees. This process of giving back the shares is called redemption so closed-end fund shares are "redeemable". If a large number of shares are all sold together, the fund's managers may face the urgency to sell some of the assets under control to pay back these investors because in the meanwhile the money has been used for managerial purposes. This is why the PE is considered closed-end, because it is harder to get out of the investment, compared to simply selling an asset on the stock exchange and for these involvement requirements, only institutional investors have the knowledge to wisely make these decisions.

Institutional investors have access to a PE through 4 different channels:

- *Direct Investing*: simply investing in private companies, it could be buying the entire company or a minority investment. In this case we are referring to the first definition of PE given in the previous paragraph. Direct investment require a lot of expertise so some investors prefer to rely on PE or fund of funds. The latter spread the capital of the investor across PE funds in different sectors with different expertise. Yet, this strategy is more costly because this second fund will ask for management and performance fees (usually lower, 1% management and 5% performance) as well, but it overcomes a series of problems that may be encountered in investing directly in PE funds.
- *Fund Investing*: a fund managed by a PE firm will collect money from different investors and therefore buy companies on behalf of them.
- *Co-Investing*: investors still put their money inside a fund managed by a PE firm but in this case a co-investment right is kept for themselves, so that when the fund looks for deals, it can allow the investors to participate not only through the fund itself but also directly. This is beneficial for

---

<sup>58</sup> Erik Stafford. *Replicating Private Equity with Value Investing, Homemade Leverage, and Hold-to-Maturity Accounting*, Business Research Harvard BS, 2016.

<sup>59</sup> See List of Abbreviations.

the investor who pays high fees when going through the fund, whereas going directly there are almost no fees (except for low deal origination fees). The investors are called limited partners (LP) while the PE firm is called the general partner (GP). These two actors together realise the PE fund through a limited partnership agreement.<sup>60</sup>

- *Secondary Investing*: investors commit themselves to give a certain amount to the fund, but do not provide all the money immediately, indeed they usually make a smaller payment upfront for the first acquisition and as more investments are made the PE fund makes capital calls to the investors. The investor is locked in for the whole fund duration (usually 7-10 years). If the investor decides to withdraw from this agreement it cannot be cancelled, but the commitment can be sold to other investors in the so called secondary market for PE investors. The entire commitment can be sold, including the existing PE deals already made plus the future capital call, or a structured secondary instrument can be drawn up where future commitments are sold and existing investments are kept.

The creation of a fund is the simplest way of investing for PE, that is why the second channel will be analysed in depth.

In the case of private-equity firms, the funds offered are only accessible to accredited investors and have a limited number of investors who often take a rather large stake in the firm because required to do so. However in the US, where the market of Private Equity has huge dimensions we can observe some of the largest and most prestigious private equity funds trading their share publicly. They are also referred to as publicly quoted private equity or publicly listed private equity. Examples of listed private equity are The Blackstone Group L.P. (NYSE<sup>61</sup>:BX), KKR & Co. L.P. (NYSE:KKR), The Carlyle Group (NASDAQ:CG) and Apollo Global Management LLC (NYSE:APO). For instance, the Blackstone Group, traded on the NYSE, has been involved in the buyouts of companies such as Hilton Hotels and SunGard.<sup>62</sup> Therefore, these publicly traded PE firms have a different structure compared to smaller European firms. When talking of publicly traded private equity there are basically 2 forms: a public listing of the PE firm or of the PE fund. In the first case one of the biggest consequences is the higher transparency for the firm's shareholders but the fund is still only accessible to institutional operators. While in the second case the revolutionary aspect is that it allows investors that would otherwise be unable to invest in a traditional PE limited partnership, to gain exposure to a portfolio of PE investments. Another aspect typical of public equity funds is that the investors give all committed capital to the fund upfront, while for non-listed funds, only a portion of the committed capital is given upfront by the investors, the rest of the capital is given when the GPs find new deals and make a "capital call".

Since the basis of private equity investment is direct investment into a firm, often to gain a significant level of influence over the firm's operations, quite a large capital outlay is required, which is why larger funds with deep pockets dominate the industry. This aspect deeply affects the minimum amount of capital required for investors to purchase a quote of the fund. It can vary depending on the firm and fund. Some funds have a \$ 250,000 minimum investment requirement; others can require millions of dollars.

---

<sup>60</sup> Institutional Limited Partners Association, *Private Equity Principles, 2018*  
<https://ilpa.org/events-training/category/event-type/professional-development-seminars/>.

<sup>61</sup> See List of Abbreviations.

<sup>62</sup> The Blackstone Group L.P., *Annual Report pursuant to section 13 or 15 (d) of the Security Exchange Act of 1934 for the fiscal year ended in December 31, 2017, Washington, D.C. 20549.*

The underlying motivation for such commitments is of course the pursuit of achieving a positive return on investment. Partners at private-equity firms raise funds and manage this money to yield favourable returns for their shareholders, typically with an investment horizon between 7 to 10 years (it may have 1 or 2 years extensions known as “risk period”). However it could be that towards the end of its life, the fund still owns investment with opportunity to grow, that may not be facing the optimal time to sell. One reason for this may be that something is against the industry or the economy is not doing well. In this case where the PE fund has a very long time horizon, a new typology of longer life funds has been developed giving GPs more flexibility because of the time constraint elimination. Furthermore, GPs do not often have to fundraise enabling them to focus on deal sourcing and execution making their performances less volatile and more remunerative. Joe Baratta, the Global Head of Private Equity in Blackstone Group once said: “I don’t know why Warren Buffet should be the only person who can have a 15-year, 14% sort of return horizon”.<sup>63</sup>

### 2.3 THE FUND’S MANAGERS AND THE VALUE CREATION PROCESS

How do these funds generate value and how are they actually able to offer a return to the investors? What is the main asset inside these institutions that can generate a return?

It is not a property, nor a plant nor a piece of equipment, there is no magic formula or a special patented process. It is something intangible that does not appear on the balance sheet. What creates the value inside a Private Equity, most of the time, are the fund’s managers skills and competences.<sup>64</sup> Private equity negotiates and targets companies which are not standard investments for timing and risk related as discussed in the previous paragraph. These companies are non-listed and usually underperforming so it is often very difficult to analyse them even for banks, that usually have power in obtaining information. After purchasing the company the value creation process starts and it is administered by the fund’s managers who use their expertise to restore the business<sup>65</sup> and build profitability.

It is now clear how the most important assets of a PE are the skills, knowhow, knowledge and experience of its managers. They enhance a PE to build reputation and a positive track record which allows a faster capital raising campaign from investors who will recognise in that PE the quality of its managers. Consequently, the directors create the value in the fund and contribute actively to the investors capital gain. They perform basically two kinds of functions:

- Deal execution
- Portfolio oversight

Deal execution refers to the fact that a PE fund represented by its managers has to keep a tight relationship with many other players like M&A<sup>66</sup> intermediaries, investment and commercial banks, and other financial institutions in order to be continually updated on economic situation in the area. Nowadays the speed at which companies are born and die is faster than ever and keeping

---

<sup>63</sup> Joe Baratta, the Global Head of Private Equity in Blackstone Group, *Super Return International private equity conference*, 2015.

<sup>64</sup> Douglas Cumming and Uwe Walz. *Private equity returns and disclosure around the world*, Journal of International Business Studies, Vol. 41, N. 4, 2009.

<sup>65</sup> Christian Diller and Christoph Kaserer. *What drives private equity returns? Fund inflows, skilled GPs, and/or risk?*, Wiley Online Library, Vol. 15, N. 3, 2009.

<sup>66</sup> See List of Abbreviations.

an eye on them has become really challenging. This is why a tight and efficient network of financial intermediaries is essential<sup>67</sup> to keep up-to-date with the economic environment surrounding the firm. Some PE firms hire internal staff specifically to proactively identify and reach out to company owners to generate transaction leads. As suggested in Stuanr and Yim paper, PEs need to find good investment opportunities through proprietary deal flow which is obtained mostly through connections. PE firms need to work with lawyers, accountants, executives and also other PE firms (if they have an agreement but not enough capital, they may contact another PE firm and form syndicate to close the deal) and establish this network the larger the better.

It is important to note that investment banks often raise their own funds, and therefore may not only be a deal referral providing opportunities to PE organisations, but also a competing bidder. In other words, some investment banks compete with PE firms in buying up companies and financing young ones. It is no surprise that the largest investment banking entities, such as Goldman Sachs, JP Morgan Chase and Citigroup, often facilitate the largest deals; however, PEs are focused on a slightly different category of company so this competition does happen but rarely.

Deal execution also involves assessing the management, the industry, historical financials and forecasts, and conducting valuation analyses. After the investment committee signs off to pursue a target acquisition candidate, the deal professionals submit an offer to the seller. If both parties decide to move forward, the professionals work with various transaction advisors and consultants to execute the due diligence phase which is explained later. Due diligence includes validating management's stated operational and financial figures and it is critical, as consultants can uncover deal killers, such as significant and previously undisclosed liabilities and risks or manipulated future projections.

Among other support work, the PE managers can walk a young company's executive staff through the best practices in strategic planning and financial management which is part of the portfolio oversight function performed by GPs. Additionally, they can help institutionalise new accounting, procurement and IT<sup>68</sup> systems to increase the value of their investment.<sup>69</sup> When it comes to more established companies the job required is different. PE firms believe they have the ability and expertise to take underperforming businesses and turn them into stronger ones by increasing operational efficiencies, which leads to earnings improvements. The activity of a PE depends on the lifecycle's stage at which the company is but the goal is always the same - to improve the financials and create value for every subject involved.

By taking public companies back to private, PE firms remove the constant public scrutiny of quarterly earnings and reporting requirements, which then allows the PE firm and the acquired firm's management to take a longer-term approach in bettering the fortunes of the company with the aim of turning them back public after a good renovation.

It is critical for private-equity investors to have reliable, capable and dependable management in place. Most managers at portfolio companies are given equity and bonus compensation

---

<sup>67</sup> Toby E. Stuart and Soojin Yim. *Board interlocks and the propensity to be targeted in private equity transactions*, Journal of Financial Economics, Vol. 97, N. 1, 2010.

<sup>68</sup> See List of Abbreviations.

<sup>69</sup> Julie Froud and Karel Williams. *Private Equity and the culture of value extraction*, New Political Economy, Vol. 12, N. 3, 2007.

structures that reward them for hitting their financial targets<sup>70</sup> which explains the relevance that this professional figure has for the industry. Such alignment of goals<sup>71</sup> (and appropriate compensation structuring) is typically required before a deal gets done and is explained by the fees systems described below.

## 2.4 FEES AND PROFITS

For a Private Equity organisations there is usually a board of directors investing the money collected by different accredited investors in private firms. The value added and expected from these operations comes from the managers ability to look for companies with growth potentiality, acquire them, enter the board of directors and in seven to ten years resell them with a significant capital gain at least equal to the hurdle rate.<sup>72</sup> This value will serve as compensation for the managers and the investors.

The fee structure for private equity firms typically varies but usually includes five different categories even though the first two of the list are the most important also in terms of amount charged:

- **Management fees** theoretically cover a private equity firm's operating expenses, although a growing research body indicates that these fees typically far exceed the costs as underlined by the Financial Times.<sup>73</sup> Management fees are usually 2.0% of assets but as PE firms get bigger these percentages get smaller. On the contrary, for small venture capital funds, these fees may be much higher than 2%.
- **Performance fees**; also known as “carried interests” or “the carry”, are normally about 20% of any investment gains recorded by a private equity fund. If the fund incurs a loss in a given year, performance fees are zero. These fees compensate the general partners for their performance. Moreover, best practices in the industry dictate that, before performance fees can be earned, cumulative past losses should be offset against gains in succeeding years. So performance fees are paid when the GP performs well in the PE fund and when there are no losses to recover from the past.
- **Deal fees** are charged by a private equity firm to the companies in their portfolios. They are supposed to cover various administrative services provided by the former to the latter.
- **Transaction fees** are charged by buyout firms to the companies that they buy.
- **Monitoring fees** are paid by portfolio companies to their private equity firm owners to cover various consulting and advisory services.

Positions in a private equity firm are highly sought after and for good reason. For example, consider a firm has \$ 1 billion in assets under management (AUM)<sup>74</sup>. This firm, as for the majority

---

<sup>70</sup> Andrew Metrick and Ayako Yasuda. *The Economics of Private Equity Funds*, The Review of Financial Studies, Vol. 23, N. 6, 2010.

<sup>71</sup> Phillip Leslie and Paul Oyer. *Managerial Incentives and Value Creation: Evidence from Private Equity*, the National Bureau of Economic Research, Working Paper No. 14331, 2008.

<sup>72</sup> Robert S. Harris, Tim Jenkinson et. al. *Private Equity performance: What do we know?*, National Bureau of Economic Research, N. 17874, 2012.

<sup>73</sup> *Private equity fees and returns face scrutiny*, Financial Times, August 6, 2018.

<sup>74</sup> See List of Abbreviations.

of private equity firms, is likely to have no more than two dozen investment professionals. The 20% of gross profits generates millions in firm fees; as a result, some of the leading players in the investment industry are attracted to positions in such firms.<sup>75</sup> At a mid-market level of \$ 50 - \$ 500 million in deal values, associate positions are likely to bring salaries in the low six figures. A vice president at such a firm could potentially earn close to \$ 500,000, whereas a principal could earn more than \$ 1 million.<sup>76</sup>

However the Private Equity firm's gains have to satisfy also its shareholders who provided the money in the first place. Investors expect a rate of return from the management of their money known as hurdle rate of return that the managers must obtain in order to satisfy their shareholders and it is usually a fixed amount. Once this threshold is accomplished, everything exceeding can be used to remunerate the managers of the PE so the investors' remuneration is the priority on the profits and the performance fees can be applied only secondarily.

Let's suppose the fund earned € 100M, and the hurdle rate to satisfy the LPs is 8%. It means that € 8M will be given to shareholders, then € 2M will serve as management fees (2%) for the GPs. The remaining € 90M of the gains will be divided 20% to GPs (€ 18M as performance fees) and 80% (€ 72M) to the LPs.

Thus, the hurdle rate is the minimum rate of return on a project or investment required. It denotes appropriate compensation for the present level of risk; riskier projects generally have higher hurdle rates than those that are deemed to be less risky.

In hedge funds, the hurdle rate refers to the rate of return that the fund manager must beat before collecting incentive fees, exactly the same for PE funds.

A hurdle rate functions as a parameter for comparison when determining the worthiness of a particular investment relatively to the associated risk. If an anticipated rate of return is above the hurdle rate, the investment is considered to be profitable. If the rate of return falls below the hurdle rate, the investor may choose not to move forward. A hurdle rate may also be referred to as a break-even yield.

The hurdle rate is closely linked to the performance fees through a concept known as "Waterfall". This concept explains the capital flows from the PE fund to the GPs and to the LPs. It focuses on the timing of collecting the performance fees by the GPs. There are two different kinds of waterfalls: a European waterfall and an American waterfall. A European Waterfall is advantageous to the LPs because as soon as the PE exits the company, all the capital is returned to the LPs until they get back the initial investments plus a hurdle rate consequently they take priority over the GPs .

With the American waterfall, which is advantageous to the GPs, performance fees are collected on a deal to deal basis. In this case, if the early investments are sold at a profit, the GPs will earn good performance fees after these successful times. However, if the remaining investments in portfolio are later realised at a loss the managers will not obtain a fee. In this case we can calculate the overall performance fee that the GPs deserve vs the performance fee collected. There is a notable difference between the fee deserved and the fee collected which will be much higher. Should this happen the LP can trigger the Clawback Clause which states that the GPs will return all excess performance fees received to the LPs.

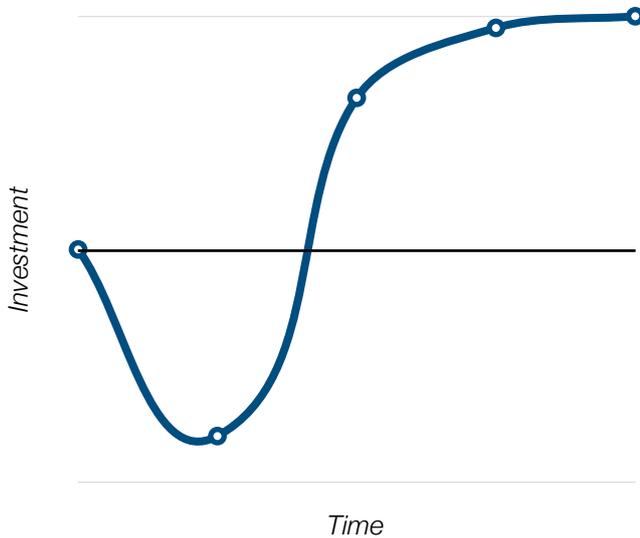
---

<sup>75</sup> David T. Robinson and Berk A. Sensoy. *Do Private Equity Fund Managers Earn Their Fees? Compensation, Ownership, and Cash Flow Performance*, The Review of Financial Studies, Vol. 26, N. 11, 2013.

<sup>76</sup> Tobias J. Moskowitz and Annette Vissing-Jørgensen. *The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle?*, American Economic Review, Vol. 92, 2002.

In other words, clawback provision allows the LPs to "claw back" any carry paid during the life of the fund on past portfolio investments in order to rationalise the final carry to the originally agreed percentage. Therefore, the clawback agreement protects the LPs from paying a carry on one investment and having a subsequent investment incurring in losses. The clawback provision is the ultimate tool for limited partners to align total investment returns across fund investments. Understandably, PE firms do not like clawback provisions since they add risk to future returns/operations.<sup>77</sup>

Even though there have been several discussions about the high fees that PE claims on their activities, the returns are still very attractive. Private equities can deliver these returns because they are skills-based and because they employ large teams of some of the best business executives. The PE firms actually own and operate entire companies and this hands-on majority ownership of companies is a more costly way of investing, but has produced better returns "all in", after the costs.<sup>78</sup>



Graph 9: J curve obtained by Private Equity returns  
(Source: Corporate Finance Institute).

A typical representation of the PE returns is the J-curve.<sup>79</sup> It is a graphical representation of PE returns overtime. At time zero the PE fund gets the initial commitment upfront from its investors then as it starts looking for deals the PE fund charges the first management fees (on the assets) then the investment starts. Over time, after creating value in these companies, the PE fund starts to exit its investments and as it continues to exit, more and more companies have bigger valuation and the curve goes all the way up forming the typical J.

PE investors can mitigate the J curve investing in a PE fund a few years into its operations by purchasing a quote on the secondary market.

## 2.5 TRANSPARENCY CONCERNS

Beginning in 2015, a call was issued for more transparency in the private equity industry due largely to the amount of income, earnings, and sky-high salaries earned by employees at nearly all private equity firms. Since 2016, a limited number of states have pushed for bills and regulations allowing for a bigger window into the inner workings of private equity firms.

The reason behind this fog around PE compensations is that the private equity funds are mostly non-listed which means that they are not forced to publish any information in the market, they have no duty of publishing a financial statement or any other document; this represents a great

<sup>77</sup> Upcounsel, *Clawback: Everything You Need to Know*, <https://www.upcounsel.com/clawback>.

<sup>78</sup> Nick Bloom, Raffaella Sadun, et. al. *Do Private Equity Owned Firms Have Better Management Practices?*, Centre for Economic Performance, Vol. 24, 2009.

<sup>79</sup> Corporate Finance Institute (CFI). *J Curve*, <https://corporatefinanceinstitute.com/resources/knowledge/economics/j-curve/>.

example of voluntary disclosure where every single piece of news and information is shared with the public because the managers are willing to do it.<sup>80</sup> This type of information however becomes fundamental in order to build recognition among possible investors advertising the most valuable assets the funds have - the managers.

It is a way of market signalling to fight against information discrepancy. Communicating your past history and giving a clear explanation of your numbers is the best way to advertise your activity in this business where you succeed only if you are able to establish a long lasting relationship with your investors based on trust and patience. All private equity companies are operating on a highly competitive market where success depends on the ability to attract the capital for investments. This expertise depends on a company's reputation, past results (achievements) and the working relationship with between managers and investors (pension funds, insurance companies, sovereign wealth funds and high net worth individuals). This financial communication comes from more knowledgeable people and it is addressed to the general public. It is the idea that one party, termed the agent, credibly conveys some information about itself to another party (the principal). For example in job-market signalling model, potential employees send a signal about their ability level to the employer by acquiring education credentials and showing them in the interview. The credential informational value comes from the fact that the employer believes that it is positively correlated with having greater ability; at the same time it is difficult for low ability employees to obtain it. Thus the credential enables the employer to reliably distinguish low ability workers from high ability ones.

In communication terms, this is the exact opposite of market screening which is similar to a request coming from a less informed person asking the appropriate institution for more details. Talking of market screening, in terms of transparency there is also another aspect to take into consideration which is a step of the investment process involving tight communication between the PE firm and company owner; this is called due diligence. In this case we are no longer referring to information about PE fund but the companies purchased by those funds.

Due diligence becomes extremely important when dealing with non-listed companies. This process is similar to an investigation and not to a contractual agreement. It is performed by the less informed party, seeking information directly from its counterpart. The term due diligence refers to the care the Private Equity fund should take before entering into an agreement or a financial transaction with any kind of company. It has to be a comprehensive analysis of the company which is usually costly mainly in terms of time, but also economically when you decide to outsource this task to a consulting/auditing firm. In any case, its benefits in terms of asymmetry information mitigation are vital for the PE activity. Cumming and Zambelli prove in their paper how doing internal due diligence, portfolio companies perform better than when the fund outsource due diligence to third party agents<sup>81</sup> and this founding could easily be applied to PE funds.

The PE business is rather complex, not only conceptually speaking but also from the point of view of an information seeker. These funds are not strictly regulated in terms of communication requirement and for private companies, that they target. This combination makes the environment complicated and fairly knotty.

---

<sup>80</sup> Viral V. Acharya, Oliver F. Gottschalg, et. al. *Corporate Governance and Value Creation: Evidence from Private Equity*, The Review of Financial Studies, Vol. 26, N 2, 2013.

<sup>81</sup> Douglas Cumming and Simona Zambelli. *Due Diligence and Investee Performance*, European Financial Management, 2016.

## 2.6 TYPES OF PRIVATE EQUITY

An investing preferences spectrum ranging across the thousands of private-equity firms in existence is now needed to define the different strategies belonging to each category.

A first classification could be based on the PE General Partners involvement into the purchased company's activities. Some PEs are strict financiers, passive investors, who are wholly dependent on management to expand the company (and its profitability) and supply their shareholders with appropriate returns. Because sellers typically see this method as a commoditized approach, other private-equity firms consider themselves active investors involving themselves into the firm's management and activities by providing other types of support other than financial, for instance operational support to management in order to help build a better company.

These types of firms may have an extensive contact list and "C-level" relationships, such as CEOs<sup>82</sup> and CFOs<sup>83</sup> within a given industry, which can help increase revenue. In addition, they may be experts in realising operational efficiencies and synergies. If an investor can contribute to a deal that will enhance the company's value over time, such an investor is more likely to be viewed favourably by sellers. This is fact should be highlighted since it is the seller who ultimately chooses whom they want to sell to or partner with.

Regardless of this classification based on the involvement of PE funds into the acquired firm we can identify 4 different categories of PE according to the stage in which the target company finds itself:

1. Start-up financing (early stage financing) typically known as Venture Capital business
  - Seed financing
  - Start up financing
  - First stage financing
2. Development and expansion financing (growth financing)
3. Financing for the change in the company structure (change financing) often known as simply Buyouts
  - Replacement capital
  - Buy out
4. Turnaround

For each period of the company's lifecycle there is a specific funding need, and to satisfy it, there are some rules to be followed in terms of type of financing. Moreover, each type of financing is provided by different private equity funds, with different risks involved. In the following table the main feature for each moment of a company's lifecycle is summarised. By crossing these stages with the type of financing suggested the role of a PE firm in each period can be observed.

Every company, like every human being, goes through different stages during its life cycle, and as Aswath Damodaran often says: "just like human beings, [companies] don't like to age, companies do not like to get old" however trying to fight this firm's lifecycle is very dangerous and value is destroyed by companies across the world by not acting their age. What allows organisations to grow quickly are the ease of scaling up, how quick you can enter a business and how much capital you need to grow but what causes companies to decline are exactly those same factors.

---

<sup>82</sup> See List of Abbreviations.

<sup>83</sup> See List of Abbreviations.

This concept states that as a startup you should focus only on investing decisions, balding up the business and grow assets (since you cannot borrow money from banks and you have no cash to offer dividends). As companies mature they can start thinking about financing principles and structure (best mix of debt and equity). Then in the declining stage a company's job is to give cash back to the owners and focus on dividends principle. In the process of trying to be something the company cannot be, it destroys value.<sup>84</sup> A clear example is a start-up that instead of developing the idea and looking for a commercial application of its invention, it starts focusing too much on the business financing side.

The table below shows how Private Equity activity differs for each one of the stages.

		Type of Financing					
		Seed	Start-up	2 <sup>nd</sup> - 3 <sup>rd</sup> Stage		Bridge	
Funding Needs	LOW					<i>Capital Market: high yield bonds</i>	LOW
						<i>Stock Markets</i>	
						<i>Banks: debt</i>	
				<i>Banks: subordinated and mezzanine loans</i>		<i>Private Equity</i>	
			<i>Banks: almost equity</i>	<i>Venture Capital</i>		<i>Venture Capital</i>	
			<i>Venture Capital</i>	<i>Subsidies</i>			Risk Profile
		<i>Venture Capital</i>	<i>Business Angels</i>	<i>Grants</i>			
		<i>Business Angels</i>	<i>Subsidies</i>				
Growth Stage	HIGH	<i>Savings</i>					HIGH
		<i>Start-Up</i>	<i>Young Growth</i>	<i>High Growth</i>	<i>Mature Growth</i>	<i>Mature Stable</i>	<i>Decline</i>
		Early Stage		Expansion & Growth		Later Stage	
Description		<i>Have an idea for a business that meets an unmet need in the market.</i>	<i>Create a business model that converts ideas into potential revenues</i>	<i>Build the business, converting potential into earnings.</i>	<i>Grow your business, shifting from losses to profits</i>	<i>Defend your business from new competitors &amp; find new markets</i>	<i>Scale down your business as market shrinks</i>
Operating Profits		<i>Large Operating Losses</i>	<i>Operating Losses Narrow</i>	<i>Operating Profits turn positive</i>	<i>Operating Profits grow quickly</i>	<i>Operating Profits level off</i>	<i>Operating Profits decline</i>
Investment Rate		<i>Very High</i>	<i>High</i>	<i>Remain large but scale down</i>	<i>Decrease</i>	<i>Scale down further</i>	<i>Divestment</i>

<sup>84</sup> Aswath Damodaran. *Laws of Valuation: Revealing the Myths and Misconceptions*, Nordic Business Forum, 2018.

FCF to firm	<i>Negative</i>	<i>Negative</i>	<i>Turn positive</i>	<i>Positive growing</i>	<i>Positive stable</i>	<i>Positive dropping</i>
Financing	<i>All Equity (usually private)</i>	<i>All Equity (shift to public)</i>	<i>First signs of debt capacity, but benefits are small.</i>	<i>Debt capacity expands, with cautionary notes</i>	<i>Benefits of borrowing significantly exceed costs</i>	<i>Pay down debt as assets are sold</i>
Biggest Concern	<i>Lack of Capital</i>	<i>Allocating scarce capital across competing investments</i>	<i>Balance existing investments with new ventures</i>	<i>Learning to live with less attractive investments</i>	<i>Too much capital for too few investments</i>	<i>Deciding which investment to pull capital from first</i>
Investment Technique	<i>Option Models all about upside</i>	<i>Maximise IRR</i>	<i>Profitability Index</i>	<i>NPV</i>	<i>ROIC and Excess Return Model</i>	<i>Divesture and Liquidation Analysis</i>
Cash Flows						

Table 2: Funding Needs according to every Stage in the Company's Lifecycle.

### Seed Financing:

In this case the goal is to support the development of an idea, a new entrepreneurial intuition or the experimentation of a new kind of business. Seed capital is typically provided for market research, product development, prototype production or other early-stage operations.<sup>85</sup> The business owner's skills, professional capabilities and track record, along with the product's or service's benefits, help determine how much seed capital investors may contribute to a startup. In any of these scenarios, the project is still at its early origins, the funds are aimed at a new product, technology or process. Beyond the financial needs there is also a high need for technical, scientific and managerial skills. For these kind of initiatives, there is a high demand of experienced and literate managers who have practical knowledge of the industry rather than the best rate for a loan.

Because PEs' shareholders view seed capital as an "at risk" investment, they may ask to wait until a business is more established before making larger investments. In fact, seed capital, often comes from the founders' personal assets, friends or family, for covering initial operating expenses and attracting venture capitalists at a later stage. This type of funding is often obtained in exchange for an equity stake in the enterprise, although with less formal contractual overheads than standard equity financing. Seed capital, venture capital, mezzanine funding and an initial public offering are the stages involved in financing startups in ascending order. These are typically companies off the radar, where the venture capitalist usually assists, supplies equity and other kinds of support and plan to cash in later, when the venture goes from an embryonal stage to a proper business with an economics activity. In the meantime they usually take seats in the main board and have a say in how the business develops.

<sup>85</sup> Scott Shane and Daniel Cable. *Network ties, reputation, and the financing of new ventures*, Journal of Management Science, Vol. 48, N. 3, 2002.

PE funds and professional angel investors actively work with entrepreneurs in pooling resources and growing startups. These investors enjoy hands-on interaction while helping develop a company's daily operations even if the lack of past history makes the risk of failure very high.

### Start-up Financing:

The business is still at the very beginning and again the investor intervenes even if the commercial validity of the product/service is not known; which means that there are still many uncertainties and risks in the commercial success of the business.<sup>86</sup> The goal is to find and organise what is necessary to start this new idea, get the production activity off the ground despite all risks.

The need for financial resources is very high and the best and only way to finance this business is through equity. A loan would require a huge interest rate as compensation for the risk taken which would probably be considered usurer by the law. For this reason, next to managerial support there is an equity purchase inside the company.

### First Stage Financing:

At this stage, the business has already started and the purpose is to keep and enhance the production on an industrial scale. The business is still not consolidated and the commercial validity is unknown but the prototype has passed all tests and is ready to be launched. There is still an extensive need for financial resources to strengthen production facilities and product distribution.

The activity is no longer at an embryonic stage and starts to take shape. What has to be proven now is the validity of the idea from a commercial point of view.

There are basically two major figures dedicated to support the businesses at this early stage: Venture Capitalists and Angel Investors.

Venture capital is financing those investors with funds to start up companies and small businesses often operating in emerging industries that are believed to have long-term growth potential. Venture funds come from a wide range of categories: well-off investors, venture capital firms, high net worth individuals (HNWIs)<sup>87</sup>, often known as "angel investors", investment banks and any other financial institutions. It can be risky for the investors who put up the funds, yet, the potentiality for above-average returns is an attractive payoff. For new companies or ventures with a limited operating history (under two years), venture capital funding is becoming increasingly a popular, even essential, source for raising capital, especially if they lack access to capital markets, bank loans or other debt instruments.

Angel investors are typically a diverse group of individuals who have accumulated their wealth through a variety of sources. These are self-made investors providing venture capital to well managed companies seeking to grow.<sup>88</sup> A common occurrence among angel investors is co-investing, where one angel investor funds a venture alongside a trusted friend or associate, often another angel investor. Put simply, an angel investor is someone who invests their own finance

---

<sup>86</sup> Claudio Fava. *Project Financing: dal progetto alla realizzazione*, Il Sole 24 Ore, p. 54-205, 2002.

<sup>87</sup> See List of Abbreviations.

<sup>88</sup> Veroniek Collewaert and Sophie Manigart. *Valuation of Angel-Backed Companies: The Role of Investor Human Capital*, Journal of Small Business Management, Vol. 54, Issue 1, p. 356-372, 2015.

into the growth of a small business at an early stage, also potentially offering their advice and business acumen. Angels make their own decision about investment, and in return for providing personal equity they take shares in the business.

All these 3 strategies analysed so far are all part of the so called Venture Capital operations. This term is broadly used to refer to an equity investment in a young firm operating in an active industry.<sup>89</sup> Quite often PE firms will identify the existing opportunity in the industry and, other times, in the target firm itself. Due to the lack of revenues, cash flow and debt financing inside the target, PE firms are able to take significant stakes in such companies in the hope that the target will evolve into a powerhouse in its industry. Eventually, by guiding the target firm's inexperienced management along the way, private equity firms also add value to the company in a less quantifiable manner.

### Development and Expansion Financing:

At this point the activity has already developed, the product has been commercialised and there is a new need: to expand the production capacity, improve and correct the inefficiencies and consolidate the financial sources linked to the medium term growth strategies. The risk of failure decreases compared to the early stages as it is now possible to benefit from historical and forecast information allowing us to understand and evaluate the firm's potentialities.

Companies in this situation are usually of small dimensions (SMEs) looking to enjoy the economies of scale. They are missing links and relationships with foreign markets that is why another important support supplied by PE firms is the manager's network and contacts helping the client to expand and develop.

This is also known as growth capital, for small to medium firms. It is realised usually through minority investments into companies seeking to build and expand operations. These companies look for relatively cheap capital in order to achieve their aims this is the reason why they bring in a PE firm that claims to be able to provide the management expertise and professionals to help the firm grow.

### Replacement Financing:

At this point the company is established and it is making profits from the new business launched years before. The company has been efficiently managed by the PE directors and the many shareholders may seize the opportunity to sell their shares. In this case the PE fund replaces the ownership members who decide to monetise from the investment and avoid major changes in the business strategy. This ownership replacement is a win-win deal in the sense that those who are no longer interested in long-term strategies and simply want to make a profit leaving the corporate can do so. On the other hand the PE fund keeps doing business with those interested and those who believe in the company's future. This stage will help the PE firm in the later exit strategy.

In this case support is mainly financial instead of managerial or technical since the organisation is running with its own legs and there is no need to revolutionise the business model.

---

<sup>89</sup> Cochrane John. *The Risk and Return of Venture Capital*, Journal of Financial Economics, Vol. 75, 2005.

## Buyout:

Arrived at this stage the company is willing to radically change ownership and this goal is often obtained through a buyout. PEs usually support this shift in ownership both with capital and managerial support. A buyout is the purchase of a company's shares in which the acquiring party gains targeted firm's controlling interest. The most popular form of buyout is the LBO which stands for Leverage Buyout. It is the acquisition of a firm accomplished thanks to borrowed money (or by issuing more stocks) which is collateralised by the target firm's operations and assets.<sup>90</sup> In other words, the buyer (the PE firm) seeks to purchase the target with funds acquired through the use of the target's profitability as a sort of collateral. Buyout strategies are often seen as a fast way for a company to grow because it allows the acquiring firm to align itself with other firms that have a competitive advantage. The boards of the best private-equity firms create value by using financial leverage to increase their returns on equity, by improving the strategy and operations of their target companies, and by exiting at higher multiples.<sup>91</sup>

In short, in a leveraged buyout, acquiring PE firms are able to purchase companies by paying a fraction of the purchase price. By leveraging the investment, PE firms aim to maximise their potential return, which is of the utmost importance for firms in the industry.

The intervention of the Private Equity operator takes the form of financial support to change the ownership structure by supporting the new business group in the acquisition of the divested business. A buyout may occur because the purchaser believes it will receive financial and strategic benefits, such as higher revenues, easier entry into new markets, less competition or improved operational efficiency.<sup>92</sup>

In this case the PE gobble up a firm, and usually applies the opposite process of what we saw before, indeed it might take the large public firm private, make improvements, and reverse the process later on whenever the company is ready to go public again. In short, the PE spots the target, buys off its exiting shareholders, makes operational improvements and sells it back to the market at a higher price. The improvement consists in providing better management, operational improvement and changes that these big stodgy public companies have failed to make over the years. However, at this stage some PE firms have been accused of simply cost-cutting, literally slashing costs in order to boost performance in the short term (firing staff, downsizing, selling off non-essential assets, etc.) and funding the company just bought with cheap debt finance.

## Turnaround:

Corporate crises can generate the need for change. The intervention of the Private Equity involves:

- The restructuring financing of companies experiencing some losses or in financial crisis through investments in capital or in financial instruments similar to equity

---

<sup>90</sup> Axelson Ulf, Per Stromberg et. al. *Why are Buyouts Levered? The Financial Structure of Private Equity Funds*, Journal of Finance, Vol. 64, 2009.

<sup>91</sup> Sreedhar T. Bharath and Amy K. Dittmar. *Why Do Firms Use Private Equity to Opt Out of Public Markets?*, The Review of Financial Studies, Vol. 23, N 5, 2010.

<sup>92</sup> Steven N. Kaplan and Per Stromberg. *Leveraged Buyouts and Private Equity*, Journal of Economic Perspectives, Vol. 23, 2009.

- The change of the owner and managerial group

In addition to significant capital for the reorganisation of the company, managerial skills are provided. This is the financing of a distressed company which aims at saving the whole company or some branches of it. These operations require a series of meetings with the company's creditors and lawyers in order to ensure their rights. A research conducted by McKinsey & Company shows that PE-backed companies outperform their public counterparts during periods of distress even taking into account a higher risk of default, because the owners play a more active role in management.<sup>93</sup>

## 2.7 INVESTMENT PROCESS

There are many investment strategies a PE can follow when making a business contract; two of the most common are leveraged buyouts and venture capital investments which have been described above.

However there are not only investment strategies but also exit strategies which are implemented once the investment has reached the finish line (both positive or negative). One popular exit strategy for private equity involves building and improving a middle-market company and selling it to a large corporation (within a related industry) for an important profit. The vast majority of transactions reside in the middle market and lower-middle market and PEs possess the insights and expertise to exploit these opportunities and take the company to the next level. However, it could also happen that the company turns out to be unprofitable and even after being restructured continues to lose money. In this case the PE, in order to avoid additional losses, backs out of the investment without gaining anything if no-one is willing to buy the company.

To summarise there are multiple options for a PE firm to sell its portfolio company:

- Bring the company public through an IPO
- Sell to a strategic buyer in the industry
- Sell to management (Management Buyout aka MBO)<sup>94</sup>
- Sell to another PE firm
- Recapitalise it and pay itself dividends

Going back to the investment process it can be divided into 6 consequent steps where the first 4 usually take a couple of months to be completed and the last 2 steps need to be carried out for several years depending on the kind of company and what stage it is. The following diagram can show these actions:

---

<sup>93</sup> Hyder Kazimi and Tao Tan. *How private-equity owners lean into turnarounds*, McKinsey & Company, 2016.

<sup>94</sup> See List of Abbreviations.

Stage	Entrepreneur	Entrepreneur and Private Equity Firm	Private Equity Firm	Reports
1. Approaching the Private Equity Firm - Evaluating the Business Plan	<ul style="list-style-type: none"> <li>- <i>Appoint advisors</i></li> <li>- <i>Prepare Business Plan</i></li> <li>- <i>Contact PE Firm</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Build relationship</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Review the business plan</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Business Plan</i></li> </ul>
2. Initial Enquiries and Negotiation	<ul style="list-style-type: none"> <li>- <i>Provide additional Information</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Meet to discuss the business plan</i></li> <li>- <i>Negotiate outline terms</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Conduct initial enquiries</i></li> <li>- <i>Value the business</i></li> <li>- <i>Consider financing structure</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Offer Letter</i></li> </ul>
3. Due Diligence	<ul style="list-style-type: none"> <li>- <i>Show all required documentation</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Liaise with accountants</i></li> <li>- <i>Liaise with other external consultants</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Initiate external due diligence</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Consultants Report</i></li> <li>- <i>Accountants Report</i></li> </ul>
4. Final Negotiation and Completion	<ul style="list-style-type: none"> <li>- <i>Disclose all relevant Business Informations</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Negotiate final terms</i></li> <li>- <i>Document constitution and voting rights</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Draw up completion documentation</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Disclosure Letter</i></li> <li>- <i>Warranties and Indemnities</i></li> <li>- <i>Memorandum and articles of association</i></li> <li>- <i>Shareholders Agreement</i></li> </ul>
5. Monitoring	<ul style="list-style-type: none"> <li>- <i>Provide periodic management accounts</i></li> <li>- <i>Communicate irregularly with investors</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Constant updating</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Seat on board</i></li> <li>- <i>Monitor investment</i></li> <li>- <i>Constructive input</i></li> <li>- <i>Involvement in major decisions</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>Management Accountants</i></li> <li>- <i>Minutes of Board and other meetings</i></li> </ul>
6. Exit	<ul style="list-style-type: none"> <li>- <i>Possibility to exercise call option and buy back the shares sold</i></li> </ul>		<ul style="list-style-type: none"> <li>- <i>In case the Entrepreneur does not buy back, sell to the general market</i></li> </ul>	

Table 3: Private Equity Investment Process.

## 2.8 CONCLUSION

To conclude this theoretical chapter we can observe how globally, 2017 delivered very good news for the private equity industry. It was a year of increasing investments, strong exit markets, attractive returns and hot fund-raising activity. All this good news has attracted much attention and capital: however, the industry's structural challenges have sharpened.

If possible, fund-raising has been too good, investment dollars have peaked, but the number of deals has dropped substantially since 2014. Multiples are at all-time highs, with around half of all companies acquired priced in excess of 11 times earnings before interest, taxes, depreciation and amortisation. In such a stagnant environment, how can funds generate the attractive returns their limited partners expect?

In response we see general partners aggressively assessing and measuring portfolio management talent, an area where the margins for error are thin and getting thinner. The GP mindset around assessing risks and opportunities over a typical holding period has remained unchanged. Yet funds do require new tools and lenses to understand how technology affects industries. PE firms are also continuing to hone their activist approaches to creating value in partnership with management. Gone are the days of investing passively and simply trusting management to get the job done. Given current asset prices, rapidly changing industries and markets, and the need

for transforming the value of assets acquired, few management teams are prepared to take on all the challenges. Strategically, there is a large number of business deals to be made that could absorb the record amount of dry powder raised by GPs.

During 2017, more than 38,000 companies were bought and sold globally, but private equity accounted for less than 10% of those deals. Increasing the industry's share of the M&A market by winning more large-scale deals is an obvious way to invest the mountain of cash raised. The question is, how?

All asset classes are under pressure in the current environment, and few expect public equities to perform in coming years as they did in 2017. However, the firms with the best strategies and talent will always outperform the rest and offer investors a powerful way to increase their portfolios. Winning is about fighting back against that downward trend with better insight and execution. The highest returns are still about the hunt for the top quartile of performing companies.

## Chapter 3: The Private Equity in Italy and the Veneto Region

### 3.1 THE PRIVATE EQUITY INDUSTRY IN ITALY

Tepid economic growth, a weak banking sector, political uncertainty and corruption are usually not factor combinations that attract investments.

Yet, despite having to face all these challenges, Italy's PE market appears to be in a very strong position as far as 2019 is concerned.

In this paragraph we are going to investigate the PE industry in Italy and see how it has been performing in the recent years. This will help us introduce the more in-depth analysis in the Veneto region and it will also serve as a benchmark with the neighbouring country, France, discussed in the next chapter.

In Italy there are many PE organisations roughly founded at the end of 2001, beginning of 2002, therefore, it is a relatively young industry. The Italian PE market had to negotiate a volatile period in 2017 but recorded very positive results the following year. Even though PE-backed deals held steady, matching 2016's total of 100 deals, total value was down by 47% year on year at € 7.6 billion in 2017, according to data compiled by Unquote,<sup>95</sup> before a 15% rise the following year.<sup>96</sup>

The 2017 decline in deal value, however, obscures the fact that the Italian PE market is actually in a healthy position and going through a positive growth period. Despite that drop-off, total value is still almost double the € 4.1 billion worth of deals closed in 2012. Total Italian PE deal value has in fact climbed every year between 2012 and 2016, when a record € 14.3 billion of PE-backed deals was realised. It is also remarkable that € 7.6 billion posted three years ago represents the third best year since the financial crisis.<sup>97</sup>

The outlook is certainly positive after a strong start of 2018 for Italian PE. The first quarter ranks as the strongest ever for Italian PE deal activity in terms of both deal volume (34 deals) and value (7 deals over € 100M) thanks to a few very large operations in the buyout sector. Notably, by the end of Q1, total deal value (€ 4.7 billion) had already surpassed the halfway amount and matched one third of 2017's total deal volume as can be seen in the following graph.<sup>98</sup>

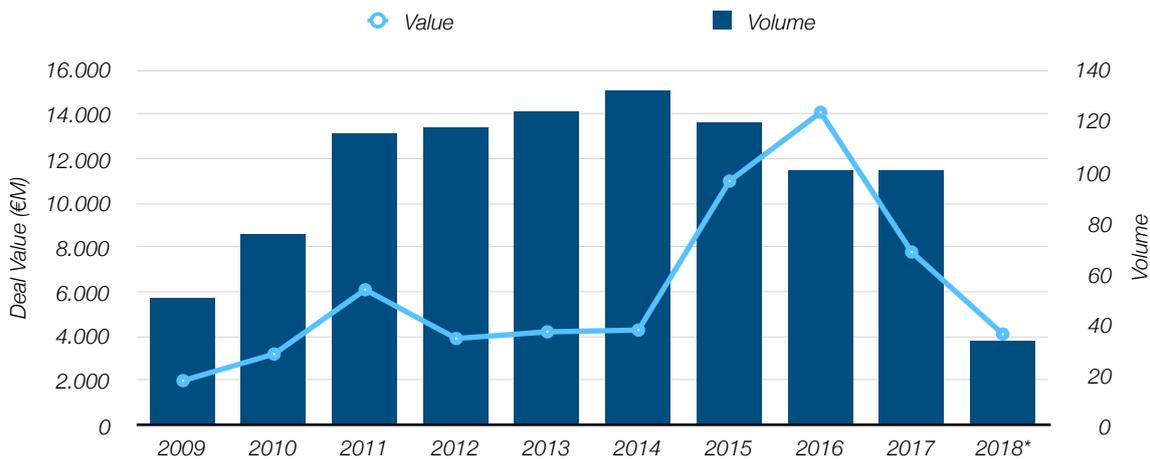
---

<sup>95</sup> <https://events.unquote.com/italy/insights>.

<sup>96</sup> Alessia Muzio et al. *Il mercato italiano del private equity, venture capital e private debt*, AIFI, 2018

<sup>97</sup> Unquote, insights.

<sup>98</sup> Justin Raveenthiran. *Back in fashion: the Italian PE market in 2018*, Unquote, Gatti Pavesi Bianchi, 2018.



Graph 10: Italian PEs Deal Activity 2009 - \*Q1 2018 (Source: Unquote).

Nevertheless, besides these very large deals, the whole market reached record high peaks, in particular the venture capital showed an exceptional increment in both value and volume. Moreover the fund raising activity has been successful with the creation of 25 new operators in Italy.<sup>99</sup> Likewise, the Private Debt market expanded its activity during 2018 as explained at the end of the paragraph.

In 2019 this upward trend for PE slowed down even if the results are still very positive. By the first quarter of 2018, operations for a total value of € 8B have been realised according to Private Equity Monitor (PEM) institution.<sup>100</sup> Buyout operations represented the vast majority in terms of amounts invested (72%) even if first stage financing represented the most active industry in terms of deals count. During the first quarter 2019, we recorded operations for a total of € 5.8B only spread over 70 operations, while same period last year they were already 75.<sup>101</sup>

An important signal about where the market is heading is represented by the PE Confidence Index computed by Deloitte Private. Based on the feedback collected from the operators on the field, the next quarter is foreseen to present smaller volumes of activity and less operations. The index was at 127 points by the first semester 2018, it is expected to be 80 by the same period 2019. A similar result was obtained only in 2013.<sup>102</sup>

A decrease in the expected level of investment activity and the focus oriented on portfolio management actions, confirm how the operators decide to acquire majority stakes and grant high returns on the investments. This is obtained through financial leverage rather than supporting a new venture launched by a small start-up. Later in this paper, an in-depth analysed, is discussed showing how the Italian PE market is still dominated by international organisations, which prefer

<sup>99</sup> Il Messaggero. Private equity, *Il 2018 è stato un anno record: operazioni per 10 miliardi*, 2019, [https://www.ilmessaggero.it/economia/news/private\\_equity\\_2018\\_anno\\_record\\_operazioni\\_10\\_miliardi-4354504.html](https://www.ilmessaggero.it/economia/news/private_equity_2018_anno_record_operazioni_10_miliardi-4354504.html).

<sup>100</sup> Anna Gervasoni et al. *Report 2018*, Private Equity Monitor, LIUC Business School, 2018.

<sup>101</sup> Funds People. *Numeri da record per il private equity italiano nel 2018*, 2019, <https://it.fundsppeople.com/news/numeri-da-record-per-il-private-equity-italiano-nel-2018>.

<sup>102</sup> Elio Milantoni et al. *Italy Private Equity Confidence Survey: Outlook for the first semester 2019*, Deloitte Private, Financial Advisory.

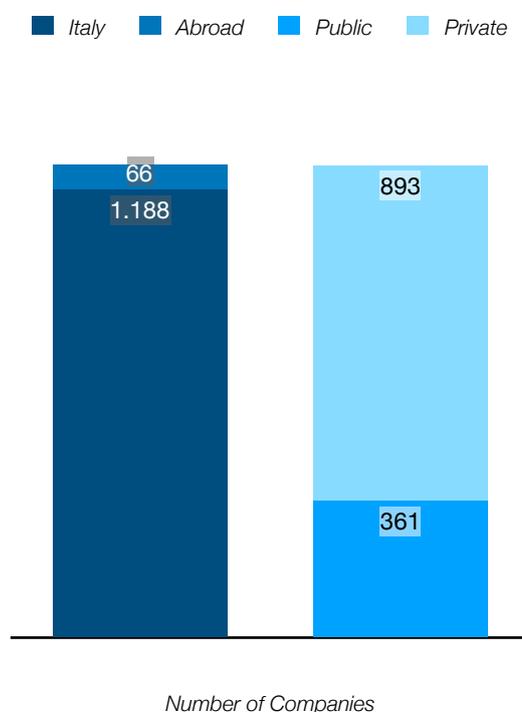
buyout deals, compared to national ones which are more focused on expansion and venture capital segments.

Private and family-owned businesses are still the most attractive targets for a PE with 78% of the investments.<sup>103</sup>

Even if 2019 is expected to represent a break for the market growth, 2018 was a record year. A further indicator of grown PEs' confidence in Italy is the fact that firms have been willing to deploy larger amounts into bigger deals (typical of buyout). There was a higher volume of larger-scale PE-backed deals than ever before and relatively fewer smaller-scale deals. Overall, it seems that the upward trend that started years ago has continued into 2018.

Nevertheless, it is worth noting that, despite the eventual government creation, political uncertainty is still threatening the country's stability and this may imply a decrease in foreign investments. On the other hand, there are a combination of various factors which supported PEs' strong performance in Italy. Xenon Private Equity, a Luxembourgish organisation with an office in Milan, results the most active operator in 2018, with 10 closed deals (half of them are add-on), followed by Ardian, a French PE with an office in Milan as well, which realised 7 investments. During the period, 33 add-on deals were closed (19% of the total 175 deals for 2018), and this evidence represents a marked increase with reference to 2017 (15 operations, equal to 12% of the whole market), but in line with 2016 data.<sup>104</sup>

In 2018 PEs started investing heavily in the Italian peninsula and the portfolio of acquired companies can be structured as follow:



Graph 11: PEs portfolio composition in 2018, according to firms' origin and ownership (Source: AIFI).

<sup>103</sup> Deloitte Private, 2019.

<sup>104</sup> Private Equity Monitor (PEM), 2018.

The question of succession within Italian family-owned companies has been among the main drivers for PEs' deal flow. The high concentration of family run businesses, many of which are fast approaching a succession event as the founding generation of entrepreneurs approach retirement, is a long-term structural shift that will have to be addressed. According to the Italian Association of Family Businesses (AIDAF)<sup>105</sup>, there are an estimated 784,000 family businesses in Italy,<sup>106</sup> accounting for 85% of all the country's firms. Two thirds of these companies are still fully managed by family members, whereas in France, for example, only 26% of all companies are family owned, only 10% in UK.<sup>107</sup>

The generation that created these companies is today close to retiring, in fact, the average age of a business leader in Italy is 57.5 years, with the average age of companies' boards sitting at 58.1 years.<sup>108</sup> Many of these businessmen have turned to PEs as they prepare to hand over the running of their companies. Unlike a corporate acquisition, where a family business is subsumed into the acquiring company, the PE model's flexibility allows outgoing family business owners to secure the independence of their organisations, retain a share of the company and continue participating in the running of the business as the transition to new management is implemented.

PE's ownership also avoids some of the tensions that can emerge when one family-backed company attempts to acquire a rival or when a businessman has more sons and daughters who could inherit the firm. In addition, a PE plays a fundamental role because not only does it provide capital and expertise for development and growth through a very flexible and gradual process, but it also acts as an accelerator for business modernisation in terms of corporate governance and best management practices.

These family owned SMEs have also turned to a PE to grow in exports and internationalisation in general. With domestic demand in Italy lagging behind the rest of Europe (the OECD<sup>109</sup> projects that GDP growth in Italy will edge lower to 0,9% in 2019 and 0,7% in 2020)<sup>110</sup>, small national firms have finally recognised the importance of broadening their product range and moving into new markets.

On the other hand, from a PE's point of view, Italy is, potentially, a very attractive market boasting large numbers of small-to-medium-sized enterprises manufacturing high-quality products in sectors as diverse as fashion, engineering and food. Italy has earned a well-deserved reputation all over the world for being the house of manufacturing and craftsmanship of the finest quality, with the "made in Italy" recognised as a synonym of luxury and best quality. There are a great number of Italian SMEs that developed incredible products obtaining important revenues (60% of family businesses have revenues between € 20 million and € 50 million).<sup>111</sup> These kinds of corporates are suitable PE targets, with their steady cashflow and established customer base.

---

<sup>105</sup> See List of Abbreviations.

<sup>106</sup> Guido Corbetta, Fabio Quarato et al. *Dieci anni di capitalismo familiare*, AIDAF, Università Commerciale Luigi Bocconi, 2018.

<sup>107</sup> Peng M. W., Sun W., et al. *An Institution-Based View of Large Family Firms: A Recap and Overview*, Entrepreneurship Theory and Practice, Vol. 42 N. 2, 2018.

<sup>108</sup> Maria Brizi et al. *Family Business Successful Succession An Overview of the Environment for Family Businesses*, FABUSS, TUCEP, 2016.

<sup>109</sup> See List of Abbreviations.

<sup>110</sup> OECD, Real GDP forecast, 2019, <https://data.oecd.org/gdp/real-gdp-forecast.htm>.

<sup>111</sup> AIDAF, Università Commerciale Luigi Bocconi, 2017.

Given these dynamics, it is not surprising that international and pan-European PE firms have been very active on the Italian market lately. Alberto Calgaro, Investment Associate at Gradiente, a PE fund established in Veneto, said “PEs keep Italian market under close observation because from an industrial and entrepreneurial point of view, presents very interesting opportunities. In Europe the main industrial districts are Germany and Italy, thus there are many pan-European funds observing our country with interest”.<sup>112</sup>

Of the ten largest deals in Italy in 2017, nine involved either a global or pan-European PE house. International PE organisations have also been encouraged by a package of regulatory measures designed to attract investments in Italy. Those firms have been especially welcoming new rules that came into force in 2018 allowing for carried interest (the money paid by PE firms when return hurdle rates are cleared) to be taxed at the lower capital gains tax rate of 24% rather than the personal income tax rate of 46%.<sup>113</sup> However, capital gains derived from the sale of participations are 95% exempt from taxation if certain requirements are met (all easily attainable by a PE firm). If a PE firm is not based on the Italian territory it enjoys an additional benefit: capital gains realised by nonresident companies on the sale of participations ordinarily are taxed at a 26% flat rate.<sup>114</sup> In some cases, capital gains from participations may be exempt, according to specific rules or a relevant tax treaty. Regulators and politicians appear to have recognised the role that private equity can play in supporting succession and growth, consequently many of these funds are benefiting from a friendlier environment.

Italy has also set up a guarantee fund for SMEs taking on bank debt, it has introduced tax breaks for research costs and income from intellectual property and also launched a new “non-dom” tax scheme to draw wealthy individuals with Italian connections back into the country.<sup>115</sup>

International PEs enjoy a lot of free space to operate also because of the lack of national organisations and a very polarised PE market. In fact most Italian funds are mainly concentrated in the north, Milan being the undisputed capital for the industry.

What is missing is a well developed network of Italian PE firms that, rooted in the territory, knows exactly the firms’ needs. An international PE investing in Italy may have just profit as a final goal, alternatively, an Italian PE may be driven by more social and ethical purposes like the regional development and improvement of competitiveness in that specific sector creating jobs and restoring a city’s area.

Investors have noticed the potential for PEs in Italy and decided to support a strong fundraising for firms targeting deals in the country. According to the figures compiled by Italy’s PE trade association AIFI<sup>116</sup> and consultancy firm KPMG,<sup>117</sup> fundraising in Italy increased almost five-fold in 2017 to € 5 billion, up from € 1.3 billion more than in 2016.<sup>118</sup>

---

<sup>112</sup> Alberto Calgaro, Investment Associate at Gradiente S.g.r. S.p.A., Personal Interview, 31/07/2019.

<sup>113</sup> Unquote, insights.

<sup>114</sup> Francesca Muserra, et al. *International Tax, Italy Highlights 2019*, Deloitte Tax, 2019.

<sup>115</sup> Geoff Lloyd. *Keeping aware of red flags*, Tax Adviser, Magazine February 2019, p. 12, 2019.

<sup>116</sup> See List of Abbreviations.

<sup>117</sup> See List of Abbreviations.

<sup>118</sup> Maximilian P. Fiani, et al. *The Sunny Spell, Italian Private Equity and Venture Capital Market: 2018 performance*, KPMG Corporate Finance, AIFI, 2018.

The investors appetite was particularly strong for managers raising large funds. Returns from PE funds, meanwhile, have been fair but not exceptional. AIFI and KPMG calculated that exits in Italy in 2017 recorded an average gross IRR of 12.5%. This was above the ten-year average of 10%.<sup>119</sup>

Investing in Italy, however, is not without obstacles. Corruption continues to be a problem, with Italy ranked as the third most corrupt country in the European Union, according to Transparency International's most recent World Corruption Index.<sup>120</sup> General partners have raised concerns that tax decisions in the country can be unpredictable and frequently reversed, and these institutions cannot tolerate uncertainty given their long term commitment. There are also concerns that investments will be heavily concentrated in the north of the country for a long time still, with AIFI and PwC figures showing that only 1% of PE investment went to the south in 2017.<sup>121</sup>

The early March general election, meanwhile, only managed to deliver a government in the second week of May, which created uncertainty for the local business community and overseas investors. Deal activity does not appear to have been affected by the election results, but there is a risk that some dealmakers, especially the foreign ones, may put transactions on hold.

Perhaps an even bigger challenge PEs in Italy have to face is represented by the country's banks weakness. Lenders have been bogged down by more than € 340 billion non-performing loans (NPL) following the financial crisis, one third of Europe's total. The government has been forced to bail out Italy's oldest bank, Monte Paschi di Siena, and put several guarantees in place to prevent contagion. Morgan Stanley believes it could take as long as a decade to clear the backlog,<sup>122</sup> while data compiled by consultant Oliver Wyman for Reuters show that in the first half of 2017 the return on equity for Italian banks was just 2.3%. This was less than half the European average and well shy of their 12.8% cost of equity.<sup>123</sup>

The plight of Italian banks has not been all bad news for PEs, which have sourced deals by stepping into the funding gap left by these institutions. However, the crisis has drained resources and hampered growth, as well as making it difficult for PEs to raise capital domestically, given the fact that often a PE organisation co-invest with a debt lender.

The PE market is completely adapted to the Italian industrial fabric. Given that the majority of Italian firms are micro or very small, the capital needed has to fit with these dimensional requirements, thus, the majority of closed deals has involved less than € 100M capital allocation, as represented in the following graph.

---

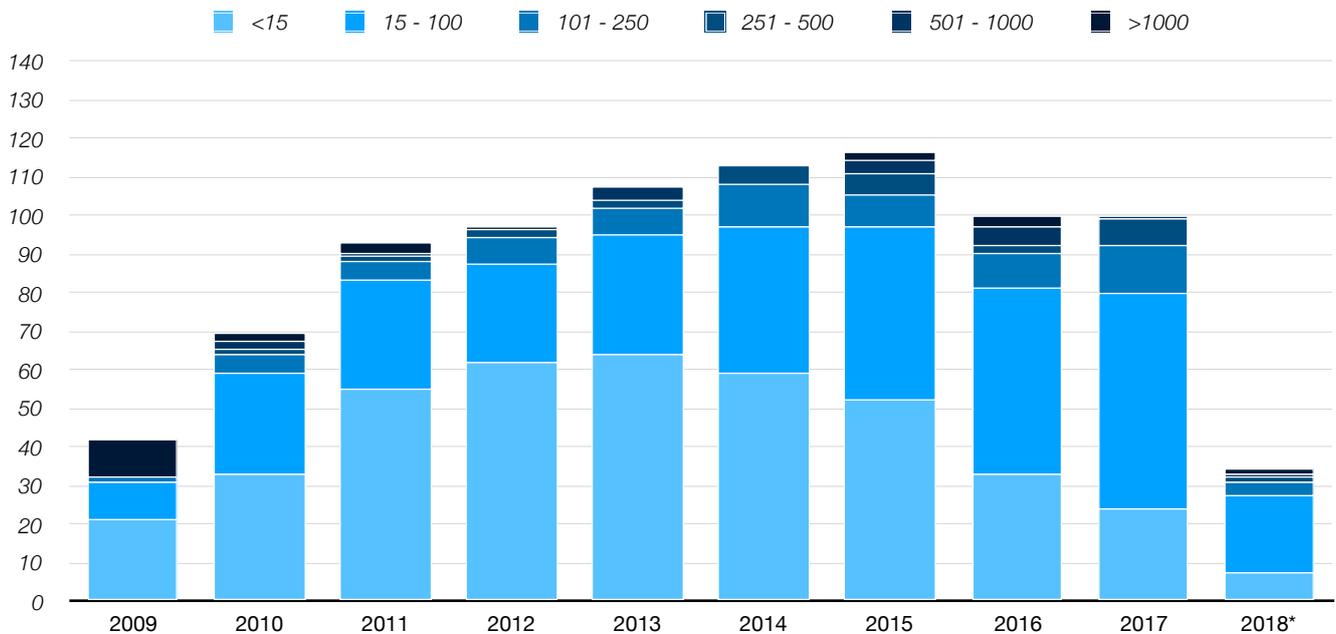
<sup>119</sup> KPMG Corporate Finance, AIFI, 2017.

<sup>120</sup> Davide Del Monte. *Italy needs anti-corruption watchdog*, Transparency International Italia, 2018.

<sup>121</sup> Francesco Giordano and Daniela Montesana. *The economic impact of PE and Venture Capital in Italy*, PwC Transaction Services, 2018.

<sup>122</sup> Vikram Subhedar and Valentina Za. *Italian banks may take 10 years to fix bad debt issue: Morgan Stanley*, Reuters, 2017, <https://www.reuters.com/article/us-italy-banks-morgan-stanley/italian-banks-may-take-10-years-to-fix-bad-debt-issue-morgan-stanley-idUSKBN1A217X>.

<sup>123</sup> Valentina Za. *Italian banks face long, uphill road to modernisation*, Reuters, 2017, <https://www.reuters.com/article/us-eurozone-banks-italy-modernisation-in/italian-banks-face-long-uphill-road-to-modernization-idUSKBN1DK1XG>.



Graph 12: Italian PEs deal activity split by deal size (€M) 2009 - \*Q1 2018 (Source: Uniquote).

A very widely used form of investment organisation in Italy is the one represented by Special Purpose Acquisition Companies (SPAC). The first SPAC was launched in 2011 and by the end of 2017 they were already 23. In Veneto many PE organisations decide to adopt this legal status in order to invest. This topic will be discussed later.

A SPAC originates from blind check companies developed in the 80s in US. It is a publicly traded company that raises a blind pool capital through an initial public offering with the purpose of acquiring (not the totality) an existing company. The money that the SPAC collects through the IPO is kept in a trust until the entity finds a good deal that it decides to take on. This is a blind pool's typical feature.<sup>124</sup> These are considered merger or acquisition opportunities between private and non-listed companies. This kind of organisation is known in France as a Venture Capital Corporate (SCR)<sup>125</sup> for high investing purposes.

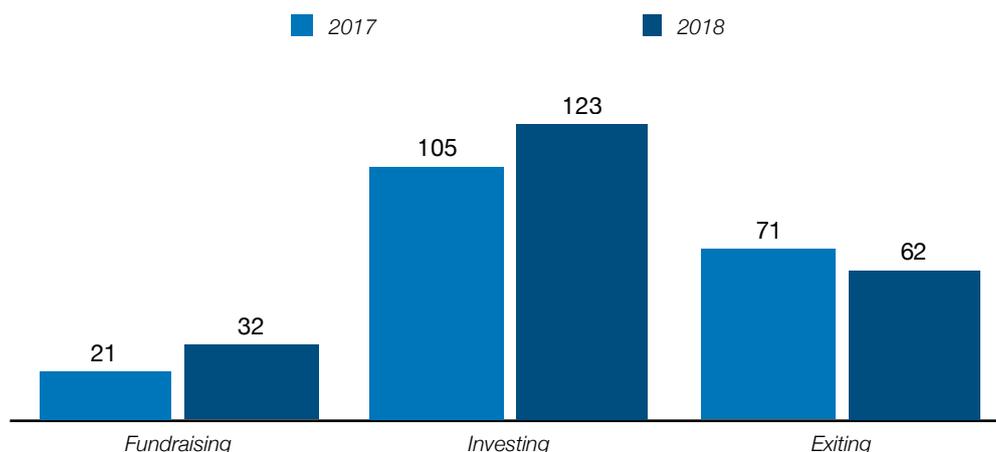
Given its characteristics, a blind pool has been considered by many as lacking in terms of transparency, liquidity and control in case of poor management. However, even if these risks and critics are still present, this kind of investment vehicle has had great success over the last months because Italy's family-run SMEs, which make up the backbone of the economy, have had to look for new sources of finance. Traditionally the Italian corporate sector has relied mainly on bank debt, but, given recent years banking system's poor conditions, other instruments have substituted the most known financing source.

SPACs have offered a credible alternative for owners, managers and families who do not want to give up the control of their companies in a trade sale but, at the same time, need funds to keep the business alive.

<sup>124</sup> Francesco Dagnino and Andrea Biglia, Il fenomeno della SPAC in Italia, Il Sole 24 Ore, Diritto 24, 2019, [http://www.diritto24.ilsole24ore.com/art/avvocatoAffari/mercatiImpresa/2019-03-19/il-fenomeno-spac-italia-163304.php?refresh\\_ce=1](http://www.diritto24.ilsole24ore.com/art/avvocatoAffari/mercatiImpresa/2019-03-19/il-fenomeno-spac-italia-163304.php?refresh_ce=1).

<sup>125</sup> See List of Abbreviations.

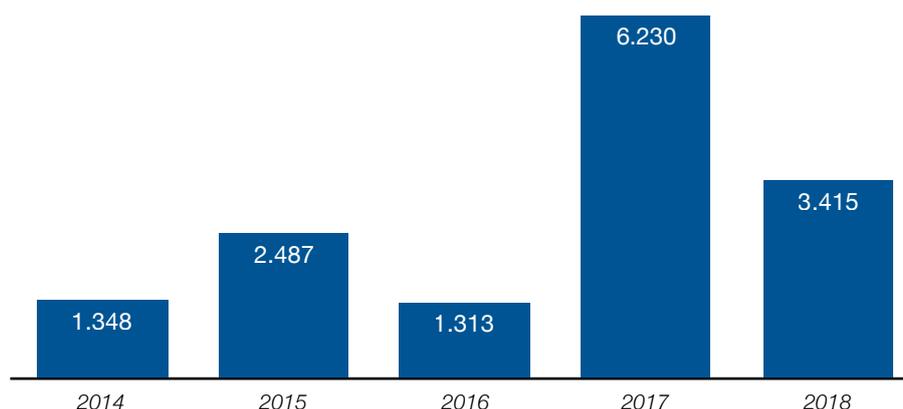
The chart below shows how many PE organisations performed the three main activities required to operate in this market: fundraising, investing and exiting.



Graph 13: Number of PE organisations divided by performed activity, 2017 - 2018 comparison (Source: AIFI).

As can be noted, the PE market is growing; fundraising activity has increased by 50% and more funds are being invested in Italian companies compared to 2017. This first analysis lays the groundwork for the whole paragraph: the market is growing, the shift has started, the direction has been picked, Italy may have just found a complete new way to finance its companies.

Each one of these moments will be treated separately in order to provide the most possible comprehensive PE analysis, starting with the fund-raising activity. In the following graph the fund raised level for the last 5 years can be observed.



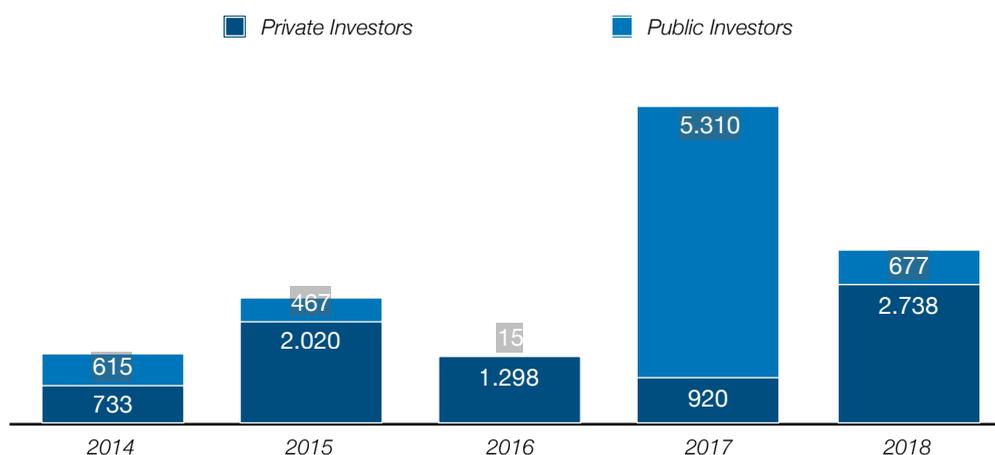
Graph 14: Funds raised evolution 2014 - 2018 from private and public investors indistinctly (Source: AIFI).

It is clear that the data for 2017 seem influenced by some entity's activity which received very significant and unusual capital amounts.

In order to investigate this anomaly the question is where the capital comes from according to the investors' nature: private or public.

The data from AIFI shows how the PE funds targeted small and medium deals, especially the national ones, while the fundraising activity is certainly high, but hides another truth when referring to private organisations. The AIFI General Director, Anna Gervasoni, explained that figures referred to 2017 are mainly due to three large institutional funds that biased the whole data.<sup>126</sup> In particular she was referring to: F2i S.g.r., QuattroR S.g.r. and Fondo Italiano d'Investimento S.g.r. that collected alone 4.11 billion while private fundraising decreased by 29%.

The following graph shows the specifics for investors' nature:



Graph 15: Capital raised on the market (€M) according to the investor's nature (Source: AIFI).

In December 2017, F2i S.g.r. announced the creation of its third fund, raising € 1.4B with maturity in 2030<sup>127</sup> and final goal of € 3.1B. The creation of this new fund was approved by F2i limited partners because the first fund of the company had spent all the capital available for investments, hence a new vehicle was needed. Among the main shareholders there are mainly foreign investors like top sovereign funds, asset managers and insurance companies in Europe.

In April 2017, QuattroR S.g.r. collected € 711M as bailout fund specifically dedicated to rescue companies (fondo "salva-imprese"). Once again, the main investors into this fund were institutional organisations like Deposits and Loans Fund (CDP)<sup>128</sup> which started the whole operation, National Institute for Insurance and on Job Injuries (INAIL)<sup>129</sup> and other country's owned organisations. The final goal of the fund is to collect € 1.5B.<sup>130</sup>

In September 2017, Fondo Italiano d'Investimento S.g.r. decided to create two new funds called Fondo Innovazione & Sviluppo (Innovation & Development) and FII Tech Growth fund. The former focused on PE operations with a capital threshold of € 700M, and the latter aimed at supporting

<sup>126</sup> Private equity, nel 2017 è boom di raccolta, Advisor Private (AP), 2018, <https://www.advisoronline.it/private-banker/banche-private/46255-private-equity-nel-2017-e-boom-di-raccolta.action>.

<sup>127</sup> Giuseppe Sammartino. *Raccolta superiore a 3,1 miliardi di Euro per il terzo fondo F2i*, Fondi Italiani per le infrastrutture, 2017, [http://www.f2iS.g.r.it/f2iS.g.r./sala\\_stamp/comunicati\\_stamp/anno\\_2017/index.html](http://www.f2iS.g.r.it/f2iS.g.r./sala_stamp/comunicati_stamp/anno_2017/index.html)

<sup>128</sup> See List of Abbreviations.

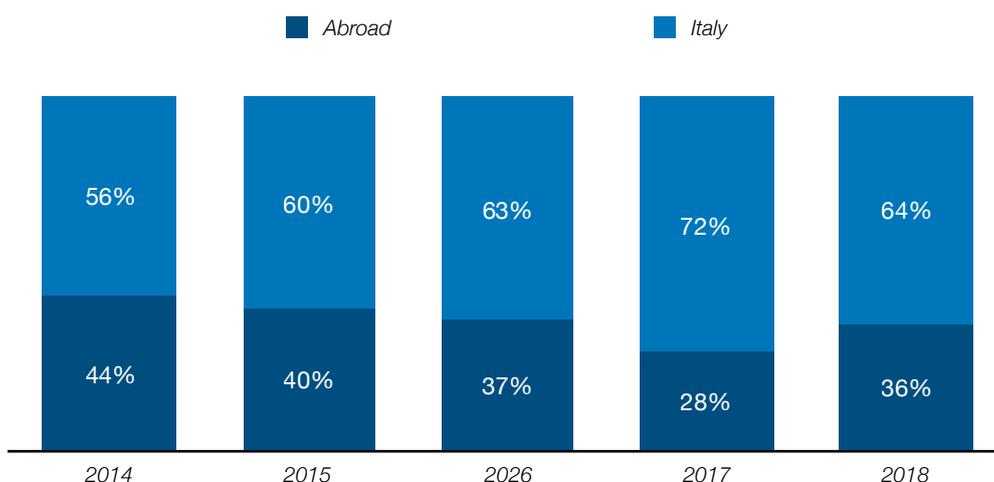
<sup>129</sup> See List of Abbreviations.

<sup>130</sup> Valerio Vago. *QuattroR: al via il primo fondo da 711 milioni di euro dedicato al rilancio delle aziende italiane di medie e medio-grandi dimensioni caratterizzate da solidi fondamentali ma in una situazione di temporanea crisi*, QuattroR, Comunicato Stampa, 2017, <https://quattor.com/notizie/>.

venture capital deals with a capital raising target of € 150M. The national Deposits and Loans fund was again one of the main investors.<sup>131</sup>

Given the coincidence of these three exceptional events, 2017 data reports a considerable anomaly from the fund-raising perspective. As a consequence, foreign investor statistics recorded a decrease (because the investors of the three main events described above are national), such as the one related to private investors (given that the investors described above are institutional).

The data rebalanced the following year, when 2018 recorded similar statistics to the past with € 3.415M raised, of which € 1.230M contributed from foreign investors.



Graph 16: Geographical evolution of capital raised for private investors (Source: AIFI).

The Italian Private Banking Association’s (AIPB)<sup>132</sup> President, Fabio Innocenzi, proposed several times during his period at the head of the group, a minimum entry investment reduction for PE firms. He believed that by reducing this threshold, the average investor would have benefitted from an increased diversification, and, under the MiFID2<sup>133</sup> rule, enjoyed one more investment opportunity.<sup>134</sup>

In the following diagram the backers who contribute into Italian PE funds are clearly stated. It should be remembered that, as far as 2019 is concerned, only institutional investors and HNWIs have the possibility to buy shares of these organisations.

What is interesting is the amount of capital represented by HNWIs and Family Offices, who were the main investors in 2017 and in 2018 came only after pension and insurance funds. According to Innocenzo Cipolletta, AIFI’s president, these funds did not raise “enough capital”, and he is

<sup>131</sup> Roberto Del Giudice and Aurelio Arrigo. *Al via due nuovi fondi gestiti da Fondo Italiano d’Investimento S.g.r.: effettuato il primo closing del fondo “Innovazione e Sviluppo” e del fondo “FII Tech Growth”*, Fondo Italiano d’Investimento, 2017, <http://fondoitaliano.it/societa/documenti-societari/>.

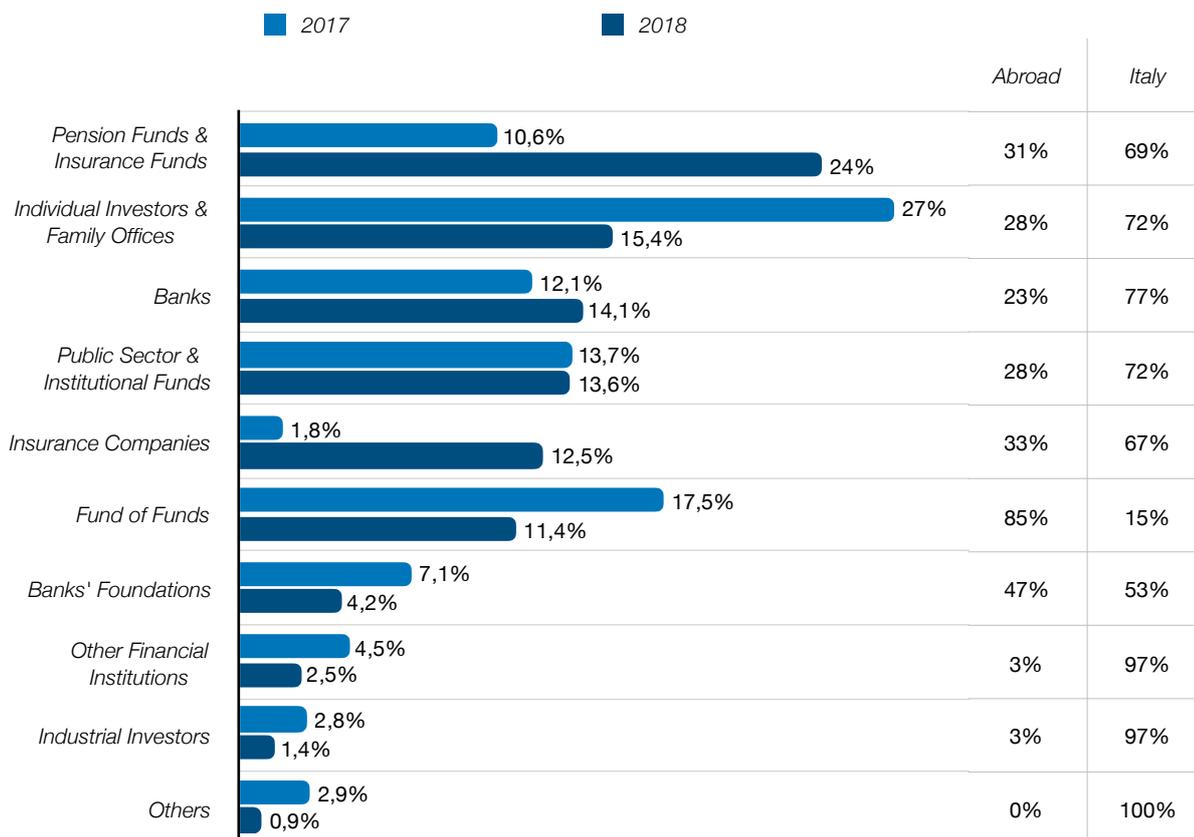
<sup>132</sup> See List of Abbreviations.

<sup>133</sup> See List of Abbreviations.

<sup>134</sup> Fabio Innocenzi. *Le potenziali sinergie tra Private Banking & Private Capital*, AIPB, 2018.

preoccupied that this money may be invested only in Bonds and Government treasuries instead of supporting the Italian firms.<sup>135</sup>

The following graph reveals also another very interesting indicator of the Italian PE situation. The fund of funds decreased their investments in one year by 6%. Considering that they were mainly international funds this underlines an important phenomenon: foreign investors are slowly leaving the Italian PE market. This may be interpreted as a bad signal that our economy is not capable of attracting money from abroad, and it is partially true. However, by better analysing the graph, it is evident that this withdrawal is well covered by an increase in national funds.



Graph 17: Funds raised evolution on the market for private investors' category and origin (Source: AIFI).

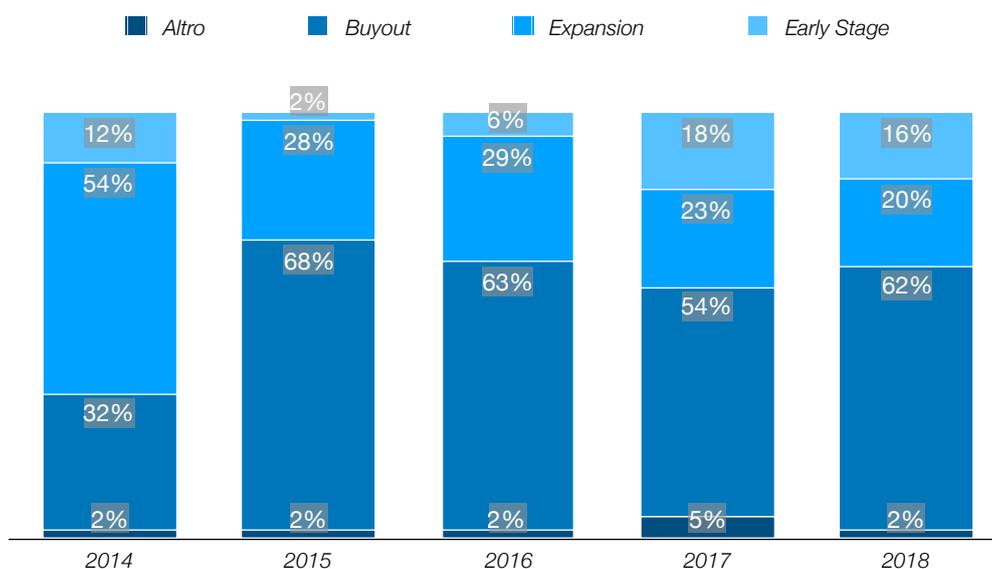
Every PE before starting its activity knows what kind of company it will be targeting. It may be a single S.g.r. (asset management company)<sup>136</sup> holding different funds, but certainly each one of these funds will have a specific area where to focus its investments. It may be a venture capitalist, or supporting the companies' expansion, it may be more concerned with Buyouts or enhancing a firm's Turnaround. The final goal is clearly stated in advance because the funds' limited partners have to assess the investment risk before employing large amounts of capital. The risk in fact, depends on which segment the fund is going to operate.

<sup>135</sup> Mara Monti. Private equity, raccolta +55% con la spinta dei fondi esteri, Il Sole 24 Ore, 2018, <https://www.ilsole24ore.com/art/private-equity-raccolta-55percento-la-spinta-fondi-esteri-AEWrlbzF>.

<sup>136</sup> An S.g.r. develops its activity through two possible different kinds of organisations: OICVM (Organismi di Investimento Collettivo in Valori Mobiliari) or FIA (Fondi di Investimento Alternativi) with an initial equity capital of at least € 1M (no contributions in kind are allowed). Bank of Italy order of January 19th, 2015, Collective Asset Management Regulation.

Looking at the following diagram, there are two pieces of information to bear in mind. The first takeaway, is that the expansion capital has decreased since 2014, losing 34% of raised capital in just 4 years. A big portion of this decrease has been absorbed by Buyout which represents the vast majority of capital raised from the Private Equity market in Italy (62% in 2018).

The second takeaway is represented by the early stage financing. In the last 4 years it has been growing its portion of total funds raised compared to the other PE sector. This is even more interesting because Early Stage financing is the less capital intensive industry. In other words, if Buyouts require massive amounts of money to be completed, investing in a small innovative firm does not require billion of euro, thus, an increase in funds raised for this sector is even more significant.

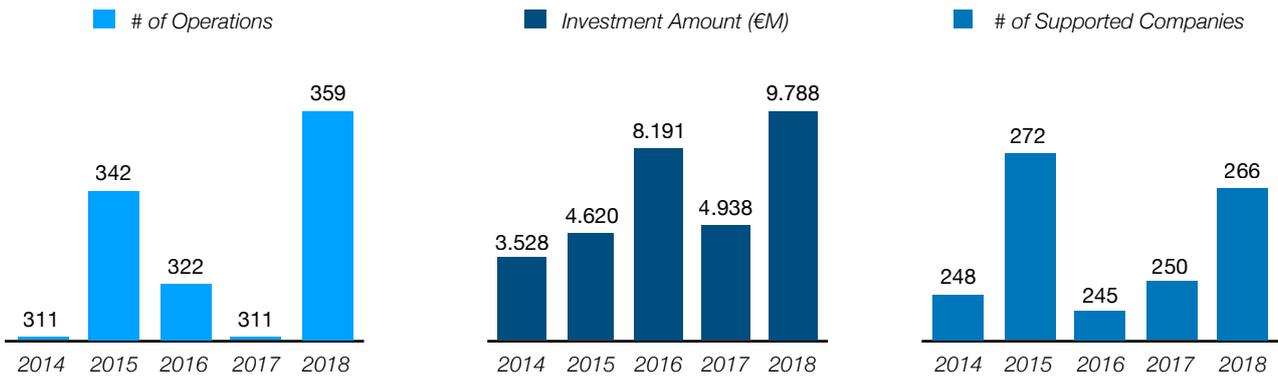


Graph 18: Funds raised according to PE business sector (Source: AIF).

Now that the capital has been raised, it is relevant for the purposes of this paper to understand where it has been invested. Italy recorded 359 operations spread over 266 companies for a total € 9.788M invested in 2018 which is the highest amount ever recorded on the Italian market thanks to a few very large deals, realised mainly by international investors. This is the reason why behind every data it is relevant to investigate deeper and find what influenced it.

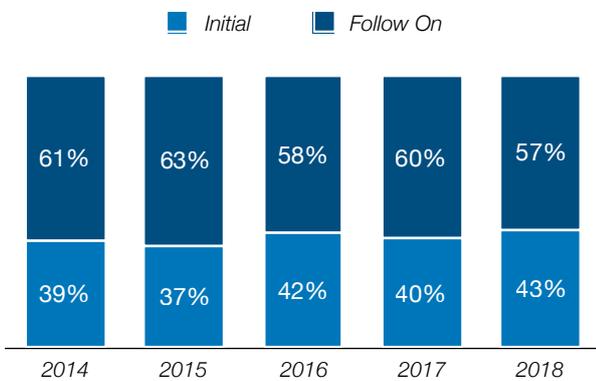
As mentioned before, in the fund raising activity there has already been a partial shift from the cumbersome presence of international PEs to the national organisations. As far as investing is concerned, the shift still has to happen. This factor shows how the market is really going through a very important moment of transition in these years.

Compared to 2017, when we reported only € 4.938M spread over 311 operations, it is clear that the amount invested basically doubled (+ 98%) and deal numbers also increased by 15%.



Graph 19: Number of operations, supported companies and amount invested (€M) evolution in Italy (Source: AIFI).

The market dimension reached in 2018 is a remarkable result showing how Italian PEs are slowly increasing their activity and popularity among the national entrepreneurs.



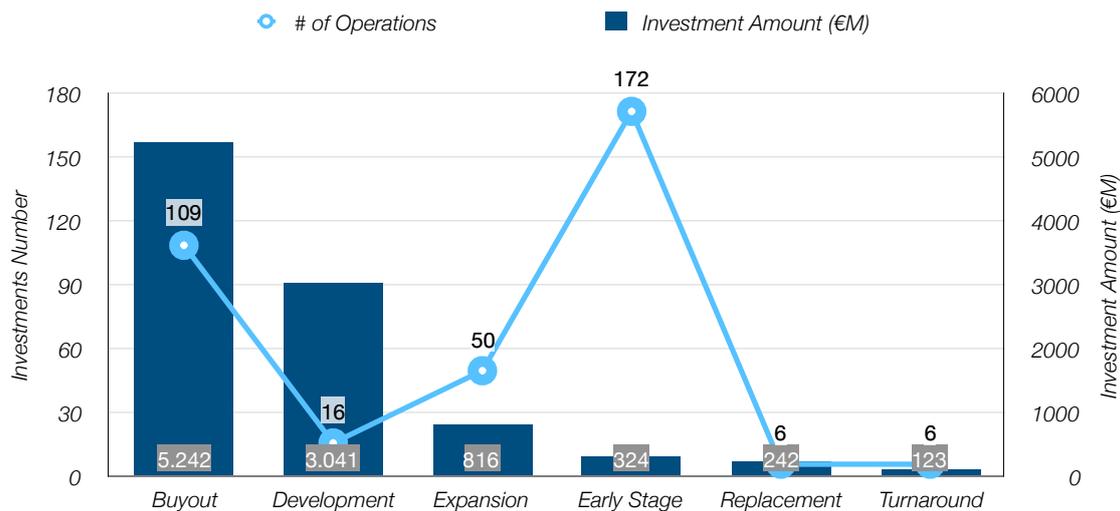
Graph 20: 2014 - 2018 Initial and subsequent PEs investments (Source: AIFI).

It is also important to distinguish between number of operations and number of supported companies because it can happen that a PE invests more than once in a single firm during the same year. This kind of deal known as add-on funding, will increase the number of operations while the supported companies counter will stay the same. Investments in companies that had been already supported once before was the majority both in terms of volume (57%) and value (51%).

This is due to the fact that the PEs may find some interesting opportunities only after having already invested in a business. Another reason is that the same PE's shareholders do not deposit all the money immediately but do it gradually. This system is extremely important given that finding the right company that is able to pass all the PE analysis is not easy.

Similarly to what we did for the raised capital, the following graph shows the number of operations and amount invested for each PE sector. Buyout was the industry sector that recorded the highest capital invested with € 5.242M in 2018.

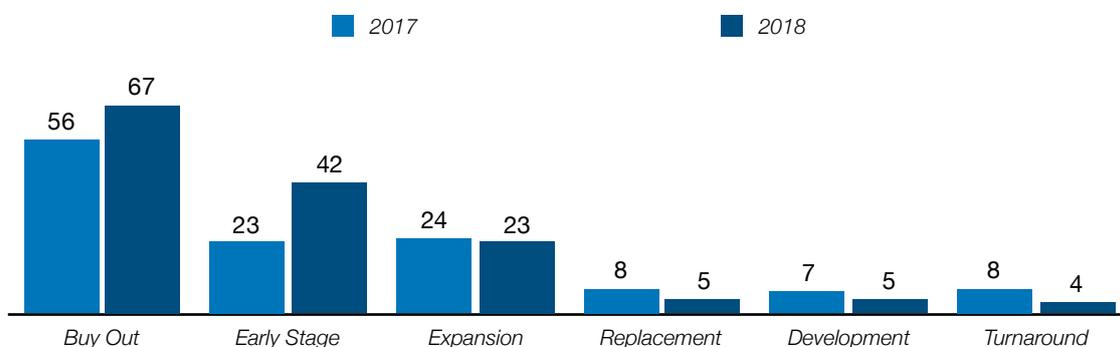
In terms of number of operations the early stage financing is still in first place with 172 operations followed by Buyout (109) and Expansion funding (50).



Graph 21: Number of operations and amounts invested according to PE business sector (Source: AIFI).

This chart clearly represents the main PE industry characteristics. Buyout operations require large amounts of money since acquiring a company in a middle stage of its lifecycle and taking it private can be very expensive. A similar reasoning regards development financing where in order to support a company’s internationalisation and to improve profitability through implementation of new projects a lot of money is required.

Alternatively, a young company investing in its idea and inventions will need just enough capital to transform the concept into a commercial product. This is why Early Stage financing is much less capital intensive even if it does not mean that it requires less commitment from the PE. Even though less funds are needed, the managers will have to work very hard to launch the product and establish a sustainable market for the business. Namely, the managerial support required is substantial and the PE must wisely exploit its professional network. In this industry the Deal Execution side of the activity really stands out. Executing the deal means cooperating with the firm’s management for several years and take advantage of the opportunities the market may present to expand the business.

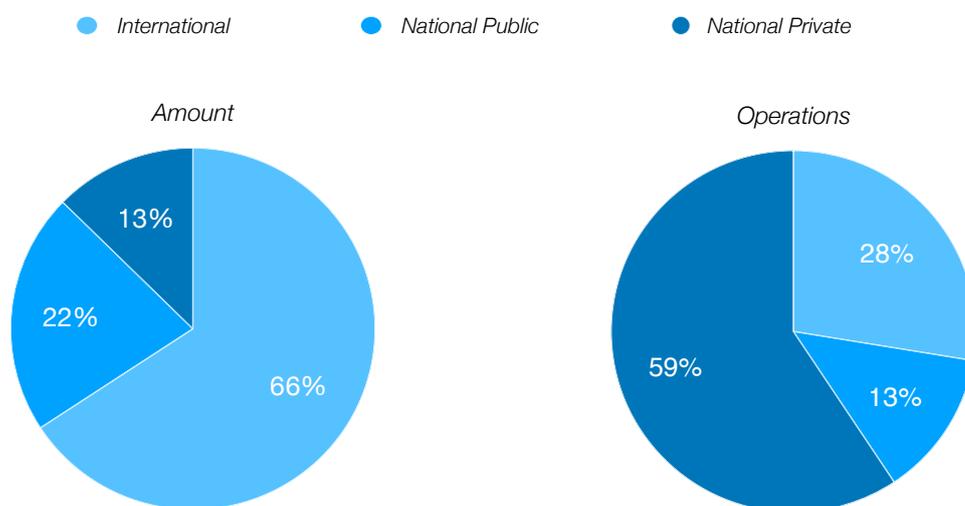


Graph 22: Number of PE investments according to business sectors (Source: AIFI).

The graph above confirms that Buyout and Early Stage financing are the main sectors for PE in Italy. Nevertheless, Buyout has been *in auge* for a very long time, while Early Stage financing increased its dimensions only in the last couple of years. The number of PE firms that believed in Italian SMEs almost doubled in one single year, getting very close to Buyout total.

In terms of operations' internationalisation, in terms of value, 66% of the market has been absorbed by international funds and organisations with a total of € 6.438M invested.<sup>137</sup>

Surprisingly, 49 operations and € 2.675M invested belong to investors that do not even have an office in Italy. Even if the PE international presence in Italy is rather bulky, domestic PEs realised the highest number of operations: 213 (59% of total), more than double compared to the internationals, that concluded only 99 operations (28% of total).



Graph 23: Invested amounts and number of operations according to PE ownership (Source: AIFI).

These data are confirmed also by Riccardo Spigariol, Investment Associate at 21 Invest. His organisation is part of a Pan-European group operating in Italy, France and Poland called 21 Partners. The entire business started in Treviso (Veneto) under the leadership of Alessandro Benetton, a famous Italian entrepreneur.

Mr Spigariol confirmed that, in Italy, PEs are struggling with many aspects and they are 10 years behind compared to other western European countries. However, the Italian market is filling up quickly with new operators trying to catch up on lost time. “During the last years”, he continues, “foreign funds have been very active on the Italian market, through a small office in Milan or directly from London investing in our country which offers great firms for relatively low prices compared to other markets”.<sup>138</sup>

When we asked the Venetian PEs whether they suffer the competition brought by international firms the answer was unanimous. Given that international funds mainly target very large businesses, they operate in a totally different sector, hence, they do not compete with national

<sup>137</sup> AIFI, Report 2018.

<sup>138</sup> Riccardo Spigariol, Investments Associate at 21 invest, Personal Interview, 30/07/2019.

organisations. This is confirmed also by the above graphs where, in terms of deal count, domestic organisation realise the vast majority of operations, but in terms of deals volume the results are turned around.

Nevertheless, the two pie charts above do not reveal the whole picture about foreign investments into Italian companies. We need to understand whether this 66% is due to how appealing Italian firms actually are, or, whether this data is influenced by the lack of Italian structured organisations.

Brexit incertitude and tax breaks for investors in Italy have pushed some foreign organisations to open offices in our country (as seen before for Ardian) in order to intensify the relationships with Italian corporates where family owned businesses lack financial tools and prey on foreign money to launch their activities.

EQT Partners, a Scandinavian PE, is going to open an office in Milan by the end of summer 2019.<sup>139</sup> Three Hills Capital Partners (THCP), a British PE managing more than a billion euros is doing the same by 2019 end-year.<sup>140</sup>

According to another source, the American asset manager Hayfin Capital Management acquired an office in Milan, widening its presence in Europe after London, Paris and Frankfurt.<sup>141</sup>

The government announced some generous tax breaks that may attract PE attention in addition to the political decisions already explained. An annual flat tax of € 100,000 on all foreign investment profits represents a strong incentive. With the new budget law that came into force in January 2019, new growth supporting manoeuvres have been introduced.<sup>142</sup> Individual investors supporting innovative startups can enjoy a 30% tax break, up to a total € 1M. In the case of a corporate (more relevant from the PE perspective), they benefit of a 30% tax break as well, up to € 1.8M.<sup>143</sup>

Investing in PE and Private Debt organisations is strongly encouraged through generous tax breaks in support of investment returns. This incentive however is not enough on its own, a joint operation needs to be put in place by political and economic institution in order to rebuild trust in the Italian economy.

An example of this effort is represented by the creation of individual saving plans (PIR)<sup>144</sup>. This is a sort of investment vehicle shaped around the average Italian SME. Introduced in 2017, a PIR can assume different legal status: investment company with variable share capital (SICAV)<sup>145</sup>, ETF,<sup>146</sup> insurance company or individual investment portfolio. Investments go from a minimum of € 500 up to a maximum of € 150,000. In order to benefit from fiscal cuts you need to keep your

---

<sup>139</sup> Federico Quitadamo. *EQT strengthens footprint in Italy – opens office in Milan*, EQT Group, 2019, <http://www.eqtpartners.com/news/>.

<sup>140</sup> Mauro Morett. *THCP opens office in Milan*, THCP Group, 2019, <https://www.thcp.eu/news>.

<sup>141</sup> Pamela Barbaglia and Stephen Jewkes. *Destinazione Milano: private equity esteri rafforzano presenza in Italia*, Reuters, 2019.

<sup>142</sup> Alessandro Barbera et al. *La manovra è legge, ecco le misure in dettaglio*, La Stampa, Economia, 2018, <https://www.lastampa.it/economia/2018/12/30/news/la-manovra-e-legge-ecco-le-misure-in-dettaglio-1.34069974>.

<sup>143</sup> *Dagli incentivi alle imprese ai salvataggi, cosa c'è nel Decreto Crescita*, La Repubblica, Economia & Finanza, 2019, [https://www.repubblica.it/economia/2019/06/27/news/scheda\\_decreto\\_crescita-229746260/](https://www.repubblica.it/economia/2019/06/27/news/scheda_decreto_crescita-229746260/).

<sup>144</sup> See List of Abbreviations.

<sup>145</sup> See List of Abbreviations.

<sup>146</sup> See List of Abbreviations.

investment for at least 5 years. PIRs are particular investment opportunities dedicated to individual persons, not corporations, living in Italy (permanently)<sup>147</sup>.

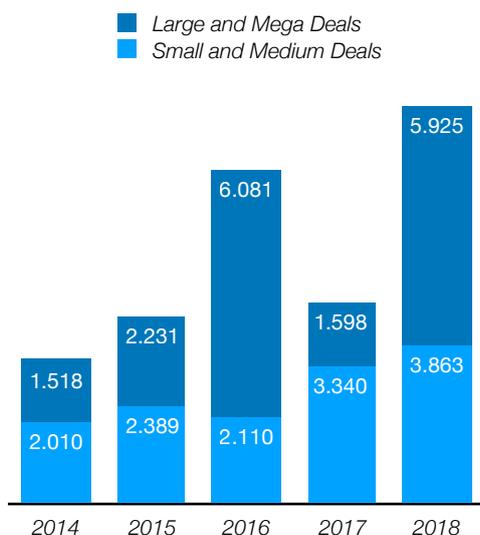
Since the introduction of PIRs two years ago, this new vehicle has inflated an already existing market creating even more confusion without solving the main problem: support for SMEs' growth. These companies still heavily depend on bank loans, and with this debt you can survive but surely not thrive.

Continuing with the Italian PE market analysis, another upsurging trend has to be highlighted: the average amount invested per single operation in 2018 was € 27.3M increasing from € 15.9M in 2017.<sup>148</sup>

However, without taking into account the few mega deals, on average, € 11.2M has been invested, in line with 2017, € 11M.

The highest average amount allocated into development financing operations was € 190M. In comparison the early stage financing was 100 times smaller with an average investment of € 1.9M. Buyout and replacement financing were € 48.1M and € 40.4M respectively. A smaller average investment was recorded for Turnaround and Expansion, around € 20M.

In 2018 Italy recorded 5 large deals with equity invested between € 150M and € 300M, 8 operations were above € 300M known as mega deals.



Graph 24: Number of deals divided in two dimensional categories: small-medium and large-mega (Source: AIFI).

In total, these large and mega deals covered 61% of amounts invested (€ 5.925M) and they dramatically increased given that in 2017 they were only 8 (all of them large deals, no mega ones).

However, also small and medium deals vastly increased accounting for € 3.863M (+16%) and this is the highest amount ever recorded for the category.

On taking a closer look at the first stage financing the data shows how this industry has been growing in the past 5 years. The number of operations (+72%), number of supported companies (+36%) and especially the amounts invested (+671%) grew exponentially.

<sup>147</sup> Cosa sono i Pir, Piani individuali di risparmio, TGC0M 24, 2018.

<sup>148</sup> AIFI, Report 2018.

This is the most interesting sector in this paper given the Italian industrial economic fabric and because it is the least attractive to international organisations, thus, completely financed by Italian PEs.

As above mentioned, 66% of amounts invested in the Italian PE sector come from foreign investors. On the other hand, for early stage financing, 78% of investments are realised by Italian organisations. Therefore, observing this sector there is a window on the Italian PE situation excluding the international influence.

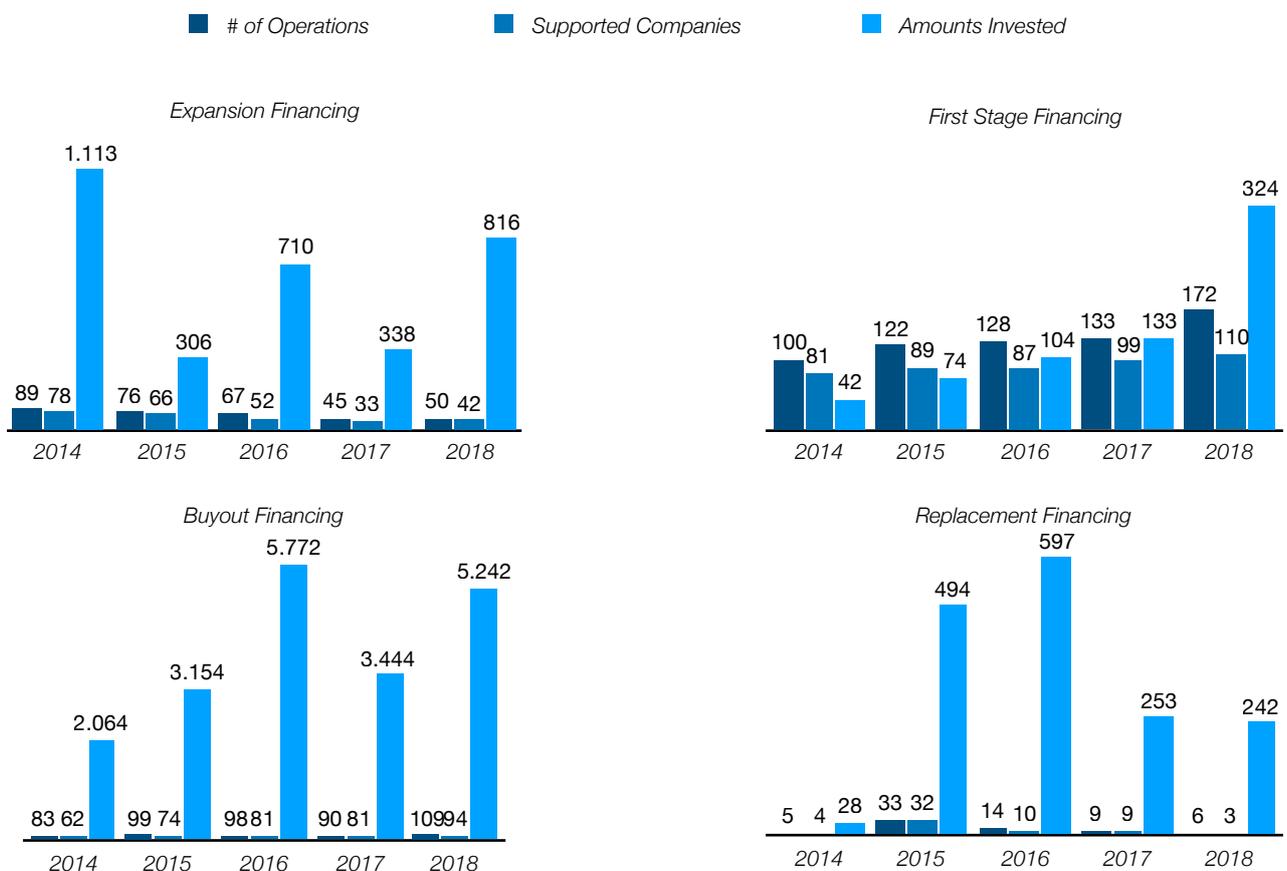
Also the expansion financing recorded good performances in 2018 with € 816M invested (+142%) spread over 50 operations (+11%) even though it will take some years to fully recover and stabilise at 2014 figures.

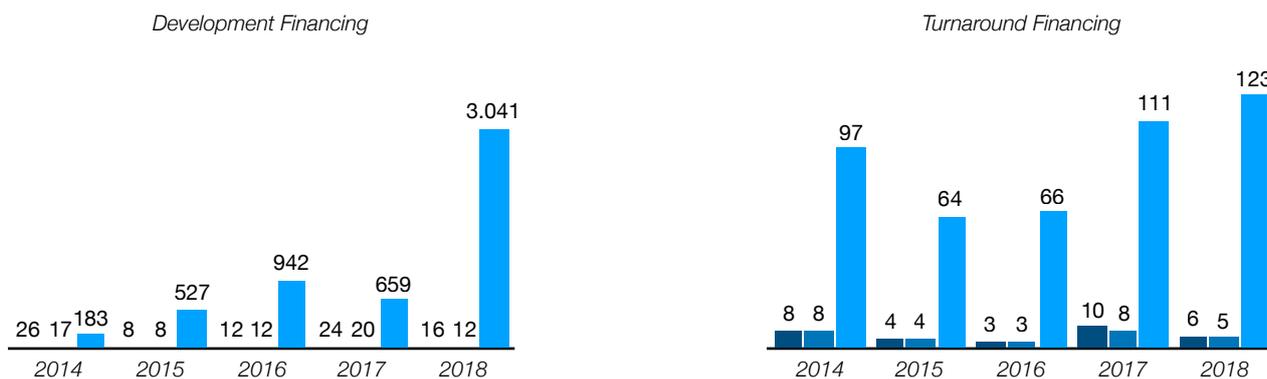
Turnaround has been a niche sector with only six investments in five companies and it preserved its stability over the years.

Replacement financing is also a very small industry with € 242M invested in only three businesses (last year they were nine).

When it comes to development financing the amounts needed in the sector start being impressive similarly to Buyouts: 54% of total capital invested in PE market (€ 5.242M) growing of 52% from 2017.

Following there's a fast comparison among the investments historical data for every PE sector in Italy over the last 5 years.



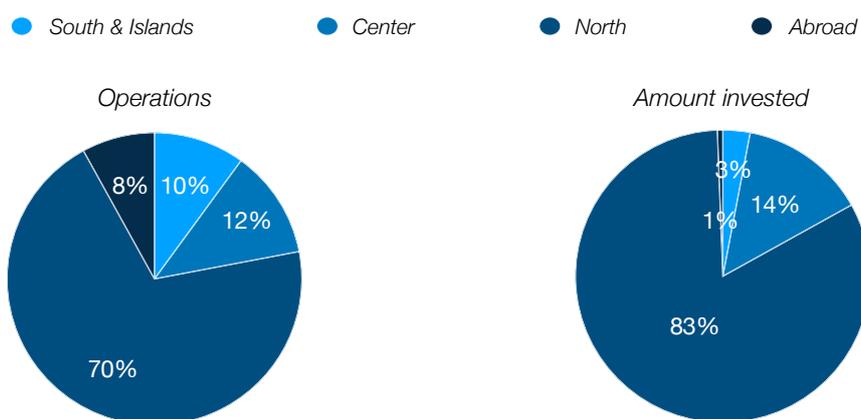


Graph 25: Number of operations, number of supported companies and amounts invested, according to PE business sector (Source: AIFI).

For the purpose of this dissertation, which focuses specifically on two territories, it is important to present a regional analysis in order to understand which regions are able to attract investors and which are not.

The so called “*questione del mezzogiorno*”, emerges clearly from the following two pie charts. This is a widely debated issue, that describes Italy as divided in half, north and south, specifically when it comes to economical statistics, as in this case. The mission of this paper was to stay away from these rhetorical conclusions regarding the Italian situation. However, by looking at the data, we cannot but describe this country as a divided one: the north realising performance comparable to other European countries, and the south, miles apart from the rest of Italy.

The PE investments distribution is well defined and impossible to misunderstand. The north is absorbing 70% of business operations and 83% of amounts invested leaving just the crumbs to the other territories. What is even more impressive is that the north is still increasing its presence in the PE market; because both operations (+20%) and amounts (+83%) have grown since 2017.<sup>149</sup>



Graph 26: Number of operations and amounts invested according to the Italian macro-regions (Source: AIFI).

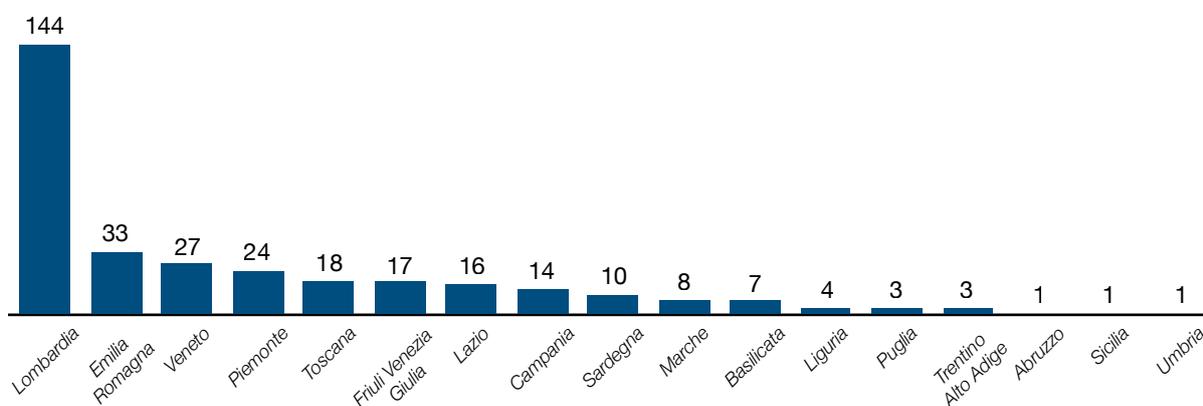
<sup>149</sup> AIFI, Report 2018.

Looking at the single region, the following table shows a summary of the top three regions in terms of operations and amounts attracted. The more attractive territories are able to absorb 62% of transactions and 77% of funds invested.

In terms of Operations		In terms of Amount	
Lombardia	44%	Lombardia	45%
Emilia Romagna	10%	Piemonte	19%
Veneto	8%	Lazio	13%

Table 4: Top three Italian regions for number of operations and amounts invested (Source: AIFI).

There are three regions where there has not been a single PE or VC operation and they are: Calabria, Molise and Valle d'Aosta. These regions are missing in the following chart:



Graph 27: Regional distribution of realised investments in 2018 (Source: AIFI).

The following table shows a progressive count of total investments in each region since the year 2000.

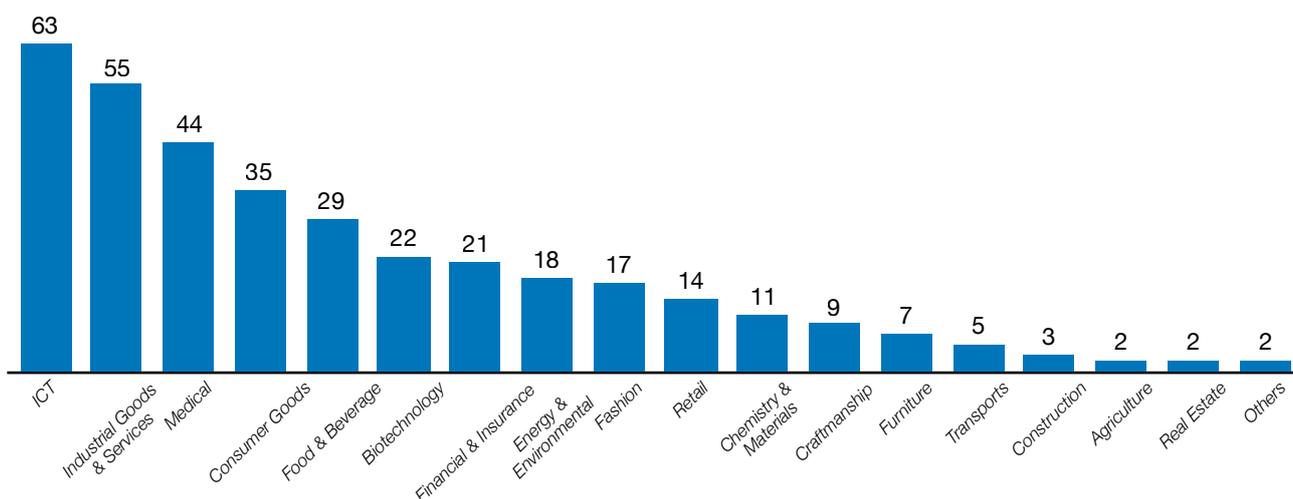
Lombardia	656	Trentino Alto Adige	17
Emilia Romagna	256	Umbria	16
Veneto	198	Puglia	16
Piemonte	161	Abruzzo	14
Toscana	93	Sicilia	11
Lazio	85	Sardegna	5
Friuli Venezia Giulia	64	Calabria	3
Liguria	51	Basilicata	2
Marche	42	Molise	1
Campania	37		

Table 5: Total number of deals by Italian region from 2000 till 2018 (Source: PEM).

Furthermore, an industrial analysis shows the most attractive sectors according to the PEs. Crossing the data with the previous information a sort of firm's prototype can be identified where PEs invest the most.

The sectors that received more investments than any others are:

1. ICT<sup>150</sup>: communications, computers and electronics (18%)
2. Industrial goods and services (15%)
3. Medical sector (healthcare) (12%)



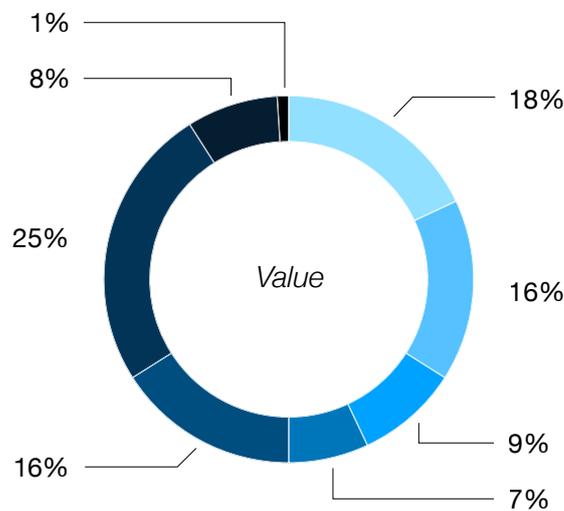
Graph 28: Investments sectorial distribution in 2018 (Source: AIFI).

Italy's two most consistent sectors, ICT and Industrial Goods, continue to provide PE firms with the majority of deals. However in terms of value the chart is slightly different:

<sup>150</sup> See List of Abbreviations.

1. Financial Services: (25%) even though the data is biased due to a few large operations made in 2018 unlikely to repeat itself in the near future;
2. Industrial Goods and services (18%);
3. Medical sector (healthcare) (16%).

Industrial and Consumer Goods sectors made up more than one third of all deals between 2016 and 2017, a big shift from 2014, where technology was by far the most dominant sector. The Financial sector came back on top in 2018, until the Medical (Health Care) became, unexpectedly, very popular.



Graph 29: Sectorial distribution of Investments value in 2017 (Source: Uniquote).

The graph illustrates how the financial sector is the largest in terms of deal value accounting for 25% of the total in 2017 which can be explained by the investors' (mainly foreign) mass acquisition of non-performing-loans at a great discount and entering the Italian banking sector through the fast lane.

People tend to believe that high tech companies are operating only in the ICT industry even though there are many innovative corporations in other sectors. In fact, high tech does not mean IT, despite the name similarity. High tech is an adjective identifying a company applying the latest technology to its sector.

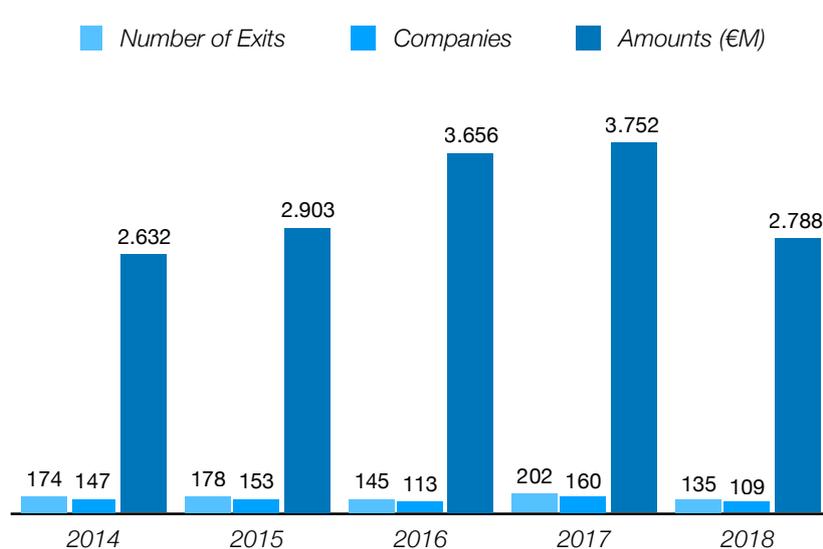
In Italy, 131 (36%) high tech companies have been supported by PEs, and many of them are operating in the medical sector (37 operations), ICT (35 operations) or working with biotechnology (20 operations) representing, all together, 70% of investments in high tech businesses.<sup>151</sup>

The vast majority of these operations represents investments in companies that were just starting out, thus, under the venture capital cluster.

Very often, these innovative companies are SMEs, struggling with the commercial validity of their projects. These are companies with less than 250 employees (80% of total are small firms, in line with 2017) but able to attract a considerable amount of money. In particular € 2.342M (24% of total) have been spent to support their ideas.

The rest of the market accounts for only 20% in terms of number of operations but absorbs 76% of total resources € 7.446M.

In order to conclude the first paragraph on Italian PE analysis, here follows some data regarding the final step of a PE investment process: the cash-out. This is a very cyclical phase influenced by the average holding period for every investment. This stage involves every single PE that usually wait anxiously for this moment when the value is measured.



Given that this data is cyclical it follows the trend every 5 to 7 years, which is exactly the average PE holding period for an investment.

This cyclicity can be observed in the graph, where the amount the PEs cash-in once the investment has reached maturity increases and decreases every so often with a certain periodicity.

Graph 30: Number of exits, companies cashed out and amounts earned, historical data (Source: AIFI).

When dealing with exit strategies we rarely mean an IPO. The company's quotation on the stock exchange has been performed only a few times and, particularly for the Italian market, it often implies many fix costs, certainly not well appreciated by SMEs.<sup>152</sup> This is why many other exit strategies are preferred.

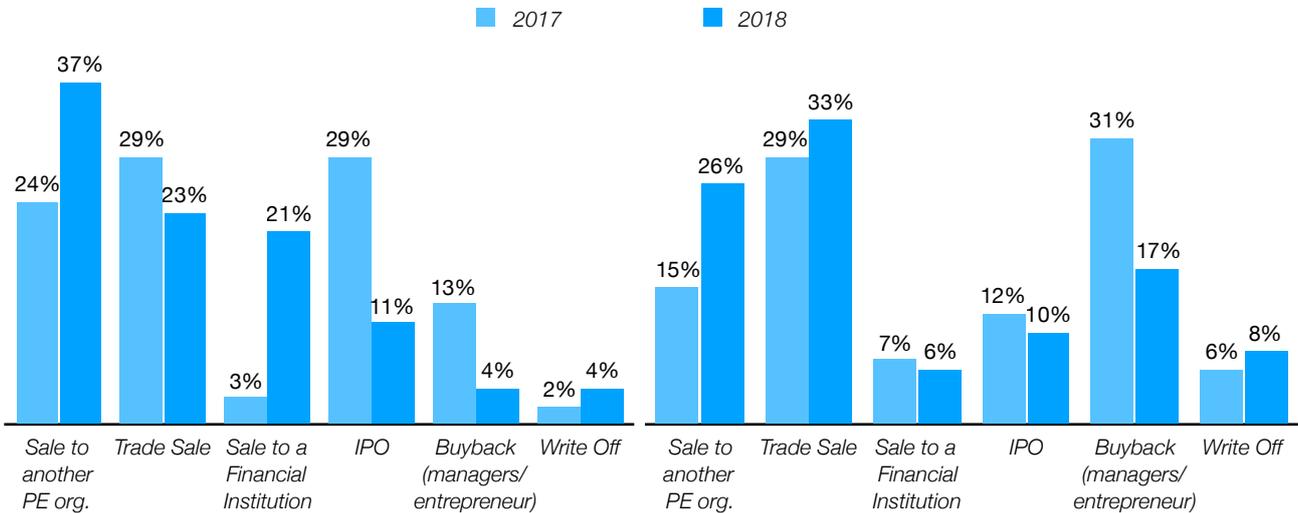
For example, a sale to another PE organisation, a sale to a competitor or an industrial company that decides to enter a different market (also known as trade sale). There can also be a management acquisition or the entrepreneur himself may change his mind and buy back the majority stake inside the company by cashing out the PE and exercising the call options that are

<sup>151</sup> AIFI, Report 2018.

<sup>152</sup> Alessandra Puato. Costi e governance il primo ostacolo alla quotazione in Borsa delle Pmi, Corriere dell aSera, Economia, 2017, [https://www.corriere.it/economia/17\\_ottobre\\_30/costi-governance-primo-ostacolo-quotazione-borsa-pmi-5cec5270-bd66-11e7-b457-66c72633d66c.shtml?refresh\\_ce-cp](https://www.corriere.it/economia/17_ottobre_30/costi-governance-primo-ostacolo-quotazione-borsa-pmi-5cec5270-bd66-11e7-b457-66c72633d66c.shtml?refresh_ce-cp).

often provided. An extreme situation is where the PE simply writes off his shares. This happens quite rarely for several reasons. First, because a PE, before deciding to take on an investment, carefully analyses the company. Secondly because, even if the company goes through a series of negative events, the PE will try everything in his power to “heal the wounds” and generate value.

The following table represents the options most frequently selected by PEs that invested in Italy.

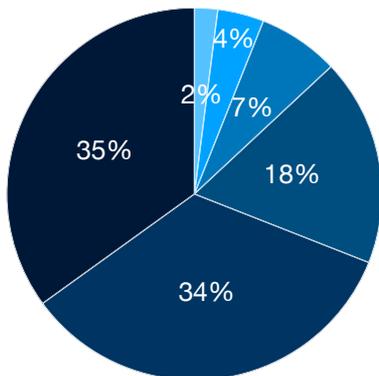


Graph 31: Exits amount (left) and number (right) evolution in 2017 - 2018 comparison (Source: AIFI).

As mentioned before, IPO and write offs are exceptional situations, such as a sale to a financial institution, whether a bank or another fund.

The most common exit option for a PE fund is the sale to another firm in the industry. This is a sign that the company has been fully restored and it has the allure to attract other firms’ interests. Another very common exit strategy is the sale to another PE because this second fund may find some unfinished work and profit opportunity by improving and developing the business even further.

- Turnaround
- Replacement
- Buyout
- Development
- Early Stage
- Expansion



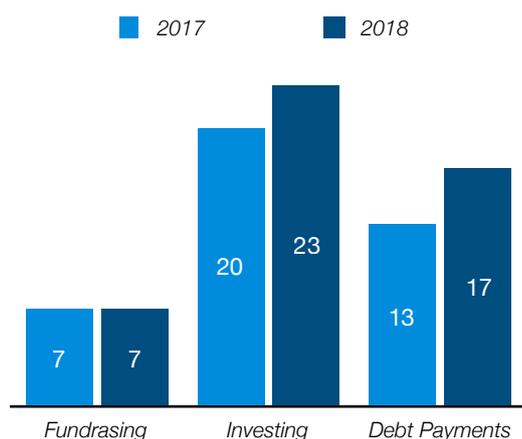
Graph 32: Exit number distribution according to PE business sector (Source: AIFI).

The following pie chart shows the exit figures distributed according to the PE business area. It comes as no surprise that most exits regard Buyouts and Early Stage sectors. Given that they are the most active in terms of investments, the exit strategy data follows as a consequence.

PE organisations, very often invest together with some debt lenders, in order to re-establish a safe balance of Debt and Equity inside the firm. This concept is particularly stressed for Buyout investors where the debt side may sometimes represent 70% of total capital. Nonetheless, also for first stage financing we see PEs investing along with private debt companies, this is why it is important to briefly analyse how the private debt market is going.

For other countries there is a clear distinction between Private Debt and Private Equity investments but with regard to Italy, there are many organisations, managing funds for Private Debt and Equity investments together.

As far as the investment activity is concerned, the data provided refers to corporate bonds subscriptions or any other debt security such as convertible bonds, fundings, project bonds and commercial papers.



Graph 33: Active operators in Italy according to the different activities (Source: AIFI).

During 2018 we counted 7 operators performing fundraising activity, 23 operators realised at least one investment while 17 operators have been paid back, at least partially, by the end of 2018.

The private debt activity started in 2013 and since then over € 2B have been collected on the market. Last year “only” € 297M was raised, which saw an 8% fall compared to the previous year (€ 322M). This is due to the fact that these businesses are closing their first fundraising capital call (since 5 years have passed) so the funds collected are slowing ending the process. These operators are therefore more prone to investing activities in this specific period.

Given the low market interest rates that characterised 2019, banking firms are looking for new strategies to make profits, because relying on interest rate spread is today completely profitless. This is why some of these institutions decided to entrust part of their capital to private debt operators which are able to guarantee an interesting rate of return.

Private Debt is an industry that continues to grow in 2018. More than € 1B has been invested in 142 operations which represents a 65% growth in terms of amounts and 16% in terms of deals counts.

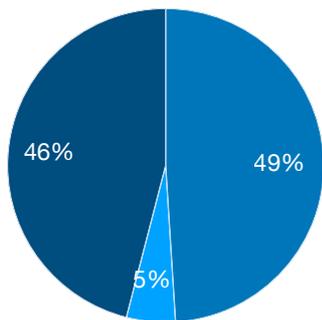
With reference to securities, 49% of cases are bonds, with a very long average maturity, more than 5 years.

In 71% of the cases the repayment is amortised over the years which is highly preferable to the bullet repayment (29% of the cases).

This phenomenon was confirmed also by Marco Cavasin, Investment Manager at Veneto Sviluppo S.p.A.<sup>153</sup> He states that: “our private debt fund, Veneto Minibond, lasts 10 years, but its organisation is completely different from a PE fund. The exit period for us is much shorter because it is realised through strict amortisation plans. Therefore, we can invest until the 9th year

<sup>153</sup> Veneto Sviluppo is the financial company owned by veneto region supporting companies from more than 40 years. Through its SICAV called FVS it realties PE operations, and on the other side it invests in Private Debt through a fund opened together with the Venetian association of Cooperative Credit Banks (Banche del Credito Cooperativo, BCC). This fund is specialised in mini-bond.

● Bonds ● Hybrid ● Loans



Graph 34: Debt instruments utilised distribution (Source: AIFI).

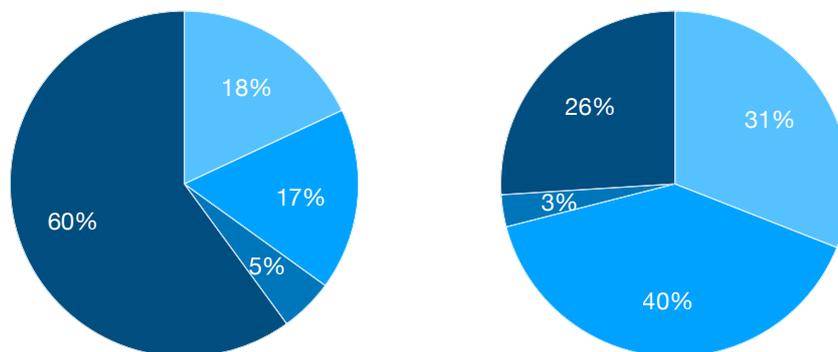
and leave one single year to perform the repayment of issued bonds”.<sup>154</sup>

If the private debt investments is analysed from a geographical point the data reflects the private equity distribution. The north absorbed 72% of operations and 86% of amounts invested. The center 19% of operations and 11% of amounts invested, leaving only 3% to the south and islands, spread over 9% of operations.

A final note explaining the reasons behind this Private Debt financing is needed. 60% of companies asking for this kind of funding have to accomplish internal growth strategies, they have a defined business plan to achieve. Consequently, the

funds are allocated in this direction. On the contrary, 18% of the companies that receive Private Debt used the funds to grow externally while only 17% to perform an LBO transaction which is also the kind of operation that needs on average the highest amount (40% of the total).

● External Growth ● LBO ● Debt Restructuring ● Internal Growth



Graph 35: Number of investments (left) and amounts (right) according to firm's goals (Source: AIFI).

To conclude, the Italian PE market is growing, large operators are also deciding to target SMEs diving into the Italian economic framework made of small and innovative businesses. As Alessandro Zanet said: “during pre-crisis most of the PEs didn’t trust small firms in Italy, yet today pan-European funds are bidding on them, investing heavier than ever”.<sup>155</sup>

<sup>154</sup> Marco Cavasin, Investment manager at Veneto Sviluppo S.p.A., Personal Interview, 19/07/2019.

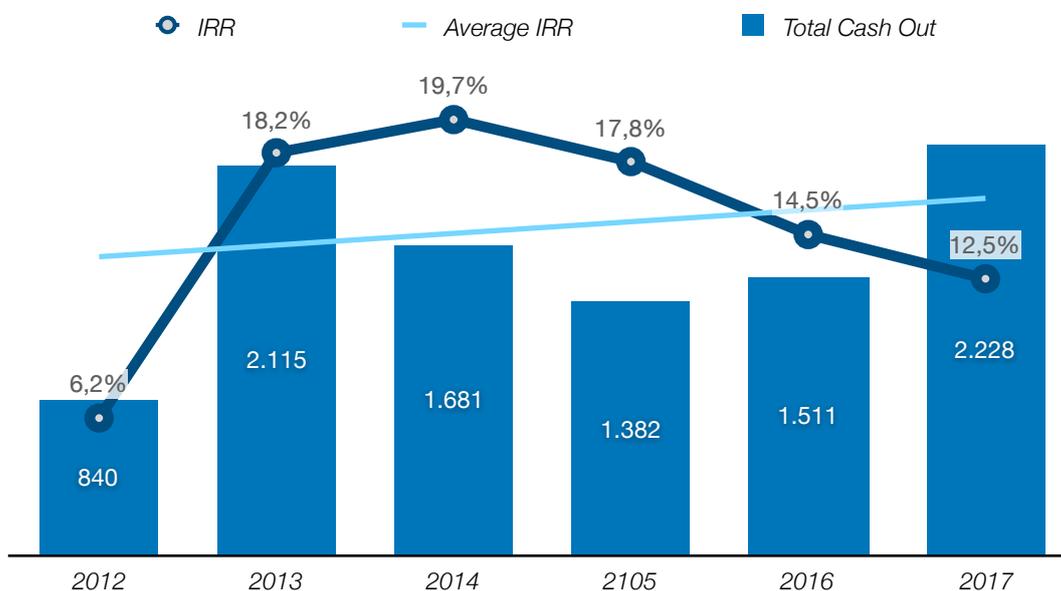
<sup>155</sup> Alessandro Zanet, Investment Manager at Alcedo, Personal Interview, 29/07/2019.

### 3.2 VALUE CREATION ANALYSIS

An incredible changing factor and development impulse for Italian companies and the industrial ecosystem in general; this is what PEs represent. These organisations acquire a firm’s majority or minority stake and, establishing a well defined business plan, they create value for all involved stakeholders, themselves included.

In this paragraph the value creation process is proven true and some insights into the PEs’ ability are provided. The data displayed are based on companies that have been supported by these organisations, therefore information regarding 2018 is not yet available due to the Financial Statements’ publishing periods.

Investing in non-listed firms is still today very profitable. The internal rate of return (IRR) for 2017 was 12.5%<sup>156</sup> which indicates a great success and PE’s ability to perform at top level considering the fact that during 2017 there were not a great number of “mega deals” or IPOs that usually increase IRR.



Graph 36: PE market performances in terms of Cash Out and IRR (Source: KPMG, AIFI).

The market performances in 2017 are generally considered positive and characterised by several good medium dimension operations. The graph above shows how the average IRR has increased since 2012 while the yearly performances have been fluctuating.

Write-Offs and negative rates of return operations slightly decrease in 2017 compared to the previous year. Nevertheless, there is an increase in operations with low IRR (< 10%)<sup>157</sup> signalling a stagnant economy. The PE industry is rapidly changing, after the early periods where the financial leverage was misused pushing buyouts and IPO operations to a limit, nowadays the approach is more industrial and less financial.

The profits that a PE is able to generate are influenced by three main factors:

<sup>156</sup> Maximilian P. Fiani, et al. *Sustainable Returns, Italian Private Equity and Venture Capital Market: 2017 performance*, KPMG Corporate Finance, AIFI, 2018.

<sup>157</sup> Ibidem.

- Increased firm's value;
- Multiples improvement during the investment period;
- Financial Leverage.

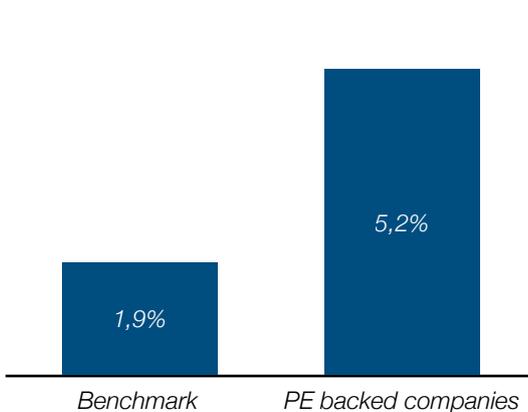
PEs measure their ability to generate value through parameters based on these factors. Today the most important one is the firm's value while in the past financial leverage and economical multiples were particularly emphasised. Regardless of the industry and the investment vehicle, the final goal is always a capital gain.

The challenge for a PE is to be profitable and at the same time generate positive synergies for the whole ecosystem in which it is operating.<sup>158</sup>

The three moments in which a PE is supposed to generate value are:

- Before the investment: selecting the right investment through several technical-economical tools that make possible the estimation of future returns;
- During the first investment phase: a strict selection of the management team components according to meritocratic standards. Control systems on the management and initial amount invested are hot topics;
- After the investment: when choosing the exit strategy the PE has to decide among different options which lead to different outcomes for the firm and the PE itself.<sup>159</sup>

Before moving into a more complex analysis, as a first PE activity effectiveness indicator the graph below shows the supported companies revenue growth compared to those firms who are not backed by these institutions.



Graph 37: Revenues growth of PE supported firms from 2007 till 2017 (Source: PwC, AIFI).

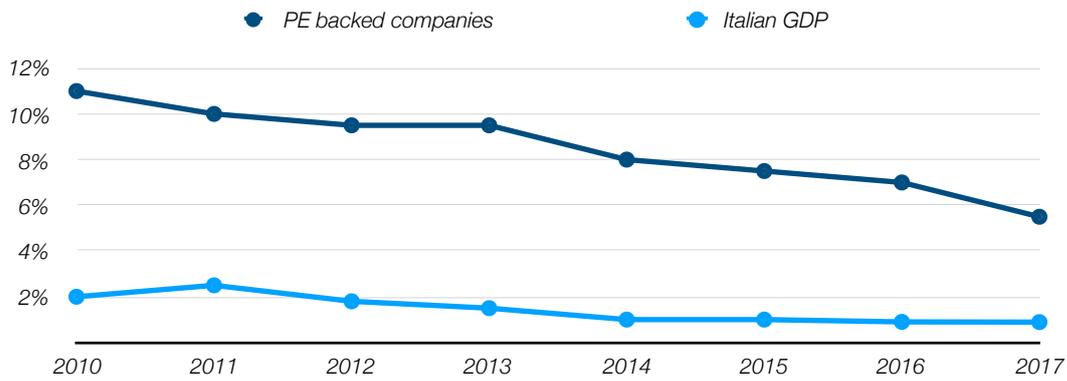
It is clear how the PE backed firm revenues grow almost 3 times more than for those firms who do not receive this specific assistance.

Being able to sell more cannot be considered the unique parameter to check whether PEs are effectively generating value but it is surely a first signal that their support is creating some positive synergies. PE backed companies are able to sell more and better than the benchmark composed by Italian comparable companies by size and industry, with a difference of +3.3%.

In order to prove if PEs are actually effective, let's compare the compound annual revenue growth rate (CAGR) over the last years for Private Equity and Venture Capital backed companies with the Italian GDP growth rate.

<sup>158</sup> Fabio L. Sattin. *Private equity, le opportunità per un vero decollo in Italia*, Il Sole 24 Ore, 2018, <https://www.ilssole24ore.com/art/private-equity-opportunita-un-vero-decollo-italia-AEaL6EAF>.

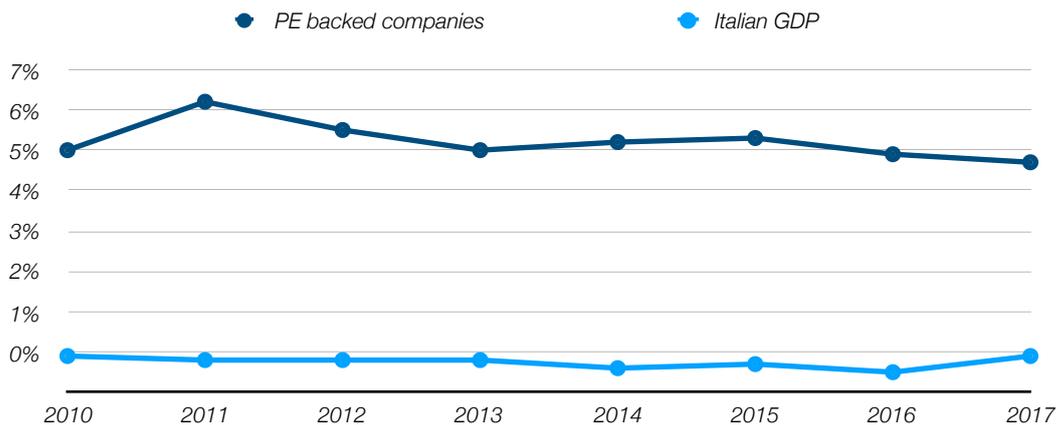
<sup>159</sup> Francesco Bogliari. *Private Equity e Corporate Governance delle Imprese*, AIFI, Commissione Corporate Governance, Freshfields Bruckhaus Deringer, 2005.



Graph 38: CAGR comparison between Italian GDP and PE backed companies (Source: ISTAT, PwC, AIFI).

The last available data refers to 2017 where the PE backed companies were growing by 5.2% and the Italian GDP was nearly zero (0,7%).<sup>160</sup>

A great indicator of PE contribution to the so called “real economy” is represented by the employment growth rate. PE backed businesses show a positive trend (+4.7%), outperforming by far the Italian employment rate over the same period (-0.1%).



Graph 39: Employment rate evolution in Italy vs employment rate evolution among PE Backed firms (Source: PwC, AIFI).

This trend is confirmed by the comparison with the benchmark of similar companies that are not supported by PE organisations. In fact, the benchmark that has been composed for the study is in line with the Italian gross domestic product going through a stagnation period since the financial crisis of 2008. Private Equity backed companies confirm a growth in the employment at managerial level by 10% (2012-2017). In 2017 the benchmark increased the workforce by just 3%.<sup>161</sup>

For a company who has been supported by a PE organisation the productivity analysis in relation to the human capital measured can also be observed as:

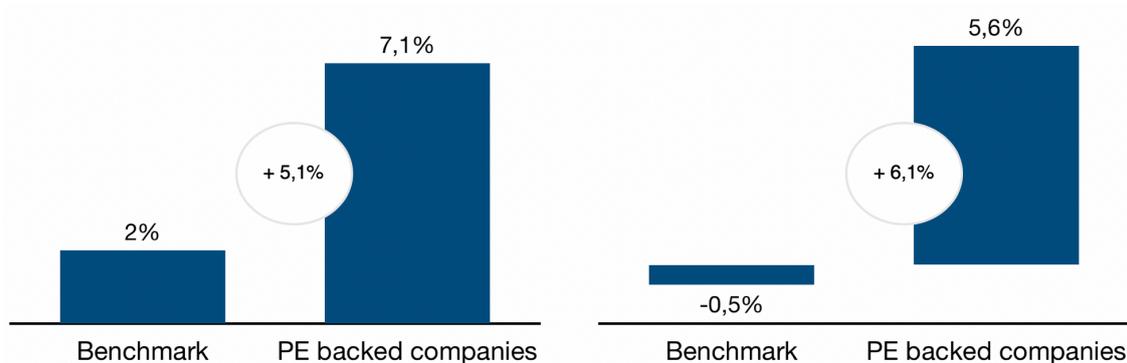
<sup>160</sup> PwC Report, 2018.

<sup>161</sup> Ibidem.

$$\frac{EBITDA}{Employees\ Number}$$

This index does not show a significant deviation between the PE backed firms and the benchmark (both around 4% CAGR). However, if we take into consideration that the workforce grew considerably for PE backed companies, the net index is by far greater for those businesses financed by the PE.

Diving into a more financial analysis of companies growth, the figures show how PE backed companies grew at a higher CAGR compared to the benchmark. Specifically for the first stage financing, the figures are even more impressive than the market average. PE supported firms present a higher revenue growth (+5.1%) and EBITDA (+6.1%) level.



Graph 40: Revenues (left) and EBITDA (right) yearly growth 2007-2017 for first stage financing (Source: PwC, AIFI).

The average EBITDA ratio has risen during the last years for PE backed companies decreasing from 5.8 to 3.6. This ratio is calculated at the exit moment, hence, when the PE leaves the investment. The formula is the following:

$$\frac{Net\ Financial\ Debt}{EBITDA}$$

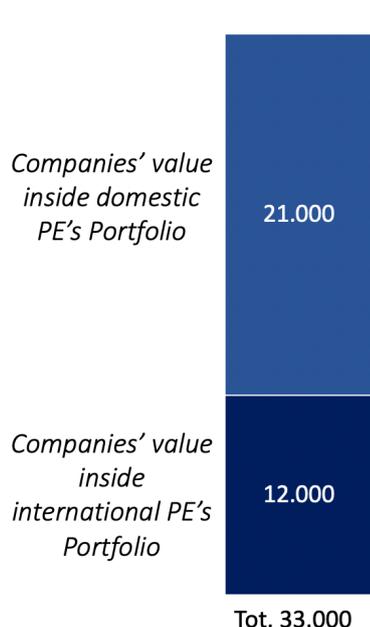
A shrinkage in the ratio implies an EBITDA increase, a Financial Debt decrease, or both. In other words, the company has a more solid financial position and is ready to face an eventual moment of distress.

Another very interesting statistic concerns the Capital Expenditures (CapEx) differences between the PE backed firms and the benchmark. These companies supported by a PE invest show on average 15% more than those without this specific support. This analysis is extremely meaningful because a company investing is a sign of a good financial condition with a specific business plan to pursue.

There is also another way to measure value, which is through a business value analysis. During 2018 the median EV/EBITDA multiple was around 10.1x, notably increasing from 2017 (9.2x).

This incredible performance is partly explained by the following reasons. First of all, there is increased competition among market players, due to an incisive presence of foreign investors characterised by larger financial resources; furthermore, a large number of investments were realised involving relevant firms for the Italian industry (such as Adler, Alpitour, Caffè Borbone, Azimut, Recordati, Nuovo Trasporto Viaggiatori, Megadyne, Kiko, Magneti Marelli and many others). These companies are characterised by prestigious brands and a leadership position in the market they are operating on.

The median multiple for sales is equal to 1.6x, showing a meaningful increase in comparison to the last year (1.4x).



At the end of 2018, the companies' value held inside a PE's portfolio was € 33B and the biggest majority was carried by Italian organisations, as the following graph depicts.

The median Enterprise Value of target firms has slightly increased, from € 90.1M in 2017 to € 95.5M in 2018. This evidence is only partially due to the target companies dimensional increase, with reference to revenue levels and number of employees (142, respect to 134 in 2017).<sup>162</sup>

Graph 41: Companies' value (€M) held inside PE's portfolios at year-end 2018 (Source: AIF).

International and Italian PEs are also focused on very different kinds of deals. While Italian funds invest in small operations, international firms prefer to commit more capital in a few organisations in order to boost performances. The following table analyses the investment volumes and the aggregated gross IRR for national and international PE funds.

<sup>162</sup> PEM Report, 2018.

	Transactions Number			Gross IRR		
	2016		2017	2016		2017
National PE firms (S.g.r.)	49	71%	84	7,0%	50%	10,5%
Pan-European PE firms	10	-30%	7	19,1%	-30%	13,3%

Table 6: IRR performances and transaction number according to operator's origin (Source: KPMG, AIFI).

This analysis does not take into consideration the investments realised by international PEs without a stable presence on the Italian territory. These transactions are not representative enough to create a cluster by themselves, yet, may slightly shift the pan-europeans PEs statistic.

The data reported above presents a clear message: domestic organisations are slowly taking over the PE market while international firms are cutting down their presence.

Total cash-out, which is the money realised by PE organisations when they exit the investments, accounted for € 2.228M in 2017, marking a significant increase compared to € 1.511M of 2017.<sup>163</sup> Cash-ins and cash-outs are back to 2013 levels, where a record was reached in terms Gross Pooled IRR because of large deals.

Before analysing the PEs' value creation process mainly referring to the Internal Rate of Return (IRR) it is important to briefly describe what it represents.

The internal rate of return (IRR) is a metric used in capital budgeting to estimate the potential investments' profitability. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero.

It is important for a PE organisation to look at the IRR as they plan for future growth and expansion. The formula and calculation used to determine this important index is the following:

$$IRR = NPV = \sum_{t=1}^T \frac{C_t}{(1+r)^t} - C_0 = 0$$

Where:

$C_t$  = Net cash inflow during the period t

$C_0$  = Total initial investment cost (cash outflow for the investing period)

r = Discount rate (IRR)

t = Number of time periods

Generally speaking, the higher a project's internal rate of return, the more it is desirable to undertake. IRR is uniform for investments of varying types and, as such, it can be used to rank multiple prospective projects on a relatively even basis. Assuming the costs of investment are

<sup>163</sup> KPMG, AIFI, Report 2018.

equal among the various projects, the project with the highest IRR would probably be considered the best and be undertaken first.

IRR is sometimes referred to as "economic rate of return" or "discounted cash flow rate of return", but, the use of "internal", better explains the omission of external factors, such as the cost of capital or inflation, from the calculation.

Now that we have established a common meaning for IRR we can analyse, in the following table, the data breakdown according to the realised IRR class for the PE organisations in Italy.

IRR Class	Number of Deals		
	2015	2016	2017
Negative (< 0%)	14	8	11
Write-Off	24	11	8
Low (0% - 20%)	29	28	47
Medium (20% - 40%)	18	12	16
High (40% - 100%)	7	4	9
Outstanding (100% - 500%)	2	1	0
	92	63	91

Table 7: Number of transactions according to IRR class (Source: KPMG, AIFI).

As mentioned before, low IRR deals have greatly increased since 2016 which per se, cannot be interpreted as a positive or negative data. In fact, more deals imply higher workload for PEs but on the other hand a low IRR may indicate a lack of efficiency from these operators.

Outstanding deals steeply declined compared to previous years and this may have influenced the aggregate profitability statistic given the large influence they have.

Write-Offs similarly, have been decreasing since 2013, and the trend was confirmed in 2017.

The so called Gross Pooled IRR "from inception" was used for this analysis. It is also defined as, according to international standards, IRR on Realised Investments. It shows the performance of realised disinvestments during the year, regardless of when the initial contribution was made.<sup>164</sup>

The following table shows a similar database but organised according to the PE's category.

<sup>164</sup> Simon Tang. How to measure private equity returns, Cepres, 2018, <https://www.cepres.com/private-equity-returns-measure>.

	Early Stage		Development		Replacement		LBO	
	2016	2017	2016	2017	2016	2017	2016	2017
Number of deals	21	14	22	42	2	3	19	32
Gross IRR	4,1%	2,1%	14,3%	6,3%	19,9%	8,6%	14,2%	13,4%

Table 8: Number of deals and IRR per PE business sector (Source: KPMG, AIFI).

In terms of profitability, LBO operations numerically increased even if IRR dropped. In fact, the IRR decreases in all industries while the number of deals took the opposite direction, except for early stage financing.

The cash multiple, which compares the amount of money a PE is able to get as a result from its work and the funds invested originally, was consistently stable with figures in 2016 (i.e. 1,3x in 2017 for 5YR, vs 1,3x for 5YR 2016 and 1,4x for 10YR 2017 vs 1,3x for 10YR 2016).

The realised investments according to the maturity period can now be considered. Through this analysis firms where PEs have already disinvested are not considered. In fact, our attention turns towards those corporates still inside PE portfolios. In this case, the firm's evaluation has been provided directly by PE firms and they are subject to the moving average (rolling average) effect, so the latest profits used to calculate the firm's value have the same weight as the oldest.

	3YR		5YR		10YR	
	2016	2017	2016	2017	2016	2017
Gross IRR	2,6%	7,0%	15%	18%	8,6%	12,5%
Upper quartile for performance	11,2%	37,6%	28%	34,8%	26,9%	29,1%
Upper quartile for amounts invested	1%	4,8%	16,7%	18,2%	9%	13,1%

Table 9: IRR performance 'By Horizon' for companies in PE's portfolios (Source: KPMG, AIFI).

The statistics regarding the 2016 and 2017 performances present different trends. Focusing on the 10YR horizon, which is the most relevant from a statistical point of view, a sharp increase in gross IRR (12,5% in 2017 vs 8,6% in 2016) is observed. Generally speaking, there is an increment for all time horizon compared to 2016.

For this analysis a different IRR typology was used - the so called Gross Pooled IRR "by horizon", also defined, according to international standards, as IRR on All Investments. It shows the performances of investments made during the analysed periods (3, 5 and 10 years), regardless of whether they were disinvested or still in a PE portfolio.

It is also interesting to observe the most valuable industries, in other words, in which sector PEs obtain higher profits. Every industry is different and the chances of obtaining extraordinary results are singular for each one of them.

This study will be somewhat close to the sectorial value analysis realised in the previous paragraph. In that situation Financial Services was the industry attracting most of the capital. Obviously, being a sector capital intensive does not mean that it is also profitable. However, even if these aspects are different, they are often linked.

Sector	Deals Number	Gross IRR
Food & Beverage	8	6,1%
Industrial Products	24	10,8%
Chemical/Utilities	13	13,1%
ICT	9	13,8%
Consumer Goods	9	9,5%
Financial Services	3	50,1%
Medical	2	0,2%
Transport/Infrastructure	1	0,0%
Others	22	12,5%

*Table 10: IRR 'From Inception' per industry in 2017 (Source: KPMG, AIFI).*

A very interesting final statistic concerns the IRR “from inception” according to the shares owned by the PE fund. This is particularly interesting because it is a clear representation of the effort required from PEs if they want to be successful.

Rarely do PEs acquire less than 10% ownership of a firm, and when they do, it is usually for simple speculative reasons without performing the whole process they are known for. Therefore, we will not take that case into consideration. These investments fall into the category of the so called strategic holdings. As Marco Cavasin confirmed, some PEs, besides creating funds to realise equity investments, hold specific and strategic shareholdings inside firms which have a socio-economical impact on the country. They are for example infrastructural investments, airports, harbours, utilities but also corporates relevant to the territory.<sup>165</sup>

<sup>165</sup> Marco Cavasin, 2019.

Stake Owned	Transactions Number	Yearly Pooled IRR
< 5%	7	4,7%
5% - 10%	6	2,6%
10% - 25%	27	11,4%
25% - 50%	24	15%
> 50%	24	13,1%

Table 11: IRR 'From Inception' distribution per stake held in 2017 (Source: KPMG, AIFI).

The number of transactions, excluding ownerships below 10%, is basically the same which explains why PEs do not have a specific preference in terms of amount invested, but rather, they decide their involvement based on the firms' specificities, case by case.

In terms of IRR, the highest performance is obtained by investments in the range of ¼ and ½ company shares. In second place there are majority (>50%) investments and smaller ones (below 25%) in third place.

The takeaway from this table is that the more committed a PE is the more the owned firm will increase its chances of realising future projects and transform its story into a success. There are many shapes of commitment, but, when the PE engages with large amounts of money, the attention paid is maximum.

### 3.3 A GENERAL OVERVIEW OF THE VENETO REGION

Situated in Italy's northeast, Veneto extends from the Dolomites to the Adriatic Sea, by way of an extensive range of hills and a valley furrowed by rivers, canals and the Po River Delta. Veneto is one of Italy's 20 regions, it is the 5<sup>th</sup> by population with about five million inhabitants, and the 8<sup>th</sup> by extension with a total area of 18,398.9 km<sup>2</sup>. It is bordered to the east by Friuli-Venezia Giulia, to the south by Emilia-Romagna, to the west by Lombardy and to the north by Trentino-Alto Adige. In its northernmost corner it also borders with Austria, hence it is a border region, as is shown in the following picture:



Graph 42: Italy political map with specific focus on Veneto.

Veneto, together with Emilia-Romagna, Friuli-Venezia Giulia and Trentino-Alto Adige composes what is known as North-Eastern Italy, or simply the North-East according to the national statistic institution (ISTAT)<sup>166,167</sup> The last regions mentioned, without Emilia-Romagna, compose together the area known as Triveneto or Tre Venezie.

The Republic of Venice has long been the political organisation governing the region ruling for centuries over one of the largest and richest maritime republics and trade empires in the world. Veneto was under the Austrian Empire and was included in the kingdom of Italy in 1866, with Venice becoming the region's capital.

Since 1971 the Statute of Veneto has referred to the region's citizens as "the Venetian people" and the first article defines Veneto as an "autonomous Region", "constituted by the Venetian

<sup>166</sup> See List of Abbreviations.

<sup>167</sup> Classificazione ufficiale Eurostat, Unità territoriale statistica Nord-est.

people and the lands of the provinces of Belluno, Padua, Rovigo, Treviso, Venice, Verona and Vicenza", while maintaining "bonds with Venetians in the world".<sup>168</sup> Article 2 sets forth the principle of the "self-government of the region" and mandates the Venetian people to "promote the territory's historical identity".<sup>169</sup> Despite these claims, yet approved by the Italian Parliament, Veneto is not among the autonomous regions with special statute, unlike its north-eastern and north-western neighbours, Friuli-Venezia Giulia and Trentino-Alto Adige. An autonomy referendum took place in 2017: 57.2% of Venetians turned out, 98.1% voted "yes" to "further forms and special conditions of autonomy",<sup>170</sup> this is why today it is a widely discussed topic in the news, threatening the government stability given the difficulties to reach an agreement.

Having been a land of mass emigration for a long period in history, Veneto is today one of the greatest immigrant-receiving regions in the country,<sup>171</sup> with 487,493 foreigners (9.9% of the regional population; January 2018), including Romanians (25.2%), Moroccans (9.3%), Chinese (7.1%), Moldavians (7.0%) and Albanians (6.9%).<sup>172</sup>

The emigration period however, reached its peak during the above-mentioned Austrian reign where the whole economy suffered as it was mainly based on agriculture. However, since the 1970s Veneto has witnessed an impressive development, thanks to strong export-oriented entrepreneurship in traditional economic sectors and close social cohesion<sup>173</sup> making it the third richest region in terms of total GDP (€ 162.5 billion) in Italy after Lombardia and Lazio.<sup>174</sup>

Though its importance has been decreasing for the past 20–30 years, agriculture continues to play a significant role in the regional economy. The agricultural sector of Veneto is among the most productive in Italy. However, it is still characterised by an intensive use of labour rather than capital, due to the specialisation in market gardening, fruit-growing and vine-growing throughout the plain and the foothills, requiring hard labour. In the south and in the extreme east of the region, grain crops are more common and land holdings are larger than in the rest of the region; mechanisation is also advanced there. Moreover, Veneto is one of Italy's the most important wine-growing areas, producing wines, such as Prosecco, Valpolicella, and Soave. Overall, Veneto produces more bottles of DOC wine than any other area in Italy. The Amarone della Valpolicella, a wine from the hills around Verona, is made with high-selected grapes and is among the more expensive red wines in the world.

Despite the importance of agriculture, in the last years industrialisation has transformed the landscape, especially in the plains, where a high number of plants have been established. The regional industry is particularly made of small and medium-sized businesses, which are active in several sectors and strongly export-orientated.

---

<sup>168</sup> *Consiglio Regionale Veneto – Leggi Regionali*. Consiglioveneto.it. Retrieved 5 September 2018.

<sup>169</sup> Legge 22 maggio 1971, n. 340, Statuto della Regione Veneto, Consiglio Regionale del Veneto, [http://www.consiglioveneto.it/crvportal/upload\\_crv/statuto/statuto\\_precedente.pdf](http://www.consiglioveneto.it/crvportal/upload_crv/statuto/statuto_precedente.pdf).

<sup>170</sup> Sara Monaci. *Il Veneto supera il quorum (57,2%), Sì al 98,1%. Lombardia, affluenza del 38,5%*, Il Sole 24 Ore, 2017, <https://www.ilsole24ore.com/art/il-veneto-supera-quorum-572percento-si-981percento-lombardia-affluenza-385percento-AEKJAItC>.

<sup>171</sup> *Statistical Report 2016*, Interconnections, Sistema Statistico Regionale, 2017.

<sup>172</sup> Statistiche demografiche ISTAT. Archived from the original on 6 August 2017. Retrieved 6 December 2018.

<sup>173</sup> [https://web.archive.org/web/20070805181218/http://www.circa.europa.eu/irc/dsis/regportraits/info/data/en/itd3\\_geo.htm](https://web.archive.org/web/20070805181218/http://www.circa.europa.eu/irc/dsis/regportraits/info/data/en/itd3_geo.htm).

<sup>174</sup> [http://statistica.regione.veneto.it/banche\\_dati\\_economia\\_PIL.jsp](http://statistica.regione.veneto.it/banche_dati_economia_PIL.jsp) 2018.

If we compare the national and the Veneto's GDP it is clear how the industrial sector has the biggest impact on the Italian economy. This is also true because of the less relevant service industry, including Public Administration, healthcare, social services and public education.

Typical of Veneto is the territory partition into industrial districts, which means that each area tends to specialise in a specific sector creating clusters of similar firms known as "distretti". The province of Venice hosts large metallurgical and chemical plants in Marghera and Mestre, but is also specialised in glass handicraft (Murano). The province of Belluno hosts the so-called eyeglass district, being Luxottica the largest world manufacturer a firm domiciliated in Agordo. The fashion industry is extremely strong all over the region: Benetton, Sisley, Geox, Diesel, Replay are all Venetian brands widely known all over world.

In 2018, there were 432.970 firms in Veneto, 126.741 of them were craft businesses and 858 were innovative startups.<sup>175</sup>

The financial sector is also well structured such as the tourism. In fact, although being a heavily industrialised region, tourism is one of its main economic resources; one-fifth of Italy's foreign tourism gravitates towards Veneto (Venice being the absolute leader), which is the first region in Italy in terms of tourist presence, attracting over 60 million visitors every year, second after Emilia-Romagna in terms of hotel industry structures; the business volume of tourism in Veneto is estimated to be in the vicinity of € 12B.<sup>176</sup>

As for the banking sector, the resounding bankruptcy of Banca Popolare di Vicenza and Veneto Banca, two Venetian banks should be remembered. This impacted by the financial crisis, failed inexorably. It is a story of savings down the drain, broke shareholders, swindled investors, and thousands of employees who lost their jobs. Everything started in 2013 where both banks granted loans to account holders willing to buy the banks' shares but they did not even subtract this amount from the liable equity (regulatory) capital.

Given that they weren't able to find private money to finance their restructuring plans, and that the ECB, Banca d'Italia and European Commission denied a request of precautionary capital, both banks are now under liquidation status.

### 3.4 THE PRIVATE EQUITY INDUSTRY IN THE VENETO REGION

This paragraph will be entirely based on the Veneto region. This sentence alone, is already quite challenging given the few resources available at a regional level in Italy. This is not true for other European countries like France, Germany and UK, where the national private equity and venture capital associations provide a comprehensive study for every country's region supported by a well organised network.

This is why this chapter is extremely empirical and based on interviews to Venetian PE organisations<sup>177</sup> that allowed us to obtain the information needed. As a consequence, the results

---

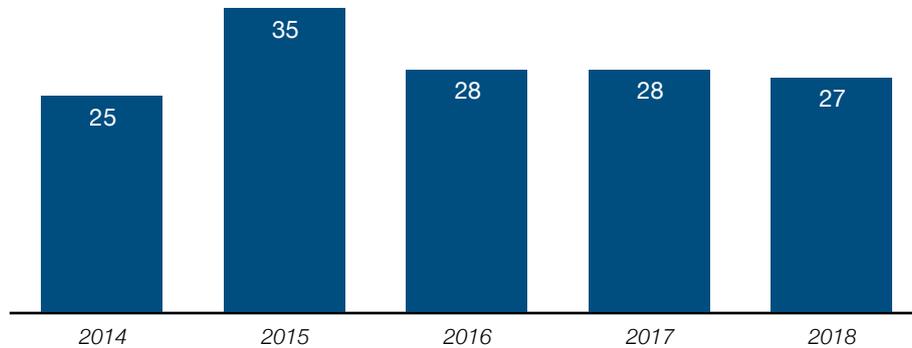
<sup>175</sup> Sistema Statistico Regionale, Regione del Veneto.

<sup>176</sup> Roberto Stoppato Badoer, Giorgio Ploumidis, et. al., *Storia Veneta*, Elzeviro Editrice, Vol. 35, pp. 56, 2015.

<sup>177</sup> Before starting the data analysis, let me thank Dott.ssa Alessia Muzio, Study & Research department director at AIFI who kindly provided me some macro-data about Veneto region and answered some of my questions, allowing me to offer an interesting content in this paragraph.

here explained are completely unique, innovative and pioneering and this analysis is the first of its kind.

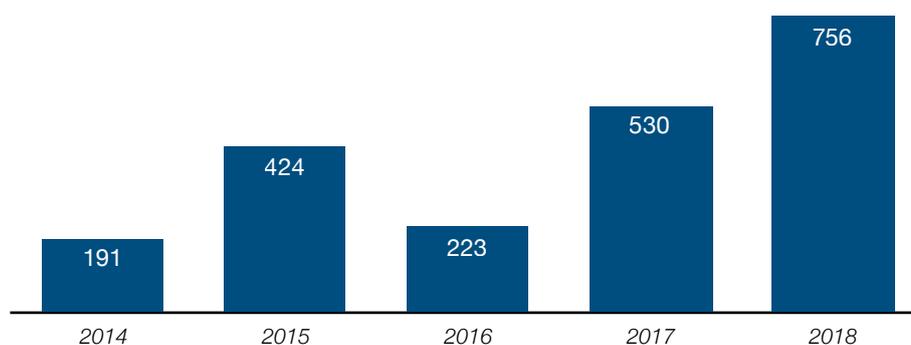
The chart below shows the number of companies that received PE support in the region. This information may roughly illustrate whether the PE industry has been growing or not.



Graph 43: Number of supported firms in Veneto (Source: Ms Muzio data).

Reaching 27 investments is quite a significant result and it makes Veneto, the third most active region after Emilia-Romagna but before Piemonte. To obtain this result, there is a combination of factors that have to take place; on one hand the presence of good, healthy and profitable companies and, on the other hand, structured funds or organisations willing to invest. The entrepreneur should be open to welcoming this fund and work hard with the PE management. Multiplying this process by 27 times is extraordinary and should not be taken for granted, considering that it is still a new market which has to face, all too often, elderly entrepreneurs completely strangers to this kind of business. The entrepreneurs are often those who funded the company and built it from scratch, hence they are extremely attached to the firm. Opening the doors of what you have built, and consider your second home, to some strangers is never easy. This factor represents another obstacle PEs in Veneto have to overcome.

The following graph shows the amounts invested in Veneto, nevertheless this data is quite aleatory. This information is often difficult to obtain from PEs as the firms they invest in are not listed and do not have to apply to any informative rule. The only source of information is the fund itself, without the possibility of double checking the data provided.

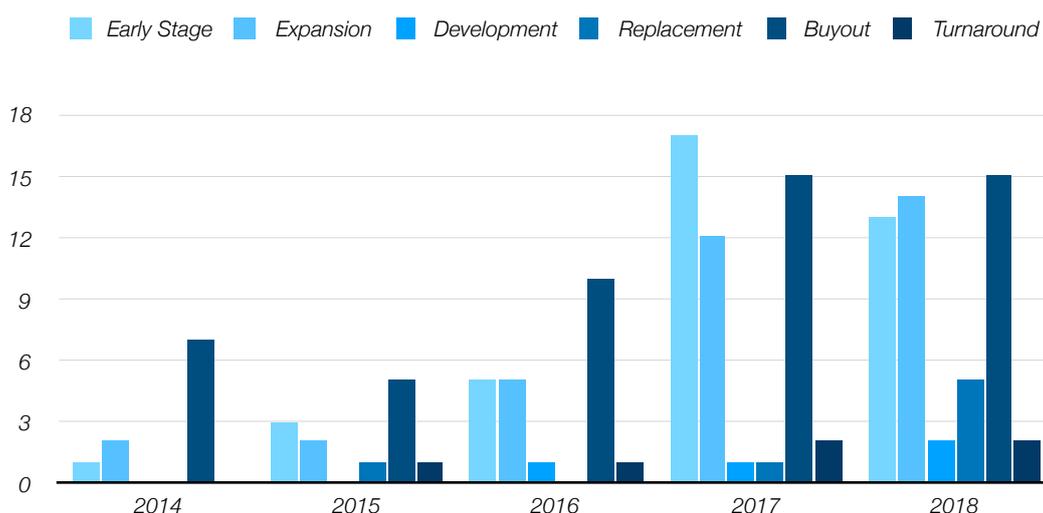


Graph 44: Amounts (€M) invested in Veneto (Source: Ms Muzio data).

The graph indicates out of order results for 2015. In this case the largest part of the data is composed by Lion Capital's acquisition of Pittarosso Service.<sup>178</sup> Lion Capital LLP<sup>179</sup> is an English PE with an office in Milan in charge of its Italian investments. This specific deal involved € 270M for 90% acquisition of the company based in Veneto.<sup>180</sup>

The data has been fluctuating during 2016 and then, in 2017, the amounts literally exploded, confirming the trend in 2018. The amounts invested saw an unprecedented raise when the last 3 months of 2017 recorded 22 acquisitions, mainly expansions which made that year one of the best times for PE firm acquisitions<sup>181</sup> ever. The following year broke a new record with € 756M invested where deals overall got bigger, and the most glaring case involves two different PEs. In fact, 21 Investments, a European PE fund led by Alessandro Benetton, with an office in Treviso (Veneto), sold to another PE fund, Bc Partners,<sup>182</sup> an English organisation, Forno d'Asolo, a frozen pastries and bakeries producer. 21 Investments realised 4 times the initial investment through this operation which has been estimated at € 300M.<sup>183</sup>

The following graph presents a classification according to the investment stage at which the company is operating.



Graph 45: Number of Investments per PE business sector in Veneto (Source: PEM, Ms Muzio data).

Buyout has always been the main investing option adopted by PEs in Veneto. Since 2017 however, the figures have changed. In fact the chart shows a sharp increase in Early Stage and Expansion financing. Similarly to the national trend, during those years PE firms changed

<sup>178</sup> Fulvia Caliceti. *21 Investimenti e Lion Capital: accordo raggiunto su Pittarosso*, Pittarosso, 2014, <https://www.pittarosso.com/news-eventi/news-eventi/21-investimenti-e-lion-capital-accordo-raggiunto-su-pittarosso>.

<sup>179</sup> See List of Abbreviations.

<sup>180</sup> PEM Report, 2018.

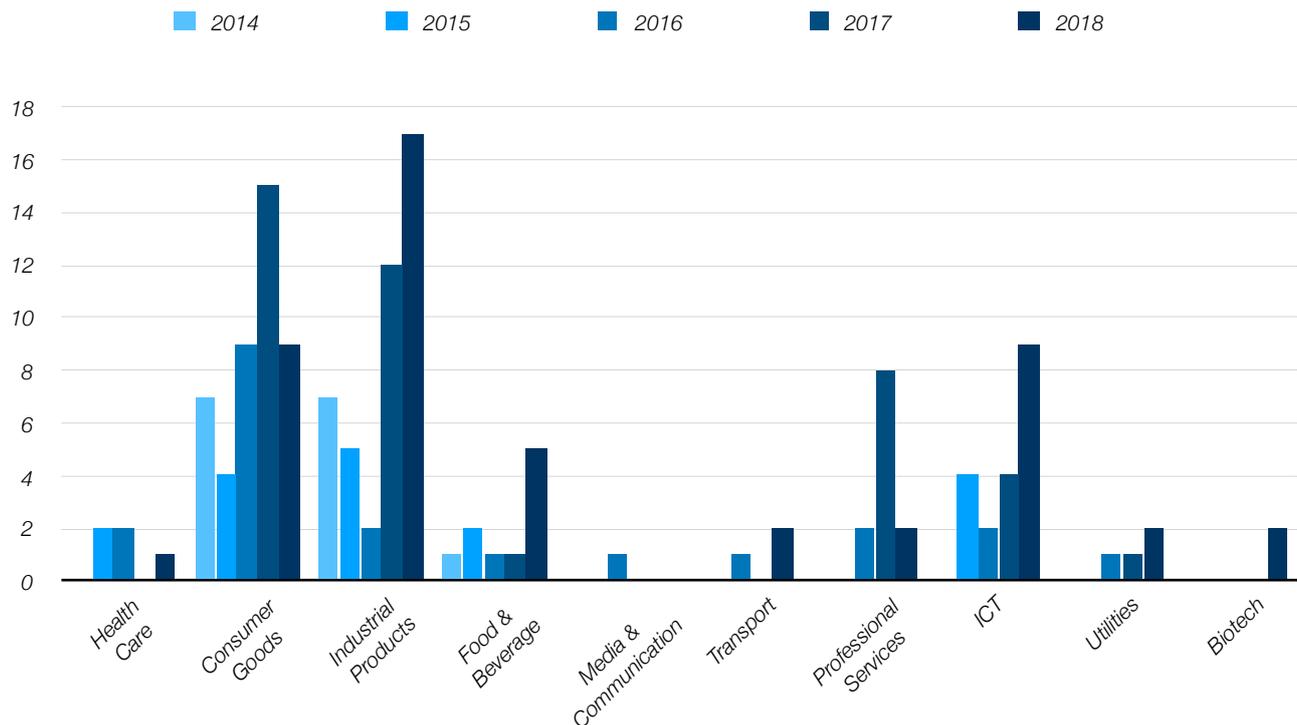
<sup>181</sup> LIUC Business School, PEM, 2018.

<sup>182</sup> BC Partners is a private equity firm specialising in buyouts and acquisitions financing in Europe and the United States. The firm, founded in 1986 and is based in London with additional offices in New York City, Paris, Milan and Hamburg, invests across all industries. It has completed 105 private equity investments in companies with a total enterprise value of € 130 billion and is currently investing its tenth private equity fund.

<sup>183</sup> Carlo Festa, Bc Partners compra Forno d'Asolo, *Il Sole 24 Ore*, 2018, <https://www.ilssole24ore.com/art/bc-partners-compra-forno-d-asolo-AEtjl24E>.

perspective, leaving behind a financial approach to the deal and embracing the more operative side of the business. This implies investing in minority shares sometimes, and a great deal of effort towards a boost in the firm's value.

Similarly, the following histogram shows the main sectors for companies in Veneto where PEs select their deals more often. In the regional description explained in the previous paragraph we discussed that Veneto is famous for both Agriculture (wineries, included in consumer goods) and Mechanical (Industrial products) industries. These clusters are the most appealing to PEs, while ICT has become very interesting only in the last year. Among the industrial products, the chemical industry has been included, which is very popular in Veneto counting 5 deals in 2018.



Graph 46: Number of investments per industry in Veneto (Source: PEM, Ms Muzio data).

Riccardo Spigariol, Investment Associate at 21 Invest, certainly believes in the wealth of venetian businesses: “as for target firms, Veneto is surely one of the main regions in Italy, especially in the small and medium category firms, however”, he continues, “the management level is still relatively low with a large portion of family owned businesses, unwilling to change”.<sup>184</sup> Mr Spigariol considers Veneto the second financial district, after Milan and before Rome because of the richness of its economic framework.

After having directly interviewed the main PE operators in Veneto, it resulted that Venetian companies, even if considered the most innovative and profitable, are generally not well structured thus lacking in c-level executives, periodic reporting, and rule compliance.

The following table presents the number of deals in Veneto for 2018. This information was obtained from a Private Equity Monitor (PEM) public report. These data slightly differ from Ms

<sup>184</sup> Personal Interview, 2019.

Muzio statistics; this is due to the fact that PEM does not have enough data available for every transaction. Therefore, the specifics for 23 transactions out of the 27 realised in 2018 are shown below.

Target Company	Lead Investor	Co-investors	Invested Amount (€M)	Acquired Stake (%)	Investment Stage	Deal Origination	Sector	Industry (SIC Code)	Employees	Sales 2017 (€M)	EBITDA 2017 (€M)	EV 2017 (€M)
Bas Group	IGI Private Equity S.g.r.	Siparex	-	100%	Buy Out	Family & Private	Transportation	Transportation Services	203	91,2	10,7	-
Breda Racing	Wise S.g.r.	-	-	75%	Buy Out	Family & Private	Industrial Products	Industrial and commercial machinery and computer equipment	32	3,8	0,3	-
Brenta PCM	FVS S.g.r.	-	-	30%	Expansion	Other	Industrial Products	Industrial and commercial machinery and computer equipment	273	34,1	3,9	-
Casa Vinicola Botter	DeA Capital Alternative Funds S.g.r.	-	12	23%	Replacement	Family & Private	Food and beverage	Food and kindred products	123	180,4	26,2	66,6
City Green Light	Fondo Italiano per l'Efficienza Energetica S.g.r.	Marguerite	98	96%	Buy Out	Family & Private	Utilities	Electric, gas and other energies	300	55,0	13,1	130,0
Cold Line	Gradiente S.g.r.	-	9,5	80%	Buy Out	Family & Private	Industrial Products	Industrial and commercial machinery and computer equipment	81	19,6	4,2	32,3
Filoblu	Ardian	-	-	28%	Expansion	Family & Private	Other professional and social services	Business services	130	19,4	0,7	-
Fonderie Montorso	Fondo Italiano d'Investimenti S.g.r.	-	-	70%	Buy Out	Family & Private	Industrial Products	Industrial and commercial machinery and computer equipment	384	80,3	11,5	-
Forno D'Asolo	BC Partners	-	200,0	>50%	Buy Out	Secondary Buy Out	Food and beverage	Food and kindred products	280	121,2	20,1	275,0
Gruppo Cib Unigas	FVS S.g.r.	-	-	30%	Expansion	Family & Private	Utilities	Electric, gas and other energies	90	26,3	3,6	-
Logiudice Forni	Xenon Private Equity	-	-	100%	Buy Out	Family & Private	Industrial products	Industrial and commercial machinery and computer equipment	45	15,5	1,8	-
Manifatture Valcison	Equinox	-	90,0	40%	Expansion	Family & Private	Consumer goods	Apparel and other finished products made from fabrics and similar materials	132	69,4	12,4	242,6
Mimac Italia	Xenon Private Equity	-	-	100%	Buy Out	Family & Private	Industrial Products	Industrial and commercial machinery and computer equipment	26	8,9	4,0	-
Polo Nord Ice Cubes	Ged Capital	-	-	100%	Buy Out	Family & Private	Food and beverage	Food and kindred products	3	1,4	0,3	-
Presotto Industrie Mobili	Ibla Capital	-	4,5	>50%	Turnaround	Family & Private	Consumer goods	Furniture and fixtures manufacturing	-	-	-	-
Rigoni di Asiago	Kharis Capital	-	59,0	43%	Expansion	Other	Food and beverage	Food and kindred products	239	136,1	16,9	163,0

<i>Saba Italia</i>	<i>Private Equity Partners S.g.r.</i>	-	-	100%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Consumer goods</i>	<i>Furniture and fixtures manufacturing</i>	39	13,0	2,0	-
<i>Sitland</i>	<i>Mezzalira Investment Group</i>	-	-	100%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Consumer goods</i>	<i>Furniture and fixtures manufacturing</i>	143	21,4	0,9	-
<i>Spiral</i>	<i>Green Arrow Capital S.g.r.</i>	-	4,0	100%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Industrial products</i>	<i>Industrial and commercial machinery and computer equipment</i>	279	35,9	3,6	13,5
<i>Spraytech</i>	<i>Finint &amp; Partners</i>	-	5,1	70%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Industrial products</i>	<i>Industrial and commercial machinery and computer equipment</i>	19	9,2	2,4	33,3
<i>Tecnoool</i>	<i>Xenon Private Equity</i>	-	37,0	60%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Industrial products</i>	<i>Industrial and commercial machinery and computer equipment</i>	303	62,4	14,2	83,8
<i>Uteco Convertin g</i>	<i>NB Renaissance Partners</i>	-	74,0	80%	<i>Buy Out</i>	<i>Family &amp; Private</i>	<i>Industrial products</i>	<i>Electronic and other electrical equipment and components, except computer equipment</i>	270	122,4	13,6	160,0
<i>Zonin</i>	<i>21 Investimenti</i>	<i>Aberdeen</i>	65,0	36%	<i>Expansion</i>	<i>Family &amp; Private</i>	<i>Food and beverage</i>	<i>Food and kindred products</i>	294	196,3	12,7	187,0

Table 12: Specifics about PE deals in 2018 in Veneto (Source: PEM).

This table, however, does not provide one important piece of information. In Veneto, similarly to other Italian regions, there is a new actor operating in the PE market acting as a middleman between the company and the fund. This role is known as Advisor and it can be either a small financial boutique or an M&A organisation. Once a company decides to accept the support from an expert, a PE, instead is rarely contacted. Instead, the company contacts an Advisor who will then open an auction where many funds take part trying to win the bid represented by the firm. Nowadays, there are less and less proprietary deals involving just the PE and the companies because, through the auction, the firm obtains maximum support available on the market.

This is confirmed also by Alessandro Zanet, Investment Manager at Alcedo,<sup>185</sup> who says that today “advisors are dominating the market”.<sup>186</sup> In the past it was normal to have bilateral deals where the PE was bargaining directly with the entrepreneur or someone on his behalf like his consultant, accountant or lawyer. However, the advisor brokerage activity had not been developed yet. This new actor greatly increased competition among PEs, smothering the market even before it could develop.

This effect is confirmed also by Alberto Calgaro, Investment Associate at Gradiente S.g.r. S.p.A..<sup>187</sup> He underlines how being based in Veneto does not have a specific competitive advantage, other than just being close to very interesting companies. Another advantage is that when these companies need support, Gradiente is one of the first firms to be contacted because

<sup>185</sup> Alcedo S.g.r. is a PE based in Treviso funded in 1987 on the initiative of its partners. At first it was mainly an advisory firm and then focused also on PE operations.

<sup>186</sup> Personal Interview, 2019.

<sup>187</sup> Gradiente is a PE based in Padova. It was funded on the initiative of two banking foundations in 2009. It has closed two funds until now, first one collecting € 76M and second one with € 135M. The major shareholders is the Management Team of the same company.

of its geographical proximity. Nevertheless, this is no longer the case because the advisors have completely changed the way deals are realised.<sup>188</sup>

Before concluding, the graph presents an insightful analysis of some observations that PEs operating in Veneto proposed. The following table shows the three main aspects the PEs we interviewed look for inside a firm before starting the long partnership agreement that will hopefully bring value to the business.

	1 <sup>st</sup> position	2 <sup>nd</sup> position	3 <sup>rd</sup> position
21 Invest	<i>Strategic Positioning of the Company</i>	<i>Market size and competition</i>	<i>Wide clients' base</i>
Alcedo	<i>Market size and competition</i>	<i>Financials and Perspective Forecasts</i>	<i>Team/Management</i>
Gradiente	<i>Market size and competition</i>	<i>Team/Management</i>	<i>Financials and Perspective Forecasts</i>
FVS	<i>Financials and Perspective Forecasts</i>	<i>Market size and competition</i>	<i>Strategic Positioning of the Company</i>
Veneto Sviluppo	<i>Team/Management</i>	<i>Market size and competition</i>	-

Table 13: Main aspects that Venetian PEs look at when investing (Source: Personal Interviews).

This graph has to be read following the colours assigned to the macro area of topics that a PE looks at. In other words, a company must be well positioned in all these areas in order to receive the PE's aid.

The colour yellow shows the strategic positioning of the firm which means having a competitive advantage, a wide consumers' base and be a pioneer in the sector. In other words, the corporate must anticipate its competitors.

Red shows concerns about the market, the competition and the overall market situation. Green represents the financial statement of the firm, the asset and liability focus and whether the firm is a cash generating organisation.

Blue reflects cohesive management and how well they would work with the PE's team of experts.

The table is quite mixed up and difficult to read. In fact, PEs seem to disagree with each other when prioritising the main aspects to analyse. It is clear that PEs consider the market the most important aspect, because it has been either placed first or second by every firm on the chart. When the PEs mentioned either Financials or Management issues, they expressed a pressing concern however, not as urgent as market conditions, for this reason it is placed second. Whereas, the third place is occupied by the strategic position of the firm, even though 21 Invest considers this issue the most important.

<sup>188</sup> Alberto Calgaro, Personal Interview.

Veneto is a very vibrant business region, however, strongly characterised by family owned companies who are not very open to institutional investors. This is why PEs often need to start dealing “on tiptoe”, as Luca Briotto, Investment Manager at FVS S.g.r. says.<sup>189</sup> He continues saying that “over time, we build trust in our clients and we get to complete important projects, even in family businesses”.<sup>190</sup> This is where FVS success lies, being able to work with family businesses and enhance the generational handover of the business, even if it requires a long time.

A badly structured family run organisation, unprepared to face a rapidly changing environment are not the only problems that PEs have to face in Veneto.

The following table summarises what the main challenges PEs in Veneto have to face:

	1 <sup>st</sup> position	2 <sup>nd</sup> position	3 <sup>rd</sup> position
21 Invest	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Entrepreneur</i>	<i>Corporate Governance and Management Practices</i>
Alcedo	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Team/ Management</i>	<i>Missed of Strategic Opportunities (Poor Business Plan)</i>
Gradiente	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Entrepreneur</i>	<i>Corporate Governance and Management Practices</i>
FVS	<i>Wrong analysis of the Market</i>	<i>Poor Business Plan</i>	<i>Missed of Strategic Opportunities</i>
Veneto Sviluppo	<i>Conflicts with the Entrepreneur</i>	<i>Wrong analysis of the Market</i>	<i>Corporate Governance and Management Practices</i>

Table 14: Venetian PEs biggest challenges when investing (Source: Personal Interviews).

This table presents a much clearer indication of what the main challenges Venetian PEs face when they invest. In fact, reading the table by colours the market holds first place as it often does not respect forecasts. As Alessandro Zanet confirms “the market is often unpredictable, even if you ask for a consultant’s advice. Business can always go the opposite way, because forecasts are not written on stone”.<sup>191</sup>

Conflicts with the entrepreneur and the management team places second. It is very interesting to note how in general, the venetian PEs referred to this aspect as conflict with the single owner of the firm and not the management team, except for Alcedo, revealing that a structured executive team is often lacking.

This is strictly connected with the third challenge PEs have to face, which is the institutionalisation of a family owned company. Besides the appointment of c-executive managers, this also implies establishing an informative reporting system compliant with the national and European rules.

<sup>189</sup> FVS S.g.r. S.p.A. is a PE based in Venice, completely owned by Veneto Sviluppo, another Venetian financial operator, performing among other things PE investments. FVS invests mainly in Veneto and Friuli Venezia-Giulia. Founded in 2006 as Friulia S.g.r. S.p.A., became Friulia Veneto Sviluppo (FVS) in 2014, when Veneto Sviluppo acquired 51% of it.

<sup>190</sup> Personal Interview, 2019.

<sup>191</sup> Personal Interview, 2019.

### 3.5 CONCLUSION

The PE market is relatively a new industry for Italy. Today there are few operators compared to other European countries, therefore the figures collected are still very sensitive. Given the data's small scale they can be influenced and reversed by a single mega deal or by a single fund disappearing from the market.

The business is still very polarised, with Lombardia being close to other European countries, and the rest of Italy trudging towards similar goals. There are good chances that the PE industry will be successful in the following years, because the fundamental conditions for development exist. Italy offers a resourceful network of SMEs that need this new kind of support, the generation of entrepreneurs who funded their corporates will soon retire and this will be a historical moment for the Italian economy.

This will not be an easy task. In fact, entrepreneurs need a change of mindset and PEs need to work together and create a network supporting each other.

The feeling is that the market is already over-regulated and the advisors activity does not support PEs, on the contrary, it ignites competition among the few operators. The set of rules coordinating the investment fund's management is not flexible, as well as for S.g.r. rules.<sup>192</sup> The PE can decide to set up its business in many different legally recognised organisations. Besides the aforementioned S.g.r., it can also chose an investment company with variable share capital (*società di investimento a capitale variabile* or Sicav), an investment fund or an insurance company. Each and every single one of these organisations has its own specific rules which materially differ.

The answers given in the last two tables above are definitely proof of the business landscape in which the Italian PEs are working. There is a need to institutionalise Italian companies through solid management practices. In addition, the entrepreneurs do not have the skills to deal with and deeply comprehend the opportunities the funds propose. However, in order to make this change possible, there is a need for favourable exogenous conditions, one for all, a stable market. Unfortunately markets fluctuate far too often impeding the restructuring of firms.

Even though PEs have to face all these problems, the figures show how the whole market has been increasing for the past few years. The total capital raised by private investors (without considering the public, because of the abnormal data of 2017) increased from € 920M to € 2,738M from 2017 to 2018, almost by +200%. The investments also increased rising from € 4.938M in 2017 to € 9.788M in 2018, almost by +100%. Since more capital has been collected, and most of it has already been invested, the number of supported companies has grown from 250 to 266 in the same time period.

Undoubtedly, the main sectors responsible for this progress are Buyout and Early stage, with the only difference that, while buyout has been *in auge* for a very long time, early stage financing has

---

<sup>192</sup> Marangoni Mario. Regolamento sulla gestione collettiva del risparmio, Provvedimento della Banca d'Italia del 19 Gennaio 2015, Banca d'Italia, Eurosystema, 2015, <https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/regolamenti/20120508/REG-19GEN2015.pdf>.

became popular only in the last years. Buyout investments improved from 56 to 67 in 2018, but early stage did even better soaring from 23 to 42 (+83%).

Veneto is an absolute protagonist of this market expansion, yet its performances are still far from its neighbour Lombardia.

Even if the number of supported firms held steady compared to 2017, the amounts invested surged from € 530M to € 756M for 2018 (+42%).

The most active PE industries are Buyout, which with 15 investments equaled the 2017 results, Expansion, recording 14 investments, two more than the previous year, and Early Stage financing with 13 investments, recording a 25% drop since 2017. Comparing these results with the 5 investments realised in Veneto in 2016, shows how fast the segment has been growing.

In conclusion, it is true that the market is growing but there is still much to be done. When the shift from a financial to an operative perspective is completed, when the firm's specificities become more important than the market, only then, will Italy be able to enjoy all the benefits the PEs offer.

## Chapter 4: The Private Equity in France and the Grand Est Region

### 4.1 THE PRIVATE EQUITY INDUSTRY IN FRANCE

France in general has shown a flourishing economic fabric during the last 5 years with new companies being created at a fast pace, recovering from the consequences of the financial crisis. An explanation for this lively economic activity, especially for the micro and small businesses, is given by the Private Equity market, which is the second largest in Europe.<sup>193</sup> These funds and organisations have been able to bring the post crisis situation to a head even if some political choices, apparently in the opposite direction, were made.

These choices specifically refer to the “loi en faveur du Travail, de l'Emploi et du Pouvoir d'Achat” (law in support of work, employment and purchasing power), also known as TEPA, article n. 16. This law was adopted in 2007 and one of its main effects was the individual wealth taxes reduction in case of non-listed SMEs investments. The reduction amounted to 75% of profits earned and was a huge incentive in support of those small and medium company plans for the future. While in 2011 the tax credit was reduced to 50%, in 2018 it was completely suppressed and replaced with a tax incentive on real estate investments<sup>194</sup> because the government at that time thought that the property industry was in need of support.

Given the lack of this political incentive for investors, the figures proposed in the following diagram take on an even more relevant meaning for the French PE industry:



Graph 47: Raised funds by PEs in France (Source: Le Capital Investissement en Région Grand Est, Strasbourg March 1st, 2019, FrancelInvest, Mazars).

<sup>193</sup> Stéphane Dahmani. Le capital-investissement : état des lieux en France, BSI Economics, 2016.

<sup>194</sup> Décision n° 2007-555 DC du 16 août 2007, *Loi en faveur du travail, de l'emploi et du pouvoir d'achat*, Conseil Constitutionnel, <http://www.senat.fr/dossier-legislatif/pjl06-390.html>

The fundraising activity in 2018 showed a slow down trend. This market had been increasing since 2012 just after the subprime crisis and, in the middle of the so called Eurozone crisis. During that period most European countries were struggling with the long-lasting aftermaths of the markets collapse which were spreading contagiously. The PE industry started to catch on and during those difficult years it began a new cycle. Today, 7 years later, it seems that the propulsive thrust is slowly wearing off.

In fact, if we look at the 2018 figures and compare them to 2017, the number of vehicles and the capital raised for the SMEs investing is decreasing. At the end of the first semester 2017, € 8.1B was raised, while at the end of the first semester 2018 only € 6.6B was raised by French PEs.<sup>195</sup>

This general tendency was also confirmed by M. Stéphane Becker, Participations Director at Capital Grand Est<sup>196</sup>. According to him, ten years ago companies were financed mainly with debt and in particular with evergreen funds, nevertheless, in the last years this approach has completely changed. M. Becker underlines how these revolving lines of credit, where the borrower periodically extends the debt financing by paying a commitment fee rather than having the debt reaching maturity, were killing the enterprises' sights. With the support of an institution like Capital Grand Est (a PE in Grand Est that will be introduced later in the chapter), the funding balance has been restored bringing the percentage of Debt and Equity to a 50-50 situation,<sup>197</sup> and thanks to this recovered balance, reimbursing the cost of debt with the company's generated profits became generally easier. Even if Becker's observations are obviously only about the region in which he operates, his insights can also be applied to a countrywide perspective.

Mr. Becker continues to say that in the last years, this kind of debt had almost disappeared from the SMEs' financial statements in the Grand Est region. Furthermore, by analysing companies for investment decisions, Mr. Becker along with his team surprisingly find evergreen financing more often than expected in recent periods. However, bank debt does not fit for financing innovative start-ups, because they are not liquid enough to afford fix payments<sup>198</sup>.

The following table underlines the concerns that M. Becker was sharing. The number of vehicles supporting SMEs started decreasing as well as the amounts raised in general.

---

<sup>195</sup> Christophe Deldycke, Laurence Fournier, et al. *Le Capital Investissement en Région Grand Est (2018)*, Strasbourg March 1st, 2019, FranceInvest, Mazars.

<sup>196</sup> Capital Grand Est is the Private Equity fund of the region Grand Est. Its target is represented by firms in the Grand Est region. Created in 2012 on the initiative of the region itself, it was later agreed by AMF. It has been supported by CM-CIC Innovation and BPI France. It is composed by 9 general partners, 5 of which are subscribed to professional registers. It has € 109M AUM as far as today is concerned. It holds 50 participations inside its portfolio, 56% in expansion financing and 44% in venture capital. The goal is to reach € 200M AUM in the near future. The tickets are around € 250K - € 5M.

<sup>197</sup> Stéphane Becker, Directeur de Participations at Capital Grand Est, Personal Interview, 27/03/2019.

<sup>198</sup> Marie Ekeland, Augustin Landier et al. *Renforcer le capital-risque français*, Notes du conseil d'analyse économique, Vol. 6, N. 33, pp. 1-12, 2016.

2017 - 2018	Capital Raised (M)	Number of vehicles
Private Equity Organisations	€ 8.095M € 6.598M	127 95
< € 20M	€ 347M € 264M	70 48
€ 20M - € 50M	€ 625M € 736M	21 23
€ 50M - € 100M	€ 810M € 758M	13 11
€ 100M - € 200M	€ 1.149M € 651M	9 5
€ 200M - € 1B	€ 4.075M € 2.489M	13 7
> € 2B	€ 1.090M € 1.701M	1 1

Table 15: 1<sup>st</sup> semester 2017-2018 comparison of capital raised and number of vehicles per PE dimension (Source: FrancelInvest, Mazars).

As M. Becker underlines, even if there is this new general trend of going back to intermediary institutions asking for debt capital, the PE activity is always stable, with the number of supported companies that stays almost the same. Even though debt instruments are today very cheap, given the low rate policy imposed by ECB, the PEs do not feel this increased competitiveness from banks.<sup>199</sup>

However, the market during the last years accused an increase in another kind of pressure brought by internal competitors within the PE industry. After 2008 the Grand Est region saw a lot of new funds expanding their operations, and this was true also for other regions across France. The real problem is that the number of investment opportunities is always the same and the number of PEs competing for these dossiers, has soared.

The above data representing the capital raised and the number of vehicles per PE dimensions, are now explained according to each category of investor that decides to trust a PE as an investment opportunity. The 6.6 billion raised in 2018 from Grand Est private equities are represented by the following categories of institutions:

<sup>199</sup> Stéphane Becker, Personal Interview.

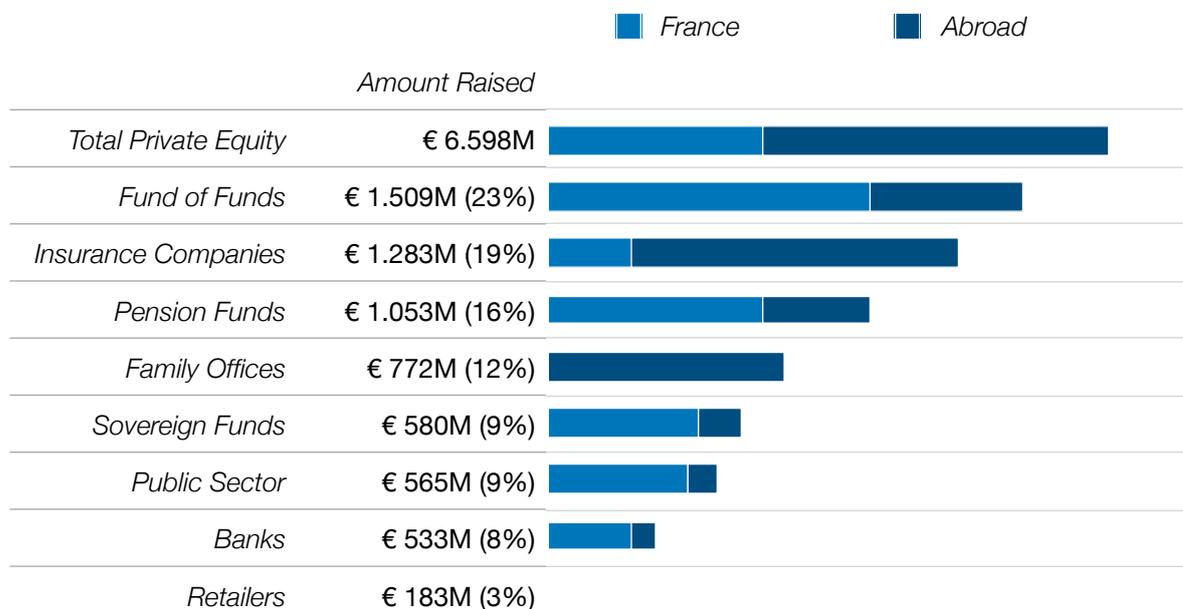


Table 16: Amount invested by category of investors and origin for first semester 2018 (Source: FranceInvest, Mazars).

Worthy of note, is the comparison between French and foreign investors allocating their money to private equities in the hexagon. Among national investors, the most typical are insurance companies, followed by a series of other investors occupying more or less the same positions; these include other funds, family offices, public investors and banks. Pension funds and retailers come are in last place.

On the other hand the most typical foreign investor is represented by a fund, it can be a pension fund or a sovereign fund or other types of entities that collect money from different investors, but rarely will foreign bank or public institution be invested directly into France.

These data are confirmed also by the PEs interviewed where for example for Capital Grand Est there are no private/retailing investors (HNWIs), but only institutional ones, either public or private. Among public lenders are the Grand Est region itself or BPI France<sup>200</sup> which is a government controlled organisation such as EDF<sup>201</sup> (a national electricity company)<sup>202</sup>. Among private institutional investors there is BNP Paribas, CM-CIC<sup>203</sup> Innovation, Caisse d'Épargne, Banque Populaire d'Alsace de Lorraine et de Champagne, Groupama and Macif (representing banks and insurance companies).

<sup>200</sup> See List of Abbreviations.

<sup>201</sup> See List of Abbreviations.

<sup>202</sup> It is a Banque publique d'investissement, thus a French investment banking. It was a joint venture of two public entities: Caisse des dépôts et consignations and "EPIC BPI-Groupe". (ex- "EPIC OSEO"). Created in 2012 with the law of 31/12/2012. Officially Bpifrance was created in 2013 but its roots go back a hundred years. It is the culmination of a number of entities created and merged over the subsequent years. Bpifrance helps stimulate French business' growth by offering loans, providing guarantees and awarding buyer credit and supplier credit to encourage business abroad. Bpifrance is also the French Sovereign Fund. They invest in start ups, SMEs and Mid-caps through direct investment and a fund of fund activity. In 2018, this activity represented 2 billion euros, their portfolio of new investments is made of 1000 direct investments and 400 partnering funds.

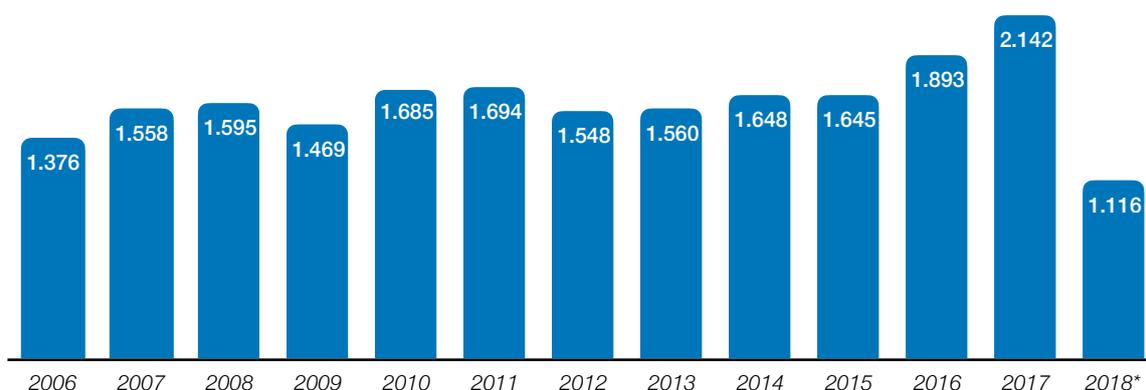
<sup>203</sup> See List of Abbreviations.

Siparex<sup>204</sup> is also another great example of a category of investors. In fact,  $\frac{2}{3}$  of its capital is composed by institutional investors and only  $\frac{1}{3}$  of private high net wealth families like Michelin, Peugeot, Desparture, falling into the retailers category.

One of the leading political parties in Italy, 5 Stars Movement, took BPI France into account as a model example of a regional bank close to the industry needs. It was declared by the M5S State Secretary for Economic Development during a Confindustria meeting, praising the French model.<sup>205</sup>

Another very important set of data concerns the number of enterprises that received Private Equity assistance not only in terms of capital but also in terms of managerial support in the form of highly skilled professionals entering the company's board of directors and driving the strategy to excellence. This graph shows how the number of supported companies has been increasing every single year since 2012.

In 2018 the number of companies supported in France were similar to the previous year, when the data reached a record high amount. However, projections for the final amount for 2018 reveal that there may be a slowing down trend but figures prior to 2018 had withstood at very high levels for 5 years.



Graph 48: Number of companies receiving PE investments, \*Q1 2018 (Source: FranceInvest, Mazars).

Coherent with the changes explained, the following analysis shows the figures related to the invested amounts and the number of assisted companies divided according to the segment of Private Equity activity. The similar analysis described above was based upon capital collected by the specific funds of more general investment vehicles. Here instead, the company segmentation is in terms of the PE specific domain of activity.

<sup>204</sup> Siparex is one of France's leading independent private equity groups. As a key partner to midmarket and intermediate-sized companies, as well as to startups. Siparex has € 2 billion in AUM managed by its Midmarket, Mezzanine, Small Caps, and Innovation business segments. Founded in 1977, based in Paris, it operates in Capital Développement, Transmission, Mezzanine e Innovation.

<sup>205</sup> Confindustria Romagna, Assemblea 2018, [https://www.confindustriaromagna.it/\\_index.html?\\_id1=153&\\_id4=201&\\_id5=481&\\_id6=db\\_notizie&id\\_lingua=it](https://www.confindustriaromagna.it/_index.html?_id1=153&_id4=201&_id5=481&_id6=db_notizie&id_lingua=it).

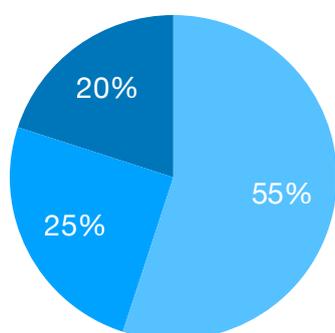
These figures reflect the predominant typology of company operating in France and well represented in the Grand Est; indeed, most of the organisations focus on small and micro enterprises as for instance Capital Grand Est or Alsace Business Angles<sup>206</sup>. This is the reason why First-Stage Financing is growing very fast in the region as far as the amounts invested are concerned but also in terms of first capital infusion to enter the firm. Nevertheless the amounts invested are much higher for the later stage of financing because to support a company that is already well established there is much more capital needed.

2017 - 2018	Capital Invested (M)	Number of supported Companies
Private Equity Organisations	€ 6.395M € 6.167M	1.179 1.116
First-Stage Financing (Capital Innovation)	€ 571M € 809M	458 441
Development & Expansion Financing (Capital Développement)	€ 1.617M € 1.610M	552 483
Replacement Financing (Capital Transmission)	€ 4.193M € 3.693M	156 188
Turnaround (Capital Retournement)	€ 13M € 5M	13 4

Table 17: 1<sup>st</sup> semester 2017-2018 comparison of capital invested and number of supported companies divided by PE business segment (Source: FrancelInvest, Mazars).

Taking a step back and analysing the nation's openness to international investors, in total slightly more than 7.500 companies have received a capital infusion by French Private Equities by the end of 2017, where ¾ of them are start-ups or PMEs. The classification for typology of PE is represented in the following pie chart:

- Development & Expansion Capital
- First Stage Financing
- Replacement Financing



Graph 49: PE portfolio according to PE business sector (Source: personal representation of FrancelInvest data).

Almost 90% of the companies that received this kind of support are based in France which means that only 10% of French Private Equity investments are made outside national borders.

80% of the companies supported by French PEs are in the first stage of their lives and only 20% of the total companies are already in a later phase.

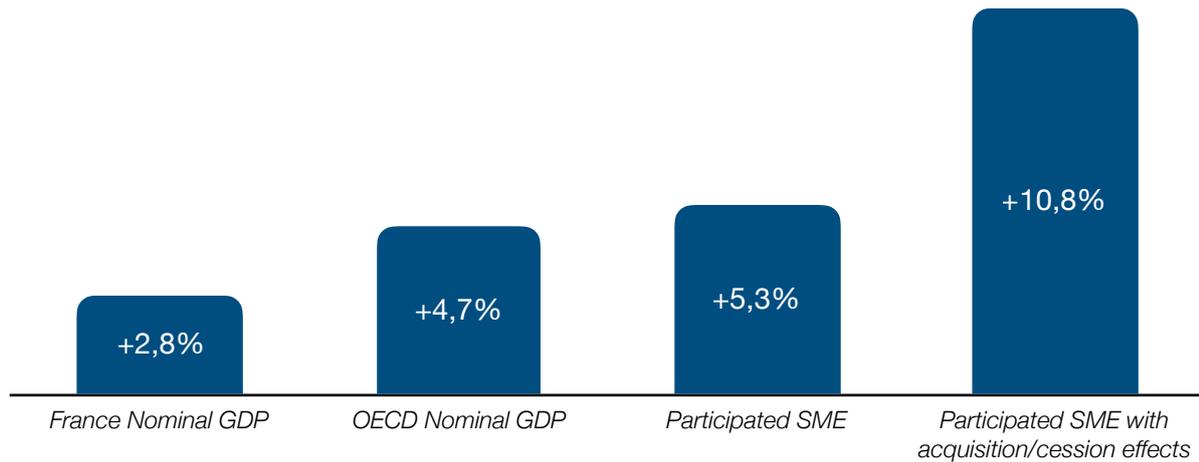
This is particularly important given the economic fabric characteristics of the Grand Est region.

To conclude this paragraph on the PE industry in France, it is important to consider the supported SMEs performance. Obviously a smaller organisation has the possibility of

<sup>206</sup> Alsace Business Angles aims at supporting the regional economy and the most innovative start-ups. They have a strong regional focus, and it organise the business angels activity in the region. today, the organisation has 70 members and analyses every year around 50 dossiers. <http://www.alsacebusinessangles.com>.

showing a more substantial growth in percentage points, especially if compared to a country's GDP. However this analysis is a useful link to the next paragraph where the PE's value creation process is discussed.

The data below gives an exhaustive explanation of the Private Equity ability to create value. It is particularly interesting to observe how in 2017 the growth of these participated companies, that received support from the French PEs, is higher than the growth of both France and other OECD countries.



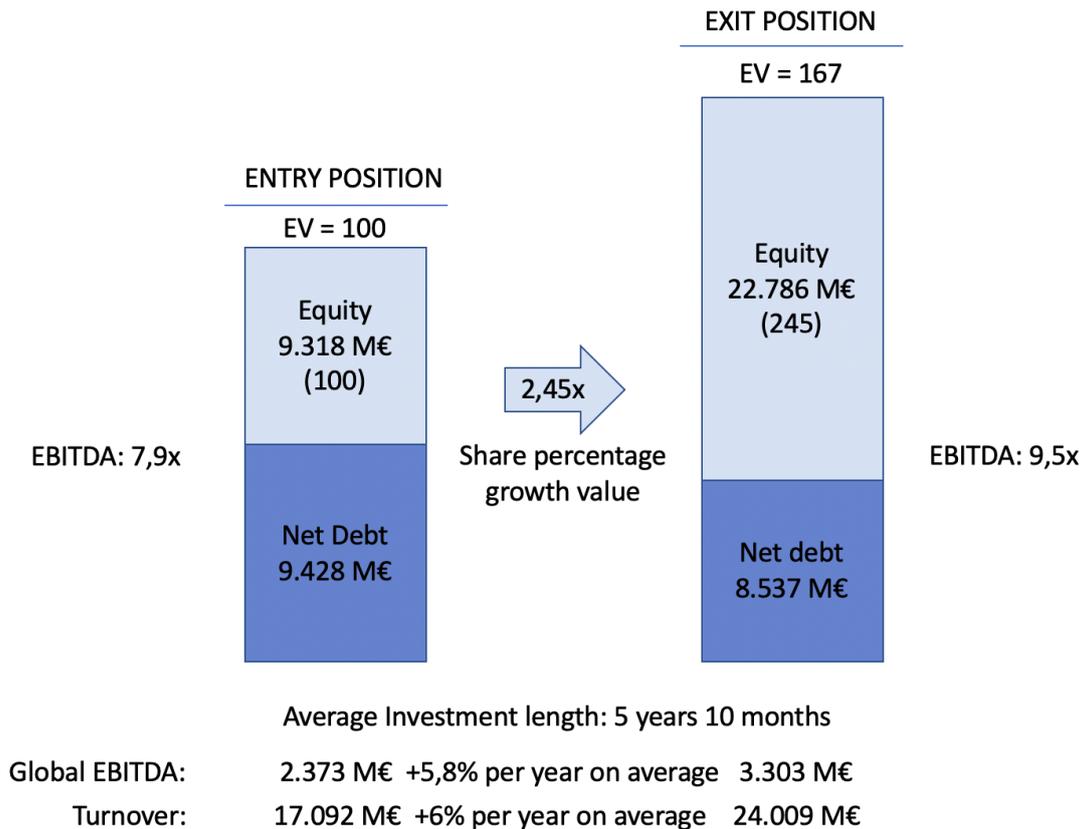
Graph 50: Turnover/GDP growth from 2016 to 2017. Participated SME sample including 3.317 companies. (Source INSEE for France Nominal GDP, OECD for OECD Nominal GDP, France Invest, Mazars for SME data).

Similar figures are reflected also in the employment growth when comparing the PE supported SMEs in France with the other OECD countries.

From 2016 to 2017 France employed 332.300 new workers amounting to a +2,1%. The totality of the OECD countries employed slightly more than 9 million workers which shows an increase of only 1,5%. Furthermore, the French SMEs increased their workforce by hiring 56.551 new members showing a 4,3% rise from 2016.<sup>207</sup>

<sup>207</sup> Report 2018, FrancelInvest and Mazars.

## 4.2 VALUE CREATION ANALYSIS



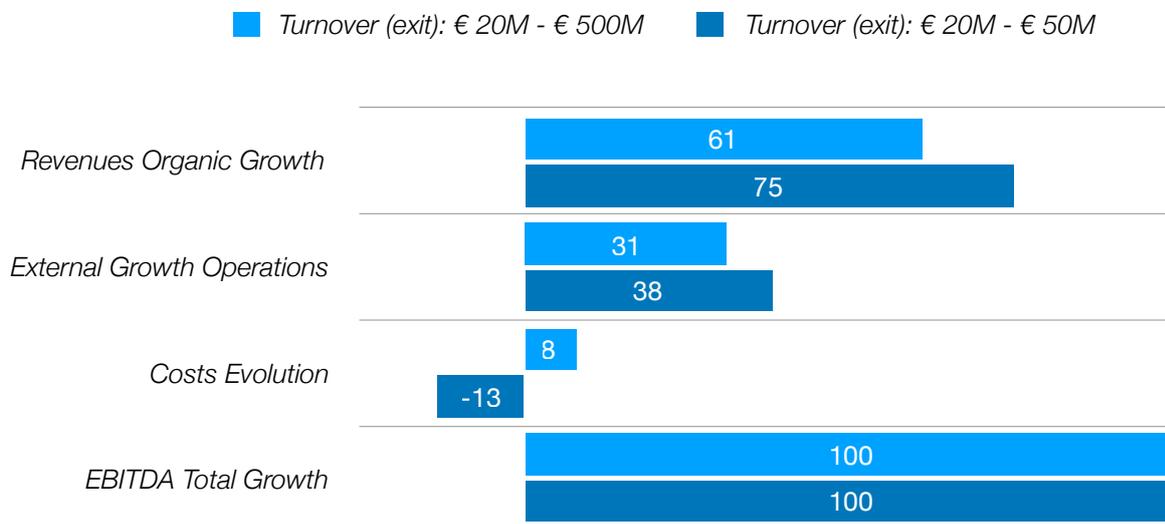
Graph 51: Value creation process for PE activity (Source: Francelinvest, Mazars).

The graph above demonstrates the SMEs finances before and after the PE's intervention. The company's total funding / EBITDA multiple is a glaring expression of how the PE's operation is actually able to bring value to a business. In fact the EBITDA, which well represents operating profitability and liquidity of a company, grows at almost 6% a year. Similar percentages are recorded in terms of turnover growth rate.

The resulting company's structure, at the end of the investment period, shows the work accomplished by the PE. It is a company that has less debt but the equity side has more than doubled. This kind of increase generates an EBITDA multiple improvement (Tot. Fundings/ EBITDA) rising from 7,9x to 9,5x. In other words, the shares' value net of debt grew faster than the EBITDA and as a result there is a renewed attractiveness for the company's stocks given its recovered profitability.

Even if the picture mainly represents financial data on how the SMEs funding structure may change, the value creation is explained by a factor which is obviously linked to finance but not only: the so called "effet-résultat". This effect includes the activity development at the core of a company, improved efficiency that subsequently also brings an increase in EBTDA multiple. This major driver aimed at explaining the reason why an increase of 1,67x in the total enterprise value coexists with the multiples effect which has a strong impact on the final result of a PE intervention. However, the strategic activities refinement and update has the strongest influence. Finally, only a small percentage of the SME created value comes from the debt dilution effect.

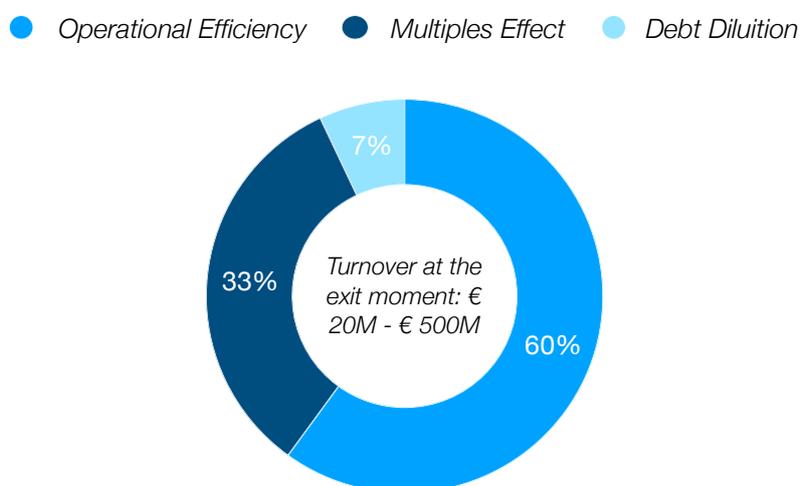
Therefore the “effet-résultat” leads to EBITDA growth which is the main explanation behind a company’s value appreciation. The following is an in depth analysis linked to the value creation process explaining the “effet-résultat” principle. The diagram starts by representing the main result determinants of a PE supporting activity, introduced above.



Graph 52: Determinants of value creation process for small and large firms divided per revenues class (Source: Francelinvest, Mazars).

As the above figures show the revenue organic growth has a greater influence on EBITDA increase than any other variable for both small (companies with maximum € 50M turnover) and large (companies with up to € 500M turnover) firms.

The following chart shows that regardless of the how large the enterprise is, when the PE leaves the company the debt dilution effect plays a smaller role compared to the operational improvements effect.



Graph 53: Determinants of “effet-résultat” represented by EBITDA total growth (Source: Francelinvest).

To simplify the Operation Efficiency can be referred to as increase in EBITDA which comes mostly from an organic increase in revenues. Therefore the PEs, contrarily to what most people believe, do not only cut costs and employees but completely renew the company exploiting the external macro-environment surrounding the firm. This kind of broad and overall focus leads to the above mentioned EBITDA growth and eventually a turnover evolution better than the GDP in France and OECD countries.

To summarise, the Revenues Organic growth is the main component of the so called “effet-résultat” together with External Growth and Cost Evolution. This particular kind of effect makes the EBITDA increase through improved Operational Efficiency, that is the main driver for the company’s value when the PE decides to leave the business. In comparison, the Multiples Effect and the Debt Dilution Effect play a smaller role in comparison.

As far as the exit period and the overall value created are concerned, the following table demonstrates the main data evolution of a company’s profitability before and after the PE investment. These data show a sort of stable growth tendency over the last 5 years which can explain how the PEs in France have improved their ability and skills in dealing with these companies, bringing great improvements.

Year	# of Operations	EV evolution (basis: 100)	Equity Evolution	EBITDA Evolution (Entry - Exit)
2017	49	1,79x	2,58x	7,8x 9,6x
2016	45	1,75x	2,51x	7,4x 9,8x
2015	47	1,61x	2,40x	7,9x 9,6x
2014	35	1,58x	2,37x	9,2x 9,8x
2013	22	1,50x	2,18x	7,5x 7,9x

Table 18: Average companies’ evolution between Entry - Exit period per cash-out year (Source: FrancelInvest, Mazars).

At this point it is worth pointing out that an exit strategy is rarely realised through a listing on the stock market; indeed there are many different options for PEs to leave an investment. Given that PEs often invest in family businesses, at the end of the period (5-7 years) it is often the family itself who buy back the PE’s shares.

Alternatively, it can be another PE organisation acquiring the shares belonging to a fund. A third option involves another industrial company relieving the PE, it may be a competitor or a conglomerate. In this case, often everyone is forced to sell because usually these big industrial organisations want to control the totality of the company ownership. A fourth case is actually the listing on the stock exchange even though it is very rare among European countries.

The last case, which is very popular especially in the Grand Est region, consists in a managers’ majority stake acquisition of the company they control and work for. Managers usually control

small company percentages (4-5%) and when the entrepreneur wants to sell his firm these directors may intend to take his place for different reasons, one being because they know that organisation better than anyone else. Nonetheless, even if they are willing to buy the business they often lack the required financial resources, given the fact that to buy an enterprise several millions of euros are usually needed. Therefore, with a help of a bank and a fund they are finally able to control the ownership totality and buy the entrepreneur out. After 5-7 years, once the fund that supported the managers is ready to leave, the executives are able to reinforce their position even more by using their increased personal wealth and a bank subsidy.

There is also a moral argument about this latter transaction, because if the company is profitable, healthy and wealthy it is because the managers have been able to perform their job creating value so they deserve this acquisition more than anyone else.

#### 4.3 A GENERAL OVERVIEW OF THE GRAND EST REGION AND ALSACE

Alsace is a cultural and historical territory in eastern France, located in the Grand Est region, on the upper Rhine's west bank at the heart of Europe, not only geographically but also historically. It is composed of two departments: the Bas-Rhin and the Haut-Rhin. Together with Champagne-Ardenne and Lorraine, it forms the Grand Est administrative region, on the east of France, where Strasbourg is the capital city.<sup>208</sup> Until 2015 the number of regions in France was 27, but from January 1st, 2016 they became 18 given some groupings as the following picture shows:

---

<sup>208</sup> Patfoort Hélène. *Informations Economiques Grand Est, Chiffres Clés de l'Economie en Grand Est*, Chambre de Commerce et d'Industrie (CCI), 2017.



Graph 54: France political map without overseas territories: Réunion, Mayotte, Guadeloupe, Martinique, Guyane (Source: Ministère de l'intérieur).

With the reduction and grouping of French regions, effective starting on January 1st, 2016, and the establishment of Grand Est, the data regarding the PE industry refers to the new territory after the reform. The Grand Est will be our focus especially as regards the PE industry description but, given the heterogeneity of the new region, a general overview is provided only about Alsace.

As anticipated before, Alsace is the vibrating heart of Europe not only from a geographical point of view, being on the border between France and Germany and extremely close to Switzerland and the Benelux region, but also because it is a crucial relationship indicator between the two most important countries in Europe (from a GDP perspective): France and Germany.

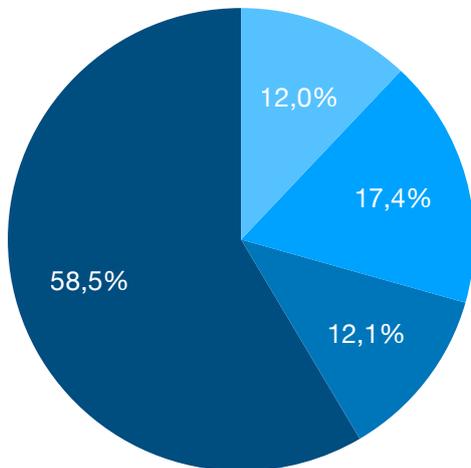
The fact that control over this territory was for a long time disputed, shows the importance of the fruitful resources it disposes and the strategic activities here performed. The land was first ceded by France to Germany in 1871 after the Franco-German war, but it was then retroceded to France in 1919 after World War I. With the second World War it came back to Germany in 1940 but at the end of the deadly conflict it was given back to France in 1945, where it stands today.

Today, thanks to its localisation in the heart of Rhineland Europe, Alsace is open to international trade and has a very dynamic economy. It is particularly shining for its primary market being agriculture one of its sources of success. Hops or grapes make viticulture a core industry to the economy, growing in quality and reputation, not only among the national borders. Alsatian wines are known all over the world like Riesling and Gewürztraminer just to mention a few. The

automotive industry is another important part of the economic life in Alsace including the famous production of Peugeot vehicles.

The following pie chart shows how the industrial sector is divided into its macro sub-sectors:

- Food & Beverages
- Electric, Mechanical & Informatic
- Automotive
- Others



Graph 55: Secondary Sector turnover per main industries (Source: Banque de France, ACOSS-URSSAF).

According to Monique Jung, director at Adira, the financial crisis has impacted also the Alsatian territory, dragging many companies down to bankruptcy and then failure. However, today the sentiment is that the reconstitution process is completed and the survived companies are restored stronger than before. According to her view, the economy today is presenting plenty of interesting and profitable projects.<sup>209</sup>

Her words are particularly relevant and reliable given the popularity of Adira in the Alsatian territory. In fact, the company is a development agency that aims at supporting dynamic entrepreneurs in their ambitious projects of innovation, growth, implantation, renovation and transmission. Adira is not a Private Equity, it does not provide its own money, but it consults and constantly assists these managers in their plans providing an overall insight into the Alsatian territory, making important decisions easier.

The managers and entrepreneurs doing business in the industrial and tertiary sector in Alsace can rely on Adira and benefit from a personalised assistance.

Alsace is a region of a very competitive industrial fabric, it is highly innovative and challenging, given that it holds 7% of total national wealth, it is the 7<sup>th</sup> region in France in terms of GDP and the 2<sup>nd</sup> for exports (€ 3.75 billion).<sup>210</sup>

The region is popular for its high quality products also in the most common and simple industries like manufacture and the above mentioned agro-alimentation with high end articles offered by several companies. Its main competitive advantage comes from the force and dynamism that explain the high percentage of capital investments.

In the Grand Est region, at the end of 2017, 297 companies were supported by Private Equity, and among them 76% was represented by start-ups and small or very small firms,<sup>211</sup> even if in 2018 the number of companies decreased as discussed in detail in the next paragraph.

The Alsatian economy is rooted on a great number of SMEs but also on a few larger firms, mainly subsidiaries of bigger German companies who pick this region as a base for their commerce in France. These German groups are very large organisations like Hager, Auberny, Siemens, Adidas,

<sup>209</sup> Monique Jung, Director at Adira, Personal Interview, 18/03/2019.

<sup>210</sup> Valérie Carasco. *Chiffres clés de l'Alsace*, Adira, 2018 edition.

<sup>211</sup> Paul Perpère, Simon Ponroy. *Les chiffres clés du capital-investissement et du capital-innovation français en région Grand Est*, Association Française des investisseurs pour la croissance (AFIC), Commission Système financier et financement de l'économie (CNIS), 2017.

Agno, etc. that explain why Alsace is the third most industrialised region in France and the first one in terms of workforce in companies financed by foreign capital.<sup>212</sup>

The region is extremely developed as well as in the tertiary economy, indeed more than 63% of total employment comes from this specific market. To give an example, Strasbourg alone counts eleven different banking headquarters.<sup>213</sup>

SMEs are also the main actors in terms of research and development in Alsace (30% of total expenses compared to a country's average of 18%).<sup>214</sup> Moreover, almost 55% of the regional GDP is invested in R&D, with a well established research centre especially in the scientific and technological field (with 3 Nobel prize winners still developing their studies here).

#### 4.4 THE PRIVATE EQUITY INDUSTRY IN THE GRAND EST REGION

The French Private Equity industry has been showing successful figures since the second half of 2015 as the document from AFIC<sup>215</sup> (French Venture Capital Association), a French PE association, suggests. The number of funds raised throughout the whole of 2017 boosted and the total of funded companies increased as a consequence,<sup>216</sup> without affecting market liquidity that kept its value through a series of successful exits.

Even if in 2017 France witnessed a notable change in public government with the “élections présidentielles” which raised uncertainty among investors, M. Emmanuel Macron's final victory eventually revived investments.

The developing direction of the French “Capital d'Investissement” segment, that raised a total of € 6.6 billion of which € 6.1 billion invested in more than 1,100 Start-ups and SMEs in 2018, owes a big portion of this result to the Grand Est region.

The following table demonstrates the new companies created up to the 3<sup>rd</sup> quarter of 2018 in Alsace and compares this figure with the year before. The number of companies created is often used by experts as a clear indicator of more work for all those equity providers in the industry, including the PEs.

	3Q 2017	3Q 2018	Evolution (%)	
			Quarterly	Yearly
Bas-Rhin	2.001	2.129	-12,7	6,4
Haut-Rhin	1.053	1.198	-0,5	13,8
Alsace	3.054	3.327	-8,6	8,9

Table 19: Business creation, raw data. (Source : Insee, Répertoire des entreprises et des établissements).

<sup>212</sup> Valérie Carasco. *Population, emploi et demandeurs d'emploi sur 10 ans dans les intercommunalités d'Alsace*, Adira, 2019.

<sup>213</sup> Valérie Carasco. *Investissez en Alsace, Au cœur des marchés européens parmi les régions les plus dynamiques de France*, Adira, 2017.

<sup>214</sup> Philippe Choukroun, Fatiha Kritter-Rachedi, et al. *Rapport d'Activités 2017*, Agence d'Attractivité de l'Alsace, 2017.

<sup>215</sup> See List of Abbreviations.

<sup>216</sup> Response de l'AFIC à la consultation sur le financement à long terme de la commission européenne, AFIC, 2017.

In order to realise a well rounded analysis we can compare this table with the number of failed companies during the same time period.

	3Q 2017	3Q 2018	Evolution (%)	
			Quarterly	Yearly
Bas-Rhin	229	199	-11,6	-13,1
Haut-Rhin	109	136	9,7	24,8
Alsace	338	335	-4,0	-0,9

Table 20: Business bankruptcy, raw data. (Source : Insee, Répertoire des entreprises et des établissements).

On one hand there are more and more companies supported by PEs, while on the other hand the number of bankrupting companies slightly decreased. New companies created is often directly proportioned to PE activity, not necessarily because these organisations invest in new born businesses but because they contribute to the establishment of a business-friendly environment that encourages entrepreneurs to launch their ventures.

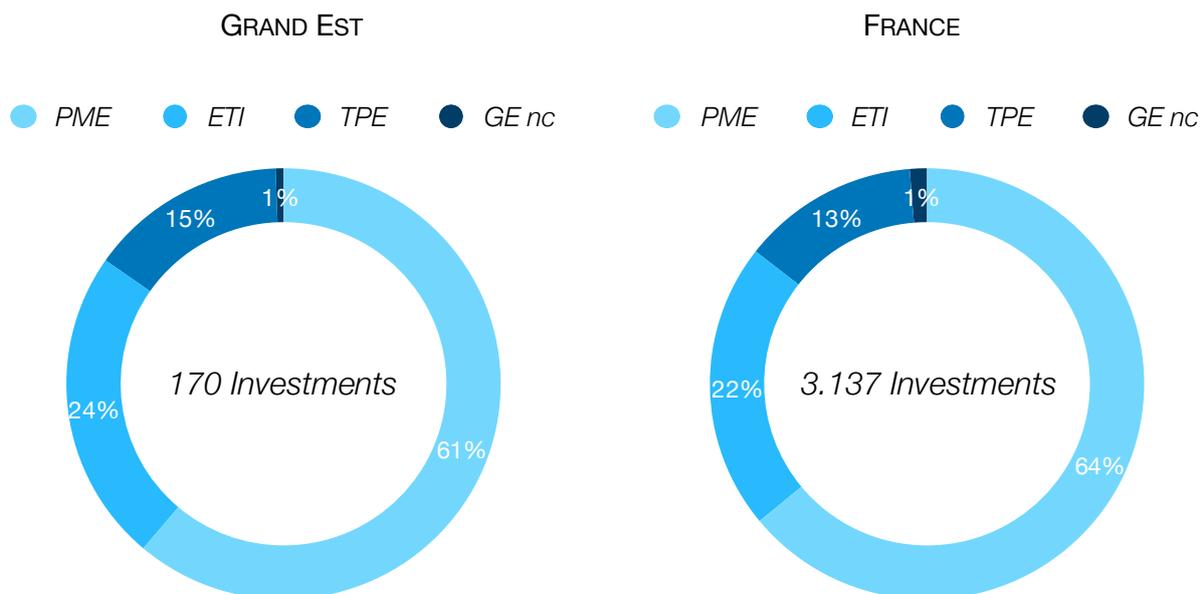
As mentioned above, an innovative support in the Alsatian economy is represented by Adira, the development agency of Alsace, whose goal is to facilitate, promote and encourage the companies development in the territory. To do so, they first try to understand and get to know the company, their needs and requirements. Secondly they guide the firm in realising its plans and business ideas on the field. Their role is mainly informative, in the sense that they try to provide informations and data about the means that a company needs to start its activity in Alsace<sup>217</sup>. These resources may be tangible like terrains, buildings, equipments, machines. Adira provides information on resource cost, where to find the best supplier, etc.

Nevertheless, companies may ask for information about intangible resources like financial or legal, who provides the fundings, public incentives and aides, and many other kinds of support.

Adira is a third party connecting companies and PE businesses. In fact, the entrepreneurs analysing the investment feasibility in Alsace, ask to be on many PE office tables, in order to increase their chances of receiving the financial tools needed. Thanks to Adira's operations, PEs have an easier job in finding good companies to support.

The following distinguishes between the PE supported companies in Grand Est and the total country investment size. It shows how the region is following the national trend where almost  $\frac{2}{3}$  of total PE investments benefits Small and Medium Enterprises, and only  $\frac{1}{3}$  support the projects of larger businesses.

<sup>217</sup> Personal Interview, Adira.



Graph 56: PEs investments per class of companies dimension in 2018 (Source: FranceInvest, Mazars).

**PME:** Petites et Moyennes Entreprises (SME: Small and Medium Enterprises)

**ETI:** Entreprise de Taille Intermédiaire (MSE: Mid-Sized Enterprises)

**TPE:** Très Petite Entreprise (VSBE: Very Small Business Enterprises - or micro)

**GE nc:** Grande Entreprise non-cotée (LEC nl: Large Enterprise Company, or simply LE, not listed)

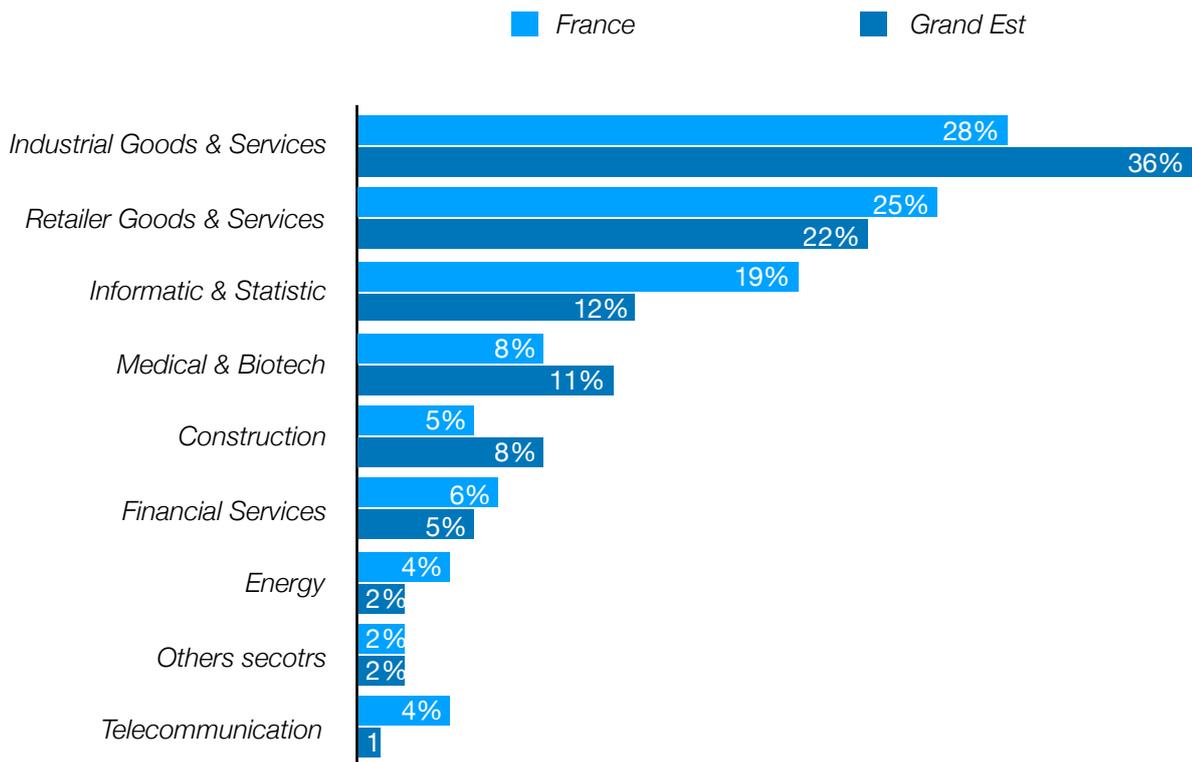
Given the tangle complexity of these acronyms the differences behind this classification should be explained:

	Employees	Revenues	Balance Sheet total
LEC	> 250	> 50 M	> 43 M
MSE	< 250	< 50 M	< 43 M
SME	< 50	< 10 M	< 10 M
VSBE	< 10	< 2 M	< 2 M

Table 21: Companies categories per dimensional class (Source: Official Journal of the European Union, Commission Recommendation, 6 May 2003, 2003/361/EC).

As can be seen from this classification, the very small enterprises are included under the SME group. When referring to SMEs the specific category is not usually indicated. Having said this, 99% of the PE investments are in support of small and medium companies both at a national and regional level, while only 1% focuses on LBO, replacement or turnaround financing, typically devoted to larger businesses.

The following graph shows a dimensional and sectorial cross-analysis regarding the companies in the PEs' portfolio at the end of 2017. Thanks to this representation the most attractive businesses where PEs invest in Grand Est and in France in general stand out.



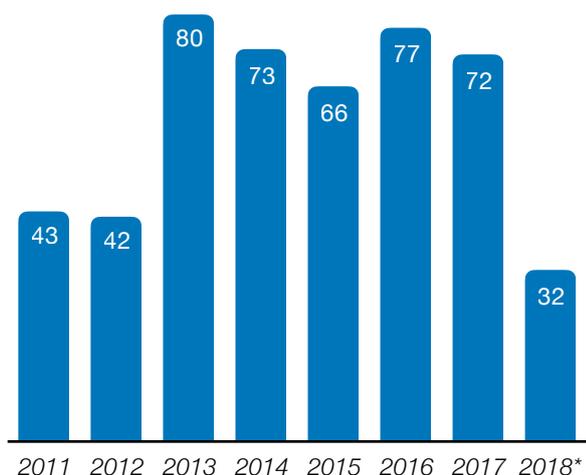
Graph 57: PEs' portfolio percentages per industries (Source: Le Capital Investissement en Région Grand Est, Strasbourg March 1st, 2019, France Invest, Mazars).

According to the graph, the industrial sector is the main field of PE support. This is strictly connected with the analysis of the Grand Est region proposed in the previous paragraph. It is also interesting to notice how the medical industry is also a strong client for the PE in the region compared to the national percentage.

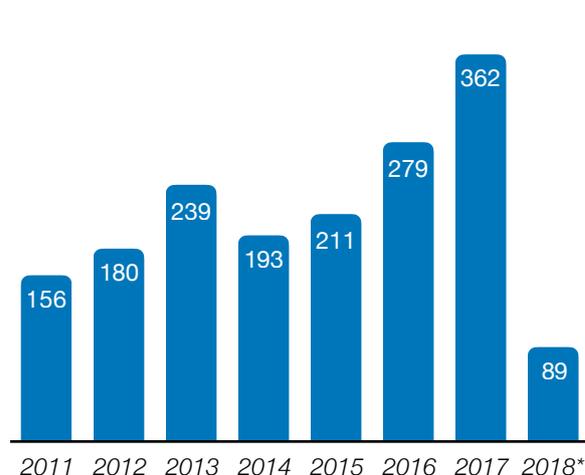
As previously mentioned, Alsace is located in one of the most active territories in France and this fact has its practical consequences. This concept is reinforced by the fact that at the end of 2017 Grand Est region created 2.210 new employees thanks to those businesses supported by PE firms, reaching a final number of 47.662 employees in the region.

Up to the first semester 2018, 89 M euros were invested in 32 companies in Grand Est. These figures are shown in the following two graphs:

Number of Companies assisted by PEs



Total Amount invested by PEs (€M)



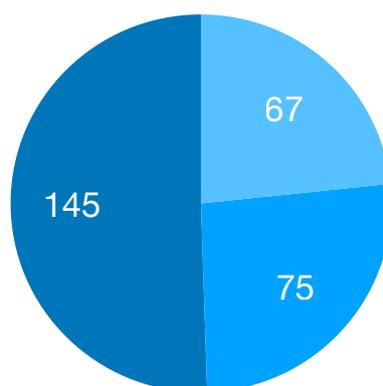
Graph 58: Number of companies supported by PE and total amounts invested (Source: Le Capital Investissement en Région Grand Est, Strasbourg March 1st, 2019, France Invest, Mazars. \* 2018 data only regards 1st semester only).

These figures, however, may be conflicting, in the sense that the biggest portion of companies supported is represented by start-ups and new firms in their early stages of life. However, the greatest portion of amount invested is represented by later stage companies, for example through LBO transactions.

Looking at the progress made from 2011 to 2018, the number of supported companies fluctuated without significant deviations, while the amount invested had been increasing since 2014 but the latest projections for year-end 2018 suggest a stop.

At the end of 2017 there were 297 companies in the region supported by PEs; 76% of them were start-ups and SMEs. The following graph explains how they are divided according to their financial needs and PE category.

● First Stage Financing ● LBO ● Expansion Financing



Graph 59: Number of companies supported by PE per main PE business sectors (Source: FrancelInvest).

PE investment strategies and the company typology they decide to support, may be influenced by PE shareholders. For each PE category there is a different level of risk and investors pay careful attention to it before deciding to which PE they should entrust their money.

In France the most popular form of investor inside a PE is another fund. This type of organisation is called fund of funds and it is extremely popular also in the Grand Est region, especially for BPI France<sup>218</sup> that invests into a lot of entities in particular Capital Grand Est and Siparex.

As for the legal status of Capital Grand Est it is important, first of all, to distinguish three different organisations that it controls:

- FPCI Cap Innov'Est (€ 45M) and FCPI Cap Innov'Est 2 (€ 45M)\*
- SCR Alsace Creation (€ 12.7M)
- FPCI Alsace Croissance (€ 50M) & FCPI Croissance 2 (€ 40M)\*

\* Still raising their funds

FPCI stands for Fond Professionnel de Capital Investissement (Professional Private Equity Fund) and it is a professional fund specialised in investing in non listed companies.<sup>219</sup> An FPCI is a particular form of FCPR (Fond de CaPital Risque). An FCPR must have 50% of portfolio participations into non-listed firms on the French stock exchange or any other foreign stock market. FPCI has even more restrictions because, besides the 50% investments in non-listed firms, it must also invest 60% of its portfolio in European countries. As it does not have a legal status, it cannot be considered a structured company but simply a group of individuals investing together. It is a sort of piggy bank in which we can deposit money and once the managers decide to invest in a company, the subscribers will actually deposit the amount promised. Once the managers decide to come out of the business the investors receive their money back with, hopefully, a high interest; this is not the case if the venture turns out negatively. This kind of organisation has an average life of 10 years, therefore at the end of the period the total deposited

<sup>218</sup> Oliver Levy, Regional Director at BPI France Investissement, Personal interview, 11/03/2019.

<sup>219</sup> Caroline Richard. *Investir via un fonds de capital investissement (FCPR, FCPI, FIP)*, Autorité des Marchés Financiers (AMF), <https://www.amf-france.org/Epargne-Info-Service/Comprendre-les-produits-financiers/Placements-collectifs/Capital-investissement>.

amount must be given back to the investors. This is why Capital Grand Est is going through a capital raising process for two new FPCIs. If the activity is profitable there is going to be an added value to it, on the contrary, if the directors have poorly managed these amounts, the investors will get back less capital than what they gave initially.

The FPCI is a fund thought only for professionals because its status does not require the Financial Markets Authority (AMF)<sup>220</sup> agreement to operate; not having a legal personality it is risky. That is why, in order to become an investor inside this kind of fund, you need to prove your experience and be ready to deposit large sums of money.

FCPR and FPCI however, are not the only legal status a cony can adopt in order to be a Private Equity, and Capital Grand Est represents a good example of that. As previously explained Alsace Creation is an SCR that stands for Société à Capital Risque. It is a simplified limited liability company (SAS)<sup>221</sup> whose aim it to invest in non-listed companies, mainly SMEs. An SCR may have a different legal status as for example: public limited company (SA)<sup>222</sup>, limited partnership (SCSA),<sup>223</sup> or, as already mentioned, a SAS.

Both the SCR and the FPCI benefit from great fiscal advantages, being completely tax free on the created added value.

Unlike the FCPI, an SCR has a long lifecycle and the amounts that it invests are part of its capital, the owners are not required to deposit the money for every new investment but only once at the beginning with a down payment.

Moreover, an SCR is not obliged to reimburse the shareholders, as in the case for FPCI. The company can decide to distribute dividends but it is not something “automatic” because it has to be determined with a shareholders’s vote.

The following table represents the main characteristics regarding the typologies of fund allowed by the French jurisdiction.

Typologies of Fund	Objective	Investors Concerned	Participations’ restrictions	Current Account advance payments	Tax Treatment
<i>FCPR (Fonds communs de placements à risque) agréés juridiques</i>	<i>SME and Crafts</i>	<i>Every typology</i>	<i>European non-listed firms performing industrial or commercial activities (minimum 50% in non-regulated markets (banking, financial assurance))</i>		<i>No tax break</i>
<i>FCPR (Fonds communs de placements à risque) agréés fiscaux</i>	<i>SME and Crafts</i>	<i>Additional requirements</i>	<i>European non-listed firms performing industrial or commercial activities (minimum 50% in non-regulated markets (banking, financial assurance))</i>	<i>Up to 15% advanced payment to those firms where the</i>	<i>Tax break on earned dividends</i>

<sup>220</sup> See List of Abbreviations.

<sup>221</sup> See List of Abbreviations.

<sup>222</sup> See List of Abbreviations.

<sup>223</sup> See List of Abbreviations.

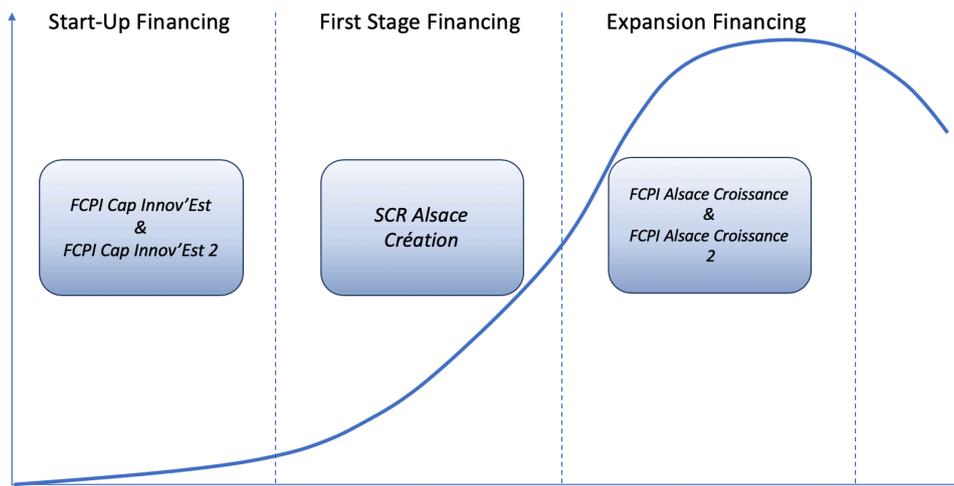
<i>FCPI (Fonds commun de placement dans l'innovation)</i>	<i>SME and Crafts particularly innovative</i>	<i>Every typology</i>	<i>Minimum 70% of portfolio must be innovative businesses. At least 50% in non-regulated markets (banking, financial assurance)</i>	<i>shares held are higher than 5%</i>	<i>Tax break on solidarity tax on wealth and revenues tax</i>
<i>FIP (Fonds d'investissement de proximité)</i>	<i>SME and Crafts from the same region and operating since at least 5 years</i>	<i>Every typology</i>	<i>Minimum 70% of portfolio must be innovative businesses. At least 50% in non-regulated markets (banking, financial assurance)</i>		<i>Tax break on solidarity tax on wealth and revenues tax</i>
<i>FPCI (Fonds professionnels de capital investissement)</i>	<i>SME and Crafts (debt lenders under some conditions)</i>	<i>Institutional Investors or similar</i>	<i>European non-listed firms performing industrial or commercial activities (minimum 50% in non-regulated markets (banking, financial assurance)</i>	<i>15% of owned companies</i>	<i>None</i>
<i>SLP (Société en libre partenariat)</i>	<i>Every typology</i>	<i>Institutional Investors or similar</i>	<i>The Bylaw set these restrictions</i>	<i>Possible</i>	<i>None</i>
<i>FCPR (Fonds communs de placements à risque) nourriciers</i>	<i>Every typology</i>	<i>Qualified</i>	<i>Invest 100% in a single collective investment vehicle</i>	<i>No direct investments</i>	<i>None</i>

Table 22: General rules and tax treatment for every PE fund category (Source: Caceis).

Choosing a fund category instead of another has huge implications, as the above chart explain. The objectives may be different and some of them are available to specific investors only<sup>224</sup>. One aspect not reported in the table is the fund's length. In fact they differ and the years you can spend inside a firm before moving to the exit phase is very important for the general partners strategies.

In order to better understand how Capital Grand Est is organising its entities' management the following graph summarises what has been discussed up to now:

<sup>224</sup> Pierre Battini. *Les grandes étapes du capital investissement*, Vie & sciences de l'entreprise, Vo.1, N. 203, pp. 124-132, 2017.



Graph 60: Capital Grand Est investment vehicles (Source: Capital Grand Est).

According to M. Becker, the entity with the busiest and most active life during these last years has been Cap Innov'Est, that invests in very small firms with an innovative and technological imprint. According to Becker, it is the fund that grew the fastest compared to the others and it is experiencing a very dynamic moment. On the contrary, Alsace Croissance is the one that is operating in the most competitive and crowded sector of the PE industry.<sup>225</sup>

LBO and replacement financing are always strong industries in Grand Est even though during the last years also First Stage financing has represented an active sector where deals are obviously smaller in terms of value.

In order to understand the PE effectiveness operating in the Grand Est region, it may be interesting to study whether the PE operating activities are started by their proactive actions or, on the contrary, if the companies are taking the first step by directly contacting them. In other words, do the PEs have the connections and knowledge to look for the company or is it vice versa?

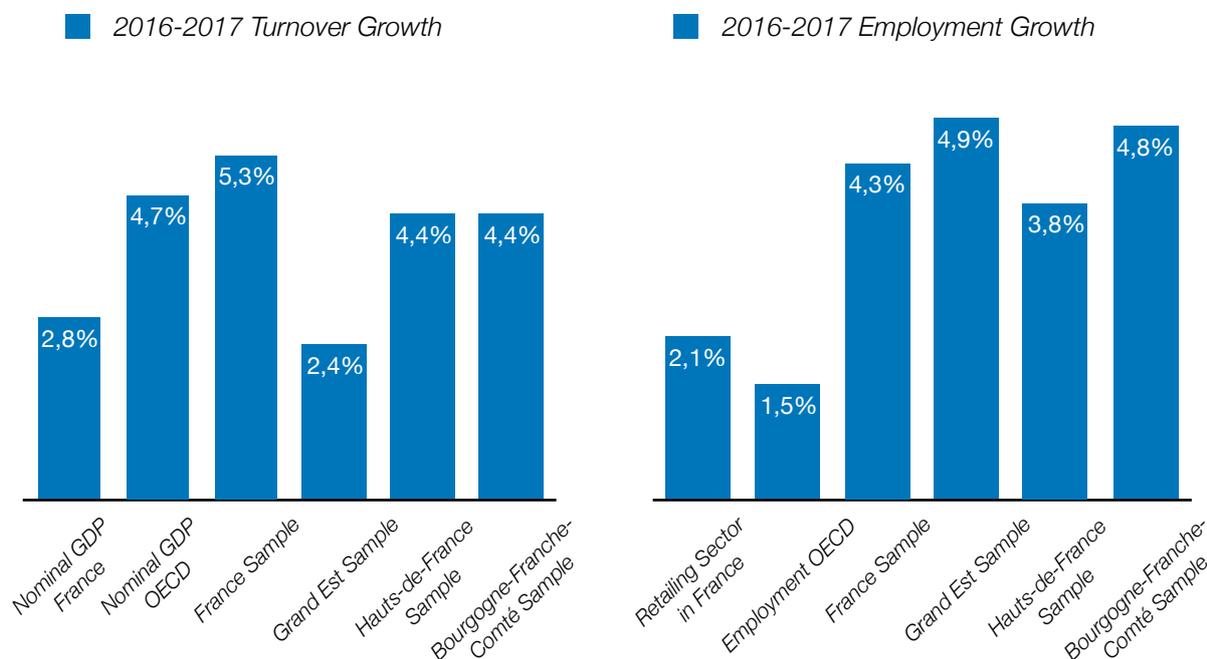
Every interviewed PE operating in the Grand Est confirmed that, even if some bigger companies contact them directly, they are doing most of the job in order to establish a relationship. They are the ones who look for potential corporates offering their services. Notwithstanding their proactiveness, the most common way to get in touch is represented by what we defined in chapter 2 as a great network expansion. These connections guarantee a good proprietary deal flow and allow a PE to receive a distinguished amount of dossiers on his desk by simply knowing the right people. M. Becker has made it clear: “[...] we can have a banker that informs us about an operation that he is going to take on, we can also have accountants, lawyers, other PEs in the region as well, who decide to share the risk or who believe that the investment needed inside a certain business is just too big for a player alone”.<sup>226</sup>

There are many companies that do not feel the need for a PE support for many different reasons, often just because they do not know the existence of these organisations. It is the PE that directly contacts them through its developed network and offers its services.

<sup>225</sup> Personal Interview, Stéphane Becker.

<sup>226</sup> Ibidem.

The graphs below show two clear macroeconomic effects that the PE activity has on the region: these are turnover growth and employment growth generated by those companies that these organisations are supporting in Grand Est. The regional data is compared with two other nearby regions, the overall country and other OECD members.



Graph 61: Turnover Growth and Employment Growth for PE backed companies (Source: FrancelInvest, Mazars).

Here follows a description of how FrancelInvest has been able to realise these two graphs. Obviously, the data do not refer to the population's totality but smaller samples have been used in order to reach a reliable result. In other words, a smaller number of businesses has been analysed to conduct the survey. For the turnover growth (left-hand graph) the sample representing the national growth was composed of 3.137 firms, 170 for Grand Est, 236 for Hauts-de-France and 97 for Bourgogne-Franche-Comté.

As far as the employment growth calculation (right-hand graph) the same samples have been used except for France where only 2.898 were analysed for the employment computation. What is interesting about this analysis, is that although the companies supported by the PEs' expertise in Grand Est grow slower in terms of turnover, they are able to perform very well in employment, offering jobs to more people than other categories analysed, in percentage.

The 2008 crisis is now part of the past, not all companies and sectors have been impacted in the same way, especially in Europe. The industrial sector however, has been exposed the most to its consequences, especially in Grand Est where many SMEs are subsidiaries of bigger groups that export a lot, thus more sensitive to global collapses. Consequently, once this category was impacted, the other SMEs felt the critical aftermaths.

The general feeling in Grand Est is that today the financial crisis is considered long gone, and the economy is experiencing a great growth phase. These big German brands are still strong where SMEs have taken advantage to develop, invest and thrive.

At this point in the discussion it should be highlighted how the minimum ticket for the small operations in Grand Est, that is those operations requiring less than € 5M in total, is on average € 800K.<sup>227</sup> The ticket is a technical word used to indicate the entrance amount invested in the company. It may not be the last sum of money lent to the firm, but it is certainly the first.

The following analysis reflects the figures described above depicting the amounts invested and the number of supported companies. It gathers these values according to the region's industry sector. It is worth pointing out how 31% of the companies belong to the industrial sector.

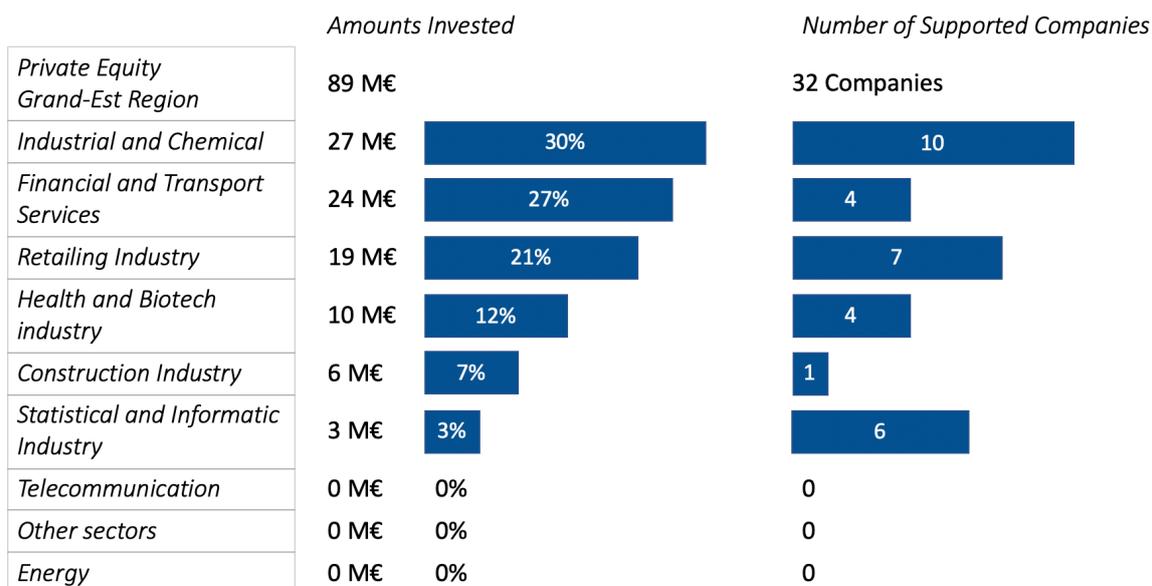


Table 23: Amounts invested and number of supported companies per industry (Source: FrancelInvest, Mazars).

The first semester in 2017 counted 42 supported companies, showing a marked reduction of 23.8% in the first semester 2018 where the companies were 32. This reduction seems even larger in terms of amounts invested: € 89M for 2018 and € 169M for 2017 (- 47,34%). Given this general employed capital contraction, it is even more significant to see how the less capital invested was almost all concentrated on LBOs or Replacement Financing (€ 28M in 2017, € 35M in 2018). Expansion financing was instead reduced to one third (€ 133M in 2017, € 48M in 2018) while the first-stage financing has halved over the past year (€ 9M in 2017, € 5M in 2018).<sup>228</sup>

This data confirms once again how 2018 was not a very positive year for the Private Equity. This reduction was expected after 4 to 5 years of free run for France and the Grand Est region, but this drop may also hide something bigger. The country, however, conserves one of the most interesting aspects of the Private Equity industry in support of small firms. This singularity is the presence of development and growth funds operating specifically in each region, and between region borders only.

<sup>227</sup> Report 2018, FrancelInvest, Mazars.

<sup>228</sup> Report 2018, FrancelInvest, Mazars.

These are public funds mainly controlled by the region itself with a very specific goal: supporting small and medium companies in the territory by developing their activities. For example in the Grand Est there is Capital Grand Est, in the Lorraine there is ILP (Institut Lorraine de Participation), in the Champagne-Ardenne the IRPAC<sup>229</sup> Development, so the Grand Est region has three different entities corresponding to the old territories before unification in 2016.

The region publishes a call for tenders and the notice's winners will be the company managing the regional fund. Other examples are West Web Valley for the western regions of France, Rhône Dauphiné Développement for the Rhône-Alpes region and Nestadio Capital for Britain.<sup>230</sup>

When reading the purposes and declared missions of these funds a common denominator is highlighted: backing the companies through an equity disposal, and supporting their activities at the beginning of their lives.

A regional fund invests in a specific geographic area and this pre-requisite is part of its investing strategy. These funds have the great advantage of knowing their territory and the local SMEs' ecosystem perfectly. These are instruments that invigorate and make the industry dynamic encouraging the entrepreneurs that may feel isolated from time to time.

Given the presence of these regional funds it is clear which PE invests in smaller businesses and which in bigger ones. M. Rinckerberger, Siparex deputy director for Grand Est, explained why his company focuses only on mid-market firms in this specific area. In fact, the regional organisations are mainly operating on first stage financing, start-ups and innovative companies.

In order to avoid this competition, Siparex, decided to manage bigger firms at a later stage of their lifecycle.

The following graph shows the main features that a company must have in order to receive the PE support. In other words, these are the main factors that a PE carefully looks at in order to decide whether to make an investment or not.

	1 <sup>st</sup> position	2 <sup>nd</sup> position	3 <sup>rd</sup> position
Alsace Business Angles	<i>Team/Management</i>	<i>Company's Attractivity and Image</i>	<i>Market Size and Competition</i>
BPI France	<i>Team/Management</i>	<i>Strategic Positioning of the Company</i>	<i>Financials and Business Plan</i>
Capital Grand Est	<i>Team/Management</i>	<i>Business Plan</i>	<i>Financials and Perspective forecasts</i>
Siparex	<i>Team/Management</i>	<i>Financials and Profitability</i>	<i>Market Size and Competition</i>

Table 24: SME's requirements in order to be eligible for PE support (Source: data collected by personal interviews from Grand Est operators).

<sup>229</sup> See List of Abbreviations.

<sup>230</sup> Adrien Chaltiel, Maika Bacho. *Les Fonds Régionaux*, Eldorado, 2019, <https://eldorado.co/blog/2019/03/29/11-les-fonds-régionaux-en%20A0france>.

The results from this analysis show that the first aspect that the PEs in Grand Est look at is the team, the management body. The company itself places second, together with its positioning and reputation; while the financials come only at the third spot. The economic and financial situation consists, only for a small part, in historical data because it is mostly perspective forecasts and business plan for the future. The market is only marginally considered, as it places fourth and mentioned only by half of the operators.

Even if the companies financial position is in third place, most of the PEs agree that it is rather difficult to build on sand. It is also arduous to convince a bank in going along with the investment when the target company is too risky. We bear to keep in mind that a PE almost never invests alone but usually commits 50% of the capital, the other 50% comes from a bank in order to re-establish a certain balance between debt and equity. If the financial situation of a company is bad, the bank will not go along with the investment.

Moreover, especially for investments in the first stage financing, the tickets are high ranging from € 1M to € 4 - 5M. Even if a PE is investing only € 1M, it means that the bank is putting up the other million. Given this investment structure the company must be valued at least € 2M otherwise the whole operation is pointless. Today a company's value is calculated with a profitability index, in order to observe how much cash it will be able to produce in the future and for how long. If a company is "sailing through dangerous seas", it is hard to get such a value that justifies the investment.

When asked the opposite question, which is what are the biggest challenges and problems that you can encounter when investing in the SMEs in Grand Est these were the answers:

	1 <sup>st</sup> position	2 <sup>nd</sup> position	3 <sup>rd</sup> position
Alsace Business Angles	<i>Ticket/Investment Value</i>	<i>Conflicts with the Team/Management</i>	-
BPI France	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Team/Management</i>	<i>Missed of Strategic Opportunities (Poor Business Plan)</i>
Capital Grand Est	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Team/Management</i>	<i>Poor Business Plan (Profitability expectations not respected)</i>
Siparex	<i>Wrong analysis of the Market</i>	<i>Conflicts with the Team/Management</i>	<i>Poor Business Plan (Profitability expectations not respected)</i>

Table 25: PE's biggest challenges when investing in SME in Grand Est (Source: data collected by personal interviews from Grand Est operators).

The chart shows even more coherence in the answers because it is evident that the problem PEs find more often in their investments is a change in the market conditions that they did not foresee in advance. M. Becker said it clear: "[...] very very often it is a market degradation that we did not anticipate, like an increase in the costs of inputs or a drastic reduction of clients".<sup>231</sup> So we are

<sup>231</sup> Stéphane Becker, Personal Interview.

talking of a change in market conditions that drastically affect the business plan. It can also be a new competitor that becomes stronger than you, or a new set of rules that affects your business agility.

In second place the answers are coherent indicating the conflicts with management as one of the biggest challenges of investing in SMEs. This issue does not occur as often as the first answer because PEs usually spend a good deal of time with management discussing before taking the decision to invest in a company. Therefore, the directors' personalities are observable in advance.

The third place is occupied by a poor business plan that does not take advantage of all the market opportunities or exploits the wrong ones that turn out to be negative for the firm. As Olivier Levy explains, Regional Director at BPI France, these companies are small and often not structured as a multinational for example. Often the management does not even prepare a business plan so the PE has to work on it from scratch instead of just testing an existing one.<sup>232</sup>

The manager also clarifies that a company in order to be the object of these capital infusions must show a team complementarity, so the managers must have well proven working practices and fit in with the PEs general partners. Rarely is the investment made where there is only one person driving the business, as Mr. Levy suggests: "no one man show",<sup>233</sup> and this aspect can be linked to the first point in our table.

In the unfortunate event that things do not turn out positively, the PE cannot "leave the boat sinking", simply because the shares of that company are not liquid enough to be sold on any market or to any possible acquirer. They try instead, to help the managers "right the ship". However the PEs do everything possible to make sure that these cases are very rare in fact most PEs are 100% successful with their investments. There reason for this is that before deciding to support a company they make every feasible analysis and test various scenarios to be ready for the future.

A great example is brought by M. Becker: "[...] we have one company in our portfolio that has been struggling with its activity for the simple reason that the price of raw materials has increased and we couldn't see it coming years ago. Even if the company has been increasing revenues, given this unexpected event, its final profitability is slightly decreasing. The problem is that the company's value was calculated using an EBITDA multiple considering the margin would have grown in the future. Nonetheless, since it started decreasing we are having some trouble because the cash flows generated are neither enough to cover the debt repayments nor the equity cost. Hence, right now we have to make a choice, we can either invest more and hope to solve the problem in the near future or we can reimburse the senior debt and account for the loss".<sup>234</sup>

For a company to be object of a PE support it must present some essential characteristics. They have to be good enough to overcome the due diligence process and all the analysis that these organisations perform before deciding got invest. For instance, Siparex after working 10 years in the Grand Est region has invested in 12 companies only. These companies must show a specific competitive advantage and be leader in the sector of their activity. In their portfolio there is a

---

<sup>232</sup> Olivier Levy, Personal Interview.

<sup>233</sup> Ibidem.

<sup>234</sup> Stéphane Becker, Personal Interview.

bakery, a beauty products firm, a car company, a tech company<sup>235</sup> and many others, but they all share a common characteristic: the excellence in their domain of activities.

BPI France instead has invested in 21 companies in the Grand Est among which are a cybersecurity firm, a firm producing electrical locking mechanisms, a wireless headphones firm and many others.<sup>236</sup>

Capital Grand Est has invested in many more companies; indeed Cap Innov'Est counts 19 companies in its portfolio, 15 for Alsace Création and 13 for Alsace Croissance.<sup>237</sup> Due to the fact that Capital Grand Est is managing three different vehicles to invest in three different phases of a company's lifecycle, it has the possibility of broadening its range of activities.

#### 4.5 CONCLUSION

First and foremost, the economy in general is going through a very positive period with flourishing industries and innovative businesses attracting investments from other countries. This is true also for Grand Est, where two markets especially are notably attractive: industrial goods and food/beverage.

The PE industry has been increasing at a remarkable pace since the second half of 2015 reaching a peak in 2017 when, it became the second in Europe for dimension. Nevertheless, last year it recorded a slow down in capital collected and invested, worrying the experts in the field.

The market has become very competitive but on the other hand the companies deserving a PE support are not very numerous, increasing the risk of taking on a bad investment. Investment downturn is a clear consequence of shrinking capital raised. There are more and more PEs competing for profitable deals which make the market sluggish and stagnant.

The only sector where the capital invested slightly increases is the first stage financing (80% of French PE invest in this stage), but even there, the number of supported companies decreased which points out that more funds have been distributed to less companies. This is another indicator of a passive market.

While on one hand the economy in general is going well, on the other the PE industry is trudging. In the first 6 months of 2017 the PE in Grand Est had invested € 169M in 42 new companies. One year later, in the same time period, the PE had supported only 32 companies investing € 89M. Analysing the PE investments the most attractive sectors in Grand Est are consequently highlighted. In fact, 27 of € 89M was invested in the industrial business (31%), € 24M in transportation industry (27%) and € 19M in retail goods firms (21%). 10 out of 32 companies supported were industrial, 7 operating in retail goods production and 6 in the IT industry.

This data shows how well the industrial market has recovered from the financial crisis, especially since it was the sector where the consequences lasted for a very long period. This area is today considered the most attractive market followed by retail goods and IT.

---

<sup>235</sup> *Les Entreprises que nous accompagnons*, Siparex Group, <https://www.siparex.com/participations/>.

<sup>236</sup> *Paroles d'Entrepreneurs*, Divacore, <https://www.bpifrance.fr/A-la-une/Paroles-d-entrepreneurs/Divacore-34631>.

<sup>237</sup> *Notre Portefeuille*, Capital Grand Est, <http://www.capitalgrandest.eu/notre-portefeuille/>.

In conclusion, before taking an investment decision, the PEs in Grand Est pay careful attention to the team and the management inside a company, not trusting those organisations where one single man is presumptuously in charge of many tasks. The company's reputation is another very important criteria in order to attract these professionals, and the financial statements come only in third place. Even if one criteria comes before the other, they are all needed because without if one is missing the PE will rarely start a cooperation.

## Chapter 5: A Comparison between the two regions

In this chapter a brief comparison between Veneto (Italy) and Grand Est (France) is described. It is not a purely theoretical juxtaposition, in fact, it is widely based on the interviews with major regional organisms. The purpose of this paragraph is to summarise the relevant data provided in the previous chapters and observe the PE market situation.

Italy and France are two neighbouring countries with very similar characteristics. Even if the political relationships have been quite uptight in the recent past, they not only share a border, but a century-old bond. Known all over the world for their cooking, coasts, wine, and many other aspects, Italy and France attract millions of tourists every year. Nonetheless, their ability to attract investors is not far behind. Innovative start-ups, strong business leaders with a global presence and reliable mid-range firms with steady cashflows make these countries two of the most important for the European economy. They both show a very diversified industrial framework, driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises.

Despite these similarities, they also have various divergences. As far as France is concerned, the government has partially or fully privatised many large companies, starting from the 80s with the Chirac government.<sup>238</sup> Nevertheless, the country maintains a strong presence in some sectors. In particular utilities, public transport, and defence. As for Italy, the government is less bulky, but many businesses are still family-owned. Italy is the third-largest economy in the euro zone, but its exceptionally high public debt and structural growth impediments have made it vulnerable to scrutiny by financial markets. Public debt has steadily increased since 2007, reaching 132,2% of GDP in 2018.<sup>239</sup>

France as the second largest economy, had a lower-than-expected growth and high spending which have strained the public finances in recent years. Despite measures to restore public accounts the public debt rose from 89.5% of GDP in 2012 to 98.4% in 2018.<sup>240</sup>

Having introduced the general context here follows the more relevant PE analysis. How are these funds operating? What are the main differences between a PE based in Veneto and one with headquarters in Grand Est? How is the market performing in general in these two countries?

Starting from the last question, French and Italian PE markets are experiencing two opposite moments. While in Italy, the number of funds involved in capital raising has spiked, growing from 21 in 2017 to 32 in 2018 (+52%), for France we observe a downturn which started a long time ago. In 2017, 127 funds launched a new capital raise, unlike 2018, when they were only 95 (-25%)<sup>241</sup>. In terms of amounts collected, in the same period a similar trend is recorded showing Italy growing and France decreasing. However, in absolute amounts, France is able to attract larger values.

---

<sup>238</sup> Michel Bauer. *The politics of state-directed privatisation: The case of France*, West European Politics, 1988, Vol.11, N.4, pp. 49-60.

<sup>239</sup> Maria Emanuela Montebugnoli, et al. *Notification of General Government Deficit and Debt according to the Excessive deficit procedure*, ISTAT, <https://www.istat.it/en/archivio/public+debt>.

<sup>240</sup> Jean-Luc Tavernier. *Déficit Public*, INSEE, <https://www.insee.fr/fr/statistiques/3899153>.

<sup>241</sup> Report 2018, AIFI, FrancInvest.

It is very interesting to compare the two countries' investors who decided to entrust their funds to PE organisations. By carefully analysing the data and comparing the several classes, we find confirmation in two distinctive aspects:

- France has benefitted from a very vibrant PE market for a long time, albeit in 2018 some of the investors started loosening their commitment. The opposite is true for Italy, where many investor categories decided to trust Italian funds and provide more capital than ever before.
- France is a very attractive country for foreign investors (high percentage of fund of funds) where the government actively participates in the economic progress (high percentage of public sector investments). Family offices, individual investors and pension funds are the main classes of financiers for Italy, which reveals how the market heavily relies on national organisations.

The following table shows the funds raised according to the typology of investors in 2018:

	ITALY			FRANCE		
	€M	ABROAD	IT	€M	ABROAD	FR
Pension Funds & Insurance Funds	24	31%	69%	16	72%	28%
Individual Investors & Family Offices	15	28%	72%	15	35%	65%
Banks	14	23%	77%	8	10%	90%
Public Sector & Sovereign Funds	14	28%	72%	18	30%	70%
Insurance Firms	13	33%	67%	19	41%	59%
Fund of Funds	11	85%	15%	23	68%	32%
Others	9	10%	90%	-	-	-

Table 26: Capital raised by PE firms in Italy and France according to the typology of investors and their origin (Source: AIFI, FranceInvest).

First and foremost, it is interesting to notice how Italy is already taking over some category of investors when compared to France. For the first three classes listed in the table, Italian PEs are attracting more capital than French ones. Subsequently, on examining the last three investors' profile, France completely reversed the situation. This kind of separation reveals how the Italian PEs are struggling to earn foreign backers trust, while French organisations are more appealing to them.

In terms of invested amount, the continuation of the trend reveals how Italy outperforms France for the first time. As far as Italy is concerned, there is a tremendous increase tendency growing from € 4.938M in 2017 to € 9.788M in 2018 (+98%), unlike France, where the investments are not doing so well. In fact, the amount has slightly decreased from € 6.395M to € 6.167M (-4%). This shrinkage proves once again that the Italian market is increasing in dimension and importance, while the French one is experiencing a downturn period. In 2018, for the first time ever, the amount that PEs invested into Italian firms have been higher than the capital employed in support of French businesses. This is an incredible milestone for the whole industry and it may represent a real turning point.

As regards the number of supported companies, Italy has not overtaken France yet. In Italy only 266 firms received PE support (+6% on 2017), while in France they were 1.116 (-5% on 2017). The general feeling revealed throughout the interviews, is that Italian PEs were damaged during the financial crisis and therefore reluctant to invest again. This is not a matter of finding the right corporate, rather, it is to believe that the opportunities they have on the table are valuable. It is hard to conclude that in Italy there are less than one fifth of businesses suitable for PE support than France; there are other reasons explaining this gap. The most obvious, is that the Italian market is still new and unknown to many. Secondly, family-owned businesses with entrepreneurs unwilling to sell their shares play another important role. Moreover, the regional focus of French PEs leads to accepting more deals in the name of territory development. The trends are on opposite sides, with Italy growing and France stagnating, however, there is still a long way to go before they intersect.

To summarise, Italian PEs are not fewer than French ones. In terms of dimensions, the two markets present today a similar market density. However, while Italian ones invest more in less, French ones invest less in more.

On taking a closer look at which market segment received the highest amount of capitals, for Italy, the most important sector in terms of value is the Buyout with more than € 5B invested. Instead, in terms of volume, Early Stage financing covered most deals (172 operations).<sup>242</sup> For France the industries are more balanced, but the one with the most dedicated capital is Replacement financing (close to € 4B), while the one with the highest investments is Expansion financing (483 operations closed in 2018).<sup>243</sup> Replacement financing is implemented through the support of a mature company. The fund enters a firm taking over an existing shareholder, that is why it is called “replacement”. It can take place through a LBO or a PIPE (Private Investment in Public Equity) thus, it is generally considered as the LBO sector. In conclusion, in terms of amount invested, Buyout is obviously in first place in both countries and Expansion financing is also a very popular industry given the nature of the target firms.

While in 2017 French Buyouts required more capital than similar operations in Italy (€ 4.193M for France and € 3.444M for Italy), in 2018 the situation definitively reversed.

The following diagram summarises the main sectorial statistics:

---

<sup>242</sup> Report 2018, AIFI.

<sup>243</sup> Report 2018, Francelinvest.

	ITALY				FRANCE			
	2017		2018		2017		2018	
	€M	Op. N°	€M	Op. N°	€M	Op. N°	€M	Op. N°
Buyout	3.697	99	5.484	115	4.193	156	3.693	188
Expansion	997	69	3.897	66	1.617	552	1.610	483
Early Stage	133	133	324	172	571	145	809	441
Turnaround	111	10	123	6	4	13	5	13

Table 27: Comparison between Italy and France of amounts invested and number of operations per PE sector, rearranged clusters to fit the classification (Source: AIFI; FrancelInvest).

Looking at the ability to create value there is not a clear distinction between the two countries under examination. In terms of employment growth, Italian PEs were able to produce a +4.7% employment rate in 2017, while French organisations supported by PEs increased their workforce by 4.3%. Similar results are obtained from revenues growth. Italian supported businesses increased their revenues by 5.2%, while French PEs boosted their firms revenues by 5.3%. The reason why these results are very similar is explained by the fact that these two markets present comparable and related characteristics. Furthermore, the PE activity, being today heavily regulated and standardised, lead to similar results even across different countries.

The more relevant and unique regional analysis has some links and similarities with the national trend. In fact, Veneto can boast higher invested amounts, but overall Grand Est PEs accomplish more operations.

In 2018, the number of supported firms in Veneto was 27, compared to 64<sup>244</sup> in Grand Est. The amounts invested were instead much higher for Veneto, € 756M, against € 178M for Grade Est.<sup>245</sup>

These two regions are very similar under several points of view. They are both located in the northeast of their respective country and they share a frontier with another nation, Austria for Veneto and Germany, Switzerland, Luxembourg and Belgium for Grand Est. Their hilly terrains offer fruitful vineyards, known all over the world for Valpolicella (Veneto) and Riesling (Grand Est) terrains. This explain why agriculture often leads the regional GDP performances. In 2016 the industrial production in Veneto grew by 2,2% and the sector that contributed the most was Food and Beverage with +4%.<sup>246</sup> Similarly in Grand Est, the craftsmanship industry makes up for the 19,6% of total regional GDP while the country's average is only 14,2%.<sup>247</sup>

The industrial framework is mainly composed by small and medium size businesses. In both regions the percentage of innovative firms is higher than the national average and they are both popular for their high quality products even in the simplest sectors.

<sup>244</sup> Report 2018, AIFI, FrancelInvest (multiplying first semester data for two).

<sup>245</sup> Ibidem.

<sup>246</sup> Commercio 4° trimestre 2016, Veneto Congiuntura, 2016, <https://www.venetocongiuntura.it/>.

<sup>247</sup> Région Grand Est, l'économie du Grand Est en chiffres clés.

Even though they present many similarities, the PE market is completely different. In Veneto the funds close only a few deals per year, and most of them employing large amounts of capital. The situation is the opposite for Grand Est where these organisations make several investments every single year, even if most of them in support of very small firms. This difference is strictly connected and explained by the regional focus the funds have in France.

Moving forward with the PE analysis, the following table depicts what the number of investments is per deal typology in a time span ranging from 2011 to 2018:

	VENETO	GRAND EST
Buyout	20	75
Expansion	16	145
Early Stage	13	67
Turnaround	2	-

Table 28: Number of investments according to the PE industry, historical trend 2011 - 2018 comparison of Italy and France (Source: AIFI, FrancelInvest).

Proportionally speaking, Venetian PE sectors seem to be more balanced, while in Grand Est, the expansion financing makes up for almost 50% of investments. Overall, the statistics are barely comparable, given that in Grand Est 287 investments were made compared to 51 in Veneto 51<sup>248</sup>, almost six times smaller.

The next chart represents the number of raised investments in 2018, according to the market industry<sup>249</sup>.

	VENETO	GRAND EST
Health Care	1	4
Consumer Goods	9	7
Industrial Products	17	11
Food & Beverage	5	-
Transport	2	2
Professional Services	2	2
ICT	9	6
Utilities	2	-

Table 29: Number of closed deals according to the market industries (Source: PEM, FrancelInvest).

<sup>248</sup> Number of investments which is different (higher) from the number of supported firms due to add-on deals.

<sup>249</sup> Some smaller sectors have been included in Consumer or Industrial Goods category according to their nature.

As far as the industrial comparison is concerned there are some interesting macro-economical similarities between the two regions.

These two areas place a strong emphasis on industrial secondary sectors like steelmaking corporates and engineering innovative firms in the ICT business. Peugeot, Citroën, Scapalsace (owner of the famous Leclerc supermarket chain) and Millipore (chemical firm) are some of the largest firms based in Grand Est. They all obtain turnovers higher than one billion euros.

Veneto on the other hand, hosts Eurospin (large supermarket chain), Aia, Benetton Group, Luxottica, Calzedonia and De' Longhi. They all realised turnovers close to or above one billion euros in 2018.

Even if the two regions have a very similar industrial scheme, the PE market presents opposite characteristics. Veneto in particular, is probably the best Italian comparable region with Grand Est, because it is the only one with a PE organisation focusing specifically on a regional basis and fully owned by the region itself: FVS.

It is an S.g.r. (Asset Management Company) entirely owned by Veneto Sviluppo, which is the region's financial organisation responsible for the territory development. There are other regional financial institutions like for example Finlombarda<sup>250</sup> in Lombardia or Fira<sup>251</sup> in Abruzzo. However, these organisations are completely based on debt financing. The singularity of Veneto Sviluppo, lies in its proximity to the target firms, supporting them through a capital infusion in the equity side, becoming a shareholder rather than simply a lender.

Since 2015 Veneto Sviluppo performs these investments into Venetian SMEs through FVS while in the past it owned a separated fund with this specific purpose.

On the French side we find Capital Grand Est, which is the regional financial organisation investing in SMEs in Grand Est. Created in 2012, on Grand Est region initiative, supported by CM CIC Investments and BPI France, it manages, up to now, € 109M (AUM) spread over 3 funds.<sup>252</sup>

FVS invests in Veneto and Friuli Venezia-Giulia based firms, Capital Grand Est invests in firms based in Grand Est and Bourgogne Franche-Comté. Therefore, they have a very specific regional focus and activities' proximity. FVS started to effectively operate in 2018 while Capital Grand Est had started 6 years earlier. This underlines once again the delay the Italian market has compared to the French one.

Nevertheless, these two regions are perfectly comparable under the market competitiveness point of view. In fact, we count in Veneto, approximately, 6 or 7 active PE operators, whereas in Grand Est the number is slightly higher; 7 or 8.

Veneto Sviluppo, in the recent past, opened a new investment fund together with Venetian Cooperative Banks Federation (Federazione Veneta delle Banche di Credito Cooperativo), focused on "Minibond". Minibonds are the most "equity form of debt". It is a bond for all intents and purposes, that can be issued by a non-listed firm, a sort of debt private placement to institutional

---

<sup>250</sup> Finlombardia, <http://www.finlombarda.it/home>.

<sup>251</sup> Fira, <http://www.fira.it/home>.

<sup>252</sup> *Les fonds gérés*, Capital Grand Est, <http://www.capitalgrandest.eu>.

investors.<sup>253</sup> Corporate bonds have always been a listed firms prerogative, but the last financial crisis, the restrictions on bank lending, and the opportunity to offer to Italian SMEs new financing paths, pushed the Italian legislator to expand the list of feasible bond issuers.<sup>254</sup>

The percentage of bank debt for Italian companies amounts to 90% of total fundings. However, banks often go through difficult times, hence obtaining a loan has become very cumbersome. Even small non-listed firms, can issue these Minibonds to finance their operations<sup>255</sup> and it has brought a huge advantage in their proliferation.

These are some of the reasons why the comparison between a PE operating in Grand Est and another working in Veneto is extremely relevant. On one hand there are very similar territories under a strict economical point of view. On the other hand the PE market shows very different performances. The following contrasts and characteristics are entirely based on the interviews we realised, thus, their content is unique and innovative. A paper or study of similar characteristics and degree of specificity has not been written yet, that is why having the possibility to compare the regional data with the opinion of a real PE is extremely valuable.

First of all, the following description underlines how the organisations interviewed have been funded in the same period, hence, the regional analysis is not affected by this variable. In fact, a PE who has been operating for 40 years will obtain performances completely different from a new born PE. The network, that has been mentioned several times in previous chapters, is cultivated with time, care and patience. A brand new fund, will struggle at the beginning at finding the right firms to support. These difficulties are a clear example of the high entry barriers the market has built in both areas.

For both Veneto and Grand Est, all the feasible cases are well represented. In Veneto FVS was funded in 2015, while in Grand Est, BPI France, was funded in 2013. Veneto Sviluppo has been operating for almost 40 years, exactly as Siparex in Grand Est. This correlation between the organisation funding year reinforce the fact that Veneto is probably the best Italian region that can measure up to this comparison.

When asked about their feelings and opinions about the economy in their territory, the PE's answers began to differ. All the PEs in Veneto agree on the fact that Venetian firms are very attractive, industrially speaking, and the region boasts a lively economic framework. On the other hand, the feature of the Grand Est firms is that some of them belong to larger groups based in Germany. Therefore, next to a well established medium sized economic system there are large German groups (or their subsidiaries), that choose Grand Est as headquarter to trade in France.

During the financial crisis, larger firms with international bonds have been affected the most. As a consequence their subsidiaries struggled to operate properly. On the Veneto side however, the small enterprises highly depend on bank loans. Needless to say, banks in general have been hurt by the financial collapse. To conclude, the last decade has been a tough period for both regions,

---

<sup>253</sup> FTA Online News. *Mini bond: cosa sono, requisiti, emissioni, normativa*. Borsa Italiana, 2019, <https://www.borsaitaliana.it/notizie/sotto-la-lente/minibond-271.htm>.

<sup>254</sup> D.L. 22 giugno 2012 n. 83 ("Decreto Sviluppo")  
D.L. 18 ottobre 2012 n. 179 ("Decreto Sviluppo Bis")  
D.L. 23 dicembre 2013 n. 145 (piano "Destinazione Italia")  
D.L. 24 giugno 2014 n. 91 ("Decreto Competitività")

<sup>255</sup> Minibond, <http://minibond.it>.

but while Grand Est is completely over the worst, in Veneto there are some firms still trying to cope with the aftermath of the crisis.

Diving into the differential analysis another source of debate arises: the focus these firms decide to adopt. French funds operate on a regional level targeting those enterprises firmly rooted in the territory. In Italy instead, there are regions where PEs have never invested. Every Italian organisation we have interviewed prides itself on having a national focus, with the only exception of FVS S.g.r. which only targets firms operating in Veneto or Friuli Venezia-Giulia. The lack of regional care exacerbates the competition among these funds and leads to less operations overall.

With regards to the internal structure of these organisations, before moving to an in-depth analysis of their *modus operandi*, the ownership base structure should be studied. In other words, it is relevant to understand who the limited partners (LPs) are, committing huge amounts of capital into these funds.

In fact, there are no material differences between Venetian and Grand Est funds. Siparex for example is quite similar to Gradiente, where the associates and Management Team own the shares majority. Therefore, they identify themselves as independent firms, a characteristic that guarantees a certain degree of autonomy in the choice of pursuable deals.

In general, many funds decided to sell themselves to larger groups or to some banks that wanted to enter this market through the front door. This is not the case of Veneto Sviluppo, which has a shareholder base very similar to Capital Grand Est. 51% of the shares are held by the region itself<sup>256</sup> and the remaining portion is kept by larger banks like Intesa San Paolo in Veneto and BNP Paribas in Grand Est.

Now that the firms' exoskeleton has been presented, it is useful to analyse the interior, which means studying the way they work and conclude these operations.

To begin with, a PE manager has to carry out several operations to prepare the deal. The first object is to establish a relationship between PE and target firm. In this case there is a common answer upon which everyone agrees. Almost every single PE interviewed said that the majority of opportunities are presented through a well established network. This means that firm and PE get in touch thanks to a client's banker, a lawyer, or a consultant. In some cases it may even be that a PE's employee knows someone working for the target company.

Even if the network was mentioned in almost every answer, a careful analysis shows some slight differences. As far as the PEs operating in Grand Est are concerned, many of them mentioned a trade fair as an important meeting point, an exhibition or an entrepreneurs roundtable. These events may be organised by the PE itself, but more often, by the region itself, universities, or associations.

Organising this kind of events, where the demand meets the supply, is extremely fruitful. Very often a phone number exchanged in these situations ends up in a successful deal months later. This specific characteristic shows how the market is well integrated and the several actors gather to the unifying goal of growing and developing.

---

<sup>256</sup> Grand Est and Bourgogne Franche-Comté for Capital Grand Est.

On the other hand, the distinguishing factor for Italian PEs is the intermediary activity performed by advisors. As better analysed in Chapter 3, these actors often inflame competition among several funds. While in France many PEs have only a regional focus, meaning that for every area there will probably be at least one firm receiving their support, on the other hand, in Italy, most of the PEs operate at a national level. The result is that there are some regions who have never seen a PE investment in their entire history and that the competitors for the few very good deals lead to commit huge amounts of capital.

Eventually, in both regions the case implying a firm contacting a PE organisation directly is rare and unlikely to happen.

Even when comparing the average life of funds there are contrasts. Venetian PEs highlight the presence of very strict rules, where the fund can last maximum 10 years. Four to five years are spent investing the collected capitals in the target firms that successfully passed the PE analysis. Furthermore, the remaining five to six years are spent disinvesting. Every interviewed PE working in Grand Est, instead, highlighted how the exit period may be longer than 5 years and in most situations it can extend for a couple of years more.

Being able to wait more time before selling the firm is extremely valuable. The market nowadays changes very frequently and it presents different opportunities every month. Spending more time cooperating with the firm gives you the opportunity to realise long term goals and reduce the burden imposed by the exit agreement with the firm.

The exit timing is essential because the market conditions and the firm preparation may be completely different from one year to another. This is the moment when all the efforts and sacrifices bear fruits, therefore, PEs pay enormous attention to it.

With the Bank of Italy order of January 19th, 2015,<sup>257</sup> Italy has a collective assets management regulation. This set of rules has some similarities with the French system regulating the “Capital d’Investissement”, issued by the Financial Markets Authority (Autorité des Marchés Financières, AMF). According to both regulations, the asset management activity is based on the existence of three elements:

- A set of assets under management: the goal is to increase the assets’ value through investing and divesting activities;
- The risks connected to those assets: constant risks evaluation and the assessment of the whole portfolio coherence with the established prudential limits;
- The collective aspects linked to the activity: realised through a collective assets management organisation (OICR<sup>258</sup> or OPCVM<sup>259</sup>) which is the investment vehicle used to perform this activity.

---

<sup>257</sup> Regolamento sulla gestione collettiva del risparmio. (15A01944) (GU Serie Generale n.65 del 19-03-2015 - Suppl. Ordinario n. 11).

<sup>258</sup> See List of Abbreviations.

<sup>259</sup> See List of Abbreviations.

The Italian law guarantees the power to manage collective assets to S.g.r., SICAV<sup>260</sup> and SICAF<sup>261</sup>. The French law instead, allows FCPR, FCPI and FIP. In both cases, the firm structure must respect the following parameters:

- Clarity;
- Completeness;
- Synthesis;
- Coherence;

The Italian law does not strictly regulate the fund's duration. The legislator only stated that it has to be coherent with the investment period, and in case of a fund, it cannot be longer than the management organisation's duration.<sup>262</sup> It is understood that the 10 years time limit is imposed by the fund management rule rather than the activity's guidelines; hence it can vary with every investment vehicle.

On the French side instead, the suggested duration is between 8 to 10 years. Moreover, the law states that the life of a fund can be extended by 1 or 2 years, after informing the AMF (Authority of Financial Markets) and the stakeholders involved, thus, it can reach a maximum of 12 years.

Another important difference arises when analysing the PE industries. In Grand Est the operators are specialised in different sectors, while on the Veneto side, almost every single PE works in the Expansion financing, rambling occasionally in other typologies. FVS S.g.r., Gradiente, 21 Invest and Alcedo, all focus on mid-sized firms, with steady cashflows, who want to expand their operations and internationalise their market-base.

In Grand Est however, Alsace Business Angels invests in very small firms, for instance in innovative startups, or artificial intelligence providers whereas BPI France realises mostly LBOs. Capital Grand Est supports SMEs with a turnover between € 3M and € 10M; also Siparex focuses on SMEs, but with slightly bigger turnovers. Siparex realises also some Venture Capital deals but not in Grand Est because so as not to interfere with the regional fund, stressing the strict segments separation.

Therefore, Venetian funds do not only compete at a territorial level, focusing on the whole country instead of targeting the single region, but they also battle in terms of a firm's typology.

Moreover, a comparison analysis on the PE investment process has to be run. In this case no specific differences were pointed out, in fact, the process shown below is applied by Venetian and Grand Est PEs without material differences. The series of actions and tasks is the following:

1. An opportunity reaches out to the PE (through the network or some other channels);
2. The PE establishes a first informal relationship with the firm;
3. The PE performs a rough analysis of the firm's past and forecasted financial data, market trends, competition level, product and supply chain singularities and management skills (this analysis is usually performed by the internal investment committee and it is meant to help decide whether to go on with the process or not);

---

<sup>260</sup> See List of Abbreviations.

<sup>261</sup> See List of Abbreviations.

<sup>262</sup> Banca d'Italia, Provvedimento 14 Aprile 2005, Regolamento sulla gestione collettiva del risparmio, Supplemento ordinario n. 43 alla Gazzetta Ufficiale, Titolo V: Organismi di Investimento Collettivo del Risparmio: Capitolo I, Criteri generali e contenuto animo del regolamento di gestione dei fondi comuni.

4. The PE interviews the firm itself but also with other competitors (not directly but usually through the PE network) in order to understand towards which direction the market is moving;
5. Both parties involved sign an Action Memo where the PE describes how the investment is structured (ticket amount, timing, governance organisation, investment and exit paths);
6. The fund's General Partners vote on the deal;
7. Both parties sign a Letter of Intent (LOI), a sort of associative agreement (investment memorandum) where their intentions and aims are made explicit;
8. Formal Due Diligence, usually delegated to external firms. The Due Diligences performed are the classical four: accounting, financial, tax & legal, payroll;
9. If all the previous steps are agreed on, the operation will be carried out. The firm will have to amend a new bylaw and shareholders' agreement.

This nine steps process is exactly the same for Veneto and Grand Est funds. The only difference is that in Veneto PEs usually try to get the company to sign a confidentiality agreement (non-disclosure agreement) during the first internal analysis. This is due to the advisors activity that may present the same opportunity to various funds. Therefore, a PE organisation before spending money and time on expensive Due Diligence analysis tries to make sure it is, exclusively, the only one involved.

Even if the process, apparently, does not present any difference, there is a very important hidden divergence in the interviews. The PEs in Grand Est have to hold negotiations with the company's managers while in Veneto, the PEs have to deal with the entrepreneur. This point underlines how the French PE market is more developed and mature compared to the Italian. Riccardo Spigariol, Investment Associate at 21 Invest confirms this point. 21 Invest has a separate entity operating in France, therefore, he knows exactly what the main differences are between these two countries. He affirms that: "in Italy the market is 10 years behind compared to France. In France the market is mainly driven by the managers. Firms show quite a high level of expertise. Our cousins [french division] told us that they no longer sit down to deal with the entrepreneur, but directly speak to the managers who are often well informed about specific financial topics like stock options and more"<sup>263</sup>.

Moreover, none of the interviewed PEs suffer the competition brought by international funds. Foreign PEs usually invest in very large corporations for several different reasons. One of them is that obtaining information on a small firm may require great effort, especially when the investor comes from a different country. Besides, investing in a SME is often riskier than a large LBO and the international PEs' limited partners are fund of funds and global banks which need steady cash-inflows to sustain their business model. Therefore, they cannot tolerate much risk.

In both regions, it has been highlighted that albeit they do not feel the pressure of international funds, the national competition is increasing every year.

Finally, in terms of exit strategies, there is no a clear distinction. The PEs in both regions confirmed that the first option is a sale-back to the previous original shareholder who was replaced during the investment period. In case he or she does not want to come back to control the firm, the PE offers the shares to the general market. At this point, it can be either another PE fund (add-on, or secondary deal) or a firm's competitor (trade or industrial sale) deciding to buy

---

<sup>263</sup> Riccardo Spigariol, Personal Interview.

the fund's shares. In the case of a trade sale, the acquiring firm usually asks for a 100% of the target's shares, while in the case of a secondary deal, the PE can decide to purchase either a majority or minority position.

Now that the main points have been explained and clarified the final conclusions of this chapter are summarised in the following bullet list. This is the result of months of interviews and macro data analysis.

The first list concerns the main differences between Italy and France in general.

- Italy has a heavy presence of family businesses;
- France has a heavy presence of the government;
- In Italy PE is growing year after year (even if 2019 foresees a slowdown);
- In France the PE market is plunging (it has been overtaken by Italy in terms of invested amounts);
- French PE organisations are very attractive to foreign investors;
- Italian PE organisations heavily rely on national investors.

The following table summarises the main differences between the PE market in Veneto and Grand Est. The main points are divided in macro-areas of the industry.

	VENETO	GRAND EST
Deal Typology	<i>Few deals with large amounts</i>	<i>Many deals of small dimension</i>
Firms' Profile	<i>SMEs, innovative but not well structured at managerial level</i>	<i>SMEs, but also some large German groups' subsidiaries</i>
Target Area	<i>National focus (except FVS)</i>	<i>Regional Focus (except Siparex)</i>
Deal Starter (Scouting Activity)	<i>Advisors and Network</i>	<i>Events, Fairs and Network</i>
Investments and Fund Duration	<i>Strict rules, Investments maximum 5 years</i>	<i>Flexible rules, Investments can go up to 7 years</i>
Main Deal Category	<i>Expansion</i>	<i>First Stage, Expansion, LBOs</i>
Deal Counterparty	<i>Entrepreneur</i>	<i>Managers</i>

Table 30: Differences from a PE operating in Veneto and a PE operating in Grand Est (Source: Interviews interpretation).

Many of these differences are dictated by intrinsic regional divergences. For example, the firms' profile has a great impact on the deal counterpart. Given that, in Veneto, firms are extremely small and not well structured, the PE managers have to face a single entrepreneur when offering their

support. In Grand Est the situation is slightly different, where most companies have an assembled c-level managers organisation.

Some other differences however, are dictated by the particular market characteristics, which are discussed in the conclusions of this thesis.

## **Conclusions**

This paper is intended to provide insightful information to both PE funds already operating in the industry and SMEs trying to understand what a PE practically offer.

PEs are more and more acknowledged in the Italian market. Even if 2019 is foreseen to represent a slowdown, the overall trend has been increasing since 2014. Volumes and values increase year after year, and Veneto is slowly welcoming the creation of new funds.

On the other hand, the PEs in Grand Est are investing less capital, signalling a market that is reaching the mature phase. In fact, there are not less pursuable deals, but more actors competing on those target firms.

Italian PEs may find some important insights and guidelines to improve their business by observing the Grand Est. First of all, the creation of a tight network is very important, because cooperating with other PE funds can bring value to the whole market. Sharing knowledge and expertise, other than information on possible targets, is the key to success. Organising sectorial events, fairs or exhibitions is the right way to start long lasting cooperations. Gathering the main regional players in a single room, with the representatives of a target firms interested in the opportunity would mean a further step in the market development process.

In order to accomplish this goal, the advisor functionality has to be completely reimagined. PEs should organise themselves in targeting companies at different stages instead of focusing only on Expansion financing, by dividing the market according to a more even criteria. 99,9% of Italian firms are micro-companies, boasting turnovers close to two million euros. These firms do need a PE to make the leap and transform their business model. By reorganising the market, the advisor would have the possibility of proposing a given firm to the most appropriate PE, loosening the market competition. In order to increase market cohesiveness, development agencies should be established. The perfect example is represented by Adira, the development agency in Grand Est. This firm has an even narrower focus, in fact, it offers support to those businesses only operating in Alsace (therefore, not to the whole region). Besides this very specific case, a regional development institution could represent an informative organisation bridging the gap between PEs and target firms.

As a result of this research, in addition to a sectorial reorganisation, a regional restructuring needs to be implemented. The advisor is a new market player arising from this urgency: to be close to Italian micro firms and listen to their needs.

While Italian PEs pride themselves in operating at a national level, even though it may not be a real advantage, advisors have become the reference point providing PEs with interesting deals. The lack of direct connection with very small firms, has led to small financial boutiques performing the task.

The Italian government has been debating for several months on the possibility of creating a national bank for the south of Italy with the goal of supporting those small firms in need. Undoubtedly despite this being a good initiative, given that only 3% of PE investments in Italy go to the south, it might not be sufficient. Focusing on the south could still be too vague; looking at

the French side as a term of comparison, national financial institutions with a targeting area bounded within the region borders may represent a better option.

However, in Italy there is already a virtuous example: Veneto Sviluppo. Its reality is an *unicum* in the Italian economic system and it should definitely be exported to other regions. Supporting firms through equity and actively engaging in its operations upholding the managers or entrepreneurs, is a much more effective way of creating value; this is specially true for Italian companies whose main issue is the access to credit.

While the ability to create a network strictly depends on a PE willingness to do it, the creation of financial organisation operating distinctively in every single region has to be implemented by the government. Therefore acknowledging, this issue is the first step to pass a law on investment fund in support of financing of small firms. The Italian government has already passed several orders with the aim of reviving the economy such as tax breaks for those firms investing in R&D, nevertheless, a more structural decision has to be taken.

The vast majority of Italian firms are small or micro companies, which explains why PEs investing in our country are called to pay extreme attention to the firm's entrepreneur. PEs should be, in a sense, mothers, psychologists, teachers and lastly investors. Their non-financial skills are especially required when investing in Italy and the deal execution is much more important than the portfolio oversight activity.

Given that national PE organisations are quite active on the Italian economic system, the differences with Grand Est is mainly due to international investors. This kind of fund needs some specific requirements to be met before investing. First of all, the country must have a stable political organisation. These firms commit huge amounts of capital, and a frequent change in the laws regarding taxation or investments, acts as a considerable deterrent to financing.

Another requirement is represented by the internal firm's structure. An international fund needs a managerial structure to rely on when deciding whether to invest. This is often true even for domestic PEs, and in the case of an international fund it is an essential requirement.

It is clear now that the difference between Veneto and Grand Est is partially due to the target firms' characteristics. Therefore, because of their internal organisation and country's political situation, Italian firms are less appealing to international funds, when compared to French corporates. This gap however, could be filled by domestic funds, and in this case, the problem is no longer at a target firm level, rather it involves the lack of PE network.

The introduction has raised the issue as to whether French firms are actually better at attracting investments. The answer is that they generally are but only for international PEs. In fact, in terms of national organisations, Italian funds have been investing larger amount of capitals than the French counterparties.

Given the importance attached to the firm's internal structure and the emphasis on the managerial body, it is clear that there is not an ideal company profile. Every PE interviewed affirms it has no restriction on sensible investing sector, hence all industries are accepted. There are some limits on Oil&Gas and Electricity industries because they present unique characteristics. However, these utility firms are often very large and do not need PE support.

In terms of company dimension there are no restrictions either. In fact different PEs target different firms. This is especially true for Grand Est, whereas in Veneto the funds tend to overlap in many cases. Some restrictions however, begin to arise when dealing with the internal structure. Once again, most PEs do not appreciate the “one man show”. This means that, the firm must present at least some internal organisational layers with various employees covering different roles. In conclusion, depicting a perfect target company’s profile is impossible, with the only exception of having a solid internal structure and great financial results (except for turnaround financing).

Even though it is not possible to describe a sort of perfect company’s dummy, by crossing the different data we obtain a firm with the highest chances of receiving a PE support. It is possible to summarise some of the characteristics a firm should have in order to be considered a good deal.

Starting with Italy and Veneto, nowadays it is a very positive period to ask for a PE support, given that the market is expanding. The number of supported firms has kept stable but the amounts invested have peaked. What follows is a list of characteristics a firm in Veneto should try to acquire in order to increase its chances of receiving PE support:

- As a family business, the entrepreneur controlling the firm should be close to retiring;
- The business should operate in a stable and profitable industry, preferably ICT or Medical (given that the market was the main concern for PEs in Veneto);
- The headquarter has to be based in the north of Italy, preferably Lombardia;
- The amount of capital needed should not exceed € 100M (few PEs are willing to invest more);
- The firm has to be in the early stages of its lifecycle (the number of PEs focusing on this kind of firms doubled in 2018);
- The entrepreneur must be willing to give up 25-50% of his shares (with this participation a PE has more possibilities to obtain higher IRR).

In France instead, the market has been rather turbulent in the last years with a great deal of ups and downs, both in terms of funds raised and capital invested. In Grand Est the amounts invested dipped to approximately € 180M, almost half compared to the year before<sup>264</sup>.

Despite this uncertainty the market remains overall, in a good position and these are the characteristics a firm in Grand Est should acquire to in order to boost its attractiveness for PEs:

- The firm should be of small to medium size (61% of total investments in Grand Est involves SMEs);
- The business should operate in a stable and profitable industry, preferably Industrial Goods (wrong market forecasts represented the main issue encountered by PEs in Grand Est);
- The company has to be well organised with various directors in charge of different tasks;
- In order to have a better opportunity of receiving a PE support, a business plan should be drafted beforehand.

It is clear that in Grand Est there are less characteristics required, and they are more evolved compared to the main points for Venetian firms. This is due to the better organisation of the market and the industry segmentation. In fact, having different PEs targeting different types of firms, both at early stages or in a mature period in their lifecycle, eliminates the need for a specific PE business segment. A firm is a feasible PE target regardless of its age. In addition, given that

---

<sup>264</sup> See Chapter 4

there are less family owned businesses, all the requirements regarding the entrepreneur disappear for PEs in Grand Est.

The questions asked during the interviews, obviously identical for both regions, were extremely specific; thus, the answers collected can be easily compared. Furthermore, the research was not limited to only English language papers but also to French and Italian. Moreover the possibility of holding these interviews in the PE native language meant an evident further advantage in favour of answers completeness and translation faithfulness.

When comparing the answers regarding the target firm's most relevant aspects and the most pressing issues to be analysed during the investment phase, the cohesiveness of the network is proven. In Grand Est the answers were less ambiguous than those received from the PEs in Veneto. For every PE answer management placed first as being the most important point to keep under control when evaluating the target firm. On the other hand in Veneto, in first place there are 4 different answers: strategic positioning, market condition, financials and management team. A similar results pattern is highlighted when PEs were asked to list the three most relevant issues encountered in the investment phase. This is a very important sign of the well established network that connects the PEs in Grand Est.

By thoroughly analysing the feedback, a window over the regional PE market situation is provided. In fact, the most important problem for Italian PEs is the market situation, whereas for Grand Est it is the relationship with management. The market is almost a prerequisite for receiving the PE support in Veneto. In the event that the company is operating in a stagnant or declining industry, the PE will rarely ever take the first step. The market is so important that Venetian PEs try to interview other firms in the same industry as the target, in order to get a general sense of the market position.

On the other hand, in Grand Est, the main concern is to make sure that the firm has a great and solid internal structure, with different managers in charge of different tasks. This was a unanimous response, hence the message was made very clear. PEs look for a solid management team with a positive impact on the corporate, and able to perform at top levels even during distressed periods. Managers have to almost persuade the fund's partners to pick their firm among the several opportunities they have. This aspect reveals the human approach to the business, often more important than cold figures, contract structure and deal clauses. The most important point for PEs in Grand Est is represented by the people.

Second and third place for both regions are occupied by the financial figures and the firm's strategic positioning. Therefore, the market factor, the biggest concern for Venetian funds, does not preoccupy PEs in Grand Est; on the other hand, the management is not a relevant concern for Venetian funds, even though it is the number one priority for PEs in Grand Est. In any case, both issues are deeply based on the firm's internal structure; in fact the way a firm responds to market fluctuations depends on its dimension and business model. Similarly, the management body is a function of the corporate governance.

When asked about the most encountered issues the answers from PEs were quite similar. The chart starts with the market, frequently changing and very difficult to predict. This is a typical aspect of today's entirely globalised markets where the information flows smoothly among

different countries and the reactions are almost instantaneous. In second place the conflicts with the management/entrepreneur have been highlighted. In this answer there are some slight differences that have to be underlined. In fact, while in Grand Est every PE had “conflicts with the management team”, in Veneto some PE had “conflicts with the entrepreneur”. By paying attention to the words used, there is another proof of the Italian firms organisation, where many of them are still fully owned and managed by a single entrepreneur who probably founded the business years before.

This aspect is strictly connected with the challenge in third place, where the answers provided are similar but not exactly equal for Grand Est and Veneto. In Italy there is a critical need for institutionalising the family owned firms and implanting a corporate philosophy and identity. By doing so, Italian firms would be able to attract capitals from foreign investors, respond better to market unexpected outcomes and fill the gap with Grand Est. In the French region instead the challenge is to correct and sharpen those poor business plans. This issue is related to the one expressed by Venetian firms, in fact in Grand Est the matter is already a step further because it implies that a Business Plan has been drawn up, which is not the case for most small firms in Veneto.

It is clear now that the PE market in Grand Est is much more advanced than the one in Veneto, and some problems regarding Venetian firms may just take years to be solved. The already existing PEs however, have the possibility to actually do something to improve and develop their market. The time has come, the turning point has arrived.

These conclusions are based on interviews made to the main PE market operators in Veneto and Grand Est. This direct source of information granted a concrete and practical aspect to the whole paper, but at the same time may represent a limitation. Even though the number of PEs interviewed compared to the total number of operators in the regions is quite high (more than  $\frac{3}{4}$ ), agglomerated statistics collected and elaborated by national dedicated associations are preferred. A personal recommendation regards those PE associations collecting data both in Italy (AIFI) and France (FrenchInvest). The yearly documents, summarising the main national data, are extremely valuable and being able to access these archives for free is certainly an edge. However, regarding AIFI in particular, careful attention should be drawn to the single region's data in order to shed a light on those areas that have been until today completely forgotten.

This research contributes to academia in revealing the PE scenario in countries like Italy and France from a practical point of view. More importantly, the paper provides a comprehensive scenario regarding two specific regions: Veneto and Grand Est. The main differences between these regions have been highlighted and, given that the worse off market is the Venetian one, some improvements are suggested.

More studies and researches on this topic could shift the attention towards what positive contributions the PEs can offer to the Italian economic system. A further analysis should analyse whether an expansion for a PE operator is actually a pursuable growth strategy, or, vice versa, if abandoning the regional focus hampers growth. Hopefully, this thesis represents the first step towards a more general awareness of this complicated yet resourceful actor, that, within the strict legal limits is trying to revolutionise the investors market: the Private Equity.

## **Appendix 1**

### Question 1

*What is the internal structure of Private Equity X? How many funds does it hold? What is the history of your organisation?*

### Question 2

*What is your feeling and your general idea about Veneto/Grand Est? What state the Private Equity market is in? In which direction has the market evolved since the past financial crisis?*

### Question 3

*How does Private Equity X find the target firms? What is the scouting process? Is it the fund that contacts the firms or, viceversa, are the companies taking the first step?*

### Question 4

*Do you have any restrictions in terms of industries regarding the target firm?*

### Question 5

*In which Private Equity business sector does your organisation operate? At which stage of the firm's lifecycle do you intervene?*

### Question 6

*What is Private Equity X investing process? Once you find the target, what analysis do you perform? What are the tasks assigned to your internal bodies (investing committee, partners, etc.) regarding the process?*

### Question 7

*Who are the fund's Limited Partners investing their money into your organisation?*

### Question 8

*How long does the fund operate? How long does Private Equity X keep up with an investment? How much time is spent in exit strategies?*

### Question 9

*What is the exit strategy that has been adopted more frequently during your past investments?*

### Question 10

*What are the three most important aspects you look for in a firm in order to make the investment decision? In other words, what are the three features a firm must have in order to benefit of your support?*

### Question 11

*What are the most critical aspects you encounter when investing in a firm? What are the most common problems you find in a firm?*

### Question 12

*Does Private Equity X feel the competition from international funds?*

Question 13

*Have you ever invested in a company and then see the project fail? If yes, for which reasons didn't it go as planned? What do you do in this case?*

## Appendix 2

Monique Jung - Directrice @ Adira

18/03/2019

*[English Version Below]*

**Giacomo Gualtieri:** Quel est votre coeur de métiers?

**Monique Jung:** Notre coeur de cible c'est de grandes entreprises et de GTI (Groupe technique des indépendants), ça c'est notre coeur de métiers, mais ensuite aussi des entreprises de forte croissance.

**Giacomo Gualtieri:** Quel est le sentiment général du système économique alsacien depuis la crise financière?

**Monique Jung:** Ah, ça c'est la bonne question. Globalement on a eu des passages qui ont été particulièrement compliqués à ce moment là, beaucoup d'entreprises ont traversés des crises, certaines ont disparu. Aujourd'hui on a le sentiment que la restructuration... les principales restructurations ont été faites, et nous avons aujourd'hui beaucoup de projets de développement qui sont en cours.

**Giacomo Gualtieri:** Comment Adira trouve les entreprises, c'est Adira qui contacte les entreprises directement avec peut être le support des intermédiaires financiers ou c'est plutôt les entreprises qui trouvent Adira grâce à votre canal de communication?

**Monique Jung:** Les deux. On a des démarches de prospection systématiques sur tous les entreprises de 100 personnes sur l'Alsace que nous rencontrons toutes une fois par an. Pour les autres, se sont des entreprises soit qui viennent à nous parce qu'elles nous connaissent, parce qu'on a des prescriptions d'autres acteurs économiques dans l'écosystème, des élus de... qui viennent vers nous... ou bien encore on se rend compte à l'occasion des événements et manifestations qu'on peut organiser ou de clubs qu'on monte. Donc c'est vraiment tous les deux.

**Giacomo Gualtieri:** Comment fonctionne l'apport des ressources que Adira offre aux entreprises?

**Monique Jung:** Nous ne sommes pas nous une structure d'investissement capital. Nous sommes une agence de développement économique. Notre rôle est de faciliter et favoriser le développement des entreprises. Pour ça on essaye de bien comprendre, d'abord de connaître les entreprises, de comprendre quel que sont leurs besoins et d'essayer de faire aboutir ça en projet de développement. En apportant des informations sur les ressources dont elles peuvent avoir besoin pour leur développement. Ces ressources peuvent être physiques: donc si elles ont besoins de terrains, de bâtiments, qu'est ce qui existe, combien ça cout. Ça peut être des ressources financières, et là il peut s'agir d'aides publiques, lesquelles existent pour leur projet, qui les financent, comment est-ce on y a accès, qu'est-ce va ensemble ou pas ensemble, à quoi est ce qu'elles peuvent prétendre. Les ressources peuvent aussi être liées à l'accès au financement sous forme de prêts ou du capital, et là on met en relation, on oriente on prépare les sujets avec les entreprises, on introduit mais c'est pas nous qui donnons directement l'argent.

**Giacomo Gualtieri:** Quels sont les besoins de vos clients?

**Monique Jung:** Les entreprises qu'on va accompagner demandent d'être sur tous les dossiers d'entreprises qui font des investissements. On essaie d'être très au fait de ce qui se passe et l'on va choisir d'accompagner tous les projets importants d'investissement soit industriels soit tertiaire. Notre Coeur de cible c'est les entreprises de taille intermédiaire et les grandes, mais en substitution pour les petites entreprises plus en réactif qu'en proactif, c'est à dire seulement s'elles nous contactent.

**Giacomo Gualtieri:** Quels sont les difficultés que vous rencontrez le plus souvent quand il s'agit de réaliser un projet dans ce genre d'entreprise?

**Monique Jung:** Bien, la question du financement c'est une question importante, mais il y a aussi la question qui est liée à l'accès à la compétence. On a déployé énormément de choses pour l'accès à la compétence. Les relations avec les écoles, les formations, la mise en place de nouveaux projets, de formations, l'aide à la mobilité des talents, les écoles, le job des conjoints. On a développé toute une panoplie de choses pour accéder à la compétence du travail en inter entreprise. Il y a énormément de choses que on met on place pour que les entreprises trouvent des solutions.

**Giacomo Gualtieri:** Est-ce que vous ressentez de la concurrence internationale?

**Monique Jung:** Beaucoup de projets des grandes entreprises sont en concurrence avec d'autres sites de la même entreprise dans le monde. Beaucoup de sites sont au sein de même groupe en concurrence pour accueillir les investissements. Donc oui on travaille beaucoup avec les directions des groupes ici en région pour apporter les éléments qui pourront convaincre le groupe de réaliser l'investissement chez nous plutôt que sur un site ailleurs.

### English Version

**Giacomo Gualtieri:** What is your core business?

**Monique Jung:** We mainly target large firms, this is our core business, but we also focus on firms with strong growth forecasts.

**Giacomo Gualtieri:** What is your general feeling about the Alsatian economic system since the past financial crisis?

**Monique Jung:** This is a good question. Generally speaking, we have had several turmoils during that period. In those years, many firms went through a crisis and some of them failed. Today the overall feeling is that the renovation ... the restructuring principles are established, many development projects have started in Alsace and the tide is turning.

**Giacomo Gualtieri:** How does Adira find the target firms? Is Adira directly contacting the companies through financial intermediaries or viceversa, are the firms contacting Adira through your communication channels?

**Monique Jung:** Both. We have fixed meetings with all the firms in Alsace with more than 100 employees, that we meet yearly. In other cases, firms may come straight to us because they know who we are, because we helped other organisations in the same ecosystem ... or because they find out who we are during a routable, an event, that might be organised, or special clubs we build with entrepreneurs to connect and create network. So, in conclusion, both cases are really possible.

**Giacomo Gualtieri:** How does Adira contribute its resources to the firms?

**Monique Jung:** We are not a Private Equity, we are a development agency. Our job is to enhance companies development in our area. In order to accomplish our goal, we have to well understand the firms, their needs, and transform their ideas into a development project. We bring informations on the resources they need. These resources may be material like for example terrains, buildings, offices, etc. it may also be financial resources: how to get a loan, or how to have access to government aid and tax reduction. The needs may be linked to access capital through a loan. In that case we create a network, we introduce people, bring individuals together but we do not invest in first person.

**Giacomo Gualtieri:** What are the needs of your clients?

**Monique Jung:** The companies we follow ask to be on the desk of those organisations which invest in SME like PEs. We try to be extremely updated and we follow those investments that generate value. Our core business focuses on medium to large seize firms, but sometimes we operate also with SME at a deeper level, trying to foresee their needs, rather than acting afterwards. In other words, it means that we work with SMEs only in case they contact us first.

**Giacomo Gualtieri:** What is the difficulty you find more often when you have to realise a project in this kind of enterprises?

**Monique Jung:** The financing matter is surely very critical, but also the access to competence is sometimes difficult. We try to establish good relationships with the universities in the region, with employees formation center, we also realise new projects to enhance talent free mobility, etc. We developed a whole range of activities in order to enhance the access to knowledge and skilful employees. There are thousands of activities we perform in order to help firms find solutions.

**Giacomo Gualtieri:** Do you feel the competition brought by international organisations in this domain?

**Monique Jung:** Many projects of large firms are in competition with other firms that belong to the same group. There are many firms under the same group that support each other in realising investments. Thus, we often deal with the mother companies and try to convince them to realise their projects here in our region rather than elsewhere.

*[English Version Below]*

**Giacomo Gualtieri:** Quels sont les principaux acteurs dans le marché du capital d'investissement en Alsace?

**Olivier Levy:** Ici on résonne que sur le Grand Est, on a Capital Grand Est, Siparex, BNP, Société Générale, GUI, CMC-CIC, UI Gestion, Eurefi, et voilà, je pense qu'il y en a une dizaine encore.

**Giacomo Gualtieri:** Quels sont les investisseurs qui vous donnent l'argent? Est-ce que il y a principalement la région avec l'Etat ou aussi des investisseurs privés?

**Olivier Levy:** Majoritairement c'est des sociétés de gestion à fonds privés donc soit institutionnelles soit fonds de pension soit chefs d'entreprises.

**Giacomo Gualtieri:** Est-ce que vous pouvez m'expliquer comment BPI France gère tous ces fonds partenaires d'investissement?

**Olivier Levy:** Oui il faut tout d'abord éclairer la différence entre l'investissement en fond direct, donc c'est ce que l'on fait nous en investissant BPI France directement dans le capital des sociétés, donc quand je co-investie à côté de Capital Grand Est, BNP, exceptera. Il y a aussi un deuxième métier chez BPI que est le fond de fond ou BPI France investi chez Capital Grand Est ou chez GUI ou Siparex. Donc c'est deux choses différentes, il y a le direct et l'indirect. L'investissement indirect est ce qu'on appelle "fund of funds".

**Giacomo Gualtieri:** Quel est la durée moyenne des vos investissements dans une société?

**Olivier Levy:** En moyenne on a calculé on a plus de sept ans. Donc c'est un petit peu plus au dessus de la moyenne du marché.

**Giacomo Gualtieri:** Quel type d'analyse vous faites pour prendre la décision d'investir ou pas? Est-ce que il s'agit plus d'une question personnelle des membres dans l'entreprise ou vous privilégiez l'aspect financier?

**Olivier Levy:** Le premier critère est effectivement l'analyse de l'équipe du management, après ça va être de bien comprendre le positionnement stratégique de la société, en trois je dirais quand même que c'est ses actifs, son savoir faire, sa propriété intellectuelle. Pour ce que concerne l'analyse financière il s'agit surtout de l'analyse du business plan, et puis après les possibilités de sorti.

**Giacomo Gualtieri:** J'imagine que ce type d'entreprise ils n'ont pas encore un bilan développé sur plusieurs années ou une histoire financière, donc quels sont les premières actions du management?

**Olivier Levy:** Alors soit le management établi lui-même son business plan et nous souvent on fait une version crash-test ou dégradée du business plan du management. Soit effectivement le management n'a pas l'habitude de faire un business plan et on les aide nous à écrire leur business plan.

**Giacomo Gualtieri:** Comment est-il composé le comité d'investissement donc le conseil de direction de votre fond?

**Olivier Levy:** Nous on a 2 sorts de comités, on a un comité avant audit et un comité après audit. Après audit parfois le montage doit encore changer ou les équilibres financiers entre la parti fonds propres ou la parti dette a pu changer donc le comité après audit fait le point sur le montage et évidemment sur les résultats de due diligence.

**Giacomo Gualtieri:** Si vous devriez choisir les trois difficultés majeures que vous rencontré une fois que vous avez pris la decision d'investir dans une entreprise?

**Olivier Levy:** Bah souvent c'est une mauvaise analyse du marché final de part des dirigeants, après c'est quand même aussi la qualité du management dans l'entreprise, et puis souvent le manque de liaison stratégique c'est à dire que on fait toujours ce que on a su faire mais on ne regarde pas qu'est ce qu'on pourrait stratégiquement faire: une acquisition, améliorer les management process, aller a l'export et voila. Les options stratégiques si vous préférez.

**Giacomo Gualtieri:** De que le marché boursier n'est pas très développé en France comme en Italie, donc quelles sont les pratiques les plus utilisés pour sortir de l'investissement?

**Olivier Levy:** Le premier est des autres financiers, c'est de nouveau un nouveau tour type LBO et le deuxième ça reste quand même des cessions à des industriels.

**Giacomo Gualtieri:** Quelle est une caractéristique que une PME doit absolument avoir pour entre objet de votre apport de capital?

**Olivier Levy:** Une sur tous c'est la complémentarité de l'équipe de management. Au sein de management il faut que l'équipe soit complémentaire c'est à dire que ce soit pas une société où il y a un seul homme qui fasse tout. No "one man show".

**Giacomo Gualtieri:** Dans les cas où l'investissement ne result pas positif et vous décidez quand même de sortir de l'entreprise, dans quel état vous laissez l'entreprise?

**Olivier Levy:** D'où l'analyse des actifs de la société, c'est à dire que même si les résultats n'ont pas progressé ou voir même ont diminué la valeur stratégique de la société et ses actifs font que normalement il y a quand même quelque chose a revendre à un autre industriel.

**Giacomo Gualtieri:** Avec tous vos fonds partenaire vous inventez dans des entreprises en différentes étages, donc est-ce que on peut dire que vous couvrez tous les typologies de Private Equity de l'amorçage jusqu'a capital transmission et retournement?

**Olivier Levy:** Oui mais ça n'est pas la parti directe, ça c'est vraiment les "fund of funds". En directe on ne fait que du capital développement [venture capital] et du LBO.

### English Version

**Giacomo Gualtieri:** Who are the main actors in the Private Equity industry in Alsace?

**Olivier Levy:** Talking about Grand Est we have Capital Grand Est, Siparex, BNP, Société Générale, GUI, UI Gestion, Eurefi, and maybe a dozen more.

**Giacomo Gualtieri:** Who are the investors giving you their money? Is it mostly the region or do you have also some private limited partners?

**Olivier Levy:** We have mostly asset management firms organised with funds. They are mainly private such as institutional funds and entrepreneurs.

**Giacomo Gualtieri:** How does BPI France manage all those funds in which it invests?

**Olivier Levy:** First of all, we need to understand the difference between investing directly, as BPI France into target firms, and co-investing together with Capital Grand Est, BNP, etc. There's also another business in which we operate, the fund of funds where BPI France invests in Capital Grand Est or GUI or Siparex. These are two different activities, we have the direct and the indirect investment. The indirect investment is also known as fund of funds.

**Giacomo Gualtieri:** For how long do you keep your investments on average?

**Olivier Levy:** On average it has been calculated we stay for 7 years. Thus, slightly more than the market average, then we move on to the exit phase.

**Giacomo Gualtieri:** What analysis do you do in order to understand whether to invest or not? Do you put first the relationship with the managers or the firm's financials?

**Olivier Levy:** The most important aspect is actually the management body, after that we look at the strategic positioning of the firm and in third place there is financials, knowhow and intellectual property. In terms of financial analysis it is mainly a business plan analysis and then exit possibilities.

**Giacomo Gualtieri:** I imagine these firms do not have a developed financial statement with a long history, so what are the first things to do?

**Olivier Levy:** If the management has already drafted a business plan, we often realise a crash-test or bad scenario analysis of it. Otherwise, we help the managers in drafting themselves their first business plan.

**Giacomo Gualtieri:** How is the investment committee composed?

**Olivier Levy:** We have two kinds of committees, we have a before-audit and an after-audit bureau. After the audit, sometimes the invested amount may still change, and the balance between debt side and equity side may change as well. Therefore, the after-audit committee review the progress of due diligence analysis.

**Giacomo Gualtieri:** What are the three main difficulties that you find during the investment process?

**Olivier Levy:** Well, it is often a wrong analysis the management did about the final market, secondly we have a poor management quality, and then a lack of strategic thinking which means that "we do what we have always known to do", without observing the great opportunities we have around as for example an acquisition, a management process improvement, exporting opportunities, etc.

**Giacomo Gualtieri:** Given that the listing on the stock exchange is not very popular in France as well as in Italy, what are the exit strategies used the most?

**Olivier Levy:** The first implies another financial organisation, and it is known as a second LBO; then, the second most used exit option is a trade sale to a competitor company.

**Giacomo Gualtieri:** Which are those features a SME must absolutely have in order to benefit of your support?

**Olivier Levy:** One above all, is the management compatibility, we must have a well structure company, not a single entrepreneur doing everything, no “one man show”.

**Giacomo Gualtieri:** In the case in which the investment is not profitable, and you decide to exit the company, what situation do you leave behind?

**Olivier Levy:** Analysing the assets, even if the investment is not profitable, or it has lost value, there is always something to sell to another competitive firm.

**Giacomo Gualtieri:** Given that you participate into several funds, can we say that you invest in all Private Equity businesses from Venture Capital till Turnaround?

**Olivier Levy:** True, but it is not direct investing, it is the fund of funds activity. Directly we mainly perform Venture Capital and LBOs.

*[English Version Below]*

**Giacomo Gualtieri:** Quel est votre impression et sentiment général sur le marché du Capital d'Investissement ici en Alsace depuis la crise financière de 2007/2008 ?

**Sébastien Derivaux:** En fait nous investissons principalement en Start-Up donc c'est quelque chose qui a plus commencé après la crise de tout façon, c'est quelque chose sur laquelle on voit une accélération en Alsace depuis 2016.

**Giacomo Gualtieri:** Grâce quel processus Alsace Business Angels trouve les Start-Ups dans lesquelles investir? Est-ce que sont les mêmes entreprises à vous contacter ou c'est plutôt vous à les trouver avec l'aide des intermédiaires financiers?

**Sébastien Derivaux:** Alors, chez nous ce qui passe c'est qu'on essaie d'être très présent à tous les événements qui peuvent attirer des start-ups, c'est là qu'on va faire notre promotion puisqu'on utilise pas mal les réseaux sociaux pour faire de la communication et ce qui permet d'établir une image de marque et du coup que les start-up sachent nous contacter. Et après ce qui fonctionne très bien aussi c'est que une fois qu'on a commencé à investir dans certaines start-ups et ça nous fait un "track-record" ce qui fait que les startups suivantes savent où nous trouver. Et donc vu qu'on a déjà investi, on bosse avec partenaires.

**Giacomo Gualtieri:** Une fois que vous avez trouvé la bonne entreprise dans laquelle investir, pour ce que concerne la due diligence, les analyses du business plan ou du bilan et l'idée quels sont les critères les plus importants que ne peuvent pas manquer ou faire défaut à une entreprise pour que vous puissiez en investir?

**Sébastien Derivaux:** Alors, le plus important pour nous c'est l'équipe, on cherche une équipe d'expérimentées, ou en tout cas dynamique et complémentaire. Ça c'est le premier point et après le deuxième point c'est d'avoir une capacité à trouver l'attraction commerciale, et avoir déjà des marques d'intérêt et assez souvent des ventes avec de tiers. Mais aussi montrer que le projet a bien marché. Le troisième point c'est la taille du marché là, il ne faut pas que le marché soit saturé ou concurrentiel.

**Giacomo Gualtieri:** Peut être qu'il a déjà été le cas, ou vous avez trouvé la bonne start-up dans laquelle investir et après les choses ne sont pas terminées comme prévu. Sans parler d'un cas spécifique, quelles sont les points au contraire qui réduisent la possibilité de trouver un accord pour investir?

**Sébastien Derivaux:** Alors le premier point c'est la valorisation. On peut être en désaccord sur le prix d'un ticket. Nous on achète pas, on co-investit, mais il faut quand même définir un prix pour lequel on veut investir. Un deuxième point peut être de ne pas arriver à avoir un bon feeling avec l'équipe, donc c'est pas mal une histoire des personnes, des fois on peut s'entendre et des fois pas. Et inversement, ça peut venir de leur côté aussi.

**Giacomo Gualtieri:** En dehors de votre support financier, comment est-il articulé votre support managérial?

**Sébastien Derivaux:** Alors nous on ne s'occupe pas du management au jour le jour de la société. Donc nous avons soixante-douze membres qui mettent leur argent en commun dans des fonds d'investissement qui sont des FF, donc des sociétés commerciales, et qui ont investi. Donc on a un membre qui va suivre la start-up en particulier, qui va être dans son comité stratégique. C'est un organe de conseil qui se réunit une fois par trimestre. Et donc il va pouvoir apporter son expertise et il est de complément avec le management direct.

**Giacomo Gualtieri:** J'ai vu que vous avez créée 4 fonds qu'ils sont ABA Invest 4, ABA SIBA 3, ABA Invest 2 et Alsace Business Angels Invest. Est-ce qu'il y a des différences entre ces quatre types de fonds ou ils investissent dans le même typologie d'entreprise?

**Sébastien Derivaux:** Oui en fait il y a pas de différences entre le fonds, c'est juste leur millésime de création, Alsace Business Angels Invest a été créée en 2008, et ça investi et puis en 2010 on a recréé un autre parce qu'il n'y avait plus d'argent. Et chaque fois que on arrive à la fin d'un fond d'investissement on en recréé un à nouveau.

**Giacomo Gualtieri:** Quelle est la durée moyenne d'un investissement dans une start-up?

**Sébastien Derivaux:** À l'entrée on parle de principe de prêt de 5 - 7 ans, mais après souvent ça peut duré un peu plus longtemps, notamment à cet hauteur là depuis notre première participation ça fait plus de 10 ans que on est dedans et parce qu'on a choisi pour l'instant de ne pas sortir. On attend une introduction en bourse, donc on est pas pressé. Mais l'idée générale c'est 7 ans à peu près.

**Giacomo Gualtieri:** Une fois que vous avez choisissiez de sortir de l'investissement, quelle est la modalité la plus utilisé pour sortir?

**Sébastien Derivaux:** Oui en fait il y a pu avoir un rachat de l'entreprise par un concurrent ou un acteur stratégique, on peut aussi avoir, si l'entreprise fonctionne, et que la générale a pris autonomie peut racheter notre participation, on peut se mettre d'accord sur un prix, et ça permet de libérer l'actionariat. Ou elle peut utiliser l'endettement pour acheter la participation des investisseurs.

**Giacomo Gualtieri:** Quel est l'avantage, pour une entreprise, de s'appuyer à Alsace Business Angels ensuite que tous les autres fonds présentent en Alsace?

**Sébastien Derivaux:** Par rapport à des autres fonds qui on pus exister, ce qu'on vois c'est qu'on est le principaux acteurs d'investissement de premier tour dans les start-ups en Alsace. J'ai pas beaucoup de concurrents notamment les concurrents publiques, pour des fonds d'amorçage ou de capital investissement plus gros, en fait investir à ce stade dans les start-ups c'est trop risqué et c'est trop coûteux en terme de gestion, car il faut passer pas mal de temps du coup pour analyser le dossier, tout ça pour un investissement qui est sans doute un investissement encore faible, au niveau d'un fond d'investissement qui aurait une centaine de millions d'euros. Ça fait que le cout d'investissement est trop élevé par rapport au montant investi pour une société commerciale, nous notre avantage c'est que comme on est principalement avec des bénévoles le cout d'analyse de dossier et de recherche de marketing est relativement faible, qui permet de combler ce trou dans la raquette, qui est le financement de premier tour sur les start-ups. c'est ce que les autre ne peuvent pas faire parce que les fonds commerciaux ne seront pas rentable pour eux.

*English Version*

**Giacomo Gualtieri:** What is your general feeling about the Private Equity market in Alsace, since the financial crisis of 2008?

**Sébastien Derivaux:** We invest mainly in Start-up so our business did not start before the crisis, however, it is a sector where we witnessed a great improvement since 2016.

**Giacomo Gualtieri:** Through which process does Alsace Business Angels find the enterprises? Are the firms taking the first steps or is it you contacting them through financial intermediaries?

**Sébastien Derivaux:** What we do is that we try to be present in all those events that might attract start-ups. It is where we promote our business, we also utilise social media, which is what allow us to spread our brand. Thank to this strategy the start-ups know how to contact us. What works very well also, is that once we started investing in certain start-ups it creates a track-record, so in the following years the firms know how to find us.

**Giacomo Gualtieri:** Once you have found the right firm in which you want to invest after the analysis, due diligence and study of the business plan and projects, what are the three main features a company must have in order for you to take the final decision?

**Sébastien Derivaux:** The most important for us is the management, we look for experienced managers, dynamics and in complementarity with our team. This is the first point, secondly we look for a certain commercial attractiveness, an established brand and steady sales. But also a sign that the projects has been developed. The third point is the market size: it does not have to be saturated or too much competitive.

**Giacomo Gualtieri:** Has it ever occurred to you to find the right firm to invest in, but obtaining a negative outcome? Without talking about a specific case, what are those factors that reduce the possibility of obtaining your support?

**Sébastien Derivaux:** First point is the firm's value, we may disagree on the amount of the ticket. We do not buy majority stakes, we co-invest, but we still need to decide a price to pay for the investment. A second point might be not having a good feeling with the management, so it is often a matter of people, sometimes we understand each other, and some others we do not.

**Giacomo Gualtieri:** Besides your financial support, how is it composed your managerial support?

**Sébastien Derivaux:** We do not deal daily with the management. Our organisation is composed by 72 members who put their money together into investment funds, which are commercial firms investing this capital. For every investment we have a person who follows that specific start-up and sits in the strategic boards, called board of directors meeting up once every quarter, contributing with its expertise.

**Giacomo Gualtieri:** I saw on your website that you created 4 funds, ABA Invest 4, ABA SIBA 3, ABA Invest 2 and Alsace Business Angels Invest. Is there any difference among these funds or do they invest in a similar firm's typology?

**Sébastien Derivaux:** Yes, there is actually no difference in the funds, it is just the foundation year. Alsace Business Angels Invest has been created in 2008, in 2010 we have created another fund because the previous one was left with no cash available. Every time we reach the end of an investment fund we must create a new one.

**Giacomo Gualtieri:** What is the average duration of a start-up investment?

**Sébastien Derivaux:** At the beginning we usually talk about 5 - 7 years, but later on it may last a little bit longer, for example it has been more than 10 years that we are sticking with our first investment because we chose to not leave it at the moment. We are waiting for a listing on the stock exchange. However, the general principle is 7 years more or less.

**Giacomo Gualtieri:** Once you decide to exit the investment, what are the exit strategies most commonly used?

**Sébastien Derivaux:** It may be a trade sale with a competitor buying us out, it can also be the case that, if the firm is doing well, the managers buy us out and they also let the shareholders free. It can also occur that the firm borrows some debt to replace our funds.

**Giacomo Gualtieri:** What is the advantage for a company to ask your support rather than going to other Private Equity funds?

**Sébastien Derivaux:** Compared to other funds that may exist, we are the main investors into firms at early stage of their lifecycle in Alsace. There are not many competitors, especially public ones, in this sector. Investing in start-ups is too risky for certain organisations, and also too expensive in terms of company's control. It is required to spend a lot of time analysing the different dossiers, and balancing all these expenses there are weak growth forecasts. It makes the investment costs too expensive, compared to the amounts committed. We are able to keep analysis costs low and operate in early stage financing sector. Other funds or PE organisations cannot operate at the same level because the high costs would not be worth the investment for them.

*[English Version Below]*

**Giacomo Gualtieri:** Pour commencer je voudrais vous poser une question plutôt générale sur le marché du capital d'investissement dans le Grand Est. Quelle est la situation et le sentiment des investisseurs depuis la crise financière donc après le 2007/2008 ?

**Stéphane Becker:** Oui, effectivement, avant 2008 on avait des montages d'acquisition d'entreprise qui faisait la part belle à l'endettement. C'est à dire que l'achat des entreprises se faisait avec un apport de capital relativement limité et un endettement assez significatif avec même parfois une tranche de l'endettement repoussé à l'infinie. C'est à dire à horizon 7 ans. Suite à la crise de 2008 il y a eu un certains nombres de démontages qui se sont tendus, il y a eu de renégociations avec les banques. Certaines n'ont pu aboutir et ont débouché sur un lissage de la dette donc on généré de redressements judiciaire, liquidation judiciaire d'entreprise et donc suite à ces événements et à cette crise on est revenu sur des montages où la part de fonds propres et la part de dette étaient plus équilibré. On retrouvait des montages ou pour acquérir une entreprise qui vale deux, on mettait un de fonds propres, un de capital et un de dette. Les revenus générés par l'exploitation de l'entreprise acquise permettaient assez facilement de rembourser les tombés de dette senior.

La on commence de nouveau à voir des montages avec moins de capital plus de dette et une partie de la dette qui est dite infinie c'est à dire que le remboursement, le payment est poussé au bout de la période de remboursement de la dette senior. On se dit que c'est le prochain acquéreur de l'entreprise qui financera cette dette boulette, dette infinie, dette à terre, c'est pareil. On retrouve aujourd'hui dans les montages financiers ce travers qu'on avait vu jusqu'à la fin de l'année 2008.

**Giacomo Gualtieri:** Donc c'est pour ça peut être que votre activité va diminuer si les entreprises decident de s'appuyer plus souvent sur les banques?

**Stéphane Becker:** Déjà les dettes sont peu chères aujourd'hui. Est-ce que notre activité augmente? Non, elle est assez stable, non pas qui est le même nombre d'entreprise sur le marché mais entre 2008 et aujourd'hui on a vu arriver en région Grand Est de plus en plus d'investisseurs, ou au debut dans les années 2000 on avait un ou deux acteurs, aujourd'hui on a Capital Grand Est arrivé en 2012, on a Siparex que est un bureau de longe date, on a GUI, qui est un nouvel acteur que c'est crée de coté de Nancy, on a EuroCapital que existait deja, on va avoir la Société Générale, on va avoir BNP, on va avoir BPI France, en fin il y a une multitude d'acteurs aujourd'hui qui sont present sur le marché et donc il n'y a pas moins de dossiers, mais vu qui il y a plus d'investisseurs il y a moins de dossiers par investisseur.

**Giacomo Gualtieri:** Comment trouvez vous les entreprises? Avec des intermédiaires financées, de banques ou c'est leur même que plus souvent vous contactent?

**Stéphane Becker:** Alors, on a un certains nombres d'entreprises qui nous contactent en directe, vous avez des entreprises encore qui ont un projet, de croissance externe, croissance organique, d'acquisition d'une autre société qui nous appellent directement même si c'est assez rare. On a des entreprises qui nous parviennent par le biais d'intermédiaire, de gens qui font ce métiers la

bien évidemment, que nous contactez et on essaye d'organiser une sorte de processus d'enchère sur ces entreprises. On a aussi des entreprises qu'on va démarcher directement c'est à dire qu'on a une porte d'entrée avec les dirigeants, et voilà ce qu'on fait, voilà ce que vous faites, que c'est ce qui nous intéresse, nous pensons que vous pouvez aller plus vite et plus loin en faisons confiance en nous, ouvrez nous votre capital. Ce sont les principales piste et puis on a aussi des autres prescripteurs qui ne sont pas forcément des intermédiaires structurés mais on peut avoir des banquiers que nous informons sur une opération que va se réaliser et que se serait pas mal de renforcer les fonds propres, vous pouvez avoir des experts comptables qui disent "mais voilà moi j'ai un client qui a une problématique de fonds propres, qui voit aujourd'hui cet opération bloqué par un déficit de fonds propres", on peut avoir parfois mais c'est plus rare, des avocats, qui nous appellent pour nous dire "moi j'ai un client qui pourrait envisager de faire une opération en capital et ça pourrait vous intéresser". Et des confrères aussi, des autres PE en Alsace qui nous appellent et nous disons que certains dossiers sont trop gros pour eux, ou si on pourrait ajouter nous aussi du capital.

**Giacomo Gualtieri:** Maintenant pour parler de l'organisation du Capital Grand Est, j'ai vu que dans votre structure vous avez trois fonds: Cap Innov'Est, Alsace Creation et Alsace Croissance. Quels sont les différences majeures entre ces trois typologies des outils?

**Stéphane Becker:** Alors, tout d'abord il y a une différence en terme de nature juridique des trois outils. FPCI (Fond Propre Capital Investissement) c'est une copropriété de valeur immobilière qui a pas de personnalité morale propre, c'est un fond placement du capital d'investissement, une sorte de tirelire, et au fur et à mesure que l'on fait des investissements dans les entreprises, les souscripteurs qui se sont engagés à nous apporter de fonds, versent dans cette tirelire, nous reprenons l'argent de cette tirelire et à la place de cet argent on met des titres, quand on vend les titres on restitue à nous souscripteurs, c'est à dire les gens qui nous ont apporté l'argent, les fonds. Et on s'engage sur une période de dix ans, c'est à dire qu'au bout de dix ans on se doit de leur restituer la totalité des fonds qu'ils ont souscrit. Ça c'est si tout passe bien, si tout passe bien on a une plus value, si ça se passe pas bien on leur restitue que le fruit des ventes de titres qui était dans ce FPCI.

Par exemple: ces gens ils s'engagent à nous verser 40 millions d'euros, on investit pour 30 millions d'euro dans les entreprises. On vend les titres pour 28 millions d'euros, on peut leur restituer que € 28M, si on avait vendu pour 35, on va leur restituer pour € 35M.

FPCI concerne Cap Innov'Est et Alsace Croissance, par contre Alsace Creation est constitué par une SCR, c'est à dire une société capital risk. C'est une structure fiscale en fait, une SCR c'est une société par action simplifiée, une société anonyme, ça c'est la forme juridique, et elle va opter par une structure fiscale particulière permettant à l'entreprise d'être exonérée sur les plus values qu'elle réalise. Pas d'impositions sur la plus value. Par contre la FPCI, la SCR a une durée de vie plus longue, et les fonds qu'elle investit, ce sont ses fonds propres, les fonds qui ont été apportés par ses actionnaires. Là au temps dans une FPCI les fonds sont apportés progressivement en fonction des investissements, au tant dans une SCR de départ on s'engage et on met la totalité du capital. Et il y a pas forcément de restitution aux actionnaires, il peut y avoir la distribution de dividendes et donc de capital mais c'est pas automatique, c'est décidé par l'assemblée générale.

Cette SCR date de fin des années 90, elle préexistait en Alsace à la création de la société de gestion. Donc la société de gestion a été créée et elle a élevé ses premiers fonds, la région qui est le principal associé de la SCR a dit : "prenez également en gestion cet outil que viendra compléter vos dispositifs", et en suite on a élevé ce fond qui finance l'amorçage et donc c'est ainsi qu'on a

pu intervenir sur l'ensemble des phases de la vie d'une entreprise grâce à notre outils. De l'amorçage à la transmission.

**Giacomo Gualtieri:** Quel outils, dans ces dernières années a eu une activité plus vivace que les autres?

**Stéphane Becker:** Très clairement c'est le FPCI Cap Innov'Est, le financement de l'amorçage technologique, c'est un fond qui a investi rapidement dans un nombre important d'entreprises et c'est le fond qui a été le plus dynamique. La FPCI Alsace Croissance, est dans une période où elle n'a plus beaucoup de fonds propres à investir, c'est à dire que les € 12.7M de capitaux propres ont été investi dans des titres d'entreprises et aujourd'hui il nous reste 2 millions de fonds à investir et aujourd'hui si on veut investir plus de € 2M il faudrait qu'on vend des titres et c'est pas toujours le bon moment, soit parce que ce sont des vieux investissements sur lesquels on a du mal à sortir, soit parce que ce sont des investissements trop jeunes pour avoir généré suffisamment de croissance et nous permettons de dégager une plus value, il faut attendre.

Croissance c'est le fond qui est le plus compétitif, qui s'intéresse à des entreprises auxquels toute le monde s'intéresse. Siparex s'intéresse aux mêmes entreprises que nous, le CM-CIC Investissement s'intéresse aux mêmes entreprises que nous, toute le monde s'intéresse à ce genre d'entreprises bien portante au développement en phase de transmission. Il y a beaucoup de concurrence et donc on a mis un peu de temps pour investir.

**Giacomo Gualtieri:** Quels sont les investisseurs qui vous donnent l'argent, et que vous avez aussi des souscripteurs particuliers?

**Stéphane Becker:** Oui nous on a pas de particuliers, on a des investisseurs institutionnels privés ou publics. Parmi les investisseurs publique on va avoir la région Grand Est et la BPI, et tous les autres sont considéré comme des investisseurs privé. CM-CIC Innovation, BNP, Caisse d'Epargne, Banque Populaire d'Alsace de Lorraine et de Champagne, Groupama, la Macif sont considérés des investisseur privé. Et en fonction des outils, en fonction des fonds vous allez trouvé tel ou tel investisseurs, ou tous ou aucun. Si on reprend le financement de l'Amorçage vous allez trouvé 2 souscripteurs la Région Grand Est, BPI France et les privés BNP, Caisse d'Epargne d'Alsace, Caisse d'Epargne de Bourgogne Franche Comté, vous allez trouvez parmi les souscripteurs publics la Région Bourgogne Franche Comté, vous allez trouvez parmi les souscripteurs privés également EDF et voila.

Si on regarde Alsace Creation, les associé de ce structure, on va retrouvé la Région Grand Est et BPI France, la Casse d'Epargne et la Banque Populaire d'Alsace et de Lorraine Chapagne. On va retrouvé la BNP, Groupama, MACIF et EDF.

Par contre si vous regardez le fond Alsace Croissance on a que trois souscripteurs, qui s'est engagé a remporté € 25M, BPI France et la Région Grand Est.

Ici la région visé un fond de 25 million d'euro. À partir du moment ou ils ont réussit a trouvé un souscripteur privé important € 25M c'était fait, c'était facile à monter. C'est un fond qui présente relativement peu de risque effectivement sur un fond creation vous avez un petit peu plus de risk. C'est vrai mais le ticket était plus modeste, ces actionnaires sont des actionnaires qui nous accompagne depuis 1998, sont des actionnaires qui sont là depuis longue date et ils nous ont apporté des petits tickets. Et vous avez raison, le financement de l'amorçage que est une activité très risqué est assuré essentiellement par des souscripteurs personnes publics 70% du montant est apporté par le public, et le 30% restant est apporté par les privé.

**Giacomo Gualtieri:** Quel est le process d'investissement pour ces outils?

**Stéphane Becker:** On reçoit un dossier, on l'étudie, on s'assure qu'on a envie de consacrer un petit peu de temps, on rencontre les dirigeants, on visite l'usine on visite l'entreprise, on rencontre une partie des équipes, c'est pas toujours vrai mais on essaye de rencontrer une partie des équipes, il y a une discussion pour parler un petit peu de l'entreprise, du business plan de l'entreprise ce qui nous est présentée. En suite il y a un premier comité interne, c'est un comité de mise à l'étude, une sorte de go/no-go qui va déterminer si on consacre de temps à l'étude du dossier. Si on consacre du temps à l'étude du dossier, la on va construire, mouliner des chiffres, on va étudier le marché.

La due diligence ça peut prendre un moment, on prend des références. L'idée est de faire passer le dossier chez le comité d'investissement et la grosso modo en se met d'accord avec le dirigeant sur la manière dont on va construire l'opération. On s'est mis d'accord sur le pact d'associé dans ce moment là. On passe le dossier au comité d'investissement et si on a un accord de notre comité d'investissement à ce moment là on fait les audits. Audits fiscal, juridique, comptable, environnementale, bref on fait l'ensemble des audits, et si les audits nous ne révèlent rien de particulier à ce moment là on fait l'opération. On fait pas les audits nous même, on passe toujours par des cabinets extérieurs indépendants.

**Giacomo Gualtieri:** Quelle est la durée moyenne de votre investissements?

**Stéphane Becker:** Vous avez sur ces dix ans deux périodes à distinguer: une période de 5 ans qui correspond à une période d'investissement et l'autre période qui est la période de désinvestissement. Et l'idée c'est de prendre des participations sur 5 à 7 ans. Ce qui correspond notamment à la durée de remboursement d'une dette senior d'un cadre d'opération par exemple de LBO.

**Giacomo Gualtieri:** Après l'investissement, quand c'est le moment de la sortie, quels sont les façons de sortie les plus utilisés?

**Stéphane Becker:** On sort rarement par le biais d'une quotation, c'est très très rare, j'ai pas connaissance en région de sortie d'un investisseur sur le marché boursier par la voie d'une quotation en bourse.

Ce qu'il se passe en règle générale c'est que souvent c'est un nouveau montage LBO qui se met en place pour racheter les investisseurs, après ce montage LBO est parfois réalisé par le bloc d'actionnaire majoritaire que nous a ouvert le capital, donc la grosso modo on a un projet de capital d'investissement ou première transmission, une fois qu'on a remboursé la dette senior, on remet on place une dette pour sortir les investisseurs.

Parfois tout le monde sort, et en ce cas là c'est une sortie industrielle, et ça peut arriver. Et là en règle générale soit l'industrielle rachète sur la base de ses fonds propres soit finance également l'acquisition par un retour à la dette.

Parfois c'est un investisseur qui rachète un autre investisseur, c'est soit un bloc d'actionnaire majoritaire qui nous rachète, soit un industriel qui nous rachète et rachète le bloc d'associés majoritaires, soit un autre investisseur qui fait une opération, soit sur le seul rachat des investisseurs, soit sur le rachat des investisseurs plus un bloc d'actionnaires majoritaire soit sur le tout.

**Giacomo Gualtieri:** Quels sont les trois critères les plus importants que vous regardez avant d'investir dans une entreprise?

**Stéphane Becker:** La qualité du management, la qualité du plan d'affaire, enfin la qualité du prévisionnel, la qualité du projet de développement et la qualité des fondamentaux financiers de l'entreprise.

Est-ce qu'on a envie de s'associer pendant sept ans avec le dirigeant et l'ensemble des associés qui compose le bloc majoritaire, est-ce que le projet qui nous a présenté et que est censé créer de la valeur nous séduit, est-ce qu'on adhère à ce projet, est-ce que l'entreprise est saine.

**Giacomo Gualtieri:** Et, où cas où il y a une entreprise pas très saine du point de vue financière, mais le projet est percutant et le manager est convaincant, est-ce que vous prenez ce risque là?

**Stéphane Becker:** C'est difficile de construire sur la sable. Très honnêtement. Mais s'il y a un bon manager et un bon projet, on a quand même un souscripteur important, il faut une émanation d'une banque est une banque regarde essentiellement les comptes, et les comptes présents et passés. Si les comptes passés ne sont pas bons et le compte présent sont moyen c'est difficile de convaincre que demain ce sera mieux. Si c'est pas suffisamment solide, c'est compliqué parce que vu qu'on va investir en capital il faut qu'on valorise l'entreprise et on la valorise non pas sur le futur, non pas sur le passé mais sur le présent. Si aujourd'hui les comptes de l'entreprise que nous souhaitons accompagner dans l'investissement sont pas bons, n'arrive pas à valoriser correctement l'entreprise et alors de quelque part on n'arrive pas à se mettre d'accord avec le dirigeant. En plus on a contrainte à investir en minoritaire. Le ticket minimum c'est € 1M, ce qui fait que l'entreprise vaille à un minimum de € 2M. Donc si on n'arrive pas à ce minimum de valeur d'entreprise, et aujourd'hui les valeurs d'entreprises comment les calculer? Sur la base d'une rentabilité d'exploitation sur laquelle on applique un coefficient, et après pour calculer la valeur de titres on déduit le dette financière net. C'est la vraie méthode. C'est pas les Discounted Cash Flow, c'est pas le capitaux propres, la méthode aujourd'hui c'est combien ça génère de cash, pendant combien de temps on imagine que ça va pouvoir générer du cash (4-5-6 ans sans problèmes) donc le multiple sera de 4 fois, 5 fois, 6 fois le cash généré et on va déduire après l'endettement net de la trésorerie de l'entreprise. Si on a pas cette base là c'est compliqué.

**Giacomo Gualtieri:** Pouvez vous spécifier qu'est-ce que vous entendez pour situation financée saine?

**Stéphane Becker:** La situation financière saine c'est un équilibre active passive. Il faut qu'il y a des fonds propres, que les fonds propres soient positifs, soit pas criblé de dette. Et il faut que l'entreprise aient une activité que lui permettent de générer des flux financiers positifs.

**Giacomo Gualtieri:** Est-ce que vous avez un exemple où vous aviez trouvé la bonne entreprise avec tous les critères dont on a parlé tout d'abord, en règle, mais l'investissement ne s'est pas révélé selon les attentes, sans parler d'un cas spécifique?

**Stéphane Becker:** Souvent on a pas imaginé une dégradation du marché, on a pas imaginé une évolution des coûts de matières premières qu'on ne peut pas répercuter, on a pas imaginé un regroupement des clients. Les causes d'un plantage, d'un accident industriel, d'un redressement judiciaire sont souvent nombreuses et souvent lors que elles arrivent s'est lié à un erreur d'analyse de la part de la personne qui a fait l'investissement.

Une autre cause sont de mauvais dirigeants qui prennent pas les bonnes décisions, qui tardent à prendre les décisions, ça arrive, on a de départ de salarié clé, un directeur commercial qui s'en va pour ses petites entreprises peut être un gros problème. Sur les entreprises de la taille tel que celles dans lesquelles on investit c'est difficile d'avoir ce genre de situation mais ça peut arriver.

Très très souvent l'échec d'une opération est lié à une erreur de notre part. Ce qu'on est pas obligé de faire, si le dossier nous plait et on fait l'investissement ça doit marcher, si ça marche pas c'est que l'analyse qu'on a fait de l'entreprise ou se marché on s'est trompé et ça dépend aussi de la maturité de l'entreprise.

En amorçage il y a plein d'exemples. Les investisseurs en med-tech, vous financé un candidat médicament, phase 1 phase 2, les phases d'essais clinique, en phase 1 ça marche, en phase 2 ça marche pas, vous arrêtez, vous avez perdu votre investissement, il y a pas grand chose à faire. Vous êtes un médiateur de logiciels, vous voulez pour concurrencer VabUer sur la virtualisation du poste du travail, vous avez un super logiciel mais, ça prend pas parce que vous êtes en avance de phase, le marché est pas prêt à aller sur la visualisation du poste de travail et, ça marche sur Paris, sur certain secteurs d'activité et globalement ça va pas décoller. L'entreprise vie toujours celle dont je vous parle, mais elle a pas décollé. On attendait à cette phase € 20-30-40M de chiffre d'affaire mais leur chiffre d'affaire c'est en équilibre, tout le monde se paye tout le monde est content mais ça n'a pas décollé et c'était un échec. Sur un fond de création vous allez par exemple investir dans une entreprise qui a besoin de vous pour agrandir son outil de production, donc c'est un cout important, et c'est pas parce que vous agrandissez votre ligne de production que les produits que vous allez passez sur votre chaîne, vont trouver des acquéreurs, donc vous vous retrouvez avec des stocks à pas forcément avoir une augmentation d'attractivité, et vous vous trouvez grosso modo à devoir payer un outil de production que vous aie pas utile. ça peut arriver. Sur des entreprises de taille plus importante ce qu'il ce passe, il a fallu revoir le modèle économique de l'entreprise et sous-traiter la fabrication. On fabriquait en propre, donc on avait notre propre usine, et c'était pas stable donc il a fallu arrêter de fabriquer en propre, trouver les sous traitants et sous-traités.

Moi j'ai rarement connu de défaillances lié exclusivement au marché. On évoque souvent des raisons lié a l'extérieur de l'entreprise, mais souvent la disparition est lié à des causes internes à l'entreprise.

**Giacomo Gualtieri:** Et dans ces cas là, qu'est-ce que vous faites pour sortir?

**Stéphane Becker:** Quand ça se passe mal tout simplement on peut pas sortir. On peut pas parce que nos titres ne sont pas liquides, parce que personne ne peut nous les acheter, parce qu'on peut avoir aussi en fonction de la taille de l'entreprise des scrupules a quitter le navire on essaye plutôt de redresser la barre, d'accompagner les dirigeants pour essayer de leurs permettre de redresser la barre.

Parfois on y arrive, parfois on n'y arrive pas.

On se pose toujours la question de savoir pourquoi sa n'a pas fonctionné. Très honnêtement on a atteint un niveau de sélection des investissements, on a relativement peu de cas ou ça il fonction pas. Par exemple, sur Alsace Croissance sur 13 opérations on en a une que va mal, pourquoi elle va pas bien? Parce que c'est une entreprise qui vois ses chiffres d'affaire croître et se rendement baisser. Pourquoi? Parce que les couts de matières ont augmentés parce les couts de salaires ont augmenté et parce on est pas en capacité de répercuter cette hausse des couts, a nous clients. C'est une entreprise qui continue à gagner de l'argent, mais le prix de l'entreprise a était calculé sur un multiple d'EBITDA qu'on pensé que cet EBITDA allé pouvoir être stable et voir croitre dans le temps. Et de comme il a décréu on a fait un montage financier qui aujourd'hui est un peut tendu parce que le cash généré par l'entreprise ne suffit pas tout à fait a couvrir et le remboursement de dette et le remboursement des investissements nécessaires. Donc on est obligé de faire un choix. Soit on investie et on fait durer l'entreprise soit on rembourse la dette et ça devient compliqué.

Où un autre exemple, il y a très longtemps, j'ai investie dans une entreprise qui faisait du second d'oeuvre dans le bâtiment. L'auditeur a pas été bon, il a pas vu qu'il avait un client qui composait plus de 40% du chiffre d'affaire, parce que ce client avait deux entité juridique différentes et détenu par le même actionnaire, mais personne a fait le rapprochement, et le même actionnaire un jour a dit que allait changer fournisseur et on a perdu 40% du chiffre d'affaire. Et 40% de chiffre d'affaire ça déséquilibre les comptes de résultat.

**Giacomo Gualtieri:** Quel est votre système de compensation de frais, donc pourcentages de performances et de gestion.

**Stéphane Becker:** Donc, oui les frais de gestion, nous on fonction sur des frais de gestion. C'est à dire que la société de gestion Capital Grand Est, pour gérer les fonds et générer de la plus value, va demander à ses souscripteurs que lui soit versé chaque année un pourcentage du montant des fonds gérés. Capital Grand Est les chiffres sont publiques fait à peu près de € 2M, € 2.5M de chiffre d'affaire, et gère une centaine de millions d'euro de fonds. Ce qui vous donne une idée assez précise du montant de frais de gestion que sont perçue par Capital Grand Est en cas de la gestion. Parce que le chiffre d'affaire de Capital Grand Est c'est le montant de commissions de gestion. 2,5%, c'est variable, les frais qu'on prend sur un fond amorçage et sur SCR et sur croissance ne sont pas les mêmes. Et ça se promène entre 1,75% et 2,5%.

Ensuite l'équipe d'investissement est intéressé à la performance en souscrivant des parts dites des part B. Et globalement si il y a de plus value on va d'abord désintéresser les souscripteurs sur la base du nominal, on va regarder ce qui reste, on va déduire les commissions de gestion, on voie ce qui reste, le montant de la plus value on va attribuer d'abord une performance minimal aux souscripteurs, on va regarder le montant de la plus value qui reste et on va scindé cette plus value, 20% pour l'équipe d'investissement 80% pour les souscripteurs.

**Giacomo Gualtieri:** Est-ce que vous ressentez aussi d'une compétition internationale des fonds d'investissements à l'étranger?

**Stéphane Becker:** Alors, nous qui sommes un fond regional que nous intéressons à les petites entreprises, les PME, qui font jusqu'à 50M de chiffre d'affaire, donc la ils font pas beaucoup et non. Il y a une concurrence nationale qui est importante. On sait qu'un certains nombres de nos PME font parti par des fonds d'investissements étrangers, mais ce sont des situations qui date d'époque où les fonds de capital d'investissement nationaux étaient pas structuré. Depuis qu'il y a une offre de fonds nationaux qui font bien le boulot, personnellement je ne sent pas de concurrence à l'étranger.

#### *English Version*

**Giacomo Gualtieri:** I would like to begin with asking you a rather general question about Private Equity market in Grand Est. What is the general feeling investors have since the financial crisis of 2008 in this region?

**Stéphane Becker:** Actually, before 2008 the capitals used to buy companies were mainly composed of debt. In other words, the companies' acquisition was realised with a small portion of

equity and a very significant debt percentage, with sometimes evergreen debt (perpetual bonds). It means maturity of 7 years. With the 2008 crisis there has been a certain number of bankruptcies and renegotiation with banks. Certain firms could not make it and failed, through administrative liquidation processes. Following this series of events and when the crisis was over, the balance between debt and equity was regained. The amounts used to buy firms, if the total value was two, one was represented by equity and one was contributed by debt. Thanks to this rebalanced situation, the revenues generated by the firms assets were enough to cover pretty easily the senior debt at least.

Today we are more and more encountering capital structure where debt is again representing the majority. Part of this debt is pushed to infinite, so the following investor will still have to deal with this debt. We are today dealing with capital structures that were disappeared since the 2008 crisis.

**Giacomo Gualtieri:** Is it maybe the case that your activity is slightly decreasing given that more firms decide to ask funds to banks?

**Stéphane Becker:** Debt today is very cheap, does our activity increase? No, it is rather stable, not because there is the same number of firms on the market, but between 2008 and today several private equity decided to establish their offices in Grand Est. At the beginning of 2000 there were only two private equity organisations, today there is Capital Grand Est arrived in 2012, Siparex which has an office here since decades, GUI, a new operator created close to Nancy, EuroCapital which was already here, there is going to be very soon Société Générale, BNP, BPI France. Consequently, there are not less pursuable deals, but given that there are more Private Equity organisations, the dossiers per single Private Equity are less.

**Giacomo Gualtieri:** How do you find the firms in which you invest? Thanks to financial intermediaries, banks, or are the same firms contacting you directly?

**Stéphane Becker:** We have a certain number of firms contacting us directly. For example firms with a well defined growth project coming straight to us, but this situation is quite rare. We have also firms coming to us through intermediaries, and we try to prepare some proposals to the firm. Certain firms come to us directly because we know the managers and we establish a relationship with them. These are the main paths to come to us, but our networker is made also of other persons, not necessarily financial intermediaries, but some bankers informing about operations, accountants saying "I have a company with some equity issues, struggling to realise operations", we can also have lawyers, even though it is rarer. But also some colleagues, other Private Equity in Alsace calling for our support with large deals.

**Giacomo Gualtieri:** Talking about your internal organisation, I noticed on your website you have three funds: Cap Innov'Est, Alsace Creation and Alsace Croissance. What are the main differences among these vehicles?

**Stéphane Becker:** First of all, there is a difference in terms of legal status between these investment vehicles. FPCI is a joint-ownership investment firm without legal personality, a sort of piggy bank and as we invest into firms, our limited partners contribute more funds. We take the money from this fund and, in exchange, we give back to our investors some shares, once we sell these shares we give back the money.

We engage on a 10 years maturity horizon, and at the end of the period we have to give back the amounts invested. If things did go well, we have an added value to the initial amount contributed,

otherwise we can give back only the results from our exits, which means the funds obtained by selling the FPCI shares.

For instance: these investors contribute € 40M, we invest € 30M in target firms. We sell the shares for € 28M, we can give back only € 28M. If we had gained € 35M, we could have refund € 35M.

FPCI is the legal dress of Cap Innov'Est and Alsace Croissance, Alsace Creation instead, is constituted as an SCR, a venture capital company. It can either be a simplified joint-stock company or a limited liability company. It is a juridical form with a special tax treatment on the generated added value (no tax on that). Differently from FPCI, the SCR has a longer life and the capital invested are its own capitals contributed by the shareholders. While with the FPCI the capital were contributed progressively on an investment base, with an SCR the investors have to commit the whole capital upfront. Another difference is that the funds are not given back with certainty at the end of the investment period, as for every limited liability company, there may be dividends distribution decided by the general assembly, hence the return is not certain but only a possibility.

Our SCR dates back to late 90s, it has been operating since before the management company was created. Furthermore, the management firm was created and the region, which is the first SCR's shareholder said: "you can also manage this vehicle [the SCR] in order to have a full range of options in your firm". This fund was dedicated to first stage financing, thus we are able today to operate in all Private Equity business sectors.

**Giacomo Gualtieri:** Which investment vehicle has been more active than the others recently?

**Stéphane Becker:** To be honest, it is FPCI Cap Innov'Est focusing on early stage financing and especially technological firms. It has been investing in many important firms in a short time, and it is definitely the most dynamic fund we manage. FPCI Alsace Croissance does not have much capitale available for investments anymore, the initial € 12.7M has been invested and today there are only € 2M left. We are moving to the exit phase but it is not always the best moment to do that because, they are sometimes old investments with some issues and other times too recent investments where we could not work enough time to create a proper added value. Thus, we need to wait.

Croissance is operating in the most competitive PE sector, it targets firms that many other funds look at as well. Siparex, CM-CIC, are both interested in the same firm's typology, which are developing and expanding their operations. Since there is a strong competition, it took us a while to realise our investments.

**Giacomo Gualtieri:** What are the investors entrusting their money in you funds? Do you have any retail investors?

**Stéphane Becker:** We do not have any retail investor, either private or public. Among our public limited partners there is the Grand Est region and BPI France. All other investors are considered as private investors: CM-CIC innovation, BNP, Caisse d'Epargne, Banque Populaire d'Alsace de Lorraine et de Champagne, Groupama, la Macif. Depending on the fund's typology the investors change. Investing in the Venture Capital fund there are the Grand Est region and BPI France as public, and BNP, Caisse d'Epargne d'Alsace, Caisse d'Epargne de Bourgogne Franche Comté as private investors. Among the public ones we can also find the Bourgogne Franche Comté region and among the private EDF.

As far as Alsace Creation is concerned, there is once again the Grand Est region, BPI France, la Casse d'Épargne et la Banque Populaire d'Alsace et de Lorraine Champagne. Among the private BNP, Groupama, MACIF and EDF.

Instead looking at Alsace Croissance there are only three investors. The region itself invested € 25M, hence after this huge commitment it was quite easy to call other investors in. This fund is relatively less risky, whereas investing in Alsace Creation the risk is higher. Moreover in this fund the minimum investment amount is slightly lower, these are partners sticking with us since 1998, who contributed small amounts. The first stage financing is actually a very risky activity that is why we need many public investors cause they act as guarantee for the privates. 70% of the funds come from public investors, while the remaining 30% comes from private ones.

**Giacomo Gualtieri:** What is the investment process of these funds?

**Stéphane Becker:** We receive a dossier, and after an initial analysis we try to make sure that we can move forward meeting the management, visiting the firm, the plants, and part of the employees. We discuss about the business plan and other details. Following there is an internal committee that decide whether to move forward with the deal or not. If we decide to spend more time with it, we start studying the market, the financials, etc.

It is followed by a Due Diligence analysis which takes a while. After that the dossier moves to the investing committee where we discuss the deal structure, the shareholders agreement, and if the answers are positive we can start with the audits. We usually do fiscal, legal, accounting and environmental audits. In the case where they are also positive we can close the deal. We do not perform the audits by ourselves, but we always delegate it to an external organisation.

**Giacomo Gualtieri:** How long do you stick on average with an investment?

**Stéphane Becker:** There are two different periods that need to be distinguished: 5 year investing period followed by the exit period. The general principle is to spend 5 to 7 years into a company and then move to the exit phase, which corresponds to the allowed periods for a senior debt repayment, in case of an LBO for example.

**Giacomo Gualtieri:** What are the exit strategies you use more often?

**Stéphane Becker:** We rarely exit with a listing on the stock exchange, I have never heard someone exiting through the listing on the stock exchange in the region. It is quite often another LBO that cash us out. This transaction may be orchestrated by the majority shareholders that had sold us their shares in the first place, allowing us to start the cooperation. Hence we use debt for the first acquisition and once this debt has been paid back another line of credit is established to buy us out.

Often every investor is asked to leave the firm, and this happens in case of a trade sale. In this situation the competitor may buy the firm through its own equity or using some debt as well.

In other occasions it may be another investor that buys us out. To recap, it may be the majority shareholders, a competitor or another investor that buy our shares and allow us to exit the investment.

**Giacomo Gualtieri:** What are the most important features you look in a firm before investing?

**Stéphane Becker:** The management quality, the business plan, and finally the project reliability, which must envisage growth in terms of financials and firm's overall fundamentals.

Do we really want to work for 7 years with those directors and main shareholders, does the project match out standards and will create value, is the company sound and healthy?

**Giacomo Gualtieri:** In case you find a firm not very solid from the financial point of view, but the project is convincing and the management is extremely skilful, do you take the risk investing or not?

**Stéphane Becker:** It is rather difficult to build on sand, very honestly. However, if the management is skilful and the project has been well drafted, we still need to be able to partner with another important investor, like a bank and these institutions look essentially at the financials, past and forecasted. If past and present figures are not very profitable, it is difficult to convince that the future will be brighter. With our investments we create value not in the future but starting from the day in which we enter the firm. If today the financials of the firm are not very good we cannot create value and consequently we will disagree with the management. Moreover we invest in minority stakes, and the minimum investment we do is € 1M, thus, the firm must be valued at least € 2M. How do you calculate today the firm's value? Through future profits discounted subtracting the net debt. We do not use DCF method, neither an equity method, but measuring the cash generated and for how long it will be positive. You multiply the cash generated for the number of years, subtract the net debt and that's it.

**Giacomo Gualtieri:** What do you mean by sound financial situation?

**Stéphane Becker:** We mean a good balance between assets and liabilities. The firm must have some equity and it should not be distressed by debt. The firms must also be able to generate positive cash flows.

**Giacomo Gualtieri:** Do you have an example where you found the right firm respecting all the criteria discussed before, but the investment did not come up to expectations, without talking of a specific case? If yes, why?

**Stéphane Becker:** We often did not expect a market downturn, did not forecast a raw materials cost increase that we cannot shift to the final consumer, or a clients regroupment. There are often several causes to a problem such as an industrial accident or a juridical trial. It may also happen that a key employee leaves the firm, a commercial director for example which represents a big issue for small firms. For firms within our target it does not really happen very often but it is still possible.

Very often, the issue of an operation is linked to our mistakes. We are not forced to make a deal and if we agree on that and it pass the analysis we do and then it turns out negatively, it means that the analysis were wrong and we made a mistake.

In Venture Capital there are several examples of problems that may arise. For instance, med-tech investors finance a firm which product pass the step one but not the second step of the tests. In this case you have simply lost your capital, there is nothing you can do about it.

You are a software programmer, you compete against VabUer which is specialised on work virtualisation, your software is well set but it does not work because the market is not ready for job virtualisation yet, you are too advanced in the market. It may work in Paris and certain jobs but your idea won't be successful. This company I'm talking about is still operating but it did not go as well as forecasted. We expected a turnover of € 20-30-40M, but it was just enough to cover the costs. The Création fund may invest in a firm which aims at expanding its production and to do so you need to find more clients. Yo may buy a bigger plant to increase the production but if it

does not work you end up with a new machine to be paid, the warehouse full of unsold stocks, and you have to pay a bigger plant you do not even use anymore. Talking about larger firms what may happen is that you were operating on your own but since it was not working anymore, you have had to find new coworkers.

I have personally rarely encountered issues strictly linked to the market alone, we often talk about causes coming from the external environment around a firm even if the causes often originate from within the firm.

**Giacomo Gualtieri:** And in the case this happen, what do you do?

**Stéphane Becker:** When everything is going bad, we cannot just leave the investment. We cannot because our shares are not liquid, no one will buy them and we rather try to put everything back in place, walk the management through renew the firm.

Sometimes we make it some times we do not.

We often ask ourselves why it did not work and honestly, we have a selecting process very strict that in very few cases the investment did not work. For instance, with Alsace Croissance we realised 13 operations, one of them is not going very well. Why? Because costs of raw materials and salaries increased and it has not been able to shift this burden to final customers. The firm is still making money but the firm's value was calculated with the EBITDA multiple using a certain forecasted EBITDA that turned out being much smaller, hence the financial structure of the firm is quite distressed today because the cashflows generated are not enough to repay debt and shareholders. Thus, we have to make a choice, we can either invest more and hope for a brighter future or pay back debt and not the shareholders.

Another example is represented by a firm where the audit analysis did not catch that a client alone represented the 40% of the company's turnover, made by two different firms but owned by the same company. When this client decided one day to change supplier we lost 40% of our turnover and it put the whole firm in danger.

**Giacomo Gualtieri:** What is your compensation system?

**Stéphane Becker:** We work with management fees. Which means that Capital Grand Est in order to manage the funds, ask to its limited parents for a percentage of total funds deposited every year. Capital Grand Est figures are publicly available and it has a € 2/2.5M turnover, more or less. It manages almost € 100M which give a clear idea of the amount of management fees. 2.5% is quite variable and the fees change according to the fund's typology, they go from 1,75% to 2,5%. Moreover, when the investment committee realises come added value, it is used to pay the limited partners according to their contribution, furthermore, we subtract the management fees and then what is left is paid to the investors as a profit in excess of the hurdle rate (80% of the amount) while the remaining 20% is for the managers.

**Giacomo Gualtieri:** Do you feel the competition from foreign Private Equity funds?

**Stéphane Becker:** No, we do not because we are a regional fund focusing on SMEs up to € 50M turnover. However, the national competition is quite high.

Certain SMEs are invested by foreign PEs but these deals go back several years. Since the region has a well structured PE system of its own, the competition from foreign investors has decreased.

*[English Version Below]*

**Giacomo Gualtieri:** Quel est le sentiment générale dans le marché de capital d'investissement depuis la crise financière donc quelle est la situation des entreprises depuis 2008?

**Yann Rinckenberger:** Dans le Grand Est c'est vrai que la crise de 2008 elle est loin derriere nous, il y a 10 ans qui sont passé et donc les entreprises ont pas toutes été marquées de la même façon par cette crise, celles qui sont dans le secteur industrielle forcément sont celles qui ont le plus été impacté et ont le plus souffert parce que beaucoup de PME sont de fois de sous-traitant de grands noms, de grand comptes de l'industrie et forcément quand il y a moins d'automobile, moins dans l'aéronautique, ou moins dans l'investissement industriels, les PME indépendantes derriere avec lesquelles on travaille souffre. Alors, ça c'est maintenant très très vieux parce que depuis 10 ans la crise est passé et puis il y a eu une très belle phase de croissance. Tous ces grands noms on continue a grandir et les PME il y en a beaucoup qui en ont profité pour se développer pour investir et pour s'agrandir. Donc vous avez raisons quand vous dites que l'Est de la France compte beaucoup d'entreprises industriels, c'est vrai et du coup ces entreprises industriels dans l'ensemble elles vont plutôt pas mal et pour certains même très très bien. Alors quand on dit les entreprises du Grand Est il y a de tailles qui sont extrêmement différentes, comme à Venise surement aussi.

Vous avez de grands groupes qui sont souvent des filiales pour la France, pour l'Est mais souvent pour la France notamment des filiales de groupes allemands. Parce que les allemands aiment bien la main d'oeuvre Alsacienne, c'est forcément le coté qui est le plus proche de chez eux, donc c'est plus simple pour eux aussi et l'Alsace, la Lorraine sont assez centrales au niveau Européen donc il y a beaucoup de filiales de groupes allemands. Et elles font de grosse taille, 1.000, 2.000, 5.000 personnes. On pense à des groupes comme Hager, Auberny, Siemens, Agno, ou alors à des groupes Américains, il y a pas que des allemands, il y a le groupe Mars, qui est très très haut, Agno etc. donc il y a beaucoup de groupes de tailles importants, au dessus il y a beaucoup d'entreprises, il y en a deux categories, il y a les petites PME , et de grosse entreprises, les entreprises de taille intermédiaire qui pour beaucoup sont encore familiales, et en fait ces entreprises la avec lesquelles Siparex travaille, et dans l'ensemble ce qu'on voit est qu'elles se portent plutôt bien, parce que elles ont beaucoup investi, et donc elles se sont agrandi, elles se sont automatisés, robotisés et ça leur a donné des moyens pour faire plus de volumes avec des prix de revient plus bas. Donc du coup aujourd'hui en 2019, un, elles se portent bien et deux elles sont pour beaucoup armées si jamais il doit y avoir une nouvelle crise à venir pour mieux resister peut être

**Giacomo Gualtieri:** Comment trouvez vous les entreprises? Est-ce que elles sont leur même que vous contactent ou c'est plutôt vous que les trouvez avec des intermédiaires financiers?

**Yann Rinckenberger:** Alors, c'est quasiment jamais elles que nous contactent. Quand c'est elles qui nous contactent c'est rarement elles, parce que Siparex c'est, en deux mots, un fond qui vient de Lyon, qui a aujourd'hui 9 bureaux en France et qui gère 1,9 milliard. Sur trois métiers, notre metier qui est le metier historique d'investir dans des moyens et grands entreprises et on a deux autres métiers à coté qui sont un petit ce que font Capital Grand Est en Alsace, c'est à dire des

fonds régionaux, ça c'est un autre métier mais on ne le fait pas au Grand Est, et on en a un troisième qui est le financement de Start-Up, ça c'est pareil, on a un bureau qui est à Paris uniquement, donc deux bureaux à Strasbourg, investi au Capital de moyens et grandes PME. Et les moyennes et grandes PME, donc déjà il en a moins, et en suite nous on essaye de se recentrer sur les plus belles donc du coup il en a même pas beaucoup. C'est ce qui fait que depuis Strasbourg on couvre à la fois à l'Alsace, la Lorraine, la Champagne, la Franche Comté et la Bourgogne, cette à dire tout le quart du reste de la France. Donc on s'intéresse nous à peu d'entreprises, sont plutôt les entreprises les plus performantes, c'est qui est pas le plus facile d'ailleurs, et donc ces entreprises là elles ont pas forcément besoin de nous, c'est nous qui allons vers elles, et soit on se fait recommander parce qu'on connaît les chefs d'entreprise qui les connaissent et soit on connaît leur expert comptable, leur avocat, leur banquier, qui sont proches d'elles, ça c'est la première possibilité, soit effectivement c'est des intermédiaires financiers qui viennent vers nous avec un dossier parce que ils ont décroché un mandat pour une opération et ils savent que Siparex sait faire sur une certaine taille et quand c'est la taille qui travaille ils viennent nous voir.

**Giacomo Gualtieri:** Qu'est-ce que vous entendez par PME?

**Yann Rinckenberger:** Pour moyenne et grande entreprise on va dire 20 et 200 millions et le cœur de cible il est plutôt entre 50 et 100.

Strasbourg c'est effectivement ça, c'est uniquement Mid-market voilà.

Innovation c'est à Paris et c'est le financement de Startups, Small cap c'est un petit peu si vous avez vu d'autres acteurs chez nous, c'est un petit peu comme Capital Grand Est mais on le fait dans des autres régions, on le fait en Bourgogne, en Franche Comté, juste au dessus, on le fait dans le nord à Paris, à Lyon, à Nantes, à Limoges mais on ne le fait pas dans le Grand Est. Pourquoi? C'est tout simple, c'est parce que ces fonds là qui sont de fonds régionaux gèrent des fonds qui viennent du privé et du public, et donc vous avez des appels d'offre, et en générale il y a une société qui gagne et gère le fond pour la région.

Comme en Lorraine par exemple vous avez ILP, Institut Lorrain de Participation, et là c'est eux qui gèrent les fonds publics pour la Lorraine. En Alsace c'est Capital Grand Est, en Champagne Ardenne c'est encore une société qui s'appelle IRPAC. Donc si vous gagnez l'appel d'offre c'est vous, si vous ne gagnez pas c'est pas vous. Et Siparex ne s'est pas occupé de ces régions historiques.

**Giacomo Gualtieri:** Quels est la différence entre les directeurs associés et le Siparex associé? Qui vous donne l'argent?

**Yann Rinckenberger:** Siparex c'est une société indépendante, c'est à dire que elle est détenue par ses associés et il y a à peu près une quinzaine d'associés qui sont, qui travaillent aujourd'hui et qui détiennent 51% de notre groupe, et les 49% restants c'est une holding qui comprend toutes les grandes familles, les chefs d'entreprise, qui nous confient des fonds, alors c'est pas tous ce qui nous confie de fonds, mais c'est quand même une grande partie, et là dedans vous avez de familles comme Michelin, Peugeot, les familles Dépature, et peut être aussi quelques familles italiennes parce qu'on a un bureau à Milan et donc tous ces souscripteurs sont actionnaires de Siparex, au total de 49% voilà. C'est un peu grâce à ça qu'on a réussi à grandir, Siparex est une boîte qui existe depuis longtemps, a grandi tout en restant indépendante parce que la plus part se sont revendus soit à des groupes plus gros soit se sont adossés à des banques. Et nous c'est pas

notre cas, on est encore indépendants aujourd'hui et je pense qu'on à envie de le rester, et voilà. Qui détient Siparex c'est les associé mes aussi les gens qui nous convient des fonds. Pour la deuxième questions à propos de d'où viennent quasiment les 2 milliards, c'est  $\frac{2}{3}$  institutionnels et  $\frac{1}{3}$  familles et investisseurs privé. Quand on dit institutionnel c'est des banques, c'est des assureurs, etcetera.

**Giacomo Gualtieri:** Et pour qui donne une contribution managerial aux entreprises dans lesquelles vous inventez, comment êtes vous organiser?

**Yann Rinckenberger:** Chez Siparex il y a des équipes d'investisseurs, et il y a différents grades dans les équipes d'investisseurs. Vous avez des juniors, des seniors, des managers, le directeur adjoint, directeurs et ensuite vous êtes associés. Et voilà ça depend un petite peu de votre experience dans le metier, et c'est souvent une question d'experience et d'ancienneté. Le boulot est un petit peu le meme, on ne fait pas la même chose mais pas loin, c'est à dire que un directeur associé ça bosse aussi sur des deals comme moi que suis manager ou comme quelqu'un qui travaille avec moi et qui est chargé d'affaires. On fait le même boulot, on ne fait pas la même partie de boulot mais on travaille sur les mêmes dossiers, et on fait tout pour les gagner. Donc il faut qu'il y a un qui rentre dans le business, et un chargé d'affaires par exemple peut rentrer un dossier, c'est pas de tout exclu, c'est même franchement bien si tu le fais comme un directeur associé ou comme un directeur. Ensuite, on essaye de comprendre comme fonctionne l'entreprise donc c'est à dire: est-ce que son dirigeant est un bon dirigeant, quels sont ces chiffres, quel est son metier, quels concurrents il a, pourquoi est-ce qu'il va pas se faire doubler par un concurrent, est-ce qu'il est vraiment meilleur que les autres et voilà. Et à la fin on acquis avec conviction et quand on pense que c'est une belle boite qu'on a trouvé on fait une offre, et on essaye qu'elle soit une belle offre, comme ça il a envie d'accepter, et s'il accepte on investie dans son capital. Et donc ça que vous soyez directeur associé ou chargé d'affaires tout le monde est impliqué dans des faits concretes dans le process.

**Giacomo Gualtieri:** Quelle est la durée moyenne de détention des vos investissements?

**Yann Rinckenberger:** 5 ans.

**Giacomo Gualtieri:** Quelle est la façon de sortie la plus utilisé parce que j'imagine que la quotation en bourse c'est rare?

**Yann Rinckenberger:** Il faut avoir bien garder en tête ce qu'il y a parce que dès qu'on investie beaucoup dans des entreprises familles, c'est que la famille nous rachètent. ça c'est la première possibilité, deuxième possibilité c'est pas la famille qui nous rachètent, c'est un autre fond qui viens derrière nous. Par exemple on a le 20% du capital, et la famille à le 80%, elle décide que de garder le 70%, et le nouveau fond prend 30%. ça c'est une deuxième possibilité.

Troisième possibilité, la famille reste ou les dirigeants restent associé et deviennent minoritaires, par exemple ils gardent de que le 40% donc la aussi il y a un autre fond qui viens et que lui prend 60%. Ça c'est encore un troisième cas.

Quatrième cas c'est plus un fond, c'est un industrielle qui nous rachète et là très souvent comme c'est un industrielle tout le monde vend parce que les industrielles vont souvent avoir 100% du capital. Et dernier cas effectivement on fait la quotation en bourse. Dans ces 5 cas la bourse c'est pas le plus courant, nous on travaille très souvent soit avec des entreprises où la famille nous rachète soit avec un autre fond qui prend notre suite. Ca c'est les deux cas les plus frequent et il en a même un troisième, qu'on fait beaucoup dans l'Est, se sont des dirigeants, ils ne sont

souvent pas des gros actionnaires parce qu'il dirige la boîte mais ils détiennent que le 4-5% du capital, et à un moment les propriétaires veulent s'arrêter ou ils veulent vendre et à ce moment là les dirigeants souvent s'ils sont des bons dirigeants ils ont envie de racheter. Ils ont envies mais il n'ont pas les moyens parce que la boîte sera de € 30-50M donc les dirigeants ne pourront pas mettre tout seul les 20M donc ils vont aller voir leurs banquiers qui va mettre une partie et ils vont aller voir des fonds qui vont mettre l'autre partie. Et ça on l'a beaucoup fait sur les dix dernières années, c'est des dirigeants déjà à reprendre leurs boîtes et à se renforcer en capital, c'est à dire que au lieu d'avoir 4 ou 5% grâce à nous on va les aider à avoir d'abord 15-20% du capital et puis si l'opération marche bien il y a un cas très concret en tête : à Haguenau quand l'opération marche bien nous on sort au bout de 4-5-6-7 ans et on permet aux dirigeants de renforcer encore une fois voir de devenir majoritaires. ça c'est une troisième sortie qui on aime bien faire forcément parce que c'est toujours sympa pour nous de permettre à des dirigeants de devenir propriétaires de leurs boîtes. Parce que c'est eux qui méritent ça, si les entreprises sont belles c'est important dans une région, parce elle se porte bien, d'avoir des dirigeants qui bossent, et qui font tout pour que les boîtes grandissent et se portent bien. On a quand même beaucoup plus envie de bosser quand on est chez soit, que quand on bosse pour quelqu'un d'autre.

**Giacomo Gualtieri:** Quels sont les critères que vous utilisez pour choisir une entreprise dans laquelle investir?

**Yann Rinckenberger:** Il y a deux choses : déjà pour trouver des entreprises on va essayer de se concentrer sur celles qui sont dans notre taille, parce que nous à Strasbourg on investie des tickets entre € 3M et € 10M par opération. Donc si vous investissez entre 3 et 30 même, mais le cœur de cible c'est entre 3 et 10 voilà. Si vous mettez € 5M sur une opération l'entreprise forcément doit valoir € 30-40M, de valeur, et donc pour qu'elle vaille ça il faut déjà qu'elle fasse une certaine taille. Donc on va regarder pour les trouver de trois éléments de chiffres d'affaires, et de rentabilité, essentiellement c'est ça. Et donc le chiffre d'affaire c'est rare que ça fasse moins de € 20M, et rentabilité on va se concentrer sur des EBITDA supérieurs à € 2M. Ensuite une fois qu'on a trouvé les entreprises et qu'on a fait des propositions il va faire qu'on a envie d'investir ou pas, la première chose c'est les dirigeants, c'est vraiment la première chose, c'est l'homme. C'est qu'on pense que c'est quelqu'un qui a un input très positif sur sa boîte, c'est un vrai entrepreneur donc il prend des bons décisions et qu'il arrive à faire grandir la boîte et que si jamais ça se passe mal sur le marché avec ses concurrents etcetera, que c'est la bonne personne pour trouver des solutions, pour redresser la barque. Donc vraiment critère numero 1 le bon homme ou la femme d'ailleurs, c'est donc le dirigeant ou la dirigeante. Nous ça nous arrive rarement qu'il y ait une seule personne qui conduise l'entreprise parce que dès qu'on travaille avec des boîtes un petit plus grosse, très souvent il y a un dirigeant et puis derrière il y a des cadres : un directeur commercial, un directeur financier, un directeur de la production pour des boîtes industrielles, peut être un directeur de ressources humaines, en fonction de la taille, ça c'est des fonctions qu'il n'y a pas forcément mais en tout cas c'est rarement un bon homme tout seul. Si vous bossez sur des boîtes qui font 25 personnes alors là c'est vraiment le dirigeant, si vous bossez sur des boîtes qui font 250 personnes, ou là on a la plus grosse qui on a ici elle fait à peu près 3000 personnes, vous avez un comité complet de dirigeant mais quand même on va regarder effectivement si elle est structurée, c'est rarement quelqu'un tout seul.

ça c'est le premier critère, le deuxième c'est quand même ses chiffres, parce que je vous disais, on essaye de cibler plutôt des belles entreprises, donc peu importe le secteur je voudrais vous dire, on essaye d'avoir une entreprise qui est belle dans son secteur. On a une participation par exemple qui fait de transport routier, et le transport routier c'est un secteur très compliqué mais

nous on est extrêmement content parce qu'on pense qu'on a la belle boîte du secteur, ça s'appelle Transport Mauffrey, et c'est celle là qui a 3000 personnes là, et elle s'est beaucoup et très bien développé depuis qu'on est rentré en capital. Pourtant c'est pas un secteur très sexy, c'est pas le secteur où on gagne le plus d'argent, c'est un secteur qui ne fait pas envie à tout le monde. Pareil on fait un peu construction de maisons individuelles, on a accompagné une boîte en Champagne qui construit des maisons, là c'est pareil, construire des maisons c'est un métier qu'est cyclique, c'est un métier où vous êtes pas toujours sûr de gagner de l'argent, il y a plein de soucis sur les chantiers donc il y a plein de gens qui veulent pas aller sur ce métier là. Nous on est très content d'y être allé parce qu'on a un super dirigeant et on a une boîte qui est performante donc voilà, notre critère c'est d'avoir un bon acteur dans son secteur.

Donc 1 dirigeant, 2 rentabilité et chiffres et 3 avoir un bel acteur sur son secteur.

Et puis 4 évidemment il faut qu'il aie un projet de développement, si on rentre juste en capital pour que la boîte, quand on rentre elle fait 20M de chiffre d'affaires, et 5 ans après elle fait 21 millions, il y a pas besoin de nous, nous on sera utile si elle fait 20 et qu'elle peut passer à 30. Ça par exemple ça c'est bien.

**Giacomo Gualtieri:** Sans parler d'un cas spécifique est-ce que vous avez une situation où vous avez trouvé la bonne entreprise, et une fois que vous êtes dans l'entreprise vous trouvez des problèmes avec elle, qu'elle sont ces gendres de problèmes que vous trouvez?

**Yann Rinckenberger:** Là je vais vous dire qu'on a beaucoup beaucoup de chance, en tout cas à Strasbourg, le bureau il a 10 ans d'existence on a fait 12 investissements donc en fait vous voyez c'est pas beaucoup du tout, c'est un à deux investissements par ans, et pourtant je vous dit qu'on travaille énormément, donc ça veut dire qu'on voit beaucoup de projets, on ne retient pas beaucoup et sur ceux qu'on retient il y a ceux qu'on gagne et ceux qu'on perd. Au final il en reste 1 ou 2 par ans et du coup on a de la chance et lequel que vous dites ça ne nous jamais arrivé. Toutes les histoires ont été des belles histoires mais ça pas pour autant qu'il nous arrivera jamais, qu'est-ce que il passe quand on peut ça mal surpassé, très souvent, vous avez le premier cas c'est un marché qui change, étiez bon sur votre marché et puis il y a un concurrent qui va plus vite que vous ou alors il y a une réglementation que vous est tombé sur la tête et vous l'aviez pas vu venir, et donc avant vous gagniez 2-3 millions chaque année et puis là du jour au lendemain vous allez gagner que € 500,000, ça ça fait très mal, c'est pas souhaitable, et quand ça vous arrive ça vous arrive c'est un premier truc qui peut vous tombez dessus sans vous prévenir.

Le deuxième, il est plus rare parce que nous on passe beaucoup de temps avec les dirigeants c'est si vous vous êtes trompez sur les dirigeants, vous croyez que vous aviez quelqu'un bien et en fait ça c'est un petit peu compliqué. Soit parce que ils travaillent pas à fond, soit parce que il a pris des mauvaises décisions et qui vont pas revenir en arrière, c'est compliqué.

Vous pouvez aussi vouloir grandir, racheter une boîte et le rachat se passe mal, le rachat se passe mal parce que vous pensiez vous alliez la redresser et puis vous la redresser pas, les clients partent les uns après les autres, ils deviennent clients des autres donc vous avez besoin de plus de temps que prévu pour l'intégrer, pour recruter des nouveaux clients, pour trouver les bonnes personnes, il y a plein de choses qui peuvent arriver en cours de route, qui font que ça ne marche pas.

Nous notre conviction c'est que pour que ça se passe bien, il faut avoir une bonne équipe, et même s'il pleut, s'il y a du vent, si c'est la foudre, la bonne équipe elle sera toujours meilleure que les équipes à côté.

**Giacomo Gualtieri:** Est-ce que vous ressentez un petit peu de la concurrence internationale?

**Yann Rinckenberger:** Pas trop, je pense qu'on est sur une taille d'entreprises, en fait on sent pas trop la concurrence des régionaux parce qu'ils travaillent sur des boites plus petites que nous, et on ne sent pas non plus la concurrence des internationaux parce que ils travaillent sur des boites plus grosses que nous. C'est des boites à 1 milliard, nous on travaille sur des boites à 100 millions, jamais le gars qui a un bureau à Londres il va avoir envie d'investir au capital d'une PME au fond de la Lorraine qui fait 25 M de chiffre d'affaires. Ca c'est beaucoup trop petit pour lui et de la même façon de qu'on bosse beaucoup avec des boites familiales ou avec des dirigeants indépendents, ils ont aucun envie de voir arriver un fond quasiment américain, chinois ou japonais qui rentre son capital, il peut avoir envie de voir un italien parce que il a par exemple une usine en Italie, ca c'est possible, peut avoir envie de regarder aux Pays Bas parce que il a envie de se developper là-bas, mai cela ils viennent pas, donc ca reste un metier de proximité, un metier local, et c'est a dire comme ca qu'on a encore chez Siparex des bureaux en region.

### English Version

**Giacomo Gualtieri:** What is your feeling about the Private Equity market since the financial crisis of 2008?

**Yann Rinckenberger:** In Grand Est, the financial crisis is back in the years, 10 years have passed by, not every firm has been affected by the crisis in the same way. The companies in the industrial sector are those who have felt the crisis the most because in Grand Est there are many SMEs which are subsidiaries of larger groups, and consequently, when there are less cars, less airplanes, less industrial investments, SMEs suffer.

It has been 10 years since the crisis and after that there has been a good growth phase. Larger groups kept growing and SMEs exploited the moment to invest, grow and expand.

You are right when you say that in France and in the east there are many industrial firms, and globally speaking, they are doing well. In Grand Est there are different companies of different size, as in Venice I guess.

There are some large groups with smaller subsidiaries in France, in east there are especially subsidiaries of German groups. Germans love the Alsatian craftsmanship and it is the closest French region to them. Alsace and Lorraine are at the centre of Europe that is why there are many subsidiaries of other groups in these territories. These firms are quite large with around 1,000 - 5,000 employees. Some examples are Hager, Auberny, Siemens, Agno or also American groups like for instance Mars. Therefore there are several large groups and just below there are many SMEs and larger firms as well. Smaller ones are sometimes family run firms and Siparex work with this specific typology of companies. Some of these firms invested in the recent past and exploited the situation to expand, buy the latest technologies allowing them to increase their production and push prices down. In conclusion, these firms are today in a good period and some of them are prepared in case another market shock arrives.

**Giacomo Gualtieri:** How do you find the firms in which you invest? Are the same firms contacting you or is it vice versa where you find them through financial intermediaries?

**Yann Rinckenberger:** It has almost never happened that a firm directly contacted us. Siparex is an organisation founded in Lyon boasting today 9 offices across France, managing € 1.9B. We basically perform 3 different activities: the first one is investing in medium to large firms and we have been doing it since the early phases of our history. Besides, another activity is similar to what Capital Grand Est does in Alsace which is a regional fund, that is why we do not do it in Grand Est. The third activity is investing into Start-ups but we have the only office of Paris doing that. Thus, the two offices in Strasbourg invest in Medium to Large firms. First thing to notice about our target firms is that there are fewer firms compared to the SME range. Furthermore we try obviously to invest in the better ones, that is why from Strasbourg we are able to cover Alsace, Lorraine, Champagne, Franche Comté and the Bourgogne region.

We focus on very few firms and usually those best performing. It is not easy at all because these firms often do not need a Private Equity. It is us going to them because we know the entrepreneur, the accountant, the lawyer, banker, who are close to the firm.

A second possibility is to reach them through financial intermediaries coming to us because they know what we do.

**Giacomo Gualtieri:** What do you mean by SME?

**Yann Rinckenberger:** When saying SME I mean turnover between € 20M to € 200M and profit between € 50M and € 100M.

Strasbourg [office] is just that, targeting this range of firms. Innovation is performed in Paris and it is first stage financing, SMEs is what other operators do as for example Capital Grand Est, so we do it only in other regions as for instance Bourgogne, Franche Comté, Paris, Lyon, Nantes, Limoges, but not in Grand Est. Why? Because there are these regional funds, where private and public organisations offer their best proposal and with an auction the winning firm manages the regional fund. In Lorraine there is ILP, Institut Lorrain de Participation, In Alsace there is Capital Grand Est, in Champagne Ardenne there is IRPAC. Everything is focused on the auctions, and Siaprex did not take part in it.

**Giacomo Gualtieri:** What is the difference between the managing partners and Siaprex partners? Who invests in your funds?

**Yann Rinckenberger:** Siparex is an independent company which means that it is owned by its partners. There are more or less 15 partners holding together 51% of the shares. The remaining 49% is owned by an holding that groups several important families and entrepreneurs in the industry. They do not contribute the capital totality but still, an important part. There are families as Michelin, Peugeot, Dépature and it may be also some Italian families given that we have an office in Milan. These investors are shareholders of Siparex holding together approximately 49% of the firm. Siparex has been able also thanks to this internal policy to remain independent. Many private equity firms have been sold to bigger banks. Siparex being independent is owned by the partners and important families entrusting their capital to us.

The € 2B come for a  $\frac{2}{3}$  from institutional investors and for the remaining  $\frac{1}{3}$  from families and retail investors.

**Giacomo Gualtieri:** How do you organise your non-financial support to firms?

**Yann Rinckenberger:** In Siparex we have investment committees and they are structured with several levels. There are the juniors, seniors, managers, directors, deputy directors and finally partners. It depends on your experience in the job and level of seniority. The job is more or less

the same even if these people do not really do the same thing. A director or partner work on the same deals as me, who I am a manager, or like someone else working with me. We do the same job but not the same part of the job. Working on similar dossiers we do everything possible to win. A junior is not excluded from the dossier, but he works side by side with the director. Moreover we try to understand how the firm works, if the management has established a good practice, the financials, the core business, competitors, competition, the competitive advantage and so on. At the end, we have to be certain about the deal, we make a good offer and once they accept we start our cooperation. You can be a partner or a junior, everyone is involved in the process.

**Giacomo Gualtieri:** What is the average duration of your investments?

**Yann Rinckenberger:** 5 years.

**Giacomo Gualtieri:** I guess the listing on the stock exchange is not the most used exit strategy, so which ones are?

**Yann Rinckenberger:** We need to keep in mind what are the main options. Given that we heavily invest in family run companies, the most used strategy is the family that cash us out. Second possibility is a second fund coming after us, for example if we have 20% of capital and the family has 80%. The latter may decide to keep just the 70% and another fund buys the 30%.

Third possibility is that the family becomes a minority shareholder. They keep the 40% and another fund comes in with 60% shares.

Fourth case is represented by an industrial firm buying us out. Given that it is a competitor that decides to come in, everyone sell, because they usually want to have 100% of the capital.

Last case is the listing on the stock exchange which is definitely not the most used among these 5 possibilities.

In our past experience we have had many times where the company or another fund was buying our shares.

Another exit strategy we did very often in the east is the management buy out. They usually are not large shareholders but they manage the firm holding around 4-5% of the capital.

When the family wants to get out of the picture, the management may be willing to buy the firm but they do not have the capital needed because the firm may cost on average € 30-50M. That is why they go visit their banker who contributes with a capital infusion and the investment fund will complete the acquisition contributing some more capital.

In the last 10 years we did it a lot in Grand Est. the managers start at 4-5% holdings and thanks to us grow to 15-20%. I have a concrete case in mind: Haguenau. When the whole operation is working, we exit at the end of 4-5-6-7 years and we sell to the management that becomes the major shareholder. We like to exit this way because it is always a good thing to sell to the managers, they usually deserve it, if the firm is growing it is thanks to them, and we are more willing to work hard when we are at our home than for someone else.

**Giacomo Gualtieri:** What criteria do you use to select in which firm to invest?

**Yann Rinckenberger:** 2 aspects are important. First of all the firm must be the right size. Our minimum investment in Strasbourg is between € 3M and € 10M per single operation. If we invest 5M in a firm, it must be worth around € 30/40M [usually the shares we buy are 20-25%]. And a firm must meet a certain dimensional standard in order to be valued this much.

Once we made sure they respect our dimensional limits, we look at financials and profitability. We expect € 20M turnover and € 2M EBITDA minimum threshold.

Once we find the firm that respects these parameters we need to make sure that it is a good investment. First aspect to look at is the management, the people. We look for someone with a positive influence on the firm, he or she must be a real entrepreneur taking the right decisions and expanding the firm. It has to be the person that when there is a distressed period is able to fund the right solutions.

It has rarely happened that we invested in a firm where there was one single person leading the employees. We deal with slightly larger firms than other PEs, there are usually several managers and behind them a whole organisation: a sale director, CFO, COO, HR Manager, these roles could also not be present in every firm, however, it is quite rare that we have a single man.

If you focus on firms with 25 employees, in that case there will be a single entrepreneur covering several managerial roles, otherwise, if you invest in firms with 250 employees, or, as in the case of our portfolio, the biggest firm has 3,000 employees, there is a full management structure.

This is the first aspect, secondly we have the figures, the financials. We invest only in healthy and sound firms, hence, the sector does not matter. In our portfolio we hold a firm working in the railway industry, which is a very complex business, but we are very satisfied with our investment because we have the best firm in the sector called Transport Mauffrey, which is also the one with 3,000 employees I mentioned before, and it has developed very well since we invested. Even though it is not a very attractive sector, and not even the one where we profit the most, everyone has envy of our position.

We have also a firm working in the housebuilding industry which is a very cyclical sector and it is impossible to always gain from it. We are very happy with our investment simply because there is a very well prepared manager leading a profitable firm. So our goal is to have the best firms in each sector.

To recap: 1 Management, 2 Profitability and financials, 3 best firm per industry, and then 4 a developed business plan. If we enter a firm which is valued at € 20M and after 5 years it has grown only at € 21M, they do not really need our support. We aim at firms growing by 40/50%.

**Giacomo Gualtieri:** Without talking about a specific case, has it ever occurred that you found the good firm and after investing you discover some issues not seen before? If yes, what are these issues?

**Yann Rinckenberger:** I must say that we are very lucky. The office in Strasbourg has been operating for 10 years now and we realised 12 investments, as you can see it is not a lot. We close one or maximum two deals every year even if we work a lot. We evaluate many projects, and we do not keep most of them. At the end we arrive with a couple of dossiers on the table for the final decision. What you asked is luckily never happened to us. We are satisfied with all investments but something negative is always possible to happen.

The problems we find are first of all linked to a market change that we did not forecast. For instance you were a leader in your industry and a competitor pops up going faster than you or the government issue a new set of rules on your industry that cuts your profits drastically and it hurts the firm. So the first point is something exogenous that may change and drop on you without you expecting that.

The second point is rarer because we spend a lot of time with the managers, however it can happen that you believed they were hard worker directors, but then they lack work attitude and they took some bad decisions.

It happens sometimes that a firm wants to grow, make some acquisitions that turn out negatively. There are several reasons for that, one above all is that you may plan a restructuring plan that does not go as foreseen. It can also happen that your clients leave and decide to go to a competitor. It takes a lot of time to recover from this situation. There are really many different variables that may push the investment in the wrong direction.

Our conviction is that for making the investment go well you need the right management, able to thrive even when the surrounding ecosystem is working against it.

**Giacomo Gualtieri:** Do you feel the competition from foreign organisations?

**Yann Rinckenberger:** Not really, we target a certain range of firms that we do not feel the competition from foreign investors. Actually, we are able to escape the competition from regional funds because they work on firms even smaller than our target, and we do not even compete with international organisations because they work with bigger firms. International funds target firms of € 1B, we work on firms valued around € 100M. A Private Equity with an office in London is hardly going to invest in a SME in Lorraine with a € 25M turnover. This firm's size is too much small for it. This is true also on the corporate side, because they often are family run SMEs and they do not want to see a fund coming from abroad buying part of its shares. It may be an Italian fund, because we have an office in Milan or a fund from Netherlands only in case the firm aims at exporting in that country, but in any case, the Dutch fund won't be willing to invest in this SME. Therefore, the PE market remains a regional market, that is why Siparex has several offices in different regions.

## Appendix 3

Riccardo Spigariol - Investments Associate @ 21 invest

30/07/2019

*[English Version Below]*

**Giacomo Gualtieri:** Come è strutturato 21 Invest? Vi sono S.g.r. differenti per ogni paese nel quale operate, quindi Francia, Italia e Polonia?

**Riccardo Spigariol:** Ci sono 3 fondi indipendenti con 3 S.g.r. indipendenti quindi c'è un azionariato che in qualche modo ha dei tratti comuni in alto, a livello in primis di Alessandro Benetton e Gerard Pluvinet in Francia (i fondatori). Poi c'è una partecipazione incrociata per una certa quota minoritaria al carried interest tra i vari paesi. Adesso non ricordo che quota di preciso però qualcosa intorno al 10% condivisa tra i paesi. Dato che operiamo nel mid-market c'è bisogno di team locali di nazionalità del paese dove operi. In Italia quando parliamo con medie aziende non è pensabile di mandare l'inglese che va a parlare con il traduttore. Non funzionerebbe.

**Giacomo Gualtieri:** Quindi, focalizzandosi sulla S.g.r. Italiana, quanti fondi ha avuto in gestione dagli inizi della sua attività?

**Riccardo Spigariol:** In Italia direi che ha lanciato 4 fondi. Perché poi all'inizio il modello era leggermente diverso, era più simile ad una holding di partecipazioni, più di piccola dimensione. Poi da quando c'è il vero Private Equity sono fondamentalmente 4 fondi.

**Giacomo Gualtieri:** Ovviamente 21 Invest non si concentra solo sul Veneto, ma avendo una sede in questa regione, ed essendo quindi immersa nel territorio, che percezione si ha del mercato dei PE in Veneto?

**Riccardo Spigariol:** In Italia, rispetto alla Francia, è un mercato che è più indietro nel PE nel senso che in Francia probabilmente stanno almeno una decina di anni avanti, sia come numero di operatori quindi anche come competizione, sia anche perché è un mercato molto più guidato dai manager. C'è un livello di aziende che hanno ricevuto un investimento da PE molto maggiore che in Italia. Ci raccontavano i nostri cugini francesi che è un mercato dove spesso tu non ti siedi neanche più a trattare con l'imprenditore ma direttamente coi manager che sono molto educati in tema di stock options e quant'altro. L'Italia è un mercato che si sta popolando rapidamente sia di operatori e nuove iniziative nazionali sia che negli ultimi anni c'è stata tanta attività da parte di fondi esteri che magari o con un piccolo ufficio in Italia o con direttamente da Londra o da dove hanno la base, magari qualche investimento in Italia lo fanno perché ci sono comunque delle belle aziende e trovano ancora dei valori di acquisto che sono più ragionevoli rispetto a quelli di altri mercati.

Sicuramente a livello di aziende target il Veneto è una delle principali regioni italiane, specialmente in questo segmento della piccola e media impresa. Però anche in Veneto c'è ancora un livello, al di là delle aziende supportate dai PE, il livello di managerizzazione è ancora mediamente basso, ci sono tante aziende ancora a guida familiare che non è un male di per sé però in un mondo che ormai cambia e va veloce il PE può portare quel contributo di fare il salto di qualità per intraprendere nuovi percorsi di crescita un po' discontinui.

Tra Veneto, Lombardia ed Emilia-Romagna penso che facciano una bella fetta degli investimenti che si fanno ogni anno. A livello di operatori, poi ovviamente in Italia le S.g.r. sono concentrate a Milano, in realtà però il Veneto se vogliamo mi viene da pensare che sia il secondo polo della finanza quasi più che Roma perché, come operatori principali c'è sicuramente 21 Investimenti, Alcedo, Finanziaria Internazionale, fino ad un po' di tempo fa ecco, poi un po' a uscire dai radar c'era anche Palladio, azienda che faceva un po' di advisory e PE, basati a Vicenza.

Quindi si da questo punto di vista il Veneto è la seconda area finanziaria del paese e che comunque ha un discreto numero di fondi per quello che è il contesto italiano.

**Giacomo Gualtieri:** Come fa 21 Invest a trovare le imprese nelle quali investire? È 21 Invest che le contatta direttamente attraverso un network o organizzando fiere? Oppure, sono le stesse aziende che contattano per prime il fondo?

**Riccardo Spigariol:** Un contatto diretto dell'azienda verso il fondo non l'ho mai visto fare. Poi noi come value proposition cerchiamo di operare principalmente nei deal cosiddetti primari, ovvero aziende comprate direttamente dall'imprenditore e non che han già ricevuto un investimento da un PE. In pratica si chiama così, quando compri un'azienda da un altro PE è detto deal secondario, mentre quando la compri direttamente dalla famiglia imprenditoriale è detto primario. Noi siamo specializzati e cerchiamo di mantenerci su questo segmento dei deal primari perché un po' il nostro bagaglio culturale che deriva da Alessandro Benetton che proviene da una famiglia imprenditoriale quindi le radici sono quelle. Poi abbiamo anche ormai sviluppato una capacità di supportare le aziende in questi passaggi che magari possono generare o da passaggi generazionali, quindi l'imprenditore che ad un certo punto si chiede "ma io con la mia azienda cosa faccio?", magari figli non ci sono, non sono interessati o non sono in grado, si apre così una finestra. Piuttosto che non necessariamente è un tema di passaggio generazionale ma magari un imprenditore che ha fatto un bel percorso con la sua azienda arriva ad un punto dove decide di entrare nel mercato americano, piuttosto che fare investimenti importanti, arriva insomma ad un momento dove si apre una nuova fase di crescita per la azienda che magari richiede anche investimenti importanti. Allora a quel punto potrebbe preferire farlo supportato da un partner che apporta sia risorse finanziarie che quello è sempre la cosa più importante però a volte non è solo una necessità di monetizzare un pezzo di valore, perché spesso gli imprenditori che incontriamo di soldi ne hanno già fatti, quindi non è tanto quello il punto, però sono imprenditori veramente appassionati delle loro aziende che cercano nel fondo soldi ma anche partner che abbiano già fatto queste esperienze quindi magari fatto acquisizioni, accompagnato aziende all'estero e quant'altro che lo possa supportare in queste sfide dove magari uno da solo può dubitare di riuscire a cogliere. Ti ho citato le acquisizioni, quelle sono una cosa che magari un imprenditore molto bravo e tutto quanto, però arriva ad un punto dove dice di aver individuato due target una azienda in Germania ed una in Francia, che aprirebbero quei due mercati, da solo è un procedimento non banale, allora in quel caso ... questo è un po' il perimetro dove cerchiamo di operare noi però sicuramente con aziende di questo tipo magari riesci a trovare opportunità di crescita e anche valori di ingresso che potrebbero essere un po' più bassi. Poi in realtà negli ultimi anni con l'aumento della competizione questa cosa è andata un po' a scemare però noi continuiamo ad operare perché crediamo di poter creare tanto valore in questo tipo di progetti piuttosto che prendere aziende già strutturate. Questo era il pro, il cons di questo tipo di progetti è che tendenzialmente richiedono tanto impegno da parte del team di gestione perché comunque sono aziende mediamente non molto strutturate a livello di management quindi tendenzialmente quando entri magari ti manca il CFO, in altre aziende devi sviluppare la reportistica, ed al di là della area finance, che comunque è sempre la più carente, però devi anche

un po' portare dei processi, il management magari non è abituato a fare una reportistica periodica, e quant'altro. Quindi tutte queste cose qui, noi tutto sommato abbiamo un team numeroso, perché comunque data questa vocazione, è gente che poi l'azienda la vive parecchio. Noi infatti, magari non i partner o i managing partner, però fino all'investment manager principle, magari specialmente nei primi due anni di una partecipata è facile che andiamo almeno un giorno a settimana presso la partecipata e, io, per le due aziende che seguo io, col CFO ho un rapporto telefonico almeno parzialmente quotidiano o poco ci manca.

**Giacomo Gualtieri:** Immagino che non ci sia una specificità o restrizioni di settore di investimento?

**Riccardo Spigariol:** No, diciamo che noi le uniche restrizioni è che non investiamo in banche, assicurazioni o real estate ed energy. Nel nostro fondo non facciamo queste operazioni come impianto fotovoltaico o impianto eolico. Al netto del finance, real estate ed energy il resto si siamo generalisti. Questo per policy interna ma ormai non ce ne portano neanche più. È una cosa abbastanza comune perché è un mestiere che conosco perché avevo amici che lavoravano in quel settore lì e chi fa investimenti che compra impianti eolici, idro ecc., sono fondi che fanno solo quello ma perché è un mestiere completamente diverso. Li hai un IRR target, prendi questi impianti che hanno dei flussi fondamentalmente molto prevedibili, nel senso che le variabili sono un incentivo che ti dà lo stato o un fulmine che ti tira giù la pala. Però è molto più finanziario. Quindi hai un IRR target, e vedi se riesci a pagare l'impianto sulla base dei flussi stimati ci stai dentro se no no. Mentre invece quando valuti un'azienda è molto più operativo.

**Giacomo Gualtieri:** Generalisti per settore ed invece per quanto riguarda il tipo di deal?

**Riccardo Spigariol:** Diciamo che noi Venture Capital in senso stretto non lo facciamo. Noi abbiamo un ticket che va come Enterprise Value per le aziende target tra i € 50M e € 200M. Con un ticket di equity, attorno, anche qui con un po' di variabilità, però il mediano dovrebbe essere attorno ai € 30M. Poi parecchi investimenti sono stati anche deal da 40 però ... Noi facciamo ovviamente Buyout e si possiamo anche definirci Growth Investing in quanto abbiamo anche fatto operazioni in aumento di capitale, magari in minoranza. Abbiamo fatto un investimento in un'azienda un po' più grande del nostro usuale range mettendo dei soldi, la target era più grande, però si può considerare growth capital in quanto era un investimento in aumento di capitale. Non era quindi un solito Buyout ma abbiamo apportato risorse per lo sviluppo.

**Giacomo Gualtieri:** Qual è il vostro processo di investimento, ovvero, una volta identificata la azienda nella quale investire che analisi svolgete? In questo processo qual è la struttura interna a 21 Invest, comitati di investimento, consiglio di direzione, che ruoli hanno in questo processo?

**Riccardo Spigariol:** Noi, la Due Diligence che facciamo, una volta che nasce un'opportunità si iniziano a guardare un po' i financials di quella società e poi iniziamo ad approfondire il business ed il mercato in cui l'azienda opera, magari sfruttando il network o alcune società che ti permettono di fare delle interviste anonime a degli esperti, più che esperti magari riesce a metterci in contatto con manager di aziende che operano nel settore della tua target quindi con loro fai alcune domande di cosa sta succedendo nel settore, ci sono problemi, inizi a mappare un po' la concorrenza, cosa è successo e così ti fai una idea del mercato, della target, dei concorrenti e delle dinamiche di cosa sta succedendo.

Fatto ciò se poi ci si convince che è l'opportunità può essere una buona opportunità, noi abbiamo un comitato di investimento dove partecipano sempre tutti i partner, e poi partecipano anche i

non partner che stanno seguendo direttamente questa potenziale opportunità. È un comitato che ha ovviamente vari livelli, il primo livello in genere coincide con prima dell'invio di una offerta non vincolante. Dove si prepara un memo che chi sta seguendo la potenziale operazione lo invia, poi ci si trova tutti quanti, si da un po' di colore rispetto al memo che è stato inviato poi si fa una discussione, generalmente la dialettica è dei partner che non stanno seguendo il deal esprimono un po' per avere un punto esterno, dialettica sana, dicono se l'operazione li convince o meno, esprimono i loro dubbi, chiedono gli aspetti approfonditi. Si parla un po' ed alla fine si decide se mandiamo l'offerta o no ed il valore. Poi se si va avanti, tendenzialmente c'è la fase delle due diligence, che sono sempre le solite. Si fa business, la financial, tax e legal. Queste 4 sicuramente poi se il business è più pesante a livello industriale magari si può far fare una due diligence ambientale. Se ci sono business che hanno processi produttivi delicati puoi fare sia una ambientale, per vedere che non ti trovi poi ... poi in genere si è coperti da warranties però magari viene fuori che per produrre hanno inquinato un fiume che ha reso non potabile l'acqua in una città. Puoi avere tutte le warranties che vuoi ma se la società vale € 200M quindi.. ha impatto. Puoi anche chiamare un perito che va a fare un'ispezione dei siti produttivi per vedere che non stai per comprare un'azienda che magari il giorno dopo devo ricomprare tutte le macchine perché sono tutte vecchie. Però ecco le 4 due diligence fondamentali sono quelle. Questo sono invece un po' spot.

**Giacomo Gualtieri:** Chi sono gli investitori che confidano i capitali a 21 Invest? Sono principalmente istituzionali o c'è comunque una quota di privati?

**Riccardo Spigariol:** Sì assolutamente, io penso che di privati noi abbiamo davvero una quota molto limitata. Principalmente la maggior parte sono addirittura imprenditori che hanno fatto un'operazione con noi nel fondo precedente, che magari se hanno i soldi vuol dire che è andata abbastanza bene. Però l'abace di investitori è istituzionale quindi sono i tipici, banche, fondi pensione, assicurazioni, ecc.

**Giacomo Gualtieri:** Qual è invece la durata media del fondo e la durata media della permanenza della azienda una volta investita?

**Riccardo Spigariol:** Il fondo inizialmente dovrebbero essere 5 anni di investimento e 5 anni disinvestimento. Poi tendenzialmente magari uno o due anni di ritardo si fanno perché magari ti rimane l'ultima partecipata che va un po' più lunga. Quindi tendenzialmente è quello, la durata di un fondo può essere 10 o 12 anni, la durata ideale di un investimento invece è attorno ai 4,5 anni.

**Giacomo Gualtieri:** Per quanto riguarda le exit dall'investimento, immagino la quotazione in borsa non sia la soluzione utilizzata più frequentemente, quali sono allora le opzioni che avete più spesso impiegato?

**Riccardo Spigariol:** No, io penso che non abbiamo mai quotato un'azienda in exit perché è comunque un'opzione veramente difficile, poi la borsa dipende anche da fattori esogeni. Quindi noi facciamo vendita o ad un altro fondo o vendita industriale.

**Giacomo Gualtieri:** Quali sono i tre aspetti ai quali viene data la precedenza in fase di investimento? Le tre caratteristiche che un'azienda non può non avere per godere del vostro support?

**Riccardo Spigariol:** Per noi l'ideale è investire in aziende, direi che per noi il fatto che abbiano un business plan o la relazione col management vale molto meno. Nel nostro contesto, essendo un

Buyout, se non resta l'imprenditore a guidare l'azienda il manager lo portiamo noi, comunque lo porti da fuori. Tendenzialmente per noi la cosa più importante è individuare aziende che ovviamente operano in settori che per qualche motivo ti convinca che hanno un trend sottostante positivo dove non succedono cambiamenti tali per cui c'è del movimento o opportunità di crescita. Però forse la cosa più importante è riuscire a convivere con l'azienda in cui stai investendo ha un qualcosa che le garantisce un vantaggio competitivo difendibile che può essere un certo modello di business, una value proposition di un certo tipo. È un concetto generale che va contestualizzato per ogni tipo di mercato però alla fin fine è più quello, farsi la pancia che stai investendo in una azienda che ha qualcosa per differenziarsi sul mercato. Può anche essere un qualcosa che l'azienda potenzialmente ha, non è ancora stato liberato e questo supporto può aiutarlo a fuoriuscire. Questa è la cosa più importante.

Un altro aspetto che per me è molto importante anche se non ho un'esperienza lunghissima ma qualche anno di PE l'ho fatto, una cosa che sembra effettivamente molto scolastica ma che poi è effettivamente importante nella realtà è cercare di investire in aziende con fatturato non troppo concentrato. Quelle poi sono cose che possono creare problemi. Magari poi non succede nulla però è un aspetto da tenere sempre in considerazione.

**Giacomo Gualtieri:** Quali sono le tre più importanti criticità riscontrate una volta che avete investito in un'impresa? Quelle che riscontrate più spesso.

**Riccardo Spigariol:** Sicuramente per noi ci sono casi in cui investi pensando di esserti fatto un'idea ed una comprensione del mercato che sia fatto in un certo modo e poi succede qualcosa che cambia totalmente il contesto. Questa è ovviamente una criticità. L'altra, specialmente nel nostro caso, che come ti dicevo facciamo deal primari, è sicuramente una variabile fondamentale il rapporto con l'imprenditore. Tendenzialmente in un Buyout è difficile che noi compriamo il 100%, l'operazione tipica è un 60-40, 70-30. Quindi immaginerai che la relazione con l'imprenditore è fondamentale. Probabilmente questo per il Buyout la metterei al primo posto. La terza potrebbe essere la dinamica, simile, di riuscire a passare da un'azienda puramente a guida familiare, ad istituzionalizzarla. È una cosa che non è mai scontata.

### English Version

**Giacomo Gualtieri:** How is 21 Invest structured? Are there different assets management companies for each country in which you operate: France, Italy and Poland?

**Riccardo Spigariol:** They are three independent funds with three independent assets management firms. The ownership has some links among the three different firms, for instance, Alessandro Benetton and Gerard Pluvinet are the main founders. There is also a minority participation that is the same for the three different countries calculated on the carried interest rate. Given that we target mid-market firms, local teams must have a strong regional imprinting. Cooperating with small Italian firms you cannot send the British PE with a translator, it would never work.

**Giacomo Gualtieri:** Focusing on the Italian firm, how many funds has it managed since the beginnings?

**Riccardo Spigariol:** I would say that in Italy the funds have been 4. At the beginning our business model was slightly different, it was more similar to a simple holding, but since we became a PE fully-fledged, we have created 4 funds.

**Giacomo Gualtieri:** Obviously 21 Invest Italy does not invest only in Veneto, but, given that it is where this organisation has been created, what is the idea you have built about the PE market here?

**Riccardo Spigariol:** In Italy, compared to France, the market is weaker, in France they are at least 10 years in front of us. This is true both in terms of funds, hence competition, and in terms of market lead, because in France the managers play a crucial role. There are more firms that received a PE investment. Our French colleagues told us that they no longer sit at the table with the entrepreneur but directly with the management which is more prepared and skilful. Italy is a market that is increasing in terms of operators and new initiatives, in the last years the foreign funds have been particularly active on our territory thanks to small offices or directly from London, or wherever they have the headquarters, they tend to invest in Italy because we surely have many interesting firms and the firm evaluations are definitely more affordable than in other countries.

As far as target firms are concerned, Veneto is surely one of the most attractive region, especially in the SME range. However, even for Veneto the management preparation level is quite low, many firms are still family owned organisations, which is not a bad condition on its own, but given that the word is changing very quickly, the PE support may allow that firm to grow even more and undertake growth paths.

Veneto, Lombardia and Emilia-Romagna make up for a good percentage of total investments. Mentioning the operators geographical concentration, most of them are based in Milan. Veneto however, is the second financial district, even more than Rome given that among the PE organisations we find 21 Invest, Alcedo, Finanziaria Internazionale, even if in the recent past it has been changing business sector, Palladio, operating also in the Advisory business in Vicenza.

So, from this point of view, Veneto is surely the second financial centre given the considerable number of funds.

**Giacomo Gualtieri:** How does 21 Invest find the firms in which it invests? Is 21 Invest contacting them through its network or are the companies taking the first step?

**Riccardo Spigariol:** I have never seen a firm contacting directly the fund. Moreover, our value proposition is to operate in the primary deal, which means firms bought directly from the entrepreneur, that have not been already supported by a PE fund in the past. This is known as secondary deal which is the case of a PE fund succeeding a second fund that exits the investment. Otherwise, if you buy the firm from the entrepreneurial family it is known as primary deal. We stick to Alessandro Benetton ideals and principles, who comes from an entrepreneurial family hence our roots are based on this business field.

We developed a certain set of skills and we are able to support firms in the generational changes. Entrepreneurs at a certain point ask themselves what to do with their firm because the children may be not interested or not capable of managing a company.

Another possibility is represented by the entrepreneur that wants to enter the American market for example. This is a huge growth possibility and the entrepreneur may be willing to start this activity only if supported by an experienced partner contributing some capitals. This is certainly one of

the most important aspects but not the only one. These entrepreneurs may have already built some wealth through the years, hence the focal point is the passion they have for their companies rather than a pure financial matter. They look for someone who has already done that before, someone with the experience.

The entrepreneur may be very capable and prepared in his business but once he decides to expand abroad buying firms for example in France or Germany, well, in that case it is not an easy process.

These are the areas where we try to operate, with firms full of opportunities and, if possible, undervalued. However, during the last years the competition increased and the firms value have peaked. We are still operating in this industry because we believe that it is where we are capable of generating the highest possible value, rather than purchasing already structured firms.

These projects have also some cons because they usually require a considerable commitment, given that these are firms not well structured thus without the c-level managers. They may not have a reporting and compliance practice, besides an internal restructuring, these firms need a proper assistance.

The members of our organisation deal constantly with the target firm, maybe it is not the case of the partners and managing partner, but until the investment manager principle every employee may go to the firms' offices every day. In my case, with the CFO of the firm I follow, I contact him on the phone almost every day.

**Giacomo Gualtieri:** I imagine that there is not a restriction on the industries in which you invest?

**Riccardo Spigariol:** No, the only restriction is that we do not invest in banks, assurances, real estate or energy firms (photovoltaic system or wind firm). With the only exceptions of these 4 sectors, we do not have restrictions. This is a very common distinction other funds do as well because I know people working in that sector and that job is completely different hence there are specific funds investing only in those firms. It is an industry where you have a IRR target and steady cashflows. Certain variables may be represented by a subsidy from the state or an atmospheric issue. If you can pay your costs with the expected cashflows you run the business, hence it is a much more financial matter than managerial.

**Giacomo Gualtieri:** We said you invest in almost every sector, what about the deal typology instead?

**Riccardo Spigariol:** We do not operate in the Venture Capital sector. Our target is composed by firms with a value ranging between € 50M and € 200M and equity value around € 30M, even if many deals were closed with equity at € 40M. We perform LBOs and Growth Investing mainly, even if in some occasions we just made some capital infusions as passive minority investors, bringing resources needed to develop.

**Giacomo Gualtieri:** What is your investment process? Once you identify the target company, what analysis do you perform? What role do your internal divisions have in this process?

**Riccardo Spigariol:** Once an opportunity is presented we start analysing the financials, the market and the supply chain. Sometimes we exploit our network realising anonymous interviews and contacting the management of other firms in the same industry as the target, in order to have an idea on how the sector has been performing. We start understanding what is the competition and in which direction the market has been moving.

By doing these early analysis we understand whether the opportunity is valuable, and if so, the investment committee will send a first offer to the firm. The group that has been following that specific deal will present the firm at the committee and the partners usually ask and go deep into the firm in order to understand several aspects of it. After a critical discussion, we decide whether to send a concrete offer or not.

After that, there are the classic due diligences: business, financial tax and legal. If the business is particular there can even be an environmental analysis. In addition, some inconveniences are usually covered by warranties.

**Giacomo Gualtieri:** Who are 21 Invest Limited Partners entrusting their funds in your firm? Do you have a portion of retail investors?

**Riccardo Spigariol:** Retail investors are just a few in 21 Invest. Most of them are entrepreneurs who invested with us in the past. The biggest portion of our shareholders are institutional organisations: banks, pension funds, assurances, etc.

**Giacomo Gualtieri:** How long does your fund last on average? How long do you keep an investment?

**Riccardo Spigariol:** The fund should be 5 years investment and 5 years divestment. Sometimes we spend a couple more years in exiting because we may be stuck with the last firm. The fund's life can be around 10 - 12 years and the investment period can be around 4 - 5 years.

**Giacomo Gualtieri:** I guess that the listing on the stock exchange is not the most used exit strategy. So which ones are those?

**Riccardo Spigariol:** No, I believe we have never listed a firm on the stock exchange due to its complexity. The most commonly used are trade sale or secondary sale.

**Giacomo Gualtieri:** What are the three main aspects that you look at in a firm before deciding to invest? In other words, what are the three features every firm should have in order to obtain your support?

**Riccardo Spigariol:** In our context, given that we invest in buyouts, if the management leaves the firm, we can bring one of ours. The most important aspect for us is to target those firms that operate in steady and profitable industries. However, on second thought, the most important aspect for us is the competitive advantage of the firm. We look if your company has something different from the others, a new business model, a different value proposition, etc. it can either be something that the firm did not use yet, and in this case we help the firm in discovering its potentials and exploiting them.

Another aspect that I personally consider as extremely relevant, is something very academic but at the same time important in the real world, it is to invest in firms where the turnover is not concentrated only on a few clients. It is an aspect that we have to keep under consideration every time.

**Giacomo Gualtieri:** What are the three problems you encounter more often once you invested in a firm?

**Riccardo Spigariol:** In many cases we invest in a firm believing to know the market, but then a variable changes and the whole market trend becomes unpredictable. Another issue, given that we invest in primary deals, is the relationship with the entrepreneur. Usually through a Buyout we

do not buy the 100% of a firm, the typical operation is a 60-40 or 70-30, thus keeping a good relationship with the entrepreneur is very important. A third issue is being able to institutionalise the firm, which means bring a corporate structure and philosophy into a family run company.

*[English Version Below]*

**Giacomo Gualtieri:** Qual è la vostra idea sullo stato di salute del mercato dei PE nella regione Veneto dagli anni postumi alla crisi finanziaria quindi dal 2010 circa? Ha visto un aumento di operatori e quindi di concorrenza oppure una stagnazione nel mercato?

**Alessandro Zanet:** Premesso che Alcedo ha un fondo di investimento che, sì, è basato a Treviso ma in realtà l'attività che svolgiamo noi come Alcedo è a livello nazionale nel senso che è nato come fondo basato sul territorio soprattutto per i precedenti fondi che Francesca Gajo conosce meglio.

**Francesca Gajo:** I primi fondi con cui è stata avviata l'attività di PE dai partner di Alcedo erano il fondo Cardine Impresa ed il fondo Eptasviluppo, ed erano fondi di emanazione bancaria locale. Quei fondi avevano più un focus regionale però in realtà, via via che l'attività prendeva corpo, anche il focus regionale è venuto meno ed anche i fondi Cardine ed Epta hanno cominciato ad avere un orizzonte geografico nazionale. Questo poi è stato confermato dai successivi fondi Alcedo III ed Alcedo IV il quale si trova adesso in fase di investimento. Chiaramente il bacino delle aziende venete è interessante sotto diversi aspetti però non è l'unico preso in considerazione.

Inoltre, a livello di statistiche, lei fa una domanda sull'andamento del mercato dei PE in Veneto, però non ci sono statistiche a riguardo perché l'associazione di categoria nazionale fa delle statistiche di carattere nazionale. L'unica statistica alla quale mi viene da pensare è quella del posizionamento del numero degli investimenti per regione geografica che vede in primis la Lombardia davanti a tutte le regioni italiane anche del nord-est. Il veneto viene terzo però con un forte distacco anche.

**Giacomo Gualtieri:** Come fa Alcedo a trovare le aziende da supportare? Sono le aziende stesse che per varie esigenze e necessità contattano Alcedo, oppure viceversa, è Alcedo a fare il primo passo?

**Alessandro Zanet:** Come dicevo, ormai il mercato del PE in Italia ma credo anche in Francia, è un mercato ora molto maturo, quindi da un paio di anni ormai, c'è stato uno sviluppo del mercato M&A diciamo quindi con una rifocalizzazione da parte delle banche e dei grossi operatori nel MidCap che prima magari non venivano seguite in maniera strutturata. Si tratta di operatori che magari pre-crisi erano focalizzati su aziende LargeCap, ormai invece organizzazioni come, le faccio dei nomi banali e che ormai conoscono tutti come UBS o addirittura Credit Suisse, ormai sono operatori che operano nel mercato MidCap, che è effettivamente una definizione un po' larga però si intende una azienda intorno ai 50 M di fatturato si arriva senza particolari problemi. Questo ha fatto sì che ci fosse un riposizionamento di tutti gli advisors quindi ormai "aziendine" anche da € 15/20M, noi diciamo che come Alcedo valutiamo aziende che vanno dai 15M di fatturato alle 70/80M, a volte arriviamo anche a 100, dipende poi dalla marginalità e da tanti fattori. Diciamo che questo comunque è il nostro bacino, un'azienda intorno ai 30/50M di fatturato è la nostra azienda ideale. Ormai, mentre negli anni passati era molto facile avere dei così detti Deal bilaterali quindi o noi contattavamo l'azienda, l'imprenditore e poi si vedeva di costruire l'operazione. O l'imprenditore o un suo consulente di fiducia che però non era un Advisor, era

magari un commercialista, un avvocato, ci contattava e si vedeva di fare il deal. Ormai questo tipologia di operazioni sono diventate molto rare, adesso aziende in cui ci siano deal bilaterali, cosiddetti proprietari, sono poche. La maggior parte dei deal avviene perché ci sono degli advisor, più o meno grandi a seconda della dimensione della azienda, che propongono un'opportunità, ti contattano, e quando ci sono advisors di mezzo, il deal diventa nel 90% dei casi, non sempre ma molto spesso, una piccola asta. Quindi, il mercato dei PE funziona così, dominato da advisors che contattano automaticamente 3 o 4 fondi a seconda del tipo di deal, perché ci sono ovviamente aziende piccole ed altre particolari su cui non è fattibile fare grandi aste e quindi magari contattano uno, due o tre operatori. Si fa una prima analisi, un primo screening, un'attività di pre Due Diligence chiamiamola, poi dopo si cerca sempre di arrivare ad un'esclusiva. Se si riesce a fare un'offerta che sia consona al valore dell'esclusiva. Però è un'attività molto guidata dall'attività degli advisor.

Queste sono società di qualsiasi genere, specializzate in M&A, corporate finance, private equity e debito. Ci sono advisors specializzati in questo che sono quasi tutti basati a Milano. Sono società di consulenza più importanti, una quindicina, poi ci sono Advisors locali anche che magari sono o studi di commercialisti un po' evoluti, pochi, oppure le big 4 che magari hanno team locali, che si occupano di M&A, oppure qui in veneto ci sono 2 advisors locali basati in veneto, mi viene in mente a Conegliano con Finanziaria Internazionale o Verona con un'altra società chiamata Torus. Sono piccole boutique che magari fanno l'attività dell'Advisor milanese.

**Giacomo Gualtieri:** Non essendoci specificità di settore, Alcedo ha una preferenza per le operazioni di un tipo di Deal in particolare? Sono preferite startup, operazioni di Venture Capital, oppure più di Buyout oppure vi è anche qui molta flessibilità?

**Francesca Gajo:** per quanto riguarda le Startups, noi per regolamento non effettuiamo operazioni con queste aziende, per regolamento interno di Alcedo non effettuiamo operazioni di Venture Capital e Startups. Per quanto riguarda la strutturazione dei deal, se LBO o Growth Capital (Expansion) questo dipende fondamentalmente dalle condizioni di volta in volta dell'operazione che ci troviamo a valutare. È vero che, come avrà visto dal sito, al momento c'è una prevalenza di LBO nel portafoglio e quindi di maggioranze. Alcedo fa sia maggioranze che minoranze ed in questo momento c'è la prevalenza di maggioranze. Per quanto riguarda i settori di interesse diciamo che non ci sono settori di preferenza in quanto diversi settori possono avere le caratteristiche che noi cerchiamo in un della ovvero profittabilità, crescita, soprattutto queste. Ci sono dei settori che per regolamento non perseguiamo che sono il settore della vendita del tabacco, piuttosto che di armi, piuttosto che classici settori legati ad attività regolamentate. Per quanto riguarda settori di preferenza, recentemente stata chiusa un'operazione nel settore alimentare che è stato visto con molto interesse. Mercati legati alla meccanica a volte presentano buone marginalità ma sono stati nel tempo in parte lasciati un po' da parte per guardare settori più innovativi dal punto di vista dei prodotti.

**Alessandro Zanet:** i settori son sempre quelli che costituiscono il tessuto italiano quindi non è che ci sia possibilità di fare grande selezione. È ovvio che ci focalizziamo a volte su settori che per esempio non abbiamo fatto food. Però l'Italia, 70% è manifattura e meccanica quindi alla fine nel bene e nel male non ci focalizziamo sul settore ma cerchiamo di valutare l'opportunità che ci viene presentata. Però ecco, l'unica cosa da sottolineare è che ovviamente c'è una strategia di diversificazione. Quindi il nostro fondo che è un fondo da € 200M di cui ci sono 8/9 partecipate cerchiamo di non concentrare troppo i settori. Quindi si fanno un paio di investimenti nella meccanica, un paio nel food, dopodiché basta, non possiamo farne troppi nello stesso settore.

**Giacomo Gualtieri:** Qual è il vostro processo di investimento una volta identificata l'azienda da supportare? Come si procede con le varie analisi preliminari? Qual è la vostra struttura interna ad Alcedo, quindi l'organizzazione del consiglio di direzione, del comitato di investimento e che attività svolgono in questo processo?

**Alessandro Zanet:** la procedura di investimento è stabilita da un regolamento e da un manuale delle procedure quindi è regolata nelle varie fasi in maniera formale secondo cui viene gestito un investimento. Per cui un investimento prima di arrivare all'investimento vero e proprio ci sono delle fasi. Prima si cerca l'opportunità, poi una volta che l'opportunità c'è si discute, c'è una fase negoziale, informale ovviamente, dopodiché se si arriva, essendo ormai le operazioni molto guidate dagli advisors, quindi non c'è la possibilità di seguire un approccio standard che magari era l'approccio usato più in passato di vedere l'azienda, quindi si faceva una lettera di intenti, una pre-analisi poi la lettera di intenti, poi si faceva una Due Diligence completa, poi al termine si fa una lettera vincolante o un contratto che veniva approvato dagli organi disposti.

Adesso tutte queste fasi sono state un po' compresse. Quando si fa una lettera di intenti già essa è poco negoziabile. Una volta che tu presenti una prima lettera di intenti, poi se nella Due Diligence si rivelano cose importanti ci si rimette ad un tavolo però non è più flessibile come lo era qualche anno fa.

Quello che si cerca di fare all'inizio è una sorta di pre-analisi. Essendo in competizione magari con altri due o tre fondi, se l'opportunità ci interessa molto, a volte diamo anche dei mandati a delle società di consulenza, le big 4, per fare delle piccole analisi mirate, cercando di contenere i costi inizialmente. Poi dopo si presenta una lettera di intenti dove si cerca quantomeno di prenderci un'esclusiva se il processo lo permette. Se il processo non lo permette allora si cerca sempre di andare avanti un po' in parallelo dove però come fondo non abbiamo mai le attività di Due Diligence formali, quindi due diligence di business, fiscale finanziaria, legale ecc, complete, finché non c'è un'esclusiva. Devo dire però che a volte siamo stati anche 3 o 4 mesi senza avere un'esclusiva in cui bisogna un po' raccapazzarsi con quello che si ha. Questo purtroppo dipende da operazione ad operazione. Questo a livello sostanziale di come avviene l'operazione.

Quando c'è l'esclusiva invece si procede con la due diligence che a questo punto diventa una due diligence confirmatoria, quindi alla fine la due diligence serve per valutare solo se ci sono dei grandi deal breaker, cioè se ci sono questioni rilevanti che fanno sì che l'operazione non possa andare avanti. Però quando si arriva ad un'esclusiva e si parte con una due diligence formale sostanzialmente, sono passati magari già anche uno o due mesi e grandi temi di business e finanziari magari sono già pre-masticati quindi serve più che altro per valutare più in profondità e capire che non ci siano tematiche tenute all'oscuro rilevanti, gravi o comunque che abbiano un'influenza sostanziale sul prezzo che abbiamo determinato.

Questo a livello sostanziale. Come forma invece come dicevo tutto parte da una lettera di intenti che viene predisposta e viene discussa dal comitato d'investimento. Il comitato d'investimento è l'organo deputato all'approvazione dei nuovi investimenti composto da tutti i partner di Alcedo. Il comitato di solito da un via libera in tempi non vincolanti. Dopo per avviare le attività di due diligence o per avviare qualsiasi attività che comporti anche dei costi per il fondo si va in CDA, e poi l'approvazione finale delle opportunità di investimento viene fatto con la redazione di un Investment Memorandum, quindi un documento strutturato in cui viene scritta tutta l'operazione, il mercato, gli importi. Quindi un documento corposo dove si descrive l'opportunità e le risorse necessarie, si danno gli esiti se ci sono delle due diligence. Questo documento è approvato dal comitato di investimento e poi anche dal CDA.

Diciamo che poi l'organo deliberante di Alcedo è il CDA che delibera e che dà i poteri per effettuare le operazioni. Quindi diciamo che il consiglio entra in gioco in momenti più rilevanti

quindi l'approvazione dei costi Due Diligence o nella approvazione dell'operazione di investimento finale o di disinvestimento. Mentre le risorse del fondo, i fondi che noi chiediamo al fondo devono essere approvati dal CDA, non possiamo usare i soldi del fondo senza l'approvazione del consiglio.

Il CDA invece si riunisce, a parte per le questioni burocratiche, corporate di bilancio ecc., si riunisce quando c'è necessità quindi si riunisce quando c'è da approvare un'operazione o una Due Diligence. Il comitato invece si riunisce a cadenza settimanale o bisettimanale a seconda di come è la pipeline delle operazioni e nel comitato invece si discute collegialmente di tutte le operazioni. Di solito in Alcedo il team di investimento, anche per collegarmi all'altra domanda, è fatto da 6 partner più un team di investimento che è fatto da 4 persone. Diciamo quindi 10 persone che si occupano degli investimenti. Ogni operazione viene di solito seguita da due partner e da un analista del team, quindi di fatto c'è un team di tre persone. Poi dopo ovviamente ci sono eccezioni. In linea generale ci sono tre persone che sono deputate alla gestione dell'operazione, del deal, sia pre-ingresso che poi per la gestione della partecipata, post-ingresso. Però, il comitato poi in sede di approvazione della lettera di intenti, entra nel dettaglio quindi tutte le operazioni vengono discusse collegialmente.

**Giacomo Gualtieri:** Si discuteva prima dei capitali investiti nel fondo, che genere di investitori vi confidano il denaro?

**Alessandro Zanet:** Noi abbiamo circa 50% di investitori esteri e 50% italiani. Negli esteri ci sono tendenzialmente investitori istituzionali quindi fondi di fondi, banche, grandi banche, operatori molto grandi quindi o grosse banche internazionali o fondi di fondi. In Italia invece c'è un misto quindi una parte di investitori istituzionali che possono essere sempre banche, casse di deposito, fondi pensione, e varie categorie che comunque stanno avendo un ruolo sempre più importante in Italia anche sul mercato perché hanno un sacco di soldi. Poi ovviamente c'è una base che però si sta riducendo di privati quindi family office, o famiglie imprenditoriali anche molto legate al territorio. Quindi la parte di privati è legata in zona veneto, Friuli, perché chiaramente sono famiglie che magari hanno seguito Alcedo fin dall'inizio quindi magari hanno anche un rapporto storico con i partner. Questa fetta però si sta riducendo perché man mano che il fondo aumenta ovviamente si cerca di dare priorità agli investitori istituzionali anche se avere uno zoccolo importante di imprenditori privati è utile e quindi si cerca di dare spazio un po' a tutti.

**Giacomo Gualtieri:** Invece qual è la durata media dei fondi che avete avuto e che tutt'ora detenete? E conseguentemente, qual è la durata media dell'investimento quindi di permanenza di Alcedo nel capitale dell'impresa?

**Alessandro Zanet:** Anche qua dipende da investimento ad investimento. Il Fondo III ha avuto una durata lunga perché è nato in un periodo critico, nel 2008, quindi ha passato due anni di blocco dell'attività di investimento legato al fatto che la crisi nel paese aveva determinato uno stand-by delle attività di investimento. 2008 e 2009 sono stati anni molto critici. Quindi si è durato 8 anni proprio per questo motivo, perché era nato in contemporanea con la crisi finanziaria. Tendenzialmente i fondi hanno una durata di 10 anni, noi cerchiamo di investire quasi tutto il fondo se possibile nei primi 5 anni, quindi investimenti totali. L'obiettivo è quello anche di iniziare a fare i primi disinvestimenti prima del termine di questi 5 anni in modo tale da poter già iniziare a fare la raccolta del fondo successivo. Diciamo quindi che la durata media, adesso noi non abbiamo questa disponibilità enorme di fondi, però diciamo che la durata media, tolto il fondo III

che è durato 8 anni, ci aspettiamo che i fondi che gestiamo durino tra i 5 e 6 anni. Poi dipende dalle attività di disinvestimento.

Però per noi l'attività core è quella dell'investimento che noi cerchiamo di completare in cinque anni. Noi ad oggi siamo al terzo anno del Fondo IV, abbiamo già investito per più del 60% e cercheremo tra quest'anno, l'ultima parte dell'anno ed il prossimo anno, di praticamente chiudere l'attività di investimento del Fondo IV.

**Giacomo Gualtieri:** Citava prima l'attività di disinvestimento, immagino che quella della quotazione in borsa non sia l'attività più utilizzata, quindi qual è la soluzione che più utilizzate per disinvestire, se si tratta di una vendita al management, o all'imprenditore che prima era parte dell'azienda?

**Alessandro Zanet:** Si come hai correttamente detto tu la borsa non è l'exit principale anche per la dimensione delle aziende che abbiamo, anche se poi per esempio Masi (Masi Agricola, società vitivinicola di Verona) ha avuto una exit di borsa, però per noi comunque non è la priorità. I nostri disinvestimenti nel 90% dei casi sono stati acquisiti o da altri fondi o da multinazionali, gruppi industriali più grandi che magari avevano delle sinergie o comunque erano interessate alle aziende. Quindi l'exit preferito è o ad un operatore del settore o ad un fondo più grande. Dipende poi da azienda ad azienda.

C'è poi una piccola parte degli investimenti che sono ritornati poi alle famiglie originarie, specialmente dove magari vi erano delle minoranze perché appunto il lavoro nostro era quello di dare un supporto alla famiglia che quando si è evoluta, strutturata ecc, ha riacquisito la quota. Per noi però l'exit principale è quello verso un fondo o un operatore del settore.

**Giacomo Gualtieri:** Alcedo risente della concorrenza apportata da fondi esteri oppure non vi tocca?

**Alessandro Zanet:** Diciamo di no, nel senso che i nostri concorrenti sono quasi tutti fondi italiani. Ci sono fondi esteri attivi nel nostro segmento ma più nella fascia alta che puntano ad aziende un po' più grosse. Adesso c'è Investindustrial che ha costituito un team di Mid-Cap che si occupa anche di aziende del nostro settore però è un fondo estero per modo di dire perché è un team tutto italiano.

Quindi direi di no. Noi fondi esteri li cominciamo a vedere quando vediamo aziende che cominciano ad avere EBITDA sopra € 8 o 9M. Allora a quel punto la concorrenza comincia ad essere anche portata da fondi internazionali ma quelle sono aziende per no già di fascia molto alta perché noi di solito sopra i € 7M facciamo fatica. Noi ci fermiamo su aziende che fanno EBITDA di 4 o 5M.

Però potremmo avere concorrenza di aziende estere perché molte aziende che noi guardiamo magari hanno interessi anche da gruppi industriali esteri. Direi fondi no però da multinazionali e operatori del settore esteri si.

**Giacomo Gualtieri:** In fase di investimento quali sono gli aspetti a cui viene data la precedenza? Quali caratteristiche un'azienda non può non avere per poter ricevere il vostro supporto?

**Alessandro Zanet:** Ce ne sono molti di importanti però diciamo che noi prima di vedere un'azienda, probabilmente il business plan non è il primo che guardiamo, sicuramente il mercato, sicuramente il più importante e poi anche il management. Quindi in ordine direi forse il management ed il mercato. Questo perché se già il mercato non è buono noi l'impresa neanche la guardiamo, è difficile che andiamo ad approfondire un'opportunità che opera in settori che sono

magari decotti o brutti. Il mercato diventa una variabile come predeterminata, invece il management è una variabile che varia da azienda ad azienda ed è molto importante. Ci possono essere aziende molto belle in settori molto belli ma se poi il management o non c'è feeling o non ci piace allora non facciamo l'investimento. Per noi il management è veramente un aspetto ... che poi è anche il più difficile da valutare, quindi cerchiamo di concentrare i primi incontri e prime fasi di analisi di un'azienda per capire quale potrebbe essere il rapporto dell'imprenditore del management o se manca la struttura e magari l'azienda è totalmente dipendente da una singola persona. Queste sono sicuramente le cose più importanti da vedere. Quindi direi management/Struttura aziendale, seguito poi dal mercato. Il business plan poi è una variabile conseguente di queste due, perché se il mercato è buono, il management è molto bravo che ha idee e strategie il business plan poi esce.

**Giacomo Gualtieri:** Noto che non mi ha parlato della situazione finanziaria/patrimoniale dell'azienda, è un aspetto che viene dopo questi parametri oppure dove la colloca in questa classifica?

**Alessandro Zanet:** Nono, anche quella è importante. Se mi chiede una classifica per ordine, sono tutte e tre molto importanti, diciamo che la parte economica e finanziaria è un po' come per il mercato, se un'azienda ha brutti numeri, ha avuto problemi, per noi ovviamente si accende un po' una lampadina, se un'azienda è sempre calata, se ha dei margini bassi o se è iper indebitata, queste sono tutte cose che direi che qualsiasi operatore di private equity valuti. Sono variabili quasi un po' oggettive perché nel bene o nel male un minimo di analisi arrivi un attimo a capire dove sono dovute. Sono tutte e tre molto importanti però la parte più complicata in assoluto è il rapporto con l'imprenditore e col management. Questo perché tu devi gestire un'azienda e anche se compri una maggioranza la guida rimane sempre in mano ai manager o all'imprenditore. Quindi o devi scegliere un amanager di tua fiducia che però deve avere anche la fiducia dell'imprenditore quindi alla fine quella è la parte più delicata, le altre sono cose che si vanno ad analizzare, ma sono analisi che si fanno normali per ogni operazione.

**Giacomo Gualtieri:** Una volta che si ha investito nell'azienda quali sono le tre più importanti criticità che si riscontrano più spesso?

**Alessandro Zanet:** Quando entri in azienda può succedere di tutto. Essendo ormai l'attività dei PE molto compressa dai tempi che impongono gli advisors, alla fine non è che in 3 mesi 4 mesi riesci a capire in profondità tutto. Quindi nel 90% dei casi le cose vanno bene, entri dentro e vedi la società come ti aspettavi, con il management ti trovi bene e l'attività rimane quella di gestire la crescita e di definire le strategie future, fare magari add-on e di supportare il management nelle operazioni straordinarie nella definizione dei progetti di crescita da qua ai prossimi 2 o 3 anni. Poi ci sono casi in cui quando entri dentro ti rendi conto che magari avevi capito diversamente alcune cose, che magari il business lo aspettavi in una maniera invece è in un'altra, con il management. Iniziano ad esserci disaccordi su alcune strategie e li purtroppo cerchi di gestirlo, ovviamente ci sono dei patti parasociali, si cerca sempre di mantenere un rapporto di collaborazione e condividere un po' le decisioni.

I problemi che si possono riscontrare, sono ovviamente molto specifici per ogni azienda, di sicuro i problemi possono essere o un cambiamento nelle dinamiche di mercato, entri dentro che dopo 4 o 5 mesi succede qualcosa che ti cambia il mercato. Posso fare un esempio, la Secure Oil & Gas, dove avevamo una partecipata che aveva un mercato previsto in crescita poi per motivi anche geopolitici ci sono stati dei rallentamenti.

**Francesca Gajo:** A me viene in mente una società che faceva radiatori portatili e che è incappata in una situazione climatica sfavorevole di mercato, e quindi ha avuto problematiche legate a quel tipo di aspetto. Dinamiche imprevedibili che a volte è difficile prevedere.

**Alessandro Zanet:** Quindi sì i cambi di mercato sono quelli più imprevedibili perché tu quando entri in un settore, tu i trend li sai, ti fai supportare dai consulenti però non è scritto nella pietra quindi puoi avere anche nel giro di un solo anno che il mercato ti cambi. Un altro problema principale può sicuramente essere un rapporto col management e con i soci che si deteriora. Quindi direi che questo sono un po' le due cose. Solo che nel primo caso è una cosa un po' che ti arriva e sulla quale tu non hai possibilità di fare un granché quindi è un aspetto un po' esogeno e pazienza, cerchi di trovare qualche soluzione ma non te ne puoi fare un colpa. Il discorso di quando si deteriora il rapporto col management o coi soci perché magari ci sono divergenti strategie o perché può succedere qualche fatto che deteriora un buon rapporto, quello già è più grave perché ovviamente a quel punto lì, non è mai positivo. In quel caso quello che si cerca di fare è che se sei in una minoranza non puoi far niente, quindi cerchi di andare avanti fino a quando non esci con l'investimento. Se è una maggioranza valuti se è necessario sostituire o meno il manager oppure se continuare con la situazione così.

Queste sono le due cose, poi per fortuna ci capitato poche volte entrambe le cose quindi, ti dico la verità. Io come statistiche di problematiche post ingresso vedrei queste due, quindi problemi di mercato e eventuali problemi con la compagine sociale.

### English Version

**Giacomo Gualtieri:** What is your general impression about the PE market situation in Veneto since the financial crisis? Did you witness an increase in the competition or not?

**Alessandro Zanet:** Alcedo is an investment fund based in Treviso but operating at a national level. In the past it was more rooted in the regional context but then we expanded.

**Francesca Gajo:** The first funds created by Alcedo's partners were named Cardine Impresa and EptaSviluppo. These funds were originated by a local bank capital infusion and they had a regional focus, but, as soon as we started to grow, the focus shifted to a more countrywide perspective. This shift continued also in the following funds with Alcedo III and Alcedo IV which is now investing. Clearly the firms in Veneto are extremely interesting under several points of view. Asking how the PE market has been doing in a single region in Italy is never easy to answer because the market association (AIFI) only prepares statistics at a national level. The only figure divided per single region is the total number of investments where Lombardia is the first one, by far above everyone else, even Veneto which comes in third place.

**Giacomo Gualtieri:** How does Alcedo find the target firms? Are those companies contacting Alcedo or is it vice versa?

**Alessandro Zanet:** As I was saying, the PE market in Italy and France I very mature, the M&A sector literally exploded, and large operators such as banks shifted their attention towards SMEs. Large organisations like UBS or Credit Suisse, before crisis they were targeting LargeCap while now they are on MidCap. Mid Cap refers to firms with € 50M turnover. This change in the

strategies made the whole market shift towards smaller businesses because the competition was increased on MidCap. In Alcedo we take into consideration firms ranging between € 15M up to € 70/80M, sometimes even € 100M. This is our core business, a firm with a turnover of € 30-50M. In the past it was easier to make primary deals establishing a direct link with the entrepreneur, Today this kind of deals are very rare, most of the opportunities are presented through the advisor, they offer several deals contacting directly the PE. When the deal is intermediated by the advisor it becomes almost every time a sort of auction. The advisors contact more than one fund at the same time. Obviously if the firm is particularly small the advisor will contact less PEs because the low value does not allow large bids. We make a pre-analysis and always try to get to an exclusive-agreement. The whole process is strictly regulated by the advisors activity.

The advisors may be an M&A firm, a corporate finance organisation, Private Equity or debt firms. Most of them are based in Milan, they are basically very important consulting firms, and then some small local firms as for instance CPAs offices, local team of Big 4. Here in Veneto there is Finanziaria Internazionale in Conegliano and Torus in Verona, even if both of them are smaller compared to larger advisors based in Milan.

**Giacomo Gualtieri:** Given that you have no preferences in terms of industry, do you invest in a particular Private Equity business or do you have a generalist approach also under this point of view?

**Francesca Gajo:** According to our internal bylaw, we do not invest in Start-ups hence we do not operate in the venture capital business. We perform mainly LBO and Growth Investing (Expansion), according to the deal conditions. At the moment we are mainly doing LBOs, hence investing in the controlling shares of a firm. Alcedo invest both in majority and minority stakes. As far as the industries are concerned, we have no clear preference because every sector can have firms boosting the qualities we look for, which are profitability, growth and that's it.

However, there are some restrictions defined in the internal procedures. These sectors are tobaccos, weapons, regulated activities (banks, insurance, etc.). Recently we closed a deal in the food&beverage industry. Markets linked to mechanics do present interesting opportunities even if in the last periods we have concentrated our efforts in new innovative businesses.

**Alessandro Zanet:** The sectors in which we invest are those populating the Italian economic system, we cannot be too picky in that. Sometimes we focus on sectors we have never invested in, as for instance food. However, Italy is for 70% craftsmanship and mechanical industries. We obviously have a diversification strategy. Our fund is € 200M with 8/9 investments and we try to select among several industries. A couple in the mechanical sector, a couple in food&beverage, and that's it, you cannot invest too much in a single industry.

**Giacomo Gualtieri:** How is the investment process structured once you have found the right firm? Which analysis do you perform? What are your internal entities and what role do they have in this process?

**Alessandro Zanet:** The process is clearly stated by an internal regulation. First of all we look for the opportunity, then, after an internal discussion, we start the negotiation process. In the past, without the advisors, we were sending a letter of intents, performing the due diligence and then sending a binding letter approved by the shareholders. Today, because of the advisors activity, everything is quicker and less flexible.

At the beginning we try to realise some analysis in advance, given that we are competing with other funds. If we realise that the opportunity is particularly interesting we ask to any of the big 4

firms to realise some detailed analysis trying to keep costs down at the beginning, because we do not know if we will be able to win the auction.

After that we issue a Lol where we try to get an exclusive agreement on the deal. If this is not possible we move forward in the process but we never ask for complete due diligence because they are expensive and we are not sure of realising the deal yet. The due diligence we realise are operations, tax&legal and accounting.

Once we have the exclusive agreement we can move on with the due diligence, which has the purpose of confirming our pre-analysis. Usually, some time has passed by and we already have an idea on the firm and its environment, therefore the due diligence analysis is intended to find out eventual hidden aspects of the firm with material influence on the deal.

Everything start with the Lol issued by the investment committee. This is the entity in charge of approving new investments. It is composed by every Alcedo's partners. When we have to start the due diligence analysis and whatever other operations requiring a cost for the fund we need the permission from the BOD, which will have to issue an investment memorandum to approve the whole operation. This is a structured document where we specify the operation's details, the market and the prices (tickets). It is an heavy document where the operation's details and required resources are written down. This document has to be approved by the BOD and the Investment Committee as well.

The entity responsible for issuing documents and taking decisions is the BOD, the investment committee instead is more operative. We cannot use the fund's resources without the BOD approval.

The BOD meets up for bureaucratic reasons but also to discuss about corporate matters and financial statement approval. The investment committee instead meets on a weekly basis or every other week. This is where we discuss together the operation's specificities.

The investment committee is composed by 6 partners plus 4 junior employees, for a total of 10 persons. Every deal is usually followed by 2 partners and an analyst. Generally every team is made of 3 persons, and it is responsible of the pre-investment phase and the whole post-investment support that we offer to the firm.

**Giacomo Gualtieri:** We were discussing before of capitals invested in your organisation, what are the investors entrusting their money to Alcedo?

**Alessandro Zanet:** 50% of our investors come from abroad, while the other 50% is from Italy. Among the foreign investors there are mainly institutional investors such as funds of funds, banks, large international banks. Instead, in Italy the investor base is rather mixed with a portion of institutional investors where we have once again banks, pension funds, deposit and loans fund, etc. These organisations are more and more relevant in the Italian ecosystem because they have increased their financial power. Among national investors we also have a portion of retail investors and family offices rooted in the region. However this portion is shrinking. The private retail investors are linked to Veneto and Friuli Venezia Giulia because we are talking about families that followed Alcedo since the early periods. These persons may have a long lasting relationship with our partners. We are trying to put institutional investors first so this investors' category is shrinking even if keeping a well rounded group of retail lenders is important for us.

**Giacomo Gualtieri:** How long does a fund operate on average? How long do you keep an investment?

**Alessandro Zanet:** It depends because it is different for every investment. Fund III has been operating for a long time because it started working in a very critical phase. In fact, in 2008 the country had banned every investment activity for 2 years due to the financial shock. Therefore, its investment phase lasted 8 years for this reason. On average a fund lasts 10 years. We try to invest the whole capitals collected within the first five years in order to start a capital call for a new fund every 5 years. Except for Fund III which lasted 8 years we expect to manage a fund for 5 to 6 years. We are arrived today at fund number IV, and we have invested more than 60% of capitals up to today. We plan to end the fund's assets by the end of next year.

**Giacomo Gualtieri:** I imagine that listing a firm on the stock exchange is quite rare, therefore, what are the most used exit strategies?

**Alessandro Zanet:** As you said, the listing of a firm on the stock market is not the first exit option adopted, also due to the dimensions of our target firms. However, with regards to Masi (Masi Agricola, wine company in Verona) it has been listed on the stock exchange. The main exit strategies are a secondary purchase or trade sale with large conglomerations. It depends on the firm's characteristics.

There is also a small portion of investments that came back to original entrepreneur family which was kept in a minority stake while we were operating. Our purpose is to support these families and once our job is done we are happy to sell back to them. However, the main exit for us are trade sale and secondary deal.

**Giacomo Gualtieri:** Is Alcedo impacted by foreign funds competition?

**Alessandro Zanet:** I would say no, our main competitors are Italian funds. International funds target larger deals. However, InvestIndustrial has just created a mid-cap team focusing on SMEs, but the team is composed for 100% by Italian managers.

When a firm boosts a € 8/9M EBITDA the competition will also be at an international level. Our target however is concentrated on firms between € 4M to € 5M EBITDA.

We do not have competition from international funds but a large portion of our competitors is represented by firms and industrial companies.

**Giacomo Gualtieri:** When you decide to invest, what characteristics a firm must have in order to receive your support?

**Alessandro Zanet:** Probably, the first aspect we look at is the business, then probably the management. If the market is not in a healthy condition we do not even start the deal with the company. We rarely dive into an opportunity if the firm is operating in decreasing markets. The market is like a predetermined variable. The management instead changes from company to company and it is very important as well. We can evaluate an amazing firm working in a fantastic industry, but if we do not have a feeling with the management, we won't do the deal. This is also the most difficult aspect to evaluate and we try to do that during the first meetings we have with the entrepreneur and directors. Another aspect is the internal structure. The business plan comes as a consequence from the previous variables.

**Giacomo Gualtieri:** I have noticed you did not mention anything about the financials of a firm. Where do you place this aspect in the chart?

**Alessandro Zanet:** This is another important variable. The financials are as relevant as the market because if a company is burdened by high debt we pay careful attention to the deal. We obviously

evaluate the revenues trend, debt level and marginality. These are like objective parameters we need to take into consideration.

These are all important variables, probably the most difficult to be evaluated is the relationship with the entrepreneur. Even if we buy the majority stakes of a firm, the formal leadership is always in the entrepreneur's hands. You have to select a trustworthy person for this role.

**Giacomo Gualtieri:** Once you have started the investment process, what are the three main issues you encounter more often?

**Alessandro Zanet:** When you invest in a firm everything is possible. Given that the PE activity today is extremely shortened by the Advisory activity, you won't be able to understand everything at the beginning. In the 90% of the cases everything goes well, you have a good relationship with the management, you just have to define growth and the coming strategies as for instance supporting the manager in extraordinary activities. There are also situations where you expected the business to be completely different. In this case you need to deal with it, own it, and cooperate with the management to solve it. The problems are very specific depending on the industry. One of the most common is the market that changes. For instance, Secure Oil & Gas,, for geopolitical reasons decreased and the positive forecasts simply failed.

**Francesca Gajo:** I remember of a portable cooler company, but as the market conditions changed, it decreased growth and sales.

**Alessandro Zanet:** The market changes are very common. When you enter a business you get to know the general trend but it may happen that the market changes completely. Another issue may be represented by a conflictual relationship with the management and with shareholders.

In the case of the market it is an exogenous condition that you can barely affect, the management relationship instead, depends on you. Given that the old entrepreneur is holding minority stakes, you try to go on until exit moment. These issues fortunately are quite rare in our firm.

*[English Version Below]*

**Giacomo Gualtieri:** Qual è la storia di FVS S.g.r. e l'esperienza dopo questi primissimi anni di attività?

**Luca Briotto:** Noi in quanto FVS siamo focalizzati geograficamente su aziende che sono ubicate o in Veneto o in Friuli Venezia Giulia. Il nostro fondo è partito ad aprile 2015 quindi in realtà il grosso degli investimenti li abbiamo fatti tra 2017 e 2018. Questo è in parte dovuto anche al fatto che il fondo Sviluppo PMI, che è il fondo che abbiamo in gestione, è il primo fondo lanciato dalla nostra S.g.r., nella sua nuova configurazione.

FVS inizialmente era Friulia S.g.r., che gestiva un fondo di Venture Capital ed era controllata al 100% dalla finanziaria del Friuli Venezia Giulia e da Friulia. Verso la fine del 2014 Veneto Sviluppo, che è la finanziaria della regione Veneto ne ha acquisito il 51% e ed è stato istituito un team di investimento completamente nuovo di cui faccio parte per la gestione del nuovo fondo che si chiama Fondo Sviluppo PMI e che è invece destinato a realizzare operazioni di Espansione (Expansion), quindi non più di First Stage.

Pertanto, FVS è nuova, così come il fondo, e abbiamo, dopo la fondazione, attraversato due anni di Start-up di tutta la nuova attività, quindi attività di scouting per trovare opportunità di investimento, attività che ha dato i suoi frutti poi, negli anni 2017 e 2018, che ci ha permesso di avere un portafoglio che ad oggi conta 5 partecipazioni avendo investito il 60% dei fondi investibili.

**Giacomo Gualtieri:** Qual è la vostra impressione sul mercato del Private Equity in questi ultimi 5 anni quindi dal 2014 ad oggi? Vede per il veneto un aumento ed una scoperta del settore o ancora si fatica a far conoscere le opportunità che un'organizzazione come la vostra offre?

**Luca Briotto:** In Veneto ci sono relativamente pochi operatori di Private Equity rispetto alla piazza di Milano dove gli operatori sono molto più numerosi. In Veneto ci siamo noi, c'è Gradiente di Padova, Alcedo, che è una società storica del territorio, c'è la 21 Investimenti della famiglia Benetton, FinInt (Finanza Internazionale) credo non abbia più una società S.g.r. per operazioni di Private Equity ma facciano un altro tipo di operazioni. Il mercato del Nord Est, tuttavia, è il terzo mercato più importante in Italia, dopo Lombardia ed Emilia Romagna. È un territorio che presenta una certa vivacità imprenditoriale, caratterizzato da aziende familiari quindi spesso non è semplicissimo per l'investitore istituzionale entrare in queste società difatti bisogna spesso presentarsi un po' in punta di piedi. Col tempo però in quasi tutte le situazioni si riesce a creare un rapporto di fiducia che porta a fare questo tipo di operazioni anche in aziende familiari.

**Marco Cavasin:** Venendo da una gestione ormai pluriennale di un fondo di Venture Capital, noi siamo tra i pochi, direi pochissimi, in Veneto che hanno avuto un'esperienza di questo tipo. È un'esperienza che sottende ovviamente sia in fase di valutazione ma anche poi di gestione un'attitudine al rischio particolarmente elevato dato che il fondo che gestisco tratta operazioni di start up in larga prevalenza e soltanto in minima parte di natura expansion. Questo è sicuramente un tassello che ci contraddistingue rispetto ad altre realtà dai Private Equity in senso stretto perché, noi già in Italia non abbiamo tantissime esperienze e track record del genere, in Veneto

abbiamo già dal 2010 ma anche prima con un altro fondo, abbozzato questo tipo di realtà del tutto nuova e peculiare.

**Luca Briotto:** Per chiarificare, Marco Cavasin ti sta parlando dell'esperienza di un fondo che è stato gestito da Veneto Sviluppo e che adesso è in fase di disinvestimento. Io invece ti sto parlando di FVS S.g.r. che è la società controllata al 100% da Veneto Sviluppo che invece gestisce un altro fondo attualmente in fase di investimento che ti citavo prima e che invece si occupa solamente di operazioni di espansione.

**Giacomo Gualtieri:** Proprio a questo riguardo, in che fase di attività si trova il fondo Aladdin Ventures di FVS?

**Luca Briotto:** Il fondo Aladdin Ventures è stato un fondo ereditato dalla gestione precedente e che di fatto aveva già completato il suo periodo di investimento. Noi quando abbiamo acquisito la società il fondo si trovava ormai già negli ultimi anni di investimento ed era un fondo già dentro, poi noi ne abbiamo creato uno nuovo, il fondo Sviluppo che è poi diventato il nostro core business. Quindi si è un fondo che c'è ma che ha terminato la propria attività ormai.

**Giacomo Gualtieri:** Invece per quanto riguarda Veneto Sviluppo, quanti fondi ha in gestione?

**Marco Cavasin:** Attualmente, se parliamo in senso ampio e guardiamo anche oltre all'Equity, i fondi in gestione sono 3. C'è quello di Venture Capital, quello del fondo cooperative, che comprende poche iniziative, soltanto 3, che sono tutte di equity, poi c'è il fondo Veneto Minibond fatto in associazione con le BCC che è però uno strumento di Private Debt al quale FVS fa attività di consulenza.

In più abbiamo quelle che sono le partecipazioni strategiche che hanno un impatto socio-economico per il territorio regionale e non solo essendo alcune anche di evidenza nazionale che derivano dalla storia di investimento di Veneto Sviluppo, anche in simbiosi con quello che è la programmazione economica della regione del Veneto. Quando si parla di partecipazioni strategiche si intende investimenti infrastrutturali, porti, aeroporti, utilities, o anche investimenti in aziende di una certa rilevanza per il territorio con impatto sociale molto importante anche in termini occupazionali.

**Luca Briotto:** Quindi per sintetizzare, attualmente possiamo dire che il core business dell'attività di investimento di Veneto Sviluppo è rappresentato dal fondo Minibond, in questo momento diciamo. Il fondo vanta circa 15 operazioni, e questo mercato del debito privato, negli ultimi anni, ha potuto riscontrare una certa vitalità. Invece per quanto riguarda il lato Private Equity in senso stretto, l'attività è portata avanti dalla S.g.r..

**Giacomo Gualtieri:** Per quanto riguarda gli investitori che vi confidano il capitale, come è strutturata la vostra ownership?

**Marco Cavasin:** Veneto Sviluppo ottiene i suoi fondi per il 51% dalla regione Veneto mentre per il restante 49% da 8 banche di caratura internazionale.

**Giacomo Gualtieri:** Come le vostre società trovano le imprese nelle quali investire? Ovvero, sono le stesse imprese che vi contattano di loro iniziativa oppure siete voi a compiere il primo passo?

**Luca Briotto:** In realtà è un po' un mix. L'attività destination è una delle attività più complicate per le operazioni di Private Equity. Abbiamo ovviamente una rete di contatti con vari soggetti nel territorio che nascono da tempo, e si tratta di consulenti, e vari rappresentati in diversi ambiti che spesso ci segnalano delle operazioni.

Altre volte sono anche le stesse aziende che ci contattano perché interessate a capire di più ciò che offriamo e talvolta siamo noi che facciamo ricerche mirate di società con determinate caratteristiche e poi cerchiamo di contattarle ovviamente non tramite mail o su LinkedIn ma cerchiamo di arrivarci attraverso quella che è la nostra rete di relazioni. Può essere che conosciamo il commercialista che gestisce quella società o un membro del collegio sindacale o ancora ci affidiamo alle Confindustrie per creare un collegamento con questa società. Quindi i canali della destination sono estremamente variegati.

**Marco Cavasin:** Se guardiamo al nostro fondo di Private Equity, giusto per dare una panoramica totale, anche i nostri co-investitori stessi, quindi le BCC, possono segnalarci un'opportunità.

**Giacomo Gualtieri:** Parlando di durata, qual è la durata dei vostri fondi e qual è invece la durata media degli investimenti, ovvero quanto restate in un'azienda prima di passare alla fase di disinvestimento?

**Luca Briotto:** La durata del fondo è 10 anni, i primi 5 anni dedicati agli investimenti, gli ultimi 5 rappresentano il periodo di disinvestimento, ovviamente può poi esserci un risk period, per poter prolungare la durata del fondo di un anno e agevolare la fase di disinvestimento.

La durata media dell'investimento è invece 5 anni poi ovviamente se capita l'opportunità di uscire prima dall'investimento di 2-3 anni ed è interessante si può valutare l'opportunità di cogliere ... ovviamente non siamo delle banche su questo.

**Marco Cavasin:** Chiaramente, questo vale sicuramente per l'equity, mentre per il debito, dire che un fondo dura 10 anni vuol dire che si può investire fino al nono anno e si riesce a fare una divisione tra periodo di investimento e disinvestimento perché il disinvestimento c'è con i piani di ammortamento e con i rimborsi dei bond che emettiamo. Queste durate sono simili poi anche per il fondo Private Equity di Veneto Sviluppo anche se quel fondo è totalmente in fase di disinvestimento, e rimane attivo quindi per la parte di valorizzazione, e come diceva prima Luca Briotto, quel risk period aggiuntivo, per noi è ancora più circoscritto al fatto che deve esserci la condizione di mercato, quindi l'adeguata valutazione che consenta di soddisfare il rientro dall'investimento.

**Giacomo Gualtieri:** E quindi non è mai successo che si restasse in una società per più di 5 anni?

**Marco Cavasin:** In realtà sì, è successo, e abbiamo anche più di un caso, e questo può essere dato fondamentalmente da due tipi di fattori: il primo che non ci auguriamo è che ci siano delle criticità che debbano essere gestite, risolte e portare ad una adeguata valorizzazione come dicevo prima. La seconda è un'opportunità di maggior valorizzazione che ha senso rimanere dentro la società evidentemente un anno o due anni in più.

**Luca Briotto:** Per quanto concerne il fondo S.g.r., i primi investimenti vengono fatti in ottica cessante, solitamente il processo di vendita, il percorso standard dell'operazione di disinvestimento lo abbiamo a partire dal quinto anno. Quindi se anche la vendita fosse ritardata viene comunque sempre fatta a fine quinto anno o inizio del sesto.

**Giacomo Gualtieri:** Una volta identificata l'impresa nella quale investire, che analisi di Due Diligence fate? Che dati guardate principalmente e a cosa viene data maggiore importanza di una società?

**Marco Cavasin:** Chiaramente, quella che è la prima fase di analisi, perché noi ovviamente cerchiamo di fare sempre uno screening di tutte le società che ci vengono proposte, tieni conto che ad oggi sul fondo S.g.r., che poi vale in realtà anche per il fondo di Veneto Sviluppo, la

statistica è che fatto 100 le operazioni che ci vengono sottoposte, 10/12 vengono poi analizzate molto approfonditamente, con una istruttoria molto ampia e solo due massimo tre vengono poi di fatto perfezionate. Quindi se guardiamo quali dati vengono analizzati in una prima fase, che vale poi anche per il debito, almeno per una fase iniziale, analizziamo sicuramente i financials della società, quindi l'aspetto sia economico che patrimonio che il reddito degli ultimi 3 anni almeno. Questo vale sia per realtà singole che per appunto realtà di gruppi ma sicuramente l'obiettivo, anche per dare il primo input ai nostri comitati di investimento è quello di avere una view del settore di riferimento, dei prodotti, dei competitor e di come questa società si muove nel suo focus di riferimento. Diciamo che sulla parte financials, sicuramente stressiamo un po' più il concetto perché poi rientra anche per gli aspetti valorizzativi e quindi deve rientrare anche con i contributi dell'investimento.

**Luca Briotto:** L'operatore di Private Equity, quando fa l'analisi di un progetto di investimento fa una analisi un po' a 360 gradi. Ti descrivo un po' il percorso della fase di analisi.

Allora noi prendiamo contatti con l'azienda, e prima cosa che faccio con essa e siglare un accordo di riservatezza, dopo di che abbiamo una check list standard che giriamo alle imprese per ottenere alcune informazioni ed avviare il processo di analisi. Queste informazioni comprendono sia dati di nature contabile, sia storica (di budget) che previsionali, ma anche informazioni sul mercato di riferimento, sulla concorrenza, sul prodotto, sul processo produttivo, sulla filiera, sul management, e chiediamo anche un profilo delle figure chiave che può essere che poi eventualmente andiamo anche ad intervistare in azienda, informazioni su come si scompone il fatturato per area geografica, tipo di prodotto, vogliamo sapere come è strutturato il business flow dunque come è strutturato il processo, la filiera del processo produttivo aziendale. Quindi una analisi importante.

Una volta che ci rispondono a quest check list noi iniziamo a predisporre il nostro documento di analisi, dopodiché solitamente facciamo un po' di incontri in azienda per valutare gli approfondimenti sulla base della documentazione che ci è stata inviata. Dopodiché definiamo sempre con l'azienda quello che noi chiamiamo section memo, ovvero la strutturazione dell'operazione di investimento, modalità di ingresso, indicazione del valore della operazione, modalità di uscita, governance e quant'altro.

Dopo che abbiamo trovato un accordo di massima su tutti questi aspetti portiamo l'operazione al nostro comitato di investimento. I membri del comitato sono espressione dei nostri investitori, ovvero coloro che ci hanno dato i soldi, e ottenuto il parere positivo del comitato tecnico, andiamo dal CDA di S.g.r., ed ottenuto anche il loro parere positivo, sottoscriviamo una LOI, una lettera di intenti con la controparte che di fatto va a cristallizzare i contenuti dello section memo. È una lettera di intenti che può avere una natura vincolante o non vincolante, in base alla volontà delle parti. La nostra volontà e la volontà della controparte ossia i soci storici della azienda target. Una volta firmata la LOI inizia il vero e proprio processo di Due Diligence. Processo di Due Diligence che è affidato a soggetti esterni. Due Diligence che facciamo secondo il nostro standard sono la contabile, finanziaria, fiscale, payroll, quindi sul personale, e legale. Solitamente mettiamo in pista due team di consulenti, uno che segue la parte legale ed uno che segue tutta la parte contabile e finanziaria e fiscale e quant'altro.

In parallelo, all'attività di Due Diligence, non appena i consulenti ci dicono "guardate, non abbiamo ancora finito di fare il nostro lavoro, però abbiamo visto un po' le macro-aree, non abbiamo individuato criticità particolari" solitamente ci predispongono quello che tecnicamente viene chiamato un Anti-Flag report, ovvero ci danno un primo sguardo di massima ai loro dati di lavoro e ci dicono se ci sono problemi o non ci sono problemi. Se non ci sono problemi ci dicono "guarda in teoria non c'è nulla di grave, adesso noi andiamo avanti con il nostro lavoro fino a

predisporre il report conoscitivo però voi intanto potete già iniziare in parallelo a predisporre tutta la contrattualistica”.

Noi in parallelo con l'azienda predisponiamo la contrattualistica che si sostanzia di fatto in un nuovo statuto, patti parasociali ed accordi di investimento. Questi sono i tre documenti fondamentali ma poi se ne possono aggiungere anche altri come il contratto di opzione, finanziamenti ecc.

**Giacomo Gualtieri:** FVS si concentra soltanto su operazioni di Expansion o anche altre tipologia di investimento?

**Luca Briotto:** Siamo abbastanza flessibili come fondo, nel senso che Expansion è la tipologia che meglio si sposa con il nome che abbiamo dato al fondo, Sviluppo PMI, però in realtà abbiamo anche fatto operazioni di Replacement, passaggi generazionali delicati, piuttosto che rapporti non idilliaci tra soci, quindi, ovviamente siamo un fondo di minoranza quindi non prendiamo mai quote di maggioranza, noi entriamo in acquisto di una parte della compagine sociale che rappresenta comunque la minoranza. Ma anche in alcuni casi abbiamo affiancato anche un minimo un aumento di capitale. L'ultima operazione che abbiamo fatto, che risale a Dicembre 2018, è stata un'operazione astronomica, azienda di Padova nel settore alimentare, e in realtà abbiamo fatto un LBO, però assumendo sempre una posizione di minoranza. Quindi assieme ad alcuni manager prendiamo una parte della compagine sociale e sempre a supporto di un passaggio generazionale, perché di fatto abbiamo rilevato le quote da soci fondatori, dai soci anziani, manager e socio giovane invece hanno conferito le loro quote nel gruppo costituitosi, e attivando un po' di leva, leva di fatto che è un vendor loan perché ci siamo fatti finanziare dai soci venditori, abbiamo acquisito il 100% della società dopodiché abbiamo fatto la fusione inversa completata a Giugno 2019. Per dire che siamo un fondo di espansione ma ogni tanto realizziamo anche qualche altra operazione. Non facciamo sicuramente restructuring o turnaround o first stage o buyout perché non prendiamo maggioranza ma nell'ambito dell'Expansion riusciamo barcamenarci piuttosto bene.

**Giacomo Gualtieri:** Si risente della concorrenza apportata da fondi internazionali? Secondo voi vi è una differenza tra un investimento fatto da un fondo internazionale ed un investimento fatto invece dai vostri fondi?

**Luca Briotto:** Una delle nostre prime operazioni nel gruppo Partner Associates, l'abbiamo fatta insieme ad un fondo internazionale in co-investimento. In realtà la concorrenza di fondi internazionali finora noi non l'abbiamo sentita molto perché probabilmente il fondo internazionale ha target diverse, investe in aziende di dimensioni più rilevanti e comunque fondi internazionali, che fanno minoranza e non maggioranze non credo ce ne siano moltissimi. In maggioranza un fondo di Private Equity fa maggioranza comunque. Noi chiaramente come approccio rispetto ad un fondo non di matrice istituzionale magari concediamo alcuni diritti, come ad esempio mi vengono in ente le opzioni call, per riacquistare la nostra quota di minoranza, che magari fondi tradizionali non sempre concedono. Mi spiego, noi a partire dal quarto anno e mezzo talvolta concediamo ai soci storici la possibilità di riacquistarci ad una determinata valorizzazione, rivendendo la nostra quota sul mercato. Questo è una cosa che non è concessa da tutti perché naturalmente il fondo di Private Equity preferisce andare a vendere la propria quota al mercato.

**Giacomo Gualtieri:** Per ciò che riguarda il disinvestimento, immagino che l'opzione di quotazione dell'impresa sul mercato sia una delle ultime opzioni quindi quali sono le strategie le più utilizzate?

**Luca Briotto:** Lo schema standard è di dire che noi al quarto anno e mezzo diamo la possibilità, qualora richiesta, alla compagine sociale storica, di riacquistare la nostra quota. Però è ovviamente un diritto, non un obbligo, un'opzione call. Se loro decidono di non riacquistare a questi valori, andiamo a vendere la nostra quota sul mercato. Poi è chiaro che il compratore può essere un altro fondo piuttosto che un industriale. Questo dipende ovviamente anche da quella che è la domanda che riusciamo ad intercettare. La borsa non è prevista da regolamento e dipende un po' dalla target che abbiamo, ma la borsa non è per tutti.

**Marco Cavasin:** Se posso aprire una parentesi, che è un dettaglio rispetto alla risposta generale che ha dato il collega, ovviamente sul Venture Capital noi abbiamo un paio di casi dove abbiamo affrontato questo percorso (quotazione sul mercato) e ci ha consentito di uscire parzialmente o totalmente dall'investimento, ma non è lo step uno del processo di uscita.

**Giacomo Gualtieri:** Quali sono i tre problemi principali che riscontrate una volta che investite in una azienda?

**Luca Briotto:** Allora, probabilmente finora siamo riusciti a costruire ottimi rapporti con le società nelle quali siamo entrati, siamo entrati in sintonia con diversi management.

**Marco Cavasin:** Questo è verissimo per quanto riguarda S.g.r. sicuramente, invece nella esperienza di Veneto Sviluppo, quando avevamo di fronte realtà comunque piccole e che potevano avere un'aspettativa diversa da quello che poteva essere l'intervento ed il ruolo del socio istituzionale, alcuni momenti di attrito ci sono stati soprattutto laddove le performance e quindi gli obiettivi a livello di piano industriale non sono stati rispettati. Quindi direi che questo punto del rapporto non idilliaco, mentre per S.g.r. non c'è la tematica, per Veneto Sviluppo in passato qualche episodio di questo tipo, quindi contestualizzato al Venture Capital, e limitato a quello direi, c'è stato. Comunque non rappresenta un'ipotesi frequente.

**Luca Briotto:** L'errata valutazione delle prospettive di mercato invece è successo, sia in un senso che nell'altro però devo dire. Quindi, in alcuni casi ci siamo trovati un mercato migliore ed in altri casi no. Fare un'analisi di mercato è molto difficile tra l'altro perché spesso gli ultimi report disponibili sui settori si basano sull'anno precedent quindi sono già storia e diventa difficile avere la sfera di cristallo per poter dire dove andrà in futuro. L'errato Business Plan, cioè previsione delle condizioni economico patrimoniali anche questa è vera. Questo capita quasi sempre sulle proiezioni economico patrimoniali esposte dal management perché comunque sono la parte venditrice che deve presentare un piano che consenta a loro di massimizzare il valore dell'azienda. Noi come fondo comunque non prendiamo mai in considerazione un piano fatto dal management.

### English Version

**Giacomo Gualtieri:** What is FVS S.g.r. story after these years of activity?

**Luca Briotto:** FVS focuses on firms based in Veneto or Friuli Venezia Giulia. Our fund started in 2015 therefore the investment activity has been carried out between 2017 and 2018. Sviluppo PMI is the first fund launched by our S.g.r. since the reorganisation.

FVS was originally known as Friulia S.g.r. which was a Venure Capital fund wholly controlled by Friulia Venezia Giulia financial organisation together with Friulia. By the end of 2014, Veneto Sviluppo, which is the financial organisation of Veneto, bought 51% of the firm and completely renewed the organisation creating a new fund called Fondo Sviluppo PMI with the purpose of investing in Expansion Financing, no longer first stage.

Therefore, we spent the first 2 years scouting and looking for opportunities, until 2017 and 2018 when we realised our first investments. Today we have 5 companies in our portfolio and we invested 60% of the total capital collected.

**Giacomo Gualtieri:** What is your general feeling about PE market in the last 5 years? Did you witness an increase in market competition or do you struggle to earn trust from society?

**Luca Briotto:** In Veneto we have relatively just a few PEs compared to Milan. In Veneto there is FVS, then Gradiente from Padova, Alcedo which is an historical firm in the region, 21 Invest held by Benetton family, FinInt even if it is not an S.g.r. anymore but realises other kinds of operation.

The Nord-East market is the third most important in Italy only after Emilia Romagna and Lombardia. It has an active industrial framework characterised by family run companies. Therefore, for an outside investor it is never easy to enter these firms where you need to start dealing on tiptoes. As times goes on, we are able to establish a trustworthy relationship performing great activities even in family run firms.

**Marco Cavasin:** We have been managing a Venture Capital since many years and we can say we are among the few with this kind of experience in the region. This activity underlines an evaluation phase but also a risk management activity. In fact, the risk for these operations is always very high given that the fund deals mainly with start-up operations, and only partially with expansion. This is surely something that makes us different from the rest of PEs, because in Italy there is not a similar track record. This fund has been operating since 2010, and before that with another fund, we were among the first in Italy working in this innovative business.

**Luca Briotto:** In order to be clear, Marco Cavasin is talking about a fund managed by Veneto Sviluppo which is now divesting, I'm talking about FVS S.g.r. which is 100% controlled by Veneto Sviluppo with a different fund focusing on expansion financing and which is today in the investment phase.

**Giacomo Gualtieri:** What is the situation of the fund Aladdin Ventures held by FVS?

**Luca Briotto:** Aladdin Ventures has been inherited by the previous organisation when it was already in the divesting phase. When Veneto Sviluppo bought the S.g.r., this fund was already in the latest phase of investment activity. We created a new fund with a different goal which became our core business. The previous fund has already finished with its activity.

**Giacomo Gualtieri:** How many funds is Veneto Sviluppo managing today?

**Marco Cavasin:** Currently, if we speaking in a broader sense and looking beyond the Equity, there are 3 funds under management. There is the venture capital fund, the cooperative fund, which includes a few initiatives, only 3, which are all about equity, then there is the fund Veneto Minibond created in association with the BCC which is a Private debt vehicle. FVS offers its confluence to this fund. .

In addition we have strategic participations with a socio-economic impact for the region and some fo them of national evidence that derive from the investment history of Veneto Sviluppo, in symbiosis with what is the economic planning of the Veneto region. When we talk about strategic

participations we mean infrastructural investments, harbours, airports, utilities, or investments in companies of a certain importance for the territory with a social impact also in terms of employment.

**Luca Briotto:** To recap, we can say that the core business for Veneto Sviluppo is Minibond fund with 15 investments overall. The fund has been particularly active in the recent past, while as far as the PE activity is concerned, Veneto Sviluppo carries out this business through the S.g.r. (FVS).

**Giacomo Gualtieri:** Who are the investors entrusting their money into your fund?

**Marco Cavasin:** Veneto Sviluppo obtains its capital for the 51% from the Veneto region and the remaining 49% from 8 large international banks.

**Giacomo Gualtieri:** How do FVS and Veneto Sviluppo find target firms? Are companies contacting you first or is it the opposite, with you taking the first step?

**Luca Briotto:** To be honest, it is kind of a mix. The destination activity is one of the most difficult in the PE business. We obviously have a network of contacts with various subjects in the territory that have been on our side for a long time, and they are for example consultants, and various persons in different fields that often advise us on possible operations.

Other times we also have the same companies contacting us because they are interested in understanding more about what we offer and in other situations it is us realising targeted researches of companies with certain characteristics and then we try to contact them obviously not via email or LinkedIn. We try to get to them through what is our network of relationships. It may be the case that we know the accountant who works in that company or a member of the BOD or we rely on the regional Confindustrie to establish a link with this company. So the destination channels are extremely various.

**Marco Cavasin:** Focusing on our PE fund, in order to present the whole picture, even our limited partners such as BCC, may suggest us possible operations.

**Giacomo Gualtieri:** Speaking of duration, what is the duration of your funds and what is the average duration of the investments, that is how long you stay in a company before you move to the divestment phase?

**Luca Briotto:** The fund lasts 10 years, the first five are planned for the investment phase while the remaining five are usually spent for the divestment activity. Obviously, we can have a risk period used to extend the fund's duration of one year and enhance a better divestment activity.

On average, the investment lasts for 5 years but then if we have the opportunity of exiting 2-3 years before we take it, we do not act as banks in this.

**Marco Cavasin:** This is obviously true for a PE fund, while on the debt side, saying that a fund lasts 10 years it means that you can invest in it until the 9th year because the divestment is deployed through amortisation plans and issued bonds redemptions. These durations are similar also for the Private Equity fund of Veneto Sviluppo even if that fund is in a divestment phase, and it is working on the valorisation, and as Luca Briotto said before, that additional risk period, for us is even more limited to the fact that there must be the optimal market condition allowing an appropriate valuation in order to cover the hurdle rate.

**Giacomo Gualtieri:** Has it ever occurred to you to stay in a firm for more than 5 years?

**Marco Cavasin:** To be honest, yes, it happened in even more than one case. This situation may be due to two aspects: first, there may be some issues related to the investment, some problems

that must be resolved. The second is that we may envisage a higher valorisation by remaining in the company for an additional year or two.

**Luca Briotto:** As far as the S.g.r. is concerned, the first investments are made in a cease-and-desist perspective, usually, the standard path of the divestment operation start from the fifth year. So even if the sale is delayed, it is always done at the end of the fifth year or beginning of the sixth.

**Giacomo Gualtieri:** Once you identify the firm in which you want to invest, what analysis do you perform? What Due Diligence do you do and which aspects to you take into closer consideration?

**Marco Cavasin:** We always try to realise a first screening of the opportunities received. The statistics regarding the S.g.r. say that over 100 operations only 10/12 are deeply analysed and only 2 are finally performed. This is true also for the PE fund of Veneto Sviluppo. About what data we look at in the analysis period, we study the financials, the economic figures, asset and profit profiles for at least the last 3 years.

This is true for both singular entities and groups but certainly the goal in order to give the first input to our investment committees, is to gain a view on the sector, the products, the competitors and how this company moves in its focus of reference. Let's say that we stress a little bit more the financials part, because then it also falls into the value aspects and therefore must also be included with the investment contributions.

**Luca Briotto:** The Private Equity operator, when doing the investment project analysis, does a bit of a 360 degree analysis. Let me give you a description regarding the analysis process.

First of all, we make contact with the company, and first thing we do is to sign a confidentiality agreement, after that we have a standard check list that we send to businesses to get some information and start the analysis process. This information includes both data of accounting nature, historical (budget) and forecasting, but also information on the reference market, competition, product, production process, supply chain, management, and we also ask for a profile of the key employees that may be those we eventually interview in the company. We ask for information about how the revenues are divided in geographic area, product lines, the business flow structure, a well rounded analysis.

Once they answer us to this check list we begin to prepare our analysis document, after that we usually meet up in the company to evaluate the insights based on the documentation that was sent to us. After that we always define with the company what we call section memo, that is the structuring of the investment transaction, how to enter the shareholding base, the value indication, how to exit, governance and so on.

Once we have an agreement on these details we can bring the operation to the investment committee. The members of the committee are the expression of our investors, hence, they are those who contributed the capitals. Once we have the agreement from this committee we can go to the BOD. If this entity will agree on the operation as well we can finally prepare a LOI, a letter of intents, which fix the details described in the section memo. The Lol may have a binding or non-binding nature, depending on what the parties involved agree upon. Once we have signed the LOI we start the due diligence procedure and the analysis we do are the most common such as accounting, financials, tax&legal, payroll. We usually implement two different consulting teams, one following the legal matters and the other following the accounting and fiscal side of the deal.

Next to the due diligence activity, as soon as the consultants tell us "look, we have not finished our work yet, but we have seen some macro-areas, we have not identified any particular criticalities", they usually provide us with what is technically called an anti-flag report, or give us a

first rough look at their work-data and tell us if there are problems or not. If there is no problem they tell us to go ahead with our work until they prepare the cognitive report. We can already start in parallel to prepare all the contract details. This is what we do with the firm. A new bylaw has to be prepared, shareholders agreements and investment deal have to be drafted as well. These are the three fundamental documents and we can also add some secondary ones such as an option contract.

**Giacomo Gualtieri:** Does FVS focus only on expansion financing or also on other kinds of business sectors?

**Luca Briotto:** We are quite flexible as a fund, in the sense that expansion is the type that best matches the name we gave to the organisation, Sviluppo PMI, but in reality we have also done replacement financing, delicate generational transitions, and capital infusions in firms' equity. We are a minority fund so we never take majority shares, we purchase a part of the shareholdings base that nevertheless represents the minority. But even in some cases we have added a small amount of capital. The last operation we did, which dates back to December 2018, was a huge deal, we closed an LBO with a company in Padova in the food sector, but always assuming a minority position. Therefore, together with some managers we replaced part of the historic shareholders structure and, supporting a generational transition, we took over the shares from founding members, as for example senior partners, and we brought in new managers and junior partner who conferred their shares in the newly formed group, and activating a little leverage, which is de facto a vendor loan because we get financed by the partners selling out, we acquire 100% of the society and after that we have made the reverse merger completed in June 2019. This is to say that we are a fund operating in the expansion financing but occasionally we carry out also some other operations. We surely do not work in restructuring or turnaround or first stage or buyout financing.

**Giacomo Gualtieri:** Do you feel the competition brought by international funds? Do you think there is any difference between an investment from an international organisation and an investment from your fund?

**Luca Briotto:** One of our first operations in the Partner Associates group was made together with an international fund in co-investment. In fact the competition of international funds does not impact us a lot because international funds have different targets, they invest in larger companies. I do not think that there are many international funds investing in minority stakes and not controlling the majority. An approach of an institution-based fund as ours, may include granting some rights, such as, for example, call options, to buy back our minority share, that perhaps traditional funds do not always allow. Let me explain it better, since the fourth - fifth year we give historical shareholders the possibility to buy our shares back at a predetermined price. This is not a concession everyone does because it would be more convenient for a PE to sell its shares on the market.

**Giacomo Gualtieri:** As far as the divestment strategies are concerned, I imagine that the listing on the stock exchange is not the most used option, so what are?

**Luca Briotto:** The standard approach is that after four and a half years we give the possibility to the historic shareholders, to buy back our shares. This is obviously a right, not an obligation, it is like a call option. And if they decide to not exercise it we go sell to the market and in this case our

shares can either be bought by another fund or a firms' competitor. This depends on the demand side. The stock exchange instead, is not for everyone.

**Marco Cavašin:** If I can make a parenthesis, which is a detail compared to the general answer that the colleague provided, obviously in the Venture Capital sector we have a couple of cases where we have faced this path (listing on the market) which allowed us to exit partially or totally from the investment, but it is not the step one of the exit process.

**Giacomo Gualtieri:** What are the three main problems you encounter more often in the target firms when you analyse them?

**Luca Briotto:** Up to now, we have been able to build good relationships with every company in which we have invested, and we empathised with every management team.

**Marco Cavašin:** This is true with regarding to the S.g.r., whereas in the experience of Veneto Sviluppo, when we were faced with very small firms that could have a different expectation from what might have been the intervention and the role of the institutional partner, some moments of friction have been there therefore the objectives at the level of industrial plan have not been respected. So I would say that this point, while for our S.g.r. it is certainly not an issue, for Veneto Sviluppo in the past some episodes of this conflicts between PE and entrepreneur have happened. They are contextualised with Venture Capital. However, this is not a common situation luckily.

**Luca Briotto:** The wrong assessment of market forecasts has happened before, in both possible outcomes. In some cases the market turned out more positively than expected and in other situation the opposite. Making a market analysis, among other things, is very difficult, because often the latest reports available on the sectors are based on the previous year so they already belong to the past and it becomes difficult to foresee how it will be in the future. The wrong Business Plan, that forecast of the economic conditions in a badly manner has also happened. This often happens on the economic projections exposed from the management because they are selling their products to us so they must present a plan that allows them to maximise the value of the company. We as a fund do not take into consideration a plan realised by the management.

*[English Version Below]*

**Giacomo:** Gradiente non opera soltanto nel Veneto, però ha il suo ufficio basato in questa regione. Qual è l'idea e l'impressione che ha del mercato del PE in questa regione?

**Alberto:** Io lavoro in Gradiente da 5 anni, quindi la mia memoria storica è legata a questo periodo. Noi siamo uno di quei operatori che è nato a cavallo della crisi mentre per quella che è la mia conoscenza credo che tutti gli altri operatori locali fossero già presenti all'epoca quindi forse noi rappresentiamo a livello di PE, penso come S.g.r. forse la realtà più giovane del territorio.

Noi chiaramente non investiamo solo in Veneto, ma anche in Veneto, tendenzialmente non credo che ci sia un grandissimo vantaggio competitivo nell'essere qui, se non il fatto che statisticamente è un territorio dove ci sono tante aziende valide, soprattutto in quello che è il nostro target di investimento quindi piccole e medie imprese, per intenderci entro i 50M di fatturato ma poi si può anche sfiorare.

Il grosso vantaggio di essere qui è che essendo locali, a volte capita che riesci ad arrivare su qualche opportunità prima che venga portata ai competitors che magari sono concentrati in altre parti. Però direi che principalmente questo, che poi tra l'altro dipende perché se vengono coinvolti advisors, boutique di M&A questo vantaggio si viene a perdere immediatamente.

Un altro vantaggi probabilmente è che comunque siamo vicini a poli universitari di valore quindi qualche volta riusciamo anche ad attrarre persone di valore all'interno dei team di investimento.

**Giacomo:** Addentrandoci nelle specificità di Gradiente, come fate a trovare le imprese nelle quali investire? Gradiente investe in deal primari cioè senza supporto di Advisors o Gradiente contatta direttamente le imprese?

**Alberto:** Tendenzialmente facciamo entrambe le cose, è chiaro che a livello statistico le operazioni che hanno più probabilità di successo, ovvero di essere realizzate sono quelle in cui l'intenzione di vendere parte della proprietà. Le Cold Call o lo Scouting è parte integrante del nostro lavoro però le probabilità di riuscita sono molto inferiori perché chiaramente se uno non ha intenzione di vendere non è che, per quanto ci siano leve per poter influenzare la sua decisione, come proporre un progetto ed una motivazione, però se uno non ha intenzione di vendere o non ha la formamentis per avere un partner finanziario non vai tanto lontano, per quanto l'azienda possa comunque avere bei numeri.

**Giacomo:** Visitando il vostro sito ho visto che non avete una specificità di settore di investimento, volevo sapere se avete restrizioni interne che precludono qualche settore?

**Alberto:** Abbiamo qualche genere di settore, purtroppo non posso esplicitartelo fino in fondo, però sono cose molto ... sono molti pochi i settori nei quali non possiamo investire, sono settori che non sono investibili per buona parte degli operatori. Di fatto siamo generalisti come lo sono gli altri.

**Giacomo:** Dal punto di vista della tipologia di deal, quali sono quelli che effettuate più spesso?

**Alberto:** Noi eravamo nati con un approccio di voler concentrarci su investimenti di minoranza, poi per come è cambiato il mercato di riferimento ci siamo aperti a Buyout e tendenzialmente

vogliamo proseguire lungo quella strada. Il Buyout è preferito per un tema di ritorni perché mettendo un po' di leva è maggiormente favorevole per ottenere ritorni superiori. Poi per il tema della governance perché nella minoranza la governance assume un aspetto preponderante e finché le cose vanno bene è tutto risolvibile mentre quando le cose vanno male ci si trova a doversi scontrare con la controparte. Siccome sono processi abbastanza logoranti, però siamo ancor aperti a quella tipologia di investimento però in linea di massima queste sono le ragioni.

**Giacomo:** Qual è il vostro processo di investimento e la struttura interna a gradiente, comitato di investimento e Consiglio di Direzione, che ruoli assumono all'interno di questo processo?

**Alberto:** Anche qui sono cose purtroppo sulle quali non mi posso sbilanciare tanto perché sono specificità, cose regolate a livello di S.g.r., che non posso condividere con l'esterno. È un processo abbastanza standard in cui c'è un comitato di investimento che esprime un parere ed un CDA che ha la funzione di approvare l'investimento. Siamo una S.g.r. indipendente nel senso che parte del Management Team detiene la maggioranza delle quote che è fondamentale per questo settore. È fondamentale perché tendenzialmente hai un campo di operatività più ampio ovvero sei tu che decidi il tipo di operazione nella quale investire. Poi c'è sempre un confronto.

**Giacomo:** Che tipologia di Due Diligence e analisi fate in fase di selezione e scrematura delle varie opportunità proposte?

**Alberto:** Facciamo una profonda analisi interna che è paragonabile in tutto e per tutto in una Due Diligence sia finanziaria che strategica, che anche su altri aspetti magari anche fiscali e legali anche se non siamo professionisti in quel senso però comunque diamo una occhiata preliminare. Poi di fatto facciamo una Due Diligence confirmatoria su tutti questi aspetti da parte di un consulente esterno. La prima parte è interna molto approfondita, poi se l'investimento supera questa prima analisi interna andiamo anche ad avvalerci di consulenti esterni.

**Giacomo:** I partner come mi diceva hanno la maggioranza del capitale investito, le altre quote da chi arrivano?

**Alberto:** Le altre quote sono di investitori istituzionali che sono stati promotori di questa iniziativa, gli uncle investor di questa iniziativa nella sua fase preliminare. Che sono Fondazione Cassa di Risparmio di Lucca e Fondazione Cassa di Risparmio di Padova e Rovigo.

**Giacomo:** Il fondo Gradiente II, in che fase si trova attualmente? Ha terminato la raccolta fondi?

**Alberto:** Abbiamo già concluso la fase di raccolta con € 135M.

**Giacomo:** La durata regolamentata dei fondi invece è osservata attentamente o vi è flessibilità?

**Alberto:** Il fondo ha un suo regolamento in cui viene disciplinato un periodo di investimento ed un periodo di disinvestimento. Quindi hai tot tempo per impiegare la raccolta e tot tempo per disinvestire società e liquidare i proventi.

**Giacomo:** In fase di investimento a quali aspetti Gradiente dà la precedenza?

**Alberto:** In ordine di importanza abbiamo il mercato, anche per provenienza dei nostri partner che hanno comunque esperienze significative in consulenza. Cerchiamo di capire le prospettive del mercato in cui opera l'azienda. Cerchiamo di farci un'idea nostra anche affidandoci a check con professionisti che fanno parte del nostro network. La seconda è la qualità del management che però devo dire non va mai intesa come solo qualità del management della società ma anche

come qualità del management che siamo in grado di portare per quel determinato progetto. Poi terzo i financials inteso come performance storica ed anche prospettive sulla base di idee che ci siamo fatti e progetto che abbiamo costruito.

**Giacomo:** Quali sono invece le criticità che riscontrate più spesso una volta che avete investito in un'azienda?

**Alberto:** Non esiste una regola, ogni realtà è veramente una cosa a sé. Possono capitare conflitti con gli altri soci che però sono sempre stati risolti. Non ci è mai stato nulla di insopportabile. A volte capita di beccare evoluzioni del mercato che non avevamo previsto, ma quello purtroppo è la natura delle cose quindi li ti trovi purtroppo a dover ridefinire i tuoi piani, cambiare strategia, ma quello è sicuramente parte del nostro lavoro. Quella è senza dubbio una criticità che ci si presenta perché nessuno di noi ha la sfera di cristallo nonostante si facciano tante analisi. Però fa parte un po' anche del nostro lavoro per capire quelli che sono i back-up plan per uscire da questa situazione. Oltre a questo in alcuni investimenti di minoranza poi ci sono stati momenti di incomprensione con l'azionista di riferimento. Chiaramente ci sono delle differenze di vedute però poi si è sempre riusciti a trovare una mediazione. Anche quella sicuramente è una criticità però anche quello fa parte del nostro bagaglio di esperienza quindi sappiamo quali sono le contromisure per uscire da queste fasi di stallo.

**Giacomo:** Gradiente risente della concorrenza internazionale fatta da fondi esteri?

**Alberto:** La concorrenza si anche internazionale ma c'è già tanta concorrenza in Italia in questo momento. I fondi in generale guardano molto all'Italia perché è un paese che dal punto di vista industriale e della imprenditoria ha molto realtà valide. Si pensi solo in europa i principali distretti industriali sono la Germania e l'Italia quindi ci sono tanti operatori da fuori che guardano al nostro paese con interesse. Però c'è competizione a livello internazionale un po' meno però nel nostro ticket di investimento perché ci sono tante aziende appealing.

**Giacomo:** È mai successo di valutare un'azienda, fare le prime analisi interne, essere ad un passo dall'investire e poi scartare il progetto?

**Alberto:** Capita molto spesso perché anche quello fa parte del nostro mestiere. In realtà il business è più quello: capire cosa scartare più che capire in cosa investire. Opportunità ne arrivano tante quindi capita e i motivi sono svariati, ci sono operazioni che muoiono con un livello di approfondimento maggiore o inferiore perché magari o sono settori che conosciamo già oppure mancano proprio i presupposti all'investimento secondo quello che è il nostro focus. A volte arrivano anche opportunità per investimenti di Turnaround che però non sono cose di cui noi ci occupiamo, oppure aziende molto piccole o molto grandi che sono al di fuori del nostro focus d'investimento.

In linea generale anche aziende in cui investiamo hanno spesso un livello di managerizzazione abbastanza basso, hanno un livello di presidio sui numeri e formalizzazione sui numeri rivedibile. Molto spesso sono un po' restie ad aprirsi a processi di internazionalizzazione che può essere green field o acquisizione di altre realtà quindi molto spesso intervento nostro si sostanzia nel migliorare queste tre cose.

**Giacomo:** Gradiente does not operate only in Veneto but it is based in this region, what is the feeling you have about the PE market in the Veneto region?

**Alberto:** I have been working in Gradiente for five years, so my memory is linked to this period. We are one of those operators who was born in the middle of the crisis while, as far as my knowledge is concerned, I believe that all the other local operators were already present at the time so perhaps we represent at the PE level, the youngest reality in the territory.

We clearly do not invest only in Veneto, but also in Veneto. I think that there is not a huge competitive advantage in being based here, if not for the fact that statistically speaking it is a territory where there are many great companies, especially in what is our investment target: small and medium enterprises. By SME we mean up to € 50M turnover but then you can also overflow sometimes.

The biggest advantage of being based in Veneto is that you may catch some opportunities before they are offered to others. Then it also depends on whether advisors are involved, or small M&A firms, financial boutiques, and if they are, the advantage of your location disappears.

Another advantage is that we are close to important Universities hence from time to time we are able to attract people inside our team.

**Giacomo:** How does Gradiente do to find the target firms to support? Do you work only in the primary deal sector or you purchase also from other funds?

**Alberto:** We tend to do both, it is clear that on a statistical level the operations that are most likely to be successful, are those where the intention to sell comes from the entrepreneur. Cold Call or scouting are integral part of our work but the chances of success are much lower because clearly if someone is not going to sell he won't. As much as there are levers to influence his decision, such as proposing a project, if one does not intend to sell or does not have the formamentis to have a financial partner you do not go very far, even if the company has solid financials.

**Giacomo:** Scrolling your website I noticed you do not have a specific industry in which you invest. I wanted to know if you have any internal policy regarding the industries in which you can invest.

**Alberto:** We have some kind of sector, unfortunately I can not explain it to you, but they are... there are very few sectors in which we cannot invest, they are sectors that cannot be invested by a large number of operators. In fact, we are generalists like the others.

**Giacomo:** In which PE business sector do you focus? Are you generalist also in terms of deal typology?

**Alberto:** We were born with the intention to focus on minority investments, then as the reference market changed we opened up to buyout and we intend today to continue down this road. The buyout is preferred because putting a little lever increase the chances of higher returns. Then with regards to governance, which has a significant matter when you remain in the minority, as long as things go well, everything can be resolved while when things go bad you have to fight with your counterpart. Since these processes are quite exhausting, however, we are still open to that type of investment but in principle these are the reasons.

**Giacomo:** What is your investment process and what are your internal organisations aims in this process?

**Alberto:** Here as well, unfortunately, I cannot provide too many details because these are specific matters, aspects regulated at the S.g.r. level, which I cannot share with the external. It is a fairly standard process in which there is an investment committee that expresses an opinion and a CDA that has the role of approving the investment. We are an independent S.g.r. in the sense that part of the Management Team holds the majority of the shares that is a fundamental aspect for this sector. It is crucial because you have a wider room of manoeuvre, which means that you can decide what kind of operation to take. Then there is always a discussion of course.

**Giacomo:** What kinds of Due Diligence do you perform when you have to select the opportunities?

**Alberto:** We realise a deep internal analysis that is comparable in every sense with a due diligence. We analyse both financial and strategic aspects of the firm, but also other elements such as tax and legal. Even if we are not professionals in that sense however we take a preliminary look. Then we actually do a due diligence which has a confirmatory value on all these aspects by an external consultant. The first part is internal very in-depth, then if the investment pass this first internal analysis we will also use external consultants.

**Giacomo:** As you said, your partners hold the shares majority but who holds the remains shares of Gradeinte?

**Alberto:** Institutional investors mainly, who are those who contributed to this organisation especially at the beginning. They are *Cassa di Risparmio di Lucca* and *Fondazione Cassa di Risparmio di Padova e Rovigo*.

**Giacomo:** What is the actual situation of Gradiente II? Are you done with the fund-raising activity?

**Alberto:** We concluded the fundraising activity collecting € 135M.

**Giacomo:** How about the fund duration, is it strictly regulated or can you decide it flexibly?

**Alberto:** The fund has its own rules deciding the investment period and the divestment period. So you have a certain time to spend collecting funds and a period to divest companies and liquidate the profits obtained.

**Giacomo:** When you are investing, which aspects do you put first?

**Alberto:** In order of importance we have the market, also because of the past of our partners who still have significant experience in consulting. We try to understand the perspectives of the market in which the company operates. We also try to get our own idea by checking with professionals who are part of our network. The second element is the quality of management, but I must say that it must never be understood as only quality of the management of the company but also as quality of the management that we are able to bring for that particular project. Then third aspect the financials intended as historical performance but also perspectives, based on ideas that we have on the project.

**Giacomo:** Instead, what are the main issues you encounter when investing?

**Alberto:** There is not a rule, every scenario is different from the other. Conflicts can happen with other partners, but they have always been resolved. There was never anything unbearable. Sometimes it happens to catch market evolutions that we had not anticipated, but that unfortunately is the nature of things so you find yourself having to redefine your plans, change strategy, but that is definitely part of our job. That is without a doubt a criticism that we face because none of us has the crystal ball despite every analysis we do. But it is also part of our work to understand what are the back-up plans to get out of a bad situation. Besides, in some minority investments there were moments of misunderstanding with the shareholder base. We may argue on different points of view but we have always been able to find a common agreement. This is another issue even if it is part of our job hence we know what to do to resolve these problems.

**Giacomo:** Does Gradiente feel the competition of international funds?

**Alberto:** Competition from international organisations is quite remarkable but there is a tight competition in Italy right now. The funds in general look very much to Italy because it is a country that from an industrial and entrepreneurial point of view has very good opportunities. If we consider Europe, the main industrial districts are Germany and Italy so there are many operators from outside who look to our country with interest. There is international competition even if in our business sector it is a little loosened ticket because there are many companies appealing.

**Giacomo:** Has it ever occurred to evaluate a firm, make the initial analysis, be close to invest and then dismiss the project? If yes, why?

**Alberto:** It happens all the time because that is part of our job, too. Actually the business is exactly that: figure out what to discard rather than what to invest in. Opportunities come upon our tables all the time so it happens and the reasons are different, There are operations that die with a higher or lower level of analysis because maybe they are sectors that we already know or lack the prerequisites to the investment according to what is our internal policy. Sometimes there are also opportunities for Turnaround financing that are not businesses we deal with, or very small or very large companies that are outside of our investment focus.

Generally speaking, companies we invest in often have a fairly low level of management, have a bad level of control over figures and formalisation. Very often they are a little reluctant to open up to internationalisation procedures such as green field or acquisition of other firms so very often our goal is improving these three issues.

## Reference List

### Books, Scientific Papers, Business Reports

**Abel-Koch J.** et al., *SME Investment and Innovation*, BPI France, CDP Italy, ICO Spain, KfW Germany, 2015.

**Acharya V. V., Gottschalg O. F.**, et. al. *Corporate Governance and Value Creation: Evidence from Private Equity*, The Review of Financial Studies, Vol. 26, N 2, 2013.

**Angelino A.** et. al., *Report Cerved PMI 2018*, Cerved, October 12, 2018.

**Badoer R. S., Ploumidis G.**, et. al., *Storia Veneta*, Elzeviro Editrice, Vol. 35, pp. 56, 2015.

**Battini P.**, *Les grandes étapes du capital investissement*, Vie & sciences de l'entreprise, Vo.1, N. 203, pp. 124-132, 2017.

**Bauer M.**, *The politics of state-directed privatisation: The case of France*, West European Politics, 1988, Vol.11, N.4, pp. 49-60.

**Beck T.** and **Demirguc-Kunt A.**, *Small and medium-size enterprises: Access to finance as a growth constraint*, Journal of Banking & Finance, 2006.

**Beck T.** and **Demirguc-Kunt A.** et al., *Finance, firm size, and growth*, World Bank Policy Research Working Paper, N. 3485, 2006.

**Bentivogli C.**, *Il Private Equity in Italia*, Banca d'Italia, N. 41, 2009.

**Bharath S. T.** and **Dittmar A. K.**, *Why Do Firms Use Private Equity to Opt Out of Public Markets?*, The Review of Financial Studies, Vol. 23, N 5, 2010.

**Bloom N., Sadun R.**, et al., *Do Private Equity Owned Firms Have Better Management Practices?*, Centre for Economic Performance, Vol. 24, 2009.

**Bogliari F.**, *Private Equity e Corporate Governance delle Imprese*, AIFI, Commissione Corporate Governance, Freshfields Bruckhaus Deringer, 2005.

**Brizi M.** et al., *Family Business successful succession: an overview of the environment for Family Businesses*, FABUSS, TUCEP, 2016.

**Carasco V.**, *Population, emploi et demandeurs d'emploi sur 10 ans dans les intercommunalités d'Alsace*, Adira, 2019.

**Carasco V.**, *Chiffres clés de l'Alsace*, Adira, 2018 edition.

**Carasco V.**, *Investissez en Alsace, Au cœur des marchés européens parmi les régions les plus dynamiques de France*, Adira, 2017.

**Carey D.** and **Morris J. E.**, *King of Capital*, Crown Business, 2012.

**Cendrowski H., Martin J. P.** et al., *Private Equity: history, governance and operations*, Wiley Finance, 2011.

**Choukroun P., Ritter-Rachedi F.** et al., *Rapport d'Activités 2017*, Agence d'Attractivité de l'Alsace, 2017.

- Cochrane J.**, *The Risk and Return of Venture Capital*, Journal of Financial Economics, Vol. 75, 2005.
- Collewaert V.** and **Manigart S.**, *Valuation of Angel-Backed Companies: The Role of Investor Human Capital*, Journal of Small Business Management, Vol. 54, Issue 1, p. 356-372, 2015.
- Corbetta G.**, **Quarato F.** et al., *Dieci anni di capitalismo familiare*, AIDAF, Università Commerciale Luigi Bocconi, 2018.
- Cumming D.** and **Walz U.**, *Private equity returns and disclosure around the world*, Journal of International Business Studies, Vol. 41, N. 4, 2009.
- Cumming D.** and **Zambelli S.**, *Due Diligence and Investee Performance*, European Financial Management, 2016.
- Dahmani S.**, *Le capital-investissement : état des lieux en France*, BSI Economics, 2016.
- Daskalakis N.** and **Psillaki M.**, *Do country or firm factors explain capital structure? Evidence from SMEs in France and Greece*, Vol. 18, N. 2, 2007.
- Del Monte D.**, *Italy needs anti-corruption watchdog*, Transparency International Italia, 2018.
- Deldycke C.**, **Fournier L.**, et al., *Le Capital Investissement en Région Grand Est (2018)*, Strasbourg March 1st, 2019, FranceInvest, Mazars.
- Diller C.** and **Kaserer C.**, *What drives private equity returns? Fund inflows, skilled GPs, and/or risk?*, Wiley Online Library, Vol. 15, N. 3, 2009.
- Dimson E.** and **Minio-Kozerski C.**, *Closed-End Funds: A Survey*, Wiley Online library, 2002.
- Dufourcq N.**, *Rapport annuel sur l'évolution des PME*, Observatoire des PME 2017, Bpifrance, 2017.
- Eis K.** et al., *SME securitisation in Europe*, European Investment Fund (EIF), 2017.
- Ekeland M.**, **Landier A.** et al., *Renforcer le capital-risque français*, Notes du conseil d'analyse économique, Vol. 6, N. 33, pp. 1-12, 2016.
- European Central Bank**, *Survey on the access to finance of enterprises in the euro area*, June 2018.
- European Commission**, *European Innovation Scoreboard*, 2018.
- Fernhaber S. A.** and **McDougall-Covin P.**, *Venture Capitalists as Catalysts to New Venture Internationalisation*, Entrepreneurship Theory and Practice (ETP), 2008.
- Fiani M. P.**, et al. *The Sunny Spell, Italian Private Equity and Venture Capital Market: 2018 performance*, KPMG Corporate Finance, AIFI, 2018.
- Fiani M. P.**, et al. *Sustainable Returns, Italian Private Equity and Venture Capital Market: 2017 performance*, KPMG Corporate Finance, AIFI, 2018.
- Froud J.** and **Williams K.**, *Private Equity and the culture of value extraction*, New Political Economy, Vol. 12, N. 3, 2007.
- Frenkel A.** and **Shefer D.**, *R&D, firm size and innovation: an empirical analysis*, Technovation, Volume 25, Issue 1, January 2005, Pages 25-32.

- Gatauwa J. M. and Mwithiga A. S.**, *Private Equity and Economic Growth: a critical review of the literature*, European Centre for Research Training and Development UK, Vol. 2, N. 3, 2014.
- Gervasoni A. et al.** *Report 2018*, Private Equity Monitor, LIUC Business School, 2018.
- Giordano F. and Montesana D.**, *The economic impact of Private Equity and Venture Capital in Italy*, PricewaterhouseCoopers, 2018.
- Gompers P., Kaplan S. N. et al.**, *What do private equity firms say they do?*, Journal of Financial Economics, Vol. 121, N. 3, 2016.
- Gvetadze S. et al.**, *EIF SME Access to Finance Index*, European Investment Fund Research & Market Analysis, Working Paper 2018/47.
- Harris R. S., Jenkinson T. et al.**, *Private Equity performance: What do we know?*, National Bureau of Economic Research, N. 17874, 2012.
- Henry G.**, *Private Equity: Boosting Portfolio Returns*, Data driven investor, 2018.
- Innocenzi F.**, *Le potenziali sinergie tra Private Banking & Private Capital*, AIPB, 2018.
- Kaplan S. N. and Stromberg P.**, *Leveraged Buyouts and Private Equity*, Journal of Economic Perspectives, Vol. 23, 2009.
- Kazimi H. and Tan T.**, *How private-equity owners lean into turnarounds*, McKinsey & Company, 2016.
- Laeven L. and Woodruff C.**, *The Quality of the legal system, firm ownership, and firm size*. The Review of Economics and Statistics (RES), Vol. 89, N. 4, 2007.
- Lerner J., Jason Mao J. et al.**, *Investing Outside the Box: Evidence from Alternative Vehicles in Private Capital*, Business Research Harvard BS, 2018.
- Leslie P. and Oyer P.**, *Managerial Incentives and Value Creation: Evidence from Private Equity*, the National Bureau of Economic Research, Working Paper No. 14331, 2008.
- Levratto N.**, *Medium-sized enterprises in France*, EconomiX, 2011.
- Lloyd G.** *Keeping aware of red flags*, Tax Adviser, Magazine February 2019, p. 12, 2019.
- MacArthur H. et al.**, *Global Private Equity Report 2018*, Bain & Company, 2018.
- Metrick A. and Yasuda A.**, *The Economics of Private Equity Funds*, The Review of Financial Studies, Vol. 23, N. 6, 2010.
- Michel A. and Shaked I.**, *RJR Nabisco: A Case Study of a Complex Leveraged Buyout*, Financial Analysis Journal, Vol. 47, 2018.
- Milantoni E. et al.** *Italy Private Equity Confidence Survey: Outlook for the first semester 2019*, Deloitte Private, Financial Advisory.
- Moskowitz T. J. and Vissing-Jørgensen A.**, *The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle?*, American Economic Review, Vol. 92, 2002.
- Mrkaic Ö.**, *Access to Finance by SMEs in the Euro Area: What Helps or Hampers?*, IMF Working Paper, European Department, 2014.

- Mussera F.**, et al., *International Tax, Italy Highlights 2019*, Deloitte Tax, 2019.
- Muzio A.** et al. *Il mercato italiano del private equity, venture capital e private debt*, AIFI, 2018.
- Patfoort H.**, *Informations Economiques Grand Est, Chiffres Clés de l'Economie en Grand Est*, Chambre de Commerce et d'Industrie (CCI), 2017.
- Peng M. W.**, **Sun W.** et al., *An Institution-Based View of Large Family Firms: A Recap and Overview*, *Entrepreneurship Theory and Practice*, Vol. 42 N. 2, 2018.
- Perpère P.**, **Ponroy S.**, *Les chiffres clés du capital-investissement et du capital-innovation français en région Grand Est*, Association Française des investisseurs pour la croissance (AFIC), Commission Système financier et financement de l'économie (CNIS), 2017.
- Raveenthiran J.**, *Back in fashion: the Italian PE market in 2018*, Unquote, Gatti Pavesi Bianchi, 2018.
- Robinson D. T.** and **Sensoy B. A.**, *Do Private Equity Fund Managers Earn Their Fees? Compensation, Ownership, and Cash Flow Performance*, *The Review of Financial Studies*, Vol. 26, N. 11, 2013.
- Shane S.** and **Cable D.**, *Network ties, reputation, and the financing of new ventures*, *Journal of Management Science*, Vol. 48, N. 3, 2002.
- Sistema Statistico Regionale**, *Interconnections*, Statistical Report 2016, Veneto, 2017.
- Stafford E.**, *Replicating Private Equity with Value Investing, Homemade Leverage, and Hold-to-Maturity Accounting*, Business Research Harvard BS, 2016.
- Statistiche demografiche ISTAT**. Archived from the original on 6 August 2017. Retrieved 6 December 2018.
- Stuart T. E.** and **Yim S.**, *Board interlocks and the propensity to be targeted in private equity transactions*, *Journal of Financial Economics*, Vol. 97, N. 1, 2010.
- Ulf A.**, **Stromberg P.** et. al., *Why are Buyouts Levered? The Financial Structure of Private Equity Funds*, *Journal of Finance*, Vol. 64, 2009.
- Wood G.** and **Mike Wright M.**, *Private equity: A review and synthesis*, *International Journal of Management Reviews*, 2009.
- Zellweger T.**, *Time Horizon, Costs of Equity Capital and Generic Investment Strategies of Firms*, *Family Business Review*, vol. XX, no. 1, March 2007.

## Websites, Newspapers, Press Releases

**Advisor Private (AP)**, *Private equity, nel 2017 è boom di raccolta*, 2018, <https://www.advisoronline.it/private-banker/banche-private/46255-private-equity-nel-2017-e-boom-di-raccolta.action>.

**Arrigo A. and Del Giudice R.**, *Al via due nuovi fondi gestiti da Fondo Italiano d'Investimento SGR: effettuato il primo closing del fondo "Innovazione e Sviluppo" e del fondo "FII Tech Growth"*, Fondo Italiano d'Investimento, 2017, <http://fondoitaliano.it/societa/documenti-societari/>.

**Bacho M. and Chaltiel A.**, *Les Fonds Régionaux*, Eldorado, 2019, <https://eldorado.co/blog/2019/03/29/11-les-fonds-régionaux-en%C2%A0france>.

**Banca d'Italia**, Provvedimento 14 Aprile 2005, Regolamento sulla gestione collettiva del risparmio, Supplemento ordinario n. 43 alla Gazzetta Ufficiale, Titolo V: Organismi di Investimento Collettivo del Risparmio: Capitolo I, Criteri generali e contenuto animo del regolamento di gestione dei fondi comuni.

**Baratta J.**, *The Global Head of Private Equity in Blackstone Group*, Super Return International private equity conference, 2015.

**Barbaglia P. and Jewkes S.**, *Destinazione Milano: private equity esteri rafforzano presenza in Italia*, Reuters, 2019.

**Barbera A. et al.** *La manovra è legge, ecco le misure in dettaglio*, La Stampa, Economia, 2018, <https://www.lastampa.it/economia/2018/12/30/news/la-manovra-e-legge-ecco-le-misure-in-dettaglio-1.34069974>.

**Becker S.**, Directeur de Participations at Capital Grand Est, *Personal Interview*, 27/03/2019.

**Biglia A. and Dagnino F.**, *Il fenomeno della SPAC in Italia*, Il Sole 24 Ore, Diritto 24, 2019, [http://www.diritto24.ilsole24ore.com/art/avvocatoAffari/mercatilmpresa/2019-03-19/il-fenomeno-spac-italia-163304.php?refresh\\_ce=1](http://www.diritto24.ilsole24ore.com/art/avvocatoAffari/mercatilmpresa/2019-03-19/il-fenomeno-spac-italia-163304.php?refresh_ce=1).

**Bini F.**, *Dagli incentivi alle imprese ai salvataggi, cosa c'è nel Decreto Crescita*, La Repubblica, Economia & Finanza, 2019, [https://www.repubblica.it/economia/2019/06/27/news/scheda\\_decreto\\_crescita-229746260/](https://www.repubblica.it/economia/2019/06/27/news/scheda_decreto_crescita-229746260/).

**BPI France**, Paroles d'Entrepreneurs, Divacore, <https://www.bpifrance.fr/A-la-une/Paroles-d-entrepreneurs/Divacore-34631>.

**Calgaro A.**, Investment Associate at Gradiente S.g.r. S.p.A., *Personal Interview*, 31/07/2019.

**Caliceti F.**, *21 Investimenti e Lion Capital: accordo raggiunto su Pittarosso*, Pittarosso, 2014, <https://www.pittarosso.com/news-eventi/news-eventi/21-investimenti-e-lion-capital-accordo-raggiunto-su-pittarosso>.

**Capital Grand Est**, *Notre Portefeuille*, <http://www.capitalgrandest.eu/notre-portefeuille/>.

**Capital Grand Est**, *Les fonds gérés*, <http://www.capitalgrandest.eu>.

**Cavasin M.**, Investment manager at Veneto Sviluppo S.p.A., *Personal Interview*, 19/07/2019.

**Confindustria Romagna**, Assemblea 2018, [https://www.confindustriaromagna.it/\\_index.html?\\_id1=153&\\_id4=201&\\_id5=481&\\_id6=db\\_notizie&id\\_lingua=it](https://www.confindustriaromagna.it/_index.html?_id1=153&_id4=201&_id5=481&_id6=db_notizie&id_lingua=it).

**Conseil Constitutionnel de France**, Décision n° 2007-555 DC du 16 août 2007, Loi en faveur du travail, de l'emploi et du pouvoir d'achat., <http://www.senat.fr/dossier-legislatif/pjl06-390.html>.

**Consiglio Regionale Veneto** – Leggi Regionali. [Consiglio Veneto.it](http://consiglio Veneto.it). Retrieved 5 September 2018.

**Consiglio Regionale del Veneto**, Legge 22 maggio 1971, n. 340, Statuto della Regione Veneto, [http://www.consiglio Veneto.it/crvportal/upload\\_crv/statuto/statuto\\_precedente.pdf](http://www.consiglio Veneto.it/crvportal/upload_crv/statuto/statuto_precedente.pdf).

**Corporate Finance Institute (CFI)**. *J Curve*, <https://corporatefinanceinstitute.com/resources/knowledge/economics/j-curve/>.

**Damodaran A.**, *Laws of Valuation: Revealing the Myths and Misconceptions*, Nordic Business Forum, 2018.

**European Patent Office**. *European Patents and the grant procedure*, 2017.

**Fava C.**, *Project Financing: dal progetto alla realizzazione*, Il Sole 24 Ore, p. 54-205, 2002.

**Festa C.**, *Bc Partners compra Forno d'Asolo*, Il Sole 24 Ore, 2018, <https://www.ilsole24ore.com/art/bc-partners-compra-forno-d-asolo-AEtjI24E>.

**Financial Times**, *Private equity fees and returns face scrutiny*, FT, August 6, 2018.

**Finlombardia**, <http://www.finlombarda.it/home>.

**Fira**, <http://www.fira.it/home>.

**FTA Online News**, *Mini bond: cosa sono, requisiti, emissioni, normativa*, Borsa Italiana, 2019, <https://www.borsaitaliana.it/notizie/sotto-la-lente/minibond-271.htm>

**Funds People**. *Numeri da record per il private equity italiano nel 2018*, 2019, <https://it.fundspeople.com/news/numeri-da-record-per-il-private-equity-italiano-nel-2018>.

**Gazzetta Ufficiale Italiana**, Regolamento sulla gestione collettiva del risparmio. (15A01944) (GU Serie Generale n.65 del 19-03-2015 - Suppl. Ordinario n. 11).

**Il Messaggero**. *Private equity, Il 2018 è stato un anno record: operazioni per 10 miliardi*, 2019, [https://www.ilmessaggero.it/economia/news/private\\_equity\\_2018\\_anno\\_record\\_operazioni\\_10\\_miliardi-4354504.html](https://www.ilmessaggero.it/economia/news/private_equity_2018_anno_record_operazioni_10_miliardi-4354504.html).

**Institutional Limited Partners Association**, *Private Equity Principles*, 2018 <https://ilpa.org/events-training/category/event-type/professional-development-seminars/>.

**Jung M.**, Director at Adira, *Personal Interview*, 18/03/2019.

**Levy O.**, Regional Director at BPI France Investissement, *Personal interview*, 11/03/2019.

**Marangoni M.**, *Regolamento sulla gestione collettiva del risparmio*, Provvedimento della Banca d'Italia del 19 Gennaio 2015, Banca d'Italia, Eurosystem, 2015, <https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/regolamenti/20120508/REG-19GEN2015.pdf>.

**Minibond**, <http://minibond.it>.

**Monaci S.**, *Il Veneto supera il quorum (57,2%), Sì al 98,1%. Lombardia, affluenza del 38,5%*, Il Sole 24 Ore, 2017, <https://www.ilsole24ore.com/art/il-veneto-supera-quorum-572percento-si-981percento-lombardia-affluenza-385percento-AEKJAItC>.

**Montebugnoli M. E., et al.** *Notification of General Government Deficit and Debt according to the Excessive deficit procedure*, ISTAT, <https://www.istat.it/en/archivio/public+debt>.

**Monti M.**, *Private equity, raccolta +55% con la spinta dei fondi esteri*, Il Sole 24 Ore, 2018, <https://www.ilsole24ore.com/art/private-equity-raccolta-55percento-la-spinta-fondi-esteri-AEWrlbzF>.

**Moretti M.** *THCP opens office in Milan*, THCP Group, 2019, <https://www.thcp.eu/news>.

**OECD**, *Real GDP forecast*, 2019, <https://data.oecd.org/gdp/real-gdp-forecast.htm>.

**PAI Partners**, *PAI at a glance*, <https://www.paipartners.com>.

**Puato A.**, *Costi e governance il primo ostacolo alla quotazione in Borsa delle Pmi*, Corriere della Sera, Economia, 2017, [https://www.corriere.it/economia/17\\_ottobre\\_30/costi-governance-primo-ostacolo-quotazione-borsa-pmi-5cec5270-bd66-11e7-b457-66c72633d66c.shtml?refresh\\_ce-cp](https://www.corriere.it/economia/17_ottobre_30/costi-governance-primo-ostacolo-quotazione-borsa-pmi-5cec5270-bd66-11e7-b457-66c72633d66c.shtml?refresh_ce-cp).

**Quitadamo F.**, *EQT strengthens footprint in Italy – opens office in Milan*, EQT Group, 2019, <http://www.eqtpartners.com/news/>.

**Regione Veneto**, *Banche dati*, [http://statistica.regione.veneto.it/banche\\_dati\\_economia\\_PIL.jsp](http://statistica.regione.veneto.it/banche_dati_economia_PIL.jsp) 2018.

**Richard C.**, *Investir via un fonds de capital investissement (FCPR, FCPI, FIP)*, Autorité des Marchés Financiers (AMF), <https://www.amf-france.org/Epargne-Info-Service/Comprendre-les-produits-financiers/Placements-collectifs/Capital-investissement>.

**Sammartino G.**, *Raccolta superiore a 3,1 miliardi di Euro per il terzo fondo F2i*, Fondi Italiani per le infrastrutture, 2017, [http://www.f2isgr.it/f2isgr/sala\\_stampa/comunicati\\_stampa/anno\\_2017/index.html](http://www.f2isgr.it/f2isgr/sala_stampa/comunicati_stampa/anno_2017/index.html)

**Sattin F. L.**, *Private equity, le opportunità per un vero decollo in Italia*, Il Sole 24 Ore, 2018, <https://www.ilsole24ore.com/art/private-equity-opportunita-un-vero-decollo-italia-AEaL6EAF>.

**Siparex Group**, *Les Entreprises que nous accompagnons*, <https://www.siparex.com/participations/>.

**Spigariol R.**, *Investments Associate at 21 invest, Personal Interview*, 30/07/2019.

**Subhedar V. and Za V.**, *Italian banks may take 10 years to fix bad debt issue*, Morgan Stanley, Reuters, 2017, <https://www.reuters.com/article/us-italy-banks-morgan-stanley/italian-banks-may-take-10-years-to-fix-bad-debt-issue-morgan-stanley-idUSKBN1A217X>.

**Tang S.**, *How to measure private equity returns*, Cepres, 2018, <https://www.cepres.com/private-equity-returns-measure>.

**Tavernier J. L.**, *Déficit Public*, INSEE, <https://www.insee.fr/fr/statistiques/3899153>.

**TgCom 24**, *Cosa sono i Pir, Piani individuali di risparmio*, 2018.

**The Blackstone Group L.P.**, *Annual Report pursuant to section 13 or 15 (d) of the Security Exchange Act of 1934 for the fiscal year ended in December 31, 2017*, Washington, D.C. 20549.

**Unquote**, *events, Panel 2017* <https://events.unquote.com/italy/insights>.

**Upcounsel**, *Clawback: Everything You Need to Know*, <https://www.upcounsel.com/clawback>.

**Vago V.**, *QuattroR: al via il primo fondo da 711 milioni di euro dedicato al rilancio delle aziende italiane di medie e medio-grandi dimensioni caratterizzate da solidi fondamentali ma in una situazione di temporanea crisi*, QuattroR, Comunicato Stampa, 2017, <https://quattor.com/notizie/>.

**Veneto Congiuntura**, *Commercio 4° trimestre 2016*, <https://www.venetocongiuntura.it/>.

**Za V.** *Italian banks face long, uphill road to modernisation*, Reuters, 2017, <https://www.reuters.com/article/us-eurozone-banks-italy-modernisation-in/italian-banks-face-long-uphill-road-to-modernization-idUSKBN1DK1XG>.

**Zanet A.**, Investment Manager at Alcedo, *Personal Interview*, 29/07/2019.

## **Acknowledgements**

*I would first like to sincerely thank my thesis advisor, Prof. Andrea Veller for all his advices, corrections, guidance and constructive criticism that conducted me during this path. Without his valuable contribution this paper wouldn't have the same depth it has today.*

*My heartfelt thanks to every Private Equity operator for agreeing on being interviewed and spend part of their valuable time in supporting my thesis. In particular I want to thank Riccardo Spigariol (21 Invest), Alessandro Zanet (Alcedo), Francesca Gajo (Alcedo), Marco Cavasin (Veneto Sviluppo), Luca Briotto (FVS), Alberto Calgaro (Gradiente), Monique Jung (Adira), Oliver Levy (BPI France), Sébastien Derivaux (Alsace Business Angels), Stéphane Becker (Capital Grand Est) and Yann Rinckenberger (Siparex). Without their passionate participation and input, the whole paper could not have been successfully conducted. I want to thank also Alessia Muzio (AIFI) for helping me with the regional data regarding Veneto.*

*A big thank you to my father and my mother, who, with their tireless support, both moral and economic, created the best conditions for me to study, contributing to my personal development.*

*I also want to thank Lucia, who has been by my side during all these years, celebrating with me the successful moments and encouraging me during the difficulties.*

*Last but not least, I cannot forget all my friends, those from University Ca' Foscari of Venice, those from EM Business School de Strasbourg and those of all time. We have work together, competed against each other and thrived together. Without their contribute I wouldn't be the person I am today.*

*Once again, my warm thanks to all.*

*Giacomo Gualtieri*