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TAMBURI INVESTMENT PARTNERS S.P.A.

ASSET ITALIA

Unlocking the potential of Italian companies

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We should all feel nothing but shame for the reputation
that finance has earned itself in the last few years,
but if you manage to guide healthy capital
from successful businesses and the assets of families
that wish to invest them intelligently in companies
that really want to grow, you are genuinely doing
one of the most beneficial jobs in the world.

G.T.

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The present work is based on the observations of a group of professionals usually engaged in analysing investments and advising on corporate finance operations. On this occasion their ideas and experience have contributed to a new and singular project whose educational focus may be considered more ambitious than the pursuit of a deal.

The goal in this case is not a closing, nor a success fee, but rather to find answers to questions which have confounded our industry for a number of years.

(In alphabetic order)

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Milan, December 2014

INTRODUCTION

Italy for sale, Italy the land of luxury, design, furniture and fashion, Italy with its lifeless stock market, the land of conquest and Italy the country snubbed by institutional investors and particularly those specialised in smaller enterprises, the cornerstone of Italian industry.

Italy which has recently attracted huge volumes of American and Asian capital but which is continually swamped in debt, the Italy of which the MF declared "Nobody is listing on the stock market", Italy the refuge of investment funds after the repeated disappointments of the BRIC's.

Italy the country of successful private equity, from Aston Martin to Club Méditerranée, from Printemps to Roche Bobois, Italy which can't hang on to Bulgari and Loro Piana, nor Pernigotti and Cova.

Italy with a plethora of small companies, but also the country which sets and maintains record exports.

We could continue.

All of the above has been said in recent months on the close interplay between enterprises, the financial markets and corporate ownership. Such statements are commonplace and objectively are very difficult to understand.

They however provide food for thought. They have also led the T.I.P. (Tamburi Investment Partners SpA) team to flesh out often challenging ideas, such as the dynamics at play between business owners and their companies, their families and their current and/or potential shareholders, including the stock market.

In a few months we have established a rather simple but we hope clear and accurate framework. A framework which highlights many problems but also comes up with a few possible solutions, a framework which does not seek to criticise inaction at managerial, entrepreneurial and banking levels, but which focuses on solutions to a situation which cannot be tolerated for much longer.

We also provide examples and make reference to the many major successes produced by our country and which often get lost among the problems, the complaints and the cries from all quarters to politicians who remain deaf and disinterested. They seem incredibly absorbed by other issues, as if the development of our industrial fabric was not one of their priorities.

We are a country of small businesses, although we remain a strategic exporter and a key part of the jigsaw for a large number of groups across many countries.

We have phenomenal enterprises such as Luxottica, Ferrero, Ferrari, Prysmian, Brembo, Interpump, Amplifon, Prada, Eataly, Armani and Moncler to name but the leading examples which come to mind, although our overall productivity has been on the wane for twenty years.

With Fiat we saved a piece of America which seemed a lost cause, while F.C.A. now outperforms the other major automotive players across various classes, although in Italy we always seem to speak about Fiat in negative terms.

Our stock exchange is not fit for purpose and we continually prop up the public/private equity rankings, while at the same time it is always said - now even by the Bank of Italy - that we have hundreds of companies which could list tomorrow.

A perfect set of contradictions.

Against this confusing backdrop and considering that in a few relatively short years and without public money we have created one of the biggest financial hubs in the country and certainly the largest network of Italian entrepreneurs with the common goal of growing top class and ambitious businesses, we consider it a useful exercise to compile a series of thoughts which have evolved from our experience in the industry.

Italian companies have plenty of room for development and could learn to leverage more through equity rather than debt markets and can certainly access stable truly long-term sources of funding to support development and international expansion.

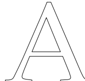
It simply requires focus.

In the following pages we combine analysis with tools, observations and possible points of reference.

The challenging circumstances highlighted by many remain, although a range of proven effective solutions exist. These lie within the financial sphere obviously, which is only a small part of an enterprise's success, but has a key role following the recent economic crisis. A central part of the entrepreneurial mindset, which many claim to have but lesser in fact demonstrate, is a willingness and ability to bring plans to fruition.

CHAPTER 1

The ownership of Italian companies

 recent paper by Salvatore Rossi, the Director General of the Bank of Italy, focuses on the ownership of Italian companies and firmly underlines their extreme fragility.

In addition, he points out – as the Bank of Italy has highlighted on countless previous occasions – that a healthier relationship between entrepreneurs and their funding sources, a more savvy approach by the banks and a greater role for investors and the equity market could quickly strengthen capital backing and more in general ensure the sustainability of Italian industry.

One phrase, although only a footnote, strikes a particular chord with those working in the financial markets for many years due to the weight of its significance: "We currently assess that at least 500 companies in Italy are ready and willing to list on the stock exchange".

For at least twenty years it has been said that hundreds of Italian companies are ready to list and scores of reports have been produced on the matter; what a shame that our perpetually under-developed stock exchange consistently hosts no more than between 270 and 350 companies. This is completely out of step with Italy's place within the global industrial and financial system. In 2014 we again set a record – IPO withdrawals.

Various arguments have been put forward by way of explanation, many of which by professors out of touch with the everyday workings of companies (and business owners) or by purely theoretical economists which only serve to highlight, in every case, how out of touch they are with the real issues affecting businesses and the financial markets.

As outlined in the following table, Italy currently has a rather small group of listed companies compared to the likes of Germany, France and the United Kingdom.

TABLE 1 – LISTED COMPANIES AND GDP OF THE CORE EUROPEAN COUNTRIES

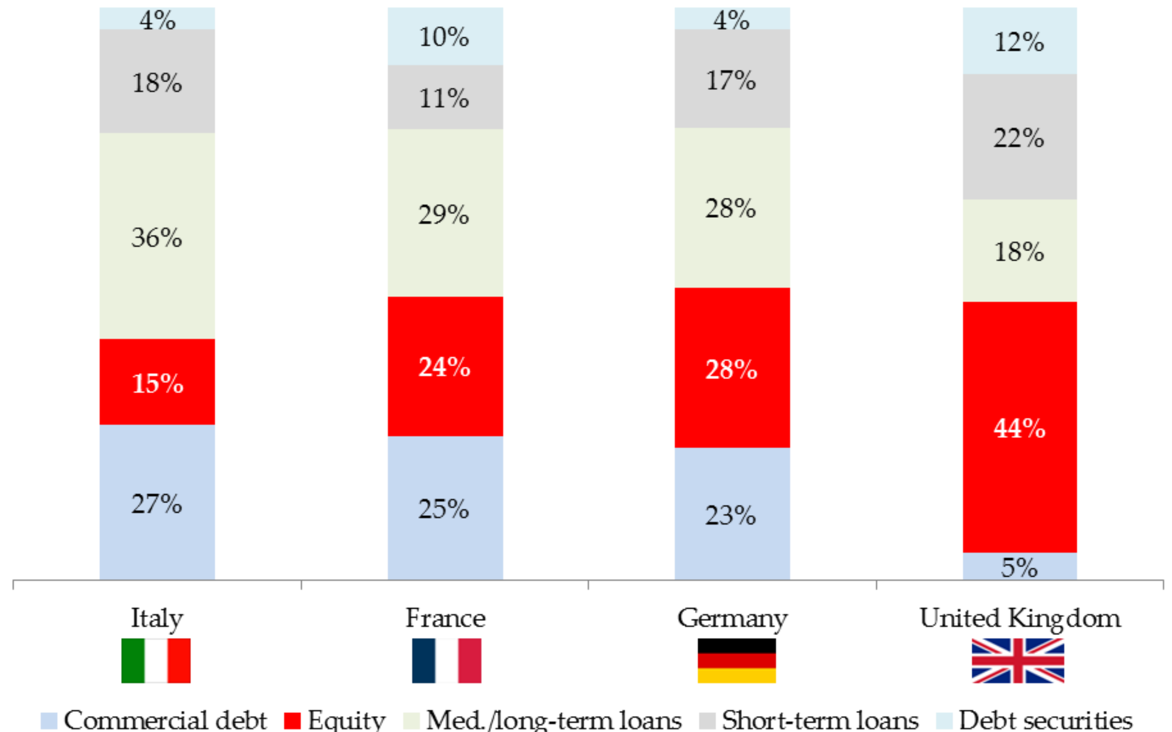
Country		Number of listed companies (Oct. 2014)	GDP 2013 (EURO mln)	Market
	Germany	705	2.737.600	Deutsche Borse
	France	1.030	2.059.852	Euronext Paris
	United Kingdom	2.467	1.899.098	London Stock Exchange
	Italy	339	1.560.024	Borsa Italiana
	Spain	206	1.022.988	Bolsa Española
	Turkey	235	617.794	Borsa İstanbul
	Netherlands	148	602.658	Euronext Amsterdam
	Switzerland	272	489.673	SIX Swiss Exchange

[Sources: Eurostat, respective stock exchanges]

The reality is that Italian business is structurally under-capitalised (equity on average only represents a scandalous 15% of funding). Effectively competing cannot even be considered if this longstanding laziness or reluctance of business owners to invest sufficient capital in their businesses continues, given the fundamental need to access stable and consistent funding to adequately innovate, invest and compete in an increasingly integrated and global market. A true entrepreneur channels sufficient means into the only structure which they can invest in apart from their skills, time, energy and appropriate capital: their business.

On the other hand, with banks which have for decades lent money at very/excessively low rates and often more on the basis of friendship than proper business practice, why should business owners put their hands in their pockets to come up with money which does not seem necessary?

GRAPH 1 – FINANCIAL STRUCTURE OF BUSINESSES



[source: Ministry for Economic Development; 2011 figures]

For years it was commonplace that Italian banks (and other institutions) would issue loans with minimal collateral; nothing further was needed and often the company warehouse was accepted in guarantee. The bank felt secured by nothing other than the asset which it was financing; today such an asset is in fact not only entirely illiquid but without true value given the amount of empty and unsold industrial warehouses across Europe. Perhaps forever!

Such loans were granted rarely considering whether the company may one day go into the red and in such cases what remedies existed for repayment. Suddenly the resources for loan repayments appear to have vanished in a significant number of companies. The banks, which often lent additional amounts to repay (or let on to have done so) existing loans, have ended up with significant sections of their loan books becoming increasingly toxic.

In fact, for the past three-four years considerable amounts of debt have been written-down.

Businesses therefore - particularly those in Italy - have a real need for equity, i.e. permanent risk capital to satisfy the range of investment needed, in order to establish sound capital bases, but possibly also for working capital as sometimes suggested by textbook financing. Not funding to be repaid.

Another source of funding for development capital is the recently introduced and partially subsidised mini-bond market, also open to non-listed companies.

According to a BNL study, 36 companies made recourse to the mini-bond market between November 2012 and June 2014, a paltry number particularly if compared with the nearly 8,000 companies which, according to a study by CRIF rating agency, satisfy the requirements to access this stream of funding. The development of this market has therefore obviously been far more contained than one would expect.

Furthermore, a recent study by Cse Crescendo indicates that of the Euro 1.2 billion sourced from a survey of recently issued mini-bonds, only 13% was raised to properly support industrial development projects, while 68% was used to refinance pre-existing bank debt. This figure even more starkly highlights how this new instrument for businesses has only partly played the role for which it was intended and has been used in many cases by banks to transfer part of their exposure to other market operators.

It is a pity that these operators are none other than the direct or indirect customers of the banks, drawn-in by higher

nominal yields but in reality with an extremely difficult underlying risk to assess. Certainly, in any case, a very high risk. In a few years the repayments on these instruments will fall due and we shall see if the theoretical extra 3-4 points of increased margin correspond effectively to the risk undertaken.

This glut of credit and the lack of willingness of many business owners to adequately capitalise their companies, coupled with the egotism and stubbornness which is at times common among Italians, has certainly slowed contacts with financial investors, with the stock market and with the capital markets.

This is a world in fact of transparency, audited accounts and regular controls and is therefore not appreciated by everybody. Or at least one not favoured by a great many.

As long as we continue to say that the problem is the banks which are not lending money to business, with too many exaggerating the effects of the credit crunch when everybody knows that sound companies have no problems in accessing funding, we will not truly put the worst crisis of the last hundred years behind us. We won't even be able to conceive of such.

If however we pay attention to those such as Salvatore Rossi who point out that the banks have ample funding but little understanding of where to put their money and we try also to understand the importance of industrial and commercial enterprises, while also considering the fact that the wealth held in Italian savings is among the largest globally, we can understand the focus and means to deal with the structural issues facing many Italian businesses.

Firstly the banks - as has been strongly put forward once again in recent weeks by Carlo Messina, Federico Ghizzoni and many other high level bankers - must approve funding only for truly deserving businesses, which are sufficiently innovative and capitalised and not just hand out loans on the back of calls from the trade union leader, politician, newspaper, website or opinion leader of the moment. It would certainly not be a populist move in these times of extensive branch restructurings, but it is the only way to begin to wean those who become excessively dependent on enormous amounts of often quite unmerited funding - at least within a proper assessment of debt and equity and related profitability.

Although not wishing to be contrarian at all costs, but in addition to the belief that the banks must become highly selective, we must begin to understand that companies which do not meet certain requirements - those illustrated previously to decide where the funding should be allocated - must be allowed to fall by the wayside. It is of course sad and there will be knock-on social effects, but it is the only way to lay the foundations of a healthy system. A system which is truly ready to operate, with the right kind of energy and not just a polished up version which once the next storm arrives ends up in crisis.

In relation to the societal aspect, it must be considered that the current approx. 3 million unemployed - at least theoretically are accompanied by a minimum 5-6 million foreign nationals, of which three million receiving their working or residency rights in the last fifteen years. This explains how the agriculture sector has managed only to employ non-EU citizens and how factories - the manufacturing heart of the country - consistently hire increasing numbers of non-EU workers. This is inevitable given the unwillingness of many Italians, particularly the youth, to contemplate jobs not considered of the highest order when merely seeking a simple job and not a place to generate true added value.

This development is strongly backed up by the most recent ISTAT figures which highlight that in the second quarter of 2014, as has been seen over the past year, the unemployment rate of foreign nationals in Italy has reduced from 17.9% to 16.3% (a significant number, more than one and a half percent) against rising overall unemployment. This is a figure that no one seems to want to bring up. It needs however to be underlined.

Further to the social arguments, it is certain that in an increasingly globalised and integrated world, businesses which do not stay one step ahead of the competition must resign themselves to failure or - in particular if they possess strong technical attributes - merge with those who are more advanced, bolder, have greater reserves and financial capacity and a willingness to develop.

The increased sophistication of mergers and acquisitions is providing fresh stimulus to business integration and every day we learn of new operations, often involving leading foreign operators. In this manner the stronger absorb or however merge with the weaker and the positive aspects of those no longer able to sustain themselves independently are incorporated by those who can. Or however by those who are at least willing to try.

A superficial reading of these concepts may lead to cynicism, purist opinions and exaggerations but unfortunately within such a globalised and so closely integrated reality where the lowest production and marketing costs of many goods are within easy reach, the most far-reaching and structural aspects of this globalisation cannot be ignored. Leading among these is efficiency and the competitivity which follows.

One needs only to look around to see how GE, IBM or Nokia, or even BlackBerry, Motorola or Sony left the door open for the likes of Apple, Google, Amazon and eBay.

Simply, Italy also must learn these lessons and putting up barriers which might only last a few months is entirely useless. It would stand in the way of a proper appraisal of the situation.

As recently put forward by Alessandro Fugnoli, strategist at Kairos: *"It is now clear to everyone that the general European model is in crisis and that there is a need for a dynamic revival"*.

The Italian system continues to appear in many regards to be at the tail-end of Europe.

In fact, particularly in countries like Italy, many business owners prefer to risk closing their doors rather than come together with other competitors, with the number of mergers therefore held back by the usual arrogance. This lies with the fragmented nature of the industrial system, which has been spoken about for decades - but upon which very little has been done.

This egotism has clearly defined impacts on the owners of Italian businesses, who today continue on the one hand to show their unwillingness to open up to outside parties and on the other remain trapped within a permanent and closed business-family-equity triangle.

This lack of willingness to open up ownership has impacted the development of the M&A market and our stock markets, given that, in addition to the lack of stock market listings compared to the size of the economy, there continue to be few merger and acquisition operations and the financial and corporate lifeblood of the system remains insufficient to support, across a wide range of businesses, what many Italian industries have shown themselves capable of sustaining.

We can cite Fiat as a progressive and bold example of a company not only in growth but which was saved through a major merger - particularly noteworthy given its size. Fortunately though there are many other examples. There however remains a significant need for additional mergers and acquisitions to fully deliver upon the strength and depth of Italian industry. First however we must comprehensively understand the ownership structure of Italian companies.

Table 1 outlines the most recent ownership structure data of Italian enterprises and graph 2 the development over the years of shareholdings in listed companies.

TABLE 2 – OWNERSHIP STRUCTURE

	Family-controlled businesses	Non family-controlled businesses	Total
Business	72,1	27,9	100,0
		Type of largest shareholder (a)	
Physical persons/family	95,7	74,6	87,7
Holding	0,8	3,7	1,6
Bank, insurance company, other financial institution	0,3	1,1	0,5
Other companies	3,2	19,7	7,8
Public body, PA	0,1	1,0	0,3
		Share held	
Largest shareholder	68,8	55,6	65,0
Largest 3 shareholders	93,4	89,2	92,3
		Belonging to a group (a)	
Belonging to a group	15,5	27,3	18,8
of which			
Parent company	*9,2*	*12,6*	*10,2*
Subsidiary	*6,2*	*14,7*	*8,6*
		Performance	
Productivity (b)	44,1	58,8	49,1

(a) Company percentage

(b) Value added per employee, thousands of Euro

[Source: ISTAT– 2011 figures]

The table does not require any comment: anyone with even a basic understanding of Italian corporate ownership structure will only have their opinion confirmed by these figures.

It is clearly apparent that a country which sits at the top table of global industry cannot continue to develop with such significant concentrations of ownership in one/two/three shareholders and while very often failing to put in place the know-how, resources and drive necessary to properly compete on - let alone anticipate - their respective markets, for the very reasons outlined previously.

The productivity by employee figure must however be noted (the last three numbers at the bottom of the table): the value added per employee is significantly higher for the minority of companies not under family ownership.

GRAPH 2 – OWNERSHIP OF STOCK MARKET LISTED COMPANIES

	1998	2010	2011	2012	2013
Largest shareholder	48,7%	46,0%	46,1%	46,8%	46,8%
Other major shareholders	14,7%	17,9%	17,6%	16,9%	16,6%
Market	36,6%	36,1%	36,3%	36,4%	36,6%

[Source: Consob – 2013 Corporate Governance Report]

The stark reality of graph 2 is again shocking; with all that has happened on the financial markets across the globe in the last 15 years, Italian listings (therefore those enterprises representing the cream of Italian industry and finance) remain static - untouched even by the most serious economic crisis in recent history.

Another peculiarity of the system is the fact that 85% of listed companies, representing approximately 78% of total capitalisation, are controlled by one/two shareholders. Of these, 50% are controlled by a shareholder with a majority stake, while the remaining are controlled as a minority or under shareholder agreements.

In fact companies with a wide shareholder base, the so-called public companies, continue to be entirely marginal in Italy compared to the other major European markets, in particular the UK, where the most successful companies present such structures.

A recent Economist study "Family firms - Business in the blood" highlights the global importance of family-controlled companies. They represent 19% of the Fortune 500, a number which has risen from 15% in 2005. Such companies have grown 7% annually since 2008 compared to 6.2% for other companies, indicating therefore their strength. However this number also follows the gradual entry of Asian and South American companies.

According to McKinsey, family-owned companies with revenues greater than USD 1 billion number 15,000, compared to 8,000 in 2010. We should also consider developments in control models, which over time have seen systems introduced such as loyalty shares and differing share classes, among others.

However, the bottom line is that once a company provides satisfaction to all its shareholders, even through complex governance systems, all is well.

Another significant aspect to consider is that generally companies under family control are less indebted than public companies and this therefore supports healthy growth. This is an additional rather positive factor which juxtaposes the rationale of directly-involved owners with the policies of professional managers who often feel disengaged.

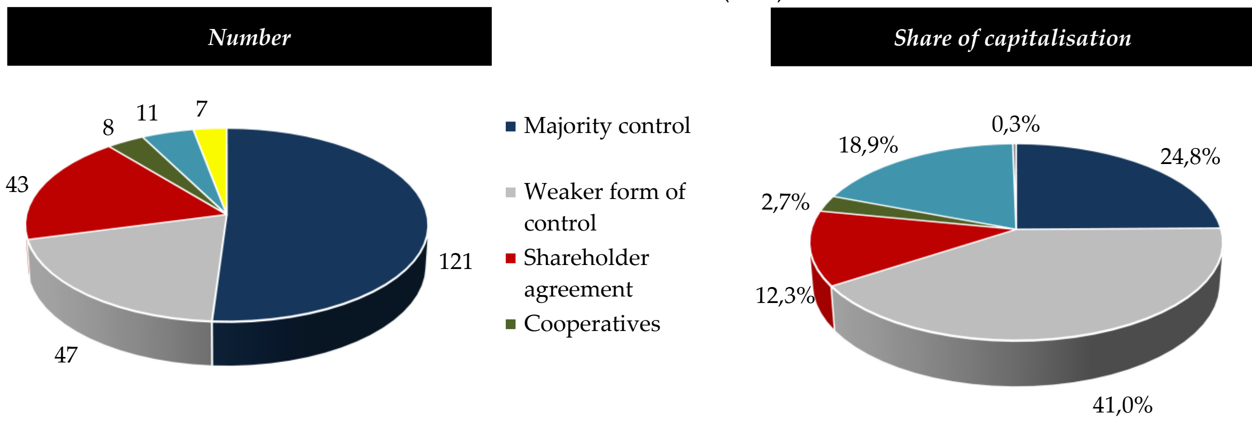
Another recent study by Price Waterhouse Coopers (PWC) highlights that only 16% of large family-controlled companies have in place a developed and documented succession plan, implying a certain (although theoretical) medium-term fragility. Generational transfer plans are however much more commonplace in smaller companies.

A look overseas underlines the considerable benefit that families bring to businesses and therefore an out of hand dismissal of the involvement of families in Italian industry is off the mark.

We however must closely assess their efficiency, flexibility and ability to handle the challenges presented by global industry. In this regard in fact there is much to be done.

The following graphs provide greater detail on the ownership of Italian companies.

GRAPHS 3 AND 4 – CONTROL MODELS OF ITALIAN LISTED COMPANIES (2013)

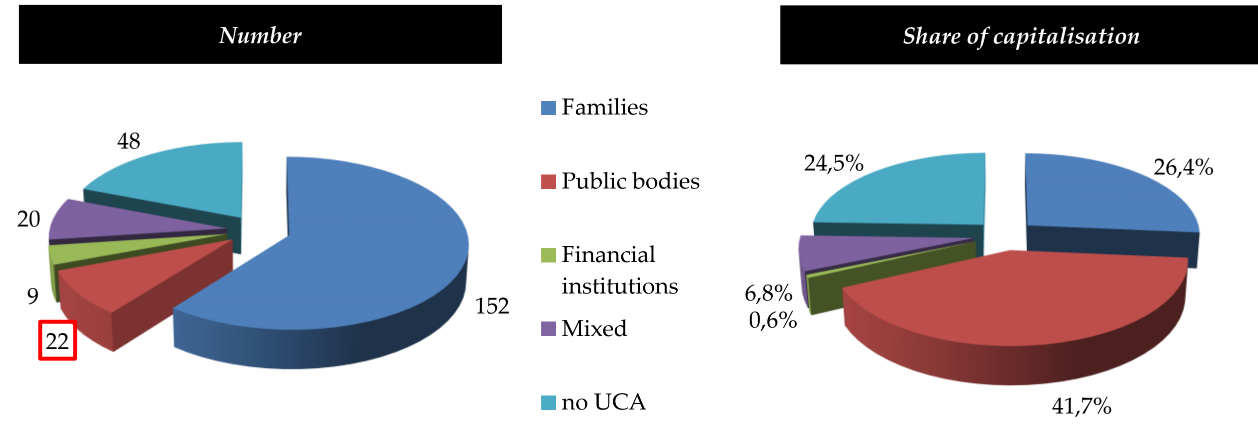


[Source: Consob – 2013 Corporate Governance Report]

From 1998 to date, majority control has gradually given way to weaker forms of control and the use of shareholder agreements to establish control has significantly risen.

Graphs 5 and 6 highlight that the main majority shareholders of listed Italian companies are families (and the State).

GRAPHS 5 AND 6 – MAJORITY SHAREHOLDERS OF LISTED ITALIAN COMPANIES (2012)



UCA = Ultimate Controlling Agent

[Source: Consob – 2013 Corporate Governance Report]

The State, despite retreating to a degree under the privatisation policy introduced in 1991, still plays a major role and is in fact the majority shareholder of 22 listed Italian companies - however representing 41.7% of total market capitalisation.

Including also non-listed companies, according to a recent article by Federico Fubini in *Affari & Finanza, Repubblica*, 4,300 companies with more than 100 employees remain controlled by the public sector, generating approx. 22% of the value added in the Italian economy, although weighing heavily on the economic system and bound by the granting of favours and executive positions, which of course stands in the way of efficiency.

These figures certainly reflect the history and development of the Italian economy, but at the same time suggest the need for further extensive scrutiny on the lack of stock market development, of many companies and the debt burden of the public sector.

Although the State still has a significant presence (directly or indirectly and in particular through those thousands of companies controlled or invested in by local public bodies), families continue to play the predominant role also in listed companies, controlling approx. 60%, confirming their fundamental and central role in Italian business; such companies are often efficient, although their influence is damaging where excessive or limiting.

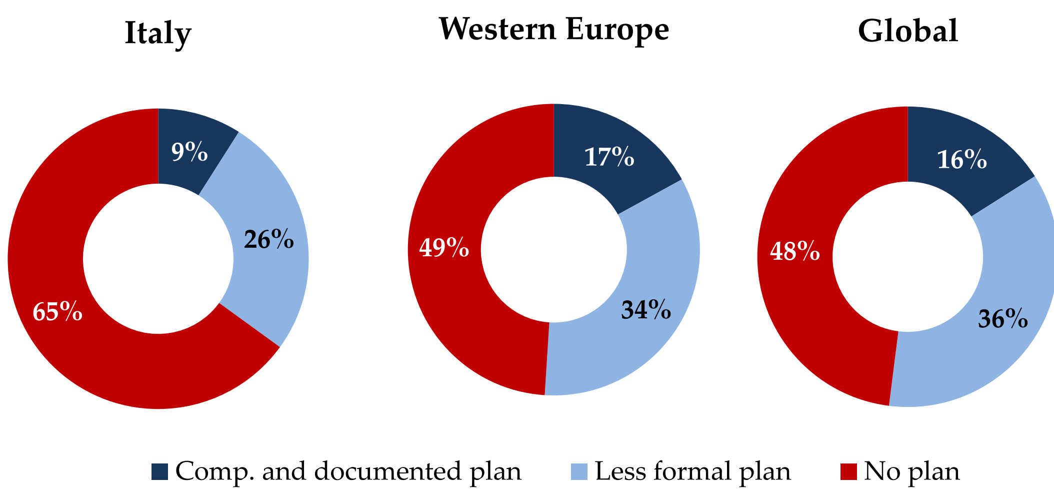
In this regard we highlight the importance of generational transfer within Italian businesses.

Compared to the European average of 50% of businesses under family control, in Italy the number is 70%. This represents a significant gap. Considering that 43% of our businesses are led by individuals over 60, the centrality of this issue is obvious.

A number of recent studies report that generational transfer in Italy is successfully completed in 70% of cases from the first to the second generation, while only successful in 20% from the second to third and thereafter collapsing to 5% for the transfer between the third and fourth generations. With the industrialisation of the country beginning approximately 100 years ago, it is strongly evident that those who have not prepared well and in time of course now have difficulties in terms of their shareholding structure.

This issue is almost never handled adequately and certainly not professionally by Italian business owners. According to *Affari e Finanza* only 35% of Italian companies have drawn up a succession plan, while the remaining 65% do not have any plan.

GRAPH 7 – EXISTENCE IN ITALY, EUROPE AND GLOBALLY OF SUCCESSION PLANS



[Source: Affari & Finanza - Repubblica]

These issues should provide pause for thought for those who cannot wait to put in place (at all costs) their children and grandchildren and those who regret not having heirs to leave the family business.

Other studies show that at least 10% of bankruptcies (without therefore considering administration procedures or restructurings as per Articles 67 and 182 of the Bankruptcy Law) stem from poor generational transfer management; even ignoring the statistics, it is highly apparent to all that the country is found wanting in terms of planning for the issues arising in terms of the management of businesses by subsequent generations.

Underlying these weaknesses is an improper management of the usual business-family-equity model and the additional problem caused by the frequent mismatch between the interests of the family and the true well-being of the enterprise.

The underlying financial and capital weakness of many companies stems from over-financing by the banks, as eluded to earlier, but also the lack of a proper focus by many business owners on financing requirements and the need for innovation and investment over time, also due to a lack of suitable human resources.

These issues which have been apparent for decades have never properly been considered by politicians (who could have - particularly considering the type of system - introduced ad hoc regulations such as incentives and/or disincentives), nor by Confindustria or the trade unions. The proper development of the financial markets to breathe life into businesses has been an objective shared by very few and all sources consulted share this view.

This is strongly reflected by a stock market which has never managed to put itself forward as a plausible alternative for the most promising enterprises in search of development capital. The market in fact over the last ten years has seen a large number of listings, but at the same time also an excessively high number of delistings. The upshot, not only in in terms of capitalisations and make up, is entirely unsatisfactory, as seen in greater detail in other parts of this document.

Too many listed companies have disappointed, too many speculative initiatives have been advanced and too many weak companies obviously incapable of competing over the long-term have been listed or at least made a play at listing on the Milan Stock Exchange.

In addition, we must consider that private equity has punched well below its weight in Italy compared to the other major global economies: this lack of development has had knock-on effects on the Italian M&A market and IPO's (Initial Public Offerings), the new market listings in Italy and of Italian companies on other markets.

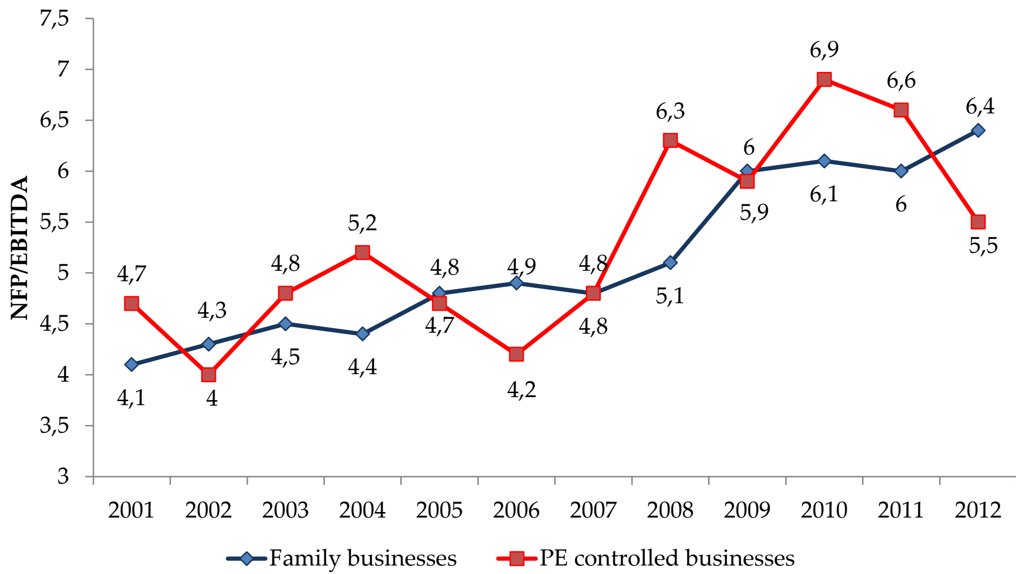
Historically, this was perhaps due to the fact that private equity was often associated with, in the media and in the view of Italian business owners, leveraged buy-outs (acquisitions with significant debt transferred onto the acquired company) by vulture companies which thereafter led to problems.

These were generated by significant debt levels.

These type of operations often brought unsatisfactory results, in particular during the economic slowdown and mainly as a result of the difficulty in dealing with high debt levels and the consequent stress on businesses, which could often be lethal.

We present below a hugely interesting graph, taken from a Bocconi University study, which indicates that the ratio between EBITDA and net debt is quite similar over the years between family-owned businesses and private equity operators, who usually leverage a part of the debt to finance the acquisition of the business itself.

GRAPH 8 – NET DEBT/EBITDA



[Source: AUB Research Center - Bocconi University]

Apart from the obvious considerations surrounding the fact that historically the use of significant financial leverage by private equity operators has too often held back the industrial and commercial development of the businesses in which they invest, Italian family-owned businesses (over a period of more than ten years) can certainly not be held up as examples of innovation, investment, development and corporate integration.

Or simply as having a suitable capital base.

As already seen, the most successful family-owned companies globally usually have much less debt than other companies; never mind a cluster of private equity investments.

This issue is worsened by the previously cited egocentric nature of business owners who have placed themselves centre stage rather than younger managers (or relatives); the same studies by Bocconi assess the performances of businesses according to age category. Table 2 outlines the conclusions reached.

TABLE 3 – BUSINESS PERFORMANCE ACCORDING TO THE LEADERS AGE CATEGORY.

Age	Change revenue growth		ROE change	
	Founder	Non-founder	Founder	Non-founder
Under 40 years	11,50%	4,00%	10,69%	1,61%
Between 40 and 50 years	3,50%	0,30%	1,93%	0,68%
Between 50 and 60 years	0,10%	0,30%	0,16%	-0,29%
Between 60 and 70 years	-1,70%	-1,10%	-1,83%	-0,16%
Over 70 years	-3,70%	-2,10%	-3,39%	-1,53%

The growth and ROE figures indicate that company leaders with differing ages achieve performances better and/or worse than the average

[Source: AUB Research Center - Bocconi University]

The figures indicate that with the passage of time the entry of younger figures, whether family members or external managers, significantly improves company performance. However, as seen previously the over-60's continue to play a predominant role in the management of Italian companies. Their counterparts overseas have usually retired by this age.

Considering that outlined to this point, it would be natural to expect that Italian companies not only need to focus more on generational change, but also on processes which place a greater value on youth and managerial preparation, this latter particularly considering the lack of appropriate heirs – or more simply … ones up to the job.

This process makes perfect sense in theory but, as demonstrated, is very difficult to put into practice.

Given that nobody has been spared by the economic crisis of recent years, this process should be seen as underlying effective management. Older business owners must groom a professional and highly trained class of executives (both internal/family and particularly external) and therefore hand over the reins gradually and without major upheaval. This however needs to be accompanied by the financial support which at this point is an obvious requirement to compete.

All these issues have been covered by Alberto Falck in his will published following his passing on November 3, 2003.

In relation to succession difficulties, Falck stated that "the problem is not only technical-organisational, but involves traditional values, feelings and emotions of an interpersonal nature". Falck stated that it is a delicate issue, which many fail to grasp and which must be treated with due care.

In the same document he turns to the issue of governance as a possible solution to the management of corporate succession. Not only Falck, but the general opinion of the Italian Association of Italian Family Businesses, holds that an external manager (or a family member with the correct profile) with the appropriate skills and experience must take the reins of a company and shareholders need to learn not to interfere excessively in the management of the company. In this manner family issues (including succession) are managed at a different level than the company, without interfering in its management.

Unfortunately, this is not a widely held attitude. An unwillingness to delegate by Italian business owners continues to stand in the way of our businesses from considering equity partners, even though the range of options has considerably broadened, featuring more prudent operators with a long-term vision, willing to engage in constructive development for the future good of the company and not only those who seek to tap into liquidity as quick as possible through leverage (financial leverage) and other means.

The difficulty in developing an external manager class and in the management of generational change is however an issue which affects all sizes of Italian businesses – whether small, mid or large. Those of us like in TIP who work day-to-day with Italian business owners encounter such cases frequently and as previously stated the blinkered approach of many business owners, particularly first or second generation, often significantly hinders the business and its performance.

It must be understood that all businesses (and primarily their owners) must make every effort to open themselves up to best practice ownership, governance models and management practices to prepare themselves and consequently lay the basis for generational change, opening their businesses to "conscientious" equity partners to undertake the range of initiatives needed to lay the basis for strong products, correct market positioning, a sufficiently lean industrial structure and all that which follows in terms of appropriate commercial structures.

Alessandro Plateroti in his recent article "Credibility and super managers" in *Sole 24 Ore* also deals with the importance of governance to a company, addressing the need particularly for listed companies to separate management and ownership.

"When a company lists on a Stock Exchange, particularly a multi-national, the trust of investors depends on its credibility as much as on the results delivered: the credibility of management, i.e. the level of independence and responsibility of management to deliver upon objectives and the company's plan and the credibility of the ownership whereby the majority shareholder does not impinge on the company or bring internal family problems or relative – shareholder relations into the arena".

The journalist also stated that *"the heart of the matter is not just ownership rights, but the due respect that must be afforded to those who invest their savings or the savings of others in a company model which they have considered reliable, successful and in particular sustainable".*

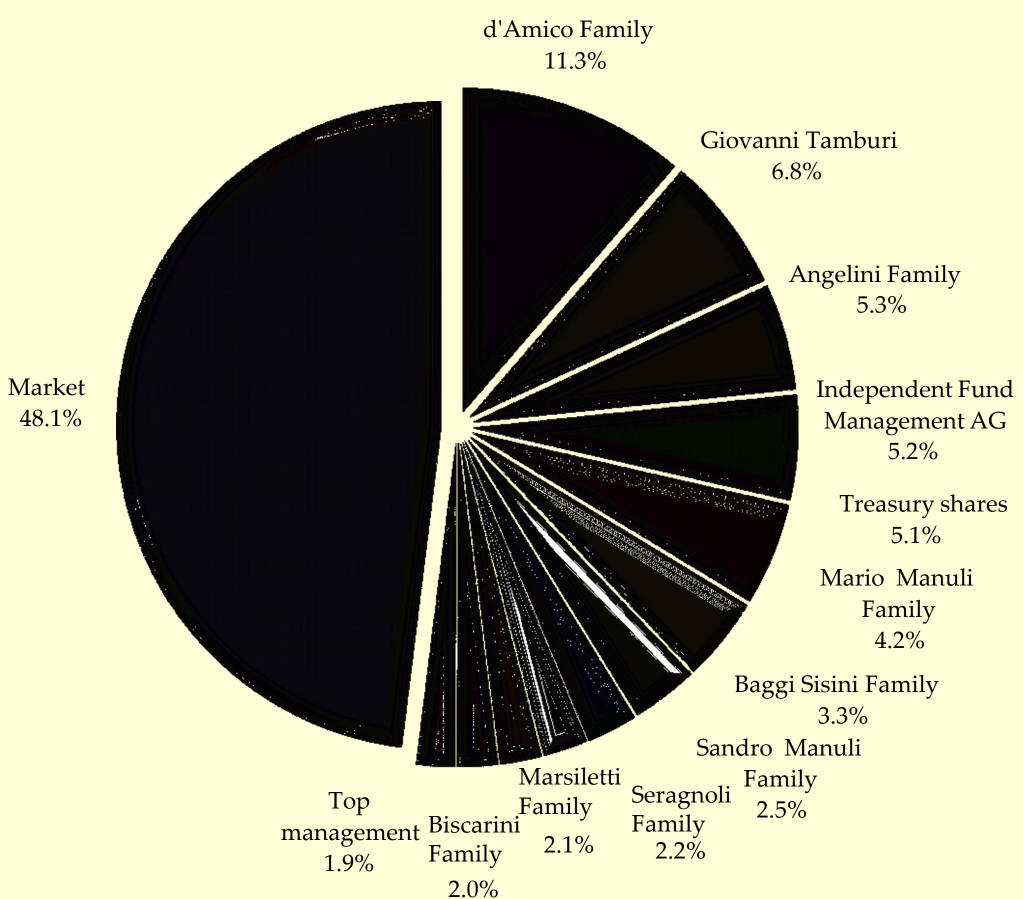
An emblematic example is that of Luxottica following the exit of Andrea Guerra and the difficulties experienced by the owners in deciding the type and identity of his successor. Leonardo Del Vecchio made a great contribution by writing and making public his memo to employees which stated that his family had not influenced and neither would they seek to exercise influence, particularly stating that 50 years of hard work cannot and should not be put into jeopardy by a few days gossip. As widely reported the market did not react well to the departure of Guerra first and Enrico Cavatorta thereafter, but the turning of the page by Del Vecchio had to be handled in a way that ensured that one of the most shining examples of Italian industry, appreciated across the world, hugely international in scope and loved by a large number of non-risk investors, in a few short days did not become one of the worst examples of Italian family provincialism. The assembly of the most recent top management in this sense convinced investors and the market in general.

Widespread approval was accorded on the other hand to Marchionne and the Agnelli family following the strong debut of FCA on Wall Street at the beginning of October, at the same time as the changes at the top of the Luxottica Group, however coinciding with a significant, unexpected and inexplicable drop in the market. The FCA share in this situation held up well and in fact in this regard the trust afforded to Fiat was transferred to a company in which roles and duties have been well defined for a number of years and whose ownership certainly contributed but did not interfere in the operating decisions of the current management.

The subsequent decisions of the Board of Directors of FCA, which included among others the spin-off of Ferrari and other major operations, including those with shareholders, evidently convinced investors of the strength of the model introduced by Marchionne and John Elkann and also satisfied the residual reservations of certain analysts in relation to the Group's capitalisation levels.

T.I.P. - Tamburi Investment Partners S.p.A.

Shareholder structure at November 30, 2014



Source: Consob and www.tipspa.it

CHAPTER 2

GROWTH OF THE ITALIAN ECONOMY

Considering the ownership structure of Italian business without taking into account GDP developments over recent years may lead to incomplete conclusions.

Our study needs to give due consideration to general economic issues, the growth of Italian businesses, investment and other components which are directly linked to or have an impact upon business capitalisation levels.

We consider in this chapter also that previously developed in relation to capitalisation level/leverage and the reasons behind such.

Italian GDP in recent years has performed rather poorly compared to other European countries and the much vaunted recovery from the crisis of 2008/2009 has yet to arrive. Other European countries are beginning to recover, while Italy has not yet shown any such signs.

GRAPH 1 – GDP PERFORMANCE (IN EURO) OF EUROPEAN COUNTRIES (GDP YEAR 2004=100)

[Source: TIP workings on Eurostat figures (2014-2013) – Gross Domestic Product at market prices]

A lack of growth was however apparent well before the current crisis, with GDP already returning disappointing numbers, therefore the causes of the current situation do not only stem from the most recent international economic crisis, but from a series of systemic problems.

The media and many economists cite in particular a range of issues, such as for example a lack of labour market flexibility, inefficient bureaucracy, a lack of private investment - and more often recently - the absence of sufficient levels of business lending.

The latter issue was certainly central to the recent crisis and needs to be considered also in terms of future growth. While it is true that globally the crisis was caused by the sudden disappearance of a previously abundant supply of credit, it is also true that the current (alleged or real) lack of credit may not be considered simplistically as the main reason for a lack of growth in Italy, as previously illustrated. This is due to the fact that not only excellent companies, but also simply good companies, continue to easily access credit; therefore it might be more appropriate to speak of a true and proper natural selection which has played out following the simple and logical correction following the excesses of the last twenty years.

The connection between the quantity of credit issued and the quality of businesses is described well in a research study carried out by the Boston Consulting Group in partnership with Leanus. The results show that our lending system has allocated over half of its funding to businesses which demonstrate growth which at best may be considered stagnant and presenting not altogether convincing financial and equity bases. These businesses, which have undeservedly benefitted from credit, represent approximately 20% of the sample analysed and despite a rather problematic outlook, absorbed a significant share of available resources, thus damaging - or at least limiting - healthier and more promising businesses.

This had also a substantial knock-on effect on business owners in Italy. They have in fact been able to freely source bank funding irrespective of the equity position or profitability of their businesses and not on the basis of deserving projects or structures.

As previously underlined, this has created a structurally undercapitalised system compared to other European countries (evident also in the graph at page 11), excessively supported by bank funding and loans.

These problems will certainly not be resolved by that raised by the many short-sighted contributors to the debate pushing increased bank lending, but what is certainly needed is a greater channelling of private savings into business capital and therefore from all those financial operators investing in equity, promoting equity, attracting equity and also retail investors in general, who can play an increasingly central role within and in support of the Italian entrepreneurial system.

Business owners firstly in turn must become aware of how a certain type of public or private equity, defined as expansion capital, may contribute to the development of their business through contributing the necessary capital. In many cases they must weigh up if it is worth diluting their own share, even a majority holding, opening up to outside capital with a view to developing a larger company and with a brighter outlook, at least in terms of its ability to compete in a global market.

The previous statistics clearly illustrate (and obvious to those that wish to see) that increased credit alone should not be seen as a magic bullet for growth, but rather a quite different approach than the past to business lending must be adopted.

As however put forward also by the analysis of the Boston Consulting Group, it is therefore necessary that Italian banks, too heavily concentrated in traditional type lending - particularly in comparison to their overseas competitors - adopt a more modern business model and seriously begin to differentiate their corporate product offer on the basis of differing situations. The needs of a company which is seeking to expand are significantly different from those restructuring and banks therefore must be able to satisfy both cases with dedicated personnel, structures and products.

Therefore, the nature of the relationship itself between banks and the business community must change. Banks financing projects must also be able to distinguish between those truly necessary for expansion and those of a more strategic nature, those which require parallel involvement and an appropriate injection of equity and those which have a quick and self-sustaining payback.

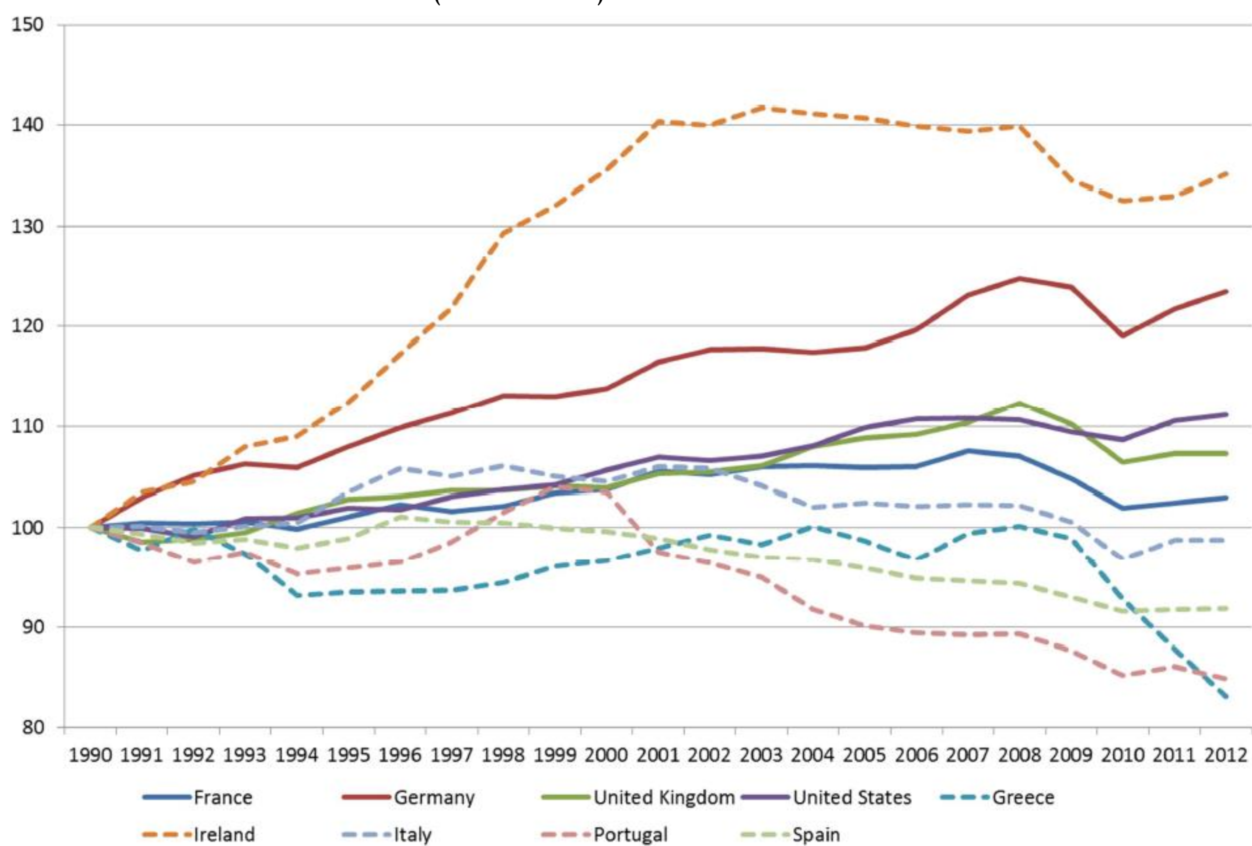
The banks in fact must make better use of the vast quantity of information available to better understand the sector and the business models of enterprises in order to anticipate or however understand the true needs of each business. Pricing policies must also focus more on particular situations, closely assessing also qualitative information which mathematic/financial models often have difficulties in incorporating.

A range of academic studies have sought to understand the factors which generate sustainable growth over the long-term. The key finding of the debate, confirming that outlined previously, is that the accumulation of capital by itself cannot be considered as absolutely determinative as long-term growth. It is however apparent that appropriate capitalisation is the leading factor contributing to business growth, particularly within the current global market.

On the other hand, many studies assign a critical role to productivity growth as the key factor for sustainable development, acting to multiply available resources. It is well known also that productivity may be generated by good levels of investment, in turn contributed to by supporting equity.

From this point of view, in considering Total Factor Productivity (TFP) it is immediately apparent from the graph below that Italy has not managed to keep up with growth across other European countries, with productivity in fact declining between 1990 and the present.

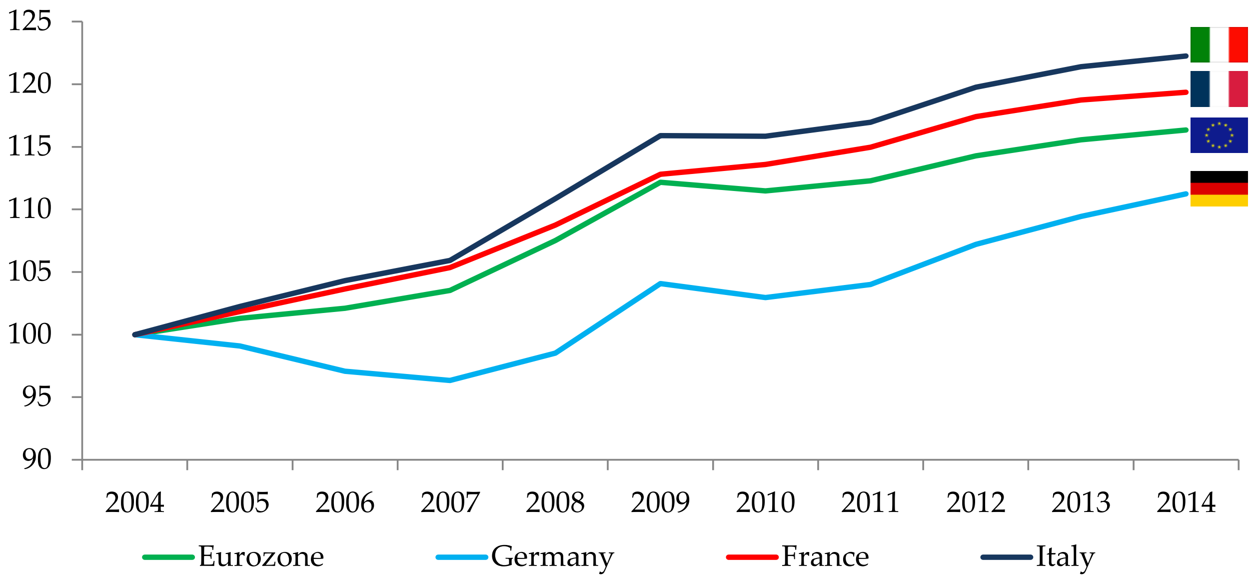
GRAPH 2 – TFP OF A SERIES OF COUNTRIES (YEAR 1990=100)



[Source: Bocconi University]

In addition to this situation which is by itself negative, we must consider also increasing labour costs. Against the reduction in factor productivity, therefore also of labour over the last ten years, the unitary cost of labour increased more than was seen in other European countries.

GRAPH 3 – UNITARY COST OF LABOUR AT NOMINAL LEVEL (2004=100)



[Source: TIP workings of Ameco figures]

This significant increase was due to a multitude of factors, but a key role was certainly played by a high degree of social security charges inflating normal wage growth, which was seen also in other countries.

This latter factor without doubt contributed to reducing our competitivity on the international markets, affecting GDP growth.

If considering therefore also the other countries which saw significant increases in labour costs, this increase was however in a number of cases offset, if not justified, by an increase in productivity and also TFP. This enabled the competitivity of the system to remain intact, bringing to the fore again the key role of productivity.

When assessing TFP and productivity the factors which come into play are process efficiency, technology and the level of human capital employed in production and it is these very issues which must be developed in order to relaunch growth.

Investments which seek to create leaner production, particularly from a technological viewpoint, are therefore increasingly urgent and necessary.

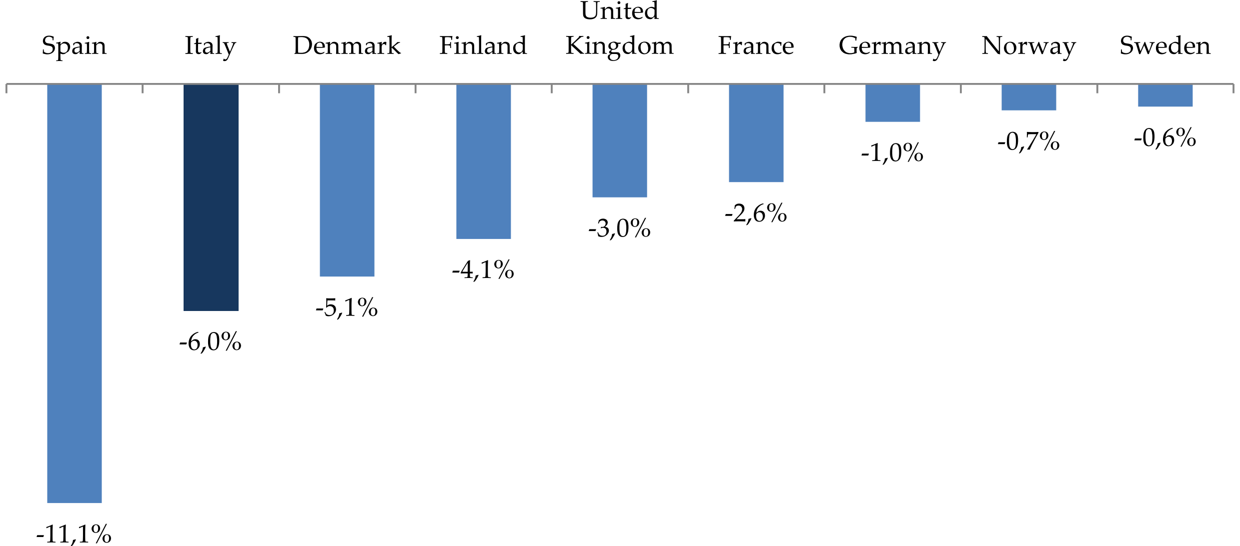
Improving the productivity of the resources available in Italy, particularly in terms of know-how, can free up the recognised potential which however has remained entirely or in part untapped.

In particular, from a technological viewpoint, investments in research and development assume a central role. In this area Italy again is well behind the major global economies, despite some areas of excellence demonstrated within the technological sector. This lag is not however due to public investment, which is slightly lower on a GDP basis compared to for example the likes of the US and Japan, but principally due to a lack of private sector investment. Private investment in research and development represents only 0.5% of Italian GDP, considerably lower than the US (2%), Japan (2.4%) and also the EU average (1.1%).

This figure is without doubt heavily influenced by the reduced average size of businesses in the country, therefore lacking in many cases the critical mass necessary for such investments. In this regard it would also be highly beneficial to merge businesses in order to achieve appropriate capitalisation levels and to create options which encourage growth rather than deter it.

The general trend of drastically declining private investment in Italy over recent years is evident. In particular, the graph below highlights that among the major European countries only Spain has seen private investment reduce more.

GRAPH 4 – PRIVATE INVESTMENTS DEVELOPMENT 2007-2012



[Source: McKinsey&co]

The McKinsey analysis particularly highlights the strong connection between private investment and employment. This must surely be taken into account given the high level of unemployment in Italy. Boosting investment can only have a beneficial impact on employment levels and sustain job development over the long-term.

Businesses must once again begin to invest in innovation and therefore stimulate the development which will close the productivity gap which separates Italy from the major European economies. Business owners would be the main beneficiaries of an improved return on resources. We also consider, as highlighted previously, the beneficial effects on GDP and higher employment levels.

From this point of view, it is even more apparent that the financial sector in general must play a key role in channelling resources to the best companies, who truly invest in innovation, as these businesses will drive future growth.

Therefore the banks - those with a professional imprint obviously, besides renewed vigor in seriously evaluating growth plans, innovation capacity and all contingent matters directly or indirectly related to real investment, must impose stock market listings, share capital increases and wider shareholder ownership in the businesses they wish to support and finance.

Overall, Italian manufacturing has in fact demonstrated over the years a lack of development compared to other countries, remaining particularly concentrated in certain traditional sectors (for example textiles, with the only exception being businesses focusing on the high-end of this segment or textiles with a major technical component) which however have been impacted by significant competition from the emerging markets.

It is therefore necessary to move away from those sectors and/or segments in which it is no longer possible to recover lost competitivity. Protective or supportive policies which keep sectors or companies no longer competitive on life support cannot be considered as a solution for these sectors, but only serve to increase the collective cost of their failure which will inevitably arrive sooner or later.

The issue is however not sector specific. It concerns the skill and capacity of business owners and/or managers to seize the moment, tap into the market and to utilise technology and all available tools in an efficient way.

In this manner, both private and public equity operators and international investors in general can play a key role in opening up Italian enterprises to the capital markets.

Finally, it must also be noted how growth and productivity are significantly influenced also by the socio-economic conditions of the host country. The "Doing Business" ranking (latterly published in October 2014), released annually by the World Bank reports Italy in terms of productivity in 56th place (out of 189), improving on the previous year (65th), but remaining at the tail of not only the major industrialised G-7 countries, but also of the Eurozone.

Although the assessment is at least partly subjective and therefore not entirely representative, it certainly provides a clear signal of the difficulties which the supporting conditions impose upon our businesses. Decisive actions are therefore also needed on this front, although they are largely outside the capacity and remit of industrial players, in addition to the banks and investors.

According to Kaushil Basu, the lead economist at the World Bank *"the success or failure of an economy depends on many variables; among these and often underappreciated are the mechanisms which facilitate enterprise and economic activity"*. He continues *"the regulations which determine how easy it is to do business, the speed and efficiency with which contracts are delivered upon, the bureaucratic procedures necessary for foreign trade and other issues. Improving these issues comes at almost no cost but can play a decisive role in promoting growth and development"*.

In this regard Italy certainly cannot consider itself as being highly efficient.

The issue however is also more general and concerns trust in the country itself, in its institutions and in its future.

In view of that outlined above, the presence of excellent businesses which have managed to succeed despite the overriding general and market conditions, highlights once again the potential of Italy as a place to develop growth and do business.

Recent government action and in particular a number of legislative initiatives have finally provided an initial small push to develop private investment, although it is still not enough as the tax wedge and corporate income tax (primarily IRAP), frustrates or significantly takes the sails out of any move to support investment.

This however is not the place to add to the chorus of complaints, particularly in terms of tax and social contribution issues, which for many years have weighed heavily on business owners and workers.

Although such complaints are merited, they appear to be on the road to correction following the most recent government proposals within the more general context of poor growth and non-productivity.

The President of the Council of Ministers, Matteo Renzi, has rightly invited business leaders to once again demonstrate confidence and join the path to growth and increase investment, following a reduction in IRAP (as noted the major complaint from the business community for many years which he has managed to bring down, although only partly), the easing of the tax burden and the initiatives which the government is introducing to spark investment and consumption numbers.

Unfortunately however it has not been widely taken up. Overall businesses are playing a waiting game, while some remain fearful, although many businesses are demonstrating strongly that courage pays off and in many cases, particularly in the fashion-luxury sector, it pays well.

The Italian entrepreneurial class, in addition to having clearly decided to capitalise businesses to the minimum possible, are today as ever faced with critical choices. Choices which have forced a number to sell their business, but also others who have sought to relaunch, drawing upon the little growth available across the world and which however further diminished in recent months.

Furthermore, given the limited room for manoeuvre available for the government which needs to balance the books, it is hoped that a greater focus will be given to business level problems which slow growth and continue to penalise productivity.

A primary focus, given the characteristics of the Italian economic system, must come from the overseas markets which have always been a lynchpin for Italian business.

CHAPTER 3

THE OVERSEAS DEVELOPMENT OF ITALIAN ENTERPRISES AND EXPORTS

It is not possible to speak about growth without also considering exports. Many countries besides Italy have in fact based their growth on exports - one need only think of Japan in the second half of the 20th century or subsequently countries in South-East Asia such as Taiwan and South Korea.

For Italy, it is certainly interesting to note that exports are one of the few GDP components to have grown over recent years. The following table outlines the continuous growth of exports, which was interrupted - and only to a certain degree - in 2009. Thereafter growth resumed.

TABLE 1 – GDP AND EXPORT PERFORMANCE (CGE. % ON AN ANNUAL BASIS IN THE 2004-2013 PERIOD)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP	+2,8%	+3,9%	+4,1%	+1,3%	-3,5%	+2,1%	+1,8%	-0,8%	-0,4%
Exports	+5,6%	+11,0%	+8,7%	+0,0%	-19,5%	+14,3%	+10,4%	+4,0%	+0,2%

[Source: ISTAT and Eurostat (2005-2013)]

In addition, according to the Agency for the international promotion and expansion of Italian businesses, significant room remains for export growth. In fact, according to their estimates there is potential to reach Euro 600 billion by 2015, compared to approx. Euro 475 billion in 2013.

Despite the rather challenging Italian economic conditions, exporting businesses have managed to establish themselves overseas, opening up further interesting growth opportunities.

According to ISTAT, more than 190 thousand Italian businesses export, therefore approx. 4.3% of total operational businesses. The majority of these employ between one and nine, although this group of businesses are responsible for only approx. 6% of total exports.

These figures confirm that small businesses also have a strong presence in terms of exports and debunk the myth that successful exporters can only be exponents of the “Made in Italy” category. The fact that over 11 thousand businesses with less than 9 employees export is a very encouraging indicator of the country’s potential.

TABLE 2 – ITALIAN GOODS EXPORTERS (2012)

Employees	Number of businesses	% of active businesses	Exports (€ mln)	% of Total
0-9	125.565	3,0%	22.238	6,0%
10-19	33.204	24,8%	26.986	7,3%
20-49	21.039	39,5%	43.818	11,8%
50-99	6.742	47,7%	40.590	10,9%
100-249	3.781	51,0%	64.839	17,4%
250-499	1.088	52,3%	44.442	12,0%
over 500	824	55,1%	126.254	34,0%
not specified	162	-	2.587	0,7%
Total	**192.405**	**4,3%**	**371.754**	**100%**

[Source: ISTAT]

In addition, it should be noted that the percentage of exporting businesses within their respective categories increases according to the number of employees, confirming the importance of reaching a critical mass to enter foreign markets.

Consistently, in fact, more than 50% of companies with more than 100 employees export.

An overseas presence is therefore increasingly becoming a key factor, if not indeed a necessity, for large and medium sized Italian enterprises.

It is useful also to consider a number of performance indicators of export focused Italian businesses.

Firstly, looking to revenue performance over recent years, companies which source more than one-third of their revenue from exports have nearly always performed stronger than businesses taken as a whole. The figure is even more emphatic taking into account businesses which source more than two-thirds of revenues from exports.

TABLE 3 – REVENUE DEVELOPMENT BY EXPORT SHARE

% Exports	Revenue change			
	2010	2011	2012	2013
Less than one-third	0,3%	0,3%	-2,5%	-1,4%
Between one-third and two-thirds	6,7%	1,9%	-4,0%	0,2%
Over two-thirds	7,6%	4,7%	-0,8%	1,3%
Total industrial enterprises	**3,0%**	**1,5%**	**-2,6%**	**-0,5%**

[Source: Survey of industrial and service sector businesses, Bank of Italy]

Considering the results of the businesses analysed, the percentage of companies reporting profits significantly increases with the higher share of exports reported.

TABLE 4, 2012 RESULT AND EXPORT SHARE

% Exports	% of Enterprises			
	Profit	Breakeven	Loss	Total
Less than one-third	52,0%	15,5%	32,5%	100,0%
Between one-third and two-thirds	61,7%	11,0%	27,4%	100,0%
Over two-thirds	66,3%	10,9%	22,8%	100,0%
Total industrial enterprises	**57,0%**	**13,6%**	**29,4%**	**100,0%**

[Source: Survey of industrial and service sector businesses, Bank of Italy]

Finally, looking to investments year-on-year, businesses which export more report a far better performance than the rest. In particular, over the last year – against a general contraction in investment (-3.7%) – companies sourcing more than two-thirds of revenues from exports are the only ones to have invested more (+1.1%) than the previous year.

TABLE 5 – INVESTMENTS YEAR-ON-YEAR

% Exports	Investment change			
	2010	2011	2012	2013
Less than one-third	1,1%	-3,9%	-10,7%	-5,6%
Between one-third and two-thirds	-4,1%	-2,0%	-12,1%	-2,1%
Over two-thirds	6,1%	1,0%	-4,4%	1,1%
Total industrial enterprises	**0,7%**	**-2,8%**	**-10,0%**	**-3,7%**

[Source: Survey of industrial and service sector businesses, Bank of Italy]

In addition, exporting businesses account for approx. 28% of Italian jobs – a percentage which has grown over the last three years. Internationally focused businesses have managed to maintain stable levels of employment against the general contraction in the overall economy and account for an increasingly bigger share of the jobs market.

It is a shame that these numbers (generally and at times strongly positive) are constantly ignored by the media, by politicians (who should either leverage upon them or further incentivise them) and obviously the trade unions. They are far too interested in highlighting the negatives.

TABLE 6 - NUMBER OF EMPLOYEES OF EXPORTING BUSINESSES

Exporting businesses	2010	2011	2012
Number of employees	4.632.350	4.614.712	4.617.606
% of total employees	26,9%	27,5%	27,7%

[Source: ISTAT]

These figures clearly highlights that exporting companies return far better profits than the average.

Those businesses who decisively target the export market can therefore lead the recovery of investment and employment, and more generally spark the economic recovery.

Export figures by country reveal a further interesting statistic. This index, calculated on an annual basis by ISTAT as the ratio between exports and GDP, has grown continually and strongly and highlights the increasing focus of Italian businesses on foreign markets as a source of growth.

TABLE 7 – EXPORT FOCUS BY COUNTRY (2009-2013)

Countries	2009	2010	2011	2012	2013
Italy	24,6%	26,9%	28,5%	29,5%	30,4%
Germany	44,0%	48,7%	50,9%	52,2%	52,4%
France	24,5%	26,4%	27,2%	27,9%	28,0%
United Kingdom	27,0%	28,3%	29,2%	29,6%	29,5%

[Source: ISTAT]

In this regard, of the major European economies Italy places second only to Germany. These figures are broken down further in the following table by sector in order to identify the key sectors.

TABLE 8 – EXPORT FOCUS BY SECTOR

Sector	2009	2010	2011	2012	2013
Agricultural & fishing	9,5%	10,9%	10,9%	10,9%	10,5%
Mining	12,0%	11,7%	11,3%	12,5%	11,5%
Manufacturing	33,1%	34,4%	36,5%	39,2%	40,6%
Food & Beverage	16,0%	17,2%	18,7%	19,8%	20,6%
Clothing and textiles	39,1%	39,8%	41,8%	46,0%	48,8%
Paper & timber	12,4%	13,4%	13,6%	15,2%	16,6%
Oil	15,2%	17,3%	16,2%	17,0%	16,1%
Chemicals	36,9%	38,2%	39,5%	39,9%	41,8%
Pharmaceut./healthcare	54,8%	59,6%	61,6%	68,9%	74,3%
Plastics & rubber	27,1%	28,2%	29,8%	31,9%	34,2%
Metals	27,1%	27,0%	30,1%	34,4%	31,9%
Computers and electronics	56,4%	60,1%	61,8%	60,8%	58,4%
Electrical equipment	52,9%	47,9%	49,7%	50,8%	51,4%
Industrial machinery	65,8%	63,5%	67,1%	72,3%	77,1%
Automotive	57,6%	65,3%	67,2%	69,7%	72,9%

[Source: ISTAT]

The numbers highlight that certain sectors have a very clear focus on exports. The industrial machinery and pharmaceutical sectors in fact report an export share of well over 70% of production. This is also true for the auto sector, which however has also been hit hard by its decline within the domestic economy.

Finally, we highlight also that the textile and clothing sector has a significant export focus.

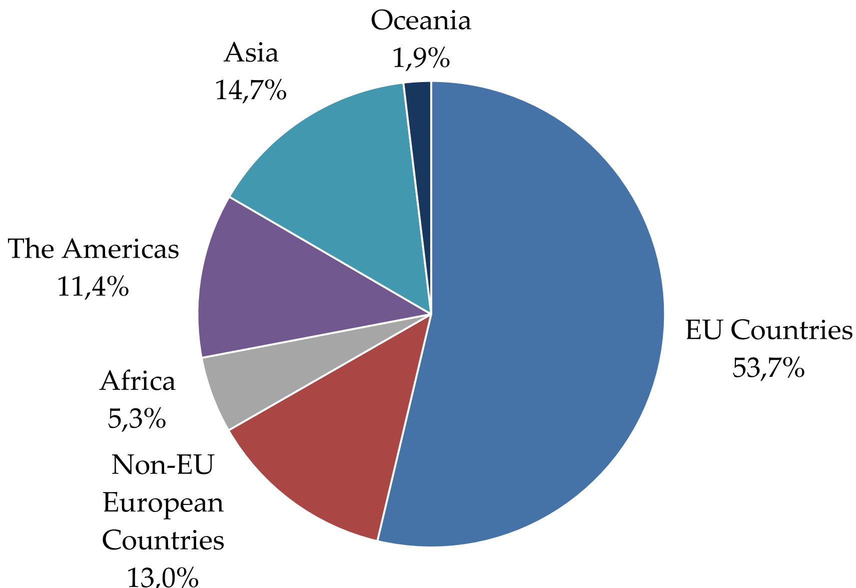
It is therefore the case that certain sectors within our economy are increasingly opening up to the global market and this can only be considered as a promising sign.

The decision to expand overseas truly puts the business models of companies to the test however, in addition to management's abilities and the capacity to read often new markets. From this point of view, the challenge of international expansion can truly test the real strength of our businesses. Those who have passed the test or who will meet this challenge in the future are set to achieve or consolidate leadership positions. The future for the rest however remains uncertain.

The European Union remains the main commercial export partner, accounting for approx. 53% of exports.

This mainly follows the creation of the single market which has facilitated trade between EU countries, but is also due to the sizes of exporting companies which, as previously pointed out, are made up of a significant component of small and medium-sized businesses. The European market in fact presents practically no barriers in terms of custom duties or financial or bureaucratic barriers, therefore enabling even the smallest businesses to access these markets without the need for a particularly complex structure.

GRAPH 1 – EXPORTS BY REGION



On the other hand, it is also evident that exports to non-EU countries have significantly expanded in recent years, as outlined in the table below, while exports with EU partners have contracted approx. 2% per year.

TABLE 9 – ITALIAN EXPORTS TO CERTAIN REGIONS AND COUNTRIES

Exports (€ mln)	2011	2012	2013	CAGR 2011-2013
Eurozone	160.589	158.697	155.084	-2%
Russia	9.305	9.979	10.797	8%
United States	22.831	26.640	27.023	9%
Japan	4.732	5.632	6.029	13%
OPEC	17.724	22.082	23.460	15%

Exports to Japan and the United States have risen significantly, with annual growth in the period considered respectively of 9 and 13%, driven also by the recoveries in motion in both these countries.

Russia has become an increasingly important market for our exports and it must be noted that these figures concern 2013 and therefore do not take account of the recent geopolitical tensions and consequent sanctions which may, unfortunately, easily reverse the trend. However such recent decisions, oddly adopted by Italy which was among the first countries to apply sanctions and restrictions on Russian citizens, may have entirely unnecessary commercial repercussions.

Finally, exports to OPEC countries have increased significantly and this surely helps our balance of trade numbers.

Another factor certainly linked to both growth and international expansion is foreign direct investment. If it is in fact true that investment is a key factor in returning to growth, it is also true that foreign capital can provide an added boost.

Furthermore, direct investment, therefore production investment, from abroad can bring also further benefits, such as the exchange and contribution of know-how and new technologies, which in many cases can generate development and lay the foundations for additional future competitive advantage. Leading such examples are Japan and South Korea, which in the past benefitted from US capacities in the electronics field which laid the foundations for what have today become some of the major players in world technology, in addition to other sectors.

However, for Italy developments over recent years have certainly been negative, with a reduction in direct investment in the country, as evident in the figures published by ISTAT. Foreign investment (net of divestment) halved between 2011 and 2013, from Euro 24 billion to Euro 12 billion and hit a low in 2012, with net investment (including divestments) in Italy of only Euro 72 million. However, it should be noted that in 2013/2014 significant amounts of capital flowed into the stock market and into Italian government and corporate bonds, signalling a relaunch of and fresh confidence in the country.

While the recovery must come from a structural review of the enterprise system, the contribution from greater international development, both in terms of exports and investment, is without doubt significant.

It is difficult to find precise data in this regard but it is certainly evident that businesses which have found over time a financial partner, in addition to achieving greater growth as previously demonstrated, also have had a greater focus on exports.

The growth of those businesses in which an outside shareholder to the founding family certainly includes a component of export growth. This owes to cultural issues, greater funding, stronger commercial acumen and the impetus deriving from these developments. This is even more apparent for businesses which have undergone acquisitions and/or mergers.

A connection therefore emerges, not intuitively evident, although increasingly apparent, between stronger capitalised businesses and investment, between investment and growth, between growth and exports - therefore resulting in

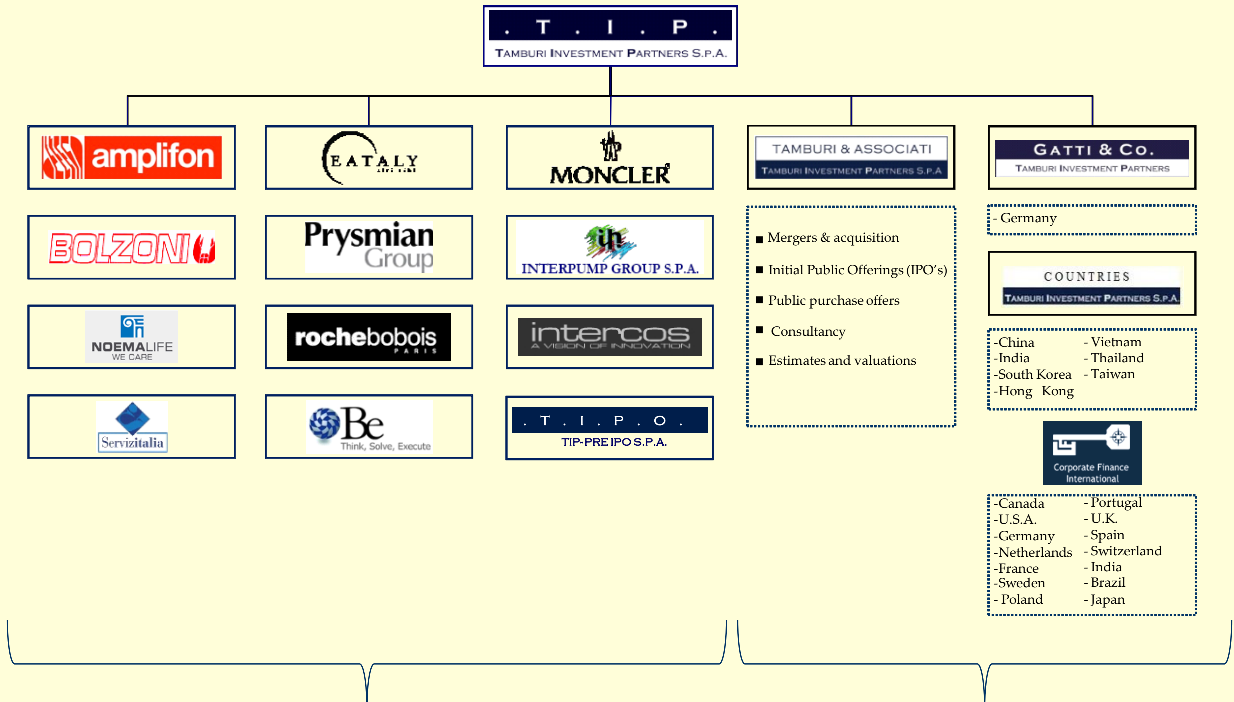
stronger margins. It is the generation of such added value which, as stated many times previously, remains the only true driver of healthy economic growth.

However, for businesses sufficient capitalisation stems from enlightened owners who have decided not to hold back their resources from the company or who have chosen the stock market or the support of a financial partner, sometimes also from abroad, who seeks to work with the most dynamic aspects of the strongest businesses.

Given that also a significant share both of foreign investment and vision, courage and the ability to interpret trends often comes from merger and acquisition activity, the next step is to analyse the key Italian stock market numbers and subsequently those pertaining to M&A's.

T.I.P. - Tamburi Investment Partners S.p.A.

Group structure at November 30, 2014



PRINCIPAL INVESTMENTS

(Including direct and club deals approx. Euro 1.2 billion)

ADVISORY ITALY - OVERSEAS

(approx. 15 deals per year)

www.tipspa.it

CHAPTER 4

The Italian Stock Exchange

Borsa Italiana, formed as a result of stock market privatisation and involved since 1998 in the management and operation of the Italian financial markets, has developed significantly over the years both in terms of its size (number of listed companies) and the quality of its offer. In October 2007, the company took an important step through merging with the London Stock Exchange, creating one of the largest markets in Europe for the trading of equities, ETF's, covered warrants and certificates, in addition to fixed yield instruments.

In order to understand its development we need to extensively analyse the functions of a regulated market and at the same time the response of businesses to the availability of this instrument.

Despite the fluctuating fortunes of the markets, the Milan stock exchange has undoubtedly supported business owners on the one hand in sourcing development capital, while on the other making their investments far more liquid or facilitating shareholders (in many cases members of the same family) to divest of their holdings.

At August 31, 2014, 339 companies were listed on Borsa Italiana (in September 2014 there were no new listings), of which 238 on the MTA (67 of these on the STAR segment), 5 on the Foreign MTA (1 on the STAR segment), 6 on the MIV, 36 on the MTA International and 54 on AIM Italia. These numbers, although modest compared to the major global exchanges or comparable markets, have climbed significantly over the last ten years - considering that in the 2004-2014 period over 150 companies were listed, of which 54 on the AIM.

Despite the development of the stock exchange, the numbers dwarf the major European exchanges (the UK, France and Germany), as previously reported.

TABLE 1 – LISTED COMPANIES AND GDP OF THE CORE EUROPEAN COUNTRIES

Country	Number of listed companies (Oct. 2014)	2013 GDP (EURO mln)	Market
Germany	705	2.737.600	Deutsche Borse
France	1.030	2.059.852	Euronext Paris
United Kingdom	2.467	1.899.098	London Stock Exchange
Italy	339	1.560.024	Borsa Italiana
Spain	206	1.022.988	Bolsa Española
Turkey	235	617.794	Borsa İstanbul
Netherlands	148	602.658	Euronext Amsterdam
Switzerland	272	489.673	SIX Swiss Exchange

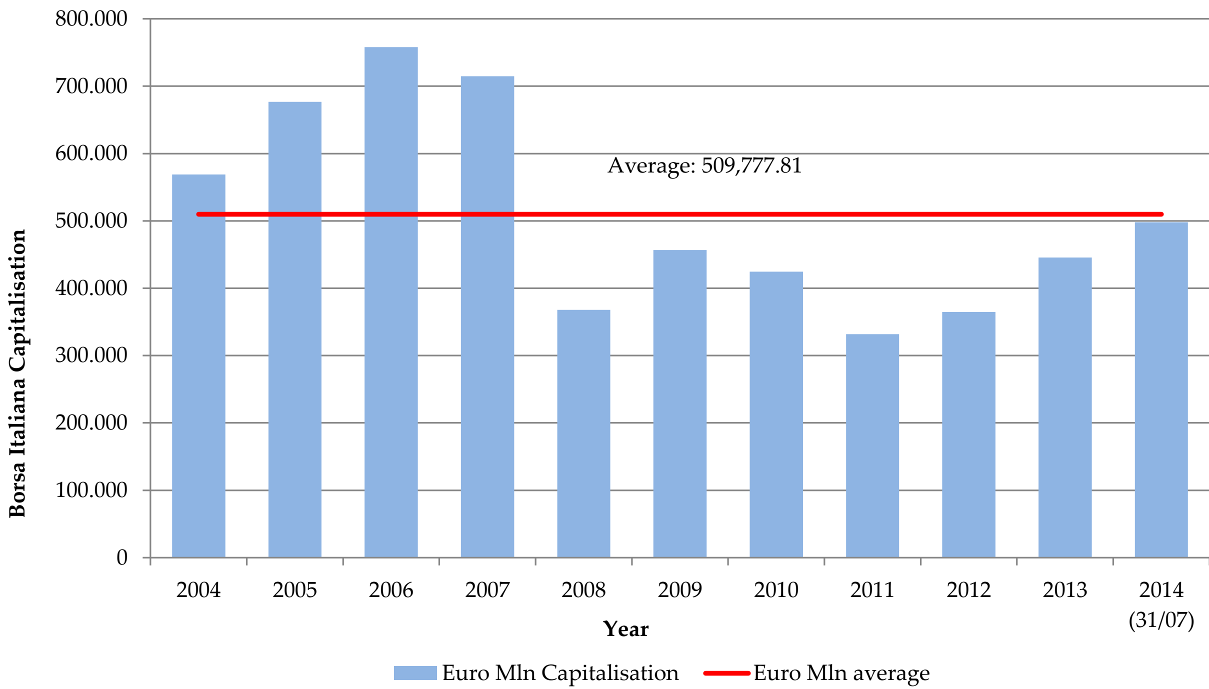
[Source: Eurostat, Stock Exchanges of the respective countries]

This latter figure is without doubt significant and even more so when considering that approximately seven of the last ten years were strongly impacted by one of the most extensive international economic-financial crises historically and a prolonged period of stagnation/recession in Italy.

The size and the development of the stock market is in any case considered also on the basis of the key features of Italian industry, which is highly fragmented and therefore with a reduced number of companies which may potentially list compared to the major European and global economies.

Over recent years (in particular in the 2008-2013 five-year period), market capitalisations have been highly influenced by the directing of liquidity by the major international investors towards markets which potentially could deliver better rates of growth, and channelled away from those European countries (in particular Italy) which struggled to grow - in part due to the inability of the respective governments to push through the necessary structural reforms to compete effectively at a global level. As reported in the table below, the overall capitalisation on Borsa Italiana significantly declined from 2008 and began a gradual recovery only from 2011.

GRAPH 1 – CAPITALISATION OF BORSA ITALIANA OVER THE LAST 10 YEARS



[Source: Borsa italiana]

In 2014, an overall capitalisation level of approx. Euro 500 billion was reclaimed. This is a comforting number and in line with the ten-year average, although well behind pre-crisis levels.

According to a recent analysis by the Mediobanca Research Center, the Italian stock exchange is today the twentieth capitalised market in the world, improving three places on 2013. Looking slightly further back though, between 1998 and 2001 the Italian market was placed tenth. Over the course of 15 years therefore, the market has been overtaken by countries such as Hong Kong, South Korea and Taiwan - but also Australia, South Africa, Mexico, Indonesia and Malaysia to name but a few. This follows on the one hand a high number of delistings (as reported also in a subsequent graph), but also the contained number of companies which have considered a stock market listing. The real problem is that over the last ten years the market did not grow, despite becoming one of the most highly liquid global markets. The rotation on the Milan Stock Exchange is 1.7 times the average of the last ten years. The Italian market is placed second in this ranking, behind the US and ahead of South Korea (1.66 times), Germany (1.5), Spain (1.47) and Shanghai (1.44).

Total market capitalisation in Italy is currently approx. 30% of GDP, compared to approx. 45% in Germany, 50% in Spain and approx. 80% in France. Comparing Italy with Germany (and considering Germany has not dissimilar average company sizes to Italy), it can easily be seen that there is significant scope for the development of the Italian stock exchange and that, particularly within a renewed economic cycle, the market can represent a major opportunity for healthy companies with challenging medium-term objectives, while even more so for ambitious and courageous business owners who wish to consolidate and combine with other businesses.

IPO'S - INITIAL PUBLIC OFFERINGS

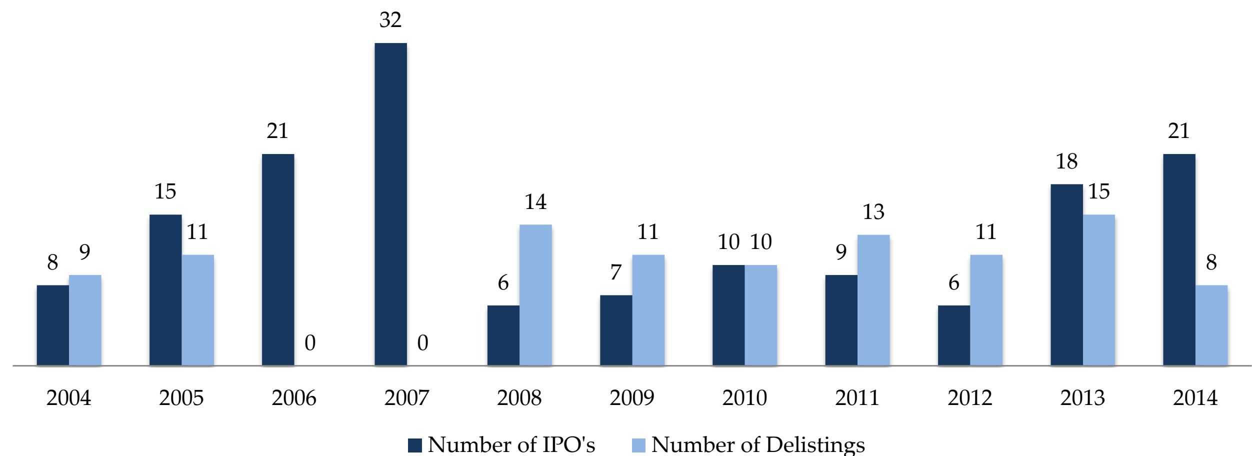
Overall stock market capitalisation substantially halved from 2008 as a direct consequence (but not only) of declining profit levels following falling demand on the consumer markets and the need to recognise impairments to reflect the significantly altered reality from just one year previously. Obviously amid a general decline, even businesses which held a strong outlook and were more ready than others to face the difficulties that lay ahead were penalised with share prices which did not reflect their underlying

fundamentals and suffered from the all-encompassing irrationality of the market.

This situation therefore created the perfect conditions for controlling families and/or new investors to delist many companies from the market. In particular, over the last ten years over 100 companies have delisted, of which over 70 in the 2008-2013 five-year period. This development must obviously be properly contextualised: a key consideration is that delisting demonstrates a degree of efficiency and maturity within the market; structuring and completing such a high number of delistings is not a simple matter, particularly in a challenging economic environment.

In any case, the controlling business owners/families did not hesitate in buying back shares on the market to ensure (in a significantly changed global market which required difficult decision-making) greater flexibility and reactivity at all levels within a significantly altered environment and to introduce reorganisation plans and/or to facilitate mergers. It also however underlined that a great number of delistings followed irreversible company crises, bankruptcies, the entry into administration or other similar situations which in recent years have affected many companies, even those with a market listing.

GRAPH 2 – IPO'S AND DELISTINGS BETWEEN 2004-2014



[Source: Borsa italiana]

At a global level 2013 was the year in which IPO's took off once again, with over 843 placements for a total value of USD 164 billion - although well behind the record number in 2007 of approx. 1,500 listings. The largest number was concentrated in the US (over 200), while European developments were reflected by the high number of Borsa Italiana listings (18 - 15 of which on the AIM) with a total value of approx. Euro 1.4 billion. This uptake was further confirmed in the initial months of 2014 (figures concerning the first eight months) in which, against the significant disappearance of delistings, 21 IPO's were seen in Italy, of which 17 on the AIM.

The most significant IPO in recent years was that of Moncler (a TIP investee company who on IPO did not sell their shares), with an offer value of Euro 680 million, the highest since 2000 against requests of over Euro 20 billion.

This operation further consolidated the fashion and luxury sector on Borsa Italiana, following a five-year period in which also Yoox, Salvatore Ferragamo, Brunello Cucinelli and Italia Independent listed in Milan.

The green economy segment has also been very buoyant over recent years, with six listings in 2013 (one-third of the total), attracting approx. Euro 60 million and with strong IPO expectations in the near future.

The privatisations announced by the Government are also expected to contribute considerably, particularly the listings of Poste Italiane, Sace and Enav, whose offer value is expected to be many billions of Euro; the only two listings completed to date have been Fincantieri and Rai Way.

However, as shown in the following table, after a particularly strong beginning, listings in 2014 slowed significantly, with the last five IPO's on the MTA withdrawn.

On occasion a dual track sales operation or difficulties in achieving an expected valuation, in addition to not particularly favourable market conditions, have caused a re-think.

TABLE 2 – IPO'S ON THE MTA IN 2014 – OCTOBER 2014*

IPO	IPO date	Value[a] (€mln)	Price range	IPO price	Book coverage
ANIMA	16-apr	796	3.5 – 4.5	4,2	5.4x
Cerved Group	26-giu	489	5.0 – 6.5	5,1	2.0x
FINECO THE NEW BANK	02-lug	774	3.5 – 4.4	3,7	2.9x
FINCANTIERI	03-lug	390	0.78 – 1.0	0,78	Demand lower than initial offer
ROTTAPHARM	16-lug	540[b]	7.25 – 9.0	Withdrawn	
Sisal	18-lug	687[b]	6.3 – 7.7	Withdrawn	
ITALIAONLINE	14-ott	138[b]	5.0 - 6.0	Withdrawn	
intercos GROUP	15-ott	216[b]	3.5 - 4.5	Withdrawn	
FEDRIGONI	29-ott	229[b]	5.5 - 7.0	Withdrawn	

(a) Includes Green-shoe; (b) Calculated at the top of the price range

[Source: TIP workings]

The Milan Stock Exchange in recent years has had a particularly difficult time in terms of listings. The figures covering 2008 to the present date, reported in the following table, highlight an IPO failure rate at around 60% - significantly higher than the major European stock markets.

* In November 2014 Rai Way was listed

TABLE 3 – IPO'S ON THE MAIN EUROPEAN STOCK EXCHANGES SINCE 2008

IPO's since 2008	Completed		Withdrawn	
Stock Exchange	Number IPO's	Offer (€ mln)	Number IPO's	% of total
Boerse Frankfurt	66	12.490	25	27%
Bolsa de Madrid	11	9.693	10	48%
Borsa Italiana (*)	12	6.603	17	59%
Euronext Paris	68	8.865	6	8%
London Stock Exchange	136	58.003	51	27%
Swiss Exchange	11	2.721	2	15%
Total	**304**	**98.375**	**111**	

(*) figures only include MTA listings

[Source: TIP workings]

This not particularly accommodating environment, which may be explained by the limited presence of institutional investors, or also by valuation issues or simply a lack of appropriate opportunities, does not encourage companies who may have the necessary potential to list.

It is therefore often said, as a justification to the fact that in Italy many IPO's are withdrawn, that it is a European or global phenomenon. The table however highlights that this is yet another myth. Or at least a distortion. Often it is due to the inability of certain banks or consultants to correctly interpret specific moments and situations.

Despite these problems, in 2014 significant liquidity was injected into the Italian financial markets - particularly the equity markets - by leading global equity investors who had initially opted for classic high growth areas (emerging markets, BRIC's), but with a subsequent realisation that results were far weaker than would have been expected. In particular global investors, principally American, turned once again to Europe and also to the so-called periphery, including Italy, correcting a structural weakness which had developed over the preceding years. This occurred when nearly everybody expected a split within the Eurozone, a marginalisation of the so-called peripheral countries or at least a significant systemic crisis, particularly for Italy.

Benefitting from listings not far off historic highs on other major European markets such as Germany and the UK, Italy represented a valid alternative investment opportunity; over Euro 30 billion was invested in the Italian equity market alone in less than a year. Within a general European environment which will continue with low interest rates, inflows into equity will continue to be maintained; in addition, the possibility to tap into these flows of liquidity is not just an option for already listed and consolidated companies on the Milan market, but also for the major privatisations and the numerous successful Italian mid-size enterprises which over the coming years wish to take on a market listing.

The greatest opportunities are obviously more readily available for the fashion, design and luxury sector, which has historically been more attractive but also more generally Made in Italy manufacturing and retail - principally consumer and food products.

It may also be expected that major manufacturing enterprises (in particular operating in the mechanical and electronic sectors in which we have many global leaders), mainly in niche sectors which although smaller and in line with the industrial base of the country, may be of more interest to investors given that their industrial know-how is globally recognised and highly appreciated.

In this context we consider the excellent ELITE initiative, promoted by Borsa Italiana, which is progressively attracting companies and which has become a *de facto* cultural, formative and therefore preparatory incubator for access to the stock market. Its success has seen it spread to other countries.

IPO'S AND FINANCIAL PARTNERS

To further the present analysis it is important to understand what has been, and what may be in the future, the role of the private equity/finance sector in launching a successful IPO.

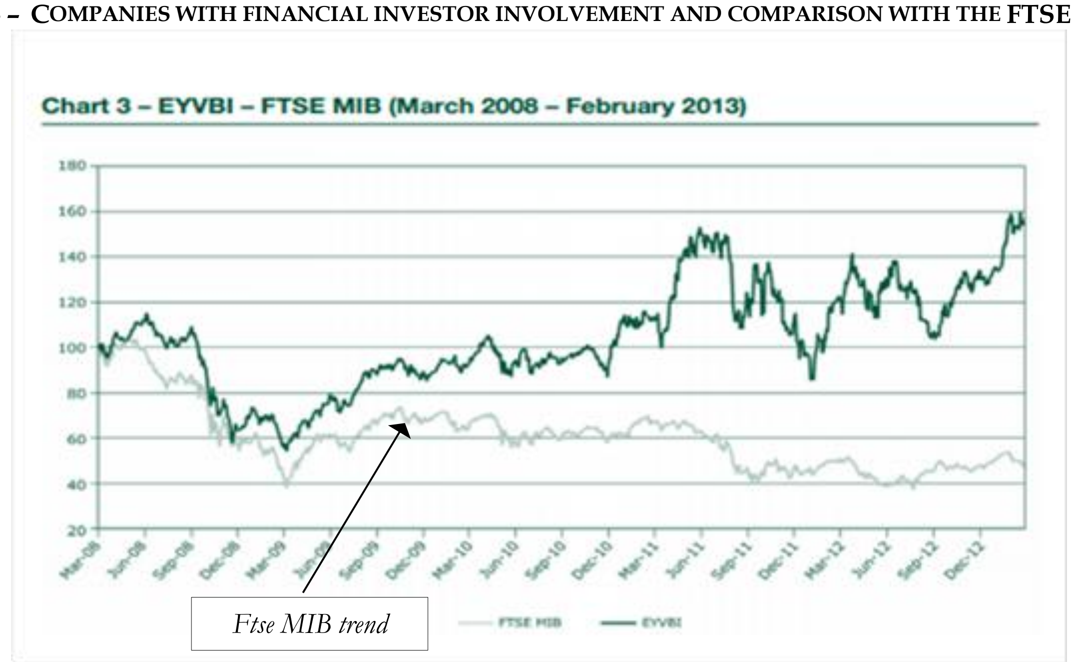
A study by the departments of Economy and Quantitative Sciences of the Universities of Modena and Naples highlights that the presence of a private equity investor on the launching of an IPO may assist in resolving a number of potential listing problems. In particular, the study showed that having a private equity investor within the shareholder structure can:

- reduce information asymmetry;
- ensure that the listing is not underpriced;
- avoid the problem of adverse selection within IPO's, as considered a guarantee of the listing company's quality.

The study also confirms, with regard to the Italian stock exchange, that the presence of a private equity investor in the ownership structure on listing may create advantages for all shareholders, generally reducing the risk of losses for shareholders in comparison to companies without the presence of private equity investors.

This thesis is supported by the performance over recent years of the Ernst &Young Venture-Backed Index (EYVBI), which monitors listed companies on the MTA venture-backed segment (therefore companies with venture capital involvement). The index considers companies listed for between three months and three years, assuming that companies in the initial months of listing may be impacted by an underpricing effect on IPO, while companies listed for over three years are no longer significantly influenced by the private equity investor. In particular, the following graph presents the performance of the EYVBI against the FTSE MIB in the March 2008-February 2013 period.

GRAPH 3 – COMPANIES WITH FINANCIAL INVESTOR INVOLVEMENT AND COMPARISON WITH THE FTSE MIB



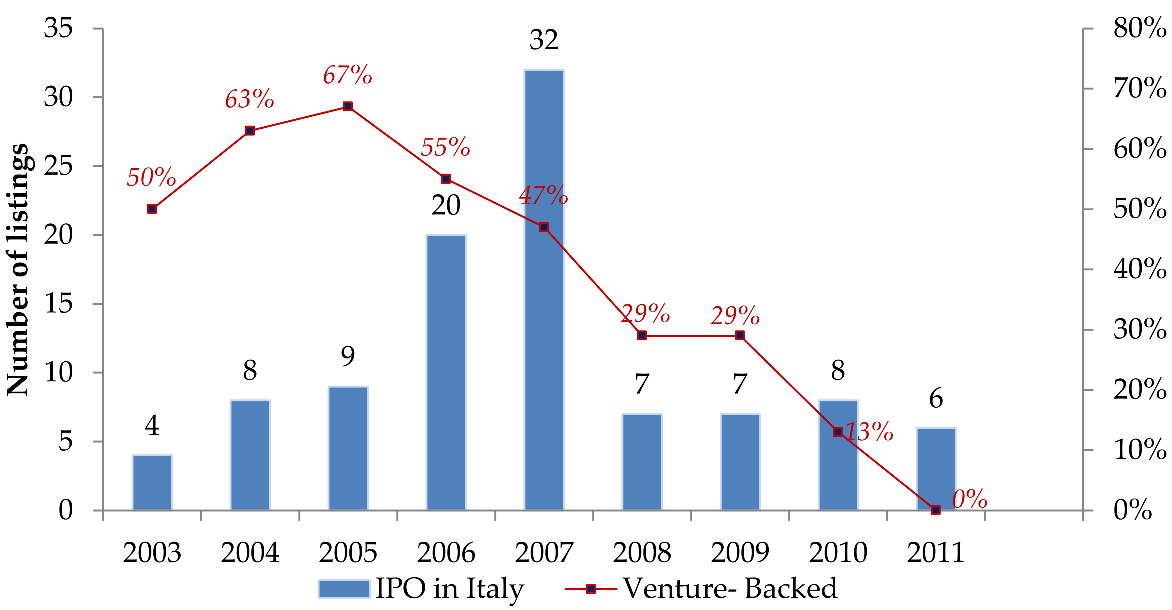
[Source: Aifi]

The performance of those monitored highlights that the EYVBI index, after substantially tracking the general market over the first year, began to outperform the index, reporting an overall performance in the period significantly ahead of the FTSE MIB. The market data therefore supports the proposition that companies with private equity investor involvement have greater stock market potential over the medium-term.

As highlighted previously (and indicated also by the preceding graph), private equity investors can act as expert advisors to support a stock market listing, with extensive experience and an ability to achieve the best valuation.

Venture-backed companies completing IPO's in Italy reduced considerably over recent years, after contributing significantly to listings until 2007 (accounting for more than 50%). For comparative purposes only, it should be noted that in the US venture-backed IPO's on average still represent approx. 40% of total listings. However, clearly the type of involvement by US financial operators is completely different from that seen in Italy.

GRAPH 4 – PRIVATE EQUITY INVOLVEMENT IN TERMS OF THE NUMBER OF IPO'S IN ITALY IN THE 2003-2011 PERIOD



[Source: Aifi]

This performance very clearly highlights that in rational market conditions finance investors represent an important category for IPO's and that the involvement of a financial partner can assist companies in listing, favouring also a successful outcome.

The graph highlights also the effects of the global economic crisis not only on IPO's, but particularly on the world/role of private equity up to 2007.

Generally the more classic private equity operations heavily relied on financial leverage to improve investor returns, assuming that the same company repays the debt undertaken on acquisition. On occasion, listing on the market represented the debt repayment date or the definitive debt restructuring programme. Once general economic conditions had dictated that companies could not replicate these profits and cash flows, which were the basis for debt repayment, in many cases the sustainability of the structure was no longer possible and consequently the equity of these companies was wiped out. In fact listing was no longer an option for many companies, removing therefore for private equity investors one of the most natural and classic way outs used up to just a few years previously, but who also had to deal with financial and structural crisis, which were often irreversible given the technical structure of many Private Equity funds

which in fact did not permit sufficient recapitalisation.

However, it is considered that this trend may be reversed with the support of financial operators/private equity investors who take a prudent approach to the companies in which they invest and flank them, even from initial investment, in a medium-term listing project and strategy. This type of investor can in fact contribute to developing a company which is able to interface with professional investors, which has strong governance, which is already experienced in drawing up budgets and forecasts and possibly in delivering upon them, and more in general, which on listing can present a substantial equity story.

The difficulty in finding a way out by private equity investors over recent years was not only associated with a lack of enterprises which could be listed, but was also due to the fact that companies held by financial partners at certain times were not, due to market conditions, properly valued on the stock market; therefore private equity investors preferred to seek potential acquirers, both financial and industrial, in order to maximise value through sale to third parties. A study by Borsa Italiana and AIFI analysed the portfolios of private equity funds operating in Italy at December 31, 2010 in order to identify companies which potentially may be listed on the markets managed by Borsa Italiana. This study established that, out of a sample of 401 companies, approx. 75 companies present in the portfolios of funds satisfied the quantitative requirements for listing. Therefore, the lack of listings on the market in 2010-2011 was often due to the clear-cut decisions by private equity investors based on valuations considered not in line with expectations and not an option not technically possible.

In terms of the positive and/or negative effects of the involvement of a private equity investor on IPO and in the immediate subsequent period, we must also underline the recent scepticism, practically in all countries, with regard to IPO's in which the financial partner cashes out a significant part of their holding. The market currently does not view these moves favourably and both the valuations - and more generally the acceptance of similar operations - have been significantly penalised.

It is an issue which deserves greater focus as it is clear that the market (notwithstanding the quality of the proposal) does not appreciate those with a purely financial outlook who use the market only to deliver quick returns. It echoes the situation in past years where those who used the markets to repay a large part of the debt contracted under Leveraged buy-outs were penalised.

The market rather prefers to reward those who develop a project and take a chance by maintaining their equity involvement.

IPO'S OVER THE LAST TEN YEARS

In order to assess the effects of an IPO and in particular the creation of value for shareholders following listing on the one hand, and on the other the effect on the company ownership structure, a sample of operations undertaken in Italy in the January 1, 2004 – August 31, 2014 period is considered (source: Borsa Italiana). In order to focus solely on industrial enterprises - banking, financial, insurance and real estate sector businesses were eliminated; for consistency, companies which were subsequently delisted were not considered(1). For the companies included in the sample, the revenues and EBITDA for each year available in the period considered were collated and the adjusted share prices from the moment of the IPO until August 31, 2014 were considered (source: Bloomberg and AIDA).

In particular, the performance of each share was analysed from listing until August 31, 2014 to establish the effective creation of value for shareholders and was compared also with the FTSE MIB (the FTSE MIB includes also banking and insurance companies, excluded from the sample) and cataloguing the various IPO's based on the year in which they took place.

1*(1) For the current analysis, for certain operations which took place over an extended period of time, not all of the financial statements were available; this may therefore, even partially, affect the conclusions.*

On average the companies reported rising share prices and outperformed the index as a whole, with the only exception of companies listed in the last two years (therefore only considering a very limited timeframe and too short to make a proper assessment). In addition, the rally of the banks in the last few years had a significant impact on the overall performance of the index.

TABLE 4 – PERFORMANCE OF SHARES COMPARED TO THE YEAR OF IPO AT AUGUST 31, 2014

Year of listing	No. of listings	Share growth (*)	FTSE MIB (*)
2004	4	+87,19%	-25,32%
2005	5	+28,38%	-34,04%
2006	14	+8,90%	-43,13%
2007	16	-13,56%	-51,33%
2008	4	+31,71%	-46,23%
2009	3	+120,60%	2,49%
2010	5	-5,13%	-13,14%
2011	4	+25,22%	0,07%
2012	4	+76,70%	32,33%
2013	14	-18,14%	21,06%
2014	18	-8,47%	8,03%
Weighted average		**+9,67%**	
Non-weighted average		**+30,31%**	

(*) the growth of the shares/FTSE MIB is calculated as the change in price from the listing date to 31/08/2014.

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

In general therefore, listing created value for shareholders and despite the crisis even companies who listed in the 2008/2009 period reported gains over the medium-term. In particular, 2009 listings demonstrated higher growth than all other years considered. The 2009 listings, although benefitting from the subsequent market recovery, highlight that sound projects with good fundamentals can be rewarded by the markets even in poor general economic conditions.

Considering listings by sector, certain sectors generally outperform the average, as shown in the following table.

TABLE 5 – SHARE PERFORMANCE BY SECTOR TO AUGUST 31, 2014

Sector	No. of listings	Share growth
Oil & Gas	1	-34,86%
Technology	12	-21,74%
Industrial	21	-18,08%
Financial	3	-14,46%
Telecommunications	1	-12,73%
Services	17	+2,82%
Consumer goods	20	+37,84%
Healthcare	3	+42,30%
Utilities	11	+60,14%
Weighted average		**+9,67%**
Non-weighted average		**+4,58%**

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

Particularly the consumer goods sector (driven by fashion and luxury goods, included in the cluster), utilities and healthcare returned strong performances (over a ten-year period).

Analysing however market segments, the best performances were achieved by the Blue Chips (+38.89%) and on the MTA (+100.87%). AIM companies on average performed poorly however. This is easily explained by the fact that the majority of AIM listings took place over the last year and their performance is considered only over a very short period, in addition to the fact that many companies which listed on the AIM are in highly developmental stages and therefore it is difficult to interpret exactly at what point they may be. The lack of sufficient liquidity which is still a feature of this market is again another major factor, although the index is gradually maturing and becoming not only a showcase for smaller companies.

TABLE 6 – SHARE PERFORMANCE BY SEGMENT AND/OR MARKET TO AUGUST 31, 2014

Listing segment	No. of listings	Share growth
STANDARD CLASS 1**	10	-10,27%
AIM	35	-9,33%
SIV*	1	-9,21%
STAR	16	+10,20%
EXPANDI MARKET	14	+18,14%
BLUE CHIPS	5	+38,89%
MTA	7	+100,87%
Weighted average		**+9,67%**
Non-weighted average		**+19,90%**
** Investment vehicles segment*		
*** One of the MTA segments managed by Borsa Italiana on which securities with capitalisations of lower than Euro 1,000 million are traded*		

** Investment vehicle segment*

*** Market segment managed by Borsa Italiana on which companies with capitalisations under Euro 1,000 million are traded*

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

A key finding from the analysis concerns the fact that strong performances are usually delivered on the segments with the strictest admission standards. This once again highlights the importance of the segment chosen and that a more selective segment choice better prepares both the company to undertake the challenges of the market and investors in terms of making the right choice.

We need to look beyond the share price performance alone to understand the impact of listing on profitability. Specifically, the compound annual growth rate (CAGR) of revenues over the three years (where available) prior to listing were compared with the three year subsequent to listing (where available).

TABLE 7 – REVENUE PERFORMANCE COMPARED TO YEAR OF IPO

Year of listing	No. of listings	Revenue CAGR 3 years pre-listing	Revenue CAGR 3 years post-listing	GDP performance
2004	4	n.a.	n.a.	+1,2%
2005	5	+16,49%	+17,36%	+0,1%
2006	14	+18,16%	+4,64%	+1,9%
2007	16	+3,47%	+16,86%	+1,7%
2008	4	+5,24%	+6,93%	-1,2%
2009	3	+35,09%	+11,30%	-5,5%
2010	5	+10,79%	-8,44%	+1,7%
2011	4	+0,45%	+6,15%	+0,5%
2012	4	+4,65%	+36,56%	-2,4%
2013	14	n.a.	n.a.	-1,9%
2014	18	n.a.	n.a.	n.a.
Weighted average		**+11,36%**	**+11,78%**	
Non-weighted average		**+11,79%**	**+11,42%**	

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

The analysis shows that revenue growth in the pre-listing period was substantially in line with the post-listing period, therefore taking into account year-on-year progress, including the relatively erratic results, mainly due to the economic cycle.

This finding is to be considered extremely positively as quite often in the IPO phase it is feared that subsequent growth will not match either the expected potential or the recent past.

For a number of sectors, post-listing revenue growth exceeded the pre-listing numbers. In particular, we highlight the consumer goods sector (growth improving from +1.45% to +9.96%), healthcare (from +14.18% to +18.5%) and the industrial sector, which showed a slight improvement.

TABLE 8 – REVENUE PERFORMANCE BY SECTOR

Sector	No. of listings	Revenue CAGR 3 years pre-listing	Revenue CAGR 3 years post-listing
Financial	3	+0,45%	+6,15%
Consumer goods	20	+1,45%	+9,96%
Industrial	21	+4,12%	+5,48%
Healthcare	3	+14,18%	+18,50%
Services	17	+15,48%	+12,67%
Technology	12	+19,98%	+16,72%
Utilities	11	+25,38%	+14,84%
Oil & Gas	1	n.a.	n.a.
Telecommunications	1	n.a.	n.a.
Weighted average		**+11,36%**	**+11,78%**
Non-weighted average		**+11,58%**	**+12,04%**

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

Turning to the segments, the Blue Chips saw growth slow, while companies listed on the Standard market (class 1) and on the Expandi delivered strong growth.

TABLE 9 – THREE YEAR REVENUE PERFORMANCE BY SEGMENT AND/OR MARKET

Listing segment	No. of listings	Revenue CAGR 3 years pre-listing	Revenue CAGR 3 years post-listing
STANDARD CLASS 1	10	-0,91%	+20,51%
SIV	1	+0,45%	+6,15%
EXPANDI MARKET	14	+10,78%	+17,55%
BLUE CHIPS	5	+14,97%	-5,43%
AIM	35	+18,10%	-1,38%
STAR	16	+18,91%	+2,41%
MTA	7	+45,68%	+24,14%
Weighted average		**+11,36%**	**+11,78%**
Non-weighted average		**+15,43%**	**+9,14%**

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

In this case, the AIM again reported a slight decline; however, as previously outlined, it should be noted that it is not possible to assess over a sufficient time period such a relatively new market and in consideration also of the fact that results often are only available for a single year subsequent to listing or in fact no results are available at all as concerning companies which have listed only very recently.

Finally, the development of margins on the basis of the average annual change in the EBITDA margin over the three years prior to and subsequent to listing was analysed.

TABLE 10 – THREE YEAR PERFORMANCE OF THE MARGIN COMPARED TO THE YEAR OF IPO

Year of listing	No. of listings	Change in margin 3 years pre-listing	Change in margin 3 years post-listing	GDP performance
2004	4	n.a.	n.a.	+1,2%
2005	5	-0,56%	+0,23%	+0,1%
2006	14	-0,86%	-1,75%	+1,9%
2007	16	+2,00%	-2,79%	+1,7%
2008	4	-0,68%	+1,14%	-1,2%
2009	3	-2,56%	+1,29%	-5,5%
2010	5	-0,67%	+2,95%	+1,7%
2011	4	+1,70%	-0,13%	+0,5%
2012	4	-0,43%	-14,19%	-2,4%
2013	14	n.a.	n.a.	-1,9%
2014	18	n.a.	n.a.	n.a.
Weighted average		**+0,37%**	**-2,20%**	
Non-weighted average		**-0,26%**	**-1,66%**	

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

The sample demonstrates on average a weaker performance post-listing, with the EBITDA margin feeling particularly the effects of the economic crisis. In addition, the results for each year are obviously highly volatile and affected by the general economic climate.

We particularly note once again that only the consumer goods and healthcare sectors saw significant margin improvements post-listing.

TABLE 11 – THREE YEAR MARGIN PERFORMANCE BY SECTOR

Sector	No. of listings	Average change in margin 3 years pre-listing	Average change in margin 3 years post-listing
Technology	12	-2,82%	-5,14%
Consumer goods	20	-1,69%	-0,45%
Utilities	11	-0,91%	+1,40%
Healthcare	3	+0,98%	+0,48%
Services	17	+1,03%	-4,01%
Financial	3	+1,70%	-0,13%
Oil & Gas	1	+1,82%	-6,57%
Industrial	21	+3,86%	-2,48%
Telecommunications	1	n.a.	n.a.
Weighted average		**+0,37%**	**-2,20%**
Non-weighted average		**+0,50%**	**-2,11%**

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

The individual market segments did not demonstrate particular differences.

TABLE 12 – THREE YEAR MARGIN PERFORMANCE BY SEGMENT AND/OR MARKET

Listing segment	No. of listings	Change in margin 3 years pre-listing	Change in margin 3 years post-listing
AIM	35		-2,96%
STAR	16	-0,68%	-2,52%
BLUE CHIPS	5	-0,65%	-0,15%
EXPANDI MARKET	14	+1,47%	-1,76%
SIV	1	+1,70%	-0,13%
STANDARD CLASS 1	10	+1,91%	-2,59%
MTA	7	+2,43%	-0,54%
Weighted average		**+0,37%**	**-2,20%**
Non-weighted average		**+0,53%**	**-1,52%**

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

The same analyses were carried out, over the same time period, with a view to understanding the effects of the listing operation structure on the share performance and on the growth of revenues and the EBITDA margin in the three years before and following listing.

The sample was then broken down according to the percentage of the placement dedicated to share capital increases of the total shares placed; IPO's which allocated 30% or less to capital increases were included in the Non-Dilutive Offering (NDO) cluster, with the others allocated to the New Share Issue (NSI) cluster.

TABLE 13 - SHARE PERFORMANCE BY PLACEMENT TYPE AT AUGUST 31, 2014

Type of IPO	No. of listings	Share growth
Non-Dilutive	22	83,85%
New Share Issue	64	-12,26%

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

The results were very telling and showed that the best stock market performances were delivered by companies listed (principally) as NDO's and not as NSI's. This result is most likely due to the fact that listings involving the sale of existing shares generally concern more mature and consolidated businesses which are better appreciated by the market; more in general, it may be the case that companies listed as NDO's are more marketable or are better generators of cash.

This thesis is also supported by post-listing revenue and margin developments, given that companies listed (principally) as NDO's generally saw greater revenue growth in the three subsequent years and a better margin performance.

TABLE 14 AND 15 – THREE YEAR REVENUE AND MARGIN PERFORMANCE BY PLACEMENT TYPE

Type of IPO	No. of listings	Revenue CAGR 3 years pre-listing	Revenue CAGR 3 years post-listing
Non-Dilutive	22	9,27%	10,93%
New Share Issue	64	11,57%	10,03%

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

Type of IPO	No. of listings	Average change in margin 3 years pre-listing	Average change in margin 3 years post-listing
Non-Dilutive	22	2,62%	-1,48%
New Share Issue	64	-1,10%	-1,84%

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

The breakdown between operations with a greater existing share sale component compared to share capital increase, and in particular their subsequent performances, is an issue which must, case by case, be explored further as the market, in purely theoretical terms, should favour companies needing market funding for development rather than as a vehicle for shareholders to sell off their holdings.

The present work (among other viewpoints), based on the theory of a structural undercapitalisation of Italian enterprises, is supportive of those who use the market to appropriate capital. However the markets are not, nor do they seem, perfectly logical.

THE AIM MARKET

The AIM market of Borsa Italiana was created in 2009 in the wake of the major success of the same market on the London Stock Exchange. In particular, it was conceived as a vehicle for small and medium sized Italian enterprises to attract growth capital.

For this very reason, the AIM has more accommodating admission criteria, a simplified IPO process and less post-listing obligations, in particular in terms of reporting. The objective is to ensure easier market access for smaller businesses, speeding up the bureaucratic process, particularly due to lighter regulation.

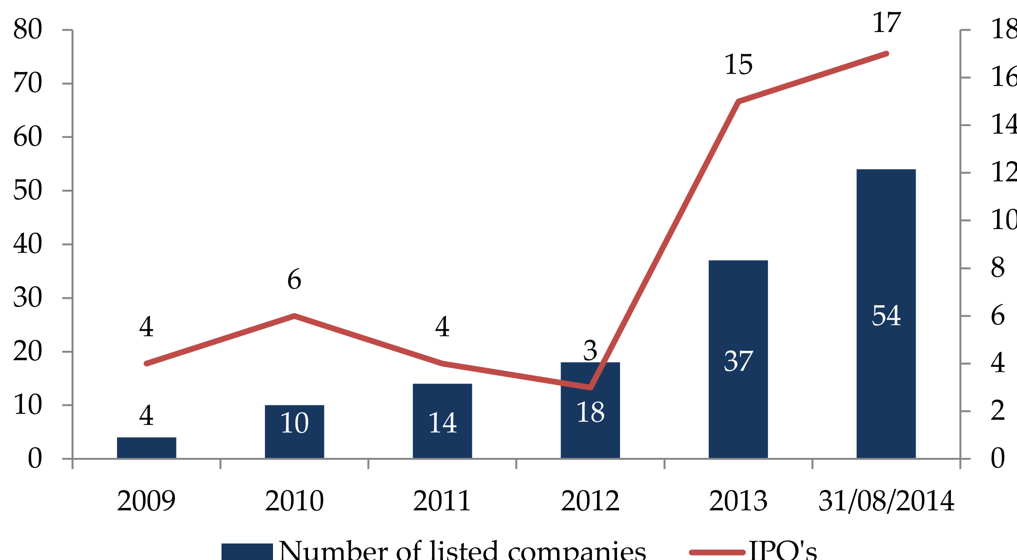
A key figure on the AIM market is the Nominated Adviser (NOMAD), a corporate bank or financial broker who assesses the admission criteria of the company and thereafter assists the company in maintaining a suitable and adequate transparency profile. They are therefore basically responsible for the quality of the placement put forward.

The listing process differs from that on the MTA in the following regard:

- a simplified admission document is required rather than a Prospectus;
- the extent of due diligence required and the exact listing date is set by the NOMAD;
- admission to the Stock Exchange can take place in only 10 days;
- Consob approval is not required;
- quarterly reports are not required.

At 31/8/2014, 54 companies were listed on the AIM with a total capitalisation of Euro 1.8 billion, supported by the 17 IPO's in the first eight months of this year. The following graph outlines the number of companies listed and IPO's over the years.

GRAPH 5 – NUMBER OF COMPANIES LISTED AND AIM ITALIA IPO'S



[Source: IR-TOP & Borsa Italiana]

Considering all the IPO's on this market since its creation, the average capital attracted was Euro 7.8 million and 92% of capital was placed through NSI's, therefore share capital increases.

A particularly interesting figure is that the average free float of these companies was 24%. In greater detail, approx. 78% of AIM listed companies have a free float of under 30%.

This highlights the current tentative opening of the shareholder structure of listing companies and consequently restricted market liquidity; these figures again underscore the tendency of Italian business owners to keep close control of their companies and their reluctance to sell significant shares to outside parties or on the market. Although it may also indicate simply the beginning of a process.

From this viewpoint, it is useful also to understand the extent of institutional investment on this market. According to a survey carried out by IR Top, institutional investors represent only 10% of total market capitalisation. 61% of the capital was attracted from Italian institutional investors, with 39% from those based overseas.

These figures again highlight that institutional investors play a marginal role also on this market, particularly in comparison with the role played on similar markets. Without exploring the range of theories which correctly point out the importance of the presence of institutional investors across all types of markets, but particularly in highly volatile markets, this is also undoubtedly a factor which limits the development of what is at least in theory one of the most promising markets.

This particularly goes for more recently created markets.

Based on business needs, including smaller enterprises, which may benefit from the undertaking of holdings by professional investors and taking into account the features of the AIM Italia market, T.I.P. in June 2014 launched the company TIPO-T.I.P. Pre-Ipo S.p.A.

In this regard it is interesting to note that a number of small Italian companies in the 2005 to 2007 period (therefore before the creation of AIM Italia) listed abroad and, particularly, on the AIM London market. The table below reports the main IPO's by Italian companies on overseas markets in the period.

TABLE 16 – ITALIAN IPO'S ON OVERSEAS STOCK MARKETS (2005-2007)

Date	Company	Sector	Currency	Value (mln)	Market
giu-07	Burani Designer Holding	Retail	Euro	146,8	AIM London
apr-07	Matica	Machinery	GBP	2,7	AIM London
mar-07	Cosmo Pharma	Healthcare	Swiss Franc	32,9	Zurich
dic-06	Newron Pharma	Healthcare	Swiss Franc	73,4	Zurich
giu-06	BioXell	Healthcare	Swiss Franc	39,9	Zurich
feb-06	Elitel Telecom	Telecom	GBP	11,7	AIM London
ott-05	Acta	Chemicals	GBP	13,4	AIM London
giu-05	Gentium	Healthcare	USD	20,1	New York
apr-05	Telit Communications	Telecom	GBP	33,8	AIM London

[Source: "IPO's of Italian SME's", Cristian Iosio]

AIM Italia therefore was created in response to the demand from such businesses to have a dedicated market, thus allowing Borsa Italiana to compete on this segment with the major stock exchanges through a segment which is theoretically more in line with the general size of Italian businesses.

At European level, the principal markets similar to the AIM both in terms of target companies and regulation, are the previously stated AIM London and the Alternext, a market for small companies created by NYSE Euronext.

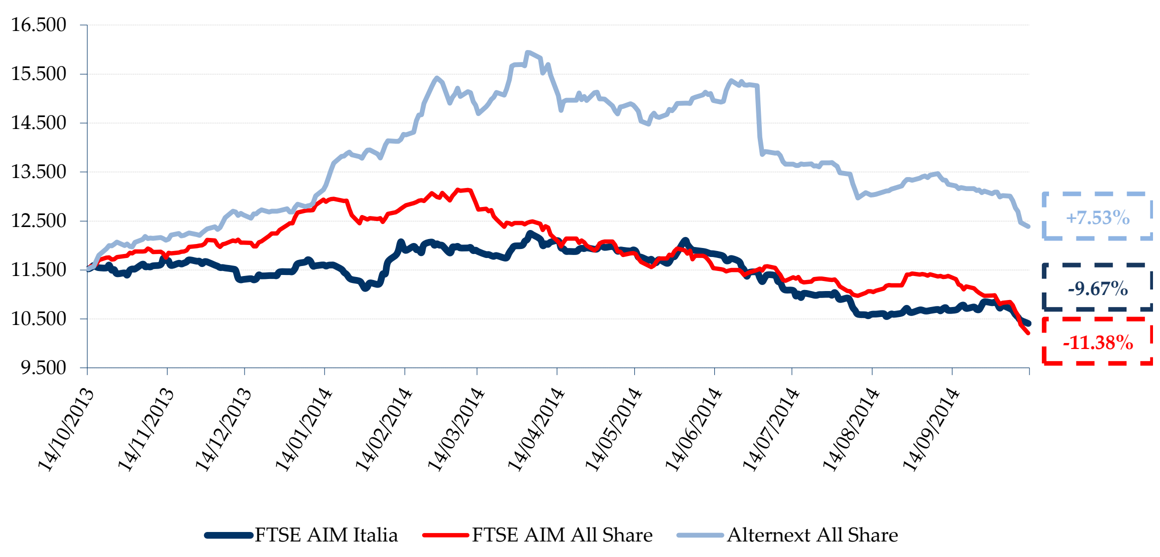
The AIM of London, established in 1995, is certainly the most developed of these and in fact hosted 1,099 listed companies at the end of September 2014, with a total capitalisation of approx. GBP 75 billion. Such strong development of the market was also due to the tax breaks afforded to listing companies and

investors. It should also be noted that approx. 20% of the companies listed are not English, highlighting the position of this market on the international stage.

The Alternext principally includes French, Dutch and Belgian SME's. At 14/10/2014, 205 companies were listed on this market, for a total capitalisation of approx. Euro 9 billion.

Finally, despite the significant difference in the sizes of these markets compared to the AIM Italia, it is useful to compare their performances over the last year. In particular, the more representative indices were chosen: the FTSE AIM Italia, the FTSE AIM All-Share (UK) and the Alternext All-Share.

GRAPH 6 – PERFORMANCE OF THE FTSE AIM ITALIA, THE FTSE AIM ALL-SHARE AND THE ALTERNEXT ALL-SHARE OVER THE LAST YEAR.



[Source: TIP reworking on Bloomberg figures]

The graph highlights that the AIM Italia performance was, although retreating, slightly better than the AIM of London. The Alternext however significantly outperformed both these indices, with overall gains of over 7%.

Two further aspects which need to be considered in terms of the AIM Italia are the lack of volumes traded (see the table below) and the size of the companies listed.

TABLE 17 – AIM ITALIA VOLUMES TRADED AND MARKET CAPITALISATION

Year	Number of listed companies	Average daily value traded	Average market Cap (Euro)	% Market average Cap	Annual value traded	% Market average Cap
2011	14	125.297,3	435.984.141,2	0,03%	32.577.300,5	7,47%
2012	18	185.676,9	413.842.277,0	0,04%	48.461.680,4	11,71%
2013	37	562.729,5	703.641.151,3	0,08%	146.872.390,3	20,87%
2014 (*)	54	1.602.733,9	1.565.041.454,2	0,10%	277.272.968,2	17,72%

(*) until 31/08/2014

at 31/08/2014	*54*		*1.924.130.992,0*			

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

TABLE 18 – REVENUES, NET PROFIT AND CAPITALISATION OF AIM ITALIA LISTED COMPANIES TO 31/8/2014

Company name	2013 Revenues (€ mln)	2013 Net profit (€ mln)	Market Cap 31/08/2013 (€ mln)
Agronomia	22,91	-0,37	23,56
Ambromobiliare	3,32	0,04	16,33
Arc Real Estate	4,39	0,07	5,75
Blue Note	3,76	-0,27	3,88
Cia Della Ruota	0,38	0,19	6,11
Digital Magics	1,64	-0,81	18,66
Ecosuntek	1,08	0,18	18,49
Energy Lab	9,31	1,16	23,48
Enertronica	4,90	0,25	10,74
Expert System	10,61	0,23	38,74
Fintel Energia Group	24,88	2,24	110,53
First Capital	2,36	1,17	20,25
Frendy Energy	1,18	0,14	55,47
Gala	1.337,94	20,49	152,54
Go Internet	2,65	-0,10	14,38
Greenitaly1	n.a.	n.a.	32,20
Gruppo Green Power	52,57	2,12	25,72
Hi Real	8,27	-1,18	3,40
Ikf	7,65	-4,54	5,91
Imvest	2,01	-2,12	19,29
Industrial Stars Of Italy	n.a.	-0,09	48,25
Iniziative Bresciane	10,73	3,44	78,96
Innovatec	37,20	-1,58	10,98
Italia Independent Group	23,52	0,46	69,28
Ki Group	42,58	1,14	20,87
Leone Film Group	20,08	2,37	48,49
Lucisano Media Group	26,87	0,34	46,34
Mailup	6,25	0,09	21,04
Mc Link	36,48	0,43	17,17
Methorios Capital	3,55	9,93	83,00
Mondo Tv France	3,03	0,11	11,81
Mp7 Italia	27,98	0,40	13,66
Net Insurance	49,91	-2,53	141,96
Neurosoft	5,84	0,64	37,78
Notorious Pictures	8,48	1,26	58,02
PLT Energia	9,28	1,66	57,88
Pms	4,11	-0,85	2,52
Poligrafici Printing	56,68	-1,67	6,19
Primi Sui Motori	10,87	-1,98	37,82
Rosetti Marino	168,10	8,96	146,56
Sacom	24,83	-1,74	12,75
Safe Bag	16,50	-2,38	17,28
Soft Strategy	4,16	0,29	4,89
Softec	10,45	0,05	8,94
Sunshine Capital Investments	n.a.	-0,02	2,88
Tbs Group	216,89	-10,96	74,67
Te Wind	0,14	-1,31	8,26
Tech-Value	7,18	0,50	13,60
Tecnoinvestimenti	63,69	2,14	107,78
Triboo Media	21,12	2,47	62,81
Valore Italia Holding Di Partecipazioni	2,40	-1,70	7,09
Vita Societa Editoriale	3,22	-0,24	2,04
Vrway Communication	1,71	-1,57	25,70
Wm Capital	3,34	0,14	11,46
Total	**2.428,97**	**27,05**	**1.924,13**
Average	***47,63***	***0,51***	***35,63***

[Source: TIP workings on Bloomberg, Borsa Italiana and Aida figures]

The first table highlights that the volumes traded demonstrates (the average daily amount traded in the first 8 months of 2014 was 0.1% of the total market while the total amount traded was 17.7%) that the AIM Italia needs to develop its scope further to be considered representative, at least theoretically, of a country such as Italy.

Also in terms of the size and results delivered by AIM Italia listed companies (reported in the second table), it is clear that this market requires further development and adjustments and hopefully on the back of such may give rise to some great success stories.

T.I.P. - Tamburi Investment Partners S.p.A.

Listings track record

Companies listed on Borsa Italiana which TIP assisted during their IPO or in which it held – or holds – investments:

- Amplifon
- Be
- Bolzoni
- Cad It
- Caleffi
- Cembre
- Danieli
- Datalogic
- d'Amico
- DeLonghi
- DeLclima
- Digital Magics
- Diasorin
- El En
- Enervit
- Engineering
- Gefran
- Ima
- Immsi
- Intek
- Interpump
- Management & Capitali
- Marr
- Mondo TV
- Moncler
- Monrif
- Noemalife
- Panaria
- Prysmian
- Reply
- Servizi Italia
- Sol
- TBS
- Valsoia
- Zignago Vetro

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CHAPTER 5

THE MERGERS & ACQUISITIONS (M&A) MARKET

The crisis which hit the international economy in 2008 certainly did not spare the M&A market. Although over five years have passed since 2008, according to the latest KPMG report the global M&A market still appears to be awaiting a true recovery - although the first signs of such are beginning to be seen. The US economy in fact continues to strengthen, a contained recovery is evident in the Eurozone and growth continues - although at a slower pace - in the emerging and former emerging economies.

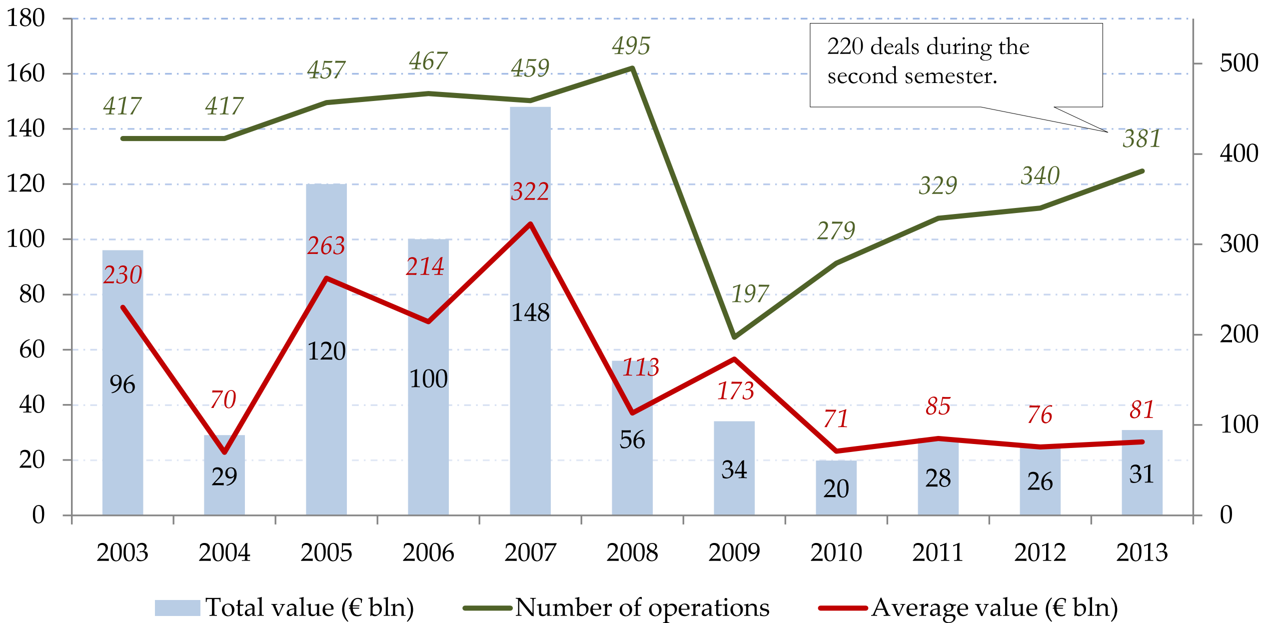
The Italian M&A market, in line with global developments, in 2013 showed the first signs of a turnaround, concluding 381 operations (for a total value of Euro 31 billion) with 340 closings (for a total value of Euro 26 billion) in the previous year. However this is a long way off the pre-crisis years, both in terms of the number of operations - but particularly - the amounts involved. Certainly the limited growth and the restrictions on the particular forms of debt associated with buy-outs and more aggressive operations played a part in its slow recovery.

The present study considers that the M&A market plays a key role in the development of the ownership structures of businesses. For this precise reason, for an assessment of the M&A market performance compared to other countries, account must certainly be taken of the previously stated lack of willingness by business owners to open up to outside capital involvement and/or sell part of their businesses.

Despite these aspects, as also indicated by KPMG in their most recent report, the Italian M&A market showed the first signs of a recovery with a pick-up in activity in the second half of 2013, reporting approx. 220 operations worth Euro 18.1 billion.

This recovery was confirmed in the first 9 months of 2014 with newspaper sources reporting 433 operations compared to 237 in the same period of 2013. Their total value was Euro 20 billion (+8% on the same period of 2013), with mid-market operations assuming a particularly central role.

GRAPH 1 – M&A MARKET ACTIVITY IN ITALY BETWEEN 2003 AND 2013



[Source: KPMG Report M&A 2014]

It however must be considered that, despite the increasing number of operations concluded, in the post-crisis years the average value has consistently remained well below the past at under Euro 85 million (according to KPMG estimates).

This follows a large number of operations worth less than Euro 50 million, accounting for over 75% of operations over the past four years (in fact over 81% in 2013), although in 2013 the number of operations worth more than Euro 1 billion more than doubled on the two previous years (as reported in the table below) contributing - in terms of total operational value - 50% (rising to 72% considering the first 20 deals completed in the year).

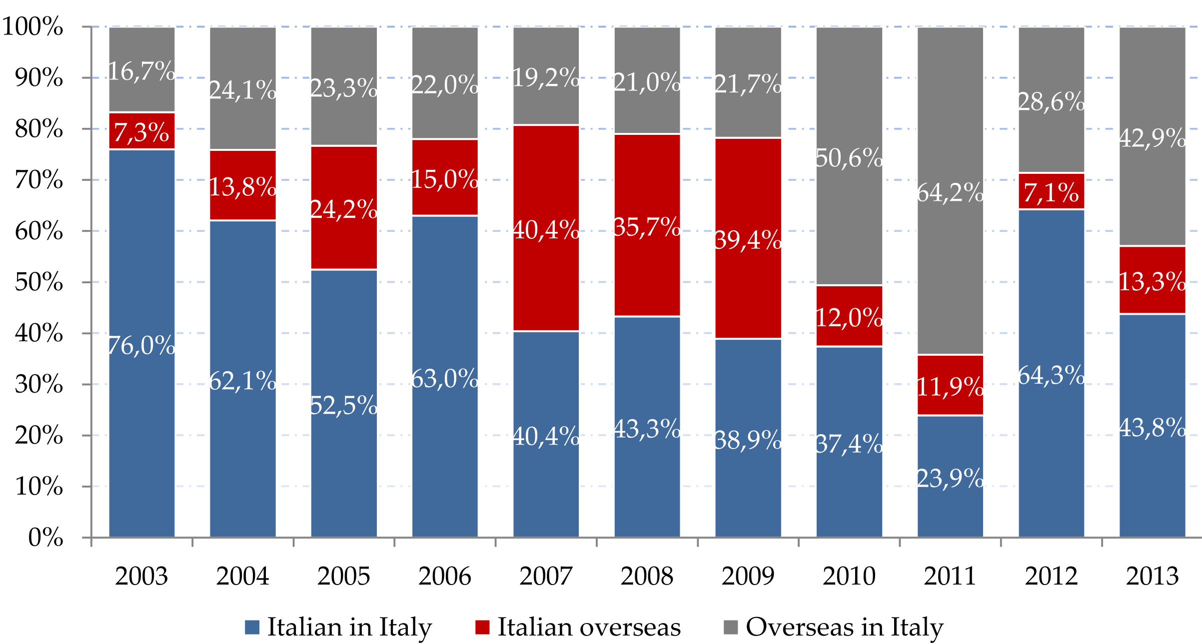
TABLE 1 – BREAKDOWN OF M&A OPERATIONS BY DEAL SIZE

	2009			2010			2011			2012			2013		
€ mln	Deal	€ bln	Average value (€ mln)	Deal	€ bln	Average value (€ mln)	Deal	€ bln	Average value (€ mln)	Deal	€ bln	Average value (€ mln)	Deal	€ bln	Average value (€ mln)
>1,000	8	23,2	2.900	4	7	1.750	4	10,8	2.700	4	12,8	3.200	9	15,3	1.700
Between 100 & 1,000	30	8,3	276,67	40	9,7	242,50	45	14,6	324,44	34	10,8	317,65	41	12,6	307,32
Between 50 & 100	17	1,2	70,59	20	1,3	65,00	19	1,3	68,42	14	1,0	71,43	20	1,3	65,00
<50	142	1,4	9,86	215	1,8	8,37	261	1,3	4,98	288	1,1	3,82	311	1,7	5,47
Total	**197**	**34,1**	**173,10**	**279**	**19,8**	**70,97**	**329**	**28**	**85,11**	**340**	**25,7**	**75,59**	**381**	**30,9**	**81,10**

[Source: KPMG Report M&A 2014]

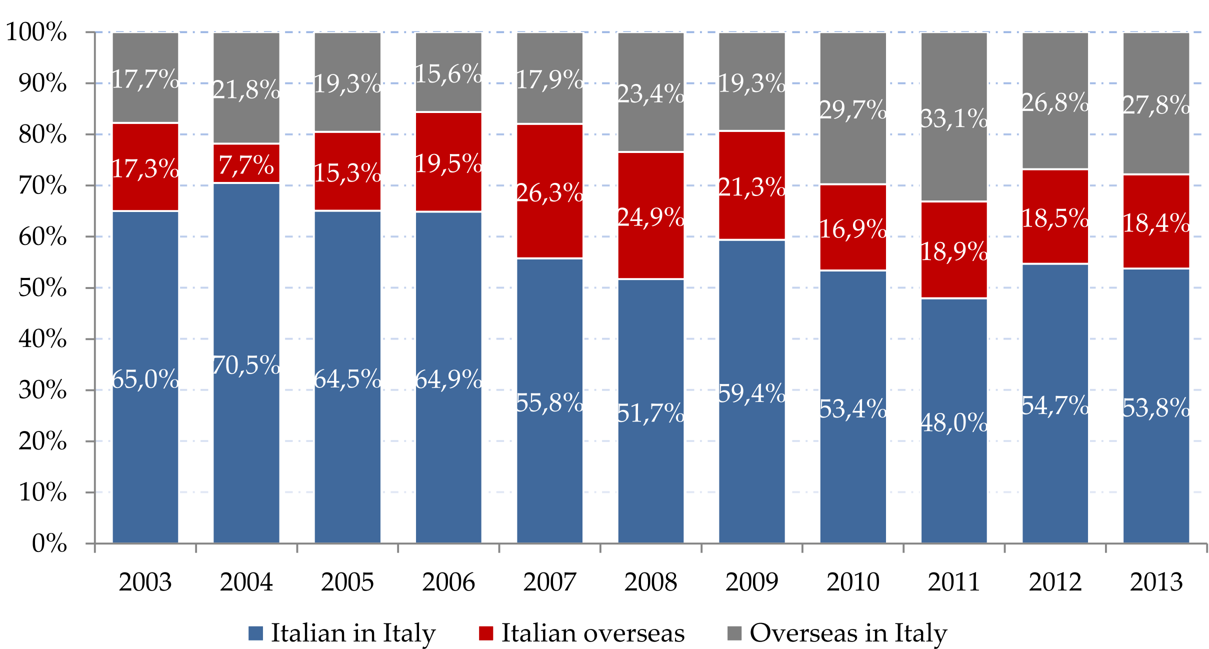
Analysing the trade balance of operations concluded in recent years and in particular cross-border operations (Italian operations overseas and overseas operations in Italy), a clear trend emerges: the prevalence of operations involving overseas investors (both in terms of the number of operations and their total value) in comparison to the interest of our business owners and enterprises to expand overseas through acquisition. AIFI and KPMG report Overseas operations in Italy in 2013 numbering 106 compared to 70 acquisitions made by Italian companies abroad.

GRAPH 2 – ITALIAN M&A MARKET 2000-2013: VALUE BREAKDOWN BY DEAL DIRECTION (PERCENTAGE OF TOTAL VALUE)



[Source: KPMG S.P.A.

GRAPH 3 – ITALIAN M&A MARKET 2000-2013: VALUE BREAKDOWN BY DEAL DIRECTION (PERCENTAGE OF TOTAL VALUE)



[Source: KPMG]

The above figures underline that foreign investor appetite (industrial players, but also financial players and sovereign funds) for the "Made in Italy" brand has not abated. Our businesses continue to excite abroad and internal family and business difficulties stemming principally from the issues outlined previously feed into this dynamic.

Since 2009 the international balance of investments tilted direction and our companies are clearly being snapped up by predators. To cite but a few examples from 2013 (out of a total of 430 companies): the sale of

the Nougat and chocolate makers Pernigotti by the Averna Brothers to the Turkish Toksoz, Loro Piana acquired by the French luxury group Lvmh (which in the past had already acquired other Italian companies such as Bulgari, Fendi and Pucci) and Pomellato, which also ended up in French control within the Kering Group. We mention also previous acquisitions of major brands such as Gucci, Bottega Veneta, Brioni, Sergio Rossi, Ducati, Riso Flora, the Bertolli and Sasso oil brands, Carapelli, Parmalat and many others. Just a few days ago, 25% of MV Agusta was sold to the AMG-Mercedes Benz group.

GRAPH 4 – BRANDS ACQUIRED OVER RECENT YEARS.

The 2013 figures again highlight the continued interest of foreign investors in Italian businesses: analysing the ten largest transactions (a number of which are not true and proper acquisitions as often is the case in such statistics), five involved a foreign player. Considering the remaining five, at least two could probably be excluded as the Gemina-Atlantia merger was a Group inter-company merger and the SNAM Rete e Gas S.p.A. IPO principally served internal needs.

In general however it is noted that operations classified as M&A's in fact comprise a little bit of everything: inter-company operations, those forming part of other operations and in general deals not fully executed on the free and open market.

Unfortunately also here the restricted nature of the Italian market highlights cases which in other countries would be mixed with real operations, in an open market and therefore all these classifications are grouped together. It is important however for our purposes that they are similar over time in terms of comparison.

TABLE 2 – 10 LARGEST M&A OPERATIONS IN ITALY IN 2013

Target	Target country	Bidder	Bidder Country	Share	Value € bln	Cross Border
ENI East Africa S.p.A.	Italy	China National Petroleum	China	28,6%	3,2	Yes
Gemina S.p.A.	Italy	Atlantia S.p.A.	Italy	100,0%	2,2	No
Loro Piana S.p.A.	Italy	LVMH	France	80,0%	2,0	Yes
Avio S.p.A. (divisione *military and civil engines)*	Italy	General Electric Corporation	USA	100,0%	1,9	Yes
Snam S.p.A.	Italy	Mercato	Italy	11,7%	1,5	No
Generali PPF Holding BV	Czech Republic	Assicurazioni Generali S.p.A.	Italy	25,0%	1,3	Yes
Cerved Group S.p.A.	Italy	CVC Capital Partners	UK	100,0%	1,1	Yes
CNH Global NV	Netherlands	Fiat Industrial S.p.A.	Italy	12,0%	1,1	Yes
Impregilo S.p.A.	Italy	Salini Costruttori S.p.A.	Italy	62,3%	1,0	No
EcoRodovias Infraestrutura Logistica S.A. (Impregilo group)	Italy	Primav Construcoes e Comercio S.A. BTG Pactual	Brazil	29,2%	0,9	Yes
Value leading 10 operations					**16,2**	
Total value of M&A operations in 2013					**30,9**	
% largest 10 operations of total					**52,50%**	

[Source: AIFI 2014/KPMG]

Looking at the first nine months of 2014 the trend does not alter - foreign investors in Italy such as: Rosneft in Pirelli, Allianz in Milano Assicurazioni, Charterhouse Capital Partners in Nuova Castelli, Renova Group in Octo Telematics, Meda AB in Rottapharm and Whirlpool becoming the largest shareholder in Indesit, in addition to the Alitalia-Etihad operation completed at the end of the summer. Overall foreign investment represents, also according to press sources, 35% of volumes to date in 2014 on the Italian M&A market.

However, the operations undertaken by international Private Equity, but not only, may be considered within the same category from the point at which large Private Equity investors became largely international (pension, insurance funds etc.).

One figure properly sums up these developments: between 2008 and the present date over 500 Italian companies passed into the hands of foreign owners in exchange for over Euro 60 billion.

This figure reflects the previously cited stepping up of foreign investment over the past year and a half in Italy. This new found foreign interest in investing in Italy may on the one hand spark investment in production and innovation, with possible knock-on benefits in terms of economic growth, and on the other once again underscores that without capital markets in line with the size of our industrial base, Italian enterprises will lag behind their foreign counterparts in terms of growth through acquisition in the coming years.

The capital markets refer to the Stock Exchange, Private Equity, Public Equity and more in general the involvement of retail investors in any form of business risk capital.

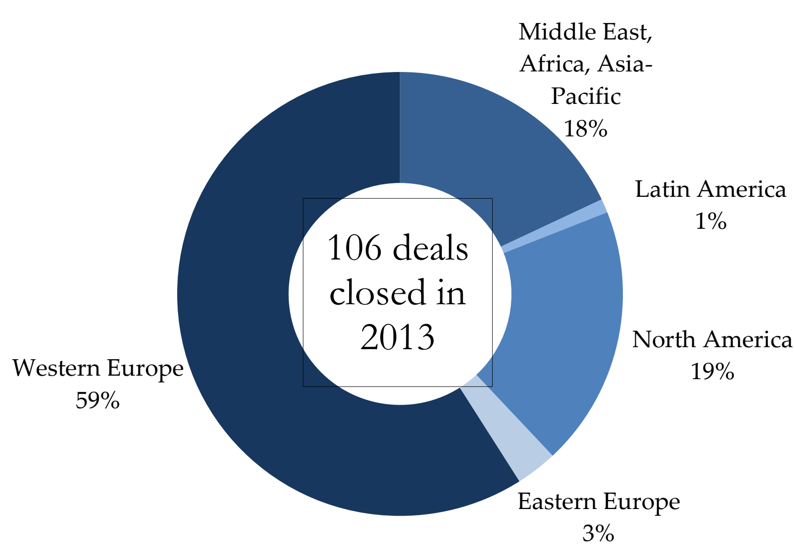
TABLE 3 – LARGEST 10 FOREIGN ACQUISITIONS IN ITALY (2013)

Sector	Target	Bidder	Bidder Country	Share	Value € bln
Waste/Oil/Mining	ENI East Africa SpA	CNPC China National Petroleum	China	28,6%	3237,0
Textile/Clothing	Loro Piana SpA	LVMH SA	France	80,0%	2000,0
Construction/Engineering	Avio SpA	General Electric Corporation	USA	80,0%	1900,0
Business Services	Cerved Group SpA	CVC Capital Partners	UK	100,0%	1130,0
Transport/Logistics	EcoRodovias Infraestrutura	Primav Construções e Comércio SA,	Brazil	29,2%	925,0
Diversified Industrials	Marazzi Group Srl	Mohawk Industries Inc	USA	100,0%	852,0
Banking	Unicredit SpA	BlackRock Inc	USA	1,9%	458,0
Waste/Oil/Mining	ISAB Srl	OAO Neftyanaya Kompaniya LUKOIL	Russia	20,0%	426,0
Textile/Clothing	Pomellato SpA	Kering SA	France	81,0%	350,0
IT/TLC	Telco SpA	Telefónica S.A.	Spain	19,8%	324,0

[Source: AIFI 2014/KPMG]

The origin of foreign investment highlights a majority of investment coming from Western Europe (59%), with North America (19%) and the Middle East, Africa and Asia Pacific (18%) playing a smaller but also significant role.

GRAPH 5 – FOREIGN OPERATIONS IN ITALY: BREAKDOWN BY ACQUIRING COMPANY COUNTRY (2013)

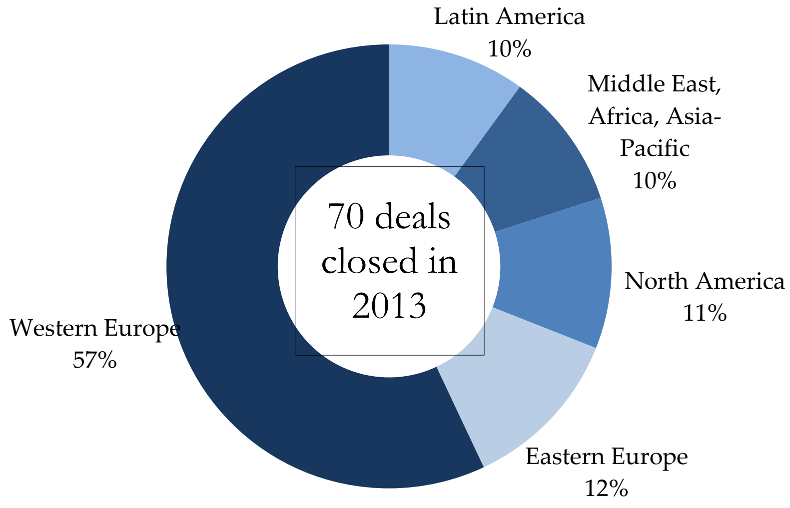


[Source: AIFI 2014/KPMG]

French and American investors over the past three years have played a predominant role.

In terms however of Italian operations abroad in 2013, scores of operations were undertaken. The majority of investments abroad by Italian investors were undertaken in Western European countries (57%). Europe and North America taken together represent 80% of operations. The individual countries attracting the most Italian investment were Germany (12 operations), the USA (8 operations) and France (7 operations).

GRAPH 6 – ITALIAN OPERATIONS OVERSEAS: BREAKDOWN BY ACQUIRED COMPANY COUNTRY (2013)



[Source: AIFI 2014/KPMG]

Companies with a long-term view continue to consider growth both organically or through acquisition; 70 of the latter category in 2013 opted for overseas acquisition with the others completing acquisitions in Italy.

TABLE 4 – LARGEST 10 ITALIAN ACQUISITIONS ABROAD (2013)

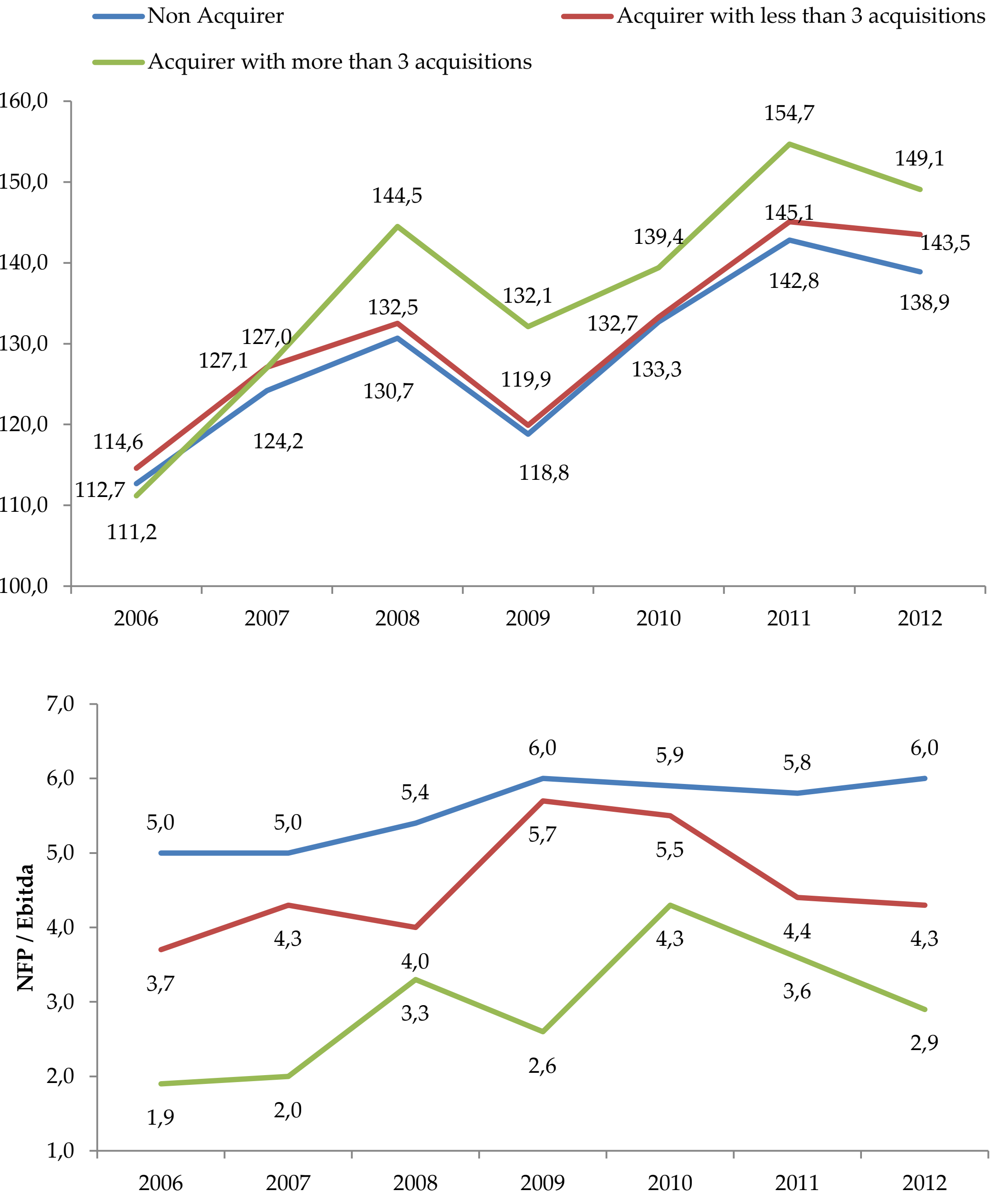
Sector	Target	Target Country	Bidder	Share	Value € bln
Insurance	Generali PPF Holding BV	Czech Republic	Assicurazioni Generali SpA	25,0%	1.286
Automotive	CNH Global NV	Netherlands	Fiat Industrial SpA	12,0%	1.095
Electricity/Gas/Water	Transport et Infrastructures Gaz France	France	Snam SpA	45,0%	597
Construction/Engineering	STX OSV AS	Norway	Fincantieri	55,6%	495
Automotive	Aston Martin Lagonda Ltd	UK	Investindustrial SpA	37,5%	190
Banking	PJSC Unicredit Bank	Ukraine	Unicredit SpA	100,0%	127
Construction/Engineering	Dyckerhoff AG	Germany	Buzzi Unicem SpA	3,4%	65
Insurance	Generali Asia	HK	Assicurazioni Generali SpA	40,0%	40
Electricity/Gas/Water	IP Maestrale Investments Ltd	UK	ERG SpA	80,0%	28
Diversified Industrials	Arjowiggins Casting Release	UK	Favini Srl	100,0%	27

[Source: AIFI 2014/KPMG]

An interesting study by Bocconi University demonstrated that companies pursuing acquisition-led growth achieved better results both in terms of revenue growth and improved financial structure (NFP/EBITDA).

Just as companies which have incorporated a financial partner, also forward looking companies who have undertaken acquisitions have achieved greater growth and boosted profits. This it outlined in the following graphs.

GRAPHS 7 AND 8 – PERFORMANCE OF ACQUIRING COMPANIES VERSUS NON-ACQUIRING COMPANIES



[Source: Bocconi University]

The findings of a survey by Bocconi University on a sample of over 2,500 companies showed that between 2006 and 2012 companies which undertook the greatest number of acquisitions were also those delivering the highest revenue growth, in addition to the strongest financial structures.

It is encouraging to see from these figures that also Italian business owners have understood that the time has arrived to take major strategic decisions and once again occupy an even more central position within their sectors through acquisitions which establish or consolidate a leadership position and take on the (now global) future challenges.

In terms of the largest sectors, the main contributor to the Italian M&A market in terms both of total and average value in 2013 was the energy sector (Euro 8.0 billion, with an average operational value of Euro 234 million).

Acquisitions involving both industrial and consumer goods enterprises (113 operations each, accounting overall for 60% of total volumes) in 2013 rose in value terms per deal respectively by 14% and 150%.

The average value of M&A's in the support services and infrastructure sector also grew - in third place with Euro 5.1 billion (+177% in the previous year).

TABLE 5 – M&A OPERATIONS BREAKDOWN BY SECTOR

	2011			2012			2013			
Sector	**% value**	**% No. deals**	**Average value (€ mln)**	**% value**	**% No. deals**	**Average value (€ mln)**	**% value**	**% No. deals**	**Average value (€ mln)**	**CAGR 11-13**
Consumer goods	46%	37%	105,81	15%	32%	105,81	15%	32%	35,43	-42%
Energy	16%	7%	194,53	29%	10%	194,53	29%	10%	219,21	6%
Finance	11%	7%	133,74	36%	6%	133,74	36%	6%	453,53	84%
Industrial	15%	29%	44,02	10%	28%	44,02	10%	28%	27,00	-22%
Support services & infras.	8%	12%	56,74	7%	12%	56,74	7%	12%	44,09	-12%
Telco, Media & technology	4%	8%	42,55	3%	12%	42,55	3%	12%	18,90	-33%
Total	**100%**	**100%**	**85,11**	**100%**	**100%**	**85,11**	**100%**	**100%**	**75,59**	**-6%**

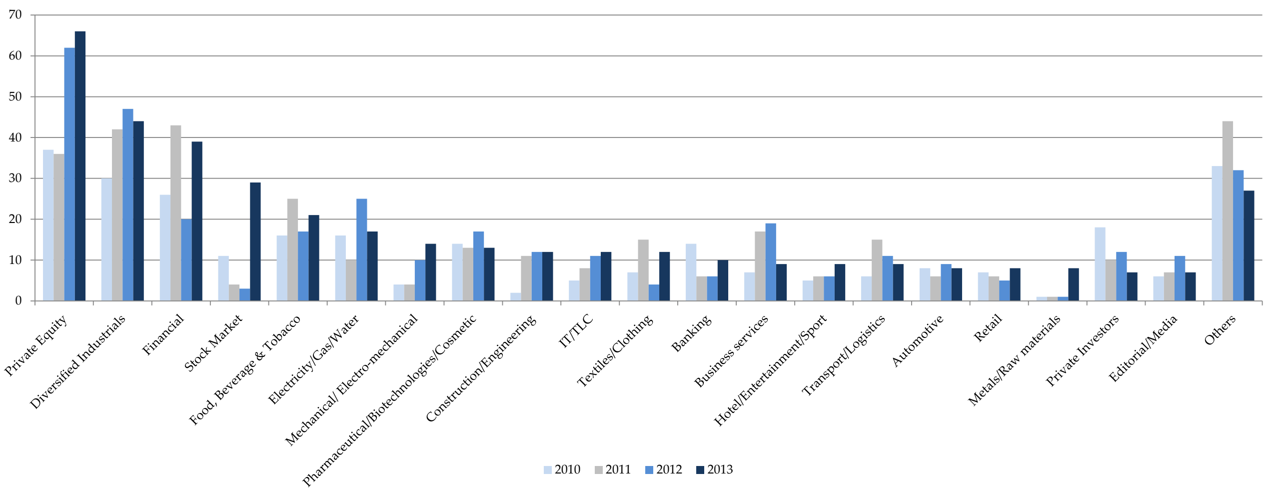
[Source: KPMG Report M&A 2014]

As previously outlined, currently many Italian businesses need funding to finance new projects. In this context, certain Private Equity operators and in particular those specialised in development capital and/or expansion capital have played and may continue to play a key role, financing development and expansion both in Italy and abroad, with business owners not needing to sell their companies as the financial resources for industrial projects are no longer available, nor dispose of their businesses in fear of what the future will bring.

From this viewpoint, Private Equity operators may act in partnership (often as a minority investor) together with family owners (the founder or subsequent generations), in order to lay the basis for a future growth phase, also in parallel with generational transfer, with these developments possibly accompanied by a reconsideration of the ownership structure and finally a stock market listing.

In particular Private Equity and stock market listing in differing configurations may prove to be the true catalyst for the development of Italian business and finance, playing a crucial role in driving the growth of medium-sized enterprises and encouraging the adoption of more modern governance structures, in addition to protecting all those key Italian features of our businesses.

GRAPH 9 – ANALYSIS BY BIDDER SECTOR BETWEEN 2010 AND 2013



[Source: KPMG Report M&A 2014]

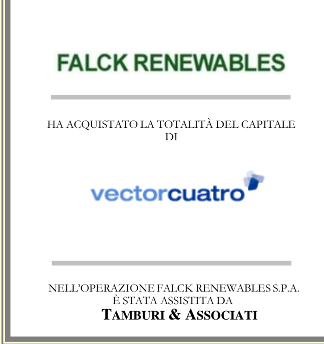
The preceding analysis has demonstrated that companies undertaking acquisitions have become over the years, or have further strengthened their position, as true market or sector leaders and on occasion certain types of Private Equity have made a key contribution to essential operations to strengthen the fabric of Italian business.

Obviously these operators require an approach, long-term vision and technical-corporate abilities which allow investees over time to complete the mergers related to the operations carried out.

In this regard it is also underlined that, within the private equity sector, we must distinguish between operators more interested in the true well-being and development of the target, therefore its future development, and those who have sought or seek to serve the more selfish objectives of the managers or the financial operators themselves, even putting the solvency of the investee and on occasion, of subsidiaries, at risk.

T.I.P. - Tamburi Investment Partners S.p.A.

Selection of recent M&A operations



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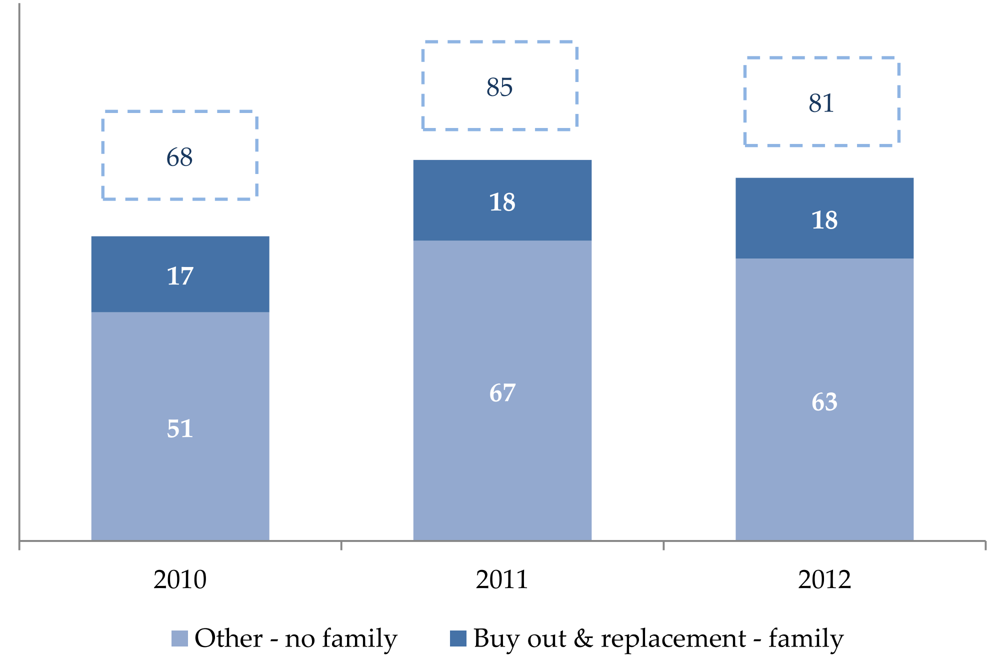
CHAPTER 6

Financial partners and Private Equity

The many references thus far to private equity lead us to explore this complex category of operators, also due to the fact that across most of the western world the impact of financial partners has been considerable over the last thirty years. In Italy less so.

An EVCA (European Private Equity and Venture Capital Association) study highlights that at European level investments by financial partners have resolved ownership continuity issues in 31% of cases and ensured continued family control in 32% of the cases analysed.

Graph 1 – Development of buy-outs of family owned businesses in Italy



[Source: Finlife – Private equity as an alternative solution for generational transfer in family businesses]

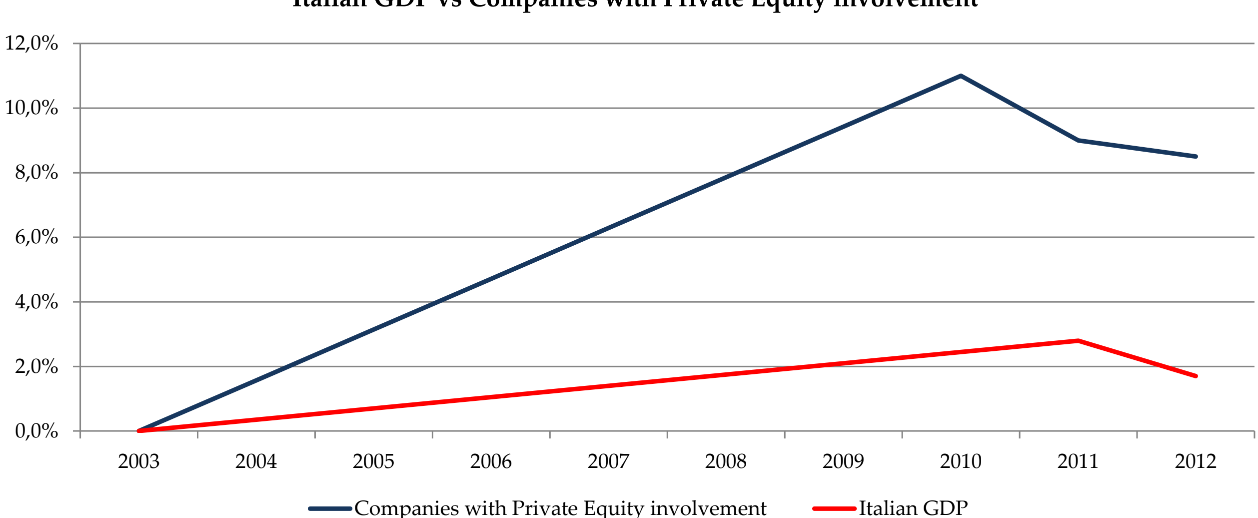
In purely theoretical terms the involvement of a financial partner should always have a positive impact and in fact a non-industrial partner in summary may:

- Provide financial support for future investment necessary for the growth and/or survival of the company;
- Flank the company to develop international expansion;

- Reorganise or improve governance;
- Ensure continuity and future development, also in the absence of successors;
- Buy out shareholders no longer interested in involvement, taking on their holdings without forcing the remaining shareholders to divest;
- Enable a sufficient level of ownership and control of family members not interested in undertaking leadership responsibilities.

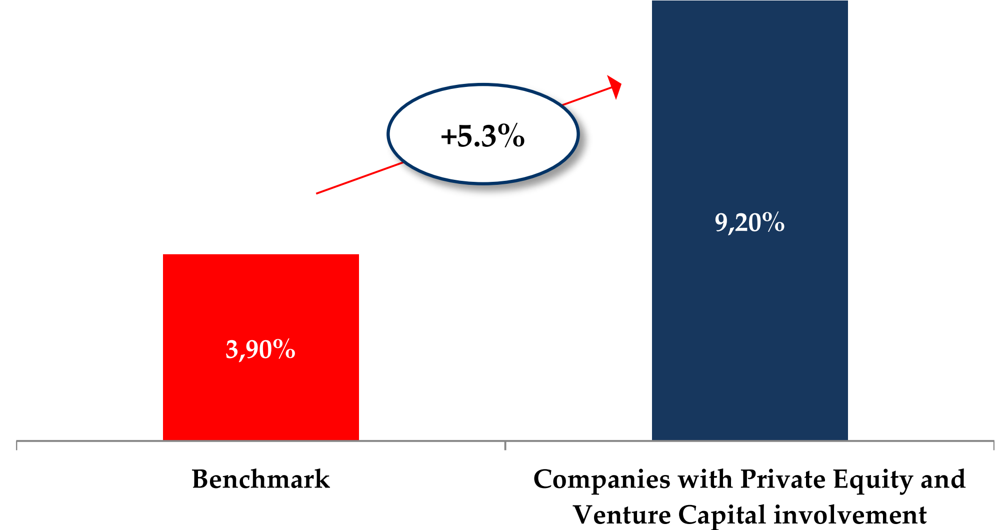
A Mediobanca study, backed up also by analyses carried out by PriceWaterhouseCoopers, indicates that, of a sample of over 2 thousand companies, revenue growth over a ten-year period was over 5% higher annually for companies with the involvement of a financial partner.

GRAPH 2 – ITALIAN GDP VS COMPANIES WITH PRIVATE EQUITY CAPITAL INVOLVEMENT



[Source: "Economic impact of Private Equity and Venture Capital in Italy" PWC, March 2014]

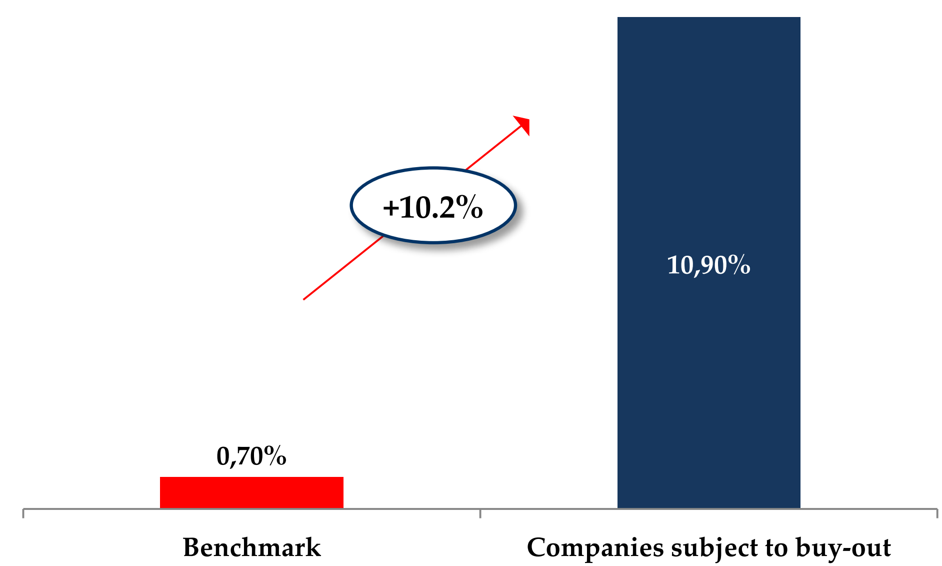
GRAPH 3 – REVENUE GROWTH 2003-2012 (CAGR % AVERAGE)



[Source: "Economic impact of Private Equity and Venture Capital in Italy" PWC, March 2014]

It terms of profitability, financial partner capital involvement can have a range of positive effects:

GRAPH 4 – EBITDA GROWTH 2003-2012 (CAGR % AVERAGE)

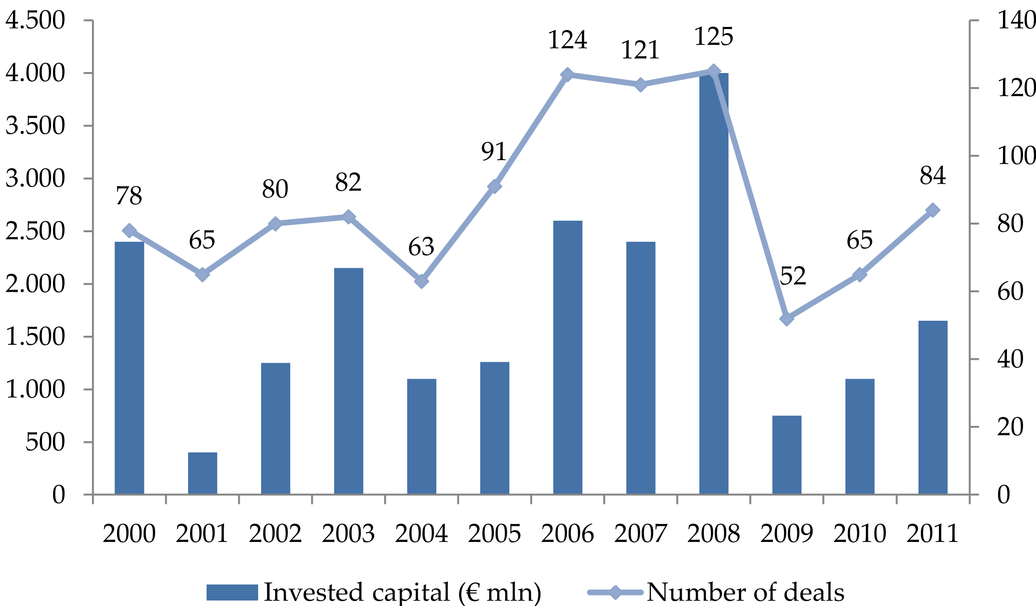


[Source: "Economic impact of Private Equity and Venture Capital in Italy" PWC, March 2014]

Unfortunately, the above figures are certainly impacted by the emergence of revenues previously not declared and even more so by profits which Italian businesses often decided not to declare and which, in theory, should be excluded from the analysis. It is however clear that the impact of private equity was very positive at least in terms of the progressive transparency and correctness of the accounts. Also in terms of improved revenues and margins the effects were positive.

The number of private equity operations in Italy is reported in the graph below.

GRAPH 5 – PRIVATE EQUITY OPERATIONS IN ITALY



[Source: AUB Research Centre – Bocconi University]

At this point it is necessary to make a clear distinction between the various types of financial partners.

Private equity is traditionally considered as specialised in management operations and/or leveraged buy-outs, while the category is in reality much broader.

A leveraged buy-out is an operation through which the financial operator acquires a company, while seeking to utilise as much as possible the existing resources within the company itself. Clearly these operations have often delivered excellent results for inefficient or poorly managed companies, but also in many cases have put into difficulties previously sound companies.

Also according to the Bocconi research centre, buy-out operations represented in the period between 2000 and 2011 75.8% of invested capital and 54.6% of operations.

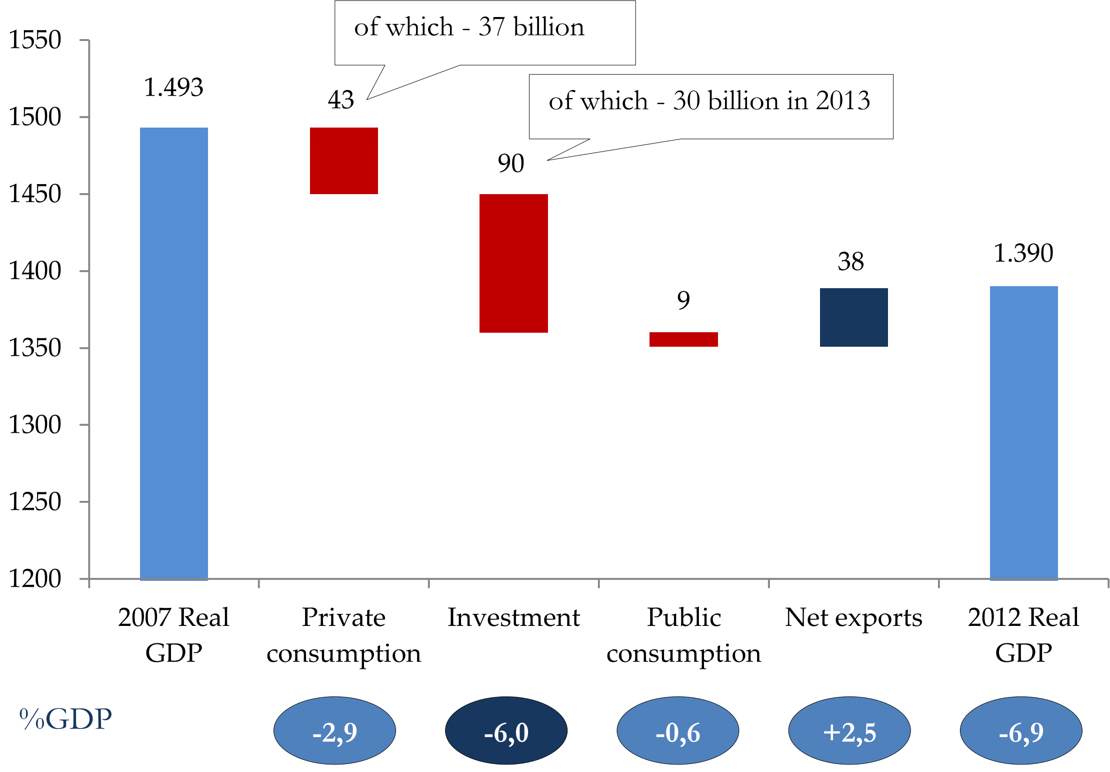
The goal of the present report is not however to assess the strength of certain categories of operations against others, but rather to suggest solutions for Italian enterprises which are systematically delivering results unrepresentative of their true potential, and on the other to come up with ideas in terms of the capital ownership of enterprises in view of the unsatisfactory structures evident in preceding chapters.

We must therefore analyse the necessary ingredients to solve these issues.

As noted, growth cannot take place without a significant uptake in investment.

An analysis carried out by McKinsey on investing in growth demonstrates that, against weaker GDP figures, Italy must prioritise business investment to recover at least part of the lost ground. The collapse in investment is in fact one of the main reasons behind the poor GDP performances over recent years.

GRAPH 6 – DEVELOPMENT OF REAL ITALIAN GDP (COMPARISON 2007 VS 2012)



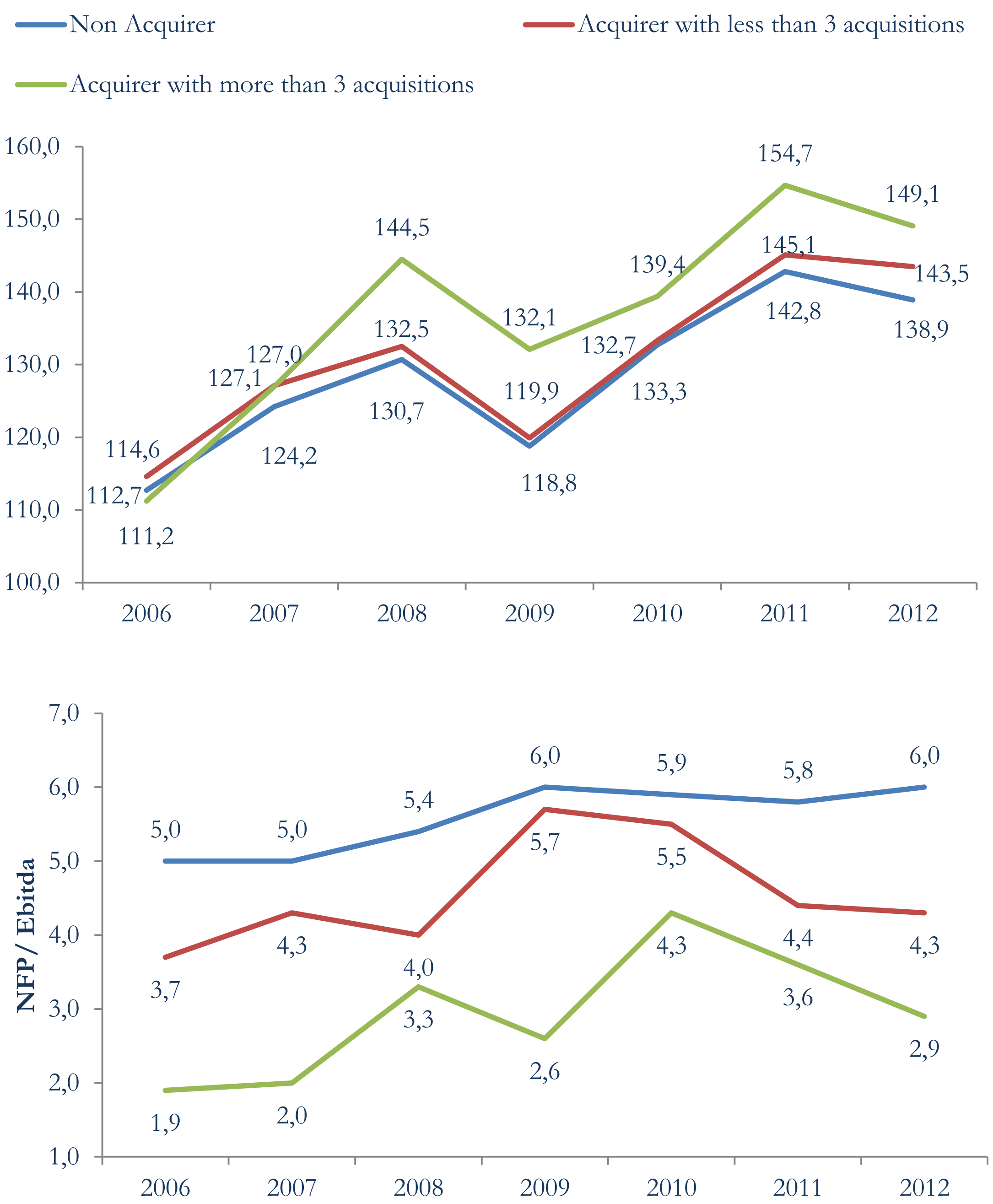
[Source: McKinsey – Investing in growth]

The Italian State, with its high debt levels, does not have at its disposal the necessary resources to stimulate the Italian economy through direct investment. Private investment must therefore step in and play a key role. Business owners and retail investors must therefore also play a key social role, promoting development and business growth.

If development, in addition to taking place through organic growth, is further boosted by corporate operations, capital increases and acquisitions and mergers principally, all the better.

Also according to the studies by the Bocconi Research Centre cited previously, businesses which have chosen to expand through a series of acquisitions have shown higher growth rates and better capital solidity over the long-term. From this viewpoint the choice to invest in growth not only brings benefits for the Italian economy as a whole, but also for individual businesses.

GRAPHS 7 AND 8 – GROWTH AND NFP/EBITDA OF BUSINESSES UNDERTAKING MORE THAN 3, LESS THAN 3 OR 0 ACQUISITIONS.



[Source: AUB Research Center - Bocconi University]

Financial partners can and must have a major input and provide the spark to businesses who truly wish to pursue growth. The category of all those specialised in similar operations is defined as expansion capital or development capital.

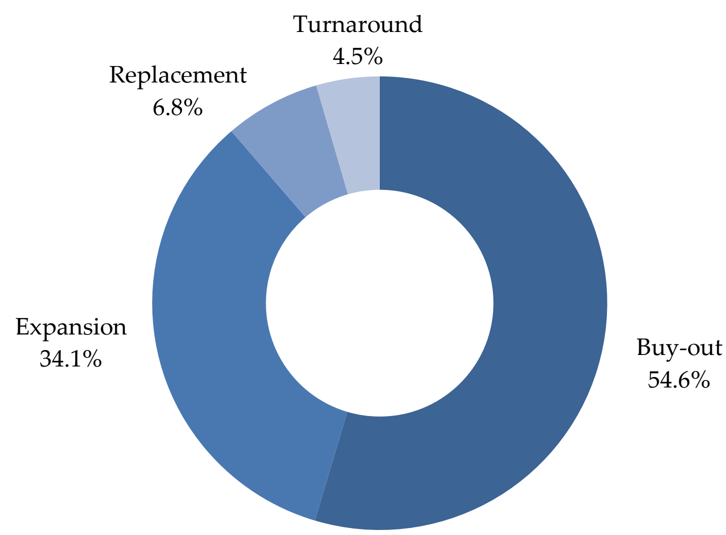
Generally operators in this category are those who focus on minority shareholding operations rather than those specialised in leveraged buy-outs, who in order to maximise the extraction of liquidity from the business normally undertake majority or complete holdings.

This occurs essentially as the companies considered most reliable, particularly in terms of putting in train an expansion plan, are those in which the majority owners are tenacious, well embedded and with a clear development plan. However they often lack the means to deliver it.

Those considered as expansion capital operations represented in the period between 2000 and 2011 34.1% of deals concluded and, with regard to invested capital, unfortunately only 13.8% of the total.

The number of majority and minority operations appear substantially similar.

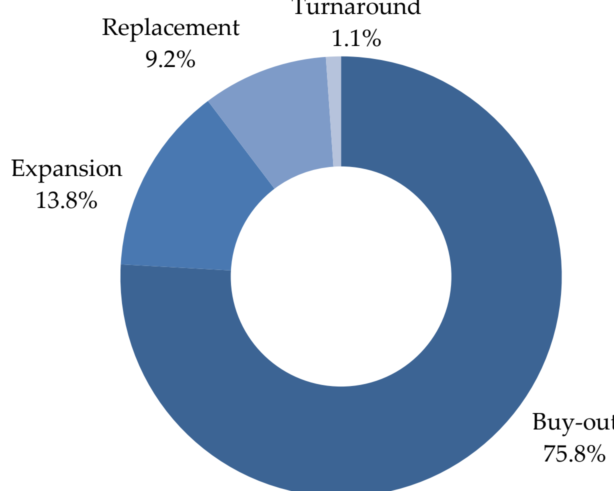
GRAPH 9 – NUMBER OF DEALS (%) BY TYPE OF PRIVATE EQUITY OPERATION



[Source: AUB Research Center - Bocconi University]

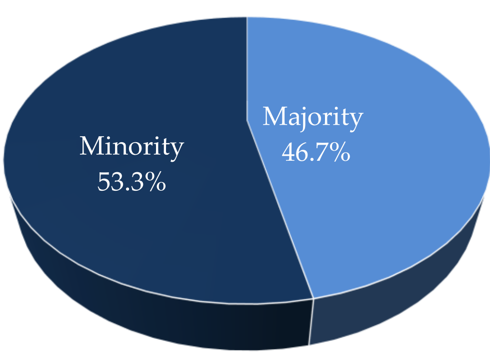
- *Buy-Out:* acquisition of a complete holding
- *Expansion*: undertaking of a holding through share capital increase
- *Replacement*: acquisition of a minority holding through the exit of a shareholder
- *Turnaround*: acquisition of control of a company in difficulty with a view to relaunch

GRAPH 10 – INVESTED CAPITAL (%) BY TYPE OF PRIVATE EQUITY OPERATION



[Source: AUB Research Center - Bocconi University]

GRAPH 11 - TYPE OF PRIVATE EQUITY OPERATIONS (MAJORITY VS MINORITY)



[Source: AUB Research Center - Bocconi University]

Also in terms of the range of operations, the latest AIFI data and concerning the first half of 2014 gives us a snap shot of the current private equity market in Italy.

Firstly, we can see that approx. 69% of the acquisitions concern companies with revenues of less than Euro 50 million, highlighting the greater focus of operators on small and medium/small enterprises.

Furthermore, buy-out operations increased (+25%) with even stronger growth of expansion operations (+69.5%), reaching a total value of Euro 703 million. This figure undoubtedly points towards in the first six months of 2014 the significant focus of operators, both foreign and Italian, on the acquisition of minority shares with a view to business development.

For minority operations we highlight that for Italian businesses with revenues of greater than Euro 50 million, growth on average over the three years before the entry of a financial operator and for the three subsequent, was:
- revenues +58%;
- employees +126%;
- total assets +91.5%;
- net equity +70.6%;
- EBITDA +54.9%.

This very clearly underlines the positive effect of the undertaking of a minority holding by a financial operator in an industrial or commercial business.

A further breakdown was then made: companies with financial partners who thereafter decided to undertake a stock market listing. The following table lists these companies.

TABLE 1 – COMPANIES WITH FINANCIAL PARTNERS WHICH SUBSEQUENTLY CHOSE TO LIST

Company	IPO date	Sector	Offer value (€ mln)
Chl	06/02/2000	ICT	43,79
Fmr Art'è	31/05/2000	Services	51,76
Ferretti	23/06/2000	Industrial	152,87
Euphon	04/07/2000	Publishing/Media	87,58
Biosearch	31/07/2000	Biotechnology	160,65
Inferentia	01/08/2000	ICT	41,4
Acotel Group	09/08/2000	ICT	44,91
Buongiorno Vitaminic	12/10/2000	ICT	31,2
Datamat	12/10/2000	ICT	184,71
Novuspharma	09/11/2000	Biotechnology	200
El.En	11/12/2000	ICT	35,08
Engineering	12/12/2000	ICT	99,74
Dmail	22/12/2000	Retail	25,38
Cardnet group	02/03/2001	ICT	27,06
Giacomelli	04/07/2001	Retail	37,07
Campari	06/07/2001	Food & Beverage	424,69
Negri Bossi	06/11/2001	Industrial	31,88
Astaldi	06/06/2002	Construction	127,72
Isagro	05/11/2003	Chemical	16
Trevisan Cometal	05/11/2003	Industrial	35,46
Dmt	22/06/2004	ICT	84
Panaria Group	19/11/2004	Retail	88,7
Rgi	25/11/2004	ICT	3,89
Igd	11/02/2005	Industrial	152,25
Marr	21/06/2005	Retail	175,56
Guala Closures	22/11/2005	Industrial	156,63
Eurotech	30/11/2005	ICT	29,42
Safilo Group	09/12/2005	Fashion & Luxury	686
Eurofly	21/12/2005	Transport	40,32

[Source: paper «Private equity and enterprise growth: an Italian perspective» International Journal of Entrepreneurship, volume 17, 2013]

The companies on the list reported above had average revenue growth of 27% in the period considered (1998-2007), 6.6% ahead of a sample of specifically selected comparable companies.

Of even greater significance was EBITDA growth of 18%, higher than the 4% of the comparable sample.

The extremely positive role of a financial investor in terms of the expansion and profit growth of businesses, also in Italy, is therefore once again without doubt.

Unfortunately, we must also consider, for full transparency and correctness, that a number of the companies on the previous list did not have an altogether positive stock market experience and in fact, subsequent to listing, suffered problems, sometimes also structurally and related to an inappropriate equity – financial structure.

Most of these cases related to the involvement of financial partners more focused on short-term speculation than real medium/long-term development.

Therefore the choice of the most appropriate financial partner is of crucial importance.

T.I.P. - Tamburi Investment Partners S.p.A.

TIP key numbers at November 30, 2014

- Investments (including club deals): Euro 1.2 billion.
- Current investments in: 8 global leaders, in addition to others.
- Aggregated revenues of investees: over Euro 11 billion, of which approx. 80% overseas.
- Direct employees of the investees: over 40,000.
- Average EBITDA margin of the main investees: over 16%.

Over recent years, the sector breakdown of investments has been:

- Technology: between 25% and 41%
- Luxury / design: between 12% and 26%
- Healthcare / retirement homes: between 11% and 17%
- Other sectors: between 16% and 26%
- Liquidity: between 4% and 16%

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CHAPTER 7

THE LUXURY, FASHION AND FURNITURE AND "MADE IN ITALY" SECTOR

INTRODUCTION

Any analysis of the ownership structures of Italian enterprises must delve into the Made in Italy sector and in particular the luxury, fashion and design sector - that class of enterprises featuring famed brands and products which are almost always destined for the consumer market and which for many years have represented and supported the Italian economy as a whole. The strategic importance of this sector, together with the mantra of journalists and so-called experts of an Italy for sale, claiming that the country has sold off the major brands in this sector, require us to pay particular attention to developments here.

Firstly, we will briefly analyse general global trends, those which are apparent in Italy, mergers and acquisitions which in some manner have involved Italian companies, new stock market listings in recent years and more generally the development of corporate ownership structures.

FASHION & LUXURY: SOME NUMBERS

The 2014 preliminary figures for the luxury sector seem to belie the predictions for the sectors decline which - at least on first analysis but also in the past and on certain occasions - has often been brought up in the wake of events such as significant currency fluctuations, sluggish economic recovery and the persistent weakness of the European economy.

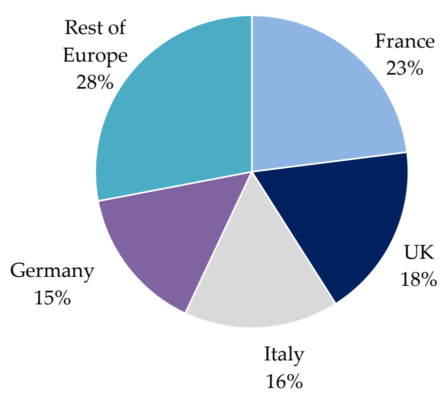
The most recent crises concerning the geopolitical tensions between Russia and Ukraine, the Malaysian Airlines disasters, the Hong Kong protests (and the impacts in terms of reduced tourist numbers and the poorer image of China) and the ongoing crisis in the Middle East seem to have no detrimental effect on a world which seems to be very different from other sectors.

The personal luxury goods market in fact grew on 2013 (+2% at current rates, +5% at like-for-like exchange rates), for an estimated value of approx. Euro 223 billion - growth which according to the 2014 Bain & Company Global Luxury Study was principally driven by stable demand among Chinese consumers and renewed interest in luxury goods on the mature markets – the US and Japan primarily.

The Chinese are clearly the largest nation of luxury good consumers and present a certain peculiarity: the amount they spend on luxury goods abroad is triple the amount spent on their own domestic market. They are the top spending tourists in Europe, representing 27% of tax free shopping, contributing in value terms approx. Euro 40 billion (source: Global Blue); tax free purchases by the Chinese in 2014 increased 11% on 2013 and expectations for 2015 are for further growth of between 5 and 10%.

The following graph and table break down by country the European tax free shopping market and the principal drivers and features of the leading four countries in terms of tourist flows.

GRAPH 1 – BREAKDOWN BY COUNTRY OF EUROPEAN TAX FREE SHOPPING (SEPTEMBER 2014)



[Source: Global Blue]

We have highlighted this aspect, as in addition to its scope, tax free shopping, together with internet sales, are progressively breaking down the barriers of where shoppers are inclined to make their purchases. This represents, in addition to a specific sector feature, a type of structural shift which we need to consider.

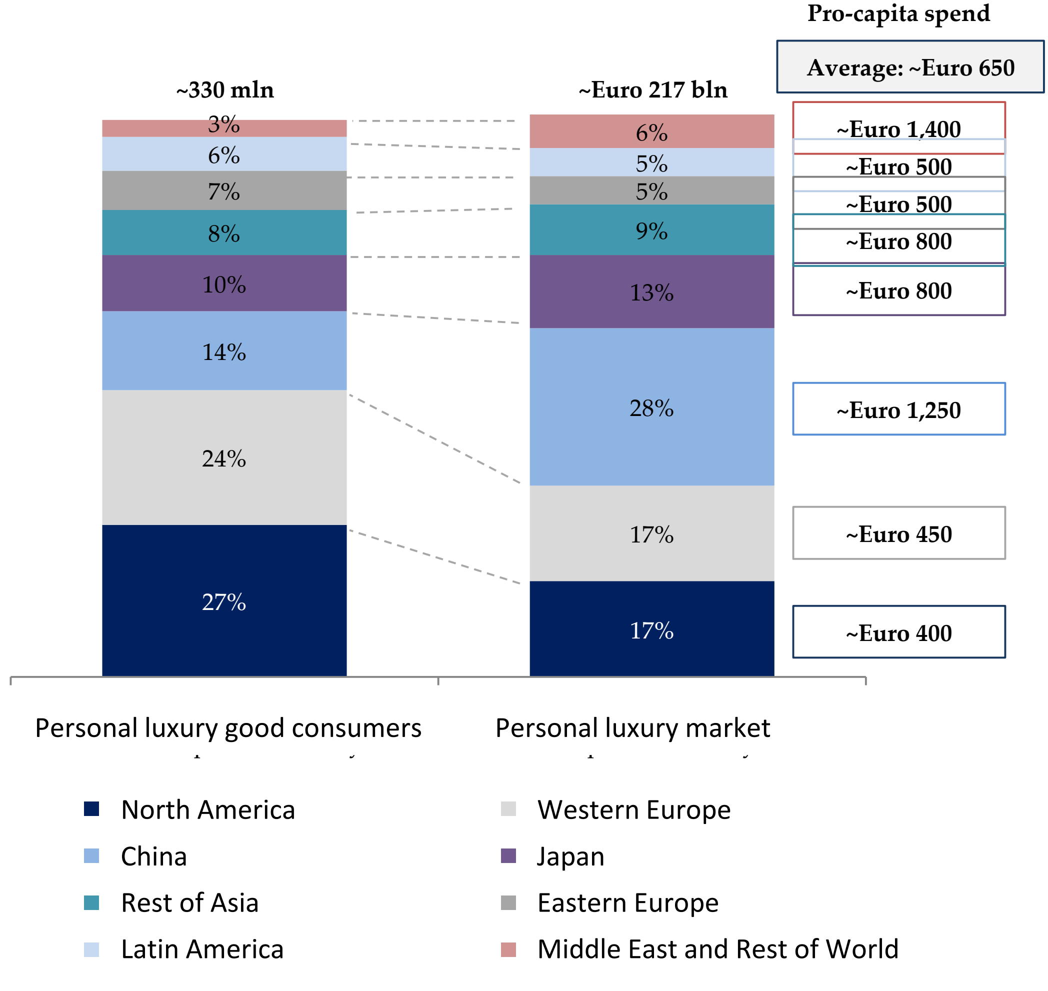
TABLE 1 – PRINCIPAL DRIVERS AND FEATURES OF THE TAX FREE MARKET IN THE LEADING FOUR EUROPEAN COUNTRIES

Country	% of European tax free shopping market *(first 9 months of 2014)*	Drivers
France	23%	· France was again the preferred destination of international global shoppers in 2014 (thanks to the contained percentage of Russian tourists). · The top spenders in France are the Chinese (35% of sales); followed by the Americans (5%), Hong Kong citizens (4%) and the Japanese (4%) (this latter contracting 15%).
UK	18%	· The top spenders in the UK are Middle Eastern tourists (28% of sales); they are followed by the Chinese (25%), whose numbers are expected to increase over the coming months due to the greater ease in VISA processing.
Italy	16%	· In Italy Russian tourists are the top spenders and – despite a reduction of 8% in the first 9 months of 2014 – represent 26% of the market. · The Chinese are the second largest category for tax free purchases in Italy (22%) and report the highest growth in numbers among tourists (+15%). · The Japanese (4%), in Italy as is the case throughout Europe, have seen numbers of purchases decline (-9%). · Koreans (4%) reports the highest growth rates (+23%) thanks to the strength of the Won and the interest in outlets.
Germany	15%	· The German tax free market has contracted due to the poor performance of the jewellery and watches sector caused by the reduction (-11%) of Russian tourists. · Chinese are the top spenders with 33% of German tax free sales.

[Source: Global Blue, Tax free consumption in the EU 2014]

Average luxury good spend per head for Chinese shoppers is approx. Euro 1,250, approx. double the pro-capita average for luxury goods at a global level (Euro 650).

GRAPH 2 – BREAKDOWN BY NATIONALITY OF LUXURY GOODS CONSUMERS AND MARKETS



[Source: Bain & Company]

The Chinese may certainly be considered as purist consumers, polarised between the high-end luxury and accessible luxury categories. This latter sector in particular attracts the so-called wannabe consumers, those mid-range aspirational consumers whose numbers are expected to double in China by 2017. Chinese luxury good consumers over recent years have seen the most vibrant growth rates - one need only consider that in 2000 Chinese luxury good consumers represented only 2% of the global total (compared to 28% in 2013), while by 2025 they are expected to make up over 45% (source: Pictet Asset Management reworkings on Goldman Sachs Research Estimates 2012), becoming therefore by far the largest nation of luxury good consumers.

There is also significant potential for retail penetration in China: currently for every one million inhabitants there are only 0.3 luxury goods stores compared to 2 per million in the United States and 2.3 per million in Japan (source: Pictet Asset Management, 2013), leaving therefore significant room for the growth of the local market.

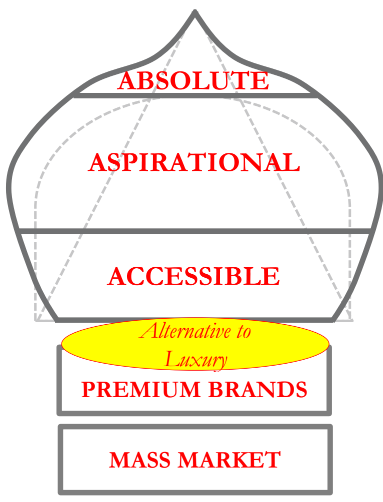
These figures reveal also an additional feature of the luxury market: it is highly influenced by tourist numbers, in which the nationality of the consumer assumes greater importance than the place of purchase and in which trips must be seen by sector operators as an integrated shopping experience using various channels (traditional and online) and at various times during the trip and in which also the concept of seasons is gradually losing significance while the centrality of the consumer and the product offer at global level undertake greater importance.

Tourism accounts for 40% of total luxury good spend globally and 50% in Europe.

Consumers in the more mature markets (USA and Japan) added a further driver to market growth in 2014 despite curtailed luxury product budgets, with greater consideration paid to the quality – price ratio.

This shift has resulted in (i) growth of sales in the high-end of the premium segment, (ii) the growth of the second-hand luxury good market (today worth Euro 16 billion), (iii) increased number of outlets (doubling their market penetration in three years) and becoming true and proper destinations for dedicated shopping trips and (iv) the expansion of the Alternative to luxury segments i.e. upper premium brands which aspire to the luxury segment and promote an image and a status level higher than the actual product quality, whose positioning is reported, for purely indicative purposes, in the graph below.

GRAPH 3 – LUXURY MARKET SEGMENTS



[Source: TIP workings on Bain & Co. rankings]

The US has been the main luxury goods market since the 1960's and today is worth Euro 62.5 billion, with a growth rate since 2010 of 6% annually.

The major high-end product shopping cities are New York (generating a third of such product sales in the country), Los Angeles (and in particular Beverly Hills), San Francisco and the cities of Florida, Boston and Chicago. In Japan however, high-end product sales totalled Euro 17.2 billion in 2013 (with growth expectations this year of 9%); clearly the depreciating Yen (-15%) has led to a significant rise in spending by the Japanese on their domestic market and a simultaneous reduction overseas.

Tokyo and New York are recognised internationally as among the top locations for extreme high-end luxury shopping.

In summary, in 2014 personal luxury sector sales reached Euro 223 billion compared to Euro 220 billion in 2013, with an estimated number of consumers at 380 million, representing 5.3% of the global population and expected to exceed 400 million by 2020.

The results also of a study carried out by the Altagamma Foundation in partnership with the main corporate banks and Italian and international consultancy companies indicate an expected growth rate for the global luxury market of 5%, broken down by region and product type as follows:

TABLES 2 AND 3 – LUXURY MARKET GROWTH EXPECTATIONS FOR 2015 BY REGION AND PRODUCT CATEGORY

Region	Estimated 2015 growth
Europe	+4,0%
North America	+4,0%
Latin America	+4,0%
Japan	+5,0%
Asia	+6,0%
Middle East	+6,0%
Rest of World	+6,0%

Product category	Estimated 2015 growth
Clothing	+4,0%
Art de la table	+1,0%
Jewellery & watches	+5,0%
Leather goods, shoes & accesso	+6,0%
Perfumery and cosmetics	+4,0%

[Source: Altagamma - Forecast on the Worldwide Personal Luxury Goods Industry in 2015]

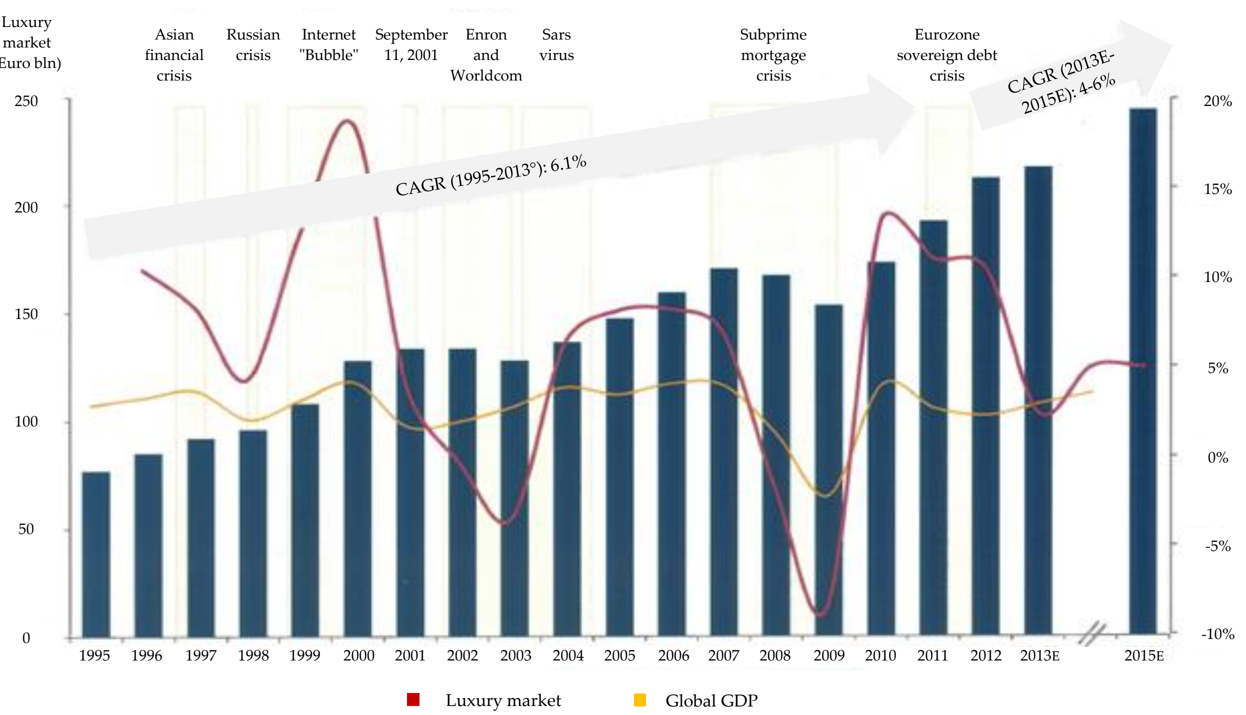
Sector analysts consider the trends outlined at the opening of the chapter as indicative of solid growth, certainly less vibrant than in the past but most likely to be more sustainable over the medium-term with the ironing out of potential distortions and also following the policies undertaken by the Chinese government to fight corruption.

We can therefore see the potential effect which may be generated by luxury consumer goods spending.

The most noteworthy feature of the luxury goods market is its resistant to economic cycles, with spending remaining robust amid challenging general economic conditions.

The following graph outlines the development of the global luxury goods market since 1995: in the period we see only two (slight) drops, the first relating to 2001-2003 (following the dot com bubble and the September 11 attacks, in addition to the Worldcom and Enron scandals) and the second between 2008 and 2009 in the wake of the subprime mortgage crisis and all that emerged in terms of questionable financial practices. Including also the drops in the market in these two periods, the luxury sector between 1995 and 2013 saw annual average growth of over 6% - a truly remarkable figure and central to our understanding of the dynamics operating within the sector.

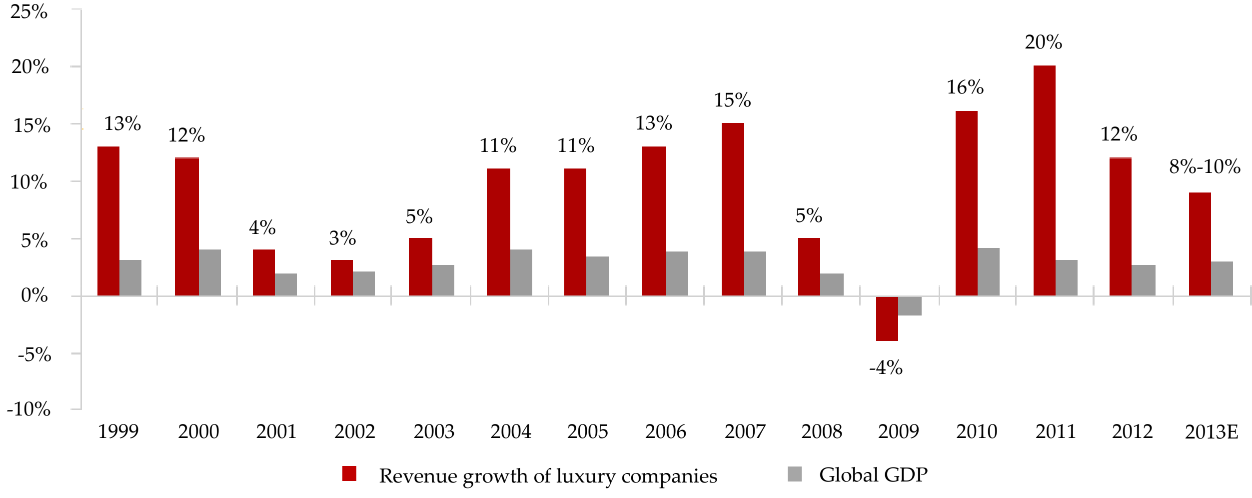
GRAPH 4 – GLOBAL LUXURY MARKET DEVELOPMENT (1995-2015)



[Source: Bank of America Merrill Lynch - luglio 2014]

The resilience of the global luxury goods market is again demonstrated by the fact that, as outlined in the following graph covering the 1999-2012 period, the revenue growth of luxury goods sector companies has been consistently and significantly ahead of global GDP growth.

GRAPH 5 – CAGR OF THE REVENUES OF A PANEL OF LUXURY GOOD COMPANIES VERSUS GLOBAL GDP GROWTH.



[Source: Pictet Asset Management (October 2013) on the basis of company reports (July 2013) and Citi Investment Research Analysis (January 2013)]

Over the years luxury market growth has been driven in particular by the increasing number of consumers within the aspirational category.

As the following graph which tracks the development of the number of consumers for the years 1995, 2000, 2005 and 2013 points out, the traditional pyramid which graphically represents the stratification of the various luxury segments over the years has become distorted, due to (i) the increased number of consumers belonging to the accessible luxury category, (ii) the explosion of consumer numbers in the aspirational category and (iii) the slight increase in the number of consumers within the absolute luxury segment, linked also to the growth of the aspirational segment.

Extending the analysis to the years 2014/2015, the Alternative to Luxury category is added which, as mentioned at the beginning of the chapter, is made up of upper premium brands which aspire to the luxury segment and which are attracting large numbers of consumers on the mature markets.

GRAPH 6 – DEVELOPMENT OF THE LUXURY MARKET SEGMENTS (1995-2013)

Millions of consumers
~90
ABSOLUTE
ASPIRATIONAL
ACCESSIBLE
~140
ABSOLUTE
ASPIRATIONAL
ACCESSIBLE
~250
ABSOLUTE
ASPIRATIONAL
ACCESSIBLE
~330
1995
2000
2005
2013E

[Source: Bain & Company]

Another development which requires highlighting concerns the retail sale of luxury goods. Investment in the retail channel has been shown to "pay-off" for the luxury sector: the results of the Fashion & Luxury Insight study carried out by SDA Bocconi highlight that, on the basis of a sample of clothing sector companies, on average the retail-oriented companies report better results and profit indicators than wholesale-oriented companies, a trend which is confirmed over time.

TABLE 4 – PROFIT AND EQUITY INDICATORS OF RETAIL-ORIENTED AND WHOLESALE-ORIENTED COMPANIES IN THE CLOTHING SECTOR

Results by distribution channel - clothing							
	CAGR revenues	CAGR sales points	EBIT margin (%)	ROI	Rotations of assets	Cash flow/ revenues	NWC/ revenues
Retail-oriented	11,9%	16,6%	17,5%	16,2%	0,93	15,8%	17,8%
Wholesale-oriented	6,8%	20,2%	10,4%	14,8%	1,38	9,1%	20,9%

[Source: «Fashion & Luxury Insight», SDA Bocconi]

However by 2013 the increasing number of sales points, both direct and franchises, of luxury sector brands appears to have come to an end: growth on the previous year was only 3% - the lowest number since 2007. Also sales on the retail channel in 2013 slowed somewhat, reporting growth of 3.5%, well below the 8.7% seen in 2012. Looking however to the ratio between capital expenditure, principally concerning the retail sector, and depreciation of luxury good businesses in 2013, this indicator in fact increased, with a ratio of 168.6% compared to 147.6% in 2012. This indicates that in 2013 luxury good players invested, but focused more on refurbishment/improvements to their existing sales points rather than on opening new stores. Although retail level sales have decreased, for a number of years personal luxury has found a new quickly expanding channel: e-commerce. Online personal luxury sales in fact reported annual average growth for the 2011-2014 period of 28%, while since 2003 - both through the official websites of sector companies and through multi-brand portals such as Yoox and Net-a-Porter - sales have increased nearly ten-fold (+880%), from approx. Euro 1 billion to approx. Euro 10 billion in 2013.

THE ITALY OF LUXURY

In Italy, personal luxury goods sales amount to Euro 16.1 billion, 7.3% of the global total.

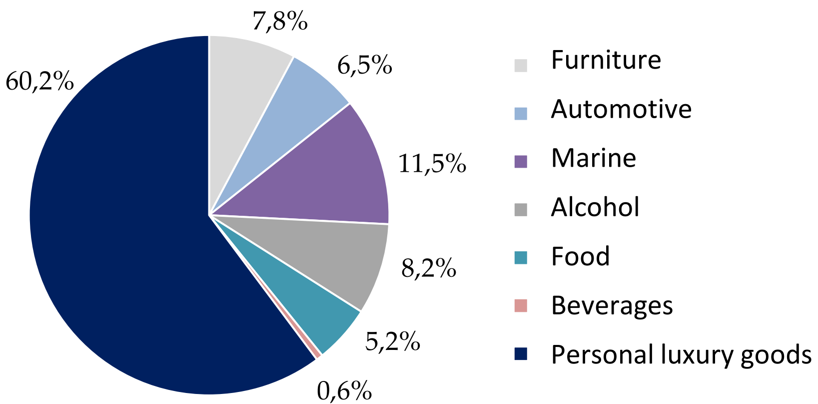
According to a study carried out by the CReSV Bocconi research centre in 2013 the total impact (in terms of direct and indirect employment) of the high-end segments (referring to the production of goods and services based on a philosophy of highly delivering upon consumer demands, not be confused with the concept of luxury which is a niche within the high-end sector) was evident with a base of 491 thousand jobs, equal to 2.14% of the total Italian workforce, while direct employment (the number of jobs created by these businesses themselves) generated approx. 174 thousand jobs.

Companies within the high-end segment have a greater export focus, with approx. half of their revenues coming from overseas.

In 2013, the level of exports by high-end product companies was Euro 23 billion, representing approx. 5% of total Italian exports.

The following graph provides a breakdown of exports by the individual high-end segments in 2013: as can be seen an absolute majority (60% of exports) stem from the personal goods category, which includes clothing, accessories and jewellery, while the other major segments were marine (11.5%), alcohol (approx. 8%) and furniture (approx. 8%).

GRAPH 7 – BREAKDOWN OF HIGH-END GOODS EXPORTS (2013)



[Source: CReSV on Aida figures (January 2014]

Globally, approx. 150 major players (and expected to number nearly 200 in the relatively near future) operate in the luxury goods market and with only a very few exceptions are either French or Italian enterprises.

In a recent study 75 top sector global players were identified: of these 23 were Italian, representing therefore almost a third of the sample. The following tables break down by nationality the 75 top luxury global players and list the 23 Italian groups considered in the study.

TABLE 5 – BREAKDOWN BY NATIONALITY OF THE 75 TOP LUXURY SECTOR PLAYERS

Country	No. companies	Average cost of luxury goods	Share of top 75 companies	Share of top 75 companies - luxury goods
Italy	23	1.391	30,70%	18,60%
France	11	4.275	14,70%	27,40%
USA	17	2.433	22,70%	24,10%
Switzerland	6	4.608	8,00%	16,10%
UK	5	987	6,70%	2,90%
Spain	3	802	4,00%	1,40%
Other	10	*n.a.*	*n.a.*	*n.a.*

[Source: Deloitte & Touche, Global Powers of Luxury Goods (2014)]

TABLE 6 – LIST OF THE 23 LEADING ITALIAN LUXURY GROUPS

Position among 75 top players	Company	2012 revenues from luxury goods (USD mln)	2012 growth	2012 Net profit margin	CAGR sales of luxury goods (2010-2012)
4	**Luxottica**	9.113	13,9%	7,7%	10,6%
14	**Prada**	4.251	29,0%	19,2%	26,9%
20	**Giorgio Armani**	2.689	15,8%	9,3%	14,9%
23	**Only the Brave**	1.904	9,6%	4,5%	6,3%
26	**Max Mara Fashion Group**	1.665	2,1%	5,1%	3,2%
27	**Ermenegildo Zegna**	1.621	11,9%	10,3%	14,4%
28	**Safilo Group**	1.512	6,7%	2,3%	4,3%
29	**Salvatore Ferragamo**	1.483	17,1%	10,9%	21,5%
32	**Tod's**	1.267	8,3%	14,8%	10,5%
33	**Dolce & Gabbana**	1.216	-13,3%	7,3%	-7,7%
38	**Loro Piana**	806	13,0%	10,5%	14,4%
39	**Moncler**	802	21,5%	5,0%	20,6%
45	**Valentino Fashion Group**	590	15,9%	-13,3%	-3,4%
49	**Gianni Versace**	526	20,1%	2,3%	18,2%
52	**De Rigo**	473	-0,2%	2,5%	3,6%
57	**Brunello Cucinelli**	359	15,1%	7,9%	17,1%
59	**Aeffe**	327	3,3%	-1,3%	6,6%
64	**Marcolin**	275	-4,5%	2,8%	2,0%
67	**Canali**	249	15,5%	7,9%	11,4%
69	**Euroitalia**	243	-1,4%	6,0%	0,6%
70	**Roberto Cavalli**	237	3,3%	0,1%	3,2%
74	**Forall Confezioni**	194	2,2%	-2,4%	6,8%
75	**Pomellato**	188	6,0%	4,2%	13,9%

[Source: Deloitte & Touche, Global Powers of Luxury Goods (2014)]

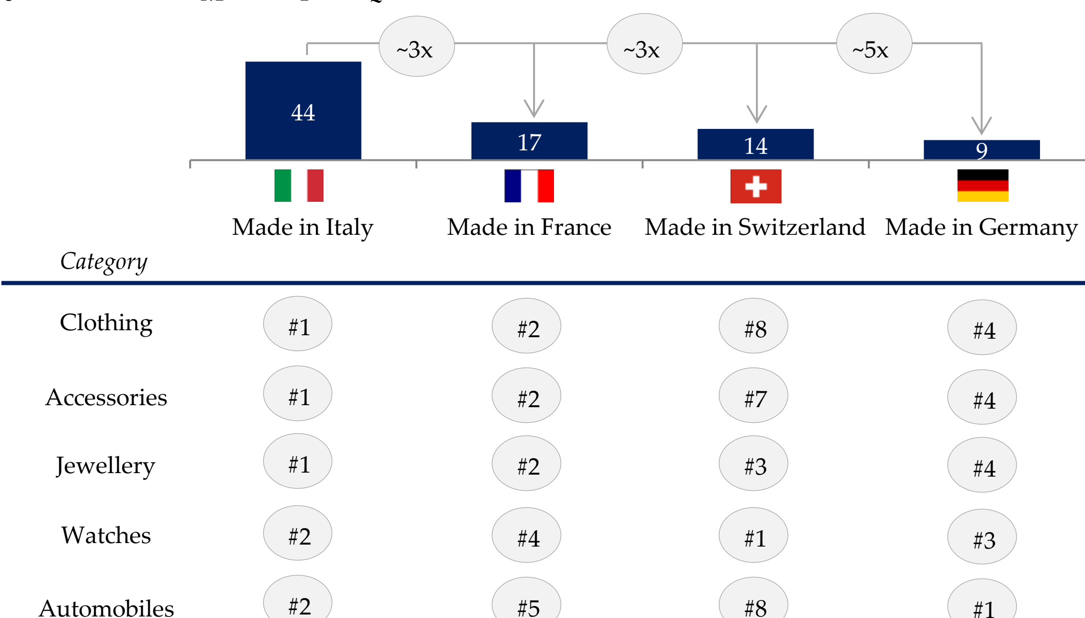
The perception of the quality of the Made in Italy brand according to a survey carried out by Boston Consulting Group in 2013 makes very good reading: Made in Italy is strongly recognised in first place (ahead of Made in France, Made in Switzerland and Made in Germany) in the clothing, accessories and jewellery categories.

The only product categories which Made in Italy do not dominate are watches (for which Made in Switzerland

traditionally has been seen as a hallmark of quality, reporting according to a research study carried out by Deloitte sales in 2013 of Euro 17 billion, with 2% growth on 2012 which is expected to continue also in the coming year), and the automobile sector which Made in Germany has always dominated with a few exceptions in the sports car segment, such as Ferrari, Maserati and Lamborghini.

This survey confirms that while the French are leaders in faire savoir, the Italians are leaders in savoir faire (know-how), with their immense wealth of skills, knowledge, design ability, highly refined taste and cultural heritage.

GRAPH 8 – PERCEPTION OF MADE IN ITALY QUALITY IN THE LUXURY GOODS SEGMENT



[Source: The Boston Consulting Group - 2013]

So far we have seen the undoubted strength of Italian enterprises in the sector, in addition to their attraction to acquirers, investors or anybody interested in such a sector which remains virtually untouched by economic cycles, all concentrated in a base of companies which even if reaching 200 would still remain a relatively limited group. And obviously one of unparalleled interest.

The reaction of the stock markets to the recent announcement by the Fiat-Chrysler group of the Ferrari spin-off is but the very latest demonstration of the significant appeal that the businesses, brands and operations in this sector present to Stock Market operators.

Luxury goods segment M&A activity

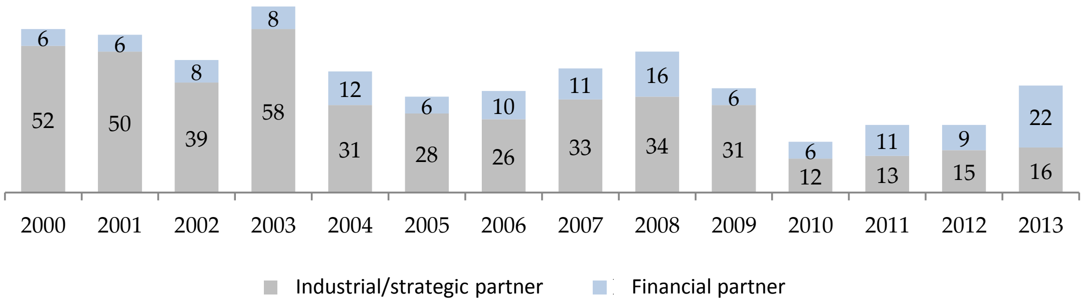
A sole statistic further demonstrates the level of energy and vitality which surrounds the Fashion & Luxury sector and the pull of the Italian players: since 2000 acquisitions of Fashion & Luxury sector Italian enterprises (including also branded goods retailers and producers of differing sizes and product categories) numbered over 570, of which 20% (approx. 100 operations) concluded in the past four years.

Considering that in the same 2000-2013 period, M&A operations in Italy totalled 6,076, the Fashion & Luxury sector represented approx. 9% of M&A activity in the period.

Over recent years, there has been a significant increase in acquisitions by financial partners rather than industrial/strategic partners.

This is highlighted by the fact that in 2000, of 58 transactions carried out, six were executed by financial partners (with industrial partners carrying out 52), while of the 38 operations carried out in 2013 financial partner acquisitions numbered 22, with industrial partners representing 16.

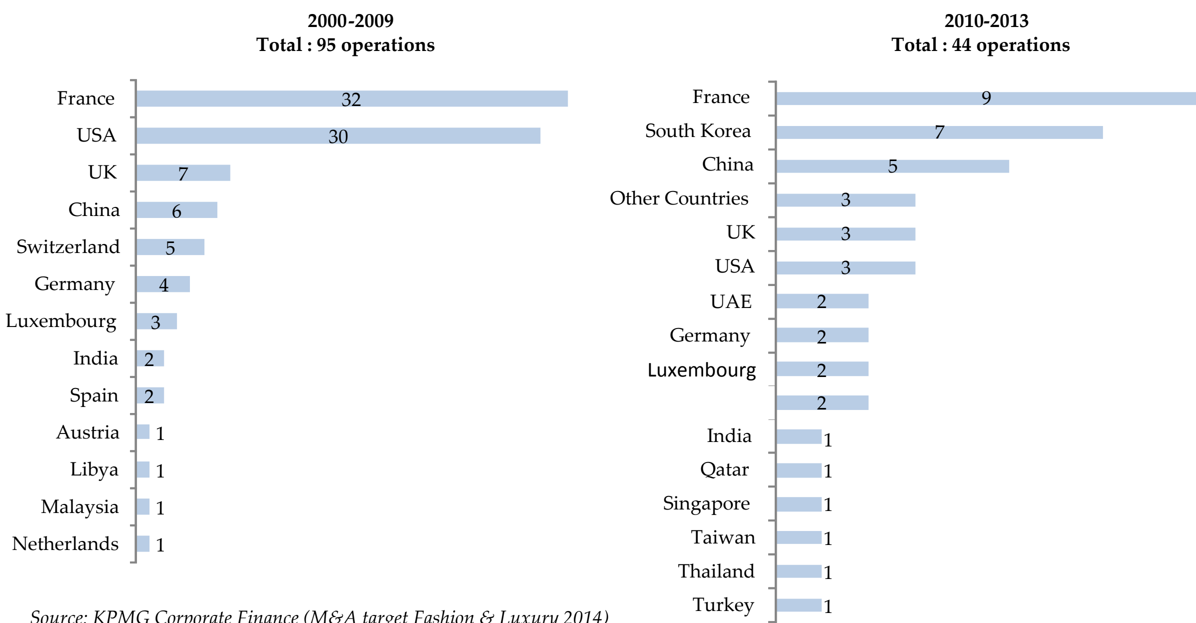
GRAPH 9 – ITALIAN FASHION & LUXURY SECTOR M&A MARKET (2000-2013)



[Source: KPMG Corporate Finance]

The shift in the location of Italian enterprise acquirers in the sector is a further interesting aspect; while in 2000-2009 foreign operators acquiring Italian enterprises were principally located in countries such as France, the United Kingdom and the United States, in recent years a gradual shift has been seen to acquisitions from the emerging economies such as China, South Korea, India and Thailand, also involving finance sector investors, such as for example families and sovereign funds in the United Arab Emirates, Qatar and Singapore.

GRAPH 10 – FOREIGN FASHION & LUXURY SECTOR M&A OPERATIONS IN ITALY (2000-2013)



Source: KPMG Corporate Finance (M&A target Fashion & Luxury 2014)

The major French groups have played a very central role in these operations and in particular LVMH and Kering, who have become natural integrators within the sector and with a goal no longer just to create, but to further strengthen in fact their position as global luxury sector hubs.

To name but a few of the major Italian luxury goods businesses which in recent years have been acquired by foreign operators, we cite Fendi (2001), Bulgari (2011) and Loro Piana (2013) by LVMH for a total value of approx. Euro 6.6 billion and the acquisition of Brioni (2012) and Pomellato (2013) by the Kering group (also French and previously Pinault-Printemps-Redoute) for a total of approx. Euro 570 million.

Of the companies acquired by Eastern/Asian operators however, we could cite Ferretti, now part of the Chinese group Shandong Heavy Industry and the acquisition of the Valentino Fashion Group by members of the Qatar royal family.

The following table outlines the 20 principal acquisitions of Italian Fashion & Luxury sector enterprises by foreign owners.

TABLE 7 – 20 LARGEST FASHION & LUXURY SECTOR M&A OPERATIONS BY FOREIGN ACQUIRERS IN ITALY (2000-2013)

Company acquired	Acquirer	Acquirer country of origin	Share	Value (Euro mln)	Year
Bulgari	LVMH	France	100,0%	4.300	2011
Loro Piana	LVMH	France	80,0%	2.000	2013
Valentino Fashion Group	Permira	UK	87,6%	2.271	2007
COIN Group	BC Partners	UK	100,0%	930	2011
Valentino Fashion Group	Mayhoola for Investment Spc	Qatar	100,0%	700	2012
Moncler	Eurazeo	France	45,0%	418	2011
Moncler	Carlyle Group	USA	48,0%	400	2008
Pomellato	Kering SA	France	81,0%	350	2013
Fila	Sport Brand International (Cerberus fund)	USA	100,0%	326	2003
Fendi	LVMH	France	15,5%	295	2001
Bulgari	Singapore Investment Corp. Pte Ltd	Singapore	0,8%	238	2001
Brioni	PPR Pinault Printemps Redoute SA	France	100,0%	218	2012
Marcolin	PAI Partners	France	78,6%	208	2012
La Rinascente	Central Retail Corporation	Thailand	100,0%	205	2011
Conbipel	Oaktree Capital Management	USA	100,0%	200	2007
COIN Group	Bellini Investimenti	France	62,9%	181	2005
Ferretti	Shandong Heavy Industry Group Ltd	Cina	75,0%	178	2012
La Perla	JH Partners LLC	USA	70,0%	160	2007
Jeckerson	Stirling Square Capital Partners	UK	100,0%	125	2008
Antichi Pellettieri Bags	3i Plc	UK	49,0%	118	2008

Source: KPMG Corporate Finance (M&A target Fashion & Luxury 2014)

In terms of the prices involved in the acquisition of Italian Fashion & Luxury sector businesses, historically luxury companies have been valued according to significantly higher profitability and equity parameters than companies operating in other industrial and service sectors.

Highlighting this, we report that of a sample of 22 acquisitions of Italian Fashion & Luxury businesses in the 2009-2013 period, the Enterprise value multiple (equity and net debt) divided by EBITDA was on average 11.4, far higher than emerging from an analysis of 356 operations carried out over the same timeframe and concerning 20 other industrial sectors.

TABLE 8 – AVERAGE SECTOR LEVEL MULTIPLES (BETWEEN 2009 AND JULY 31, 2014)

Sector	Number of operations	EV/Sales	EV/EBITDA
Fashion & Luxury	22	1,69x	11,38x
Logistics & Transport	19	2,21x	9,89x
Construction	8	1,16x	9,63x
Healthcare	8	2,06x	9,50x
Aerospace	3	0,96x	9,27x
Energy & Utilities	33	2,21x	8,78x
Food	30	1,27x	8,67x
Retail & Distribution	19	0,93x	8,28x
IT & Telecommunications	38	1,94x	8,16x
Machinery & Engineering	31	0,96x	8,07x
Home goods	17	1,21x	7,77x
Chemical/pharmaceutical	24	1,42x	7,74x
Manufacturing	43	1,11x	6,94x
Automobile	4	0,83x	6,65x
Services	20	1,43x	6,50x
Packaging	13	1,09x	6,27x
Textiles & Clothing	11	1,08x	6,16x
Publishing	4	1,45x	6,03x
Tourism & Entertainment	4	0,77x	6,00x
Games & gambling	5	1,38x	5,88x

[Source: TIP workings on Mergermarket and Fineurop Soditic figures

The following table reports the breakdown of 22 Fashion & Luxury sector transactions: 14 acquisitions concerned companies in the clothing sector (including footwear), six were within the accessories/jewellery sector and two in the furniture/design sector.

TABLE 9 – BREAKDOWN OF 22 FASHION & LUXURY SECTOR M&A OPERATIONS IN ITALY (2009-2014)

Year	Acquirer	Type	Acquiring Country	Target	Share	EV/Sales	EV/EBITDA
2014	Blackstone	Private equity	Overseas	Versace	Minority	2,10x	14,50x
2014	Mayhoola For Investments	Private equity	Overseas	Forall Confezioni (Pal Zileri)	Majority	0,70x	14,00x
2014	Haworth	Strategic	Overseas	Poltrona Frau	Majority	1,70x	13,00x
2014	Emerisque Brands	Private equity	Overseas	Industries Sportswear Company	Minority	0,40x	n.d.
2013	LVMH	Strategic	Overseas	Loro Piana	Majority	3,90x	19,30x
2013	TIP	Private equity	Italy	Ruffini Partecipazioni (Moncler)	Minority	3,61x	11,22x
2013	DGPA e Riello Investimenti	Private equity	Italy	Gallo Alessandro (Golden Goose)	Majority	1,80x	7,00x
2013	PPR S.A.	Strategic	Overseas	Pomellato	Majority	2,30x	15,50x
2013	PAI Partners	Private equity	Overseas	Marcolin	Majority	1,20x	7,80x
2013	Carlyle Group	Private equity	Overseas	Light Force (Twin-Set)	Majority	2,70x	11,70x
2012	PPR S.A.	Strategic	Overseas	Brioni	Majority	2,00x	17,50x
2011	E Land	Strategic	Overseas	Mandarina Duck	Majority	1,20x	n.d.
2011	Eurazeo	Private equity	Overseas	Moncler	Majority	2,80x	12,00x
2011	Labelux	Strategic	Overseas	Clothing company	Majority	1,40x	12,90x
2011	LVMH	Strategic	Overseas	Bulgari	Majority	3,50x	19,20x
2010	Avm e Dvr&C	Private equity	Italy	Barovier &Toso	Majority	1,10x	5,60x
2010	Private Investors	Strategic	Italy	Apreamare	Majority	1,80x	n.d.
2010	Hal Investment	Private equity	Italy	Safilo	Majority	0,60x	5,80x
2009	Borghesi	Strategic	Italy	Rosato	Majority	0,40x	n.d.
2009	Sutor Mantellassi	Strategic	Italy	Lario 1898	Majority	0,50x	5,00x
2009	Arafa Holding	Strategic	Overseas	Forall Confezioni (Pal Zileri)	Minority	0,60x	7,80x
2009	Holding del lusso italiano	Strategic	Italy	Lorenzo Banfi	Majority	0,80x	5,00x
	Average					**1,69x**	**11,38x**

Source: Fineurop Soditic

ATTRACTIVENESS OF THE SECTOR

One of the main reasons for higher valuations in the sector is the reasonable expectation of growth over the medium-term, given the booming numbers of "new rich" globally. Following the explosion of growth in the so-called BRIC countries (Brazil, Russia, India and China) which is currently consolidating, the so-called MINT (Mexico, Indonesia, Nigeria and Turkey) countries are emerging with increasing levels of wealth.

The number of billionaires globally (individuals with wealth of greater than USD 1 billion) is constantly on the rise: despite the crisis, since 2009, 810 individuals have become billionaires and in 2013 the number of billionaires at global level reached 2,170, of which 766 resident in Europe (decreasing on 795 in 2012) and 550 in the United States (increasing on 541 in 2012).

The highest growth however has been seen in Asia, where in 2013 the number of new billionaires rose to 508 compared to 490 in 2012.

The overall wealth held globally by billionaires totals USD 6,516 billion, increasing approx. 5% on 2012 and more than doubling on approx. USD 3,100 billion in 2009 and greater than the gross domestic product of any country. On average, each holds a property portfolio of slightly under USD 100 million and more or less the same in yachts, while the average value of their private aircraft totalled USD 22 million, while possessing on average USD 16 million worth of paintings and works of art. The remainder consists of liquid assets and investments in businesses which, as can be seen, represent by far the most significant portion.

It is estimated that the number of new highly wealthy individuals in the MINT Countries will exceed those in the BRIC during 2014. In particular, it is expected that the number of new millionaires in Indonesia will increase by 22% in 2014, in Nigeria by 10%, in Turkey by 8.5% and in Mexico by 7%.

It is clearly apparent that any company which can attract such levels of demand on the back of numbers such as those cited are far more attractive than companies operating in sectors without a similar appeal.

Secondly, the Fashion & Luxury sector (better still when featuring a strong brand) is noted for above average operating margins. This higher operating margin relates to an intrinsic brand value (without a cost component but nearly always included in the sales price) which allows for heavy advertising/marketing investment, in addition to expansion capital and/or retail development and all feeding into exponential potential to support further awareness, recognition and the strong foundation of the underlying business.

The following table reports the EBITDA margin generated between 2009 and 2014 by a number of the major global luxury groups.

TABLE 10 – EBITDA MARGIN OF THE MAJOR LISTED LUXURY GROUPS

Company	2009	2010	2011	2012	2013	2014E	Average
Brunello Cucinelli	9,3%	11,7%	16,5%	17,5%	17,9%	18,2%	**15,2%**
Burberry	23,0%	24,2%	25,2%	26,5%	26,0%	23,5%	**24,7%**
Hermes	28,6%	32,0%	35,3%	36,3%	36,2%	35,7%	**34,0%**
Moncler			31,5%	33,0%	33,0%	32,7%	**32,6%**
Kering	11,7%	15,6%	21,6%	21,2%	21,0%	20,4%	**18,6%**
LVMH	24,5%	25,1%	26,0%	25,7%	25,6%	24,2%	**25,2%**
Prada	24,0%	25,9%	29,6%	31,7%	31,7%	29,2%	**28,7%**
Richemont Group	24,3%	24,2%	26,9%	27,8%	26,8%	27,0%	**26,2%**
Salvatore Ferragamo	10,0%	14,5%	18,6%	19,8%	20,7%	21,5%	**17,5%**
Tiffany & Co.	21,4%	24,1%	23,5%	22,7%	12,0%	25,9%	**21,6%**
Tod's	23,1%	25,1%	26,2%	26,0%	24,3%	22,3%	**24,5%**
Average	**20,0%**	**22,2%**	**25,5%**	**26,2%**	**25,0%**	**25,5%**	**24,4%**

Source: TIP workings on Bloomberg figures

The table highlights that businesses operating on the luxury market for clothing, accessories and jewellery in the 2009-2014 period generated on average an EBITDA margin of greater than 24%: such numbers are difficult to generate and considerably ahead of the averages across nearly all other industrial sectors, particularly in the 2009-2014 period.

The third reason is due to the fact that the purchase of luxury goods, which as is well-known can be very expensive, does not significantly impinge on the overall wealth profile of the individual (typically belonging to the affluent consumer category), but allows them to demonstrate and often even put on show such wealth.

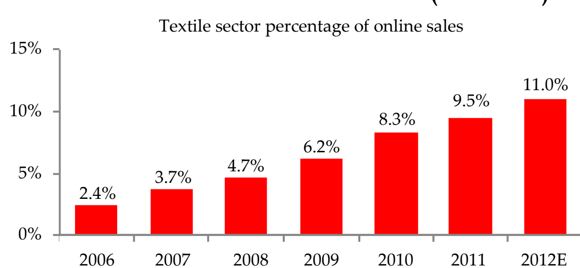
Given the demonstrated tendency of individuals across the world to seek out such statements, it is clear that this trend will only continue. Claims for a number of years that there has been a consistent shift and an unwillingness among consumers to pay more for high-end products (beginning with the no logo campaigns and continuing on to phenomenal successes such as ZARA, H&M and similar brands) have been proven wrong. Or rather this phenomenon has not taken away from the growth of well-established brands at higher price points.

A further reason is the fast growth of e-commerce promotions and sales, which have significantly boosted overall sector sales, making luxury goods readily accessible practically in every corner of the world.

Increasing numbers of luxury brands market their products on their websites and at the same time increasingly focus on additional services such as tailoring products and customer services with a view to creating a more engaging online experience (to date perceived as cold and less emotionally involved).

Specifically, as reported previously, since 2003 online luxury goods sales have grown nearly ten-fold (+880%), increasing from approx. Euro 1 billion to approx. Euro 10 billion in 2013 (source: Bain Luxury Study, November 2013). We cite developments in the textile sector as an example: between 2007-2013 total sector sales reduced by over 14%, while simultaneously the percentage of online sales consistently grew to 11%, clearly eroding the traditional retail channel market share (reported in the following graph).

GRAPH 11 – TEXTILE SECTOR SALES DEVELOPMENT AND PERCENTAGE OF SALES FROM THE ONLINE CHANNEL (2007-2012)



[Source: UBS Luxury Conference 2014

The final reason, as previously described extensively but worth repeating here, concerns the resilience of the underlying fundamentals which the Fashion & Luxury sector has shown over time, as reflected in their share prices and is surely of interest both to financial and retail investors. The following table outlines the share performance over the last five years of some of the major global luxury groups.

TABLE 11 – 5 YEAR STOCK MARKET PERFORMANCE OF THE MAJOR LUXURY GROUPS (TO SEPTEMBER 30, 2014)

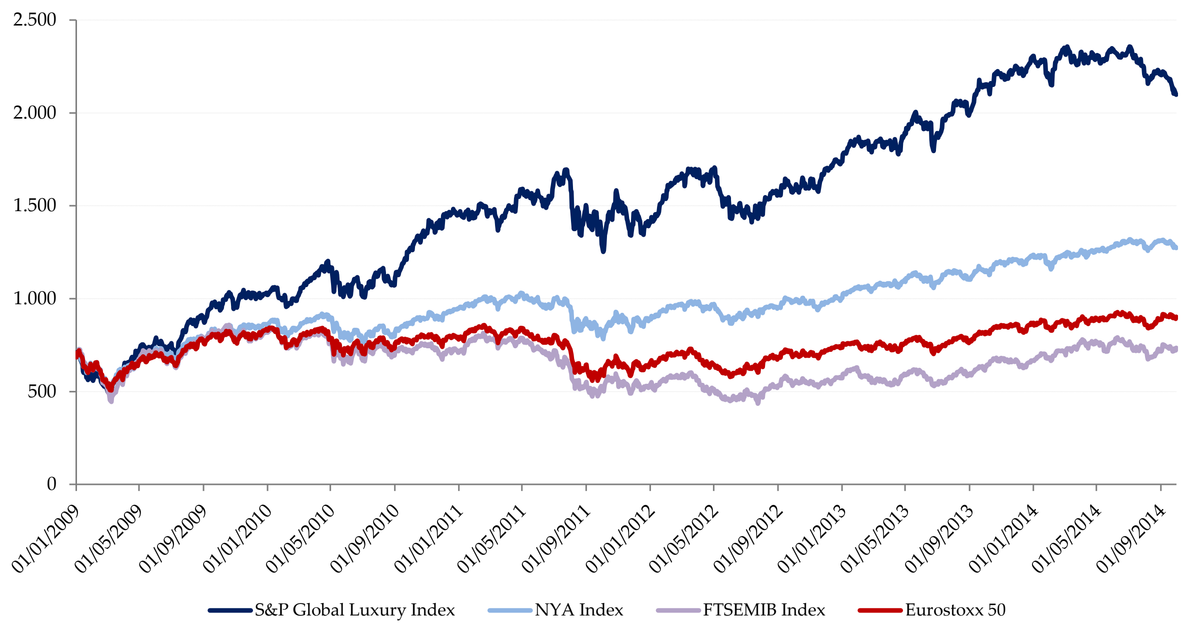
Company	5 year performance
Burberry	+842,2%
Hermes	+150,9%
Kering	+322,2%
Luxottica	+259,5%
LVMH	+205,4%
Richemont Group	+409,8%
Tiffany & Co.	+402,1%
Tod's	+208,0%

Source: TIP workings on Bloomberg figures

Testament to the fact that the luxury sector emerged largely unscathed from the general economic crisis and that it continues to grow, we see that in the 2009-2014 period the S&P Global Luxury Index, created in 2005 and made up of 80 companies across the globe involved in the manufacturing and distribution of luxury goods, saw almost uninterrupted growth of 207%.

The following graph reports the performance of the S&P Global Luxury Index between 2009 and September 30, 2014 compared to the other major indices such as the FTSE MIB, the New York Stock Exchange and the Eurostoxx 50.

GRAPH 12 – S&P GLOBAL LUXURY INDEX PERFORMANCE (2009-2014)



[Source: TIP workings on Bloomberg figures

In order to understand the reasons behind the acquisitions and more in general shareholder structure developments within the sector, the following must be considered:

- The four largest luxury conglomerates, LVMH, Kering, Swatch Group and Richemont, currently control approx. 120 brands globally;
- Even brands which have remained independent have introduced vertical integration strategies (both in procurement and retail terms), mainly to guarantee the sourcing of strategic components and materials and to incorporate the margins of their suppliers. For example, Swatch Group, the leading watch producer, in order to reduce the supply of

components to competitors has closely targeted alternative solutions in the watch-making sector, including the acquisition of watch part manufacturers.

In general terms, economies of scale have become a key issue in the luxury sector. Operating within one of the luxury conglomerates in fact brings the following significant advantages:

- Synergies from the sharing of skills, know-how, marketing/pricing strategies, operating systems, technologies and talent, production facilities and strategic suppliers;

- Opportunities to save brands in difficulty or dormant: a number of the acquisitions in the sector concerned brands with a strong heritage but finding themselves in temporary financial difficulties. The extensive brand portfolio of the major groups and their strength - not only financially but perhaps more so commercially - enables the financing of a turnaround of dormant/in difficulty brands through funding generated by cash flows from other successful brands in portfolio and developed through their dominant position in shopping centers across the globe;

- Acquisition of greater negotiating strength with suppliers, sub-contractors, retailers etc., particularly in the case of the large retailers operating in the many extensive shopping malls springing up in the wealthier parts of the globe (China, Dubai and Hong Kong), which obviously have a preference for the brands of the larger groups and therefore marginalise others.

In seeking to determine if such factors are applicable over the medium/long-term, we need to take into consideration additional emerging factors. Firstly, retail expansion, as requiring capital heavy investment in new sales points, appears to be slowing.

Contemporary shopping habits need to be restated: where up to a few years ago consumers would research items on the internet and then purchase at the physical sales point, the situation has today reversed, with sophisticated, modern, young and educated consumers browsing at the physical sales points, checking the products and often trying them on, particularly in the case of clothing, and then purchasing online and hoping perhaps also for a better price and having the option of a replacement.

Some of the large luxury sector players have introduced restructuring/reorganisation strategies for their retail networks in some of the major Asian cities to optimise the number of sales points at various locations.

In view of that outlined above it is certainly worth considering if it still makes economic and financial sense to think in terms of sales points, commercial flooring areas, sales per square metre over the medium/long-term and like-for-like or if would make more sense to think in terms of revenues by customer type and investments in online channel development, which the American and English brands currently appear to be more proactive in doing in comparison to the European brands.

M&A developments in the luxury sector over the medium/long-term will be clearly influenced by these issues.

However, we must have a broader focus: it should be considered that the impacts from technological innovations still in their infancy, such as 3D/4D printing, big data, space holidays and contactless payments (credit card or smart phone payments through optical readers) may also over the medium/long-term have major impacts on the luxury sector and perhaps may even be game-changers.

Finally we consider drone shipment systems which, in terms of e-commerce, colossuses such as Google and Amazon are testing and their potential impact on the luxury market in which physical delivery in very short periods of time - within the same day - of purchased products may surely bestow a major competitive advantage.

IPO'S OF LUXURY BUSINESSES IN ITALY

Since 2004 eight Fashion & Luxury sector players have listed on Borsa Italiana for a total value of approx. Euro 1.6 billion; in terms of the amount of IPO's by the Fashion & Luxury sector out of total listings in Italy in the period this represents 5.3% (calculated on the basis of over 150 listings still present on the market, of which 35 on the AIM) and less than 4% in value terms (based on a value of approx. Euro 43 billion from the approx. 90 listings in the period of companies still listed on Borsa Italiana in August 2014).

TABLE 12 – LUXURY ENTERPRISE LISTINGS ON BORSA ITALIANA OVER THE LAST 10 YEARS

EURO mln	Year	Placement price (Euro)	First day performance	Offer value	Segment/market
Aeffe	2007	4,10	-5,00%	142,7	MTA/Star
Damiani	2007	4,00	-8,00%	105,4	MTA (*)
Piquadro	2007	2,20	+35,00%	33,5	MTA (**)
Yoox	2009	4,30	+8,00%	104,6	MTA/Star
Salvatore Ferragamo	2011	9,00	+11,00%	344,5	MTA
Brunello Cucinelli	2012	7,75	+50,00%	158,1	MTA
Italia Independent	2013	26,00	+15,00%	13,7	AIM Italia
Moncler	2013	10,20	+47,00%	681,4	MTA
Total				**1.583,9**	

Source: TIP workings on Borsa Italiana and Bloomberg figures

(*) The company was listed on the Star segment

(**) The company was listed on the Expandi market, merged with the MTA in 2009.

The average share price increase of these eight companies since listing is over 80%, outperforming the average growth of all other sectors, as shown in the following table which reports the average share price increase of companies listed on Borsa Italiana between 2004 and August 29, 2014, broken down by sector and with the Fashion & Luxury sector once again leading the ranking in terms of average share price growth since IPO.

TABLE 13 - PERFORMANCES OF LISTED COMPANIES ON BORSA ITALIANA OVER THE LAST 10 YEARS (DATA TO AUGUST 31, 2014)

Sector	No. listings	Share growth
Fashion & Luxury	8	+82,83%
Energy & Utilities	11	+60,14%
Healthcare, pharmaceuticals, chemicals	3	+42,30%
Consumer goods	13	+34,46%
Telecommunications	1	-12,73%
Finance	3	-14,46%
Industrial	21	-18,08%
Services	16	-19,12%
Technology	12	-21,74%
Oil & Gas	1	-34,86%
Weighted average		**+9,67%**
Non-weighted average		**+9,87%**

Source: TIP workings on Bloomberg figures

The following table reports in detail the performances of individual Italian companies listing over the last ten years from the Fashion and Luxury sector since their IPO, with indication of their time on the market. As can be seen the sector outperformed the FTSE MIB by over 100%.

TABLE 14 – PERFORMANCE SINCE IPO OF LUXURY GOOD COMPANIES LISTING SINCE 2004 IN ITALY (DATA TO AUGUST 31, 2014)

Company	Performance since IPO	Period since IPO
Aeffe	-58,21%	~ 7 years
Brunello Cucinelli	+149,02%	~ 2.5 years
Damiani	-66,53%	~ 7 years
Italia Independent	+19,66%	~ 1 year
Moncler	+18,40%	8 months
Piquadro	+84,34%	~ 7 years
Salvatore Ferragamo	+162,17%	~ 3 years
Yoox	+353,81%	~ 6 years
Average	**+82,83%**	
FTSE MIB	**-25,32%**	
Cge. Lux. & Fashion vs. FTSE MI	**108,15%**	

Source: TIP workings on Bloomberg figures at 29.8.2014

In terms of implied valuation parameters on listing, over the last 10 years Fashion & Luxury sector businesses have listed at an EV/EBITDA multiple on average of approx. 12, second only to - and only slightly behind - the average for technology sector companies (13).

TABLE 15 – AVERAGE LISTING EV/EBITDA MULTIPLE BY SECTOR (LAST 10 YEARS)

Sector	No. of listings	EV/EBITDA
Fashion & Luxury	8	11,81x
Technology	12	13,36x
Healthcare, pharmaceuticals, chemicals	3	11,32x
Energy & Utilities	11	10,94x
Services	16	10,38x
Consumer goods	13	10,25x
Finance	3	9,87x
Industrial	21	9,03x
Oil & Gas	1	6,63x
Telecommunications	1	*n.a.*

Source: TIP workings on Borsa Italiana and Bloomberg figures

The following table breaks down the listing EV/EBITDA multiple of Italian Fashion & Luxury sector companies over the last ten years.

TABLE 16 – LISTING EV/EBITDA MULTIPLE OF LUXURY COMPANIES SINCE 2004 IN ITALY

Company	Year	EV/EBITDA
Aeffe	2007	11,43x
Damiani	2007	13,27x
Piquadro	2007	11,10x
Yoox	2009	11,61x
Salvatore Ferragamo	2011	8,69x
Brunello Cucinelli	2012	12,03x
Italia Independent	2013	12,10x
Moncler	2013	14,21x
Average		**11,81x**

Source: TIP workings on Bloomberg and Borsa Italiana figures

Overall, Fashion & Luxury sector companies listing to date on Borsa Italiana represent:

- In numeric terms approx. 3% of total companies listed (11 companies out of 339 companies at September 2014);
- In terms of capitalisation approx. 7% of total market cap (figures to September 30, 2014). However, we must consider that approx. 67% of the Milan Stock Exchange capitalisation is represented by the finance (34%), oil&gas (16%) and utilities (17%) sectors; excluding the capitalisation of these sectors, the Fashion & Luxury sector market capitalisation represents over 21% of the industrial sector.

TABLE 17 – MARKET CAPITALISATION OF THE 11 ITALIAN LUXURY SECTOR COMPANIES LISTING TO SEPTEMBER 30, 2014.

EURO mln	Mkt cap
Aeffe	194
Brunello Cucinelli	1.123
Campari	3.319
Damiani	104
Italia Independent	74
Luxottica	19.815
Moncler	2.825
Piquadro	87
Salvatore Ferragamo	3.663
Tod's	2.401
Yoox	1.083
Total	**34.689**
Borsa Italiana capitalisation (September 30, 2014)	**496.208**
Luxury goods company component	7%

Source: TIP workings on Bloomberg and Borsa Italiana figures

A number of key points emerge from the analysis thus far conducted:

- The general development of the luxury, fashion, design and in general brand-centered sectors, particularly those highly successful sectors, possess their own inherent logic in comparison to nearly all other good sectors.

- The impact of such logic is apparent in development trends, general market dynamics in place for many years, margins and consequent valuations, as reflected in acquisition and stock market listings;

- When, usually without proper reasoning, we hear claims of unjustified prices for Italian luxury sector enterprises, these valuations in fact are nearly always appropriate for companies presenting features such as those described, a clear positioning and a clarity of purpose which is both distinctive and difficult to replicate;

- The current chapter clearly indicates the consistent position of Italy among the leaders in these sectors and the level of esteem held in terms of quality according to the Boston Consulting Group – both with regard to the manufacturing and the marketing of a wide range of product categories;

- The market listing of Moncler at the end of 2013, with requests of over Euro 20 billion on objectively elevated valuations, demonstrated more than any previous operation the high regard that the entire financial world has for successful Italian enterprises, even in terms of a simple IPO and therefore not involving the synergies that devolve from acquisition or other strategic considerations.

In terms of future development, a recent analysis by Equita Sim indicates consistent further sector growth and specifically highlights that the main sector players will continue to have high valuations, particularly in comparison to other goods sectors.

The analysis begins with a breakdown of the revenues of the major luxury sector groups by country/region (Europe, North America, Asia, excluding Japan, and other countries). In addition to the well-established broad geographic distribution of revenues among these players, the rather favourable currency market developments expected in 2015 (with the exception of the Ruble) is of note, an issue which luxury goods players must keep a particular eye on and which in the coming years should certainly be beneficial, in particular following increased tourist numbers.

	Breakdown of sales by region					Exchange rate effect				
	Europe	North America	Japan	Asia (Ex. Japan)	Others	1H 2014	3Q 2014	4Q 2014	FY 2014	FY 2015
Hermes	36%	17%	12%	33%	2%	-3,4%	-0,5%	3,4%	-1,0%	2,5%
LVMH	31%	23%	8%	28%	10%	-3,0%	-0,3%	3,5%	-0,8%	2,5%
Richemont	30%	14%	9%	41%	5%	-4,0%	-2,1%	2,0%	-1,3%	0,9%
Burberry	39%	25%	3%	33%	0%	-6,1%	-7,2%	-2,1%	-5,4%	-1,0%
Kering	31%	19%	12%	32%	6%	-3,4%	-0,5%	3,5%	-1,0%	2,5%
Swatch	34%	8%	2%	56%	0%	-3,6%	-1,9%	2,5%	-1,5%	1,1%
Tod's	55%	9%	4%	32%	0%	-2,2%	-0,2%	2,8%	-0,4%	2,0%
Prada	37%	14%	10%	36%	3%	-3,1%	-0,4%	3,5%	-0,9%	2,5%
Ferragamo	26%	23%	9%	37%	5%	-3,5%	-0,4%	4,1%	-0,9%	2,9%
Moncler	57%	12%	15%	16%	0%	-2,8%	-0,7%	1,9%	-1,1%	1,4%
Cucinelli	54%	34%	2%	7%	3%	-2,0%	-0,1%	2,8%	-0,3%	1,9%
Average	**39%**	**18%**	**8%**	**32%**	**3%**	**-3,4%**	**-1,3%**	**2,5%**	**-1,3%**	**1,7%**

Source: Equita SIM

Secondly, the analysis highlights the exposure of a number of luxury groups to regional drivers which have been identified as fundamental to sector growth: (i) Russia and Eastern Europe; (ii) tourist numbers in Europe; (iii) Mainland China; (iv) Hong Kong; (v) travel retail, which reported 6% growth also in Q3 2014, in line with that in the first half-year.

Company	Russia & Eastern Europe		EU Tourism	Mainland China	Hong Kong	Travel retail
Cucinelli	8-9%	(mainly domestic)	40%	4-5%	1%	0%
Ferragamo	5-6%	(mainly travellers)	60-70%	12-13%	7%	8-9%
Moncler	5-6%	(mainly travellers)	50-60%	9-10%	4-5%	n.m.
Prada	5-6%	(mainly travellers)	70%	12-14%	10-12%	1-2%
Tod's	2-3%	(mainly travellers)	30%	15%	10%	n.m.
Sector average (including foreign groups)	4-5%	(mainly travellers)	60%	12-14%	8-10%	5%

Source: Equita SIM

The analysis reports the multiples implied by the current listing prices and by profitability estimates of luxury groups according to the EV/EBITDA and P/E ratios for the coming three years. The figures indicate that analysts estimate an average P/E ratio for 2015 of approx. 18, lower than in the past but considered increasingly sustainable as no longer influenced by factors seen as contingent and temporary and on the basis of interest rates, which as noted will remain structurally low for at least a while longer.

Company	Share price	6 months	EV/EBITDA			EBITDA margin			Revenue growth			P/E			EPS CAGR	
	(Euro)	change	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014-15	2015-16
Hermes	244	-6%	16,6	14,4	12,6	36%	36%	36%	9%	12%	10%	29,5	26,2	23,3	10%	10%
Brunello Cucinelli	15,8	-8%	17,9	16,0	14,4	18%	18%	18%	9%	10%	10%	32,5	29,5	26,4	9%	11%
LVMH	131	1%	9,7	9,1	8,7	25%	25%	25%	2%	8%	7%	19,7	17,7	15,9	3%	11%
Richemont	79,8	-9%	11,2	9,9	8,6	27%	27%	28%	6%	9%	9%	17,6	15,8	14,1	7%	7%
Tiffany & Co.	94,8	-5%	11,3	10,1	9,1	26%	27%	27%	8%	8%	9%	21,8	19,2	16,6	15%	15%
Burberry	1.500	6%	10,9	10,1	8,9	23%	23%	23%	4%	9%	11%	19,4	18,9	16,7	3%	8%
Kering	152	0%	11,3	10,8	10,1	29%	29%	29%	-1%	7%	7%	16,2	15,0	13,8	26%	8%
Swatch	449	-9%	9,7	8,4	7,3	26%	27%	27%	4%	7%	8%	15,5	13,9	12,5	3%	3%
Tod's	71	-15%	9,8	9,2	8,4	21%	21%	22%	0%	5%	6%	19,3	18,0	16,5	-3%	8%
Prada	48,9	-10%	12,1	10,7	9,5	28%	30%	30%	1%	7%	8%	24,6	21,9	19,6	-5%	12%
Ferragamo	18,6	-11%	11,3	10,0	8,7	21%	22%	23%	5%	8%	8%	20,8	18,4	16,1	11%	14%
Moncler	11,1	-4%	13,3	11,1	9,5	33%	33%	33%	16%	16%	13%	24,2	20,1	17,4	21%	18%
Average*		**-6%**	**11,1**	**10,0**	**8,9**	**26%**	**26%**	**27%**	**5%**	**9%**	**9%**	**19,9**	**17,9**	**15,9**	**8%**	**10%**
Soft luxury average*			**11,2**	**10,1**	**9,1**	**26%**	**26%**	**26%**	**5%**	**9%**	**9%**	**20,6**	**18,6**	**16,6**	**8%**	**11%**

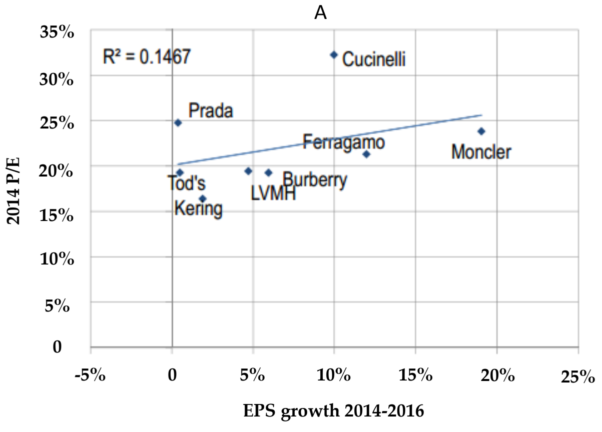
Source: Equita SIM estimates on Bloomberg figures   * Hermes & Brunello Cucinelli excluded from the EV/EBITDA & P/E calculation

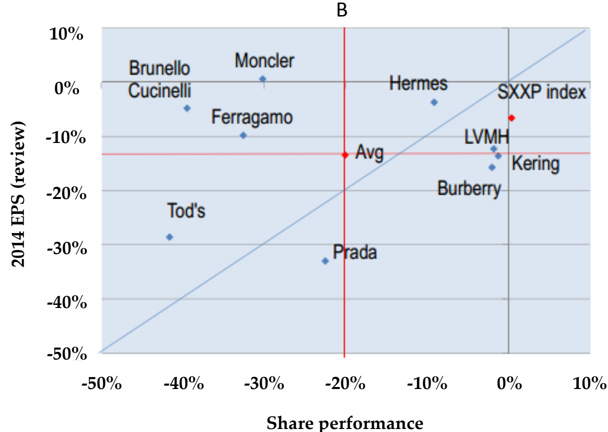
The analysis in the following table highlights that, entirely for the purposes of valuation and although with certain differences within the sample, the outlook for Italian and international luxury goods groups remains hugely promising and sector dynamics remain vibrant and interesting.

Company	Rating	Mkt Cap (Euro mln)	Share price (Euro)	Target price	Upside (downside)	P/E			P/E (on Equita SIM target price)			CAGR EPS
						2014	2015	2016	2014	2015	2016	(2015-16)
Moncler	*buy*	2.773	11,1	15,2	37%	24,2	20,1	17,4	33,1	27,6	23,7	18%
Burberry	*buy*	842	1.500	1.684	12%	19,4	18,9	16,7	21,7	21,2	18,7	8%
LVMH	*buy*	66.747	131	160	22%	19,7	17,7	15,9	24,0	21,6	19,4	11%
Ferragamo	*buy*	3.131	18,6	23,3	25%	20,8	18,4	16,1	26,1	23	20,1	14%
Brunello Cucinelli	*hold*	1.074	15,8	16,5	5%	32,5	29,5	26,4	34,0	30,8	27,6	11%
Kering	*hold*	19.146	152	160	6%	16,2	15,0	13,8	17,2	15,8	14,6	8%
Prada	*hold*	12.649	49	44	-10%	24,6	21,9	19,6	22,2	19,8	17,7	12%
Tod's	*reduce*	2.173	71	71	0%	19,3	18,0	16,5	19,3	17,9	16,5	8%
Average (ex. Brunello Cucinelli)						**20,6**	**18,6**	**16,6**	**23,4**	**21**	**18,7**	**11%**

Source: Equita SIM

In the context of the present work finally, the double matrix comparison is particularly interesting, which verifies for the individual groups considered, if potential business growth had already been priced into the market values by October 2014 or whether the market does not fully express the results and expectations pertaining to these groups. Firstly martrix (A) substantially hypothesises that there is no longer a correlation between current multiples and growth expectations and the even more significant consideration that a latent potential within a number of Italian groups (primarily Moncler, Salvatore Ferragamo and Brunello Cucinelli) exists which has not been fully factored in by the market. Such analyses indicate that such groups in terms of valuations in overall terms and in comparison to other operators in the sector still appear to have room for further growth in the coming years.





[Source: Equita Sim]

That outlined previously leads us to the following considerations in terms of the development and drivers within the sector in the near future and current stock market valuations in the Fashion & Luxury sector:

- Tourist numbers will remain, according to estimates, a key driver in the luxury sector, particularly in mature markets such as Europe and the USA. Therefore (i) the largely favourable future expected currency movements on profits should further drive growth; (ii) travel retail, particularly at the large international airport hubs becomes increasingly important and must be considered as even more central than in the past within the growth strategies of luxury goods groups; (iii) tourist numbers, both business and leisure, must be considered within sector operator strategies as an integrated experience of art, culture and shopping and therefore facilitate consumers to make luxury goods purchases on trips and on the various occasions where such can be (and in specific cases must be) made;

- The current share prices of the major Fashion & Luxury players, which are rather more contained than the past, may be considered as a source of more sustainable growth and are already more in line with the expected growth rates for the coming three years and certainly are not overpriced or indeed a bubble as put forward by many analysts;

- The room for growth over the coming months for a number of Fashion & Luxury shares (particularly Italian) with strong equity stories and proven success and international expansion seems significant and currently has only partly been factored into stock market prices, most likely due to the prudent asset allocation policies of the large international investors.

*(*Total return: return on share price increase and dividends distributed over the years)*

T.I.P. - Tamburi Investment Partners S.p.A.

Total return on the TIP share at November 30, 2014

Figures at 30.11.2014	
Total T.I.P. return over last 5 years	**+115.1%**
Total T.I.P. annual return average over last 5 years	**+23.0%**
Average T.I.P. dividend yield over last 5 years	**2.6%**
T.I.P. dividend yield 2013	**3.1%**
T.I.P. stock market performance over last 5 years	**+92.8%**
FTSE MIB performance over last 5 years	**-8.7%**
FTSE Small Cap performance over last 5 years	**-28.7%**
IT Star performance over last 5 years	**+70.7%**

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CHAPTER 8

VALUATIONS AND PRICES

In all types of corporate operations, whether concerning IPO's or M&A's or the entry of a financial partner, price of course is a key factor both for the seller and the potential purchaser in deciding whether to undertake an operation.

How is this price usually established? One of the most widely used methods are the so-called multiples or multipliers - the ratio between the operations value and certain profitability (revenues, EBITDA, net profit) or balance sheet indicators. This should enable a neutral - but oftentimes also misleading - comparison of differing operations.

Until a few years ago this method was used as a simple control instrument to establish if the value attributed to a company was in line: i) with a correct risk-return profile and ii) with the market, although certainly not used as the principal valuation method.

However for a number of years now these multiples, and in particular the EBITDA multiple (Enterprise value/EBITDA, with the enterprise value representing the stock market capitalisation and the net debt), have become the main methods to value companies and unprofessional and lazy private equity investors and financial analysts have certainly played a role in this shift.

This is surely a simple, accessible and quick system, but as always simplifications can lead to errors. It certainly does not consider all the variables which in theory should be part of a serious valuation of such a complex entity as a business.

This system, based only on a few parameters (Revenues, EBITDA, Net Profit and Net Financial Position) does not take into account a number of fundamental industrial factors required to properly value companies such as technologies, skills, workforce, production plant, other tangible and intangible assets, the competition, the market positioning of the company and its make up: market share, brand perception, features of the marketplace, legislation and other issues.

These factors may considerably affect the value of a company and cannot be incorporated into such a concise formula. Profit sustainability, at various levels, on which the value of the company is dependent stems directly from these factors.

Furthermore, this method can be extremely misleading if not used correctly, in particular if the multiple taken is calculated as an average of the multiple of comparable companies, therefore those which have (or at least should have) very similar features both in industrial and financial terms.

Other very critical aspects include:

i) the calculation of Adjusted EBITDA (EBITDA excluding all positive and/or negative non-recurring items and the effects from the accounting policies adopted by the company);

ii) the exact calculation of the net financial position (an indicator which often must be normalised according to the period in which the valuation is carried out);

iii) the regulatory and contractual context of each transaction examined (from accounting policies to the manner for allocation of certain costs and/or revenues to name but a few);

iv) the differing tax regimes among countries, in addition to a range of other elements and factors.

The multiplier methods may be utilised to give an indication, although only preliminary, of the theoretical value of a company if used in a simplistic manner, or may give a truer picture if the quality of the numbers used in the formula are closely considered.

In any case, a more accurate exercise requires the formula to have greater substance through analysing each component critically and with an extensive degree of consideration; each case must be considered on its own merits and never generalised or simplified, either in terms of figures or concepts.

Choosing the correct multiplier is never easy as the sector, the particular point in time and the companies used as comparison (often not entirely similar) must be closely analysed and a particular focus must be placed on the objective of the valuation itself.

The multiplier used for a listing is therefore entirely different from that which should be used for the full acquisition of a company and should again be different in the case of a minority holding acquisition or the transfer of shares between shareholders, which are entirely different events.

Other key aspects which the multiplier methods do not take into consideration (particularly in the case of minority holding acquisitions) are shareholder agreements and guarantees provided by sellers.

The value of a minority stake may be substantially different according to whether shareholder agreements and/or guarantees are in place.

Usually the acquirer, after carrying out the necessary due diligence, seeks to protect themselves from potential losses from events or decisions directly related to the previous management and occurring before the transfer of ownership through appropriate guarantees. This risk is not considered a business risk, which the acquirer undertakes with full knowledge of the facts, but rather is a risk deriving from any discrepancies between the situation presented by the seller and that which the acquirer subsequently discovers. The seller may indemnify the purchaser in the case in which losses or impairments arise from events occurring prior to acquisition.

Guarantees and any limits may also have a significant impact on the price which a purchaser is prepared to pay, as if the new owner is protected by proper guarantees on the previous management they may be more open to paying a higher price as feeling more protected. If the opposite is the case, the existence of few or no guarantees may increase the acquisition risk, with the purchaser expecting to pay a lower price and undertaking however risks stemming from past management.

When buying securities on the stock market no such guarantees exist, while if months are spent on due diligence or extensive contracts to list the protections in favour of the purchaser, this situation is entirely reversed.

Therefore, a key issue to be considered during the establishment of a price between the seller and the buyer concerns guarantees and, where existing, shareholder agreements, particularly in the case in which the selling shareholder or other existing non-selling shareholders maintain an active role in the company.

Specifically, in the case of operations with Private Equity partners undertaking a majority or minority holding in a company, these latter often require the industrial shareholder to have first-hand involvement in managing the operation, clearly and exhaustively defining the duties, rights and responsibilities of each shareholder (for example establishing that the industrial shareholder can operate the business without interference, or in fact set limits in this regard).

In addition, Private Equity operators require in general shareholder agreement clauses concerning the ownership structure on subsequent divestment and this always considerably influences the price.

Looking deeper into individual operations, a further extremely important issue concerns the difference between the value of the company (absolute stand-alone valuation based only on the valuation methods and formulas reported in the textbooks concerning company valuation) and the price that an investor (industrial or financial) may in fact be prepared to pay to acquire a holding, whether full ownership or a majority or minority holding.

A multitude of factors may separate these two apparently similar concepts.

The absolute valuation, as reported in the *Nuovo trattato sulla valutazione delle aziende* (New approach to company valuations) by Luigi Guatri and Mauro Bini is based only on logical formulas and components. It is founded on the correctness of information and the strength of the fundamental analysis underlying the valuation, such as the reliability of expected cash flows or the rationality of the discounting rates.

However, the price is considered as the value/threshold beyond which, in the view of a specific purchaser, the acquisition of a company ceases to be advantageous; it is the point at which the purchaser becomes indifferent to the conclusion of the acquisition.

The manner for setting an offer price is therefore logically different for each purchaser.

The definition of the price, which is usually based on an initial absolute valuation of the company, must take into consideration the type of purchaser (industrial or financial) and the underlying motive attracting them to purchase the company or the stake involved.

These features, even those external to the company to be valued, greatly impact upon the price which the purchaser is prepared to pay and consequently may affect the absolute valuation of the company itself.

Delving more into the detail, an industrial player may for example set a price for a company based on potential industrial, commercial and cost synergies, which a financial player would not benefit from.

We could extensively elaborate on the concepts briefly summarised here in terms of prices and values, but this is not the objective of the present work.

What is certain is that the excessive recent use of the multiple/multiplier methods has led to many errors and misinterpretations due to a tendency to inevitably focus on the very short-term future. Given that such methods tend to be used to quickly establish prices, it is important to understand that such simplifications can set many traps.

Another fundamental issue in establishing a price is the holding that the purchaser is acquiring and the proportion of this in relation to control of the company.

Shareholdings of different sizes and bestowing differing specific rights of course have widely differing values. A majority holding usually includes a premium as, in addition to the value in the company that the new shareholder is acquiring, control is also established.

On the other hand, the acquisition of a minority holding should incorporate a discount, particularly in the case in which the company is controlled by a shareholder with an absolute majority.

The American Society of Appraisers (ASA) has identified the following discounts and premiums which are commonly applied in valuing company holdings:

- Non-control discount (-10%): reflecting the absence for minority holdings of some or all powers devolving from control;
- Lack of liquidity discount (-15%): reflects the difficulty to realise the investment in company securities and in general relating to minority holdings or restrictions on liquidity through third party agreements;
- Restricted trading discount (-5%): reflects the difficulty to freely trade the investment (for example due to a lock-in clause which blocks sale on the market of the shares of certain individuals for set periods of time, required for IPO's) and concerning controlling shareholdings;
- Discount for lack of voting rights (-10%): reflects the lower value that a share assumes on the basis of limited or no voting rights and concerning securities without voting rights or limited voting rights;
- Control premium (10%): reflects the power of control and a majority shareholding.

In general terms, the following sums up the concept: acquirers undertaking an absolute or controlling shareholding need to consider a premium in the price, while those with a minority/non-controlling/restricted holding in any manner should request a discount on the theoretical price that would be paid for the acquisition of a majority stake. This is even more

applicable for full ownership.

Specifically, the analyses which will be reported in the concluding part of the present work demonstrate that in practice prices vary greatly from what would derive from the simple application of multiples, while adjusted for considerations suggested by the ASA or similar entities, but which are very well explained technically on the basis of concrete experience.

In order to establish the control premium in the case of listed companies, a quantitative research study was undertaken on a sample of the biggest takeovers undertaken in Italy since 2009.

Apart from the academic-type conclusions, it is clear those launching a takeover in fact precisely set the level of the premium to be paid. Therefore the premium becomes an effectively paid price.

For each operation taken into consideration, the average price in the previous month, previous three months and previous six months before the announcement of the takeover was calculated. These average prices were compared with the official tender purchase price in order to establish the effective premium incorporated into the offer price.

The figures are thereafter categorised by year and the average premium paid by acquirers for each period is calculated.

TABLE 1 – AVERAGE PREMIUM PAID BY ACQUIRERS ON TAKEOVER (2009-2014) – (FIGURES TO AUGUST 31, 2014)

Takeover year	No. Takeovers	1 month takeover premium	3 month takeover premium	6 month takeover premium
2009	6	14%	20%	23%
2010	4	39%	39%	39%
2011	10	33%	28%	25%
2012	5	23%	29%	33%
2013	7	11%	18%	21%
2014	4	28%	31%	43%
Weighted average		**23%**	**26%**	**28%**

[Source: TIP workings on Bloomberg and Consob figures]

The analyses establish that the premium paid by a purchaser on takeover was on average between 23% and 30%, with maximums of up to 40% according to the type of operation and the period in which it was undertaken.

This hugely significant figure is certainly influenced by the high ownership concentration of Italian listed companies and the major benefits of control, but it is also of great significance that, year after year, acquirers are prepared to pay very substantial share premiums in comparison to effective prices also for highly fragmented shareholdings.

In view of that outlined previously and in order to dig deeper into the figures, establishing the dynamics behind prices paid both at sector level and at particular times, the development of the multiples paid both within M&A operations and within listing processes were particularly observed.

Notwithstanding the considerations outlined previously concerning the issues and difficulties surrounding the use of multiples, they still refer to the most common, simple, direct and intuitive method. Therefore all considerations in this regard must be approached with a duly critical eye. However these multiples may be a useful reference point. Or even a starting point.

For the M&A market, the largest operations over the period between the beginning of 2009 and July 2014 were considered. Extending the period would have meant neutralising the impact of the market crises and therefore rendering it less significant. For each, two major multipliers were taken into consideration: EV/EBITDA and EV/REVENUES.

The first assesses the value of a company according to the enterprise value (share capital plus debts to be undertaken by any prospective purchaser which can easily be fully settled) against margins, while the latter compares the value of a company against the revenues which it is capable of generating.

Firstly the sector level dynamics of the multiples taken were established, calculating the average value over the above-stated time period for each sector. The results of this analysis are reported in the table below.

TABLE 2 – SECTOR LEVEL MULTIPLES (FROM 2009 TO JULY 31, 2014)

Sector	No. operations	EV/Sales	EV/EBITDA
Aerospace	3	0,96x	9,27x
Automotive	4	0,83x	6,65x
Construction	8	1,16x	9,63x
Chemical/pharmaceuticals	24	1,42x	7,74x
Energy & Utilities	33	2,21x	8,78x
Fashion & Luxury	22	1,69x	11,38x
Food	30	1,27x	8,67x
Games & Gambling	5	1,38x	5,88x
Healthcare	8	2,06x	9,50x
Home goods	17	1,21x	7,77x
IT & telecommunications	38	1,94x	8,16x
Manufacturing	43	1,11x	6,94x
Logistics & transport	19	2,21x	9,89x
Machinery & engineering	31	0,96x	8,07x
Packaging	13	1,09x	6,27x
Publishing	4	1,45x	6,03x
Retail & distribution	19	0,93x	8,28x
Services	20	1,43x	6,50x
Textiles & clothing	11	1,08x	6,16x
Tourism & entertainment	4	0,77x	6,00x

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

The table highlights clearly that a number of sectors present multiples well above average, with this due to a number of factors - the leading among which expected growth.

The solidity and sustainability of results over time, the originality and/or excellence of the business, in addition to others were also considered.

Other explanations may be, for example, above average margins (at sector or company level), brands with a very high intrinsic value or one or more proprietary technological trademarks or specific know-how.

The development over time of the average multiples was thereafter analysed, although no particular findings could be pointed to in this regard, apart from the maximum values reached in 2012. The fluctuations appear for the most part to be caused by the specific issues surrounding operations in each particular year, while the sample analysed, in a country such as Italy, cannot be considered necessarily significant.

TABLE 3 – DEVELOPMENT OF MULTIPLES (FROM 2009 TO JULY 2014)

Year	No. operations	EV/Sales	EV/EBITDA
2009	74	1,16x	8,13x
2010	65	1,58x	7,06x
2011	76	1,55x	8,44x
2012	17	1,21x	9,71x
2013	70	1,65x	7,84x
2014	54	1,45x	8,80x

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

Attention was thereafter turned to establishing if significant differences exist between the multiples recognised by Italian acquirers compared to those paid by foreign acquirers. The figures reported in the table below highlight that foreign operators recognise greater average multiples than Italian operators, but in this regard also we must consider sector issues, those considering individual transactions and many others besides.

TABLE 4 – MULTIPLES RECOGNISED BY FOREIGN AND ITALIAN OFFERERS (BETWEEN 2009 AND JULY 31, 2014)

Bidder's country	EV/Sales	EV/EBITDA
Italy	1,36x	7,59x
Foreign	1,60x	8,77x
Cge. foreign in Italy	15,0%	13,5%

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

The many operations concluded by foreign investors over the years were based on their willingness to pay far higher prices. The increased number of foreign operations in Italy is therefore also related to difficulties among Italian investors to compete in price terms in acquisitions due to the reasons outlined in detail previously. This primarily concerns, in many cases, the financial backing required to undertake certain operations.

An additional and interesting analysis involves a comparison between strategic operations, therefore those involving an industrial acquirer and operations concluded with strictly financial operators. This allows us to put to the test some of the theories outlined previously.

TABLE 5 – COMPARISON BETWEEN STRATEGIC OPERATION AND PRIVATE EQUITY MULTIPLES (BETWEEN 2009 AND JULY 31, 2014)

Type of Bidder	EV/Sales	EV/EBITDA
Strategic	1,46x	9,07x
Private equity	1,47x	7,10x
Cge. strategic on fin.	-1,0%	27,8%

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

On reading the figures it is immediately apparent that industrial purchasers recognise far higher premiums in terms of EV/EBITDA, with an approx. 30% differing valuation between the two categories of purchasers; this is in itself a fundamental aspect to be considered in any correct assessment which avoids the usual simplifications.

As previously outlined an industrial partner may factor into their valuations also operational synergies gained from the acquired company, which strategic acquirers are increasingly prepared to pay (factored in, in sector jargon), in

addition to the risk that such a company may be acquired by a competitor.

Partially altering that outlined above, given that the majority of financial operators are under the form of funds, is that the timing of the potential operation compared to the investment period is very important. Relatively high prices have been noted in many operations taking place in the final months in which a particular fund could carry out new operations.

As multiples differ significantly in terms of EV/EBITDA alone, these valuations should be crossed checked with a breakdown between the acquisition of majority and minority stakes.

TABLE 6 – EV/EBITDA OF MAJORITY AND MINORITY ACQUISITIONS (BETWEEN 2009 AND JULY 31, 2014)

Type of Bidder	Majority	Minority	% diff.
Strategic	9,28x	7,92x	17,2%
Financial operator	7,14x	7,03x	1,6%
Cge. strategic on fin.	30,0%	12,6%	

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

The figures highlight that the divergence between industrial majority and minority acquisitions is far greater than those undertaken by private equity.

We then consider that many minorities only appear as such, with the possible existence of shareholders' agreements which may give minority shareholders also significant rights (tag along and drag along rights), in this sense they should be considered as differing types of operations which, although not of a significantly strategic nature nor establishing economic or industrial synergies, in themselves constitute a separate category.

We have previously outlined how Italian business owners tend to maintain a particularly concentrated and stable ownership structure. This may induce them to fix, due to their perception but also due to facts on the ground, significant values for the sale of minority holdings.

The sale of a minority stake is often in fact seen to weaken, although to a minimal degree, their control on the company. This factor can sometimes lessen the pricing differences between the two types of operations. This also depends extensively though on the particular agreements establishing the payment price, in addition to the relative strengths within the negotiating process.

With regard however to IPO's, a selection of placements in the period between the beginning of 2004 and August 2014 were analysed.

The EV/EBITDA on listing was the base metric considered also in this case.

In particular, our analysis considered a forward type multiple, established as the ratio between the enterprise value on IPO and the EBITDA for the full year in which listing took place.

This approach was undertaken in consideration of the fact that IPO prices are more a reflection of immediate future expectations for the company rather than its past results, even though recent.

For listings in 2014 account was also taken of analyst estimates for the current year; this remedied the lack of official figures for 2014.

Firstly, the sectors of the various companies were broken down, together with their multiples in the listing phase. The results are reported in the table below.

TABLE 7 – EV/EBITDA IN THE IPO PHASE BY SECTOR (BETWEEN 2004 AND JULY 31, 2014)

Sector	No. listings	EV/EBITDA
Services	16	10,38x
Fashion & Luxury	8	11,81x
Energy & utilities	11	10,94x
Industrial	21	9,03x
Consumer goods	13	10,25x
Technology	12	13,36x
Healthcare, pharmaceuticals	3	11,32x
Oil & Gas	1	6,63x
Finance	3	9,87x

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

The multiples differ significantly according to sector. The highest multiples relate to technology IPO's. This phenomenon, which is evident also on other stock markets, most likely reflects the great growth potential recognised to such enterprises.

The fashion and luxury sectors also present above average multiples. The stock market has therefore rewarded companies in these sectors who have decided to take on a listing. This further backs up that outlined previously concerning the presence, exclusivity and solidity over time of many Italian companies which excel in the fashion and luxury sector.

The figures also indicate higher multiples on IPO than on the M&A market, which in fact lacks a rational basis. This may be explained in fact by the differing nature of such operations and the limitations of the samples analysed. The M&A operations taken into consideration include not only the normal acquisition of investments, but also distressed operations regarding companies in difficulty. On the other hand, companies which generally take on a stock market listing have good and sometimes excellent future prospects and therefore are valued according to higher average parameters.

Thereafter the differences between the various listings segments in terms of EV/EBITDA were considered, although on the basis of a limited sample.

TABLE 8 – EV/EBITDA ON IPO BY LISTING SEGMENT (BETWEEN 2004 AND JULY 31, 2014)

Segment	No. listings	EV/EBITDA
STAR	16	10,32x
BLUE CHIPS	5	11,10x
STANDARD CLASS 1	10	9,86x
EXPANDI MARKET	14	11,88x
AIM	35	10,48x
MTA	7	10,72x
SIV	1	9,87x

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

Listings on the former Expandi Market presented higher multiples than other segments, with a possible explanation being the nature of the segment and the type of companies involved. This segment in fact was created to host smaller companies, although with significant growth potential and for this very reason their placement may be priced higher on the basis of future growth rather than according to the underlying present/past fundamentals.

The development of multiples also on the basis of time period was thereafter analysed, categorising the IPO's according

to their year of listing. The results are reported in the table below.

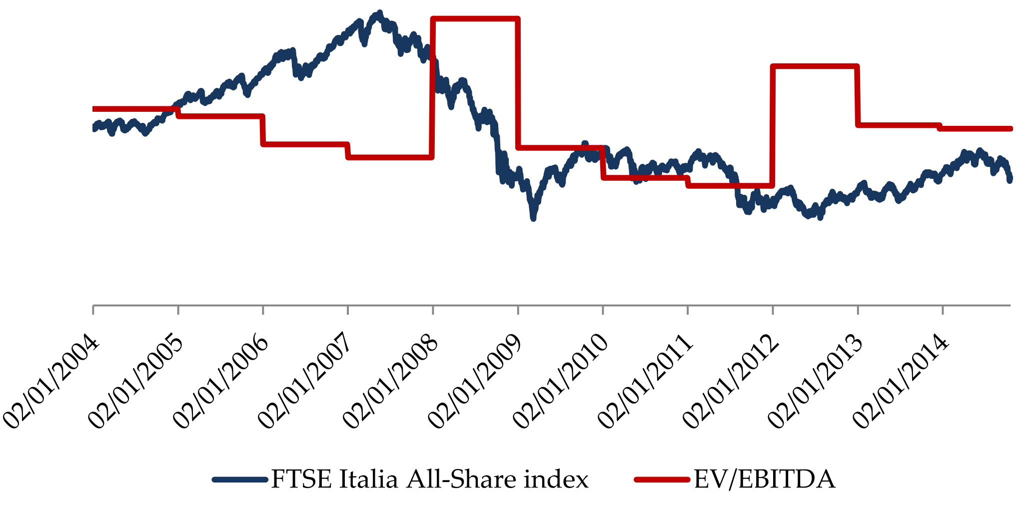
TABLE 9 – EV/EBITDA IN IPO PHASE BY YEAR OF LISTING

Year of listing	No. listings	EV/EBITDA
2004	4	12,09x
2005	5	11,64x
2006	14	9,91x
2007	16	9,10x
2008	4	17,63x
2009	3	9,69x
2010	5	7,84x
2011	4	7,35x
2012	4	14,72x
2013	14	11,09x
2014	18	10,88x

[Source: TIP workings on Bloomberg and Borsa Italiana figures]

In order to better analyse the fluctuations of multiples and any underlying trends, a graph was drawn up outlining the average listing EV/EBITDA performance for each year against the FTSE All Share index which, despite its limitations, is considered the most representative index of the Italian equity market as a whole.

GRAPH 1 – FTSE ALL SHARE AND AVERAGE LISTING MULTIPLES



[Source: TIP workings on Bloomberg and Fineurop Soditic figures]

The graph highlights that valuations on listing are significantly influenced by the stock market performance in the period before the IPO. The peak of 2008 in this regard may be explained primarily by the significant margin contraction on foot of the crisis, but also by the gradual development of a liquidity bubble on the equity market which inflated values also in the placement phase.

The peak of 2012 however is explained by the fact that of four listings two concerned technology companies, which usually present higher than average parameters and another was the IPO of Brunello Cucinelli.

These companies therefore, on the basis of that outlined above, were valued according to higher parameters.

The analyses underscore that the sector and the choice of listing segment are major factors in terms of a company's valuation on IPO. However a key factor is also played by the general stock market performance, as demonstrated also by the listings withdrawn in the second part of 2014.

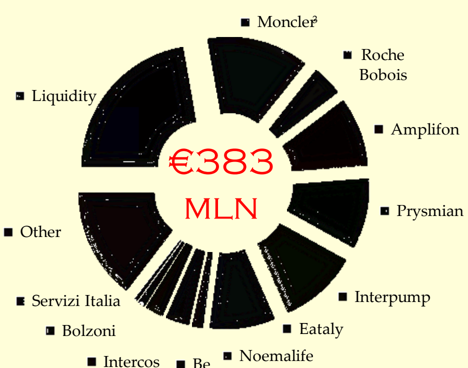
A perfect example is the withdrawal from listing by the pharmaceutical company Rottapharm-Madaus, which synthesises many of the key considerations analysed to this point.

In any case the fluctuations over time between the 7.84 of 2010 and the 17.63 in 2008 demonstrate the need to shrewdly approach the multiplier method also in the case of IPO's - operations which nearly always concern minority acquisitions and without strategic or synergetic aspects.

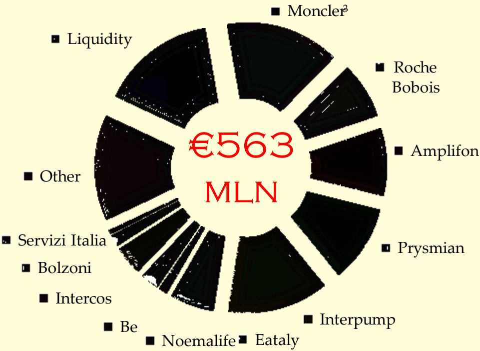
T.I.P. - Tamburi Investment Partners S.p.A.

Assets at November 30, 2014

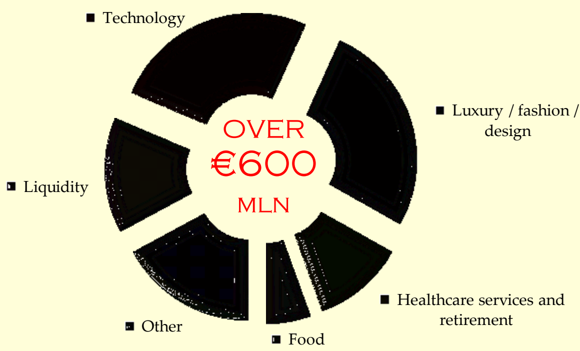
Book values



Consensus value[1]



T.I.P. Estimates of intrinsic value[2]



1. Consensus value: analytical value of investments according to the market concensus (Bloomberg).
2. Intrinsic value: analytic valuation of assets (gross of T.I.P. S.p.A. debts) drawn up according to the medium-term forecasts of the investments.
3. Investment in Moncler was considered maintaining the 14% share of Ruffini Partecipazioni.

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CHAPTER 9

The case of Rottapharm (and others besides)

It is interesting to note that in certain cases Italian family owners have decided on - also to resolve problems related to the ownership structure and/or generational transfer - a "hybrid" formula involving the sale of a majority stake to a listed industrial operator through a total or partial share-swap.

This alternative, as we shall see, has often followed a failed or however unsatisfactory attempt to open up to financial partners or to list on the stock market - but is a road to be taken with due care and even more so given the extent of work required.

It substantially concerns the sale of a majority or full holding to an industrial operator (often a large foreign competitor), usually for far higher consideration that could be sourced on the stock market or from a financial operator, particular if a minority holding, possibly with part payment through a share swap and therefore with the intrinsic value of the consideration not precisely quantifiable.

A very interesting and symptomatic recent case was the sale of the Rottapharm–Madaus pharmaceutical group by the Rovati family to the Swedish pharmaceutical multinational Meda.

Rottapharm–Madaus is one of the major Italian pharmaceutical groups involved in a number of therapeutic areas and with an international presence. In 2013 the group generated consolidated revenues of Euro 535 million and an EBITDA of Euro 149 million (28% margin).

According to press sources the Rovati family had previously (in 2012) sought a minority financial partner to restructure the ownership base and to source development funding. Following a number of unsuccessful attempts this search was suspended. This is understood to have been due to divergent valuations of the group, in addition to the significant difficulty of the financial partners to source bank funding to support the operation, as based on plans which are currently difficult to implement.

Subsequently, the company began a listing process on the Milan Stock Exchange.

The objective was to complete a Non-Dilutive Offering of a minority share of 35%. The listing was to take place in July 2014 with a valuation range for 100% of the share capital (Equity Value) of between Euro 1.45 and Euro 1.8 billion. The listing appeared to be coming to fruition when in the final days of the offer (July 10) the Rovati family decided to withdraw the listing, citing the reasons for such a sudden decision as unfavourable financial market conditions and weaker investor demand than expected by the owners.

A few days later however on July 31, the full acquisition by the Swedish multinational Meda of Rottapharm–Madaus was officially announced.

This news surprised everybody, in particular for the very short time period since the withdrawal of the listing. Apart from the obvious fact that the Rovati family had undertaken extensive negotiations with the Meda group on a dual track with the listing, theoretically the case provides a perfect basis to consider the respective valuation issues for each of the two situations.

The Meda group is a leading international pharmaceutical group headquartered in Sweden and listed on the Stockholm Stock Exchange. In 2013 the group generated revenues of Euro 1.4 billion and EBITDA of approx.

Euro 400 million (29% margin). On acquisition (July 31, 2014) the company was valued at a 2014 EBITDA multiple of approx. 12 and with a capitalisation of Euro 3.6 billion (therefore approx. 2.5 times revenue).

TABLES 1 AND 2 – RESULTS AND EQUITY POSITION OF ROTTAPHARM - MADAUS

Rottapharm - Madaus				
Results / 000 of Euro	**2012**	%	**2013**	%
Revenues	**539.752**	***100,0%***	**535.666**	***100,0%***
Growth %			*-0,8%*	
EBITDA	**141.061**	***26,1%***	**130.189**	***24,3%***
Adj. EBITDA (*)	**156.700**	***29,0%***	**149.400**	***27,9%***
EBIT	**105.380**	***19,5%***	**108.550**	***20,3%***
Pre-tax profit	**89.372**	***16,6%***	**83.979**	***15,7%***
Net profit	**71.461**	***13,2%***	**56.458**	***10,5%***

(*) Adjusted for non-recurring items and the exclusion from the consolidation scope of Rottapharm Biotech at the beginning of 2014.

[Source: IPO Report by Banca Imi]

Rottapharm - Madaus		
Balance sheet / 000 of Euro	**31/12/2012**	**31/12/2013**
Net capital employed	**805.840**	**876.998**
Net equity	586.875	629.877
Net financial position	218.965	247.121
Net equity + Net financial position	**805.840**	**876.998**

[Source: IPO Report by Banca Imi]

Table 3 – Results of Meda AB

Meda				
Results / 000 of Euro	**2012**	%	**2013**	%
Revenues	**1.410.240**	***100,0%***	**1.423.590**	***100,0%***
Growth %			*0,9%*	
EBITDA	**428.249**	***30,4%***	**405.344**	***28,5%***
EBIT	**195.508**	***13,9%***	**168.043**	***11,8%***
Pre-tax profit	**134.174**	***9,5%***	**108.881**	***7,6%***
Net profit	**127.552**	***9,0%***	**87.386**	***6,1%***

[Source: Publicly available financial statements]

The acquisition of Rottapharm-Madaus by Meda established an Enterprise Value of Euro 2.275 billion, broken down as:

TABLE 4 – PAYMENT BREAKDOWN

Rottapharm payment breakdown	Value	%
EUR mln		
Cash	1.643	72%
Meda shares (share swap)	357	16%
Deferred cash (Jan. 2017)	275	12%
Total (EV)	**2.275**	**100%**

[Source: Company press releases]

On conclusion of the operation, against a share swap the Rovati family will hold approx. 9% of the total Meda share capital, becoming the second largest shareholder behind Stena Sessan Rederi AB (which today holds approx. 20% and is therefore without control).

Making a simple calculation of the implied value of Rottapharm-Madaus from the operation with Meda compared to that which the market was prepared to pay on a stock market listing and without considering the effect of the current value of the deferred cash portion, we note that Meda paid a premium of largely between 10 and 30% over the maximum and minimum of the price range expected on a stock market listing.

This translates into a 2013 EBITDA multiple of 15.2 compared to an IPO price range of between 11.4 and 13.8.

TABLE 5 – IPO PRICE RANGE AND IMPLIED CAPITALISATION

IPO price interval	Min.	Max.
EURO		
Price per share	**7,25**	**9,00**
No. total Rottapharm shares	200.000.000	200.000.000
Capitalisation	**1.450.000.000**	**1.800.000.000**

[Source: IPO Report by Banca Imi]

TABLE 6 – VALUATION AND IMPLIED MULTIPLES IN IPO'S

Implied IPO multiples (2013)	Min.	Max.
('000) EURO		
EV (**)	**1.707**	**2.057**
EV/EBITDA (*)	11,4 x	13,8 x
EV/EBIT	15,7 x	19,0 x
EV Revenues	3,2 x	3,8 x

(*) EBITDA Adjusted

(**) calculated as capitalisation and NFP at 31/3/2014

[Source: TIP workings on IPO report by Banca Imi]

TABLE 7 – DIFFERENCE BETWEEN VALUATIONS IN THE IPO PHASE AND DURING ACQUISITION PHASES

IPO valuation difference - Meda	Min.	%	Max.	%
('000) EURO				
Δ Enterprise Value	**638**	*+ 32,9%*	**200**	*+ 8,4%*

(*) EBITDA Adjusted

[Source: TIP workings on IPO report by Banca Imi figures and press releases of the two companies]

It may be concluded therefore that the Rovati family gained greater benefit from not listing and selling shares to the Meda group. Is this in fact the case however?

Clearly a 100% sale to an industrial partner can in no way be compared to the placement on the stock market of a minority stake. An industrial partner acquiring a majority holding and even more so a full holding usually will be required to pay a control premium and a "strategic" premium based on the benefits and synergies deriving from acquisition/merger and often to a much greater extent than indicated above.

In fact, Meda announced that the merger of the two businesses would create cost saving synergies alone of approx. Euro 100 million annually, in addition to all those revenue benefits deriving from a broader portfolio of pharmaceutical products (more extensive and complementary) and a wider geographical presence.

The Swedish group estimates that the merger may in fact create a group capable of generating revenues of Euro 2 billion, with an EBITDA/revenue margin increasing over time from 28 to 33%. These macro-indicators are considered more than sufficient to justify the "premium" recognised by Meda compared to the listing price range and however confirm that the operation was of an entirely different nature.

A major advantage for the selling family was surely the possibility of benefitting from Meda share price increases in the future, although on the other hand the shares received in exchange should at least theoretically include a discount due to their illiquidity. In this case the share swap with Meda shares in fact represented a partial listing on the market for the Rovati family, which in fact received shares of a larger enterprise, with an international reach and which may benefit from the major synergies immediately available with Rottapharm-Madaus.

It is therefore considered that a "hybrid" formula such as that described was a valid alternative for the Rovati family and that similar blueprints may resolve ownership structure related issues not easily solved by private equity and/or direct listing on the stock market.

However, in this case they needed not only to cede control but also the entire group and it is therefore not one which would be considered by many Italian business owners.

We point out also that the family however maintained control of Rottapharm Biotech, a spin-off created before listing which carries out Research & Development activities.

This is not the only such case over recent years involving major Italian family businesses. A similar one which was perhaps reported upon even more was the acquisition of Bulgari by the French group LVMH.

In March 2011, LVMH finalised an agreement with the majority shareholders of Bulgari (Bulgari/Trapani family) for a majority holding of 50.4% through a share swap with LVMH.

Contemporaneously, the French group launched a full takeover of Bulgari in order to delist the company, which was subsequently completed. The total value paid by LVMH for the Italian group was in the order of Euro 3.7 billion.

Control was ceded by the Bulgari/Trapani family of Bulgari for approx. 3.5% of the French group, becoming therefore the second largest LVMH shareholder after the Arnault family.

The price per share recognised within the operation incorporated a premium of approx. 60% over the Bulgari listing price in the month preceding the announcement of the operation. This premium is particularly high compared to majority/controlling premiums examined in other sections of the present work, although it illustrates the major strategic interest of Bulgari for LVMH and consequently the significant potential and synergies expected from the operation.

The motive in this case was also highly industrial/strategic. The LVMH group was interested in the Bulgari brand to strengthen its presence in the high-end jewellery segment, immediately tapping into a global brand leader and the related major synergies that flow in terms of procurement and distribution.

The sale of the Bulgari family holding took place entirely through a share swap and therefore together with the 60% premium a not insignificant liquidity discount is also included. But rather than analysing numbers or attempting improbable comparisons, on this occasion it is apparent that every valuation is unique and should be analysed as a price and not as a value. The multiples again in this case prove their irrelevance.

Since the announcement of the operation (March 2011) the LVMH share to date has gained slightly under 30% and as time has progressed the family have benefitted further from the operation, significantly increasing the value of their holding received through sale/share swap.

It has also been demonstrated that the "over the odds" price paid by the existing LVMH shareholders was perhaps in fact not so.

An even more recent case concerns the 25% acquisition of MV Agusta by the AMG-Mercedes Benz group.

The Castiglioni family, which controls MV Agusta, after re-acquiring it from the Harley Davidson group (which did not succeed in developing it) sought to either find a partner or launch a stock market listing and in the end, as far as can be established, chose a sector (or similar sector) partner essentially due to the valuation attributed to the company and to benefit from the top level know-how and commercial networks on hand. Against this, the Mercedes group saw in MV Agusta a distinctiveness which justified a very high valuation and, more than anything, the possibility to tap into an original brand and a very difficult to replicate product positioning and depth of know-how.

Also in this case all purely value-related considerations are found wanting in terms of the various strands of originality at issue which make it impossible to categorise every aspect. This is particularly true if one tries to force blunt and superficial multiples or similar parameters into the equation.

In the case of MV Agusta a commentator spoke of – although the same had been said of Bulgari and the sale to an English group of the Fabergé brand – unique pieces, a term perhaps more applicable to works of art than actual companies which are assessed according to financial statements and expected results.

In this regard the latest debate on margins (or mark-ups) considered by some as excessive within the luxury world, should be viewed as pertaining to groups with long and distinguished histories and product tradition, high quality, know-how and savoir fare which cannot be summed up by a simple comparison between industrial mark-ups, but must be based on an extremely complex set of factors.

Turning again to the comparison just above with prices and works of art, another viewpoint would be if they were valued according to the cost of the canvass and the colours, rather than the works themselves.

Those who do not understand these issues are incapable of understanding industries which produce quality pieces. Industries which sell quality at prices which the market is prepared to pay. Whether these pieces are technological, clothing or jewellery makes little difference.

The quality and even more so the intangible components form the basis of the price of any article, and this is particularly true within those industries which thrive in a country such as Italy and rely on know-how as the driving force.

CONCLUSIONS

Up to this point, in addition to not particularly new issues concerning the dynamic between Italian businesses and their ownership structures, we have touched on aspects related to the valuations of such companies in the case of full acquisitions, majority acquisitions, the sale of minority holdings and stock market listings.

For those involved in the world of finance for many years it is clear that entirely undisputable or standard criteria do not exist for the valuation of companies and the lack of depth and the bluntness of multipliers or similar indicators are open to a range of interpretations.

The criteria themselves may widely vary according to the type of operation at issue.

In fact on the one had we have minority operations carried out by financial partners who must follow a particular rationale, and on the other hand full acquisitions based on establishing operational synergies between the acquiring company and the target. Usually significant strategic competitive advantages may also be at stake.

The difference in the premiums included in the Rottapharm and Bulgari offers highlights how broad and subjective valuations may be, even for listed or listing shares.

Synergies may explain a lot and be the reason for the payment of prices totally out of line than what would be suggested through the simple application of the classic formulas.

It is no coincidence that for the past twenty years valuation methods have become derivatives of the market prices. And not viceversa, as was always the case previously. In theory everything should work according to pure logic but in practice each operation is unique.

And every generalisation is usually off the mark.

Although cognisant of the limits and the basic inadequacy of the multiple-based criteria, on many occasions in the course of the present work reference has been made to them. Simplicity, professional practice and the difficulty in moving away from an embedded attitude lie behind this. However, even with their limitations, it may be concluded that between the two extremes outlined above in value terms, a set of methodologies exist which can give a clear idea at least on the differences between operations.

The various classes of operations may be broken down as:

1) minority operations carried out by financial operators with the goal of a future stock market listing;

2) minority operations carried out by financial operators with the goal of the future sale of the entire company;

3) minority operations carried out by companies in the same sector (or similar sectors) to draw upon complementary industrial or commercial features;

4) operations concerning the substantial acquisition of equal shares as based on, more than the size of the holding undertaken by each partner, shareholder agreements enabling a type of co-management among shareholders, at least with regard to issues of greater significance;

5) majority or full acquisitions by operators in the same sector based on achieving the best possible industrial and commercial synergies.

It is not an easy task, particularly considering the limits of the empirical methodologies, to draw up proper valuation guidelines and not just simple Trilussa averages for the five categories stated above. The scope of this work however is to establish a basis for valuations for the individual types of operations. The underlying table attempts to set guideline parameters, excluding obviously considerations inherent to the respective goods sectors.

TABLE 1 – VALUATION MULTIPLES BY TYPE OF INVESTOR AND PURPOSE OF INVESTMENT.

	Party	EBITDA Multiple (~)	Operation	Index
A)	Financial partner	6.46x-6.70x	Minority operations carried out by financial operators with the goal of a future stock market listing;	100 (Average value)
B)	Financial partner	6.88x-7.10x	Minority operations carried out by financial operators with the goal of the future sale of the entire company;	+4.6% / +8.0%
C)	Industrial investor	7.83x-8.09x	Minority operations carried out by companies in the same sector (or similar sectors) to draw upon complementary industrial or commercial features;	+19.0% / +22.9%
D)	Industrial investor	7.19x-8.45x	Operations concerning the substantial acquisition of equal shares as based on, more than the size of the holding undertaken by each partner, shareholder agreements enabling a type of co-management among shareholders, at least with regard to issues of greater significance;	+9.2% / +28.4%
E)	Industrial investor	8.73x-9.29x	Majority or full acquisitions by operators in the same sector based on achieving the best possible industrial and commercial synergies.	+32.6% / +41.3%

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

As demonstrated by the previous table, investors acquiring a minority stake which does not include particular guarantees and/or shareholder agreements with regard to the control of the company have historically paid a multiple (excluding sector or specific company and/or transaction considerations) of between 6.46 and 6.70 times EBITDA. This number is based on the high risk which a financial partner undertakes in terms of the management (by a third party) of the company, and in terms of a potential and future IPO exit.

The current environment requires particular consideration of the prices which the market is prepared to pay on IPO following an initial six months of the year in which new listings everywhere seemed the simplest thing in the world, on the Italian market alone over the last three months operations have been blocked such as those by Sisal, Rottapharm, Intercos, Fedrigoni, OVS and others.

MF a few days ago proclaimed across a full page "Nobody is listing on the stock market".

But what has happened in reality? How can we have gone from an abundance of interest to nothing in just a few weeks?

The answer lies perhaps in those excesses seen a number of months ago in which, with markets at historic highs, investors looked to niche IPO discounts to add value to their portfolios.

When however from Asia to the United States and from Europe to South America it became apparent that the much vaunted recovery of 2014 was disappearing everything came to an abrupt end. IPO's and small and mid-caps were the first victims, perhaps due to the uncertainty which according to some analysts they incorporated. As has happened many times in the past.

But more relevant in the context of this chapter we consider the base values, the range of primary multiples and taken as the baseline index (100) and which events of the recent past require us to assess with particular caution.

Firstly, it is brought into to sharper focus that this category of operations are not IPO's but operations undertaken with a view to finding an IPO market in the future. They are obviously strongly based on effectively achievable prices on listing.

In order to explain aspects not always apparent in these type of operations it is necessary to begin a little further back.

When a bank seeks to obtain a mandate for a future IPO its objective is to bring it in-house, undertaking the operation itself or with one or a maximum of two other global co-ordinators to manage the operation.

Often therefore, taking account of the number of months between this point and the actual market offer, they seek to court the interested company with high valuations.

Months pass and even if the market and the company's numbers have not changed significantly by the time it comes to set the offer price, a sort of terrible triangle develops within the bank.

The internal investment banking unit must try to keep up on the promises it made a number of months previously (often restated during the course of the work and therefore even more difficult to retract), while the commercial unit i.e. the department which actually sells to its clients/investors tends to put itself at odds with the proposers; then, if that were not enough, we have the team of sector experts tasked with completing the research for the client and internal structures who undertake their analysis and research with a view to (and with the alibi of neutrality used) not favouring one over the other.

Never are conflicts so tense in the banking world and in particular in relations between a bank and their clients when a price must be fixed on listing. Very significant fractures also often open up within banks in this regard.

It is a pity that the weight of these issues always ends up on the client, intended as the company seeking a stock market listing (the client/investor is rarely affected), and in these true civil wars highly embarrassing levels of inconsistency and seemingly futile behavior are displayed (sometimes highly unbecoming within such a sector).

Malevolent cases also may develop, becoming listings "at any cost", such as the recent situations with Alibaba or Moncler in which the company is literally pulverised, with their very core, history and results becoming almost an after-thought. It becomes a type of bloodsport, in which at the end everybody has turned against everybody else.

We find roadshow colleagues seeking to gain information to put themselves on the inside track, the analysts and researchers who seem to inhabit a world of their own and the sellers which, although part of the same organisation clearly favour their investors, therefore the precise counterparty of the company to be listed.

In order not to further complicate the picture we have not mentioned theoretically lesser important roles than those of the global coordinators, such as the adviser, the sponsor and others.

This three way conflict of interests has been seen for many years in similar operations and which cannot be

entirely avoided due to the inevitably conflicting roles. Very little can be done to remedy the situation.

All that can be done is to keep one's eyes open, try to prepare well in advance with appropriate contractual coverage against the banks and particularly - keep a strong nerve over the final stages.

It also always pays to be extremely prudent from the outset and to consider worst case scenarios and particularly to factor into valuations 10/15/20% on the downside (therefore the 100 of Table 1 becomes possibly 80/85/90) and to keep in mind that at the last moment it is quite possible that months, even perhaps years of work, could in the end be for nothing.

It must be considered however that this discount is not what at times is defined as an IPO discount concerning the outcome of the company's listing, but is related to an additional often unforeseen risk which results from unprofessional banking practice and a lack of proper co-ordination, neither internally or among banks and who more than anything prefer at this time to favour the protection of the interests of their acquirers/investors/managers or their asset management or private banking sections rather than the issuing company.

This is the reason , as illustrated in other parts of the present work, more long-sighted investors tend not to sell shares during the IPO, as perfectly illustrated by the statistics and the graphs of Ernst & Young cited in the initial parts of our work.

Concerning the table in this chapter, financial partners have historically been prepared to pay a higher multiple (+4.6/+8.0% on 100%) for the acquisition of a minority holding but with the final goal of selling on to an industrial partner, as in such situations shareholders agreements can be expected to be put in place to facilitate (or sometimes guarantee) an exit. Not only are tag along and drag along rights usual in this cases, but also agreements which provide for in limited cases the sale of the full holding with a high premium but contractually incorporated *ex ante*.

In relation to potential industrial investors, both industrial and financial synergies justify the payment of a higher multiple, for example in the +19.0/+22.9% range in the case of minority holdings.

The premium may increase up to and also beyond 40% in the cases of strategic and synergetic operations.

This number may appear excessive, particularly if compared to those cited in finance textbooks and according to classical valuation practices, but operators are satisfied to pay such numbers according to that effectively uncovered.

Caution however must be exercised, as in this case also the statistical sample analysed presents certain limitations:

1. the sector and time period mix within the various clusters analysed may result in fluctuations to the parameters which limit the significance of the differences between categories;

2. the differing number of operations within the various categories may affect the statistical fundamentals of the comparison between valuation intervals;

3. the significance of EBITDA by company with high levels of capital expenditure and consequent depreciation in fact further impacts comparison.

In terms of the first issue, the table below, previously reported in the "Mergers & Acquisitions" chapter which contains a range of multipliers considered sufficiently significant to value, by goods sector and within the M&A category (which best reflect sector development), the figures reported in the period and therefore propose a further ranking which allows a more accurate (or at least less theoretical) application of the values.

TABLE 2 – MULTIPLES BY SECTOR AND RELATIVE PREMIUM OR DISCOUNT COMPARED TO THE WEIGHTED AVERAGE OF THE SECTORS AND THE NUMBER OF OPERATIONS.

Average weighted of the sectors by number of operations			
Sector	**No. of operations**	**EV/EBITDA**	**Premium/(discount) compared to the average**
Games & gambling	5	5,88x	-27,4%
Tourism & entertainment	4	6,00x	-25,9%
Publishing	4	6,03x	-25,6%
Textiles & clothing	11	6,16x	-23,9%
Packaging	13	6,27x	-22,6%
Services	20	6,50x	-19,8%
Automotive	4	6,65x	-17,9%
Manufacturing	43	6,94x	-14,3%
Chemicals/pharmaceutical	24	7,74x	-4,4%
Home goods	17	7,77x	-4,1%
Mechanical & engineering	31	8,07x	-0,4%
Average weighted		**8,10x**	**100**
IT & telecommunications	38	8,16x	+0,7%
Retail & distribution	19	8,28x	+2,3%
Food	30	8,67x	+7,1%
Energy & utilities	33	8,78x	+8,4%
Aerospace	3	9,27x	+14,4%
Healthcare	8	9,50x	+17,3%
Construction	8	9,63x	+18,9%
Logistics & transport	19	9,89x	+22,1%
Fashion & Luxury	22	11,38x	+40,5%

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

In terms of the various goods sectors, the multiples in the previous table appear once again to vary greatly between sectors. Certain sectors such as paper and publishing present a significant discount compared to the average, while others such as fashion and luxury goods present a significant premium (44.4%).

TABLE 3 – MULTIPLES BY SECTOR AND RELATIVE PREMIUM OR DISCOUNT COMPARED TO THE SIMPLE SECTOR AVERAGES.

Simple sector averages			
Sector	**No. of operations**	**EV/EBITDA**	**Premium/(discount) compared to the average**
Games & gambling	5	5,88x	-25,4%
Tourism & entertainment	4	6,00x	-23,8%
Publishing	4	6,03x	-23,5%
Textiles & clothing	11	6,16x	-21,8%
Packaging	13	6,27x	-20,5%
Services	20	6,50x	-17,5%
Automotive	4	6,65x	-15,6%
Manufacturing	43	6,94x	-11,9%
Chemicals/pharmaceutical	24	7,74x	-1,7%
Home goods	17	7,77x	-1,4%
Sector average		**7,88x**	**100**
Mechanical & engineering	31	8,07x	+2,4%
IT & telecommunications	38	8,16x	+3,5%
Retail & distribution	19	8,28x	+5,1%
Food	30	8,67x	+10,1%
Energy & utilities	33	8,78x	+11,4%
Aerospace	3	9,27x	+17,6%
Healthcare	8	9,50x	+20,6%
Construction	8	9,63x	+22,3%
Logistics & transport	19	9,89x	+25,5%
Fashion & Luxury	22	11,38x	+44,4%

[Source: TIP workings on Mergermarket and Fineurop Soditic figures]

Considering therefore the features and the prospects for the various sectors, although taking account of the specifics of certain operations, the correlation between the premium or the discount on average paid and the sector prospects in terms of growth and margins appears immediately apparent.

In order to reduce problems of a statistical nature, with regard to the second issue a significant interval was calculated using not only the simplified average of the multiple for each operation, but also an average which eliminates the extremities in the range of 5% higher and 5% lower.

The data analysis, which we believe as sector operators is confirmed empirically, highlights that the differential between operations with minor impacts on the target company and those which however maximise merger synergies is 41.3%.

Years ago much was written on theoretical majority premiums and the extent of such, while thereafter attention turned to the Takeover premium for companies listed on the stock exchange as a clearer and more precise parameter highlighting value differences between equity market operations and Merger & Acquisitions market operations.

Now, with an even greater level of differentiation between types of investors and also of shareholder agreements within specific operations, the framework has become even broader.

The preceding tables attempt to provide a clear and technical breakdown. It is a little daring, but we believe it is an important task.

The very fact that differing types of operations can justify, with all other factors remaining the same, a premium of over 40% leads us to conclude that the range of operations now evident requires serious analysts to try as far as is possible to overcome the many simplifications which we have become used to.

More precise and weighted valuations can therefore be achieved.

Combining these considerations with sector specific issues, taking into account that highlighted in the IPO chapter and with regard to the stock market in general - extensively dealt with in other parts of the present work - we can factor in premiums, discounts, price increases and all those other considerations which are too often ignored by insufficiently careful or rigorous analysis.

We have known for some time that company valuations are not, nor can they be, an exact science - but it is now possible to refine the toolset available to analysts and valuers. If these instruments may in the future facilitate the creation of new models and ownership structures for Italian companies, our work will have been worthwhile.

The preceding pages have sought to describe the structures and anomalies which reflect the ownership of Italian enterprises, upon which we have provided suggestions and illustrative data. We then sought to quantify values and outline how they have become (or may become) prices, in order to allow business owners and investors to draw up valuations on a less theoretical or blunt basis than the models found in general subject literature.

All of this was undertaken to arrive at conclusions upon what are usually smaller, older or under-capitalised companies, a great many of which of course need to take action in terms of their capital structure. Alongside this however, we have seen many examples of excellence and companies which have broken through these limitations and gone on to thrive as a result.

We hope to have succeeded in providing an appropriate, precise and considered starting point for our theoretical audience - therefore the tens of thousands of business owners operating in Italy who in many cases have ensured our country's place as one of the major global economies - to begin to explore their very real difficulties in how to proceed.

This would in itself be an incredible result.

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We are not an investment private equity fund and we do not «force» exits: rather, we steadfastly pursue the growth of investees and we increasingly invest with a long-term view. Our main shareholders are more interested in medium/long-term investment rather than «keeping back» funding which could be put to good use.

1. **We are more interested in a small number of investments, concentrated in true and promising leading enterprises** diversifying the portfolio according to normal asset management strategies. **We work in close partnership** with the companies in which we have acquired investments **in order to consolidate their leadership.**

2. **We do not use public money** but that of entrepreneurs and professional investors who seek the maximum transparency that a company listed on the stock exchange and is truly «public» displays.

3. **We do not insist upon particular roles and do not try to act as spin doctors** but comprehensively assist the development projects of the soundest, most ambitious and courageous companies in Italian-European industry.

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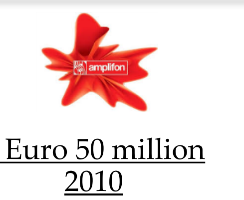
Main operations in place – Consensus value*

Post Printemp (2013) and Datalogic sales (2014)

(in alphabetic order)



~ Euro 50 million
2010

~ Euro 40 million 2007
(5 investors)

~ Euro 10 million
2007

Euro 120 million
2014
(19 investors)

~ Euro 50 million
2011
(2 investors)

~ Euro 330 million
2002
(6 initial investors)

~ Euro 185 million
2013
(7 investors)

~ Euro 15 million
2011
(3 investors)

Prysmian Group

~ Euro 220 million
2010
(3 investors)

rochebobois PARIS

~ Euro 30 million
2013
(5 investors)

~ Euro 3 million
2007

. T . I . P . O .
TIP - PRE IPO S.P.A.

Euro 140 million
2014
(> 40 investors)

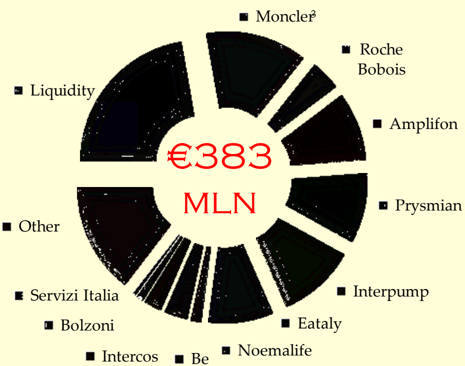
** Consensus value: includes the analytical valuation of investments according to market consensus (Bloomberg).*

www.tipspa.it

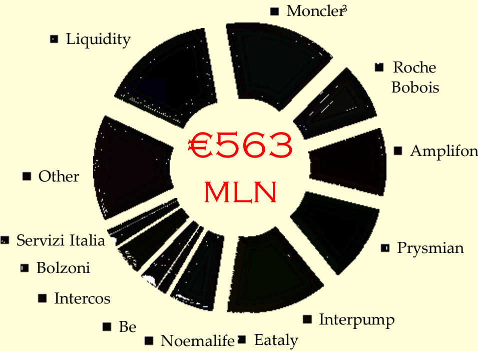
T.I.P. - Tamburi Investment Partners S.p.A.

Assets at November 30, 2014

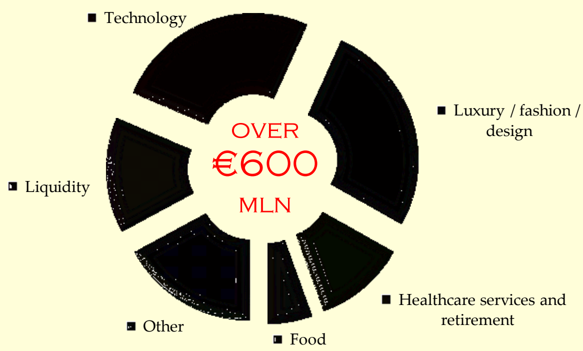
Book values



Consensus value[1]



T.I.P. Estimates of intrinsic value[2]



1. Consensus value: analytical value of investments according to the market concensus (Bloomberg).
2. Intrinsic value: analytic valuation of assets (gross of T.I.P. S.p.A. debts) drawn up according to the medium-term forecasts of the investments.
3. Investment in Moncler was considered maintaining the 14% share of Ruffini Partecipazioni.

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T.I.P. - Tamburi Investment Partners S.p.A.

TIPO – TIP-Pre-IPO S.p.A.

- Based on the same mission as TIP, in June 2014 **TIPO** was created.
- **TIPO** invests in leading sector companies with **revenues of between Euro 30 and 200 million**, with an **EBITDA margin over 9/10%** and with a **solid financial position.**
- **TIPO** invests in companies who intend to **list on the stock market** in the next five years.
- The subscribed share capital is today **Euro 140 million.**
- **TIPO** at November 30, 2014 has:
  - Identified 1,400 companies which meet the pre-set criteria.
  - Selected 130 companies to contact.
  - Already prepared over 100 dossiers.
  - Already contacted over 50 companies.
  - Already drawn up 5 manifestations of interest.

The journey of AAA to an IPO in New York continues

In 2014 TIPO acquired 1.595% of AAA (Advanced Accelerator Applications S.A), a French company engaged in molecular and nuclear medicine, focused on imaging products and therapies for the treatment of serious illnesses.

On October 21 AAA began the NASDAQ listing process and on November 17, 2014 the prospectus was made public.

AAA seeks a placement, entirely as share capital increase and obviously market permitting – during the first part of 2015.

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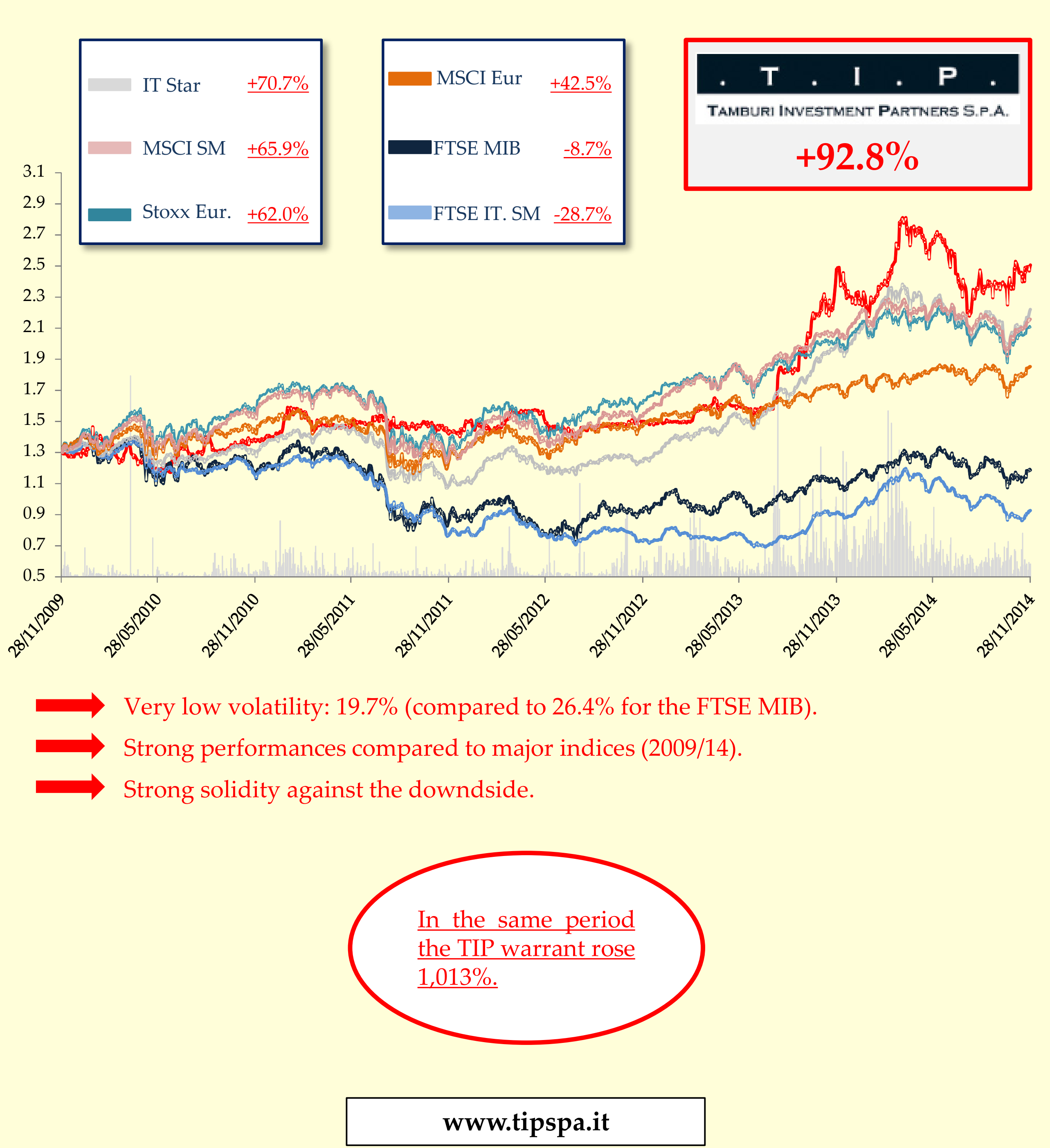
T.I.P. - Tamburi Investment Partners S.p.A.

TIP share over the last 5 years (at 30/11/2014)



GLOSSARY

Term	Definition
Adverse selection	Distorted market development due to buyers and sellers having access to differing information.
Advisor	Party providing general consultancy within a corporate finance operation.
AIM	Segment of the London Stock Exchange and Borsa Italiana on which the shares of small and medium high-growth potential companies are traded.
Fixed assets	Fixed or tangible assets are those employed by a business for production with a useful life of greater than one year.
Intangible assets	Intangible assets are a particular type of asset, non-tangible and with long-term utility.
Trade balance	The difference between the value of goods exports and imports (excluding services).
Blue Chip	A former segment of Borsa Italiana. Companies with a particularly solid financial base and capitalisation of greater than Euro 1,000 million were included in the segment.
Buy Out	An acquisition of a company principally funded by debt.
CAGR	Compound Annual Growth Rate. Indicator representing the growth of a particular value over a particular period of time.
Risk capital	Portion of a company's equity contributed by shareholders.
Certificates	Derivative financial instruments securitised and traded on the SeDeX market which reflect, with or without leverage, the performance of the underlying asset.

Term	Definition
Chinese wall	In economics terms an information barrier separating sections of an investment bank, of a company or a fund management firm.
Lock in/lock up clause	Clause requiring an issuing company or any shareholders from executing certain capital operations within the company in the period following a public offer.
Drag along clause	Clause permitting a selling shareholder to sell, together with their investment, also the shares of another shareholder, usually with a minority stake, who however has the right to the same contractual conditions and to receive the pro-quota price of the selling shareholder.
Tag along clause	Clause requiring a shareholder, usually the industrial partner or the majority shareholder, who intends to sell their holding to a third party to ensure the sale of the holdings of another shareholder (usually the financing partner or a minority shareholder), which the third party purchaser is obliged to acquire at the same conditions.
Board of Directors	Management board which oversees the running of a limited liability company or other companies whose governance is modelled on such companies.
Income Statement	Accounting document which summarises the revenues and costs for a particular year.
Covered Warrant	Derivative financial instrument issued by a financial broker which permits the acquirer to purchase (covered warrant call) or sell (covered warrant put) an underlying asset at a pre-set price (exercised price or strike price) at (or by) a pre-set date.

Term	Definition
Credit crunch	Credit crunch refers to a restricted amount of credit offered by financial intermediaries (in particular banks) to customers (particularly businesses) within an overall market of unsatisfied loan demand.
Tax wedge	All of the taxes which affect the overall cost of labour (incurred therefore by the employer or contractor for direct employees, sub-contractors or consultants).
Delisting	Removal of a share from the register of listed companies and its complete withdrawal from trading on the stock exchange. The delisting of a share on a regulated market can take place in two ways: where the issuing company voluntarily requests its withdrawal and such is approved by the management board, or following a unilateral decision by the stock exchange.

Development capital	Investments in companies with strong cash flow, rapid growth and requiring funding to grow in line with the market.
Due Diligence	Acquisition of the information necessary for the preparation of documentation required by operating best practice and regulations for the issue of financial instruments or the acquisition of assets.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) is a widely used profitability indicator. EBITDA is the gross operating margin.
EBITDA Adjusted	EBITDA excluding "non-recurring" positive and/or negative items and the effects of the accounting policies used by the company.

Term	**Definition**
Enterprise Value	Measure indicating the "value of the company". It differs from the equity value due to the financial component (Net Financial Position) to be subtracted from (in the case of debt) or added to (in the case of cash) the Enterprise Value.
Enterprise value/EBITDA	Market multiple based on the ratio between the value of the company (Enterprise Value) and its EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation).
Equity	In finance, own capital less debt of a company. In accounting the term as associated also with the "Shareholders' Equity" recognised to the balance sheet under liabilities and represents therefore that due to shareholders in the case of default, once all liabilities according to priority have been settled.
ETF	Exchange traded funds are mutual funds traded on the stock market in the same manner as equities.
Expansion capital	Expansion capital (development capital) is capital lending or debt granted for the growth and expansion of a company in order to increase productive capacity, for the development of a market or a product or for additional working capital.
Exports	Sale of goods and/or services in another state.
Cash flows	There are different measures of cash flow based on the various activities of a company: (i.) operating and investing activities (Free Cash Flow) - the difference between operating cash flow and investments in fixed capital), and (ii.) financing activities (Cash flow from/for contributors of debt capital; Cash flow from/for shareholders).

Term	**Definition**
Funding sources	These are the financial resources available to a company to acquire the factors of production. They may be financed internally (own capital) or externally (banks, credit institutions or third parties).
FTSE MIB	The FTSE MIB (Financial Times Stock Exchange Milan Indice di Borsa) is the largest equities index of Borsa italiana. It hosts the shares of the 40 largest cap Italian and overseas companies trading on the markets managed by Borsa Italiana.
Governance	The set of instruments, rules and mechanisms put in place to ensure the best delivery of the decision-making process of a company in the interests of the various stakeholders.
Green economy	Economic model which seeks to reduce environmental impact through measures favouring sustainable development, such as renewable energies, reduction of consumption and the recycling of waste.
IPO	"Initial Public Offering", referring to a particular type of public sale or subscription offer with the objective of listing on a regulated market.
IPO discount	Discount applied to the stand alone value of a listing company (fair value).
ISTAT	The national institute of statistics is an Italian public research body.
Financial leverage or Leverage	Debt ratio defined as the ratio between debt and shareholders' equity.
Leveraged Buy Out (LBO)	Acquisition of a company principally through utilising debt.
Stock Exchange	Regulated market and relative segments. In Italy it is organised and managed by Borsa Italiana S.p.A..

Term	**Definition**
Expandi market	Regulated market managed by Borsa Italiana since June 2009 on which shares, bonds, warrants and options are traded.

M&A	Mergers (operations in which separate companies are integrated into a single legal entity, either existing before the merger or created *ex novo*) and acquisitions (operations through which the company becomes the owner or parent company of another).
Mini-bond	Financial instrument for companies. This instrument enables companies to source funding from investors in exchange for debt securities.
Multiples	Method used for setting prices, comparing the value of the operation with certain profit or equity indicators.
MTA	Market managed by Borsa Italiana on which shares (ordinary shares, preference shares and savings shares), convertible bonds, warrants, options, and fund unit certificates are traded.
Tender offer	Offer to investors of financial instruments. A tender offer is therefore a financial instrument which facilitates the acquisition of control of a company whose securities are widely held on the market and which simultaneously guarantees equity in the distribution of majority premiums.
OPEC	Organisation of petroleum exporting Countries. Founded in 1960 it currently comprises twelve associate countries, forming an economic cartel to negotiate with oil companies aspects concerning the production of oil, prices and concessions.

Term	**Definition**
Cross border operations	Transactions concerning the purchase of sale of financial instruments traded on overseas markets or the involvement of parties resident in differing countries. In recent years, both the number and volume of cross border transactions has increased. The contributing factors have been technological developments and the increased size of the financial markets due on the one hand to the liberalisation of the international movement of capital and on the other deregulation, which has resulted in an expansion of the range of financial products and services offered.
Distressed operations	Investment in the shares or bonds of companies in crisis, in bankruptcy or insolvency. The objective is to acquire securities at a low price in the expectation of the company's recovery of solvency and reliability.
Dual track operations	Operations undertaken in parallel.
New Share Issue	Operation in which the company invites one or more categories of investors to undertake newly issued shares on a primary market.
Non-Dilutive Offering	Offer proposed by one or more shareholders of a company who fully or partly sell their shares on a primary market.
Financial partner	Partner contributing risk capital usually to finance the company's development.
Shareholder agreements	Shareholder agreements are undertaken between shareholders of the same company in order to align and/or manage commonly-held interests within the company.

Term	**Definition**
Net Financial Position (NFP)	The NFP is the difference between debts, independently of maturity, current financial assets and available liquidity. The net financial position may be negative and in this case is usually called the net debt. If, on the other hand it is positive it may be said that the company has "cash" and is indicated as "net cash".
Pricing	Setting of a sales price.
Private Equity	Institutional investment in the risk capital of non-listed companies.
Gross Domestic Product	Gross Domestic Product (GDP) is the total monetary value of goods and services produced in a country by resident and non-resident economic operators over a period of time, generally one year, for the purposes of end consumption, private and public investment and net exports (total exports less total imports).
Public company	A fragmented company ownership model common in the UK/USA. Public companies, usually large in scope, have a fragmented shareholder base in the sense that there are many shareholders, with none having a sufficient amount of shares to control the company.
Public equity	Institutional investment in the risk capital of listed companies with high development potential.
Listing	Inclusion of a financial instrument (usually shares or bonds) in the list of securities traded on a particular market.
Rating agency	Independent agency specialised in evaluating the risk of insolvency of an issuer or a security.

Operating profit	Ratio between EBITDA and sales.
Replacement	Purchase of a minority share from an exiting shareholder.

Term	Definition
Road show	Process involving a series of meetings between the institutional investment community and the management of a company with the view to setting up an offer of their securities.
Bidder company	The Offerer. The bidder in acquisitions concerns the company which intends to purchase a company or a holding.
Target company	The object company of an investment.
Spin off	Operation through which a company or a business unit is conferred to another company or a newly incorporated company in a non-monetary exchange involving the shares of the conferring company.
Sponsor	Broker with the duty to assist an issuing company in the listing process, ensuring the reliability of the business plan and facilitating contacts with analysts and investors.
Standard Class 1	MTA segment in which liquid securities of companies with capitalisations of lower than Euro 1 billion are traded.
Star	MTA segment in which the shares of mid-cap companies are traded which fulfil particular disclosure and corporate governance requirements.
Success fee	Variable fee recognised on the basis of the successful conclusion of a purchase or sales operation.
Turnaround	Acquisition of control of a company in difficulty, with a view to relaunching it.
Underpricing	Common issue in IPO operations, whereby the placement price is lower than the market share price on listing.

Term	Definition
Underweight	In financial jargon the assessment of an analyst or a manager of a particular security. The term underweight signifies that the analyst or manager is pessimistic about the security; in finance in fact a share termed underweight is one whose portfolio percentage share is lower than the weight of this share within the index.
Added value	Difference between the value of production of goods and services and costs incurred by the individual production units for the purchase of the production inputs required from other companies. This represents the value that the factors of production utilised by the company, capital and labour, have "added" to the inputs acquired externally, in order to obtain a production figure.
Venture Backed	Company invested in by a Venture Capitalist.
Venture Capital	Institutional investment in the risk capital of a non-listed company, in the start-up phase, with high development potential.

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Eni	**58,401**
Intesa Sanpaolo ord	38,452
Intesa Sanpaolo sav	2,018
Total Intesa Sanpaolo	**40,470**
Enel	**36,485**
Unicredit ord	34,857
Unicredit sav	20
Total Unicredit	**34,877**
Generali	**27,074**
Luxottica Group	**20,700**
Atlantia	**16,747**
Telecom Italia ord	12,205
Telecom Italia sav	4,294
Total Telecom Italia	**16,499**
Tenaris	**15,701**
Snam	**14,419**
Fiat Chrysler	**12,234**
Enel Green Power	**9,675**
Exor	**8,815**
Cnh Industrial	**8,525**
Terna	**7,807**
Unipolsai ord	5,234
Unipolsai sav A	309
Unipolsai sav B	844
Total Unipolsai	**6,387**
Mediobanca	**6,203**
Ubi Banca	**5,573**

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Pirelli E C. ord	5,428
Pirelli E C. sav	128
Total Pirelli E C.	**5,556**
Stmicroelectronics	**5,505**
Saipem ord	5,079
Saipem sav	2
Total Saipem	**5,081**
Finmeccanica	**4,510**
ParmAlat	**4,434**
Mediolanum	**4,115**
Banco Popolare	**4,017**
Mediaset	**3,841**
Salvatore Ferragamo	**3,688**
B M. Paschi Siena	**3,321**
Campari	**3,264**
Gtech	**3,225**
Prysmian	**3,128**
Hera	**3,048**
Moncler	**2,985**
Recordati	**2,940**
Unipol	1,833
Unipol P	1,041
Total Unipol	**2,874**
Finecobank	**2,751**
B P Emilia Romagna	**2,743**
Azimut	**2,650**
A2a	**2,625**

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Banca Generali	**2,464**
De'Longhi	**2,380**
Buzzi Unicem ord	1,989
Buzzi Unicem sav	291
Total Buzzi Unicem	**2,280**
Tod's	**2,273**
Bb Biotech	**2,211**
Credem	**2,111**
World Duty Free	**1,981**
Acea	**1,945**
B Pop Milano	**1,899**
Brembo	**1,856**

Diasorin	1,846
Sias	1,844
Italcementi	1,729
Ansaldo Sts	1,694
Salini Impregilo ord	1,544
Salini Impregilo sav	16
Totale Salini Impregilo	1,560
Autogrill	1,543
B P Di Sondrio	1,454
Erg	1,405
Danieli & C	808
Danieli & C sav	562
Total Danieli & C	1,370
Fincantieri	1,286
Brunello Cucinelli	1,272

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Beni Stabili	1,271
Indesit	1,253
Anima Holding	1,238
Ima	1,237
Ei Towers	1,207
Interpump	1,199
Yoox	1,187
Iren	1,134
Amplifon	1,124
Piaggio	929
Sorin	923
Astm	912
Cr Valtellinese	886
Marr	879
Rai Way	876
Saras	837
Cerved Information Sol	829
Cementir Holding	795
B Ifis	721
Save	712
Cir	699
Geox	699
B Carige	691
B Carige Rsp	3
Total B Carige	694
Safilo Group	670
Italmobiliare	433

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Italmobiliare sav	227
Total Italmobiliare	660
Sol	610
Vittoria Ass	586
Maire Tecnimont	557
B Intermobiliare	548
Astaldi	529
Datalogic	525
Reply	523
Rcs Mediagroup	511
Dea Capital	499
Igd	496
Engineering	469
Zignago Vetro	466
Trevi	455
Ascopiave	434
Cairo Communication	430
Espresso	408
Tamburi Investment Partners	360
Cti Biopharma	317
Esprinet	317
Nice	317
Cattolica Assicurazioni	310
B Desio Bria Rnc	30
B Desio E Brianza	274
Total B Desio E Brianza	304
Ivs Group	296

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14

Falck Renewables	291
Cofide	285
Fiera Milano	275
Sogefi	274
Aeffe	265
Fnm	256
DelcliMa	255
Caltagirone	240
Roma A.S.	237
Vianini Lavori	233
B Profilo	232
Juventus Fc	229
Biesse	228
Moleskine	227
Mondadori	224
Risanamento	211
La Doria	208
Sesa	199
Mutuionline	189
Cembre	186
D'amico	184
Gala	181
Immsi	173
Prelios	170
Basicnet	166
Gas Plus	166
Bca Finnat	157

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Snai	**155**
Valsoia	**151**
Intek Group	117
Intek GroUp sav	30
Total Intek Group	**147**
Rosetti Marino	**147**
Saes Getters	99
Saes Getters sav	44
Totale Saes Getters	**143**
Prima Industrie	**140**
Bon Ferraresi	**139**
Net Insurance	**137**
Sat	**135**
Sabaf	**132**
Emak	**131**
Landi Renzo	**129**
Space	**126**
Caltagirone Editore	**124**
Servizi Italia	**123**
Aeroporto Di Firenze	**118**
El En	**118**
Alerion	**114**
Mittel	**114**
Telecom Italia Media	111
Telecom Italia Media sav	3
Total Telecom Italia Media	**114**
Tiscali	**109**

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Tecnoinvestimenti	107
Damiani	106
B Pop Etruria E Lazio	105
Molmed	105
Reno De Medici	105
Elica	103
Pininfarina	102
Retelit	97
Txt E-Solutions	96
Carraro	95
Edison Rsp	94
Fintel Energia Group	93
Methorios Capital	92
Beghelli	89
Bio On	89
Class Editori	87
Iniziative Bresciane	87
BoEro	86

Acsm-Agam	84
Piquadro	77
Brioschi	74
Italia Independent	74
Tbs Group	74
Bolzoni	71
B Sardegna Rsp	69
Ratti	68
Be	67

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Tesmec	67
Autos Meridionali	66
Notorius Pictures	66
Enervit	65
Eurotech	61
Triboo Media	61
B&C Speakers	60
Panariagroup	60
Isagro	40
Isagro Azioni Sviluppo	18
Total Isagro	58
Kinexia	58
Ternienergia	57
B Pop Spoleto	53
Acotel Group	52
Csp International	50
Irce	50
Industrial Stars Of Italy	49
Gefran	48
Mondo Tv	48
Plt Energia	48
Ciccolella	46
Monrif	46
Digital Bros	45
Dada	44
Frendy Energy	44
M&C	44

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Expert System	41
Bialetti Industrie	40
Premuda	40
Ambienthesis	39
Gabetti	39
Lucisano Media Group	39
Vianini Industria	39
Bastogi	38
ExpriVia	38
Leone Film Group	38
Cad It	36
Lazio S.S.	36
Noemalife	36
Acque Potabili	35
Neurosoft	35
Pierrel	34
Greenitaly1	32
Poligrafici Editoriale	32
Borgosesia	29
Borgosesia sav	1
Total Borgosesia	30
Primi Sui Motori	30
K,R,Energy	29
Stefanel	29
Stefanel sav	0
Total Stefanel	29
Centrale Del Latte To	28

Borsa Italia listed equities	Capitalisation Mln € 28-Nov-14
Il Sole 24 Ore	27
Mid Industry Capital	27
Agronomia	25
I Grandi Viaggi	25
Alba Private Eq	24
Zucchi	23

Zucchi sav	1
Total Zucchi	**24**
Energy Lab	**23**
Mailup	**23**
Vrway Communication	**23**
Cia	**22**
Ecosuntek	**22**
First Capital	**21**
Ricchetti	**20**
Best Union Company	**19**
Fullsix	**19**
Gruppo Green Power	**19**
Seat Pagine Gialle	18
Seat Pagine Gialle sav	1
Totale Seat Pagine Gialle	**19**
Tas	**19**
Biancamano	**18**
DigiTal Magics	**18**
Eukedos	**18**
Caleffi	**17**
Go Internet	**17**

Borsa Italia listed equities	**Capitalisation Mln € 28-Nov-14**
Mc-Link	**17**
Visibilia Editore	**17**
Ergycapital	**16**
Fidia	**16**
Mediacontech	**16**
Ambromobiliare	**15**
Ki Group	**14**
Mondo Tv France	**14**
Rosss	**14**
Safe Bag	**14**
Tech-Value	**14**
Conafi Prestito'	**13**
Aedes	**12**
It Way	**12**
Lventure Group	**12**
Olidata	**12**
Aion Renewables	**11**
Mp7 Italia	**11**
Nova Re	**11**
Sacom	**11**
Wm Capital	**11**
Bioera	**10**
Chl	**10**
Industria E Innovazione	**10**
Arena	**9**
Compagnia Della Ruota	**9**
Eems	**9**

Borsa Italia listed equities	**Capitalisation Mln € 28-Nov-14**
Enertronica	**9**
Imvest	**9**
Innovatec	**8**
Poligrafica S,Faustino	**8**
Softec	**8**
Te Wind	**8**
Ikf	**7**
Valore It Hp	**7**
Arc Real Estate	**5**
Meridie	**5**
Poligrafici Printing	**5**
Screen Service	**5**
Soft Strategy	**5**
Blue Note	**4**
Crespi	**4**
Dmail Group	**4**
CogeMe Set	**3**
Invest E Sviluppo	**3**
Moviemax	**3**
Sintesi	**3**
Sunshine Cap Inv	**3**
Hi Real	**2**
Vita Societa Editoriale	**2**