

ITALY

GROWTH OPPORTUNITIES POST COVID

| ENTER >



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PRIVATE EQUITY

The Private Equity industry in Italy has been growing in scale for over a decade. It is now roughly on a par with Germany in terms of buyout value. Italy has a lot of small and medium-sized businesses, and relatively few large ones, and these have tended to remain in private, family hands. Private Equity has become an increasingly popular method of solving ownership succession issues.

VENTURE CAPITAL

Until a few years ago, Italy's Venture Capital market was comparable in size to those found in countries like Spain, Germany or France. But these countries have made huge efforts to increase the size of their Venture Capital sector in recent years, and now Italy is lagging behind.

The Italian government is trying to address this with a new €1bn fund called "Fondo Nazionale per l'Innovazione" (National Fund for Innovation). This will be dedicated to the development and support of start-ups in Italy. The growth of the VC industry in the next few years will depend to some extent on the success of this fund, but implementation of it could be hampered by the current political instability.

This Qodeo report brings unique insights into the background and activities of venture capital and private equity firms in Italy. The report also provides some general commentary on the investment and entrepreneurial VC and PE community in these two countries. It was compiled before the global coronavirus pandemic so although it can offer no insight into the impact of that on business, it does offer a comprehensive overview of the state of the market and an insight into new and emerging trends.

Francesco carried out the research while studying for an MBA at Cambridge Judge Business School. He conducted face-to-face interviews with key people from 17 different organisations across Italy. The interviews took place between July 22nd and August 6th, 2019.

**PE FIRMS
EXAMINE**

130

opportunities
per year -
resulting in

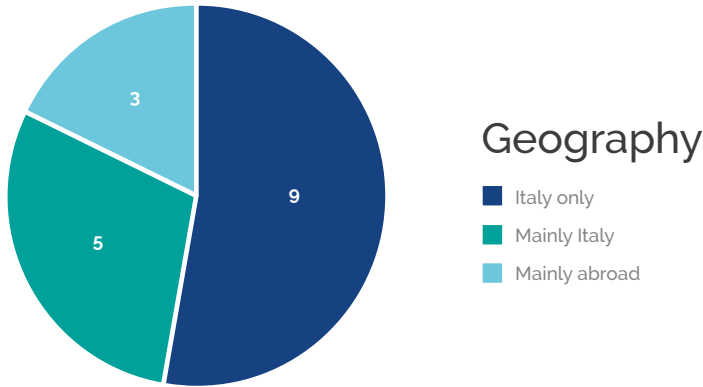
**2.5
DEALS**

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**“Growth
potential is the
most important
factor for PE
firms”**

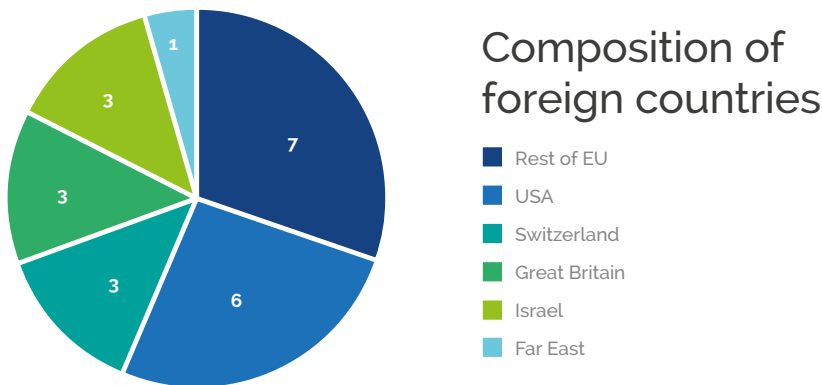
WHERE DO THE FIRMS INVEST?

Out of seventeen organisations interviewed, nine operate in Italy only. Five said they also operate abroad, but the majority of their investments are in Italy. Only three companies have their main focus abroad, with Italy playing only a residual role.



Looking at the composition of foreign countries where the firms operate, the European Union is pre-eminent, with seven out of seventeen companies having investments there. The US, where six companies have investments, is second in the rankings.

Then, Switzerland, Great Britain and Israel, with three companies each. The three companies that operate in Israel are all from the Venture Capital sector. Only one company has Far East investments in its portfolio.



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“The load period is getting longer”

**PARTNER,
MEDIUM-SIZED
PE FIRM**

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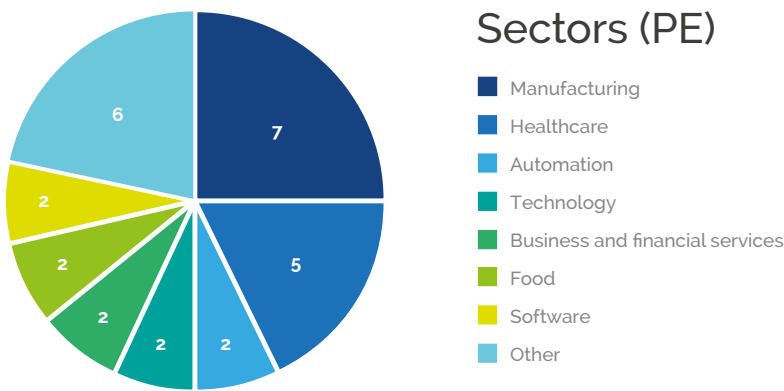
“There aren’t many IPOs any more, as PE is considered a better alternative”

**PARTNER,
LARGE PE FIRM**

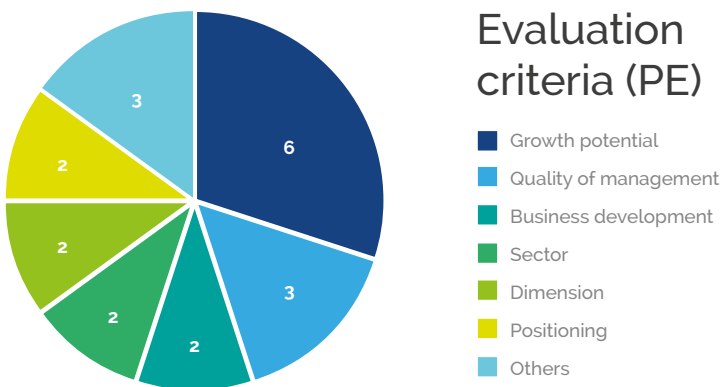
HOT SECTORS

Qodeo interviewed nine Private Equity firms with €9.2bn under management. Three of them have assets of 1bn euros and higher, the other six are below this amount. The median amount of assets under management by a single firm is approximately €220m.

Seven out of the nine PE firms have Manufacturing in their investment portfolio. The next most important sector is Healthcare, with five firms. Other important sectors are Automation, Technology, Business and Financial Services, Food and Software, each one with investments from two firms.



PE INVESTMENT CRITERIA



“With a Private Equity fund on-board it is easier to attract professional figures”

PARTNER, MEDIUM SIZE PE FIRM



“In recent years we have witnessed more opening by entrepreneurs to Private Equity. It is recognised as a tool to foster development and growth”

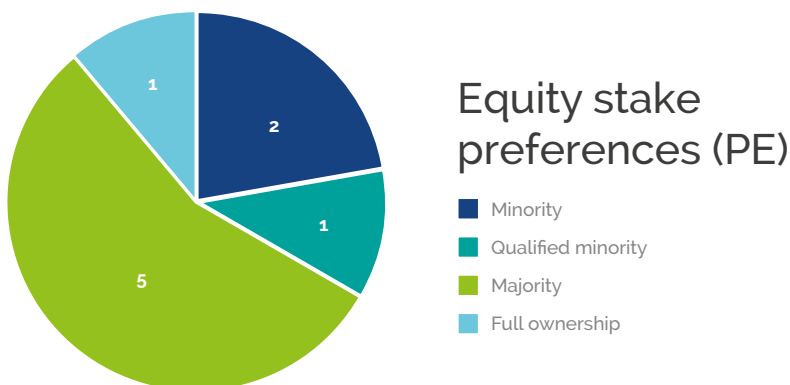
PARTNER, MEDIUM SIZE PE FIRM

Six firms said growth potential was the most important factor when it came to making investment decisions. Quality of management, as mentioned by three firms, was another crucial factor. Other criteria used in the selection process are business development, characteristics of a sector, dimensions of the company and its positioning.

In terms of deal flow, each company on average reviews approximately 130 opportunities per year, while the deals signed in the same period are, on average, 2.5, showing a rate of 1.92%.

EQUITY STAKES

The median average investment ticket by a single firm is €18.75m. In terms of equity stake, two firms (out of nine) operate by holding only a minority position in the investee company's capital (smaller or equal to 30%). One firm prefers a qualified minority position (between 31% and 49%). Five firms showed preference for a majority position, while only one preferred full ownership.



DEBT LEVERAGE

Out of the nine firms, six make use of debt leverage in their deal-making. For five of them, the average ratio of equity to debt was approximately 50:50. For the other one, the general preference is for the ratio 66:33.

The average hold period - the period one investment is kept in the portfolio before exit - for the firms surveyed is 4.5 years, although several industry professionals told us this period was getting longer.



MANUFACTURING AND HEALTHCARE

investments are popular, reflecting their importance to the Italian economy



“In the last 10 years there have been huge steps in organisational improvements within firms”

**INVESTMENT
MANAGER, SMALL
SIZE PE FIRM**

EXIT STRATEGIES

It would appear from our research that exit from investment in Italy is mainly done in two ways: either through the purchase of the stake by another institutional investor, as mentioned by six firms, or by a strategic buyer (typically a larger company active in the same sector), as mentioned by five. Only one firm mentioned IPO as an exit strategy. One reason for the apparent unpopularity of IPOs is - according to one of our interviews - that Private Equity is specifically seen as an alternative to a public offering.

The overall average Internal Rate of Return (IRR) for the firms interviewed was approximately 22%.

The median ticket size (€18.75m) is consistent with a middle market portfolio company, with yearly revenues generally from €10m to €50m. This is a good representation of the typical industrial firm in Italy, a country whose economic landscape is dominated by small and medium firms, and few large ones. This would explain the relatively small size of most private equity firms.

Two of the three firms with assets greater than €1bn were amongst the most open to international markets, having the majority of their investments abroad. Another important characteristic of the PE industry in Italy is the prominence of investments in Manufacturing and Healthcare, two of the most important sectors in the Italian economy.

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**“Italian
biotech is very
competitive”**

**INVESTMENT
MANAGER, VC
FIRM**

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**“The biggest
problem I face
is cultural.
There is a lack
of business
education in
scientists and
academics in
STEM”**

**PARTNER, EARLY
STAGE VC FIRM**

WHY DO COMPANIES TURN TO PRIVATE EQUITY?

There are several common reasons why Italian companies seek investment from Private Equity firms.

The first is when a firm needs capital for expansion, either internationally or for new products, or to increase production of existing products.

Another common scenario is that of a family firm whose ownership has reached two or three generations from the founder. In these circumstances, ownership is highly diluted amongst the descendants of the founder. Decision-making can become difficult and conflict amongst different shareholders may arise. Important opportunities for the success of the firm may be lost.

Another situation in which Private Equity investment may be sought is when there is a need to renew a company's management. Experienced managers can either be difficult to find, or not too attracted by private firms. The presence of a Private Equity fund usually overcomes this last difficulty.

The presence of a PE fund generally makes an impact on the firm's day-to-day operations. One of the most important benefits is a more professional management system, including budgeting and reporting, than that found in the average small and medium-sized enterprise. There is a growing acceptance by entrepreneurs that a PE can improve the way a firm is organised and run.

Finally, PE funds can also serve an important function for foreign investors wishing to enter the Italian market. In this case, lack of knowledge about Italy and the characteristics of the market may be a strong impediment, and the use of an Italian PE fund can overcome this hurdle.

**VC FIRMS
EXAMINE**

1000

**opportunities
per year -
resulting in**

**7.5
DEALS**

“

**“Currently, the
size of Venture
Capital in Italy
is the same
as that of a
neighbourhood
in London!”**

**INVESTMENT
MANAGER,
VC FIRM**

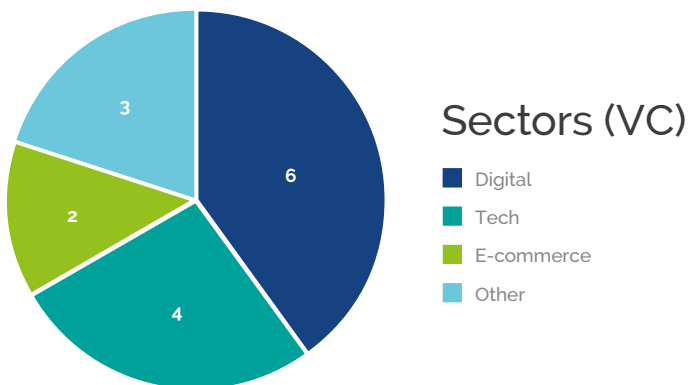
WHAT'S THE OUTLOOK FOR PE IN ITALY?

In general, most PE firms are cautiously optimistic about the industry's future. Currently, there are many medium-size private enterprises in situations comparable to the ones described above, in need of funds or facing issues related to generational succession or management renewal. At the same time, competition for deals is not as extreme as in other European countries, like Great Britain. However, the industry is strongly dependent on the state of the financial markets. The ongoing fragility of the Italian banking sector, in particular, could have a knock-on effect on the industry.

VENTURE CAPITAL IN ITALY

In total, Francesco interviewed eight companies whose main focus is on earlier stage venture transactions. The total assets under management by these companies was €720m. The median size of the funds held by a single firm was €54m, small by European norms.

HOT SECTORS



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PE makes it easier to hire talented management

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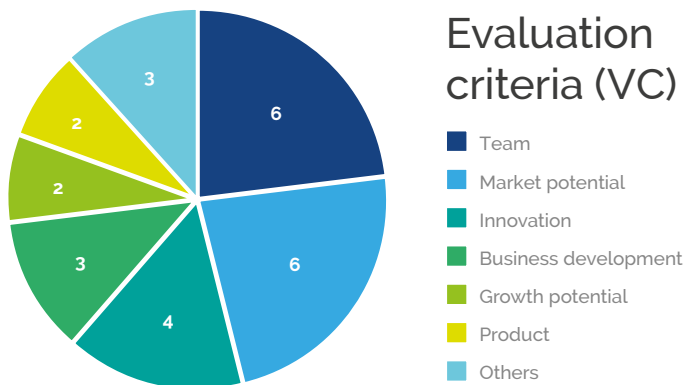
Competition for PE deals not has high as in UK

By far the most popular sector is digital, where six out of eight companies are active; followed by tech (mentioned by four firms). Tech includes industrial technology, health-tech, bio-tech and non-digital tech.

VC INVESTMENT CRITERIA

The strength of a start-up team and the market potential of their ideas were seen as the most important factors in making an investment decision (both of these elements were mentioned by six firms).

Then, importance is given to the innovation content of the idea, with four firms supporting this point. Other factors taken into consideration are business development, growth potential and product characteristics.



INVESTMENT SIZE AND DEAL FLOW

The deal flow for Venture Capital firms in Italy is significantly different to Private Equity investors. On average, each Venture Capital firm reviews 1,000 opportunities per year, and the number of deals done in the same period is approx. 7.5, a rate of 0.75%.

Ticket size and equity stakes vary significantly depending on the stage in which Venture Capital firms operate.



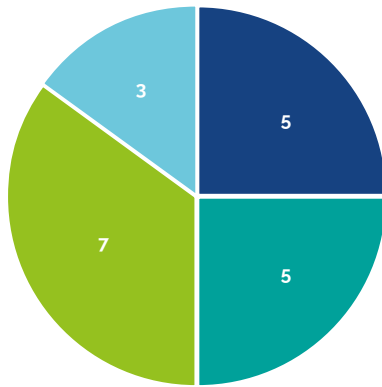
Most PE firms cautiously optimistic about industry's future

Total assets under management of VC firms interviewed:

€720M



Digital start-ups attract most VC investment



In which stage do VC operates?

- Pre-seed
- Seed
- Series A
- Successive rounds

As shown by the table above, five out of eight companies are active in pre-seed phase, and the same number applies to the seed phase as well. Seven companies operate in Series A phase, while only three operate in successive rounds.

In terms of equity stake and ticket amount, the table shows the average of the firms, according to the specific investment phase:

Phase	Average equity stake %	Quantum
Pre-seed	17.25%	€150,000
Seed	23%	€450,000
Series A	16.40%	€2,375,000

PROBLEMS FACED BY VCS IN ITALY

One of the greatest problems encountered at the very early stages of investment is the culture of Italian universities. Although the quality of the research is generally high, the relationship between academia and industry is not as close as it could be, affecting the rate of innovation (in terms of patents, Italian universities are still lagging behind institutions in other major European countries). One way to fill this gap is to increase the tech transfer from the university world to the market.

Another important consideration is the size of the Italian Venture Capital industry as a whole, which now lags behind countries like Spain, Germany or France. The government is attempting to do something about this with a new fund. Time will tell whether it has the desired effect.

Venture Capital in Italy is not as structured, mature and dimensioned as Private Equity. The development phase of investment presents a particular problem, with a general lack of investors for rounds after Series A.

ITALIAN FIRMS INTERVIEWED

PRIVATE EQUITY

Milan

Entangled Capital SGR

Triton

Antares Private Equity

Mandarin Capital

Partners

Company did not wish to be identified

Fondo Strategico

Italiano SGR

Itago - Venice

21 Invest - Treviso

Gepafin - Perugia

VENTURE CAPITALISTS

Milan

U-Start

Venture Factory

United Ventures SGR

Primomiglio SGR

P101 SGR

Rome

Lazio Innova

Lventure Group

Invitalia Ventures SGR

Other VC/PE firm names withheld.

ABOUT QODEOVIEW MARKET SNAPSHOT REPORTS

qodeoview market snapshots are reports written by qodeo-MBA researchers from 30 leading Business School alliance members about key venture/private equity and entrepreneurial trends and markets. These cover EMEA, North America & Asia. Insights gleaned are used by qodeo's investor:entrepreneur matching service and to assist corporate advisors build related pipelines.

Register at www.qodeo.com to receive these as part of our service.

MATCHING INVESTORS WITH ENTREPRENEURS

Qodeo monitors the venture ecosystem, identifies the best opportunities automatically, and brings entrepreneurs, investors and corporate advisors together to make it work. Acting as what one leading VC called "noise cancellation" for the global venture community, this is a brand new service for a new generation of entrepreneurs and investors who expect to be able to behave differently, and to do business differently.

[To support covid-19 related initiatives in Italy](#)

qodeoview
ITALY

A Private Equity & Venture Capital
industry market snapshot

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