



**FINANCIAL SPONSORS' ACTIVITY MONITOR**  
**UPDATE 9M2022**

OCTOBER 2022



# EXECUTIVE SUMMARY

## Key Themes



- The main topic of 9M2022 is undoubtedly the start of the **conflict between Russia and Ukraine** and the Western World's **sanctions** against the Putin-led country. **Raw materials, exports, energy costs, transport, inflation** and the **financial system in general** have been materially impacted and are bringing significant consequences in the **ordinary course of business** of several portfolio companies and on the **entry/exit decisions** of few Financial Sponsors
- Many companies are currently considering **moving production from Eastern Europe or Far East to closer countries (near-shoring or friend-shoring)**
- The trend of **international funds** entering Italy with dedicated offices and teams continues increasing **competition** on quality asset

## Financial Sponsors' Activity



- Italian M&A market as a whole has shown a **solid 9M2022**, with **deals volumes in line with 9M2021** (724)
- Financial Sponsors activity in general has been **mostly in line with 2021**, showing a **slight slowdown (152 deals in 2022 vs. 160 in 2021)**. This **slowdown is even more marked at European level** (1,494 deals in 9M2022 vs 1,885 in the first nine months of 2021)
- In particular, **investment activity** of Financial Sponsors in the nine months of 2022 was **mostly in line with the same period of the previous year** (131 vs. 139 deals respectively), with **primary transactions that have seen a slight decrease** (97 vs. 104 respectively)
- **Large deals** had the leading role in 2022, **raising the overall deal values<sup>1</sup> to amounts well above 9M2021** (+18% and +50% the overall Italian market and the Financial Sponsors' market respectively) and **almost in line with total disclosed deal value of FY2021**
- Transactions in the **Healthcare sector** has seen a significant increase (from 5.0% to 9.2%) at the **expense of the Consumer** (from 29.4% to 23.0%) and **Industrial** (from 28.1% to 27.0%) sectors, more **affected by fears over inflation, Covid and energy costs**
- **Valuations broadly in line** with what observed in 2021 although a decline could be seen in the last months of 2022 and beginning 2023

## Public market



- After the strong recovery of 2021, the Italian capital market saw a **c.25% loss in value in the first nine months of 2022**, mainly linked to macroeconomic conditions and **sharp rate hikes** by central banks in order to counteract a **level of inflation not seen in nearly 30 years**
- Market multiples are **back in line with the 5-year average** for the **Industrial sector**, while **Consumer and Healthcare markets are showing discounts**
- As a result, combined with the **growing liquidity** and **investment needs** of Financial Sponsors, **listed companies have become potential opportunities for takeovers jointly with shareholders** displeased by stock market prices leading to an **increasing trend of PTOs**

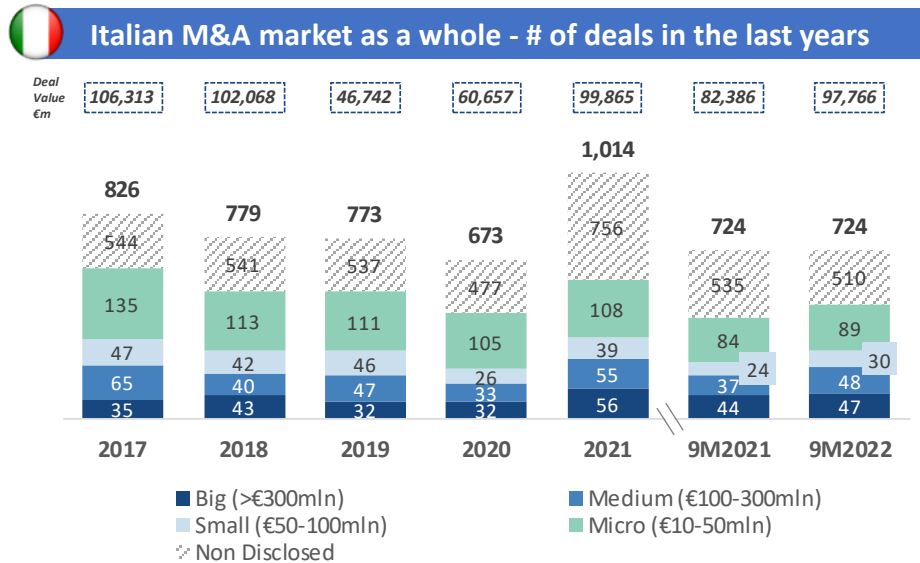
## Fundraising & Lending



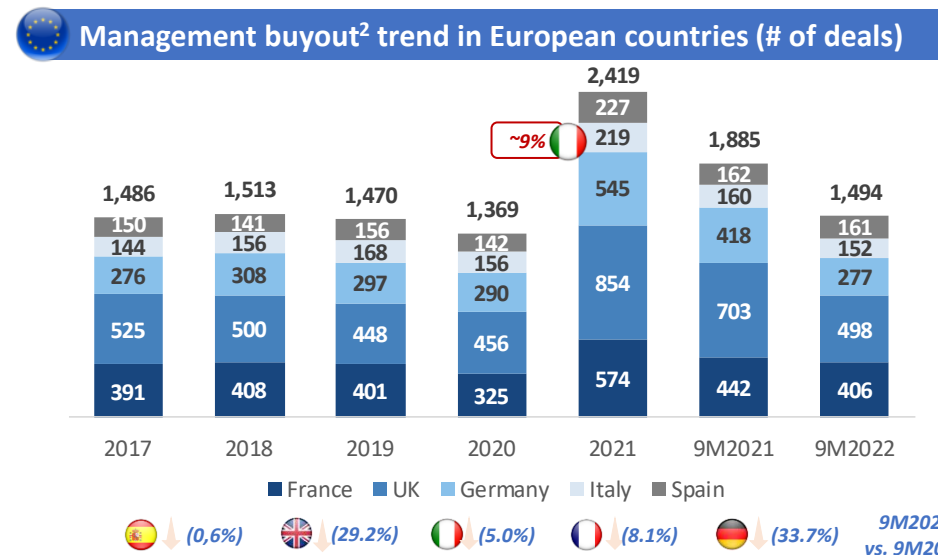
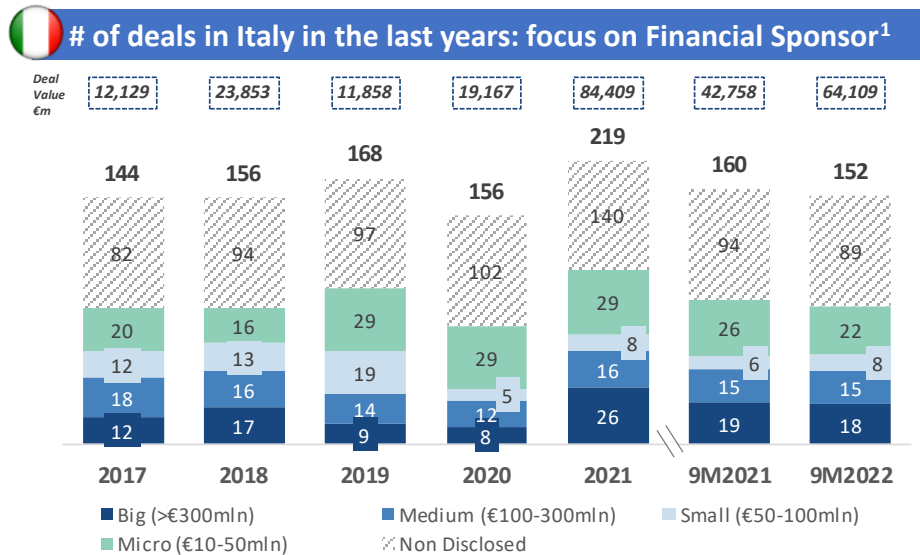
- While **banks started to restrict access to credit** for LBOs with a concomitant **increase in the cost of money, dry powder** and the activity of **private debt funds** kept deals moving in 2022
- **Fundraising activity** saw a **dip** in the first months of 2022, also related to (i) **macroeconomic conditions**, (ii) **limited deployment of some funds** and (iii) **delayed exits** (with deferred consolidation of returns)



# FS' ACTIVITY WITHIN ITALIAN M&A AND EUROPEAN CONTEXT



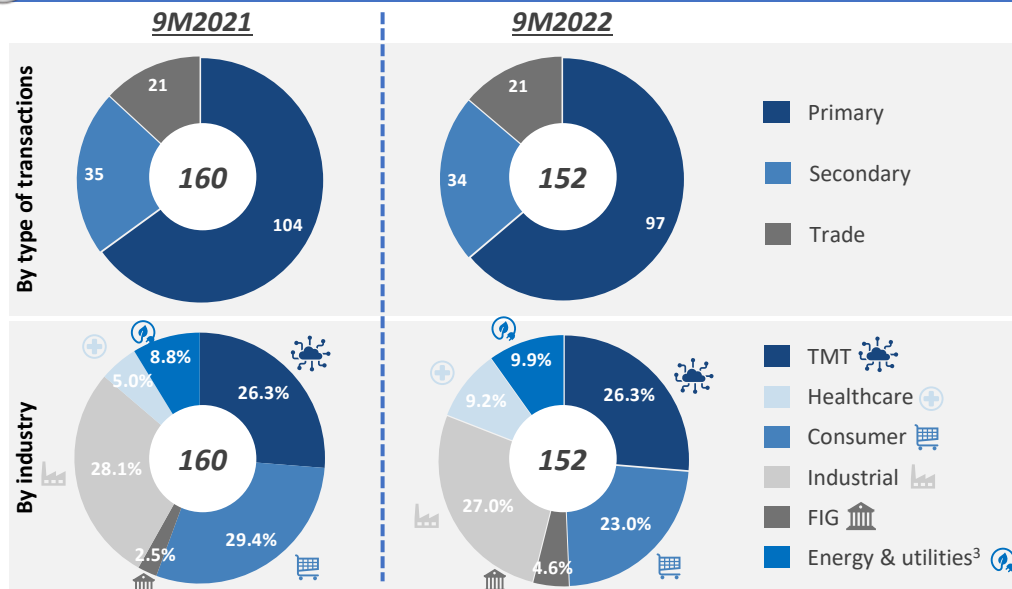
- Looking at the Italian M&A market as a whole, in 9M2022 the great momentum of 2021 continued (724 deals). The **historical micro-transactions' trend has been confirmed also in 9M2022** where micro deals represented the highest percentage of total disclosed deals' volume (c.40%)
- M&A deal values (disclosed) in 9M2022 in Italy almost reached the total deal value of 2021
- The Italian M&A market shows a **gradual increase in transactions of larger size**, with **big deals representing c. 22% of total disclosed deals in 9M2022** (in line with the first 9M of 2021), and **medium deals representing c.22% of total disclosed deals' volume** (vs. c.20% in 9M2021)
- Focusing on Financial Sponsors' transactions in Italy**, 9M2022 deals recorded a **light decrease in volumes** compared with 9M2021 (152 vs. 160), with the **micro-sized deal percentage significantly lower** compared to the entire market and a **significant participation in big and medium deals**



Source: Mergermarket, industry reports, AIFI  
 Note: (1) Excluding Venture Capital and Early Stage; (2) Number of Management Buyout involving existing management

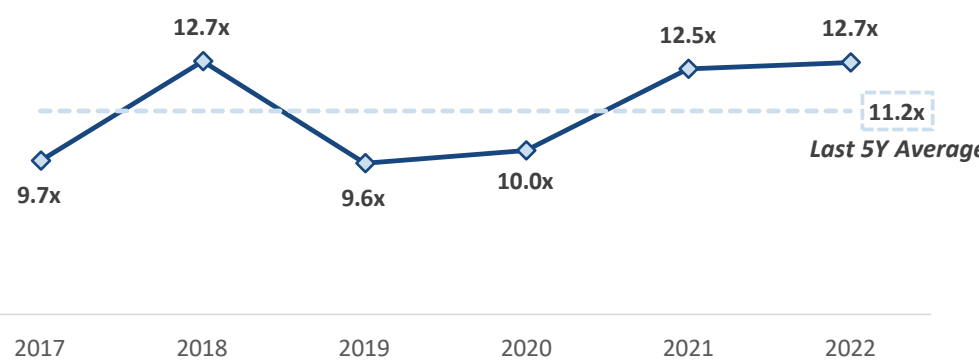
# KEY STATISTICS ON FS' ACTIVITY IN ITALY

## Financial Sponsors' deals breakdown<sup>1</sup>



- The Industrial sector remain the most interesting for private equity operators in 2022 (c.27% of total volumes)
- TMT and the mega trend of connectivity, data, productivity, and efficiency remain core investment theses for financial sponsors in 9M2022 (c.26% of total FS deals, in line with 2021), in spite of public market sentiment chilling towards these narratives
- It has been also recorded a growing interest in the healthcare sector, boosted by the increasing opportunities on the M&A market
- Northern Italy remain the core geography for Financial Sponsors, with around 60% of investments<sup>2</sup> located in just three regions (Lombardy, Veneto and Piedmont)
- 9M2022 showed a complete recovery in valuations, with the average EV/EBITDA multiple back to the 2018 level (12.7x EBITDA) after the strong rebound showed in 2021

## L5Y Average EV/EBITDA Multiple<sup>1</sup> in Financial Sponsors' deals



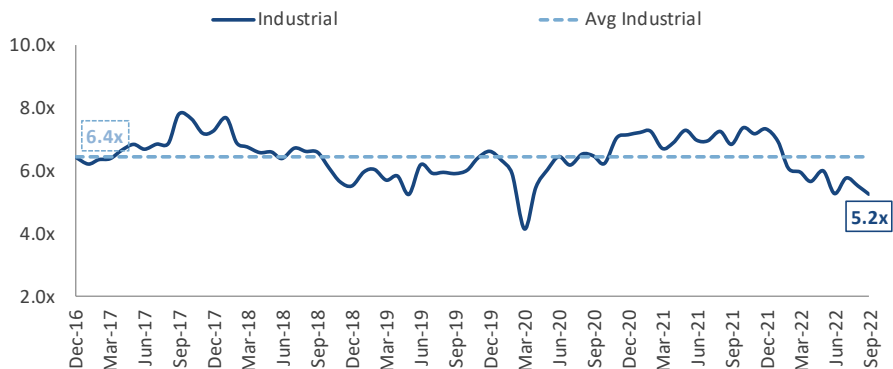
## Main large deals in 9M2022 (excluding PTOs)



Source: Mergermarket, industry reports, AIFI. Notes: (1) Excluding Venture Capital and Early Stage; (2) Source: AIFI 1H2022 data Including Venture Capital and Early Stage; (3) Including Infrastructures

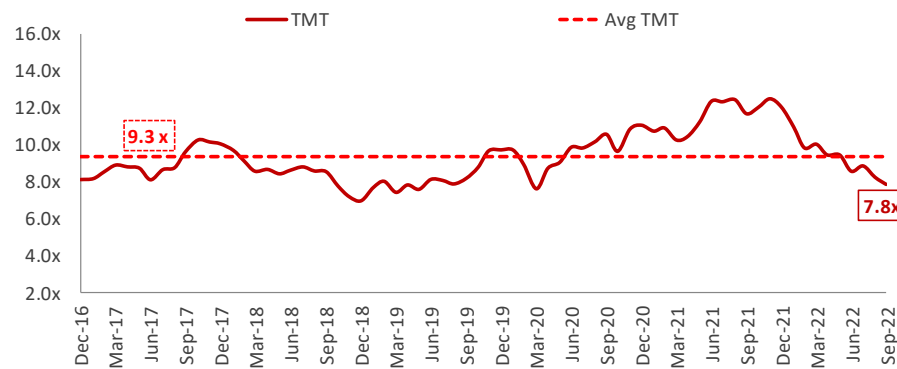
# EVOLUTION OF PUBLIC MARKET VALUATION METRICS IN ITALY

## Industrial – Average 1Y Fwd. EV/EBITDA



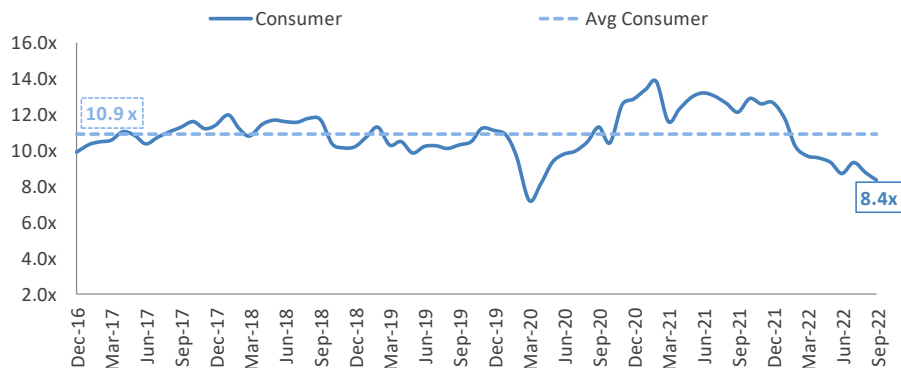
The Industrial sector **continued to show its resilience**, posting favorable fundamentals through first nine months of 2022. The remainder of 2022 and the beginning of 2023, however, **should feel the pressure of the headwinds** affecting the market

## TMT – Average 1Y Fwd. EV/EBITDA



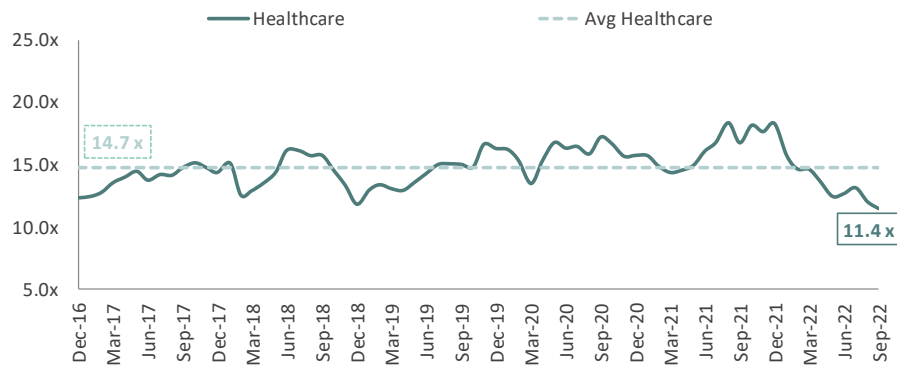
TMT as a sector has **outperformed most other sectors in economic profit** across the most recent two downturns, reflecting its overall strength and suggesting its companies may enjoy a **relative tailwind**

## Consumer – Average 1Y Fwd. EV/EBITDA



In recent months consumers **have been forced to reevaluate whether to spend discretionary money** on wants as opposed to needs as **inflation eats into fixed monthly budgets**

## Healthcare – Average 1Y Fwd. EV/EBITDA



In recent years healthcare companies **benefited from structural trends** (such as an aging population, the increased incidence of chronic illness, rising income levels, and digital innovations in treatment and operations) and **contingent drivers** (ie. Covid-19)

# RISE OF PUBLIC TO PRIVATE TRANSACTIONS



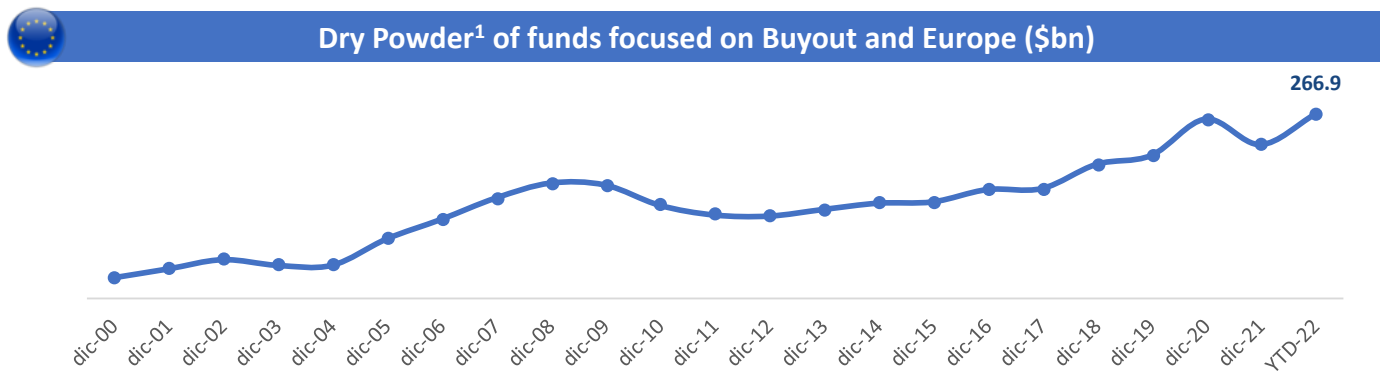
Main Italian Public Tender Offers announced, launched or closed in the 9M2022 backed by a Financial Sponsor

Bidder	Target	Size Equity Value	Premium vs. L6M
		€2.9bn	+40.5%
		€510m	(2.8%)
		€360m	+31.4%
		€19bn	+40.6%
		€465m	+38.2%
		€262m	>40%

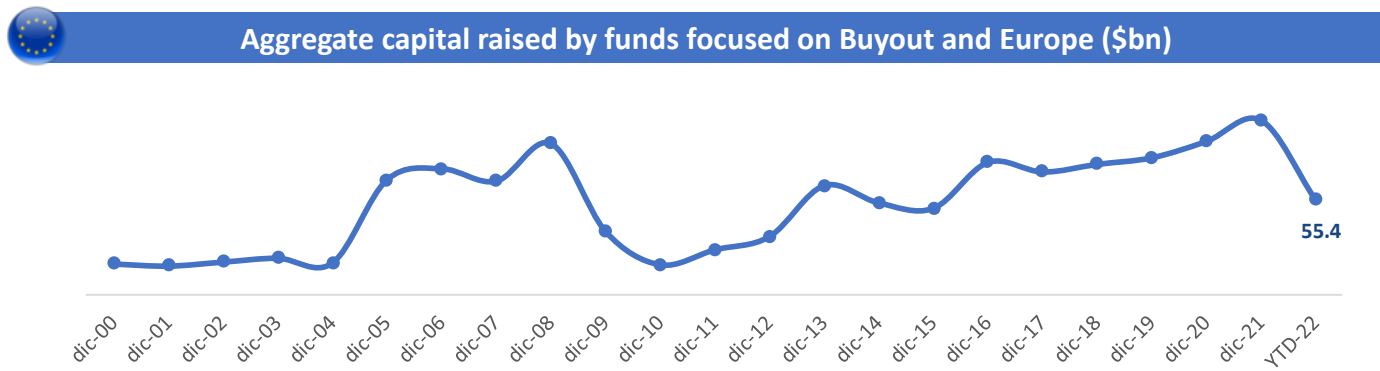
- **Delisting trend characterized the Italian market in recent years.** In the last 20 years, admissions on Piazza Affari were 448, while the delisting were 337, of which 268 on the main Market (EXM, formerly MTA)
- **Delisting has led to a significant loss of capitalization for Piazza Affari,** exceeding, in the last 5 years, €55bn
- **In 2022, the trend was confirmed by some billionaire operations.** The most relevant PTO in Italy was launched by **Edizione/Blackstone on Atlantia** (€19bn Equity Value) with a premium of +40.6% vs. L6M, followed by the offer launched by **JP Morgan on Falck Renewables** stocks (€2.9bn Equity Value) with a premium of +40.5 vs. L6M

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# SNAPSHOT OF FUNDRAISING ACTIVITY IN 9M2022

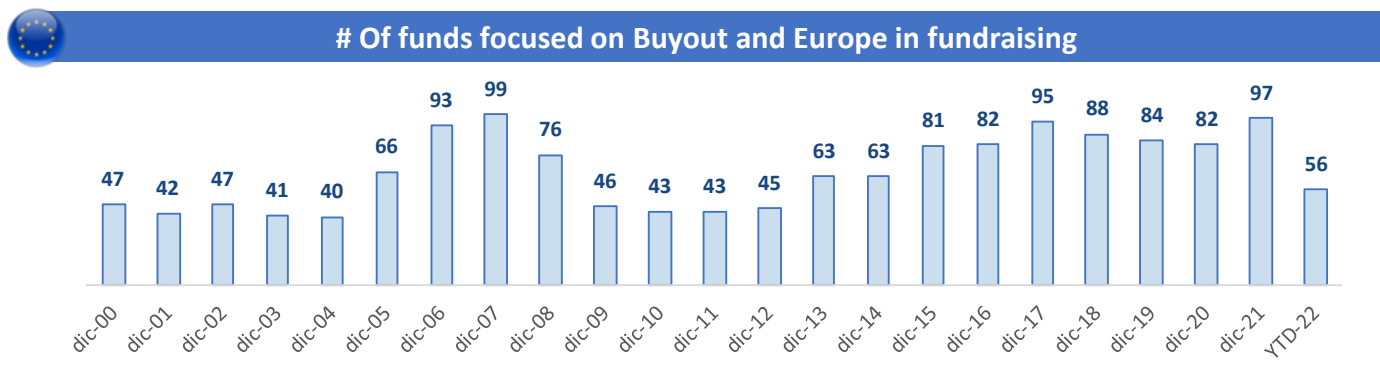


- **Dry powder's historical peak and increased financing from private credit funds kept deals moving in 9M2022**
- **Strong reduction in the number of funds focused on Buyout and in the aggregate capital raised by the latter in 2022**



## UK Main announced closings in UK

- PERMIRA** Fund VIII: €16bn
- Hg** Saturn III: €11bn
- BC PARTNERS** Fund XI: €8bn



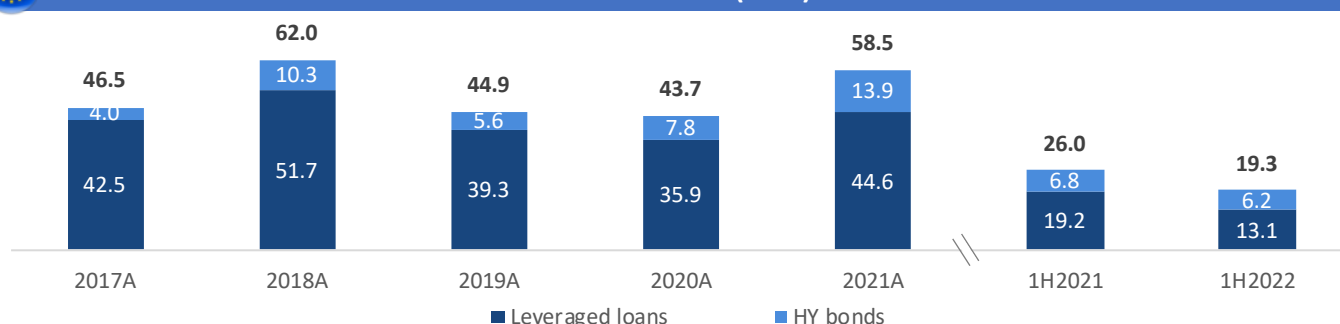
## Italy Main announced closings in Italy

- AMBIENTA** Fund IV: €1.5bn
- Nextalia** Fund I: €800m
- Aksia group** Fund V: €275m

Source Preqin as of October 2022; Note: (1) The amount of capital that has been committed to a private capital fund minus the amount that has been called by the GP for investment

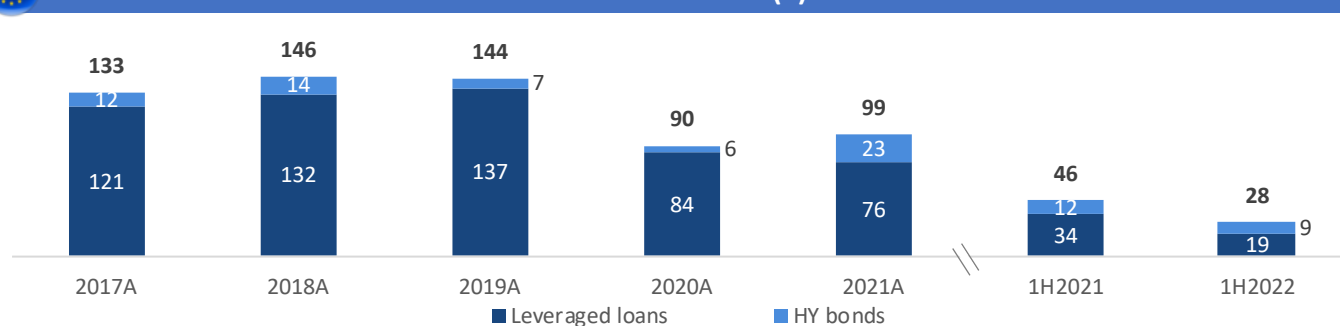
# LEVERAGED LOANS AND HY BONDS BACKING LBOs IN EUROPE

LBO Issuance (€ bn)



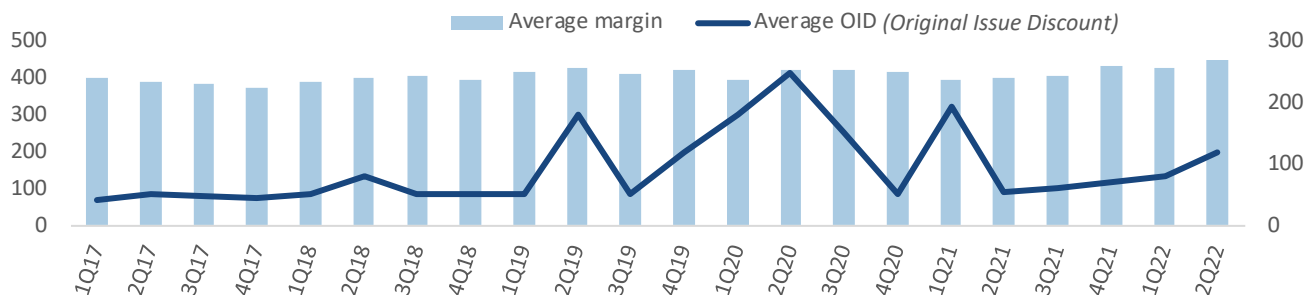
▪ Leveraged loan and high yield bond volume supporting buyout activity have **decreased this year** – respectively, **-32%** and **-8%** vs. 1H2021 – due to **high levels of inflation, rising interest rates and the Russian-Ukrainian conflict**

LBO Deal Count (#)



▪ From the number of deals perspective, **loans experienced a decrease of 44%** compared to 1H2021, while the number of bonds fell by **25%**

1<sup>st</sup>-Lien Institutional Loans and HY Bonds Pricing



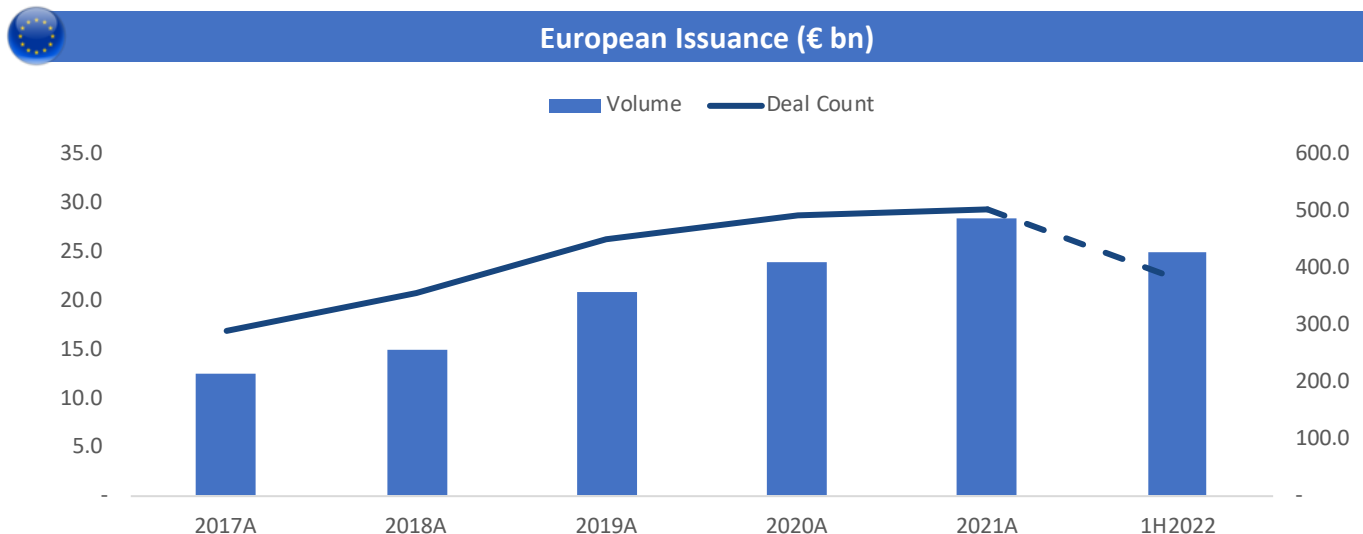
▪ Issuers who have opted to rely on the leveraged loan market were forced to pay **higher prices**, as from 424bps in 1Q2021 margins increased to 449bps in 2Q2022

▪ Since 1Q2021, **margins are continuously rising** reaching 449bps in 2Q2022





# EUROPEAN DIRECT LENDING



- European direct lending market has been **developing constantly** in the last 5 years
- **1H2022** confirmed the steps forward made in recent years
- Private Debt Funds continue to penetrate the market that was once of the syndicated loans and high-yield bond markets
- Private Debt Funds are not only increasing in size, they are becoming even more keen to collaborate, thus increasing their ability to distribute

## Southern Europe League Table<sup>1</sup>

Rank	Direct Lender	# deals	% Share	Rank	Direct Lender	# deals	% Share
1		9	22.0%	5=		2	4.9%
2		5	12.2%	5=		2	4.9%
3		4	9.8%	5=		2	4.9%
4		3	7.3%	5=		2	4.9%
5=		2	4.9%	5=		2	4.9%



(1) Senior & Subordinated; (2) Share (%) calculated on Southern European deals only  
Source: Debtwire, ION Analytics

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