M&A ACADEMY

The Italian opportunities offered by M&A

(Translation from the Italian original which remains the definitive version)

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A project launched by:

KPMG Borsa Italiana SDA Bocconi School of Management

Media partner:

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Overview

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Global M&A activity shows strong growth and has new top players

Italian companies still make limited use of M&A: the country's competitiveness also depends on its greater use

M&A activity is essential for growth and value creation

We identified around 400 profitable Italian companies, whose growth could be further boosted by M&A

Our survey shows there is a clear 'desire for M&A' by Italian companies, but also a certain 'mistrust'

Since 1988, M&A activity has grown more than GDP

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Global market	1988	2015	CAGR 1988-2015
GDP (in billions of USD)	18,863	73,171	+5.1%
M&A market (in billions of USD)	474	3,175 (4.3% of GDP)	+7.3%

Italy	1988	2015	CAGR 1988-2015
GDP (in billions of USD)	904	1,816	+2.6%
M&A market (in billions of USD)	12	61 (3.3% of GDP)	+6.2%

Source: International Monetary Fund (nominal GDP), Thomson Reuters and KPMG processed data

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The global M&A market has new top players…

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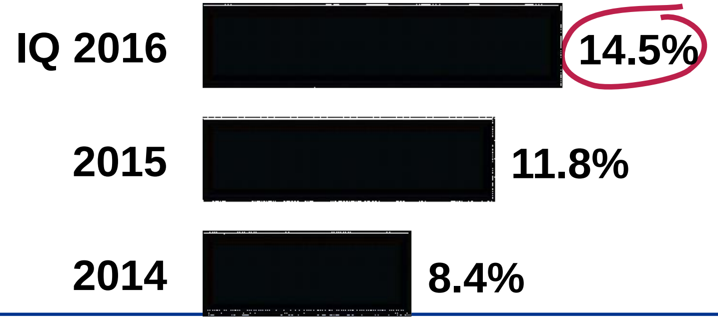
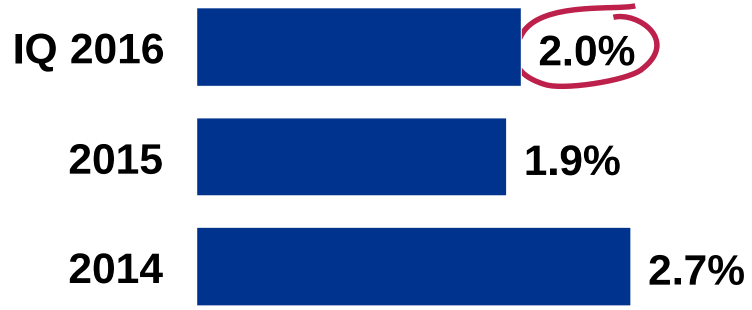
China is the second largest player of the global M&A market accounting for 15% of its total value

Chinese M&A market/Global M&A market



Italian M&A market/Global M&A market



FINANCIAL TIMES

FRIDAY 1 APRIL 2016 — WORLD BUSINESS NEWSPAPER

Gillian Tett — Why the Fed needs to get out more — COMMENT, PAGE 7

'I'm a big boy' — Meet one of Donald Trump's closest business partners — BIG READ, PAGE 5

Change is coming — The race is on to find ways to use AI — RICHARD WATERS, PAGE 12

Architect Hadid dies of heart attack

Briefing

Big-ticket foreign deals take China to its largest share of global M&A

One-sixth chunk of Q1 activity • Western bankers off guard • Borrowing fuels binge

Datawatch

Source: Thomson Reuters, Financial Times and KPMG processed data

…and the centre of capitalism is shifting to the Far-East.

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Fortune 500 – Number of companies by country of origin

1999

Rank	Country	Companies	% of the total
1	USA	177	35.4%
2	Japan	98	19.6%
3	UK	41	8.2%
4	Germany	40	8.0%
5	France	35	7.0%
6	Canada	12	2.4%
7	Italy	11	2.2%
8	Switzerland	11	2.2%
9	South Korea	9	1.8%
10	Australia	7	1.4%

2014

Rank	Country	Companies	Change	% of the total	Country GDP/ Global GDP	
1	USA	128	=	25.6%	22.5%	+
2	China	98	New	19.6%	13.4%	+
3	Japan	54	↓	10.8%	6.0%	+
4	France	31	↑	6.2%	3.7%	+
5	UK	28	↓	5.6%	3.8%	+
6	Germany	28	↓	5.6%	5.0%	+
7	South Korea	17	↑	3.4%	1.8%	+
8	Netherlands	13	New	2.6%	1.1%	+
9	Switzerland	12	↓	2.4%	0.9%	+
10	Italy	9	↓	1.8%	2.8%	-1,0%

China, which was not included in the List of Fortune 500 companies in 1999, now ranks second; Italy is the only big country which is under-represented compared to its GDP

Source: Fortune 500 Global (Release 2015) and International Monetary Fund data processed by KPMG

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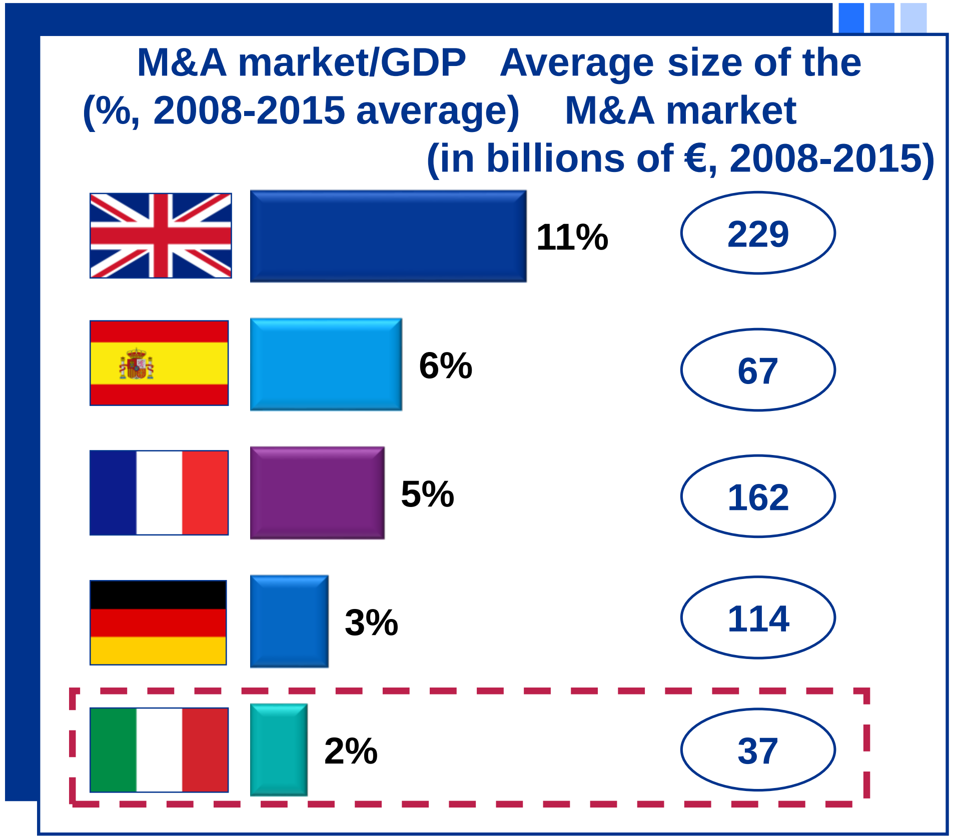
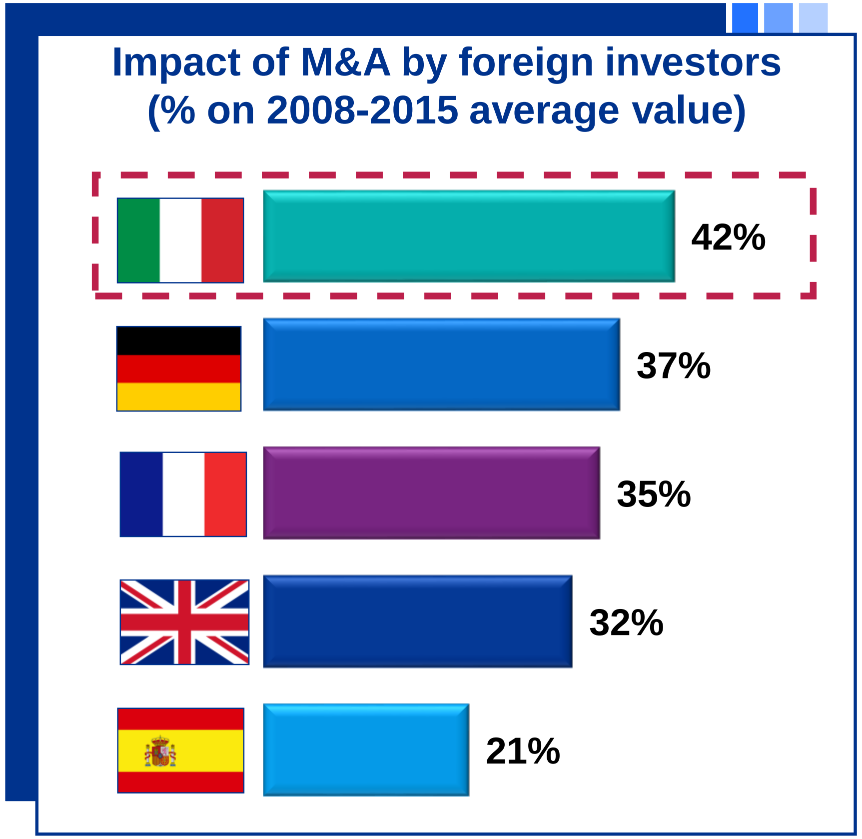
M&A is still underused in Italy





Compared to other European businesses, Italian companies are less inclined to engage in M&A activity and are more likely than others to fall 'prey' to foreign players

Source: Thomson Reuters, Economist Intelligence Unit and KPMG processed data

Italy is a country which is rich in SME…

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Domestic GDP and number of companies by turnover bracket[1] (2014)

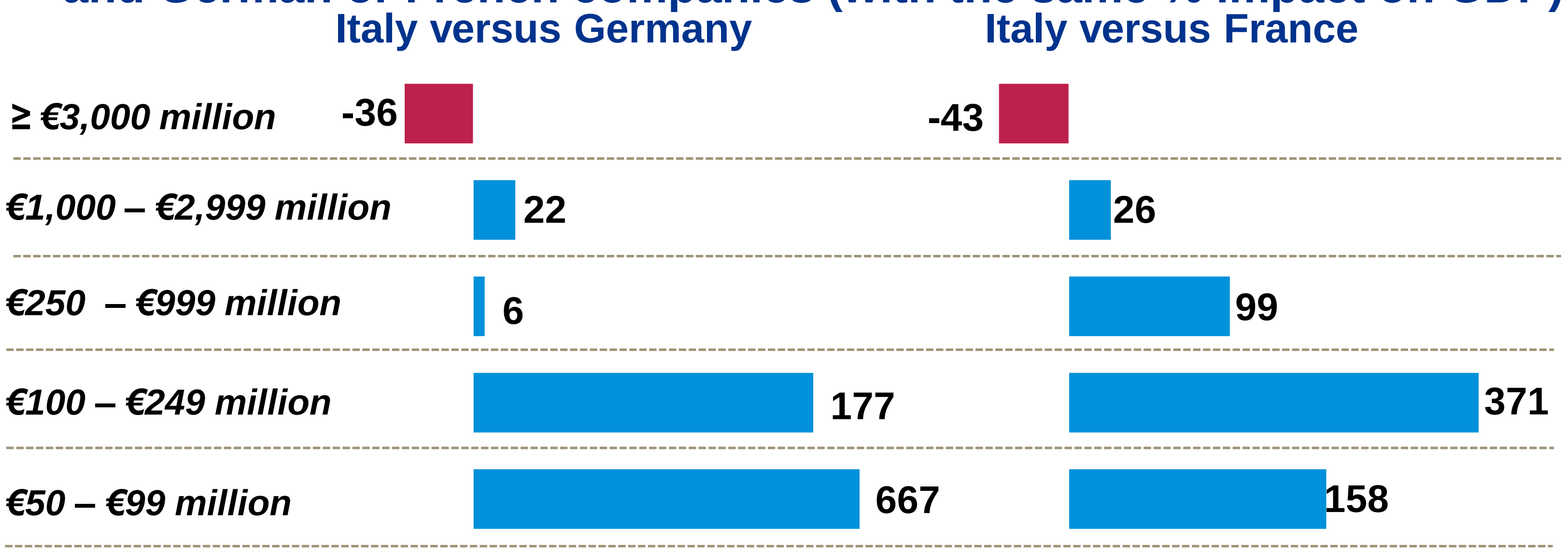
	Italy	Germany	France
GDP (in billions of €)	1,612	2,920 *1.8x Italy's GDP*	2,133 *1.3x Italy's GDP*
No. of companies Turnover ≥ €50 million	7,002	11,170 *1.6x no. of Italian companies*	8,456 *1.2x no. of Italian companies*
Turnover bracket	***No. of companies***	***No. of companies***	***No. of companies***
≥ €3,000 million	93	234	180
€1,000 – €2,999 million	259	430	308
€250 – €999 million	1,072	1,931	1,287
€100 – €249 million	2,100	3,483	2,288
€50 – €99 million	3,478	5,092	4,393

(1) Non-financial companies with 2014 turnover ≥ €50 million. Consolidated and separate financial statements figures. Classification based on operating turnover for Germany

Source: Bureau van Djik (Aida, Amadeus) and International Monetary Fund data processed by KPMG

… however, the number of large-sized Italian companies can increase

Difference between the number of Italian companies and German or French companies (with the same % impact on GDP)



M&A represents a key tool for Italian companies wishing to make a quantum leap in terms of size

Source: Bureau van Djik (Aida, Amadeus) and International Monetary Fund data processed by KPMG

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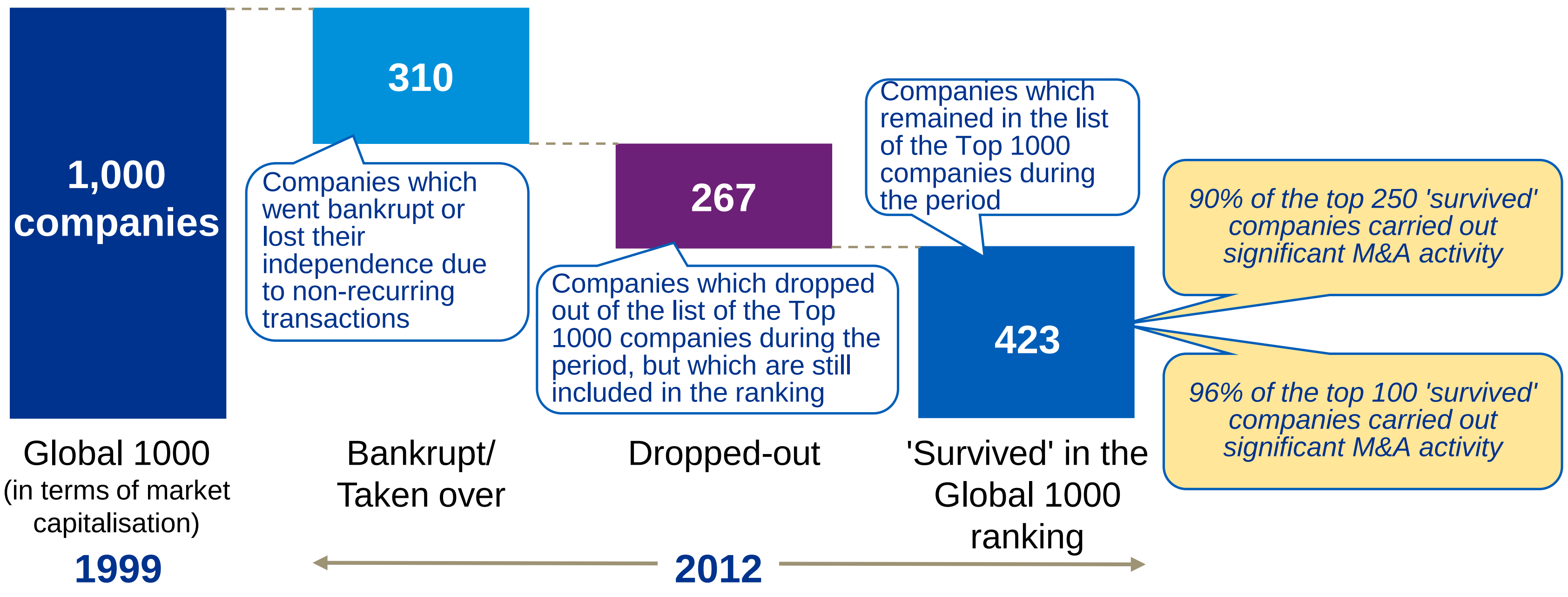
Abroad, M&A activity is essential for growth



Between 1999 and 2012, only around 42% of the leading companies[(1)] maintained their position in the 'Global 1000' ranking.

The systematic use of M&A is more frequent among the 423 'survived' companies

(1) In terms of market capitalisation

Source: McKinsey&Company – 'Strategy Conference 2014 – Cracking the code of growth M&A: doing deals without diluting value'

In Italy, M&A proves to accelerate growth

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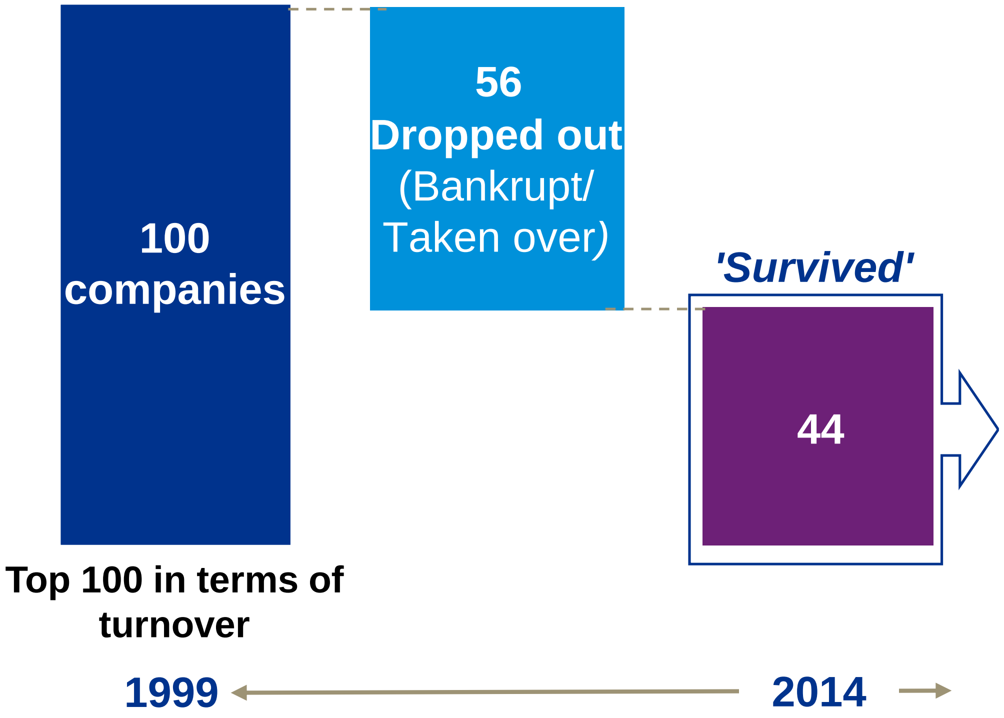

Around 70% of the 'survived' companies carried out M&A activity

Top 15 acquirors	No. of deals 1999-2015
EXOR	79
Enel	73
eni	65
EDIZIONE	58
FININVEST	54
DeAGOSTINI	48
PIRELLI	45
TELECOM ITALIA	36
COFIDE Gruppo De Benedetti	32
LUXOTTICA	30
GRUPPO CREMONINI	29
ITALMOBILIARE	28
DANIELI	26
parmalat	19
Buzzi Unicem	16

Source: Mediobanca ('List of the leading Italian companies' 2000/2015 - Ranking by main industrial, commercial and services segment), Economist Intelligence Unit and ISTAT data processed by KPMG

In Italy, there are roughly 400 high-potential companies which could engage in M&A

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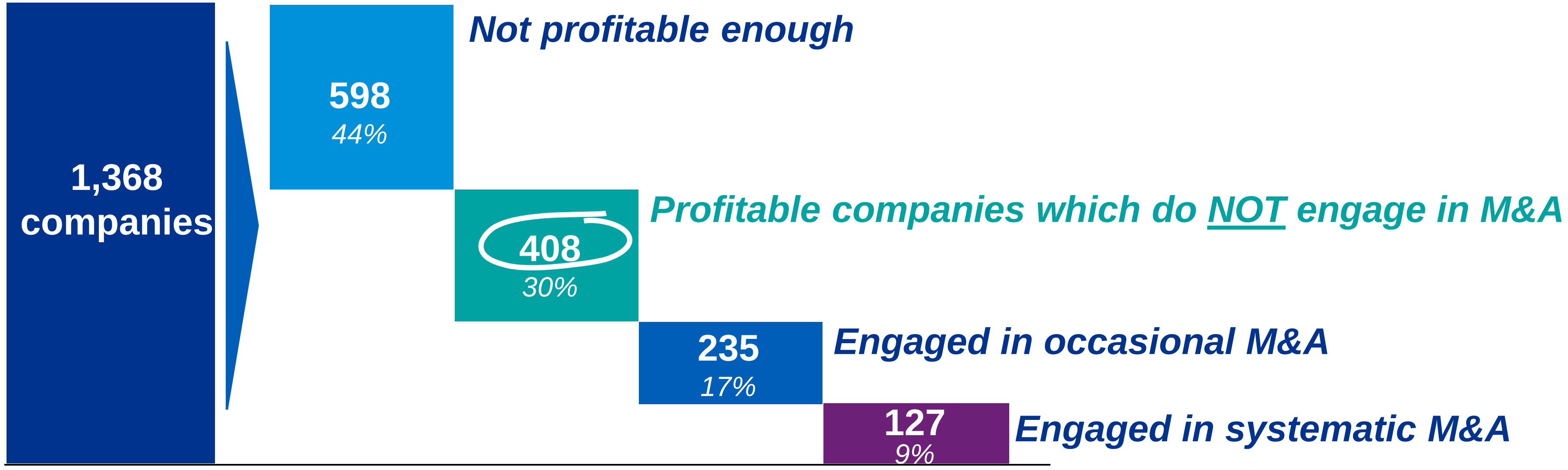

The KPMG/SDA Bocconi survey[1] shows that more than 350 Italian companies used the M&A leverage in the last ten years and approximately more than 400 could engage in this activity

[1] KPMG/SDA Bocconi survey on a sample of 1,368 Italian companies with 2013 turnover of more than €50 million (average turnover: €637 million; 98 companies with a turnover of more than €1 billion) and an 11-year history of growth and profitability

Source: KPMG/SDA Bocconi survey

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M&A and growth: what do companies think about them?

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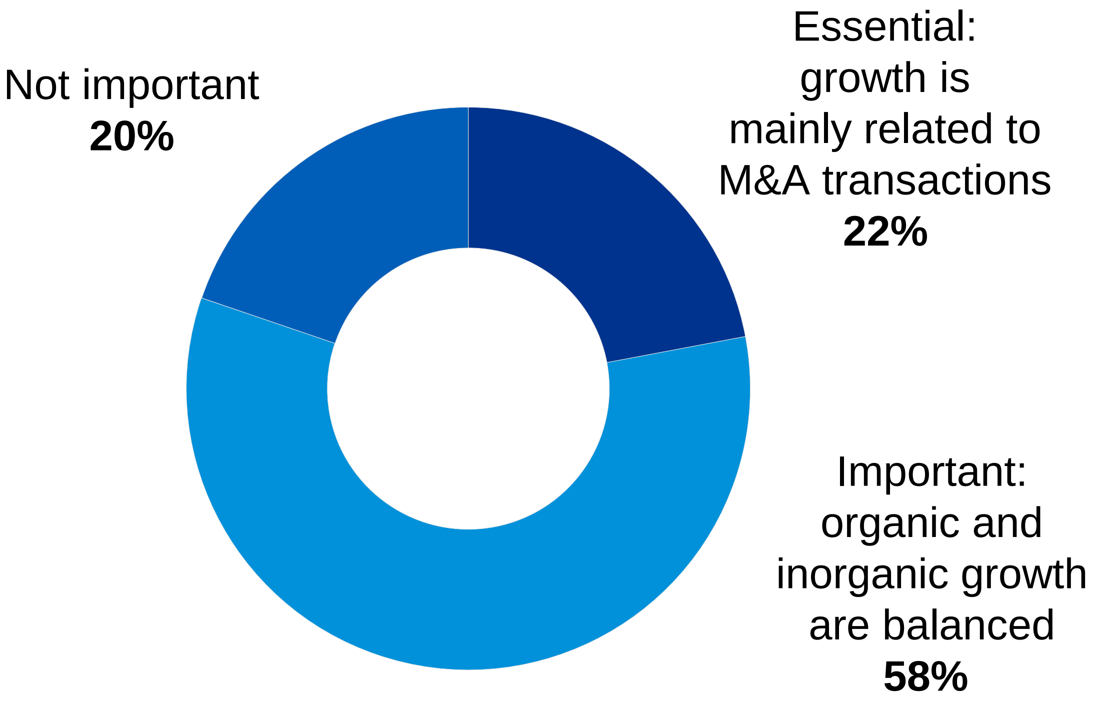
1. Results of the KPMG/Borsa Italiana survey:
   — **90% of the survey respondents believe that growth is a priority**

2. In short, in your experience, did the use of M&A (or disposals) create value?
   — **97% of the respondents believe it did**

The interviewed companies have no doubts:
growth is a priority and M&A created value

Source: KPMG/Borsa Italiana survey: roughly 200 Italian companies took part in the survey, 70% of which with a turnover of more than €50 million

How important are M&A transactions in your growth strategy?



80% important

Source: KPMG/Borsa Italiana survey

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There is a 'desire for M&A' ...

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60% expect acqusitions in the next three years

(33% in the next 12 months)

43% are ready with a list of target companies

30% are also considering possible disposals

Source: KPMG/Borsa Italiana survey on a sample of around 200 companies

… but also a certain 'mistrust'

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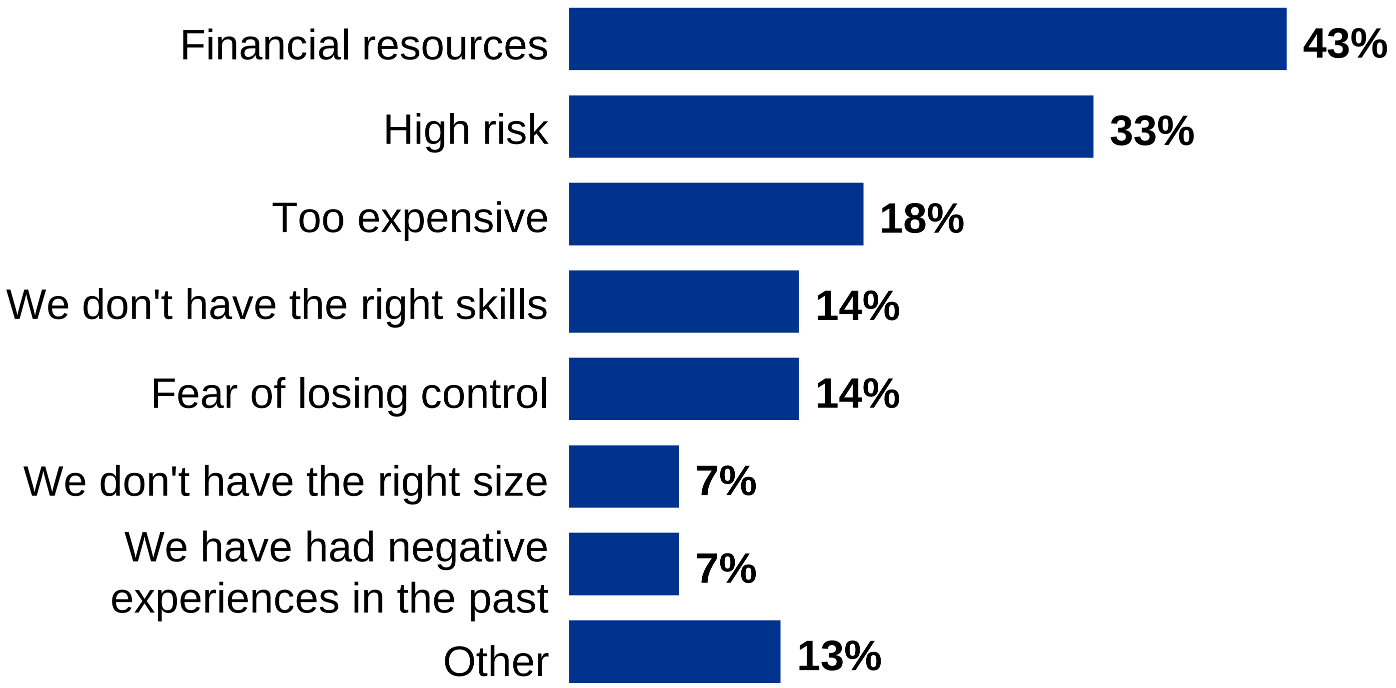
Which are the main barriers to and concerns about potential acquisitions?



The availability of financial resources is the main obstacle for the respondents, followed by the high risk and expensiveness

Source: KPMG/Borsa Italiana survey

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M&A and value creation: SDA Bocconi Research Paper

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M&A: a 'marginal' phenomenon in Italy

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- There are no studies on M&A activity on the Italian market (including the banking sector, which represents an excellent case study), despite the high potential of this growth opportunity through IPOs and M&As.
- There is extensive literature on the matter as M&A transactions and their effectiveness in terms of growth are much debated. Specifically:
  - types of M&A deals and their contribution to value creation (Kaplan 2016; Zollo and Meier 2008)
  - financial structure of the transactions as the key factor for value creation (Caselli and Gatti, 2009; Singh and Leshchinksii, 2000 and 2009)
  - acquisition price and success of an M&A transaction (Esty 2004)
  - importance of (internal and external) stakeholders and M&A performance (Megginson, Morgan, Nail, 2004 and 2010)
- Our analysis focuses on two important issues for the Italian market:
  1. M&A activity as the key factor for growth and value creation for Italian companies
  2. the strategies the best-performing Italian companies adopt compared to their industry peers

Agenda

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Analysed sample

Description of the sample

M&A and value creation: analysis of the key factors for growth and value creation

Analysis of the key factors for value creation by the best-performing companies

Selection criteria

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Data sources	— Data bases: Bureau van Djik (AIDA and Zephyr) — Thomson One Reuters — Merger Market
Reference period	— Total time frame: **11 years from 2003 to 2013** — Observation sub-periods to analyse pre- and post-crisis trends: - Stage 1: 6 years from 2003 to 2008 - Stage 2: 5 years from 2009 to 2013
Selection criteria	— Companies with registered office in Italy and 2013 turnover of more than €50 million, for which sufficiently complete and significant historical data was available in AIDA's data base, including: - publicly-owned operating companies (for example, Poste Italiane, Ferrovie dello Stato, Fintecna, RAI, etc.) - financial holding companies with a large number of investments in companies operating in the analysed industry segments - operating holding companies heading groups operating in the analysed industry segments
Industry segments	— Building & Construction — Business Services — Energy & Utilities — Health Care & Life Sciences — Industrial Products — Retail & Consumer Products — Telecommunications, Media & Technology — Transportation

The sample was extracted from a 'population' of approximately 7,000 Italian-based companies with 2013 turnover > €50 million (1,368 companies)

(1) Note: consolidated figures

Description of the sample

Period analysis and sub-samples

The sample was selected on the basis of:

— **M&A activity:** companies which completed at least one M&A deal during the period under examination (2003-2013)

— **Period of the M&A activity:** the presence of M&A activity during two different stages: pre crisis (2003-2008) and post crisis (2009-2013)

Companies which carried out M&A activity (2009-2013)
%/Average values for the period

Companies which carried out M&A activity (2003-2008)
%/Average values for the period

	M&A: no	**M&A: yes**
M&A: no	**1** ***M&A CONSERVATORS*** **Definition** Companies which did not engage in M&A during the examined time frame and adopted an organic growth approach **Criterion** M&A in 2003-2013: no	**2** ***FOLLOWERS*** **Definition** Companies engaged in M&A only during the second stage and used the results of organic growth to support and start inorganic growth **Criterion** M&A in 2009-2013: yes
M&A: yes	**3** ***FIRST MOVERS*** **Definition** Companies which engaged in M&A only during the first stage while adopting an inorganic growth approach which enabled them to maintain the same level of value creation **Criterion** M&A in 2003-2008: yes	**4** ***LEADERS*** **Definition** Companies which were systematically engaged in M&A during both stages while adopting a long-term inorganic growth approach. **Criterion** M&A in 2003-2008 and 2009-2013: yes

Note on the sample

— **1,368** number of sample companies examined

— **5%** statistical significance of the analysis

— **95%** statistical confidence of the analysis

Source: KPMG-SDA Bocconi database processed by SDA Bocconi

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Period analysis and sub-samples

M&A ACADEMY

Companies which carried out M&A activity (2009-2013)
%/Average values for the period

Companies which carried out M&A activity (2003-2008) ***%/Average values for the period***

M&A: no

M&A: no

1

M&A CONSERVATORS
No. 1,006

CAGR revenue 2003-2013	*7%*
EBITDA margin 2003-2013	*10%*

2

FOLLOWERS
No. 95
No. of DEALS 129

CAGR revenue 2003-2013	*9%*
EBITDA margin 2003-2013	*11.5%*

M&A: yes

3

FIRST MOVERS
No. 139
No. of DEALS 250

CAGR revenue 2003-2013	*5%*
EBITDA margin 2003-2013	*12%*

4

LEADERS
No. 127
No. of DEALS 1,133

CAGR revenue 2003-2013	*9%*
EBITDA margin 2003-2013	*15%*

Gran total
No. of COMPANIES 1,368
No. of DEALS 1,512

CAGR revenue 2003-2013:	**7%**
EBITDA margin 2003-2013:	**11%**

Total M&A Yes
No. of COMPANIES 362
No. of DEALS 1,512

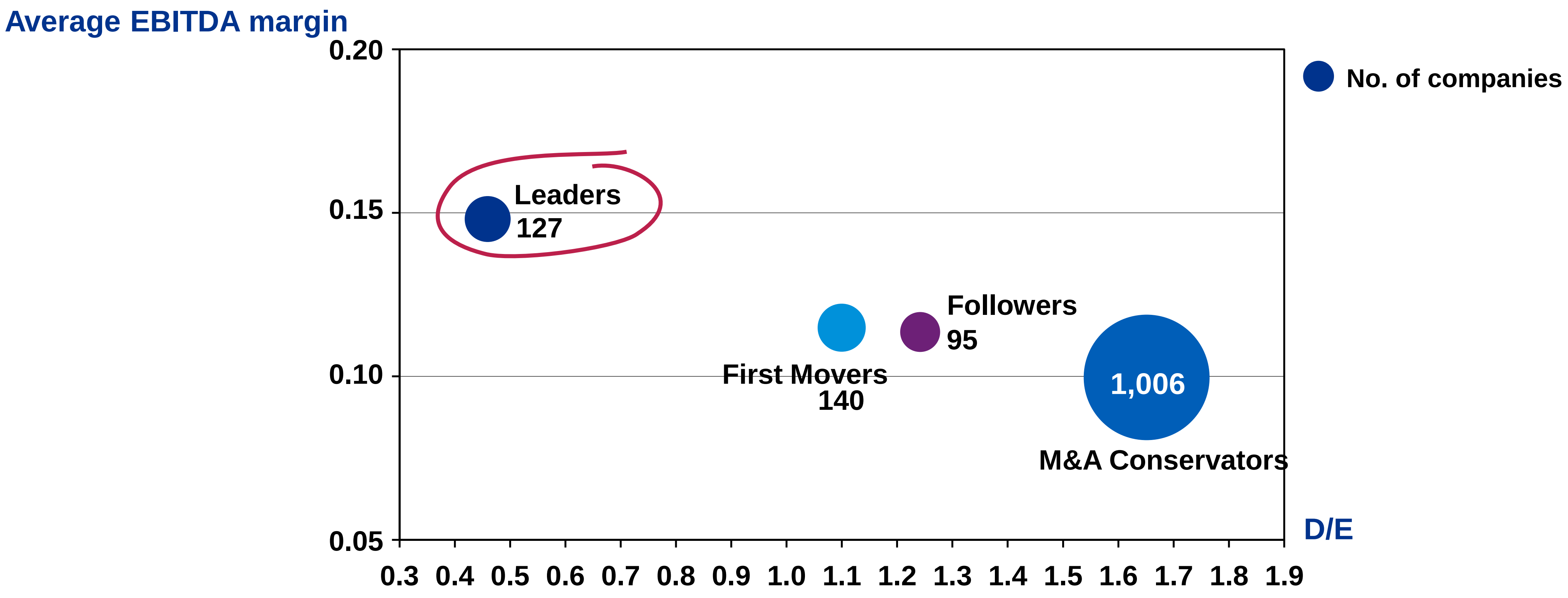
CAGR revenue 2003-2013:	**8%**
EBITDA margin 2003-2013:	**12%**

The companies which engaged in M&A grow and, at the same time, create value
Moreover, companies which systematically engaged in a larger number of M&A transactions (Leaders) report higher growth (~9%) and value creation rates (~15%) than other companies
The companies which engaged in M&A during one of the two stages (First Movers and Followers) create more value than those which did not engage in any M&A activity at all (approximately 200 basis points more)

Source: SDA Bocconi processed data

Description of the sample

Statistical relevance - financial structure



Leaders are less indebted (debt/equity ratio ~0.45) than other sub-samples and report a significantly higher EBITDA margin (~0.15)
First Movers and Followers are in between Leaders and M&A Conservators, with a debt/equity ratio ranging from 1.1 to 1.3 and an EBITDA margin of ~0.11
M&A Conservators are more indebted and report lower margins (EBITDA margin: ~10%)

Source: SDA Bocconi processed data
Note: significance 5%, confidence 95%

Issues of the survey and expected impacts

- The **first issue of the survey** is the analysis of the **key factors for value creation** by companies. We carried out a logistic regression analysis using **the average 2009-2013 EBITDA margin % as dependent variable** and investigated on how the independent variables impacted the probability of a company reporting a performance above its industry segment
- We analysed five macro areas with eight independent variables:

1. **Profitability**
   - Average 2009-2013 ROI - (expected positive impact)
2. **Financial structure**
   - Average D/E of the company/segment (2009-2013) - (expected negative impact)
3. **Size**
   - Average total assets of the company/segment (2009-2013) - (expected positive impact)
4. **Structure**
   - Age category - (expected positive impact)
5. **M&A features**
   - Number of deals completed (2003-2013) - (expected positive impact)
   - Significant deal types < 50% (of the total) - (expected negative impact)
   - 100% acquisition - (expected positive impact)
   - M&A frequency - (expected negative impact)

Conclusions - first issue of the survey

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Key factors for value creation above the industry average

Financial structure profitability
- Best-performing companies (ROI) with lower indebtedness create greater value than the industry average

Size and age
- Larger-sized and longer-lived companies create greater value than the industry average

M&A significance
- Companies which carry out at least 50% of significant M&A activity create greater value than the industry average

M&A frequency
- Companies which complete a larger number of deals create greater value than the industry average

Features of the Leaders
- M&A Conservators are less likely to report an EBITDA margin above the industry average than companies which engage in M&A activity (Leaders, Followers and First Movers)

Companies are more likely to create greater value than the industry average when they engage in M&A activity, when this activity is significant and when it is carried out more frequently

Second issue of the survey and methodology

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- The **second issue of the survey** is the analysis of the **strategies the best-performing Italian companies adopt compared to their industry peers**
- The analysis is divided into four stages:

1. Description of the sub-sample representing companies which grew more than their industry peers in the period from 2009 to 2013

2. Classification of M&A transactions by their strategic purpose grouped under eight clusters:

1. Production capacity efficiency
2. Acquisition of technology and know-how
3. Market concentration
4. Strengthening of competitive position
5. Diversification
6. Focusing
7. Product range expansion
8. Other

3. Classification of acquirors in three sub-samples based on their dominant strategy:

1. Revenue
2. Costs
3. Long-term revenue supported by an immediate (short-term) increase in costs

4. Analysis of the key factors for growth for companies which grew more than their industry peers by considering also the effects of non-recurring financial transactions in the period from 2003 to 2013 among the independent variables

Classification of M&A transactions and main strategies

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Strategy/impact	Description	Transaction example	Revenue	Costs	Long-term revenue	Number of transactions
Production capacity efficiency	Quicker reduction of unit costs compared to the company's competitors; greater value and production chain efficiency, achievement of economies of scale and scope	ENI S.p.A. – Italgas S.p.A. Leading oil and gas company ENI acquires 56% (2003)		✓		**375**
Acquisition of technology and know-how	Rapid product innovation, greater ability to innovate by offering new or more flexible products and services while minimising costs and reducing prices	Coesia S.p.A. – ATS Engineering S.r.l. Industrial Products 78% (2006)		✓		**62**
Market concentration	Company mergers through the acquisition of a number of minor players operating in the same competitive context	HERA S.p.A. – Prigeas S.r.l. Energy & Natural Resources 51% (2009)	✓			**190**
Strengthening of competitive position	Reduced competition by competitors with consequent increase in market share	Luxottica S.p.A. – Oakley Inc Retail & Consumer Products 100% (2007)	✓			**157**
Diversification	Extension and diversification of the company's core business into other industry segments in which it does not currently operate, both in terms of product and market portfolio	Prada S.p.A. – Luna rossa S.ar.l Retail & Consumer Products 49% (2009)	✓			**48**
Focusing	Focusing on very high value-added niche products and adoption of a diversification strategy	ENEL S.p.A. – Altomonte Fv Energy & Natural Resources 100% (2012)	✓			**26**
Product range expansion	Business development and extension into related fields defined starting from the company's already consolidated and well managed technical-management skills or, to a lesser extent, from a specific already served and covered customer and market portfolio	Davide Campari S.p.A. – Skyy Spirits Inc. Retail & Consumer Products 30% (2005)			✓	**179**
Other	Transactions classified in the original 'Deal Type' database as: share buybacks, acquisitions from 100% to 100% or mergers (only in the case that the merging company already controls the merged company)	Manutencoop – Manutencoop Facility Management S.p.A. Retail & consumer products 25% (2008)			✓	**29**
Total						**1,067**

Note: The **Acquirors** are classified based on the following dominant effects of overall transactions:
Increase in revenue, if at least 60% of the strategies fall under market concentration, strengthening of competitive position, diversification or focusing; **Reduction of costs,** if at least 60% of the strategies fall under production capacity efficiency or acquisition of technology and know-how; **Increase in long-term revenue backed by an immediate (short-term) increase in costs**, if at least 60% of the strategies fall under product range expansion or other; **No dominant effect,** if none of the strategy clusters is dominant, therefore less than 60%

Conclusions - second issue of the survey

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M&A, strategy and growth

M&A and value creation

- Out of 1,368 companies, 616 reported an average EBITDA margin (2004-2013) above the industry average
- 191 of them (~31%) completed 1,067 M&A deals, 748 of which were significant transactions

Leaders out-performing industry peers

- ~60% of the Leaders are companies which created greater value against ~46% of the Followers, ~50% of the First Movers and ~42% of the M&A Conservators

M&A, strategy and growth

- The probability of growing more than one's competitors increases if the measures adopted lead to the creation of greater value and if they are part of a clear and long-term strategic plan

M&A activity leads to higher growth if carried out consistently, in a long-term perspective and as part of a clear strategic plan

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Thank you!

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