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Strong Italian dealflow boosts southern European activity

Alessia Argentieri
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The volume and aggregate value of buyouts in Italy rose to an all-time high in 2018, resulting in increased activity across southern Europe as a whole. Alessia Argentieri reports

Despite political uncertainty prompting anxiety over the region's prospects, 2018 was one of the most buoyant years for private equity activity in southern Europe. The region recorded a significant increase in both deal volume and value, in addition to a rise in the number of mega-buyouts.

According to Unquote Data, southern Europe saw 258 deals for an aggregate value of €34.9bn, including 140 buyouts worth €27.4bn. By comparison, there were 229 deals for a total enterprise value of €24.2bn in 2017, of which 131 were buyouts worth an aggregate €20.6bn.

Italy was particularly active, reaching the highest levels on record in terms of aggregate volume and value. The country saw 89 buyouts worth a total of €16.3bn, more than double the €6.8bn invested in 72 buyouts in 2017.

Spain also recorded strong activity, reaching an aggregate value of €16.2bn, which surpassed the €15.9bn recorded in the previous year. However, the country saw a slight decrease in both the number and value of buyouts, which fell from 51 deals worth €12.3bn in 2017 to 47 for a total value of €10.9bn.

Despite the mid-market remaining the most active range in the region, 2018 saw a noticeable rise in the volume and value of mega-deals, which reached their all-time peak. According to Unquote Data, nine deals valued at €1bn and above were inked in southern Europe last year, for an aggregate value of €18.1bn. By comparison, only six mega-deals were recorded in the previous year, worth around €8.1bn, and seven in 2016, for a combined EV of €10.1bn.

"Even though valuations in the region have increased over the past couple of years, they still remain well below the rest of Europe, and this favourable pricing environment represents one of the main drivers for mega-deals," says David Santos, partner at Alantra Private Equity. "In the large-cap space, pricing is particularly important and more crucial than in the mid-market segment, because strong international players that are looking for mega-deals can shift their focus from one country to another and increase their presence to wherever is more convenient."

Large-cap ambitions

Italy saw the largest buyout recorded in southern Europe in 2018 with the acquisition of Recordati by CVC Capital Partners. Some local GPs are eyeing the trend and trying to raise sizeable funds to compete with international counterparts in the large-cap space. Ambienta recently closed a €635m fund, and Green Arrow Capital told Unquote it is planning to launch a new private equity vehicle with a €500m target this year to capitalise on Italian large-cap opportunities.

Eugenio de Blasio, CEO of Green Arrow Capital, says: "Despite the Italian economic fabric being made of small and medium-sized companies, the increase in larger deals is an upcoming trend able to open up a new window of opportunity. To benefit from this, Italian funds need to pursue a cross-border and pan-European strategy and diversify, not only in terms of sectors, but also geography and size."

Furthermore, 2018 has also been a very busy year for the region on the exit side, counting 111 exits for a total value of €18.8bn. Unquote Data shows how the most common exit route for private equity funds last year was the trade sale, which accounted for 52 deals, while only 30 secondary buyouts were recorded.

"The preference for a trade sale is related to the very strong M&A activity and consolidation that we have seen in recent years, which has resulted in increased competition from industrial players," says Michele Semenzato, partner at Wise. "In addition, while private equity funds are constantly looking for new investment opportunities, industrial players are more affected by the fluctuations of the economic cycle and tend to increase their presence in the investment arena when the trend is remarkably positive."

Looking at fundraising, buyout and generalist funds raised €2.5bn in the region, recording a slight slowdown compared with the €2.7bn raised in 2017. According to market experts, in 2019 the increasing volatility of the stock market and geopolitical tensions triggered by Brexit could persuade international LPs to direct a larger portion of their capital towards alternative funds in southern Europe.

LINK: <https://www.unquote.com/southern-europe/analysis/3013578/strong-italian-dealflow-boosts-southern-european-activity>