Could China boost Italy's private equity activity?

In February 2017, Italy's highest state representatives travelled to Beijing alongside entrepreneurs and professional investors for the fourth Business Forum Italy-China. Italy's President Sergio Mattarella gathered with his Chinese peer, Xi Jinping, to boost the industrial co-operation between the countries and ink a memorandum of understanding worth €5bn that set forth several partnership agreements between companies from the two countries.

One of these partnerships saw Cassa Depositi e Prestiti Group (CDP) agree to sell a 40% stake of its portfolio company Ansaldo Energia to Shanghai Electric, a listed Chinese power generation and mechanical equipment manufacturer with a €5bn market cap. Following the sale, CDP retained a 45% stake in the business with the exclusive right to buy the remaining 15% stake from Leonardo-Finmeccanica from 1 July 2017.

The deal is the latest in a growing number of exit opportunities brought by Chinese investors for private equity players across Europe. Among the most relevant, in January 2017, Mid Europa Partners sold Hungarian broadband and telephone provider Invitel in a €202m secondary buyout to China-CEE Investment Co-operation Fund, an investment vehicle managed by CEE Equity Partners and partially funded by Chinese capital. In January 2016, Onex exited German processing equipment manufacturer KraussMaffei via a trade sale to ChemChina for €925m.

Against this backdrop, several GPs have recently launched Sino-European, or Chinese-backed vehicles, including Agic Capital, which held a $1bn final close for its debut fund in February 2017. Furthermore, investment firm China Everbright held a $264m first close for its maiden buyout vehicle targeting the US and Europe, CEL Global Investment Fund, in August 2016 and, in 2013, CEE Equity Partners launched a $500m vehicle partially founded by China Exim Bank.

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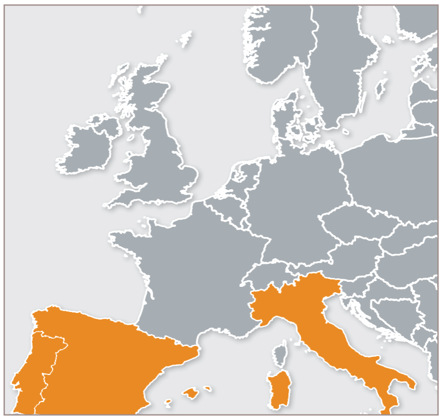
"The majority of large private equity deal-makers have offices in all of China's major cities and will still need deep relationships with this market"
Alberto Forchielli, Mandarin Capital Partners



Inflationary impact

A recent survey conducted by MVision Private Equity Advisers and the London Business School highlighted the expectations from the private equity industry of increasing competition from Chinese buyers over the next 12 months across multiple sectors.

Two thirds of the GPs surveyed confirmed they faced competition from prospective Chinese buyers more frequently over the past year, with 29% of deal-makers confirming they lost out to a Chinese contender in 2016. Additionally, the report highlighted that 76% of GPs believe that increasing Chinese outbound activity has an inflationary impact on valuations.

However, whereas the survey points out that Chinese buyers are gaining momentum, several market sources think this trend will reverse in 2017.

Contrasting scenario

Chinese M&A investments in Europe soared to €84.7bn in 2016, according to *unquote"* sister title *Mergermarket*, marking a huge increase from the then record-breaking €34.2bn reported in 2015 and €18.35bn in 2014. However, Italy saw a 90% drop in capital invested from 2015 to 2016 totalling 18 M&A deals in 2016 with €873m of total capital invested. In 2015, the country saw 11 transactions completed, which amounted to an aggregate €8.6bn.

The main reason *unquote"* sources anticipate a decline in Chinese investment stems from the Chinese government's recent U-turn in financial policy, which aims to limit outbound deals valued above $2bn. The bonanza seen in 2016 may decrease in 2017.

Furthermore, China is currently facing a slowing domestic economy and devaluation pressure on its currency,

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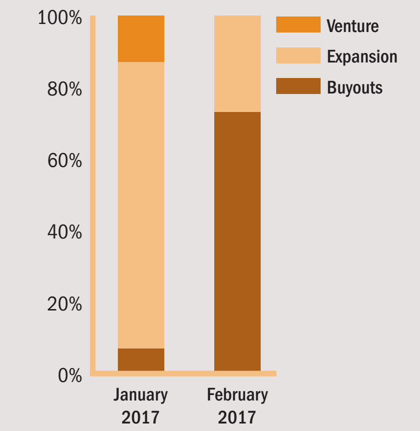
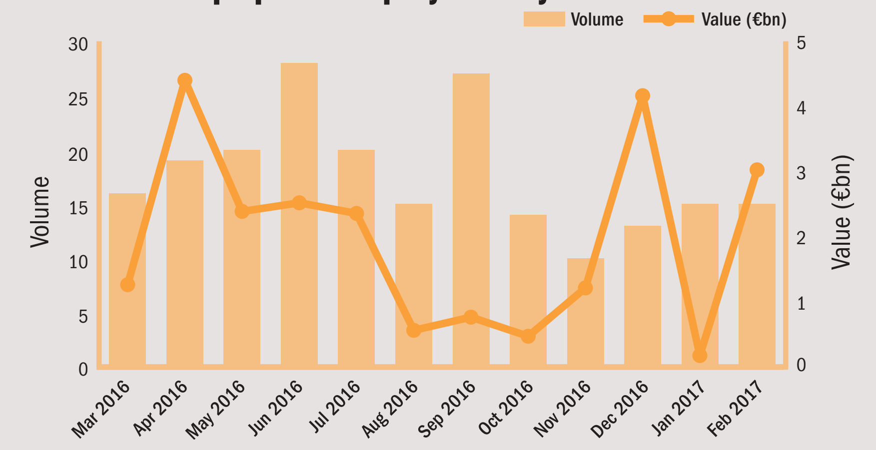
Southern Europe deals by type



Southern Europe private equity activity



All sources: *unquote" data*

explains Alberto Forchielli, co-founder and managing partner at Sino-Italian mid-cap private equity house Mandarin Capital Partners. "China is turning off the tap," he says. "The country is facing major challenges. Nonetheless, the majority of large private equity deal-makers have offices in all of China's major cities and will still need deep relationships with this market."

While Italian private equity investors are currently enjoying plentiful supply of Chinese investment, this may not be the case in the longer term. ■

> **76% of GPs believe that increasing Chinese outbound activity has an inflationary impact on valuations**

Deal index

COMPANY	TYPE	EQUITY LEAD	VALUE	TURNOVER	COUNTRY
CONSUMER					
Contemporary Bags	Buyout	21 Investimenti	n/d	€35m	Italy
Targetti Sankey	Turnaround/Special situations	Idea Capital	n/d	€50m	Italy
Tuc Tuc	Expansion	Endurance Partners	n/d	€40m	Spain
Fintyre	Secondary buyout	Bain Capital	n/d	€400m	Italy
Imprima	Buyout	Wise	n/d	n/d	Italy
Bodybell	Trade sale	HIG Capital	n/d	n/d	Spain
Alpha Test	Secondary buyout	Aksìa Group	n/d	€12m	Italy
FINANCIALS					
Allfunds Bank	Secondary buyout	GIC SI, Hellman & Friedman	€1.8bn	€742.7m	Spain
INDUSTRIALS					
Duplomatic Oleodinamica	Secondary buyout	Alcedo	€27m	€70m	Italy
Cold Land	Trade sale	Inter-Risco, Portugal Capital Ventures	n/d	€18.8m	Portugal
TR Alucap	Trade sale	La Finanziaria Trentina, Gradiente	n/d	€20m	Italy
TECHNOLOGY					
Odilo	Expansion	JME Venture Capital, Kibo Ventures	€6m	n/d	Spain
Fazland	Expansion	RedSeed Ventures	€4.5m	€1m	Italy
Gamelearn	Expansion	Kibo Ventures	€2m	n/d	Spain

■ Italy ■ Portugal ■ Spain

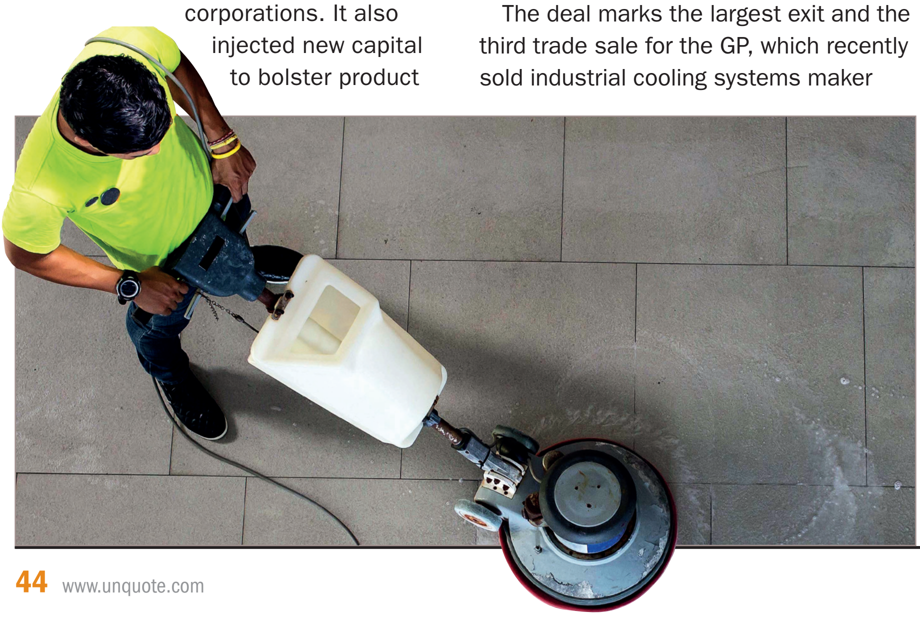
Ambienta reaps €330m on IPC trade sale

After a holding period of two and a half years, Ambienta has sold Venice-based cleaning machines manufacturer IPC Group to US-listed corporate Tennant Company for €330m. The deal values the business at 11.9x EBITDA, with an additional €12m of annual cost synergies expected to be achieved by 2019.

In July 2014, the GP wholly acquired the business in a secondary buyout from Italian fund manager Synergo with a €50m equity ticket provided via both its vehicles, Ambienta I and II – the only such case across the GP's portfolio. The deal also involved a refinancing of existing debt, provided by UniCredit, Intesa, UBI Banca, Banca Popolare dell'Emilia Romagna, Banco Popolare, IKB and Banca Monte dei Paschi di Siena, according to *unquote" data*.

At the time of the secondary buyout in 2014, the transaction was based on the company's 2013 turnover of €170m and €27m EBITDA. Following the acquisition, the GP undertook a simplification of the group structure, according to a statement. Ambienta led mergers of the company's sister companies, with the aim of creating two divisions. Moreover, the fund manager appointed a new CEO, Federico De Angelis, with a strong track record of executing repositioning and growth strategies at large industrial corporations. It also injected new capital to bolster product development and support additional bolt-on acquisitions.

In the aftermath of the referendum on the UK's EU membership, the GP backed the first add-on, supporting the acquisition of Manchester-based competitor Vaclensa to expand across the UK market. Following the merger, IPC saw its revenues increase from €174m in 2015 to €192m in 2016, with €28m in EBITDA, representing a 14% margin.



Clean sweep

Headquartered in Portogruaro, near Venice, IPC produces commercial cleaning machines, including sweepers and scrubbers, vacuum cleaners, high-pressure washers, multi-purpose cleaning trolleys, window-washing systems, antibacterial microfiber mops and cloths. It operates under several brands, including IPC Forma, IPC Eagle, IPC Gansow, ICA, Vaciensa, Portotecnica, Sirio and Soteco, Euromop and Pulex.

Following its recent acquisitions, the business employs a staff of 1,000 and has four manufacturing plants and 11 offices globally. It sells 80% of its products across the European market, with the American continent representing 11% of its revenues, while China and India account for the remaining 9%.

The deal marks the largest exit and the third trade sale for the GP, which recently sold industrial cooling systems maker Spig to US-listed Babcock & Wilcox Enterprises for €155m in May 2016.

The company was set up in the early 2000s as the cleaning division of Interpump Group, an Italian listed pumps producer. In 2005, the business sold an 82.7% stake to institutional investors BS Private Equity and Sofipa Equity Fund, the investment arm of Unicredit, and the company's management team in a deal valuing the business at €220m. As part of the deal, the vendor reinvested to take the remaining 17.3% stake.

One year later, Interpump sold its stake for €7.1m to BS, which in 2011 was ousted as owner by a consortium of its LPs led by HarbourVest Partners, Adams Street Partners and Dankse Private Equity.

Italian GP Synergo took over BS's portfolio, which included two vehicles worth a reported aggregate value of €850m. It subsequently acquired Sofipa's 13.19% stake, with the vendor reaping €1.61m in proceeds, according to *unquote" data*, and ultimately became the sole shareholder in the business.

The latest transaction also represents the largest acquisition for Minneapolis-based Tennant, which aims to expand internationally, double its current market share across the EMEA region and boost its products portfolio to cleaning tools and supplies.

In 2016, Tennant posted $1bn in pro-forma revenues and $115m in adjusted EBITDA. Following the transaction, the US corporate expects its net debt position to sit below 3x adjusted EBITDA. ■ *by Amedeo Goria*

People

Ambienta – Mauro Roversi, Francesco Lodrini.
Tennant Company – Chris Killingstad.
IPC Group – Federico De Angelis.

Advisers

Acquirer – Goldman Sachs (*M&A*); Baker & McKenzie (*legal*).