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Is the Bulgari case applicable to other Italian family-owned businesses?

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INTRODUCTION

The purpose of this analysis is to try to observe whether is possible or not to repropose the Bulgari's growth option for other Italian companies. The starting assumption is that, nowadays, companies face a global competition and are subject to enormous pressures, therefore they have to realize efficient and solid strategies to ensure their survival. The work is divided in three chapters.

In the first one it is analysed the Italian economic system. This system is mainly composed by family firms and during the first chapter we discuss on the main characteristics of this particular kind of ownership structure. Hence, the discussion starts with a short introduction on the Italian history, in order to frame the context with whom Italian Companies compete. Then, the discussion continues observing the main weaknesses and strengths of the Italian family firms, such as risk aversion or the revenues growth. The discussion continues looking at the main issues that arises from the decision, for a family business, to realize a growth expanding in foreign countries and all the problems and consequences that this choice has for this kind of business. Then, we try to deal with the problem of successions in families and which factors affect the transformation from family firm to public companies. We close the chapter examining the capital composition of Italian companies and the private equity diffusion in the Italian economic system.

The second chapter brings us in the core of the discussion, examining the LVMH-Bulgari deal and its consequences. First of all, we realize a wide analysis on the Luxury Market in terms of definition and main financials indicators but focusing on the Jewellery and Watches segment. Secondly, the analysis covers the entire history of Bulgari, starting from its foundation by a Greek emigrant, passing through the IPO process and arriving to the acquisition realized by LVMH. At the end of the chapter, we discuss on the issues those rose for the entire luxury sector and the role played by Bulgari in the context of a global group.

In the last chapter we discuss if the Bulgari case (the case of a family business successfully incorporated in a global group) could be repeated for De Cecco, an Italian family-owned company specialized in pasta. The chapter starts with an empirical analysis on the food sector and its weight for the Italian economy, focusing on the pasta market and its main characteristics. Then, it is analysed the current financial performances of De Cecco, comparing those with its main competitors. The chapter closes focusing on the possible growth alternatives for De Cecco, with the pros and the cons of each alternatives.

1. FAMILY BUSINESSES IN ITALY

The purpose of this chapter is to built-up a theoretical base on whom discuss on two practical cases, therefore we need to understand firstly the context in which we are going to move. In order to do this, we are going to look at family businesses firstly trying to understand why there are so widespread in the Italian environment and then analyse the main issues affecting them, such as the internationalization, the succession issue and their financial structure.

1.1. FAMILY FIRMS: A BRIEF HISTORY.

Family controlled businesses are the widest diffused corporate form in the world, especially in economies with a market orientation[1].

Anyway, the academic literature doesn't provide a univocal definition for family firm. A definition can be given from a managerial point of view or from a generational point of view. With the former, we can define a family firm as a firm with, at least, a family member with an important role in the board of directors. With the latter definition, a family firm is a firm run by a family member[2].

The Italian industrial system is mainly composed by family firms: those account for 74.6% of the "società di persone" and for 64.9% among the "società di capitali"[3].

The reasons of the preponderance of this kind of corporate control have to be found in the Italian history. According to the Italian pre-faction, dated 1893, of the Communist Manifesto, Italy was the first capitalist nation, thanks to the Lombard[4] communes.[5]

The late middle ages in fact saw the birth of the middle class, the so-called Bourgeoisie, was represented, for example, by the great ancestors of the Investment Banking: the merchant banker and the financer[6].

The rise of this class and the Milanese victory in the battle of Legnano, led to an increasing autonomy of the Italian city-states from the central power represented by the Holy Roman Empire. This fragmentation of the Italian society compared to the other European nations made Italy the richest country of the late Middle Ages but created a political and military weakness of the Italian states

[1] Dello Sbarba, Marelli (25 January 2018). "Family-controlled businesses and management control: the framing of "shareholder-oriented" practices". Springer-Verlag GmbH Germany.

[2] Audinga Baltrunaite, Elisa Brodi and Sauro Mocetti (11 October 2019). "Assetti proprietari e di governance delle imprese italiane: nuove evidenze e effetti sulla performance delle imprese delle imprese". Questioni di economia e finanza (Occasional Paper).

[3] *ibidem*

[4] In the Middle Age the entire Po Valley was called Lombardy because of the Longobards domination

[5] Manifesto of the Communist Party

[6] M&A and Investment Banking Course Introduction

against the great continental monarchies, producing a long period of foreign domination for the Peninsula[7].

The middle class, born in Italy, during the period 1789-1848 led to the Bourgeois Revolutions. According to Eric Hobsbawm, words such as "Industry" or "Capitalism" were invented in England during this age[8]. The absence of a centralized power, the absolutism and the lack of raw materials created a gap, in terms of industrial capacity between the Italian States and the European Great Powers. But the end of this period saw the rise of the Piedmontese Kingdom as light for the Italian question. Under the Cavour's guide, the Kingdom started a modernization process to unify Italy.
After the unification, the period of the "triumph of the Bourgeoisie" presented a difficult situation for the new Italian Kingdom due to the great war debts and social instability caused by the invasion of Russian and American wheat, that sunk the principle Italian sector: the agriculture[9], leading to a failure of the main post-unification decision of focus on agriculture. Those events got to protectionism and to a stronger support for the new industries, as other European Countries did[10]. It was based on the idea that the free trade didn't allow Italy to escape from the dependence of industrialized countries and, without its own industry, for the Nation wouldn't be possible to become a Great Power and participate in the colonization process. After the 1896 Italian economy started a growing period higher than 5% per year until the 1907 crisis[11]. After the 1907 crisis, started the so called Giolittian Age, characterized by a 1.5-2% rate of growth until the Great War, and it saw a strong industrial development, especially in the Northern Italy. The sectors that distinguished more among the others were the textile sector and the heavy industry. The post Great War period was characterized by reconversion crisis and years of great social instability that got to the rise of the Fascism. The Fascist period saw a last try to develop the agricultural sector (the "battaglia del grano") and a strong State intervention with the founding of the IRI.

The period after Second World War saw the Italian Miracle, realizing the greater transformation in the Italian society. Italy opened itself to exportation and fulfilled the industrial gap with the first comer using the low salary force power coming from the rural areas. The specialization was composed by several small medium enterprises focused on traditional sectors such as footwear,

[7] https://www.youtube.com/watch?v=OzxrX4rujlw
[8] Eric Hobsbawm. *The Age of Revolution 1789-1848*. Weidenfeld & Nicolson, London. Pag. 1.
[9] Eric Hobsbawm. The Age of Capital 1848-1875. Vintage Books
[10] Ennio De Simone. *Storia Economica*. Franco Angeli, 5th edition. Pag. 162
[11] *ibidem*

clothing, furniture, appliances, ceramics, foods and electronic goods and was characterized by a lack of technological innovation[12].

The particularity of the Italian Capitalism compared to the others is now represented by Industrial districts. Those are artisanal firms located in small areas spread out on the whole Italian territory with an high degree of specialization in specific production chains. To give a complete overview on the Italian system during the "boom" we can individuate three types of Italy: the first one, represented by the Milan-Turin-Genoa area, characterized by large and vertical integrated companies; the second one represented by the South, with a poor level of industrialization; and the last one made up of North-Eastern and Central areas, previously rural rather than industrial. During this analysis we will mainly focus on the characteristics of the Third Italy, a production model composed by small medium family-based firms with subcontracting and flexible production. This system was characterized by overtaking of the Fordist production, made of large and vertically integrated firms. The Third Italy was organized in small firms with a strong focus on a specific sector and linked each other by knit relationship.

Indeed, the Three Italys characterized the Italian system after the WWII but, as time went by, the industrial districts experienced a considerable growth after the '60s with a downsizing of the Fordism in favour of the former. We can see a spread out of small firms in the whole territory occupying the areas previously characterized by large firms.

The reason of this downsizing can be found in one of the most difficult periods in the short life of the Italian Nation, the so called "Anni di Piombo". During this period, characterized by stagflation, terrorism and social instability, we can see the causes of the transformation of the Italian system. The first reason is given by the decrease of the investments due to social contrasts between workers and owners that led to a fall in the profit margin. The profit margins were maintained at an acceptable level depreciating the "Lira". The recurrent depreciation, the energetics shocks and the linkage between exchange rate and wages generated a two digits inflation, far greater than the other European countries. The uprising of wages increased the labour cost and together with the fall of productivity levels caused a rising in the cost of product per unit.

In this environment the large enterprises experienced a crisis, especially those characterized by vertical concentration and by a great energy demand. Undermined the enterprise model which had been consolidated in the main industrialized countries and characterized by the vertical integrated companies.

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[12] Renata Targetti Lenti. *Sviluppo E Declino Del Sistema Economico Italiano. Rubbettino Editore.* Il Politico, Settembre-Dicembre 2011, Vol. 76, No. 3 (228), L'ITALIA CHE CAMBIA: 1861-2011 (Settembre-Dicembre 2011), pp. 93-128

The answer of the Italian system was to foster the productive specialization in smaller firms. It was possible thanks to the outsourcing of some functions, given a greater flexibility. At the same time the third sector experienced a growth in order to support the enterprises with services.

Starting from the ’70ies the Italian system has been mainly composed of small firms. Those firms were strongly focused on traditional sectors marked by a low level of R&D and innovation. The recurrent depreciations of the ’70ies and ’92, could only drive the orientation of the productive system to sectors characterized by a price-based competition or based on flexibility in the operating system. The ‘80s saw a strong fight against inflation and the entering of Italy in the SME. As a consequence of this, a small growth was observed of the profit margin due to a restructuration process of the entire system consisting of a substitution of labour with capital and by the introduction of electronical and informatic systems. During the 90ies we can observe a loss of market share for the Italian companies due to high prices and exports.[13]

Nowadays, looking under a microscope, we can see how the majority of the industrial framework is composed by family-owned firms, some of which by the second or the third-generation members. As we said in the introduction, we can observe how, even those companies that were born as small family firms in an industrial sector, grew up becoming large family-owned enterprises[14].
We can also observe a decrease in manufacturing production starting from 2007. This fall can be observed in a long run tendency in adapting to the post Fordist production system, that requires, in more dynamic sectors, fast innovation, R&D and knowledge. However, Italy has still based its productive system on SME where competition of the emerging countries is stronger. The strong presence of SME stopped the spread out of economies of scale and technological progress. Moreover, in order to contrast the fall of productivity and the decrease of sales, a working flexibility and sub furniture was introduced[15].

[13] Renata Targetti Lenti. *Sviluppo E Declino Del Sistema Economico Italiano. Rubbettino Editore.* Il Politico, Settembre-Dicembre 2011, Vol. 76, No. 3 (228), L'ITALIA CHE CAMBIA: 1861-2011 (Settembre-Dicembre 2011), pp. 93-128

[14] Simone Ghezzi. *Familism in the Firm An Ethnographic Approach to Italian Family Capitalism*. Presses Universitaires de France. Ethnologie française, Avril-Juin 2016, T. 46, No. 2, ITALIE Trouble dans la famille (Avril-Juin 2016), pp. 241-254

[15] Renata Targetti Lenti. *Sviluppo E Declino Del Sistema Economico Italiano. Rubbettino Editore.* Il Politico, Settembre-Dicembre 2011, Vol. 76, No. 3 (228), L'ITALIA CHE CAMBIA: 1861-2011 (Settembre-Dicembre 2011), pp. 93-128

1.2. ITALIAN FAMILY FIRMS: WEAKNESSES AND STRENGHTS.

Those firms have two main objectives: the first, the long-term orientation of the business; the second, to keep a strong presence of the family in the company[16] due to the common idea of several owners that look at the company as a heritage for the coming generations and therefore as a value to be preserved[17].

This vision contrasts with the hypothesis of a short-term orientation typical of managers that are not part of the family.

According to the academic literature, there is a dissenting thinking around the efficiency of family firms. According to American case, this kind of control is characterized by strong performances but by a lack of control. In contrast, the European case, if there is an efficient form of separation between ownership and control, European listed family firms have higher performances and enterprise value than others.[18]

Families have several ways to influence the company performances. Those are, for example, numbers of seats in board, shares and top management position held.[19]

Some studies view family firms as an indicator of less investment opportunities and economies characterized by strong presence of family firms, the sectors identified by a higher specific risk (measured as volatility of the annual returns by industries and companies) present a lower productivity growth and lower investments. Other studies suggest that, according to the assumption that the owners are oriented to maintain control rather than increase the profitability and the company size. This could move to a lower capacity in responding to demand variations and in a lack in developing the opportunities offered by the market. In the period 1995-2004 the sales of Italian family firms were less sensitive to the variability of the demand compared to public companies[20]. This can explain the lack of competitiveness of Italian companies in those areas characterized by a strong

[16] Claudia Pongelli, Matteo Giuliano Caroli and Marco Cucculelli. *Family business going abroad: the effect of family ownership on foreign market entry mode decisions*. Small Business Economics, October 2016, Vol. 47, No. 3, Special Issue: Entrepreneurial Universities: Emerging Models in the New Social and Economic.

[17] Audinga Baltrunaite, Elisa Brodi and Sauro Mocetti (11 October 2019). *Assetti proprietari e di governance delle imprese italiane: nuove evidenze e effetti sulla performance delle imprese delle imprese*. Questioni di economia e finanza (Occasional Paper).

[18] Andrea Brandolini e Matteo Bugamelli. (April 2009) *Rapporto sulle tendenze nel sistema produttivo italiano.* Questioni di economia e finanza (Occasional Paper). Page 73.

[19] Franz W. Kellermanns, Kimberly A. Eddleston, Ravi Sarathy and Fran Murphy. *Innovativeness in family firms: a family influence.* Small Business Economics, January 2012, Vol. 38, No. 1, The Entrepreneuring Family (January 2012), pp. 85-101. Springer

[20] Andrea Brandolini e Matteo Bugamelli. (April 2009) *Rapporto sulle tendenze nel sistema produttivo italiano*. Questioni di economia e finanza (Occasional Paper). Page 73.

foreign competition. There’s also a strong evidence of the risk aversion of owners due to a lower portfolio diversification, with a decreasing effect as long as the share decreases.[21]

Audinga Baltrunaite, Elisa Brodi e Sauro Mocetti proposed a model, based on the Italian case, trying to analyse the relationship between corporate governance, size and performances through a regression. The dependent variables are the growth of the revenues, the rate of market exit, the labour productivity and the rate of investment.

The analysis revealed that family firms have a revenue growth lower than 1.4%, a labour productivity almost less than 10% and a rate of investment lower than 5%. Those negative effects are balanced by a lower probability of leaving the market. Those results suggest that the focus, on a long period survival, is associated to a lower efficiency, a lower investment rate and a lower growth for the family firms.[22]

Dividing the analysis by size and performances, we can see how negative performances of family firms are greater for large companies but null for the small, both on an economical and statistical point of view. Therefore, the disadvantage of family control is greater in large and medium enterprises, namely those which could benefit, in terms of competitiveness, from external financing resources and external managers[23].

A great problem of the family firm is the rate of innovation granted.

Lumpkin and Dess (1996, p. 142) define innovativeness as: "*a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes."*

Innovation is usually considered as a crucial component of the entrepreneurial process and compose one of the core aspects of entrepreneurial strategies. It therefore represents the capacity of the company to maintain a competitive advantage against competitors.

The decision of being innovative oriented is based on two competing goals: the family’s idea of sociality and economic efficiency. Usually, economic objectives and social objectives are not on the same page for entrepreneurs. Financial objectives and markets are primary goals in managing the firm, but also employment, wealth and identity are family needs. As we observed previously, families

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[21] *Ibidem*

[22] Audinga Baltrunaite, Elisa Brodi and Sauro Mocetti (11 October 2019). *Assetti proprietari e di governance delle imprese italiane: nuove evidenze e effetti sulla performance delle imprese delle imprese*. Questioni di economia e finanza (Occasional Paper).

[23] *Ibidem*

are less prompt to invest in risky opportunities and therefore, less likely to invest in innovation[24]. This reasoning is due to the idea that the cost of failure overwhelms the gain of success. Because of the view of the firm as heritage for the coming generations and as an icon of success among the community, the idea of eroding this wealth investing in risky projects make it complex to assess the trade-off between risk of innovation and expected returns. Moreover, especially in traditional businesses, there could be a reluctant in overshadowing the core business and focusing on diversification because of the development of a sort of emotional attachment for the original business idea.

We can also analyse innovation behaviour in terms of "founder effect"[25]. It states that innovation generates greater performances whenever generational ownership dispersion is contained. Founders are obviously, entrepreneurs. Therefore, first generation businesses are characterized by founders able to individuate and develop opportunities setting up a company. Furthermore, many founders built up firms oriented in maintaining a certain level of innovation, in order to maintain a competitive position. Thus, the founding generation is the one most able to innovate and to collect the benefits of this behaviour. The situation changes with the handover between the first and second generation, transferring power from founder to successor. It has been observed[26] that successors are less likely to risk, and they pay attention on maintaining the wealth. Since there's no recipe for financial success, successors are focused on possible threats of innovation instead of trying to understand the opportunities of innovation. The fear of losing everything leads to keeping the course designed by the founder replicating the initial strategy, limiting the successor capacity to innovate. Since those kinds of firms have been in the market for a long period, they have developed a solid market share, with a strong reputation in the industry, therefore the successors have the possibility to maintain a good profit margin even preserving the original strategy and avoiding innovation. Thus, subsequent generations may be more likely in maintaining a steady level of income following known strategies[27]. One more reason for this attitude can be found, according to some entrepreneurs, with the generational clash: the first generation is not able to transmit the skills needed to manage and innovate the company and the second generation is not prompted to design efficient strategies. That's for a risk aversion of fathers, not ready to risk a part of the company to teach their heirs entrepreneurial skills.

[24] Franz W. Kellermanns, Kimberly A. Eddleston, Ravi Sarathy and Fran Murphy. *Innovativeness in family firms: a family influence.* Small Business Economics, January 2012, Vol. 38, No. 1, The Entrepreneuring Family (January 2012), pp. 85-101. Springer

[25] *Ibidem*

[26] *Ibidem*

[27] *Ibidem*

Such ideas design a stronger innovation behaviour in firms with a low level of generational ownership dispersion.

1.3. THE GOING ABROAD CHOICE

The ability of a firm to go abroad is due to its mix of characteristics such as productive system, ownership, governance, personnel and organizational structure. Once business opportunities rise up, the firm resembles its productive structure in order to effectively answer to foreign market needs. Anyway, it is not possible to adjust ownership structure to be ready to adapt to those opportunities, at least in short term.

The growth of a country is strongly correlated to the ability of its firms to attack and develop in foreign markets. One of the reasons for the slow growth in Italy can be found in the inability of its companies to expand outside home countries. The main reason for this performance may result in the industrial composition. Small size, family ownership and specialization in traditional sectors are seen as the greatest constraints for market share growth. [28]

In this paragraph we will analyse the internalization process from three points of view: the influence of family ownership in internationalization, how ownership structure influences performances and how bank support is important for developing abroad.

Sharma and Erramilli (2004, p. 4) define entry modes as "*a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only market operations (export), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)*".

The choice of the market to attack is one of the crucial elements of the internationalization process due to the tasks required, such as control over foreign operations, investment risk and commitment.

We should consider the entry decision as the result of a complex analysis among several opportunities. According to the model proposed by Pan and Tse the decision process has to be divided in two different choices, in order to simplify the decision[29]. The first step regards which kind of capital may be used, whether equity or non-equity. Generally, equity requires an important decision on timing, on returns and on the effort on resources involved and equity is usually oriented in investment in new companies in order to constitute a branch or a representative office to try to attack the market.

[28] Giorgio Barba Navaretti, Riccardo Faini, Alessandra Tucci. (October 2008). *Does Family Control Affect Trade Performance? Evidence for Italian Firms.* Centro Studi Luca D'Agliano. Development Studies Working Papers N. 260
[29] *Ibidem*

The non-equity investment is generally oriented to create a contractual relationship in the foreign country and doesn't need the creation of a new company.
The second step is partially related to the first step, in fact, once the investor decides between equity or non-equity, the entry mode has been selected. As we said before, equity is generally invested in subsidiaries and joint ventures, on the other hand non-equity is directed to an export and contractual agreement. This decision reflects also the choice between cooperate with a foreign actor and non-cooperate, exercising an exclusive control.

As we saw in the previous paragraph, the main characteristics of family business are the long-term orientation of the business and the desire to keep a strong presence of the family in the company. Therefore, those traits may contrast or align with the decision process. In fact, the long run orientation of the family can strongly influence the timing of the investments, while the wish of preserving the solid presence of the family can impact the willingness to share the control with a new partner.[30]
Claudia Pongelli, Matteo Giuliano Caroli and Marco Cucculelli discovered how different kinds of control condition the entry mode. Specifically, they found that different generations take different decisions on type of capital chosen and on opportunities of share controls. Starting from the founder, we can describe this kind of figure as an authoritarian controller and is generally unwilling to share decisions. Especially for small and medium enterprises the founder is the only one in charge of design strategies, ignoring other managers and, the strategy of the firm is strictly correlated to the founder's vision. The founder is therefore more oriented to internationalize alone, without partners, and only through equity in order to maintain a strong influence in the strategies. Taking into analysis the next generations, it has been observed how the second and the third generations (when inheriting the control or part of the control, even if the founder is still in command) are able to limit founder's preponderance and they act a decentralization process of the decision-making activity. Moreover, the presence of younger generations brings a wider strategic vision but doesn't affect the emotional attachment to the firm, preserving the long-term orientation of the business. In addition, the internationalization idea can also be seen as a chance for a long-term survival of the company and also as an employment opportunity for future generations. Thus, younger generations are still equity oriented but open to a cooperative entry mode. It has been demonstrated also that external managers, that are not part of the family, contrast the preference for equity and non-cooperation, empowering short-term orientation and operate with external actors[31].

[30] Claudia Pongelli, Matteo Giuliano Caroli and Marco Cucculelli. *Family business going abroad: the effect of family ownership on foreign market entry mode decisions*. Small Business Economics, October 2016, Vol. 47, No. 3, Special Issue: Entrepreneurial Universities: Emerging Models in the New Social and Economic.
[31] *Ibidem*.

Now we have understood how the decision of going abroad is taken, we have to analyse how effectively family ownership impacts on performances once the export process starts.
First of all, we have to add another piece to our analysis introducing the risk aversion concept. The main goal for shareholders is to maximize the value of the company and to maximize the expected profits. The theory assumes a separation between managers and shareholders. Shareholders should be focused only on investing in diversified activities in order to nullify the unsystematic risk. Therefore, management should be focused only on company performances and thus maximizing the expected profit generated. However, this scenario is hardly applicable because many family firm shareholders invest a wide part of their resources in companies. Their capacity to diversify is limited getting them to try to reduce the exposure to risks by themselves.
Risk aversion influences the idea of exports in foreign countries. Even if it could be a way to cover themselves from possible shock of local demand, expanding in foreign markets bears a risk for companies. In fact, export involves large investments, typically seen as sunk costs, higher volatility of revenues, external competition and so on. Even though the export decision is oriented only on revenues-cost trade-off for widely hold companies, in family firms the decision is also influenced by shareholders' risk aversion.
Anyway, not only the different perception of risk between public companies and family firms influences exports. As we stated before, the strong presence of family in the company's management prevents the presence of external managers, limiting the efficiency of the company and limiting the capacity to recover the sunk costs due to the investments in new markets. In addition, the centralizing tendency of the owners leads to difficulties in managing the complexity of foreign countries.

Giorgio Barba Navaretti, Riccardo Faini, Alessandra Tucci provide a model, based on the Italian market, on the decisions of exporting. The model is dominated by three variables: the owners' risk aversion, the sunk cost of the investments and the risk for expanding in new markets. Starting from those assumptions, the model considers three growth opportunities for the company: being limited to the home country, expanding in Europe (especially European Union) or exporting to the Rest of the World.
The assumption of the model is to test that the export decision is functional of both risk aversion and sunk cost of the investment.
The model results show that family firms export less than public companies, both in Europe as well as in the Rest of the World. Confronting the performances, we can see that family firms sell more in-home country (+3% of output sold), about -10% in European market and less than 12% in the rest of

the world. The academic literature provides three hypotheses for this result: performances, risk decisions and agency theory.
As we stated in the second paragraph through the previous regression, family firms are generally less efficient than public companies. Since the former have, on average, worse performances than the latter, their ability of growth in foreign countries are lower ex ante.
A possible reason for this result is given by the idea of the firm for the family, as we said before it is seen as a heritage for future generations, that succeed in managing the company. So, the dynastic succession reduces the possibility for qualified external managers to enter in the firm.

A second explanation involves the agency issues but leads to an opposite result. A clear strength of family is to cross the agency problem in managing the situations. Family ties reduce the incentive to escape for family members. Therefore, the firm can benefit from the centralization of the decision process in dealing with complex and highly volatile markets. From this point of view the family firm can perform very well in foreign markets, due to their high level of uncertainty.
Anyway, those two hypotheses could be proven wrong assuming that, first of all, as time goes by the more the firm grows, the more are professional managers required, with the implication of a larger variance in performance, even if families are less productive. The second hypothesis is tested using the same logic: if the firm grows, expanding abroad, family members are obliged to rely on external managers. Therefore, the agency problem is not solved, since external managers are necessary in expanding in foreign markets and a decentralization process has to occur.

The third hypothesis for the lack of performances of family firms against public companies is described by the "risk aversion theory". As we assumed before, family firm shareholders are characterised by greater risk aversion compared to those of public companies because of inefficient risk diversification. Therefore, managers in public companies are only concentrated to maximize profits, assuming that their shareholders are able to eliminate risk from their portfolios, while family firms tend to maximize the utility. The risk aversion in investing in foreign countries has three possible explanations. The first one is that foreign markets could have a higher volatility than the domestic one even if selling across several countries reduces the correlation of the profits, reducing the total volatility. The second explanation is that the foreign market is substantially unknown for the firm.

The last one is the risk involved in investing abroad. The exporting decision requires a great number of resources that are practically sunk costs, involving also the risk of bankruptcy. The more complex is the export and the higher the distance of the target market the more those reasons are amplified [32].
We will now try to underline how the difficulties of going abroad for familiar business can be overcome through thanks to bank support. As we specified before, if a company wants to export, many resources are required in order to tailor the products to the target market, adapt it to the foreign tastes and to operate under target regulation. Those costs are due to, for example, strategic analysis on market (P.E.S.T.E.L. analysis), understand foreign tastes and tailoring the product on it and set up a distribution network. Moreover, all those expenses have to be often paid in advance in cash, thus the potential exporter requires a great amount of liquidity. Hence the process is easier for large companies rather than SME. Besides, since these conditions are common for all the companies of all the countries around the world, it is stronger for economies mainly composed by SME. Anyway, looking at the situation from a different point of view, it offers the possibility of a strong expansion; internationalization is a great growth opportunity for those type of countries.

A Francesca Bartoli, Giovanni Ferri, Pierluigi Murro and Zeno Rotondi article[33] proposed two thesis: the first one that a strong credit relationship between bank and firm increases the probability of a SME to exports and that the link increases also the level of those exports. The second thesis proposes that bank support fosters the probability that the company expands in more than one market and exports a large part of the shares.
Last but not least, the analysis tries to understand which type of relationship is useful to support the internationalization process.
The study is then conducted on two types of relationship: on a financial relationship, consisting in credit support and a consulting relationship consisting in advisory services.
The results of the study are in line with the hypothesis. The stronger the relationship between bank and company the higher the probability that the firm exports. However, it doesn't influence sales level.
Moreover, the bank role is not limited in a financial support, but it is involved also in a strategic influence in the company. As we stated before, the risk aversion of the family is one of the greatest impediments for the internationalization process for family firms. A tight relationship with the bank

[32] Giorgio Barba Navaretti, Riccardo Faini, Alessandra Tucci. (October 2008). *Does Family Control Affect Trade Performance? Evidence for Italian Firms.* Centro Studi Luca D'Agliano. Development Studies Working Papers N. 260
[33] Francesca Bartoli, Giovanni Ferri, Pierluigi Murro and Zeno Rotondi. *Bank support and export: evidence from small Italian firms*. Small Business Economics, February 2014, Vol. 42, No. 2 (February 2014), pp. 245-264 Published by: Springer Stable

can affect the idea that the family has on expanding abroad, increasing the probability that this happens.
The results of the analysis show how the principal services offered to encourage export are the traditional banking and advisory services. One more evidence offered regard the bank itself. Bank structure and international presence can adequately support firms. In fact, a global bank can sustain the international growth of the clients thanks to advisory services on several issues, such as counterparty risk and legal aspects of the process. In addition, it can offer support in foreign countries, offering aid through repo offices and international branches.
Therefore, the more the bank is internationalized the higher will the benefit for the firm be.

1.4. THE PROBLEM OF THE SUCCESSIONS IN FAMILY BUSINESSES.

For entrepreneurs founding a new business, at some point, the time arrives when they have to pass the torch and step out from the firm.
From an entrepreneurial point of view, we can define the succession as a process in which an incumbent owner, that could be from the family or outside the family and acquires the ownership of the business and deposits new resources in the firm in order to foster growth, innovation and new strategies.

As we affirmed in the previous chapters, the firm from the family's point of view represents more than an economic structure but it has an emotional link with family members.
Thus, it is crucial to ensure the survival of the firm across the time.
In this sense, succession of ownership and management is a crucial theme, because of the implications that hold for firm performance and resources allocation. Moreover, an important question is: who should enter in the management team once the founder quits?
The problem can occur in different moments of the firm life. The founder can, for example, decide to include professional managers in the project or to select an heir. Usually, he decides to maintain the control until the retirement, and he controls the successor or, but is less likely to happen, the founder can hire an agent to monitor the situation on his behalf. [34]
The separation between management and ownership happens with external managers hiring and the responsibility of the management remains if family members inherit a seat in the firm.
A result obtained from the observation on Italian small medium family firms shows us that if the entrepreneur hasn't heirs intending to succeed in leading the firm, he is more inclined in shutting down the activity instead of turning over the leadership of his firm to an external manager. Therefore,

[34] Enrico Santarelli, Francesca Lotti. *The Survival of Family Firms: The Importance of Control and Family Ties.*

firms run by the founder are prompter to exit from the market when the founder retires and there's no chance for internal succession rather than growing and becoming a corporation.
As we observed in the internationalization paragraph, the type of succession has a strong influence on strategic development of the firm, especially in the export decision. [35]
Anyway, we can observe that the market characteristics can affect very much whether the family can decide to resign or to remain in charge.

Julian Franks, Colin Mayer, Paolo Volpin, Hannes F. Wagner propose a study according to the idea that family control in the company is affected by the degree of investor protection, by the maturity of financial markets and by the market on corporate control. Those ideas are interpreted through the analysis of financial markets, M&A activities and capital markets influence on company strategies.
They also relate those three factors with the idea of understanding the differences across industries.
The starting hypothesis is that family influence in the company can be eliminated in those industries with strong investment opportunities, with a high number of M&A activities and efficient external source of financing.
The hypothesis is based on a panel of companies and industries across UK, Italy, France and Germany, considering also the great differences between the Continental Capitalism and the Anglo-Saxon Capitalism. A first result shows those differences, in fact: in UK, the older the company, the higher the dispersion of the ownership. On the other side, Continental Europe shows that the older the company, the higher the probability that it is still under family control.

A second interesting result is offered by the influence of the three starting variables. Investments opportunities, M&A and efficient access to capital markets have a strong effect on family control, producing different results across UK and European systems.
In fact, in the UK family concentration tends to survive in those industries with a low influence of those three variables. Family control, in the UK, is higher whereas there's a low level of investments, a low intensity of M&A operations and a lack of external resources. On the other hand, those factors have no effect in family ownership for France, Germany and Italy.
Another theory analysed in the study regards the M&A operations effects on corporate control. It is tested under three levels. The first one is at microeconomic level: using the number of M&A the idea is to analyse the possible synergies. In this sense, the higher the number of M&A in the industry, the lower the family control. In industries with a great number of M&A activities families are willing to

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[35] Johan Eklund, Johanna Palmberg and Daniel Wiberg. *Inherited corporate control and returns on investment*. Small Business Economics, August 2013, Vol. 41, No. 2 (August 2013), pp. 419- 431

dilute their stake in the company in two ways: they issue new shares in order to acquire new companies or to liquidate the control stake to gain the control premium.

The second level is at country level: the assumption is that family control is influenced by the market for corporate control. In this sense, hostile takeovers are a strong form of manager control in widely held companies. In case of selling of shares by the family, those will be sold at a higher price in those countries characterized by lower agency costs due to efficient market for corporate control, lowering the agency costs generated by agency problems in widely held companies. The effects of those lower costs can move the benefits of the decisions of remaining in control of the company orienting the decision to external shareholders.

The third level is at firm level, trying to understand which channels influence the M&A and how those involve family control. Under this scope, is interesting to understand how companies become widely held. The results provided by the study highlight that primary issue is the favourite channel and it involves more than the half of the operations for corporate control.[36] The remaining cases are parts of secondary sales in open market form.

Therefore, it can be observed that the passage from family firms to public companies is due to two main channels. The first one related, as we said before, to investment opportunities. If a market is marked by investment opportunities, thus could be required external financing. For those opportunities to be exploited it is required a certain amount of financial resources. If debt is not a valid opportunity, then equity is the only possibility. Therefore, those investment opportunities could require the issuance of equity, which involves the reduction of owners' stake in the firm.[37]

The second channel is related to the M&A activities in the industry. A great number of M&A operations can affect family decisions in two ways, both of them diluting family presence in the firm. The first way can be seen looking at the situation with buyer's eyes. A buyer can be interested in some M&A operations and issue share of the firm in order to finance acquisitions. The second way starts from the seller point of view. A seller could be involved in selling her stake in the company for cash and obtaining a takeover premium. Thus, the more intense is the M&A activity, the higher will be the new equity issues[38].

[36] Julian Franks, Colin Mayer, Paolo Volpin and Hannes F. Wagner. *The Life Cycle of Family Ownership: International Evidence.* The Review of Financial Studies, June 2012, Vol. 25, No. 6 (June 2012), pp. 1675-1712. Oxford University Press. Sponsor: The Society for Financial Studies.

[37] *Ibidem*

[38] *Ibidem*.

1.5. CAPITAL STRUCTURE IN ITALIAN FAMILY FIRMS AND THE PRIVATE EQUITY.

We will now examine financing choices of Italian family firms starting from an analysis of market leverage in Italy, then we will try to examine how Private Equity can improve corporate performances under certain circumstances and we will close the paragraph through a study on liquidity decisions for Italian companies. The academic literature offers the idea that growth is higher in markets with a wide spread of external sources of financing and also that capital markets dimension strongly influences the birth and the development of firms. It is true for every sector and not only for those marked by higher technological requirements. Developed capital markets allow firms to have access to exports, making this process possible for those kinds of firms that are characterized by a lack of internal resources and liquidity.

Financial constraints to the growth can be more pronounced for specific type of firms.

Young, small and medium enterprises, especially those operating in sectors characterized by a broad use of intangibles assets, can find some problems in free up resources for the development. This is due to the lack of proper covenants required for the investments and the small visibility of SME for investors. Although finance is generally considered as birth and growth tool, it can exert an important role for restructuring processes and for succession in the firms. In fact, distressed companies require financial resources to renovate the types of products, to invest in qualitative improvements and to balance the leverage. The succession process may require the entering of new shareholders in the company in order to buy out the shares of family members not interested in the company.

A good alternative furnished by the academic literature is the Private Equity. This form of equity investment can be seen as a financing method that allows the improving of the quality of financial resources and the development of the firms. Moreover, Private Equity may support company restructuring and the generational turnover.[39]

At the beginning of the new century, all the main industrial countries have experienced a growing access of both bank financing and capital markets, either in terms of bonds or shares.

Also, in Italy we faced an increasing use of financial resources for firms and their composition of financial structure changed, offering a spread out of market instruments, especially equity-based tools and bonds. This trend slowdown because of the financial crisis. Anyway, even before the crisis differences remained in the overall weight of market instruments in the composition of the financial statements. Until 2000 we experienced a decrease of leverage in all the major economies, with the

[39] Questioni di Economia e Finanza (Occasional papers) 45 Numero Rapporto sulle tendenze nel sistema produttivo italiano

exception of the UK. This period was characterized by high returns and a greater use of stock market, moreover the late ‘90s saw an increasing equity value, due to the bull market. Later, the leverage grows back comprehensively, in fact, in 2006, the D/E ratio was on average at 38% in Italy, a value greater than Euro Area (36%) and US (32%), but lower than the 43% of the UK. [40]
However, even if the average leverage is similar to the European average, we can find significant variation across the different types of companies on the basis of dimension and specialization degree. Small enterprises usually have a leverage mainly composed by short term debt, that is less adapted to finance long term projects, necessary for the firm growth. Looking at technological firms the higher the technological development, the lower the level of debt. This is due to the higher volatility of the returns, the information asymmetry and the lack of collateral.
Anyway, the crisis caused a great increase of debt exposure, in fact, if we consider the entire period 2002-2015, we can notice that the average leverage increased to 52% with a standard deviation of 44%[41].

Private equity, from the European point of view, is divided in two types of investment. The first one is the Venture Capital, focused on start up with strong growth opportunities that wouldn’t be able to access easily to any form of financing. For those firms is very difficult to access to bank loans due to the lack of collateral, the low profitability and the absence of historical data on which base the risk assessment. The second investment form is direct to bigger companies, usually furnished of wide financial resources.[42] Typical examples of those type of investments are the expansion operations, turned toward the aim of consolidate the growth of mature companies, and buyout operations, which imply a management turnover, often those are realized in case of succession in family firms, with the objective of increase corporate performances. Usually, buyout operations are characterized by the strong use of leverage and salary incentives for managers. Lastly, many buyouts are realized to the restructuring of distressed firms. Empirical analysis, based on a US sample, demonstrated that Venture Capital is a successful way to sustain firms with high growth opportunities, helping them to overcome financial constraints, and assisting those firms with advisory services to improve products and market opportunities. Buyout performances are more uncertain, in fact leverage and objective based compensation promote strong performances, while the increasing debt lower the financial strength. The Italian market knows a delay on the Venture Capital usage, while it has a good number of buyout operations.

[40] *Ibidem*
[41] Corporate liquidity in Italy and its increase in the long recession tabella a4
[42] Andrea Brandolini e Matteo Bugamelli. (April 2009) *Rapporto sulle tendenze nel sistema produttivo italiano*. Questioni di economia e finanza (Occasional Paper). Pag. 115

We will now try to take an overview on the Italian Private Equity. We will start analysing the main characteristic of the contracts for Private Equity operations through a research conducted by Bank of Italy[43].

This analysis has been realized on the Italian case compared to America. The main characteristics pursued are the financial structure (viewed as the share of equity owned by the investor and the type of instrument used), the presence of the investor in the board of director (the possibility for the Private Equity fund to nominate directors and the voting rights for them), the veto power, on the different type of operations, the possibility for the investor to manage the company depending on its performances and the presence of non-competition clause or other clauses in the exit moment.

From the analysis emerges a wide spread of different operations and conditions, while the main characteristics are in line in Italy as in US. In Italy we can find a less frequency for those clauses than condition the voting power or the dividend distributions under certain performances or the use of hybrid capital instruments.

A second interesting trait that could be analysed is the role and the characteristics of the financial intermediary. In early-stage investments decision of the intermediary is crucial the role of specific competencies. The results of the investigation showed how, in Italy, intermediaries offer in prevalence financial consulting and strategy decision support. The intermediaries play also a sponsorship role, helping the capital collection and helping to improve the bank relationships. It seems to be less important all the aspects of the operation that don't concern financial or strategic features, such as human resources relationships, technical innovations on the product, marketing policies and improvements on the relationship with supplier. Moreover, Private Equity operations seem to improve the internationalization processes and the partnership with foreign companies. Those results, with a sharp concentration of the role of investors only in financial and strategic themes and not on technical and operational themes can be seen as confirm of the typical entrepreneur personality that we observed before. In fact, the idea that the entrepreneur as an owner who doesn't want intrusion in managing his company, especially from investors whose lack of experience in the sector.

The intermediary participation in the company life is strictly correlated to the number of shares owned. While buyout operations are designed to ensure a controlling power for the Private Equity fund, otherwise the participation is on average around the 32% of whole equity.[44]

[43] *Ibidem*

[44] Andrea Brandolini e Matteo Bugamelli. (April 2009) *Rapporto sulle tendenze nel sistema produttivo italiano*. Questioni di economia e finanza (Occasional Paper). Pag 120

In those cases, the minority shareholders are protected with special clauses of the contract, therefore its presence is quite strong letting him to have an active role in the company management.
Referring to the relationship between investor and entrepreneur there a wide spread of situations.
Many entrepreneurs were expecting to receive a greater contribution on financial issues, such as strategies to offset raw materials price fluctuations. It has also been highlighted a lack of market knowledge from the investors, that usually based its valuations on standardized schemes that didn't include sectorial characteristics. Moreover, there's a strong attitude of investors to focus too much on financial ratios instead of trying to increase the company capacity to create value.
On the contrary, early-stage entrepreneur indicated the assistance of investors informed on technical characteristic as crucial for the start-up growth. Moreover, it has been important to put together managers with a strong set of business knowledges and entrepreneur-inventors born in the Academia.
Unless in case of early-stage operations, Private Equity investors are less likely to introduce technicians (informatic, chemical, engineers) in the project. This is crucial in showing how the investors is furnished of human resources adapt to early-stage operations, in which is very important to understand the potentialities of the product.
In general, considering the large differences of the contractual characteristics and company performances, in Italy, private equity can be considered as an interesting way to improve the financial structure and the overall knowledge of the company.

The main obstacles observed in Italy for a Private Equity diffusion are the poor development of capital markets and the lack of pension funds, which represents a great opportunity to collect funds.
In a world of perfect capital markets, like the one described by the Modigliani and Miller's first proposition, the financial structure doesn't influence the overall enterprise value. Nevertheless, the real world sets out companies to several problems, requiring to hold liquidity.
Liquidity can be seen as a way for maintain a certain capacity to meet the needs in case of payment delays or if there are some impediment in accessing to capital markets or financial intermediaries.
Equally, liquidity can be seen as a different investment choice compared to other type of assets, with a strong consequence on profitability, risk and growth.
In addition, cash cannot be replaced easily, since derivatives are not sufficient to completely eliminate risks, bank credit lines may involve some problems for the firm and debt could be difficult to be obtained when it is strongly needed.
Looking at cash holdings for American firms we can observe how cash holdings experienced a strong growth before and after the financial crisis. Also, cash holdings for Italian firms saw a robust growth in the same period, but with substantial macroeconomic differences. Those differences are

represented firstly, by less organized capital markets compared to the American, secondly by a greater diffusion of non-listed companies and lastly by the credit market crisis together to economic recession.

A useful indicator to analyse liquidity for firm is the cash to asset ratio. In theory we can find different ways to link capital expenditure to cash holdings. Because of financial markets frictions, firms are more prompted to use their own liquidity to finance investments rather than external financing forms, that could be more expensive. This relation could also be linked to the fact that firms tend to save more and spend less after positive performances or to the fact that using cash to finance capital expenditure for fixed assets it is possible to acquire collateral with the aim of finance future debt. Furthermore, when the long-term horizon is unclear and a wait and see strategy takes place, firms can be less inclined in investing, preferring to collect cash and invest once the situation will be more profitable.[45] A similar situation is described by the liquidity trap.

Davide Dottori and Giacinto Micucci offer a contribution on the liquidity decisions of Italian firms[46]. Using a dataset composed by 460,000 nonfinancial firms, with a strong presence of family firms, in the period 2002-2015, emphasizing the effects of the financial crisis on the firm preferences. It has been observed a sharp increase of the cash-to-assets ratio from 2011 to 2015. Moreover, this effect is spread out a broad type of firms. Macroeconomic factors are behind this strong growth of cash-to-assets. In particular we can observe a solid correlation with interest rates variations. In fact, a fall in interest rates decreases the opportunity costs of holding liquidity.[47]

[45] Davide Dottori and Giacinto Micucci. (January 2018). *Corporate liquidity in Italy and its increase in the long recession*. Questioni di economia e finanza (Occasional Paper).
[46] *Ibidem*
[47] *Ibidem*

2. THE BULGARI CASE

In this chapter, we are going to describe the Bulgari's history, how it started as a small boutique until the moment it decided to become part of the largest luxury group in the world, with all the implication and choices that this path brought with it. In order to realize this purpose, we started trying to frame the market and then we continued describing Bulgari and the acquisition made by LVMH, concluding with the consequences of this deal not only for the companies but also for the entire Italian system.

2.1. JEWELLERY AND WATCHES MARKET

The luxury market is mainly based on the notion of exclusivity. It consists of the idea that goods or services, with a certain brand, would not be attainable by the vast majority of consumers.

According to this definition there are two main ways to create an aura of luxury for a brand and are based on market forces such as the price, that has to be kept high in order to reinforce the luxury concept and the quantity, whose production has to be limited to create an idea of exclusivity using the small in the product distribution both in terms of sales volume and retailers[48].

The luxury market, according to an analysis realized by Statista[49], is composed by leather goods, jewellery & watches, fashion, eyewear and cosmetics & fragrances. For the purposes of our analysis, we will mainly focus on jewellery & watches segment. In general, a distinction is made among jewellery & watches and fashion based on the material. This distinction refers to the "hard luxury", typically the former, and the "soft luxury", typically the latter.

The Luxury Market *(Values in $ Bln)*

	2012	2013	2014	2015	2016	2017	2018	2019	Overall
Total	189,307	204,546	216,193	222,132	230,611	238,397	254,228	277,632	100%
Leather Goods	23,324	25,996	28,409	29,689	31,117	33,151	37,330	42,600	14%
Watches & Jewellery	40,789	45,318	47,592	48,216	49,059	49,563	51,436	54,792	21%
Fashion	66,230	71,694	75,075	76,070	78,873	81,111	86,286	94,020	34%
Eyewear	15,115	15,576	17,088	18,636	19,376	18,765	18,558	19,126	8%
Cosmetics & Fragrances	43,849	45,962	48,029	49,520	52,186	55,807	60,618	67,095	23%

Table 1. Source: Statista.

In Table 1 we provide a result of overall revenues (in million €) in the luxury sector between 2012 and 2019. In the Table 2, We can easily observe how the watches & jewellery segment accounts for

[48] " **Luxury Goods** worldwide "Statista.
[49] " **Luxury Goods** worldwide "Statista.

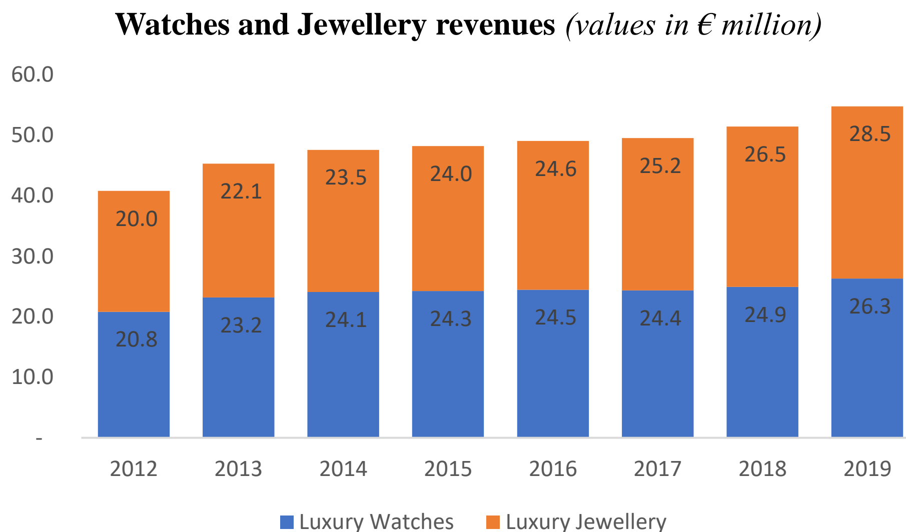
the 14% of the average overall revenues in the period. It also experienced an average growth of 4.36% in the period 2013-2019, in slight decrease compared to the total value of the sector.

Revenue Growth in the Luxury Market *(values in %)*

	2013	2014	2015	2016	2017	2018	2019	Overall
Total	8.05	5.69	2.75	3.82	3.38	6.64	9.21	5.65
Leather Goods	11.45	9.28	4.51	4.81	6.54	12.61	14.12	9.05
Watches & Jewellery	11.10	5.02	1.31	1.75	1.03	3.78	6.52	4.36
Fashion	8.25	4.72	1.33	3.68	2.84	6.38	8.96	5.17
Eyewear	3.05	9.70	9.06	3.97	-3.15	-1.10	3.06	3.51
Cosmetics & Fragrances	4.82	4.50	3.11	5.38	6.94	8.62	10.68	6.29

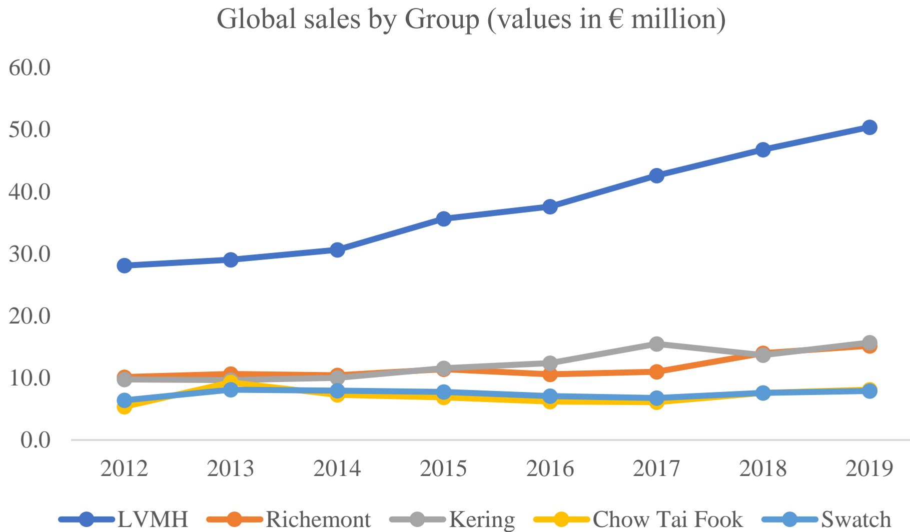
Table 2. Source: Statista.

To make a step further, we will now split down the overall values of the jewellery & watches segment. From the Graph 1, we can observe an almost perfect equilibrium among the weight of either Watches and Jewellery in terms of revenues (million €).



Graph 1. Source: Statista.

The main players in the market are Kering, LVMH, Swatch, Richemont and Chow Tai Fook. The data provided in Graph 2 represent the global sales of the main players in the market.



Graph 2. Source: Statista.

2.2. BULGARI: HISTORY AND PERFORMANCES BEFORE THE ACQUISITION

Bulgari was founded in 1884 in Rome by a Greek jeweller, Sotirios Voulgaris, emigrated in Italy. The first store was in *via Sistina* then the current flagship store in *via dei Condotti* opened at a later date. The early production of Bulgari was realized in silver, inspired by Easterner elements taken from Byzantine and Islamic Arts. The *Belle Epoque* saw a strong the influence of the Parisian jewellery in the creations and a broad use of metals and gems.

After the Second World War, Sotirios' sons, Giorgio and Costantino, succeeded him as owners of the firm. The two heirs differentiated their role in the firm with Giorgio focusing on managing the jewelleries and Costantino concentrating on research and development.

The Boom period saw a definitive take-off of the company thanks to the extraordinary success of movie industry, that celebrated Rome which soon became one of the world's most exclusive destinations; symbol of a status, Rome became the global hub of luxury travel and many actresses became customer of Bulgari.

Consequently, the '70s marks the internationalization of the firm with the opening of new stores in New York, Paris, Geneva and Monaco.

In the '80s, a new generation broke in with Sotirios' nephews Paolo and Nicola Bulgari, appointed as chairman and vice-chairman of the company, and the Paolo and Nicola's nephew, Francesco Trapani, as CEO.

Bulgari continued to attack foreign markets, as it opened stores in Milan, Tokyo, Hong Kong, Singapore, Osaka, London, Munich, St. Moritz and a new one in New York. The period was also characterized by the constitution of a Swiss branch "Bulgari Time" for the creation and distribution

of watches. A component of those watches, the gears, was produced by Gpm thanks to a Joint Venture with Girard-Perregaux.[50]

The ‘90s were opened with the Trapani’s idea of starting a diversification process, trying to attack the fragrances segment with the foundation of “Bulgari Parfums” in Neuchâtel for the production and the distribution of all the Bulgari’s fragrances, with the aim of maintaining a strong degree of exclusivity such as all the company products[51]. The last years of the century saw also the last step of the typical life cycle of a company: the IPO. As affirmed by Trapani in an interview in the late 1994 the main strategic objective of the firm was to “keep growing remaining the most prestigious jeweller of the world”[52]. The ambition was to become the best but maintaining a high degree of specialism, typical of a family firm as we observed in the first chapter, in fact he affirmed how the company vision was to “*being and remain the Mercedes of the jewels, a company, not generalist but always oriented toward the top quality*”.

The IPO decision came after years of stable growth. In fact, the 1993 saw revenues for 213 billion Lire[53], with a growth of the 42% from the 150.8 billion[54] of the previous year, a Net Income of 19.4 billion[55] against the previous 4.2 billion[56] and a decrease in the Debt from 93.6[57] to 84.4[58] billion. The 1993 revenues show also the prestige of the brand around the world, since the Italian market that accounted only for the 15%, the Rest of the Europe for the 33% and the remaining part was distributed across the Rest of the World. This sustained growth was due to several elements: not only the strong depreciation that the Lira experienced in that period and the capacity of penetrate foreign markets but also the diversification strategy gave its fruit. It was represented by new jewellery and watches collections, designed for a customer target with a lower spending power compared to traditional customers, by the new fragrances, available only in Brand Store, and by the concession to distribute watches for a selected number of operators in US, Europe and China.
The 1994 saw a continuation of this positive trend with revenues for 289 billion and a Net Income equal to 25 billion.

[50] Rodolfo Bosio (03/11/1994). Bulgari, il gioiello si fa industria. *IL Sole 24 Ore*
[51] *Ibidem*
[52] I*bidem*
[53] € 177,130,565 at 02/09/2020 with https://inflationhistory.com/
[54] € 125,405,113 at 02/09/2020 with https://inflationhistory.com/
[55] € 16,133,018 at 02/09/2020 with https://inflationhistory.com/
[56] € 3,492,715 at 02/09/2020 with https://inflationhistory.com/
[57] € 77,837,656 at 02/09/2020 with https://inflationhistory.com/
[58] € 70,186,947 at 02/09/2020 with https://inflationhistory.com/

The announce of the imminent IPO arrives in May 1995, skipping steps with the initial strategy but in order to monetize the incredible growth of the previous years. The first step was the establishment of a group of advisors composed by Comit and Morgan Stanley that were supposed to realize the placement of a minority number of shares. The equity composition provided that 93% of the share controlled by the family and the remaining part owned by funds controlled by Schroders and Credit Suisse.[59]

The next step was the announcement by Bulgari of the company listing for the second half of July 1995 after the public offer from institutional investors and private investors. The initial program was to offer only the 32.1% of the equity, with the majority of the shares firmly in the family's hands. 23.1 million of shares, of which 15 million directed to institutional investors and the rest for private investor, were set as equity amount to be offered, with an initial price between 7800[60] and 8600[61] Lire. Therefore, the Enterprise Value was defined as between the 560[62] and 620[63] billion Lire, with a valuation that was twice the revenues and 25 times the Net Income for the 1994. The theory behind this analysis is that the price offered considers the premium price that investors are willing to pay for companies producing luxury goods. [64]

The last step where was represented by the effective initial public offering announced for the 1st of July, in 1995. The offer obtained outstanding reactions from the market, placing all the amount of equity available for the private investors in the first two days and at the maximum price offered, 8600 Lire. Also, the placement destinated to institutional investors was a success with orders greater than the 15 million of shares destinated. The IPO process saw thus a complete listing of the 32.1% of the shares offered[65].

After the listing, the family expressed satisfaction for the new financial structure. In fact, three months after the operation, Trapani stated that the verdict was "completely positive" and, in the same interview, announced two important decisions: the first one regarding the dividend policy, individuating a possible payoff rate around the 30%, and the second one regarding the future possible strategies on acquisition and distribution. With respect the first aspect, the strategy was to use 300 billion for acquiring "medium targets, with revenues for 80-100 billion", with a strong focus for

[59] R.Fi. (04/05/1995). Arriva in Borsa Bulgari re dei gioielli. *IL Sole 24 Ore*
[60] € 5.92 at 02/09/2020 with https://inflationhistory.com/
[61] € 6.53 at 02/09/2020 with https://inflationhistory.com/
[62] € 425,291,927 at 02/09/2020 with https://inflationhistory.com/
[63] € 470,858,919 at 02/09/2020 with https://inflationhistory.com/
[64] (23/06/1995). Bulgari stringe i tempi - Lo sbarco al listino tra 7.800 e 8.600 lire. *IL Sole 24 Ore*
[65] (05/07/1995) Si chiude in anticipo l'offerta dei titoli Bulgari. *IL Sole 24 Ore*

luxury brands and looking for opportunities in accessories. Regarding the second aspect the idea was to increase the number of distribution channels, trying to pass from 38 to 67 branded shop in 1998.[66]
The 1996 saw a significant step toward an idea of firm closer to the corporation rather than the family firm. In fact, on 11 April 1996 it was approved a three-year stock option plan for the company's management, to managers' commitment. The condition for this increase of equity is to realize a consolidated net income at least equal to the 110% of the previous exercise. The shares offered amounted to a 4% of the current equity value and were offered at the same price as the IPO share price. [67]

In 1996 the share price rose from 8000 to an average price of 21,000. This result was obtained thanks to the attractive dividend policy proposed, the aggressive objectives proposed by the management and, moreover, thanks to the strong interest showed by the stock market for luxury brands. Similar performances were realized by Gucci on the NYSE, LVMH and Hermes in Paris (with the first one ruling the market) and Vendome on the London Stock Exchange. But the ratio behind these performances is explained by two factors: the first one is the increasing demand for luxury goods and the second one can be found in the strong entry barrier of the sector. Regarding the increasing demand it is interesting to notice how Europe kept the lion' share with the 40% of the global sales, followed by the US market (28%) and Asia (22%). Concerning the entry barriers, it is obvious that a prestigious brand cannot be built in a day, therefore the existing companies have an enormous competitive advantage for the small number of companies in the market against potential incumbents. In fact, we can see how, in addition to the five already said, there's only Tiffany, with the remaining controlled by groups.[68]
Anyway, these run of the share prices had a double face for Bulgari: it increased the equity market value and made it easier to collect resources but fostered the company valuations, making it more difficult to make acquisitions, as it was stated by Trapani in an interview *"we examined three/four opportunities, but the prices required were out of the parameters. Managers have to grant a certain return on investments. Moreover, we are looking for not only brands, but also people and products. With the idea of investing 300 billion or even more in case of rich cash flows".* [69]

[66] (04/12/1995) F.Re. La Bulgari prevede crescendo dell'utile**.** *IL Sole 24 Ore*
[67] M.Mag (11/04/1996). Gli azionisti di Bulgari danno semaforo verde all'aumento di capitale. *IL Sole 24 Ore*
[68] Marco Magrini (17/05/1996). Alla Borsa piace il lusso. *IL Sole 24 Ore*
[69] M.Mag (27/09/1996). Bulgari triplica i profitti e allarga il catalogo prodotti. *IL Sole 24 Ore*

The 1997 Joint Venture with Ferragamo represented a good alternative to this lack of possibility for acquisitions. In fact, the two companies decided to share they knowledge and distribution channels in order to reach a strong market shares in the fragrances segment.
The century, despite the Asiatic crisis, closed with important results: the third position in the jewellery and watches sector behind Tiffany and Cartier, great performances on stock markets, a strong brand and an important portfolio of diversified luxury products, and a strong Internationalization with the 80% of the revenues coming from foreign markets. [70]
The 2000 opened with the expansion in the e-commerce, using the distribution channel owned by LVMH, "luxury.com" and the confirm of Bulgari as the third player in the jewellery market (7% of market share), market with a comprehensive value of USD 3.6Bn.

After several years of growth, the group closed with a net income equal to €68 Mln in 2001, experienced a drop of 28.6% compared to the previous period, requiring some strategy adjustments. The group strategy was oriented to a cost rationalization in order to contain the operating costs, such as marketing expenses which had had a significant impact on the group profitability in the 2000. The strategy was also oriented toward a greater flexibility, therefore advertising expenses became a periodic decision: it would be decided quarterly, in order to get advantages from the macroeconomic situation. The distribution strategy changed too, reducing the number of shops to be opened from 12-13 to 4-5. In this sense, the new products launch was rationalized, limited to the higher value-added products.
It was also decided to establish the luxury hotel segment. With this aim, it was launched the idea to establish a joint venture with Marriot International with the objective of investing USD 80Mln in eight to build luxury hotels in the main American and European cities.
At the end of the day, despite the decreasing net income, revenues grew to €766 Mln, showing the brand strength with revenues more than doubled in 4 years. [71]

[70] Alberto Nosari (11/12/1999). Bulgari corre sulle ali dell'effetto valute e del rilancio asiatico. *IL Sole 24 Ore*
[71] Antonia Conti (28/04/2002). Frena il mercato, la redditività si contrae. *Il Sole 24 Ore.*

P&L and BS of Bulgari *(values in € Mln)*

	31/12/2001	31/12/2000	31/12/1999	31/12/1998
Revenues	766.10	676.03	485.35	365.31
EBITDA	149.68	155.77	115.86	80.89
EBIT	102.10	122.77	81.40	53.48
Net Income	68.17	95.49	59.00	44.06
Cash flow	114.12	127.60	83.01	60.70
Invested Capital	767.56	608.90	352.92	252.84
Common Equity	475.10	405.01	305.64	255.32
Net Financial Position	-284.79	-197.86	-42.54	6.52

Table 3. Source: Bulgari's press release.

The 2004 casted shade on the will of the Bulgari's family to remain in charge of the company. In fact, the disposal of a share of 2%, in December, by Paolo and Nicola Bulgari scared the market, even if the Family was still holding the majority of the group with 51.9% of shareholding.[72]

In 2005 media continued to speculate on a possible change of control of the group, proposing the Swiss group Richemont as possible buyer, but the news was denied by the Bulgari family and with a "no comment" by Richemont.[73]

The 2006 added a new possible buyer for Bulgari. The Pinault's group Ppr, in fact, issued on 6th July a €800M bond wasn't well received by investors. The company in fact, motivated the issuance with the reason of refinance the debt with closer maturity, but this hypothesis did not fully convince the market that explained the operation as orientated toward a cash collection to sustain an acquisition in the luxury segment, as the Ppr' strategy requires.[74]

In 2006 the group crossed the threshold of the billion revenues. The 2006 revenues were equal to €1.01Bln, growing at the 12% rate from the €918.5 Mln of the 2005, with a net income equal to €120 Mln.[75]

In 2007 Arnault came out praising Bulgari, stating that he considers Armani and Bulgari as two pearls, but he is not prompted to spend any amount for them and also saying LVMH doesn't require acquisitions to reach the objective of doubling the revenues in five years. The following year the Group was strongly hit by the financial crisis, in fact the Group recorded a €83 Mln net income (-45.1% yoy) and revenues stable at €1.075Bn. The net result was strongly influenced by the

[72] (01/12/2004). Bulgari - Scivola sulla cessione dell'1,9%. *Il Sole 24 Ore.*
[73] (27/05/2005). Bulgari +3,87% - Ipotesi (smentite) di cessione della quota di controllo. *Il Sole 24 Ore.*
[74] (06/05/2006). Il maxi-bond Ppr e le mire su Bulgari. *Il Sole 24 Ore*
[75] (31/01/2007). Bulgari da record: ricavi a 1 miliardo. *Il Sole 24 Ore*

macroeconomic situation, in particular during the 4Q08, but also hedging operations produced loss due to the unexpected euro depreciation against dollar and yen. The operating profit was equal to €111 Mln (-33.5% yoy). The Group CEO forecasted a difficult 2009 but a quite better 2010, adding that revenue downturn was forecasted but the financial crisis worsens the situation. The Group difficulties were expected to be overcome trough cost reduction, reducing personnel costs and restructuring the distribution network, focusing on back office activities but keeping customer services activities.[76]

The forecasted difficulties for 2009 have been realized in the first half, with revenues cut down for 23% and loss for €29 Mln. But problem arises not only from the operational point of view, but also from the financial point of view. The cash of €140M absorbing for inventory nearly triples the net debt. To handle this situation the Group successfully rescheduled the bank debt, excluding a right issue.[77] It also obtained new credit lines for €180 Mln, bringing the financial resources available at €800 Mln.[78]

Moreover, the Group decided to issue a €130 Mln amount indexed bond with 2014 maturity in order to diversify the financial sources and to prolong the debt duration, balancing the financial structure.[79]

The years 2009 closed very badly with a €47.1 Mln loss compared to the €82.9 Mln in 2008, as well as strong fall in revenues, from €1074 Mln to €926.6 Mln, and dividends also were cut down from €0.1 to €0.05. The results were mainly driven by a weak European market, a stable Japanese market but a quite positive US and Chinese market. [80]

The results represented a turnaround for the shareholders, since they were used to harvest profit far over €100M before the crisis and still at €82M in 2008. All the ratios recorded a worsening, not only on revenues, but also in margins. Gross margin more than halved while the profit decreased by €130M yoy.

[76] (12/03/2007). Bulgari, ricavi stabili ma l'utile si dimezza**.** *Il Sole 24 Ore*
[77] (06/06/2009). Bulgari chiama in aiuto le banche**.** *Il Sole 24 Ore*
[78] (07/06/2009). Bulgari, nuove linee di credito**.** *Il Sole 24 Ore*
[79] (13/06/2009). Solo Goldman Sachs vede l'oro di Bulgari**.** *Il Sole 24 Ore*
[80] (16/03/2010) Per Bulgari un «rosso» da 47 milioni. *Il Sole 24 Ore*

P&L of Bulgari *(values in € Mln)*

P&L	2009	2008	% yoy
Net revenues	926.60	1075.40	-0.14
Net contribution margin	565.70	681.10	-0.17
variable selling expenses	-41.90	-47.80	-0.12
personnel expense	-182.60	-189.90	-0.04
other income and expense	-163.20	-167.50	-0.03
advertising and promotion expenses	-95.60	-111.00	-0.14
depreciation, amortisation and impairment losses	-65.30	-53.90	0.21
total operating expense	-548.60	-570.10	-0.04
operating profit	17.10	111.00	-0.85
restructuring costs and other related costs	-36.90	0.00	NM
operating profit	-19.80	111.00	-1.18
other non-operating income	-27.50	-21.30	0.29
profit (loss) before taxation and non-controlling interests	-47.30	89.70	-1.53
current and deferred taxation	0.30	-7.40	-1.04
profit (loss) before non-controlling interests	-47.00	82.30	-1.57
profit (loss) attributable to non-controlling interests	-0.10	0.60	-1.17
profit (loss) attributable to the owners of the Parent	-47.10	82.90	-1.57

Table 4. Source: Bulgari's press release.

Looking at the Consolidated income statement we can see how the bad performance was related to the operating activities, to the restructuring process and to the increasing depreciation and impairments, expressed by the increase of "restructuring costs and other related costs", which included €7 Mln in employee leaving incentives and €2 Mln related with the closure of certain stores. The result is also related to the strategic restructuring of the watch sector and is mainly based on assets and inventories write down. Moreover, the cost restructuring was successfully with all the operating costs decreasing yoy.

During the 2010 the doubts on a possible Bulgari take-over still grew even if the macroeconomic situation was still uncertain, but the media considered the private equity as more preferable compared to international groups, because the Bulgari's CEO Francesco Trapani seemed unwilling to give up the guide of the company, therefore a private equity could bring them the capital required to realize the turnaround and the investments necessary to restart growing without affect the control[81].

[81] (06/03/2010) I quesiti della Borse su Bulgari. *Il Sole 24 Ore*

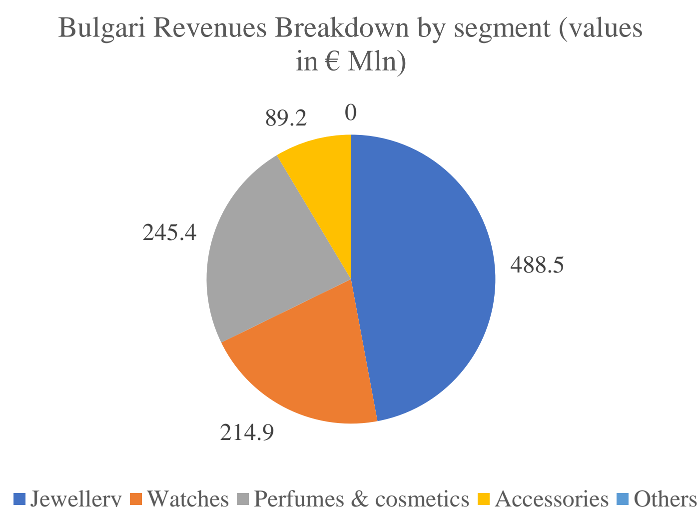
2.3. THE ACQUISITION BY LVMH

We can resume the Bulgari's situation in 2011 starting from what we have shown in the previous paragraph. Bulgari was founded in 1905 and it started from a small boutique in Rome to one of the most capitalized listed company in the FTSE MIB index, with the Bulgari's family maintaining the control trough many generations. The control, in fact, was held by the Family (represented by Paolo Bulgari, Nicola Bulgari and Francesco Trapani) through a shareholders' pact representing the 50.2% of the company's share capital and the remaining amount of shares floating.

The financial crisis strongly impacted the company, cutting down the profitability, especially in 2010 and requiring some restructuring process, realized in part in 2010. Therefore, the company required a large number of investments to recover the market position held in early 2000, when it was considered as the third luxury brand in the world. The company realized a good diversification process, even if the old jewellery core business still accounted for almost half of the revenues, with Watches, Perfumes and Accessories covering the 52% of the remaining revenues and marginal businesses as Hospitality and Royalties representing the 3% of the total.

The Company demonstrated also a good capacity to attack foreign countries, in fact Italy accounting for the 11% and growing market shares represented by the Far East with Japan (18.5%) and China (17.2%) playing the main role and Americas accounting for 13%.

This strong exposure on those three markets made the company particularly sensible to foreign currencies and to exchange rate fluctuations.



Graph 3. Source: Bulgari's Annual report 2010.

If we view the key luxury sector in 2011 it is dominated by large conglomerates with global presence and diversified brand portfolios, acting a consolidation process to compete in a globalized market.

Looking at the size and the brand composing the group we can observe how Italian companies failed to realize a national champion to compete in the market as LVMH, Swatch and PPR did. The reason of this failure lies in the inability of familiar entrepreneur to merge together, giving up some power to create additional value.

Luxury Groups by Revenues *(values in € Mln)*

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
BULGARI	774	759	826	914	1,005	1,088	1,074	927	1,069
LVMH	11,962	12,481	13,910	15,306	16,481	17,193	17,053	20,320	23,659
PPR	24,361	17,531	16,938	17,026	19,098	17,207	13,584	11,008	8,062
RICHEMONT	3,375	3,671	4,308	4,827	5,290	5,418	5,176	6,892	8,868
LUXOTTICA	3,132	2,825	3,255	4,371	4,676	4,966	5,202	5,094	5,798
SWATCH	2,519	2,579	2,772	3,064	3,436	3,581	3,592	4,674	5,498
HERMES	1,230	1,331	1,427	1,515	1,625	1,765	1,914	2,401	2,841
TIFFANY	1,744	1,769	1,940	2,028	2,124	1,965	1,936	2,342	2,628
BURBERRY	973	1,050	1,089	1,255	1,412	1,446	1,339	1,767	2,153
TODS	371	421	503	573	657	708	713	788	894

Table 5. Source: Bloomberg.

Therefore, the situation shows that LVMH in terms of revenues is bigger than all its direct competitor merged (Kering, Richemont and Swatch) and global brands that alone are not able to effectively compete with those giants such as Hermes, Tiffany, Burberry, Tod's and Bulgari. We will now investigate all the potential partners or buyers for Bulgari, starting from the brand portfolio composition, then analysing the main financial ratios that can influence an acquisition and we will end the single company overview looking at the revenue's breakdown, in order to find were the potentiality of Bulgari would had been fitting best.
The sector analysis will be conducted starting from the greatest to the smallest Group in terms of revenues.

LVMH, the first group in our sector analysis, represented a strong differentiated group, in a broad variety of sectors, from winery to clothing with all strong brands, but without a flagship one in jewellery and swatch, whose represents the weaker segment in its portfolio of brands.
LVMH acted the consolidation process that Italian companies weren't able to realize keeping the Arnault family still in command (48% of economic shareholder and 64% in voting shareholder), combining many French luxury brands such as Dior and Louis Vuitton for fashion, Dom Perignon, Moet & Chandon and Veuve Clicquot for winery. It integrated not only horizontally but also vertically, acquiring the diamond producer De Beers.

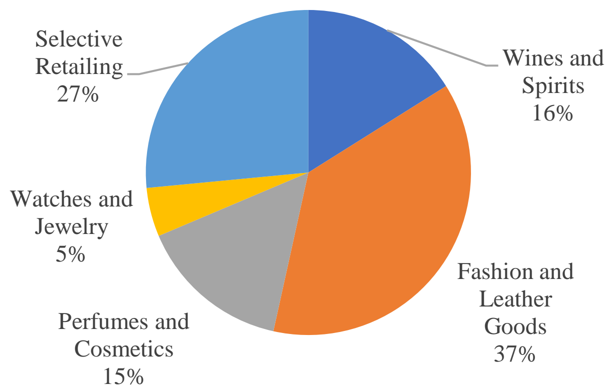
Looking at the main financial ratios it can be observed growing revenues except for the slightly negative 2009, where LVMH paid the global economic slowing down (as Bulgari did, but in this case the revenues instead of falling remained quite stable), but with a full recover in 2010 in which the Group experienced a strong growth in both revenues and EBITDA, not only compared to the previous negative year, but also to the positive 2008. It is interesting to notice the cash and cash equivalent evolution in 2009, when the value more than doubled compared to 2008 driven by a bond issuance in May 2009 whose. Looking at FY 2010, the group sensibly improved the cash available, with a great fall in long term debt, a cash a cash equivalent slightly decreased and a negative Net Debt situation, allowing the company to maintain a high liquidity position in order to realize strong investments in new brands, reinforcing the brand portfolio composition where it lacked.
Breaking down the LVMH revenues by sectors[82] we notice how, in the 2010 the leading sector in the portfolio was Fashion and Leather goods (37%), followed by Selective Retailing (27%), Wine and Spirits (16%) and Perfumes and Cosmetics (15%), with Watches and Jewellery weighting for the 5% and representing the weaker segment for LVMH. The latter segment demonstrated to be quite active, increased by 21% yoy, mainly because of the upturn in consumer demand after the first crisis impact, but strongly linked to the Asiatic market.

LVMH financials *(values is € Mln)*

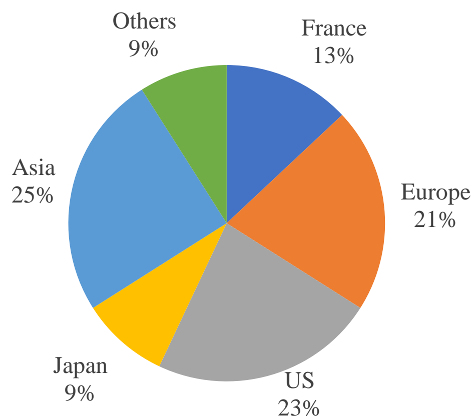
	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	16,481	17,193	17,053	20,320
EBITDA	4,176	4,297	3,987	4,957
Cash and Cash Equivalents	1,559	1,013	2,446	2,292
Long Term Debt	2,477	3,738	4,077	3,432
Net Debt	3,177	3,607	2,581	-1,136
Net Income	2,025	2,026	1,755	3,032

Table 6. Source: Bloomberg.

[82] https://r.lvmh-static.com/uploads/2014/10/pdf_lvmh_documents-financiers_2010_gb.pdf



Graph 4. Source: LVMH's Annual report 2010



Graph 5. Source: LVMH's Annual report 2010

On this line, we can also analyse the revenues on a Geographical basis[83], the Asiatic and US markets accounts for more than half of the total revenues, exposing the Group to risks related to exchange rate fluctuations, but benefitting from the highly dynamicity of the Sud East, even if Japan raise some doubts.

Richemont, the second Group in our analysis, is more concentrated compared to LVMH, with a strong focus in jewellery, watches and accessories. In 2010 it is a family business too, controlled by the Rupert family (9% economic shareholder, 49% voting shareholder). The key brands in the 2010 portfolio were jewellery and watch brands such as Jaeger-LeCoultre, Piaget, IWC, Baume & Mercier, Vacheron Constantin and Cartier. It is interesting to notice that in the early 2000 Cartier was one of the main competitors (with Tiffany) of Bulgari in the jewellery segments. The main financial ratios

[83] https://r.lvmh-static.com/uploads/2014/10/pdf_lvmh_documents-financiers_2010_gb.pdf

of the Group show a slowing down in 2009 and 2010 due to the financial crisis in both revenues and EBITDA. Anyway in 2009 Net Profit fell even if Revenues remained stable and almost halved in 2010 despite Revenues decrease only by 4%. The cash balance position showed a negative net debt, due to the low long term debt level and to the strong cash and cash equivalents amount. 2010 recorded a decreasing cash position, an increasing Long-term debt, but a Net Debt decreasing for more than 100%, allowing Richemont as well as LVMH to store a cash buffer for possible acquisitions or investments.

Richemont financials *(values is € Mln)*

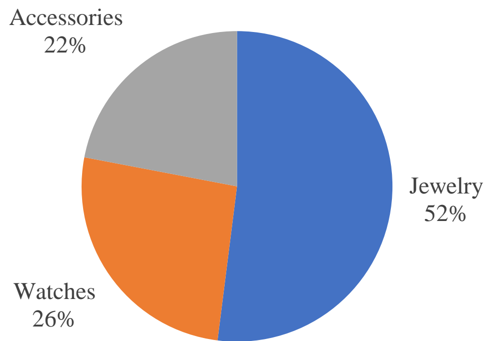
	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	4,827	5,290	5,418	5,176
EBITDA	1,069	1,427	1,192	1,069
Cash and Cash Equivalents	1,881	2,094	2,032	1,258
Long Term Debt	203	246	77	326
Net Debt	-1,141	-1,246	-953	-1,979
Net Income	1,328	1,565	1,075	599

Table 7. Source: Bloomberg.

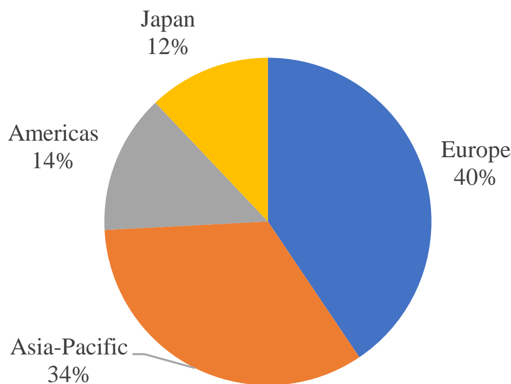
The revenues by business area[84] showed a strong focus of Richemont in the same core sectors of Bulgari, with the 52% of total revenues realized by the Jewellery and the 26% by the Watches. The first business was obviously dominated by Cartier while Watches presented a wide range of brands. The remaining 22% of total Revenues was represented by accessories, with Montblanc covering the 11% of the total revenues of the Group. Splitting down the revenues by geographic area, we can saw the Asia as the leading market (46%), with the Japanese covering the 12% of the total, showing the same exposure to Yen as Bulgari, Europe represents the second market with 40%, with a demand from a particularly affected local clientele.

The Americas region is the last geographic area in terms of revenues, with a strong exposure to US market.

[84] https://www.richemont.com/images/investor_relations/reports/annual_report/2010/richemont_ar2010.pdf



Graph 6. Source: Richemont's Annual report 2010



Graph 7. Source: Richemont's Annual report 2010

The third Group in our analysis on potential buyers/partners is PPR, a French group controlled by the Pinault family (56% voting shares and 41% economic shares). The group, in 2010, presented a weak penetration in the luxury market, with an important stake in Gucci as flagship brand. Due to the lack of luxury brands the Group was looking for potential partners or interesting possibility in order to expand in this sector.

Kering financials *(values is € Mln)*

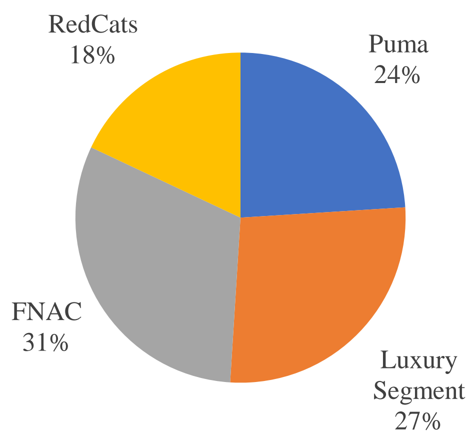
	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	19,098	17,207	13,584	14,605
EBITDA	2,006	1,815	1,201	1,507
Cash and Cash Equivalents	1,713	1,117	945	1,398
Long Term Debt	4,670	3,961	4,358	3,341
Net Debt	6,356	5,689	4,661	4,058
Net Income	922	921	951	965

Table 8. Source: Bloomberg.

The main financial ratios showed a decreasing trend in revenues, with revenues almost halved between 2007 and 2010 but with a strong recover in EBITDA and revenues for 2010 (+26% yoy and 8% respectively). Anyway, the net profit recorded a positive trend in the period analysed. Looking at the financial position the company presented a large amount of debt, both in gross and net terms, even if it showed a decreasing trend. Therefore, the large amount of leverage represented an obstacle for new possible acquisition using further debt.

The revenues breakdown[85] was divided in large-scale distribution, represented by Fnca (31% of total), clothing, represented by Puma (24%), and distribution of fashion, represented by Redcats (18%). The remaining 27% was attributed to the luxury segment, with Gucci covering more than the half of the total revenues for the segment while Bottega Veneta, Yves Saint Laurent and other brands covering the remaining part.

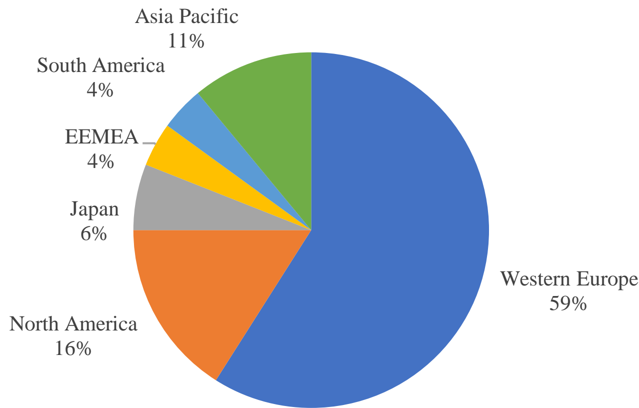
If we look at the revenue's breakdown by region,[86] the Group, as the previous, showed the Europe as primary market (59% of the revenues), with the remaining part was covered mainly by North America (16%) and Asia (17% with Japan weighting for the 6%).



Graph 8. Source: Kering Annual report 2010

[85] Https://keringcorporate.dam.kering.com/m/5fc66ad05b2b4f3a/original/kering_EN_presse_communique_2010_annual_results_20110217-pdf.pdf

[86] https://keringcorporate.dam.kering.com/m/5fc66ad05b2b4f3a/original/kering_EN_presse_communique_2010_annual_results_20110217-pdf.pdf



Graph 9. Source: Kering Annual report 2010

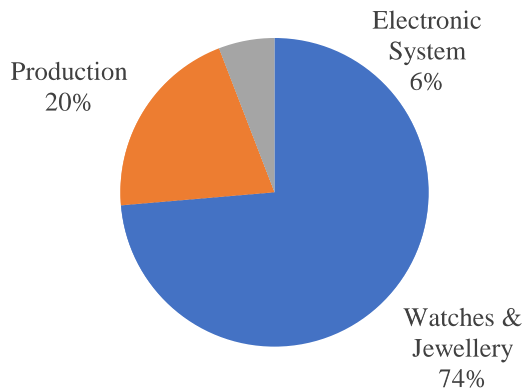
The fourth group in our selection of potential buyers is Swatch, who's in 2010 represented the fourth group in terms of revenues. The Group's portfolio of brands was composed mainly by Watches and Jewellery such as Omega, Tissot, Hamilton, Calvin Klein and Swatch. In the range of our scope the Group is the one with the lower influence of a Family, with Hayek Family holding the 43% of voting shareholding and the 24% of the economic shareholding.

Swatch financials *(values is € million)*

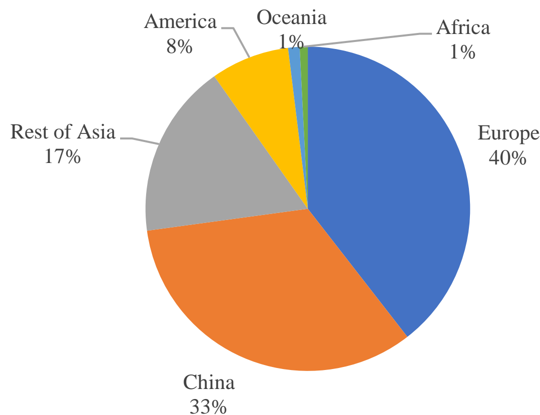
	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	3,436	3,580	3,591	4,673
EBITDA	874	896	744	1,203
Cash and Cash Equivalents	776	456	740	1,463
Long Term Debt	292	319	54	61
Net Debt	-857	-467	-1,053	- 1,833
Net Income	615	526	502	779

Table 9. Source: Bloomberg

Going further with our analysis, if we look at the operating ratios in 2010, we can find the same trend as the previous groups, with a sustain growth until the 2009, which saw the usual fall in revenues, but recovering in 2010 (+18% yoy). The 2010 also saw an outstanding performance in EBITDA whose growth by 47% compared to 2009. The liquidity position showed a cash and cash equivalents value up by 97% in 2010, confirming a positive trend, and a cleaning process in 2009 with a strong decrease of long-term debt and therefore those two effects together led to a negative net debt position allowing the company to have a good buffer for investments.



Graph 10. Source: Swatch Annual report 2010



Graph 11. Source: Swatch Annual report 2010

Breaking down revenues, in 2010 the Watches and Jewellery segment represented the 74% of the total revenues with production and electronic system were the remaining value of revenues. Splitting down the revenues by Region, the Asia represented the 50% of revenues, mainly covered by China. The 40% of revenues came out from Europe and the remaining part from America, with Oceania and Africa as the 2%.

Summing up the situation: in 2010 Bulgari was considered as one of the most exclusive luxury brands in the world, with strong competitive position in the Jewellery segment (45.7% of total revenues), high operating leverage, good penetration in Watches segment and a strong presence in the Chinese market.

On the other hand, the Group suffered the exposure toward the highly competitive Japanese market. As we saw previously, this exposure caused a volatility in revenues against the yen. Moreover,

Bulgari suffered in particular for the potential pressure on margins deriving from raw material prices. Lastly, in 2010, the Group presented a limited visibility and magnitude in watches division.

Therefore, we had four potential acquirers: LVMH, PPR, Swatch and Richemont. Analysing the pros and cons of each of them in light of the brand portfolio, the balance sheet and the revenues breakdown we can say:

1. LVMH could have been the best partner for Bulgari for several reasons. From a strategic point of view, looking at the revenue's composition of LVMH we can see how jewellery and watches represented only the 5% of the Goup's total revenues. Adding a brand like Bulgari, with a strong penetration in Jewellery, would allow LVMH to efficiently realize a diversification in the segment and to reduce the volatility in operating cycle. Moreover, the advantages are not only limited to the jewellery but also to the watches segment which could be successfully developed using both the economies of scale of LVMH and the financial strengths to realize investments. The amount of the cash position also represents a possibility, allowing LVMH to realize important operations without leverage.
2. Richemont could have been a good solution in strategic terms because it would have allowed to add Bulgari in an already rich luxury brand portfolio, even if some doubts are related to the possible cannibalization and creating by far the strongest competitive position in watches and jewellery segment (considering the case of company with Cartier and Bulgari together), but with the opportunity of doing this using the solid cash balance owned and not throughout debt.
3. PPR represented a weaker possibility, for the relatively too high size of Bulgari as well as the not so solid cash position, that wouldn't allow to realize an operation without leveraging. The positive points of this operation are represented by the possibility for PPR in definitely attack the luxury segment, accelerating the transformation in a luxury brand, with two Italian flagships as Gucci and Bulgari.
4. If we look at Swatch as partner, the operation could have been sustained by three reasons: the solid cash balance for the operation, the possibility to further strengthen the competitive position in watches and jewellery segments and the possibility of increase the presence in US and China.

If we look the Groups from the seller's perspective, we can observe what the advantages and disadvantages of each potential partner would be:

1. Starting from LVMH the main advantage for Bulgari in being part of the group would have been to be, by far, the most precious brand in the watches and jewellery business, with the

possible perspective for the Family to remain in charge to run the business unit. Moreover, Bulgari would have the use the economies of scale of the sector leading group, with its strong distribution network and the possibility of realizing the investments required.

2. Richemont would represent the advantages of being a core shareholder of the new Group formed by the combined entities. It also offers the possibility of maintaining full operating independence in the context of the *maison* business model and it allows to use the Richemont expertise and distribution network in the watch segment. On the other hand, the two different categories of shares at Richemont level could lead to problem in terms of voting rights with the shares held by the Rupert family which are not listed and a statutory provision to maintain the ratio between registered and bearer shares unchanged in case of right issue.
3. PPR presents as advantage to become the second largest shareholder in the new Group and the possibility to be the main luxury brand in the group (with only Gucci that could fight over this situation). The disadvantages are the diversified business model with a strong exposure to the original core retail business and the high level of debt and leverage compared to the peers.
4. Swatch could have been a good possibility in light of the distribution channels and the focus of the company on directly owned retail distribution. Also, the Swatch strong expertise and the positioning in the watch segment would have been useful to leverage in the watches segment. However, some doubts rose for the two different categories of share that, as well as Richemont, could have led to discrepancies in terms of voting rights.

Among all those possibilities, on 7 March 2011 LVMH concretely moved on making an offer to Bulgari's Family to acquire the 50.45% of the shares owned by them for €4.3Bn, with the idea for them to not be completely excluded by the new Group but remaining with the 3.5% of LVMH shares. From a Governance point of view Paolo and Nicola Bulgari kept their seat as Chairman and vice-chairman of Bulgari, while Francesco Trapani, the former CEO, have been appointed as Head of Watches and Jewellery and as member of the LVMH Executive Committee.
From a financial point of view the deal required the Bulgari family to sell all the 152.5 Million of shares owned plus any additional share acquired before the closing date (30 June 2011) in exchange for newly issued LVMH shares at the agreed exchange rate of 0.108407 newly issued LVMH share for 1 Bulgari share contributed, assuming an agreed price per share for Bulgari of € 12.25.
The latter one is the price offered by the French Group to any minority shareholders. As a consequence of this announcement the Bulgari' share price jumped at +60% in order to reach the acquisition price provided.

Moreover, the Bulgari Family agreed to contribute 13.8M shares received upon the settlement of an equity swap equal to 4.58% of the share capital of Bulgari. The Bulgari Family entered into such equity swap to hedge the dilution risk arising from the potential conversion of a €150M Bulgari convertible bond. [87]

2.4. THE DEAL AS SYMBOL OF THE ITALIAN FAMILY FIRMS WEAKNESS

The comments on the operation from the French Group were given by Toni Belloni who commented the Arnault'speech for the annual report 2010, who announced the intention to become the first number one also in Jewellery and Watches segment, that guarantees a fast growth and great operating result. In order to realize this plane, the focus should have been toward the Chinese market, where LVMH recorded a delay compared to the US (in US market LVMH is the market leader). Belloni, after the deal, confirmed Arnault's words: "*in the Jewellery and Watches segment we had a limited presence and our penetration in China is recent (after the 2000), therefore the race is still long. Bulgari offers us the formidable opportunity to double our presence in that Market, from less than €1Bn to more than €2Bn, allowing us to realize a dimensional jump and to become a global player. Moreover, we are strong in other Asiatic markets while Bulgari has an important profile in China, with more than 20 shops*" Belloni completed the reasoning with a consideration on the competitive environment: *"we thought on our offer. Bulgari brings us an extraordinary brand, that we fill affine to our culture, for reasons linked to the family, the history and the saga. We offer them the visibility of a big global group, with a strong passion for brand development within the respect of the individuals. Bulgari was one of the last interesting companies disponible on the market and we couldn't have allowed that was eaten by our competitors*"[88].

The deal led the journalist to think of the significance of this operation for Italy as whole economic system. Giuseppe Berta commented "Bulgari is first of all an Italian brand: it concentrates quality, style and tradition recognized as a prerogative of our country. It will be unthinkable a luxury group without Italian brands, prestigious symbol at who is impossible to renounce. There is no doubt that the global system continues to valorise the Italian imprinting in successful products. (…) It is not the ownership of a brand the base for judge if an activity is in the productive Italian patrimony. The importance is to not waste the project contents in charge of maintain the brand vitality as time goes by, its ability of regenerate, of be part of our economic and industrial base. (…) Trapani explained the change in the corporate structure of the new Group, with the combination of the Bulgari's know-

[87] (08/03/2011) LVMH conquista la griffe Bulgari. *Il Sole 24 Ore*
[88] (08/03/2011). Così Arnault espugna anche la Cina. *Il Sole 24 Ore*

how and the French group dimensions. (…) The point is: why Italy, with its companies and the value of its brand has never been the protagonist of international aggregations? Is it right that its activities are attractive, especially when they are able to let investments flow in order to preserve the specialization and the productive base, but why it is always the prey and never the hunter? There is a limit in the recent development of our economic system. In the last 20 years, Italy has lost not only the ability of growing, but also the ambition for its companies to expand in foreign countries.
In the '90 we dismissed the plans designed to become bigger, as they were unproportionate compared to our strengths. This limit must be crossed if we would like to give back vitality to our development".[89]

Franco Debenedetti used the operation to reflect on the whether the foreign control is good or not for Italian industrial system: "Fondiaria and Edison could be takeover by foreigners for the reasons behind our capitalism and the way used by Mediobanca defending the families against the Government intervention. If Alitalia will be a regional partner of Air France instead of member of a big European player, it will be because of the inefficiency brought by the politics, that also used it as a political campaign instrument, with high costs for the citizens. Telecom, hit by exorbitant valuations and wrong financial operations, has been kept Italian at the cost of a substantial immobilism. All those are examples of negative effect in maintaining the property Italian at any costs, but we have to add the failed occasion. All stories with a shared origin: the worry to protect the Italian control of a company who leads to build up financial architecture with the aim to not let it contestable and to create losing strategies. Until the sale remains the only possible solution. In relation to the dimension of our economy, it is very unlikely to find group and financial institution able to acquire foreign companies: we are prey more than predator. The globalization breaks the national barriers, it allows economies of scale that favourite bigger companies, and makes available the capital necessary. Why do our companies prefer to accept limits in their growth in order to avoid risking the control? Corruption destroying value make scandal: but how many growth possibilities are lost for fear and hesitation? Who can say to Italian entrepreneurs that their interest could be served better by ambitious growth objectives in spite of portfolio diversification, that they can go farest using as guaranty of the control their own capacity instead of the vote right's amount? Who can be next to them if our financial system, lacking pension funds, it's completely banking based, of banks that are proud of having the territory and the country as mission? If your horizon is your town's bell tower, it is difficult to be oriented toward the world. Italy needs someone to stand saying how the barriers, cultural and

[89] Giuseppe Berta (09/03/2011). La forza del brand non ha confini. *Il Sole 24 Ore.*

ideological, rise to defend entrepreneurs and companies of our industrial system, ended up with stopping the development". [90]

On the other hand, the operation offered the opportunity to reflect on the industrial system build up by France compared to Italy. As we affirmed in the first paragraph of this work, the original sin of the loss of competition for the Italian companies can be find in the hardest period of the Italian Republic life: the'70ies.

In this period, the slowdown of the global economy hardly affected Italy due to internal problems of the industrial system such as the deterioration of the labour market and the unstable political scenario who affected the investment decisions. Moreover, the Italian society, broke in ideological conflicts, blamed foreign investors. This hostility is the reason behind the decrease in the new entries during the decade.[91]

Anyway, Italy remained attractive to foreign investors due to the lack of international companies, expect for telecommunications and aero-space markets, and the presence especially in food and beverage companies still owned by the founders. In those cases, the foreign investments were not due to a technological gap but to problems in leadership successions and financial weaknesses. [92]

France harvested the choices made in that years. When in Italy the slogan was "small is better", sustaining the worthies of small and medium family business, France went for national champions and industrial chains, consolidating in financial sector, defence, transport, construction and food. Moreover, the second main characteristic of those French groups is to be international by many times. They arrived before the competitors in the once called emerging markets: LVMH opened its first Chinese shop in 1990. Therefore, a small Italian company, if is oriented toward foreign markets, could be more likely to prefer the French support. [93]

The operation also changed the equilibrium in the luxury segment. Guido Damiani in an interview confirmed the high standard required to compete in global markets: "the jewellery segment is a very fragmented market. There are first of all 3 big players such as Tiffany, LVMH (after Bulgari acquisition) and Richemont, a little number of medium groups such as Damiani, Chopard and Pomellato and then a great number of companies without a strong brand. Compared to the earlier periods the brand is growing in importance and the companies are looking for new markets, with high

[90] Franco Debenedetti (20/03/2011). Italianità, parliamo di sviluppo. *Il Sole 24 Ore.*
[91] Multinationals and Economic Development in Italy during the Twentieth Century Author(s): Andrea Colli The Business History Review, SUMMER 2014, Vol. 88, No. 2 (SUMMER 2014), pp. 303-327
[92] ibidem
[93] Marco Moussanet (23/03/2011). Stato e imprese fanno blocco e la Francia vince sui mercati. *Il Sole 24 Ore.*

growth rate. In order to sustain the expansion, consistent investments are required. Therefore, is better having a solid group behind, and is even better if it is already present in far countries like in Asia and South America, regions that are now running while years ago nobody would have bet on them, such as Brazil, Mexico and China. Starting from these assumptions it is obvious that the bigger groups look for acquisition, but also that smaller companies are interested in being part of Group that could ensure a growth"[94]

2.5. BULGARI AFTER THE DEAL

On 19 April 2011it was held the last board of director meeting. During that the shareholders accepted the 2010 annual report and the CEO reassure "It nothing changes for the brand, it keeps having its history, it will be Italian and will keep reinforcing its Italian profile". [95]

The merge immediately generated benefit for the combined entity. The third quarter 2011, the first with Bulgari in scope, the revenues generated by watches and jewellery rose to €636 Mln, compared to the €261M of the first quarter and the €315M generated by the second one. The 9M11 showed an outstanding performance compared to the previous period, with a growth equal to the 76% on a yearly base. The third quarter recorded a growth in all the main markets and a comeback of Japan.

As reported by "*il Sole 24 Ore*" the FY 2011 results were so good that Arnault apologized for the fact that the luxury segment wasn't affected by the crisis effects. Revenues rose by 14% and net profit by 34% compared to 2010. In this scenario the Bulgari's impact more than doubled the operating results of the watches and jewellery segment of the pre deal LVMH level and the €87M brought accounted for more than the 10% of the operating result of the whole group. Arnault also commented the operation as it was an extraordinary opportunity of external growth, adding that it was difficult finding a similar opportunity and that it could have been the last one. [96]

The former Bulgari's CEO Francesco Trapani commented the situation after the acquisition emphasizing the prestigious position obtained by Bulgari after the deal: "until the 30 June 2010 I was the CEO of Bulgari, a listed company with my family as main shareholder.

Now, after the integration in LVMH we are relevant shareholder and I'm heading seven brands, with a substantial change from a personal and professional point of view." He also pointed out on the more stable situation: "LVMH passed the crisis with stable revenues but lower profits, while its competitors

[94] Eleonora Micheli (24/05/2011). Damiani: "siamo un settore frammentato". *Il Sole 24 Ore.*
[95] (19/04/2011). Ultima assemblea per Bulgari: gli azionisti approvano il bilancio. *Il Sole 24 Ore.*
[96] (03/02/2012). LVMH va troppo bene e Arnault si scusa. *Il Sole 24 Ore.*

were scared. We are on a dreadnaught that can handle the sea trough a storm and this makes me feel quiet as shareholder too." [97]

The 2013 for LVMH recorded a still growing performance with revenues up at +4% and an operating result at +2%c compared with the 2012. The slowing down was caused by the difficulties recorded by emerging countries and the exchange effect. If we look at the results by single entity, Bulgari continued to pull up the performances increasing revenues to €1.4Bn (it recorded sales down by 2% but EBIT up by 12%) of the watches and jewellery segment. [98]

During the 2015 LVMH really harvest the results of the acquisition: it became the fifth player for watches, with a market share of 4.3% behind, Swatch Group (19.2%), Richemont (16.3%), Rolex (12%) and Fossil (6.3%). The revenues of the Watches and Jewellery Division were up to 22% at €2.404Bn, higher than the 18% growth recorded for the whole LVMH. [99]

Therefore, it seemed as the acquisition has been the best solution for Bulgari. It was confirmed by Guido Terreni, the Bulgari watches business unit: "Bulgari obtained great results compared to the difficulties crossed by the sector. The entire Watches and Jewellery division of the LVMH group recorded a growth in revenues. Bulgari kept improving the market share. The 2016 has come after the extraordinary 2015. If we enlarge the horizon to the last three years, Bulgari growth 20% more than the competitors".[100]

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[97] (09/03/2012). Priorità alla crescita interna. *Il Sole 24 Ore*

[98] (31/01/2014). LVMH aumenta le vendite del 4%. *Il Sole 24 Ore*

[99] (09/12/2015). Per LVMH la divisione cresce più del gruppo. *Il Sole 24 Ore*

[100] (29/11/2016). Il mercato premia la strategia Bulgari. *Il Sole 24 Ore*

3. DE CECCO CASE

We have already looked at the Bulgari's history, finding some evidence and ideas. First of all, we saw how M&A can be used as an opportunity for the owners to exit from the company monetizing the investments. Bulgari's family, after some years of doubts, finally received an outstanding offer for the company, from the best possible acquirer in the luxury market. The offer type and the portfolio composition of LVMH allowed the Family to give up a part of their control in exchange to reach a greater stability for the company. Moreover, the deal made it possible to realize synergies for Bulgari and to fully develop its potential thanks to the LVMH' industrial capacity and penetration worldwide. A last interesting idea that came out from the Deal was the "failure" of the '80's Italian industrial system compared to the French one. As we saw in the first chapter, the Italian industrial system, oriented to SME and family business, showed its weaknesses against global competition and a great exposure to possible crisis. Those weaknesses, reflected in a lower profitability, made companies very likely to be acquired by foreign investors. Those investors were attracted by the worldwide power of the Italian Brands and the good possibilities offered by the Italian market, that is still considered as a must for those companies that intend to be global leaders. The case also showed how the blindness of the past generations, more focused in creating sophisticated anti-takeover mechanism (such as the Bulgari's "patto parasociale") in spite of focusing on the profitability and the growth of the companies as a real efficient anti-takeover mechanism, together with the poorly developed financial market, that instead of supporting the growth continued to help zombie companies in order to accomplish shareholders. Those failures didn't allow Italy to realize a luxury world champion as the France did, putting away the disagreements between the entrepreneurs in order to create more stable groups: value instead of control.
After those considerations on the Bulgari's experience, we would ask a question: is it possible to repeat this kind of operation? Italian companies (especially family businesses) are not always equipped for fighting in global markets, they have strong brands but lack in financial resources and foreign market penetration. Are the main investment banking products such as M&A or IPO growth possibilities for such family businesses?

3.1. THE FOOD SECTOR, AN EMPIRICAL ANALYSIS.

In this section we will analyse the food sector, starting from the sector evolution in Europe in last years. Then we will look at the sector focusing on Italy and we will concentrate in the pasta sector.
The table below shows the growth rate of the food sector export in the European Union. The first element arising from this table is the sustained growth of the sector in the EU, reaching the peak in

2019 with a growth year over year equal to 8.1% followed by the 6.8% of the 2016. The trends were guided by the main countries such as Italy, Germany, France and the UK. It is interesting to notice the vividness of the sector in Italy, in fact, over the period under analysis, Italy recorded a constant growth, overperforming the average EU performances in every period analysed except for 2017, while the other main countries, recorded flat or negative performances in the period 2014-2019.

EU food export growth by country (values in %)

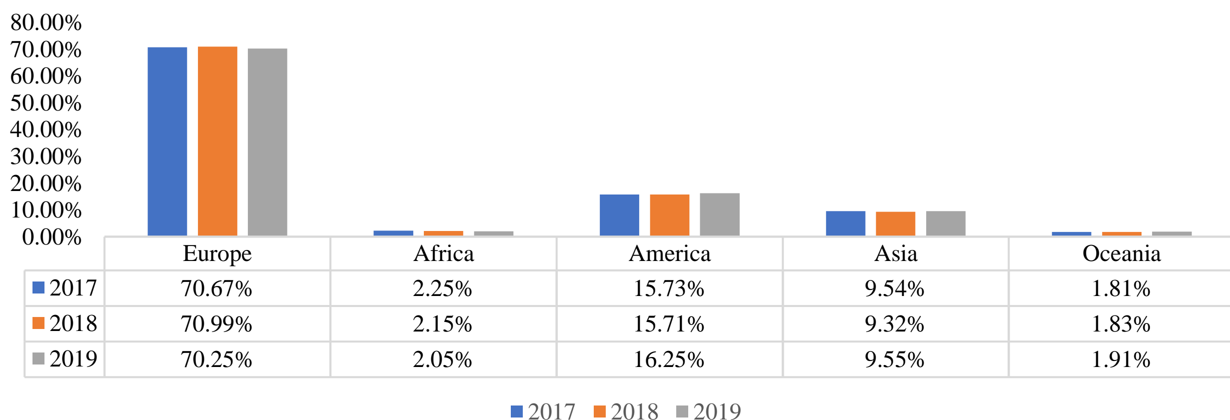
	2014	2015	2016	2017	2018	2019
Austria	2.30%	3.60%	3.10%	7.50%	3.50%	7.10%
Belgium	2.70%	2.90%	5.20%	5.90%	0.60%	3.40%
Bulgaria	7.00%	8.40%	5.10%	8.20%	3.10%	12.10%
Cyprus	10.80%	13.20%	18.00%	13.60%	15.80%	9.80%
Czech Republic	6.20%	10.50%	0.10%	-1.30%	2.70%	14.20%
Germania	2.00%	1.00%	3.20%	6.10%	-0.90%	5.40%
Denmark	-0.90%	0.70%	3.20%	4.30%	-1.40%	6.70%
Estonia	-2.50%	-15.30%	-1.60%	8.50%	2.00%	21.60%
Spain	5.40%	5.80%	8.30%	8.60%	0.10%	14.40%
Finland	-4.20%	-9.70%	-1.00%	7.70%	-3.70%	16.40%
France	-0.50%	2.80%	0.10%	6.30%	0.30%	11.10%
UK	3.90%	6.20%	-3.50%	3.90%	3.10%	8.00%
Greek	-7.00%	21.70%	2.20%	2.40%	9.60%	4.10%
Croatia	16.30%	16.10%	14.90%	0.70%	6.10%	11.00%
Hungary	-0.70%	-1.20%	2.80%	6.20%	3.30%	4.40%
Ireland	7.10%	5.90%	3.50%	10.60%	-1.10%	15.90%
Italy	3.60%	6.60%	3.70%	6.70%	3.90%	8.30%
Lithuania	3.80%	-5.30%	5.00%	10.10%	2.10%	18.20%
Luxemburg	17.10%	3.30%	-7.00%	8.50%	6.20%	-2.70%
Latvia	-5.60%	-15.60%	4.40%	30.80%	4.90%	13.40%
Malta	-2.20%	-3.20%	-11.40%	13.40%	8.20%	50.30%
Netherlands	3.60%	2.20%	6.60%	6.20%	0.00%	6.00%
Poland	6.50%	8.80%	4.40%	13.90%	6.90%	6.80%
Portugal	3.50%	-1.40%	2.90%	9.10%	3.00%	10.20%
Romania	2.40%	7.70%	0.70%	9.00%	8.10%	5.50%
Sweden	-1.80%	1.60%	1.30%	5.30%	-1.40%	6.00%
Slovenia	-7.20%	15.50%	2.30%	4.20%	15.30%	6.00%
Slovakia	-12.30%	2.00%	0.70%	-2.00%	3.40%	1.80%
EU	2.50%	3.50%	3.40%	6.80%	1.30%	8.10%

Table 10. Source: MAECI osservatorio economico Marzo 2020.

If we look at the Italy, we can see the importance of the food sector for the country: according to Coldiretti the food chain is the first for wealth generated in Italy, it accounts for almost €538Bn, equal

to the 25% of the 2019 Italian GDP and 3.8M employees.[101] The food chain therefore represents a strategic sector for the Italian growth, showing a strong growth compared to the other sectors and it has been one of the leading sectors for the Made in Italy, in the country as well as in foreign countries. If we look at the breakdown of the food sector by geographic area, we can see the Europe as the favourite export destination, followed by the Americas (mainly driven by the Northern America rather Latin America) and Asia. This weakness is mainly driven by the strong concentration of Jews and Muslims in the area (25% of the total population) whom, due to the religious practices, are less likely to consume food such as strong drinks and meat (those categories represent almost the 25% of the total Italian exportation on average).

Italian export in food sector by geographic area *(values in € Mln)*



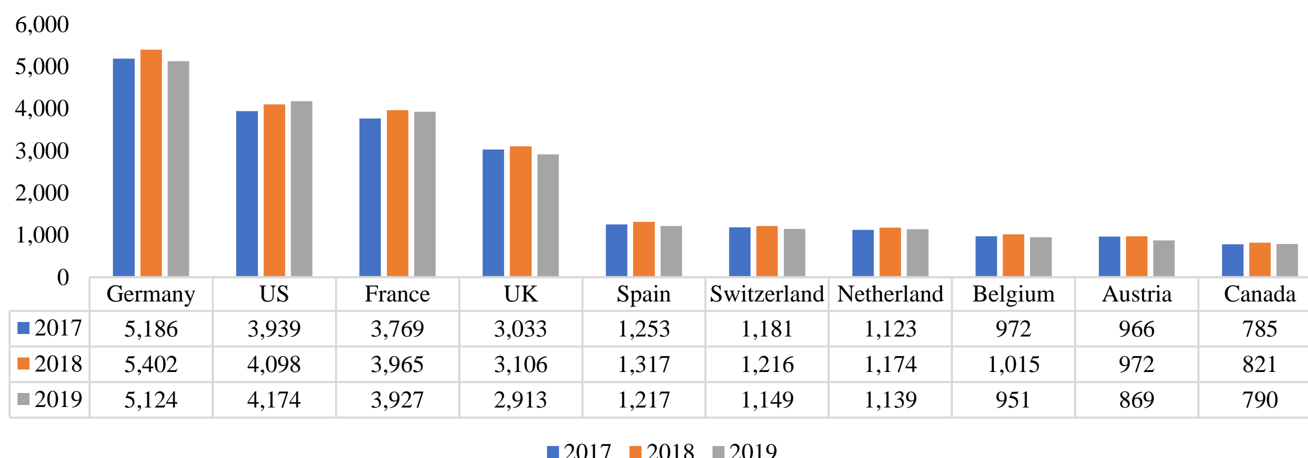
	Europe	Africa	America	Asia	Oceania
2017	70.67%	2.25%	15.73%	9.54%	1.81%
2018	70.99%	2.15%	15.71%	9.32%	1.83%
2019	70.25%	2.05%	16.25%	9.55%	1.91%

Graph 12. Source: MAECI osservatorio economico Marzo 2020.

If we consider Italian export by single countries, we can see how the favourite destinantion for Italian food exportation in the period 2017-2019 is represented by Germany, showing a peak in 2018 with €5.2Bn, followed by the US, France and the UK. Germany accounted for the 15.5% of the total food exportation (more than Switzerland, Netherlands, Belgium, Austria and Canada together).

[101] https://www.coldiretti.it/economia/alimentare-nel-2019-la-ricchezza-del-paese

Italian food export by countries *(values in € Mln)*



Graph 13. Source: MAECI osservatorio economico Marzo 2020.

Breaking down the Italian exportation by category, the table below shows how the main Italian exportations are represented by wine of grapes (17.6% in 2019), followed by bakery and farinaceous products (11.8%) and products of the dairy industries (10.3%).

Italian exportation by category	**2018**	**%**	**2019**	**%**
Processed and preserved meat and meat products	3,292	9.4	3000	8.9
Processed and preserved fish, crustaceans and molluscs	478	1.4	418	1.2
Processed and preserved fruit and vegetables	3,591	10.3	3,378	10
Vegetable and animal oils and fats	2,132	6.1	1,839	5.5
Products of the dairy industries	3,452	9.9	3,462	10.3
Products from the processing of grains, starch, starch products	1,362	3.9	1,267	3.8
Bakery and farinaceous products	3,933	11.3	3,957	11.8
other food products	7,111	20.4	6,965	20.7
Products for animal feed	758	2.2	720	2.1
Distilled, rectified and mixed alcoholic beverages	977	2.8	1,147	3.4
Wine of grapes	6,237	17.9	5,921	17.6
Cider and other fruit wines	95	0.3	94	0.3
Other non-distilled fermented beverages	176	0.5	181	0.5
Beer	198	0.6	209	0.6
Malt	1	0	1	0
Soft drinks, mineral waters and other bottled waters	1,065	3.1	1,066	3.2

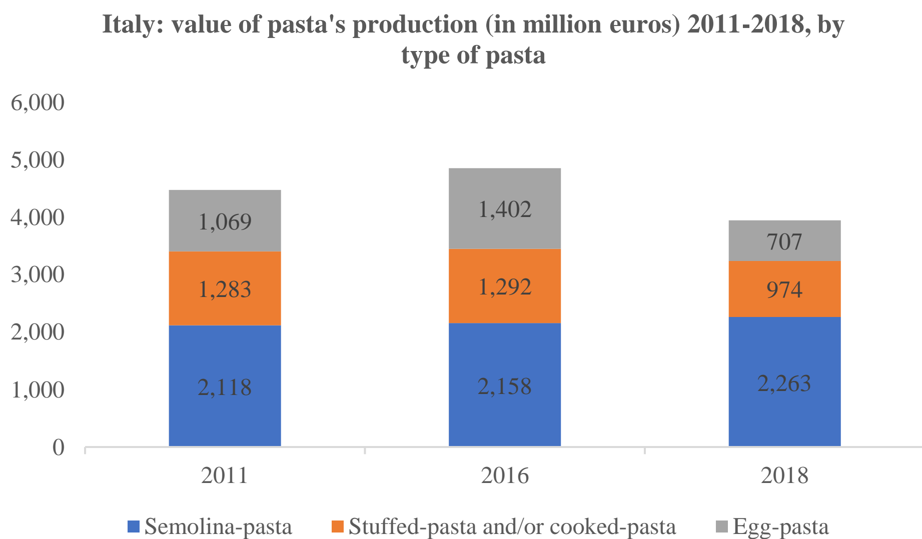
Table 11. Source: MAECI osservatorio economico Marzo 2020.

We will now concentrate our discussion on the pasta' segment: as previously discussed, it is a consistent fraction of the Italian exports.

In 2024, the Italian pasta & noodles market is forecast to have a value of $3,988.6 Mln, an increase of 13.8% since 2019. The compound annual growth rate of the market in the period 2019–2024 is predicted to be 2.6%.[102]

The product is generally perceived by the market as an undifferentiated commodity and its production is strongly influenced by the distribution chain. In fact, a pasta producer has to produce pasta, sell it to the retailers. Then, the retailers have to stock it and sell it, influencing the market strategies.

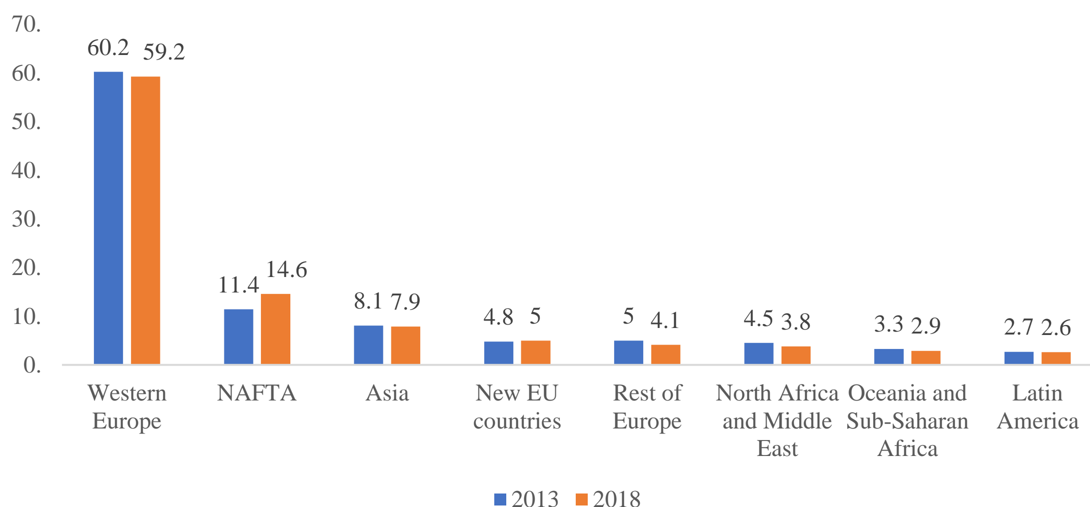
The statistic shows values referred to the pasta production in Italy between 2011 and 2018, broken down by type of pasta. According to data, semolina-pasta was the type that registered the higher turnover, reaching €2.2Bn in 2018. Egg pasta reported the biggest decrease over the considered period, with a production value going from one billion euros in 2011 to €707 Mln as at 2018.



Graph 14. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020

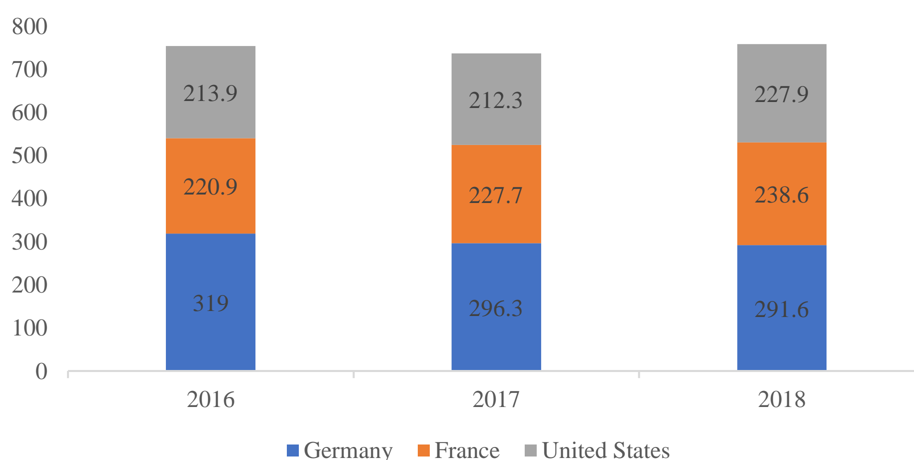
Both in 2013 and 2018, Italy exported by far its pasta and similar products to countries located in Western Europe, as showed by data provided by Prometeia. The second exporting market for Italian pasta, couscous and similar products was the area of NAFTA countries, which made up 14.6 percent of the export value in 2018.

[102] MarketLine Industry Profile Pasta & Noodles in Italy July 2020



Graph 14. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020

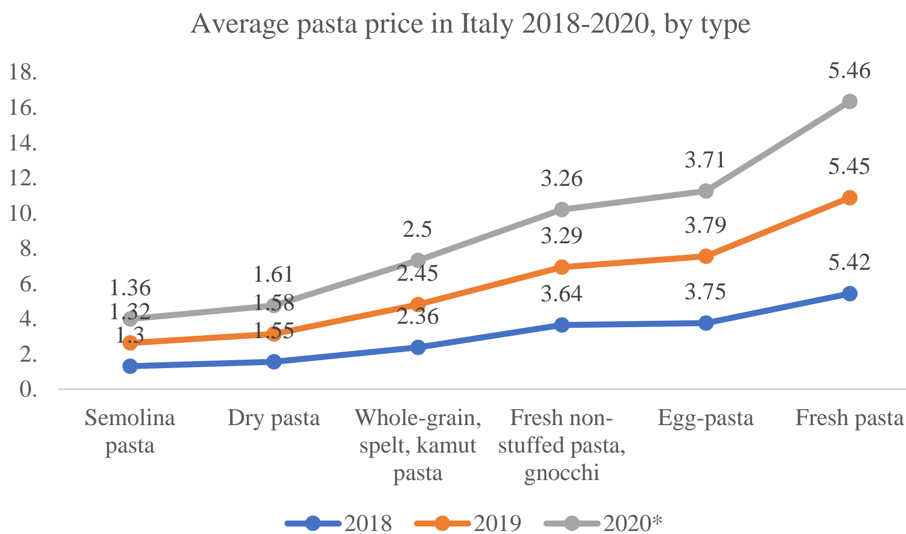
The pasta's exports confirm the general trend of the overall exports worldwide.
According to the data provided by Prometeia indicate, between 2016 and 2018, Germany as the main destination country of Italian pasta, couscous and similar products, based on export value. The other two greater destination countries for Italy were France and the U.S. with an export value of €296.3 Mln and €227.9 Mln, respectively.



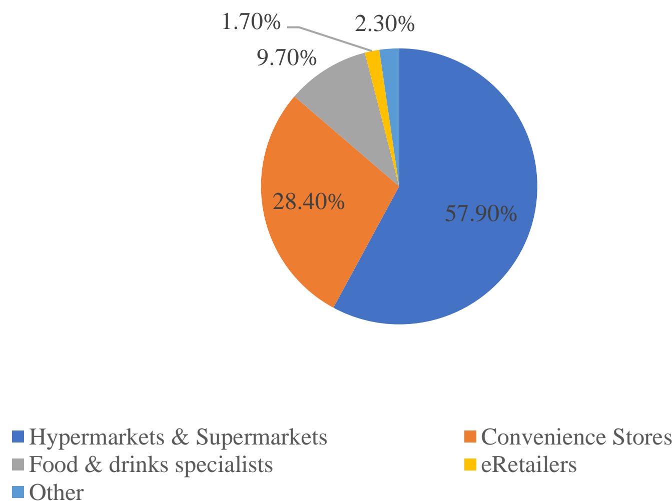
Graph 15. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020

This statistic illustrates the average price for one kilo of pasta in Italy from 2018 to 2020, broken down by type. Every type of pasta saw increasing prices, except for fresh non-stuffed pasta whose price went from 3.64 euros per kilogram in 2018 to 3.26 euros per kilogram in 2020. Moreover, the

average price of egg pasta went from 3.79 euros per kilogram in 2019 to 3.71 euros per kilogram in 2020.



Graph 16. Source: Statista



Graph 17. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020

Looking at the market distribution channel in the Italian market, we can notice that the leading distribution form in the market is represented by the hypermarkets & supermarkets that accounted for the 57.7%, followed by the convenience stores 28.3%.

Once we analysed the main market data provided by Statista, we will now analyse the market looking it from a strategic point of view. Possible buyers in the market will face the reality of a market that realized a moderate growth during the last decade. In Italy, due to the strong importance of the pasta

in the Italian cultural patrimony, the market is fragmented. This last element combined to high fixed costs and exit barriers lead to an intense degree of rivalry in the market. New entrants menace is perceived as weak due to the strong capital investments required and the presence of well-known brands. Due to the cultural value of the good for Italians, the threat of possible substitute goods of pasta is moderate.

3.2. THE RETAILERS IMPORTANCE IN THE ITALIAN PASTA MARKET

The Pasta producers have also to deal with the diffused number of retailers, such as hypermarkets and supermarket, that lead the distribution market, accounting for the 58% of the total market value. The size of the average buyer is large boosting buyer power, giving them a strong negotiation power on price. Retailers are not influenced by brand loyalty, but they have to stock those brands that are more popular among consumers. Moreover, the market presents low switching cost for buyers. The retail's power is increased by the idea of pasta as an undifferentiated commodity. The retailers influence is also strengthened by the fact that pasta is produced by the pasta market players and stocked by the retailers, increasing the competition on the limited stock space of the retailers. The combination of all these elements gives the retailers a strong buyer power. [103]

3.3. THE MAIN PASTA SUPPLIER DRIVERS ELEMENTS

The main inputs for pasta production are raw materials such as grains, vegetables, meat, fish and egg. Those resources are generally furnished by small farmers and growers. Many producers prefer to buy not from those players, but directly from large wholesalers such as Nestle, that trade goods on global scale. Market players have two possibilities in acquiring the raw materials required for the production: first of all, buying in open market, that leads in having a little control over prices fluctuations, that can only be mitigate using hedging techniques. The second alternative is to lock the prices directly dealing with the farmers using fixed-terms contracts that are periodically renegotiated. If farmers operate in a largely fragmented landscape, food processing firms obtain a strong negotiation position. As we have already said, the pasta's perception in the Italian customers requires the maintaining of the product quality if they want to keep the brand strengthens in the long term. Obviously, this quality requires premium raw materials, increasing the power of those suppliers able to provide necessary products. However, this effect on the supplier power is strongly counterbalanced by the relative lack of commodities differentiation. Other inputs in this market include packaging materials, with market

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[103] MarketLine Industry Profile Pasta & Noodles in Italy July 2020

players often entering into long-term contracts with their suppliers, strengthening their power. In light of this elements, the supplier power is considered as strong. [104]

3.4. NEW ENTRANTS IN THE ITALIAN PASTA MARKET

The recent moderate growth in the pasta market could encourage possible newcomers to enter the market. But the risk of new entrants is moderate for the players operating in the market. The competitive arena is dominated by multinational like Barilla and Pastificio Rana. Those players present scale economies, strong brands and diverse range of products. The players in the market could try to differentiate their products focusing on their healthiness and taste compared to the others. For a potential new entering player could be difficult to compete with the existing strong brand in order to reach the competitive position held by the leading players. A possible way to attack the market is in trying to enter stressing on the differentiation of the product among the others, for example using unique production method, environmentally friendly packaging or nutritional benefits.

Looking at possible entry barrier generated by law issues, the Italian food regulation is provided by the European Food Safety Authority. At a local level it is also regulated by the Ministry of the Health and the regional bodies that set different rules and regulations. Therefore, we can say that the regulation in the sector is influenced by significant entry barrier. [105]

3.5. THE COMPETITIVE LANDSCAPE

The market share in 2019 showed a high degree of rivalry due to a strong fragmentation with 62.8% representing a widely spread number of small competitors. As main players it presented Barilla as leading company with 18.3% of share, followed by Pastificio Rana S.P.A. and F.lli De Cecco di Filippo Fara San Martino SpA (7.9% and 7.5% respectively).

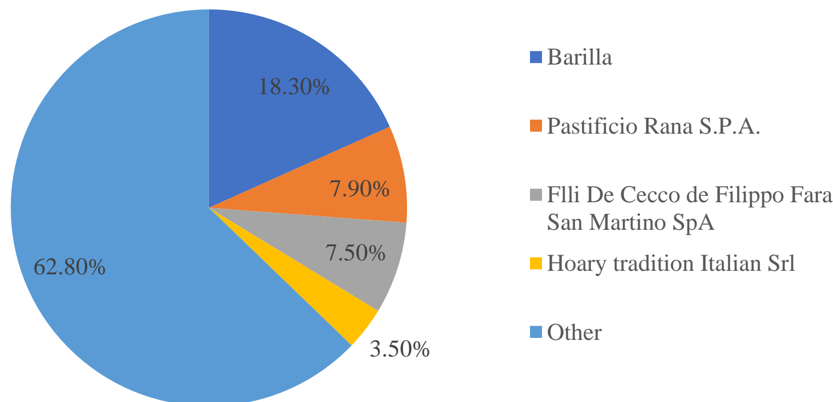
The companies operating in this market presents a low degree of diversification in different sectors, mostly operating in the food and drinking industry. This common characteristic increased the rivalry degree, due to the fact that all the companies are affected by the market fluctuations almost in the same way. The industry also presents zero switching costs, allowing buyers to switch from one player to another without costs.

The effects of exit strategies depend on the business model of the company. In order to produce pasta, the fixed costs generated by the productive plant are very high and it is also very expensive to modify facilities and production plants. Therefore, the exit barriers are high since leaving the market requires

[104] Ibidem

[105] Ibidem

the divest of those assets. Storage costs are high, both in terms of the size of the facilities necessary for the store to stock the pasta but also due to the need of storage for the raw materials. [106]



Graph 18. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020

3.6. DE CECCO HISTORY[107]

De Cecco was founded by the pasta's master Filippo Giovanni De Cecco in 1886 as "Pastificio De Cecco" in Fara San Martino. Filippo De Cecco had immediately success, winning the bronze medal at the L'Aquila's exposition. He demonstrated also a good degree of innovativeness, inventing in 1889 the first dryer using warm air.

In 1892 Filippo De Cecco makes himself known also outside the Abruzzi, participating at the Sicilian Exposition and winning the silver medal. The next year, Filippo De Cecco won three important prizes, the first one crossing the Italian borders participating and winning the first prize in Monaco, the second one winning the gold medal in the Rome exposition and the last one in winning the gold medal at the World's Columbian exposition in Chicago thanks to his "macaroni and vermicelli" and their "superior manufacture, the colour and the capacity to maintaining the cooking.

Thanks to this success De Cecco decided to establish contacts with the US participating to the San Francisco exposure, where he won the gold medal.

The company was early characterized by the knowledge transmission between the first and the second generation: in 1898 Filippo De Cecco won the gold medal in Hamburg and for the first time we can see a referment to his sons in the diploma gained. Those successes made the brand well known in

[106] Ibidem

[107] https://www.dececco.com/it_it/storia/

Italy: in 1903 the poet Gabriele D'Annunzio, the artist Francesco Paolo Michetti and the musician Alberto Franchetti visited the factory.
In 1904 the company collected the results of the prize won in the US, making the country a regular destination for its exportation. In 1914 the De Cecco realized the first exports in Argentina.
In 1924 it was realized the handover between Filippo Giovanni De Cecco and his sons Saturnino, Giuseppe, Onofrio, Giovanni and Adolfo: it was born the "F.lli De Cecco di Filippo Fara San Martino snc". This corporate structure attributed a good importance to both the founder and the common guide of the company. In 1927 was founded the "Società Anonima Molino De Cecco" (the ancestor of the Società per Azioni) with Filippo Giovanni De Cecco as chairman and the sons Onofrio, Adolfo and Giovanni as Chief executive officers. During the Italian Campaign, in the WWII, the retreating Germans occupied the factory and they caused huge damage, stealing products, stocks, equipment and blasting the entire plant. After the Liberation, the De Cecco' s third generation started the reconstruction of the production plant putting into operation a small machinery for the pasta making. In 1952 was recorded the brand De Cecco: it portrayed a young farmer wearing the traditional Abruzzi's costume.

In 1974 the productive plant of Fara San Martino expanded allowing the company to double the production. It has been a great logistic work, that made it possible to transfer the production without losing a single day of activity. In 1986 two important facts were realized: first of all the product line was enlarged including wholemeal pasta and oil. Then it was realized a direct sales network, leaving up the retail chain. It was started the transformation from a primitive family business in a managerial company. In 1999 De Cecco obtained the Kosher certification, which indicates the compliance of the products with the Judaism disposition, allowing the company to sell its products in Israel and to the Jews spread worldwide. In 2006 the company launched its first sauce line together with Heinz Beck. In 2013 new production lines were inaugurated in Fara San Martino, allowing the company to enlarge the grain production from 11,000 tons to 14,000 tons per day. In 2015 De Cecco got the Halal certification to the Islamic faith in order to fulfil the Muslim costumer needs.

3.7. DE CECCO TODAY

At 31.12.2019 the group performs its activities in Italy and foreign countries in production and selling of pasta, oil, rice, red and other alimentary products, and it is well perceived by the market as a premium quality pasta. The group operates in Italy and 120 foreign countries, realizing in the domestic market the 66% of the total revenues. As we observe in the previous market analysis, the high number of players competing in the market requires them to focus on prices, quality, brand

awareness and consumer fidelity, combining these factors with the ability of recognize and satisfy the customer needs. In this scenario, De Cecco operates with a relatively good market share in the Italian market (7.5%), competing with larger multinational companies with a deeper diversification in multiple product lines and with greater financial resources.

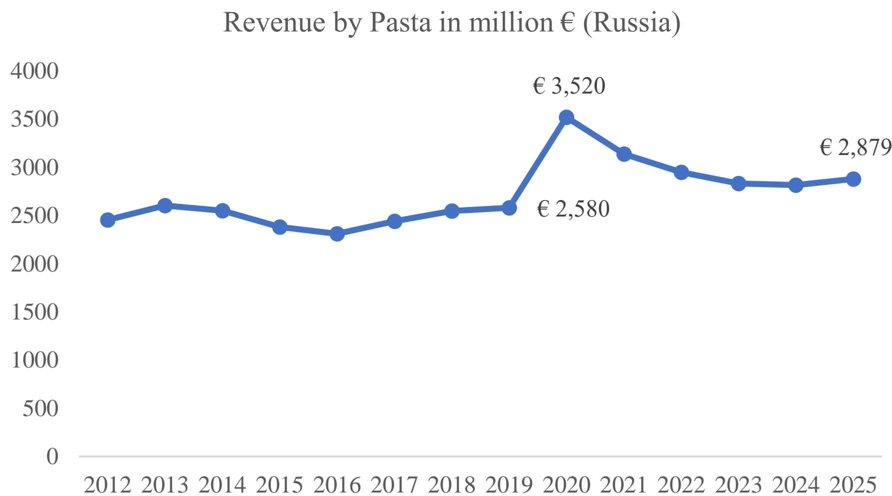
A strong risk associated to the company business model it's in the strong preponderance of the large retailers. We have already described the weight of the supermarket and hypermarkets in the pasta market and their strong bargaining power with pasta producers. As at 31.12.2019 the 84% of the De Cecco's revenues in Italy were generated throughout the large retailers. The entire value was generated through 16 players, of whom the 75% of the total realized using by 5 players. However, De Cecco's high quality standards constitute a strangeness in the relationship with the retailers, mitigating the risks generated by the large dependence to them.

Moreover, the 33% of the revenues realized by the Group are generated in foreign markets, with the company facing the global competition and the macroeconomic cycle turnover. Anyway, the Group base its solidity on the customer perception. In fact, thanks to its high quality, the Group is perceived as a "premium food" by the customers and this classification allow the Group to charge a "premium price" on its products, a higher price compared with the competitor's prices.
The group structure presents the Fratelli De Cecco di Filippo - Fara San Martinio . S.p.A as parent company and it controls the following companies:

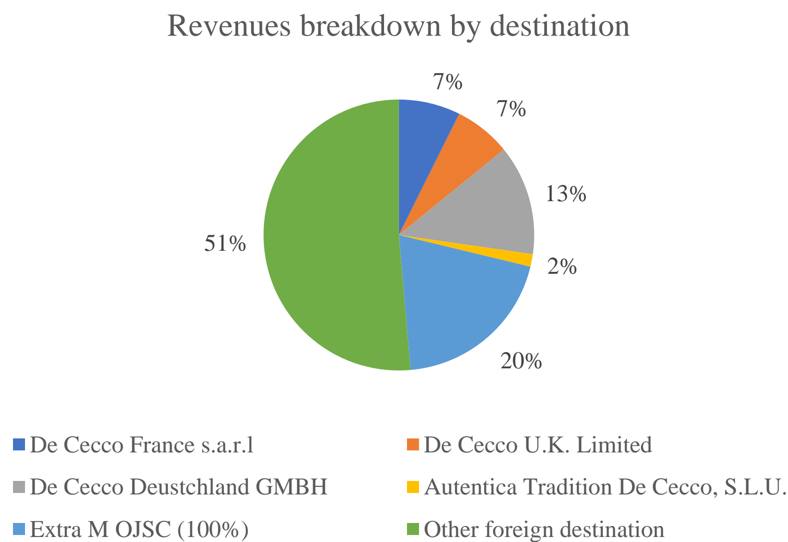
- Olearia F.lli De Cecco di Filippo - Fara San Martino – S.r.l (direct control with 100%)
- Molino e pastificio De Cecco S.p.A Pescara (89.61%)
- DE.A S.r.l (100%)
- De Cecco France s.a.r.l. (100%)
- De Cecco U.K. Limited (100%)
- De Cecco Deustchland GMBH (100%)
- Autentica Tradition De Cecco, S.L.U. (100%)
- Extra M OJSC (100%)

The last one Extra M OJSC operates in the Russian Federation and includes a productive plant located in Mosca with the relative distribution system.
This company represents a strategic node for the future foreign development of the company. The Russian market, in fact, represents the third pasta market worldwide. Using he forecasted data provided by Statista in December 2020, that includes adjustments for the impact of the COVID-19, the revenues in pasta's market worldwide are expected to growth in the period 2019-2025 from

€2.6Bn to €2.9Bn but with a decreasing trend caused by the peak forecasted in 2020 (€3.5Bn), presenting therefore a CAGR of -2% yoy. [108]



Graph 19. Source: MarketLine Industry Profile Pasta & Noodles in Italy July 2020



Graph 20. Source: De Cecco Annual report 2019

The Russian subsidiary is the result of an aggregation process realized combining four Russian companies acquired in 2011 from the PMK Group for €40M[109]. The ratio behind the operation is to support the internationalization process of the Group and was led by the idea of entering in markets with a high growth rate.

[108] https://www.statista.com/outlook/40060100/149/pasta/russia?currency=eur#market-revenue
[109] https://advantage.marketline.com/Deals/Facts/de-cecco-acquires-pmk-group_ml_428184_1453987

At 31.12.19, the Group revenues breakdown by foreign country, we note that the first foreign market is Russia (19.9%), through the subsidiary Extra M OJSC, followed by the Germany (13.1%), trough De Cecco GMBH, then France, UK, Spain (7.4%, 6.8% and 1.5% respectively). The remaining 51.4% was realized in other foreign destinations.

If we look at the Group performances in 2019 compared to the previous year, the Italian market recorded an increasing trend revenue equal to 4.4% on annual base while the foreign market revenues grew by 4.7% yoy. The non-European markets generated significant growth in Japan (+8.7%), in Canada (26.4%), Russia (+6.4%), in the APAC area (+6%) and the Central America (+29.7%).

The European markets recorded a strong growth in Germany (+13.1%), Spain (+10.3%) and UK (+6.2%).

3.8. DE CECCO FINANCIAL STATEMENT ANALYSIS

De Cecco P&L 2019 *(values in €)*

	2019	2018	Δ YOY
REVENUES	454,017,470	449,666,039	0.97%
RAW MATERIALS COST	189,867,329	197,860,196	-4.04%
SERVICES	155,792,418	145,963,002	6.73%
COGS	345,659,747	343,823,198	0.53%
GROSS PROFIT	108,357,723	105,842,841	2.38%
COST OF STAFF	57,335,021	57,840,200	-0.87%
EBITDA	51,022,702	48,002,641	6.29%
DEPRECIATION	21,398,538	20,713,297	3.31%
EBIT	29,624,164	27,289,344	8.56%
FINANCIAL EXPENSES	8,864,267	8,202,157	8.07%
EBT	20,759,897	19,087,187	8.76%
TAXES	7,012,498	5,032,406	39.35%
EAT	13,747,399	14,054,781	-2.19%

Table 12. Source: De Cecco annual report 2019

Here enclosed, in table 12, we can find the managerial income statement for the period 2017-2019. It shows that revenues, in the observed period, rose by 1% in the periods, while the COGS remained almost stable (the item breakdown shows a decreasing raw material costs but a rising cost of services). Those combined effects led to a 2.4% growth yoy. EBITDA recorded a 6.3% growth in the period that overwhelmed the depreciation rose, allowing the EBIT to rise by 8.6%. Anyway, those good

performances were nullified by the taxes rising (mainly due to the non-current taxes increase), leading to a EAT decrease by 2.2%.

De Cecco BS 2019 *(values in €)*

	2019	2018
NET WORKING CAPITAL	- 2,472,281	4,012,801
TOTAL NET OPERATING ASSETS	389,570,967	388,751,361
INVESTED CAPITAL	**387,098,686**	**392,764,162**
NFP ST	134,961,995	123,762,361
NFP LT	84,733,827	99,851,337
TOTAL EQUITY	167,402,864	169,150,461
CAPITAL EMPLOYED	**387,098,686**	**392,764,159**

Table 13. Source: De Cecco annual report 2019

If we consider the period 2018-2019 and the De Cecco's capital structure, showed in table 13, it is easy to notice how the net operating assets long terms represents a great percentage of the total invested capital in both periods. Moreover, the Group presented a negative value for the net working capital, mainly due to the decrease of the working capital from 2018 to 2019 (-10.7% yoy), driven by the decrease in inventory by 17.5% yoy. This performance represents allowed the company to save cash yoy, and to concentrate that in the real repaying both short term debt (-2.78%) and long-term loans (-25.9%).

Breaking down the net financial position per debt maturity we notice how the short-term net financial position amount for the 61% in 2019, and it rose by 9.05% from the FY2018, while the long-term financial position decreased by 15% in the same period.

De Cecco Cash Flow statement 2019 *(values in €)*

	2019	**2018**
EBIT	29,624,164	27,289,344
TAX RATE	33.35%	34.31%
NOPAT	19,745,946	17,925,112
DEPRECIATION	21,398,538	20,713,297
CASH FLOW	41,144,484	38,638,409
CAPEX	20,714,018	20,273,440
CHANGE NWC	- 6,485,082	26,647,801
FCF	26,915,548	- 8,282,832

Table 14. Source: De Cecco annual report 2019

In table 14 is represented our Free Cash Flow calculation for the period 2017-2019 and we will now briefly describe how we get our results for the FCF calculation. First of all, we calculated the tax rate using the EBT value for each period and we found the tax rate as the sum of all the taxes due to IRES, IRAP and foreign subsidiaries' tax rates. Then we applied the tax rate obtained to the EBIT reported, finding our NOPAT and we summed up the NOPAT to the reported Depreciation, obtaining the cash flows for the observed periods. In order to find the final FCF we subtracted Capex and Net Working Capital Variation to the FCF [we calculated the Adjusted Capex as "Depreciation – (change in fixed asset – change in depreciation)]. The final FCF values show us an increasing FCF value in between 2017-2019 mainly driven by the rising EBIT value and a decreasing impact of the taxes in the operating Group management.

3.9. FINANCIAL ANALYSIS OF THE MAIN COMPETITORS

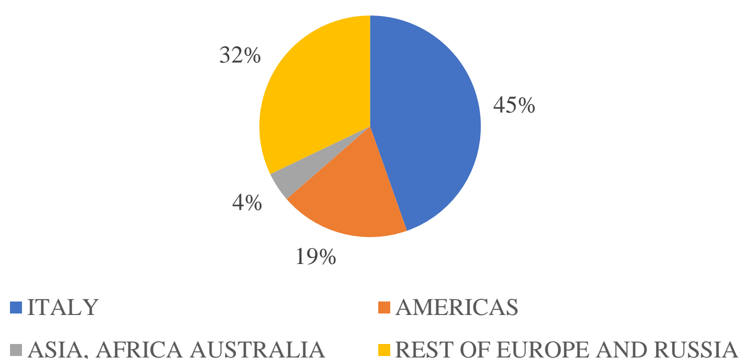
Combining all the values found through our financial statement analysis we can obtain several ratios to analyse the De Cecco's performances compared to the competitors.

De Cecco ratios 2019

De Cecco Ratios (EUR/M)	**2019**	**2018**
EBITDA MARGIN	11.24%	10.68%
NFP ST/FCF	5.01	-14.94
NFP LT/FCF	3.15	-12.06
NFP/FCF	8.16	-27.00
NFP ST/EBITDA	2.65	2.58
NFP LT/EBITDA	1.66	2.08
NFP/EBITDA	4.31	4.66

Table 15. Source: De Cecco annual report 2019

The EBITDA margin shows a relative improvement year over year, while the NWC/FCF decrease in the period due to the negative value of the net working capital, while FCF rose. The Debt Ratios are those whose value could represents a problem in the operating management of the Group: we see a strong unbalance between short- and long-term exposure, with a lower difference in EBITDA compared to FCF. Anyway, during the period in our analysis, we observe a general improvement of the ratios related to the Net Financial Position driven by both FCF and EBITDA rises and the net financial position decrease. In our opinion the high short-term exposure absorbs cash making it difficult to realize the investments required in the pasta market also because this debt is mainly committed to sustain the working capital.



Graph 21. Source: Barilla Annual report 2019

Barilla ratios 2019 *(values in €)*

Barilla Ratios (EUR/M)	2019	2018
CASH	295,982	452,308
ST NFP	-279,345	-379,796
LT NFP	371,779	337,924
NFP	92,434	-41,872
FCF	242,886	146,118
NFP/EBITDA	0.19	-0.09
NFP ST/EBITDA	-0.58	-0.81
NFP LT/EBITDA	0.78	0.72
NFP/FCF	0.38	-0.29
NFP ST/FCF	-1.15	-2.60
NFP LT/FCF	1.53	2.31

Table 16. Source: Barilla Annual report 2019

The main Italian De Cecco's competitor, Barilla, recorded better debt ratios compared to the De Cecco's ones. First of all, the cash composition of Barilla if far higher than the De Cecco's ones, even if the FCF decreased yoy. The huge amount of cash available allows Barilla to have a far cleaner Net Financial Position compared to the De Cecco's NFP, both in short and long terms.

Moving from the Italian market and watching to the European and North American markets we will now analyse the Ebro Food corporation, a Spanish listed company representing the De Cecco and Barilla main competitor in those markets. In 2019 it had the 11.5% market share in the North America area (the same market share as Barilla) [110] and the 4.8% in the European Market (De Cecco's market share was 3.4%). The company has also a strong presence in Italy through brands like Riso Scotti.

[110] Market line report "Pasta & Noodles in North America, July 2020"

Ebro Food ratios 2019 *(values in €)*

Ebro Food Ratios (EUR/M)	2019	2018
EBIT	231,085	220,131
NOPAT	156,299	154,591
DEPRECIATION	111,641	87,337
CASH FLOW	267,940	241,928
CAPEX	93,382	77,562
CHANGE NWC	- 81,600	- 54,736
FCF	256,158	219,102
EBITDA	342,726	307,468
NFP	517,185	704,621
NFP/FCF	2.02	3.22
NFP/EBITDA	1.51	2.29

Table 17. Source: Ebro Food Annual report 2019

The company's performances show a quite similar situation compared to Barilla, with a similar FCF amount, but with a higher Net Debt, thus the NFP/FCF is greater than the Barilla's one. Moreover, the financials are far better than De Cecco with the NFP/FCF almost four time less and the NFP/EBITDA almost two time less.

The peer analysis realized through Bloomberg's available data for listed companies are reported in the table 18, enclosed below:

Pasta Sector main ratios as at January 2021

Metrics	Low	High	Average
EV/EBITDA	7.60	16.20	11.90
P/B	0.10	2.10	1.10
Total Debt/EBITDA	2.30	6.60	4.40
NFP/ EBITDA	3.00	4.60	3.80
NFP/EV	0.40	1.00	0.70
NFP/Equity	36.20	136.10	86.10

Table 18. Source: Bloomberg

The ratios indicate us that De Cecco has a NFP/EBITDA higher than the average peer values and almost equal to the highest value.

3.10. DE CECCO GROWTH OPTIONS

Once we analysed the De Cecco's ratios we found two main factors that could affect the Group's growth: the lack of cash available and the too high level of debt compared to the profitability of the

Group. In this sense, we believe that De Cecco, in order to deal with Barilla and its main competitors in the global market, needs more financial resources for two main purposes: diversify the production and to expand the company in foreign countries. Those two growth drivers have to be considered in order to decrease the volatility of the revenues differentiating the company in terms of product and market.

As we saw previously, the pasta maker has a large dependence to the retailer's decisions, in fact, the competition between them is influenced by the capacity of a Group to buy space in the hypermarkets. The more the space, the higher the penetration of a company in the market. The space granted by the retailers to its customer in largely dependent by the different type of brand and products that a seller is able to offer to them. The more the brands owned by the group, the more the bargain power of that group. But the number of brands that a group can offer to the retailer depends on its product line diversification. The product diversification could be realized through acquisition of different brands or developing new product as possible solutions to improve a group bargain power. Therefore, we don't believe that the current De Cecco's profitability is prompt to compete in a globalized market.
We will now examinate if there is a room for De Cecco to emulate the Bulgari case and to fully develop its potential and brand reduce the shareholder control in order to increase the value generated by the company.

3.11. THE GO PUBLIC OPTION

The first possibility for De Cecco is to collect financial resources through the capital markets going public in the MTA Standard segment. In this paragraph we will design a possible IPO for the company: first we will see the compliance of the Group to the Borsa Italiana indications and calculate the Enterprise value, then we will individuate the share of capital to be offered in the share market, *then we will base/ assess the possible attractivity of the companies' share on the market and the possible/ potential use of the capital collected.*

For the enterprise value calculation, we will use the multiple method. Using the metrics analysis realized by Bloomberg on the listed pasta market companies we observed that the average EV/EBITDA for those companies is equal to 9.7x. Moreover, since the Group is considered as the premium pasta product in the customer perspective and the scarcity of listed pasta maker, we decided to not apply the IPO discount on our valuation. [111]

[111] https://www.borsaitaliana.it/borsaitaliana/pubblicazioni/pubblicazioni/guidaallavalutazione.pdf

For a Group to be attractive to investors, it has to prove them that the investment is justified and that it satisfies some IPO pre-requisites[112]:

- To be in an attractive sector, with a dynamic industry and growth perspectives.
- To have a strong competitive position, with a market leadership and a sustainable market position.
- To have good growth and visibility, with a limited volatility.
- Solid financial performance sustained by strong operating and financial records.
- Minimum free float in order to appeal a broad range of investors.

Moreover, the legal requirements required by Borsa Italiana to be listed in the standard segment are a minimum floating equal to 25% and an industrial plan definition[113].

The industrial plan should individuate future target profitable objectives and investment decisions. In the De Cecco case, we will define a target EBITDA and we will base our valuation on that targeted value. The targeted EBITDA obtained is based on the 2019 value, but we increased the value working on the personnel cost: calculating the "cost of personnel/revenues" value between Barilla (we used Barilla because it should have implemented economies of scale due to its dimension) and De Cecco, we observed that the De Cecco shows a ratio far better than Barilla's (0.09 vs 0.14 respectively). Anyway, the manager/workers ratio for De Cecco is higher than the one of Barilla (39% vs 41%). Therefore, we believe that by lowering the managers/workers of De Cecco using the Barilla's ratio as benchmark we found that De Cecco exceeds the benchmark by 27 managers. Adopting an exit policy for those resources, the Group could save €1.8M per year from the personnel cost (we arrived to this value multiplying the average salary by the number of the exceeding resources), offset the first year by the *una tantum* incentive non recurrent cost for the resource exiting of €3.8M.

Acting this saving, the EBITDA rise to €55M. Adding to this new EBITDA found the expected market growth rate for 2021, equal to 5%[114], we expect an additional EBITDA growth to €58M.
If we apply the premium EV/EBITDA multiple of 9.7x calculated above, the equity value of De Cecco would be equal to €85M if the company offered the 25% of the Equity. Moreover, the NFP/EBITDA ratio, using the targeted EBITDA, would lower to 3.81.

[112] M&A and Investment Banking Lecture 8 – Initial Public Offering
[113] https://www.borsaitaliana.it/brochure/MTA/files/assets/common/downloads/MTA%20%20Mercato%20Telematico%20Azionario%20ITA.pdf
[114] MarketLine Industry Profile Pasta & Noodles in Italy July 2020

The main issue of this IPO operation could be that the NFP/EBITDA is still higher than the average market benchmark, equal to 3.8. Therefore, we can decide to not use all the financial resources collected to invest in the future Group's growth, but to use a part of the cash to balance the short-term debt in order to be closed to the average value. Using an iterative substitution, we calculated that the amount of cash to be destinated to the NFP repayment to have an NFP/EBITDA equal to 3 is €47M. Therefore, if the Group offered the 25% of the total Equity it will still have €38M for the investments and a relatively balanced NFP.
Moreover, there's the option of increase the amount of shares that could be offered to the market: if the Group increases the amount to 30% it will collect €101M and, assuming a part of them to the NFP, the total cash to be destinated to the investments will be €64M.

3.12. THE PRIVATE EQUITY OPTION

We will now try to design the acquisition of De Cecco as growth option. First of all we have to consider how an external acquirer shall enter in the Group: it should be a controlling interest or a minority interest? We think that the controlling interest case faces two main issues: the De Cecco's family willingness and the lack of possible acquirer. First of all, it is not possible for us to know the family's willingness on the future of the Group and if they are prompt to leave the Group's control. As we saw in the previous chapters, in family businesses, the control exercised by the families on their own businesses is not only driven by financial factors but also by emotional factors, therefore leave the control of a company is not an easy way to go through.

Secondly, if we look at the Pasta environment, we observe that there is a lack of possible acquiring companies. De Cecco is considered as a premium product in the pasta segment and has a strong and recognizable brand. In this sense we face a similar situation as the Bulgari's case: a family business, running a company whose main products are considered as the top products in that segment. In the Bulgari's case we found that LVMH was the main possible acquirer thank to both its strategy to diversify the business portfolio expanding in the jewellery segment and to its amount to resources available. If we compare this hypothesis with the De Cecco's competitive environment, we are expected to see that the possible acquirers would be the Group direct competitors who haven't a premium product in their business portfolios. Looking at the pasta market worldwide, we can see how all the De Cecco's main competitors already own a brand in the premium product segment: in the Barilla's portfolio the premium brand is represented by Voiello, while Ebro Foods owns Garofalo. So, we believe that those companies, despite their financial strengths, are not prompted to realize

have a controlling interest in De Cecco, because they will risk cannibalizing the revenues of their premium products.

Other possible Groups that could be interested in acquiring a majority stake in De Cecco could be multinational groups diversified in the food sector such as Nestlè or Unilever, who could use their huge worldwide brand portfolios to effectively exercise a strong bargain power against the retail segment and to decrease the De Cecco dependence to the top 5 retailers.
On the other hand, we believe that the risk for those multinationals is to weaken the De Cecco's brand strength: the pasta is typically perceived by the customers as a homemade product and associate the portrait of a multinational group to a very frugal product could worsen the De Cecco's brand in the customer's perception.
Therefore, we believe that the controlling interest couldn't be an ideal growth option for De Cecco.
The remaining option for De Cecco could be to sell a minority stake. Who would be the possible partner for this operation? Of course, not a direct competitor. In our opinion the best minority partner could be a private equity fund.

The main reason why a private equity fund could find interesting De Cecco is the following.
Typically, the Private Equity could be an efficient way to improve the international performances of the company, using its financial resources to support the growth, focusing on the financial ratios rather than the pure operational activity. Moreover, in this case, a private equity investor will find an easy exit strategy through the IPO process and gaining a return not through the operating management of the Group but increasing the performances and obtaining a return through the exit multiple.
If we would like to design the operation from a financial point of view, we can divide it in three steps:

1) The PE fund acquires a 25% stake in the company, and we assume the same EV/EBITDA ratio as the IPO case: we believe that the 9.7x multiple used above could be applied in this case as well. In fact, we hypotheses that the premium multiple that could have been given to De Cecco because of its market position is offset by the minority discount that should have been applied in case of acquisition. Therefore, the PE will enter with a 25% stake valued at €124M. This action will lead to a decrease in the debt value, increasing the equity value at a new ratio, from a D/V equal to 0.44 to a new D/V equal to 0.24.
2) The second step led us to assume that the PE should increase the Group EBITDA at least at the value that we found in the IPO case at €58M. For our analysis we will maintain this conservative hypothesis even if the growth possibility could be higher.

3) The PE exits through the IPO, offering its stake. The valuation of the stake should change compare to the IPO case. In this case we will increase the EV/EBITDA ratio used. In the previous section, we assumed that the 9.7x was given by the offsetting of two factors: the premium price and the IPO discount. Here, we will assume that the IPO discount effect would be eliminated thanks to the sponsorship of the PE. It is obvious for the investors that the presence of a private equity represents a guarantee for them. Therefore, we assume a new EV/EBITDA ratio of 12x. With this ratio the 25% share will be equal to €149M. If we assume this exit value for the private equity fund return will be equal to 20%.

Therefore, we believe that this kind of operation could be useful as growth option.

CONCLUSION

This analysis investigates if, and to what extent, the Bulgari's experience could have been used as a positive example of growth for a company. In order to answer this question, we decided to, firstly, analyse the Italian family business and their main characteristics. We found out that family firms are, on average, less efficient, less prompt to innovate, less oriented to international markets but less likely to leave markets compared to non-family firms. Those factors are commonly due to the concept that the company has in the family's minds: it is considered not only as an economic entity but as an emotional link with family members, an instrument through which exercise power and prestige in society. Therefore, every strategy that could bring risks is view with scepticism, such as the decision to invest in foreign countries in order to growth or to diversify the portfolio of products. We observed that the general trend for family business owners is to sacrifice value in order to maintain the control of the company.

Moreover, we observed the average financial structures of Italian companies, showing a D/E level higher than US and EU, in the pre-financial crisis period and even higher after the crisis. We also noticed that the debt composition was significantly unbalanced, mainly composed by short term debt rather than long debt, generally less adapt to sustain projects and investments, from a theoretical point of view. We concluded the first chapter showing the Private Equity funds and their ability to support the company growths, working on both financial structures and reputation.

In the second chapter we analysed the Bulgari case. The result we found from this analysis was that the acquisition of Bulgari by LVMH was a successful operation for all the players. First of all, LVMH strengthened its luxury portfolio, including a prestigious brand and filling the gap that it had in the jewellery and watches segments until the acquisition. Bulgari, as company, had the possibility of increasing its growth using the huge financial and strategical assets owned by LVHM. The Bulgari family did not realize an incredible profit by the selling, but also remained in charge of prestigious role in the new group. In this case, we observed how giving up control could generate a higher value not only for the shareholder, but also for other stakeholders, granting to Bulgari the possibility of efficiently compete in the global market.

The last chapter illustrates the growth possibility for De Cecco group. The Group is perceived by customers as the leading brand in the premium pasta product segment, moreover it has a good penetration worldwide. Anyway, the analysis of the main financial ratios shows a lack of financial resources and a higher amount of debt, especially short term, compared to the peers. These two elements, combined, prevent the company from realizing the investments required to compete in

foreign countries. Therefore, we suggested to carry out two different kind of strategies: the first one was to collect financial resources on the equity market through an IPO, but firstly realizing a cost restructuring process, and to destinate the resource collected to balance the Debt structure and to investments in products or foreign markets. The second strategy could be realized through a Private Equity fund acquisition, due to the lack of possible players willing to acquire De Cecco, that restructuring both debt and cost, and fostering on the revenue's growth, could realize an interesting return using the IPO as exit strategy.

On the whole, the analysis proposed in this thesis showed that the Bulgari's case is only partially applicable: from an owner perspective, it is applicable as giving up part of the control to increase the company value and to support growth strategies can be an efficient strategy for De Cecco. On the other hand, doubts arise when applicability is assessed through the lenses of the market: the idea of integrating De Cecco to a global group operating in its own sector, as Bulgari did with LVMH, is hardly realizable due to the lack of potential acquirers. This is because the potential candidates either already have a premium brand in their portfolios or because their acquisition would negatively affect the brand identity and damage the reputation as a result.

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SUMMARY

Competing in global markets leads to enormous pressure on company performances, therefore, in order to ensure their survival, companies have to realize efficient and solid strategies to efficiently compete with players acting in several markets, in terms of both segments and geographic area. Thus, companies have to be prepared to react to the market requirements even if this could lead to difficult choices, especially for owners, such as to give up control in order to increase the value of the company. The purpose of this paper is to explore whether is possible to use Bulgari as a model for other Italian companies. To go into this issue, we structured the narration in three main parts. It begins by discussing the situation of family businesses in Italy, then it continues going through the Bulgari’s case, sketching the story of the acquisition made by LVMH, and the narration ends proposing a growth strategy for De Cecco using the Bulgari’s experience as base scenario. The first chapter starts with a brief portrait of the Italian history, to investigate whether the economic development influenced the current Italian capitalism framework. The Italian industrial system is mainly composed by family firms: those account for 74.6% of the “Società di Persone” and for 64.9% among the “Società di Capitali”. The reason of this phenomenon, in our mind, could be find out in the Italian development. During the entire Middle Age and Renaissance, the Italian region was one of the wealthiest areas in the world. The origin of this wealthy lied in the capacity of the Italian states to be a link between cultures, offering brokering services (such as banking or transports) for Germany, France, England and the Eastern kingdoms, such as the Ottoman Empire. The Age of Discovery moved to Northern Europe the role of main global trade node and the difficulties of German State and Eastern powers led to a change in the range of products offered by the Italians, from services to agriculture. The agriculture occupied the largest portion of the Italian population until the ’50 when Italy opened itself to exportation and fulfilled the industrial gap with the first comer using the low salary force power coming from the rural areas. The particularity of the Italian Capitalism compared to the other capitalism was represented by Industrial districts. Those were artisanal firms located in small areas spread out on the overall Italian territory with high degrees of specialization in specific production chains. Industrial districts experienced a considerable growth after the ’60s with a downsizing of the Fordism in favour of the industrial districts. We can see a spread out of small firms in the whole territory occupying the areas previously characterized by large firms. During the ‘70s, stagflation, terrorism, energetic crisis and social instability caused a crisis for large enterprises especially those characterized by vertical concentration and by a great energy demand. The first reason for this difficulties, was given by the decrease of the investments due to social contrasts between workers and owners that led to a fall in the profit margin. The profit margins were maintained at an acceptable level with continuous depreciation of the “Lira”. The uprising of wages increased the labour cost and

together with the fall of productivity levels caused a rising in the cost of product per unit. The answer of the Italian system was to foster the productive specialization in smaller firms. Starting from the ’70s the Italian system was mainly composed of small firms. Those firms were strongly focused on traditional sectors marked by a low level of R&D and innovation. Nowadays most of the industrial framework is composed by family-owned firms, some of which by the second or the third-generation members and even those companies that were born as small family firms in an industrial sector, grew up becoming large family-owned enterprises.
After investigating the reasons behind the current Italian economic structure, we looked at the main characteristics of family firms and to their capacity in expanding abroad.
Family firms have two main objectives: the first, the long-term orientation of the business; the second, to keep a strong presence of the family in the company due to the common idea of several owners that look at the company as a heritage for the coming generations and therefore as a value to be preserved. The studies revealed that family firms are associated to a lower efficiency, a lower investment rate and a lower growth rate. Those negative effects are balanced by a lower probability of leaving the market. Moreover, families are less prompt to invest in risky opportunities and therefore, less likely to invest in innovation and reluctant in overshadowing the core business focusing on diversification because of an emotional attachment for the original business idea. The growth of a country is strongly correlated to the ability of its firms to attack and develop in foreign markets. One of the reasons for the current slow growth in Italy lies in the inability of its companies to expand abroad. The main reason for this performance may result in the industrial composition. Small size, family ownership and specialization in traditional sectors are the greatest constraints for market share growth. We analysed the issue under three point of views: the influence of family ownership in internationalization, how ownership structure influences performances and how bank support is important for developing abroad. With regards to the first factor, we divided the internationalization process in two decision, the first one whether to use equity or not and whether enter abroad cooperating with foreign actors. As we said the long-term orientation and the desire to keep a strong presence of the family in the company are main characteristics of family businesses thus while the first can strongly influence the timing of the investments, the desire to preserving the solid presence of the family can impact with the willingness to share the control with new partners. Considering the ownership structure, we observed that founders are more oriented to internationalize alone, without partners, and only through equity to maintain a strong influence in the strategies while younger generations are still equity oriented but opened to a cooperative entry mode. Bank structure can adequately support firms. In fact, a global bank can sustain the international growth of the clients thanks to advisory services on several issues, such as counterparty risk and legal aspects of the

process. In addition, it can offer support in foreign countries, offering aid through repo offices and international branches. Then, we decided to deal with the problem of succession. From an entrepreneurial point of view, we can define the succession as a process in which an incumbent owner, that could be from the family or outside the family and acquires the ownership of the business and deposits new resources in the firm to foster growth, innovation and new strategies.

We observed that market characteristics affect whether the family can decide to resign or to remain in charge. Family control in the company is affected by the degree of investor protection, by the maturity of financial markets and by the market on corporate control. In fact, in the UK family concentration tends to survive in those industries with a low influence of those three variables. Family control, in the UK, is higher whereas there's a low level of investments, a low intensity of M&A operations and a lack of external resources. On the other hand, those factors have no effect in family ownership for France, Germany and Italy. The last point discussed in the first chapter is on the financial structure of the Italian companies and whether private equity could efficiently support Italian company growths. Regarding the first point, we observed that, in 2006, the D/E ratio was on average at 38% in Italy, a value greater than Euro Area (36%) and US (32%), but lower than the 43% of the UK. Moreover, the crisis caused a great increase of debt exposure, in fact, if we consider the entire period 2002-2015, we can notice that the average leverage increased to 52%. However, even if the average leverage is like the European average, we can find significant variation across the different types of companies based on dimension and specialization degree. Small enterprises usually have a leverage mainly composed by short term debt, that is less adapt to finance long term projects, necessary for the firm growth. Looking at technological firms, the higher the technological development, the lower the level of debt. This is due to the higher volatility of the returns, the information asymmetry and the lack of collateral. Regarding the second point, Private Equity can be considered as an interesting way to improve the financial structure and the overall knowledge of the company. Private Equity operations seem to improve the internationalization processes and the partnership with foreign companies. Those results, with a sharp concentration of the role of investors only in financial and strategic themes and not on technical and operational themes can easily live with the typical entrepreneur personality that we observed before. Anyway, there's a strong attitude of investors to focus too much on financial ratios instead trying to increase the company capacity to create value.

In the second chapter we deal with the Bulgari acquisition by LVMH. We started analysing the Luxury market throughout its main segments and players. We noticed that the sector is dominated by large diversified groups, such as Kering, LVMH and Swatch but with LVMH overwhelming the rest of the competitors in terms of revenues. Then we tightened our view focusing on Bulgari and its

developing process from a small store founded by a Greek emigrant in 1884 until being one of the most capitalized listed company in the FTSE MIB index. However, the financial crisis strongly impacted the company, cutting down the profitability, requiring some restructuring process. Therefore, the company, in 2010, required many investments to recover the market position held in early 2000, when it was considered as the third luxury brand in the world. The company realized a good diversification process, even if the old jewellery core business still accounted for almost half of the revenues in 2010, with Watches, Perfumes and Accessories covering the 52% of the remaining revenues and marginal businesses as Hospitality and Royalties representing the 3% of the total revenues. The Company demonstrated also a good capacity to attack foreign countries, in fact Italy accounting for the 11% of 2010 revenues and growing market shares represented by the Far East with Japan (18.5%) and China (17.2%) playing the main role and Americas accounting for 13%. This strong exposure on those three markets made the company particularly sensible to foreign currencies and to exchange rate fluctuations. If we look at the key luxury sector in 2011 it was dominated by large conglomerates with global presence and diversified brand portfolios, acting a consolidation process to compete in a globalized market. Looking at the size and the brand composing the group we can observe how Italian companies failed to realize a national champion to compete in the market as LVMH, Swatch and PPR did. The reason of this failure lies in the inability of familiar entrepreneurs to merge together, giving up some power to create additional value. We continued our investigation, examining what could have been the best partners for Bulgari, identifying as possible acquirer LVMH, Richemont, Kering and Swatch. Analysing the pros and cons of each of them considering the brand portfolio, the balance sheet and the revenues breakdown in 2010 of each single group, we affirmed that LVMH could have been the best partner for Bulgari for several reasons. From a strategic point of view, looking at the revenue's composition of LVMH, jewellery and watches represented only the 5% of the Group's total revenues. Adding a brand like Bulgari, with a strong penetration in Jewellery, would allow LVMH to efficiently realize a diversification in the segment and to reduce the volatility in operating cycle. Moreover, the advantages are not only limited to the jewellery but also to the watches segment which could have been successfully developed using both the economies of scale of LVMH and the financial strengths to realize investments. The amount of the cash position offered a possibility, allowing LVMH to realize important operations without leverage. Richemont could have been a good solution in strategic terms because it would have allowed to add Bulgari in an already rich luxury brand portfolio, even if some doubts were related to the possible cannibalization, and creating by far the strongest competitive position in watches and jewellery segment (considering the case of company with Cartier and Bulgari together), but with the opportunity of doing this using the solid cash balance owned and not throughout debt. Kering

represented a weaker possibility, for the relatively too high size of Bulgari as well as the not so solid cash position, that wouldn't allow to realize an operation without leveraging. The positive points of this operation are represented by the possibility for PPR in attack the luxury segment, accelerating the transformation in a luxury brand, with two Italian flagships as Gucci and Bulgari. If we look at Swatch as partner, the operation could have been sustained by three reasons: the solid cash balance for the operation, the possibility to further strengthen the competitive position in watches and jewellery segments and the possibility of increase the presence in US and China. If we look the Groups from the seller's perspective, we can observe what the advantages and disadvantages of each potential partner would be, starting from LVMH the main advantage for Bulgari in being part of the group would have been to be, by far, the most precious brand in the watches and jewellery business, with the possible perspective for the Family to remain in charge to run the business unit. Moreover, Bulgari would have used the economies of scale of the sector leading group, with its strong distribution network and the possibility of realizing the investments required.

Richemont presented the advantages of being a core shareholder of the new Group formed by the combined entities. It also offers the possibility of maintaining full operating independence in the context of the *maison* business model and it allows to use the Richemont expertise and distribution network in the watch segment. On the other hand, the two different categories of shares at Richemont level could lead to problem in terms of voting rights with the shares held by the Rupert family which are not listed and a statutory provision to maintain the ratio between registered and bearer shares unchanged in case of right issue. Kering presented the advantage for Bulgari to become the second largest shareholder in the new Group and the possibility to be the main luxury brand in the group (with only Gucci that could fight over this situation). The disadvantages are the diversified business model with a strong exposure to the original core retail business and the high level of debt and leverage compared to the peers. Swatch could have been a good possibility considering the distribution channels and the focus of the company on directly owned retail distribution. Also, the Swatch strong expertise and the positioning in the watch segment would have been useful to leverage in the watches segment. However, some doubts rose for the two different categories of share that, as well as Richemont, could have led to discrepancies in terms of voting rights. Among all those possibilities, on 7 March 2011 LVMH concretely moved on making an offer to Bulgari's Family to acquire the 50.45% of the shares owned by them for €4.3Bn, with the idea for them to not be completely excluded by the new Group but remaining with the 3.5% of LVMH shares. From a Governance point of view Paolo and Nicola Bulgari kept their seat as Chairman and vice-chairman of Bulgari, while Francesco Trapani, the former CEO, have been appointed as Head of Watches and Jewellery and as member of the LVMH Executive Committee. The operation confirmed the idea that

giving up control to increase the value and the stability could be useful for company as well as the shareholders, as reported by the former Bulgari's CEO: "until the 30 June 2010 I was the CEO of Bulgari, a listed company with my family as main shareholder. Now, after the integration in LVMH we are relevant shareholder and I'm heading seven brands, with a substantial change from a personal and professional point of view. LVMH passed the crisis with stable revenues but lower profits, while its competitors were scared. We are on a dreadnaught that can handle the sea through a storm and this makes me feel quiet as shareholder too". Besides, if we would like to analyse the Bulgari's performances after the deal, we can see how "Bulgari obtained great results compared to the difficulties crossed by the sector. The entire Watches and Jewellery division of the LVMH group recorded a growth in revenues. Bulgari kept improving the market share. The 2016 has come after the extraordinary 2015. If we enlarge the horizon to the last three years, Bulgari growth 20% more than the competitors".

After we discussed on the acquisition made by LVMH, we tried to understand whether is possible for other Italian family firms to repeat the Bulgari case, sacrificing control for greater performances. Italian companies (especially family businesses) are not always equipped for fighting in global markets, they have strong brands but lack in financial resources and foreign market penetration, so we verified if investment banking products such as M&A or IPO could be considered as effective growth possibilities. We started the last chapter discussing on the food market and the, more specifically, on the pasta market. We individuated as good candidate for our study a family group located in Southern Italy: De Cecco. At 31.12.2019 the group performs its activities in producing and selling pasta, oil, rice, red and other alimentary products. The group operates in Italy and 120 foreign countries, realizing in the domestic market the 66% of the total revenues. De Cecco operates with a relatively good market share in the Italian market (7.5%), competing with larger multinational companies with a deeper diversification in multiple product lines and with greater financial resources. A strong risk associated to the company business model it's in the strong preponderance of the large retailers.

As at 31.12.2019 the 84% of the De Cecco's revenues in Italy were generated throughout the large retailers. The entire value was generated through 16 players, of whom the 75% of the total realized using by 5 players. However, De Cecco's high quality standards constitute a strength in the relationship with the retailers, mitigating the risks generated by the large dependence to them. Anyway, the Group base its solidity on the customer perception. In fact, thanks to its high quality, the Group is perceived as a "premium food" by the customers and this classification allow the Group to charge a "premium price" on its products, a higher price compared with the competitor's prices. We performed a financial analysis on the most recent data available and we found two main factors

that could affect the Group's growth: the lack of cash available and the too high level of debt compared to the profitability of the Group. In this sense, we believe that De Cecco, to deal with Barilla and its main competitors in the global market, needs more financial resources for two main purposes: diversify the production and expand the company in foreign countries. Those two growth drivers must be considered to decrease the volatility of the revenues differentiating the company in terms of product and market.

Pasta maker, generally, has a large dependence to the retailer's decisions, in fact, the competition between them is influenced by the capacity of a Group to buy space in the hypermarkets. The more the space, the higher the penetration of a company in the market. The space granted by the retailers to its customer is largely dependent by the different type of brand and products that a seller can offer to them. The more the brands owned by the group, the more the bargain power of that group. But the number of brands that a group can offer to the retailers depends on its product line diversification. The product diversification could be realized through acquisition of different brands or developing new product as possible solutions to improve a group bargain power. Therefore, we don't believe that the current De Cecco's profitability is prompt to compete in a globalized market.

The next step in our analysis was to inspect if there is a room for De Cecco to emulate the Bulgari's case and to fully develop its potential and brand reduce the shareholder control to increase the value generated by the company. The first possibility for De Cecco is to collect financial resources going public in the MTA Standard segment. For the enterprise value calculation, we used the multiple method. Using the metrics analysis realized by Bloomberg on the listed pasta market companies we observed that the average EV/EBITDA for those companies is equal to 9.7x. Since the Group is considered as the premium pasta product in the customer perspective and the scarcity of listed pasta maker, we decided to not apply the IPO discount on our valuation. In the De Cecco case the targeted EBITDA obtained is based on the 2019 value, but we increased the value working on the personnel cost: calculating the "cost of personnel/revenues" value between Barilla (we used Barilla because it should have implemented economies of scale due to its dimension) and De Cecco, we observed that De Cecco shows a ratio far better than Barilla's (0.09 vs 0.14 respectively). Anyway, the manager/workers ratio for De Cecco is higher than the one of Barilla (39% vs 41%). Therefore, by lowering the managers/workers of De Cecco using the Barilla's ratio as benchmark we found that De Cecco exceeds the benchmark by 27 managers. Adopting an exit policy for those resources, the Group could save €1.8M per year from the personnel cost offsetting the first year by the *una tantum* incentive non-recurrent cost for the resource exiting of €3.8M.

Acting this saving, the EBITDA rise to €55M. Adding to this new EBITDA the expected market growth rate for 2021, we expect an additional EBITDA growth to €58M.

If we apply the premium EV/EBITDA multiple of 9.7x calculated above, the equity value of De Cecco would be equal to €85M if the company offered the 25% of the Equity. Moreover, the NFP/EBITDA ratio, using the targeted EBITDA, would decrease to 3.81.
The main issue of this IPO operation could be that the NFP/EBITDA is still higher than the highest market benchmark, equal to 3.0. Therefore, we can decide to not use all the financial resources collected to invest in the future Group's growth, but to use a part of the cash to balance the short-term debt to be closer to the average value. Using an iterative substitution, we calculated that the amount of cash to be designated to the NFP repayment to have an NFP/EBITDA equal to 3 is €47M. Therefore, if the Group offered the 25% of the total Equity it will still have €38M for the investments and a relatively balanced NFP. Moreover, there's the option of increase the number of shares that could be offered to the market: if the Group increases the amount to 30% it will collect €101M and, assuming a part of them to the NFP, the total cash to be designated to the investments will be €55M.
The second hypothesis we designed was to use the acquisition as growth option. First, we considered how an external acquirer shall enter in the Group. We believe that the controlling interest case faces two main issues: the De Cecco's family willingness and the lack of possible acquirer. First, it is not possible for us to know the family's willingness on the future of the Group and if they are prompt to leave the Group's control. As we affirmed previously, in family businesses, the control exercised by the families on their own businesses is not only driven by financial factors but also by emotional factors, therefore leave the control of a company is not an easy way to go through. Secondly, if we look at the Pasta environment, we observe that there is a lack of possible acquiring companies. De Cecco is considered as a premium product in the pasta segment and has a strong and recognizable brand. In this sense we face a similar situation as the Bulgari's case: a family business, running a company whose main products are considered as the top products in that segment. In the Bulgari's case we found that LVMH was the main possible acquirer thank to both its strategy to diversify the business portfolio expanding in the jewellery segment and to its amount to resources available. If we compare this hypothesis with the De Cecco's competitive environment, we are expecting to see that the possible acquirers would be the Group direct competitors who haven't a premium product in their business portfolios. Looking at the pasta market worldwide, we can see how all the De Cecco's main competitors already own a brand in the premium product segment: in the Barilla's portfolio the premium brand is represented by Voiello, while Ebro Foods owns Garofalo. So, we believe that those companies, despite their financial strengths, are not prompted to realize have a controlling interest in De Cecco, because they will risk cannibalizing the revenues of their premium products. Other possible Groups that could be interested in acquiring a majority stake in De Cecco could be multinational groups diversified in the food sector such as Nestlè or Unilever, who could use their

huge worldwide brand portfolios to effectively exercise a strong bargain power against the retail segment and to decrease the De Cecco dependence to the top 5 retailers.
On the other hand, we believe that the risk for those multinationals is to weaken the De Cecco's brand strength: the pasta is typically perceived by the customers as a homemade product and associate the portrait of a multinational group to a very frugal product could worsen the De Cecco's brand in the customer's perception. Therefore, we believe that the controlling interest couldn't be an ideal growth option for De Cecco. The remaining option for De Cecco could be to sell a minority stake. In our opinion the best minority partner could be a private equity fund. Typically, the Private Equity could be an efficient way to improve the international performances of the company, using its financial resources to support the growth, focusing on the financial ratios rather than the pure operational activity. Moreover, in this case, a private equity investor will find an easy exit strategy through the IPO process and gaining a return not using the operating management of the Group but increasing the performances and obtaining a return through the exit multiple. If we would like to design the operation from a financial point of view, we can divide it in three steps: first, the PE fund acquires a 25% stake in the company, and we assume the same EV/EBITDA ratio as the IPO case: we believe that the 9.7x multiple used above could be applied in this case as well. In fact, we hypotheses that the premium product as multiple prime that could have been given to De Cecco because of its market position is offset by the minority discount that should have been applied in case of acquisition. Therefore, the PE will enter with a 25% stake valued at €124M. This action will lead to a decrease in the debt value, increasing the equity value at a new ratio, from a D/V equal to 0.44 to a new D/V equal to 0.24. The second step led us to assume that the PE should increase the Group EBITDA at least at the value that we found in the IPO case at €58M. For our analysis we will maintain this conservative hypothesis even if the growth possibility could be higher. The PE exits through the IPO, offering its stake. The valuation of the stake should change compare to the IPO case. In this case we will increase the EV/EBITDA ratio used. In the previous section, we assumed that the 9.7x was given by the offsetting of two factors: the premium price and the IPO discount. Here, we will assume that the IPO discount effect would be eliminated thanks to the sponsorship of the PE. It is obvious for the investors that the presence of a private equity represents a guarantee for them. Thus, we assume a new EV/EBITDA ratio of 12x. With this ratio the 25% share will be equal to €149M. If we assume this exit value for the private equity fund return will be equal to 20%. Therefore, we believe that this kind of operation could be useful as growing option.