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Analysis of Take-Private Transactions

The cases of Dell and Atlantia

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INTRODUCTION TO THESIS

The financial market environment evolves rapidly, and every change in the macroeconomic scenario has a deep impact on the dynamics characterizing its functioning. The operations carried out by the players moving in this “arena” are always adapted to seize new opportunities. Macroeconomic cycles have been running quicker during the past 20 years than those that financial operators were previously accustomed to. For a variety of reasons, economic cycles appear to be getting tighter, with more crises occurring in the new century than in the preceding 100 years. A more linked world, including in terms of finance, is to blame for the increased frequency of crises.

As investors of a different kind, private equity funds have always kept an eye on the shifting financial market trends and kept an eye out for lucrative chances. This has caused PEs, who were initially exclusively interested in businesses that were not publicly traded, to gradually broaden their emphasis over time and consider operations of other sorts, such as take-privates. This is due to the possibility to exploit those times in which financial markets do not reflect the real value of a company, and by acquiring and subsequently delisting it, PEs may manage to restructure it and sell it when the markets are at higher levels, making huge profits also thanks to the use of leverage. For this last characteristic, take-privates such as other kinds of acquisitions carried out by PEs are favored and peak when the monetary policies are expansionary and the credit market offers cheap debt, as it happened after the Covid-19 pandemic. In fact, 2020 and particularly 2021 have seen a booming activity of take-privates, due to a mix of volatile markets offering opportunities and the high availability of debt and funds for PEs. On the other hand, 2022 has seen a promising start, but the macroeconomic changes caused also by the start of the war between Russia and Ukraine twisted the conditions on which the take-private boom has been built. In this context, the paced inflation has caused a tightening of the monetary policies employed by the central banks, with the FED applying harsher measures with higher rate hikes than the ECB. As of April 2023, inflation in the eurozone has increased by 7%, while in the US this data is lower, and equal to 5%, also thanks to the previously named rate hikes. The impact of the high rates on P2Ps is certain, and it is yet to be seen how 2023 will develop in this sense, after a huge decrease in 2022.

Coming back to this thesis project, it aims at analyzing historical and recent trends in take-private transactions, comparing a sound and strong market such as the US to a “younger” and less developed market, the Italian one.

The first chapter will introduce take-privates and the motivations guiding PEs to acquire listed companies, but also the ones guiding companies to accept PEs' offers. In this chapter the past literature will be reviewed, and with that the ideas of the promoters and detractors of these transactions. Then, we are going to analyze the Italian and US regulatory environment and the main structures through which take-privates are carried out in the two countries, after having introduced what LBOs are.

In the second chapter, we are going to review the history and the figures of take-private transactions, up to the present day. We are going to focus on how take-privates were affected by the Covid-19 pandemic and by the huge twist that affected financial markets in 2022. Moreover, we are going to analyze more in depth the Italian buyout and take-private markets, analyzing the recent trends that are shifting the PE arena. To conclude this second chapter, we are going to see if the views of professionals coming from different backgrounds match with the recent trends and data, and how in their opinion take-privates will evolve to cope with this changing scenario. To have a broader and more precise point of view, we interviewed professionals with diverse backgrounds and seniorities, working either for IBs or for PE funds.

The third chapter aims at analyzing more in depth the differences between the US and Italian market, by comparing a small set of transactions carried out both in Italy and in the US from 2016 onward. The transactions carried out in Italy are the most significant take-privates for the years analyzed and display a trend of increasing deal values, but as we are going to see the US transactions we picked among the 10 biggest take-privates for each year, are not comparable in size with the Italian ones.

The fourth chapter is meant to see how the differences previously analyzed impact deals. At the beginning of this chapter, we are going to analyze the Atlantia buyout, carried out by the Benetton family with the help of Blackstone. This is by far the biggest Italian and European take-private ever, and for its size and importance is one of the few deals comparable with US deals. To have a comparison, we analyzed Dell's take-private, carried out by Michael Dell and Silver Lake partners. Both transactions can be defined as "MBOs", transactions in which the management or owner of the company buys out the company, usually with the help of financial investors such as PE funds.

To conclude, we will summarize the main findings, going through the main differences between the US and Italian markets and trying to define how take-privates will evolve in the near future.

CHAPTER 1: Take-Private transactions: an overview

1.1 What is a take-private: transaction and actors involved

Take-private transactions are transactions where publicly traded companies listed on one or more stock exchanges are acquired by different kinds of buyers, with the purpose of delisting the target after the closing of the deal.

There are two kinds of de-listings, voluntary de-listings happening for an explicit desire of the ownership or management, that choose to go private for strategical reasons or when the cost of being listed exceed the economic benefits, and involuntary delistings, not requested by the company but imposed by the stock exchanges and by the competent authorities for several reasons, such as the failure to meet minim free-float and other listing requirements or the violation of rules and regulations of the stock exchange. The delisting following the acquisition of a financial buyer can be included in the category of voluntary delistings.

Take-private transactions are often carried out through Leveraged buyouts (LBOs), transactions where a high quantity of debt is used, and the operations of the target company can be used as collateral. Buyouts are used in those transactions in which the acquirer aim at acquiring a controlling stake in the company, where leverage is used to allow for the acquisition of targets of a dimension higher than the one of the acquirers and to allow for a smaller equity contribution. It is important to understand that these transactions may encompass complex structures of investment vehicles, such as holdcos (holding companies organized to acquire an ownership stake in target companies) and propocos/opcos deals (operations where a subsidiary owns the revenues generating properties of an operating company rather than the main companies), and generally it is not the acquirer who is borrowing money, but the target company itself. For this reason, the acquirer seeks to improve the target's operations, and corporate governance to increase the stability of cash flows and guide their growth, thus adding another source of potential returns. In fact, especially in times of low interest rates, the goal of the acquirer might be to sell the company simply after having paid out a part or the entire debt used for the acquisition, even though the strategies to make profits available are several, like multiple expansion that consists in buying a companies at a lower multiple and then exiting with an higher multiple after having improved the company's operations. PE funds may also try to rationalize the target company and sell the company at the same multiple without paying out its debt, but with a higher EBITDA. Each strategy does not exclude the other and can also be implemented at the same time.

These kinds of transactions can be carried out by players of different nature and with different objectives:

- 1) When the transaction involves one or more private equity funds (private equity buyouts), both as lead investors and as minority investors to back the deal, it is called IBO (institutional buyout). PE funds usually exploit high levels of debt, which can be secured against the assets of the target company. PE funds aim at paying interest and principal payments through the cash flows coming from the business, and for this reason, in these transactions, usually companies with stable cash flows are targeted. However, leverage is a double-edged sword, since it amplifies the results, both when they are positive, increasing PE returns, but also in the opposite case, increasing the repayment risk for institutional investors. As we are going to analyze more in-depth later, the structure of these kinds of acquisitions by PE firms changes depending on macroeconomic factors such as interest rate levels and stock market performance.

- 2) When companies are acquired and taken private by their management teams, we have management buyouts (MBOs). Usually, in this kind of transaction such as PE backed buyouts, a large amount of debt is employed, with the difference that management buyouts are undertaken by insiders. It could also be the case that management cooperates with PE funds or with other financial institutions in carrying out the buyout, such as in the case of the privatization of Dell in 2013, carried out by Michael Dell, founder, chairman and CEO of the company, with the cooperation of Silver Lake Partners¹.

- 3) When the management team that wants to acquire the company is external, the transaction is called management buy-in (MBI). MBIs are carried out when the external management team deems that the incumbent management is not exploiting the full potential of the target, and for this reason are usually hostile transactions, as opposed to management buyout². BIMBOS, buy-in management buy-out, are transactions where the bidding group is composed of both internal and external managers.

¹ Gupta et al., "Dell to go private in landmark \$24.4 billion deal", Reuters, 2013

² Wright et al., "Management Buy-Outs in the short and long term", Journal of Business Finance & Accounting, June 1995

- 4) It could also be the case that the LBO is carried out by a single investor backed by different lenders, as in the \$44bn acquisition of Twitter by Elon Musk, where the billionaire obtained a total of \$46.5bn in financing from multiple investors to complete the acquisition, to cover the acquisition price and the transaction costs³.

- 5) Industrials players, such as strategic buyers, might have an interest in acquiring a company listed on the stock exchange, to exploit synergies or to integrate their business. This is the case of Salesforce acquisition of Slack Technologies⁴.

For this analysis, we are going to focus on take-private transactions in which financial investors, particularly PE funds, are involved. In recent years, PE involvement in public-to-private transactions has increased considerably, due to both the record amount of dry powder, capital committed but still unused, as well as the increased volatility and performances of financial markets. The impact of the acquisition of private equity funds has been extensively analyzed in the literature, and it is not as simple as supporters or detractors make it. For instance, according to Jansen⁵, PE-backed buyouts increase the target company's efficiency and its capabilities to create value, thanks to the concentration of ownership, the high level of leverage in their capital structure and the fiscal advantages that leverage in LBOs gives to companies, due to the tax deductibility of interests. Jansen's vision of debt is based on the thoughts that high levels of debt might force managers not to waste the FCFs on useless projects with negative returns.

³ Jin et al., "Explainer: How Elon Musk funded the \$44 billion Twitter deal", Reuters, 2022

⁴ Source: <https://slack.com/intl/it-it/blog/news/salesforce-completes-acquisition-of-slack>

⁵ Jansen, "Eclipse of the Public Corporation", Harvard Business Review, 1989

According to Jansen debt can be seen as a substitute for dividends, and by issuing debt to finance the acquisition of stock, companies motivate managers to pay out the produced cash flows in a more effective way. This is due to the contractual relationship obliging them to pay out debt, which is not otherwise present when having to pay or increase dividends to shareholders or stock repurchases. Moreover, in Jensen's view, buyout funds can combine a higher concentration of ownership, as opposed to public companies' shareholder dispersion, and an efficient organization with the capability of reducing target companies' costs. Being deeply involved in the company, PEs rely heavily on the performance for managers' compensation, aligning the managers' interests to those of PE funds, and employ active governance over their portfolio companies, due to the stake of equity invested. In addition, by taking companies private the costs arising from being listed on the stock market are eliminated. For these reasons, Jensen viewed private equity as a superior form of ownership related to the "traditional" quoted and dispersed ownership structure in the US. Moreover, according to Davis et al.⁶, in PE buyouts of public companies' better productivity is achieved, thanks to costs and workforce rationalization. For example, in 2005 Hertz motor company was acquired by a consortium of private equity investors, such as Clayton, Dubilier & Rice, The Carlyle Group, and Merrill Lynch Global Private Equity⁷ and delisted from the NYSE and listed again in November 2006, and after a reorganization that consisted in reducing overhead expenses, rationalization of its rental facilities and changes in the management structure, leading the workforce to shrink by 3.5% and revenues to grow by more than 25% before selling their last stake in the company, the consortium was able to increase Hertz's productivity as signaled by the increase in real revenues per worker, that rose by 30%.

On the other hand, according to take-private detractors, it is not always true that going-private transactions create value for stakeholders. They see the same factors proposed by Jansen as fuel for value creation in the opposite way, as something harmful to the acquired companies and their workforce, capable of increasing the sources of systematic risk. In fact, in critics' opinion, the principal sources of wealth gains in take-private transactions, are the tax advantages and the possibility of expropriation of non-equity stakeholders. An example of an unsuccessful deal concerns Energy Future Holdings Corporation, acquired for \$45bn in 2007 by KKR, Goldman Sachs, and TTPG Capital Partners. The company started to

⁶ Davis et al., "The economic effects of private equity buyouts", Jena Economic Research Papers, No. 2021-013, Friedrich Schiller University Jena, Faculty of Economics and Business Administration, 2021

⁷ Hertz 2006 Annual Report
Source: https://images.hertz.com/pdfs/HTZ_2006_annual_report.pdf

struggle due to the high debt loaded on its balance sheet and for the adverse movement in gas prices, that started decreasing, causing further financial problems for the company. After years of financial struggles, the company filed for Chapter 11 bankruptcy protection in 2014⁸.

Moreover, according to previous research, Public-to-Private transactions may involve greater risks compared to other types of buyouts and entail a higher bankruptcy risk⁹. In addition, always according to Davis et al., it has been estimated that Public-to-Private transactions have a deep impact on some important factors, such as employment which is assessed to fall by 13%, while it rises by 13% in transactions where the target firm was previously under private ownership. So, considering all the stakeholders, LBO transactions, particularly P2Ps, have a negative effect on employment, due to the rationalization that private equity funds impose to reach a satisfying costs reduction and pay off the debt subscribed to finance these transactions.

⁸ Summerfield, "Lights out at Energy Future Holdings", *Financier Worldwide Magazine*, 2014

⁹ Davis et al., "The economic effects of private equity buyouts", *Jena Economic Research Papers*, No. 2021-013, Friedrich Schiller University Jena, Faculty of Economics and Business Administration, 2021

1.1.1 Motivations guiding take-private transactions

After having analyzed the previous bibliography and the main actors involved in public to private (P2P) transactions, we are going to analyze the main reason behind them, both from the standpoint of private equity funds and the companies being delisted. P2P transactions tend to happen in cycles and are countercyclical since they tend to have peaks when markets are lower. When the market performance is down, owners might want to sell their company if they deem it to be undervalued. A clear example of this trend is given by the increasing number of companies listed between 2019 and 2021 that suffered high discounts on stock markets. According to Dealogic data, 76% of those companies that raised at least \$100m traded at a price lower than their IPO price, with a median return equal to -44%¹⁰. A company's underperformance is not the only reason behind take-private transactions, since companies may opt to go private to focus on their long-term strategy, thus avoiding the need to meet analysts' expectations each quarter, emphasizing the importance of long-term results rather than short-term profits. The pressure imposed on public companies is high, such as the disclosure and compliance obligations, causing high costs for listed companies that must comply with the rules and requirements of the exchanges they are listed on. These costs, according to some previous studies, are higher in Europe than in the US, especially for smaller companies, most of the costs being independent of companies' size¹¹. The costs arising from the requirements of being listed are several, such as the need to publish financial statements quarterly and the necessity to certify them by hiring external auditors, and other fulfillments specific to the countries of listing. For instance, Italian companies must publish every year a non-financial report regarding sustainability. Controlling shareholders might also want to eliminate the presence of minority shareholders, which might hinder controlling shareholders by challenging them and might prefer to buy them out to reduce the risk of litigation¹². Another reason lies certainly in the tax benefits arising from LBOs, the typical structure used by PE funds to take companies private. Indeed, a leveraged structure allows companies to deduct the interest paid as an expense differently from dividend payments, therefore creating an interest tax shield.

¹⁰ Dealogic data
Source: <https://dealogic.com/>

¹¹ Lapa, "Why do Public Listed Firms Go Private in Europe?", 2020.

¹² Heisner, "Going Private Transactions: Structuring and Planning", Baker McKenzie LLP, 2022

The reasons for going private thus are several and can be divided into categories, firm-specific and macroeconomic. Particularly in recent years, macroeconomic reasons are driving the growth in take-private transactions, with listed companies wanting to avoid the volatility affecting financial markets. For what concerns Private Equity, they tend to pick those opportunities offered by financial markets' volatility, enjoying and exploiting price downswings. Having to compete with industrial players, and due to the possibility given to shareholders not to adhere to the offer until a certain acceptance threshold is reached, private equity must usually pay a premium over the stock price at the moment of the offer. According to Loughran and Ritter¹³ and Pattitoni et al¹⁴, both PE funds and companies might take advantage of the so-called "*Window of opportunity*", PE by buying those companies undervalued by the markets and taking them private, to sell them when better market conditions allow for a higher valuation, while private companies might go for an IPO to exploit high multiples and high valuations in periods of strong market performance. Where PE investors see an opportunity in public markets' instability, companies might see a threat.

¹³ Loughran et al., "The New Issues Puzzle", The Journal of Finance, 1995

¹⁴ Pattitoni et al., "'Hit and Run" and "Revolving Doors": evidence from the Italian stock market", Journal of Management & Governance, 2015

1.2 International Regulation and Legal Framework

In this paragraph, we are going to analyze the legal frameworks of those countries of major interest for our analysis, Italy and the US, the countries in which the acquisitions of the two case studies included in our dissertation were completed.

The Italian framework is linked with the European one, and of great importance is the European Directive 2004/25/EC of the European Parliament and Council, establishing the measures to coordinate the rules and laws regarding takeover offers for the regulated market of the member states¹⁵. This measure is not meant to provide any rules to be followed strictly but aims at providing member states guidelines to synchronize normative codes with each other, to assist investors, companies, and intermediaries operating on European financial markets, and at creating a clear and transparent legal framework for European countries. Each country can set its thresholds for the obligation to launch mandatory tender offers to obtain full control of the company. For most of the EU's states the threshold for the mandatory tender offer is equal to 30% of voting rights, but the directive states that each investor acquiring a position guaranteeing him control of the company must launch a mandatory tender offer. The presence of a threshold for a mandatory tender offer is one of the differences between the US and European countries. This directive aims at safeguarding the rights of minority shareholders, particularly by guaranteeing them the same conditions as shareholders with higher stakes. Each state must also determine the competent authority to supervise the aspects of takeover offers governed by the directive. Another important aspect set out by the directive concerns the neutrality of the board of directors, which must publish a document with a motivated opinion on the terms of the offer. The board, after having informed the company's shareholders, can only look for alternative offers (white knights), and wait for the general shareholders meeting to vote on the offer, without applying any defensive measure. The board neutrality ceases if and only if the shareholders' meeting votes in favor of any defensive measure. According to article 11 of the directive, every agreement reached before the takeover offer between existing shareholders or between shareholders and the company becomes null. This article applies for example to agreements relating to voting rights, since every restriction to voting rights present in the company's statute is void for the general meeting voting on the acquisitions and on possible defensive measures, and multiple voting shares bestow only one vote in the same meetings. Moreover, with Regulation (EU) B 2019/452 of the European Parliament and of the Council¹⁶, Europe wanted to establish a common scheme for the screening of Foreign Direct

¹⁵ Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids
Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32004L0025>

¹⁶ Regulation (EU) B 2019/452 of the European Parliament and of the Council

Investments, that can be seen as the basis for the Golden Power Rule. The Italian regulation for the mandatory tender offer is based on the Legislative Decree 24/1998, the so-called Italian Financial Act. This act was amended and adapted to changes in the markets over the years. For what concerns the mandatory tender offer, the Italian takeover rules apply for the acquisition of securities granting voting rights regarding specific issues in the general meeting of shareholders. In the Italian jurisdiction, the mandatory tender offer cannot be subject to any condition precedent or subsequent. For what concerns the relevant thresholds, Art. 106 par.1 of the Italian securities act (TUF)¹⁷ sets at 30% of the voting rights the threshold to launch a mandatory tender offer for the totality of the securities. The threshold is reduced to 25% for companies not qualifying as Small or medium-sized enterprises and where anyone gets a participation higher than 25% if no other shareholder holds a higher participation. In Italy, the threshold can also be exceeded due to an increase in the voting rights of loyalty shares, since the mandatory tender offer is justified by the change of corporate control, and thus must not be promoted if the thresholds are triggered but another shareholder retains the control of the company, according to Art. 49 of the Consob Regulation on Issuers¹⁸. Moreover, according to article 109 of the Italian Securities Act, a tender offer must be launched also in those cases where the threshold is exceeded by two or more investors acting in concert¹⁹. When a mandatory takeover offer is launched, the bidder has the right to squeeze-out the remaining shareholders if he comes to hold at least 95% of the voting securities of the target²⁰. The offer can be presented with consideration in cash or kind, or a combination of the two. The Italian regulation sets the minimum price to be paid in a takeover offer at the highest price paid by the acquirer for the same security of the target during the 12-months before the disclosure of the tender offer, to protect the interests of minority shareholders. If there is no previous acquisition, the price must be equal to or higher than the weighted average of the trading price of the listed company in the previous 12 months. Differently, if the tender offer is voluntary, the price can be freely chosen by the bidder. Before launching the mandatory takeover offer, the bidder must ensure its capability of paying the overall consideration in the case the offer is fully accepted and is required to provide Consob with all the documents proving the ability to pay,

¹⁷ Italian Securities Act (TUF), Art. 106 par. 1

¹⁸ Consob regulation on Issuers, Art. 49 par. 1

¹⁹ Italian Securities Act (TUF), Art. 109 par. 1

²⁰ Italian Securities Act (TUF), Art. 108 par. 1

describing the means of payment and the characteristics of the funding obtained. After having reviewed the offer documents, Consob may approve or not the document. Then the approved document is sent to the target firm, which must inform its employees. Once the acceptance period is closed, the results of the tender offer are published. The mandatory takeover offer is always unconditional²¹, while the voluntary takeover offer may depend on the achievement of such as minimum acceptance levels and covenants of other nature²². In addition, the bidder for a voluntary tender offer must notify its decision to launch an offer to Consob, by submitting the initial notice, which must also be disclosed to the target and the public. Besides, the acquirer must present an offering document to Consob within 20 days from the initial notice filing. If the acquirer fails to launch the takeover bid, the bidder and any person acting in concert shares are subject to statutory suspension of the voting rights, and the shares exceeding the threshold triggering the voting rights might be disposed of within 12 months. Moreover, administrative fines may be imposed, from a minimum of €25.000 to the total amount that the bidder would have paid if the tender offer could have been launched. Another important piece of legislation in the context of take-private transactions is the Golden Power rule. Particularly during the Covid-19 pandemic, governments have increased the use of foreign investment control actions to assure the protection of national security and to protect domestic companies of strategic importance from buyouts. The first regulation governing the special powers granted to the Italian government is the Law Decree N. 21 of 2012²³. This decree presents the regulation of the Golden Power, by defining the circumstances and methods of exercise by the Italian Government. The Italian government is not required to hold any shareholdings in those companies operating in the sectors deemed strategic²⁴. The companies with a stronger exposure to the golden power rule are those operating in the sectors of national security and defence, and companies holding strategic assets for the energy sector, transportation, and communications, according to Article two of the law decree²⁵.

²¹ Italian Securities Act (TUF), Art. 106 par. 1

²² Italian Securities Act (TUF), Art. 102 par. 1

²³ Law Decree N. 21 of 2012

²⁴ Sacco Ginevri, "Commentaries and Cases on Italian Business Law", 2021

²⁵ Law Decree N.21 2012 Art. 2

The events triggering the application of the Golden Power are several, and include any resolution regarding mergers or de-mergers, transfer of the business and registered office abroad among others, and any acquisition of shareholdings in strategic companies according to the first article of the decree. The government may impose a veto on the above-mentioned resolutions and has the power to forbid any acquisition of important shareholdings carried out by any subject other than the Italian state or any Italian public entity if the acquisitions may hinder the interests of national defence and security. Similar powers are granted for acquisitions or resolutions adopted in the energy, transport, and communications sectors. Moreover, the government may also impose conditions on these acquisitions. As already mentioned, the Covid-19 outbreak and its “bearish” effects on financial markets caused the need to strengthen the Golden power regulation. Several Changes have been enacted after the Covid pandemic to adapt the Golden power rule to changing macro and financial scenarios, such as the Law Decree N. 23 of April 2020, the Decree of the Presidency of the Council of Ministers N.179 of December 2020 and the most recent changes of September 2022.

Differently from European directives and Italian regulation, US regulation does not provide any obligation to launch a tender offer after reaching pre-determined thresholds of voting rights. Just in three states, Maine, South Dakota, and Pennsylvania, there is the so-called control share cash-out rule, according to which minority shareholders must be notified if a bidder reaches a percentage of voting rights and may ask to be bought out. Notwithstanding this, the acquisition of specific percentages of voting rights (5%) can cause disclosure obligations²⁶. In addition, under the laws of some states such as Delaware, the acquirer may merge with the target without the need to go through the vote of the target’s shareholders if he comes to hold a percentage of voting rights higher than 90%. For what concerns the offer price, US federal securities laws do not provide guidelines on the form and consideration to be paid in takeover offers, except for squeeze-out mergers after the acceptance of the tender offer, for which the consideration to be paid must be equal to the highest value paid during the tender offer. Moreover, according to SEC Rule 14d-10, there should be equal treatment for shareholders in a tender offer, meaning that the consideration paid to any shareholders must be equal to the highest consideration paid to other security holders owning the same shares²⁷.

²⁶ Baker McKenzie, “A global Guide to Take-Private Transactions”, 2020

²⁷ Code of Federal Regulation, 14d-10

Even though US federal securities law and state corporate laws do not provide any express requirement regarding the availability of financing, it is fraudulent to announce the launch of a tender offer if there is not a reasonable belief that he will have the means to pay for the securities he is willing to purchase²⁸. Moreover, the SEC regulations do not require any financial information for buyers in all cash transactions when the offer is not subject to financing²⁹. For what concerns shares conditionality, US business law does not set any precise indication for an offer to become unconditional, while in friendly offers the conditions can be agreed upon between the parties. On the other hand, a difference with the Italian legislation stands in the fact that in hostile takeovers conditions can be set and are determined by the acquirer. In the case some conditions are set, they may relate for example to the number of shares, the availability or completion of financing, the absence of legislative impediments and so on³⁰. For what concerns the announcement of the offer, any announcement before the formal commencement of the offer is permitted, if they are filed with the Securities and Exchange Commission, according to SEC rules 165³¹, even though they must comply with some informational limitations, such as on the means of payments, and must be drafted following a cautionary language in advising the shareholders when and how to tender their shares.

Moreover, any acquirer willing to acquire the remaining outstanding shares of a company in a transaction that would cause the delisting of the target must follow the SEC Rule 13e-3, also known as the “going-private rule”³². This rule requires the acquirer to provide additional disclosure regarding the fairness of the transaction and the basis justifying his belief and aims at providing a higher level of transparency. In transactions where article 13e-3 applies, the target and each affiliate must file a document called Schedule 13e-3 in addition to the proxy statement and tender offer documents required. The main items requiring disclosure included in the document are the purpose and reason for the going private transactions, the alternatives considered, the fairness of the transaction, and the fairness opinion by the board and the procedures used to reach its conclusions.

²⁸ Baker McKenzie, “A global Guide to Take-Private Transactions”, 2020

²⁹ Source: <https://www.sec.gov/about/laws/secrulesregs>

³⁰ Baker McKenzie, “A global Guide to Take-Private Transactions”, 2020

³¹ SEC Rule 165

³² Securities and Exchange Act, SEC Rule 13e-3

Additionally, in the US, the different transaction structures in take-privates can be subject to different filing and disclosure requirements.

Also in the US legal framework, something similar to the golden power rule can be found. In fact, the Committee on Foreign Investment in the United States may review, in a voluntary process some categories of transactions:

- 1) Transactions that could result in control of a US company from a foreign investor
- 2) Real estate transactions in certain specific and sensitive locations
- 3) Non-passive investments in US companies involved in critical technologies and infrastructures or treating sensitive data

Even though its action is not mandatory, there are two categories of mandatory filing requirements, such as the investments by foreign investors in US businesses involved in critical technologies, and investments by foreign investors partially owned by foreign governments in critical businesses³³.

³³ Committee on Foreign Investment in the United States

Source: <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>

1.2.1 Transaction structure

Typical transaction structures of take-privates differ from country to country and depend also on the priorities of the acquiring entity.

For what concerns Italy, even though Italian public tender offers may be carried out in several ways, such as an offer for cash (also known as OPA), stock swap (OPS) or a combination of stock and cash (OPAS), the structures used in Public to private transactions are two, the Mandatory Tender Offer (MTO) and the Voluntary Tender Offer (VTO)³⁴.

The MTO, as ruled by Italian Laws, is triggered when a buyer purchases a stake higher than 25% (30% for small and medium enterprises, even though they might vary according to the article of association of the company) or reaches the ability to elect or remove directors during the shareholders meeting, also called material interest, either on its own or acting in concert with other parties. The price of the offer is not freely decided by the acquirer and cannot be lower than the highest price paid by him and the parties acting in concert for securities of the same type in the twelve months preceding the offer announcement, and cannot be subject to conditions, to protect the interest of minority shareholders³⁵. In fact, the offer must be made for all the shares not owned by the bidder. The acquirer usually drafts a Sale and Purchase Agreement with the controlling shareholders of the target company to acquire the so-called “material interest”, which can be subject to conditions precedents, but when the material interest is reached, and the mandatory tender offer must be launched, no conditions can be imposed by the acquirer. Moreover, if after the announcement of the offer or in the six months following the MTO the acquirer buys securities at a higher price or also instruments, such as long calls with the same securities as underlying and a strike price higher than the previous offer, according to the best price rule the price must be increased. Once the offer is launched, the acceptance period lasts between 15 and 25 days but may be reopened following specific circumstances³⁶.

With regards to VTO, these bids are launched by the acquirer and by persons acting in concert with him for all the shares or for a stake not triggering the mandatory tender offer. This offer can be subject to conditions precedents, such as the minimum acceptance threshold, and the price is determined by the bidder, but cannot be subject to any condition depending only on the bidder’s discretion. As for the MTO, the best price rule applies,

³⁴ White & Case LLP, “Public to Private Transactions in Italy”, 2022

³⁵ Clifford Chance, “A guide to Takeovers in Italy”, 2012

³⁶ Italian Securities Act (TUF), Art. 106 par

meaning that the same price must be paid to holders of the same securities. For voluntary offers, the acceptance period usually lasts between 15 and 40 trading days, and also in this case can be reopened. For what concerns the financing of these operations, usually carried out by way of an LBO, there must always be certainty about the presence of the funds, either with an already closed financing contract or with an arrangement to ensure that he has money to close the deal since the bidder must have the means to pay if his bid is accepted before notifying the bid to Consob and to release the announcement³⁷. In fact, the bidder must either deposit a cash sum or quickly disposable securities equal to the maximum value the buyer could pay, in case of a 100% acceptance rate, or file with Consob a cash confirmation letter from a financial institution confirming that the acquirer disposes of the necessary resources to cover for the full offer, that is conditional only upon the guarantee of a Nulla Osta granted by Consob. When the bank signs the cash confirmation, the bidder may be required to guarantee collateral for the value of the funds pledged. Before the launch of the tender offer, inside information must be treated as confidential, and the acquirer must ensure this by establishing strict internal procedures to handle them. Besides, the due diligence process in take-privates starts with the review of public documents. For what concerns VTO, typically there is no access to target's private documents, while in MTO the access granted in the negotiation with majority shareholders is usually limited, but the scope of access depends on Target's will and discretion, even though it is usually more limited in P2P than in other M&A deals carried out by private equity funds. After having completed the transactions and depending on the results achieved, the delisting can happen in two ways:

- 1) If the acquirer reaches a stake between 66.6% and 90% the delisting happens via a merger of the target company into a private company built for the purpose of delisting the target, also called BidCo. The merger needs to be approved by an extraordinary shareholders' meeting of the target company, after being approved by the related parties' committee and the Board of Directors. The support of 66.6% of the share capital present at the meeting is required³⁸. Shareholders who did not vote in favor of the resolution have the right to be liquidated by the company (withdrawal right), and the liquidation price is the weighted average of the closing price during the 6 months preceding the shareholders' meeting. In some cases, delisting mergers are subject to conditions precedents, such as a maximum number of withdrawals. This process

³⁷ White & Case LLP, "Public to Private Transactions in Italy", 2022

³⁸ Italian Securities Act, Art. 133

takes approximately 3 months for the closing of the tender offer and 3 or 4 months for the delisting merger.

- 2) If the acquirer exceeds certain pre-determined thresholds, stake the delisting happens by law, either through sell-out or through squeeze-out. The Sell-out right is the right of the remaining shareholders to sell their shares to the acquirer if he exceeds more than 90% of the shares, and in this case, the delisting will happen from the first trading day available after the last payment day, unless the bidder decides to restore the minimum free float³⁹. The squeeze-out is the right of the buyer to buy out remaining shareholders if the acquirer reaches a stake higher than 95%, and in this case, shares will be delisted as soon as the squeeze-out is exercised⁴⁰.

After having finalized the delisting, private equity funds can implement the preferred strategy. Usually, in LBOs the financing is obtained at the level of the acquisition vehicle, incorporated as a separate legal entity, and is passed on to the acquired company after the merger. Financial sponsors grant both the equity investments and additional shareholders loans, that need to be added to the bank loans and private credit already obtained. The debt obtained is usually secured on the target's assets. To avoid shareholder dilution, in take-private transactions the double newco structure is common, with two newly incorporated companies, one acquiring the target owned completely by the other newco, being the one that subscribes debt before the merger⁴¹. Coming to transaction structure in the US, the acquisition structures used are usually two.

- 1) One-Step Merger: in a one-step merger the bidder or one of its subsidiaries, which can also be a newco, merges with the target in a long-form merger, after having obtained the stockholder's simple majority in a shareholders' meeting. As of 2021, this was the most common structure used in take-privates⁴². The timeline of the transactions depends on the complexity of the regulation of the state the target company is incorporated in, but it usually lasts 2 or 3 months from the announcement date.

³⁹ Italian Securities Act (TUF), Art. 108 par. 1

⁴⁰ Italian Securities Act (TUF), Art. 111 par. 1

⁴¹ Clifford Chance, "A guide to Takeovers in Italy", 2012

⁴² White & Case LLP, "Public to Private Deals in the US", 2022

2) Two-Step Merger: A two-step merger, as suggested by the name, does not consist of a direct merger. In the first step, the buyer or a subsidiary launches a tender offer for the shares of the target company, conditional on reaching the majority of outstanding shares. Once the majority is reached, the remaining shares are acquired through a back-end merger, which needs to be authorized by the majority of the stockholders⁴³ and will deliver the total ownership of the target. In this case, if the buyer reaches a stake between 85% and 90% of the target's stock at the end of the tender offer, he may acquire the remaining stock employing a short-term merger, thus avoiding stockholders' vote. In Delaware, the only requirement to squeeze-out the remaining shareholders through a short-form merger is the simple majority of the outstanding shares. Furthermore, for those jurisdictions where the short-form merger threshold is higher, the bidder may require the target to issue top-up options, that will allow the issuance of new shares exclusively to the acquirer, thus diluting remaining shareholders and allowing the bidder to reach the short-form merger thresholds⁴⁴. In addition, the acquirer can directly negotiate a merger agreement with the target's owners both before launching the offer and after having done so. If no agreement is reached before, then the buyer might launch a hostile tender offer without any negotiation. The US framework allows both private negotiations and open market purchases, until the short-form merger threshold is reached, but usually in going private transactions the buyer will need to negotiate with the company's board of directors. In theory two-step mergers are faster than one-steps and could be closed after 40 days from the announcement, but, could take much longer due to the presence of competing offers, thus rendering tender offers undesirable for some investors. Other transactions structures used in take-privates in the US include the following:

- 1) Reverse Stock Split: The target files a modification to its charter documents to carry out a reverse stock split. In these transactions, the target's shares are combined following a pre-determined ratio into a fewer number of shares, with the aim of rendering the largest shareholder the only shareholder in the company. Residual shares are converted into the right to receive cash. This transaction will reduce the number of shareholders thus making it easier to conclude the going private of the company.

⁴³ Baker McKenzie LLP, "Going Private Transactions: Structuring and Planning", 2022

⁴⁴ Source: [https://content.next.westlaw.com/practical-law/document/Ic8213f86a7cf11e9adfea82903531a62/Top-Up-Option?viewType=FullText&transitionType=Default&contextData=\(sc.Default\)&firstPage=true](https://content.next.westlaw.com/practical-law/document/Ic8213f86a7cf11e9adfea82903531a62/Top-Up-Option?viewType=FullText&transitionType=Default&contextData=(sc.Default)&firstPage=true)

- 2) Asset Sale: In an Asset sale the buyer directly acquires the target's assets, to liquidate and dissolve the target company.

- 3) Issuer Self-Tender: The target itself launches a tender offer to its shareholders other than the acquirer, to make the process faster.

With regards to PE funds, one-step and two-step mergers are the most common structures employed. For what concerns financing, the US does not have the same legal requirements present in Europe and Italy. In the US a buyer must demonstrate when signing an agreement that he will have the funds needed to conclude the acquisition. Financial Sponsors that contribute with an equity stake in the acquisition, must also present a binding commitment letter for the part of the purchase price not covered by the equity stake, including the loan agreement details negotiated between signing and closing. The commitment letters should ensure that the debt will be guaranteed at the closing of the deal. The SEC requires the target company to file a proxy statement containing information on the deal, such as the terms and parties' negotiation before the shareholders' vote.

Chapter 2: Historical Trends and Recent Developments in P2Ps

2.1 Brief history of P2P and market overview

Even though it is not simple to identify the starting point in such a phenomenon, the volume of take-private transactions has followed the big waves of M&A, its surges and following falls, and the development and growth of the alternative investments market, such as Private Equity. Of particular importance are the LBO boom in the 1980s, with its peak in the last part of the decade, which was characterized by larger target companies, and centered especially in the US Market and the 1990s wave, that for the first time was of a more dispersed geographic nature, spreading also in continental Europe, with stronger activity in UK's market⁴⁵. The high volume of companies that wanted to exit the public markets, is also caused by the boom of IPOs in the 1960s, where high stock prices attracted private companies to go public⁴⁶. At that moment, low-quality companies could also go public easily, until 1972-1974 stock prices started decreasing, forcing some of the companies that were listed in the previous years to go back private. In that Period, the LBOs were highly exploited by KKR, and other investment funds such as Thomas Lee Partners, who tried to benefit from the decreasing prices in the stock markets to buy undervalued firms and assets. In 1987, LBOs made up more than 21% of the total transaction value in the US, and between 1979 and 1989, the volume of take-private transactions was higher than \$250bn in the US alone⁴⁷, and this trend was not limited to small and mid-sized companies but included operations such as the takeover and subsequent delisting of RJR Nabisco by KKR, with a valuation of \$25bn⁴⁸. The high returns gained by the funds active in the LBO market in the 80s attracted various competitors, and the only barrier to entry was access to capital, not such a big deal in that period, where pension and investment funds were looking for a higher diversification in investments and returns. While these funds provided the equity capital, banks and the public debt market financed the rest of the transaction. The high growth in competition caused prices to rise, thus driving LBOs and take-privates' returns down.

⁴⁵ Martynova et al., "A century of corporate takeovers: What have we learned and where do we stand?", 2008

⁴⁶ M&C Partners, "Historical Trends in LBOS", 2020

⁴⁷ Opler, Titman, "The Determinants of Leveraged Buyout Activity: Free Cash Flow vs. Financial Distress Costs" *The Journal of Finance*, Volume 48, Issue 5 p.1985-1999, 1993

⁴⁸ The New York Times, "History of RJR Nabisco Takeover", 1998

In fact, also according to Peter Peterson, chairman of Blackstone Group, LBOs were “overdone”, and the high fees and profits in the previous decade attracted too many investors into marginal transactions, with many LBOs being destined for future difficulties⁴⁹. These difficulties were also caused by the decline in the junk bond market and the recession that affected the US in the early 1990s. Even though the number of worldwide LBOs still increased until 2000, the total value was still lower, almost half, of the volumes reached in the 80s. Particularly, in 1997, there was a new wave of Public to private transactions in the United States, that spread also in the United Kingdom and continental Europe⁵⁰. This last wave found its climax during the Dot-com bubble, when PE generated some of its best performances during periods of crisis⁵¹. When the bubble busted, the buy-out market in the US declined by almost 13%, while in Europe the decrease was about 7%. This performance shows a higher resilience of these funds during the crisis if compared with public markets, with the S&P500 decreasing by almost 40%⁵². In the period between 2000 and 2007, PE-backed de-listings rose significantly, especially in Continental Europe and the US, while the UK maintained its high activity in take-private deals. This growth was eased by a favorable interest rate environment, with low-interest rates both in the US⁵³ and in Europe⁵⁴. In particular, 2006 was named “the year of megadeals”, because of a high number of transactions with relatively high deal value, such as the acquisition of Equity Office Properties Trust by the Blackstone Group, for a \$34.7bn valuation. The growth stopped after the global crisis of 2007-2008, also due to the harsher credit conditions, making access to the debt needed to carry out an LBO more difficult, and the number and the frequency of these deals fell, with continental Europe numbers indicating the growth and development of European private markets.

⁴⁹ L.A. Times “P.M. Briefing: LBOs in 1990s May Lose Appeal”, 1989

⁵⁰ Simons, “Public-to-Private Transactions: LBOs, MBOs, MBIs and IBOs”, ECGI- Finance Working Paper No.94/2005, CentER Discussion Paper; Vol. 2005-98, 2005

⁵¹ Pitchbook data, 2019

Source: <https://pitchbook.com/data>

⁵² eFront, “Private Markets in downturns: 3 observations “, 2021

Source: <https://www.efront.com/en/literature/analytics/efront-private-markets-in-downturns-3-observations.pdf>

⁵³ Federal Reserve Data

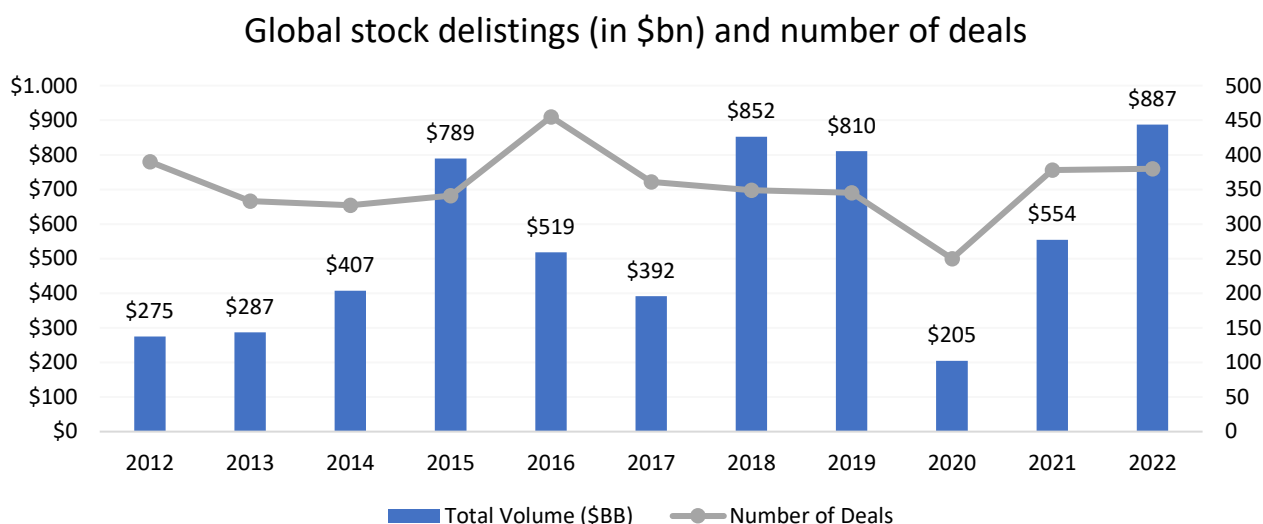
Source: <https://www.thebalancemoney.com/fed-funds-rate-history-highs-lows-3306135>

⁵⁴ ECB Data

Source: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.htm

Fundraising was stationary between 2009 and 2010, but in the following years, it started to grow again. As shown in Graph 1, starting from 2012 global stock delisting started to rise, both in terms of total value and volume, except for 2016 and 2017 in which there was a drop in delistings. After this period, delisting value started to rise again until the Covid-19 Pandemic, when the deal activity stopped tremendously, recovering, and reaching its peak in 2022, with a global volume of \$887.2bn.

Graph 1



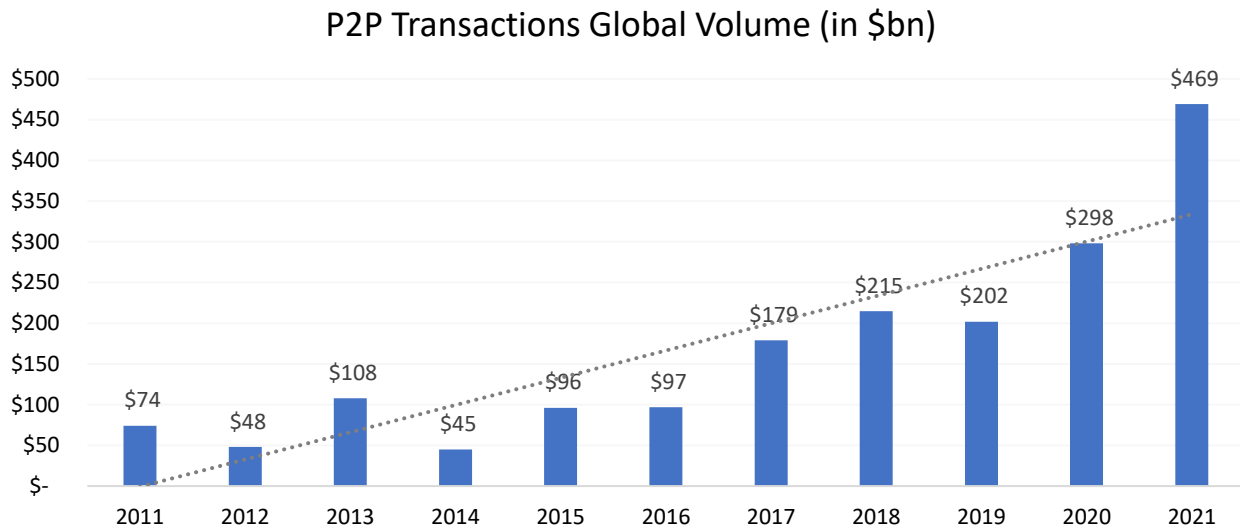
Source: Dealogic

For what concerns PE funds activity, it has increased almost continuously after the global crisis in 2007-2009, reaching a value of \$1.1tn, including add-ons investments, which is the highest value recorded in PE history⁵⁵. PE deal activity surged globally, with the biggest increase in North America, especially in the tech sectors. Notwithstanding the increased activity, also the global private capital dry powder has risen reaching a total of \$3.4tn in 2021, with more than \$1tn only for PE funds and expected to grow to more than \$3.5tn in 2022 according to Preqin data⁵⁶. Not surprisingly, thanks to the huge capital amassed and the increasing investment opportunities given by the Covid-19 pandemic and the volatility in the markets and the macroeconomic structure that characterized the previous year, there was a marked increase also in P2Ps.

⁵⁵ Bain & Company, "Global Private Equity Report 2022", 2022

⁵⁶ Preqin, "Preqin Global Private Equity Report 2022", 2022

Graph 2



Source: Bain Global Private Equity Report 2022

The 2006-2007 financial crisis hit private equity investing activity hard, but it also gave PE funds numerous opportunities. But as graph 2 shows, after a period of volatile P2P and take-private deals, after the Covid-19 Pandemic funds have been aggressively exploiting investment opportunities in the financial markets, targeting those established companies with poor results and declining stock prices. Specifically, between 2015 and 2018, P2P exhibited a 31% compounded annual growth rate (CAGR), similar to the growth that occurred between 2018 and 2021, which stands at around 30%. Moreover, according to BDO Global, P2P transactions have exceeded for the first-time trade deals in the UK, thanks to favorable share prices, which declined due to uncertainty and declining prices that the pandemic brought to the markets⁵⁷. This trend for P2P deals in 2021 is common also to other geographic areas, such as continental Europe and North America, and led take-private transactions to hit an all-time high of \$469bn, with a 57% year-on-year increase, whilst 2022 has seen a reversal trend, with more trade deals happening also thanks to the partial recovery in the financial markets, even though it is expected a renewed interest from PE in this kind of transactions because of the Ukraine-Russia war effects on the financial markets and due to a decreased liquidity, opposed to the increased dry powder at the disposal of private equity funds.

⁵⁷ BDO global, "Public to Private Transaction Insight", BDO Corporate Finance 2022

The similarities in take-private activity between the two periods of crisis may increase the concerns among investors, due to the miscalculations that were made in some investments during the 2006-2007 crisis. In fact, take-private deals that occurred in that period guaranteed mixed results to the investors, due to both overpriced and directionless deals, made without a clear strategy but just to exploit possible market opportunities. In addition, in that period take-private transactions accounted for 91% of the increase in deals, while in 2021 they accounted just for 42% of the increased volumes. For what concerns the valuations, as we are going to analyze more in-depth in the following paragraphs, investors paid high multiples in these deals in both time periods, but multiples paid in 2021 were higher if compared with multiples in 2006. Specifically, in 2007 P2P deals in the US were closed on an Enterprise Value (EV) basis of 12.6X EBITDA, which was 1.3X the market average. In 2021, these deals were based on an average EV/EBITDA multiple of 19.3X, almost 1.6X the average multiples. The main difference between 2006-2007 and 2021 is that the deals were notably larger both relative to the rest of the market and in absolute terms, with none of the top ten deals with a value lower than \$24bn. These data, when compared to the largest take-private closed in 2021, the McAfee take-private by a group of investors such as Advent International Corp. and Permira⁵⁸, may give an idea of how different the two situations are. In fact, during the financial crisis, the huge volume of the deals required the participation of large groups of PE funds acting together as buyers, rushing to close the deals driven by their overconfidence and thus overlooking the due diligence, that before the world financial crisis had less stringent requirements than now.

To sum up, during 2021 take-private transactions were smaller and usually carried out by buyers, most of the time one or two, which are specialized in the industry they are investing in, like Thoma Bravo, which specializes mainly in ICT and Cybersecurity, whose investments accounted for almost half of the 10 biggest buyouts in the software industry and reached a total amount of \$26.9bn⁵⁹, including Proofpoint, a leading cybersecurity deal, with a \$12.3bn valuation in the biggest buyout for the cloud industry until that moment⁶⁰, later surpassed by the McAfee acquisition.

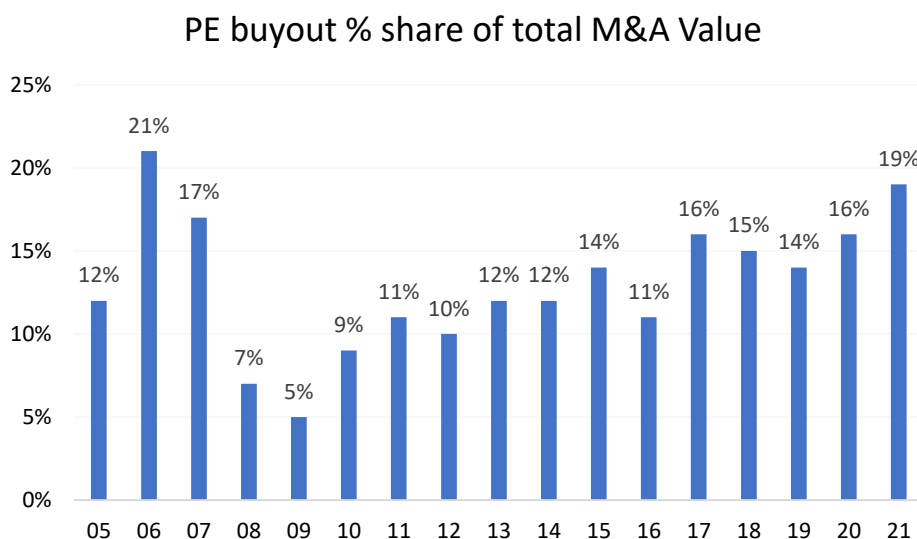
⁵⁸ Baker et al., "McAfee to be Taken Private in \$14Billion Deal Including Debt", Bloomberg, 2021

⁵⁹ Prete, "Thoma Bravo dominates PE's record year for software buyouts", Pitchbook, 2021

⁶⁰ Levy, "Thoma Bravo's \$12.3 billion purchase of Proofpoint is the largest private equity cloud deal", CNBC, 2021

Moreover, from the prices paid it is clear that at least in the last period, the multiples paid to acquire tech companies have been on average higher, with higher prices increasing the pressure on sponsors to create and implement a clear-value creation strategy to avoid losses. In this situation of higher multiples and thus lower space of maneuver, funds prefer to invest in those sectors in which they already own companies, since a long and reassuring track record in the target sector may indicate higher success probabilities and due to the possibility to exploit synergies between portfolio companies. As the next graph shows, PE funds deploying large quantities of money on Take-private transactions have caused an increase in the buyout firms' share over the total M&A Deal count, reaching a 19% share, the highest level since the “mega deals” year, 2006. This growth was mainly driven by large take-private transactions and by the availability of a continuously increasing dry powder.

Graph 3



Source: Bain Global Private Equity Report 2022

Moreover, the deal count share in the last 16 years stays almost constantly below the total value share, reaching 13% of total deal count in 2021, meaning that on average PE deals are larger than other M&A deals. However, this huge growth in P2P investments led average buy-out multiples to increase by 9% in 2021, reaching 12.3X EBITDA in the US and staying at high values in Europe, with an average 11.9X EBITDA multiple. This trend of increasing market share, accompanied by rising prices, could be interpreted as an indicator of the willingness of funds to present a better offer than industrial strategic buyers and to outbid the increased competition.

On the other hand, it may also signal that PE funds outbid their competitors for the high level of disposable dry powder and the need to deploy money. Moreover, in the last years, PE funds have been acting more and more like strategic buyers, by completing an increasing number of add-on acquisitions. Add-ons are those acquisitions carried out by PE funds to add it to one of the already existing portfolio companies, to increase the value created by exploiting synergies between the two companies, and for this reason, PE funds are eager to pay a premium. Targets are usually companies that are deemed to function well in the portfolio of PE funds acquiring them, and the perspective to create value in their portfolio gives funds the possibility to compete with industrial players and pay higher premiums, since while industrial may pay higher premiums without the need to sell the company in a few years, PE funds must maintain a more sustainable approach, and add to their portfolios companies following a clear strategy. Add-ons are of increasing importance, and in the last five years they made up almost 20% of the total PE's deal value, while in the first semester of 2022, they accounted for almost 80% of the total value of PE acquisitions⁶¹. These numbers are a consequence of the fact that institutional investors deem the acquisition of platform companies, the first acquisition in a specific industry or marketplace, to be riskier but also too expensive to be undertaken in periods of market uncertainty, and they tend to acquire in the markets they already know. Moreover, according to Pitchbook data, the add-ons market has seen more relevant activity in the healthcare, information technology, and financial services industries⁶².

Among all the acquisitions, technology-based buyouts are those that have driven the growth in multiples up. Considered in fact that investments have been vigorous across all sectors, more than 30% of the deals involve the tech industry. Having put a strong bet on how technology development may stimulate growth in all the sectors PE is interested in, the new approach of the funds may be another reason multiples are constantly increasing. Moreover, in the last years there has been an increasing interest in those sectors and businesses where the services element is of greater importance for the business model, with light balance sheet models. The rising importance of the healthcare sector in P2P transactions may be a consequence of the Covid-19 pandemic, which changed the investment landscape for PE funds. The increasing multiples are also reflected in the increasing premiums paid by PE funds to gain control and delist targets. In fact, in 2021 premiums reached the highest level in more than 20 years, with premiums as high as 70% higher than the share price and

⁶¹ Zhang, "Private Equity Turns to Small Add-ons for Profits", Institutional Investor, 2022

⁶² Pitchbook, "U.S. PE middle market report", 2022

with an average premium close to 45%⁶³ in Europe. According to Refinitiv's data, until September 2021 UK-listed companies taken private have been paid an average premium of 47%, while in the US the average premium was close to 42%⁶⁴. In the last months of 2021, the premiums have increased due to the presence of big deals. Even though these premiums may seem high, in some cases they are lower than those paid in previous years. In fact, the UK buyout market in 2020 was characterized by an average premium relative to the 4-week average stock price equal to 60.3%, while the US have seen higher premiums during the big waves of LBOs in the 1980s and 90s. The possibility to pay such premiums was given by the levels of stock markets, still depressed with respect to a pre-pandemic situation. In fact, PE funds were able to pay such premiums both for the availability of dry powder and for the huge undervaluation affecting their targets. For instance, in 2022, the tech sector, after a few years of continuous growth, was hit by a huge correction, offering numerous opportunities to buyout investors ready to buy tech companies and take them private at a premium with respect to current prices, but at a discount to the 12-month highest price⁶⁵. For example, the take-private of the software company Zendesk led by Hellman & Friedman and Permira in a deal worth \$10.2bn, was carried out at a 34% premium on the company's last closing price, at \$77.5 per share, reflecting a 49% discount to the stock highest price in the previous 12 months⁶⁶. The company refused just 5 months before a \$17bn offer. As for the investment activity, during 2021 the exits from buyout funds have been equally strong, with the sale of \$957bn worth of assets globally, reaching a value that almost double the previous year and the five-year average growth, equal to 131%⁶⁷. As in the investment market, US funds have prevailed in capturing the highest value, and the tech sector is the one with the highest number of deals, followed by industrials and healthcare. The growth has been exceptionally strong all over the world, with astonishing results also in the Asia-Pacific markets, with a strong exit market also for Europe, with a 77% YoY growth, and in the remaining regions. For what concerns the exit channels, in 2021 there was a prevalence of sponsor-to-strategic exits, followed by sponsor-to-sponsor, SPACs, and IPOs. In the last 5 years, exits in the public markets have been increasingly important, with SPACs showing a 1,045% average growth.

⁶³ Wiggins, "Private equity pays record premiums for public companies", Financial Times, 2021

⁶⁴ Refinitiv Data
Source: <https://www.refinitiv.com/en>

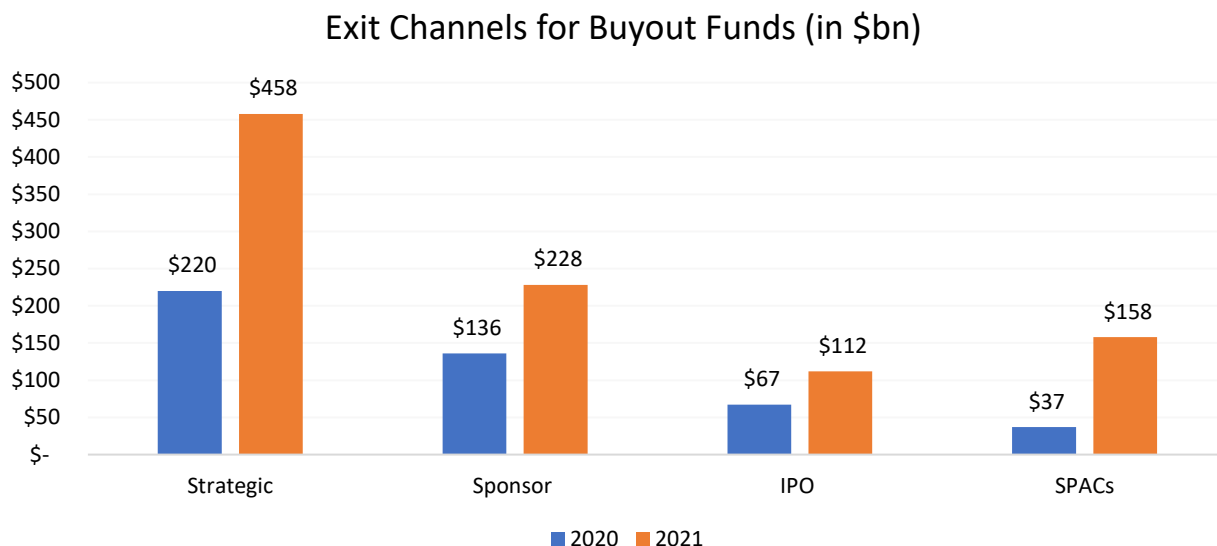
⁶⁵ Shi, "Take Private dealmakers scoop up software targets at deep discounts", Pitchbook, 2022

⁶⁶ Miller, "Zendesk drama concludes with \$10.2 billion private equity acquisition", TechCrunch, 2022

⁶⁷ Bain & Company, "Global Private Equity Report 2022", 2022

This phenomenon was driven by the post-pandemic growth in public markets, which also gave corporates the possibility to invest in acquisitions. Before 2022, the whole macroeconomic context favored the huge growth in exits, near to zero cost of debt, a recovering market hungry for growth, and spiking financial markets.

Graph 4



Source: Bain Global Private Equity Report 2022

However, as we are going to analyze more in-depth, the macro context of 2022 and the beginning of 2023 are completely different, both because of the policies adopted in the previous years by the central banks, but also for the changed geopolitical scenario.

2.2 What happened in 2022 and the current situation: The Macroeconomic impact on Private Equities and P2Ps

The last 3 years have seen some important changes due to multiple events that shaped the macroeconomic environment. While after the global financial crisis the last years have been characterized by an inflation rate under the control of central banks and close to the target both in Europe and in the US and expansionary monetary policies with low rates, particularly after the Covid-19 pandemic, to keep the economy going, we saw a change in this trend during the last quarter of 2021, that was characterized by a rising rate of inflation. For what concerns 2022, the year started following the wave of 2021, with increasing investments and customer spending that since the end of 2021 have been among the causes of the two digits inflationary pressure particularly on consumable and durable goods, with lower inflation in the services industry, in almost all the world economies. The supply chain disruption caused by the pandemic also led prices of commodities and transportation up, causing increasing pressure on prices all over the world. Then, in February 2022, the Russia-Ukraine conflict changed everything and increased the pace of inflation all over the world, by driving energy prices to all-time highs. The rate of inflation started running, and both the US Federal Reserve (FED) and the European Central Bank (ECB) started raising rates in 2022, after having understood inflation was not transitory, and that without any intervention it could continue increasing. It is important to note how both the FED and the ECB kept pouring billions into the economy at the beginning of 2022, even though inflation was already running and already reached 40 years highs in the US and in the EU. The Federal Reserve acted first, raising for the first time the Federal funds rate by 25 bps in March 2022, from 0.25% to 0.50%, and then further with larger increases of 50 and 75 bps. With the last increase in January 2023, the Federal funds rate reached 4.75%⁶⁸. On the other hand, the ECB kept a more gradual approach, raising rates for the first time in July 2022 from 0% to 0.5%, and reaching 3% with the latest hike, on the 8th of February 2023⁶⁹. With the inflation persisting in the US, some FED officials stated that there is enough room for other rate hikes during 2023 to push inflation down to the 2% target⁷⁰.

⁶⁸ FED Data

Source: <https://fred.stlouisfed.org/>

⁶⁹ ECB Data

Source:

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

⁷⁰ White et al., "Federal Reserve's favoured inflation gauge accelerated in January", Financial Times, 2022

Moreover, the Governing Council of the ECB stated that it will keep raising interest rates significantly and at a steady pace to ensure a speedy return of inflation to its medium-term target, equal to 2%.

Among the important geopolitical factors, along with the Russia-Ukraine war and all the tension that it is causing at an international level, also the increasing tensions between the US and China need to be taken into account, being China one of the most important economies in the world and the top manufacturing country in the world, accounting for almost 30% of the world's manufacturing production with a value of \$2.01tn in 2018⁷¹.

For what concerns the PE market, the deal activity during the first six months of 2022 was similar to the previous year, despite the increasing inflation rate and the geopolitical context. Then, the FED decided to change its approach to rising interest rates, with 75 bps increases, followed by the ECB 50 bps increases, causing banks to cut funding for leveraged transactions and a notable decrease in dealmaking activity, exits and fund-raising. It is yet to be seen how the economies will react to these raises: will the EU or US enter a recession? The risk is there according to high profile economists such as Janet Yellen, US Treasury secretary, but at least for now there are no signs of a recession, with US employment at a 53-year low in February 2023⁷².

However, the current macro environment offers significant threats to the economy and PE activity, with the biggest being a diffused uncertainty. The deal activity has slowed due to the uncertainty affecting the global economy. Big deals and large transactions are suffering more, due to the highly required leverage and the difficulties in accessing financing. While private credit and larger equity participation may work for smaller deals, this is not the case for the huge buyout that characterized last year's activity. The decreased market activity has certainly caused a ripple effect on fundraising, that has slowed also due to the higher cost of keeping money. Fundraising will be harder for midsize generalist funds, while huge funds and specialists with high performance will suffer less⁷³. Exits have suffered and will suffer too, due to the high uncertainty affecting the financial markets and thus the IPO market.

⁷¹ International Finance Business Desk Data

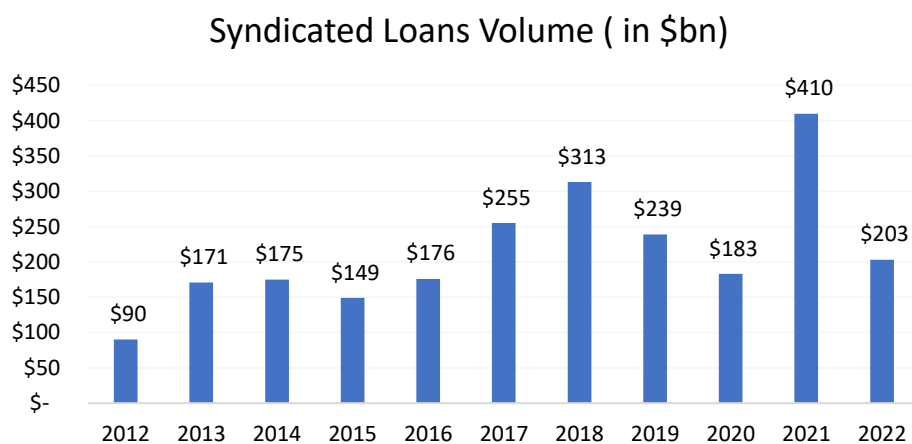
Source: <https://internationalfinance.com/top-5-global-manufacturing-hubs-making/>

⁷² Shalal, "Yellen: 'You don't have a recession' when U.S. unemployment at 53-year low", Reuters, 2023

⁷³ Bain & Company, "Global Private Equity Report 2023", 2023

The value of buyouts globally dropped by 35%, from \$1,012bn to \$654bn in 2022, having the second-best year historically in terms of value, with the biggest drop coming from the second half of the year, with the number of deals dropping by 10%. The results achieved are especially linked to the momentum with which the year started, following the waves of the best year in PE history. For what concerns the specific region, Europe and North America have seen respectively a 28% and 30% decrease, while the Asia-Pacific Region buyout value fell by 59% compared to the previous year, and the rest of the world experienced a 72% drop in value. For what concerns the sectors' performances, the tech sector still accounted for 30% of the deals, notwithstanding a 12% drop in deal value, with healthcare still strong even if at lower levels than the previous year⁷⁴. One of the first consequences of the increasing reference rate set by Central Banks is the reluctance of the banking players to finance leveraged transactions. Syndicated loans for LBOs almost halved their volume, with leveraged loans falling to \$203bn, from the \$410bn of the previous year, with a 51% drop in volume.

Graph 5



Source: Bain Global Private Equity Report 2023

The biggest drop in syndicated loans was seen in Europe, notwithstanding the lower reference rate for the ECB, while the US syndicated loan market suffered, in percentage terms, a smaller loss. Along with the difficulties to access credit lines from banks, the effect of the drop in syndicated loans means that it is more difficult to finance large transactions. In fact, for the 47 PE-led take-private transactions during 2022 in the US, only 36% of deals were financed with new debt, while the previous year the percentage was higher than 50%⁷⁵.

⁷⁴ Bain & Company, "Global Private Equity Report 2023", 2023

⁷⁵ Pitchbook Data

Moreover, the yield spread to finance LBO transactions rose both in Europe and in the US. For this reason, smaller transactions with lower debt requirements took up during last year, with the average deal size falling 23% to \$964m from \$1.2bn. Notwithstanding the huge opportunities offered by the IPO boom in 2020 and 2021, which gave the market a large sample of mid-sized listed companies with a market capitalization eroded by the economic environment, PE executives ranked take-privates among their least favorite deals according to Dechert and Mergermarket PE report⁷⁶. Despite the negative outlook for some PE executives, two of the largest buyouts of 2022 targeted listed companies, Citrix and Atlantia. Moreover, the predominance of smaller deals is also represented by the increasing number of add-ons, usually financed directly by portfolio and platform companies, that made up almost 72% of the total buyouts in the US⁷⁷. These acquisitions are used by general partners to exploit synergies and to implement a buy-and-build strategy, to take advantage of the lower multiples characterizing smaller companies and making them grow by exploiting the knowledge of the fund in the sectors and the synergies with portfolio companies, and then re-selling them at higher multiples. In fact, as shown by data on LBOs offered by Pitchbook, the average EV/EBITDA multiple for 2022 increases with the deal size, with a 59% difference between small-sized deals between \$0 and \$50m, trading at 8.1X, and deals with a valuation higher than \$1bn, trading at a 12.9X level⁷⁸. It is a fact that in such an unpredictable economic environment, companies' valuations have gone down. The rise in interest rates implies a higher discount for future earnings and cash flows, driving down the value of target and portfolio companies. This mechanism has stopped both investments and exits, since PEs are reluctant to sell at lower values and all the exit options are weaker than a year ago, and deal-making activity will suffer until valuations go back to higher levels or if portfolio companies manage to increase their earnings to balance the effect of the lower multiples. In fact, even though the average EBITDA multiples for buyouts in the US are almost steady, passing from 12.3X to 11.9X, Europe has suffered more, with multiples going down from 11.9X to 10.7X. Furthermore, multiples are still expected to go down, both in the US and in Europe. Of course, the effect is double, since it drives down prices both in acquisitions and exits, but within this economic environment, optimism is not the first option for PE funds' managers.

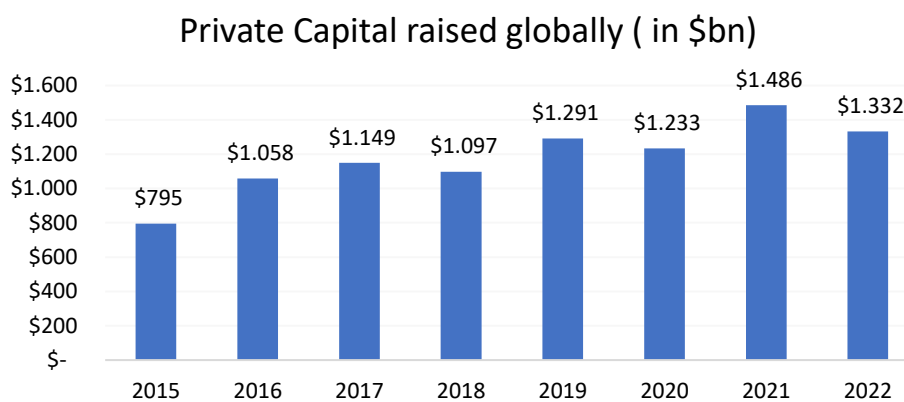
⁷⁶ Decherts & Mergermarket, "2023 Global Private Equity Outlook", 2022

⁷⁷ Pitchbook Data
Source: <https://www.lcdcomps.com/lcd/>

⁷⁸ Pitchbook Data
Source: <https://pitchbook.com/data>

The stronger resilience of US multiples is driven by the deal activity, which suffered more in Europe, and by the availability of dry powder along with stronger competition for deals. Moreover, companies' owners, as already said, are reluctant to sell in this environment if the deal does not offer a satisfying premium, keeping the multiples up. In this environment buyers are willing to increase the equity stake for high-quality deals, shifting from a 50-50 or even more leveraged structures⁷⁹. Coming to the available dry powder, it reached a record \$3.7tn level, following its continuous growth from 2012. This capital, committed to funds but still unused, has grown due to a combined effect of decreased investments and fundraising. The buyout-specific dry powder has slowed its growth, but it increased reaching \$1.1tn⁸⁰. As shown in the following graph, buyout backed exits fell sharply during 2022, with a 42% total decline compared to the previous year. Notwithstanding this huge drop, it is still the second-best year since 2005 for PE backed exits. The methodology that suffered the most are for sure IPO exits, which fell by 94% due to an unpredictable market environment, while sponsor-to-strategic exits suffered the least, with a 21% drop. For what concerns fundraising, while the long-term outlook remains strongly bullish, the short and medium-term seem to be less optimistic for funds.

Graph 6



Source: Bain Global Private Equity Report 2023

As for investments and exits, the first quarter followed the 2021 momentum and limited damages, with a 10% drop with respect to 2021, with buyout capital raised falling by 16%, with larger funds increasing their share of total capital raised to 57%, while first-time funds raised just 4% of the capital raised.

⁷⁹ Levine, "Leveraged Buyouts Lose Some Leverage", Bloomberg, 2022

⁸⁰ Bain & Company, "Bain Global Private Equity Report 2023", 2023

Regarding take-privates only, the first half of 2022 has seen an increasing activity, following the trail of 2021. According to Dealogic data, PE took the numerous opportunities offered by the market and spent almost \$226.5bn globally till June 2022, increasing by 39% with respect to the first half of 2021⁸¹. These numbers, as stated various times, reflect the higher economic uncertainty affecting the markets and the downward pressure put on the stock markets, with any high-quality companies trading at considerable discounts compared to pre-crisis and pre pandemic levels. In the US only, PE-backed delistings made up 72% of total deal volume, while in Europe take-privates stopped at \$78bn, with a 91.5% increase compared to the previous year's first six months. On the contrary, take-privates fell by 29% in the UK and fell from \$4.5bn to \$822m in Asia. As for the whole PE activity, there was a huge drop in take-private activity during 2022, and according to EY data it amounted to \$262bn in 2022⁸². Even though the total volume is lower than in 2021, the percentage of take-privates over total PE activity was still high, amounting to 40%.

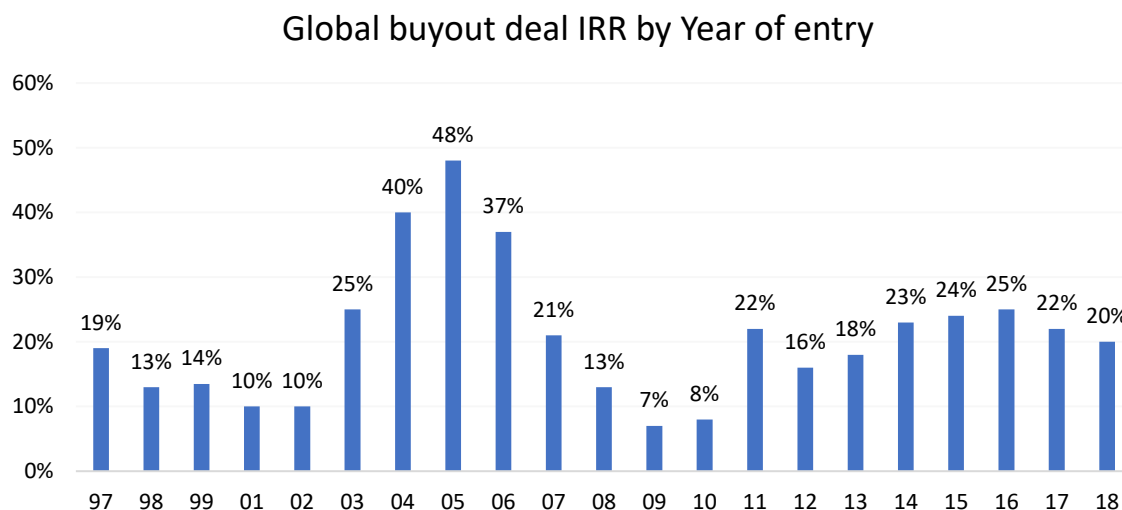
Along with rising rates and cost of debt, the biggest challenge that PE faced in 2022, and will probably still face during 2023, is the ability to identify and evaluate how the macro environment may impact target companies. In this regard, due diligence has become increasingly challenging, since teams need to understand how any macro shift could affect the targets and their industries, and to enforce the right mitigation plan for each possible scenario by considering every outcome. Carrying out the worst, middle and best-case scenarios is not enough to understand the effect of an environment that is so unpredictable and fast-moving. This is crucial since by analyzing the global buyout deal IRR by year of entry, it seems clear that deals closed during downturns can generate superior returns over time, also in times where it is more difficult to access financing. Thus, investors able to identify underpriced companies characterized by a sound business and reliable assets will succeed, and using less leverage and more equity should be considered to benefit when the economy bounces back. As graph 7 shows, after the Tech Bubble in 2000 and after the Global Financial crisis in 2008, the median deal IRR decreases for investments entered during and just before the crisis, both for difficulties in valuation and for the higher prices paid before the downturns, while it increases for the investment made after the crisis has happened, due to the possibility to buy assets at lower multiples and prices⁸³.

⁸¹ Dealogic data
Source: <https://dealogic.com/>

⁸² Witte, "Private equity Pulse: Five takeaways from 4Q 2022", EY, 2023

⁸³ Wolinsky, "Why a recession Could be Good for Private Equity", Financial Times, 2022

Graph 7



Source: Bain Global Private Equity Report 2023

Only time will show if the huge number of buyout deals, we have seen after the Covid-19 pandemic will outperform markets as it has done after recent crises, but the public markets may continue to offer take-private investment opportunities, if valuations go down. Another important trend is the increasing importance of direct lending funds as an alternative to traditional banking sources. The increasing uncertainty led bank credit to freeze, and this has given the possibility to direct lenders to continue its growth path. In 2022, direct lending made up 80% of middle-market buyouts loan issuance. Banks have been limited by the so-called “hung deals”, such as the \$15bn leveraged loans and bonds underwritten to finance the \$16.5 bn Citrix acquisition, hanging on the banks’ balance sheets and causing losses due to the rising rates⁸⁴. Citrix acquisition was financed with bonds and loans underwritten by several investment banks, such as Credit Suisse, Goldman Sachs, and Bank of America. When rates started rising, banks started incurring the first losses and offloading some of the leverage they had on the operation. Banks managed to sell at high discounts \$8.5bn of bonds and loans during September 2022, but they still had billions on their books. Despite this, the pool of banks guided by Goldman Sachs is now receiving a high demand for the remaining \$4bn of debt. It is estimated that banks will lose between \$400m and \$500m on the Citrix deal after considering the interest earned⁸⁵, but the losses could have been way higher.

⁸⁴ Platt et al., “Bloodbath’: Citrix buyout debt sale casts shadow over pending deals”, Financial Times, 2022

⁸⁵ Platt, “Debt overhang from Citrix leveraged buyout lures investors despite market sell-off”, Financial Times, 2023

With the expectations of increasing interest rates, it is plausible that PE sponsors will make bigger use of private debt funds and might need to increase their equity contribution.

In addition, it is possible that we will see a rising number of club deals, reducing the individual equity commitments for single funds, to allow sizable LBOs. Club deals are those deals carried out by a consortium of investors, such as the already cited Zendesk acquisition in which Hellman & Friedman partnered with Permira. Sovereign Wealth funds (SWFs) and Public Pension Funds (PPFs) have been particularly active in this kind of transaction lately. SWFs such as those of Singapore, Qatar, Saudi Arabia, or the United Arab Emirates are acting as co-investors in these club deals, such as public pension funds, that usually tend to focus on investments with stable returns. SWFs and PPFs used to participate in take-privates and PE transactions passively, but now their role has changed. For instance, the Maxar Technologies acquisition carried out by Advent International group for a total valuation of \$6.4bn in an all-cash transaction, has seen Advent committing \$3.1bn in equity and the British Columbia Investment Management Corporation committing a \$1bn minority equity investment. The take-private conclusion is expected in mid-2023 and will pay a 129% premium with respect to the last closing day before the announcement⁸⁶.

To conclude this chapter, it is important to underline how the changing macro-environment has changed PEs and take-privates' activity during the last year, and how the drop-in activity clearly depends on the changes in interest rates policies after years of accommodating central banks. The biggest challenge for PE funds will be to adapt to a continuously changing environment. According to professionals, PEs may suffer from the weak geopolitical environment and the fragile economy, with the tight credit markets driving current valuations down. PE funds will have to adapt and try to find new ways to create value, for example by continuing to acquire smaller companies through add-ons and bolt-ons by exploiting the record-levels of dry powder and rendering platform companies more valuable expectant of better exit conditions.

⁸⁶ Sheetz, "Space company Maxar agrees to go private in \$6.4 billion deal", CNBC, 2022

2.2.1 A focus on the Italian Market

The Italian Private Equity and buyout markets, and thus P2P, are certainly smaller if compared to the US one and some of its European peers. The huge difference stems from various reasons, some concerning the financial markets and the PE industry, others concerning the structure of Italian companies.

For what concerns the PE market, 2022 has been a positive year, with a high activity of funds. More than a third of the operations have been carried out by PE funds, with 347 buyout operations compared to 224 in 2021, for a value equal to €62bn, with a 47% increase in value compared to the previous year and a huge growth from pre-pandemic levels⁸⁷. The sectors with a stronger activity were Life Sciences, Tech, and Infrastructures. The exits regarding investment completed in the previous five years favored a high number of sponsor-to-sponsor and sponsor-to-industrial transactions. The increase in PE activity has been huge and persistent from 2016 onward, with a constant increase in PE share in M&A transactions. As for the activity in the US and in the remaining European countries, the changing macro-economic scenario in 2023 has caused a shift in the sectors of interest for PE, with industrial, chemicals and consumer products always leading the activity, but with lower stakes in the overall activity, while business services, construction and infrastructure, life sciences and technology gaining market share. Among the 15 biggest transactions, 10 involved PE funds, such as Atlantia's acquisition carried out by Blackstone and the Benetton family, and Fedrigoni's deal, involving Bain and BC partners, still showing the high interest of foreign investors in our country.

For what concerns the financial markets, in the last 20 years listings have been 448, while delistings amounted to 336, with 268 of them from the main index, the FTSE MIB. Between 2017 and 2021 de-listings amounted to 105, raising an alarm bell due to such a large gate-away and the loss of €55bn in market capitalization arising from delistings⁸⁸. Notwithstanding this, on the first January of 2022 the record of listed companies in "Piazza Affari" was achieved, with 407 companies between the various indexes. However, as already analyzed the depopulation of market indexes is widespread, with the US going from 5,685 listed companies in 2001 to 3,784 in 2021, and a similar path in France, the UK, and Germany.

⁸⁷ Ernest & Young, "EY M&A barometer- Review 2022 e preview 2023", 2023

⁸⁸ Politecnico Di Milano & Intermonte Partners, "Sliding doors: il flusso di listing e delisitng sul mercato azionario di Borsa Italiana", Quaderni di ricerca Intermonte, 2022

Among the 186 de-listings that took place between 2011 and 2021, only 14 of them have seen the involvement of Private Equity players, with a clear majority of foreign financial sponsors, and an average premium for the takeover equal to 28.9%. The increasing importance of investment funds, and particularly PE funds, is not so evident from the data, but it is certainly more important than how it appears. In fact, these funds are also active in financing these acquisitions. PE funds take advantage of favorable market conditions, but as shown by Intermonte's and Polimi's data, they usually target companies with increasing performance and revenues in the three years preceding the acquisitions, with the average EBITDA margin rising from 7.7% to 14.7% in the year before the acquisition in the main indexes, and with similar data in AIM Italia and EGM⁸⁹. Among the various bidders, financial investors have targeted smaller companies, with average revenues amounting to €271m, but with an EBITDA margin in the upper hand, close to 15.9% in the year before the acquisition, thus showing a good performance both in absolute terms and compared to other listed companies.

As other markets, also the Italian financial market was highly volatile during 2021 and 2022, offering PE numerous investment opportunities. Particularly, 2021 was a good year overall, continuing the bounce after the pandemic, while last year's performance was negative, with a -12% for the FTSE Mib, the Star segment falling by 27.7% and the FTSE Italia Growth going down by 19.3%, both due to geopolitical and macroeconomic turmoil, causing the total Italian market capitalization to fall by 18.6%⁹⁰. Among the 23 delistings concluded during 2022, 7 of them were carried out through takeover (OPA) by or with the help of private equity funds⁹¹. The list includes the takeover of Atlantia for an EV of €54.3bn with a €19bn equity value led by Edizione (Benetton's Family holding) and Blackstone, without which PE takeover activity would have been lower than the previous year both in terms of volume and value, and other interesting deals such as Cerved Group acquisition, that saw the participation of Singapore's sovereign fund GIC, and Coima Res, acquired by the Qatar Investment Authority.

⁸⁹ Politecnico Di Milano & Intermonte Partners, "Sliding doors: il flusso di listing e delisting sul mercato azionario di Borsa Italiana", Quaderni di ricerca Intermonte, 2022

⁹⁰Il sole 24 Data

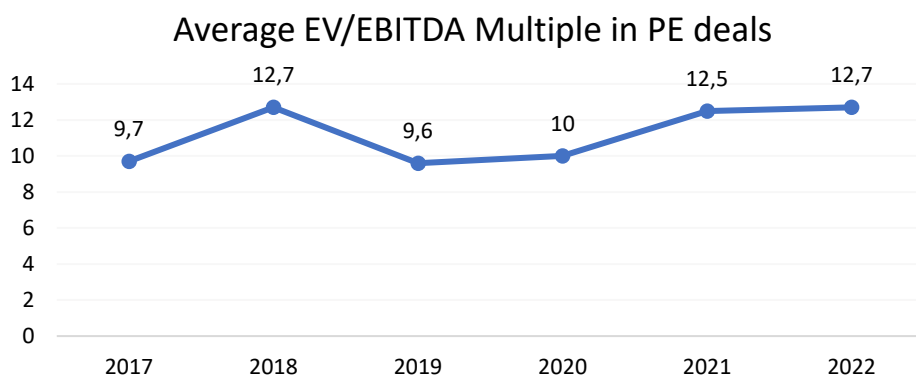
Source: <https://www.ilsole24ore.com/art/per-piazza-affari-2022-dimenticare-ftse-mib-12percento-e-anno-peggiore-2018-AEzig5SC>

⁹¹Consob Takeover Documents database

Source: <https://www.consob.it/web/area-pubblica/documenti-opa>

These last two acquisitions are of particular interest since they can be seen as proof of the increasingly important role played by SWFs in take-private transactions and prove the palatability of the Italian market to huge international PE players and SWFs. For what concerns 2023, the year started with the takeover and subsequent delisting of Nova srl, carried out by DeA Capital, and with other takeover offers such as the offer of the Bahrein's fund Investcorp for the acquisition of the cybersecurity player Sababa security, just a year after its listing⁹². This last acquisition could be one of the first add-ons of the year, which will be characterized by the prevalence of smaller deals and add-ons, due to the difficulties in accessing financing. Coming to the multiples paid, Equita data show how EV/EBITDA multiple increased constantly after 2019, reaching its highest level in the last five years. The increase in multiples is driven by the stronger interest of financial sponsors in Italian companies, driving up PE deal volume.

Graph 8



Source: Financial Sponsors' Activity Monitor (Update 9M2022), Equita

For what concerns public market valuations, Industrials stood at the lower end, with 5.2x 1y Forward EV/EBITDA in September 2022, and an average multiple of 6.4x from December 2017, while the TMT sector showed a 7.8X multiple in September, lower than the 5-year average, standing at 9.3X. In the high end, but always lower than their 5-year averages, there is the consumer sector, with an 8.4X in September 22 and a 10.9X average, and healthcare, characterized by a 11.4X multiple during last September and a 14.7X average. All the multiples are lower when compared to the multiples characterizing markets during the post-pandemic recovery and to their peaks, reached between September and December 2021⁹³.

⁹² Bonadies, "Sababa: Investcorp lancia Opa per delisting", DealFlower, 2023

⁹³ Equita, "Financial Sponsors' Activity Monitor", 2022

As anticipated, there are various reasons for the lower take-private activity in Italy. First, the underdevelopment of the Italian PE market if compared to foreign peers, the lower availability of listed companies, and most importantly the ownership structure of Italian firms. For what concerns PE development, one of the main causes can be identified in the lower presence of listed PE companies in the Italian market. While other countries such as the US and other European peers are characterized by an increasing number of listed private equity groups, Italy struggles to follow this trend. Only in 2021, thanks to its listing on the Nasdaq TPG group managed to attract more than \$1bn in resources, while in Europe Antin Infrastructure group listed on Euronext Paris, and Bridgepoint Group went for an IPO on the FTSE 250. Another important example is the listing of Blue Owl Capital, listed through a SPAC on the NYSE. These listings certainly benefited from the favorable listing conditions that characterized 2021 and gave PE funds the possibility to attract new resources from public markets, but this trend is not limited only to that year. In fact, in 2019, the private equity EQT listed on the Nasdaq Stockholm, attracting €2bn more than expected and showing a 425% growth in assets under management after its listing, passing from €40bn at the time of its listing to €210bn as of 2022, according to EQT data⁹⁴. PE IPOs are gaining increasing importance not only for the number of listings, with more than 18 IPOs completed after 2017 in Europe, and another 7 in the US and Canada according to S&P Market Intelligence data⁹⁵, but also for the effect they have on the PE market, since by opening up to “retail investors” there is an increase in resources attracted that couldn’t otherwise be mobilized by financial sponsors, traditionally opened only to institutional investors. A lot of big players previously listed on the stock exchange, such as Blackstone, KKR, Carlyle, and Tikehau capital, and more of them were considering listing before the dramatic change in the macro-environment. Even though from 2019 some changes to the rules regulating listings in the Euronext MIV are in force, only a few players are listed in this market segment, with the most important being NB Aurora⁹⁶. The small number of listings of Italian PE companies is one of the causes of the gap between Italy and other countries when it comes to PE development. In fact, the reasons behind a listing are several, such as the higher resources attracted, but also the qualitative leap the listing gives to the company, accrediting it at an international level.

⁹⁴ Sinding, “EQT AB Year-end Report 2022”, 2023

⁹⁵ Rosacia, “Private equity firms go public as valuations soar, retail investors buy in”, S&P Global Market Intelligence, 2022

⁹⁶ Borsa Italiana Data

Source: <https://www.borsaitaliana.it/fondi/chiusi/miv/protagonisti/nbaurora.htm>

For what concerns the ownership of Italian companies, Italy is well-known to be a country with a highly concentrated ownership structure, with the main shareholders either being the state or a family in most cases. In fact, the state holds control of some of the biggest Italian companies, such as Enel, Eni and Leonardo, and the largest shareholder holds on average more than 40% of companies' shares and the top three largest shareholders hold on average more than 60% of the shares, while in the US and in the UK top three largest shareholders hold on average less than 20% as of the end of 2020⁹⁷. These statistics show why control is de facto not contestable in most Italian companies and explains why takeover targets are usually smaller in Italy than in the US and the UK. In addition, the Italian takeover regulation is stricter if compared to some foreign countries, with transparency rules regarding disclosure thresholds of significant shareholdings voting rights (starting from 3%, even though during the Covid-19 pandemic the threshold was lowered), higher protection for minority shareholders, the presence of thresholds for mandatory tender-offer and also of the Golden Power, enhancing the control of the Minister of Finance on takeovers promoted by foreign actors on companies of strategic importance and the presence of a high threshold for the squeeze-out mechanism. Moreover, Italy is characterized by a lower presence of shareholder activism, a phenomenon that in the latest year has characterized increasingly other markets. Especially in the US, there is a high presence of hedge funds specialized in acquiring minority stakes and promoting through their activism the de-listing of companies, or private equity funds acquiring minority stakes in companies that take they aim to take-private after improving the company's financial outlook to exit with higher valuations. Furthermore, PE activist credibility is higher than other kinds of investors since PE investments display a higher willingness to take a longer commitment to the company than hedge funds, for which the average holding period stands usually at three months⁹⁸. Despite the higher presence of activists in the US, this phenomenon is gaining importance also in European countries, even though Italian companies' ownership structure makes it much harder to have an influence with small stakes. The Italian financial market characteristics make it more difficult to see hostile takeovers, especially on big companies, favoring takeovers carried out jointly with majority shareholders such as Atlantia and IMA, and operations on smaller companies.

⁹⁷ OECD, "OECD Corporate Governance Factbook", 2021

⁹⁸ Grossman et al., "Recent Trends in Shareholder Activism", Harvard Law School Forum on Corporate Governance, 2019

2.3 Interviews with professionals: What is their sentiment on P2Ps?

In this paragraph, we are going to summarize the main findings gathered by interviewing professionals working in different positions in the financial environment. In this context, to gain a complete and well-rounded opinion, protected by the bias of the job performed by the interviewed, I decided to range from professional working as M&A advisors such as Andrea Nappi, investment banking (IB) co-head for Citi in Italy, to PE professionals, such as Antonio Pace, MD for HitecVision AS and previously CEO of Fondo Italiano D'Investimento SGR, and other investment and IB professionals.

Their answers seem to confirm our main findings about P2Ps and the difference between the Italian and the US markets but also gave us some insights about some trends that might shape the future of these transactions in a continuously changing environment, characterized in the near future by high rates to fight inflation and by the instability that led some players in the banking sector to fail, both at regional level such as Silicon Valley Bank (SVB)⁹⁹, and at an international level as Credit Suisse, bailed out by UBS¹⁰⁰ with the protection of the Swiss government.

Starting from IBs' professionals, I asked which are the main trends characterizing the Italian P2P market. In their opinion, since Italian financial markets are mainly characterized by the presence of sizeable players, participated or directly owned by the state and family-controlled businesses as in Atlantia's case, it is difficult to carry out P2Ps transactions like in the US, where funds take the control of sizable businesses. On the other hand, according to Nappi, this feature characterizes one of the rising trends in P2Ps in the Italian market, where families seek the help of investment funds to delist their firms with the possibility of keeping control of the business. One of the first important operations including both a family and a PE fund is the buyout of the IMA group, in which the Vacchi family kept control of the business. This change became relevant in the years following the Covid-19 pandemic, thanks to the cheap debt that favored the whole PE industry. Usually, some of the companies acquired go through a repositioning phase, in which PE funds try and reposition the company into more profitable business lines. IMA for example, before BC Partners' entrance and following delisting, was highly exposed to the tobacco industry and was repositioned to gain market share in the pharmaceutical sector.

⁹⁹ Morrow, "Fed autopsy on SVB faults bank's management — and its own oversight", CNN Business, 2023

¹⁰⁰ Source: <https://www.ubs.com/global/en/media/display-page-ndp/en-20230319-tree.html>

According to Nappi, one of the main difficulties encountered by funds is the need to clearly explain how they intend to reach their target returns and set clear strategies to achieve them. In fact, repositioning, internationalization, and business scalability are factors that impact the success of a take-private transaction. The exit strategy must be clear from the beginning, so that families know how their business will be handled, considering their willingness to retain control also after the funds' exit. In this regard, an important tool to grant family control is represented by double voting rights share, since families may be inclined to concede some of the economic rights without losing control.

Moreover, I asked Nappi if he believes that the numerous bank difficulties and the changing credit conditions could affect the development of P2Ps both in Italy and worldwide. In his view, the changing credit conditions will affect the syndicated loan market, thus affecting LBOs financing and P2Ps. When it comes to bank failures, the main concern should be about the possible contagion, that in his view seems to be contained. Even though volatility and instability on financial markets may be expected, the prompt insurance of governments such as in Credit Suisse's case, and the presence of banks willing to bail out struggling institutions might prevent banks runs. On the other hand, there could be an indirect effect caused by these bank failures, that could lead to a softer approach in increasing interest rates, since choices that should be taken by considering only economic factors may be influenced by political interests. Notwithstanding these factors, the PEs have raised a huge quantity of dry powder, allowing them to also navigate times of uncertainties, even though their main concern is about returns, that may be hindered by the higher cost of debt, forcing them to pull down multiples at lower levels if compared to 2021.

Another important trend is the shift that started in September 2021 from growth to value investments, since in times of turbulence investors value positively companies with stable and positive cash flows, rather than targeting the possibility of a higher upside that growth investments could provide. In fact, "growth sectors" such as tech have suffered in the last months, while industrial and consumer-driven sectors have gained higher multiple valuations.

To conclude, according to Nappi this situation of uncertainty will not make big funds suffer, since they have a huge level of dry powder, but will translate into lower valuations and purchase prices. It is possible that we will see a stronger involvement of SWFs, as demonstrated by Coima Res acquisition by Qatar Investment Authority, even though for their nature they are inclined to invest mainly as minority investors.

In this regard, the biggest clients for IBs in the Italian market when it comes to PE are CVC, Carlyle, Bain, and Advent. When it comes to P2Ps, Italian funds are cut out, since they are smaller and thus have different interests rather than P2Ps, even though they might participate as co-investors with minority stakes.

The investor perspective, as it emerges from the interviews, shows several similarities if compared to Nappi's view, but it also provides new insights.

For Stefano Manghi, Investment Director at Nextalia SGR, the main factor affecting the size of the Italian market is the non-contestability characterizing Italian corporates. In fact, the shareholder structure and other factors such as the golden power rule and the high squeeze-out threshold make it difficult to have "market-driven" operations, even though the Covid-19 pandemic has impacted the Italian P2Ps market, giving funds some opportunities. In fact, P2Ps are countercyclical if compared to market expansion, and when markets suffer these transactions are more diffused. Moreover, in Manghi's view, another factor that makes the Italian and the US market different is the absence of activist investors in Italian companies, buying minority stakes to promote delistings.

For Antonio Pace, MD for HitecVision AS, the PE and P2P environment is shaped by the rapidly evolving macroeconomic environment. When choosing where to invest and especially if investing in take-privates, funds need to analyze if they have the capability of waiting for a more favorable environment compared to when they are taking the company private. These operations usually entail a 3-to-5-year commitment. It becomes crucial for buy-out funds to understand if it is the right moment to buy, and as of now, the equity market valuations are at their highest level since the 2008 world crisis, especially when compared to the interest rate environment, and there are strong differences between the fundamental value of companies and the market valuation, making it costly and not convenient to take companies private. In addition, funds need to analyze with increasing attention the financial structure of take-private deals. These deals can be highly leveraged, and in this context of high and increasing rates, the counterparty may ask for stricter guarantees on real assets. The two factors that need to be analyzed properly if an investor cannot wait to carry out an operation are the fundamental value of the target and the financial structure of the deal. In periods of turmoil, funds need to evaluate which are the sectors with endogenous growth, so that the acquired company could grow "autonomously", thanks to the increasing demand during the investment horizon. Moreover, investors should not be focused only on the growth of the main sectors of operations but could consider growing in ancillary or vertical sectors, investing in those business lines that could add value from the marginality standpoint.

According to Pace, it is clear from data that there is a shift from growth sectors to value sectors. This is also shown by the overperformance of the Euro Stoxx index when compared to the Nasdaq and the S&P500, which are currently overexposed to growth sectors such as tech. Since March 2021, investors have been increasingly betting on a structural and sound macroeconomic recovery, based on growth in consumption. The bet has been winning, since consumption has grown sharply after the Covid-19 pandemic, but this growth may be towed by the rising inflation. In fact, real rates are negative in almost all developed countries, and in the short-term rates might contract consumption. Therefore, the possibility of a recession induced by too strict monetary policies may endanger the interest in value sectors. This aspect should give central banks the hint to think that some factors affecting the high inflation are exogenous to financial markets, and the 2% inflation target might not be up to date anymore.

Coming to the impact of bank failures on P2Ps, it is important to understand that the banking infrastructure has been built over patrimonial ratios and liquidity, even though these might not be the only factors to look at when valuing a bank's position. The first consideration to be made is that banks do not always fail for patrimonial and liquidity issues but may fail for narrative and speculation. Moreover, the economic sector, especially the European one, is "bank-centric", and for this reason, regulators and politicians deem that the banking sector should be "socialized" to avoid social tensions when a bank fails. Consequently, banks could opt to reduce their assumption of risk, thus reducing their profitability on capital. This does not mean that leveraged and syndicated loans will disappear for those transactions having as target big and profitable corporations, while the lending activity could suffer for deals with small and mid-caps targets, that usually are the most profitable to funds. This aspect might impact the Italian market, characterized by the presence of smaller and family-held companies such as those listed on the AIM, slowing take-private activity. To sum up, debt will not vanish, but investors will have to spend more time and pay attention in structuring the debt, taking into consideration its duration, structure, and the availability of guarantees.

Moreover, it is normal that in a cycle with high-rates add-ons are more widespread, both for a structural and a market component. In fact, since with high rates the opportunity cost of investing in investment vehicles such as PE and private credit funds is high, there might be better opportunities in the debt market, making it more difficult for investors to commit their capital to acquiring big companies, while it might be easier to add smaller companies to the already owned platform companies.

Coming to the investor's environment, SWFs are increasingly acting as traditional investors. This is clear by the fact that they are increasingly hiring people coming from diverse market backgrounds. Therefore, there has been an increase in the inflow in the private capital markets, with SWFs populating those segments with mid to high tickets investments, above \$150m. Secondly, the Italian market should leverage this new trend with the help of politics, by attracting investments in those sectors that need stronger support by working on an industrial plan supported by a common long-term view. In fact, Italy has given up building national champions in several industries differently from France, leading our country to be attractive in those sectors in which we excel, but making it difficult to attract resources in other sectors, consequently making our country attractive but not dynamic. In Pace's view, Italy should invest in those people promoting Italy abroad, working both on those sectors in which we display high growth rates such as aerospace and defence, but also in those sectors struggling to cope with foreign competition. Notwithstanding this, the growth of Italian companies should not only be based on the support from foreign investments but must depend on a diffused and well-built industrial policy, capable of building a strong narrative regarding Italian companies.

Chapter 3: Deals Analysis

3.1 Comparison between US and Italian Deals

In this chapter we are going to analyze the figures of a selected number of deals, to understand the main financial figures and how they differ between the two countries. Since the frequency of P2Ps in Italy is not comparable to the US, we have selected almost all the deals happening in Italy between 2017 and 2022, and the same number of deals in the US for the same period, taking those transactions for which multiples and data are available.

As clear from the previously analyzed data, the year with more deals both in Italy and in the US is 2021, for the favorable credit market conditions and the numerous opportunities created by the impact of the Covid-19 pandemic on financial markets.

For what concerns Italy, there is an increasing trend both in the number of deals and in deals value happening in the last five years, while the US P2P market is more robust and mature. The average size of the analyzed deal, in the US is equal to \$6.9bn, with the median equal to \$6.5bn. On the other hand, the average deal size in Italy is equal to €1.3bn, while the median is equal to €347m, being the mean strongly influenced by the presence of Atlantia's buyout. The average size of the deals skyrocketed after the Covid-19 pandemic, with the average deal value passing from €68m before 2020 to €1.8bn in Italy, and the same holds for the US, where the size of the analyzed deals moved from \$5.7bn to \$6.4bn after 2020.

For what concerns the premium paid in these transactions, it is influenced by the period in which the transaction is completed. For example, after the Covid-19 pandemic we are witnessing increasing premiums over the closing price before the announcement. This trend is a consequence of the high volatility in stock markets, which gave funds the opportunity to acquire companies at affordable valuations if compared to the previous year or two, notwithstanding the payment of a considerable premium over the last closing price before the announcement of the offer. In this context, some sectors have suffered more than others, such as the tech sector. In Italy, the average and median premium paid for the analyzed P2Ps is equal to 18.8%. The variance for this data is equal to 4.44%. The average premium paid to carry out these transactions is lower before 2020, with an average of 10.47%, while after the pandemic funds paid on average a 22.85% premium to acquire control of the analyzed companies. The higher premiums are caused by various factors, such as the lower stock prices during 2020 and 2021, giving funds the possibility to pay prices higher than the current ones, but close to the prices before the stock markets were hit by the pandemic.

In the US the average premium is historically higher, and for the analyzed deals is equal to 39.44% over the unaffected stock price. The variance for the premium paid is higher in the US, and it is equal to 10.6%. As it happens in Italy, in the US there is the same trend of increasing premiums paid after 2020, with a broader difference in percentage terms. In fact, before 2020 the premium paid in the analyzed transactions is equal to 22.98%, while after the same year it more than doubled, and is equal to 49.3%. The high difference between Italy and the US is a consequence of the peculiarities of the two take-private markets, being the Italian one less developed than the US one. In addition, funds in the US face higher difficulties in these deals, due to stronger competition and the presence of activist investors, which are always on the lookout for interesting investment opportunities where they can drive up the offer price of take-privates, such as Carl Icahn in Dell's acquisition. The higher premium in the US is caused also by the wider presence of big funds, owning high levels of dry powder to deploy in diversified investments. In fact, while the analyzed deals in the US are almost all carried out by US players, Italian PE funds limit their presence in the deals as co-investors, with US funds dominating the P2P landscape.

Coming to multiples, the average EV/EBITDA paid in the analyzed Italian transactions is equal to 11.4X, with the median equal to 10.95X. Also in this case, the multiples for the operations closed before 2020 are lower. For what concerns the US deals, the average EV/EBITDA multiple paid in the US is equal to 18.4X, with the median being equal to 17.2X. The higher multiples paid after 2020 are a consequence of the increased competition in buyouts, due to the high availability of dry powder and cheap debt. In this scenario, PE funds could buy at higher valuations without depressing their returns. In today's context, it is more difficult and costly to obtain loans to carry out LBOs, also for the lower risk appetite of the banking sector. This might reverse this recent trend of increasing multiples since companies will have to pay lower valuations to make profitable investments. Moreover, funds might wait for better equity market conditions, considering that almost all markets are at their highest since 2008, thus reducing competition among funds and in turn valuations.

Chapter 4: Dell and Atlantia case studies

4.1 Dell Take-Private: History and Context

Founded in 1984 by Michael Dell, the Dell computer corporation went public a few years later, in 1988, and quickly became one of the biggest players in the PC market thanks to its skilled sales force and due to the possibility to customize its products. The launch of Dell's low-cost model computers in 1991 boosted the company's growth and led to a price war in the PC industry. In this context, Dell managed to put pressure on its competitors such as Apple and IBM, thanks to its low-cost business model based on direct distribution and configure-to-order business model, which lowered not only the company's inventory, but also its research and development costs. During the 1990s, Dell was one of the highest selling companies on the internet and notwithstanding its low-cost business model it managed to achieve high average selling prices thanks to its features such as faster processors and additional memory, and thus high margins. The growth of the PC market was stopped by the internet bubble burst, and Dell, having high margins and lower costs than its competitors, managed to gain market share by lowering its prices, becoming in 2001 the biggest PC vendor in the world¹⁰¹. The company continued its growth and in 2004 Michael Dell resigned as CEO, leaving the position to Kevin Rollins, with whom the company shifted its business to small businesses and large enterprises, from its previous focus on retail clients. Despite the new CEO strategy, based on strong investments in centers of distribution and manufacturing plants, in 2006 the company started experiencing some problems, with the net income falling by 30% due to a huge drop in pc sales¹⁰², and a declining market share in favor of HP. Due to the poor performance, Rollins resigned from its role and Michael Dell returned as CEO to deal with the company's crisis. Dell was challenged by the industry changes, such as the declining value of customized computers, and the growth of the PC market in emerging economies, where Dell was not well positioned also because of the emergence of Asian competitors adopting a low-cost model like Lenovo. Dell launched a process of restructuring, trying to strengthen the company's positions in the areas of weakness and to adapt its business to changing times, shifting from the sale of hardware to the higher margins enterprise solutions and services (ESS) business, entering consulting, SaaS, and Data Management.

¹⁰¹ Hamblen, "PC market declines in 2001; slow turnaround expected", Computerworld, 2002

¹⁰² Vance, "Dell ends 2006 horror with \$1bn drop in pc sales", The register, 2007

In this process, Dell acquired Perot Systems for \$3.9bn in 2009. Nevertheless, notwithstanding good results in 2012 and the strategic changes made by Dell, the company's stock price fell by more than 60% from its record highs in 2005¹⁰³. The repositioning process did not turn out to be as fast as Michael Dell thought, and the visibility of the public stock market posed challenges to the execution of the turnaround process of the company. In addition, low stock prices made the company start seeking alternative solutions. Furthermore, the outlook of the PC market had deteriorated in the years before the buyout, with tablets cannibalizing PC market shares.

In July 2012, Dell met representatives of PE Silver Lake Partners to discuss the possibility of taking the company private. Other actors were interested in taking Dell private, such as Blackstone, that recognized the issues the company was going through, while other shareholders like Southeastern Asset Management and Carl Icahn thought that a take-private could have not been the best strategic choice for the company. In August, the interest for a going private was communicated to the Board of Directors (BoD), which formed a special committee (SC) in charge of considering the buyout or the best strategic alternatives to the transaction with the help of BCG advisors, and Evercore was hired for the fairness valuation of the company. After the company had released its quarterly results, negative for the seventh time in a row, with a total loss equal to \$65m, BCG reported to the SC on the possible alternatives. Moreover, the financial outlook was deteriorating, with FY14 EPS expectations declining from \$2 in August 2012 to \$1 in 2013¹⁰⁴. In this scenario, being listed exposes the company to increasing threats, both from a market and from an operational point of view, making it more difficult to apply the strategic changes needed to keep up with a continuously changing market. In fact, the changes required heavy investments and thus would lower, in the immediate future, cash flows and Dell's profitability, making the company less attractive to shareholders and further decreasing the stock price. Private companies are characterized by simpler shareholders' structure and less strict disclosure requirements, allowing for aggressive investments and higher debt ratios facilitating Dell repositioning through acquisitions and geographic expansion. On the other hand, the huge debt incurred in taking Dell private and the need to service it for several years would put increasing pressure on the company, since investments did not guarantee growth but imply a certain degree of risk, due to the need to shift cash flows to pay out debts.

¹⁰³ Source: <https://i.dell.com/sites/doccontent/corporate/secure/en/Documents/dell-closing-costs.pdf>

¹⁰⁴ Source: https://www.dell.com/learn/co/en/cocorp1/corporate_secure_dellpressrelease/201305webrelease

Besides, Michael Dell was aware that taking the company private would guarantee higher flexibility and easiness in carrying out strategic changes, that also needed to be implemented quickly. With the CEO deeming necessary to take the company private, the BoD had to maintain a fair evaluation process, as demonstrated by the choices to set up the SC and to hire BCG and Evercore, to evaluate the possible strategic alternatives, the various offers and to go for a go-shop process. The board also had to establish fair and transparent rules for any participant.

Once the board gave Evercore the mandate to start a go-shop process¹⁰⁵, that would last 45 days, and the news of the will to take Dell private became publicly available, other actors showed their interest in bidding for the company. First, Dell and Silver Lake Partners submitted a preliminary bid for Dell at \$13.65 per share, equivalent to a 25% premium over the closing price on 11/01/2013, the last trading day before the intention to take the company private was disclosed, and a 37% premium on the average stock closing price in the previous 90 days¹⁰⁶.

The buyout giant Blackstone and Carl Icahn expressed their interest in bidding for Dell. For what concerns Icahn, he already owned a large stake in Dell, equal to 6%. The activist opposed the perspective of a PE buyout since in his opinion it “*substantially undervalued the company*”¹⁰⁷. In his view, the offer would have favored only Michael Dell, that instead of taking the company private should have granted a special dividend to its shareholders, to guarantee the possible upside coming from the future value of the company to all of them. For the activist, \$9 per share in dividends combined with his discounted cash flow valuation (DCF), that gave a value per share equal to \$13.81, would have granted shareholders a more adequate valuation, equal to \$22.81 per share, giving them a 67% premium if compared to Dell and Silver Lake offer. Blackstone, for his part, presented its preliminary offer for Dell, offering shareholders the possibility to choose among \$14.25 per share or roll over a capped amount of their equity in Dell after the take-private transaction¹⁰⁸, for a total value of \$25.

¹⁰⁵ Saitto et al., “Dell Said to Hire Evercore to Seek Higher Bids After Buyout”, Bloomberg, 2013

¹⁰⁶ Source: <https://i.dell.com/sites/doccontent/corporate/secure/en/Documents/dell-closing-costs.pdf>

¹⁰⁷ Agence France-Press, “Icahn Tells Dell Board He Opposes Buyout Plan”, IndustryWeek, 2013

¹⁰⁸ Reuters, “Dell Confirms Offers From Blackstone, Icahn”, 2013

Considering the new data about the PC industry in the US market, Blackstone withdrew its offer for the company¹⁰⁹, leaving Icahn as the only bidder other than Dell and Silver Lake. For this reason, he partnered with Southeastern Asset Management, another major shareholder owning 6.95%, asking the board the option to choose either \$12 in cash per share or additional shares valued at \$1.65, for a total value of \$12, with the issuance \$5.2bn in guaranteed debt¹¹⁰. The remaining part of the offer would have been financed with \$7.5bn cash coming from Dell's balance sheet and \$2.9bn from the sale of some of the company's receivables¹¹¹. After having received and evaluated the various offer, the SC made a formal recommendation to approve Dell and Silver Lake's offer, stating that it was the most convenient for shareholders and asserting that Icahn had difficulties in accessing financing. The SC also set the rule for voting on the transaction. At first, the initial voting required the majority of all shares to vote in favor of the deal, and Michael Dell agreed not to vote with his 16%. As it was almost impossible to reach the majority with these voting rules, Dell and Silver Lake decided to postpone the vote to September 2013 and to slightly raise the bid, offering a total of \$13.88 per share, including a \$0.13 dividend per share, driving the total value off the offer to \$24.5bn. Moreover, the SC ruled that only the majority of the vote cast counted, and not those of all the outstanding shares, counting just the actual votes. For this and other changes, Icahn sued Dell¹¹². Notwithstanding the legal actions and Icahn's opposition, Michael Dell and Silver Lake managed to carry out the transaction.

¹⁰⁹ Sorkin et al., "Blackstone Drops Out of the Bidding for Dell", The New York Times, 2013

¹¹⁰ Wapner, "Icahn to Team with Southeastern Asset Management in Proxy Battle Over Dell", CNBC, 2013

¹¹¹ Kim et al., "Founder told to sweeten offer for Dell ad Icahn ups the stakes", Reuters, 2013

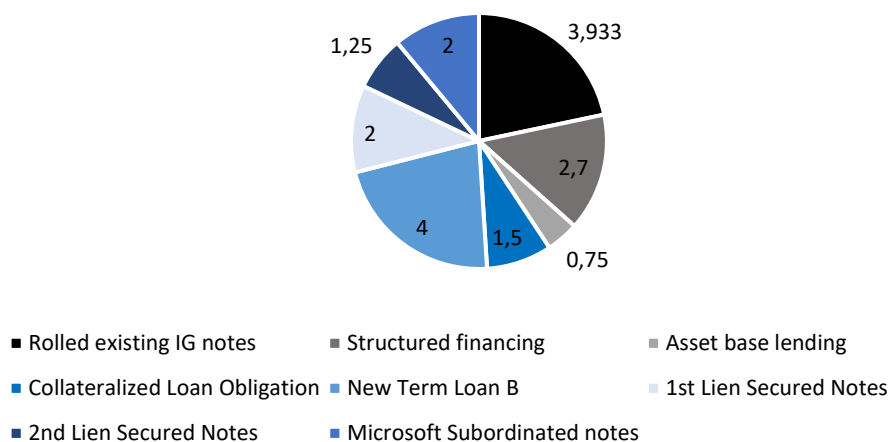
¹¹² Gupta, "Icahn sues Dell in latest attempt to foil buyout", Reuters, 2013

4.1.1 Transaction structure

The final bid, equal to \$24.5 bn, was carried out through an LBO structure. This was the largest LBO since 2007. As already stated, the total consideration offered was \$13.75 plus a dividend of \$0.13 per share and was equal to a 28% premium over the closing price of the last day of trading before the information was publicly disclosed, and a 39% premium over the average closing price in the previous 90 days. In addition, Goldman Sachs published a report on 30/11/2012 regarding a possible take-private transaction. At that time, Dell was trading at \$9.64, and the offer implied a 44% premium over that price. Even though this premium was in line with the premiums paid in other transactions, it was not considered enough from the perspective of those shareholders that entered the company when the stock price was higher. For what concerns the transaction financing, \$7bn in cash was taken directly from Dell Cash, and Michael Dell rolled over its 15.7% equity share in the private company. Nonetheless, Microsoft participated in the transaction with a \$2bn loan, and Silver Lake committed \$1.4bn in equity. The remaining \$16bn was financed through bank financing and various instruments, such as collateralized loan obligations¹¹³. Among the banks participating in the syndicated loan, there were Credit Suisse, Bank of America, Barclays, and RBC, while Michael Dell financed his part through MSD Capital, his family office.

Graph 9

Financing breakdown (in \$bn)

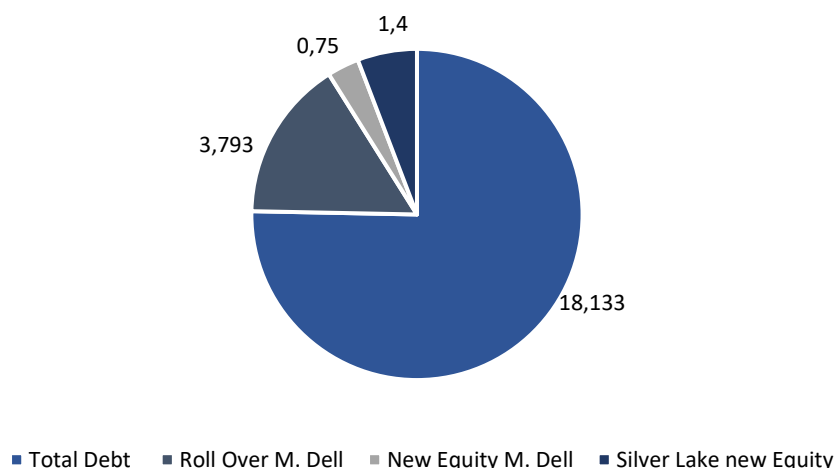


Source: J.P. Morgan Final Bid Presentation

¹¹³ Bocconi Student Investment Club, "Dell mammoth \$24bn LBO", 2013

Graph 10

Final Bid Breakdown (in \$bn)



Source: J.P. Morgan Final Bid Presentation

According to these data, the deal was highly leveraged, with a 75% debt and 25% equity structure. To carry out the transaction, two companies were incorporated in Delaware, Merger Sub and Intermediate, wholly owned by a third company. Merger Sub would merge with Denali Holding, the investment vehicle created by Michael Dell and Silver Lake, with Denali surviving as a subsidiary of Intermediate. After the merger, the bylaws of the “surviving company” would be amended under the terms of the merger agreement¹¹⁴. Dell’s shareholders would receive a mix of cash and dividend for their shares of Dell’s common stock. Basically, the transaction was carried out through a two-step merger.

¹¹⁴ SEC Archives

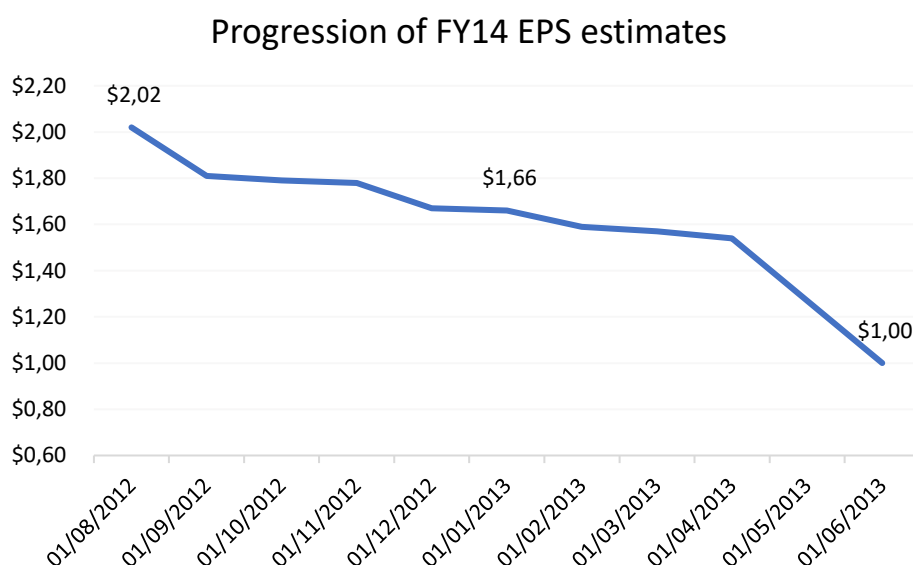
Source:

https://www.sec.gov/Archives/edgar/data/826083/000119312513242115/d505470ddefm14a.htm#toc505470_45

4.1.2 Financials and Valuation

As demonstrated by the data previously presented, Dell's financial outlook was rapidly deteriorating. In this paragraph, we will sum up some important financial indicators that led to the bid launched by Silver Lake and Michael Dell. As shown by the following graph, EPS estimates decreased by more than 20% from August 2012 till the announcement of the offer by Silver Lake Partners in January 2013, while the decrease was more marked, with a drop higher than 50% just six months after the offer was launched¹¹⁵. Precisely, this decrease in EPS estimates was mainly caused by the decreasing US demand for PC, and the growth of foreign competitors, capable of offering lower cost products.

Graph 10

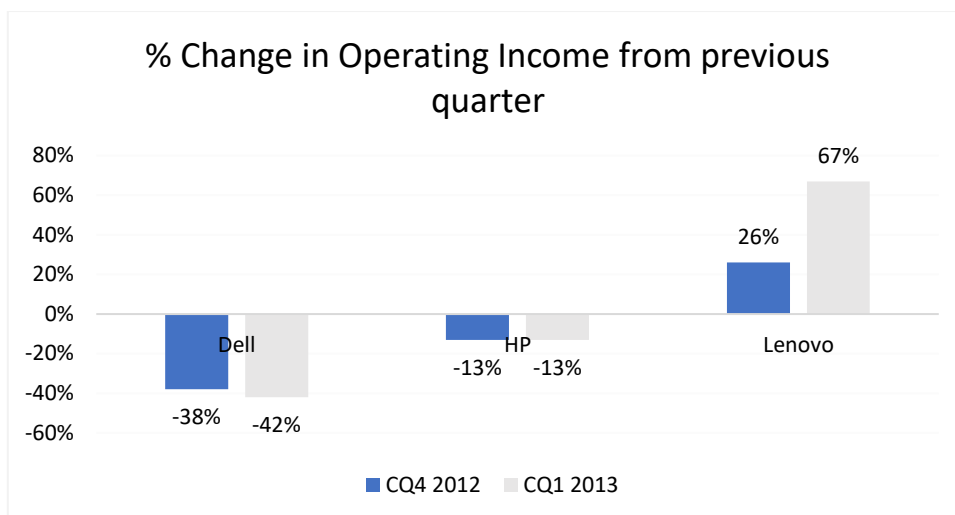


Source: Dell Special Committee Investor Presentation, June 2013

As a consequence of the decrease in expected earnings per share, there was a huge downside pressure on the stock price. In Dell's mind, one of the main drivers for the take-private transaction was the need to protect the stock from these huge downshifts. In this regard, Dell was also underperforming its competitors, as shown by the following graphs. These graphs represent the percentage change in some main indicators between the previous months and the last quarter of 2012 (CQ4 2012) and the first quarter of 2013 (CQ1 2013).

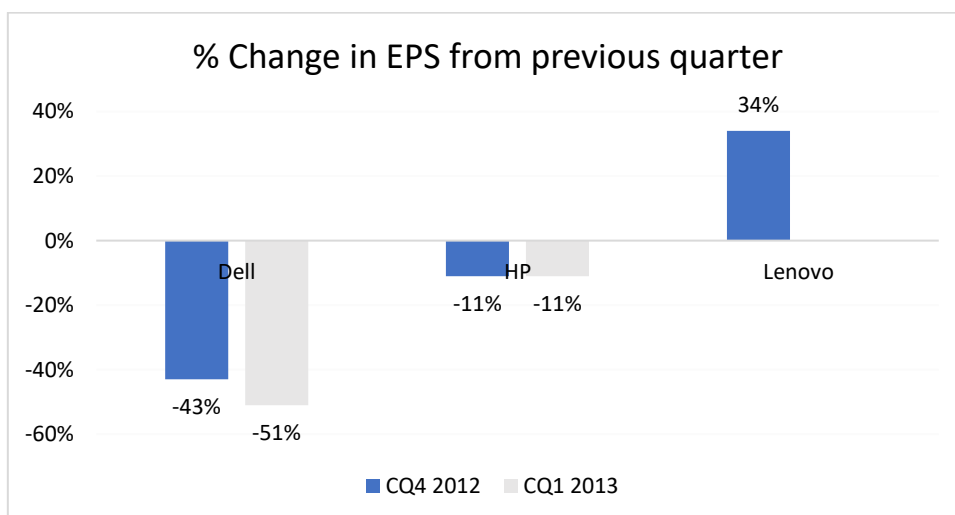
¹¹⁵ Dell Special Committee Investor Presentation June 2013, 2013

Graph 11



Source: J.P. Morgan Final Bid Presentation

Graph 12



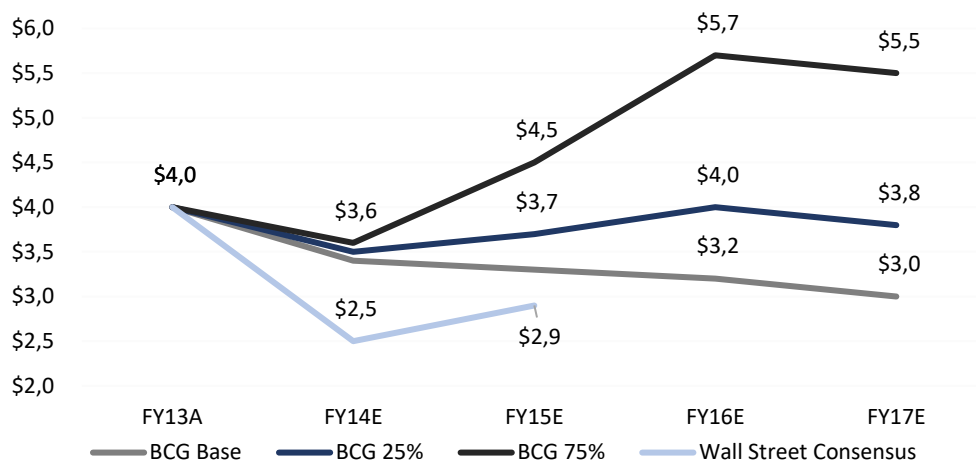
Source: J.P. Morgan Final Bid Presentation

The drop in operating income and EPS was a consequence of the drop in revenues. As shown by these data, Dell was underperforming almost all its principal peers. The financial forecasts carried out by BCG show how the expected operating income calculated by BCG strongly differs from the Wall Street consensus. Moreover, the final FY14 Board case forecasted is lower than BCG forecasts and equal to \$3bn¹¹⁶.

¹¹⁶ J.P. Morgan Final Bid Presentation

Graph 13

Comparison of Operating Income Forecasts (in \$bn)



Source: J.P. Morgan Final Bid Presentation

Wall Street projections were worse than the company's projections, and also compared to the worst case of the company advisors. This can signal that in the end, Michael Dell and Silver Lake partners' proposal was not as bad as Icahn claimed.

As the following table shows, each indicator analyzed worsened throughout 2012 and till the end of the first half of 2013. This is true for almost all the projections, with FY2014 operating income and EPS suffering more than other measures¹¹⁷. The projections changed a lot throughout the process and were adjusted during the summer of 2013 due to the deterioration of the financial situation. The following table shows how the situation changed from the plan prepared in July 2012.

¹¹⁷ Evercore Presentation to Special Committee August 2013, 2013

Table 1**Dell FY14 financial forecast**

SCENARIO	FY13 Revenues	FY13 Op. Income	FY13 Diluted EPS	FY14 Revenues	FY14 Op. Income	FY14 Diluted EPS
July 2012 PLAN	\$63bn	\$5.2bn	\$2.27	\$66bn	\$5.6bn	\$2.5
21/9/2012 Case	\$57.5bn	\$4bn	\$1.7	\$59.9bn	\$4.2bn	\$1.84
Actual Data FY13	\$56.9bn	\$3.7bn	\$1.58	\$56bn	\$3.7bn	\$1.59
BoD Case (03/2013)				\$56.5bn	\$3.0bn	\$1.25
Q1 2013 Annualized				\$56.3bn	\$2.4bn	\$0.84
1st half Annualized				\$57.0bn	\$2.2bn	\$0.82
Change from July 2012	-10%	-30%	-31%	-14%	-59%	-67%

Source: Evercore Presentation to the Special Committee, August 2013

As this table shows, each indicator worsened throughout 2012 and till the end of the first half of 2013. This is true for almost all the projections, with FY2014 operating income and EPS suffering more than the other measures.

For what concerns EBITDA, this measure was equal to \$5.7bn for the financial year 2012, and decreased in 2013, with a value equal to \$3.9bn, demonstrating the company's difficult situation¹¹⁸. This measure is one of the most important in valuing a company through multiples. The EBITDA projections regarding FY14 carried out in different periods present differences, reflecting the changing sentiment regarding Dell and the PC sector. In fact, Dell's board of directors approved two different cases in March 2013, the internal case and the BoD case. The internal case shows an EBITDA for FY14 equal to \$4.3bn, while the BoD calculates the FY EBITDA equal to \$3.6bn.

¹¹⁸ J.P. Morgan Final Bid Presentation

The implied equity value coming out from the amended offer, equal to \$13.75 plus a \$0.13 dividend at closing, for a total of \$13.88 per share, reached \$24.5bn.

Table 2
Transaction Valuation

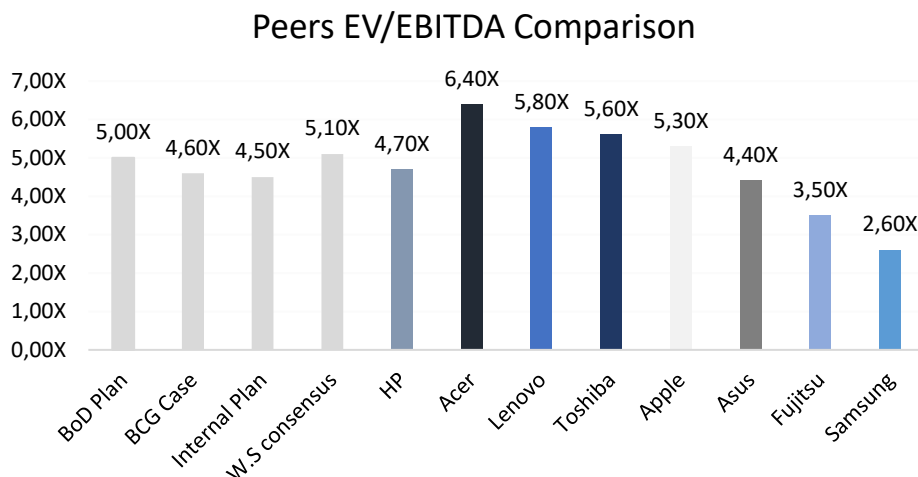
	Initial Offer	Amended Offer
Merger Consideration per single share	\$13.65	\$13.75
Special Dividend	-	\$0.13
Total Consideration per Share	\$13.65	\$13.88
Implied Equity Value	\$24.0bn	\$24.5bn
Plus: Debt as of 31/7/2013	\$6.8bn	\$6.8bn
Minus: Cash as of 31/7/2013	\$13.3bn	\$13.3bn
Implied Enterprise Value	\$17.5bn	\$18.0bn

Source: Evercore Presentation to the Special Committee, August 2013

The multiple analysis for Dell and its peers shows how Dell is trading at similar EV/CY2013E EBITDA multiples if compared to its peers in the personal computer industry, while the multiple is slightly below the average if the sample is enlarged to comprehend also other competitors such as IBM and other ICT services providers working with enterprises¹¹⁹. The multiple varies by taking into account FY2014E and FY2015E EBITDA, for the various projections, ranging from 4.2X to 6.1X in the lowest Wall Street EBITDA projection.

¹¹⁹ Evercore Presentation to the Special Committee August 2013, 2013

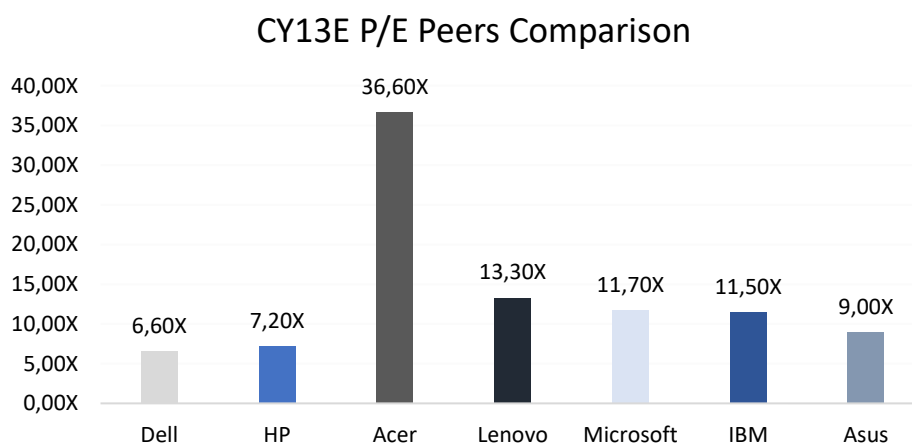
Graph 14



Source: Evercore Presentation to the Special Committee, August 2013

To sum up, the multiple analysis shows how the price per share offered by Dell and Silver Lake is between the middle and high end of the various cases analyzed by the Board and the special committee, while is higher than the highest consideration stemming from the Wall Street consensus median multiples, equal to \$13.75¹²⁰. For what concerns the CY13E P/E, Dell is trading well below its peers, also without considering the presence of a great outlier as Acer¹²¹.

Graph 14



Source: J.P. Morgan Final Bid Presentation

¹²⁰ Evercore Presentation to the Special Committee August 2013, 2013

¹²¹ J.P. Morgan Final Bid Presentation

For what concerns the discounted cash flow (DCF) analysis, that was carried out assuming a weighted average cost of capital (WACC) ranging between 10% and 12%, and implies different growth rates for each scenario, ranging from 4.1% to 7.6%, the results show how the consideration offered is at the lower end of the most productive case presented by BCG, while is at the higher end of the BCG base case and Wall Street median¹²².

4.1.3 Case study conclusions

This is one of the various cases of successful take-privates. In fact, Dell revenues rose from about \$56.9bn in 2013¹²³, the year of its delisting, to \$79.4bn in 2018, the year of its new listing, showing a 6.9% CAGR. After having improved its financial situation, also thanks to an improving market position and having reached the 17% of the global PC market share¹²⁴, Dell, decided to go public again by buying back its shares DVMT.N, that followed the performance of the software maker VMware and in which Dell already owned a 20% stake, for \$23.9bn, thus avoiding the IPO process and the consequent pressure regarding Dell's debt, that after the deal and EMC acquisition was higher than \$50bn according to Reuters. Also in this deal, Dell found the resistance of shareholders such as Carl Icahn, raising the initial cash offer for the tracking stock from \$9bn to \$14bn, with the remaining part paid in stock and thus following the performance of the shares on the market. Dell first trading price, equal to \$46 dollars per share, implied a buyout value for the stock component equal to \$21 bn almost \$3bn less than expected, with a total valuation equal to \$34bn¹²⁵.

In this regard, the take-private has been a winning bet both for Michael Dell, which saw its stock value raising from the \$3.6bn dollars rolled over and invested in the previous deal to \$39bn as of 2021, with the company reaching a market capitalization close to \$80bn in that year¹²⁶, and for Silver Lake Partners, which reached a 29% stake in the company as of 2020, and saw the share value reaching a maximum of \$59 per share in 2022¹²⁷.

¹²² Evercore Presentation to the Special Committee August 2013, 2013

¹²⁴ Reuters Staff, "Dell returns to market with NYSE listing", Reuters, 2018

¹²⁵ Waters, "Dell returns to stock market with \$34bn listing", Financial Times, 2028

¹²⁶ Gara, "How Wall Street's Greatest Piece of Financial Engineering Propelled Michael Dell to A \$50 Billion Fortune", Forbes, 2018

¹²⁷ Haranas, "Silver Lake Owns 29 Percent Stake in Dell Technologies", Data Center News, 2020

4.2 Atlantia Take-Private: History and Context

Atlantia is an Italian holding company, mainly active in the infrastructure industry, managing toll roads and airports in Italy and abroad. The company recently switched its name to Mundys and was founded in 2002, even though its origins are older. In fact, in 1950 “Società Concessioni e Costruzioni Autostrade S.p.A” was established, with the goal of contributing to re-building the country after the Second World War. In 1987, Autostrade Concessioni e Costruzioni SpA is admitted on the Milan Stock Exchange, and later, in 1999 it was privatized and acquired by Schemaventotto SpA, owned by different investors and with Edizione, the holding of the Benetton Family, as the main shareholder. The group bought 30% of the company, while the remaining holding of IRI was sold to the public through an IPO.

In 2003, the company was the target of a takeover offer from Newco28, controlled by Schemaventotto, carried out via LBO, and in the same year the activities of the company were re-organized, with the highway activities controlled by Autostrade per l'Italia SpA., listed on the Milan Stock Exchange and controlled by Atlantia SpA.

In 2005, the company started a process of geographical diversification, acquiring the management of toll roads concession for about 2.000km, in countries such as Poland, India, Brazil and China, while in 2013 it entered the airport sector, acquiring the management of Fiumicino and Ciampino airports in Rome. The company's presence in the airport sector has been consolidated in the following years, entering also in France. Moreover, by acquiring Abertis in 2018, Atlantia became a world leader in the transport infrastructure sector and mobility services, being active in more than 20 countries. Later, it acquired a participation in Getlink, Red de Carreteras de Occidente in Mexico and Elizabeth River Crossing in the US, continuing its process of geographical diversification¹²⁸. To sum up, we can say that Atlantia mainly operates through five segments, Italian toll roads and motorways, foreign toll roads and motorways, Italian airports, overseas airports, and infrastructures-linked services. At the time of the deal it managed more than 14.000 kilometers of motorways and was widely diversified geographically, being active in 24 countries.

Atlantia has been through tough times, especially after the collapse of Ponte Morandi in Genova in August 2018. The collapse of the bridge managed by Autostrade Per l'Italia (ASPI), a subsidiary of the company, causing the death of 43 people and putting the company at the center of the public spotlight, with the stock price plummeting by more than 25% in the two days following the event¹²⁹.

¹²⁹ Source: <https://www.investing.com/equities/atlantia-historical-data>

After this tragic event, the public pressure on the Italian government rose to the point that it declared the will to revoke the concessions granted to ASPI, putting Atlantia at risk of losing one of its most profitable assets. In the end, ASPI was acquired by a consortium of investors led by Cassa Depositi e Prestiti (CDP) through CDP Equity, with the help of Blackstone Infrastructure Partners and the Asset Manager Macquarie, for an equity value equal to €8.2bn¹³⁰, taking on €7.8bn of the company's debt to acquire the 88.06% of ASPI. Moreover, the Benetton family, owner of the holding Edizione and thus of Atlantia, had been advised to seek buyers for Atlantia. Even though the sale of ASPI was certainly a better option than the withdrawal of the concessions, it deprived the company of the management of profitable assets. Moreover, Covid-19 had a tough impact on Atlantia's performance, making it susceptible to unfriendly acquisitions. In addition, the deal had a strong appeal for financial investors, because infrastructures and especially toll roads and motorways may guarantee higher cash flow stability also in times of uncertainty and economic instability. In this regard, the deal was closed in 2022, when inflation was at its highest in a long time. Moreover, Atlantia's portfolio had a high degree of diversification, ensuring revenues also in times of low motorway flows, thanks to the presence of airports and other businesses, as well as motorways concession may contain clauses linking tariffs to inflation levels. Always from Blackstone's viewpoint, toll road businesses maintain high EBITDA margins thanks to the low operating costs needed. The impact of inflation on this kind of business may be deemed more negligible than in other sectors.

One of the similarities with Dell's case concerns the presence of competition in the bidding process. In this case, the investor with the highest interest in acquiring Atlantia was Florentino Perez, through its infrastructure group ACS. Perez was already interested in buying ASPI, but CDP and Blackstone's offer was preferred, to keep the company in the hand of an Italian owner. Notwithstanding the failure to win the bid for ASPI, Florentino Perez was still interested in buying Atlantia, since ACS group, along with Atlantia was the other owner of Abertis. Perez would have included Brookfield Asset Management and Global Infrastructure Partners in its bid, but the Benetton family had no interest in Perez's approach since it wanted to keep control of the company. Right after the refusal of Perez's approach, the Benetton family presented its offer to take the company private with the cooperation of Blackstone, with the aim of exploiting strategic synergies with the investor to build a long-term partnership and prevent ACS's interest in its businesses.

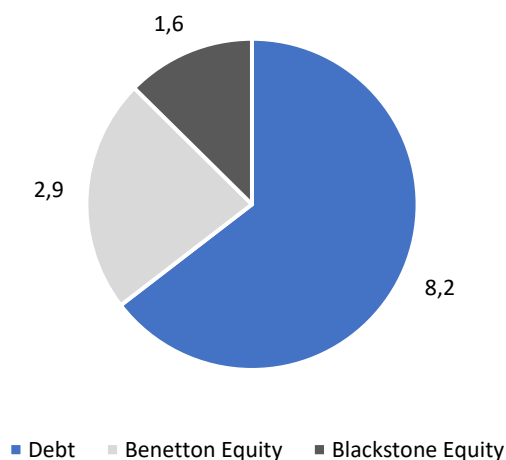
¹³⁰ Redazione Milano Finanza, "CDP, Blackstone e Mcguire completano l'acquisto dell'88,06% di ASPI", Milano Finanza, 2022

4.2.1 Deal structure

The deal was carried out through an LBO, and Atlantia's EV was assessed to be equal to €55bn, with an equity value equal to €19bn, considering the expected FY2022 debt, equal to €36bn. The €23 per share voluntary takeover offer implied a 24.4% premium over the closing price before the news of a possible acquisition circulated. In addition, shareholders tendering their shares would still receive the dividends expected for the following months, equal to €0,74. However, the premium over the previous 6 months was higher, close to 36%, also due to the impact of Covid-19 on Atlantia's stock price. The acquisition was carried out through the newco "Schema Alfa" with the holding Edizione controlling 65% of the investment vehicle, and the remaining 35% owned by Blackstone. The Benetton family provided €2.9bn in equity, while Blackstone participated through its funds Investor SPV 1 and 2, providing a €1.6bn equity participation. The takeover bid targeted 67% of the shares, the ones not already owned by the family, for a total of €12.7bn, with the remaining €8.2bn financed by bank debt.

Graph 15

Transaction Financing Breakdown (in €bn)



Source: <https://www.infrastructureinvestor.com/blackstone-in-e12-7bn-take-private-bid-for-atlantia/>

The valuation represented a 13.5X EV/EBITDA multiple, considering 2022 EBITDA projections equal to €4.1bn¹³¹ (the use of projections is justified by the closing date; no data were available for the full year but just for the first three quarters).

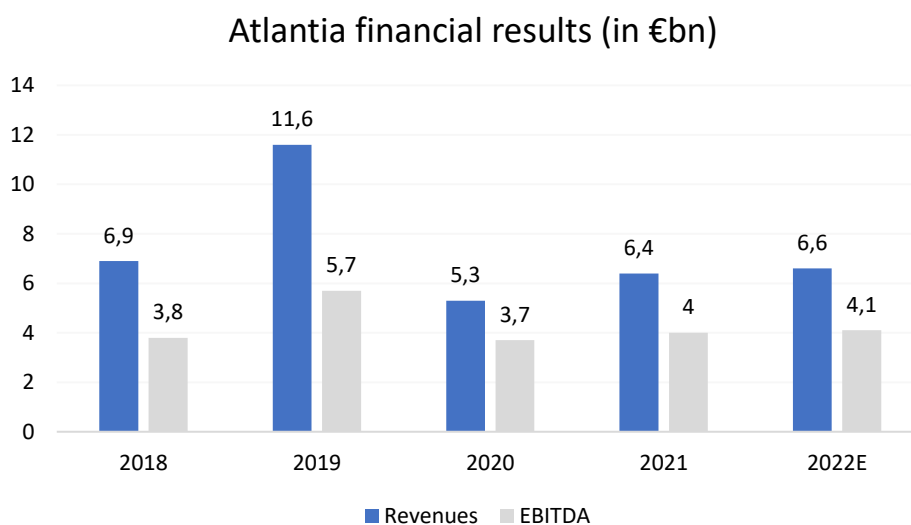
¹³¹ Atlantia Financial Report, 2022

The takeover offer reached a 96% subscription, with the contribution of enough shares for the offeror to reach 92.8% of total shareholdings. The company's last day of trading was the 9th of December 2022.

4.2.2 Financials and Valuation

In the years preceding the take-private, Atlantia went through a growth phase, both for the effect of acquisitions and for the reliability of the cash flows generated by its businesses. Notwithstanding Ponte Morandi's incident, 2019 was characterized by outstanding growth stopped only by the Covid-19 pandemic.

Graph 16



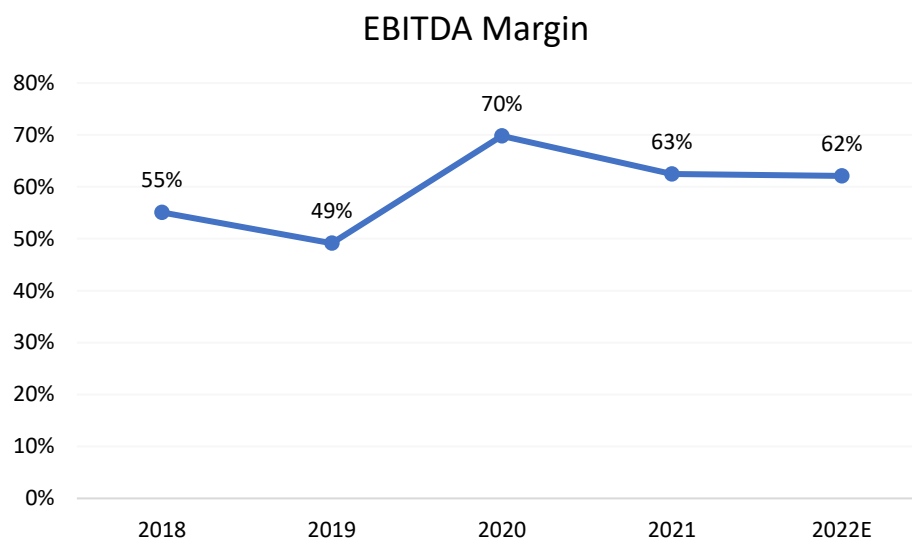
Source: Atlantia Financial Reports

After a 50% decrease in the company's Revenues, the company started growing again in 2021¹³², due to the partial recovery of the economy after the pandemic, with a slight growth also during the year of the delisting. The company, like its peers and competitors, has been characterized by a high EBITDA margin through the years, due to the high stability of cash flows, which in Atlantia's case, for some businesses such as ASPI, were also linked to inflation. In addition, Atlantia's net debt has been always at high levels, considering the need to finance its investments, such as the Abertis acquisition closed in 2018¹³³ and the Yunex group acquisition in 2022.

¹³² Atlantia Financial Report, 2021

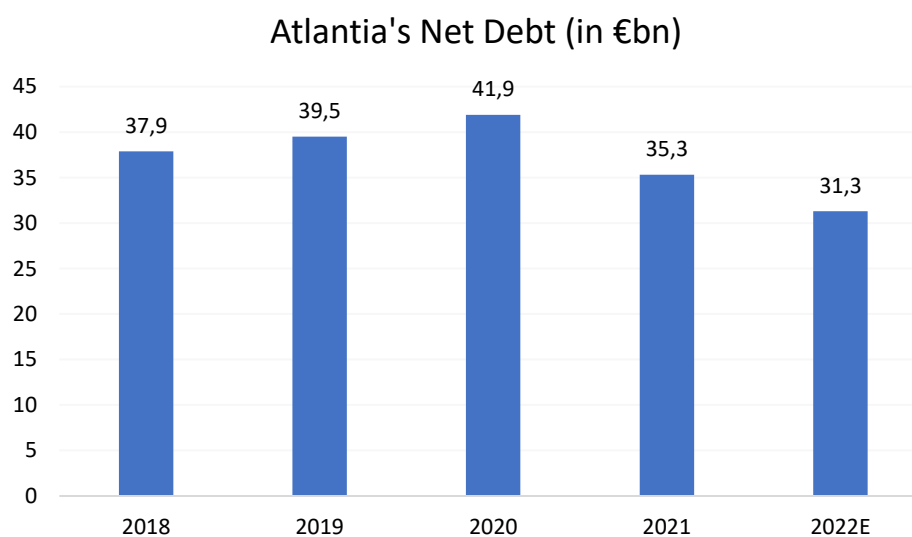
¹³³ Reuters Staff, "Atlantia, ACS complete 16.5-billion-euro acquisition of Spain's Abertis", Reuters, 2018

Graph 17



Source: Atlantia Financial Reports

Graph 18



Source: Atlantia Financial Reports

The acquisition of ASPI by the state-led CDP and Blackstone, on one hand helped in reducing the debt position of the company while on the other deprived it of a profitable and stable business. Notwithstanding a lower debt in 2021 and 2022, the €8.2bn of debt raised by Atlantia to carry out the LBO, put the company in a situation of high leverage with net debt exceeding €40bn after the transaction closing, and a leverage ratio higher than 10X¹³⁴.

¹³⁴ Atlantia Financial Report, 2022

The deal value implied a 13.5X FY2021 EV/EBITDA, considering the €55bn EV. This figure is higher than the average multiples provided by Damodaran for the Transportation sector, equal to 7.65X¹³⁵, and lies in the range of the dataset created by Macquarie including transactions that happened between 2008 and 2013, with EV/EBITDA multiple ranging between 10X and 35X, with an average multiple equal to 16X. In addition, according to PWC, the average EV/EBITDA multiples for Airports was equal to 22X between 2016 and 2018, while it was equal to 16X between 2013 and 2015¹³⁶. For what concerns toll roads, EV/EBITDA multiples ranged between 18X and 36X, between 2008 and 2015, with an average multiple equal to 26X¹³⁷. If we consider these businesses, the multiple paid to acquire Atlantia seems lower, but it is important to consider that it is difficult to find competitors and peers active in the infrastructure sector as diversified as Atlantia. In fact, by considering some specific companies such as Eiffage, a French infrastructure constructor, and Vinci, the biggest infrastructure player in French, the multiple analysis shows that Atlantia trades at higher multiples.

Table 3

	EV/EBITDA 2021	EV/EBITDA 2020	P/E 2021	P/CF 2021	DIV. YIELD 2021	P/BV 2021
Vinci	9.4X	12.5X	19.3X	9.4X	3.3%	2.2X
Eiffage	6,5X	8.4X	11.2X	4.4X	3.5%	1.6X
Atlantia	12.1X	10.4X	30.1X	10,8X	3.2%	2.3X

Source: Factset 5 april 2022, Financial reports as of 2022

As shown by the table above, Atlantia's multiples are higher than competitors' ones, notwithstanding the better financial performance of its competitors.

¹³⁵ Damodaran Database, 2023

Source: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.html

¹³⁶ Radia et al., "Has the trend line shifted? The impact on airport valuations", PWC connectivity and growth, 2018

¹³⁷ Fossati, "Investing in a toll road asset, how much to pay for it?", 2021

In this regard, Vinci almost doubled its EBITDA in the first half of 2022, but its multiples are lower. The higher multiples may be caused also by Florentino Perez and ACS's interest in acquiring the company and by the will of both the Benetton family and the Italian government of keeping the company in Italian hands.

4.2.3 Case study conclusion

Atlantia's acquisition was the biggest-ever European take-private and the second biggest take-private of the year. This acquisition was driven by the will to keep control of the company by the Benetton family, and to protect it from undesired offers by avoiding a proxy war. Even though some analyses argue that the deal might add too much leverage to the company, adding further debt to an overloaded company, the stable cash flow arising from Atlantia's businesses might be seen as a guarantee of the company's ability to service its debt. Still, it is not clear if the move to take the company private is definitive or not, and rumors suggest that the company might be taken back to the markets, either in Italy or abroad. This is due to the presence of a lock-up clause lasting for 5 years, after which both investors might require another listing if the price of the shares in the IPO allows them to reach adequate returns. This clause was set to allow Blackstone to exit from the investment and will allow the Benetton family to keep its shares if the PE funds require the listing. This transaction has been a game changer in the Italian environment, showing how US funds have an interest in making large investments also in our country.

Conclusions

The bond between the macroeconomic conditions and the investment sector is a known thing, and it is especially strong when considering leveraged transactions, such as take-private deals. Even though these transactions are evolving and adapting to changing scenarios, for example by making a larger use of alternative funding sources such as private credit funds, and thanks to the interest of previously detached actors such as SWFs, that are evolving and increasingly acting as traditional investors. In times of distress, big funds, and big players such as SWFs tend to suffer less, having huge availability of funds. It is still uncertain how the macroeconomic situation will evolve, and economists have different points of view on future developments. But as of now, it seems clear that for various reasons, such as the high rates environment and economic uncertainties, that are not fully reflected in equity markets valuations that are still high, the window of opportunity available to complete take privates is not so wide. In phases like the actual one, with some bank failures happening, banks might be more willing to finance deals regarding sound and profitable transactions entailing fewer risks, while buyout funds usually prefer to target companies that are struggling, because of the opportunity to gain higher profits. Therefore, as demonstrated by recent data, surveys, and the vision of professionals interviewed, private equities might struggle in taking companies private until the macroeconomic and geopolitical tensions fade, especially if compared to the booming P2Ps market in 2021. Moreover, it is still not known if a world with a 2% inflation target will be reliable in the future or if the ECB and FED will have to shift to higher thresholds able to reflect the speed at which the economic world evolves.

In this regard, we might see a wider range of actors involved in take-private, and a reduction in leverage from the typical 70% debt 30% equity, until a new period of market lows funds new opportunities, and the credit markets become “leverage friendly” again, with lower rates and higher credit availability. For what concerns the Italian market, it started its growth after 2017, with particularly high activity in 2021.

Being less developed and mature than the US and other foreign countries' markets such as UK and France, P2Ps in Italy might suffer more. On the other hand, add-on acquisitions could continue their growth, due to the possibility to exploit platform companies to carry out acquisitions. Add-ons are usually smaller in size, and thus funds might decide to opt for these deals until the macro situation improves. There could be a higher activity in buyouts for those sectors characterized by endogenous growth, caused by the overall increase in demand for the products or services offered.

For what concerns the main differences between the US and the Italian market, it emerges that one of the main reasons behind the higher and continuous growth in the US P2P market is the support of the political environment, capable of stimulating and attracting investments in almost all sectors. Moreover, the stricter regulation and the shareholders' structure in Italy makes it difficult for those players dominating the US market to invest heavily in big corporations. If Italy wants to compete with the US, it must set up a clear industrial plan, and analyze possible interests from foreign investors for the effect they could have on the sectors of interest.

As it also emerges from the two case studies, the Italian market is guided by a different logic. Both in Dell and Atlantia's buyouts, a strong shareholder is taking its company private with the help of big funds such as Silver Lake and Blackstone, but if Micheal Dell decided to take its company private to protect it from a market that, in his opinion, was undervaluing the company, the Benetton family wanted to protect its business from possible interest from other actors, such as Florentino Perez's ACS. In Atlantia's case, it would have been very difficult for any shareholder other than the Benetton family to influence the take-private process, while we have seen the importance of other shareholders such as Carl Icahn in Dell's process. Therefore, another important aspect to be considered is the relative irrelevance of shareholders' activism when it comes to Italian companies, even though in the last years we have seen some important cases of activist investing, such as the battle for the control of Generali.

If Italy does not opt for policies facilitating investors' interest and giving them space for maneuver, it will be difficult to compete with other countries in attracting resources for P2Ps. In fact, even though it is important to protect the Italian economy and in particular our strategic sectors from predators' buyouts, cases such as the Atlantia acquisition shows two important aspects: it is possible to have cooperation between major Italian shareholders and big funds if there is a common will to follow precise strategic choices, and there is an interest of big international players in our country.

An Interest that is demonstrated not only by the increasing P2P market in Italy but also by the huge growth of the traditional private equity market. Moreover, the European framework gives each member state the possibility to act on their policies, setting the base for countries to build their framework. Countries such as France and Germany have seen a higher activity in P2Ps notwithstanding some similarities regarding the shareholders' structure. This means that Italy is less attractive if compared not only to the US but also to its European peers. Italy should work on those aspects taking away the interest of investors, such as bureaucracy, strict regulation, and some thresholds such as the squeeze-out, that for US investors might be deemed too high, and the threshold regarding the mandatory takeover offer launch. For these reasons, it is possible to say that Italy is not as attractive as other countries for market characteristics and for features of other nature, such as corporate governance, the Italian legal framework, and the strict regulation.

In addition, Italy should work on the growth of its PE players. Even though the numbers of the Italian PE have more than tripled from 2012 onward, there is a problem with the size of Italian players. Italian PEs are not able to compete with US, UK, and foreign big funds, and probably will never reach dimensions allowing them to carry out operations such as Atlantia's buyout. But to facilitate the growth process it could be useful to have bigger Italian players, supporting foreign investors in their acquisitions, and investing to back those sectors of strategic importance.

Appendix: Deals Analysis Italy & US

Target (ITA)	Bidder	Year	Deal Value(€m)	Premium	EV/EBITDA
Prima industrie	Alpha PE & Peninsula	2022	138	68.3%	11.1X
Coima Res	Qatar Inv. Authority	2022	361	23%	21.3X
Atlantia	Blackstone & Edizione	2022	12700	24%	13.5X
Cerved	ION, GIC & FSI	2022	1860	44.9%	15.6X
ASTM	Ardian & Gavio	2021	1500	39%	10.8X
Falck Renewables	JPM Asset Management	2021	1500	15%	18.7X
Guala Closures	Investindustrial	2021	284	17%	9.8X
La Doria	Investindustrial	2021	323	-18%	7.1X
Retelit	Asterion Industrial Partn	2021	334	10.7%	12.1X
Sicit	Neuberger Berman	2021	381	3.3%	17.4X
IMA	BC Partners & Vacchi Family	2021	1400	29.3%	13.7X
Gamenet Group	Armonia SGR	2020	362	-10%	7.9X
BioDue	Armonia SGR	2019	35	24.5%	10.7X
BOMI Italia	ArchiMed	2019	74	30.67%	4,4X
Dada	HgCapital	2018	67	-10%	10.1X
TBS Group	Permira	2017	93	17.2%	8.5X

Source: FactSet, MergerMarket, Orbis M&A

Target (US)	Bidder	Year	Deal Value (\$m)	Premium	EV/EBITDA
Maxar Technologies	Advent	2022	6400	129%	25.6X
Tenneco	Apollo Global Management	2022	7100	100%	7.7X
Covetrus	Clayton Dubilier & Rice's	2022	4000	6.8%	22.5X
CyrusOne	KKR & GIP	2021	15000	25%	31.3X
Stamps.Com	Thoma Bravo	2021	6600	67%	24.7X
Proofpoint Inc	Thoma Bravo	2021	12300	34%	16X
The Michaels Company	Apollo Global Management	2021	5000	47%	6.7X
Echo Global Logistics	Jordan Co.	2021	1300	54%	20.4X
Perspecta Inc	Veritas	2021	7100	11.8%	11.2X
Cincinnati Bell	Macquarie	2020	3800	18.5%	6.6X
Zayo Group Holdings	EQT & Digital Colony	2019	8200	14.3%	12X
Elli Mae	Thoma Bravo	2019	3700	21%	53.6X
Envision Healthcare	KKR	2018	9900	32%	10.1X
Panera Bread	JAB Holding Company	2017	7600	20.3%	18.8X
Diamond Resort Int.	Apollo Global Management	2016	3200	25.7%	8.9X
Krispy Kreme	JAB Holding Company	2016	1350	25%	18.5X

Source: FactSet, MergerMarket, Orbis M&A

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Thesis Summary

Chapter 1

This thesis analyses take-private transactions, deals in which publicly traded companies listed on stock exchanges are acquired to delist them. There are two types of delistings: voluntary, initiated by the company's ownership or management, or by financial buyers in the case of private equity funds, happening for strategic reasons or due to excessive listing costs, and involuntary, enforced by stock exchanges or regulatory authorities for the failure to meet listing requirements. Take-privates, being carried out by funds to delist companies and apply strategic changes, can be included in voluntary delistings. LBOs are commonly used in take-privates, where a significant amount of debt is used, and the target company's operations can be used as collateral. Leverage is useful to allow the acquisition of control of targets of a bigger dimension than the acquirer, and debt is loaded on the acquired company, not on the buyers. PE funds might employ different strategies, such as improving the target's operation, or simply paying out debt and selling the company at a higher equity value, but also other strategies such as multiple expansion. In all cases, PE funds will try to rationalize the acquired company.

P2P transactions can be executed by different types of players with various objectives. If Private equity funds are involved, we call them institutional buyouts, Management buyouts occur when a company's management team acquires the same company, usually with the assistance of private equity firms or financial institutions. Management buy-ins involve external management teams acquiring the company, typically through hostile transactions. Also, single investors backed by multiple lenders may conduct LBOs, as in Twitter's acquisition, but there might also be an interest of strategic buyers, such as industrial players, in acquiring listed companies to leverage synergies or integrate their business.

The involvement of PE funds in P2Ps has increased for various factors, such as the availability of capital and market volatility. Supporters argue that private equity-backed buyouts enhance efficiency and value creation through concentrated ownership, leverage benefits, and active governance. However, critics argue that these transactions can lead to increased systematic risk and potential expropriation of non-equity stakeholders. Research suggests that public-to-private transactions entail higher risks and bankruptcy probabilities compared to other buyout types. It is also noted that employment tends to decline in LBO transactions, particularly in P2Ps, as private equity firms implement cost rationalization to meet debt obligations. Overall, take-private transactions may have both positive and negative implications, depending on the specific circumstances and stakeholders involved,

and they may imply a greater risk if compared to other buyouts, due to the high leverage used.

P2Ps occur in cycles and tend to be countercyclical, with peaks during market downturns. Companies may choose to go private if they perceive their stock to be undervalued by financial markets. This trend is evident in the increasing number of companies listed between 2019 and 2021, that after the Covid-19 pandemic experienced significant stock market discounts and decided to delist just after a few years from their listing. Companies might also delist for the desire to focus on long-term strategies without meeting analyst expectations and since they deem that the costs of being listed are higher than the benefits. Compliance requirements, such as financial statement publication and external audits, along with country-specific obligations, contribute to the costs of being listed. Controlling shareholders may also seek to eliminate minority shareholders to reduce the risk of litigation. In addition, tax benefits, due to the deductibility of interest payments in LBOs, motivate P2P transactions. The reasons to delist companies are not linked just to the company itself. There might also be macroeconomic factors, such as market volatility, that have played a significant role in the growth of take-private transactions. Private equity firms capitalize on market downturns, acquiring undervalued companies to sell them at higher valuations during favorable market conditions, exploiting the "window of opportunity". However, this volatility can be seen as a threat to funds, as they compete with industrial players and may need to offer a premium over the stock price to convince shareholders and acquire control. The high volatility can be an opportunity both for companies and PE funds, with companies listing when the valuations are at maximum levels, and PE funds delisting them when market valuations are low.

The second paragraph analyzes the legal frameworks governing these transactions in Italy and the US. In Italy, the legal framework is influenced by the EU Directive 2004/25/EC, which aims to harmonize takeover regulations across member states. The European legal framework ensures higher protection for minority shareholders, by setting a threshold of 30% of voting rights for the mandatory tender offer, ensuring the right of shareholders to obtain the same treatment. This threshold is one of the main differences between Italy and the US. The Italian Legislative Decree 24/1998 further regulates mandatory tender offers, prohibiting the presence of conditions precedent or subsequent in any offer, and reducing the threshold to 25% for companies not qualifying as SMEs and if any shareholder holds no higher participation. The offer price must be based on the highest price paid for the target's securities in the previous 12 months, while in voluntary takeovers the price can be freely

chosen by the offeror. Italy also has the Golden Power rule, which allows the government to intervene in acquisitions in strategic sectors harming the nation's interests.

In the US, there is no obligation to launch a tender offer based on reaching pre-specified voting rights thresholds. However, acquisitions of specific percentages of voting rights may trigger disclosure obligations, as it happens also in Italy. Federal securities laws do not provide guidelines on the form and consideration of takeover offers, but equal treatment for shareholders is required according to SEC rule 14d-10. Financing availability is not expressly required by US federal securities law and state corporate laws, but announcing a tender offer without a reasonable belief of funding is fraudulent. Hostile takeovers can have conditions set by the acquirer, while friendly offers allow conditions to be agreed between the parties. SEC Rule 13e-3 requires additional disclosure and a fairness opinion of the BoD. Furthermore, the US has something similar to the golden power rule, a Committee on Foreign Investment in the United States, which reviews transactions involving foreign investors in critical sectors, setting voluntary and mandatory filing requirements for certain types of investments. The two legal frameworks differ in various aspects, including thresholds, disclosure requirements, and government intervention, reflecting the unique approaches of each jurisdiction in regulating takeover transactions.

The transaction structure for take-privates varies from country to country and depends on the preferences of the acquiring entity. In Italy, there are two structures used in P2P transactions: Mandatory Tender Offer and Voluntary Tender Offer. The MTO is triggered when a buyer purchases a stake higher than 25% or 30% for small and medium enterprises or gains the ability to elect or remove directors during shareholders' meetings. The offer price in an MTO is determined by the highest price paid by the acquirer and parties acting in concert for securities of the same type in the twelve months preceding the offer announcement, and the acceptance period usually lasts between 15 and 25 days. VTOs are launched by the acquirer and persons acting in concert for all the shares or for a stake not triggering the mandatory tender offer. The price in a VTO is determined by the bidder, but the same price must be paid to holders of the same securities. The acceptance period for a VTO usually lasts between 15 and 40 trading days. With respect to financing, in these operations, there must always be certainty about the presence of the funds and must be proved with the presentation of an already closed financing contract or with an arrangement, since in any case, the bidder must have the means to close the deal before the announcement of the bid to Consob. Before launching the tender offer, inside information must be treated as confidential. After completing the transaction, the delisting of the target company can occur in two ways. If the acquirer reaches a stake between 66.6% and 90%,

the delisting happens via a merger of the target company into a private company formed to delist the target, known as BidCo. Shareholders who did not vote in favor of the merger have the right to be liquidated by the company. If the acquirer exceeds certain thresholds, the delisting can occur through sell-out or squeeze-out rights. The sell-out right allows remaining shareholders to sell their shares to the acquirer, while the squeeze-out right allows the acquirer to buy out the remaining shareholders. In Italy the double newco structure is common, with two newly incorporated companies, one acquiring the target owned by the other newco, that is the one subscribing to debt before the merger.

In the US, the two commonly used acquisition structures for take-privates are one-step mergers and two-step mergers. In a one-step merger, the bidder or one of its subsidiaries, which could also be a newco, merges with the target company after obtaining stockholders' approval in the general shareholders' meeting. This acquisition usually takes between two and three months in the absence of regulatory problems. In a two-step merger, the buyer launches a tender offer for the shares of the target company and acquires the remaining shares through a back-end merger, which needs to be authorized by the majority of stockholders and will deliver the buyer the total ownership of the target. In the case the buyer reaches a stake between 85% and 90% he might acquire the remaining stock through a short-form merger. There are also other options available to the buyer, such as private negotiations, reverse stock splits, asset sales, and issuer self-tenders. In the US, there are different requirements compared to Italy regarding financing. However, buyers must demonstrate that they have the funds needed to complete the acquisition. Sponsors contributing equity must provide a binding commitment letter for the portion of the purchase price not covered by equity, including details of negotiated loan agreements. The target is required to file a proxy statement with the SEC containing information about the deal before the shareholders' vote.

Chapter 2

Take-private transactions have been influenced by various factors throughout history, including waves of mergers and acquisitions and the growth of the PE market. The surge in take-privates after the 1970s can be attributed to the high number of IPOs in the 1960s, which prompted companies to exit public markets. The 1980s saw a significant boom in LBOs, with larger target companies, mainly in the US market. In the 1990s, the trend expanded to continental Europe, particularly the UK. In the late 1980s, LBOs were extensively used by firms like KKR and Thomas Lee Partners to acquire undervalued assets amidst decreasing stock prices. In 1987, LBOs accounted for over 21% of total transaction

value in the US, and between 1979 and 1989, the volume of take-privates exceeded \$250bn in the US alone. The high returns generated by LBOs attracted numerous competitors, with access to capital being the only barrier to entry. As pension and investment funds sought diversification, they provided equity capital, while banks and the public debt market financed the rest of the transaction. However, the growing competition caused prices to rise and lowered LBOs' returns. The high LBO activity during the previous decade led to concerns about overvaluation and led to smaller transactions. The decline in the junk bond market and the US recession in the early 1990s further complicated matters. Although the number of LBOs continued to increase until 2000, the total value remained lower than the volumes seen in the 1980s. In 1997, there was a new wave of take-privates in the US, the UK, and continental Europe. This wave coincided with the Dot-com bubble, during which PE saw some of its best performances. The subsequent burst of the bubble resulted in a decline in the US buyout market by almost 13%, while Europe experienced a 7% decrease. PE exhibited higher resilience compared to public markets, which saw the S&P500 drop by nearly 40%. Between 2000 and 2007, P2Ps rose significantly, particularly in the US and Europe, while the UK maintained a high level of take-private activity. This growth was supported by a favorable interest rate environment. However, the global financial crisis in 2007-2008 led to stricter credit conditions, making it more challenging to finance LBOs, and the number and frequency of these deals declined. After a period of stagnant fundraising between 2009 and 2010, PE's activity began to rise again. In 2012, global stock delistings started to increase in terms of value and volume. The Covid-19 pandemic halted deal activity significantly, but it eventually recovered and reached its peak in 2022, with a global volume of \$887bn. Private equity funds have experienced continuous growth in their activity since the 2007-2009 global crisis. The activity of PE funds surged globally, with North America, especially the tech sector, seeing the most significant increase. Despite the increased activity, the global private capital dry powder also rose, reaching \$3.4tn in 2021, with over \$1tn allocated to buyouts. P2Ps activity rose almost constantly after the 2007 financial crisis, giving funds numerous investment opportunities, as it did also after the Covid-19 pandemic. In 2021 P2Ps hit an all-time high, reaching \$469bn in value, while 2022 has seen a reversal trend, due to the changing macroeconomic conditions. There are both important similarities and differences between the period following the Covid-19 pandemic and that following the 2006-2007 crisis, and this might increase some concerns among investors, since the investments made between 2006 and 2007 guaranteed mixed results for the miscalculation and directionless deals made without a clear strategy. In addition, multiples paid in 2021 are higher if compared to those paid in 2007, closed with an average 12.6X EV/EBITDA, 30%

higher than the market average, while 2021 was characterized by an average EV/EBITDA equal to 19.3X, 60% higher than the average multiple in traditional deals. Another difference is the size of the deals, higher after the 2007 financial crisis, with none of the 10 bigger deals with a value below \$24bn, while 2021 was characterized by smaller deals carried out by different buyers. The growth in P2Ps led overall buyout multiples to rise, both in the US, with an average 12.3X multiple, and in Europe, with an average of 11.9X EV/EBITDA. The increase in multiples is also driven by the competition from industrial buyers. The last two years were characterized by investment in sectors already known by PE funds, since a long and reassuring track record may indicate a higher success probability, thanks to the possibility of exploiting synergies between portfolio companies. In this sense, PE funds have been increasingly behaving as strategic buyers, by completing add-ons rather than acquiring new platform companies. Add-ons are those acquisitions in which PE funds buy companies capable of increasing the value created from its platform companies, and in the last period, they are gaining importance, as happens when credit conditions become harsher. In fact, while between 2016 and 2021 they made up almost 20% of all buyouts, during the first 6 months of 2022 they accounted for 80% of the acquisitions, with sectors such as healthcare, tech, and financial services being the most active. Increasing multiples are also reflected in the increasing premium paid to acquire control of companies, with an average premium equal to 45% in Europe during 2021, while in the US the average premium paid was close to 42%. As market valuations are depressed, premiums go up. During 2021 exits were strong, with the prevalence of sponsor-to-strategic, sponsor-to-sponsor, SPACs, and IPOs. This strength was favored by the low rates environment.

The macroeconomic environment in the last three years has undergone significant changes due to various events. After the global financial crisis, there was a period of low inflation and expansionary monetary policies by central banks to stimulate the economy. However, in the last quarter of 2021, inflation started to rise, driven by increasing investments and consumer spending, supply chain disruptions caused by the COVID-19 pandemic, and the Russia-Ukraine conflict, causing a huge growth in energy prices, especially in Europe. In response, central banks such as the FED and the ECB began raising interest rates in 2022. The FED raised the Federal funds rate multiple times, reaching 4.75% in January 2023. The ECB also raised rates gradually, reaching 3% in February 2023. Some FED officials suggested further rate hikes in 2023 to bring inflation back to the 2% target, while the ECB expressed its commitment to raising rates significantly to achieve its inflation target. As of May 2022, rates were further raised.

Geopolitical factors such as the Russia-Ukraine war and increasing tensions between the US and China also influenced the macroeconomic environment, causing a slowdown in deal activity due to uncertainty in the global economy. Financing for leveraged transactions was cut by banks, leading to a decrease in dealmaking activity, exits, and fundraising. The value of global buyouts dropped by 35% in 2022, with the tech sector accounting for 30% of deals. Syndicated loans also significantly decreased, halving their volume in 2022 from the \$410bn of 2021, with small and medium-sized funds suffering more than bigger funds. For these reasons, and stock market valuations deemed still too high according to some professionals, take-privates are among the least favorite deals for PE professionals in 2023. The economic uncertainty and higher discount rates for future earnings and cash flows affected company valuations, leading to a decrease in investments and exits. The average EV/EBITDA multiples for buyouts decline with deal size. Despite these challenges, the US market showed stronger resilience compared to Europe, driven by higher deal activity, availability of dry powder, and stronger competition. The availability of dry powder reached a record level of \$3.7tn, while buyout-specific dry powder reached \$1.1tn. Furthermore, the capital raising in 2022 remained strong. Take-private activity remained significant during the first six months of 2022, with funds exploiting those opportunities offered by markets. However, due diligence became more challenging as teams needed to evaluate how macro shifts could impact target companies and develop mitigation plans for various scenarios. Investments made during downturns have historically generated superior returns over time, and investors able to identify underpriced companies with sound business models may succeed.

Direct lending and private debt funds gained importance as an alternative to traditional banking sources, with bank credit freezing due to uncertainty. For instance, direct lending accounted for 80% of middle-market buyouts loan issuance in 2022. Rising interest rates posed challenges for banks, as seen in the Citrix acquisition, where the institutions incurred losses between \$400m and \$500m. Private debt funds and increased equity contributions may be trends characterizing take-privates in the future, especially with the expectation of increasing rates. In addition, it is possible to see an increase in club deals, reducing the individual equity commitments for single funds and allowing sizeable LBOs. Also SWFs, having a high availability of resources, might tend to start acting as traditional players, as demonstrated by the Maxar Technologies acquisition, which was carried out by Advent and the British Columbia Investment Management Corporation, which committed \$1bn in equity.

In conclusion, the macroeconomic environment in the last three years has been characterized by rising inflation, increasing interest rates, geopolitical tensions, and a

slowdown in PE's market. Uncertainty and the need for a more careful evaluation of target companies have impacted deal activity, exits, and fundraising. However, the growth of direct lending funds has emerged amid challenging conditions.

The reasons behind the disparity between the Italian and the US P2P market include factors related to the financial markets, the private equity industry, and the structure of Italian companies. In 2022, the PE market in Italy experienced growth, with a significant increase in activity. PE funds were responsible for over a third of the buyout operations, with 347 deals worth €62bn, representing a 47% increase in value compared to the previous year. Sectors such as life sciences, technology, and infrastructure showed strong activity. Notably, there was a rise in sponsor-to-sponsor and sponsor-to-industrial transactions during exits. Foreign investors continued to show high interest in the Italian market, when it comes to supporting Italian families in delisting their companies.

Between 2017 and 2021, there were 105 delistings, raising concerns about the loss of market capitalization. This trend of depopulation of market indexes is observed not only in Italy but also in other countries such as the US, France, the UK, and Germany. The involvement of PE funds in delistings in Italy has been limited, with only 14 out of 186 delistings between 2011 and 2021 involving them. Most of these delistings were driven by foreign financial sponsors, with an average premium for the takeover of 28.9%. PE funds target companies with increasing performance and revenues in the years preceding the acquisitions. In Italy, financial investors tend to target smaller companies with good performance metrics.

The lower take-private activity in Italy can be attributed to market factors such as the underdevelopment of the Italian private equity market, the limited presence of listed PE funds, and the ownership structure of Italian firms. While in other European countries and the US PEs' listings are rising, Italy does not seem to follow this trend. Moreover, Italy's ownership structure is highly concentrated, with the state or family entities holding significant stakes in major companies. This concentrated ownership makes it challenging to contest control in Italian companies also for big funds. In addition, Italian takeover regulation is stricter compared to some foreign countries, with transparency rules, protection for minority shareholders, the golden power rule, and thresholds for mandatory tender offers. Furthermore, Italy also has a lower presence of shareholder activism compared to the US. Shareholder activism is gaining importance globally, but the ownership structure of Italian companies makes it difficult for activists to influence decision-making with small stakes. For these reasons, hostile takeovers are less common in Italy, and takeovers often occur

through collaboration with majority shareholders or involve smaller companies. Overall, the Italian private equity and buyout markets have shown growth in recent years, but they remain smaller compared to their counterparts in the US and other European countries.

In addition, we interviewed financial professionals with different backgrounds to understand their views on P2Ps and the differences between the Italian and US markets. The interviews also explore the potential trends that could shape the future of these transactions in a continuously changing environment characterized by high inflation rates and instability in the banking sector. Starting from IBs perspective it is noted that the Italian P2P market faces difficulties due to the presence of state-owned and family-controlled businesses. Unlike the US market, where funds can take control of sizable businesses, Italian markets make it difficult to carry out similar P2P transactions. However, a rising trend in the Italian market is the collaboration between families and investment funds, where families seek the assistance of investment funds to delist their firms while retaining control. This trend gained traction after the Covid-19 pandemic, facilitated by cheap debt that favored the PE industry. Funds often reposition acquired companies into more profitable business lines, as happened with the repositioning of IMA Group in the pharmaceutical sector following its delisting. One of the challenges faced by funds in P2P transactions is the need to communicate with families target returns set by funds and the strategies to achieve them. Repositioning, internationalization, and business scalability are important factors on which funds work when closing P2Ps. It is important to have a clear exit strategy from the beginning, allowing families to understand how their business will be managed even after the funds exit. Double voting rights shares can be a useful tool to maintain family control while conceding some economic rights. Moreover, changing credit conditions are expected to affect the syndicated loans market, which in turn affects LBOs financing. The potential impact of bank failures lies in the concern of contagion. While volatility and instability in financial markets can be expected, prompt government intervention and the presence of banks willing to bail out struggling institutions might prevent bank runs. However, the indirect effects of these failures, such as softer approaches to increasing interest rates influenced by political interests, may have the opposite effect on P2Ps. Notwithstanding these factors, PEs have amassed a huge quantity of dry powder, even though the concerns about returns may drive multiples down in the following months.

Both according to Nappi and the investment professionals interviewed, such as Antonio Pace, there is a shift from growth to value investments, with investors favoring companies with stable and positive cash flows during turbulent times. Sectors such as tech have suffered, while industrial and consumer-driven sectors have gained higher valuations.

Additionally, SWFs behaving as traditional investors are increasing, with SWFs hiring professionals from diverse market backgrounds and making significant investments in private capital markets.

According to Pace, funds need to analyze various factors when choosing where to invest and to carry out or not take-privates. They need to understand if they have the capability of waiting for a more favorable environment to exit from the investment and if it is the right moment to buy since as of now valuations are at the highest level since the financial crisis. Stricter guarantees are requested by lenders, making it more costly to finance LBOs. When choosing where to invest, funds need to pick sectors characterized by endogenous growth, and those companies where the fundamental valuation is higher than the market valuation. In Pace's view, the increased interest in value sectors may be hindered by strict monetary policies, and central banks might start considering inflation targets different from the traditional 2%. Furthermore, the impact of bank failures on the P2P environment will be indirect, in the sense that politicians may choose to "socialize" the banking sector to avoid social tensions in case of failures, making banks reduce their risk assumption and banks' profitability on capital. This will reduce the presence of leveraged loans, but they won't disappear, especially for those transactions having big and profitable targets. This last aspect might penalize the Italian market, characterized by smaller deals, and mid-sized companies. When it comes to SWFs, they are increasingly acting as traditional investors, especially in those sectors with mid to high tickets, above \$150m. In addition, Italy is encouraged to attract investments by developing a well-defined industrial policy to support the growth of its companies, which should not be based only on the inflow of foreign investment but should depend on the capability of building a diffused and growth-oriented industrial policy, working both on those sectors that are already growing and those that are struggling.

Chapter 3

This chapter discusses the analysis of selected deals in Italy and the US in the take-privates market. The analysis focuses on financial figures and the differences between Italy and US. The selected deals in Italy cover the period between 2017 and 2022, while an equal number of deals from the same period in the US were also chosen, among the biggest deal for which the multiples were available on the sources employed.

In Italy, there has been an increasing trend in both the number and value of deals over the past five years. However, the US P2P market is more robust and mature. The average deal size in the US is \$6.9bn, with a median of \$6.5bn. In Italy, the average deal size is €1.3bn,

with a median of €347m. It should be noted that the mean in Italy is influenced by the presence of Atlantia's buyout. The average deal sizes significantly increased after the Covid-19 pandemic in both Italy (from €68m to €1.8bn) and the US (from \$5.7bn to \$6.4bn). The premium paid in these transactions is influenced by the period in which deals are concluded. After the Covid-19 pandemic, there has been an increase in premiums over the closing price before the announcement. This trend is attributed to the high volatility in stock markets, allowing funds to acquire companies at relatively affordable valuations compared to the previous year or two. Certain sectors, such as the tech sector, have experienced more significant impacts. In Italy, the average and median premiums paid for the analyzed P2Ps are 18.8% and the variance is 4.44%. Before 2020, the average premium was 10.47%, but after the pandemic, funds paid an average premium of 22.85% to acquire control of the analyzed companies. Premiums in the US are historically higher for various reasons, with an average of 39.44% over the unaffected stock price for the analyzed deals. The variance for the premium paid is also higher in the US, at 10.6%. Before 2020, the premium paid in the US was 22.98%, but after that year, it more than doubled to 49.3%. The higher premium in the US can be attributed also to the more developed nature of the US take-private market, increased competition, and the presence of activist investors. Furthermore, the US market sees more significant participation from large funds with ample resources, while Italian private equity funds are often relegated to co-investor roles.

Regarding multiples, the average EV/EBITDA paid in analyzed Italian transactions is 11.4X, with a median of 10.95X. As for premiums and valuations, the multiples for deals closed before 2020 were lower. In the US, the average EV/EBITDA multiple paid is 18.4X, with a median of 17.2X. The higher multiples paid after 2020 can be attributed to increased competition driven by the availability of dry powder and low-cost debt. However, obtaining loans for LBOs has become more difficult and expensive due to the lower risk appetite of the banking sectors, and this may lead to a reversal of the trend of increasing multiples.

Chapter 4

Dell Take-Private

The fourth chapter analyzes two important take-private transactions, that were among the biggest transactions of the respective years. The first transaction is the take-private of Dell, founded in 1984 by Michael Dell, which became one of the major players in the PC market thanks to its low-cost model based on direct distribution, which allowed the company to put pressure on its competitors. However, Dell faced some challenges from 2006 with declining PC sales and the loss of market share with respect to HP and other players, and a declining

net income. Dell, after having resigned from CEO in favor of Rollins, returned to guide the company in these difficult times, and launched a restructuring process to strengthen the company's position in the areas of weakness, shifting from the simple sale of hardware to the enterprise solutions and services business, entering new business lines and acquiring new businesses. Notwithstanding good results in 2012, the company's stock prices declined by more than 60% from their record high in 2005. For these negative results, in July 2012 Dell met Silver Lake Partners representatives to discuss the possibility of taking the company private. The company was the target of interest from various players, such as Blackstone, but there were also shareholders opposing the transaction. The BoD formed a Special Committee in charge of considering the best strategic alternative, also thanks to advisors such as BCG. In the meantime, the financial outlook deteriorated heavily, with EPS decreasing by more than 50%, making the company less attractive in investors' eyes. Michael Dell was aware that in this context, taking the company private would guarantee higher flexibility in carrying out strategic changes. After a thorough evaluation process and a go-shop period, Dell and Silver Lake Partners submitted a preliminary bid of \$13.65 per share to take the company private. The offer was later raised to \$13.88 per share, with \$13.75 per share as merger consideration per share, and \$0.13 paid as dividend. Eventually, Dell and Silver Lake's bid was recommended by the special committee and approved by the company's shareholders. The final deal, valuing Dell's Equity Value at \$24.5bn, was carried out through an LBO structure, with 75% of the transactions financed from debt. The remaining part was financed with Michael Dell's equity stake, which was rolled over in the company, with Silver Lake Partners contributing with an equity investment and Microsoft with the issuance of subordinated notes. The transaction was carried out through a two-step merger. Coming to the financials, almost all the indicators were deteriorating during 2012, also when compared to Dell's peers, putting a huge downward pressure on the stock price. The company's internal projections were more favorable than Wall Street's and external projections. The multiple analysis showed that Dell was trading at similar EV/CY2013E EBITDA multiples if compared to its peers, with projections ranging from 4.2X to 6.1X. According to the multiples analysis, the consideration offered for Dell is between the middle and high end of the various projections analyzed by the board, and higher than Wall Street consensus median multiples. A DCF analysis with different scenarios both for the WACC and growth rates was carried out, and the valuation stood at the higher end of Wall Street median consensus. Dell's revenues rose from \$56.9bn in 2013 to \$79.4bn in 2018, the year in which the company made its return in public markets in a complex transaction, that valued

the company EV at \$34bn. Dell saw its stock value rise from \$3.6bn to \$39bn as of 2021, and the deal was successful also for Silver Lake Partners.

Atlantia Take-Private

Atlantia is an Italian holding company primarily active in the infrastructure industry, managing toll roads and airports in Italy and abroad. The company, nowadays known as Mundys, was founded in 2002 but has older origins. In 1987, Autostrade Concessioni e Costruzioni SpA was listed on the Milan Stock Exchange and privatized in 1999, with the acquisition by Schemaventotto. The Benetton Family's holding, Edizione, became the main shareholder with a 30% stake, while the remaining shares were sold to the public through an IPO. In 2003, Atlantia faced a takeover offer from Newco28, controlled by Schemaventotto, which was carried out via a leveraged buyout (LBO). That same year, the company reorganized its activities, with highway operations under Autostrade per l'Italia SpA, listed on the Milan Stock Exchange and controlled by Atlantia SpA. In this period, Atlantia started diversifying geographically, by acquiring toll road concessions in different countries, while in 2013 it entered the airport sector by taking the management of Fiumicino and Ciampino airports. By the time of the deal, Atlantia was active in 24 countries and managed more than 14,000 km of toll roads. However, the company started facing some difficulties after the collapse of the Ponte Morandi bridge in Genoa in August 2018, managed by ASPI. The collapse resulted in the death of 43 people and put huge pressure on the company and its stock price, with the Italian Government expressing the intention to revoke the concessions granted to ASPI, one of the company's most profitable assets. ASPI was later acquired by CDP Equity and Blackstone and Macquarie for an equity value of €8.2bn, taking on the €7.8bn of debt. Thanks to this acquisition the company was able to reduce its high debt but lost almost 3,000 kms of profitable assets. In 2022, the Benetton family decided to take Atlantia Private, since the company's performance in the previous two years was affected by the Covid-19 pandemic, which hindered the company's businesses depressing the stock price, making it more susceptible to unfriendly acquisitions. The bidding process was characterized by the presence of competition, with Florentino Perez interested in acquiring Atlantia through ACS, but the Benetton family wanted to keep control of the company, and declined Perez's offer preferring to continue with Blackstone, to exploit strategic synergies with the fund and protect Atlantia from unwanted interests. The equity value was equal to €19bn, and the EV, considering €36bn of expected FY2022 debt equal to €36bn, amounted to €55bn. The €23 per share offer implied a 25% premium over the last closing price, with shareholders tendering their shares still receiving the €0,74 dividend per share. The acquisition was carried out through the Bidco "Schema Alfa", with the Holding

Edizione controlling 65% of the vehicle, and Blackstone the remaining 35%. The Benetton family provided €2.9bn in equity, while Blackstone provided €1.6bn in equity commitment. The takeover targeted the 67% stake not already owned by the family, for a total value of €12.7bn, with the remaining €8.2bn financed through Debt, making the transaction highly leveraged. The valuation represented a 13.5X EV/EBITDA multiple considering 2022 projections, higher than the average multiple provided by Damodaran for the transportation sector and the average multiple of some competitors such as Vinci and Eiffage. Atlantia's deal was the biggest ever European take-private. The deal rationale was the will to keep control of the company by the Benetton family and protect it from undesired offers. Some analysts argue that the deal added too much leverage to the company, but the stable CFs characterizing Atlantia's business might be seen as a guarantee to service its high debt. This deal was considered a game changer, showing that big funds have an interest in making large investments in Italy, when they see a sound and profitable business.

Conclusions

In conclusion, the relationship between macroeconomic conditions and the investment sector, particularly in the context of leveraged transactions as take-private deals is particularly strong. While these transactions have evolved and adapted to changing scenarios, by using alternative funding sources and attracting interest from SWFs, the current macroeconomic situation poses challenges. The high rates environment and economic uncertainties, not fully reflected in equity markets valuations, limit the window of opportunity for completing take-private deals. In times of distress, large funds and players like SWFs tend to suffer less due to their significant availability of funds, even though funds may struggle to take companies private until macroeconomic and geopolitical tensions calm down. This is especially notable when compared to the booming P2P market in 2021. In this context, central banks might start considering an inflation target different than 2%.

Regarding the Italian market, it started experiencing growth after 2017, with notable activity in 2021. However, compared to more developed markets like the US, UK, and France, P2Ps in Italy may face greater difficulties. On the other hand, add-on acquisitions could continue to grow. Buyouts in sectors with endogenous growth driven by increased demand for products or services may also see increased activity. The US P2P market benefits from a supportive political environment and attractive investment opportunities across sectors. Stricter regulations and the shareholders' structure in Italy make it challenging for US investors to invest heavily in Italian corporations. To compete with the US, Italy needs a clear industrial plan and must analyze foreign investors' potential interests in relevant

sectors. Dell and Atlantia's buyouts illustrate the different dynamics characterizing Italy and the US. While both deals involved strong shareholders taking their companies private with the support of large funds, their motivations differed. Dell aimed to protect the company from undervaluation, while the Benetton family sought to safeguard their business from potential interest by other actors. Shareholders' activism has been relatively irrelevant for Italian companies, despite some notable cases, such as the battle for control of Generali. Italy must adopt policies that facilitate investor interest and provide room for maneuvering to compete with other countries in attracting investors. Protecting the economy and strategic sectors from predatory buyouts is important, but cooperation between major Italian shareholders and international funds can be beneficial to support the growth of our companies.