

Successful Institutional Investing in Italy

November 25, 2019

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INVEST
IN ITALY

ITCA
ITALIAN TRADE AGENCY

INVITALIA



Borsa Italiana

1.	Welcome	Sandra Di Carlo, Deputy Trade Commissioner, ITA, and Kip Daechsel, Dentons Partner and Conference Co-chair
2.	Macro considerations when investing in Italy – Business, culture and political risk	Senia Rapisarda, Board Member of CVCA and Managing Director, HarbourVest Partners (Canada) Limited Julian Campisi, PhD, U of T Lecturer, expert on political risk in private decision-making (with a focus on Italy)
3.	Structuring investment in Italy – business, legal and accounting considerations	Michael Bosco, Partner, Dentons Italy Luigi Ciciretto, Partner BDO, CPA, CA Damiano Dussin, Partner PwC
4.	Borsa Italiana and ELITE – access to Italian public and private companies	Thomas Tyler, Global Head of Sales, ELITE
5.	Coffee Break	
6.	Lessons learned by experienced foreign investors in Italy	Christoph Jäckel, Partner, Montana Capital Partners Christelle Destors-Lepoutre and Pierre-Gilles Diat, Vauban Infrastructure Partners (formerly Mirova Asset Manager)
7.	Current economic and political factors impacting investment in Italy	Giovanni Majnoni d'Intignano, Chief Representative for North America, Banca d'Italia
8.	Current investment opportunities	Dario Valoncini, Head of Foreign Direct Investment Unit Canada, Italian Trade Agency, Toronto Office
9.	Networking lunch	

Macro considerations when investing in Italy – Business, culture and political risk

Senia Rapisarda

Julian Campisi

Thinking about contemporary political risk in Italy

Prepared for Dentons/ITA - investing in Italy
seminar; 25 Nov, 2019



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Framework: Political Risk Analysis

The logo for AON, consisting of the letters 'AON' in a bold, red, sans-serif font.The logo for The PRS Group, featuring the letters 'PRS' in a large, white, serif font over a dark grey world map background. The word 'The' is in a small blue box above 'PRS', and 'Group' is in a small blue box below 'PRS'.The logo for The Economist, with the words 'The Economist' in white, serif font on a red rectangular background.The logo for Intelligence Unit, with the words 'Intelligence Unit' in white, sans-serif font on a grey rectangular background.

- “the application of host government policies that constrain the business operations of a given foreign investment” (Schmidt, 1986, 43)
- likelihood that political conditions and changes, including policies and ‘social’ ones, will affect the business environment.
- ...political risk is a function of governmental, political-economic, social activity, or inactivity, that has an effect on the investor/business community.

Politics & Economics?

Businesses are interested in the economic consequences of decisions and events that are political in nature (Hoti & McAleer 2004).

The Practice of Political Risk Analysis

- 1) to explain and predict political conditions or events that can affect a firm;
- 2) to recommend corporate (and government) strategies that can cope with the political situation and/or manage the risk to avoid future losses;
- 3) to evaluate policies that affect international business; to provide investors with information on the protection and profitability of their investments abroad

Traditional Variables (sources of risk) in **Emerging Economies**: i.e. war damage, inconvertibility of profits, civil strife, breach of contract, property infringement, CEND, personnel security, government interference in contracts, discriminatory taxation, regulations on operations, separatism, instability, etc.

Developed Economies

- Economic & investment climate
- Credibility & stability of institutions
- Investment policy clarity & assistance
- Regulations & public admin (bureaucracy)
- Socio-cultural realities

=Governmental issues, policy, socio-cultural and institutional factors that can affect FDI – part & parcel of political risk analysis (PRA)

Tension

ITALY–

Historically poor performances in FDI, GDP & Governance indicators

A) long-term governmental and policy instability, regulatory difficulties, cultural attributes = political risks

- coalition fragility
- reform difficulties

B) Yet, high demand for quality 'made in Italy'

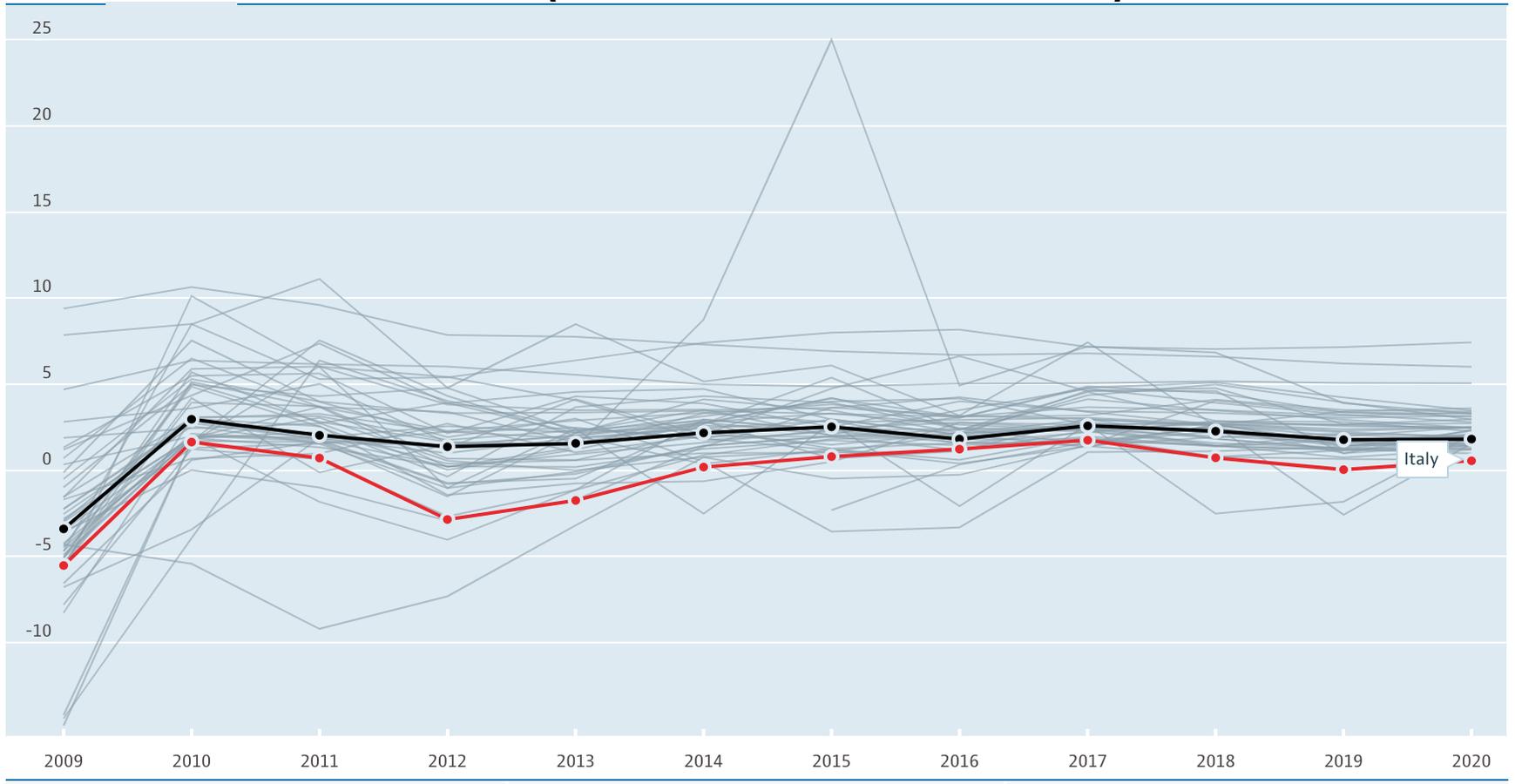
- Strong brand presence
- Stable institutions
- Debt stabilization and reduction (2020+)
- Pro growth policies and investment attraction
- GDP growth – positive outlook?
- Productivity increase

Government-coalition issues



- Renzi economic reforms, failed constitutional reforms – resigns in 2016
- Gentiloni PD gov't
- Elections March 2018 – hung Parliament
- June 2018 – Lega/M5S coalition (Salvini/diMaio with Conte PM); anti-establishment
- July 2019 – Coalition fails, Lega out. New coalition PD/M5S with Conte PM. Centrist/Pro-Europe
- Lega on the rise in polls throughout Italy

GDP Growth (2019-20: 0.5%)



Source: OECD, 2019

Summary of typical risk assessment factors. Repetitive variables highlighted only once (2016).

-*Wide-ranging, broadly defined, generalized...

High-Risk Factors in Assessments for Italy	
<p><i><u>Economic</u></i></p> <ul style="list-style-type: none"> ○ Macroeconomic risk ○ Government debt ○ Bank debt and asset quality ○ Unemployment ○ Non-performing loans ○ Labour productivity/competitiveness ○ Low profitability of banks and SMEs 	<p><i><u>Regulatory</u></i></p> <ul style="list-style-type: none"> ○ Cumbersome bureaucracy ○ Inefficient public sector ○ Inability to pass reforms ○ Collecting taxes ○ Contract Enforcement
<p><i><u>Political</u></i></p> <ul style="list-style-type: none"> ○ Political infighting ○ Tax regime ○ Government effectiveness 	<p><i><u>Operational</u></i></p> <ul style="list-style-type: none"> ○ Inadequate public investments ○ Getting Electricity
<p><i><u>Social</u></i></p> <ul style="list-style-type: none"> ○ Shadow/informal economy ○ Regional discrepancies ○ Corruption 	

Political Risk Rankings

*Yet.... Similarities with neighbours

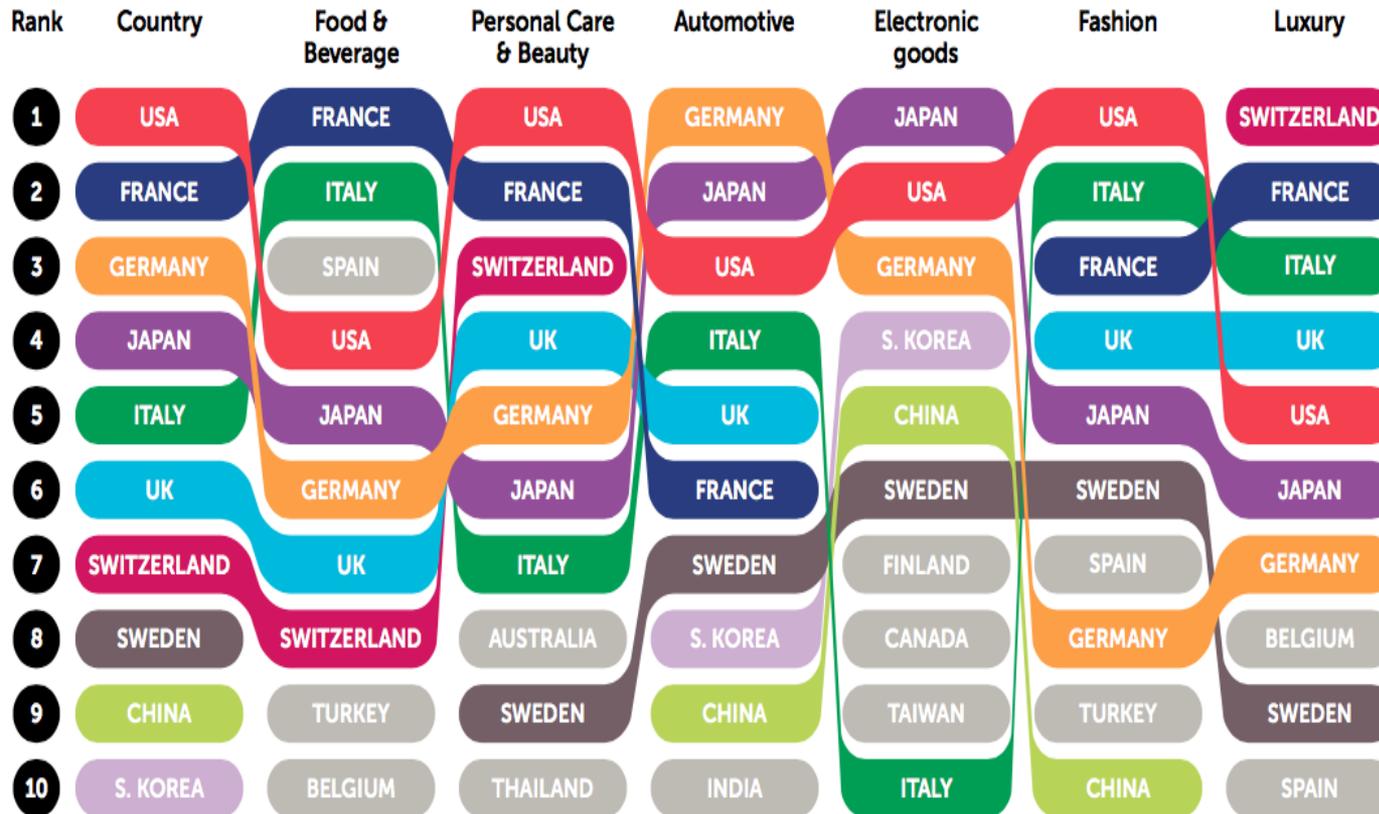
Table 2 – Select Political, Country & International Business Risk Rankings (2015-16)

	<i>Italy</i>	<i>France</i>	<i>Spain</i>
<i>PRS Group (100 = no risk)</i>	<i>PR-73</i>	<i>PR-75</i>	<i>PR-76</i>
<i>A.M. Best (1 = very low risk; 5 = very high risk)</i>	<i>Economic – 2 Political – 2 Financial – 3 Investment Class – 2</i>	<i>Economic – 2 Political – 2 Financial – 1 Investment Class – 1</i>	<i>Economic – 2 Political – 2 Financial – 2 Investment Class – 2</i>
<i>Coface (A1-A4 = low risk; D = very high risk)</i>	<i>Country Risk – A3 (quite acceptable) Business Climate – A2</i>	<i>Country Risk – A2 (low) Business Climate – A1</i>	<i>Country Risk – A3 (quite acceptable) Business Climate – A1</i>

Sources: PRS Group, 2015; A.M. Best, 2016; Coface, 2016

Country Brand Index - Rankings across Industry Sector

Source: Future Brand, 2015



***2019: Italy up 4 spots to #14 overall**

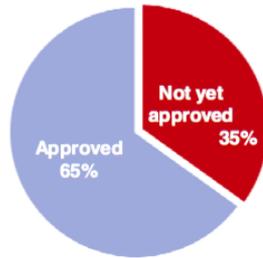
Opportunities & reforms:

2014+

«DESTINAZIONE ITALIA» AND «DOING BUSINESS» REFORMS PLAN

50 measures to enhance competitiveness and attract resources

N.	MISURE
1	Accordi fiscali per gli investitori esteri e desk dedicato
2	Riforma della contenziosa dei servizi
3	Modelli standard per le autorizzazioni
4	Adattare le regole contrattuali alle specificità dei nuovi investimenti
5	Testo unico della normativa del lavoro
6	Rito per la gestione delle controversie di lavoro
7	Sottoscrivere le convenzioni internazionali in materia di sicurezza sociale
8	Revisione dell'abuso del diritto
9	Rideterminare le sanzioni tributarie
10	Revisione del contenzioso tributario
11	Rivedere la disciplina della "black list"
12	Attuare la strategia energetica nazionale per abbassare il prezzo di elettricità e gas
13	Rafforzare il Tribunale delle Imprese
14	Alleggerire i procedimenti
15	Eliminare il tasso di interesse moratorio
16	Rendere più efficiente il ciclo import/export
17	Piano di disinibizioni di alcune società partecipate dallo Stato
18	Ampliare le fonti di finanziamento per le pmi
19	Rivitalizzare il mercato azionario
20	Investimenti per sostenere le micro, piccole e medie imprese del made in Italy
21	Attrarre capitali e competenze per far crescere le startup
22	Un turismo capace di cogliere le opportunità globali
23	Valorizzare il modo patrimoniale culturale
24	Valorizzare i beni demaniali
25	Valorizzare gli immobili inutilizzati
26	Liberalizzare il mercato delle grandi locazioni a uso non abitativo
27	Favorire il cambio di destinazione d'uso degli immobili
28	Sviluppo delle società di investimento immobiliare quotate (SIIQ)
29	Credito d'imposta per la ricerca & sviluppo
30	Favorire spin-off di università e ricerca
31	Internazionalizzare il sistema della formazione
32	Ricerca a vocazione internazionale
33	Digitalizzare la pubblica amministrazione e i cittadini
34	Creazione di un meccanismo di reazione rapida per far fronte alle crisi aziendali
35	Facilitare le bonifiche ambientali
36	Completare il capitale privato nelle grandi opere
37	Sviluppo dei partenariati pubblico-privati (ppp) nelle piccole e medie infrastrutture
38	Riforma dei porti
39	Il piano degli aeroporti
40	Attrarre investimenti a beneficio dei territori
41	Produzione nazionale di Idrocarburi
42	Investire nell'efficienza energetica
43	Attrarre investimenti nei settori green
44	I visti come strumento di attrazione
45	Formare gli investitori del futuro
46	Campagna Destinazione Italia
47	Presidiare per attrarre: mercati, persone e strumenti
48	Costruirsi una migliore reputazione nel mondo
49	Monitorare gli italiani globali
50	Usare la leve della cultura e dello sport per una diplomazia dell'attrazione



The new «Doing Business» Act

A new law will:

- improve the business regulations measured by the World Bank Doing Business indicators, in order to **move up in the WB ranking**
- simplify the regulatory system for the **real estate sector**:
 - establish a common glossary
 - new rules to file a legal appeal

Regulatory certainty, timescale certainty, fiscal certainty ([Destinazione Italia 2013—15](#))



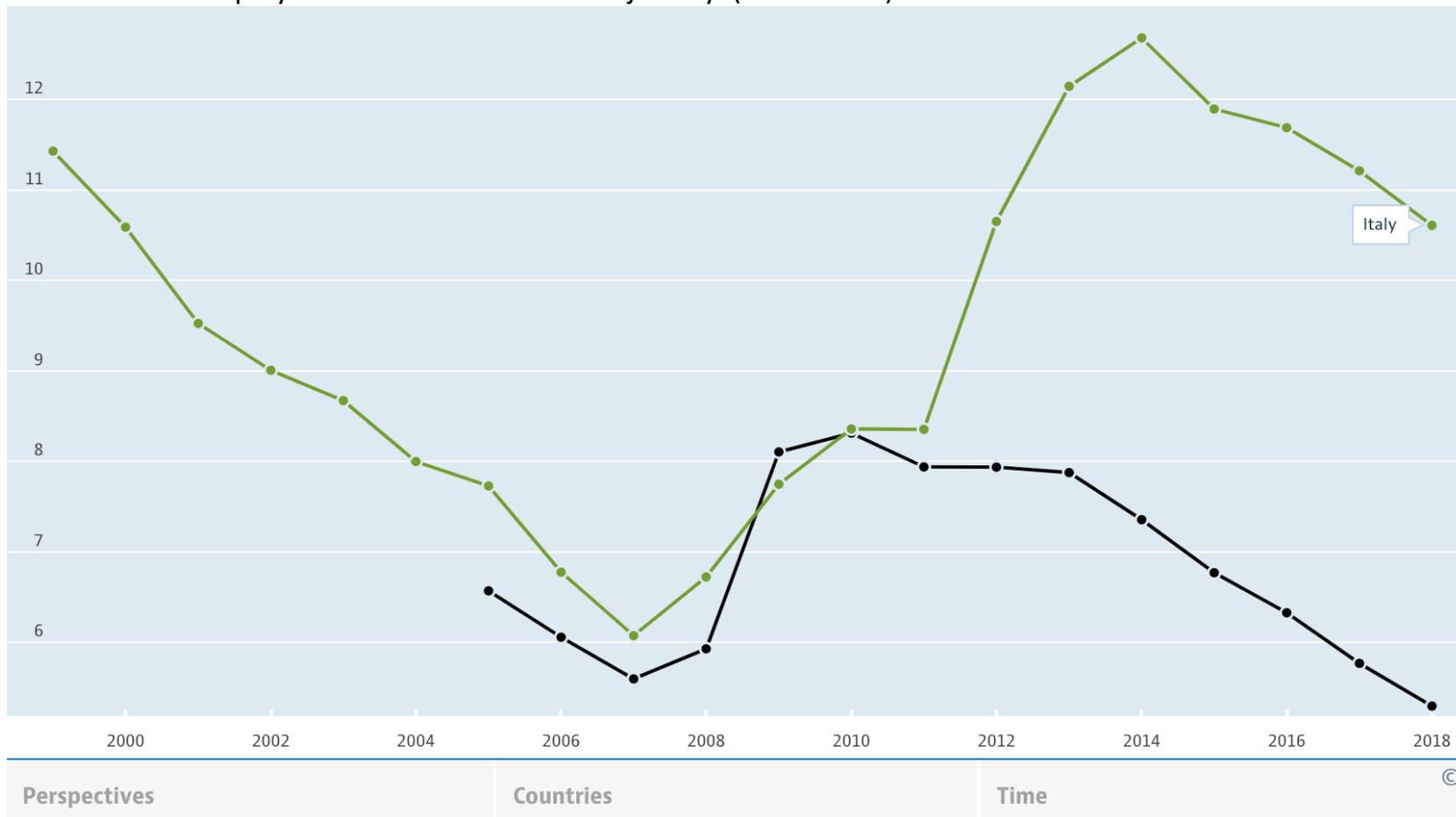
INVEST IN LOMBARDY
We value your business



A Plan to attract Foreign Direct Investment
New York, 23-26 September 2013

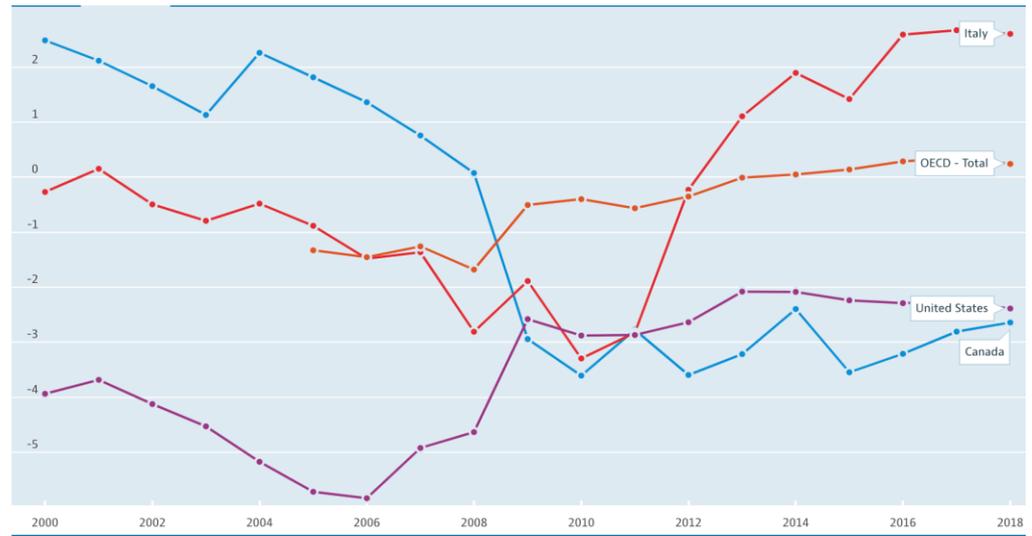


Unemployment rate – downward trajectory (2019: 9.9%)

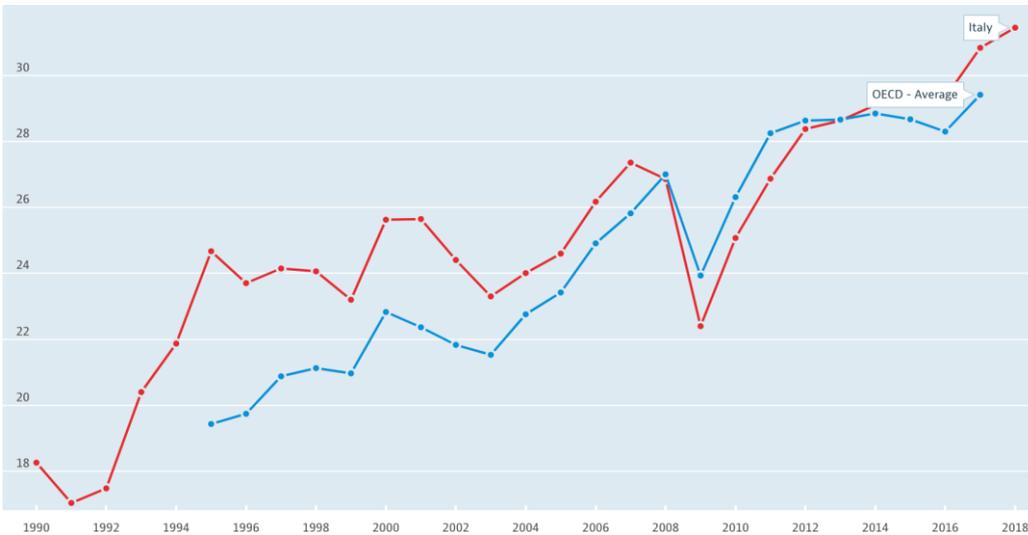


Source : OECD

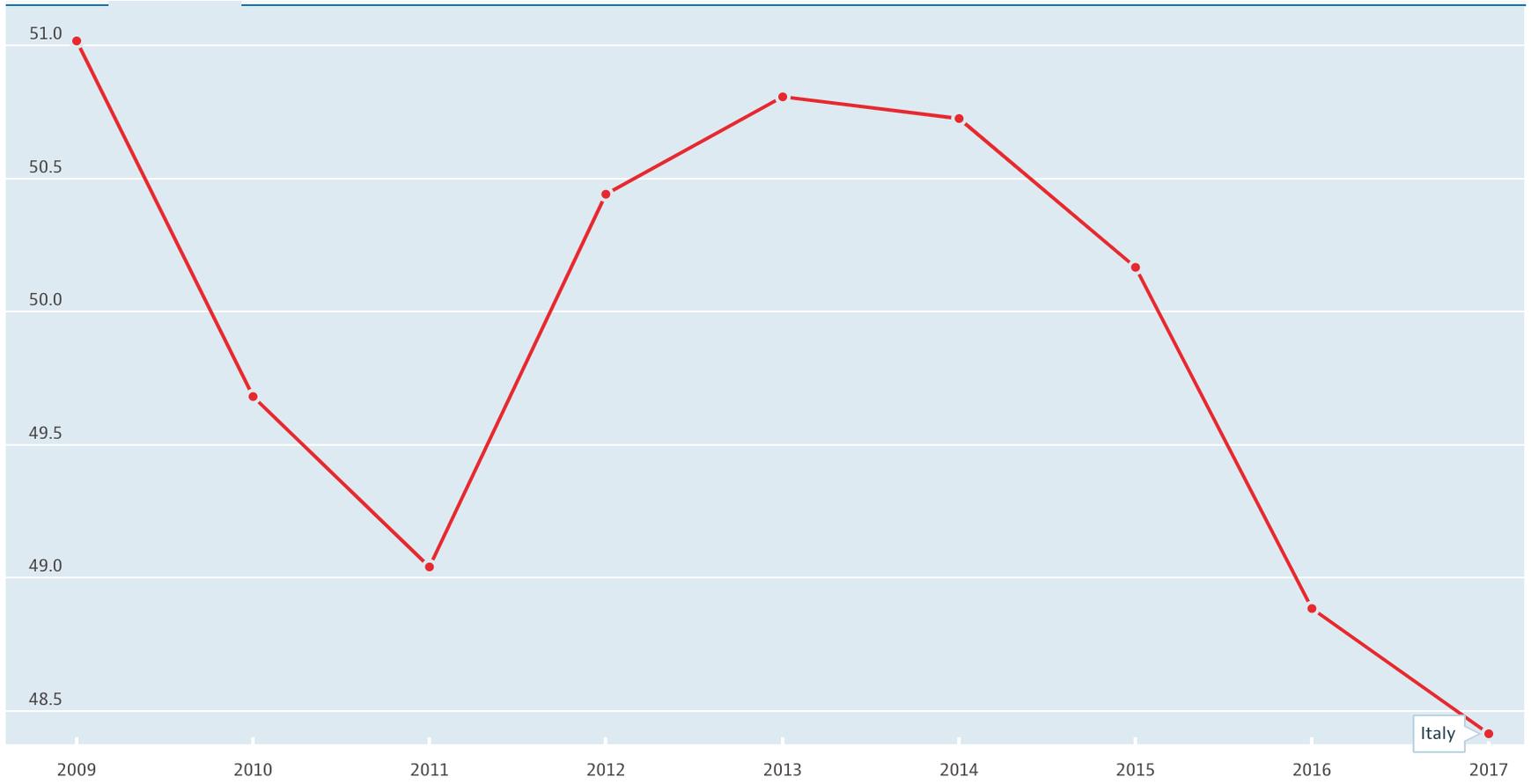
Current Account Balance, % GDP >



< Trade in good and services, % GDP



General Gov't Spending, % GDP (OECD)



Moving forward...

- Reasons for optimism!*
- Coalition government has risks, but needs support from EU
- International investments as % of GDP are on the rise...
- Further reforms in government/economy?
- Opportunities for investment are there (North vs. South levels of development and different opportunities).

FYI

Improving Labour market policies - https://www.oecd-ilibrary.org/employment/strengthening-active-labour-market-policies-in-italy_160a3c28-en

Trade/Commodity Stats - https://www.oecd-ilibrary.org/trade/international-trade-by-commodity-statistics/volume-2019/issue-3_g2g9fb1e-en



For further information/discussion,
Please contact me. Thank you!

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Structuring investment in Italy – business, legal and accounting considerations

Michael Bosco

Luigi Ciciretto

Damiano Dussin

Investing in Italy: An Overview for Canadian Investors

Michael S. Bosco
Seminar on Successful Institutional Investment in Italy
Toronto, 25 November 2019

Why invest in Italy?

Key investment considerations

- Large, sophisticated economy and consumer market.
- World-class SME companies focused on profitable niche markets.
- Renowned Italian creativity and entrepreneurial spirit.
- “Made in Italy” appeal makes Italy an export powerhouse:
 - ✓ Fashion, Design and Luxury Goods
 - ✓ Manufacturing and Technology
 - ✓ Agrifood
 - ✓ Tourism and Culture
- Demographic trends and market consolidation are increasingly driving changes of control.

Current trends

Mergers & acquisitions

- **M&A activity** was at record levels in 2018; activity levels are even higher so far in 2019 but average deal size is down (in line with trends across Europe):
 - ✓ **740 total deals through Q3 2019** with total value of approximately €32 billion (compared to 626 deals and €38 billion total value in prior year)
 - ✓ **225 total inbound acquisitions through Q3 2019** with total value of approximately €10 billion (compared to 204 deals and €10 billion total value in prior year)
- **Cross-border transaction flows** are strong and increasing, both inbound and outbound:
 - ✓ Essilor-Luxottica; Atlantia-Abertis; Vivendi-Mediaset; Arcelor Mittal-Ilva; FCA-Peugeot
 - ✓ Top buyers: United States (60 deals); France (42 deals) and UK (33 deals); China only 6 deals thus far in 2019 but it has been a major factor in recent years.
- **Activist investing** is flourishing in Italy:
 - ✓ Knight Vinke/ENI; Elliott Advisors/Telecom Italia; SVM/Retelit; Delvecchio/Mediobanca/Generali

Current trends

Private equity

- 2019 is setting all-time records for PE activity levels (112 deals through end of Q3) but average deal size is sharply down from 2018, which featured several large transactions:
 - ✓ Magneti Marelli/KKR (€6.3 billion)
 - ✓ Recordati/CVC Partners (€3 billion)
 - ✓ Italo-NTV/Global Infrastructure Partners (€2.4 billion)
- 2018 also featured record activity levels:
 - ✓ 163 total transactions (up from 123 in 2017)
 - ✓ 83 led by foreign investors (first time more foreign-led than Italian PE deals)
 - ✓ 71% buyout deals; 21% expansion; 7% turnaround; 1% replacement
- After a late start, the Italian venture capital industry is now growing rapidly.
- Most large PE funds have Italian offices/dedicated teams.

Current trends

Real estate

- **Milan** has been booming since the 2015 Expo and the award of the 2026 Winter Olympics to Milan-Cortina-Valtellina is expected to drive additional growth.
- **Rome** is now finally heating up again after a long period of low activity levels.
- The **hotel sector** is booming; student housing, senior housing and private healthcare are also active. Retail holding up better than other European markets despite late-cycle fears.
- Italy has seen **very significant inbound foreign investment** flows in recent years:
 - ✓ **US real estate funds** (Blackstone, Hines, CBRE, TH/Nuveen, York, etc.)
 - ✓ **Middle Eastern/Asian SWFs** (Milan Porta Nuova; Costa Smeralda; trophy hotels)
- Significant consolidation is underway in the **SGR sector**.

Current trends

Infrastructure

- Italy is **very open to foreign investment** in infrastructure across all sectors:
 - ✓ Railways (Global Infrastructure Partners/Italo–NTV)
 - ✓ Highways (Ardian/Gavio)
 - ✓ Airports (Ardian/F2i; Eurnekian/Aeroporti Toscana)
 - ✓ Telecom (Hutchison Whampoa/3; Sawiris/Wind; Vivendi/Telecom Italia)
 - ✓ Energy distribution (China State Grid; Edison; LNG Terminals)
 - ✓ Energy generation (especially renewable energy)
- Italy is the only leading EU country that has **joined China's OBOR initiative**.
- Key needs going forward:
 - ✓ Infrastructure **modernization**
 - ✓ **Waste management**

Current trends

Capital markets

- The **Italian capital markets are robust**:
 - ✓ Borsa Italiana was the **best-performing equity market** across all industrialized countries through Q3 2019, with the FTSE MIB (the Italian blue chip index) having gained 27% YTD.
 - ✓ The aggregate market cap of Borsa Italiana-listed companies crossed €600 billion again for the first time in several years. Yet, at only 37% of GDP, Italy's equity markets are still relatively underweight compared to peer countries. **More than 50% of Borsa Italiana's market cap is currently owned by foreign funds** – the “foresta pietrificata” is no more.
- The **IPO market** is awakening from a period of relative torpor:
 - ✓ The blockbuster €2 billion **Nexi IPO** in April 2019 one of the largest deals in Europe this year.
 - ✓ **AIM Italia** is now a well-functioning conduit for capital formation, with 30 IPOs YTD.
 - ✓ Italy has seen a significant number of **SPAC IPOs** in recent years.
- **Italy's privatization program** may restart in 2020.

Italy's legal regime for inbound investment

The substance is better than you think...

- In 2019, the Italian economy was ranked as the **eighth most attractive country in which to invest** – rising two places from 2018 – by the A.T. Kearney Foreign Direct Investment Confidence Index.
- Italy does not have a specific “investment law” – **foreign investors can rely on the same provisions as national investors and can purchase assets/real estate on the same basis as Italian investors**. There are no restrictions on capital transfers.
- Recent tax reforms aim to **make Italy an Eldorado for human capital**:
 - ✓ €100,000 flat tax on foreign source income for new residents
 - ✓ 7% flat tax on foreign source income for persons moving to Southern Italy
 - ✓ 13% tax rate on domestic income for new residents (4.3% in Southern Italy) from 1/1/2020
- Recent legal reforms to labor laws have **significantly increased labor flexibility**.

Italy's legal regime for inbound investment

...and may soon get even better...

- The **Canada-Europe Trade Agreement (CETA)** may come into full effect soon (although Italy is one of the countries currently blocking full ratification).
- Policymakers are considering an array of **additional investment promotion measures**:
 - ✓ **Industry 4.0** – Numerous tax incentives are available to promote investment/R&D
 - ✓ **Special investment zones** – Various proposals to promote investment in Southern Italy
 - ✓ **Increased regional autonomy** – Will allow Italian regions to adopt investment regimes with different characteristics to see what rules work best
 - ✓ **Judicial reform** – Speed up judicial process and reduce court backlogs
 - ✓ **Further tax reform and simplification** – May be on the cards if the government changes
 - ✓ **EU-level investment promotion schemes** – Promote investment in infrastructure by leveraging public funds

Italy's legal regime for inbound investment

...but limited restrictions do apply

- By virtue of its membership in the **EU Single Market**, Italy has been required to fully open its domestic market and the State presently retains control in a very limited number of areas (e.g., tobacco).
- However, investments in the **banking, financial and insurance sectors** require regulatory approval and **most infrastructure investments** require negotiation of State concessions.
- Inbound investments are of course also subject to **applicable antitrust rules**.
- **“Golden Power” rules** – The Italian government has the power to block or impose conditions on foreign investments in certain strategic sectors (defense/national security, energy, transportation and communications). Investments in such sectors are subjected to a prior review procedure that is similar to the CFIUS process in the United States.

Investor protection is strong...

Italy has a reliable dispute resolution regime

- As an EU member, Italy may not infringe the four fundamental freedoms established under the Treaty on the Functioning of the European Union (i.e., **free movement of goods, capital, services and persons**).
- Italy is a party to the New York Convention, the ICSID Convention and UNCITRAL. Thus, **international arbitration is available to foreign investors in Italy**, with foreign arbitral awards generally fully enforceable in Italy.
 - ✓ Example: **solar tariff cases**
- In 2013, Italy established **specialized courts** in Milan, Rome, Turin, Naples, Venice, Genoa, Catania, Bari and Cagliari to handle business and corporate law disputes.
- Once **CETA** fully enters into force, it will provide for a special dispute resolution procedure for Canadian investors.

...but there can be pitfalls for the unwary

Some key issues to keep in mind

- Italy is a **civil law jurisdiction**. Thus, the nature and interpretation of investment contracts can differ compared to common law jurisdictions. (However, Canadian investors are well placed to navigate these issues.)
- As with any country, there can be unexpected legal rules (e.g., **shareholders' agreements** pertaining to Italian companies generally may not exceed five years in duration, which often leads to structuring headaches).
- **Cultural issues** can sometimes be surprisingly thorny, so expectations need to be carefully managed on both sides.
- Levels of **political instability, bureaucratic inefficiency and corruption** are higher than in certain other countries, while **economic growth** has lagged behind Italy's EU peers.

Grazie!

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THE RIGHT TYPE OF ENTITY



REPRESENTATIVE OFFICE

Not a legal entity, no separate accounting records

Auxiliary activities

Generally not a permanent establishment



BRANCH

Not a legal entity, no stand-alone financial statements

Must file an Italian income tax return

Offset losses of foreign entity's profits



S.p.A

Separate legal entity

Mandatory audit requirement

Mandatory Board of Statutory Auditors



S.r.L

Separate legal entity, more flexibility

Audit required if certain size or other criteria met

Board of Statutory Auditors not mandatory

ACCOUNTING FRAMEWORKS



ITALIAN GAAP

Non-publicly accountable entities

Unlisted entities can also report under IFRS if desired



IFRS

Publicly accountable entities

The following must report in accordance with IFRS:

- ▶ Listed entities
- ▶ Issuers of publicly traded financial instruments within the European Union
- ▶ Banks and financial intermediaries whose business activities are supervised by the Bank of Italy
- ▶ Insurance companies



CONDENSED IFRS

All entities that qualify

Two of the following three limits, for 3 consecutive years:

- ▶ Total assets of EUR 4,400,000
- ▶ Revenues of EUR 8,800,000
- ▶ Average of 50 employees per year

DIFFERENCES IN ACCOUNTING FRAMEWORKS

ITALIAN GAAP	IFRS
GENERAL	
Restatement of comparatives is not allowed. The effects of changes in accounting policies and corrections of errors is presented in the income statement of the current year.	Restatement of comparatives is allowed (with certain restrictions and criteria).
CONSOLIDATION	
Currently exercisable potential voting rights are not taken into consideration in identifying subsidiaries and joint ventures. Consolidation is required when two of the following limits are exceeded in two consecutive years: <ul style="list-style-type: none">▶ Total assets: EUR 20,000,000▶ Total revenue: EUR 40,000,000▶ 250 employees per year	Currently exercisable potential voting rights are taken into consideration in identifying subsidiaries and joint ventures. An entity is consolidated when it is considered to be under the control of another entity. Control is defined as having the power to control the assets of an entity and being exposed to fluctuations in the financial results of that entity.

DIFFERENCES IN ACCOUNTING FRAMEWORKS

ITALIAN GAAP	IFRS
ACQUIRED INTANGIBLE ASSETS	
<p>All intangible assets are amortized, with some having a maximum useful life of 5 years.</p> <p>Goodwill arising from a business combination is amortized over its useful life. The useful life cannot be longer than 10 years, with certain exceptions that could extend this period to 20 years.</p>	<p>Acquired intangible assets are recognized if they meet the criteria for capitalization. They are amortized over their useful lives.</p> <p>Goodwill arising from a business combination and intangible assets with indefinite lives are not amortized, but subject to an impairment test at least on an annual basis.</p>
PROPERTY AND EQUIPMENT	
<p>Stated at their historical cost.</p> <p>Revaluations are not permitted except as allowed under special laws.</p>	<p>Measured using the cost model or the revaluation model.</p>

DIFFERENCES IN ACCOUNTING FRAMEWORKS

ITALIAN GAAP	IFRS
LEASES (as lessee)	
All leases are recognized as operating leases. Certain disclosures are required for financial leases.	All leases are recognized based on substance rather than form.
INVENTORIES	
LIFO is allowed.	LIFO is not allowed.
FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS	
<p>Classification is based on the legal form of the instrument.</p> <p>Preferred shares are always included in equity.</p> <p>Convertible debt is always presented as a liability.</p>	<p>Classification depends on the substance of the issuer's obligations.</p> <p>Mandatorily redeemable preferred shares are classified as financial liabilities.</p> <p>Convertible debt is allocated between liabilities and equity.</p>

DIFFERENCES IN ACCOUNTING FRAMEWORKS

ITALIAN GAAP	IFRS
FINANCIAL ASSETS	
<p>Long-term investments are measured at cost upon acquisition. Impairment is recognized when a permanent impairment exists.</p> <p>Short-term investments are measured at cost upon acquisition. They are valued at the lower of cost and market value.</p> <p>Loans and receivables with a favourable interest rate are recognized at cost.</p> <p>No guidance on derecognition.</p>	<p>The measurement of financial assets depends on their classification and may be at:</p> <ul style="list-style-type: none">▶ Amortized cost (held-to-maturity, loans and receivables)▶ Fair value through equity (available for sale)▶ Fair value through profit and loss <p>Derecognition is mainly based on the transfer of risks and rewards.</p>

DIFFERENCES IN ACCOUNTING FRAMEWORKS

ITALIAN GAAP	IFRS
REVENUE	
<p>OIC Standard 12 provides guidance on revenue recognition.</p> <p>Revenue is generally recognized when ownership is transferred or when revenue is legally enforceable.</p>	<p>Under IFRS 15, an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:</p> <ul style="list-style-type: none">▶ Identify the contract(s) with a customer▶ Identify the performance obligations in the contract▶ Determine the transaction price▶ Allocate the transaction price to the performance obligations in the contract▶ Recognize revenue when (or as) the entity satisfies a performance obligation.

TAXATION



TAX RESIDENCE

Resident entities are taxed on their worldwide income, while non-residents are only taxed on their Italian income.



TAX RATES

The standard combined tax rate is approximately 27.9%, but the effective tax rate may fluctuate.



CALCULATION OF TAXABLE INCOME

Several expenses are not deductible for either IRES or IRAP purposes.



TAX LOSSES

Can generally be carried forward indefinitely, with special treatment of losses in the first three years of business.



INCENTIVES

Reduced IRES rate by 9% (2019), patent box, R&D tax credit, and hyper depreciation.

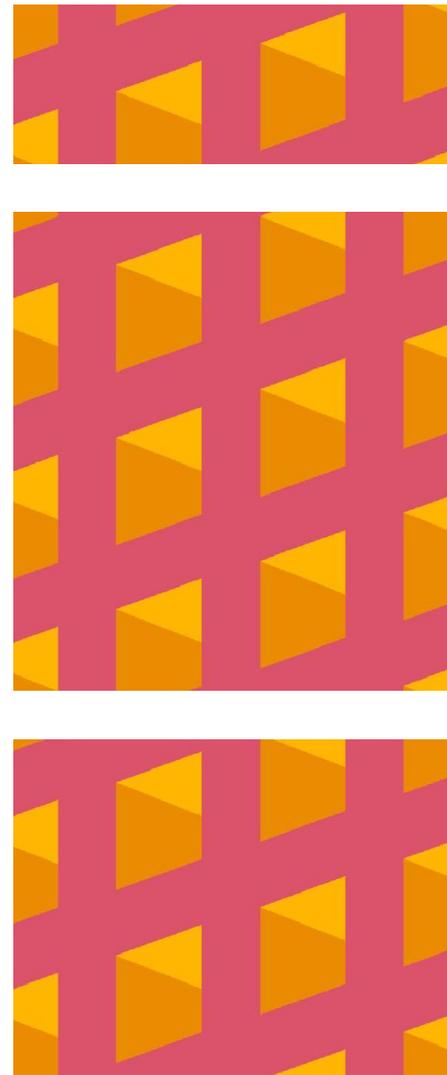


WITHHOLDING TAXES

Dividends, interest, and royalties paid to non-residents.

Due diligence aspects for investing in Italy

Presentation by Damiano Dussin
November 25, 2019



What are the due diligence services and how they are tailored for each specific transaction



Typical due diligence services are:

Financial and accounting

Taxation

HR

Operations

Environmental, social and governance ("ESG")

Others



Due diligence services are usually tailored based on:

- **Type of investment**
 - Infrastructure company
 - Small/medium private company
 - Public companies
- **Type of investor**
 - Pension funds
 - PE - Financial investor
 - Corporate buyer

Specific Italian accounting standard & tax topics

Italian GAAP and IFRS

- Italian GAAP are very similar to ASPE (Canadian Accounting Standards for Private Enterprises)
- IFRS are generally adopted by medium to large companies

Tax aspects

- Consolidated income tax returns are allowed by the Italian fiscal authority
- Available tax credits programs
- Timing of reimbursements
- Tax structuring

Specific Italian accounting & finance topics



Indemnities to employees and agents

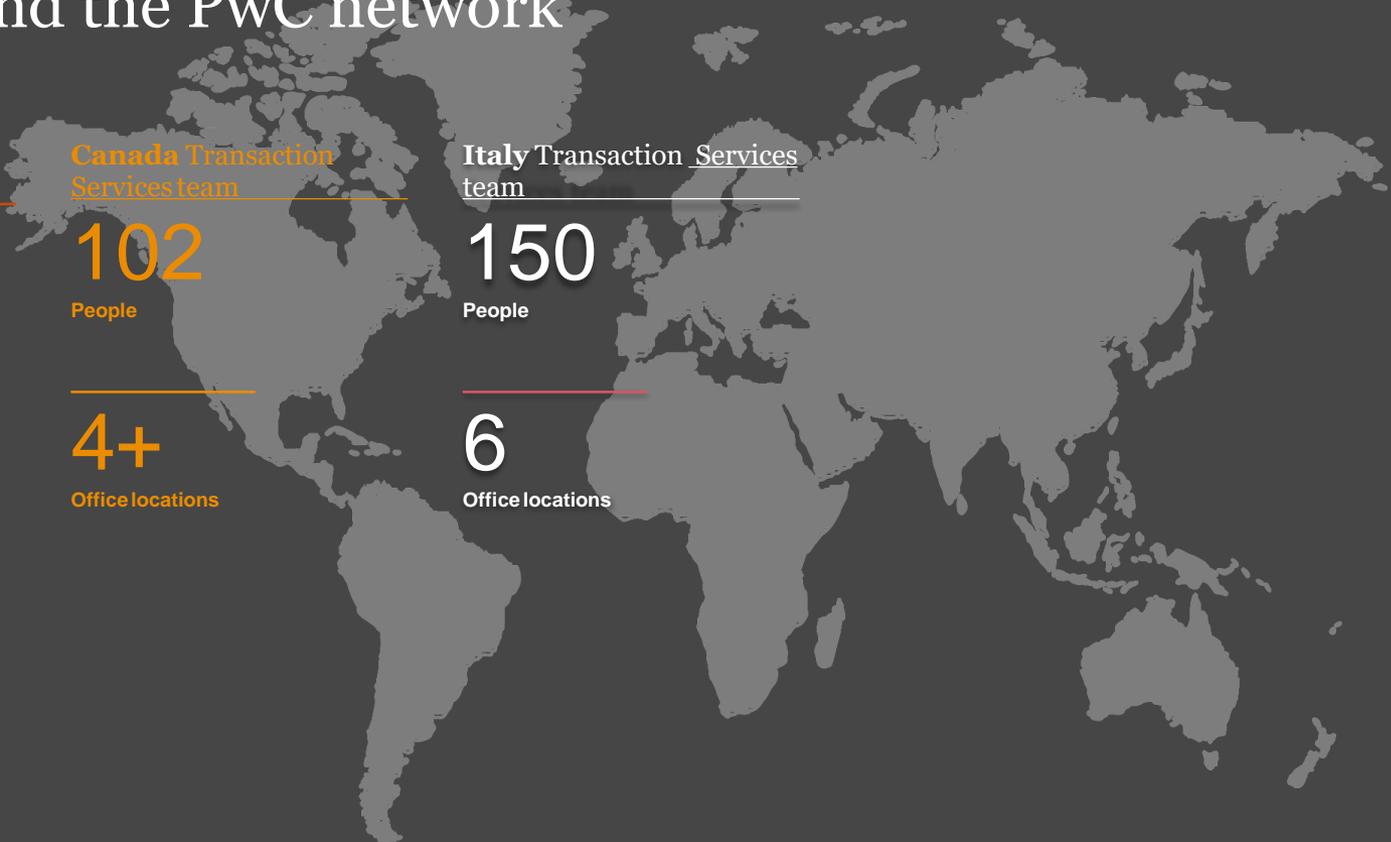
- Indemnity to employees (“TFR”), unfunded prior to 2007
- Italian agents’ indemnities (long tenure and growth of the business), unfunded



Working capital components

- Accounts receivables (Riba, factoring, public sector payment terms)
- Structural higher DPO and DSO for local clients / suppliers

PwC Canada and the PwC network

A light gray world map is centered in the background of the slide, showing the outlines of continents and major landmasses.

Our global network

276,000

People

157

Country locations

Canada Transaction Services team

102

People

4+

Office locations

Italy Transaction Services team

150

People

6

Office locations

Damiano Dussin

PwC Canada

Partner, Transaction Services

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Thank you



Borsa Italiana and Elite: Access to Italian public and private companies

Thomas Tyler

Financing Digital Economy: Innovative Models in Italy

Francesca Chieti

Head of Institutional Investors Business Development, *London Stock Exchange Group*

fchieti@lsegroup.com

Macro trends driving new business models



Digitalization
of all industries

Investors
Searching for yield



Italian household wealth
untapped

Italian real economy
funding gap



New Paradigms

The rising importance of intangibles

- 1 **Exogenous: ultra-low interest rates environment → Search for yield**
 - Institutional investors are **searching for higher expected returns** outside of the usual publicly traded markets.
 - They **missed the decade-long recovery in equities** following the 2008 crisis.
- 2 **Endogenous: long-term nature of institutional investors → Illiquidity premium**
 - Investors with **long-dated liabilities**, such as pension funds, are willing to **invest in illiquid assets** and earn a premium as they do not need such assets to be instantly available.
 - Managers can **focus on creating long-term value** rather than meeting quarterly earnings targets.
- 3 **Lower dependence to market turmoil**
 - The valuation of private investments is **independent of what they perceive to be the fear and mood swings** that cause excessive volatility on public markets.
- 4 **Greater oversight and transparency for owners**
 - By being **one of a relatively few large investors in a firm**, an institution investing privately is able to wield more influence than it could as a public shareholder.
- 5 **Rise of investments in intangible assets**
 - Retaining **concentrated ownership** helps a firm to **share R&D valuations more accurately** with few large investors, with less risk of rivals obtaining such private information via mandated public disclosures.
- Dry-powder problem → megadeals**
 - There is an **excess of capital** seeking to invest in a **limited number of value-creating startup businesses**.
 - This results in **over-paying for quality** investments or **investing in low-quality** startups.
 - **Megadeals** are more frequent as investors deploy as much capital as possible for a quality opportunity.

Italian Household Wealth

Untapped pool of demand for alternative assets

€ 4.2 tn

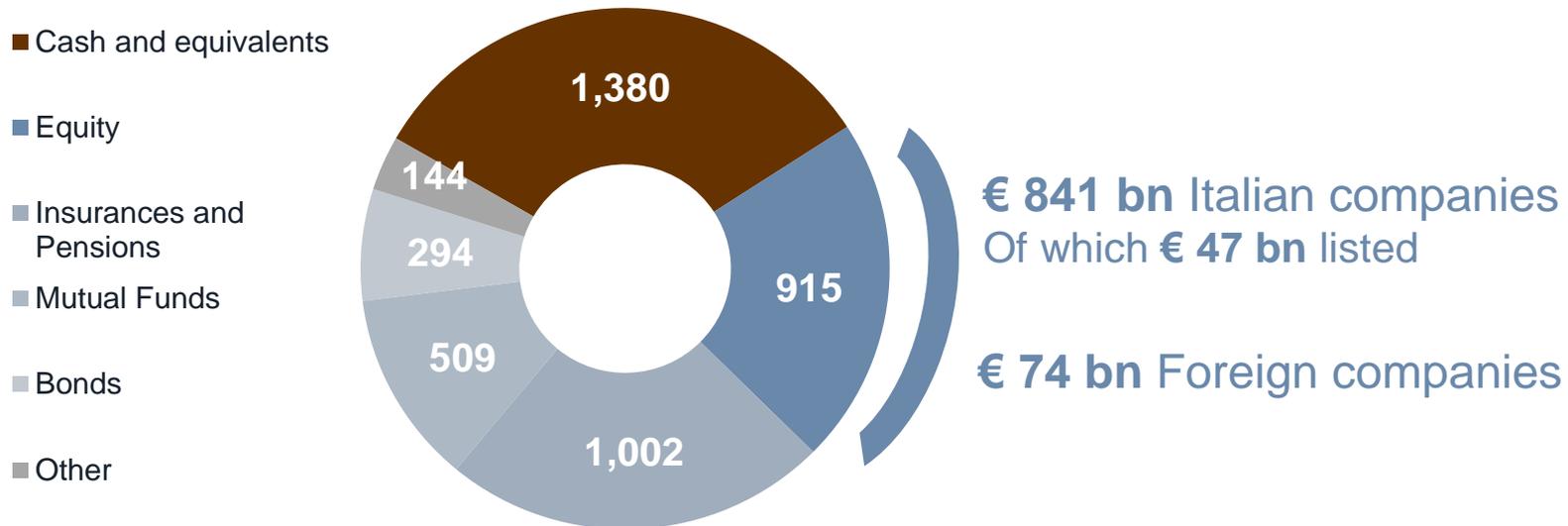
Total Italian household wealth

~ 2x

€ 2.3 tn

Total Italian government debt

Breakdown of Italian household wealth (€bn)



Alternative Investment Funds

A tool to connect investors to projects

Alternative Investment Funds (AIFs)



MIV: the Market for AIFs

Regulated market dedicated to **Closed-end Funds** and **Permanent Capital Vehicles**

Listing environment that combines **regulatory flexibility** with regulated market status

Retail and Reserved Funds

No restrictions of registered office or tax domicile

MIV Pipeline

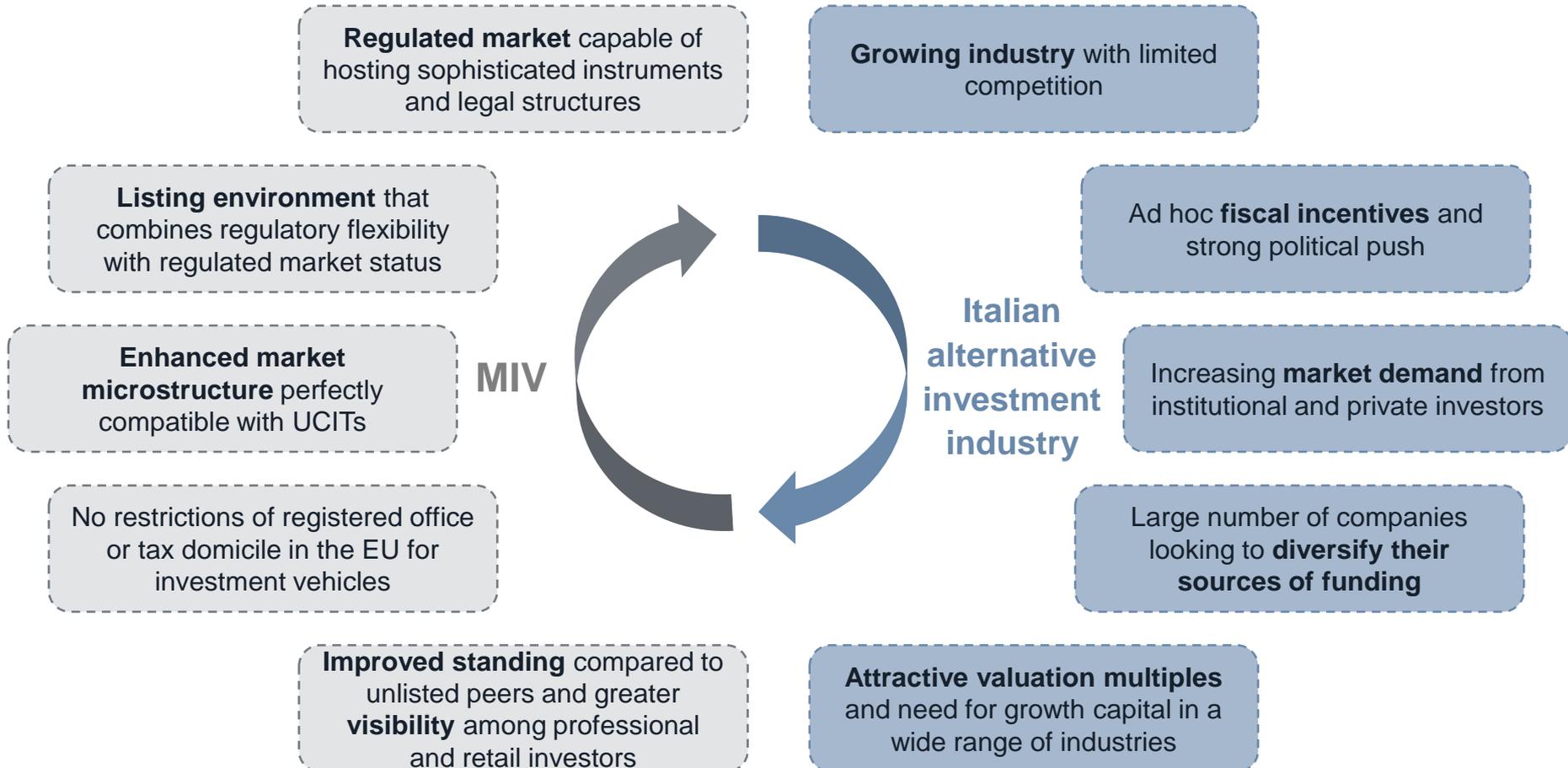
20+ alternative investment funds interested in listing on the MIV

Venture Capital
 Private Equity / Debt,
 Infrastructure
 Real Estate
 ESG
 Renewables
 Made in Italy Excellences
 Healthcare
 Tech, Industrial
 ELTIF



Market for Investment Vehicles (MIV)

Reconciling issuers' needs with investors' demands



Focus on tech and digital economy

Engagement in the Venture Capital environment

Step Fund venture capital publicly announced its intention to **list on MIV**



Seed investments € 300K / 1M | Digital startups and innovative SMEs

The **MIV Day** (Sept 4th) hosted speakers from **VC funds ready to invest in real economy**



Companies already **listed on Borsa Italiana** are active in the **VC space**



Holding company investing in startups
➤ **Listed on MTA**



H-FARM

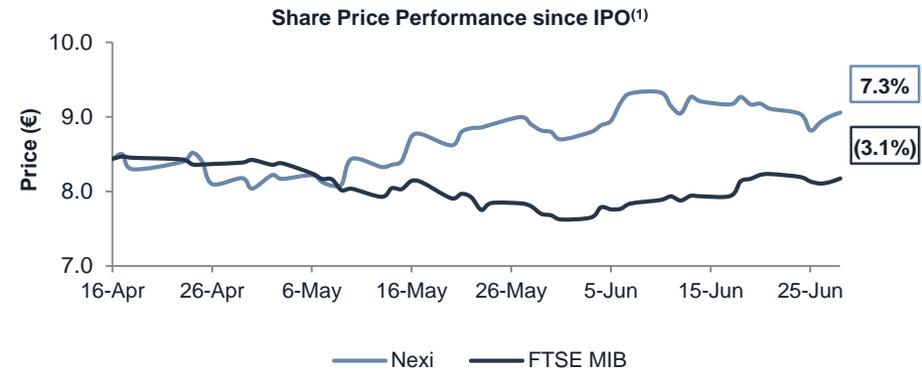
Innovation platform
➤ **Listed on AIM Italia**



Incubator of digital startups
➤ **Listed on AIM Italia**

Largest IPO in EMEA by money raised in 2019YTD

Company Name	Nexi S.p.A.
Borsa Italiana Market	MTA
Industry	Fintech
Country	Italy
Start of Trading	16 April 2019
Money Raised at IPO	€2.06bn (incl. <i>greenshoe option</i>)
Market Cap at IPO	€5.7bn



Listing Story

- Former known as **ICBPI**, Nexi is the **leading PayTech company** in Italy

- Nexi operates in 3 areas:

Merchant Services & Solutions

Cards & Digital Payments

Digital Banking Services

- December 2015:** Advent International, Bain Capital and Clessidra acquired control of ICBPI with a **92% stake for €2.15bn**

- July 2018:** **corporate reorganization** funded via **€2.6bn** Notes

- The **Offering comprises:**
 - a **capital increase of €700m**
 - ~€1.3bn** sale of shares by the selling shareholders

- Total **demand of €5.4bn+** from more than **340** intl investors (~2.7x oversubscribed)

- The **Enterprise Value** at IPO is equal to **€7.3bn**

- (17.2x EV/EBITDA multiple)

- The IPO proceeds will be used to **reduce the Group's financial debt** between **2.0x-2.5x** the Normalized EBITDA

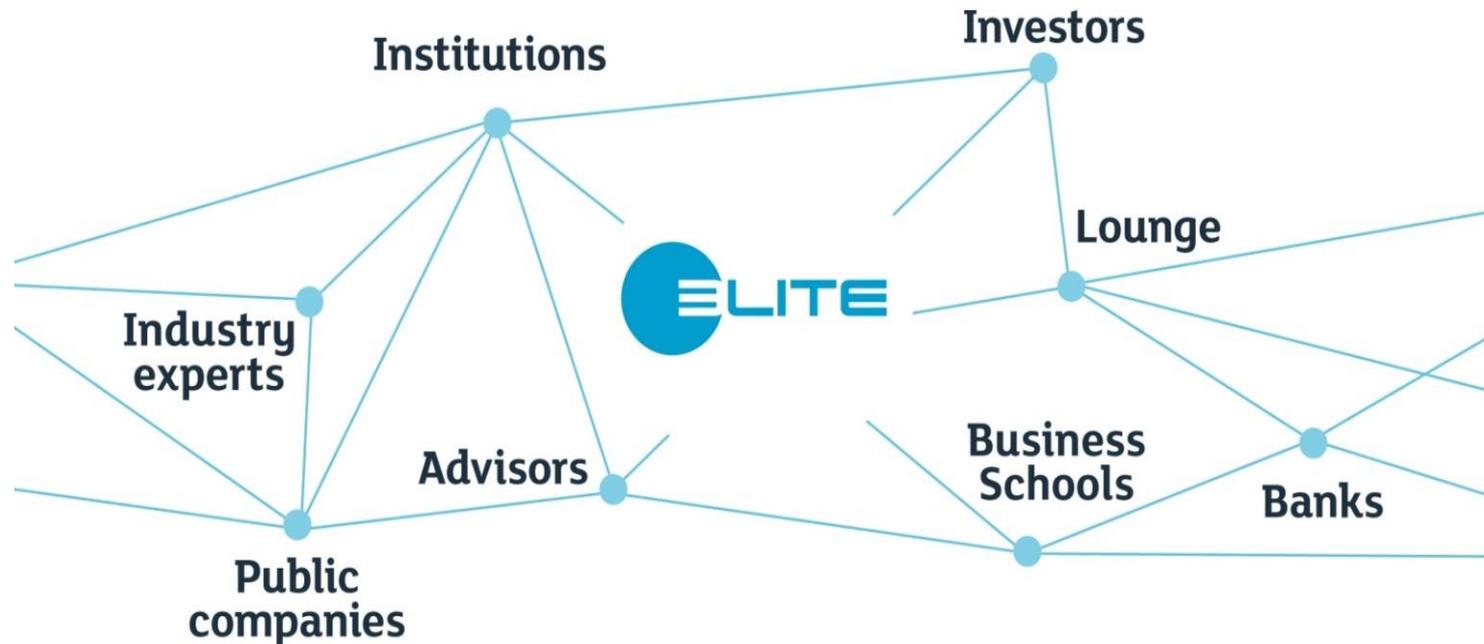
- Also new **Loan Agreement**, to **refinance** part of the debt through partial repayment of the bonds issued



ELITE Digital Community

ELITE Broad community

Throughout their engagement, ELITE companies **access a vibrant community** that facilitates long-term structured engagement with business and financial stakeholders.



Overview

A diverse company network



1300+

COMPANIES

(180+ from the UK)



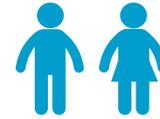
43

COUNTRIES



€84bn

**AGGREGATE
REVENUE**



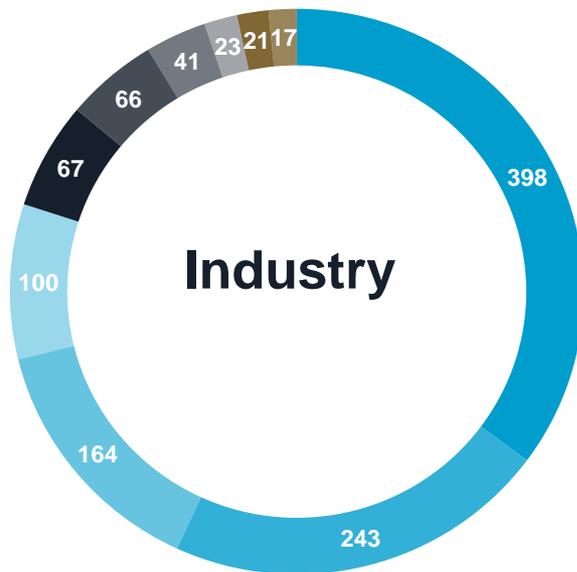
500,000+

EMPLOYEES

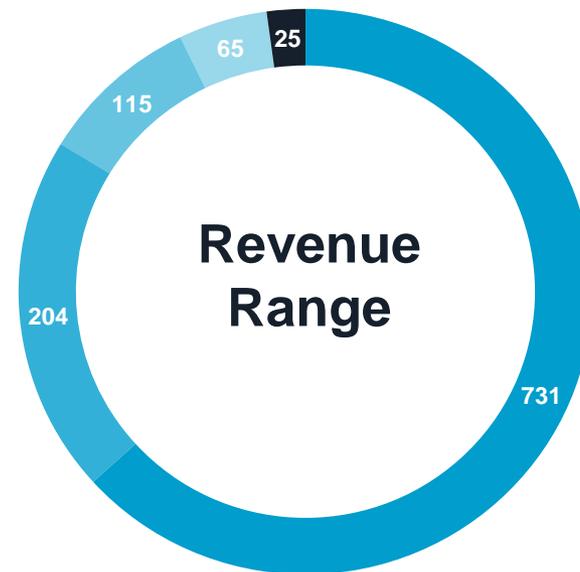


36

SECTORS



- Industrials
- Consumer Goods
- Technology
- Consumer Services
- Basic Materials
- Health Care
- Financials
- Utilities
- Telecommunications
- Oil & Gas



- <€50M
- €50-€100M
- €100-€200M
- €200-€500M
- >€500M



ELITE Companies Access Capital

Highlights

883 Corporate transactions involving **321** ELITE companies

30% ELITE companies completed a corporate transaction*

\$12bn transaction value by ELITE companies**

M&A, Equity investments and Joint Ventures

- **725** M&A and JV deals involving **277** ELITE companies
- **188** PE/VC transactions involving **117** ELITE companies

Capital Markets (Equity and Debt)

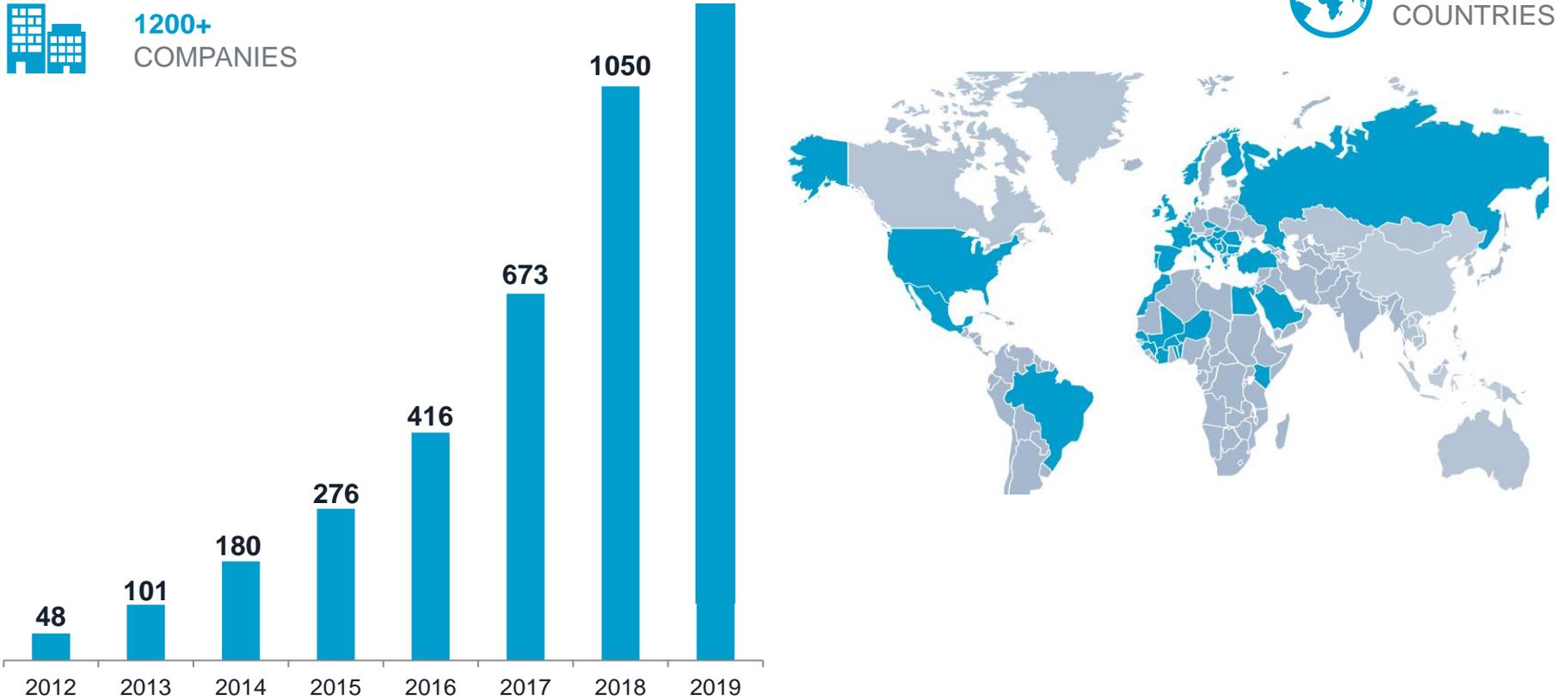
- **45** ELITE companies issued bonds raising **\$1bn**
- **24** ELITE companies listed on a public market, raising **\$1.6bn**

* Corporate transactions include: M&A, JV, PE and VC deals, IPO

** Disclosed figures based on: PE/VC Deals (Zephyr and Beauhurst data), IPOs and Bond Issues (LSEG data)
Data period covers 1 January 2012 – 20 December 2018

ELITE International growth

Launched in 2012, ELITE has over 1200 companies enrolled and is growing rapidly.



ELITE Corporate Partnership



- Access to potential customers:
 - Growing ecosystem of innovative companies across multi sectors
 - Selected for their ambitious plans to grow
 - ELITE companies grow faster while on the programme

- Plot, track and monitor innovative businesses
 - Over 1300 fast growing businesses
 - Nurture the future customers



Etoro Case Study

-  **9m**
Users
-  **140**
Countries
-  **\$161m**
Total Capital Raised
-  **2015**
Joined ELITE



Series E →



Amount raised: \$100m
Closing Date: 21st March 2018



CORNERSTONE INVESTOR



FOLLOW ON INVESTORS

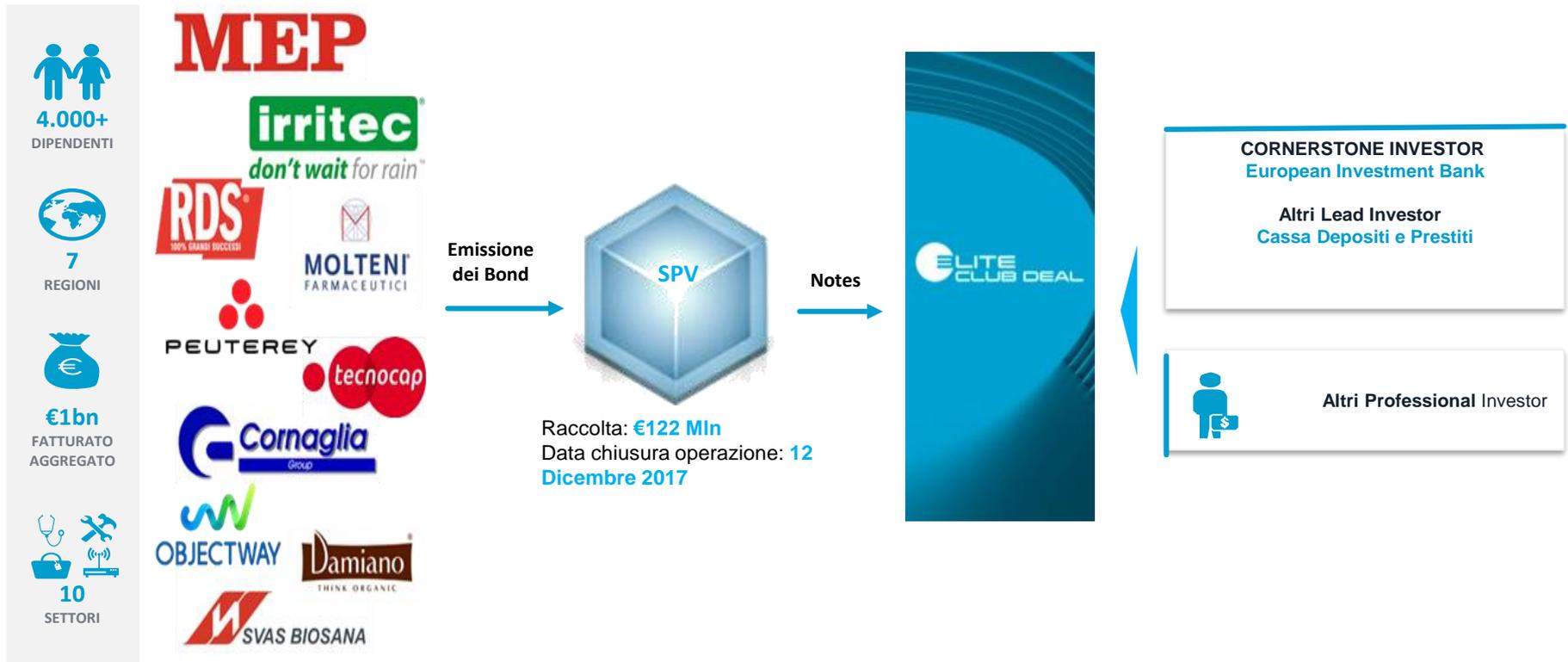



2x Large Family Offices



Use of Proceeds: Company expansion – global offices; marketing budget; M&A in selected geographies; and R&D (including development in Blockchain)
Valuation: \$700 pre-money (2.7x 2017 revenues)

ELITE Basket Bond I



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Lessons learned by experienced foreign investors in Italy

Christoph Jäckel

Christelle Destors-Lepoutre and Pierre-Gilles Diat



Successful institutional
investing in Italy

Lessons learned by mcp

mcp – global secondary investing with a differentiated niche strategy



Key differentiators

- mcp with differentiated niche strategy: complex transactions in small and mid-sized segment, usually **sourced and negotiated directly**
- Large team of 20+ professionals. More than 30 involved in sourcing including senior advisors
- Global sourcing and investment approach

Experienced team with long-standing PE experience



Large institutional footprint

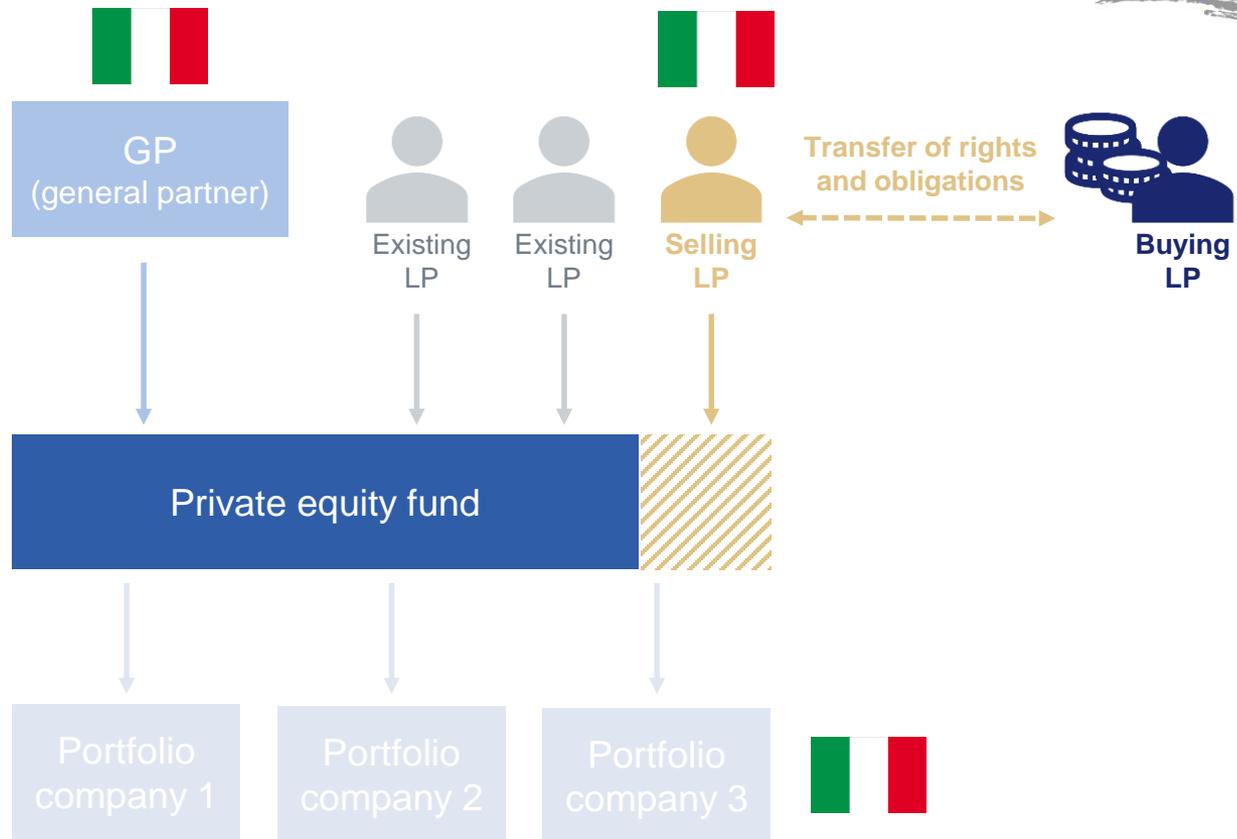
- >90** deals closed
- >100** GP relationships across portfolio
- >750** deals p.a. as deal flow
- > 1'000 funds** tracked in database
- > 2'000** sourcing meetings p.a.
- EUR 1.5bn** of AuM since inception

ESG and Awards



mcp carbon neutral

Secondary fund investing



The acquisition of a LP stake transfer all the rights (capital distributions) and obligations (unfunded commitments) to the buying LP

Easy to get discouraged to invest in Italy... but then you miss out on an attractive opportunity set



- ✗ Political uncertainty (refugee crisis, financial stability of government)
- ✗ Financial institutions struggling

- ✓ Overall debt of the economy reasonable
- ✓ Italy large economy (Nr. 8 worldwide), Northern Italy one of the most prosperous parts of Europe
- ✓ Many strong SMEs (more than Germany), world market leaders in areas such as fashion, food, and industrials
- ✓ Many companies still privately owned, so large opportunity set

Case study: Facilitating spin-off of captive team together with portfolio of companies



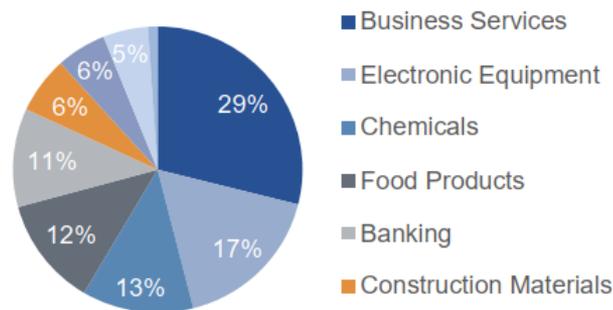
Transaction background

- Take over of three fund structures from Italian bank that was the **sole investor**
- **Spin-out** of the captive team that was managing the underlying investments
- **Downside protection** due to seniority of a majority of the underlying equity investments

mcp advantage

- **Complex, tailored solution** for the seller that solved all his issues
- Significant head-start for mcp in the process due to pro-actively established **long relationship** with captive team
- Command of **Italian language skills** and **local knowledge** within the mcp team provided for ease of communication and advantage during the DD process

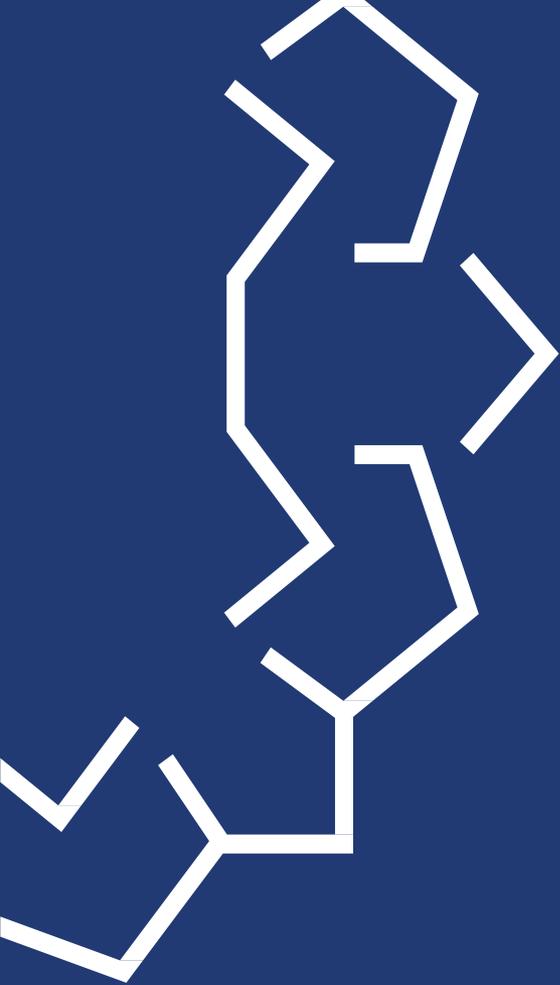
Portfolio overview



Industry diversification by FMV as of closing.

Lessons learned

- Be prepared for longer negotiations and processes
- Either be willing to build up your local knowledge or team up with trustworthy partners
- Legal counsel should be experienced in the Italian market, as there are a few country specific issues (e.g. qualified investor status for foreign investors)



VAUBAN INFRASTRUCTURE PARTNERS

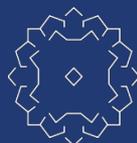
LONG TERM INVESTING, SUSTAINABLE
VALUE

PRESENTATION

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IN ACCORDANCE WITH MIFID

An expertise of Natixis Investment Managers



VAUBAN
INFRASTRUCTURE PARTNERS

Vauban Infrastructure Partners has not yet been approved by the AMF to act as management company and/or alternative investment fund manager.

EXECUTIVE SUMMARY

VAUBAN INFRASTRUCTURE PARTNERS KEY FEATURES

35

Professionals

2

offices
Paris and Luxembourg

50 +

Investments spread over

8

countries

AN INCOMING LEADING INFRASTRUCTURE ASSET MANAGER* FOCUSED ON CORE INFRASTRUCTURE

Agile | Relentless | Audacious | Committed



- ◇ A dedicated asset manager for Infrastructure Equity Investment
- ◇ Team of infrastructure experts working together since a decade
- ◇ 80% owned by Natixis Investment Managers to support growth
- ◇ 20% shared with 20 senior partners
- ◇ Long term investor searching and creating sustainable value

5

Funds in
Core Infrastructure
representing

c. € 3bn

Raised from

40 investors

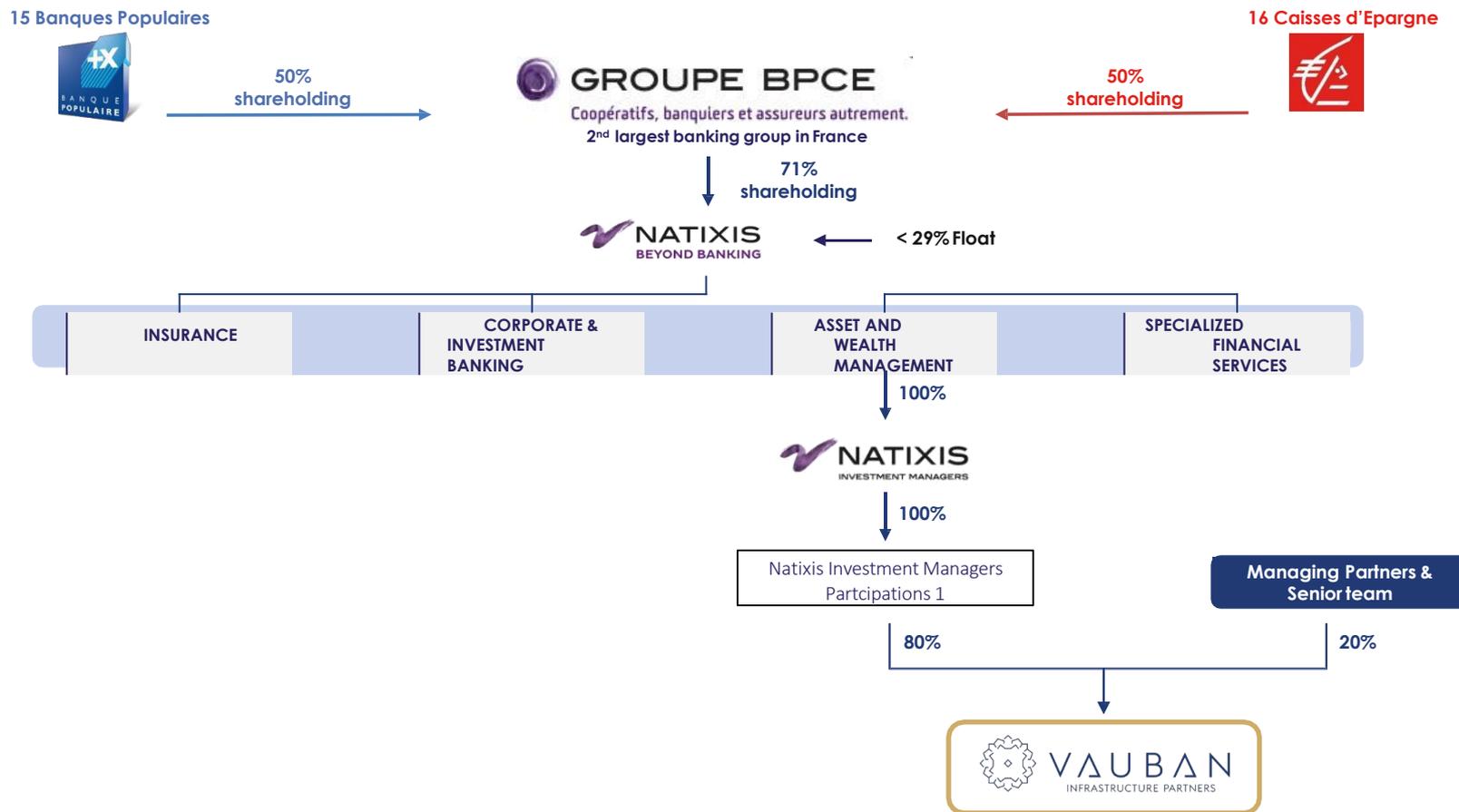
within **10** different
countries

**Subject to AMF Approval – cf. slides 8-9*

SOURCE: MIROVA/VAUBAN IP, 31/07/2019

Vauban Infrastructure Partners has not yet been approved by the AMF to act as management company and/or alternative investment fund manager. The Core Infrastructure team that will make up Vauban Infrastructure Partners currently is a part of Mirova, a limited liability company with a share capital of €8,813,860. RCS Paris no. 394 648 216. Regulated by AMF under no. GP 02-014. 59 Avenue Pierre Mendès-France, 75013 Paris.

VAUBAN INFRASTRUCTURE PARTNERS, AN EXPERTISE OF NATIXIS INVESTMENT MANAGERS



The future Natix Investment Managers affiliate dedicated to equity investment in infrastructure that will be created from the spin-off of the "Core Infrastructure" team of Mirova – subject to AMF Approval

Vauban Infrastructure Partners has not yet been approved by the AMF to act as management company and/or alternative investment fund manager. The Core Infrastructure team that will make up Vauban Infrastructure Partners currently is a part of Mirova, a limited liability company with a share capital of €8,813,860. RCS Paris no. 394 648 216. Regulated by AMF under no. GP 02-014. 59 Avenue Pierre Mendès-France, 75013 Paris.

CASE STUDIES - ATON



ATON - Italian District Heating Concession

Key characteristics

- ✓ **Sector:** Energy production and distribution
- ✓ **Country:** Italy
- ✓ **Initial Investment Date:** November 2016
- ✓ **Shareholders:** MCIF 85%, Siram 14.7%, Minority Shareholders : 0.3%



- ✓ In operation since September 2015 and based in the Italian province of Udine, Aton is a **120MW co-generation plant servicing the Hospital Santa Maria della Misericordia, the University of Udine and the swimming pool of Palamostre.**
- ✓ **A 35-year concession contract** was signed in 2009 with Udine University Hospital to construct, finance, maintain and operate the facility, alongside a **13km urban heat distribution network between the hospital and the north-east of the city.** It also serves third-party users, mostly households, with solutions to connect heating distribution systems.
- ✓ Under the concession agreement, **Siram, on behalf of Aton, is responsible for the maintenance and operation** of the cogeneration power plant and heat distribution network of the Hospital and surrounding neighborhood.

Asset Description

Rationale for Investment

- ✓ AssetCo/OpCo model on an operational district heating concession, providing **strong revenues, sector diversification, and robust contractual framework.**
- ✓ **Attractive structure and returns** based upon a conservative business plan with no third-party revenues.
- ✓ **Deal origination:** Sourced off-market through the team's **relationship with Veolia**

Asset Description

- ✓ Structured a **fully variable O&M contract** with Siram
- ✓ Active asset management with the Investment Team involved in **financial performance monitoring, implementation of operational financial model, optimization of cost structure**
- ✓ **Refinanced in December 2015 with 21-year debt maturity**
- ✓ **Developed pipeline** of similar district heating assets in the region with Siram

Note: Past performance is not an indicator of future performance

SOURCE: MIROVA/VAUBAN IP, 30/09/2019

CASE STUDIES - VSFP



VSFP - Italian Hospital Concession

Key characteristics

- ✓ **Sector:** Hospital
- ✓ **Country:** Italy
- ✓ **Initial Investment Date:** September 2018
- ✓ **Shareholders:** CIF 59.4%, Gemmo 17.5%, Sinergie 17.5% and other minority shareholders



- ✓ Veneta Sanitaria Finanza di Progetto S.p.A ("VSFP") holds a **concession agreement** signed with the Azienda Sanitaria ULSS n. 3 Serenissima for the design, build, finance, supply of electro-medical equipment/furniture and operation of the new **Dell'Angelo Hospital and new Eye Foundation** (Mestre, Italy).
- ✓ The hospital includes **680 beds, 350 rooms**, with private services + 25 dialysis units, 21 operating theatres and 20 cradles nursery units; 29 beds in private healthcare unit. The complex is also provided with a parking area of 32,548 m2 with 535 car parks for the ULSS personnel and 557 for visitors.
- ✓ It is the **1st example in Italy of PPP in the Healthcare sector** and 1st highly computerized IT system hospital in Italy. The initial CAPEX of the project was EUR 257m finance of which EUR 117m of public grants, EUR 30m equity and EUR 110m senior debt.
- ✓ The concession agreement was signed in 2002 and construction ended in 2008. **Operations will last until 2032 after a 30 years duration contract.** During this period, VSFP provides **non-sanitary/clinical and commercial services.**

Asset Description

Rationale for Investment

- ✓ **1st investment in Italy for CIF2 in a brownfield asset with a long operational track record.**
- ✓ Innovative pricing structure with a **differed payment mechanism contingent to the positive settlement of certain events, leaving the risk on the sellers.**
- ✓ **Deal origination:** Sourced off-market through the team's relationship with advisors.

Asset Description

- ✓ Since CIF2 entered the company VSFP's management team is working with the grantor on settlement pending issues.
- ✓ **Active asset management with the Investment Team involved in financial performance monitoring, implementation of operational financial model, optimization of cost structure.**

Note: Past performance is not an indicator of future performance

SOURCE: MIROVA/VAUBAN IP, 30/09/2019

Current economic and political factors impacting investment in Italy

Giovanni Majnoni d'Intignano



BANCA D'ITALIA
EUROSISTEMA

The Italian Economy: Sailing Between Headwinds and Tailwinds

Private Equity Seminar - I.C.E./Dentons LLP

Videoconferenza New York – Toronto

November 25, 2019

Giovanni Majnoni

Banca d'Italia – Chief Representative for North America

Since the end of summer, the Italian economy has benefited from tailwinds that, if exploited, could counteract the headwinds of world trade downturn.

In particular, the Italian economy has been positively affected by:

- a) the dovish position adopted by the ECB (announced at the start of June)
- b) the quick resolution of the government crisis (end of August)

The **reduction of uncertainty** and **decrease of interest rates** that followed these events have favored:

- I. **The public sector** and the stability of public debt;
- II. **Firms**, investments and growth;

Progresses will in turn benefit:

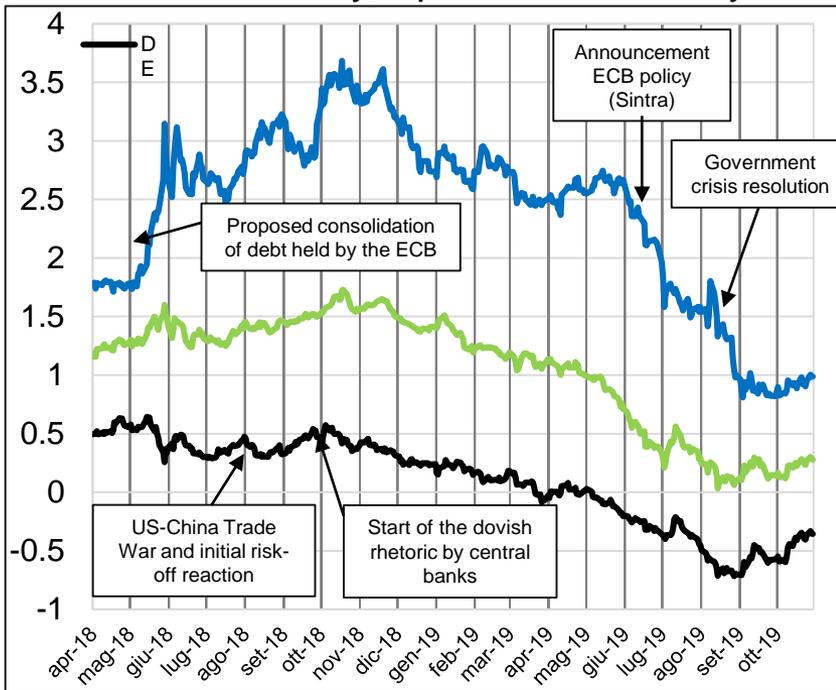
- I. **Banks** and financial stability;
- II. **Households** further increase of disposable income and consumption.

Before proceeding, the usual disclaimer: The views of this presentation do not necessarily reflect those of the Banca d'Italia.

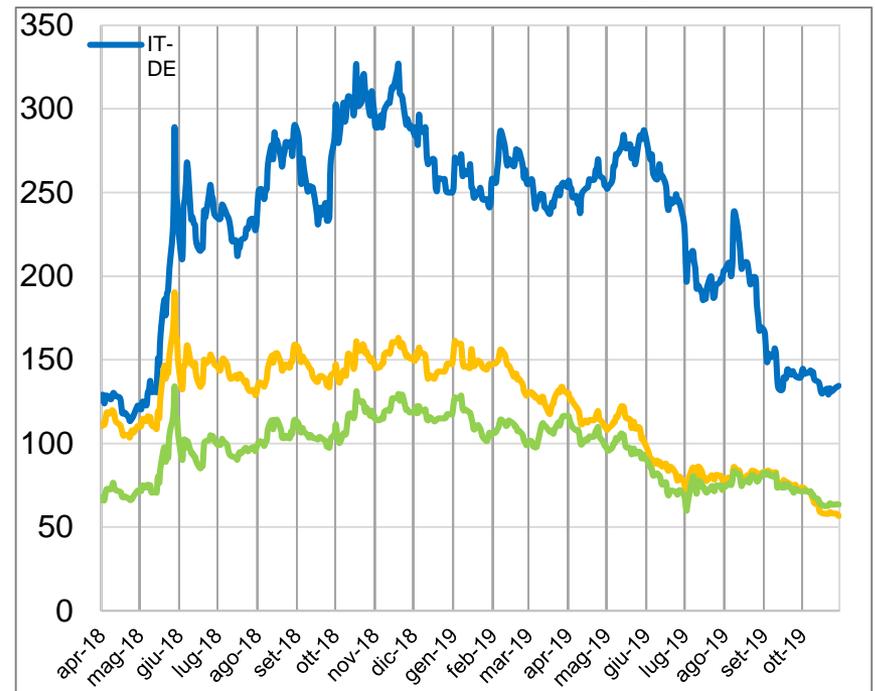
The effect of **tailwinds**: the drop in interest rates

Interest rates on the 10Y Italian Bond decreased approximately 1.5% between June and September; however, there is still room for improvement since the spread with the German bonds is 70bp higher than the Spanish and Portuguese spreads.

Interest rates: Italy, Spain and Germany



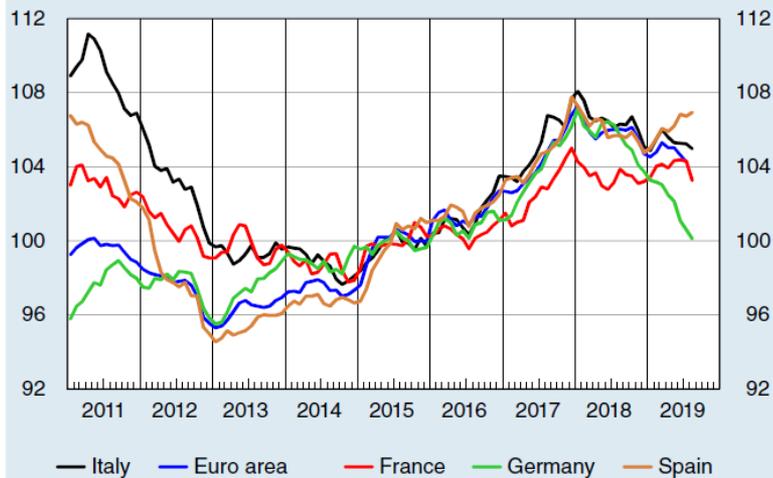
Spread with Germany: Italy, Portugal and Spain



The effect of **headwinds**: the fall of German manufacturing production

The Industrial sector has been hit by commercial tensions, particularly so in Germany. Less severe the impact on the Service sector, as shown by a falling correlation between the two sectors.

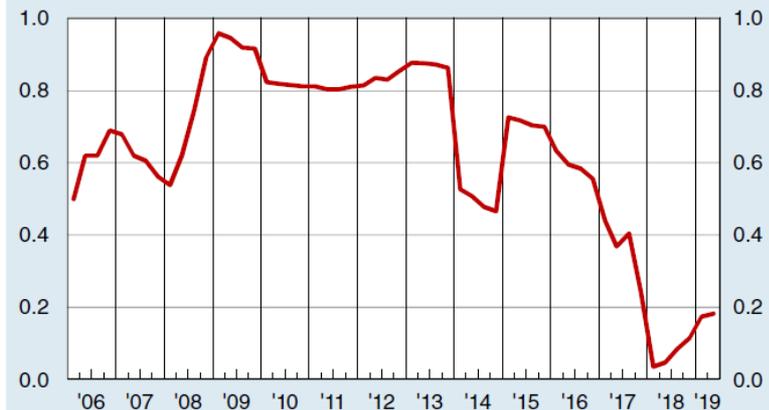
Industrial production in the euro area and in the main economies (1)
(monthly data; indices: 2015=100)



Sources: Based on Eurostat and Istat data.

(1) Data adjusted for seasonal and calendar effects; 3-term moving averages.

Correlation between the value added in manufacturing and in services in the euro area (1)
(quarterly data)



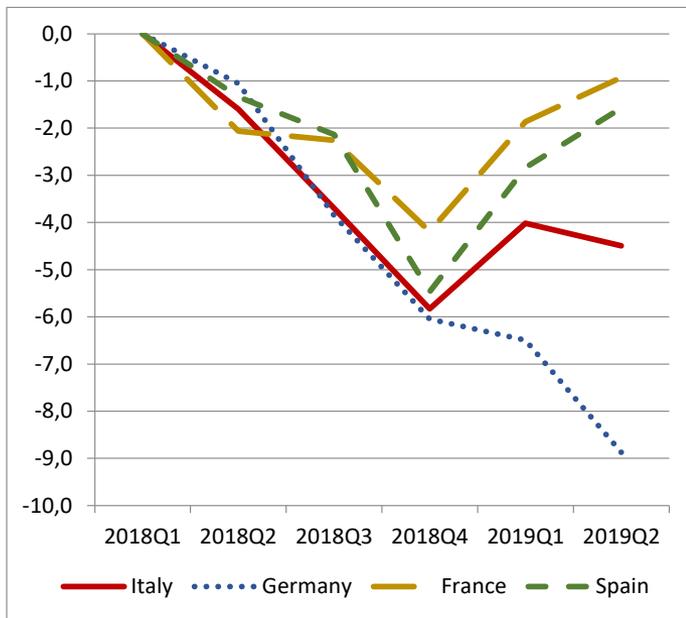
Source: Based on Eurostat data.

(1) Contemporaneous correlation coefficient, using a 5-year rolling window, between the cyclical rate of growth of value added in manufacturing and that in services.

The effect of **headwinds**: the fall of German manufacturing production

The strong links between the Italian and German industrial sectors are most visible in the export performances and to a lesser extent in GDP developments.

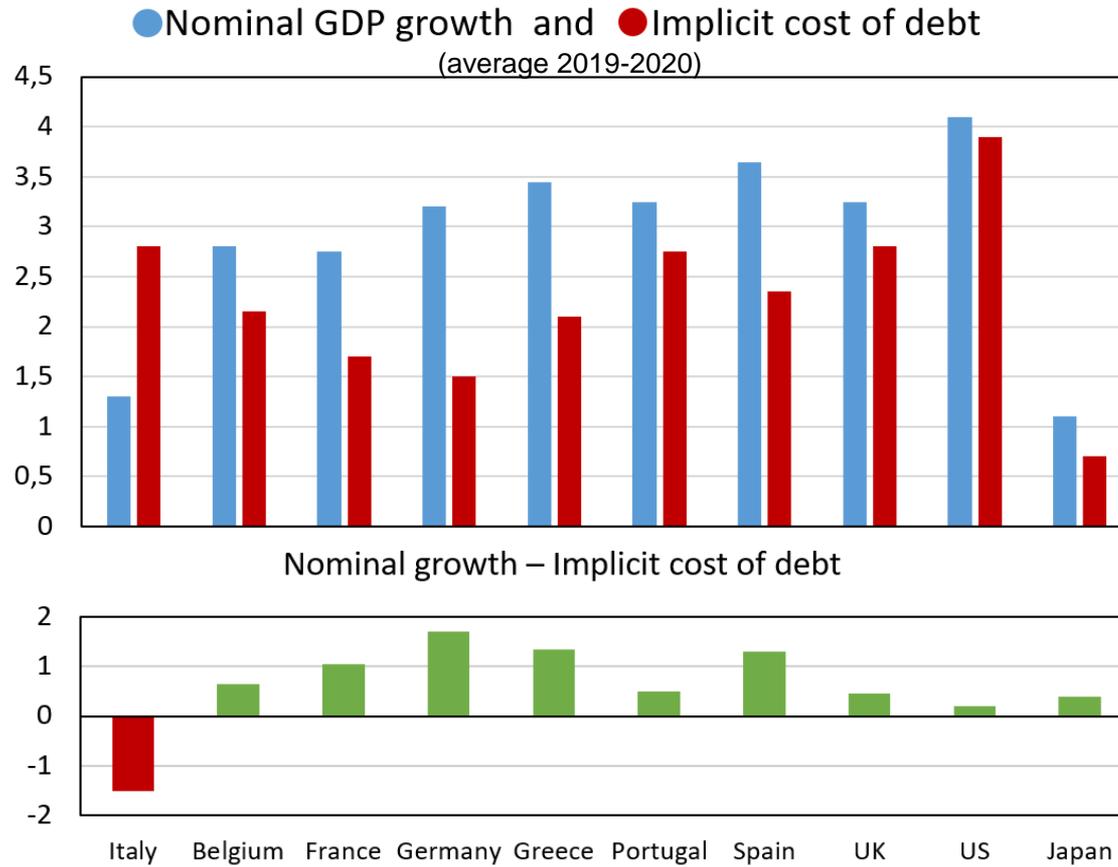
Deceleration in industrial production since 2018Q1 (Δ yoy growth rates)



Impact of a 1y-1pp decline in German GDP on the Italian economy

	GDP	Export
Bdl Econometric Model	-0.08	-0.38
Multi-Country Model	-0.18	-0.48

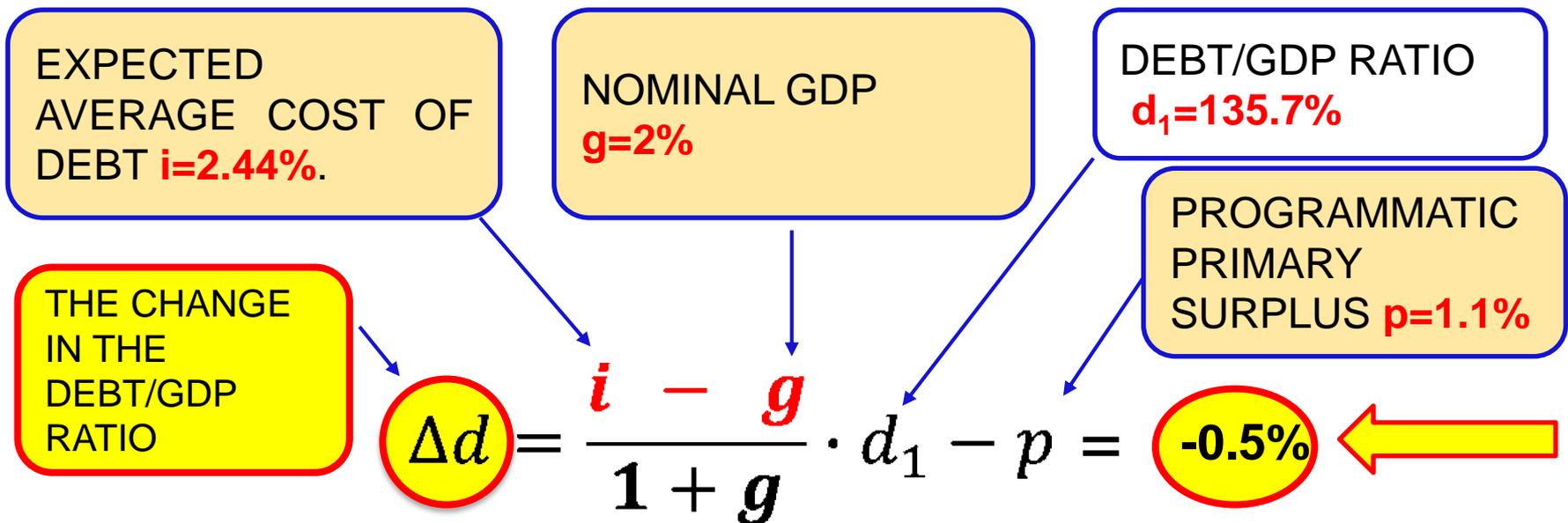
I. Public sector and debt stability: the Italian anomaly...



Source: Spring Forecast 2019, European Commission

... does not preclude debt stabilization ...

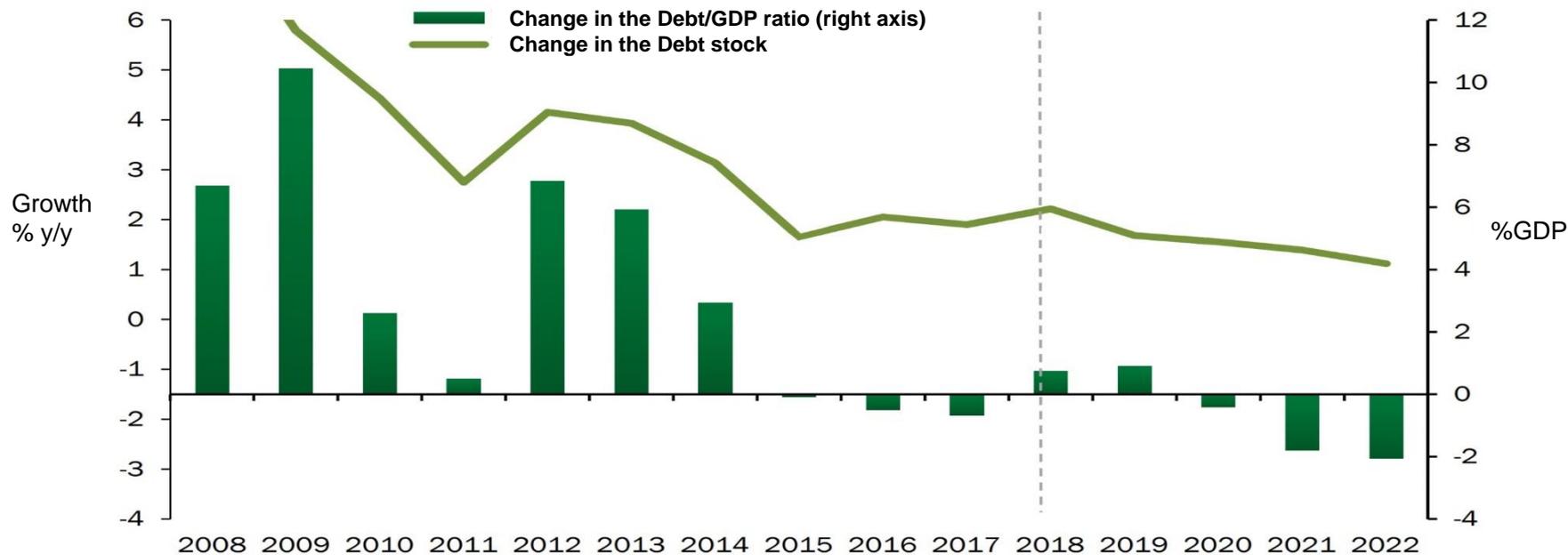
Estimates based on the September budget documents (Nadef) point to a reduction of the Debt/GDP ratio in 2020.



II. ... which has been a constant across governments of different color

Debt/GDP (not the Debt level) reduction is required to bring the spread with Germany to the levels of Spain and Portugal → This would help substitute interest expenses with productive expenses and start a virtuous cycle → Reducing the ratio is not an EU constraint: it is an Italian interest.

Evolution of the Debt/GDP ratio



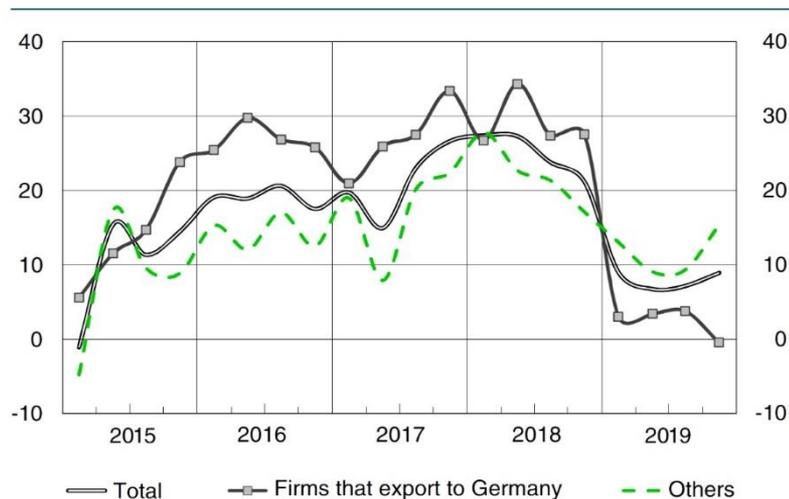
Fonte: ISTAT. Obiettivi programmatici dal 2019.

II.

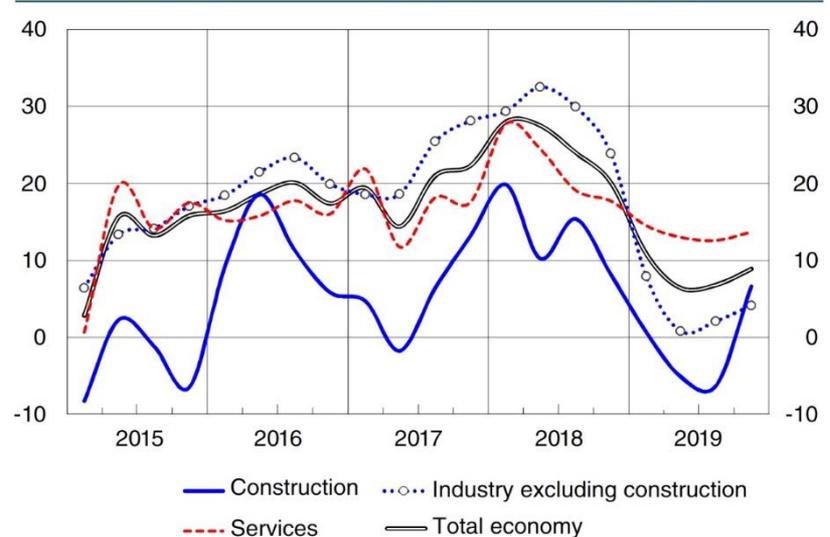
Firms, Investments and Growth

- The **headwind** of a German downturn has affected the distribution of investments across firms.
- However, **the tailwinds** of a reduced uncertainty (greater government attention) are signaled by a recovery in the expectations of investment

Firms' expectations of investment trends by reference year: breakdown by outlet market (1)
(quarterly data; percentage points)



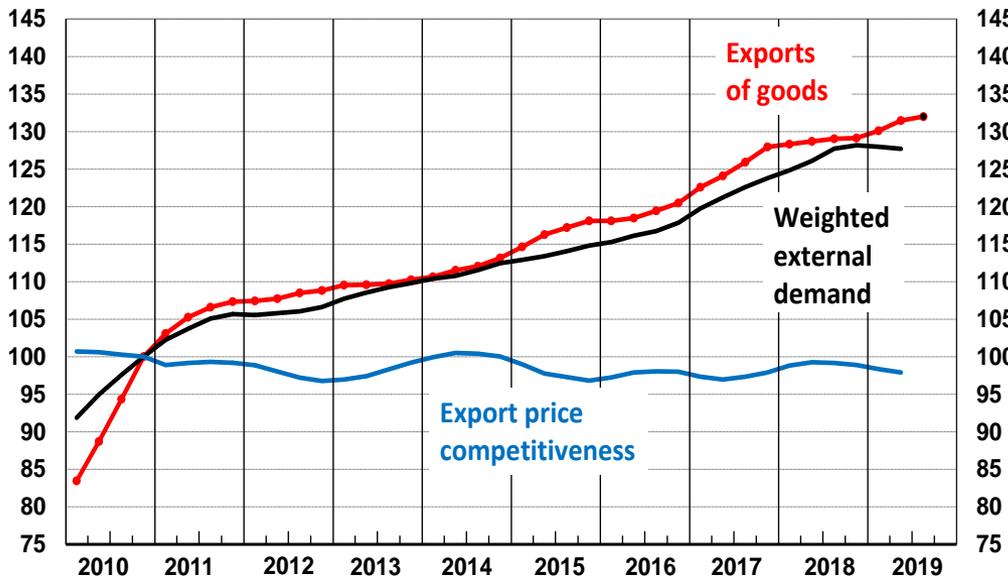
Firms' expectations of investment trends by reference year (1)
(quarterly data; percentage points)



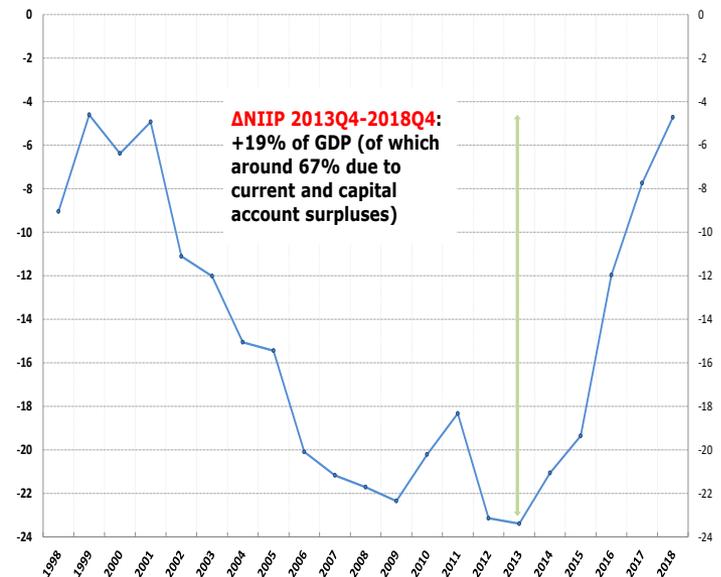
II. Firms, Exports and the Net International Investment Position

- Notwithstanding a fall of global trade, Italian exports were able to grow faster than their destination markets, despite a stable price competitiveness thanks to quality improvements.
- Strong current account surpluses have brought the large negative NII position down to zero.

Export of goods and their determinants

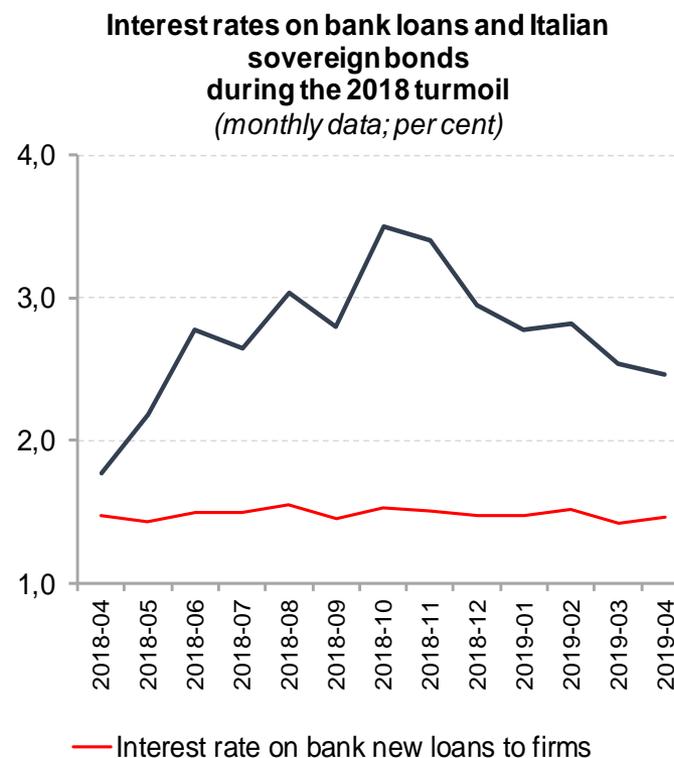
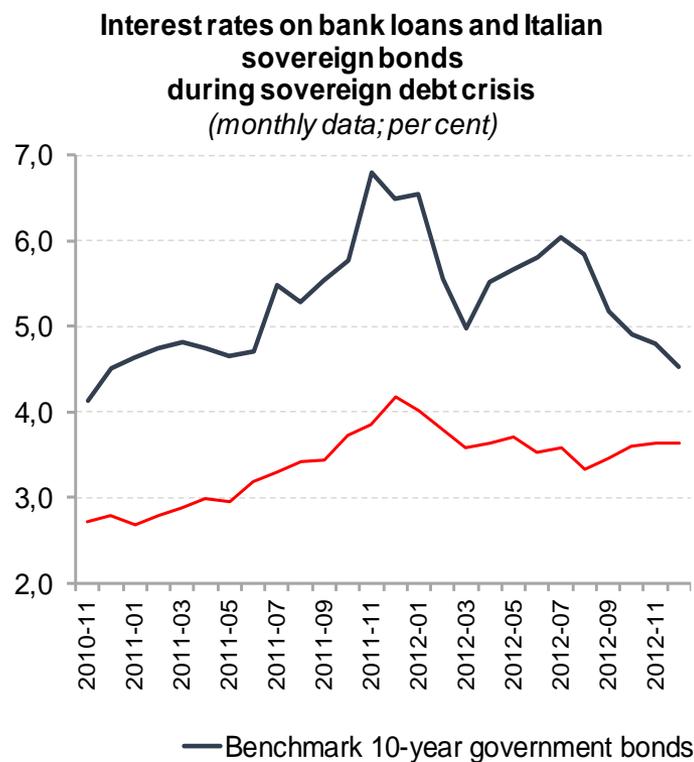


Net International Investment position



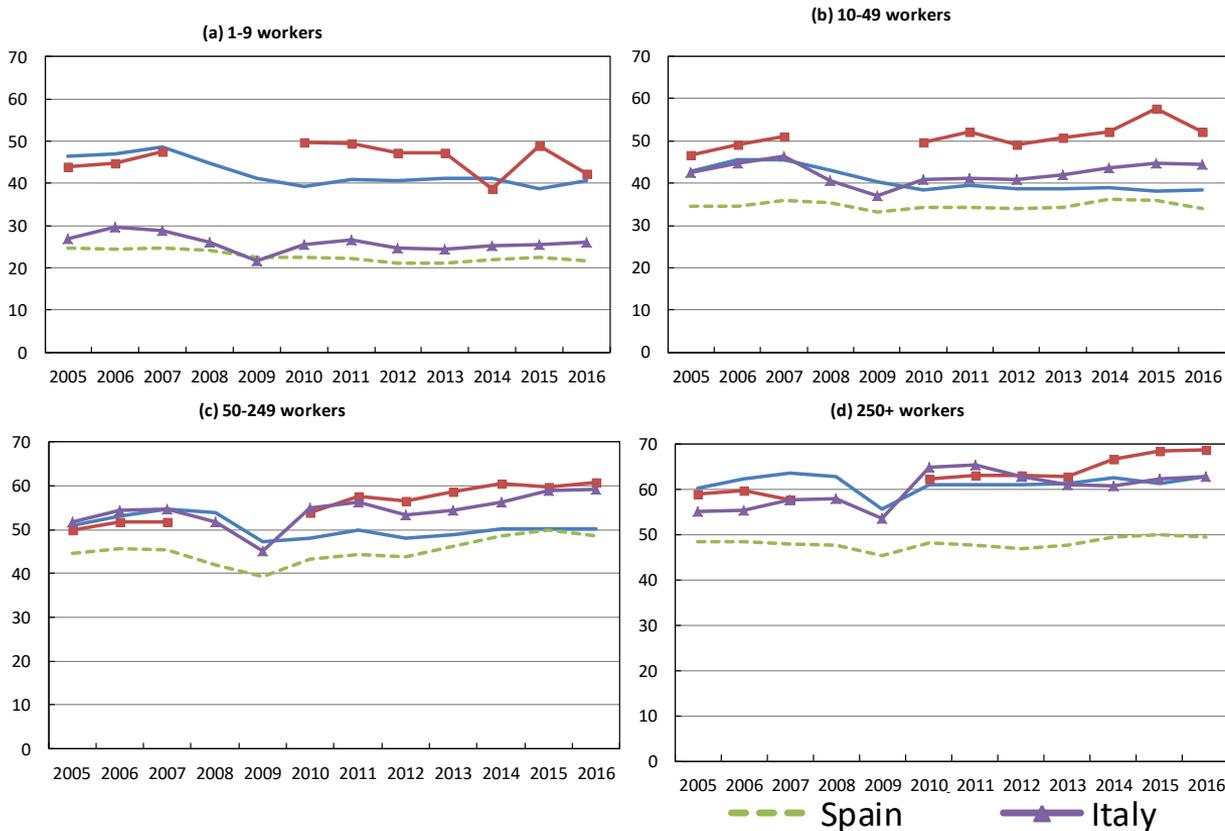
II. Firms' cost of credit has not been affected by the spike of Govt. Debt

- Moreover, unlike 2011, in 2018 the corporate sector has not been negatively affected by the spike of interest rates on Govt. bonds.



II. Large firms' productivity is on the EU frontier...

Labor productivity by size class: total economy



% of employment:

- 64% in Italy
- 36% in France
- 30% in Germany

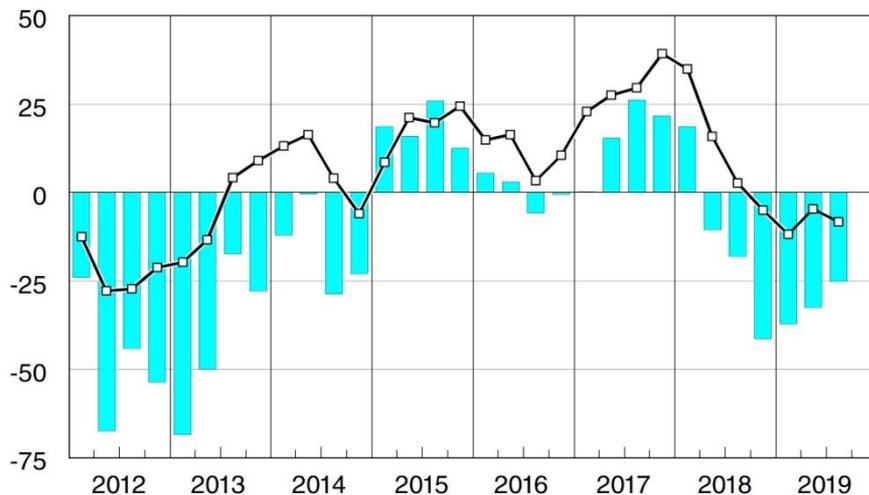
% of employment:

- 36% in Italy
- 64% in France
- 70% in Germany

II. Investments and Growth: better perspectives in the service sector...

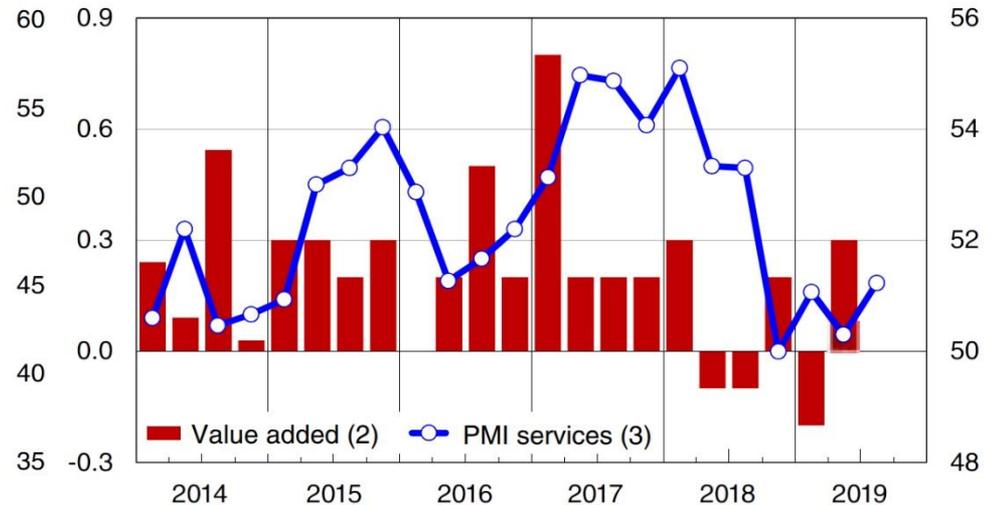
- The trade war headwind hit value chains and the manufacturing sector.
- The service sector (which accounts for 80% of the GDP) appears to be less affected.

PMI Industrial Production



■ Assessments of the general state of the economy (3)
 -□- Manufacturing PMI (4)

PMI Services

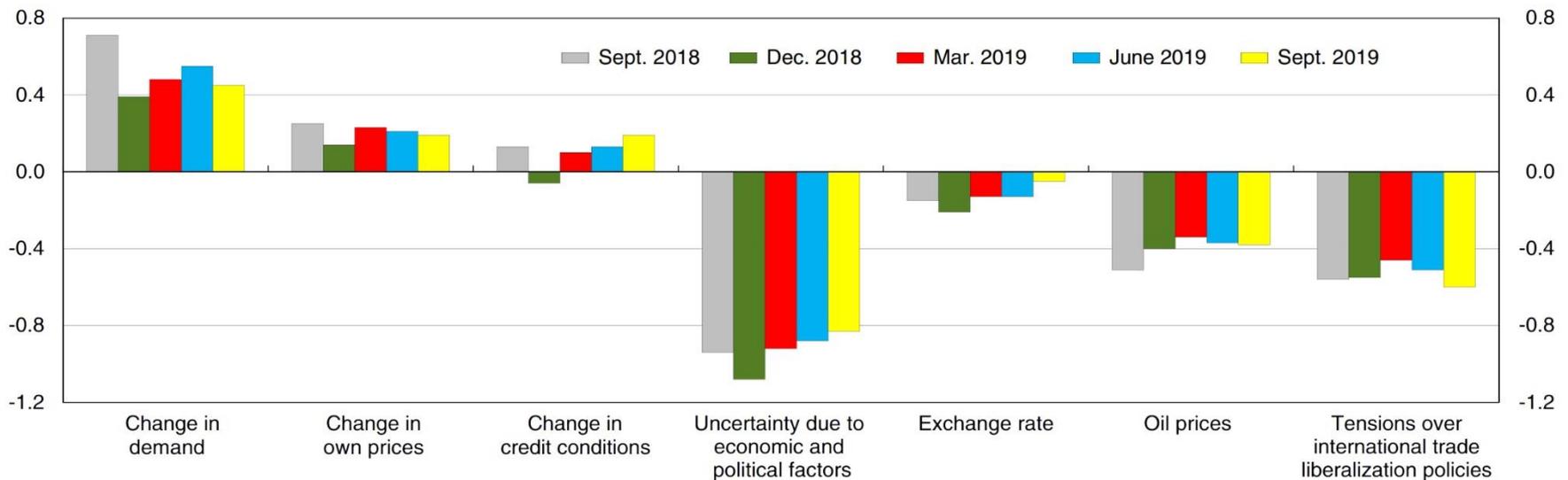


■ Value added (2) ● PMI services (3)

II. ... however a key uncertainty factor is political

Headwinds and tailwinds are largely balanced, were it not for the uncertainty linked to economic and political factors, largely of domestic origin. It could be called «friendly fire». This chart shows that firms' investments seem to depend on the presence/absence of «friendly fire».

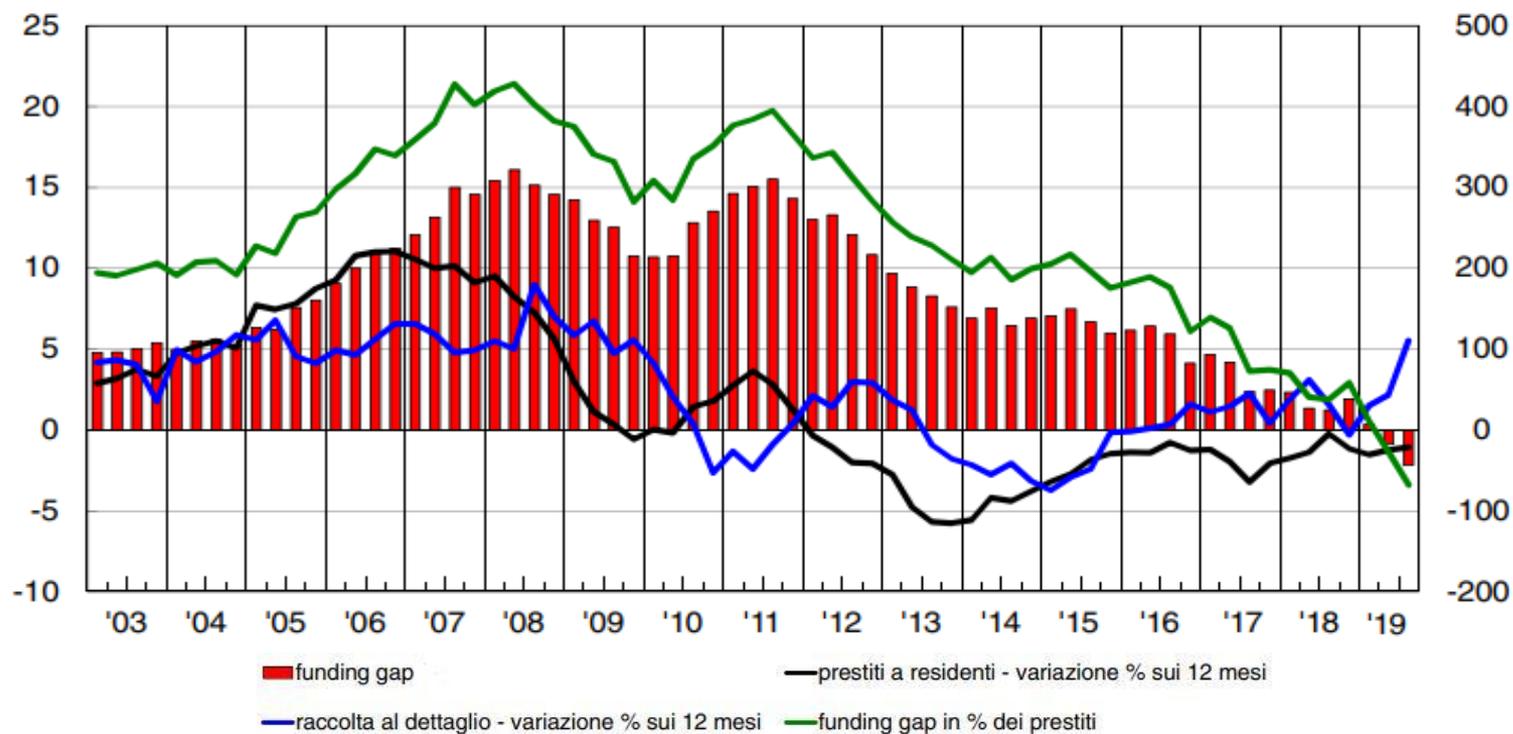
Firm's assessments of the factors that will influence their business in the short term



III.

Banks and financial stability

The drop in interest rates did not stop the growth of bank deposits. This led to closure the Funding gap in 2019, which constituted a source of fragility for Italian banks in the crisis of 2011.



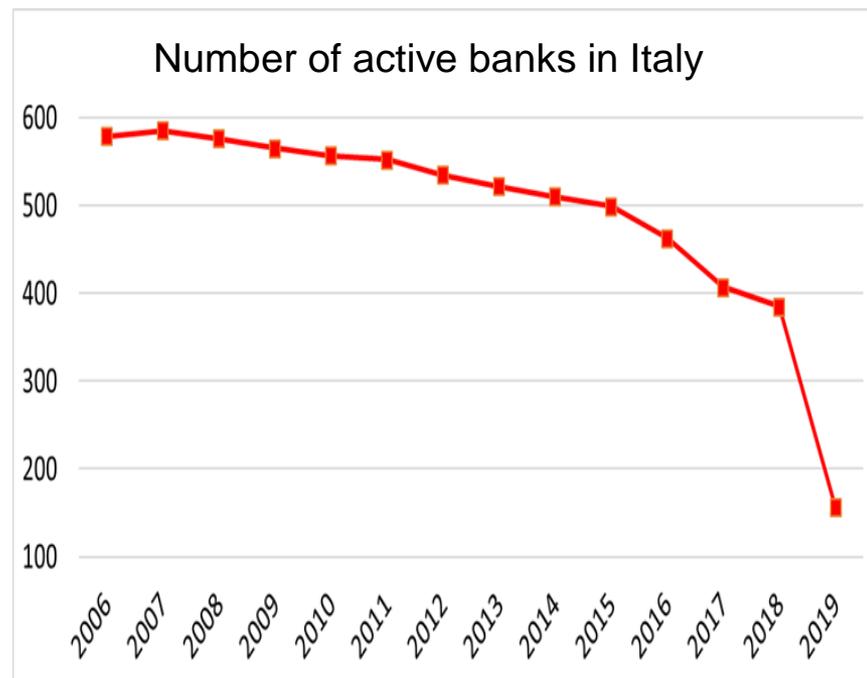
III.

Banks and financial stability: efficiency gains

The improvement of bank profitability is also dependent on banks' size. Banks' concentration has costantly grown and has accelerated thanks to the end of the consolidation process of the Credit Union sector. Today there are 156 banks in Italy (a drop of more than 50% with respect to last year).

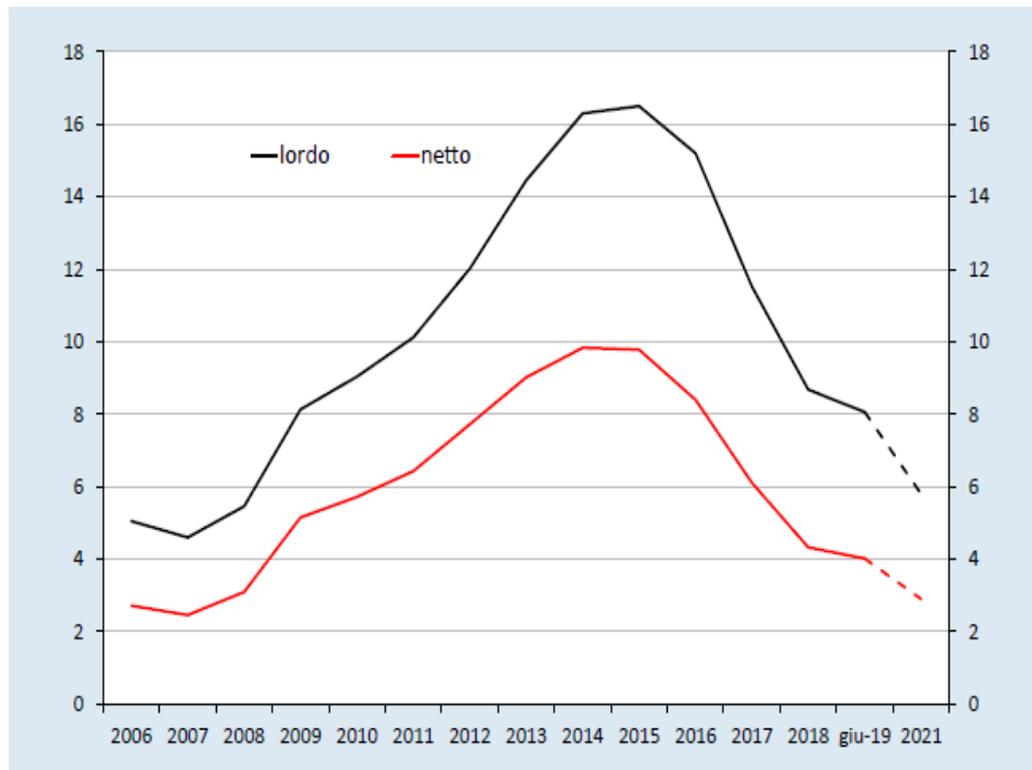
Number of active banks in Italy

	December 2018		June 2019	
	# banks	% tot. Active	# banks	% tot. Active
Large Banks	11	74.0	12	79.5
Small Banks	361	17.6	130	11.7
Other	13	8.5	14	8.8
Total	385	100.0	156	100.0



III. Banks and financial stability: reduction of legacy cost

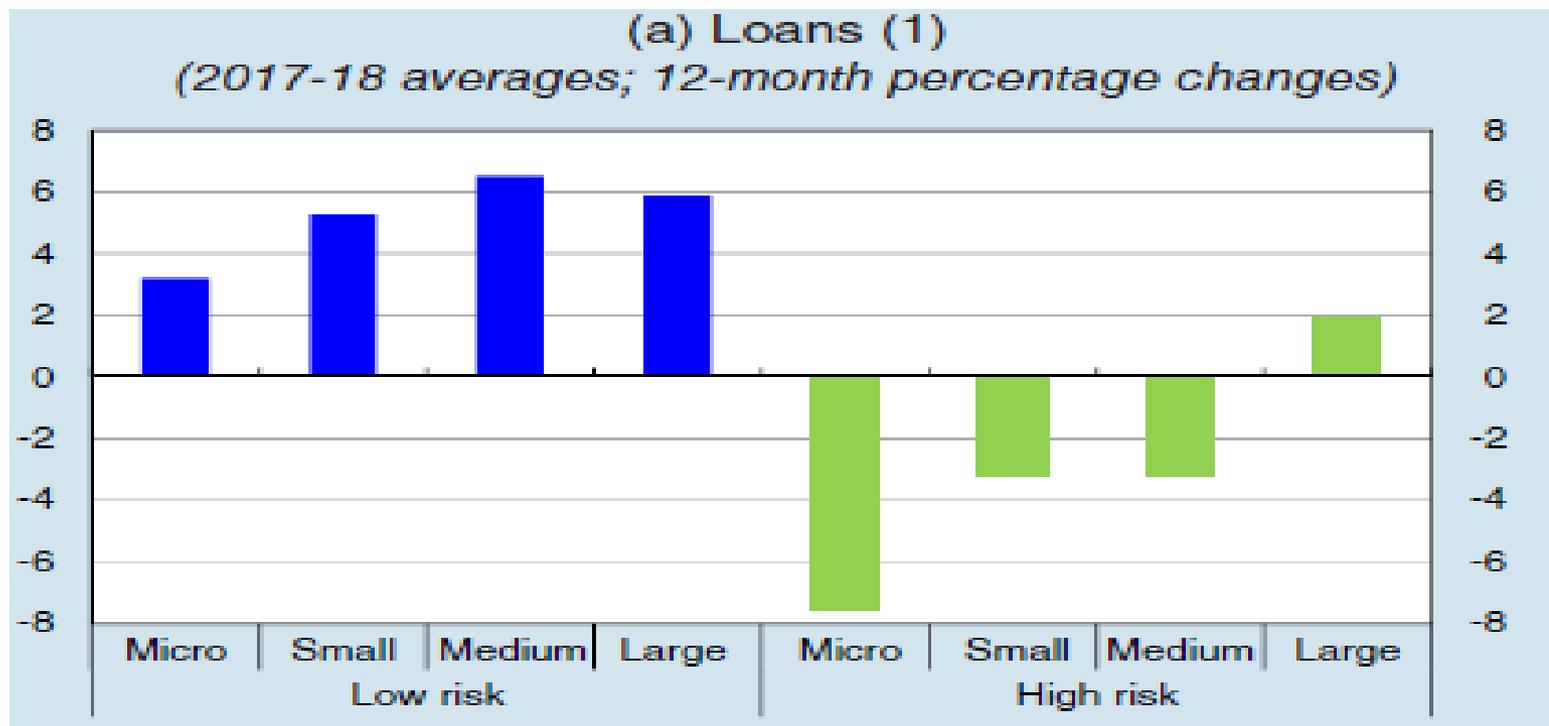
Non Performing Loans (NPL) as a % of total loans



- Bank balance sheet clean up continues at a faster rate than anticipated: NPL are down to 4% of total loans (an objective planned for the end of 2020).
- Banks anticipate a reduction in NPL to 3% of NPL by the end of 2021.

III. Banks and financial stability: the improved lending quality

- Credit has been flowing to safer and larger firms and falling to riskier and smaller companies



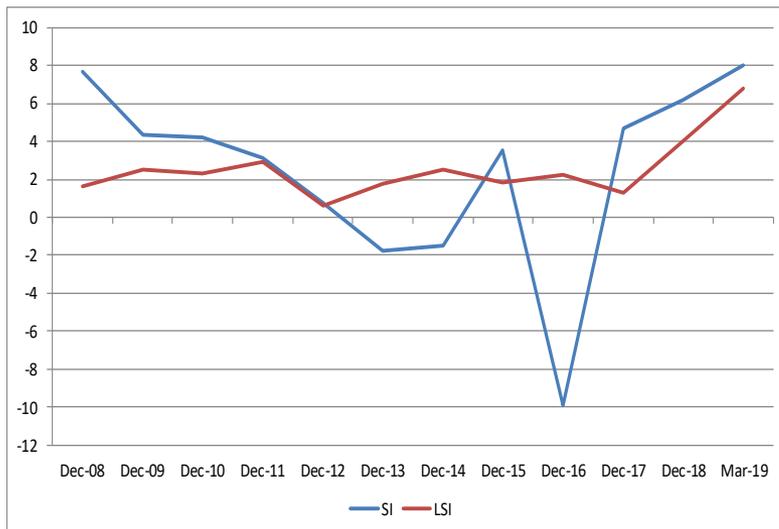
93

III.

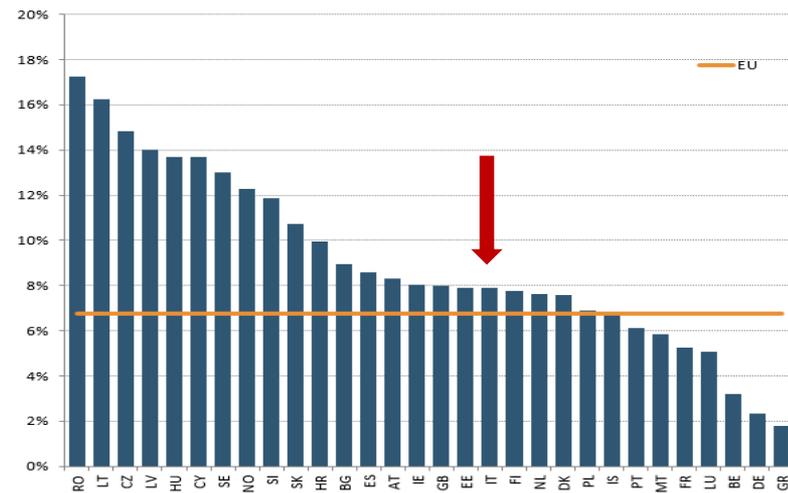
Bank profitability is increasing

- As a result of scale economies fostered by the concentration process and by improved asset quality, significant Italian banks have shown an increasing ROE
- ROE changed from 7.6% to 8.3% in the period between 1S2018 and 1S2019

ROE of significant and less significant Italian banks (%)



ROE of SI banks: international (EU) comparison (Q1 2019; %)

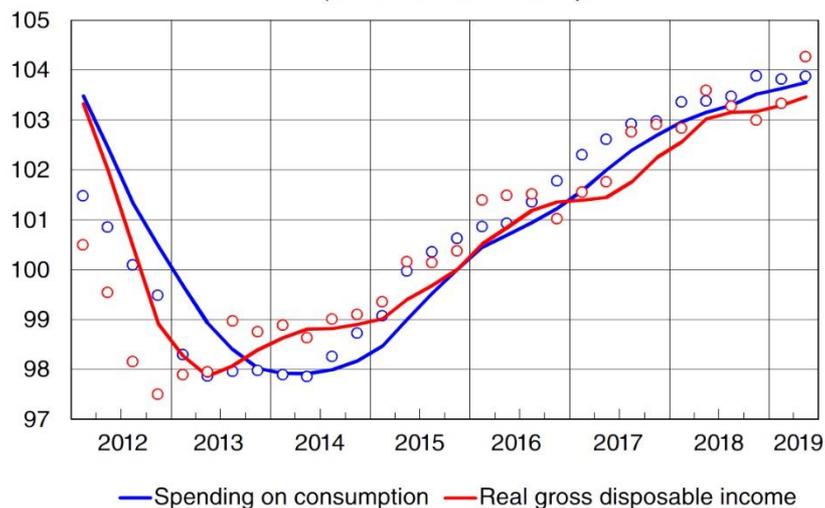


IV. Household, disposable income and consumption

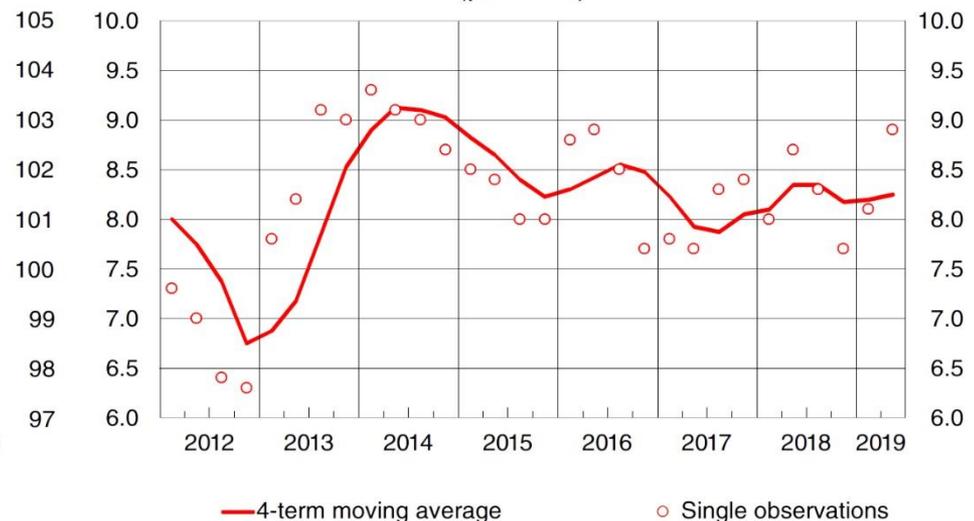
Disposable income and household consumption have been increasing since 2014, surpassing the pre-crisis level of 2011. The propensity to save fluctuates around a stable level, without increases caused by precautionary savings.

Consumption, income and propensity to save

(a) Consumption and income of resident households
(indices: 2015=100)



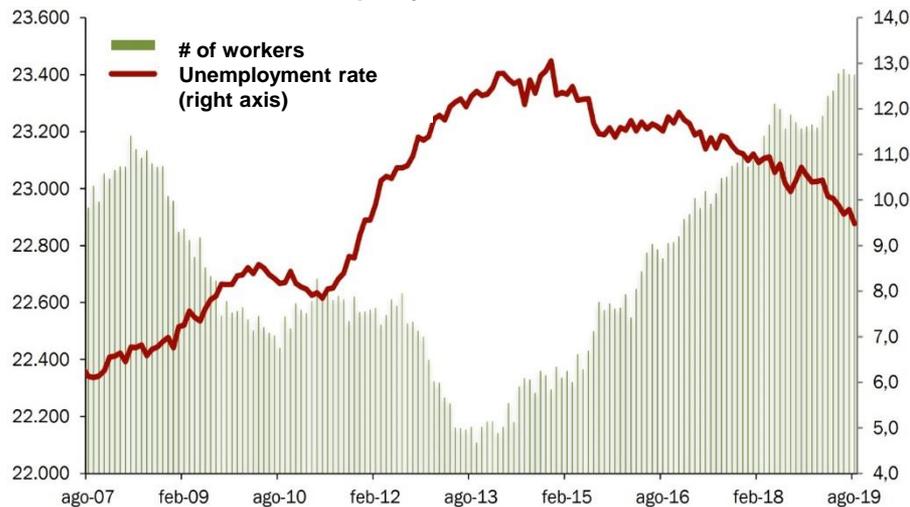
(b) Propensity to save of consumer households (4)
(per cent)



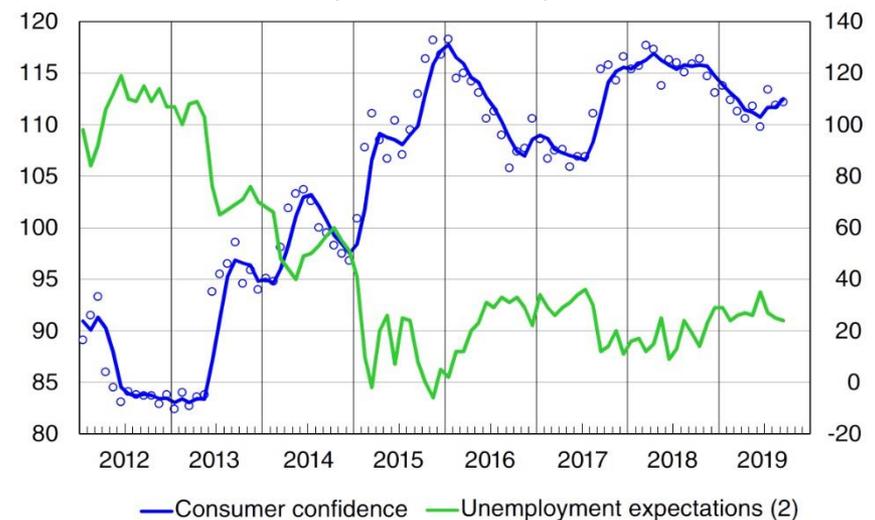
IV. Households, disposable income and consumption

- The increase of disposable income is linked to an increase in the number of workers, which reached a historical high in 2019.
- Households' expectations on occupational levels are stable and may be slightly increasing.

Number of workers and unemployment rate



Consumer confidence (2010 = 100)



Conclusions: opportunities for the Italian economy

The world economy and trade slow down are headwinds that significantly affect export-driven countries – such as Italy – integrated in the value chain of even more export-driven countries, such as Germany. However:

- Italian GDP relies less than 20% on the manufacturing sector, and the internal demand – supported by households' disposable income – continues to hold.

Furthermore, since the summer unexpected tailwinds have started to blow reducing uncertainty and allowing a significant drop in interest rates.

- Lower uncertainty is reflected in the reversal of new expected investments by the private sector.
- Lower yields allow redirect budget allocations from interest payments to growth-oriented expenditures and public investments.

The opportunities offered by the current economic environment must not be missed and represent the challenge to be met in coming months. Success depends on **awareness of progresses already made** (employment, disposable income, banks' consolidation) and of those within reach.

Current investment opportunities

Dario Valoncini

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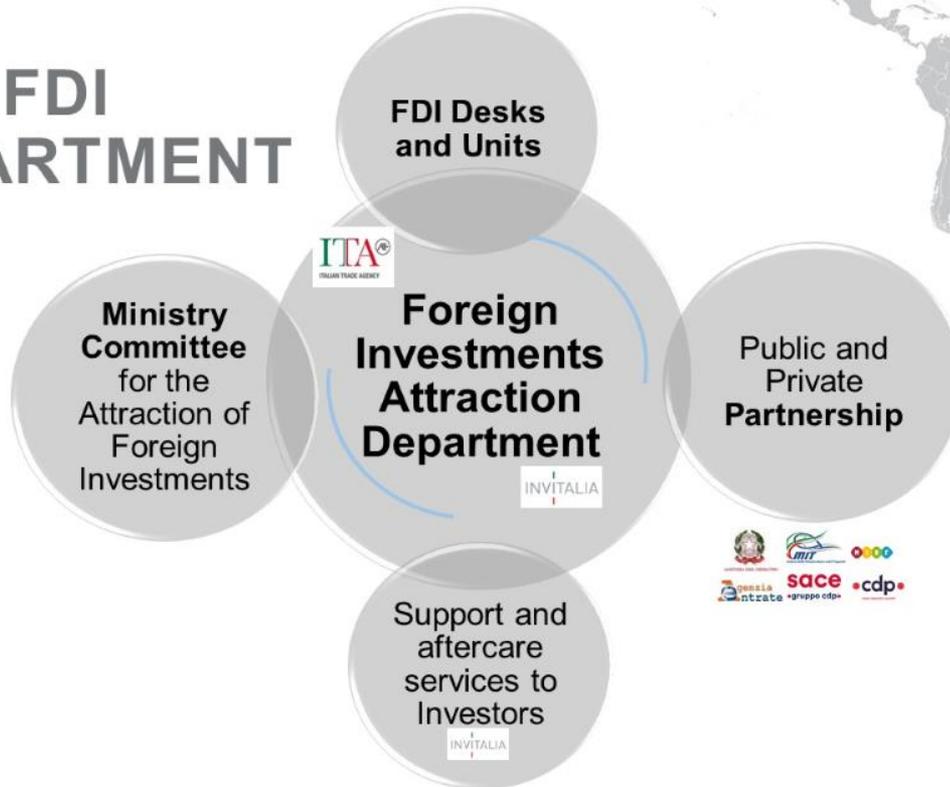
INVITALIA

Right Time, Right Place

Dario Valoncini
*Head of Foreign Direct Investment Unit
Canada, Italian Trade Agency*



OUR FDI DEPARTMENT



ONE STOP SHOP

- Scouting & Networking
- Offer & Delivery
- Facilitation to Italian Market
- Account management

SUPPORT SERVICES

Location scouting & site visit	Search and selection of location opportunities, site visits and support during the evaluation process
Authorizations	Management of all relevant permits that may involve local authorities
Permits for foreign investors	Assistance with the accomplishment of procedures for obtaining permits (art.27 T.U. Immigrazione)
Human resources	Relations with recruitment agencies and local placement agencies
Liaison Office	Cooperation network with local authorities aiming at red tape cutting and policy advocacy in favor of foreign investors
Advisory and financial scouting	Support for the selection of and application for available financial tools and incentives
Foreign investors scouting (JV/partnership)	Companies search (aimed at the creation of a joint venture or partnership, or merger & acquisition)
Market research	Assistance with market research and analyses with access to public database

HIGHLIGHTS



TOP ECONOMY

- 3rd by GDP of the Eurozone
- 9th in the World



LIFE STYLE

- 1st in the World for health level of the population
- 2nd in the World for longevity



- 2nd in the EU for manufacturing leadership
- 2nd in the EU for added value in agrifood sector



1st for number of UNESCO World Heritage Sites (53 in total)



WORLD UNIVERSITY RANKING

For number of universities:

- 4th in the EU
- 7th in the World



One of the world's top ten player in **Aerospace, Defence and Security**
Key player for **R&D expenditure**
3rd in the EU 4th in the World



STRATEGIC LOGISTIC HUB

Gateway to 500 mln EU consumers and to 270 mln from Northern Africa and Middle East



- 2nd in the World for market share in the Fashion Industry
- 1st in the EU for production value of Pharma Industry +52% export, more than EU average (+32%)



R&D AND INNOVATION

1st in the EU for patents growth rate [In 2017 + 4.3% against vs EU average + 2.6%]

ITALY IN THE WORLD

FDI in

Year	N. of projects	Jobs created	Capex (€ mln)
2017	201	18,141	5,067.44
2016	181	16,672	4,660.04
2015	135	9,765	4,092.89

FDI out

Year	N. of projects	Jobs created	Capex (€ mln)
2017	484	52,511	21,489.37
2016	489	44,835	16,520.57
2015	498	41,937	18,508.44

- 

1st
Largest European wood furniture exporter
- 

2nd
In Europe for innovation-friendly fiscal measures
- 

4th
Largest world metal products exporter
- 

1st
In the world for food safety
- 

2nd
In Europe for resource efficiency in production phases
- 

4th
Italian as studied language in the world
- 

1st
In the world for no. of scientific publications
- 

2nd
In Europe for no. of innovative companies
- 

5th
Largest world mechanics exporter
- 

1st
In Europe for sustainable agriculture
- 

2nd
Largest world footwear exporter
- 

9th
Exporter worldwide
- 

1st
In Europe for no. of manufacturing SMEs
- 

2nd
Largest world wine exporter
- 

1st
In Europe for no. of companies within the organic sector
- 

3rd
Largest world electrical appliances exporter
- 

1st
In Europe for value of maritime trade in the Mediterranean
- 

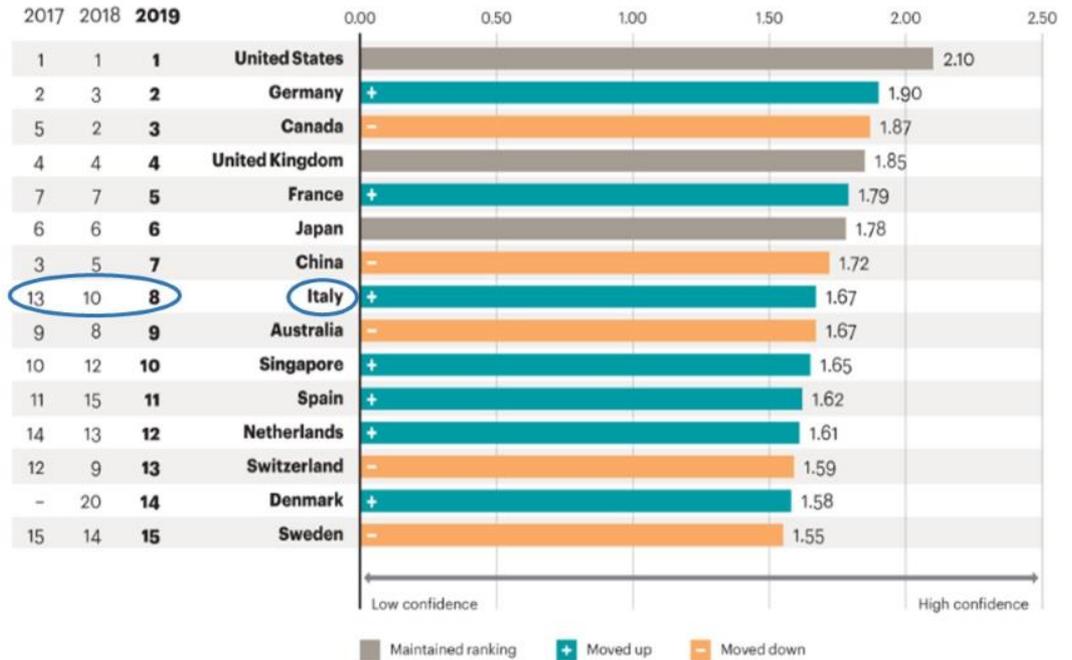
3rd
Largest world fashion exporter

Sources: 1. Rapporto ICE Italia nell'economia internazionale, 2018; 2. IDi Markets database, 2019

RANKINGS (1/2)

- Another two-spot jump this year to 8th
- Highest ranking since 2002

A.T. Kearney FDI Confidence Index
2019



Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017, 2018, 2019)

RANKINGS (2/2)



Italy is the most attractive location for investments in digital business models.

The Index analyses effective tax burdens for standardized investments in digital business models in the 28 EU member states, Japan, Canada, Norway, Switzerland and the US.

Digital Tax Index 2018

Country	Rank	Effective Average Tax Rate			
		Result 2018	Change to 2017		
		Ø	Δ Rank	Δ in percentage points	
Italy	1	-33.18%	→ 0	-18.72	
Ireland	2	-3.39%	→ 0	8.17	
Hungary	3	-0.52%	→ 0	6.33	
Lithuania	4	-0.05%	→ 1	-0.49	
Latvia	5	0.09%	↘ -1	-0.24	
Croatia	6	4.50%	→ 1	-0.69	
Romania	7	5.42%	↘ 2	-1.20	
Portugal	8	5.48%	↑ 11	-6.16	
Spain	9	5.50%	↘ -1	0.08	
France	10	6.73%	↑ 10	-4.93	
Czech Republic	11	7.16%	↘ -1	-0.32	
United Kingdom	12	7.45%	↘ 5	-2.64	
Norway	13	7.89%	↘ -1	-0.12	
Switzerland (Zurich)	26	15.57%	↓ -13	7.18	
Estonia	27	15.95%	→ 1	-0.32	
Finland	28	16.17%	↘ -2	0.31	
Sweden	29	16.38%	→ 1	-0.55	
Greece	30	16.41%	↘ -1	-0.32	
Japan	31	21.16%	↘ 2	-4.30	
USA (California)	32	21.97%	→ 0	-0.84	
Germany	33	22.19%	↘ -2	-0.62	
Average		8.85%		-0.64	

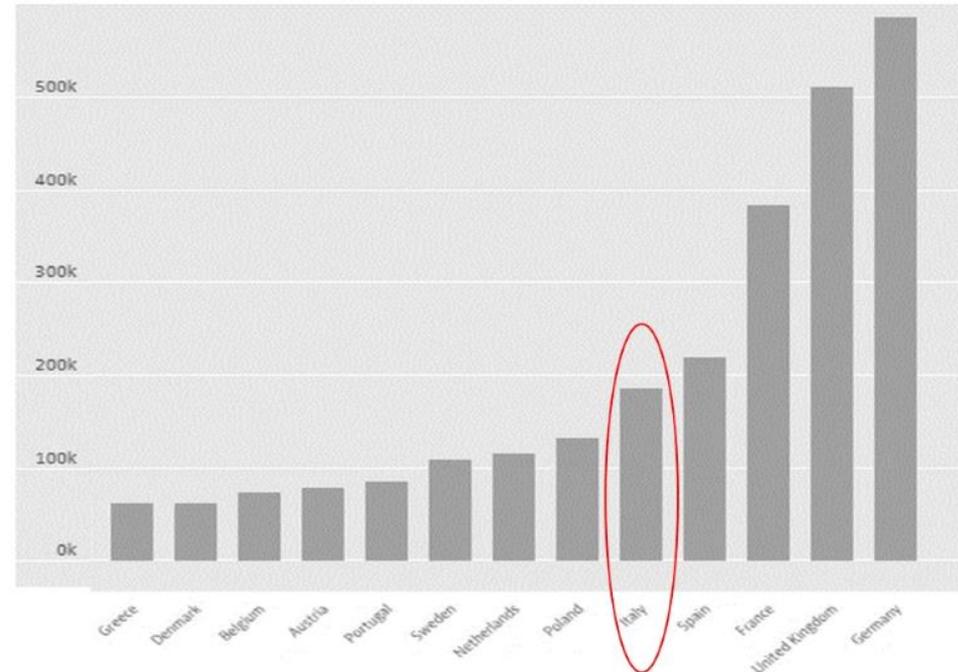
R&D AND TECHNOLOGY

High Technology-Intensive activities: European Manufacturing
(2017, % Employees holding technology-intensive activities)



- 2nd best country for Tech-Intensive activities applied to manufacturing
- Ranks above the EU average (+15,4%)
- Top 5 in the EU countries for no. of researchers

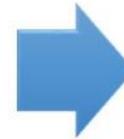
N. of Researchers (headcount) in the EU - 2017



Source: 1. Science, Technology and Innovation Database, Eurostat; 2. OECD, 2018

SPECIAL ECONOMIC ZONES

The **objective** is to switch from supply-side economics - heavily characterized by support initiatives benefiting entire industries - with an approach based on development factors, through integrated tools available at a regional and national level.



Companies operating within the Special Economic Zone gain benefits in terms of streamlined customs processes; fiscal breaks; and simplified administrative procedures.

The goal is to promote the growth of companies already operating within the SEZ while attracting new ones.

NATIONAL INCENTIVES

1 Large Investments

- Development Contract



2 Startups

- Smart & Start Italy
- New Enterprises "Zero interest rate"



3 R&D and Innovation Fiscal benefits (Industry 4.0)

- Hyper-depreciation
- Super-depreciation
- R&D Tax Credit (Industry 4.0)
- Patent Box (Industry 4.0)



Over 10 bln € of government incentives from 2017 to 2027

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1. Large investments



BENEFICIARIES – SIZE (€) - SECTORS

- Managed by **Invitalia**
- One or more connected and functional investment projects (including R&D)
- At least **€ 20 M over 3 years**
- € 50 M: fast track procedure**
 - Possibility to jump the queue
 - Ad hoc resources
 - Time shortening procedures

SECTOR	Minimum investment size (€/M)		
	Whole program	Proposing company project	Affiliated company project
Industrial	20 (50 fast track)	10	1,5
Agricultural goods transformation and commercialization	7,5	3	1,5
Tourism	20 (50 fast track)	5	1,5
Environmental	20 (50 fast track)	10	1,5

SUBSIDIES FOR MANUFACTURING PROJECTS

TYPE

- Non-repayable grant
- Soft loan (max 3+10 years with subsidized interest rate)
- Subsidies for interest repayment on loan

AID INTENSITY

Depending on: company **size** - geographical **location** of the project

Southern Italy (up to)

- 45% for small enterprises
- 35% for medium enterprises
- 25% for large companies

Specific areas of the Central-Northern Regions (up to)

- 30% for small companies
- 20% for medium companies
- 10% for large companies

Other areas

Outside the above mentioned areas, **large companies can not apply** for incentives. A 20% aid intensity is recognized for small companies, 10% for medium companies

R&D&I PROGRAM

BASIC REQUIREMENT

R&D&I projects **within** an industrial development program

BENEFICIARIES

Companies

Research and knowledge-dissemination organizations
(universities, research institutes, etc.)

AID INTENSITY

Large companies: **up to 50%** (industrial research) and **up to 25%**
(experimental development) despite of geographical location
SMEs can receive higher incentives up to 80%

GEOGRAPHICAL AREA

All the national territory



Total investment: € 446 Mil
Financed with DC (R&D): € 49 Mil

KEY RESULTS

Total investments: € 5,2 BIL
Investments granted: € 2,4 BIL

Projects financed: 148
Jobs created: + 73,800

* Until 1st June, 2019



Total investment: € 50 Mil
Financed with DC: € 15 Mil



Total investment: € 62 Mil
Financed with DC: € 18 Mil



SANOFI

Total investment: € 82 Mil
Financed with DC: € 17,5 Mil



Total investment: € 47,9 Mil
Financed with DC: € 11,2 Mil

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2. Startups

16



SMART & START ITALY (1/2)

WHAT

Aim

Boosting the creation and growth of innovative startups in Italy

Geographical area

Nationwide

Investment range

Eligible costs between € 100K and € 1.5 MIL

Project duration

Not exceeding **24 months**, starting after the contract signing

WHO

Innovative startups that:

- Have a strong technological dimension
- Operate in the digital economy
- Enhance search results (spin-offs from research)

Small-sized startups established **for no more than 60 months**.

Startups not resident on the Italian territory must demonstrate the possession of the following requirements:

- Registration in the special section of the Business Register
- Availability of an Italian operating office

SUBSIDIES

Interest-free loan up to 70% of the total investment. The percentage of funding **may rise to 80%** if the startup is composed exclusively by women or young people under the age of 35, or if it includes at least one Italian PhD who is working abroad and intends to return to Italy

A non-repayable grant amounting to 20% of the loan, only for startups based in Basilicata, Calabria, Campania, Puglia, Sardinia, Sicily and in the “Seismic Crater” area of Aquila

SMART & START ITALY (2/2)

Eligible expenses

Investment costs:

- System, machinery and technological or scientific technical equipment (factory-fresh)
- Hardware and software
- Patents, licenses and trademarks
- Certifications, know-how, unpatented technical knowledge
- Design, development, customization and testing of computer architectural solutions and of production technological systems, technological specialist consultancy functional to the project

Running costs:

- Employees and collaborators wages
- Licenses and rights for industrial property
- Software licenses
- Incubation and acceleration services
- Lease payments, rental costs and amortization fees of systems, machineries and technological equipment not already financed as above
- Interest on external financing

NEW ENTERPRISES “ZERO INTEREST RATE” (1/2)

WHAT

Aim

Fostering the creation and growth of micro and small companies managed by young entrepreneurs.

Geographical area

Nationwide

Investment range

- Micro and small companies established by no more than 36 months - **€ 1.5 MLN of total eligible expenses**
- Micro and small companies established at least from 36 months but no more than 60 months - **€ 3 MLN of total eligible expenses**

Project duration

Not exceeding 36 months

WHO

Micro and Small Companies established in Italy by **no more than 60 months** (including cooperatives), composed, for more than half of members and shares, by people aged between 18 and 35 years old or by women

Constituting companies, formed only by natural persons, formally providing for their constitution no later than 45 days from the notification of the admission decision

SUBSIDIES

Benefits are granted in the form of a **subsidized loan** with a zero interest rate paid in max. three tranches

Loan maximum length is **8 years**. According to the company the subsidized loan can be:

- Up to 75%** of the eligible expenditure for companies established by no more than 36 months
 - Up to 90%** of eligible expenditure for companies established at least from 36 months and no more than 60 months
- Companies **must provide** the remaining funds with own resources

NEW ENTERPRISES “ZERO INTEREST RATE” (2/2)

Eligible activities

- Production of goods
- Provision of services to business and individuals
- Trade in goods and services
- Tourism and social innovation services

Eligible expenses

The following costs are eligible within the limits defined:

- Land (max 10%)
- Building purchase / renovation (max 40% or 70% for tourism activities)
- Machinery, plant and equipment, computer programs and services for ICT (max 20%)
- Patents/licenses / trademarks (max 20%)
- Company members and employees specialized training (max 5%)
- Specialist consulting (max 5%)

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3. R&D and innovation - Fiscal benefits

21



HYPER AND SUPER-DEPRECIATION

WHAT: HYPER-DEPRECIATION

It is a **fiscal deduction** deriving from an over-valuation of investments in newly purchased or leased tangible assets

Aim

Bosting Industry 4.0 transformation

Eligible assets

Tangible assets (no buildings), devices and technologies enabling the Industry 4.0 (industrial automation and new technologies)

Investment range and benefits

- +170%** for investments up to € 2.5 M
- +100%** for investments between € 2.5 and € 10 M
- +50%** for investments between € 10 and € 20 M

Additional benefit

Companies with access to hyper-depreciation, may benefit of a **+40% over-valuation** for investments in intangible assets (software and IT systems) enabling the Industry 4.0

WHAT: SUPER-DEPRECIATION

It is an over-valuation of investments in **newly** purchased or leased tangible assets (vehicles and other means of transports are excluded) equal to **+30%** for investments **up to € 2.5 M**

Remarks

- Beneficiaries: all companies (size and type)
- Facilitation **is not provided** for investments exceeding the limit of € 20 M
- Investments that **worth more than € 500,000 per individual asset**, a technical evaluation sworn by an expert or engineer is required

HOW

Companies may benefit **automatically** during the preparation of financial statements and through self-certification

WHEN

Hyper-depreciation applies to investments **made in 2019**, with the possibility of completing the **investment by the end of 2020**, if the company has made a first payment at least equal to 20% of the total purchasing cost

Super-depreciation applies to investments **made in 2019**, with the possibility of completing the investment by **June 30th of 2020**, if the company has made a first payment at least equal to 20% of the total purchasing cost

R&D TAX CREDIT

WHAT

Aim

Encouraging **private spending in R&D** to innovate processes and products

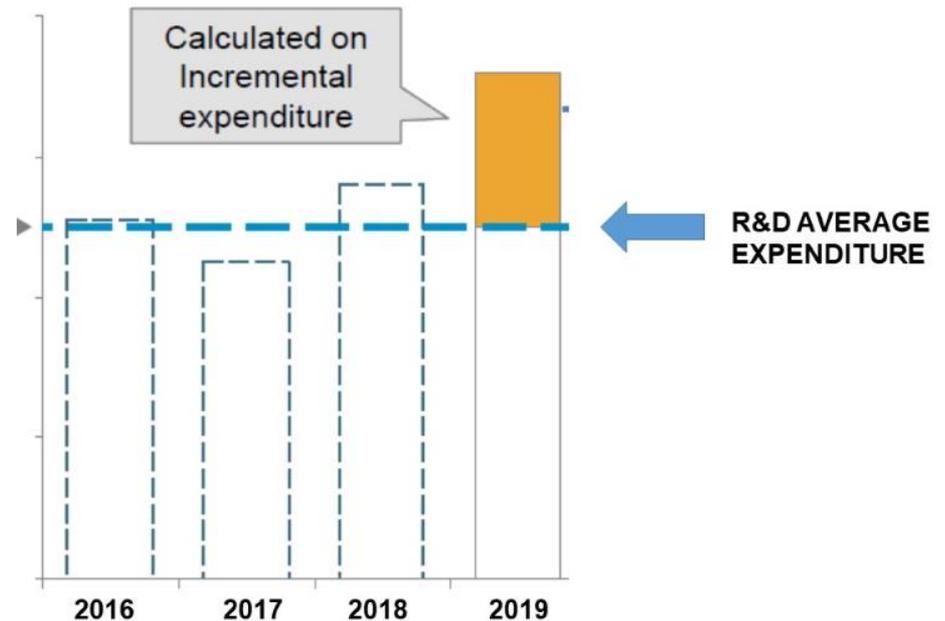
Investment range and benefits

A maximum amount of € 10 M until 2020

It provides a **25% or 50% tax credit** on R&D incremental expenses (at least equal to € 30 K or more), calculated on a fixed basis given by the average of R&D expenses of the previous 3-year period

HOW

Access to the tax credit is **automatic** in the preparation of financial statements



PATENT BOX

WHAT

Aim

Making Italy a location more competitive for developing intangible assets (for domestic and foreign companies)

Benefits

The patent box benefit consists in a **partial tax deduction (50%)** for incomes arising from direct use or licensing of qualified intangible assets:

- Property rights
- Industrial patents
- Trademarks
- Designs and models, processes, formulas and information related to experiences acquired in legally protected industrial, commercial or scientific fields

WHO

Legal entities with a business income:

- Companies
- Individual entrepreneurs
- Other bodies, different from companies, carrying out business activities

Beneficiaries must be able to demonstrate that their income is from the use of intangible assets.

HOW

The new simplified procedure provides for the possibility for companies to **benefit from the tax relief directly in the declaration within 3-years time period**, providing adequate documentation

The entire discipline will be defined in the next months by the Italian Revenue Agency

FISCAL BENEFITS

Corporate income tax

It was lowered to 24% (from 27.5%) in 2017 and 2018. In 2019, the tax rate was reduced to **22.5%** for companies reinvesting profits for purchasing instrumental goods and new hires. Further reductions are scheduled until 2022 (20.5%)

Super-depreciation

It is an over-valuation of investments in **newly** purchased or leased tangible assets (vehicles and other means of transports are excluded) equal to **+30%** for investments **up to € 2.5 MLN.**

Industry 4.0 training

The aid aims at stimulating companies investments regarding training paths about Industry 4.0 “enabling technologies” (automation, cloud, etc.). It consists in a **40% tax credit** of the expenses related to the personnel employed in eligible training activities

Patent box

It consists in a **50% tax deduction** for incomes arising from direct use or licensing of qualified intangible assets. It regards reduction of corporate income Tax (IRES) and Regional production Tax (IRAP)

R&D tax credit

It provides a **25% or 50% tax credit** on R&D incremental expenses (at least equal to € 30 K or more), calculated on a fixed basis given by the average of R&D expenses incurred in the previous 3-years period.

Employment

- **50% bonus** for companies hiring people under 35 recruited in 2019-2020, if they have never been occupied with a permanent contract. It regards social security contributions **up to € 3,000** per year and for a total duration of 36 months.
- A bonus up to **€ 8,000 for the year 2019** on social security contribution for companies hiring with a permanent contract young people with excellent university careers, under 30 graduates with honors and young researchers under 34

Hyper-depreciation

The **over-valuation** applied is defined as follows:

- **+170%** for investments up to € 2.5 million;
- **+100%** for investments between € 2.5 and € 10 million;
- **+50%** for investments between € 10 and € 20 million.

Facilitation is **not provided** for investments exceeding the limit of € 20 million

OUR PORTFOLIO



Logistic and Infrastructure opportunities

Real estate opportunities

Manufacturing opportunities

Life Sciences and Digital Health opportunities

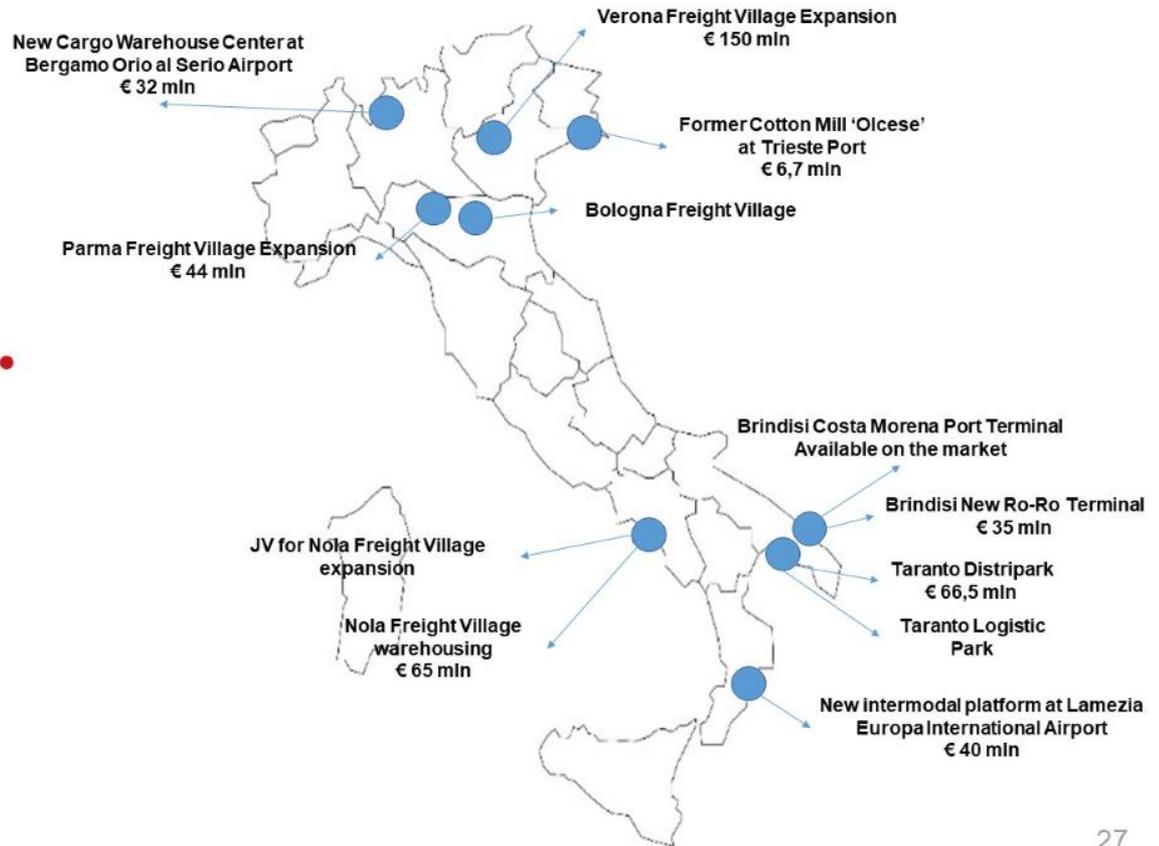
Capital Market opportunities





Logistic and infrastructure opportunities

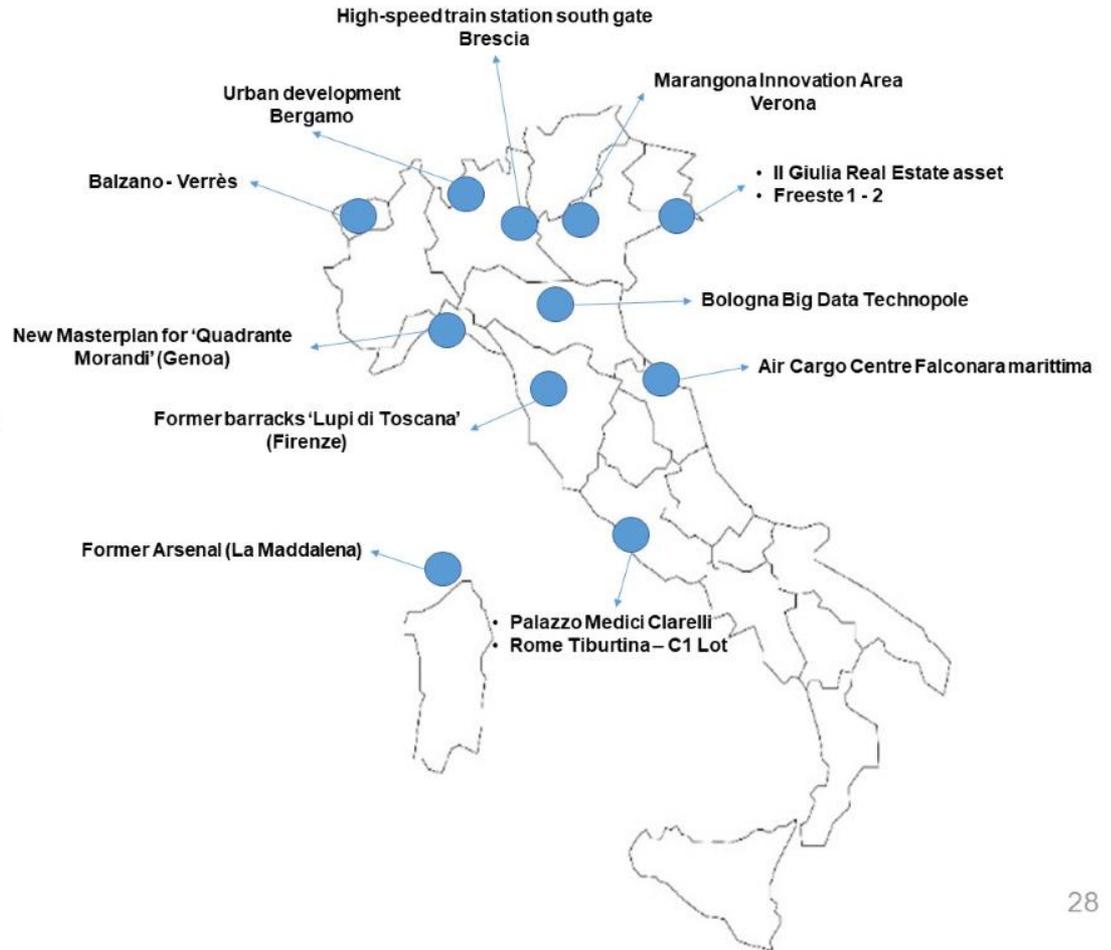
- Ports
- Interports
- Freight villages
- Airports





Real Estate opportunities

- Palaces/historic villas
- Hotel
- Urban developments
- Student house
- Retail
- SPAs
- Health
- Leisure and culture



Through “Invest in Italy” program, foreign investors demand meets Italian RE supply



A public RE divestment plan of 1,250 bil. € is stepping up. Invimit, the public-contribution RE fund, is launching a first tranche of opportunities through 3 instruments

	Funds	SPV	Direct Sale
Instrument description	- 2 Funds (Core and Core Plus)	- Special Purpose Vehicle	- Sale of full ownership
Type of Assets	- Leased Assets	- Asset Clusters (Office, Student house, etc.)	- 100 retail assets (below 1 million €)
Investor Opportunity	- Purchase of fund shares	- Tbd	- Purchase of individual assets
Procedure & Timing	- Ongoing selection of fiscal/legal advisor for the setting up of the 2 funds;	- Tbd	- Tender expected in June 2019



Manufacturing opportunities

Access to distressed companies through the Ministry of Economic Development



Greenfield & Brownfield areas



Government Incentives

- Development Contract
- Law 181: *distresses areas*
- Hyper-depreciation



Life Sciences and Digital Health opportunities



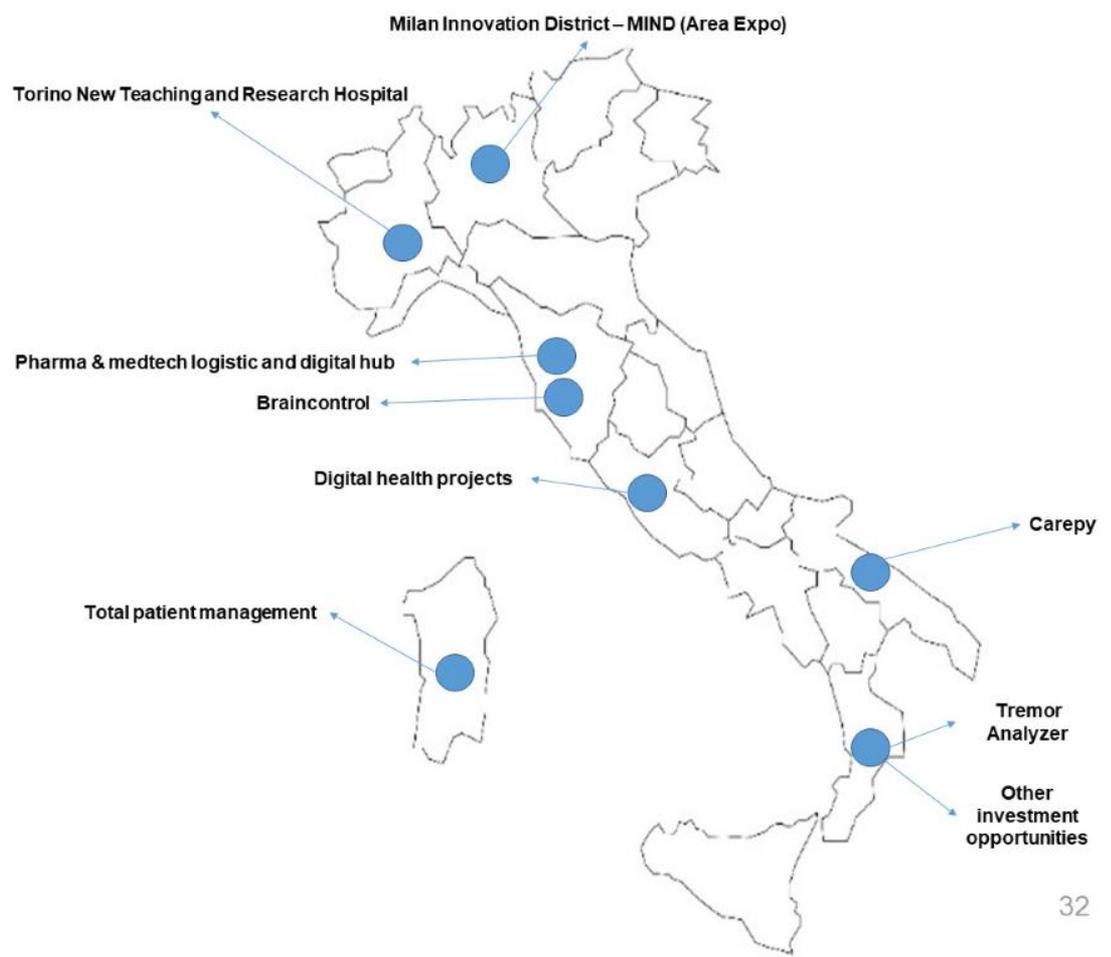
Innovation Hubs



Industrial Areas



Business Projects





Capital Market opportunities

Italy has one of the most favourable tax regimes for VC in EU: tax breaks for seed & early-stage



- 30% of the value invested in innovative startups by individuals is deducted from personal income tax
- 30% (previously 20%) of the sum invested by companies is deducted from taxable income



Italy is open to investments in IPOs, SMEs, startups, growing companies

- 1 bln euro for the “National Innovation Fund”, a multi-fund managed by CDP – Cassa Depositi e Prestiti to boost the Venture Capital market
- IPO of SMEs: 50% tax credit for costs
- “PIR” funds: long-term Individual Savings Plans benefiting from tax incentives to encourage savers to invest in SMEs
- Investor Visa: for non-EU citizens who invest in strategic assets or make a philanthropic donation
- Italia Startup: for non-EU entrepreneurs who want to establish an innovative startup in Italy,

ITA in partnership
with the main Italian
players in the capital
market



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THANK YOU

For further information: fdi.canada@ice.it

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Right Time, Right Place

Dario Valoncini
Head of Foreign Direct Investment Unit
Canada, Italian Trade Agency

Thank you

26/11/2019