

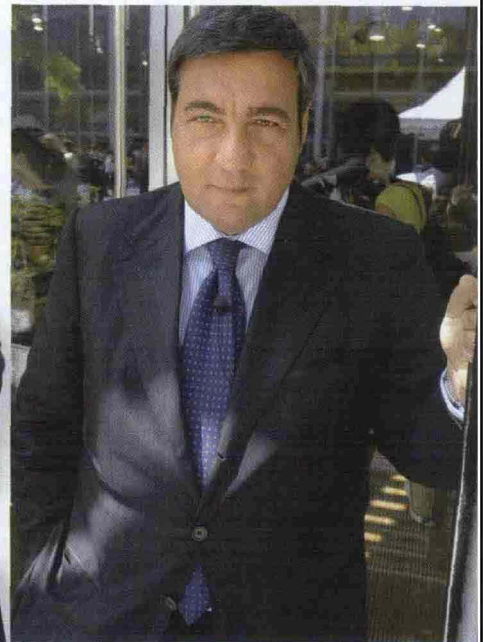
When The Game Is Hard To Play

Investors and analysts of the **asset management business** agree: a delay in consolidation is unthinkable. But when potential aggregators sit at the bidding table any **kind of request** can come up: even, for example, dealing with 18 minority shareholders...

According to Assogestioni, the association of Italian asset managers, 3465 mutual funds managed € 423 bn worth of savings until the third quarter of 2009. That makes an average of € 122 mn per fund. "This situation cannot hold anymore," says a private equity investor. In confirmation of that, the following year the Italian asset management industry took the first steps towards rationalization. In 2009 for instance, BP Milano acquired Anima, a listed independent fund manager, by means of a public tender offer, in order to merge the acquired company with its asset management arm, Bipiemme Gestioni, led by **Pietro Cirenei**. It valued Anima three times its book value, which points to the fact that the bank's management expects substantial cost savings from the aggregation. This scenario is almost ideal for the intervention of private equity investors. In fact, the outflow of funds has dried up the stream of revenues at asset management companies and private banks, thereby lowering valuations. And in 2009, in coincidence with the return of investors' appetite for riskier assets, i.e. equities and non-government bonds, the

net collection of funds made its way back into positive territory, with the subsequent upheaval of net commissions.

A further important factor is the pressure the Bank of Italy is currently exerting on banking groups, mainly in the form of moral suasion, to unbundle the asset management business from their core operations, in compliance with the main trends currently prevailing in the international financial environment. Intesa Sanpaolo seemed eager to react positively to such an input. In fact, they convinced their clients to divest



Matteo Arpe (left), founder and chairman of Sator, invested a € 80 mn to acquire banca Profilo. **Riccardo Bruno** (above) is dealing on behalf of Clessidra, to join other asset managers with Prisma, acquired last year from MPS. **Pietro Cirenei** (right) is the manager in charge to consolidate Anima SGR to Bipiemme Gestioni (Banca Popolare di Milano Group)



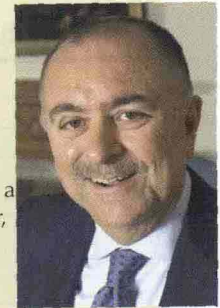
by Giuliano Castagneto

their savings from the group's mutual funds, to put them into funding instruments of their own, such as bonds. This was particularly true in the last quarter of 2008, when banks found it very hard to raise funds from the markets. In this context, it is no wonder that last year two important deals were sealed by as many private equity investors. One was Clessidra, the closed-end fund manager founded and steered by **Claudio Sposito**, which acquired 30% of MPS Sgr, Banca MPS' asset management arm, while the other was the acquisition of 51% of the Milanese private bank Banca Profilo by Sator, the investment company launched by **Matteo Arpe** to invest the huge severance indemnity received when he exited the Unicredit group following Capitalia's merger into the bank led by Alessandro Profumo. Arpe invested € 80 mn, valuing Banca Profilo 1.5 times its 2008 book value. A year earlier the same multiple would have been 6.5 times. However, the latest Asogestioni figures show that half of the € 95 bn of Italian capital held abroad and repatriated in compliance with the third tax amnesty was deposited with private banks, boding well for the future prospects of the segment. "Given that private equity investors usually exit investments five years after coming on board, their basic plan is to buy asset managers at the currently low multiples in order to rake up higher prices a few years later," says a Milan-based corporate banker. In other words, it is a tactical play more than a truly strategic move



WHY NOT A FAMILY OFFICE?

CP Partners, founded by ex-UBS Italia bankers and a few private investors close to **Ennio Doris**, the owner of Mediolanum, which also controls Banca Esperia, is less a private equity fund and more of an investment company. Anyway, it bought 9.5% of Arner Italia, a small Milan-based private bank. The aim of the operation, however, is typical of turnaround or special situation funds: the acquisition of a loss-making concern which nonetheless has good prospects, a breakeven point set somewhere inside a 12-24 month timeframe and the prospect of an exit offering a substantial capital gain. This is what CP Partners (represented by **Mauro Costa**, ex CEO of UBS Italia and former vice president of UBS Monaco, **Paolo Casiraghi**, former managing director of UBS and prior asset manager with Merrill Lynch and JP Morgan, and **Maurizio Carfagna**, previous board member of UBS Italia) had in mind when they concluded the deal and took over management of Arner. Costa came in as CEO of the bank, while Casiraghi was appointed as a board member with responsibility for development. A very challenging mission faces the two. Arner Italia, which is still 90.5% controlled by the Arner Group of Lugano, is in fact currently emerging from a serious crisis. In mid-2008, it was put under special administration by the Bank of Italy for breaking anti-money laundering legislation, which resulted in charges being brought against the then CEO, Davide Jarach and the arrest of Nicola Bravetti, a partner in the Swiss parent company. CP Partners approached the Bank of Italy in mid-2009 with a business plan that was positively received. And so, as of February 1, management has been taken over by the minority shareholders, who in addition to injecting € 8.6 mn in capital also brought with them the same amount in guaranteed reserves against the risk of possible liabilities. One of the objectives is to bring assets under management (AUM) from their current level of about € 200 mn to € 1 bn by 2012. Not enough to balance the cost of the nearly 20 bankers the management of Arner plans to have by 2011, plus the actual 30 employees. The goal will be achieved adding to revenues from pure asset management to the order of 50 bp, the fees from a top-level clientele looking for sound advice on how to manage a full range of family assets, from real estate to shares and, above all, to directly managed companies. "Our bankers will be called asset consultants," promises Costa, who sums up the program with a slogan: "The first Italian family office with a bank license". One of the strong points of the strategy that Costa and Casiraghi plan to put into practice is their corporate service: basically, the Arner consultants will be targeting SME entrepreneurs, offering business diagnosis, bankability and possible new sources of financing to help corporate development. At the same time, the SMEs will be offered asset management. "The aim is not so much to focus on assets managed in-house," Costa stresses, "but rather on the quality of our advising service," backed by the experience of the team of bankers and by the bank's existing corporate finance desk. Since the price of the investment was seen as very reasonable (1 P/BV ratio), the profitability outlook is good, at least on paper. The operation could however have an unexpected outcome, because the Swiss Arner Group, headed by Giulio Romani and Oscar Cramer (formerly of UBS) which in the past has held large amounts of funds linked to the Berlusconi group, is on the lookout for a new partner to take a significant holding in the company. This is another way of saying that it is up for sale, given that its strategic mission to serve a mainly Italian client base has been thrown into disarray by the repatriation of assets that followed the recent amnesty. A slim and unconvinced Swiss majority could open the doors in Italy to the sale of the majority shareholding in the Milan-based operation, whose attractiveness will of course depend on its new management under CP partners. We must wait and see.



Mauro Costa

Comparable Companies Transactions (Euro mn)

| Date | Target | Bidder | % | Value | Price 100% | P/ AUM | P/ BV | P/ EBT ⁽¹⁾ | P/E |
|--------|-------------------------|---------------------------|------|--------|------------|--------|-------|-----------------------|-------|
| mar-07 | Anima Sgr | BPM | 30% | 145,4 | 486,2 | 7,0% | 8,5x | 11,4x | 18,9x |
| mag-07 | Soci t  Bancaire Priv e | Banca Profilo | 60% | 50,0 | 83,0 | 8,1% | 1,8x | 19,1x | > 50x |
| mag-07 | Banca Gesfid | Fondiaria-SAI | 40% | 28,5 | 71,2 | 3,5% | 3,3x | 10,3x | 13,1x |
| mar-07 | Verona Gestioni SGR | Banca Popolare di Vicenza | 50% | 20,5 | 41,0 | 1,3% | 5,2x | 13,9x | 23,0x |
| mar-07 | BPVi Fondi SGR | Cattolica Assicurazioni | 50% | 29,0 | 58,0 | 2,4% | 4,2x | 13,0x | 22,0x |
| giu-07 | Euromobiliare SIM | E2 Holding | 100% | 120,9 | 120,9 | n.a. | 1,8x | 2,9x | 3,8x |
| lug-07 | AXA SIM | Banca MPS | 100% | 50,0 | 50,0 | 2,6% | 4,8x | 19,5x | 17,2x |
| nov-07 | Banca del Gottardo | Banca BSI | 100% | 1069,0 | 1.069,0 | 4,8% | 1,8x | 13,9x | 17,6x |
| mag-08 | Citi (Italian PB) | Banca Euromobiliare | 100% | 40,8 | 40,8 | 3,4% | 8,5x | n.a. | n.a. |
| giu-12 | Intra Private Bank | BIM | 67% | 38,4 | 57,1 | 5,7% | 2,7x | n.a. | 28,5x |
| set-08 | Anima Sgr | BPM | 70% | 106,7 | 152,3 | 1,8% | 3,7x | 14,7x | 24,2x |
| ott-08 | MPS AM | Clessidra SGR | 67% | 381,9 | 570,0 | 2,5% | 3,5x | n.a. | 9,4x |
| dic-08 | Simgenia SIM | Generali | 85% | 13,3 | 15,6 | 0,7% | 2,5x | neg | neg |
| gen-09 | Millennium Sim | Sparkasse | 60% | 9,0 | 15,0 | n.a. | 1,9x | 10,3x | 13,6x |
| nov-09 | Etruria Fund Mgm | Bipiemme Gestioni | 100% | n.a. | | | | | |

Source: KPMG Corporate Finance

into a promising sector. But recent experience shows that this kind of play is not that easy. Clessidra, after changing MPS Sgr's name to Prima and reshaping the company's product range to reduce it to around 30 funds, continues to search for opportunities to beef up fund management with further acquisitions. In fact, the return of funds to positive net collection in the third quarter of 2009

has decreased the desire of banks to get rid of asset management operations. This was confirmed when **Riccardo Bruno**, one of Clessidra's partners, started talks with the shareholders of Arca, the financial services holding mainly controlled by UBI Banca and BPER, and found himself faced by 18 people, one representing each of the nine shareholders and, of course, his or her

advisor. This scene highlights how difficult it can be to acquire an asset manager controlled by an Italian bank. Representatives of Idea Capital, the other private equity investor interested in Arca, whose sale is at the moment in stand-by, must have witnessed pretty much the same. In the meantime, Clessidra continues to evaluate other opportunities, albeit of limited size.

Venture Capital Tries To Take Off

Unlike the private equity market, the venture capital sector held up well in Italy in 2009, as is evident not just from the statistics for deals closed (46 in 1H 2009 against 40 in the same period of 2008 for € 56 mn of total investments compared to € 52 mn in 2008), but above all from the sentiment among specialized operators, who are looking forward to pronounced growth in 2010. Atlante Ventures, an Intesa Sanpaolo Group fund managed by **Davide Turco** (43), which last year received about 400 proposals and concluded 6 operations worth a total of € 8 mn, is about to close a further 4 deals: two by the end

of March and another two probably before the end of the year. "Despite a very rigid legislative framework, the market is busy in Italy," says Turco. **Riccardo Donadon** (42), co-founder with **Maurizio Rossi** (45) and **Patrizio Bof** (42) of the H-Farm platform, also thinks that the business is growing faster despite the legal system and the shortage of financing for innovation. "H-Farm provides unique support to start-ups, from capital resources to a full range of services and logistics to enable rapid growth. We invest in select ideas, providing capital support from the seed throughout the early stage," as Donadon puts it and he is well aware of



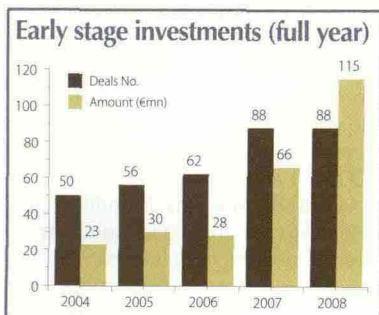
how selective the VC Italian market is. "One wrong investment is enough to be cut out. Other countries attach more significance to your track record, even with insolvency problems." H-Farm has offices in Seattle, Mumbai and London. "You absolutely have to have a global perspective if you want to attract investors and propose ever more competitive projects," says Donadon. The latest such project is Thounds, a new social network developed on the facebook, myspace and twitter models which aims to bring together music enthusiasts and professionals. Launched online in September last year with start-up funding of € 50 th is one of the fourteen companies awarded at the open day organized last Oc-

tober by Intesa Sanpaolo bank to present new businesses to institutional investors. It currently boasts 5500 users and needs a further € 5 mn to jump into the big business in the US market. Reluctance on the part of institutional investors isn't the only obstacle to an overhaul of the system. Strategic innovation depends on a number of factors including the capacity of universities and research centers to develop innovative technology, the willingness of young entrepreneurs and managers to take risks, the existence of large groups operating in high-tech sectors and the segmentation of the investment market (seed financing, venture capital, expansion capital and IPOs). "The whole ecosystem of innova-

tion must grow if VC is to prove capable of generating a sufficient level of return," argues **Fausto Boni**, co-founder of 360 Capital Partners, a VC firm that recently managed the stock exchange listing of Yoox, a leading e-commerce company that sells clothing and accessories. A mature market requires a large number of specialized operators in the three large macro-areas of venture capital (ICT, life science, cleantech), with a high level of technological and industrial skills and the ability to provide support to their own partners in the context of a global market. "We have already taken a first step in that direction," claims **Michele Appendino**, chairman of AME Ventures, the investment holding whose portfolio includes clean energy companies like **Solar Ventures**. "But a further step towards globalization is now required, taking advantage of the technological efforts of the universities, centers of research and business incubators." The new forms of cooperation between the various actors in the sector can be taken as a sign that the market is maturing. An example is VC Hub a portal through which venture capitalists and business angels exchange ideas and investment opportunities, or the start-up Initiative promoted by Intesa Sanpaolo which saw 300 submissions, among which 15 were selected as finalists, in the latest round held at the beginning of February. Four more rounds are to follow during the course of the year. The finalists selected by the Intesa Sanpaolo team headed by **Andrea Faragalli** were given the chance to pitch their business plans to the representatives of about fifty funds from around the world. "This year there are excellent opportunities for acquisitions at reasonable prices," Appendino observes. "The economic crisis has had the effect of increasing the number of proposals available for selection, and less-than-credible projects are becoming a rarity," agrees **Mauro Odorico**, Chief Investment Officer of TT Venture, a fund managed by Fondamenta (€ 60 mn in funds under management) whose CEO is **Giuseppe Campanella**. Those making proposals in times of crisis usually have projects with good development potential, especially in the cleantech sector, which covers the production of energy from renewable resources and the development of clean technologies. The challenge is to increase the number of success stories like that of Novamont in the field of biodegradable plastics made from renewable resources, or Yoox in the e-commerce sector: companies for which the entrepreneurship of the founders was the key factor. **L**



Michele Appendino of AME Ventures supported the IPO of Yoox the succesfull e-commerce venture. **Giuseppe Campanella** (left) is the CEO of Fondamenta, the fund focused on renewable energies and cleantech industry



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