

The momentum of distressed M&A

Expert's Opinion

Business turnaround: industrial vs financial buyers

Giovanni Marino

Associate Partner
Grant Thornton FAS

In an M&A operation and, in particular, in case of economic distress of the target, the nature of the buyer, whether industrial or financial, implies a series of considerations, in particular regarding the corporate strategy envisaged for the company, the ability to restore the company thanks to financial rather than operational levers, the ability to recognize a corporate value also in relation to specific tangible or intangible elements. On the one hand, the main objective of industrial buyers is that of maintaining, or consolidating, their competitive positioning and they aim to exploit the target's know-how to reach industrial synergies and take over new market segments. On the other hand, financial buyers acquire distressed the...

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Overview

The restart perspectives of distressed M&A

Sante Maiolica

Partner & Head of Advisory Grant Thornton FAS

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Focus on

The strategic role of turnaround funds

Nicola Cimmino

Manager Grant Thornton FAS

Turnaround funds represent institutional private equity investors specialized in the acquisition of financially distressed companies, with the aim of implementing an operational restructuring plan to make them profitable again. Operations are therefore managed by players with great professional experience in various entrepreneurial cases. Subsequently, the support provided by these investors is particularly significant in relation not only to the resources, but also to the managerial know-how contributed to the company in terms of strategic and operational consultancy. The intervention is formalized through a multi-year economic and financial recovery plan, which represents the core of recovery process...

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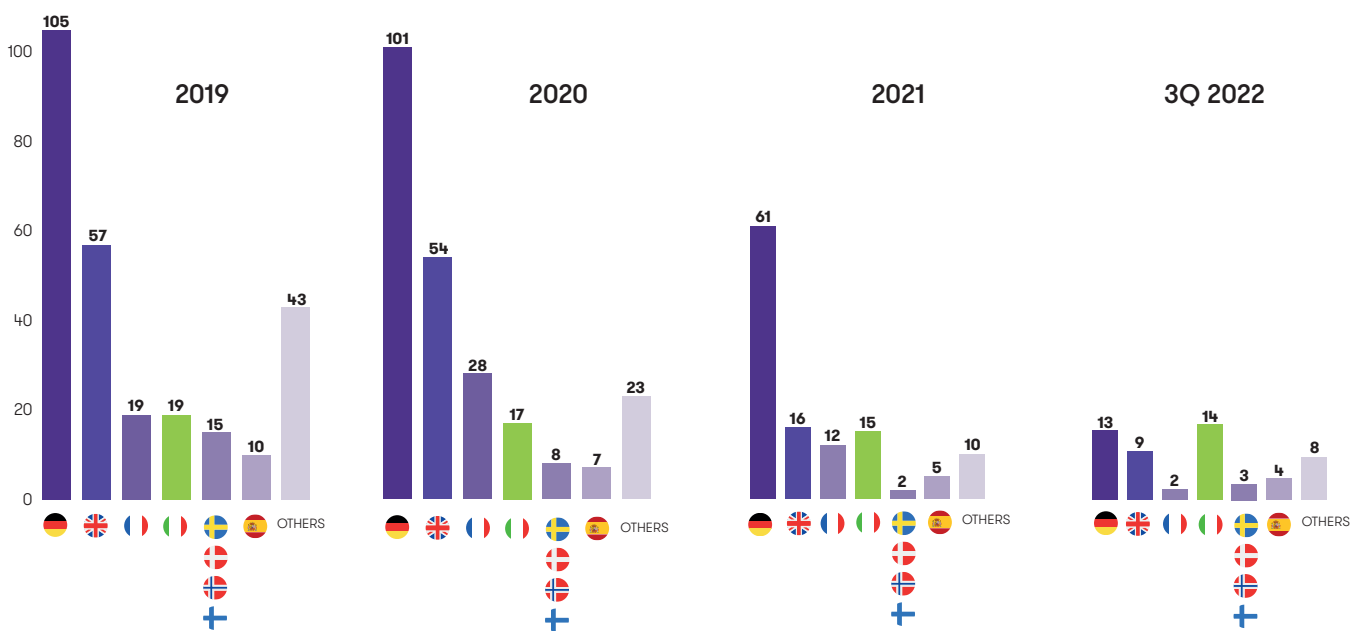
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In fact, in order to face the economic and financial crisis caused by the lockdown period, starting from 2020 the main European economies have implemented government measures aimed to rescue businesses and to safeguard their wealth. Such measures, such as the freeze of insolvency proceedings, the moratorium on financial debts, secured and non-repayable funding, implied the sudden freeze of most deals.

The same trend was registered in the Italian market, even though with reduced numbers, as the number of transactions carried out decreased by about a quarter between 2019 and 2021, recording a (slight) growth in 2022, since transactions carried out were 14 in the first three quarters of the year.

Numbers operations completed in the main European Countries (2019 - 3Q 2022)



Source: Mergermarket



At a domestic level, the sector of greatest interest to turnaround strategic and financial players was that of consumer goods, with a specific focus on the fashion industry, which is traditionally subject to corporate restructuring operations. Between 2021 and 2022, 6 deals were finalized on targets operating in the fashion industry, representing 20% of total deals. Among the most important turnaround operations there are: operations on Corneliani SpA, a well-known luxury menswear brand, by Invitalia and the English fund Investcorp; operations on Jeckerson SpA, owner of the homonymous denim trousers brand, by the Milan investment bank Mittel, and on Canepa SpA, historical textile company in the Como area, which was subject to a restructuring operation thanks to the combined action of the German investment fund Muznich&Co and of Invitalia.

A more significant growth should be registered with regard to distressed M&A transactions: the persisting geo-political uncertainty, the progressive increase in interest rates and the interruption of safeguarding measures already occurred during 2022 will be the main drivers that will push industrial and financial players to consider more investment opportunities aimed at the recovery of financially distressed companies.

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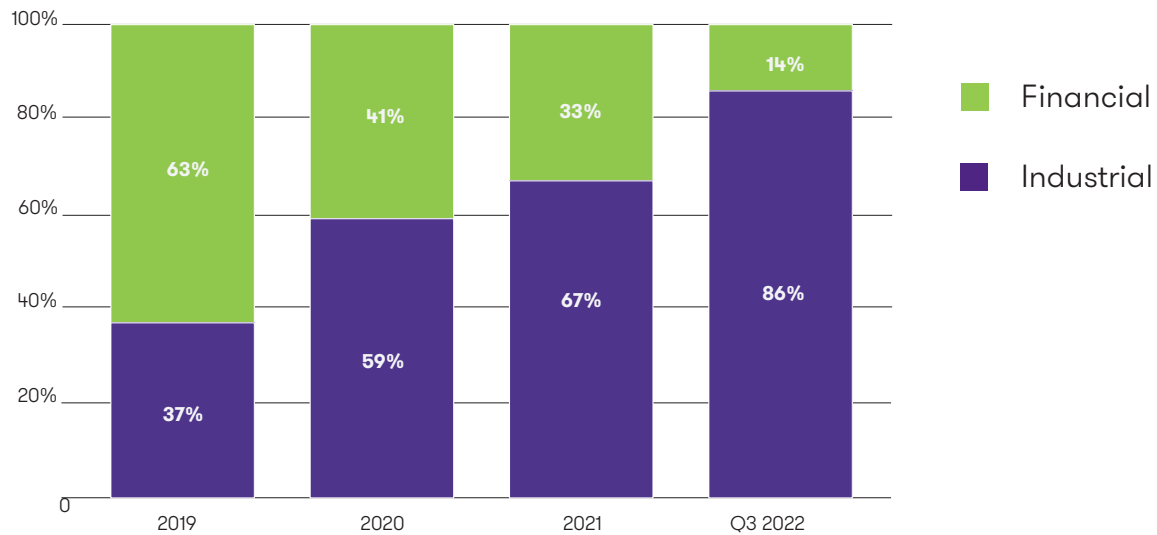
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With specific reference to the distressed M&A market, the trend of recent years shows how industrial buyers were predominant: in 2019, 6 deals out of 10 were promoted by strategic buyers, representing more than 60% of the market. On the other hand, the current picture shows a clear turnaround in the market in favour of financial buyers, which represented 67% of the market in 2021 and more than 80% in 2022.



Source: Mergermarket

This sudden turnaround is certainly due to the changed economic and financial framework: in fact, strategic buyers are interested in distressed M&A operations in similar industries and, therefore, there are clear limits to the implementation of consolidation or combination projects due to the general uncertainty generated by the pandemic crisis and the changed geopolitical context. Therefore, the same strategic buyers' shareholders, which are usually less willing to risk than financial operators, have chosen to wait for a more favourable economic situation to seize opportunities in this sense. Conversely, financial buyers, thanks to the high liquidity available on financial markets and to the opportunities related to the huge sale of so-called non-performing loans promoted by banks, were able to exploit the distressed M&A market more easily.

In fact, the same financial players were able to objectively read the risk-return ratio of the distress operation and seize market opportunities.

A growing trend in the number of distressed M&A transactions is expected in the coming months, due, on the one hand, to a further consolidation of financial buyers, thanks to the aforementioned available liquidity, and, on the other hand, to a great restart of those deals promoted by industrial partners, which were previously frozen due to a wait-and-see strategic approach of shareholders.



Focus on

The strategic role of turnaround funds

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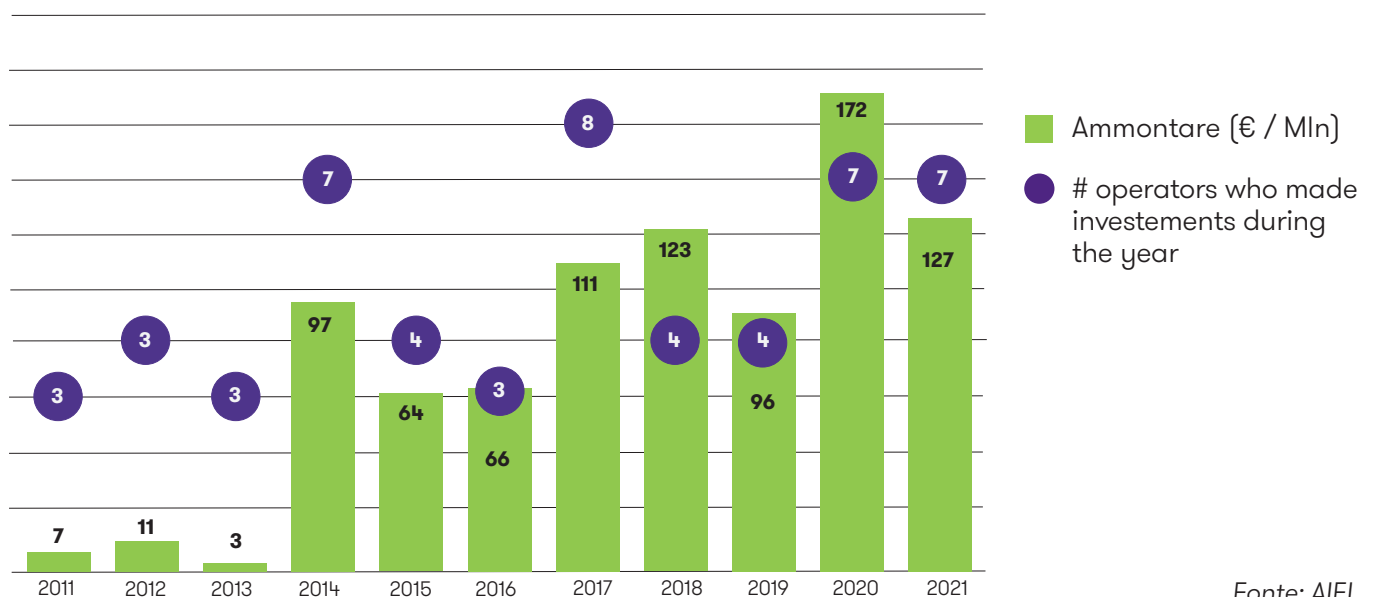
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Operations are therefore managed by players with great professional experience in various entrepreneurial cases. Subsequently, the support provided by these investors is particularly significant in relation not only to the resources, but also to the managerial know-how contributed to the company in terms of strategic and operational consultancy.

The intervention is formalized through a multi-year economic and financial recovery plan, which represents the core of the company recovery process. In brief, the turnaround process can be divided into three macro-phases: emergency management, planning of relaunch strategies, return to development.

With reference to the Italian competitive context of turnaround operators, we can see that there has been a significant evolution in the last decade, relating both to the number of active players, but above all to the amounts invested: between 2011 and 2016, active turnaround funds were 24 and the value invested in distressed companies was equal to Euro 250 million, while between 2017 and 2021 there were 30 operators for a total invested value equal to Euro 630 million, therefore more than doubled compared to the previous five-year period.



Fonte: AIFI



The main substantial factor that contributed to this important development is the role of NPLs (Non-performing loans) on the financial markets. Since 2015, Italian banks have carried out an important de-leveraging and de-risking activity, transferring a substantial amount of non-performing loans mainly to servicing platforms highly specialized in distress operations, allowing the entry of turnaround operators. It is clear that the role of turnaround buyers is crucial for operational recovery to ensure business continuity and that the presence of these players in Italy, although growing rapidly, is still limited to a niche.

In any case, we will see a further growth in the turnaround market over the next few years, also thanks to the recent developments in the regulatory framework, which will make it easier for specialized operators to enter. In fact, one of the guidelines of the new Code of Corporate Crisis is the centralization of the role of the entrepreneur/lender, increasingly favouring interventions aimed at promoting business continuity over liquidation procedures.

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