

Funding Capital with New Technicalities

SMEs need more **capital** and debt from foreign **investors** to find their growth in **international** markets. PE operators can be a **key factor** in generating these flows, if their way of **operating** and investing changes, said Fabio **Sattin** in this interview

Lombard: Because of the small dimension and significant undercapitalization of many Italian companies, can Private Equity be a great booster to further develop Italy's industrial and entrepreneurial base?

Sattin: If we also take into consideration the current problems of the banking system (and this is not only an Italian issue) the significant and positive role that Private Equity operators can play is more than clear and evident, as it has already been shown in hundreds of cases and deals concluded over years of activity.

L. What are the main issues for operators?

S. The traditional one of good private banking, i.e. help companies during the necessary expansion, consolidation and internationalization process, managing generational change and, when possible, stimulating and coordinating "buy and build" projects, which are increasing in Italy and will probably represent one of the main drivers for the industry.

L. Why do you think so?

S. Because many dynamic, export-oriented Italian SMEs need much more than money to develop internationally and PE can provide international contacts and expertise; can act as "conductors" to allow for their integration or the creation of industrial clusters;

it can foster their growth through M&A or by creating the best conditions for their flotation.

L. But many observe that closed-end funds, through which PE essentially act, haven't always been able to provide an effective answer to the changing needs of companies and investors, due to the sudden changes of the economic scenarios of the last years. Do you agree?

S. Yes, the rigid pre-determined investment and divestment period, which is typical of closed-end funds, and the method of calculating fees normally adopted have highlighted significant areas of potential misalignment of interests between investors and fund managers.

L. And the consequences?

S. This has sometimes led them not to act in the participated companies' and investors' best interest, in particular as far as expansion capital and, in general, minority investments are concerned, which represent a significant part of the European, especially Italian, Private Equity market. Real problems emerged with the economic and financial crisis. Since then, some fund managers have tried to mitigate this misalignment of interests by extending the duration of funds, reducing their dimensions and partially remodeling the structure of fees. But this has not always been enough.

L. What is still necessary?

S. New investment vehicles with different characteristics. These instruments should be more flexible, adaptable, able to meet the needs and timing of participated companies and entrepre-

neurs, more aligned with investors' interests and more suited to modern times, which are characterized by great uncertainty and quick changes in reference scenarios at all levels.

L. What do you have in mind exactly?

S. The market, as it always and luckily happens, reacts and adapts to these changes naturally. So new structures appeared, even in Italy: listed and unlisted holding companies; listed funds; SPACs; co-investment agreements; club deals; direct investments by family offices and sovereign funds; evergreen funds; umbrella funds; SST (subsequent subscription tranche funds); different hybrid funds, including the emerging, also in Italy, and articulated offers of Private Debt, an additional tool particularly suitable to meet expansion capital needs and that is often promoted by skilled Private Equity operators through dedicated structures.

L. Regardless of the technicalities, which aspects have to be carefully considered in this investment world where "providing value added" is of fundamental importance?

S. The quality of investors and their characteristics. In fact, the possibility of selecting and involving, also on a deal-by-deal basis, the most appropriate investors for each specific deal, can also represent a great advantage in attracting and winning the best investment opportunities. This is obviously very difficult to achieve for a traditional closed-end fund investment structure with a pre-defined and rigid investor base.

L. Which new instruments can provide a more reliable context?

S. Identifying promising companies and entrepreneurs to invest in, according to the most appropriate timeframes and methods and distributing the return among investors and general managers. I believe that today we truly need something new in order to create the basis for future development, stabilization and long-term evolution of the Private Equity industry.

L. However, flexibility, the main issue of these new instruments, and the need for regulation are often conflicting concepts?

S. In fact, it's the real challenge the Private Equity industry and regulators will have to face, particularly in Italy, to ensure maximum articulation and flexibility of these new instruments in a clear regulatory framework allowing for their correct use.

L. Not an easy task?

S. But an objective that can be reached if all the parties involved, starting with operators, regulators and investors, act in good faith, start talking, respect and listen to each other openly, constructively and with transparency, professionalism and intellectual honesty in order to find the best solution for everybody's needs. The companies where investments can be made are precisely in Italy, and they can take advantage of new forms of Private Equity and Private Debt, to face development and growth. **1**

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is chairman and founding partner of Private Equity Partners, a long standing independent firm, one of the few in Italy with a large commitment by Sovereign funds and Global Investors. Besides being a senior professor of Private Equity & Venture Capital at Bocconi University in Milan, Fabio is also a member of the Foreign Investors Committee of Confindustria. He started his career in Olivetti in 1983 in corporate strategic planning. In 1985 he moved to Chase Manhattan Bank (now JP Morgan Chase) where after a period of training in London and New York he worked in M&A in New York. In 1987 he returned to Italy as vice president and managing director of Chase Investment Bank where he was responsible for Mergers, Acquisitions and Equity Investments in Italy. In 1988 he contributed to the founding of and was managing director of Chase Gemina Italia. In 1989 he co-founded, with Giovanni Campolo, Private Equity Partners, that through its SGR acts as the management company for the closed-end funds JP Morgan Italian Fund III and Private Equity Partners Fund IV. As of today, the company is present in the major emerging markets, China, Russia, Poland, India and Brazil.

