Doing things differently

By Angelica Mari

Fundraising has never been easy in Southern Europe. However, fund managers are more hopeful since domestic LPs are becoming increasingly aware of the private equity asset class. The appetite among international institutions is immense, forcing Southern European players to quickly adapt to global standards, but there are disparities between the Italian and Spanish way of working.

The European Commission expects the Spanish economy to grow 3.4% in 2007. If this growth occurs, it will follow a string of 11 successive quarters of GDP increases. The country's buoyant economy enjoys a recently-awarded AAA long-term credit rating from Standard & Poor's (S&P) due to its strong revenue growth, a balanced position of Spanish local and regional governments, and a dramatic decrease on the debt to GDP ratio.

In the meantime, last year S&P cut Italy's creditworthiness to A+, the second-lowest in the Eurozone after Greece. However, 2006 may have marked the start of a new era for the country. Prime Minister Romano Prodi's attempts to rescue the country from stagnation include a bill signed on 15 December 2006 which aims to slash Italy's deficit below 3% of GDP for the first time in five years.

EVCA's benchmarking study (*see table 1*) compares tax and legal environments across Europe to the extent they affect private equity and venture capital investment. According to the study, Southern European countries have demonstrated dramatic improvement in their jurisdictions and consequently offer more favourable investment conditions.

Since the infancy of the private equity market in Spain, players have knocked on foreign doors for backing. Ibersuizas, for example, has received commitments of international investors Skandia and Hamilton Lane, as well as Goldman Sachs (also an existing investor of Mercapital) as a cornerstone backer. Italian players manage to attract a great deal of US support, especially in the low end of the mid-market, but perform well when raising funds locally. Clessidra's fund was raised almost entirely from Italian sources such as Telecom Italia and Assicurazioni Generali.

Table 1: 2006 EVCA Benchmarking

Indication of the tax and legal environment for the development of private equity and venture capital (1 = more favourable / 3 = less favourable)

Results for 2006		Results for 2004		Results for 2003	
Country	Total Score	Country	Total Score	Country	Total Score
Ireland	1.27	UK	1.26	UK	1.20
France	1.36	Luxembourg	1.49	Ireland	1.58
UK	1.46	Ireland	1.53	Luxembourg	1.67
Belgium	1.51	Greece	1.75	Netherlands	1.79
Spain	**1.52**	Netherlands	1.76	**Italy**	**1.96**
Greece	1.55	**Portugal**	**1.81**	Greece	1.96
Netherlands	1.60	Belgium	1.82	Belgium	2.08
Luxembourg	1.62	Hungary	1.86	France	2.09
Portugal	**1.71**	**Italy**	**1.86**	Sweden	2.09
Italy	**1.72**	France	1.89	**Spain**	**2.17**
Austria	1.74	Switzerland	1.95	Finland	2.25
Denmark	1.75	**Spain**	**1.96**	**Portugal**	**2.32**
[illegible]	[illegible]	Norway	2.04	Denmark	2.36

rm aiming at the lower end ctrum has more chance to raise funds in their home in a shorter space of time, : diligence is done locally. looking to bring in smaller ; probably easier to focus on arket, since there is a need to ocations,' says Zurita. 'Their is based more on track record ces of the firm in question than itive results. Nevertheless, for id the access to international inevitable.'

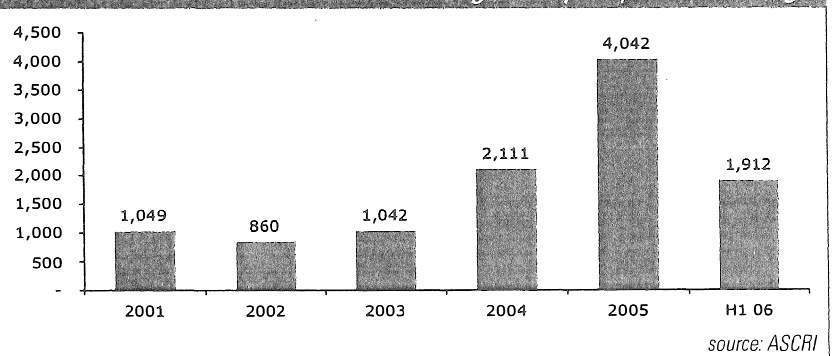
ConsiliumPrivateEquity,which / held a first close of a €100m d much of its commitments an institutional backers and orth individuals. 'The private ustry is fundamentally talent- l, as a consequence, barriers he market are relatively low. may have a tough time raising fund, but if they can deliver iey will be successful,' says amoni from Consilium. He a crowded market is no reason 'This may be a nuisance, but : opportunities in smaller in Italy are abundant, so that t represent a major hurdle for agers to deliver superior returns ivestors.'

Spain – no time for siesta

The fundraising scene in Spain has never been busier. While last year saw domestic players Corpfin Capital, Ibersuizas and Mercapital closing their funds at €223m, €330m and €550m respectively, 2007 is set to witness players launching vehicles aimed at the top end of the market. Former Santander's executive adviser Angel Corcóstegui and João Talone, formerly the executive president of utilities group Energias de Portugal, are currently raising a fund, targeting around €850m, to invest in large Iberian buyouts. Nmás1 is preparing for the launch of a new vehicle in 2007. Just as in previous vehicles, the fundraising and investment strategy will be carried out alongside Dinamia, the quoted private equity firm it manages.

During its fundraising effort, Corpfin Capital still had to go through the basics of private equity with some of the new investors unfamiliar with the asset class. Mercapital had a similar experience. 'Some Spanish investors are still getting acquainted with that type of investment and since the industry is relatively young, they haven't been through the whole investment cycle. This may pose a challenge when pitching a fund to potential investors,' says Mercapital's partner Miguel Zurita. 'Over the past four years, investors have become aware of the benefits of investing in private equity, have learnt about the options available and are now progressively making large commitments in order to diversify their portfolios and improve returns,' adds Carlos Lavilla of Corpfin Capital.

Fundraising activity – Spain and Portugal



source: ASCRI

In Spain, as well as in Italy, the competition at the top end of the market (loosely defined as deals with corporate value of more than €200m) is fierce. According to data from Fomento de la Producción, a Spanish database of large sized companies and El Informe sobre la PYME, a report on SMEs published by the University of Alcalá, there are 627 companies with sales exceeding €250m in Spain, compared with 13,250 companies with revenues between €10-250m. With the recently implemented industry regulations and the good news spread by attractive returns from private equity, new competitors will continue to arrive.

One would think that such competition would raise the need to allocate dedicated resources to keep a good LP relationship. In Southern Europe, however, the investor relations (IR)

: Significant LPs located in 'n Europe:

y	LP
	Assicurazioni Generali
	Allianz
	Banca Etruria
	Altamar Private Equity
	Banco Santander
	BPI
	Banco Espirito Santo

other European markets, but the sophistication of the market will steer fund directors and managers away from that role. 'As the private equity asset class becomes more "mainstream", an increasing number of funds will seek to put their IR function into place,' says Antonio Glorioso from Consilium.

One unnamed GP says that due diligence from local LPs is considerably less thorough than in other European markets and that backers still have a lot to learn in that respect. Nevertheless, as investors become more aware of the intricacies of investing in such funds, more maturity when assessing funds is expected for the next few years, in the same fashion as the use of corporate finance services.

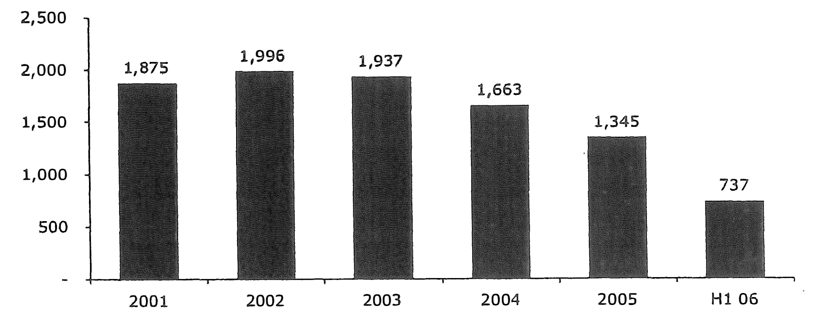
When it comes to securing new commitments from LPs, all managers agree that providing good returns is the main recipe. Of course, that is not enough. 'What LPs hate the most is being surprised. A steady flow of succinct and accurate information is the key to a positive relationship,' says Iamoni. 'Transparency is very important, as well as being able to refuse very large commitments, to avoid excessive pressure to invest at any cost every year,' adds Antonio Corbani of ABN Amro Capital.

Italy – fears and hopes

If Spanish LPs are still in need of the occasional educational work, raising funds in Italy does not get any easier. Deal opportunities are still plentiful, but institutional investors, such as insurance and pension funds, as well as family offices, are still very reticent when it comes to investing in private equity funds. That resistance can be illustrated in the average deal completion time, which is nine months to a year in Italy compared with four to six months in Spain. However, changes in employment laws will shed light on a safer path for pension funds to private equity.

In Italy, the fundraising activity has not been nearly as active as in Spain. The closing of domestic funds, namely the €700m fund of Investitori Associati in 2004, as well as the Clessidra vehicle, closed at more than €800m a year later, seem a long time ago. Since then, the scene has been mainly dominated by small buyout and venture capital funds. Large-scale acquisitions such as Ferretti (€1.7bn) and Avio (€2.6bn) were backed by international funds Candover and Cinven, respectively. Much-awaited events in Italy for 2007 include the closing of funds managed by Magenta, targeting around €400m, and Idea Alternative Investments, a holding recently created by the union of Investitori Associati, Wise and industrial player De Agostini. The three groups, which acquired directory business Seat Pagine Gialle in 1997, are planning to raise €5bn to invest in private equity. It is understood that Idea will aim to raise at least €2bn this year.

Fundraising activity – Italy



source: AIFI

Although the fundraising industry in Southern Europe still has a long way to go, the environment is already competitive. The excess of liquidity in the region has its own downside: according to Jose Luis Molina of fund-of-funds manager Altamar Private Equity, the pool of cash is larger than the one of talented management. Despite this, GPs will need a solid track record in order to access the most sought-after funding sources. 'At the moment, we do not expect prices to go down or a major liquidity crunch, but we can expect increased pressure to develop strategies and create value in our portfolios to generate superior returns,' says Zurita.

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