

## M&A Industrial products & construction

### Italian M&A deals in the IP&C sector and key trends shaping the industry

M&A Operations

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#### Introduction

Inorganic growth represents one of the preferred strategies adopted by investors in different sectors to expand businesses and operations. The recent volatility that characterized the M&A market globally showed an all-time high deal activity in the post-pandemic, boosted by the backlog of outstanding deals, followed by a significant drop in the deal volume in 2022 continued during 2023.

Although Italy's M&A activity has been unexpectedly resilient and dynamic during 2022, in sharp contrast with global and European M&A markets trends, 2023 is characterized by a slowdown attributable to many factors of uncertainty: geopolitical aspects such as the ongoing war in Ukraine and the persistency of inflation levels not seen for several decades negatively affected the companies' growth forecasts. In this complex scenario, the ability to generate stable cash flow has increasingly become a must-have requirement for investors over the last months.

A high level of uncertainty is still looming on the Italian market outlook: the recent Palestinian-Israeli conflict is exacerbating the difficulties in global supply chains and is heavily affecting the traffic across the Red Sea, where transit most of the global and Italian maritime trade (about 30% and 40% respectively). Inflation in Italy fell in Dec. '23 to +0,7%, but interest rates remain at the highest level, while the Italian GDP is expected to increase by +0,7% in 2023, registering a strong slowdown compared to the previous year (+3,7%).

#### M&A Industrial Products & Construction

The Italian Industrial Products and Construction (IP&C) market showed a rebound in 2022 with an increase of +52% in deal volume compared to the previous year, contrasting the global dynamics, followed by a decline of -8% in 2023. The largest share is represented by the Industrial Products segment, which accounted for more than 65% of 2023 transactions (Figure 1).

The market is led by corporate-led investments, compared to private equity (PE) funds and PE-backed companies, weighing respectively 63% and 37% combined in terms of deal volume in 2023 (Figure 2). In particular, the number of PE-backed acquisitions more than doubled in two years (17 in 2021 vs 40 in 2023), an indicator of the widespread adoption of the "buy and build" strategy aimed at consolidating the market and creating larger groups.

Furthermore, financial players' relevance is expected to benefit from the capital cost decrease: Central Banks' decisions to hold interest rates steady with probable cuts during 2024 in light of cooling inflationary pressures will favour deals that rely on financial leverage.

Approx. 85% of the detected deals involved the majority of the target share capital, giving the level of control, which is crucial for implementing strategic changes, making key decisions, and driving the companies' direction. 2023 has also registered an increase in domestic transactions: Italian acquirers represented 70% of the overall deal volume in the IP&C market, compared to 65% of the previous year.

Figure 1 – Deals Volume by segment

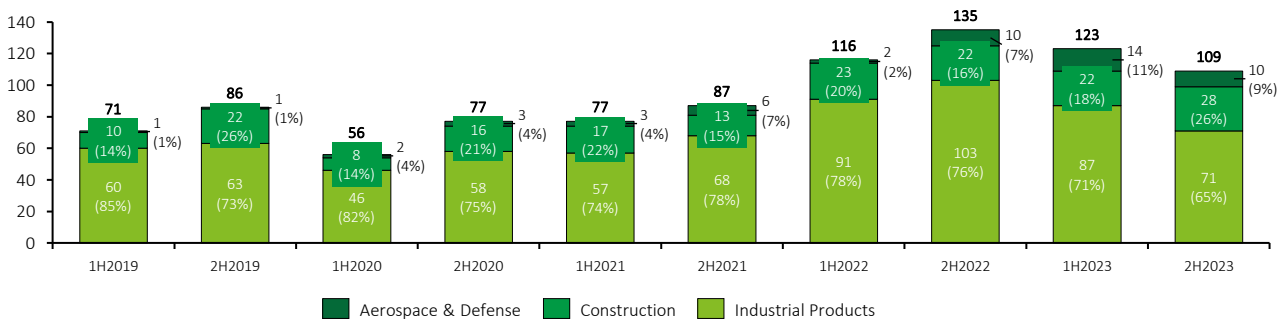
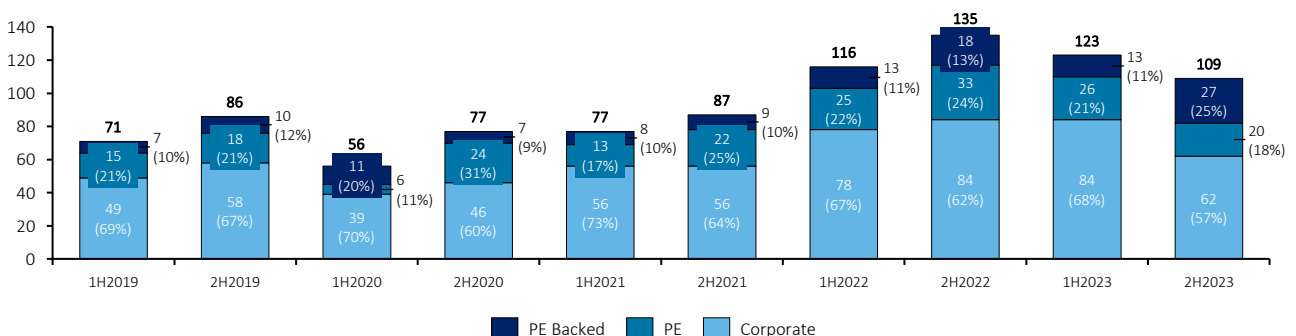


Figure 2 – Deals Volume by type of acquirer



## Industrial Products

The segment share in the Italian M&A market decreased from 77% in 2022 to 68% in 2023, due to the shrinking in deals volume of almost -19%. Given the predominance of the segment in terms of deal numbers, the drop in M&A activity led to a decrease in the overall IP&C sector.

## Construction

This segment is experiencing strong volatility in the price of raw materials and an increasing cost of the labour force. High-interest rates and tighter lending standards are also impacting construction activities. Despite these challenges, the number of M&A transactions grew both in 2022 and 2023, increasing by 45% and 11% respectively.

## Aerospace & Defense

Despite the complexities the Aerospace and Defense (A&D) is experiencing (such as supply chain disruptions, exacerbated by continuous challenges in raw materials sourcing, production delays and talent shortages), the deals in the sector, although still limited, doubled in volumes in 2023 compared to the previous year (24 vs 12 deals respectively), boosted by the geopolitical tensions.

## Pricing

Valuations have been quite variable through the years depending on both macroeconomic factors and idiosyncratic characteristics of the targets. Among the panel analyzed (for transactions where the terms of the deal were disclosed), the average Enterprise Value/EBITDA multiple was ~10x in 2021, the year of the post-pandemic bounce. The indicator dropped the following year to ~7x due to the worsening of geopolitical tensions and rampant inflation, value from which it has not recovered yet.

## Trends in the M&A Market

- **Investments in Technology:** acquirers are increasingly focusing on industrial manufacturing companies that are up to speed in the areas of automation, data analytics, and digital transformation, that can claim higher production efficiency, reduction in costs and better supply chain tracking.
- **International deals:** cross-border M&A will become more prominent and aimed at strategic expansion into new markets to better access additional revenue streams or at horizontal integration to help achieve cost efficiency, enhance resilience to market fluctuations and strengthen supply chains.
- **Growing focus on ESG practices:** there has been a growing recognition of environmental, social, and governance factors among M&A and broader business. Firms demonstrating robust performance in these domains stand to secure a competitive edge and capture the interest of prospective acquirers.

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The breadth of our experience and knowledge means that we are trusted partners both inside and outside the deal space. Our support spans from the development of an inorganic growth strategy to the fulfilment of the deal's full potential, across all the phases of the deal lifecycle.

We help our clients to maximize the value out of the due diligence phase and ensure a flawless Day 1 readiness, as well as unlock deal value through a smooth integration and identification of key transformation initiatives engaging the organization to drive growth, avoid business disruption, boost revenues and optimize costs.

We understand time is of the essence and there is a need to operate at pace. Our solutions are pragmatic and practical, laser-focused on the biggest value for your organization and on the most painful challenges you are facing.

## Contact Us

Please reach out to our experts to find out more about how we can help your business to implement strategic initiatives to enhance value creation



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