Joint-stock Company supporting the capitalization and restructuring of Italian firms

– Brief profile –

May, 2015

Introduction

The Italian Government has recently issued a Law Decree N. 3 of 24 January 2015 (the "**Decree**") **aimed at re-launching the investment process in Italy. The Decree contains urgent measures for the banking system and investments**

Art. 7 of the Decree promotes the creation of a "Service" company (the "Company") supporting the capitalization, corporate restructuring and industrial consolidation of Italian companies in temporary capital and financial distress but characterized by adequate industrial and market prospects

The Company will operate on economic terms acceptable to a private investor under normal market economy conditions. Investors will be both institutional and professional, with a medium-long term investment horizon. **Certain categories of investors** ("**Guaranteed Investors**") **will benefit from a (fee based) guarantee granted by the Italian Ministry of Economy and Finance** (the "**State Guarantee**"). The State Guarantee's mechanisms, conditions and awarding criteria will be governed by a decree issued by the "Presidenza del Consiglio dei Ministri" ("**DPCM**")

Investors who do not take advantage of the State Guarantee ("**Unsecured Investors**") will have specific governance rights and a **key role with respect to resolutions concerning investments as well as the appointment of senior management**

This document is addressed to potential investors to verify their interest in subscribing a participation in the capital of the Company

Other than as expressly provided by law, the Company's structure, governance, investment process and risk-return profile described in this document are to be deemed preliminary and subject to discussion with prospective investors

Opportunities for investments in the restructuring of Italian businesses

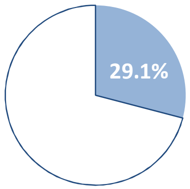
Five years of recession left many companies with unsustainable capital structures

✓ **Significant share of the Italian companies in need of financial restructuring and new capital**

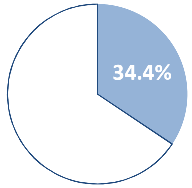
Situation of Italian companies

Avg. Debt/EBITDA ratio	7.4x	Avg. Debt/Equity ratio	64.4%

Share of companies with financial charges higher than 50% of EBITDA



Share of companies with financial debt higher than 2x equity



Source: Cerved, February 2015

✓ **Medium-sized enterprises play a major role in the Italian economy**

Despite the recession the Italian economy has a number of strengths

Italy - Strong manufacturing base

- 2nd in Europe in manufacturing production
- 4% of world production in the manufacturing sector
- World 5th manufacturer by value added
- 18% of value added share deriving from the manufacturing industry

Italy - A leading exporter

- 29% share of export of goods and services on GDP
- $ 43 bln merchandise trade surplus in 2014
- World 2nd exporter in textile, clothing and leather goods

Source: UNCTAD; Centro Studi Confindustria; OECD; Minister of Economic Development; Istat

Company's key elements - summary

Company	✓ **Company** supporting the capitalization and restructuring of Italian firms **with the aim of investing in Italian companies with good business and market prospects but with temporary capital shortfalls or in temporary financial distress** ✓ **Holding company with a minimum paid up capital and progressive drawing according to investments** ✓ **Fundraising target: € 1.5 – 3 bln of committed funds, to be provided on call** ✓ **No minority investments** ✓ **Target IRR for Investors in line with market benchmarks** ✓ **Investment horizon: 10 year**
Momentum	✓ **Best timing for investments in «*good businesses with bad balance sheets*»**, medium and large companies in financial distress but with strong industrial fundamentals, know-how, growth outlook and consolidation opportunities in their reference sectors ✓ **Positive macroeconomic outlook** with growth prospects after years of recession is ideal for turnaround investments ✓ Italian Government is bolstering confidence in the Italian economic system through **structural reforms aimed at fostering investments** ✓ **Few investors have expertise in the turnaround market in Italy** ✓ Turnaround is a **niche market offering unique opportunities for investments and returns**
Characteristics and distinctive features of the Company	✓ **Flexible investment vehicle** (able to operate through equity injections / lease of business units / debt conversion, etc.) with a **unique positioning in the Italian market** as a catalyst for Italian companies with unbalanced capital and financial structures but with a strong potential for turnaround and growth ✓ **Initiative of a private nature with "institutional" investments** able to catalyze the interest of private and public stakeholders and ability to leverage on all parties involved ✓ **Simplification and acceleration of restructuring processes**

Company's key elements – summary *(cont'd)*

Quick up-side	✓ The Company's intervention, thanks to the **immediate rebalancing of the financial and capital structure of the targets**, will provide a **quick up-side**, with the opportunity to focus management efforts on the **industrial turnaround and growth**, through: ▪ access to new finance to support the business plan ▪ possibility to attract highly qualified managers ▪ capacity to make the necessary investments to consolidate the reference industry
Management	✓ **High profile management** with strong experience, credibility and successful track record in private equity investments and industrial turnaround, with the experience to assess and manage the risks related to these investments, often perceived as riskier due to their complexity ✓ Relevant contribution of Unsecured Investors in the selection and appointment of the management team
Unique investor mix and governance structure proposal	✓ Mix of **low risk profile (guaranteed) investors and traditional (unsecured) investors** ✓ **Governance structured to protect investment decisions from conflicts of interest** and to ensure that investment decisions are taken exclusively on the proposal of Management
Exit / Returns	✓ The **Company operates according to the criteria and procedures of a private investor, with a medium-term investment horizon and return** target in line with market benchmarks

How the DPCM regulates the Shareholding structure

DPCM

- ✓ regulates the purpose, the beneficiaries, and the terms and conditions of the State Guarantee
- ✓ 2 categories of Investors: **«A» SHAREHOLDERS (Guaranteed Investors)** and **«B» SHAREHOLDERS (Unsecured Investors)**

«A» SHAREHOLDERS (Guaranteed Investors)

80% of the investment guaranteed by State Guarantee (institutional and professional investors who adopt conservative long-term investment policies with low risk profiles)(1)

- **Maximum shareholding: 70%**
- **Target shareholding: 50% - 70%**

selected following a transparent solicitation process issued by the PCM

«B» SHAREHOLDERS (Unsecured Investors)

Unsecured investment

- **Minimum shareholding: 30%**
- **Target shareholding: 30% - 50%**
  - *of which banks: 15% - 20%*
  - *of which other private investors: 15% - 30%*

Investment decisions process aimed at adequately assessing and minimizing the risk and with a decisive role of Unsecured Investors

(1) Consideration to be paid on the guaranteed investment (80%) consisting in a fixed rate (BTP yield + margin) and a variable part (a portion of the Company's dividends, preliminarily at 60% and other amounts distributed by the Company exceeding the fixed portion). For further information, please refer to the DPCM.

Governance structure proposal: dual system (to be discussed)

«A» SHAREHOLDERS (Guaranteed Investors)

Appoints the minority of the Supervisory Board

«B» SHAREHOLDERS (Unsecured Investors)

Appoints the majority of the Supervisory Board

SUPERVISORY BOARD - Investors

- ✓ Consisting of Investors' representatives, at least 2/3 of which are independent
- ✓ It may express a negative opinion on the investments approved by the Management Board (with a majority that includes the majority of the directors appointed by the B shareholders)
- ✓ Appoints the Management Board and approves Company's financial statements

MANAGEMENT BOARD - Management

- ✓ Members are appointed by Supervisory Board with specific managerial skills. At least 2/3 of the members are independent
- ✓ Research and proposes investments
- ✓ Approves business, financial and investment plans

Strategic / Investment Committee

- ✓ Composed by internal and external members with advisory role in the process of selection, evaluation and sale of investments

Bodies involved	Activities	Responsibility / Involvement					
➢ **Supervisory Board**	Right to review proposal / May express a negative opinion on investment transactions					Right to review	
➢ **Management Board**	Resolution on business financial and investment plans	Investim. Screening	Proposal		Approval		Portfolio Management
➢ **Strategic / Investment Committee**	Advisory role in the investment / divestment process			Opinion			

Targets and investment structures

Investment Targets

1. Presence of **strategic assets**, i.e.: *i)* significant market share or market leadership; *ii)* proprietary technologies / patents / trademarks; iii) strategic commercial structures
2. Target with **positive EBITDA in the last years** (also on a pro-forma basis) and certified by a leading external audit firm
3. **Financial and industrial restructuring plan** showing, in a 3 years period from the investment, **concrete and significant prospects of economic and financial balance**
4. Investments in the plan's horizon of at least **€ [TBD] mln of capital**
5. **No sector specialization but excluding real estate and financial sectors**
6. **No investments in start-up businesses**

Investments in companies with good prospects turnaround, financial restructuring and profitability

Types of intervention

A. **Investments in equity**
   - Capital increase
   - Quasi-equity instruments
   - Intervention according to bankruptcy law (incl. senior instruments)

B. **Financing**
   - Bonds
   - Convertible loans
   - Quasi-debt instruments

C. **Acquisition or succession in existing relationships**
   - Lease of business units
   - Acquisition or succession in relationships (as a creditor and/or debtor)

✓ The Company **may carry out its investment through NewCos** (subsidiaries, or Joint-controlled companies) rather than through direct investments in order to **optimize its intervention by creating ad hoc structures for the restructuring of existing debt with possible total or partial conversion and/or for the involvement of third party investors**

✓ **Capital increases in the Company according to the capital needs for investments**

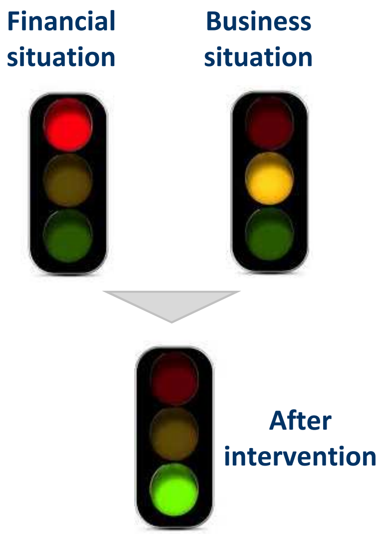
New resources aimed at rebalancing the financial structure and developing the target's business

Preliminary IRR / Risk-return profile

- ✓ **Target IRR proposed to Investors (to be agreed by them) in line with market benchmarks**, resulting from a mix of different investments that may have different IRR targets
- ✓ **Investment rationale differs from the typical 'distressed‘ Private Equity** :

Approach / Investment structure

- **Very flexible**: can invest by using the procedures allowed by the Bankruptcy Law (senior financing; lease and purchase of business units; etc.) and through *ad hoc* vehicles with the support of external specialized partners
- Investments in companies with **unbalanced financial structure** or in need of cash but not in a stage of "chronic" business distress and still with **good continuity and recovery prospects**
- **Change of governance and management** and **implementation of target companies' medium-term business plans**
- The Company's intervention itself **resolves the financial problem** (Equity Injection / debt write-off) and thus reduces the risk of the investment (post-closing or immediately after)
- **Involvement of other stakeholders** in target's turnaround project (e.g. Banks, through conversion of loans into capital, debt write-off, etc.)



This approach should allow to reduce risks

Preliminary company timeline and investment process

Company timeline

May-August 2015 | 5 years | 5 years

Fundraising and Company set up

- ✓ Presentation of the Company to potential investors
- ✓ Investor selection procedure (Guaranteed and Unsecured)
- ✓ Negotiation of terms and conditions of shareholders agreements and corporate governance
- ✓ Appointment of management team
- ✓ Finalizing activities to set up the Company

Investors

Resources

Company

- ✓ Possibility to raise new equity funds through share capital increases

Investment period

Investors

Resources

Returns

Company

(managed by Management)

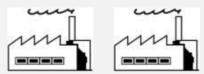
Equity
Loans
Other

Dividends/ interests/other distributions

NewCo 1 | *NewCo 2* | *NewCo 3*

Possibility of co-investment with third parties /debt conversion

Portfolio companies



PC Management 1

PC Management 2

PC Management 3

Holding / divestment period

- ✓ Management of restructuring and financial plans of portfolio companies
- ✓ Portfolio company monitoring and / or investment/financing to be provided to targets
- ✓ Exit (via strategic sale to other industrial and financial players; MBO; other)

Investment process

Screening and deal sourcing → *Due Diligence* → *Investment approval committee* → *Signing of the Invest. Agreement* → *Investment closing* → *Value building* → *Portfolio management & Exit*