

My Recipe for Effective Dealmaking

by Simone Cimino, CEO of Cape

Simone Cimino (47) himself can be described as a unique model for Italian and, probably, European private equity. Dynamic and enthusiastic as only a Sicilian can be, he graduated from Bocconi University with a thesis on venture capital, accumulated experience in major American financial institutions and transferred to Italy's financial heartland, Milan. Cimino shows no hesitation in explaining himself down to the last detail, conscious of the fact that only the human factor applied to the model can explain the success that friends and enemies alike attribute to his company, Cape, Cimino & Associates Private Equity. The model consists of a matrix that blends the fundamentals of the private equity business with some entrepreneurial intuition that takes the Italian industrial panorama more closely into account. It is for this reason that the Cimino model is not easily exported although some European observers are taking a closer look at it.

When it comes to fundamentals, Cimino sets many tight limitations. First of all, he turns to targets consisting of small-medium companies in which the fund's commitment is in the range of EUR 2-5 mn, with some exceptions for the acquisition of majority stakes. "Then there are three pre-conditions without which I won't sit down at the negotiating table," the chairman, who founded Cape in 1999, explained to Lombard. The first is that the price asked must not exceed 5 times EBITDA. The second is that the entrepreneur must keep a stake of at least 30% in the joint venture with the private equity fund. The third, followed even more rigidly than the other two, is that EBIT must not be lower than 10% of revenues.

Once the three pre-conditions have been verified, the most difficult phase of the negotiations can begin because, as Cimino pointed out, "to be unique in our value proposition, the proposal must have an objective industrial content." And here there looms a reflection with a more ample range that takes into account the psychology of the entrepreneur more than multiples and money (Cimino defines it as "a commodity"). Cape's target is in general a first-generation

entrepreneur, a self-made man, who has arrived at a turning point in his professional experience, because his company was successful. But to make another leap forward, he needs something more.

The first thing Cimino uses as a lever to convince the entrepreneur seated on the other side of the table is the sharing of the risk of industrial growth. Basically, up until that time, the entrepreneur had to/wanted to count only on his industrial and financial capacity. With the entry of the fund, the latter will take on greater responsibility for management. In practice, that means a commitment to move all the levers helpful in developing the industrial plan. In this period, Cape's market proposition has two points that in general make a breach: the opening to the Asian markets

– the Chinese (since 2006) and more recently the Indian (since 2006) – and the hookup with the Natixis network, especially in France, Germany and Spain. Natixis, the most important private equity entity in France, is controlled by the Banque Populaire group. It has more than 800 investments and operates toeholds in two South American cities, Sao Paulo and Buenos Aires. "We have launched 20 startups in China, thanks to our six offices in Shanghai and Hong Kong," Cimino pointed out. The second lever, Cimino asserted, is the monetization of labor up to the point reached by the entrepreneur. It has a powerful appeal, especially if the negotiations are begun with the founder of the activity who appreciates seeing recognition for the work carried out to date. That also could help resolve

problems of succession. The third argument used in the negotiations is the increase in the entrepreneur's propensity to accept risk through a virtually automatic mechanism. By pocketing a part of the value of his company, the entrepreneur will be more willing to accept risk to increase the value of the minority share he still retains. The argument has an intrinsic validity because in small-medium companies it is always the industrial impetus of the founder of the enterprise that drives managerial impetus.

"The three pre-requisites for Cape to invest in a company are: EV cannot be higher than 5 times Ebitda, the latter must be no less than 10% of revenues, and the seller must retain a stake of at least 30%"



Simone Cimino (47) started his career in the Montedison group, where he was one on M&A department headed by Giuseppe Garofano. In the mid nineties he worked for Eurofund, a French investor in private equity and maintained links with the French financial milieu. In fact, in 2006 he allied with Natixis, an investment jv between the CDC and CNP groups

central offices in Milan, Shanghai and Bangalore, has been certified by Deloitte at nearly 70% of annual IRR in the last five years. And the winds of crisis do not seem to pose much of a threat for the team. On average, they take into consideration a total of 300 proposals annually, of which they select 12 to 15 deals to be closed in 12 months at a rate of one a month. The next moves? "Develop the business in southern Italy, beginning with Sicily," said Cimino. He has formed a company in partnership (49%) with the region of Sicily. The latter in turn has launched a closed-end fund, of which Cape is the advisor, that plans to invest in local companies. Cimino is already working out agreements to expand the same formula to the region of Apulia. One thing is certain. Beyond the issue of the success or failure of the initiative, the competitive advantage is based on having chosen a terrain for expansion, the mid-market in the Mezzogiorno (the south of Italy), which is still virgin territory with great potential for development. Will the Cimino method function in the south as well as it does in northern Italy?

"To provide further incentives, I offer him financial conditions that are asymmetrically in his favor, using medium-term stock options that mean an attractive economic advantage for the entrepreneur, if things go according to plan." The Cimino method, which in Cape's management is used by two senior partners Marco Vismara, CEO, and Guido De Vecchi, assisted by three junior partners and about 20 professionals divided among the

The head hunter

The Importance of the Investor's Skills

Maurizia Villa, managing partner of the Milan office of Heidrick & Struggles

// Constructing the operating teams of private equity funds and identifying the consultants who intervene in corporate portfolios accounts for a good 40% share of our activity and involves six professionals whose competences range from retail to technology, finance to energy," explained Maurizia Villa, managing partner of Heidrick & Struggles, one of the main American headhunter companies that selects managers and other highly qualified personnel. During her career Maurizia Villa developed direct experience in the field of private equity, on the basis of which she discussed the criteria for evaluating management with Lombard.

Lombard: More of a manager or more of an entrepreneur? In other words, which qualities must prevail in the manager of a private equity fund: those of a manager or those of an entrepreneur?

Villa: If we're talking about top management, the ideal would be a proper mix of managerial and entrepreneurial qualities, bearing in mind that private equity operations are limited. Whoever's in charge of management must on one hand receive complete managerial training and possess a pronounced leadership capacity to motivate the entire team. The candidate must be a person of vision, able to understand where the