Blackstone and Benetton family take Atlantia private in blockbuster infrastructure deal

Introduction

On April 14th, it was announced that Italy's known Benetton family and US investment fund Blackstone made a buyout offer for Atlantia, valuing the company at €54.3bn. What could be the second biggest deal of the year globally, only behind Activision Blizzard acquisition by Microsoft ($69bn), would also be the largest take-private deal ever for a European-listed company, which highlights the current appeal of the infrastructure sector. The €23-a-share offer, would end a turbulent period for Atlantia's investors and could bring closure to a long-running saga over the ownership of the company.

About Atlantia SpA

Atlantia is an Italian-based holding company active in the infrastructure sector, engaged in toll road and airport management. Currently listed in the Borsa Italiana, the company was founded back in 1950 with the aim of contributing to the post-war reconstruction of Italy.

The company operates through five segments: Italian motorways, Overseas motorways (mostly run by Albertis, one of world's leaders in toll roads management in which Atlantia holds a 50% stake since 2018, and the other half being owned by ACS), Italian airports, Overseas airports, and other activities, which include infrastructure-related services, such as engineering, maintenance and electronic payment services provided through the Company's subsidiaries. As of today, it operates more than 14,000 kilometres of toll motorways in over 24 countries across Europe, Americas, and Asia, and owns and runs airports in Italy, including Aeroporti di Roma, and in France (Aéroports de la Côte d'Azur).

The last couple of years have been turbulent for the company. In 2018 the company's shares buffeted after the Morandi bridge, managed by a subsidiary, collapsed causing fatalities. The Benetton family was put under pressure by the Italian Government and the company's concessions in danger, which would put the business at risk. This ultimately led to the ongoing sale of Atlantia's toll road arm, Autostrade per l'Italia (Aspi), to a consortium led by state-controlled Cassa Depositi e Prestiti, which includes Blackstone, which could be concluded in the next month. After the sale of the subsidiary, the company will control around 10,000 kilometres of motorways. Moreover, the pandemic has had Atlantia see its revenues plunge. In FY 2019, the company had a total revenue of $12.6bn, almost twice as the total revenue recorded in FY 2021 ($6.4bn), as the economic slowdown cast a shadow over the toll and airport revenues.

About the Benetton Family

The Benetton family controls its various businesses through Edizione SpA, one of Europe's main holding companies. Now, run by the family's third generation, the holding seeks to maximise its investments in the long run. In FY2020, with over €10.8 of net asset value, the holding generated over €10.9bn in revenues, lower than pre-pandemic levels, around €17.9bn in FY2019.

Currently, the main sectors in which Edizione operates are transport infrastructure, through Atlantia (acquired in 2000), digital infrastructure through Cellnex (acquired in 2018), food and beverage through Autogrill (acquired in

1995), manufacturing, through the famous fashion brand Benetton (founded in 1965), real estate through Edizione Property, agriculture, and hospitality.

About Blackstone Group Inc

Blackstone is an American-based private equity, alternative asset management, and financial services firm. Originally starting as a M&A boutique, it was founded back in 1985 by two former colleagues at Lehman Brothers. With over $881bn of assets under management, the company operates through four segments, namely real estate, private equity, hedge fund solutions and credit and insurance. Blackstone went public in 2007 on NYSE, with an IPO of around $4bn, one of the largest among financial sponsors.

Blackstone aims to generate returns of its investments for its shareholders through a combination of cost cutting and management expertise. In the last decade, Blackstone has held a strong position as the largest investor in leveraged buyouts, both in its real estate business and private equity. FY2021 was a remarkable year for Blackstone, investing a record $144 bn, more than double of their prior year's deployment, and generating a net income of over $12.4bn. Moreover, over half the capital invested in 2021 was in strategies that didn't exist five years ago.

Currently, infrastructure is one of Blackstone's most active investment areas. With over $28bn AUM, its flagship fund is long-term biassed, and invests in core and core-plus infrastructure assets, most of them being in the US.

Industry Analysis

Despite being present in other businesses, Atlantia's core business is the transportation sector. After a harsh period for the sector due the pandemic and economic slowdown, demand metrics of the sector are on the rise again. The global easing of lockdowns amid vaccine rollouts, together with signs of economic recovery, are the main factors contributing to the growth. Atlantia's operations in the sector can be grossly divided into toll roads and more recently, airports. Despite sharing some characteristics and risks, such as the ones brought to light by the pandemic, the sectors are fundamentally different, warranting an in-depth analysis of each.

The global market of toll road operators is composed of many players of all sizes. Among the biggest players are indeed Albertis and Atlantia, as well as Vinci and Transurban. Toll roads are able to operate on low operating costs, and thus, maintain relatively high EBITDA margins, usually 70% for inter-urban roads and even slightly higher for urban toll roads at 85%. This segment is expected to return to pre-pandemic levels this year, as traffic should grow proportionally with economic activity[DP4] . Toll roads are usually a great investment for investors during turbulent economic times, as tariffs tend to be adjusted to inflation under the concession agreements. Nonetheless, as fuel prices rise, toll revenues could fall slightly despite index-linkage. Additionally, CapEx will be rising for most competitors in the coming years. As many operators have withheld investments to mitigate the effects of the pandemic on their margins, it is possible that they start to resume their plans to adapt to new mobility trends, implementing electronic toll collection systems, and charging stations for the fast-growing EV fleet.

The industry of airports-operating companies, however, has a different structure. The level of market concentration is relatively low, without clear leaders. Nonetheless, the outlook for this sub-industry is almost as promising. Even with record-high ticket prices, because of the high oil prices, airports should start to see pre-pandemic volumes. The unwinding of government support will also most likely be compensated with rising airport tariffs, and capital raised in these last years through increasing acquisitions. Another trend is that airports specialised in leisure travel, such as the Aeroporti di Roma, owned by Atlantia, may recover faster than airports specialised in business travel, as the latter might be reduced forever.

Deal Structure

In an effort to keep Atlantia Italy-owned, Benetton and Blackstone have made a takeover bid for the industrial giant amounting to €54.3bn. The €23-a-share bid for Atlantia would result in the largest ever deal taking a listed European company private, beating the €21bn offer for Mileway, Blackstone's warehouse portfolio. The bid values Atlantia's equity at €19bn and its shares at a 24% premium to the company's closing price before rumours of the deal started circulating, and at a 36% premium to the previous six months' average. Since the company had €35.3bn of net debt as of December 31, its enterprise value is estimated at €54.3bn. The cash bid was made at €12.7bn and will be debt financed by €8.2bn.

Edizione, the holding company that manages Benetton family's wealth and that currently owns 33.1% of Atlantia, would gain control of 65% of the vehicle responsible for the offer. The rest is expected to go to Blackstone. Alessandro Benetton, however, stated that the operation remains open to partners. Hence, Fondazione CRT, currently owner of 4.5% of Atlantia, and GIC Private Limited, Singapore's sovereign wealth fund, which owns 8.3%, could join in. The billionaire Benettons are indeed currently talking with the company's long-term investors about allowing the latter to invest in the new bidding vehicle along with the family and Blackstone. While talks are private, the funds should be nearing a decision on joining the bid. If the deal is agreed, Atlantia and Aspi, the latter bought by a consortium including Blackstone last year from Atlantia itself, would remain as separate entities.

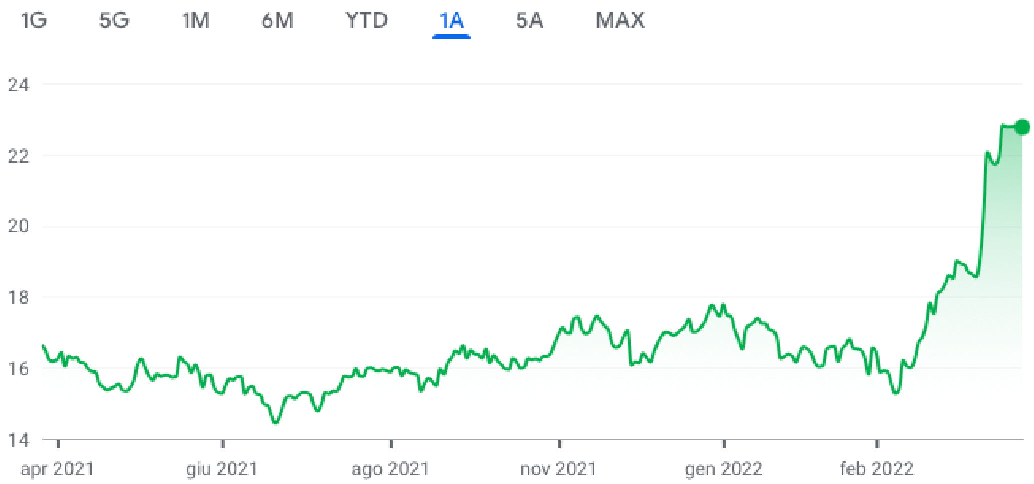
Deal Rationale

After the terrible collapse of the Morandi bridge in 2018, the subsidiary of Atlantia who controlled these assets, Autostrade per l'Italia, was sold to state investor Cassa Depositi e Prestiti and Blackstone due to pressure from the Italian government. Additionally, the Benetton family has been suggested to seek a buyer for part or all Atlantia. It is therefore no surprise that the offer and preceding bidding war happened now. As mentioned by the FT, motorways are the safest way to travel by car, but they are also great parking places for investors during turbulent economic times such as these. Indeed, infrastructure assets are among the safest providers of index-linked revenues, and they become tremendously valuable in times of spiralling inflation. Now that inflation is at a historical high, private-equity groups are jumping at the already distressed Atlantia. While the increasing cost of fuels and the growing concerns of the unfolding of an economic slowdown cast doubts over toll revenues safety, Atlantia's portfolio that includes airports like Rome and Venice represents a worthy acquisition target for a consortium made up of GIP, Brookfield and Grupo ACS on one hand and Blackstone (together with Edizione SpA) on the other.
Indeed, the groups started their bidding war way before Covid-19 hit and inflation skyrocketed. Grupo ACS, an engineering company whose chair is Florentino Pérez, president of football club Real Madrid, put in a €10bn offer for Autostrade per l'Italia a year ago. Later rejected in favour of an offer by Cassa Depositi e Prestiti and Blackstone, the failed bid did not deter Pérez and ACS to keep their eye on Atlantia and its half of the Abertis motorway joint venture. As a matter of fact, Grupo ACS owns half of the holding in Abertis, and the other half is owned by Atlantia. At the beginning of April, ACS has indeed outbid a group led by Italy's state-control investment fund to buy Atlantia. While Pérez stated that ACS would be willing to accommodate other investors in the offer, which it did by welcoming infrastructure investors Brookfield Asset Management and Global Infrastructure Partners, the Benetton family told the group it was not interested in their approach. The news was

followed by the announcement of the joint offer from Benetton and Blackstone. The Benetton family has in mind a strategic partnership with Blackstone, which it hopes will be a strong and long term one.
The deal also comes strategically in a time of reduced government involvement. Mario Draghi's government has indeed been less interventionist than its predecessor has. The previous government, led by Giuseppe Conte, was indeed more involved and there was still a feeling that Atlantia was choosing profits over safety. The government intervened by threatening Atlantia to withdraw its concessions to operate toll roads after the tragedy in Genoa, despite the €20bn it would have had to pay to the company in compensation for early termination. Last year, transport minister Enrico Giovannini highlighted that Italy's main hope is that the matter will be soon solved so that the company can focus on maintenance and investments.

Market Reaction

Much-awaited given the pressure faced by Atlantia following the collapse of the Morandi bridge in Genoa, news of a possible deal at the very beginning of April triggered a 3.9% increase in Atlantia's shares in Milan in late afternoon trading. On April 14th, when the final offer was put in, Atlantia shares rose 5% to €23. As we can also see from the stock price movement starting from April 2022, the market welcomed the bidding war and waited for the best bidder. In 2021 Chris Hohn, hedge fund manager of firm TCI, which owned a 10% stake in Atlantia, cared to highlight his interest in the offers from ACS, stating not only that ACS-Abertis seemed willing to offer a higher price than CDP but also that Aspi should have gone to the highest bidder without interference from the government. This year, on the other hand, no clear statement was released on the offer for Atlantia. Nevertheless, long-term shareholder CRT, an Italian banking foundation, seemed to have already agreed to sell its 4.5% stake in Atlantia with the possibility of reinvesting the proceeds in the new structure. Atlantia's shareholders are also expecting a €0.73 dividend per share in May, which is not expected to affect the offer price.



Financial Advisors

Goldman Sachs, Mediobanca, Bank of America, JPMorgan, Ubs, and UniCredit are the financial advisors for Benetton and Blackstone.

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