

Renewed divestment drive is in line with a larger European trend

by Chiara Bussi

With the sale of *Poste Italiane* to private entities and with the imminent sale of *Ferrovie dello Stato*, Italy has reopened the dossier for privatizations. Italy's dynamism is not, however, an isolated case. In 2014 and in the first eight months of 2015, there has been a boom of privatization worldwide: last year, 441 divestments were made with revenue increasing by 12% to a height of \$216.8 billion compared to 2013. The trend has also continued from January to August this year with 354 total divestments which allowed for a collection of \$213 billion (approximately €188 billion). This was revealed by the "Privatization Barometer" put together by Fondazione Mattei and KPMG, which shows Italy in fourth place in the European rankings for 2014 and third place in 2015.



Globally, the undisputed leader is China, which collected €55.7 billion with 188 operations last year - equal to a third of the total - and €123 billion through 247 offers this year - a good two thirds of total revenue - thanks to the positive phase of the stock market up until May. However, the records for single divestments are all European: in 2014, it goes to the first tranche of the re-privatization of Lloyds, the bank that was nationalized in 2009, which collected approximately €5 billion. In the first eight months of 2015, the most profitable operation was the sale of the power plants in Sweden by the Finnish group Fortum to a group of Swedish pension funds and Canada's Borealis for €6.6 billion.

Records aside, underlines Alessandro Carpinella, KPMG partner and curator of the Barometer, "a more mature phase has begun: the number of deals increases, and the size of companies on the market reduces and we are seeing medium level privatization in industrial, financial and infrastructure sectors. In emerging countries, it is an additional step closer to the market with a diminishing role in the economy, while in European countries privatization is a way to raise money and give oxygen to public finances".

On the European level the Barometer, which reviews all transactions for the sale or transfer of shares by a public entity to a private one or to the retail market, the leading country for the value of its divestments is Great Britain in the two years considered. London pulled off 20 operations in 2014 and 8 in the first eight months of 2015 that in both years allowed for the collection of more than €12 billion. Spain was in second place in 2014 with 13 operations, and is in fourth in 2015 (with 2 divestments). Sweden, which did not make it in the top-five in 2014, is in second this year. Italy advances by one position in the rankings: in 2014 it was fourth with 9 divestments for €5.5 billion and in 2015 it is in third with 3 operations for 6.1 billion. This year, the biggest operation was the sale on the secondary market of 5.7% of *ENEL* carried out in February for approximately €2.1 billion.

In total, the European governments collected approximately €56 billion in 2014 and 34.9 in 2015. These amounts represent the 36% and 20% of the total, well below the long-term average of European privatization. The numbers are still quite small compared to those achieved in the rest of the world. Behind China, though at a distance, are India, the US, Saudi Arabia and Malaysia. The public sale of shares is the most used tool and it has involved more than 90% of the operations in both years. Among the other procedures are auctions, asset sales and the repurchase of shares. “The most successful privatizations,” explains Carpinella, “are the ones that are designed based on the economic situation and not the political one. Furthermore, it is necessary to ensure that the progress made with the opening of the capital of a public company is accompanied with a step back on liberalizations”. The privatization fever has also continued through the last few months of this year. “According to our estimates,” concludes William Megginson, professor of finance at the University of Oklahoma and curator of the Barometer, “the new surge will bring in revenues of \$320 billion by the end of 2015, the highest level ever recorded”.