

MIND

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Targeting Profitability

Best Practices and Useful Insights for Dealing
with Rising Costs

Deloitte.

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IMPACT THAT
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Editorial

Current inflation trends and macroeconomic indicators seem to take us back to the 1970s and 1980s when Italy abruptly woke up from the “economic miracle” and had to deal with a progressively slowing economy. The current context, however, is characterized by a desire for “revenge” among consumers who are torn between the impulse to shop and the need to balance family budgets. For businesses, the challenge of balancing budgets is even greater, with markedly rising costs and interest rates, sourcing difficulties and new transport modes, changed trade routes, and new consumption habits.

In addition, a general “energy issue” arises for everyone, consumers and businesses alike. Consumer prices peaked at +11.8% year-on-year, as recorded in October by Istat, mainly due to the soaring cost of energy (+71.1% annually). Moreover, according to

Confindustria estimates, energy bills reportedly account for 9.8% of the total production costs of the entire economic system, which is five percentage points higher than in the pre-Covid period.

Thus, the shopping basket value continues to increase, mainly due to groceries, which post an annual 13.1% growth rate, approaching the June 1983 levels. Consumers, who had gone back to spending in Q2 2022 relying on the past two years’ savings, seem to be sensing the increase and are more cautious. According to Deloitte’s surveys, Italian respondents believe their bills for restaurants, groceries, and clothing will grow in the following month (82%, 77%, and 73%, respectively), while half express concern about their savings and intention to postpone more expensive purchases.

These are factors that inevitably affect organizations as well as consumers. In the last issue of MIND, we touched on the difficult balances between the economy and profitability for businesses, whereas in this one, we focus on the measures implemented by organizations to anticipate the impact of energy prices on their business and supply chain, on technology solutions supporting consumers and enterprises, and on the margins for growth in the near future.

Enjoy your reading,

Eugenio Puddu
Consumer Products Leader



Eugenio Puddu
Deloitte Italy Consumer
Products Leader



Consumption: The Pursuit of Savings and Pleasure in Shopping



Andrea Laurenza

Deloitte Central Mediterranean
Consumer Leader

Despite the streamlining of spending and the shift to consumption geared toward essentials, financial worries still leave room for the pursuit of small joys in shopping: the intention to focus on primary goods does not necessarily translate into consumption austerity.

Consumer sentiment is bearing the brunt of prolonged financial stress brought on by inflation, rising energy prices, and warnings of a possible economic downturn. Thus, concern about the economy has become a new focal point worldwide, compounding fears about consumers' budgets and spending ability. That is evidenced by the insecurity about the state of one's finances felt by one in two respondents, which, in Italy, is coupled with a heightened perception of the erosion of the available budget at the end of the month, as revealed by data from the Deloitte State of the Consumer Tracker.

It is still unclear when the causes of stress will eventually loosen their grip. Consumers now predict that high prices will continue to increase, with consequent effects on their utility and grocery bills. In addition to electricity, driving Italians' perceptions of price increases for the coming month are the cost of dining out and, secondarily,

groceries, followed by clothing & accessories and alcohol & tobacco.

In reaction to the situation, most respondents in Italy and abroad adopt strongly savings-oriented behaviors. Examples of this are the increased time spent on planning their spending or the preference for private label brands, which in our Country are reported by 45% and 35% respectively, but also a tendency to allocate the family budget for the following month. Indeed, compared to last year, the forecast for expenditure allocation is more concentrated on core goods, such as household goods and groceries, at the expense of more discretionary items, including furniture, clothing and personal care, entertainment, and travel, which returned to normal after the summer break. In contrast, the share devoted to dining out remains stable, possibly on track with the hybrid work model tested in 2021.

Despite the streamlining of spending and the shift

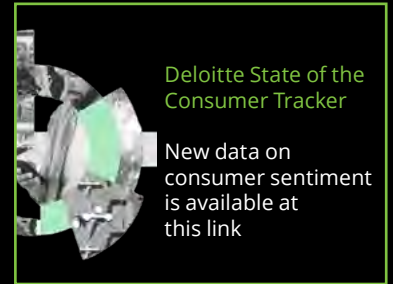
to consumption geared toward essentials, financial worries still leave room for the pursuit of small joys in shopping. Whereas in Italy only a quarter of respondents say they can afford to make purchases for personal pleasure, three-quarters say they have indulged in a treat over the past month. In the ranking of comfort goods, the top place is foodstuffs, which gather 41% of preferences, clearly distancing clothing and accessories and personal care products, at 16% and 12%, respectively.

Moreover, although Italians are in line with the international average in terms of purchases made to pamper themselves, they differ on the front of the perception of their actual spending capacity for such products. These data may indicate that the intention to focus on essential goods does not necessarily equate to austerity in consumption. Such evidence may be helpful for consumer companies to look at in the near future, especially as the holiday season approaches.

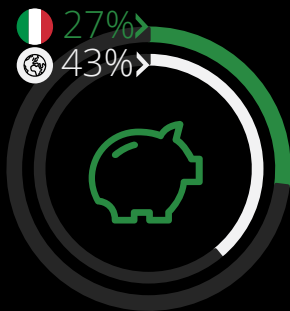


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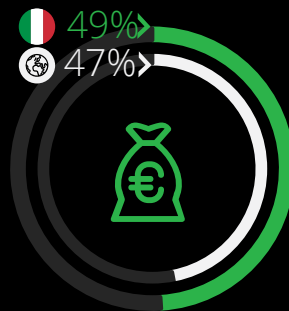
Financial stress erodes discretionary spending, but consumers seek small joys in shopping



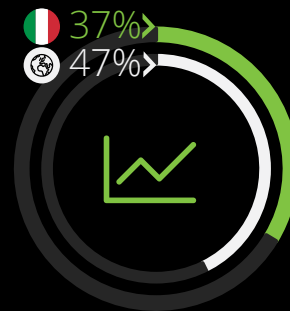
The concern consumers express - domestically and abroad - about their finances looks set to stay for the foreseeable future



Say they have an available budget at the end of the month

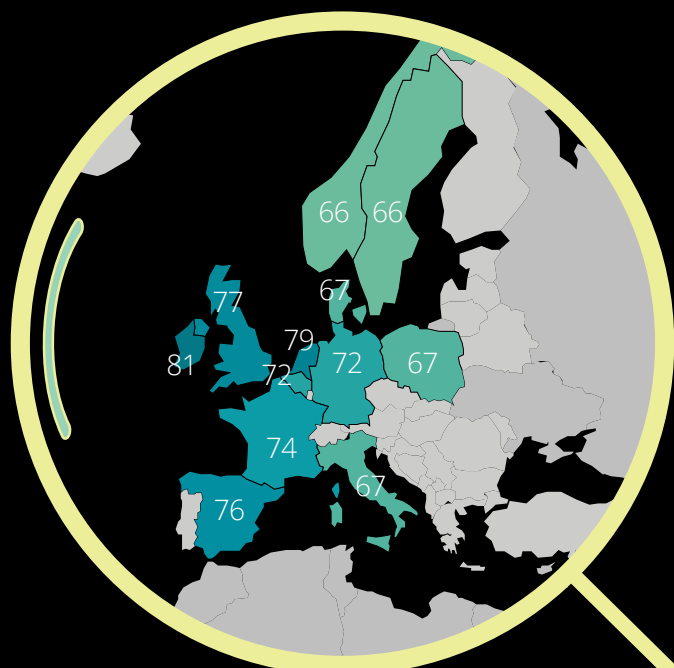


Are worried about their savings



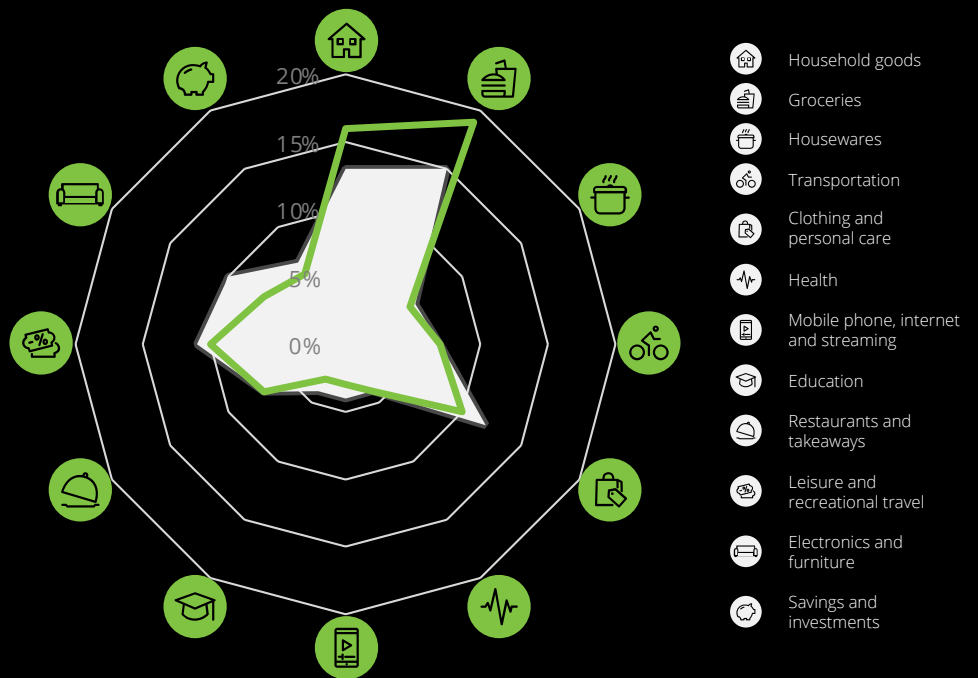
Think their income will remain the same or increase in one year

The perception of inflation remains among the factors underlying financial stress in Europe and affecting discretionary spending

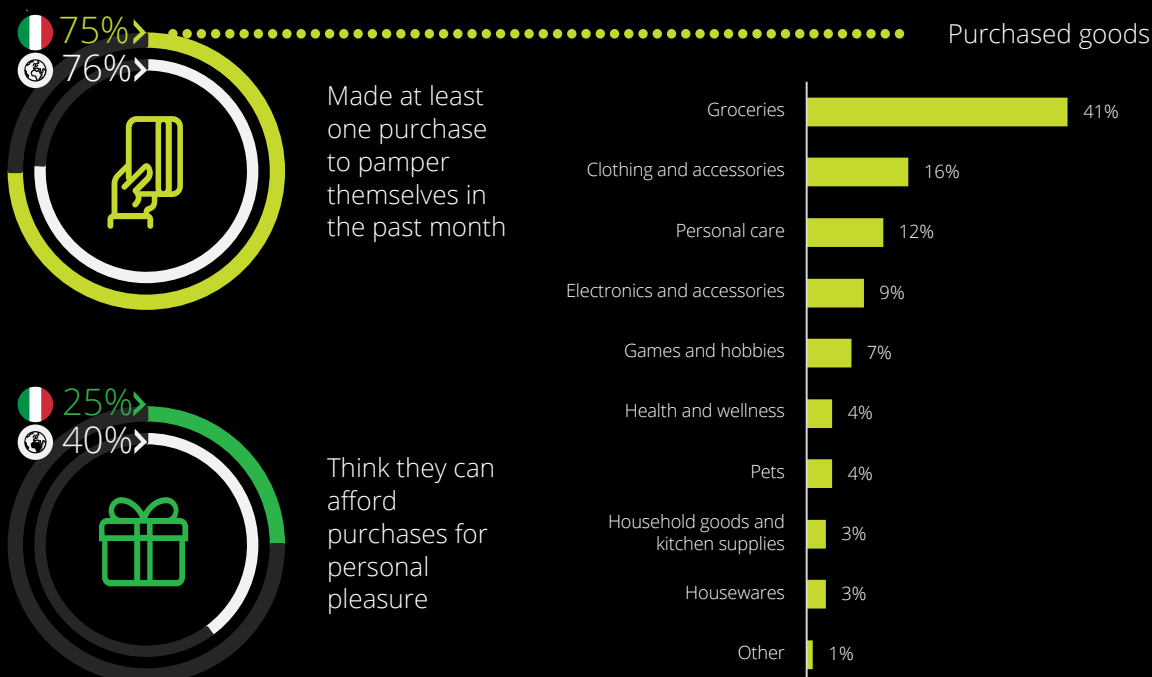




That is shown by how Italians allocate their household budgets, which are even more focused on core goods, such as household goods and groceries, than in 2021



Nonetheless, 3 out of 4 consumers pampered themselves by purchasing food, clothing, and personal care products





Innovating a Traditional Market, Starting from Competencies



Marco Hannappel

Presidente e Amministratore
Delegato
Philip Morris Italia

There are forward-looking companies that have invested in alternative energy, in some cases self-produced, and today, as energy prices rise, they are looking beyond the scope of their organization with a sense of responsibility to the local communities. That happened with Philip Morris Italia, which invested in extraordinary measures to support the companies in its supply chain and in ordinary ones to enhance, innovate and make Italy's agricultural enterprises sustainable. To do this, it started from the ground up, setting up a center for specialized continuing professional development open to everyone in the sector. Because the future of Manufacturing 4.0 starts precisely from the spreading of skills.



The rising cost of energy is challenging businesses and consumers. How are you tackling the rise in prices?

The energy crisis is a phenomenon that affects everyone and, first and foremost, raises an issue of responsibility. For instance, we are the leading tobacco buyer in Italy, with 20 thousand tons of tobacco purchased, 100 million euros invested in 2022, and an estimated occupational impact of up to 28,700 people directly employed, indirectly employed, or working for other companies in sectors associated with the tobacco industry.

Therefore, we want to support Italy's agricultural supply chain, which is one of the most important ones associated with tobacco in Europe in terms of production volumes and employees. Already last February, we signed a crop protection covenant with Coldiretti to address energy price hikes, and, to date, we have invested 11 million to help producers deal with the difficulties related to high energy costs.

We can implement these unique initiatives in the tobacco sector only because of our 20-year strategic partnership with the Ministry of Agriculture and a decade-long collaboration with Coldiretti.

One of the crucial aspects on which public and private must collaborate is the development of skills, a strategic factor for the competitiveness and productivity of companies and the entire Country System.





What measures need to be in place to bring about long-term change that will benefit greater energy and environmental sustainability for the agricultural supply chain?

The best way forward lies in an integrated supply chain logic, which we have pursued for over a decade. This vision is key if we want to enhance and innovate the Italian agricultural supply chain and render it sustainable, especially in a delicate phase like the current one.

Beyond providing temporary support in this period of great uncertainty, we have supported farms for years in their eco-energy and digital transformation with a medium- to long-term perspective, aiming to place Italy's tobacco supply chain increasingly at the center of the international scene. Many results have been achieved so far: from CO2 reduction, -56% in 2021 compared to 2012, to the responsible use of water resources, with a 53% reduction in consumption compared to 2015.

Besides the environmental aspect, we also support businesses with the digital transition. Among the initiatives implemented, I would like to mention the Digital Farmer, an entrepreneurial training program aimed particularly at young farmers. It encourages them to improve their technical skills and adopt cutting-edge technologies in precision agriculture.

What is lacking in investments in digitalization to be even more effective?

One of the crucial aspects on which public and private must collaborate is the development of skills, a strategic factor for the competitiveness and productivity of companies and the entire Country System.

A recent survey we have conducted in collaboration with The European House Ambrosetti highlights the severe delay regarding digital training our Country suffers from, pointing

out, once again, the effects of the absence of strategic skills for Industry 4.0, especially in the long run and on competitiveness.

Therefore, to foster growth in Italy, I believe it would be important to bridge the gap remaining between the world of education and the business world. And with this in mind, in June this year, we inaugurated our Academy for higher education and the development of skills related to Industry 4.0, namely, the Philip Morris Institute for Manufacturing Competencies.

This facility is open to our people, the entire manufacturing supply chain, the communities where we operate, and the world of academic and technical training. The center aims to serve as a point of reference for the Country with regard to continuing professional development and technology transfer, encouraging the building of competencies for the professions of the future in the manufacturing industry.



That is an example of widespread innovation in a traditional industry such as tobacco. What steps are you taking to continue in this direction?

More than a decade ago, we started a process, still ongoing, of mission and identity transformation that has changed the tobacco industry dramatically, deeply innovating it. In Italy and the rest of the world, the company's goal is to build a smoke-free future in which all adult smokers who would otherwise continue to smoke can give up cigarettes and switch to new combustion-free products, which are viable alternatives to traditional smoking.

It is a very ambitious goal that has called for a profound transformation of the company's business model and organization and requires new and top-level skills in every area. Not by chance, to achieve this objective as quickly as possible, 99% of R&D and 73% of commercial investments in 2021 went to combustion-free products.

The goal in the short term is to generate more than 50% of net revenues from smoke-free products by 2025, encouraging 40 million adult smokers of Philip Morris products to transition to smokeless products as quickly as possible.

Looking ahead, what changes could still revolutionize the industry?

We understand that transforming the industry is not just about replacing one product with a new one. We need to completely reshape the entire value chain and how the company relates to society.

We also need to ensure that we can meet the highest environmental, social, and governance (ESG) sustainability standards in achieving our goals. We constantly monitor these aspects, disclosing their progress yearly as part of our "integrated report." That reporting exercise shows our commitment to expanding beyond tobacco and nicotine, like wellness and healthcare.



Transforming the industry is not just about replacing one product with a new one.

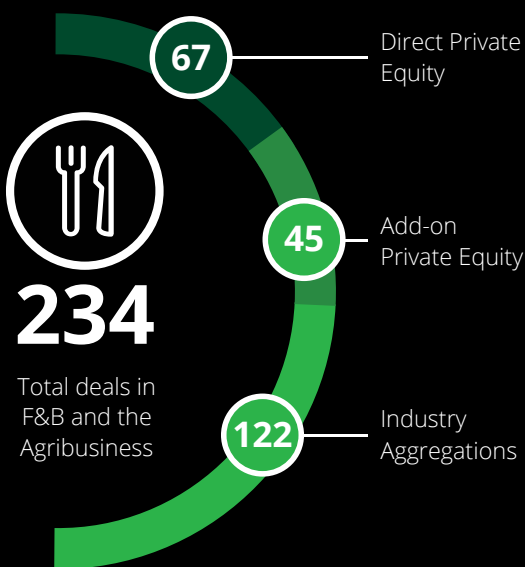
We need to completely reshape the entire value chain and how the company relates to society.





The food sector: a key player in a vibrant M&A landscape since 2019

M&A deals in the food sector



234 M&A deals in the Food & Beverage sector occurred from 2019 to Q3 2022. The growth trend slowed momentarily in 2020 due to the pandemic, but the number of deals had already returned to pre-Covid levels by 2021.

Nearly half of the deals completed during this period saw the involvement of Private Equity investors, either directly or through add-ons, while the remainder were industry aggregation deals.

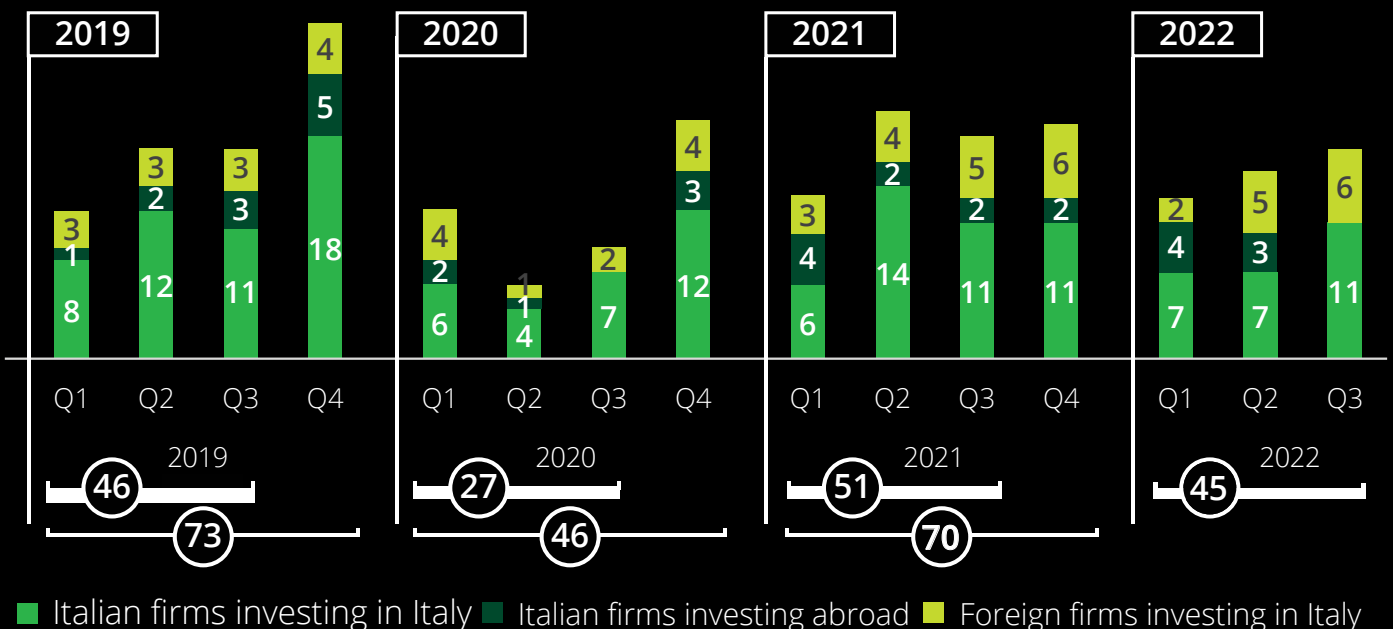
Of these latter, 55% were domestic and 45% cross-border deals, of which just over half were closed by foreign investors in Italy.



Lorenzo Parrini

Partner Deloitte
Corporate Finance | M&A Consumer Business

Trend and geographical breakdown of deals from 2019 to Q3 2022



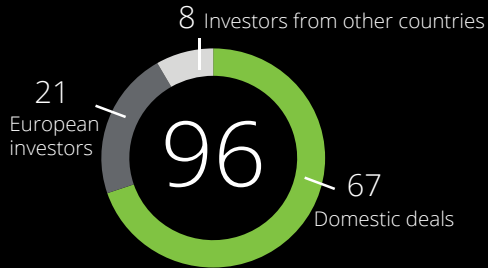


200 Number of deals with target companies in Italy



Industry aggregation

Domestic investors predominate, but after the pandemic's initial slowdown, investments from Europe and other countries have picked up again



The most attractive segments are snacks, confectionery & bakery, beverages & coffee, and fresh and dairy products processing



Average turnover of the target company (Millions euros)



Private Equity

The private equity fund investments are initiated mainly by Italian players (78), followed by Europeans (19), and lastly, North Americans (7)

Direct Private Equity investments



Add-on Private Equity investments

38



Besides the segments mentioned above, ingredients, wine, frozen food, and ready meals are also considered attractive



Average turnover of the target company (Million euros)



34 Deals closed by Italian buyers with target companies abroad

The deals were initiated mainly by industrial players, and about half were closed by 4 of the major Italian players in the sector

Industrial players



26

Groups in which PE funds have a stake



7

Private Equity funds



1



Europe is the main target region, with 26 deals



Average turnover of the target company (Million euros)



Building an Innovative Product, Round After Round



Simone Mancini
Founder and CEO
Scalapay



Riccardo Trubiani
Chief of Staff
Scalapay

Scouting for opportunities, testing, evaluating, and scaling is the innovation mantra for those with a bias toward action. This approach is the inspiration behind the “buy now, pay later” service of the first all-Italian unicorn, one deeply connected to international markets, starting from its investors. Indeed, openness to foreign equity has provided industry knowledge and networks, which are critical assets for accelerating growth. As a result, today, an idea that could potentially revolutionize the Consumer Products sector is consolidating itself, day after day and round after round.



Let's start from the beginning. Where does the "buy now, pay later" concept originate?

Simone Mancini | Although Scalapay is an Italian operation, its story starts further away, in Australia, where I grew up. That's where I began experimenting with some business ideas, most of which were related to e-commerce and which, although not successful, were highly beneficial to my entrepreneurial education. Indeed, these experiences helped me understand the needs of brands and the logic of profitability in online commerce. Then, in a different economic context than the Italian one, the "buy now, pay later" (BNPL) service began to make its way, immediately showing surprising results. Then came the idea to bring it to Italy, starting in the Country's fashion and innovation capital, Milan.

Bright ideas need to be backed by capital, however. How did you fund the project?

Simone Mancini | There were two major funding rounds, a Series A and a Series B round. Italian investors were more hesitant and less venturesome, despite the positive metrics the business could already boast.

Conversely, foreign investors were extremely proactive because opening up equity to investors for them goes hand in hand with sharing industry knowledge and the network. That enabled us to boost our visibility in the market and very concretely accelerate the development path.

To what extent does the climate of financial uncertainty affect service adoption?

Riccardo Trubiani | We have moved from a time characterized by low interest rates and inflation but high liquidity availability to heightened geopolitical uncertainty, rising interest rates, investors focusing more on profitability than growth at any cost, and a possible recession looming ahead.

It is still too early to say for sure whether there is a correlation between the current economic situation and the increased adoption of Scalapay, which, according to our global surveys, is the leading pure BNPL service used in Italy and which we expect to grow as a percentage of total e-commerce in the Country by 15% YoY (Scalapay, Global Data). However, we are sure that the expansion we are experiencing is thanks to the simplification of the buying experience.



Foreign investors were extremely proactive because opening up equity to investors for them goes hand in hand with sharing industry knowledge and the network.



For which goods are people in Italy more inclined to pay in installments?

Riccardo Trubiani | Fashion, beauty, and cosmetics are well-established areas recently joined by luxury and travel. The addition of the latter categories has proven that you can increase the amount you spend through flexible payments, as our experience in the tourism sector shows.

Moreover, offering installment payments does not necessarily mean devaluing the brand, as our experience with luxury goods confirms. In the future, we will explore new areas, such as niche Made in Italy brands and football merchandising, always taking the experimental approach we started with.

Looking back on your journey, what three moments have enabled the company to get to where it is today?

Simone Mancini | The three milestones certainly include the first contract signed with a major brand shortly after starting the company. Then, there's the closing of the first debt funding, and finally, the last Series B round that allowed us to join the "Champions League" of startups and become a unicorn.

This milestone, however, is not an endpoint for us but just a beginning: now that we are a scale-up, we need to demonstrate maturity, involving sustainable and coordinated expansion across four continents.

But what about the most significant obstacles that you have overcome?

Simone Mancini | I remember when I moved to Italy. Shortly after I landed, I got a call from the first investor: he wanted to back out. However, that delicate moment was weathered by focusing on the opportunity and bringing the same investor back on board.

Another challenge we overcame was the economic crisis that came with the pandemic, which began right after the company's launch. One challenge still open today is the struggle for talent. It is not easy to find the right people at the right time, and now more than ever, it is crucial to work together because when there is closeness, the pace of innovation changes.



In your opinion, what barriers do you need to cross in the coming year to continue expanding?

Riccardo Trubiani | Focusing on what really matters will be the first hurdle to knock down, even if it means rejecting some collaborations or activities. That is because our two primary resources are time and the people who share a passion for our project. I believe that such focus can help bring the results we have set as a target to consolidate the company's development. In addition, cooperation with the ecosystem is essential to create synergies that help consumers and customers at the same time.

What will be the key to achieving these goals?

Riccardo Trubiani | Our most distinguishing feature is having a bias toward action. One episode that particularly resonated with me was when, during a moment of sharing with the Scalapay team, I saw Simone explaining how important it is to keep thinking like a startup, even though we are not one anymore. So, every day we scout opportunities, test, evaluate, and scale, if necessary: that is our mantra as we continue to innovate.

It is not easy to find the right people at the right time, and now more than ever, it is crucial to work together because when there is closeness, the pace of innovation changes.





Plan, Simplify, Connect: The Stages of Holistic Design



Giorgio and Andrea Brigo

Founders
Italsoft Group

“Work following your passion” is one of the lessons learned from our family’s upbringing and applied to the business. But the new generation of entrepreneurs found themselves at a crossroads: on the one hand, there was a 37-year tradition in the construction sector, and on the other, the new technologies they have always been passionate about. However, the two paths were bound to converge when we founded a software house specializing in digital design. That is where a path of innovation began, one straddling the real estate and retail sectors and shaped by entrepreneurial insight. “One of those insights was to look at the best construction companies we were in contact with as a resource. So our customers also became suppliers. By combining the unique characteristics of each company, we built a network that would revolutionize the renovation experience.



Construction and software, what is the origin of the combination of two seemingly distant worlds?

The tradition in construction is the true legacy of our family, on top of which we developed a willingness - I would almost call it an "obsession" - to apply innovation and new technologies to our processes. This combination resulted in us transferring expertise from builders to construction software manufacturers, drawing on our early experiences with Apple and IBM. We have been able to capitalize on this idea by turning customers into collaborators and building a network of experts present throughout the Country to support our engineering services. But the contaminations between different worlds do not end there.



Why focus on renovations?

Traditionally, Italians prefer to buy a home rather than rent it, as is the case in other countries. Over time, owners have invested little to maintain the quality of the property, especially in terms of energy efficiency. Decades of government incentives would be necessary to bring the Italian real estate market to a decent energy standard. The investment would be significant but affordable, even for the Government, if the incentives were well-modulated.

What is the biggest daily challenge in this area?

The construction market is fragmented into tens of thousands of small building companies and small engineering firms. However, the abundant supply is matched by a less well-developed business infrastructure, so it becomes crucial that these firms grow soundly. And this is where we come in, with engineering, tax, and financial services and, above all, a strong networking capability that allows us to bridge the skills gap of the various players.

If you were to summarize this mission in a few words, what would you say it is?

Simplify. In our business, it means becoming the go-to person who solves all your problems - from researching opportunities to planning, from site inspections to the taxation aspects to the monetization of tax credits. For example, the recently introduced "Superbonus" tax facility and other minor tax breaks for building renovation prompted us to establish a credit brokerage company for comprehensive customer support, through which we have processed thousands of tax credit approval and monetization requests. Providing solutions with a few mouse clicks is what really benefits the consumer, and technology makes it all possible.

Decades of government incentives would be necessary to bring the Italian real estate market to a decent energy standard.

The investment would be significant but affordable.



Looking ahead, what will be the next technological innovation for the industry?

First and foremost, the transposition of building work into digital models, also using augmented reality, which already has direct applications in virtual tours. Both solutions have the potential to transform imagination into a firsthand experience, thus bridging the gap between the drawings and the building that will be realized and enabling an enjoyable user experience, even in real-estate stores. We are looking keenly at the real estate metaverse, where land and buildings are already sold in digital format. Between augmented reality and the metaverse, we expect the former to lead the way in this sector - but not only. We are also investing in deploying this technology in other areas, such as to enhance Italy's artistic heritage.

Turning instead to the present, does the current scenario offer opportunities?

The economic situation and the evolution of consumer values are urging energy efficiency, which renovations cannot ignore nowadays. On the one hand, rising utility bills have highlighted what it means not to invest in this aspect; on the other hand, we interface with people - in-house and externally - who are increasingly informed about and sensitive to sustainability. There are several business opportunities in the markets where these issues are more strongly perceived. Therefore, we are setting ambitious goals for the company's development: we expect growth in the range of 20-30% for the next five years, also through the inclusion of new complementary businesses.

What are the next steps in this path of growth?

We understand that we are at a turning point and are working to be ready for upcoming opportunities. Specifically, in 2023 we will begin a journey that will open up our equity to investors, which could give us additional visibility in the market. We will deal with this new challenge knowing it will drive our growth over the next 30 years. To ensure a long-term growth horizon, we will continue to devote energy to developing the values of sharing and innovation that already permeate our company. Therefore, we cannot ignore investing in the people who passionately share our project: this is a fundamental asset that enables us to make a difference in the market. For this reason, we have moved into new premises, a farmhouse with more than 3,000 square meters of office space and 20,000 square meters of land, where we plan to create sports and accommodation facilities to promote the well-being of our people. It will be where we can make our dreams thrive and come true.



Technological solutions have the potential to transform imagination into a firsthand experience, thus bridging the gap between the drawings and the building that will be realized and enabling an enjoyable user experience, even in real-estate stores.



Current Performance and Outlook for Italy's Leaders In Entrepreneurial Excellence



Ernesto Lanzillo

Deloitte Central Mediterranean
Private Leader

Rising energy prices can be addressed by initiating a transformation process – starting from the corporate culture in SMEs - to become more efficient and sustainable through strategies aligned with the 2030 Agenda for Sustainable Development. Only in this way can we become more attractive to all stakeholders - from the owners to investors and lenders, from consumers to employees - and seize the investment opportunities of local and European funds needed to accelerate the process.

Despite the complex scenario in which they operate, the outlook for the 2022 year-end close is positive for the leaders in entrepreneurial excellence among the winners of the latest Best Managed Companies (BMC) Award. The data collected on the winning companies suggest a rather optimistic sentiment regarding the current year's performance, although somewhat weaker than that reflected by the companies selected in the previous year. Today, 64% expect an increase in revenues, 31% an increase in operating margin, and 27% an improvement in net financial position, compared to 83%, 58%, and 49%, respectively, in 2021.

The reduction in the percentage of respondents who perceive a positive outlook for their business can be partly explained by the changing environment, where some critical issues that emerged with the pandemic and became even more evident with the ongoing geopolitical crisis have been confirmed: procurement problems, rising raw material, and energy prices. Even the BMCs support this view. According to them, the year-end results are primarily affected by the rise in the cost of raw materials and semi-finished

products, which was particularly marked at the beginning of the conflict due to fears of the unavailability of some products, and which has remained higher than before the pandemic, despite the recent drop in costs in the food sector in particular. Second among the items of concern are high prices for electricity and gas and, in third place, supply chain and transportation bottlenecks.

These factors, in particular, affect production costs for Consumer Products companies. However, passing on these cost increases to the companies further down the supply chain and end customers is made more complicated by inflation, which erodes consumers' purchasing power. Therefore, the current economic landscape requires several actions to adjust the strategy. On the energy consumption front, for example, small and medium-sized companies must plan initiatives to create a culture that drives sustainable transformation and rewards ESG-compliant behaviors valued by their stakeholders, primarily lending institutions, investors, and consumers. That is the first step towards procurement diversification, resource optimization, environmental

impact reduction, governance review, and implementation of a strategy aligned with the SDGs of the 2030 Agenda. That is the only way to prepare for the investment opportunities of local and European funds needed to accelerate the process. The benefits of such activities thus are not limited to company efficiency but help redefine the company's positioning, making it more attractive to all stakeholders: from the owners to investors and lenders, from consumers to employees.

That is the background to the main challenges for the coming year identified by the BMCs, which include well-known themes alongside new priorities. While the need to reinforce the managerial structure is confirmed (+2% YoY), climbing several places are product innovation (+16% YoY) - which is shared by 8 out of 10 companies and therefore is at the top of the list - and the search for the right talents (+15% YoY). Such evidence reflects the perception of increased competition, which only the strongest, most forward-looking companies can beat by keeping up with market demands through a constant renewal of their offerings.

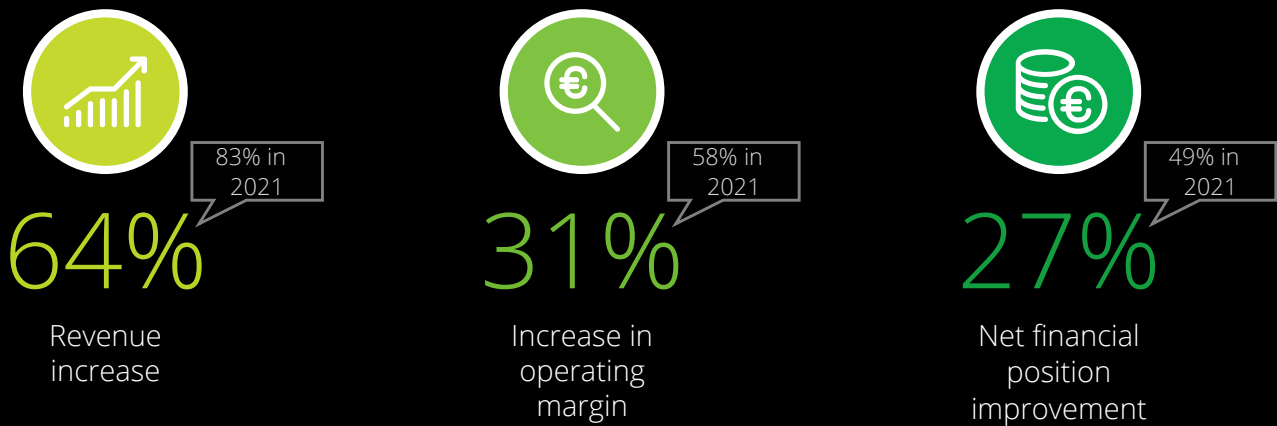


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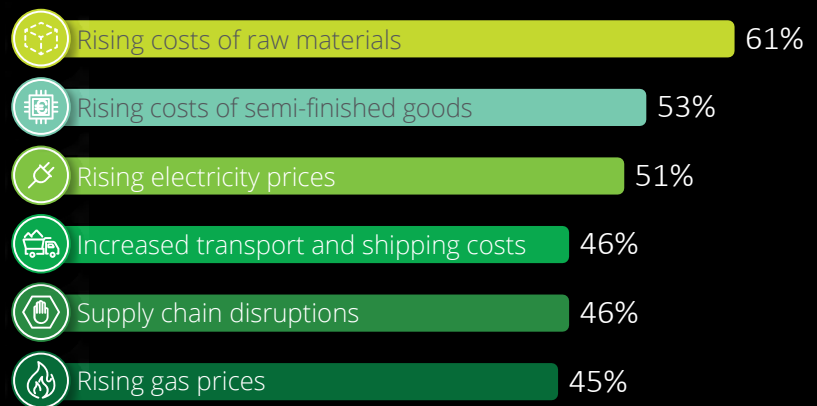
Best Managed Companies: Outlook for the End of 2022 and Early 2023



BMCs are optimistic about the outlook for the 2022 year-end close, though somewhat less so than the previous year



The main impact factors are raw material costs and rising energy prices



BMCs identify three central challenges to continued growth



Entries are now open for the 6th edition of the **Best Managed Companies Award!**

An award assigned, year after year,
in recognition of **entrepreneurial
excellence** in Made in Italy quality to
support companies in their journey
toward growth and **development**.

Visit the **Best Managed
Companies Award** page
to learn more about the
initiative and nominate
your company for the
2023 edition!



On a Course For Long-Term Growth

 **ITALIA** BEST
MANAGED
COMPANIES



Massimo Perotti

Founder and CEO
Sanlorenzo

Throughout the uncertainties of the post-pandemic economic crisis, some sectors have reached unprecedented heights and confirmed a positive trend. That is the case of yachting, which after a record 2021, looks set to consolidate growth at the end of this year as well. Among the successful companies of the Made in Italy sector, Sanlorenzo focuses on exclusivity in its business model and its relationship with customers, establishing itself as a Luxury Maison in yachting. What is the secret of this success? "Due to the inherent nature of our business, we must always take a long-term view." The drivers of development were indeed identified almost a decade ago and have guided the company's positioning ever since. However, pursuing business resilience and sustainability requires considering some unavoidable elements that reflect the changing operating environment.



How did the Italian boating market perform in 2022?

For the Italian boating industry, 2021 was the year with the best increase in turnover ever, showing excellent prospects also for 2022 and thus consolidating structural growth. The data presented at the recent Genoa Boat Show speak for themselves: global industry revenues rose from 4.6 billion in 2020 to an impressive 6.1 billion in 2021, representing an increase of 31.1% over the previous year.

This extraordinary figure brings the industry's revenues to almost the same level as in the record 2007-2008 two-year period before the global financial crisis originated from the US subprime shock. As for Sanlorenzo, in 2021, we achieved net revenues of 586 million (+28% over 2020), and in the first nine months of 2022, we confirmed this positive trend with revenues standing at 544.1 million, with a forecast to reach 740 million by year-end.

What factors enabled these results?

At the market level, among the determining factors that fueled the growth is the surge in exports, which hit an all-time high of 3.37 billion euros, partly due to sales of yachts and superyachts, a segment where Italy is now a global leader. On the other hand, the origins of our performance go back a long way. Unlike our direct competitors, which produce 300-400, we build "only" 70 boats a year, 90% of which are over 24-meters in length and all of which are rigorously custom-built and meant for an exclusive, select, loyal clientele of about 1,000 customers belonging to the wealthiest families worldwide.

This business model has enabled us to virtually double our Ebitda margin over the last ten years – by the end of 2021, we rose from 8% to more than 16%, which is also the highest figure in the industry – but at the same time, it has allowed us to remain very resilient even in times of crisis. Sanlorenzo's sales trend figures over the last 15 years prove this: between 2006 and 2021, we grew by 514%.

In your view, what are currently the most interesting markets for Made in Italy boats?

Generally speaking, the United States is the number one market for Italian shipyards, with a turnover, according to data from Confindustria Nautica, of 485 million euros, representing 16.4% of the total. The Americas is also a strategic market for Sanlorenzo; it currently accounts for about 25% of our sales, with a 30% growth over 2021. However, the most important market for us remains Europe, where we generate 38.2% of revenues. Other interesting markets in the future include the Asia-Pacific region.

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How are you addressing the general issue of consumption curbing, particularly concerning energy?

We have just launched the “Sanlorenzo Vision for 2030,” which summarizes the strategic guidelines for development over the next decade and includes a chapter entirely focused on sustainability and technology. The introduction of innovations and technologies to reduce the environmental impact of yachts is, therefore, at the heart of our R&D and the strategy that has led us to sign agreements with the world’s major players in power generation and energy management.

Can you explain how that vision will guide design and production?

Our joint projects with Siemens Energy, Rolls Royce, and Volvo Penta are focused on using hydrogen fuel cells for marine applications, which is the real answer to the demand for sustainability in the yachting industry. This endeavor will result firstly in the launch in 2024 of the world’s first 50-meter superyacht equipped with a methanol fuel cell system for generating electricity on board; and then in the completion by 2026 of a genuinely carbon-neutral superyacht with propulsion systems using hydrogen made from methanol, combined with fuel cells. These are just two concrete examples.

However, what areas are you focusing on regarding sustainability in a broader sense?

Sustainability clearly plays a central role in our strategy. In addition to what I said earlier, I would like to mention the efforts we are making to mitigate the environmental impacts of our shipyards - one of which is located in a nature park - and then our commitment to social sustainability through taking care of our employees and through the value created and circulated throughout the local communities. Suffice it to say that our shipyards in Liguria and Tuscany count more than 700 people employed directly, plus almost another 2,000 contractors (artisans and companies).

What three factors will be crucial for continued growth in the coming year?

Because of the characteristics inherent in our business, we must always take a long-term view. The gradual and uninterrupted growth we have enjoyed, particularly in recent years, has its roots in a clear strategy established almost ten years ago, which identified three priority development drivers: design, art, and innovation within tradition. These have enabled Sanlorenzo to achieve its absolute position as a Luxury Maison in yachting. More recently, building on this leadership, we have expanded our strategy with additional guidelines on

which we are focusing our action in this decade. Sustainability and technology, services, and supply chain are now essential themes to ensure in the long term the continuity of the virtuous trends experienced so far and the competitive advantage derived from the ability to be ahead of the times.

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Global Powers of Luxury Goods



Top 100 global luxury companies generated higher returns in FY2021 vs. 2019



21.5%

Compound growth rate over the previous year



12.2%

Compound net profit margin in 2021



\$305 Bn

The aggregate sales of luxury products in 2021



\$3 Bn

The average size of the Top 100 companies

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Discover the trends and ranking of the Top 100 global luxury companies



Conclusions

In this issue of MIND, we have covered the year that is drawing to a close, highlighting the challenges encountered so far and those to be faced in 2023. While the search for balance between rising costs and profitability is confirmed to be high on the agendas of CP companies, some commonalities can also be detected in the strategies of industry-leading companies.

The first is the systemic approach: the company is part of a social context and contributes to its value creation. Fostering and incentivizing collaboration in the supply chain and the relevant local area makes it possible to proactively address the current situation and focus on long-term development goals.

On the other hand, the second common feature is reliance on innovation, a decisive factor in retaining market share. Whether to support product overhaul or introduce new technologies to enhance processes

and user experience, organizations continue to invest in R&D, create partnerships with startups with disruptive solutions, or acquire new product lines. The main perceived risk is not keeping up with the times and being unable to anticipate change. The challenge here must be addressed at the digital and supply chain levels.

Finally, businesses in the industry need to be aware of their target audience. While the pandemic already created discontinuities in consumer habits, the current preoccupation with savings has resulted in the market polarizing toward affordability, on the one hand, and experience exclusivity, on the other. Many predefined patterns have been revolutionized, and it is increasingly difficult to identify homogeneous behaviors according to age or social groups, geographic origin, and other demographic segmentation criteria.

Therefore, identifying the levers driving spending today is crucial to supporting or directing business development. The critical question is: Do you know (or recognize) your customers?

Based on these perspectives, MIND's journey along the pathways of change in the Consumer Products world will continue with new insights, data, and stories from companies in the industry.

Until next time!

Deloitte's Consumer Products Team

Eugenio Puddu

DCM Sector Leader
DCM Audit&Assurance
representative
epuddu@deloitte.it

Fabio Bonanni

DCM Risk Advisory
representative
fbonanni@deloitte.it

Francesco Munari

DCM Legal
representative
fmunari@deloitte.it

Maria Trakadi

DCM Sector Greece
delegate
mtrakadi@deloitte.gr

Umberto Andreozzi

DCM Deputy Sector
Leader
uandreozzi@deloitte.it

Pierpaolo Mamone

DCM Consulting
representative
pmamone@deloitte.it

Roberto Rocchi

DCM DBS
representative
rroccoli@sts.deloitte.it

Raphael Aloisio

DCM Sector Malta
delegate
raloisio@deloitte.com.mt

Franco Chiavazza

DCM Food & Beverage
Leader
fchiavazza@deloitte.it

Lorenzo Parrini

DCM Financial Advisory
representative
lparrini@deloitte.it

Mario De Blasi

DCM Tax
representative
mdeblasi@sts.deloitte.it

Linda Portaluppi

Clients & Industries
representative
mportaluppi@deloitte.it

MInD Editorial Board

Editor-in-chief: Odoardo Scaletti

Project coordinator: Eugenio Puddu

Editorial office: Ilaria Donà, Alberto Andria

Marketing: Daniela Barone, Carlotta Alessandrini, Pietro Gentile

Graphic designer: Alessandra Marone

External experts: Antonio Cellie, Carmine Garzia







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