

GP Profile: Ambienta



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Nino Tronchetti Provera, Ambienta

Since launching in 2007, Ambienta has opened two new offices, raised three funds and completed 30 investments. Managing partner Nino Tronchetti Provera speaks to Alessia Argentieri about the firm's approach, where sustainability is a catalyst for performance

The latest flagship fund raised by Ambienta held a final close in May 2018, hitting its €635m hard-cap after exceeding its original €500m target. Ambienta III, which is almost double the size of its predecessor, attracted strong interest from investors and closed after less than three months.

The fund's LP base is composed of a diversified mix of Italian investors (around 20%), European LPs – especially from the Nordic and Benelux regions – US investors (15-20%) and a small number of Australian LPs. Approximately 98% are institutional investors, primarily pension funds, insurance companies, foundations and

endowments.

Ambienta invests in companies operating in traditional industries, from chemicals and industrial components to food and packaging, with a propensity for resource efficiency and pollution reduction.

The success enjoyed by the GP in its fundraising contradicts some traditional attitudes towards investments in sustainable assets, which are often considered to be less profitable. However, Ambienta appears to have found a formula for developing portfolios of companies that can be classified as sustainable, without compromising on return expectations.

"Most people link the concept of sustainability to energy and climate change, which include a few sub-sectors such as renewables and electric cars and are very often fuelled by government subsidies," says Ambienta managing partner Nino Tronchetti Provera. "We do not invest in businesses that rely on subsidies. Furthermore, instead of focusing on a handful of inherently green sectors, we look at traditional companies with a penchant for sustainability, operating in a wide variety of industries."

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Defining moment

Despite offering a range of opportunities, this growing sustainable investing space still suffers from a lack of universally accepted and legally binding definitions, namely over how to distinguish between sustainable and non-sustainable investments and how to classify the range of sustainable businesses. To measure the actual sustainability of a potential target company, Ambienta's research team developed its own methodology – environmental analysis that applies a number of standardised metrics to gauge the full impact of companies operating across numerous sectors and various stages of the supply chain.

"The selection process is very important," says Tronchetti Provera. "We target businesses that are either able to reduce pollution or offer services and technologies addressing a more efficient use of natural resources. This is a broad concept that applies to all industries and allows us to be sector-agnostic, while maintaining our primary focus on sustainability."

Ambienta invests equity tickets of €30-100m with underwriting capacity of up to €140m. The target companies are mid-market businesses generating EBITDA of more than €10m from revenues of €30-100m. In terms of entry multiples, Ambienta looks at companies valued in the 5-13x EBITDA multiple bracket, depending on the industry.

"The companies we buy generate, on average, 7% organic growth, 45% gross margin, 21% EBITDA and 50% cash conversion," says Tronchetti Provera. "Furthermore, they are usually family-owned businesses, which we are able to unlock and scale up internationally, thus allowing accelerated growth and improved profitability."

Following its acquisitions, Ambienta typically appoints a new management team and CEO to direct the company's business plan and implement an expansion strategy.

"Once a new layer of sophistication, structure and organisation has been installed and digested by the company, we accelerate its expansion into new markets and geographies via M&A, as well as organic growth," says Tronchetti Provera. "As a result of this investment strategy, in 2018 our portfolio of companies grew by 13% in revenues and 16% in EBITDA. Furthermore, we were able to deliver net IRR well above 20% to our investors."

Releasing the brakes

A typical example of the firm's investment strategy is Safim, a Modena-based business that manufactures valves and brake pumps for heavy vehicles, with the aim of maximising safety, energy efficiency and environmental awareness in the agriculture, construction and material handling sectors. The GP bought a controlling stake in the company from the founding Mamei family in July 2017, deploying capital from its second fund. Safim has recently acquired a 70% stake in Omni Hydraulik Ritter, a German distributor of components for hydraulic circuits.

"Following Safim's acquisition, we appointed a new management team and CEO, who, working together with the founding family, improved production, doubled the company's turnover from €27m to €54m and increased its EBITDA," says Tronchetti Provera. "Following this result, we decided to proceed with a buy-and-build operation to strengthen and expand the company's market position."

Ambienta is planning to further expand its team focusing on UK and subsequently Nordic deals, following the recent appointment of seven team members across its Italian and German offices.