



## 21 PARTNERS

A European investment firm that has integrated societal needs in its value creation strategy

**“Social consciousness has always been part of 21 Partners’ DNA and progressively has become a component of the value creation 21 Partners drives in portfolio companies”**

Founded in 1992 by Alessandro Benetton, 21 Partners is a European investment firm with a local presence in Italy, France, Switzerland and Poland. Through country-focused funds invested in by international investors, 21 Partners invests in mid-market companies and makes them grow. Its goal is to make its portfolio companies prosper by enhancing their competitiveness while advancing the economic and social conditions in the communities in which they operate.

In 2016, 21 Partners partnered with the Shared Value Initiative. On this partnership, Alessandro Benetton commented: *“We decided to partner with Michael Porter’s Shared Value Initiative because it is in line with our value creation strategy. In many cases, looking at an investment with a shared value perspective allows us to see new ways to change the trajectory of companies and boost growth”.*

Over the years 21 Partners has backed dozens of companies and helped them to grow in a solid and healthy way. Investee companies are strongly ingrained in the local economy, but each one is unique. Some require extensive support to expand locally or globally. Some simply need access to the right people and tools in order to flourish.

21 Partners invests  
in companies and  
makes them grow

In this paper, 21 Partners gives a broad look at how one of its latest investment, Farnese Vini, a company acquired in 2013 active in the production of central and southern Italian wine, under the stewardship of 21 Partners has created shared value both for investors and the cluster of smallholder grape suppliers.

# THE INVESTMENT CASE STUDY – FARNESE VINI



## ► THE OPPORTUNITY

Italy plays a dominant role in the global wine market, which is heavily dominated by four countries: Italy, France, Spain and United States. Italian wine benefits from a strong legacy in the consumer's mind and about 30% of total wine production is sold abroad, mainly in Germany, the UK and the US. However, only a limited number of winemakers, the oldest and largest that are typically located in Northern Italy, have the strength and capability to produce premium products addressing the evolving taste of international markets and therefore targeting the global arena. All other Italian winemakers, especially those from the South of Italy, adhere to a low margin traditional production and distribution model focused on the local market with very limited distribution abroad and generally limited to bulk wines.

Southern Italy has the perfect combination of soil, climate, sunlight, topography and water for wine grapes. These key geographic characteristics make this area a clear undeveloped territory for wine production with the strong potential to satisfy the untapped global demand for Italian wine. In fact, in 2014, the total production of Southern Italy accounted for 1/3 of the national total but was responsible for only 8% of Italian wine exports. Also, most of Southern Italy grape production is in the hands of smallholder farmers, each cultivating less than 2 hectares dedicated primarily to the production of bulk wine.

Farnese found its market space not in the world of well known Northern Italy wines such as Chianti and Barolo, but rather in new Southern Italian wine territories outside of the dominance of the most established wine producers.

- Farnese saw **a clear social need** to make Southern Italian grape producers more efficient, productive and appealing for the next generation of grape growers.
- In parallel, Farnese saw **the business opportunity** to expand its wine production and product range while maintaining a business model of very limited land ownership and developing a long term procurement program with smallholder farmers.
- To expand the opportunity and meet the social need, Farnese decided to provide smallholder farmers the necessary support and knowhow in irrigation, fertilizers, and farming practices to make their farming business profitable and sustainable in the long term.

21 Partners saw in Farnese the potential to become a market leader on account of its business model based on limited land ownership

# THE INVESTMENT CASE STUDY – FARNESE VINI



## ► THE STRATEGY

21 Partners saw enormous potential in Farnese on account of its innovative business model based on limited land ownership and full control over the wine production process using grapes procured from Southern Italian smallholder farmers.

21 Partners, in its role as majority shareholder of Farnese, ensured that the company had a sound structural foundation on which to build, and led the value creation growth process. In its role, 21 Partners ensured that clear growth objectives were set in terms of where the company wanted to go, and target actions were planned in order to reach these objectives. In addition 21 Partners ensured that all angles for growth acceleration were explored and that the company was efficient enough to reach its growth objectives working towards excellence in the most relevant internal areas.

The initiative relied on Farnese leveraging its existing assets with a shared value approach. On its hands the company had two key assets to leverage:

- A deep knowledge of Southern Italian smallholder farmers and the set of environmental factors that affect the quality and the nature of grapes.
- A team of agronomists and enologists able to educate local farmers to produce top quality grapes and to supervise all steps of the production process (planting, pruning, irrigation, fertilization and harvesting). Vineyard layout and management have

a large influence on the quality and quantity produced as well as on production costs.

To reach its ambitious goals, under the stewardship of 21 Partners, Farnese relied on the following dimensions:

- **Reconceiving products and markets** by establishing strong sales & marketing capabilities and customer intimacy. Farnese progressively created a team of representatives who travel the world to meet commercial agents and distributors who have local market insights in order to understand new consumer wine preferences and trends.
- **Defining procurement** by accessing a wide range of grapes and enabling local cluster development by allowing Southern Italian smallholder farmers to flourish. In the traditional business model, Italian winemakers generally have a product portfolio limited to the type of wine produced in their local vineyards. This characteristic creates a limitation both in terms of quality (a bad harvest of the vineyard will hamper the business) and quantity as it makes it difficult to scale the traditional business model. Under the stewardship of 21 Partners, Farnese implemented a traceability program to identify all grape suppliers in its supply chain, their specific needs and the solution to make the difference in the evolution of their vineyard.
- **Innovating** the production process and investing to revamp the facilities and to introduce new modern and industrial bottling plants.
- **Enlarging the management team** and defining clear roles and responsibilities to drive company growth and efficiency.

A specific program was created to educate grape producers to run their vineyard in a profitable way.

# THE INVESTMENT CASE STUDY – FARNESE VINI

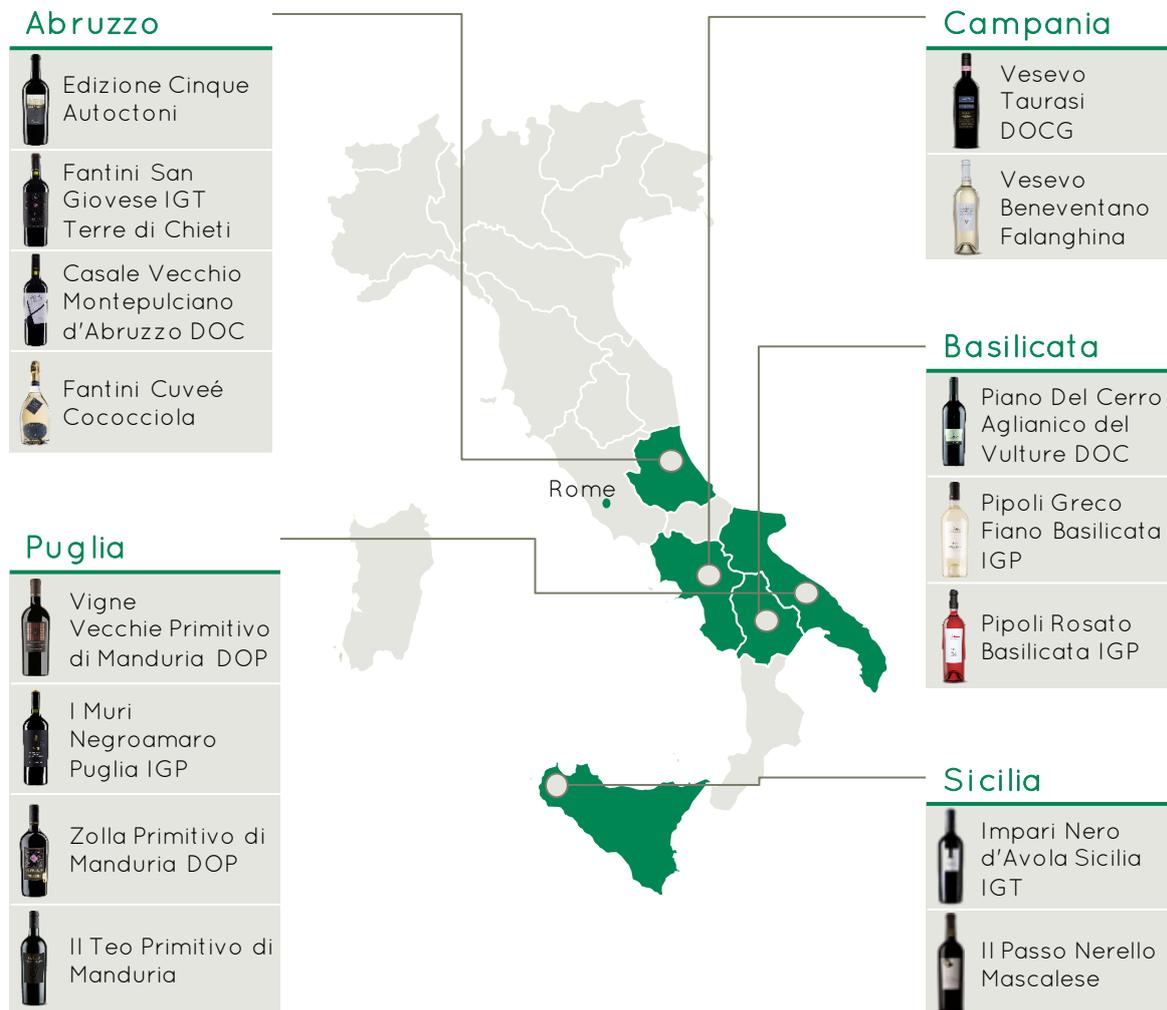


Fig.1 - Farnese wines and production regions

## ► RESULTS

Farnese today is a leading Italian wine group active in the production, sale and marketing of central and southern Italian wines, which exports to over 80 countries with about 80 employees.

Despite operating with very limited land ownership, Farnese has been able to secure a reliable supply of quality grapes from small farmers located in a vast area in the South of Italy. This innovative business model gave Farnese access to a wide variety of grapes in terms of flavor and quantity and allowed the company to develop a wide and scalable portfolio of nearly 100 labels which vary

according to the grape type, the vintage and the land that is essential to be successful internationally.

In September 2016, 21 Partners sold Farnese to NB Renaissance Partners, an international Private Equity house, generating an annual internal rate of return above 20% for its investors. This return for 21 Partners investors represents the increase in the value of the company during 21 Partners holding period. This growth in value was almost entirely generated by the solid growth in revenues and margins driven by actions implemented, which allowed the transition from a company run by the

two founding entrepreneurs to a corporate business with a solid management team, thereby enabling the company to reach its full growth potential and becoming the indisputable leader in Southern Italian wines.

From 2012 to 2015, during 21 Partners holding period, Farnese:

- expanded its winemaking in the Southern Italian regions of Abruzzo, Puglia, Sicily, Basilicata and Campania
- progressively secured a long-term cluster of reliable grapes and raw wine suppliers while addressing gaps in the local market
- became the leader of Southern Italy in wine production, and its premium wines achieved a quality and a consistency on par with other renowned Northern Italian and French wines, according to wine experts
- increased sales at a CAGR of 16%, exceeding €M 50 in 2015. In the same period the entire Italian wine market has grown at a CAGR of 4%
- maintained a high rate of exports and in 2015, 96% of sales were generated abroad, much higher than the average of other Italian producers
- profit (EBITDA) grew at a CAGR of 15%, reaching €M 9.4 in 2015, which represents a margin on sales of 19%, while the Italian wine industry averaged around 5% invested more than €M 10 in continuous improvements and innovation, expanding bottling plants and revamping production plants while maintaining substantially unchanged its net debt.

The procurement program created an extra profit of about Euro 2 million per year, which remains entirely in the hands of suppliers to further expand their business.

## ► SOCIAL VALUE CREATED FOR THE LOCAL TERRITORY AND LESSON LEARNED

The main difficulty was guiding the company in implementing an innovative and mould-shattering business model in a very traditional and consolidated sector. To unlock success the company needed to create a cluster of quality suppliers ready to embrace a change to their traditional production method.

To realize this ambitious goal and create the necessary trust, Farnese worked very closely with local farmers. Under the strategic vision of 21 Partners, Farnese provided smallholder farmers the necessary knowhow and farming practices to make the farmer's business profitable and sustainable in the long term.

Over the 2012-2015 period, grape growers working for Farnese on average:

- expanded the hectares under management from 1.8 to 2.9 hectares
- increased their production per hectare from 5,000 to about 7,000 kilograms
- reached a high control on the quality of their grape production
- more than doubled their revenues per kilogram sold. In fact, to secure the long-term continuity of its business model, Farnese pays its small suppliers a

price per kilogram that is significantly higher than the market price to ensure the sustainability of these very small companies that are essential to guaranteeing the quality of Farnese wines.

The combined effects of the above factors have increased revenues of local grape growers while maintaining substantially identical operating costs.

Recently, for the first time, Farnese measured the amount of revenues the local cluster of grape growers and raw wine suppliers (about 100 very small companies) have generated on aggregate following their activity within Farnese's program and compared it to the revenues the cluster would have made outside the program.

**In 2015, this extra social value created for the local cluster amounts to €2 million and Farnese believes that similar additional value was created in recent past years. This value translates into additional annual profits for local suppliers which they can re-invest to improve their operating efficiency or to expand their land. In the end, all of this translates into more wealth for people working in the cluster or in companies related to the cluster.**

Going forward Farnese wants to capitalize on its success and the best practices it has put in place to continue welcoming more suppliers to its quality program, which guarantees the highest standards in terms of raw materials sourcing and increases the scalability of the business.

Thanks to the success of the procurement program Farnese can offer a much larger product range compared to its competitors.

## ► THE SUPPORT OF AN EXPERIENCED BUSINESS PARTNER TO CREATE SHARED VALUE

Farnese is just one example of the type of growth 21 Partners fosters. 21 Partners looks for portfolio companies that can grow more than the economy and supports them in increasing their competitive advantage and expanding their local know-how in larger markets.

In the last 10 years, 21 Partners has invested about € 900 million in backing 39 mid-market companies. Portfolio companies held in the last 10 years increased their revenues by 38% and their employees by 3,500 units during their tenure with 21 Partners.

21 Partners enhances the capability of portfolio companies to grow through organic growth, build-ups, international expansion or scouting new societal needs. This allows them to attract quality people, to develop new strategic relationships, to expand the scope of their activity and to invest in improvement and innovation. In turn, this creates a healthy ecosystem, a flourishing environment and a positive social impact from which portfolio company employees, supplier employees and their respective families can benefit, expand their wealth and flourish.

## ► WHAT OUR PARTNERS SAY

*Valentino Sciotti, CEO of Farnese, said: "the 21 Partners team got involved in the business and helped us to improve. They supported the company in further structuring its management team and innovating its business practices. At the same time, they fully embraced our business model and helped the company to grow also by responding to the existing societal needs of local small farmers."*

# THE INVESTMENT CASE STUDY – FARNESE VINI

## Endnotes:

- *Source market data: OIV "World Wine Production" press release October 2015, "Il Corriere Vinicolo", "Unione Italiana Vini", "Vino in Cifre 2016"*
- *Farnese financial data: Farnese accounts approved by the Board of Directors*
- *Farnese social value created and data on suppliers: provided by the portfolio company CFO*
- *21 Partners data: "21 Partners Annual Sustainability Report 2016", Funds under management "Quarterly Report to Investors"*



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## 21 PARTNERS

A LEADING EUROPEAN MID-MARKET PRIVATE EQUITY GROUP FOCUSED ON STRATEGIC  
VISION, TOP LINE GROWTH, AND OPERATIONAL EFFICIENCY