



A FRAMEWORK FOR ITALIAN ENTERPRISES ENTERING THE U.S. MARKETPLACE

Comprehensive turnkey management services for Italian enterprises seeking U.S. market entry.

US-Italy Crossroads Managing Directors

Marco Q. Rossi

Extensive expertise in providing International and U.S. legal and tax advice to Italian companies establishing or operating a business in the U.S.

- Graduate Law Degree – *University of Genoa, School of Law* (Genoa, Italy)
- Post graduate International Tax Law degree – *New York University School of Law* (New York, NY)
- Founder and Principal at Marco Q. Rossi & Associati, Italian and U.S. international boutique law firm with offices in Italy and New York (www.lawrossi.com)
- Member of International Fiscal Association, American Bar Association (Tax Section), New York State Bar association (Tax Section), New York City Bar (Business Taxation Committee)
- Specialized in U.S. and Italian international tax planning and legal and tax advice on U.S./Italy cross border transactions.
- Provides legal and tax advice to foreign and Italian clients doing business in or with the U.S. and U.S. and foreign clients doing business in or with Italy and the E.U.

Mark V. Santo

Extensive career in managing North American market entry process for Italian enterprises, from opportunity identification to post merger operational integration

- Post graduate international law degree – *Georgetown University Law Center* (Washington D.C.)
- EU Community Law Program / *Università degli Studi di Firenze*
- U.S. Legal Counsel for *Finmeccanica S.p.A.* (Rome, Italy)
- Group Vice President and General Counsel for *Elsag Bailey Process Automation N.V.* (NYSE: EBY / the Netherlands)
- COO – *Nanodielectrics Corporation* (Cleveland, Ohio)
- Founder – *Glengary Ventures LLC* (Cleveland, Ohio)
- President - *Parvus Corporation* – U.S. Subsidiary of *Eurotech Group of Udine, Italy*
- Board Director – public and private companies
- President and CEO – *Cleveland Council on World Affairs*

Are You a Global Company?

- **Country Borders irrelevant**
- **Commerce like water**
- **Are you sourcing from most efficient supplier?**
- **Are you selling to customer with the greatest need?**
- **If not, failed to seize the opportunity to grow globally**
- **Finding the best suppliers and the customers with greatest need often mean crossing borders**

U.S. - the Most Dynamic Market

- U.S. Market is not a domestic market!
- Gateway to global markets:
 - South America
 - Asia
 - Europe
- Establishes credibility globally
- Stamp of Approval
- Easiest market to conduct business

What Does the U.S. Market Mean to You?

- Looking for a distribution channel?
- Need a sales representative or added value reseller?
- Seeking patent protection in U.S.?
- Looking for a joint venture partner?
- What about making an acquisition?
- What about serving as Italian partner for U.S. Company looking to enter European market?

Case Studies

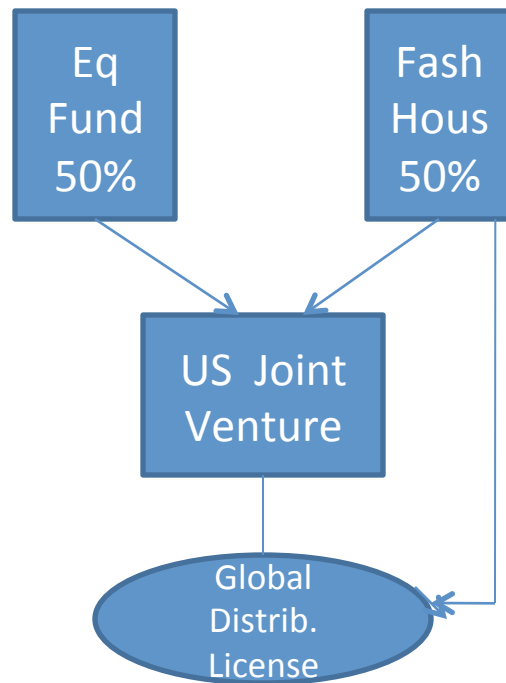
***Examples of
Market Entry
Strategies that
Worked and
Strategies that
Failed***

1. Italian Fashion House
2. Italian ERP Supplier
3. Italian Embedded Systems Group
4. Italian Motor Vehicle Propulsion Supplier
5. Italian Multinational Group
6. Industrial Gearing Solutions

1. Italian Fashion House

- High-end Italian designs historically been successful in the U.S.
- Italian fashion house seeking brand expansion in U.S.
- U.S. private equity fund provides financing
- U.S. Joint Venture formed

Italian Fashion House (cont.)



- U.S. Joint Venture
 - 50-50 shareholding
 - Board control equal with third director
 - Private Equity Fund investment
 - Preferred stock
 - Participating cumulative dividend
 - higher interest rate than loan due to no security
 - **Not convertible**
 - Liquidation preference
 - No mandatory conversion
 - JV must continue to pay dividends and participate in profits

Italian Fashion House (cont.)

Distribution Agreement was not contributed as capital

- Distribution Agreement
 - Italian Fashion House grants worldwide exclusive license to JV to use:
 - Trademarks, trade name and copyrights of Italian Fashion House
 - U.S. licensee must meet benchmark performances
 - Sales levels, etc
 - Protection of trademarks[®] and copyrights
 - Fashion House has right to terminate agreement should benchmarks not be met

Joint Ventures

A Dual Edged Sword By Any Other Name

- Contractual or equity joint venture
- Prefer majority position
- Capital contributed can be \$\$ or property
- Valuation always at issue
- Management authority lines must be clear
- Must have absolute confidence in JV partner
- It's a marriage and divorce is painful
- Choice of law, dispute resolution and dissolution process should be carefully delineated
- International tax planning critical – may result in permanent establishment in foreign country

2. Italian Software Supplier

Aborted Market Entry

- Italian developer of business software platform
 - CRM
 - BI
 - HR
 - ERP
- U.S. market heavily saturated -SAP, Cognos, Oracle, etc
- Barriers to entry are high

Italian Software Supplier

First Entry Attempt

- 2002 -Revenues under 20m€
- Appointed U.S. Sales Representative
- Territory - Western United States
- Insufficient customer support
- Product not complete for U.S. end users
- Forced to abandon U.S. market

Italian Software Supplier

U.S. technology customers expect superior performance

- Italian technology centric products in U.S. must meet the following:
 - Whole product
 - “Referenceable”
 - Need positive references from users
 - Tech buyers will not buy unless product is referencable
 - “Nice to have” vs. “Must have”
 - Solves a real problem for customers or is a totally disruptive product

Italian Software Supplier

Second Entry - Canadian Acquisition

- 8 years later – revenue now 75€
- Re-enters North America - acquisition of Canadian VAR
- Planning IPO on AIM Italia
- Right Strategy?
 - 80% Italian revenue from roll-up of VARs
 - Government largest customer
 - EBIT fluctuation
 - Italian customer dependent
 - Lack of global investors
 - Orphan risk

3. Italian Embedded Systems Group

- Midsize Italian Company (\$200m USD) providing ruggedized embedded computing systems for defense, medical and transportation industries
- Success in selling its board designs throughout Europe
- Wanted to enter U.S. market - U.S. defense market was the most dynamic

Italian Embedded Systems Group

U.S. market entry strategy based upon “Make vs. Buy Analysis”

- Initial market strategy - appointed sales representative in Florida - large defense and aerospace industry
- U.S. customers demand local technical support
- Sales representative relied upon engineers in Italy for solutions
- Market underdeveloped
- Full onshore 24/7 support is critical to sales process

Italian Embedded Systems Group

Build from ground-up or buy into the market?

- **On the Make Side:**
 - Establish U.S. operations from scratch
 - Needed technical force of 3-4 engineers and sales / marketing person
 - Profitability / 3-5 years away
- **On the Buy Side:**
 - Merger or acquisition allows immediate U.S. market entry
 - Larger investment required
 - Settled on acquiring small Salt Lake based embedded engineering firm specializing in U.S. defense industry

Italian Embedded Systems Group

***Acquisition of U.S.
target allows
immediate entry into
the marketplace.***

- Due diligence undertaken:
 - Target product line
 - Competitive position in the marketplace
 - Target technical expertise
 - Sales and Marketing plans
 - Financial condition and projections
 - U.S. management capability
- Proceeded next to negotiation of Letter of Intent
 - Non binding
 - Purchase price
 - Financing terms
 - Special conditions
 - Earn out
 - Closing subject to due diligence

Italian Embedded Systems Group

The most important assets of an enterprise reside in human form.

- Post acquisition integration - “rubber meets the road”
- Merits of the decision to purchase the Target will start to materialize
- Integration proved difficult
- Founder very difficult to manage
- Also, cultural difficulties arose
 - Comparative compensation practices
 - ERP problems

Italian Embedded Systems Group

***The “Buy Decision”
proved the right
one***

- Immediate channel for its products
- “Free Ride” on the Target’s good will
- Within 3 years, comprehensive restructuring and opened new market channels
- Target merged into a larger acquisition of a larger competitor in the U.S –
- U.S. revenues \$16m to \$100m in three years.
- Italian parent IPO on La Borsa
- If the Italian parent would have decided to ***make vs. buy***, would never have grown so quickly

4. Italian Alternative Fuel Systems Group

- Second generation of large, global Italian manufacturer of LPG and CNG propulsion systems for auto, truck and bus markets seeking U.S. market entry
- Serves as OEM to many large auto and truck makers
- U.S. market for alternative fuels growing dramatically
- California environmental laws mandate alternative fuel driven vehicles

Italian Alternative Fuel Systems Group

- Entry strategy – establish light industrial facility in LA near customer
- Serve as a technical and repair facility
- Hired US-Italian national to lead build-up of technical and engineering capabilities in U.S.
 - Comparative compensation
- Marketing and sales layered on top of engineering
- Acquired small advance technology supplier of CNG fuel injection company based on West Coast
 - Appointed family member as U.S.

Manager

5. Italian Multinational Group

**40 operating units
in over 25
countries**

- Process automation systems - electric utilities, pharmaceuticals, chemicals, etc
- Elsig Bailey Group (NYSE: EBY) grew from \$300m to \$2bn within seven year period
- Global Market Entry Strategies:

I. Local Agents and Distributors:

- Deployed where market not fully developed or needed a local partner
- Mid-east and developing countries - manufacturing sector was weak

Italian Multinational Group

II. Technology Licenses:

- Deployed in technology advanced countries but local partner needed to penetrate market
 - South Korea, Japan and India
- Scope of license
 - *No manufacturing rights*
 - Licensee must purchase system components from Licensor
 - Assembly only
 - Sales levels mandated
 - Dispute Resolution critical

III. VAR's / System Integrators:

- Higher level of distribution / requires significant technical skills for system integration

Italian Multinational Group

IV. Acquisitions:

- In large and important markets, acquisitions quickly establish an operating unit and presence in market
- Acquisitions ranged from small deals (usually niche product line) to buying large competitor in foreign market
- Post acquisition integration becomes critical litmus test for success of deal
- Expatriate vs. in-country management
- Through cross border acquisitions, Group grew from \$300m to \$2bn in 7 years

6. Industrial Gearing Group

U.S. Steel Market

- Second generation small Italian manufacturer of industrial gears and gearing solutions
- Expansion plan – Italian facility enlarged to meet global demand
- Supplier to large OEMs
- Opportunities in North and South America
- Identified U.S. Partner
- Pittsburgh based maintenance company operating in steel and heavy industry
 - Extensive experience in worldwide steel mills
 - Advises major steel producers on equipment maintenance and repairs

Industrial Gearing Group

- Mutual due diligence:
 - Italian supplier examined partner's facilities and visited U.S. customers
 - Pittsburgh Partner examined Italian manufacturing facilities to ensure its world class capabilities
- Pittsburgh partner able to propose Italian company gearing solutions to steel companies throughout North and South America
- Planning permanent entry
- Significant opportunities in the Americas

Cross Border Modes of Entry

- Initial Entry Points
 - Sales Agents
 - Distributors
 - Licensees
 - VAR's
- Common threads:
 - Ability to market and sell
 - Expertise in industry and product
 - Exclusivity
 - Excellent customer support

Mergers & Acquisitions

- Industry Profile – first step
 - Supplier and Buyer power
 - Competition
 - Barrier to Entry
 - Substitutes
- Competitive profile of Target:
 - Target's position in market
 - Target's near term strategic plan and projections
 - Management and workforce strengths
 - Technology assets
 - Sales channels
 - Marketing strategies
 - IP Portfolio

Mergers & Acquisitions

- Sales forecast and projections should be viewed with caution – error on the conservative side
- Projected synergies often do not materialize
- Graveyard of many an acquisition

Mergers & Acquisitions

- Valuation is critical -price is determinative of future profitability – particularly if overpaid
 - ***Do not put balance sheet at risk***
- Comparative tax principles will affect valuation:
 - Amortization of Goodwill
 - Taxation of local income and dividend treatment
 - Transfer pricing
 - Tax deferred assets
 - Net operating losses
 - R&D capitalization
 - Consolidation of financial results
- Methodology of accounting rules of target's country – may skew financial statements
 - **US GAAP v. International GAAP**

Post Merger Integration

- Determinative of success or failure
- Three outcomes:
 - Success
 - Delayed results
 - Failure
- Impacts all operations
 - Workforce
 - Systems and Product Platforms
 - Manufacturing
 - Engineering
- Successful integration =successful entry into markets

Mergers & Acquisitions

Human Resources

- The most important assets of an enterprise reside in human form
- Cannot overemphasize intelligent human resource strategy in direct foreign investment
- Must strive to overcome cultural clash
- In-country management vs. expatriate manager
- U.S. compensation schemes vs. Italian
- Reductions in force feasible?
- Share resources and exchange employees

***Serving as Italian
Subsidiary of U.S.
Parent Company***

I. Start-up of Italian Operations

- Agency/distributor
- VAR/licensee
- Joint Venture
- Responsibility to develop Italian market channel
- Sales quotas

III. Italian Company purchased by U.S. Enterprise

- What are reasons for Italian Company selling?
 - Capital Infusion
 - Growth opportunities
 - Cash-out

Serving as Italian Subsidiary

***Reverse due
diligence/ Italian
Company must
understand
everything about its
suitor***

- Reverse Due diligence
- Does Owner of Italian entity only care about sales price?
 - Concern for workforce?
 - Will management be retained?
- What will be the new management structure?
 - US expatriate management or Italian management
- Retention agreements for key management
- Workforce issues
 - Reduction in force /Union rights
- What plants or product lines will be cancelled or merged?

***US-Italy
Crossroads
Turnkey Services***

- Management of entire market entry process on turnkey basis
 - Reduction of risk
 - Speed of entry
 - Cost efficient
- Services
 - Opportunity Identification
 - Establishment of Onshore Operations
 - Access to Growth Capital
 - Due Diligence, Negotiation and Closing of Transactions
 - Management of External Advisors
 - Interim Operational Management / P&L Responsibility
 - Board of Directors



For many industries and markets, the U.S. marketplace is the pinnacle of business opportunity and growth; competitive, fast moving, dynamic yet the most accessible in the world. US- Italy Crossroads stands ready to assist with your plans to successfully enter the U.S. marketplace.