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Italian motorways sector overview

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EXECUTIVE SUMMARY

Innovation and COVID-19 are impacting the Italian motorways sector and companies need to take advantage of opportunities

Italian market overview

The Italian motorways market is worth **~9 B€** and has been growing with a **0.6% CAGR** during 2015-19 thanks to:

3% CAGR in **core activities**
(reaching ~9 B€ in 2019), driven by an increase in both customers and tolls price.

-4% CAGR in **ancillary activities**
(reaching ~3 B€ in 2019), driven by a reduction in customer spending which more than offsets the traffic growth.

Italian competitive landscape

COVID-19 strongly impacted the motorways sectors in 2020, causing an **average traffic reduction of ~25%** compared to previous year's values and the **stop of construction sites** during lockdown. This caused a **drop in stock values**, with listed general contractors, concessionaires and service companies losing 20-45% of their market value in 2020. **Engineering companies** had the possibility to continue operating thanks to remote working solutions and long term contracts, which allowed them to **recover the loss of their stock value by the end of the year**.

Excluding ASPI and Spea, the analysed motorways **players presented similar financial performance within the same group** for 2019. **Concessionaries** have the highest profitability (16-18% net margin, needed to cover the high initial investments of the concession contract), followed by **engineering companies** (6%-13% net margin), **service companies** (~2% net margin) and **general contractors** (-5%-0% net margin).

Disclaimer: this content is general information purposes only, and should not be used as a substitute for consultation with professional advisors.

Source: Aiscat report quarterly releases, ANAS ("Osservatorio del Traffico – Sintesi andamento anno 2020"), BBC, Il Sole 24 Ore, Google Finance, Orbis, Capital IQ, PwC Strategy&





Italian challenges and opportunities

Italy has been experiencing **weak economic activity** for the last 10 years, further complicated by COVID-19 outbreak. Infrastructure investments have been and will probably be used to **support the economic recovery**, thanks to their GDP multipliers.

Technology presents both challenges and opportunities:

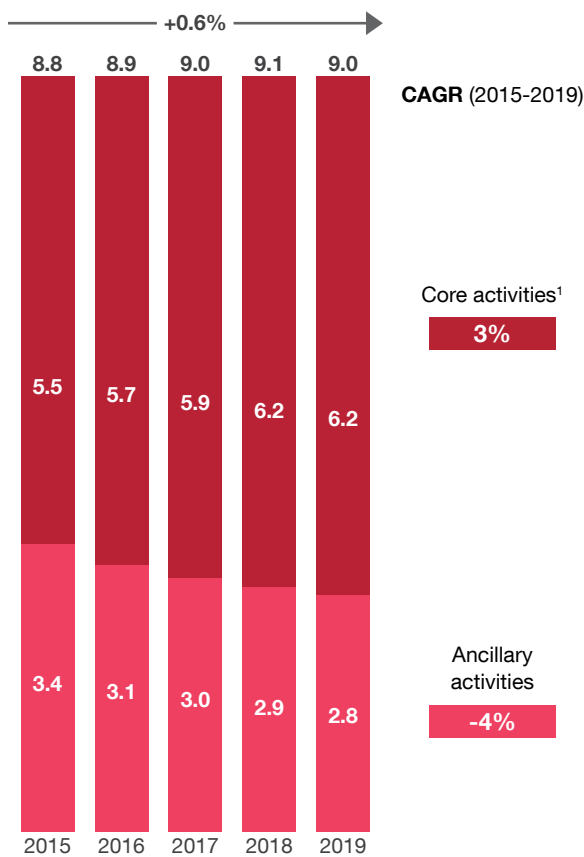
- On one side, **smart working** is emerging as an alternative to the standard way of working, potentially affecting future need for transportation. In addition, some **sharing mobility solutions** (e.g. car-pooling) can reduce motorways usage due to higher car load factor.
- On the other side, **technological innovations** provide motorways players with the opportunity to reduce costs, improve safety, offer value added services and improve sustainability with investments in **infrastructure, communications** and **payment** solutions.

In conclusion, players operating in the motorways sector need to establish a clear strategy to take advantage of the market opportunities and emerging trends in order to generate **new revenue streams** (e.g. charging stations), **reduce costs** (e.g. automatic tolls) as well as improve **quality/safety** (e.g. drones, remote diagnostic, etc.).

Motorways sector generates ~9 B€ in revenues - growth in core activities is offset by a decline in ancillary ones

Motorways main activities

Italian sector revenues by activity (2019, B€)



Motorways operators

1. **Engineering companies**
 - **Design** infrastructures and prepare **feasibility studies**.
 - Optionally **supervise construction operations**, **inspect** the infrastructure and **perform maintenance design**.
2. **General contractors**
 - **Manage** the **construction**, **project planning**, **design**, **execution and inspection** of the motorway infrastructure.
3. **Concessionaires**
 - **Operate the motorways** and **ensure their maintenance**, in addition to the design and construction of the infrastructure.
4. **Catering companies**
 - **Manage restaurants and bars** along the motorways.
5. **Gas stations**
 - **Manage gas stations** along the motorways.

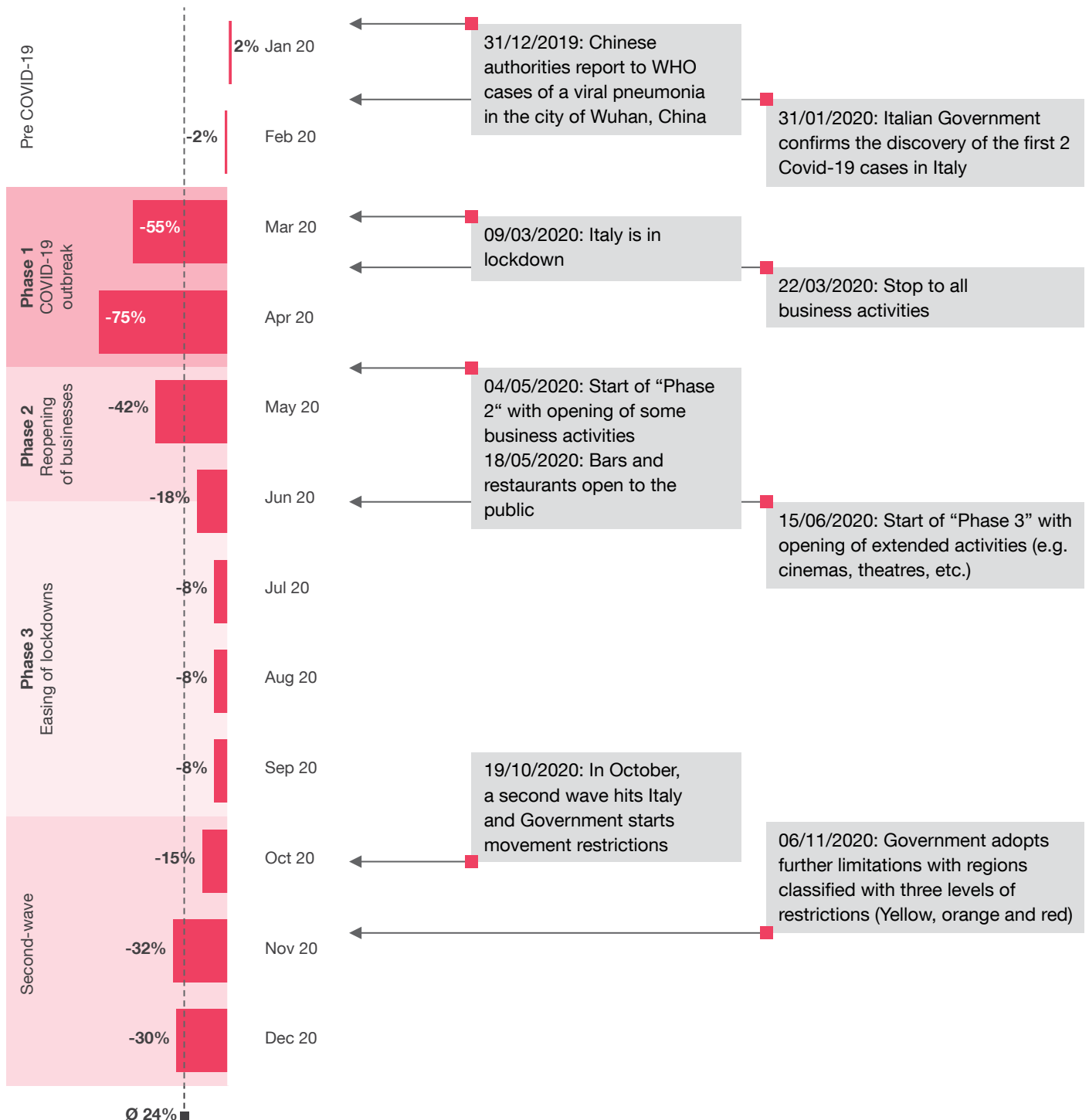
Note: 1) Includes toll revenues only

Source: Aiscat report quarterly releases, PwC Strategy&



In 2020, Covid-19 caused a motorways traffic reduction of ~25% vs. 2019 values, with a 75% decrease during lockdown

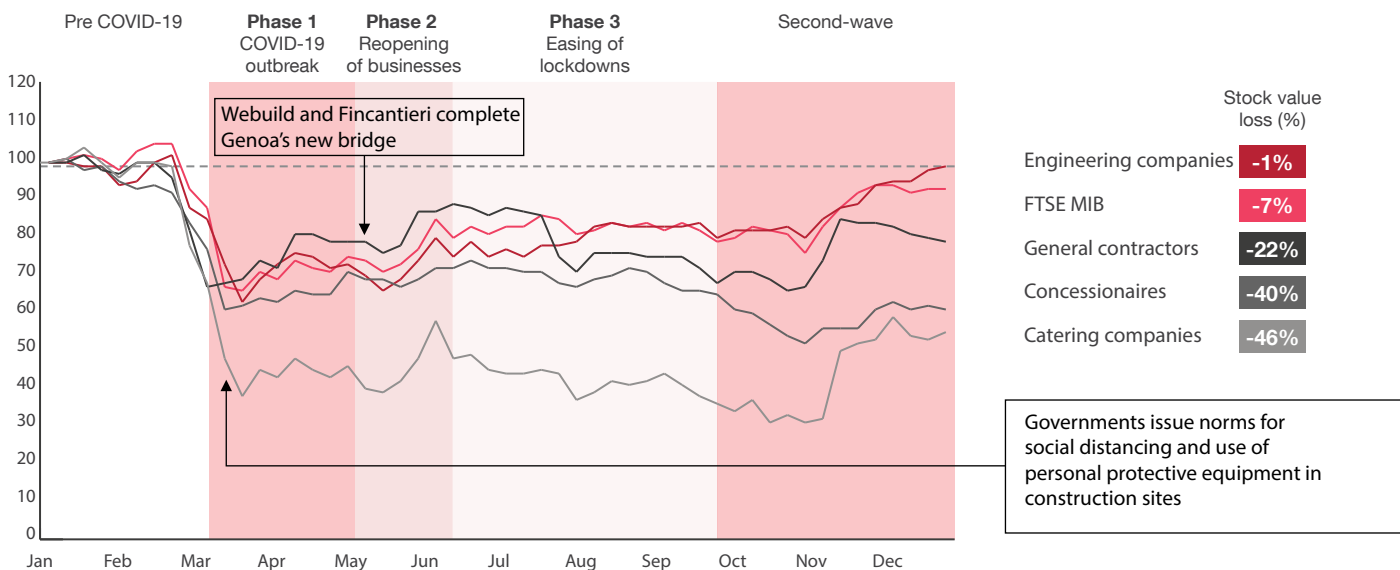
Observed mobility index in Italian motorways (Traffic change during same month in 2020 vs. 2019, %)



Source: ANAS ("Osservatorio del Traffico – Sintesi andamento anno 2020"), BBC, Il Sole 24 Ore, PwC Strategy&

Stock values of motorways players were strongly hit by the Covid-19, with the exception of engineering companies

Stock price by clusters of motorways players¹ (2020, %)



Comments

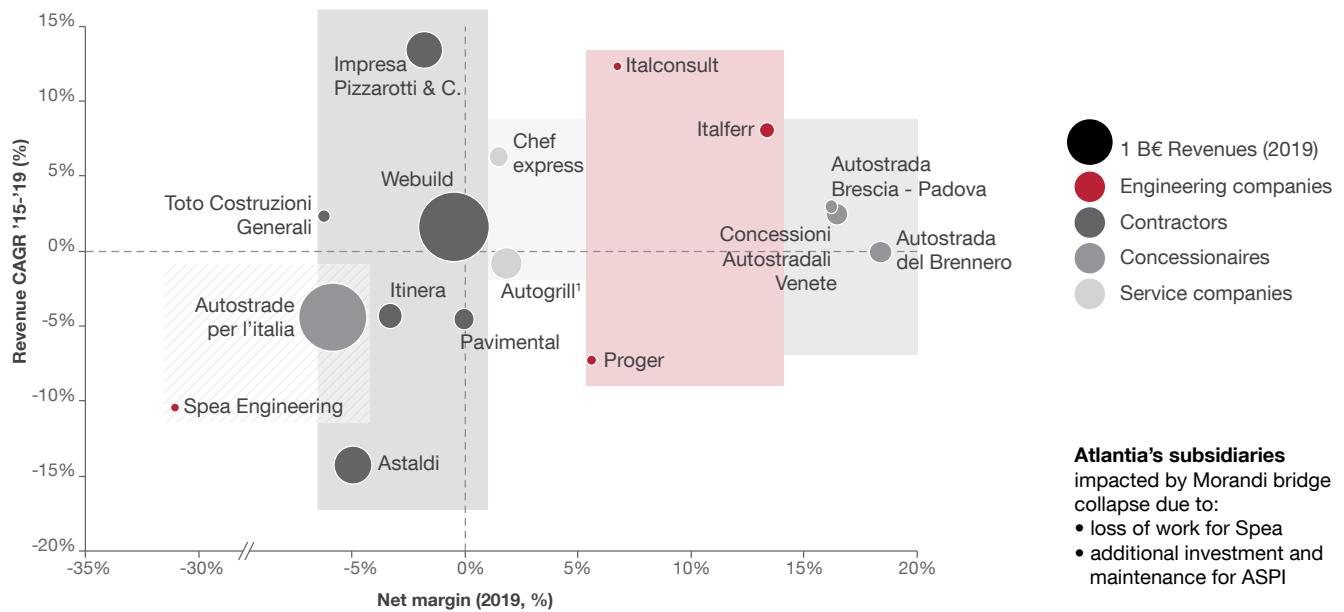
- In 2020, the **stock values of all motorways players** were **strongly hit** at the beginning of the pandemic, with an **average value decrease of 25% in March**.
- **By the end of 2020, FTSE MIB recovered most of the lost value**, achieving a net loss of ~-7%.
- **Engineering companies over-performed** FTSE MIB, registering a stock value decrease of only -1% in 2020; Design firms can **benefit from remote working solutions**, allowing them to continue operating during lockdown.
- **General constructors, concessionaires and service companies** were the **most affected** by the pandemic, mainly due to the limitation in the transportation and the stop of construction sites.

Note: 1) Reported stock prices are the arithmetic average of stock values of major listed motorways (or comparable businesses) players in Italy and Europe: Engineering companies index includes DBA group, Jacobs and Arcadis; General contractors index includes Webuild, Astaldi and Vinci; Concessionaires index includes Autostrade Meridionali; Service companies index includes Autogrill and SSP group. Source: Google Finance, PwC Strategy&



Profitability is driven by type of players and concessionaires are the most profitable companies in the value chain

Italian motorways operators revenue, revenue CAGR and net margin






Comments

- **Concessionaires** have the **highest profitability**, needed to **cover the high initial investments** of the concession contract.
- **Engineering companies** present a **high profitability** and a **small size**, typical characteristics of **professional service businesses**.
- On average, **contractors** show a **negative profitability**, suggesting that the sector is under pressure.
- **Service companies** have **low but positive profitability**:
 - **Autogrill** is the largest player, having the largest network of restaurants in Italy, both in **motorways** and in **airports**.
 - **Chef express** experienced **notable growth** (CAGR '15-'19 of ~6%) also due to **acquisitions** (e.g. Percassi Food & Beverage in 2019 and Bagel Nash in 2018).

Note: Toto Holding and ASTM were not included because of their diversified business. 1) Autogrill Italy SpA
Source: Orbis, Capital IQ, PwC Strategy&

Infrastructure, communication, payment and vehicles can significantly change the motorways sector

Technology innovations overview

| Cluster | Innovation | Description | Sustainability impact |
|---|---|---|-----------------------|
| Infrastructure  | Innovative cement | Reduces noise and increases durability, sustainability (manufacturing process and ingredients) and safety (through water-saving properties). | ● |
| | VR training | Simulates spaces, situations and experiences for workers, allowing them to train without assuming risks . | |
| | Satellite imaging | Supports collection of unique and objective information without the need of physical site access . | |
| | Digital twin | Develops virtual representations of assets to understand and predict the physical counterparts' performance . | |
| | Drones | Enables real-time view of the construction site , supports process monitoring and allows early warning on critical situations. | ● |
| | Big data | Enables advanced data analytics and unlocks predictive maintenance capabilities due to the elaboration of large volumes of real-time sensor data . | ● |
| | Advanced electric vehicle charging | Provides dynamic wireless charging in frequently-travelled freight routes . | ● |
| Communication & payment  | Remote diagnostic and assistance | Allows the exchange of real-time information with remote experts to inspect, diagnose and troubleshoot complex issues , reducing machine downtime, achieving higher resolution rates. | |
| | 5G connectivity and IoT platforms | Enables vehicle-to-vehicle (V2V) and vehicle-to-infrastructure (V2I) connectivity . Collects and shares KPIs on assets (e.g. stress level, vibrations, etc.), weather conditions, etc. | |
| | All-electronic payment | Enables customers to avoid stopping at toll stations , while reducing labour costs . | ● |
| Vehicles  | e-mobility¹ | Enables vehicles to use electric motors for propulsion driving the introduction of charging stations along motorways . | |
| | Autonomous vehicle | Enables potentially more safety and/or allows new mobility opportunities to groups of people that were previously affected by mobility restrictions (e.g. elderly). | |

Sustainability impact: ● Low ● High

Note: 1) e-mobility has high sustainability impact only in case electricity is generated by renewable energy sources. Source: PwC Strategy&



Motorways players need to establish a clear strategy to take advantage of the market opportunities and emerging trends

Illustrative examples of potential strategies

| Type of player | Potential strategies |
|--|--|
| Concessionaires | <p>Expand the solutions portfolio to become a integrated mobility player</p> <p>Launch initiatives to reduce operating costs (e.g. through automatic tolls)</p> <p>Enhance maintenance investments to mitigate risk exposure</p> <p>Monitor and apply to European funds allocated to the construction sector</p> |
| General contractors | <p>Continue consolidation to capture economy of scale synergies</p> <p>Invest in technology to increase efficiency, productivity and safety</p> <p>Increase focus on sustainability and position the company as an environmental-friendly player</p> |
| Engineering companies | <p>Build a task force to benefit from the increase of infrastructure maintenance spending</p> <p>Try to increase and diversify revenues through international expansion</p> <p>Identify potential consolidation opportunities and possibility to establish a captive business</p> <p>Increase focus on sustainability and position the company as an environmental-friendly player</p> |
| Catering companies & gas stations | <p>Evaluate potential investments in value added services (e.g. charging stations) to attract additional motorways users</p> <p>Lobby to reduce concessionaries royalties on food, beverage and fuel</p> |



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