



POLITECNICO DI TORINO

MASTER'S DEGREE THESIS

**THE ROLE OF PRIVATE CAPITAL FUNDS IN
DISTRESSED INVESTING: AN ITALIAN AND
WESTERN EUROPE PERSPECTIVE**

Author:

Nicolas Lavin

Supervisors:

Prof. Enrico Luciano

Prof. Andrea Rossi

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Contents

1	Introduction	1
2	Literature review	4
2.1	Corporate Distress	4
2.1.1	Definition of Distress	4
2.2	Distressed Investing	6
2.2.1	The Distress Investment Process	7
2.2.2	Determinants of Private Capital Fund Strategies	19
3	Hypothesis and objectives	27
4	Methodology	29
4.1	Opportunity Identification cases	29
4.1.1	Identification of Target Companies	29
4.1.2	Data Collection and Filtering Process	34
4.2	Identification of Distress Investing intervention	36
4.2.1	Solved distress	36
4.2.2	Identification of Private Capital funds	36
4.2.3	Identification of Distress Investing	37
4.3	Key Actors analysis and correlation	38
4.3.1	Funds and Firms characteristics in Distress Investing	38
4.3.2	Correlation between funds and firms	39
4.4	Acquisition and Value creation Strategies identification and analysis	40
4.4.1	Data Collection	40
4.4.2	Acquisition strategies	41
4.4.3	Value Creation strategies	41

4.4.4	Evaluation of the impact of private capital funds on distressed firms	42
5	Results and analysis	44
5.1	Distress Investing relevance	44
5.1.1	Opportunities identification	44
5.1.2	Private capital funds as distress solvers	47
5.2	Characteristics of Firms and Funds involved in Distress Investing	50
5.2.1	Characteristics of Key Actors involved	50
5.2.2	Correlation between Funds and Firms characteristics and distress	52
5.3	Analysis of Investment Strategies by Fund Type and Region	53
5.3.1	Hedge Fund strategies	54
5.3.2	Private Equity Strategies	55
5.3.3	Joint Interventions Strategies	56
5.3.4	Comparative Synthesis: Italy vs. Western Europe	57
5.3.5	Evaluation of Private Capital funds Impact in Distressed Firms	57
6	Discussions	62
6.1	Distressed Investing Relevance in Italy versus Western Europe	62
6.2	Fund Types and Target Firm Characteristics	63
6.3	Acquisition Channels, Value-Creation Strategies and Impact Analysis	64
6.4	Synthesis	65
7	Conclusions	67
7.1	Empirical conclusions	67
7.2	Limitations	69
7.3	Future research	69
	References	71

List of Figures

2.1	Types of corporate distress	6
2.2	The capital structure assessment in Distress Investing. Source: Elaborated from course material by Prof. E. Luciano, Politecnico di Torino.	9
2.3	The Roland Berger Restructuring Pyramid. Source: Elaborated from course material by Prof. E. Luciano, Politecnico di Torino.	10
2.4	The type of distress focus in Distress Investing	18
2.5	The Distress Investing process	19
2.6	Structural factors and Key actors influencing the Distress Investing process	23
5.1	Funnel of Opportunities identification in Italy	45
5.2	Funnel of Opportunities identification in western Europe	46
5.3	Distressed opportunities market in Europe by country	47
5.4	Identification of Distress Investing in Italy	48
5.5	Identification of Distress Investing in western Europe	49
5.6	Type of funds' involvement proportion by region	50
5.7	Hedge Funds' acquisition strategy for western Europe and Italy	54
5.8	Hedge Funds' value creation strategy for western Europe and Italy	54
5.9	Private Equity funds' acquisition strategy for western Europe and Italy . . .	55
5.10	Private Equity funds' value creation strategy for western Europe and Italy .	55
5.11	Joint Interventions' acquisition strategy for western Europe and Italy	56
5.12	Joint Interventions' value creation strategy for western Europe and Italy . .	56
5.13	Operational improvement after Private Capital funds intervention in Italy .	58
5.14	Operational improvement after Private Capital funds intervention in Western Europe	58
5.15	Solvency improvement after Private Capital funds intervention in Italy . . .	59

5.16 Solvency improvement after Private Capital funds intervention in Western
Europe 60

List of Tables

2.1	Structural Taxonomy of Investment Vehicles in Distress	24
2.2	Influence of structural factors and key actors across the distress investment process	25
4.1	Sectoral Selection Criteria based on NACE Rev. 2.1 Classification	32
5.1	Top 5 Countries that solved most distress with Private Capital funds (2019-2024)	49
5.2	Firm size distribution in distress investing vs. all distressed firms (2019), Italy vs. Western Europe	51
5.3	Industry distribution of distress-investing cases versus all distressed firms (2019), Western Europe vs. Italy	51
5.4	Distribution of distress types among distressed-investing targets and all distressed firms (2019), Italy vs. Western Europe	52
5.5	Distribution of distress types by fund category (percentages within each fund type)	53
5.6	Firm's EBITDA variation and median years of Private Capital funds intervention by region	59
5.7	Firm's Equity/TA ratio median increase and Net Debt median reduction percentage by region after private capital funds intervention	60

Chapter 1

Introduction

In recent decades, private capital has become one of the main drivers of corporate financing in Europe. According to [InvestEurope](#), European private capital under management reached €1.25 trillion in 2024, 2.6× more than a decade ago, highlighting its growing importance as a source of capital for firms of different sizes and sectors.

Within the broader asset class of private capital, Special Situations have emerged as a segment of growing importance. Unlike traditional private capital strategies, whose returns are largely driven by general market dynamics, Special Situations investments are primarily linked to firm-specific or event-driven circumstances that temporarily distort a company's valuation. These situations typically involve discrete corporate events that create opportunities for investors to generate returns independent of overall market movements.

Such events may include, for instance, the execution of a merger or acquisition (M&A), where mispricing arises from short-term market reactions, financing constraints, or integration risks that discourage conventional investors. Similarly, corporate spin-offs or carve-outs may be undervalued due to limited financial history, uncertainty about strategic focus, or forced selling by institutional investors who are restricted from holding smaller or riskier entities. In other cases, opportunities may stem from litigation outcomes, regulatory changes, or capital structure imbalances, where information asymmetry and temporary distress create attractive entry points for specialized funds.

Overall, Special Situations strategies seek to capitalize on idiosyncratic, time-bound catalysts—transactions or events that can unlock hidden value once uncertainty is resolved or restructuring is completed ([Altman & Hotchkiss, 2020](#)).

A particularly relevant subset within this category is Distressed Investing, which involves not only providing capital but actively transforming under-performing firms. This strategy targets companies facing financial distress, liquidity constraints, or operational inefficiencies, and differs fundamentally from traditional private equity approaches, which typically assume relatively stable fundamentals and pursue growth oriented returns with buyouts or expansion (Moyer, 2004). In contrast, Special Situations investors must navigate environments characterized by uncertainty, asymmetric information, and complex legal and institutional frameworks (E. S. Hotchkiss, John, Mooradian, & Thorburn, 2008)

The importance of this segment has become particularly evident in the aftermath of systemic crises. Following the 2008 Global Financial Crisis, distressed funds provided critical capital to firms struggling with liquidity shocks (Gilson, 2001). More recently, the COVID-19 pandemic and the subsequent tightening of financial conditions have generated a renewed wave of restructuring opportunities (International Monetary Fund, 2021). Furthermore, the rapid increase in interest rates since 2022 has further restricted access to credit, once again underscoring the strategic role of Distress Investing funds.

Most empirical studies on distressed investing focus on the U.S., where data availability and market depth have enabled extensive quantitative analysis. Evidence from continental and Southern Europe, however, remains fragmented and limited. A country like Italy presents long-standing structural vulnerabilities, including high public and private indebtedness, a strong dependence on bank-based financing, and fragmented corporate structures (OCDE, 2022; ECB, 2023). These fragilities translate into heightened exposure to macroeconomic shocks: for instance, in 2019 non-performing loans represented 9.0% of total bank lending in Italy (Data, 2024), compared to an EU average of 3% (European Banking Authority, 2019). Such conditions create fertile ground for distressed investors, who can intervene through different ways (PwC Italy, 2021).

Despite this increasing practical relevance, academic research on the role of Distress Investing in Italy is still limited. Existing studies concentrate largely on the U.S. market, while evidence from Italy is fragmented and often descriptive. In particular, comparative analyses of active fund strategies, mechanisms of value creation, and investment outcomes across Southern Europe are scarce (Anapolsky & R., 2011), leaving an important gap in both scholarly literature and industry understanding.

This thesis seeks to contribute to filling this gap by identifying Distress Investing deals and analyzing the strategies applied. The research combines a descriptive mapping of the market with relative case-study analysis to connect theoretical frameworks that will be explained in the next section with empirical evidence. Ultimately, the study aims to generate insights into how distressed investing operates in Italy. A comparative perspective with the European context is adopted to identify the main differences and distinctive features of the Italian market.

Chapter 2

Literature review

Building on the discussion of Special Situations and their growing relevance in Europe, this literature aims to provide a focused examination of Distressed Investing, a subset in which investors play an active and hands-on role in restoring value. This section begins by defining corporate distress and illustrating how private capital funds can address these challenges while generating returns. It then examines the Distress Investing process and the key factors shaping the strategic decisions of these funds, including macroeconomic conditions, industry dynamics, and firm-specific characteristics.

2.1 Corporate Distress

2.1.1 Definition of Distress

Corporate distress refers to a deterioration in a firm's financial and operational conditions that threatens its ability to meet obligations and sustain operations (Wruck, 1990; Andrade & Kaplan, 1998). It represents a state between normal performance and formal bankruptcy, where the firm experiences declining profitability, increasing debt burden, or operational inefficiencies that erode its long-term viability (Altman & Hotchkiss, 2020). In essence, distress signals the erosion of a company's capacity to generate sufficient cash flows to service its various obligations and maintain competitive performance.

The onset of distress can emerge gradually through operational inefficiencies, financial imbalances, or economic pressures.

Among these, operational distress is often the earliest stage, manifesting when internal processes, management decisions, or production inefficiencies reduce profitability

(Whitaker, 1999), and then operating margins decrease, such as EBITDA margin. Examples include outdated technology, poor cost control, or ineffective leadership, all of which lead to declining margins even before liquidity issues appear. This type of distress typically reflects a loss of competitiveness rather than an immediate threat of insolvency (D'Aveni, 1989), as firms still can pay its obligations.

If operational weaknesses persist, they often translate into financial distress, characterized by the inability to meet financial obligations such as interest payments or principal repayments (Altman, 1968). Financial distress can also result from excessive leverage, declining revenues, or a mismatch between cash inflows and outflows. While operational distress primarily reflects internal inefficiencies, financial distress often combines both internal and external pressures, including restrictive credit markets or economic downturns (Denis & Denis, 1995).

Financial distress can manifest in different forms: liquidity distress and solvency distress, representing different levels of financial tension. Liquidity distress occurs when a company's short-term assets are insufficient to cover its short-term liabilities, essentially a cash flow problem. This situation may arise, for instance, when a firm faces a significant debt maturity in the short term without sufficient cash reserves, or when working capital imbalances (such as paying suppliers before collecting receivables) generate temporary funding gaps. On the other side, solvency distress reflects a deeper structural issue, where total liabilities exceed total assets (E. S. Hotchkiss, John, Mooradian, & Thornburn, 2020), and then equity is negative, as $\text{Equity} = \text{Assets} - \text{Liabilities}$. Liquidity issues may be temporary and reversible through external financing, restructuring or working capital optimization, but solvency distress implies long-term unsustainability and often precedes bankruptcy (Platt & Platt, 2002), if no external capital is raised or a comprehensive financial restructuring is done.

A related but broader concept is economic distress, which occurs when the firm's business model or market position becomes unprofitable, even if its financial structure remains sound (Opler & Titman, 1994). This may result from shifts in demand, technological disruption, or intensified competition that reduce the firm's market relevance. Unlike financial distress, economic distress cannot be solved solely through recapitalization, but it requires strategic restructuring or business model innovation (Pearce & Robbins, 1993).

Overall, corporate distress is viewed as a gradual process, in which firms may move from initial operational weaknesses toward more severe forms of financial and balance-sheet distress. The earlier stages like operational and economic distress may still allow for recovery through managerial interventions or consulting, while advanced stages like liquidity and solvency distress demand external solutions such as debt restructuring, equity infusion, or in extreme cases, formal insolvency procedures (Altman & Hotchkiss, 2020; Wruck, 1990). Understanding these stages is crucial for both investors and firms, as early identification allows for corrective action before value destruction becomes irreversible.

In synthesis, different types of distress can be schematized in the following graph:



FIGURE 2.1: Types of corporate distress

It is important to mention that types of distress are not mutually exclusive. For instance, a firm can have an deteriorated business model (economic distress) and is financed 90% with debt but generates little cash to repay it, which causes liquidity problems (financial distress). Nevertheless, mainly the operational and/or economic distress will in the future cause a financial distress.

2.2 Distressed Investing

Having defined corporate distress, the next step is to examine how private capital investors seek to exploit and resolve these situations through distressed investing. Although internal turnaround and financial restructuring can be implemented by management, as explained before, it is very common to need more capital to restructure operations or to pay its obligations, and that's why external actors like private capital funds play

a crucial role. These funds focus on identifying undervalued or troubled companies, intervening with targeted resources, and generating both operational recovery and financial returns (Altman & Hotchkiss, 2020; E. Hotchkiss, Altman, & Wang, 2020). Distressed investing refers to the practice of acquiring the debt or equity of financially distressed firms with the purpose of restructuring and ultimately generating value in the exit (Altman & Hotchkiss, 2020). This investment approach is fundamentally different from traditional private equity, as it focuses on firms that are underperforming or financially constrained, where risk and potential reward are both elevated.

The literature explains that distressed investing primarily targets situations of financial distress, that can often be accompanied by operational or strategic distress. However, this investment strategy generally exclude cases of pure economic distress in which the firm's business model is fundamentally unviable, where the cost of turnaround exceeds the potential recovery value due to industry-wide obsolescence (Opler & Titman, 1994).

2.2.1 The Distress Investment Process

Private capital funds specializing in distressed or special situations typically follow a structured process that involves five stages: opportunity identification, valuation and due diligence, acquisition, restructuring and value creation, and exit (Gilson, 1990).

Opportunity Identification

The first stage of distressed investing, opportunity identification, involves detecting companies that are potentially suitable for intervention. Funds actively monitor indicators of financial distress, including declining revenues, negative EBITDA trends, high leverage ratios, or credit rating downgrades (Altman, 1968). Identification can occur through various channels, including banks and other creditors seeking to dispose of or restructure non-performing exposures, secondary debt markets and specialized brokers facilitating the trading of distressed claims, as well as industry networks and proactive sector-level monitoring by investment teams.

During this phase, the fund evaluates whether the firm presents a realistic opportunity for restructuring and value creation. This typically involves an initial screening of financial statements, a preliminary assessment of operational challenges, and an appraisal of

management quality, in order to determine whether the company can recover under an appropriate intervention strategy (Altman & Hotchkiss, 2020).

Valuation and Due Diligence

Once a target has been identified, the process moves to the valuation and due diligence phase, which seeks to estimate the potential recovery under various restructuring scenarios. Financial analysis is central to this stage, involving the examination of historical and projected financial statements, calculation of key ratios such as leverage, liquidity, and profitability, and assessment of both solvency and liquidity risks (Opler & Titman, 1994). In this phase, the precise calculation of the adjusted EBITDA and then the control of real-istic receivables is key, as it has a direct impact on the valuation.

In parallel, an operational review evaluates internal processes, management capabilities, and organizational structure to determine whether operational weaknesses could hinder the success of a turnaround. Legal and contingency assessments are also conducted to identify potential liabilities, contractual constraints, and regulatory risks that may affect the restructuring plan (Gilson, 1990).

Following this diagnostic phase, the fund establishes two critical benchmarks: the liquidation value and the going concern value. The first one is the value of the firm sold as separated assets, while the going concern value is the valuation considering a restructuring plan. The delta between these metrics represents the economic value preserved by avoiding a forced liquidation through a successful turnaround. By applying the going concern value to a waterfall analysis of the capital structure, the fund can precisely identify which tranches are out-of-the-money, meaning their claims exceed the company's current enterprise value. This assessment is a cornerstone of creditor negotiations; it provides the fund with the leverage needed to pressure impaired stakeholders, who, facing a total wipeout in a liquidation scenario, become far more compliant and willing to accept debt haircuts or restructuring terms (Selva, 2025).

The Figure 2.2 illustrates how after calculating the Going Concern value, confronting it with the book value of the different tranches of the capital structure, it is possible to identify which tranches are out-of-the-money.

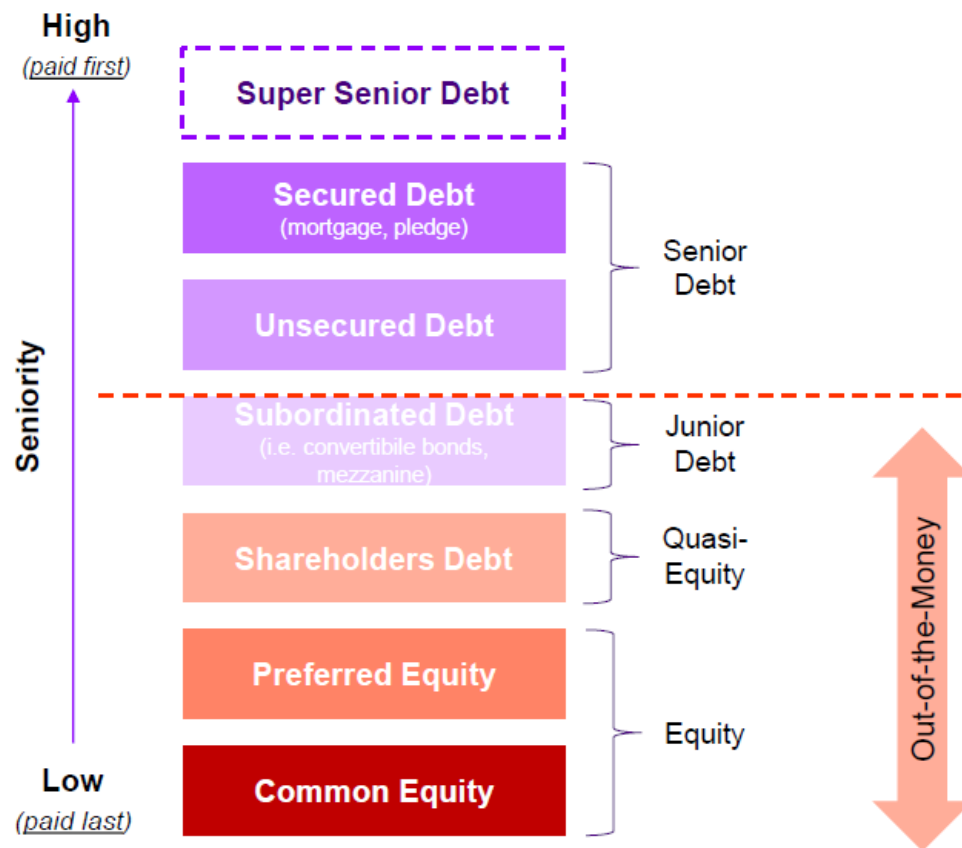


FIGURE 2.2: The capital structure assessment in Distress Investing. Source: Elaborated from course material by Prof. E. Luciano, Politecnico di Torino.

The insights gathered from this comprehensive due diligence will guide the fund in deciding the type of investment (whether to purchase distressed debt, acquire an equity stake, or employ a hybrid approach) as well as in defining the expected return profile and the degree of control necessary to implement an effective restructuring (Altman & Hotchkiss, 2020; E. Hotchkiss et al., 2020).

The Restructuring and Value Creation Plan

After analysing the current state and the main risks of the firm, it is crucial to have a clear restructuring plan to recover the Enterprise Value and maintain all stakeholders in-the-money. To systematically operationalize corporate recovery, academic literature and modern financial practice frequently transition from generic distress definitions to structured managerial frameworks. A prominent model utilized by practitioners is the Roland Berger Restructuring Pyramid, which conceptualizes corporate distress not as a single isolated anomaly, but as a multi-layered pathology requiring synchronized interventions (Selva, 2025). The framework segments corporate restructuring into three distinct layers

as shown in Figure 2.3, establishing a clear distinction between the tactical pillars of the recovery and its ultimate strategic objective.

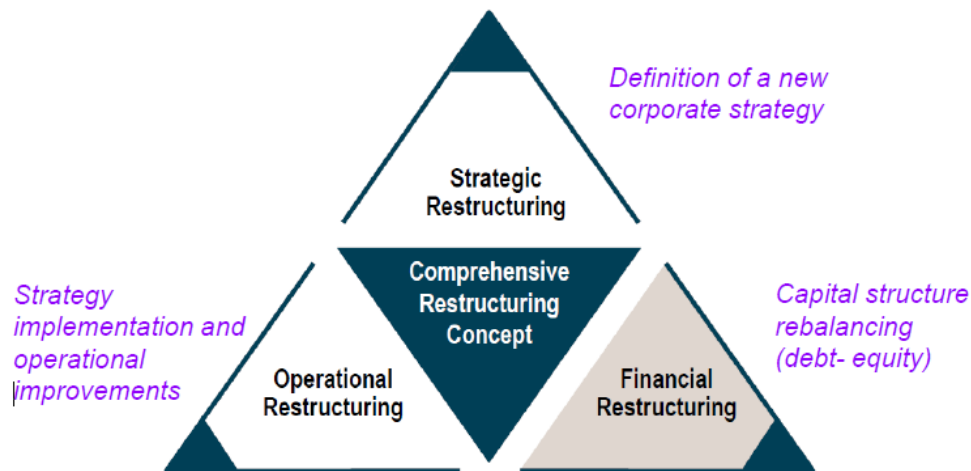


FIGURE 2.3: The Roland Berger Restructuring Pyramid. Source: Elaborated from course material by Prof. E. Luciano, Politecnico di Torino.

At the apex of the framework sits Strategic Restructuring. This layer addresses the company's long-term positioning, market alignment, and sustainable competitive advantages. As explained above, strategic distress occurs when a firm's business model becomes obsolete due to technological disruption, shifts in consumer preferences, or structural industry changes. It is then important to analyze if the value proposition is still viable. Intervention at this level entails corporate carve-outs, product realignments, or a fundamental pivot in the firm's core value proposition to restore long-term viability.

Operational Restructuring focuses on immediate efficiency improvements, cost-cutting initiatives, headcount adjustments, supply chain optimization and the implementation of the new strategy. The major expected results of these measures are to improve the Working Capital decreasing unnecessary inventory and receivables, and extending payables in order to improve liquidity. The other major expected result is to improve the operating margins, optimizing the production processes and reducing the cost of goods sold, which will increase the EBITDA margin and the cash flow generation of the firm.

Financial Restructuring deals with the optimization of the firm's capital structure. As explained above, a high level of leverage could lead an unfeasible repayment scheme and a high risk of insolvency, and it is then necessary to reach a healthy level of debt or to comply with the financial covenants. As operational and strategic restructuring require

investments, they generally are financed with debt, as then financial restructuring has to deal not only with current capital structure, but also with the new debt that will be raised to finance the turnaround. The major expected results of financial restructuring are to reduce the leverage ratio (Net Debt / EBITDA) to a sustainable level, and to restore a healthy Debt Service Coverage Ratio (DSCR), which is the ratio between the cash flow available for debt service and the debt service obligations (Selva, 2025).

The structural alignment within this pyramid dictates the tactical sequencing of distressed investing. Private capital funds recognize that financial rebalancing and operational overhauls cannot be executed in isolation. A financial restructuring that lacks an operational transformation merely postpones structural liquidation, providing temporary relief to the balance sheet without fixing the underlying cash-generating engine. Conversely, an operational turnaround is structurally unfeasible if the company is choked by immediate liquidity crises or a prohibitive debt burden that blocks capital expenditure. Therefore, the financial and operational pillars must be deployed concurrently as twin levers: the financial maneuver stabilizes the liabilities and secures the runway, while the operational mandate simultaneously rebuilds the operating margins. Together, they form the dual foundation required to successfully lift the firm back to its strategic alignment.

Operational Turnaround Strategies

While financial restructuring stabilizes the balance sheet, operational turnaround addresses the root causes of performance decline (Hofer, 1980). These are, as explained before, operational and economic (or strategic) distress. Private capital funds implement managerial, strategic, and process-oriented initiatives aimed at restoring competitiveness and profitability.

Typical operational turnaround measures include:

- **Cost Reduction and Efficiency Improvements:** Streamlining production, logistics, and procurement to reduce cash burn (Hofer, 1980) to improve gross margins.
- **Organizational Restructuring:** Replacing management, flattening hierarchies, and improving corporate governance (De Silva, Del Gaudio, Gervasoni, & Lertora, 2025) to optimize personnel expenses.

- Strategic Refocusing: Divesting non-core business units (spin-offs, carve-outs) to concentrate on profitable segments (John & Ofek, 1995). This also helps to repay debt, obtain a reduction in interest rates and less pressure from creditors (Lang, Poulsen, & Stulz, 1995).
- Revenue Enhancement: Repositioning products, improving pricing strategy, or expanding to new markets (Schmitt & Raisch, 2013).
- Digitalization and Innovation: Implementing new technologies to improve operations and competitiveness.

According to Pearce and Robbins, successful turnarounds require a two-phase approach: first, stabilizing operations and generating short-term liquidity; second, rebuilding the firm's strategic foundation for sustainable growth.

Financial Restructuring Strategies

Financial restructuring seeks to restore a firm's capital structure sustainability and reduce financial burden. These techniques can be divided in two groups: old money and new money. The first one refers to the restructuring of existing debt, while new money refers to raising fresh capital, which could involve equity or debt financing (Selva, 2025).

Old Money techniques:

- Debt-for-Equity Swaps: Converting outstanding debt into equity to deleverage the firm and align creditor interests with future performance (Franks & Torous, 1994). The firm is recapitalized without the need of new cash, as the creditors become shareholders, and then Equity increases. Then, this improves the leverage ratio but doesn't improve liquidity. The new equity instruments issued may include governance rights, which is preferred for Restructuring Funds to take control of the firm, or do not include them, which is mainly adopted by banks as it is Preferred Equity and less risky (Selva, 2025).
- Debt Haircuts: Negotiating partial forgiveness of debt to restore liquidity (Altman & Hotchkiss, 2020). As in the debt-to-equity swap case, the firm is re-capitalized, as it has the same assets but less debt, and then Equity increases. In addition, as the

debt write-off is shown in the income statement, the firm will also have a better Net Income.

- Debt Rescheduling or Interest Rate Reductions: Negotiating extended maturities or reduced interest rates to restore debt service ratios (Altman & Hotchkiss, 2020). These techniques are used to reduce the debt service for each period, and then to improve the DSCR and the leverage ratio, which are key ratios to assess the credit-worthiness of the firm (Selva, 2025).

New Money techniques:

- Debtor-in-Possession (DIP) Financing: Providing new debt financing during bankruptcy proceedings to maintain operations and preserve going-concern value (E. Hotchkiss et al., 2020). This technique improves liquidity, which helps the firm to finance the operational and strategic restructuring strategy or to repay its creditors, but leverage ratios are not improved. This new debt is generally senior to the existing debt, which is a key factor to convince creditors to accept the new debt, as it is less risky than their current debt (Selva, 2025), but this status has to be authorized by the local Court.
- Other Debt Injection: It is possible to raise new debt outside the DIP financing, but it is generally less preferred by creditors as it is junior to their current debt. Examples of this technique are the issue of factoring or inventory financing (Selva, 2025).
- Capital Injection: Equity infusions from investors to strengthen the balance sheet and fund turnaround actions (De Silva et al., 2025). This is the best option for a firm, as it improved liquidity because of new cash and improves the leverage ratio, as the firm has more equity and the same debt. However, it is generally difficult to find investors willing to invest buying equity in a distressed firm, as it will be junior to all debt and then very risky (Selva, 2025).
- Asset Sales: Selling non-core or underperforming assets to repay obligations and focus on core business (Bibeault, 1999). A common technique is the carve-out, which means selling a business unit or division to another company.

Effective financial restructuring often involves complex negotiations among multiple stakeholders — creditors, shareholders, management, and regulatory bodies — and requires aligning incentives to ensure cooperation (Gilson, 1990).

Legal procedures for Financial Restructuring

The execution of the aforementioned financial restructuring levers is heavily dictated by the institutional path selected by the firm and its creditors, which structurally falls into a strategic choice between out-of-court and in-court frameworks. According to turnaround practitioner frameworks, this choice is primarily driven by a trade-off between execution speed, financial distress severity, direct transaction costs, and the level of legal protection required to bind dissenting stakeholders (Luciano, 2025).

When a corporate crisis is identified in its early stages, characterized by temporary liquidity constraints or manageable covenant breaches, out-of-court processes represent the most efficient solution. These rely on private negotiations between the debtor and a high majority of its financial creditors. The primary economic advantage of extrajudicial workouts is the minimization of direct costs of financial distress (such as legal fees, court administrative expenses, and advisory overheads) and the acceleration of execution timelines, which preserves the company's operational reputation and commercial relationships. However, the fundamental vulnerability of out-of-court agreements is that minority creditors can refuse to participate, blocking the restructuring plan to extort preferential terms.

Conversely, when corporate distress escalates toward structural insolvency or bankruptcy, private capital funds and debtors are forced to transition into in-court frameworks. While formal court proceedings introduce significant transparency requirements, higher direct financial costs, and rigid procedural timelines, they unlock robust statutory mechanisms that are unfeasible in private workouts. Most notably, in-court frameworks introduce two critical financial engineering tools:

1. The court grants an immediate moratorium against individual enforcement actions or winding-up petitions by hostile creditors. This effectively freezes legacy liabilities, protecting the firm's Going Concern value and giving the Chief Restructuring Officer (CRO) the necessary runway to negotiate the recovery plan.

2. Unlike extrajudicial workouts, judicial restructurings do not require absolute consensus.

Ultimately, private capital funds choose between those two options by balancing the urgency of the crisis against the operational runway. Extrajudicial paths are optimized for swift asset and liability realignment when creditors are aligned. In contrast, judicial paths serve as the mandatory framework when deep structural overhauls, statutory liability relief, and court-protected New Money priority layers are required to salvage the enterprise from liquidation.

Business and Financial Planning

After knowing all the multiple levers for corporate recovery that private capital funds can use, it is important to have a plan to track all the decisions made and measure the impacts in the firms in the short and long term: the business planning. This is not only necessary as a good practice, but it is a key instrument to negotiate with creditors showing the future of the company in formal proceedings as the *Restructuring Plan (Piano di Risanamento)* or the contractually binding *Restructuring Agreement (Accordo di Ristrutturazione)* under bank-centric European frameworks such as the Italian *Codice della Crisi e dell'Insolvenza* (CCII). Following institutional financial planning frameworks, this corporate planning process must be split into two interconnected temporal horizons that address distinct operational objectives, data granularities, and planning periodicities: the long-term strategic planning and the short-term operating planning (Luciano, 2025).

The long-term strategic financial planning horizon spans a timeline of 3 to 10 years, though most commonly structured as a 5-year or an extended 15-year horizon in project-heavy or asset-backed turnaround transactions. The fundamental purpose of this strategic window is to define the firm's overarching multi-year goals, research and development activities, and large fixed asset expenditures (CapEx). More importantly, it codifies the macro financial restructuring of the capital structure incorporating bank debt write-offs, debt rescheduling, or debt-to-equity swaps. The critical output obtained from this long-term horizon is the multi-year *Free Cash Flow to the Firm*. This visibility is an absolute prerequisite to mathematically prove to lenders how short-term operational cash burns during initial recovery phases are systematically recovered once the operations improve.

Concurrently, the short-term operating financial planning horizon covers a tactical spectrum from 3 months to 2 years, explicitly executing the near-term budgets required to implement the firm's long-term strategic objectives. Within this operating horizon, corporate actions are split into immediate liquidity control and annual financial planning. For short-term survival, tactical cash planning is managed via a rolling 13-week Short-Term Cash Flow (STCF) model, which functions on a pure cash basis (cash-in, cash-out) to enforce aggressive cash rationing and to ensure to pay all obligations. For profit planning, annual cycles are deployed to develop integrated pro forma statements.

To arrive at these critical strategic and operating outputs, the integrated financial model deploys a strict, bottom-up sequential architecture applied across both horizons, where the output of one statement serves as the immediate input for the next. The process initiates with the *Sales Forecast* based on operational volume assumptions, pricing optimization, and capacity metrics (such as yield factors or production per hectare). This forecast dictates the *Production Plans*, which quantify variable costs, raw material requirements, and direct labor costs. The integration of these variables creates the *Pro Forma Income Statement*. Once operating profit is determined, the model flows into the *Cash Budget*, where the Industrial Plan and the Financial Maneuver formally reconcile by netting operating EBITDA against CapEx schedules, asset divestments, interest payments, and debts. Finally, by combining the current-period balance sheet with these cumulative cash and profit flows, the model yields the *Pro Forma Balance Sheet*, providing the ultimate mathematical proof of the corporate recovery (Luciano, 2025).

Ultimately, the viability of this entire planning architecture depends on its ability to concurrently deliver structural profitability and satisfy strict practitioner credit parameters over time. Private capital funds implement systematic variance analysis (Best/Base/Worst case) to verify that the operational turnaround drives the leverage ratio (*Net Debt / EBITDA*) continuously downward toward physiological levels (3.0x–4.0x). Simultaneously, the cash budget must guarantee that the Debt Service Coverage Ratio (DSCR) remains safely above the target 1.2x threshold required to maintain bank compliance. By proving that the firm can remain sustainably profitable while comfortably honoring its restructured credit obligations, the corporate planning framework successfully secures creditworthiness, protects the firm's going-concern value, and locks in the equity valuation upside

required for a successful fund exit (Selva, 2025).

It is important to mention that this plan is iterative and dynamic, as it is the main tool to estimate the impact of the different restructuring levers on the financial ratios and the firm's performance. The plan is also a key tool to negotiate with creditors, as it is the main document to show the feasibility of the turnaround and to convince them to accept haircuts or debt rescheduling. Also the entry method that will be explained later is considered in the plan, as it is important to show the feasibility of the turnaround with the new possible capital structures.

Acquisition and Types of Distressed Investments: Debt vs. Equity

Distressed investing can occur through two primary channels: Distressed Debt Investing and Distressed Equity (Turnaround) Investing (Altman & Hotchkiss, 2020).

Distressed Debt Investing involves purchasing debt securities of companies in or near default at a significant discount. The investor seeks to profit either from debt recovery during restructuring or by converting debt into equity through a debt-for-equity swap (Franks & Torous, 1994). This strategy gives the investor influence or control in the restructuring process without initially owning the company (Gilson, 1990).

Distressed Equity or Turnaround Investing, on the other hand, implies taking an ownership stake, often a controlling one, in a distressed firm to directly implement changes. Private equity and turnaround funds use this approach to execute both financial and operational restructuring, actively managing the company to restore value (Bibeault, 1999).

In practice, many funds combine both approaches: acquiring distressed debt to gain negotiating power and subsequently converting it into equity to take control of the firm (Altman & Hotchkiss, 2020).

After the acquisition, it is very common to name a Chief Restructuring Officer (CRO) which will be aware of completing all the plan and will be responsible for the implementation of the restructuring and turnaround measures. The CRO is a key figure in distressed investing, as they are responsible for executing the recovery plan, managing stakeholder relationships, and ensuring that operational and financial targets are met (De Silva et al.,

2025). They often have a background in both finance and operations, enabling them to navigate the complexities of corporate distress and lead the firm back to stability.

Exit Strategies and Value Realization

After implementing restructuring measures, private capital funds focus on value realization through one of several exit strategies. The main routes according to Kaplan and Strömberg (2009) include:

- Trade Sale: Selling the restructured firm to a strategic buyer or competitor.
- Secondary Buyout: Selling to another private equity fund seeking long-term gains.
- IPO or Public Listing: Floating the company once it achieves profitability and growth prospects.
- Management buyout: sold to current management of the firm.

The chosen exit depends on market conditions, investor objectives, and the firm's post-turnaround performance. Well-executed exits are essential to closing the investment cycle and demonstrating fund performance.

This contrasts with passive investment approaches, highlighting the importance of expertise in corporate restructuring, financial engineering, and sector-specific knowledge. Funds may also leverage their networks and experience to negotiate with creditors, suppliers, or customers, thereby enhancing the probability of successful turnaround (Altman & Hotchkiss, 2020).

After describing the types of distress and the typical intervention of distressed funds to solve the different types of distress, it is possible to illustrate the situation with the following graph:

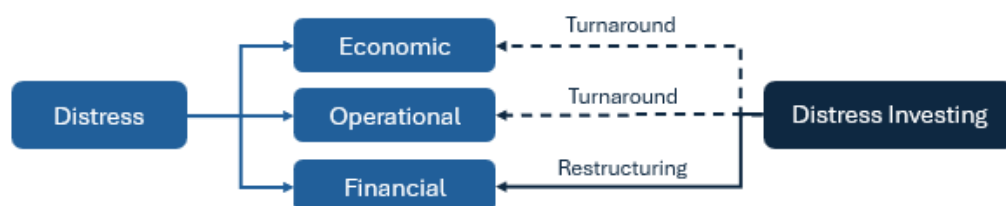


FIGURE 2.4: The type of distress focus in Distress Investing

As explained, financial restructuring is the core focus in Distress Investing because the targeted type of distress is the financial one. In cases of additional types of distress in the firm, which is common as they could be part of the causes of financial distress, turnaround strategies are applied to improve the firm's performance after the capital structure improvement.

In addition, the process explained, bases on the academic literature, can be illustrated as follows:

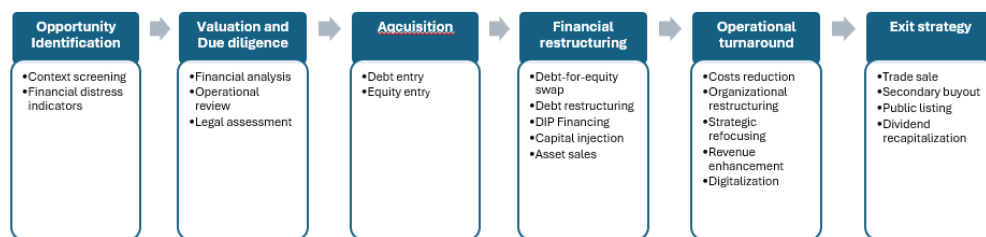


FIGURE 2.5: The Distress Investing process

2.2.2 Determinants of Private Capital Fund Strategies

While distress investing follows a general framework, the strategic behavior of private capital funds is shaped by structural conditions and stakeholder dynamics. Traditional literature highlights the relevance of macroeconomic, legal, and institutional environments in determining opportunity sets and investment feasibility (Altman & Hotchkiss, 2020). However, more recent research emphasizes that the interactions among key actors like creditors, management, investors, and intermediaries also critically shape fund strategies and outcomes (De Silva et al., 2025). Thus, an effective distress investing strategy requires understanding both the ecosystem that sets the structural boundaries and the actors that governs decision-making and value creation within those boundaries.

Structural Factors

Macroeconomic and Financial Environment

Macroeconomic variables such as interest rates, credit availability, and liquidity, directly influence the timing and scope of distressed opportunities. Low rates and abundant liquidity compress spreads and reduce discounted asset supply, limiting attractive entry

opportunities (Opler & Titman, 1994). Conversely, tightening credit and economic downturns expand the pool of distressed targets and favor counter-cyclical investment strategies (Altman & Hotchkiss, 2020).

The degree of financial market sophistication also matters: developed secondary debt markets enable leveraged buyouts and structured refinancing, while illiquid markets incentive funds toward equity-based or operational approaches (De Silva et al., 2025).

Legal and Institutional Framework

The legal and institutional environment, particularly bankruptcy and insolvency procedures, defines the strategic flexibility available to funds. Predictable, creditor-oriented systems allow formal reorganizations such as debt-for-equity swaps or debtor-in-possession financing (E. S. Hotchkiss et al., 2020). By contrast, rigid or debtor-biased regimes, which give more facilities than to the distressed companies, require informal negotiations or out-of-court restructurings, increasing the complexity of the restructuring/turnaround and extending holding periods (De Silva et al., 2025).

Institutional quality, including judicial efficiency, contract enforcement, and regulatory stability, also influences investor confidence and perceived risk, affecting the feasibility and speed of distressed investment strategies (La Porta, Lopez-de Silanes, Shleifer, & Vishny, 1997).

Industry and Market Dynamics

Industry-specific factors shape the depth and nature of turnaround strategies. Capital-intensive sectors, such as manufacturing and construction, often require financial restructurings to stabilize leverage and cash flow (Altman, 1984). Instead, knowledge-based or service industries may require strategic and operational turnarounds, including product innovation or digital transformation, due to higher obsolescence and disruption risks (D'Aveni, 1989).

Market characteristics also matter. Highly liquid markets where companies can be sold easily enable efficient acquisition and exit, whereas illiquid markets increase operational involvement and governance requirements (De Silva et al., 2025).

Finally, fragmentation and competition in an industry also affect exit strategies: fragmented markets favor consolidation or trade sales, while regulated or concentrated industries may limit exit options and extend investment horizons (Bibeault, 1999).

Influence of Key Actors

Creditors and Financial Institutions

Creditors influence both access to distressed opportunities and the terms of restructuring. In bank-centered financial systems, banks' willingness to sell or renegotiate non-performing loans (or loans that will be probably in default) largely determines deal flow and entry conditions for private capital funds (De Silva et al., 2025). Moreover, when a small number of large creditors hold most of a firm's debt, negotiations tend to be more coordinated, facilitating formal reorganizations. By contrast, highly fragmented creditor structures, characterized by many dispersed lenders or bondholders, make consensus harder to achieve, increasing transaction costs and prolonging resolution times.

In such contexts, banks' readiness to accept haircuts, provide debtor-in-possession (DIP) financing, or otherwise cooperate in restructurings significantly shapes the strategies available to private capital investors. Conversely, conservative banking practices may force funds to negotiate with multiple creditors or develop alternative financing mechanisms (De Silva et al., 2025).

Target Firm Management and Shareholders

The attitudes and capabilities of incumbent management shape the feasibility of operational transformation. For instance, collaborative management teams accelerate turnarounds by supporting information sharing and rapid execution, while resistant or entrenched managers often trigger control-oriented acquisitions (E. S. Hotchkiss et al., 2020). Moreover, in concentrated ownership structures, especially family firms, non-economic motives can complicate negotiations and delay recovery.

Private Capital Fund Investors (LPs)

Limited Partners (LPs) are pivotal in shaping the strategies and operational dynamics of private equity funds, especially in the context of distressed investing. Their influence is

exerted through various channels, including capital allocation, investment horizons, and governance structures.

LPs determine the capital available to private equity funds and influence the investment horizons of these funds. Institutional LPs, such as pension funds and insurance companies, often have longer investment horizons and lower liquidity needs, enabling funds to engage in investments with extended recovery periods and higher operational involvement. Conversely, family offices, with more flexible mandates, can afford to hold investments indefinitely, allowing them to participate in more complex and prolonged turnaround processes (Gompers & Lerner, 2001).

LPs' risk tolerance levels play a crucial role in shaping the investment strategies of private equity funds. Institutional LPs often have lower risk tolerance and prefer investments that align with their risk-return profiles, leading funds to adopt conservative approaches in distressed situations, such as debt-for-equity swaps or recapitalizations. These strategies aim to stabilize the target company while minimizing risk exposure (E. S. Hotchkiss et al., 2020). Family offices, with their typically higher risk tolerance and longer-term investment horizons, may be more inclined to support aggressive restructuring strategies, including operational overhauls and management changes, due to their ability to absorb higher risks and their focus on long-term value creation (Aleta.io, 2025).

Advisors and Intermediaries

Intermediaries such as investment banks, consultants, and legal advisors act as information brokers, reducing asymmetry and transaction costs. Their expertise and networks influence deal sourcing, valuation accuracy, and the speed of negotiation, particularly in opaque or relationship-based markets (De Silva et al., 2025). Thus, while they are not direct investors, they significantly affect the efficiency and outcome of the restructuring process.

Summarizing, it is possible to illustrate the Structural factors and Key actors of Distress Investing in the following pie chart:

Type of Private Capital funds



FIGURE 2.6: Structural factors and Key actors influencing the Distress Investing process

As explained by [Ivashina \(2011\)](#), active private capital funds investing in distressed firms are mainly Private Equity and Hedge Funds. It is then important to understand its main differences.

Private Equity

Private Equity funds (PE) are structured as closed-end investment vehicles, typically organized as Limited Partnerships (LPs). As noted by Kaplan and Strömberg ([2009](#)), the PE model relies on a General Partner (GP) who manages the fund and Limited Partners who provide capital with a long-term commitment.

The structural essence of PE is its finiteness and illiquidity. These funds usually have a ten-year lifespan, creating a “lock-up” period where capital cannot be easily withdrawn. This allows GPs to exercise significant control over portfolio companies—often referred to as “active ownership”—to implement long-term structural changes without the pressure of daily market volatility ([Jensen, 1989](#)).

Hedge Funds

In contrast to the rigid structure of PE, Hedge Funds are characterized by their operational flexibility and their nature as open-ended investment vehicles. As defined by [Stulz \(2007\)](#), these funds are private investment pools that are subject to less regulation than traditional

mutual funds, granting them the ability to employ complex financial strategies—such as short selling and derivatives—and significant financial leverage.

Structurally, the essence of a Hedge Fund lies in its liquidity and dynamic capital allocation. Unlike the ten-year commitment required in PE, Hedge Funds typically allow investors to withdraw or inject capital through periodic “redemption windows” (e.g., quarterly). This flexibility, however, limits the GP’s ability to commit to long-term operational turnarounds. Instead, as [Jiang, Li, and Wang \(2012\)](#) argue, Hedge Funds in the distressed space often act as “sophisticated creditors,” focusing on the secondary debt market to influence the financial restructuring process through legal and financial arbitrage, rather than through direct “active ownership” of the company’s operations.

TABLE 2.1: Structural Taxonomy of Investment Vehicles in Distress

Feature	Private Equity	Hedge Funds
Vehicle Type	Closed-end	Open-ended / Semi-open
Liquidity	Very Low (10-year term)	Moderate (Redemption windows)

Interconnection Across the Investment Process

In sum, the strategic behavior of private capital funds in distressed environments is the result of systemic interaction between structural constraints and actor-specific agency. Macroeconomic and legal frameworks define the opportunity space, while stakeholders—creditors, managers, investors, and intermediaries—navigate and reshape it through negotiation and control mechanisms. Recognizing this duality allows for a more comprehensive understanding of why distress investment strategies vary across regions and industries, and how ecosystemal and relational factors jointly determine value creation and recovery outcomes.

Overall, ecosystem factors influence every stage of the distress investing, as shown in Table 2.2:

TABLE 2.2: Influence of structural factors and key actors across the distress investment process

Investment Phase	Relevant Structural Factors	Key Actors	Strategic Implications
1. Opportunity Identification	Macroeconomic and financial conditions, development of financial markets	Financial institutions and intermediaries	Influences deal flow, screening intensity, and initial pricing of distressed opportunities.
2. Valuation & Due Diligence	Market transparency, accounting standards, legal certainty, information asymmetry	Advisors and target firm management	Affects valuation discounts, scope and cost of due diligence, and feasibility of alternative deal structures.
3. Acquisition & Structuring	Insolvency procedures, financing availability, transaction costs	Creditors, private capital funds, legal advisors	Shapes choice between debt-based entry, equity acquisition, or hybrid structures, and determines control rights.
4. Restructuring & Value Creation	Regulatory rigidity, sector characteristics (capital intensity, cyclicity, technological obsolescence), labour and contractual rigidity	Incumbent or new management, operational consultants, creditors	Determines focus on financial restructuring versus operational turnaround and required depth of intervention.
5. Exit	Market liquidity, IPO conditions, M&A market depth	Strategic buyers, financial sponsors, capital markets	Influences exit timing, exit channel selection, and capital recycling speed.

Synthesizing the literature reviewed, distressed investing is conceptualized as an investment strategy aimed at resolving situations of financial distress through a structured investment process encompassing opportunity identification, valuation and due diligence, acquisition and structuring, restructuring and value creation, and exit. Prior research also highlights that this process and the associated strategic choices are shaped by a combination of structural conditions (macroeconomic, legal, and institutional) and the interactions among key actors, including creditors, management, investors, and intermediaries.

Overall, the existing academic literature provides a solid foundation to develop a conceptual framework describing how distressed investing operates, the main stages of the investment process, the range of strategies available at each phase, and the key actors involved. However, while prior research extensively discusses distressed investing from a theoretical and general perspective, there is limited empirical evidence on how these strategies are implemented in practice within the Italian context. In particular, little is known about which strategic options are predominantly adopted in Italy and the factors that drive such choices.

This study addresses this gap by applying the proposed framework in Figure 2.3 to an empirical analysis of distressed investing cases in Italy, thereby offering evidence-based insights into the actual investment behavior of distressed investors.

Chapter 3

Hypothesis and objectives

Against this theoretical background, this thesis aims to analyze how the distressed investment process is structured and implemented in Italy, in comparison with the broader European context, and to identify the structural factors and key actors that shape fund strategies across the different stages of the investment cycle.

To address this overarching goal, the research is organized around three thematic pillars, each corresponding to a specific research question:

Firstly, it is essential to determine the scale and relevance of distressed investing in Italy compared to the rest of Western Europe. To achieve this, it is necessary to identify the actual proportion of firms meeting the criteria for distressed investment, referred to as the distressed investing opportunity set. While mapping this opportunity set reveals the potential market size, we must also understand how many of these firms are actually resolved through private capital intervention. This comparison helps quantify the real-world impact of these funds on the broader corporate landscape in each region. Consequently, the first research question is formulated as follows:

- **RQ1:** What is the relative size of the distressed-investing opportunity set in Italy compared to Western Europe, and what share of distressed firms is resolved through private capital intervention?

After establishing the market's relevance, the analysis shifts to characterizing the key participating entities: the funds (the drivers of change) and the target firms (the recipients of the investment). Specifically, this step examines the types of funds active in the distressed

space, such as Private Equity and Hedge Funds, alongside the profiles of the target companies, including their size (SMEs vs. large corporations) and the specific nature of the distress they face. By identifying regional differences, this analysis seeks to answer the second research question:

- **RQ2:** Do fund types and target firm characteristics differ between Italy and Western Europe, and are specific fund types associated with specific firm profiles?

Finally, once the market scale and the actors are defined, it is crucial to understand the execution and outcomes of these investments. This phase explores the specific acquisition channels and financial or operational restructuring levers employed by distressed investors, comparing Italian practices with Western European benchmarks. Furthermore, it assesses the ultimate impact of these interventions on the operational performance and solvency of the target firms. This leads to the third and final research question:

- **RQ3:** Which acquisition channels and value-creation levers are most frequently employed by distressed investors in Italy compared to Western Europe, and what is their ultimate impact on the operational performance and solvency of target firms?

Chapter 4

Methodology

To begin the analysis of how private capital funds operate within companies, the first crucial step is to identify and select appropriate cases that allow for a detailed and structured examination.

In order to understand the role of these funds in Italy, it is necessary to compare their actions with those observed in another market. This comparative approach allows for the identification of structural and operational differences that may shed light on the specific characteristics of the Italian market.

The first methodological decision therefore concerns the choice of the comparison market. In this study, Western Europe is selected as the most appropriate benchmark for Italy due to similarities in legal frameworks and cultural context. Moreover, adopting Western Europe as a reference provides a broader perspective on the global distressed investing landscape, instead of focusing on just one other country.

After explaining the importance of a benchmark and the one selected, the following sections describe the first stage of the methodology -the identification of the opportunity cases- applied both to the Italian and Western European market.

4.1 Opportunity Identification cases

4.1.1 Identification of Target Companies

The initial step in identifying relevant cases consists of defining the characteristics of firms typically targeted by private capital funds specialized in distressed investing.

Financial Distress Criterion

The primary requirement is that the firm must be in a state of financial distress. As discussed in the literature review, several indicators can be used to measure financial distress. Among these, the Net Financial Position to EBITDA ratio (NFP/EBITDA) is one of the most widely adopted by practitioners and firms (Damodaran, 2014).

A ratio exceeding 6 indicates that the company would require more than six years of operating cash flows to fully repay its debt, which constitutes a clear signal of financial distress. While this threshold is inherently subject to interpretation—values such as 5 or 7 could also be considered—the choice of 6 represents a balanced compromise that avoids excluding potentially relevant cases (Corporate Finance Institute, 2025).

This indicator, however, is only meaningful when EBITDA is positive. In cases where Net Financial Position is high but EBITDA is negative, the ratio becomes negative and would fail to capture the distressed condition. To address this limitation, a second condition is introduced to identify financial distress: the joint presence of negative EBITDA and an Equity-to-Total Assets ratio below 10%.

This dual condition ensures that firms experiencing operational losses are only classified as distressed when they also exhibit a weak capital structure, where the majority of assets are financed through debt. The second condition was added because EBITDA negative firms can still have high % of Equity and then the debt repayment is not critical in the short term. Furthermore, this combination signals not only operational distress but also solvency risk.

In synthesis, the condition applied is the following:

$$\text{Financial Distress} = \begin{cases} \text{Yes,} & \text{if } (\text{NFP/EBITDA} > 6) \\ & \text{or } (\text{EBITDA} < 0 \wedge \text{Equity/Total Assets} < 0.10) \\ \text{No,} & \text{otherwise.} \end{cases} \quad (4.1)$$

Endogenous Nature of Crisis and Industrial Stability

The second fundamental requirement is that the distressed condition must arise mainly from endogenous factors. With this, funds focuses in their main actions (restructuring and turnaround) that could already be risky, without thinking about other significant risks. Because of this, all industries that are highly volatile would be excluded, in order to isolate market risk.

To apply this criterion, only companies operating in relatively stable industries were retained in the sample. To assess this, all sectors classified with low or medium risk by S&P Ratings were selected, excluding the ones with high risk (S&P Global Ratings, 2020).

Furthermore, distress funds exhibit a strong preference for asset-intensive firms, as tangible assets provide essential downside protection: should the turnaround process fail, these assets serve as collateral for a 'liquidation exit.' Accordingly, asset-light sectors, such as financial or digital services, were excluded from the analysis.

In order to apply this criterion, the NACE Rev.2 industry classification was used. This is the Statistical classification of economic activities produced by Eurostat, a standardized framework to categorize industries across European Union member states. These categories go from 1 to 99, each number related to an economic sector, and it was used to filter the industries as it is available in both AIDA and Orbis for all companies. The following industries were selected:

TABLE 4.1: Sectoral Selection Criteria based on NACE Rev. 2.1 Classification

NACE	Industry Description	Included	Primary Justification
<i>Target Sectors (Asset-Intensive)</i>			
10–33	Manufacturing	YES	High tangible asset intensity (machinery, inventory); operational distress focus.
35	Electricity, gas, steam and AC	YES	Heavy infrastructure and stable underlying cash flows.
36–39	Water supply and waste mgmt.	YES	Essential services with a high physical asset base.
41–43	Construction	YES	Significant capital investment in machinery and project-based assets.
45–47	Wholesale and retail trade	YES	Substantial liquidation value in inventory and logistics networks.
49–53	Transportation and storage	YES	Asset-intensive fleets and strategic warehousing facilities.
55–56	Accommodation and food services	YES	Strong downside protection through underlying real estate assets.
<i>Excluded Sectors (Exogenous Risk or Asset-Light)</i>			
01–03	Agriculture, forestry and fishing	NO	High exogenous risks (weather, biological factors).
05–09	Mining and quarrying	NO	Driven by exogenous commodity price volatility.
58–63	Information and Telecom	NO	Asset-light sectors driven by intellectual property.
64–66	Financial and insurance activities	NO	High regulatory risk and non-comparable balance sheets.
68	Real estate activities	NO	Primarily passive holding structures without industrial operations.
69–99	Prof., public and other services	NO	Asset-light (human capital) or subject to sovereign risk.

Firm Size Criterion

The third selection criterion relates to firm size, requiring that the company qualify at least as a medium-sized enterprise. This choice is not arbitrary but reflects two critical considerations in distressed investing:

1-Transaction Costs and Economies of Scale

Financial restructuring processes involve significant fixed costs, including due diligence, legal advisory, and strategic consulting. It is then assumed that for the investment to be viable, the firm must generate sufficient revenues to absorb these costs.

2-Transparency and Information Quality

As explained in the literature, an important step of the distress investing process is the valuation and due diligence. In general, small firms exhibit less robust administrative structures as the costs to comply with regulation is higher in proportion of its turnover (European Parliamentary Research Service, 2016). This improves the reliability of financial information, which is essential for risk assessment and the design of a credible restructuring plan (European Banking Authority, 2018).

Accordingly, the analysis focuses on firms that have surpassed the initial survival phase and possess sufficient organizational complexity to support deep restructuring processes.

In essence, the methodology targets “good businesses with bad balance sheets.” This distinction ensures that distress is reversible through internal restructuring measures, increasing the predictability of future cash flows once the firm is stabilized.

To measure this, the research targets medium and large firms according to the standard of the EU, which states that medium firms have a turnover between 10 and 50 million of euros and between 50 and 250 employees. For the large companies, they are classified with a minimum turnover of 50 million euros and at least 250 employees (European Commission, 2025).

Legal Structure and Ownership Model

The fourth criterion concerns the firm’s legal structure and ownership model. For distressed debt or special situations strategies to be effectively implemented, the investor must be able to acquire operational and financial control efficiently. Therefore, the following entities are excluded:

1- Cooperatives and Consortia

These organizations rely on member-based governance rather than capital ownership, making control acquisition difficult and decision-making slow.

2- State-Owned or Public Enterprises

Although many state-owned or public enterprises may experience financial distress, political objectives and regulatory constraints often limit the degree of control that private investors can exercise. Even when private capital participation is possible, government influence and non-economic objectives could constrain the scope, speed, and depth of restructuring, reducing the effectiveness of traditional distressed investing strategies.

3- Holding Companies and Firms within Complex Group Structures

Firms embedded in holding structures are excluded due to limited financial autonomy. Practices such as cash pooling and inter-company lending can obscure true financial distress, as they can be “helped” without an external actor. There will still be considered firms that are operative holdings, or firms that are part of a group but it is the main enterprise of the group. In order to do this differentiation, all the firms that belong to a corporate group that has more than 30 firms will be excluded.

Temporal Framework

Once the selection criteria are defined, a temporal framework is established. Distressed investing operations typically span between three and five years ([UBS Global Wealth Management, 2025](#)). To capture recent outcomes, the analysis covers the period from 2019 to 2024, using the latest available financial statements.

Financial distress is assessed in 2019 to identify distressed firms and reassessed in 2024 to determine whether the condition persists. Firms that exit distress during this period are then analyzed to identify the mechanisms through which recovery occurred, including potential private capital fund intervention.

4.1.2 Data Collection and Filtering Process

Once explaining all the filters used, it is time to explain the data obtention in practice.

Italian Market

For Italy, the AIDA database (Bureau van Dijk) was used to collect financial data for Italian companies. Initially, all Italian firms were selected, excluding companies that are not active or that have no financial data. Firstly, the “Firm Size” filter was applied in AIDA,

selecting a filter with the variable "Number of employees" of minimum 50, and a filter for the variable "Annual turnover" of at least 10 million euros. After this, the "Relevant Industries" criteria was applied, adding a filter to select just firms with a NACE Rev.2 code of the 4.1.

For each firm, Net Financial Position, EBITDA, Total Assets, and Equity were collected for the period 2019–2024. Firms with missing data of these indicators between 2019 and 2024 were excluded.

After having the final list of firms and the relevant columns in AIDA, the data was downloaded in Excel to continue with the filters and then the analysis.

In Excel, a final cleaning of the data was done, as some data was all "0". After this final cleaning, it was applied the Financial Distress condition of the (4.1) for 2019. Finally, firms failing the legal structure criterion were excluded. To apply the filter of Consortia and Cooperatives, all firms with *Legal form* diverse from "S.P.A" or "S.R.L" were excluded; to apply the State-owned filter, all companies with *Global Owner* "REPUBBLICA ITALIANA"; and to apply the Holding/Part of a group filter, all companies with *Number of companies in corporate group* larger than 30 were excluded, in exception where a Private Capital fund was present in the *Shareholders list* -as their presence increased this number drastically.

All this filters were applied downloading the list of firms in AIDA including the 4 columns, then in Excel adding the column "Exclude" and mark with an "x" if it has to be excluded, based on the criteria explained. With this new excel, using a VLOOKUP function in Excel it was added the Exclude column to the firms in financial distress.

The resulting dataset represents the final potential opportunities of Distress Investing in 2019, and then with a potential history of private capital intervention.

Western European Market

For the European comparison, the ORBIS database was used due to AIDA's geographical limitations, as it is an Italian platform. The process and filters were exactly the same, in exception of one thing: In this platform, the indicator Net Financial Position was not

directly available, and then it was reconstructed using the formula:

$$NFP = \text{Long-term Financial Debt} + \text{Short-term Financial Debt} - \text{Cash and cash equivalents} \quad (4.2)$$

And then this 3 columns were added, instead of the Net Financial Position. This formula was selected as AIDA used the same formula to calculate the NFP indicator. This approach was validated by cross-checking Italian firms across both databases, obtaining the same NFP indicator, and then yielding a comparable distress rate, confirming methodological consistency.

In addition, the filter of Legal Structure and Ownership followed the same logic of the Italian database, but following more in detail the "Legal form" and "Global Owner", as this information was different according to the language and name of each country of western Europe.

4.2 Identification of Distress Investing intervention

Once the database with all the potential target companies and its financial data is obtained, the next step is to identify which of them solved distress, and how many solved distress with private capital funds doing distress investing.

For this stage of the methodology, the following steps were crucial.

4.2.1 Solved distress

For identifying if the firms solved distress between 2019 and 2024, the (4.1) equation was added for 2024, for both databases. With this, we can filter the firms that were in distress in 2019 but not in 2024, and then we can analyze how many of the firms that solved distress in those years were helped by distress investing funds.

4.2.2 Identification of Private Capital funds

To identify distress investing cases, it is first necessary to find the firms that had Private capital investments, to then analyze the strategy of it. The presence of private capital funds was identified through two complementary approaches.

First, ORBIS and AIDA was used to screen current ownership structures to identify the presence of funds. However, given the static nature of financial databases, this method may fail to capture completed quick turnaround investments, or investments that finished before 2024, and then there is no fund in the shareholders list.

To mitigate this limitation, it was done in two consecutive steps. The first one was to create an indicator that marks as positive if in any of the years between 2020 and 2024 it was present a change of 50% or more in the Total Equity. This number was selected as it was a common condition for all the firms with a private capital fund found with the Ownership data of Orbis/AIDA. Once identifying those firms, the total firms reduced to more than half, and a research approach was applied using secondary sources, including specialized financial press and corporate announcements. The searches were conducted using descriptors that combine company names with terms such as “capital increase”, “restructuring”, “distress”, “turnaround” and “creditor agreement”.

While this step cannot ensure full exhaustiveness due to limited disclosure, it improves coverage relative to database-only approaches.

4.2.3 Identification of Distress Investing

Once the presence of a fund is identified in a company, to ensure that only genuine distressed investing cases were included, a temporal analysis of leverage was conducted.

Companies were classified as valid distressed investments if they exhibited distress indicators in the year preceding fund entry. Firms with healthy pre-investment ratios whose leverage increased post-acquisition due to transaction financing were classified as LBO or growth capital cases and excluded.

In addition, news regarding the deal between the firm and the fund were analyzed to identify if the deal had a distressed strategy or any other strategy that is not relevant for our study.

After applying this filter, a final set of Italian firms was obtained where private capital intervention occurred in a genuine distressed context.

4.3 Key Actors analysis and correlation

Once obtained the distress investing cases and analyzing its relevance to help firms solve distress, it is necessary to understand how is composed this market in term of proportion of type of private capital funds involved and the firms that are involved based on its size, sector and distress. With this information, it is done a correlation analysis to understand if some type of funds have invested in specific profile of firms, and if these preferences are present in both regions analyzed.

4.3.1 Funds and Firms characteristics in Distress Investing

Private Capital funds

Starting with the type of funds, to address this, in both databases the variable "Type of Private Capital Fund" was created. This variable was compiled with the different type of funds explained in the literature, this is "Private Equity" and "Hedge Funds", and when both funds where present it was compiled as "Joint Intervention".

This information was compiled according to how the funds found are described in their webpage or in specialized financial database websites like Preqin and Pitchbook.

After compiling the variable, it was calculated the % of each type of fund in each market. This means, sum the number of cases where a type of private capital fund was present, and divide by the total of cases. This was done with a pivot table in Excel, selecting in the rows the type of funds, in the calculation the sum of them, and in the filters the column "type of fund" not blank. That was done for the Italy and the western Europe database. After that, for each sum it was divided by the grand total of the sum and multiplied by 100.

Involved Firms

Other important analysis to understand the market of distress investing in Italy is to identify which type of firms are being influenced the private capital funds, and how this profile differ with the rest of western Europe. They were characterized with 3 variables: firm size, industry and distress type.

The firm size indicator was separated in 2 options: medium and large. As explained previously in the methodology, the firms with a number of employees between 50 and 250, and an annual turnover between 10 and 50 million euros were identified as medium size. All the rest of the companies were classified as large firms, as the database has minimum 10 million euros as annual turnover and minimum 50 employees, so they cannot be small or micro. These two information were obtained as two columns while downloading the database from AIDA and Orbis.

The second indicator, associated to the industry type, was already obtained as a column while downloading the database for both regions.

The distress type indicator was separated in two, associated with the conditions explained in the financial distress definition. Although both criteria capture financial distress, they reflect distinct manifestations of financial fragility. The first condition ($NFP/EBITDA \geq 6$) identifies firms that remain operationally viable but exhibit excessive leverage relative to cash-flow generation capacity. The second condition ($EBITDA < 0$ and $Equity/Total\ Assets < 10\%$) captures firms experiencing operating losses combined with weak capitalization, representing a more severe and structurally complex form of distress. Distinguishing between these two profiles allows for a more nuanced analysis of investor selection patterns.

To measure this indicators, it was counted how many firms was in each type of distress and a percentage was calculated for the firms involved in Distress Investing and compared with all the opportunities market percentage, in order to obtain key differences of which profile of firms are being more influenced by private capital funds. This calculations were done for both Italy and western Europe.

With those results, it will be possible to then analyze the reasons for the hypothetical differences, measuring the correlation between them.

4.3.2 Correlation between funds and firms

Once analyzed the main differences in the characteristics of funds and firms involved in distress investing for both regions, it is necessary to understand how these differences are related.

If differences in the presence of type of funds are found between regions, and the characteristics of the firms involved are also different but not following the general profile of distressed firms in the region, then it has to be a correlation between the proportion of the type of funds and that characteristic of the firms.

In order to analyze this, it was calculated the percentage of presence of that characteristic of the firm for each type of fund. This calculation was done for Italy and western Europe.

4.4 Acquisition and Value creation Strategies identification and analysis

The objective of this phase is to identify and compare the key strategies of each investment in order to understand how private capital funds operate across Italy in comparison to the rest of Europe. In particular, the analysis focuses on *Acquisition* strategies and *financial restructuring* levers.

4.4.1 Data Collection

To operationalize this analysis, the case database was enriched with additional qualitative and categorical variables. Beyond the firm-level financial indicators and the identification of private capital involvement, the following fields were added: entry method, new debt issuance, new equity injection, debt-to-equity swap, debt restructuring (that considers debt haircut and debt renegotiation), and the use of factoring.

To ensure data reliability and mitigate information asymmetries, a three-level triangulation process was applied. First, specialized financial press was used to reconstruct transaction narratives. Industry-specific media outlets provide detailed and timely information on private capital interventions, allowing for the preliminary identification of entry modes and restructuring levers. Searches were conducted by combining the company name with the fund name. While this information is generally reliable, it was treated as indicative and subject to verification.

Second, qualitative accounting documentation—specifically the Notes to the Financial Statements—was analyzed using data retrieved from the AIDA and ORBIS databases. These documents represent a primary source for validating restructuring measures, as

they formally disclose creditor agreements, capital increases, debt restructurings, and changes in corporate governance. This step also made it possible to identify restructuring levers that were not explicitly mentioned in media sources.

4.4.2 Acquisition strategies

The “Entry Method” variable distinguishes between equity-based and debt-based entry strategies, allowing the analysis to assess whether funds predominantly enter through the acquisition of ownership stakes or by purchasing distressed debt from financial institutions.

After obtaining the information as explained in the Data Collection subsection, it was created a new column in Excel called “Entry method” and was compiled with “Debt” or “Equity” depending on the case. After this, it was done a comparative analysis between each type of fund and each region.

The comparative analysis was done creating a Pivot Table in Excel, having in the rows the type of funds and the entry method, and in the columns the sum of entry method. With this, it was calculated the percentage of cases for each type of fund (Hedge funds, Private Capital and Joint Interventions) that used debt acquisition method and equity acquisition method. This analysis was done for the European database and then for the Italian database, in order to compare the results obtained between regions and analyze if there are differences in the strategies depending on the type of fund or on the region.

4.4.3 Value Creation strategies

The value creation strategies explained in the data collection were also registered in Excel, creating a column for each strategy marked with an “x” if present. This coding approach enables systematic comparison across cases while preserving the qualitative nature of the underlying restructuring processes.

In this matter, it was created a pivot table in Excel. In each row there is a type of fund and in the columns there are the different financial levers (new debt, new equity injection, debt restructuring, debt-to-equity swap and factoring). In each column it is shown the number of cases where the lever was applied, summing the “x” marks, and finally it was

done a percentage calculation. Again, this process was done for Italy and western Europe databases.

4.4.4 Evaluation of the impact of private capital funds on distressed firms

Finally, it is necessary to measure the precise operational and financial impact driven by private capital interventions in target firms. To quantify these economic transformations, the final methodological step required aligning corporate financial statement metrics with the exact operational horizon of each transaction.

Because structural databases such as AIDA and ORBIS record historical financial records on a standard calendar-year basis rather than transaction-specific milestones, a comprehensive case-by-case tracking was implemented. Secondary research was conducted via public corporate registries, court filings, and specialized financial media outlets (e.g., *BeBeez*, *Il Sole 24 Ore*, *Milano Finanza*, and international private capital portals) to reconstruct the exact investment timeline for the 24 Italian and 21 Western European validated distressed deals. This empirical triangulation allowed for the definitive isolation of two primary temporal milestones:

- **The Entry Situation (T_{entry}):** Defined as the fiscal year immediately preceding the execution of the transaction. This one-year baseline shift was deliberately selected because the actual calendar year of fund entry is already inherently impacted by the initial restructuring actions, transaction costs, and asset revaluations, rendering it unrepresentative of the genuine pre-intervention distressed state.
- **The Exit Situation (T_{exit}):** The fiscal year marking the fund's full divestment (via trade sale, management buyout, or secondary buyout) or, in the case of ongoing portfolio companies, the latest financial information available (2024 or 2025).

By standardizing the analysis around the actual holding period ($\Delta T = T_{exit} - T_{entry}$), rather than static calendar intervals as for the previous analysis, the calculation of post-investment operational metrics captures the structural turnaround performance directly attributable to fund governance.

After collecting the transaction timelines and the financial statements corresponding to both T_{entry} and T_{exit} , the operational and solvency improvement analysis was done.

Starting with the operational improvements, the first analysis is to measure the percentage of firms with negative EBITD before and after the funds intervention, following of the calculation of the compounded variations for both EBITDA. To prevent mathematical distortions caused by negative values in the denominator, which is highly prevalent in EBITDA-negative distressed targets, the variation metrics utilize absolute values in the base baseline configuration. The variation of EBITDA was calculated as:

$$\text{EBITDA Variation} = \frac{\text{EBITDA}_{\text{exit}} - \text{EBITDA}_{\text{entry}}}{|\text{EBITDA}_{\text{entry}}|}$$

Concurrently, the leverage and solvency improvement analysis was done by calculating the percentage of firms with negative Equity before and after the funds intervention, followed by the calculation of the compounded variations for both Net Debt (NFP) and Equity/Total Assets ratios. Both calculations were performed using absolute values in the denominator to avoid distortions from negative values, as for the EBITDA calculation. Despite the relevance of the Net Debt/EBITDA ratio, it was not used in this analysis due to the high prevalence of negative EBITDA values, which would have rendered the ratio meaningless for a significant portion of the sample.

With this results, the final step of the methodology is to compare the results obtained in Italy with the ones obtained in western Europe, to understand if there are differences in the impact of private capital funds in distressed firms between regions. This will be done with a comparative analysis of the median of the EBITDA variation, Equity/Total Assets and Net Debt variation, for each type of fund and for each region. The median was chosen as the most appropriate measure of central tendency due to the presence of outliers in the dataset, which could skew the mean and misrepresent the typical performance outcome.

Chapter 5

Results and analysis

5.1 Distress Investing relevance

As described in the methodology, the first step of the analysis consists of identifying the opportunity market in each region. The initial results therefore concern the funnel-based filtering process used to derive the final set of cases for each region.

5.1.1 Opportunities identification

Regarding the Italian sample, the initial universe of firms available in AIDA, after cleaning the dataset to retain only active companies with available financial information, consisted of 3.137.418 firms.

The first filter applied concerned firm size, reducing the sample to 23.066 firms. This represents 0,74% of the total population, a proportion consistent with official statistics from the Italian Business Register, which indicate that approximately 0,8% of Italian firms are classified as medium or large ([Italian Business Register, 2025](#)).

The second filter applied concerned industry relevance, further reducing the sample to 16.847 firms.

Subsequently, the final filter applied within AIDA consisted of retaining only firms with available data for the period 2019–2024, which reduced the sample to 14.890 firms. Once these filters were applied, the dataset containing all relevant variables was extracted for further analysis.

After applying these filters and extracting the dataset, the financial distress criterion described in the methodology was applied to 2019 data, identifying 11% of firms as financially distressed.

Finally, the last filter in the opportunity identification stage concerned legal form. After excluding holding companies and group entities whose distress could be considered non-operational, the final proportion of firms classified as financially distressed amounted to 8,37%.

This results are illustrated in the following funnel chart:

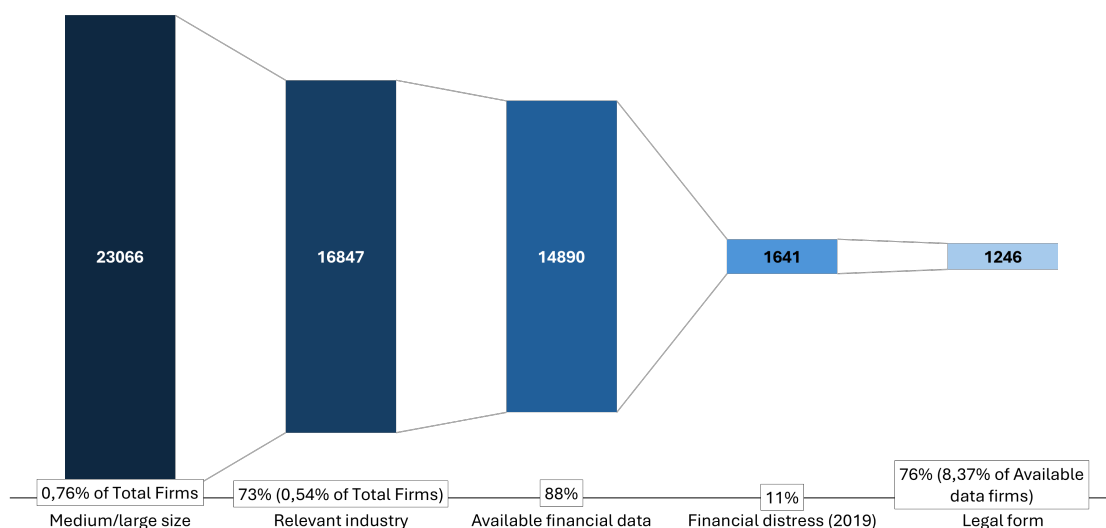


FIGURE 5.1: Funnel of Opportunities identification in Italy

The same methodology was applied to the Western European database. In this case, the initial universe of firms available in ORBIS amounted to 9.578.599 observations. Applying the same firm-size criterion reduced the sample to 111.021 firms, corresponding to 1,16% of the total. This proportion is consistent with Eurostat statistics, which indicate that approximately 1% of European firms are classified as medium or large.(Eurostat, 2025). After applying this filter, the following illustration explain the next steps of the funnel:

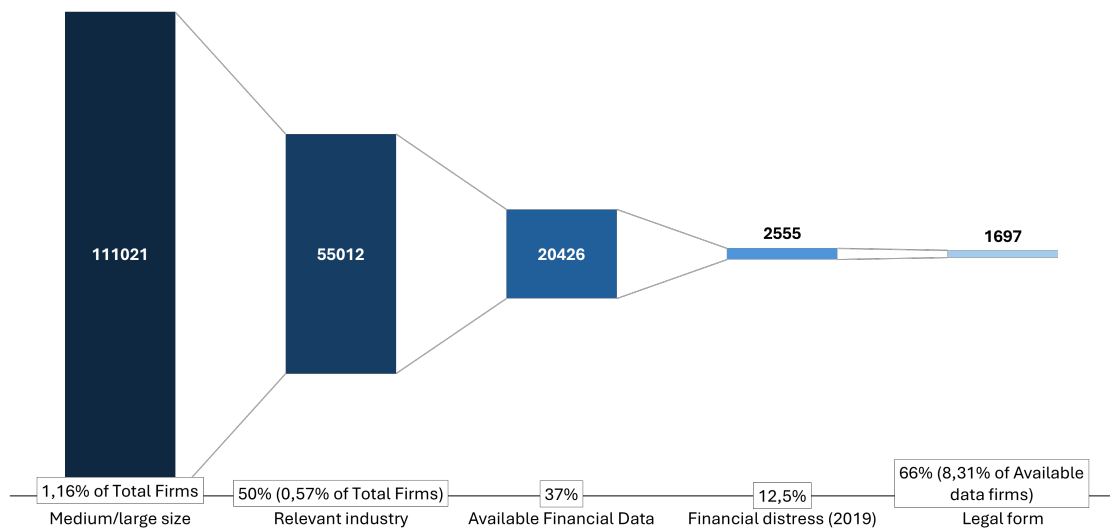


FIGURE 5.2: Funnel of Opportunities identification in western Europe

Due to differences in data availability required to compute Net Financial Position (NFP), this information was missing for a substantial share of firms, leading to a significant reduction in the resulting dataset. Nevertheless, a sample exceeding 14.000 observations can be considered statistically representative.

In addition, the % of opportunities of every European country analyzed is illustrated as follows:



FIGURE 5.3: Distressed opportunities market in Europe by country

After applying the first two filters, the proportion of relevant firms was nearly identical across regions (0,54% for Italy and 0,57% for Western Europe). Moreover, considering only firms with available data, the percentage of companies classified as financially distressed and relevant for distressed investing is also highly similar: 8,37% in Italy and 8,31% in Western Europe.

These results suggest that, in terms of available opportunities, both regions exhibit comparable average levels, with Italy positioned among the countries characterized by a relatively higher concentration of opportunities (orange and red categories in Figure 5.3).

5.1.2 Private capital funds as distress solvers

After analyzing the overall opportunity market for distressed investing—identified as medium and large enterprises in genuine financial distress in 2019 within the selected industries—the analysis proceeds to examine how many of these firms had resolved distress by 2024 and how many did so with the involvement of private capital funds pursuing a distressed-investing strategy. Applying the financial distress criterion to 2024 data indicates that 97% of distressed firms in Italy had resolved their distress, compared with 87%

in Western Europe.

At this stage, the number of firms that resolved financial distress between 2019 and 2024 had been identified. Subsequently, firms in which private capital funds held ownership stakes at any point during the 2019–2024 period were selected.

Finally, the last filter consisted of retaining only firms in which private capital funds were engaged in distressed investing rather than in leveraged buyouts or other investment strategies. Accordingly, cases in which funds entered firms during non-distress years were excluded. This procedure resulted in a final sample of 24 cases for Italy and 21 cases for Western Europe.

The following figures illustrate the proportion of firms that resolved distress through the involvement of private capital funds pursuing a distressed-investing strategy in Italy and Western Europe:

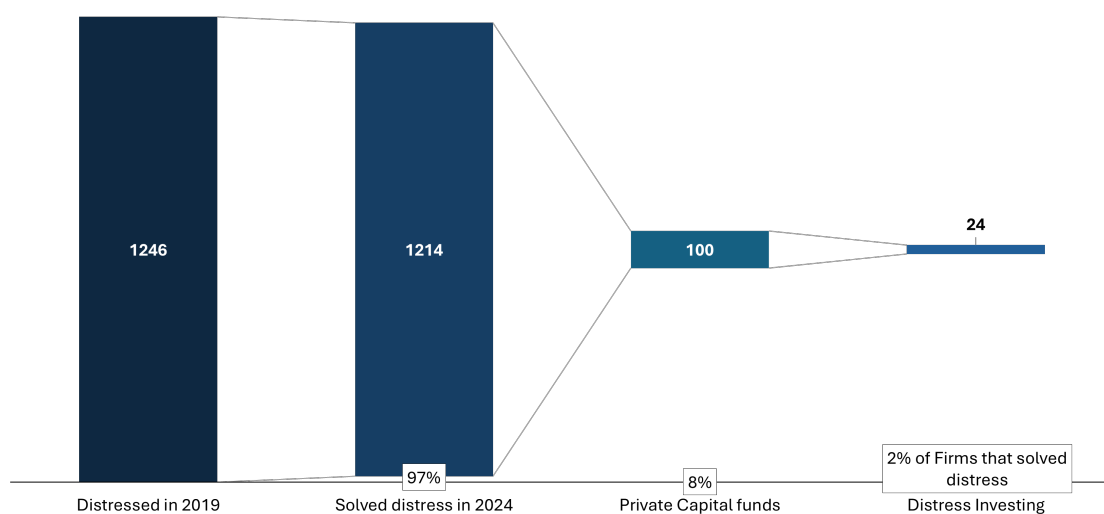


FIGURE 5.4: Identification of Distress Investing in Italy

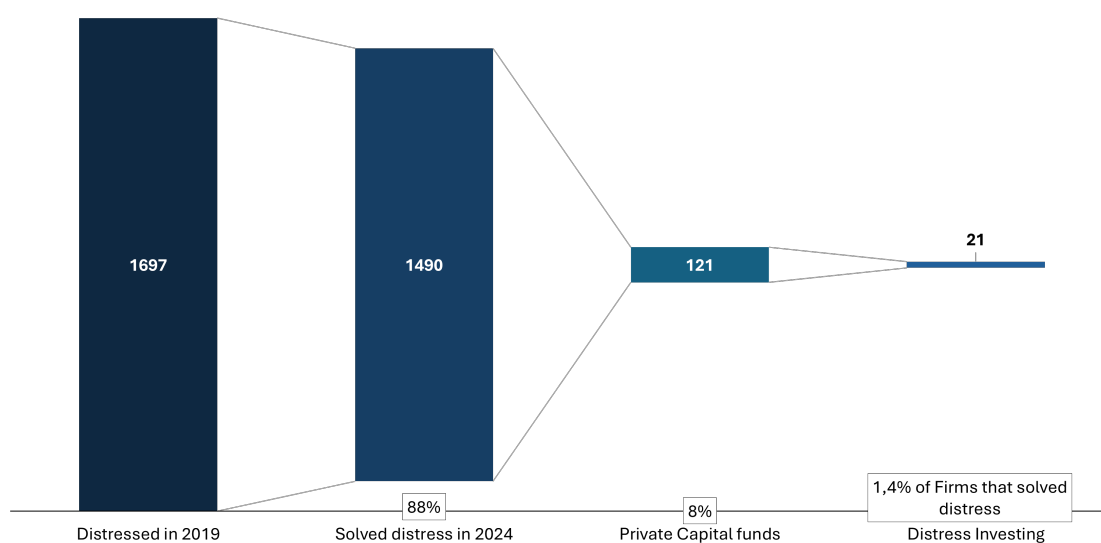


FIGURE 5.5: Identification of Distress Investing in western Europe

In Italy, the proportion of firms that resolved distress through distressed investing is higher than the European average (2,0% vs. 1,4%). Considering only countries with at least 50 firms in financial distress in 2019, in order to ensure statistical relevance, Italy emerges as the second Western European country with the highest share of distress resolutions through distressed investing, following the United Kingdom.

The following table reports these results:

TABLE 5.1: Top 5 Countries that solved most distress with Private Capital funds (2019-2024)

Country	Distress Investing Proportion (%)
United Kingdom	2.42%
Italy	1.97%
France	1.36%
Belgium	1.23%
Spain	1.16%

Source: Own elaboration based on AIDA/Orbis data and extensive research.

5.2 Characteristics of Firms and Funds involved in Distress Investing

5.2.1 Characteristics of Key Actors involved

Given the 24 cases identified for Italy and the 21 cases for Western Europe, the next step is to identify the actors involved in each case (target firms and investing funds).

Private capital funds

The analysis begins by identifying the different types of funds involved in distressed investing. In addition to the Private Equity and Hedge Funds discussed in the literature, the sample also includes state-owned funds—whose mission is to support the survival of distressed firms through public intervention—as well as cases in which multiple fund types are simultaneously involved in the same transaction.

Figure 5.6 illustrates the distribution of fund types across regions:



FIGURE 5.6: Type of funds' involvement proportion by region

In Italy, Private Equity funds account for the majority of distressed-investing cases, representing approximately 83% of total observations when considering their overall presence. In addition, state-owned funds are involved in about 8% of the cases.

By contrast, a different pattern emerges in Western Europe. Private Equity funds are present in only 57% of distressed-investing cases, while Hedge Funds are involved in approximately 63% of observations—more than twice their relative presence in Italy.

Firms involved

As described in the methodology, firm characteristics are classified into three dimensions: size, industry, and type of distress.

With respect to firm size, the following results are reported:

TABLE 5.2: Firm size distribution in distress investing vs. all distressed firms (2019), Italy vs. Western Europe

Size	Italy		Western Europe	
	Distress Investing	All Firms	Distress Investing	All Firms
Large	63%	33%	71%	49%
Medium	38%	67%	29%	51%

In the table, "All Firms" is referred to the firms defined as *Opportunities* in the first section of results, this means just firms in distress and other special conditions. The results show that, despite in both regions there are less large firms than medium, funds prefer to invest in large companies. The results show that in Italy funds also have this preference but not as marked as the rest of western Europe (63% vs 71%), but this is explained because there are less large firms in the *opportunities market*, then there is still that preference.

Regarding the industries, those are the results:

TABLE 5.3: Industry distribution of distress-investing cases versus all distressed firms (2019), Western Europe vs. Italy

Industry	Western Europe		Italy	
	Funds	All Firms	Funds	All Firms
Manufacturing	16%	26%	61%	61%
Electricity, gas, steam and air conditioning supply	0%	1%	0%	0%
Water supply, waste management	0%	0%	0%	1%
Construction	11%	13%	4%	5%
Wholesale and retail trade	32%	47%	17%	23%
Transportation and storage	42%	11%	9%	8%
Accommodation and food services	0%	0%	9%	3%

In this case, unlike the pattern observed for firm size, the distribution of industries among distressed-investing cases closely mirrors the distribution observed in the broader set of distressed firms. This suggests that funds primarily adapt to the sectoral composition of available distressed opportunities rather than exhibiting a systematic preference for a specific industry among those suitable for their strategy.

It is nevertheless worth noting that, in Italy, the majority of distressed-investing cases are concentrated in the manufacturing sector, whereas in Western Europe the retail sector accounts for the largest share.

Finally, the type of distress characterizing firms involved in distressed investing is analyzed and compared with that of the broader population of distressed firms. This analysis is conducted for both regions, and the results are reported below:

TABLE 5.4: Distribution of distress types among distressed-investing targets and all distressed firms (2019), Italy vs. Western Europe

Type of distress	Italy		Western Europe	
	Funds	All Firms	Funds	All Firms
$\text{NFP/EBITDA} \geq 6$	50%	89%	88%	80%
$\text{EBITDA} < 0$ and $\text{Equity/TA} < 10\%$	50%	11%	12%	20%

This dimension exhibits the most pronounced difference among all firm characteristics. The results indicate that, in Italy, firms with negative EBITDA—identified in the methodology as experiencing more severe distress than purely high-leverage cases—represent a relatively small share of the overall distressed population. Nevertheless, approximately half of the Italian distressed-investing cases target this type of firm.

By contrast, in Western Europe, the results point to a stronger focus on firms characterized primarily by debt-related distress, with distressed-investing activity rarely directed toward companies exhibiting negative EBITDA.

5.2.2 Correlation between Funds and Firms characteristics and distress

As discussed in the previous subsection, the results indicate a higher presence of Private Equity funds in Italy compared with Western Europe. Furthermore, the main cross-regional difference in firm profiles concerns the type of distress, whereas differences in industry composition primarily reflect the underlying distribution of firms in each region. The preference for large firms is instead observed consistently across both regions. These findings motivate an examination of whether fund type and distress type are associated in the Italian context.

After analyzing the type of distress targeted by each fund category—Hedge Funds, Private Equity Funds, and joint investments—the results are reported below:

TABLE 5.5: Distribution of distress types by fund category (percentages within each fund type)

<i>Panel A: Italy</i>		
Type of fund	EBITDA < 0 & Equity/TA < 10%	NFP/EBITDA ≥ 6
Hedge Funds	0%	100%
Private Equity	43%	57%
Joint Interventions	80%	20%
<i>Panel B: Western Europe</i>		
Type of fund	EBITDA < 0 & Equity/TA < 10%	NFP/EBITDA ≥ 6
Hedge Funds	0%	100%
Private Equity	0%	100%
Joint Interventions	12%	88%

Table 5.5 shows that hedge funds exclusively target leverage-driven distress in both regions. In contrast, Italian private equity funds allocate a substantial share of investments to firms exhibiting operating losses combined with weak capitalization, whereas their Western European counterparts concentrate entirely on leverage-driven distress. Joint interventions display a similar pattern, being primarily associated with severe operating-solvency distress in Italy.

5.3 Analysis of Investment Strategies by Fund Type and Region

After examining the relevance of distressed investing in Italy in terms of available opportunities, the role of private capital funds in resolving distress, and the main actors involved together with their characteristics and associations, the analysis turns to the actual interventions implemented by funds in order to assess how firms are impacted.

To analyze the investment strategies employed during corporate turnaround processes, the sample was categorized into three distinct groups based on the nature of the actors involved: Private Equity (PE) funds, Hedge Funds (HF), and joint interventions where both types of funds acted simultaneously. State-owned funds were excluded from this specific analysis due to their limited statistical representation.

The following sections examine the prevalence of different financial levers across these groups, first focusing on the Italian market and subsequently on Western Europe. This structure allows for an assessment of whether observed Acquisition and Value creation

strategies differences are primarily driven by the intrinsic characteristics of the fund type or by regional financial ecosystem features.

5.3.1 Hedge Fund strategies

The analysis begins with acquisition strategies. As discussed in the literature, funds may enter distressed firms either by acquiring equity stakes or by purchasing debt instruments. The following figures present the corresponding evidence for Italy and Western Europe:

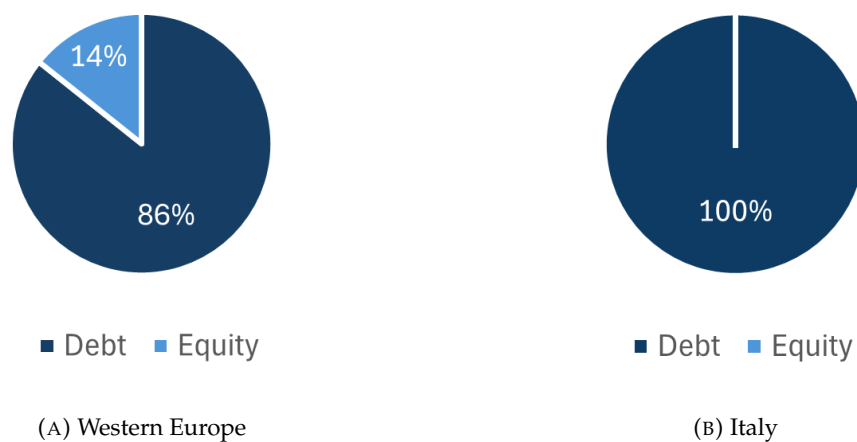


FIGURE 5.7: Hedge Funds' acquisition strategy for western Europe and Italy

The following subsection examines the financial levers employed for value creation:

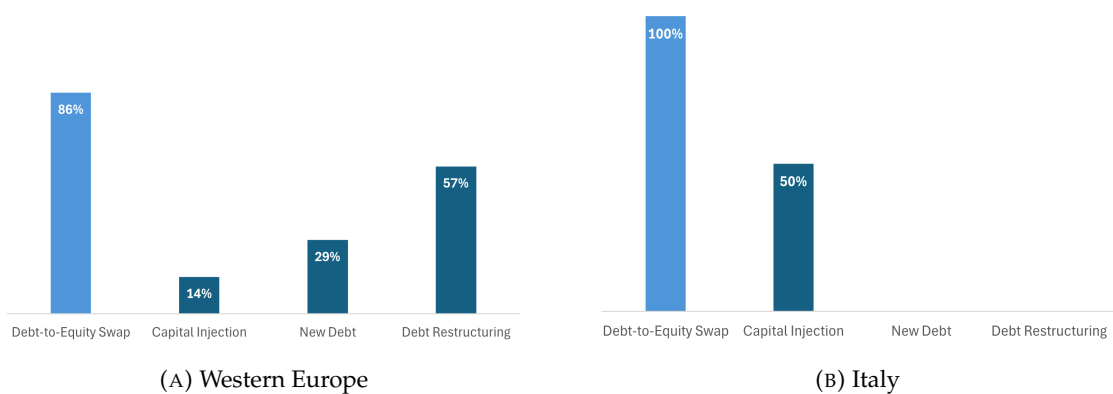


FIGURE 5.8: Hedge Funds' value creation strategy for western Europe and Italy

Hedge Funds exhibit a clear strategic pattern, typically entering distressed firms through the acquisition of debt and subsequently obtaining control via debt-to-equity swaps. This

strategy is broadly consistent across both regions.

5.3.2 Private Equity Strategies

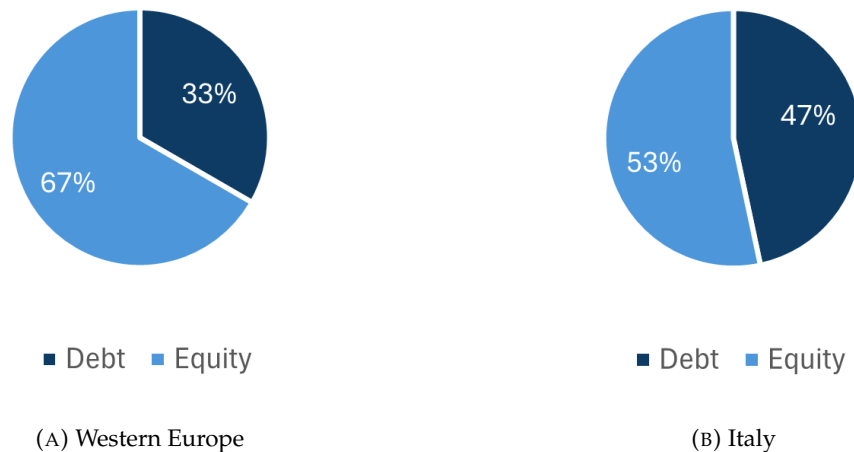


FIGURE 5.9: Private Equity funds' acquisition strategy for western Europe and Italy

In contrast to Hedge Funds, Private Equity funds predominantly enter distressed firms through equity-based acquisitions, namely by purchasing company shares. This pattern exhibits a similar tendency across both regions.

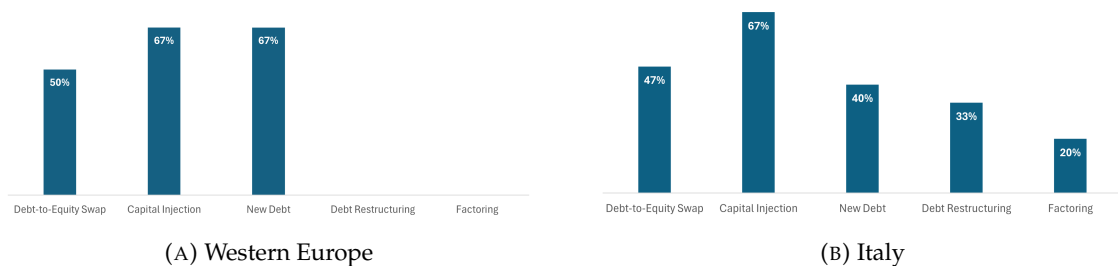


FIGURE 5.10: Private Equity funds' value creation strategy for western Europe and Italy

A significant difference emerges in this dimension. Private Equity funds employ, on average, a broader set of financial levers than Hedge Funds, with capital injections representing the most frequently used instrument. In addition, in Italy there are cases in which debt restructuring and even factoring are utilized, indicating a more sophisticated strategic approach compared with Western Europe.

5.3.3 Joint Interventions Strategies

Finally, the analysis considers cases in which Hedge Funds and Private Equity funds jointly intervened in distressed firms. The following results are reported:

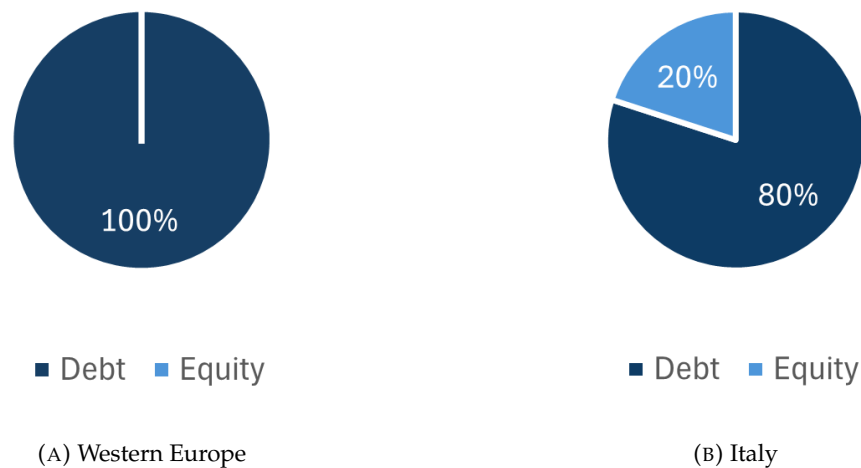


FIGURE 5.11: Joint Interventions' acquisition strategy for western Europe and Italy

In this case, the acquisition strategy more closely resembles that typically adopted by Hedge Funds, with entry occurring predominantly through debt instruments. This pattern is consistent across both regions. With respect to value creation strategies, the results are illustrated in the following figure:

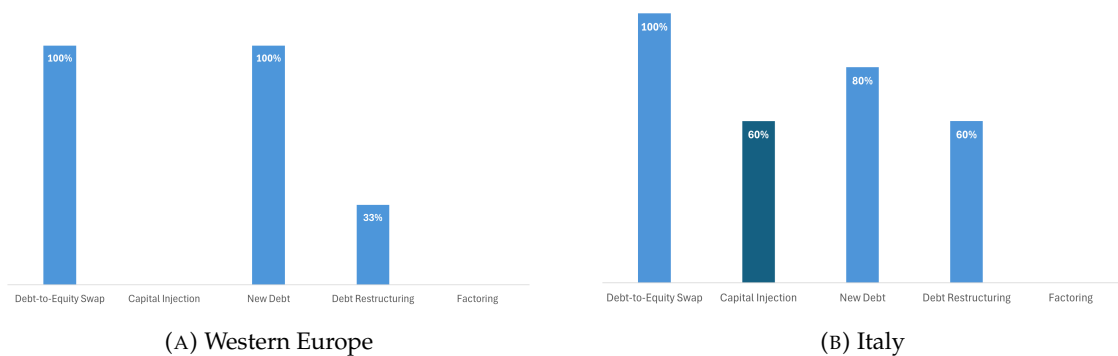


FIGURE 5.12: Joint Interventions' value creation strategy for western Europe and Italy

The value-creation levers display some differences relative to those observed for each fund type when considered separately. In the case of joint investments, a combination of both approaches emerges: debt-to-equity swaps, typically used by Hedge Funds to obtain

control, and additional levers such as new debt issuance or debt restructuring, which are more commonly employed by Private Equity funds.

These results also indicate that strategic patterns are broadly similar across the two regions. Nevertheless, Italy exhibits a higher incidence of capital injections, consistent with the evidence reported for the other fund categories.

5.3.4 Comparative Synthesis: Italy vs. Western Europe

In synthesis, the results indicate that each group adopts a distinct strategic approach. Hedge Funds primarily follow a loan-to-own strategy, acquiring control through discounted debt purchases. Private Equity funds predominantly enter by acquiring equity stakes and subsequently create value through the deployment of multiple financial levers. Joint interventions combine elements of both approaches: firms are acquired through a loan-to-own strategy and value is then created through the use of a broader set of financial levers, often with the support of Private Equity partners. These strategic differences are consistent across both regions analyzed.

Nevertheless, some country-specific patterns emerge for Italy. In this market, all fund types rely more extensively on capital injections than in Western Europe. Moreover, Private Equity funds appear particularly versatile in Italy, employing, on average, a wider range of financial levers, including instruments such as factoring.

5.3.5 Evaluation of Private Capital funds Impact in Distressed Firms

Lastly, after exploring the strategic approaches and value creation methods, the analysis focuses on the impact of private capital funds on distressed firms. The evaluation is conducted by comparing the financial performance of firms at the time of fund entry and exit, with a particular emphasis on two key metrics: EBITDA and leverage. The following figures illustrate the initial and final situations for both Italy and Western Europe.



FIGURE 5.13: Operational improvement after Private Capital funds intervention in Italy

From the analyzed firms, a 61% started with a negative ebitda, and just a 6% remained with a negative EBITDA. This means that the intervention of private capital funds solve the operational distress in a 91% of the cases. The following figure illustrates the same analysis for Western Europe:



FIGURE 5.14: Operational improvement after Private Capital funds intervention in Western Europe

In contrast with Italy, as we already explained in the first sections, much less target firms had negative EBITDA, but the percentage of firms that remained in that condition is the same than in Italy (6%). To have a more precise analysis of the operational impact, the table below shows the median EBITDA variation for each region, in addition to the median of years that last the private capital interventions.

TABLE 5.6: Firm's EBITDA variation and median years of Private Capital funds intervention by region

Region	EBITDA Variation (%)	Median intervention Years
Italy	147%	5,5
Western Europe	70%	4

Source: Own elaboration based on AIDA/Orbis data and extensive research.

As we can see, there was a notorious improvement in the EBITDA of distressed firms after the intervention, with a median increase of a 147% in Italy, compared to a 70% in Western Europe. In every case, in both regions the intervention of private capital funds had a positive impact in the firms' operations. There is also a difference in the time intervention: in Italy interventions are in median 1,5 years longer than in Western Europe, so the italian impact takes more time but is more effective. In addition, it is important to mention that the italian numbers were higly impacted by the Joint Interventions, which median increaso of EBITDA in firms was a 292%, with a median time of 6 years.

Regarding the leverage and solvency improvement, the following figures illustrate the situation:



FIGURE 5.15: Solvency improvement after Private Capital funds intervention in Italy

In Italy, the 44% of firms started with a negative Equity, and instead all finished with a positive Equity. This result is extremely impactful, as in Italy if a firm has negative Equity it has to be dissolved if no more capital is added.



FIGURE 5.16: Solvency improvement after Private Capital funds intervention in Western Europe

In Western Europe, 43% of firms started with a negative Equity, but 27% of them finished also in that situation. It is important to mention that many of the analyzed firms are still under private capital intervention, so the final situation may change in the future. In any case, this indicates that in other european regions like the UK, the firms can operate with a negative Equity.

To finish the solvency and leverage analysis, the table below shows the median of Equity/TA ratio reduction and Net Debt reduction percentage for both regions:

TABLE 5.7: Firm's Equity/TA ratio median increase and Net Debt median reduction percentage by region after private capital funds intervention

Region	Equity/TA Increase (%)	Net Debt Reduction (%)
Italy	23%	82%
Western Europe	15%	109%

Source: Own elaboration based on AIDA/Orbis data and extensive research.

The results show that both regions' firms have improved their solvency and leverage positions after the interventions. In Italy, there is a bigger impact in the Equity/Total Assets ratio, while in Western Europe the improvement is slightly less pronounced. Regarding the leverage, both regions show significant improvements, but in Western Europe the reduction is more substantial.

In synthesis, the intervention of private capital funds in distressed firms has a positive impact in both regions, but the italian impact is more effective in the operational aspect and respecting positive equity levels, while in the rest of Western Europe there is also an EBITDA impact, but the major improvement is in the Net Debt, and the Equity levels are not as relevant as in Italy.

Chapter 6

Discussions

This chapter interprets the empirical findings presented in Chapter 5 and discusses their implications in light of the theoretical framework developed in the literature review. The discussion is structured around the three research questions, focusing on (i) the relative relevance of distressed investing in Italy compared to Western Europe, (ii) the association between fund types and target firm characteristics, and (iii) cross-regional differences in acquisition channels and value-creation strategies.

6.1 Distressed Investing Relevance in Italy versus Western Europe

The results indicate that Italy exhibits a higher proportion of distressed firms whose recovery is associated with private capital intervention than Western Europe. This finding suggests that distressed investing plays a comparatively more central role in the Italian corporate restructuring ecosystem.

This pattern can be interpreted in light of Italy's bank-centered financial system and historically high stock of non-performing loans. In such a context, banks have strong incentives to offload distressed exposures and facilitate ownership changes when internal restructuring proves insufficient. Private capital funds, particularly private equity, therefore act as complementary actors to the banking system by providing fresh equity capital and assuming control of financially weakened firms.

Moreover, the evidence shows that Italian distressed deals are more frequently characterized by equity-based entry and capital injections. This reinforces the interpretation that

Italian distress is often associated with undercapitalization rather than purely excessive leverage. Consequently, recovery requires balance-sheet repair through new equity rather than solely financial engineering via debt instruments.

Overall, the findings support the view that Italy represents one of the most active European markets for distressed investing, not necessarily in absolute size, but in terms of the relative importance of private capital as a mechanism for resolving corporate distress.

6.2 Fund Types and Target Firm Characteristics

The empirical results reveal systematic differences in the profiles of firms targeted by different fund types.

Private Equity funds are more frequently involved in firms exhibiting operating losses combined with weak capitalization. This pattern is consistent with the structural characteristics of private equity vehicles, which are designed for long-term, control-oriented investments and operationally intensive turnarounds. These funds are therefore better positioned to implement deep restructuring plans that combine financial recapitalization with operational transformation.

By contrast, Hedge Funds tend to target firms that remain operationally viable but display very high leverage. This is coherent with their greater use of distressed debt strategies, whereby value is generated primarily through financial restructuring, legal positioning, and capital structure optimization rather than direct operational intervention.

In the Italian sample, this segmentation is more pronounced. Private Equity funds display a significantly higher propensity to invest in firms with negative EBITDA combined with weak capitalization compared to Western Europe. This indicates a greater willingness of Italian Private Equity investors to engage in complex turnaround situations where operating performance is already impaired.

This pattern helps explain the higher relative presence of Private Equity funds in Italian distressed deals. Rather than reflecting a simple abundance of opportunities, it suggests the existence of a Private Equity segment specialized in equity-led interventions in severely distressed firms. In other words, Italian Private Equity funds do not avoid

EBITDA-negative targets, provided that sufficient control and restructuring latitude can be obtained.

Overall, the evidence indicates that fund-type specialization is a structural feature of distressed investing, while regional context influences the relative weight and strategic orientation of each fund category.

6.3 Acquisition Channels, Value-Creation Strategies and Impact Analysis

The comparative analysis shows that Italian distressed deals rely more heavily on equity-based entry and capital injections, whereas Western European deals display a higher prevalence of debt-based entry and debt-for-equity swaps.

This divergence can be interpreted as a consequence of differences in financial market depth and institutional architecture. Western European markets benefit from more developed secondary debt markets and more standardized restructuring frameworks, which facilitate debt trading and creditor-led restructurings. As a result, debt-based entry represents an efficient channel for acquiring control.

In Italy, by contrast, secondary debt markets are less liquid and restructuring processes are often slower and more complex. Under these conditions, direct equity acquisition combined with recapitalization becomes a more practical route for distressed investors.

Further evidence of Private Equity specialization in Italy emerges from the analysis of value-creation levers. Private Equity funds in Italy employ a broader set of restructuring tools per deal than their Western European counterparts, combining capital injections, debt restructuring, governance changes, and operational turnaround measures.

This higher intensity of intervention indicates that Italian Private Equity investors possess both the organizational capabilities and the strategic orientation required to manage complex restructurings. It also reinforces the interpretation that equity-based entry in Italy is not merely a transactional preference, but part of a broader approach centered on deep corporate transformation.

Finally, the impact analysis suggests that distressed investors may adopt different turnaround approaches across regions. Italian investors appear to commit capital over longer holding periods while achieving stronger improvements in operating profitability and equity restoration. In contrast, investors operating in the broader Western European sample seem to prioritize financial stabilization, generating larger reductions in leverage over comparatively shorter investment horizons while operational recovery is more moderate.

Another interesting finding concerns the evolution of shareholders' equity. Although leverage improves substantially across both regions, Italian portfolio companies exhibit a more pronounced recovery in equity positions. This suggests that Italian restructurings may place greater emphasis on restoring the firm's capital structure in addition to reducing financial debt, whereas firms in the broader European sample appear able to operate for longer periods with weaker equity positions while focusing on debt sustainability.

6.4 Synthesis

Taken together, the findings reveal a coherent configuration of the Italian distressed investing market. Italy combines a high relative importance of Private Equity funds, a greater tolerance for EBITDA-negative targets, and a higher intensity of restructuring activity.

These elements are mutually reinforcing. The willingness of Italian Private Equity funds to engage in severe distress increases their relevance in the market, while their ability to deploy multiple restructuring levers makes such engagement economically viable. As a result, Italy exhibits a model of distressed investing that is predominantly equity-led and turnaround-oriented.

By contrast, Western Europe relies more heavily on debt-based entry and creditor-driven restructurings, consistent with deeper secondary debt markets and a greater role for Hedge Funds.

Overall, the evidence suggests that cross-country differences in distressed investing are not only driven by institutional environments, but also by the degree of specialization of domestic private capital investors in handling complex turnaround situations. In addition, analyzed impacts suggest that distressed investing should be viewed not only as a

financial investment strategy but also as a mechanism capable of preserving productive businesses and supporting the long-term resilience of the real economy.

Chapter 7

Conclusions

7.1 Empirical conclusions

This thesis examined how distressed investing is implemented in Italy and how it differs from Western Europe, with a focus on the translation of corporate financial distress into private-capital-backed interventions, the composition of investors and target firms, and the strategies adopted across the investment cycle.

With respect to the first research question, the analysis shows that the share of firms satisfying the opportunity identification criteria for distressed investing is broadly similar in Italy and Western Europe. However, a larger proportion of these potential targets in Italy are associated with actual distressed investments involving private capital funds. This indicates that, while the pool of candidate firms is comparable across regions, distressed situations are 0.6 percentage points more likely to be resolved through private-capital-backed interventions in Italy than in Western Europe. Given an average western European resolution rate of 1.4%, this difference corresponds to an increase of approximately 43% relative to the average.

Regarding the second research question, clear differences emerge in the composition of distressed investors across regions. In Italy, distressed investing activity is predominantly driven by Private Equity funds, whereas Western Europe exhibits a more balanced presence of Private Equity and Hedge Funds. Joint interventions involving both fund types are observed in both regions. In terms of target firm characteristics, distressed investments in Italy more frequently involve firms with negative EBITDA, while in both regions such investments are predominantly concentrated in large enterprises. Moreover,

the greater presence of Private Equity funds in Italy is associated with 43 percentage points higher propensity to invest in firms with negative EBITDA, indicating a correlation between investor composition and the severity of distress targeted.

Concerning the third research question, the findings indicate that acquisition modes and value-creation strategies are strongly associated with fund type. Across both Italy and Western Europe, Private Equity funds predominantly enter through equity acquisitions and rely heavily on new equity injections as a central restructuring lever. Hedge Funds, by contrast, mainly adopt debt-based entry strategies, such as loan-to-own transactions, and rely extensively on debt-to-equity swaps. These fund-specific strategic orientations are consistent across regions. At the regional level, new equity injections are more frequent in Italy, while new debt issuance is more common in Western Europe. Across all fund types and geographies, debt-to-equity swaps emerge as the most widely used restructuring instrument. Ultimately, the impact analysis reveals that these interventions translate into substantial financial and operational improvements for the target firms. In both regions, portfolio companies experience a significant recovery in EBITDA and solvency, which represent the main drivers in resolving financial distress. In Italy, the turnaround is characterized by a deeper recovery in operating performance (a median EBITDA increase of 147% versus 70% in Western Europe) and a more pronounced restoration of the capital structure, with 100% of the Italian cases successfully returning to positive equity. Conversely, interventions in the rest of Western Europe exhibit shorter investment horizons (a median holding period of 4 years versus 5.5 years in Italy) and deliver a more substantial reduction in leverage (a median Net Debt reduction of 109% versus 82% in Italy), albeit with a more moderate impact on the firms' underlying operating profitability.

Overall, the empirical evidence suggests that regional differences in distressed investing are primarily related to how corporate distress is intermediated through private capital markets and to the composition of active investors, rather than to fundamental differences in the characteristics of distressed firms. At the same time, the impact analysis indicates that distressed investing fulfils different economic roles across Europe. While investors throughout both regions contribute to the recovery of financially distressed firms, the Italian market focuses on interventions characterized by longer holding periods, investments

in more severely distressed companies and deeper operational and capital-structure recoveries. These findings contribute to the limited empirical literature on distressed investing in continental Europe by providing evidence not only on investment strategies, but also on their observable outcomes.

7.2 Limitations

This study is subject to several limitations that should be considered when interpreting the findings.

First, the analysis relies on firm-level financial information obtained from commercial databases, whose coverage and completeness may vary across countries and firm sizes. In particular, the identification of financial distress in Western Europe is conditional on the availability of detailed debt data, which may affect the comparability of absolute distress rates across regions. Consequently, the results should be interpreted primarily in relative and comparative terms.

Second, the identification of private capital fund interventions is based on a combination of ownership data and secondary sources, such as financial press and corporate disclosures. While this triangulation approach improves coverage, it may not capture all distressed investments, especially short-term or private transactions with limited public disclosure. With this, the relatively low cases analyzed could not represent the whole picture of distress investing.

Third, the study focuses on financial restructuring levers and entry modes, without directly observing the operational turnaround actions implemented within target firms. As a result, conclusions regarding value creation strategies are primarily limited to capital structure interventions.

7.3 Future research

Future research could extend this analysis in several directions.

First, incorporating additional countries and longer time horizons would allow for a more granular assessment of cross-country differences, as more cases would be identified.

Second, combining quantitative evidence with in-depth case studies could provide richer insights into the operational dimensions of turnarounds and the governance role of different investor types.

Finally, further research integrating institutional variables such as insolvency procedures, creditor rights, and banking practices would help clarify the structural mechanisms underlying regional differences in the intermediation of corporate distress.

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