

PRESS RELEASE

**16TH ANNUAL REPORT PRESENTED
“ECONOMICS AND FINANCE OF BUSINESS DISTRICTS: GREEN AND DIGITAL
CHALLENGES”**

**INTESA SANPAOLO: DISTRICTS SHOWCASE ITALIAN BUSINESS.
RECORD CAPITALISATION AND TURNOVER 20% HIGHER THAN IN
2019**

- The turnover of companies based in districts is estimated to have risen by 0.8% at current prices in 2023, marking an increase of over 20% from pre-Covid levels in 2019.
- Turnover growth for companies based in districts is expected to come to 1.1% in 2024 and 2% in 2025.
- In 2023 district exports remained at the record levels of 2022, with mechanical engineering and agribusiness in the spotlight. The trade surplus rose by €4.4 billion (+4.8%) to reach a new high at €94.3 billion.
- The capital strengthening process continues: as a percentage of liabilities, equity rose above the 30% threshold in districts—a percentage that has doubled over the last 20 years. This level of capitalisation continues to provide protection against market risks.
- Investments to increase the efficiency of production processes and energy self-generation are on the rise. A quarter of district-based companies managed to limit the increase in their bills over the five-year period 2019-23 to 4%.
- The double green and digital transition will be the main driver of investments: companies with 4.0 investments gain both growth and productivity benefits.
- Technology, human capital and climate change risk management will be the priorities to be addressed in the coming years.

Milan, 15 April 2024 – Today Chairman of Intesa Sanpaolo's Board of Directors Professor **Gian Maria Gros-Pietro**, Chief Economist **Gregorio De Felice** and Head of Research Industry & Local Economies **Stefania Trenti** presented the 16th edition of the annual report by the Bank's Research Department on the development of the **economics and finance of companies located in business districts**.

The report offers an up-to-date snapshot of the economics and financial performance of district companies. It paints a reassuring picture of the health of companies – far from obvious given the period of extreme turbulence and uncertainty in recent years. Since 2020 companies have faced a series of frequent adverse events. The analyses in the report show that district companies were made stronger by overcoming first Covid, with its production freezes and resulting supply difficulties, and then the war in Ukraine, which presented Europe with high

energy prices and supply bottlenecks of raw materials imported from the countries affected by the conflict.

Growth expected to accelerate gradually in 2025

The geopolitical scenario deteriorated further at the end of 2023 when a new war on Europe's doorstep broke out between Israel and Hamas; like that in Ukraine, it continues to this day. Among the elements of uncertainty in the current scenario are the upcoming elections in Europe and the United States. Nonetheless, the Italian economy has the resources to tackle this complex phase, thanks above all to a thorough strategic repositioning process that has seen Italian investments in machinery, vehicles and ICT grow by 29.3% between 2016 and 2023 at constant prices and, at the same time, the capitalisation levels of companies rise significantly. This allows us to look forward with optimism to the recovery that we expect to begin in the second half of 2024 and intensify in 2025 as the effects of subsiding inflation, interest rate cuts and the boost from NRRP funds begin to be felt. The main findings of the report are summarised below.

The post-Covid recovery and the energy crisis

The balance sheets of some 20,800 companies located in business districts were analysed. After the jump in 2021-22, turnover is estimated to have increased slightly in 2023 (+0.8% at current prices), coming in well above 2019 levels (approximately +20% at current prices). This is a very positive performance, exceeding that of companies not based in districts. All sectors showed higher turnover values than in 2019. Particularly worthy of mention are districts specialising in mechanical engineering and agribusiness, which also recorded robust turnover growth in 2023, thanks to their performance on international markets (export growth of +7.9% and +4.5%, respectively).

In 2023 district exports remained essentially stable at the record levels achieved in 2022, when the threshold of €150 billion in exports was exceeded for the first time. Districts overcame the weakness of the German market by seizing growth opportunities in other markets such as Turkey, the United Arab Emirates, Mexico, Saudi Arabia and China. This further confirms the extraordinary capacity and speed of adaptation of district companies, which stand out on the Italian scene for their propensity for exports and ability to create value in their communities. In 2023 the trade surpluses of business districts rose by a further €4.4 billion (+4.8%) to a record €94.3 billion.

Expectations for the current two-year period are positive: at current prices, the turnover of district enterprises is forecast to increase by 1.1% in 2024 and by +2% in 2025. Agribusiness and mechanics continue to dominate. The former sector can count on untapped growth potential in international markets. The latter will benefit from the increased demand for capital goods triggered by the digital and green transition.

Positive signs also came from the profitability indicators, which held up well despite the energy crisis. While the EBITDA margin decreased slightly, the ROI of district companies strengthened, thanks to a more efficient use of invested capital. In terms of financial performance, companies that generated their own energy were rewarded. In both 2019 and 2022, 16.6% of high-margin companies had renewable energy systems—five percentage points

more than other companies. These differences are significant across all company sizes and sectors and are particularly pronounced among mid-sized companies in fashion and metals.

More robust capitalisation

District companies continued to strengthen their capital situations: as a percentage of liabilities, equity rose above the 30% threshold in districts—slightly higher than the values observed outside districts. An original long-term analysis of company balance sheets shows how this percentage has doubled in 20 years (from just under 16% in 1998-2000).

The comparison between district companies that have been active for more than 20 years and companies that went out of business after 2001 shows how the greatest differences can be seen above all in terms of capitalisation levels, which in the four-year period 1998-2001 had risen to 22.2% for the former, a figure that was around twice as high as for the latter. However, gaps were smaller in terms of profitability, liquidity and growth, even for companies of the same size and sector. This means that increased capitalisation offers important protection against geopolitical risks and turbulence in the current macroeconomic scenario.

Increased investment in renewables and energy efficiency

Investments by district companies in increasing the efficiency of production processes and energy self-generation are on the rise. These are the findings of the survey of Intesa Sanpaolo's network of asset managers conducted in November and December. Energy costs thus remain a strong focus, given that, though price pressures have partially relented, uncertainty and volatility continue to dominate the scenario. The analysis of energy bills shows that between 2019 and 2023 a quarter of district companies limited the increase in energy payments to 4%; these are most likely the companies most active in the areas of renewables and process efficiency.

The thrust of the Transition 5.0 plan

According to managers, the double green and digital transition is, and will remain, the main driver of investments in Italy and business districts; an important boost may come from the incentives for Transition 5.0, which overall provide around €13 billion in tax credits. Greater digital penetration in the economy can translate into an increase in the potential growth rate of Italy's GDP. Companies with 4.0 investments achieve important advantages in terms of both growth (+32.5% increase in turnover between 2019 and 2022—twice as much as non-4.0 companies) and productivity (€76,000 in 2022 vs. €60,000). This are the findings of the analysis of more than 200 companies based in Emilia-Romagna and Marche and also active in sectors with high district intensity.

Priorities for the coming years

The competitive revitalisation process of the Italian district structure will therefore be able to continue in the coming years. Technology and human capital will remain the priorities. Climate change will also require more conscious, efficient management of water resources, as well as special attention to hydrogeological risks. According to our estimates, 15% of district companies are exposed to a medium or high flood risk.

Technology and digital

Despite the progress in recent years, the spread of some technologies in district-intensive sectors is still low. While the share of Italian manufacturing companies using cloud computing services is high (61.2% vs. 46.3% in the EU average), the same cannot be said for data analysis (24.3% vs. 27.4%), e-commerce (15.2% vs. 20.8%) and artificial intelligence (4.9% vs. 6.8%). Among district-intensive sectors, the food and beverage sector stands out in particular, with a better ranking than the European average for data analysis and artificial intelligence and a narrow gap on e-commerce. However, the Italian fashion system lags further behind.

Focus on the environment

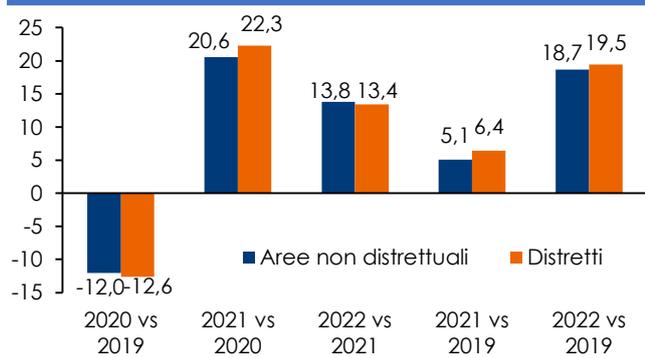
Climate change will drive an increasing focus on the environment, making the green transition an increasing priority, to be carried out with a thorough range of strategies, from energy self-generation to energy efficiency, from reduced use of raw materials to secondary raw materials, from water saving to water recycling, from reduced atmospheric emissions to reduced transport use, from design for recycling to life cycle assessment. The share of companies with advanced progress in these issues remains low. However, operating in business districts may be an advantage. Consider, for example, the presence of positive externalities in water resource management in the supply phase, in the collection and purification of industrial effluents and in reuse practices. The homogeneity of production and technology is, in fact, an element that tends to simplify the aggregate management of services. Supply chain relations can also contribute to this. It is districts that search most for suppliers with a reduced environmental impact, especially in the case of medium-large companies, which often act as leaders and can therefore generate a cascading effect towards smaller companies, which will be more inclined to make investments in this area to remain strategic partners.

Skilled labour wanted

The digital and green challenges can only be met with a skilled workforce. Difficulties in finding labour are high, especially in business districts. These critical issues must be overcome, including by strengthening ITS and strengthening relationships between academe and business. Young Italians still know little about the opportunities offered by the many excellent companies in their areas. This is also why they very often choose to emigrate, drawn by the possibility of having their merit valued, making a career for themselves and earning high salaries. These are the main findings of an ad hoc survey we conducted last year on about 140 young graduates or undergraduates who emigrated abroad.

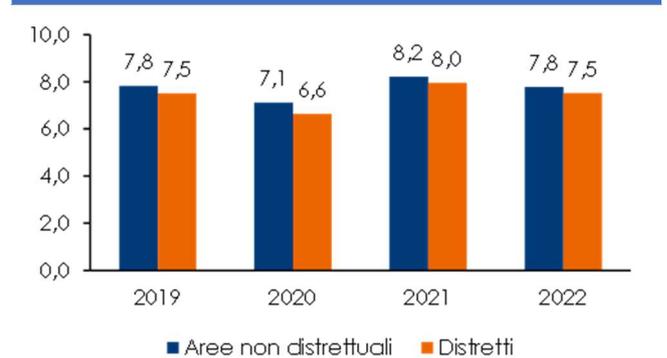
TABLES

Fig. 1 - Comparative turnover development (% change in current prices; median values)



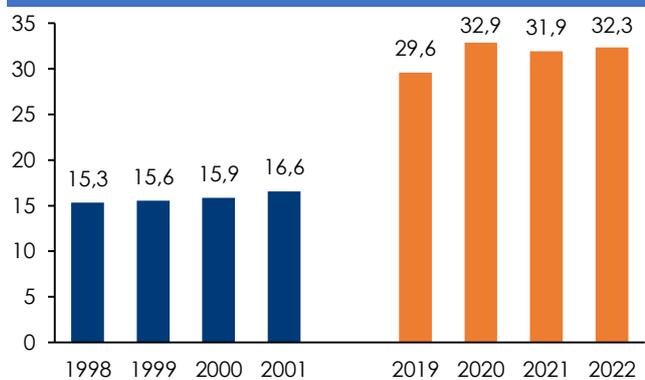
Source: Intesa Sanpaolo Integrated Database (ISID)

Fig. 2 - EBITDA margin (median values)



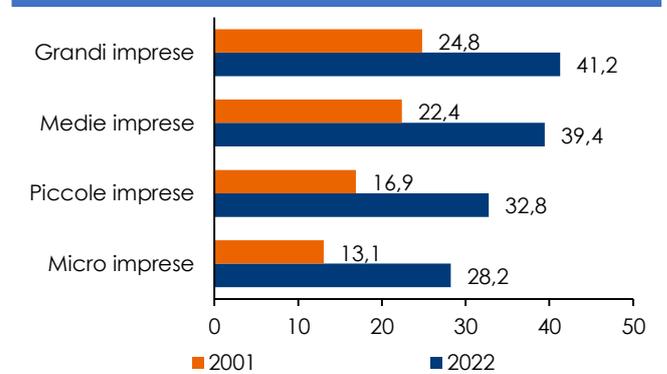
Source: Intesa Sanpaolo Integrated Database (ISID)

Fig. 3 - Districts: equity as % of liabilities in 1998-2001 and 2019-2022 (median values)



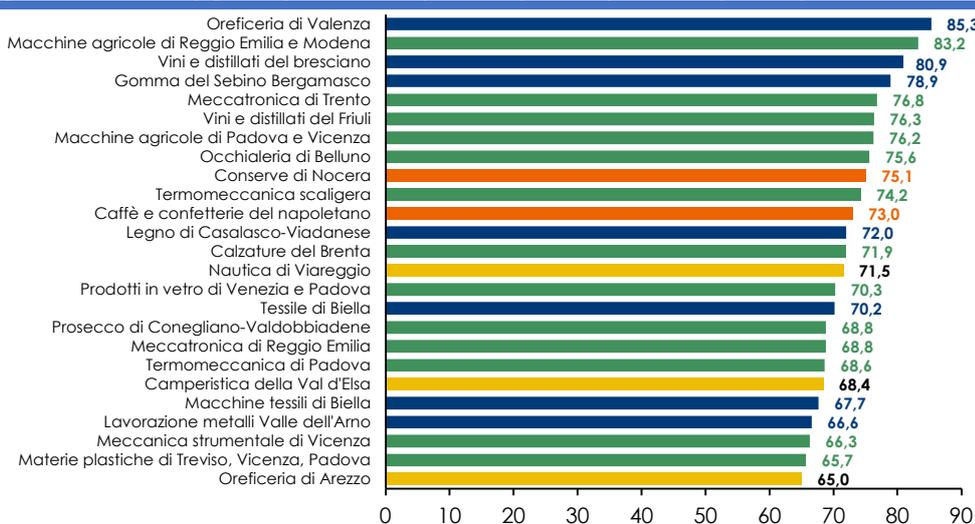
Source: Intesa Sanpaolo Integrated Database (ISID)

Fig. 4 - Districts: Equity as % of liabilities by size in 2001 and 2022 (median values)



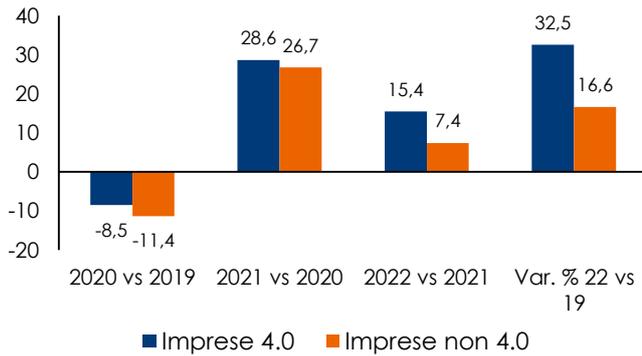
Source: Intesa Sanpaolo Integrated Database (ISID)

Fig. 5 - Best districts by growth performance, profitability and capitalisation (0 to 100)



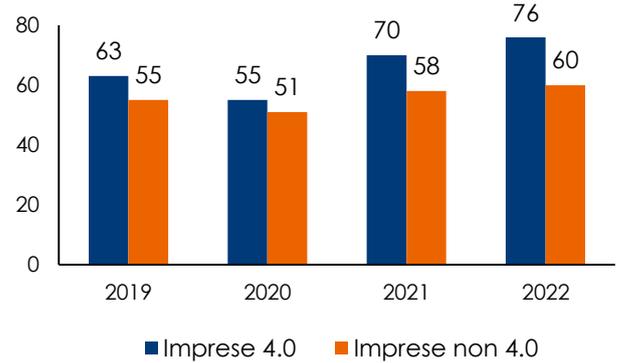
Note: Please refer to Chapter 1 of the report for a description of the methodology used to produce the rankings. The colours assigned to the districts refer to the area in which they operate: green for the North-East, blue for the North-West, yellow for the Centre and orange for the South. Source: Intesa Sanpaolo Integrated Database (ISID) and ISTAT

Fig. 6 - 4.0 companies vs. non-4.0 companies: change in turnover in 2019-22 (% change in current prices, median values)



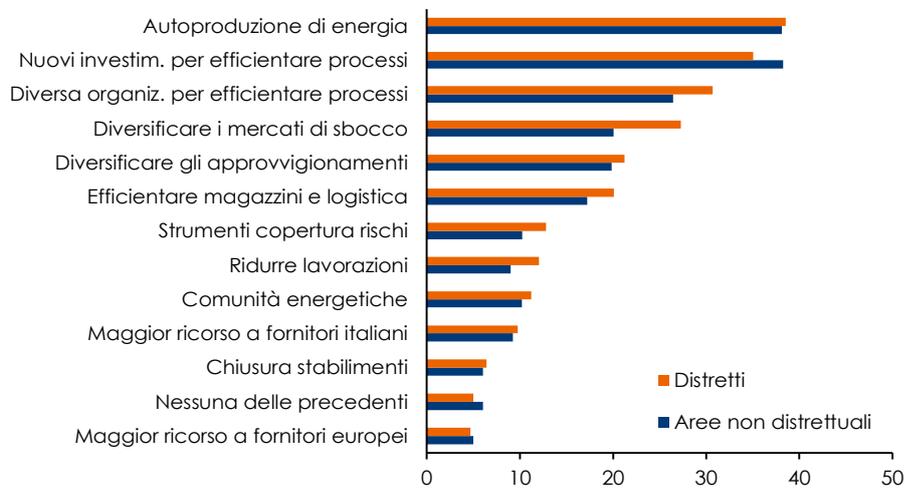
Source: based on BI-REX - Intesa Sanpaolo 2022 survey data

Fig. 7 - 4.0 companies vs. non-4.0 companies: added value per employee (thousands of euro; median values)



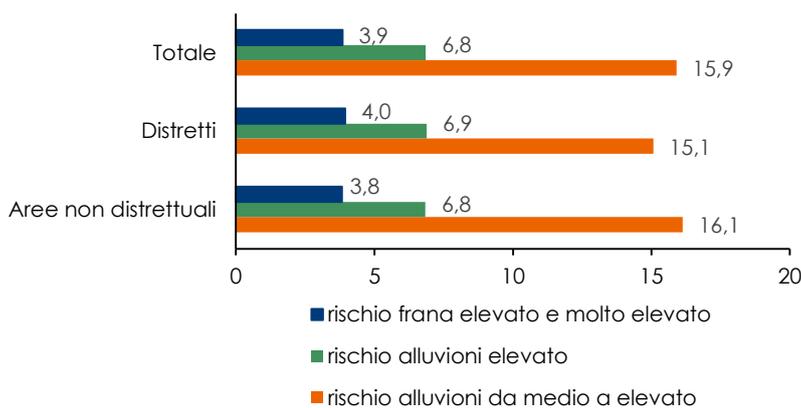
Source: based on BI-REX - Intesa Sanpaolo 2022 survey data

Fig. 8 - Companies' strategies in the current scenario (% of managers who indicated the type of reaction, net of I don't know, multiple answers possible)



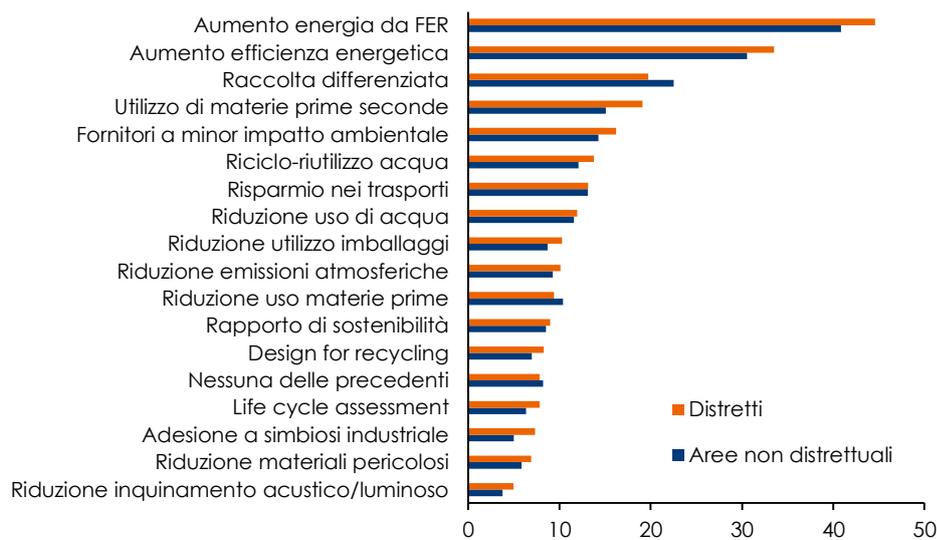
Source: Intesa Sanpaolo survey November-December 2023 edition

Fig. 9 - Hydrogeological risk exposure of district and non-district companies (2022, %)



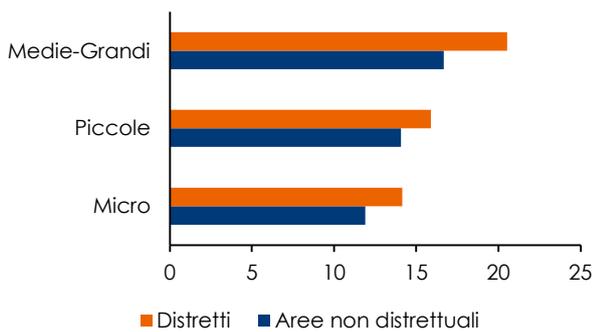
Note: % of the number of district/non-district companies. Source: Intesa Sanpaolo Integrated Database (ISID), based on ISPRA data

Fig. 10 - Green strategies on which business clients are focusing (% of managers who indicated the type of green strategy, net of I don't know, multiple answers possible)



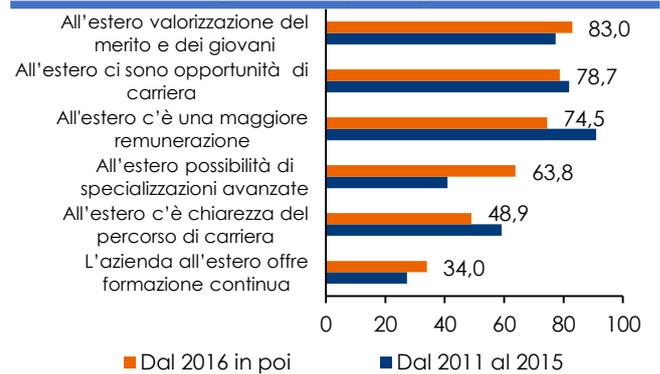
Source: Intesa Sanpaolo survey November-December 2023 edition

Fig. 11 - Use of suppliers with reduced environmental impact (% managers who indicated this strategy, net of I don't know)



Source: Intesa Sanpaolo survey November-December 2023 edition

Fig. 12 - Reasons for expatriation of workers by period of moving abroad (by classes of stay abroad, "from 2016 onwards" vs "from 2011 to 2015"; % multiple answers possible)



Source: Intesa Sanpaolo survey of graduates abroad

For further informations:

Intesa Sanpaolo
Media Corporate & Investment Banking e Aree di Governo
 +39 06 67125297
stampa@intesaspaolo.com

Intesa Sanpaolo

Intesa Sanpaolo, with €430 billion in loans and €1.3 trillion in customer financial assets at the end of 2023, is the largest banking group in Italy, with a significant international presence. It is a European leader in wealth management, with a strong focus on digital and fintech. The Group will provide €115 billion of Impact lending by 2025 to support communities and the green transition, together with a €1.5 billion program to help people in need. The Bank's network of museums, the Gallerie d'Italia, hosts its owned artistic heritage and cultural projects of recognized value.

News: <https://group.intesaspaolo.com/it/sala-stampa>

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