

Canadian federal procurement trends and analyses



ITALIAN OPPORTUNITIES IN CANADIAN
FEDERAL PROCUREMENT BIDS



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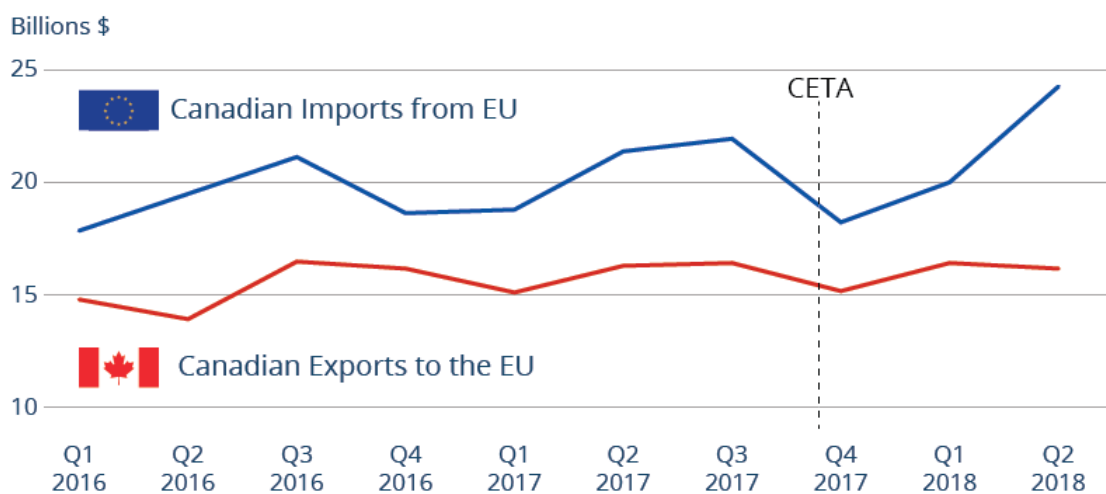
1. INTRODUCTION

1.1. CETA

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) took effect on September 21, 2017. Its goal is to create jobs, strengthen economic relations, and boost trade between Canada and the second largest world market: the European Union. The progressive free trade agreement covers virtually all sectors and aspects of Canada-EU trade in order to eliminate trade barriers. Prior to CETA's provisional entry into force, only 25 percent of tariff lines on goods traded between Canada and the EU were duty-free. With CETA, that number is now 98 percent.

According to data taken from the Canadian Government, trade of goods and services between Canada and the EU have been on the rise since CETA took effect. From Q4 2017 to Q2 2018 (latest data), two-way goods and services trade between Canada and the EU have totaled \$110.6 billion, a 6.1% increase over the equivalent pre-CETA period. During this period, EU exports into Canada have increased by 10.3% over the equivalent pre-CETA period, whereas Canada showcased a more modest 0.7% increase in exports to the EU in the same timeframe.

Quarterly Canada - EU Goods and Services Trade



Source : www.international.gc.ca/gac-amc/campaign-campagne/ceta-aecg/year_one-premiere_annee.aspx?lang=eng

CETA also helps to increase the number of government procurement opportunities open to EU companies. It essentially gives European companies more inclusive and favorable access to Canada's procurement market than any other Canadian trade partner. However, EU companies must still find ways to remain competitive with companies operating in their domestic markets, both in terms of costs and regulatory compliance.

Source: Government Procurement Guide, Accessing Canadian procurement markets post CETA, KPMG

1.2. ITALIAN ECONOMY

Italy is the 3rd largest national economy in the eurozone, the 8th largest by nominal GDP in the world, and the 12th largest by GDP (Purchasing Power Parity). With a nominal GDP equivalent to USD \$1.935 trillion in 2017, Italy is also a founding member of the European Union, the Eurozone, the OECD, the G7 and the G20. Italy is an export-oriented economy, and the eighth largest exporter in the world, with USD \$514 billion exported in 2016. Italy's largest trading partners include Germany, France, the United States, Switzerland, the United Kingdom, and Spain.

The Italian Trade Agency lists the following industries as being some of the most prominent key sectors for the Italian economy:

Aerospace: Italy is a leader in the global aerospace market and a key player in its global supply chain, with prime contractors such as Leonardo, Fincantieri, GE Avio, Iveco and Piaggio Aerospace. The sector is characterized by high labor productivity, capital intensity, and high R&D spending.

Agrifood: The Italian Agrifood sector is well known globally for its excellence in terms of quality, food safety, technological innovation, sustainability, biodiversity and respect for tradition.

Automotive: Italy's automotive industry is comprised of 2,300 companies, 253,492 direct and indirect employees (7% of those involved in manufacturing) and represents a turnover of 93 billion euros. 73% of Italian companies export part of their production. The presence of renowned brands such as Fiat, Ferrari, Maserati, and Alfa Romeo give Italy a strong reputation in terms of its know-how in the automotive sector.



Chemical & Pharma: with a turnover of about € 52 billion in 2016 Italy represents the third main producer of chemicals in Europe. Almost 3 thousand companies are active in the sector employing about 108 thousand people. Being a country with a strong industrial basis, Italy represents a large market for chemicals accounting for about € 59 billion. From 2007 to 2017 pharma export in Italy has grown (+107%) more than all big Eu countries and more than big European countries' average.

Infrastructure: Italy being a strategic location centrally located on the Mediterranean Sea, and being at the crossroads between Europe and Africa, it has invested heavily in its infrastructure in terms of major ports and airports. This gives the country the strategic know-how and expertise to win public procurement bids related to public infrastructure.

Machinery: with 5,150 companies, 191,500 employees and a turnover that, in 2017, amounted to 46.6 billion euro (+ 9.7% compared to 2016), the Italian industry exports 68% of production across the border. The made in Italy of the sector is appreciated by users all over the world for the very high technological standards and the high personalization of the offer.

Source : www.ice.it/en/invest/key-sectors

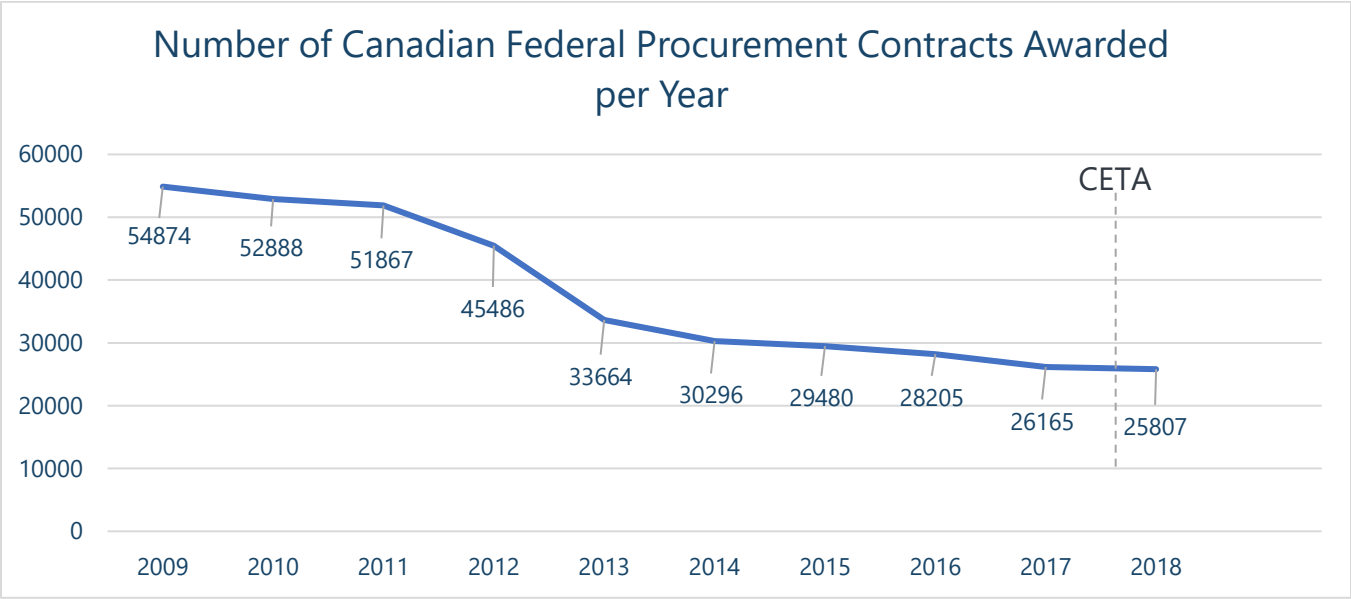
2. CANADIAN FEDERAL PROCUREMENT ANALYSIS & TRENDS

2.1. Analysis & Trends

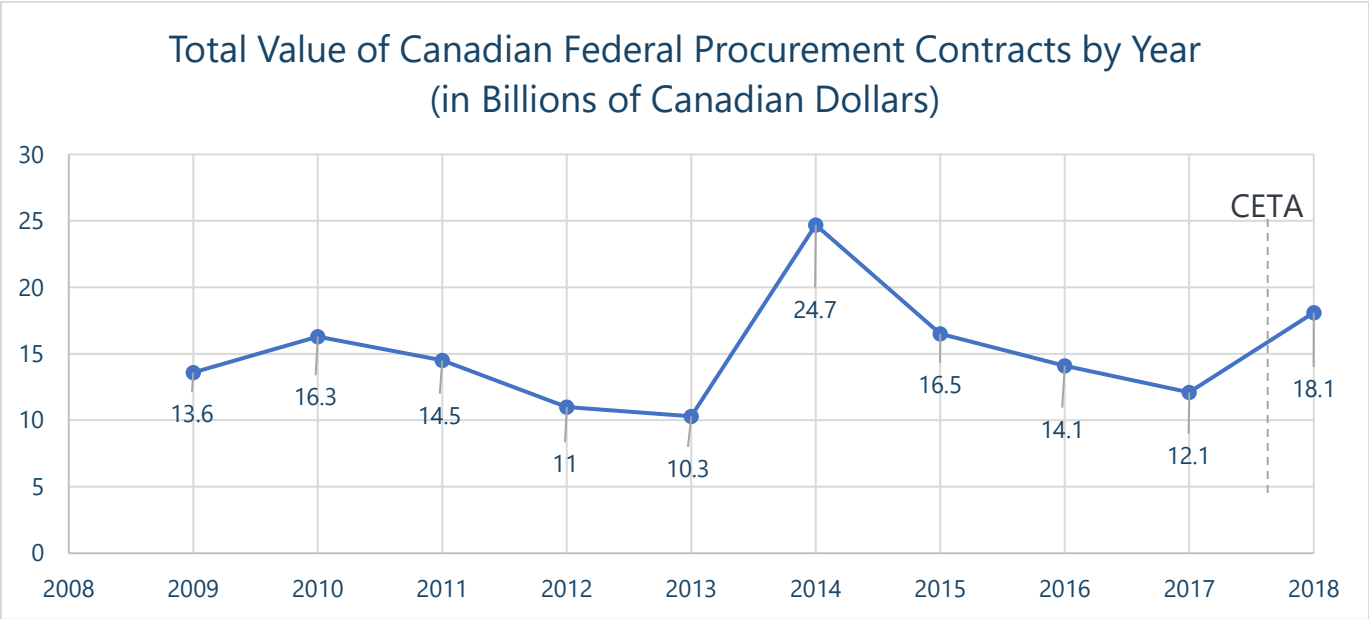
The following analysis is primarily based on business intelligence sourced from buyandsell.gov.ca

Volume of Canadian Federal Procurement Contracts on the Decline, Contract Values on the Rise





The total number of awarded contracts by the Canadian federal government has gone down by 53% between 2009 and 2018. While the amount of Canadian federal procurement contracts can fluctuate from year to year, there is a clear downward trend illustrating a decrease in the volume of yearly contracts emitted by the government. While there is no conclusive evidence that explains this trend, the following chart highlights a rise in total contract value. This would imply the downward trend is being driven by contract consolidation.



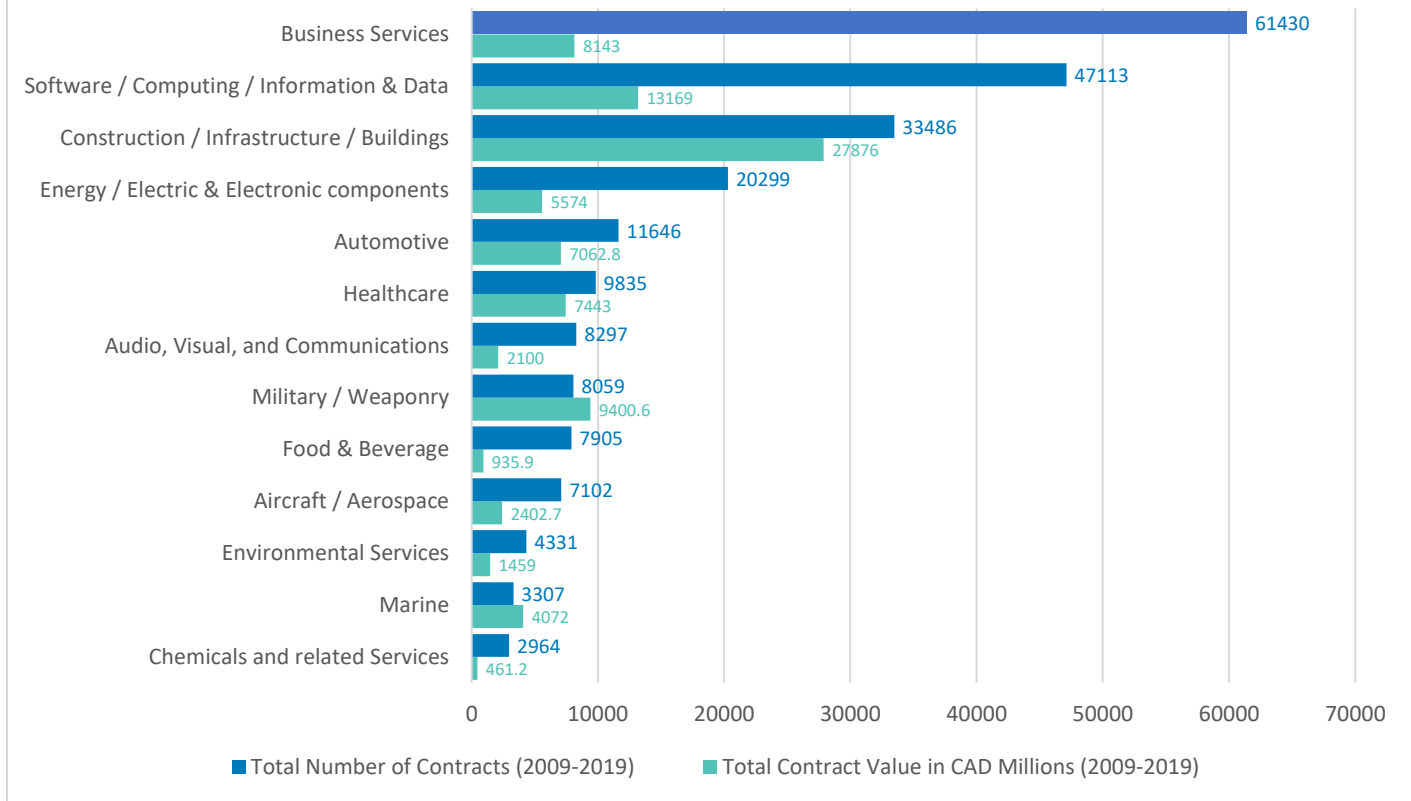
Although the total number of contracts awarded by the Canadian federal government has been on the decline in the past decade, yearly aggregate contract values are on the rise. The year 2018 displayed the second highest annual contract value of Canadian federal procurement bids in Canadian history with CAD \$18.1 billion, just behind 2014 where the aggregate value totaled CAD \$24.7 billion. As previously mentioned, this data suggests a trend of contract consolidation, and fewer contracts being awarded to fewer principle contractors. This would imply a tighter competitive landscape for winning Canadian federal procurement contracts. However, this may also create more opportunities for sub-contractors to create partnerships with principle contractors and participate in winning bids.

Industry Breakdown

There were 5132 type of sub-sectors between 2009-2019 for which the federal government requested a tender, proposal, standing offer, or supply arrangement.



Top Industries by Contract Value and Total Number of Contracts Awarded (2009-2019)



*Note that the largest sub-sectors listed on buyandsell.gov (in terms of contract value and total number of contracts awarded) have been grouped together into similar categories, listed above as industries.

Between 2009-2019, the top three industries in terms of total number of contracts awarded were as follows:

- 1) Business Services
- 2) Software / Computing / Information & Data
- 3) Construction / Infrastructure / Buildings

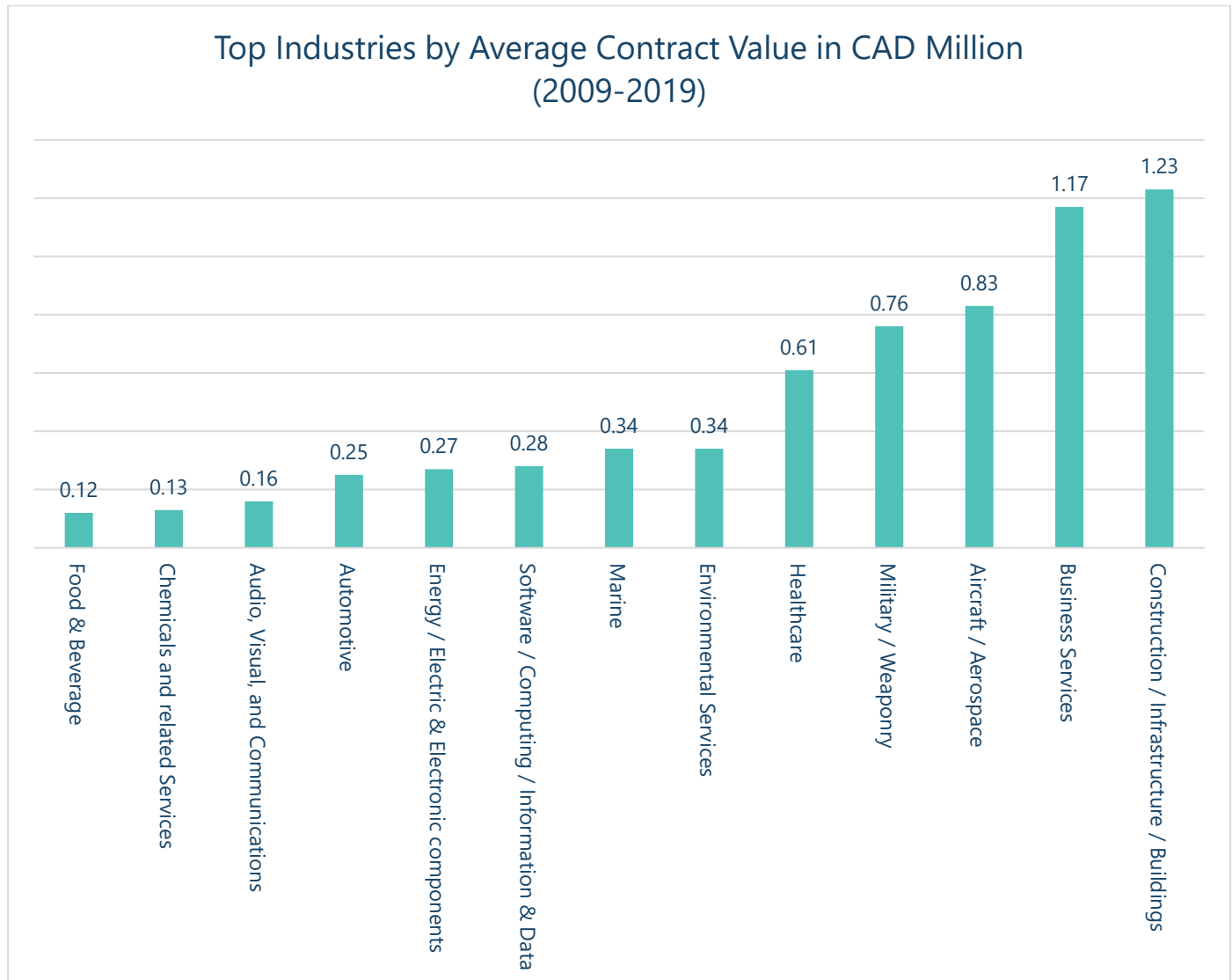
During the same timeframe, the top three industries in terms of total contract value were as follows:

- 1) Construction / Infrastructure / Buildings
- 2) Software / Computing / Information & Data

3) Military / Weaponry

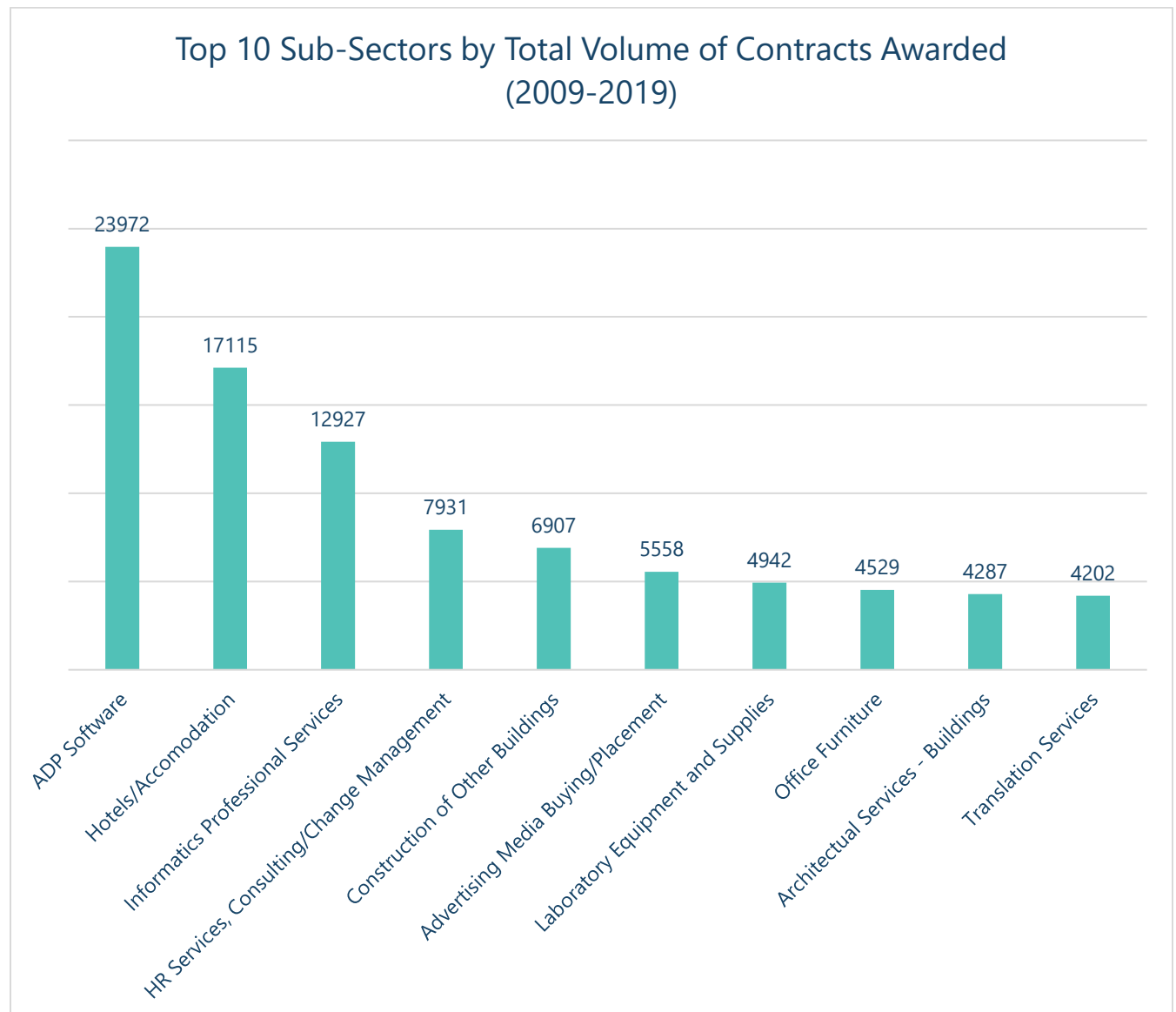
The top five industries in terms of average contract value per contract were as follows:

- 1) Construction / Infrastructure / Buildings
- 2) Business Services
- 3) Aircraft / Aerospace
- 4) Military / Weaponry
- 5) Healthcare

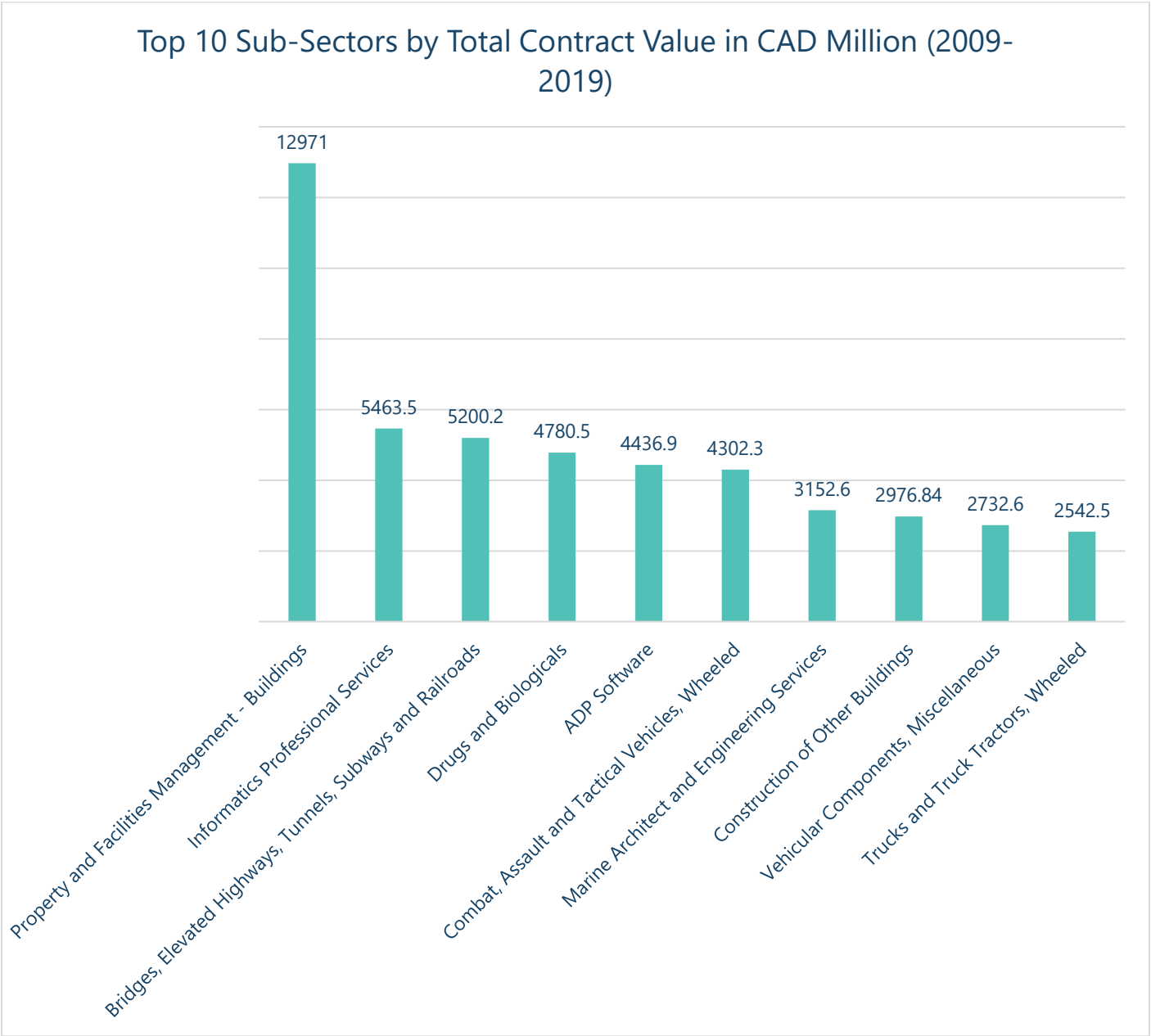


Industry Sub-Sector Breakdown

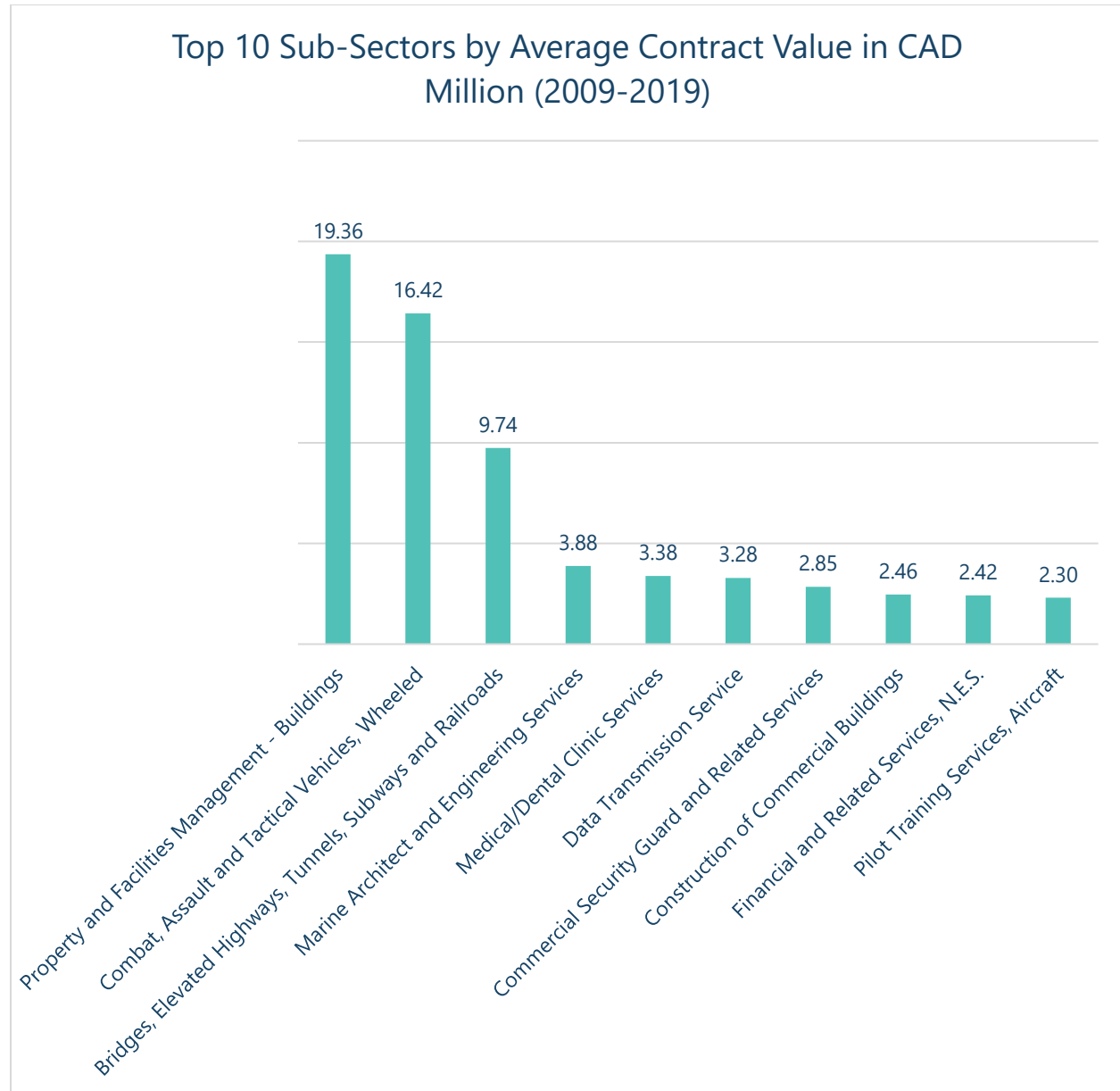
The sub-sectors with the highest volume of contracts awarded were primarily in the Software and Business Services industry, with ADP Software leading the pack with close to 24,000 contracts awarded.



The sub-sectors with the highest contract values were well represented by sub-sectors of the Construction / Infrastructure / Buildings industry. The management of facilities and properties leads the pack with close to CAD \$13 billion worth of contracts awarded between 2009 and 2019, but the construction of public infrastructure and buildings have also made their mark (with CAD \$5.2 billion and CAD \$2.9 billion worth of contracts respectively during the same timeframe). Other sub-sectors that made this top ten list are involved in software, business services, automotive, healthcare, and military applications.



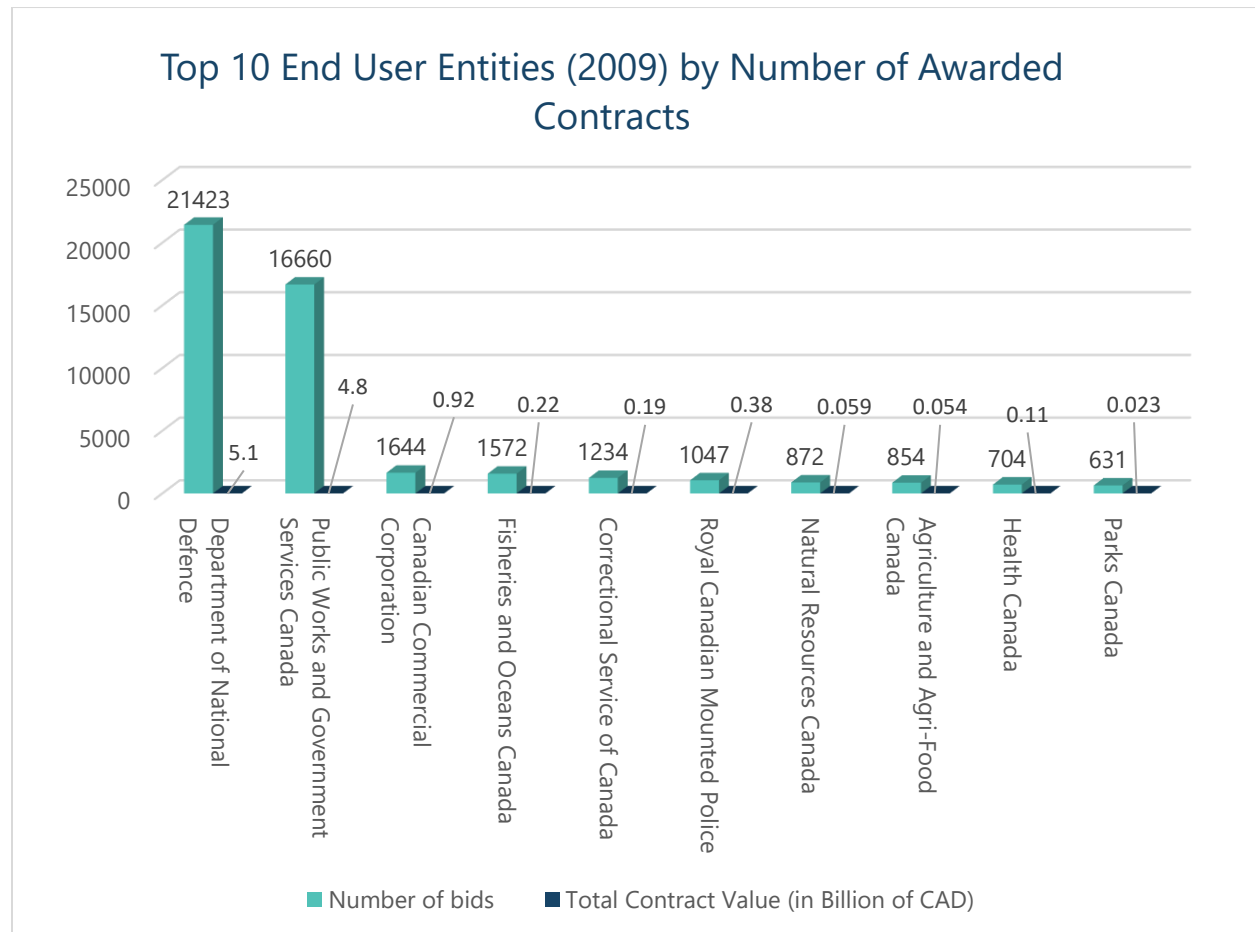
The sub-sectors with the highest average contract value also include the same segments in the Construction / Infrastructure / Buildings industry, as well as sub-sectors related to military, healthcare, software, and business service applications.



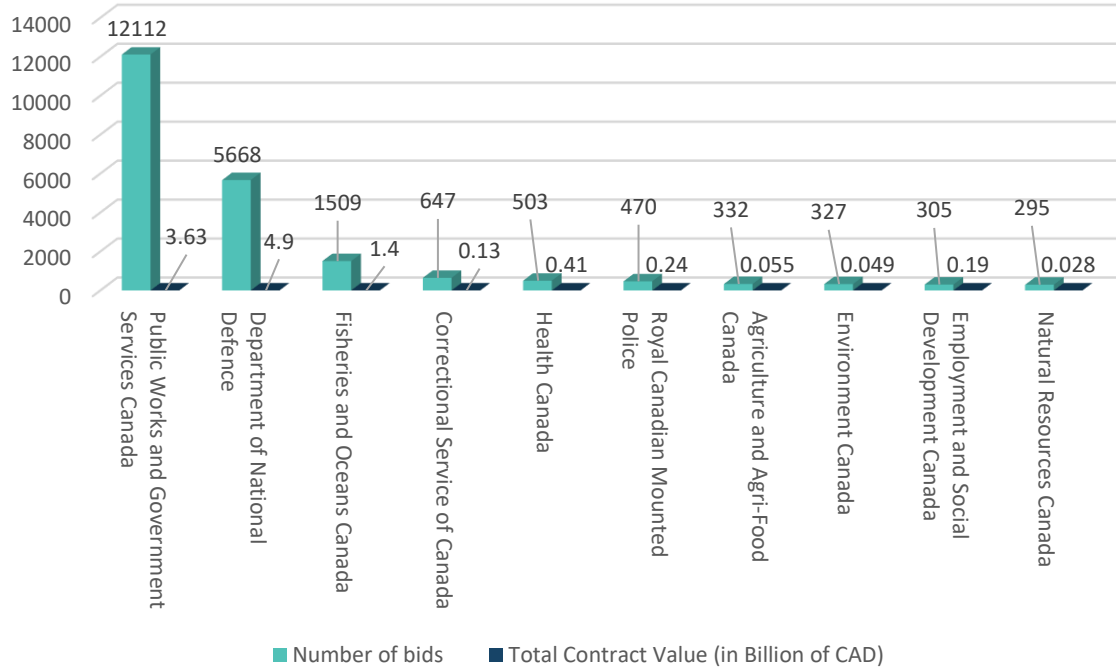


- 1) Includes certain types of equipment repairs and business services such as actuarial services.
- 2) Includes certain Software related contracts such as ADP Software, as well as business services such as hotel accommodations and car rental services.
- 3) Includes Construction of Infrastructure (rail / roads, dams, etc.); Marine Architect and Engineering Services, etc.
- 4) Includes Construction of Buildings; Property and Facilities Management, etc.

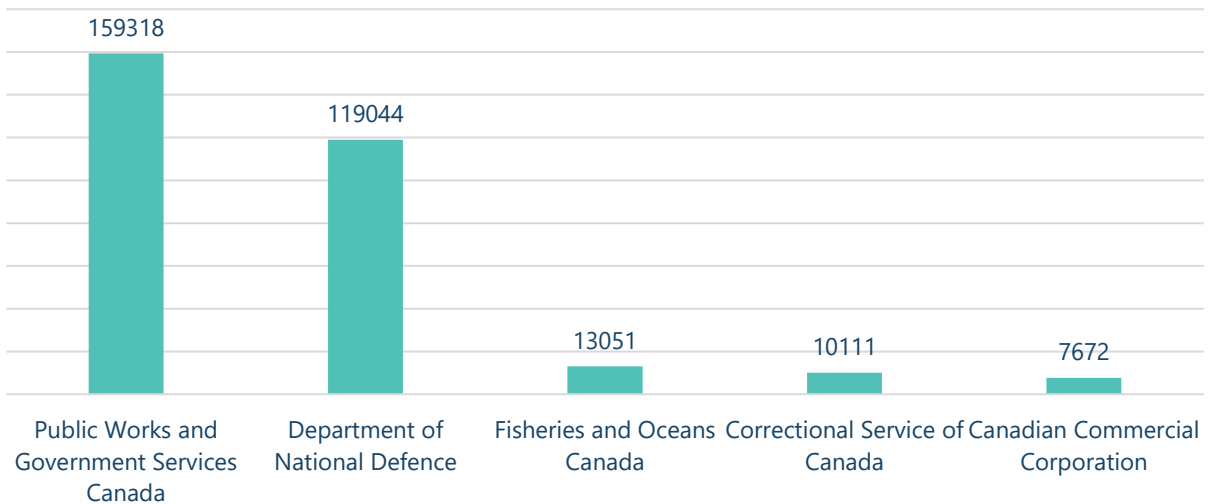
The Department of National Defence & the Public Works and Government Services Canada are the Biggest Spenders

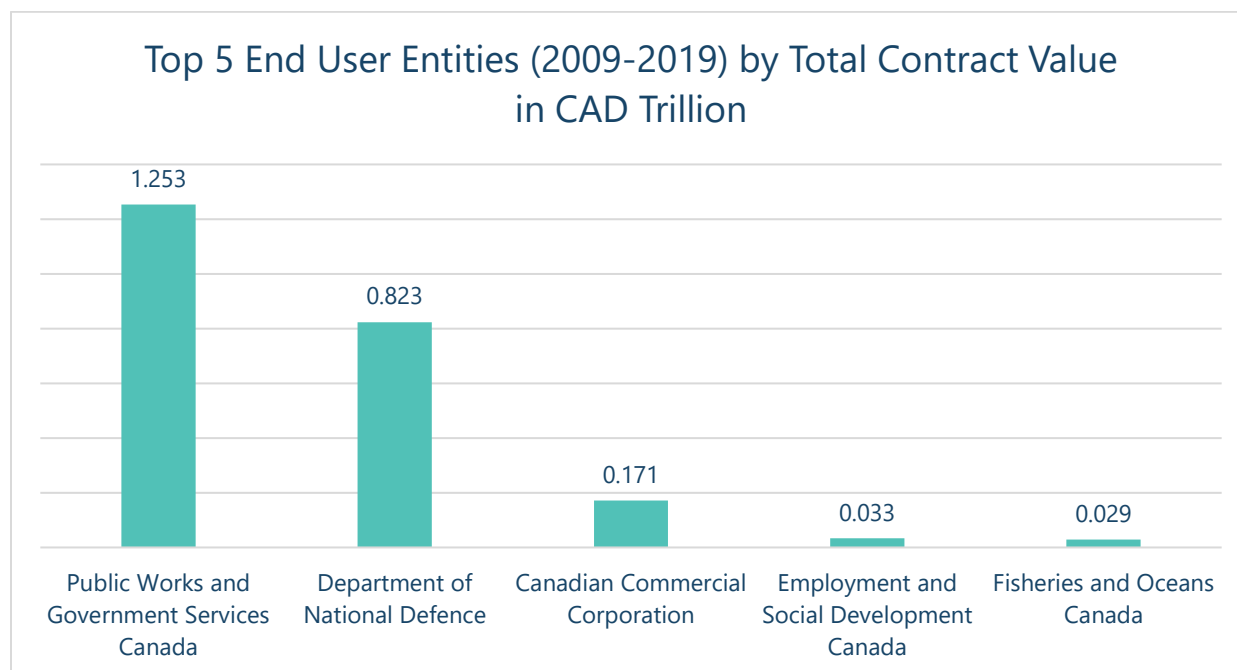


Top 10 End User Entities (2018) by Number of Awarded Contracts



Top 5 End User Entities (2009-2019) by Number of Awarded Contracts



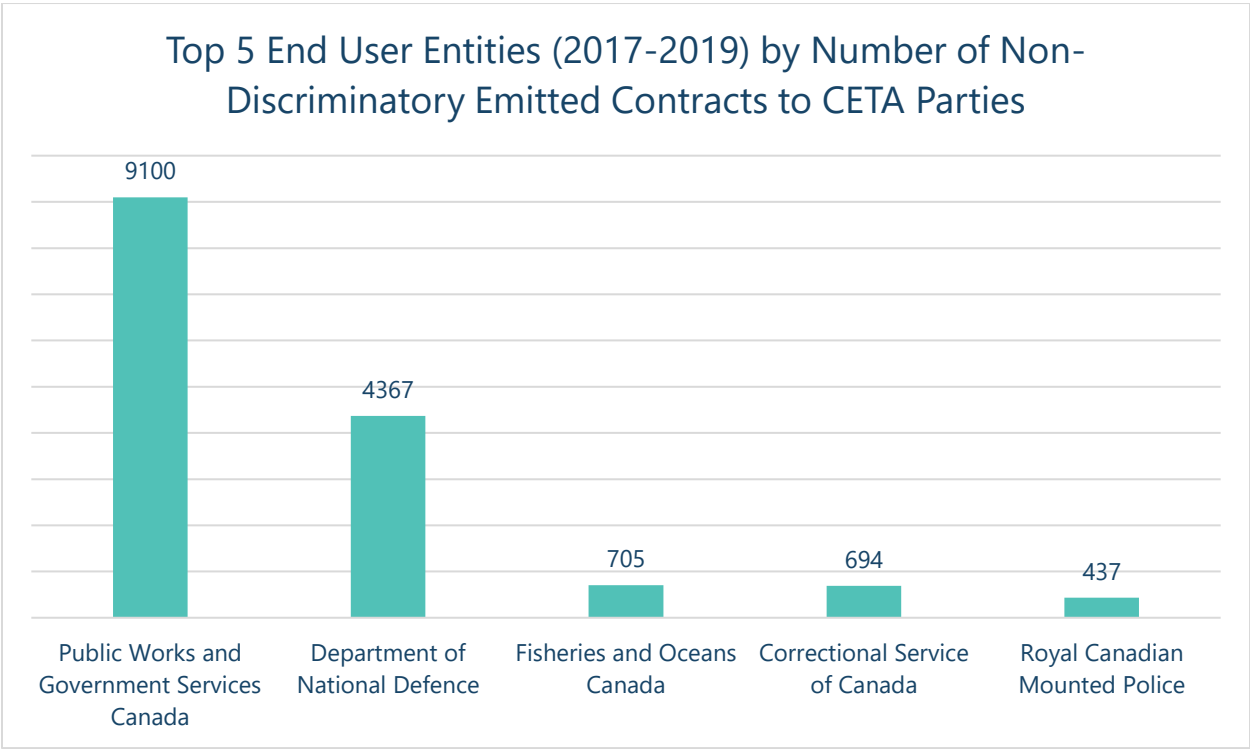


The top two end user entities in terms of number of awarded contracts are consistently the Department of National Defence and the Public Works and Government Services Canada. These departments are also typically the top end user entity in terms of total contract value awarded. The top end user entity in terms of average contract value between 2009-2019 was the Office of Infrastructure of Canada.

The top sub-sectors in terms of total contract value for contracts awarded by the Public Works and Government Services Canada include Property and Facilities Management for Buildings, the Construction of Commercial Buildings, ADP Software, and Informatics Systems Integration. These sub-sectors are typically available to CETA parties, in that the Canadian federal government is not able to discriminate against bidders from the European Union as long as the contract value exceeds a certain threshold.

The top sub-sectors in terms of total contract value for contracts awarded by the Department of National Defence include Military Helicopters (Repair and Overhaul), Aircraft Fixed Wing and Rotary Wing, Marine Architect and Engineering Services, and Wheeled Combat, Assault and Tactical Vehicles. Contracts from the Department of National Defence are less likely to be non-discriminatory towards EU companies compared to contracts from the Public Works and Government Services Canada. That said, there are still numerous contracts awarded by the Department of National Defence that are non-discriminatory to CETA parties, mainly related to parts and components used in military vehicles and apparatuses, as well as marine consulting and services. Further, EU

companies can still win more sensitive contracts from the Department of National Defence through their Canadian subsidiaries, and through strategic partnerships with Canadian companies.



In 2018, the Canadian Commercial Corporation had the highest total contract value awarded with CAD\$ 5.85 billion, at the front of the pack and leading both the Department of National Defence and the Public Works and Government Services Canada. That agency only awarded 25 contracts however (34th overall in terms of number of bids per user entity). These contracts were mainly related to vehicular components, combat vehicles, radio and television communications equipment, as well as astronautics R&D. However, most of these bids were awarded to the same company (General Dynamics Land Systems, Canada) as the tender was non-competitive, with the company having exclusive rights to most of these contracts. As such, the Canadian Commercial Corporation, a Crown Corporation, does not provide significant procurement opportunities for Italian companies and their Canadian subsidiaries, unless a partnership is established with the exclusive supplier.

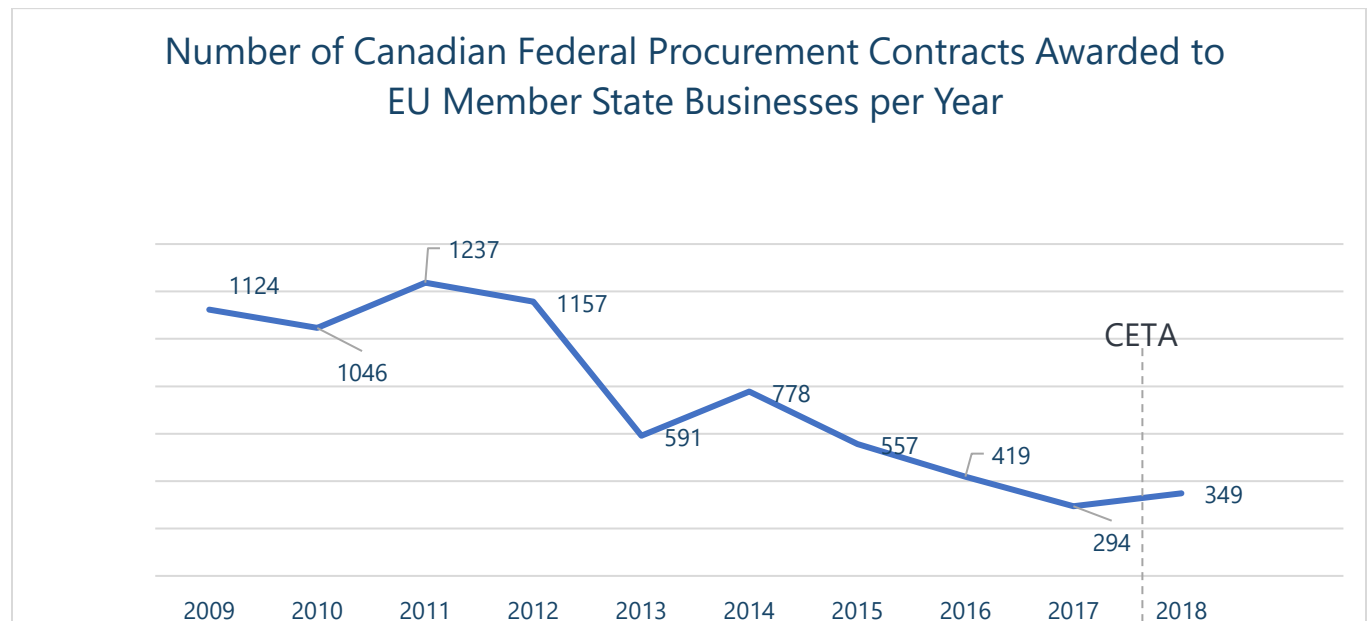
2.2. Competitive landscape and key players

Canadian Federal Procurement Contracts: a Canadian Game

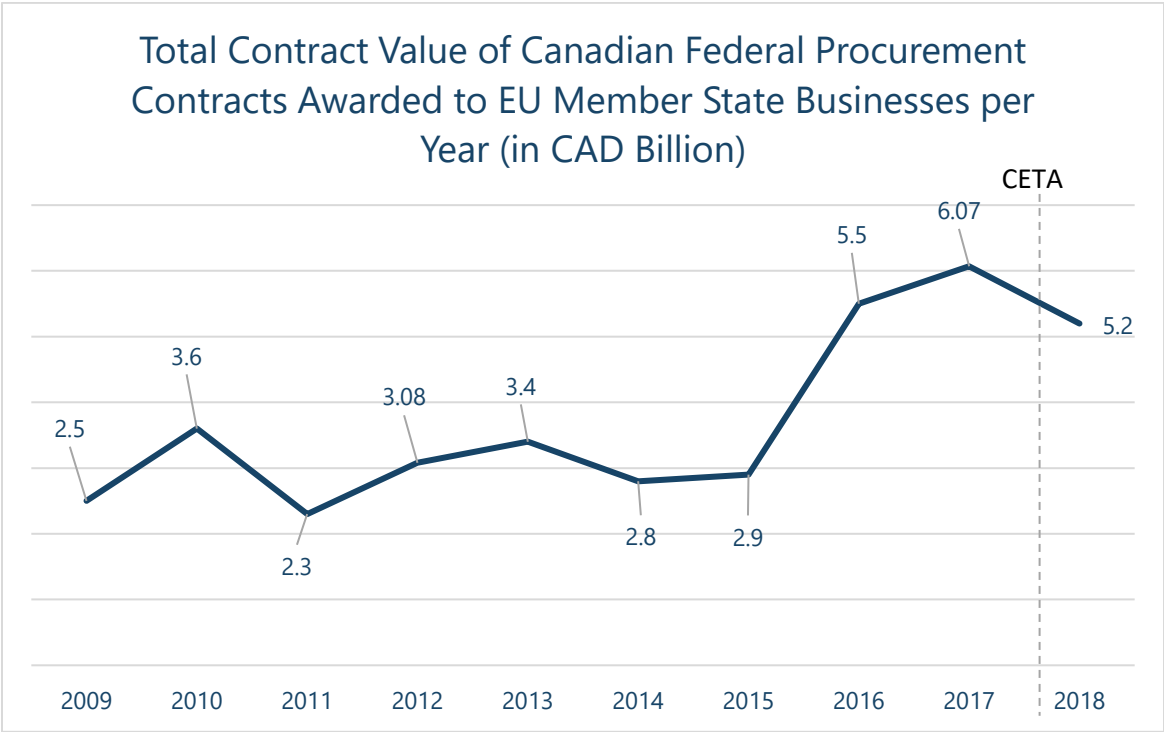
Between 2009 and 2019, a total of 388 063 procurement contracts were awarded by the Canadian federal government. Canadian businesses (including Canadian subsidiaries of foreign companies) have won 349 120 of them (close to 90% of the contracts).

The European Union and the Advent of CETA

Between 2009 and 2019, 110 countries have won Canadian federal procurement bids, a display of international diversity in the procurement process. However, many contracts awarded to international players are linked to the Canadian government sending delegations to these respective countries and requiring accommodation or car rentals. Some foreign countries are better positioned to win competitive bids for contracts that are not related to the Canadian federal government's activities, commercial or military, in a given foreign country. With the advent of CETA, it is expected that European Union member states get a bigger piece of the procurement pie as they increase trade and strategic partnerships with Canadian companies and take advantage of non-discriminatory bids.

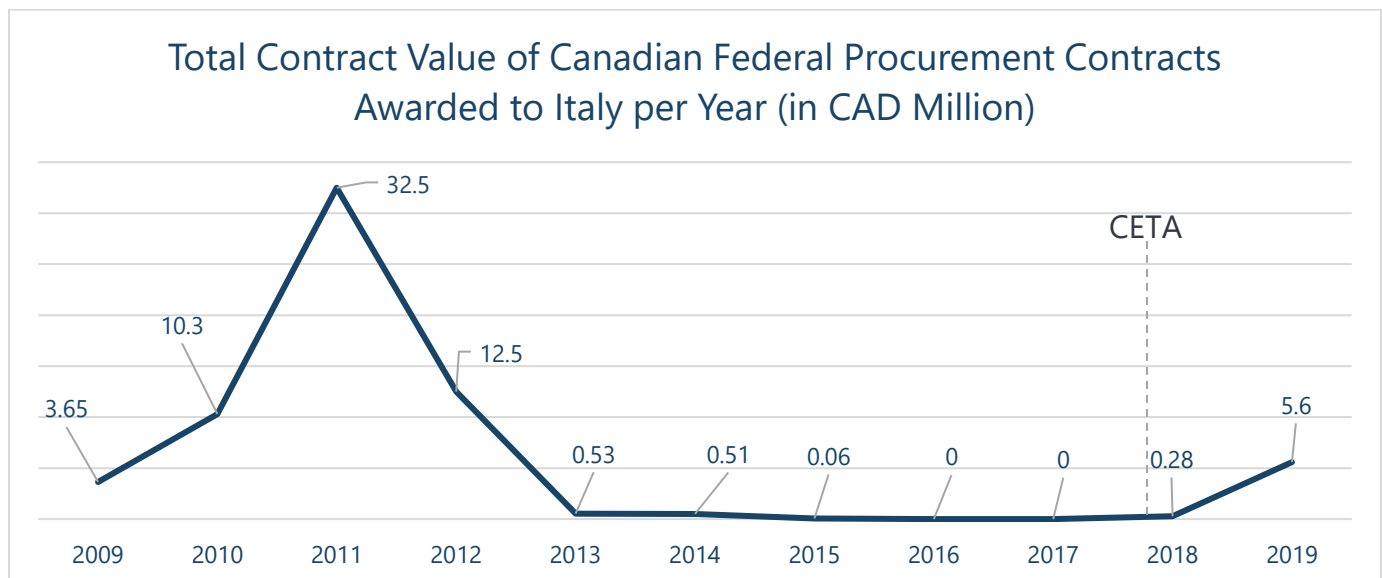
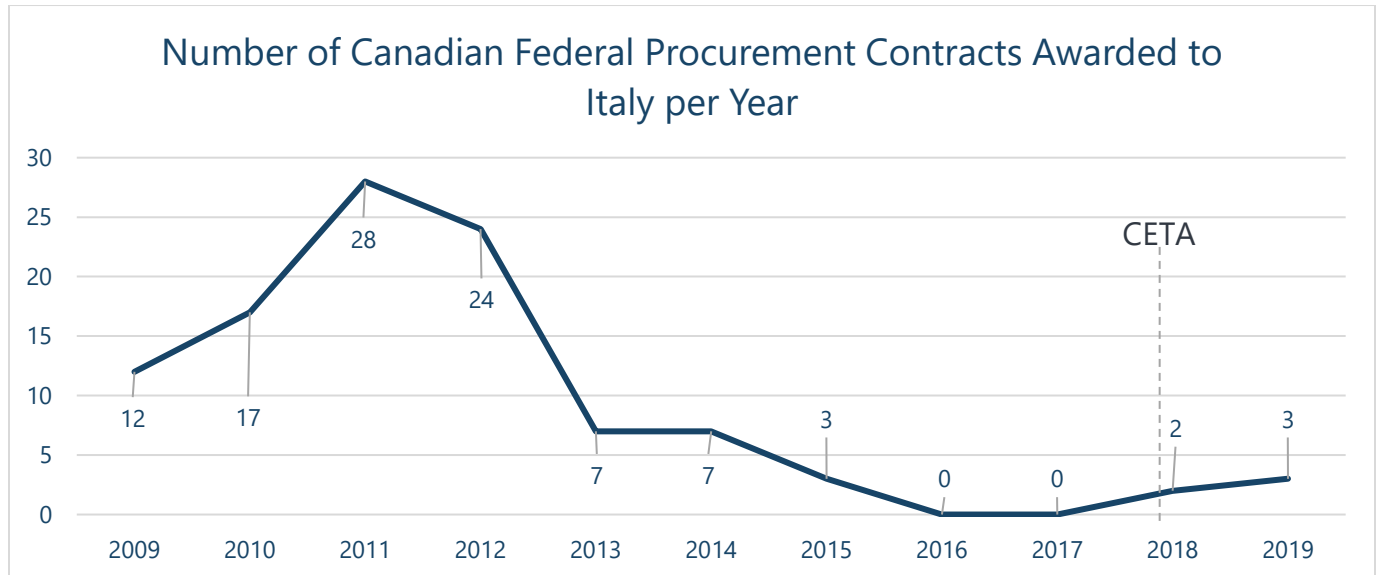


The total number of contracts awarded to EU member state businesses has gone down by 72.6% between 2009 and 2018. This is in line with the general trend of less contracts awarded by the Canadian federal government, but higher contract values, as seen in the chart below. At its peak, the total procurement contract value awarded to EU member states by the Canadian federal government reached CAD \$6.07 billion in 2017, a growth rate of 142.5% over 2009 levels. We have also seen a slight increase in the number of contracts awarded to EU member states since CETA took effect in 2017 compared to 2016 levels.



Italian Success

Italian headquartered companies winning contracts



The total number of contracts awarded to Italian businesses peaked at 28 contracts awarded in 2011, but has been going down steadily since then, with no contracts awarded to Italian companies in 2016 and 2017. Italy's yearly total contract value of Canadian federal procurement contracts awarded has also experienced a similar downward slope, following by a slight rise following the advent of CETA. This only concerns contracts

awarded to companies with their headquarters in Italy but does not include Italian subcontractors or Canadian subsidiaries of Italian companies.

At its peak in 2011, numerous contracts were won for Hotels, Motels and Commercial Accommodation, as well as Passenger Motor Vehicle rentals. Various Italian hotels won the former bids, while Europcar Italia S.p.A won all the latter bids. The end user for these contracts was the Department of Public Defence, and this spending could be linked to an increase in deployments of Canadian Armed Forces at the onset of the Arab Spring Revolution and the Syrian conflict. The majority of Canadian Armed Forces in Europe are present in Germany, Belgium, Italy, and the United Kingdom. Other Italian successes that year included:

- Oto Melara S.p.A, an old subsidiary of Leonardo-Finmeccanica specialized in defense and weaponry, which won bids for guns and weapon repairs
- MAC Italia S.r.l. that won a cleaning and maintenance project
- RB AUTOMAZIONE SRL which won a contract for optical instruments and equipment
- E-GEOS - S.P.A. which won a contract for satellite data processing and related services
- ECS - ESPORTAZIONE COMPONENTI which won a contract for screws
- RHEINMETALL DEFENCE, the Italian subsidiary of a German company, which won a contract for underwater mine disposal inert devices

Following a 2016 and 2017 drought in terms of Canadian federal procurement contracts awarded to Italian headquartered companies, we have witnessed a slight uptick after CETA has come into effect, with 2 awarded projects in 2018, and 3 in 2019 (year to date). While a few of these contracts are still related to the Department of National Defence requesting accommodation in Italy, some notable news includes the recent announcement in April 2019 that WPT S.r.l. won a CAD \$5 million contract with the Department of National Defence for waste disposal equipment. This bid was non-discriminatory towards CETA parties and is a strong success story for Italy in the post-CETA era.

Overview of Contracts Won by Italian Headquartered Companies pre-CETA (2009-2016)

<u>Sub Sector</u>	<u>Average Contract Value (in CAD Million)</u>	<u>Total Number of Awarded Contracts</u>
Guns, 75 mm Through 125 mm and Accessories	4.20	5
Miscellaneous Weapons - Repair	1.95	4

Engineering and Technical Services - Weapon Systems related	1.25	1
PASSENGER MOTOR VEHICLES - RENTAL	0.97	10
Hotels, Motels and Commercial Accommodation	0.55	34
Sewage Treatment Equipment	0.24	2
Laboratory Equipment and Supplies	0.11	2
ADP Software	0.09	4
Hazard-Detecting Instruments and Apparatus	0.08	1
Ammunition, 75mm through 125mm	0.08	2
Optical Instruments, Test Equipment, Components and Accessories	0.06	2
Geophysical Instruments	0.04	1
Maintenance and Repair Shop	0.03	1
Cleaning and Maintenance, Janitorial	0.02	5
Engine Accessories, Miscellaneous, Non-Aircraft	0.02	2
Underwater Mine Disposal Inert Devices	0.01	3
Machine Tools - Miscellaneous - Repair	0.01	1
PHOTOMETER	0.01	1
Bearings, Antifriction, Unmounted	0.01	1
Vehicular Brake, Steering, Axle, Wheel and Track Components	0.01	4
Screws	0.00	2
Switches	0.00	1
Satellite Data Processing and Related Services	0.00	7
Translation Services	0.00	1

End User Entity for Contracts Won by Italian Headquartered Companies pre-CETA (2009-2016)

<u>End User Entity</u>	<u>Average Contract Value (in CAD Million)</u>	<u>Total Number of Awarded Contracts</u>
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Department of National Defence	1.03	57
Canadian Space Agency	0.05	1
Environment Canada	0.04	1
Foreign Affairs, Trade and Development (Department Of)	0.09	3
National Research Council Canada	0.12	2
Natural Resources Canada	0.03	2
Public Works and Government Services Canada	0.01	32

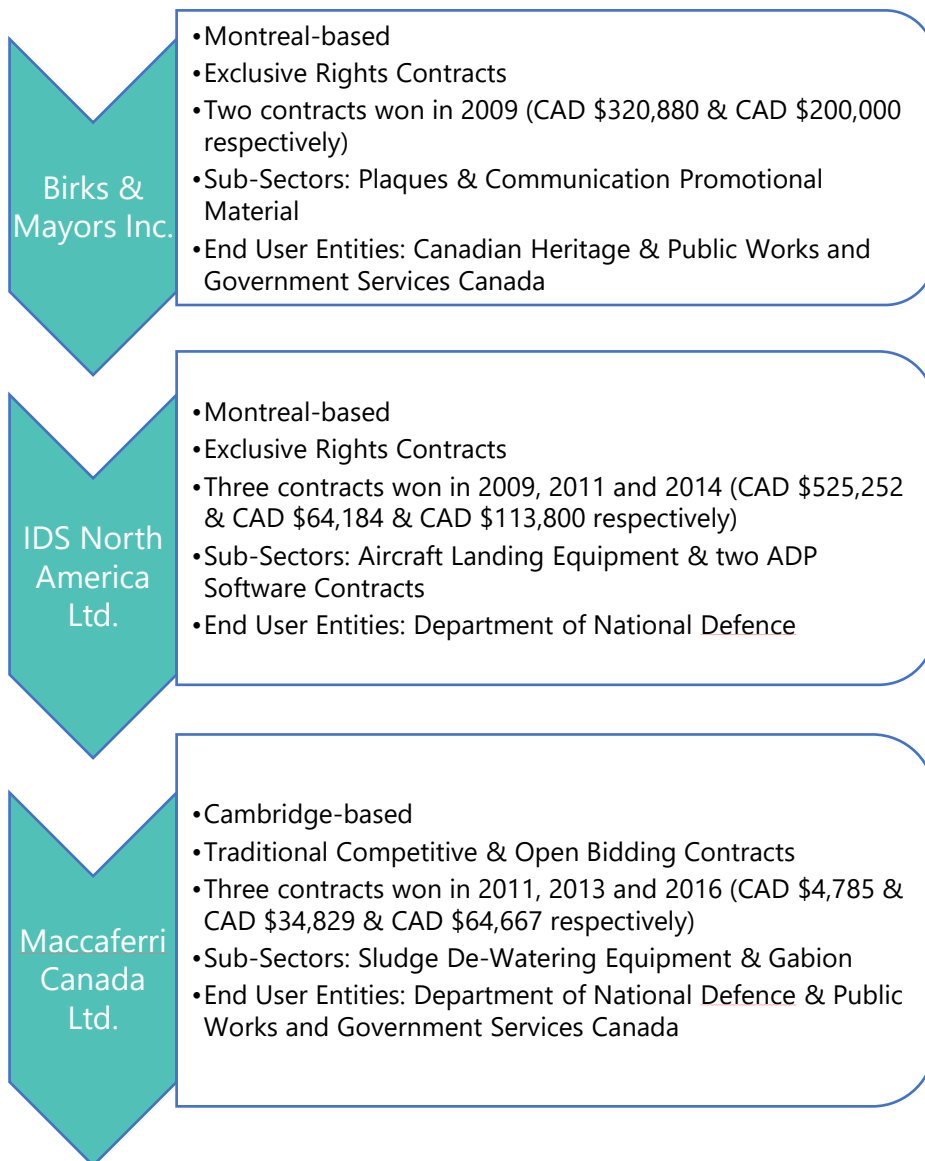
Overview of Contracts Won by Italian Headquartered Companies post-CETA (2017-2019)

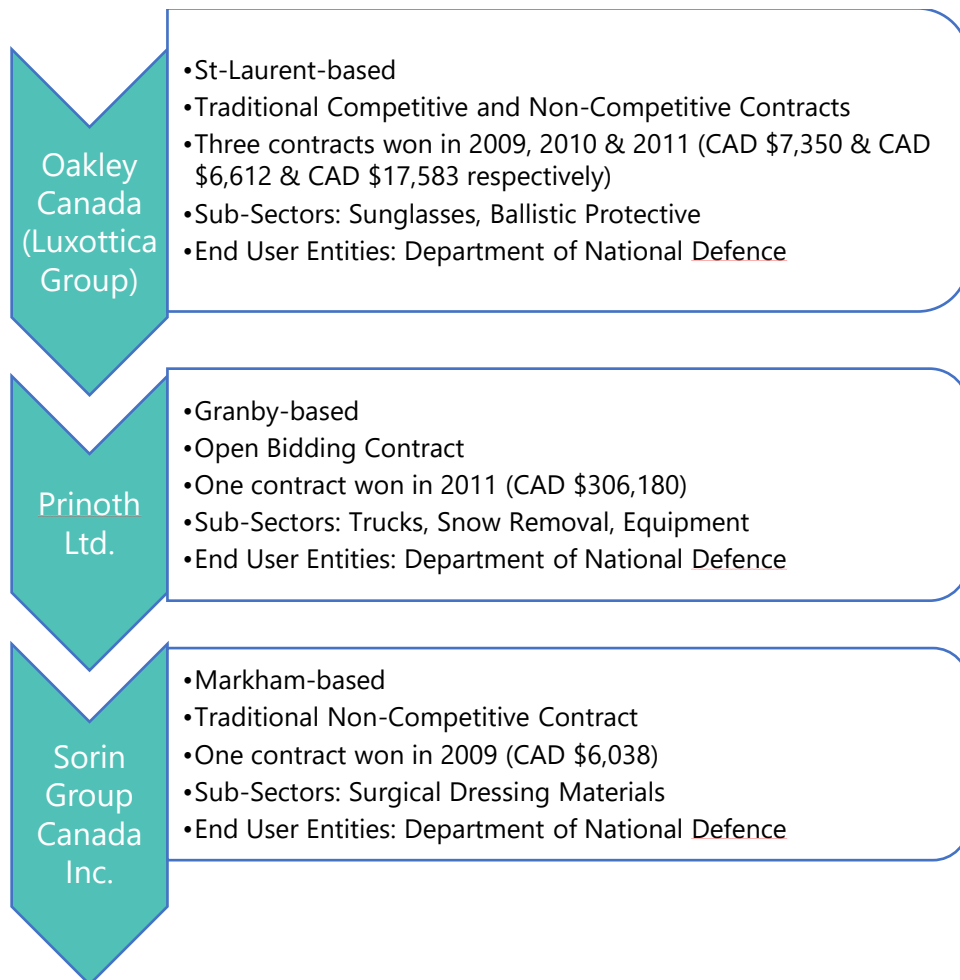
<u>Sub Sector</u>	<u>Average Contract Value (in CAD Million)</u>	<u>Total Number of Awarded Contracts</u>
Waste Disposal Equipment	5.23	1
Laboratory Equipment and Supplies	0.05	1
Hotels, Motels and Commercial Accommodation	0.19	3

End User Entity for Contracts Won by Italian Headquartered Companies post-CETA (2017-2019)

<u>End User Entity</u>	<u>Average Contract Value (in CAD Million)</u>	<u>Total Number of Awarded Contracts</u>
Department of National Defence	1.45	4
National Research Council Canada	0.05	1

Canadian subsidiaries of Italian companies winning contracts



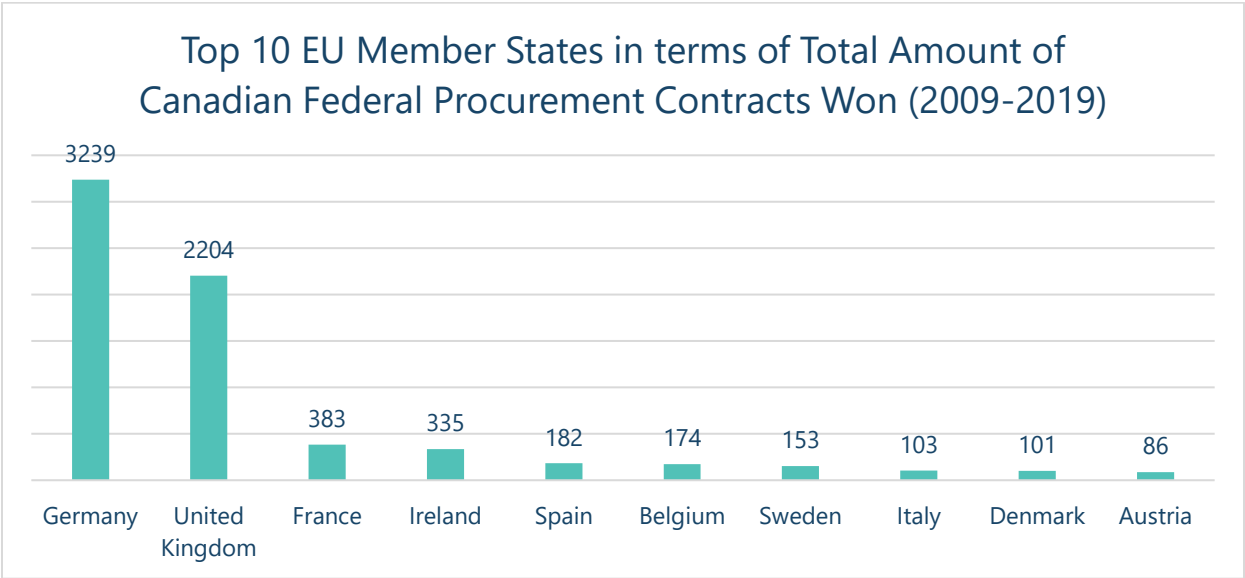


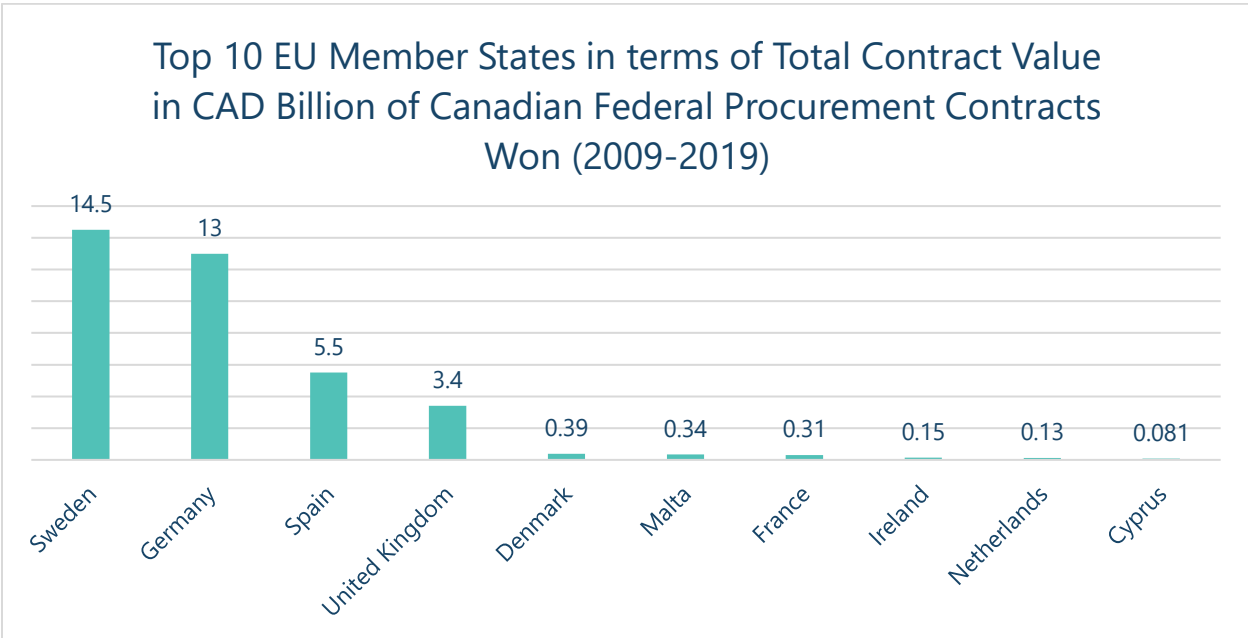
The list of companies above represents a non-exhaustive list of Canadian subsidiaries of Italian companies that have been awarded with Canadian federal procurement contracts. These contracts have been awarded between 2009 and 2016. With the advent of CETA, and trade relations between Italy and Canada grows, it is widely expected that the number of Canadian subsidiaries of Italian companies will keep growing as well, and as a consequence, they will be in position to win more procurement contracts from the federal government, as well as municipal, provincial, and private procurement.

For example, information provided by the Italian Trade Agency indicates that the Canadian subsidiaries of Leonardo (Leonardo Canada) and SAIPEM (SAIPEM Canada) have been prequalified for Canadian procurement contracts.

Competition in Europe

Italy’s main competitor in Europe in terms of EU headquartered companies winning Canadian federal procurement bids is by far Germany, which has won 3,239 contracts between 2009-2019. Germany is followed by the United Kingdom (2204 contracts awarded), and then volume drops off significantly with France (383 contracts awarded), and Ireland (335 contracts awarded) representing the next tier of European countries with contract wins. In terms of total contract value awarded to EU member states between 2009 and 2019, Sweden is in the lead with \$CAD 14.5 billion. However, most of these contracts are related the procurement of guns and are exclusive high-value contracts awarded to a handful of companies (BAE Systems Bofors AB, SAAB Bofors AB, and related subsidiaries). Sweden has not won many contracts that are non-discriminatory to CETA parties.

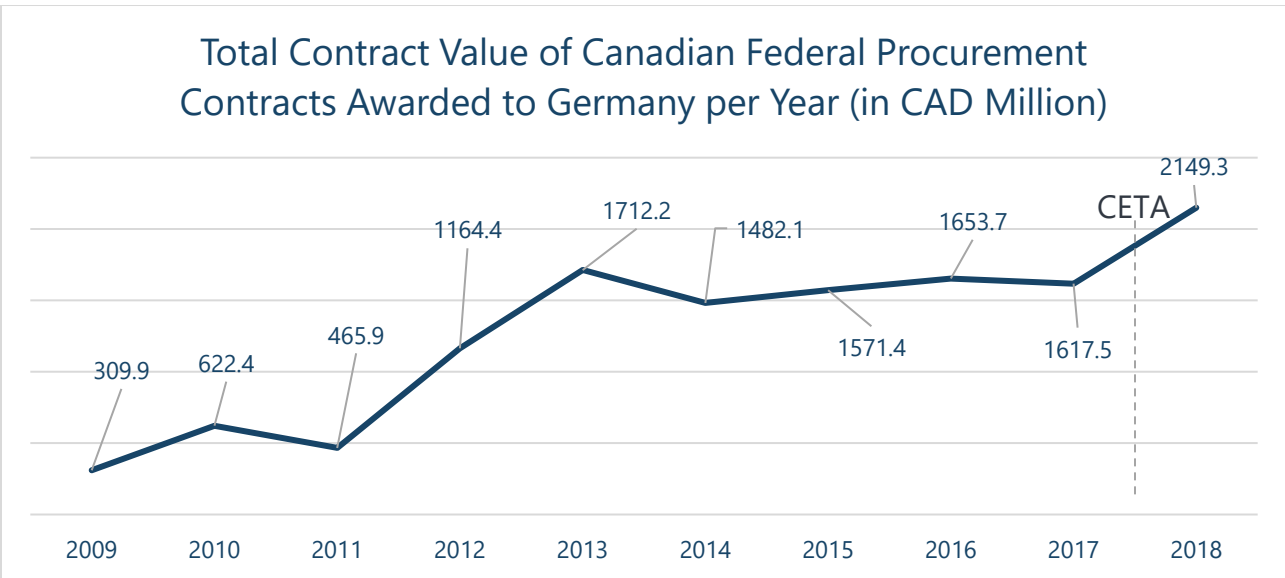
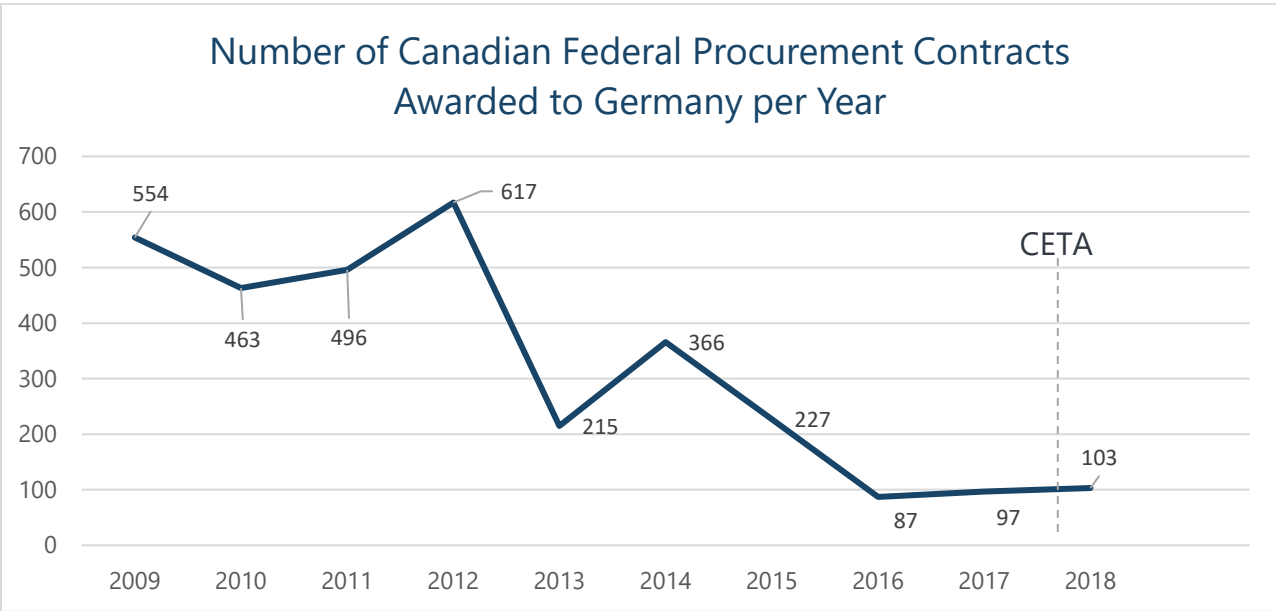




This section aims to shed light on Italy’s main competition in Europe in order to win Canadian federal procurement contracts. The analysis will focus on the top five competitors: Germany, the United Kingdom, France, Ireland and Spain (all currently members of the European Union). Note that this analysis only includes contracts won by the parent company headquartered in Europe and excludes any Canadian subsidiaries.

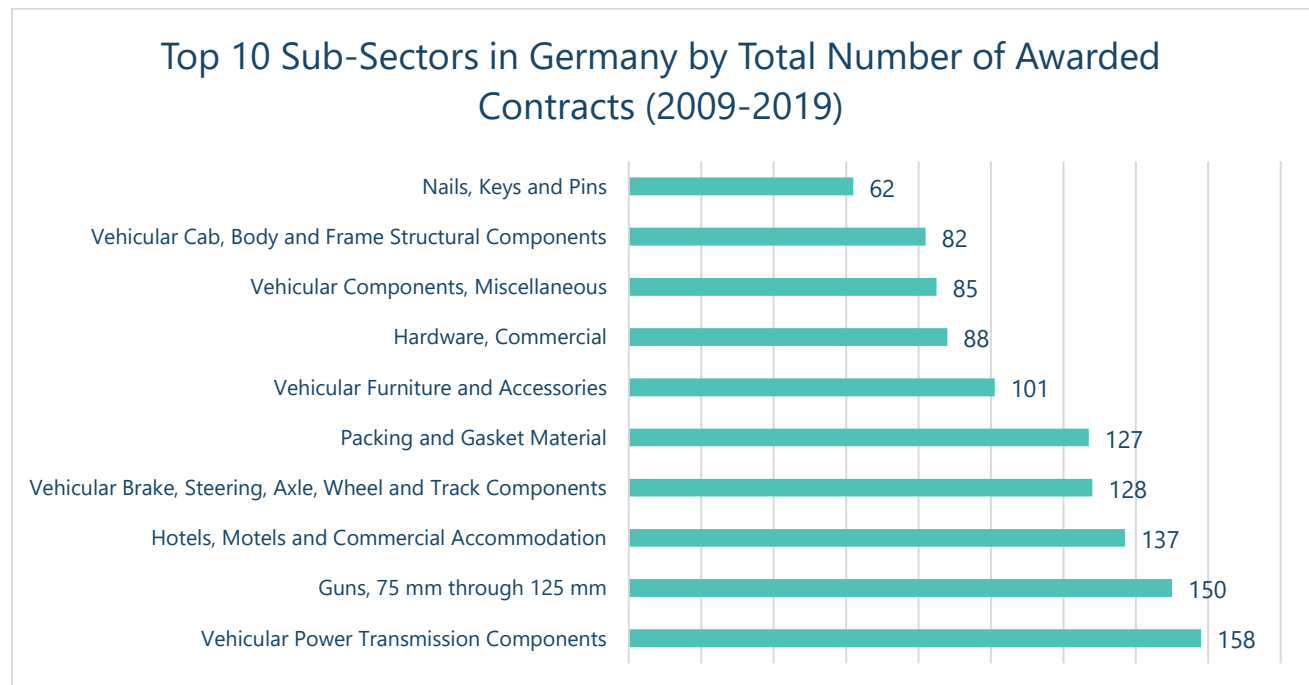
Germany

Germany, like most other European Union nations, experienced a peak in the amount of Canadian federal procurement contracts that it won in 2011-2012. It is largely assumed that this spike is partly due to increased military demand and operations of the Canadian Armed Forces in its European bases at the time. Germany has since then experienced a downward slope in terms of the total amount of contract that it has won, most likely due to the general trend of contract consolidation as highlighted in section 2.1. Similar to Italy, Germany has experienced a slight uptick in the amount of Canadian federal procurement contracts awarded since CETA took effect in 2017 compared to 2016 levels. Germany’s total contract value of Canadian federal procurement wins have been on the rise, with a record year in 2018 with CAD \$2.1 billion in awarded contracts.

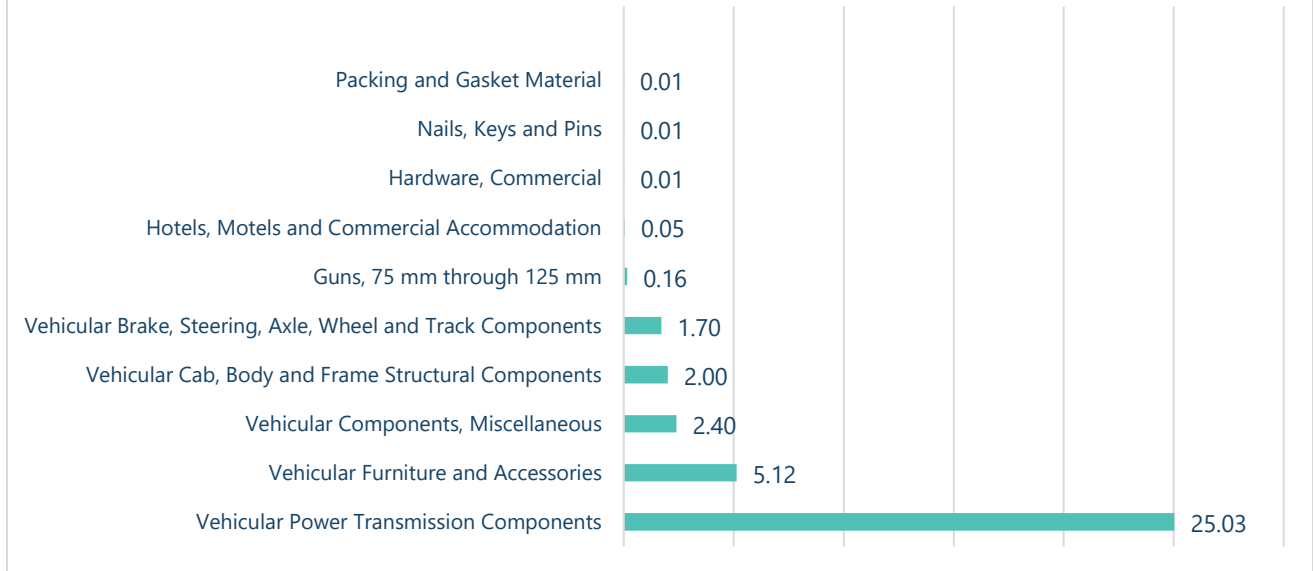


The charts below display the top 10 Canadian federal procurement sub-sectors awarded to Germany by both total number of awarded contracts and by average contract value between 2009-2019. Germany is highly competitive in the automotive sector, winning numerous contracts related to vehicular components and accessories. These contracts are highly profitable, consistently above CAD \$1 million per contract, with the vehicular power transmission components segment reaching as high as CAD \$25.03 million per contract. It is also interesting to note that the end user entity for German wins is primarily the Department of National Defence. All the vehicular related contracts have the Department of National Defence as the end user entity. It is also important to note that the vehicular

contracts are very accessible and non-discriminatory to CETA parties. Although exceptions to accessibility into CETA's government procurement rules include certain types of security and defense solutions, vehicular components are considered as parts to military apparatuses, and therefore less sensitive in terms of contracting a foreign company. Out of 97 contracts awarded to Germany since 2017 that were non-discriminatory towards CETA parties, 46 of them (or 47.5%) were related to vehicular components.

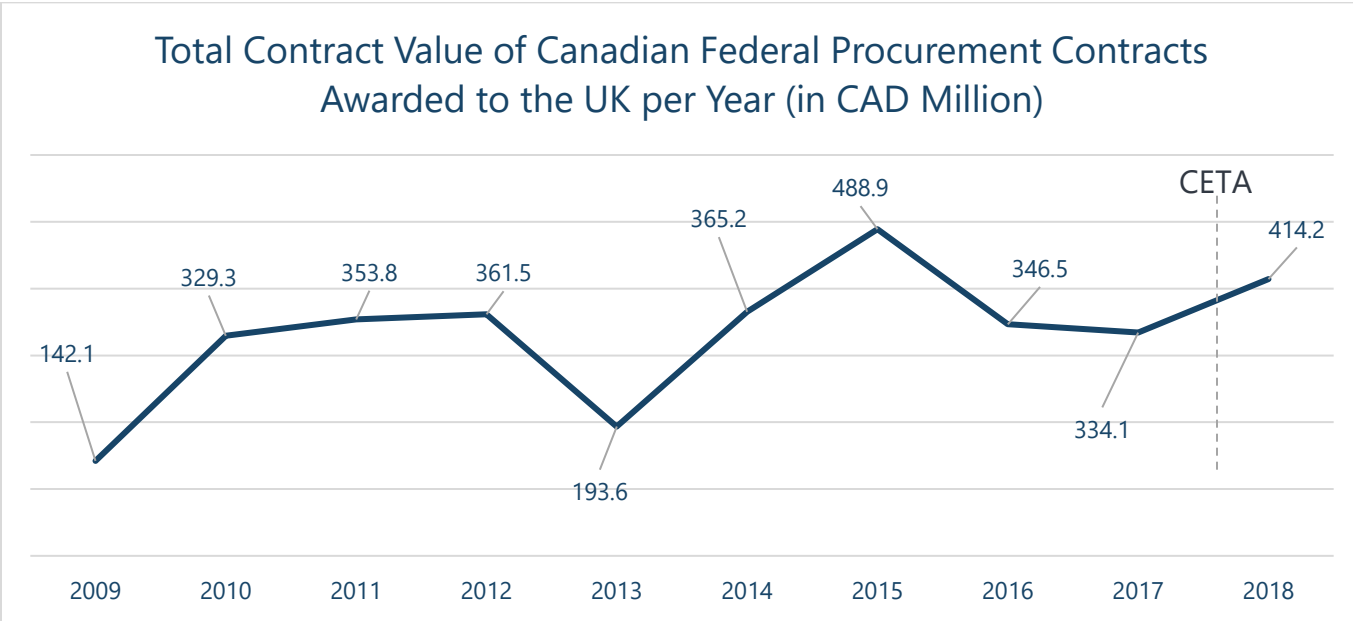
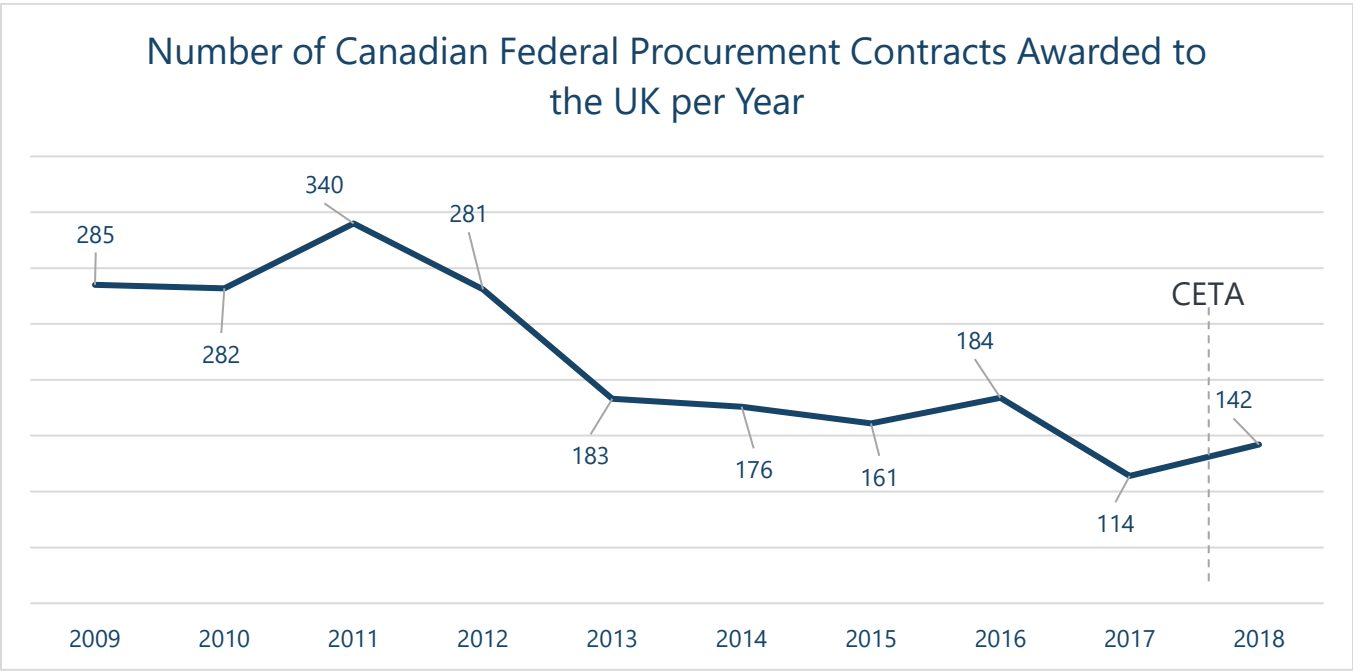


Top 10 Sub-Sectors in Germany by Average Contract Value in CAD Million (2009-2019)



The United Kingdom

The UK's total volume of Canadian federal procurement contracts won has experienced a similar downward trend to other EU nations following 2011. Similar to Germany, the UK is host to Canadian Armed Forces activities in Europe, which explains the need for extensive accommodation and car rentals in the country by the Canadian government. Further, as a commonwealth country, Canada has a long-standing history of trade and exchange with the UK. Like Germany, the UK's total contract value of Canadian federal procurement wins have been trending up.



The charts below display the top 10 Canadian federal procurement sub-sectors awarded to the UK by both total number of awarded contracts and by average contract value between 2009-2019. The most commonly awarded sub-sectors after hotel accommodations include software and data related products, more specifically ADP Software and Information Products. Logistics support services to the military as well as

providing fire control equipment are the most lucrative sub-sectors for contracts awarded to the UK.

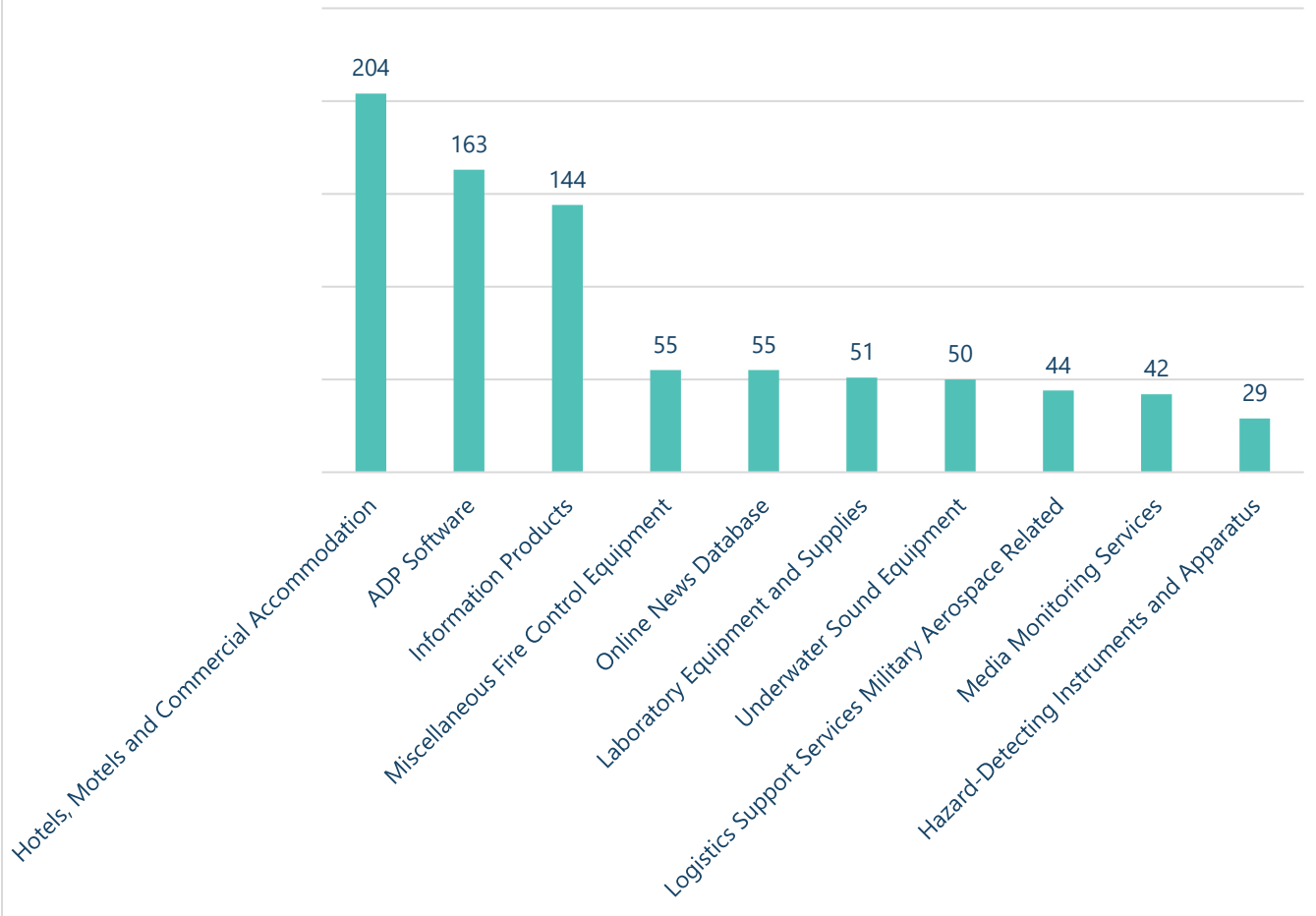
In terms of contracts that are non-discriminatory to CETA parties, the UK is Italy's largest competitor, in that it has won a larger amount of such contracts than any other EU member state. As of 2017, the UK has won 116 contracts open to CETA parties, ahead of Germany's 98.

39% of these UK awarded contracts open to CETA parties had the Department of National Defence as the end user entity (compared to 84% in Germany), followed by the Public Works and Government Services Canada (13%), Fisheries and Ocean Canada (13%), Citizenship and Immigration Canada (11%) and Agriculture and Agri-Food Canada (8%). For procurement contracts open to CETA parties, the UK has the most diverse portfolio in terms of end user entities.

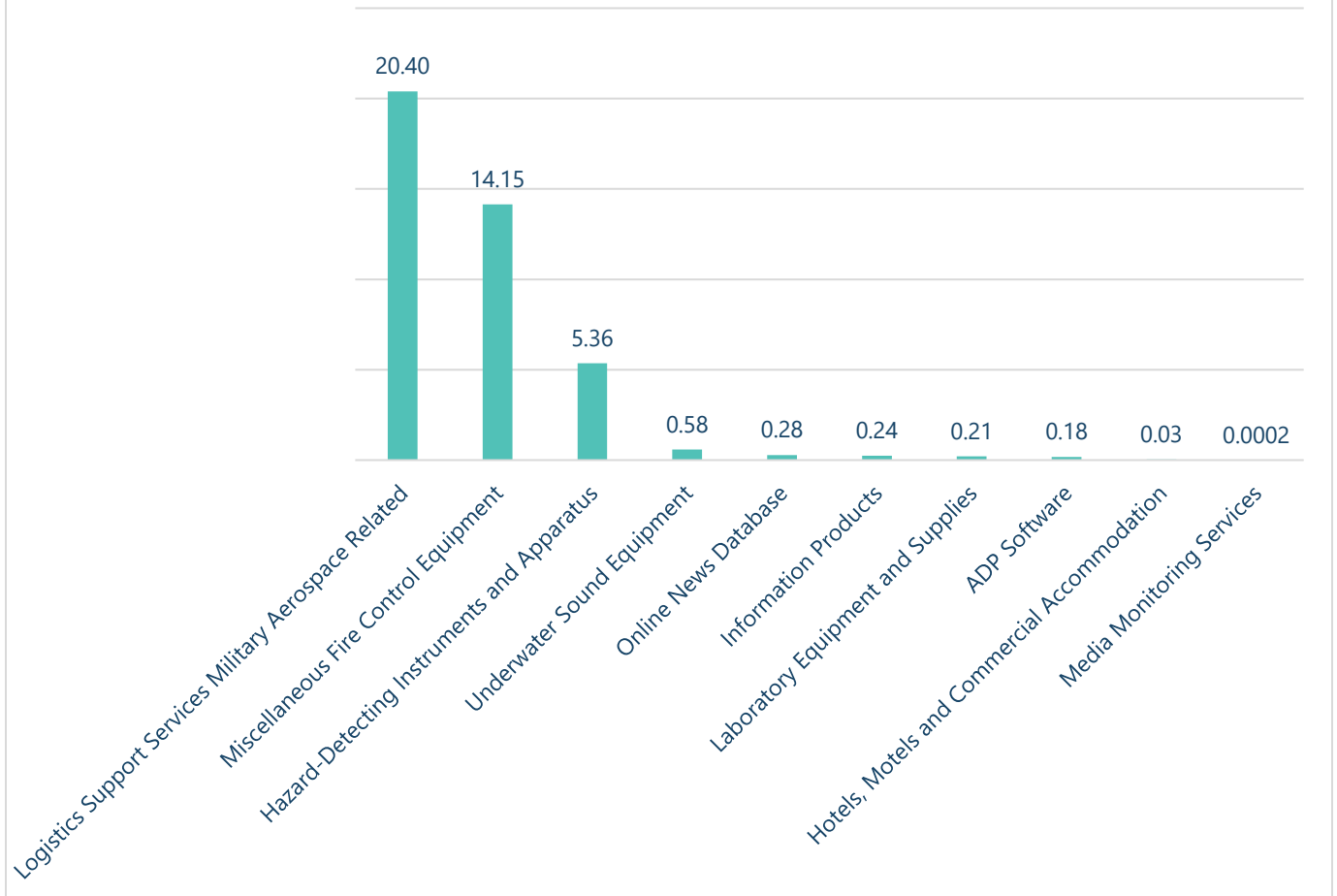
Like Germany, the UK had non-discriminatory contracts to CETA parties awarded in the Vehicular Power Transmission Components sub-sector, but also had a fair amount of success in Software & IT (ADP Software, Information Products, and Information Retrieval Services and Databases) as well as the Marine industry (Ship and Marine Equipment & Marine Consulting).



Top 10 Sub-Sectors in the UK by Total Number of Awarded Contracts (2009-2019)



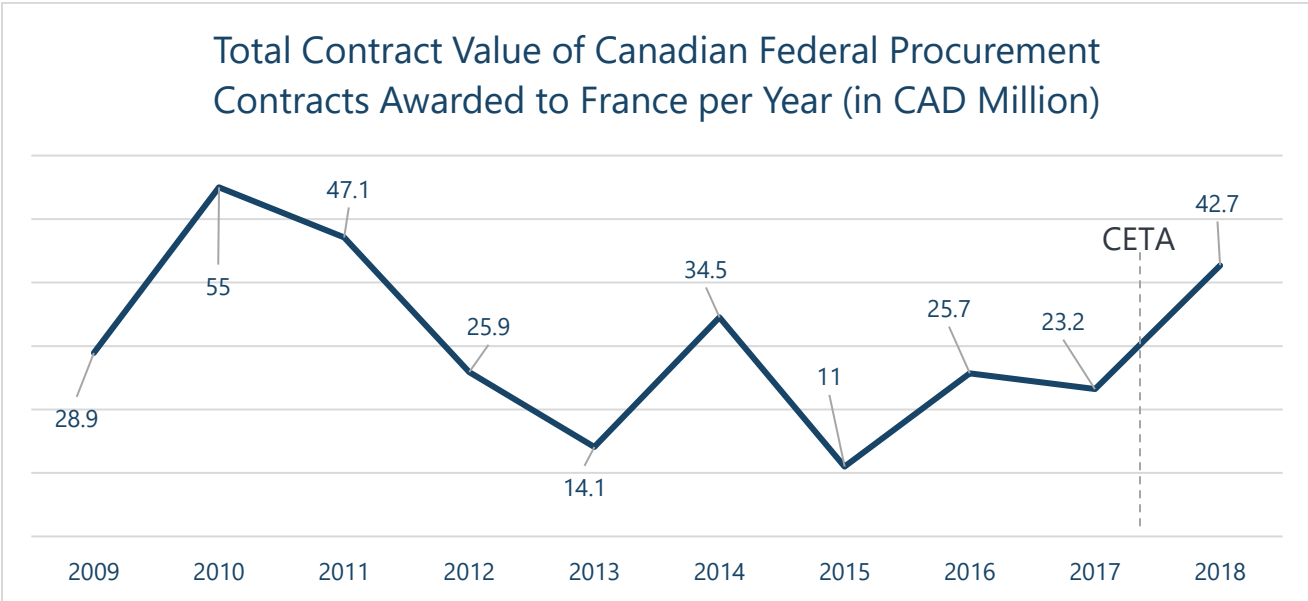
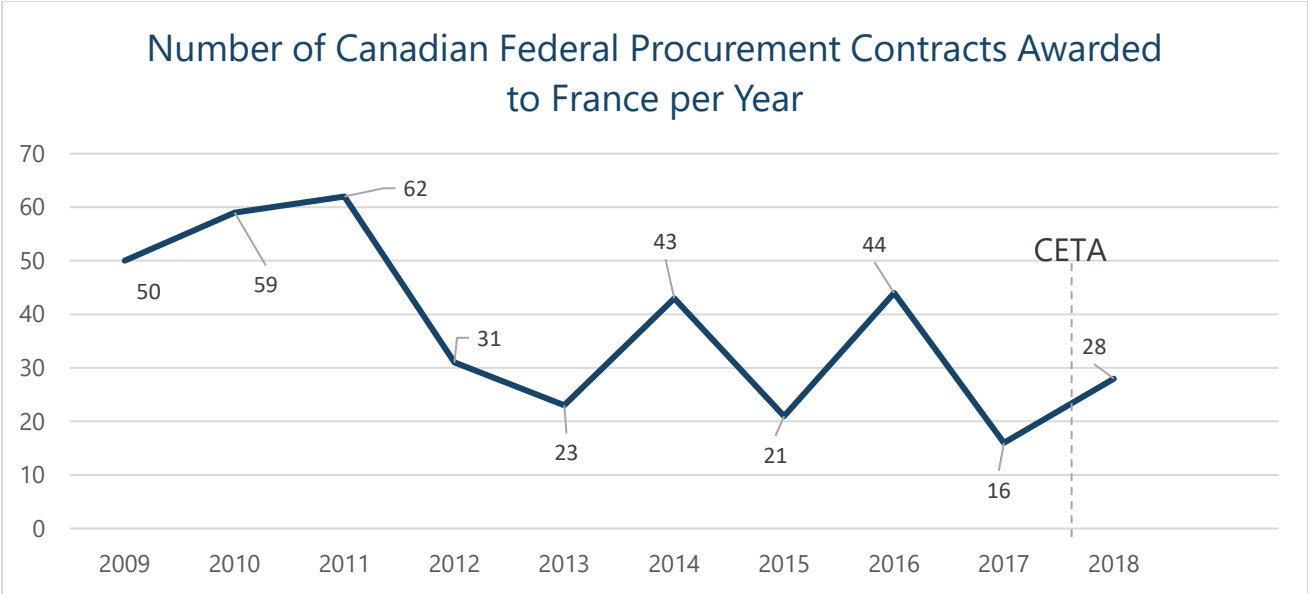
Top 10 Sub-Sectors in the UK by Average Contract Value in CAD Million (2009-2019)



France

France has experienced more sporadic fluctuations compared to its EU counterparts regarding the amount of Canadian federal procurement contracts it has won between 2009-2019. The country's wins shift drastically from year to year, but it also boasts a less apparent downward trend in terms of volume of contracts awarded. This could be explained by the fact that France has the most diverse portfolio of end user entities from the Canadian federal government compared to its EU counterparts, allowing for more diverse procurement sources. It has received contracts from the Department of National Defense, the Public Works and Government Services Canada, the Canadian Transportation Agency, the Canadian Space Agency, Industry Canada, Employment and Social Development Canada, the Public Health Agency of Canada, Agriculture and Agri-Food

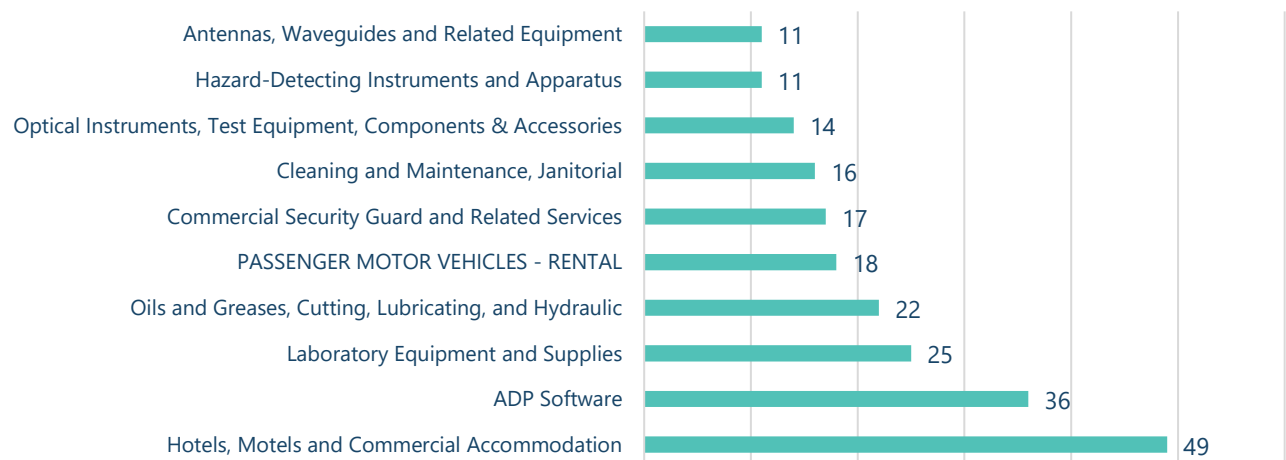
Canada, Natural Resources Canada, National Research Council Canada, and Veterans Affairs Canada. France’s total contract value for Canadian federal procurement contracts seems to be following the ebb and flow of contract volumes on a yearly basis.



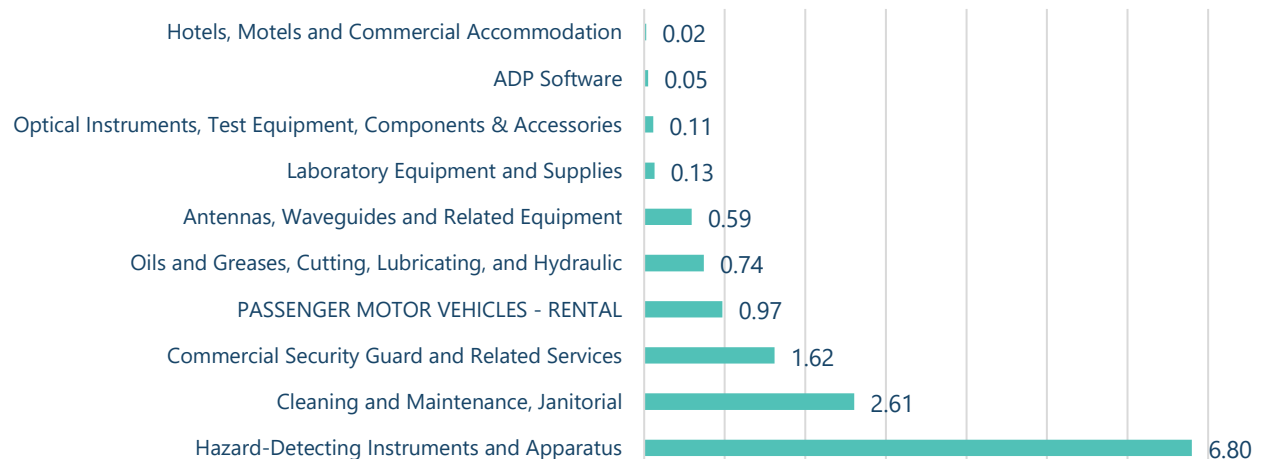
The charts below display the top 10 Canadian federal procurement sub-sectors in France by both total number of awarded contracts and by average contract value between 2009-2019. The overall volume of contracts awarded to France are significantly lower than in Germany. Further, France has only won 25 contracts that are non-discriminatory to CETA

parties since 2017, also significantly less than the UK and Germany. The bulk of these non-discriminatory contracts for CETA parties won by France include the Oils and Greases, Cutting, Lubricating and Hydraulic sub-sector (contracted with the Department of National Defence), as well as Laboratory Equipment and Supplies (contracted with Natural Resources Canada, the National Research Council Canada, Agriculture and Agri-Food Canada, Health Canada, and the Department of National Defence).

Top 10 Sub-Sectors in France by Total Number of Awarded Contracts (2009-2019)

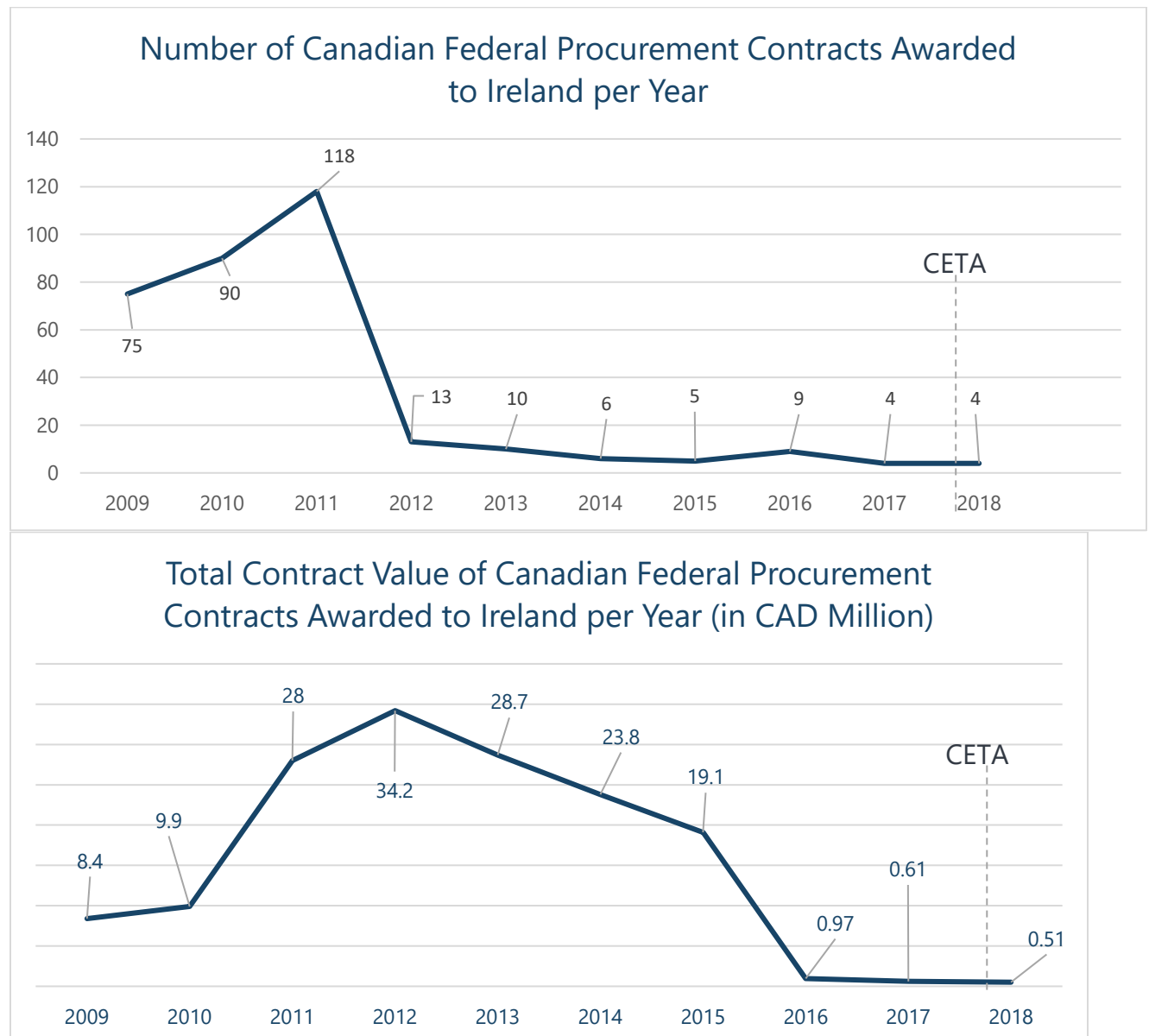


Top 10 Sub-Sectors in France by Average Contract Value in CAD Million (2009-2019)

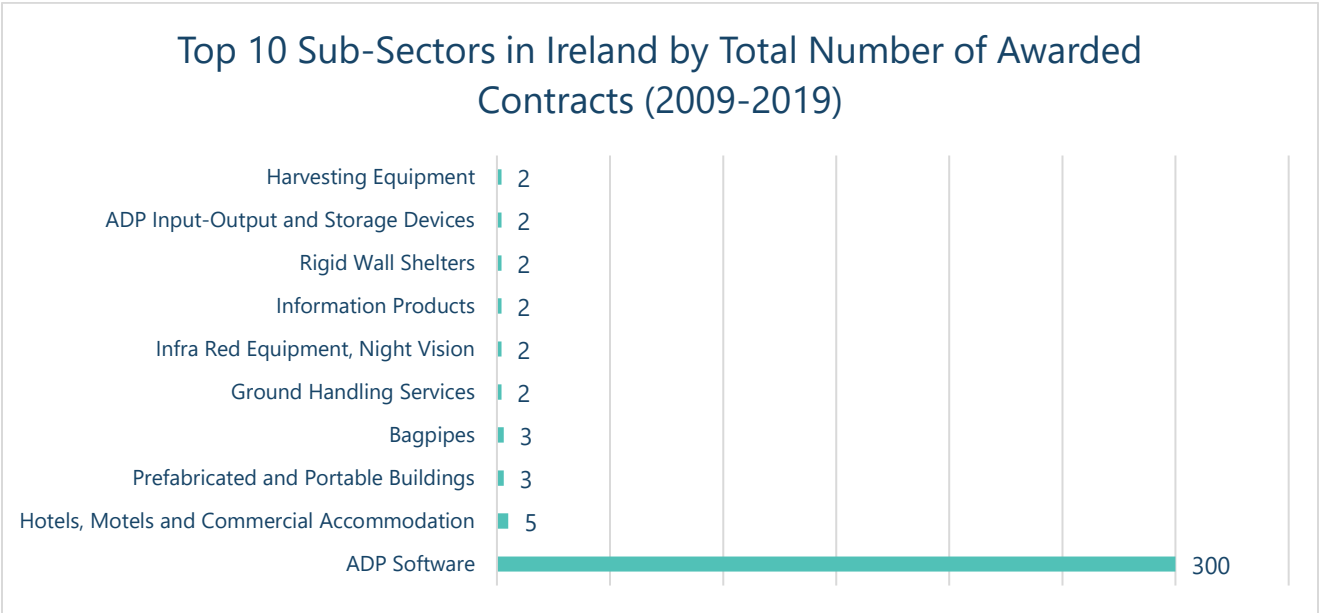


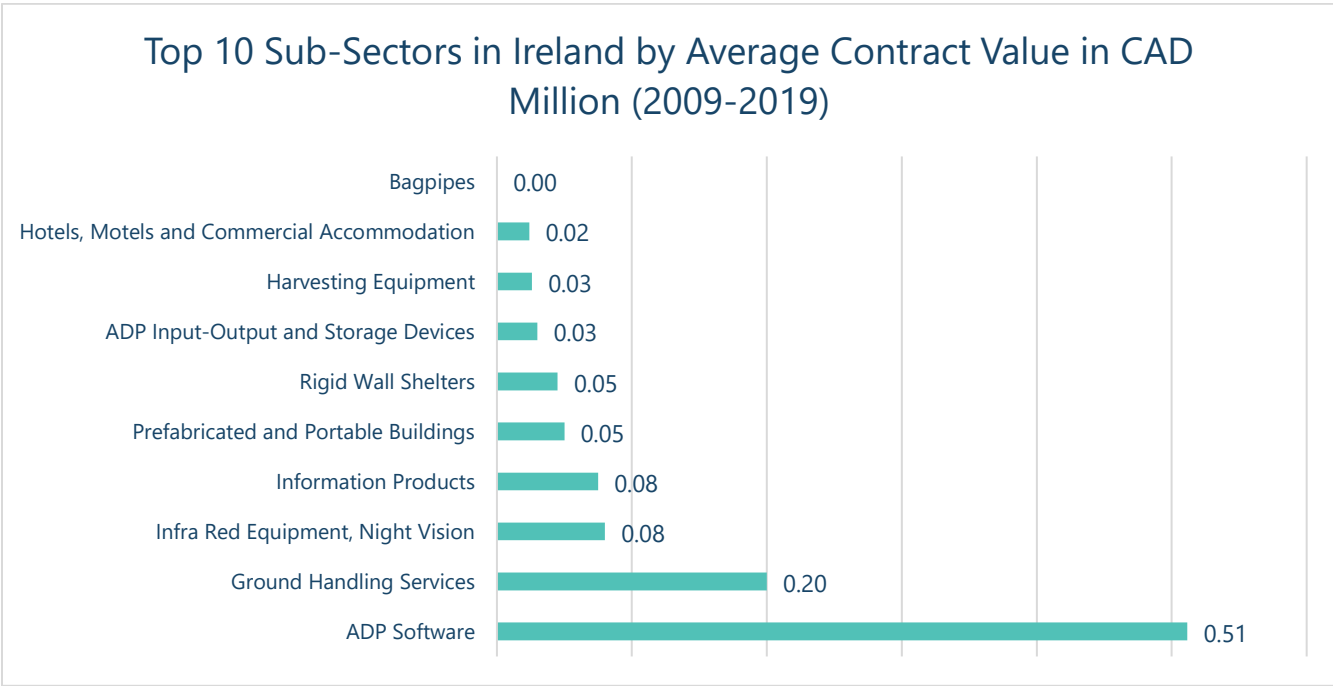
Ireland

Ireland's total volume of Canadian federal procurement contracts won has experienced a similar downward trend to other EU nations following 2011. Unlike some of its competitors, Ireland has also experienced a downward shift in terms of yearly total contract values since its peak in 2012 with CAD \$34.2 million.



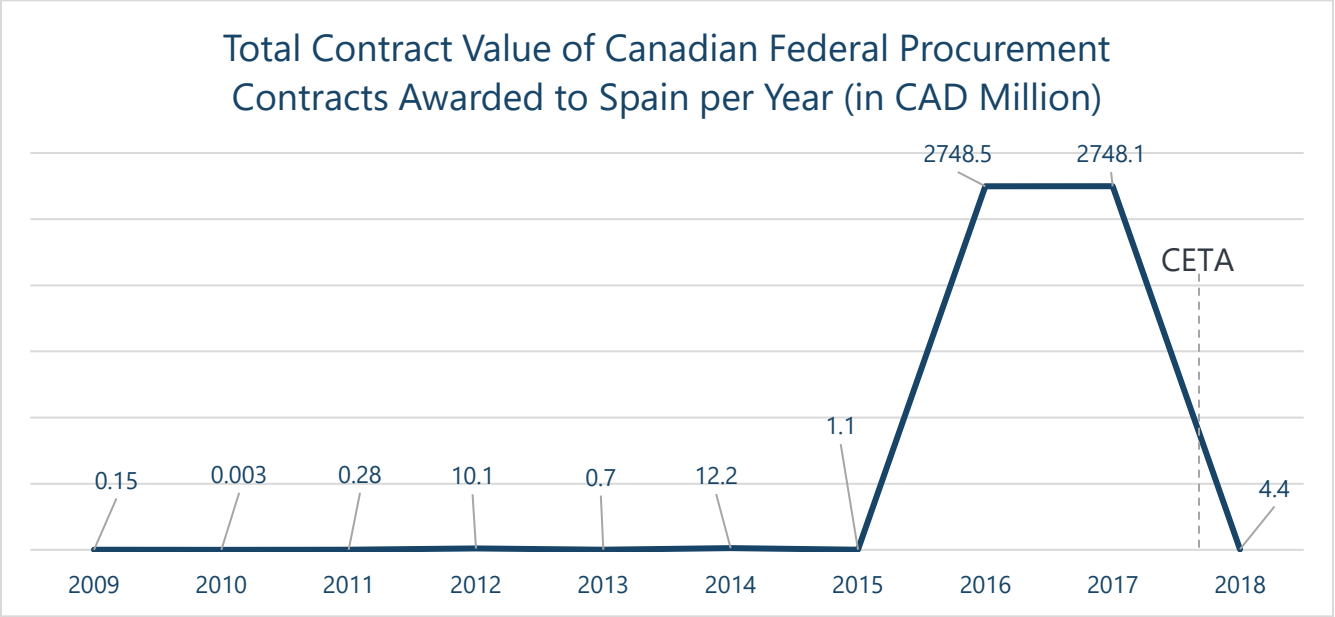
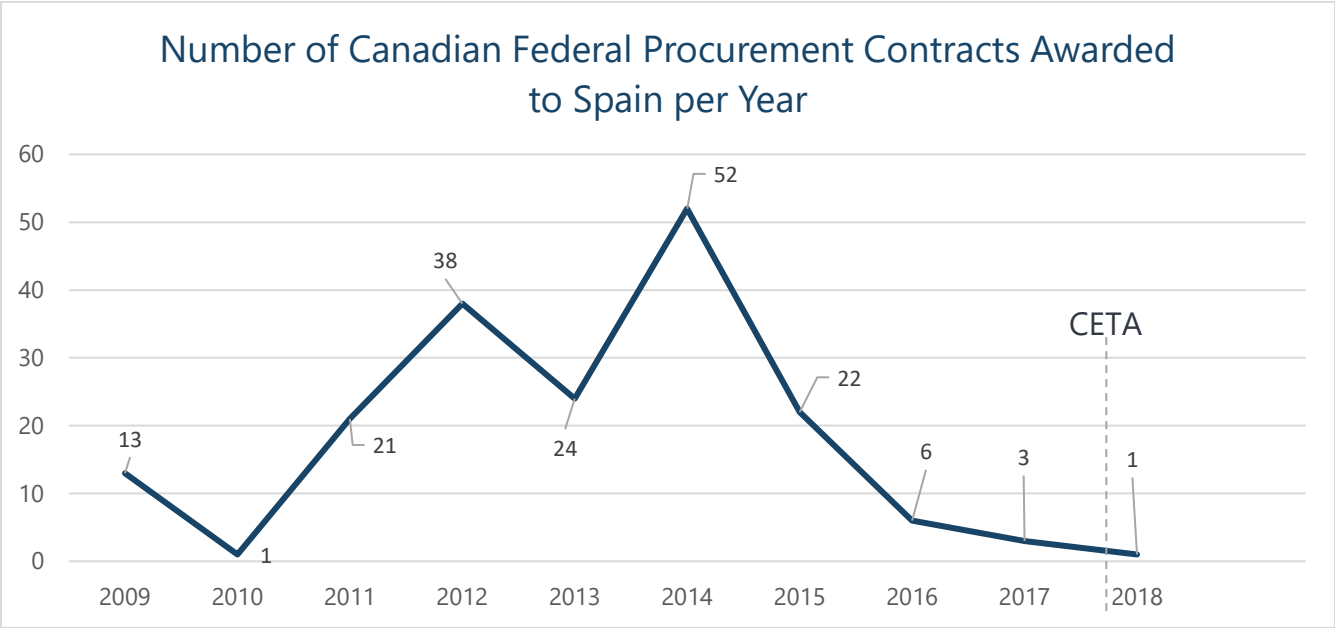
The charts below display the top 10 Canadian federal procurement sub-sectors in Ireland by both total number of awarded contracts and by average contract value between 2009-2019. According to these numbers, Ireland’s comparative advantage in winning Canadian federal procurement contracts resides solely in the software sector, more specifically providing ADP software. This is also Ireland’s most lucrative sub-sector in terms of average contract value. Ireland has not won any contracts that were non-discriminatory to CETA parties after CETA came into effect in 2017, and as such the country should not be viewed as a top competitor to Italy in order to win these types of contracts down the road.





Spain

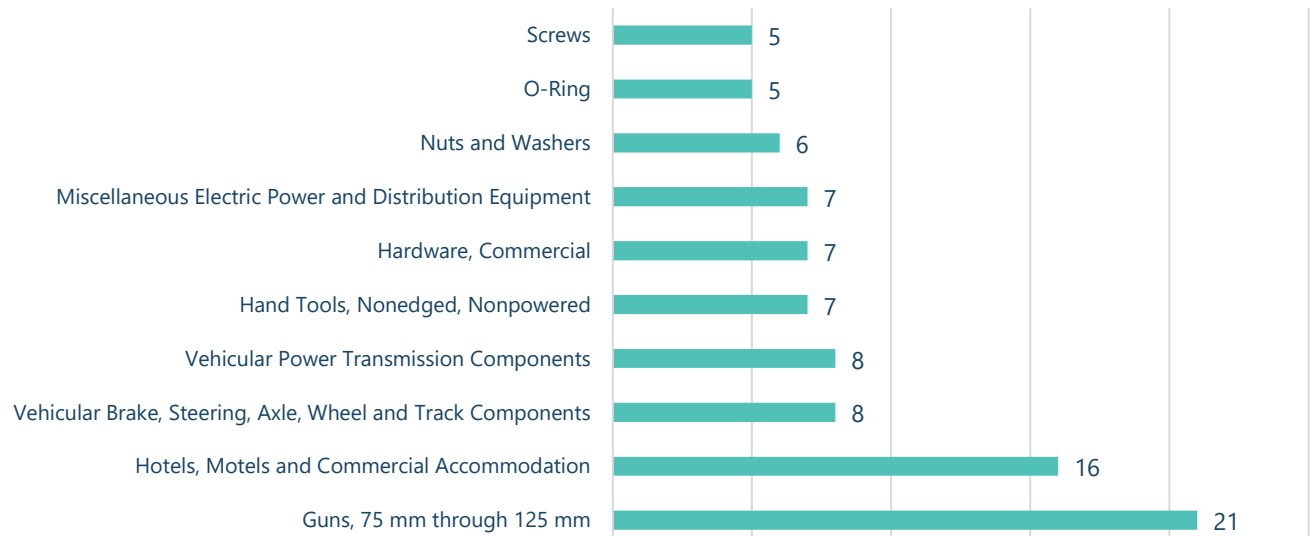
Spain's volume of Canadian federal procurement contracts won peaked in 2014 with 52 contracts awarded, and then experienced the familiar downward slope. The contracts awarded to Spain in 2014 came from a variety of sub-sectors and it remains unclear whether Spain's 2014 peak can be linked to any particular event or circumstance. As far as total contract value goes, Spain experienced a dramatic peak in both 2016 and 2017, with approximately CAD \$2.7 billion in awarded contracts during both years. These are related to large contracts that the country has won in the Aerospace industry, related to fixed wings.



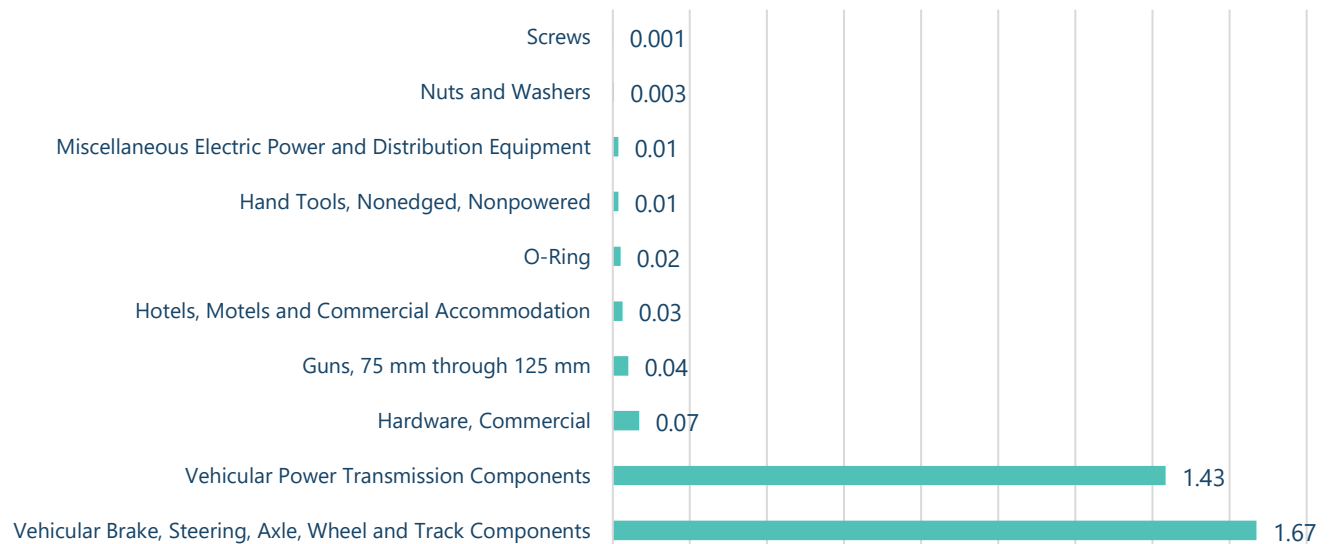
The charts below display the top 10 Canadian federal procurement sub-sectors in Spain by both total number of awarded contracts and by average contract value between 2009-2019. Although with significant less volume compared to Germany, Spain has been winning some highly profitable contracts related to the vehicular component sub-sectors with the Department of National Defence. As indicated with Germany, these contracts tend to have an open-bidding process that is non-discriminatory towards CETA parties. Italy could be

in a strong position to steal some of these contracts away from Spain given the strength and reputation of the Italian automotive industry.

Top 10 Sub-Sectors in Spain by Total Number of Awarded Contracts (2009-2019)



Top 10 Sub-Sectors in Spain by Average Contract Value in CAD Million (2009-2019)



2.3. Swot analysis

Strengths

As the 3rd largest national economy in the eurozone and the eighth largest exporter in the world, Italy is well positioned to increase its trade, investments, and procurement contract wins in the Canadian market.

As indicated in section 1.2, Italy's expertise lies in the automotive, aerospace, and infrastructure sectors, among others. This comparative advantage puts Italy in prime position to win contracts in some of the more lucrative sub-sectors that are also non-discriminatory to CETA parties:

- Vehicular components (Germany is a fierce competitor; however, Italy can hold its own and should be able to win contracts over Spain and the UK)
- Construction of buildings, ports, dams, railways, roads, etc.
- Marine infrastructure, equipment, and consulting (with Italy's expertise given its 14 maritime ports).

Weaknesses

Contracts related to Information and Communication Technology as well as Data related software are found in high volume in Canadian federal procurement opportunities. This trend is expected to continue given the advent of 5G infrastructure, IoT, Smart Cities, and Artificial Intelligence. While the Italian digital market closed 2017 with a growth of 2.3% compared to 2016, a growth had not been recorded before that since 2005. It will be challenging for Italy to be competitive in these sectors and as successful compared to the UK, Ireland, as well as France and Germany. However, these types of contracts typically do not involve a high average contract value.

Opportunities

With the trend of contract consolidation, a lower volume of Canadian federal procurement contracts awarded, but higher contract values, the competitive landscape to win bids is tightening. That said, with increased trade between Italy and Canada following the advent of CETA, Italian companies have an opportunity to forge strategic partnerships with Canadian firms in order to win more projects through joint ventures, or as sub-contractors.



Another potential looming opportunity is the uncertainty surrounding Brexit, and its impact on the UK's ability to access bids that are non-discriminatory to CETA parties. The UK is currently the country that has won the highest volume of such contracts since 2017. While the UK and Canada have a long-standing relationship, it could take a while for the UK to establish a bilateral free trade agreement with Canada should it secede from the EU. Italy could focus on targeting UK-awarded contracts where the former has a comparative advantage: vehicular components; marine consulting and equipment, etc.

Threats

Italy is facing some political instability with internal political fights and threats among the current coalition in power. Tensions between Lega and its coalition partner, the Five Star Movement, have been brewing for months. The current prime minister, Giuseppe Conte, has threatened to step down recently if the two parties can't find some common ground. This political friction poses a potential threat to an economic slowdown or paralysis in Italy, not to mention that some nationalist waves in the political arena might favor protectionist measures to promote domestic consumption over an export-oriented economy.

2.4. Trends, forecast & RECOMMENDATIONS

Contract Consolidation to Continue

The phenomenon of contract consolidation is expected to continue unabated, while the total spending of the Canadian federal government shows no signs of slowing down. This presents both opportunities and challenges to Italian companies looking to secure federal procurement contracts, as the competitive landscape is tightening. Strategic partnerships with Canadian companies is key in order to transform these challenges into significant opportunities.

M&A Activity on the Rise

The Aerospace & Defense industry experienced many mergers and acquisitions (M&A) activity over the last two years. Suppliers to OEMs have been consolidating in response to the latter's continued pressure on the former to reduce costs and increase production rates in order to expand profit margins. Suppliers can scale and are more cost effective when they merge or acquire, not to mention this gives more leeway for negotiating power to these suppliers over OEMs. Hence, the highly fragmented supplier base is likely to



become more concentrated in the near term. Megadeals are also on the rise as larger tier 1 and tier 2 manufacturers focus on vertical integration. In recent years, we have seen a large aerospace supplier acquire an avionics and interiors manufacturer, and more recently, the merger of two major communications and electronics contractors—one of the biggest-ever mergers in the defense sector. This trend is not only limited to the Aerospace & Defense industry, but also Automotive and others. As OEMs increase pressure on their suppliers, the same is expected of federal departments on their own suppliers as contracts consolidate.

Source: Deloitte, 2019 Global Aerospace and Defense Industry Outlook

Resurgence of Global Military Spending as Geopolitical Risks Increase Worldwide

The Trump era has seen a rise in global tension and security concerns. Therefore, defense budgets in the United States have been on the rise. NATO countries are also increasing their defense budgets in response to pressure from the United States, as well as to counter potential threats from Russia and the Middle East. Other nations have joined the trend of an uptick in military spending, such as India, China, and Japan, because of enduring security threats. Apart from this, heightened geopolitical tensions in the Middle East and North Korea are creating strong demand for military equipment, which is expected to be one of the key drivers of defense sector growth in the near term. Moreover, space is becoming an important part of the overall defense industry ecosystem as growing global tensions could pose a threat to space assets such as satellites, which are often relied upon for military operations including surveillance, communications, and missile targeting. The concept of the militarization of space has emerged in recent years. The United States, China, and Russia have already begun establishing dominance in space, with other countries, such as North Korea and India, gradually following them. In terms of procurement opportunities, Italian companies should seek to win contracts as suppliers of vehicular, aircraft, and spacecraft components to the Department of National Defence.

Source: Deloitte, 2019 Global Aerospace and Defense Industry Outlook

Strategic Focus / Recommendations

CETA came into effect in 2017, and it is still early days to determine the direct impact it will have on the capacity for Italian companies to win more Canadian federal procurement contracts. Trade between Italy and Canada has been on the rise, and as a result, it is expected that bilateral investments, mergers and partnerships, and additional government procurement opportunities between both countries will be on the rise as



well. However, these opportunities are also available to other EU member states, and Canadian companies will also do their best to outcompete EU member state companies as far as Canadian federal government procurement is concerned. Italy must take several actions to put itself in prime position to compete for future procurement opportunities:

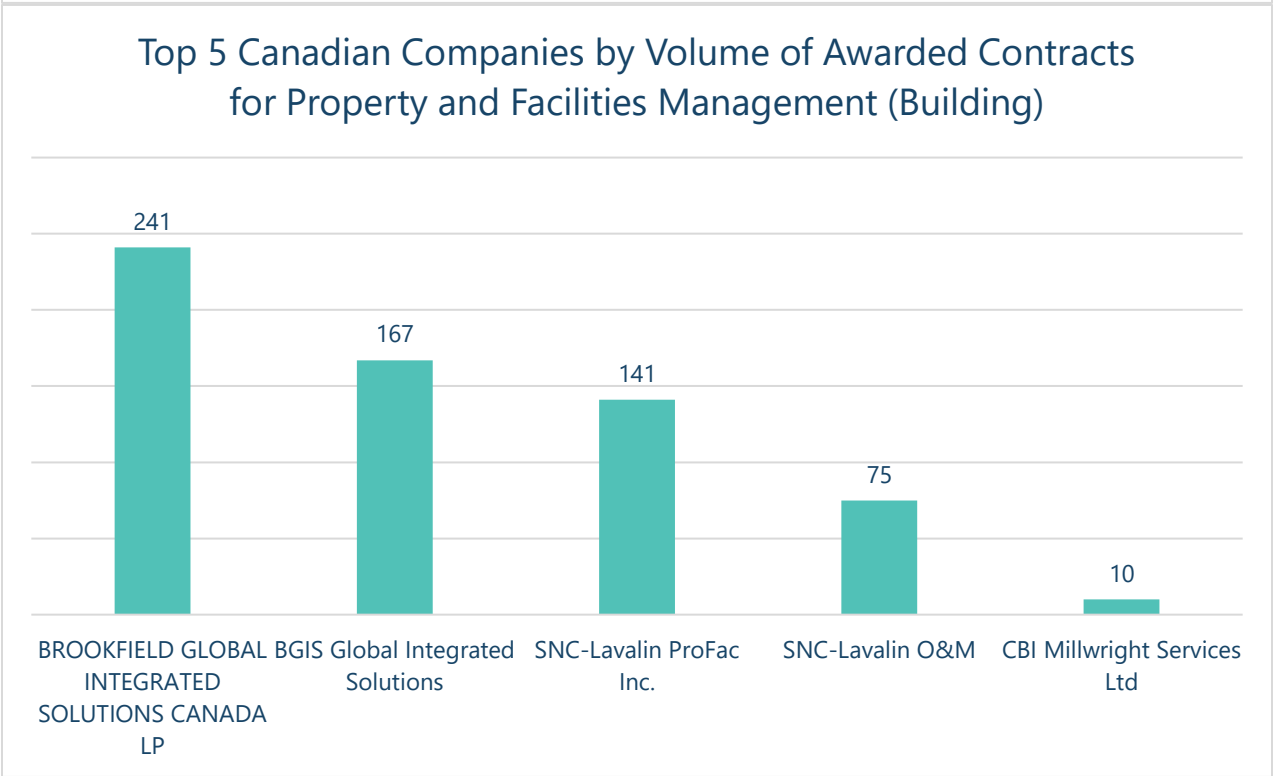
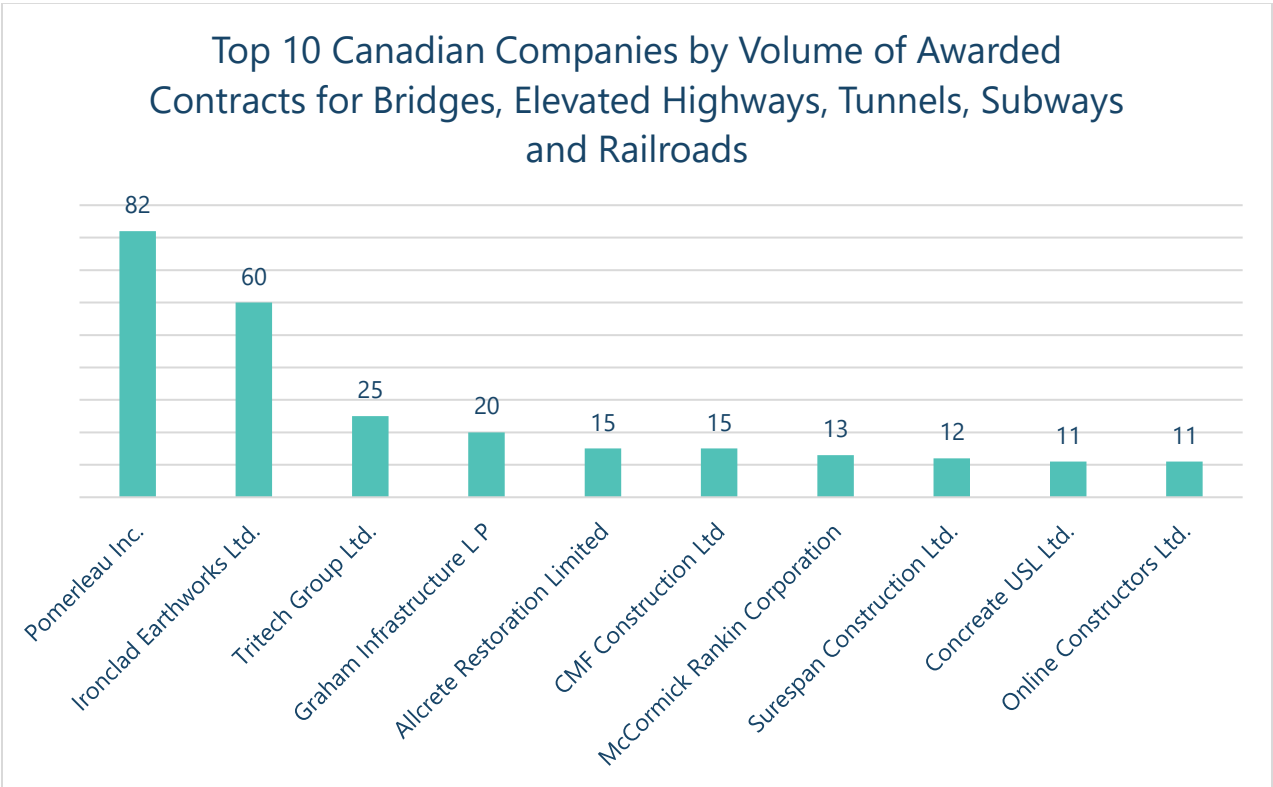
- Selective bidding: bid on the most attractive contracts where Italy has a comparative advantage (marine equipment & consulting, vehicular components, construction, aerospace & defense, etc.).
- Key market trends: stay on top of trends related to which end user entities are awarding these types of contracts (Department of National Defence and the Public Works and Government Services Canada for the most part).
- Opportunistic: take advantage of relevant political and socio-economic changes (Brexit)
- Market synergies: form strategic partnerships with Canadian companies in order to participate in more winning contracts as partners or sub-contractors, including for exclusive contracts (strategic initiatives by the Italian Trade Agency to foster dialogue between Italian and Canadian players via tradeshow, seminars, reverse pitches, etc.).
- Canadian market footprint: invest in Canadian subsidiaries when business justifies it in order to remain competitive in terms of costs and regulatory compliance.

Key Canadian Players to Partner With:

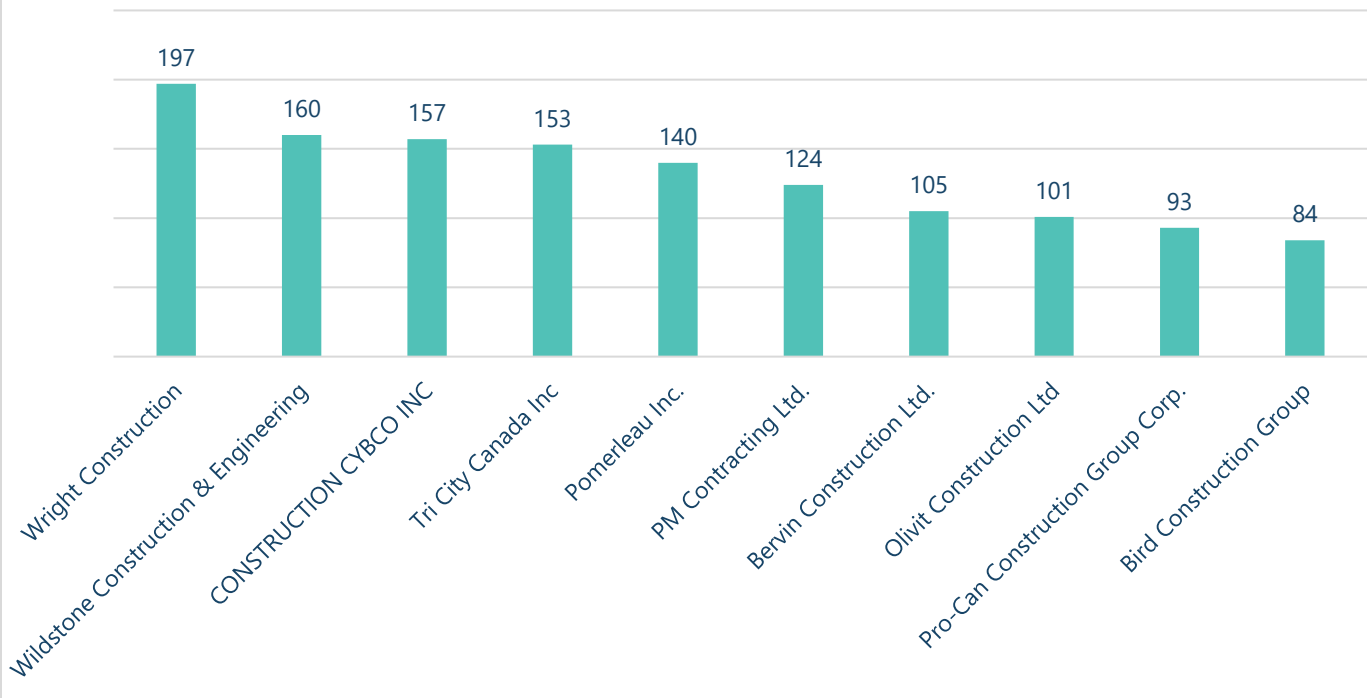
Given the landscape, it is important to identify the top Canadian players that have been winning the most contracts for the most lucrative industries and sub-sectors, and pursue partnerships with these players:



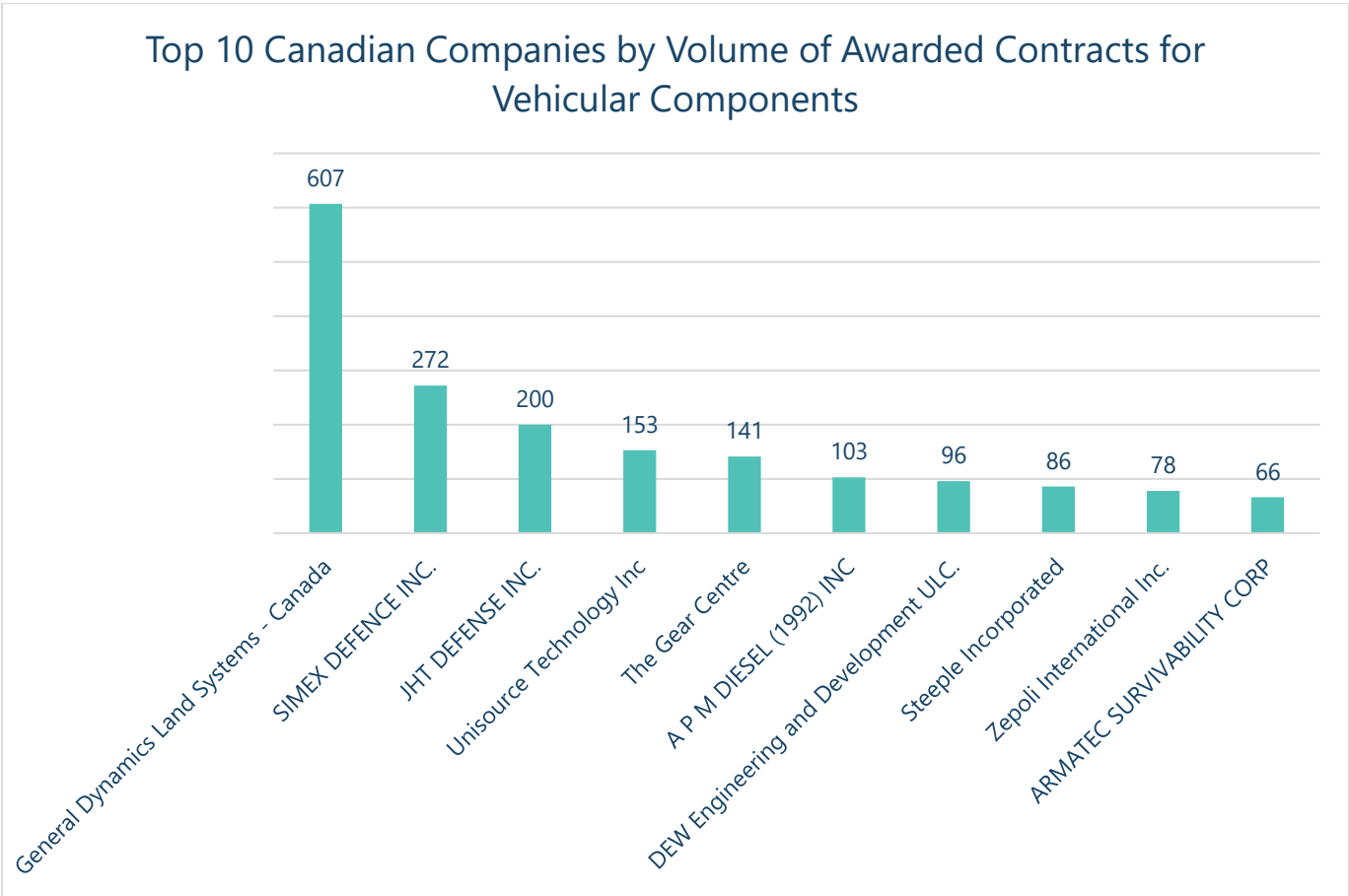
Infrastructure / Construction:



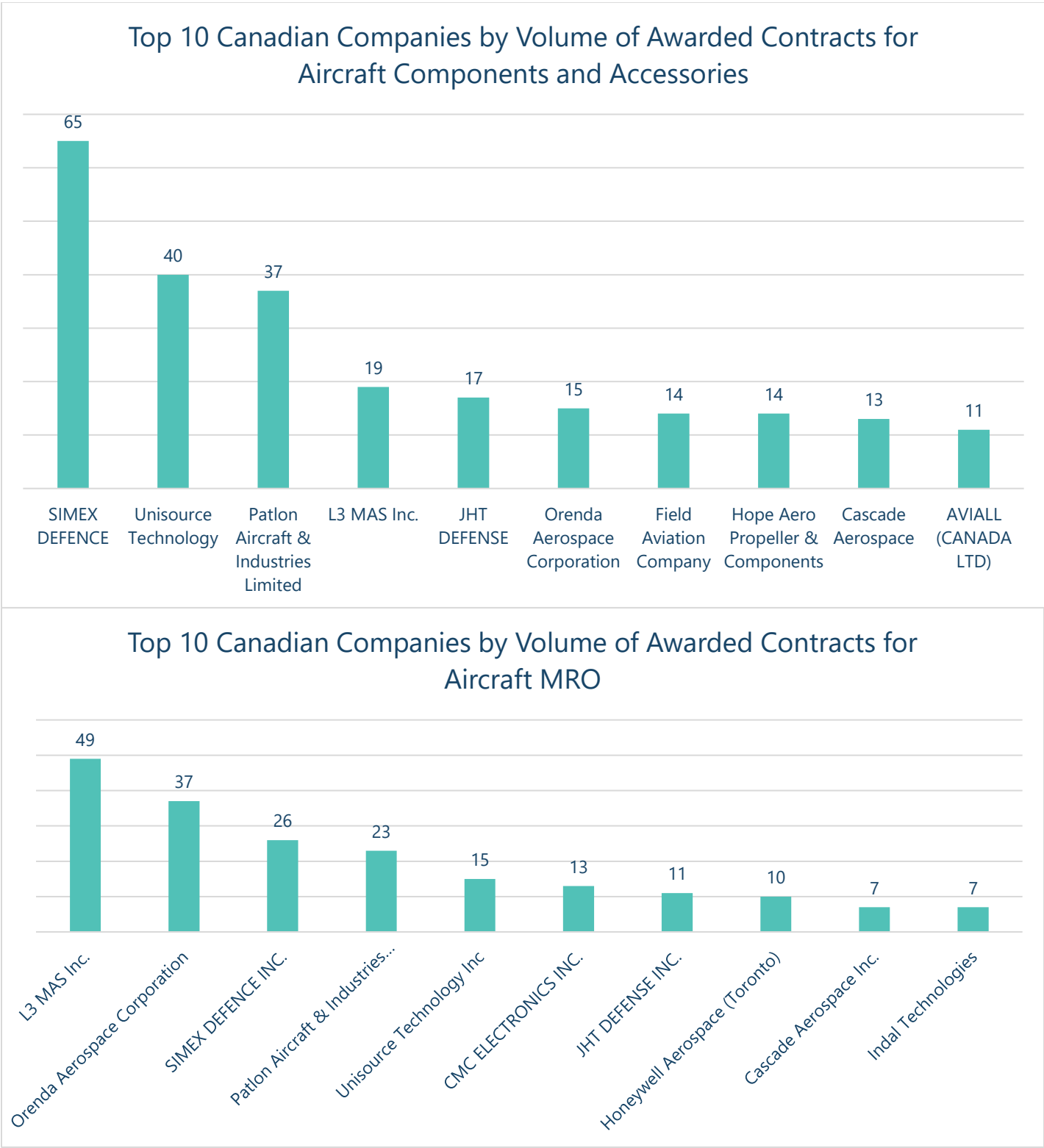
Top 10 Canadian Companies by Volume of Awarded Contracts for Construction of Other Buildings



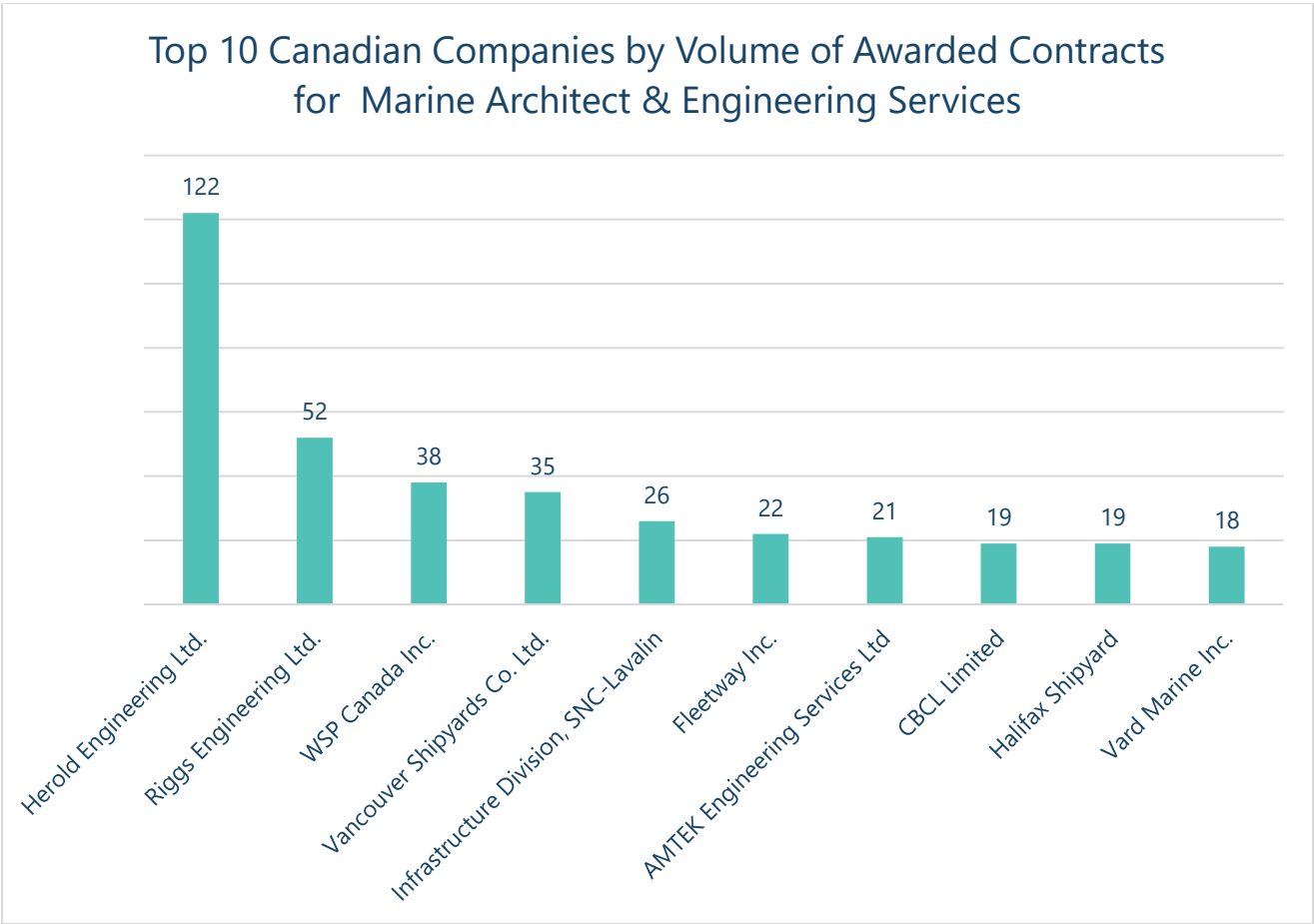
Vehicular Components:



Aviation / Aerospace:

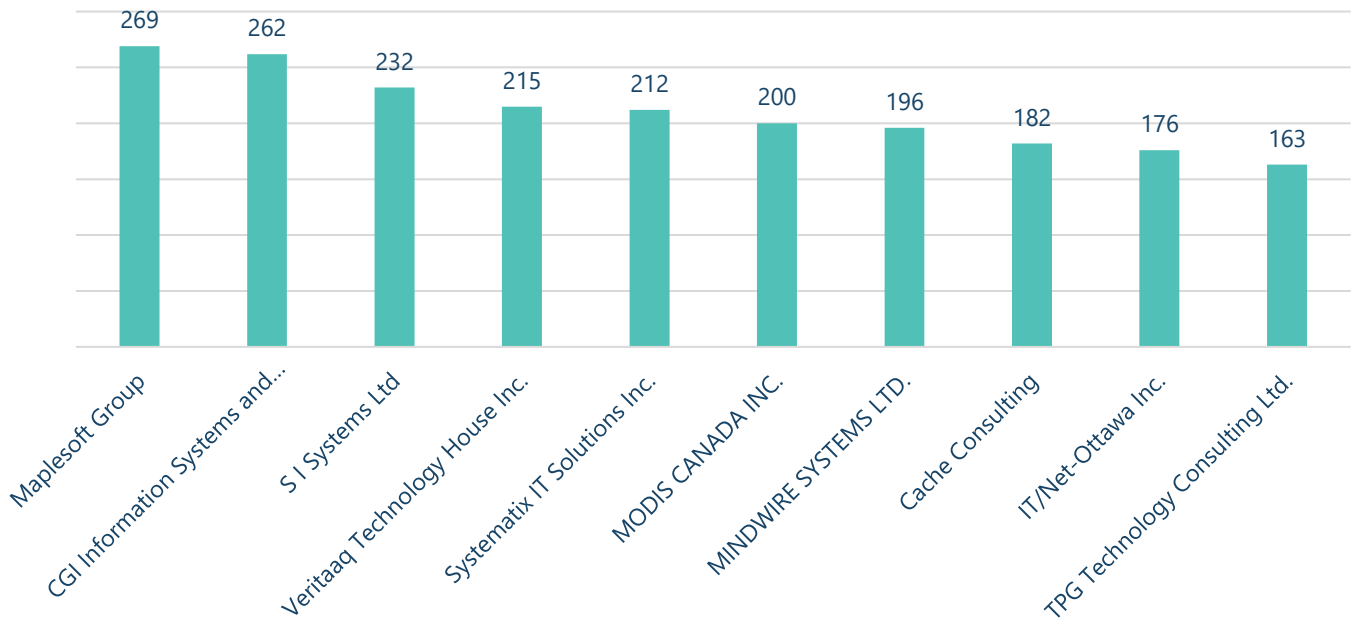


Marine:

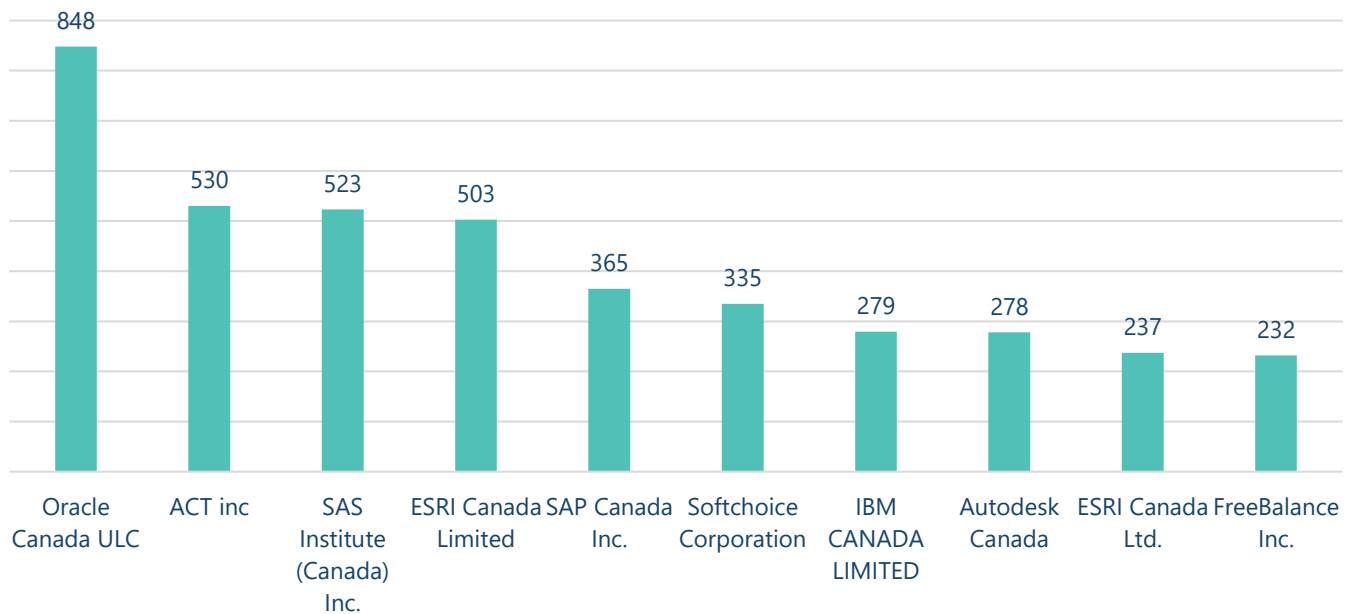


IT and Software:

Top 10 Canadian Companies by Volume of Awarded Contracts for Informatics Professional Services



Top 10 Canadian Companies by Volume of Awarded Contracts for ADP Software



Life Sciences:

